Amazon Financial Report 2021/2022

Still recovering from the Covid-19 pandemic, Amazon has reported its first net loss of 2.7 billion U.S. dollars in 2022 since 2014. Comparing the financial years 2021 and 2022, there has been a decrease in liquidity with the ratios supporting the claim. Amazon’s ability to cover its short-term obligations with its current assets has decreased by 17.5% as well as the number of days the company can operate without needing to tap into capital sources other than its current assets which decreased from 131 to 105. The inventory days almost doubled which would suggest a decrease in demand as the products would stay in storage longer before being sold.

Following the trend, profitability also decreased in most ratios by half. Most notable, the net margin which went from a positive 7% to a negative 1% which measures how much net income is generated as a percentage of revenue. One of the most important indicators of a company's financial performance is the gross margin as it measures business efficiency. It increased by 14% which shows that Amazon is still running efficiently. The EBITDA margin measures how much cash profit a company makes in a given year. Even though the EBITDA margin value decreased by 50% in 2022, a cash profit was still made in the year.

Comparing Amazon’s total liability with its shareholder equity through the years 2021 and 2022 the total liabilities increased by 12% while the total shareholders’ equity increased by 6% and the debt-to-equity ratio was 2.17 which shows that for every $1 of equity, there is $2.17 worth of debt. The times interest earned ratio went from a negative 3.83 to a positive 1.82 which suggests Amazon has increased its capacity to pay all interest on business debt obligations.

Analysing the turnover ratios of Amazon, it can be seen that the year 2022 had a negative impact on the company. The total asset turnover shows that only 29% of their assets generated sales effectively compared to the previous year’s 56%. The inventory turnover decreased by 52% suggesting a sign of weak sales or excessive inventory which could be due to lack of demand caused by Covid-19. Following the trend, the return on assets decreased dramatically from 16% to a negative 1%.

Looking at the investor/market ratios, the enterprise value shows a decrease of over 430 million dollars while the enterprise value to EBITDA has increased by 39%. This ratio tells investors how many times EBITDA they have to pay, were they to acquire the entire business. The lower this ratio the more attractive it is to investors. Another useful ratio is the Return on capital employed which is used to understand how well a company is generating profits as it is put to use. A high ROCE value indicates that a larger chunk of profits can be invested back into the company for the benefit of the shareholders. The reinvested capital is employed again at a higher rate of return, which helps produce higher earnings-per-share growth. The ROCE went from 0.24 to a negative 0.02 which indicates a net operating loss and a net negative for the shareholders. A positive for the 2022 year was the Book value per share which increased by 7%. This represents the minimum value of a company’s equity and measures the book value of a firm on a per-share basis. A higher book value per share is considered to be less risky and therefore more attractive to investors.