**Amazon Management Report**

Amazon has some ratios that can allow them to deal with various liquidity scenarios. For instance, as Amazon has current ratios greater than or close to 1 from 2020 to 2022, the company has enough short-term assets to liquidate to pay all short-term liabilities within 1 year if such a situation requires it and they would have been theoretically able to survive more than 50 days without any cashflows according to the defensive interval ratio. However, Amazon’s quick ratios are all below 1, which show that they are unable to pay their short-term liabilities within 90 days. During the same period, Amazon’s cash ratios have been less than 0.5 which indicates they are less capable of covering their short-term liabilities with cash and that they had very low working capital as a percent of sales below 5%, which highlights potential future liquidity problems. Other liquidity constraints include having at least 38 receivable days which demonstrates either that their collection processes are inefficient or that customers take too long to pay the company. Regardless, either possibility can lead to inadequate cash flow. In addition, Amazon has had more than 100 payable days implying that they take their time to pay their vendors and have had negative net trading cycles which suggests that Amazon is being paid for their services before paying their vendors. The amount of time it takes to pay these vendors may seem long, but Amazon is a large player within the e-commerce market which means they have significant bargaining power in negotiating contracts with suppliers. This not only allows them more flexibility in paying their vendors but also allow them to have more cash on hand that can be utilized for short-term investments. From 2020 to 2022, Amazon has had negative inventory days, suggesting that the company has a lack of inventory, but it could be alternatively interpreted that Amazon’s non-traditional business model requires less inventory. Amazon has more of an advantage in facing long-term liquidity problems and can mitigate these constraints through their market power but will struggle with solving short-term ones or scenarios requiring cash.

When looking at profitability, Amazon’s gross margin ratio was close to 40% which infers impressive profitability when taking into account cost of sales. Although, factoring costs such as operating expenses, interest, tax, depreciation and amortisation gives a different perspective on profitability. In 2020 and 2021, Amazon’s EBITDA margin ratio and net margin ratio were at least 10% implying stable earnings and moderate profitability. But this was not necessarily the case in 2022 as its net margin was negative but its EBITDA margin was 10%. The EBIT margin ratio was also less than 10% for all three years which indicates low profitability, and that Amazon was not managing their operations efficiently. These indicators overall show mixed profitability for the business. Moreover, Amazon has promising debt ratios but, in some cases, this might be too excessive. From 2017 to 2019, the company has debt to equity ratios lower than 1 which gives the impression that the company has safe debt levels, and this is reinforced by how the debt to total assets ratio was less than 1 meaning they have more assets than liabilities. This would partially explain how Amazon is extremely capable of paying off their debt or at least the interest since times interest earned ratios have been at least 5 or higher and the debt coverage ratios were 2 or higher for 2020 and 2021. Though the debt coverage ratio was less than 1 in 2022. This may suggest that Amazon is a less risky and strong company but it could also be that they are not focusing on growth so they may not be a strong investment. This could be the case as the Free Cash Flow per share ratio was over 10 indicating that the company is very capable of paying the company’s debts and dividends after operating costs leading to more cash that is free from obligations. The company appears to also competently sustain their operations because the Long-term debt to capital ratio is less than 1 implying that the main source of funding is not predominantly debt. Amazon is able to reliably pay its debts and still run its business but there could be concerns that this comes at the expense of less investment and risk-taking.

Furthermore, Amazon performed mostly well on their asset ratios. The company has total asset turnover and Fixed asset turnover ratios greater than 1 which shows that this is a company that is efficient in using either all its assets and or just its fixed assets to generate their revenue. On the other hand, its inventory turnover ratios are higher than the ideal turnover ratio of between 4 and 6 for the e-commerce sector. This indicates either that sales are weak or that inventory is overstocked. Also, its return on assets ratios were less than 5% in 2022 suggesting Amazon was inefficient in generating revenue from their assets while in 2020 and 2021, its return on assets ratio was more than 5% indicating Amazon was efficient in generating revenue from their assets during these years. The business is quite efficient in utilizing their assets with the exception of inventories. Though as mentioned before, Amazon may not need to be as dependent on inventories compared to other companies due to its e-commerce model.

Finally, the investor ratios seem to make Amazon overvalued to an extent, this conclusion may not take into account investment activities. The company has had Price to equity ratios of over 50 indicating that that the company is overvalued but also that has a lower level of risk or higher expectations of growth in their profits. These high price to equity ratios could also be explained by investors seeing even more potential in Amazon’s disruption of the retail market via ecommerce by expanding to more international markets. (1) Similarly, Amazon’s price to book value and the Enterprise value to EBITIDA ratios from 2020 to 2022 are all greater than 10 which shows that they are overvalued as a company. Interestingly, the firm’s Dividend yield and dividend payout ratio are both zero for all years because the company does not pay dividends in the first place. While this may be disadvantageous for investors who want a steady income from Amazon’s stock, the company’s main strategy has been growth through diversification by entering into industries other than e-commerce. Paying dividends would mean less funds for Amazon to undertake more innovative investment ventures, hence for the time being it may be wise for the company to delay any plans for dividends if there are any to prioritise growth. (2) Amazon’s return on capital employed and return on equity ratios were more reasonable in 2020 and 2021 at over 10% but were much weaker in 2022 at less than 10%.. These two ratios give the impression that that the company is more capable at generating profit from their capital. While these ratios give the impression that Amazon is overvalued, this may be misleading as investors may have more faith in Amazon’s expansion and innovations in growing the company so will place a higher premium on the company’s valuation.

Overall, Amazon’s has limited liquidity issues in the long-run, but still faces the risk of cash-based and short-term liquidity problems. Amazon is mixed on profitability and mostly efficient in using its assets to generate this profit. The company is very capable of dealing with debt problems and while this could be due to not utilizing investments, this concern does not appear to be valid because the large scale of Amazon’s investments and expansion to other sectors. This could also explain why Amazon’s investor ratios are overvalued. There is room for improvement but the current large size of Amazon’s operations and optimistic future growth and can help to facilitate this.

1) https://www.linkedin.com/pulse/much-ado-amazon-nasdaqamzn-aaron-pek/

2) https://finance.yahoo.com/news/does-amazon-pay-dividends-133620188.html?guccounter=1&guce\_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce\_referrer\_sig=AQAAACv8YDPzP6FsrFRYNGTvuJovur0kP8ALin4iOLCZc5uZK9h-zB760Nzjb-8Wm6y9swVT6H-ImkZ5DHDAAc09nF7hJqvAP1kFxYhhqVQfrdH\_m316TD6NsEzfitRBVXIlV7\_xUC75ympakZZsWyfkVsq3Dk1Ecy8XkZ1Pmev2TW\_g