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| **MANAGEMENT REPORT** |  |
| **AMAZON INC.** |  |

**Objective**

The objectives of this report are to lay out the key financial ratios of the company over and last few years and assess the financial health of the company for the FY 2021 and 2022 based on its annual report.

**Company description**

Amazon.com, Inc. (The Company), founded on July 5, 1994, by Jeff Bezos, is an American multinational technology company focusing on e-commerce, cloud computing, online advertising, digital streaming, and artificial intelligence. It is considered one of the Big Five American technology companies; the other four are Alphabet (parent company of Google), Apple, Meta (parent company of Facebook), and Microsoft.

**Financial health analysis**

In this report we will analysing the financial health of Amazon based on its performance in the year 2021 and 2022. We will be using the following categories of ratios to understand the health of the Company: Liquidity, Solvency, Profitability, Asset turnover and Market Ratios. The ratios for the two years under assessment are compared to an average calculated by using the data of FY 2017- FY 2019.

* **Liquidity**

The liquidity ratios presented in the chart indicate that the company's liquidity has generally remained around its average. However, a slight decrease is observed in the ratios for FY 2022. This decline can be attributed to the valuation loss in Rivian Automotive, Inc and sale of other securities during that year. We can also interpret that The Company has adequate liquidity and should be able to meet its short-term obligations.

The company exhibits a negative cash conversion cycle, a common characteristic within the e-commerce industry. This indicates efficient inventory and receivables management, as the company requires less time to convert them into cash compared to the time it takes to pay suppliers.

Consequently, the company is less susceptible to experiencing significant working capital challenges, except in the FY 2022 (Fig 1.3) which experienced a negative working capital due to the decrease in valuation of its investment in Rivian Automotive, Inc and sale of other securities.

* **Profitability**

The Profitability of the Company has been healthy over the two years and generally remained around its average. However, the company did experience a net loss during the FY 2022. This is owed to increase in the technology and content expenses and also to the reduction in valuation of its investment due to sale restrictions.

* **Solvency/ debt management**

An analysis of the presented graphs suggests a favourable solvency position for the company. The debt-to-equity (D/E) and debt-to-assets ratios indicate effective debt management, as they remain well below its averages. This can be attributed to the significant growth in retained earnings, even amidst an increase in debt during FY 2022. While the lower interest coverage ratio in that year reflects this debt increase, the company's overall solvency remains robust.

* **Turnover ratios**

The company's turnover ratios reveal mixed performance in asset utilization. While exhibiting a higher inventory turnover ratio, its overall asset turnover ratio falls below the average. This suggests potential areas for improvement in efficiently converting assets into revenue. Strategies to enhance operational efficiency and potentially accelerate revenue growth could be explored to improve the company's overall asset turnover ratio.

* **Market ratios**

n examination of the presented ratios reveals that the company delivered above-average returns in FY 2021. However, FY 2022 witnessed an exceptional loss due to the devaluation of a specific investment, resulting in negative EPS and return on equity for that year. It is crucial to note that this non-recurring event significantly impacted the company's overall profitability in FY 2022. Excluding this exceptional circumstance, the company's performance remained positive in both FY 2021 and 2022. Additionally, it's noteworthy that the company does not currently distribute dividends. Furthermore, they engaged in a share repurchase program, buying back $6 billion worth of common stock, representing 46 million shares. Lastly, the Company also carried out a stock split in May 2022. The EPS has been adjusted accordingly.

**Conclusion**

Based on the reviewed ratios, the company exhibits a generally sound financial position. Its ability to deliver consistent returns to investors, despite the exceptional loss in FY 2022, demonstrates resilience. The company maintains strong liquidity, ensuring its capacity to meet both short-term and long-term obligations. Moreover, the negative trade cycle indicates efficient management of inventory and receivables, mitigating potential liquidity concerns.

While the company demonstrates overall financial strength, there is room for optimization in asset utilization efficiency. The asset turnover ratio remains below the average, suggesting potential for enhancing the conversion of assets into revenue. Exploring strategies to improve operational efficiency and potentially accelerate revenue growth could address this aspect.

**References**

AMAZON INC. Annual report: FY 201, 2018, 2019, 2020, 2021, 2022