Management report Amazon Inc.

Consolidated statement of operations

Over the period of 2 years, amazon has increased their net sales at a slower rate to the previous year, increasing by 9.4% in 2022, down from 21.7% in 2021. The same can be said for their service sales, including amazon webs services, up 18.9% in 2022 compared to a 34% increase the previous year. Due to the cost-of-living crisis and impact of covid, amazon is going through a transition phase.

Operating income decreased significantly in 2022, decreasing by over 50%. Increase spending on marketing, cost of sales and technology is normal for an ambitious company, but combined with a decrease in sales does not show consistent profitability. An increase in operating income for 2021, compared to the significant decrease in 2022, indicates the impact of covid on amazon sales.

This is also highlighted by the net income loss in 2022, which is a over 100% decrease. This is a concerning statistic for amazon, as it indicates how much revenue is generated compared expenses, and general profitability of an organisation. Potential investors could see this decrease and the decrease in earnings per share down over 100%) and think twice about investing due to the current situation of the company.

Consolidated balance sheets

A decrease in amazon’s current assets in 2022 by 9.2% may indicate amazon’s desire to be more liquid, as they are selling assets. This may also indicate a change in operational efficiency, as they are having to sell assets that can be easily converted to cash, which shows how they are coping financially.

Although, combine this decrease in current assets in 2022 with the increase in total assets, up by over 10%. This combination indicated that the company are purchasing more longer-term assets and are focusing on planning for the future. This investment suggests growth of the company and its operations. Combine this statistic with a decrease in sales in 2022, shows the decrease in efficiency of the company in the short term with current assets, with a heavier focus on long term productivity with longer term assets, which further indicates the transitional period of the company.

The transitional period, accompanied by the long-term thinking of the company, is further explained by the increase in long term debt of the company, up 37.8% in 2022. This indicates they need steady cashflow into the company to cover for time the long-term assets take to return profit, and the decrease in short term profits that will arise with this strategy. And by the time the long-term assets start returning good profit, they will use that profit to pay back the loan. This also indicates more risk for the company due to increased leverage.

A decrease in stockholder equity in 2022 of 43%, further indicates the decrease in company net worth and shareholder value. This further shows the financial hit amazon are taking in the short term to benefit in the long term.

Consolidated statements of cash flow

A decrease in accounts payable over a 3-year period indicates the company paying off their suppliers, which shows good financial health. The decrease in cash used in operating activities indicates the efficiency of the company.

Purchases of property and equipment increased in 2021, and 2022, compared to 2020. This further indicates the long-term investments made in efficiency and long-term productivity. This is further shown by the 300%+ increase in acquisitions.

On the other hand, the significant decrease in purchase of marketable securities, down to $2565 from $60,157, indicates the lack of financial freedom and risk adverse strategy. It could also indicate the current state of the financial markets, or how the company has a lot of its cash tied up in the long-term strategy.

A net increase in cash at the end of the period, of 48.7% in 2022, indicates a general financial health of the company, despite some negative areas.

As for liquidity in 2022, the current ratio, quick ratio and cash ratio are all below what are considered ‘good’ ratios. With a decrease of around 0.2 for both quick and current ratios, this highlighted their declining ability to pay short term obligations, as well as their long-term strategy. Although a 0.1 increase in cash ratio, it indicates a small increase in cash and cash equivalents. These low ratios are due to amazon having a high amount of inventory, and the fact that it uses working capital to finance its growth. An ideal defensive interval ratio, over 50 days, is achieved by amazon, due to their ratio of over 80 days. Which shows they can go without touching their noncurrent assets for an extended period.

Due to Amazon being a large company with lots of market and brand power, they command good terms with their suppliers. They have longer term payable days (over 100 days), which is advantageous as they are able to hold onto the cash as long as possible for short term investments. They have shorter receivable days (30 days), which indicates companies pay amazon quickly, which means they receive the cash as quick as possible. And they can turn inventory into sales quickly, in just over a month (42 days, just over a month). And finally, a good net trading cycle (-28 days) indicating turning cash spent on inventory into cash from sales. Although, low working capital (-8602) indicates they do not keep enough cash. This is also shown by the low working capital to sales % (-1.67%), as highlights potential future liquidity problems.

As for profitability in 2022, an increase in gross margin by over 4% in 2022, indicates improved profitability in terms of production. But a significant decrease in net profit from 7.1% to -0.53%, indicates that the company is finding it difficult to generate profit after all expenses and costs are accounted for. This shows each dollar of revenue made is not translating into significant profit. This is also shown by good ebit margin (23.83%) and ebitda margin (10.54%), which highlights their good profits before any other expenses. This is also indicated by low free cash flow per share (0.89%, per share, 9151 fcfe), as they have low remaining cash after paying expenses and low flexibility.

Also, in solvency/ debt management for 2022, A D/E ratio of 2.17 indicates that two thirds of its financing come from debt. This highlights a risky business model for investors, as it borrows twice as much as it owns. An increase from 2.04 the year before, highlighting an increase reliance on debt. As previously mentioned, this shows their current long-term strategy, as it indicates long term profitability and short-term risks. A debt to assets ratio of 0.32 indicated a previous point I made, on how amazon uses its working capital to fund its operations, as this figure indicates 32% of cash are funded by debt, and most of the debt is to maintain general cash flow. This is shown by a high times interest earned ratio (116.85), which indicates a company can pay interest on their debts well. It is also shown by the high long-term debt to capital ratio (116.85), which indicates high investment and debt as the high source of financing general operations.

As for asset utilization in 2022, Amazon seem to be able to use their fixed and current assets to make revenue and sell its inventory quickly in 2022. Which is shown by high total asset turnover (1.16%), fixed asset turnover (2.96%) and inventory turnover (8.62%). This indicated assets are efficient and used well. However, with a low ROA (-0.62%), caused by high investment in long term assets which are yet to reap the sufficient rewards.

As for investor/ market ratios in 2022, Amazon’s good P/E ratio (-311.11) is good for the company as investors are spending less money for each dollar of the company’s earnings, which will attract investors as they are more likely to get good dividend payments. Although the low eps (-0.27) indicate low profitability. With high price to book value (5.89), and book value per share (14.25), this shows high net asset value per share, and high market valuation. Although, the low ROE ratio (-1.87) indicates low profitability generation. This would be due to the high asset investment for the long term. This is also indicated by the low ROCE (-90.01), indicated low profitability and capital efficiency. And indicated by high EV/EBITA figure (17.60), indicating the company could potentially be overvalued now.

Sources:

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