Management report Amazon Inc.

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 (0.72 & 0.94), 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 (0.35), 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 over a month (42 days). And finally, a good net trading cycle (-28.15 days) indicating turning cash spent on inventory into cash from sales. This net cycle has improved by over 10 days since 2021 (-42.06), which is a good sign of efficiency for the company.

As for profitability in 2022, an increase in gross margin by over 1.5% in 2022 (43.81%), as well as a steady increase year on year since 2020. This indicates improved profitability in terms of production, although still below what is considered a ‘good percentage’.

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 well as a sharp degree from the previous years, highlights potential future liquidity problems, and each dollar of revenue made is not translating into significant profit.

A good ebitda margin of over 10%, (10.54%), highlights their good profits before any other expenses. This is also shown by a healthy ebit margin (23.83%). But a significant decrease in net margin from 7.1% to -0.53% in 2022, indicates that the company is finding it difficult to generate profit after all expenses and costs are accounted for. This is also indicated by low free cash flow per share (12.63%, per share), highlighting 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 1.09 the year before, highlighting an increase reliance on debt. As previously mentioned, the sharp increase in the ratio from 2021, this shows their implementation of 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 in paragraph 1, 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 (0.32), which indicates high investment, debt and over leveraging 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 the sharp decrease of ROA (-0.62%) in 2022 from 2021, 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 (-316.06) 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 (5.90), and book value per share (14.25), 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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