**FINANCIAL HEALTH OF AMAZON INC.**

**Introduction**

This report assesses Amazon.com Inc.'s financial well-being in 2021 and 2022, focusing on five crucial areas: Liquidity, Profitability, Solvency/Debt Management, Asset Utilization, and Investor/Market Ratios. By conducting an analysis of these ratios, a thorough understanding of Amazon's financial performance and its ability to meet both short-term and long-term obligations can be obtained.

**Liquidity**

Amazon's liquidity, representing its capability to meet short-term obligations, has raised concerns. The Current Ratio fell from 1.14 in 2021 to 0.94 in 2022, indicating that Amazon now has more short-term liabilities than assets, hinting at potential liquidity challenges.

Moreover, the Quick Ratio, excluding inventory from current assets, declined from 0.91 to 0.72, emphasizing a heightened liquidity risk as Amazon's most liquid assets may not suffice to cover current liabilities adequately.

Conversely, the Cash Ratio enhanced from 0.25 to 0.35, indicating an improved immediate liquidity position where Amazon holds more cash to meet short-term obligations effectively.

The Defensive Interval reduced from 105.77 days to 81.76 days, signaling a decreased cushion against liquidity crises. Inventory Days remained steady, slightly dropping from 43.74 days to 43.48 days, showcasing efficient inventory management. However, Payable Days decreased from 105.43 days to 100.59 days, reflecting quicker payments to suppliers but leading to faster cash outflows.

Receivable Days rose from 44.08 days to 53.53 days, implying a prolonged collection period that could strain cash flow. The Net Trading Cycle, illustrating the time to convert operations into cash flow, increased from -17.60 days to -3.58 days, though still negative, signifying a longer duration for this conversion.

Working Capital as a percentage of sales plummeted from 4.11% to -1.67%, with working capital turning negative from $19,314 million to -$8,602 million, indicating severe liquidity challenges.

**Profitability**

Amazon's profitability metrics present a mixed picture. The Gross Margin increased slightly from 42.03% to 43.81%, showing improved control over production costs compared to revenue.

However, the EBITDA Margin went down from 12.62% to 10.54%, indicating lower operational efficiency and profitability. The EBIT Margin decreased from 5.30% to 2.38%, suggesting higher operating expenses or slower revenue growth.

Most notably, the Net Margin decreased significantly from 7.10% to -0.53%. The negative net margin in 2022 signifies an overall loss, highlighting significant profitability challenges.

Solvency/Debt Management

Amazon's solvency and debt management ratios demonstrate increased financial risk. The Debt to Equity (D/E) ratio rose from 2.04 to 2.17, indicating higher leverage and greater financial risk.

The Debt to Total Assets ratio slightly increased from 0.67 to 0.68, showing a stable yet slightly higher dependence on debt financing. The Long-term Debt to Capital ratio also rose from 0.26 to 0.31, suggesting increased long-term financial commitments.

Times Interest Earned decreased from 13.75 to 5.17, showing a reduced ability to cover interest expenses. The Debt Coverage ratio stayed relatively steady, with a minor decrease from 0.16 to 0.15.

Free Cash Flow (FCFE) per share rose from $25.81 to $27.35, with total FCFE increasing from $264,326 million to $280,101 million. This rise in free cash flow indicates enhanced cash generation capability.

Asset Utilization

Amazon's asset utilization metrics reveal mixed outcomes. Total Asset Turnover stayed stable, slightly dropping from 1.12 to 1.11. This slight decrease suggests consistent efficiency in using assets to generate revenue.

Fixed Asset Turnover declined from 1.81 to 1.63, indicating less effective use of fixed assets in generating sales. Inventory Turnover remained stable, slightly increasing from 8.34 to 8.40, reflecting efficient inventory management.

However, Return on Assets (ROA), which measures net income as a percentage of total assets, plummeted significantly from 7.93% to -0.59%. The negative ROA in 2022 signals a loss, indicating poor asset utilization.

Investor/Market Ratios

Investor and market ratios offer insights into market perceptions and valuation. The Price to Equity (P/E) ratio remained low, decreasing from 0.0012 to 0.0011, reflecting market pessimism about future earnings growth.

Earnings per Share (EPS) decreased from $3.26 to -$0.27, underscoring the company's overall loss. The Price to Book Value (PBV) ratio dropped from 12.08 to 11.43, suggesting reduced market valuation compared to book value.

Book Value per Share (BV) rose from $13.50 to $14.26, indicating growth in shareholders' equity. Return on Equity (ROE) fell from 0.24 to -0.02, with the negative ROE indicating a loss, reflecting weak profitability relative to equity.

Return on Capital Employed (ROCE) fell from 0.18 to 0.08, indicating decreasing efficiency in producing returns from capital employed. The Enterprise Value to EBITDA (EV/EBITDA) ratio rose from 31.78 to 35.11, suggesting a greater value relative to EBITDA, either due to market optimism or increasing financial leverage.

The enterprise value (EV) went from $1,885,060.05 million to $1,901,720.05 million, indicating that the company's total worth has grown. It is vital to remember that Amazon does not pay dividends, with the Dividend Payout Ratio, Dividend Per Share, and Dividend Yield all remaining at zero. This technique is common among organisations that prioritise reinvesting earnings to drive expansion rather than returning profits to shareholders.

**Conclusion**

Amazon.com Inc.'s financial health in 2022 faces various hurdles, compared to 2021. The firm is experiencing liquidity challenges, as indicated by a decline in current and quick ratios and a significant drop in working capital. Profitability has also suffered, with lower EBITDA and Net Margins and negative ROA and EPS.

Solvency ratios indicate growing leverage, raising worries about financial risk. Despite these hurdles, Amazon has demonstrated some encouraging trends in cash flow generation and asset utilisation, including constant inventory turnover and improved free cash flow.

Investor/market ratios show conflicting feelings, with a lower P/E ratio but a larger enterprise value, signalling market volatility and concern about future performance.