**Investment Analysis Report: Ratio Analysis of Amazon’s Inc.**

# **1. Introduction**

Amazon.com, Inc. doing business as Amazon is an American multinational technology company, engaged in 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 being Alphabet (parent company of Google), Apple, Meta (parent company of Facebook), and Microsoft.

This management report analyzes the financial health of Amazon Inc.

# **2. Liquidity Ratios**

Liquidity ratios evaluate Amazon’s ability to meet its short-term obligations with the following ratios being considered as shown in the table below: -

**Table 1 – Liquidity**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liquidity** | **2017** | **2018** | **2019** |
| Current ratio | 1.04 | 1.10 | 1.10 |
| Quick Ratio | 0.76 | 0.85 | 0.86 |
| Cash Ratio | 0.35 | 0.46 | 0.41 |
| Defensive Interval | 261 | 260 | 276 |
| Inventory Days | 52 | 45 | 45 |
| Payable Days | 113 | 100 | 104 |
| Receivable Days | 27 | 26 | 27 |
| Net trading cycle | -33.54 | -28.99 | -31.76 |
| Working Capital as a % of Sales | 1.30% | 2.88% | 3.04% |
| Working Capital | 2,314 | 6,710 | 8,522 |

**Amazon’s 2019 Current Ratio**: 1.10

* **Interpretation**:  The Current Ratio is greater than 1 indicating that Amazon has more assets than liabilities in the short term, which is generally considered a healthy financial position. This means that Amazon can comfortably cover its current obligations.

**Amazon’s 2019 Quick Ratio**: 0.86

* **Interpretation**: The current ratio is below 1, indicating that Amazon doesn't have enough quick assets to meet all its short-term obligations. If it suffers an interruption, it may find it difficult to raise the cash to pay its creditors.

**3. Profitability Ratios**

Profitability ratios assess a **Amazon’s** ability to generate income relative to its revenue, assets, and equity with the following margins being considered as shown in the table below: -

**Table 2 - Profitability**

|  |  |  |  |
| --- | --- | --- | --- |
| **Profitability** | **2017** | **2018** | **2019** |
| Gross margin | 37.07% | 40.25% | 40.99% |
| EBITDA margin | 2.31% | 5.33% | 5.18% |
| EBITDA | 4,106 | 12,421 | 14,541 |
| EBIT margin | 2.14% | 4.84% | 4.98% |
| EBIT | 3,806 | 11,261 | 13,976 |
| Net margin | 1.71% | 4.33% | 4.13% |

**Amazon’s 2019 Gross Margin**: 40.99%

* **Interpretation**: A high gross profit margin indicates that Amazon generates a significant portion of revenue after covering production costs, reflecting strong pricing power and efficient cost management.

**Amazon’s 2019 Net Margin**: 4.13%

* **Interpretation**: Amazon’s ability to retain 4.13% of its revenue as net profit is indicative of its operational efficiency and effective cost control.

# **4. Solvency Ratios**

Solvency ratios assess **Amazon’s** long-term financial stability and its ability to meet long-term obligations with the following ratios being considered as shown in the table below: -

**Table 3 – Solvency**

|  |  |  |  |
| --- | --- | --- | --- |
| **Solvency/ debt management** | **2017** | **2018** | **2019** |
| Debt to equity (D/E) | 3.74 | 2.73 | 2.63 |
| Debt to total assets | 0.79 | 0.73 | 0.72 |
| Long-term debt to capital | 0.89 | 0.54 | 0.38 |
| Times interest earned | 2.44 | 7.88 | 21.60 |
| Debt coverage | 0.17 | 0.46 | 0.41 |
| Free cash flow (FCFE) per share | 0.23 | 0.40 | 0.35 |

**Amazon’s 2019 Debt-to-Equity Ratio**: 2.63

* **Interpretation**: Amazon has a significant amount of debt relative to its equity. However, given its high profitability and consistent cash flows, the company appears to be leveraging debt effectively to enhance shareholder returns.

# **5. Asset Utilization Ratios**

Asset utilization is a key financial metric that measures how efficiently Amazon uses its assets to generate revenue with the following ratios being considered as shown in the table below: -

**Table 4 – Asset Utilization**

|  |  |  |  |
| --- | --- | --- | --- |
| **Asset utilization** | **2017** | **2018** | **2019** |
| Total asset turnover | 1.35 | 1.43 | 1.25 |
| Fixed asset turnover | 2.50 | 2.66 | 2.18 |
| Inventory turnover | 6.98 | 8.10 | 8.08 |
| Return on assets (ROA) | 1.35 | 1.43 | 1.25 |

**Amazon’s 2019 Asset Turnover Ratio**: 1.25

* **Interpretation**: Amazon generates $1.25 in revenue for every dollar of assets, reflecting its efficiency in using assets to drive sales. Amazons’ asset turnover ratio has been fluctuating with in an increase in 208 and then a decrease in 2019.

**Amazon’s 2019 Inventory Turnover Ratio**: 8.08

* **Interpretation**: A low inventory turnover ratio implies that Amazon inefficiently manages its inventory.

**6. Investor/Market Ratio**

Investor/Market ratios offer insights into a company's market performance, providing potential investors with key information to evaluate the attractiveness of investing with the following ratios being considered as shown in the table below: -

|  |  |  |  |
| --- | --- | --- | --- |
| **Investor/market ratios** | **2017** | **2018** | **2019** |
| Price to equity (P/E) | 30.32 | 9.26 | 8.17 |
| Earnings per share (EPS) | 38.26 | 63.09 | 77.96 |
| Price to book value (PBV) | 48.30 | 61.42 | 62.06 |
| Book value per share (BV) | 1.30 | 1.63 | 1.84 |
| Dividend payout ratio | - | - | - |
| Dividend per share | - | - | - |
| Dividend yield | - | - | - |
| Return on equity (ROE) | 0.11 | 0.23 | 0.19 |
| Return on capital employed (ROCE) | 0.14 | 0.26 | 0.23 |
| Return on assets (ROA) | 0.02 | 0.06 | 0.05 |
| Enterprise value to EBITDA (EV/EBITDA) | 0.93 | 0.91 | 0.96 |
| Enterprise value (EV) | 25,610.00 | 18,536.00 | 20,980.00 |

**Amazon’s 2019 Current P/E Ratio**: 8.17

* **Analysis**: A lower-than-average P/E ratio could imply that investors are expecting low future growth from Amazon. However, it also means the stock could be undervalued relative to earnings, making it a less pricey investment compared to other tech firms.

**Conclusion**

**Amazon** demonstrates negligible profitability, with impressive gross profit margins but slight net profit margins and a stellar ROE of 19%. While its liquidity ratios may seem modest, the company’s robust cash flow and financial strategies likely mitigate short-term liquidity concerns. **Amazon** leverages debt effectively, as indicated by its solvency ratios, and exhibits strong operational efficiency.

Investors can view **Amazon** as a financially healthy company with fluctuating performance metrics, making it a less attractive long-term investment opportunity as compared to Apple.