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Abstract

This report will analyze key financial ratios from Amazon Inc.’s financial data across three fiscal years (2020-2022).

Amazon Inc.’s Financial health analysis

Ratio Analysis

Based on the report (Amazon, 2024) and financial ratios provided for Amazon Inc., the company's financial health appears to be mixed, with both positive and concerning trends observed across the key financial areas.

**Liquidity:**

The current ratio, which measures the company's ability to meet its short-term obligations, has declined from 1.13 in 2021 to 0.94 in 2022, indicating a potential liquidity concern. This falls below the industry average of 1.2-1.45 (Ready Ratio, 2024). The quick ratio, which excludes inventory, has also decreased from 0.91 to 0.72 over the same period, further suggesting a weakening in the company's short-term liquidity position. However, the cash ratio, which measures the proportion of cash and cash equivalents to current liabilities, has improved from 0.25 to 0.35, indicating a stronger cash position to cover immediate obligations.

Fig 1: Line Chart showing some liquidity ratios

Fig 2: Graph showing some liquidity ratios

Fig 3: Line Chart showing some liquidity ratios

**Profitability:**

Amazon's profitability ratios have shown a mixed performance. The gross margin has declined from 5% in 2021 to 2% in 2022, indicating a squeeze on the company's profit margins. This is significantly lower than the retail industry average of 65-73% (Full Ratio, 2024). Similarly, the EBIT margin has turned negative, decreasing from 7% in 2021 to -1% in 2022, suggesting a significant drop in operating efficiency. On the other hand, the EBITDA margin has remained relatively stronger, declining from 14% in 2021 to 8% in 2022, indicating the company's ability to generate cash from its operations.

Fig 4: Graph showing profitability ratios

**Solvency and Debt Management**:

Amazon's debt management ratios suggest a mixed picture. The debt-to-equity ratio has increased from 0.35 in 2021 to 0.46 in 2022, indicating a higher reliance on debt financing. The long-term debt-to-capital ratio has also risen from 0.26 to 0.31 over the same period. However, the debt-to-total-assets ratio remains relatively low, increasing from 0.17 to 0.19, suggesting the company's assets are still largely funded by equity. The times interest earned ratio has turned negative, decreasing from 18.83 in 2021 to -1.67 in 2022, raising concerns about the company's ability to service its debt obligations.

Fig 5: Graph showing profitability ratios

**Asset Utilization:**

Amazon's asset utilization ratios have shown a mixed performance. The total asset turnover ratio has remained relatively stable, declining slightly from 1.12 in 2021 to 1.11 in 2022, indicating consistent asset management. The fixed asset turnover ratio has decreased from 1.81 to 1.63, suggesting a less efficient use of the company's long-term assets. The inventory turnover ratio has remained relatively steady, decreasing from 8.34 to 8.40, indicating consistent inventory management.

Fig 6: Graph showing profitability ratios

**Investor/Market Ratios:**

Amazon's investor/market ratios present a concerning picture. The price-to-earnings ratio has turned negative, decreasing from 54.21 in 2021 to -662.52 in 2022, suggesting that the market has lost confidence in the company's future earnings potential. The earnings per share have also turned negative, decreasing from $3.24 in 2021 to -$0.27 in 2022. The price-to-book ratio has remained elevated, decreasing from 13.32 in 2021 to 12.48 in 2022, indicating that the market still perceives the company to be overvalued relative to its book value.

In summary, the company's liquidity position, profitability, and debt management ratios present areas of concern, while its asset utilization and investor/market ratios indicate a more challenging outlook. It would be prudent for the company to closely monitor these financial metrics and implement appropriate strategies to address the identified weaknesses and strengthen its overall financial health.

**References**

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