**INTERPRETATION OF AMAZON FINANCIAL STATEMENTS USING RATIO ANALYSIS(2021-2022)**

1. **Introduction**

This report is a brief summary of Amazon financial health using ratio analysis for the period 2021-2022. The study is based on five main topics in financial ratio analysis namely liquidity, profitability, debt/solvency, asset utilisation and investor categories. We will be looking at and comparing two succeeding periods whilst considering the score of each ratio vis a vis certain benchmarks if any.

1. **Liquidity**

The higher the liquidity ratio,the more liquid assets we have and the better position the company will be to pay off short term debts. Of the nine liquidity ratios calculated all of them changed negatively. Not only that but four of them( net trading cycle,current, quick and working capital ratio) were below benchmarks in 2021 and in 2022 five were below their expected benchmarks when cash ratio joined in. This is a red flag that in future the company might struggle to meet expenditure demands.

The payables days though safe are so long relative to receivable days and inventory days. This might indicate a cash shortfall and inability to pay bills in time which might lead to more expensive terms with suppliers. Liquidity position is heading in an unfavourable direction which management needs to attend to.

1. **Profitability**

All but one profitability ratios have declined which calls for management to watch out in case these ratios decline further. It's only gross margin which increased by a small percentage of which that positive change is immaterial considering the other one went down. If this trend persists for some years in future, the company might see itself unable to continue in business.

I recommend the company look at improving cost control measures to improve profits. Despite the sales increase in 2022, profit ratios declined which means expenditure was the main cause. A further look on the figures shows that sales increased by 9% while total operating expenses increased by 23.3% in the same period. Generally acceptable net margin must be at least 10% but for the 2 years it was below 10%.

1. **Debt/Solvency ratio**

This ratio category looks at how the company is financed which can be understood as long term liquidity. Result shows a negative change in 2022 on all solvency ratios. In general a Debt / Equity Ratio of 100% (or its equivalent Debt / Total Capital Ratio of 50%) is seen

as the threshold of dangerous territory. To be precise in 2022 five of the six debt ratios were below levels of tolerance. Only times interest earned ratio was within safety levels.

1. **Asset utilisation levels**

Assets are used to generate sales, reduce running costs and finally increase profits. The more efficiently they are used the more benefit is realised. Inventory turnover has gone down in 2022 meaning the rate at which stock is acquired and sold/used has declined. Asset turnover ratios have declined yet more assets were acquired. This must be watched for succeeding years and if persistent it means part of the assets are lying redundant or might be used inefficiently.

1. **Investor/market ratios**

This is important to investors as it reveals the company’s performance on the market. Price to earnings(P/E), earnings per share(EPS), Price to book value(PBV) and book value per share all declined in 2022 to below benchmark levels. These changes are mainly caused by decline in earnings so the company must try to come up with strategies that improve profits in the foreseeable future. All dividend related ratios were zero because Amazon did not declare any dividends.

Return on equity(ROE), return on capital employed(ROCE), return on assets(ROA) and enterprise value to EBITDA went down in 2022 again. These ratios explain that the company's share is becoming less attractive on the capital market thereby driving prospective investors away.

1. **Conclusion**

In a nutshell, calculations have shown that the financial situation was not healthy in 2022 as compared to the previous year. Further study can be done on previous years to identify trends as well as watching future periods whilst trying to control or improve financial performance.

References

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