**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. Ratio scores improved slightly in 2021 from 2020 levels but still four of them were below generally acceptable benchmarks. These were net trading cycle,current, quick and working capital ratio. In 2022 all nine ratios went down and all were below opening 2020 levels. This is a red flag that if unchanged 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**

Sales increase had a multiplier effect on net earnings after a 22% rise in sales led to 56% increase in net margin in 2021. However, a further 9% increase in 2022 sales corresponded with a -108% fall in net earnings.This calls for management to watch out in case these ratios decline further. 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 sales benefits were overweight by expenditure burden. 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, between 2020 and 2022 four of the six debt ratios were below levels of tolerance. This is an area that needs remedial action to avoid getting into a debt predicament.

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. All turnover ratios improved in 2021 but went down in 2022 despite an upward increase in sales over the three years. Maybe it’s due to the fact that new equipment was acquired in 2022 of which benefit might be realised in the coming years. 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) all declined between 2020 and 2022 and were also 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 did not change much in 2021 but went down in 2022. 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 two years. 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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