**Amazon Reports Annual Net Loss During Transitional Period**

With a somewhat new world order resulting from the pandemic, we saw Amazon take advantage of this with its net profits trebling between 2019 and 2021. However, Amazon posted a net loss at the end of its financial year of 2022. Questions have been asked as to whether such growth during the previous two years was only due to pandemic and there is uncertainty as to whether Amazon will be able to replicate or build on this in the coming years. Its net income fell by 93% from $32.3 billion in 2021 to a loss of $2.7 billion. Amazon attributes this partly to various factors such as job cuts costing $640 million, costs of $720 million related to the pause of its physical grocery stores and Rivian its investment in Rivian, which has struggled due to production delays and various disruptions in the market. This can be reflected by a fall in Amazon’s gross profit margin by 1% point despite a 9% rise in yearly revenue.

This demonstrates Amazon’s struggle to control costs with its attempts to expand. Consequently, Amazon has put on hold its expansion projects in order to alleviate its losses. With its EBITDA nearly halving from $74 billion to $38 billion and its EBITDA margin falling by over 8 percentage points, Amazon’s priority this year has been ensuring it has sufficient cashflow to cover its long-term debt as opposed to expansion. Its debt coverage ratio further demonstrates this, by more than halving. This can be partly attributed to adverse geopolitical events, pushing inflation even higher, driving up its cost of sales, which rose by 10% between 2021 and 2022.

Despite its declining free cashflow, Amazon will be less affected by this than its competitors as Amazon operates a zero-dividends policy, meaning this will not come as a shock to shareholders. However, Amazon will come under criticism for failing to generate any kind of return in 2022 by reinvesting what could have rather been paid out as dividends at the end of 2021. However, Amazon remains adamant that whatever profit it makes will be put to better use by continuing to fully reinvest it is their multiple business areas. Its CFO Olsavksy believes that having the right labour force in the right places at the requisite times will allow for productivity to now grow.

Amazon has been less efficient in utilising its assets most notably its return on assets ratio which has fallen from 9 to -0.62. This supports the view that Amazon has been inefficient in using its assets to generate a profit, which can be shown in its struggles to grow its new business areas, which has hampered Amazon’s overall performance relating to its goods and services.

Amazon has become somewhat more dependent on financial leverage with a rise in its long-term debt to capital ratio with a material rise in its long-term debt to capital ratio from 0.26 to 0.31. However, Amazon has carefully weighted its investment portfolio and debt as the rise in its interest rate expense has been negligible at only 1% as has the fall in its times interest earned ratio. This suggests Amazon has sensibly hedged against rising interest rates and remains able to comfortably pay its interest on business debts. This is an early positive sign that Amazon will be able to learn from its mistakes and adapt to adverse financial conditions which seem imminent in the near future.

<https://www.morningstar.com/stocks/xnas/amzn/performance>

<https://www.seattletimes.com/business/amazon/amazon-reports-net-loss-of-2-7-billion-for-2022/#:~:text=In%20a%20year%20marked%20by,2022%2C%20the%20company%20reported%20Thursday>.

[Amazon.com, Inc. (q4cdn.com)](https://s2.q4cdn.com/299287126/files/doc_financials/2023/ar/Amazon-2022-Annual-Report.pdf)