# Financial Health Analysis of Amazon Inc.

1.0 Liquidity

In 2023, Amazon's liquidity ratios showed a strengthening ability to meet short-term obligations. The Current Ratio increased to 1.04 from 0.94 in 2022, suggesting that Amazon’s current assets are now more capable of covering its current liabilities, providing a cushion for short-term financial stability. The Quick Ratio, which excludes inventory, also rose from 0.72 in 2022 to 0.84, indicating an improvement in Amazon's liquid assets that can quickly be converted to cash. Similarly, the Cash Ratio improved to 0.53 from 0.45, reflecting a better cash position, though it still indicates some reliance on other current assets to meet liabilities. These upward trends in liquidity ratios highlight Amazon’s improved short-term financial health and its increased readiness to address immediate financial obligations.

2.0 Profitability

Amazon’s profitability ratios exhibited strong improvement, highlighting enhanced operational efficiency. The Gross Margin increased to 46.98% from 43.81% in 2022, indicating better cost management in producing goods relative to sales, positively impacting overall profitability. The EBITDA Margin also improved significantly, rising to 14.88% from 10.54% in 2022, reflecting higher earnings before interest, taxes, depreciation, and amortization as a percentage of revenue, likely due to increased operational efficiency or cost controls. Furthermore, the Net Margin recovered to 5.29% after a negative -0.53% in 2022, signaling a return to positive profitability and improved bottom-line performance. These margin improvements demonstrate Amazon's enhanced ability to convert revenue into profits at various levels, reinforcing its financial recovery and operational resilience.

3.0 Solvency/Debt Management

Amazon’s debt management ratios showed a stronger financial position and improved ability to handle debt obligations. The Debt to Equity (D/E) ratio decreased to 1.61 from 2.17 in 2022, indicating a lower reliance on debt financing relative to equity, which suggests a more balanced capital structure and reduced financial risk. The Debt to Assets ratio also fell to 0.62 from 0.68, showing a decline in Amazon’s total debt as a proportion of its total assets, highlighting reduced leverage and a healthier balance sheet. Additionally, the Times Interest Earned (TIE) ratio rose to 12.5 from 12.4 in 2022, reflecting Amazon’s strengthened capacity to cover its interest expenses with operating income. Together, these improvements indicate Amazon’s enhanced debt management and reduced financial vulnerability, positioning the company more favorably to meet its debt obligations.

**4.0 Asset Utilization**

Amazon’s asset utilization ratios reflected stable efficiency in leveraging its resources to generate revenue. The Total Asset Turnover remained relatively consistent at 1.09, slightly down from 1.11 in 2022, indicating that Amazon maintained a steady level of efficiency in generating sales from its total assets. The Fixed Asset Turnover increased marginally to 2.82 from 2.75 in 2022, showing a slight improvement in Amazon's ability to utilize its fixed assets, such as property and equipment, to support revenue generation. Meanwhile, the Inventory Turnover rose to 9.16 from 8.40 in 2022, suggesting better inventory management and quicker conversion of inventory into sales. These figures demonstrate Amazon’s consistent operational efficiency, with slight improvements in the utilization of fixed assets and inventory, enhancing its ability to generate sales with its existing asset base.

**5.0 Investor/Market Ratios**

In 2023, Amazon's valuation and market efficiency ratios displayed mixed signals. The Price to Earnings (P/E) ratio improved significantly to 43.05 after being negative in 2022, indicating renewed investor confidence and an optimistic outlook on Amazon's earnings potential. The Price to Book (P/B) ratio decreased to 6.48 from 7.88 in 2022, suggesting that Amazon’s market valuation relative to its book value became slightly less premium, possibly indicating a more cautious investor stance despite the recovery in earnings. The Enterprise Value to EBITDA (EV/EBITDA) ratio, which measures the valuation of the company relative to its earnings before interest, taxes, depreciation, and amortization, decreased to 15.14 from 21.49 in 2022, reflecting a lower valuation multiple and potentially more attractive entry point for investors. Together, these trends highlight a recovering confidence in Amazon's profitability, though at more conservative valuation levels compared to previous years.

In 2023, Amazon showed improvement in its profitability and efficiency ratios, with its Return on Assets (ROA) rising to 5.76% after a challenging -0.59% in 2022, indicating a more efficient use of assets to generate profits. Similarly, the Return on Equity (ROE) rebounded to 15.07% from -1.86% in 2022, signaling stronger returns for shareholders as operational performance strengthened. The Return on Capital Employed (ROCE) also improved, climbing from 8.94% in 2022 to 10.15%, which reflects Amazon's enhanced use of its capital to drive earnings. While these gains are promising, Amazon’s 2023 ratios have not yet reached the higher levels seen in 2021, suggesting potential for further recovery and efficiency gains in the coming years.

Personal Insights

One key reason for Amazon's decline in financial performance in 2022 was **increased operational costs due to heavy investments in infrastructure and logistics capacity**, combined with **slowing e-commerce demand** as consumers returned to physical stores post-pandemic. Amazon expanded aggressively during the pandemic to meet unprecedented demand, resulting in high fixed costs in areas such as warehousing and fulfillment centers. However, as demand normalized in 2022, these costs became a burden, leading to lower profitability and strained margins, as reflected in the EBITDA and net margins.

This issue was widely reported in financial news, with headlines highlighting Amazon’s overcapacity and challenges in scaling back on excess infrastructure. For example, reports from The Wall Street Journal and Bloomberg in 2022 emphasized Amazon's struggle with excess warehouse space and efforts to sublease some of it, which underscored the cost pressures the company was facing.

**Recommendation: Hold**

Given Amazon's significant investments, the company is well-positioned to benefit from long-term growth as it adjusts capacity and demand stabilizes. However, due to the high fixed costs and inflationary pressures, Amazon may take time to fully recover its profitability. Therefore, the recommendation would be to **hold** the stock, as the company’s long-term fundamentals remain strong, but it may face short-term challenges. Holding allows investors to wait for the recovery and potential appreciation in value as Amazon optimizes its operations and capitalizes on its infrastructure investments in the future.