# Interpreting Amazon’s Financial Results (2020 – 2022)

## Executive Summary

* **Liquidity Decline:** A steady decrease in liquidity metrics signals rising challenges in meeting short-term obligations.
* **Profitability Stagnation:** While gross income increased, profitability ratios exhibited little growth, with a decline in EBIT and EBITDA in 2022.
* **Debt Management Concerns:** Worsening debt ratios and reduced times interest earned (TIE) highlight increasing financial leverage.
* **Operational Challenges:** Extended receivables and declining fixed asset turnover suggest inefficiencies in operational management.

## Liquidity Ratios

From 2020 to 2022, liquidity metrics declined consistently, with the **current ratio** dropping from 1.1x to 0.9x. The **quick ratio** and **cash ratio** remained low, reflecting an ongoing struggle to cover liabilities with liquid assets. The **Defensive Interval** fell sharply to 80.6 days by 2022, indicating reduced cash reserves to meet operational expenses.

The **Net Trading Cycle** improved slightly to -26.7 days in 2022 due to declining payable days. However, rising receivable days, which increased to 29.7 days, points to slower collection processes. These trends suggest potential liquidity stress, with **Working Capital** turning negative at -1.67% of sales.

## Profitability Ratios

Profitability performance was mixed over the period. **Gross margin** remained steady at 0.4x, and **net margin** deteriorated from 0.07x in 2021 to -0.01x in 2022, reflecting rising operational costs.

* **EBITDA** decreased by 10.7% in 2022 to $52,906 million, primarily due to higher fulfilment and administrative expenses.
* **Net income** turned negative in 2022, resulting in **Earnings per Share (EPS)** dropping to -0.3x.

## Solvency and Debt Management

Debt levels increased, with the **Debt-to-Equity Ratio** rising to 0.5x by 2022. While leverage supported growth investments, declining solvency metrics such as **Times Interest Earned (TIE)**, which fell to 4.6x, suggest rising debt servicing risks.

* **Free Cash Flow to Equity (FCFE)** improved steadily, reaching $38,991 million in 2022, highlighting consistent shareholder returns despite debt pressures.
* **Debt coverage** worsened, falling to 0.7x in 2022.

## Asset Utilisation

Asset efficiency weakened across key metrics:

* **Total Asset Turnover** remained flat at 1.1x, indicating limited improvement in revenue generation from assets.
* **Fixed Asset Turnover** and **Inventory Turnover** both declined, reflecting operational inefficiencies.

A sharp drop in **Return on Assets (ROA)** to -0.59% in 2022 underlines declining asset productivity amidst falling profits.

## Investor and Market Ratios

Shareholder metrics displayed limited growth:

* **Price-to-Book Value (PBV)** and **Price-to-Earnings (P/E)** ratios remained static, reflecting investor caution.
* **Book Value per Share** increased marginally to $14,324.5, driven by retained earnings.

However, the **Return on Equity (ROE)** turned negative (-1.86%) in 2022, signalling diminishing returns to shareholders.

## Growth Rates

Revenue growth slowed significantly:

* **Total Net Sales** growth dropped from 21.7% in 2021 to 9.4% in 2022, reflecting market saturation.
* Cost growth outpaced revenue growth, with **General and Administrative Costs** rising by 34.77% in 2022.

## Summary

Between 2020 and 2022, Amazon faced increasing challenges across liquidity, profitability, and operational metrics. While growth initiatives supported revenue expansion, rising costs and debt pressures constrained profitability. Negative working capital and declining asset utilisation further emphasise the need for improved efficiency and liquidity management.