**Amazon Ratio Interpretation & Analysis**

Amazon’s financial ratios for FY21 & FY22 reveal a mixed view of operational performance. A decisive metric is the reported net loss in the most recent fiscal year, driven by increased operating expenses and a substantial non-operating loss largely resulting from an equity investment in Rivian[[1]](#footnote-1). Such an event brings concomitant deterioration across the ratio tableau, but points of strength remain.

Liquidity ratios show an improved cash ratio, perhaps indicative that Amazon has more effectively utilized current assets to manage obligations while maintaining a strong cash reserve. On the contrary, current and quick ratios have declined, suggesting a weakening in their overall liquidity position. Given the economic uncertainty brought about by Covid, Amazon’s increased cash position may have been a strategic measure to preserve liquidity in the face of supply chain challenges and higher operating costs during the fiscal period.

Profitability ratios tell a more concerning story. As mentioned, the net loss reaps a negative net margin of 0.53% for FY22. EBIT and EBITDA margins also declined. When inspecting the statement of operating income, we see a ≈30% increase in both technology and marketing expenses, the primary attributors to the deterioration of these ratios. Increases in fulfilment, logistics and infrastructure costs, as well as inflationary pressures and increased wages, put further pressure on Amazon’s cash flow[[2]](#footnote-2)[[3]](#footnote-3)[[4]](#footnote-4).

Looking at solvency ratios, Amazon’s debt-to-equity ratio increased from 35.26% to 45.98%, reflecting greater reliance on debt financing. Increased leverage levels, coupled with declined interest coverage, suggests greater exposure to financial risk, although the drop from 1375 to 517.45 still reflects a manageable state of affairs. As noted, the infrastructure expansion coupled with higher fulfilment costs likely explain the rising levels of debt for the company.

Asset utilization ratios show a small decline in the efficiency of fixed assets, as seen in the decrease in fixed asset turnover from 293.12 to 275.28. However, inventory turnover improved, suggesting Amazon has become more adept at managing inventory levels relative to sales. A greater level of sophistication applied to inventory management in the years leading up to FY22, including AI-driven solutions and utilization of machine learning and robotics, has allowed Amazon to enjoy an upward trend of inventory turnover since 2020[[5]](#footnote-5). Nevertheless, the overall decline in ROA from 7.93% to -0.59% demonstrates a substantial drop in the effectiveness of asset utilization, driven largely by reduced profitability.

Market ratios reflect a challenging year for Amazon. P/E ratio is void due to net losses, commensurate with a negative EPS of -$0.27. The return on equity also decreased sharply, highlighting negative returns for shareholders. News reports indicate that growing competition in the e-commerce market in the post-covid landscape has contributed to a negative bottom line for the company[[6]](#footnote-6). Plummeting return on capital employed (ROCE) from 128.81 to -142.39 further emphasises Amazon’s declining efficiency in generating return from capital investments, painting a picture of a company grappling with short-term headwinds and increased cost pressures.

In summary, Amazon's 2022 financial performance reveals significant challenges. Liquidity remains strong but shows signs of weakening, while profitability metrics indicate pressure due to rising costs and inefficiencies. Increased leverage and reduced solvency ratios suggest greater financial risk. Asset utilization has declined, though improved inventory turnover indicates better supply chain management. From an investor's perspective, declining profitability and returns, coupled with increased competition and a shifting post-pandemic environment, highlight the need for Amazon to address these pressures to regain investor confidence and maintain its market position.

1. Amazon Annual Report 2022, Doc pg, 27 https://s2.q4cdn.com/299287126/files/doc\_financials/2023/ar/Amazon-2022-Annual-Report.pdf [↑](#footnote-ref-1)
2. https://www.bloomberg.com/news/videos/2022-04-28/amazon-forecast-disappoints-as-rising-costs-take-a-bite-video [↑](#footnote-ref-2)
3. https://www.amazon.science/news-and-features/how-amazon-reworked-its-fulfillment-network-to-meet-customer-demand [↑](#footnote-ref-3)
4. https://www.wsj.com/articles/amazon-is-reviving-its-logistics-expansion-and-reshaping-its-u-s-distribution-390516b2 [↑](#footnote-ref-4)
5. https://cdotimes.com/2024/08/23/case-study-amazons-ai-driven-supply-chain-a-blueprint-for-the-future-of-global-logistics/ [↑](#footnote-ref-5)
6. https://www.bbc.co.uk/news/business-66401236 [↑](#footnote-ref-6)