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Financial Health Of Amazon

Amazon is known throughout the world. It wears many hats ranging from e-commerce, cloud computing, online advertising, digital streaming, and artificial intelligence. The company originally founded in 1994 by Jeff Bezos has turned into the fifth largest company in the world. Making it important to look into the companies financials since if a company of this stature were to collapse the economic consequences would be felt around the world. When gaging Amazons Finances it is important to look at its liquidity, profitability, solvency/debt management, asset utilization, and investor/market ratios. The following report is based on the years 2021 and 2022.

**Liquidity:**

The Current Ratio went from 1.13 to 0.94, and the Quick Ratio went from 0.45 to 0.33. This suggests the company's ability to liquify quickly and pay short term obligations worsened. The cash ratio increased from 0.25 to 0.35 but it is still far from a good ratio of 1. The Defensive interval also declined from 421 to 375 indicating a lapse in days that Amazon can operate with only using current assets. Amazon also saw an increase in inventory days well both receivable and payable days decreased. Furthermore Amazon had a negative net trading cycle in both years indicating an advantage within the business. The working capital percentage decreased from 4.11% to -1.67% suggesting it can free up cash faster.

The Current ratio is greater than 1 indicating the short-term asset’s ability to meet short term liabilities. Quick and Cash ratios above 0.5 which also indicates that the company can meet more than 50% of its short-term liabilities with its cash in hand. The decline in current ratio was mainly to be attributed to a reduction of marketable securities (following the sale of the company’s stake in Rivian).

As an online marketplace where thousands of vendors are hosted on site, Amazon’s payable days is typically higher than other companies as it is part of its 90-day credit policy. As a result of Amazon’s nature of business, its payable balances are higher than its inventories and receivables where it holds inventory on behalf of its vendors. Therefore, working capital is negative and so is the trading cycle. On a year over year basis the number has worsened, but can be supported with the argument that Amazon has started its own fulfilment services and is a fast growing company.

**Profitability:**

Amazon's gross margin increased from 42% to 43.8% showing not much change in business operations. EBITDA Margin decreased by about 2% indicating a slight increase in operating costs. EBIT Margin also saw a slight decrease going from 5.38% to 2.38% showing that operating profitability is worsening. The biggest concern for Amazon's profitability was a negative net margin in 2022 indicating no profitability in the year.

It is notable that Amazon’s Technology & content and Sales & marketing have seen sharp increases, indicating the heavy spend on AWS and Prime Video content. While the e-commerce segment is seen to be normalizing post the Covid-19 boom, sales reflect the increasing global inflation levels.

**Solvency/Debt Management:**

Amazon saw an increase in debt to equity, debt to total assets, long term debt to capital, and debt coverage from 2021 to 2022. The increase in debt to equity raises concerns over Amazon's reliance on debt. Although debt to total assets increase from 0.11 to 0.15 it is still at a healthy level. The long term debt to capital increased by 5% in one year's time furthering the point that Amazon is relying more on debt. The debt coverage increased significantly which is good however a negative debt coverage is still dangerous which amazon had in both years. Amazon's time interest earned ratio decreased from 15 to 5 in just one year's time showing the company is more risky in terms of paying off its debts. Free cash flow per share also decreased which means less earnings per share.

Amazon’s long-term liabilities have been increasing over the years as the company has increased its Financial lease commitments to facilitate the number of new fulfilment centres opened over the last year. Although the long-term debt remain rather steady, financial lease commitments have dramatically increased which has increased the debt service burden as well. However, the company has adequate levels of interest coverage and free cash flow indicating its financial health. However, the increase in the debt level would also mean that the company’s borrowing capacity in future is strained where it might have to pay higher interests to secure more debt.

**Asset Utilization:**

Total asset turnover and fixed asset turnover both increased from 2021 to 2022. This means that as a whole Amazon improved at utilizing assets in order to generate income for the company. Inventory Turnover also increased meaning more sales for Amazon had occurred. Return on Assets stayed relatively the same going from 0.11 to 0.1 which is a healthy amount for a company.

Amazon has a large portion of goodwill in its asset base, where the Fixed asset turnover is almost three times higher than the total asset turnover. The goodwill and intangibles are manly as a result of acquisitions in addition to the increased R&D spending on AWS which we will have to closely watch for future profitability.

**Investor/Market Ratios:**

In 2021 Amazon had a P/E Ratio of 50 by the end of 2022 it went to -638. This is alarming as it indicates the company is losing money. Amazon EPS also went from positive to negative in 2022 further backing up concern for the company. Price to book value decreased from 12.5 to 5.8 meaning Amazon's stock price was becoming more undervalued. Amazon’s Return on Equity also went negative this time showing Amazon had lost money. ROCE decreased by 8% showing amazon was not investing in funds efficiently from 2021 to 2022. Enterprise value also decreased by 43% showing that the company's values as a whole had shrunken a lot.

ROE, ROA and ROCE all are within the health territory, however, have declined slightly compared to previous year. Furthermore, given Amazon’s valuations, one would expect the ratios to be better as there are many other smaller companies with better returns than Amazon, however, it is notable that these valuations are backed by Amazon’s expansion.

**Conclusion**

2022 was a rough year for Amazon's financials as the company saw losses across the board. It was the first year Amazon had a negative loss since 2014. Many attribute this to the company’s investment in the electric car company Rivian.

**Sources**

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