Amazon Inc Report

Introduction

Amazon Inc. is a global e-commerce powerhouse, and its financial health is vital to investors and stakeholders. The following report aims to provide insight into how Amazon are performing as a company. I will be analyzing Amazon's key financial rations across five crucial topics to figure out how appealing this company is as an investment opportunity.

Liquidity Ratios

As of December 2017, to December 2019 Amazons financial health regarding liquidity has some very strong areas but also some areas that are quite weak. For example, Amazons cash ratio is very low with an average over the three years of 0.23 but they also have an average net trading cycle of -31.

Further analysis reveals promising trends in key indicators: current assets, defense interval and working capital are three areas in which over the three-year period have shown steady growth which gives a good indication for the future.

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.

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.

Operating with a negative Trading Cycle became a source of cash for the company, instead of being a cost for it. However, it can be observed that the Trading Cycle days have reduced over the years indicating that the number of days that they can hold on to the cash has reduced.

Profitability

Amazon profitability from 2017 to 2019 has been good. Their gross profit throughout the three-year period is as follows in 2017 they had a 48.55% gross profit then in 2018 and 2019 their profit was 25.68% and 21.25% respectively. In addition to this Amazon’s EBITDA margin has been consistently growing over the three-year period from 8.76% in 2017 to 12.95% in 2019. Amazon also has a very good gross margin averaging at a percentage of 39 over the three-year period.

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

The main ratio in the solvency/debt management for Amazon would be the debt-to-equity ratio. Starting at the end of 2017 Amazon’s debt to equity ratio was 3.74 at the end of 2019 it has come down to 2.62 with 2018 being 2.73. This reflects well on Amazon’s financial health being able to steady out that ratio and brings promise for the years to come. However, Amazon’s debt to total assets is quite high with an average of 0.74. This means that 74% of amazon’s assets are financed by its shareholders.

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

Amazons’ asset turnover over the three-year period has been consistent with low volatility which is good through 2017 to 2019 the average for amazon’s total asset turnover is 1.34 which is good. However, 2019 was the lowest out of the three years at a 1.25. Another ratio that supported amazons’ financial health was their return on assets over this period, it has been consistent with a profitable turnover. Since 2014 Amazons ROA has continued to climb maintaining steady growth which is a good sign for investors looking for a low-risk investment.

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.

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Investor/market ratios

Amazons’ investor ratios show good promise for future growth and financial health. Amazons P/E ratio is quite high, but this is because investors are optimistic about its future growth potential. Another reason why it’s so high is because Amazon’s earnings are reduced due to their high amounts of capital expenditures and reinvestment into the business. Their investments into new markets have also caused the P/E to look inflated.

Ratios like Amazons ROE have increased nicely over the three-year period starting in 2017 at 0.11 then increasing to 0.19 at the end of 2019. Since 2015 Amazons ROE has had a steady growth rate fluctuating between 13% and 28%. This is a good sign of value to investors with long term investment portfolios.

In conclusion, considering the positive trends in Amazons profitability and their decreasing debt-to-equity ratio with promising investor ratios. Amazon appears to be a potentially wise investment. However Amazon will need to be continually monitored in areas such as their liquidity and asset utilization, to ensure sustained financial health.

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.