**Profitability**

Amazon incorporated continues to be one of the largest and most valuable companies in the world with billions of dollars in revenue. Revenue growth over the last three years has grown in double-digit percentages each year, proving that demand for their services remain high and show no signs of slowing. Amazon continues to be a profitable company with positive net income and earnings per share. Their profitability is increasing as well as gross and net margin percentage has increased over the last three years, showing that Amazon continues to manage costs efficiently. Operating at a high level is vital to growing and maintaining a profit. Amazon’s ability to operate efficiently can largely be attributed to state of the art technology that allows them to fill orders faster than anyone. Amazon’s investment in this technology is recorded in the technology and content section of the income statement and is the second highest expense on the statement (next to the cost of fulfilling orders). Amazon also has built a surmountable sum in goodwill from acquisitions in Whole Foods and other companies that have cut their costs down drastically.

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.

**Liquidity**

With a current ratio over 1, Amazon continues to be able to pay current liabilities with its Liquid assets and inventory. The quick ratio and cash ratio show that Amazon can pay close to half of their current liabilities with cash and close to 80% of current liabilities with liquid assets. This shows Amazon is keeping a healthy amount of cash and liquid assets on its balance sheet so that short-term liabilities are covered. Amazon’s accounts payable remains high, as their borrowing from vendors exceeds customer credit. They would have an average of forty days of accounts payable to pay if accounts receivable was all paid off. However, accounts payable is relatively close to Amazon’s cash on hand, and so that account can be cleared pretty quickly if need arises. 10% of current liabilities is also unearned revenue, which will capitalize upon earning. Overall, Amazon’s cash management strategy is conservative and it is highly liquid.

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.

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.

**Solvency**

Amazon’s assets are mostly funded by equity, as debt to asset is only 10%. Amazon does not keep a lot of debt and is a more equity driven business. This is due to its high level of profitability and earning potential, as well as the fact that they don’t pay dividends (keeping all of the retained earnings). Amazon has room to take out debt if the need arises.

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**

Amazon uses its assets to drive sales efficiently. It makes over a dollar in sales for every dollar in asset. Its property and marketing costs drive revenue efficiently and thus are worth the cost as the fixed assets make 4 dollars for every dollar of fixed asset. The company is investing wisely in its fixed assets, and its marketable securities (non-current) are fueling revenue and net income.

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.

**Market Ratios**

Amazon trades 4 times its earnings, showing that it the market is pricing Amazon close to its earnings. In order for the stock price to grow, earnings would have to grow as well, which is not a problem as Amazon demand remains high. Amazon had a significant increase in diluted earnings per share in 2018, and that high earnings per share remains today. This is likely due to the increase in share price as well as steady increase in shareholders equity over the three year period. Although price to earnings is relatively low, Amazon does not payout a dividend. Investors looking to invest in Amazon will do so knowing they won’t share in the profits and will have to hope for increase in share price. Increase in share price will be difficult as Amazon stock has already been one of the most profitable in three years. It is hard to keep sustained share price growth even for profitable companies. Investors will need to consider external factors besides financials as well as financials when making a investment decision.

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.