**Management Report**

The main objective of this report is to interpret the financial health and the performance of Amazon.com Inc. by analyzing the financial ratios calculated basically on its annual reports of the years ended December 2022 and 2021 under the five key metrics such as liquidity, profitability, solvency/debt management, asset utilization, and investor/market ratios.

1. Liquidity

Liquidity ratios are used to measure a company’s ability to pay its short-term debts. It can be observed that Amazon’s current ratio over the two-year period shown at 1.14 and 0.94 in 2021 and 2022, respectively. it is below the sector and the industry benchmark. However, it can be seen that Amazon’s quick ratios were stood at 0.91 and 0.72 in 2021 and 2022, respectively. It indicates the quick ratio of Amazon is quite higher than the sector and similar to the industry benchmarks.

A cash ratio of Amazon was marked at 0.68 and 0.45 in 2021 and 2022, respectively. It is higher than the sector and below the industry benchmarks. Further, the trend of the liquidity ratios of Amazon has been improved from 2020 to 2021 but then weakened significantly from 2021 to 2022. Therefore, the liquidity ratios are unhealthy and poor performance in 2022 compared to 2021.

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.

1. Profitability

Amazon incurs a net loss of US$2,722 million in 2022, compared to a net profit of US$33,364 million in 2021. The operating margin is at 2.4%, in 2022, compared to an operating margin of 5.3% in 2021. Amazon’s computed net profit margin is stood at 7.10% and negative 0.53 % in 2021, and 2022, respectively. It shows a net loss whilst the competitors showing a significant net profit margin in the sector and the industry in 2022.However, a slight growth in net profits can be seen in 2021. Amazon’s net profit margin ratio improved from 2020 to 2021 but it has been drastically declined from 2021 to 2022.

Amazon’s gross profit margin ratio improved from 39.57 % in 2020 to 42.03 % in 2021 and further increased to 43.81 % in 2022. It highlights that the well over the competitors of Lowe’s Cos. Inc. and TJX Cos. Inc. but well below AutoZone Inc. Amazon’s EBITDA margin has slightly increased from 12.45 % in 2020 to 12.62 % in 2021 but then declined significantly to 10.54 % in 2022. Amazon’s EBIT margin was increased from 5.93 % in 2020 to 5.3 % in 2021 but then drastically declined to 2.38 % in 2022. Therefore, Amazon’s profitability is financially unhealthy and poor performance in 2022 compared to 2021.

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.

1. Solvency/debt Management

The solvency ratios are used to measure a company’s level of gearing. the debt-to-equity ratio was decreased by 0.12 from 2020 to 2021 and then increased slightly to 0.59 in 2022. Amazon’s debt-to-assets ratio is slightly decreased from 0.19 in 2020 to 0.18 in 2021 and then slightly increased to 0.19 in 2022.

The long-term debt to capital ratio has slightly declined from 0.28 in 2020 to 0.27 in 2021, and then increased to 0.32 in 2022. Amazon’s times interest earned has improved from 2020 to 2021 by 6.4 but then declined significantly from 22.09 in 2021 to negative 1.51 in 2022. The debt coverage, and Free Cash Flow to Equity (FCFE) per share imply that a negative cash flow that Amazon might not be able to cover current debt obligations and financially unhealthy. The trend shows that Amazon is not stable in terms of using debt to finance the purchase of assets. Overall, Amazon’s leverage ratios indicate that the company has not managed to control the level of debt in its capital structure.

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.

1. Asset utilization

The asset utilization indicates how efficiently a firm utilizes assets on its financial position to generate earnings. Amazon’s total assets turnover reduced from 1.20 in 2020, then to 1.12 in 2021 and then to 1.11 in 2022. Amazon’s fixed assets turnover declined from 3.41 in 2020 to 2.93 in 2020 and finally to 2.75 in 2021. Amazon shows a continuous declined in two ratios from 2020 to 2022. Amazon’s inventory turnover declined from 2020 to 2021 but then slightly improved from 2021 to 2022. Amazon’s return on assets (ROA) improved from 2020 to 2021 but then deteriorated significantly to negative 0.59 % in 2022 due to a net loss in 2022. A negative ROA generally implies that a company is not making a profit and is not using its assets efficiently. It is financially unhealthy.

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.

1. Investor/market ratios

Investor ratios or market ratios indicate a company’s ability to generate returns from the capital invested. Amazon’s computed earnings per share show that the company’s earnings have been on an upward trend over the last three years. Amazon’s EPS rose from 2.09 in 2020 to 3.24 in 2021 and negative 0.27 in 2022. The increasing EPS shows that Amazon’s earnings are increasing, which is a benefit to the investors as they stand to earn more for every outstanding share. Amazon’s P/BV ratio has a down trend from 2020 to 2022. Amazon’s P/E ratio decreased from 2020 to 2022 and no earning(zero) in 2022. Amazon’s EV/EBITDA ratio deteriorated from 2020 to 2021 but then increased from 2021 to 2022. ROCE and ROA ratios have been slightly increased from 2020 to 2021 but then they became negative in 2022.

Amazon has never paid out dividends and reinvests its earnings to new markets with a view to generate meaningful profits. The high demand for Amazon stocks pushes the prices up, thus benefiting the existing shareholders.

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.

**Recommendations**

Amazon needs to increase revenue, reduce costs, boost productivity, and increase efficiency in order to achieve greater profitability and effective in utilizing assets to generate more revenue. Therefore, the management has to work towards achieving more efficiency in the utilization of company’s assets and shareholders’ equity to boost the company’s earnings. Furthermore, Amazon should consider paying out some dividends to shareholders in the future to attract more investors in the business.