*Amazon Financial Health Report (2021-2022)*

Liquidity

The current ratio of Amazon decreased by 0.2 from 1.14 in 2021 to 0.94 in 2022. This means that Amazon has a similar ratio of assets to liabilities (current) and may struggle to pay short-term debt obligations. It is also lower than the consumer discretionary/retail benchmark ratio of 1.3. The quick ratio of Amazon decreased by 0.19 from 0.91 to 0.72, remaining above the benchmark of 0.6. The cash ratio of Amazon increased by 0.1 from 0.25 to 0.35 and remains above the benchmark of 0.3.

The defensive interval ratio of Amazon decreased by 26 from 133(132.55) to 107(106.79). Amazon may continue its business for over 3 months.

Amazon Incorporated’s Inventory Days decreased from 44(43.74) to 43(43.48) below the benchmark of 60 days (about 2 months).

Amazon Incorporated’s Payable Days decreased from 105(105.43) to 101(100.59).

Amazon Incorporated’s Receivable Days increased 25 to 30 in 2022, more than the benchmark of 10.

Amazon Incorporated’s net trading cycle increased from –36 to –27, the negative values suggest online retailers such as Amazon receive funds from third parties but do not pay them immediately. Working Capital decreased by (–8,602)–19,314=-27,736 meaning that Amazon’s ability to pay for its current liabilities has significantly decreased. Working Capital as a percentage of sales decreased by 0.06% [-0.02-0.04].

The ratios suggest Amazon is quite illiquid, but this may be in relation to its business as a consumer discretionary/online retailer.

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

The gross margin increased from 42 to 44. This suggests that Amazon has increased its percentage of profit in relation to its revenue and is above the 35% benchmark.

EBIT decreased to –276,583 from the previous year’s -247,465. EBIT margin decreased from –0.53 to –0.54. EBITDA decreased by 21,630 from –213,032 to –234,662. EBITDA margin remained relatively similar in both years as it maintained -0.45% operating profit in respect to revenue.

Net margin decreased from 0.07 to –0.005 indicating Amazon may have lost money for every dollar collected in 2022. The ratios show Amazon may not have a high means of profitability. This may be connected to the unprofitable Rivian investment.

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

D/E ratio increased from 0.35 to 0.46 showing the company uses more debt to leverage finances but the low ratio shows reduced risk. This is supported by the Debt to total assets ratio, increasing from 0.116 to 0.145. The debt to Capitalisation ratio increased from 0.50 to 0.52.

TIE increased from 105 to 153 showing low risk of solvency and possible efficient management.

Debt coverage increased from –8.82 to –4.30. Free Cash Flow per share increased from 4.50 to 4.59. FCFE increased from 1,204 to 32,650 in 2022. These ratios indicate that Amazon is quite solvent and can reward its investors.

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 Utilisation

Total Asset Turnover decreased from 1.117 to 1.111. Fixed Asset Turnover decreased from 2.93 to 2.75. Inventory Turnover increased from 14.39 to 14.94 and ROA decreased from 0.079 to –0.00588. All the above propose that Amazon is to a small extent using its assets efficiently (in comparison to its competitors).

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

The P/E ratio decreased from 47 to –574 meaning that in 2022 Amazon under-performed investor expectations. Earnings per share also decreased by 3.51 from $3.24 to –$0.27.

Price to book value decreased from 11.4 to 10.7 and ROE decreased from 0.24 to –0.02, which is expected as Amazon under-performed in 2022. The ratios propose that Amazon is overvalued; however, book value does not account for intangible assets and Amazon has an abundance of non-current assets.

Book value per share increased from 13.4 to 14.3 and the contrast to its market value may be due to its large customer base or brand loyalty.

ROCE increased from –1.32 to –1.30, showing Amazon may be losing $2 for every $1 of capital employed.

Enterprise value increased by 16,644 from 2021’s 247,663 to 2022’s 264,307 and the valuation multiple of Enterprise value to EBITDA increased from –1.16 to –1.13 these may suggest that compared to its $1.6 trillion market capitalisation Amazon is overvalued and has slowed growth.

AMZN stock is not a dividend paying stock; as such there are no applicable ratios available.

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.

Reference

<https://www.readyratios.com/sec/industry/G/>