**Financial Health Report - Amazon Inc. (2019-2017)**

Amazon Inc. has been synonymous with e-commerce and cloud computing sectors; it continuously demonstrates a formidable financial standing across various dimensions. Analysing liquidity ratios provides insights into the company's short-term financial health. The current ratio, maintaining a level of 1.10 over the three-year period, **as shown as in** **Figure 1**, indicating that Amazon possesses sufficient current assets to cover its short-term liabilities.

**Figure 2: Quick Ratio of Amazon Inc.**

**Figure 1: Current Ratio of Amazon Inc.**

However, the slight decrease in the quick ratio from 0.86 in 2019 to 0.76 in 2017, **as shown in Figure 2,** suggests a potential need for more liquid assets to meet short-term obligations, as this metric excludes inventory. Furthermore, the cash ratio, measuring the ability to cover short-term liabilities with cash and cash equivalents, has seen a modest improvement from 0.54 in 2017 to 0.63 in 2019. This indicates that Amazon has become more adept at managing its short-term obligations with readily available cash resources. All current ratios above 1 indicate the company is in good condition to pay out its debts. The ideal quick ratio should be 1:1, which unfortunately Amazon Inc has failed to meet with the data collected showing Amazon in every fiscal year being less than 1. However, the negative net trading cycle signifies that Amazon efficiently converts its cash, suggesting a robust operational cycle that contributes to its overall financial strength.

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 ratios underscore Amazon's ability to generate earnings from its operations. The gross margin, consistently on an upward trajectory, reached 40.99% in 2019, indicating efficient cost management and potentially improved pricing power.

**Figure 4: Net Margin of Amazon Inc.**

**Figure 3: Gross Margin of Amazon Inc.**

EBITDA margin and EBIT margin, standing at 13.02% and 5.26% respectively in 2019, signify a healthy operational profitability. However, the net margin, while maintaining stability, has experienced a slight decline. This decrease, from 4.33% in 2018 to 4.13% in 2019, warrants a closer examination of Amazon's cost structures and operational efficiency. Nevertheless, the overall profitability ratios portray a company effectively translating its revenues into profits.

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.

Moving to solvency and debt management ratios, Amazon showcases prudent financial decisions. The debt-to-equity ratio, consistently decreasing from 0.89 in 2017 to 0.38 in 2019, reflects a more conservative capital structure and a reduced reliance on debt. Moreover, times interest earned, standing at 16.85 in 2019, demonstrates that Amazon has ample earnings to cover its interest obligations, providing assurance to creditors and investors alike. The debt coverage ratio, indicating the firm's ability to cover its debt obligations, has seen a positive trend from 2.73 in 2017 to 4.14 in 2019. However, the Free Cash Flow to Equity (FCFE) per share shows a negative value in 2019, suggesting that the company invested more in its operations than it generated in free cash flow available to equity 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 utilisation ratios reveal Amazon's efficiency in managing its assets. The total asset turnover has increased from 135.46% in 2017 to 124.54% in 2019, suggesting that Amazon is generating more revenue per dollar of assets. Fixed asset turnover remains consistently high, indicating efficient utilization of fixed assets. Inventory turnover, at 883.02% in 2019, reflects the company's ability to swiftly convert inventory into sales. Return on assets (ROA) has seen a positive trend, reaching 5.97% in 2019, signalling increased profitability relative to the total assets employed.

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.

Finally, investor and market ratios shed light on Amazon's standing in the eyes of investors. The price-to-equity (P/E) ratio has shown a declining trend, from 24.28 in 2017 to 6.54 in 2019. This may indicate that investors are willing to pay less for each dollar of Amazon's earnings, potentially signalling undervaluation or a change in market sentiment. The price-to-book (P/B) ratio, declining from 2.66 in 2017 to 1.22 in 2019, suggests that Amazon's stock is trading at a lower value compared to its book value. Return on equity (ROE), while showing a slight dip, remained healthy at 21.95% in 2019, demonstrating that Amazon continues to provide attractive returns to its shareholders. Return on capital employed (ROCE) has seen an upward trajectory, indicating efficient use of capital in generating returns. The Enterprise Value to EBITDA (EV/EBITDA) ratio, displaying a decreasing trend, signifies a potentially lower valuation relative to the company's earnings before interest, taxes, depreciation, and amortization.

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.

In conclusion, Amazon Inc.'s financial health is creditable, reflecting a resilient business model and strategic financial management. The company has efficiently managed its liquidity, displayed strong profitability, made prudent decisions regarding debt, and demonstrated effective asset utilization. Investors may find the declining valuation ratios intriguing, potentially presenting an opportune entry point. However, it's crucial to consider external factors, industry trends, and the dynamic nature of the market when interpreting these ratios. As Amazon continues to innovate and expand its operations, a comprehensive analysis that incorporates qualitative factors alongside these financial metrics would provide a more holistic understanding of the company's overall health and future prospects.