Management Report: Performance Analysis of Amazon for Year’s 2022 and 2021 using ratios calculated for 2017-2019 and the annual reports of 2022 and 2021.

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**Executive Summary:**

Amazon, a global ecommerce giant, has continued to demonstrate robust performance across key metrics in the past few years ending 31st of December 2017, 2018, and 2019. Furthermore, looking at the annual reports of 2022 and 2021 we can make some key interpretations.

This report provides an in-depth analysis of the company's financial health, operational efficiency, and strategic initiatives. The 5 Key highlights include Liquidity, Profitability, Solvency/ Debt Management, Asset Utilization, and Investor/ Market Ratios. As well as an overview of Amazon's strategic focus areas.

**Financial Performance:**

**Liquidity:**

From December 31st, 2017, to December 31st, 2019, Amazon’s ‘Receivable Day’s’ Metric reduced by 13.69. This indicates that Amazon was collecting payments quicker over these two years. From this we can infer that Amazon has an effective Credit Management strategy and Cash flow. This strong cash flow can be seen as Amazon’s Cash ratio increased from 0.54 to 0.63 over the same two-year period. Furthermore, Amazon’s Current Ratio increased from 1.04 to 1.10 in the same period. The ratio is greater than 1.00 and this 5.77% increase indicates that Amazon is in a strong position to manage its short-term financial obligations with its assets.

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 company's net profit margin ratio in 2019 remained strong at 0.041, showcasing efficient cost management and strategic pricing. Despite increased competition, Amazon's ability to leverage its scale and operational efficiency has positively impacted its bottom line. This 0.041 figure represents an increase of 0.015, or an increase of 57.69%, from the 2017 figure of 0.026. This is indicative of strong net profit growth. However, the net margin was -0.005 in 2022 but 0.0710 in 2021. The strong growth from 2019 to 2021 of 0.03 or 73.17% growth in two years suggests that the Covid-19 pandemic may have contributed to more online shopping. Furthermore, Amazon’s net margin reducing to negative in 2022 suggests that it may have over-invested in 2021 with the expectation of further imminent growth amongst other possibilities.

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:**

A healthy FCFE cash flow of $38.514 billion reflects Amazon's ability to generate cash from its core operations. This liquidity provides the company with flexibility for future investments, acquisitions, and strategic initiatives. This FCFE value has increased from $18.365 billion in 2017 to $38.514 billion in 2019 or 109.71% growth. The 2022 figure of FCFE is $46.752 billion and $46.327 billion in 2021. Moreover, the FCFE figure is $66.064 billion in 2020. This supports my hypothesis that the Covid-19 pandemic boosted online growth. In addition, Amazon’s Debt to equity ratio (D/E) reduced from 0.893 in 2017 to 0.377 in 2019. This highlights that Amazon had effectively reduced its debt using FCFE and increased its equity value simultaneously.

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:**

This metric highlights operational efficiency. For example, Amazon’s “Total Asset Turnover” increased to 1.245 in 2019 from 0.898 in 2017. This highlights that Amazon has increased its efficiency in turning assets into sales in that period. Furthermore, in 2022 “Total Asset Turnover” was 1.11089 which is a slight reduction from the 2019 value of 1.245. This may suggest that the effects of the Ukraine-Russia Conflict may have reduced the logistical capacity of Amazon in efficiently using its assets. For example, a large quantity of the World’s grain comes from Ukraine, 9% of the World’s Wheat trade in 2022, to be specific. (Statista.com, 2023). This conflict may lead Amazon to be vulnerable to logistical weaknesses in the future if there is a conflict over Taiwan between the USA and China. It’s 2022 ‘Total Asset Turnover” of 1.11089 was still greater than 1.00. In 2021 it was 1.1171. Thus suggesting that the Russia-Ukraine conflict had little effect on its efficiency of assets. This indicates that Amazon’s financial health is sound.

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:**

Amazon’s earnings per share have gone from 6.15 at the end of 2017 to 22.99 at the end of 2019. Simultaneously it’s “Price to Equity” ratio has decreased from 9.512 to 4.016 in the same 2-year time frame. This “earnings per share” ratio has increased by 273.82% and “Price to equity has reduced by 42.22% in the same period. This indicates that Amazon has been received well in terms of sentiment on the stock exchange. Moreover, Amazon’s “Book Value” has also increased from 56.20 to 123.13 in the same 2 years. From this we can infer that Amazon’s equity has increased as it’s “P/E” ratio has decreased, and it’s Book value and price have increased. This affirms that Amazon’s market ratios are strong from 2017 to 2019.

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**Conclusion:**

Amazon’s strong financial performance in the years 2017 to 2019 suggest that future performance and growth will continue to be strong. It has proven this prediction by looking at the annual reports of 2022 and 2021 which show that, despite external negative factors, Amazon has prevailed. In the future, Amazon will show greater expansion and new methods of delivery, for example its drone delivery system which is already initiated in the North America market. This may become a source of future growth in the Europe and Asia Market.

Moreover, Amazon has conceived ideas like Amazon Web Services which could conquer Microsoft’s Cloud Computing share of the market. Furthermore, Amazon has made ventures into Music, such as Amazon Music Unlimited. This could compete with Apple’s “Apple Music”.

Overall, Amazon is in a very strong position in retail and has a solid foundation for growth as well as expansion into new markets and territories.

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.

# Bibliography

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