QCP Task 2 Amazon.com Inc.

Over the 3 years from 2020 to 2022 Amazon.com Inc. has continued to grow very well, with Net Sales growing by 39.6% from the year ended December 31st 2020 to the year ended December 31st 2022. However rising cost of sales (23.8%) and other operating expenses especially research and development cause Amazon’s total operating expenses to grow by 38.2% over the 3-year period. Interestingly the rising operating expenses have lead to Amazon’s Net income for the year ending Dec 31st 2022 as a 2.7 Billion Dollar loss. The loss may have come as a surprise if one was simply following amazon’s growth rates; they posted net income profits of $21.3bn and $33.4bn in 2020 and 2021 respectfully. Many reports and Amazon itself have pointed to Rivian, an electric car company that Amazon has a large share in and committed to ordering 100,000 electric vans for amazon’s delivery side as part of its climate pledge. Another important factor is that 2022 was a year where much of the world, especially in Europe and North America, suffered from extraordinary and persistent inflation. This was mostly caused by the easing and eventual end of the COVID pandemic which changed people’s spending habits; as exampled by very small increase from product sales between year end Dec 31 2021 to Dec 31 2022.

Liquidity

Amazon’s Current ratio and Quick ratio both fell in 2022 after rising in 2021. This is a result of a significant fall in marketable securities most notably is their exposure to Rivian which had a poor year, it started with a stock price of $86.28 and fell to $18.43 by the end of 2022. So it doesn’t have enough quick assets to meet all of its short-term obligations but this won’t worry Amazon as its revenue streams are not showing signs of slowing down. Amazon’s cash ratio has changed drastically from 2021 to 2022 (0.25 to 0.35) but is slightly above the level it was in 2020 (0.33) so in terms of coverage using only cash or cash equivalents it is still in a healthy place considering the $2.7bn Loss in 2022 compared to massive profits in the preceding years. The defensive interval has risen which is a good sign; inventory days has plateaued at 42 days and seems healthy; payable days has fallen slightly to around 100 days which is also healthy as certainly not rising which would be a worry when coupled with a net loss. Receivable days are very low and have fallen year on year suggesting perhaps that amazon are keen to receive money faster than usual. Amazon’s net trading cycle is negative and falling(becoming shorter) since it predominately is a retailer and so has a faster inventory turnover rate and doesn’t need to pay its suppliers immediately. And working capital is negative because of the decline in the value of marketable securities.

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

Amazon in 2022 reported its first ever loss; but has remained in a strong financial position. Its gross margin has increased by 2 percentage points each year to 44% for 2022. EBITDA fell between ’21 and ’22 but was higher than in ’20 although the EBITDA margin in 2022 is the lowest of the tree years at 11%. EBIT on the other hand is lowest in 2022 and almost halved from the previous year, the EBIT margin fell to from 5% in 2021 to 2% in 2022. The net profit margin obviously fell as the loss was announced, it was at 6% and 7% before falling to -1% in 2022.

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

Debt to equity ratio, debt to total assets ratio, and long-term debt to capital ratios all rose year on year in the three years to 2022. But all seems to be low in the scheme of things to not be considered worrying. Times interest earned took a large dive to 5.7 times for 2022 after being stable at about 14 times dept can be paid over; most of this can be explained by the net loss announced at the end of 2022 but it is a significant fall. Free cash flow and FCFE per share remained steady over the three years.

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 dropped from 2020 to ’21 but remained constant for ’22 at 1.11; its greater than 1 but not by much. Fixed asset turnover however is larger but followed a more significant fall over the three years from 3.41 to 2.93 to 2.75, being over 2.5 is considered good and healthy for the retail sector but this downward trend is not pleasant. Inventory turnover has fluctuated mildly over this three-year period at an average of 15.19 and for 2022 it was 14.94. The return on assets fell into the negatives in a pattern that closely follows the net profit margin, most likely this is also explained by the fall in value of Rivian shares.

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

Earnings per share followed the trend of the net profit margin – rose from 2020 to ’21 and fell into negatives for ’22 this stood at -$0.27 for the year ending 31st Dec 2022. The negative skewed the ratio calculations for P/E, ROE and ROA causing all of these to also be negative. Shareholder’s equity grew in all three years and, book value per share and price to book value ratios remained very strong; with the former growing year on year. AMAZ stock does not pay a dividend therefore there is no dividend data. ROCE fell year on year to just 4% which is worrying but may be a temporary blip like the net loss since amazon is expected to bounce back and make a profit in 2023. The EV/EBITDA is high and rising over these three years which many suggest indicates an unattractive company to invest in; with that being said the reason for this significant rise in The EV/EBITDA ratio is a near doubling in the closing price of AMAZ between Dec 31st 2020 and 2021 causing EV the numerator of this ratio to grow more than proportionality against earnings before interest, taxes, depreciation and amortisation.

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.