Amazon Financial Report 2021/2022

Still recovering from the Covid-19 pandemic, Amazon has reported its first net loss of 2.7 billion U.S. dollars in 2022 since 2014. Comparing the financial years 2021 and 2022, there has been a decrease in liquidity with the ratios supporting the claim. Amazon’s ability to cover its short-term obligations with its current assets has decreased by 17.5% as well as the number of days the company can operate without needing to tap into capital sources other than its current assets which decreased from 131 to 105. The inventory days almost doubled which would suggest a decrease in demand as the products would stay in storage longer before being sold.

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.

Following the trend, profitability also decreased in most ratios by half. Most notable, the net margin which went from a positive 7% to a negative 1% which measures how much net income is generated as a percentage of revenue. One of the most important indicators of a company's financial performance is the gross margin as it measures business efficiency. It increased by 14% which shows that Amazon is still running efficiently. The EBITDA margin measures how much cash profit a company makes in a given year. Even though the EBITDA margin value decreased by 50% in 2022, a cash profit was still made in the year.

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.

Comparing Amazon’s total liability with its shareholder equity through the years 2021 and 2022 the total liabilities increased by 12% while the total shareholders’ equity increased by 6% and the debt-to-equity ratio was 2.17 which shows that for every $1 of equity, there is $2.17 worth of debt. The times interest earned ratio went from a negative 3.83 to a positive 1.82 which suggests Amazon has increased its capacity to pay all interest on business debt obligations.

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.

Analysing the turnover ratios of Amazon, it can be seen that the year 2022 had a negative impact on the company. The total asset turnover shows that only 29% of their assets generated sales effectively compared to the previous year’s 56%. The inventory turnover decreased by 52% suggesting a sign of weak sales or excessive inventory which could be due to lack of demand caused by Covid-19. Following the trend, the return on assets decreased dramatically from 16% to a negative 1%.

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.

Looking at the investor/market ratios, the enterprise value shows a decrease of over 430 million dollars while the enterprise value to EBITDA has increased by 39%. This ratio tells investors how many times EBITDA they have to pay, were they to acquire the entire business. The lower this ratio the more attractive it is to investors. Another useful ratio is the Return on capital employed which is used to understand how well a company is generating profits as it is put to use. A high ROCE value indicates that a larger chunk of profits can be invested back into the company for the benefit of the shareholders. The reinvested capital is employed again at a higher rate of return, which helps produce higher earnings-per-share growth. The ROCE went from 0.24 to a negative 0.02 which indicates a net operating loss and a net negative for the shareholders. A positive for the 2022 year was the Book value per share which increased by 7%. This represents the minimum value of a company’s equity and measures the book value of a firm on a per-share basis. A higher book value per share is considered to be less risky and therefore more attractive to investors.

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.