**A management report on the evaluation of Amazon Inc.'s financial health for the fiscal years ending in December 2022 and 2021**

**Summary:** The results of comparing the financial health of Amazon Inc. between the fiscal years ending in December 2022 and 2021 utilizing the income statement, balance sheet, and cash flow statements are shown in this report. The five key performance indicators specified below serve as the primary goal of the evaluation.

**1.0 LIQUIDITY**

The corporation has a somewhat stronger asset-based ability to offset its immediate liabilities in 2021, according to a review of assets and liabilities. The current, quick, and cash ratios all showed a decline in 2022 of -16.8%, -20.2%, and -33.3%, respectively. Strategies to maximize asset management and minimize current liabilities may be necessary in this circumstance. There appears to be more demand with a (-0.6%) decrease in inventory days in 2022 (volume of storage is not taken into account). With a greater efficiency rate (17.7%) in 2021, consumer debt collection was better. In 2022, there is a surplus of current liabilities than current assets.

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 in 2019, but can be supported with the argument that Amazon has started its own fulfilment services and is a fast growing company.

**2.0 PROFITABILITY**

The gross margin for 2022 has increased a little (1.8%) from the prior year. This demonstrates a consistent approximation of the profit margin and the business' effectiveness throughout the course of the two years. Based on the negative EBITDA and EBIT figures, as well as EBIT and EBITDA margins, the available data indicates issues at the operating level, notably cost, during the past two years. Income from revenue sales was (+7.1%) in 2021 and decreased to (-0.5%) in 2022, meaning, a change in percentage of -7.6% over the course of two years.

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.

**3.0 SOLVENCY/ DEBT MANAGEMENT**

There is a low percentage of assets that are financed by liabilities. The year 2022’s debt to assets is 14.5% which is —2.9% higher than the year before. In addition, the data indicates that the ratio of long-term debt to capital is greater in 2022, up 5.4% from 2021. The company's poor debt coverage ratio throughout these years may raise questions about whether it will be able to pay off its one-time debt. For each equity amount over the course of the two years, the corporation can only use a maximum of 46% leverage. Leverage is slightly increased in 2022 and is 11% greater than in 2021. With the lowest value being 116, the corporation has a high probability of paying interest costs on its debt.

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.

**4.0 ASSET UTILIZATION**

Both fixed and total assets are utilized well throughout the course of the two years, with improved performance seen in 2021 for both criteria. Ratios were lower in 2022. Additionally, bigger earnings (7.9%) from the invested assets were seen in 2021 compared to a loss of -0.6% in 2022. Data showed that it takes about 44 days for inventory items to sell. This has been consistently the case for the two years under review.

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.

**5.0 MARKET RATIOS**

In 2022, a larger part of the company's net income was distributed per share. The value then was 10.60, an increase of 2.9% from the previous year. Price to equity (P/E), however, was greater in 2021 at 11.9 and decreased by -2.8%. The P/E of the firm trails by at least 2.3 units when compared to the median P/E for the S&P, which was estimated to be 14.93 as of May 2023. In 2021, the return was 24% in proportion to shareholder equity; however, it fell to -2% in 2022, suggesting that investors may be afraid. When the debt financing option is taken into account, the return on capital increased in 2022 ---14% more than the previous year.

ROE, ROA and ROCE all are within the health territory, however, have declined 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.

**References:**

1. <https://www.investopedia.com/terms/d/dividendpayoutratio.asp>
2. <https://www.netsuite.com/portal/resource/articles/inventorymanagement/inventoryturnoverratio.shtml#:~:text=The%20inventory%20turnover%20ratio%20is%20a%20measure%20of%20how%20many,Inventory>

**Appendix**

The excel calculation sheet is embed below:

