**Management Report for Amazon.com, Inc.**

**Financial Health Analysis: 2021-2022**

**Liquidity Analysis:**

Amazon's liquidity position has exhibited a noticeable decline over the past two fiscal years. Both the current and quick ratios have decreased annually since 2020, with the current ratio dropping below 1 in 2022. This implies that Amazon would face challenges meeting short-term obligations solely through liquidating its assets. The defensive interval, a measure of the company's ability to operate without external capital, declined by almost 30 days to 116 days in 2022, signalling a reduction in operational flexibility. Although payable and receivable days have extended, indicating a slower payment cycle, a positive note is the significant improvement in inventory days, resulting in an enhanced net trading cycle. However, the working capital as a percentage of sales has turned negative due to a decline in current assets and an increase in current liabilities. Overall, Amazon's liquidity has weakened compared to recent years.

**Profitability Assessment:**

Amazon's gross margin has increased, reflecting a higher allocation of revenue toward operating expenses. The EBITDA margin has decreased, indicating rising operating expenses and reduced earnings as a percentage of revenue. The EBIT margin is less than half of previous years, highlighting a current inefficiency in profit generation from sales. The net margin is negative, signalling high costs and a dependency on external sources for investment. This can be attributed to the impact of the current macroeconomic environment, marked by increased costs and higher interest rates affecting profitability.

**Solvency Evaluation:**

Solvency metrics reveal Amazon's stable financial position. While the debt-to-equity ratio has risen annually, it remains below 1, indicating a conservative financing approach with more reliance on equity. The debt-to-assets ratio has increased, but Amazon remains a low-risk business. Long-term debt to capital ratio and times interest earned indicate overall stability and a low risk of default. Debt coverage, though negative, has improved significantly in 2022. FCFE per share has increased, suggesting potential future growth in earnings and share value.

**Asset Utilization:**

Amazon's asset turnover has remained consistent, indicating efficient sales generation with existing assets. Fixed asset turnover is healthy, and although inventory turnover has decreased slightly, it remains high, supported by a steady increase in net sales. Return on assets is generally low, turning negative in 2022, reflecting a net loss for the year.

**Investor and Market Ratios:**

Amazon's Price to Equity ratio decreased significantly in 2022, with a negative P/E reflecting 2022’s losses. Negative Earnings Per Share indicates a loss, but increased liabilities, assets, and net sales suggest significant inward investment. Prive to Book Value, while lower, still indicates a premium valuation, yet a negative Return on Equity implies shareholder losses. Return on Capital Employed has decreased markedly, signalling low profitability in 2022. The historically high EV/EBITDA ratio dropped by approximately 25%, signalling a potential investment opportunity before profitability stabilizes.

**Conclusion:**

Amazon has strategically navigated the challenges posed by the current macroeconomic landscape through decisive operational adjustments. The company's proactive measures include the cessation of certain ventures and substantial investments in fortifying its fulfilment network to accommodate increasingly heightened sales demands. Simultaneously, Amazon has undertaken substantial initiatives to enhance operational efficiency, channelling resources into growth frontiers such as Amazon Web Services, as well as targeted market segments like Grocery, Business, and Health.

Furthermore, the strategic emphasis on emerging technologies, specifically the robust investments in Large Language Models and Generative AI, underscores Amazon's commitment to future growth, operational refinement, and an enhanced customer experience. While these initiatives have incurred short-term costs and increased reliance on external financing, their collective impact positions Amazon for a notable upswing in profitability over the long term. The judicious execution of these pivotal decisions reflects Amazon's resilience in adapting to dynamic market conditions and fortifying its financial health for sustained success.

Additional Sources:

Amazon 2022 Letter to Shareholders: https://s2.q4cdn.com/299287126/files/doc\_financials/2023/ar/2022-Shareholder-Letter.pdf