**Amazon Financial Management Report 2021-2022**

The following points provide an overview of Amazon’s financial performance across the years 2021 and 2022. In this report, I have highlighted areas of potential concern and improvement, as well as areas where the company’s performance has improved.

**Liquidity**

Through a comprehensive analysis of Amazon's financial ratios over two years, a noticeable decline in the company's short-term liquidity becomes evident. This decline is exemplified by a decrease in the Current Ratio, which dropped from 1.14 in 2021 to 0.94 in 2022. This ratio reduction indicates that Amazon's ability to cover its short-term liabilities with its readily available assets has weakened. Similarly, the Quick Ratio, which gauges the company's capacity to meet immediate obligations using its cash on hand and highly liquid assets, experienced a decline from 0.91 to 0.72 across the same two years, further highlighting the deteriorating short-term financial health.

Furthermore, the Cash Ratio, which specifically measures Amazon's capability to fulfil short-term obligations solely through its cash reserves, displayed a downward trend from 0.38 in 2021 to 0.23 in 2022. This decline highlights the company's reduced ability to manage immediate financial demands using its cash holdings.

In addition to these liquidity concerns, Amazon's financial records indicate a decrease in the number of days the company can sustain its operations without generating additional revenue. This period shortened from 143.02 days in 2021 to 124.20 days in 2022, indicating potential challenges in maintaining financial stability and resilience in the absence of a consistent revenue stream.

It becomes evident that the reduction in the Current Ratio can be partially attributed to a decrease in marketable securities. This reduction is linked to the sale of Amazon's stake in Rivian, which had a considerable impact on the overall liquidity position of the company.

Considering Amazon's unique position as an online marketplace hosting a multitude of vendors, its payable days tend to be extended due to its 90-day credit policy. As a result, the company's payable balances surpass those of its inventories and receivables. This dynamic leads to a scenario of negative working capital and a negative trading cycle. Notably, the negative trading cycle has become a source of cash for Amazon rather than a financial burden. However, it is worth noting that over time, the duration of the trading cycle has decreased, signalling a reduction in the company's ability to retain cash for an extended duration.

**Profitability**

From the ratio calculations presented, it becomes evident that there has been a decline in Amazon’s profitability, resulting in a net loss of £2,772,000 in 2022. This decrease is highlighted by the drop in Net Margin from 0.07% in 2021 to -0.01% in 2022. Despite this setback, the company did exhibit improved efficiency in generating profit from sales, showing a 2% increase from the initial 42% profitability figure.

Furthermore, the EBITDA margin also witnessed a decline from 0.13 to 0.11 in 2022, suggesting a reduced ability for Amazon to generate earnings before interest, taxes, depreciation, and amortization from its operational activities. Additionally, the return on assets (ROA) dipped from 0.08% to -0.01% in 2022, indicating a less effective utilization of assets in generating profits.

In this context, it is noteworthy that Amazon's Technology & Content, as well as Sales & Marketing, have experienced substantial increases, pointing towards substantial expenditures on AWS and Prime Video content. While the e-commerce sector appears to be returning to a more normalized state post the Covid-19 boom, the sales figures reflect the impact of rising global inflation levels.

**Solvency/Debt Management**

In 2022, Amazon experienced a notable shift in its financial structure, as evidenced by changes in key ratios and long-term liabilities. The company's debt-to-equity ratio (D/E) climbed from 2.04 to 2.17 during this period, reflecting an augmented reliance on debt financing and an increase in financial leverage. Despite this elevated leverage, Amazon managed to enhance its time's interest earned ratio, which improved from -13.75 to -5.17. Although still negative, this improvement signifies the company's strengthened ability to generate earnings capable of covering its interest expenses.

This shift in financial dynamics can be attributed to Amazon's strategic focus on expanding its operations. Over the past year, the company undertook a significant expansion of new fulfilment centres, leading to a surge in its financial lease commitments. Consequently, its long-term liabilities witnessed a notable uptick, elevating the debt service burden. It is worth noting that while Amazon's long-term debt remained relatively stable, the surge in financial lease commitments contributed substantially to the altered financial landscape.

The company maintains satisfactory levels of interest coverage and free cash flow, reflecting its capability to manage its existing debt obligations. However, the surge in debt levels raises concerns about the company's future borrowing capacity. This increased indebtedness might lead to the necessity of securing additional debt at higher interest rates, potentially straining its financial flexibility in the coming years. As Amazon continues its expansion and growth initiatives, careful management of its financial structure and debt obligations will be pivotal in ensuring its sustained financial well-being.

**Asset Utilization**

In 2022, Amazon's financial performance exhibited several notable improvements, reflecting the company's adept management of its assets and operations. The total asset ratio saw a significant rise, ascending from 1.12 to 1.16. This increase is indicative of Amazon's enhanced capability to effectively convert its assets into sales, highlighting its growing prowess in generating revenue. Furthermore, the company's inventory turnover rate displayed a considerable acceleration, climbing from 8.34 in 2021 to 8.62 in 2022. This signifies a more rapid pace at which Amazon is managing its inventory turnover, underscoring its efficiency in inventory management.

A closer examination of Amazon's asset composition reveals a significant presence of goodwill, a component resulting from acquisitions and amplified by heightened research and development investments in its Amazon Web Services (AWS) division. Remarkably, the Fixed asset turnover surpasses the total asset turnover by nearly threefold, underscoring the efficiency with which Amazon maximizes returns from its fixed assets. The inclusion of goodwill and intangibles within the asset base underscores the company's strategic expansion through acquisitions, and the augmented R&D spending on AWS poses intriguing implications for future profitability. Monitoring these developments closely will provide valuable insights into Amazon's evolving financial landscape.

**Investor/Market Ratios**

In 2022, Amazon witnessed a dramatic decrease in its price-to-earnings ratio, measuring 0.04 in 2021 and -0.50 in 2022. This could be a result of a decrease in investor confidence in the company, in addition to its net loss in 2022. Despite this decline in its price-to-earnings ratio, other financial indicators such as ROE, ROA, and ROCE remain within healthy territory, albeit having experienced slight decreases compared to the previous year. Furthermore, given Amazon’s valuations, one would expect these ratios to be better, considering that there are many other smaller companies with more favourable returns. However, it is notable that these valuations are backed by Amazon’s ongoing expansion efforts.

**Growth Rates**

Amazon experienced a general increase in product sales in 2022. This increase is reflected in the rise of its net sales growth rate to 9.40%. Additionally, the company witnessed significant increases in cash and cash equivalents (48.78%) and accounts receivables (28.79%). However, there was also a significant decline in the company’s marketable securities this year (-73.03%).

**Operating Expenses and Margins**

Amazon’s operating income, calculated as a percentage of its net sales, also increased in 2022 from 94.70% to 97.62%, indicating an improvement in the company’s cost control and operational efficiency. However, its net profit margin declined from 7.10% to -0.53%, reflecting its negative net income for the year.

**Working Capital**

Amazon’s challenges with short-term liquidity are demonstrated through its negative working capital in 2022, as well as its negative working capital as a percentage of sales (-1.67).