Amazon Inc.

Financial Health Analysis Report

Executive Summary

This report provides an analysis of the financial health of Amazon Inc based on the financial statements for the fiscal year ending 2022. The analysis covers key financial metrics and provides insights into the company’s performance and sustainability.

Financial Overview

Amazon Inc. reported total revenues of $513,983 million for the fiscal year ending 2022 representing a revenue growth of $44161 million (9.38%) compared to the previous year. Net income stood at $-2722 million, with a net profit margin of -0.53%. This indicates the company incurred expenses that exceeded its total revenue resulting in a loss.

Liquidity Analysis

The liquidity ratios (current, quick and cash) decreased from 2021 to 2022, indicating a potential challenge in covering short- term obligations.

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.

Operating with a negative Trading Cycle became a source of cash for the company, instead of being a cost for it. However, it can be observed that the Trading Cycle days have reduced over the years indicating that the number of days that they can hold on to the cash has reduced.

Profitability Analysis

The gross profit margin was similar, however net profit margin declined from 7.1% to -0.53% in 2022 , indicating a sharp recession in profitability from 2021 to 2022. Amazon reported a net loss in 2022, a clear contrast to the significant profit generated in 2021. This is a cause for concern and requires further investigation.

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.

Debt Analysis

The debt-to-equity ratio is 0.45976, reflecting an increase of 30.4% from the previous year’s 0.352591. Amazons’ debt-related metrics increased generally in 2022. The higher leverage suggests that the company on more debt financing, likely to ease the worsening financial conditions or for strategic investing.

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.

Market Valuation

As shown by the P/E ratio of -606.4, saw a significant decrease from 2021 to 2022, and this can be attributed to the decline in profitability, a negative EPS, and the general uncertainty regarding Amazon’s financial performance.

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.

Operating Efficiency

Amazon’s asset utilization ratios, such as total asset turnover, remained relatively stable from 2021 to 2022, alluding to the stability of the company’s operating efficiency in 2022. The company has not faced issues with efficiently generating sales from its assets.

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.

Free Cash Flow Improvement

Despite the challenges, Amazon managed to improve its free cash flow share, suggesting that the company continued to generate positive cash flow from its operations and capital investments.

In conclusion, Amazon Inc. faced a challenging financial year in 2022, marked by a net loss and decrease in profitability. While the company maintained strong liquidity and cash flow, the market’s response, as reflected in the P/E ratio, suggests that investors are closely watching Amazon’s financial performance.