**Liquidity**

In 2022 Amazon increased their liquidity which can be seen from a big jump in their cash ratio from 0.25 to 0.35. This is due to increased spending on research in technology within the company and the need for increased debt finance. However, rather worryingly, Amazon’s current ratio took a hit due to the increase debt to below 1, suggesting that if required they wouldn’t be able to currently use their assets to cover debts. Although current ratio results are looking negative it has stayed very close to being even over the past few which can be explained by scrutinous financial management within the company, which is to be expected with their ambitions to grow the company.

This increased liquidity has been done through changing the categorisation of Amazon’s investment within Rivian EV from a Level 2 equity to a Level 1 which resulted from regulations restricting them from selling the equity until Q1 of 2022. This is further supported by $9 billion of marketable securities being repositioned from level 2 securities to Level 1 focusing on money markets. These recatagorisations effected the defensive interval as increased debt led to increasing payable days whilst recurring short term debt contracts with ‘the credit facility’ requiring backing by seller receivables which result in increased receivable days.

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.

**Solvency/Debt Management**

The previously mentioned debt they have increased on looks bad with a huge increase in short-term debt usage from $7.9 Billion to $41.5 billion of which most was paid off. This extra capital is due to the sustained capital expense levels with the poor financial results of the year requiring extra funds to support ambitions.

This however, isn’t an area of worry for Amazon as their business continues to perform well under the increased spending which can help them pay off any debts. This is supported by them being able to cover their interests just under 7 times. Although this is a good outlook for debt capital all ratios surrounding debt including debt to equity (0.34-0.46) and long-term debt to capital (3.9-3.17) are showing a company that is becoming more reliant on debt for expansion with a stock buyback programme solidifying this outlook.

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.

**Profitability**

Overall, since 2020 Amazon have seen a steady increase in their profits however, in 2022 they incurred a net loss of $2.7 billion. Through analyses most of this decrease in profits is due to the operating profits along with other expenses.

Amazon have seen an increase in sales of 15.55% over the last 3 years due to their increase in services offered allowing them to increase sales whilst not increasing their cost of sales with complete correlation, which in a regular year would have seen them increase their profits further from 2021.

$73 billion of Amazon’s funds have gone into investing in technological advancements. This is to develop their already established AWS as well as help develop a satellite network to allow them to create their own broadband and autonomous vehicles. These developments are a large area that has led to their net loss in 2022 which can be seen by their 30.62% increase in technology and content operating costs. Although no major advancements can be seen this year this investment has potential to affect their future financial stability. This change in operating expense continues to be seen across all areas of their business however, Amazon say this is ‘primarily due to payroll increases’ and projected worse increases in operating costs with offsets coming from a decrease in the depreciation and amortisation expenses due to an increase in the life of assets by 1 year.

This can all however, be outweighed by the fact that the reason a negative bottom line is present in 2022 for Amazon is due to the poor investment activity over the past 3 years. In 2020 and 2021 Amazon had other income however, in 2022 this switched to a $16.8 billion loss. $15.7 billion of which is due to the loss from the Rivian EV investment and losses in other equity investments and equity warrants. Disregarding these incurred losses brings Amazon’s bottom line out of the red and up to a profit of $12 billion, which is still almost a third of that of the previous year.

The increasing operating expenses is not sustainable at this level with increases of 20%-38% YoY between the categories compared to the increase in gross profits of just 21.64%. This paints a poor financial future if Amazon fail to make a breakthrough or decrease their inflated spending habits of current. These figures suggest that by 2024 ignoring the other losses incurred in 2022 Amazon will make an organic net loss.

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.

**Asset Utilisation**

Amazon have seen consistent increase in asset utilisation across the board however, the return on assets was negative due to previously mentioned negative net income. This Asset utilisation is positive in a company that is making large profits. However, with Amazon projected organic losses in 2024 with current trends there is small room for them to improve their financial position using their current assets which could pose an issue.

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.

**Investor/Market Ratios**

With the net loss in 2022 the investor outlook looks dire especially when looking at the return ratios based around return on assets (-0.59%), Capital (5.75%) and equity (-1.86%). Most of these poor results are due to the previously mentioned increased efforts to develop the business model causing a net loss.

Investors are likely to demand compensation for sticking around during these development stages at Amazon and require a currently unoffered dividend in return for the increasing risk of investing in Amazon, this however, is unlikely to be offered to them as it is clear by looking at the financial statements that Amazon is determined to grow their business before, putting investor relations first.

Both the P/E and P/B ratios between 2020 and 2021 suggested that there was increasing value for money when buying into Amazon however, due to the red bottom line it isn’t possible to get a representative outlook in P/E however, P/B continues this outlook.

Overall, Amazon’s financial health is strong with inflated spendings holding weight on the financial statements and giving investors and analysts alike a poor outlook if looked at without context.

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.