**Amazon Inc. – Financial Health Report**

The following report is based on facts and figures stated on Amazon’s two most recent annual reports (2022 and 2021); these have been used to evaluate the company recent financial health and identifying areas of growth or in which corrections are required.

The author of this report has decided not to compare Amazon with other companies in the *Consumer Cyclical* sector or the *Internet Retail* industry since no one can be considered an actual peer due to the company’s uniqueness in terms of variety of services offered.

**Liquidity**

Liquidity ratios still describe a reasonably healthy scenario for the company in the last triennium, despite most figures rose sharply in 2021 to then shrank quite sensibly in 2022.

Normally averaging above 1, the *current ratio* fell just below this value in 2022, still sitting on a non-concerning 0.94, with the fall mainly to be attributed to a reduction of marketable securities(following the sale of the company’s stake in Rivian). Consequently, the *quick ratio* went down as well to 0.72, (although a value still not too far from the 3-year average) and the *cash ratio* rose for the conversion of those securities in cash and equivalents. The decline in assets of course had an impact on the *defensive interval* as well, but this one too remains in a very healthy territory. A worrying figure is the negative *working capital* for 2022.

As for the liquidity ratios that don’t take the company assets into consideration, despite showing very strong numbers for the triennium, there’s maybe some concern arising when noticing a trend for which *payable days* are slowly going down, while *inventory days* and *receivable days* are slowly going up; as a result, while *net trading cycle* is still very healthy for 2022, is only half as much it was in 2020.

Overall, the company is still quite healthy despite an unprofitable year, but it needs to revert some negative trends.

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.

**Profitability**

At a first glance, the company has seen an upward trajectory complemented by a bullish growth of its *gross margin* in the triennium, attributable to a sensible rise in net sales while the cost of sales didn’t follow the same path.

But with the operating income for 2022 going down from results achieved in 2021 and 2020, EBITDA and (most dramatically) EBIT margins followed. Also, the negative net income meant for a negative *net margin* in 2022, far away from the healthy figures recorded in the previous two years.

Despite last year hasn’t been profitable, there are no worries about the company’s profitability. Although the operating income shrank by half, the rise in operating expenses is balanced by a parallel growth in sales and most negative figures are attributable to the bleak macroeconomic landscape in which the company operated; once again the sale at a loss of Rivian has to be taken into account as the main culprit for a negative income in 2022 and, looking at the trends for the triennium, there’s no reason to fear the company shouldn’t be profitable again in years to come.

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.

**Solvency / Debt Management**

While these ratios sit in very strong territory, some worrying trends emerged in the triennium.

*D/E, debt-to-assets* and *debt-to-capital* are all on a slow but steady upward trajectory while *times-interest-earned* and *debt coverage* are doing the exact opposite, with the difference between 2021 and 2022 not being at all “slow”, but instead quite evident.

The company has, in fact, progressively taken on more debt (with a 53% growth in 2021 and another 37% in 2022), but this wasn’t counterbalanced by a parallel growth of shareholders’ equity nor assets. Other figures were heavily impacted by EBIT’s sharp fall of 2022, but the actual expenses for interest and debt haven’t really changed much.

Once again, the company sits in a quite healthy position, but trends in this area need reversing.

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.

**Asset Utilization**

These ratios show a company extremely capable of generating revenue from their assets. Ratios for 2022 are basically interchangeable with the ones for 2021, but compared to 2020 there’s been a growth in *fixed asset turnover*, showing an improved capability in generating sales, despite a reduction in *inventory turnover* (maybe due to the fact people relied more on Amazon services during the pandemic). *ROA* is indeed negative for 2022, but the reduction in assets has already been discussed and this value shouldn’t be cause of concern.

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**

2022 has been a horrible year for investors: the share price fell 27% after it rose 34% the previous year. *EPS* inverted its trend and actually turned negative and the same happened for *ROE* and, as mentioned before, *ROA,* while *ROCE* also went down sensibly, but remained positive. EV shrank to its 2020 value; *book value*instead is slowly going up while *P/B* is slowly going, something that, alongside a lower share price, might attract value investors over growth investors.

The company wasn’t at all immune at the dramatic market instability of 2022 and this is all reflected in the most recent ratios.

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.

**Conclusion**

The company had a negative year indeed, but there is plenty of room for optimism; most of the losses are imputable to a very harsh macroeconomic environment which is affecting investors, other companies and also countries worldwide; the company is still growing and generating plenty of revenue while also being in a moment of transformation and redistributing assets to bounce back in a more favourable economic scenario.