**Financial Health of Amazon Inc.**

To analyse the financial health of Amazon a number of different parameters have been calculated using their financial statements from the past three years. Along with comparisons to other similar companies, these parameters can indicate the areas in which Amazon are succeeding and the areas in which they can improve.

**Liquidity**

A brief look at the current ratio of Amazon over the past 3 years shows that they are comfortably capable of covering their current liabilities with their current assets (with an average of 1.08 current ratio over the three years). This shows a healthy level of liquidity, without being too liquid such that investment in assets and development is neglected. Amazon’s quick ratio is below 1 (averaging 0.82 over three years), however due to the low inventory days that Amazon has due to its business model and shipping ability, this is still a healthy quick ratio. Additionally, the net trading cycle of Amazon is consistently negative. This is due to them receiving funds in their account for sales by third parties who have the inventory, whom they do not pay immediately. This negative net trading cycle can be extremely beneficial in growing your business, as it becomes an additional source of cash flow. Overall, it can be said that Amazon is extremely healthy in terms of liquidity.

**Profitability**

Profitability margins are useful for analysis when compared to similar companies, since these ratios vary quite strongly between industries. Since Amazon is an extremely wide reaching company that covers many industries I have compared these ratios to three companies that each compare to a certain part of Amazon’s business. These are Alphabet, Alibaba and Walmart. When comparing gross margin, Amazon (with an average of 39.44% over three years) is comfortably ahead of Walmart who averaged 25.4%, however Alibaba and Alphabet have averaged 55.4% and 57% respectively. However, this can likely be attributed to the differences in the companies industries and also due to Amazon reinvesting the vast majority of its money back into the company as it has aggressively expanded. The story is the same when it comes to EBITDA margin, Amazon with an average of 10.92% is ahead of Walmart (6.5%), but behind Alibaba (23.25%) and Alphabet 24.84%. Again, this is due to the differences in industries and Amazon’s reinvestment. Despite Amazon being behind two of its major competitors when it comes to profitability, this is likely due to Amazon not having any direct competitors in terms of all of the industries that it covers. Amazon can still be considered very healthy when it comes to profitability.

**Solvency/Debt Management**

We can see that in the case of both the D/E ratio and long-term debt to capital ratio, Amazon has been dropping drastically over the past three years. This is a good sign as it shows that Amazon is financing itself more through equity in recent years which carries much less risk for the company. Alongside this, Amazon’s times interest earned ratio and debt coverage have increased over the last three years, which again shows a healthier position in terms of debt management.

**Asset Utilization**

Due to Amazon’s business model and requirements for a large asset base in order to run their business, they have a low asset turnover. However, their asset turnover is relatively stable over the past 3 years and so their asset usage is not deteriorating. We can also see that Amazon’s inventory turnover is slowly increasing throughout the last three years, which indicates increasing sales; this is an indicator of healthy asset utilization.

**Investor/Market Ratios**

Amazon’s EPS has flown up in the past three years, increasing by almost 400%. This shows a massive increase in their profitability. This increase, alongside an equally impressive 79% increase in share price over the same time period, has seen the P/E ratio drop over 50%. Similar stories are seen looking at enterprise value (87% increase) and book value per share (119% increase). All of these ratios indicate a massive increase in company profitability and value.

**Growth**

It is plain to see when looking at the growth rates among all areas of Amazon that the company is growing rapidly and consistently. This indicates a healthy and sustainable financial position across all facets of the company.

**Conclusion**

To conclude, Amazon is in a healthy financial state when all aspects of the company’s financial statements are considered. Amazon is in a position of liquidity that gives it a lot of flexibility in terms of its debts and reinvestment. When it comes to profitability, Amazon is comparable to its competitors and growing yearly. It can also be seen that Amazon is lowering its D/E ratio rapidly, showing a move to a healthier and less risky equity position. Additionally, Amazon is utilizing its extensive assets sufficiently and consistently. Finally, Amazon is showing massive profitability and value increases in recent years. All of these factors show that Amazon is in a very healthy financial state.