**Financial Performance Analysis of Amazon Inc.**

**Introduction**

The purpose of this report is to analyse the financial performance of Amazon Inc. During the discussion, key ratios have been compared and analysed based on 2017, 2018 and 2019 financial years of the organisation.

**Horizontal Analysis**

Horizontal analysis shows that net income increased by 15.04% from 2018 to 2019 and had a substantial increase of 232.11% from 2017 to 2018, whereas net sales increased by 20.45% from 2018 to 2019 and only increased by 30.93% from 2017 to 2018. Operating expenses increase had no big difference during the years, being equal to 22.68 from 2018 to 2019 and 26.88% from 2017 to 2018; however operating income growth from 2017 to 2018 increased by more than 10 times than the operating income growth from 2018 to 2019, with the numbers being equal to 202.51% and 17.07% respectively.

**Key Ratios Analysis**

*1.Liquidity*

In 2017 Amazon had a quick ratio equal to 0.58, increased to 0.71 in 2018 and fell to 0.65 in 2019 and cash ratios equal to 0.35 in 2017, 046 in 2018 and 0.41 in 2019. In all three years both ratios are positive, however less than 1 so it is not certain if the company has enough liquid assets to meet its short-term obligations. On the other hand, Amazon had a current ratio above 1 for all three years, starting with 1.04 in 2017 and increasing and remained the same in 2018 and 2019, being equal to 1.10 showing that the company was in a positions to pay off its liabilities, being in a slightly better position in the 2018 and 2019 financial years. The defensive interval ratio estimates the number of days that a company can continue operating using only its liquid assets without seeking external financing. Since during all three financial years the defensive interval is less than 1, therefore the company was not in a position to continue operating based only on its liquid assets. Inventory days in 2017 was equal to 1427, whereas in 2018 fell to less than half, being equal to 504.67 and slightly increased in 2019 to 514.50, showing that in 2017 the company was less able to turn its inventory into sales. The average payable days for all three years was on average 67 days, whereas receivable days were far less being on average 27 days for all three years. Net trading cycle was almost one third in 2018 and 2019 compared to 2017 when it was equal to 1381 days. During all three years the numbers are positive meaning that the company needed to fund those days with net income or a line of credit, meaning that it needed a far greater amount of credit in 2017 compared to 2018 and 2019.

*2. Profitability*

The company had the greatest revenue leftover in 2019 with its gross margin being equal to 114986, compared to 93731 and 65932 in 2018 and 2017 respectively. The company’s profitability from operations was, not surprisingly, the highest in 2019 with an EBIDTA margin of 12.95%, and 11.92% and 8.76% in 2018 and 2017 respectively. On the contrary EBIT margin and the net margin both had greater value in 2018.

3. *Solvency/debt management*

The debt to equity ratio shows how much debt a company has compared to its assets, and hence since the ratios for all three years indicating that the company has enough assets to cover its liabilities; however in 2017, when the ratio was lower, the company had less risk especially compared to 2018 financial year, whereas in 2019 lowered again to 0.40. Similarly, debt to total assets ratio and long term debt to capital ratio was lowest in 2017, slightly higher in 2019 and had its highest value in 2018, signalling that during 2018 financial year the company was not performing so well compared to the previous and coming year. As for the times interest earned, in 2019 and 2018 the values were higher in comparison to 2017 financial year meaning that in 2017 fewer earnings were available to meet interest payments. The debt coverage of the company was negative for the financial years of 2019 and 2017 signifying that the company faced some financial difficulties during these years. The FCFE per share ratio grew over the three years with the highest being equal to 233.80 indicating the company’s ability to pull in enough cash and keep growing through the years.

*4. Asset utilization*

Total asset turnover and fixed asset turnover were highest in 2018 meaning that the company was more efficient at generating revenue from its assets and generating sales from its existing fixed assets compared to the 2 other financial years, being the least efficient in 2019. Inventory ratios were similar in 2019 and 2018, and weaker in 2017, meaning that the company had stronger sales during 2018 and 2019, compared to the previous year. As a result the highest and lowest return on assets appeared in the 2018 and 2017 financial years respectively.

*5. Investor/market ratios*

When it comes to the share price of the company, the greatest price to equity ratio appeared in 2017, lowered in 2018 and lowered even more in 2019 whereas earnings per share had its highest value in 2019 and the lowest value in 2017, so combined with the fact that the price to book value for 2018 and 2017 financial years is above 1, it can be concluded that the company’s stock was overvalued in 2017 and 2018 financial years. On the contrary, the price to book value in 2019 was less that 1, and can be concluded that the stock is undervalued. The return on equity ratio and return on capital employed are profitability ratios indicating how a company generates profits and from its capital employed by comparing profit before interest and tax to capital employed. Both ratios suggest that the company was least efficient in 2017 whereas return on equity was greatest in 2018 and return on capital employed was greatest in 2019. Lastly the financial performance of the company can be measured by E/EBIDTA and generally a value below 10 is interpreted as healthy and above average, clearly suggesting that the overall financial performance of Amazon was best in 2018 financial year when compared with 2019 and 2017 financial years.