**1.0 Introduction**

Amazon Inc. is an American multinational firm that focuses on e-commerce, cloud computing, and digital streaming.

**2.0 Liquidity**

2.1 **Current Ratio**: Amazon’s current ratio, which measures its ability to meet short-term obligations in a financial year decreased from 1.14 in 2021 to 0.94 in 2022. The decrease can be associated with an increase in liabilities from 2021 to 2022. From the financial statement, Amazon had a substantial $10.791 billion increase in accrued expenses and others from 2021 to 2022. This plays a major role in the decline in the ability to meet short-term debt obligations.

**2.2 Quick Ratio:** There is not much difference between the quick and current ratios. Unlike the current ratio, the quick ratio focuses on how a company can meet its short-term debt obligations with more liquid assets (excluding inventory). A significant 5% increase in inventory from 2021 to 2022 is a major determinant of the decline in the quick ratio.

**3.0 Profitability**

**3.1 Gross Margin**

Amazon’s gross profit margin declined by 2.95 percentage points to 2.38% in 2022 from 5.30% in 2021. This decline could be attributed to a $56.79 billion increase in total operating expenses relative to a $44.16 billion increase in revenue in 2022. This also resulted in a significant decline in operating income between 2021 and 2022 (2021: $ 24.88 billion, 2022: $ 12.25 billion).

**3.2 Net Margin**

Although Amazon had a total non-operating income of $14.63 billion in 2021, it recorded a total non-operating expense of $16.81 billion in 2022 which adversely impacted the bottom line within that period resulting in a loss of $2.72 billion and a net profit margin of -0.53% compared to 7.10% in the previous year. A valuation loss from an equity investment in Rivian Automotive Inc made up about 83% of this non-operating expense in 2022. This valuation loss was due to the conversion of preferred stocks to Class A common stock and therefore can be viewed as a one-off loss.

**4.0 Solvency/Debt Management**

From 2021 to 2022, the debt to equity, debt to total assets, and long-term debts to capital increased at a rate of 10.72%, 2.92%, and 5.4%3 respectively. Recording high ratios concerning the aforementioned ratios can be harmful to the company in the event of an economic downturn. As debts play an important role in financing or running a company, so as meeting these long-term debt obligations is essential.

In meeting debt obligations with current income, there was a significant decrease in time interest earned from 9.26 in 2021 to 4.28 in 2022. For a company to survive, strategies are to be put in place to inculcate a moderate number of times to cover debts.

**5.0 Asset Utilization**

There was no significant increment between using assets to generate sales in 2021 and 2022. The difference between the ratios in 2021 and 2022 (Total asset turnover: 0.05, fixed asset turnover: 0.04, inventory turnover: 0.28).

On the other hand, Amazon was not efficient in using its assets to generate earnings in 2022. This is a result of recording a net loss of $2.72 billion in 2022. With the available assets in 2021, was efficient in generating profit. Amazon recorded a ROA of 7.56% in 2021 which declined massively to -0.59% in 2022. Even though the sale of products and services had a $44.16 billion increase from 2021 to 2022, Amazon was hit with a massive negative non-operating expense of $18.18 billion in 2022 resulting in a negative ROA.

**6.0 Investor/Market Ratios**

In determining the company’s value relative to its stock price, Amazon recorded a P/E ratio of -572.07 in 2022 and 50.58 in 2021. A high P/E ratio may indicate that a company's stock is overpriced or that investors anticipate rapid future growth rates.

To determine how much money a company makes for each share of its stock, Amazon recorded an EPS of 3.24 and -0.27 in 2021 and 2022 respectively. Comparing both years, it is seen that, Amazon was more profitable in 2021 unlike 2022. A business is viewed as more profitable when its EPS is higher. The negative EPS recorded in 2022 is associated with the massive loss in 2022.

After measuring the market valuation of Amazon relative to its book value, the PBV was 0.1 for 2021 and 2022. Investors frequently view investments with PBV ratios under 1.0 as sound ones.

After analyzing how efficiently a company can use its shareholders’ equity to generate profit, Amazon recorded an ROE of 23.47% in 2021 and -1.86% in 2022. A significant decline in ROE from 2021 and 2022 was realized. The decline was as a result of a net loss of $ 2.72 billion in 2022.

Considering EV/EBITDA, Amazon had a record of 0.37 in 2021 and -2.50 in 2022. This ratio determines the value of the company. The decline in the ratio can be associated with the loss of $5.94 billion made before income taxes.

**7.0 Conclusion**

Comparing and analyzing major ratios for both financial years 2021 and 2022, major losses were made in 2022 which had an adverse effect on the profitability and solvency of Amazon Inc. These issues deter investors from making an investment in the company.

This can be associated with the global economic downturn from the aftermath of Covid-19. Strategies must be put in place to make Amazon stock more attractive to investors.

**8.0 Reference**

Amazon (2022) Annual Report. Available at: [Amazon.com, Inc. (q4cdn.com)](https://s2.q4cdn.com/299287126/files/doc_financials/2023/ar/Amazon-2022-Annual-Report.pdf)

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