**Management Report**

Amazon has experienced increase in revenue figures in recent years, particularly in the early part of the pandemic, with many physical stores shut down. Amazon’s customer base grew at a good pace, with annual revenue increasing from $245B in 2019 to $434B in 2022.

Overall, gross profitability ratios for Amazon in 2022 had risen slightly and remained stable from 2020 to 2022. The net profitability ratios on the other hand, have decreased by about 95% from 2021 to 2021, with a net loss in 2022. Even though both sales and costs had increased in 2022, sales had increased by 8.6% and cost of sales had increased by 5.7%. Thus, the proportional increase in cost was slightly less than the proportionate increase in sales indication an overall increase in gross profit margins. However, there is a significant increase in Amazons operating expenses in 2022 leading to a net loss in 2022. Amazon attributed part of that loss to its investments in Rivian, an electric vehicle start-up that had struggled with production delays and market upheaval.

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.

Amazon’s asset utilization ratios were also slightly lower in 2022, despite an increase in the average fixed asset of about 62% in 2022, indicating big investments in its fixed assets. Fixed assets are indicators of potential future growth and it will usually take a while before they are reflected on revenue. Therefore, the fixed asset turnover is down by about 68% reflecting this.

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.

Amazons gearing ratios show about 30% increase in debt to equity from 2021 to 2022 indicating a higher financial risk and high investments in debt than in equity. There is indication that the firm has the ability to meet its debt payments and interests. Amazon shows a positive cash position at the end of the period, which is indicative of a healthy liquidity position and demonstrates their ability to meet debt requirements despite the profitability position in 2022.

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.

Amazons 2022 liquidity ratios are slightly lower than that of 2021, despite the slight increase from 2020 to 2021. The firm in 2022 does not have enough current assets to cover its current and short-term liabilities with a quick ratio of 0.7. This is even lower with a cash ratio of 0.4. This shows that that Amazon in 2022 is not able to entirely cover its short term liabilities with its cash and cash equivalents as at 2022. Despite an increase in its cash and cash equivalents of about 32%, marketable securities were down by 73% possibly indicating a huge sale of its short-term liquid financial assets which may have become cash and therefore showing an increase in its cash position at the end of the year. The cash and cash equivalents including its marketable securities were down by 27% overall from 2021 to 2022 but short-term liabilities were up by 8.4% reflecting a lower quick ratio. And a quick ratio of less than 1 is not a good indicative of a firm’s liquidity position.

Amazon has a net trading cycle of 50 days in 2022, which is better than that in 2021 of 36. This is mainly attributable to the longer payable days. Even though this indicates that amazon may not be paying their suppliers early due to longer days given by the supplier or better credit terms, they need to ensure that they are not breaking any payment terms to ensure that their relationship with suppliers are sustained.

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.

The share price for Amazon has fallen by about 41%. This is high and might be reflective of the decrease share price across the industry as fears of a global recession grow post the pandemic financial effect. This is reflecting the lower earnings per share in 2022. Return on capital employed has reduced by about 56% from 2021 to 2022. This is as a result of the lower EBIT and operating income in 2022. A ROCE of 3.96% is on the low side and slightly below the retail industry average.

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

Amazon has shown stronger-than-expected increments in sales particularly in its web services and web divisions, along with cuts in its costs in the 2023 quarterly reports. This is a big improvement from its performance in the 2022 financial results.

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References

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