**Introduction**

The purpose of this report is to provide financial analysis of Amazon Inc. based on its two annual report for 2021 and 2022. It has been prepared after analysing the balance sheet, income statement and statement of cash flows. Financial ratio can be reviewed and assessed to check overall financial health, whether they are improving over time. To evaluate the financial health, the areas that would be examined are Liquidity, Profitability, Solvency, Asset utilization and Investor/Market.

**Liquidity**

It is the amount of cash a company owns to manage its short term debt obligations. It is important in any type of business. The quick ratio/acid test is one of the most common metrics used.

Quick ratio

It shows the ability to meet cash obligations within a short period of time. A quick ratio lower than 1.0 is not a good sign because it means liabilities exceed current assets. In both years under review, this is a warning sign because in FY2021 having a quick ratio 0.91:1, it further fell to 0.72:1 in FY2022

The Current ratio is greater than 1 indicating the short-term asset’s ability to meet short term liabilities. Quick and Cash ratios above 0.5 which also indicates that the company can meet more than 50% of its short-term liabilities with its cash in hand. The decline in current ratio was mainly to be attributed to a reduction of marketable securities (following the sale of the company’s stake in Rivian).

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.

Operating with a negative Trading Cycle became a source of cash for the company, instead of being a cost for it. However, it can be observed that the Trading Cycle days have reduced over the years indicating that the number of days that they can hold on to the cash has reduced.

**Profitability**

Profitability is the purpose of the business and it is measured from the income and expenses. A good metric for evaluating profitability is net margin.

Net Margin

The net margin had a significant reduction from 7% in 2021 to (-1%) in 2022 which indicates a loss. This is due to increase in total expenses.

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**

This measures ability to meets its debt obligations not only on a short term but also on long term debt. The Debt to equity and Debt to Assets are the ratios mostly used. The D/E in FY 2021 is 2.04 while in FY 2022 is 2.17 indicating a decline in shareholder’s equity as against debt. It implies that the operations are financed by creditors.

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**

Total Asset turnover shows the efficiency which the assets is used to generate revenue. A review of the years (2021 and 2022), show there is an increase in in utilizing its assets to generate revenue.

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**

Price-Earnings ratio determines growth in stock by investors. In 2021 which has a positive compared to 2022 where there is a loss. Also, the earnings per share in FY 2022 is a loss to the investors.

ROE, ROA and ROCE all are within the health territory, however, have declined slightly 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.