**Ratio Interpretation of Amazon Inc.**

Liquidity ratios

The current and quick ratios show decline from year 2021 to 2022 while the cash ratio showed growth over the period under review.

This was attributed to decrease in marketable securities while cash increased as a result of conversion of marketable securities to cash. Hence there is improvement in Amazon meeting its short –time obligations.

There was also improvement of Amazon cash conversion days from 53 days to 27 days which indicates improvement in availability of cash to pay short-term debt.

Also the decrease in the payable days over the period will give confidence on creditors

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 ratios

The business made a net profit of 5% from sales in 2020 and improved to 7% in 2021.However, there was a loss of 0.53% in 2022.Though there was increase in sales, there also was as a significant increase in Operating expense and income expense resulting in Loss.

Hence there is need for the company to reduce its operating expense.

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/ Debt Management

The company has a Debt to equity (D/E) of over 2 showing the business is mostly financed by term debt. This is within the industry average of 2.15.The significant increase in term debt contributed to this.

The business also have a fluctuating times interest earned which is lower in 2022 due to increased interest expense which is function of interest term debt.

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

The assets turnover of 1.11 is low compared to industry average. This measures the efficiency of the business and its ability to convert its assets to sales.

This can be attributed to increase in CAPEX. The investment in capex is expected to increase sales in subsequent year.

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 ratios

The business has not paid dividend for the 3 years under review.

However, they was significant improvement of ROCE .

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.