**Amazon Inc. Financial Health Report**

**Overview**

Amazon Inc., headquartered in Seattle, Washington, is a prominent internet-based enterprise focused on e-commerce and technology conglomerate[[1]](#footnote-1). Founded by Jeff Bezos in 1994, Amazon initially operated as an online bookseller and has since evolved into one of the world's largest technology and retail giants. This report aims to provide a comprehensive analysis of Amazon's financial health across five key dimensions: liquidity, profitability, solvency/debt management, asset utilization, and investor/market ratios. It is important to note that financial health is dynamic and this report should be regarded as a snapshot of Amazon's financial condition.

**Liquidity**

In 2022, Amazon's liquidity ratios exhibited several noteworthy trends. The current ratio decreased from 1.13 in 2021 to 0.94 in 2022. Similarly, the quick ratio dropped from 0.90 in 2021 to 0.72 in 2022. The cash ratio also increased from 0.25 in 2021 to 0.34 in 2022. The defensive interval decreased from 287.45 days in 2021 to 189.15 days in 2022, and Amazon's net trading cycle turned negative, indicating that payments are received more quickly than supplier payments.

The shift in Amazon's liquidity ratios from 2021 to 2022 shows changing dynamics in working capital management. While certain ratios decreased, the negative net trading cycle implies efficient cash flow management. This indicates that Amazon is focusing on optimizing its working capital and improving cash conversion cycles, which can be vital for its growth strategies.

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**

In 2022, Amazon's gross margin improved from 42.03% in 2021 to 43.81%. However, the EBITDA margin decreased from 12.62% in 2021 to 10.54% in 2022. Similarly, the EBIT margin declined from 5.30% in 2021 to 2.38% in 2022. Amazon reported a negative net margin of -0.53% in 2022, a significant drop from the 7.10% net margin in 2021.

The mixed picture in Amazon's profitability metrics indicates the company's strategic focus on growth and investment, potentially at the expense of short-term profitability. While the gross margin improved, the decline in other margins suggests increased operating expenses. This signifies Amazon's commitment to expanding, which may impact its near-term profitability but could yield significant gains in the future.

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**

Amazon's Debt to Equity (D/E) ratio increased from 0.35 in 2021 to 0.45 in 2022. The Debt to Total Assets ratio also increased from 0.1159 in 2021 to 0.1451 in 2022. Amazon's Long-Term Debt to Capital ratio increased from 0.2607 in 2021 to 0.3150 in 2022. However, Amazon's Times Interest Earned ratio decreased from 13.7529 in 2021 to 5.1745 in 2022, and the Debt Coverage ratio also dropped from 18.82 in 2021 to -1.27 in 2022.

Amazon have been increasing debt levels and the decline in Times Interest Earned and Debt Coverage ratios raises concerns and warrants close monitoring to ensure Amazon can comfortably meet its interest and debt obligations while continuing its growth initiatives.

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 Utilisation**

Amazon's Total Asset Turnover decreased from 1.26 in 2021 to 1.16 in 2022. Inventory Turnover increased slightly from 8.34 in 2021 to 8.39 in 2022. However, the Return on Assets (ROA) declined significantly from 8.99% in 2021 to -0.616% in 2022.

Amazon’s asset utilisation has overall decrease from 2021, causing a decrease in profitability relative to the asset base. This is due to the increase in total assets, primarily from increase in Property and Equipment.

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 Ratios**

Amazon's Price-to-Earnings (P/E) ratio decreased heavily from 39.14 in 2021 to -523.07 in 2022. The Price-to-Book Value (PBV) ratio increased slightly from 0.0094 in 2021 to 0.0099 in 2022. Earnings Per Share (EPS) decreased and became negative from $3.24 in 2021 to -$0.27 in 2022. Return on Capital Employed (ROCE) declined from 13.31% in 2021 to 5.75% in 2022. Furthermore, Amazon's Enterprise Value to EBITDA (EV/EBITDA) ratio increased from 0.2332 in 2021 to 0.2714 in 2022.

The changes in Amazon's investor and market ratios suggest shifts in market sentiment and Amazon's financial strategy. The decrease in P/E may reflect a more conservative valuation and potential concerns about profitability. Conversely, the increase in the EV/EBITDA ratio could indicate high expectations for future growth. These ratios highlight the complexity of Amazon's financial outlook, influenced by both short-term performance and long-term potential.

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

1. <https://www.techtarget.com/whatis/definition/Amazon> [↑](#footnote-ref-1)