**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.

**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.

**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.

**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.

**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.

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