**Amazon Inc. Financial Analysis**

This report will look at Amazon Inc.’s financial health by analysing some ratios calculated based on their financial statements for the three years, 2017, 2018, and 2019. This will consist of five key parts which include liquidity, profitability, debt management/solvency, asset utilization and finally investor or market ratios.

# 1.0 Liquidity

First of all, amazon’s liquidity position has shown gradual improvements throughout the three years, the current ratio during 2017 was 1.04 which indicates quite constrained liquidity however this improved to 1.10 in 2018 and 2019. Amazon has been able to enhance its ability to meet short-term obligations as the quick ratio also improved, however, it struggles to use cash and cash equivalents to pay off its short-term liabilities with cash ratios at 0.35, 0.46, and 0.41.

Inventory days in 2017 were 52 days, Amazon became more efficient in managing its inventory which is vital for companies in the e-commerce industry as inventory days dropped to 45 in 2018 and 2019, one reason for that is the rollout of one-day deliveries. Payable days have decreased which means they are paying their supplier faster, this can be seen as a strength for managing better supplier relationships. Receivable days stayed stable. Finally, the working capital ratio has also improved from 1.30% in 2017 to 2.88% in 2018 to 3.04% in 2019 which indicates financial stability and better overall liquidity.

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.

# 2.0 Profitability

Amazon’s profitability has overall increased from 2017 until 2019. Gross profit margins went up from 37% to 40% in 2018 and 41% in 2019, where net profit margins increased from 2% in 2017 to 4% in 2018 and 2019. EBITDA and EBIT margins have also increased. Overall, this signifies better operational efficiency and cost control.

Moreover, Amazon’s Prime subscription and its partnership with other companies have allowed it to massively boost its net sales, as the % change in Net Sales increased by 31% in 2018 and about 20.5% in 2019. Amazon’s rollout of the 1-day shipping massively boosted sales but affected growth for their profits (Risley, 2020), with a massive 232% increase in net profits from 2017 to 2018 to only 15% from 2018 to 2019.

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.

# 3.0 Solvency/Debt Management

This part will look at the key aspects in regard to Amazon’s debt during the years and its management. The debt-to-equity ratio was 0.89 in 2017, this fell to 0.54 in 2018, and thereafter 0.38 in 2019, debt to total assets ratio also decreased from 0.19 to 0.14 in 2018 and 0.10 in 2019.

Amazon’s debt reliance to finance its operations was quite high in 2017 where for every $1, $0.89 was financed by debt. The decrease in 2018 and 2019 could be a strategic plan to reduce its debt and use other sources of equity financing in a more conservative approach. This indicates Amazon are at less financial risk against bankruptcy and is seen as a positive sign for current investors/shareholders. The low debt to total assets ratio indicates the stability of the statement of financial position, this can lead to more investors being attracted and overall eventually prepare Amazon for future economic uncertainties. Better debt management has led to a slight increase in the free cash flow per share.

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.

# 4.0 Asset Utilization

Amazon’s total asset turnover was 1.35 in 2017, 1.43 in 2018, and 1.25 in 2019, these figures reflect a strong asset utilization to revenue, although this declined in 2019, it does not necessarily reflect poor performance as it may have been a change in the business focus/strategy. Inventory turnover also reflects the high efficiency of converting their inventory to revenue. Return on assets kept on fluctuating throughout the three years but remained relatively strong. Overall, Amazon’s conversion rate of assets and inventory into sales is significantly strong.

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.

# 5.0 Investor/Market Ratios

The final section will look at the key bits in regard to investor/market ratios. Amazon’s P/E ratio in 2017 was 9.48 which might indicate high investor confidence, there was a steep decline in the following years where the P/E was 3.64 in 2018 and 4.07 in 2019, which might have been caused by various changes in the market or business strategies.

ROE kept on fluctuating from 10.95% to 23.13% to 18.67% in the three years, generally, these reflect an efficient use of shareholders’ equity to generate profits. ROCE of 7.83%, 18.53%, and 17.01% also reflect an efficient use of capital to generate returns. Overall, Amazon’s financial performance was quite strong pre-pandemic.

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.

# References

Risley, J. (2020) *Amazon’s 2019 sales rise 20.5%*, *Digital Commerce 360*. Available at: https://www.digitalcommerce360.com/2020/01/30/amazons-2019-sales-rise-20-5/ (Accessed: 13 October 2023).

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