Liquidity Position:

Amazon's current ratio has decreased over time, indicating that there may be shortfalls in servicing their short-term obligations, but there is no cause for concern. The company's quick ratio has decreased from 2019 to 2022, indicating potential liquidity issues when meeting short-term debt obligations. However, the ratio is close to its 2019 level, so there is no cause for concern regarding this outcome.

As the quick ratio has been below 1, the company lacks the liquidity to meet its short-term obligations, indicating that it may need to sell inventory to meet these obligations. The cash-to-current-liabilities ratio has increased over time, indicating that the company is taking a more conservative approach to covering its current liabilities.

However, the ratio is still below one, indicating that the company is unable to meet its short-term obligations with cash. Even though the company's degree of protection against insolvency has decreased compared to the previous year, the company still has a robust protection against insolvency. The stability of inventory days over the past three years suggests that operations efficiency has not diminished.

Given the nature of the business, this turnover period is relatively rapid. The company's primary objective is to provide Fulfilment by Amazon services for certain seller programmes. These products are not included in our inventories because third-party sellers retain ownership of their inventory, regardless of whether we or the third-party sellers provide fulfilment.

Additionally, we purchase electronic device components from a variety of vendors and outsource the production of our products to several contract manufacturers. In the ordinary course of business, we enter into agreements with contract manufacturers and suppliers for certain electronic device components to manage manufacturing lead times and ensure adequate supply.

A portion of the reported purchase commitments resulting from these contracts are firm, non-cancellable commitments. The basis for these commitments is anticipated customer demand. If we reduce these obligations, we might incur additional expenses. This could be the result of a rise in interest rates making it more expensive for the company to maintain credit lines for a longer period of time; consequently, they have decided to begin paying earlier.

There may have been an increase in receivable days as a result of ongoing price increases for customers, indicating that many have extended credit lines with the company. Consequently, the number of days required to receive payment has increased. However, the company's receivable days ratio remains low, indicating that it has a solid customer base.

From 2021 to 2022, the company's net working capital decreased, becoming negative in 2022. Currently, the company has fewer current assets than current liabilities, demonstrating inefficiency in its ability to meet its short-term obligations. This is explicable by the company's approach to its approach in the normal course of business, in which they enter contracts with contract manufacturers and suppliers for certain electronic device components to manage manufacturing lead times and ensure adequate supply. With a portion of their reported purchase commitments resulting from these contracts being firm, non-cancellable commitments. The basis for these commitments is anticipated customer demand. Therefore, the negative networking capital exhibited in 2022 poses no cause for concern.

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:

The company’s gross profit has been increasing over the years with a 47% growth between 2020-2022. Over the past three years the company has been running with a negative EBIT however has seen a 13% increase in its EBITDA this is due to their large, fixed asset base, that’s cost has been spread over the years via depreciation and amortization therefore the company is running its operations in a profitable way. Despite this amazon has seen a drop of 7% in its net margin over the years suggesting that the management is struggling to contain the overhead costs of its operations, or this may be attributable to its loss on its recent investments.

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.

Debt/ Solvency Management

The company's high D/E ratio indicates a high investment risk and that it is heavily reliant on debt to finance its assets. This could present potential issues in the future if financing the debt becomes more expensive and the company fails to service this debt. Despite this, the company has a low debt to asset ratio, implying that the company can sell its assets to meet its debt obligations if necessary. However, given the rising costs, it should be noted that the company has taken on more debt in relation to its position in 2019. The significant decrease in free cash flow in 2022 resulted from a decrease in cash from operating activities and an increase in cash employed for PPE, and Amazon's cost of sales has risen significantly, owing to investment in its fulfilment network as well as higher shipping and labour costs. Depreciation and amortisation costs have increased, as has stock-based compensation, resulting in a significant decrease in the company's debt coverage.

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:

In 2022 amazon a negative return on assets due to the drop in its net income as costs associated with running the company rose and sales expectations were not met. Despite this its total asset turnover remained unchanged compared to last year attributable to the 10% asset growth in comparison to 31% in 2021.

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 current outlook for Amazon does not appear promising. The company's ROE decreased by -26% between 2021 and 2022, and its ROA decreased by -1% in 2022, as a result of its negative net income for the year. However, the company's book value per share increased between 2021 and 2022, indicating that its net asset value increased. Amazon's fundamentals are still strong despite the shock the tech market experienced in 2022 and the current market climate, but investors seeking high returns would be better off pursuing other investment opportunities.

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.