Management Report

**Liquidity:**

While the current ratio has held steady at 1.1 for two years and shows that the company has enough cash to cover current liabilities, this is contradicted by the quick ratio and cash ratio being below 1 and suggests Amazon doesn’t have the cash on hand to cover short term obligations. However, the ratios of inventory days, payable days and receivable days indicate a good relationship between suppliers and payments and the increase in working capital indicates an increase in total assets, which is shown on the balance sheets and an increase in total liabilities, which indicates an increase in cash low.

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:**

The increase in growth margin is slight as it has increased 4% between 2017 and 2019 , however it shows that Amazon has been running more efficiently and is more financially stable in operations. As well as this the increase in EBITDA shows that Amazon is lowering it’s operating expenses in relation to total revenue. While the net margin remains low for Amazon, it has increased by 2% between 2017 and 2019, however their total sales have increased by over USD 100 million between 2017 and 2019 which shows they have a low margin but high volume sales. This all shows that Amazon is increasing in profitability.

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:**

Due to the decrease in debt to equity, going from 0.89 to 0.38 between 2017 and 2019 respectively, it shows that Amazon has been utilising it’s assets and borrowing less money from the market which is further exemplified by the debt to total assets and long term debt to capital decreasing as well. While the Free Cash Flow per share did decrease between 2017 and 2018, it did increase again between 2018 and 2019 which can be attributed to revenue growth but also debt elimination, as well as this the increase in debt coverage has shown that the company is able to make interest payments on debt. Furthermore the increase on times interest earned indicates there is less risk to investors and lenders. In collaboration, this shows that Amazon has a good handle on it’s debt management as it has decreased in subsequent years.

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:**

Despite the total assets turnover ratio decreasing across the three years, it is still above 1 which shows the company is performing efficiently, as they are generating more revenue per dollar of assets, however the efficiency is decreasing slowly which would need improving on. However the fixed assets turnover ratio remaining above 3 and increasing by 0.12 across three years shows that Amazon has effectively used investments in fixed assets to generate sales.

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:**

With the earnings per share and book value per share increasing across the three years, Amazon is showing higher profitability for investors as the stock is more valuable, and the decrease in enterprise value also makes Amazon more attractive for investors. Despite this, the slight decrease

in return on equity means that there’s room for improvement and Amazon needs to become more efficient at creating profits.

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.

 **Conclusion:**

To conclude, with all the given information, Amazon seems to be in decent financial health. Like with everything, there is always room for improvement which should be focused on its liquidity, in particular on increasing its quick and cash ratio so that the short term obligations are able to be met. Despite this, there has been an increase in net income due to higher sales and decreased debt and an increase in cash flow which are all good signs for the company.