**Executive Summary**

Amazon Inc has seen financial growth over the past two fiscal years. This report will detail an overview of the financial health of the company through the use of ratio analysis.

From the calculations, Amazon has seen a decrease in net sales growth from 21.70% to 9.40%. The company also sustained a -50% decrease in operating income in 2022 and a -108% decrease in net profit margin.

Overall, from 2021 to 2022, Amazon has developed financial issues within its operations cash flow with significant increases in expenses and decreases in income. However, the company has see seen increases in overall net sales and shareholder equity.

**Liquidity**

Amazon saw a fall in their current ratio from 1.1 to 0.94 in 2022. The quick ratio at Amazon is also trailing as it decreases from 0.91 to 0.72. both declines have raised questions for the companies ability to meet its short-term liability demands as they have reached an unhealthy ratio of assets to liabilities. This can also be seen through the significant decrease in Amazons working capital which has declined from 19314 to -8602 over the period. This is also an indicator to investors that Amazon has seen significant setbacks to its cash flow and ability to meet its debt obligations.

Operating expenses have risen significantly for Amazon, 22.5% in 2021 and 12.7% in 2022. While also seeing a significant decrease in operating income of 50.4% in 2022. This can also be seen in the decrease in the company’s defensive interval which saw a significant decrease in 2022(6172 – 1805).

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**

Despite the significant decrease in operating income and increased expenses, Amazon still saw an increase of 29.2% of gross profit margin in 2021 and 14% in 2022 with net sales also seeing increases in both years of 21.7% and 9.4% respectively. Net profit margin saw a staggering -108% decrease in 2022 with the income decreasing from $33.364M to $(2,722M). However, shareholder equity saw an increase of 12.1% from 2021 to 2022 despite the significant impact within the company’s operations.

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 and Debt Management**

Amazon has also seen an increase in its debt-to-equity ratio from 2.04 to 2.17 in 2022. This increase highlights amazons increase in debt and liabilities in the period and its increasing reliance on debt. The long-term debt to capital ratio also indicates the reliance on debt through its increase from 0.26 to 0.31. Both ratios have highlighted the increasing risk of investment in amazon as the company has become more reliant on debt over the past two fiscal years. The debt coverage ratio also saw more than a 50% decrease in 2022 decreasing from 0.17 to 0.08 which is another sign to investors that Amazon is seeing liquidity issues.

Amazons free cash flow decreased from 81685 to 70987 indicating that there is liquidity problems present. This ratio shows that the debt and working capital ratios are a significant problem for Amazon even despite the slight recovery of free cash flow to 73242 by the end of the 2022 fiscal year.

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**

Amazons return on assets saw a decrease from 0.08 in 2021 to -0.01 in 2022. This signals that Amazons assets are not generating profit as efficiently as they should. Which coincides with the decrease in the amount of income tax that was paid in 2022 at Amazon with the rate dropping to 1.15%. Showing that the net income generated has significantly fallen. The fixed asset turnover ratio has also seen a decrease to 2.75 in 2022 from 2.93, also indicating a set back in the ability of Amazons 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 and Market**

Amazon working at a loss in 2022 has led to the significant decrease in its price to equity ratio to -478.22 in 2022. This highlights huge risk for investors as it demonstrates large negative earnings. This is at a substantial low due to the earnings per share reaching -0.27 in 2022 as opposed to 3.3 in 2021 with decreasing net income being the main contributing factor.

The return on equity at Amazon Inc decreased from 0.24 in 2021 to -0.02 in 2022. This can also be attributed to the low net income at Amazon. Capex% of fixed assets increased from 60.64% to 61.95% which can be attributed to the decrease in ROE.

Amazons enterprise value to EBITDA ratio substantially increased over 50% which indicates that amazons stock may be becoming overvalued. This can be seen through the EBITDA margin decreasing from 0.06 in 2019 to 0.02 due to the increasing operating expenses and lower operating income.

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.