**Amazon’s Financial Report**

The report will focus on Amazon’s financial statement and the company’s performance year by year, as well as analysing Amazon’s financial health from 2020 to 2022. According to the company’s annual report, Amazon’s consolidated yearly sales growth rate was 2% in 2021 compared to 38% from the previous year. Net sales increased from 9% to $514.0 billion in 2022, compared with $469.8 billion in 2021 and $386 billion in 2020. This number provides essential insights on how much the company earns on its products and services after it accounts for discounts and expenses. In 2022, Amazon’s total net sales surpassed the half-trillion-dollar mark, becoming the second US company to reach that milestone. In 2022 Amazon reports a net loss of $2.7 billion, or $0.27 per diluted share , compared with net income of $33.4 billion, or $3.24 per diluted share , in 2021.

The net loss is associated with the initial investment in RIVIAN, an electric vehicle startup that has struggled with production delays and market disruption. It is necessary to say that the 2022 losses included a pretax valuation loss of $12.7 billion from its investment in Rivian . The comparison has been made with a pretax gain of $11.8 billion from the same investment in 2021. Amazon’s operating income decreased to $12.2 billion in 2022, compared with $24.9 billion in 2021 and $22.8 billion in 2020. The decline in operating income was associated to severance costs. A company that’s generating decreasing amount of operating income is indicative of generating less revenue while not efficiently controlling expenses, production costs and expenses.

**Liquidity Analysis**

The table below provides liquidity ratios which simply represents the company’s ability to pay-off short term obligations, usually within the next year with it’s current assets. Amazon has a current ratio of above 1 in 2020 and 2021. The ratio of 0.94 in 2022 indicates that the company might struggle to pay off its debts. Whilst the quick ratio shows company capabilities to pay for its current liabilities without worrying about selling its inventory. The higher the ratio the more beneficial this is for the company. The cash ratio shows if the company can look out and deliver their short-term requirement like paying for salaries. 0.5 to 1 is the preferred cash ratio. Amazon’s cash ratio less than 0.5 which indicates that the company has more short-term debts than cash.

Table 1: Liquidity Ratios of (Amazon)

|  |  |  |  |
| --- | --- | --- | --- |
| Ratio/Year | **2022** | **2021** | **2020** |
| **Current Ratio** | 0.94 | 1.14 | 1.05 |
| **Quick Ratio** | 0.72 | 0.91 | 0.86 |
| **Cash Ratio** | 0.35 | 0.25 | 0.33 |

This report would analyse in details the liquidity ratios in order to determine Amazon’s financial health. The defensive interval ratio determines the days Amazon’s can work without utilizing non-current assets or outside financial resources. The table below shows a decline in the number of days when Amazon can operate whilst relying only on liquid assets. The defensive interval ratio of 116.52 in 2022 might suggest that Amazon needs to improve its liquidity. Amazon’s inventory days indicates that the company is able to turn its inventory more quickly into sales. Therefore, a ratio below 10 translates to an efficient business in terms of the inventory management and sales performance. Amazon’s high payable days ratio means that the company will take more time to pay off their bills and creditors. In the grand scheme of things, Amazon’s average payable days ratio between 2022 and 2020 was 106.5. This means that the company has generated an extra cash on hand that could be used for short -term investments. The table below indicates a marginal increase in receivable days ratio in 2022. The high receivable ratio is associated with the company being inefficient in its collection processes and its payment terms might be too lenient.

Table 2: Liquidity Ratios of (Amazon)

|  |  |  |  |
| --- | --- | --- | --- |
| Ratio/Year | **2022** | **2021** | **2020** |
| **Defensive Interval** | 116.52 | 143.67 | 143.34 |
| **Inventory Days** | 8.40 | 8.34 | 9.80 |
| **Payable Days** | 100.59 | 105.43 | 113.48 |
| **Receivable Days** | 53.53 | 44.08 | 38.40 |

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 Analysis**

Along with the financial statement analysis, it is imperative to analyse profitability ratios as they measure and evaluate business performances in terms of income (profit). To understand the drivers behind Amazon’s profit performance, profitability ratios were analysed. Amazon’s gross margin increased by 2% in 2022 compared from the previous year. Amazon’s solid gross margin indicates that the company retains more capital per sales dollar. In other words, rising gross margin is indicative of improved efficiencies. If Amazon wants to improve their gross margin, they have to increase their revenue or decrease the cost of goods sold. EBITDA margin was 11% in 2022 compared to 13% in 2021. The marginal decline suggests lower profitability and potentially cash flow problems. However, an EBITDA margin of 10% or more is considered to be a good profitability measure. Naturally, a higher margin implies lower operating expenses relative to the total revenue. EBIT margin decreased from 2% in 2022 to 5% in 2021, meaning that Amazon’s earnings before interest and taxes generated from its operations declined substantially. The low EBIT margin means that Amazon needs to improve on its operations in order to generate better returns. Amazon’s net margin declined significantly in 2022 compared to 2021. The negative net margin of -0.53% suggests a company’s weak financial health. The decreasing net profit margin signals the need for Amazon to take a second look at current practices and forecast profits accordingly. In other words, Amazon is not generating enough profit to cover its costs and may be operating at a deficit. The negative net margins means that Amazon was unprofitable during 2022.

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.

Table 3: Profitability Ratios of (Amazon)

|  |  |  |  |
| --- | --- | --- | --- |
| Ratio/Year | **2022** | **2021** | **2020** |
| **Gross margin** | 44% | 42% | 40% |
| **EBITDA margin** | 11% | 13% | 12% |
| **EBIT margin** | 2% | 5% | 6% |
| **Net margin** | -0.53% | 7.10% | 5.53% |

**Solvency/Debt Analysis**

The table below provides debt/solvency ratios which measures the amount of leverage used by a company. This indicates how much Amazon’s operations are based on debts rather than equities. Debt to equity ratio of 0.46 in 2022 is considered favourable as it shows that Amazon does not require any money to finance its business and operations for growth. The company primarily relies wholly on owned funds to leverage its finance. Investors look at the debt to assets ratio to understand how much of a business is owned by the creditors compared how much of the Amazon’s assets are owned by shareholders. Amazon had $462 billion in assets in 2022, therefore making the debt to asset ratio 0.15 suggests that Amazon is financially stable. In 2022 Amazon had 0.15, 15% of its assets financed by creditors and 85% were financed by owners (shareholders’) equity. This often gives a company more flexibility, as they can increase, decrease, pause, or cancel future dividend plans to shareholders. Amazon’s times interest earned ratio was 21.08 in 2022 compared to 36.91 in 2021. The ratio measures how easily Amazon can fulfil its financial obligations. The decline in times interest earned in 2022, might suggest that the business struggles to pay fixed expenses like interest. It may encounter going bankruptcy as a potential risk. This particular ratio gives an early indication that Amazon might need to pay off existing debs before taking on more. The higher TIE of 36.91 in 2021 means that Amazon was in a better position for growth, as it can invest in new equipment or pay for expansion. The Amazon’s free cash flow per share between 2022 and 2020 fluctuated between 7 and 8. Investors look at that financial metric to understand if the company is undervalued with respect to its cash flow. A positive free cash flow doesn’t always indicate a strong stock trend. Free cash flow plays an essential role in valuation, as it shows how much capital a company has available to invest in growth, pay off its debts, or return dividends to investors. This is an indicator of financial health that investors use to determine its present value.

Table 4: Solvency/debt Ratios of (Amazon)

|  |  |  |  |
| --- | --- | --- | --- |
| Ratio/Year | **2022** | **2021** | **2020** |
| **Debt to equity** | 0.46 | 0.35 | 0.34 |
| **Debt to assets** | 0.15 | 0.12 | 0.10 |
| **Times interest earned** | 21.08 | 36.91 | 32.07 |
| **Free cash flow per share** | 7.19 | 6.89 | 8.01 |

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 Analysis**

Total assets turnover of 2.5 or more could be considered as a positive financial indicator. Amazon reported 3.3 in 2022 followed by 3.19 in the previous year. The asset turnover ratio is an indicator of the efficiency of how effectively a company uses its assets to generate revenue or sales. The Amazon’s assets turnover ratio indicates that Amazon is more efficient in generating sales and revenue. Amazon had an inventory of 8.62 for the most recently reported year ending 2022-12-31 compared to 9.65 in 2021. The ratio suggests strong sales achieved by Amazon, but on the other hand also indicates insufficient inventory. The return on assets is the metric that measures the profitability of a business in relation to its total assets. The ratio for return on assets for Amazon sharply declined from 9.0 in 2021 to 0.62 in 2022. The higher return in 2021 was associated with company’s productivity and efficiency in utilizing resources. The substantial decline in 2022 was associated with Amazon not obtaining the expected benefits and ultimately Amazon was generating losses. However, the low return on assets could be linked to a disproportionate growth in adjusted net income and adjusted net assets brought about by Amazon’s numerous acquisitions and aggressive reinvestments.

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.

Table 5: Asset utilization of (Amazon)

|  |  |  |  |
| --- | --- | --- | --- |
| Ratio/Year | **2022** | **2021** | **2020** |
| **Total asset turnover** | 3.33 | 3.19 | 2.91 |
| **Inventory turnover** | 8.62 | 9.65 | 9.80 |
| **Return on assets** | -0.62 | 9.0 | 6.64 |

**Investor/ Market Analysis**

Amazon’s price to equity dropped to the negative territory in 2022 indicating that the company has a negative earnings or is losing money. This particular ratio became imperative to investors as they can understand if the stock is overvalued or undervalued. Amazon’s price to equity in 2021 was 51.44 compared to 63.92 in 2020. In general, stocks with P/E ratios of below 15 are considered cheap, while stocks above about 18 are thought of as overpriced. Amazon’s Earnings per share ratio was negative in 2022, which means that company was losing money or they were spending more than their earnings. Amazon’s 2022 annual EPS was $-0.27, a 108.33% decline from 2021.

Table 6: Investor/ market ratios of (Amazon)

|  |  |  |  |
| --- | --- | --- | --- |
| Ratio/Year | **2022** | **2021** | **2020** |
| **Price to equity** | -606 | 51.44 | 63.92 |
| **Earnings per share** | -0.27 | 3.24 | 2.09 |
| **Enterprise value to EBITDA** | 35.32 | 33 | 32.22 |

Further all, in 2022 Amazon reported a net loss of $2.7 billion, tying off a tough year for Amazon. That loss is imperative as it was the company’s first loss encountered since 2014 and the company's largest annual loss on-record. Over the course of 2022, the company's shares declined about 47% amid the much-discussed digital advertising slowdown, high inflation, and rising interest rates. The company had grown rapidly during the pandemic, at a time when demand skyrocketed while consumers were at home. However, the far-reaching economic uncertainty of 2022 sent Amazon revenue to the negative territory.

ROE, ROA and ROCE all are within the health territory, however, have declined 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