

FINANCIAL HEALTH REPORT OF AMAZON INC.

For the Years Ended December 31, 2017, 2018, and 2019

Executive Summary

This report provides an analysis of the financial health of Amazon Inc. from 2017 to 2019. The analysis covers key financial ratios in five categories: liquidity, profitability, solvency, asset utilization, and investor/market ratios. The data indicates Amazon's robust financial performance, improvements in profitability, effective debt management, and efficient asset utilization.

1. Liquidity Analysis

- I. **Current Ratio:**
The current ratio improved slightly from 1.04 in 2017 to 1.10 in both 2018 and 2019, indicating a stable liquidity position where Amazon can meet its short-term liabilities with its short-term assets. A current ratio above 1 indicates that the company has more assets than liabilities due within a year.
- II. **Quick Ratio:**
The quick ratio increased from 0.76 in 2017 to 0.86 in 2019, reflecting improved liquidity even when excluding inventories. This suggests better short-term financial health.
- III. **Cash Ratio:**
Although fluctuating, the cash ratio rose from 0.35 in 2017 to 0.46 in 2018 but dipped slightly to 0.41 in 2019. This indicates a significant portion of short-term liabilities covered by cash and cash equivalents.
- IV. **Defensive Interval:**
The defensive interval remained relatively stable, indicating that Amazon consistently maintained enough liquid assets to cover its operating expenses for about 76-81 days without additional revenue.
- V. **Net Trading Cycle:**
The net trading cycle, although negative, improved from -33.54 days in 2017 to -31.76 days in 2019. This negative cycle implies that Amazon effectively manages its working capital cycle, often receiving payments from customers faster than it pays its suppliers.

2. Profitability Analysis

- I. **Gross Margin:**
The gross margin increased from 37.07% in 2017 to 40.99% in 2019, reflecting improved efficiency in managing the cost of goods sold relative to sales.
- II. **EBITDA Margin:**
There was a notable rise in EBITDA margin from 8.59% in 2017 to 13.15% in 2019, indicating enhanced operational efficiency and profitability before interest, taxes, depreciation, and amortization.
- III. **Net Margin:**
The net margin also improved from 1.71% in 2017 to 4.13% in 2019, showcasing Amazon's ability to convert sales into actual profit after all expenses.

3. Solvency and Debt Management

- I. **Debt to Equity (D/E) Ratio:**
The D/E ratio improved from 0.89 in 2017 to 0.38 in 2019, indicating reduced reliance on debt financing relative to shareholders' equity, which enhances financial stability and reduces risk.
- II. **Debt to Total Assets:**
The ratio decreased from 0.19 in 2017 to 0.10 in 2019, suggesting a lower proportion of assets financed by debt.
- III. **Times Interest Earned:**
The times interest earned ratio fluctuated, showing a significant drop in 2019 to 2.95 from 8.69 in 2018, which could indicate increasing interest expenses or a decrease in EBIT.
- IV. **Free Cash Flow to Equity (FCFE) per Share:**
This ratio remained relatively stable, showing slight variations but generally indicating that Amazon consistently generated sufficient free cash flow to cover equity.

4. Asset Utilization

- I. **Total Asset Turnover:**
This ratio declined slightly from 1.35 in 2017 to 1.25 in 2019, suggesting a small reduction in efficiency in using assets to generate sales.
- II. **Fixed Asset Turnover:**
The fixed asset turnover ratio increased from 3.64 in 2017 to 3.86 in 2019, indicating improved efficiency in utilizing fixed assets to generate revenue.
- III. **Return on Assets (ROA):**
ROA improved significantly from 2.31% in 2017 to 6.19% in 2018 but slightly decreased to 5.14% in 2019, reflecting overall efficiency in generating profit from assets.

5. Investor/Market Ratios

- I. **Price to Equity (P/E) Ratio:**
The P/E ratio declined from 29.88 in 2017 to 7.99 in 2019, indicating that the market's expectations for Amazon's future earnings growth might have moderated.
 - II. **Earnings per Share (EPS):**
EPS showed variability but generally improved from 2.07 in 2018 to 2.35 in 2019, indicating an increase in profitability on a per-share basis.
 - III. **Return on Equity (ROE):**
ROE increased from 0.11 in 2017 to 0.23 in 2018 before slightly decreasing to 0.19 in 2019, showing effective management of shareholders' equity to generate profits.
- **Growth Rates:**
- i. **Sales Growth:** Consistently high, with 31% growth in 2018 and 20% in 2019, demonstrating strong market demand and effective sales strategies.
 - ii. **Gross Profit Growth:** Increased by 42% in 2018 and 23% in 2019, reflecting enhanced revenue generation and cost management.
 - iii. **Operating Income Growth:** Grew by 203% in 2018 and 17% in 2019, showing substantial improvement in operating efficiency.
 - iv. **Net Income Growth:** Grew by 232% in 2018 and 15% in 2019, underscoring significant profitability improvements.

Conclusion

Overall, Amazon Inc. demonstrated strong financial health from 2017 to 2019. The company showed consistent improvements in profitability and effective management of liquidity and debt. Despite some fluctuations in asset utilization and market ratios, Amazon maintained a robust position, reflected in its growing revenue and profitability. The future outlook remains positive, given the company's ability to sustain growth and manage its financial resources efficiently.

Sources

- Amazon Inc. Annual Reports (2017,201,2019)
- Financial News and Analysis from publicly available sources such as Bloomberg News.
- Publicly available industry reports and market analyses.