# Q2 2021 Earnings Call

## Company Participants

- Brian T. Olsavsky, Senior Vice President and Chief Financial Officer
- David Fildes, Director, Investor Relations

## Other Participants

- Brian Nowak
- Colin Sebastian
- Doug Anmuth
- Jason Helfstein
- Justin Post
- Ronald Josey
- Stephen Ju
- Youssef Squali

## Presentation

### Operator

Good day, everyone, and welcome to the Amazon.com Q2 2021 Financial Results Teleconference. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Today's call is being recorded. For opening remarks, I will be turning the call over to Director of Investor Relations, Mr.Dave Fildes. Please go ahead.

### David Fildes {BIO 20886343 <GO>}

Hello, and welcome to our Q2 2021 financial results conference call. Joining us today to answer your questions is Brian Olsavsky, our CFO. As you listen to today's conference call, we encourage you to have our press release in front of you, which includes our financial results, as well as metrics and commentary on the quarter. Please note, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2020.

Our comments and responses to your questions reflect management's views as of today, July 29, 2021 only and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent Annual Report on Form 10-K and subsequent filings.

During this call, we may discuss certain non-GAAP financial measures. In our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures. Our guidance incorporates the order trends that we've seen to-date and what we believe today to be appropriate assumptions. Our results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet, online commerce and cloud services, and the various factors detailed in our filings with the SEC.

This guidance also reflects our estimates to-date regarding the impact of the COVID-19 pandemic on our operations, including those discussed in our filings with the SEC, and is highly dependent on numerous factors that we may not be able to predict or control, including the duration and scope of the pandemic, including any recurrence; actions taken by governments, businesses, and individuals in response to the pandemic; the impact of the pandemic on global and regional economies, and economic activity, workforce staffing and productivity, and our significant and continuing spending on employee safety measures; our ability to continue operations in affected areas; and consumer demand and spending patterns, as well as the effects on suppliers, creditors, and third-party sellers, all of which are uncertain.

Our guidance also assumes, among other things, that we don't conclude any additional business acquisitions, investments, restructurings or legal settlements. It's not possible to accurately predict demand for our goods and services, and therefore, our actual results could differ materially from our guidance.

And now I'll turn the call over to Brian.

## Brian T. Olsavsky {BIO 18872363 <GO>}

Thank you for joining us today. Before we get to Q&A, I'd like to first thank all of our Prime members, our vendors, our 3P sellers, and my Amazon colleagues, especially the worldwide ops team for a record-breaking Prime Day in June. Third-party sellers who are mostly comprised of small and medium-sized businesses were a big contributor to Prime Day's success. The Prime Day event was the biggest two-day period ever for these SMBs in our stores. And our 3P revenue continues to grow significantly faster than our online stores revenue. Third party units represented 56% of our total paid units in Q2, up from a 53% mix one year ago.

Our second quarter net sales were $113 billion or at about the midpoint of our guidance range. That's a year-over-year increase of 27%, or 24% excluding the impact of foreign exchange and included the shift of Prime Day into Q2 this year, which added about 400 basis points to the year-over-year growth rate.

Q2 of this year was a transition period for many of our customers. As the quarter progressed people were at-home lass as restrictions and lockdowns eased in some of our largest geographies, including the U.S. and much of Europe. As a result, while Prime members continue to spend more with us, growth in Prime members spend moderated compared to spending seen during the peak of the pandemic.

As you look at our recent revenue growth rates, I want to give you some insight into what we are seeing as there have been some noticeable intra quarter changes in our revenue run rate. Prime Day has also been in three different quarters the past three years, so I will normalize for this impact in my growth rate comments. Also since FX rates have bounced around, all of my comments exclude foreign exchange.

Here's a quick recap of our growth rates in 2020 and 2021. First, before COVID-19, we've been growing at a revenue growth rate close to 20%. 2019 full year growth was 22% and revenue growth for the first two months of 2020 was 21%. Once the pandemic hit and lockdowns began in March 2020, the initial growth rate jumped into the mid 30% range. Q1 of last year ended with a revenue growth rate of 27%. However, our operations network took time to step up to serve this growth in demand due to space constraints and our need to ramp up hiring quickly, while prioritizing employee health and safety.

By mid-May of last year, we had made good progress to open up more capacity by adding hundreds of thousands of employees. This allowed our revenue growth rate to jump to the 35% to 45% range and it remained at that level through Q1 of this year when we had 41% growth. In Q2 of this year, we began to comp this high sales period from last year and the year-over-year revenue growth rate has narrowed. It has also narrowed as vaccines have become more readily available in many countries and people are getting out of their homes. Since May 15, again excluding Prime Day, our year-over-year growth rate has dropped into the mid-teens.

Our Q3 revenue guidance range of 10% to 16% growth reflects an expected continuation of this trend. Given all this volatility, it is useful to consider the two-year compounded annual growth rate, which remains strong in the 25% to 30% range. Recall this compares to our pre-pandemic growth rate of 21%. This reflects the acceleration of Prime membership and Prime member purchase levels over the past 18 months.

While I'm not giving forward guidance beyond Q3 of this year, we do expect this pattern of difficult year-over-year revenue comps to continue for the next few quarters. As we move forward and start to comp COVID impact on our revenue growth, we encourage you to also look at the multi-year compounded annual growth rate since the onset of the pandemic to better put this growth in perspective.

Now back to the Q2 highlights, we continue to be very pleased with the Prime member growth and engagement we're seeing. We've been fortunate to welcome more than 50 million new members in the past 18 months, and Prime member benefits usage remains high. That includes continued strong engagement in Prime's family of digital offerings like Prime Video's original movies. For example, Prime members helped make The Tomorrow War and Tom Clancy's Without Remorse the number one streaming movies on their respective opening weekends.

Amazon Advertising is innovating at a fast clip, launching over 40 new features and self-service capabilities in the quarter, making it easier for sellers, companies and authors to grow their businesses by helping customers discover their brands and products. Other revenue increased 83% year-over-year in Q2 excluding the impact of foreign exchange, driven largely by continued acceleration in our ads business.

Moving on to AWS, revenue growth accelerated across a broad range of customers. We see strong growth in enterprises, governments, educational and research institutions and our start-up and digital-native customers. We recently announced new commitments and migrations from customers across a diverse set of major industries including Swisscom and Bell Canada in Telecom, BMO Financial Group and Bancolombia in financial services, and Ferrari in automotive.

AWS customers recognize that the move to the cloud is very positive for their businesses in the medium and long term. Disruptive economic events like COVID have caused many people to step back and think about how they want to change strategically, and many have come to the conclusion that they do not want to own and run their own datacenters. They see that they can save money and gain agility and innovation by moving to AWS.

I'll finish up with some comments on our ongoing investments in operations. As we think about the pull-forward in demand we've seen these past 18-months, it has required and will continue to require a significant amount of investment in our fulfillment network. Our teams have done a remarkable job stepping up to serve customers and support our vendors and sellers and we've worked hard to increase capacity at a rapid rate.

For the trailing 12 months ended Q2, CapEx and equipment finance leases increased 74% versus the prior trailing 12-month period. And as usual, most of our 2021 spend and building openings are planned in the second half of this year. This is all part of a multi-year investment cycle for us. Unit volumes, while obviously growing at lower rates of last year's large comp, continue to remain high and we see strong demand for FBA and third-party sellers.

So there's more work to do including additional build outs of our FCs as well as our middle-mile and last-mile capabilities to support our fast improving delivery offers for customers. I encourage you to read the business highlights in our press release. It's a diverse collection of efforts supported by many thousands of customer-focused Amazon employees from Amazon Pharmacy, to Business Prime, to AWS' plans to add seven new regions, to NFL Thursday Night Football starting next year, to the Black Business Accelerator program, to Alexa's collaboration with Ford Motor Company. We remain heads down focused on driving a better customer experience. We believe putting customers first is the only reliable way to create lasting value for our shareholders.

With that, let's move on to Q&A.



## Questions And Answers

## Operator

(Question And Answer)

Thank you. At this time, we'll now open the call up for questions. We ask each caller to please limit yourself to one question. (Operator Instructions) Your first question comes from the line of Doug Anmuth with JP Morgan. Please proceed with your question.

## Q - Doug Anmuth

Thanks for taking the questions. Brian, I just wanted to ask two, just going back to the 2Q revenue, beyond Prime spend moderating and the reopening, is there anything else you'd point to in particular that they have kept you in the middle of the range versus obviously where you've been over the last year versus expectations? And I guess, in particular, can you talk about Prime Day relative to your expectations?

And then, secondly, the BigCommerce partnership a couple weeks ago, you seem to open up more to working with merchants away from Amazon. Just hoping you could talk more about the multi-channel fulfillment opportunity and do you think you now have the logistics capabilities and has everything recovered to the point where you can offer these services more to third parties? Thanks.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

Sure. Thanks, Doug. Now, as far as Q2 run rate is concerned, if you look back the last few quarters, we've not done a great job of nailing the impact of COVID. It has -- we've generally over-performed our guidance range. I think last quarter, we had kept the same process coming off some very high volumes for the last prior four quarters. And really, the only difference I see is in Q2 versus Q1 and before is the year-over-year comp, which we had factored in, but also the increase in mobility. I think the impact of people getting vaccinated and getting out in the world, not only shopping offline, but also living life and getting out, it takes away from shopping time. It's good -- it's a good phenomenon and it's great. And we just have to appropriately gauge our run rate going forward.

So Prime Day was very successful. We passed the record set in last fall's Prime Day, which was a very different time of year to have Prime Day and started to bump up against early holiday shopping. So we're really pleased. And again, I think it was a great day for -- then for third-party sellers, as I pointed out.

## A - David Fildes {BIO 20886343 <GO>}

Doug, on your second question, it's Dave here. I'd just say our focus is really squarely on adding capacity to meet the current high customer demand that Brian talked about in his opening remarks. Now, we're always working to develop new and innovative ways to support partners, SMBs in particular who sell on Amazon. And that includes testing shipping programs and newer initiatives that can help those businesses get packages to customers quickly and reliably. So continue to see us look for ways to be able to innovate where it's appropriate relative to the customer demand we're already seeing in our network.

## Operator

Your next question comes from the line of Colin Sebastian with Baird. Please proceed with your question.

## Q - Colin Sebastian {BIO 6373379 <GO>}

Thanks very much, guys. I guess sort of masked in the headline results is actually pretty solid performance in the higher-margin segments of the business, including third-party services, subscriptions, AWS and advertising. And I think that was evident in gross margin as well. So I guess my question is whether there's any deliberate shift towards these services, or is that just more of an output of the somewhat weaker trends you saw after mid-May? And then secondly, is Prime Day still a once-per-year phenomenon? Or would you consider separate events spread out during the same year to capitalize on different seasonal trends? Thanks.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

Sure. On the second question, I don't have anything to announce today. Our trend has been once a year. Of course, it's moved between quarters the last three years. So that's all I have on that one.

As far as the higher-margin areas and whether that's a purposeful strategy, I'd like to say it is, but if you look at what they are, third party is kind of a continuation of strength in our FBA program, in particular. I think the sellers are doing a great job of adding additional selection. That's very valuable and reinforces our flywheel. And we like to see that, and you see that third-party percent of units went up from 53% last year to 56%. And that's a steady mark. We've seen that, as we said, the third-party sellers are doing a great job, and we like to see that.

On advertising, advertising is again, another part of our flywheel. We have traffic coming in for the consumer business. And if we do a good job with advertising, we'll make it an additive experience for our customers and our sellers and vendors. So that's what we work on, is to make sure that it's a relevant experience and adds to your shopping experience and helps you find selection that perhaps you wouldn't have found otherwise or it would have been harder to.

And then on AWS, AWS is, again, its own separate part of the business. It has been 15 years in the development, and we think our scale and experience really pays dividends. If you look at the last quarter, AWS added more revenue quarter-over-quarter and year over year than any quarter in our history. We're now a $59 billion annualized run rate business, and that's up from $43 billion at this time last year.

So those are output measures, as we like to say. The input measures are doing a good job on products, adding new capabilities and being able to work with our customers to solve their problems. And I think that's what you're seeing, and it's matching up well with a renewed emphasis on getting to the cloud by a lot of companies out there. And when they are looking to make that transition, it's giving up control and putting yourself in and choosing a partner for the long haul, and we're proud that companies choose us for that journey.

## Operator

Your next question comes from the line of Brian Nowak with Morgan Stanley. Please proceed with your question.

## Q - Brian Nowak {BIO 16819013 <GO>}

Thanks for taking my questions. I have two; one, a little nitpicky; one, kind of big picture. The nitpicky one, Brian, fulfillment costs, I guess on a per-unit basis was pretty high in the second quarter relative to normal seasonality. Can you talk to us about what's driving that? Is that a new build, new square feet or there are sort of inefficiencies that went on in the quarter in fulfillment?

And the second one sort of about bigger picture. I think last quarter you talked a little bit about same-day in Europe, there's been some headlines about same-day. How do we think or how should we think about a larger same-day offering being part of the investment process right now just to sort of maintain and grow your share of grocery and consumables? Thanks.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

Sure. Thanks. Yes, I would say on the fulfillment side, there are a number of things. First, we're adding a lot of capacity. If you step back, the Amazon fulfilled unit volume, so that's the units coming out of our fulfillment centers, both retail and FBA, have doubled in the past two years. And the AMZL, the delivery arm of our business, has more than doubled in that time period. So you can see there's been very strong multiyear demand here that we are still catching up with from last year. So most of -- I mentioned earlier, our year-over-year growth in CapEx and equipment leases is 74% in the second -- at the end of June compared to 38% the year before. So we're continuing to add, and most of that development is really ahead of us in the second half of the year.

So if you've been with us a long time, you know the cadence is that as we add demand -- excuse me, as we add capacity, there's a lot of additional costs from hiring to starting up, to training, to getting that building or sort center or delivery station up and running. It usually takes a multi-year period to tame those assets. And we've literally nearly doubled our network here in the last 18 months from a size standpoint. So there's a lot of that going on, a lot of strong effort by our fulfillment and ops teams to help mitigate the costs.

The other thing is wage pressure has become evident. We've talked about this a bit. The wage increase for -- that we normally would do in October, we pulled forward into May. We're spending a lot of money on signing and incentives. And while we have very good staffing levels, it's not without a cost. It's a very competitive labor market out there and certainly, the biggest contributor to inflationary pressures that we're seeing in the business.

## A - David Fildes {BIO 20886343 <GO>}

Brian, on the second point just around speed, as we've talked about many times, customers respond well to the fast, high-quality delivery. And of course, back in 2019, we were talking at that time about expanding the one-day delivery in the U.S. -- in Europe. one-day delivery as part of Prime in most of those sizable European countries where we operate has been standard for many years.

We're investing in the transportation network to support the demands. A significant part of the capital investments we've been talking about for the past few years and certainly since the pandemic's start has been to support those efforts in middle and last-mile capacity to keep pace and support with that demand. So as we've been saying here, that work is not done yet. We're continuing to expand. You'll see that investment throughout 2021. And that growing transportation network will support faster delivery times for customers. One-day delivery is improving in the U.S., as well as same-day delivery where it makes sense and where the network is growing there. So we'll have to continue to see how we go, but we're focused on those data points. And we're also focused on improving delivery precision as a way of improving the quality of the overall offering.

## Operator

Your next question comes from the line of Youssef Squali with Truist Securities. Please proceed with your question.

## Q - Youssef Squali {BIO 1506420 <GO>}

Thank you very much. I have two questions. One, within online stores, was there any particular area of softness during the quarter? I'm just thinking about maybe some product categories that may have come back or actually, the opposite, may have gone down the demand for with the reopening that you can maybe highlight.

And then as you look beyond Q3 and Q4, kind of what kind of growth assumptions for e-commerce or just in general for the next couple of years are you guys working with to build your budget and events against -- invest against the opportunity? I'm just thinking, are you guys assuming that e-commerce growth remains or goes back to pre-COVID levels or stays kind of at an elevated level versus that? Thank you.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

Sure. Let me start with the online store's revenue. You're probably looking at a growth rate of 13% in Q2 versus the revenue growth -- FX-neutral revenue growth rate of 24%. I would point you back to last year in Q2 that online stores grew 49%. There were restrictions on what we stocked in our warehouses and you remember we had to constrain space for a lot of third-party sellers, as well as our retail offering. But the mix shifted for the early part of Q2 last year to be more of a retail mix and an MFN mix, and then it flipped back to be more of a balanced mix that you've seen in the past.

On forward investment, here's how I'd explain it. We -- again, we are sitting here with demand volumes that have gone up on an Amazon-fulfilled network basis, it's doubled in a two-year period. So we are not back to where we want to be on a number of dimensions. We handled Q4 last year. We've been playing catch-up pretty much since the pandemic started. But what suffered is space and space constraints and that's -- it's gotten better but it was a factor last year. And also our one-day delivery percentage has dropped and has not returned to levels seen pre-pandemic in the United States. It's on par and getting better than pre-pandemic in Europe. But in the United States, while it's improving, it still hasn't reached the pre-pandemic level. So we have a lot of growth to do there. As far as the stickiness of purchases, I think there's certainly a number of things that were purchased last year that didn't repeat for a lot of retailers, things like consumables early on, gloves, cleaning supplies, computer monitors, things you use to outfit your house. You can probably go through your own checklist of purchases and say, okay, I probably will not do this every year. But there has been a healthy movement to online commerce. We've added Prime members and the Prime members that we have have ratcheted up their purchases with us, which was -- has always been a part of the plan and a good sign. It means we're offering them more things that they can buy and satisfying more their demand needs.

So even in Q2, when, as I said, rates are starting to moderate, in the quarter, those Prime member purchases still grew year-over-year on a per-Prime member basis. They just didn't grow at the same clip that they had in the prior three or four quarters. So that's a good sign.

And we like the engagement levels and the retention levels that we see with Prime members. So all-in-all, a very positive story on that front has accelerated the model quite a bit. There's just, again, some comparison issues that we'll just have to realize and perhaps look at a two-year compounded annual growth rate for a period of time to judge where we are on that progress because there's been a lot of ins and outs, especially with Prime Day moving around. So hopefully that answers your question.

## Operator

Your next question comes from the line of Stephen Ju with Credit Suisse. Please proceed with your question.

## Q - Stephen Ju {BIO 6658298 <GO>}

Thank you so much. So Brian, it seems like the pandemic has touched off what looks like a greater urgency among SMBs to accelerate their presence online. So I was wondering if your third-party marketplaces' platform is seeing perhaps a faster influx of more sellers or emerging brands. And following up on the labor market commentary there, do you think you will see any incremental headwinds hiring the necessary people for fulfillment centers this year? Thanks.

## A - David Fildes {BIO 20886343 <GO>}

Stephen, it's Dave. I'll take that first question just around SMBs and behavior. I think, look, it's -- we've seen a 20-year progression in terms of building out the services that we thought were resonated with us and our business, but also sought very early on to externalize those services and offerings to sellers and particularly, small and medium-sized businesses over time. Obviously noteworthy was FBA and many other features.

And so I think this -- what you see is really just a continuation of that effort put out by the teams around whether it's logistics, brand representation. More recently, in recent years with some of the advertising features, we've been able to develop surface for all our selling partners. And so I think that's a big area and a big part of commitments. I don't know that I'd call out anything specifically in the near-term other than to say that we should continue to see great momentum. On a units basis, as we give that metric every quarter, about 56% of our overall total paid units are third party. That's up about 300 basis points year over year. So expect for us to continue to put forth that effort in FBA around the world for sellers and some of these other SMB features, continue to gain momentum there.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

And on the labor comment, we can't predict too far in the future. We've got a labor estimate in our Q3 guidance. I would say, it's a bit of a complicated mix of economic growth and industries opening up, government payments in some areas that may impact people's working and then whether or not children are back at school fully in the fall. So there's a lot of dynamics, we do count on having more employees in Q3 and Q4, as you know, from our ramp-up to the holidays. So I would probably count on wage pressure remaining for the immediate future.

## Operator

Our next question comes from the line of Ron Josey with JMP. Please proceed with your question.

## Q - Ronald Josey {BIO 16409770 <GO>}

Great. Thanks for taking the questions. I wanted to ask on just international operating income. It's -- if you look at the results, it's now producing consistently positive results here. And so can you talk to us a little bit more -- just talk to us a little bit more about what's driving that. Is this the result of most major builds are now complete and you're seeing the efficiencies in fulfillment centers and so we should see this trend continue? Or is there something else that's driving international operating income just remaining positive here? Thank you.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

Sure. Ron, thanks for your question. Yes, we have had strong international results in the last five quarters or so, noticeably, the positive operating income, which had not been the trend prior to Q2 of last year. I would say the major factors here are the acceleration of growth, so we have in some ways put the set two years out growth on top of today's assets. That's a lot of stress, but it's a lot of leverage of the assets that we have. And as we've talked about before, our fulfillment centers and operations have been running pretty much at peak since May of last year. It's starting to mitigate a bit, but it's a strong undercurrent.

But having said that, we continue to invest in international expansion. You may have noticed that we added Portugal as a Prime country last quarter. We have investments in Brazil, and India, and the Middle East and a number of countries. So we continue to add new countries. We have a strong performance in our more established countries like Europe and Japan.

And so it's a bit of a mixed bag. But right now, again, the performance is very strong. The foreign exchange rate has been favorable as well last few quarters, so that has helped. But really pleased with the performance of our international teams. And we'll see again it -- our investment plans -- our plans are to make money, obviously in the long run. But we have forward advanced Prime benefits in a lot of these countries before they would have been able to see them if they have run the same trajectory as we did in the U.S. So there's bit of forward investment on Prime benefits, especially things like video that we know resonate with customers and are good for the Prime program, and turn into eventually really strong businesses.

## Operator

Our next question comes from Jason Helfstein with Oppenheimer. Please proceed with your question.

## Q - Jason Helfstein {BIO 2527987 <GO>}

Thanks. So maybe one on Amazon, then a follow-up. So Amazon -- sorry, AWS. So you saw a 10% sequential growth in the quarter. You saw that also in the fourth quarter. Was there anything around reopening that made second-quarter AWS exceptionally strong and that we should kind of keep in mind going forward? Or do we feel like this was kind of a normal quarter for kind of AWS and this is a kind of a good cadence for the business?

And then just a follow-up, just your -- maybe your point about the ability to kind of keep up, is there any kind of throttling of FBA that's going on just because you don't have the capacity? Or two, were you trying to say that you might be losing share to other sellers who can kind of promise to get an item to customers faster given still some of the challenges with logistics and last mile and everything? Thanks.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

Hi, Jason, thank you. Let me start with that second question. No, my comments were really about throttling of space last year, which did impact -- it impacted our vendors and our retail business, as well as our third-party business. It's probably more pronounced in Q2 of last year, especially April and into early May as we are working to get fully staffed in a helpful and safe way and also build out more capacity. In Q4, again, we're handling volumes that were somewhat unheard of year-over-year. Our Q4 growth rate was 42%. That's usually not the case. And it's magnified at peak when we're already handling the highest volumes of the year.

So all I was trying to say was that our space planning and if you will, throttling of space for our third-party sellers is not something we like to do. We don't think we're the only ones who had that issue, and that's why we're building out our network so quickly, in our minds. It's hard to do quickly but we're moving as quickly as possible. And again, we have a lot of new capacity being added in the second half of the year.

On AWS growth, if you look at the run rate last year, we had 33% growth rate in Q1 and it dropped to 29% -- 29% to 28% the last three quarters. There's always a lot of year-over-year things but -- going on, but we do note that last year there was a lot of effort by companies to limit their spend and operate more efficiently as we're all plunged into a kind of an unknown demand curve, and some industries were hurt worse than others. If you'll remember, we worked -- we actually worked very hard with our customers to help them lower their demand for AWS services as best we could to match any new demand patterns. We also helped people scale very quickly. Companies like Disney+, Netflix and others were very glad that AWS was there to help them scale to meet volumes very quickly. So there's a lot of mixed bag there. We think that it was a strong performance this quarter. We do see good trends with new contracts and new clients that are either signing up with AWS and making the journey to the cloud or accelerating their journey to the cloud or setting up new longer-term contracts with us.

## Operator

Our final question will come from Justin Post with Bank of America. Please proceed with your question.

## Q - Justin Post {BIO 3469195 <GO>}

Great. A couple. No one's really mentioned the CEO change, so I was wondering if -- he's not on the call, but any change in direction, investment philosophies or any more integration of AWS or anything that we should be aware of related to that change? And then second, AWS margins, really strong revenues. The margins came down quarter-over-quarter. Can you just remind us of what drives some of that margin fluctuation? Thank you.

## A - Brian T. Olsavsky {BIO 18872363 <GO>}

Sure. Let me start with the second one. So again, at any point in time, there's a lot of cross pressures in the operating margins of AWS. There's growth, which helps us leverage our assets. There's increasing the efficiency of our servers and the efficiency of our sales force. Those are all positives. On the flip side, there's price decreases, there's new contracts signed with large players for multiple years. So there's pricing pressure. There's also the expansion of the sales force and building infrastructure to add new regions globally.

So as we said, these margins are going to bounce around. We're happy with the Q2 margins. I would note that there was a negative impact from foreign exchange that was about 150 basis points. But even at 28.3%, it's a strong margin for this business. We know it's going to bounce around as we invest, but also work very hard to scale our businesses and efficiently run our assets.

On the leadership change, as you expect, Andy has hit the ground running. He's continuing to have a very high bar for customer experience, high standards, operational excellence, inventiveness, willingness to fail and everything else that Amazon is known for internally and externally. I think we've had a good handoff. Jeff, of course, is moving into Executive Chairman role, and he will not be leaving. He's obviously continuing to be very involved in, as we say, the one-way door decisions.

We've also had a good leadership change at AWS with Adam Selipsky coming in. Adam himself comes with a lot of Amazon history and knowledge and external CEO experience that has made him even stronger as he comes back. So we feel really good about the transition. And, of course, don't expect any drop and expect Andy to add his unique brand of positive attitude and optimism, and forward-looking focus to help Amazon keep going and delighting customers.

## A - David Fildes {BIO 20886343 <GO>}

Thanks for joining us today on the call and for your questions. A replay will be available on our IR website for at least three months. We appreciate your interest in Amazon and we look forward to talking with you again next quarter.