Q1 2021 Earnings Call

Company Participants

- Brian Olsavsky, Chief Financial Officer
- Dave Fildes, Director, Investor Relations

Other Participants

- Brent Thill, Analyst
- Brian Nowak, Analyst
- Doug Anmuth, Analyst
- Ed Yruma, Analyst
- John Blackledge, Analyst
- Justin Post, Analyst
- Ross Sandler, Analyst
- Youssef Squali, Analyst

Presentation

Operator

Thank you for standing by. Good day, everyone and welcome to the Amazon.com Q1 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.

Dave Fildes {BIO 20638976 <GO>}

Hello and welcome to our Q1 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 April 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 will turn the call over to Brian.

Brian Olsavsky {BIO 18872363 <GO>}

Thank you for joining us today. Before we get to Q&A, I will touch upon a few highlights from the first quarter of the year. Let me start by highlighting the momentum we are seeing in AWS. In the first quarter, AWS revenue growth accelerated across a broad range of customers. During COVID we've seen many enterprises decide that they no longer want to manage their own technology infrastructure. They see the partnering with AWS and moving to the cloud gives them better cost, better capability and better speed of innovation. We expect this trend to continue as we move into the post-pandemic recovery. There are significant momentum around the world including broad and deep engagement across major industries. For example, last quarter we announced new commitments and migrations from some of the world's most renowned sports leagues, the National Hockey League, The PGA Tour, Formula One and The German Bundesliga. We continue to expand our AWS infrastructure footprint to support strong growth we're seeing. AWS offers 80 availability zones across 25 geographic regions around the world and we've announced plans to launch 15 more Availability Zones in five more regions.

Turning to the consumer business, we continue to see strong customer demand globally in the first quarter. Revenue growth in our international segment grew 50% on an FX-neutral basis year-over-year in Q1, as restrictive regional and national lockdowns were in place throughout the quarter, particularly in the UK and Europe.

In North America, revenue growth of 39% largely reflect the continuation of demand trends that we have seen since the early months of the pandemic. Third-party sellers were largely comprised of small and medium-size businesses continue to see strong sales and serve more customers. Our 3P seller services revenue increased 60% on an FX-neutral basis year-over-year in the first quarter, growing significantly faster than online stores revenue. Third party units represented 55% of our total paid units in Q1, up from 52% in Q1 of last year.

Prime members also continued to shop with greater frequency and across more categories than before the pandemic. These trends have also extended to Prime's digital benefits. Over the past 12 months, Prime video streaming hours were up over 70% year-over-year. Amazon studio had its best award season yet and prime members can look forward to a strong slate of upcoming original series and films featuring an impressive group of diverse talent and creators. We're also continuing to expand our roster of live sports content and we're excited to partner with the NFL with exclusive home of NFL Thursday Night Football into the next decade.

Twitch is also seeing great momentum. I was watched on Twitch nearly doubled year-over-year in the first quarter and we now average more than 35 million daily visitors. Another popular benefit of Prime membership is Prime Day and we are excited to announce that we will hold the two-day savings events during the second quarter. Prime Day is also a great opportunity for our selling partners to reach more customers and will make supporting small businesses a big focus again this year.

We'll have more to share on Prime Day including event dates a bit later this quarter. We continue to prioritize the safety and well-being of our employees. In the US, Amazon has held on site vaccination events in 29 states, reaching more than 300,000 frontline employees and contractors. We're watching events closely in Europe and in particular India where we have put in place employee initiatives, medical help lines, tele consulting, hotel rooms for quarantining and financial support, as well as donating 100 ICU ventilator units to local hospitals.

We'll continue to invest in the health and safety of our employees and delivery partners particularly in our global fulfillment and logistics operations. And finally, to summarize our financial results, total revenue of $108.5 billion came in above the guidance range of $100 billion to $106 billion. In addition to our strong segment results, advertising revenue within the North America and International segments also accelerated during the quarter.

The leverage we are seeing on this higher revenue combined with strong operational performance with the higher operating income as well. Operating income of $8.9 billion in Q1 was above our guidance range of $3 billion to $6.5 billion. We incurred a little less than the $2 billion in COVID-19 related operating costs that we had projected in the first quarter. We continue to incur these costs across our global fulfillment network as we maintain social distancing measures, which impacts our productivity as we make direct investments in employee safety.

Looking ahead, we expect to incur approximately $1.5 billion in COVID-19 related operating costs in the second quarter. Lastly, I'd like to congratulate and thank our employees for making Amazon number one in the US on LinkedIn's 2021 Top Companies ranking, an annual list identifying most sought after places to work. We appreciate the customer obsession and passion for innovation from teams across the company to make Amazon a Great Place to Work.

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

Questions And Answers

Operator

Thank you. At this time, we will now open the call up for questions. (Operator Instructions) Thank you. Our first question is coming from Ross Sandler with Barclays. Please proceed with your question.

Q - Ross Sandler {BIO 15948659 <GO>}

Great. Thanks, Brian. Question on last mile delivery, so you guys are investing pretty aggressively to build out that Amazon control last mile fulfillment. We see the we do vans driving around everywhere in the Bay Area, so congrats on that. So I guess the question is, how long until you feel like you've got in the right place as far as all your major metros where you want to set that up and at what stage does the unit cost of shipping start to improve from these initiatives. And I guess high level is controlling the last mile allowing you to further penetrate or gain market share in certain categories, where speedy delivery is of the essence, can you talk about that please. Thank you.

A - Brian Olsavsky {BIO 18872363 <GO>}

Ross, thanks for your questions. Yeah, let me start with last mile in general. So we are investing heavily, talked about it last year, our fulfillment including Amazon Logistics investment, we increased our capacity by 50%. You can see from our CapEx numbers, the CapEx including infrastructure of course increased 80% in the trailing 12 months over the prior trailing 12 months.

So certainly, a large area of investment not only fulfillment centers but also two elements of transportation we call the middle mile we're putting sort centers Amazon Air, line-haul trailers think about the intermediate movements between our warehouses and our final delivery stations. And then that last mile which is delivery stations DSP assuming our delivery service partners as well. So some of that cost, we actually think our cost right now is very competitive with our external options and we measure that very closely.

It certainly gets better with demand and amortization and route density, et cetera, but we see which is very helpful is the ability to control the whole flow of products from the warehouse to the end customer. It's churn would normally was a batch process where we would hand off a large batch of orders to our third-party want to deal with let's say to a continuous flow process where we continually have orders leaving our warehouses five, six times a day going through middle mile and then to final delivery through either through our AMZL drivers for DSP partners.

So that gives us a lot of ability not only to control the flow of the product, but also flow of information we are seeing, a lot of progress in that area and I think you'll see it to as a customer where you're starting to get more precise estimates of delivery, you'll get notes would say, hey, you're eight stops away from your delivery et cetera because everyone's busy, a big part of delivery is actually being there sometimes when you need to get be there for delivery other times, of course you can just have it putting your doorstep and get to it later, but that's -- we feel a lot of benefit from that.

We also see that there is a lot of cut-off times that we can extend again because we very much a perfect information between the order placement allocation to warehouses where we're going to pick in box at the product and send it on it's way. So lots of advantages. We are continuing to invest and we'll see a large investment in this area through 2021 as well. We do think that may sit and also spill it 2022 that should set us up in really good stead with our capacity and already the majority of our units are going through AMZL today.

A - Dave Fildes {BIO 20638976 <GO>}

And this is Dave, Ross, just to add to that. Brian touched upon it, but there are an important part of this last mile effort has been the program, we've had the Brian called -- mentioned the delivery service partner program or the DSP. It's an important part of the last mile network and that just as a reminder, that employs more than 100,000 drivers and it's been growing for the past few years and it's really, it's a program with an incentive for those folks to become small business owners and start their own package delivery business. So it's a great way for those folks to access to delivery technology and the package volumes we have and capital network and we've got a lot of really core elements as part of that program, grant programs to support entrepreneurs and minority groups and really help them build out and helps us support a diverse business community as well.

Operator

Your next question comes from the line of Brent Thill with Jefferies. Please proceed with your question.

Q - Brent Thill {BIO 1556691 <GO>}

Good afternoon. On AWS I'm curious if you could give us the backlog number and there have been a lot of questions about the incredible backlog strength, you've seen in the last several quarters and finally seems that you're seeing the convergence between that backlog growth, now revenue growth accelerating, if you could just comment a little more on that conversions and how you expect that to trend? Thank you.

A - Dave Fildes {BIO 20638976 <GO>}

Yeah. Hey, Brent, it's Dave. I think it's the backlog growth just to give you the figures for March 31, it's $52.9 billion. The weighted average life is about where we've been for the past several quarters. So about a little over three years in terms of the weighted average remaining life. So that's up about 55% right now. So we really continue to be really strong and really pleased with that. I think that's backlog figures, but also just the revenue growth and the momentum we're seeing in here is a lot of hard work and innovation on the teams and growing teams and reaching out and working with those.

And so you can expect to continue to see customers making these long-term commitments, we think it's a representation. I think a lot of companies that have worked with us been engaged with us, been with us and as they get better comfort line of sight with what they want to do and as we are able to add even more value and services which is a great partnership and relationship they want to build with us over those multi-year periods.

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. Maybe just a two-part question. First, Brian you touched upon this a little bit in your prepared remarks about the acceleration in international growth. Can you maybe just speak to the drivers there and in particularly in markets where COVID is no longer a major issue, have you seen any particular declines or maybe just slow down in e-commerce demand or decline in growth. It seems like they're going in different directions, in Europe, for instance, it seems like the, a lot of these markets are still very much under lockdown yet your international business has grown pretty significant, I don't know if there is positive or negative correlation? Thanks.

A - Brian Olsavsky {BIO 18872363 <GO>}

Yeah, thanks Youssef. Yeah, I would say we're seeing strength pretty much across the board in international and it does vary by country, but if you just step back a minute and then even on an FX-neutral basis, we grew 50% in the quarter, we grew 50% last quarter, although that's aided by the fact that Prime Day was in Q4 this year. But if you look at the growth rate prior-COVID and post -COVID in the International segment on an effect -- even on an FX-neutral basis has been tripling their prior growth rate in revenue anyway.

So very strong and probably advancement of model in a lot of countries by a year or more. And we're really pleased that we've been able to show our value to those customers not only with our shipments and our ability to deliver and get them what they need to survive in homes in place during the pandemic, but also the strength that we've seen in the digital offering and the adoption of video music or devices. So it's really and we are forward investing as you know in international with a lot of those Prime benefits.

So it's really, it's good to see as the underlying consumer shipping business part of it grows that we're still seeing healthy engagement and growing engagement. So I don't have a downside case yet in fact, surprised a bit by the growth. I don't think we would normally would have forecasted 50% growth in Q1 and certainly stressing our operations, but I would -- my hats off to the operations team, they handled the volumes in Q1 very efficiently, costs were very much under control and we started to see strong leverage of our fixed assets, especially our fulfillment center and transportation assets.

A - Dave Fildes {BIO 20638976 <GO>}

And this is Dave and just, these are big contributors by any means to the growth numbers Brian was talking about. But I think along with those efforts and countries we've been in for some period of time. We're continuing to open up new regions if you look back, Poland recently opened up in March, Sweden opened up in the fourth quarter of last year and even in some regions that we've been in for few years, places like Turkey we launched Prime in the back half of last year. So there's a lot of good effort and in fact going into by the teams to continue, kind of taking what we're learning in each of these geographies and feeding it back into a local presence to take advantage of everything we've learned with Prime and the broader consumer facing experience.

Operator

Your next question comes from the line of Ed Yruma with KeyBanc Capital Markets. Please proceed with your question.

Q - Ed Yruma {BIO 4940857 <GO>}

Hey, good afternoon. Thanks for taking the question. You guys clearly took some market share with delivery grocery during the pandemic, kind of what the consumer behavior has been post, is it proving to be sticky and just kind zooming out, talking about grocery broadly, how the fresh stores performed? Thank you.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure. Grocery has been great revelation during the post pandemic period here. I think people really value the ability to get home delivery and we've seen those numbers go up considerably pre and post-pandemic. So, but we've also worked very hard to increase our capacity during that time period. In United States we're delivering out of all of our Whole Foods stores and we've engaged, there will be lot to pick up, a greater expansion of pickup at Whole Foods stores, Amazon Fresh became free Prime benefit as you know in the late part of 2019 and customers really adopted it and continue to see strong growth. So I think on the Fresh stores, it's a little too early the stores themselves. We are confident that that Just Walk Out technology that will be benefit to customers and we're very excited about what's in the works, but that's still kind of really early in day one.

A - Dave Fildes {BIO 20638976 <GO>}

Yeah, it's -- if we've got and this is Dave. We've got about 12 fresh stores right now that are open, we've confirmed. We've got some additional ones coming in Southern California and Illinois, New Jersey and then here with us in the Seattle area. So as Brian said really pleased with the start, the technology and the feedback from the customer so far.

Operator

Your next question comes from the line of John Blackledge with Cowen. Please proceed with your question.

Q - John Blackledge {BIO 7387802 <GO>}

Great, thanks. Two questions. The 2Q revenue guide range was strong despite the initial pandemic comps. Could you just discuss demand levels you're seeing on the e-commerce side and just other kind of key drivers of strong expected revenue growth in the second quarter. And then on the advertising business, if you can just talk about some of the key drivers of the acceleration, I think it feels like it's that maybe a third quarter in a row of acceleration. So, what's kind of driving that and how should we think about the trajectory for the business as we around through the year. Thank you.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure, John. Thanks. Let me start with your second question on advertising. So, certainly traffic has been a large driver of what we're seeing in the advertising space, but it discount kind of the improvement, we're also seeing in relevancy and new products that team is been rolling out that the customers also enjoy. So yeah, I think the advertising has done a great job of turning clicks into productive sales and the advertising that results is valuable to us as well.

We were using new deep learning models to show more relevant sponsored products. We continue to improve the relevancy of the ads being shown on the product detail pages and we've seen rapid adoption of the video creative format for sponsored brands, among other things. So you're seeing a little bit more than just traffic. And again very pleased with the performance of that team and of the receptiveness of our customers or vendors are authors and sellers to our advertising products. We think it's also very valuable for consumers as well in helping them find things more easily and discover new brands. On Q2 guidance, yes, I would say we are projecting again continued strength across all of our segments we -- I will remind you that Prime Day has been scheduled for later in Q2 and we'll have more on that as the quarter unfolds. So that's a consideration as well.

Q - John Blackledge {BIO 7387802 <GO>}

Great.

Operator

Your next question comes from the line of Doug Anmuth with JP Morgan. Please proceed with your question.

Q - Doug Anmuth

Great. Thanks for taking the questions. Just want to follow-up there on Prime Day, Brian. Can you help us at all just in terms of quantifying or just how you're thinking about the contribution within that 2Q guidance. And then also just on the rationale for timing given historically in 3Q and look to 4Q last year and then now in 2Q. And then may be you could also just talk about the first and Thursday night football deal strategy there, how that drives engagement and strengthens the ecosystem and also what it means for ad dollars for you. Thanks.

A - Brian Olsavsky {BIO 18872363 <GO>}

First on Prime Day, the -- we're not quantifying the size of it. I think there's some pretty good estimates out there that you probably can leverage, but other than to say it's contemplated in this guidance. On the timing last year, we had intended to hold Prime Day earlier. We -- there are a number of factors, the Olympics, which are still out there this year factored in some many areas, July is a big vacation month. So it might be better to have for customers sellers and vendors to experiment with a different time period, we experimented the other way obviously in 2020 by moving it into October, but we believe that it might be better timing later in Q2. So that's what we are testing this year.

On Thursday night Football, I would say just I'm not sure I could size the advertising opportunity right now, but we're very excited to have the exclusive content for Thursday night Football, of course we broadcast Thursday Night Football for a number of years now, shared that responsibly with a lot of other partners. We think we can do some really new and innovative things with that -- with those games with the NFL and we're looking forward to kicking that off in earnest.

Operator

Your next question comes from the line of Justin Post with Bank of America. Please proceed with your question.

Q - Justin Post {BIO 3469195 <GO>}

Great. Thank you. Two questions, first on the AWS acceleration was that at all related to transaction volumes coming back. There may be more cyclical sectors and could 2Q see even more of that? And then secondly, I think in your release you talked about 175 million Prime members watching video, it's about seven of eight users. So just wondering what you see is the effect on your retail business from that? Any updates you can provide on content spending and how you think about Prime Video as a driver for overall Amazon? Thank you.

A - Brian Olsavsky {BIO 18872363 <GO>}

I'm concerned about that Dog, are you being chased by or is that your dog? Maybe dropped off. So let me start on the AWS acceleration. We wouldn't point to any particular customer group, we are seeing great usage and expansion across a number of industries and number of types of customers from start-ups all the way to enterprises. To put it a little bit in perspective for you in Q1 of 2019, we were at $31 billion run rate, by last year we increased that to $41 billion revenue run rate, which is a 32% increase. This year we're up to $54 billion annualized run rate, which is while also a 32% year-over-year growth, that $13 billion of revenue in the last 12 months as opposed to 10 prior $10 billion in the prior 12 months before that.

So the percentages can be little deceiving, I would encourage you to look at the absolute dollar growth, although both were very strong this quarter. So we are seeing again strength across the board. We have -- from confidence that we offer a lot of advantages to AWS customers, from functionality to a vibrant and robust partner ecosystem. And then really we also have less downtime and better security, which I think is super important to all of our customers especially security nowadays. So that's an AWS on -- Dave, why don't you pickup there?

A - Dave Fildes {BIO 20638976 <GO>}

Just in terms of strategy, I think there is probably nothing new or surprising, but just to reiterate it, we look at Prime Video as a component of the broader Prime membership and making sure it's driving adoption and retention as it is, it's a significant acquisition channel in Prime countries. And we look at it and see that members who watch video have higher free trial conversion rates, higher renewal rates, higher overall engagement and there's great examples of places like Brazil where you launch a video only subscription for example that preceded the broader Prime membership with shipping components and that was -- that's an example, a great way to expose people to Amazon and as we launched a broader Prime in Brazil, it was a great mechanism to get folks into that program.

So lot of kind of different experiences there, but as the as just quote would indicate, lot more people are continuing to enjoy it and I think you know that the studios team has done a great job really striving to be the best home for talent, getting a lot of diverse artists and filmmakers and I think folks are noticing that both critically, but of course, just in terms of viewership, a lot of good momentum there. Just in terms of spend, we have to say we continue to expect to grow that on an absolute basis and invest in that beyond original content, Brian talked about live sports and a lot of the great opportunities to feed into that too. So a lot of continued excitement there.

Operator

Our final question comes from Brian Nowak with Morgan Stanley. Please proceed with your question.

Q - Brian Nowak {BIO 16819013 <GO>}

Thanks for taking my questions. I have two. Brian, I wanted to ask you one high level one, you guys have done such a great job building out your network and sort of providing consumers with access so many categories of goods, give us a couple of examples of areas where you see room for improvement or what areas are you most focused on when you look across all the categories, delivery experience the countries to invest in and innovate to really improve the consumer offering. That's one. And then secondly, can you just talk to us about sort of what you've learned about the Echo journey, areas we've had success and still existing opportunities for Echo to have a larger installed base and just more of an impact on the ecosystem. Thanks.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure. Thanks, Brian for your questions. There is always a lot of areas we're working to improve upon. I think generally the speed of innovation is very quick at Amazon, but we always wanted to be quicker and we always wanted to be globally consistent and we want to take the best practices from one country to make sure we're doing at the same way everywhere. I think currently on our list right now is that we are in the process of re -- getting our one day shipment percentages back up to where they were pre-pandemic, where they are in Europe and we're starting to see in Europe not only strong one day, but also more broad same day selection, tend to go hand-in-hand.

In the US, we've made improvements or just consistently getting better. I would say the end delivery is really a function of everything before it and how well we can handle and process in a timely manner all the orders in North America, it's been challenged by the volumes, but it's also been challenged by the rapid expansion of space, but we're making progress nonetheless then we hope to get that even higher in 2021.

We're very excited about the adoption of our Prime Benefits pretty much across the board, especially with the digital benefits. We are looking forward to some new content, even though we're very happy with the performance, the studios business and the content awards that they were not made for and we're able to garner this year with some big things on the horizon, including Lord of the Rings and we're very excited about getting that type of content to our Prime members quicker.

A - Dave Fildes {BIO 20638976 <GO>}

Yeah, Brian and then just on your question on kind of Echo and if I could take it up a level really broadly Alexa and devices. Our goal with that has been and continues to be to make customers life easier and really more convenient. And we want to continue to bring more hardware choices in that case, but also make Alexa smarter with new features as we talked about before advances in AI, machine learning and really deliver tools that help developers and the makers of those devices build for and with Alexa because in that community it's not just our Echo devices, but also a variety of third-party device manufacturers.

We've seen a lot of momentum with smart home capabilities and working with them. And so I think with us is with so many other areas, it's about making sure we're maintaining a really high bar and a lot of that with that type of technology is speech recognition capabilities, the intelligence behind it and getting smarter and some of that comes responsibly, the customers have higher and higher expectations for the capabilities something like Alexa and that's great. I mean, I think if we just look back over the last 12 months and what's been going on the role that customer usage has played with Alexa and the behavior there, you've seen as people have been isolated or unable to use mobile, you see customers are using Alexa to help them stay connected with loved ones, we're seeing customers using Alexa to help stay healthy, so whether that's interacting with health-related tips or fitness apps or increased usage with the Fire TV and they're looking to Alexa for information.

And so using our devices and the services and the Alexa enabled services for things like educational apps. And then of course part of that too is making sure they stay entertained when they're trapped or cooped up and don't have other access. So I think you can just see in that example a lot of really good utility and just I think encourages our teams to strive these in harder to serve customers when you see those types of examples and how they resonate with customers.

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