Q2 2022 Earnings Call

Company Participants

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

Other Participants

- Brian Nowak, Analyst
- Douglas Anmuth, Analyst
- Eric Sheridan, Analyst
- Jason Helfstein, Analyst
- Stephen Ju, Analyst
- Youssef Squali, Analyst

Presentation

Operator

Thank you for standing by. Good day, everyone, and welcome to the Amazon.com Q2 2022 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 the Director of Investor Relations, Dave Fildes. Please go ahead.

Dave Fildes {BIO 20638976 <GO>}

Hello, and welcome to our Q2 2022 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 2021.

Our comments and responses to your questions reflect management's views as of today, July 28, 2022 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 uncertainty regarding the impacts of the COVID-19 pandemic, fluctuations in foreign exchange rates, changes in global economic conditions and customer demand and spending, inflation, regional labor market and global supply chain constraints, 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 impacts of the COVID-19 pandemic on our operations, including those discussed in our filings with the SEC.

Our guidance also assumes among other things that we don't conclude any additional business acquisitions 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 Olsavsky {BIO 18872363 <GO>}

Thanks for joining today's call. Before we get the questions, I'll make some comments about our Q2 performance and the outlook for Q3. Let's start with Q2, during the quarter we saw improvement in many of our key operational metrics, including in-stock levels and delivery speed, and saw a subsequent step-up in consumer demand. For the quarter, worldwide net sales of $121.2 billion exceeded the top end of our revenue guidance range and represented an increase of 10% year-over-year, excluding approximately 320 basis points of unfavorable impact from changes in foreign exchange rates. This is a larger foreign exchange headwind than the 200 basis point impact we had incorporated into our Q2 guidance.

As a reminder, our revenue growth accelerated to over 40% growth from the period between May 2020 and May 2021. While demand has remained strong, the lapping of this high growth period depressed our revenue growth rate for the following 12 months ending in May of this year. Our growth rates going forward will no longer require this historical explanation. Q2 of last year was also when vaccines become more available, particularly in the United States. And we began to see more normal shopping patterns.

Prime Day also occurred in Q2 last year and contributed about 400 basis points to our Q2 2021 year-over-year revenue growth rate. This year's Prime Day sales event occurred on July 12 and 13 and is incorporated into our third quarter guidance. As the impacts of the last two years are normalizing, we're happy with how we serve customers and how they responded. Our compound annual growth since the start of the pandemic stands at 25%, a growth rate higher than what we were seeing prior to the pandemic.

Prime members have meaningfully increased their spend since the start of the pandemic. Over that period we've seen stronger usage of Prime benefits by Prime members and a greater reliance on Amazon for their shopping and entertainment. We continue to improve the customer experience in Q2 including quarter-over-quarter improvements in delivery speed and inventory and stock levels. We've also moved quickly to adjust our staffing levels and improve the efficiency of our significantly expanded operations network. We have slowed our 2022 and 2023 operations expansion plans to better align with expected customer demand. While there's still work to be done, we've made good progress in Q2.

Our Prime membership program remains a key driver of our worldwide stores business, and we continue innovating to make the membership even more useful and valuable. That includes the upcoming premiere of The Lord of the Rings: The Rings of Power on September 2, an exclusive access to NFL Thursday Night Football games starting September 15th. Our seller community also had a strong Q2. Third-party sellers represented 57% of all units sold on Amazon in Q2, the highest percentage ever.

Selling partners help to expand the selection we can offer customers, a fulfillment by Amazon provide sellers the ability to offer fast delivery. Operating income was $3.3 billion in the quarter above the top end of our guidance range. Last quarter, I discussed several cost pressures facing our worldwide stores business, inflationary costs, fulfillment network productivity and fixed cost deleverage because it is amounted to approximately $6 billion of incremental costs in Q1 when compared to Q1 2021. We made solid progress in reducing these costs. For the second quarter incremental costs were in line with our expectations at approximately $4 billion when compared to Q2 2021.

Inflationary pressures remained at elevated levels in Q2 similar to what we saw in Q1. These include pressures from higher fuel, trucking, air and ocean shipping rates which we expect will continue into Q3. We made strides to improve fulfillment network productivity in Q2. Staffing levels were more in line with rising Q2 demand and we saw better optimization of our fulfillment network. On the transportation side, we continued to improve delivery route density and improved package deliveries per hour. We're encouraged by the progress during the quarter and see opportunity to further improve in the second half of the year.

Lastly, the year-over-year negative impact of fixed cost leverage was relatively consistent with Q1. There are two main drivers, I have been talking about fixed cost leverage. First is the unfavorable comparison to very high holiday level utilization rates that we saw in the first half of 2021. And second is the normal step down in volumes of our Q4 peak that we saw in the first half of 2022. On the first point we expect this challenging year-over-year comp will have ended in Q2. On the second point, we expect fixed cost leverage to improve in the second half of the year, as we continue to grow into our capacity. We've also taken steps to slow future network capacity additions.

Let's turn to AWS. We saw another strong quarter of innovation and customer engagement in AWS, where net sales were $19.7 billion in Q2, up 33% year-over-year, and now represent an annualized sales run rate of nearly $79 billion. AWS continues to grow at a fast pace and we believe we're still in the early stages of enterprise and public sector adoption of the cloud. We see great opportunity to continue to make investments on behalf of AWS customers. We continue to invest thoughtfully in new infrastructure to meet capacity needs while expanding AWS to new regions, developing new services and iterating quickly to enhance existing services. Developers at organizations of all sizes from governments and not for profits to startups and enterprises, continue to choose Amazon Web Services.

Companies like Delta Airlines, Riot Games, British Telecom and Jefferies Investment Bank to name a few announced new agreements and service launches supported by AWS. AWS operating income was $5.7 billion in Q2. As a reminder, this includes a portion of our seasonal Q2 step-up in stock-based compensation expense. AWS results include a greater mix of these costs, reflecting wage inflation and high demand areas including engineers and other tech workers, as well as increasing technology infrastructure investment to support long-term growth.

Now let's talk about capital investments. As usual we will discuss the combination of CapEx plus equipment finance leases. In 2021, we incurred approximately $60 billion in capital investments, about 40% of that is comprised of technology infrastructure, primarily supporting AWS as well as our worldwide stores business. Another 30% of the $60 billion was fulfillment capacity and a little less than 25% was for transportation, the remaining 5% was comprised of things like corporate space and physical stores.

For full year 2022, we do expect to spend slightly more on capital investments the same last year. But the proportion of capital spending shifts among our businesses. We expect technology infrastructure spend to grow year-over-year primarily to support the rapid growth in innovation we're seeing with AWS. We expect infrastructure to represent a bit more than half of our total capital investments in 2022. For the worldwide stores business we've continued to moderate or build expectations to better align with customer demand. We expect the so many transportation dollars spent on capital projects to be lower in 2022 versus the prior year.

Finally, I'd highlight a few additional items. We reported an overall net loss of $2 billion in the second quarter while we primarily focus our comments on operating income. I'd point out that this net loss includes a pre-tax valuation loss of $3.9 billion which is included in non-operating expense, from our common stock investment in Rivian Automotive. In the U.S., we have started making customer deliveries using the Rivian electric delivery vehicles. This rollout is the start of what we expect to be thousands of EDVs in more than 100 cities by the end of the year. And 100,000 vehicles across the U.S. by the year 2030. Additionally, note that all of our share and per share information included in our financial materials has been retroactively adjusted to reflect the 20-for-1 stock split which was effective on May 27th.

We also provided our third-quarter financial guidance as part of our earnings release. Again a reminder that this year our Prime Day sales event occurred on July 12 and 13th and is incorporated into our third quarter guidance. Prime Day occurred in Q2 in 2021. For revenue note that our guidance includes an estimated approximately 390 basis points of unfavorable impact from year-over-year change in foreign exchange rates. The estimated FX impact to operating income is not significant.

Our third quarter operating income guidance range is $0 to $3.5 billion. This compares to Q2 operating income of $3.3 billion. This third quarter guidance assumes we see approximately $1.5 billion in quarter-over-quarter sequential cost improvement in our fulfillment network operations, which we expect will be largely offset by investments in AWS and additional digital content for Prime members. For AWS this quarter-over-quarter increases are primarily driven by higher infrastructure investments to support continued strong customer growth, including larger depreciation on the growing fixed asset base. We also expect increased energy costs as we continue to see volatility and utility prices around the world in operating our AWS data centers. Quarter-over-quarter increase in digital content primarily relates to new Prime Video content in Q3, including Thursday Night Football and The Lord of the Rings: The Rings of Power.

Thank you. And now, let's move on to your questions.

Questions And Answers

Operator

At this time, we'll now open the call up for questions. (Operator Instructions) Our first 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. The first one, Brian, I wanted to talk a little bit about the bridge from 2Q, 3Q EBIT guide a little bit. It sounds like you have revenue up nicely, you talked about the efficiencies of the $1.5 billion quarter-over-quarter, some of the incremental investments in content, et cetera. Where are there other areas where you sort of investing more to grow? And is any of that associated with merchant based margin or step-ups in discounting? That would be the first one. Then the second one is kind of going back to your comment about you slowed '22 and '23 operations expansion plans. How should we think about the fulfillment and transportation CapEx sort of looking into the fourth quarter into next year, how far ahead of this build have you gone through for the last call it nine months? Thanks.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure. Thanks, Brian. Let me start with your second question. So in any particular year when we're spending capital, a good portion of it -- we estimate about 40% this year is being spent in support of warehouses or our transportation capacity that will be opening up and effective in 2023 and beyond. So there is always a pre-spend to keep the -- again the pipeline moving. So when we make adjustments to the time horizon, the impact is not as great as you might expect in the year 2022 book. Again, we have moved things out and capital is coming down in those areas as we just mentioned. Would just have to keep you posted as we go, quarter-to-quarter on what our expectations are.

On the bridge to Q2 to Q3, so again, you have the mentioned three items, ups improvement that we see of $1.5 billion and offsetting that is increased costs in AWS as we build out depreciation. We also are adding -- continuing to add people in that space, product engineers, salespeople, customer support. Speaking more broadly, we know AWS is a huge opportunity, it's early days in the adoption curve for companies and governments and we invest with that -- with that confidence in mind. And customers have responded and we're going to keep investing there. And your comment on discounting, we're not seeing some of the pressures that other people are seeing right now or macroeconomic issues are principally on inflation. And we pretty transparent on that, I think the new thing this quarter is additional pressure on energy, electricity rates in our data centers, because of the ramp up in natural gas prices, if you've seen that. So that's probably the new information and then the other inflationary factors will some of them are coming down slightly, there is still significantly a penalty year-over-year. Other cost pressures are principally on our caution employees, if you look at our stock-based comp as a percent of revenue, it's gone up 150 basis points quarter-over-quarter as we stepped up from Q1 to Q2. We see that pattern every year -- when I see that magnitude, and that's where a lot of our wage inflation is for particular technical employees. So there is certain amount of conservatism always built into this, because we are in a very difficult macroeconomic state potentially, against not -- we're not seeing it hit our businesses directly. In fact, we're seeing strong growth in sales through the quarter in Q2, but were cognizant that things could change quickly and we'll see and monitor and that's how we set our forward guidance.

Operator

Our next question comes from Doug Anmuth with J.P. Morgan. Please proceed with your question.

Q - Douglas Anmuth {BIO 5591566 <GO>}

Thanks for taking the questions. Brian, I want to ask about AWS. Some of your peers in the cloud space have talked about some slowdown in booking rates just as customers take longer to work through deal terms and duration. So if you could comment on whether AWS has seeing similar dynamics? And then also when you think about margins, the 35% for AWS in 1Q going to 29% in 2Q. What are some of the puts and takes that we should think about going forward? Just given decreasing server life benefits and tougher macro environment? Thanks.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure, Doug, I'll start with second question. So on margins in AWS, yes, as you mentioned, that is dropping sequentially, the margin rate is going to fluctuate in this business, is going to be always factor of new investment and things like the salesforce and new regions and infrastructure capacity, offset by infrastructure, efficiency gains that we see pricing issues as we extend contracts. We're seeing really good progress with our customer base, longer and longer commitments, really committing to the cloud. Some of that comes with credits to help them make the conversion to the cloud. And you said that, the revenue pattern can be in the margin on that revenue can fluctuate quite a bit quarter-to-quarter. But see a lot of strength in the business right now, we're very happy with the growth rate, happy with the adoption of the cloud as you had a potential rough patch in the economy. I think the last time we saw this was back in 2008-ish. And you know, we start to draw lessons from that, but we did notice that, it did help our cloud business at the time because again when you're trying to launch a new product or service and you have to face with building your own data center and getting capital for a data center and building yourself or moving to the cloud and essentially buying incremental infrastructure capacity. The cloud computing, really shows its value. So we're prepared just like when the slowdown in 2020, we are prepared to help customers optimize their costs and will help them any door scaling down. But we'll also again continue to sign new customers in new industries, including government agencies and happy with that. And if you look at again where our investment been over a last few years in the growth of our sales force and our sales support, it certainly it is showing benefits and we expect that to continue. On your -- sorry, your other question was -- is that...

Q - Douglas Anmuth {BIO 5591566 <GO>}

Just about current trends in terms of current booking (Multiple Speakers).

A - Brian Olsavsky {BIO 18872363 <GO>}

Got it. I blend it into one answer (Multiple Speakers) Yeah, hopefully that covered what you're asking, Doug.

Q - Douglas Anmuth {BIO 5591566 <GO>}

You bet.

A - Dave Fildes {BIO 20638976 <GO>}

Yeah. And Doug, just to, adding just to pile on to that too, I mean, just the longer-term vision that Brian talked about here, we're right now with 84 availability zones, so that's 26 geographic regions, and we've got plans for the launch of 24 more of those availability zones across eight regions and this is Australia, Canada, India, Israel, New Zealand, Spain, Switzerland and UAE. So a lot of different spots and so continuing to focus on building out building out the customers working on that pipeline and building longer commitments. Finally, customers are making longer commitments is really important to that. And just to that point, I know the backlog figure that we've discussed in the past and disclosed on a quarterly basis in our filings, it's up 65% year-over-year or about 13% quarter-over-quarter and the weighted average remaining life of those long-term commitments that we're talking about here continues to grow. So it's at about 3.9 years on a weighted average remaining life basis. So again, good, lot of good work, lot of still good opportunity out there to come in. And as Brian talked about we're working hard to many manifest and invest and had to make sure we're in good position to serve folks.

Operator

Our next question comes from Eric Sheridan with Goldman Sachs. Please proceed with your question.

Q - Eric Sheridan {BIO 22465717 <GO>}

Thanks for taking the questions and maybe two-parter on the advertising business where you saw continued strength. Is there any way to give us an update of how much of the advertising services line at this point is driven by North America e-commerce versus international e-commerce? And how you think about the relative growth rates and advertising going forward between North America and International?

And the second part would be away from the e-commerce driven parts of the advertising, how are you feeling about the positioning in the investments you need to make around things like Connected TV and programmatic advertising were from the outside and it looks like you're continuing to make greater levels of investment in increasing your exposure to a wider array of advertising products? Thanks.

A - Brian Olsavsky {BIO 18872363 <GO>}

Great. Hi Eric. Thanks for your questions. I would say on the geographic split, we haven't broken that out. The majority of advertising revenue was in North America. But having said that, we are making great strides in international as well. And we're also, as you mentioned expanding our array of advertising products from our consumer websites to video opportunities, Twitch and others. Dave, did you want to take the second part of that?

A - Dave Fildes {BIO 20638976 <GO>}

Yeah, I think it was -- Eric, because your question around kind of interactive work. I mean, we've got one of our main priorities is building relevant and engaging ad experiences. And so -- of course introduced interactive ads last year for streaming video content, things like Freevee, we've got Amazon Music that had supported tier as well for audio ads. So looking for opportunities, like that where customers can more easily engage with brands while streaming content. So I think there is a lot of good opportunity for that, but it's great video advertising as you mentioned, it's still early in that space. It's increasingly becoming mainstream and viewing behaviors really shifted away from some of the more traditional cable or kind of traditional viewing and advertisers are using our ad supported content to reach those viewers. So things that are ongoing, we've talked about, around Freevee, around Twitch and then of course some things we're obviously excited about it. But there is been a football in Amazon streaming TV ads, capabilities that we're going to continue to work with these partners and work with our own kind of technology capabilities to keep building out.

A - Brian Olsavsky {BIO 18872363 <GO>}

And, Eric, just to add a little more on advertising, because you're probably wondering again about softness -- potential for softness in that or macroeconomic factors. Right now we still see strong advertising growth, again it's got to be a positive both for the customer and for the brand. I think our advantage is that we have highly efficient advertising, people are advertising at the point where customers have their credit cards out and are ready to make a purchase. It's also very measurable and when people are looking -- your companies are looking to potentially streamline or optimize their advertising spend, we think our products compete very well in that regard. In addition to maybe longer-term things like brand building and brings new selection to bear in front of customers.

Operator

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

Q - Jason Helfstein {BIO 2527987 <GO>}

Thanks. If I'm going to ask two -- so you called out just the 3P mix being a kind of highest level. Maybe talk about your focus to increase the mix to 3P and how that fits into plan for an improved efficiency? And then secondly on international, how much of the weakness in the margin sequentially was FX driven? Thank you.

A - Brian Olsavsky {BIO 18872363 <GO>}

Let me start your first one, so challenge the (inaudible) a little bit there about incenting mix, I believe that, this is how I interpret your question. We are relatively indifferent as to whether some customer buys a third-party or first party product from us. What we're all about obviously as price selection and convenience and 3P particularly helps us with selection. And when as part of FBA can also help as being more Prime eligible and available to ship in one-two days or whatever the Prime offer happens to be, so we're happy with the selection that we've added from third-party sellers, and I think that shows in the percentage mix that you see.

We're proud of the investment we've made to build tools and products that allow sellers to be successful on our site, and it's a great partnership and it's worked really well. Sellers and vendors are also some of our larger advertising customers as well and helps that advertising helps them surface new selection to our customer base. So it's a very strong partnership and it's been getting stronger, and I think you'll see also that they had a very big part in our Prime Day earlier this month.

A - Dave Fildes {BIO 20638976 <GO>}

Jason, on your second question related to the international and the profitability there reported there is a foreign exchange exposure there on the -- that segment with the operating income, that is included in there, about $231 million as unfavorable impact to that segment, included in that $1.7 billion loss for the quarter. Just looking, broadly speaking, what's going on with that business and the losses that we're seeing there in the investments, I think it's important to remember, it's early in many of our international countries, particularly in some of our emerging or more recent launch countries places like India, Brazil, the Middle East and there are others as well of course. But where we've been operating and maybe the cases considerably shorter than the tenure we've had in the U.S.

In our established international locations, UK, Germany, Japan, over time we've continued to improve the profitability of that business as we build out and establish stronger customer relationships, work on the cost structure and how we serve folks. A lot of that of course is driving improvements through our key pillars with price selection and convenience and working with vendors on commercial terms. In our emerging locations there is healthy amount of investment we've done to drive expansion and we expect to continue to do that, given the strong competition across many of these markets and that's investments in Prime Video, not just in some of the flagship shows that are kind of sourced here in the U.S., but also you've seen us continue to push for opportunities for in-country and local language video content that resonates with customers and can be a meaningful reason people sign-up for the Prime program, engage and renew.

So we're also investing, depending on the regions in kind of the local infrastructure for lack of (inaudible) and from where this, building our payment methods, third-party transportation services, even in some cases the Internet and the telecom infrastructure. So we're playing a role along with others, not just us investing in ways to create and enable that infrastructure yet to be successful. So, and those are some of the opportunities and challenges that as you think about kind of where we are in the U.S. versus international, that are out there. The network complexity is, of course, there are some regulatory hurdles and other differences out there. But we think it's important to continue to invest in those opportunities and learn from what we're -- but not just in what we've done in the history with the U.S., but also in many of these countries and keep that flywheel spinning and continue to serve customers in more efficient ways.

Operator

Our next question comes from Youssef Squali with Truist Securities. Please proceed with your question.

Q - Youssef Squali {BIO 1506420 <GO>}

Great. Thank you. I have two questions. One, can you discuss the impact, the price action you took on Prime on merchant fees, et cetera, head on retention during the quarter. And do you feel that that's enough to offset the inflationary pressures we're seeing to date? And then on (inaudible) Prime, I know it's early, but how do you see the rollout of this initiative from being by invitation-only today to home merchants using FBA to Amazon merchants, et cetera. And just kind of the implications on broader implications on the business from that initiative. Thank you.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure. Thank you, Youssef. So first on the -- let's take them one at a time. So on the Prime fee increase earlier in the year, we're happy with the results we're seeing in the Prime program, Prime membership and retention is still strong. I think that change has been above our expectations positively. And I think the benefit of the program continues to get better and better. And as I mentioned Instox [ph] is never going hire, delivery speed is increasing. So, not to mention, a lot of the new content especially on the video side that would be coming in the fall. So we feel good about the program and the state of the Prime members after a very rough couple of years of pandemic turmoil. And we think it's a good base to build upon. So on the seller fee again we added that fee grudgingly in May, just compensate for some of the inflationary pressures we're seeing.

I don't want to give you the idea that either of those fee increases came close to covering our costs. You can see from our operating results, some of its internal related, a lot of its external factors that there -- we are not passing through that at 100% to external groups. And it's -- we've got to work our way out of this -- out of the condition we're in and we're making good progress in Q2 and expect to keep pressing on that in the second half of the year. But saw strength in the seller results in Q2, as we mentioned on the percentage mix. So I think sellers are solid, business remains strong and an integral part of our customer offering.

A - Dave Fildes {BIO 20638976 <GO>}

Youssef, this is Dave. On your Prime question, yeah, I mean it's right now it's allowing U.S. based Prime members to shop directly from merchants on the online stores. And it's with the experience they expect and kind of come to expect with Amazon, that's fast and free delivery, that seamless checkout and free returns on orders that are eligible. It is right now the program is available as you mentioned invitation-only for merchants that already using FBA and it will expand throughout this year. As you know, will extend more merchants to invite participate in the program.

I think it's -- we're interested in learning and working with FBA sellers that we've known and had good trust with, but also expanding. And I think as you think about it, merchants, they obviously have a lot of choices on where they're going to sell products. And we have a long history of empowering and helping merchants. We have invested a lot in tools and capabilities and of course the delivery capabilities and all the things that go along with that. But that's an opportunity for us to support merchants who may or may not be FBA sellers with the tools and the opportunity just to sell their products online and scale their business and build their brand. And so really excited about, of course, getting to be able to launch this program over the last few months and dialing it up for more sellers as the year progresses.

Operator

Our final question comes from Stephen Ju with Credit Suisse. Please proceed with your question.

Q - Stephen Ju {BIO 6658298 <GO>}

Okay. Thank you. So, Brian, I think you just reported a quarter-on-quarter decline in headcount, which was by design after what happened last quarter. But it won't be too long before you're gearing up for the holidays. So how do you think the environment is going to fair for you? The adding headcount and also the stock based compensation came in below where you had guided for the second quarter. So, is this a matter of not hitting the higher end goals you were hoping for or do you think the environment for the hiring of technical and engineering talent is losing a little bit? Thanks.

A - Dave Fildes {BIO 20638976 <GO>}

Sure, Stephen. Thank you. On the headcount, yes, I think it was more as we mentioned last quarter, last year in -- excuse me, in Q1 we added to give you a flavor for -- we added 14,000 workers in Q1, prior year we had reduced our net headcount by 27,000. So we are pretty transparent about the fact that we had hired a lot of people in Q1 for the coverage of the Omicron variant, luckily that Variant subsided and we were left with a higher headcount position. We've -- that has come down through adjusting our hiring levels and normal attrition and it's pretty, it was pretty much resolved by the end of April or the early part of May. So that is dominating the quarter-over-quarter reduction in headcount. I would note that we're still up 188,000 [ph] year-over-year and nearly double the headcount of what we had heading into the pandemic in early 2020. So you're right, there will be adjustments to that as we move forward into more holiday level demand. Right now, we see a stabilization in the workforce. We see good hiring rates. And so I think with -

- remember, it was a very difficult labor period the second half of last year. And it didn't -- it arrives kind of quickly out of nowhere. So we're certainly diligent on that and making sure we have a credit workplace in an environment that will attract employees.

A - Brian Olsavsky {BIO 18872363 <GO>}

And Stephen on your -- just your question on stock-based comp, as you mentioned, we do utilize restricted stock units or RSUs as our primary mode of equity compensation. And as we always remind you, employee annual RSU grants do occur in the second quarter. And as a result, we typically see a step-up in the SBC expense from Q1 to Q2, and of course you saw it this time around, the growth in line is impacted overall also and on the step-up by continue to headcount, we've grown our workforce over the last few years. And as Brian talked about hiring a number of areas of the business, including engineers, other tech workers and there is some (inaudible) into the wage inflation, as we look to continue to hire and retain employees there. In terms of the -- coming in at the $5 -- a little over $5 billion for stock-based comp, the main driver there was primarily driven by fewer employees stock awards (inaudible) fewer and fully stock awards, we're investing in Q2 than we expected.

A - Dave Fildes {BIO 20638976 <GO>}

Thanks for joining us on the call today 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.

Operator

This concludes today's conference call. Thank you all for your participation.