Q1 2023 Earnings Call

Company Participants

- Andy Jassy, President & Chief Executive Officer
- Brian T. Olsavsky, Senior Vice President & Chief Financial Officer
- Dave Fildes, Investor Relations

Other Participants

- Brian Nowak, Analyst
- Colin Sebastian, Analyst
- Doug Anmuth, Analyst
- Eric Sheridan, Analyst
- Justin Post, Analyst

Presentation

Operator

Thank you for standing by. Good day, everyone, and welcome to the Amazon.com First Quarter 2023 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 Vice President of Investor Relations, Dave Fildes. Thank you, sir. Please go ahead.

Dave Fildes {BIO 20638976 <GO>}

Hello, and welcome to our Q1, 2023 financial results conference call. Joining us today to answer your questions is Andy Jassy, our CEO; and 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 2022. Our comments and responses to your questions reflect management's views as of today, April 27, 2023 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 maybe materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic and geopolitical conditions and customer demand and spending, including the impact of recessionary fears, inflation, interest rates, regional labor market 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.

Our guidance 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 T. Olsavsky {BIO 18872363 <GO>}

Thank you for joining today's call. As Dave mentioned earlier, I'm joined today by Andy Jassy, our CEO. Before we move on to take your questions, I'll make some comments regarding our Q1 results. Let's begin with revenue.

For the first quarter, our worldwide net sales were $127.4 billion, up 9% year-over-year, or 11% excluding approximately 210 basis points of unfavorable impact from changes in foreign exchange rates. This was above the top-end of our guidance range. Overall, we are pleased with the growth that we're seeing in worldwide stores businesses, including quarter-over-quarter revenue acceleration in the international segment, which is helped by easing macroeconomic pressures in Europe.

Across the geographies we serve, customers appreciate our focus on staying sharp on pricing, having strong selection and easier and easier convenience, including delivery speeds, which continued to improve throughout the first quarter. That said, the uncertain economic environment and ongoing inflationary pressures continue to be a factor, and we believe it's continuing to drive cautious spending across consumers. This means our customers are looking to stretch their budgets further and are focused on value. We saw some moderated spending on discretionary categories as well as shift to lower-priced items and healthy demand in everyday essentials, such as consumables and beauty. Third-party sellers, including businesses who elect to utilize fulfillment by Amazon for their storage and shipping services, are key contributor to the selection offered to customers.

We also continue to invest meaningfully in Brand Protection efforts, including industry-leading technology so that sellers can trust we will provide a great selling experience free from bad actors. Sellers comprised 59% of overall unit sales in Q1, up from 55% one year ago. We also saw strong engagement in our advertising services, with revenue up 23%

year-over-year, excluding the impact from changes in foreign exchange rates. In particular, our sponsored product and brand offerings remain a key driver of growth, as we work with advertisers to help customers make more informed purchase decisions.

Our teams remain focused on delivering performance through our comprehensive and flexible measurement capabilities, along with insights that allow advertisers the ability to measure their return on their advertising spend and help them grow their business.

In AWS, net sales were $21.4 billion in the first quarter, up 16% year-over-year and representing an annualized sales run rate of more than $85 billion. Given the ongoing economic uncertainty, customers of all sizes in all industries continue to look for cost-savings across their businesses, similar to what you've seen us doing at Amazon.

As expected, customers continue to evaluate ways to optimize their cloud spending in response to these tough economic conditions in the first quarter, and we are seeing these optimizations continue into the second quarter with April revenue growth rates about 500 basis points lower than what we saw in Q1. As a reminder, we're not trying to optimize for any one quarter or year, we're working to build customer relationships and a business that will outlast all of us. Therefore, our AWS sales and support teams continue to spend much of their time helping customers optimize their AWS spend, so they can better weather this uncertain economy. This customer orientation is built into our DNA and how we think about our customer relationships and business over the long-term.

Now, let's shift to worldwide operating income. For the first quarter, we reported $4.8 billion in operating income, above the top-end of our guidance range. This operating income was negatively impacted by an estimated employee severance charge of approximately $470 million in Q1, including $270 million related to AWS. As we finalized our annual planning process and considered the ongoing economic environment, we made the difficult decision to eliminate 9,000 roles, impacting our AWS business as well as Twitch, devices, advertising and our human resources teams.

In Q1, our year-over-year growth in stores revenue and unit sales outpaced growth in both our fulfillment expense and our outbound shipping costs. Inflationary pressures continue to ease quarter-over-quarter, primarily driven by reductions in linehaul shipping rates, as well as lower diesel fuel and electricity costs.

We also built on the progress we made throughout 2022 in improving productivity in our fulfillment network through continued process and tech improvements. We exited Q4 with a good balance of labor throughout the network and leveraged that throughout Q1 with customer demand patterns remaining more stable compared to Q1 of last year.

As labor availability has stabilized and inventories supply chain challenges have moderated, we were able to implement some significant structural changes to transition our US fulfillment network to a regionalized model. We believe these improvements put us in a good position to improve both delivery speed and our cost-to-serve customers over time.

We reported overall net income of $3.2 billion in the first quarter. While we primarily focus our comments on operating income, I'd point out that this net income includes a pre-tax valuation loss of $467 million included in non-operating expense from our common stock investment in Rivian Automotive. As we've noted in recent quarters, this activity is not related to Amazon's ongoing operations but rather to quarter-to-quarter fluctuations in Rivian stock price.

Turning to cash flows, we remain focused on building long-term sustainable growth in free cash flow, including our efforts towards a strong cash flow accretive working capital cycle. Our operating cash flow for the trailing 12 months ended March 31, increased to $54.3 billion, up 38% versus the comparable period year-over-year. Besides the cash benefit of improved profitability year-over-year, we've also seen supply chains easing up and made progress to improve our inventory purchasing and payment cycles, which in turn has a positive impact on working capital.

Now let's turn to our capital investments. We define our capital investments as the combination of CapEx plus equipment finance leases. For the full year 2023, we expect capital investments to be lower than our $59 billion investment level in 2022, primarily driven by an expected year-over-year decrease in fulfillment network investments. We're continuing to invest in infrastructure to support AWS customer needs, including investments to support large language models and generative AI.

Before we open the call up for your questions, I'll hand it over to Andy to share some high-level perspectives on the first quarter.

Andy Jassy {BIO 15111610 <GO>}

Thanks, Brian. I'll share a few thoughts before opening up for questions. From my perspective, I think there's a fair bit to like about how our teams are delivering for customers and the results we are starting to see. In our storage business, we've been very focused on reducing our cost-to-serve in our fulfillment network.

As we shared in the past, given the unexpected surge in demand during the pandemic, we doubled the size of our fulfillment center footprint and largely built the transportation network the size of UPS in a couple of years. This ended up substantially changing the number of nodes and connections in our fulfillment network, and as a result, we spent the last several months not only redesigning dozens of processes to drive better productivity but also rearchitecting our placement approach and larger fulfillment center footprint to move from a national fulfillment network in the US to a regional one. It means we have created interconnected regions in geographic areas with each of these regions having broad relevant selection to operate in a largely self-sufficient way, while still being able to ship nationally when necessary.

We just recently completed this rollout and are quite bullish on the early results. Not surprisingly, shorter travel distances means lower cost to serve and customers getting their orders faster. And while on the topic of delivery speed, we're really excited about our progress in providing customers more one day and same day deliveries, and are on-track to have our fastest Prime delivery speeds ever in 2023.

On the advertising side, we're continuing to buck wider advertising trends and deliver robust growth. I think there are a few reasons for it. First, even in difficult economies, most people still shop. And with the largest e-commerce shopping venue, we have a lot of customers that companies seek to reach. That coupled with our very substantial investment in machine learning to make sure customers see relevant ads when they're looking for various items and meant that these advertisements have performed unusually well for brands, which makes them want to advertise on Amazon.

It's also worth noting that we're still very early in our efforts to find a way to thoughtfully place ads in our broader video, live sports, audio and grocery properties. We have a lot of upside still in advertising.

In AWS, what we're seeing is enterprises continuing to be cautious in their spending in this uncertain time. Customers are looking for ways to save money, however, they can right now. They tell us that most of it is cost optimizing versus cost cutting, which is an interesting distinction because they say they are cost optimizing to reallocate those resources on new customer experiences.

One of the great attribute to the cloud is that you can scale seamlessly up or down as demand dictates, which is not the case with on-premises infrastructure. Customers want help finding ways to spend less during this challenging time, and given that it's best for customers long-term, we've been actively helping customers make these adjustments.

We've spent a fair bit of time analyzing what we're seeing and I've spent a good chunk of time myself looking as well. And we like the fundamentals of what we're seeing in AWS. The new customer pipeline looks strong. The set of ongoing migrations of workloads to AWS is strong. The product innovation and delivery is rapid and compelling. And people sometimes forget the 90 plus percent of global IT spend is still on-premises.

If you believe that equation is going to flip, which we do, it's going to move to the cloud. And having the cloud infrastructure offering with the broadest functionality by a fair bit, the best security and operational performance and the largest partner ecosystem bodes well for us moving forward. But we're not close to being done advancing in AWS.

Our recent announcement on large language models and generative AI and the chips and managed services associated with them is another recent example. And in my opinion, few folks appreciate how much new cloud business will happen over the next several years from the pending deluge in machine learning that's coming.

This past year has seen us do a fair bit of cost streamlining. As I mentioned in my recent shareholder letter, we took a deep look across the company and asked ourselves whether we have conviction about each initiatives long-term potential to drive enough revenue, operating income, free cash flow and return on invested capital. In some cases, it led us to shuttering certain businesses like our physical bookstores, Forestar Stores, Amazon Fabric Amazon Care and certain devices where we didn't see a path to meaningful returns. In other cases, we looked at some programs that weren't producing the returns we'd hoped, example is free shipping for all online grocery orders over $35 and change them.

We also made the very difficult decision to eliminate about 27,000 corporate roles. Like most leadership teams, we'll continue to evaluate what we're seeing in our business and proceed adaptively. But while we've taken several actions to streamline our costs, we've been able to do so while still pursuing the key strategic long-term investments that we believe can meaningfully make customers lives better and potentially change what Amazon is.

These are investments both in our larger business, as mentioned earlier, as well as in areas like international expansion in our stores business, large retail market segments in which we're still nascent like grocery and business-to-business, allowing consumers to use Prime off of Amazon and our Buy with Prime program, entertainment devices, health care and our Low Earth Orbit Satellite for the hundreds of millions of households, companies and government entities that have limited to no connectivity.

It's hard to predict that all of these will be successful, but only one or two working would change our business over the long-term. We have a lot of work in front of us, but I like the direction we're headed and strongly believe our best days are in front of us.

And with that, I'll open it up for questions.

Questions And Answers

Operator

Thank you. At this time, we will now open the call for questions. (Operator Instructions) Our first question comes from the line of Doug Anmuth with JPMorgan. Please proceed with your question.

Q - Doug Anmuth

Thanks so much for taking the questions. Andy, you talked about the continued optimization. Just curious, can you talk about the degree to which optimization has been done in AWS versus what you think could still lie ahead and when do you start to lap some of those efforts?

And then also on the CapEx side. I think you said overall CapEx would be down in '23. Can you just help us understand that a little bit better between retail and AWS? And then what's required on CapEx from generative AI and large language model perspective? Thanks.

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

Hi, this is Brian. I'll take the first -- second part of that question first. On CapEx, we spent $59 million -- billion, excuse me, last year. And we, on our core fulfillment and transportation areas, we actually are spending less year-over-year and those estimates are going down. The gap or the increases in AWS and infrastructure. And we are adding more dollars to the -- for the large language models and generative AI. So we're creating some space in our fulfillment and transportation number that I think repurposed over to AWS. We still think that combined common -- combined CapEx will be lower year-over-year.

A - Andy Jassy {BIO 15111610 <GO>}

Just on your first question, Doug, it's hard to say exactly where we are in the process. I think that what we continue to see when we talk with customers is that they are appropriately cautious about what they're seeing in the economy. They're trying to find ways to save money, as most companies are including our own.

And we have a long track-record, which we continue to pursue, which I think makes sense for customers and for our business long-term that we're not trying to optimize for a quarter or for a year, we're going to do whatever it takes to help customers be successful over a long period of time because we're trying to build relationships in a business that outlast all of us. And so we're spending a lot of time with customers, trying to help them think of smart ways not short-term ways, but smart ways to optimize their costs and to be able to scale up and down.

And again, one of the big advantages of the cloud is that if you grow quickly you can seamlessly scale up. But when we you have the demand you can give it back to us and stop paying for it. And that is not true with what you see on-premises. And so we're trying to work hard to help customers with that.

I think it's important to remember that customers are pretty explicitly telling us that this is not a cost-cutting effort where we intend on spending less money on technology or on the cloud. This is our reprioritizing what matters most to our business at this time and trying to reallocate resource, so we can build new customer experience of the change what's possible.

And so, I think if you think about -- those projects by the way, take time to build. When you're reallocating, you're reprioritizing, you're redefining what you're going to build, you got to actually go build it before you can implement it. And we're working pretty carefully and closely with customers on those initiatives. I think it's important to remember that there's still so much growth ahead of the cloud, 90 plus percent of the global IT spend is on-premises. And so, if you believe that equation is going to flip, it's mostly moving to the cloud.

And I also think that there are a lot of folks that don't realize the amount of non-consumption right now that's going to happen and be spent in the cloud with the advent of large language models and generative AI. I think, so many customer experiences are going to be reinvented and invented that haven't existed before. And that's all going to be spent in my opinion, on the cloud.

Operator

And our next question comes from the line of Eric Sheridan with Goldman Sachs. Please proceed with your question.

Q - Eric Sheridan {BIO 22465717 <GO>}

Thanks so much for taking the questions. Andy, you've talked a lot in the letter -- the shareholder letter on the last earnings call about driving greater levels of efficiencies in the company and also, possibly, returning to some of the margin structures we saw pre-pandemic and absorbing overcapacity that built up during the pandemic.

Can you give us an update on where you think you are in those broad efforts to match margins versus pre-pandemic levels and strike the right balance between profitability and driving your growth initiatives over the next couple of years? Thanks so much.

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

Eric, this is Brian. Let me start on the financial part of that question. So, I think, we would describe ourselves as like along on the journey and making solid progress on recovering our cost structure and getting it back to pre-pandemic levels. Andy's talked about the efforts in operations and the regionalization of our operations. We've obviously taken a hard look at all of our businesses that we're in over the last six to nine months and have made adjustments there.

But there's still a lot ahead of us, especially on the operational side that if you look at our operating margin in North America, for example in North-America segment, it was 1.2% this quarter. Pre-pandemic, that number was in 4% to 6% range broadly. So, it's a bit of a marker on how much upside.

But there's lot of moving parts in that number. Obviously, there's the advertising, there's investments going on for future growth. And there is the core profitability and cost structure that our operations are achieving. So making progress, working hard at it, but it's a longer road than bouncing back in one or two quarters.

A - Andy Jassy {BIO 15111610 <GO>}

Yeah. And I would just add to that that we have looked pretty hard at every single one of our businesses. And I think that while it's probably most visible given the size that what's the improvement in the operating margin, the efficiency in our stores business, I think every business is working really hard on finding ways to be more efficient. And as Brian said, I think we're making really good progress on the fulfillment costs in our operations network and our stores business.

But one of the things that's been interesting and frankly, pretty encouraging to all of us is that as we -- over the last six to nine months, as the network fundamentally changed, remember, when you go through as much growth as we went through, and you add -- you double your fulfillment center footprint and you also build a last-mile transportation network the size of UPS in a couple of years, there's a lot that you have to work on to get that as productive as you want. And we've spent a lot of time working on that the last six to nine months.

But some of the ways that you operated before, which worked through several elbows in the curve and scale, when they become inefficient because the network fundamentally changes, they become inefficient in a significant way. And so, it's part of what led to the regionalization effort that I talked about, but it also caused us to really reevaluate virtually everything we do in operations over the last six to nine months. And we have found a lot more opportunities than we even thought were there before. So I'm pretty optimistic that we have a chance not just to recover to where we were pre-pandemic in terms of operating margin, but I think there's additional upside with some of the opportunities we've identified.

Operator

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

Q - Brian Nowak {BIO 16819013 <GO>}

Great. Thanks for taking my questions. I have two, Andy. The first one, you talked a lot about the long-term AI and Large Language Model potential out of AWS. I think there's a lot of discussion about AWS' competitive positioning when it comes to these tools. Could you just sort of walk us through two or three of the key points of differentiation that you think AWS offers in AI tools versus some of the competitors?

And then the second one around Echo and Alexa. The neural networks may not be a leading edge of technology now with the rapid emergence of some of these new large language models. How do you think about the key investment priorities for Echo and Alexa going forward? And what's your view on ROIC around that division? Thanks.

A - Andy Jassy {BIO 15111610 <GO>}

Yeah. I'll try and answer those together because they're somewhat related. I think when you think about machine learning, it's useful to remember that we have had a pretty substantial investment in machine learning for 25 plus years in Amazon. It's deeply ingrained in virtually everything we do. It fuels our personalized e-commerce recommendations. It drives the pick pass [ph] in our fulfillment centers. We have it in our Go stores. We have it in our Prime Air, our drones. It's obviously in Alexa. And then AWS, we have 25 plus machine learning services where we have the broadest machine learning functionality and customer base by a fair bit. And so, it is deeply ingrained in our heritage.

I think if you look at what's happened over the last nine months or so is that these large language models and generative AI capabilities, they've been around for a while, but frankly, the models were not that compelling before about six, nine months ago. And they have gotten so much bigger and so much better, much more quickly that it really presents a remarkable opportunity to transform virtually every customer experience that exists and many that don't exist that weren't really that easily made possible before.

And so it's very early days in that space, but probably not surprisingly, we've been investing in building in our own large language models for several years, and we have a very large investment across the company.

And the way I would break it out, Brian, is I would say that there's three macro areas in this space. If you think about maybe the bottom layer here is that all of the large language models are going to run on compute and the key to that compute is going to be the chips that's in that compute. And to date, I think a lot of the chips there, particularly GPUs, which are optimized for this type of workload, they're expensive and they're scarce. It's hard to find enough capacity. And so in AWS, we've been working for several years on building customized machine learning chips, and we built a chip that's specialized for training -- machine learning training, which we call Trainium and a chip that's specialized for inference or the predictions that come from the model called Inferentia.

The reality, by the way, is that most people are spending most of their time and money on the training. But as these models graduate to production, where they're in the apps, all the spend is going to be an inference. So they both matter a lot. And if you look at -- we just released our second versions of both Trainium and Inferentia, and the combination of price and performance that you can get from those chips is pretty differentiated and very significant. So we think that a lot of that machine learning training inference will run on AWS.

Then if you think about -- so you have to train the models, you have to run the inference, then you got to -- but you have to build the models. And if you look at the really significant leading large language models, they take many years to build and many billions of dollars to build. And there will be a small number of companies that want to invest that time and money, and we'll be one of them at Amazon, but most companies don't.

And so what most companies really want and what they tell AWS is that they'd like to use one of those foundational models and then have the ability to customize it for their own proprietary data and their own needs and customer experience. And they want to do it in a way where they don't leak their unique IP to the broader generalized model. And that's what Bedrock is, which we just announced a week ago or so. It's a managed foundational model service, where people can run foundational models from Amazon, which we're exposing ourselves, which we call Titan or they can run it from leading large language model providers like AI21 and Anthropic and Stability AI. And they can run those models, take the baseline, customize them for their own purposes and then be able to run it with the same security and privacy and all the features they use for the rest of their applications in AWS. That's very compelling for customers.

And then that third layer are really the applications that are going to be built on top of those large language models. So ChatGPT is a good example of an application that's being built. We'll build some of those applications ourselves. So for instance, we think one of the most compelling applications that are going to be built in generative AI have to do with making developers much more effective with coding assistance. And so we built something called CodeWhisperer, which we just announced the general availability for, where developers can plug in a natural language, something like build -- I want to build a video hosting website. And CodeWhisperer will bring up the code you need and the developer needs to employ and put that in production, which is really compelling. If you think about how much more productive a developer is going to be and what they're going to spend their time on instead of rewriting code that as median takes time, I think it's a big deal.

Now, to your second question and it's related to this top layer I was just talking about, we're going to build a very -- every single one of our businesses inside Amazon are building on top of large language models to reinvent our customer experiences, and you'll see it in every single one of our businesses, stores, advertising, devices, entertainment.

And devices, which was your specific question, is a good example of that. I think when people often ask us about Alexa, what we often share is that if we were just building a smart speaker, it would be a much smaller investment. But we have a vision, which we have conviction about that we want to build the world's best personal assistant. And to do that, it's difficult. It's across a lot of domains and it's a very broad surface area. However, if you think about the advent of large language models and generative AI, it makes the underlying models that much more effective, such that I think it really accelerates the possibility of building that world's best personal assistant.

And I think we start from a pretty good spot with Alexa, because we have a couple of hundred million endpoints being used across entertainment and shopping and smart home and information, and a lot of involvement from third-party ecosystem partners. And we've had a large language model underneath it, but we're building one that's much larger and much more generalized and capable. And I think that's going to really rapidly accelerate our vision of becoming the world's best personal assistant. I think there's a significant business model underneath it.

Operator

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

Q - Colin Sebastian {BIO 6373379 <GO>}

Great. Good afternoon, and thanks for taking my questions. I guess first-off, on the international segment, I mean, not only an acceleration in our top line, but also on the margin side. If you could maybe add a little more color on some of the initiatives and improvements there.

And then secondly, on the physical stores, including the grocery strategy, maybe any be worth kind of going through any updated thoughts you have there around the strategy of optimizing stores across categories. And if there are any changes to the footprint plans for those businesses. Thank you.

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

Thanks, Colin. I'll start with the international question. So yeah, we saw a acceleration of growth on an FX-neutral basis, 9% versus 5% in Q4. I think the economy there is starting to stabilize and especially in established countries of Europe. We're seeing consumer confidence has increased and inflation is ticking down. So some of those are similar to North America. But that is what we probably had some upside that we weren't counting on in international in the first quarter and that was a good strength.

On the margin, the margin has -- the negative margin has come down. Top line is helping there but it's also a function of some of the reductions that we're making across some of our investments. Most of those are in North America, but that you'll see kind of the improvement in operational efficiency and on the edge of some of the global programs are going to be reducing cost in international.

I will remind you that, again, that international is an aggregation of established countries which are already profitable and who look a bit like North America, perhaps at an earlier stage of development and working their way to parity on profitability. We have forward loaded Prime benefits in a lot of these countries that are ahead of the curve that we saw in North America. So, happy there.

We have a large emerging business. In the last five years, we've added more than 10 new countries. What we're seeing is, if you looked back to North America long ago, it took nine years for us to reach breakeven profitability in United States. We see a similar curve in a lot of countries overseas. There is, in fact, additional challenges that we usually have to deal with, things like lack of payment methods, lack of the established infrastructure for -- especially for transportation and infrastructure for the Internet and everything else. So, the adoption can be slower but we feel good about the businesses we're building. They carry a lot of the same traits that we have in North America. Price selection and convenience are at the core of that. Very happy with the adoption and traffic and new customer acquisition that we're seeing from Prime Video in a lot of the emerging countries as well. So, good quarter. We'll continue to work again on cost structure and growing those businesses country-by-country.

A - Andy Jassy {BIO 15111610 <GO>}

On the grocery part, what I would say is, we continue to progress there. We have an interesting grocery business where we've been in it for a while and we have actually quite a large grocery business. It's just an unusual selection grocery business, very much like how the mass merchandisers got into grocery 25, 30 years ago, where the selection or items that are not temperature-controlled. So it's canned goods and packaged food and paper products and pet supplies and personal care and health and beauty, and all sorts of consumables.

And interestingly, in this current environment where consumers are being cautious about what they spend and finding ways to trade down in different product variations, consumables have stayed very strong. And so we continue to be very pleased with that part of our grocery business. To serve a much broader number of the grocery shopping journeys, which we seek to try to help customers with, we have to have a bigger physical presence since most of the shopping visits are still physical stores.

We've got two efforts there. We've got Whole Foods, which really pioneered the organic grocery space. And that continues to grow nicely. And we've made a number of changes in the last year to the business that have changed the profitability trajectory there and feel very good about that.

And at the same time, it is still a portion of the overall market segment. And if you really want to serve as much of grocery as we'd like to, you have to have a mass physical offering. And that's what we've been working on for a few years with the brand we've called Amazon Fresh. We wish we were further along at this point. We've tried lots of ideas. We haven't yet found conviction around the format that we want to go expand much more broadly. We have a set of experiments and ideas and concepts that we're working on across our dozens of stores there. And we're pretty optimistic that we have something that may very well work. And we're hopeful over this next year, we find that.

But we continue to believe it's a big business for us today. It's continuing to get bigger. But we believe we have the opportunity for it to be much larger for Amazon and where we can help customers more broadly. And, I think, having that physical presence, we will also have the ability both to be able to serve the grocery products they come for as well as store some other pieces and help customers across some other product lines as well.

Operator

And the 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. Thanks for taking my question. I guess, AWS, can you call out any unusual items in April or 2Q for the comp? I know you had a very good 2Q last year and just thinking about linearity in the quarter.

And then second, Andy, really appreciate the shareholder letter. It looks like you've picked Medical and Kuiper as big investment areas. Do you think those -- I mean, why those areas? And does the company ever think about breaking out all the big investments that we had more clarity on the retail margin structure? Thank you.

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

Yeah. Hi, Justin. Thank you. On AWS, I think Andy did a good job of laying out the dynamics we're seeing in -- among customers right now and where they're cutting workloads and continued strength that we see in customers hitting their contractual limits and extending them and planning for the future. So, we feel really strongly about the outlook for the business and understand the short-term work that we're doing to help customers save money. So I would say Q2 versus Q1, there's not an obvious year-over-year comp differential. It's just, again, understanding which customers are cutting in some areas and growing in others, and helping them get on hopefully to the new initiatives that they are planning as well.

A - Andy Jassy {BIO 15111610 <GO>}

Yeah. In terms of the calling out health care and Kuiper in my annual letter, I think what I was trying to do in the letter was explain how we think about investing and how we think about our big new investments that we make. I talked about in the letter that we look at a few things, we look at if it's successful, could it be big and move the needle for Amazon with the right ROICs. Is that experience being well served today elsewhere? Do we have some kind of differentiation? And, do we have some competence of the company in that area? And if not, can we acquire it quickly? And we'd like the answers to those questions, we will invest.

Some of those investments lead to what seem like relatively straightforward investments. And I talked a little bit about category expansion and international expansion in our stores business and some of the nascent retail market segments that are large for us that we think we can have big businesses in and business-to-business, our Amazon business entity and grocery and things like Buy with Prime, which allow our consumers to use their Prime benefit and other third-party websites beyond Amazon and also let merchants convert at a higher rate, because Prime members are able to pay quickly and then get that fast reliable shipping they get from Prime.

But then there are other investments I was pointing out that sometimes don't lead to categories that people might initially guess. And AWS was a good example of that where that seemed really different for us when we started to pursue that in 2003, and we're a pretty different company because we did so even though there were a lot of people externally and internally that thought was a little bit crazy. And so, I just chose two of them there. I could have chosen a lot more. The letter was long enough as it was.

So I just chose two, but I chose two that we have conviction about. On the health care side, when you think about that set of questions that we ask ourselves when we consider whether we should make big investments, health care is a multitrillion dollar business that's very segmented and it's really broken in the US particularly, I think in other parts of the world, too, but particularly in the US. And we had what we thought were some differentiated ways that we could be successful at it. And I think when -- our customers have been asking us for years to provide a pharmacy. And if you think about that, it's not -- that's a pretty natural extension from what we do in retail, and we've launched Amazon Pharmacy in 2020. And I think it's off to a good start. It's continuing to grow. We have a lot to do there.

But a lot of our customers who like that experience said, gosh, I wish you guys would help us in the broader health care experience. And if you think about trying to meaningfully change their experience, primary care is right at the center of it. And if you look at the experience that's been the case for the last several decades, we're going to have a hard time convincing our grandkids that it used to be the case to get a primary care appointment. You had to call ahead of time, a month ahead to schedule an appointment and drive 20 minutes to the doctor and park and get into the facility and wait 20 minutes in reception and you get into exam room, you wait 10 minutes for the doctor to come in. The doctor talks to you for five minutes and then prescribes you medicine where you drive 20 minutes to go get the medicine. And that experience just doesn't make sense and won't be the case.

And so we looked at -- we had some experience when we started experimenting with Amazon Care, and we couldn't believe how much people liked the streamlined experience. And we ultimately decided we didn't have the right business model there. But we came across one medical where the digital app is very compelling and you can talk to a medical practitioner by chat or by video conference, or if you have to come into a physical facility, they have clinics around the country, and you can get that appointment same day or next day. In all those cities, they have relationships with health specialists where you're plugged into their ability to get reservations where you can get reservations in a day or two there.

And then when you need medicine, you can have it automatically shipped to you by Amazon Pharmacy or other third-party pharmacies. It's a very, very different experience. And we think we have an opportunity to be successful in helping change that experience. And if we're successful with primary care and with health -- and with the pharmacy, there are a lot of other things we can help customers with as well. So we think that's a big opportunity.

And then I'll just briefly say on Kuiper that, it's a very large number. It's hundreds of millions of households and businesses and government entities that today have limited to no connectivity to the Internet. And if you just think about what you can't do if you don't have connectivity, we all take it for granted. But having that connectivity means you can take online education courses and get an education, or you can start or run a business or you can enjoy entertainment or you can shop for anything you can imagine. And for businesses and governments, to be able to have that coverage, to be able to operate much more seamlessly in the various environments in which you have to have a presence, it's a total game-changer. And so, we think it has the chance to be a very large business. We haven't -- we've released some information about it in some of our designs. And it's pretty exciting to us how many customers in all those different segments are excited about it. And so I just chose those two as exemplary of some of the inventions that come out of that investment process that you might not guess but that we think can be very significant for the company.

A - Dave Fildes {BIO 20638976 <GO>}

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 look forward to talking with you again next quarter.