

Speaker 1
Start

Thank you for standing by. Good day, everyone, and welcome to the Amazon.com First Quarter 2025 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. And for opening remarks, I will be turning the call over to the Vice President of Investor Relations, Mr. Dave Files. Thank you, sir. Please go ahead.

Speaker 2
27s

Hello, and welcome to our Q1 twenty twenty five financial results conference call. Joining us today to answer your questions is Andy Jassy, our CEO and Brian Olesofsky, 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 2024. Our comments and responses to your questions reflect management's views as of today, 05/01/2025 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 ks 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.

Speaker 2
1m 37s

Our results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic and geopolitical conditions, tariff and trade policies, 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, cloud services, and new and emerging technologies, 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 Andy.

Speaker 3
2m 21s

Thanks, Dave. Today, we're reporting \$155,700,000,000 in revenue, up 10% year over year excluding the impact from foreign exchange rates. Operating income is \$18,400,000,000 up 20% year over year and trailing twelve month free cash flow is \$25,900,000,000 We're pleased with our continued business progress, but more importantly, with our pace of innovation and additional improvement in our customer experiences. In our stores business, we once again saw strong consumer resonance in our continued work on selection, value, and shipping speed. Our broad selection offers customers choice across their shopping journeys. We welcome well known brands such as Oura Rings, Michael Kors, and The Ordinary, as well as a new shopping experience with Saks that offers a refined luxury assortment of fashion and beauty items from brands like Dolce and Gabbana, Balmain, Erdem, Jambatista Vallee, and Jason Wu Collection. As always, we're working to keep prices low. And with this being an uncertain moment for consumers, it's even more important than it typically is. In q one, we held deal events worldwide to help customers save over \$500,000,000 across the big spring sale in The US and Canada, Spring Deal Days in Europe, and Ramadan Eid sale events in Egypt, Saudi Arabia, Turkey, and The UAE.

Speaker 3
3m 44s

Prime members will have more opportunities to save throughout the year, including at our eleventh Prime Day event in July. Over the past few years, we've made significant progress in making our fulfillment network more efficient and cost effective. We've shared many times that an important turning point was regionalizing our national fulfillment network into regional hubs. By stocking items closer to where customers live, we're able to deliver more orders faster, often in fewer packages and at lower delivery costs. The next challenge was getting as many items as possible into these regional nodes. Our inbound network, which is how we get items to each fulfillment center, hadn't been architected to leverage this new regionalization structure. So we redesigned it and just rolled out a new inbound architecture that expands the share of products that we can place in each fulfillment center, improving delivery speeds and lowering our cost to serve. In the first quarter, we once again set new delivery speed records with our fastest delivery ever for Prime members around the world, and we delivered more items in the same day or next day in q one than any other quarter in our history. Looking ahead, we'll continue to refine our newly redesigned inbound network, build out our same day delivery sites, and add additional robotics and automation throughout our buildings.

Speaker 3
5m 0s

You'll also see us expand the number of delivery stations that we have in rural areas of The US so we can get items to people who live in less densely populated areas much more quickly. I thought I'd share a few thoughts on the prospect of heightened tariffs on our stores business. Obviously, none of us knows exactly where tariffs will settle or when. We haven't seen any attenuation of demand yet. To some extent, we've seen some heightened buying in certain categories that may indicate stocking up in advance of any potential tariff impact. We also have not seen the average selling price of retail items appreciably go up yet. Some of this reflects some forward buying we did in our first party selling, and some of that reflects some advanced inbounding our third party sellers have done. But a fair amount of this is that most sellers just haven't changed pricing yet. Again, this could change depending on where tariffs settle. Amazon is not uniquely susceptible to tariffs. As it relates to China, retailers who aren't buying directly from China are typically buying from companies who themselves are buying from China, marking these items up, rebranding, and selling to US consumers.

Speaker 3
6m 7s

These retailers are buying the product at a higher price than Chinese sellers selling directly to US consumers in our marketplace, so the total tariff will be higher for these retailers than for China direct sellers. It's also sometimes easy to forget what Amazon sells. We're not mostly selling high average selling price items, though we certainly sell a bunch. In the first quarter, our everyday essentials grew more than twice as fast as the rest of our business and represented one out of every three units sold in The US on Amazon. Even if you exclude Whole Foods Market and Amazon Fresh, Amazon is one of the largest grocers in The US with over a hundred billion dollars in gross sales last year. People are buying a lot of their everyday essentials at Amazon. We also have extremely large selection, hundreds of millions of unique SKUs, which means we're often able to weather challenging conditions better than others. When there are periods of discontinuity, substantial unexpected product trends emerge. Think about the pandemic when items like masks and hand sanitizer became big sellers. When you have the broadest selection like we do and 2,000,000 plus global sellers like we do, you're better positioned to help customers find whatever items matter to them at lower price points than elsewhere.

Speaker 3
7m 20s

Finally, when there are uncertain environments, customers tend to choose the provider they trust most. Given our really broad selection, low pricing, and speedy delivery, we have emerged from these uncertain areas with more relative market segment share than we started and better set up for the future. I'm optimistic this could happen again. Moving to a few words on Amazon Ads. We're working hard to be the best place for brands of all sizes to grow their business. We are pleased with the strong growth on a very large base generating \$13,900,000,000 of revenue in the quarter and growing 19% year over year. We're seeing strength across our broad portfolio of full funnel advertising offerings that help advertisers reach an average ad supported audience of more than 275,000,000 in The US alone. This includes our top of funnel efforts to drive brand awareness to bottom of funnel offerings where we measure outcomes at the point of conversion. Amazon ad provides brands with tools to reach targeted audiences in our own entertainment properties such as Prime Video, Twitch, IMDb, in live sports such as NFL, NBA, and NASCAR, audio content such as Amazon Music and Wonderly, of course, in our store, as well as many other external sites such as Pinterest and BuzzFeed.

Speaker 3
8m 37s

All of our audience and measurement capabilities work for the ads we deliver across premium third party publishers through Amazon DSP, and our secure clean rooms provide advertisers the ability to analyze data, produce core marketing metrics, and understand how their marketing performs across various channels. We continue to see a lot of opportunity to further expand our full funnel capabilities for brands. AWS grew 17% year over year in q one and now sits at a \$117,000,000,000 annualized revenue run rate. We continue to help organizations of all sizes accelerate their move to the cloud, helping to modernize their infrastructure, lower costs, and speed up innovation. We signed new AWS agreements with companies including Adobe, Uber, Nasdaq, Ericsson, Fujitsu, Cargill, Mitsubishi Electric Corporation, General Dynamics Information Technology, GE Vernova, Booz Allen Hamilton, NextEra Energy, Publicis Sapient, Elastic, Netsmart, and many others. It's useful to remember that more than 85% of the global IT spend is still on premises, so not in the cloud yet. It seems pretty straightforward to me that this equation will flip in the next ten to twenty years. Before this generation of AI, we thought AWS had the chance to ultimately be a multi hundred billion dollar revenue run rate business.

Speaker 3
10m 0s

We now think it could be even larger. If you believe your mission is to make customers' lives easier and better every day, and you believe that every customer experience will be reinvented with AI, you're gonna invest very aggressively in AI, and that's what we're doing. You can see that in the thousand plus AI applications we're building across Amazon. You can see that with our next generation of Alexa named Alexa Plus. You can see that in how we're using AI in our fulfillment network, robotics, shopping, prime video, and advertising experiences. And you can see that in the building blocks AWS is constructing for external and internal builders to build their own AI solutions. We're not dabbling here. We're very intentionally giving builders the broadest possible capabilities at every level of the AI stack cost effectively to use AI expansively across their businesses. At the bottom layer for those building models, our new custom AI chip training two is starting to land capacity in larger quantities with significant appeal and demand. While we offer customers the ability to do AI in multiple chip providers and will for as long as I can proceed, customers doing AI at any significant scale realize that it can get expensive quickly.

Speaker 3
11m 13s

So the 30 to 40% better price performance that Tranium two offers versus other GPU based instances is compelling. For AI to be as successful as we believe it can be, the price of inference needs to come down significantly. We consider this part of our mission and responsibility to help make it so. At the middle layer, for those wanting to leverage frontier models to build generative AI apps, Amazon Bedrock is our fully managed service that offers a choice of high performing foundation models with the most compelling set of features that make it easy to build high quality generative AI applications. We continue to iterate quickly on Bedrock, adding Anthropic's Claude three dot seven SONNET hybrid reasoning model, their most intelligent model to date, and Meta's Llama four family of models. We were also the first cloud service provider to make DeepSeek r one and Mistral AI's Mixtral large generally available as a fully managed model. And, of course, we offer our own Amazon Nova state of the art foundation models in Bedrock with the latest premier model launching yesterday. They deliver frontier intelligence and industry leading price performance, and we have thousands of customers already using them, including Slack, Siemens, Sumo Logic, Coinbase, FanDuel, Glean, and Blue Origin.

Speaker 3
12m 29s

A few weeks ago, we released Amazon NovaSonic, a new speech to speech foundation model that enables developers to build voice based AI applications that are highly accurate, expressive, and human like. NovaSonic has lower word error rates and higher win rates over other comparable models for speech interactions. The technology world is also buzz about the potential of agents. To date, virtually all of the agentic use cases have been of the question answer variety. Our intention is for agents to perform wide ranging, complex, multistep tasks, like organizing a trip or setting the lighting, temperature, or music ambiance in your house for dinner guests, or handling complex IT tasks to increase business productivity. There haven't been action oriented agents like this until Alexa Plus, but the technology to build these agents is still quite primitive, inaccurate, and requires constant human supervision. We've just released a research preview of Amazon Nova Act, a new AI model trained to perform actions within a web browser. It enables developers to break down complex workflows into reliable atomic commands like search or checkout or answer questions about the screen. It also enables them to add more detailed instructions to these commands where needed, like don't accept the insurance upsell.

Speaker 3
13m 48s

NovaACT aims to move the current state of the art accuracy on multistep agentic actions from 30 to 60% to 90 plus percent with the right set of building blocks to build these action oriented agents. At the very top of the stack are the applications. This past quarter, Amazon Q, the most capable generative AI powered assistant for accelerating software development and leveraging your own data, launched a lightning fast new agentic coding experience within the command line interface that could execute complex workflows autonomously. Customers are loving this. We also made generally available GitLab Duo with Amazon Bedrock, enabling AI agents to assist multistep tasks such as new feature development, code base upgrades for Java eight and eleven, while also offering code review and unit testing all within the same familiar GitLab platform. Our AI business has a multibillion dollar annual revenue run rate, continues to grow triple digit year over year percentages, and is still in its very early days. While there is good reason for the high optimism about AI, I conclude my AWS comments with a reminder that there is still so much on premises infrastructure yet to be moved to the cloud. Infrastructure modernization is much less sexy to talk about than AI, but fundamental to any company's technology and invention capabilities, developer productivity, speed, and cost structure.

Speaker 3
15m 11s

And for companies to realize the full potential of AI, they're going to need their infrastructure and data in the cloud. I wanna briefly mention a few other items. As I've referenced a couple times, in q one, we introduced Alexa Plus, our next generation Alexa personal assistant who's meaningfully smarter and more capable than her prior self, can both answer virtually any question and take actions, and is free with Prime or available to non Prime customers for \$19.99 a month. We're just starting to roll this out in The US, and we'll be expanding to additional countries later this year. People are really liking Alexa Plus this far. We're excited and honored to be part of the joint venture that will be creating the next generation of the esteemed James Bond film franchise. We recently named acclaimed producer Amy Pascal and David Haymon to produce the next James Bond movie. Additionally, just a couple days ago, Project Kuiper reached a significant milestone by launching our first satellites into orbit with more being launched soon, and we expect to begin offering service to customers later this year. I'm proud of what our teams around the world have delivered. We're excited about what we're inventing and working on as we speak.

Speaker 3
16m 21s

With that, I'll turn it over to Brian for a financial update.

Speaker 4
16m 25s

Thanks, Andy. I will begin with our top line financial results. Worldwide revenue was \$155,700,000,000 a 10% increase year over year excluding the impact of foreign exchange. This equates to a \$1,400,000,000 headwind from foreign exchange year over year in the quarter. Worldwide operating income was \$18,400,000,000 approximately \$400,000,000 above the high end of our guidance range. These results include one time charges that impacted North America and international operating income that I will discuss in a moment. First, let's start with the net sales results for these segments. In the North America segment, first quarter revenue was \$92,900,000,000 an increase of 8% year over year. Our international segment revenue was \$33,500,000,000 also an increase of 8% year over year excluding the impact of foreign exchange. Worldwide paid units grew 8% year over year. Our priority is to provide value to our customers across our businesses. In the first quarter, we held multiple deal events around the world which drove strong customer engagement. We saw broad based strengths across our key business inputs including record delivery speeds for Prime members enabled by improved inventory placement. Our vast selection gives customers choice across various price points, particularly in categories like grocery, which includes everyday essentials.

Speaker 4
17m 53s

These are the items that people purchase most frequently. We partner with millions of independent sellers from around the world. These selling partners are important contributors to our broad selection, and worldwide third party selling unit mix was 61% in Q1, consistent with Q1 of last year. Shifting to profitability, North America segment operating income was \$5,800,000,000 and international segment operating income was \$1,000,000,000 with operating margins of 6.3% in North America and 3% internationally. As I mentioned earlier, during the quarter we recorded one time charges related to some historical customer returns has not yet been resolved and some cost to receive inventory that was pulled forward into Q1 ahead of anticipated tariffs. Without these charges, North America and international operating margins would have been approximately 90 basis points and 70 basis points higher or operating margins of 7.2% for North America and 3.7% for International. We are pleased with how our teams continue to execute and deliver for customers. In Q1, our newly re architected inbound network drove productivity in our fulfillment and transportation network leading to better inventory placement and higher units per package and as a result lower delivery costs. Beyond Q1 we have a number of initiatives underway to continue improving our cost structure such as fine tuning our inbound network, building out our same day delivery sites, expanding our rural delivery network and adding robotics and automation to our facilities.

Speaker 4
19m 37s

Better inventory placement remains a top priority. Better placement drives more in stock selection, reduces travel distances, and speeds up delivery. And having the inventory in the right place at the right time increases the likelihood that multiple items can be combined in a package, which helps reduce packaging and costs. Although progress won't always be linear, we have a good plan to continue to drive improvement over time. Shifting to advertising. Advertising remains an important contributor to profitability in the North America and international segments. Advertising revenue grew 19% year over year. We're pleased with the accelerating growth on an increasingly large base. We're seeing strong adoption across our full funnel advertising offering as brands appreciate our ability to connect them with customers. We'll also continue to invest in other long term opportunities. These efforts have the potential to be important to customers and Amazon in the future, including Kuiper, where we had our first launch of our production design satellites earlier this week, and we'll be launching more satellites throughout the year. We're closely monitoring the macroeconomic environment including the impact of tariffs. We're planning for various outcomes and we've taken a number of actions to protect the customer experience.

Speaker 4
20m 56s

We're doing everything we can to keep our prices low for customers in a way that makes economic sense. Moving next to our AWS segment, revenue was \$29,300,000,000 in Q1, an increase of 17% year over year. AWS now has an annualized revenue run rate of more than \$117,000,000,000 During the first quarter, we continued to see growth in both generative AI business and non generative AI offerings as companies turn their attention to newer initiatives, bring more workloads to the cloud, restart or accelerate existing migrations from on premises to the cloud, and tap into the power of generative AI. AWS operating income was \$11,500,000,000 and reflects our continued growth coupled with our focus on driving efficiencies across the business. As we've said before, we expect AWS operating margins to fluctuate over time driven in part by the level of investments we're making at any point in time. Plan to bring on an increasing amount of capacity in the back half of the year. Now turning to our cash CapEx which was \$24,300,000,000 in Q1. The majority of this spend is to support the growing need for technology infrastructure. This primarily relates to AWS as we invest to support demand for our AI services and increasingly in custom silicon like Traneum as well as tech infrastructure to support our North America and international segments.

Speaker 4
22m 28s

We're also investing in our fulfillment and transportation network to support future growth and improve delivery speeds and our cost structure. This investment will support growth for many years to come. While we primarily focus our comments on operating income, I'd like to point out that our first quarter net income of \$17,100,000,000 includes a pre tax gain of \$3,300,000,000 included in non operating income and it relates to our investment in Anthropic. This activity is not related to Amazon's ongoing operations but rather the result of the conversion of a portion of our convertible notes to non voting preferred stock. Turning to Q2 guidance. As a reminder, our guidance considers a range of possibilities and takes into account Q1 results, trends in quarter to date results and expectations around the macroeconomic environment. Q2 net sales are expected to be between \$159,000,000,000 and \$164,000,000,000 We estimate the year over year impact of changes in foreign exchange rates based on current rates, which we expect to be a headwind of approximately 10 basis points in the quarter. As a reminder, global currencies can fluctuate during the quarter. Q2 operating income is expected to be between \$13,000,000,000 and \$17,500,000,000 This estimate includes the impact of our seasonal step up in stock based compensation expense in Q2, driven by the timing of our annual compensation cycle.

Speaker 4
23m 58s

The external environment remains complex. And as we have done throughout our history, we are focused on the inputs that we can control to protect the customer experience. We will work hard to remain to place customers' trust for sharp prices, broad selection, and convenience. We'll remain focused on driving a better customer experience, and we still believe putting customers first is the only reliable way to create lasting value for our shareholders. With that, let's move on to your questions.

Speaker 1
24m 27s

Thank you. At this time, we will now open the call up for questions. We ask each caller to please limit yourself to one question. And the first question comes from the line of Ross Sandler with Barclays. Please proceed with your question.

Speaker 5
25m 8s

Great. I think I'm going leave the China questions to others and focus on AWS and and kind of AI. So, Andy, it seems like you've been bringing on a lot more p five GPU instances since February from what it looks like to kind of support all these new AI workloads. So how would you characterize in the first quarter and maybe here in the second quarter, the kind of supply demand imbalance that you talked about before around AI workloads? And when do you think that AWS will be in a position to kind of capture enough AI revenue to drive acceleration? Is that something that could happen this year? Or do you see that more like next year given your capacity constraints? Thank you very much.

Speaker 3
25m 58s

Thanks, Ross. You know, I would say that we're we've been bringing on a lot of p fives, which is a form of an NVIDIA chip instances, as well as landing more and more training two instances as fast as we can. And I I would tell you that, you know, our our AI business right now is a multi billion dollar annual run rate business. It's growing triple digit percentages year over year. And we as fast as we actually put the capacity in, it's being consumed. So, you know, I think we could be driving we could be helping more customers and driving more revenue for the business if we had more capacity. We have a lot more training two instances and the next generation of NVIDIA's instances landing in the coming months. I expect that, you know, there are other parts of the supply chain that that are a little bit jammed up jammed up as well, you know, motherboards and some other componentry. But I do and some of that is just because there is so much demand right now. But I do believe that the supply chain issues and the capacity issues will continue to get better as the year proceeds.

Speaker 1
27m 19s

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

Speaker 6
27m 26s

Thanks so much for taking the question. Maybe I could ask a two parter. First, in terms of strategy, how do you think about positioning the company for the medium term with given all the levels of uncertainty out there about how the global trade environment might shift in the coming months, what do you see as the key strategic priorities that will allow the company to sort of be able to capitalize one way or another depending on various elements of outcome? And how do you prioritize those investments in the months ahead? And then with respect to the one quarter forward operating income guide, is there anything in there from a cost side that we should be thinking about as purely aligned with those types of investments against the trade landscape that might not repeat either later into this year or next year? Thanks so much.

Speaker 3
28m 16s

Thanks, Eric. It's hard to tell what's gonna happen with tariffs right now. It's it's hard to tell, where they're gonna settle and when they're gonna settle. And so a lot of what we're thinking about, short and medium term actually turns out to be what we think about long term too, which is how do we actually have the broadest possible selection for customers at the lowest possible prices? And there's maybe never been a more important time in recent memory than than, you know, trying to keep prices low, which we're heads down, pretty maniacally focused on, and then get things to people quickly and take care of customers. And that that that is the heart of what we're doing, and you can see different initiatives that we've taken within those priorities. You know, we've done some forward buys of inventory in where we're the first party seller. Our third party sellers have pulled forward a number of items so they have inventory here as well. And and those are all you know, we're encouraging that because we're trying to keep prices as low as possible for customers. I think also when you have as broad selection as we have, and we have much broader selection than than other retailers, it means that when you've got this continuity like we may potentially have, you're better able to help customers find what they want no matter what those trends are.

Speaker 3
29m 45s

And I I mentioned in my opening comments about what happened in the pandemic, and you can bet they're gonna be things that we don't anticipate that customers really value and want that are different. It could be as simple, by the way, as just favoring other brands that maybe people didn't know about before, but where they have a more favorable price equation for customers. And I think when you've also got another thing that people forget is that when you've got 2,000,000 plus sellers, they're not all gonna take the same strategy if there ends up being higher tariffs. I mean, there there are gonna be plenty of sellers that that decide to pass on those higher cost to end consumers, but they're gonna you know, we have a lot of sellers in lots of different countries, and not all of them are gonna pursue the same tack. And so, yeah, I I think when you've got larger diversity like we have, we have a better chance of some of those sellers deciding that they're gonna capture share, and and they're not gonna pass on all or any of those tariffs to to customers. And and so I think customers are gonna have a better chance of finding variety on on selection and on lower prices when they come here.

Speaker 3
30m 58s

And, you know, and, you know, the the last thing I would say is that we have been in a number of our businesses, but just I'd say over the last six years or so, we have been diversifying where we produce things over a long period of time. We we had a, I would say, a meaningfully higher concentration of where we produce components for AWS or devices in China than we have now where we've diversified meaningfully over that time, and we just thought that was wise to do so. And so those are some of the ways that we're trying to make sure that we are are protecting our customers over the short, medium, and long term. But it it turns out that most of those are the things that we focus most on, which is really broad selection for ultimate choice, really low prices, and very fast delivery.

Speaker 7
31m 50s

Eric, I'll take your question on the guidance and especially on operating income. I think that was your question in the cost that might be in Q2. The thing I'd point to again is what I mentioned earlier, the stock based comp always steps up generally in Q2 versus Q1 and then resets a rate that carries through for the next four quarters. You can look at historic trends to get an idea of that. Secondly, we do have some additional Kuiper launch costs in Q2. You saw a launch happen this week. And a reminder that we expense those launch costs until the point of commercialization, which the plan is to have that be later in this year.

Speaker 1
32m 32s

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

Speaker 8
32m 40s

Great. Thanks. I'll go back to AWS. I know in the past you said revenues can be lumpy. Can you explain why they might fluctuate up and down, if it's beyond just capacity? And and you see the competitors, you know, with with some pretty good growth rates. How do you think about the difference there? Obviously, dollar growth is very good, but how do you think about the difference there versus some of your competitors? Thank you.

Speaker 3
33m 2s

Well, you know, the first thing I would say is when when we've historically said that revenue could be lumpy, this was you know, we've been saying this well before what's happened with AI over the last couple years. And the reason for that is the sales cycle for particularly for enterprise. It's true for start ups. You know, what you really want is you wanna you wanna have the type of capabilities where startups wanna primarily choose to run on top of your platform. And that's true. If you look in the startup space, you know, the vast majority of successful startups over the last ten to fifteen years have run on top of AWS, and it's unpredictable when those startups are gonna find product market fit and and grow substantially. And and it's, you know, it's hard for them to predict and even harder for us to predict. And the same thing goes on the enterprise side when you it it but in a different way, when you when the sales cycle on the enterprise side is that you spend time trying to convince people that they should move from on premises to the cloud, and then that you have the right solution for them.

Speaker 3
34m 9s

And then you pick a set of projects that you you get experience on. And sometimes they use systems integrators, sometimes they use our own professional services, sometimes they're doing it themselves. Then there's a next tranche migrations, and and those those migrations just take time. And some companies get through them really quickly, and some companies take longer to get through them. And and and what happens a lot of times too is that they get excited and enthusiastic about the cost advantages and the speed of innovation advantages they get moving to the cloud. And what was supposed to be a smaller next tranche turns into a much larger next tranche. And all of that has been true for a long time. It's very hard for us to predict because it really is contingent on what enterprises how they wanna sequence it and resource it. Then you throw in AI, which has its own very fast growth cycle, particularly in certain types of use cases, and and those change. I mean, I'll give you just some examples. You know, in the in the early days of, you know, on the earliest days, I should say, of of AI, what you've seen the most amount of has been initiatives that gets you productivity and cost avoidance.

Speaker 3
35m 26s

And we've seen that from so many of our AWS customers, and we we're doing a lot of it ourselves inside of Amazon using AI. And then you've also seen, I would say, large scale training with a lot of those that are running on top of this as well. As you know, Anthropic is running their, you know, building their next few model training models on top of it or training two chip on AWS. And then you've seen a couple really big chatbots. And then what you've seen just in the last few months is really kind of the explosion of coding agents. And if you just look at the growth of these coding agents the last few months, these are companies like Cursor or Both of them run significantly on AWS. But just look at the growth of that over the last few months, you just couldn't have predicted that sort of growth. And so that's why it's lumpy. You know, sometimes you'll have, you know, very significant increases that you didn't predict and you couldn't forecast. And then, you know, they'll they'll grow at a good rate, but maybe not the same rate before the next big kind of explosive growth.

Speaker 3
36m 36s

And, yeah, I would tell you that everything I just mentioned with interesting in AI is that we we still haven't gotten to all the other customer experiences that are gonna be reinvented and all the other agents that are gonna be built, they're gonna take, you know, the the role of a a lot of different functions today. And, you know, those are there's so even though we have a lot of combined inference in those areas, I would say we're not even at the second strike or the first batter of the first inning. It is so early right now. And then I would just say on the, how to think about, relative growth rates, you always have to you know, the the year over year growth rate is really only a function of the percentage growth on the base with which you are operating from. And we just have a very, you know, a meaningfully larger base on the technology infrastructure side than others. And so when, you know, it's still you know, if you think about 17% year over year growth on a hundred \$1,717,000,000,000 dollars revenue run rate, still pretty significant growth. And as I said, I think we could be doing more if we had more capacity, and I expect that the capacity to ease in the coming months.

Speaker 1
37m 50s

Thank you. Our next question comes from the line of Doug Anmuth with JPMorgan. Please proceed with your question.

Speaker 9
37m 58s

Thanks for taking the questions. One for Brian, one for Andy. Brian, just maybe to follow-up on AWS, but more on the margin side. We've seen a lot of fluctuation over the last couple of years and now hitting almost 40%. Maybe you can just talk about what's driving the outperformance and then how we should think about normalized margins going forward? And then, Andy, your comments on Alexa about moving to more complex tasks. Can you talk about that more? And and just, you know, with Alexa, the products have been around for a long time. They've had different use cases. How do you get users to shift their behavior more with Alexa? Thanks.

Speaker 7
38m 39s

Thanks, Doug. I'll take your first question. Yeah. We had a strong quarter in AWS, as you mentioned, the margin performance. Attributed to the strong growth that we're seeing, coupled with the impact of some continued investment we're making in innovation and technology. I'll give you some examples. So we invest in software and process improvements, and it ends up optimizing our server capacity, which helps our infrastructure cost. Been developing more efficient network using our low low cost custom networking gear. We're working to maximize the power usage in our existing data centers, which both lowers our cost and also reclaims power for other newer workloads. And we're also seeing the impact of advancing custom silicon like Graviton. It provides lower cost not only for us but also for our customers, the better price performance for for them. But you're right. Margins are, you know, impacted by, a lot of things, including our level of investment, competitive pricing, the mix of generative AI services as they're ramping up will continue to evolve over the years to come. So we do have a lot of investment in infrastructure going on and planned for the second half of the year. So that will you know, we'll start to see the impact of that.

Speaker 7
39m 55s

But we're happy with the performance of the team with generating cost savings. And it's a big focus as well as expanding the the services and features for customers.

Speaker 3
40m 7s

On the Alexa question, we're really excited about Alexa Plus. And, you know, as I mentioned earlier, it is she's much more intelligent, much more capable, and able to take real action. And, you know, to date, most of the agents that have been out there have really just been able to answer questions, which which when it came out was very remarkable and but it's you know, I think the future of agents is not just being intelligent, but also being able to take action. And that's actually it requires a great model, but it also requires the ability to sync that model and to align that model with being able to take the right action and execute and implement the right APIs, or you can have, very suboptimal results. And so we've worked hard on that in Alexa Plus. We've been, roll we started rolling out over the last several weeks. So it's with now over a hundred thousand users, you know, with more rolling out in the coming months. And so far, the the response from our customers has been very, very positive. People are excited about it. I think that, you know, it it does a a lot more things than what Alexa did before.

Speaker 3
41m 20s

And to you know, we're we're very fortunate in that we have, you an over a half billion devices out there in people's homes and offices and cars. So we have a lot of distribution already. But there will be, to some degree, there will be a little bit of rewiring for people on what they can do because you get used to patterns. I mean, even the simple thing of not having to speak Alexa speak anymore, where we're all used to saying Alexa before we want every action to happen. And what you find is you really only have to do it the first time, and then really the conversation is ongoing where you don't have to say Alexa anymore. I've been lucky enough to have, you know, the alpha and the beta that I've been playing with for several months, and it took me a little bit of time to realize it and have to keep saying Alexa. And it's very freeing when you don't have to do that. You know? And then I think it's just experience in trying things. So you can do things like you have guests coming over on a Saturday night for dinner, and you can say, you know, Alexa, please open the shades.

Speaker 3
42m 25s

Put the lights on in the driveway and on the porch, increase the temperature five degrees, and pick music that would be great for dinner that's mellow. And and and she just does it. And, like, when you have those types of experiences, it makes you wanna do more of it. You know, when I was in New York, when we were announcing, I asked her what were the you know, we we did the event way downtown. I asked her what was what was great Italian restaurants or pizza restaurants. She gave me a list, and then she asked me if she wanted me to make a reservation. I said yes, and she made the reservation, confirmed the time. I'm like, that when when you get into those types of routines and you have those types of experience, they're they're very, very useful. It is really like having a great personal system, which most people in the world don't have. And so I think that the more and more that people get used to it, they will realize what she can do. And we're not gonna be standing still. We have a lot more functionality that we plan to add in the coming months too.

Speaker 1
43m 29s

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

Speaker 10
43m 36s

Thanks for taking my questions. Hey, Andy and Brian.

Speaker 5
43m 38s

So I have one for each of you guys. So Andy, you have a very complicated retail business with a lot of moving pieces to it. I imagine you have a lot of good data on what you expect demand to be over the course of the year and the holidays and things. As you kind of step back and analyze the business and the tariff uncertainty, can you just sort of walk us through the one or two key areas operationally that you're most focused on just to ensure that Prime Day, Thanksgiving and the holidays go as smoothly as possibly can? And then secondly, Brian, just to kind of go back to Eric's earlier question, as we think about the 2Q EBIT guide, are there any one time costs or sort of tariff related costs in there similar to that \$1,000,000,000 that you called out in the first quarter? Thanks.

Speaker 3
44m 32s

Thanks, Brian. On the retail question, you know, I would say that the, you know, the the areas that maybe we're we're most focused on to make sure we have you know, not just a great Prime Day, but, you know, Prime Day is just one event as you know and so is peak. We're we're trying to be great all year long for customers. You know, the the obvious ones are making sure that we help our our sellers however we can because there's uncertainty for our sellers as well. So we're we're trying to make sure we provide a great experience. We're trying to make sure that we have the right diversity of sellers and low prices for our customers. I think all that, you have to also be very thoughtful around how much inventory you bring into your fulfillment nodes at any one time. Because you could imagine scenarios where, you know, either on your own when you're the first party seller or lots of third parties wanna get as much inventory in as as early as possible, you know, trying to beat a deadline on on what may happen. And if you end up with too much inventory in your fulfillment network, it really slows down your productivity and your ability to get things out as quickly as you want for customers at the cost structure you want.

Speaker 3
45m 53s

So being able to manage that thoughtfully, we've we've learned that over the years, and I think the team is doing a really good job of balancing that right now.

Speaker 7
46m 1s

And, Brian, on your question about q two, I I guess I'd just reiterate what I had said earlier. You know, we had stock based comp step up, which I think you can see the normal pattern for that. If you look at our history, We have additional Kuiper expenses. Specifically, you asked about tariffs. We do have tariffs that we'll be paying on retail purchases based on current tariffs. It's not large in Q2. It's we had done a lot of pre buying of inventory in q one, as I mentioned earlier. But, you know, just generally, I think with the uncertainty, we've added a bit to the range that we've given you. We generally have a wide range, but just the general uncertainty that we're seeing and uncertainty of consumer demand and all the everything else is causing us to increase the ranges a bit. So we'll see. We feel it's an informed view of q two right now. As Andy mentioned earlier, we saw actually some strength in April based on what could end up being some pre buys of a number of things, but and advertising has been strong. So we think there's a lot of positive trends, but certainly uncertainty right now for the quarter.

Speaker 1
47m 19s

Thank you. And our final question will come from the line of Brent Thill with Jefferies. Please proceed with your question.

Speaker 11
47m 29s

Thanks. On AWS, I'm curious if you could give us the backlog number. And Andy, to your point about many of these core workloads still yet to come to cloud, can you just update us in in what you're seeing? Are you seeing enterprise strength back? Are you seeing some confusion with with AI clouding that that transition and and the timing of that? Just give us a perspective on what what you're seeing on that migration. Thank you.

Speaker 2
47m 58s

Hey. This is Dave. I'll just jump in on the backlog and and turn over to Andy. The the backlog is a hundred and \$89,000,000,000 for q one. That's up about 20% year over year. And the the weighted average remaining life on that is four point one years.

Speaker 3
48m 14s

On the the AWS question, Brent, around what we're seeing on the workloads that haven't moved, You know, what I would say the way I would characterize it is that we were on a very aggressive March that was methodical, but but almost metronomic before the pandemic of enterprises deciding that they wanted to move off their on premises infrastructure because of the the speed of innovation, the developer productivity, and the cost advantages of of the cloud. And then when you got into the pandemic and the economy looked uncertain in the in the second half of that cup few years, you had everybody trying to cost optimize and including us, by the way. And and and then, you know, as we started to emerge from that trend, you saw generative AI explode, and everybody wanted to try to find a way to have a workload or set of workloads there because people saw the potential, and and and it was also something that was generating a lot of interest publicly. And and and so what what we've seen now over the last, call it, sixteen to eighteen months or so is that enterprises realize they need to do both.

Speaker 3
49m 42s

And they they want to do AI. They have all sorts of pilots at this point on AI, many of which will be successful, others of which will not be successful. The ones that are successful will scale, but they also have a lot more initiatives that they haven't, you know, that they still haven't gotten to on the AI side either because they're building that skill set or they're picking the first set to get experience with or as they're waiting to see the cost of inference continue to go down, which it will. I mean, you will not get the expansiveness that we all know is coming in AI until we keep getting the cost of inference down, even though it's growing like crazy right now. But at the same time, I would say that we see an increased, resurgence and, and understanding for enterprises that they are dropping the low hanging fruit if they don't move their infrastructure to the cloud. They they just you know, for all the reasons I mentioned earlier. So you're starting to see those plans pick up again. As I mentioned earlier to one of the questions, you don't decide that you're gonna transform your infrastructure from on premises to the cloud and see it happen in three months.

Speaker 3
50m 56s

You know, that that is typically a multiyear process that some companies do it fast, some companies do it slower, but they do it in trashes, and they do it thoughtfully because they can't afford for their application not to work as they're making their transition. And we're having meaningful success in those conversations and in companies choosing to to transform their infrastructure on top of AWS. And I think that, you know, you'll you'll see that moving forward too.

Speaker 2
51m 25s

Thank you for your time joining us 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.

Speaker 1
51m 39s

And ladies and gentlemen, that does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.