Speaker 2
0s

Thank you for standing by. Good day, everyone, and welcome to the Amazon.com Second 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 Fildes. Thank you, sir. Please go ahead.

Speaker 3
26s

Hello, and welcome to our Q2 2025 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 a 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, July 31, 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-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.

Speaker 3
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. I'll turn the call over to Andy.

Speaker 1
2m 21s

Thanks, Dave. Today we're reporting $167.7 billion in revenue, up 12% year over year, excluding the impact from foreign exchange rates. Operating income was $19.2 billion, up 31% year over year, and trailing 12-month free cash flow was $18.2 billion. We saw good progress across our various customer experiences and businesses this past quarter. Starting with stores, we feel good about both the inputs and outputs of the business. At Amazon, we think of our business in terms of inputs and outputs. Outputs are metrics like revenue or operating margin, but of course, you can't manage at the output level. It's the inputs that drive the outputs, so we spend virtually all of our time internally talking about and goaling against inputs. The inputs that matter most to customers in our stores business are selection, low prices, and speed of delivery. We've taken another step forward in selection these past few months, headlined by the much-requested return of Nike's products to Amazon's retail store. We've added premium brands like Away, Aveda, Marc Jacobs, fragrances, and brands from Saks on Amazon like Dolce & Gabbana, Etro, Stella McCartney, Roksanda, and La Prairie. We started expanding our very successful perishables pilot, where we offer customers perishables at the point of purchase when they're ordering other items that will be delivered same day from our same-day fulfillment nodes.

Speaker 1
3m 46s

We're seeing strong customer adoption, as 75% of customers who've used the service this year are first-time shoppers for perishables on Amazon, with 20% of customers who use the service returning multiple times within their first month. Our prices continue to be low and sharp for customers. It's one of the reasons our everyday essentials growth outpaced the rest of the business globally and represented one out of every three units sold. It's also why well-known research firm Profitero has concluded for eight years in a row that Amazon has the lowest prices of any U.S. retailer. Perhaps the clearest outputs are the rate at which our stores business grew this past quarter and the success we saw in our recent Prime Day event. This year's Prime Day was our biggest ever, with record sales, number of items sold, and number of Prime sign-ups in the three weeks leading up to the Prime Day. Customers saved billions of dollars, and independent sellers, most of which are small and medium-sized businesses, saw their best sales performance of any Prime Day event yet. There continues to be a lot of noise about the impact that tariffs will have on retail prices and consumption.

Speaker 1
4m 55s

Much of it thus far has been wrong and misreported. As we said before, it's impossible to know what will happen. Where will tariffs finally settle, especially China? What happens when we deplete the inventory we forward bought or that our selling partners forward deployed in advance of the tariffs going into effect? If costs end up being higher, who will absorb them? What we can share is what we've seen thus far, which is that through the first half of the year, we haven't yet seen diminishing demand nor prices meaningfully appreciating. We also have such diversity of sellers in our marketplace, over 2 million sellers in total, with differing strategies of whether to pass on higher costs to consumers, that customers are advantaged shopping at Amazon because they're more likely to find lower prices on the items they care about. Further improving delivery speed remains a key focus, and we continue to make progress. We've previously shared how we re-architect our U.S. inbound network into a regional structure, allowing us to place inventory and ship from locations closer to customers, improving speed and lowering costs. That work is delivering tangible results. In Q2, we've increased the share of orders moving through direct lanes, where packages go straight from fulfillment to delivery without extra stops, by over 40% year over year.

Speaker 1
6m 13s

We've also reduced the average distance packages traveled by 12% and lowered handling touches per unit by nearly 15%. We've made progress on order consolidation. With more products positioned locally, we're able to pack more items into each box and send fewer packages per order. That has helped drive higher units per box and improved overall cost to serve. Taken together, these improvements are making the network faster and structurally more efficient. We've also set another global speed record in Q2, delivering to Prime members at our fastest speeds ever. In the U.S., we delivered 30% more items same day or next day than during the same period last year. Items customers used to pick up locally in nearby physical stores are now arriving at their door, often within hours. We're working to further improve delivery speeds no matter where customers live. We've recently announced plans to expand our same-day and next-day delivery to tens of millions of U.S. customers in more than 4,000 smaller cities, towns, and rural communities by the end of the year. Today, it's already available in more than 1,000 of these communities across the U.S. The early response from customers in these areas has been very positive.

Speaker 1
7m 27s

They're shopping more frequently and purchasing household essentials at meaningfully higher rates. Automation and robotics are also important contributors to improving cost efficiencies and driving better customer experiences over time. We deployed our 1 millionth robot across our global fulfillment network and unveiled innovations at our last-mile innovation center, such as automated package sorting and a transformative technology that brings packages directly to employees at an ergonomic height. We rolled out Deep Fleet, our AI that improves robot travel efficiency by 10%. At our scale, that's a big deal. Deep Fleet acts like a traffic management system to coordinate robots' movements to find optimal paths and reduce bottlenecks. For customers, it means faster delivery times and lower costs. For our team members, our robots handle more of the physically demanding tasks, making our operations network even safer. This combination of robotics and generative AI is just getting started, and while we've made significant progress, it's still early with respect to what we'll roll out in the next few years. Moving on to Amazon Ads, we're pleased with the strong growth, generating $15.7 billion of revenue in the quarter, growing 22% year over year. We continue to see strength across our broad portfolio of full-funnel advertising offerings that, in the U.S. alone, help advertisers reach an average ad-supported audience of more than 300 million across our own properties.

Speaker 1
8m 57s

These are properties like our retail marketplace, Prime Video, Twitch, and Fire TV, in live sports such as NFL, NASCAR, and the NBA, as well as third-party websites and apps. Another area we're excited about is our demand-side platform, or Amazon DSP. Our DSP enables advertisers to plan, activate, and measure full-funnel investments. Our trillions of proprietary browsing, shopping, and streaming signals, paired with extensive supply-side relationships and our secure clean rooms, provide advertisers the ability to optimize advertising, deliver greater precision, and drive efficient and effective advertising outcomes. In June, we announced a momentous partnership with Roku, giving advertisers access to 80 million connected TV households, the largest authenticated connected TV footprint in the U.S., exclusively through Amazon DSP. It's a giant leap forward for advertisers, bringing best-in-class planning, audience precision, and performance to TV advertising. We also announced an integration between Disney's real-time ad exchange and Amazon DSP. This collaboration allows advertisers to gain direct access to Disney's premium inventory across platforms like Disney+, ESPN, and Hulu, while allowing them to leverage insights from both companies. When advertisers work with Amazon, they're not just buying ad space. They're benefiting from exceptional programming, innovative technology, and unrivaled signals, measurement, and audience development that provide strong relevancy for consumers and return on investment for brands.

Speaker 1
10m 33s

Moving on to AWS. In Q2, AWS grew 17.5% year over year and now has over a $123 billion annualized revenue run rate. We continue to help organizations of all sizes accelerate their transition to the cloud, signing new agreements with companies including PepsiCo, Airbnb, Peloton, NASDAQ, London Stock Exchange, Nissan Motor, GitLab, SAP, Warner Bros. Discovery, 12 Labs, FICO, Iberia Airlines, SK Telecom, and NatWest. In the rapidly evolving world of generative AI, AWS continues to build a large, fast-growing, triple-digit year-over-year %, multi-billion-dollar business with more demand than we have supply for at the moment. A few points to make. First, on the hardware side, our custom AI chip, Trainium 2, is landing capacity in larger quantities and has impressively emerged as the backbone for Anthropic's newest generation Claude models and many of our most essential offerings like Amazon Bedrock. We've also launched Amazon EC2 instances powered by NVIDIA Grace Blackwell Superchips, AWS's most powerful NVIDIA GPU-accelerated instance. Second, in Bedrock, we've recently added Anthropic's Claude 4, and it's the fastest-growing model ever in Bedrock. We've also continued to see strong adoption of Amazon Nova, our own frontier model, and it's now the second most popular foundation model in Bedrock.

Speaker 1
12m 7s

New features in Nova allow customers to customize their Nova models in ways they can't on other foundation models, allowing organizations to infuse these models with their unique expertise while optimizing for cost and speed. As people have become excited about building agents, they're realizing they lack the tools to build them. In May, we released Strands, an open-source way to more easily build agents that's taken off with a wide range of customers with already 2,500 stars on GitHub and over 300,000 downloads on PyPI. Customers are also struggling with deploying agents into production in a secure and scalable way. It's holding up enterprises' scaling agents. To help solve that problem, Bedrock just released Agent Core. Agent Core is a set of building blocks that gives customers the industry's first secure serverless runtime to provide both synchronous and asynchronous execution, agent identity and boundaries, a memory service, a gateway that translates services to MCP-compatible interfaces, built-in code execution and web browser tools, and an observability service. Customers are excited about Agent Core, and it frees them up to start deploying agents more expansively. Third, you're starting to see AWS release more powerful applications at the top layer of the AI stack.

Speaker 1
13m 31s

AWS Transform is an AWS agent that dramatically reduces mainframe modernization timelines from years to months, completes VMware to EC2 conversions up to 80 times faster, and makes it simple to move from .NET Windows to .NET Linux implementations, reducing licensing costs for .NET applications by up to 40%. We've also just released Cura, our new agentic integrated development environment coding agent. There's a lot of buzz around Cura, with several hundred thousand developers using or requesting access in the first couple of weeks, 100,000 used in the first five days of the preview. What struck a chord for developers is that Cura allows them to do vibe coding, where developers use natural language to chat with a coding agent to build code. Unlike other coding agents, where developers do not really have any structure to build on top of, Cura allows developers to use natural language to build a spec and then automatically updates that spec as they continue to vibe code or interact with Cura. This makes it much easier to go from prototyping to production. Customers also like Cura's event-driven agent hooks that act like an experienced developer catching things developers might miss. When developers save a React component, hooks update the test file.

Speaker 1
14m 48s

When they modify API endpoints, hooks refresh README files. When they're ready to commit, security hooks scan for leaked credentials. It's still very early for Cura, but it seems clear we're onto something customers love, and Cura has a chance to transform how developers build software. I say this frequently, but remember that 85%-90% of worldwide IT spend is still on-premises versus in the cloud. In the next 10 to 15 years, that equation is going to flip, further accelerated by companies' excitement for leveraging AI. AWS's significantly broader functionality, stronger security and operational performance, and much deeper experience helping enterprises modernize their infrastructure bodes well for the AWS business moving forward. We're also seeing momentum in a number of our other areas across Amazon. I'll mention just a few. We're excited about our progress with Alexa Plus, our next-generation assistant powered by generative AI. We've been rolling out early access to U.S. customers to start. Millions of customers have access now. We're seeing very positive feedback and will continue to iterate on the experience. We've recently completed our third successful launch of Project Kuiper. We haven't launched this service commercially yet, but already have an impressive amount of enterprise and government customers who have signed agreements to use Kuiper.

Speaker 1
16m 11s

In Prime Video Live Sports, our first season of NASCAR drew about 2 million viewers per race and the youngest audience among NASCAR broadcasters in more than a decade. We've recently announced our stellar broadcasting crew for our upcoming first NBA season, including Ian Eagle, Stan Van Gundy, Kevin Harlan, Dwyane Wade, Taylor Rooks, Blake Griffin, Dirk Nowitzki, Steve Nash, and Candace Parker. We also announced Denis Villeneuve, an Academy Award nominee, as the director for the next James Bond film. James Bond is in the hands of one of today's greatest filmmakers, and we cannot wait to get started on 007's next adventure. Finally, we continue to be very pleased with the growth and resonance of Amazon Pharmacy as it's grown 50% year over year to date on an already significant size base. A lot of good things happening across the company. With that, I'll turn it over to Brian for a financial update. Thanks, Andy. Let's start with our top-line financial results. Worldwide revenue was $167.7 billion, a 12% increase year over year, excluding the impact of foreign exchange. Foreign exchange had a $1.5 billion favorable impact to revenue in the quarter as foreign currencies generally strengthened versus the U.S. dollar.

Speaker 1
17m 29s

As a reminder, our Q2 revenue guidance had anticipated an unfavorable impact of approximately 10 basis points or $100 million. Worldwide operating income was $19.2 billion, which was $1.7 billion above the high end of our guidance range. Across our segments, we continue to prioritize cost-effective innovation that delivers value for our customers. In the North America segment, second-quarter revenue was $100.1 billion, an increase of 11% year over year. International segment revenue was $36.8 billion, an increase of 11% year over year, excluding the impact of foreign exchange. Worldwide paid units grew 12% year over year. We remain focused on inputs that matter most to our customers. In the second quarter, we saw broad-based strength across our key performance metrics. This includes sharp pricing and more in-stock availability, as well as record delivery speeds for Prime members. Our millions of global sellers continue to be an important contributor to our vast selection. This helps customers find the items they need and does so at a competitive price. Our investment in tools, services, and fast delivery speeds help our selling partners reach more customers and further scale their businesses. In Q2, worldwide third-party seller unit mix was 62%, the highest ever, up 100 basis points from Q2 of last year. We are also closely monitoring the macroeconomic environment, including the impact of tariffs.

Speaker 1
19m 5s

As Andy mentioned, our Q2 plan factored in a range of assumptions, not all of which materialized. We will continue to consider a range of assumptions going forward. Shifting to profitability, North America segment operating income was $7.5 billion, an increase of $2.5 billion year on year. North America operating margin was 7.5%, up 190 basis points year over year. International segment operating income was $1.5 billion, up $1.2 billion year over year. International operating margin was 4.1%, up 320 basis points year over year. We're pleased with the strong execution of our operations teams and the positive experience they delivered for customers. In Q2, we saw productivity gains in our transportation network, driven by improved inventory placement, strong leverage on high unit volumes, and higher levels of in-demand inventory from both first-party and third-party selling partners. These factors contributed to faster delivery speeds and lower costs. Outbound shipping costs were up 6% year over year and continue to grow at a meaningfully slower pace than unit growth, which, as I mentioned earlier, was up 12% year over year. We're committed to initiatives that further improve our cost structure. Strategic inventory placement drives multiple benefits, including better in-stock availability, shorter delivery routes, and faster customer delivery times.

Speaker 1
20m 41s

When we optimize inventory location, we can consolidate more items per package, reducing packaging materials and costs. To achieve this, we will continue to improve upon our inbound network, expand our U.S. same-day delivery facilities, including in rural communities, and implement robotics and automation across our facilities. While year-over-year improvements in operating margin may fluctuate, we have a purposeful strategy to achieve sustained progress over time. Shifting to advertising, advertising revenue grew 22% year over year, driven by sponsored products as we saw strong traffic in our stores. Advertising remains an important contributor to profitability in the North American international segments. Our full-funnel advertising approach of connecting brands with customers is resonating. Moving next to our AWS segment, revenue was $30.9 billion, an increase of 17.5% year over year. AWS now has an annualized revenue run rate of more than $123 billion. During the second quarter, we continue to see growth in both our generative AI and non-generative AI businesses as companies turn their attention to newer initiatives, bring more workloads to the cloud, restart or accelerate existing migrations from on-premise to the cloud, and tap into the power of generative AI. AWS operating income was $10.2 billion. We did see AWS segment margins decline from a record high of 39.5% in Q1 to 32.9% in Q2.

Speaker 1
22m 22s

The largest quarter-over-quarter driver of the decrease, or about half, is due to the seasonal step-up in stock-based compensation expense, driven by the timing of our annual compensation cycle. AWS margins also saw headwinds from higher depreciation expense, as well as unfavorable impacts from year-over-year fluctuations in foreign exchange rates. The depreciation expense is a result of our growing investments in capital expenditures in AWS. As we've said in the past, we expect AWS operating margins to fluctuate over time, driven in part by the level of investments we are making at any point in time. We will continue to invest more capital in chips, data centers, and power to pursue this unusually large opportunity that we have in generative AI. Now turning to our cash CapEx, which was $31.4 billion in Q2. We expect Q2 CapEx to be reasonably representative of our quarterly capital investment rate for the back half of this year. AWS continues to be the primary driver as we invest to support demand for our AI services and increasingly in custom silicon like Trainium, as well as tech infrastructure to support our North America and international segments. Additionally, we continue to invest in our fulfillment and transportation network to support growth of the business, improve delivery speeds, and lower our cost to serve by investing in same-day delivery facilities, as well as robotics and automation.

Speaker 1
23m 53s

Collectively, these investments will support growth for many years to come. Moving on to our third-quarter financial guidance. As a reminder, our guidance considers a range of possibilities, which take into consideration Q2 results, trends we see quarter to date, and expectations around the macroeconomic environment, including tariffs. Q3 net sales are expected to be between $174 billion and $179.5 billion. We estimate the year-over-year impact of changes in foreign exchange rates based on current rates, which we expect to be a favorable impact of approximately 130 basis points. As a reminder, global currencies can fluctuate during the quarter. Q3 operating income is expected to be between $15.5 billion and $20.5 billion. In this dynamic environment, we will focus on what matters most: delivering exceptional customer value through broad selection, competitive prices, and unmatched convenience. We will remain focused on driving a better customer experience and 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. 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. If you would like to ask a question, please press star one on your keypad.

Speaker 1
25m 21s

We ask that when you pose your question, you pick up your headsets to provide optimum sound quality. Once again, to initiate a question, please press star, then one on your touch-tone telephone at this time. Please hold while we pull for questions. Thank you. Our first question comes from Doug Anmuth with JP Morgan. Please proceed with your question. Thanks so much for taking the questions. I have two. First, can you just help us understand with some more granularity how tariffs are being absorbed across suppliers, Amazon, and consumers, and whether you anticipate any change going forward? Then second, on AWS, we're seeing significantly faster cloud growth among the number two and three players in the space. I totally appreciate that AWS is coming off of a bigger base. Beyond that, do you think the output gap is due more to customer demand or infrastructure supply or both? Thanks. Yeah, I'll take both those. I'll start with the tariffs. You know,I think what we've said a number of times, and we still believe it, is we just don't know what's going to happen moving forward. It's hard to know where the tariffs are going to settle, particularly in China.

Speaker 1
26m 52s

It's hard to know what will happen when we deplete some of the pre-buys that we did on our own first-party retail and then some of the forward deploying that we saw of our third-party selling partners. If costs go up over time, we're unsure at this point who's going to end up absorbing those higher costs. What we can tell you is what we've seen so far in the first half of the year. In the first half, we just haven't seen diminished demand, and we haven't seen any kind of broad-scale ASP increases. That could change in the second half. There are a lot of things that we don't know, but that's what we've seen so far. On the question on AWS, the first thing I'd say is, as you said, Doug, in your question, year-over-year percentages and growth rates are always a function of the base on which you operate. We have a meaningfully larger business in the AWS segment than others. I think the second player is about 65% of the size of AWS. When we look at the results over the last number of quarters, there are some times where, as far as we can tell, we're growing faster than others, and sometimes others are growing faster than us.

Speaker 1
28m 16s

It is still, if you look at the second-place player you're talking about, a pretty significant market segment leadership position that we have. Regardless, these are all really just moments in time. The last week is a moment in time too where the reality of what really matters is what customers' experiences are in operating on these platforms. If you look at what matters to customers, they care a lot about what the operational performance is, what the availability is, what the durability is, what the latency and throughput is of the various services. I think we have a pretty significant advantage in that area. They care a lot about security. If you have data that matters, and for most companies, they're putting data that they really care about in the cloud, the security and the privacy of that data matters a lot. There are very different results in security in AWS than you'll see in other players. You can just look at what's happened the last couple of months. You can just see kind of adventures at some of these players almost every month. There is a very big difference, I think, in security. I think a really significant difference in functionality where not just in the core infrastructure do we have a lot more functionality in our services, but I think if you look at our end-to-end offering in AI, it is from the bottom of the stack all the way to the top.

Speaker 1
29m 45s

It is pretty different. I feel good about the inputs and the services that we are offering to customers across AI as well as non-AI. We have more demand than we have capacity right now. We could be doing more revenue and helping customers more. We are working very hard on changing that outcome and how much capacity we have. It's still, if you look at the business, it's a $123 billion annual revenue run rate business, and it's still early. I mean, how often do you have an opportunity that's $123 billion of annual revenue run rate where you say it's still early? It's a very unusual opportunity that we're very bullish about. Thank you. Our next question comes from Mark Mahaney with Evercore. Please proceed with your question. Okay. I'll stick with AWS to start it with. Could you just disclose the backlog number? And then in the past, I know you've talked about these supply constraints and hoping that they will sort of resolve themselves by the back half of the year. Is that still your intention? Anything that suggests that the supply constraints are going to get resolved earlier or later? And then a long-term question on Alexa Plus.

Speaker 1
31m 2s

I've been experimenting with it for a while. Just, Andy, when you think about the potential that that has in terms of increasing engagement, maybe tapping into some services revenue, advertising, maybe a little bit more retail sales per household, you're just reducing friction. Just talk about from a financial perspective, how you think that could play out, how we would maybe see that in numbers. Thank you very much. Hey, Mark, this is Dave. I'll just start off to give you the backlog figure. At the end of the quarter, at June 30, that was $195 billion. That's up about 25% year over year. On the supply constraints as it relates to AWS and what we see there, as I mentioned, we have more demand than we have capacity at this point. I think that, and you see some of the constraints, and they kind of exist in multiple places. The single biggest constraint is power. You also see constraints off and on with chips and then some of the components that once you have the chips to actually make the servers, there are sometimes you have new generations of chips that are a little bit later than they're supposed to be.

Speaker 1
32m 18s

Sometimes you get the chips and the yield you get in making servers isn't what you expect when you get to ramp. There are a bunch of those pieces today that we're working on. It's really true across the industry today. I don't believe that we will have fully resolved the amount of capacity we need for the amount of demand that we have in a couple of quarters. I think it will take several quarters. I do expect that it's going to get better each quarter. I'm optimistic about that. I think on the Alexa question, I'd start by saying the Alexa Plus experience is so much better than I think our prior Alexa experience. She's much more intelligent than her prior self. She's much more capable. I would say, unlike the other chatbots that are out there today who are good at answering questions but really can't take any action for you, Alexa Plus can take a lot of action for you, which is very compelling. I can ask Alexa to play music for me or play video for me or move my music from one device to another. If I'm listening to a song that's in a movie, I can ask Alexa Plus to actually put that movie scene on of a song I'm playing, and it'll put it on my Prime Video and Fire TV.

Speaker 1
33m 43s

If I have guests coming over, I can say, "Alexa, draw the curtains, put the light on the porch and the driveway, increase the temperature by five degrees, and put on music that would be great for a dinner party." She does all that just for using natural language. She can take a lot of actions. It's compelling. What we see so far, we've been rolling out Alexa Plus starting in the U.S. It's with millions of customers now. The rest in the U.S. coming in the next couple of months and starting the international rollout more broadly later in the year. Customers really like the experience. They recognize how much better it is than what it was before. The ratings are very high. The usage is much more expansive than what they were using before. The number of calls they're making is meaningfully higher. I think there are a number of different areas where we'll see benefit. I think first, if you build the world's best personal assistant, that has a lot of utility for customers, and therefore it gets used a lot. It means everything from people are excited about the devices that they can buy from us that has Alexa Plus enabled in it.

Speaker 1
35m 3s

People do a lot of shopping, and it's a delightful shopping experience that will keep getting better. I think over time, there will be opportunities as people are engaging in more multi-turn conversations to have advertising play a role to help people find discovery and also as a lever to drive revenue. I think over time, you could also imagine as we keep adding functionality that there could be some sort of subscription element beyond what there is today. Today, Prime members get Alexa Plus for free, and non-Prime members pay $19.99 a month for Alexa Plus. I think it's still very early days, but we're very encouraged by the experience we're providing. You can bet we're going to be iterating on it constantly. Thank you. Our next question comes from the line of Colin Sebastian with Baird. Please proceed with your question. Thanks for taking the questions. I guess first off, with respect to the international segment and the progress in both revenues and margins, I was hoping you could add maybe some color on the drivers of each of those and the sustainability of the improved efficiency in those markets. Andy, you mentioned Kuiper. We haven't heard as much about that of late.

Speaker 1
36m 21s

Maybe if you could review where things stand relative to next year's launch target, timing of the service rollout, and any perspective you have on the longer-term ambitions for the satellite network. Thank you. Thanks, Colin. This is Brian. I'll start with the international segment question. Very strong quarter for international segment, both on revenue growth and also on operating margin. Operating margin was up 320 basis points year over year to 4.1%. If you look, that's the continuation of a strong progression we've seen quarter by quarter over the last 10 quarters. In total, we've seen an increase of close to 700 basis points during that time period. Really, it's a tale of two pieces of two segments or, excuse me, sections within international. One is the established countries like the U.K., Germany, and Japan already at similar margin profiles to the U.S. As they continue to grow, their contribution to profit will grow over time. That's what we're seeing. In the quarter, we saw strong productivity in our transportation network in those countries, much like we saw in the U.S. That has led to higher units per package and faster delivery speeds at lower costs. Again, the theme of lower cost to serve and also increased speed and better selection for customers continues to grow internationally as well.

Speaker 1
37m 51s

In our emerging countries, we're pleased with the progress we're making there. We've launched eight countries, of course, in the last five years. They're all varying degrees of upfront investment and different point times in their journey to profitability. They're all making very nice improvements quarter over quarter in growing selection, adding Prime members, and expanding our customer offering. I think what you're seeing again is sustained improvement in those areas. Feel very good about it. The established countries are continuing to grow and develop and very much look like the U.S. The emerging countries, again, are all very different stages of growth right now. On the Project Kuiper question, Project Kuiper is our low Earth orbit satellite constellation that we are putting up and launching. There are 400-500 million households worldwide who do not have broadband connectivity. It means they cannot do a lot of the things we take for granted, like education online or business online or shopping or entertainment. There is really a digital divide, and it is much needed. It is also true for enterprises and for governments that they have assets or needs to have visibility or connectivity that they cannot get today given the lack of broadband in a bunch of places around the world.

Speaker 1
39m 13s

There is a high need. I would say that as we get our constellation into space, there will really be two players that have what I would consider the modern technology in low Earth orbit satellite. One is the incumbent in the market today, and the second will be Project Kuiper. I think that we will have a pretty meaningful differentiation here in performance. If you look at the performance of what I expect on the uplink and downlink, I think Project Kuiper will be advantaged. I also think the pricing is going to be very compelling for customers. If you think about the three key customer segments who want low Earth orbit satellite: consumers, enterprises, and governments. We have very strong relationships with all three customer segments given our consumer businesses and our AWS business. If you think about enterprises and governments, a lot of what they want to do when they take the data down from space is they actually want to put it into a cloud to do analysis, analytics, and AI and various operations on top of it. The fact that Project Kuiper and AWS are so seamlessly connected is very attractive to enterprises and to governments.

Speaker 1
40m 38s

I'm kind of amazed. We haven't launched Project Kuiper yet, but the number of enterprise and government agreements that have been signed already to use Project Kuiper is impressive. We are working very hard to get the satellites into space. We have some delays with some of the rocket providers, but we have most of the available rocket launches over the next couple of years. We're very hopeful to get the service into commercial beta later this year, early next year. Thank you. Our next question comes from the line of Brian Nowak with Morgan Stanley. Please proceed with your question. Thanks for taking my questions. Andy, I have two for you on AWS. They're a little tough, but I'm going to throw them at you. There is a Wall Street finance person narrative right now that AWS is falling behind in GenAI with concerns about share loss to peers, etc. Can you just sort of address that? What is your rebuttal to that? And talk to us about your and the team's most important focal point just to ensure that AWS stays on the knife's edge of innovation versus hyperscaler peers. Then secondly, I know AWS is a big business, but is there any reason to assume it shouldn't accelerate in the back half and into 2026 given the size of the opportunity and all of the GenAI capabilities going to sort of come to us in the next 12 months?

Speaker 1
42m 16s

Yeah. On the first one around AI, the first thing I would say is that I think it is so early right now in AI. If you look at what's really happening in the space, it's very top-heavy. You have a small number of very large frontier models that are being trained that spend a lot on computing, a couple of which are being trained on top of AWS, and others are being trained elsewhere. You also have, I would say, a relatively small number of very large-scale generative AI applications. The one category would be chatbots with the largest by a fair bit being ChatGPT, but the other category being really, I'll call it coding agents. These are companies like Cursor or Vercel and Lovable and some of the companies like that. Again, several of which run significant chunks on top of AWS. Then you've got a very large number of generative AI applications that are in pilots or that are being developed as we speak and a very substantial number of agents that also people are starting to try to build and figure out how to get into production in a broad way. They're quite early. Many of them that are out there are significant, but they're just smaller in terms of usage relative to some of those top-heavy applications I mentioned earlier.

Speaker 1
43m 54s

We have a very significant number of enterprises and startups who are running applications on top of AWS's AI services. The amount of usage and the expansiveness of the use cases and how much people are putting them into production and the number of agents that are going to exist, it's still just earlier stage than it's going to be. When you think about what's going to matter in AI, what are customers going to care about when they're thinking about what infrastructure to use, I think you kind of have to look at the different layers of the stack. I think for those that are both building models, but also just if you look at where the real costs are, they're going to ultimately be in inference. Today, so much of the cost is in training because customers are really training their models and trying to figure out how to get applications into production. At scale, 80-90% of the cost will be in inference because you only train periodically, but you're spitting out predictions and inferences all the time. What they're going to care a lot about is they're going to care about the compute and the hardware they're using.

Speaker 1
45m 7s

We have a very deep partnership with NVIDIA and will for as long as I can foresee. We saw this movie in the CPU space with Intel where customers are hankering for better price performance. We built, just like in the CPU space, where we built our own custom silicon and building Graviton, which is about 40% more price performance than the other leading x86 processors. We've done the same thing on the custom silicon side in AI with Trainium. Our second version of Trainium 2 has really become the backbone of Anthropic's next Claude models they're training on top of. It has become the backbone of Bedrock and the inference that we do. I think a lot of the inference, it's about 30-40% better price performance than the other GPU providers out there right now. We're already working on our third version of Trainium as well. I think a lot of the compute and the inference is going to ultimately be run on top of Trainium 2. I think that that price performance is going to matter to people as they get to scale. I would say that that middle layer of the stack, it's a combination of services that customers care about to be able to build models and then to be able to leverage existing leading frontier models and then build high-quality generative AI applications that do inference at scale.

Speaker 1
46m 35s

We see it for people building models. They continue to use SageMaker AI very expansively. Bedrock, when you're leveraging leading frontier models, is also growing very substantially. As I said in my opening comments, the number of agents at scale is still really small on the scheme of what's going to be the case. Part of the problem is it's actually hard to actually build agents, and it's hard to deploy these agents in a secure and scalable way. I think the launches we made recently in Strands that make it much easier to build agents and then Agent Core that make it much easier to deploy at scale and in a secure way are being very well received, and customers are excited. It's going to change what's possible on the agent side. I think that you've got a very large number. I mean, remember, 85-90% of the global IT spend is still on premises. If you believe that equation is going to flip, which I do and we do, you have a lot of legacy infrastructure that you've got to move. These are mainframes. These are VMware instances. When we build agents like AWS Transform that make it much easier to move mainframes to the cloud, much easier to move VMware to the cloud, much easier to move .NET Windows to .NET Linux to save money, those are compelling for enterprises or things like Cura that allow customers to develop in a much easier way and in a much more structured way, which is why I think people are excited about it.

Speaker 1
48m 10s

I really like the inputs and the set of services that we're building in the AI space today. Customers really like them, and it's resonating with them. I still think it's very early days in AI and in terms of adoption. The other thing I would just say is that, remember, because we're at a stage right now where so much of the activity is training and figuring out how to get your generative AI applications into production, people aren't paying as close attention as they will in making sure that those generative AI applications are operating where the rest of their data and infrastructure is. Remember, a lot of generative AI inference is just going to be another building block like compute and storage and database. People are going to actually want to run those applications close to where their other applications are running, where their data is. There are just so many more applications and data running in AWS than anywhere else. I'm very optimistic about, as we get to a bigger scale, what's going to happen for AWS on the AI side. I think we have a set of services that is unique top to bottom in the stack.

Speaker 1
49m 17s

I think on the last part about what do we expect with respect to acceleration, we do not give guidance by segments. I am not going to try and give you guidance, but I do believe that the combination of more enterprises who have resumed their march to modernize their infrastructure and move from on-premises to the cloud, coupled with the fact that AI is going to accelerate in terms of more companies deploying more AI applications into production that start to scale, coupled with the fact that I do think that more capacity is going to come online in the coming months and quarters, make me optimistic about the AWS business. Thank you. The next question comes from the line of Ron Josey with Citi. Please proceed with your question. Thanks for that, Andy. That was really helpful. Maybe taking that same question, but focusing internally on Amazon. I think you penned an article or a blog post back in June just talking about the ability or potential with GenAI agents and improving efficiencies and speed to market internally. I would love to hear your thoughts as you think about how Amazon is adopting generative AI internally, how perhaps you've seen improving speed to market as a result of everything you've just talked about.

Speaker 1
50m 48s

Thank you. Yeah. I think that AI is the biggest technology transformation of our lifetime, which is saying a lot because even in some of our relatively short lifetimes, we've been through the cloud and mobile and the internet itself. I think it's going to be the biggest transformation technically in our lifetime. I think it's going to not only change every customer experience that we know and enable customer experiences we really only dreamed about before, but it's also going to change very substantially the way we work. If you think about it, the way that we do coding, the way that we do analytics, the way that we do research, the way that we do finance and measure finance, I mean, really, the way we do business process automation, the way we do customer service, every single area that I can think of in the way we work is likely going to be impacted in some meaningful way by AI. I think when you have a big shift like that, you have two macro choices. You can either decide that you're going to embrace it, and you're going to help shape it, and you're going to figure out how to build the right tools to allow you to take advantage of the technology, or you can wish it away and have it shape you.

Speaker 1
52m 14s

The posting that you're referencing, Ron, that I made was just really being clear with the team that we're going to pursue that former approach, that we are going to embrace it, and we're going to try and shape it. We have a number of tools and agents that we've built already inside the company. These are things like if you think about Cura and the opportunity to have coding agents do a lot of the coding, that's very compelling. It's going to allow our teammates to be able to start from a more advanced starting spot and to be able to invent for customers much more quickly and much more expansively. If you think about services like Connect, which is our AWS service that does call center software, that has a lot of AI built into it that changes the productivity of all your customer service agents. You can just imagine across the board the types of things we're going to do to make it easier to get software out, to build high-quality software, to do operations and QA, to automate a lot of the business process coordination that happens inside the cloud. We're going to work on a whole bunch of those areas to allow ourselves primarily to be able to invent for customers much more quickly and expansively.

Speaker 1
53m 37s

I think it's going to make all of our teammates' jobs much more enjoyable because they won't have to do as many of the rote parts of the job that we all do right now. They're going to be able to own more pieces of what they're trying to solve for customers. We want deep owners that want to own as much end-to-end as possible. Thank you. Our final question will come from the line of Justin Post with Bank of America. Please proceed with your question. Great. Thanks. I'll just ask on the revenue guidance. It looks pretty robust growth in the third quarter. I know you won't say whether AWS is expected to accelerate, but could you talk about some of the drivers and what kind of tariff and other contingencies you've put in there? And then maybe any thoughts on how you're thinking about how the Q4 is shaping up. Thank you. Yeah. Hi, Justin. This is Brian. I'll take this one. Yeah, we've got it to $174 billion-$175 billion, excuse me, $179.5 billion at a typo. We feel good about the growth rate in Q2 that we had and the acceleration in a number of areas, including units.

Speaker 1
54m 55s

And we had a very successful Prime Day earlier this month. There is uncertainty on where tariffs will settle and maybe the ultimate impact on consumers, as Andy mentioned earlier. We feel really good about the key inputs. We control price, selection, and convenience. We've talked about delivery speeds increasing. We've talked about selection increasing, high-in-stock levels, well-dispersed inventory close to customers. We think that all works in our favor. I would say we're cautiously optimistic. I'm not going to give any guidance for Q4 at this time, but we'll talk about that next time. Thanks for joining us on the call today and for your questions. A replay will be available on our investor relations website for at least three months. We appreciate your interest in Amazon and look forward to speaking with again next quarter. Ladies and gentlemen, that does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.