# Q3 2021 Earnings Call

## Company Participants

- Brian T. Olsavsky, Senior Vice President and Chief Financial Officer
- Dave Fildes, Director of Investor Relations
- Unidentified Speaker

## Other Participants

- Brent Thill
- Brian Nowak
- Dan Salmon
- Doug Anmuth
- Eric Sheridan
- Justin Post
- Mark Mahaney
- Ross Sandler

## Presentation

### Operator

Thank you for standing by. Good day everyone and welcome to the Amazon.com Q3 2021 financial results teleconference. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Today's call is being recorded. For opening remarks, I will be turning the call over to Director of Investor Relations, Dave Fildes. Please go ahead.

### Dave Fildes {BIO 20638976 <GO>}

Hello and welcome to our Q3 2021 Financial Results Conference Call. Joining us today to answer your questions is Brian Olsavsky, our CFO. As you listen to today's conference call, we encourage you to have our press release in front of you, which includes our financial results as well as metrics and commentary on the quarter. Please note, unless otherwise stated all comparisons in this call will be against our results for the comparable period of 2020. Our comments and responses to your questions reflect management's views as of today, October 28, 2021 only and will include forward-looking statements.

Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent annual report on Form 10-K and subsequent filings. During this call, we may discuss certain non-GAAP financial measures in our press release slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website. You will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures.

Our guidance incorporates the order trends that we have seen to date and what we believe today to be appropriate assumptions. Our results are inherently unpredictable and may be materially affected by many factors including fluctuations in foreign exchange rates, changes in global economic conditions and customer demand and spending, labor market and global supply chain constraints, world events, the rate of growth of the Internet, online commerce, and cloud services, and the various factors detailed in our filings with the SEC.

This guidance also reflects our estimates to date regarding the impact of the COVID-19 pandemic on our operations, including those discussed in our filings with the SEC. Our guidance also assumes among other things that we don't conclude any additional business acquisitions, restructurings, or legal settlements. It's not possible to accurately predict demand for our goods and services, and therefore our actual results could differ materially from our guidance, and now I'll turn the call over to Brian.

## Brian T. Olsavsky {BIO 18872363 <GO>}

Thank you for joining us today. Let me first start by reiterating and expanding on a few comments that Andy made in our earnings release. We are now reporting our results for the 7th quarter since the pandemic begin, and we are especially proud of our employees for both their response to the unprecedented customer demand we have experienced as well as for their implementation of many safety procedures to create a safe work environment. During this period, we have continued to earn the trust of our customers, especially our prime members, who have increased their annual purchases and their use of Prime benefits over the last 20 months. We have also seen strong growth in our advertising products as vendors and sellers have embraced our ability to build their brands and to reach customers just as they are considering their purchases, and AWS has seen a reacceleration of revenue growth as customers have expanded their commitment to the cloud and selected AWS as their cloud partner. As a result, Amazon's Q3 revenue of $110.8 billion represented a 2-year compounded annual growth rate of 25% versus a pre-pandemic growth rate in the low 20% range. We are grateful to our customers, who have put their trust in us. However, there have certainly been challenges to overcome since February of last year. We have nearly doubled our operations capacity in the past 2-years to keep up with customer demand. We have incurred billions of dollars in additional costs to keep our employees safe and to support testing and other COVID related costs, and we have grown our global headcount by 628,000 employees in the past 18-months and recruiting for more, including more than 150,000 in the US to support Q4 seasonal demand. The demand for labor has recently coincided with the shortage of available workers, particularly in the United States. It began in Q2, but it really started to impact our operations and cost structure in Q3. It has led to wage increases and sign on incentives as companies compete for workers as well as inconsistent staffing levels in our operations.

In addition, disruption to the global supply chains and inflation in the cost of materials such as steel and services such as trucking have also raised our cost of operations. We estimate the cost of labor, labor-related productivity losses, and cost inflation to added approximately $2 billion in operating cost in Q3, particularly in August and September. Our Q4 guidance range anticipates that these costs will approach $4 billion in Q4 as we see a full quarter's impact of these effects in a higher seasonal unit volume. Specifically in Q3, we saw nearly $1 billion of inflationary pressures primarily tied to wage increases and incentives in our operations.

Our average starting wage is now over $18 dollars per hour with an additional $3 per hour depending on shifts in many locations and sign on bonuses that could be up to $3000. In addition, we saw inflationary pressures in raw materials and services as I mentioned, particularly in steel and third party trucking. We also saw over $1 billion of cost tied the lost productivity and disruption in our operations. In Q3, labor became our primary capacity constrained, not storage space or fulfillment capacity.

As a result, inventory placement was frequently redirected to fulfillment centers that had the labor to receive the products. This resulted in less optimal placement, which leads the longer and more expensive transportation routes. In short, our operations are normally well staffed and optimized to be in stock and to deliver to customers in one to two days. Labor shortages and supply chain disruptions upsets this balance and resulted in additional costs to ensure that we continue to maintain our service levels to customers. As you look to Q4, we have incorporated this nearly $4 billion of added costs into our operating income guidance range.

In addition, we have a nearly $1 billion year-over-year increase in Q4 for spend to support our digital media content efforts, including video, music, and games. We have recently launched New World, multiplayer online PC game; and we are delighted with the response and engagement. New World has become the highest played new game this year on Steam. Moving to video content, Prime Video has a compelling lineup of live sports including the UEFA Champions League and League One Soccer in France as well as NFL Thursday Night Football in the United States, and we have a great lineup of original series took forward to including the Wheel of Time, Lord of the Rings, Citadel, new seasons from Jack Ryan, and marvelous Mrs Maisel, and The Boys. We are excited to add this content to our Prime benefits and increase the value of our Prime membership. Q4's guidance also includes an estimated $1 billion year-over-year negative impact from lower fixed cost leverage in our fulfillment network. Recall that we saw very high unit volumes in Q4 of last year and then our fulfillment centers are running at close to a 100% capacity as we work to add physical capacity to match demand.

As we are now back to having more normal Q4 fulfillment capacity and have even brought forward 2022 capacity into 2021, our operating leverage drops compared with last Q4. Our revenue guidance for the fourth quarter reflects the current trends we are seeing, including the lapping of our Prime Day event in October of last year. We are dealing with labor risks and supply chain interruptions like many other companies, which increases our range of potential outcomes in Q4. Consumers have started to return to pre-pandemic spending patterns, increasing their mobility and spending more on travel and services in Q2 and Q3, but we are appreciative that the incremental demand that came our way during the pandemic has remained, and we are continuing to grow on top of that.

We also had to make this a great holiday season for customers. Last quarter, we discussed the physical capacity we were adding to meet customer demand. We made strong progress in Q3 to build and open new facilities, and as a result for the first time since the pandemic began, we are no longer capacity constrained for physical space in the network. September alone, we brought online more than 100 new buildings in the United States including fulfillment centers, sort centers, and the last mile delivery stations. For the year, we expect our 2021 footprint additions to exceed last year's build out, which was also significant.

With this in perspective, we are on track to double our fulfillment network over the 2-year period since the pandemic's early days. A lot of this increased capacity supports our FBA sellers. Third-party sellers and the products they offer remain an important strength of our offering for customers representing 56% of total paid units sold in Q3. That is up from 54% in Q3 of last year, and we were working with these partners, most of whom are small and medium-sized businesses to build an even stronger offering. We recently hosted Amazon accelerate, a US conference for selling partners or re-introduce new tools and capabilities, including local selling which enables sellers to start or expand their multichannel offerings by providing both in-store pickup and fast delivery to nearby customers and global selling tools to make it easier for US third party sellers to offer their products worldwide.

I will finish with a few highlights regarding too fast-growing areas with strong profitability profiles. First, we saw a continuation of strong usage and revenue growth in AWS with revenues accelerating to 39% year-over-year in Q3 driven by a broad base of services and customers. There are number of areas we are excited about, but let us focus for a moment on our efforts in machine learning. Customers of all sizes and across all industries are using AWS as the preferred cloud provider for machine learning services. We have been investing in this area for several years offering extensive set of machine learning services including ones that can be applied to common business problems like Amazon Connect for contact center intelligence or Amazon Kendra for intelligent enterprise search. We have recently launched solutions specific to industries including industrial machine learning services as well as Amazon HealthLake to help healthcare and life sciences customers seamlessly transform their data across disparate sources to understand and extract meaningful medical information.



An Amazon SageMaker continues to help customers scale their use the machine learning to core workloads making one of the fastest growing services in AWS history with tens of thousands of active external customers using it every month. We also continue to see strong interest in rapid adoption of our Custom Silicon, an AWS designed Graviton2 processors delivering customers up to 40% better price performance, I think current X86 processors. Moving to Graviton2 means little to no code changes, so the customers can quickly and easily migrate their workloads to access the best price performance in Amazon EC2.

Last but certainly not least, Amazon advertising continues to grow quickly representing the significant majority of other revenue, which grew 49% year-over-year in Q3. We are seeing strong adoption across Amazon vendors, sellers, and authors as well as brands that don't sell in our store, particularly as we have built out our streaming TV offerings. Of course, advertising only works if we make it useful for customers, and when we create great customer experiences, we deliver better outcomes for brands.

The team also recently hosted unbox 2021, our annual conference for advertisers and brands, where we shared some of our new solutions to help companies connect with their customers, measure the impact of their advertising, and grow their businesses. As we shift into Q4, we are heads down focused on delivering a great experience for our customers this holiday season. We are committed to make the necessary investments in both people and capacity to bring more items and stock and to deliver them quickly to customers.

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

# Questions And Answers

## Operator

Thank you. At this time, we will now open the call up for questions. We ask each caller to please limit yourself to one question. (Operator Instructions). Thank you. Our first question is coming from Justin Post with Bank of America. Please proceed with your question.

## Q - Justin Post {BIO 3469195 <GO>}

Great. Maybe I will ask about fulfillment capacity. You said your capacity is up 2x since before the pandemic, and I have got units up around 55% on a 2-year basis. So just wondering, is the capacity needed per unit going up as you speed up delivery times and try to get to 2 one day, and then second, are you in really good shape for next year, and could you be a head of plan for next year and kind of cut down the investment there? Thank you.

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

Yeah, hi, Justin. On your first question about whether their is any doubling of fulfillment capacity to the unit growth, keep in mind also that our fulfillment capacity also includes our transportation delivery capacity, and in the last 2 years, we have also greatly ratchet up our ability to deliver ourselves through AMZL and our percent of units that we deliver through AMZL is over 50% of our units globally, so that is a driver as well. I would also say that while we have been chasing really demand for last 2 years, we have been doing it, and as I said, we are running about 100% pretty much all of last year.

We are just now getting caught up on space for inventory and inventories being brought in to support the holiday, and if you look at year-over-year, well! unit's growth is as you say, closer to 8% in Q3. The inventory cube is up closer to 40% both in North America and internationally, so just like the second shoe that is dropping of getting the fulfillment centers back in stock, especially for sellers and especially as we head into holiday, so I think that capacity, the amount of space we have for inventory is also going up probably at a higher rate than our unit ship right now.

Your question about whether it pulls forward from next year, we are not forecasting into next year. We do see that we will, and we expect growth, and as I mentioned on the last call, we think that the growth will be suppressed for the 4 quarters that ends in the middle of Q2 next year, but we expect just as a comp versus 2020 just because of the 40% growth we saw last year, but we expect the long-term trends to be strong in this business. We are investing as such as I mentioned the 2-year CAGRs. I do that to see if we can kind of judge pre-pandemic versus today. We see strong growth even off at the base of last year, which was strong, so we will see next year on CapEx, and certainly for the foreseeable future, our capacity constraint is actually labor, which is new and not welcome, and that is what we have tried to articulate here today, and we are hoping that rectifies itself through Q4 and/or to early 2022.

## Operator

Our next question comes from Mark Mahaney with Evercore ISI. Please proceed with your question.

## Q - Mark Mahaney {BIO 3027058 <GO>}

Great. 2 questions. First, any color on this international losses in the quarter that was large even by Amazon standards that $900 million, and then secondly, you have been explaining so you have doubled this fulfillment capacity. I think to really kind of catch up to demand, but now, I think like you are getting ahead of it, and as you roll out you get close to one-day promise that you worked up 2 or 3 years ago pre-pandemic, and as you start rolling out super same-day delivery or what you call sub one-day delivery, talk about the incremental demand, you think that could unlock into the extent to which you're investing against not only to catch up to demand but trying to liberate future demand if you get my point. Thank you.

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

Yeah. I definitely do, and I am glad you brought that up because I didn't included in my last answer, but yes we have unfinished business on the one-day promise side. We were ramping that up nicely in 2019 in the first quarter of 2020 before the pandemic. We are still not back to levels that we saw pre-pandemic. We are getting closer. We feel again that current labor constraints have not helped us close the gap there, but we don't want to be just as good as we were before the pandemic. We expect that to increase in 2022, and we are going to plan accordingly, and I think you started to see the the difference in the growth rate before and after that one day. I won't forecast that too much, but we did see pick up, and we saw really that we got into the consideration set for more purchases when something's available in one day or less.

Now, you really don't have to go to a store even if you need it very quickly. So, it just opens up more ways for us to serve our customers especially our Prime customers. On your comment about international, Yes, you're right. It was a larger loss than in prior quarters. In fact, we had flipped to positive operating income through the pandemic. A lot of that was again getting 2 years of volume growth on top of a 1 year, current year cost structure. There is also a bit of a slowdown just in content and other things. Although we are building that, we would have built it at a higher clip, but the long-term trends remain the same in international. It is a group that has very different stages and different countries.

The established countries of Europe and Japan are further along obviously and they perform closer to the North America results. We have new countries. We have added a lot in the last few years, the investments in Brazil, the Middle East, Australia, and adjacent countries of Poland and Sweden within Europe. So, those are all import investments, but they start as an investment, and we build over time, and we front-load a lot of Prime benefits in those countries, especially things like video. We find video is a really strong attractor of customers, and it's a gateway to Prime to a lot of those countries, so the models are bit flipped versus what we saw in North America just because we added video later in the game, but we like what we see, and we see the actual hours watched and the percent of Prime members, who watch video are actually higher in a lot of the countries. The new countries were getting into, so as we said it, we are going to make money at the long-term in international. Right now, it is a bit of a umbrella that catches a lot of different countries in different stages. We are happy with both the established countries.

They are also seeing, however, the pressures that we are seeing in United States on labor cost and disruption from supply chains, so can't forecast this any further, but at the segment level; but I just wanted to give you a little color.

## Operator

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

## Q - Doug Anmuth

Thanks for taking the question. Brian, just curious how you fared in pulling holiday shopping earlier thus far this quarter and to what degree may help ease some of the impact and perhaps what did you learn there last year from having Prime Day in 4Q, and then can you just also talk a little bit about the drivers in AWS acceleration and how you think about the margin profile more contributions -- field. Thanks.

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

Sure. Yes. Let us start with the holiday shopping. So, yes, you're right. Last year as we look back, we used Prime Day to pull a lot of holiday shopping forward and people knew that delivery capacity across all retailers is going to be tight, so it was more distributed to the quarter. Obviously, that works better for us than to have it all hit in a few concentrated weeks around Cyber Monday and Black Friday, and the week before and 2 weeks after, so operationally, it is easier to perform when the volume spread out. You are seeing a lot of promotional activity from us in October.

Again, trying to do what we did last year is just pull something and get people to buy early. If that's to their advantage although we were preparing to serve people throughout the whole quarter. We feel we have done a good job of lining up inventory made commitments that of larger than normal. We have looked at getting more container capacity. We have been successful in that. We have accessed new ports and parts of entry into United States, so we are doing everything we can granted at a cost penalty in many cases, but we feel good about being able to serve customers this Q4, [ph] love it [ph], in October, but we will take it in November and December as well. On AWS, the acceleration, I would say that what we are seeing is again a lot of customers accelerate their journey to cloud based on the pandemic. Some of their spending was suppressed in 2020 as there is difference. Some companies were booming. Disney, Zoom, Netflix and others that were more travel related were suppressed in their demand, and I think there is a general level of recovery across a lot of our customer base. We are expanding our customer base into a lot of different areas -- new different customers, we add many new products that highlighted a few of our machine learning products.

So we feel really good about the acceleration in growth. We know there were some suppression last year, but the growth last year was still in the 28% to 33% range on an Fx-neutral basis through most of the year. On the margin side, we are going to fluctuate over time. There is a lot of moving parts. There is a lot of extensions of contracts and long-term commitments, which are great for our business and great for customers.

So there is negotiated long-term deals. There is also a lot of investment in new capacity and new regions to service high usage. We are certainly adding continuing to add to our sales force and marketing teams, and then the counterbalance on that is how well we run our data centers, what efficiencies we get, what cost reductions we get. So it is always going to be varying. We would like where we are and not forecast forward, but again they are apt to change, but we were working hard to keep it [ph] high [ph] and then well passing through benefits and efficiencies to customers in lower pricing.

## Operator

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

## Q - Brian Nowak {BIO 16819013 <GO>}

Great, thanks for taking my questions. I have two, Brian. The first one, I wanted to kind of ask a big picture question about the retail business. I know there is a lot of extra costs sort of moving through the system now, but I think can you just talk to us big picture about any changes or factors that have changed the company's view about the long-term profitability, the long-term trying to invested capital of the retail business now as opposed to at the end of 2019, and then the second one is on the physical stores. You have a quite a few different formats and experiments going on the physical stores. Talk to us about areas where you have seen sort of the most positive results from physical stores where you are pleased as opposed to areas where you still see room for improvement and the physical store strategy. Thanks.

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

Let me start with your comment on the, we will call the core retail business. We are very bullish on the retail business. In fact, it is impossible and not productive to even try and separate advertising from 3rd-party from retail. It is off to us part of the flywheel. We service customers. We do it in an efficient way, and we are in their trust and/or in the future business, and we fight that battle every day, and we look to expand the Prime program to build that flywheel. We look at new products and services like grocery and video and music, and we had the list that is long, so when you look at retail, it is certainly expensive right now, especially with the cost I have laid out in Q3 and Q4 for us to service that business.

However, we have other monetization vehicles including advertising that if we do well become a benefit to customers and to advertisers at the same time. That is what we work on, so that is an important part of our profitability structure. It is tied directly to happy customers, and customers who are engaged in buying things, so we don't separate those two. We do for some reasons. We want to make sure that we are understanding where our cost and where our profits happened to be, but we do realize, it is all part of the same customer offering, and we would like to return on investment flywheel. I get to see investments and warehouses trucking programs, new offerings that we do in your country expansion. We segment those as much as we can into discrete decisions, and then we track them and make sure that not only are we delighting customers or delighting shareholders in the long term, so we feel good about that. Certainly the cost of fulfillment in the last few months and what we forecast into the next quarter. We are -- happy of that, but we see ourselves as the shock absorber absorbing a lot of the cost so that the customers are not impacted and sellers are not impacted, and again just quite limited options in the short run to impact your cost structure.

Most companies would delay shipments or incur at fees or something. We don't think that is customer-centric nor productive, and we will get through this period and then we are committed to getting our cost structure down.

Brian, on the second question around the physical store strategy because we have a number of different brands and store types. Whole Foods being the largest that has got over 500 locations where we have got Amazon 4 star, Amazon books, the Fresh grocery stores, Amazon Go, and Amazon pop ups and each one, of course, has a name and the types of products we offer has its own differences, but I think when you step back, we have said that we want options for customers to be able to shop online in store, and -- you are seeing that probably most predominantly with the grocery offerings in the Whole Foods footprint that we've got out there and want to give customers choice and offer them the combination of doing that online and in store option whatever works best, and the goal around this has really raise the bar for what customers can expect with this omnichannel experience.

So we like the hybrid model, and we were working on continue to evolve on a lot of interesting in store experiences that will resonate with customers. We know that customers like to have a choice to be able to do that, so some of the things that we continue to be excited about and do a lot of work on are things like the Just Walk Out technology that has been in our Amazon Go stores and is now moved into some of our Amazon Fresh stores just really eliminates again one of those things that people may not realize as such a hassle or to turn to shopping at a waiting line and eliminating something, it has really been positively received by customers if they use that technology.

Another one, just as you enter these stores this technology we have now in a little over 70 of our physical retail stores that Amazon own, which is a contactless way for folks to enter stores using their palm to identify. So that's in retail stores and Whole Foods stores and so keep looking for us to roll it out. I would say with these technologies too there are opportunities beyond the Amazon physical store footprints, as I mentioned, you're starting to see just Walk Out going in sports and kind of a larger -- type environments and Amazon One is it some good locations and with those technologies, I am excited to employ them in Climate Pledge arena here in Seattle.

So look for us to keep iterating on those and finding other new innovative ways for customers to enjoy unique shopping experience.

## Operator

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

## Q - Eric Sheridan {BIO 22465717 <GO>}

Thanks so much for taking the question. Maybe if I can get back to on the Q4 cost structure just in terms of framing it almost against a year-ago period. Could you talk a little bit about the 4 billion of COVID costs from a year ago. The elements of EBIT contribution from things like AWS and 3rd party in advertising and maybe help investors better understand the bridge between some of the elements of headwinds to profitability in Q4 versus Q4 year-ago. I appreciate all the comments upfront, and if we could go a little bit deeper and then all of the costs you're incurring late Q3 into Q4, how should investors think about a permanent nature to that cost structure versus the transient nature of the cost structure either as an output of the macro environment or the unit environment in Q4. Thanks so much.

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

Sure. Thanks Eric for your questions. I will just start with the second one. So how should we think about the cost perminents. Certainly on the labor front, we estimate about half of the cost is prominent base wage, the other half is an incentives that we currently offer to attract workers. We again have to see, I think we are going to have to adjust and work to lower our cost going forward especially on things that we procure that may have gone up in price in the last few months more so. I am talking about this kind of 3rd-party things like trucking and scale for some incentive construction, so we will be working on our cost structure for a while. If you are trying to do the bridge for Q4 year-over-year, a couple of things I would say, yes, the COVID costs are lower by billion and half versus last year.

## A - Unidentified Speaker

Exactly. Yes, yes.

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

If you're Q4, excuse me, the 4 billion is going to be pure variance year-over-year. That's what we have identified 2 billion roughly of labor inflation and $2 billion of operational disruption mostly through higher transportation costs. There are a couple of other items year-over-year. If you remember last year, we were running at nearly 100% of capacity. That's not the ideal for us, but it has the benefit of being highly leveraged and can have other costs, but it is highly leveraged mathematically on a cost per unit shipped. As we get more into a normal buffer, so that we can handle swings and volume, especially as we get closer to holiday cut offs, but we generally run with more slack in the system, and we were in a good fortunate for returning to maybe a more normal profile and space. This Q4 is just again on labor, so the stat is the increased cost in digital content, combination of video, games, music audible. Some rather large items year-over-year -- given you complete bridge, but that's what we're seeing.

## Q - Eric Sheridan {BIO 22465717 <GO>}

Yeah, I think that's right. Four billion items you mentioned and billion higher and content marketing costs. They were suppressed last year for much of the year, and you are starting to see those growth throughout 2021.

## Operator

Our next question comes from the line of Dan Salmon with BMO Capital Markets. Please proceed with your question.

## Q - Dan Salmon {BIO 16010491 <GO>}

Hey, good afternoon everybody. I have 2 questions. First you mentioned growing customers use of Prime more original programing coming in the services you offer continuing to expand. Do you see this demand, this new content, new services having expanded to a point where a price increase for the Prime subscription begins to make sense; and then second, you mentioned the unbox event earlier this week, a number of new ad products announced there, which among them, do you expect to be most impactful to the overall advertising business. Thanks guys.

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

Sure. Thanks, Dan. I may start with the first question on Prime. So yes, we are very excited about the current program and is coming out in the back end of this year and also the prospects for 2022. We think it is a real step up in options and quality and volume for our customers globally in the video side. I am very excited about it, and you are right. It does have a lot of value. I have nothing to discuss or announce around Prime price increases, but we always look at that. We look at the value where it is generally a country by country discussion. We look at the value we have built. We look at the time since our last price increase as well as strategic factors involved obviously, but main job is to build the value of Prime, and that's what we work on and -- part of that.

## A - Unidentified Speaker

Yeah, Dan, it's on the second piece for advertising. I think we still see there is a lot of opportunity in the biggest kind of bucket if you will of the current advertising revenue run rate and that is at the sponsored activity that we were able to offer up to customers and continuing to find ways to just measure that information and be able to surface incredibly and quickly and improve on that for advertisers out there, so a lot of work, and it is still being done on the team there and being able to add value for customers. I point to it as a lot of excitement in the video advertising area. I know we have talked about that in the past. It is growing quickly. It is not the biggest piece of that run rate that you see in there, but growing well, and I think just the technology we are able to develop some of the relationships that we have been able to foster with things like live sports, the opportunities with the Fire TV device in the video community, and where we can reach folks through those areas is really exciting. IMDb TV or ad supported channel continues to do really well. People really enjoy that. We recently expanded that beyond the US for the first time to the UK, so a lot of really good and interesting ideas and a lot of opportunities to grow in different ways with the video.

## Operator

Our next question comes from Ross Sandler with Barclays. Please proceed with your question.

## Q - Ross Sandler {BIO 15948659 <GO>}

Hey guys, just 2 from me. So, your goal is kind of beating the rest of e-commerce on speed of delivery across a wide set of --, but there is a bunch of these new companies cropping up that are wiring up speedy same-day delivery for a lot of products from either their own warehouse or from various other retailers. Do you view that as a threat and you have a same day offering in 15 cities. Does your same day leverage kind of your existing fulfillment center footprint or do you have to kind of rethink the approach to get the speed down to that 30-minute window or wherever it is going to go, and then second question is just New World was a huge hit, so just any thoughts high level on the overall strategy within gaming, thanks.

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

Yeah, I'll take the second question first related to games. So yes, I think as we mentioned at the top, really excited to get New World out there to more customers' hands and saw some really good momentum -- engagement coming out of the gate with customers there and that's sort of the offerings like the Steam platform and Twitch as well, but if you step back, we have said for a while now that gaming is obviously one of the fastest growing industries in the entertainment space, and we fine and see a number of different ways to be able to offer folks a variety of services, so we develop and publish games for customers through Amazon games, which develop that New World. We are also leveraging the Amazon Flywheel offering some exclusive in free content as part of Prime gaming, so it is part of Prime benefits. You got AWS and utilizing AWS service stream games with our Amazon LUNA offering, and then as I mentioned before, building this large engaged passionate gaming community online with Twitch, so I think again kind of to my point about a lot of really interesting ideas when you are talking about video in the advertising space.

It's a lot of different areas that can interrelate serve different communities within the gaming area and so we're going to keep working on that, keep building and listening to customers on the games we have launched and keep pushing forward with an exciting slate in the future.

## A - Unidentified Speaker

And then your first question, on what I'll call ultrafast delivery and other options in the market. We like our model. It is a rapidly evolving space and obviously what customer --, but we also are competitor aware. We would like the business that we have. We have over 170,000 products that Prime customers can get within 2 hours from Amazon Fresh Whole Foods market and other stores that participate with us in over 5,000 cities and towns, so we were well on our way to providing ultrafast delivery for things that require ultra faster. It seems like groceries and others, and we see that expanding, but there will be room for multiple winners in this space, and as we say you have to have a cost structure and logistics network that will pay for the delivery over time.

So we see it as part of an offering that we offer to customers that ranges from 2 days to 1 day to 2 hours or one hour in some cases, so we would like to meet customers where they are when they need things, and we are working on --- consistently.

## Operator

Our final question comes from Brent Thill with Jefferies. Please proceed with your question.

## Q - Brent Thill {BIO 1556691 <GO>}

Thanks. On the advertising business, I'm curious given some of the concerns in the supply chain. Have you seen a pullback on the ad side so far. Is that something that you're factoring in for the 4th quarter.

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

No. We are seeing strong growth. Obviously, the Prime Day is always a really great advertising event as well and then you saw a little bit of that in Q2, when we had Prime Day in Q2 this year. We were lapping cute Prime Day from Q4 of last year, so there might be comparable issues, but as far as the strength of the offering and the differential between the growth of the advertising business versus the unit growth, we think we were really resonating with advertisers. We will give a new products, new ways to advertise, new ways to highlight the brands. It is resonating with sellers as well for the same reasons, and we feel it is additive to the customer experience. It helps customers find curated selection and also see brands that they may not have otherwise seen.

## Operator

Thanks for joining us today on the call and for your questions. The replay will be available on our Investor Relations website for at least 3 months. We appreciate your interest in Amazon, and we look forward to talking with you again next quarter.