

## Summary Amazon

### CORPORATE PARTICIPANTS

Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO

Dave Fildes Amazon.com, Inc. - Director of IR

### Presentaion

Dave Fildes Amazon.com, Inc. - Director of IR Dave Fildes Amazon.com, Inc. - Director of IR, Please note, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2017. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent annual report on Form 10-K and subsequent filings. During this call, we may discuss certain non-GAAP financial measures in our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website. You will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures. Our guidance incorporates the order trends that we've seen to date and what we believe today to be appropriate assumptions. Our results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet, online commerce and cloud services, and the various factors detailed in our filings with the SEC. Our guidance also assumes, among other things, that we don't conclude any additional business acquisition, investments, restructurings or legal settlements.

### QnA

Question-1 : Justin Post BofA Merrill Lynch, Research Division - MD I guess I'll ask about units, 14% in the quarter. Just how do you feel about the overall unit growth here given that growth was higher last year in the 20s? And do you think there's some investments you can make in other areas to kind of reaccelerate that going forward? And then, secondly, just if you could remind us or help us understand the Prime accounting change impact on subscription revenues in Q4?

Answer-1 : Dave Fildes Amazon.com, Inc. - Director of IR Justin, this is Dave. So we don't focus as much on the number. But in general, we feel good about the growth in the quarter. We think it was a -- Q4, in particular, was a great quarter for customers. The retail, a lot of strength in the retail part of the businesses. The teams here had done a great job planning,

preparing and then executing on the quarter. AWS maintained a very strong growth rate and continue to deliver for customers. We had a great re:Invent conference in the quarter. So we feel good about the growth in the quarter and also the total revenue and income

Question-2 : Mark Stephen F. Mahaney RBC Capital Markets, LLC, Research Division - MD and Analyst Do you want to just comment a little bit on the international revenue outlook and any commentary on India and whether you think there's a material impact on your business? Secondly, could you talk about advertising revenue, just qualitatively or quantitatively, how that's doing? And third, if I could, you spent a lot on marketing in the quarter. It's a real step up. Do you want to just talk about the ROI that you think you're getting on that marketing spend?

Answer-2 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Sure, Mark. The first question's on India. Let me start with that. However, there's much uncertainty as to what the impact of the government role changes is going to have on the e-commerce sector there. We remain committed to complying with all laws and regulations, and we will, but we're evaluating the situation. Our main issue and our main concern is trying to minimize the impact to our customers and sellers in India. Dave, why don't you talk about the advertising growth?, Dave Fildes Amazon.com, Inc. - Director of IR Yes. And we're continually excited about the opportunity there. Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO And then, on your question on marketing, yes, the marketing percent of revenue was up 110 basis points year-over-year. The -- this category also includes AWS sales and marketing. Keep that in mind because that's where a lot of our headcount investment is going.

Question-3 : Douglas Till Anmuth JP Morgan Chase & Co, Research Division - MD I just wanted to follow up on India. Just bigger picture, Brian, did the new policies change your view at all the attractiveness or the potential of operating in India? And how do you think about your investment strategy there in the near term? And then, also, just hoping you could talk about some of the impact in the U.S. and U.K. from free shipping during the fourth quarter holidays?

Answer-3 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, really, we're still evaluating the situation in India. So it's all we can say on that topic right now. We did lower the free shipping threshold at the end of the fourth quarter, so customers took advantage of that. That was a great offer for them in the holidays. That's part of the holiday offering. We sold a number of record-breaking number of Alexa devices as well. And I think, just in that shipping vein, really pleased with the continued engagement from Prime members. We had the most-ever number of Prime members sign up this quarter than any quarter we've had. So really pleased with that.

Question-4 : Mark Alan May Citigroup Inc, Research Division - Director and Senior Analyst When I try to back out the impact of factors like Whole Foods, the advertising accounting change and other factors, what I see is stable and pretty healthy revenue growth in the

retail segment but a slowdown in Q4 from what seems to have been, in more recent quarters, meaningful gross margin expansion in the retail segment. Can you discuss what may have driven that and how to think about retail gross margins going forward? And then, somewhat separately, retail margins last year benefited from several factors, including more modest hiring and more modest growth in fulfillment center capacity. Do you see these factors persisting this year?

Answer-4 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, thank you. So in the prior 2 years, 2016, 2017, we had grown our square footage tied to fulfillment and shipping by greater than 30%. In 2018, that number grew by 15%. Certainly, unit demand was lower, but AFN, or Amazon Fulfilled Demand, where, if we combine FBA and retail, remained strong. So we had a banking, if you will, of some large expansions in the prior 2 years. So their groups are growing considerably higher than that 14%, but in total, the company grew 14%. So in a lot of ways, 2018 was about banking the efficiencies of investments in people, warehouses, infrastructure that we had put in place in 2016 and '17. And we've reflected what we've seen so far in Q1 in our guidance.

Question-5 : Heath Patrick Terry Goldman Sachs Group Inc., Research Division - MD A little bit -- to dig a little bit deeper into the CapEx capital lease side of things, you guys have said in the past that, generally, you work to build in line with your expectations for guidance so that you're trying not to overbuild or underbuild when thinking about your fulfillment and data center capacity. We saw that investment reaccelerate in the fourth quarter after getting the lows that you referenced in Q3. Anything to read into that about sort of what your expectations are for growth in those businesses, seeing that re-acceleration after the deceleration that we saw over the course of, at least, the first 3 quarters of last year?

Answer-5 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, I see total CapEx that was -- grew 33% in Q1, 1% in Q2, negative 1% in Q3, and then positive 17% in Q4, just the quarter itself. So there was, as you say, a bit of an investment in Q4 relative to Q2 and Q3. So I'm not prepared to give you the forecast for the year right now. I would say that I would consider 2018 to be a lighter investment year and a lighter year for adding fixed headcount, certainly compared to 2016 and 2017, and we'll reveal that as we go through the year, but we've built into the first quarter what we expect in the first 3 months.

Question-6 : Brian Thomas Nowak Morgan Stanley, Research Division - Research Analyst I have 2. Just the first one is, to go back to the fourth quarter gross margins, I think, if we try to back out AWS, it looks like there was a little more gross margin pressure. Can you just talk to any of the puts and takes we should know about from a gross margin perspective in the fourth quarter? And then, that other line that I think includes the advertising business, can you just help us, any help at all on the growth of the advertising business or the impact of any of the accounting changes in the quarter?

Answer-6 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes. Sure. Some of the

headwinds, I would say, were outbound shipping costs, including the free shipping that we did, but mostly it was the higher Amazon Fulfilled units and the greater use of Amazon Logistics. And I would also say retail was very strong. We had, I think Dave mentioned, the Echo Dot was the highest selling unit globally. So devices had a very strong sales in the quarter. We usually will expand -- our content expanding our device and usage throughout our group of customers who use our devices and then we monetize that in different ways to commitment to Amazon and the video and everything else. As part of the adoption, certain advertising services were classified as revenue rather than a reduction of cost of sales. So you'll see that in the other revenue in total.

Question-7 : Colin Alan Sebastian Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst I guess, 2 for me as well. In the quarter, looking backwards, not considering India and the impact going forward, but the international growth accelerated. So I was curious, any particular regions or product categories to call out, especially given some of the weakness in the U.K.? And then marketplace fees are changing in several categories, including home furnishings, health and beauty. Curious what the strategy is there. I assume to expand selection. But is it also an indication of an increasing focus on those retailer categories?

Answer-7 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Sure. Let me start with your second question. They've had great success on our site. So we will always be evolving that. So you're going to see this continually from us. On the international, on an FX-neutral basis, the growth was 15% in Q3 and 19% in Q4, but last call, if you remember, I talked about the timing of Diwali and the impact that had on our growth rates. If we adjust for that, and again, Diwali had -- took place primarily in Q4 this year and it was split between Q3 and Q4 last year, if we adjust for that, international growth is pretty flat Q3 to Q4.

Question-8 : Lloyd Wharton Walmsley Deutsche Bank AG, Research Division - Research Analyst Two, if I can. First, just on the advertising side. We hear a lot of positive feedback from customers, but also, we hear suggestions, there are supply constraints. So how do you guys see inventory growth versus pricing growth as a driver in that business? And are there things you can do to grow inventory? And then, secondly, there've been some reports, your Amazon shipping effort is kind of expanding beyond some test markets. So wondering if you can give us a sense for what you've seen in those test markets and how you think about expanding your shipping efforts on that productized basis going forward?

Answer-8 : Dave Fildes Amazon.com, Inc. - Director of IR Yes, Lloyd. Thanks for the question. I'll take the advertising piece first. I mean, I think, as I talked before, we're working on improving usability of tools. So -- but even as we look for advertising opportunities on places like Amazon.com, we think there's a lot of opportunity and a lot of experimentation. Again, we have great partners in place for our business and support globally. So during the quarter, it was a much bigger presence obviously year-over-year. So we're happy with that, both from a performance standpoint. The delivery estimate

accuracy, as we call it, was very strong on our self-delivered products and also the cost profile is very good as well.

Question-9 : Eric James Sheridan UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst Maybe 2, if I can. One, on the media side, has there been any step up in terms of investments around media content to support your ambition with respect to Prime and Video? It's been a couple of years now since we got an update on rate of spend or how it might impact either historical periods or going forward periods. That would be number one. And then, number two, going back to Lloyd's question on the advertising front, how do you think about the video opportunity? You're moving beyond just branded opportunities or sponsored product search on your own properties, thinking about experimenting with over-the-top video or connected TV opportunities that might look in front of you going forward?

Answer-9 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Let me start with video. We're not quantifying the Prime Video spend today, but we do -- it has been increasing. We expect it to increase even further in 2019. We're seeing a lot of, again, continued strong adoption in the usage and viewing and hours watched of both our music and our -- excuse me, video and music. And as -- if you step back, it builds stronger Prime connectivity with our Prime members. It leads to higher membership renewal rates and higher overall engagement. And we like what we see. So, ad-supported. And I think it's definitely on the Fire TV devices as well, as a great way to consume content.

Question-10 : Jason Stuart Helfstein Oppenheimer & Co. Inc., Research Division - MD and Senior Internet Analyst Just two. So just can you comment, did advertising slow down relative to third quarter? One. You're kind of adjusting for 606. And then, secondly, was there any reallocation in segments between online and physical stores? And if not, any commentary why physical stores was down year-over-year?

Answer-10 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, thanks, Jason, for your questions. Let me start with the physical stores revenue. In Q4, we adjusted their fiscal calendar to link it up with Amazon's, and it added about 5 days of revenue into Q4 of last year. So we're comping that year-over-year. Because of some of those, again, mostly the year-over-year counting or days true-up issue, it's showing up as negative 3% in physical stores. Dave Fildes Amazon.com, Inc. - Director of IR Yes, and then just on your second question around advertising, if you look at the other revenue, the growth rate decelerated some. So it's -- at 97%, still very strong year-over-year growth in the fourth quarter. And we are comping a period of rapid growth in the prior year. But I'd just reiterate, we're continuing to see quite strong adoption across Amazon's vendors, sellers, authors, all types of advertisers that are utilizing that.

Question-11 : Daniel Salmon BMO Capital Markets Equity Research - Media and Internet Analyst Brian, can we just return to your comment earlier about the increased use of

Amazon Logistics, not a surprise there, but just curious, through the holiday season, any particular learnings that you can offer some color on? And how do you view the balance between using your own proprietary logistics versus third-parties as you go into 2019? And then, just a quick follow-up, obviously, the HQ2 news came out during the quarter. What would you highlight as maybe the most important next steps there? And maybe some color on the feedback from that process would be interested to hear that as well.

Answer-11 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, sure. So let's start with HQ2. We're looking forward to investing in New York and Northern Virginia and being a good community partner as well as Nashville. So not really much else to report at this time on that. On your comment or question on transportation, we do continue to expand our Amazon Logistics and our delivery capability, and it also matches up with our faster ship speed that we're seeing for Prime members as well. Again, we have great third-party partners as well in the transportation space. We can also invest selectively because we have more perfect information, we know where our demand is, we know where we're moving things between warehouses and sort centers. And by not involving third-parties all the time, we can -- we found that we can extend our ship cut-off -- excuse me, our order cut-offs, and we've done that over the last few years. So that's also another helpful side benefit for consumers when we are doing our own logistics -- excuse me, transportation final delivery

Question-12 : Ross Adam Sandler Barclays Bank PLC, Research Division - MD of Americas Equity Research & Senior Internet Analyst So the AWS operating margins historically kind of moved around a bit. Any color on what drove the decline sequentially from 3Q to 4Q? And then, I guess, going back to the investment catch-up team, it sounds like 2019 will be a little bit more aggressive push from you guys. Can you parse out whether you expect the pace of retail margin expansion that we're seeing in North America right now, is that going to continue and most of these investments are going to be in international and some of the stuff going on in India? And any color on the North America operating margin trajectory?

Answer-12 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, sure. That number will move around. Of course, at any point in time, this business is going to be a combination of lowering prices, expanding geographically, adding people to build new -- especially tech teams and sales teams to build new and innovative products and staying very relevant and ahead of our customers' minds. And infrastructure will -- again, it will bounce between quarters a bit. Our capital lease expenditure in Q4 was a bit higher than the prior 3 quarters. That had a slight impact on the operating margin. But again, year-over-year, operating margins were up and were almost 280 basis points. We've said quite openly that this is going to bounce around.

CORPORATE PARTICIPANTS

Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO

Dave Fildes Amazon.com, Inc. - Director of IR

Presentaion

Dave Fildes Amazon.com, Inc. - Director of IR Dave Fildes Amazon.com, Inc. - Director of IR

Hello, and welcome to our Q4 2018 financial results conference call. Joining us today to answer your questions is Brian Olsavsky, our CFO. Please note, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2017. During this call, we may discuss certain non-GAAP financial measures in our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website. You will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures. Our guidance incorporates the order trends that we've seen to date and what we believe today to be appropriate assumptions. Our results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, 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. It's not possible to accurately predict demand for our goods and services, and therefore, our actual results could differ materially from our guidance.

QnA

Question-1 : Justin Post BofA Merrill Lynch, Research Division - MD I guess I'll ask about units, 14% in the quarter. Just how do you feel about the overall unit growth here given that growth was higher last year in the 20s? And do you think there's some investments you can make in other areas to kind of reaccelerate that going forward? And then, secondly, just if you could remind us or help us understand the Prime accounting change impact on subscription revenues in Q4?

Answer-1 : Dave Fildes Amazon.com, Inc. - Director of IR Justin, this is Dave. So that's where we came out for the quarter. Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, and on unit deceleration, I think the unit numbers more and more require some interpretation because it doesn't include the fast -- some of our fastest growing areas, things like, as Dave mentioned, subscription services, AWS, advertising, Whole Foods units are not in that number. I would direct you more to the supplemental revenue guidance that breaks out the component parts. But in general, we feel good about the growth in the quarter. We think it was a -- Q4, in particular, was a great quarter for customers. AWS maintained a very strong growth rate and continue to deliver for customers. We had a great re:Invent conference in the quarter. So we feel good about the growth in the quarter and also the total revenue and income

Question-2 : Mark Stephen F. Mahaney RBC Capital Markets, LLC, Research Division - MD and Analyst Do you want to just comment a little bit on the international revenue outlook and any commentary on India and whether you think there's a material impact on your business? Secondly, could you talk about advertising revenue, just qualitatively or quantitatively, how that's doing? And third, if I could, you spent a lot on marketing in the quarter. It's a real step up. Do you want to just talk about the ROI that you think you're getting on that marketing spend?

Answer-2 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Sure, Mark. So we have incorporated into our guidance estimate, the best estimate we have for Q1 in India. We remain committed to complying with all laws and regulations, and we will, but we're evaluating the situation. Our main issue and our main concern is trying to minimize the impact to our customers and sellers in India. We've built our business around price selection and convenience. We don't think the changes help in those dimensions for both the customers in India and also the sellers. Dave, why don't you talk about the advertising growth? And we're continually excited about the opportunity there. The -- this category also includes AWS sales and marketing. Headcount only grew 14% year-over-year, but the areas that we're growing in that mix were things like technology teams, device area, AWS, especially sales and marketing. So variable marketing was pretty consistent with prior periods, and we feel good about our return on investment on the marketing, the variable marketing.

Question-3 : Douglas Till Anmuth JP Morgan Chase & Co, Research Division - MD I just wanted to follow up on India. Just bigger picture, Brian, did the new policies change your view at all the attractiveness or the potential of operating in India? And how do you think about your investment strategy there in the near term? And then, also, just hoping you could talk about some of the impact in the U.S. and U.K. from free shipping during the fourth quarter holidays?

Answer-3 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, really, we're still evaluating the situation in India. We feel very good about the long-term prospects in India and doing a good job for both Indian customers and Indian sellers. And again, I don't think it's necessarily consistent with better price, better selection, better convenience for the Indian customer. So it's all we can say on that topic right now. That was a great offer for them in the holidays. We sold a number of record-breaking number of Alexa devices as well. And I think, just in that shipping vein, really pleased with the continued engagement from Prime members.

Question-4 : Mark Alan May Citigroup Inc, Research Division - Director and Senior Analyst When I try to back out the impact of factors like Whole Foods, the advertising accounting change and other factors, what I see is stable and pretty healthy revenue growth in the retail segment but a slowdown in Q4 from what seems to have been, in more recent



quarters, meaningful gross margin expansion in the retail segment. Can you discuss what may have driven that and how to think about retail gross margins going forward? And then, somewhat separately, retail margins last year benefited from several factors, including more modest hiring and more modest growth in fulfillment center capacity. Do you see these factors persisting this year?

Answer-4 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, thank you. So in the prior 2 years, 2016, 2017, we had grown our square footage tied to fulfillment and shipping by greater than 30%. Certainly, unit demand was lower, but AFN, or Amazon Fulfilled Demand, where, if we combine FBA and retail, remained strong. So we had a banking, if you will, of some large expansions in the prior 2 years. Last year, we had 14% growth, and so there was a lot of leverage and a lot of -- in a way, there was a lot of pre-hiring in 2017 that we digested in 2018, while we still -- in some areas, especially things like our core retail business and also G&A functions, but then we continue to invest again in the technology tied to AWS sales team to an AWS device area. So their groups are growing considerably higher than that 14%, but in total, the company grew 14%. I would expect those investments to increase relative to 2018. And we've reflected what we've seen so far in Q1 in our guidance.

Question-5 : Heath Patrick Terry Goldman Sachs Group Inc., Research Division - MD A little bit -- to dig a little bit deeper into the CapEx capital lease side of things, you guys have said in the past that, generally, you work to build in line with your expectations for guidance so that you're trying not to overbuild or underbuild when thinking about your fulfillment and data center capacity. We saw that investment reaccelerate in the fourth quarter after getting the lows that you referenced in Q3. Anything to read into that about sort of what your expectations are for growth in those businesses, seeing that re-acceleration after the deceleration that we saw over the course of, at least, the first 3 quarters of last year?

Answer-5 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, I see total CapEx that was -- grew 33% in Q1, 1% in Q2, negative 1% in Q3, and then positive 17% in Q4, just the quarter itself. So there was, as you say, a bit of an investment in Q4 relative to Q2 and Q3. So I'm not prepared to give you the forecast for the year right now. I would say that I would consider 2018 to be a lighter investment year and a lighter year for adding fixed headcount, certainly compared to 2016 and 2017, and we'll reveal that as we go through the year, but we've built into the first quarter what we expect in the first 3 months.

Question-6 : Brian Thomas Nowak Morgan Stanley, Research Division - Research Analyst I have 2. Just the first one is, to go back to the fourth quarter gross margins, I think, if we try to back out AWS, it looks like there was a little more gross margin pressure. Can you just talk to any of the puts and takes we should know about from a gross margin perspective in the fourth quarter? And then, that other line that I think includes the advertising business, can you just help us, any help at all on the growth of the advertising business or the impact of any of the accounting changes in the quarter?

Answer-6 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes. I would say, the positive tailwinds still remain. AWS had strong growth of 46% on an FX-neutral basis, third-party units continue to grow, advertising dollars continue to grow very well. Some of the headwinds, I would say, were outbound shipping costs, including the free shipping that we did, but mostly it was the higher Amazon Fulfilled units and the greater use of Amazon Logistics. And I would also say retail was very strong. So devices had a very strong sales in the quarter. We discussed how we don't price devices to make money. We usually will expand -- our content expanding our device and usage throughout our group of customers who use our devices and then we monetize that in different ways to commitment to Amazon and the video and everything else. Dave Fildes Amazon.com, Inc. - Director of IR Yes, and just on the other revenue piece, Brian, just to get back to the accounting side, we did adopt that revenue recognition standard in 2018, as I mentioned. As part of the adoption, certain advertising services were classified as revenue rather than a reduction of cost of sales.

Question-7 : Colin Alan Sebastian Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst I guess, 2 for me as well. In the quarter, looking backwards, not considering India and the impact going forward, but the international growth accelerated. So I was curious, any particular regions or product categories to call out, especially given some of the weakness in the U.K.? And then marketplace fees are changing in several categories, including home furnishings, health and beauty. Curious what the strategy is there. I assume to expand selection. But is it also an indication of an increasing focus on those retailer categories?

Answer-7 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Sure. Obviously, third-party sellers are an important part of our value proposition there. More than half of our units sold are from third-party sellers. Part of that involves changing fee structures, sometimes adding new fees or subtracting old ones. So you're going to see this continually from us. On the international, on an FX-neutral basis, the growth was 15% in Q3 and 19% in Q4, but last call, if you remember, I talked about the timing of Diwali and the impact that had on our growth rates. If we adjust for that, and again, Diwali had -- took place primarily in Q4 this year and it was split between Q3 and Q4 last year, if we adjust for that, international growth is pretty flat Q3 to Q4.

Question-8 : Lloyd Wharton Walmsley Deutsche Bank AG, Research Division - Research Analyst Two, if I can. First, just on the advertising side. We hear a lot of positive feedback from customers, but also, we hear suggestions, there are supply constraints. So how do you guys see inventory growth versus pricing growth as a driver in that business? And are there things you can do to grow inventory? And then, secondly, there've been some reports, your Amazon shipping effort is kind of expanding beyond some test markets. So wondering if you can give us a sense for what you've seen in those test markets and how you think about expanding your shipping efforts on that productized basis going forward?

Answer-8 : Dave Fildes Amazon.com, Inc. - Director of IR Yes, Lloyd. I mean, I think, as I

talked before, we're working on improving usability of tools. Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, and on transportation, I assume you're just talking about our expansion of Amazon deliveries and Amazon Logistics. What we do is add capacity where we feel we need to speed up service or ensure demand, particularly at peak. So we will continue to build out our DSP or -- and Flex and Ship with Amazon programs. So during the quarter, it was a much bigger presence obviously year-over-year. So we're happy with that, both from a performance standpoint. The delivery estimate accuracy, as we call it, was very strong on our self-delivered products and also the cost profile is very good as well.

Question-9 : Eric James Sheridan UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst Maybe 2, if I can. One, on the media side, has there been any step up in terms of investments around media content to support your ambition with respect to Prime and Video? It's been a couple of years now since we got an update on rate of spend or how it might impact either historical periods or going forward periods. That would be number one. And then, number two, going back to Lloyd's question on the advertising front, how do you think about the video opportunity? You're moving beyond just branded opportunities or sponsored product search on your own properties, thinking about experimenting with over-the-top video or connected TV opportunities that might look in front of you going forward?

Answer-9 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Let me start with video. We expect it to increase even further in 2019. We're seeing a lot of, again, continued strong adoption in the usage and viewing and hours watched of both our music and our -- excuse me, video and music. And as -- if you step back, it builds stronger Prime connectivity with our Prime members. It leads to higher membership renewal rates and higher overall engagement. We continue to see that engagement growing. I would say that we've had some particular success in -- recently with 10 Golden Globe nominations and 3 Oscar nominations, and Jack Ryan Homecoming and season 2 of the Marvelous Mrs. Maisel, in particular, were very well-received during the quarter. So that's available on the IMDb website with your laptop or personal computer.

Question-10 : Jason Stuart Helfstein Oppenheimer & Co. Inc., Research Division - MD and Senior Internet Analyst Just two. So just can you comment, did advertising slow down relative to third quarter? One. You're kind of adjusting for 606. And then, secondly, was there any reallocation in segments between online and physical stores? And if not, any commentary why physical stores was down year-over-year?

Answer-10 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, thanks, Jason, for your questions. Let me start with the physical stores revenue. What happened in the quarter was we were lapping a period last year when we had purchased Whole Foods in Q3, as you remember, of 2017. In Q4, we adjusted their fiscal calendar to link it up with Amazon's, and it added about 5 days of revenue into Q4 of last year. So if you adjust for those, what's the Whole Foods growth year-over-year on an apples-to-apples basis was

approximately 6%. So it's -- at 97%, still very strong year-over-year growth in the fourth quarter. And we are comping a period of rapid growth in the prior year. So that is part of the factor there, as you mentioned. But I'd just reiterate, we're continuing to see quite strong adoption across Amazon's vendors, sellers, authors, all types of advertisers that are utilizing that.

Question-11 : Daniel Salmon BMO Capital Markets Equity Research - Media and Internet Analyst Brian, can we just return to your comment earlier about the increased use of Amazon Logistics, not a surprise there, but just curious, through the holiday season, any particular learnings that you can offer some color on? And how do you view the balance between using your own proprietary logistics versus third-parties as you go into 2019? And then, just a quick follow-up, obviously, the HQ2 news came out during the quarter. What would you highlight as maybe the most important next steps there? And maybe some color on the feedback from that process would be interested to hear that as well.

Answer-11 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, sure. Of course, in November, we announced we selected New York City and Northern Virginia, and between the 2 cities we'll be investing \$5 billion and creating more than 50,000 jobs. We're looking forward to investing in New York and Northern Virginia and being a good community partner as well as Nashville. So not really much else to report at this time on that. On your comment or question on transportation, we do continue to expand our Amazon Logistics and our delivery capability, and it also matches up with our faster ship speed that we're seeing for Prime members as well. So Amazon Deliveries are a big part of that. What we like about our ability to participate in transportation is that, a lot of times, we can do it at same cost or better, and we like the cost profile of it, too. We can also invest selectively because we have more perfect information, we know where our demand is, we know where we're moving things between warehouses and sort centers. And by not involving third-parties all the time, we can -- we found that we can extend our ship cut-off -- excuse me, our order cut-offs, and we've done that over the last few years.

Question-12 : Ross Adam Sandler Barclays Bank PLC, Research Division - MD of Americas Equity Research & Senior Internet Analyst So the AWS operating margins historically kind of moved around a bit. Any color on what drove the decline sequentially from 3Q to 4Q? And then, I guess, going back to the investment catch-up team, it sounds like 2019 will be a little bit more aggressive push from you guys. Can you parse out whether you expect the pace of retail margin expansion that we're seeing in North America right now, is that going to continue and most of these investments are going to be in international and some of the stuff going on in India? And any color on the North America operating margin trajectory?

Answer-12 : Brian T. Olsavsky Amazon.com, Inc. - Senior VP & CFO Yes, sure. We're very pleased with the 29.3% that we saw during the quarter. Of course, at any point in time, this business is going to be a combination of lowering prices, expanding geographically, adding people to build new -- especially tech teams and sales teams to build new and innovative

products and staying very relevant and ahead of our customers' minds. And infrastructure will -- again, it will bounce between quarters a bit. Our capital lease expenditure in Q4 was a bit higher than the prior 3 quarters. But again, year-over-year, operating margins were up and were almost 280 basis points. We've said quite openly that this is going to bounce around. Dave Fildes Amazon.com, Inc. - Director of IR Thanks for joining us on the call today and for your questions.