

Amazon.com, Inc (AMZN)

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Final Transcript

Corporate Participants

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Ron Josey

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Presentation



Operator

Good day, everyone, and welcome to the Amazon.com Quarter Four 2022 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'll be turning the call over to the Vice President of Investor Relations, Dave Fildes. Thank you, sir. Please go ahead.



Dave Fildes

Head of Investor Relations | Amazon.com, Inc.

Hello and welcome to our Q4 2022 financial results conference call. Joining us today to answer your questions is Andy Jassy, our CEO, and Brian Olsavsky, our CFO. As you listen to today's conference call, we encourage you to have our press release in front of you, which includes our financial results, as well as metrics and commentary on the quarter.

Please note, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2021. Our comments and responses to your questions reflect management's views as of today, February 2, 2023 only, and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent Annual Report on Form 10-K and subsequent filings.

During this call, we may discuss certain non-GAAP financial measures. In our press release, slides accompanying this webcast, and our filings with the SEC, each of which is posted on our IR website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures. Our guidance incorporates the order trends that we've seen to date, and what we believe today to be appropriate assumptions. Our results are inherently unpredictable, and may be materially affected by many factors, including uncertainty regarding the impacts of the COVID-19 pandemic, fluctuations in foreign exchange rates, changes in global economic and geopolitical conditions, and customer demand and spending, including the impact of recessionary fears, inflation, interest rates, regional labor market, 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. Our guidance assumes, among other things, that we don't conclude any additional business acquisitions, restructurings, or legal settlements. It's not possible to accurately predict demand for our goods and services, and therefore, our actual results could differ materially from our guidance.

And now, I will turn the call over to Brian.



Brian T. Olsavsky

Senior Vice President and Chief Financial Officer | Amazon.com, Inc.

Thanks for joining today's call. As Dave mentioned earlier, I'm joined today by Andy Jassy, our CEO. Before we move on to take your questions, I will make some comments about our Q4 results.

Let's start with revenue. For the fourth quarter, worldwide net sales were \$149.2 billion, representing an increase of 12% year-over-year, excluding approximately 360 basis points of unfavorable impact from changes in foreign exchange rates, and above the top end of our Q4 guidance range. We've seen that during periods of economic uncertainty, consumers are very careful about how they allocate their resources, and where they choose to spend their money. Throughout Amazon's history, we have found that our focus on the customer helps to set us apart in times like these. This past holiday season, customers came to Amazon for great deals, fast delivery, and our widest-ever selection, bolstered by nearly 2 million third-party seller partners, who sell on Amazon.

Enterprise customers continued their multi-decade shift to the cloud. We're working closely with our AWS teams to thoughtfully identify opportunities to reduce costs, and optimize their work. In our worldwide stores business, with the ongoing economic uncertainty, coupled with the continuation of inflationary pressures, customers remain cautious about their spending behavior. We saw them spend less on discretionary categories, and shift to lower-priced items, and value brands in categories like electronics. We also saw them continue to spend on everyday essentials such as consumables, beauty, and softlines. Our teams worked hard to offer low prices and secure millions of deals for customers in Q4, including our first-ever Prime Early Access Sale in October and the more traditional Thanksgiving to Cyber Monday holiday weekend.

These global sales events outperformed our expectations, as customers responded to millions of deals across our growing selection. Third-party sellers remain a key contributor to that expanding selection. In Q4, sellers comprised a record 59% of overall unit sales. Sellers, vendors, and brands continue to look to Amazon's advertising capabilities, to reach customers in the always

competitive holiday season, even as the macro environment required them to scrutinize their own marketing budgets. We saw good growth in advertising revenues in Q4, up 23% year-over-year, excluding the impact of foreign exchange.

Prime membership continues to be a great value for our customers, and improving our Prime benefits is a continuous part of our investment strategy. Along with competitive pricing, broad selection, and faster delivery speed, we've seen Prime members respond to our expanding entertainment offerings. During the quarter, we completed our first season of the Lord of the Rings: The Rings of Power, the most-watched Amazon original series, in every region of the world, reaching over 100 million viewers, and driving more Prime sign-ups worldwide during its launch window, than any previous Prime Video content. We also finished our inaugural season as the exclusive home of Thursday Night Football, reaching the youngest median age audience of any NFL broadcast package since 2013, and increasing viewership by 11% from last year among hard-to-reach 18 to 34-year-olds. In aggregate, we invested approximately \$7 billion in 2022 across Amazon originals, live sports and licensed third-party video content included with Prime. That's up from about \$5 billion in 2021. As a reminder, these digital video content costs are included in cost of sales on our income statement. We regularly evaluate the return on this spend, and continue to be encouraged by what we see, as video has proven to be a strong driver of Prime member engagement and new Prime member acquisition.

Moving on AWS, net sales increased to \$21.4 billion in Q4, up 20% year-over-year and now representing an annualized sales run rate of more than \$85 billion. Starting back in the middle of the third quarter of 2022, we saw our year-over-year growth rate slow, as enterprises of all sizes evaluated ways to optimize their cloud spending, in response to the tough macroeconomic conditions. As expected, these optimization efforts continued into the fourth quarter. Some of the key benefits of being in the cloud compared to managing your own data center are the ability to handle large demand swings, and to optimize costs relatively quickly, especially during times of economic uncertainty. Our customers are looking for ways to save money, and we spend a lot of our time trying to help them do so. This customer focus is in our DNA, and informs how we think about our customer relationships, and how we will partner with them for the long term.

As we look ahead, we expect these optimization efforts will continue to be a headwind to AWS growth, in at least the next couple of quarters. So far in the first months of the year, AWS's year-over-year revenue growth is in the mid-teens. That said, stepping back, our new customer pipeline remains healthy and robust, and there are many customers continuing to put plans in place to migrate to the cloud, and commit to AWS over the long term.

Now, let's shift to worldwide operating income. For the quarter, we reported \$2.7 billion in

operating income. This operating income was negatively impacted by three large items, which added approximately \$2.7 billion of costs in the quarter. This is related to employee severance, impairments of property and equipment and operating leases, and changes in estimates related to self-insurance liabilities. These costs primarily impacted our North America segment. If we had not incurred these charges in Q4, our operating income would have been approximately \$5.4 billion. We are encouraged with the progress we continue to make in streamlining the costs in our Amazon Stores business. We entered the quarter with labor more appropriately matched to demand across our operations network, compared to Q4 of last year, allowing us to have the right labor, in the right place, at the right time, and drive productivity gains. We also saw continued efficiencies across our transportation network, where process and tech improvements resulted in higher Amazon Logistics productivity and improved line haul fill rates. While transportation overperformed expectations in the quarter, we also saw productivity improvements across our fulfillment centers, in line with our plan. We also saw good leverage driven by strong holiday volumes.

Overall, it was a strong effort by the operations team, and we look forward to making further headway as we head into 2023. We remain focused on driving cost efficiencies throughout the network, and reducing our cost to serve our customers, while ensuring we maintain an outstanding customer experience.

Circling back to the three large charges during the quarter, let me share some additional color, starting with the job eliminations we initiated during the fourth quarter. As we consider the ongoing uncertainties in the macroeconomic environment, this led us to the difficult decision to eliminate just over 18,000 roles, primarily impacting our stores and device businesses, as well as our human resources teams. As a result, we recorded estimated severance costs of \$640 million. These charges were recorded primarily in technology and content, fulfillment, and general administration on our income statement.

Next, we recorded impairments of property and equipment, and operating leases, primarily related to our Amazon Fresh and Amazon Go physical stores. We're continuously refining our store formats to find the ones that will resonate with customers, will build our grocery brand, and will allow us to scale meaningfully over time. As such, we periodically access our portfolio stores, and decided to exit certain stores with low-growth potential. We'll also take an impairment on capitalized costs, and associated values of our leased buildings. The impairment charge in Q4 was \$720 million and is included in other operating expense, on our income statement. We continue to believe grocery has a significant opportunity, and we're focused on serving customers through multiple channels, whether that's online delivery, pickup, or in-store shopping.

Lastly, during the quarter, we increased our reserves for general product and automobile self-insurance liabilities, driven by changes in our estimates about the cost of asserted and unasserted claims, resulting in additional expense of \$1.3 billion. This impact is primarily recorded in cost of sales on our income statement. As our business has grown quickly over the last several years, particularly as we've built out our fulfillment and transportation network, and claim amounts have seen industry-wide inflation, we've continued to evaluate and adjust this reserve for both asserted claims, as well as our estimate for unasserted claims.

We reported overall net income of \$278 million in the fourth quarter. While we primarily focus our comments on operating income, I'd point out that this net income includes a pre-tax valuation loss of \$2.3 billion included in non-operating income from our common stock investment in Rivian Automotive. As we've noted in recent quarters, this activity is not related to Amazon's ongoing operations, but rather the quarter-to-quarter fluctuations in Rivian's stock price. As we head into the New Year, we remain heads down focused on driving a better customer experience. We believe putting customers first is the only reliable way to create lasting value for our shareholders.

**Andy Jassy**

President and Chief Executive Officer | Amazon.com, Inc.

Hey, everybody. This is Andy. Just before we started the questions, I just wanted to say, it's good to be with you all on the call today. I thought I might jump on the calls from time to time moving forward, and given that this last quarter was the end of my first full year in this role, and given some of the unusual parts in the economy and our business, I thought this might be a good one to join. So, thanks for having me.

Questions and Answers



Operator

And at this time, we will now open the call up for questions. [Operator Instructions] And our first question comes from the line of Brian Nowak with Morgan Stanley. Please proceed with your question.



Brian Nowak

Analyst | Morgan Stanley

Thanks for taking my questions. I have two. Andy, I want to ask you, just the first one, you've been in the seat for a while. As you sit there, what are your key focal points, product categories, or investment priorities that you're most focused on to drive durable multi-year growth in that North America retail segment as we recover? And then the second one, just sort of staying on the North America retail side, how do you think about the potential -- margin potential of that business over the next few years, as you sort of grow into the warehouse, and what are the warehouse network, and what are the efficiency factors to get you to those goals? Thanks.



Brian T. Olsavsky

Senior Vice President and Chief Financial Officer | Amazon.com, Inc.

Brian, this is Brian first. Let me just start with your second question on the expectation for retail margins, especially in North America, what we've said is, when we look back to our cost structure pre-pandemic, we were just in the end of 2019, early part of 2020, we're just starting to roll out one-day shipping in North America, and we had an expectation what our cost structure would look like. That has changed quite a bit in the last three years now, due to a doubling of our network expansion. I think you've heard me tell this story on different calls, but essentially, we are now trying to, again, regain our cost structure that we've had in the past, balance the and get more efficient on the assets we've added in the last two, three years now, and also, look at all the investment areas that we're working on to drive growth, continuing to look at them, where we need to make midcourse corrections, where we need to change things up, and we expect that, again, a lot of the improvement will be in North America operations costs, make good headway in 2022. We always want to make more and we're going to be working on this definitely through 2023 and

beyond, but we hope to make -- expect to make big improvements in 2023.

**Andy Jassy**

President and Chief Executive Officer | Amazon.com, Inc.

Yeah. I'll start just at a broad level, priority wise, the connective tissue for everything we do across the Company, including in stores in North America is, we realize that we exist to make customers' lives better and easier every day, and relentlessly invent to do you so, and being maniacally focused on the customer experience is always going to be a top priority for us. At the same time, and this is true in North America as well as across the entire business, we're working really hard to streamline our costs, and trying to do so, at the same time, that we don't give up on the long-term strategic investments that we believe can meaningfully change broad customer experiences, and change Amazon over the long term.

As I address directly the North American stores' questions, I think, our probably the Number 1 priority that I spent time with the team on is reducing our costs to serve in our operations network, and as Brian touched on it, it's important to remember that, over the last few years, we took a fulfillment center footprint that we've built over 25 years, and doubled it in just a couple of years, and then, we at the same time built out a transportation network for last mile, roughly the size of UPS in a couple of years.

And so, when you do both of those things to meet the huge surge in demand, you're going to -- just to get those functional, it took everything we had. And so, there's a lot to figure out how to optimize, and how to make more efficient, and more productive. And then, I think at the same time, if you think about doubling the number of fulfillment centers you have, and then adding a very large transportation network, and you realize that all of those facilities have to link together, to get products to customers. That's a pretty big expansion in the number of nodes in the network. It becomes a little bit different network. And so, to figure out how to be really efficient across all those links and have them be highly utilized and to get the flows in those facilities working the right way, it takes time. So, we're working very hard on it. I'm pleased with the progress we've made in Q4 and you can see that in some of the results, but that work will extend into '23. So that's first.

I think the second thing priority wise I would talk about is just speed. We believe the continuing to get products to customers faster, makes customers happier, and they also convert at a higher rate when they can see promises of deliveries that are faster. I think selection will always be a very high area of focus for us. We work with hundreds of thousands in the US, and millions overall in the world of selling partners. In this past quarter 59% of the units sold were from our third-party

selling partners, and we worked very hard to provide unmatched selection and that matters a lot to customers. I think pricing being sharp is always important, but particularly, in this type of uncertain economy, where customers are very conscious about how much they're spending, having the millions of deals that we put together with our selling partners in the fourth quarter was an important part of the demand that you saw, and we'll continue to work really hard on being sharp on pricing.

And then, just the customer experience improvements that we're working all the time, whether it's adding Buy with Prime that allows Prime users to use their Prime benefits on other websites than just Amazon, or adding RxPass in the healthcare space, where our Prime customers, for \$5 a month, can get all the medicines they're using in unlimited fashion, or whether it's just even in our apparel business where when you're looking clothing you might buy, being able to see virtually your shoes with that outfit to see how it works and it changes your customer experience, your buying experience. We will continue to work very hard on those customer experiences and we have a lot more planned.

**Operator**

Thank you. And the next question comes from the line of Doug Anmuth with J.P. Morgan. Please proceed with your question.

**Doug Anmuth**

Analyst | J.P. Morgan

Thanks for taking the questions. Also for Andy, I have two. Just first, how would you evaluate your efforts in grocery thus far? I know it's a big -- huge market, you're attacking it different ways. What are the key steps here that you're focused on to drive greater market share? And then secondly, how should we think about the strategic importance of some of these emerging bets type of areas like healthcare, and Kuiper, and autonomous vehicles, among others? Thanks.

**Andy Jassy**

President and Chief Executive Officer | Amazon.com, Inc.

On the first one on grocery, I'd just start by saying that, we think grocery is a really important and strategic area for us. It's a very large market segment, and there's a lot of frequency in how

consumers shop for grocery. And we also believe that over time, grocery is going to be omni-channel. There are going to be a lot of people that order the grocery items online, and have it delivered to them, and there are going to be a lot of people who continue to buy in physical stores, but you're going to also see a hybrid of those where people pick out what they want online, and pick it up in stores or people are in stores and there's something that's not in inventory in the stores, they go to their app or to a kiosk, and order it to be delivered from online. And so, I think having omni-channel is going to really matter and I think that we have a pretty significant-sized grocery business. I think people sometimes don't realize that, and that we've been building for a long time, it's continuing to accelerate, and I kind of see it broken into a few pieces.

If you think about the online grocery offering, we have a very large business there. It looks different from the typical mega physical grocery store, but if you think about the aisles in the grocery store from packaged food, to paper products, to canned goods, to pet supplies, to health and personal care items, to consumables, we have a very large business there that continues to grow at a rapid clip, and then we think we'll continue to grow, but it doesn't have a big market segment share in perishables and if you really want to have significant market segment share in perishables, you typically need physical stores. And we have kind of two different offerings there for what I think is the very best organic physical store experience and selection. We have Whole Foods, which is a very significant sized business that's continuing to grow. I really like the progress that, that business has made on profitability in the last year. And I like what I see in front of it, and I think that's a very -- it's a premium product, but it's a significant business. It's a good business for us in the grocery space.

I think if you want to have a mass physical store offering, you need a different offering, and that's what we've been working on with Amazon Fresh, and we have a few dozen stores so far. We're doing a fair bit of experimentation today in those stores, to try to find a format that we think resonates with customers. It's differentiated in some meaningful fashion, and where we like the economics, and we've been -- we've decided over the last year or so that we're not going to expand the physical Fresh doors, until we have that equation with differentiation and economic value that we like, but we're optimistic that we're going to find that in 2023. We're working hard at it. We see some encouraging signs. And when we do find that equation, we will expand it more expansively, but I think that we have a very significant opportunity in the grocery segment. I think we're building a pretty broad grocery network across online and physical, and you're going to see us continue to work on it.

**Operator**

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

**Eric Sheridan**

Analyst | Goldman Sachs

Thanks so much. Maybe I'll ask one big picture of Andy, and then just a housekeeping matter to Brian, if I can. Andy, keeping on this theme of sort of big picture and strategy and your perspective, I'd love to get your view on the international e-commerce businesses. Obviously, you're in a range of geographies, with a wide variance of maturity, and different investment cycles. Can you give us your perspective on how you see Amazon's global e-commerce footprint today, and how investors should be thinking about the mix of growth and margin evolution in those international businesses in the years ahead?

And maybe, Brian, if I can just ask a quick follow-up, in the Q1 operating income guidance that you gave, I think there's some confusion among investors as to where you might be capturing some of the restructuring charges from the announcements that the Company has made on employee count between Q4 and Q1. Can you just clarify what was captured in Q4 versus what might be included in the way you framed the Q1 operating income guidance? Thanks so much.

**Brian T. Olsavsky**

Senior Vice President and Chief Financial Officer | Amazon.com, Inc.

Sure, Eric. Let me start -- this is Brian. Let me start with that second part. So, as I said earlier, we took a \$640 million charge tied to the position elimination that we announced in Q4. A lot of that fell into Q1 into mid to late January. So, the way to think about it is for the terminations in January. The salaries for the first three weeks are covered in operating results for Q1, but the period after that, where there's weeks of -- or months of severance coverage, job placement, a lot of those costs are what the \$640 million charge was in Q4. So, I hope that helps.

**Andy Jassy**

President and Chief Executive Officer | Amazon.com, Inc.

And on the question about international e-commerce, we're very enthusiastic about the business we're building there. I think, just perspective, if you look at the compounded annual growth rate from 2019 to '21, in the UK, it was over 30%, in Germany, it was 26%, in Japan, it was 21%. And the fact that we haven't given back that growth and these are all net of FX, but if you look at even the last couple of quarters where we're continuing to grow and we haven't given back some of that growth, a meaningful amount of market segment share has shifted to our global established e-commerce territories, and we're excited about that.

Now, we're -- at this stage, we're big enough in our developed international territories that when there's something significant happening in the macro, we're going to be impacted as well. And if you just look in Europe as an example, the inflation is higher than most places, and the impact on Europeans for the war in Ukraine is more significant, and also the energy prices and hikes there are more significant. So, you can see that in some of our growth numbers.

And then, you look at our emerging countries, and these are -- they're all a little bit different, and all in a little bit different stage as you recognized in the question. But if you look at countries like India, and Brazil, and the Middle East, and Africa, and Turkey, Mexico, and Australia and a number of those types of countries, we like what we're seeing. They take a certain amount of time. There's a certain amount of fixed investment you have to make when you enter a new geography, and then you have to drive a certain amount of revenue to be able to cover that fixed investment, but they're all on the right trajectory, and following trajectories that roughly look like what we saw in North America, and our established international geographies, and we think it's the right investment, and believe we're going to have a large profitable international e-commerce business.

**Operator**

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

**Justin Post**

Analyst | Bank of America

Great. Thanks. Maybe one for Andy and then one for Brian. AWS, if you look at the revenue growth at mid-teens, it implies it could be flattish, and even down this quarter. So maybe talk about what's driving that. Is it workload changes? Are there some clients that are shifting? Anything on the market share you could comment on? And then second, when do you think this could recover? Like what's the time frame? And would you expect margins to come back when revenues reaccelerate? I'll leave it at that.

**Brian T. Olsavsky**

Senior Vice President and Chief Financial Officer | Amazon.com, Inc.

Thanks, Justin, for your question. This is Brian. Let me start with what we're seeing at the customer level. So, as mentioned, continuing -- it's across all industries. There are some points of weakness, things like financial services, like mortgage companies that do -- as mortgage volumes down, some of their compute challenges, or compute volumes are down. Crypto is -- plus lower trading in crypto, and things tied to advertising as there's lower advertising spend, there's less analytics compute on advertising spend as well.

But -- so there's selective things, but by and large what we're seeing is just an interest and a priority by our customers to get their spend down as they enter an economic downturn. We're doing the same thing in Amazon, questioning our infrastructure expenses as well as everything else. And we -- there's things you can do. You can defer, you can switch to lower-cost products, you can run calculations less frequently. There's just -- you can do different types of storage on your data. So, there's ways to alter your cost and your bill in a short period of time. I think that's what we're seeing, and as I said, we're working with our customers to help them do that. And again, we're seeing ourselves at Amazon. So, I'll let Andy add some color on kind of the general trends in AWS, but that's more of what we're seeing at the customer level right now.

**Andy Jassy**

President and Chief Executive Officer | Amazon.com, Inc.

So, I would just add, and I think Brian covered a bunch of it. I think most enterprises right now are acting cautiously. You see it with virtually every enterprise, and we're being very thoughtful about streamlining our costs as well. And when you are being cautious, you look for ways that you can

find -- you can spend less money, and where companies can cost optimize, or in some cases, they may be used to doing analysis over 90 days of information, and they say, well, can I get away with it for two weeks, doing two weeks' worth. It's not necessarily the best thing long term, but a lot of companies will do that, when they're in uncertain economic situation. And the reality is that, the way that we've built all our businesses, but AWS, in this particular instance, is that we're going to help our customers find a way to spend less money. We are not focused on trying to optimize in any one quarter, or any one year. We're trying to build a set of relationships in business that outlast all of us. And so, if it's good for our customers to find a way to be more cost effective in an uncertain economy, our team is going to spend a lot of cycles doing that.

And it's one of the advantages that we've talked about since we launched AWS in 2006, of the cloud, which is that, when it turns out you have a lot more demand than you anticipated, you can seamlessly scale up, but if it turns out that you don't need as much demand as you had, you can give it back to us and stop paying for it, and that elasticity is very unusual. It's something you can't do on-premises, which is one of the many reasons why the cloud is, and AWS are very effective for customers. I think -- and I've spent a fair bit of time with the AWS team on this, and we look closely at what we see. We have a very robust, healthy customer pipeline, new customers, migrations that are set to happen. A lot of companies during times of discontinuity like this will step back and think about what they want to change strategically, to be in a position to reinvent their businesses and change their customer experiences more quickly, as uncertain economies emerge, and that often means moving to the cloud. We see a number of those pieces as well.

We're the only ones that really break out our cloud numbers in a more specific way. So, it's always a little bit hard to answer your question about what we see, but we -- to our best estimations, when we look at the absolute dollar growth year-over-year, we still have significantly more absolute dollar growth than anybody else we see in this space, and I think some of that's a function of the fact that we just have a lot more capability by a large amount, with stronger security and operational performance, and a larger partner ecosystem.

So, I think, it's also useful to remember that 90% to 95% of the global IT spend remains on-premises. And if you believe that that equation is going to shift and flip, I don't think on-premises will ever go away, but I really do believe in the next 10 to 15 years that most of it will be in the cloud, if we continue to have the best customer experience, which we have to work really hard at, an event which we're working to do, it means we have a lot of growth in front of us in the AWS business.

**Operator**

And our next question comes from the line of Ron Josey with Citi. Please proceed.

**Ron Josey**
Analyst | Citi

Great. Thanks for taking the question. Maybe a bigger high-level question here, just around Prime member engagement, and just seeing third-party seller services growth accelerating in the quarter, and I believe it was mentioned the customer is spending more on everyday essentials, which may be a relatively new use case. Talk just a little bit more, maybe Andy and Brian, just around how engagement's evolving here for Prime members, and really how this has grown wallet share over time and where this is going. Thank you.

**Brian T. Olsavsky**
Senior Vice President and Chief Financial Officer | Amazon.com, Inc.

Yeah. Thanks, Ron, for your question. I would say that the Prime membership remains strong and so has the dollars purchased per Prime member. It varies a bit by geography, but in general, if you step back, we had some very large video properties that we had launched last year, Thursday Night Football, and The Lord of the Rings: Rings of Power. Both of them had record sign-ups for Prime membership. And we know that, again, investments like that will help with not only new member -- or new Prime member acquisition, but also retention, and we see a direct link between that type of engagement, and higher purchases of everyday products on our Amazon website.

So, the health of Prime is very strong. As Andy mentioned earlier, we are continuing to work to get our speed of delivery up, to get more one-day shipments, and we think that will also be well received by Prime members, but it's a combination of price selection and convenience. I think we've made inroads on all of them, especially with the third-party selection that's been added over the last few years. So, I think the testament to that is the sales that we had in the fourth quarter. In a very competitive and deal-driven environment, people came -- prime members and others came to Amazon, to do their shopping. So, we're encouraged by it.

**Andy Jassy**

President and Chief Executive Officer | Amazon.com, Inc.

Just to add really one piece here, which is just, if you step back and think about a lot of subscription programs, there are a number of them that are \$14, \$15 a month, really for entertainment content, which is more than what Prime is today. If you think about the value of Prime, which is less than what I just mentioned, where you get the entertainment content on the Prime Video side, and you get the shipping benefit, the fast shipping benefit you can't find elsewhere, and you get the music benefit, you get the Prime Gaming benefit, and you get the photos benefit, and you get the Buy with Prime capability, use your Prime subscription on websites beyond just Amazon, and some of the grocery benefits that we provide, and RxPass like we just launched to get a number of medications people take regularly for \$5 a month unlimited, that is a remarkable value that you just don't find elsewhere, and we will continue to add things to Prime, and continue to experiment with lots of different features and benefits, but it's still early days. And as we continue to make the service better and better, and fully featured, we see people continuing to spend more at Amazon across our various businesses. So, we're optimistic about it.

**Operator**

And our final question comes from Mark Mahaney with Evercore ISI. Please proceed with your question.

**Mark Mahaney**

Analyst | Evercore ISI

Thanks. Two questions. Brian, just any color on why mid-teens is kind of a holdable growth rate for AWS over the next couple of quarters, given what looks like pretty clearly continuing deterioration in enterprise demand?

And then, Andy, I wonder at the high level if you could just talk about how your priorities may have changed, or the Company's priorities may have changed over the last year or so, as you've been the CEO, and it looks like there's a bit of a peel back on devices, a peel back on physical stores, except for groceries, and then, maybe a little bit more of a lean in on health. And I'm not quite sure what you're doing with entertainment content spend like that. Maybe it's the same, maybe it's a little bit more. But just at a high level, how would you say your priorities have changed, or are different than the prior CEOs? Thank you.

**Brian T. Olsavsky**

Senior Vice President and Chief Financial Officer | Amazon.com, Inc.

Hi, Mark. So, on the AWS growth rate, I'm not sure I can forecast for you with any level of certainty what is going to happen beyond this quarter. This is a bit uncharted territories economically. And as we mentioned, there's some unique things going on with the customer base. I think many in this industry are all seeing the same thing. So, I don't have a crystal ball on that one, but we are going to continue to work for -- to be there for our customers. And as I said in the earlier comments, we do have new deals. We have new workloads coming to the cloud. The value was there, and whether there's short-term, perhaps short-term belt-tightening in the infrastructure expense by a lot of companies, I think, the long-term trends are still there, and I think the quickest way to save money is to get to the cloud, quite frankly.

So, there's a lot of long-term positive in tough economic times. You saw that in 2020, when volumes for customers shifted very quickly. It led to a resurgence after that, and probably, acceleration of people's journeys to the cloud, and we'll just have to see if that happens again with what we're seeing today.

**Andy Jassy**

President and Chief Executive Officer | Amazon.com, Inc.

Yeah. I would say I think for any leadership team, each era is different, and it's often meaningfully impacted by what's happening around you. When I think that if you look at the last couple of years with things like the pandemic, and the labor shortage in 2021, and the war in Ukraine, and inflation, and uncertain economy, good leadership teams look around and try to figure out what that means, and how they should adjust their businesses. And so, if you look at in the early part of 2022, I think we realized that as we tried to make sure we met the surge in demand for consumers and sellers, and having to make decisions in 2020 for what fulfillment network investments we're going to make in 2022, we just had more capacity than we needed, and you saw us in the early part of 2022 delay some of our builds, and mothball some of our facilities to try and be more economic.

I think when we look at some of our physical business investments, physical store investments, I think, there were just some areas where we didn't have conviction that they were going to be big needle movers for Amazon. And so, that's why we closed down our 4-star bookstores. As we got into the early part of the summer, where we start our operating planning process, we -- and there was a lot of things happening in the macro economy, we started that process with the high-level

tenet of we want to find a way to meaningfully streamline our costs in all of our businesses, not just their existing large businesses, but also in some of the investments we're making, we want to actually do a pretty good thorough look about what we're investing and how much we think we need to. But doing so, without having to give up our ability to invest in the key long-term strategic investments that we think could change broad customer experiences, and change Amazon over time.

And you saw that process led to us choosing to pause on incremental headcount, as we tried to assess what was happening in the economy, and we eliminated some programs, Fabric.com, and Amazon Care, and Amazon Glow, and Amazon Explore, and we decided to go slower on some -- on the physical store expansion and the grocery space until we had a format that we really believed in rolling out, and we went a little bit slower on some devices. Until we made the very hard decision that Brian talked about earlier, which was the hardest decision I think we've all been a part of, which was to reduce or eliminate 18,000 roles. And so, those were all done with an eye towards trying to streamline our costs, but still be able to invest in the things that we think really matter over the long term.

Now, we have a way of looking at investments that is different maybe from some other companies. I'm not saying it's right or wrong. It's just the way we look at it, which is when we think about big areas to invest in, we ask ourselves a few questions. We ask, if we were successful, could it really be big and move the needle at Amazon, which is a high bar at a place like Amazon? Do we think it's being well served today? Do we have a differentiated approach? And do we have some confidence in those areas, and if we don't, can we acquire them quickly? And if we like the answers to those questions, we will invest. Sometimes, that leads to very logical extensions for people. When I got to Amazon 25 years ago, we were a books-only retailer, and when we expanded into music and video and electronics, that seemed pretty natural to people. Amazingly, people were very surprised we were expanding into tools that seemed far-field for people, but it turned out not to be.

When we launched something like Buy with Prime, I think people see that as more predictable. That process has also led us to less predictable investments. And I remember, I had a front-row seat in the AWS experience, having worked with the team, and led the team from the very start, and I remember both externally and internally, there were a number of people who wondered why we were doing that. It was so different from retail only, but think about how different a company Amazon would be today, if we hadn't invested in AWS. And so, that informs some of the other meaningful investments we're making beyond our stores and retail and advertising AWS businesses. I think that while we've gone slower in some devices and things, we still -- when we

look at the answers to those four questions, we are very enthusiastic about our investments in streaming entertainment, devices, our low Earth orbit satellite and Kuiper, healthcare, and a few other things. And I think that, do I think every one of our new investments will be successful? History would say that, that would be a long shot. However, it only takes one or two of them becoming the fourth pillar for Amazon for us to be a very different company over time.

So, I think it's very worthwhile. We're going to continue to invest. We're going to be very thoughtful about how we streamline our costs, and I think you see a lot of that, but we're also going to continue to invest for the long term.



Operator

[Operator Closing Remarks]



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