Amazon.com (NASDAQ:AMZN) Q2 2010 Earnings Call July 22, 2010 5:00 PM ET

Executives

Robert Eldridge -

Thomas Szkutak - Chief Financial Officer and Senior Vice President

Analysts

Sandeep Aggarwal - Caris & Company

Shawn Milne - Janney Montgomery Scott LLC

Scott Devitt - Morgan Stanley

Heath Terry - FBR Capital Markets & Co.

Imran Khan - JP Morgan Chase & Co

Spencer Wang - Crédit Suisse AG

Brian Pitz - UBS Investment Bank

James Friedland - Cowen and Company, LLC

Colin Sebastian - Lazard Capital Markets LLC

Douglas Anmuth - Barclays Capital

Justin Post - BofA Merrill Lynch

James Mitchell - Goldman Sachs Group Inc.

Mark Mahaney - Citigroup Inc

Jeetil Patel - Deutsche Bank AG

Operator

Good day, and welcome to the Amazon Quarterly Conference Call. [Operator Instructions] At this time, I would like to turn the conference over to Mr. Rob Eldridge, VP of Investor Relations. Please go ahead.

Robert Eldridge

Hello, and welcome to our Q2 2010 financial results conference call. Joining us today is Tom Szkutak, our CFO. We will be available for questions after our prepared remarks.

The following discussion and responses to your questions reflect management's views as of today, July 22, 2010 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.

As you listen to today's 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.

During this call, we will 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. Finally, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2009. Now I'll turn the call over to Tom.

Thomas Szkutak

Thanks, Rob. I'll begin with comments on our financial results. Trailing 12-month free cash flow grew 29% to $1.99 billion. Return on invested capital is 34%, down from 42%. ROIC is TTM-free cash flow divided by average total assets minus current liabilities, excluding the current portion of long-term debt over five quarter ends.

The combination of common stock and stock-based awards outstanding was 465 million shares compared with 451 million shares. Worldwide revenue grew 41% to $6.57 billion, or 42%, excluding the $48 million unfavorable impact from year-over-year changes in FX. We're grateful to our customers who continue to take advantage of our low prices, fast selection with free shipping offers, including Amazon Prime.

Media revenue increased to $2.87 billion, up 18%. EGM revenue increased to $3.49 billion, up 69%, or 70% excluding foreign exchange rates. Worldwide EGM increased to 53% of worldwide sales, up from 45%. Worldwide unit growth was 39%. Active customer accounts exceeded 118 million. Worldwide active seller accounts were more than 2 million, up 19%. Seller units were 32% of total units.

Consolidated gross profit grew 42% to $1.61 billion, and gross margin was 24.5%. Beginning this quarter, we no longer allocate Fulfillment costs related to the third-party inventory to cost of sales. Using our prior method, gross margin in Q2 2010 was 24.1%.

Now I'll discuss operating expenses, excluding stock-based compensation. Fulfillment, marketing, technology and content in G&A combined was $1.2 billion, or 18.3% of sales, up 50 basis points year-over-year. Fulfillment was $558 million, or 8.5% of revenue, compared with 8.4%. Using the prior method of allocating Fulfillment costs related to third-party inventory to cost of sales, Q2 2010 Fulfillment was 8.1% of revenue. Tech and content was $350 million or 5.3% of revenue, compared with 5.5%. Marketing was $204 million, or 3.1% of revenue, up from 2.7% in the prior year.

Now I'll talk about our segment results and, consistent with prior periods, we do not allocate segments, our stock-based compensation or other operating expense line item.

In the North America segment, revenue grew 46% to $3.59 billion. Media revenue grew 15% to $1.32 billion. The sequential decline in quarter-over-quarter growth rates was driven primarily by seasonality in textbook sales and slower rates of growth in video games and video game consoles.

EGM revenue grew 76% to $2.09 billion, representing 58% of North America revenues, up from 48%. North America segment operating income increased 61% to $200 million; a 5.6% operating margin.

In the International segment, revenue grew 35% to $2.98 billion. Revenue growth was 38%, adjusting for the $54 million year-over-year unfavorable foreign exchange impact during the quarter. Media revenue grew 20% to $1.55 billion, or 21% excluding foreign exchange rates. And EGM revenue grew 59% to $1.4 billion, or 63% excluding foreign exchange rates. EGM now represents 47% of International revenues, up from 40%.

International segment operating income increased 15% to $206 million; a 6.9% operating margin. Excluding the unfavorable impact from foreign exchange rates, International segment operating income increased 21%.

CSOI grew 34% to $406 million, or 6.2% of revenue; down 35 basis points year-over-year. Excluding the $10 million unfavorable impact from FX, CSOI grew 37%. Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income grew 71% to $270 million, or 4.1% of net sales. Q2 2009 operating income was negatively impacted by a $51 million legal settlement.

Our income tax expense was $88 million in Q2, or a 30% rate for the quarter. During the quarter, we recorded estimated tax expense associated with tentative agreements between the Japanese and the U.S. tax authorities on the allocation of income between the U.S. and Japan for 2003 through 2005, resulting in a three percentage point increase in our effective tax rate for the quarter.

GAAP net income was $207 million or $0.45 per diluted share compared with $142 million and $0.32 per diluted share.

Turning to the balance sheet. Cash and marketable securities increased $1.9 billion year-over-year to $5.11 billion. Inventory increased 46% to $1.94 billion and inventory turns were 12.5, up from 12.4 turns a year ago, even as we extended selection, improved in-stock levels and introduced new product categories.

Accounts payable increased 41% to $3.55 billion, and accounts payable days were 65, unchanged from the prior-year. Our Q2 2010 capital expenditures were $196 million. The increase in capital expenditures reflects additional investments and support of continued business growth, including capacity to support our Fulfillment operations, additional investments in technology infrastructure, including Amazon Web Services, and investments in corporate office space. We expect this trend to continue throughout 2010.

I'll conclude my portion of today's call with guidance. Incorporated into our guidance are the order trends that we've seen to date and what we believe today to be appropriately conservative assumptions. Our results are inherently unpredictable and may be materially affected by many factors, including a high level of uncertainty surrounding exchange rate fluctuations, as well as the global economy and consumer spending. It's not possible to accurately predict demand, and therefore, our actual results could differ materially from our guidance.

As we describe in more detail in our public filings, issues such as settling intercompany balances and foreign currencies amongst our subsidiaries, unfavorable resolution of legal matters and changes to our effective tax rates can all have a material effect on guidance. Our guidance further assumes that we don't conclude any additional business acquisitions or investments, record any further revisions to stock-based compensation estimates and net foreign exchange rates remain approximately where they have been recently.

For Q3, we expect net sales of between $6.9 billion and $7.625 billion, a growth between 27% and 40%. This guidance anticipates approximately 300 basis points of unfavorable impact from foreign exchange rates.

GAAP operating income to be between $210 million and $310 million, or between a 16% decline and 24% growth. This anticipates approximately $130 million for stock-based compensation and amortization of intangible assets. We anticipate Consolidated segment operating income, which excludes stock-based compensation and other operating expenses to be between $340 million and $440 million, or be between 3% decline and 26% growth.

We remain heads-down focused on driving a better customer experience through price, selection and convenience. We believe putting the customers first is the only reliable way to create lasting value for shareholders.

Thanks. And with that, Rob, let's move to questions.

Robert Eldridge

Great. Thanks, Tom. Let's move on to the Q&A portion of the call. Operator, will you please remind our listeners how to initiate a question?

Question-and-Answer Session

Operator

[Operator Instructions] We'll take our first question from Jeetil Patel from Deutsche Bank.

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First of all, I guess as it relates to, broadly, Fulfillment. I guess can you talk about -- maybe a little bit more color on Fulfillment capacity being layered into the business? I guess, is that both Domestic and International, or just more of a U.S. kind of phenomenon? Maybe a bit more color on, I guess, how much of this incremental capacity is being allocated to your partners, seller partners out there. And I guess is this the build-up in front of the holiday season that you typically do? And then second, are you seeing consumers still buy more books in an environment where consumers have the Kindle App available on multiple devices these days?

Thomas Szkutak

In terms of answering your first question, just to clarify. On the performance expense as a percentage of revenue, we have historically reallocated some of our cost from operating expenses to COGS. And when we stopped reporting gross margins last quarter, we decided this quarter not to allocate some of our cost out of operating expenses and into COGS. And the impact of that is a little over 40 basis points as a percentage of revenue. So in other words, our operating expenses for Fulfillment are about 40 basis points, as a percentage of revenue, higher than they would have been if that we have not done this. And the offset is in COGS. So then if you take a look at it, those Fulfillment expenses, we are growing very, very fast. And so we're adding capacity to support growth. And we plan on adding 13 Fulfillment centers this year after keeping our Fulfillment center structure relatively flat. Last year, we did add some capacity, but we're certainly adding a lot more this year. And that's, again, to support that growth. That's both in terms of our retail customers as well as Fulfillment by Amazon, our partners. And your question around whether it's Domestic or International, it's across geographies. So it’s 13 Fulfillment centers across geographies. And so we're very excited about it because, again, we're experiencing a look at our overall growth rates at 42% on a local currency basis. This quarter, 42%; last quarter, 37% in Q4. So again, we're growing very, very strong. So and then in terms of your second question, could you just elaborate a little bit further? I didn't...

Jeetil Patel - Deutsche Bank AG

I think early on when the Kindle device came out, you had just actually talked about how consumers were purchasing more books through the Kindle device. Are you seeing, now that you have a Kindle App that resides in multiple different devices, products out there in the marketplace, are you seeing consumers buy more books via the Kindle App?

Thomas Szkutak

What we're seeing is strong growth on Kindle as well as the Apps. So we're seeing very, very strong growth on Kindle. So it's really across the board, is what you’re saying.

Jeetil Patel - Deutsche Bank AG

Is this idea of the cloud-based computing for books really resonating with consumers today? Is the idea of this cloud-based kind of format of reading or having availability of digital books resonating with consumers, such that I can read my book on a PC, my BlackBerry and my iPhone and Kindle, and switch around depending on what's convenient for me? Is that…

Thomas Szkutak

It certainly is. And customers can come and buy content on the Kindle, and buy it once and use it everywhere, which is great. And so we're seeing -- as you probably saw in the release from earlier in the week, we’re seeing very, very strong device growth and we're seeing very, very strong content growth. And we're extremely pleased with what we're seeing there.

Operator

And our next question is from Scott Devitt with Morgan Stanley.

Scott Devitt - Morgan Stanley

Tom, if you go back over the past four quarters, on average, you had been beating the midpoint of your revenue guidance by approximately 7% in op inc [operating income] by about 27%. And in the second quarter, revenue was towards the high-end of guidance, but the operating income was at the midpoint. So could you maybe talk about anything in the business that you felt that changed in the quarter? Or how we should think about your forward-operating guidance, going forward relative to now the past five quarters?

Thomas Szkutak

When we set out guidance, we're trying to be very helpful. We're trying to be giving you our best forecast of what's going to happen during the quarter. We have had some times where we've been on the high-end of that and been over it, but certainly when we provide guidance, that's not what we're trying to do. We're trying to give an accurate description of what we think the range will be. And so we approach it the same way every time and we give the guidance that we think is appropriate. And as you mentioned, our results today are well within -- it's in the top half for revenue guidance. It's also in the top half for Consolidated segment operating income as well.

Operator

[Operator Instructions] Our next question is from James Mitchell from Goldman Sachs.

James Mitchell - Goldman Sachs Group Inc.

Could you talk about why the International operating margins are trending down, while the Domestic operating margins are trending up? Does that primarily reflect makeshift in terms of third-party and EGM within each market, or more for the 13 new Fulfillment centers outside North America than inside it? And to what extent are the 13 new Fulfillment centers already hitting expenses in the second quarter versus coming in in the third quarter?

Thomas Szkutak

In terms of International. First of all, I want to highlight a couple things related to International. International saw an accelerated growth this quarter. It was 38% growth on a local currency basis. That's the strongest growth rate in any quarter that we've had in International in over five years. So we saw very good growth. And there's a number of things that's driving it. We've added a lot of selection over the past few years. If you look back and you see just the categories that we've launched over the past few years, we continue to add selection in existing categories, but in those new categories that we've launched over the past few years. And so that growth from new and existing categories is certainly doing quite well. We're making sure that we're very competitive from a pricing standpoint, which is helping. And certainly, other things such as Prime is having a noticeable impact on the growth rate there. So that's really what's driving the growth rate. And with that accelerated growth rate in some of those newer categories, we're seeing some mix. Again, we have a number of categories that are very new there over the past few years, and they're coming up the scale. But it's still very early. So you should assume that many of those are lower gross margin categories and you can see that reflected in the EGM growth within International. So again, saw very, very strong growth there. In terms of Fulfillment centers, I mentioned this to, I think, it was to Jeetil's question earlier. We haven't -- the plan is to add 13. You're seeing some of the cost starting in Q2 for some of those Fulfillment centers and you see more, as reflected in our guidance for Q3. But again, they're dispersed in a number of different geographies.

Operator

And we'll take our next question from Mark Mahaney with Citi.

Mark Mahaney - Citigroup Inc

The tax rate. There are one-time items in that sound like, the way you've described it, [indiscernible] going forward? Secondly, do you think it would be apples-to-apples North America and International gross margin under the old accounting methodologies? And then third, you talked about marketing expenses? [indiscernible] to pick up. Is there some change in your strategy or did you find marketing expense in this quarter?

Thomas Szkutak

We did mention on a tax rate standpoint, our tax rate was 30%. Yes, if there's any one-time unusuals, I think is what you asked for, there was one that I mentioned in my opening remarks related to Japan. And we have a tentative agreement there, and the impact of that is about 300 basis points on that tax rate. So without that, it would've been approximately 27% for the quarter. In terms of marketing, you asked a question around marketing. Our approach has been consistent. The spend that you're seeing during the quarter is primarily online. If you're looking at the year-over-year growth that you're seeing in terms of basis points, certainly, we have Zappos and our quarterly numbers, which we didn't have last year. And if you -- many of you probably saw the results prior to consolidating and they were spending at a percentage of revenue, a much greater rate than Amazon was. And you should assume that they're still spending at a rate that's faster than Amazon and that's reflected in that total. You also may have noticed that we're doing some broad-skill advertising, TV advertising for Kindle, which we think is the right thing to do, and included in the number that you see there.

Operator

And we'll take our next question from Justin Post with Bank of America Merrill Lynch.

Justin Post - BofA Merrill Lynch

Looks like you added 2,200 people in the quarter. Could you explain where those people are mostly centered toward? Are they on digital initiatives, maybe helping improve the Kindle or are they more Fulfillment center-related? And secondly, any timeframe from when kind of the personnel ramp-up could kind of slow down? Is that next year or is it sooner than that?

Thomas Szkutak

In terms of the growth, sequential growth from Q1 to Q2, we did add 2,200 people. The majority of those were operations people. And within that operation, the majority of those were to support new volume; I should say, the volume that we're seeing. And so that's within there. The rest of the growth rate, supporting the things that we've been talking about over the past several years. We're supporting new category growth both in North America and International. We're supporting the growth in Kindle, supporting our Seller business, supporting our fast-growing Web Services business. Those are the things that we're supporting to grow our business going forward.

Operator

And we'll take our next question from James Friedland with Cowen and Company.

James Friedland - Cowen and Company, LLC

Looking at free cash flow, it seems like it's unusually low for Q2. And I know it moves around, but it looks like part of the reason is ramping up on inventory a little earlier in the year. Can you provide some color around that?

Thomas Szkutak

Well, our inventory, actually, our turns improved slightly year-over-year, about a 10th of a turn. So we're pleased with what we see there. You're right, you do have some volatility in free cash flow. Certainly, one of the things that you're seeing is CapEx was $196 million in the quarter, which is up and that's really in a few different pieces, but certainly, the incremental spend relates to capacity that's both on the Fulfillment side as well as infrastructure side and the infrastructure side to support our Retail business as well as fast-growing AWS business.

James Friedland - Cowen and Company, LLC

And on that CapEx, should we look at that roughly $200 million you're spending per quarter? I know there's $100 million of incremental expense in for the year for the new facility move. But is that sort of a baseline excluding that facility impact?

Thomas Szkutak

Q3 should be our highest quarter of the year so far, and you should expect that number to be more than $300 million during Q3. And again, we plan to add 13 Fulfillment centers this year. We plan to add infrastructure capacity to support our faster-growing business, which includes AWS. And on the Fulfillment side, it's not just to support our retail business but to support our FBA business, supporting our Cellar partners so in addition to the office space comments that you made.

Operator

[Operator Instructions] We go to Brian Pitz with UBS.

Brian Pitz - UBS Investment Bank

Should we expect an even larger ramp-up as a percent of revenue in Q4, given more aggressive spending on Kindle? And can you talk about what's driving acceleration in other revenue? Is it Amazon products ads or Web Services?

Thomas Szkutak

I heard the first question, but could you repeat the second part?

Brian Pitz - UBS Investment Bank

Could you discuss the acceleration in other revenues? Is it some of your initiatives in Amazon product ads or maybe Web Services?

Thomas Szkutak

In terms of other revenue, there's a number of things that are in there, but certainly, our Web Services business is included in other revenue and it's growing very fast. So we're certainly seeing that. In terms of marketing, we're not giving guidance on any specific line item in Q3 in our guidance, and we're not giving any guidance at this point for Q4. But I would expect that we're going to approach marketing very similar to what you've seen over the past quarter. The vast majority of it will be online. We would still expect our Zappos team to continue to market as they have, and as you've seen so far this quarter, we've been doing some TV ads for Kindle during the quarter as well. So all of that would be included in our marketing and reflected in our guidance.

Operator

And we'll take our next question from Doug Anmuth from Barclays Capital.

Douglas Anmuth - Barclays Capital

Tom, I was hoping you could comment on the North America media business, and in particular, it grew 15% on certainly an easier comp from last year. You pointed to a couple things there. But any more detail that you can provide here and how much, I guess in particular, is this related to the digital success that you're having through the Kindle?

Thomas Szkutak

The growth rate, the deceleration that you see is driven primarily by seasonality in textbook and also weakness in video games and video games consoles. From a textbook standpoint, it's very seasonal. It was growing very fast in Q1. It's not as much of an impact in Q2 as you would imagine and then, the weakness in video games and video game consoles due to allocations on the console side and also a lack of major releases. But in terms of growth from the book side, if you've seen the release earlier in the weak, we're seeing a very, very strong growth in both Kindle device, which is in EGM, as well as Kindle content, which is in media. So it's growing very, very fast. But our fiscal book business, while the Kindle books are growing dramatically, is also growing double digits year-over-year in the quarter. So we're very pleased with our overall book business, both our physical and digital business.

Operator

And we'll take our next question from Spencer Wang with Crédit Suisse.

Spencer Wang - Crédit Suisse AG

Tom, can you give us a sense of roughly the impact from the Zappos acquisition in the quarter? And also, was there any impact from the change in the Kindle hardware accounting?

Thomas Szkutak

Yes, in terms of those two pieces, we're not breaking those out. I think a way to think about it, though, is if you look at our EGM growth rate from North America, which is where those two things would occur, if you back those up, we still saw an accelerated growth rate. So again, we're not providing individual product line details in this case, but that's what we're seeing.

Spencer Wang - Crédit Suisse AG

And on the accounting change, Tom?

Thomas Szkutak

Was including both of those in that number when I said that.

Operator

And we'll take our next question from Shawn Milne with Janney Capital Markets.

Shawn Milne - Janney Montgomery Scott LLC

Just first on a housekeeping front, can you give us a sense for what kind of capacity, the percent of capacity that you would be adding with a 13 distribution centers? Any sense of magnitude there would be helpful. And secondly, if you can give us any color on just the pace of business through the second quarter, June relative to April.

Thomas Szkutak

Yes, in terms of the number of Fulfillment centers, 13 is on a base of just under 40 to size it a little bit. And in terms of pace, we don't give updates on inter-quarter. But again, as you can see from our overall growth rate, we saw very, very strong growth in Q2, up 42% on a local currency basis, 46% from North America, 38% for international. International was the best growth rate of any quarter we've had in a little over five years. So it's very strong. There was World Cup going on about 20 days, the last 20 days of the quarter. And hard to say what kind of impact that had, but I'm sure it had some impact but that was included in that 38% growth on a local currency basis. But again, we're not a bellwether for the economy, and we focus very hard on expanding selection and making sure we have great prices and making sure that we have great convenience for customers, including Amazon Prime. So those are the things that we're focused on, and it was really what's driving the growth that we see today.

Shawn Milne - Janney Montgomery Scott LLC

Just a quick follow-up on the 13 distribution centers out of the 40 plus, I'm assuming that these are more regional in nature and that, blended, the average of the square footage would be a little bit lower than what we've seen from some of the sort of early distribution centers. Is that a fair take?

Thomas Szkutak

It was 13 on just under 40 and not just over 40, and we're not providing the square footage details. But I would think of them as varying size and in different regions.

Operator

And we'll take our next question from Imran Khan from JPMorgan.

Imran Khan - JP Morgan Chase & Co

It seems like CapEx grew fifth straight quarter and look like at 15% of your revenue and depreciation and amortization grew like 53%. So how should we think about the CapEx? What's driving this CapEx growth? So that's question number one. And question number two, it seems like high end, you're guiding 40% revenue growth but operating income growth rate of 24%. So what's driving the deleverage? And the third, how many Kindle Apps for iPad has been downloaded? Can you give us some sense on that?

Thomas Szkutak

Sure, I'll take your CapEx question first. The largest pieces of the increase are related to capacity, and it's capacity both from a Fulfillment perspective and an infrastructure perspective. When I say Fulfillment, it's to support our fast-growing Retail business as well as our fast-growing Fulfillment by Amazon business, where we fulfill on behalf of our partners. From a infrastructure standpoint, we're supporting, again, our Retail business but also we have a AWS business that's growing very, very strong right now, and so we're supporting that growth by adding CapEx. So that's what's included in the CapEx.

In terms of the range of guidance, I just wanted to clarify a little bit. You said the upper end of the range was 40%. Keep in mind that, that anticipates approximately 300 basis points of unfavorable exchange rates, so at the high end of the range, it's more like 43% as well as on the bottom end of the range for CSOI, you mentioned 24%, it's actually 26%, and that anticipates approximately 600 basis points of exchange. So at the high end of the range, it would be 43% growth x exchange for revenue, 32% growth x -- excuse me, on the high end of the range, 43% excluding exchange for revenue and 32% growth excluding exchange on CSOI. And again, it reflects our best estimate for the high end of that range and the things that we see. But again, it anticipates some of the things that I'm talking about. It anticipates the capacity that will show up in CapEx as well as operating expense across a number of different fronts. And then the rest of the operating expenses in support of the things that we've been talking about, again, for the last several year, it's the growing retail business, both in North America and international, our Seller business, AWS, our Kindle business, Seller business, if I didn't say that. So again, those are the things that we're adding resources to, to support the opportunities that we see going forward.

Operator

And we'll take our next question from Colin Sebastian with Lazard.

Colin Sebastian - Lazard Capital Markets LLC

One clarification on the media segment given the questions there, was the performance in that segment under your expectations for the quarter? And then secondly, I'm curious about your view of the consumer environment versus 90 days ago and if you're preparing for this holiday period any differently than maybe you were last year at this time.

Thomas Szkutak

We're very, very pleased with the media growth, and so we're very pleased with what we saw. We're extremely pleased with our Kindle content growth. And again, as I mentioned, our physical books also grew double digits year-over-year during the quarter. So we're very, very pleased with overall books business as related to that. And again, we saw our sequential decline based on, primarily, the textbook sales seasonality and also some weakness in video games and video game consoles, again, due to allocations and lack of major releases. Even though we saw weakness in our video games and video game console business, we're still very pleased with that business, and we think we're doing -- the team's doing a great job in terms of the fundamental supporting customers, and we like the opportunities that we see there. In terms of the consumer sentiment, again, I don't think we're the bellwether. What we're seeing is reflected in our Q2 results, which were from a growth standpoint, very, very strong.

Operator

And we'll take our next question from Sandeep Aggarwal with Caris and company.

Sandeep Aggarwal - Caris & Company

Tom, can you talk about maybe the average selling price for the Kindle e-books and even if we don't want to talk about the exact pricing, maybe directionally how they have trended last two quarters? And secondly, the price reduction in Kindle device in June, is it fair to assume that it was gross margin mostly?

Thomas Szkutak

In terms of the ASP in Kindle, I can't help you with the average. But what I can help you with is if you take a look at some of the details that we provided earlier in the week, and I'll point you to that release where we have over 630,000 titles, 510,000 of those were $9.99 or below. That excludes the $1.8 million pre-1923 free content that we have in the Kindle. So there's just great values and great selection for customers. And we're seeing that customers responding to that great selection and the convenience of the device, the convenience of the apps. The fact that you can buy at once on Kindle and read it in many different places is really important to customers. And again, there's just great values there as well.

Sandeep Aggarwal - Caris & Company

And Tom, just in terms of growth, the price reduction in the Kindle device? Is it...

Thomas Szkutak

I've not commented on the individual margins of any product line, but what I would say is not unlike any product that we sell, we're trying to make sure that we can get the best values to customers, and we're committed to doing that. And we think we're very fortunate to see -- when we dropped our price from $259 down to $189, we started tripling of growth rate, which we're extremely pleased to see. And we're very happy with our Kindle business and it has great momentum right now.

Operator

And we'll take our last question from Heath Terry with FBR Capital Markets.

Heath Terry - FBR Capital Markets & Co.

Can you give us a sense of what kind of traction you're seeing for Kindle at Target since the rollout there? And then, looking at the category expansion in International, how much expansion do you have left given the verticals that you've added before the offering outside the U.S. starts to parallel what you're offering inside the U.S.?

Thomas Szkutak

In terms of Target, we have a longstanding practice of not talking about any results from a specific partner. But we're pleased overall with our growth in Kindle all the way around, and we're pleased with our relationship there. In terms of International, we have -- we're still adding a lot of selections in International in each of the categories that we're in, older categories that we've been in for years as well as the newer categories that I mentioned earlier and still think there's the tremendous opportunity to add selection there. Keep in mind that we also have, within International, an opportunity to add new geographies and new categories and selection, obviously, in those geographies. So we think there's great opportunities there.

Robert Eldridge

Thank you for joining the call today and for your questions. A replay will be available on our Investor Relations website at least through the end of the quarter. We appreciate your interest in Amazon.com and look forward to talking with you again next quarter.

Operator

That concludes today's conference call. We appreciate your participation.