Amazon.com, Inc. (NASDAQ:AMZN) Q2 2013 Earnings Conference Call July 25, 2013 5:00 PM ET

Executives

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Sean Boyle - VP, Investor Relations

Analysts

Ross Sandler - Deutsche Bank

Douglas Anmuth - JPMorgan

Mark Miller - William Blair & Company

Brian Pitz - Jefferies & Company

Scott Devitt - Morgan Stanley

Mark Mahaney - RBC Capital Markets

Mark May - Citi

Justin Post - BofA Merrill Lynch

Benjamin Schachter - Macquarie Securities Group

Jordan Rohan - Stifel, Nicolaus & Company

Ronald Josey - JMP Securities

Heath Terry - Goldman Sachs

Anthony Diclemente – Barclays Capital

Youssef Squali - Cantor Fitzgerald

Colin Sebastian - Robert W. Baird

Matthew Nemer - Wells Fargo Securities

Steven Ju - Credit Suisse

Ken Sena - Evercore Partners

Operator

Thank you for standing by. Good day everyone and welcome to the Amazon.com Second Quarter 2013 Financial Results Teleconference. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Today's call is being recorded.

For opening remarks, I'd like to turn the call over to Vice President of Investor Relations, Mr. Sean Boyle. Please go ahead sir.

Sean Boyle

Hello and welcome to our Q2 2013 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 25, 2013 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 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. 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 2012.

Now, I'll turn the call over to Tom.

Thomas J. Szkutak

Thanks Sean. I'll begin with comments on our second quarter financial results. Trailing 12-month operating cash flow increased 41% to $4.53 billion. Trailing 12-month free cash flow decreased 76% to $265 million. Trailing-12 month capital expenditures were $4.27 billion. This amount includes $1.4 billion in purchases of our previously leased corporate office space, as well as property for development of additional corporate office space located in Seattle, Washington which we purchased in the fourth quarter 2012.

The increase in capital expenditures reflects additional investments in support of continued business growth consisting of investments in technology, infrastructure including Amazon Web Services and additional capacity to support our fulfillment operations.

Return on invested capital was 2%, down from 11%. 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 474 million shares compared with 468 million shares.

Worldwide revenue grew 22% to $15.7 billion or 25% excluding the $392 million unfavorable impact from year-over-year changes in foreign exchange rate. We are grateful to our customers who continue to take advantage of our low prices, vast selection and shipping offers.

Media revenue increased to $4.4 billion, up 7% or 11% excluding foreign exchange. EGM revenue increased to $10.42 billion, up 28% or 30% excluding foreign exchange. Worldwide EGM increased to 66% of worldwide sales, up from 64%.Worldwide paid unit growth was 29%. Active customer accounts exceeded 215 million. Worldwide active seller accounts were more than 2 million. Seller units represented 40% of paid units.

Now I will discuss operating expenses, excluding stock-based compensation. Cost of sales was $11.21 billion, or 71.4% of revenue, compared with 73.9%. Fulfillment, marketing, tech and content and G&A combined was $4.09 billion, or 26% of sales, up approximately 275 basis points year-over-year. Fulfillment was $1.76 billion, or 11.2% of revenue compared with 10.1%. Tech and content was $1.43 billion, or 9.1% of revenue, compared with 7.6%. Marketing was $651 million, or 4.1% of revenue consistent with prior period.

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

In the North America segment, revenue grew 30% to $9.49 billion. Media revenue grew 16% to $2.17 billion. EGM revenue grew 31% to $6.48 billion, representing 68% of North America revenues, up from 67%. North America segment operating income increased 19% to $409 million, a 4.3% operating margin.

In the international segment, revenue grew 13% to $6.21 billion. Adjusting for the $391 million year-over-year unfavorable foreign exchange impact, revenue growth was 20%. Media revenue decreased 1% to $2.22 billion, or grew 7% excluding foreign exchange, and EGM revenue grew 22% to $3.94

billion, or 29% excluding foreign exchange. EGM now represents 63% of international revenues, up from 59%.

International segment operating income was zero, down from $16 million in the prior-year period. Excluding the unfavorable impact from foreign exchange, international segment operating income increased to 11%.

CSOI increased 14% to $409 million, or 2.6% of revenue, down approximately 20 basis points year-over-year. Excluding the unfavorable impact from foreign exchange, CSOI increased 19%. Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense.

GAAP operating income decreased 26% to $79 million, or 0.5% of net sales. Our income tax expense was $13 million. GAAP net loss was $7 million or $0.02 per diluted share compared with net income of $7 million and $0.01 per diluted share.

Turning to the balance sheet, cash and marketable securities increased $2.49 billion year-over-year to $7.46 billion. Inventory increased 24% to $5.42 billion and inventory turns were 9.4, down from 10.1 turns a year-ago as we expanded selection, improved in stock levels and introduced new product categories. Accounts payable increased 27% to $8.99 billion and accounts payable days increased to 73 from 68 in the prior-year.

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've described in more detail in our public filings issues such as settling intercompany balances in foreign currencies among such 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, investments, restructurings or legal settlements, record any further revisions to stock-based compensation estimates and that foreign exchange rates remain approximately where they have been recently.

For Q3, 2013 we expect net sales of between $15.45 billion and $17.15 billion, a growth between 12% and 24%. This guidance anticipates approximately 300 basis points of unfavorable impact from foreign exchange rates. GAAP operating loss to be between $440 million and $65 million compared to $28 million in the third quarter of 2012. This includes approximately $340 million of stock-based compensation and amortization of intangible assets.

We anticipate consolidated segment operating income or loss, which excludes stock-based compensation and other operating expense to be between $100 million loss and $275 million in income compared to $232 million of income in third quarter 2012. We remain heads down focused on driving a better customer experience through price, selection, and convenience. We believe putting customers first is the only reliable way to create lasting value for shareholders.

Thanks. And with that, Sean, let’s move to questions.

Sean Boyle

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) Our first question comes from Ross Sandler from Deutsche Bank.

Ross Sandler - Deutsche Bank

Thanks, guys. Just have one question on shipping. It looks like the unit efficiency in shipping continues to improve, what are you guys doing to drive the cost of shipping each unit lower? Are there more cost that can be taken out on a per unit basis? And then as you start looking at same day delivery in some of these markets, including the new grocery program, what incremental costs do you see around doing same day fulfillment? Thanks.

Thomas J. Szkutak

In terms of the economics, we have great team, operations team that’s working on how do we serve customers reliably and faster. So that – certainly that’s reflected in our transportation costs. Also from a productivity standpoint, we just as we add capacity, which is getting closer and closer to customers with larger selection which is certainly helpful from a productivity standpoint. So, those are some of the dynamics that you need to think about, when you think about our transportation cost and the teams done a great job over the years of becoming even more reliable, faster, and more productive and again that we working on ways to make that it better over time.

Operator

And we'll move to Douglas Anmuth from JPMorgan.

Douglas Anmuth - JPMorgan

Great. Thanks for taking my question. I was hoping if you could talk a little bit more just on the profitability of the grocery business and how you'll know when is the right time to expand to more markets beyond Seattle and LA? And then also if you could comment on the European macro environment, just given the growth that you saw in the international business just decelerating a little bit from last quarter? Thanks.

Thomas J. Szkutak

In terms of the, the fresh business, we started doing the pilot several years ago in Seattle. We did a number of – team has done a great job, inventing on behalf of customers, it's a very good customer experience. The challenging that we've had over the past several years is to how to make it economically viable. And so that's the team has done a lot of different experiments and invented well on behalf of customers that to see what works. And we took a lot of that knowledge and which enabled us to launch fresh in LA. And it's very early there, we're still in the trial period, its good customer experience and we like what we see so far, but it's very, very early. And so, it's something that we'll continue to work on and both from a customer experience and from an economic standpoint. And there is not much more I can add to that right now, so you have to stay tuned and see where that ends up.

Operator

Our next question comes from Mark Miller from William Blair.

Mark Miller - William Blair & Company

Hi. Good afternoon. Could you help us understand the third-party unit growth? I think this is the first quarter in about three years that third-party unit penetration hasn't increased. And then, additionally I wonder if you could comment at all on potential to expand prime membership options, potentially it is something like a super prime offering for expanded video content and fulfillment options?

Thomas J. Szkutak

In terms of the third-party unit growth, it was 40% this quarter, which compares to 40% last year in Q2. So again, it is flat as a percentage of total units. One thing we keep in mind though is our digital units are growing at a faster rate than physical. And those digital units are primarily first party units. So if you take out digital units out in both periods, we're actually up approximately 300 basis points. So, physical seller business is growing very nicely. It's going at a faster rate than retail and its doing very well and so, very pleased to see that.

Operator

And we'll move now to Brian Pitz from Jefferies.

Brian Pitz - Jefferies & Company

Great. Thanks. Quick question on fulfillment centers, any color on your current plan for the year in terms of locations, U.S. versus international, timing etcetera. And then separately any comments on the weaker growth in international media? Thanks.

Thomas J. Szkutak

In terms of FCs we've announced to-date five net new facilities in the U.S. We've also announced some in international, its still early as we did in prior – last few years, we gave you updates kind of as we went along and so we can update you a little bit later in the year to see how that progresses. But we certainly are adding new capacity and that's reflected in the guidance which you see in Q3 as we get ready for our Q4 seasonal quarter. In terms of growth, in international media, what you're seeing there is on a local currency growth basis, you see a 7% growth. That's consistent with what you've seen in the last couple of quarters. We are at the very early stages, we're excited about what we're seeing so far in digital. But we're in that early stage of transformation from digital from physical to digital within international. And so, you see from the release that we've launched a lot of new things related to digital over the past 90 days and even prior to that. So, we're very excited about those launches and excited about the transformation. We are also excited, if you look at our total international business, we've got a lot of opportunities to invest in. I talked about the conversion from physical to digital. We also have selection still to add within existing categories, new categories, new geographies, so we're very excited about the opportunity that we've there.

Brian Pitz - Jefferies & Company

Thank you.

Operator

We'll now go to Scott Devitt from Morgan Stanley.

Scott Devitt - Morgan Stanley

Hi. Thanks. I guess, the International topic again, but it has been asked a few times. So maybe specifically in China, Tom, in terms of what the Company hypothesis is in terms of the way that market plays out over time and how you think about investment spend in that market. And then secondly, as it relates to AWS, it's nice, the event – the annual event and the quarterly events that happened, I was wondering when you think it makes sense to start talking more about it in releases and on calls? Is it just the 10% revenue threshold or something else that would lead to more discussions on that, on calls like this? Thanks.

Thomas J. Szkutak

In terms of China, we're investing heavily in China. And we have – we've been for some number of years. We've a good customer experience there. We continue to look at ways to make that even better. We're adding selection across many categories right now. It's a very interesting geography. And so, we will continue to work on that experience for customers. You should expect us to be in investment mode for some time and, but it's a very sizable segment, very interesting long-term growth opportunity and we'll continue to work on making that better for customers and for investors over time.

In terms of AWS, the business is growing very, very strongly. We've got a great team that's innovating on behalf of customers, launching the services, becoming more productive, which allows us to be able to lower prices. We've had many price reductions since we started with AWS and we share that very visibly and so we're excited about that business. And even though we were off to a very good start, it's a very big opportunity and we continue to invest in that business and we're very excited to do it. We think its great long-term opportunity and we've great team working on it.

Operator

Thank you. Our next question comes from Mark Mahaney from RBC.

Mark Mahaney - RBC Capital Markets

Great. Thanks. Tom just one question related to consumer packaged goods. Any comments there on whether you're seeing broader purchases by the

Amazon customers of more traditional consumer staples than you've seen in the past and is that something that you’re trying to promote? Thank you.

Thomas J. Szkutak

Yes. We – just to make sure I heard your question, we’re seeing – when you look at our for example, our North America growth, particularly EGM, we’re seeing very good growth across many different categories. But if you call out, we’re seeing very good growth in apparel specifically, and also consumables. And so, the teams has done a very nice job, both teams done a very nice job from a customer experience standpoint and they’re growing very nicely and that is something that we’re seeing, and it does help with frequency to the site as well.

Operator

And we’ll now go to Mark May from Citi.

Mark May - Citi

Thanks for taking my question. Another one on international in the media segment there, I believe that you now have a more comprehensive, kind of localized international strategy for the Kindle. And I wonder if you could talk about what, if any, impact that you think that that might have over the next few quarters in terms of its impact on the international media segment? And also on international, the AWS, I think one of the contributors of growth and we suspect margins in the U.S. has been the success of AWS here. I wonder if you could talk about any plans for AWS outside the U.S.

Thomas J. Szkutak

Sure. In terms of Kindle, you’re right. We now have Kindle stores, if you will, established in all the Amazon domains that we’ve around the world. And recently we announced Kindle Fire HD, its available customers in over 170 countries. We introduced Kindle Paperwhite and Kindle Fire HD in China, both -- that’s both online on our website and also in a number of offline retail locations. So again, there is a lot of advancement in terms of the Kindle, but again, it’s very early. Very encouraged by the opportunity that we have there for customers and our ability to try to capitalize on that from a digital content standpoint. In terms of AWS, the business is expanding, and its incredible opportunity globally. We recognize that, the team recognizes that. And we’ll continue to work on that on behalf of customers.

Operator

Our next question comes from Justin Post from Merrill Lynch.

Justin Post - BofA Merrill Lynch

Thank you. The Company and the business is going through a lot of transitions with digital media, AWS, obviously Prime and potentially same-day delivery. Long time ago, you used to give us kind of a margin outlook for the Company. As you these businesses, do you think that they're better for Amazon and that you can have greater share of retail as these evolutions happen. And then also, what are the implications on Amazon's long-term margins as you go through these transitions over time? Any help on that could help. Thanks.

Thomas J. Szkutak

Sure, in terms of the way we're looking at I'm certainly it is based on the free cash flow potential, and we have a -- we're in some really interesting great businesses that have a lot of potential from a free cash flow generation standpoint with good and high ROICs which is exciting. From a margin standpoint always challenging to predict where that will come out in terms of absolute numbers. But what we will do is, we want to make sure that we try to maximize free cash flow, that's something that we've always said. So, our strategy hasn't changed, our outlook hasn't changed in that regard. Frequently we'd be asked historically is, double-digit operating margins are possible. And I still think it's possible, but also if it means if a good high single-digit operating margin gets us to better, higher free cash flow over time, that's fine too. So, again our goal is to, we don't focus on individual margins. Our goal is to make sure that we generate free cash flow, large monthly free cash flow and use that capital efficiently, and so those are goals that we have and we certainly think that opportunity is there in each of the business that we operate in.

Operator

Our next question comes from Ben Schachter from Macquarie.

Benjamin Schachter - Macquarie Securities Group

Two quick questions on revenue recognition, over the past some quarters I believe that the certain digital media at least has moved around between the agency and wholesale model. Can you help us quantify how this has actually impacted the reported media revenue rates in other words would 2Q revenue rates have been meaningfully different if the model had been the same. And then the second question, just quickly on Prime, can you remind us how you recognized revenue from the Prime memberships deal over the course of the year? Thanks.

Thomas J. Szkutak

Sure. In terms of the Prime we recognized it over the life of the subscription. And then in terms of third party versus first party certainly we have had some shift within digital media, but again digital media is primarily a first party business, and it happens to be one portion of our business. But you're actually right, and in terms of our third party business which from a unit perspective is 40% of our total units this quarter. We recognized the share of that revenue, the rev share if you will ad revenue where as the other parts of the business largely were recognized in that as first party revenue, and so we're recognized in the full amount of the revenue in the current period.

Operator

Thank you. Our next question comes from Jordan Rohan from Stifel, Nicolaus.

Jordan Rohan - Stifel, Nicolaus & Company

Thank you so much. I'm curious about your expansion efforts in Spain since it's a relatively new territory for you, how well situated you are and how ready you are for the fourth quarter there. And also, there have been a lot of stories about Amazon heading into Brazil, but I don't believe we've identified any fulfillment centers and things like that. Can you discuss the extent and breadth of your offering in Brazil whether it's Kindle devices, digital media or something beyond that? Thank you.

Thomas J. Szkutak

In terms of Spain, we're very excited about what we see. It's growing very fast. We're in investment mode and it's an exciting geography for us, and we're very optimistic over time it will be a great geography for us. So we're very happy to serve customers in Spain and we're continuing to -- as we've done in other geographies that we'll continue to serve customers and continue to expand our selection and get service levels even better over time and so I'm excited about that. In terms of Brazil, we do have a Kindle store and we have devices at physical retailers. So, from a Kindle perspective that's what we're doing in Brazil.

Operator

Our next question comes from Ron Josey from JMP Securities.

Ronald Josey - JMP Securities

Great, thank you for taking my question. I'm wondering if you can talk a little bit about North America EGM. Just given the strength you saw on the business and continued reacceleration, have you seen any sort of impact I'm assuming no, but from price matching programs from offline retailers, and we'll talk -- and also sale tax. Thank you.

Thomas J. Szkutak

In terms of North America, total growth we saw an acceleration from last quarter from 26% to 30%. We saw an acceleration in both North American Media as well as North America EGM. Within EGM it was very broad. In terms of growth we saw a very strong growth across many different categories and so very pleased with that, I called out a couple, that were notable in terms of apparel as well as in consumables, certainly those are getting larger and still growing very fast which I call those out. In terms of competitiveness, it's been, it's very competitive, it is today, it has been since our inception. We have many different competitors online. We have many competitors offline. As you go to your home or office you pass our competitors every day. That's an environment where we're used to dealing in. It's something that's not new. It's something that we see in all of our geographies across many different categories.

Operator

Our next question comes from the line of comes from Heath Terry from Goldman Sachs.

Heath Terry - Goldman Sachs

Great, thank you Tom. As you get closer to customers with more FCs and more efficient shipping, what kind of impact is that having on conversion rates, on within customers in those areas as shipping time shorten or delivery time shorten. And then as you look at the early adopters for Fresh in LA any sense that you can share with us of what kind of cross shopping you're seeing among new Fresh customers, are they bundling media in EGM in those other orders or to any degree are these new Amazon – new to Amazon customers that have been brought in purely because of Fresh?

Thomas J. Szkutak

If you take a look at LA, it's just again I'm very excited and it's very early. So, I think on that one you'll just have to stay tuned. But in terms of, as we get closer and closer to customers with fulfillment, we have seen growth due to that and it's manifested its way – in a few different ways, but notably you'll see it in Prime. Because of our fulfillment logistics capability we've been able to offer Prime broadly and we just have selection, it's just closer and closer to customers. And if you look back over the last several years, there's been different reasons why we've grown away, we have grown in terms of adding the selection and making sure that we have really sharp pricing and, but certainly Prime and which includes a speedy delivery certainly been notable, has had a notable impact. And we're very pleased with the Prime program, customers like it. We're having -- we see very strong growth in Prime subscribers. We see very good retention of Prime members. So, it's a great program for us and certainly again delivery speed is certainly impacting that program, our overall growth.

Operator

Our next question comes from Anthony Diclemente from Barclays.

Anthony Diclemente – Barclays Capital

Thank you. On the topic of media just wondering Tom if there are any callouts in terms of categories of strength or weakness within physical or digital media that you could call out, and along those lines just wondering if you could comment on your media device rollout strategy from here I there's anything you can tell us. And then quickly, is there any reason PrimeInstant Video isn't available for Android devices? Thank you.

Thomas J. Szkutak

In terms of media growth not a lot of callouts except probably the obvious is digital units growing very fast relative to physical units and we're excited to see that. And because of where we are, we're further penetrated in North America, you're seeing a bigger impact in our growth rate than you are in international and we certainly see that but not a lot of other callouts there, but again we're very pleased and certainly customers are responding to many things including selection and great prices and everything else within those digital offerings, but also they're responding to unique selection that we have. And if you take a look at our release you'll see the specific numbers related to some of the exclusions we have, and certainly that's having an impact. So there's many, many different things that are working for us in that space as part of our overall ecosystem for digital that we're pleased with. In terms of our device plan, we're very pleased with the devices we have and to offer customers we think we have a great offering both in terms of Kindle and Kindle Fire. And in terms of our future roadmap, we've a long standing practice of not talking about what that will be prior to announcement.

Operator

Our next question comes from Youssef Squali from Cantor Fitzgerald.

Youssef Squali - Cantor Fitzgerald

Thank you very much, two quick questions please. Tech and contents was up to 9% of revenues, I think that's the highest it's ever been. How much of that is actually streaming content related and how do we look at it going forward, does it stay at that elevated level? And then on Fresh, is that business profitable for you in the Seattle area? Thanks.

Thomas J. Szkutak

In terms of tech and content we're spending in a number of different areas, but there's a few that I'd like to highlight. One is certainly keep in mind that the infrastructure related to our very fast growing web services business is included in tech and content, so certainly as we ramp up that business and it's becoming more sizable and growing very fast you're seeing that impacting that line item. We're also investing very heavily in digital and that's across many different parts of our digital offerings there, that's also included. Any of the tech teams they're working on customer experience across Amazon as we grow so as we support both our seller businesses and our retail businesses, they're included in that line item. So, certainly that's what you're seeing there. In terms of Fresh we're not breaking out the financials but keep in mind that Fresh was designed as a pilot and certainly the economics that improved over time through invention on behalf of the team there as well as operating efficiency. So, again that was set up as a test and which has enabled us to launch LA.

Operator

We will now go to Colin Sebastian from Robert Baird.

Colin Sebastian - Robert W. Baird

Thanks very much. I guess a quick follow up on the device strategy and given the fairly quick pace of innovation in the tablet market overall. I wonder if you can contrast the benefits of that for Amazon given the popularity of shopping in media apps with the cost and complexity of maintaining your own line of hardware, and related to this it seems as if the pace of new content acquisition on licensing has picked up a bit and so I wonder if that reflects any changes in either the competitive dynamics or pricing or is some sort of other strategy shift on your part? Thanks.

Thomas J. Szkutak

In terms of some of the dynamics, we're very excited about our digital business. We're inventing, you'll see a lot of different inventions both on the hardware side as well as on the software side from a device standpoint. You'll also see a lot of invention around the content side and we think for example PrimeInstant Video which combines video in our Prime membership is very compelling, and we're investing heavily in content. It's still very early there but we're finding that customer's certainly existing Prime members are more and more streaming content. We're having new Prime members come to Amazon largely because of video in terms of one segment of that population that's coming, the new Prime members is because of PrimeInstant Video and we can see that based on the free trials and the conversion of those free trials from related to PrimeInstant Video and so that's certainly one portion of our growth in Prime memberships which we find exciting. For us to be able to offer exclusive content on the book side is very interesting. So, again we're investing a lot of different -- across a lot of different areas and yes there are a lot of different dynamics, but we think we're well suited for both the device software and content side of those businesses.

Operator

Our next question comes from Matt Nemer from Wells Fargo Securities.

Matthew Nemer - Wells Fargo Securities

Good afternoon, just two questions. One, given your comments that international will be in investment mode for some time. Can you just remind us what the priorities are there from either a geography or a product standpoint. And then secondly following the management changes at Quidsi, I would love an update on the plans for that business and maybe just a sense for how integrated it is to Amazon Retail? Thanks.

Thomas J. Szkutak

Yeah, in terms of the international piece what I was referring to was an investment move, sometime I was referring to China specifically and we have a lot of opportunity to grow. We're still continuing to invest in international, but I would -- my comment was specifically around China. And then your question around Quidsi?

Operator

And we'll go to Steven Ju from Credit Suisse.

Steven Ju - Credit Suisse

Tom, is there …

Thomas J. Szkutak

Hello, just to follow-up I think on the Quidsi question I think was around the founders leaving and we're well positioned with them leaving, and this is the last part of that. But we did -- we're fortunate to have the founders with us for a number of years, and they did a great job while they were here. And we have a great team at Quidsi, and we're pleased with that business and the team -- our retail team works very closely with Quidsi business and we're excited to have it as part of the Amazon team.

Steven Ju - Credit Suisse

Tom, is there anything you can share in terms of the situation in Germany with the worker strike's, are you able to fulfill from an unaffected fulfillment centers or is it causing some invents to your operations there? And also if you could update us on what you've been doing with Kiva since you've acquired it. Are you focusing on internal integration, are you selling more aggressively through external clients? Thanks.

Thomas J. Szkutak

In terms of Germany there's a not a lot I can add to there. We're certainly serving customers, those results are reflected in our overall total results that you see today for Q2 as well as our international results. In terms of Kiva we certainly -- we gave a great team there, we love the technology. We don't have any announcements in terms of rollouts, but we're ahead of schedule from what we had set out at the time of purchase which we're happy about. So, I'll have to stay tuned on the actual rollout, but we're very encouraged by what we see there.

Operator

And our final question comes from Ken Sena from Evercore Partners.

Ken Sena - Evercore Partners

Hi, thank you. Just going back to your comments on unit acceleration; has the shift from agency to wholesale in terms of the DOJ E-Book Settlement, has that completed or you're still working your way through many of the U.S. publishers? Thank you.

Thomas J. Szkutak

We're working through it. I wouldn't say that that's complete, but we're working through it.

Sean Boyle

Thank you for joining us on 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.