Amazon.com (NASDAQ:AMZN) Q1 2012 Earnings Call April 26, 2012 5:00 PM ET

Executives

Sean Boyle -

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Analysts

Spencer Wang - Crédit Suisse AG, Research Division

Scott W. Devitt - Morgan Stanley, Research Division

Mark S. Mahaney - Citigroup Inc, Research Division

Heather Bellini - Goldman Sachs Group Inc., Research Division

Kenneth Sena - Evercore Partners Inc., Research Division

Douglas Anmuth - JP Morgan Chase & Co, Research Division

Charles Eugene Munster - Piper Jaffray Companies, Research Division

Brian Nowak - Nomura Securities Co. Ltd., Research Division

Matthew R. Nemer - Wells Fargo Securities, LLC, Research Division

Carlos Kirjner - Sanford C. Bernstein & Co., LLC., Research Division

Jordan Rohan - Stifel, Nicolaus & Co., Inc., Research Division

Lloyd Walmsley - Deutsche Bank AG, Research Division

Anthony J. DiClemente - Barclays Capital, Research Division

A. Justin Post - BofA Merrill Lynch, Research Division

Herman Leung - Susquehanna Financial Group, LLLP, Research Division

Benjamin A. Schachter - Macquarie Research

Gregor Schauer - Robert W. Baird & Co. Incorporated, Research Division

Operator

Thank you for standing by. Good day, everyone, and welcome to the Amazon.com First Quarter 2012 Financial Results Teleconference. [Operator

Instructions] Today's call is being recorded. For opening remarks, I will be turning the call over to the Vice President of Investor Relations, Mr. Sean Boyle. Please go ahead, sir.

Sean Boyle

Hello, and welcome to our Q1 2012 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, April 26, 2012, 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'll find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with our comparable GAAP measures.

Finally, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2011. Now I'll turn the call over to Tom.

Thomas J. Szkutak

Thanks, Sean. I'll begin with comments on our first quarter financial results. Trailing 12-month operating cash flow increased 1% to $3.05 billion. Trailing 12-month free cash flow decreased 39% to $1.15 billion. Return on invested capital was 12%, down from 24%. ROIC is TTM free cash flow divided by average total assets minus current liabilities, excluding the current portion of long-term debt over 5 quarter ends. The combination of common stock and stock-based awards outstanding was 464 million shares compared with 466 million shares. During the quarter, we repurchased 5.3 million shares of our common stock for $960 million.

Worldwide revenue grew 34% to $13.18 billion or 34% excluding the $56 million unfavorable impact from year-over-year changes in foreign exchange rates. We're grateful to our customers who continue to take advantage of our low prices, vast selection and shipping offers.

Media revenue increased to $4.71 billion, up 19% or 19% excluding foreign exchange. EGM revenue increased to $7.97 billion, up 43% or 43% excluding foreign exchange. Worldwide EGM increased to 60% of worldwide sales, up from 57%. Worldwide paid unit growth was 49%. Active customer accounts exceeded 173 million. Worldwide active seller accounts were more than 2 million. Seller units were 39% of paid units compared to 36% of paid units in the Q1 2011.

Now I'll discuss operating expenses, excluding stock-based compensation. Cost of sales was $10.03 billion or 76.1% of revenue compared with 77.2%. Fulfillment, marketing, technology and content and G&A combined was $2.76 billion or 20.9% of sales, up approximately 283 basis points year-over-year. Fulfillment was $1.26 billion or 9.5% of revenue compared with 8.4%. Tech and content was $816 million or 6.5% of revenue compared with 5.3%. Marketing was $468 million or 3.6% of revenue compared with 3.2%.

Now I'll talk about our segment results. And consistent with prior periods, we do not allocate to segments our stock-based compensation expense or other operating expense line item. In the North America segment, revenue grew 36% to $7.43 billion. Media revenue grew 17% to $2.2 billion. EGM revenue grew 44% to $4.77 billion, representing 64% of North America revenues, up from 60%. North America segment operating income increased 20% to $349 million, a 4.7% operating margin.

In the International segment, revenue grew 31% to $5.76 billion. Adjusted for the $55 million year-over-year unfavorable foreign exchange impact, revenue growth was 32%. Media revenue grew 21% to $2.51 billion or 22%, excluding foreign exchange. And EGM revenue grew 40% to $3.2 billion or 42%, excluding foreign exchange. EGM now represents 56% of International revenues, up from 52%. International segment operating income decreased 72% to $49 million, a 0.9% operating margin. Excluding the unfavorable impact from foreign exchange, International segment operating income decreased 65%.

CSOI decreased 15% to $398 million or 3% of revenue, down approximately 170 basis points year-over-year. Excluding the unfavorable impact from foreign exchange, CSOI decreased 14%. Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income decreased 40% to $192 million or 1.5% of net sales. Our income tax expense was $43 million in Q1, resulting in a 51% rate for the quarter. GAAP net income was $130 million or $0.28 per diluted share compared with $201 million or $0.44 per diluted share.

Turning to the balance sheet. Cash and marketable securities decreased $1.17 billion year-over-year to $5.71 billion. Inventory increased 47% to

$4.25 billion and inventory turns were 10.4, down from 11.6 turns a year ago as we expanded selection, improved in-stock levels and introduced new product categories. Accounts payable increased 24% to $6.89 billion and accounts payable days decreased to 62 from 66 in the prior year.

Our Q1 2012 capital expenditures were $386 million. The increase in capital expenditures reflects additional investments in support of continued business growth, consisting of investments in technology infrastructure, including the Amazon Web Services and additional capacity to support our fulfillment operations.

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 described 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 excludes the financial results on the Kiva Systems acquisition, which we expect to close in the second quarter of 2012, and assumes that we don't conclude any additional business acquisitions or investments, record any further revisions to stock-based compensation estimates and that foreign exchange rates remain approximately where they've been recently.

For Q2 2012, we expect net sales of between $11.9 billion and $13.3 billion or growth of between 20% and 34%. This guidance anticipates approximately 240 basis points of unfavorable impact from foreign exchange. GAAP operating income or loss to be between $260 million loss and $40 million of income or between 229% decline and 80% decline. This includes approximately $260 million for stock-based compensation and amortization of intangible assets. We anticipate Consolidated Segment Operating Income, which excludes stock-based compensation and other operating expense to be between 0 and $300 million or between 100% decline and 22% decline.

We expect capital expenditures including capitalized software development to be approximately $0.8 billion to $0.9 billion. These anticipated investments are driven primarily by our expectations of continued business growth, consisting of investments in technology infrastructure, including

Amazon Web Services and additional capacity to support our fulfillment operations.

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] And we'll take our first question from Spencer Wang with Credit Suisse.

Spencer Wang - Crédit Suisse AG, Research Division

Tom, just a couple quick questions. One, I was wondering if you could update us on your plans for fulfillment center increases in 2012. And then also on Prime Instant Video, you guys are over 17,000 movies and TV episodes now. Are you guys at a critical mass? Or do you guys expect to continue to invest aggressively there? And one last quick clarification question, the CapEx guidance, was that for the second quarter or the full year?

Thomas J. Szkutak

Sure. I'll take the last one first. The CapEx was for the second quarter. And the first question on fulfillment centers, in terms of announcements so far that are out there, we've announced 13 for 2012. And so certainly, any changes to that, we'd be back to you. But again, we're experiencing very, very strong growth both in terms of retail but also our FBA. We're seeing that in our third-party growth. Our third-party growth increased in Q1 over 60% again this quarter. Again, a big piece of that was certainly FBA is doing very well. So again, we're continuing to invest, and the number is 13.

Operator

And we'll take our next question from Scott Devitt with Morgan Stanley.

Scott W. Devitt - Morgan Stanley, Research Division

Tom, I just had a question around the operating margin dynamics in the North American market versus International. If you look at it year-over-year, I guess, or even sequentially, the International margin is down pretty materially, but you had a significant uptick in the North American margins, so sequentially and just a moderate decline year-over-year. So wondering if you can just clarify what's happening in North America versus the International markets. Is it 3P FBA having a more significant effect in the U.S. versus other markets? And then I had one follow-up question.

Thomas J. Szkutak

In terms of the -- we're investing heavily in both segments. But what you're seeing is, clearly, if you look at over the past couple years, we've launched a few new geographies, Italy and Spain. We're investing in those geographies. As we've talked about in the past, China, we continue to invest there. We think it's growing very fast. We like what we see. We think it's a great long-term opportunity for investing there. So those are some of the dynamics that are impacting International. And so we continue to invest again across both geographies. But those are things that are a little bit different. In terms of third-party growth, we're seeing very strong third-party growth across International, as well as North America, so we're pleased to do that. And we're investing again on behalf of customers and sellers, as well as retail for the capacity that we need to do that.

Scott W. Devitt - Morgan Stanley, Research Division

And then secondly, on the employee base growth, I don't know if thinking about unit growth is the right way to think about it. But is there a point in time where you think the employee base starts to grow more in line possibly with unit growth? And can you maybe walk through where you're adding most significantly that's driving the headcount growth?

Thomas J. Szkutak

Sure. We are adding a lot of resources across a number of different areas. But certainly if you look at both year-over-year and sequentially, the Q1 numbers that you're looking at, the vast majority of that is in operations and customer service. Again, and those are based on the hirings that we did coming out of Q4. We have a lot of -- we do supplement our workforce with temporaries in Q4. We did hire a number of those coming out of Q4. And those are reflected in the numbers. And to answer your other question, yes, we'll moderate it at some point certainly. But again, we're -- given the growth that we're experiencing right now, we are investing and we're making sure that we have the right resources to do that.

Operator

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

Mark S. Mahaney - Citigroup Inc, Research Division

Tom, could you just provide a little more color on the gross margin trends? And it also looks within that like shipping for the first time in a while shows a little bit less deleverage than it has in the past. Is there some sort of tipping point you've reached there? And just broadly on gross margins, that real drive-up that you've seen over the last couple of quarters, is that primarily just due to product mix shifts or revenue mix shifts? Is there anything else in there? And then could you also just briefly comment on AmazonSupply.com? Would some of that -- all of the inventory that you've built up for that launch, would was that -- have we seen that in the buildup in inventory and the reduction in turns? Or are we going to see that going forward?

Thomas J. Szkutak

In terms of the -- we're not reporting gross margin specifically. But in terms of -- if you take a look at the relationship between COGS and revenue, certainly, one of the things we're seeing, a number of different factors there, certainly mix of business is one. But another factor is certainly the one I mentioned earlier, which is around third-party growth. We saw very strong unit growth overall this quarter, up from last quarter, so we had sequential growth. Third-party units as a percentage of total units were up approximately 300 basis points over last year. And we saw just great third-party unit growth, so it was up over 60% again in Q1. And so those are factors that are certainly impacting our operating margins, if you will. In terms of supply -- AmazonSupply.com, certainly, we have inventory on hand to support that business. It's certainly something that we're optimistic over the long-term. But in terms of the inventory increase that you've seen, it's very broad over a number of different businesses and categories and geographies. So that's really what's driving it.

Operator

And we'll take our next question from Heather Bellini with Goldman Sachs.

Heather Bellini - Goldman Sachs Group Inc., Research Division

I had 2 for you. First, I was wondering if you could talk about just over the last few years if you could give us a sense how much of the third-party increase has been related to agency e-books. And then the second question is in light of the DOJ case, I was wondering if you could walk us through your thoughts about the agency e-book model, as well as whether or not this will mean we should see things move back to wholesale.

Thomas J. Szkutak

Yes. There's not a lot I can help you with there in terms of the questions. We do think that the suit is a big win for Kindle owners. And we look forward to being allowed to lower prices on more Kindle books. It's certainly our unit growth, if you will, in total -- I'm not talking 3P, just in total. Certainly, the paid unit growth has been certainly helped a lot by e-books. It's growing, as you can imagine very, very fast, so it's certainly impacting that growth rate that you've seen over the past few years, which has been great for us and great for customers. So beyond that, there's not a lot I can add to your questions.

Operator

And we'll go next to Ken Sena with Evercore Partners.

Kenneth Sena - Evercore Partners Inc., Research Division

In your press release, you mentioned the launch of your Amazon Appstore. And can you just share any thoughts on current traction on Android or specifically off Kindle Fire? And what are some of the advantages and disadvantages that you see for Amazon in that area?

Thomas J. Szkutak

It's early, so there's not a lot I can do. We're excited about it. We think it's a very interesting opportunity and happy to do that on behalf of our customers. But stay tuned, and it's early.

Kenneth Sena - Evercore Partners Inc., Research Division

And maybe one more follow-up. If you can just maybe talk about any of the traction you're seeing within Kindle Fire more broadly or any thoughts you have maybe around Kindle smartphone, that'd be great, too.

Thomas J. Szkutak

In terms of the Kindle Fire, we are pleased with the growth that we're seeing and customers are buying a lot of content. And you're seeing that when you look at particularly in North America. When you look at our North American media growth from Q4 to Q1, you're seeing that accelerate. And that's certainly a big part of it. And so we're very pleased with what's happening, and we're going to continue to add more and more content for customers and across all of our digital categories. And we think we have a great value proposition for customers today, and we're going to continue to make that better over time.

Operator

And we'll take our next question from Doug Anmuth with JP Morgan.

Douglas Anmuth - JP Morgan Chase & Co, Research Division

I want to ask 2 things, Tom. If you could first just give us some more color on the outlook around segment operating income in 2Q and just how we should be thinking about the drivers there in terms of the sequential decline. And then secondly, just the North American media business, you saw good reacceleration from 4Q to 1Q. Can you talk about the factors there leading to that acceleration?

Thomas J. Szkutak

Sure. I'll take the second one first on North American media. I just mentioned that a little bit in one of the previous questions. But certainly, our digital media growth has been great and certainly it's helping that. One other call-out, just to keep in mind, in Q4, I had mentioned that video games, including video game consoles, the consoles are part of North America media, that's a seasonal business that was bringing down growth in Q4. So it's also something to keep in mind. In terms of our guidance, we've given a pretty broad range on both the top and the bottom as we have previously. We think the segment operating income on the bottom end of the range is certainly appropriately conservative. But again, things that you should think about, we'll continue to add capacity as we've talked about in the past. With the growth that we're experiencing, we are adding more. And as I mentioned on one of the earlier questions, we've announced approximately 13 new fulfillment centers. So those are as a result of the growth that we're experiencing. We're also adding capacity to support AWS in our retail business on the infrastructure side as well. So those are things to think about as you think about Q2 from a segment operating income, as well as the CapEx that I mentioned in the opening. Another area is certainly our digital offerings. We are certainly adding more content, and specifically, more video content, which will be as reflected in our guidance. And so those are factors, among others, that you should think about.

Operator

And we'll take our next question from Gene Munster with Piper Jaffray.

Charles Eugene Munster - Piper Jaffray Companies, Research Division

Another question on gross margin. It was obviously impressive results, the best in 3 years almost. And it's been a little bit of a roller coaster in terms of the profitability quarter-to-quarter. And we understand that you're in an investment phase and there's a massive opportunity ahead of you. Is there anything that you can tell us as we think going forward over the next few quarters? Just is the investment philosophy that played through this quarter going to play on in other quarters? Or is each quarter kind of its own 3 months and it could go either way?

Thomas J. Szkutak

Yes. Gene, in terms of guidance, we're just giving guidance on Q2 today. But the one thing I would say is again we're seeing very good growth, as you see in Q1 and reflected in the guidance for Q2. And we'll have to stay tuned to see what it looks like for the remainder of the year as we progress. But we're extremely happy with the opportunities that we have. We think it's -- we're in a great position with the opportunities that we have. Even though we've reached some scale, we just have tremendous opportunities in front of us. And that's why we're investing in those.

Operator

And we'll go next to Brian Nowak with Nomura.

Brian Nowak - Nomura Securities Co. Ltd., Research Division

I have a couple of questions. The first one is I know there's a lot of focus on kind of CSOI margins and margin pressure from the build. But I was just curious if you still see areas of your business in the oldest part of your business, where you think you have inefficiencies you can still work to improve execution and kind of get some margin lift out of those in the oldest part of the business just to improve execution. And the second one is any more clarity on how much roughly Quidsi and Lovefilm added to revenue growth this quarter?

Thomas J. Szkutak

In terms of opportunities for improvement, even though we've made a lot of progress, we still feel we have a lot of room for improvement in all parts of our business. Certainly, the most opportunity is the newer parts. But certainly if you go back and look at -- we're still trying to get great productivity and putting together programs to get great productivity in each of our operations. And so there's really too many to list here on the call today. But we look at in all facets for our business in terms of productivity. We think there's opportunities to partner with vendors even more to get better savings and better prices for customers. So the list is long. But I think when you look at the opportunities in terms of the ranking, in terms of at least basis points improvement, start with the newer things that we've launched -- at least directionally, the newer things that we've launched, work your way backwards, and those were usually where the biggest opportunities are in terms of basis points.

Operator

And we'll take our next question from Matt Nemer with Wells Fargo Securities.

Matthew R. Nemer - Wells Fargo Securities, LLC, Research Division

Just going back to the "gross margin", is it fair to say, given the change in that metric and the change in third-party units, that potentially the core margins in 1P really accelerated in the first quarter in addition to there being a continued mix shift to 3P? That's my first question. And then secondly, can you comment on any product categories in either media or EGM that either held you back in the quarter or were a tailwind? I think last quarter you mentioned video games and a few categories in terms of giving some color.

Thomas J. Szkutak

Yes. In terms of the second part of the question, I think the -- in terms of any headwinds, I would say there's a few areas, as we talked about last quarter with some of the supply issues that we had related to the Thailand floods that caused certainly issues, some issues for us specifically in the areas of some parts of cameras, audio, video, office equipment. And so you saw some of that impact in Q4, as well as Q1. The good news for us with our platform is we have many, many different sellers. So where we had supply, we continue to offer those for customers. And in cases where we didn't, oftentimes we had third parties that may have had -- still had inventory. So it certainly helped us very well to get through that situation. So those are some of the headwinds that were in Q1. And then we had very strong broad growth amongst many categories, certainly, in terms of the retail categories. And we also had very strong growth in Kindle. Globally, AWS is growing very, very fast. So we had some very, very positive, if you will, tailwinds from the strong growth.

Operator

We'll take our next question from Carlos Kirjner with Sanford Bernstein.

Carlos Kirjner - Sanford C. Bernstein & Co., LLC., Research Division

Two questions, if I may. First, on fulfillment. If you think of the expected authorization of your fulfillment network in the fourth quarter of this year versus what you had in the fourth quarter of '11, do you expect it to be the same, higher or lower? And secondly, on Kindle, now that you are a manufacturer, a seller of Android-based devices, can you comment on your intellectual property position and the strategic and financial risks associated with potential lawsuits from competitors? For example, do you intend to go buy patents in the market?

Thomas J. Szkutak

In terms of the first question, in terms of fulfillment utilization, difficult to say at this point what our utilization will be. We have a very good team of people who work on this in each of our geographies, trying to make sure we have adequate capacity throughout the year, as well as for Q4. And it's always a tough balance. We want to make sure that we have enough because we want to make sure we satisfy customers. And so we'll have to see as we progress through the year what the growth looks like. And we certainly -- based on what we're experiencing so far, we expect it to be very good. And we'll have to see what happens in future months and quarters to see what that looks like. So it's a little bit early to say what we think that utilization will be. But we're trying to make sure in any time we do this is to have enough but not too much. And it's a delicate balance, so hard to predict what it will be. In terms of your second question, I don't think there's a lot I can help you with there. We have -- we certainly have a lot of technology that we develop ourselves. And we have a great technical team that's working a lot of different interesting areas on behalf of customers and will continue to do so. Beyond that, there's not a lot I can comment.

Operator

And we'll go next to Jordan Rohan with Stifel, Nicolaus.

Jordan Rohan - Stifel, Nicolaus & Co., Inc., Research Division

A couple of point of clarification. I don't think I heard you blame macro weakness in Europe. Now clearly, you had stronger results across-the-board, so I don't see it evident in the results. Are you clear enough about the direction of the macro or its impact on your European operations that you can kind of say, at least from what you're seeing, it's not affecting you now? And the second question is on this percentage of third-party versus first-party sales. Last quarter, I believe you said that it got up to 36% in part because of stockouts due to the Thai flood and such. At some point, one would think that the supply chain for cameras and other equipment affected by the Thai flood would normalize. Would we expect that to therefore normalize back down from 39% level back down to the mid-30s? How can we think about that relationship?

Thomas J. Szkutak

Sure. In terms of the macro economics of Europe specifically, it's -- we're not exactly a bellwether for the economy, and so it's hard to assess. It certainly is having some impact on us. And you're certainly reading the same press as we are in terms of what's going on, and it's very challenging. But it's hard to quantify what that impact is, so we're certainly having some impact but it's hard to quantify, is how I would explain it. And then in terms of 3P, we have -- we've seen the dynamic that you're talking about in terms of it has helped us with stockouts both in Q4 and Q1 for sure and has helped growth. Where does it moderate? Hard to say. But we have seen outside of these 2 quarters, very good third-party growth. And that's been accelerating over the past couple years in terms of third-party unit growth. There's a number of different factors in terms of making that experience better for sellers. The most notable one is Fulfilled by Amazon. And so that's certainly having an impact in all the geographies that we operate and have that in. And so it's great for sellers, it's great for customers and it's great for shareowners. So it's a nice intersection there. So we're very excited about it, and that's really what's driving it. The stockouts and things, those will happen from time to time in various categories. And I think that's certainly one of the benefits of our model of having both first-party and third-party offerings. But I wouldn't view that as the substantial driver of what's happened in third party over the last few years. It's other things that we've done to improve that experience for sellers.

Operator

And we'll go next to Lloyd Walmsley with Deutsche Bank.

Lloyd Walmsley - Deutsche Bank AG, Research Division

Just had a couple questions around AmazonSupply. And I guess, first, wondering if this is the beginning of a bigger push into the B2B kind of industrial space. And then secondly, what do you all see as your strongest assets as you approach this space? Are you planning to rely a lot on third party for inventory? And then just finally, along those lines, the press release mentions the extension of corporate credit. Wondering how integral this might be to the strategy. And then just more broadly, how do you think about credit extension to customers?

Thomas J. Szkutak

In terms of the AmazonSupply, it's an interesting -- we've been serving businesses for some time. This is just again a separate URL to help us do that with some interesting selection, we think, on behalf of businesses. We work very closely with a lot of businesses today, both as a customer on our consumer side of our business. We also obviously have a lot of third-party sellers that we work with as part of our seller business. So we're very excited about that. In terms of any -- in terms of extension of credit and everything, those are things that we're working through. And we want to make the right decisions on behalf of those customers. And I can't add much to that today. But certainly we can talk more about that in the future as that evolves.

Operator

And we'll go next to Anthony DiClemente with Barclays.

Anthony J. DiClemente - Barclays Capital, Research Division

On the Kiva acquisition, I was wondering if you could talk about how you're planning on implementing that at your fulfillment centers. And does it require much incremental investment? And then more broadly about mobile purchasing behavior, wondering if you could speak to just the purchasing behavior you're seeing from your consumers in terms of what's the order of magnitude and what type of mix shift in buying that you're seeing from PC and mobile? That would be great.

Thomas J. Szkutak

In terms of Kiva, it's early. We haven't closed it yet. And so we're very, very excited to be having Kiva and the team as part of the Amazon team. We're extremely excited to have that. And in terms of implementations within Amazon, we still have a lot of work to do to figure out how and when we'll do that. And so those are things that we'll be working on. But we're very, very excited about the opportunity to join with Kiva. So we're excited about it. In terms of mobile, not a lot I can help you with there. Certainly, the mobile part of our business is growing very, very fast. And it's a very exciting opportunity. And this is not something that's new; it's something that we've been working on for a number of years in a number of geographies. And we'll continue to work on that experience to make it even better for customers over time.

Operator

And we'll go next to Justin Post with Bank of America Merrill Lynch.

A. Justin Post - BofA Merrill Lynch, Research Division

First question is on taxes. Can you help us at all understand what percent of your marketplaces currently pay taxes similar to, say, offline retail? And maybe any help on what you saw on New York with the tax law changes there. Maybe start with that, and then one follow-up.

Thomas J. Szkutak

I'm sorry. Could you repeat the first part of the question?

A. Justin Post - BofA Merrill Lynch, Research Division

Yes. What percent of your market, including International markets, are already on what we call level-tax basis, meaning the taxes are the same for buying on Amazon versus an offline retailer?

Thomas J. Szkutak

Yes. So you're saying sales tax.

A. Justin Post - BofA Merrill Lynch, Research Division

Yes, sales tax, yes.

Thomas J. Szkutak

Assume that approximately 50% of our sales, we either collect a sales tax or a value-added tax. So we collect it in several states today in the U.S. and a large number of geographies outside of the U.S. And so it's approximately 50%. So this is not anything new. This is something that we've been doing for a long period of time. And we have very good businesses in those geographies and states that we collect.

A. Justin Post - BofA Merrill Lynch, Research Division

And did you see any slowdown in states where they've enacted sales taxes in your sales levels?

Thomas J. Szkutak

Yes. I can't comment on any specific geography or state. But again, you can see by the growth that we've experienced over the past few years, which includes during those past few years, certainly adding some geographies, if you will, to our collection efforts. And so those are all represented in the results that you've seen over the past few years and several years. So that's all I can add to that.

Operator

And we'll go next to Herman Leung with Susquehanna Financial Group.

Herman Leung - Susquehanna Financial Group, LLLP, Research Division

Two quick questions. First, I know there's a lot of investment going on in the data center areas for your Web Services business. I was wondering at the current level, I mean, what -- how much capacity you're able to support, especially as you're signing on more of these larger type customers on the government side? And I have a quick follow-up.

Thomas J. Szkutak

Yes. No, we're ready for additional demand. The team has worked extremely hard to make sure that we keep up with demand. And so as you've seen over the past few years now, you're seeing our CapEx growing. As a result of it, you're seeing the operating expense as it relates to that in our technology and content. And so the team has done a very nice job in terms of adding capacity and is very excited to continue this fast growth that we're experiencing in AWS. So we're very happy to do that.

Herman Leung - Susquehanna Financial Group, LLLP, Research Division

And just a very quick follow-up. I guess, on your -- the GMV that's flowing through your third-party business, is there an opportunity over time to kind of share with us the real power of the third -- just the third-party volume that's actually flowing through the top line?

Thomas J. Szkutak

We have -- the best way to think about it, at least from our -- as it relates to our retail and third-party business, they're not -- it's certainly not a 1-for-1 because you have new and used products. You have different category mix. But in terms of an overall volume perspective, as I mentioned in some of the earlier comments, that it was about 30 -- approximately 39% of our total units, so it's very meaningful. And that's growing -- grew over 60% this quarter, again, up from 36% of our total units. So again, it's -- I can't give you the GMV. But in terms of units as it relates to our retail units, it's 39% of total units, so it's meaningful.

Operator

And we'll go next to Ben Schachter with Macquarie.

Benjamin A. Schachter - Macquarie Research

Given the success of the ad-supported Kindle, should we expect more devices to be offered with an ad-supported option? And then also if any comments on the dynamics driving the increase in the shipping revenue. And finally, any update on the share buyback?

Thomas J. Szkutak

Yes. In terms of what we do going forward, we certainly have a long-standing practice of not talking about what we would do going forward, so you have to stay tuned on that. In terms of the share repurchase, as I mentioned in the opening comments, we purchased 5.3 million shares, just under $1 billion, $960 million during the quarter. We have a little over $700 million or just under $800 million left on our authorization that we have from the board, which was $2 billion, that we got some ago. So that's left on the authorization.

Operator

And we'll take our last question from Colin Sebastian with R.W. Baird.

Gregor Schauer - Robert W. Baird & Co. Incorporated, Research Division

This is Gregor Schauer in for Colin. I have a question regarding the Kindle Fire, which you guys have noted for the quarter is still the #1 bestselling and most gifted product on Amazon.com. But it's still only selling in the U.S. Can you help us think through or understand sort of what are the other considerations in terms of the timing of an international rollout of the Kindle Fire?

Thomas J. Szkutak

I really can't. I think you'd have to stay tuned. It's certainly a very interesting opportunity for us. And we know that, and you'll have to stay tuned.

Operator

And that concludes our question-and-answer session. I'd like to turn the conference back to our speakers for any closing remarks.

Thomas J. Szkutak

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.

Operator

Thank you, everyone. That does conclude today's conference. We thank you for your participation.