

Amazon.com Inc. (NASDAQ:[AMZN](#)) Q3 2012 Results Earnings Call October 25, 2012 5:00 PM ET

**Executives**

Sean Boyle - Vice President, Investor Relations

Tom Szkutak - Senior Vice President and CFO

**Analysts**

Scott Devitt - Morgan Stanley

Mark Mahaney - Citi

Heather Bellini - Goldman Sachs

Douglas Anmuth - J.P. Morgan

Youssef Squali - Cantor Fitzgerald

Brian Pitz - Jefferies

Stephen Ju - Credit Suisse

Brian Nowak - Nomura

Ross Sandler - Deutsche Bank

Mark Miller - William Blair

Herman Leung - Susquehanna

Anthony DiClemente - Barclays

Michael Graham - Canaccord Adams

Justin Post - Bank of America/Merrill Lynch

**Operator**

Good day everyone, and welcome to the Amazon.com Third Quarter 2012 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 will be turning the call over to the Vice President of Investor Relations, Mr. Sean Boyle. Please go ahead.

**Sean Boyle**

Hello and welcome to our Q3 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, October 25, 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 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 will turn the call over to Tom.

**Tom Szkutak**

Thanks, Sean. I'll begin with comments on our third quarter financial results. Trailing 12 month operating cash flow increased 8% to \$3.37 billion. Trailing 12 month free cash flow decreased 31% to \$1.06 billion. Return on invested capital was 10%, down from 17%. ROIC trailing 12 month free cash flow divided by average total assets minus current liabilities excluding the current portion of long-term debt over five quarter end.

The combination of common stock and stock-based awards outstanding was 469 million shares consistent with 469 million shares. Worldwide revenue grew 27% to \$13.81 billion or 30% excluding the \$348 million unfavorable impact from year-over-year changes in foreign exchange. We're grateful to our customers who continue to take advantage of our low prices, vast selection and shipping offers.

Media revenue increased to \$4.6 billion, up 11% or 14% excluding foreign exchange. EGM revenue increased to \$8.56 billion up 36% or 39% excluding foreign exchange. Worldwide EGM increased to 62% of worldwide sales, up from 58%.

Worldwide paid unit growth was 39%. Active customer accounts exceeded \$188 million. Worldwide active seller accounts were more than \$2 million. Seller units represented 41% of paid units.

Now, I'll discuss operating expenses excluding stock-based compensation. Cost of sales was \$10.32 billion or 74.7% of revenue compared with 76.5%. Fulfillment, marketing, technology and content and G&A combined was \$3.26 billion or 23.6% of sales, up approximately 251 basis points year-over-year.

Fulfillment was \$1.45 billion or 10.5% of revenue compared with 10%. Tech and content was \$1.08 billion or 7.8% of revenue compared with 6.4%. Marketing was \$524 million or 3.8% of revenue compared with 3.3%.

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

operating expense line item. In the North America segment, revenue grew 33% to \$7.88 billion. Media revenue grew 15% to \$2.22 billion. EGM revenue grew 39% to \$5.06 billion, representing 64% of North America revenues, up from 61%. North America segment operating income increased to 102% to \$291 million, a 3.7% operating margin.

In the International segment, revenue grew 20% to \$5.92 billion, adjusting for the \$347 million unfavorable foreign exchange impact revenue growth was 27%. Media revenue grew 7% to \$2.38 billion or 12% excluding foreign exchange. And EGM revenue grew 30% to \$3.5 billion or 39% excluding foreign exchange. EGM now represents 59% of international revenues up from 54%.

International segment operating loss was \$59 million, a 1% negative operating margin compared with income of \$116 million. CSOI decreased 11% to \$232 million or 1.7% of revenue, down approximately 71 basis points year-over-year, excluding the unfavorable impact from foreign exchange, CSOI decreased to 10%.

Unlike CSOI, our GAAP operating income or loss includes stock-based compensation expense and other operating expense. GAAP operating loss was \$28 million or 0.2% negative operating margin comparing with GAAP operating income of \$79 million.

Our income tax expense was \$83 million. GAAP net loss was \$274 million or \$0.60 per diluted share compared with net income of \$63 million and \$0.14 per diluted share.

Third quarter 2012 includes a loss of \$169 million, \$0.37 per diluted share related to our equity-method share of losses reported by LivingSocial, primarily attributable to its impairment charge of certain assets, including goodwill. As of the end of September the book value of our equity-method investment in LivingSocial was \$94 million.

Turning to the balance sheet, cash and marketable securities decreased \$1.08 billion year-over-year to \$5.25 billion. Inventory increased 34% to \$5.07 billion and inventory turns were 9.7, down from 10.8 turns a year ago as we expanded selection, improved in-stock levels and introduced new product categories.

Accounts payable increased 28% to \$8.37 billion and accounts payable days increased to 75 from 72 in the prior year. Our Q3 2012 capital expenditures were \$716 million.

The increase in capital expenditures reflects additional investments in support of continued business growth consisting of investments in technology infrastructure, including 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 to-date and what we believe today to be appropriately conservative assumption.

Our results are inherently unpredictable and may be materially affected by 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, investments or settlements, record any further revisions to stock-based compensation estimates and that foreign exchange rates remain approximately where they've been recently.

For Q4 2012, we expect net sales of between \$20.25 billion and \$22.75 billion, a growth of between 16% and 31%. This guidance anticipates approximately 45 basis points of unfavorable impact from foreign exchange rates.

GAAP operating income or loss to be between \$490 million loss to \$310 million income compared to \$260 million income in the prior year. This includes approximately \$290 million for 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 a \$200 million loss and \$600 million income compared to \$462 million income in the prior year period.

We expect capital expenditures for ongoing operations including capitalized software development to be approximately \$0.9 billion to \$1.0 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 expect additional capital expenditures of approximately \$1.4 billion related to the purchase of our currently leased corporate office space as well as property for development of additional corporate office space located in Seattle, Washington. We remain head-sound 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. 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 our first question comes from Scott Devitt, Morgan Stanley.

### **Scott Devitt - Morgan Stanley**

Hi. Thank you. Two please, if I could, Tom. First on international margin, I know some of that actually is affected by currency. I was wondering, if you could speak to the effect of currency that it's having on margin. And then secondly, what else is driving that down? I would anticipate China investment digital and Italy and Spain being contributors there?

Then secondly on shipping revenue up 44% year-over-year I was wondering if you could break that down between shipping revenue or more versus the revenue allocation of FBA? Thanks.

### **Tom Szkutak**

To take the first part of your question Scott, as it relates to operating profit in international you have the big pieces correct. First one is, we're investing certainly very heavily in capacity and so you're seeing that both fulfillment and infrastructure capacity that's impacting our results there. In addition to that, we're investing in the number of new geographies.

We've talked about Italy and Spain over the last several calls those are certainly having an impact. We're very excited about the opportunity that we have there, but certainly those are investments right now. China, as you also mentioned is creating a long-term opportunity for us, but certainly an investment and it is impacting that number.

In addition, one that I don't think you did mention was video content for international. We're investing heavily in video content through our subsidiary LOVEFiLM for Europe. So those are things that are the primary drivers of what you're seeing in operating income in international.

In terms of shipping revenue there is not a lot. I can help you, but there is a number of factors that go into that number. If you take a look at both, the shipping revenue and then the resulting net shipping cost of fuel, the net shipping cost is getting a little bit better. Over time it's getting closer and closer to customers with our RFC footprint. So those are some of things, but again a lot of dynamics that are certainly impacting that shipping revenue number.

## **Operator**

Our next question comes from Mark Mahaney of Citi.

## **Mark Mahaney - Citi**

Great. Thanks. Any comments on the paid unit growth deceleration that seem to have been relatively significant, anything about the comp or any read into that? And secondly, given all the infrastructure investments you've made, Tom you just mentioned some of the shipping efficiencies, you're also seeing fulfillment as a percentage of revenue kind of start narrowing a little bit. Do you think you've reached a bit of a cyclical -- investment cyclical tipping point or am, I over reading into just one quarter? Thank you.

## **Tom Szkutak**

In terms of the paid unit growth question, it was 39%. As you mentioned it was a deceleration from last quarter. Keep in mind still, the 39% growth is still growing at a faster rate than revenue, one.

Two, if you take a look at last year's unit growth in Q3, the 53% that we had, that was the second highest quarter that we've had in growth rate in the last 10 years. So we are overlapping a very strong growth last quarter.

In terms of fulfillment expense, certainly as we've talked about in the past few years, stepping up very heavily in 2010 and 2011, and '12 from a fulfillment standpoint, we've just seen unprecedented growth. And we've



added a lot of capacity, in terms of where it will level off, we'll have to wait and see.

Right now, we're still experiencing very strong growth, with 30% growth on a local currency basis, 39% unit growth. So we're going to continue to invest where we need to and the fulfillment capacity we do have, we're going to make sure that we operate as efficiently as we can and get more efficient with that capacity over time.

### **Operator**

And our next question comes from Heather Bellini of Goldman Sachs.

### **Heather Bellini - Goldman Sachs**

Great. Thank you. I had a question about pop-up stores. It seems like a lot of people are jumping on the bandwagon there. And we've been hearing stuff recently about Amazon trying to leverage those as a way to get closer to customers, and help facilitate shipping for the holiday season. I'm just wondering if you could share with us your strategy there.

### **Tom Szkutak**

Yeah. Could you elaborate on what you're referring to? I'm sorry.

### **Heather Bellini - Goldman Sachs**

A pop-up store, meaning something that might only be open for between say, Black Friday and January 1st, a short-term store?

### **Tom Szkutak**

The vast majority or the highest percentage of our revenue is certainly coming from our online sales. We do, in the case of Kindle are using physical world retailers as well, which we're very happy to do so. But again it's not really a driver of our business.

### **Operator**

And we'll take a question now from Douglas Anmuth of J.P. Morgan.

**Douglas Anmuth - J.P. Morgan**

Thanks for taking the question. Tom, it's been nearly a year since you launched the First Fire devices. And I was hopping, you could give us a sense of how that cohort of users might be tracking, in terms of their buyer activity and in particular, how you're seeing them if they are over indexing in terms of media content consumption, Prime usage and overall purchasing? And how do you feel about that strategy now as you continue to tie upon into devices? Thanks.

**Tom Szkutak**

Maybe the best way to describe it would be, certainly we're seeing customers certainly purchasing a lot of content. We like the idea of selling our Kindle Fires and then being rewarded through purchases of content going forward. All that being said, even though we're rewarded with those sales, customers realize that we're going to make sure that we work on behalf of them to make sure that content is not only very wide but also at great prices.

And so, we continue to work with, to make sure that we can provide on customers behalf. But we're seeing a very good shopping patterns on all types of content with the selection that we have. We're seeing customers not only purchase content, we're seeing Prime customers certainly being active and watching our free content as well and that's working very well. So it's a great combination of things that are going on there in engagement with the device.

**Operator**

And we'll go next to Youssef Squali of Cantor Fitzgerald.

**Youssef Squali - Cantor Fitzgerald**

Yeah. Thank you very much. I actually want to follow-up on the question that was just asked. So, intuitively, it really makes a lot of sense what it is that you're doing. But can you maybe just speak to the effectiveness of selling the device or all these devices is kind of near breakeven?

Maybe is there anticipate metric that you can point to help us understand the lifts you get either in terms of the frequency of buying or listing in average transaction value or anything that could kind of help us gauge from the outside the success of our strategy? And then second, maybe if you could just speak to the thinking behind your content costs related to your streaming service going forward, just how should we be thinking about it? Thank you.

### **Tom Szkutak**

In terms of -- there is not a lot of specifics I can give you on a per device basis from a content standpoint in terms of what the purchasing patterns have been, but as I mentioned in the previous question, certainly customers are engaged in the device they are purchasing content. They all are also, in the case of video, they're purchasing content as well as watching free content.

In the case of books, they're purchasing books as well if they're Prime members. They're participating in free content. So those are things that are going very well. We like what we see there, which is why we continue to investment in that business, which is why you see the offerings, the very compelling offerings that we have out there right now. So those are things that you should expect us to do more of.

In terms of the content spend, if you're referring to the -- it's related to Prime Instant Video, I think it's probably what you're referring to. We have added a lot of content. We like what we see so far. We'll continue to monitor it very carefully. You should expect us to add more content going forward.

We launched Prime, some number of years ago now and we had a little over 1 million items at launch. We then expanded that dramatically with many physical items. We're now offering digital items through Prime as well, most notably in, certainly in books and video and we're monitoring the performance very closely. But again, so far we're seeing great new subscribers coming out of these efforts and we like what we see so far.

## **Operator**

And our next question comes from Brian Pitz of Jefferies.

## **Brian Pitz - Jefferies**

Thanks. I know it's still early but, have you seen any noticeable impact from sales in states like California where they just started lighting you guys up on collecting sales tax?

## **Tom Szkutak**

You're right. It is early. The only thing I could point to is, we collect in over - either sales tax or equivalent value-added tax. We collect in over 50% of our revenue today. We have very good businesses in those states and geographies that we do that in long ago. That's all I can point to today.

## **Operator**

Now, we'll take our next question from Stephen Ju of Credit Suisse.

## **Stephen Ju - Credit Suisse**

So, good afternoon, guys. So revisiting the capacity and infrastructure question overseas, anything you can share in terms of the operating environment and what is required to get the package to the customer?

Over the longer term, are there any particular regions that you think may never reach the efficiency level, as you may currently see in your older geographies? Thank you.

## **Tom Szkutak**

Actually, we feel very good about the investments we're making in fulfillment capacity. When I think about the types of investments that we're making in terms of predictability, certainly, I would consider the fulfillment capacity to be more of the running of the business type investments.

We have a lot of experience starting up new facilities, operating those efficiently and to the point where, as you know we've extended that not only to offer that service for our retail business, we also offer that to sellers to fulfill by Amazon. So those are things that we feel. Certainly those investments we feel good about but, what you're seeing is certain just a very large ramp that we've done starting in 2010 through now.

And you know it's one of these investments, we only make those investments where we absolutely need too. But in terms of deploying that capital is those resources, we feel very good about it.

## **Operator**

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

## **Brian Nowak - Nomura**

Hi. Thanks. I have two questions, please. Can you talk to what you saw throughout Europe? Did you see any weakening in the European markets throughout the quarter, and if so any comments on specific pockets or countries of weakness?

And then secondly, can you talk a little bit about social and kind of use of social networks like Pinterest? Do you feel comfortable working with other social networks to drive business to Amazon as you are now, or do you think over the long-term or time you like to have more end-to-end control over social e-commerce? Thanks.

## **Tom Szkutak**

In terms of the euro piece, we're not breaking out any specific countries in terms of growth. But as you can see from the results, we grew 27% in international and local currency basis, which includes obviously our footprint in Europe as well as China and Japan.

So we feel the growth has been in the high-20s to low-30s over the past several quarters. Certainly, we're reading the same thing that you're reading in terms of the softness, hard to tell how much that's impacting us.

Again, when you look at 27% growth rates still think that's pretty solid and the environment, again hard to tell how much we're impacting -- impacted by that. In terms of social, we're certainly very looking at a lot of different ways to reach our customers and certainly that's an opportunity for us and something that our -- certainly our advertising and marketing teams are very conscious of and working on ways to best monetize those channels.

### **Operator**

We'll go next to Ross Sandler of Deutsche Bank.

### **Ross Sandler - Deutsche Bank**

Hi. Great, guys. Just two quick questions. First is on Brazil, second on fulfillment. So you guys are hiring in Brazil for local content relationships for Kindle and some warehouse personnel. So how important do you view that market in terms of the retail business. When do you think you could be in Brazil with the retail presence?

And then the second question is fulfillment, as a growth -- as a percent of gross profit showed year-on-year leverage for the first time in like three years, so do you feel like you've turned the corner on some of the capacity improvements or given the pace of new facility that you're putting in. Is there any reason why that would reverse back down again from here?

### **Tom Szkutak**

In terms of the first question, we have a longstanding practice of not talking about what we might or might not do. Certainly, Brazil is an interesting geography as well as there are others. And we certainly export to Brazil today, but beyond that there's not a lot to talk to.

In terms of fulfillment, you are seeing a little bit of leverage in Q3 versus what we've seen in the past few years. Again, it's one quarter, I wouldn't read too much into that at this stage. But certainly, we feel good about the footprint that we have. We feel good about a lot of the capacity that we've added since 2010.

Some of that capacity going back is getting more productive than it had been. The challenging part is obviously we're layering on a sizable number of [FC] this year on top of that, that you're seeing the cost for. So, there is again the 19 that we've announced today.

### **Operator**

And we'll take our next question from Mark Miller of William Blair.

### **Mark Miller - William Blair**

Hi, good afternoon. Could you share what you've learnt with the add-on program and the purchase rate you're seeing? And do you think over time you can have a meaningful expansion of smaller ticket items and can that effect the percent of orders that have multiple items in the shipment?

### **Tom Szkutak**

In terms of add-ons, we're -- a goal is to try to make products available to customers that we aren't able to make available to before. And so it's very early, but that's the -- it's just one additional way that we can add selection for customers and be able to get it to customer profitably. So again, it's not much more towards than that.

### **Operator**

And we'll go now to Herman Leung of Susquehanna.

**Herman Leung - Susquehanna**

Great. Thanks, guys. Two quick questions. I guess when you look into your holiday as you might go into the holiday season with your third-party inventory last year hitting sort of a bump with video games, as well as some of the Thailand floods. I was wondering what types of steps you guys are kind of doing to better prepare yourselves for holiday season that this upcoming holiday season?

And the second question is wondering, how we should think about the increasing cost -- shipping cost leverage as you go into 2013 with your distribution centers much closer and a higher percentage of FBA units? Thanks.

**Tom Szkutak**

In terms of holiday readiness, we feel very good. We're -- as you can see from our inventory at the end of Q3 it started, we're adding inventory getting ready for the holiday season that will happen throughout Q4. We're continuing trying to increase our in stock levels. So, you're certainly seeing some of that already in the numbers.

And we're very excited about getting ready for a great holiday season. And that's with our own retail inventory. Certainly, we haven't sellers, we're selling on a platform would be doing the same thing. And we're getting forward to have a great experience for customers during Q4.

In terms of shipping cost leverage, I think there is a great opportunity over a longer period of time in terms of providing what there would happen from a short-term leverage standpoint to be premature to that at this stage. But we can checking in future periods and talk more about that.

**Operator**

And we'll go now to Anthony DiClemente of Barclays.



**Anthony DiClemente - Barclays**

I have just one question. On the North America media segment just a modest deceleration. I would imagine that digital content sales and download to rent probably grew much faster than the growth rate of that segment. And so, I'm just wondering if there is anything specifically that you can call out that was weighing that growth down in that segment, whether it's physical media or otherwise? Thanks.

**Tom Szkutak**

I think you've characterized it correctly. Digital content is growing very fast. And it's reflected in the number that you see there, beyond that there is not a lot of call outs with the exception of. If you look back over the past five quarters, certainly the highest growth we've had will be Q3 of 2011, which we're lapping.

So, that's the other factor. But again, very good growth on the digital media also keep in mind, that the growth of digital will also trail our device sales and given the new launches that we've had recently that's -- that will be good for our digital content to going forward.

**Operator**

Now, we'll take a question from Michael Graham of Canaccord Adams.

**Michael Graham - Canaccord Adams**

Hi, good afternoon. Tom, last quarter you made a comment that same day delivery on a wide scale wasn't a goal. And since then, I've got more anecdotal evidence of people getting a lot of same day delivery especially here in New York. There was some news from Wal-Mart that they were going to start shipping from their stores. So could you give us any updated thoughts or philosophy you might have around what's an appropriate amount of time to strive for to deliver to people?

And then as a quick follow-up to that, it seems like every quarter you're guiding to sort of 1% operating margins. And just wondering like is that a philosophical way that you're managing the business. Is there sort of an infinite number of things that you guys could spend on if you wanted to. And we should expect this sort of level going forward?

### **Tom Szkutak**

In terms of same day delivery or delivery speed, we have just a tremendous amount of selection and what I was referring to last time was, I said, I talked about with a large amount of selection broadly to that certainly challenging to do same day everywhere, it's certainly a challenge from an economic standpoint.

That being said, we -- if you look back over the past several years, we have done -- added a lot of capacity. We're getting -- we have large FCs that are closer and closer to customers that has helped improve our delivery speed to customers and programs like Prime specifically has helped us get closer and closer to customers from a delivery speed standpoint.

So, what I would expect moving forward would be more the same. We're going to continue to improve the customer experience in every possible way we can, which includes getting closer to customers from a shipping standpoint. And we feel good about that and again, you've seen improvements some in the past year and in the past several years and New York is one of those examples, where you're seeing certainly indoor shipments going in the same day in cases.

### **Operator**

And our final question will come from Justin Post of Bank of America/Merrill Lynch.

### **Justin Post - Bank of America/Merrill Lynch**

Thank you. Just thinking about this investment cycle, it's been like two years and a quarter and yet our revenues decelerating a little bit and free cash flow and margin trends are continuing to be down kind of down year-over-year. Can you just talk about, what you're seeing on the returns on the investments you've been making over the last two years? And as far as like return on investment capital, is the profile of your returns changing over time as you think about history?

And then when can we start seeing kind of returns on this as far as revenues improving or kind of some of the financial ratios starting to turn. Can give us any thoughts on how you're thinking about that?

And then, just have a financial question. U.S. revenues for other were up 63% and then international was plus 15 for other and I think the difference is AWS. Is there any other big differences between the two geographies that we should think about? Thank you.

### **Tom Szkutak**

In terms of return on invested capital beyond the total numbers, there is not any specifics that I can point to right now. But what I can tell you is, in terms of your profile if you think about the parts of our business. The retail business, I feel very good. We have a lot of experience in terms of getting great returns for our shareowners.

We feel something that we have, again a lot of experience in. As we've added new categories in particular geographies. Oftentimes, we've already launched those in other geographies. So we're able to learn from the experiences we've had to-date. So, we feel good about those. We have a great portion of our businesses. And our media business is converting to digital. So, we've talked a lot about that. And feel very good about the opportunity that we have there, both in terms of making great devices as well as integrating content into those devices.

So, we feel good about that business and its growing very fast. In terms of our Web Services business that's a -- if you start with the core operation of that business. We've been in that part of the business serving Amazon, the customer since inception. We've added a lot of new services that have helped both Amazon internally, as well as external customers.

We like the characteristics of the potential ROIC potential of those of that business as well. Our third-party business continues to grow on our consumer business dramatically. And we like the ROIC potential of those. We're investing in a lot of new geographies, a few in the last couple of years, on top that China. China's you should think about that one has more of the long-term opportunity, something that we've been investing in for several years, you shouldn't be expecting high returns on invested capital in the short run in that geography, but very exciting from a long-term perspective.

Italy and Spain, we're in an investment mode in those geographies. But again, those are more in line with some of the other geographies we're in, in terms of timeline for returns and feel very good about those. So, hopefully that gives you some picture of a little bit of the landscape and how we're thinking about ROICs.

### **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.