Amazon.com, Inc. (NASDAQ:AMZN) Q4 2013 Earnings Call January 30, 2014 5:00 PM ET

Executives

Dave Fildes - Senior Manager, Investor Relations

Tom Szkutak - Chief Financial Officer, Senior Vice President

Analysts

Mark May - Citi

Douglas Anmuth - JPMorgan

Scott Devitt - Morgan Stanley

Justin Post - Bank of America Merrill Lynch

Brian Nowak - Susquehanna

John Blackledge - Cowen & Company

Mark Mahaney - RBC Capital Markets

Carlos Kirjner - Bernstein

Greg Melich - ISI Group

Ron Josey - JMP Securities

Chad Bartley - Pacific Crest

Thomas Forte - Telsey Advisory Group

Brian Pitz - Jefferies

Heath Terry - Goldman Sachs

Youssef Squali - Cantor Fitzgerald

Ross Sandler - Deutsche Bank

Gene Munster - Piper Jaffray

Operator

Good day, ladies and gentlemen and welcome to the Amazon.com Q4 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 conference is also being recorded.

Now for opening remarks, I will be turning the call over to the Senior Manager of Investor Relations, Dave Fildes. Please go ahead, sir.

Dave Fildes

Hello and welcome to our Q4 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, January 30, 2014 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 our 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 will turn the call over to Tom.

Tom Szkutak

Thanks, Dave. I will begin with comments on our fourth quarter financial results. Trailing 12-month operating cash flow increased 31% to $5.47 billion. Trailing 12-month free cash flow increased to $2.03 billion. Trailing 12-month capital expenditures were $3.44 billion.

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

Return on invested capital was 13%, up from 4%. 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 476 million shares compared with 470 million shares one year ago.

Worldwide revenue grew 20% to $25.59 billion or 22% excluding the $258 million unfavorable impact from year-over-year changes in foreign exchange.

Media revenue increased to $7.23 billion, up 11% or 13% excluding foreign exchange. EGM revenue increased to $17.13 billion, up 23% or 24% excluding foreign exchange. Worldwide EGM increased to 67% of worldwide sales, up from 65%. Worldwide paid unit growth was 25%. Active customer accounts exceeded 237 million. Worldwide active seller accounts were more than 2 million. Seller units represented 39% of paid units.

Now I will discuss operating expenses excluding stock-based compensation. Cost of sales was $18.81 billion or 73.5% of revenue compared with 75.9%.

Fulfillment, marketing, technology and content and G&A combined were $5.9 billion or 23.1% of sales up approximately 210 basis points year-over-year. Fulfillment was $2.84 billion or 11.1% of revenue, compared with 10.3%. Tech and content was $1.69 billion or 6.6% of revenue, compared with 5.7%. Marketing was $1.11 billion or 4.3% of revenue compared with 3.9%.

Now I will talk about our segment results and consistent with prior periods, we do not allocate to segments or stock-based compensation or other operating expense line item. In the North America segment, revenue grew 26% to $15.33 billion. Media revenue grew 21% to $3.51 billion. EGM revenue grew 25% to $10.65 billion, representing 69% of North America revenues down from 70%. Other revenue grew 52% to $1.17 billion. North America segment operating income increased 19% to $725 million, a 4.7% operating margin.

In the International segment, revenue grew 13% to $10.26 billion. Adjusting for the $244 million year-over-year unfavorable foreign exchange impact, revenue growth was 15%. Media revenue grew 3% to $3.71 billion, or 6% excluding foreign exchange and EGM revenues grew 19% to $6.48 billion or 21% excluding foreign exchange. EGM now represents 63% of International revenues, up from 60%. International segment operating income increased to 116% to $151 million, a 1.5% operating margin. Excluding the unfavorable impact from foreign exchange, International segment operating income increased to 119%.

CSOI increased 29% to $876 million, or 3.4% of revenue, up approximately 20 basis points year-over-year. Excluding the unfavorable impact from foreign exchange, CSOI increased 28%.

Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income increased 26% to $510 million or 2% of net sales. Our income tax expense was $179 million, resulting in a 40% tax rate for the quarter and 32% rate for the full-year 2013. GAAP net income was $239 million or $0.51 per diluted share, compared with $97 million and $0.21 per diluted share.

Now, I will discuss our full-year results. Revenue grew 22% to $74.45 billion or 24% excluding the impacts of foreign exchange. North America revenue grew 28% to $44.52 billion and International revenue grew 14% to $29.94 billion or 19% growth excluding year-over-year changes in foreign exchange. Consolidated segment operating income or CSOI increased 20% to $1.99 billion or 21% excluding the unfavorable year-over-year impact from foreign exchange and operating margin was 2.7%, consistent with the prior year. GAAP operating income increased 10% to $745 million or 1% of net sales.

Turning to the balance sheet. Cash and marketable securities increased $1 billion year-over-year to $12.45 billion. Inventory increased 23% to $7.41 billion and inventory turns were 8.9, down from 9.3 turns a year ago as we expanded selection, improved in-stock levels and introduced new product categories. Accounts payable increased 14% to $15.13 billion and accounts payable days decreased to 74 from 76 from the prior year.

I will conclude my portion of today's call with guidance. Incorporated into our guidance are the order trends that we have seen to-date and what we believe today to be appropriately conservative assumptions. Our results are inherently unpredictable and maybe 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 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 Q1 2014, we expect net sales of between $18.2 billion and $19.9 billion or growth of between 13% and 24%. This guidance anticipates approximately 30 basis points of unfavorable impact from foreign exchange rates.

GAAP operating income, or loss to be between a $200 million loss and $200 million in income, compared with $181 million in income in the first quarter of 2013. This includes approximately $350 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 a $150 million and $550 million, compared with $441 million in the first quarter of 2013.

We launched Prime in the U.S. nine years ago with free, unlimited two-day shipping on 1 million items in an annual membership priced at $79. Today Prime Selection has grown to over [19] [ph] million items.

Even as fuel and transportation cost have increased, the $79 price has remained the same. We know that customers love Prime as the usage of the shipping benefit has increased dramatically since launch. On a per customer basis, Prime members are ordering more items across more categories with free two-day shipping than ever before.

With the increased cost of fuel and transportation as well as the increased usage among Prime members we’re considering increasing the price of Prime between $20 to $40 in the U.S.

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. With that, Dave, let's move to question.

Dave Fildes

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

Question-and-Answer Session

Operator

Absolutely, Mr. Fildes. Well, ladies and gentlemen at this time, we will now open the call up for question. In the interest of time, we ask that you limit yourself to one question. (Operator Instructions) Our first question will come from Mark May with Citi.

Mark May - Citi

Thanks for talking my questions. The unit growth in the quarter, I believe was around 25%, which was a deceleration notable versus the last couple of quarters I believe the comp even got a little easier. Can you provide any color as to the dynamics in the quarter that may have drove that. Then I am trying to get a sense of how to think about the magnitude of Prime price increase maybe if you could give us a sense of the base of subscribers that that would be applied to. Then lastly on shipping demand, is there anything that Amazon will do differently next holiday season to try to smooth out the pace of demand late in the holiday shopping season.

Tom Szkutak

First, the unit growth, you are right. It was 25% year-over-year it is a small deceleration over the last couple of quarters. Keep in mind that it is certainly our biggest quarter most seasonal and so both, from a revenue and from a unit standpoint you saw a deceleration from Q3 to Q4 of 2012 also, so we saw a deceleration not of the same magnitude we saw back in 2012 from Q3 to Q4.

If you take a look at the total growth, it's 25% on a unit basis, 22% ex-exchange on a revenue basis. We saw very good growth in North America, up 26%. This is again on a revenue basis. It's down sequentially a little bit in the last couple of quarters but certainly up from Q4 of last year, where we grew 23%. In the International, revenue was up 15%, ex-exchange.

If you look at the pieces, certainly one of the biggest things you are seeing is, if you look at the media growth in our digital categories within media and International, it's growing very fast, but as we have been talking about for quite some time, certainly a shift going from physical to digital you see that reflected in the North America media growth rates.

The reason why you don't see it as much in our International is because we are at the very early stages of that. So that's what you are seeing in terms of the differential, certainly one of the key differentials between the International media growth rate and North America growth rate. Also, keep in mind, in other revenue, the AWS revenue is growing very fast is recorded North America segment.

In terms of the Prime in terms of the impact, I am sorry I can't help you with the impact on U.S. What we have said, is globally we have tens of millions of customers and we certainly have been offering Prime in the U.S. longer than International and both segment is growing very fast from a Prime perspective. That's helpful.

Then, from a customer standpoint, during Q4 we worked very hard on behalf of customers to make sure that we can service them. I think the team did a very nice job. We will continue to work on that to get even better in future quarters and in future Q4 going forward.

Operator

Our next question will come from Neil Doshi with CRT Capital.

Unidentified Analyst

Good afternoon. It's actually Rob [ph] on the call for Neil. I have a couple of questions. If you could maybe talk a little bit about the impact of refunds or incentives given to customers to make up for some of the goods that arrive late in the holiday season? Also on Prime, with respect to the increase, would you consider saving that in Prime, perhaps just the new members at first and also would you consider giving an installment option to maybe soften the blow? Thank you.

Tom Szkutak

Yes, in terms of the refunds, we did give some in the form of gift certificates as well as refunding some shipping fees or fees that were incurred by customers for that subset of customers who were impacted. So that's reflected in the Q4 results that you see today. In terms of details of how we would roll out the Prime price increase that we are considering, you have to wait on that, but certainly as I mentioned, it's something that we haven't had any increase in the nine years. Customers certainly love Prime.

The available units for shipment have grown dramatically from one million to over 19 million over the last nine years. We haven't had any price increase. Customer usage, on a per customer basis, has gone up pretty dramatically, given the selection and the convenience of the service. So that's why we are considering, of course during this nine year period, shipping cost have gone up a lot, fuel cost have gone up a lot. So that's certainly the basis for us taking a look at it but in terms of the details, we will be back when we make those decisions back to customers.

Operator

Moving on to Douglas Anmuth with JPMorgan.

Douglas Anmuth - JPMorgan

Great. Thanks for taking the question. Just wanted to follow-up on Prime as well. I was hoping, Tom, maybe you could give us some color on how newer Prime members, you have obviously added a lot of them over the recent quarters, but how newer cohorts of Prime members act relative to older cohorts and in particular if they convert as quickly and if they are spending on a similar early trajectory as your more tenured Prime members? Then also, can you just comment on, I believe, the constrained signups in 4Q on Prime? Thanks.

Tom Szkutak

Sure. In terms of the details, I can't really give you a lot of color on the more recent versus the Prime member who have been with us for a long time, except to say that there is a lot of similarities in terms of what we are seeing. In other words customers, when we launched Prime nine years ago, one of the things that we hoped for was customers who would do a lot more cross shopping that they would buy more from us and we are seeing that trend also in more recent Prime additions. The program is growing very fast. We are very, very pleased with it and we think it's great for the business as we look forward as well. What was the second part of the question again?

Douglas Anmuth - JPMorgan

4Q, I think you talked about signups being constrained in the quarter.

Tom Szkutak

Again, we have a very fast growth. We put a couple of statistics out in our holiday release on the 26th that you can refer to, but we had very strong growth and it did constrain it a bit and the customers liked it. Again, there is lot of demand for the service and we are going to continue to make sure that we can satisfy customers there and we thought it was appropriate to do so, to do that during Q4.

Operator

We will move on to Scott Devitt with Morgan Stanley.

Scott Devitt - Morgan Stanley

Hi, Tom. A couple of questions. Starting with continue the trend with Prime questions. First, you mentioned higher shipping costs being a driver of potentially higher prices in the U.S. The U.S. Prime service is also the only one that has Kindle lending library and video and was just wondering if potentially if those additional services led you think about increasing price as well to potentially further bolster either or both.

Then secondly international CSOI has been on the glide path lower over the past few years and if that's happened, the organic international growth rates moderated during the same period.

Then just wondering going back to the decision to embark on the international investment cycle, if you anticipated the current revenue growth rate that you are experiencing, and if not, where are the areas in the business where you could point to that we would begin to see growth that has not yet evident in the international business. Thank you.

Tom Szkutak

Sure. In terms of the first part, we have added a lot of new services to Prime beyond this shipping benefits you mentioned Kindle owners lending library. Certainly video, Prime Instant Video we are investing very heavily, and so those are certainly costly. Those aren't the reasons for the price increases that we’re contemplating. That decision again is just based on - we have not done our price increase in nine years. Shipping costs have gone up if you look back very considerably over the nine-year period.

Customers like the service, they are using it a lot more and we have a lot more selection. They are using it a lot more and so that's the reason why we are looking at the increase.

In terms of the international growth, the growth was solid, with revenue ex-exchange at 15% the unit growth was considerably faster than that, primarily because third-party growth was very strong and certainly FBA is a component of that and when you think about the capacity that we built for not only for retail, but also for our third parties and we are able to offer our FBA items through Prime as well, so we are very happy with the capacity that we have built across the world, including our international operations and that's reflected in the results that you are seeing.

Certainly one of the reasons why you are seeing the growth of operating income up over 100% in Q4 for international is because of the mix of third-party certainly helping that, so it's a combination of a number of factors, but certainly that's one that’s a significant call out.

Operator

Our next question comes from Justin Post of Bank of America Merrill Lynch.

Justin Post - Bank of America Merrill Lynch

Great. A couple of things. I was hoping you could talk about your initiatives with AmazonFresh. What you are seeing in the Bay Area and Los Angeles so far? Are you seeing more units per customer?

Then maybe talk a little bit about the international Kindle stores. Could you start to see the better media results as you build out that infrastructure? Thank you.

Tom Szkutak

Sure. In terms of Fresh in LA in the Bay area, it's very, very early. We like what we see. Customers like the service. There has been good adoption. There has been good conversion from the Prime trials. So we are very pleased with what we were seeing there, but it is still very early. So you will have to stay tuned on that one. But again, it's very early but we like what we see.

In terms of International Kindle stores, absolutely. To be very clear, if you look at the Kindle content growth in Q4 in International, it's very strong. It's just again, we are at the early stages of this cycle from physical to digital. So the growth rate is very strong and the and we saw similar type things when look back in the U.S. in terms of trends, but again, it's at the early part of the cycle in that conversion.

Unidentified Analyst

Okay. Thank you.

Operator

We will now hear from Brian Nowak with Susquehanna.

Brian Nowak - Susquehanna

Thanks. It looks like a 1P growth margin, ex-shipping expanded nicely year-on-year again. I was wondering if you could talk to some of the margins or some of the drivers of 1P growth profitability getting better? And how should we think about the sustainability of that over time? Thanks.

Tom Szkutak

We are not breaking out the first party margins, if you will. So I can't talk to the specifics of that but our retail business is very good. The combination of our retail business is in our third-party business on a platform. It works for us. We think it's very important to have both offerings for a number of reasons. One is, from a customer experience standpoint, we like the fact that customers come to our detail pages on our respective websites around the world they see competitive offerings. They know that we are very excited about making sure we get great values for customers and we price our products, appropriately and competitively low. So having the third-parties on our website certainly helps do that. It also adds additional selection that we don't have. So the combination of being able to make sure we have a competitive marketplaces as well as add great unique selection from both retail offerings and third-parties to make it work. So that's why we don't initially about first-party or third-party in terms of margins, but it's a combination of those working together on a platform that makes it work.

Brian Nowak - Susquehanna

Thank you.

Operator

We will now hear from on John Blackledge with Cowen & Company.

John Blackledge - Cowen & Company

Great. Thank you. A couple of questions. With the potential pricing change of Prime in the U.S. would Amazon consider offering Prime Instant Video separately? And in terms of Prime Instant Video, can you discuss the change in marketing spend for the service on a year-over-year basis 4Q13 versus 4Q12? Then just, in the North America electronics and other goods segment, could you call out any particular categories that you drove the growth? Thank you.

Tom Szkutak

In terms of Prime, there is not a lot I can help you with there. We certainly have - it's a great offering for customers. I wouldn't speculate what we would do or not do going forward but we like the service that we have. We continue to invest in our Prime offering and it comes in a number of different forms. We will continue to add unique selections that Prime eligible. We have a great pattern of doing that over the nine-year period. We have also offered other services, as you mentioned, in terms of Prime Instant Video as well as Kindle Owners' Lending Library. So it's a great value for customers and we plan on keeping that a great value for customers even with the price increase that we are considering in the U.S.

John Blackledge - Cowen & Company

Great. Thanks. And in the North America, in the electronics and other goods segment, just wondering if there are any particular categories that drove the growth?

Tom Szkutak

Yes, it was very broad, in terms of growth. We are very fortunate that we saw very good growth across many different categories. Certainly, in a few call it's a softline categories were very strong, consumables are very strong again in number of different areas those sort of lengthy [columns].

Operator

Mark Mahaney with RBC Capital Markets has the next question.

Mark Mahaney - RBC Capital Markets

Yes. Just stick with that EGM category North America. It looks to us like it has decelerated relatively sharply. I thought you were going to call out some areas of weakness there. Is there anything that cause that growth rate - you would call out that caused the growth rate to decelerate on easy comp? Then Tom, could did you want to call it anything related to whether or UPS started to think that those impacts [material business].

Tom Szkutak

Well, again, I think the question was around EGM in North America in good 25% already did decelerate from Q3. Keep in mind that a number of the categories with EGM this certainly is seasonal impact. If you look back to last year, Q4 growth rate in North America was 24%, so we actually saw an acceleration from Q4 last year to Q4 this year slightly.

Then, sorry, Mark. Second part of your question was related to?

Mark Mahaney - RBC Capital Markets

Did you want to call it anything related to weather an UPS?

Tom Szkutak

No. I mean, I think, certainly some of the UPS issues were documented in the press. From our standpoint, our team did a very good job of serving customers. We did have the issues that you are describing, but again I will continue work on behalf of customers to make sure improve that experience over time and we didn't serve them well. We certainly did give some GCs to customers who also reimbursed them for shipping costs with where they incurred that and we will continue to make that better for customers over time.

Operator

Moving on to Carlos Kirjner with Bernstein.

Carlos Kirjner - Bernstein

Thank you. The two quick questions. Your CapEx was just slightly higher than last year's same period if you this correct for the real estate purchase. Even though the business overall grew 22% and you said AWS grew very fast. Does this relative decrease in CapEx signal an expectation AWS is going to grow slower?

Secondly, again, the Prime price increase, if you haves tens of millions of prime users that decreasing price at least $20 with no incremental expense. That's quite a good chunk of money. Do you have specific to reinvest that money? Thank you.

The first part of your question, do we expect, is this an indication that AWS is slowing down. No. It's not. Actually, we are very pleased with the AWS business. It's growing very fast. The team is doing a fantastic job from a product and service standpoint and that we are very excited about that business, so I wouldn't form any pins about what CapEx might be in the future related to the growth rates and AWS is going very, very well.

Then you know the price increase on Prime, anything that we would invest would be an independent decision. From that, again, I think in the opening remarks I talked about the rationale as to why and that's really what's driving that decision and then our investment decisions would be independent of that.

Operator

Greg Melich with ISI Group has the next question.

Greg Melich - ISI Group

Hi. Thanks, Tom. Going back to Prime, you consider the price increase, do you think the brand is such that you would be running to price seller or [tier] based on the value that's offered and sort of services you provided to certain customers?

Then second, on the categories, I believe you called out a few quarters earlier that clothing in particular was one and third-party clothing had picked up a lot. Did you see that this holiday just given the importance of that category in the season?

Tom Szkutak

I will take the second part first. Softlines is very strong in Q4, which clothing is a piece of that.

In terms of tiers on Prime, I wouldn't speculate. We might or might not do in the future, but we like the Prime program where we have invested very heavily in it. We continue or you should expect us to continue making it even better over time.

Unidentified Analyst

There's no prohibition to that but just do you still like it the way it is.

Tom Szkutak

Yes, we like it the way it is. Yes. But again, if you look back at what we have done, you can't expect that we might do going forward, but certainly we have had, in the U.S., Prime in place for nine years. We have added a massive selection during that time period. We have also added, this is on the physical side and we have also added digital content as well to the service in the U.S. with Kindle Owners' Lending Library as well as Prime Instant Video and so it's a great value for customers. We see that customers love it and we are going to continue to try and make that even better for customers over time.

Operator

Moving on to Ron Josey with JMP Securities.

Ron Josey - JMP Securities

Great. Thanks for taking the questions. So I wanted to follow-up on AWS and talk a little bit on pricing. While it is certain coming down as efficiencies improve but I believe AWS is sold in hour increments. I think Google's compete solution is sold on a per minute views. So I was wondering if you thought about maybe changing the way AWS is charged to maybe per minute? And then a quick follow-up on just fulfillment centers, if you could just remind us what you ended the year with and if you have any plans for this year? Thank you.

Tom Szkutak

Sure. I will take the second part first, the fulfillment centers. We opened seven on a net basis. So that's the net adds, but if you take that as a percentage for total fulfillment centers, you will get a number, but our square footage actually grew at quite a bit faster rate than that. Keep in mind that, I think we have talked about it in previous calls, we did have some smaller older facilities that we consolidated into larger ones. So that's a net seven. Again the square footage growth is higher than that.

In terms of pricing on AWS, the team has done a fantastic job looking at the best way to run that part of our business. I wouldn't want to speculate what they would or wouldn't do related to pricing, but they are certainly making sure that they have offered great services to customers and they are great values to customers as well. And we are very excited about that part of the business.

Ron Josey - JMP Securities

Thank you.

Operator

We will now hear from Chad Bartley with Pacific Crest.

Chad Bartley - Pacific Crest

Hi. Thank you. Two quick questions. How much of the slowdown in revenue in unit growth was a function of the shorter shopping season in Q4? And then, in terms of raising the price on Prime, how much of that might be based on customers' reaction behavior after recently raising the threshold for free shipping to $35?

Tom Szkutak

In terms of the shorter period for shopping, it's hard to tell, honestly. It's hard to know. It definitely was a shorter period from post-Thanksgiving to the holiday. But again, hard to know. And then, sorry, your other part of your question?

Chad Bartley - Pacific Crest

I am curious if the potential price increase on Prime and your confidence in doing that and that it wouldn't impact the adoption of Prime. How much of that is tied to the early results of raising the shipper saving threshold to $35 from $25?

Tom Szkutak

They were independent decisions. They weren't related.

Chad Bartley - Pacific Crest

Okay. Thank you.

Operator

Thomas Forte with Telsey Advisory Group has the next question.

Thomas Forte - Telsey Advisory Group

Great. Thanks for taking my question. So, when we think about shipping costs, I know you are talking about raising the rate on Prime, but you just indicated that you added seven fulfillment centers in 2013 on a net basis. As you get closer to the consumer and you shorten the shipped miles, how should we think about the benefit on shipping expenses from just having more fulfillment centers close to the consumer?

Tom Szkutak

Yes. There's no question that as we grow our footprint, we get closer and closer to customers with additional selection and that certainly helped us not raise prices or look at raising prices before this. So certainly we will continue to roll out our footprint. We are trying to make our networks as efficient as possible. And that's even with this price increase that we are looking at. It still enables us to make sure that we have Prime at a great value to customers and that's something that's very important to us, because we know it's very important to our customers.

Operator

Moving onto Brian Pitz with Jefferies.

Brian Pitz - Jefferies

Great. Thanks. In terms of digital content how are exclusive titles and original series driving user growth and Prime memberships? And any color on what kind of engagement dynamics you are seeing across the different platforms? Thank you.

Tom Szkutak

Could you repeat the question please?

Brian Pitz - Jefferies

Sure. In terms of digital content, I am just trying to figure out how some of your exclusive content titles are driving user growth and Prime memberships and any color just on what type of engagement you are seeing across different platforms via PC, tablet et cetera.

Tom Szkutak

We are seeing customers like the digital content. We are seeing great engagement, we are not breaking out in terms of the form, but again we are seeing great engagement. We do track very closely the Prime customers to come from free trials for examples.

They come through the pipeline for digital content from free trial standpoint, we track those conversions and we see that's growing very nicely. We do look at customers that use our Prime Instant Video, what are their shopping patterns look like both side of digital content.

Beyond the free content we have on there, do they buy more digital content and certainly we are seeing nice growth in digital content because of that, because they do. They also do a lot of shopping physical categories as well, so those things we are tracking very closely and it's a great pipeline for us as customers look at the total value proposition for Prime, including digital content.

Operator

Heath Terry with Goldman Sachs has the next question.

Heath Terry - Goldman Sachs

Great. Thanks. Tom, you mentioned a strong growth in AWS. Looking at the deceleration in the North America and other line, how should investors think about the relative growth of AWS versus the advertising and financial partnership that make up the rest of that segment? Then just on Fresh with L.A. and San Francisco's performance centers caring a number of non-perishable SKUs. What does Fresh do for your same day fulfillment capabilities in those markets?

Tom Szkutak

In terms of AWS, I think the best way to think about it is a number of things other than AWS can be a lumpy, and you should assume when you look at the North America growth for Q4, our AWS revenue is growing at a faster rate than other.

Then in terms of Fresh, when you look at those two and look at the new offerings that we have in the Bay Area and in the L.A. area it's certainly helping our same day delivery and they work hand in hand. In another words, we have increased the capability both, for Fresh as well as for our non-Fresh part of our business there in those locations.

Heath Terry - Goldman Sachs

Great. Thank you.

Operator

We will now hear from Youssef Squali with Cantor Fitzgerald.

Youssef Squali - Cantor Fitzgerald

Thank you very much. Two questions please. First, have you seen any impact from the rise of Google's PLA this quarter? Second, are you using

Kiva's technology in your food distribution centers particularly for perishables? Our understanding is that is not optimized for that, but is that true and if not, are there any other solutions outside of Amazon that do that optimally? Thank you.

Tom Szkutak

In terms of Kiva, it's very early. We are early in our installations there, that's really all I can say. We have it in the few facilities. It's going very well, very pleased with having Kiva as part of the Amazon family, if you will, and we are excited about the opportunity that brings us going forward.

Youssef Squali - Cantor Fitzgerald

On the PLAs?

Tom Szkutak

I can't comment.

Youssef Squali - Cantor Fitzgerald

Okay. Thank you.

Operator

Our next question will come from Ross Sandler with Deutsche Bank.

Ross Sandler - Deutsche Bank

Thanks. Tom, just a quick high-level question, so consumers in smartphone markets are spending about half their time on mobile these days and a lot of that's coming off of PC. I am sure that is a great kind of new customer acquisition channel for you guys, but in terms of existing Amazon customers, are you guys seeing purchase frequency for physical products go up because of having phones with you all day? Or is it just swapping off of PC and into these newer channels? Thanks

Tom Szkutak

I kind of view just having the more connected devices, is just a tailwind for our business, and it's additive. It's certainly helping our business grow. So whether that's phones or tablets, it's just a tailwind for our business. And we think it will continue to be so. So customers will certainly still purchase from their desktop or their laptop and so the tablet mobile will not be completely additive, but it will certainly be a tailwind for our business. It's just anytime customers have easier access to be able to purchase, that's good for us.

Operator

Ladies and gentlemen, we have time for one additional question from Gene Munster with Piper Jaffray.

Gene Munster - Piper Jaffray

Thank you. Good afternoon. Could you just remind us on just kind of high level philosophy, the trade-off between revenue growth and earnings. I think investors typically think that you see this as all of your market as nascent and profitability as kind of a distant thought. Is that still the case and any guidance in terms of how to think about that over the next two, five, ten years? Thank you.

Tom Szkutak

Sure. We track a lot of our investments on a discreet basis as best we can. We are looking to maximize. Can you hear me okay?

Gene Munster - Piper Jaffray

Yes.

Tom Szkutak

We are looking to maximize free cash flow in those investments over time. So we have some investments that certainly start to pay-off and become profitable in a three to five year period. We have others that have been a bit longer. But again, we are monitoring those investments very carefully. Our goal is to maximize free cash flow for investors over time. That's clearly our goal. And that's something that we are working towards.

All that being said, we are investing a lot in the business right now. You can see that when you look at our results and the reason why we are doing that is because of the very large opportunities that we see. We do go in cycles, as you have seen in our historical results, from time to time. We will pull back to make sure the model is working and we have done that and I am sure you will see that going forward at times as well. But again, we are focused on making sure that we have a great customer experience with maximized free cash flow over the long term.

Gene Munster - Piper Jaffray

Got it. Thank you.

Dave Fildes

Great. Thanks, Tom. Thank you all 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

Again ladies and gentlemen, that does conclude our conference for today. We thank you all for your participation.