Operator

Thank you for standing by. Good day, everyone, and welcome to the Amazon.com Q4 2015 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 Director of Investor Relations, Phil Hardin. Please go ahead.

Phil Hardin

Hello and welcome to our Q4 2015 financial results conference call. Joining us today is Brian Olsavsky, our CFO. We will be available for questions after our prepared remarks.

The following discussion and responses to your questions reflect management's view as of today, January 28, 2016 only, and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent annual report on Form 10-K. As you listen to today's conference call, we encourage you to have our press release in front of you, which includes our financial results, as well as metrics and commentary on the quarter.

During this call, we will discuss certain non-GAAP financial measures. In our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures. Finally, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2014.

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

Brian Olsavsky

Thanks, Phil. I'll begin with comments on our fourth quarter financial results. Trailing 12-months operating cash flow increased 74% to $11.9 billion. Trailing 12-month free cash flow increased to $7.3 billion, up from $1.9 billion.

Trailing 12-month free cash flow less lease principle repayments increased to $4.7 billion, up from $529 million. Trailing 12-month free cash flow less finance lease principle repayments and assets acquired under capital leases increased to $2.5 billion, up from an outflow of $2.2 billion. Trailing 12-month capital expenditures were $4.6 billion.

Capital expenditures does not include the impact of property and equipment acquired under capital and finance lease obligations. These capital expenditures and capital leases reflect additional investments in support of continued business growth, due to investments in technology infrastructure, the majority of which is to support AWS, and additional capacity to support our fulfillment operations.

The combination of common stock and stock-based awards outstanding was 490 million shares, compared with 483 million one year ago. Worldwide revenue increased 22% to $35.7 billion, or 26% excluding the $1.2 billion unfavorable impact from year-over-year changes in foreign exchange. Worldwide paid unit growth was 26%.

Worldwide active customer accounts were approximately 304 million. Excluding customers who only had free orders in the preceding 12-month period, worldwide active customer accounts were approximately 280 million, up from approximately 254 million in the comparable prior year period.

Worldwide paid Prime members increased 51% year-over-year. Worldwide seller units represented 47% of paid units. Fulfillment by Amazon or FBA units represented nearly 50% of seller units. Worldwide active Amazon Web Services customers exceeded 1 million.

Now I'll discuss operating expenses, excluding stock-based compensation. Cost of sales was $24.3 billion or 68.1% of revenue, compared with 70.5%. Fulfillment, marketing, technology and content and G&A combined was $9.7 billion or 27.1% of sales, up approximately 100 basis points year-over-year.

Fulfillment was $4.4 billion or 12.3% of revenue, compared with 11.3%. Tech and content was $3.2 billion or 9% of revenue, compared with 8.2%. Marketing was $1.7 billion or 4.8% of revenue, compared with 5.1%.

Now I'll talk about our segment results. As a reminder, in the first quarter we changed our reportable segments to report North America, international, and Amazon web services. Consistent with prior periods, we do not allocate to segments, our stock-based compensation, or the other operating expense line item.

In the North America segment, revenue grew 24% to $21.5 billion. Media revenue grew 11% to $3.9 billion or 12% excluding foreign exchange. EGM revenue grew 28% to $17.3 billion.

North America segment operating income was $1 billion, a 4.7% operating margin, compared with $733 million in the prior year period. North America segment operating income includes $6 million of favorable impact from foreign exchange.

In the international segment, revenue grew 12% to $11.8 billion. Excluding the $1.1 billion year-over-year unfavorable foreign exchange impact, revenue growth was 22%. Media revenue decreased 3% to $3.3 billion or increased 5% excluding foreign exchange. EGM revenue grew 19% to $8.5 billion or 31% excluding foreign exchange.

International segment operating income was $60 million, compared with $65 million in the prior year. International segment operating income includes $47 million of unfavorable impact from foreign exchange.

In the Amazon Web Services segment, revenue grew 69% to $2.4 billion. Amazon Web Services segment operating income was $687 million, a 28.5%

operating margin, compared with $240 million in the prior year period. AWS segment operating income includes $60 million of favorable impact from foreign exchange.

Consolidated segment operating income was $1.8 billion or 4.9% of revenue, up approximately 140 basis points year-over-year. CSOI includes $20 million of favorable impact from foreign exchange.

Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income grew 88% to $1.1 billion.

Our income tax expense was $453 million. GAAP net income was $482 million or $1 per diluted share, compared with a net income of $214 million and $0.45 per diluted share.

Now I'll discuss the full year results. Revenue increased 20% to $107 billion or 26% excluding year-over-year changes in foreign exchange. North America revenue grew 25% to $63.7 billion or 26% excluding year-over-year changes in foreign exchange. International revenue grew 6% to $35.4 billion or 21% excluding year-over-year changes in foreign exchange.

Excluding year-over-year changes in foreign exchange, Germany revenue grew 18%. Japan revenue grew 19%, and UK revenue grew 16%. AWS revenue grew 70% to $7.9 billion.

Consolidated segment operating income was $4.5 billion or 4.2% of revenue, up approximately 220 basis points year-over-year. CSOI includes $16 [ph] million of favorable impact from foreign exchange. GAAP operating income was $2.2 billion, compared with $178 million in the prior year.

Turning to the balance sheet, cash and marketable securities increased $2.4 billion year-over-year to $19.8 billion. Inventory increased 23% to $10.2 billion. And inventory turns were 8.5, down from 8.6 turns a year ago, as we expanded selection, improved in-stock levels, and introduced new product categories. Accounts payable increased 24% to $20.4 billion, and accounts payable days increased to 77 from 73 in the prior year.

I'll conclude my portion of today's call with guidance. Incorporated into our guidance are the order trends that we've seen to date and what we believe today to be appropriately conservative assumptions.

Our results are inherently unpredictable, and may be materially affected by many factors, including a high level of uncertainty surrounding exchange rate fluctuations, as well as the global economy, and customer 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 in foreign currencies among our subsidiaries, unfavorable resolution of legal matters, and changes to our effective tax rate 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, recording further revisions to stock-based compensation estimates, and that foreign exchange rates remain approximately where they have been recently.

For Q1 2016, we expect net sales of between $26.5 billion and $29 billion or growth of between 17% and 28%. This guidance anticipates approximately 130 basis points of unfavorable impact from foreign exchange rates.

GAAP operating income to be between $100 million and $700 million, compared with $255 million in first quarter of 2015. This includes approximately $600 million for stock-based compensation and other operating expenses net.

We anticipate consolidated segment operating income, which excludes stock-based compensation and other operating expense net, to be between $700 million and $1.3 billion, compared with $706 million in the first quarter of 2015.

We are grateful to our customers and remain heads down focused on driving a better customer experience. We believe putting customers first, is the only reliable way to create lasting value for shareholders.

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

Phil Hardin

Great. Thanks, Brian. 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

[Operator Instructions] Thank you. Our first question is coming from analyst Stephen Ju with Credit Suisse. Please proceed with your question.

Stephen Ju

Hey, thanks. So Brian, I think in the past you've given some indication as to what usage growth may be at AWS. I was wondering if you have an update for that in the fourth quarter.

And secondarily, is there any way to characterize what the pricing environment is right now for AWS as well? Thank you.

Brian Olsavsky

Yes, thanks, Stephen. No, I don't have a usage growth number for you. We'll say we're - it's been very strong. And AWS revenue is on a, just short of a $10 billion run rate at the end of Q4.

As far as pricing is concerned, we had a price reduction in January for our EC2 services. It was our 51st price reduction since we launched AWS years ago. And generally what we find is that price is important. But so is speed and agility for customers and the ability to deliver services and features that were beneficial to them.

I will point out that we added 722 new features and services in 2015 and that was up 40% year-over-year. So we feel we have a lead in this space and we don't take it for granted and we want to serve customers better each year.

Stephen Ju

Thank you.

Operator

Thank you. Our next question is from analyst Jason Helfstein with Oppenheimer. Please proceed with your question.

Jason Helfstein

Thank you. Can you talk a little bit about the dynamics in fourth quarter eCommerce, particularly in the US? Did we see more aggressive promotional activity and maybe talk about how you tried to work that to continue to drive the Prime number of members going forward? Thanks.

Brian Olsavsky

Sure. Well, what I can say is our approach to pricing has not changed. And through Q4 [ph] we did everything we could to have the best prices available for customers and in stock in time for the holiday.

Another dynamic of Q4 was that it was a huge FBA quarter, nearly 50% of our third party units were FBA and our third party units were also up to 47% of our paid units, up 400 basis points year-over-year.

So a really strong quarter for our FBA sellers using our FBA services. It did put a lot of demands on our warehouses and we were full. It was a very busy quarter and it did increase some of our variable costs as a result, primarily in the US, but a very strong quarter for FBA. It exceeded our - even our expectations.

Jason Helfstein

Perhaps how are you able to integrate that into holiday promotions?

Brian Olsavsky

I'm sorry. You cut off there. Could you repeat your question?

Jason Helfstein

Sure. Just any additional color around Prime and how you were able to integrate that into holiday promotions?

Brian Olsavsky

Nothing specific. I will say, you know, one interesting enhancement this year was our Prime Now service, which allowed people order in selected markets up until 11.59 on New Year, excuse me, Christmas Eve. So that was a valuable service to many late shoppers, last-minute shoppers.

Operator

Thank you. Our next question is from Aram Rubinson with Wolfe Research. Please proceed with your question.

Aram Rubinson

Hey. Thanks very much. Two questions both on the logistics side. It seems pretty clear that you guys are trafficking in some old world assets, like truck trailers and ship lanes and air fields.

Can you help give us a sense as to maybe what we're trying to accomplish with that, if it's defensive to protect your service to your existing customers or if you're looking to maybe start new businesses with those assets?

Brian Olsavsky

Sure, Aram. Thanks for your question. I would say what we've found is in order to serve – properly serve our customers at peak. We've needed to add more of our own logistics to supplement our existing partners. That's not meant to replace them.

And those carriers are just not - no longer able to handle all of our capacity that we need at peak. They have been and continue to be great partners. And we look forward to working with them in the future.

It's just we've had to add some resources on our own. You mentioned trucks. The Amazon trucks, we did invest in those - this past year. We use those primarily for movement between our warehouses and our source centers.

Operator

Thank you. Our next question comes from the line of Brian Nowak with Morgan Stanley. Please proceed with your question.

Brian Nowak

Thanks for taking my questions. I've got two. The first one is just on gross margins. I think they were down of about 200 basis points sequentially. It's the biggest fall in the fourth quarter in quite sometime. Anything you call out there, is the devices are more - sortation center, is anything pressuring gross margins we should think about in the fourth quarter?

And then on the fulfillment line, you mentioned FBA being a big driver of the growth in the fulfillment costs. Anything else you would call out leading to incremental fulfillment costs, maybe India or something else? Thanks.

Brian Olsavsky

No. And again, keep in mind that the fulfillment as a percent of revenue is impacted by the calculation of FBA revenue being a net number as opposed to a full revenue number. But our fulfillment costs per unit actually decreased year-over-year. It just we are now shipping more and more of our, other demand out of our warehouses, because of the strength in retail and FBA.

On gross margin, I would - first I'll caution you and say, we would encourage you to look at free cash flow, which was – grew at minimum of $4 billion on each of the metrics that we point out and our profit which was up 88% year-over-year.

If you look sequentially, also keep in mind that in Q3 when it was up 500 basis points year-over-year, that was lapping the write-down of our Amazon phone [ph] inventory the prior year. So there is a little bit of noise in the Q3 number.

But generally, again, we're happy with the ability to service customers, the reaction of customers in Q4, and the bottom line results that we had.

Operator

Thank you. Our next question comes from the line of Colin Sebastian with Baird Equity Research. Please proceed with your question.

Colin Sebastian

Great, thanks. One follow-up and then another question. On the logistics and transportation side, I was curious if that's to date just to supplement some of the other carriers. But more broadly or longer term, is there an ambition from the services side to perhaps provide capacity to other companies.

And then on AWS margins, I was just wondering if we should expect more leverage there going forward and whether Q1, whether that should demonstrate some seasonality versus what we've seen in terms of sequential growth in prior years? Thank you.

Brian Olsavsky

Sure. Let me work backwards. We don't give guidance by segment. So we cannot really comment on AWS specifically in Q1. And the operational improvements, excuse me, the gross margin, operating margin year-over-year that we've seen in the AWS business has been heavily driven by operating efficiencies, both purchase reductions and purchase prices and also efficiency in driving greater utilization of the assets that we have.

So we're very happy with that. Keep in mind that we did have a - although the year-over-year increase in capital expenditures and capital leases was not as great as we saw in 2013 to 2014, we did spend over $9 billion on those, on capital expenditures and capital lease obligations, up from prior year was, excuse me…

Operator

Thank you. Our next question…

Brian Olsavsky

Sorry, let me finish my answer to him, please. We grew up – we grew from in the $5 billion range in 2013 to $8.9 billion in 2014 and now over $9 billion in 2015.

Operator

Thank you. Our next question comes from the line of Ken Senna with Evercore ISI. Please proceed with your question.

Ken Senna

Hi. So lot of headlines around Amazon's activity at Sundance I just was hoping you could maybe expand once more on the video strategy and specifically are you seeing an inflection in Prime Video usage. And maybe just also on your streaming partners program, what the general reception is like? Thank you.

Brian Olsavsky

Sure. We're very thrilled with the customer response to Prime Video. Again, when Prime Video is used by our Prime members, it drives adoption and retention, higher free trial conversion rates, and higher renewal rates for subscribers. So what we were encouraged by in Q4 was that globally we doubled the number of – our Prime members doubled the number of viewing hours of the Prime Video year-over-year. And internationally, we had twice as member Prime members streaming year-over-year. So very encouraged by the pickup and the response of customers.

The other comment I would say about video is we're very happy with the Amazon Studios content, in particular. We've had some great success in 2014 and 2015. As you probably know, Transparent has won multiple Golden Globes and Emmys, both for actors and for the show itself. Mozart in the Jungle just won two Golden Globe Awards.

So very, very pleased with the critical acclaim to the Amazon Studios content and we've got a lot of new content coming out this year. Catastrophe Season 2, Bosch Season 2, we're all looking forward to.

And in February, we will have Chi-Raq, our first original movie that we got to work with Spike Lee on, which won many critical, made many critics' best film list in 2015. That will be coming to Prime Video in February.

Phil Hardin

Just to add, this is Phil. On the question about the streaming partners program, so that's our new over the top streaming subscription program for Prime Members. We think it's a really convenient way for them to access additional content, content sources like Showtime and Starz. And it's really early, so it's just out of the gate. But we've been very pleased with what we've seen so far.

Operator

Thank you. Our next question comes from the line of Mark Mahaney with RBC Capital Markets. Please proceed with your question.

Mark Mahaney

Two things, please. Any callouts on the macro side? Occasionally you called things out, anything this time? And then can you talk a little bit about Amazon business, I know, there is a little bit of a line in the press release on it. I know you've had this for a couple of years. But any indications to materiality of that, the kind of momentum it's gaining, the kind of traction it's gaining? Thank you.

Brian Olsavsky

Sure, Mark. Thanks for your questions. No macroeconomic comments. Again, we feel we're very encouraged by the customer response to our offerings in Q4. Amazon business, yes, in April you may remember we launched it as a marketplace with specific features and benefits for businesses.

That - Amazon business now serves more than 200,000 businesses from small organizations to Fortune 500 companies. So it's still early, but we're encouraged and we think we're creating some value, a lot of value for our business customers.

Operator

Thank you. Our next question comes from the line of Mark May with Citi. Please proceed with your question.

Mark May

Thanks. Brian, question on international retail business. I think you added well over a billion in revenue year-on-year in the quarter, but from a CSOI perspective, you really didn't see any improvement there. I'm sure there is, there are a lot of different things going on.

I just wondered if you could unpack that a little bit and give us a sense of, you know, what profitability looks like maybe in some of your more mature, established countries and regions, relative to the investments you were making in other countries, so that we can kind of get a better picture of what's actually going on under the hood there? Thanks.

Brian Olsavsky

Sure, Mark. Thanks for your question. We are very pleased by the international growth, 22% FX neutral, was up 1000 basis points year-over-year. We saw that the - we told you the Prime growth, Prime membership growth of 50% in-- excuse me, 51% globally, 47% in the US means that the international Prime programs grew at a faster clip than that.

So very pleased with the up-tick. We rolled out a lot of additional Prime features internationally as well this year, from FREE Same-Day to Prime Now to Prime Music and Prime Video in Japan, to name a few. So very happy with that.

But in general, if I step back, our investments in national are twofold. First, there's the Prime platform and all the features that I just mentioned, including the fulfillment, adding more fulfillment resources to handle higher and higher retail volumes and very strong FBA program as well.

And then the remainder - the biggest other investment area is obviously India. And we like – we continue to see, like what we see in India. In Q4 Amazon India was the top e-commerce site in India throughout the very busy diwali shopping season, including the shopping season, according to comScore. And sales by sellers in Q4 were greater than all of 2014 combined in Q4.

So seeing great progress with downloads, innovations for sellers and customers alike. And we like the ramp there and we're continuing to invest in India.

Operator

Thank you. Our next question comes from the line of Douglas Anmuth with JPMorgan. Please proceed with your question.

Douglas Anmuth

Thanks for taking the question. Two things. Just first, on the North America EGM growth, if you could just talk about the 28% there and the decel on an easier comp and whether there's any particular factors within that we should be thinking about and perhaps if there was any weather and apparel impact there?

And then second, last quarter, and I don't want to misquote you, but you said something along the lines of being able to invest as you'd like and also deliver good profit and that the pendulum wouldn't swing as far perhaps as it has in the past. Is that statement and thought still hold as you head into '16? Thanks.

Brian Olsavsky

Sure. Let me start with EGM. So EGM growth, North America EGM growth of 28% was actually also the highest in the last 4 years. So we're happy with that. The deceleration you're seeing of 700 basis points is more a function of the Prime Day that we had in Q3, if you remember. We didn't break it out by segment, but we said that Prime Day contributed 200 basis points to our Q3 run rate, revenue growth rate.

So sequentially last year, any North America EGM we dropped from 31% to 27%. This year, it's 35% to 28%. So there is always a - generally a sequential drop in Q4. But certainly very happy with that business and its role in Prime as well, total customer satisfaction.

Your other question, investments. Yes. We continue to have healthy investments as we've stated across the globe. To step back again on that, our general philosophy is we want to find things - businesses that customers love, that can grow to be large, will provide strong financial returns, and are durable that can last for decades.

We think Prime is that. We think marketplace is that. We think AWS is that. And we are constantly looking for a fourth or fifth business that fits that criteria. So - but as we continue to invest, primarily in.

As I said in Prime, the Prime platform, Prime features for customers, expansion for fulfillment capacity as we build out to support 26% unit growth in Q4, for instance and much greater FBA share, and not to mention all the investments in AWS, we are constantly looking for cost efficiencies and fixing variable productivity.

I think a thing to think about is the investments will ebb and flow over time, but our focus on cost reductions and improvement on customer experience will be constant.

Operator

Thank you. Our next question comes from the line of Heath Terry with Goldman Sachs. Please proceed with your question.

Heath Terry

Great, thanks. I was wondering if you could give us a sense, you know, as we look at the slowing growth in AWS, obviously still from an incredibly high level and still very strong growth there. But take - try and take that into context with the growth in margins that you keep seeing in that business to levels that certainly seem a lot higher than you would anticipate for an Amazon business.

Is there any capacity constraint or management that, that's driving pricing strategy in AWS? We've heard the comments about the number of availability zones that are being launched this year, which is obviously about, a big part of driving incremental capacity in that business and just trying to balance those, think about how we should balance those three things?

Brian Olsavsky

Sure. Let me work backwards from your footprint question or comment. We have - we just announced Korea as a region and we'll be adding five more regions in the next, in the future, in the near future, as we mentioned.

CapEx, let me start with that first. CapEx, we've seen great efficiencies in capital expenditures, particularly in AWS. And we continue to work on better purchase efficiencies and driving utilization rates in our data centers. CapEx, as I mentioned, grew quite a bit in 2014 and grew even more to over $9 billion across all of our capital expenditures and capital leases in 2015.

From the new regions, they are not the major driver in any way. Most of our capacity and capital and capital leases in AWS is to service existing regions and existing customers demand growth. But there is certainly expenditures when we open up new regions. Some of that is not always in the year that we open the region. So we spent a good bit on those new regions already in 2015.

But as far as pricing, there's no capacity constraint, and I would a little bit dispute the deceleration comment on, yes, on a percentage basis, 69% is lower than Q3. But as I said before, we're approaching a $10 billion run rate in this business.

On a dollar basis, we continue to grow – we saw the greatest growth year-over-year and quarter-over-quarter and, again, we continue to invent, now with our price, we continue to innovate on behalf of customers and see great customer response.

Heath Terry

Sure, sure. Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Kerry Rice with Needham & Company. Please proceed with your question.

Kerry Rice

Thanks a lot. First question is if you can provide maybe some context around linearity within Q4, more as a, you know, compares to your expectations, obviously you have a ramp up into the holiday season, but was - did December tail off faster than expected or did the ramp up, did it spike higher than you expected?

And then just on the follow-up, maybe can you add some context about how the mobile played a role in the holiday season for Amazon? Thanks.

Phil Hardin

So in terms of - this is Phil. In terms of expectations, I think we were pleased with what we saw this Q4 and, you know, if you look at what we gave for guidance, we were in the upper half of the range there for revenue. So no real callouts there. I think, what was your second part of your question?

Oh, and mobile, we said for a long time continues to be a tailwind for the business. We're working very hard to make sure that it's very easy for customers to buy the things they want to buy and access, a lot of the features they've grown accustomed to on the website. And so we're very focused on the convenience factor.

And if you look at some of our new offerings like Prime Now that's available through a mobile app and very convenient for customers. As Brian's mentioned, allowed them to shop even up to Christmas Eve and then have their items delivered in two hours.

Operator

Thank you. Our next question comes from Carlos Kirjner with Bernstein. Please proceed with your question.

Carlos Kirjner

Thank you. I have two. I want to go back to AWS margins. You talked briefly about purchasing an asset utilization. But do these explain the 800 bps on a year-on-year margin expansion? And are you seeing anything else? Like, is there any impact of scale driving leverage over fixed costs? Is there some benefit from revenue mix shift, like services like Aurora and Redshift growing faster than EC2 or is all the margin expansion due to purchasing and asset utilization? So that's the first question.

And the second, I have a question about your streaming content expenses or cost of revenues to be more precise. Last year you told us they were $1.3 billion, but if you can give us a figure for '15. In lieu of that, can you comment on whether 4Q saw higher than usual costs for streaming content compared to other quarters in the year? Thank you.

Phil Hardin

Carlos, this is Phil. So your question about the AWS margins, that business as they continued to learn and as we continue to invent and get better at designing and operating the infrastructure and assets, we have been able to drive costs out of that business. So that's one of the primary drivers of the improvements that you see in margin year-over-year.

There's also an FX tailwind in there as well, which I think was about $60 million this quarter, which would contribute on a year-over-year basis, which really arises because we're largely priced in dollars, but have assets with local currency costs throughout the world.

As for the streaming content, we haven't given another update this year and haven't given any commentary on the profile quarter-to-quarter.

Operator

Thank you. The next question comes from Brian Pitz with Jefferies. Please proceed with your question.

Brian Pitz

Thank you. You mentioned Amazon Dash in the press release. Can you give us some color around how you're viewing the traction there both with customers and with brands and devices? And then maybe any update on Twitch. How is traffic and user engagement been trending on that site? Thanks.

Phil Hardin

This is Phil. So on the Dash Buttons, we're really excited about what we're delivering there. I think, as you saw in the release, there are some new devices that take advantage of the underlying service that we think will be really convenient for sellers and interesting for device makers. So we're excited about what we're building there. Don't have any stats for you today.

On the Twitch side, we continue to let Twitch do what Twitch does best. And so don't have any updates on numbers there. But they continue to really engage customers and offer a really unique experience, which was one of the reasons we were attracted to them to start with.

Brian Pitz

And maybe just quickly, end of year fulfillment and sortation centers?

Brian Olsavsky

Yes. I'll take that. So we ended the year at 123 fulfillment centers, up a net 14, and we have 23 sortation centers in the US, up four year-over-year.

Operator

Our next question comes from the line of Gene Munster with Piper Jaffray. Please proceed with your questions.

Gene Munster

Hey, good afternoon. I want to just quickly revisit the margin pendulum question and some of your comments, as you mentioned that to kind of expect it to ebb and flow. Could you tell us if you expect it to ebb and flow, but moving higher or is ebb and flow just mean that, that it's kind of undetermined in 2016?

And then second follow up is the Robotics, any update in terms of number of robots or how you see that expansion going forward? Thank you.

Brian Olsavsky

Yes, my comment on ebb and flow was more about the investment and also including capital expenditures and capital leases, so not around gross margins. And merely I was pointing out that, again, we've laid out all the invested areas where we're seeing heavy investment.

We continue - we see continuation of that certainly into 2016 and beyond. There are quarter-to-quarter and even year-to-year fluctuations in some accounts, and some investment areas.

But generally we're pretty transparent on where we're investing our dollars. And then against that backdrop, we are always looking for efficiency and the nice thing about growing the top line at such a high clip is we have a lot more areas for opportunity to save money year-over-year and we always look to do that.

Phil Hardin

And this is Phil. On the Kiva question, the last update we've given is more than 30,000 robots. We continue to be really pleased with the program and like what it does in the warehouse, both from a density of storage, as well as from making the jobs easier for the associates who are picking packages, by bringing the packages actually to the associates. But no new numbers on that.

Operator

Our next question comes from the line of Justin Post with Bank of America Merrill Lynch. Please proceed with your question.

Justin Post

Thank you. Two questions. Was there any category mix impacts in the quarter on gross margins, that's just a quick one? And then secondly, as you look back at last year, you had some quarters where you really exceeded your guidance on the CSOI line.

Maybe looking back or just looking forward, what are the types of things that causes you to come in at the high end versus maybe the low end when you look back or when you look forward? Thank you.

Brian Olsavsky

Sure. First, on guidance, we keep it pretty consistent process on how we look at guidance and how we value or how we estimate the near-term view of the business. I will point out that Q4 is obviously a very large quarter, the largest revenue quarter by far of the year.

There's a lot of demand that comes in the last six weeks of the year as well. So very, very little visibility at the time of guidance when we do recall. So reason our best projections on a lot of fronts. We think it's a similar - we know it's a consistent process and there are times when we under run and sometimes we over run it.

Phil Hardin

On the - this is Phil. On the category mix question, you know, obviously category mix does play a role in the gross margin. I would say, though, that we're much more focused on operating profit dollars and free cash flow dollars, as we've probably talked about before.

The gross margins are impacted by first party versus third party mix, as well as AWS mix if you're looking at the total for the company. So we're much more focused on the dollars. And no specific categories we're calling out as a driver for gross margin because, again, we're much more focused on the profit dollars.

Operator

Thank you. Our next question comes from the line of Paul Vogel with Barclays. Please proceed with your question.

Paul Vogel

Great. Thanks. Just wonder if you could give an update on the strategy around same-day shipping. How we should think about kind of further expansion of that and kind of what parameters do you guys use to determine what markets to go in? Is it density of the market? Is it proximity of your distribution facilities? Just some color on that would be great.

Brian Olsavsky

So we deliver, really quickly, a couple of ways. One is the same-day that you've seen us rollout in number of markets here in the US. There is Prime Now and we're now in more than 25 metropolitan areas for Prime Now. And delivering for free in two hours is difficult and expensive, but customers love it.

So we feel like this is the natural evolution of our delivery and we're happy to invest in that service. You know, we like what it does for Prime members. We like the convenience factor. And so we're taking a long-term approach and doing what we normally do, which is really focus on continuing to drive greater and greater efficiency.

Operator

Thank you. Our next question comes from the line of Ron Josey with JMP Securities. Please proceed with your questions.

Ron Josey

Great. Thanks for taking the questions. So I wanted to ask little more about North American operating margins. Because I think they expanded just under 50 bps this quarter to 4.7%. And that compares to an average of 200 basis points, thereabouts, expansion of the prior three quarters.

So I'm just wondering if in 4Q maybe higher FBAs cost or something else in there that led to maybe an expansion not as great as we saw in prior quarters. And then following up on the Prime Now question, just now, I'm wondering how hour-delivery or two-hour delivery has changed customer perception of just delivery overall? Thank you.

Brian Olsavsky

Sure. Yes, again, I'll point out that the demand for FBA services was very high, nearly 50% of our third party units, again, were FBA. And the demand for space and services was very large by our seller base, which was great from a lot of standpoints, but did exceed our expectations. But did make our warehouses rather full and did cause us to incur some additional variable costs in the US.

And there is also the dynamic that we were fulfilling more of these units ourselves at our warehouses because of the FBA growth and the retail growth.

Phil Hardin

On the speed of delivery, this is Phil, you know, all I can say is the customers love the service. It's very convenient, and it gives them flexibility and the ability to get products really quickly.

I don't know if there is any big trends we are ready to call out at this point, but they seem to really, really like it. So we're encouraged by that. We're excited to invest in it and excited with what we can do for our Prime members.

Operator

Thank you. Our next question comes from the line of Neil Doshi with Mizuho. Please proceed with your question.

Neil Doshi

Great. Two questions, please. And one, it seems like the Echo did perform well. Can you talk more broadly about your Internet of Things ambitions and kind of how Echo plays into that strategy?

And then secondly, just wanted to know a little bit more about restaurant delivery. It seems a little bit outside of the wheelhouse. What's the impetus behind doing more in terms of food delivery and what are your ambitions there? Thanks.

Brian Olsavsky

So on the Echo, we like what - how Echo has done. We're really excited about the ecosystem and some of the skills that are being added to Echo, as well as some of the other devices that are taking advantage of Alexa, which is kind of the brains behind Echo.

So we like our device business in general. As you probably saw from the press release, we had a good Q4, where we did almost doubled, or double what we did last year. So very excited about the devices. We like that they pump more energy into Prime and really the whole ecosystem.

Not sure on the Internet of Things, but it's very exciting for devices standpoint. And the brains of Echo are in the AWS cloud. And so, Echo gets new capabilities all the time as Alexa gets better and better.

On the restaurant delivery, it's just another great service we can offer for our Prime members. This is tied in with the Prime Now offering in a handful of cities at this point. And so we have the delivery people going out and making the deliveries in the neighborhoods. And so this is one more really valuable convenient service we can offer for our Prime customers.

Operator

Thank you. Our final question will come from John Blackledge with Cowen & Company. Please proceed with your question.

John Blackledge

Great, thanks. Two questions. First one, shipping costs were higher than we expected. I think it was 12.5% of net revenue versus 11% last year. Just any color on the higher shipping costs? And is that percentage of net revenue a new normal as we are in 2016 now and as we look out?

And then the second question on Prime Now, in 25 markets globally, how should we think about the total number of markets that - additional markets you can enter with the Prime Now offering in 2016? Thanks.

Brian Olsavsky

Sure. As you say, net shipping margin was up 70 basis points year-over-year. Again, this is all tied in with the increase in FBA growth and the demand from Prime members. We're shipping more units – more of our units, so this ripples through our ship cost per unit, and again, the calculation of ship costs as margin is a percent of revenue and that is impacted by the denominator effect on the FBA sales, being booked at a net revenue.

Phil Hardin

Related to your Prime Now question, this is Phil, we're in more than 25 metropolitan locations. It's - if you've been watching, this rollout's really happened in the last year. So it's been a pretty rapid rollout.

And we're excited to bring it to more places. We don't have a target for you today, but we are working hard to bring it to more and more places. We're outside the US now in a handful of countries in the UK and Japan, and Italy and working to expand. So it's a program we're really excited about and we're happy to bring it to more customers.

Phil Hardin

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.