

Operator

Good day and welcome to the Amazon.com Q2 2014 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. Also, today's call is being recorded.

For opening remarks, I'll be turning the conference over to the Director of Investor Relations, Phil Hardin. Please go ahead, sir.

Phil Hardin

Hello and welcome to our Q2 2014 financial results conference call. Joining us today is Tom Szkutak, our CFO. We will be available for questions after our prepared remarks.

The following discussion and responses to your questions reflect management's views as of today, July 24, 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 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 2013.

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

Tom Szkutak

Thanks, Phil. I'll begin with comments on our second quarter financial results. Trailing 12-month operating cash flow increased 18% to \$5.33 billion. Trailing 12-month free cash flow increased to \$1.04 billion. Trailing 12-month capital expenditures were \$4.29 billion. The increase in capital expenditures reflects additional investments in support of continued business growth consisting of additional capacity to support our fulfillment operations

and investments in technology infrastructure including Amazon Web Services.

Return on invested capital was 6%, up from 2%, 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 480 million shares compared with 474 million one year ago.

Worldwide revenue grew 23% to \$19.34 billion or 22% excluding the \$237 million favorable impact from year-over-year changes in foreign exchange rates. Media revenue increased to \$4.84 billion, up 10% or 9% excluding foreign exchange. EGM revenue increased to \$13.28 billion, up 27% or 26% excluding foreign exchange. Worldwide EGM increased to 69% of worldwide sales, up from 66%. Worldwide paid unit growth was 23%. Active customer accounts exceeded 250 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 \$13.4 billion or 69.3% of revenue compared with 71.4%. Fulfillment, marketing, tech and content and G&A combined was \$5.54 billion or 28.6% of sales, up approximately 260 basis points year-over-year. Fulfillment was \$2.28 billion or 11.8% of revenue compared with 11.2%. Tech and content was \$2.02 billion or 10.4% of revenue compared with 9.1%. Marketing was \$911 million or 4.7% of revenue compared with 4.1%.

Now I'll talk about our segment results. And consistent with prior periods, we do not allocate to segments our stock-based compensation or other operating expense line item. In the North America segment, revenue grew 26% to \$12 billion. Media revenue grew 13% to \$2.46 billion or 14% excluding foreign exchange. EGM revenue grew 29% to \$8.37 billion, representing 70% of North America revenues, up from 68%. Other revenue grew 38% to \$1.17 billion. North America segment operating income increased 7% to \$438 million, a 3.7% operating margin.

In the international segment, revenue grew 18% to \$7.34 billion. Excluding the \$246 million year-over-year favorable foreign exchange impact, revenue growth was 14%. Media revenue grew 7% to \$2.38 billion or 4% excluding foreign exchange, and EGM revenue grew 25% to \$4.91 billion or 20% excluding foreign exchange. EGM now represents 67% of international revenues, up from 63%. International segment operating loss was \$34 million compared to zero in the prior period.

CSOI decreased 1% to \$404 million or 2.1% of revenue, down approximately 50 basis points year-over-year. Excluding the favorable

impact from foreign exchange rate, CSOI decreased 9%. Unlike CSOI, our GAAP operating income or loss includes stock-based compensation expense and other operating expense. GAAP operating loss was \$15 million compared to operating income of \$79 million in the prior-year period. Our income tax expense was \$94 million, and this includes approximately \$90 million of discrete tax items primarily attributable to audit-related developments. GAAP net loss was \$126 million or \$0.27 per diluted share compared with a net loss of \$7 million and \$0.02 per diluted share.

Turning to the balance sheet, cash and marketable securities increased \$523 million year-over-year to \$7.99 billion. Inventory increased 23% to \$6.64 billion, and inventory turns were 9.1, down from 9.4 turns a year ago, as we expanded selection, improved in-stock levels and introduced new product categories. Accounts payable increased 16% to \$10.46 billion and accounts payable days decreased to 71 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 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 Q3 2014, we expect net sales of between \$19.7 billion and \$21.5 billion or growth of between 15% and 26%. This guidance anticipates approximately 120 basis points of favorable impact from foreign exchange rates. GAAP operating loss to be between \$810 million loss and a \$410 million loss compared to a \$25 million loss in the third quarter of 2013. This includes approximately \$410 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 \$400 million loss and zero compared to \$267 million of income in the third quarter of 2013.

We remain heads-down focused on driving a better customer experience through price, selection and convenience. We believe putting customers first is the only reliable way to create lasting value for shareholders.

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

Phil Hardin

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) We'll hear first today from Carlos Kirjner with Bernstein.

Carlos Kirjner - Bernstein

Tom, you mentioned in the past that China is an area of investments. Can you say a little bit about what are the main drivers of investment there, whether it's marketing pricing fulfillment? And how do you decide on any given year how much we invest in China, just given the size of the potential market and opportunity? And secondly, we saw a material deceleration in the North America other revenues. Was this primarily driven by AWS deceleration, and is this deceleration a meaningful contributor to the losses implied in your next quarter guidance?

Tom Szkutak

Yes, North America other includes a number of things including Amazon Web Services. Amazon Web Services is the largest part of North America other. As we talked about on last call, we had very substantial price reductions for customers starting in second quarter. They ranged from 28% to 51% depending on the service. But AWS continues to grow very strongly. In Q2, we had usage growth close to 90% year-over-year for the quarter. So the team is doing a fantastic job. And we put in some price reductions that were very substantial that are saving customers hundreds and millions of dollars over the next several months, as we mentioned 90 days ago.

But again, we love that business. It's doing great and we're very pleased to have the opportunity to invest in it. The team is innovating very quickly. In fact, so far year-to-date, they've released 250 significant service and

features and that's at a pace that's much, much faster than last year's pace, which was faster than the year before. So again, they're continuing to innovate on behalf of customers. And so we're investing. And so that's certainly impacting both the pricing decisions we've made. They're certainly impacting the guidance. Also, the large amount of CapEx in infrastructure for that business is certainly impacting the guidance along with a number of other things across the business that we're investing in. But we're very pleased to do that.

In terms of China, we're continuing to invest on behalf of customers there, obviously trying to make the experience even better for customers in terms of improved in-stock levels. We've certainly added a lot of fulfillment capacity over time in China, and we're doing a lot of interesting things to better serve customers in China.

In terms of some of the other parts of your question, there's not much more I can add to that.

Operator

We'll hear next from Neil Doshi with CRT Capital.

Neil Doshi - CRT Capital

Tom, can you talk a little bit about the deceleration in the units? And then also, in terms of the third-party dollar, it looks like you're trending around 40%. For a while, it ticked up a little bit to 41%. And so if we adjust for digital, how should that trend be looking?

Tom Szkutak

In terms of unit growth, we had 23% unit growth year-over-year. It is down from last year's growth rate, but it's consistent with what we've seen recently including the last quarter. And in terms of the third-party units as a percentage of total units, you're right that's 41% this quarter. It's up about 100 basis points. And we're not breaking out the digital versus physical on that. But again, very strong third-party growth, a number of factors, but certainly FBA is helping third-party growth.

Operator

And we'll go next to Eric Sheridan with UBS.

Eric Sheridan - UBS

Looking through the expense lines, tech and content seem to have an upward pressure in the quarter. Why don't you maybe give a little more

granularity on what was driving that upward pressure and whether that's sort of a new run rate of expense as we saw in the first half of this year?

Tom Szkutak

There's a number of things that are going into the tech and content line. But you're right we're the ones that I just mentioned, we are investing in various parts of the business, but certainly for Amazon Web Services, that's both from an infrastructure standpoint to support the very fast usage growth that we're experiencing. Again, we have usage growth close to 90% year-over-year in the second quarter for Web Services. In addition to that, over the past year, we've added thousands of people in Web Services. So again, ramping that up. And then across a number of different other investment areas, we continue to add great technical resources to do the things we're doing in digital and many other parts of the company. So again, we have a lot of opportunities to invest in, as you can see from a lot of the releases that we've had over the past 12 months, and you're certainly seeing that reflected in our actual results as well.

Operator

And next from JPMorgan, we'll go to Douglas Anmuth.

Kaizad Gotla - JPMorgan

This is Kaizad Gotla for Doug. I was wondering if you could just talk about the deceleration in your international EGM line. And then separately, now that you've had Prime price increases in effect for about three months, wondering if you could just talk about any changes you've seen in sign-ups or conversions there.

Tom Szkutak

In terms of international EGM, and this would really related to total international growth as well, we saw 18% growth on a dollar basis, 14% growth on a local currency growth basis. We're just down a little bit sequentially from what we saw in Q1. Obviously there's variability from quarter-to-quarter in each of the geographies that we operate in. One call-out which impacted certainly EGM and our total international growth rate is Japan. We saw on April 1st, the consumption tax was increased from 5% to 8%.

Leading up to that in the latter part of Q1, we certainly saw accelerated growth, so that was reflected in the Q1 results. In Q2, we saw some corresponding softness in Q2 following that. Hard to know how much was related to consumption growth, but certainly as you've probably read

elsewhere that others are seeing that too. So it probably reflects the consumption tax increase. But if you take out Japan out of both Q1 and Q2, the growth rates on a local currency basis were very similar within approximately 100 basis points of each other.

In terms of Prime, Prime subscribers are growing very nicely year-over-year. In fact, we had more Prime subscribers in Q2 of this year than in Q2 of last year. So we're very pleased and we continue to get new subscribers as well as existing customers responding to the great value they're getting out of Prime.

Operator

And from Citi, we'll go to Mark May.

Mark May - Citi

Based on sort of what you've talked about in the disclosures around the price, the amount of the price decreases, the common sense would suggest that all if not most of the CSOI margin decline that you posted in Q2 year-on-year is related to the AWS price changes. And the common sense would also suggest that given the significant volume gains that you're seeing in that business that Q2 might be the most impacted quarter from that yet. The third quarter guidance suggests that it's having an even greater impact on Q3. Just wondering if you could help us think through that. Is there some timing issue related to the impact of that, or is there something else going on within the core retail business or maybe some other one-time items that might be impacting your Q3 outlook?

Tom Szkutak

We're not quantifying the impact of the price changes on our Q2 and Q3, but it is fair to say that it certainly did impact our Q2 results in a meaningful way. And that's reflected in the results that you're seeing. Another thing to keep in mind as you look out related to AWS is we're continuing to invest in that business. And with the great strong usage growth rates that we're seeing, we're also investing in CapEx and infrastructure to support that growth. So again, the team has done a fantastic job innovating on behalf of customers. And as I mentioned earlier, the new releases both from a service and feature perspective was about 250 year-to-date, which is at a pace that's much faster than we've seen over the last few years with very high bar, given all the innovation that's happened from that team in that space.

So again, there are certainly things that are impacting Q3 guidance. There's a number of other things. When you look at Q3, keep in mind if you look back over the last several years, we're getting ready for Q4 seasonal

quarter. And when that happens, if you look back, certainly you've seen our CSOI usually has been at the lowest point for the year during Q3, particularly during these high growth years. And so we've announced that we're adding six net new fulfillment centers. And we've also announced that we'll have 15 or more sortation centers. The sortation centers help us get closer to customers, so that we can have fastest delivery speed as well as deliver on Sundays, which is a big deal for us in the US. So we're very pleased to be able to do that.

On top of that, other investment areas that are certainly impacting our Q3 guidance is we like what we see on the content side. So video content, for example, we're ramping up the spend from Q2 to Q3 significantly. And so it'll be also a significant growth year-over-year. Keep in mind we have two types of content. We have license content. We also have original content. A lot of you have probably seen a lot of the announcements that we've green-lighted a number of pilots. We're going to be in heavy production in those series that have been green-lit during Q3. We've also announced a number of pilots that will be in production on. And so that original content, it's a portion of our total content, will be over \$100 million in Q3.

Just as a reminder, we do not capitalize that portion of our original content. Its expense is incurred. So that's over \$100 million in Q3. And again, that's ramped up considerably both on a sequential and on a year-over-year basis.

Other areas that we're investing in, certainly with the launch of some new devices more recently over the past couple of quarters between Fire Phone and Fire TV and others, over time we've invested in devices. So that's certainly an area we're investing in. We're investing in a lot of different areas including geographic expansion. We talked about China on one of the earlier questions. But certainly India, we're investing very heavily. We're seeing some very positive results there. The team is doing a fantastic job. We're also investing in other geographies as well, Italy and Spain and others. So again, we're encouraged by just the sheer magnitude of opportunities we have and we're investing in those opportunities.

Operator

We'll move next to Brian Pitz with Jefferies.

Brian Pitz - Jefferies

First question on FBA. Any insights on the penetration of third-party sellers using FBA. Maybe you could comment just directionally? Is the number trending up or down? And separately, it's been less than a week, but can you comment on early feedback to Kindle Unlimited by customers and

publishers? Do you expect this to be the model for digital book consumption in the future?

Tom Szkutak

In terms of FBA, it's doing great. I can't provide a specific percent. But it's really since the time we've launched continued to increase as a percentage of total third-party units. And so the service has done very well. The team continues to work on making it even better on behalf of sellers and customers.

In terms of Kindle Unlimited, it's very early, but we're extremely pleased with what we see. There's been a great reaction to it. And we're pleased to offer that to customers.

Operator

Moving next to Heath Terry with Goldman Sachs.

Heath Terry - Goldman Sachs

You mentioned that you were happy with the results that you're seeing from the video content. I was wondering if you could give us a sense of sort of how that manifests itself, whether it's more Prime subscribers, whether it's more consumption of downloadable video content within the ecosystem. And then, Tom, to the extent that you're talking about sort of AWS volume increases on a year-over-year basis, can you give us a sense of how that may have trended over the course of the quarter as your AWS customers were able to sort of adapt to the price reduction in March?

Tom Szkutak

In terms of content, we've seen just more and more customers are streaming, more and more Prime members are streaming free content. We're seeing through our pipeline as customers join Prime, we're seeing that we have more and more customers taking free trials and then converting. Those customers are great customers. In addition to streaming free content, they have great purchasing patterns, doing a lot of cross-shopping on physical products as well as converting to paid digital video and other digital products as well. So we're very pleased with what we're seeing there. And when you look at the service that we have today, it's improved dramatically over the past 12 to 24 months. And we really think it's a great service and that's why we're investing in it.

In terms of AWS, there's not much I can help you with on that. But again, just to reiterate, we saw very strong growth during Q2 with usage growth

rates close to 90% year-over-year for the quarter. And we're extremely happy with what we see there, and the team has done a fantastic job, continue to innovate on behalf of customers.

Operator

We'll hear next from John Blackledge with Cowen & Company.

John Blackledge - Cowen & Company

Just a couple of question, first on AWS. Just wondering your take on the competitive environment in public cloud, has it intensified over the past six to 12 months, just given the investments in AWS? How do you view AWS's competitive positioning? And then if you could just touch on the key drivers of EGM growth in North America, and are those the same drivers of growth internationally or are there different drivers North America versus international?

Tom Szkutak

They work hard to be able to afford lower prices for customers. That's something that is instilled in all of Amazon and something certainly is instilled in our Web Services team. And their folks on what they do best, which is innovating on behalf of customers, operating these services at the highest quality levels, and they continue to work on getting more efficient, so that we can have great prices for customers. And so that's a team that's focused and they're doing a great job.

In terms of EGM growth between North America and international, there's not a lot I can call out there. It has many different categories across many different geographies, many different ASINs both first party and third party. So it's hard to comment. The only thing I would call for attention is the comment I made earlier around international growth rates related to EGM, and that was the consumption tax increase in Japan that we saw a lead in Q1 where we saw very strong growth leading up to that point and it softened after the rates went into effect. But other than that, there's not a lot to call out.

Operator

We'll now go to Macquarie's Ben Schachter.

Ben Schachter - Macquarie

When you mentioned that AWS is growing 90% year-over-year, what exactly is growing 90%? Is it storage? Is it something else? And then on the phone

itself, are there any key differences in how we should be thinking about that piece of hardware versus other hardware you've done in the past where Jeff has discussed the notion of potentially one to breakeven? And then just a follow-up on that. How are you modeling the impact of the phone on the P&L in 3Q? Is it going to be more or less than the original content initiative?

Tom Szkutak

In terms of AWS, it's really aggregation of usage across all of our services year-over-year. Think of it as almost a proxy similar to unit growth on our retail business. It's a proxy to say how fast the physical volume is growing. And so that's what it's a proxy for.

In terms of the phone, there's not a lot I can help you with on that. We're extremely pleased to get it in customers' hands. We think it's a premium product. You get a 32 gigabyte phone, premium product, one-year free subscription to Prime along with all the other features that I'm sure you've read about. So again, we're very pleased to get it to customers and start shipping. And customers have started to receive those today.

Operator

And from William Blair, we'll go to Mark Miller.

Mark Miller - William Blair

Many investments, it looks like where you are getting a return is in the gross margin. If I take out AWS, it looks like you're up nearly 200 basis points. What are the drivers of that e-commerce margin increase? Are you seeing it primarily on the first-party margin expansion? And if so, why? And how much is coming from third-party unit increase?

Tom Szkutak

We don't actually focus on total company gross margins because of the mix of the business. We focus more on operating profit and obviously ultimately free cash flow dollars. But in terms of things that would be impacting COGS as a percentage of revenue and that change, to be helpful, you mentioned AWS is certainly having an impact there. Our third-party business continues to have an impact there. We have offsets as we lower prices to customers, having an impact there. Just mix of various products and geographies has an impact on those results. Again, a large number of items that are impacting that.

Operator

And Justin Post with Bank of America-Merrill Lynch has our next question.

Justin Post - Bank of America-Merrill Lynch

Tom, there might be a little bit of a disconnect. When we see prior investment cycles such as distribution builds out or devices with, say, the Kindle reader, we did see an impact on units and accelerating growth in some of the categories. This time around, even investing for a couple of years and I guess we're not really seeing the acceleration. So maybe you could talk about what gives you confidence in investing in devices like the Fire TV and the phone and all the content you're doing? And are you seeing some underlying signs, let's say, activities picking up? Maybe you could walk through that.

Tom Szkutak

Just a couple of things to call out. One is when we look at our unit growth, you hear the 23% unit growth, keep in mind that there're parts of our business that are not included in that unit growth. So when we talk about investing in Web Services and the usage growing close to 90%, that number is not included in the 23%. So that's obviously a large investment area for us that we're excited about that is not included in that.

The other is think about the base of business that we have versus where we were just a few years ago. And so you've seen very strong growth on the base that we have. And we're excited to see that. When we look at the opportunities that we're investing in, in terms of video, you mentioned, we're seeing that certainly in the number of Prime members that are subscribing. And so that has some short-term impact, the great long-term impact as we retain those Prime members and as they start to do more cross-shopping over time. We have a lot of investment in front of that demand, if you will. So those are some of the things that I would call out to be try to be helpful.

Operator

We'll move now to Youssef Squali with Cantor Fitzgerald.

Youssef Squali - Cantor Fitzgerald

Going back to \$100 million spend on the original content, you mentioned earlier as that part of the business grows, is there any reason to believe that the amount of spend on the originals will go down? The assumption here is it'll only go up. So is that \$100 million a good level to work off of? And then going back to the Fire Phone, just trying to understand the strategy around the product longer term. Is it again just to try to further build the Amazon

ecosystem with all the benefits or do you think this could be a cell phone of the business?

Tom Szkutak

In terms of the original content, we're not giving guidance on the numbers going forward and beyond Q3. We're very excited about what we see and the pilots we had and the series we had. And so we're very happy to green-light the series that we've talked about and released over the past few months. We're also happy you'll be seeing many new pilots. And so that's reflected in the over \$100 million that I mentioned earlier. So we're extremely excited on behalf of customers to be able to do that, and we think that's a great thing to do. But in terms of what we do in terms of spend beyond Q3, can't comment on today.

In terms of the Fire Phone, we're very excited about it. You mentioned two different areas. One is can it exist on its own and whether it's part of our family, if you will, to help drive other usage. And the answer is we certainly think it can be both. So we think it could be a great product on its own. We're very excited to offer it to customers. It's very integrated into our various digital services including video and games and our app store and ebooks and certainly Prime music. So those are all very interesting things on behalf of customers. It's also a great way to do physical shopping as well. So again, it's certainly integrated into our business as well.

Operator

And Brian Nowak with SIG has our next question.

Brian Nowak - SIG

The first one is around CPG, consumer packaged goods, I was wondering, Tom, can you talk to us some learnings in CPG so far, what's working and what you think is still holding back faster CPG adoption? Do you think you need a same-day delivering offering at this point for CPG kind of given Google and even the traditional retailers push into that category? And then the second one, the close to 90% AWS usage growth, just help us understand a bit more, what did that number look like in 2013?

Tom Szkutak

Yeah, in terms of the usage growth, the business is growing very, very fast beyond the data point. There's not a lot I can help you with. In terms of CPG, and this really relates to many of our categories, we're working on behalf of customers to provide fast delivery. It's something that we've improved on over the years and we're going to continue to work on. There's

a number of different things we're working on. One of the things that I mentioned early in the call is certainly sortation centers. That's an attempt on our side. We have in a small way and tested it and we've seen that it's a way to get product to customers even faster. So we're excited about that. It also helps deliver on Sunday, which we think is great too. So again, those are the things that we're working on as well as others to help customers get product faster. And we think that benefits CPG products as well other products.

Operator

We'll move next to Mark Mahaney with RBC Capital Markets.

Mark Mahaney - RBC Capital Markets

I wanted to follow up on that William Blair question about gross margins only because I know you don't focus on and there're a lot of mix factors that you correctly pointed out. But that's a record high gross margin for you, 30.7%, ever. And it's in the context of a quarter in which AWS clearly came in because of the price cuts. And so there's something else that happened there that really caused that gross margin to gap up. Could you give us any color? I understand there're a lot of puts and takes in there. But something must have happened that was unusual to have that kind of result with a slowing down AWS contribution.

Tom Szkutak

We don't focus a lot on gross margin of the business. Obviously unusual product lines, we would look at gross margin. But across the business, we don't for the very reason you mentioned. There's a large mix impact. You have our Web Services business. You have our third-party business. You have the retail business. You have categories within retail. There's a whole host of things that would impact that. And so that's why we don't focus on a total company basis. Certainly on individual SKUs or ASINs, as we call them, we certainly would look at it. Individual sub-categories, we would certainly look at it internally. But from a total company perspective, given the mix effects, we think it's much more appropriate to look at operating profit and free cash flow.

Operator

And from ISI Group, we'll go to Greg Melich.

Greg Melich - ISI Group

Looked like revenue per active customer accelerated again this quarter, up over 5%. It was running closer to 2% to 3% last year. Could you help us understand what's driving that, whether it's Prime particularly, or any color on that? And when you gave the Prime numbers second quarter more sign-ups whether that was a grosser in that number?

Tom Szkutak

The Prime, it was a net number. So that's the net additions to total members. So again, we added net more Prime members in Q2 of this year versus Q2 last year, even with the price change. In terms of revenue per active customer, there's not a lot I can say there. A few things to think about, one is certainly Prime customers buy more than non-Prime customers. And we're seeing great growth on Prime. That's certainly having an impact on that number. And certainly there'll be other factors too. Our Web Services business would be included in the numerator that you're talking about as well. And so those are factors you should be thinking about. But again, the biggest factor would certainly be in terms of looking at our retail business, Prime is becoming much more meaningful. And that's also why we think about how do we make Prime better on behalf of those customers. We just like the long-term benefits that we see for those customers.

Operator

And our final question today will be from Colin Sebastian with Robert Baird & Company.

Colin Sebastian - Robert Baird & Company

One of your executives in the UK recently mentioned the company's goal of reaching 1 billion different products available for sale on the site. I wonder if there is an expansion in selection beyond what we've seen recently that could help accelerate growth. And related to that, are you still relatively agnostic in terms of the split between first and third-party unit sales?

Tom Szkutak

In terms of selection, I would say nothing is new here. We're going to continue to add unique selection. That's something that we've been working extremely hard day-in and day-out over many years. We have a great team of people working on that and trying to make sure we get a vast selection. So that's something that we're pleased about. In terms of the margins, they do approximate each other. Obviously there's some differences. Some of the third-party will be used products. And you shouldn't assume that a used

product necessarily has the same contribution profit per unit as a new unit, things like that. But they're close approximates of those.

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.

Operator

And again, that will conclude today's conference. Thank you all for joining us.