Operator

Thank you for standing by. Good day, everyone and welcome to the Amazon.com Q4 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. 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 2014 financial results conference call. Joining us today is Tom Szkutak, our Chief Financial Officer and Brian Olsavsky, Vice President and CFO of our Global Consumer Business. 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 29, 2015 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 will turn the call over to Tom.

Tom Szkutak

Thanks, Phil. I will begin with comments on our fourth quarter financial results. Trailing 12-month operating cash flow increased 25% to $6.84 billion. Trailing 12-month free cash flow decreased to $1.95 billion. In the supplemental financial information and business metrics portion of the earnings release, we included a few additional free cash flow measures. We believe these measures provide additional perspective on the impact of acquiring property and equipment with capital and finance leases.

Trailing 12 month capital expenditures were $4.89 billion. Capital expenditures does not include the impact of property and equipment acquired under capital and finance lease obligations. Return on invested capital is 9%, down from 13%. ROIC is TTM free cash flow divided by the 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 483 million shares compared with 476 million one year ago.

I will turn the call over to Brian for additional financial highlights.

Brian Olsavsky

Thanks, Tom. Worldwide revenue increased 15% to $29.33 billion or 18% excluding $895 million unfavorable impact from year-over-year changes in foreign exchange. Media revenue decreased to $6.95 billion, down 4%. Excluding FX, media revenue was flat year-over-year. EGM revenue increased to $20.64 billion, up 21% or 24% excluding FX. Worldwide EGM increased to 70% of worldwide sales, up from 67%. Worldwide paid unit growth was 20%. Worldwide active customer accounts were approximately 270 million. Worldwide paid Prime members increased 53% year-over-year. Worldwide active seller accounts were more than two million. Seller units represented 43% of paid units, Fulfillment by Amazon or FBA units represented more than 40% of seller units. Worldwide active Amazon Web Services customers exceeded one million.

Now I will discuss operating expenses excluding stock-based compensation. Cost of sales was $20.67 billion or 70.5% of revenue compared with 73.5%. Fulfillment, marketing, technology and content and G&A combined was $7.62 billion or 25.9% of sales, up approximately 300 basis points year-over-year. Fulfillment was $3.33 billion or 11.3% of revenue compared with 11.1%. Tech and content was $2.41 billion or 8.2% of revenue compared with 6.6%. Marketing was $1.49 billion or 5.1% of revenue compared with 4.3%.

Now let's talk about our segment results and 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 22% to $18.75 billion. Media revenue grew 1% to $3.54 billion. EGM revenue grew 27% to $13.53 billion, representing 72% of North America revenues, up from 69%. Other revenue grew 43% to $1.67 billion. North

America segment operating income increased 40% to $1.02 billion, a 5.4% operating margin.

In the international segment, revenue grew 3% to $10.58 billion. Excluding the $872 million year-over-year unfavorable foreign exchange impact, revenue growth was 12%. Media revenue decreased 8% to $3.41 billion or a decrease of 1% excluding foreign exchange and EGM revenue grew 10% to $7.11 billion or 19% excluding foreign exchange. EGM now represents 67% of international revenues, up from 63%.

International segment operating income was $20 million, down from $151 million in prior year. Consolidated segment operating income increased 18% to $1.04 billion or 3.5% of revenue, up approximately 10 basis points year-over-year. Unlike CSOI, our GAAP operating income includes stock-based compensation expense and other operating expense. GAAP operating income was $591 million compared operating income of $510 million in the prior year.

Our income tax expense was $205 million. GAAP net income was $214 million or $0.45 per diluted share compared with a net income of $239 million or $0.51 per diluted share.

Now I will discuss the full year results. Revenue increased 20% to $88.99 billion or 20%, excluding year-over-year changes in foreign exchange. North America revenue grew 25% to $55.47 billion and international revenue grew 12% to $33.52 billion or 14%, excluding year-over-year changes in foreign exchange. Consolidated segment operating income decreased 9% to $1.81 billion or 10% excluding the favorable year-over-year impact from foreign exchange and operating margin was 2% compared to 2.7% in the prior-year. GAAP operating income decreased 76% to $178 million.

Turning to the balance sheet. Cash and marketable securities increased $4.97 billion year-over-year to $17.42 billion. Inventory increased 12% to $8.30 billion and inventory turns were 8.6, down from 8.9 turns a year ago as we expanded selection, improved in-stock levels and introduced new product categories. Accounts payable increased 9% to $16.46 billion and accounts payable days decreased to 73 from 74 in the prior-year.

And now back to Tom with guidance.

Tom Szkutak

Thanks, Brian. 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 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 describe in more detail in our public filings, issues such as settling intercompany balances in foreign currencies amongst 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, record any further revisions to stock-based compensation estimates and that foreign exchange rates remain approximately where they have been recently.

For Q1 2015, we expect net sales of between $20.9 billion and $22.9 billion or growth of between 6% and 16%. This guidance anticipates approximately 460 basis points of unfavorable impact from foreign exchange rates. GAAP operating income or loss to be between $450 million loss and $50 million in income, compared to $146 million in income in the first quarter of 2014. This includes approximately $450 million for stock-based compensation and the amortization of intangible assets. We anticipate consolidated segment operating income, which excludes stock-based compensation and other operating expense, to be between zero and $500 million in income compared to $502 million income in the first quarter of 2014.

I will conclude my portion of today's call with an update on our reportable segments. We expect to change our reportable segments to report North America, international and Amazon Web Services, beginning with first quarter of 2015. 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 our 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]. Our first question comes from Brian Pitz with Jefferies and Company. Please proceed with your question. Your line is live.

Brian Pitz

Hello. Can you hear me? Hi, guys. Just a quick question. You had a strong holiday season. 100 million more items shipped for free this holiday, while FBA units was up 50% and fulfillment expense remain relatively flat. How did you manage that? Are the new sortation that was essentially the key to controlling shipping costs? And what percent of units sold are FBA? Thank you.

Tom Szkutak

Sure. In terms of the last part of your question, the percentage of FBA units of third-party paid physical units are over 40% and in terms of the fulfillment discussion, certainly Q4 is our most seasonal quarter. You can see that we get a little bit better leverage, I should say, than we have gotten in other quarters. Again, most seasonal quarter. Not a lot to add to that but we continue to ship on behalf of retail offerings as well as FBA that's included in that.

Brian Pitz

Great. Thanks.

Operator

And our next question comes from Katie Huberty with Morgan Stanley. Please proceed with your question.

Katie Huberty

Yes. Thanks. There's a headline on the tape referencing improving productivity in 2015. So I just wondered if you could clarify what areas of the business you are focused on in terms of productivity? And then what are some of the projects or areas that we should be prepared to see a large uptick in investment in 2015?

Tom Szkutak

Yes. I think that you are referring to is, I mentioned on a earlier call, that we do an annual planning process. We actually start it in the late-summer, early fall. We go through that process. We take a break for the seasonal holidays and then we get back to it. We are in the process of finalizing it right now. And the teams are putting even more energy and attention on driving what we would call fixed expense and variable expense productivity as well as other efficiency projects. So there's many, many different pieces that go into that. But certainly we have added a lot of people and structure over the last several years. And so we have been putting folks on that. But we are just putting even more folks on it as we finalize our plans for 2015.

Katie Huberty

And what areas should we expect big upticks in investment in 2015?

Tom Szkutak

In terms of investment, certainly we are going to continue to support the growth of the business. You should expect that we will be spending more in terms of CapEx to support our web services business which is growing very fast. You should expect us to add fulfillment capacity, as we have done in prior years. We have updated you a bit as we have gone along and so we will do that from time-to-time during the year as well in 2015. So stay tuned on that.

Katie Huberty

Thank you.

Operator

Our next question comes from Ron Josey with JMP Securities. Please proceed you are your question.

Ron Josey

Great. Thanks for taking the question. Real quickly on fulfillment cost. It looks like the overall cost is already quite a bit, around 17% growth in 4Q from 30% in 3Q. I am wondering if anything specific led to that improved overall growth from, is it maybe the key of a rollout? And then quickly, I think there was mentioning around breaking out AWS results. Wondering if any reason now? Perhaps it's getting to a level that you have to do it? Thank you.

Tom Szkutak

Yes. In terms of the fulfillment piece, it's not a lot of callouts on that. We had unit growth of 20% year-over-year. Certainly our FBA is growing at a faster rate. The sellers were up 65% over years who did 40% of our units. And again, the team continues to work on getting productivity there. In terms of AWS, we just think it's an appropriate way to look at our business for 2015. And so our plan is to separating it out as of Q1 of this year.

Operator

Our next question comes from Douglas Anmuth with JPMorgan. Please proceed.

Kaizad Gotla

Thanks. This is Kaizad Gotla, in for Doug. I think you noted Prime is growing faster internationally than it is in North America. So can you help us reconcile that with the difference between your North America and international EGM growth rates?

Tom Szkutak

If you take a look, what I mentioned was, Prime, worldwide is up 53% year-over-year. so it's growing very fast globally. It's 50% growth in the U.S. and even higher in international. And so the reason both are contributing to the growth rates that you are seeing. But we are certainly at a earlier stage in international. So it's an opportunity for us, but in terms of the number of Prime members relative to the U.S. is smaller. So it's an earlier phase. So again, as we continue to grow that, it's an opportunity for us and certainly something that we are focused on.

Operator

The next question comes from Carlos Kirjner with Bernstein Research. Please proceed with your questions.

Carlos Kirjner

Hi. I have two questions. Can you comment on your view of the relative value proposition of Prime in European markets and Japan? Is it similar to the U.S.? Two-day shipping and all the other benefits? Or is it different? Because we think, for example, that penetration of Prime in the European markets is much lower and you have told us that the number of Prime SKUs is much lower in the U.K., for example. So what's the fundamental cause of that? Why is it that Prime in the U.K. is not as developed as in the U.S.? Is it timing or is it the proposition?

The second question is about AWS. You have a leadership position now and it's a very large market and it's easy to see from the outside that you are hiring aggressively, both in engineering and sales. Given the size of the opportunity and your position, what specifically prevents you from hiring faster, developing more products, investing more? How do you balance? What prevents you from doing that? Why wouldn't you invest twice or three times as much in AWS? Thank you.

Tom Szkutak

In terms of, I will take the AWS one first, we are expanding very rapidly. We have been hiring a lot of great people over the past few years and several years. We do think it's a big opportunity. We are making sure we keep the hiring bar really high to make sure we bring in great resources like we do across all of Amazon and we are super excited about the opportunity. So we are investing very heavily. You see that certainly in our CapEx numbers and the assets we are acquiring with some of the capital leases you see that represented. So again we are investing very heavily, both in terms of people as well as capital for that business and we share your excitement about the business.

In terms of from the Prime piece, the proposition is a bit different by geography and we continue to make it better in all the geographies that we have Prime. That's something that we are focused. The shipping speed is different by geography a bit, but the focus is all about how we make sure that we get a great experience for customers in those geographies. But the one thing is different is, you mentioned is that, the proposition or the timing. So the proposition is a little bit different, but we will continue to work on making it better for all the geographies we have it in. But the timing is different. We did launch in the U.S. first. And then we launch in other geographies following that. So as a result, it's just earlier in these other geographies. So we still think it's a very good opportunity and something that we are focused on.

Operator

Our next question comes from Mark May with Citigroup.

Mark May

Thanks for taking my question. One on, I am sorry if I missed this, what's your thought or outlook for pricing in the AWS Cloud business for this year? It was obviously quite fierce last year. Do you think it will be quite as competitive in 2015?

And then in the media business, we have been hearing data points about a slowdown in the eBook space. Are you seeing that? And what's your outlook? Do you see any hope for the media segment to improve as a result of that? Thanks.

Tom Szkutak

In terms of the first question, we have continued to lower prices for customers in web services. Certainly that's something that we have been focused on. Since early launch, it's something we continue to focus on. It's hard to predict what will happen going forward. So I really can't comment on what we might or might not do there. But certainly it's something that we had, since launch, we have had many, many, it's in the high 40s, I think, in terms of pricing actions there. So we are very excited to make sure that we have great prices for customers.

In terms of the media, you are seeing an overall media growth globally. You are seeing some softness in the growth rate there. I just want to point out certainly one of the larger factors or largest factor that's in that number is, keep in mind that we have video game consoles that are part of the media growth numbers or the media absolute numbers. And last year it was a very strong year for new console launches. And so what happens is, when you have those launches, you also have video games that are -- the video game sales themselves are also strong. So for example, if you look at North American media growth rate in Q4 of this past year, you are seeing that impact. So that's what you are seeing there.

Operator

Our next question from Mark Mahaney with RBC Capital Markets.

Mark Mahaney

Great. Thanks. Hi, Tom. Can I ask you a high-level question?

Tom Szkutak

Sure. Go for it, Mark.

Mark Mahaney

Okay. Amazon has always pitched itself in terms of price, selection and convenience to customers. And I saw this great survey work that was done by Morgan Stanley in the last couple of weeks about this global survey that indicated a little bit of the shift in consumers' interest in online commerce more towards convenience. You must have a pretty good feel at Amazon for whether that broad value proposition to consumers is shifting. If it's shifting to be slightly less sensitive to price over the last couple of years and more towards convenience. Are you seeing that kind of shift? There's a lot of implications if that is, in fact, what is happening.

Tom Szkutak

I would say it this way, in terms of customer reaction, you see it really across the fundamental inputs that we have talked about for a long time. So in other words, in terms of speed of delivery and convenience, we see that with Prime members. Prime members are buying more. It's more convenient. They are getting their physical product to them faster versus being not a Prime member. So we certainly see that. So that's certainly speed of delivery helps. We need to make sure and it's something that we are always focused on is making sure we have great prices and that's every single item across categories, across geographies. So it's something we are focused on.

We do think that's important for customers. And we need to have the selection, be in stock. When a customer comes to our detail page, it matters. And so I don't view it as a shift. I view it as there is certainly a lot of visibility and transparency around all of these. That's what shopping and operating a business online does. There is just amount of transparency. We think we like that world. And that's something that we continue to focus on those inputs so that we can be successful in that world and that's not something new. That's something we have been focusing on for a long time.

Operator

Our next question comes from Jason Helfstein with Oppenheimer.

Jason Helfstein

Hi. Thanks. Two questions. One, just if you can clarify any impact of the Fire phone in the quarter? And then secondly, can you talk about how fuel prices impact your model? And I know the shippers, they use a trailing index to calculate fuel, how those savings would show up? Or if you would pass those on to third parties, et cetera? Thanks.

Tom Szkutak

Yes. I don't have really any callout for the Fire phone. We continue to sell. I had mentioned, we have a little bit over $80 million of inventory at the end of the Q3 and it will continue to sell through that in Q4. In terms of fuel prices, not a lot to callout there in terms of impact on the quarter. Certainly, over a long period of time, if it's sustainable we should see some benefits there.

Operator

Our next question comes from Gene Munster of Piper Jaffray.

Gene Munster

Good afternoon. Over the past couple of years, it's just been a little bit of a roller coaster with margins for investors. There is points of optimism followed by points of frustration and there is really some optimism here in this report. Is there anything that you can help investors with to understand just how you think about different cycles of investing to try to smooth out some of this roller coaster mentality that happens with the stock? Thanks.

Tom Szkutak

Well, in terms of, I would describe it this way, Gene, we have a lot of opportunities in front of us that we have talked about and we are also being selective with those opportunities. We have added lot of resources over the past few years. We certainly have been in the heavy investment cycle. I mentioned earlier we are in the process of finalizing our plan for 2015. We always put energy into various productivity measures but we are putting, the team is putting even more focus on those efforts as we finalize our 2015 plans. We will have to see where that ends up, but we are putting more energy and focus around our various fixed productivity or expense productivity, efficiency projects and again a wide range of different activities. And so that's what we are doing and you will have to stay tuned to see how that progresses as we go.

Operator

Our next question comes from Ross Sandler with Deutsche Bank.

Ross Sandler

Hi. Thanks, Tom. I have two questions. First on India, can you talk about the India opportunity broadly and maybe some advantages you may have versus some of the local peers in terms of leveraging your scale? That market appears to be just on fire right now. So just a little bit of color on India.

And then on Prime, can you talk about the Prime member behavior in terms of purchasing frequency? How it looks today versus may be a Prime member that joined two years ago? I know it looks a lot different from those very early Prime adopters from six, seven years ago. But just more recently, over the last couple of years, is the behavior consistent as you grow the base? Thanks.

Tom Szkutak

Sure. In terms of India, we think it's very, very early. We are investing certainly in India and we think it's a very interesting opportunity. We have a very good team there and we are excited to participate. Again we think it is very early and so we like the opportunity there.

In terms of Prime, there is not a lot I can help you with on that. But what I would say is this, certainly as you think about customers who are not Prime that become Prime, we see a very sizable step up their purchasing patterns. And so the customers are certainly buying a lot more from us. And one of the things that we are seeing, another thing that we are seeing is certainly, as Jeff references and I quote, "Prime has evolved. It is both a physical and digital offering. It's unique that way."

We see, for example, although it's still very early and we are learning and investing in this area, but I take video content, for example, what we see is customers that come in who come in through our Prime pipeline for video for free trial, those customers are converting at higher rates than other channels. We see that customers that are video streamers, even though we have high renewal rates, they are renewing at even higher rates than others. We see those people who were customers who were streaming have very similar purchase patterns on the physical product side as those who don't.

And so we view that as a positive. So it's very integrated from a customer experience standpoint which we think is great. And so those are the things that we are seeing in Prime right now. And with Prime being almost 10 years old, growing at 53% year-over-year on a sizable base, tens of millions, we think is very interesting. It's something that we are very focused on as we continue forward.

Operator

Our next question comes from Eric Sheridan with UBS Investment Research.

Eric Sheridan

Thanks for taking the question. On the topic of China, I wanted to know if you could help us either qualitatively or quantitatively understand what the trajectory or the size of the business is in China? And then maybe the trajectory around investments needed to compete in China? And how you think about the opportunity there long-term, looking through the lens of the competitive landscape and maybe Amazon's particular skill set on going to market in China? Thanks.

Tom Szkutak

Sure. We haven't broken out the size of the business. I can't help you much there, but we continue to work on the customer experience there. The team has some interesting ideas that you will have to stay tuned on, of how to make that experience better. And we continue to work on it. So there is not a lot more that I can add to that.

Operator

Our next question comes from John Blackledge with Cowen and Company.

John Blackledge

Great. Thanks. Just a couple of questions. In North American media, aside from the video game impact, just wondering if there are any other factors driving the low or flattish growth year-over-year? And then, CapEx was up about 40% in 2014. It's kind of bounced around over the years. Just wondering if you can give us a sense of the level of growth in 2015? Thanks.

Tom Szkutak

Sure. In terms of the North American media, a number of different certainly puts and takes there, but certainly by far the biggest one is the one I called out, which is the video game console. So if you look at the growth rate in Q4 last year, meaning 2013 and Q4 2014, you see a big difference. And the biggest, the most sizable difference there is certainly the video game consoles portion and the video games associated with those. So another way to say it is, the video game consoles and video games portion of that is down year-over-year and obviously years ago we put the videogame consoles as part of North American media to keep it with video games and they are larger ASP items as well that go in there. So certainly having an impact on that one when you look at the growth or when you compare Q4 2013 growth to Q4 2014 growth there.

In terms of CapEx, we are not giving guidance on the 2015 spend, but given the high usage rates that we have had in web services, you should expect that we will be spending CapEx to support that growth and we will certainly be adding new fulfillment centers as we go. Also keep in mind that we do also finance capital. So if you look at our capital lease activity point to that, that's also increased in activity over the last few years. Certainly a number of different types of CapEx that go into that financing, but the biggest piece is certainly infrastructure to support our business primarily on the AWS side. So again that's also included in that number.

Operator

Our next question comes from Heath Terry with Goldman Sachs.

Heath Terry

Great. Thanks. Tom, I was hoping you could give us some kind of sense of the impact on delivery times and conversion rates that you saw during this holiday season from the investments that you made in fulfillment, particularly the sortation centers that were added before the holidays? And then also, to what degree you have seen some leverage, or some of the slower growth in fulfillment costs from moving more of the fulfillment obligation to first party owned infrastructure?

Tom Szkutak

Sure. In terms of the sort centers and I would say, just in addition to sort centers, what's happened over the course of last several years is, with all the fulfillment centers that we have added, we have actually invested gotten selection closer to customers. And so that's helped us from a delivery speed standpoint. It's helped us from a cost standpoint in terms of transportation cost being closer to customers. And so you it's a natural result of the footprint that we have added.

In terms of sortation centers, there is a lot of different benefits of that. But certainly one of them is, as you get closer and closer, certainly throughout the year, it's helped us with holiday deliveries, it's helped us with Sunday deliveries and as we have closer to, in this case December to the end of holidays, it's certainly helped us from a delivery to the customer standpoint. So we are very pleased with the performance of those sortation centers. And really the global team of fulfillment team around the world, I think they did a terrific job during the holiday season as they did throughout the year.

Operator

Our next question comes from Mark Miller with William Blair and Company.

Mark Miller

Hi. Good afternoon. There's quite a disparate performance between North America and international in terms of the profit change year-on-year, up nearly $300 million, North America down over $100 million. So could you just help us understand why the international performance is so much weaker? Perhaps give us some color on the established markets in Europe relative to emerging markets. In the past, you have also discussed Japan. And then, is there an inflection point where international profits we could expect to head up again?

Tom Szkutak

Sure. The first one is, certainly the growth rates are slower in international versus North America, certainly would have an impact. The second, as we continue to invest in international in terms of adding capacity for infrastructure, for fulfillment capacity, as you know, if you look at our international growth rates, the unit growth rates are actually growing at a higher rate than revenue. And then emerging geographies. We talked about India earlier. Very excited about India. We are investing in India. We are also investing in China. So those are certainly impacting the results as well.

Operator

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

Justin Post

Great. Thank you. I wanted to ask about gross margins. They were up quite a bit year-over-year and it looks like, in our numbers, EGM beat and media missed. So any thoughts on the mix shift there helping or hurting gross margins? What are the key drivers for that line and can AWS continue to drive that in 2015? Thank you.

Tom Szkutak

Certainly, AWS mix of business is having an impact. AWS is certainly part of that and impacting that. Also just to keep in mind, our third-party unit growth is growing at a faster rate than retail and so certainly that's having an impact. And then obviously, continuing to lower prices for customers as well as working with our partners on the vendor side to support those activities from a pricing standpoint. So those are the dynamics. And in terms of 2015 beyond the guidance that we are giving, there is not a lot of callout there, but we have had a great success of being able to grow our retail offerings. Our marketplace side has grown very nicely over the years including 2014. The team has done a great job there. Fulfilled by Amazon, in terms of number of sellers, continue to grow there. The percentage of paid physical units are approximately 40%, a little over 40% of the total there. So that's become much more meaningful over the past several years. So very happy about that. So all those contribute to the numbers that you just talked about.

Operator

Our next question comes from Colin Sebastian with Robert W. Baird.

Colin Sebastian

Great. Good afternoon. One question as a follow-up on AWS and specifically some of the announcements related to WorkMail and WorkSpaces. This would signal that Amazon is moving up the stack towards a more of a SaaS offering. Is that the right interpretation? And if so, should we expect a broadening of those SaaS product initiatives? Thank you.

Tom Szkutak

I am very happy to make a launch that you mentioned, we think it's exciting. It's certainly, you know we are excited overall about web services offerings. The team has done an incredible job in terms of innovation as well as operating these large services that scale. So they are doing a terrific job. In terms of what we might or might not do in the future, we are not talking about what that roadmap is. You will have to stay tuned.

Operator

Our next question comes from Ben Schachter with Macquarie Equity Research.

Ben Schachter

Tom, can you just give any color on how you are evaluating the opportunities to show video advertising against the ever-increasing video content? Thanks.

Tom Szkutak

We really aren't using advertising too much in that area. You have seen it a little bit on some of our original content but beyond that we really can't comment. We think the experience we have is great for customers. We get a lot of positive feedback on the content that we have there and the uninterrupted content, if you will. And so I wouldn't speculate on what we might or might not do there. But we are getting great feedback from customers.

Operator

Thank you. Our final question will come from James Cakmak with Monness, Crespi & Hardt. James, your line is live. Please proceed with your question. James, if you have muted your line, please unmute it.

Phil Hardin

Thank you for joining us on the call today and for your questions. A replay will be available on investor relations website at least through the end of the quarter. We appreciate your interest in Amazon.com and look forward to talking with you again next quarter.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you all for your participation.