Shareholder Letters: Accounting Themes

Capex, useful lives and free cash flow

Amazon letters: 2025

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What the Letter Says

> *"However, these capex investments fund assets with many-year useful lives (30+ years for datacenters; 5-6 years for chips, servers, and networking gear)."*
>
> Andrew R. Jassy, 2025 letter

- Key letters: 2025
- Course fit: ACC250 Ch9 · ACC531 Estimates · Difficulty: Intro

Step 1: Capex Is Recorded as an Asset

EX. Pay $30 billion cash for datacenters (30-year useful life).

Year 1:	PPE (+A)	30B	
	Cash (−A)		30B

- No expense when the asset is bought: it is an asset, not an expense.

Step 2: Depreciation over the Useful Life

Asset	Cost	Useful life	Depreciation per year
Datacenters	$30B	30 years	$1.0B
Chips and servers	$12B	6 years	$2.0B

- Straight-line, no salvage value: cost ÷ useful life.
- Useful lives from the 2025 letter: 30+ years for datacenters; 5–6 years for chips, servers and networking gear.

Step 3: Year 1 Effect: Net Income vs. Free Cash Flow

Year 1	Net income (pre-tax)	Free cash flow
Datacenters	(1.0B)	(30.0B)
Chips and servers	(2.0B)	(12.0B)
Total	(3.0B)	(42.0B)

- When capex grows faster than revenue, free cash flow falls far more than net income.

Back to the Letter

- Jassy (2025): AWS pays for land, power, buildings and chips 6–24 months before it bills customers.
- Amazon plans about **$200 billion** of capex in 2026 and accepts short-term free cash flow headwinds.
- Useful lives are **estimates**: a longer life means lower depreciation and higher earnings.

Questions

1. A company pays $30 billion in cash for datacenters with a 30-year useful life (straight-line, no salvage value). How much depreciation expense does it record in the first full year ($ billions)?
2. In the year it pays for those datacenters, by how much does the $30 billion purchase reduce free cash flow?

   A. $15 billion, half the cost

   B. $30 billion, the full purchase

   C. $1 billion, the depreciation

   D. $0, because it is an asset

Sources

- Andrew R. Jassy, 2025 letter (ir.aboutamazon.com)
- Reading packet and question sheet for this theme

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