Speaker 1
Start

Good afternoon, and welcome to the Netflix Q3 twenty twenty five earnings interview. I'm Spencer Wong, VP of Finance, IR and Corporate Development. Joining me today are Co CEOs, Ted Surrendos and Greg Peters and CFO, Spence Newman. As a reminder, we will be making forward looking statements and actual results may vary. We'll now take questions submitted by the analyst community, and we will start, with our results and outlook. Our first question, comes from Ben Swinburne of Morgan Stanley, who asks, as you begin to wrap up 2025 and look to 2026, can you talk broadly about the health of the business and how you would frame the opportunity ahead?

Speaker 2
41s

Yeah. We think the business is very healthy. We feel good about our progress on our key initiatives. We've got also a lot of opportunity ahead of us, but we got a lot of work we need to do to accomplish and fully realize those opportunities. So what's working? We had a good Q3. We had revenue in line with expectations. Our operating income would have exceeded our forecast absent the Brazilian tax matter. We're also seeing good progress against our key priorities. So engagement remains healthy. We achieved record share of TV time in q three in both The US and The UK. We recorded our best ad sales quarter ever. We are now on track to more than double ad revenue this year. We're continuing to build out both live offerings and games as the emerging capabilities. On the live side, we saw Canela Crawford. That was the most viewed men's championship fight this century. We recently announced the ability to play Netflix Netflix games on TV with friends and family playing together at home using just that TV and the phone as the game controller. So this progress in these areas is indicative of how we think we can best compete and grow the business over the long term.

Speaker 2
1m 44s

We focus on a few key areas that we think matter the most, and then we work hard to deliver continuous improvement in those areas. It sounds super simple, but building a real at scale global streaming business is hard because you gotta combine great tech product and great content from all around the world, and we believe we can continue to improve in both those areas. But, Ted, maybe you want to comment on that?

Speaker 3
2m 5s

Yeah. Would just say, you know, looking ahead, we continue to have a massive opportunity since we're only about 7% of the addressable market in terms of consumer spending and only about 10% of time spent on TV in our biggest markets. So enormous room for profitable growth in the core business. And this is a very exciting time in terms of a lot of innovation, a lot of competition, but that's been true for the last twenty five years. And one thing as a company, we've always embraced change. We thrive on competition. You know, it pushes us to improve the service even faster for our members. You know, back at the beginning, in the early DVD days even, and now in streaming and global streaming of original content, we could be with the biggest players in the world, tech and media. And as you see, we keep growing engagement, revenue, and profit. So, you know, today, we're an entertainment company. We program for the an audience that's approaching a billion people around the world. We're producing series and films for local audiences in multiple markets. Many of those films and series resonate around the world. And a really great example of that, I think, is this summer's k pop demon hunters.

Speaker 3
3m 9s

Obviously, a smash hit, but it's also emblematic of exactly what we're trying to do every day. In fact, feature animation is an example of that continuously improving the core. We've been grinding away at original feature animation for for a few years now, and k pop demon hunters is our most popular film ever. And it it again improves our ability to create breakthrough hits and move the culture. Today, we announced Mattel and Hasbro have been named the global co master toy licensees for k pop demon hunter. This is a rare, maybe unprecedented partnership for them, and we're gonna need them both to help meet the massive demand for for the for fans to get closer to their characters off screen every day. We're here to entertain the world, and we're delivering tremendous value to our members every day. When you have a hit the size of k pop demon hunters, it stirs the imagination of how big we could take this, and as long as we keep improving on the core business every day. So we feel great about the business. And as Greg said, we are as energized as ever.

Speaker 1
4m 11s

Thank you, Ted and Greg. Our next question comes from Steve Cahall of Wells Fargo. Can you please provide more color on the nature of the tax expense and why it fell above the operating line?

Speaker 4
4m 25s

Sure, Spencer. I'll I'll take that one. Greg and Ted were on a roll, but I think I will take the short straw for this one. And I'll spend a minute on it because the, this Brazilian tax matter, it's it's a bit complicated, and I wanna be sure we're being really clear about what it is and what it isn't. It's not an income tax. It's a cost of doing business in Brazil. It's a gross tax on outbound payments, and it's called the contribution for intervention in economic domain. So it's a bit of a mouthful. It involves a 10% tax on certain payments made by Brazilian entities to companies outside of Brazil. It's not a tax that's specific to Netflix. It's not even specific to streaming, so we assume other companies will be impacted by this. In our case, Netflix Brazil pays Netflix US for services that enable Netflix Brazil to offer subscriptions to our Brazilian customers. And we actually received a favorable ruling from a lower court back in 2022 that concluded we were not subject to this tax, which is why we believe we couldn't accrue this previously. The legal issue in question relates to the scope of the transactions covered by the tax and, in particular, whether the tax applies to service payments that don't involve a transfer of technology.

Speaker 4
5m 39s

We flagged this as a potential exposure in our prior 10 k's and 10 q's dating back to our twenty twenty three ten k. And then in August, the Brazil Supreme Court reached a seven four decision against an unrelated company, rule ruling that, the tax applies to a wider range of transactions than we thought was legally permissible, in particular that it it applies even to service payments that that don't involve a transfer of technology. So given that court's ruling, that's caused us to reevaluate the likelihood of prevailing, and we now deem the loss to be probable. And that's why we recorded the expense in q three. And, again, it's it's not an income tax, and that's why we recorded the expense as a as a a component cost of revenues. And as we said in the letter, the expense we booked in this quarter, it covers the periods from 2022 through 2025. Of the amount we booked in cost of revenues this quarter, just about 20% of it is for the year 2025 with the remainder related to those 2022 to 2024 periods. So, look, I know that was a lot. There's just two really important takeaways that I wanna leave you with.

Speaker 4
6m 47s

The first is that the contribution for the contribution for intervention in economic domain, it's a it's a unique tax. It is a mouthful. No other tax looks or behaves like this in in any other major country in which we operate. And secondly, absent this expense, we would have exceeded our q three twenty five operating income and operating margin forecast, and we don't expect this matter to have a have a material impact on on our results going forward.

Speaker 1
7m 14s

Great. Thanks, Spence. I'll move on to the next question, which comes from Tom Champion of Piper Sandler. Do you have any early views on revenue and operating income growth, for 2026?

Speaker 4
7m 28s

I'll I'll take this one as well. Yeah. Okay. So, look, we'll we'll issue a full year 2026 guidance on our next call in January, but our financial objectives are unchanged. We look to sustain healthy revenue growth, to expand margins, and increase free cash flow. Now we did last year on our q three call, we did issue full year guidance, but that was in advance of sunsetting membership reporting. So it was a pretty unique timing giving that upcoming change in reporting. For '26, again, we'll we'll issue the free the full year '26 guide as we more typically would, on our next call in January.

Speaker 1
8m 1s

Thanks, Spence. I'll move this along to a few questions we've received on the topic of advertising. The first one comes from Jason Helfstein of Oppenheimer. Given your comment of doubling upfront commitments in the earnings letter, should we interpret this to mean that full year 2026 advertising could also double?

Speaker 2
8m 22s

I'll start by just saying it's exciting to see our progress in 2025, more than doubling our ads revenue there, while, of course, it stole off a small base relative to the size of our subscription revenue. But we feel like we've established the fundamentals of the business now. We've proven we know how to scale. We see plenty of room for growth ahead. And what's making up that growth right now? As you mentioned, we more than doubled our US upfront commitments. That lands partly in '25 and partly in '26, which I think you're alluding to here. Perhaps even more importantly, though, we're seeing even higher rates of growth in programmatic, and that's more important because we believe that's gonna be an increasing part of that incremental revenue contribution going forward. What are driving those results? Advertisers are excited about our growing scale. We got a highly attentive and engaged audience. The rollout of our ad tech stack means we got more formats. We got more measurement. We got more ways to buy. And, course, our slate is a critical and important source of competitive differentiation. So while I'll refrain from offering any 2026 guidance, I would say we are feeling good about our growth trajectory.

Speaker 1
9m 27s

Thanks, Greg. A follow-up on that one from Vikram Kesavabhotla of Baird. Your offering, to advertisers has evolved significantly in 2025, including the launch of the ad suite and the integrations with the additional demand sources. As we look into next year, what are some of the key priorities, for the advertising business?

Speaker 2
9m 49s

Yeah. Consistent with the last, comment and answer, we made considerable progress in building out our general capabilities in the ad space. So if you use our beloved crawl, walk, run model, we're now squarely in that walking phase. The rollout of the ads suite, our own ad suite, has been great because it means we're just continuing to learn and improve the stack based on client feedback. So we've got a really fast iteration loop going there that we're excited about. Key priorities and focus for us is making it easier for advertisers to buy on our service. We wanna increase the diversity of advertisers we have. That's a key direction of growth for us that enables that revenue growth. We're adding more demand sources like Amazon DSP, in Japan. We're improving our own ad sales and go to market capabilities. We're also iterating on ad formats. Later this quarter, we'll be introducing ad interactivity. And taking that into 2026, you're gonna see us continue to develop along some of those lines. So more ways to buy, more data for targeting and media planning capabilities globally, more modular in our interactive ad formats with enhanced AI capabilities, and more measurement functionality in all of our markets.

Speaker 2
11m 0s

And then in 2027, we get to pivot to make more focused investments in data capabilities such as ML based optimization, advanced measurement, advanced targeting. So I would say, you know, we're getting we've got got our legs underneath us. We're, you know, we're making a good pace, but we've got a lot ahead of us to go do. And quite frankly, we expect we're gonna be able to move more quickly than other streamers as we leverage preexisting tech and data science assets and expertise.

Speaker 1
11m 28s

Thanks, Rick. And to round out our last question on advertising, this one comes from Dan Salmon of New Street Research. Are fill rates improving in line with your expectations as the Netflix ad suite and new demand partnerships scale up?

Speaker 2
11m 43s

Now we focus on overall revenue as the most important metric we're seeking to optimize. But having said that, fill rates have improved, and we believe they're gonna continue to improve we continue to develop our go to market capabilities, more measurement, more targeting.

Speaker 1
11m 57s

Thanks, Greg. I'll now, move us along to the topic of content and engagement. A lot of questions there. We'll begin first with Steve Cahall of Wells Fargo. Are you seeing a pickup in engagement like you've expected?

Speaker 2
12m 12s

Yes. Total view hours grew a bit faster in q three twenty five than in the '25. In fact, in q three, we achieved our highest quarterly view share ever in The United States at 8.6% and then The UK at 9.4 according to Nielsen and Barb, respectively. These are just, you know, two countries that we've got really good measurement on that share. We also believe we're gonna continue to see steady growth in view hours over time. We grow engagement by expanding our programming and the range of our offering. This is a critical and very proven dimension of growth for us. But we're also seeing that certain engagement delivers outsized and different value. And we saw pretty good examples of this in q three. You got the Canelo Crawford fight, most viewed men's championship boxing match this century. You got k pop demon hunters, our biggest film ever, huge impact on the cultural zeitgeist. Both are great examples, and they're also from really different parts of our programming spectrum of this punctuated value. Now we believe we've got a better understanding of the streaming business than any of our competitors, but we're also continuing to learn. And we're in the process of really building a better understanding of how these particular moments deliver differential value to our members and the business.

Speaker 3
13m 28s

Yeah. Let me just add here, Steve. We're gonna continue to benefit long term from the trend, just some folks moving from linear from linear viewing to streaming That has a kind of a natural adoption curve. But I also look for and we have an incredible slate in q four, and we're really excited to follow that up in 2026. But it's not about any one single title in q four or next year. You know, as you know, even our largest titles and the biggest success generally drives less than 1% of our total viewing. So it's really about having a steady drumbeat of shows and films that our members love. That's what drives continued steady growth and engagement over time. And we gave a lot of detail about our q four coming up in the letter, including an incredible slate of film and the wild ride finale of Stranger Things. But I want to give you a little bit of color on '26. Maybe this is a longer answer than you were bargaining for, Steve. But we're really particularly excited about a few things coming up next year, like the return of some of our biggest and most loved shows, like Bridgerton, Beef, Emily in Paris, One Piece, Outer Banks, Virgin River, The Gentleman, Avatar The Last Airbender, Running Point, Ginny and Georgia, Lupin, all coming back for new seasons in '26.

Speaker 3
14m 45s

We've got amazing slate of films with, you know, a big event film from Greta Gerwig with Narnia, Here Comes the Flood starring Denzel Washington. Ben Affleck is direct is directing this great movie for us called Animals. Apex from Charlize Theron, an incredible action movie. Matt Damon and and Ben Affleck are on screen together and starring in The Rip. A couple of great rom coms, Office Romance with Jennifer Lopez, People We Meet on Vacation. Our French team has got an incredible epic film, Quasimodo, coming up. And Peaky Blinders fans are gonna freak out for the Peaky Blinders movie, The Immortal Man with Killian Murphy. It's really great. And and lots and lots of brand new series work coming going on this year and coming out in '26, Golf with Will Ferrell, Little House on the Prairie, Man on Fire. We have new series from the Duffer Brothers, amazing slate of k dramas. That's just to name a few. But, in other words, we've got a pretty great '26 coming up after this pretty phenomenal q four.

Speaker 1
15m 46s

Thanks, Ted. Dan Kurnos, from Benchmark, company, has a question about, our Spotify, partnership. How should we think about the recent deal with Spotify? How aggressively will you build out, this podcast category?

Speaker 2
16m 4s

So this deal is a video co exclusive partnership with Spotify that secures a curated selection of their top podcasts to help us provide even more entertainment options for our members when they're looking for pop culture or lifestyle or sports or true crime, and we get to deliver to them wherever and however they wanna watch. And we're gonna build into this category like we do with our other categories based on demand signals that we get from our members. And we see this as really, you know, the opportunity to integrate high quality video bod podcasts that broadens the Netflix offering beyond all the incredible films and series that Ted just mentioned beyond the live events that we are building, stand up specials, and games. And we hope that, you know, that ultimately reinforces our value as the most important service for entertainment needs.

Speaker 1
16m 53s

Thanks, Greg. Our next question comes from Robert Fishman of MoffettNathanson. Following the strong theatrical performance of k pop demon hunters, can you share your updated perspective on monetizing some of your content in the theatrical window on a on an exclusive or nonexclusive basis?

Speaker 3
17m 14s

Well, first of all, thanks, Robert. There's no change in the strategy. Our strategy is to give our members exclusive first run movies on Netflix. We occasionally release certain films in theaters for our fans, like like we did with K pop Demon Hunters, or as part of our launch strategy, publicity, marketing, qualification, all those things, and we'll continue to do that. We believe that this film, pop demon demon hunters, worked because it was released on Netflix first. Look. We had a film that people fell in love with. That's first and foremost. But not in a huge way on the first day or even the first weekend. In fact, it was the super fans who watched the, you know, watched the movie and repeat watched the movie that drove the recommendation engine, that got it in front of more super fans who also fell in love with the movie. So that ease and value that allowed folks to repeat view it, the ubiquity of distribution, which took all the guesswork out of how to watch it when you did finally see it show up in your social media feed, all of this contributed to k pop demon hunters blowing up all over the world.

Speaker 3
18m 18s

And I would argue in a way that it couldn't happen anywhere else. If anything, this actually reinforces our strategy because being on Netflix gave the film a chance to build momentum, and it allowed fans to learn the songs and to watch it over and over again and to to make their own post and their own dances around k pop demon hunter. Now for some films, seeing it together and singing out loud is super fun, and it's a differentiated experience. And we were able to do that with the k pop demon hunter sing alongs eight weeks after the film premiered on Netflix. And we did have a good weekend. But we, you know, we created a a great night out, and we're gonna do it again on Halloween weekend. And this time, every major theater chain is on for the ride. We're also adding a few international markets. So it's been really fun to see this film and to see our ability to break through pop culture on par with some of the biggest theatrical films ever. And it's even better that it's with an original animated feature because it's so hard to do.

Speaker 1
19m 14s

Great. We now have a question on our live events from Vikram Kesavabhotla of Baird. What were your observations, from the Canelo versus Crawford fight in September? How are these types of live events impacting engagement, acquisition, and retention on the platform?

Speaker 3
19m 32s

Yeah. Well, like Greg said earlier, that the Canelo Crawford fight, it was the most viewed men's championship fight of the century. It had over 41,000,000 live plus one viewers. It was in the top 10 in 91 countries, and it was a great fight. So so we believe these big events that attract mass audiences are kinda differentially valuable for our members. It's a kind of urgent viewing that our members love and value. So these events typically have outsized positives for conversation and for acquisition, and we strongly suspect retention. However, you know, we've said earlier, live is only a small portion of our content spend, and it's a very small portion of our two hundred billion hours viewed. So it's, you know, it's relatively small still, but hugely outsized impact. And we, you know, we like we've seen with other titles, this has had that kind of positive impact on acquisition. It's a little too early to say for sure in retention, but so far, it looks a lot like the Jake Paul, Mike Tyson performance. And we remain incredibly excited about the opportunity in live. So, you know, upcoming, we've got Jake Paul versus Tank Davis from Miami, November 14.

Speaker 3
20m 41s

And we we really are trying to grow our capabilities outside of The US as well, which you'll see next year with the World Baseball Classic from Japan.

Speaker 1
20m 49s

Thanks, Ted. And that's a good segue to our next question, which is the quarterly question about sports, for us. This is from Robert Fishman of MoffettNathanson. Since last earnings, we've seen several sports rights deals, including Apple f one, Paramount, UFC, etcetera, etcetera. While we still await an official MLB update, can you help us think about the importance of global sports rights versus locals rights to Netflix? And do the sports rights you look to acquire need to materially accelerate your advertising growth?

Speaker 3
21m 24s

So, as for local versus global, it's just a scale question. Local cost versus the size of local audience. So no real change in the approach. You know, we're focused on big live events, which sports are a subcomponent of the live strategy. We said before, we're not currently focused on the big season packages. In terms of global versus local, also, we think about it just like series. It it varies. Some, like the Canela Crawford fight, had big low global appeal. We think World Baseball Classic in Japan was actually built and designed and budgeted for a specific geography. On the far as advertising is concerned, the number one important thing we have to do is thrill our audiences. We the the revenue from advertising or subscription is the reward for thrilling the audience. So we have to stay disciplined on that approach. But for upcoming live events that we're excited about, I mentioned Jake Paul versus Tank. That's November 14. We have, our doubleheader NFL Christmas Day games with Dallas versus Washington, Detroit versus Minnesota. Skyscraper live is gonna be wild. The SAG Awards, we've got WWE every week. I mentioned the World Baseball Classic, in Japan in 2026.

Speaker 3
22m 38s

And in 2027 and '31, we've got FIFA's world, Women's World Cup as well. So we're pretty excited about the slate, and there's gonna be a lot more that'll come in between.

Speaker 1
22m 48s

Thanks, Ted. We'll take our next question from Rich Greenfield of, LightShed Partners. Are you testing premium tier free trials? We recently we, meaning, Rich, recently opened Netflix and were prompted with a four k upgrade screen. Is this a typical promotion, or are you selectively testing free trials?

Speaker 2
23m 11s

Yes. We test and productize a variety of offers that we think help members understand and sometimes try a feature or benefit that we think they might enjoy. So if you got a four k TV, as Rich does, you might, get a notice from us and say, do you wanna try watching, let's say, Skyscraper Live that Ted mentioned, somebody free climbing Taipei 101 in four ks and decide if that's a good option for you. But ultimately, we want a range of plans. We want a range of features, different price points. And then we want to help members choose the right plan for themselves. We think that yields a better member satisfaction, and that yields better engagement and retention, a better long term business.

Speaker 1
23m 49s

Thanks, Greg. We've gotten a series of questions on m and a on that topic today, not surprising given the announcement from our, friends at Warner Brothers Discovery. So we'll take this next question from Jessica Reef Ehrlich of Bank of America. Do you see potential industry consolidation reshaping the competitive landscape? Do you see that as an opportunity or threat? What implications might that have for Netflix's content strategy and differentiation?

Speaker 3
24m 21s

Thanks, Jessica. I look. We'll take it in two parts. First, the opportunity. It's true that historically, we've been more builders than buyers, and we think we have plenty of runway for growth without fundamentally changing that playbook. Nothing is a must have for us to meet our the goals that we have for the business. But as we wrote in the letter, we focus on profitable growth and reinvesting in our business both organically and through selective m and a. And when it comes to m and a opportunities, we look at them, and we we look at all of them, and we apply the same framework and lens that we look at when we look to invest in a build. Is it a big opportunity? First question. Second, if it's IP, does it strengthen our entertainment offering? Is there additional value in ownership? Does it strengthen our existing capabilities somehow? Does the, does it accelerate our existing strategy? And by the way, and you look at all these things relative to the price, relative to the opportunity cost, and relative to other alternatives. We've been very clear in the past that we have no interest in owning legacy media networks, so there is no change there.

Speaker 3
25m 29s

But in general, we believe that we can be and we will be choosy. We we have a great business. We're predominantly focused on growing organically, investing aggressively and responsibly into the growth, and returning excess cash flow to shareholders through our shot to share repurchase. Greg, do you want to add there on Yeah. Maybe I'll try and speak to that second part of this, the threat part of the question. We've always faced significant competition. We still face it today. This is an incredibly competitive entertainment environment. We've also seen a lot of industry consolidation over the years. Think about, Disney Fox and Amazon picking up MGM. Of course, Time Warner and AT and T and then Discovery and Warner. But, you know, none of those mergers were a fundamental shift in the competitive landscape, and we have seen also a wide range of outcomes from such mergers. So watching some of our competitors potentially get bigger via m and a does not change, in and of itself, at least, our view on the competitive landscape. And we don't think it changes the substance of the challenge that our competitors face. Specifically, the range of activities that we and our competitors have to get great at has never been assembled in a single company before.

Speaker 2
26m 42s

Think about, you know, producing film and TV shows across multiple genres and multiple languages and dozens of countries around the world, trying to figure out how to incorporate the latest technology, including, you know, AI and GenAI. We're trying to figure out how we build, you know, better product experiences that's conserve consumers better around the world. How about customer acquisition and retention? How do we optimize global payments? How do we optimize global partnerships? There is so much, and we wanna get better at all those things. Our competitors are seeking to get better at all those things, of course, as well. But you have to do that by the hard work of developing those capabilities in the trenches day to day. You don't get there simply by buying another company that is also still developing those same capabilities. So maybe I'll just end by reiterating what Ted said, which is it's our responsibility to look at every significant opportunity. We do that. We got a clear framework to evaluate those opportunities, and we'll do whatever we think is best to grow the business.

Speaker 1
27m 39s

Great. Thank you. David Joyce from Seaport Research Partners has a slightly different angle on the m and a question. Should potential industry consolidation with embedded studio and streaming assets, could that lead to less third party content accessibility for Netflix?

Speaker 3
28m 0s

Thanks, David. Look, original titles are the big business driver for us. That's why we got into this, you know, more than ten years ago. And it's why we continue to grow and expand the original content investment across new genres, new content forms, and multiple geographies. So we're happy to license titles from industry suppliers to complement our offering. But it's worth noting that we've always seen these kind of ebbs and flows from third party content in terms of access to it. Our competitors are also our suppliers, so they change their mind sometimes about selling to competitors. So we've been dealing with that since the beginning of streaming. But as we sit here today, we're not dependent on any single supplier. No single supplier represents more than a small minority of our total view hours. And I and more importantly, think, is that we've proven time and time again that licensing to Netflix is the best way to build audience, build revenue, and create value for your IP. Whether it's Suits or Peaky Blinders or Breaking Bad, you know, we played a played a very positive role in the life cycle of other folks' IP, and we suspect that dynamic will continue.

Speaker 1
29m 5s

Great. We now have a question from Justin Patterson of KeyBanc. Netflix recently launched party games that are playable on the TV. How do you think gaming could change the time members spend with Netflix each day?

Speaker 2
29m 19s

Well, games are clearly a form of entertainment consumers care about in terms of the time they spend, which you noted, as well as, the money they spend. It's, you know, approximately a $140,000,000,000 opportunity consumer spend ex China, ex Russia. That doesn't even include the ad revenue, which, of course, is linked to the the time and engagement. We've mostly talked so far about our work in this space as games, because that's an easy shorthand. But we see this initiative as more about interactivity broadly and how does interactivity become complementary to linear storytelling. How does it, able to unlock whole new entertainment experiences? For example, real time voting will be our first live interactive feature. We're currently testing it on dinner time with dinner time live with David Chang. It's gonna roll out more broadly starting with Star Search in January, and we expect to provide other interactive features to deepen engagement with live events as we go in the future. Now when it comes to actual games, we've been building a ton of foundations for the last few years, things like the ability just to develop games, to get those games onto service, connect games with players, give them a high quality experience.

Speaker 2
30m 24s

And going forward, we're building on top of that foundation but focusing on offering more high quality games in a few key genres and targeting the right cohort of users. So this is a less is more strategy on a few identified verticals. Those verticals include immersive narrative games based on our own IP. You can think about Squid Game Unleashed or Thronglets from the Black Mirror Universe or Golf with Happy Gilmore. We've got games for kids. This is Peppa Pig. You know, no ads, no in app payments, safe within your subscription. Mainstream established titles, think about what we did with Grand Theft Auto, as well as socially engaging party games, which you noted. We're rolling out this holiday season a slate of party games on TV. It's great for the whole family. When you're in front of that TV, all you need is the TV and your phone is a controller. It's like Boggle Party, Pictionary game night, Lego Party, Tetris. We've got Party Crashers, which is a social deception game. And the part that I like most about this is these games are super easy to access. It's just like our series and films. You scroll the games tab, you pick whatever you want, click it, and you're in.

Speaker 2
31m 31s

You don't need a special controller. That's key to this access. And in the years ahead, actually, speaking of controllers, we expect creators will really find interesting and novel ways to unlock all of the power that is in this incredibly advanced controller that we all happen to have in our pockets, which, of course, is our phones. So we're just starting to scratch the surface today. We think there's much more we can ultimately do in this space. Yet we already see how this approach not only extends the audience's engagement with the story, but it creates a synergy that reinforces both mediums, the interactive and the noninteractive side. It drives engagement. It drives retention. Therefore, it supports the business. So looking ahead, we're gonna ramp our investment in this area, judiciously based on demonstrating that we're ramping returns to the business, but we're extremely excited about, you know, the progress we've got ahead of us.

Speaker 4
32m 20s

I would say do not play Boggle with Greg. He's very, very good.

Speaker 4
32m 26s

No. It's not head of the games unit, but he's good.

Speaker 3
32m 29s

He he has a leg up on us. He's very good.

Speaker 2
32m 32s

He does. I think he gets to play quite often.

Speaker 1
32m 36s

Alright. We have one another question from Steve Cahall of Wells Fargo. Last quarter, you talked about Netflix being a great place for some creators on YouTube. Since then, you've announced one new creator deal with Mark Rober. Should we expect more on this front, and what kinds of content are you looking for?

Speaker 3
32m 54s

Yeah. Thanks, Steve. I yeah. I said before, but we wanna be in business with the best creators on the planet, wherever they are. And some of them are in Hollywood, some of them are in Korea, some of them are in Paris, and some of them are sitting on social media platforms and have yet to be discovered. So not everything on YouTube is a fit for us, but there are some creators like Mark Rober, like miss Rachel, that are great fits for us. And remember, working with content creators from other platforms isn't a recent thing for us. In the over the folks remember over the years, we made Hype House. We partnered with Miranda Sings. She had a stand up comedy special and a series called Haters Back Off. King Bach, who's a a big star in social media, you can see him in a lot of our films, Babysitter of Killer Queen, when we first met, just to name a few. But, you know, now we've and we also have created a curated, like, section of video podcasts as well. So some of this stuff is just a very natural expansion, and there's plenty of room for the world's best creators wherever they are.

Speaker 1
33m 53s

Great. We'll now wrap up, with our, last topic, which is GenAI and two sort of, questions or maybe a two part question. The first part comes from Doug Anmuth of JPMorgan who's asking, how has your thinking, evolved over the past couple years about Netflix's ability to leverage, AI? And related, John Hulik at UBS asks, what are your thoughts on the impact from Sora two and other new AI content creation apps in terms of increased competition from short form video? Do you think it creates new competition from an engagement standpoint?

Speaker 2
34m 34s

Perhaps I'll kick it off in the first part of that question. And our thinking about AI hasn't really changed over decade and a half more. We've had a long history of developing ML and AI solutions. We've got, you know, a deep DNA technology DNA. We've got significant data assets. We've got scaled consumer products, scaled business processes. All of that, we think, enables us to have the opportunity to leverage new technical capabilities as they come online, and that's our job. We're engaging proactively to do so. As we said in the letter, specifically with GenAI, we see a huge number of places in the business where we can bring these technologies in. They provide more capable tools. They improve productivity. They improve velocity of innovation. They deliver better results for members, for creators, for partners. The vast majority of those cases involve us going to for solutions and just integrating them into our existing tools and products. But there are a few spaces where we think that making targeted investments is important. We think we can develop often using building blocks from others. So think about this as foundational models that we get open source or commercially to make cutting edge tools and cutting edge experiences.

Speaker 2
35m 50s

And those targeted areas of investment are better product experiences, content production, and advertising. And maybe, Ted, you wanna pick it up on the content creation apps part of the question?

Speaker 3
36m 1s

Yeah. Look. What we've seen so far from these content creation apps is that it's likely to have a lot more impact on UGC creators the most in the near term. In other words, AI content replacing viewing of existing user generated content. That starts to make sense. Before we do, it takes a great artist to make something great. Writing and making shows and films well is a rare commodity, and it's only done successfully by very few people. So AI can give creatives better tools to enhance their overall TV movie experience for our members, but it doesn't automatically make you a great storyteller if you're not. So if music is a leading indicator of all this, AI generated music has been around for a long time and there's a lot of it. And it's a pretty small part of total listening, and established artists like Taylor Swift continue to be more popular than ever. So even in a world filled with AI music, AI seems to be mostly a tool for musicians to take to make to take their sound in new directions. And, you know, so we're confident that AI is gonna help us and help our creative partners tell stories better, faster, and in new ways.

Speaker 3
37m 5s

We're all in on that. But we're not chasing novelty for novelty's sake here, and we're investing in what we believe delivers value for creators and members alike. So we're not worried about AI replacing creativity, but we're very excited about AI creating tools to help creativity.

Speaker 1
37m 23s

Great. Thank you, all for your questions. So we're now out of time. So we thank you for joining us for our q three call, and we look forward to speaking with you all next quarter. Thank you.