Q4 2018 Earnings Call

Company Participants

- David B. Wells, Chief Financial Officer
- Gregory K. Peters, Chief Product Officer
- Spencer Adam Neumann, Chief Financial Officer
- Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development
- Theodore A. Sarandos, Chief Content Officer
- Wilmot Reed Hastings, Founder, Chairman & Chief Executive Officer

Other Participants

- Eric J. Sheridan, Analyst

MANAGEMENT DISCUSSION SECTION

Spencer Wang {BIO 3251222 <GO>}

Good afternoon and welcome to the Netflix Q4 2018 earnings interview. I'm Spencer Wang, VP of IR and Corporate Development. Joining me today are CEO, Reed Hastings; our new CFO, Spence Neumann; Chief Content Officer, Ted Sarandos; and our Chief Product Officer, Greg Peters. Our interviewer this quarter is Eric Sheridan from UBS. As a reminder we will be making forward-looking statements and actual results may vary.

With that let me turn it over to you Eric for the first question.

Q&A

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Thanks so much Spencer. And since, Spence you're new to the Netflix earnings call, I'm going to turn the first question over to you. First, congratulations on the role as the new CFO of Netflix. Maybe give us your perception of why the role intrigued you in terms of moving to Netflix? What your first perceptions are? And some of the things you plan on making the focus for your tenure as the CFO at Netflix?

A - Spencer Adam Neumann {BIO 3006410 <GO>}

Sure. Thanks, Eric. Well, first, I'm super excited to be here. Part of what attracted me is just what Netflix is trying to build. I've always been attracted to the high-ended product quality and ambition and Netflix has all of that and what we're creating. First impression, this is day nine. I haven't been here for long. I'm trying to really immerse myself in the business through a lot of listening and learning, really planning to do that probably the first 60 days or so for sure. And I've already been struck by; first, just the level of integration and collaboration across this company, all aspects of the company, combined with speed of decision-making, and moving forward has been really unique to see.

Sales; I've been really impressed with just the team, the quality of the team – not just my direct team, but across-the-board again, and their passion and commitment to continue to innovate and improve, improving the content offering, elevating the level of the – and quality of service we delivered to our members and not just our existing members, but our new members, and really driving that positive flywheel for our members and ultimately for our business.

So it's really been great. I've got a lot to learn. I want to thank everyone, all of the folks around the company for being patient and helping me with my onboarding, and really one just quick special shout-out to David Wells. He's been unbelievably gracious with his time, with his insights, and I'm sure he'll always bleed (00:02:17) Netflix, but I hope for a long time to come, he'll be a friend, a colleague and a resource for me.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Great. Maybe since we are at the end of one year and the beginning of another, I'd love to turn to Reed and maybe Reed ask you to set the table. What were the big learnings of 2018? What were the things that you felt the company really attacked in the marketplace in 2018? And as you look out to 2019 and beyond, what are those big opportunities, what are those big challenges, what are you trying to focus the entire management team around in terms of executing against the plan, looking forward for Netflix?

A - Wilmot Reed Hastings

For 20 years, we've been trying to please our members and it's really the same focus year-after-year. We've got all these ways to try to figure out, which shows worked best, which product features worked best, we're a learning organization. And it's the same virtuous cycle, improve the service for our members, we grow, that gives us more money to invest. So, it's the same things we've always been doing at just greater scale.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Fair enough. Obviously, I think almost every conversation each quarter starts with performance in the business. We saw strong subscribers in the quarter, a strong comment about the way subscribers should continue to start the year in 2019. Throwing it open to the broader team, maybe starting with Reed, but what did you see on the subscriber landscape as you looked out to the way the business performed in Q4 and what kind of confidence that's giving you in the growth opportunities looking out to early 2019?

A - Wilmot Reed Hastings

When you look at the chart we put in our earnings letter, which has the weekly growth rate, you can just see how steady it is, and we're just continuing to work away on all the things that we've always done. And what's wonderful is the internet entertainment market is just growing so we're continuing to fulfill the needs that we see. You want to add anything?

A - Spencer Wang {BIO 3251222 <GO>}

And Eric, if I could just add a little bit more color to Reed's comments, I would say the other facet I would highlight is that the strength in paid membership growth was really broad-based geographically. So really thrilled with the progress we're seeing in the International segment. And again that's not any one single territory or any one single country, but really broad-based and I think that reflects the global nature of the secular drivers that we have, which is adoption of broadband globally and the adoption of on-demand entertainment globally.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

And maybe following up on that, is there anything, and maybe this is for a combination of Reed and Ted, was there anything on the local language front? I know that is a piece that we've talked about on prior earnings videos about how local language content is driving adoption of the product on a global scale. Anything to be called out there you saw in the quarter that should portend well for 2019?

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Well, I'd say one thing, this quarter has been incredibly exciting and the things that are playing out, and you see the numbers. When you see a big number like Bird Box and You, these shows are playing incredibly globally. So it's an interesting thing when you can tap into the global zeitgeist with something which gets me very excited about the potential scale of the content business when the world is excited about something.

And then on the local language side, shows like Elite that can play very, very strong in their home country in Spain, but also play really well throughout the Spanish-speaking world and ultimately through the entire world and it's our ability to create hits and create movie stars and TV stars from anywhere in the world for the rest of the world is something that we've really been working hard at and have been incredibly enthused by the results in Q4 and how it's looking in Q1.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Maybe going back to something that's in the release that was also talked about in the press earlier this week that you're going to be raising price in Q1 in the U.S. market. Always curious what goes into the thought process around raising price on the service, how confident you are that customers are ready to absorb a higher price for the service when you look out. So maybe, Reed, I could start with your perspective on how you think about pricing the product in the marketplace and what it means for subscriber momentum going forward.

A - Wilmot Reed Hastings

Greg, I'll punt to you.

A - Gregory K. Peters {BIO 17539678 <GO>}

Sure. I think the model we've got is a fairly simplistic one where we think our job is to effectively invest the money that our subscribers give us every month so that we can give them incredible content and a better and better product experience. And if we do that well, we create more value for our subscribers and then occasionally, we'll come to them and we'll ask for a little bit more money so that we can actually start that next cycle of investment.

And so that's the overarching framework and then we look at the engagement levels and a bunch of other things to try and understand what our pricing should be and generally, we've seen that those are pretty accurate and the price changes that we've done are rolling out as expected.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Well, I want to follow up with you, Greg, on this because if you look versus a year-ago, tremendous level of push on the personalization side in the service, more focus on mobile on the product side as you've looked out over the last 12-months. Were those some of the things you saw that allowed you to see either higher engagement, new use cases emerging along the subscriber base? What did you see in some of those product developments that fed into maybe a pricing discussion?

A - Gregory K. Peters {BIO 17539678 <GO>}

I would say that I wouldn't tie them so directly. I mean, we're generally trying to think about every way we can make the product experience better for our members around the world and that's mobile changes where we give them a higher-quality experience. We also do things like we give them previews and the ability to sort of like do some sampling of content ahead of time to understand what's coming to the service, as well as things that you mentioned like increasing – well, we think about it as more like how do we tell a story about each of the stories. So when we have a new show coming on, how do we effectively communicate what we think is going to be relevant to each of our subscribers in a strong way so that they can get excited about those shows as well..

So those dimensions and really many, many others where we just constantly invest in and we don't really think about it. We're doing those things so we can increase price. We're doing those things so we can just create more fun and excitement for our members and if they have a great time, then we'll be able to invest more in content and making more product experience benefits.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Maybe just one more for you, Greg, before moving on. One of the things we noticed in the quarter was Netflix moved up the app download charts with respect to mobile smartphones in the IOS world. Always been a very downloaded app on the iPad front and the tablet front and smart TVs. Was there anything you guys did in terms of either pivoting the business more towards phone in the quarter and to start 2019? Is there anything on the product side you want to call out? Because it seems like a pretty pronounced change in some of the data we try to analyze?

A - Gregory K. Peters {BIO 17539678 <GO>}

Yes. Nothing really specific and I think it really speaks more to just the general relevance that the application has and as you see us sort of accelerate in terms of subscriber additions and more members around the world using the service, those members are using it on mobile in large part as well. And so we just see an increased rate of download and that's what we think is happening there.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Okay. Ted, following up on what Greg just said there, with the price increase going through and there's been other jurisdictions when you put price increases through and talking around similar frameworks of margins and free cash flow than you had talked about previously, I think the natural conclusion some of us have is the incremental investment dollar is going into content. So, Ted, help us understand, what is an incremental dollar that's being generated by the business going into on the content side, and how should we think about content investments in 2019 versus 2018?

A - Theodore A. Sarandos {BIO 4812832 <GO>}

I think Reed said it right, it's more of the same, but on a continued larger scale. So the level of investment that we're doing in our original film space, it definitely changes the economics in terms of licensing films in later windows versus producing films, which is a more kind of front-loaded cash activity but has a much better payback for us. And when you have something like Bird Box, the ability to investment in the next one is just, all the greater.

And I think in local language and content investments, continuing to improve the markets that are emerging for us, both in the markets that scale around, everyone is kind of likes some of the same things, and other markets that are more unique content tastes, like in Korea and Japan and India, where we were able to be much more fine-tuned about what we're offering in those markets as well.

A - Spencer Wang {BIO 3251222 <GO>}

And Eric, just to add on, specifically to narrowly answer your question on content spend for 2019, we're not giving individual expense line-item guidance, but I will say that it was $7.5 billion in content amortization in 2018 and I think you can obviously expect that to grow, and the trajectory should be pretty similar. But the other thing to bear in mind is that we've also committed to growing the operating margin as well in 2019 by about 300 basis points year-over-year to 13%. So those will work together. So you'll see improved margin, but also higher content spend as well.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

And then and we do see that payback, Eric, in – as Greg mentioned earlier in increased engagement. So which again continuing the virtuous cycle where you've got, the more investment you're putting in, the more people are finding content that they love, and the more they have value in the service.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Well, speaking to higher engagement, I think in reading the release, I was legitimately stunned that it was more viewership data in this release than I'd seen in a Netflix release in a while. I guess obviously, probably a lot of content that outperformed maybe expectations. But what drove some of the new, sort of, qualitative and quantitative commentary in this shareholder letter around engagement and viewership around key pieces of property?

A - Theodore A. Sarandos {BIO 4812832 <GO>}

I would look at it like, these are less financial metrics as they are cultural metric. So what does it mean when 80 million households watch Bird Box? Well, culturally it means exactly the same thing as 80 million-plus people buying a movie ticket to seeing it, or 80 million households watching a TV show. And so culturally, it's meaningfully out there. People are talking about it, tweeting about it, posting about it, challenging each other do different things, which we want people to be very careful when they do. But what's important is that for part of your Netflix subscription, you're in the zeitgeist. You're watching the programming that the rest of the world is loving at the same time.

So that's – so we gave you some numbers out, gave you some sense of the scale and the scope of it. I think it's important for artists to have the audience also understand the size of the reach of their work. So that's why you'll see us ramping up a little bit more and more and giving out – sharing a little more of that information.

A - Wilmot Reed Hastings

And then Eric, we also included this analysis of the total TV entertainment market in the United States. Just to point out how large a market that is, about a billion hours a day enjoying television, against gaming platforms, linear, DVD, Netflix, everything. And we're running about 10% to that. So it's just a very large and fragmented market. There's some incredible set of broad uses. And we did it on television because television is 100% entertainment time, whereas mobile phones and laptops are some percent entertainment and some percent work and communication activities. So that's just the sets of broad contest. In other nations we're a smaller percentage of the total TV viewing because we're less penetrated, but 10% is a great mark for us.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Eric, I also think it's a good data point around the fact that we are growing the entertainment business. So the idea that it's good for the industry to know, it's good for the creative community to know, it's good for fans to know that we're at a time when we're growing big audience films like that, the box office by way of example of the North American box office has grown in the fourth quarter, and in fact had some records. So I think it's a very exciting time, and we thought it'd be a good idea to give you some idea of the scale of that and how to put it in context.

A - Wilmot Reed Hastings

No doubt driven by the theatrical ambitions of Roma.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Yes. Yes.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Maybe going back to the product side, and Greg, when you hear about the engagement you're seeing and the content success of the platform, help us understand a little bit of how the product might evolve. I think one of the most unique things in the quarter was the interactivity of the Black Mirror product. Would love to talk about both the product side within Netflix and then on the content creation side. As Ted talks to content partners, about how that interactivity is something new, interesting, and might spur engagement, product development and content relationships?

A - Gregory K. Peters {BIO 17539678 <GO>}

Yes. It's a great example of us trying to take a technical capability and the flexibility of our distribution platform and trying to figure out how do we use those things to innovate online storytelling in a storytelling format. And it's super exciting to be able to do that in a way which, to your point, drives more engagement. We're definitely seeing that with Black Mirror: Bandersnatch, but also sort of extends the palette and the portfolio, the tool set, that the storytellers that we're going to be working with in the years to come have to tell their stories in the most compelling way. So I've been super excited about it, and you should anticipate we'll do more of those as we start to explore that format. Then I'll turn it over to Ted to talk about it from a content perspective.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Yeah. I would just say there's been a few false starts on interactive storytelling in the last couple of decades, and I would tell you that this one has got storytellers salivating about the possibilities. So we've been talking to a lot of folks about it, and we're trying to figure it out, too, meaning is it novel? Does it fit so perfectly in the Black Mirror world that it isn't a great indicator for how to do it, but we've got a hunch that it works across all kinds of storytelling, and some of the greatest storytellers in the world are excited to dig into it. To give you some sense, that's over five hours of content that's produced for that episode for people to choose their own paths, and there's countless ways that they could go and end up with. And that is an incredible challenge and a hugely exciting thing that differentiates Netflix for creators.

A - Gregory K. Peters {BIO 17539678 <GO>}

And I think in that challenge is also an opportunity, right? It's an opportunity to bring technology to bear to create a tool set for creators to make that process easier and more effective.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Right.

A - Wilmot Reed Hastings

Eric, there is one piece of data that didn't make the release, and that's what percentage of people chose Frosties versus Sugar Puffs? And the answer is 73% for Frosties.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

That's a level of data transparency we have not seen around content yet.

A - Spencer Wang {BIO 3251222 <GO>}

The most critical data point of the quarter.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Completely anecdotal, but the Sheridan house picked Frosties multiple times. So we fed into those numbers, my wife and I. Let's bring it all together now that we've talked a little bit about a price increase, subscriber trends, how money gets reinvested back into the content. Spence, I'd love to turn to you and say, when you think about the free cash flow profile of the business, some of the commentary in the letter around improving free cash flow from 2019 and beyond, how do you think about funding the business? The approach of the business has always taken to the Capital Markets. Any perspective you have that you think might be different than in the past? Or do you think it's going to be steady as it goes? How are you thinking about sort of the funding and the capital structure side of the equation, albeit new to the role?

A - Spencer Adam Neumann {BIO 3006410 <GO>}

Sure. So, well, first, we feel great about our content investment. It really is investment that is even as we talked about those viewing numbers and characteristics. That speaks to some degree the return on those content investments and the return on that capital. We feel really good about that, as obviously the move to more owned content and production has pulled forward some of that spend relative to the former operating model, the predominantly licensed model. So that has put pressure on the cash flows of the business and cash needs of the business for the past few years.

But what you saw in the letter is that we – the negative cash flow in the business of roughly $3 billion, 2018, we're predicting sort of similar levels in 2019 and then to meaningfully improve that trajectory going forward. So that comes with driving the subscribers in the business, driving the revenues, scaling the margins in the business as we've committed to from just 4% a couple of years ago to 10% last year and committing to 13% operating margins in 2019 and beyond.

So this is a business with characteristics that certainly allow for very healthy operating margins going forward. You can look at almost any benchmark of a comparable type of company. And so we feel very good about the operating leverage in the business long term, ultimately turning that into a much more positive contributor and conversion into cash flow. And ultimately, our aspiration is to be self-funding, and we believe we will do that over time with these content investments.

In the interim, as we continue to need to access the markets, I don't foresee any change to our approach. We've talked about the fact that we've accessed the debt markets to do that, and we'll continue to do so. We think that that is the optimal cost of financing and funding to-date, and we'll continue to pursue that path.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Great. Two back on the price increase and the subscriber forecasts for Q1. Just want to make sure there's a clarification point. Number one, in the shareholder letter you talked about the price increase going into effect during Q1 and Q2. If I remember correctly, the last time there was a price increase it went into effect over a 12-month period. Maybe just to understand a little bit what the mechanics are of the price increase so people can understand some of the decision process behind that, maybe how it flows through the numbers in the first half of 2019?

A - Spencer Wang {BIO 3251222 <GO>}

Sure. I can take that, Eric. So with respect to the price changes in the U.S., the new pricing goes into effect for new members. Existing members, it will be phased in over the next several months. So you'll see that impact over the course of the year. And what that means is that will obviously impact the rate of net addition growth in the first half of the year. But commensurately you also see ASP domestically improve over the course of the year. And that's what we think will drive an acceleration in revenue growth over the course of 2019. And that's what will also, we believe, drive operating margin higher sequentially over the course of the year to enable us to hit that 13% target for the full year.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Maybe one follow up that came through from investors just thinking through the price increases, it was reported or speculated in the press over the last couple of days, was how it might inform forward subscriber guidance. It looks like you're talking about U.S. paid net editions at a pretty similar level in Q1 versus Q4. And yet you are putting a price increase in place. The last time you did that there was a fair bit of conservatism in the forward guide. How should we reconcile maybe the framework for guidance versus the price increase going into the marketplace? How should investors interpret that?

A - Spencer Wang {BIO 3251222 <GO>}

Sure, Eric. I didn't say there was no change in terms of the guidance philosophy. And as we write every quarter, our approach is to strive for accuracy in our guidance forecast. And to do that, we take into account all the known variables that we're aware of when we set guidance. So really it is our best guess, and we're not by design trying to be overly conservative or overly aggressive and we're really trying to be accurate with it. So, that's the color I'd provide you with respect to that question.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Great. 2018, which we talked about in the last interview and has been a topic through the year was a year you framed as a company of testing and learning on the marketing front, possibly pivoting away from fewer subscriber acquisition, pivoting more towards spending money on the marketing side against your brand, individual pieces of content.

What did you, as a company, learn this year as you went through that process about the way to allocate marketing dollars on a global scale to arrive at the most optimum outcome of subscriber additions, promoting brand, promoting content, driving engagement? And how should we apply those lessons as we think out to the way marketing might be sort of trajects through 2019 and beyond?

A - Wilmot Reed Hastings

Almost all of our investments are around promoting these incredible new titles we have, like Bird Box. So that's our primary focus, at least on the paid marketing side. The earned VOD side is broad. And then we have some straight acquisition targeted marketing that we also spend. But the bulk of it is around promoting the incredible new titles and getting them broadly launched.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Great. And Greg, maybe following up with you, not just when you think about marketing dollars, but also when you think about distributing the product broadly, I think this was a year, 2018, where you struck a lot of partnerships to help on the distribution front. Love to start with Greg, but love to have anyone chime in that feels they should, on what some of those partnerships brought to the platform in 2018, how you think some of those partnerships are set up to aid platform awareness and distribution in 2019 and beyond, and how you think about the scalability for more of those partnerships when you looked out over the next couple of years?

A - Gregory K. Peters {BIO 17539678 <GO>}

Sure. And I think someone's been here for a decade-plus, it's sort of pulling that long thread of increasingly using partners in different ways to promote the service and to make it easy for members and members-to-be to sign-up. So we've been doing partners for a long, long time and it's sort of been this march from integration on devices and just make that a point to engage with the service to integrate things like billing on behalf of or we do billing integration. And now the latest iteration that we're working with is this bundling model, right? And so we're early on in that process, but I would say we're quite excited by the results that we're seeing.

And I think mostly it's because we believe it allows us to access a segment of consumers who are big entertainment fans, but maybe they're not as sort of technology forward or early adopters and so they haven't signed up with us directly. And so by putting Netflix on a set top box, which they're using to access a bunch of other video content, and by including the Netflix subscription in a package of either their mobile subscription or pay-TV subscription, we can make it just super, super simple for those folks to get to know Netflix and to enjoy the kind of big shows that we're seeing like Bird Box, et cetera.

So I would anticipate we'll do more of those. We rolled out Sky and Free in Europe this quarter and we've got more to come. But also worth noting that we're going to grow that segment of the business, but it's small in terms of acquisition impact. It's a nice supplemental channel, but it's small relative to the total organic subscriber acquisition that we have.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

I could add back to your last question, Eric, those distribution partners turned out to be great promoters of our content brands as well.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

And maybe one follow-up. When you do those partnerships, has there been one avenue that's moved the needle more than another, whether it's in the home broadband space partnering with infrastructure companies or on the mobile telephony front in promoting mobile usage and mobile engagement on the platform or have you seen roughly similar results irrespective of the type of partner?

A - Gregory K. Peters {BIO 17539678 <GO>}

I would say every market is different and every partner is different in terms of their goals and what the message that they're communicating to their subscribers and how we can link that message with the Netflix message as well. But so nothing stands out thematically or sort of a general trend that I would say, but each one is incremental and so we look to do more of all kinds.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Maybe going back to the shareholder letter, one phrase in the shareholder letter that, Ted, I wanted to ask you about, the phrase less focused on second run programming. I think one of the big investor debates and questions around Netflix becomes what happens to licensed content that may come off the platform in 2019 and beyond? How you plan for that content coming off the platform, what it means for investments, what it means for engagement? Maybe reflect upon that statement in the shareholder letter and how it informs maybe the mix shift or the planning process for content as you look out to 2019 and beyond?

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Well, most of those licensing deals are multi-year. So that gets caught up in our long-term content commitments that's all part of that content. Remember our early investment in doing original content about six years ago was betting that this would be – there would come a day when the studios and networks may opt not to license us content in favor of maybe creating their own services, which was – that's a corner that I'm glad we saw around a few years ago. And today, I'd say the vast majority of the content that's watched on Netflix are our original content brands. We do license a lot of second run content and in that we have a lot of episodes. So we have shows like Grey's Anatomy or Friends. We have hundreds of episodes. That's a lot of hours of watching. But if you stack all that viewing into kind of like a Top 50 or a Top 25 most watched shows by seasons, or by series, it's dominated primarily by our original content brands.

We are still a buyer in that second run market. We're both a pre-buyer, meaning, buying it before the shows come out, and sometimes an aftermarket buyer, but really it's up to the sellers whether or not they want to continue to sell.

A - Wilmot Reed Hastings

And adding to Ted's comments, the top brands that we have being originals like Bird Box are phenomenal. And in unscripted now, it's our first category where a majority of the viewing is branded original. In the other categories, we're climbing. Not yet at a majority, but on track for it.

A - Theodore A. Sarandos {BIO 4812832 <GO>}

And two-years ago, we didn't have any original unscripted content at all. So that's how fast that those moves can take place.

A - Spencer Wang {BIO 3251222 <GO>}

And Eric, we've also said we're not overly dependent on any one single piece of content as well. So the view is quite diverse, and as Ted...

A - Theodore A. Sarandos {BIO 4812832 <GO>}

That's true of our originals as well.

A - Spencer Wang {BIO 3251222 <GO>}

That's right. And as Ted mentioned, all these license deals are staggered and sort of waterfall in over a period of time. So there's no sort of cliff there.

A - Wilmot Reed Hastings

Waterfall and cliff, right.

A - Spencer Wang {BIO 3251222 <GO>}

I'm on a roll.

A - Wilmot Reed Hastings

Go on.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Maybe following up one more piece on the content side. One question that came into me as the moderator this quarter in a couple different ways was how to think about ownership of content versus co-production of content? What the right mix shift of that is medium to longer-term?

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Yeah.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

What some of the pros or cons are of the approach of either doing co-production versus outright ownership? And how we should think about that developing over the next couple of years?

A - Theodore A. Sarandos {BIO 4812832 <GO>}

Well, one thing is our main goal is to make the best content and we've said in previous quarters that that is a combination of several different business models depending on who owns the IP. So what we're going to do is make the best show and not be stuck on the business model because the consumer really doesn't understand that or we don't want to spend any time thinking about it.

So by way of example, last year we had 140 different shows around the world that premiered on a network somewhere and on Netflix everywhere else in the world. Next year it's more closer to 180. And these are a combination of co-producing with local producers in other countries, shows that then air on a network in that country and then premier on Netflix.

But when I say co-production, I mean we come in at the script stage, we come in at the first money stage, we're involved creatively with the production of that show. Bodyguard is a good example of that. That we produced with ITV, that the BBC premiered in the UK and at the same time we released it on Netflix around the world. And we produced it together at the script stage. We're involved in the production of that show. And outside of the UK, it is a Netflix original show, and in the UK, we follow a broadcast window from the BBC. And again, we've had a great success with the show around the world.

One additional data point is we have over 23 million households have watched Bodyguard on Netflix in the first four weeks, and it's a good example of taking a show from anywhere in the world to the rest of the world. And we do other ones where we're by territories. There used to be a tradition in television where the network would make one show and then they take it to the May screenings and try to sell market after market after market. That's less and less the case, while we're working with producers and networks now to pre-buy or co-produce for the rest of the world. A similar evolution to the old studio film business, where the studios used to carry the international rights until they sold them, and then they more frequently now go out and do international co-productions.

Eric, I think we have time for one more question, please.

Q - Eric J. Sheridan {BIO 17860961 <GO>}

Sure. And maybe turning it back to Reed, I think one of the more interesting sections in the shareholder letter, Reed, was you talked about the competitive landscape. Big question, big debate we get a lot from investors. You talked about in a lot of ways all ships rising, but talk a little bit about the landscape. What do you see out there on the landscape to attract user attention, user engagement, modernization, attract content creators? And how you think that competitive landscape will evolve? And how you think about navigating it from not only just 2019, but for the longer term, Reed?

A - Wilmot Reed Hastings

All ships rising is a little Pollyanna optimistic. I think about it really as us winning time away entertainment time from other activities. So instead of doing Xbox or Fortnite or YouTube or HBO or a long list, we want to win and provide a better experience, no advertising, on-demand, incredible content. And so when you think of the – I'll just do U.S. terms as an example, there's a billion hours of television content being consumed today. We're winning about 10% of it. And so that's why like Disney, they have great content. We're excited for their launch, and maybe they grow over a couple-years to 50 million hours a day, but that's out of the billion.

And so we compete so broadly with all of these different providers than any one provider entering only makes a difference on the margin. And so, again, that's why we don't get so focused on any one competitor and really think our best way is to win more time by having the best experiences, all the things we do, and that's helped us a lot. Another thing that's helped us a lot is having David Wells as our CFO for the last 10 years. It's been an incredible, joyous partnership, and so to wrap up this call, I'm going to turn it over to David Wells to come say goodbye.

A - David B. Wells {BIO 17034721 <GO>}

Surprise guest. So Reed and the group was great to give me this sort of last word thank you. A giant thank you to our investors. I've been here near 15 years. That's 51 quarters including this one with 32 as the CFO, 1,000% plus growth in the value of the company. And I've been a big part of that, and I'm really thankful and respectful for that. And I've got just super high confidence in Spence. We spent a lot of time together. I think he's going to be great for the next phase of Netflix growth. So really, thanks to all of the investors. Thank you.
