Q1 2021 Earnings Call

Company Participants

- Greg Peters, Chief Operating Officers and Chief Product Officer
- Reed Hastings, Co-Founder, and Co-Chief Executive Officer
- Spencer Neumann, Chief Financial Officer
- Spencer Wang, Vice President of Investor Relations/Corporate Development
- Ted Sarandos, Chief Content Officer and co-CEO

Other Participants

- Nidhi Gupta, Analyst

Presentation

Spencer Wang {BIO 3251222 <GO>}

Good afternoon, and welcome to the Netflix Q1 2021 Earnings Interview. I'm Spencer Wang, VP of IR and Corporate Development. Joining me today are Co-CEO, Reed Hastings; Co-CEO and Chief Content Officer, Ted Sarandos; COO and Chief Product Officer, Greg Peters; and CFO, Spence Neumann. Our interviewer this quarter is Nidhi Gupta from Fidelity. As a reminder, we'll be making forward-looking statements and actual results may vary.

With that, let me turn it over to Nidhi for her first question.

Questions And Answers

Q - Nidhi Gupta {BIO 15346079 <GO>}

Thanks Spencer. Thank you all for having me. Great to be with you and thank you all for all the great work over the years. It's been great for us to be understanding with you as shareholders. So with that, let's just jump right in. Obviously, you were comping a really big Q1 last year with 15 million net adds. The net adds this quarter came in below your expectations and below the Street's expectations. Any additional color you can provide on what caused this?

A - Spencer Neumann {BIO 3006410 <GO>}

Hey Nidhi, it's Spence. I guess I'll take this one first. Hopefully, you can see us, it looks like it's a little frozen maybe it's just frozen on our end. But look, so in terms of Q1 performance, it really boils down to COVID frankly. As you know, the extraordinary events of COVID have had a big impact on the world, continue to have a big impact on the world. And for us, at a minimum, it creates just some short-term choppiness in some of the business trends that we see in our business. So in particular, we have this huge pull forward in 2020 in terms of our subscriber additions nearly 40 million paid net adds in 2020, and we also have a near global shutdown in production which we've been ramping safely and at scale through much of last year and into this year, but it did push some key title launches into the back -- kind of the back end of this year. So the combination of those two things does create some noise, it's super hard to obviously kind of forecast quarterly subscribers in a typical quarter for us and particularly hard in this environment. In fact, on Page 2 of our earnings letter, we show our actuals relative to forecast which in our guide is our internal forecast for subscribers, and this -- because it's our forecast that we're going to miss every quarter, it's just a matter of whether they're bigger or smaller misses. And we can see, over the past five years, our biggest kind of misses to forecast either up or down the bit -- most of those big misses, the biggest ever in the past five quarters relative to the past five years and that was these five quarters of COVID. So just a difficult time to forecast the business, but the key is the business remains healthy. Our engagement, our viewing per household is -- was up year-over-year in Q1, our churn was down year-over-year and the business is still growing. So even at 4 million paid net adds, if you kind of take COVID out and look over the past two years, we've grown from two years ago to about 150 million members to almost 210 million now. So that's nearly 40% growth and at about just under 20% over an average over each of those two years, which is in line with the past couple of years. So the business remains healthy and that's because the long-term drivers, this big transition from linear to streaming entertainment and that remains as healthy as ever, but you do see a little kind of noise in the near term, but a lot of long-term clarity.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Thank you. That's helpful.

A - Spencer Neumann {BIO 3006410 <GO>}

Nidhi, we had those 10 years where we were growing smooth itself and then just a little wobbly right now. And of course, we are wondering, what wait a sec, are we sure it's not competition, because obviously there is a lot of new competition, and we've really looked through all the data, looking at different regions where new competitors are launched or not launched and we just can't see any difference and our relative growth in those regions, which is what gives us confidence if it's intensely comp competitive, but it always has been. I mean we've been competing with Amazon Prime for 13 years, with Hulu for 14 years, it's always been very competitive with linear TV too. So there's no real change that we can detect in competitive environment, it's always been high and remains high.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Well, it's encouraging to hear that, your churn was actually down year-over-year and you did announce some price increases in Q4 and Q1 in a few markets. So maybe just talk about how well the subscriber base have sort of absorbed these price increases in the current environment?

A - Reed Hastings {BIO 1971023 <GO>}

Sure. Greg, do you want to go first.

A - Greg Peters {BIO 17539678 <GO>}

Yeah, I do want to. So we're seeing results that are very similar to what we've seen over the last two years, which is that if we wisely invest in great stories and we increase that the variety and the diversity and the quality of our program, which Ted's team is assiduously trying to deal in every country around the world. We also invest in better product experiences that make it more delightful and easy to connect with those stories. We're just delivering more value to our members. If we do that well then we can occasionally go back and ask them to pay a little bit more to keep that positive cycle going.

And so having said that, I just want to reiterate, we think we're still an amazing entertainment value. We want to remain an incredible value compared to our competitors and the competitive offerings that are out there broadly. So even if we continue to improve the service, we like got that in mind and we want to make sure that we're accessible to more and more people on the planet through that process.

A - Reed Hastings {BIO 1971023 <GO>}

Great. And maybe the only thing I'd just add to what Greg just said, I agree with all of that is just very specifically in terms of what we see in the numbers on the churn side. Our churn is actually below pre-price change levels already in the U.S. and in most of the markets in where we have adjusted prices and just some of the newer ones haven't come all the way back down, but they're rapidly getting there.

Q - Nidhi Gupta {BIO 15346079 <GO>}

That's great. Can you talk a little bit about what you're expecting in terms of subscriber growth as the world reopens, there is anything you're seeing in your more open versus last open markets that would sort of give you a window into this, but how are you thinking about that and what sort of baked into your churn to do that?

A - Reed Hastings {BIO 1971023 <GO>}

Well tragically Nidhi, many countries have opened and closed over the year, and we've got many countries right now that are in real crisis. Fortunately, the U.S., not one of them right now. So we've got a lot of evidence on that point and there was the initial surge of COVID, which was quite large in subscriber growth and viewing, but since then, every opening and closing including the U.S. over Christmas really didn't generate any noticeable material effect. So I don't think there is any material effect we're going to notice about future openings and closings. Again because we've been through in many countries, pretty intense surges unfortunately.

A - Greg Peters {BIO 17539678 <GO>}

And the only thing I'd add I guess to Reed's point to specific to your question on the Q2 guide Nidhi is, related to that, it's very similar to what we saw in Q1 is what's reflected in Q2 in terms of still working through that pull forward, still working through some of the push -- slate of some of those big titles into the latter half of the year, and also it's a bit of a seasonally soft period for us. So those are all playing into it, but the good news, as I said, the core underlying metrics are very healthy and there is this clear catalyst to a reacceleration of growth and towards that back end of the year as those big title start to launch and strength of slates and we come out of that pull forward. So feeling good about the long-term trends.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Do you feel like Q1 and Q2 sort of encapsulate the pull forward that you're expecting. I know it's really hard to forecast when you add 26 million subscribers over the course of two quarters, the last year. But just how are you thinking about how the second-half might shape up with the additional content as well as maybe some of the pull forward behind us?

A - Greg Peters {BIO 17539678 <GO>}

Do you guys want me to take it --

A - Reed Hastings {BIO 1971023 <GO>}

I just --

A - Greg Peters {BIO 17539678 <GO>}

Go forward.

A - Reed Hastings {BIO 1971023 <GO>}

I'd just say one of the things to keep in mind is that we normally, we have to do kind of day in and day out, week in and week out, year in and year out, is deliver programming that our members love and value. And the shape of that gets determined sometimes two, three years in advance, so you go into these production cycles, you go into the planning cycles and you've got a pretty smooth release of high-profile projects and smaller kind of passion projects and all those things. And what happened I guess in the first part of this year is, a lot of the projects we'd hope to come out earlier did get pushed because of the post-production delays and the COVID delays in production, and we think we'll get back to much steadier state in the back half of the year and certainly in Q4 where we've got the returning seasons of some of our most popular shows like The Witcher and You and Cobra Kai as well as the big tempo movies that came to market a little slower than we'd hoped like Red Notice with the Rock and Ryan Reynolds and Galvadat and Escape from Spiderhead and with Chris Hemsworth, I mean big event content.

Now all that being said, in every quarter of the year, we released more content that we did in the previous quarter and the previous year's quarter-by-quarter and in every region. It's just I think the shape of the mix of the content is -- become a little more uncertain. And then the long-term impacts of the COVID shutdown are also becoming a little more uncertain in that timeframe in the first half of this year.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Great. Well, I want to shift to the big picture now that I've beaten you up about the quarter enough. So you're at over 200 million subscribers around the world, you're five years into your original content strategy, you seem to be coexisting really well with possibly the largest direct competitor you might ever see and your self-funding, thank you for that, we did notice. Maybe just talk about with that backdrop key priorities that you view in 2021 and really just the next two to three years as you see them? Maybe we can start with you, Reed.

A - Reed Hastings {BIO 1971023 <GO>}

Probably your reference was to Disney, but our largest competitor for TV viewing time is linear TV. Our second largest is YouTube, which is considerably larger than Netflix in viewing time and Disney is considerably smaller, but we're sort of in the middle of the pack. But in terms of what we focus on is the same things that we've always focused on which is our member satisfaction, drives retention of word of mouth and drives our growth. So it's where can we find the story that you talk about even more that you connect with, where can we improve our choosing where best things are recommended for you and then ultimately the content of can we have stories that are just incredibly compelling. And we're just quarter-by-quarter of learning more lessons on each one of those, which is what improves the member satisfaction, which is what really drives the growth.

A - Greg Peters {BIO 17539678 <GO>}

And I'd say one of the things to keep in mind is over the years media companies have been really great at exporting Hollywood content around the world, and I think I'm proud of how we've done that as well with shows like Bridgerton with over 100 million starters and movies reaching these enormous audiences all over the world. But the one thing that we really have done, really have sharpened our skills on are our last couple of years has been creating content from anywhere in the world and playing it all over the world. And the great thing about that is as those stories that are coming from all over the world like we saw with Lupin this year. This quarter was our biggest new series on Netflix in the world was Lupin from France, and the show was not like a watered down French show, it was a very French show. And what's really been great about it is as you tell stories from around the world, those -- the more authentically local they are, the more likely they are to play around the work of people recognize the authenticity of storytelling, and that's something that we've been really focused on as well as continuing to offer a very big variety of content from Hollywood to the world as well. But we've got news seasons of really popular shows from around the world like Elite in Spain, La Casa de las Flores coming up, The Naked Director from Japan, which has been enormous hit for us, The Gift from Turkey. So our ability to do this around the world at scale and be able to bring those stories to a big global audience is something that we're really incredibly proud of and we'll keep working on over the next couple of years.

A - Reed Hastings {BIO 1971023 <GO>}

And I'll pick it up from there. I'm also super excited about that aspect of our business to find stories from around the world and connect them with audiences around the world, and a companion piece of that is making sure that we increasingly are understanding what our members needs and sort of the members we haven't signed up consumers needs generally in more and more countries and they all have sort of unique constraints that they're working through, they have unique expectations from the service and our job is to learn more and more and more about what those are and make sure that we are being able to offer the service in a way that feels natural, that feels delightful to them, whether that's having the right payment method so that they -- consumers don't have to think about what hoops they have to jump through to actually sign up and pay for the service, to how we present the content on to them, regardless of what country it comes from or what language it's in but present it in a way that allows them just to get into the story of it and realize that the plenty and the amazing diversity of storytelling that exists across the planet.

A - Spencer Neumann {BIO 3006410 <GO>}

Yeah, I think it's -- I think everyone's pretty much hit it Nidhi. I will try to add, I mean, I get super excited about just this giant transition to streaming entertainment and streaming is -- the entertainment is it's the now and the future and we talked a little bit in the letter about our business and how it's transitioned over the last 10 plus years from DVD by mail to streaming from U.S. only to global and from license content to original production, but what's helped is just our velocity of decision making and our focus has served us well and it's just -- we're sitting here, we're still less than 10% TV view share even in our biggest markets so there's just as big long runway of growth if we stay focused and keep getting better. And so I just -- I love the opportunity to keep kind of continually getting better, improving our creative excellence, our operational excellence and just maintaining that speed and velocity even as we get larger as a company.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Great.

A - Spencer Wang {BIO 3251222 <GO>}

On the IR side, maybe I'd say my main job is to continue measure you're happy as well as other our shareholders. But I think what that means is, just making sure that you all understand what we're doing and why we're doing it from a strategic standpoint. In my finance role, supporting expense in the -- on the finance side just to make sure that we're allocating capital as wisely as possible and then continuing to support Ted and Greg and the other business units from a finance support standpoint.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Great. So Ted I'd love to dig a little bit deeper with you, film has been a recent the past on Netflix, 36 Oscar nominations, congratulations that's an incredible feat. So my question is over the long term, do you think what can be the primary or dominant way that (Technical Difficulty) films? And if so, what does it take to achieve?

A - Ted Sarandos {BIO 4812832 <GO>}

I don't know about dominant, but I would say, it's going to be a continually material way people view films. This is where the audience is kind of going and what we find is that we're not really kind of changing the way we make films for the way people watch films. So they're watching the kind of films they would have gone out to the theater to see, but in many cases and the convenience of their timetable and in the comfort of their home, where they can really enjoy a great new film, and it could be a film of enormous scope, certainly competitive to the kind of things you see in the theater, you mentioned the Oscars success and that's certainly one flavor of film making that we're super proud of, those are at 17 different films with an Oscar nominations this year, which is super incredibly exciting. But also the fact that we can do these very large scale action movies that audiences love on the world at the same level that have been produced for the theater. So I do think that that's going to continue to be more and more meaningful to viewers. That's how -- as to what percentage of films that they see in or out of the home.

Q - Nidhi Gupta {BIO 15346079 <GO>}

So over the years, you've been really successful like getting a higher share of kind of most-watched TV shows. When I look at IMDB top shows or most searched shows on Google, do you have to do anything fundamentally different in film to achieve that same level of kind of high share excellence?

A - Ted Sarandos {BIO 4812832 <GO>}

Yes. It's not dissimilar and the people just have very diverse taste. So you really kind of want to try to own in on. We've always kind of set out to do with your favorite film, your favorite show, whoever you are, wherever you are and whatever mood you're in. So that's why we kind of go out at it from so many different angles and it's a very unusual thing where you have Mank sitting next to the Tiger King on the show for most media companies, but we have very specialized teams that focus on being best in class of each of those things that they do, and that's how you think why we've had those results you're talking about.

A - Greg Peters {BIO 17539678 <GO>}

And Nidhi, I think we would say too, we would want need to spend more. So we spend a lot more right now on series than film, but that will grow as the total project grows. And then it's also the experience curve, we've been doing series longer and we're more dialed in about what was really big and what hits and we're getting there on film, and also on animation, also on kids, each of these have their own experience curve that we're progressing down.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Can you share any more details about the Sony deal, what -- I guess more specifically what is the rationale for the deal and what is it that you that your originals (Technical Difficulty)?

A - Ted Sarandos {BIO 4812832 <GO>}

Yeah. What so really exciting about that deal is that we are going to be producing global original films from Sony's IP library and their development slate for Netflix, that's really an incredible opportunity. The access to IP that we wouldn't otherwise have, and it's part -- it's a big global programming strategy over the next five years. The domestic pay one deal that is also part of that, I think complements and adds to -- but only for our domestic subscribers over there for five years, and we do think that that's a great thing and it complements our growing output of original film as well, but -- and we've had their output prior and through other deals over the last several years, it's been great. It's their great films that people have diverse taste, like I said, and I think this adds to that, doesn't compete with it.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Great. Switching gears to pricing, your price range around the world has really widened over the years, but the reality is in terms of willingness to pay, there's probably households in the U.S. that are willing to pay you $50 a month and then households in India that can't pay you more than $5 a month. So assuming over the long term that you can sort of match at one willingness to pay around the world, what do you think your revenue distribution will look like across these different pipelines?

A - Greg Peters {BIO 17539678 <GO>}

Well, as you point out, our spread has been growing wider and I think that that's part of that story. We're really trying to find a set of plan types with the right kind of features and we know folks are -- some folks have gigantic TVs at home and some folks are watching on their mobile phones, some folks are approaching the service as an individual, some folks are approaching as a family, so there's just so many different needs out there and so we're really going to try and match those feature sets at the right price points to that really wide group of folks, and we know that inevitably means that we're going to really sort of see an expansion of that. And an important part of that is making sure that we are continually looking at how do we broaden accessibility. So how we bring in price points that are low enough for more and more of the world's population to be able to access the service, to enjoy the kind of amazing stories that we are creating, you've seen us do that with rolling out the mobile plan for example in several countries in Asia that's sort of we find a good balance of features and price points. We're going to need to do more and more of that, but I think the broad trajectory is the one that you've seen which is a widening of the breadth of our offerings and price points associated with them.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Related to that your investment -- content investment in Asia has ramped up pretty significantly. I think you announced this quarter a $500 million and play 40 new films and series (Technical Difficulty) obviously tracking these and it may continue to ramp. I'm curious what sort of giving you the confidence to invest this aggressively in Asia, particularly in a market with bespoke the low share of global GDP and willingness to pay for premium content seems pretty (Technical Difficulty)?

A - Greg Peters {BIO 17539678 <GO>}

Well, remember, I think it's the product-market fit is what we're always looking for that we're programming the service in a way that consumers value it and love it, and it's a bit of trial and error at the beginning of each of the territories as we've rolled out and we started launching in international territories with no original programming in local language with local producers and now we're producing in most corners of the world. And I do think our confidence in investment in Korea, in India and Japan has been the success of the investments to date and then it gets us closer and closer to that product-market fit that we have in our more mature markets.

So I do think like -- and what we've seen in our Korean originals and our Japanese Anima is that they play really well around the region as well as in-country, and occasionally could be very, very global in their interest and desire. And fact that we can bring a global audience to those creators in each of the territories has been really attractive.

A - Ted Sarandos {BIO 4812832 <GO>}

And Nidhi, we had enough success in Japan and South Korea for you guys to think about it like Germany or France, like it's a big developed rich market, we've got that wired. India, we're still figuring things out and so that investment takes some guts and belief forward-looking, but the other investments you should think of just like richer countries, content exports really well and we're just getting a little better every month on it.

A - Spencer Neumann {BIO 3006410 <GO>}

And I'd just add to that you can kind of see that in the numbers too, Nidhi, even in what we released on the regional numbers, the APAC region was about a third of our member growth this quarter and also still kind of healthy revenue growth including average revenue per member and that's in part because it's the -- as we're also kind of as we improve the services, engagement is up and churn is down, we can occasionally take price increases, as Greg mentioned, and that happened recently in Australia, New Zealand and Japan, and I think our members are clearly appreciating the value of what we're delivering them, so the business is scaling and scaling well.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Yeah, that's helpful. So Reed is that but or belief when it comes to kind of these lower ARPU or just to be aware of market, does that eventually you'll be able to pay the kind of low ARPU high volume strategy or is it over the long-term incomes will rise in these markets, ARPUs will rise and the math will sort of work?

A - Reed Hastings {BIO 1971023 <GO>}

I think on that we're still learning. We've done some pricing experiments in India that Greg can talk about, and I would say, we're still mostly focused on getting a content fit and getting broader content. So that's why I say that one is a more speculative investment than say Korea or Japan, which again five years ago was very speculative, but we did those. Okay, but we've got -- we're over the hump on that, we've got a great match and we're still working on India and we're super exciting. And again right now this month, things were terrible in the COVID spike. But outside of that, we've been really producing a lot of great new content that's currently shut down.

Greg, do you want to talk about like Jio or any of that.

A - Greg Peters {BIO 17539678 <GO>}

Yeah, maybe a couple of things there, Nidhi, we recognized that -- we don't know a lot yet compared to how much we're going to learn over the next many, many years, and so our job is to really try and be innovative and push an experiment, and so whether that is pushing on the actual model in terms of like multi-month or sachet and sort of explore the ranges of that kind of offering, but then also something that we've seen that is quite successful for us in pretty much all the markets we serve around the world is leveraging go-to-market partners who have existing relationships with consumers as a way to expose them to the Netflix service and then have them make it easy to pay, enforce the ultimate and easy to pay as it's just included the sort of bundle offerings that we've been doing more and more, Jio is a great example of a partner, we've been working with them to really bring the service to a new demographic at a very, very low price associated with low-cost mobile plans that they're offering as well as home-based IPTV plans and those have been adjusted for us as well. So it's constantly just trying to push on all those different edges and really figure out what is that right price point or right offering and the right way that works for the local members and consumers.

A - Ted Sarandos {BIO 4812832 <GO>}

I'd just add that India has a tremendous opportunity, and I think Netflix offers a tremendous opportunity for the creative community to connect with the enormous audiences and it's just like all great opportunities, it's a long journey and it's a challenge and we think it's worth it and that's why we are investing early and trying to stay ahead of it. And I think we'll be able to see those kinds of results that we've seen in other places in the world as we continue to learn more and more and more.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Great, well. I'm a big consumer of your Indian content so keep it coming. Greg, you've started to run some tests in certain markets, I think maybe just the U.S. limiting account sharing. Can you talk about the size of the opportunity here and why now is kind of the right time to start tightening the screws on that?

A - Greg Peters {BIO 17539678 <GO>}

Yeah. First of all, we recognize that our members are in different positions again and they have different needs from us as an entertainment service and we're really seeking that sort of flexible approach to make sure that we are providing the plans with the right features and the right price points to meet those broads and needs. So we're going to keep doing that, we're going to keep working on that, working on accessibility across all of the countries that we serve. But we also want to ensure that while we're doing that that we're good at making sure that the people who are using a Netflix account, who are accessing it are the ones that are authorized to do so and that's what this sort of line of testing is about. It's not necessarily a new thing, we've been doing this for a while you may see it pop up here and there in different ways, but it's sort of the same framework that we use and I think you're familiar with it and so much about how we think about continuously improving the service which is, we iteratively work, we use the test and the test results to inform and guide how we proceed and just sort of continually try and make that better and better.

A - Reed Hastings {BIO 1971023 <GO>}

And maybe we will test many things, but we would never roll something out that feels like turning the screws, as you said. It's got a feel like it makes sense to consumers that they understand and Greg's been doing a lot of great research on kind of how to drive variance and harmonizes with the way consumers think about it.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Are there any particular markets where the subscriber or the user to subscriber ratio is particularly high?

A - Greg Peters {BIO 17539678 <GO>}

I think different -- every market every country is different, and so we see different ranges of behavior and I think just how people orient themselves to the service is different from country to country. So I want to -- it's more than just sort of how they think about how maybe they're working the system or part of it is how they think about sharing the service with extended family or people who they love is a natural part of how they connect with the stories that we're telling. So it's all different around the planet, and it's different within countries too as you might well expect.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Is this where a gap that you could close over the very long-term? Do you think that there is a bigger revenue opportunity in getting some people to pay more through limiting account sharing or getting everyone to pay more kind of (Technical Difficulty) which is the bigger revenue opportunity over (Technical Difficulty) 10 years or however long it takes sort of start building the gap?

A - Greg Peters {BIO 17539678 <GO>}

Well, I would say is I think the optimal revenue opportunity, optimal business opportunity is trying to figure out a way to best serve our members and trying to figure out the models, the plan types, the right price points, the right features that really work for them in a natural way and that really is what's informing sort of our investigation exploration. And I would say, we don't really know as most of the -- as often the case when we're sort of going down a path of innovation what the right place to land is our priority, that's why we do this experiments and we do the iterative approach. So it's mostly letting that process unfold and letting our members speak to us about what's really the ideal model for them.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Great. That makes sense. Spence switching gears to you. Now that your balance sheet doesn't keep me up at night anymore, I can ask a much more fun question which is, what you do with all the excess cash, you've been asked (Technical Difficulty) maybe just talk about (Technical Difficulty) cadence of that this particular buyback and just how do you think buyback philosophically over the next couple of years?

A - Spencer Neumann {BIO 3006410 <GO>}

Yeah sure Nidhi. So as we've said in the letter and the last couple of letters now, we've -- we think we've turned that corner, we know we turn the corner on that net cash flow story. So we expect to be about cash flow breakeven this year and then sustainably free cash flow positive and growing thereafter. And so -- and we don't intend to build up a bunch of excess cash on the balance sheet. So we will maintain a debt level, a gross debt level at $10 billion to $15 billion range, we paid down about $500 million in principle in Q1. So we

-- our gross debt did come down from the prior quarter, and we think that share buybacks are a way to return value to shareholders in a way that is responsible steward of capital, but also maintains a level of balance sheet flexibility for us to continue to be strategic. First and foremost, our number one priority is to invest strategically into the growth of the business, but then of course return excess cash to our shareholders. So we're still maintaining a goal of about two months of revenue is our kind of cash on the balance sheet and you'll see us ease into that share buyback program. So it'll start this quarter. As I say, I think you'll see us ease into it and we're authorized for up to $5 billion of share repurchase and we kind of get the program going this year.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Okay. Reed, you've remained incredibly focused over the years, I remember you telling me recently just the importance of keeping the main thing the main thing, which has obviously led to a lot of success for Netflix. But when I look forward to the next 10 years, which I realize is a very long time, but if you continue to be successful adding, call it, 30 million subscribers a year, you'll be at well over 500 million subscribers in 10 years which feels like a high level of penetration. So I guess with that backdrop, how important is it to sort of have the second half versus continuing to let the business mature and focusing on capital return?

A - Reed Hastings {BIO 1971023 <GO>}

Well, YouTube and Facebook and those properties are at multi-billion and the Internet is only growing. So where we so fortunate to get to those numbers that you referred to, we're going to be super hungry to double from there going forward too. So outside of China, I think pay television peaked about 800 million households. So lots of room and that was several years ago that a peak, lots of room to grow. So thinking about it as we do want to expand, so like we used to do that thing shipping DVDs and luckily we didn't get stuck with that, we didn't define that as the main thing, we defined entertainment as the main thing and so then we expanded into what Ted expanded us into original content. And first, it was original series and then films and then animation and kids and unscripted and so bit by bit we're adding categories. So we got a lot of work to do in terms of different types of entertainment that we'll continue to do that, lot of work in terms of our global production.

So I don't think it will be a second act, in the sense that you mean like a AWS and Amazon shopping, now that we end up with one hopefully gigantic, hopefully very defensible profit pool and then continue to improve the service for our members by doing that, by expanding in category. So I wouldn't look for any big large secondary pools of profits, there'll be a bunch of supporting pools like consumer products that can be both profitable and can support the title brands. So that's an obvious one.

A - Spencer Wang {BIO 3251222 <GO>}

And Nidhi we have time for two last questions.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Thanks. So I mean just to follow up on that, people often view gaming as kind of a natural expansion or adjacency, for you that's obviously still within the entertainment category, as you mentioned. In what ways is that true or untrue and is there a way to do gaming sort of Netflix pile. And Spence the way you guys came from that world?

A - Reed Hastings {BIO 1971023 <GO>}

Exactly in ways we're kind of in gaming now because we have to add a snatch and we have some very basic interactive things, but Spence and then Greg maybe talk a little there.

A - Spencer Neumann {BIO 3006410 <GO>}

Well, I'll probably let Greg mostly go. I would just say, it kind of ties to what you -- what Reed said. I mean we've kind of dabbled in already through some of our interactive programming as well as on the licensing and merchandising side in consumer products and we're a business that continues to learn and so far learning has been -- it's been good learnings. We were happy with how it's played out and hopefully we continue to kind of color in from here, but I don't know Greg if you want to add to that.

A - Greg Peters {BIO 17539678 <GO>}

I'll just take one more sort of point at it which is that, Nidhi, we're in the business of creating these amazing deep universes and compelling characters and people come to love those universes and they want to lose themselves more deeply and get to know the characters better and their back stories, all that stuff. And so we really were trying to figure out what are all these different ways that we can increase those points of connection, we can deepen that fandom and certainly games is a really interesting component of that. So whether it's game of find some of the linear storytelling we're doing like interactive and/or snatch and the kids interactive programs that's been super interesting. We're going to continue working in that space for sure. We've actually launched games themselves, it's part of our licensing and merchandising effort and we're happy what we've seen so far. And there's no doubt that games are going to be an important form of entertainment and an important sort of modality to deepen that fan experience. So we're going to keep going and we'll continue to learn and figure it out as we go.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Great. Well, if we have time for one more and my last question is just over the last five earnings calls, how many times would you say Ted has used the word, Zichies [ph].

A - Ted Sarandos {BIO 4812832 <GO>}

Zichies a lot.

Q - Nidhi Gupta {BIO 15346079 <GO>}

I had only noticed every time I was listening to the previous earnings calls.

A - Ted Sarandos {BIO 4812832 <GO>}

It's a good word. Nidhi, you've got it. Now you have to admit, it's a good word.

Q - Nidhi Gupta {BIO 15346079 <GO>}

Well, actually have a real last question, which is of your Oscar nominated films this year, which did you most enjoy watching and if I can go first, mine was White Tiger.

A - Ted Sarandos {BIO 4812832 <GO>}

I'm going to diplomatically pass the question to Reed.

A - Reed Hastings {BIO 1971023 <GO>}

Chicago 7 for me.

A - Spencer Neumann {BIO 3006410 <GO>}

White Tiger for me.

A - Ted Sarandos {BIO 4812832 <GO>}

Chicago 7 for me.

A - Reed Hastings {BIO 1971023 <GO>}

White Tiger for me too.

A - Ted Sarandos {BIO 4812832 <GO>}

So I don't completely went out, you should take the time and watch it, really beautiful animated short that's Oscar-nominated called If Anything Happens I Love You. That is really I think a remarkable bit of storytelling in a way that people can really expand the universe of what they think storytelling could be.

A - Spencer Wang {BIO 3251222 <GO>}

And Ted, maybe you can wrap us up.

A - Ted Sarandos {BIO 4812832 <GO>}

Awesome. So thank you so much, Nidhi, for joining us out for the call and walking us through this. I know that our -- what we're busy doing, and I know that some folks are on edge today watching the news and it's in parts and pockets of the world like our friends and colleagues in Brazil and India are having a particularly tough time. Know that our hearts and thoughts are with you as well. But thank you, we'll see you next quarter.
