Q1 2019 Earnings Call

Company Participants

- Greg Peters, 'Chief Product Officer'
- Reed Hastings, 'Founder and CEO'
- Spencer Neumann, 'Chief Financial Officer'
- Spencer Wang, 'VP Finance'
- Ted Sarandos, 'Chief Content Officer'

Other Participants

- Eric Sheridan

Presentation

Spencer Wang {BIO 3251222 <GO>}

Good afternoon and welcome to Netflix Q1 2019 Earnings Interview. I'm Spencer Wang, VP of IR and Corporate Development. Joining me today are CEO, Reed Hastings; CFO, Spencer Neumann; Chief Content Officer, Ted Sarandos; and 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 Eric for the first question. (Question And Answer)

Eric Sheridan {BIO 17860961 <GO>}

Thank you, Spencer. Reed, I'd love to start with you, now that we're three months into 2019, against your broader goals for what you're expecting for the business in 2019, what are the key messages you want to share with investors on how the first three months of the year went?

Reed Hastings {BIO 1971023 <GO>}

Well, we put in the earnings latter our weekly net adds, and it's just phenomenal how steady, smooth and up into the right that is to start off the year with over 9.5 million net additions. It's a phenomenal start.

So steady progress, basically the same as many prior quarters, cranking away on amazing content, amazing service, and steady growth around the world.

Eric Sheridan {BIO 17860961 <GO>}

Maybe sticking with that them on the subscriber front, we'd love to understand some of what you saw internationally in subscriber strength, there were some particular pieces of content that seem to resonate globally on an individual and on a worldwide basis. So, I'd love to ask both from a content perspective and the subscriber growth perspective, maybe to Ted and Greg, how you're thinking about the subscriber performance especially internationally in Q1?

Ted Sarandos {BIO 4812832 <GO>}

Well, the one thing that was good about in terms of the content connection is the things that worked best that we called on the letter are things that worked around the world, which was really fantastic. And then we had some great international breakouts, where they really help drive excitement in by way of example, Kingdom in Korea that did phenomenal and get watched -- and it's getting watched all over the world and throughout the region.

So yeah, we've been able to work on a very local basis and very global basis with the content this quarter.

Greg Peters {BIO 21267215 <GO>}

And then from a product perspective, the basic model that we've seen consistently across pretty much all the markets that we operate in as we launch our service, we get a chance to learn from our members, they tell us what content we incrementally need to provide to them, we do better, better job at that, how we modify the product experience, what we need to add from a payments perspective, from a partners perspective. And we're seeing that basically in all the markets that we operate in the world and so the long we've been in a territory like Europe is a great example, we got a lot of stuff dialed in and consumers are really loving us and that's leading to great accelerating growth.

Eric Sheridan {BIO 17860961 <GO>}

Ted, may be following up with you on local content that goes global.

You got a number of hits now that started as local language and went global. Are you getting better at identifying what those pieces of content might be? What are your learnings as you are getting more of those types of successes in the model?

Ted Sarandos {BIO 4812832 <GO>}

Well, we've kept one strict principle around it, which was that these shows have to be very locally relevant, and to do that, you have to be pretty authentically local. So we're trying not to do is try to in-authentically make a global show because basically it just doesn't work for anybody. So the more authentically local the show is the better it travels, which we've seen with Kingdom.

So fans of K drama around the world love that show, and it resonated incredibly well for us in Korea. Similar in the -- coming up, we have a new season of Rain coming out this quarter, that is perfectly suited. We don't try to make it water it down or make it travel any better inorganically, and have found that the best way to make global stories is to make them incredibly authentically local.

Eric Sheridan {BIO 17860961 <GO>}

So Greg, may be coming back to you on the subscriber front, you had some information in the letter about the amount of traffic globally that you get from mobile.

But we're continuing to see performance above what we thought in terms of download of Netflix app on phones globally. Can you talk a little bit about mobile as a stimulant for both traffic subscriber growth? How you might go after that on the product side over the medium and long-term?

Greg Peters {BIO 21267215 <GO>}

Sure, I think the most important headline message there is actually, frankly how much time we don't win on the mobile experience, right? So over in 97.5% around the world, people are using other different entertainment services otherwise to enjoy their time on their mobile phone. But certainly what we are seeing is that mobile is an increasing way for us to attract new subscribers. It's a great place for folks to find out about Netflix to sign-up the service.

Even if they're signing up the service on mobile and then they're watching on other devices like the TV, which we see as a common paradigm, they are virtually well with our partners because whether it's handset partners, which we can work to sort of preload our application on or actually the mobile operators, which we can work on increasingly doing things like bundling the Netflix as part of their standard offering, which you see us doing more and more around the world, it's a great way for us to make it super simple for our members to sign-up for Netflix and enjoy that experience.

Eric Sheridan {BIO 17860961 <GO>}

Maybe I'll start with Spence, but would love a couple of different perspectives on this. It was a solid outperformance on margin in the quarter and the company talked about shifting some expenses into the later part of the year than maybe what you'd envisioned when you guided Q1. Can you talk a little bit about how the cost structure evolved in the business in Q1? How that margin outperformance came about and maybe give a little bit more granularity on those shifting costs as you look through the better part of 2019?

Spencer Neumann {BIO 3006410 <GO>}

Yeah, sure.

I think the takeaway is we're overall very pleased with our continued margin progression. We guided at the beginning of the year to increasing our margins by 300 basis points for the full year to13%. We came in this quarter slightly ahead. Part of it was we're continuing to scale our business in terms of some combination of content and marketing spend in particular, growing at a slower rate than revenue.

In this quarter in particular I think you saw that on the marketing line where we had a lot of growth and experimentation marketing last year, which we talked about. We talked about the fact that we would level off that growth this year and you saw that come into play in Q1, which was a meaningful driver of that margin expansion. The timing in the quarter was not all that significant. There was some spend in particularly on timing of some creative spend and creative development spend on the marketing side, in particular that shifted to later in the year as well as some content spend.

But nothing material and we're well on track to that 13% full-year margin.

Eric Sheridan {BIO 17860961 <GO>}

And just to follow up there, Spence, just to make sure we understand the message from the letter. Still second half versus first half should be the way investors think about the margin profile of the business this year against that broader13% goal?

Spencer Neumann {BIO 3006410 <GO>}

Yes, I mean, you'll see some margin expansion as you can see in the guide for Q2 as well, and then it will continue to expand in the back half of the year. As you know, there have been some price adjustments in the first half of the year that have been flowing through, that also between that and just our member growth, we'll see the benefit of that margin expansion in the back half.

Eric Sheridan {BIO 17860961 <GO>}

Maybe one more on the quarter in the letter itself, back to you Ted. For the second quarter in a row you gave a lot of information about consumption of the product in the quarter, and some of the watch statistics. So I'd love both Ted and Reed maybe to weigh in on how you think about the type of watch and engagement statistics the company is getting when measured against the broader media landscape, what that means for the company longer-term, whether we can expect to continue to hear that from the company going forward?

Ted Sarandos {BIO 4812832 <GO>}

Yeah, definitely. We're trying to get to a place where we could be a lot more transparent both with our producers and with our customers who are incredibly interested in helping them make better choices by based on -- it's a lot of times that's influenced heavily by what's the world watching.

So being able to share some of those numbers gives people a better sense of what things that they might be interested in as well. And just real quickly, I can correct myself, Eric. I said Sweden for Rain, but obviously the show is from Denmark. But what I want to do is point out that over the next several months, we're going to be rolling out more specific granular reporting first to our producers, and then to our members, and of course to the press over time, and be more fully transparent about what people are watching on Netflix around the world.

Eric Sheridan {BIO 17860961 <GO>}

And Reed, how do you think about the broader media landscape? What Netflix is trying to solve for and go after as a big opportunity over time when measured against a type of watch or engagement statistics that company is putting up against the original content?

Reed Hastings {BIO 1971023 <GO>}

I think we're just beginning to start to share that data, as Ted mentioned, and we will be leaning into that more quarter-by-quarter. But the big picture for our members is they watch all kinds of things. I mean, our members are watching pay-per-view and DVDs, our members are watching linear, our members are watching Fortnite -- are playing Fortnite, it's all of these things. So think of it as the real metric is, can we keep our members happy and grow that subscriber base as we did so strongly in Q1.

Eric Sheridan {BIO 17860961 <GO>}

So, maybe sticking with you Reed, you had a section in the letter about Disney, some of the competition that's coming to the broader landscape, maybe just help people frame how you see the competitive landscape? How do you see those types of products existing alongside or in competition to Netflix, and what your sort of view is at the landscape going forward?

Reed Hastings {BIO 1971023 <GO>}

Sure. Well, one part is great competition makes you better, and so we're thrilled to have Apple and Disney in. They're awesome companies, and just to be in the same league as them is very exciting for us. And then on a practical basis, there's already so much competition.

I mean, we mentioned we only win 2% of downloading on mobile, it's like 98% of the time people are not doing Netflix. On US televisions, it's 90% are not watching Netflix. So there's a ton of competition out there, and Disney and Apple add a little bit more. But frankly, I doubt it will be material because again, there's already so many competitors for entertainment time, which is great for consumers and it's exciting for us.

Eric Sheridan {BIO 17860961 <GO>}

Greg, I'd love take that answer and maybe go to you next, of how you think about the product itself when you see potential new competitors coming to the field, what do you think some of the big differentiators you have on the product side? How you think about pricing as a company longer term? And maybe where you want to take the product medium to long-term?

Greg Peters {BIO 21267215 <GO>}

Sure, I mean. Again back to Reed's model, we sort of see this broad landscape of competition and our job is to think about every touch point that we have with the service and how can we make it incrementally more compelling. How do we connect our members with the amazing content that we're making in a way, which is new and differentiating. You talk about international, that's a great opportunity where we think about localizing this content well, whether it's in subtitles or dubbing, and then actually explaining to our members, connecting our members with those stories in a meaningful way, which then opens up them to watch TV shows or movies from around the world from countries that they never would have conceived of doing before.

And I think that's a huge example of the opportunity we have to bring this global platform to bear in the right kind of product experience to create differentiation. And then with regard to pricing, I would say again back to this sort of framework of broad, broad competition where a bunch of different entertainment options are being provided, all sorts of different models, some ad-based, subscription at different pricing points. We don't really think there's sort of an immediate equivalency or substitution, and so mostly it's about how do we create more value, how do we put the right content and present it the right way that's compelling and differentiating for our members. If we think we do a great job at that, we'll just win more of those viewing hours, we will deliver more value to our members, and we'll be able to grow from a subscriber perspective like we did this quarter.

Eric Sheridan {BIO 17860961 <GO>}

Maybe turning to Q2, where you laid out, the company laid out its vision for subscriber growth and talked a little bit about ARPU in Q2 as well. Maybe talk a little bit broadly, I don't know maybe Spence and then going to Greg as well, talk about the building blocks of the way in which you're framing the subscriber growth going forward in Q2, the price increases that are going through a number of jurisdictions, what that means for ARPU, what it means for churn? So, investors can better understand that.

Spencer Neumann {BIO 3006410 <GO>}

Yeah, sure. I can start then and others can chime in.

You can see that we guided to have 5 million paid net adds in Q2, which is similar to where we were a year ago. There's definitely some seasonality to our business, which we see in Q2. You see that again this year, but say in general, our paid net adds are very much in line with what we've been planning and targeting for the year. On a first half of the year basis, you see that 7% year-over-year growth.

The specific growth in Q2 is more concentrated internationally, that's just as we talked about last quarter, we're rolling through our price changes in the US So, that has some moderation on our net adds. The good news is there is that our -- the growth in our acquisition that we acquire, it's consistent in terms of our ability to kind of grow our subscribers. There's just some temporary churn that enters the system in the midst of rolling out these price changes, but this is why you see more of a net adds waited to our international segments in Q2. But overall, very healthy going according to plan and very strong growth for the first half of the year, and putting us on track as we also mentioned in the letter for another year of record paid net add growths for the full year.

Reed Hastings {BIO 1971023 <GO>}

And Eric, just to add on to what's Spence said, you -- in the guidance, you will see that there is an acceleration in ASP growth, as well as in revenue growth in Q2 relative to Q1 and that's a function of some of those price adjustments that we talked about earlier.

Eric Sheridan {BIO 17860961 <GO>}

One maybe follow-up because it did come in and advance in a number of ways. When you think about churn with the price increase, do you look to historical trends or do you look to sort of near-term trends, because this was an interesting price increase that it started rolling into effect in the middle of Q1 and it appears it will be done in terms of going into effect towards the middle-to-back end of Q2? What the historical trends you've been looked through to anchor yourself to or you are sort of looking at other recent price increases on markets like Canada and others to inform how to guide?

Reed Hastings {BIO 1971023 <GO>}

Do you want me to take that or --?

Greg Peters {BIO 21267215 <GO>}

I would say maybe that there's a bunch of historical performance and modeling that we use to keep an eye on these things. But generally, I would say things are going as expected and this is one of those relatively infrequent moments where as we invest more in the service, more great content we got, incredible movies coming like Irishman, and Six Underground, improving the product experience.

We occasionally go back to our subscribers and ask them to contribute a little bit more. So we can find that next cycle of growth. And everything that we're seeing right now is very consistent with that model.

Reed Hastings {BIO 1971023 <GO>}

I would just add on to Greg too that as even in the US, for the first time, we increased our entry-level pricing and the overall blended price increase was a bit as a result of a little bit more significant than last time around.

And even with that, the churn levels are very consistent with when we last took pricing in the US So it's all consistent with our plan and consistent with what we've seen historically.

Eric Sheridan {BIO 17860961 <GO>}

Along those lines with pricing being driven by success on the content front, Ted, maybe you could talk a little bit, it's a very full content schedule as you get through Q2 and then the back part of the year, maybe frame a little bit about what you're excited to bring to members on Netflix, how that's lining up against some of the key investment you're making in some of the buckets like movies, local language content and some of the returning series that people know well on the platform?

Ted Sarandos {BIO 4812832 <GO>}

Yes, well, definitely in the third quarter, we've got new episodes, new seasons of some of our most loved and most watched shows on Netflix, Stranger Things, La Casa de Papel, Orange is the New Black, 13 Reasons Why, Elite which was a big hit for us out of Spain. New season from Ryan Murphy of The Politician, a brand-new show on Netflix that we think our audiences are going to love. And then you start seeing later in the fourth quarters some of our bigger film investments coming through like Irishman, like Six Underground and also a big new original series that we're currently shooting in Hungary called The Witcher that is enormous European IP, very popular game and book IP that we think is going to make a really fun global series.

So we've got -- and then moving into our kids and family and our animated originals, both on the feature side and on the series side, two of the bigger best class will be on to our fourth quarter animated features and Green Eggs and Ham from Ellen DeGeneres, exact producing very ambitious 13-episode animated original series with the feature quality animation. That's been in the work for about four years. We're really excited to bring to our members in the fourth quarter.

Eric Sheridan {BIO 17860961 <GO>}

Looking out to Q2 and the rest of the year, would love to ask a little bit about what you're seeing in India.

I know you don't break out subscriber additions, but we love to understand some of the investments you've made in content in India, how those investments in content are resonating in the marketplace. And then maybe, Greg, you can pick it up and talk a little bit about the product side and what you're seeing from an adoption standpoint in India as well.

Ted Sarandos {BIO 4812832 <GO>}

Yes, we were super-encouraged out of the gate with Love Per Square Foot and Sacred Games where not only do we get a lot of viewing in India, but just it took an incredible position in the Zeitgeist where people are talking about and writing about the excitement of show, of the quality of Sacred Games. And then recently, we followed it up again with

Delhi Crime that people are also really loving it in India and is getting watched outside of India as well.

But most importantly, it's a steady drumbeat and then add to that another dozen original films coming in India that we're seeing the investment in local language content in India payback in the form of excitement and member growth and hours growth, that's encouraging us to keep going.

Greg Peters {BIO 21267215 <GO>}

And as we sort of have that ongoing content investment and we're really providing stories that Indian consumers really love, it's an opportunity for us to look at how do we broaden the accessibility of the service then to more and more Indian consumers. And so, part of that is making sure we have the right payment models in place, and innovating and testing with our new models to make the Indian consumer feel like they have existing ways of paying that are natural to them that they can use to pay for Netflix. It's also much a partnership stuff.

We launched a big partnership with Airtel which is working for us quite well. So we can use different go-to-market mechanisms already exists that any consumers are familiar with to make it easy for them to just sign up for the service and try it out. And frankly, we're also trying to do a bunch of experimentation with just our plan structure and thinking about pricing and plans, and what do we do to test different models that allow us to bring a lower-priced plan with the right feature sets at the right price in a way that the Indian consumer, and in fact, consumers around the world can understand so we can broaden the accessibility of the service now, right? So, all that's an ongoing effort that we think is a great match for the broadening of the Indian content catalog that we have.

Eric Sheridan {BIO 17860961 <GO>}

Well, maybe if I could just follow-up one with that, Greg, it does seem like a mobile-only maybe lower price product could open up a lot of demand in the developing world.

How do you think about some of the opportunities and the challenges when you think about a mobile-only offering or something at a lower price point in trying to get the mix of content versus subscriber economics right?

Greg Peters {BIO 21267215 <GO>}

Yes. I think that's a great example of something that we're trying out. We're not positive if that's the right model. But it's -- we're quite certain that we should do something to find a price tier that's lower than the existing lowest price tier to broaden that accessibility.

We think that that will be important to adding members in India. We'll see what the right mix of features is because there is a bit of a magic to try and get that the right set of features at the right price point in a way that the consumer can relate to, right? It has to be sort of natural and intuitive to the consumer that this is what they're getting. So we've got more work to go do there, but it's something we're highly focused on and anticipate we will make more progress and towards gun [ph].

Eric Sheridan {BIO 17860961 <GO>}

Maybe turning next to M&A and the broader strategy for the company, Reed.

I'd love to start with you, as you look at the strategy laid out for the company over the medium to long-term, how do you think about some of the aspects of the strategy that might be better to go out and acquire versus build yourself against the big long-term opportunity? And maybe I'll follow-up with one for Spence.

Reed Hastings {BIO 1971023 <GO>}

I don't think investors have too much to worry about there. We've been going for 20 years. We've done one or two micro acquisitions, but no big appetite, no big need.

We got clear sailing ahead if we can produce the world's best content, we can deliver it with the best user interface, then we can grow for many-many years ahead. So that's we're focused on. So, a lot of tough execution, it's keeping ourselves all focused on that. And then we're letting other companies do many different strategies, but we know what our is and we're having a lot of fun just executing on it.

Eric Sheridan {BIO 17860961 <GO>}

Okay. Spence, I wanted to jump off the M&A question, ask more about capital allocation. You're now more settled in your role than I think it was seven or eight days when we did this interview three months ago. So I'm going to grill you a little bit harder on what you're seeing in your role, what you see as some of the big opportunities for you to tackle in the role as CFO here at the company and how that fits into the broader capital allocation sort of pecking order that the company is trying to accomplish?

Spencer Neumann {BIO 3006410 <GO>}

Yeah, I think it's very much aligned with what Reed just mentioned in terms of we just see this incredible growth profile for the business.

If we remain focused and executed this giant market, that is continuing to shift from linear to on-demand and streaming. So there's a giant market opportunity globally. And we want to execute against that. So that ties into your focus in terms of capital allocation and getting smarter-and-smarter about how we allocate our content dollars and programming mix in partnering with Ted and the team and continuing to invest in the product, and the experience with Greg and his team.

So that's what most focused on and then helping to continue to scale our company. So we intend to be a much larger and much more profitable self-funding company over time. That is the path we are on. As we talked about in the letter, we're committed to improve our cash flow profile meaningfully starting in 2020, and then each year thereafter, we'll continue our capital structure similar to how we funded it to-date to continue on that path.

We talked a lot about that in the past. So to me, it's really about helping the team continue to focus, remain disciplined and build that -- continue to build that muscle of increasing profitability and improving our cash flow profile as we scale.

Eric Sheridan {BIO 17860961 <GO>}

Maybe one more for you following up there Spence, came in to me in a couple different ways from a lot of debt investors asking about the expansion of the credit facility, the prior comment about free cash flow improving in '20 over '19. How should investors think about the self-funding component versus the need to continue to tap the debt capital markets, as you think the funding the business initiatives inside the company?

Spencer Neumann {BIO 3006410 <GO>}

Yeah, well, there's no real change in our philosophy or strategy.

So we did expand our revolver recently. We did that just recently as the business has gotten larger. It was an opportunity for us at the same cost of capital. So it's there for a rainy day, we don't -- we haven't used it, we don't intend to use it, but we thought it was prudent to take advantage of.

And we'll continue on our path of funding with the high-yield markets. As you know, we have a very significant cushion between our total equity capitalization and our debt to capital ratio. We also have obviously high level of interest in those -- in the debt funding markets. It is the most efficient cost of capital for us.

We spend a lot of time, I spend a lot of time as the new CFO focused on our liquidity, our payment timing and our cash flow needs, and feel very comfortable with this approach to our capital structure. And then as I said, this is -- it's not a forever in terms of using the debt markets to fund our cash flow needs because we are moving or moving towards that self-funding path, as I said starting in 2020.

Reed Hastings {BIO 1971023 <GO>}

So, I think the message, Eric, to debt investors is you better get in soon because there's not going to be that much more to go.

Eric Sheridan {BIO 17860961 <GO>}

To be noted.

May be sticking with content, but I'd love to start with Reed and then go to Ted, probably the most important question I get a lot from investors is thinking through the narrative of some of the licensed content that's been popular on the platform coming off over the next couple of years due to some of the industry players making their own decisions, and how you think about aligning your own investments around your own original content to fill in any gaps that happen from a consumption standpoint. Maybe just starting with you Reed, how do you think about the content landscape and how it feeds into the competitive landscape? And Ted, I would love to understand from you how that feeds into the planning for content, not only in '19, but over maybe the short and medium term over the next couple years.

Reed Hastings {BIO 1971023 <GO>}

We don't think about it as filling in, that's very minimalist. We think about it as can we change the world with great stories and we're so thrilled to be able to have the money to do that, and to invest forward.

And I think you'll see that the series, and the movies and the reality that we're doing, the nature programming, I mean, you look at our planet. That's not filling in for anything else. That's setting a bold new vision of what programming can be. And so we're charging forward, again we've expected this decline of second window content, have been ready for it, anticipating it.

In fact, we're eager to be able to have more and more of our money to be able to do spectacular new titles. So let me pass it over to you, Ted.

Ted Sarandos {BIO 4812832 <GO>}

Yeah, I'm 100% concurred. And I think what's the thing to keep in mind is this is seven years ago when we thought it was likely that the studios and networks would like to keep their second windows for themselves over time, that we better start getting good at creating our own programming, and getting in business with creators who could do that for us and with us.

And that's what we set out to do. And over every year our percentage of spend, our percentage of hours watched have continued to grow towards our owned original and branded shows on Netflix and films. And when trying to do that across all the things that people love, scripted series, unscripted series, feature films, documentaries, stand-up comedy, a great kids -- kids programming, as Reed said, isn't just replacing one thing for another. We have this great You Vs.

Wild, which is an interactive show for kids, it's mostly being done with families that they can watch interactively together. And we'll have about 25 million people spending a lot of time on You Vs. Wild in the first 28 days on Netflix, which is an incredible success and it's pushing storytelling forward, which I think we're trying -- we're going to be doing with things like the Irishman, both in terms of windows of availability and also in the kind of the technical execution of great storytelling, and that's what we're really after. So there's a lot of focus on what's licensed and how much gets watched, all those things.

And so in the entire history of television, there are lots and lots of hours of programming that people watch fairly interchangeably, but the shows that we -- that our members most value give us for, and the things that we really pay a lot of attention to, if you look at our top 10 most watched shows on Netflix, they're all Netflix original brands. And in the top 25, there's only four shows that have the -- at least the single-season that crack into the top 25 even. So, increasingly our business is about creating and telling great stories around the world that are exclusively on Netflix, and giving opportunity for new storytellers all over the world.

Reed Hastings {BIO 1971023 <GO>}

Eric, I would just add, if you look at the multi-year or sort of track record of the company, we've gone through different periods of the content library changing, whether it was APEX or stores, in general, we've been able to sort of adjust the content library and really grow right through that.

Ted Sarandos {BIO 4812832 <GO>}

Yeah, it's hard to imagine, it was 2017, a couple of years ago when Fox had sunset all of their second window content on Netflix off of the service to focus on their own efforts, and we've seen how we've been doing since 2017. So, we're pretty happy about it.

Reed Hastings {BIO 1971023 <GO>}

And then before that, there was APEX coming off, and Discovery, and we just continued to grow throughout that using the money to invest like Our Planet we commissioned four years ago. So there's a lot of planning that goes into this, and that's what makes it exciting.

Eric Sheridan {BIO 17860961 <GO>}

Well, along those lines, I thought there was a really interesting piece in the shareholder letter that looked at a product that would show users the top-10 shows that were trending. It seems like it's a beta test in the UK Greg, we would love to understand what the goal of that beta test is, what it might do for user engagement? How you think about that as a sort of natural evolution of the product to almost create crowd sourced content engagement?

Greg Peters {BIO 21267215 <GO>}

It's an example of one of 100 tests that we will do in a given quarter to try and actually make the product priced better, but the core idea behind this is there's a bunch of our members, who really enjoy watching the most popular shows because they enjoy watching the show and then engaging in the public conversation around the show, and all the memes that are shared around and so the idea here is let's do good job at using the product, and other public communication channels to basically let our members know what are those most popular shows, so they can watch and then participate in our public conversation. So we're quite bullish on that, and we'll see how it does.

Ted Sarandos {BIO 4812832 <GO>}

And I would only add as it is a popularity is a data point that people can use to choose, not the most important one and not the only one, but we don't want to -- we don't want to suppress it, if it's helpful to our members.

Greg Peters {BIO 21267215 <GO>}

That's exactly right and I think to Ted's point basically, our members have a broad set of things that they're evaluating what they want to watch on and our job is to figure out for any given member what's the information that they're going to find most relevant to make that decision, for some members that will be popular.

Eric Sheridan {BIO 17860961 <GO>}

Greg, sticking with you, another point that was raised again in the letter was around distribution deals. What they're doing for the business is both growing the brand, growing awareness of the service, driving subscriber growth. Can you give us a little granularity on sort of what you see from these partnerships, what it means for the company longer term? And what the landscape even could look like to do additional partnerships over time?

Greg Peters {BIO 21267215 <GO>}

Yet again, this is sort of something we've been on a 10 plus year trajectory on and improving the way that we use partners, the way that we leverage those other companies out there to make a connection with members, and started with just putting our application on different devices.

So, yes, there was another easy way to find Netflix and in to enjoy the service and go from there. But progressively, we found things like Bill-on-Behalf of where your members could pay for Netflix via their mobile operator charge, or their pay-TV charge, that was just yet other way to make it easier to sign up. And then most recently, we have bundled deals where sort of the simplest model, where you just get Netflix as part of your pay-TV offering or your mobile offering. That's a great way for folks to try Netflix very simply.

They have easy access to viewing on maybe their set-top box or their mobile phone, and allows us to access a subscriber base that might be a little bit slower in signing up directly with us for Netflix. But I think it's also -- and while these bundled deals are great, they're performing quite well for us, and we want to expand them, it's also I think relevant to note that as a fraction through all those channels of the total signup's we do in any given quarter in any given year, it's still quite small relative to our organic channel or people signing up with us directly. So we'll see more and more of those. I think it's a nice supplemental channel that accelerates our growth with that.

Eric Sheridan {BIO 17860961 <GO>}

Ted, may be turning to you on the movies front, obviously, you continue revolve the strategy on distribution of movies, when you think about some of the things having to go into theaters or thinking about different windows yourself for your movie content, how has that strategy evolved? What sort of feedback are you getting from the content creation community? What are you seeing from users, and how they want to consume the content, and how might that sort of continue to evolve the movie strategy over the medium to long term?

Ted Sarandos {BIO 4812832 <GO>}

So, I think these are all case-by-case. So and a lot of times, I would say that we're always have been for consumer choice. If I had my way, I would love to have the movies that are on Netflix to be available in 2000 theaters at the same time that they are on Netflix. We just don't control the programming of those theaters.

So when I say that, what I mean is the people want to go out and have a good time and pick a great movie, and if we're making the great movie, they don't have the opportunity to see it on the screen, they just -- they don't go out. So the opportunity, I think, would be for to give consumers as much choice as possible. But we can only control that what's on Netflix. We are the -- primarily we're releasing in theaters and on Netflix day-and-day, meaning that the by the time they've been there on Netflix, at the same time in the theaters.

We have an opportunity -- taking the opportunity to promote the films and generate publicity for the films, release them in select theaters a few weeks early. But in general, we wanted to be in theaters and on Netflix at the same time. But we can only control Netflix. And I think what it is a lot less to do with the room in which people can consume and all those other things.

We have to focus on making great movies and then anyone who's involved in the ecosystem of presenting movies and watching movies, we'll take, we'll have to take notice of those films. So that's what we're trying to do is just make undeniably great movies with undeniably great filmmakers.

Reed Hastings {BIO 1971023 <GO>}

Eric, we have time for one more question please.

Eric Sheridan {BIO 17860961 <GO>}

Sure.

So, Reed I'd love to end with you with a little bit of a light-hearted question, but also one that I think allows you to frame a little bit about where you come from and where you've gone. I noticed in the press of the last week our competitors said that Netflix may or may not have a brand, is what they implied. And I figure you probably disagree with the statement that Netflix doesn't have a brand. So I would love to understand your vision of sort of where the Netflix brand has come over the last half decade, as you've evolved the company and how you think about repositioning and involving the brand to stay at the front of the curve where the industry's going over the next half decade?

Reed Hastings {BIO 1971023 <GO>}

We're -- excuse me, we're a makes of great innovator that people love us for trying new things that's both in terms of on demand and it's creatively with the different series that we're doing and being really great comfort zone, where you just want to curl up and enjoy and you know Netflix is going to be great.

So, it's that combination of comfort and innovation that's so powerful for us. And when I think of the quarter, just to wrap up, the one little time I was not watching Netflix on Sunday, I was watching Tiger Woods and the PGA, like probably half of America. And when I think of those beautiful shots right down the middle of the Fairway, I think about the 6,000 employees at Netflix hitting that perfect clean shot and that's what the quarter was. So congratulations to everyone on a fantastic Q1 and looking forward to getting the green jacket for the year for the team.
