Q4 2019 Earnings Call

Company Participants

- Greg Peters, Chief Product Officer
- Reed Hastings, Founder and Chief Executive Officer
- Spence Neumann, Chief Financial Officer
- Spencer Wang, Vice President of Finance & Investor Relations
- Ted Sarandos, Chief Product Officer

Other Participants

- Michael Morris, Analyst

Presentation

Spencer Wang {BIO 3251222 <GO>}

Good afternoon and welcome to Netflix Q4 2019 Earnings Interview. I'm Spencer Wang, VP of IR, and Corporate Development. Joining me today are CEO Reed Hastings, CFO Spence Neumann, Chief Content Officer, Ted Sarandos and Chief Product Officer, Greg Peters. Our interviewer this quarter is Mike Morris from Guggenheim. As a reminder, we will be making forward-looking statements and actual results may vary.

With that let me turn it over to Mike now for his first question.

Michael Morris {BIO 2323139 <GO>}

Great. Thank you Spencer and good afternoon. Before we dive into some of the details we provided in this quarter's letter, I'd love to have Reed provide some strategic thoughts as we head into the New Year, the new decade. Perhaps we can start with just, what were the most important strategic accomplishments in your mind of 2019 and as you look forward, what do you hope to accomplish this year?

Reed Hastings {BIO 1971023 <GO>}

You know, we've had the same strategy basically for 20 years, which is please our members and they help us grow and we've done that in a variety of ways, of course, initially just with DVD, by mail then the combination. And if you look at what we've done in expanding film and making that a really strong aspect of Netflix, we've had a lot of continuous progress, but it's the same strategy we've always done, how do we learn, how to please our members, whether that's on the the product side, marketing side or content side and the next decade, we anticipate the same. How do we use the great resources that we have to do even better.

Michael Morris {BIO 2323139 <GO>}

Now let's talk a little bit about some of the key specifics from the letter today. The first, of course, is the guidance on your member growth for the coming quarter. You had a very strong fourth quarter compared to your guide, the first quarter is lighter than it was in the prior year. You talk about some of the potential for timing between the first and second quarter. I think the key question on investors minds is how to think about the full year. 2019 looked very similar to 2018 with the strong fourth quarter. How should we think about about the coming year in that regard?

Spence Neumann

You want me to take this one?

Reed Hastings {BIO 1971023 <GO>}

Sure.

Spence Neumann

I'll take this one, Mike. So first I should say Mike, our opportunity, we grew our opportunity, our long-term opportunity is big and unchanged, so we should be clear about that. We are not providing full year guidance, but when you think about Q1, again it's comping off of the all time biggest quarter we've ever had in Q1 of last year. We guided to 7 million paid net adds in 2020. So when you look at that Q1 2020 number of 7 million, that's still big growth. That's -- we've only had four quarters in our history where we've grown more than 7 million in paid net adds and the number specifically reflects, first there is primarily a US story there and that we have seen and we talked about in the letter, some elevated churn in the US from combination of pricing and competition. We've kind of rolled that through into Q1 including a full quarter of competition in Q1 versus a partial quarter in Q4. We also anticipate that competition rolling out globally throughout the year. So we're trying to be prudent, but thinking about that impact throughout the business. And then we talked about as well is when we think about the seasonality -- the arc between Q1 and Q2 the first half of the year, we think it's likely to be more balanced because of the timing of the price changes we took that rolled through Q2 of 2019. So we think that our seasonality is going to look more like 2018 and 2019 when you think about the first half of the year.

Michael Morris {BIO 2323139 <GO>}

Okay. And when we talk about competition, you've mentioned churn a couple of times with respect to the potential impact. Can you talk about competition on both the gross adds and engagement as well? Especially on engagement, I know it's early, but clearly the Disney+ product is a -- has a very heavy kids and family focus to it. Have you seen any specific engagement change on your content in that genre?

Spence Neumann

Sure. Well, I'll jump in and others can. We actually alluded to this in the letter, Mike, the great thing is, first off, we're growing in Q4, including in the US even with some of the noise from competitive launches and ultimately what drives our business is increasing member satisfaction in viewing and what you also see in the US, what we saw across the board is that our viewing, our per membership viewing grew not just globally but in the US through Q4 and continues. So that bodes well for our long-term opportunity, as long as we keep getting better.

Reed Hastings {BIO 1971023 <GO>}

And Mike think of it the Disney product, Disney+ has a lot of great catalog product in one big new show, Mandalorian and that primarily is going to take away from linear TV and takes away a little bit from us, but again most of the growth in the future is coming out of linear TV.

Ted Sarandos {BIO 4812832 <GO>}

It draws down by a variety of people could do because it was so broadly distributed prior to the launch.

Michael Morris {BIO 2323139 <GO>}

Okay. And I guess the last thing on this particular topic is the behavior outside the US as compared to the inside. Clearly within the US a more mature market, and that's where the products were primarily focused in the fourth quarter their launches. We do have some more expanded international rollout particularly Disney talked about or announced a broader European rollout at the end of the first quarter. Any thoughts specific to that? Is that factored in, is it one of many things, what's your thought there?

Reed Hastings {BIO 1971023 <GO>}

It's one of many. I mean, Disney is going to be a global service quite quickly and there are many other global services. Remember that we compete a lot for your time with YouTube and it's not dollars because that's as reported. But we compete very broadly for viewing and as Vince mentioned, our viewing on a per member basis is up and that's because our content is getting better, our service is getting better and that's all coming out of linear TV.

Ted Sarandos {BIO 4812832 <GO>}

I would say that their brands are definitely global brands, but they are with the exception of China they're not more popular than they are in the US anywhere else in the world.

Michael Morris {BIO 2323139 <GO>}

Okay. And so, Greg, a question on pricing. When we spoke last quarter you felt these competitive launches would not have an impact on your pricing. So I guess the first question is, now that you have this quarter under your belt, any update on that -- on that point in particular?

Greg Peters {BIO 17539678 <GO>}

Yeah, I think it's useful to start with just noticing that our revenue in the United States is up 23% year-over-year in Q4. So we're still seeing pretty significant growth there and we're not seeing anything that fundamentally contradicts our core model or suggests that it's changed in a material way. That model is if we do a good job of judiciously investing the money that our members give us every month and great stories and better product experience is creating more value for them, then we occasionally earn the ability to come back to them and ask them for a little bit more money to keep that virtuous cycle of improvements going and everything we're seeing could use to support that core model is intact so that's our job.

Michael Morris {BIO 2323139 <GO>}

Okay, great and go down on the path, a little bit further, historically, you have done some sizable price increases at least on a percentage basis, on a somewhat spread out timeframe. How do you think about possibly doing perhaps a single annual price increase in a more mature market at a more modest rate. I hate to say this but maybe somewhat more similar to what people have experienced with their cable bill or something to that effect?

Greg Peters {BIO 17539678 <GO>}

We don't have a fixed model that our PR coming in saying this is the right approach. So I think our job is to actually listen to our members, the signals that they're giving us in terms of the engagement that we're seeing that engagement growth that you heard we're going after and we'll really use that as a mechanism to guide us towards when have we earned that opportunity to come back and ask for more. So we're not really coming in with just a fixed model that we're going to shift to or anything like that.

Ted Sarandos {BIO 4812832 <GO>}

And we are putting hits on the board and we can see that in the, in terms of watching and engagement and subscriber growth and growth in the zeitgeist around our projects. Then the more of the more you can do that, the more frequently you can go back. So we have to -- we're in this great model where we have to prove ourselves to our members literally every month. So it's a really, it does hold us to a very high bar and keeps us coming back and doing more and topping ourselves, if we need to.

Michael Morris {BIO 2323139 <GO>}

One last question on this is around premium plan subscribers versus your standard plan subscribers which largest you've mentioned the past clearly the largest group. What has been the trend with respect to your subscribers moving to the premium plan and is there a way to further incentivize down to almost have a self opted price increase, but also clearly getting an improved product as well?

Greg Peters {BIO 17539678 <GO>}

I think we're again constantly evaluating the right balance of what features, what prices at those various different tiers. But we haven't seen a significant shift in that and we see a healthy take rate across all of our plan options, which is a really good sign. I think that we're providing a range of options at a range of price points that allow consumers in the markets that we serve to sort of select into the right model. Again, we want to be innovative about that and we'll look for ways to create more value across all of our tiers, but right now that blend is pretty healthy we think.

Spencer Wang {BIO 3251222 <GO>}

And Mike, I would just add that in terms of plan mix you have over the years seen a slight migration towards the higher price point plans that is something that we have seen, but it's quite gradual. So there is no sort of big jump in any sort of given quarter but quite a gradual increase in that which I think maps to the growth in Smart TVs, and high definition TVs.

Reed Hastings {BIO 1971023 <GO>}

Yeah.

Michael Morris {BIO 2323139 <GO>}

Okay. I'd like to switch to a few questions on content and content strategy. So Ted the ramp in feature film product in particular both development release big step forward for you in 2019. As you look into 2020, what are you most excited about, either from a content perspective or an overall thematic perspective, there was a healthy amount of information on some key titles and after but would appreciate you highlighting the things that are most important to you?

Ted Sarandos {BIO 4812832 <GO>}

Well, looking forward to next year we get the opportunity to do some things that we know have worked and come back with some sequels and our super popular YA genres, we've got these rom coms To All the Boys I've Loved Before and Kissing Booth coming back with sequels in Q1 and Q2. We have big -- big ticket action films with Mark Wahlberg and Charlize Theron and Chris Hemsworth, more like the things you've seen in Q4 and trying to program our movies like we do our series for every taste, every mood, every region of the world. So it's not trying to make one size fits all program and that's what we have so much of it. We just wanted, we are, we want to hold it out to a very high entertainment bar. So you're going to see us working across all genres like we did in Q4 and still continuing to kind of press up the production quality and the production investment in these films.

Reed Hastings {BIO 1971023 <GO>}

And those are all coming out in Q1 and Q2 of this year and some in Q3, Q4. So we just got a tremendous slate this year.

Ted Sarandos {BIO 4812832 <GO>}

And I think then in the -- the one thing that we have, we put it on the letter it's exciting that we end up with being the most nominated studio at the Oscars this year with our films, but the most exciting thing is those films are incredibly popular with our members as well.

Michael Morris {BIO 2323139 <GO>}

So that leads into another question which is, as you have sort of shifted and increased this focus on film Ted in particularly, you've highlighted a couple of reasons for that and benefits to members those have included there is some comparison with respect to the value proposition rate when compared to a film?

Ted Sarandos {BIO 4812832 <GO>}

You know what a movie ticket costs, so sure.

Michael Morris {BIO 2323139 <GO>}

Exactly. I think we've also talked about the ability for film content to travel there's sort of a perhaps a broader global base of interest. Anything else that you would highlight or remind us up for why this shift in investment or maybe not shift but expansion is important and also now we have another year under our belt with a pretty robust slate, so how things been progressing as you would have expected given those objectives?

Ted Sarandos {BIO 4812832 <GO>}

Yeah, it seems like when I look back at Q4, I look back, say, I'm glad, we decided to do this, about a year and a half ago because that's about the time it takes to secure the deals, that obviously do the production and get through post and get everything delivered at the level of quality that we are able to and so now we have all of that kind of ramp up behind us and we have steady flow of projects like you've seen in Q4. Similarly with future animation, when I see where we're at today with access to programing and all those other issues we've been ramping up our future animation for last three years and really hit the ground their first project with Klaus in Q4. That was a complete audience pleaser and an Oscar nominee for best animated feature and that will keep a steady drumbeat going there as well.

In Q2 we have an animated feature called The Willoughbys and in Q4, we have Over The Moon, which is a -- from Glen Keane who did Little Mermaid and Beauty and the Beast. So these are big theatrical scale animated features and big scale feature films that would be competitive with anything you'd see in the box office and I think people really do value them and to your point, they do travel much more predictably than TV series do.

Michael Morris {BIO 2323139 <GO>}

One of the things you just mentioned and clearly has been very widely reported and seen is the critical acclaim that you've achieved and you've had growth in Golden Globes, now at this point Oscar nominations. My question is around the business benefit of that and the cost of achieving it as well. Maybe it's a somewhat open-ended question, but how much is it costing you at this point to have those films in a place that they can be considered for that and what does the time frame for the benefit to -- the business look like for that?

Ted Sarandos {BIO 4812832 <GO>}

Well, you've seen the expansion this last year within the confines of our existing content budget so we're growing, it's how we're choosing to bring the incremental spending to the table in terms of the bigger breadth and scale of films, but not taking it away from our growth in series which is also growing and particularly in our local language series which we've reported before, but we are growing by 130 seasons of local language series around the world as well. So to me I look at it as the growth, the benefit to the business is the growth that you're saying.

Spence Neumann

And I would just add to that. So oh --.

Reed Hastings {BIO 1971023 <GO>}

You'll see that if we further our reputation for doing well for content, sorry for talent by being one of the best in the world at winning awards for our talent, then the business benefit is that we will win deals that we wouldn't have otherwise won for incredibly entertaining content. So think of all of our awards work as really smart way to make us the best home for talent in the world.

Greg Peters {BIO 17539678 <GO>}

And I think it's also worth noting that there is a consumer component in this too. I mean, some of our members around the world use the awards pieces as a sign of what they wanted to watch so that when we present those that information to them, we actually see them respond to that. So there is an immediate benefit there as well.

Ted Sarandos {BIO 4812832 <GO>}

And just -- at one point, that there is a typically there seems to be a big gap between critical acclaim and award-winning and popular and we are really trying to do and we have in the past quarter achieved both, meaning we are bringing popular film to the market and at such a high quality, that's also being recognized by the critics and by the awards and groups.

Spence Neumann

Sorry Mike. I just want to just chime in, just to that point, it is working. Already the model is working li terms of seeing the return to our business. I mean that programming at that level of diversity and quality across such a broad member base ultimately is driving member satisfaction. It's growing our member base, it's growing our revenues if you seen roughly 30% revenue growth this year, we're growing our profits both our profit margin and up to 2.6 billion of operating profit this year, we're delivering on our cash flow objectives including on a path to improve our cash flow profile next year as you saw in the letter material improvement from negative 3.3 billion this year to roughly negative 2.5 billion next year on the path to cash flow positive over the coming year. So you're seeing it play out in the business model already.

Michael Morris {BIO 2323139 <GO>}

To that point Spence, my next question, for you was really around your cash investment on content in the coming year. Can you share a specific in terms of the growth that you're anticipating there and also can you just help us with the modeling side, which is the amortization of that content relationship between that amortization and the cash investment?

Spence Neumann

Yeah, sure. So we'll continue to increase our content investment across the board next year because as I just said, we're seeing a great return on that in terms of our business model. Our content ammo is just a little under $10 billion in this past year in 2019. I think you should expect to see without specific guidance a similar level of growth in that kind of -- I'd say roughly in that 20% range this past year and you should assume will continue to invest at those types of levels this year. The conversion or the relationship between our cash spend and our amortization that ratio was about 1.6, meaning 1.6 times the cash investment relative to our amortization is about $15 billion of cash investment this past year in 2019 and you should see that ratio continue to come down a little bit again, without a specific number but we're scaling into the business.

So we've moved a long way in this business model transition from what was once an all license content business to now the well over 50% of our cash spend is on originals, the future of our business is mostly originals and we've very much transition there. So that puts less, less sort of pressure on our working capital. So that's playing out in the numbers as well. So similar growth rate in amortization but it's getting closer in terms of our cash versus amort and you're seeing that in terms of the improvement in the cash flow trajectory next year.

Reed Hastings {BIO 1971023 <GO>}

And Mike I'm sure you realized it but it is a huge milestone in our growth of last year being peak negative free cash flow. And so we're on the glide path slowly towards positive free cash flow. We're excited about that, but that's not coming from shrinking back our content spending, that's coming from the increase in revenue and operating income.

Michael Morris {BIO 2323139 <GO>}

Great. So let's pull it back a little bit and talk about some of the, a couple of additional content issues or topics, if you will. Friends, a big title, I believe one of your more popular titles came off the service at the end of 2019. I realize only three weeks in, but you do see the data real time, has this content being moved off the platform impacted your consumer engagement, your member engagement at all?

Ted Sarandos {BIO 4812832 <GO>}

Nothing that we've seen or can measure.

Michael Morris {BIO 2323139 <GO>}

Okay, so let's also talk about viewership then, a couple things. I had a question here and then you gave us an entire page of viewership metrics.

Ted Sarandos {BIO 4812832 <GO>}

Mike, I should probably put a little more color on that simple answer. It's just say we've had over the years incredible popular product come on and off the service and expires. And typically what happens is our members through our incredible personalization deep library and broad library are able to find their next favorite show and that's will happen with Friends -- with Friends fans and some of them will find it elsewhere and some of them will find their next favorite show.

Reed Hastings {BIO 1971023 <GO>}

Mike, about 10 years ago we dropped -- we had to drop all the Disney content, not phased out like we are, but all of one we added to the Starz deal and we were all worried about the big impact and instead people came back, the magic of the personalized service and they able to find other things to watch and viewing growth just kept rising.

Ted Sarandos {BIO 4812832 <GO>}

We've seen that phenomenon over and over again even in when maybe even more dramatic than that was all of the Nickelodeon content when they came up and was completely displaced by other kids watching overnight. I should say all equally good content just people had the ability to find something new.

Michael Morris {BIO 2323139 <GO>}

Sure. Understood. And so within that, what I was coming to is the -- the viewership metrics that you provided in the letter for a number of your programs. I'd be curious if you wanted to highlight something that stood out to you, but I'll tell you something that stood out to me the information you provided about The Crown. Okay. So in particular Season 3 saw growth in early season viewing and yet it's still I think by the metric 21 million households through the first four weeks of Season 3 compared to 73 million households worldwide for the series of Raw and I guess what strikes me is that there -- your members have enough content that even though that was important to 73 million and 21 million was a big step up, still 52 million yet to watch it. So...

Ted Sarandos {BIO 4812832 <GO>}

Correct. But first 28 days that doesn't capture also are things like brand new viewers to Season 1 that just started to the ramp-up to Season 3. The show has been incredibly adorable in the UK, in the US and around the world.

Michael Morris {BIO 2323139 <GO>}

How does that compared to other key shows, right? I understand that every show doesn't behave like The Crown, but is that viewership pattern something that somewhat similar for a show like let's say Stranger Things that has 3 seasons and people can (multiple speakers)?

Ted Sarandos {BIO 4812832 <GO>}

It's so unique. Sometimes the show could enter the zeitgeist in such a loud way like Stranger Things, Season 3 around July 4 phenomenon everything that happened, that a lot of that viewing pops like that, something similar we saw with a huge launch for Witcher which was kind of pent-up demand for known IP but the show delivered for people and delivered viewing hours for us and people loved it right out of the gate. Other shows come out and they pop and they are dependable when they the build and people are going to watch it as soon as they finish what they're watching right now. So it's very different from show to show. I see you could see that in that list of how the shows will perform and sometimes, that is a really great indicator of its full year performance. And sometimes it's a -- the shows will continue to build on the positive word of mouth and becoming even bigger over time.

Michael Morris {BIO 2323139 <GO>}

I'd like to ask a couple of questions about product and distribution. So, Greg, I'd like to come back to the topic of pricing, we spoke a little bit about the US, but you have expanded your mobile-only plans, I believe during the quarter. Can you talk about where that is now? I think it's India, Indonesia, I believe, Malaysia, but maybe the balance between what has become a more permanent part of your offering, what still being tested and how we should think about that mix going forward?

Greg Peters {BIO 17539678 <GO>}

Yeah, you've got the three countries correct and we've seen in the performance across those three countries is that because we've added this price at a lower price point this year at a lower price point, we've been able to add incremental subscribers, which is great. We see an increase in retention not only at that mobile plan, but in other plans as well. And net that's revenue positive action for us and so we're super excited about that. We think that that's a pretty good indicator that there might be other countries around the world where that kind of offering will work as well. So we're going to continue to test both that in different countries and see how that goes. We're also got a bunch of different other approaches that we're going to try out and we'll really try and be active and innovative in that area to try and improve the accessibility of the service for more and more people around the world but in a way which we think is long-term revenue optimizing as well.

Michael Morris {BIO 2323139 <GO>}

Can you expand on that as well in terms of expanding that availability?

Greg Peters {BIO 17539678 <GO>}

I mean, really, I'd say that, you know, we anticipate that we'll do more testing of the mobile plan in more territories. That's probably the one to talk about at this point and then we'll sort of see what else works through our testing as we go.

Michael Morris {BIO 2323139 <GO>}

Okay, great. And then over the weekend I believe, I believe it came out on Sunday expanded. I think it was referred to as you've been strengthened partnership with Sky, what -- how did that become a stronger partnership.

Greg Peters {BIO 17539678 <GO>}

Yeah, I think what we are seeing is there is more and more opportunity that we're finding through, whether it's mobile operators, pay TV operators, ISPs to reach out to a customer segment that while we're probably growing with, in general, we can actually accelerate that growth. And so it starts by just being available on -- the set-top box, or the device that they're using to watch TV and we can put Netflix there and make it easy to see the service and potentially sign up there, but increasingly now with bundles we've removed yet another point of friction. So that that's just a part of their offering and they can just -- you can do a call to action like right in front of them like Stranger Things, it's launching right now, watch and that's a very effective way to introduce people to the service. But also we're finding now with co-marketing programs and other things that we're getting more sophisticated at we can actually do a more effective job at reaching out to more of those members to be around the world.

Michael Morris {BIO 2323139 <GO>}

You brought up the topic of bundling, two kind of questions with respect to bundling or different pricing packages. The first is a question of the need for consumers for this re-aggregation of these multiple services and if that is the case, perhaps a third party would like to or should be taking some portion of the payment for adding value. I guess, my question is, your position on the need for some sort of aggregation of these multiple services. My second question is around annual pricing versus monthly pricing and perhaps a discount for consumers who choose to take an annual plan either of those, how do either of those factor into your thoughts here?

Greg Peters {BIO 17539678 <GO>}

Yeah, I think we'll see sort of what the right solution is for consumers as we shift to this online streaming world and I anticipate that there are models that makes sense where they will bundle multiple content services together and make it more sort of easier for consumers to access that and that might be the effect that we're seeing. But really most of the bundles that we have are either connecting to an existing pay TV sort of legacy pay TV service or they're connecting the things like your mobile plan or your Internet plan. So I think there is multiple different opportunities to find the right mix where we're able to introduce Netflix as part of a set of offerings that just make it simple for people to sign up and it's logical and it's intuitive for them to go and do some.

Ted Sarandos {BIO 4812832 <GO>}

And that the likeliness that we have your favorite show or your favorite movie, rises the chances are you're going to figure out to get to us as well.

Greg Peters {BIO 17539678 <GO>}

That's right. And then you also you mentioned I think an annual -- a question on an annual.

Michael Morris {BIO 2323139 <GO>}

That's right.

Greg Peters {BIO 17539678 <GO>}

Yeah. So I think it's an interesting model and certainly we see some there's and legacy plans are sort of some instances that there are certain countries around the world where that's a more common standard, right. So we want to experiment with that and test that out and understand if that's a more effective way for our members to access us. So we'll go do that will sort of hear from them, if that's something that's more effective or not, we don't know yet.

Michael Morris {BIO 2323139 <GO>}

Okay. I'd like to revisit the topic of advertising as a source of revenue or a means for your members to pay you for access to the service. Remind us, we talk about it a lot, every quarter the topic comes up again. So, remind us why advertising is not a right option given that you do have a focus on providing your members with some optionality in terms of their way to enjoy the service.

Reed Hastings {BIO 1971023 <GO>}

Yeah, Mike, I think we addressed this last quarter in the letter, but go over it again which is Google and Facebook and Amazon are tremendously powerful online advertising because they're integrating so much data from some many resources and there is a business cost to that but it makes the advertising more targeted and effective and so I think those three are going to get most of the online advertising business. And then to grow 5 billion or 10 billion advertising business you have to rip that away from other advertisers. In this case say or other providers Amazon, Google and Facebook, which is quite challenging. So don't think of that as -- long-term there is not easy money there and instead we think if we don't have exposure to that the positive side is we're much safer place, we're not integrating everybody's data. We're not controversial that way. We've got a much simpler business model, which is just focus on streaming and customer pleasure. So, we think with our model that will actually get to a larger revenue, a larger profit, larger market cap, because we don't have the exposure to something that we're strategically disadvantaged at which is online advertising against those big three which over the next 10 years are just going to integrate incredible amounts of data about everybody that we won't, and we're not trying to have access to. So that's why we're really pretty confident to the best business model is this way. It certainly in the long term.

Michael Morris {BIO 2323139 <GO>}

I do think that that last point is something we do hear people lose sight of sometimes, which is, you are not aggregating an immense amount of data about your viewers, you have viewership habits. But beyond that I think -- correct me if I'm wrong, you don't collect significant amount of personal data that will be used to target advertising is that accurate?

Reed Hastings {BIO 1971023 <GO>}

We don't collect anything, we're really focused on just making our members happy and we're not tied up with all that controversy around advertising and again if you wanted to succeed in online advertising, you can't just have a little data. To keep up with those giants, you've got to spend very heavily on that and track locations and all kinds of other things that we're not interested in doing. We want to be the safer spy where you can explore, you can get stimulated, have fun, enjoy, relax and that none of the controversy around excluding users with advertising.

Michael Morris {BIO 2323139 <GO>}

Now, one of the biggest changes that you guys have made in a while with respect to what you share with us is the geographic breakdown that you're providing now with respect to your actual. So maybe just briefly, can you remind us, the reason that you made this change? We have had some questions whether it was somewhat suggested or required of you. And so why did you make the change? And then I do have a couple of specific questions about the markets If I could.

Greg Peters {BIO 17539678 <GO>}

Spencer, you want to handle that?

Spencer Wang {BIO 3251222 <GO>}

Sure. So to answer your question, Mike. No, this was not a required change. This was a change that we made. And as we talked about it was too, we always evolve our view of our business as our business changes and with our launch of rest of the world in 2016 we are basically fully global company ex-China, so we have increasingly been looking at the business internally along these four regions. So we want to map our external reporting and align it with how we look at it internally. So it was not a requirement, but our choice.

Reed Hastings {BIO 1971023 <GO>}

So we worked hard internally to not be US and international. There is no such thing as international, there is a bunch of nuance of every market around the world and part of our development from an originally just domestic company is to lose those kinds of distinctions and instead think of it as four equal regions and we're growing all of them and we're sophisticated about all of them. And that's why we look at it in that four-region way internally which is of course drives the external reporting.

Ted Sarandos {BIO 4812832 <GO>}

It has been a great internal discipline for everybody to think about the business more of that way for sure.

Michael Morris {BIO 2323139 <GO>}

Well, that's a great segue into some question specifically about the nuances in these regions. Perhaps we can start with Latin America which was your first broad international launch in 2011. And so what we noticed and of course, this quarter you had record member growth in each of the regions. But it does look like Latin America is perhaps closer to being mature with respect to its growth trajectory. At the same time, we would look at the data and say it's still the penetration level of broadband households is still very low in that region. Can you characterize for us where you think we are in the lifecycle of member growth in that region?

Reed Hastings {BIO 1971023 <GO>}

Spence, you want to take that.

Spence Neumann

Yeah, sure. I would say across the board, we're still early days, right. So even with the roughly 167 million members across the globe and big membership in Latin America you can see what we're still roughly kind of in that 30% penetration. We think as pay TV households, you've seen around the world whether it's pay TV or broadband households, we don't see why we can't get into all of those households over time. So yes, we're a bit more mature in Latin America than perhaps we are in APAC and some specific countries but we're continuing to grow. It happens to be a region where similar to the US, our price increases were a bit more significant than in other parts of the world. So I think that may have been a bit of a headwind as well. We had foreign exchange working against us more meaningfully in Latin America, but I'd say in general very long runway. We continue to see both global content and local content working really well in that region. So we'll -- I think, I think you'll see continued healthy growth on the horizon.

Michael Morris {BIO 2323139 <GO>}

And then you just Spence -- you just mentioned APAC and there is a couple of questions here. One is, because this region has both Australia, New Zealand, so larger English-speaking markets and a large emerging market population. The first question is, can you share at all the sort of balance of subscriptions in that market between those two and I would think there is still a relatively high ASP there which would imply some mix to higher priced markets? But first the mix there and then also, should we expect that ASP to come down based on what you're seeing now with respect to adoption of the lower price mobile plans?

Spence Neumann

I'd say in terms of the mix and others can jump in as well but we don't break it down specifically by country. I think your takeaway should be that we're seeing healthy growth in all of these markets. So across Japan, Korea, India. I mean, all of these markets we're increasing that content market fit, we're getting much smarter about the markets in both -- as you say the content we offer as well as the pricing and packaging and bundling and distribution to our members and payment methods for our members. So I think we're getting better literally every quarter, every year and that's playing out in terms of very healthy growth across those markets.

And then with respect to pricing, certainly that pricing is different in every country around the world, but we don't -- we're not managing to ARPU. We're managing to revenue maximization as we talked about earlier. So we're not going to provide a long-term focus. Obviously, as we have lower priced mobile offers that's going to bring down a blended ARPU in a country or in a market. But if we're doing that in a revenue accretive way we think that's great for a long-term business. We're growing subscribers and we're growing revenue.

Ted Sarandos {BIO 4812832 <GO>}

And our local content, our original content in Japan and Korea by way of example becoming much more sophisticated about what is super impactful in those countries plays pan regionally and occasionally placed globally. So those investments are paying up in the form of things like the Naked Director, which was a big hit for us in Japan and Kingdom, which has the second season coming up out of Korea that's been a big global that for us. And as you think about the exciting things that happen in the content space movie like Parasite coming out of Korea is I've done 140 million globally, 100 in Korea and about 40 million outside and the expansion of people finding stories from around the world is going to -- only make the opportunity bigger and bigger.

Spencer Wang {BIO 3251222 <GO>}

Might be a time for 1 or 2 more questions, please.

Michael Morris {BIO 2323139 <GO>}

Okay. Let me hit on EMEA and then, and then I'll get a wrap-up question. I think in that European, Middle East and Africa market it's somewhat similar in terms of some mature markets and some emerging markets and opportunities there. So as you think about that market growth opportunity, is the answer similar to the same as the question on Asia, and I think the question is a little bit rooted in. We do have some specific mobile-only lower price plans in Asia that we've been focused on, but should we think about that EMEA market as perhaps following a similar pattern?

Spence Neumann

Craig, do you want to take the pricing, I would say in terms of the opportunity we see a huge opportunity in EMEA, it's a multiple of the number of addressable pay TV or broadband households households as you see, for example, in the UK or US and Canada region. We're less than 20% penetrated in the market, you've seen it's driving more than 50% of our paid member additions in recent quarters, roughly 50%. So we're low penetrated, and we're growing in a very healthy clip in that market.

I'll turn to Greg though in terms of pricing strategy.

Greg Peters {BIO 17539678 <GO>}

Yeah. And the pricing plans approach, again that region much like APAC has both sort of very affluent very mature markets as well as less affluent markets. And so I anticipate that what we'll find is that we'll have a mix of plans and approaches that will spread across that region that again will be different price points, but it will be looking to sort of maximize revenue through that mix across the entire region.

Michael Morris {BIO 2323139 <GO>}

Great. So I'd like to conclude, again as we did last time with a little bit of a five for one question. Last quarter we talked about each of your something each of you was excited about in the coming quarter. This time, I'd like to ask you read press, analyst reports et cetera about your company. I love to hear your take on what you think is most misunderstood about the company or at least well appreciated about the company? So as with last quarter, I'll start with Spencer and and go from there.

Spencer Wang {BIO 3251222 <GO>}

Sure. I honestly don't think that there is not much that's misunderstood. We're a single product company. And I think a pretty straightforward. I think from us investors understand I think they like to think about one thing that I personally think there's probably a bit of an over focus on the streaming war sort of notion. And I know it's exciting for folks to talk about the Clash of the Titans and all that kind of stuff, but I think really the big thing that's going on is this transition from linear entertainment to streaming on-demand entertainment, which is really, really big and very similar to to that transition. The industry went through from broadcast to cable and there what you saw was a lot of those new cables didn't till really take much share from each other but really good together as broadcasting sort of became smaller over time. I think that's what's the -- really the big thing that is happening. That's what probably we're less well understood.

Michael Morris {BIO 2323139 <GO>}

Thanks. What about you Spence?

Spence Neumann

I don't think you're going to pick up because I got the order wrong last quarter, so, okay. I'll say, I think was most misunderstood is the business model and what you see in our cash flow generally and folks thinking that we are losing money, if you will, when we -- what we've shown is that we're increasing our profitability both growing and growing our profit margins and what you've seen over the last few years is forward investment as we've been going through a really kind of pretty significant transition of our business model from license content or you pay basically ratably for content you receive over the time that it's on the network to original content not just license originals but self-produced originals where oftentimes we're investing many years before that content on the service and we've moved as we say well along the curve there were the bulk f our cash spend is now on original content. So as we've gotten bigger as we move towards originals it just it fundamentally changes that cash flow profile over time and we're very profitable business and one that will ultimately over the years become meaningfully self-funding.

Michael Morris {BIO 2323139 <GO>}

Thanks, Spence. Greg, how about you?

Greg Peters {BIO 17539678 <GO>}

Spence, actually took mine, it's my favorite, sort of gap between external and internal world view. So I'm very excited to be turning the corner on the free cash flow issue, so that we can sort of put that behind us and really focus on growing the business ahead.

Michael Morris {BIO 2323139 <GO>}

Great and Ted.

Ted Sarandos {BIO 4812832 <GO>}

In terms of misunderstood. I think this notion you hear every once in a while, where there's so much stuff on Netflix everything gets lost. And I think that's the opposite is true, which you'll see in that, in those numbers that we released you in the letter, the low -- our ability to launch new brands, sustained brands over multiple seasons or multiple sequels, and at this and have very high volume from all over the world has been unparalleled. And the other, we can create brands out of thin air over and over again sometimes multiple times in a week like this past week is something that I'm super proud of. And I think it gets lost on people because they think all this content is for them. It isn't, it's just meant to be your favorite show in your favorites movie and that's going to be something for everybody.

Reed Hastings {BIO 1971023 <GO>}

And for me, it's really that we keep doing these amazing numbers doing eight eight in Q4 is just amazing, so happy with that and with the Witcher performance, you know, ending the year on a high note of a massive new franchise that we'll develop season after season. So if you think about the next couple of years, it's really the rate of improvement. That's the big thing, how much we're learning and we're doing so many shows our learning is higher, doing so many product tests, our learning is higher and the quality of our service two or three years from now will be so much higher than it is today. That's the thing that's not well understood everyone focuses on how is the current surface look as opposed to how good we're going to be in three years.

Thank you, Mike. Great job and look forward to talking with all of our investors and everyone over the quarter.