Q1 2017 Earnings Call

Company Participants

- David B. Wells, Chief Financial Officer
- Reed Hastings, Founder and Chief Executive Officer
- Theodore A. Sarandos, Chief Content Officer

Other Participants

- Doug Mitchelson, Analyst
- Scott Devitt, Analyst

MANAGEMENT DISCUSSION SECTION

David B. Wells {BIO 17034721 <GO>}

Welcome to the Netflix Q1 2017 Earnings Interview.

I'm David Wells, CFO. I'm joined today on the company side by Reed Hastings, our CEO; and Ted Sarandos, our Chief Content Officer.

Interviewing us today will be Doug Mitchelson from UBS and Scott Devitt from Stifel Nicolaus. We will be making forward-looking statements. Actual results may vary.

Doug, I think you have the first question. So, over to Doug.

Q&A

Q - Doug Mitchelson

Thanks so much. Actually, first question for you, David, and then one for Reed. David, can you just talk a little bit about the net add results in the quarter versus expectations? And any dynamics underlying the second quarter guidance that you want investors to know about?

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

Well, I think what's written in the letter and what I'll reiterate is that, we're not spending too much time understanding any particular quarter. We were under 100,000 in the U.S., under a couple hundred-thousand in the international versus our expectation. We had a particularly back-weighted first quarter, which we don't usually have, but that explains some of the sort of net adds guidance versus actuals as well. And we have a pretty strong guide for Q1. So I think looking at our Q4, which is one of our strongest quarters ever and a pretty strong Q2 guide, we sort of look across that like we put in the letter and say we're still on a great growth path and our content is working, and we're pleased with the international growth and we've got a lot of growth left in the U.S. as well.

Q - Doug Mitchelson

And is there anything you would highlight in the second quarter in terms of an easy comparison? Last year, you talked about price increase, buzz in the press having a negative impact on U.S. dynamics, the content slate. Anything you'd highlight driving the result?

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

Well, the obvious one to talk about and Ted will talk about in more detail is the content slate. We talked in the January letter about House of Cards pushing into the second quarter. We've got a particularly full slate in Q2, which relative to Q1, is a little heavier. And then that's comping off of last year's Q1. We had a pretty strong Q1 as well. So, I think that sort of explains some of it on the margin. But I think the background trend is just a very strong adoption of Internet streaming.

So, again, if you look across to our (02:15) buzz trend, we still got a lot of great growth. We're growing well on track in international. We're continuing to growing in the U.S. And quarter-to-quarter, you'll see some fluctuations and some of that is explained by the content slate.

Q - Doug Mitchelson

And, Reed, upfront I want to turn to you at a high level. I think you mentioned in the letter you're about to cross the 100-million subscriber mark. You're about a decade into this. And I think in last quarter's letter, you talked about the next 10 years being tumultuous. And I was hoping you talk a little bit about what you meant by using that word in particular? And what are the challenges and opportunities as you look out over the next decade and target that next 100 million subscribers?

A - Reed Hastings {BIO 1971023 <GO>}

Well, we're super-excited expecting to cross 100 million this weekend. That's a big accomplishment, but it's really just a beginning. When you look at YouTube having 1 billion active users and 1 billion hours every day, when you look at Facebook's multibillion numbers, we see that the Internet is just a phenomenal opportunity. Of course, we're a pay service, not ad supported. We're not as deep in international as those companies, but we definitely see a big opportunity around the world to just continue to do what we've been doing, which is make fantastic content, get people really excited about that content and then we're just continuing to grow.

Q - Doug Mitchelson

Great. Thanks.

Q - Scott Devitt {BIO 4757000 <GO>}

And just continuing on the role of content, I was wondering if you can talk a little bit more about the way that content releases do impact seasonality of the business, and as well new releases of new shows, say, a Dave Chappelle show relative to, say, Season 5 of House of Cards and the differing impacts on gross and net subs. Thanks.

A - Reed Hastings {BIO 1971023 <GO>}

Scott, I would just say we've said previously that subsequent seasons of shows that have a big audience that are very popular tend to have more impact on the business than introducing brand new IP. So that's why in the second quarter you're seeing new seasons of some of our most popular and most acclaimed shows like House of Cards, Orange Is the New Black, Unbreakable Kimmy Schmidt, Bloodline, Master of None. And in the first quarter, it was pretty heavy on new IP, but we were super pleased to have such a big breakout on 13 Reasons Why. It just came on the last day of the quarter. As well as Santa Clarita Diet, A Series of Unfortunate Events, Iron Fist on first season shows. And then something like Dave Chappelle comes along and it's in its own class in terms of excitement for consumers in viewing and excitement around Netflix, and we're looking forward to have Dave's – third special from David next year.

(04:57)

You can think that content is making a little trickier to do the quarterly forecasting, but for the first half of this year, we're about 8.25 million net adds, which is what we were last year. So, again, it moves itself around, it levels out. So, I wouldn't get too focused on predicting each quarter by the content. We're continuing to learn on that, but mostly, we're just trying to do better and better shows that are more and more popular.

Q - Scott Devitt {BIO 4757000 <GO>}

And then as it relates to the international business, you noted some markets that are doing extremely well outside the U.S. and in other markets that are still progressing. Can you talk about, particularly in some of the larger markets where you feel like you're underpenetrated, where the largest sources of friction are to increasing the subscriber base in those markets?

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

So, I would say, and I'll pitch it to Reed afterward, it's not necessarily a source of friction. I mean, we're pretty careful about not talking about specifics by market for competitive reasons, but we have said that we experience a wide variety of adoption curves in different markets. We've seen some markets come out of the gate really fast. We've seen some that have grown slowly, and then really caught up and seen a great acceleration.

So I would say each market's different, each one seems to have a different word-of-mouth adoption pattern, but increasingly what's new for us is that we're more and more global. And the more that we can release these shows that have wide global appeal, we're getting sort of the benefit of that wide global word-of-mouth and the network effect of that great scale. I mean, growing to 100 million and beyond of global subscribers is really going to benefit us in having these shows that travel across multiple markets. So, I think we're not particularly focused on any one challenge in the larger markets. I think it's about continuing to make payments available, continuing to improve the product, continuing to improve the content in that market with our global originals being the largest part of that. And then, Reed, I don't know if you want to tack on anything there.

A - Reed Hastings {BIO 1971023 <GO>}

Yeah, Scott. As you might remember, first couple years in Brazil we were struggling with a number of aspects in particular getting the right content where our service was getting watched a lot. I think it's pretty parallel to that. And of course not every market is the same as Brazil's. We have to learn market by market. But it's nothing that's very concerning to us. It's just a note that in three of the regions, LatAm, Europe and North America we've got the formula we're executing down. And in Asia, Middle East and Africa we still got a bunch of work to do, particularly around getting enough of the right content that people want to view that we get our viewing hours higher and higher.

Q - Scott Devitt {BIO 4757000 <GO>}

Just to follow-on to the international topic, there've been several markets where you've launched non-U.S. originals, and was interested in terms of the difficulties or ease with which you're having in finding talent in those markets.

And then secondly, in those markets which you're launching originals, the benefit in terms of the halo effect of other markets actually latching on to that content and viewing it that's driving subscribers in those markets as well.

A - Reed Hastings {BIO 1971023 <GO>}

Well, I could tell you about we launched this past quarter Ingobernable, which is a Spanish language original, starring Kate del Castillo, that had a huge impact on us throughout Latin America, but also outside of Latin America and throughout the Spanish-speaking world. And our ability to get in, learn the production infrastructure, get to know the talent, have the talent get to know us that's one of those things that gets a nice accelerator as Netflix becomes better and better known around the world that the top talent in those markets want their shows on Netflix. So, nothing is easy, but that is something that we've had a lot of good fortune with finding the great talent and the great shows locally. And it has been having a lot of impact outside of the country of origin.

Q - Scott Devitt {BIO 4757000 <GO>}

Thank you.

Q - Doug Mitchelson

The international arena is a pretty rich topic, but I want to move back to the U.S. But first, Reed, you mentioned consumption. I think investors would love to have an update on consumption both in the U.S. and overseas. What is the hours per day on average? Is it still growing for both cohorts year-to-year? Anything you're willing to share at this point in time?

A - Reed Hastings {BIO 1971023 <GO>}

Yeah. Our viewing is very large and growing, but nowhere near as big as YouTube. So, it definitely got YouTube envy and we got a lot of room to go and some of the new shows like Ted was talking about our movie out of Korea, Ocha, is great global potential. So, we're finding great talent around the world and that's what drives up the viewing.

Q - Doug Mitchelson

So, I also wanted to hit on the U.S. And so, even though a lot of the growth comes from international, when you think about the U.S., a lot of investors are worried about maturity and whether that sends a signal that you could ultimately have some issues with penetrations overseas. And I think, Reed, it starts with you and the vision for 60 million to 90 million subs, is that still the vision?

Ted, as part of that, what do you have to do to execute on getting those subscribers that Reed is looking for? And for David on that topic, is there anything you see in the trends? I know you want us to not dig into gross ads ensuring (10:09) on a quarterly basis too much, but it's sort of what we do. Is there anything that you're seeing that suggests there is a maturity wall coming anytime soon for the U.S.? Thanks.

A - Reed Hastings {BIO 1971023 <GO>}

The U.S. market is continuing to grow very nicely. I don't see any fixed wall. I mean, of course, every incremental 10 million is a little harder than the last 10 million, but our content keeps getting better. So, those forces offset each other. When you look at the last five years, everyone is worried every quarter about saturation in the U.S. And we've just continued to grow, but it doesn't mean it's going to be inherently forever, but we certainly feel good about the near-term as we're expanding and just getting bigger content budget, more shows, more marketing. So, all of that feels very good.

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

And a component of that, obviously, is the international appeal of our global originals shows, but also finding those sweet spot local originals shows that offer some connectivity with the consumers. And for some cases, it'll be the thing that introduces them to Netflix programming and they fall in love with the broader slate of content.

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

And then finally, Doug, on your last one, I wouldn't say anything different from Reed. I mean, if we can get, my God, if we can get penetration levels outside the U.S. to be anywhere close to the U.S., you're implying multiple hundreds of millions of global subscribers with U.S. beyond 50%. So, I'm not sure I understand that point of the question other than to say that the concern as I hear it voiced is really that we wouldn't be able to get to U.S. levels of penetration outside the U.S., we've got some markets that are starting to get there. So, I think we punched through that sort of concern and anxiety, and now we're really at a phase where we're starting to really benefit from the large pipeline that Ted is building and his team are building, and we're really starting to have some time in multiple markets that are somewhat new to us as Reed described in Asia.

A - Reed Hastings {BIO 1971023 <GO>}

A couple of years ago, Doug, there was a bunch of fear about the 30 million sub-wall. AOL had hit that and HBO had hit that. And the thing is, everybody watches TV and nearly everybody has the Internet. So, I don't see anything that's going to stop Netflix from getting to most people in the United States and then eventually, hopefully, most people around the world. We're just going to focus on the everyday of making the service better and better.

Q - Doug Mitchelson

Okay. The one follow up to all that is, Ted, are you specifically targeting perhaps older demos, you mentioned international, with the product flow that you're working on?

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

No. The key here, Doug, is, you've got these many people an incredible diversity of taste. So, you have to have programming that really appeals to a broad demographic. So, obviously, a show like 13 Reasons Why, appeals much younger; Grace and Frankie, which had a really successful third season launch, obviously, appeals to an older demographic.

But the key is, just, people love television. People love to be entertained and the definition of what that thing is that you're in love with is different for each age, for each country and having a lot of that basket (13:28) increases our chances of having a deep connection with consumers. So that's why in Q2, we're launching a new season of a show, a brand-new standup comedy special, documentaries, kid shows, every week coming up. And the chance that you're going to connect with somebody and it becomes their favorite show or the reason they have Netflix gets higher and higher as you're able to do that.

Q - Doug Mitchelson

Great. Thanks.

Q - Scott Devitt {BIO 4757000 <GO>}

Sticking to the U.S. and speaking of genres and different types of content, you talked a little bit about Dave Chappelle, why the sudden increase in standup comedy? What's the price to value that you find that you're getting out of that type of content?

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

Well, there's always been interest in standup comedy. It was actually back in our early original content days, in the Red Envelope Entertainment, it's all we did was produced original standup comedy and acquired documentaries and foreign-language films. Always had good luck with it, just on a very small scale.

And the format lends itself really well to what we're doing and that it's uncensored and it's commercial free and that it allows for a lot of creative freedom and the fan base for these folks is very big. So, Dave Chappelle, his return to standup comedy was a big event in the culture. And you could drew series level and movie level viewing on some of these standup comedy specials if you pick them right and invest in them properly. So, these were big-ticket investments, but they're also performing like big-ticket content. So, we're thrilled with it so far.

Q - Scott Devitt {BIO 4757000 <GO>}

And then family and kids content, Ted, you mentioned a little bit. And talk more about that in terms of the interest in extending deeper there. And then, on that topic as well, faith-based programming or conservative programming, Hollywood does lean a little in one direction, seems like there's a pocket of opportunity there to serve a very big market.

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

Yeah. Absolutely. We're trying to find the content that people love, and that's different for everyone as I said earlier. So, the faith-based market is something that we're engaged on the edges, but we're looking to do a lot more. And we're also looking for – like our kids and family programming. And the really exciting thing is, when you get something that could be viewed by both. So that's the kind of phenomenon around Stranger Things or Fuller House, where you have these co-viewing opportunities that are so rare on TV these days where it's a kids show that parents enjoy watching and they don't have to cringe when they watch with their kids.

Q - Scott Devitt {BIO 4757000 <GO>}

And then, finally, on this topic, the Disney deal, how is that progressing? The interest in renewing that content, specifically, or content like that, and what's your interest in – I believe there's a Paramount deal that's available in the next few years as well. Thanks.

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

Like I've said before, our interest in Disney is different than our interest in a pay-one output deal from the studio, because Disney has really centered their brand on a couple of really important tentpoles that perform very well on Netflix, and obviously, perform well around the world. So, it's been a great relationship and continues to be a great relationship with Disney as a company producing our Marvel series as well as being their pay-one partner and several hundred hours of their catalog all the time. So, it continues to be a great partnership, and they're a great supplier of content that people love. So, we'll see.

A - Reed Hastings {BIO 1971023 <GO>}

And while the Marvel series is global, the Disney pay-one is just U.S. and Canada, so it's not a global deal.

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

Correct.

Q - Scott Devitt {BIO 4757000 <GO>}

Thank you.

Q - Doug Mitchelson

From my end, for Reed, over the past few months, it seems like we've had a number of important executives depart Netflix; Chief Product Officer, Neil Hunt; Chief Talent Officer, Tawni Cranz; VP-Global Television, Sean Carey. It seems like an unusual number of departures. Usually, you're the one taking other company's executives. Any comment you want to make around this dynamic?

A - Reed Hastings {BIO 1971023 <GO>}

It is unusual. I mean, the last time we had an officer leave Netflix was 2012, so it's quite a while ago. We've got a search on the Chief Talent Officer, insiders and outsiders. And then we're fortunate to have Greg Peters take over for Neil Hunt. Greg's been a long-term Netflix veteran, really knows the organization and excited about taking it forward. And that transition will happen in about three months from now.

Q - Doug Mitchelson

And so, no particular signal that investors should take from this. It just happened to line up this way?

A - Reed Hastings {BIO 1971023 <GO>}

That's correct.

Q - Doug Mitchelson

Thank you. Ted, you mentioned last quarter that you would be a second-half weighted content slate this year. Can you give us more of a sense of why you feel this way? Obviously, 2Q looks pretty big with both House of Cards and Orange Is the New Black. Is the second half going to be even bigger?

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

Well, we're introducing a lot of new brands in the second half of the year, including some of our more aggressive moves into the movie business. Bright, actually, will be in the fourth quarter, which is our big Will Smith film, that we think will kind of give consumers and everyone who watches this space a better idea of the kind of things we're up to in the movie space, which is those movies that you would see in the theaters, but they're available to you day-in, day-out on Netflix, and that they look and feel like movies of that scale.

Q - Doug Mitchelson

I'm sure you'd love to expound on this topic in detail for their press. Any thoughts on the Writers' strike?

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

Look, we're keeping an eye on like everybody else, and like everybody else our productions would be impacted if it happens. We may be impacted a little bit less, because we're not on such a rigid production schedule where we're not producing for the fall and the summer. We're a year-round production, but some of our productions would be held up in the event of a strike, which our fingers are crossed that that won't happen.

Q - Doug Mitchelson

And the last thing I did want to follow up, because I think I let you get away with not giving us an update on the usage trends. Are you guys willing to make any comment on whether usage is still growing in the U.S. and overseas, and what level is that?

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

Correct. We said the viewing is strong, growing, healthy although we haven't given specific numbers.

Q - Doug Mitchelson

Okay. I missed that nuance again. So, Ted, are you...

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

We did tell you that our subscribers have spent about 0.5 billion hours watching Adam Sandler movies since The Ridiculous 6 launched.

Q - Doug Mitchelson

And I'm going to assume that's a good thing. And I think that, Ted, for you, is originals as percentage of spend and as a percentage of hours fairly consistent? Is there an inconsistency there? Anything strategically that you're focused on in that dynamic?

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

No. Pretty consistent into the investment and the hours spent watching. That's why we said before that the investment in original programming has been efficient. That's what we mean, relative to what else you'd spend the money on versus the hours of viewing. So, we're not driving towards a target of a percent of original programming versus not, we're just trying to find the great things for people to watch and move our business and grow the subscriber base.

Q - Doug Mitchelson

Great. Thanks.

Q - Scott Devitt {BIO 4757000 <GO>}

And I'm going to try to help Doug get an answer on the viewing question. I think there was a disclosure in January, 250 million hours of movie and TV in a single day in January, and the last prior disclosure to that was 125 million, which seemed to be like a run rate. And just wondering if that 250 million was an outlier or if that is more of a run rate currently?

A - Reed Hastings {BIO 1971023 <GO>}

It's really not the total aggregate viewing as opposed to the median viewing by country, it's not something internally that's in our metrics pack. And so, we don't even track it that closely, it's not that relevant. What we do track on a country by country basis is, how median viewing at different lifetime slices is and we continue to see good things in that, continue to see that grow as we have more content.

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

And, Scott, I'd add, just like Reed, these are milestones. They're convenient (21:16) sort of PR milestones in terms of announcing it and some of that growth is by launching new territories. Now, we're more focused on growing each individual user within that territory than we are in terms of the big aggregate numbers Reed said.

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

If we can help you out, I remember that YouTube announced they were 1 billion a day and we went and looked it up and we're a little over 1 billion a week. So, we got a long way to go to catch up to YouTube.

Q - Scott Devitt {BIO 4757000 <GO>}

Thanks. And then downloading is also fairly new phenomenon within Netflix. Speak a little bit more about that, how it's being adopted within accounts. Also, any changes from a technology architecture standpoint that have needed to be done to produce that?

A - Reed Hastings {BIO 1971023 <GO>}

It's pretty small impact. I mean you're not on airplanes or cars that much of your life. So, it's really nice to have when you use it. But at least in Western and more well-off markets where networks are strong and relatively inexpensive, it's a modest feature. I think in Asia it's a little bigger because the networks, you're off of an inexpensive network a lot of the time, but again, as networks get more modern, I think we'll see the downloading the need for it will go down and down because basically you want to be able to just click and watch. You don't want to have to think in advance outside of a couple narrow scenarios like in airplane.

Q - Scott Devitt {BIO 4757000 <GO>}

And has the re-encoding that was discussed at Mobile World Congress is that now complete?

A - Reed Hastings {BIO 1971023 <GO>}

No. We're still – there is no complete when you get to encoding. You just keep getting better and better and better. And so, we're continuing on all of that work so that you can get an incredible picture quality on a very modest data plan on a phone.

Q - Scott Devitt {BIO 4757000 <GO>}

Thank you.

Q - Doug Mitchelson

So, I'm going to switch to competition and Amazon specifically. Amazon's gone after a David O. Russell drama series with Robert De Niro, producing the next series for Matt Weiner, these are sort of big tickets, big prices, very talented producers, actors and directors. Reed, when you look at the competitive landscape, anything at all that makes you nervous or that you feel like you have to accommodate? Ted, the fight for talent in Hollywood, any issues with Amazon ramping its originals? And David, on the cost side, could this influence the cost of originals higher than you'd like?

A - Reed Hastings {BIO 1971023 <GO>}

Like at one level, Amazon is an amazing company and doing so many different things, it's really incredible. And then you think of Jeff Bezos in addition to all of Amazon doing the Washington Post and Blue Origin rocket. So, I will say we do think about all of that and their tremendous track record. On the other hand, they're doing great programming and they'll continue to do that, but I'm not sure it will really affect us very much, because the market is just so vast. Think about it when you watch a show from Netflix and you get addicted to it, you stay up late at night, we're competing with sleep on the margin. And so, it's a very large pool of time.

And a way to see that numerically is that we're a competitor to HBO's. And yet over 10 years, we've grown to 50 million and they've continued modestly growing. They haven't shrunk. And so, if you think about it as we're not really affecting them, the answer is, well, why? And that's because we're like two drops of water in the ocean of both time and spending for people. And so, Amazon can do great work and it would be very hard for it to directly affect us. It's just home entertainment is not a zero-sum game. And again, HBO's success despite our tremendous success is a good way to illustrate that.

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

I would just add there are 500 cable channels, nearly every one of them have original programming being produced every day. So, it's great that there's a – it's an incredible opportunity for producers to have multiple buyers for their programming, and a great opportunity for consumers to have a lot more opportunity to find new shows that they're going to love.

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

And to Ted's point, I mean, there's more than just Amazon competing for those shows. So, even if the show were lowering cost, we would have more content. You wouldn't necessarily – we wouldn't make the decision, I don't think, to reduce the content level. We're already growing operating margin. We're able to grow U.S. margin over the last four or five years, and now we're switching to growing global operating margin. So, we're already delivering that and also growing the content.

So I think, sure, I'd love to have shows less expensive, but honestly, we're more competing with the quality of the show and trying to push and improve the cinematic quality of that show, which is driving – has more of an influence on the cost of that than the individual competition within the market.

A - Reed Hastings {BIO 1971023 <GO>}

Absolutely.

Q - Doug Mitchelson

And, Ted, to follow up with your aspect of this, how is your relationship with Hollywood versus a year ago? How would you describe it? Does this dynamic come into play where at some point there'll be a backlash from Hollywood? We always talk about the media companies ultimately looking at Netflix as a competitor, competing online video platform versus them supplying you with content and making a lot of money off it. Have you seen a change in that dynamic at all with any of the studios?

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

Well, this is probably the most dynamic time of change in the history of the television industry and how everybody navigates it feels really important, obviously. But on top of being a competitor for projects and a competitor for attention, we're an enormous customer of all the studios who license us their content, sell us their contact, who produce original content for us. So, I think the constant evolution of the relationship is finding the balance between being a great supplier and a competitor. And the networks in the studios have navigated those waters since the beginning of television.

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

They have, but Hollywood goes through fits and starts and cycles, and right now we've got writers agitating for more money. The talent's getting a greater share. You've got a lot of cable networks that aren't licensing syndicated content like they used to. There's definitely a lot of change taking place and a lot of folks in Hollywood trying to figure out how exactly to wrestle with you. But I guess to your point, as you've said, things are fine right now.

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

Yeah. We're 10 years in and those fits and starts have started on day one and continue today.

Q - Doug Mitchelson

And, Ted, I think you would also say that one of the fundamental changes is the globalization of TV. So, I think that that is playing through Hollywood, and I think it's playing through each one of the talent sections of Hollywood in terms of trying to understand what the value of content that's now applicable to a double the audience globally, say.

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

Correct. And who do you compete with today when in the U.S. we've had incredible success with our Spanish language original, Ingobernable, but also with our Portuguese language original from Brazil, 3%. So, the pool of people who are competing for the attention of viewers and ultimately the attention of buyers has never been bigger.

Q - Doug Mitchelson

Great. Thanks.

Q - Scott Devitt {BIO 4757000 <GO>}

Speaking of studios, it seems like your initiatives with Netflix studio produced original content seemed to be quite unique relative to others. There were some recent media attention. And, Ted, I think you were quoted as suggesting spending several billion dollars in terms of allowing talent to be home when they actually create content. Could you speak a little bit more about that, how you think that differentiates yourselves relative to competitors?

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

Look, think about it as an extension of our talent-friendly commitments, but also in terms of our commitment to quality. And what we have found in our own business is that if we create a great working environment for an employee, they do the best work of their life. And I think in the case of production, a lot of that comes off in the performance, which comes off in the screen. So, we want to invest in our talent the way we invest in our talent inside of Netflix and create the best shows on television.

One way of doing that is not having people travel all around to chase a tax credit. And in that article that I referred to this, it was suggesting that perhaps the State of California could be more effective in building – investing in infrastructure versus incenting individual productions, because if you give people a great place to work, they're going to come work in your state.

Q - Scott Devitt {BIO 4757000 <GO>}

And there's also, I believe, some job postings, at least Netflix studio and the cloud, and it's been discussed also in terms of differentiating and infusing technology into the studio to create content in different ways. Can you expand on that a bit?

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

It goes along the same lines, which is just giving people tools, right, giving people the best tools to work with. So, when you're producing for Netflix, the Netflix studio, that you have the most state-of-the-art tools at your disposal to create content and not get stuck in old technology. So, we're trying to innovate on things that matter to consumers but also things that matter to creators.

Q - Scott Devitt {BIO 4757000 <GO>}

Does, and I don't know that this is connected to studio or not, but does the current infrastructure that you have in place, does it allow you to do live and near live productions?

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

We'd have to invest in technology to do it. There's nothing that would prevent it from happening, but our desire is to continue to double down on our consumer proposition of on demand. I think it is that kind of freedom that the consumer receives from Netflix of watching what they want whenever they want is part of the value proposition and live is back to the, kind of, the old paradigm of appointment television.

Q - Scott Devitt {BIO 4757000 <GO>}

Thank you.

Q - Doug Mitchelson

Can we shift to sort of on that Amazon topic and the international topic combined, I guess, Ted, for you; Amazon building out local content pretty aggressively, particularly India, Japan. India there is talking of them starting up a studio. And youth, I think for the last couple of years, really espouse this Hollywood strategy of Hollywood content local is global in nature and that can drive subscriptions globally, but you're also building out a studio here in the United States to pursue that more aggressively. Does it make sense for you to more aggressively build out local studios overseas? And what capacity does the company have to even do that at this point?

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

Well, we're definitely already building our production capabilities outside the United States. We're, today, filming local shows in 13 different countries, including India; including Japan. So, we are doing it simultaneously. We think it's going to be the combination of the big global interest original programming, complemented with in growing number of local language original series in each country. So, we're operating all over the world. We're producing all over the world because that's where customers are.

Q - Doug Mitchelson

And, Ted, maybe you can just talk a little as an example of those, of Terrace House, of Death Note, of Sacred Games to illustrate that.

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

Well, the various versions of it, obviously, would be producing something that would be more on the quality level that you're used to seeing from Hollywood. In India, a new series that we're producing that coming up called Sacred Games. In Japan, we have a show called Terrace House. It's incredibly popular, more in the unscripted mode as more consistent with the things you see every day on television in Japan. And then, a movie Death Note that we're producing today is an epic piece of Japanese manga and anime that we're remaking and reimagining that storyline for the world with more of a Western spin. So, the different takes on content from around the world opens up the world to a world of storytellers, and that's what's really exciting about doing it.

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

And, Doug, I think it's worth noting too that from our perspective, this isn't a change. What you're seeing is the fulfillment of pipeline that's been building for two, two-and-a-half years, and the fact that we're operating in more territories. So, I think, Ted, you would say this has been in plans and works for a while. This isn't really a change from what we've been talking about in the past.

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

Absolutely. Yeah, we're deep in production in Spain, Italy, Germany for shows that we'll launch this year. And we're going to continue to grow on that. Our Ingobernable was our second major series for Mexico. We'll have four for Brazil. So, we're continuing to grow it out and grow up that capability domestically and internationally.

Q - Doug Mitchelson

And do you think 20% local, 80% sort of Hollywood U.S. content is the ratio that still looks good to you today? Or do you think that 20% rising as the international markets...?

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

I'd say that's the right picture globally, Doug. Not to say that some countries won't be some variant of that, but I'm not seeing a reversal of it in any territory.

Q - Doug Mitchelson

The second topic I want to discuss was mobile. And I think Neil Hunt before he retired talked about that since you've launched the rest of world mobile usage of Netflix has really soared and that there is a lot that you're thinking about in terms of customizing content for mobile or even operationally. Any more details on mobile that any of the three of you are willing to share?

A - Reed Hastings {BIO 1971023 <GO>}

Well, first, Neil is still with us for the next couple months. Second is, they're very experimental just trying to figure out aspect ratio. So, if you think of there were movies originally were very widescreen. When they showed on televisions that were 4:3. A technology developed pan and scan to be able to make that picture look a little better on a 4:3 screen. And so, we're just experimenting with variations of that, of trying to figure out how to zoom in to be able to basically have faces be larger, but it's super experimental. It's a neat idea about how to adapt to the future.

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

What we do know, too, is that the next 100 million subscribers are going to be far more likely to be watching content on mobile than the first 100 million. Whether or not they want to watch anything differently, we're going to find out.

A - Reed Hastings {BIO 1971023 <GO>}

Let's get one question more from each of you guys.

Q - Doug Mitchelson

So, why don't I take the next one because Scott and I agree that he'd get the last. I'll say for fun, Reed, how much longer to get the next 100 million subscribers if it took 10 years to get the first hundred?

A - Reed Hastings {BIO 1971023 <GO>}

Well, it took more than 10 million (35:26), how you count the streaming, shorter than the first 10 years for sure. Scott?

Q - Scott Devitt {BIO 4757000 <GO>}

And then, Reed, for you, if you were to like in your global dominance and global streaming to any army in the history of the globe, what would that be today?

A - Reed Hastings {BIO 1971023 <GO>}

I got an invitation to go visit Albania. You may see some summer photographs of me with members of the Albanian Army. But remember that that's all in fun and Jeff Bewkes has been a great partner for us. So, we do kid him and he deserves it. But he really has been a great partner and we think they will be continue to be under AT&T for that matter. Again, that comes back to the non-zero-sum nature of entertainment. And the more we can all do great content, the better. Many different providers, including HBO, including Netflix will prosper. So, it's up to us just to figure out how to provide the best entertainment possible. Thank you, everyone.

Q - Scott Devitt {BIO 4757000 <GO>}

Thanks.

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

Thank you.

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

Thank you.