# Q4 2020 Earnings Call

## Company Participants

- Greg Peters, Chief Operating Officer & Chief Product Officer
- Reed Hastings, Chairman, President, Chief Executive Officer
- Spencer Neumann, Chief Financial Officer
- Spencer Wang, Vice President, Finance, Investor Relations and Corporate Development
- Ted Sarandos, Co-CEO and Chief Content Officer

## Other Participants

- Kannan Venkateshwar, Analyst

## Presentation

### Spencer Wang {BIO 3251222 <GO>}

Hello, and welcome to the Netflix Q4 2020 Earnings Interview. I'm Spencer Wang, VP of IR, and Corporate Development. Joining me today are Co-CEO, Reed Hastings; Co-CEO and Chief Content Officer, Ted Sarandos; COO and Chief Product Officer, Greg Peters and CFO, Spence Neumann.

Our interviewer this quarter is Kannan Venkateshwar from Barclays. As a reminder, we'll be making forward-looking statements and actual results may vary.

With that, let me turn it over to Kannan for the first question.

## Questions And Answers

### Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Thank you, Spencer, and good afternoon, everyone. So maybe, Spence, we could start off with you. Just given the guidance and the beat during the quarter relative to guidance. Sequentially, the first quarter tends to be higher in net additions than Q4, but your guidance is lower despite the fact that you beat Q4 by a relatively large amount. And it feels like the pull-forward effect is more or less behind us. So if you could just help us walk through the thought behind the guidance and the framework that you use for that, that would be a good place to start.

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

Yeah. Sure, Kannan. Well, great to see you. Happy New Year, obviously, delayed. So -- okay. In terms of the guide, first off, we guided to $6 million paid net adds for Q1 if you saw. And obviously, that's still a big number, especially, when you think about it in context of 2020, which was by far a record year with 37 million paid net adds. So, I know you mentioned the pull forward. I don't think we're declaring that we're necessarily through that yet. So, we think there's puts and calls every quarter, but one that's still a meaningful factor for us in the guide is thinking through how we kind of grow through that growth from 2020.

So, there's probably still little bit of that pull-forward dynamic in the earlier parts of 2021. And then more broadly, Kannan, it's just so difficult in this time. I mean, this is one of the more uniquely challenging times, not just for life but that's most important, but also obviously in terms of trying to just forecast the growth trajectory of the business. There is just so much uncertainty right now. So, it's more uncertain than we've ever seen and we're trying to forecast through that. But at the same time, one thing that's maybe counter balancing that is that what COVID has done for us is it has accelerated that big shift from linear to streaming entertainment. So the long-term growth trajectory is at least as strong as ever. There's just more short-term noise and uncertainty right now, but still very strong underlying growth metrics and that's what you are seeing in Q1 guide.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

All right. And I guess, if you just look at the full year in terms of cadence, '21, obviously, has tough comps versus 2020. But I think one of the things you guys also indicated was potentially a 4 million to 5 million pull forward into 2020 from a growth perspective. And I think there's been a lot of debate about what you actually meant by that 4 million to 5 million. So if you could just contextualize the guidance for Q1 more in the context of 2021, you typically do 28 million, 30 million subs in a given year. Is that framework more or less intact? Or should we beat that 4 million to 5 million comment as the pull forward into '20?

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

Well, look, yeah, I'll take this one. Others can jump in as well. Unfortunately, Kannan, we're not going to provide a full-year guide. I mean, just as we talked about, there is so much uncertainty in the business. We can provide a number but I'm not sure it'd be worth that bankable, right? I mean, it's hard enough to project the next 90 days, let alone the next 12 months. But we feel very good about, as I said is that longer-term growth trajectory, you've seen us as you pointed out historical growth trends, hopefully to be plus or minus that but it's a bit impossible to predict. What we do you see is that viewing is up in every region of the world. It's kind of returned from those peak COVID levels, but it's up year-over-year in all regions. Retention is better than it was a year ago. Acquisition is strong. So the underlying metrics are strong in the business, but I don't want to provide false precision on a 12-month target.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Got it. And if you could touch on a couple of regions, I mean the one thing that stood out during the quarter, of course is UCAN, where most of us thought the market was saturated, but you guys keep accelerating growth despite price increases, which is even more impressive. And then the other region, which till Q3 seemed to be -- despite the benefit of COVID, seemed to have slower growth than 2019 despite the market not being saturated. So if you could just talk about the underlying trends in some of these markets and what you're seeing, which is driving some of these trends that might be useful?

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

Do you want me to go or someone else want to go?

## A - Reed Hastings {BIO 1971023 <GO>}

Sure.

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

Yeah. Okay. I'll go again, Kannan. I think the story is pretty similar throughout the world. Every country is a little bit different, but what we're seeing in terms of our viewing trends are similar around the world, the types of content that our members are viewing is kind of similar pre-COVID. And post-COVID, obviously, we have more and more variety of content and great experiences that we're offering to our members. But the story is pretty similar. As you know, there are certain countries around the world where we are just further along in our content market fit and our maturation. But we're seeing growth everywhere.

I mean, even like you pick Latin America as an example, one of our more mature markets. You look over the past few years and we've been steadily growing about five million to six million paid net adds a year. As you mentioned in the kind of US, UCAN market, we're roughly 60% penetrated and we're still growing. So, we're still a very small share of even just pay TV penetration in most markets around the world and small share of viewing. So, we think we've got a lot of headroom in all these markets and we're just trying to get a little better every day.

## A - Reed Hastings {BIO 1971023 <GO>}

Kannan, if you take the US being our most penetrated market, we're still under 10% of television viewing time with Netflix. So again, there -- we've got a lot of subscribers here in the US, but we still have a lot more viewing time that we would like to earn with an incredible service and incredible content.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Okay. And Spence, maybe one last financial question and we'll get this out of the way and get into the more interesting part of the discussion.

## A - Spencer Wang {BIO 3251222 <GO>}

But I won't take offence on that last comment, Kannan.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

But the one thing, obviously, which is new in the letter this quarter is the cash flow guidance and your cash flow guidance is better than what you guys initially indicated and the buyback guidance. So maybe you could talk about capital allocation and using the cash for buybacks versus potentially other opportunities. And also why use an absolute gross debt number instead of a leverage target to frame the buyback discussion? So it would be helpful to get that context.

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

Yeah, sure. So thanks, Kannan. We're super proud of where we are from a free cash flow perspective. And we talked a bit internally before the calls what was a bigger milestone for us. Passed the [ph] 200 million member mark or kind of turning to this next chapter in terms of our free cash flow and the ability to self-fund our growth going forward. And we think that's a pretty big milestone for us.

To the point of our capital allocation approach, the philosophy remains unchanged, which is that we're going to be disciplined stewards of the capital and try to do things that we believe are value maximizing for our shareholders. But we have turned this corner, where now we can, as we talked about with $8 billion of cash on the balance sheet, projecting to be cash flow about breakeven in 2021 and then positive thereafter. We want to return excess cash to our shareholders So, we won't build up a bunch of excess cash. We'll maintain, as you say about, as we said in the letter and as you mentioned about $10 billion to $15 billion of gross debt on the balance sheet. And that's really just to maintain familiarity and access to the debt markets should we need it, but there is really not a whole lot of science beyond that.

And then beyond, as I say, we put a premium on balance sheet flexibility. So, we're going to continue to invest aggressively into the growth opportunities that we see. And that's always going to come first. But beyond that, if we have excess cash, we'll return it to shareholders through a share buyback program.

## A - Spencer Wang {BIO 3251222 <GO>}

Got it.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

And Reed and Ted, if we could just pivot to a question on competition. I mean, this question may feel a little bit unfair, to be honest, because in many ways, you created the streaming template for others to replicate. But given Disney's recent success and the kind of numbers they are putting up, it almost feels like Netflix is underachieving versus its potential and has to work a lot harder to get to comparable scale. So, are there any reasons why the Disney numbers are not a benchmark for Netflix and why you -- the company can't get there?

## A - Reed Hastings {BIO 1971023 <GO>}

Underachieving, Kannan. We've included a tangible (Multiple Speakers) in the bottom of our earnings, which is the return -- the annualized return over 18 years being 40%. So if that's underperformance, so we'll do more of that. Look, it's super impressive what Disney has done. I mean it's the incredible execution for an incumbent to pivot and taking on an insurgent. And so that's great. And it shows that members are interested and willing to pay more for more content because they're hungry for great stories and Disney does have some great stories. And so it gets us fired up about increasing our membership, increasing our content budget. And it's going to be great for the world that Disney and Netflix are competing show-by-show, movie-by-movie. We're very fired up about catching them in family animation. We may eventually passed, and then we'll see. A long way to go just to catch them and maintaining our lead in general entertainment. They are so stimulating like Bridgerton. I don't think you're going to see on Disney anytime soon.

Ted, you want to follow-up on that?

## A - Ted Sarandos {BIO 4812832 <GO>}

No, I think, when you talk about in competitive terms, you think about Christmas Day 2020 where you have enormously anticipated film like Wonder Woman '84 and Soul, both debuting on competitive services and us launching what turns out to be one of our biggest launches ever. And I do think what Reed said is that it does point to people have tremendously big appetite for great entertainment and all different kinds of it, and the fact that they're willing to pay more for more programming and it's very encouraging. We've always said that people will -- our goal is we want to make everybody's favorite show, everybody's favorite film. Other people are going to try to do that too, and people will supplement their Netflix subscription to get that content, which I would think is a super healthy dynamic.

## A - Spencer Wang {BIO 3251222 <GO>}

And Kannan, if I can -- sorry, go ahead, Greg.

## A - Greg Peters {BIO 17539678 <GO>}

I'm sorry. But if I could start as well, I think there is the membership lens and the number of subscribers, but it's also useful to look at it from a revenue lens, which, of course, is the fuel that we have to basically create more of that content to get that virtuous cycle flowing more.

## A - Spencer Wang {BIO 3251222 <GO>}

And the only other thing I would add to that, Kannan, not to get [ph] turned the wheels on the numbers and not to take anything away at all from what Disney has done because it's been amazing and I'm a happy customer myself. But 30% of their, I think, 87 million paid subscribers were Hotstar, which I think we all sort of recognize as a bit of a different service.

So that's -- so the 87 million is closer to 60 million and our ARPU is roughly double or actually more than double. So, we added close to 40 million last year alone. So, I think we factor in those dynamics and the fact that we're coming from a higher level of penetration globally, I think we feel very good about the performance.

## A - Ted Sarandos {BIO 4812832 <GO>}

So, you took the bait. Kannan was just trying to get us to chest answer more.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

It was meant to be provocative. It turned out to be. So -- but I just -- a follow-up and Greg, I guess you're going to have a lot to say on this topic. But when you think about Disney coming in or even Discovery or all these new launches that are happening, in some ways, this expands the pie quite a bit for streaming in general. Because there are also new distribution models that have been attempted and telecom companies have started to see this as a new normal. And my guess is, this will lead to all kinds of other permutations in the future. So, when you think about more streaming services coming out over the course of '21, does that in some way provide an opportunity to try new distribution avenues or accelerated growth because of the growth in streaming in some ways?

## A - Greg Peters {BIO 17539678 <GO>}

I think you're right. I mean, we're seeing this big macro shift and certainly the global pandemic has accelerated that process. And really, I think the first bit is just even that big impetus to move is, to some degree, a tailwind for us because we have more and more consumers who are around the world who are aware of the services. We have more and more intention, more activity out there. We are seeking to be innovative and constantly pushing the edges around how we can accelerate our growth, how we can improve our distribution footprint, how do we access members more and more.

And also -- and what's really the key engine of our growth is just how do we satisfy those folks that have signed up for us because that really is the ultimate stimulus. When they have a great experience and they talk wildly about how great the service is, how amazing the titles that they're viewing there to their friends, their family, their colleagues, that's really what motivates that next round of subscribers to sign up. So, we'll keep pushing the edges. We seek to be innovative in that way and we'll come up with many creative ideas we can to grow.



## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

All right. And I guess, extending on that topic, you ran a couple of interesting experiments during the quarter. I think. Netflix was free in India for a weekend. Then in France, you have tried the linear format. So could you talk a little bit about the learnings from these experiments? And are these successful enough to expand to other regions?

## A - Greg Peters {BIO 17539678 <GO>}

Yeah. So StreamFest in India, I mean the primary learning, which is very evident is there is a lot of interest amongst consumers in India to try Netflix. We had millions of people that had access for a 48-hour period to the service. And now we go through the more difficult part of actually analyzing how that interest through this specific tactic translates into sustained incremental growth. And we're still working through the details of that. And obviously, based on what we see there, we'll inform how we think about how we leverage that tactic again or how do we improve on it, whether places we think it might be leverageable.

And then on to your other point, I'd say Netflix members come to the service seeking to be entertained in a whole variety of ways. Sometimes they are looking for a movie or sometimes a TV show or animation or scripted or unscripted. And sometimes, they show up and they're not really sure what they want to watch. And so we've had the opportunity to try and be innovative and try new mechanisms to sort of help our members in that particular state.

So, there is the linear feed, isn't one example of that. Still unclear how that's going to work out. So, we're still looking at that one. But I think, an even better example of that is a new feature that we've been testing and we're going to now roll out globally because it's really working for us, where our members can basically indicate to us that they just want to skip the browsing entirely, click one button and we'll pick a title for them just to instantly play. And that's a great mechanism that's worked quite well for members in that situation.

## A - Reed Hastings {BIO 1971023 <GO>}

Hey, Greg, are we going to call it I'm feeling lucky? Or you going to come up with something better?

## A - Greg Peters {BIO 17539678 <GO>}

We're going to come up with something better than that. So standby for this (inaudible), which you'll see when it rolls out.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

That's great. And so, Greg, just following up on Asia a little bit more. You mentioned the $4 billion to $5 billion in revenues that Netflix has been able to add over the last few years. As EMEA becomes a bigger region and as your reliance on growth in that region increases, is that $4 billion to $5 billion the right way to think about revenue growth? And also -- and because of the ARPU, of course, in that region being much lower, how should we think about that framework for revenue growth going forward?

## A - Greg Peters {BIO 17539678 <GO>}

Yeah. I mean, we're proud of the sustained $4 billion to $5 billion annual revenue growth, which we think is unprecedented in the entertainment industry. And certainly, our aspirations are to do as well as we can and growing -- continue to grow that revenue. But to your point, specifically, what we're seeing is we have to find ways to improve the accessibility of the Netflix service. And oftentimes that means doing some trade-offs between subscriber growth at different ASPs. But really, our framework for all of that and the way we assess the moves that we make and how we expand those moves and how we test, how we evaluate those tests. It's really around that sort of revenue optimization piece. And so that's always the lens that we get to and we're going to use that to continue to try and basically fuel as much revenue growth as we can.

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

And I'll just add to that, Kannan. Just in this past quarter, the APAC region was the second largest contributor of growth and you see the kind of revenue acceleration, frankly, that's happening in our business from about $4 billion increase over the total year -- two years ago to about $5 billion this year. And even just in our guidance for Q1, it's, I think, 24% year-over-year. So on an absolute basis, that revenue is growing.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

And when you think about the APAC region, I mean, obviously, that's -- that region is very different in terms of price sensitivity and the kind of diversity the region has, languages and so on and so forth. So when you approach that particular region, is the present model more or less the steady state of trying a mobile-only kind of a plan and then trying to update people from there? Or are there other things you can do either in terms of pricing a product to potentially accelerate that?

## A - Greg Peters {BIO 17539678 <GO>}

There are 100 things that we can and we need to go do. And we know that it's really not just about just one trick or one thing that will basically make us successful in the region, but it's just constantly looking at all of the ways at which the current product experience doesn't satisfy completely our members or members to be and you mentioned language. It's a great one where even simple things like we're improving the ability for our members to tell us what languages they want in terms of the content when they are browsing and there are sort of these different scenarios. There is a scenario maybe when you're by yourself and if you're multilingual, that can result in sort of different choices.

If you're in a multi-generational household, then all of a sudden that might shift how you think about, like what titles you want to present and what languages. And so that's just one small example of places where we know we can improve the product experience and be more effective and satisfy members. But it goes on and on from that to, like the methods of payments that we know we need to expand and we are constantly working to add more of those and make those more effective, the partnerships we have that make the service more accessible and more immediate easier for the members to find out and sign up. So there is tons of things that we're looking at.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

And speaking of an area of overachievement instead of underachievement, Ted, 70 movies in a year. So now you guys are the industry in many ways. I think the top five studios potentially do about 90 movies a year. You guys are doing 70 a year. So, at what point is this too much? How do you judge that balance and how you're juggling or how are you evaluating returns on this investment?

## A - Ted Sarandos {BIO 4812832 <GO>}

It's likely more than 70. That's just what we were able to talk about in that last release in that exciting trailer. I mean you think about it as -- you think about how diverse people's taste are, you think about what the appetite to watch a movie is. It isn't just one a week. I think there is a plenty of room to grow that. But if any -- and we're doing that at much larger scale today. So thinking about movie stars like Gal Gadot and Leonardo DiCaprio, Meryl Streep, and film makers like Jane Campion and Adam McKay, Zack Snyder, Antoine Fuqua making films at enormous scale for Netflix.

So that when people have an appetite to watch a movie, they could do it at home. And they could do it on the big screen and they could do it on their phone. And I just think that that evolution will continue to grow and expand well beyond a movie a weak because that's -- we're talking about serving a global audience with incredibly diverse taste. So that one a week is -- many weeks it's already two or three, and some of them are hugely impactful in the region that they are created for and some of them become very, very global like we saw with hashtag Alive last year with from Korea, which became a very big hit for us around the world.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

And when you make these titles, I mean you innovated with respect to the kind of financial model on content creation with a cost plus kind of a structure relative to the deficit finance models in the past for content. When you do the kind of output that you're doing and the volumes that you're doing, is there a risk that this leads to lower returns overtime, because there is really no downside in some ways for studios to create this content on a cost plus basis? And does it makes sense at this scale versus when you were essentially doing originals as a start-up?

## A - Ted Sarandos {BIO 4812832 <GO>}

I think it does. I mean we're seeing it scale up, more than double every year, and continuing to scale both in the scope of the projects, ambition of the projects and the execution of the projects. And I do think the financial return, if you think about it, relative on a handful of titles that wind up doing enormous return for the studio versus the hundreds of titles that barely breakeven. This is a great model for producers to produce in, and the fact that we can support it day in and day out at this kind of volume and make projects that are otherwise pretty difficult to make. In some cases, it's been really encouraging for filmmakers just to embrace this model.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Got it. And given the kind of volumes that you're doing on movies now and also because of COVID, there has been a significant shift in the patterns for movies not just at Netflix but across the industry. Does this in some ways create essentially a new distribution channel for you? If day-and-date releases or shorter windows become more acceptable, does it become possible for you to essentially tap the box office with wider releases on a very short window and does that become a new revenue stream at some point?

## A - Greg Peters {BIO 17539678 <GO>}

Kannan, potentially, I mean we've looked at it before. We've never had any issue with movies being in theaters. Our biggest issue has been that you had to commit to this very long window of exclusivity to get access to any theaters. That's been the biggest challenge. So if those windows are going to collapse, then we'd have easier access to films. To show our films in theaters, I'd love to have consumers be able to make the choice between seeing it out or seeing it at home which is becoming the norm during COVID certainly and we'll see how much that sticks. But I think that consumer behavior, human behavior, things changed a lot overtime, but there is a very different experience associated with going out and going to theater with strangers and seeing a movie, and it's fantastic. It's just not core to our business.

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

Hopefully, with Warner Brothers sort of COVID move, what we'll see is post-COVID, like the second half of the year, is the people both go to the theaters in significant numbers and watch their films and they will premiere simultaneously on HBO Max and then that will really set a path for simultaneous -- it's good for the film helps both online and on-streaming and then also in the theatres, but we have to wait to post-COVID to get a clean read of that.

## A - Ted Sarandos {BIO 4812832 <GO>}

What you're seeing today was exactly what we've been trying to do for a couple of years since we are making these films at this size.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

I guess the other side of this coin is given your distribution scale now, if a studio wanted to release a movie on Netflix, this was one of the most efficient channels they can get to. Why is that not an attractive model for Netflix either in the form of a premium VOD channel or some of the distribution model, but why is that not an attractive model for you?

## A - Ted Sarandos {BIO 4812832 <GO>}

We're not saying that it isn't, but we're saying as this one has been the most attractive model, so in terms of both for consumers and for our own business.

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

And Kannan, I think you alluded maybe to a different model sort of a transactional kind of approach and I would say that we really believe that from a consumer orientation, the simplicity of our ad free, no additional payments, one subscription is really, really powerful and really, really satisfying the consumers around the world. And so we want to keep emphasizing that.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Got it.

## A - Greg Peters {BIO 17539678 <GO>}

It is a new challenge to people to figure out one of the great things about the subscription models. I think it opens up for consumers to be much more adventurous about what they watch. So I think you could throw out a lot of preconceived notions about what works and what doesn't because those are mostly established by business trends not by consumer trends. And what -- so I think what happens is people say, hey, I don't watch foreign language television, but I've heard of the show called Lupin, and I'm super excited to see it, and it's including in subscription my push play, and 10 minutes later, all of a sudden they like foreign language television. So I think it's a really incredible evolution.

Bong Joon-ho said it so beautifully at the Oscars that audiences have to get over the one-inch wall to enjoy a whole another world of entertainment, and we're seeing that incredible scale already by watching -- by having great stories from anywhere in the world to everywhere in the world at Netflix. And that one-inch wall is the subtitles or you could watch it with dubs, or you could watch in the original language track.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

And I guess when you have this kind of content volume and also the kind of movie slate that you're putting up, it also gives you a lot more pricing power because instead of watching a movie for $10, or as a family for $30, you essentially prefer Netflix, so your pricing power implicitly goes up in this environment, because of the kind of product.

## A - Ted Sarandos {BIO 4812832 <GO>}

They were increasing value. We're increasing the value proposition for the consumer. Every time we get another 10 minutes of watching on Netflix, you're increasing the value of that subscription. So I think it's -- by increasing the options, we are also increasing the likeliness that you're going to push play. And when you do push play, you're going to love what you see.

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

And Kannan, realistically I would have home entertainment. This is just most consumers think of that differently, just like you could cope cheaply. But people still go out to dinner and they still go out and they see that as an experience, that's just different. So don't think of that as the direct or our members don't think that is the direct comp. But what they love is for a low price, they get to watch in a limited amount and be very experimental back to what Ted was saying in their taste, and to try Alice in Borderland and to try Lupin. So all these things are kind of interconnected to be able to create a really unique and incredible viewing experience.



## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

So I guess when you think about these factors, I mean there are two ways to think about pricing in this environment. One is, when you have so much competition and consumer wallets essentially have to be spread more widely. One way to read the environment is to say that pricing power is limited, but then on the other side of it, your share of total engagement could continue to go up and the pie itself could increase. And you have more product which consumers basically that wallet is coming out of somebody else instead of television. Which of these two dynamics should we expect to see? In other words, should pricing power accelerate or ARPU growth accelerate in the coming years, at least in the western markets?

## A - Ted Sarandos {BIO 4812832 <GO>}

Yeah, I would say, our competition set we think of is extremely broad whether you think about it as share of wallet or share of time and attention, share of entertainment, share of delight, and we feel like we have so much more room to grow and really it's exciting to now see the sort of new dimensions of value creation for our users like bringing foreign language show Lupin, La Casa de Papel, shows that are now becoming global hits from countries and in languages that that's never happened before. That's super exciting to see that kind of value creation. And that's really just where we stay focused. So we're not trying to predict the future in that way, but just stay tightly, tightly disciplined on trying to think about what's that next incremental step where we can create more value for our members, engage them, delight them, more great content, more great product experiences. And if we think we do that well, then we think our business will grow in turn.

## A - Reed Hastings {BIO 1971023 <GO>}

Kannan, we've been pretty cautious and we'll continue to be pretty cautious. So maybe Spencer Wang, can you remember there, what's the last three years, what's happened with average revenue per member? Was it moved up from?

## A - Spencer Wang {BIO 3251222 <GO>}

Yeah. So, it's moved up from less than $10, around sort of $9.90 per month, per membership to, in the last quarter slightly north of $11. And just bear in mind, Kannan, I think you know this, but -- that we had significant FX headwinds over that course of time, too. So, we've seen that growth settling. So that's, I think a helpful framework for you.

## A - Reed Hastings {BIO 1971023 <GO>}

Yeah. It's about 10% over three years, so pretty cautious. And it's working well for us to provide incredible value.

## A - Greg Peters {BIO 17539678 <GO>}

Yeah. Maybe just another way of stating that. To be cautious, it's just thinking about it. We do think we're an incredible entertainment value and we want to remain an incredible entertainment value.

## A - Ted Sarandos {BIO 4812832 <GO>}

Yeah. I'd draw you back to that Christmas Day releases where we had Bridgerton. But a couple of days before that, we had Midnight Sky and a couple of days after that, we had Cobra Kai and a couple of days after that, we had Lupin and a couple of days after that, we had Pieces of a Woman. I mean, it's a phenomenal and the numbers are in front of you. The way the people have enjoyed these series and films has been unprecedented and I think the rhythm and the pace of that has been really keeping up. But I think that is the definition of consumer value.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Okay. Got it.

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

And just the recent data points, Kannan, we referenced in the letter but we had price increases in the US. In the fourth quarter, we announced in UK in December and we've grown nicely through that because I think, to this point, we are continuing to increase the variety and value of what we're delivering for our members.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

And I guess, on the pricing trend, I mean, at a certain level, there is some academic research on this. But essentially, elasticity seems to be a function of the price itself, which means as you go higher and higher, when you start taking price up potentially, maybe the elasticity of demand changes. But is that something that you guys have seen yet? Or are we still very far away from that point at which these factors kick in for you? So if you could just talk about what you've seen so far as you've taken price up across different regions in terms of potentially churn or cohort behavior, that might be a useful framework for us?

## A - Greg Peters {BIO 17539678 <GO>}

Yeah. And I think, rather than sort of that academic perspective, we look at it perhaps more practically and more operationally and really, it's almost reversing it, which is that we are looking for signals and signs from our members that are telling us essentially that we have added more value. So, you think about engagement with the service and retention and churn characteristics, acquisition, those are the things that we're really looking for, that are key to basically saying, okay, we've added more value in the service. Now, it's the right time to go back to those members and ask them to pay a little bit more so that we can reinvest and keep adding it. So it's really that sort of iterative feel our way forward kind of orientation that we have.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Got it. Pivoting to a slightly different topic. You guys added Strive Masiyiwa. I hope I'm pronouncing that right to the Board. And Africa is not a region we've discussed in the past, but Disney started creating a lot of content in the region. And obviously, this Board appointment is pretty interesting. Is this the next focus? How should we think about this as an opportunity?

## A - Greg Peters {BIO 17539678 <GO>}

Well, Strive is a global Board Member. He is not coming on board to be a marketing consultant for Africa, although he does know it extremely well. But he is a voice about how to build large subscription businesses, which he's done. He's enormously sophisticated of dealing with governments, which, as we grow is an increasingly important skill for us to have. So, think of him as a great global advocate for us. He also knows Europe very well, and the rest of the world reasonably well. So, I think it's -- we've been broadening our global Board membership and it's a continuation of that. And then, again, Africa is a ton of potential. We're doing more content there. We are growing our membership, but again that's not Strive's role specific.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

And just looking at the rest of the world, I mean, there's been a lot of small transactions. And Spencer, this one might be for you and I'm sure the others will chime in as well. But there have been a couple of streaming services in Southeast Asia, which essentially were acquired by some of the Chinese Internet majors. Sony, of course, did the acquisition of Crunchyroll. So, there has been interesting assets, which could have helped you scale potentially faster. But obviously, you guys passed on it or did not really show any interest in these assets. So, could you help us think through what kind of assets you guys would care about? Is it more like Millarworld assets? Or why are these assets not interesting?

## A - Spencer Wang {BIO 3251222 <GO>}

Sure. To answer the first question, Kannan, with respect to other streaming services, our view is many people subscribe to multiple different services. So acquiring another one just for their members doesn't -- it doesn't really help us and we want to stay focused on capturing and earning that subscription from each person organically rather than just doing some sort of M&A deal. So, that's sort of point one.

Point two, in terms of your other question around what are we interested in? It is largely around things that can help us bolster our core business, which is entertainment and specifically, content assets, inclusive of things like intellectual property that we can hopefully turn into great TV shows and great movies.

## A - Ted Sarandos {BIO 4812832 <GO>}

I would just add that, historically, we've been builders, not buyers. And years ago, I used to try to get the team to wrap their head around the potential scale of the business by saying things like some day we will be so big, we will have a VP of anime. And then that someday is now. We're one of the largest producers of anime in the world. So, you think about those kind of things now. And it's like what will you -- when you look at those assets, they're primarily distribution assets, not really IP assets. So that's where -- and we've been taking the approach like with our unscripted programming, with our anime, with our animated features with a big budget original film. We're building it over a couple of years versus acquiring.

## A - Spencer Wang {BIO 3251222 <GO>}

We have time for one more question, please.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Okay. Spencer, maybe -- sorry, Reed, I'll ask you this final question more with respect to the longer-term outlook for the business and Ted, obviously, feel free to chime in as well on this one. But is there any regrets you guys have had in terms of things that you guys could have done, but did not do? And one instance that comes to my end is something like Roku, if it was part of the company instead of being spun out. And also when you look at the competitive landscape, what do you perceive as the real competition? Is it streaming services? Or does it come from outside from things like Fortnite, which you've mentioned in the past as an engagement driver for consumers?

## A - Reed Hastings {BIO 1971023 <GO>}

Just direct it to Spencer. So, I was going to -- interesting [ph] to see how he does on this one.

## A - Spencer Wang {BIO 3251222 <GO>}

I could take a stab at that. And I mean -- and then I'll pass it over to Reed or -- and/or Ted. So look, as Greg mentioned earlier, we think the competitive set is incredibly large and wide. And so, look, I think we have a lot of work to do to continue to grow that small share of screen time that we have today. So, we'll become more and more valuable to our members. I think the other part of your question was, is there anything that we sort of regret? I've only been here five and a half years compared to Greg, Reed and Ted, who have been here much, much longer. So, I think my window of regret is probably smaller. So, I don't think that there is anything that comes out to mind right now.

## A - Reed Hastings {BIO 1971023 <GO>}

Spencer's regret is not joining three years earlier.

## A - Spencer Wang {BIO 3251222 <GO>}

That is right.

## A - Reed Hastings {BIO 1971023 <GO>}

No, not materially, I mean, I think it is fantastic that we've executed. If we had kept Roku inside, it's very unlikely they would have been the success that they have. What Anthony and his team have done, has taken enormous energy and focus on their side. And it was an enormous test for us just to become a leader in both streaming and then original programming and then global. So, I think we're happy for their success, but no regrets on that front.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Got it.

## A - Ted Sarandos {BIO 4812832 <GO>}

I think with the hours and hours of joy we're bringing to hundreds of millions of people around the world and with the return to our shareholders, it's hard to look back with much regret.

## A - Reed Hastings {BIO 1971023 <GO>}

Here is one for you, Kannan. We regret not buying a global license to House of Cards in the first deal. But we are happy to build that in piecemeal that extraordinary expense.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

That's a good note to end on, I guess.

## A - Ted Sarandos {BIO 4812832 <GO>}

Agreed.

## A - Reed Hastings {BIO 1971023 <GO>}

Thank you, Kannan. And thank you to all of our shareholders. And look forward to talking to you in another quarter.

## Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Okay. Thanks, all. Thanks, guys.

## A - Ted Sarandos {BIO 4812832 <GO>}

Happy New Year.



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