S&P Global
Market Intelligence

# Netflix, Inc. NasdaqGS:NFLX

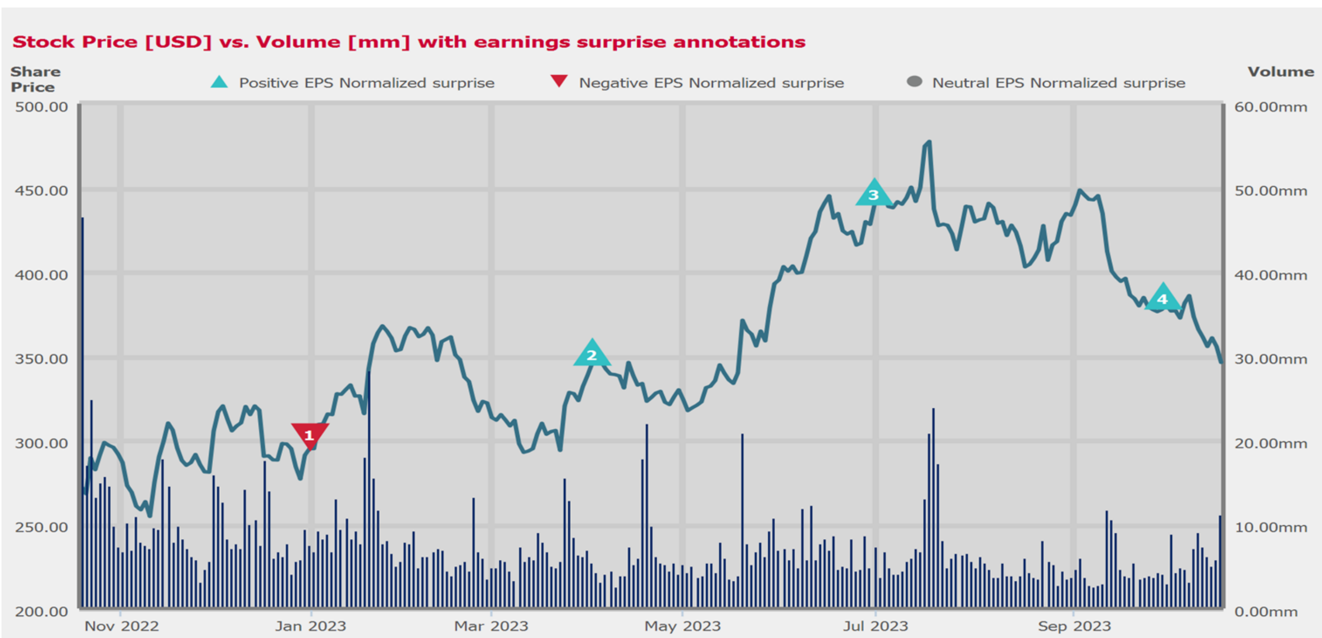
# FQ3 2023 Earnings Call Transcripts

## Wednesday, October 18, 2023 10:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ3 2023- | | | -FQ4 2023- | | -FY 2023- | -FY 2024- |
|---|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | GUIDANCE | CONSENSUS | CONSENSUS |
| **EPS Normalized** | 3.49 | 3.73 | ▲6.88 | 2.20 | 2.15 | 11.92 | 15.07 |
| **Revenue (mm)** | 8540.28 | 8541.67 | ▲0.02 | 8766.43 | 8692.00 | 33719.02 | 38129.24 |

Currency: USD
Consensus as of Oct-18-2023 1:56 PM GMT




| - EPS NORMALIZED - | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2022** | 0.51 | 0.12 | ▼1 (76.47 %) |
| **FQ1 2023** | 2.86 | 2.88 | ▲2 0.70 % |
| **FQ2 2023** | 2.86 | 3.29 | ▲3 15.04 % |
| **FQ3 2023** | 3.49 | 3.73 | ▲4 6.88 % |

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## EXECUTIVES

**Gregory K. Peters**
*Co-CEO, President & Director*

**Spencer Wang**
*Vice President of Finance, Corporate Development & Investor Relations*

**Spencer Adam Neumann**
*Chief Financial Officer*

**Theodore A. Sarandos**
*Co-CEO, President & Director*

## ANALYSTS

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

# Presentation

**Spencer Wang**
*Vice President of Finance, Corporate Development & Investor Relations*
Good afternoon, and welcome to Netflix Q3 2023 Earnings Interview. I'm Spencer Wang, VP of Finance, IR and Corporate Development. Joining me today are Co-CEOs, Ted Sarandos; and Greg Peters; and CFO, Spence Neumann. Our interviewer this quarter is Jessica Reif Ehrlich from Bank of America. As a reminder, we will be making forward-looking statements, and actual results may vary. Jessica, let me turn it over to you now for your first question.

# Question and Answer

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Thank you. So let's start with the you, Ted. Now that 1 strike is over, the writers guild, what are the implications for your business?

**Theodore A. Sarandos**
*Co-CEO, President & Director*

Thanks, Jessica. Let me first say, we want nothing more than to resolve this and get everyone back to work. That's true for Netflix. That's true for every member of the AMPTP. It's why our member CEOs have prioritized these negotiations above everything else we're doing. We spent hours and hours with SAG-AFTRA over the last few weeks, and we were actually very optimistic that we are making progress.

But at the very end of our last session together, the guild presented this new demand that, kind of on top of everything, for a per subscriber levy unrelated to viewing or success, and this really broke our momentum, unfortunately. But you should know, we are incredibly and totally committed to ending this strike. The industry, our communities and the economy are all hurting. So we need to get a deal done that respects all sides as soon as we possibly can.

In terms of the impact, these are the times that I'm glad we have such a rich and deep and broad programming selection. We -- programming costs themselves rise nearly every year, primarily driven by competition. Competition for talent, competition for shows and films. And you can see we've managed successfully through that year on year on year. And the same is true for -- during COVID when we were able to manage the slate through a prolonged and pretty unpredictable production interruptions. So -- but I really think we're not really that focused right there on how this impacts much, except for our biggest opportunity, which is to continue improving the quality of the slate.

We're focused on that day in, day out, year in, year out. And I'm incredibly pleased with Bela and the team and the progress that they're making. So if you'll indulge me for just a second, I just would draw your attention to the Q4 slate as an example of that, headlined by the return of The Crown for its final season. This is one of the most ambitious television shows in the history of television.

We have a new season of Big Mouth, a history -- a new season of Elite, the launch of Berlin, which is a spin-off from our La Casa de Papel, our Money Heist franchise, a new limited series like All the Light We Cannot See from Shawn Levy. That's incredible. And Bodies from the U.K. And that's just on the TV side.

And on the film side, one of our strongest quarters ever. We have this enormous sci-fi spectacular from Zack Snyder, Rebel Moon; a new film from David Fincher, The Killer. And these films that just lit up the fall film festivals recently, like May December from Todd Haynes; and Bradley Cooper's Maestro; the doc feature, American Symphony. That's all coming in Q4.

And for family too, we've got a new animated feature from Adam Sandler, we've Leo, that's hysterical; Chicken Run 2, which is a sequel to the most successful stop-motion animation film ever; and a new series from the CoComelon world called CoComelon Lane; Family Switch from Director McG, which stars Jennifer Garner and Ed Helm. So it's an incredible slate, something new and exciting for all taste all moods, all ages, and we're just super proud of the team that they've been able to manage through this and still deliver so much to it for our members.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

One more on strike-related -- like, just the aftermath, you discussed at a recent conference, giving talent more transparency. Could you talk about what that looks like? What are the new metrics talent will be paid on? And is it even standardized across the industry?

**Theodore A. Sarandos**
*Co-CEO, President & Director*

Yes. Look, what I talked about there was heading towards a world where -- that -- where streaming data will be much more readily available. Remember, data -- streaming itself is not that exotic anymore. We've been doing it for 15 years. So we -- in the beginning, we thought there was a hard kind of apples and oranges comparison to ratings and streaming.

And I think we've gotten to a place where it's mostly about engagement and that does capture the value of watching and that things will become much more transparent the way TV has always had ratings and music has always had billboard and the theatrical has always had box office. So it'll be much more common for the data to be fully transparent.

What I didn't mention though is that part of that -- of our reason for not publishing early was part of our promise with creators. At the time we started creating original program, our creators felt like they were pretty trapped in this kind of overnight ratings world and weekend box office world defining their success and failures.

And as we all know, a show might have enormous success down the road and it wasn't captured in that opening box office. So part of this was the relationship with talent, not just the business aspects of it. And I do think that over time, people are much more interested in this. We're on the continuum today of how much data do we publish. I think we've been leading the charge, starting everyone down the path of a top 10, publishing our top 10 list and our annual wrap-up list and everything that give a lot of transparency to the viewing. And I just expect it'll be more and more transparent.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Great. Let's move on to paid sharing. Have you identified most of the borrowers? And can you provide any help in how much more is left to go and the challenge in completing the crackdown?

**Gregory K. Peters**
*Co-CEO, President & Director*

Sure. I'll take that one. And I'll start by saying we're just incredibly pleased with how it's been going. And you can see the progress from our membership growth in Q2. Now in Q3, you can see it embedded in the revenue outlook for Q4. I think paid sharing represents the kind of difficult challenge where we needed to balance both important relevant consumer considerations with the importance of ensuring that our business got reasonably paid when we deliver entertainment.

And it's an example where we leveraged core execution capabilities that we've been building for over a decade, sort of how you develop good product experiences, how do you solve hard problems through them, how do you have an iterative model where you listen to consumers to tell us what's working and what's not, so we've been excited about that.

But because it's such a challenging problem, such -- we're shifting essentially consumers' expectations and what they expect from us, we've always thought that making this change should be done in a steady, considered way. And so our plan has been to stage out this rollout. We've been delivering our product experience to different borrower cohorts according to that plan. And as a result, I think as you're alluding to, there are a number of borrower cohorts, which has, as of today, have not received part of that experience.

And just to explain that a bit. I mean, part of the motivation to stage it out is based on technical considerations. So this is our ability to build features and improve model accuracy over time in a way that allows us to ensure that we're accurately developing and applying our interventions in as effective and as positive a way for consumers as possible.

Part of that has been just to stage things out based on borrower behavior. So we want to show up with the right product experience at the right moment that's more likely to convert a borrower over rather than have them spin off. So we want to think about that from maximizing long-term revenue.

So we're going to continue the rollout for the next couple of quarters, and I think folks are trying to figure out how much how much juice is left there. And I would say we anticipate that we will have incremental acquisition, incremental adds for the next several quarters. We've seen that in the last couple of quarters. I think also worth noting that, that was on top of also very healthy organic, meaning not driven by paid sharing growth.

So we anticipate seeing that for the next several quarters to come. And then just stepping back, there's a set of borrowers that we're not going to convert. We haven't converted yet. We're not going to convert over the next couple of quarters. But that really represents how we think about paid sharing going forward, which is it's now become part of just our standard way of operating. And we have many hundreds of millions of qualified households out there. They're smart TV households that we want to win over, over the next several years.

And those borrowers we're not going to convert in the next couple of quarters represent that same group. So we got to go after them the same way we're going after people who have never signed up for Netflix, which is having an incredible content offering, an incredible value and get them so excited that they just have to sign up.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Right. Moving on to the recent advertising restructuring. Can you talk about why you made the management change and what you would like to accomplish?

**Gregory K. Peters**
*Co-CEO, President & Director*

Yes. First, I'd say Jeremi has done a great job getting us essentially from 0 to where we are today. She'd laid the foundation for the ads business. She's hired and built a burgeoning team of leaders who, in turn, now are hiring the teams and people who are going to take the business forward.

But it's an important time and I think a great time for Amy to come in and extend that great work, to build on that foundation and drive our ads business to the next level. And why am I so specifically excited about Amy in the role. First of all, she's a high Netflix tenure employee. She's been with the company for over 7 years.

She's demonstrated really positive impact and great results in several different roles, but most recently as part of the studio and leading a big global team that is scaling very, very, very quickly, which sounds familiar when you think about what -- where we want to take our ads business. Second, she's got broad entertainment experience, ranging from content licensing, distribution. She's got business development, finance strategy at Netflix and in prior roles.

So I think when you think about that assemblage of skills, and you think about the existing ads leadership team that we have that has got a rich, rich history in ads in general and connected TV, especially if you think about somebody like Peter Naylor, who started selling connected TV at Hulu. That's a strong team to take our ads business to the next level.

And if -- and maybe I'll just -- if you -- I want to maybe just restate what we think the promise and the opportunity and sort of where we're at on ads business is. And so first of all, just starting off with, this is a $180 billion opportunity when you think about linear TV, you think about connected TV, not including YouTube, not including China and Russia. And we think we're in a great position to win some of those dollars.

We've got great content. The brands want to be next to. We're a safe place for brands to exist. We got great engagement from our members. That's a really strong foundation to work with. But we got a lot of work, and we know we have a lot of work to fulfill that potential.

Among that work, we've said it many times, I'll say it probably many times going forward. But scale is the #1 priority. We're making good progress there. This quarter, we grew our ad plan membership 70%

sequentially quarter-to-quarter. That's on top of the last quarter where we grew at 100% quarter-to-quarter. We now have 30% of our new sign-ups choosing our ads plan in our ads countries.

And we've done it by making the ads offering more competitive. We've gotten to over 95% content period with our non-ads plans. We've improved features like a number of streams, the video resolution. We're going to keep doing that. We're adding downloads now. So we'll keep that good trajectory going and keep focusing on it.

Second big priority for us is delivering features and products that advertisers want. We've heard again and again, I've heard it this week, ad week from advertisers, top of that list is measurement. We've launched our measurement partnership with Nielsen in the United States this month in October. So we're excited about that. We've got a long list of other partners across other countries that we've got to deliver that same capability in, so we're excited about getting that out.

We're also excited about new products. So we've rolled out our top 10 media buy. We're going to roll out our binge ad product later this year. We're launching more ways to buy programmatically through Microsoft that gives more buyers more ways to access our inventory. So we've got a lot of work to do here on all of those fronts, but we've always said this is a multiyear build, a multiyear progress. We got a lot that we've got going on, and we're excited about the future to come.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

So now that you've phased out basic for new subs and you're getting extra members or paid more per sub from password sharing crackdown you've introduced advertising in 12 countries, could you talk about the outlook for ARM in '24 and beyond?

**Spencer Adam Neumann**
*Chief Financial Officer*

You want -- you guys want me to take that one?

**Gregory K. Peters**
*Co-CEO, President & Director*

Go ahead, Spence.

**Spencer Adam Neumann**
*Chief Financial Officer*

All right, you winded up for me. Thanks, Jessica. So I would say just generally, when we think about '24 and beyond, think about it as our revenue growth profile in general. And we talked about this recently. We expect a more balanced mix of membership and ARM growth in '24 and beyond '24.

So just looking at '24 specifically, as Ted talked about, we expect to have a great slate to drive the business forward. And we expect to continue to do things like add extra members, grow our advertising revenue, as Greg discussed. And in addition, have some pricing adjustments. You saw that in our letter. All those things will drive ARM.

So '23 was a pretty unusual year where essentially all of our growth came from member growth. And going forward, more broadly, not just '24 and beyond, we'll grow our business by continuing to kind of improve our service, increasing engagement, increasingly satisfying current and future members. And now that, as Greg discussed, we've got and account sharing solution, we have a more clear path to more deeply penetrate that big addressable market of 0.5 billion connected TV households and growing.

And with our continued plan evolution, pricing sophistication and all that hard work growing our ads business, we'll keep getting better at monetizing that big and growing reach and engagement. So we believe we've got a long runway for growth in both kind of more membership and higher ARM over time in a more balanced way than what you saw this year, which was, again, a pretty early year.

**Jessica Jean Reif Ehrlich Cohen**

*BofA Securities, Research Division*

And then you touched on -- Greg touched on scale and advertising. How do you get to scale? Is it all through pricing, like, pricing changes? And what would you consider scale?

**Gregory K. Peters**
*Co-CEO, President & Director*

Yes. I think it's important to note that scale isn't -- it's not a binary condition, right? So it's not like you suddenly add 1 more member and you become a must-buy situation. So we become increasingly competitive with increasing reach. It's also, I think, worth noting that it's different in different countries. And it's largely based on what's the competitive channels and what's that competitive dynamic.

So having said that, though, we carry several relevancy targets on a per country basis, think about this as essentially percentage of market penetration that helps us focus and drive the rate of growth that we desire. And we've got more work to do to get those. So, I mean, like, we're not satisfied with the scale that we're at in any country that we're in. We want to be bigger, and we know we can be bigger.

I think there's a variety of techniques that we can employ to do that pricing and thinking about how do we factor in what's optimal pricing for ads, no ads. That's part of what we're doing and thinking about plan evolution. Part of it is what I mentioned before, which is feature set, right? These are the things that consumers want to sign up for. Part of it, too, is actually just educating consumers.

I think what we are seeing is, in some of our countries, consumers think about an ads experience mostly anchored and linear in what their expectation around ad load, frequency rates are. And to some degree, actually, some of our streaming competitors haven't done maybe as great a job in building an ads experience, which informs that expectation as well.

The part of it is just educating consumers about what the actual Netflix ads experience is so that they can think about what's the right choice for them. Do they want a lower price with ads and what we think is a great ads experience for consumers really, or do they want to pay more and skip ads. So it's all those things coming together that ultimately drive us to the several multiples of scale that we're at today that we'll be satisfied with.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

One last one maybe on advertising before we move on to margins. But you mentioned a lot of the innovative offerings that you plan on and some of it's sponsored. Just -- it's very unique. It's different. When do we get to a point or when will you have a point where it's targeted, addressable, so it's really relevant for consumers and so they would want to see the ads?

**Gregory K. Peters**
*Co-CEO, President & Director*

Yes. So we're working with Microsoft right now on targeting, so you'll see that roll out in the near future. And that, I think, is the first step of how we think about increasing targeting relevance through both a combination of product sets. So what are the types of ad products that brands can buy that yield increasing relevance as well as improving our sort of sophistication on what we might call targeting from a digital perspective, which is basically matching consumers who are most interested in that particular brand's message.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Right. So Spence, I guess this one's for you on margins. But could you elaborate on areas like ad tech, content spend? Well, you did talk about content spend in your letter, but any other meaningful investment areas, something that maybe we're not thinking about?

**Spencer Adam Neumann**

*Chief Financial Officer*

Sure. So let me step back a bit with some quick context. So first, Jessica, we set margin targets. They're our best judgment of how kind of best to grow the long-term value of Netflix, and we're trying to balance investment for future growth with near-term profits.

So for instance, after investing heavily to launch Global in 2016, Global Netflix, we wanted to take a disciplined approach to building profitability as we grew revenue because we felt, one, it was a good way to build that profit muscle across the company; and two, we understood that investors were -- they've been pretty patient with us, so we wanted to demonstrate the scalability and the health of the business model. And so that took us from -- it was, like, 4% OI margin, our operating income margin business in 2016 to our current roughly 20% margin. So we think a pretty good indicator that ad scale streaming can be a quite good business.

Now stepping back, there's no change in our financial objectives and also no change in our long-term margin expectations, including the fact that we see a -- and we don't think we're anywhere near a margin ceiling. We've got a long runway of margin growth. So again, no change in our objectives, no change in our long-term margin expectations.

But our current profitability and scale, we think it's prudent to balance that historical pace of margin improvement with growth investments. So you asked about growth investments. We think we've got a lot of places where we can continue to invest, plenty of room to invest further in our existing content categories. We're a small share of viewing in every country in which we operate.

Plus building out those ads capabilities that Greg talked about, our live offering and new content categories like games, so there's plenty to do. But all that said, we'll continue to drive healthy margin expansion. We expect roughly 22% to 23% operating margin in '24, assuming no material swings in FX. So that's up from our current expectation of 20% this year, which is at the high end of the range that we targeted in the beginning of the year.

So again, Jessica, just like we did in the past, going forward, we'll take a disciplined approach to balancing margin improvement with investing into our growth. We actually put a chart at the end of the letter that shows how we managed that balance historically, growing content investment, profit margins and cash flow. And you should expect that we'll carry that same discipline going forward as we invest and grow into that big opportunity we have.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

How does licensing content from third parties play into your overall content strategy? It seems like you've had incredible success with third-party content and -- I mean you always have, but in the last year, things like Suits or Band of Brothers, and you mentioned it in the letter, but if you could just talk about the third-party licensing.

**Theodore A. Sarandos**
*Co-CEO, President & Director*

Yes. Yes. Licensing third-party content has always been part of our strategy, and we've -- something we've been really great at being able to do is match that audience. I think Suits is a great example of the impact of the Netflix effect that we can have because of our distribution footprint and our recommendation system, we were able to take suits, which had played on cable and had played on other streaming services and pop it right into the center of the culture in a huge way, not just in the U.S. but all over the world.

According to the Nielsen charts, Suits was the #1 watched streaming series for 13 straight weeks. That's like -- that is a record for Nielsen. So this continues to be important for us to add a lot of breadth of storytelling to our consumers of a wide range of taste. And we can't make everything, but we can help you find just about anything. That's really the strength.

And I do think that looking -- you mentioned Band of Brothers, but in that HBO deal, we had Insecure, we had Ballers. They came out and they were very successful in Netflix, and they popped into the top 10 on their originating network for the first time. So that was on their streaming service, which is really powerful.

And I think we have more to come with Six Feet Under and True Blood coming and not just on the TV side, but we're also proud to be able to bring movies like Super Mario Brothers and Spider Man across the Spider-Verse from our other suppliers. And in one way or another, we're in business with nearly every supplier, including our direct competitors.

And I think that we bring a ton of value to them. And I think when you think about what happens when that show runs in and becomes a huge success on Netflix, it has lasting value. I mean, look at the value we created that still continues today for shows like Friends and The Office and Full House and Gilmore Girls and all these other shows that really found an audience on Netflix even after they have more or less played out through traditional models.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Spence, one more on margins for you, but you said in September that long-term margins will be, I think the way you said it was similar to other networks, which historically have been in the 40% to 50% range. Could you help us think through the ramp in margins over time?

**Spencer Adam Neumann**
*Chief Financial Officer*

Jessica, I'll probably disappoint you as I have in the past on this. We're not going to put a long-term number out there. As I said, we don't see any ceiling, any near-term ceiling to our long-term margin potential.

We've talked in the past about how we're going to feel our way through to those kind of long-term steady-state margins, but we think we have a lot of things working in our favor. We have a very scalable business model. You see that play out over the last handful of years and continue to do so as we produce content all over the world for big local impact, but also with the ability for those stories to through great subs, dubs, discovery to reach more and more people and to be enjoyed around the world. So it's a very scalable content model.

It's a global network at scale that has -- in many ways, has not been seen with legacy entertainment networks. So we think we've got a long way to go. As I just talked about, we want to balance those increasing profits in the near term with investing into that long-term opportunities. So still a lot of runway that's a set of benchmarks. You can look at it. There's others as well. But suffice to say, we think we've got a long and healthy runway in terms of growing margins.

**Spencer Wang**
*Vice President of Finance, Corporate Development & Investor Relations*

One thing I would add to that, Jessica, also I totally agree with what Spence said, which is, again, a lot of opportunity to grow margins, but profit dollars also matter, too, right? So as we expand into big new addressable markets like advertising that Greg alluded to or gaming also, right? So those open up big new sort of areas for us to expand into.

And then we intend to grow margins, too, but we also want a lot of profit dollars as well. So we're not narrowly optimizing just for a percentage margin.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Right. Of course. You announced some price changes today in premium and basic in several countries and more to come, can you provide a current view of price increase or time frame for the standards here?

**Gregory K. Peters**
*Co-CEO, President & Director*

Yes. So as you know, our focus on plan evolution over the last 18 months has largely been about paid sharing. And now that we've rolled that out, we broadly see the benefits. As I outlined in the letter, that's become a normal part of our business, which then allows us to return to our core approach to pricing. And that approach, that philosophy has not changed.

We look to wisely invest the money that members pay us, deliver back to them more amazing stories, more entertainment value. And then when we think we're doing that, we'll occasionally ask them to pay a bit more to keep that virtuous circle spinning, so hence, the changes that you noted that we've announced in the letter.

I think it's also worthing that we seek to have a wide and even wider over time range of price points with the corresponding set of features, of course, that allows entertainment fans from around the world that have different needs to be able to access the great storytelling that our creative partners are doing at a price point that works for them at a feature set that works for them.

Part of that widespread is a low entry price point, and that's why we're keeping that low entry price point static as it is. So we think that this $6.99 in the U.S., GBP 4.99 in the U.K., EUR 5.99 in France. It's just an incredible entertainment value. And if you think about the breadth and the variety of storytelling that we're offering, whether that's compared to our streaming competitors, compared to traditional pay TV, certainly, even the price of a movie ticket, we think that's just an amazing offer.

And our goal and plan is to continue to be a great entertainment value. And beyond that, we're not going to comment on other price changes or other changes on tiers. We'll sort of find our way based on that philosophy and see when the right time to ask customers to pay a little bit more would be.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

One more question on the pricing, though. Would you -- given the price increase for just premium and basic not standard, do you expect any -- or advertising tier, do you expect any movement between the tiers as a result of these price increases?

**Gregory K. Peters**
*Co-CEO, President & Director*

I think pricing always results in a bit of movement between the tiers. More of that movement is how people are signing up. So we see that as more what it influences. But also, it'll influence plan changes as well. But generally, plan changes tend to be -- our plans tend to be relatively sticky. So I would imagine that there is a -- that momentum will continue.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

So your letter today says that -- you stated that you will spend $17 billion in '24 on content spend, up from $13 billion in '23. Obviously, that was somewhat strike impacted. That is how should we -- how can you help us think through how content spend will grow beyond '24. What is normalized growth?

**Theodore A. Sarandos**
*Co-CEO, President & Director*

Well, you see that we've done is we want to grow the content spend just about half a step ahead of the -- ahead of revenue to create the value proposition for our members. So the more we put into it, and a lot of it is tied to the ability to create hits out of that pool.

And I would say one thing if I could, if you don't -- this past quarter, we had this really remarkable story about something that we could do. But Spence talked a little bit about the kind of scale of the content spend, but this show One Piece. One Piece is something that is a very unique property. It was created 26 years ago by Eiichiro Oda. It is over 1,000 episodes of the animated series based on the Japanese Manga.

It's nearly sacred IP. And we were able to -- with our Japanese creative teams and our American teams getting together, working with our partners at Tomorrow Studios and the showrunner, Steven Maeda to adapt this into a show that the world fell in love with. And when I say to that, it's -- we've got -- this show is #1 in 84 countries around the world, which is something that Stranger Things couldn't -- didn't do, that Wednesday didn't do.

And it's so rare for an English show to be that popular in Japan and Korea, Brazil and in the U.S. at the same time. And the other fun part of it is Iñaki Godoy, who stars in the show, it was one of the most difficult casting challenges in the history of our original programming was who's going to play Monkey D. Luffy and he was right under our nose, right in our talent family.

We discovered him a couple of years ago, met him in this great show at our Mexican series called Who Killed Sara, and then we were able to cast him in this and now he's a global superstar. So this is that kind of thing you could do well, a thing that's hard to copy and gives us kind of competitive running room from our competitors, being able to do that more and more.

I don't mean -- when I say that, I don't mean making things more global, I think making things that really resonate for the core audience. And usually, local audiences want very local content. And in this case, the local audience is the fan of One Piece, which was very discriminating, and we had to please them first, just like our original shows in Spain have to really please the Spanish customer first. So we can do this. We spend the money well. We have impact with the spend, and we grow it as we grow revenue.

**Spencer Adam Neumann**
*Chief Financial Officer*

Maybe -- sorry, go ahead -- Jessica. I was just going to build kind of a little bit on Ted's point on the kind of trajectory of content spend. So -- and we talked about this a little bit in the past. So first, in the letter, we talk about that after '24, we hope to get cash content spend back up to you at or near that $17 billion level.

The biggest swing factor is going to be when the SAG-AFTRA strike resolves. And so that'll get us to a cash to P&L ratio kind of closer to 1:1.1x. And so we're not putting a specific number out there for free cash flow in '24. What that gets us to, when you think about the combination of our revenue growth outlook, our margin guidance and target cash content spend, we'll deliver substantial free cash flow in '24. And then going beyond that, we do expect to tick up our content investment over time as we also prove out sustained healthy revenue growth.

So assuming -- we talked about it, I think, in the last call. Assuming no big expansions, we'd expect our cash to P&L ratio of content spend cash to content amort in the P&L to be roughly 1.1x. So that's kind of one way folks are thinking about how to model our growth in content spend. If we -- as we grow our revenue, as we improve our profitability, we should see both increasing content spend but also free cash flow growing nicely over time.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

And then just 1 last -- just a follow-up for Ted though. There's so much going on in content right now. Can you maybe talk about investment priorities? Like, how do you think about whether it's local language film, TV? You've made a lot of deals with some third-party film companies, television companies. Could you give us some color on how you think about content spend?

**Theodore A. Sarandos**
*Co-CEO, President & Director*

Yes. We always have a lot of plate spinning because our members have got such different tastes and different desires. And we're trying to please them all and like I say, trying to find that person who really fell in love with us for Prestige TV and then discovered Love is Blind. That's a pretty common household to be honest with you.

So we've got to be able to be good at so many different things. And our partnerships, I'm assuming you're talking about Skydance in this case, is -- it really helps us find and keep up that scale as we grow. So we're really thrilled with our success in animated features. It's a very long cycle of development and production. Sometimes it could take a decade to deliver a really great animated feature film.

And as you know, we move pretty fast, and we've been moving pretty fast. And no single company has ever really successfully launched more than 2 animated features in a single year. So we wanted -- that deal helps us to complement the work that we're doing, like you saw this year with Leo and Chicken Run coming out and Nimona that already came out.

So we've got a very -- there's a ton of appetite. If you look at the top 10 animated features of since Nielsen's been tracking movie watching and 7 of them are animated features. So there's a lot of appetite for animated features, and we're committed to that part of the business.

And we do that through a combination of licensing, partnerships and original production and original creation, and not just the U.S. but all over the world. So we have to find that right balance of invest, finding the right product market fit, which helps us grow those territories, and most importantly, helps create a value proposition for consumers, and they could say, "Hey, that -- what I pay for Netflix, I can pay a little bit more because I get so much value there, and I'm spending so much of my time there."

So if you think about the -- for the last 37 of the last 38 weeks of this year, Netflix has had the #1 streaming series on -- of all -- in all of streaming. And for 31 of those 38 weeks, we've had the #1 movie, too. And in any given week, we might have had the #1, 2 and 3. So we really -- we've got a lot going on and we've got to stay focused on continuing to improve the value proposition to consumers, which drive the numbers that we've been talking about on this call.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Spence, you announced a very significant increase in your buyback today. Should we think of the $2.5 billion buyback in the third quarter as sort of a run rate moving forward?

**Spencer Adam Neumann**
*Chief Financial Officer*

I wouldn't kind of read through to that, Jessica. We had kind of slowed down as we -- as the business slowed down and we wanted to -- we talked about the fact that we had less than typical forward visibility into our forecast over the past year or so as we were looking to reaccelerate the business and also roll out paid sharing. And now much of that is behind us, as we've said, and we've got a better view going forward and so we ramped up our repurchase because we had built up some cash on the balance sheet as well.

Our target minimum cash is roughly 2 months of revenue. So plus or minus $6 billion of cash that we look to hold on our balance sheet, and we've gotten ahead of that, are still a little ahead of that. So -- but that's really what we're managing, too, is to: one, primarily drive the business forward, grow the business, expand our cash flow; and then as cash -- excess cash builds on the balance sheet, to return it to shareholders. So we put a pretty specific target out there of roughly 2 months of revenue in the form of cash on the balance sheet, and that's the way I think you should think about what our pacing will be over time.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Moving on to gaming. It feels like almost like the way you described advertising, like a walk, crawl, run approach. What is a near and midterm strategy in gaming?

**Gregory K. Peters**
*Co-CEO, President & Director*

Well, let's start with the big prize. I think that's the better way to look at it, which is games is a huge entertainment opportunity. So we're talking about $140 billion worth of consumer spend on games outside of China and outside of Russia. And from a strategic perspective, we believe that we can build games into a strong content category, leveraging our current core film and series by connecting members, especially members that are fans of specific Ips, with games that they will love.

I think it's worth noting that if we can make those connections and as we make those connections as we're seeing, we're essentially sidestepping the biggest issue that the mobile games market has today, which is how do you cost effectively acquire new players.

So that's the real proposition. We think if we deliver that, we give members great games, entertainment experiences that they love at sufficient scale, then we leverage back into the core business. We increase engagement. We increase retention. We Increase value delivered. Those all drive our core business metrics.

And I think it's actually just a very natural extension of what you were just talking with Ted about. If you think about the range of content that we're offering, the variety of content and entertainment that we're offering, games just adds 1 extra layer to that variety and that depth.

And we're also seeing, I would say, back to moving it more to your short term and midterm. We're also seeing performance metrics that support that this fundamental strategic hypotheses are sound. So games engagement right now on our service drives core business metrics in a way which is incremental to movies and series.

So -- but the main challenge ahead of us, to get to your midterm, is that our current scale and, frankly, our current investment level are both very, very, very small relative to our overall content spend and engagement. So now our job is to incrementally scale to the place where games have a material impact on the business. We've got ambitious plans there. We want to really grow our engagement by many multiples of where it is today over the next handful of years.

And we can see how to get there. Looking a layer deeper at the title level, we see -- some titles are really working for our members, and they're working for our business. If we can do more of those, we know we can scale into that proposition.

We've got to do that through better title selection based on everything that we're learning. We got to do it on better product features to maximize connection with the audience for any given title. And we have to do it by gradually improving consumer awareness, which is we've seen as when we launched other content categories. You can think about unscripted or you can think about film, that broadly lifts overall engagement metrics as consumers learn that we're a place to go to, to find games.

I'm excited about what we got going on in Q4. We're going to launch some big, high-profile titles which sort of keeps that drumbeat going. We got Dead Cells. We've got Football Manager 2024. We've got Money Heist. Think about connections with our IP that's coming in Q4 as well. That's Casa De Papel for folks who have -- saw it in that language. We also have Virgin River coming in Q1.

So as you pointed out, this trajectory is not dissimilar from what we've seen before, when we've launched a new region. Think about Latin America or we launched a country like Japan where traditional Western media companies have struggled or we launched new genres like unscripted. We've got to crawl, walk, run and we build it, but we see a tremendous amount of opportunity to build a long-term center value of entertainment, more entertainment value for our members.

**Theodore A. Sarandos**
*Co-CEO, President & Director*

That's a great experience for the super fan to get themselves in the universe in between seasons of a show. It's really exciting.

**Spencer Wang**
*Vice President of Finance, Corporate Development & Investor Relations*

Jessica, we have time for about 2 last questions, please.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

Okay, great. I'll get to it and so the first of the 2, sports. You're creating the Netflix Cup Tournament to be your next month. Is this a change in your sports strategy at all? Or how should we think about that?

**Theodore A. Sarandos**
*Co-CEO, President & Director*

Yes. I knew this was coming, Jessica. We are in the sports business, but we're in the part of the sports business that we bring the most value to, which is the drama of sport. So look at the success we've had with Drive to Survive. Look at the success we've had with Tour de France, Quarterback, Full Swing, Untold, most recently with Beckham. David Beckman is one of the biggest stars in the world and his documentary on Netflix brought him almost 0.5 million new social media followers in a week.

So we are having a big impact on sports through the thing that we're most great at, which is the drama of sport. The Netflix Cup is a live event that actually brings together the cast of Drive to Survive and Full Swing and puts them into a live golf tournament that we are going to stream live on Netflix on November 14. And it's -- I think about it as a great way of extending those great drama of sport brands that we've created. But no core change in our live sport strategy or licensing and live sports.

We are investing heavily in increasing our live capabilities so that as we -- as the demand grows for that and we find different ways, the liveness can be part of the creative storytelling, we want to be able to do that at a big scale.

**Jessica Jean Reif Ehrlich Cohen**
*BofA Securities, Research Division*

There was some news also today, I guess, on comedy. But my last question, to stay with where Spencer is, you've talked a little bit more recently about your ancillary businesses, including the Netflix House. Can you talk about what that looks like over time? And will it be a big investment area? But more importantly, will it be a contributor?

**Theodore A. Sarandos**
*Co-CEO, President & Director*

Yes. Look at the -- this initiative lives inside of our Consumer Products and Experiences Group. Today, they run these successful businesses where they travel these live experiences all over the world and fans engage in them in ways that would shock you. People love these things so much, they show up. Dozens of people have proposed marriage in the -- at the Bridgerton Ball.

It's really important, in a way, to kind of deepen fandom, a way to express fandom. You kind of see it on a large scale with theme parks. These build-outs are not going to be like a theme park, both in that they won't have that gigantic CapEx. And they also -- we expect that fans will go multiple times a year, not just once every couple of years. And it's a way to take a business that's really good at growing our brands and strengthening our brands.

And today, it doesn't -- has a big start-up and shutdown costs as they travel around and put them under 1 umbrella where we can add a little technology and make it a really phenomenal experience from being as part of the Money Heist, Escape Room or the Stranger Things experience or the Squid Game challenge, all those different things that people can do live together and have a lot of fun. And they can also go to the Netflix Bites and have food experience with all the Netflix food brands.

So it really kind of strengthens the brands and strengthens the excitement about the things people are watching on Netflix and falling in love with. It gives them a place to go and express it. It's not a material investment relative to the court, to the big business that we're all in. But it's a great way of building it, like our consumer products business.

**Spencer Wang**
*Vice President of Finance, Corporate Development & Investor Relations*
Great. Well, great well, Jessica, thank you very much for your questions, and we appreciate everybody tuning into our earnings call. And we're looking forward to chatting with you all next quarter, if not sooner. Thank you.