

Netflix, Inc. NasdaqGS:NFLX

FQ3 2025 Earnings Call Transcripts

Tuesday, October 21, 2025 8:45 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2025-			-FQ4 2025-		-FY 2025-		-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	6.97	5.87	▼ (15.78 %)	5.45	5.45	26.10	NA	NA
Revenue (mm)	11511.20	11510.31	▼ (0.01 %)	11960.00	11960.00	45100.00	NA	NA

Currency: USD
Consensus as of Oct-21-2025 10:44 PM GMT

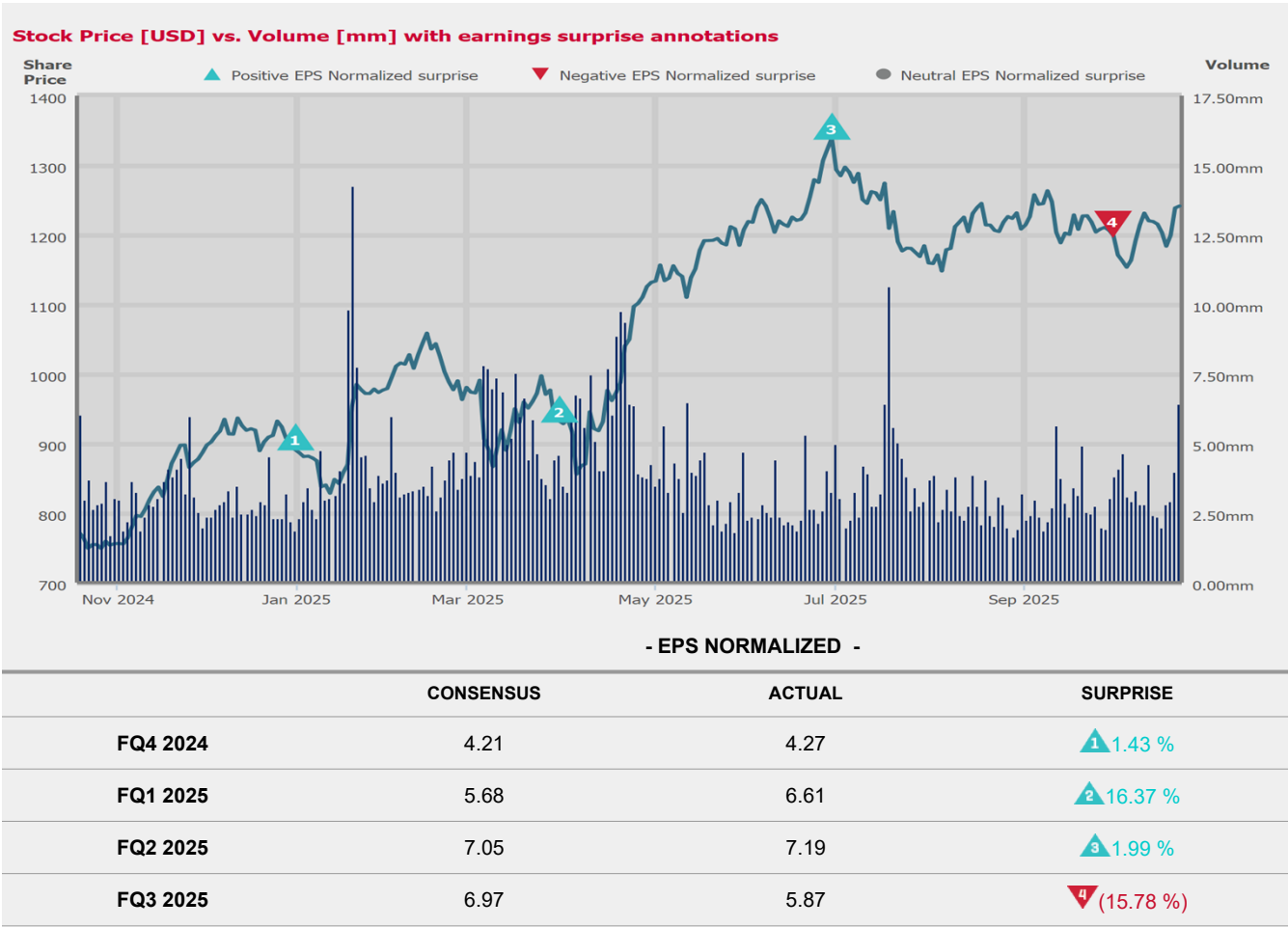


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Call Participants

EXECUTIVES

Gregory K. Peters
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Spencer Wang
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Development & Investor Relations*

Spencer Adam Neumann
Chief Financial Officer

Theodore A. Sarandos
Co-CEO, President & Director

Presentation

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations

Good afternoon, and welcome to the Netflix Q3 2025 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. As a reminder, we will be making forward-looking statements, and actual results may vary. We'll now take questions submitted by the analyst community, and we will start with our results and outlook.

Question and Answer

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

Our first question comes from Ben Swinburne of Morgan Stanley who ask, as you begin to wrap up 2025 and look to 2026, can you talk broadly about the health of the business and how you would frame the opportunity ahead?

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

Yes. We think the business is very healthy. We feel good about our progress on our key initiatives. We've got also a lot of opportunity ahead of us, but we've got a lot of work we need to accomplish and fully realize those opportunities. So what's working, we had a good Q3. We had revenue in line with expectations. Our operating income would have exceeded our forecast absent the Brazilian tax matter.

We're also seeing good progress against our key priorities. So engagement remains healthy. We achieved record share of TV time in Q3 in both the U.S. and the U.K. We recorded our best ad sales quarter ever. We are now on track to more than double ad revenue this year. We're continuing to build out both live offerings and games is the emerging capabilities in the live side, we saw Canelo-Crawford. That was the most viewed men's championship fight this century. We recently announced the ability to play Netflix Games on TV with friends and family playing together at home using just that TV and the phone is the game controller.

So this progress in these areas is indicative of how we think we can best compete and grow the business over the long term. We focus on a few key areas that we think matter the most, and then we work hard to deliver continuous improvement in those areas. It sounds super simple, but building a real at-scale global streaming business is hard because you got to combine great tech product and great content from all around the world, and we believe we can continue to improve in both of those areas. But Ted, maybe you want to comment on that...

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

Yes, I would just say, looking ahead, we continue to have a massive opportunity since we're only about 7% of the addressable market, in terms of consumer spending and only about 10% of time spent on TV in our biggest market. So enormous room for profitable growth in the core business.

And this is a very exciting time in terms of a lot of innovation, a lot of competition, but that's been true for the last 25 years. And one thing as a company, we've always embraced change. We thrive on competition. It pushes us to improve the service even faster for our members. Back at the beginning in the early DVD days even and now in streaming and global streaming of original content, we could be with the biggest players in the world, tech and media. And as you see, we keep growing engagement, revenue and profit.

So today, we're an entertainment company. We program for an audience that's approaching 1 billion people around the world. We're producing series and films for local audiences in multiple markets. Many of those films and series resonate around the world. And a really great example of that, I think, is this summer's KPop Demon Hunters. Obviously, a smash hit, but it's also emblematic of exactly what we're trying to do every day.

In fact, feature animation is an example of that continuously improving the core. We've been grinding away at original feature animation for a few years now. And KPop Demon Hunters is our most popular film ever. And again, it proves our ability to create breakthrough hits and move the culture.

Today, we announced Mattel and Hasbro have been named the global co-master toy licensees for KPop Demon Hunters. This is a rare, maybe unprecedented partnership for them, and we're going to need them both to help meet the massive demand for fans to get closer to their characters off-screen every day.

We're here to entertain the world and we're delivering tremendous value to our members every day. When you have to hit the size of Kpop Demon Hunters, it stirs imagination of how big we could take this. And as long as we keep improving on the core business every day. So we feel great about the business. And as Greg said, we are as energized as ever.

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

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Thank you, Ted and Greg. Our next question comes from Steve Cahall of Wells Fargo. Can you please provide more color on the nature of the tax expense and why you fell above the operating line?

Spencer Adam Neumann
Chief Financial Officer

Sure, Spencer. I'll take that one. Greg and Ted are on a roll, but I think I will take the short straw for this one. And I'll spend a minute on it because this Brazilian tax matter, it's a bit complicated, and I want to be sure we're being really clear about what it is and what it isn't.

It's not an income tax. It's a cost of doing business in Brazil. It's a gross tax on outbound payments and it's called the Contribution for Intervention and Economic Domain. So it's a bit of a mouthful. It involves a 10% tax on certain payments made by Brazilian entities to companies outside of Brazil. It's not a tax that's specific to Netflix. It's not even specific to streaming. So we assume other companies will be impacted by this.

In our case, Netflix Brazil pays Netflix U.S. for services that enable Netflix Brazil to offer subscriptions to our Brazilian customers. And we actually received the favorable ruling from a lower court back in 2022 that concluded we were not subject to this tax, which is why we believe we couldn't accrue this previously.

The legal issue in question relates to the scope of the transactions covered by the tax and in particular, whether the tax applies to service payments that don't involve a transfer of technology. We flagged this as a potential exposure in our prior 10-Ks and 10-Qs dating back to our 2023 10-K.

And then in August of this year, the Brazil Supreme Court reached a 7-4 decision against an unrelated company ruling that the tax applies to a wider range of transactions than we thought was legally permissible. In particular that it applies even to service payments that don't involve a transfer of technology.

So given that court's ruling that's caused us to reevaluate the likelihood of prevailing and we now deem the loss to be probable. And that's why we recorded the expense in Q3. And again, it's not an income tax, and that's why we recorded the expense as a component of our cost of revenues.

And as we said in the letter, the expense we booked in this quarter, it covers the periods from 2022 through Q3 of 2025, of the amount we booked in cost of revenues this quarter just about 20% of it is for the year 2025 with the remainder related to those 2022 to 2024 period.

So look, I know that was a lot of -- there's just 2 really important takeaways that I want to leave you with. The first is that the Contribution for Intervention and Economic Domain, it's a unique tax. It is a mouthful. No other tax looks or behaves like this in any other major country in which we operate. And secondly, absent this expense, we would have exceeded our Q3 '25 operating income and operating margin forecast, and we don't expect this matter to have a material impact on our results going forward.

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

Great. Thanks, Spence. I'll move on to the next question, which comes from Tom Champion of Piper Sandler. Do you have any early views on revenue and operating income growth for 2026?

Spencer Adam Neumann
Chief Financial Officer

I'll take this one as well -- yes. Okay. So look, we'll issue a full year 2026 guidance on our next call in January. But our financial objectives are unchanged. We look to sustain healthy revenue growth to expand margins and increase free cash flow. Now we did last year on our Q3 call, we did issue a full year guidance, but that was in advance of sunseting membership reporting. So it was a pretty unique timing given that upcoming change in reporting for '26. Again, we'll issue the full year '26 guide as we more typically would on our next call in January.

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

Thanks, Spence. I'll move us along to a few questions we've received on the topic of advertising. The first one comes from Jason Helfstein of Oppenheimer. Given your comment of doubling upfront commitments in the earnings letter, should we interpret this to mean that full year 2026 advertising could also double?

Gregory K. Peters
Co-CEO, President & Director

Well, I'll start by just saying it's exciting to see our progress in 2025, more than doubling our ads revenue there. While, of course, it's still off a small base relative to the size of our subscription revenue. But we feel like we've established the fundamentals of the business now. We've proven we know how to scale. We see plenty of room for growth ahead. And what's making up that growth right now, as you mentioned, we more than doubled our U.S. upfront commitments. That lands partly in '25 and partly in '26, which I think you're alluding to here.

Perhaps even more importantly, though, we're seeing even higher rates of growth in programmatic. And that's more important because we believe that's going to be an increasing part of that incremental revenue contribution going forward.

What are driving those results? Advertisers are excited about our growing scale. We've got a highly attentive and engaged audience. The rollout of our ad tech stack means we've got more formats. We've got more measurement. We've got more ways to buy. And of course, our slate is a critical and important source of competitive differentiation. So while I'll refrain from offering any '26 guidance, I would say we are feeling good about our growth trajectory.

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

A follow-up on that one from Vikram Kesavabhotla of Baird. Your offering to advertisers has evolved significantly in 2025, including the launch of the ad suite and the integrations with the additional demand sources. As we look into next year, what are some of the key priorities for the advertising business?

Gregory K. Peters
Co-CEO, President & Director

Yes. Consistent with the last comment and answer, we made considerable progress in building out our general capabilities in the ad space. So if you use our beloved crawl-walk-run model, we're now squarely in that walking phase. The rollout of the ads suite, our own ad suite has been great because it means we're just continuing to learn and improve the stack based on client feedback. So we've got really fast iteration loop going there that we're excited about.

Key priorities and focus for us is making it easier for advertisers to buy on our service. We want to increase the diversity of advertisers we have. That's a key direction of growth for us that enables that revenue growth. We're adding more demand sources like Amazon DSP, AJA in Japan. We're improving our own ad sales and go-to-market capabilities. We're also iterating on ad formats. Later this quarter, we'll be introducing ad interactivity.

And taking that into 2026, you're going to see us continue to develop along some of those lines. So more ways to buy, more data for targeting and media planning capabilities globally more modular in interactive ad formats with enhanced AI capabilities and more measurement functionality in all of our markets.

And then in 2027, we get to pivot to make more focused investments in data capabilities such as ML-based optimization, advanced measurement, advanced targeting. So I would say we're getting our legs underneath us. We're making a good pace, but we've got a lot ahead of us to go do. And quite frankly, we expect we're going to be able to move more quickly than other streamers as we leverage pre-existing tech and data science assets and expertise.

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

And to round out our last question on advertising. This one comes from Dan Salmon of New Street Research. Our fill rates improving in line with your expectations as the Netflix Ads Suite and new demand partnerships scale up.

Gregory K. Peters
Co-CEO, President & Director

Now we focus on overall revenue is the most important metric we're seeking to optimize. But having said that, fill rates have improved, and we believe they're going to continue to improve as we continue to develop our go-to-market capabilities, more measurement, more targeting.

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

Thanks, Greg. I'll now move us along to the topic of content and engagement. A lot of questions there. We'll begin first with Steve Cahall of Wells Fargo. Are you seeing a pickup in engagement like you've expected?

Gregory K. Peters
Co-CEO, President & Director

Yes. Total view hours grew a bit faster in Q3 '25 than in the first half of '25. In fact, in Q3, we achieved our highest quarterly view share ever in the United States at 8.6%. And then the U.K. at 9.4% according to Nielsen and Barb, respectively. These are just 2 countries that we've got really good measurement on that share.

We also believe we're going to continue to see steady growth in view hours over time. We grow engagement by expanding our programming in the range of our offering. These are critical and very proven dimension of growth for us.

But we're also seeing that certain engagement delivers outsized and different value. And we saw pretty good examples of this in Q3. You got the Canelo-Crawford fight, most viewed men's championship boxing match this century. We got KPop Demon Hunters, our biggest film ever, huge impact on the cultural zeitgeist. Both are great examples, and they're also from really different parts of our programming spectrum of this punctuated value.

Now we believe we've got a better understanding of the streaming business than any of our competitors, but we're also continuing to learn. And we're in the process of really building a better understanding of how these particular moments deliver differential value to our members and the business.

Theodore A. Sarandos
Co-CEO, President & Director

Yes. I mean, just to add here, Steve. We're going to continue to benefit long term from the trend, just so folks moving from linear viewing to streaming that has a kind of a natural adoption curve. But I also look forward and we have an incredible slate in Q4, and we're really excited to follow that up in 2026.

But it's not about any one single title in Q4 or next year. As you know, even our largest titles and the biggest success generally drives less than 1% of our total viewing. So it's really about having a steady drumbeat of shows and films that our members love. That's what drives continued steady growth and engagement over time.

And we gave a lot of detail about our Q4 coming up in the letter, including an incredible slate of film and the wild ride finale of Stranger Things.

But I want to give you a little bit of color on '26. Maybe this is a longer answer than you were bargaining for, Steve. But we're really particularly excited about a few things coming up next year, like the return of some of our biggest and most loved shows, like Bridgerton, Beef, Emily in Paris, One Piece, Outer Banks, Virgin River, The Gentleman, Avatar: The Last Airbender, Running Point, Ginny and Georgia, Lupin, all coming back for new seasons in '26.

We've got amazing slate of films with a big event film from Greta Gerwig with Narnia. Here Comes the Flood starring Denzel Washington. Ben Affleck is directing this great movie for us called the Animals. Apex from Charlize Theron, an incredible action movie. Matt Damon and Ben Affleck are on screen together and starting in The Rip. A couple of great rom-coms, Office Romance with Jennifer Lopez, People We Meet on Vacation. Our French team has got an incredible epic film, Quasimodo, coming up and Peaky Blinders fans are going to freak out for the Peaky Blinders movie, The Immortal Man with Cillian Murphy.

So really great and lots and lots of brand-new series of work going on this year coming out in '26. Golf with Will Ferrell, Little House on the Prairie, Man on Fire. We have new series from the Duffer Brothers, amazing slate of K-dramas. That's just to name a few. But in other words, we've got a pretty great '26 coming up after this pretty phenomenal Q4.

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

Thanks, Ted. Dan Kurnos from Benchmark Company has a question about our Spotify partnership. How should we think about the recent deal with Spotify how aggressively will you build out this podcast category?

Gregory K. Peters
Co-CEO, President & Director

So this deal is a video co-exclusive partnership with Spotify and secures a curated selection of their top podcast to help us provide even more entertainment options for our members when they're looking for a pop culture or lifestyle or sports or true crime, and we get to deliver to them wherever and however they want to watch. And we're going to build into this category like we do with our other categories based on demand signals that we get from our members. And we see this as really the opportunity to integrate high-quality video broadcast that broadens the Netflix offering beyond all the incredible films and series that Ted just mentioned beyond the live events that we are building, stand-up specials and games. And we hope that, that ultimately reinforces our value as the most important service for our entertainment needs.

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

Our next question comes from Robert Fishman of MoffettNathanson. Following the strong theatrical performance of KPop Demon Hunters, can you share your updated perspective on monetizing some of your content in the theatrical window on an exclusive or nonexclusive basis?

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

Well, first of all, thanks, Robert. There's no change in the strategy. Our strategy is to give our members exclusive first-run movies on Netflix. We occasionally release certain films in theaters for our fans like we did with KPop Demon Hunters, or as part of our launch strategy, publicity, marketing, qualification, all those things, and we'll continue to do that.

We believe that this film, KPop Demon Hunters actually worked because it was released on Netflix first. Look, we had a film that people fell in love with, that's first and foremost. But not in a huge way on the first day or even the first weekend. In fact, it was the super fans who watched the movie and repeat watched the movie that drove the recommendation engine that got it in front of more super fans who also fell in love with the movie.

So that ease and value that allowed folks to repeat view it. The ubiquity of distribution, which took all the guess work out of how to watch it when you did finally see it show up in your social media feed, all of this contributed to KPop Demon Hunters blowing up all over the world. And I would argue in a way that it couldn't happen anywhere else. If anything, this actually reinforces our strategy because being a Netflix gave the film a chance to build momentum. And it allowed fans to learn the songs and to watch it over and over again and to make their own post and their own dances around KPop Demon Hunters.

Now for some films, seeing it together and seeing out loud, super fun and it's a differentiated experience and we were able to do that with the KPop Demon Hunters sing-alongs. 8 weeks after the film premiered on Netflix, and we did have a good weekend. But we created a great night out, and we're going to do it again on Halloween weekend. And this time, every major theater chain is on for the ride. We're also adding a few international markets. So it's been really fun to see this film and to see our ability to bring through pop culture on par with some of the biggest theatrical films ever. And it's even better that it's with an original animated feature because it's so hard to do.

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

Great. We now have a question on our live events from Vikram Kesavabhotla, Baird. What were your observations from the Canelo versus Crawford fight in September? Are these types of live events impacting engagement, acquisition and retention on the platform?

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

Yes. Well, like Greg said earlier, that the Canelo-Crawford fight was the most viewed men's championship fight of the century, had over 41 million live+1 viewers. It was in the top 10 in 91 countries. And it was a great fight. So we believe these big events that attract mass audiences are kind of differentially valuable for our members. It's a kind of urgent viewing that our members love and value. So these events typically have outsized positives for conversation for acquisition, and we strongly suspect retention.

However, we've said earlier, live is only a small portion of our content spend, and it's a very small portion of our 200 billion hours viewed. So it's a relatively small still, but hugely outsized impact. And we like we see with other titles, this has had that kind of positive impact on acquisition. It's a little too early to say for sure and retention. But so far, it looks a lot like the Jake Paul-Mike Tyson performance, and we remain incredibly excited about the opportunity in life. So upcoming, we've got Jake Paul versus Tank Davis from Miami, November 14. And we really are trying to grow our capabilities outside of the U.S. as well, which you'll see next year with the World Baseball Classic from Japan.

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

Ted, and that's a good segue to our next question, which is the quarterly question about sports for us. This is from Robert Fishman of MoffettNathanson. Since last earnings, we've seen several sports rights deals, including Apple F1, Paramount UFC, et cetera, et cetera. While we still await an official MLB update, can you help us think about the importance of global sports rights versus local rights to Netflix? And do the sports rights you look to acquire need to materially accelerate your advertising growth?

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

So as for local versus global, it's just a scale question, local costs versus the size of the local audience. And no real change in the approach, we're focused on big live events, which sports are a subcomponent of the live strategy. We said before, we're not currently focused on the big season packages.

In terms of global versus local, also, we think about it just like series, it varies. Some like the Canelo-Crawford had big global appeal. We think World Baseball Classic in Japan was actually built and designed and budgeted for a specific geography.

On the -- as far as advertising is concerned, the #1 important thing we have to do is thrill our audiences. We -- the revenue from advertising or subscription is a reward for thrilling the audience. So we have to stay disciplined on that approach. But for upcoming live events, and we're excited about it, I mentioned Jake Paul versus Tank. That's November 14. We have our double-header NFL Christmas Day games with Dallas versus Washington, Detroit versus Minnesota. Skyscraper Live is going to be wild. The SAG awards, we got WWE every week. I mentioned the World Baseball Classic in Japan in 2026. And in 2027 and '31, we've got FIFA's World -- Women's World Cup as well. So we're pretty excited about the slate and there's going to be a lot more that will come in between.

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

We'll take our next question from Rich Greenfield of LightShed Partners. Are you testing premium tier free trials. We recently -- we meaning, Rich, recently opened Netflix and were prompted with a 4K upgrade screen. Is this a typical promotion? Or are you selectively testing free trials?

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

Yes. We test and productize a variety of offers that we think help members understand and sometimes try a feature of benefit that we think they might enjoy. So if you got a 4K TV, as Rich does, you might get a notice from us and say, do you want to try watching, let's say, Skyscraper Live that Ted mentioned somebody free climbing Taipei 101 in 4K and decide if that's a good option for you.

But ultimately, we want a range of plans, we want a range of features, different price points. And then we want to help members choose the right plan for themselves. We think that yields a better member satisfaction, that yields better engagement and retention and a better long-term business.

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

We've gotten a series of questions on M&A on that topic today. Not surprising given the announcement from our friends at Warner Bros. Discovery. So we'll take this next question from Jessica Reif Ehrlich of Bank of America. Do you see potential industry consolidation reshaping the competitive landscape? Do you see that as an opportunity or a threat? What implications might that have for Netflix's content strategy and differentiation?

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

Thanks, Jessica. We'll take it in 2 parts. First, the opportunity. It's true that historically, we have been more builders than buyers. And we think we have plenty of runway for growth without fundamentally changing that playbook. Nothing is a must-have for us to meet the goals that we have for the business.

But as we wrote in the letter, we focus on profitable growth and reinvesting in our business, both organically and through selective M&A. And when it comes to M&A opportunities, we look at them and we look at all of them, and we apply the same framework and lens that we look at when we look to invest in a build.

Is it a big opportunity? First question. Second, if it's IP, does it strengthen our entertainment offering? Is there additional value in ownership? Does it strengthen our existing capabilities somehow? Does it accelerate our existing strategy? And by the way, and you look at all these things relative to the price relative to the opportunity cost and relative to other alternatives.

We've been very clear in the past that we have no interest in owning legacy media networks, so there's no change there. But in general, we believe that we can be and we will be choosy. We have a great business. We're predominantly focused on growing organically, investing aggressively and responsibly into the growth and returning excess cash flow to shareholders through our share repurchase. Greg, do you want to add there on?

Gregory K. Peters
Co-CEO, President & Director

Yes. Maybe I'll try and speak to the second part of this, the third part of the question. We've always faced significant competition. We still face it today. This is an incredibly competitive entertainment environment. We've also seen a lot of industry consolidation over the years. Think about Disney Fox and Amazon picking up MGM, of course, Time Warner and AT&T and then Discovery and Warner. But none of those mergers were a fundamental shift in the competitive landscape. And we have seen also a wide range of outcomes from such mergers.

So watching some of our competitors potentially to bigger via M&A does not change in and of itself, at least our view on the competitive landscape. And we don't think it changes the substance of the challenge that our competitors face. Specifically, the range of activities that we and our competitors have to get great at has never been assembled in a single company before.

Think about producing film and TV shows across multiple genres in multiple languages and dozens of countries around the world. I'm trying to figure out how to incorporate the latest technology, including AI and Gen AI. We're trying to figure out how we build better product experiences that can serve consumers better around the world. How about customer acquisition and retention? How do we optimize global payments? How do we optimize global partnerships? There is so much and we want to get better at all of those things. Our competitors are seeking to get better, all those things, of course, as well.

But you have to do that by the hard work of developing those capabilities in the trenches day to day. You don't get there simply by buying another company that is also still developing those same capabilities. So maybe I'll just end by reiterating what Ted said, which is it's our responsibility to look at every significant opportunity, we do that. We've got a clear framework to evaluate those opportunities, and we'll do whatever we think is best to grow the business.

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

Great. Thank you. David Joyce from Seaport Research Partners has a slightly different angle on the M&A question. Should potential industry consolidation with embedded studio and streaming assets could that lead to less third-party content accessibility for Netflix?

Theodore A. Sarandos
Co-CEO, President & Director

Thanks, David. Look, original titles are the big business driver for us. That's why we got into this more than 10 years ago. And that's why we continue to grow and expand the original content investment across new genres, new content forms in multiple geographies. So we're happy to license titles from industry suppliers to complement our offering. But it's worth noting that we've always seen these kind of ebbs and flows from third-party content in terms of access to it. Our competitors are also our suppliers. So they changed their mind sometimes about selling to competitors. So we've been dealing with that since the beginning of streaming.

But as we sit here today, we're not dependent on any single supplier. No single supplier represents more than a small minority of our total view hours. And more importantly, I think, is that we've proven time and time again, that licensing to Netflix is the best way to build audience, build revenue and create value for your IP whether it's Suits or Peaky Blinders or Breaking Bad, we played a very positive role in the life cycle of other folks IP, and we suspect that dynamic will continue.

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

Great. We now have a question from Justin Patterson of KeyBanc. Netflix recently launched party games that are playable on the TV. How do you think gaming could change the time members spend with Netflix each day?

Gregory K. Peters
Co-CEO, President & Director

Well, games are clearly a form of entertainment that consumers care about in terms of the time they spend, which you noted as well as the money they spend, it's approximately \$140 billion opportunity in consumer spend, ex China, ex Russia. That doesn't even include the ad revenue, which, of course, is linked to the time and engagement.

We've mostly talked so far about our work in this space as games because that's an easy shorthand, but we see this initiative as more about interactivity broadly. And how does interactivity become complementary to linear storytelling, how is it able to unlock whole new entertainment experiences. For example, real-time voting will be our first live interactive feature. We're currently testing it on Dinner Time Live with David Chang. It's going to roll out more broadly starting with Star Search in January. And we expect to provide other interactive features to deepen engagement with live events as we go in the future.

And then when it comes to actual games, we've been building a ton of foundations for the last few years, things like the ability just to develop games, to get those games on to service, connect games with players, give them a high-quality experience. And going forward, we're building on top of that foundation, but focusing on offering more high-quality games and few key genres and targeting the right cohort of users. So this is a less -- is more strategy on a few identified verticals.

Those verticals include immersive narrative games based on our own IP. You can think about Squid Game: Unleashed, Thronglets from the Black Mirror Universe or Golf with Happy Gilmore. Got games for kids, this is Peppa Pig, no ads, no in-app payments, safe within your subscription. Mainstream established titles, think about what we did with Grand Theft Auto. As well as socially engaging party games, which you noted, we're rolling out this holiday season, a slate of party games on TV, it's great for the whole family when you're in front of the TV, all you need is a TV and your phone as a controller. Like Boggle Party, Pictionary Game Night, LEGO Party, Tetris. We've got Party Crashers, which is a social deception game.

And the part that I like most about this is these games are super easy to access. It's just like our series and films, you scroll the Games tab, you pick whatever you want, click it and you're in. You don't need a special controller. That's key to this access.

In the years ahead, actually speaking of controllers, we expect creators will really find interesting and novel ways to unlock all of the power that is in this incredibly advanced control that we all happen to have in our pockets, which, of course, is our phones.

So we're just starting to scratch the surface today. We think there's much more we can ultimately do in this space. Yet we already see how this approach not only extends the audience's engagement with the story but it creates a synergy that reinforces both mediums, the interactive and the noninteractive side. It drives engagement, drives retention, and therefore, supports the business. So looking ahead, we're going to ramp our investment in this area judiciously based on demonstrating that we're ramping returns to the business, but we're extremely excited about the progress we've got ahead of us.

Theodore A. Sarandos
Co-CEO, President & Director

I would say, do not play Boggle with Greg. He's very, very good.

Spencer Adam Neumann
Chief Financial Officer

He's our head of the games unit, but he's good.

Theodore A. Sarandos
Co-CEO, President & Director

He has a leg up on us. He's very good.

Gregory K. Peters
Co-CEO, President & Director

He does. I think he gets to play quite often.

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

All right. We have another question from Steve Cahall of Wells Fargo. Last quarter, you talked about Netflix being a great place for some creators on YouTube. Since then, you've announced 1 new creator deal with Mark Rober. Should we expect more on this front and what kinds of content are you looking for?

Theodore A. Sarandos
Co-CEO, President & Director

Yes. Thanks, Steve. I said before, but we want to be in business with the best creators on the planet, wherever they are. And some of them are in Hollywood, some of them are in Korea, some of them are in Paris, and some of them are sitting on social media platforms that have yet to be discovered.

So not everything on YouTube are fit for us, but there are some creators like Mark Rober, like Ms. Rachel that are a great fit for us.

And remember, working with content creators from other platforms isn't a recent thing for us. And the folks remember over the years, we made Hype House. We partnered with Miranda Sings. She had a standup comedy special and a series called, Haters Back Off. King Bach, who's a big star in social made, you could see them in a lot of our films, Babysitter: Killer Queen, when we first met, just to name a few. But now we -- and we also have created a curated-like section of video podcast as well. So some of the stuff is just a very natural expansion and there's plenty of room for the world's best creators wherever they are.

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

Great. We'll now wrap up with our last topic, which is Gen AI and -- 2 sort of questions or maybe a 2-part question. The first part comes from Doug Anmuth of JPMorgan, who's asking how has your thinking evolved over the past couple of years about Netflix's ability to leverage AI and related, John Hodulik at UBS asks, what are your thoughts on the impact from Sora 2 and other new AI content creation apps in terms of increased competition from short-form video, do you think it creates new competition from an engagement standpoint?

Gregory K. Peters
Co-CEO, President & Director

Perhaps, I'll kick it off on the first part of that question. And our thinking about AI hasn't really changed over 1.5 decades more. We've had a long history of developing ML and AI solutions. We've got deep DNA, technology DNA, got significant data assets. We've got scaled consumer products, scaled business processes. All of that, we think, enables us to have the opportunity to leverage new technical capabilities as they come online. And that's our job. We're engaging proactively to do so.

As we said in the letter, specifically with Gen AI, we see huge number of places in the business where we can bring these technologies in. They provide more capable tools, they improve productivity, they improve velocity of innovation. They deliver better results from members, for creators, for partners. The vast majority of those cases involve us going to market for solutions and just integrating them into our existing tools and products.

But there are a few spaces where we think that making targeted investments is important. We think we can develop often using building blocks from others. So think about this as foundational models that we get open source or commercially to make cutting-edge tools and cutting-edge experiences. And those targeted areas of investment are better product experiences, content production and advertising. And maybe, Ted, you want to pick it up on the content creation apps as part of the question.

Theodore A. Sarandos
Co-CEO, President & Director

Yes. Look, what we've seen so far from these content creation apps is that it's likely to have a lot more impact on UGC creators the most in the near term. In other words, AI content replacing viewing of existing user-generated content, that starts to make sense. Before we do, it takes a great artist to make something great. Writing and making shows and films well is a rare commodity, and it's only done successfully by very few people. So AI can give creatives better tools to enhance their overall TV movie experience for our members. But it doesn't automatically make you a great storyteller if you're not. So if music is a leading indicator of all this, AI-generated music has been around for a long time, and there's a lot of it.

And it's a pretty small part of total listening and established artists like Taylor Swift continue to be more popular than ever. So even in a world filled with AI music, AI seems to be mostly a tool for musicians to take -- to make -- to take their sound in new directions. And so we're confident that AI is going to help us and help our creative partners tell stories better, faster in new ways, we're all in

on that. But we're not chasing novelty for novelty sake here, and we're investing in what we believe delivers value for creators and members alike. So we're not worried about AI replacing creativity, but we're very excited about AI creating tools to help creativity.

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations

Great. Thank you all for your questions. So we're now out of time. So we thank you for joining us for our Q3 call, and we look forward to speaking with you all next quarter. Thank you.

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