Netflix (NFLX) / 17 Apr 25 / 2025 Q1 Earnings call transcript

Company Profile

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Spencer Wang

Good afternoon, and welcome to the Netflix Q1 2020 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 from the analyst community, and we will begin first with our results, outlook and forecast.

Spencer Wang

And our first question comes from Robert Fishman of MoffettNathanson. Robert's question is -- the Wall Street Journal report this week discussed Netflix's internal goal of doubling revenue and tripling operating income by 2030 and -- how should investors think about Netflix leaning into more content spending over the next 5 years?

Theodore Sarandos

I'll take this. And thanks, Robert. Look, we have a unique culture. And part of it is this open information operating style, and it has served us very, very well. On rare and very disappointing occasions, our confidential and internal discussions can link into the press. And while we wouldn't normally comment about leaked internal information, we do want to be extra clear about this. We often have internal meetings and we talk about long-term aspirations. But it's important to note that this is not the same as forecast.

Our operating plans is the same as our external forecast and guidance. We don't have a 5-year forecast or 5-year guidance. But you can assume that we are long-range thinking, and that we're working hard every day to build the most loved and valued entertainment company for all of our stakeholders.

Gregory Peters

And maybe to pivot the conversation to we're happy to comment on and discuss the detail. We do have big long-term aspirations and those aspirations are really grounded in the potential for growth that we see in the business.

Now we think we've got a pretty good business today, over $40 billion in revenue. We've got over $300 million paid households. Those represent an audience of over 700 million individuals. -- we're leading in streaming view share. But we also think that we're a minority of our addressable market, our potential across any of those measures.

If you think about engagement, we're less than 10% of TV hours for an audience or a connected households perspective. We still got hundreds of millions of folks to sign up. And from a revenue perspective, we're about 6% of consumer spend and ad revenue in the countries we serve in the areas that we serve.

So -- we believe we've got plenty of room to grow our engagement, our revenue and our profit. And as Ted said, do that to become the most valued and loved entertainment company for all of our stakeholders. .

Spencer Wang

Ted and Greg.

Our next question or I should say we have received several questions actually, understandably about the economic environment and consumer sentiment as well.

For example, Jason Helfstein from Oppenheimer asks. This is the first time you are potentially entering a recession with a low-cost ad plan. How do you think about consumers downgrading plans relative to the behavior you've seen in prior recessions.

Gregory Peters

Yes.

Given that we've got a bunch of questions on sort of the general economic environment, maybe just start with some comments on that. We're paying close attention clearly to the consumer sentiment and where the broader economy is moving. But based on what we are seeing by actually operating the business right now, there's nothing really significant to note.

So what are we looking at, primary metrics and indicators would be our retention, that's stable and strong.

We haven't seen any significant changes in plan mix or planned take rate to part of that question.

Our most recent price changes have been in line with expectations. Engagement remains strong and healthy.

So things generally look stable from that lens. Stepping back, we also take some comfort in the fact that entertainment historically has been pretty resilient in tougher economic times.

Netflix specifically also has been generally quite resilient, and we haven't seen any major impacts during those tougher times, albeit, of course, over a much shorter history. And then to the point of the specific question, I think that having the low-cost ads plan in our largest markets also gives us more resilience. And we think that, that we represent an incredible entertainment value, starting at $799 in the U.S. and Canada with the ads plan. It's an accessible price point, and we really do expect the demand for entertainment to remain strong.

Theodore Sarandos

Yes. And just to add to that, Greg, a bit, we remain focused on the things that we can control and improving the value of Netflix is a big one. historically in tougher economies, home entertainment value is really important to consumer households, and Netflix is a tremendous value in absolute terms and certainly, in competitive terms.

So there are some international risks that folks talk about what's happening now. And I'd say, look, there always has been.

We are -- we pay taxes and levies around the world consistent with all sorts of local regulations. And there's always some of that has existed, always has. But what we're seeing today, we're not changing anything in the forecast.

So kind of keep in mind that while the U.S. represents our largest spend for content employees, production infrastructure, we produce original content in 50 countries around the world. And we're a net contributor to many of those economies and culture.

So in our letter, we talked about our commitment to the U.K.

We also recently announced a $1 billion commitment to production in Mexico. In 2023, we announced we were $2.5 billion in committed to Korean content in Korea. And all of these are just examples of the global commitment.

So when we produce in these countries, we create and support employment training. We work with local producers and local talent -- we help export local stories and local cultures around the world. And we even drive tourism.

So we believe we're additive to the local economies and the local cultures all around the world where we're working.

So perhaps a little bit less exposed.

Spencer Wang

Thanks, Ted.

So that sort of takes care of the question we got from Dan Salmon specifically on tariffs as well.

So I'll move this along to a question now from Rich Greenfield of LightShed Partners. Does your price increase cadence change due to the global economic uncertainty? Or is that outweighed by the strength of your slate and increased time spent watching Netflix?

Gregory Peters

Yes, it really links to how we think about price changes.

As we stated before, we really rely on our members to let us know when we've invested enough grown the value in our offering and then determine based on that when we adjust pricing to be able to reinvest back into our service.

So we're going to continue to follow that philosophy and that path rather than some predetermined plan. We certainly seen periods of challenging economic conditions historically in different countries. And we've generally been able to keep that positive flywheel spinning even in those situations. And I think that, that speaks to the gap between value and price and that we are for many people, a very good value, even as they're being careful about where they spend.

We've also been expanding that range of price points, including a low priced ads plan in our ads market, which better allows us to offer the right plan at the right price to a wider range of consumers.

So that's all to say that we're proceeding largely as we've done in the past, while continuing to work to improve both value and accessibility.

Spencer Wang

Our next question is from John Holick of UBS. How has member retention been trending given the Q4 strong paid additions, have you retained the bulk of these subscribers? And can you give us a sense of how churn has been trending? .

Spencer Neumann

Yes. Sure. Spencer, why don't I take that one, give Greg and Ted break for sec.

As Greg mentioned, we're seeing strong, stable acquisition and retention trends in the business generally. That resulted in healthy member growth in Q1. Last quarter, we did provide some color on the retention characteristics for some of those bigger live events in Q4. Recall we had the Paul Tyson fight. We had NFL on Christmas Day. And we also had Squid Game, which was an event in and of itself.

So -- but we did mention at the time that those 3 big events were still a minority, a small minority of our net adds in Q4. But we also noted that the retention characteristics for the members that came in for those big events was similar to members that joined for other big titles and that continues to be the case.

So really no meaningful changes to our retention story, which no news on that front is good news from our perspective.

Spencer Wang

Thanks, Spence.

We have another question about our outlook and forecast from Michael Morris of Guggenheim.

Given the strength in operating margins in the first half of the year, -- can you discuss the key incremental costs that will drive lower margins in the second half? Do you expect these costs to be more heavily weighted to the third quarter or the fourth quarter, Spence?

Spencer Neumann

Yes, I will take it again.

Okay. Thanks, Michael.

So we -- as you see in our letter, and as you mentioned, we're still forecasting 29%, 29% full year margin, operating margin for the year. And we primarily manage the full year margin.

As you know, our margins bounce around a bit quarter-to-quarter. That's usually based on the timing of our content slate as the primary driver. And that's what's reflected in our forecast.

So content expense, will we expect it'll grow and ramp in Q3 and Q4 on a year-over-year basis, given the timing of our slate. We've got our biggest titles returning in the back half of the year. I'm sure Ted will talk to some of that later in the call. And also typically, in Q4, we had a heavier film slate.

We've also got sales and marketing expenses that will probably -- that we expect would ramp in the second half of the year, both to support the slate, but also ad sales. go-to-market operations and are hitting in our marketing and sales line.

So that we're continuing to build out our sales operations and capabilities and some of that is hitting there and growing in the back half.

So all of that is expected and reflected in our guidance. Other than, as I said, a little bit of a heavier slate typically on the film side in Q4, no meaningful differences between Q3 and Q4.

The 1 thing maybe I'll also just add, Spencer, is, we obviously beat a bit in operating income in Q1. But at this point, most of that was -- is a little bit on the revenue side, mostly on the expense side, and it looks to us that most of that was timing of spend, but still spend that we would expect to hit in the full year.

So there's still a long ways to go in the year, a good bit of macro uncertainty out there.

So this is still our best estimate for kind of outlook for the year.

Spencer Wang

Thanks, Ben. I'll move this along now to a set of questions around advertising. From Dan Salmon of New Street Research, does the current macro environment change your approach to the television upfronts. Any broad thoughts on how you're approaching upfront versus the scatter market would be great.

Gregory Peters

Sure. Similar to commentary on the consumer sentiment, we're keeping a close eye on the marketplace. But we are currently seeing any signs of softness from our direct interactions with buyers. Actually, to the opposite, we're seeing some positive indicators from clients as we approach our upfront event.

I think worth noting perhaps that the fact that we're currently relatively small in ads, and that sort of adds as a revenue contributor to Netflix, but probably more importantly, the amount of ad spend that we're seeking to win relative to the big ad pie. That smallness probably provides us some insulation to market shifts right now. And we are rolling out our proprietary ad tech suite.

We've rolled that out in Canada and the United States. We've got our remaining 10 markets coming. That offers a bunch of new capabilities that advertisers have told us they want -- so we're just starting to sell into those new capabilities that opens up new opportunities for us. opens up new demand for us as well.

So I would say, based on everything that we're seeing right now, we continue to expect that we will roughly double our advertising revenue in 2025 through a combination of both upfronts, programmatic expansion and scatter.

Spencer Wang

Thanks, Greg, and that's a very good segue to our next question, which comes from Vikram of Baird. Could you provide an update on your first-party ad tech platform. How is the rollout in Canada performed relative to your expectations? And do you have any observations so far in the U.S.?

Gregory Peters

Yes. It's a big milestone for us to roll out our own ad suite. We've been working at it for a while. We're still in the middle of that rollout, but our Canada and U.S. launches have gone well. They're consistent with our expectations. We're learning and improving quickly now based on the feedback we're getting from having those live and operating them. Then we'll roll out across the remaining 10 as markets in a few stages over the coming months.

So that's sort of all lined up and ready to go.

The biggest initial benefit that we are seeing, again, as expected from being on our own ad servers, it just enables more flexibility for advertisers more ways that they can buy, there's fewer activation hurdles.

We have the ability to improve that overall buyer experience iteratively. It just makes it easier to transact with Netflix, and that, of course, drives increased sales.

And so we're seeing that. And then we expect over time that our first-party ad tech platform will allow us to do other things, deliver more critical capabilities more quickly to advertisers. These are things like more programmatic availability, something we definitely hear demand for enhanced targeting something we're excited about. We can leverage more data sources and of course, something we hear all the time, more measurement and reporting capabilities.

So those are all things that we've got in work.

Some of those have been delivered already in some of the territories and those will come over time. And then the other big space of benefit by being on our own ad tech stack is it enables us to have more control to create a higher quality ad experience for our members. This is things that are really important, like increasing ad relevance, which is good for everybody in the whole ecosystem.

So just getting started. Excited to get it out there. We've got many years of building ahead of us, but we've got a clear road map. We know what we're committed to, and we'll just continually to iteratively improve and innovate in advertising, just like you've seen us do and all sorts of other areas.

Spencer Wang

Greg. And speaking of ads relevance, Justin Patterson as a longer-term question on heads. Netflix has solved personalized content recommendations. What are the key steps to solving ad content recommendations or relevance? And which inning do you believe you're in?

Gregory Peters

Not sure I would characterize this completely solved. We hope that we can be even better day-to-day in recommending the main titles. But we do have an ambition to achieve that same level of sophistication and maturity capability that we did on the personalized recommendations in the ad space. That means matching the right ad with the right audience, the right viewer and the right title. And we think putting those 3 things together drives superior campaign outcomes for advertisers. We think it's a better experience for members.

So it's win-win, win.

Where are we at in that process? I would say that we are literally just beginning to get that going.

So the first stage of that is actually being on our own ads platform. We've launched that, as I said, in Canada, the U.S. We've got the remaining markets coming over the next months to come. And in doing that, during this time, we've been able to significantly already expand our targeting capabilities.

So that now includes targeting features that are based on Netflix unique data.

So I think life stage, interest, viewing mood. In the U.S., we've also recently enabled advertisers to do more significant targeting this is targeting on their own onboarded audiences. Targeting on Netflix model audiences, targeting against audience segments that are provided by a select set of third-party vendors.

So we've got a lot of exciting work going on in that space. And then looking ahead, in 2026, we'll do more of that more data targeting capabilities, we'll move more of that globally.

So a lot of things we do, we start in the United States and expand across more territories, you'll see that. And then, of course, more measurement functionality in all markets. And then in 2027, when we get to look to specific focused investments at a higher order and data capabilities such as ML-based optimizations. We've got advancement in advanced targeting. We'll be really opening a rich space there.

Another big benefit we get on our own ad stack is we'll be able to innovate and develop more quickly new ad formats.

So we have more spaces that we can point all of that improved targeting capability against.

So just getting started in this space. We've got a lot of work to do for sure, but we think we'll be able to move very quickly and frankly, more quickly than other streamers because we believe we're going to be able to leverage not only preexisting tech that we have, data that we have, but also data science expertise and the rapid product innovation experience that we've got.

Spencer Neumann

Greg, the inning analogy gives us a little more flexibility than crawl-walk-run right? So when you walk through all that, it's nice to have all those things ahead of us. options and seats. That's right. It's definitely play starting to swing not be where we're at.

Spencer Wang

Greg. I'll move us along to a series of content-related questions from analysts, beginning with Rich Greenfield from LightShed. There are 4 major sports properties available right now. How should we think about the strategic fit for Netflix in terms of, number one, the UFC, number three, WWE premium Live Events. Number three, F1 and number four, Major League baseball

Theodore Sarandos

Rich.

Just -- I do want to remind you that our live strategy is beyond just sports.

So I'm not going to comment on any of those specific opportunities at this time. But I will say you back to the letter to show you that our live event strategy is unchanged, and we remain really focused on the big breakthrough events.

Our audiences love them.

And so anything we chase in the event space or the sports space, is a deal that have to make economic sense as well.

So live is a relatively small part of our content spend.

We have about 200 billion view hours, so small relative to view hours too. But that being said, all viewing is not equal. What we have seen with live is just very outsized positives around conversation and acquisition and we suspect retention and we're really excited to keep building on that.

We have the Taylor Sorento fight in July. That's a rematch from when they bought the first time on the Tyson Paul Fight Night. It was the most watched women's sporting event in U.S. history.

So there's a lot of excitement around that. The NFL, of course, is a great property, and we're happy to have the Christmas Day game.

So we opted into the second and for Christmas Day.

So we'll be presenting all day football again on December 25, 2025, really exciting. And then today, our live adventures have all been primarily in the U.S., but we intend to grow the capability to do it around the world in the years ahead.

So very pleased with the progress so far and excited about the future for live sports and non-sports.

Spencer Wang

Thanks, Ted. The next question is from Matt Thornton of FBN Securities. Do you think video podcast could perform well as a category on Netflix?

Theodore Sarandos

So we're constantly looking at all different types of content and content creators. The lines between podcast and talk shows are getting pretty blurry. We want to work with kind of great creators across all kinds of media that consumers love. And podcasts, to your point, have become a lot more video forward. And today, we actually produce a lot of podcasts ourselves as part of our kind of publicity and publishing efforts.

So some are really show specific like Swee Game and Diplomat, some are genre focused, some are talent focused.

We have a great 1 called -- you can't make this up, all about Netflix docks. And they live everywhere podcaster today. But as the popularity of video podcast grow, I suspect you'll see some of them find their way to Netflix.

Spencer Wang

Thanks, Ted. From Rich Greenfield again, how do you create iconic animated franchises. What does it really take to build out culturally relevant animated IP? Is the answer a different team, acquisitions or something else entirely?

Theodore Sarandos

Well, thanks, Rich. Keep in mind, this -- we're relatively new at this, and it's a completely creative process. We've had submits, and we've also had some misses, and we know we have work to do. But I would point out that we've had some really nice is with LEO, with Seabeast, Gamma DeToro Pinocchio certainly culture. Even won the Oscar for us for best animated feature film. And the other thing we keep in mind about why we're excited about this space. There's a lot of demand for animated film. In 2024, 9 out of the top 10 most streamed movies were animated features.

So just like in our live action strategy, we want to make some, we want to license some. And we have more access today to license than we did when we began in-house animation, and we get to that now through output deals with Universal, Illumination and with Sony. But the animation team, Hanna and Dan, they're working really hard on a very promising slate of exclusive originals they're going to roll out through 2027. And including 1 called the Inner Dreams coming out in Q4, which is really fun, really entertaining, beautifully produced home that I think you're going to love.

So we got our work cut out for us, but it's a big prize.

Spencer Wang

Thanks.

Our next question comes from Robert Fishman of MoffettNathanson.

As you think about the competitive landscape over the next 5 years, should investors expect Netflix to move into short form or creator lead content to compete head-to-head with YouTube.

Gregory Peters

Sure, I'll kick this 1 off.

I think -- just starting at the macro lens. We've always had very strong competitors, including YouTube, many others. We're all definitely competing hard for people's entertainment time.

So we absolutely have to earn every hour that we win. We don't take anything for granted. We don't get anything for free. We make up every day eager to improve our service for our members and for members to be.

We also think in that broadest competitive lens that the biggest opportunity we've got is actually going after the roughly 80% share of TV time that neither Netflix nor YouTube have today. We think of that as a real immediate opportunity.

And then when it comes to the specific head-to-head competition with YouTube or other platforms like YouTube, we believe we are a more competitive better service for a certain class of creators and certain types of storytelling. And most importantly in that is that we lead monetization for those kinds of titles. And that means we can provide a better opportunity than YouTube or other services for those creators and those stories. And Ted, maybe you want to comment on the creator and content type expansion.

Theodore Sarandos

Yes, sure. We're looking for the next generation of great creators, and we're looking everywhere.

So not just in film schools and certainly not just in Hollywood, creators today have tools that were unimaginable a decade ago, to tell stories, to reach audience. The question is out there is that is it premium? Well, some of it is, and we believe we have the best monetization model on the planet for premiums story telling.

I think we can help those creators reach an audience.

Our model can also support more ambitious efforts for them, could help derisk them unlike the kind of typical UGC models. Look at people folks like Ms. Rachel. She's been in the top 10 every week since she on Netflix. Kill Tony right now is killing it with our stand-up fans. We're working with Side man, we just launched pop the balloon.

So we think it's really exciting. When you put this all together, we believe it's the best place for premium content as defined by fans and the best home for storytellers wherever they're working on honing their skills today. Thank you

Spencer Wang

From Ben Swinburne of Morgan Stanley.

We are starting to see some of the fear around AI and content creation subside and major directors like the Russos, Jim Cameron, et cetera, begin embracing the technology. what is Netflix doing to leverage AI for its creative partners? How meaningful can this be? And are there any examples that you can share?

Theodore Sarandos

Well, Ben, there's a ton of excitement about what AI can do for content creators. I read the article to what Jim Cameron said about making movies 50% cheaper. I remain convinced that there's an even bigger opportunity if you can make movies 10% better.

So our talent today is using AI tools to do set references or previs, VFX sequence prep shop planning, all kinds of things today that kit to make the process better. Traditionally, only big budget projects would have access to things like advanced visual effects such as de-aging.

So today, you can use these AI-powered tools so to enable smaller budget projects to have access to big BFX on screen.

A recent example, I think, is really exciting. Rodrigo Pieto was the DP on the Irish in just 5 years ago. And if you remember that movie, we were using very cutting edge, very expensive de-aging technology that still had massive limitations, still creating a bunch of complexity on set for the actors. It was a giant leap forward for sure, but nowhere near what we needed for that film.

So this year, just 5 years later, Rodrigo is directing his first feature film for us, Pedro Paramor in Mexico using AI-powered tools he was able to deliver this de-aging VFX to the screen for a fraction of what it costs on the Irishman.

In fact, the entire budget of the film was about the VFX caused on the Irishman.

So same creator using new tools, new better tools to do something would have been impossible to do just 5 years ago. That's incredibly exciting.

So our focus is simple, find ways for AI to improve the member and the creator experience.

Spencer Wang

Thanks, Ted.

Our next question is from David Joyce of Seaport Research Partners. The question is, with so much content in your library, what can you do for Discovery to help drive further engagement with the platform? Is there anything further structural you can do with the recommendation engine? Or is it going to require more marketing?

Gregory Peters

Yes. A fact that surprised as many people is that even our most popular, most buzzy titles that you're hearing tons of conversation around, those still drive less than 1% of viewing.

So that discovery and recommendations capabilities are really critical to unlocking all the value from the investments that team is making around the world. And we believe and we continually see this in test results quarter after quarter that there is more room to improve that discovery and recommendation experience and therefore, provide more value for members and therefore, find the biggest audiences for -- around the world for our titles.

To that end, some examples of this last year, we began testing a new simpler, more intuitive TV home page. This is something that we hadn't made big structural changes to in over a decade. And we believe that, that will significantly improve the discovery experience on Netflix. We've been polishing and improving that experience based on the input we got from members who used it. we plan on rolling that out later this year.

So that's very exciting and a pretty significant structural shift that we anticipate we'll move things forward significantly.

But we're doing things at the other end of the spectrum, too.

So we're also building out like new capabilities, an example would be interactive search. That's based on generative technologies.

We expect that will improve that aspect of discovery for members.

So there are many, many specific improvements that we've got in work.

So a lot more to come in this space. And really, frankly, no foreseeable limit on those improvements in the years to come.

Spencer Wang

Thanks, Greg. Michael Morris from Guggenheim has our next question. It's actually about extra member accounts. How is adoption of extra member accounts trended since launch. Can you share how this offer has contributed to revenue growth to date and whether you see it as additive to future growth?

Gregory Peters

We see, extra remember, as part of our plans and pricing model.

So it's an option that provides flexibility and choice for members. It allows them to tailor the Netflix offering to their needs. We know some members want to share Netflix with family or friends. An extra member gives them an easy way to do that. It's a lower cost way to do that as well. We see good retention and engagement on that plan, which is really important to us and says it's a sort of healthy part of the offering. But while we love it from a member convenience perspective, responding directly to the question, extra member isn't a major driver for our business, and we expect it will remain relatively small in the foreseeable future.

Spencer Neumann

I'd just say to Greg's point, I agree with all that. It is, I think part of the question is still growing modestly, but it's -- so it's healthy for all those reasons, but it's just not a big driver of the business.

Spencer Wang

Thanks, Spence for clarifying.

Justin Patterson from KeyBank with the next question. Alan, who leads our Netflix Games business, I spoke recently at the Games Developer Conference about making gaming more accessible and achieving mass market appeal what types of games have resonated on Netflix so far? And where do you see opportunities to improve the user experience and drive even more engagement for games?

Gregory Peters

Yes.

We have learned quite a bit, made some decent progress since we launched games, but we continue to see this as a multiyear iterative journey much like we've seen, and you've seen from us when we launch a new content category where we launch a new country, and we develop product market fit and improve that over time.

You asked what games have worked for us so far.

You can see much of the answer to that question embedded in the genres that we're going after and focusing on right now.

So that starts with immersive narrative games based on our IP. Squid game Unleashed is a really good example. We'll have an update for that game with the latest season of Squid Game that's coming. More recently, which is our Black Mirror based Tamagochi-style game that has a dark twist in the end, very consistent with Black Mirro.

Another category that we're going after is mainstream established titles. This is Grand Theft Auto, which really worked for us, and you'll just launch more titles like that in the future. There's also games for kids, being able to give kids a game experience that's free of ads. It's free of in-app purchases, safe for parents with the subscription.

We just announced Peppa Peppa Pig game, which is coming soon.

So that's an example of that. And the fourth category, which I would say we don't have A lot of data points demonstrated in yet, but we're excited about and we'll be delivering some to understand the space better socially engaging party games. Think about this as either an evolution of the family board game or an evolution of the game show on TV that becomes interactive in your living room.

So lots of excitement there. And then you mentioned in terms of areas to improve. There's tons of areas to improve. Frankly, we can improve everything that we're doing from user experience and discovery and getting to play, but also just in having more compelling games.

So that's a real top priority for us at this point. And maybe just a few comments with regard to how we think about investment and growth in this space. We've always said that we were in this to win. We want to invest enough to ensure that we are playing to win. But we also are coming knowing that we've got a lot to learn, and we still have a lot to learn despite all that we've learned so far. We don't want to grow our investment too much until we iteratively develop high confidence that we know how to translate that investment into member value, like the increased retention we see when members play our games.

So our investment by our scale is still relatively modest. It's a small fraction of our overall content budget. And as we continue to see incremental proof points, we'll ramp up that investment in a measured way, but we think this approach to sort of measured growth and planned scarcity actually yields a better business in the long term. And the long-term opportunity is large. It's about $140 billion in consumer spend ex China, ex Russia, not including ad revenue. We believe in our top-level strategic thesis, and we continue to learn into that executional capability to incrementally unlock that potential.

Spencer Wang

Thanks, Greg. I'm actually going to bring us back to a question on the results because we do have a late-breaking question from Steve Cahall of Wells Fargo. Can you unpack the key drivers of the expected U-Can revenue growth reacceleration in Q2? Is it mainly pricing? Or are there other aspects like advertising or subscriber growth? Maybe, Spence, do you want to take a stab at that one?

Spencer Neumann

Yes, sure.

So you saw in our report, our U-Can revenue growth was 9% year-over-year in Q1. That was a deceleration from about 15% year-over-year in Q4. The deceleration is mostly due to pricing timing.

So there's a little bit of a sequential quarter, tough comparison, because we also had the benefit of the NFL games and the advertising resulting from the NFL games in Q4, which also bumped it a bit. But think of it as we plan to reaccelerate again in Q2, and it's really getting the full quarter benefit year-over-year of pricing. And then also, we are -- ads is still a much smaller part of our business than subscription, but ads continues to kind of grow through the year.

Spencer Wang

Thanks, Spence. And I will now close this out with our last question, which comes from Alan Gould of Loop Capital. His question is you've been guiding to $8 billion of free cash flow in 2025. And 1 of your goals is to deliver growing free cash flow.

You have historically not spent a lot on acquisitions. Should we assume most of the growing free cash flow is redeployed into share buybacks?

Spencer Neumann

Yes. Thanks, Alan.

So there's no change to our capital allocation policy. It's been consistent for years now. we prioritize profitable growth by reinvesting in the business. We maintain ample liquidity. Those are key for us, our top 2 priorities, and then we return excess cash to shareholders. Through share repurchase beyond several billion dollars of minimum cash that we keep on the balance sheet and then anything we use for select M&A.

So that's kind of a long wind up to. The answer is yes, in the absence of any meaningful M&A, not MBA. Any meaningful M&A, we would expect that our growing free cash flow will be redeployed as share repurchase.

Theodore Sarandos

Excellent. Well, before we close, first, thank you all for joining us I would like to take a moment to recognize and to thank Tim Haley for after more than 27 years on our Board of Directors, he has elected to not stand for reelection.

For all of those 27 years, Tim Haley has been on this journey with us. His counsel and leadership has been a really valued part of our success. I'd like to say a special thank you to Tim for his long service and his many contributions to the Netflix Board of to directors. And let me say also as someone who's benefited greatly from our time with him and has been there with them for most of those years that through so much change and so much growth. Tim has always offered Sage advice and counsel and is an important part of the history of Netflix. Tim has helped shape Netflix into the company that it is today.

So many thanks to Tim, and thank you very much for joining us.