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Company Profile

Spencer Wang	executive
Theodore Sarandos	executive
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Spencer Wang

Good afternoon, and welcome to the Netflix Q4 2024 Earnings Interview. I'm Spencer Wang, Vice President of Finance, IR and Corporate Development.

Joining me today are Co-CEO, 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 will now take questions submitted by the analyst community.

Spencer Wang

And we will begin with our first question from Dan Salmon of New Street Research. Dan asks, given the need to ensure safety and well-being of cast and crews, has there been any disruption to your L.A.-based productions owing to the wildfires? If so, can you please quantify the impact on this year's cash content spending?

Theodore Sarandos

Thanks a lot, and thanks, Dan.

Let me start by saying this is a really difficult time for a lot of people in Southern California.

So many people in our industry, including our employees, were deeply impacted by these fires. And the hardest hit areas of these fires, the areas around Pacific Palisades, Altadena, Malibu are very heavily populated with the folks above and below the line who we work with every single day.

So we're doing everything we can to help with relief and we're getting those folks who can back to work. To your question directly, no meaningful delays in the delivery of the projects and no meaningful impact to the cash in '25, but very meaningful disruption in people's lives.

So our goal is to keep everything on schedule safely, be mindful of folks who need time to work through the challenges of the fires, including, in some cases, loss of life and home. But this industry has been through a really tough couple of years, starting with COVID, going into the strikes, and now this.

So it's really important that we try not to delay anything and try to make sure that these jobs stay safe. But I definitely want to add that we are extremely grateful to the firefighters and first responders who are still fighting flames right now. These are the real heroes here. But to answer your direct question, no impact in 2025 on cash or our deliverable, nothing meaningful.

Spencer Wang

Thanks, Ted. We'll take our next question from Jason Helfstein of Oppenheimer. Is it fair to assume that most of the upside in the 19 million subscriber additions came from the Jake Paul and the Christmas Day football games? And how was the attrition or retention, I guess, post the Christmas Day games versus normal post-holiday levels?

Gregory Peters

Yes. Short answer to that question is no. At a high level, we've seen broad strength across content categories, across all regions. We've seen it throughout the entire year. And as we've consistently seen across our history, no single title really drives the majority of our acquisition or engagement.

So even in an amazing quarter where we had 3 huge live events, we had an incredible fight, 2 NFL games. We had one of our biggest TV series ever in Squid Game Season 2, all very successful events and titles that we are thrilled about.

Our estimates for subscriber adds driven by those titles combined represent a small minority of our total member acquisition in the quarter.

So it's really the whole service that's working that delivered the upside that we saw this quarter. The vast majority of our net adds were driven by our broad slate in our portfolio globally. And Ted, maybe you want to pick up for the last half of that?

Theodore Sarandos

Yes, just putting some color around that. We really have built the business on variety and quality across countries, across regions, across genres. And we really focus that year round of having a very strong slate of programming for our members.

So we're thrilled that some folks came in for the fight and some folks came in for the games, but they stuck around for Squid Game and for Carry-On and for Black Doves and for Six Triple Eight and new comedy special. All those things all performed really well in the quarter and continue to in new days and weeks after the fight and after the games. And what's really been most encouraging is that the retention behavior of those folks who did come in for those events look a lot like the folks who've come in for all of our other big titles.

And so I just would add that it's great that all these big swings worked very well in the quarter, but to be able to have that translate into revenue growth meaningfully, everything has to be working, the product, the pricing teams, the marketing, the advertising. All those things have got to be working well, and we saw really strong execution across the board throughout the quarter and throughout the year.

Spencer Wang

Thanks, Ted and Greg.

Our next question is from Steven Cahall from Wells Fargo, and Spence, this is probably best handled by you. The U.S. dollar has strengthened since your last results, and you said that you'll tend to underperform your margin targets when the dollar is stronger. What FX volatility do you think you can successfully hedge out in 2025? And what are the best ways to estimate the impact of currency movements, net of hedging?

Spencer Neumann

Sure, Spencer. I will take that one.

So look, roughly 60% of our revenue is in non-U.S. dollar currencies. And think of it as the way we look at it is of that amount, we try to hedge roughly 50% on a rolling forward 12-month basis.

So I want to stress that we view hedging as sort of a short- to medium-term solution at best.

Our focus has always been to manage the underlying operating results of the company through natural hedges where we can, plus pricing and cost structure over time.

So our hedge program is really just a price averaging program to smooth the impact of FX, reduce the volatility from big near-term FX moves, and avoid short-term swings to the business so that we can invest appropriately for both the short and the long term.

Spencer Wang

Thanks, Spence. The next question comes from Brian Pitz of BMO Capital. The advertising user base is growing quickly and your ad tech has been ramping for almost a year. What are your biggest learnings and perhaps hurdles for advertising monetization in 2025?

Gregory Peters

First and foremost, we love our ads plan because it allows us to offer a lower price point for consumers. That's more choice, good accessibility. That is proving to be popular. It means that we obviously have more people that can sign up and enjoy a growing range of entertainment that we've got to offer. It's also the reason that we've been successful in driving that first ads priority we had in our ads goals, our most primary ads goals, which were to get to sufficient scale.

So Q4, ads plan represented over 55% of sign-ups across our ads countries. We've seen membership on those ads plan increase about 30% quarter-over-quarter this last quarter. That was on top of 35% the quarter before, on top of significant growth the quarters before that.

So as you point out, we've seen significant growth since launch, which we're excited about. Maybe even more excited about the fact that the engagement of those ads members remains healthy.

So view hours per member on the ads plan is similar to engagement on our standard non-ads plan in our ads country, which is a really good marker that we're excited about.

So we've done the work, I would say, to meet our scale goals for advertisers in '25. And that means that increasingly, we've been able to shift more of our focus, more of our attention on making the offering better for advertisers to increase monetization of that growing inventory. This is going to remain a priority and part of our road map for at least the next several years, likely years to come after that. But we're making solid progress already.

For example, we exceeded our ads revenue target in Q4, which was an exciting milestone to get. We've doubled our ads revenue year-over-year last year.

We expect to double it again this year so that should give you a sense of the slope of monetization growth that we're on. And broadly, we think of this as we're making solid progress. There is considerable work ahead of us for sure, but we don't see specific hurdles that you mentioned in the question other than just doing the work.

So we think our path is relatively straightforward. And we're confident we've got a significant runway to continue to grow that revenue.

Spencer Wang

Great. And we have a follow-up question on advertising from Jessica Reif Ehrlich of Bank of America. On advertising, do you have all the tech and tools you need to significantly scale up and move from the crawl to walk phase?

Gregory Peters

Yes.

I think you can say that 2025 is the year that we transition from crawl to walk. A big part of that is standing up our own ad stack. We launched that in Canada and that's done well. We're testing, we're learning quickly as we prepare to then roll that out in 2025 across the rest of our 12 ads countries, starting with the U.S. in April. And the biggest initial benefit we have of using our own ads server is just enabling us to offer more flexibility, more ways of buying for advertisers, fewer activation hurdles, just improving the overall buyer experience. And of course, that is meant to drive increased sales and the ease of transacting with Netflix. And we're already seeing the impact of those benefits in the revenue growth in Canada.

So that's exciting and improves our optimism around it. And then over time, the first-party ad tech platform allows us to deliver more critical capabilities to advertisers that we hear from them that they really need.

So more programmatic availability. We're talking enhanced targeting, we're leveraging more data sources, more measurement, more reporting, more incrementality studies.

So being on our own tech stack enables all those advertising features, advertiser-facing futures. But the other big benefit is it just creates a higher quality experience for our members.

So it increases relevance. That's good for them. It's good for advertisers. It's good for us. It's good for everybody in the ecosystem essentially.

Just so to reiterate, we've got many years of building ahead of us. The road map is clear. We're committed to iterative innovation and advertising just as you've seen us do in many other places. And as I mentioned before, while we've got tons of work, we feel the path for the next several years at least is fairly straightforward, and we're confident we can continue to grow revenue at a solid pace and earn a growing piece of that over $25 billion in CTV ad spend.

Spencer Wang

Awesome. Thanks, Greg. I'll now shift to a couple of content-related questions from analysts.

The first is from Ben Swinburne of Morgan Stanley. He asks Ted, do the strong viewing numbers for the NFL games leave you more interested in full season sports rights for Netflix? Or do you still see full season sports rights as generally unattractive for Netflix?

Theodore Sarandos

Well, let me start with the viewing of the NFL games, which there are in-season games and they are the 2 most streamed NFL games ever. The average minute audience for those games were 30 million and 31 million. It's phenomenal. And Beyoncé also set a very high bar for future halftime shows even for the Super Bowl.

So we're really thrilled with the viewing. We're thrilled with everything about it. All that being said, we are constantly trying to broaden our programming, and live events is one of those things and sports is part of those live events.

So when I look at this and say, this is a really fantastic thing, but do we -- but it doesn't really change the underlying economics of full-season Big League sports being extremely challenging.

So if there was a path where we can actually make the economics work for both us and the League, we certainly would explore. But right now, we believe that the live events business is where we really want to be and sports is a very important part of that but it is a part of that expansion.

Spencer Wang

Thanks, Ted. And Rich Greenfield from LightShed has a similar follow-up question. Has the fight and WWE Raw results influenced your decision process on additional rights like the UFC?

Theodore Sarandos

Yes. Well, I'm not going to comment anything specifically like the UFC, but WWE is off to a great start.

Our first week, we drew about 5 million views, which is about 2x the audience that Monday Night Raw was getting in linear television. Pretty consistent with how we modeled it, how we hoped to build the audience for the league.

We also saw that the non-live viewing, so in the day after the live event, our viewing grew by 25% mostly outside of the U.S. time zones, so this is new viewing in the U.K., in Canada, Mexico, Australia, Brazil, particularly big markets.

So we're really thrilled to see how that's going so far. In the U.S., our viewing of Monday Night Raw was as big as the Monday Night Raw viewing has been in 5 years.

So we're super thrilled where that's going and how that's coming out. Again, just not to be overly repetitive but we are not -- we're going to be mindful of the bottom line. And it's really important that those economics do work and that the Big League sports full season economics are very hard to make work.

And so -- but for us, we want to be able to bring value to the sport like we have to date with WWE certainly, but like we have with the NFL, too, where we were basically able to bring a big audience, a young audience, a more global audience than linear television, but that has to be reflected in the deal as well.

Spencer Wang

Thanks, Ted. And that's a good segue to our last question on sports to round it out from Vikram of Baird. Could you elaborate on the decision to acquire rights to the FIFA Women's World Cup in 2027 and 2031? What were the features of the event that made it attractive? And how does this fit into your broader strategy for live sports?

Theodore Sarandos

I think it fits perfectly into the strategy. Women's World Cup is a real TV event, totally consistent with what we're trying to do here. These matches set a bunch of viewing records in 2023, and women's sports have only become more interesting and more popular since. It's a month-long event filled with drama played by some of the greatest athletes in the world. We're thrilled to be the home for those games in 2020 -- starting in 2027. And we're thrilled to have the time to start telling the stories of these teams and these athletes like we've done so well with other sports with our series and our documentaries.

Spencer Wang

Great.

Another question from Rich Greenfield of LightShed Partners. Did Carry-On prove that movies can break through without a theatrical release? In less than 2 months, Carry-On was well reviewed and has racked up 313 million view hours, and the film generated significant buzz across social media and is set to surpass Bird Box viewership. Was there an unusually high level of marketing spend for this film or did the buzz build organically on Netflix?

Theodore Sarandos

This was a great example, I think, of a movie, born on Netflix that can generate an enormous audience and tons of buzz. The movie -- in fact, one of the producers called me over the break to tell me that this is exactly what it feels like when I have a big movie in the theaters, which was a great thing to hear. And we even got injected into the debate, the age-old "Is Diehard a Christmas movie?" debate and is Carry-On the new Diehard, which is we're definitely in the zeitgeist, in the culture, drawing a big audience for a movie that premiered on Netflix and had a very modest marketing spend like we typically do. And I think it actually draws a lot of attention to how powerful the platform is to promote to our own members, how Netflix can talk to our members where they are, which is on Netflix to tell them about a great new movie they're going to love. And then we have our social channels with over 1 billion subscribers that actually keep that conversation going.

So I think it's a really strong proof point that a movie born on Netflix can be a big hit and be the center of culture as well.

Spencer Wang

Thanks, Ted. And for the record, I do think both Diehard and Carry-On are Christmas movies.

Theodore Sarandos

To be continued. To be continued.

Spencer Wang

And I think that's a great segue to Doug Anmuth's question from JPMorgan. Ted, does the agreement to Narnia in the theater in 2026 suggest any shift in your overall theatrical strategy?

Theodore Sarandos

No change at all to our theatrical strategy.

Our core strategy is to give our members exclusive first-run movies on Netflix. The Narnia IMAX release is a release tactic. We routinely release movies and theaters before -- a couple of weeks before to qualify for awards for -- to meet festival requirements and to prime the publicity pump a bit. In the case of Narnia, it's a 2-week special event.

I think it's very differentiated from other runs because I doubt anyone has a screen as big as an IMAX screen at home so it is kind of a differentiated consumer experience. But we've done variants of these releases many times and doing it with IMAX kind of greatly simplifies our release process as well. But mostly, I want to say I'm incredibly excited to be working with Greta on this movie. We're super excited to get it into production so we can talk about how great this movie is more so than which screens it's on She's an incredible director and this is a really exciting project.

Spencer Wang

Great.

Our next question comes from Vikram from Baird and it's about plans and pricing. How do you plan to approach the cadence and magnitude of price increases going forward, particularly in your largest markets? What are the signals that inform those decisions across the different regions and plans?

Gregory Peters

I can take this one.

Our pricing philosophy hasn't changed. It's pretty much the same as we've talked about for the last several years.

Of course, we look to continue to provide more value to our members, seeking to wisely invest to increase the variety and quality of our entertainment offering. And then we listen to those members. We listen for signals like engagement, retention, acquisition. There's more secondary signals as well, all to tell us when we've achieved that increase in value. And when we've done that, then we ask them to pay a bit more to keep that virtuous cycle going.

You've seen us take up price across a number of markets in EMEA and APAC and LatAm over the last couple of quarters across most plans and including ads, too. And those changes have gone smoothly.

You can see those in our results. We certainly expect the same for these latest changes. And I think it's worth noting and reiterating that we believe that our starting price, it's $7.99 in the U.S., CAD 17.99 in Canada for standard with ads is an incredible entertainment value and it's a highly accessible entry point.

So ultimately, we feel really good about our long-term monetization opportunity. We earn, right now, only 6% of the revenue opportunity in the countries and segments that we currently serve. And as long as we continue to deliver on improving the variety, the quality of our TV and film slate, we gradually expand the offering with newer content types, we believe we'll be able to increase that share progressively every year.

Theodore Sarandos

If I can just chime in on you, Greg, when you're going to ask for a price increase, you better make sure you have the goods and the engagement to back it up. And I feel like what we have going into 2025 is just that.

We have the returning seasons of our biggest shows ever, Wednesday, Stranger Things, and Squid Game, Night Agent, Ryan Murphy's Monster, You, Allison, Borderland from Japan, Delhi Crime from India, new seasons of Drive to Survive. And on the film side, we've got new movies from Oscar winners like Guillermo Del Toro, Kathryn Bigelow, Noah Baumbach, the Russo brothers' new film, Happy Gilmore 2, a new Knives Out film. And live, obviously, we've got the SAG Awards next month, Christmas Day Football, Monday Night Raw every Monday night and a few surprises there, too.

So I definitely feel like the strength of slate has never been better.

Spencer Wang

Great. I'm going to now turn to a few questions on engagement.

So our first 1 comes from Peter Supino of Wolfe Research. Engagement is stable in -- based on data from third-party panels. Is engagement growth a strategic priority for Netflix?

Theodore Sarandos

Absolutely. And I think we look at this and say what we're trying to do is entertain the world, and you measure that and how are people pushing play and sticking around for the things that they love. And her team are really kind of programming into those moments of breadth and quality of trying to meet people where they are, finding something for everybody and something for every mood, in every language in every part of the world. It's tough work and that they have cut out for them, but they're doing the job of winning over those moments every night and getting people who spend right now at about 200 billion of hours of programming or streaming last year.

Our average member is watching for about 2 hours a day.

So we've still got plenty of work to do to grow that, and that's what the team is very highly focused on.

Spencer Wang

Sorry. Go ahead, Greg.

Gregory Peters

Not surprisingly, I would say we consistently see that engagement -- improvements in engagement are correlated with the other key business drivers that we have, so it obviously drives retention and acquisition, et cetera.

And so we're excited that we've seen continued growth and engagement and look forward to more of that. Spence?

Spencer Neumann

Well, you hit it. It all started -- we talked about a lot of the flywheel starts with engagement. Engagement, revenue, profit, it drives flywheel. And the rest of the numbers points you hit on, I think, other than maybe 1 other is just to kind of note that as a reminder in the letter, we talked about the fact that we will now, going forward, twice a year on the same day as earnings release, our engagement report, starting with our Q2.

So in July, our earnings report will also include our engagement report, just to emphasize a kind of a steady drumbeat with earnings and with our performance.

Theodore Sarandos

And to get a little more granular, even sooner, our next engagement report is going to publish in February so it's the next month.

Spencer Wang

Great. And then our second question on engagement is a little bit broader. It's from Justin Patterson of KeyBanc. What are the key steps to competing more with short-form video platforms for engagement?

Theodore Sarandos

Our goal here is to entertain all audiences, including younger audiences who may be watching disproportionately more short-form content.

Now the beauty is that those folks all love film and TV shows as well.

So we're constantly entertaining them with projects that get them so excited that they push play, they stick around. They go into social media accounts and talk about the shows. They do tributes to the shows.

You see how many -- when you see the new season when Wednesday comes out, you're going to see all the social media platforms get flooded with tributes to this work.

Our core is in kind of professional longer-form storytelling, and that's a very big and enduring business. But again, as things get pulled -- as eyeballs get pulled into other places, we definitely want to be there for them as well. I do find that the short-form services also are a great breeding ground for new storytellers.

So you see we're super excited to bring this Rachel over on to Netflix. Parents are excited about that, too. But we also have got a rich history of finding projects in other places and having them up the game and be very successful on Netflix, things like Cobra Kai, Cocomelon and Somebody Feed Phil, which is now shooting its eighth season.

So I feel like those -- the work we had to do there is to win over audiences with programming that they love with Heartstopper, Stranger Things or Ginnie and Georgia, Outer Banks. That's what we have to do.

We have to outcompete for those moments of entertainment truth.

Gregory Peters

I think consistent with that and just expanding on it, I think we see ourselves as playing a specific and differentiated role in ecosystem.

So whether it's being a place where those great storytellers that Ted mentioned can graduate to, whether it's from places like YouTube or in the theater or any other place that they come from. We know that consumers want a spot to enjoy great movies and TV shows, to have a user interface and user experience which is designed specifically around that. We know that our creative partners need someone that can participate in investing in those to share the risk that's inherent in bringing those stories to life.

So we want to double down on supporting that part of the ecosystem, and we want to make sure that shows like Stranger Things or Wednesday or Heartstopper, Outer Banks which have huge viewing and fandoms, especially with those younger audiences, continue to have a place to be found, loved, and enjoyed.

Spencer Wang

Great, thank you.

Our next question comes from Alan Gould of Loop Capital. How do you assess your progress in the video game space? How have the engagement trends been? When do you anticipate video games will have an impact on subscriber growth or retention?

Gregory Peters

Okay, so a lot there. I'd say we've learned quite a bit and made some good early progress since we've launched games. We, of course, launched a bunch of games with some highlights, amongst them, the critically acclaimed OXENFREE II stands out. Certainly, Grand Theft Auto, where we drove tens of millions of downloads. We've got fan favorites based on Netflix IP, things like Too Hot to Handle, Emily in Paris, Selling Sunset, and to our latest big release, Squid Game Unleashed, which we really think validates our Netflix game formula, which is enabling this virtuous cycle between linear content and simultaneous game offerings. And we are just scratching the surface today in terms of what we can ultimately do in that space. But we already see how this approach not only extends the audience's engagement with the universe and a story but also creates a synergy that reinforces both mediums, the interactive and the noninteractive side.

So based on all of those learnings and under the leadership of we continue to refine our strategy. And we're going to be focusing on more narrative games based on Netflix IP. These are consistent fan favorites and we've got a lot in the library to work with there. We'll also be introducing party and couch co-op games on TV delivered from the cloud. We think of this as a successor to family board game night or an evolution of what the game show on TV used to be.

So we're excited about delivering some cool experiences in that space. We'll deliver games for kids. This is no ads, no in-app payments. It's a safe space for kids just included with your subscription. And of course, we want to do more recognizable mainstream titles, whether that is licensed titles like GTA and we're going to have more of those big licensed titles to come that we're looking forward to as well as homegrown titles based on our IP like Squid Game Unleashed, which I'll just reiterate, Squid Game Unleashed reached #1 in action games in the app stores in 107 countries. It's on pace to become our most downloaded game.

And so to your question about impacts on the subscriber side, we already see positive impacts in acquisition and retention from our game play members.

Now those effects are relatively small currently, but frankly, so is our investment in games relative to our overall content budget. And we're going to stay disciplined about scaling that investment as we see continued scaling and member benefits.

So to try and summarize, there's plenty more to do in this space, but we're breaking into a whole new content category, which, by the way, drives approximately $140 billion in consumer spend ex China, ex Russia and not even including the ad revenue.

So we're iteratively showing our members that we are a place to discover and play games, and we look forward to continuing to launch bigger and bigger games every year.

Spencer Wang

Thanks, Greg.

We have a couple of late-breaking questions on the forecast that analysts have submitted so I'll wrap up with 2 of those questions. This comes from Jason Helfstein of Oppenheimer.

You spent roughly $17 billion on cash content spending in 2024 and will spend about $18 billion in 2025. How should investors think about long-term spending levels? Is there a point where you reach an equilibrium where you don't need to increase spend beyond inflation?

Spencer Neumann

Want me to take that?

Theodore Sarandos

Sure.

Spencer Neumann

Sure, I'll take that one.

I think we're a long way from equilibrium.

As you say, we're taking up our cash content spend this year estimated from $17 billion to $18 billion. That's in the context of we're small in terms of view share and penetration everywhere around the world or less than 50% penetrated into connected households.

You heard from Greg that we're only capturing about 6% of our estimated revenue market.

So we have a long way to grow. It's really about where do we put the next $1 billion and then beyond that to work in the most impactful way.

Over the next year or so, you'll see that in areas like continuing to build into big scripted TV series, as you heard from Ted. We're continuing to build out live. We're continuing to build out our original programming in each of our regions around the world and also seeing more and more kind of impactful licensing opportunities. And I think we kind of grew from there.

So the opportunity, there's a long runway to continue to grow. We do it in a disciplined way, right? So we kind of set our growth based on our top line growth and our margin targets and then we kind of allocate as we can across the business for highest impact. And I think you've seen us do that in a responsible way where our cash spend and our content cash amortization is sort of a 1.1 ratio roughly, plus or minus between our content amort, which runs through the P&L and the cash spend, which runs the cash flow, and both are growing slower than our revenue growth.

So I think you should see us continuing to grow in that way for the foreseeable future as we continue to grow more and more engagement and more and more, hopefully, growing audience around the world.

Spencer Wang

Thanks, Spence. And our last question comes from John Blackledge of TD Cowen. Can you please talk about the drivers of raising your 2025 operating margin guidance? What are the biggest points of leverage driving higher margins this year? Spence, do you want to take that?

Spencer Neumann

Yes, sure.

So we're always kind of looking to balance our revenue growth with strategic investment into the business, and we think we've balanced that well this year.

You see we guided to 12% to 14% top line revenue growth.

If you kind of do the read-through in terms of based on our margin guidance, what we would expect in terms of our implied expense growth, you can see it sort of high single-digit 9% plus or minus expense growth expected for 2025. And if you break that down, we're expecting sort of high single-digit roughly content amortization growth, so still below revenue growth so some margin there, and that's based on again, that $18 billion of plus or minus expected content cash spend and the amort moves around a bit based on the timing of titles and releases, but high single digits, a pretty good estimate. And then we're investing into our growth priorities. We're pretty heavily investing into our product and engineering teams to build out ads and live and games capabilities and also our new user interface to enhance our product discovery. We're also investing in the marketing and sales line, mostly on the sales side as we build out our ads sales organization and go-to-market capabilities. And beyond that, our support areas are kind of growing sort of mid, low single digits.

So across the board, for the most part, we're driving margin improvement in a way that we think is appropriate for the business while investing into our growth.

Spencer Wang

Great. Thank you, Spence, and thank you all for joining us for our Q4 earnings call. And we look forward to speaking with you all next quarter. Thanks very much.