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Corporate Participants

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Conference Call Participants

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Presentation

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. Good afternoon, everybody. Quick disclosure, please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, all appear as a handout available in the registration area and on the Morgan Stanley public website. Really excited to welcome back to the conference Netflix, and specifically Spence Neumann, CFO. Spence, Good to see you. Thanks for coming.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Good to see you, Ben. Good to be here. Thanks for having me.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Absolutely.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

So many cheers from the audience.

Questions and Answers

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

I heard a faint here, I think. So you guys just not too long ago, I guess, wrapped up 2023, the first year under the co-CEO structure of Ted and Greg. How has that transition been- What's that been like- What's changed at the company with the new leadership team-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. It's kind of a boring answer because not much has changed. It really was a continuation. When Reed -- part of Reeds amazing kind of strength and foresight is really kind of an wanting to build a company that is -- lasts beyond any individual person or people or leader, including himself. So we started working on the transition a few years ago, starting with -- when Ted went to Co-CEO and Greg as COO, and so really kind of building that kind of trust and kind of operating rhythm. And so he had been handing off more and more of the day-to-day operating activity to them for a couple of years, and then it just felt quite natural. So the biggest thing is probably just a new boss for me.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Got it. We don't see that structure a lot, especially in public -- large public companies. Is there something unique about Netflix that's making it work for you guys-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, I think it can work in a number of places. I mean I think you can all think of your own examples. But for us, it really boils down to having folks that are aligned in terms of our mission and objective of what we're trying to achieve is sort of that shared kind of responsibility and belief and we're trying to build as a company. And we're trying to entertain the world as a company, it's that trust and respect that they have for each other. And when you have that strategic alignment, when you have that trust, it can work well.

And it's not -- it doesn't mean they agree on every single thing in the beginning, but they have that ability as a relationship to kind of work through it and lead together, and then it gives them a whole bunch of capacity to be in literally 2 places at once and cover multiple things. So for us, it works. I'm sure it doesn't work for everybody, but it's working well for us.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

As you mentioned sort of the shared mission across the team, and Netflix has been coming to this conference for many years, and I was thinking back 10 years ago, it was a $4 billion, 40 million subscriber or member company. and you're on your way to 300 million members and a $40 billion business, at least those are our estimates. So was the mission accomplished- Or how do you guys think about what's ahead for Netflix from here- What's the opportunity as you think about it-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

We are just getting started, Ben. We are just getting started. Now we're -- seriously, we're small on every measure. So every way we look at it, we're less than 10% of view share in every country in which we operate, and that's just a pretty small slice of the entertainment pie. We're a little over 5% of the revenue opportunity, which we see as a $600 billion plus revenue opportunity in the areas in which we play today.

And in terms of just our kind of member growth, there's hundreds of millions of connected TV homes around the world where we have not still, at this point, kind of won our way into those homes and won them over. So we've got a bunch of paths to grow, which is why we're looking to expand in every part of our business in terms of getting better. So we stay very focused on getting better at film and TV every day.

More great both scripted and unscripted shows and films that people love, expanding our offering into more big games and live. And so we -- honestly, we're still kind of just getting started in terms of really bringing more joy and satisfaction to people's homes, being that first choice of entertainment. And if we think we do that well and keep getting better and improving our service faster than the competition, we've got a really long runway for growth, revenue profit and cash flow over time.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

And when I typically think about how that translates into financial growth, I think of you guys talking to about double-digit revenue growth, margin expansion over time. Is that sort of how investors should frame the financial algorithm from success for you guys-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. I mean we're very focused on healthy -- we talked about it in our last earnings letter, and we've talked about it consistently. We want to deliver healthy revenue growth. If we do that well, we believe we can continue to increase our margins every year. Some years will be a little bit more, a little bit less in terms of the pace of margin expansion and then drive healthy free cash flow.

But again, it all starts with delivering more entertainment value to our members. When we do that, then we have the ability to drive that growth across all those levers and why we're so focused on continuing to improve that entertainment offering.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

I think when you first joined Netflix, we held a meeting back in New York with you and a lot of analysts and investors. And I think the question then was, where can long-term margins -- so for the business, you raised margins this year before you even reported a quarter, your '24 estimates. What are the sort of short-term and long-term levers that we should all be thinking about as we think about the margin potential for Netflix-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Look, I think that the core is that the -- it's a really -- the business has the potential to be a really powerful business model, if you kind of really step back. So we're trying to deliver this amazing collection of entertainment around the world. We deal with a primarily subscription revenue business that's now being buttressed by what we believe will be a bigger and bigger advertising revenue and profit pool. But that subscription model is our primary revenue piece and then with a content model that is so diversified to kind of satisfy such a broad range of case and moods and cultures around the world.

So we're telling stories in all these countries, first for big local impact, but then all those stories have some level of ability to travel, either to multiple countries or across a region or in the case of like Squid Game, around the world. So that creates also a content model that has kind of great leverage to that model as well. So the combination of those 2 things creates a pretty good level of visibility for a business, so you get to kind of the point about kind of increasing margin guidance before we started the year.

If we're executing well, we have a pretty good forward visibility. It's not perfect, but pretty good given the nature of the business and one that because of that content model, we think we can drive operating leverage in basically every aspect of our business. So that's kind of how we think about it.

And then we're always balancing. We're optimizing for the long term. So we're trying to manage to optimize long-term revenue growth and to build our business for kind of long-term durability because we want to be the most loved, the most valued entertainment company in the world. That's what we're trying to do. We're a long way from where we are to where we want to be. I say we're just getting started. So we're trying to always kind of manage responsibly for the short term while building for the long term, and we think we can do that through that combination of focusing on those things, delivering that healthy revenue growth and steadily increasing margins.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Great. I want to get into some of the sort of drivers of the business in more detail. But before I do that, I think about a year ago, you guys really sort of started implementing paid sharing. And I know you're sort of saying it's in the business now, so maybe not a lot to look forward to in terms of new analysis or disclosure from you guys on that front. But how would you sort of assess how Netflix is done with paid sharing thus far- And are you still working to improve from here-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. As you said, we've been working on this for a while. Any kind of change like this that we bring to our members, we want to be very thoughtful, considerate in how we roll it out. It's why we intentionally staged the rollout. It's why we tested a bunch along the way. And we try to bring, in a thoughtful way, value to our members as we were doing this. So things like being able to transfer profile or the extra member opportunity, which is now enjoyed by millions and millions of folks who have extra members, or managed devices. So there's a value proposition that comes with this, along with obviously delivering more entertainment value over the years.

So as we've done that, we've been -- as Greg has talked about it on recent earnings calls, we've been enforcing on more and more of these kind of member use -- borrower use cases, borrower populations. And we're getting to the point where it really is just a part of the business. So it's tougher and tougher to tease out. Obviously, it was one of the drivers of our strong growth in Q4, but there was also very healthy, we call kind of organic growth in the business as well.

And now as we look forward, it's about -- it's really just part of how we operate. It's -- we're very good at optimizing as we go across all aspects of our business, and this is another one where we view it as, again, it starts with delivering more and more value to our members. And then once we do that, we now have a better opportunity to monetize that value and get paid for all that viewing we're generating. It's -- I think we talked about it as a better monetization engine going forward.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. Well, that makes sense. So in the shareholder letter, you highlighted kind of 4 big areas of opportunity in '24, and I wanted to sort of frame our conversation around that: improve the core product, broaden into new verticals, scale advertising and then deep in connection with fans. So why don't we start with the core. You guys spend plus or minus $17 billion a year on content. And at least the way I think about your business, the return on that spend is probably the most important driver of value for the company over the long term. So as you think about optimizing return on content spend, how well do you think you guys do that today- And is there an opportunity for that to get better over the next several years-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

We hope to always be getting better. So it's a bit of an art and a science, right- So it's a little tough in a subscription model with a single entertainment bundle to have a precise kind of ROI on a specific genre or title of spend. So we have a lot of ways to triangulate on it, but it starts with top down. I mean we just manage -- we're managing our business with that healthy revenue and with margin growth. So we can kind of -- it's a bit of an output in terms of how much are we willing to spend on content.

And then -- and where do we think we can allocate those dollars for highest impact where we see opportunities for growth around the world, where we see content genres where we may be underrepresented relative to the opportunity. And then there's the bottoms up, which is kind of that title level or genre level, how is that content performing, and we're constantly iterating as we go. Every day, every month, every quarter, every year, we're learning in terms of where we're allocating that spend and where we're getting best impact. Ultimately, we're trying to drive the business for kind of that steady improvement in acquisition and retention and member satisfaction and have more impact per dollar spent. So yes, we're getting -- we think we're getting better at it every year, but there's also still a lot to learn.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Where is that incremental dollar going- Are there parts of your content portfolio that you're not at scale yet, whether you think about movies or TV shows, English language, foreign-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. So I mean it gets back to kind of what we said before where we're just getting started. So there's -- it's hard to think of areas where we're truly like -- you try to solve for what's steady-state scale. I mean we're not really -- there's not much that's at steady state in our business. I'd say the closest we are is like English language-scripted television series because we've been at it the longest. So we're probably closest from like, say, a volume perspective, let's say, but it's not perfect there. Again, we still learn every year.

But then once you get past that, almost every area of content has opportunity to grow. So games is a simple example. I mean we're literally just getting started in games, right- But if you think about unscripted, 5 years ago, we weren't really in English language unscripted content. And now it's a pretty big part of our programming. It's much smaller in many parts of the world outside of the U.S., so that's growing. Non-English programming generally, I mean, I think we just had our first Indonesia original a few months ago, Cigarette Girl. So there's whole countries where we're still building out our kind of branded programming presence in scripted series.

Animation is still pretty early for us. We had a nice success with Leo last quarter, and we've got a new partnership as you know as well with Skydance. So there's a lot that we -- I think 7 of the largest streaming titles ever since Nielsen has been measuring are animated films. So it's obviously a big category -- those [aren't ours], by the way. So we still got a long ways to go to continue to build our performance in animated films. So there's a lot we're excited about. Basically, every category has opportunity to grow and get better.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

When I think about your long-term growth and also where you're so differentiated, Spence, I think about international growth driving the business and also international local originals. And a lot of us look at the English language slate and look for that to be the driver of the business. So you report these shows in your letter, I never heard of any of the shows, and you're delivering such strong results. Is there a way for you to give us a sense of scale and impact from foreign language or local originals from outside the U.S. that are driving Netflix-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, for us, it's a big part of our business. I mean it really comes back to our strategy. We want to be that first choice in entertainment. We want to be that first choice in entertainment around the world. So as of the last quarter, we were -- we had 260 million-plus paying members. We talked about the fact that if you assume at least 2 folks in every home, which is probably a conservative assumption, that means we're entertaining over 0.5 billion folks around the world and growing.

So to do that, we're satisfying a ton of taste and cultures and mood states. And to deliver on that, part of that is local storytelling. There's -- it doesn't make sense that Hollywood content corners kind of the best stories around the world. So we love Hollywood content, but we also love all that other content and all these other storytellers and creators around the world. So it's a big part of our proposition to kind of satisfy our members.

And so it's -- when we talk about non-English content or local content, it starts with having that big local impact. We want to tell authentic stories from every place around the world. And as I said, they occasionally travel and then they have varying degrees to which they travel. So it's a big part of the entertainment experience for us. If we're going to be that big part of -- that much a part of people's lives and entertainment experience, it has to be both local and global.

To kind of put a specific point on it, we have this engagement report now that we release twice a year. We had our first one a few months ago. And you can see in that, that of our total view hours, about 30% of it is non-English. So it's a big part of our viewing around the world.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Yes. That's helpful context. Speaking of engagement, you guys often include the Nielsen Gauge metrics in your letter. Again, speaking to the opportunity you still have ahead of you, I do get the question a lot from investors whether engagement is growing in Netflix. Can you talk at all about the trends and engagement around the business-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. We've -- so our engagement is growing. I mean if you kind of look at the couple of year or using that same Nielsen data, we've gone from about, call it, roughly 6.5% of TV view share up to the kind of 8% to 9% share depending on the month. So over the last couple of years, it's been growing. Most recently, it's been flatter and when you kind of see the data. And that's -- we tried to signal that as we were rolling out paid sharing because when we do that and we're enforcing on borrowers, obviously, there were folks that were viewing Netflix and counting in that view share for Nielsen that are no longer able to access Netflix.

So thankfully, we've converted a lot of those folks into paying members. But some folks can't enjoy Netflix right now. So that has an impact. But overall, the trends are healthy if you kind of tease out our -- what we call our owner population from the borrowers that viewing is quite healthy. And so the goal is for us to kind of work through that kind of initial rounds of enforcement of paid sharing, which we've been doing the last few quarters.

And now that we're operationalizing it, we would hope going -- I don't have the exact timing, but we would hope we get to the point where we then have established that new base and we grow off of that new base of viewing. So it should be more transparent in the external reporting.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

I think it's easy and comforting for investors to think about price increases being supported by a growing engagement. Do you need engagement to grow to implement price increases- How important is it to the pricing power of the business-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, the engagement, it all starts -- it does all start with engagement. So I don't want to -- now I talked about what is a bit of a shorter term, medium-term dynamic for us because of paid sharing. But over long-term trends, we do want to deliver more and more engagement because engagement is a sign -- it is a sign of -- now it's not just quantity of engagement, but it's quality of engagement as well.

But when you have more engagement and more high-quality engagement, people stay longer, which tends to be -- I mean, there's 2 key metrics in our business of acquisition and retention. When they stay longer, there's more retention. And frankly, they're also -- when they're enjoying more, they're talking about it more with their friends, with their family, and that's the conversation and that's the fandom, and that drives acquisition.

So those really feed on each other. So it not only drives the core acquisition retention kind of metrics over time. But also, as you say, it's a sign of the value we're delivering, both -- but it's quality and quantity of engagement. When we're doing that, that's value that we can occasionally increase prices, ask for a little bit more from our members. And then obviously, with an advertising revenue stream, it's also engagement that we can provide an advertising opportunity into for brands because we tend -- as you also know, revenue tends to fall -- dollars tend to follow engagement over time. So almost every kind of value metric in terms of driving the business forward, it does start with engagement in driving higher quality and more engagement over time.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Got it. Okay. Maybe just last thing on the core. I want to ask about the film business and film strategy at Netflix. It's evolved over time. You have ramped up your volumes quite a bit. Tell us how you're feeling about the return on investment in the film business and also the recent management changes with Scott leaving and Dan taking over, what we might expect different, if anything, from the film business.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. Well, generally, I feel really good about the film business. I mean it's -- in terms of returns, we talked about just before here, it's very difficult to ascribe a specific ROI on a specific genre of content or title of content in our subscription bundle. But film has been a great -- it's come a long way for us and may -- a lot of credit to Scott for what he built over the last years in terms of the quality and level of talent that we work with. Big -- we had big breakout hits across both live action film most recently, even like the film The Mother was a big one in my household, Leave the World Behind and then animated film like Leo last quarter I mentioned.

So we've come a long way. We just -- I think we have 19 Oscar-nominated films for next week. So we'll see how we do. But the film business has come a long way. It's been a nice success for us. Its return, if you will, in terms of investment is very similar to other content categories. It's a very important element of the entertainment that we deliver to our members and the value we deliver to our members. And I think with Dan, it's all about kind of we're excited to take it to the next level. Just like everything we do, we're trying to continuously improve.

So we're going to build from there, excited for what Dan is going to bring. It's not a change in strategy per se. We're just continuing to kind of evolve and get better, and Dan brings this amazing experience from everything from like Lego movies to Sherlock Holmes movies to It horror films. Like he's got production experience in big companies. He's been entrepreneurial in what he's done in the last couple of handfuls of years.

So I think he's just going to bring another perspective. And this business is so much about working with the best creatives, the best people internally and externally, having great process, and we're really excited to have him be part of the team and take us to the next level.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Great. Okay. Let's shift gears to some of these new verticals you guys are focused on. I want to start with games. I think it's been maybe a little over 2 years since you guys got into that. How would you say the business is dealing relative to what you hoped when you started putting capital work here 2 years ago-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

So again, we're really pleased with where we are, but it's super early days. I think it's -- I don't know why, sometimes I feel guilty saying it, but we did say it right out of the gate. Like we said, hey, building the games business is going to be for the next decade of growth. And we're 2 years in. So we're really pleased. In the first 2 years, I think we put 90 games on service. We tripled our engagement, our members engaging with games last year.

We had a really nice kind of exit to the year with GTA Trilogy. Those were our most kind of successful to date in terms of engagement and gameplay. And so we're learning a bunch as we go. It's just it's still really small, right- So we -- our expectation and aspiration is to grow engagement multiples of the current size over the next few years to bring bigger and bigger, more -- bigger and bigger games to our service, more compelling games to our service. We're seeing that our members love to engage not just with Netflix intellectual property, but also with kind of big games IP like GTA. So I think you'll see more of both of those things. We've got a Squid Game game coming later this year. So we're fired up about that.

And we also see at these kind of small level the ability for the business to get stronger because of the games on our service in terms of like when folks are engaging with games, they retain better incrementally to if they are not engaging with games regularly on the service. So we have to figure out a way to continue to scale that. And if we do, that's adding more -- obviously, more and more value to the subscription bundle, which has been good for our business. And what we saw with GTA also, which was nice was not just incremental retention but some incremental acquisitions, so that it bodes well for what can be over time as we keep building the business. But it's a many year build.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

The GTA success was super interesting, I think, for a lot of reasons. How should we think about the benefits to the business from third-party games versus your own- And do you expect to sort of lean in more now to third party now that you've had this success-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

I think the benefits are, I think, similar. It's not again, what I mentioned is like we're seeing at a small scale the benefits to retention and over time that we can scale that retention benefit and hopefully even an acquisition benefit, and we see it with -- generally with IP that resonates both Netflix and third party.

And I think the mix -- I don't know if it will be exactly the same as film and TV. I'm sure it isn't. But there are some analogs there. I mean as we built our film and television business, it was a combination of licensed content that was what we call unbranded or second run. So it was other people's originals. And then over time, we built into a higher mix of licensed originals and then actually original development on our -- through our studio infrastructure around the world and system around the world. So -- and I think games will be kind of similar. So we've just started to see some of our internal studios delivering games to the service. So I think licensed games is a big -- going to be a big part of our games future for a long time and probably [average], if the mix will change over time [indiscernible].

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. Also announced a pretty interesting deal with WWE to have Raw on the service and other WWE IP and a deal that could be a 20-year deal, if you guys decide you want it to be a 20-year deal. Why did that make sense for Netflix-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

I'm trying to see if there's wrestling fans in the audience. I can't tell.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

There are. There definitely are.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Why did it make sense- The deal, it looked a lot like the characteristics we look for in any kind of large licensed content relationship. So as you say -- one, it starts with programming, and it's a programming lens. And we felt that this is a type of sports entertainment programming that's going to work well for our members in many parts of the world. So one, it was -- it filled a kind of programming desire and opportunity for us.

Two, just from a kind of a economics, do we think that there's a reasonable -- again, getting back to how do we think about impact of our dollar spend. And we felt like this had an attractive value opportunity for us in terms of member impact relative to our kind of cost of providing it. And we also had -- and that's the cost over time. So the fact that we had some level of predictability here because this kind of -- we had a long-term security, if you will, up to 20 years if this is working for us and for WWE. So we like that flexibility. And we did like the relatively global nature of it. That's not like all content has to be that way. But for us, if you look at countries in every region, there are certain countries where there's a lot of wrestling fans.

So we're super excited about it. And it also was, as we talked about, one of our strategic areas that we're kind of flexing into as we expand our entertainment offering. It's live programming. And with WWE, there's hundreds of hours of live programming events that there's kind of appointment viewing each week. So I think we're going to kind of build our capabilities along with WWE. So I think -- which is an opportunity to kind of make us better and drive growth for the WWE.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

And what do we take from this, all of us, and thinking about Netflix and other live sports- Is it that if you can check all the boxes, you just lay it out, other sports might make sense- Or what else would you tell us to think through-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, right now, we love our position in sports. So I wouldn't look at WWE as any indication of a change in our sports strategy because it's not. We are -- it's right in that sweet spot of sports entertainment for us and what we call our sports shoulder programming, which is around the drama of sports and telling the story behind the sport. And we've done that from everything from Formula 1 and then NASCAR to Full Swing, and we've had certain events. We just had Netflix Slam, which was kind of, we think, an honorable event for us this last weekend. We had Netflix Cup before that in golf. We've got a lot more coming. We've got Sprint, which is around the 100-meter dash around the Olympics. I'm excited for that one this year. We've got LaLiga coming, which is our first, I think, of this kind of sports entertainment, sport storytelling coming out of Spain later this year.

So there's a lot more to come. That works for us. It works for these leagues because it kind of grows the fandom for the leagues and the reach in the audience, and it works for us because our members love the programming. So all that said, as Ted said in the past, we're not anti-sports, we're just really pro profit. And so if there are elements that make sense for us, we always look at it. But for us, we're very comfortable of where we are in sports today.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. That makes sense. Let's talk advertising and another -- in their radical transparency theme of asking you how you think you've done so far in the advertising...

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

You're asking me if we're great, how we've done.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

If you're great.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

So in ads, it's -- we're -- again, I'd say we're pleased with the progress. We got a long way to go. So when we launched from a standing start, we said we were going to be in this kind of crawl, walk, run evolution with ads. And we've come a long way in a short period of time, but still lots more to do. So our biggest priority is one, we want to scale the business. So you've seen us doing that. I think we announced shortly before the last earnings call that we're above 23 million monthly active users.

For our ads tier, we've been growing our ads tier membership from -- it's like 100% quarter-on-quarter then 70%, 70%. So really nice sequential growth. The organic sign-up, which was kind of under 20% of kind of new sign-ups into the ads tier when we launched initially is now -- in the last earnings call, we talked about it's a 40% organic sign-up rate. So we are scaling that business in, we think, a healthy organic way. And we're going to keep doing that.

We've been doing it through a number of levers, including improving the feature set, working with our partners and distribution partners and just making it more generally known that we even offer in ads tier, right- So -- and then the second piece is improving the monetization and the capabilities around advertising, so building out the ad sales force, building out some of our tech stack capabilities in parallel with Microsoft as a partner and bringing kind of more value to our advertisers and brands. So those are really the 2 dimensions.

We've got a lot more work to do, but it is nice and growing. We're going to grow the business meaningfully this year, our ads business. It's not -- as we talked about in the last earnings call, we don't expect it to be a material driver of our revenue growth this year because there's some other bigger impacts, but we expect it to scale meaningfully and then be hopefully, a much more meaningful and material driver of our revenue growth in '25 and '26 and beyond.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Is this a big area of investment for the company- I know you talked about Xandr and your partnership. But are you trying to bring more tech in-house- And is this a big part of where you're leaning into OpEx in '24-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

It's definitely an area of growth. So in totality, we manage our business. So hopefully, you see from our kind of revenue growth guidance and our margin guidance that we're committed to grow expenses slower than revenue. But there's pockets of the business that are higher growth, games is one of them. Ads capabilities is another. It's mostly people, people in terms of those go-to-market capabilities. We're in 12 countries around the world where we're selling advertising and we have an ads presence.

And also in terms of some of those areas of the tech stack, from the very beginning, we've been kind of working side by side with Xandr and Microsoft in areas where we think we can provide differential value. So it is mostly people, but it is also all in our margin guidance.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

It was pretty clear, I think, from the earnings video that you guys are trying to grow your AVOD sub base quickly and probably faster than you can monetize it, which is not unusual in the business. But maybe you can just talk about -- is there any way for us to think about what level of scale you need before the dollars start to catch up with the growth in engagement- Is there some level in the U.S. on MAUs or globally that we should be thinking about or inflect-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, it's definitely a focus for us of increasing scale. I don't think there's any bright line. I think we've talked about a little bit in the past that there's kind of a range of scale. There's some like sort of sufficient scale to be kind of meaningful and relevant and where people care about you. And then there's a scale where you're the biggest. And we're trying to be in that zone in every market in which we operate, and some we're pretty far from that and some we're actually kind of getting there. So you're going to see us keep moving in that direction, and we've got a bunch of levers at our disposal.

But we want to do it in a way that's healthy for our business. We obviously started ad-free. And we also have markets where we're -- the nice thing, the positive and negative is we're -- in a lot of markets, we've been in there for a long time. We're pretty well penetrated, and we have good retention. So that creates our own dynamic of how do we, in a healthy way, kind of scale the business, but you see we're finding ways to do it. And we're highly confident that we're on a nice path to get to a meaningful scale in all the markets in which we operate around the world.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Great. Okay. And then lastly, one, you talked about deepening fan connections. And actually, this is probably not an area that investors tend to ask a lot about, but it's interesting that you guys think it's an interesting opportunity. So you talked about marketing, consumer products and innovative new live experiences. What does it all mean- And what if you're successful, what's the impact on the business from these initiatives-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, the biggest thing it does for now is it's driving more fandom. So when we talked about it before, that kind of great virtuous cycle for our business is if we deliver more and more entertainment value, if we make it easier and easier for folks to discover what they want to watch next and if we wrap that together with making it more and more relevant in people's lives through that kind of -- things like consumer products experience, et cetera, that just kind of is all additive.

For a long time, film and TV has driven aspects of culture across food and music and other things. And when the 2 come together, it's kind of that kind of special sauce. And you see it when -- you can see it in some of the songs that kind of ripped to the top of the charts with Stranger Things. I mean I hadn't heard that Metallica song in a long time and all of a sudden, it's on the top of the charts again. Like these things happen or just the fact that like if you're in between seasons of Bridgerton or Queen Charlotte and all of a sudden, you can go to a Bridgerton ball and kind of have that experience or right now in LA, to go to the Squid Game trials. We've got the game coming and then we've got the next season coming.

So it's a way to kind of keep some of these titles and fan experiences kind of alive, kind of always on for our members. So right now, it's -- and over time, some of these will become bigger businesses as well. But right now, it's part of driving that fandom and driving the core of the business.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Got it. Okay. Shifting to kind of your balance sheet and M&A capital allocation. You guys are pretty steady Eddie as it goes from free cash flow generation and use of capital. But arguably, you're potentially underlevered, at least some may argue that, I might argue that, at 1x debt to EBITDA. And your free cash flow looks like it's going to continue to grow nicely. So how do you think about optimizing for cost of capital or using your balance sheet in a way that drives the most value over time-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

I didn't like the steady Eddie in free cash flow generation because when I came in, in 2019, we were losing over $3 billion of free cash flow. So we were not discussed in that way. So no, it's a nice place to be. It gets back to kind of what we've talked about before in that streaming is a tough business, but it can be a good business at scale. And I think we're trying to demonstrate that every quarter, every year. We've gotten in this place where we're at a nice scale in terms of revenue, profit and free cash flow.

So look, I view it as our financial policy and capital structure policy is really pretty unchanged in that the principles are unchanged, which is that we, first and foremost, invest in the business. And then with respect to occasionally, we will do M&A. It's typically been kind of small bolt-on kind of strategic accelerators of the business. And then we return excess cash to shareholders. And we define excess cash as right now we carry about 2 months of revenue on the balance sheet, so roughly $6 billion. We're a little higher right now, which is why we have been stepping up our share repurchase.

And that philosophy has served us well over the last handful of years. We'll continue to be kind of, we think, prudent stewards of capital. We'll probably also be underlevered intentionally because we think the biggest opportunity we have to deliver increasing value to shareholders is through the growth of the organic -- the growth of the business and growing profits, growing cash flow.

The kind of -- so don't expect at least any time in the foreseeable future for us to do like a levered repurchase of the business. We don't think that kind of financial engineering is the optimal path for us. And it's a highly competitive marketplace, right- Entertainment is very dynamic. We've got a whole range of competitors from legacy entertainment to big tech to orthogonal competition from folks like TikTok and others. And we think that balance sheet strength and flexibility is a real asset for us.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Does your M&A screen and sort of what you guys look for and think about change as you get bigger and generate more free cash flow-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, we're always looking, but it doesn't really change in that the calculus is the same, which is are we better off investing that capital into inorganic growth versus building on our own or returning to our shareholders. And in making one of those acquisitions, what is the kind of distraction tax of doing so relative to this long runway of growth and opportunity that we see ahead of us in terms of continuing to build into it and improving the service-

And most of those transactions, I mean, you all know the history of entertainment, media transactions at scale. I mean there's a lot more failures than success. And most of them come with a lot of other either businesses that we're not interested in being in. In the last earnings letter, we talked about the fact that we have no interest in being in kind of linear networks. And many of them come with more employees than we have in our company today, and we take that very seriously as well as can we integrate folks and have a kind of a healthy operating culture. So, so far, we look at everything, but we're very choosy, and we think we have the opportunity to be choosy.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. All right. Well, the most important question, the last question, what should everybody in this room watch on the flight back East or wherever they're going after the conference is over-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Man, I -- it's hard for me to pick one. I'm super excited for 3 Body Problem. I don't know if anybody's read that book and interested in it. But there's just so much -- there's a show, The Gentlemen, coming out of the U.K., Guy Ritchie, that I'm super excited. For those who were Axel Foley fans, we've got a new Beverly Hills Cop coming later this year. I mentioned all the sports kind of drama behind the sports that are coming. I'm super excited for Sprint. I'm super excited for LaLiga as we talked about.

We've got our first of the animated films coming from our new partnership there, Spellbound. So we've got a lot. We've got some big international kind of non-English content like Senna, which is going to come out of Brazil, One Hundred Years of Solitude also from Latin America. So I mean there's a lot to watch, but I'm biased, but go check it out.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

When I think of breadth of content, 3 Body Problem and Beverly Hills Cop.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. Love is Blind, [Sweden], come on. I mean that's what I'm talking about breadth. That's coming out -- that's came out. Okay. Thanks so much. Thanks, everybody.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

All right. [indiscernible], everybody. Good to see you, man. Thanks, everybody.