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Corporate Participants

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Conference Call Participants

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Presentation

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Great. Let's get started. Again, I'm John Hodulik from the media and telecom team. And for our next segment, we welcome Ted Sarandos, the Co-CEO of Netflix. Thanks for joining us again this year, Ted.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Glad to be here. Thank you.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Before we begin our Q&A, Ted has some prepared remarks in which he will make some forward-looking statements and actual results may vary. With that, take it away, Ted. Thank you.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Good afternoon, everybody. So good to be here today. I would like being in New York in December. Greg Peters and I have been Co-CEOs in Netflix for just a little under a year now. So I want to start with a couple of observations about the industry and about Netflix.

So first and foremost, entertainment has always been an industry of change, with new technology, competitors, and consumer behaviors creating new business models. So today, choice and control are the price of entry in modern entertainment, and choice and control is streaming. So it's what consumers want, it's how our industry stays relevant and growing in the face of intense competition from new forms of media.

And think about it like TV, cable and Pay TV, home video sales, home video rental, all of which significantly changed our industry. Streaming has opened up tremendous opportunities. So there are more TV shows and films being created today than ever before, creating more choice in movies and TV for consumers, more chances that creator will get their voice heard, and a vastly expanded audience for the stories that they make.

So take TV, which has always been a very local business, streaming has made it possible for Wednesday and a very American story to find huge success all over the world in countries like Korea and Japan, which haven't typically embraced U.S. stories, or for Squid Game, a quintessentially Korean story, completely rooted in Korean cinema, to become the most watched TV show ever, including in the U.S., where foreign language TV has never typically generated a large audience.

So for Netflix, the transition from DVD to streaming from U.S. to global from second run to original was hard. These are big bets, and they took significant time, effort, and investment. But we knew, to get to the long term, we had to get there, and it's paid off.

So since our global launch in 2016, we've invested heavily in our original content slate and our content programming slate, with our content now more up 3x from $5 billion to $14.5 billion a year, while also steadily increasing our operating margins, which are up 5x from 4% to 20%. And we've grown our free cash flow from negative $3.3 billion in 2019 to an estimate -- to nearly $6.5 billion this year alone.

So as you can see, streaming is a good business. It's just a hard one. So with so much change in the industry, Greg and I spent a bunch of time trying to determine what are the things that we should do differently and what are the things that we should hold consistent.

So our focus has been on constant improvement: better slate, easier discovery, more fandom. These initiatives have served us really, really well through the years.

So far, this year alone, we've had the #1 title in the U.S. 42 out of 44 weeks according to Nielsen. Viewing on Netflix is many times greater than our nearest competitor. And that matters because when people watch more, they're happier. They place higher value on our service, which means they stick around longer, and they recommend us to their friends.

So that engagement really packs a punch and not just for fans and business, but for the creators and for our competitors sometimes. So it's a very virtuous cycle that everyone really benefits from.

Take something like Breaking Bad or Schitt's Creek or Shameless or Walking Dead, these shows existed. They had cult followings on television. But once they came to Netflix, sometimes in season, we turned them into award-winning and commercial hits for both Netflix and the originating network. So bringing new popularity to the shows and extra revenue to the creators and cast.

Netflix has also brought new life to old shows like Full House and Gilmore Girls and The Office and Friends. And many of you may still be midway through a season of Suits right now. But when we launched Suits on Netflix this summer, it broke all U.S. viewing records despite having already been on the USA Network and 2 competitive streaming services for a couple of years.

So we did all that, all at the same time, building a library of original content that drove more engagement, revenue, and profit than any of our streaming competitors to date. And what we've learned in 2022 is that balancing consistency with adaptability is important to maintain our long-term growth.

So looking ahead, we see big opportunities to broaden our entertainment offering, to increase the value to our members with more variety, more of our non-English slate growing, our investment in games, our sports shoulder programming, and live events. We can give a chance to deepen our connection with fans through marketing and consumer products and through innovations like the Bridgerton Ball, the Squid Game trials, and the Netflix house, all in works right now.

We would look also looking to diversify our revenue through advertising, but being able to offer a low price that is highly competitive. And if we continue to execute well on the core while establishing ourself in these areas, we think there's a ton more room to grow.

This is a $600 billion opportunity revenue market across pay TV, games, and branded advertising. And today, Netflix accounts for less than 10% of total TV time in our most popular countries and only 5% of that revenue.

As I said from the beginning, it all starts with the consumer. Because when we delight our members, we could drive more engagement, more revenue, more profit than any of our competitors, and create a wildly successful business and a brand that will strengthen and grow over time. Thanks a lot. Thank you.

How are you, John-

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

I'm doing great. How are you-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Great.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Thanks for the overview. I think that sets up a lot of basically...

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

It didn't answer everything, did it-

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Close. This might be short. No, I think we've got a lot to go through here.

Questions and Answers

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And again, this time of the year, I think it's always a good place to start with talking about your priorities as you look out into 2024.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. What kind of -- as you kicked off there, the priority is really strength -- continuing to strengthen the core. So improving the selecting process, improving the content. I'm very proud of our films, our series, and all that growth, but I think there's plenty of room to grow in terms of constantly improving it. And we see that through improved engagement across the content that we're investing in.

We're looking also to diversify our revenue pool through advertising, getting that ad tier to scale. Today, we have about 15 million MAUs. It's grown from -- we had 5 million just in May. So you can see the kind of rate of growth that we're talking about.

But we're also -- and along the way, we've got to create products that consumers love and that advertisers love, too. So you saw recently, we did the deal with Nielsen to give them better measurement tools and give them better insight tools. And then we've got to create better and better products for them that differentiate us from everybody else.

But they want to be though -- I believe our advertisers want to be as close as they can to the brands that people love. And the chances in entertainment that that's going to happen are much higher on Netflix than anywhere else in the world.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Right. Let's talk about content first, and then that relates and really obviously drives engagement. First, let's talk about the strike. Obviously, that changed a lot of things in '23 and looks to do the same in '24, but a number of movies pushed out or films pushed out. Does that give you guys an advantage as you look out into '24-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Well, it's one of those times where nobody says we have too much content when you -- get run to interruptions. The one thing -- not that COVID was good for anybody, but it did help us develop a muscle about how to kind of manage the slate and manage delivery in an unpredictable time like the strike proved to be.

So like I said, that's been good for us is that we've always had a very deep slate. So we didn't really have much interruption in our delivery to our members. We would be able to shuffle things around a little bit. And then a lot of our programming, international programming was unaffected by the strike, and those programs -- those shows have gone great.

So this year, we're looking forward to our on-schedule return of things like new seasons of Bridgerton and Cobra Kai and Emily in Paris. We've got an incredible -- on the international slate Senna from Brazil, which is based on the most celebrated Formula One driver ever. It's an incredible -- a really incredible project we're excited about. NAME Parasyte: The Grey from Korea, so this is a really high-profile international programming flowing to.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Right. I read recently that you guys are sort of pulling back on movies, right, for '24 in terms of the total number of movies put on the site. Could you just talk a little bit about the strategy there- I think you were doing over 50 more than one a week. And now, that looks like it's being tightened up.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Just a couple of things. One is we ramped up at that kind of aggressive pace because we had no access to license that films. So we really -- and we started with a 0 library. So we've only been doing original film for 5 years.

So what's happened over the last couple of years is that the availability to license has opened up a lot more than it was in the past, including we have these NAME pay 1 deals with Sony and with Universal that right now has delivered the new Spider-Man movie, the new Super Mario Bros. So our access to programming through other channels is there.

And so we're really -- but in that pool that we're still continuing to do, it's an incredible breadth of offering. So Leo, the animated feature from Adam Sandler, which is crushing it right now, one of our best -- it is actually our best launch of animated feature yet. And then couple that with Rebel Moons, Zack Snyder like -- it's Zack Snyder's Star Wars. It's an incredible kind of big-budget action movie.

And then right now, between now and the end of the year even, the films that are more in that kind of sweet spot around the Academy time like Maestro, May, December that's just made the New York Times Best 10 List and Leave the World Behind, which is opening next week with Julia Roberts. We have an incredible, diverse broad slate of originals that we can now complement with first-window and second-window license status as well.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Yes. It really does seem like a buyer's market for licensed content right now. And it seems like all the sort of traditional media companies were getting back into the licensing space after pulling back. Do you think this is sort of -- that can continue- Or do you think it's part -- a function of the strike or maybe weakness in linear TV- Or how do you see the market-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

It's the more natural state of the business. I mean they've always built the studios to license. The unnatural state was, I think, the kind of forced vertical integration. So I think that there will be opportunities for us to license and I think more than just opportunities for us.

I said in the speech, and I do mean it, I think we've added a ton of value when you're licensed to Netflix, value that you can then turn into something else. The example on Suits, that was the show that didn't make a lot of noise in USA. It was certainly available on Hulu and there's certainly -- I'm sorry, on Peacock and on Amazon for 2 years before it came on Netflix.

And that power that comes from that recommendation engine and that distribution platform, they can get a lot of people talking about and then the compounding benefit of everyone is talking about this show. And then everyone is using Netflix, so you got this powerful self-reinforcing cycle.

And where that comes out is for the last several years, the guy who created Suits had a spin-off show that he was trying to sell everywhere in town. Everybody passed, including us and including NBC, and now they're making it. It was a huge, newer interest in Suits. And I would probably argue that next year, you'll probably see a bunch of lawyer shows.

But Suits itself, I mean, we added a ton of value to that IP. So the creators got a bunch of benefit from it, the owners of the IP got a bunch of benefit from it, and more importantly, the fans got a bunch of benefit from it from having the show that otherwise would have disappeared into obscurity.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Yes. So I think that's just one of the -- probably the best example of a company -- Netflix basically taking a piece of content and then blowing up. And it almost appears like Netflix is becoming sort of a promotional tool for content creators.

And I think of Dune, which is now on the site, on the platform and with Dune 2 coming out, and also more recently, GTA, right, NAME the trilogy in the mobile game, which I think the trailer dropped later this week and then we get the game.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

I like the way you're thinking about it. Now, I just got to get them to pay me.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

That's what I was thinking. Are those deals that have that aspect to them, are they more attractive to you because there is these secondary benefits- And what do you think about that getting flipped eventually-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

I think we -- I mean self-serving as this sounds, I think we should win the jump balls. But I think licensing to us has the added benefit of enhancing the value of your IP on top of the revenue stream. I think we should win those jump balls.

And I do think, look, there's been a history of -- it's a very competitive business, and folks don't want the shows that didn't work and then they were to work somewhere else. Sometimes they go to the extent of never releasing them again so that never happens.

But I think the opportunity for something to get a second life and work is -- the payback on it's enormous. It's so great for them. I think about like Sony right now is making a movie of Cobra Kai. Why do you think they're doing that- Because Cobra Kai was a monster on Netflix. So I do think -- and that was IP that had failed elsewhere.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Interesting. So as we think about your content budget, I think next year is like $17 billion post-strike . under what -- you've talked about that's about the right level, but that could increase over time. Under what circumstances would you guys need to see to say, hey, it's time for us to increase the investment and...

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

You've seen like this steady march up, like I mentioned, about our content spend matching our growth. I think we always kind of try to stay within about a half step of our growth in terms of investing in programming.

And then I think what we do every time we invest in more programming, we generally add value to the consumer. So they generally see the value. It gives them more stickiness to us because they get -- the likeliness I'm watching something on Netflix, I'm not going anywhere this month.

So I think that's had a very positive payback, and you just got to stay closely aligned to that growth. We think at that $17 billion level, that aligns with our growth. If we surpass that and if we accelerate on that, we'll revisit that as well.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Yes. So are there any genres that -- in terms of the content that you feel you're underpenetrated- And as I think about it, asked another way, where are the pockets of engagement- Because we look at the gauge numbers pretty closely when they come out each month.

Where do you think the -- and obviously, still, the lion's share is within broadcast, and this would be a great segue into the sports side. But where do you think those pockets of engagement are that you can exploit to grow engagement on your platform-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Look, I look at these things like where are we in our life cycles. We're 10 years of making original anything, about 5.5 years into film, about 4 years into unscripted. We're just starting on things like our local language unscripted initiatives.

In many parts of the world, television watching is dominated by unscripted book television. I think about even in the U.K., the top 50 that gets published every month, the lion's share of those shows are all unscripted. So our local language -- and we've had our own big successes in the U.K. with Beckham.

And so as you see -- I think we'll do in terms of underpenetrated today, where we think we'll be focusing a lot more energy is local language unscripted. We do some things like local language versions of our shows. But generally, I think there are some new franchises like Physical: 100 in Korea as an example of unscripted local language show that actually found big audience outside of Korea as well. So for me, I think that's one area.

The other is feature animation. I know this sounds kind of old-fashioned. But since Nielsen has been tracking streaming, 8 of the top 10 movies ever streamed are all animated features or it's by view hours. So there's a lot of repeat watching and those kind of things go into it. But it adds a ton of value, and there's plenty of appetite for more than the few films a year that we're currently doing.

And like I said, I think going from Sea Beast to Leo has been success to success for us in a very new business. And these films do have very long development and production cycles. So we're excited there, and we're enhancing our own animation now with our deal with Skydance to put out a couple of other films per year too starting next year.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

So how should we think of the growth in engagement -- and I realize we gauge it as just the U.S., so it's just one market. But you guys are high single digits now. It's been, at least this year, relatively flattish. I mean how should we think about that in terms of the upside from here in terms of engagement-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. Look, I think if you look at the ramp-up of competition over the last couple of years, the fact that we've been flattish is pretty remarkable. And I do think more forward-looking, we are adding contents, adjusting prices every little -- every step along the way. And our competitors seem to be reducing content and raising prices. So I kind of like that math for us. And I think, in general, I think...

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And putting their content on your platform.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes, those are all good things. Those are all good things. And so I do think that there's enough -- will the business consolidate a little bit here and there-

Look, I think they're trying to find profitability. They're trying to navigate their linear businesses. They're trying to navigate their legacy businesses that are under a lot of pressure right now.

And I said, we only had to navigate out of the DVD business and into the streaming business in a way, fundamentally, where they were in conflict with one another: engineering resources, marketing resources, all those kind of things. But I think about it, if I was trying to make money in theatrical and trying to manage my network and sell advertising and trying to attract people to my streaming -- advertisers to my streaming service why they're fleeing my network, I think that it's a tough job. It's a tough job.

So I can't -- I don't know -- I wouldn't -- we don't spend that much time thinking about how our competitors are navigating these things. We have our own problems to worry about. But I would say that it's hard to imagine that it just keeps running status quo.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United

States Communications Group and Telco & Pay TV Analyst

Got it. So switching to advertising. Now, at the very outset, you guys cautioned the patience that it would take time for the ad business to scale. Is it -- at this point, as you look back, is it happening at about the pace that you originally expected-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. In that, we launched it fast. We built it and launched it within 6 months. I wouldn't have guessed that we could grow the installed base from 5 to 15 as quick as we did just since May. So I don't -- we didn't really have -- we had realistic expectations for where -- we knew -- we're a company that can get impatient.

So we're not in that space yet where it's just taking too long. It feels like it's building pretty organically and pretty nicely. And what's interesting, too, about 30% of our new sign-ups are signing up in the ad tier, which kind of gives us good confidence that there is organic demand for it at the current price point.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Right. And then was that -- so you guys are putting through a price increase here in the U.S.-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Well, first of all, I guess, how does the ad tier affect how you think about pricing and pricing power, both here in the U.S. and sort of in other markets- And that 30%, where do you think that can go as you toggle some of the...

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

It's hard to say, but we have a large installed base. So the question is going to be that we don't see a lot of plan migration once you join Netflix. I think people are pretty thoughtful about what they want. And we've really prided ourselves on getting people to what they want quickly, making it easy to figure out how to navigate.

So people pretty much make a decision, are you in the ad tier or are you not- And I think in general that they wouldn't have -- most of the people who use Netflix today were never presented that option. So there are folks who would say, I'll take Netflix at a significantly lower price, and I don't mind that. And we've never really given any optionality to that member yet. So that's what we're in the process of doing now.

And ideally, we're going to end -- I think there's plenty of organic growth for that to be a meaningful business. So it doesn't really help us to jam somebody into a tier they don't want because I imagine it will have negative retention effects.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Right. I mean do you think about pricing as a way to drive people- I mean clearly, it's much cheaper, obviously, the ad tier and you raised prices in terms of sort of the other tiers. I mean is there much room to do that to...

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

There should be a measurable enough gap in between the 2 tiers so people can make good choices.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. So aside from sort of growing the base of subscribers on the ad tier, I mean, what are the other sort of steps that you need to take internally and that we could all watch for that sort of suggest that the ad tier is on track and the ad business is growing into what could be a gigantic business-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. Look, I think if you saw today that there's been a group put out a study today that the -- more than half of the linear ad load now is going into CTV streaming. And I think it's -- for me, it just gives you a sense of that because we're in very, very early days.

So for me, it's like the opportunity is how is this going to be better than linear television for advertisers and consumers- So how can the advertising be more relevant- How could the advertising be delivered competitively-

I think right now, let's just get up to -- let's get to where they are now. And then I think we can -- then we have a great history of innovating in this space. This is right at our core -- personalization, storytelling, world building -- all those things that it takes to be great in advertising, that's right at our core.

So I'm -- I don't know if there's exact flags that I'd say when you get to [salute that flag]. But I would say that you'll see us continue to grow. It will have a positive impact on the business over the next couple of years. And that's the right kind of way to measure the time on.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

One of the things -- so we had Magna and 2 other speakers on our ad panel this morning. We went through all the numbers. And one of the things they all point to but one in particular said the ads on Amazon and the sort of opt-out strategy versus opt-in, it's going to create a new pool of sort of connected TV advertising. Is that good for you guys- Or is that bad for you-

I mean on one side, it could help sort of accelerate the shift from sort of linear TV to executive TV. But on the other hand, it creates a lot more inventory.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Well, look, you've got to be where the eyeballs are. You have to be where the consumer is. So that's what advertisers are looking at. That's what every one of my direct competitors should be looking at. I got to be where the viewer is.

And to me, it's like their move to CTV is going to pull more people from linear to CTV, which is good for everybody. It raises all boats. Yes, it creates more inventory, but you've got to be -- yes, then you have to compete for the eyeballs. And that's the thing that we're very confident that we've been doing and will continue to do is compete for the eyeballs better than everybody else.

So -- and I think that's what we have -- that is the cost of entry. It's great that you could talk about things all day long, but you've got to have the shows that people love. You got to have films that people love, and you've got to get the engagement for it.

You said, you look at gauge. We look at that a lot, too, because it's important to see how those things move and migrate. So for us, I think like if you've got the eyeballs and there's more -- you don't have to worry about the competitors' inventory. Again, they're going to follow the eyeballs.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Yes, makes sense. Now this question we could spend all day on, but how do you think of competition outside the U.S.- I mean when we talk about competition, we use -- I mean, obviously, we're very U.S.-centric, U.S., North America-centric, and we know who all the players are. And we -- most of us in this room probably have most of these services. But how does that compare to what you're seeing in sort of other big markets outside the U.S.-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. Well, remember, I think watching U.S. content on a streaming service was a pretty nichey behavior outside of the U.S. for a long time. I would say when we first launched our streaming service globally, it was in -- barely had subtitles and dubs in some of the content [you had with] international credit card.

So basically, if you live somewhere else, speaking with someone who had an international credit card, the service was for you to where we are today with local payment and local creation that we're a relevant media player in almost every country we operate in today. So I think that's -- we followed the same path but on a much more accelerated basis in the last 3 to 5 years, building up our international programming, but also the thing that's the hardest, which is the product market fit.

Is this the right price- Is it -- are you -- are we addressing the fans with the right programming that they need, that they say, yes, I'm willing to pay for that. And more than that, I'm willing to pay for it every month. And I'm willing to come back because I expect you're going to entertain me next month. So that product market fit is different in every country.

And the one thing about the scale of the business is, is that when we first launched, when we did Latin America first. And what we learned first is that almost no Latin American country is like one another. So the chances that we're going to learn something in Latin America that's going to help us in Europe is very low.

And we figured out once you get to Europe, you're hardly learning anything in Germany that helps you in the U.K. So it's actually being on the ground and having people on the ground running those businesses that understand the local culture, the local ecosystem, the local payment methods, all those things that really do vary country to country. And we've been able to build on that scale by investing in those -- in that international presence.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

It feels like a lot of -- and I think we're just at the beginning of this, but when you talk about sort of what's going on in the traditional media ecosystem, potentially pushing down content spend, raising prices, do more licensing. I think as part of that, there's just the early stages of pulling out of local language programming.

I mean are you seeing that- I mean there's not a lot of local language program anyway in the other...

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

But it sounds like if there's going to be some content rationalization, that's where it happens first.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

It does feel that way. And I think it's probably more of a DNA thing of the American studios. So most of them have run their international businesses from Southern California. And there are some on the ground folks, where most of the decision-making is made.

I really pride myself on what we've been able to do in terms of putting decision-making in territory. Nobody in Los Angeles or Los Gatos would have made Squid Game. It took their folks in Korea to understand that. And they wouldn't have made -- and if we did make it, we would have never made it as well.

So I do think it's -- that really is part of the global DNA that we've had probably that we didn't have 100 years of legacy of managing it from California. So it's another one of the kind of the benefit of that for us.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And the last on the sort of ecosystem, definitely the first signs of consolidation. So you saw Paramount and Showtime being put together, bigger one in the United States here, sometime early next year, Disney and Hulu. Hulu's effectively going to go away. It will be one service. And now at least thematically here in media, there's talk of companies getting together.

And I mean, does -- do you guys see that as a positive thing- I mean there would be one less service, maybe a higher priced service in Disney+, but there's just less -- it's less crowded.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. I don't know if it fundamentally changes much. I think like I said, you forget that where people are migrating from a universe of 500 channels. And switching apps is not that much more complicated than switching channels. So I do think, in some ways, I don't know that -- if it's the same offering at roughly the same economics, I don't know what it does really to the consumer landscape.

So in general, I don't know that it could be that -- change that much for us. They'll find some scale in the business. All those things that are not really consumer-facing, they'll find improvements on. But in terms of being more competitive, I'm not sure how that pans out.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Maybe a couple on password sharing. On the call, Spence suggested that the solution to password sharing should drive subscriber growth for the next several quarters. So why is it happening over sort of a protracted amount of time- And then maybe you guys put out that number of 100 million. I mean how are you guys sort of getting to where you guys thought you'd be in terms of monetizing that 100 million-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Completely satisfied with the pace of it. And deliberately, it's rolled out slow because what I just said about country-to-country learnings, imagine country-to-country, device-to-device, household-to-household differences and how you do think -- how you nuance the language, how you nuance the offer, how you pace it out being locally compliant with regulatory models that have impact some of these things.

So it was good to take it slow. And that's what we're doing. I think we're -- so that is why we're not just to do it in one fell swoop. We get to learn from it, everyone. At our core, we're an A/B test culture. This kind of gives us a series of A/B tests that we could do around the world on this.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. And I mentioned sports earlier. Obviously, it's really what drives viewership and still, I think, subscribers on the linear bundle increasingly. You guys recently hosted your first live sporting event.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Did you watch-

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

I did not watch. I'm a golf fan.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Any golfers watched the Netflix Cup- Not a one. All right.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Well, it was during the day, right-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Tuesday afternoon. Yes...

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And I am an F1 fan, too, so I was like right in my desk.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

You wake up at 3 a.m. to watch NAME Formula One...

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Exactly. So are you guys -- should we expect more of that- I mean it seems like you guys are slowly finding opportunities, well, really not just sports but live in general.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. Look, on sports itself, I mean, one thing that I think we really have found our groove on is the sports adjacent kind of the drama.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Beckham was another one.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Beckham was a monster. And figure, Beckham is one of the biggest stars in the world and is one of the most recognizable faces and names on the planet. And he gets the show on Netflix, and his social media grows by 1 million in 1 week. This, again, is that distribution platform that...

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Should be paying to you-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Exactly. (inaudible) as a check. But we look at that and say, what people really care about is these -- like in sports, of course, they want to see the match. But between the matches, there's an unbelievable wealth of stories.

And we've done so great in terms -- and again, back to virtuous cycle. The PGA for full swing. The PGA has been around for a long time. Right after the Full Swing came on Netflix, the attendance of the PGA matches all went up. The viewing of the championship went up by 3.5% -- sorry, 30% in the U.S. So enormous lift in viewers.

The folks who every time we do one of these shows, the athletes are a little skittish about do I get in or not- So the first season athletes are the -- generally are not always the most known. And what happened was the week after Full Swing premiered on Netflix, all of a sudden, the gallery following those athletes grew.

And remember, they have to get up early and start golfing at 6:00 in these rounds. And they -- all of a sudden, they show up, and there's an enormous gallery of fans. Their social media climbs. Their endorsement money grows.

So you talk about Formula One then it is Drive to Survive, we all know the value of what it's done to the sport, but the value of each individual team has skyrocketed as well. And the revenue from sponsorship has skyrocketed from all that. So for me, there's a very lucrative business for us to help grow -- help them grow the league and then for us to tell the story. And that's something that we can outcompete everybody on.

So if I'm a network and I lose the NFL to another network, that other network is going to do just fine carrying that sport. And the fans are all going to move from network A to network B. So for me, it's like where we can really differentiate and outcompete everybody is in the storytelling of sports, the drama of sports. And we are -- and even something like Tour de France. Tour de France is unbelievable. And it is mostly in French.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

This most recent tour or no-

SPEAKER

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

It's coming up. You'll see it down.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

That should be phenomenal.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Well, that's what -- the fun part about these shows is when something happens on the corridor, on the field, people start saying, now, I can't wait to see that on the show. So that's what happened with

Hamilton...

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

I can't wait to see that on Drive to Survive.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

So that's a fun thing that we get to do that we really add value to the athlete, to the sport, and to the fan and that we are differentially good at it. I mean those -- there are sports reality shows on every -- on a lot of places, but none of them have fundamentally transformed the sport that they're covering the way we have, right-

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

And then maybe taking back to live, should we see not just sort of some shoulder content and maybe some sort of opportunistic work, but do we expect to see more live content that brings audiences to...

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

What we're trying to do with live and Bella Bajaria, the Chief Content Officer, is running this with her team on what -- and how they program. And the key where I said is let's focus where live actually is the creative part of it. Why is the liveness better- Why is this better because it's live- And if it's actually better because it's live, then let's do it live.

Chris Rock: Selective Outrage is an example. It was enormous relative to his last comedy special was -- not only was the viewing much higher, but the coverage of the event itself was enormous.

Now that's -- people are waiting for a year to hear Chris give us -- tell what happened at the Oscars. He was incredibly disciplined not telling it elsewhere until the special came on. But it created a real live event.

The Netflix Cup, yes, it was Tuesday afternoon, and there was a good way for us to cut our teeth around it. But a beautiful thing happened on that Tuesday afternoon on the fifth hole of the Netflix Cup, it's called the Squid Game hole. And there was -- for that 15 or 20 minutes of television, you have competitors from Full Swing and Drive to Survive playing against each other.

You've got Bert Kreischer, who is a Netflix discovery in our Netflix Is A Joke brand, calling the action. You've got the characters from Squid Game lining the hole. You've got the red light, green light doll's head on The NAME Sphere in Vegas just wrapping around, freaking everybody out. And you've got a $4.56 million hole in one for the -- hole in one price on the hole.

It was like this perfect coming together of all of our brands, our entertainment, our sports, and our comedy brand in one place. And the thing that they did so beautifully for the Netflix Cup is -- and it's something that's almost impossible -- make something big in the middle of something huge.

So Formula One in Vegas was huge. And I'm telling you during that Netflix Cup, we had a huge event going on in Vegas. And advertisers loved it. They loved being part of it. They loved the brand integrations. So I think you'll see more of it.

And I think, again, the liveness of it on Tuesday afternoon, not so exciting. But I think on a Sunday afternoon, it would have been a different story. And so it gave us the ability to cut our teeth on something like that and really realize the potential of all the creative aspects of covering something like that.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Got you. One quick question on video games, just sort of, again, almost sort of on the ad tier. Are you guys sort of where you expected to be- I mentioned the GTA licensing. Should we expect to see more of that kind of thing- And do you -- at this point, do you guys still feel that the organic path is better than sort of a -- especially -- I know you made a bunch of smaller acquisitions, but like sort of a bigger, more sort of fulsome-

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes. Look, I think the bet here is that the engage games -- again, back to what I said about advertising, world building, storytelling, engagement, brand fandom, all the things that are right in our core, they'd certainly attract a different demographic.

I think it's kind of, I think, because one of our very popular games we have was our version of Too Hot to Handle. What was great about that game is that now again, these are pretty small numbers. We're new at that. But the bunch of the folks who played the Too Hot to Handle game had not yet seen the show. And actually had so much fun playing the game that they started watching the show. So a really nice kind of IP development that we can do, again, ways to bridge season-to-season engagement with the brands, and that that brand and that retention gives us kind of increased value for Netflix for the gamer.

And it scratches a little bit of the user-generated itch with folks because while you're not actually on Too Hot to Handle, you're playing Too Hot to Handle with the game. So I think there's a bunch of positives in the business around it. We've acquired some game studios that produce these originals, and we also like our other content verticals mixed between licensing and original programming.

And I do think it's -- a way to think about it is how you're watching it is just like you do with unscripted or like we did on film. Have I heard of these games and people talking about them yet- And that will increase, and that increased. It's a good way to give you a sense of are we getting into the ecosystem with these games. And if they are, then we're adding value.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Okay. Now my last question, how do we think of sort of spending on initiatives like this or new content versus just overall margin expansion- How do you balance the two- Because that's -- you can spend more and maybe margins come down, but you get more growth. I mean, how...

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

Yes, I think we've had a healthy margin expansion and growing content spend and grown our content offering. Because I think what happens is it really is self-fulfilling. As we add more programming, you get more add backs, and you get better and better and better at doing it.

I think if you get small improvements in the programming, you get more usage out of the program you have. So the ability to invest becomes more and more efficient.

With the size of our distribution platform, a creator could monetize better with us than almost anyone on the planet, which is -- so that's why we have to keep chasing. And I think we can do both. I think we've been disciplined enough to do both.

A very few companies, I think, are built to do both, spend and grow really fast and expand margin, but we've been doing it. As you said, we've gone from 4% to 20% in our margin. So I do think that we're going to be committed to do both, and we know we can. Is that it really-

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

That's it. We reached the end of our time.

Theodore A. Sarandos Netflix, Inc. - Co-CEO & Director

I would like to, if you don't mind, steal in the last couple of minutes, there was a lot of -- your first question, like how are you feeling about the slate and everything with the strike and other things.

First, I should also note that we're mostly just thrilled that the strike is behind us and doing -- getting back to what we do best and what our writers and actors do best and all of our below-the-line folks, which is make great stories for the world. So I'm really excited about that.

And we do have a great year coming up. So if I can take a few minutes to indulge me and if we can kind of stop the live stream. And I'm going to share with you guys in the room anyway a look at what we got coming up.