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Corporate Participants

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Conference Call Participants

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Presentation

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Okay. All right. I think we're done with our switch and transition to the next lunch keynote. So if everyone could just take their seats. For those who don't know me, my name is Eric Sheridan. I'm Goldman Sachs' U.S. Internet analyst. And it's my pleasure to have Greg Peters, Co-CEO of Netflix, on stage with me today. Greg, thanks so much for being part of the conference.

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Super excited to be here.

Questions and Answers

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So you've been in this Co-CEO role now for right around 8 months. Why don't you talk a little bit about the journey from where you were into this new role and what some of your key learnings have been so far in just the last couple of months-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. I mean, it's been relatively seamless and incremental, I would say, in part because my other Co-CEO partner, Ted, I've worked with him for the entire time I've been at Netflix. And so we've been in all sorts of situations together. We know who -- how we work and have a deep sort of respect for each other.

And also that Netflix had figured out the Co-CEO model before me between Reed and Ted, so we sort of knew what the operational mechanism was and how it works. And I think the -- you said what are the learnings or takeaways. I just -- for me, I love the duality of the Co-CEO model as it reflects how I see what we're trying to be as a business, which is really fusing together 2 what are very often different worlds, a world of amazing storytelling and creativity and fandom and how you access that in a world of technology and product and how you'd be great at that. And our business works when those two work together the best, and I like the sort of structural representation in the Co-CEO model there.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So that's an interesting point to make, and maybe we'll jump off from there. When you think about that duality in the business, creating content that people want to consume and then creating a product or a vehicle or a mechanism by which they consume it, how do you frame up internally what you see as the long-term opportunity that you're the most excited about in terms of capitalizing on the media landscape today and solving for that duality against that landscape-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Probably worth recognizing that it feels good to be in a leading position around streaming today when it comes to engagement or revenue or profit. Revenue and profit, we report so you can take a look at the numbers.

But if you think about engagement, just to give people a sense of where we are in terms of that, if you look at in the United States, as reported by Nielsen, first 28 weeks, we were the top TV series in 27 of those 28 weeks and the top movie in 24 of those 28 weeks. So that's a -- feels like a really good position to be in and to really work to grow from.

But we think long term, there's just a huge, huge opportunity in front of us. And you can look at it a variety of different ways. One way to look at it is how many hours on the TV are we winning- And even in our most mature markets, we still win less than 10% of the hours on TV. And in the structural shift from linear to streaming, even in the most advanced markets that are in that move, the majority of hours, like 60%, still happen even on linear today. So that's a lot of movement still to go, and we think a lot of opportunity for us to win hours.

Just one more view on that, I would say, is if you think about the total consumer spend in the areas that we serve in the countries that we serve. So this is ex China. Consumers spent about $620 billion in the areas that we play in, and we win about 5% of that consumer spend. So we feel like that's again a good representation of the upside that we have in front of us.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Understood. When you think about the way the competitive landscape has changed, if we go way, way back, you guys were transitioning from DVDs to streaming. Now you're the leader in streaming.

There are -- there's competition for other forms of media in social media and short-form video and things like that, but there's also legacy media companies that have woken up to the potential for streaming.

How do you guys think about the competitive landscape and how it evolves and fits back into your strategy- Or as you guys have talked about before, do you just put the competition away and say, we're about execution as opposed to thinking about the competition-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Well, we do both. I mean, you sort of want to have a competitive lens in terms of do you have a sort of a durable competitive advantage- And are you building one- And I would say there's a lot of competition out there in terms of multiple different forms of entertainment. I think we can talk about how do those structurally compete for each other.

But in our basic space, which is film and TV series and now emerging in the games, we think about why do we have a durable competitive advantage. I think our competitors are really -- how hard it is to build and at scale, a successful, profitable global streaming business. Part of that is because it's capital intensive. Part of it because there are scale effects for sure.

But also, I think the underappreciated component is to do that, to be successful, you have to bring together a set of capabilities and competencies that really haven't had to exist in one company before. So you got to be great at producing content across multiple different genres, multiple different languages, multiple different countries. You have to be connected into the creative community in all these countries around the world, have trust with creators so they're going to bring their best stories to you.

You have to know how to speak to fans in all those different countries in the world and connect them with the content, enhance the quality and the value they're viewing because of that fandom. You have to think about product experiences and go to market that make that whole experience feel native.

How do you work with the right partners- How do you collect payments around the world- There's so much that has to -- you have to be good at. And I think that really our competitors come from sort of 2 centers of being good at like one set of those things but not the other or the opposite. And we're pretty good at all of those. We want to be better, certainly, and we're seeking to do better all those, but I think that's an under realized sort of durable competitive advantage.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Got it. When you think about the business in its current state, it was a little over a year ago that you guys announced, we have all of this consumption that's unmonetized, we have these households that are watching our content, absorbing our service, but they're not paying us, and we're going to put mechanisms in place over the next couple of years to sort of close some of the monetization to consumption gap.

Bring us into a little bit of how that decision went to market. What was the tipping point to look at that and say, we've got this consumption, we can drive more monetization and how you thought about what the right product initiatives were to close that gap looking out of our multiyear view.

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. I mean, it was great to have so many people watching Netflix content, and we just wanted to basically make sure that when anyone was enjoying some show that we had and was getting value from the service that they were actually also then paying us for it because that was important to keep this virtuous cycle going, where we could take that revenue and turn it back into investment for more great stories for all of our members.

So ultimately, it's a pretty good example of just how we think about product development in general, which is a very sort of test and iterate kind of mode, where we have a theory about what will work for folks. But at the end of the day, we let our members tell us what works and what doesn't by giving them an experience and then testing and measuring what sort of -- what is working and what's not.

So we took this very iterative approach. We launched it in initial set of countries. We learned what we got right and what we got wrong from them. And a lot of this was about clarity. So really, I would say it was a situation where, let's say, if you're borrowing Netflix, you're not thrilled about the idea that we're going to charge you, right- So that's a fundamental sort of proposition.

But if we can give you the information that you need to understand what we're asking from you, that it shows up in the right way and a product experience that gives you the ability to action on it at that moment, these are all sort of classic good product experience things. That was a much better experience. And that's sort of what we learned over time.

We iterated on that. We improved the experience as we launched it in subsequent countries. And we tested and refined that. And you can see it sort of in the performance. Every subsequent phase was better.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So I want to stick on that point. And obviously, there's 2 avenues we can go down here. We can talk about paid sharing. We can also talk about the ad-supported tier you're trying to build for the long term.

But just sticking with the paid sharing in particular, in -- first, what were those key learnings- Was it all about messaging- Was it putting the right proposition in front of the right consumers-

Some folks believe maybe you've slowed your approach and are taking a more deliberate approach than you did in some of the early markets. What were some of those key learnings- And how should we be thinking about this continuing to evolve in the next couple of years-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes, I think we always had a deliberate approach. I mean, even if you think about sort of launching countries in phased approach, I think what I would characterize it as a deliberate approach to make sure that we were learning and we were getting it right as we launched in subsequent countries. There's a component of that which we're doing even within a country rollout, which we sort of take the highest confidence, most well-understood use cases and roll those out first, I would say, and then learn into those and develop more confidence in terms of our mapping of the household networks and also the product experiences that the consumers need.

And you ask, what did we find that folks needed- Again, it's clarity of messaging was a key component of it. I think there was a lot of confusion when we first launched around what use cases were we trying to prevent essentially and what use cases where we like, no, you should -- traveling with Netflix is something that we want people to go do. You should go do that, and we're going to make it easy for you to go do that. So a lot of it was around clarity.

But then it's also just, again, what I call sort of bare basic good product experiences, which is that you want things to show up in the right way with the right communication in a low friction way at the right moment. And so it's just -- you have to typically iterate on that a couple of times to get that super dialed in, and that's what we were doing.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Got it. Have you seen much change in terms of the broader consumer behavior on the platform- We get asked all the time about are people spending down accounts because they now thought they were sharing with others- Are you seeing shares come back in- What are some of the learnings of how the consumer behavior into your product at the household level has changed-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

I think it gets to -- how people respond to this gets to a little bit of why they were sharing in the first moment anyway. Some folks were sharing because of what we call casual sharing, which is that they had borrowed their boyfriend's account, and the boyfriend didn't want to have a discussion around like, stop using my account. And so they were just like, hey, it's easy. There's no reason for me not to keep using it, right-

And then some folks are sharing from a much more, let's say, economical reason, right, where just like they were -- in some places in Latin America, they were actually dividing up the account, and I'd give you a couple of dollars every month to factor that in. So part of it is we had to come up with a set of solutions that solve for that range of needs, let's call it.

And a lot of it was on the, call it, casual shares where people just were -- happen to have somebody else's account, like, why should I get my own. As soon as we said, you have to stop using that account, they just got their own account, and that's what we call a spin-off account. And that's sort of another member just shows up as a new member add.

But then a lot of these other situations where we enable what we call the extra member affordance, which is allowing an existing account holder to essentially buy a member slot for somebody else. Those satisfy a different set of use cases, which you want to share Netflix with a loved one or a family member, your kids going off to college and you can give them the capacity to watch Netflix. And that solved for a different set of considerations.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

In terms of how it feeds back into the broader initiatives inside the company around product, we've seen markets where you've launched the ad-supported tier. We've seen markets where some of the basic tiering has fallen away in relation to maybe an ad-supported tier being the new basic tier. What are some of the learnings about how the product and how the platform might continue to evolve based on what you've learned so far-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Maybe the broadest one is that we need to get increasingly sophisticated around what our plan structure is to satisfy a wider range of needs over time and think about that from a long-term, both revenue optimization and member satisfaction perspective.

But related to that is we ultimately want to have quite a wide spread of price and offerings where we are accessible to -- ultimately to the vast majority of the world's population at a price point that they can afford, that they feel is great entertainment value for what they're getting at the right features and then also be able to super serve fans who are willing to pay more for amazing entertainment content and can give them an incredible fan experience that has the right set of features at a higher price point as well. So we're seeking to broaden that range and define that right balance over time.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Okay. So keeping with this concept of product initiatives and platform evolution, there probably -- if we had taken a poll in this room a couple of years ago, there were people thought you never launched an ad-supported tier, and some people thought it was an inevitability. It was probably one of the great investment debates around the stock over the last of the company -- over the most of the left 5 to 10 years.

So you decided to go forward with the ad-supported tier. Start this conversation with a little bit of like what have been the key learnings so far as you rolled it out. And I know it's still very early days, and we'll talk a little bit about what you want to build for the long term. But what have been some of those key learnings so far-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. Maybe to start with, it fits into the sort of fundamental proposition of widening that set of offerings because obviously, with ads, we can offer a low entry -- lower entry-level price for more price-sensitive members. $6 99 in the U.S. is a good -- I think, an amazing representation of entertainment value, very competitive to all of our competitors in that regard.

But then have the total revenue from any one of those members be enhanced by the advertising revenue that we get.

And on learnings there, which will not be profound for anybody that's worked in the advertising side, but it's for us, we sort of wanted to build a strong affirmation of our beliefs in the space is that when it comes down to it, our success in advertising is anchored to having amazing content that brands want to be next to that they're excited about positioning their brands with, having scale so that we're relevant in terms of reach to advertisers so they can get to the audience that they want to in an effective way through buying from us and then ultimately build over time a set of advertising products and features that make us not only competitive with linear, but then ultimately bring in some of the capabilities that digital advertising has into the kind of content of sort of premium, mostly what you might have seen on TV or pay TV before.

And so that -- ultimately, by solving all of those things, we -- that's where we feel like we can have a very successful advertising business. Love the way you said trying to before, which is very successfully building.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

And as I go out and talk to advertisers myself, I get the sense that there's an enormous pent-up demand. You'll never have a supply problem of people who want to put ad dollars behind your platform. But I think as you referenced, there's elements you have to put in place before those dollars come to you as a platform.

You initially went with a partnership on some of the tech ad front with Microsoft. And now there's elements of maybe some of that has to be built, owned and operated over time. How do you think about addressing targetability metrics, measurement and attribution, some of the things that advertisers want from you to build that type of scale and that's just bringing dollars into the platform before we can talk about the subscriber side.

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

The subscriber side, meaning the...

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Well, I'm just curious first on like building the ad tool and the ad stack. Like how should we be thinking about the pace, the cadence, how to think about watching that from the outside end of what you want to build to address what advertisers want from you guys-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. And just to be clear, we think about that as priority number two. I mean, priority number one for us is really scale when it comes down to it because that's sort of the first order of business.

But we are working with Microsoft. And we've got -- each of us combined total hundreds of engineers that are basically building in concert the set of features and products that will make that offering more attractive to advertisers. Examples of this, again, are things like top 10. So giving an advertiser the ability to buy space on our top 10 row. And that's something that I think as a unique or differentiated CTV kind of advertising offering versus what they could do on linear.

But linear, they were predicting what shows were popular and were buying against those or maybe not. We can actually say you can now buy a piece of essentially the entire Netflix popularity by buying that top 10 row. So that's an example of a product that we collaborated with Microsoft on.

And then a lot of it is also quite brass tech stuff like measurement, verification. And this is a situation where we and Microsoft are doing work every day right now to basically build those capacities in all the ad markets that we're in to be able to offer those to advertisers.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So in terms of building scale on the other side of the ad offering and building a scale of actual ad-supported subscribers or AVOD subscribers, how should we think about whether you're agnostic to whether someone comes into the ad tier versus the full subscription tier and what you might be trying to solve for in terms of your subscriber mix over the longer term-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

I think we ultimately want to engineer our way to a place where we are agnostic, right, where if through a combination of pricing, price setting, plan and feature set, where ultimately we're providing a range of options that the user can pick what's right for them. And we feel good about that. I don't want to be in a position where we're steering people outside of that context into one place or another because I think that ultimately won't serve the business well and will hurt us with users.

So I think gets to trying to figure out what is that plan offering- What is the relative pricing where you feel like they could land in all these different spots, and I feel good about the choice that they've made and the ultimate value to the business.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So before we move past some of these product initiatives that have come out of the decision over a year ago on consumption versus monetization, maybe just put a finer point on it. In terms of if we were sitting here in a couple of years' time, what are you most interested in building on either the AVOD side or the product initiative password side, pricing side maybe that comes back to what opens up market opportunity for Netflix, longer term-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Password sharing, I mean, we'll be in the password-sharing business for some period of time. There's more work to go do. And quite frankly, I think we've built an elegant product solution that is a competitive differentiator that I think, frankly, a lot of folks are going to be -- it's going to be tougher then to match that sophistication.

But I think of that as more of a transitional situation, right, which is we wanted to structurally set ourselves up for better growth by actually making sure that one-to-one association between getting value and paying us was intact. Whereas advertising, I feel, is a long-term, multi-decade kind of business where we want to constantly get better at that, right-

So again, part of that is building in scale. That's thinking about right price points, right plan offering to make sure that we're naturally getting to that scale point. But then there's a lot of this product and feature work, right- And all the things that we've mentioned so far are, I think, the basics, right-

But we want to obviously get beyond the basics and get to the kind of place where we're really unlocking what is the capability of connected TV to provide a different experience for both users and for advertisers. I think that means personalization when it comes to ads, increasing personalization when it comes to ads. When are we offering ads- What ad are we offering- That's a component of it, increasing relevance.

And then also being able to think about more and more how do we provide a differentiated ad experience where the ads start to feel like they're more part of the universe of the primary content that someone is watching. So you can imagine us working with a show runner on a series and thinking about a secondary brand-led narrative that feels part of that universe.

I mean -- and for me, the litmus test of success there is that our non-ads members would want to watch that content as well. And I think that would be an amazing place to get to.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Okay. So moving past some of the paid sharing and the AVOD initiatives and the content spend, your content spend today is very different in SKU than it was 10 years ago. You've gone into a lot of new and interesting areas of the broader media landscape.

Talk a little bit about how that content spend has become more diversified. What some of the drivers have been of elements of local language spend, documentaries, elements of full-length feature films and how we should be still thinking about that being an evolving process of what the right mix of content spend is long term-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes, very much evolving. But part of this is just having an understanding in every country that we operate in. What is the opportunity to look like for incremental investment. A lot of that comes from the metrics that we see from our own content performance, and we obviously get a strong signal there.

We're also looking at what this content performance on other services or other linear look like as a way to basically understand what are places where there is demand that we're not serving effectively and how do we lean into that. But I think increasingly, what we're seeing is the calculus behind that is getting more interesting and more complicated in ways that are very exciting to me.

And I'll just give you one example of this. We just launched a show called One Piece recently, and this is a -- it's a series that's based on a very famous manga by Oda Eiichiro. And I mean, classic, classic, gigantic manga, super, super hard to deliver in English language, live-action format.

We had our Japanese content team collaborating with our U.S. content team to put this thing together, and now we've launched it. And it's, I mean -- and this is a very high bar to me to basically take a storied manga and deliver it in English language live action. That's like pretty much all the haters are out looking for a reason to hate you for it and to be able to deliver it and have it be like massively popular, and the success around the world is amazing to see. So it's that kind of opportunity where we're unlocking like all these different components.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Yes, it's always fascinating to me. I mean, I did one of these a couple of years ago with Ted, and Dark could just come out. And you're watching this supernatural show that's fully dubbed in English, came out of Germany. Nobody knew anybody in it.

I was just watching Who is Erin Carter- Over the end of the summer break, which obviously is a local language piece of content that's going more global than that. So it's always interesting when you tap in on these little interesting market dynamics.

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Well, I think we'll see that more and more and more, right- We're breaking down these barriers, and Dark is a really, really good example now several years ago. But I think we -- based on what we were seeing, it's almost certainly, we've had millions of people watching the first German language drama that they were ever watching before in their lives.

And so again, we could give 20 examples of this, and we'll probably have 20 -- 40 more coming for the rest of the year, where we're breaking down those barriers and giving people access to creators and creative storytelling that they never would have seen before.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Got it. One thing I wanted to delve into is obviously you're bigger into feature full-length films today than you were a number of years ago. How is the strategy around who to partner with and how to think about budget and scale of your operations around feature films have evolved and changed over the last couple of years-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. Maybe the starting point on that is just the general way that we think about these things, which is you start to engage in a new genre or so, and you put enough investment in it. We're playing to win in those things. So we're really trying to have enough activity for us to be in the ecosystem, working with great creators and then learning by producing and having our members tell us what's sort of working or what's not, what we want to go do.

And then as we see success there and build confidence that we sort of have a picture of what's going, then we ramp that investment, and then we start to move to higher scale productions, right- So you've seen us move to higher budget, bigger films and films that basically are on par with the biggest sort of blockbusters that are out there.

Part of it is expanding the number of places around the world that we're doing films. So we start to understand the same dynamics that we were talking about before, how do we work with different creators in different places. So it's sort of expanding on all those dimensions that we go after once we realize we know we think we've got to crack.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So I know in every one of these forms, you guys always get asked about sports programming over the long term. But just coming at it from a different angle, it always seems like you find these super interesting pockets of the sports world to build documentaries around.

I have a 16-year-old son that I would never have thought would have been a Formula One fan. But we watched a lot of Drive to Survive during the pandemic, and now he's a Formula One fan. How do you think about identifying some of the pockets where there's opportunity sets that may be less picked over in this sports landscape-

When you think about Tour de France, Formula One, some of the things or even a unique approach to the NFL like you did with Quarterback. So how should we be thinking about the sports documentary landscape continue to evolve and educate where you might be gaining edge on some of those categories-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

People are passionate about sports and people are -- we can find passion about sports, even sports that they didn't know that they would love and weren't even connected to. And ultimately, we think about it as just another form of amazing human storytelling where we have all these people that are engaged in like tremendous speeds of human performance, and there's drama associated, and we can find those.

And so there's not -- like there's not a formulaic approach that we're looking for. It's not like a money ball kind of model that we have around this sport versus that sport. It's really finding just -- very similar to what we do in the other forms of content that we have, which is like where is a creator that has a vision for a compelling story that they want to bring to life that we believe in and that we can help them bring it out and then find a really big audience globally for.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So I'm not asking specifically about the strike, but I know, obviously, there's a lot going on in the industry right now around content and content creation. But bring it back to a bigger picture question about how you continue to evolve where you want to allocate capital behind content to where you see the pockets or maybe highest ROI in the industry.

Is it still in the more traditional long-form, short-form content that comes out of the United States- Or should we think more that this has continued to evolve to a different mix of local language content and documentaries in areas that could drive potentially interesting ROI angles for the business-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. You mentioned short form. And I would say we're more confident than ever that we should work within what I would characterize as this premium space, which is more long-form content. We have no aspirations to sort of compete in like UGC or anything like that. So we're really focused on that, those same areas.

And I would say we think that there's opportunity to, over time, increase our content spending and deliver more value to members around the world across all of those content categories really. But it's -- one of the areas that's most exciting, again, is breaking down these barriers that have traditionally existed between storytellers around the world, whatever countries that they live in, whatever language that they speak, and being able to now give them the ability to tell that story at a really high level that previously was mostly accessible to a couple of handfuls of creators, most of them in Hollywood and then to give them the ability to connect that story with a huge global audience. So I would say we'll do more pretty much everything you see us doing, but we're going to do much more in that space as well.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

And I know it will probably feed back into the ad business to some degree. But one of the things that surprised me in the last couple of quarters, you continue to give these interesting stats about building audience size around pieces of content. Wednesday would be a perfect example, where you're getting reach and social media connectivity that is the envy of some of the people on the content side. How do you think about continuing to build audience around individual pieces of content and creating new avenues of monetization around content because of that audience dynamic-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. I think we love it when you can feel the impact of one of the stories that we launch in culture and society. And that's really like a great heuristic of success. Wednesday is a good example of this. And at the heart of it is you have to have an amazing story. You have to have a film or a series that actually has that creative execution that people want to attach to.

But then part of it is all the work that we do in the product world to make sure that we are finding that biggest audience, that we're showing up in a way that creates that point of accessibility. And that's partly thinking about how do we make that content relevant to the user in the moment when they're sitting in front of the screen.

Part of that is how does it show up in the language that they understand and can feel natural and native to. And then what we do is add a layer of what we call conversation or the marketing around it, which really magnifies that impact so that people can get a sense of that fandom and that just sort of feeds that cycle even more, and it goes forward. So we're constantly trying to go do that. You can't always predict when these happen. But I hope and believe we'll have many more Wednesdays to come.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Understood. If you go back to where we started the conversation, and I thought it was interesting, you framed it up as creating content and then aligning product and distribution around that content. Can you take that and apply it to how we should be thinking about your strategy in gaming-

I think most of the investment community is still pretty confused as to what you're trying to build for the medium to long term. I talk to investors who think you're going to be a mobile gaming company or eventually be a cloud-based gaming company or AAA games.

What have you learned in gaming- And through that prism of content feeding back into product and distribution, how should we think about where we are and what gaming become for Netflix-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. Ultimately, we want to have incredible games that people love to play and they can't wait to play, and they want to be a Netflix member or want to retain their Netflix membership and will want to pay more for the Netflix membership because we have great games.

We started with mobile because authoring for mobile and accessing in mobile, that's a well-understood path. That was an easy way to get started. We're excited about the performance that we've got in mobile. We're releasing more and more games. And we see that every month, our engagement goes up in that regard.

But we have aspirations to go beyond that. And so we have kicked off and kicked off a while ago a cloud streaming initiative so that we could stream these games to multiple different devices and expand the reach just like we have on TV and film. I would say there's a lot of -- there's a more technically challenging thing to do than to stream film and TV.

So there's still more work to go do. And we've got to prove ourselves that we can do it in an economically reasonable way where the cost to render supports that in a way that satisfies game players, that we're delivering them a game experience, latency, all the other things that we need to go do.

Let's say it's a work in progress, and we don't fundamentally know whether or not we can deliver that in 18 months or more like that's a couple of years down the road. But we know we're knocking away at it because someday, we're going to be everywhere, games across all the devices that we serve.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

So maybe just last question as we wrap up, thinking about your priorities for capital allocation in the business. Talking to you, the entire management team on a quarterly basis, I think we've been sort of indoctrinated that you're not about big M&A. That's not really the way you're wired.

You sort of build things. You don't necessarily buy them, but you have done some tuck-in acquisitions and looked at content libraries and things like that. How should we be thinking about the priorities for capital inside the business that you think would line up with the highest amount of ROI or output in the business over the next 3 to 5 years-

Gregory K. Peters Netflix, Inc. - Co-CEO, President & Director

Yes. I mean, our top priority is to fuel the growth of the business by focusing on the core that we've been focusing on before. So a lot of that means incremental content spend. Part of that means investing in new initiatives like games or advertising.

A second order component for this is when we very selectively find M&A opportunities that we think meet all of our criteria. And really, it's about the ability to grow faster because of that inorganic move rather than we can do organically. We'll do those. But I would say we -- as you said, we've been very, very choosy about that because we think that we can lose a lot of opportunity cost and management attention by doing a bunch of stuff that's very complicated versus just focusing on the core.

And then the last part, we returned basically to investors that -- that's the last bit. But I would say just on that first point, just to note it, you mentioned capital allocation and such. And obviously, we're trying to think about where is that place that we can deliver the most incremental value by investing in incremental dollar. We're looking at that.

But first and foremost, the biggest thing is if we can just actually execute against the investments that we're making already, TV shows, film, games that are 10% better, that is the highest leverage, the most impactful thing we can do. It's what our users care about the most. And so we're putting the most amount of our energy and attention on making that better.

Eric James Sheridan Goldman Sachs Group, Inc., Research Division - Research Analyst

Okay. Well, please join me in thanking Greg and the whole Netflix team for being part of the conference this year.