

Netflix, Inc., Q1 2022 Pre Recorded Earnings Call, Apr 19, 2022

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Corporate Participants

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

Spencer Wang Netflix, Inc. - Vice President of Finance, Corporate Development & Investor Relations

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

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

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

Conference Call Participants

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Presentation

Spencer Wang Netflix, Inc. - Vice President of Finance, Corporate Development & Investor Relations

Good afternoon, and welcome to the Netflix Q1 2022 Earnings Interview. I'm Spencer Wang, VP of IR and Corporate Development. Joining me today are Co-CEO, Reed Hastings; Co-CEO and Chief Content Officer, Ted Sarandos; COO and Chief Product Officer, Greg Peters; and CFO, Spence Neumann. Our interviewer this quarter is Doug Anmuth from JPMorgan. As a reminder, we'll be making forward-looking statements, and actual results may vary.

With that, Doug, I'm going to turn it over to you for the first question.

Questions and Answers

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Great. Thanks, Spencer. So your tone in the letter today around competition, maturity and macro factors is very different than it was 3 months ago. I was hoping that you could start out by just walking us through how your views have changed over the past few months.

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

Yes, Doug. I mean I think our views are a little different because our numbers are a little different. If we had made our 2.5 million guidance, I think that was consistent with our thesis. And the lower acquisition really forced us to kind of tease apart what's going on. And as we put in the letter, COVID created a lot of noise on how to read the situation, boosted us a lot in 2020. And then in 2021, I think we thoughtfully said it was mostly pull forward, which was the logical conclusion.

But now, coming into 2022, that doesn't really hold. So then pushing into it, we realized, with all of the account sharing, which we've always had, that's not a new thing, but when you add that up together, we're getting pretty high market penetration. And that, combined with the competition, is really what we think is driving the lower acquisition and lower growth.

So on the 2 parts, we're working on how to monetize sharing. We've been thinking about that for a couple of years. But when we were growing fast, it wasn't the high priority to work on. And now, we're working super hard on it. And remember, these are over 100 million households that already are choosing to view Netflix. They love the service. We just got to get paid at some degree for them.

So that's part of it. And then two, it's really -- we got great competition. They've got some very good shows and films out. And what we've got to do is take it up a notch. And I'll tell you that we're all pretty -- I know it's disappointing for investors, and it is for sure. But internally, we're really geared up, and this is like our moment to shine. This is when it all matters. And we're super focused on achieving those objectives and getting back into our investors' good graces.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. The only thing I might add, Reed, is just that we put a finer point on kind of elaborating on what we're seeing in terms of slowing growth and near-term slowing growth. But the long-term addressable market, we believe, is unchanged in terms of all broadband households. It's just that we have a better sense that COVID clouded in terms of these near-term limiters to penetrate that growth and capture that market. So that's one of the things that we put a finer point on this letter, but I just want to reinforce that the core addressable market is still there, and that's what we're still growing into, Doug.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. So maybe just in terms of the recent trends, if we could talk about 1Q a little bit more. You lost 200,000 subscribers or gained 500,000 ex the Russia removal. Hoping you could perhaps parse out a little bit around some of those factors that you mentioned. It sounds like acquisition might be at the top of the list, and you've talked about that for a little while now, but hoping you could kind of isolate some of those factors. And then talk to us about how that informs your 2Q guide for a loss of 2 million subscribers.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Sure. I'll take that, and then others can fill in. So as you said, Doug, we guided to 2.5 million paid net adds. We delivered 0.5 million, if you exclude Russia. So there's really a 2 million miss in our Q1

actuals versus guidance. And what's really reflected there is acquisition growth was consistent with what we expected. We were seeing that slowdown when we did the guide, and it played out as expected. The difference is really some slight elevated churn throughout Q1. And this is pretty small. So retention was still very good, but we're talking about it like 0.2 to 0.3 percentage point, but on our big member base, that has a pretty big flow through.

It's a combination of factors there. We talked about interrelated factors in the letter, but one very directly, that Russia's invasion of Ukraine had some spillover effect in other parts of EMEA. We saw that in the Central and Eastern European countries. There were some elevated churn. We also saw probably some -- a little bit more macro strain in some countries, some parts of the world, like Latin America, we mentioned that on the last call, but that was elevated, and just a little bit more seasonality in the business.

We suspect some of that is those macro factors we mentioned and maybe a little bit of competition on the margin as well. So that's really what we saw in Q2 -- I'm sorry, in Q1. And that's really what's reflected in Q2, which is sort of the continued trends we're seeing in acquisition and this -- it's a -- that slightly elevated churn to probably continue through the quarter. It's just a softer seasonal quarter for us typically, and that's what's reflected in the guide, is a little bit of softer seasonality and the same -- essentially the same acquisition and retention trends.

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

And maybe I could pick it up and talk about the first 2 factors you want a little bit more detail on. And we have this addressable market that's expanding over time in every country that we're operating in. It's a bunch of enabling factors, like broadband and smart TVs. And then in some countries that we're operating in, where we've been operating the longest, like the U.S. is a great example, we have really significant high penetration of viewers into that near-term market potential. And that was

really boosted by sort of this growth at the beginning period of COVID and the lockdown.

Now that viewer penetration is made up of 2 groups. One is a group that's paying us, which is great. And then there is a group of viewers that are not paying us, and they're sharing someone else's account credential. And we really see that second group is a tremendous opportunity because they're clearly well-qualified. They have everything they need to do to get to Netflix. They know what the service is. They found titles that they want to watch. And so now, our job is really to better translate that viewing and the value that those consumers are getting into revenue. And the principal way we've got of going after that is asking our members to pay a bit more to share the service with folks outside their home.

So if you've got a sister, let's say, that's living in a different city, you want to share Netflix with her, that's great. We're not trying to shut down that sharing, but we're going to ask you to pay a bit more to be able to share with her and so that she gets the benefit and the value of the service, but we also get the revenue associated with that viewing.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

So maybe let's follow up on that a little bit more, Greg. We'll come back to some of the more recent trends in a moment. But I guess, when we think about account sharing, and just curious about the early testing that you're doing when you think about Chile and Costa Rica and Peru, I guess now, it's pretty clear to see why it's the right time to do this in a bigger way, but how do you think about rolling that out in the U.S.- And what will the implementation actually look like-

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

Yes. I mean first, it's important to note that we're trying to find a balanced approach here, and we're trying to basically come up with a model that supports a customer-centric approach. It still puts

members in charge, it supports member choice, that delivers great entertainment value and sort of all of the options that we've got. But also, very importantly, allows us to bring in revenue for everyone who's viewing and who gets value from the entertainment that we're offering. And then obviously, we're doing that so that we can invest then into more great content and a better service for everyone.

So there's a bunch of factors that we're working through. That's why we've deployed the test that we have. And frankly, we've been working on this for about almost 2 years. We -- about a year -- a little bit over a year ago, we started doing some light test launches that we -- informed our thinking and helped us build the mechanisms that we're deploying now.

We just did the first big country test. But it will take a while to work this out and to get that balance right. And so just to set your expectations, my belief is that we're going to go through a year or so of iterating and then deploying all of that so that we get that, sort of that solution globally launched, including markets like the United States.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. That's helpful. And maybe, Spence, just on that point, maybe if you could just walk through the accounting a little bit here. And how do you think about the uplift, whether more of it would come from ARM or from subscribers over time-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. That's great, Doug. You kind of nailed it, which is, as you heard from Greg, we're looking to monetize sharing and kind of meet our members where they are. So you should expect that member numbers or subscriber numbers are sort of less relevant over time because these -- it may very likely show up in ARM.

So you should think about it as engagement and average revenue per member, probably increasingly important, and then obviously, revenue growth, which we've always said we're trying to optimize, both near- and long-term revenue growth, to drive that positive flywheel of reinvestment in the business. So it's not that there isn't going to be a P times Q. There's still a Q, but increasingly important is probably ARM and engagement and revenue overall. Yes.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

So -- and just to clarify there, sub accounts will not count as subscribers, they will just...

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

That's right. That's right, that's right. So it's less distinctive of an individual household account.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. And then in the process though, as some of those current shares outside the household do not become sub accounts, you'll pick up some of those subscribers separately, in addition.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

That's right. And as Greg said, we're still working through the ultimate solution here. So we don't exactly know how that's going to play out, but you should assume that it's -- that there's kind of less importance on an individual household account number, and therefore, what's more important is revenue viewing engagement, so viewing engagement, overall revenue growth and ARM as a key metric.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. Let's go back to acquisition for a minute. So you noted it has not returned to pre-COVID

levels. What are the ways that you can influence acquisition beyond account sharing, which we talked about, and then beyond, of course, just creating great content-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

[Ted, do you want to] take that-

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

It shouldn't be any more complicated than that, Doug. Honestly, we've got to compete and we've got to make -- continue to improve on the core service, which -- right, which is making TV series and films and now, games that people really love. That's what we're really focused on. And I think that that's a thing that I think we continue to grow the business in.

Now we've talked about being highly penetrated in some of those core markets with users, which means that it's harder to get them to join Netflix if they're already using Netflix. So we got to figure out these different models that we're doing now to more effectively monetize that viewing.

As Spence said earlier, the engagement is really key. As you see in the Nielsen data that we published in the letter, our engagement has been super healthy. Even with this heightened levels of competition, our engagement -- our viewing has been very, very steady, holding on to our market share in the space.

But on top of that, in the quarter, while we were not happy with the top line subscriber growth, we definitely saw that the new season of Ozark, the Inventing Anna, The Adam Project and certainly, the biggest of them all, the new season of Bridgerton, delivered exactly as expected, actually quite -- actually a little bit bigger than expected with fans. Now of course, we think we've got to do that, and we have to have an Adam Project and a Bridgerton every month and to make sure that that's the

expectation of the service constantly.

So we're definitely feeling the higher levels of penetration in those markets of users, and we're definitely feeling a heightened level of competition for sure. And so we've just got to continue to do what we're doing and improve each of those things.

Now how do you improve content- We've been doing this for a decade. Well, first of all, that's about 90 years less time than all of our competitors have been at it. But I look at things like things we've been doing over the last few years, that we've been improving it, so big movies.

Just a few years ago, we were struggling to out-monetize the market on little art films. Today, we're releasing some of the most popular and most watched movies in the world. Just over the last few months, things like Don't Look Up and Red Notice and Adam Project, as examples of that. And that's just in the few years of improvement on one line of content.

Another is unscripted. We didn't -- we made 0 unscripted about 3 years ago. And today, creating these big unscripted brands and growing original unscripted universes, like Too Hot To Handle and Ultimatum, that's really popular right now around the world, Selling Sunset, these are kind of large, growing original unscripted universes. So we've come a long way from Ultimate Beastmaster, my point is.

And I think about things like our content in Korea. Again, pretty new to the market. Everybody knows about Squid Game. It was probably the biggest show in the history of television. And just a few years ago, we were producing no original content in Korea. And while we all know about Squid Game, there's D.P. and All of Us are Dead. And a slew of original contents are thrilling our members in South Korea and fans around the world. So we're continuing to improve constantly in getting

those moments that can lead to something like a Squid Game or a Bridgerton, constantly.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Got it. Okay. I want to go to pricing just from -- I mean there's a lot of -- you kind of have this confluence of trends basically that are taking place here. But Greg, I was just hoping you could talk a little bit more about the recent price increases, primarily in the U.S. I know it's still early in the U.K. But I guess, to what effect -- you did mention slightly elevated churn in 1Q. I guess how much was that a factor- How is this price increase being received currently-

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

Yes. So top line is that the price changes, as the last several price changes we've done, are generally performing as we've seen the price changes over the last several years. So there's no sort of fundamental difference in performance. First of all, there -- these price changes are significantly revenue-accretive. So that's an important top-level heuristic. And we sometimes see a blip in churn. In some markets, we also see a marginal impact on acquisition. Often, these effects are transitory. So it's sort of a change effect and we move through it and win those folks back.

But I would say the big takeaway is the vast majority of our members recognize that we're investing what they pay us in the incremental amount that we're asking them to pay us into more entertainment value back to them, back to our members, more great stories, bigger films, more variety of content and higher quality of programming.

So we generally plan to continue doing what we've been doing. But I would also say it's -- we're also working hard to ensure that we have a range of price points across a set of plans with different features that deliver on different consumer needs and consumer desires, while making sure and be very focused that we retain good accessibility to the service for a broad group of people in every

country we serve at sort of that entry level. So no major changes there, and we're keeping sort of the plan that we've got in place.

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

And related...

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

One thing, just -- go ahead, Reed. Sorry.

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

Related to that, Greg has done great work on the price spread. And one way to increase the price spread is advertising on low-end plans and to have lower prices with advertising. And those who have followed Netflix know that I've been against the complexity of advertising and a big fan of the simplicity of subscription.

But as much I'm a fan of that, I'm a bigger fan of consumer choice. And allowing consumers who would like to have a lower price and are advertising-tolerant get what they want makes a lot of sense. So that's something we're looking at now. We're trying to figure out over the next year or 2. But think of us as quite open to offering even lower prices with advertising as a consumer choice.

Spence, do you want to keep going-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

My point was quite tactical. I'm sure Doug is going to want to follow up perhaps on your point, but I just want to be really clear on the point on Q1 performance and when I talked about slightly elevated churn relative to our expectations. That was not due to our price increases. So the price increase

played out, as Greg said, consistent with our expectations. We just saw some slight uptick in seasonality for the other reasons I mentioned, some of the strain in Central and Eastern Europe, some of that macro strain we saw and maybe a little bit of competition on the margin.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. Reed, you pulled me forward to advertising, so I do want to get there, but it was a little further down on the list, but one last point, just on pricing. Given all these factors that you've talked about and written about in the letter, is there a change to your view on long-term pricing power-

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

I would say our general view is unchanged. And again, we don't have in our priority a target in markets or whatever. We've been sort of finding our way through adding more value, keeping that virtuous cycle going, that big spread that Reed mentioned. And again, we're seeking ways to actually take that spread even wider, and that's why I think ads is an exciting opportunity for us that we want to explore more. But no fundamental shift in our thinking about how that process works or the potential that we have in that.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. All right. So let's shift to ads...

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

And Doug, I would just add that that's just directly related to creating the content that people find to be incredibly valuable. And our long-term view of our ability to continue to do that is unchanged.

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

And there's a long history of that across entertainment for decades, right- If people love film and TV

and games content and if we can continue to deliver that value, deliver that engagement, there's a long history of people being willing to pay for it and as Reed said, also advertisers trying to reach those audiences. So we believe we can kind of drive that value over time and then monetize it so long as we deliver on that entertainment value.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. So on advertising, I think, certainly, Reed, preserving the simplicity of the product has been very important. But I think you've also kind of talked a little bit about, at least in the past, perhaps not seeing the incremental profit potential as well in terms of the lower-priced ad-supported tier. Has that view changed-

And I guess, if you were to pursue an ad-based model on the lower tier, how long would it take you to get there and kind of roll that out- And what are the key things you need to do along the way-

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

Yes. It's not a short-term fix because once you start offering a lower-priced plan with ads as an option, some consumers take it. And we've got a big installed base that probably are quite happy where they are. So think of it as it would phase in over a couple of years in terms of being material volume.

And in terms of the profit potential, definitely, the online ad market has advanced. And now, you don't have to incorporate all the information about people that you used to. So we can be a straight publisher and have other people do all of the fancy ad-matching and integrate all the data about people. So we can stay out of that and really be focused on our members creating that great experience and then again, getting monetized in a first-class way by a range of different companies who offer that service.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Got it. And is it fair to think that it would be something you would test in a few small markets to start out and then kind of move along-

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

We're probably not that advanced, but no, I think it's pretty clear that it's working for Hulu. Disney is doing it. HBO did it. I don't think we have a lot of doubt that it works, that all those companies have figured it out. I'm sure we'll just get in and figure it out as opposed to test it and maybe do it or not do it. So I think we'll really get in.

But again, it would be a plan layer, like it is at Hulu. So if you still want the ad-free option, you'll be able to have that as a consumer. And if you would rather pay a lower price and you're ad-tolerant, that's also -- we're going to cater to you also.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. Let's shift gears to content. Ted, the 2Q slate includes a bunch of returning hit series, like Elite, Ozark, Stranger Things, Umbrella Academy. How are you thinking about that slate in 2Q- And maybe if you could also talk a little bit more about the back half as well.

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

Yes. So those -- they are proven brands for us, of course, and going into the -- I'll start with Stranger Things because the new season of Stranger Things is a super-sized season that's why we cut it in half. Each episode of the new season feels like a big feature film. It's really phenomenal. We're super excited about how it's landing creatively and how excited fans are for it. And I think that's going to be obviously the big story coming up later in the quarter.

The new -- the finale of Ozark, which is our Emmy award-winning fan favorite, the Season 3 was a killer, and Season 4 brings it home in a really incredible way. We're also wrapping up our longest-running show, Grace and Frankie, with an incredible final set of episodes coming up later this month that we're really excited about.

And the -- we've always said we ran through the COVID delays that had us back-stack 2021. 2022 is not quite as back-stacked, but it does build throughout the year, and it builds up to some of our big event films in Q4 that we're really excited about, like Knives Out 2, Gray Man coming up before that from the Russo brothers, who we have had a lot of great success with, really fantastic action movie with Ryan Gosling.

So the upcoming slate in '22, we're confident, is better and more impactful than it was in '21. And we think '23 will be better and better and more impactful than '22. So we're really -- the content flow has been fantastic, and we're really excited about it.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

And just to follow-up on, you mentioned...

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

I should say, obviously not to forget, our international content, Elite season 5, as you know, continues a really great run for us there. We have a Korean version of Money Heist coming up, called Money Heist: Korea, that's really fantastic. A new movie from Omar Sy, The Takedown, from France; a great film from Germany, All Quiet on the Western front; and a great slate of new content from Japan, Cube, First Love, that we're really excited about the output from all of our international territories as well.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Ted, you mentioned splitting Stranger Things into the -- into different parts. And you've done that with a number of series over the last few years. I guess as streaming proliferates, it feels like there's this increasing debate around the value and stickiness of providing a full season of content all at once. So just curious about how your thinking has evolved here, given that we are seeing more of these series kind of broken into 2 parts essentially.

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

Yes. Splitting the seasons actually had a practical reason before, which was the COVID delays and all those projects that kind of led us to splitting some of the seasons. But what we found is that fans kind of like both. So being able to split it gives them a really satisfying binge experience for those people who want that really satisfying long binge experience. And then being able to deliver a follow-up season in a few months versus, in some cases, the new season of Stranger Things is coming nearly 3 years after the last one or more than 2 anyway.

And so we're really -- being able to split the season when you can deliver both halves of it in a really high-quality way, like in the case of Ozark, had additional episodes, so both experiences were really satisfying for the binger or the one-at-a-time viewer as well.

And we've also had great success in these kind of mini batches of our unscripted shows. So doing 1 to 3 episodes a week every week has also been great and still true to the binger by giving them more than 1 episode to watch at a time.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

You've talked about cash content spending of around \$18 billion this year. In a period of slower sub

growth, are you more likely to pull back to manage costs or to lean in to further differentiate the offering-

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

Look, I think we've got to continue to invest in the content, both in the quality and the variety of the content. And our -- we will continue to grow the content spend relative to prior years. And I think, in general, we look at the -- what's most important though, and there is the impact of the slate. And we're very focused on making sure that the impact of the slate continues to grow. We should be able to, 10 years in now, get more bang for our buck relative to what we've done ourselves and relative to the market.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. And Doug, to that point, obviously, revenue growth has slowed. We're going to be responsible in terms of how we manage the business. We talked about in the letter, during this period of slower revenue growth, we're going to protect our operating margins, roughly in line with what we guided to for this year. So we're holding to our guidance for the full year '22.

But for -- presumably, for the next 18, 24 months, call it the next 2 years, we're kind of operating to roughly that operating margin, which does mean that we're pulling back on some of our spend growth across both content and noncontent spend, but still growing our spend and still investing aggressively into that long-term opportunity, but we're trying to be smart about it and prudent in terms of pulling back on some of that spend growth to reflect the realities of the revenue growth of the business.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

So just to clarify, only because you've been saying it for many years now, the 300 basis points kind

of per year over a multiyear period, obviously, we were not going to see that this year, but it sounds like over the next couple of years, you're thinking more flattish until you get subscribers really growing in a bigger way.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, we get revenue growth. Again, kind of revenue engagement are going to be primary. We'll also get subscribers going. So there will be subscriber growth. But primarily reaccelerating that revenue growth, we believe we have multiple levers to do that. We have high confidence in monetizing sharing as we talked about. We talked about things like perhaps adding an advertising layer and obviously continuing to improve the service, grow engagement, grow revenue.

So we have high confidence that we will accelerate revenue. When we do, we also have our commitment to continue to gradually grow our operating margins. But let's first get our revenue growth reaccelerated, and then let's talk about the pace of that margin acceleration.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

And Spence, what does all of that mean for free cash flow kind of near term and then over the next couple of years- I mean 2022 is certainly looked at as like the first year of kind of sizable and sustainable free cash flow.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes, and that continues. So we're, as I said, we're managing the business prudently for all of our stakeholders. We'll be positive free cash flow this year, consistent with our expectations going into the year, and we'll continue to build on that in the years going forward. So that's our expectation. That's what we're still planning towards. I don't know, Spencer, if you would add to that maybe.

Spencer Wang Netflix, Inc. - Vice President of Finance, Corporate Development & Investor

Relations

No, I think you hit it right on the head, Spence.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. I wanted to talk about India a little bit. You cut prices significantly in December across plans. But you've certainly pointed out that cable in India is around \$3 a month. Just curious what the response has been like. Do you still view those changes as revenue-accretive- And what are you seeing in terms of maybe early behavior from some of those incremental subscribers-

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

Yes. I would say, to your last point, the incremental subscribers are largely behaving similar to the subscribers we've added over the last 12 months. So not a fundamental difference. And really, this was a bet in terms of long-term revenue maximization, which is sort of how we think about the top level, the valuatory model we have for these things.

And it was stimulated specifically by the fact that Ted's team is doing some incredible work on Indian content, and we saw the slate there. And we're really excited about a bunch of titles that were coming down and thought there was an opportunity to broaden the audience that got to see those titles.

And so we've seen that effect definitely take hold where we have an additional bump in subscribers that will now get to see that content. And the bet is that those folks will enjoy those titles and that they will talk enthusiastically about those titles to their friends, their family, their coworkers, and that will lead to another sort of positive momentum on the flywheel of sign-ups.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

And Ted, can you elaborate a little bit more just on the content in India and I guess, just how you're thinking about kind of overall product fit at this point in the market-

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

Yes. The product fit incorporates subscription prices as well and willingness and ability to pay. So we have seen a nice uptick in engagement in India. So we're definitely taking it in the right direction.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. I want to talk about gaming a little bit. I think, Reed, you've discussed it in the past as perhaps the next genre of content beyond TV and beyond film. I'm curious how you would characterize your progress so far.

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

I'm really happy with what the team has built, a big capacity to be able to provide our members with interactive and gaming experiences. We've had some nice successes, which I'll have Greg talk about. So I think we're building capacity, frankly, faster than we did when we entered film. So that's very encouraging. So excited, and you've seen we've been doing these small acquisitions to build up the know-how and the creative chops to be able to make some really great gains.

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

Yes. And just to pick it up -- sorry, Doug, do you want to...

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

I was just sure it's where you're going. I was just going to ask what the kind of puts and takes are around owning versus licensing IP and what the appetite is for further M&A going forward.

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

Sure. We're open to both models. But I would say, we're very enthusiastic about building internal capacity. And we're doing this both from sort of assembling it organically as well as through acquisition, which is a key part of our strategy to be able to build the capacity to produce the games titles that we think are really going to unlock value for our members. And we're learning more and more every day from the licensed titles that we've got, which is helpful.

But you can sort of -- there's an early glimmer of where we're trying to head with this with the announcement we just recently did with a launch of both a game and an animated series around the Exploding Kittens IP. I don't know if you're familiar with this card game, but it's a super fun physical card game that we're now going to bring to form in both an animated series and a game. And we'll have some interplay between these 2 different modes for fans of that IP. But that's sort of the -- an initial step on a long road map we have around thinking about how do we make the film and series side and then the interactive games experience, sort of the interplay between those, magnify the value that our members are getting from both.

So it's like a 1 plus 1 equals 3 and then hopefully 4 and then 5 situation. So that's sort of the multiyear vision that we've got behind it. And really to deliver on that, we think the internal development capacity is going to be key because we can obviously have those folks be very specifically focused on the opportunities that we see there.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

And what are the benchmarks or milestones perhaps that you need to see around gaming to lean in even more here in terms of content budget- And are there any metrics or numbers that you can provide so far-

Gregory K. Peters Netflix, Inc. - COO & Chief Product Officer

I can certainly provide the framework that we're thinking about it. And it's a top-level priority for us, and we're very focused on it. And so bottom line, we think about games and delivering value to members and reflecting that back into the business through both acquisitions. So we're aiming to have titles that land, that create conversation and enthusiasm and buzz, that drive more people to sign up for the service and then obviously in retention as well. Engagement is that primary leading indicator that we have for retention and sort of value delivered, so we're looking at both of those very, very carefully.

And similar to how we think about it on the film and series side, obviously, we want to make sure that the investment that we're making in any given title is sort of calibrated to that business value that we're getting out of it. So we're building our understanding of how those metrics work together so that we can have a good sort of fitness function around the work that we're doing and making sure that it's delivering value. And that's really the sort of the go signs for us that we've got it figured out, and we want to ramp and scale the investment.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. Ted, Netflix shares are back to, of course, back to pre-COVID levels, but they're also around the same level they were at nearly 4 years ago, in 2018. So maybe you could just talk about your ability to continue to hire great talent within the company.

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

Look, I think that when people look to join Netflix, they join Netflix because they believe in this long-term vision of the move into away from the near television and kind of transactional movie business into a business that could be much more satisfying for consumers and deliver on the

culture and deliver big audiences and really move the market. One of the things I would say is, by way of example, is what we can do around the world.

Our teams are on the ground, our creative executives, our business executives, are on the ground all over the world, are much more empowered. They are much more collaborative. And they're much more risk-tolerant than their counterparts all over the world, which enables -- it creates an ecosystem for something like Squid Game or for like a Lupin or La Casa de Papel to exist, and that is our ability to do that and to bring kind of global notoriety to local content players is unprecedented and it's pretty unrivaled at this point.

So I think people look at that as something to be very exciting to be close to. And that the long, long term, the long-term story is, the broadband household penetration, we're going to get to those houses. There's a long term and a short term. In the short term, you've got highly penetrated users, and we're working through that right now. And in the long term, you've got things like smart TV sales and a bunch of macro factors that slow that down, that we all see that as temporary, including everyone who works at Netflix. So everyone really does see the long play.

And I know I've been here for more than 20 years and have been through a couple of these. And yes, they don't feel great in the moment. But man, it feels great to come out on the other side of it. And I think everyone is knowing that that's going to come up, and we'll come out on the other side of it.

Spencer Wang Netflix, Inc. - Vice President of Finance, Corporate Development & Investor Relations

Doug, we have time for 2 last questions, please.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. I wanted to -- just back to content for a minute. You've driven a lot of attention to Formula 1 with Drive To Survive. Given the success there, sports is obviously a frequent topic, how are you thinking about sports- There's certainly more rumblings around doing things related to NFL, media and NFL films. How are your intentions shifting perhaps here at all-

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

So look, we look -- we expand our content verticals constantly. For us, I look at games as a great example of adding something brand-new to the service, something new for our members to enjoy. We're going down the game path because I think it fits us really nicely. Our ability to tell stories and build worlds are very consistent with our existing skill set and culture, and we think that we can build a big revenue and profit stream by adding games.

Why -- we're not quite so sure that you can add the big profit stream by adding sports. Other folks are trying it, and we're going to -- and we've gone down this other path. In the meantime, we're incredibly excited about, as you mentioned, the Formula 1: Drive To Survive as an example of kind of sports-adjacent programming that our members really value.

We've grown the sport tremendously. We're taking that bet in the world of tennis and golf and others coming up. And we also have an incredible sports documentary business that keeps growing. So I'm not saying we never would do sports, but we would have to see a path to growing a big revenue stream and a big profit stream with it.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. And then just to close out. Reed, you've created this very unique, very successful culture within the company over the past 20-plus years. Has anything changed in your view, just from a

cultural perspective, around either content acquisition or in some of the more operational functions-

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

Yes. I mean we changed every year, hopefully, for the better. We don't look at culture as some fixed thing. We look at it as what's going to drive excellence. The North Star is getting excellence. And so we've made a bunch of adjustments as we expanded around the world. We've made adjustments as we've become more original content-centric. So we're always improving. And again, the goal is excellence, and then a culture is a tactic in that journey.

Douglas Till Anmuth JPMorgan Chase & Co, Research Division - Managing Director

Okay. Great. Thank you all.

Spencer Wang Netflix, Inc. - Vice President of Finance, Corporate Development & Investor Relations

Reed, Ted, did you want to close this out-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Hey. Can I say one thing before they close us out, just as a tactical thing, one tactical thing that I should have mentioned earlier, Doug- I just want to make sure there's not a read-through when we guide to negative 2 million paid net adds in Q2. We didn't talk about full year and how -- what we expect. And we're not providing full year guidance, Doug, but I just want to make sure there's not a read-through from negative 2 million paid net adds in Q2 that there's going to be a steady strip down of negative adds. We're not expecting our growth to reaccelerate, our revenue growth to reaccelerate before the end of the year, but we will grow revenue. And there will be paid net add growth.

As we get to the back half of the year, Ted talked about the stronger slate. We get further away from some of the big price increases. We get into a stronger seasonal period. So I just want to make sure that that's understood as you think about the full year, even though we're not providing full year guidance. Sorry, just we didn't get to it.

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

Always good to provide that nonguidance guidance.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Thank you.

Wilmot Reed Hastings Netflix, Inc. - Co-Founder, Chairman, President & Co-CEO

When we look at the last 20 years, like Ted mentioned, we've gone through a lot of changes, and we've always figured them out one by one. It's super exciting. We're going to figure this one out. We got a great team. We lead by a significant margin in streaming, and streaming is continuing to grow around the world. So we have a bunch of opportunity to improve. But coming out the other side, I'm pretty sure we'll look at this as really foundational in our continued journey. Over to you, Ted.

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

Yes. That's well said, Reed. I would only add that -- a reminder to folks is that as we keep talking about competition, remind you that we have always had really tough competition. And all of the players who compete with us today have been competing with us since our first day of streaming, some head-to-head and some through their legacy business models, and they're now migrating to be more head-to-head players while they're struggling to manage their legacy businesses.

So I really like the competitive position that we're in. I love the competitive position that we are

moving from relative to just a couple of years ago. But in every metric that we measure success, engagement, revenue, subscribers, profit, all those ways that we're measuring, I think I like the competitive position that we're coming at it from. And I want to just assure everybody that everyone at Netflix shares that excitement, to come out on the other side of this part of the business.

So with that, I would just encourage you to enjoy the final episodes of our incredible show, Ozark, and our longest-running comedy show, Grace and Frankie, coming up at the end of the month and an incredible slate of films and series coming up in '22. Thanks.