

Netflix, Inc., Q2 2024 Earnings Call, Jul 18, 2024

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## Corporate Participants

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

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, President & Director

## Presentation

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

Welcome to the Netflix Q2 2024 Earnings Interview. I'm Spencer Wang, VP of Finance, IR and Corporate Development. Joining me today are Co-CEOs, Ted Sarandos and Greg Peters; and CFO, Spence Neumann.

As a reminder, we'll be making forward-looking statements, and actual results may vary.

## Questions and Answers

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

We'll now take questions from the sell-side community that have been submitted, and we'll begin with a set of questions on our Q2 results and our forecast.

So the first question on our results come from Doug Anmuth of JPMorgan. So Spence, Doug asks, can you provide some color on how churn is trending and perhaps share some color on what drove revenue growth in the quarter-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes, sure. Thanks, Doug, and thanks, Spencer. We're pleased with our performance in Q2. There was strong performance across the board, good momentum across the business, strong revenue growth, member growth, and profit growth. In terms of that member growth and churn, I'd say that the kind of outsized paid net adds in the quarter was primarily driven by stronger acquisition, a little stronger than we expected, but also very healthy, continued healthy retention in the quarter, and that's across all regions.

In terms of growth generally, there's probably kind of 3 key factors that drove member growth. First, strong performance of our content slate, a wide variety of titles delivered across genres and regions, and I'm sure we'll talk more about that. There was some positive impact from paid sharing that continues. As we've said on recent calls, it's tougher and tougher to tease that out. We're clearly seeing healthy organic growth in the business, but we're also continuing to get better and better at translating improvements in our service into business value, including getting better and better at converting unpaid accounts. And at least on the paid member front, we're also probably benefiting from that attractive entry point in terms of price point and feature set for our ads plan.

So you put all that together and it was a nice quarter for subscriber growth, but even more importantly, a nice quarter in terms of driving healthy revenue growth and healthy profit growth, so

17% reported revenue growth and margins that were up 5 percentage points year-over-year.

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

Thanks, Spence. Doug also has a follow-up question on the results. We noted -- or Netflix noted that India was our #2 and #3 country in terms of paid net adds and percent of revenue growth in the second quarter. Do you feel like you're hitting more of an inflection point in that market- Or is that more about a very specific successful content slate in Q2-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Ted, do you want to take it-

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

Yes. Well, look, I think India's growth is a story that we see around the world playing out very similarly. So you look at the content, the product market fit is what drives our ability to attract members and retain members and monetize with them as well. So I feel like what's going on in the quarter has been this ongoing build. We had this great show, Heeramandi, Sanjay Leela Bhansali. SLB is one of the most celebrated filmmakers in India, and he took on this incredibly ambitious series and brought it to screen on Netflix, directed every episode, and it's our biggest drama series to date in India.

So on top of that, our original films and our license films, films in the pay TV window, immediately following theatrical, continue to thrill our members. So we pick them well. We program well. We improve the product market fit. We improve engagement. We grow members. We grow our revenue. It's the same formula, I think, everywhere we go. And there's certainly plenty of room to grow in India as long as we keep thrilling our audiences there.

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

Thank you, Ted. Our next question on the results relate to operating margin, and the question comes from Jessica Reif Ehrlich of Bank of America. For Spence, how should we think about the pace of margin expansion going forward and the drivers of the margin outperformance this year-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Thanks, Jessica. Well, when we think about margin expansion, we're obviously pleased with how it's trending so far. Our focus, kind of stepping back, is to sustain healthy revenue growth and grow margins each year. So we feel good about what we've been delivering. As you see in the letter, we're now targeting 26% full year operating income margin, and that's up from our prior guide of 25%, and it's up 5 percentage points year-over-year, assuming we kind of land there.

But the amount of annual margin expansion, as we look forward, it could bounce around each year. We've talked about that in recent quarters. It could bounce around because of foreign exchange in a year where that moves or other business considerations. But we're committed to grow margins each year. And we see a lot of room to continue to grow profit margin, absolute profit dollars, and do that over an extended period of time for years to come.

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

Thank you, Spence. Our next question comes from Steven Cahall from Wells Fargo, and it's regarding free cash flow. So the question is, Netflix has raised their full year revenue and margin outlook but did not change their free cash flow forecast of approximately \$6 billion, is this just a pull forward in cash content spend or is there anything else that is impacting your free cash flow

guidance-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

I'll take that. Nothing else impacting it. As we've noted, as you noted, we continue to expect approximately \$6 billion of free cash flow for the year. There's always some uncertainty in terms of timing of things like content spend, sometimes timing of taxes. So that kind of keeps us right now holding at approximately \$6 billion, but no other read-through beyond that.

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

Thank you, Spence. We have our quarterly question on paid sharing next from John Hodulik of UBS, which I'll direct to Greg. The question is, do you still have upside from the paid sharing initiative- And have you moved forward on mobile paid sharing- And if so, how big of an opportunity is this-

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

Yes. Spence already gave some commentary on this quarter's performance. I'll talk about it sort of more from a long-term perspective. And as we said for a couple of quarters now, we're at the point where we've really operationalized paid sharing. So it's just a standard part of our product experience. And we think about the improvements there. And to be clear, we do see still some significant areas for improvement there. But we see those as part of all the opportunities essentially we have to improve the product experience. So we're constantly prioritizing all those opportunities based on what we think is the expected value.

And just to give you a sense of how wide that is, even things that we've been working on for over a decade, like our sign-up flows or the user experience that a consumer has when they want to sign

up for Netflix, we have found multiple improvements just over the last couple of quarters in those flows, which have delivered material incremental revenue wins. So we're going to continue to look at all these opportunities. We're going to improve things for members and for the business. We'll iterate, we'll improve them.

And we think of this as just a constantly improving value translation mechanism. So we want to take all the value that's created by Bela's teams in film and series. We got more live events, games, and we want to translate that more effectively into revenue so we can continue to invest and keep that flywheel spinning.

And if we can keep improving that value translation mechanism each quarter and keep improving the entertainment offering that it operates on top of, those 2 things compound and drive the business. They'll drive the business through the rest of the year. It'll drive through '25 and beyond. And that really allows us to more effectively get more of those 500 million-plus and growing smart TV households around the world that aren't currently members to sign up. And it also drives our other levers of growth, like plan optimization, extra member, ads revenues and pricing into more value. So I think about this as more of the constant work we are doing to improve for decades to come.

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

Thank you, Greg. I'll now move us along to a series of questions about advertising, and we'll start first with Barton Crockett of Rosenblatt, and I'll point this question to Spence. You say that advertising is not a "primary" driver of revenue growth yet. Can you provide a little more clarity on what that means for both '24 and '25-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes, sure. Thanks. So stepping back, I'd say we're very pleased with how we're scaling our ads business. We talk about that in our letter. We've been primarily focused on scaling reach. But if you think about even just the revenue portion of ads, it is growing nicely. The rate of growth, it just happens to be growing off of a relatively small base because we're starting from only 18 months into ads. So to have the kind of a primary revenue impact across a business that has been primarily subscription for a long time, that just takes some time. So we're scaling well through reach, through engagement, through growing inventory, and that represents opportunity for us over a multiyear trajectory to have a big and increasing revenue and profit impact on the business.

And stepping back, we feel really good about our position and our ability to sustain healthy revenue and profit growth. Ads is kind of one more tool in our tool chest there. We're doing the hard work now to improve our service across the board. So we finished the year strong in '24 and drive growth into '25 and beyond.

We're small in every measure. We talk about it a lot. We're small in share of TV time. We're small in terms of penetration of connected TV homes. We're small in revenue market share. And we're going to grow in those areas across the board, and ad is going to be a bigger piece of that puzzle, just we won't have it be primary in '24 or '25, but it contributes. It's a meaningful contributor. That's what we've said and that's what it is doing. And then when we get into '26 and beyond, it can be even more meaningful and hopefully, it becomes the point where it is a primary contributor given all of that engagement and reach that we're building.

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

Thank you, Spence. A follow-up question on advertising comes from Ben Swinburne of Morgan

Stanley, and I will direct this to Greg. Looking to your advertising revenue ramp into 2025, what are the key areas that need to improve to bring in significantly more revenue- Can you talk about the opportunities and challenges scaling up your direct sales efforts and leveraging third-party sources of demand, primarily programmatically-

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

Yes. We've said many times, our #1 priority, first priority, is scale so we've been heavily focused on that. And the great news is we've seen great progress in that regard. We've been scaling our ads member base very quickly from 0 2 years ago to where we are today. And we're excited to say that we're on track to achieve our critical-scale goals for all of our ads countries in 2025. Clearly, we expect further growth beyond that, but that represents a great threshold to get to and then to build more scale and more attractiveness from there.

So that allows us to shift more of our energy now on more effectively monetizing that rapidly growing inventory. And there's sort of 2 main fronts here. One is our go-to-market capability. So we're adding more sales folks, we're adding more ads operation folks, building our capabilities to meet advertisers. A big component of that is giving advertisers more effective ways to buy Netflix. It's a big point of feedback that we heard from advertisers. So by adding demand sources that are already integrated into their processes and their systems, that just makes it easy for them to buy. And in some cases, that was a threshold item for them to buy in us, so we're going to expand the number of buyers as a result of that.

And then the other big area of growth for us is the sort of product and technology stack. We mentioned we're building our own ads server now. We're excited to launch that in Canada this year and then the rest of our ads markets in '25. That unlocks a whole set of innovations that we expect that are focused on a better user experience for our members on those ad tiers and better advertiser



features. So think a lot about this as targeting relevance, more capabilities in that space as well as thinking about how do we do ROI, ROAS, incrementality measurements, all the things that we want.

And ultimately, really, this is about bringing what has been amazing about digital advertising in terms of targeting relevance, measurement, et cetera, and what we think is amazing about TV advertising, which is an incredible creative format, better creative format in many cases than digital, as well as the ability to put those advertisements next to content, titles, stories that are impacting the social conversation, which is important for advertisers. So lots of work ahead. We've got years of work to do but that's the line that we're moving forward with.

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

Thank you, Greg. From Steven Cahall, his question is, given what we think are pressures on AVOD CPMs and the 10 hours per account per month of viewing time you disclosed at the upfront for ad-supported members, what's the likelihood that ad-supported arm drops below ad-free member arm in the second half- Would you consider raising the price of ad-supported tiers as an offset-

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

Okay. So perhaps starting by just providing some clarification here, our engagement on our ads plans is very similar to what we see on our non-ads plans. That's close to the approximately 2 hours of viewing per member per day across all the plans that you can calculate globally from our engagement reports. So you should think of that as roughly how our ads plan members are engaging as well.

And then on terms of ads arm, so ads arm, which is, of course, the combination of the subscription amount plus the ads revenue, currently, because we've been scaling so rapidly, we're racing behind

essentially to fulfill all of that increasing inventory, and we're lagging in that regard. So currently, our ads arm is lower than our non-ads arm. And obviously, we look at that as both a goal but it's a revenue growth opportunity for us. As we scale into that, that represents an opportunity to accelerate our revenue growth as well.

So you mentioned price. We think about pricing for ads tier very similarly to how we would think about pricing for our non-ads tier. First of all, I just think it's worth noting that we love having an entry price that's lower. That means we are more accessible for more people in our ads market. That's a great thing because they get access to all the amazing storytelling that we are doing there.

But in terms of raising that price, we think about it similar to how we think about pricing in general, which is it's our job to increase the value that we are delivering to all of our members. We've got more amazing film, more series, the live events that are coming, more games. And when we have signals from our members, this is the amount of acquisition that we've got going on, engagement, what our retention and churn looks like, then we find the right moment to ask our members to pay a bit more to keep that flywheel spinning. And we'll think about that in the ads context just like we would in the non-ads context.

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

Thank you, Greg. John Hodulik from UBS asks, can you provide an update on the CTV ad environment and update us on initial feedback from advertisers on your adtech initiative- What features do you expect to add with the adtech build- And anything you can tell us about the costs associated with it-

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

Sure. There's a lot of excitement amongst advertisers about the work that we're doing. I'd say the primary one, and again, one that we're responding to, which is sort of very tactical and immediate, is being able to provide advertisers more ways to buy on Netflix. So those demand sources is something we heard very clearly from advertisers that it was either a real improvement for them or it was a necessary point for them to be able to buy on Netflix.

So then beyond that, we hear lots of enthusiasm for the things I mentioned before: increasing ads relevancy, targeting personalization, better measurement, incrementality. All these things that we'll be building over the next several years, lots of excitement about that. The biggest negative feedback we get is that we aren't there right now, so advertisers want us to have all those features in place today. We would love to have all of those features in place today, for sure. So we've got the hard work ahead of us of building those as quickly as we possibly can and closing that gap as soon as we can.

But it's years ahead of us to go ahead and keep building these things. And quite frankly, as we build those features, I am quite certain that there'll be more that will come on to the roster that advertisers will be asking for us and more than we'll go be excited about doing.

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

Thank you, Greg. And our next question is for Ted coming from Rich Greenfield of LightShed.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Spencer, sorry to interrupt you, we didn't really answer the kind of cost thing unless I missed it, did I miss it, so I can chime in, if you like. All of what Greg talked about in terms of investing in the business, suffice to say that is all embedded in our margin guidance. So we make trade-offs all the

time with the business where our expenses are up 7% year-to-date, where if you kind of step back, we're on track to be, you can do the math, probably north of \$28 billion in total expenses across our business for the year, and we're still expecting to deliver 5 percentage points of margin improvement.

So we try to run the business like owners, makes smart trade-offs and invest into growth like live, like ads, like games, like product innovation and ads as part of that, both for this year as well as into next year where, again, we expect to drive revenue growth and increase our margins while investing into ads.

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

Thanks, Spence. Yes. Thanks for keeping us honest, Spence. So next question is for Ted coming from Rich Greenfield of LightShed Partners. Is your recent agreement to stream 2 NFL games on Christmas Day signaling that you need live sports to build a robust advertising business- Or are you trying to create a regular cadence of high-profile live events to bring advertisers onto Netflix platform who will then spend across your broad array of entertainment content-

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

Thank you, Rich. It's a great question. And let me back up a minute. We're in live because our members love it, and it drives a ton of engagement and it drives a ton of excitement. And those two things are very valuable. So the good thing is that advertisers like that, too, and they like it for the exact same reason: the excitement and the engagement. So everyone's interest here are perfectly aligned in that way.

When we signaled to the world, when we went live with the Chris Rock: Selective Outrage special

last year ago, is that this company, Netflix, who you love for on-demand viewing for your favorite TV shows and movies, is also, I say also, going to surprise you with amazing exclusive, buzzy, live entertainment. Since then, we've launched a golf tournament with the biggest stars in PGA Golf and Formula One drivers; a tennis match with 2, like, generational titans of professional tennis, Nadal and Alcaraz; a live comedy with Katt Williams; an entire week of groundbreaking live talk show episodes from John Mulaney; that epic Roast of Tom Brady, our biggest live stream yet.

And still to come, we've got a live show with Joe Rogan. We have this hotdog-eating grudge match between Chestnut and Kobayashi that people are remarkably excited about. We have this long-awaited boxing match between Mike Tyson and Jake Paul in November; and on Christmas Day, not just 1 but 2 great NFL football games. So I would call that a really fast ramp, and it leads right into a weekly live coverage of WWE. So it's that thrilling excitement, engaged watching that people are really thrilled about and we're thrilled about, and that we're thrilled that our advertisers are excited about it, too.

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

Thank you, Ted. Rich has a part two to this question, not surprisingly, how do you thread the needle of licensing sports to drive advertising spend without becoming beholden to leagues at renewal-

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

Well, hopefully, exactly the way we're doing it: by making these Netflix events, not necessarily taking on a lot of tonnage from any one league but actually making these games, events, like having 2 NFL football games on Christmas Day and 2 great games, the Chiefs and the Steelers and the Ravens and the Texans, they're both going to be great games, and it really creates a lot of real excitement with the service, and it's one day of football.

So when I look at that and think along those lines, you can see how we solved for that in our WWE deal, which was economics that we like and live with and can grow into and contemplate with that expansion of cost and viewing would be, in that case, as long as 20 years if we want it to be. So I think it's really not a matter of there's an automatic disconnect between you can't do sports and have profit. It's very difficult to have big league sports and profit when you offer them in entire seasons. But when you offer them in this event model that we're building on, we're really excited about our opportunity to do that without the risk that you're talking about right now.

And then beyond that, we are in love with the kind of very profitable storytelling version of sports. So if you can't wait for those football games on Christmas Day, you can watch Receiver right now. It just started on July 10 on Netflix, which is part of that storytelling version of sports.

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

Thank you, Ted. Our next question comes from Kannan Venkateshwar of Barclays. It's a question regarding our engagement. So Ted, could you speak to the underlying engagement health at Netflix- And what are you seeing there-

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

Yes. Look, I think I talked about this a bit on the last call as well. Competition for entertainment is super intense, and we compete for every second of view time we get. So beyond that, kind of that competitive intensity that's always been out there, we also anticipated some headwinds in our engagement because of paid sharing. Remember, we're taking folks who were watching Netflix and not paying off the service, so we thought that our engagement would go down. We took a deep dive into how that was impacting and how we could isolate the impact and look at it as owner

households, so those folks who are not impacted by paid sharing at all.

And what we saw was in last quarter is that, that engagement was holding steady so that much of the engagement headwind was coming from that. But now we look forward a quarter now, I'm not going to get in the habit of releasing this as a new metric every quarter. But looking at that same segment, again, that segment's engagement is actually not just steady but up year-on-year. So we're very excited about that. We think it's a very healthy sign of engagement growth. And even with all of that, so beating down the headwinds of that and beating down competition, we're still about 10% of TV time in every country we operate in. So still lots of room to grow but very pleased with our engagement, but not fully satisfied.

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

Thank you, Ted. Our next question comes from Ben Swinburne of Morgan Stanley. Your primary competitor for more passive home entertainment engagement increasingly looks to be YouTube. What are you doing in terms of programming and product to try and take share from YouTube in the future- Or is this not a focus- Are there key verticals like kids programming where you see YouTube as particularly advantaged- Perhaps Ted, you and Greg can tag team on this one.

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

Yes, sure. Looking at the Nielsen data that just released for June, what you see there is Netflix and YouTube are the clear leaders in direct-to-consumer entertainment. So us and YouTube represent about 50% of all streaming to the TV in the U.S. And we use the U.S. only because that's where we have the data. So really, what we're focused on here is focusing ourselves on that other 80% of total TV time that isn't going to either us or YouTube. So that's both streaming continuing to expand, which it did in June, so the share of TV time grew against linear. And as linear continues to give, I

think there's a lot of opportunity for us to grow as long as we keep executing well.

Now we clearly do compete with YouTube in certain segments of their business, and we certainly compete with them for time and attention. But our services also feed each other really well. So remember, our shows are the most watched and talked about and award nominated. We just came out of 107 Emmy nominations for our slate this year yesterday. And so our teasers and trailers and behind-the-scenes clips and all those kind of things are incredibly popular on YouTube. So in that way, we kind of feed each other pretty nicely.

Greg, I don't know if you want to add anything-

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

Sure. I think it's also important to note that Netflix fulfills an important and differentiated need for both consumers who really want amazing spectacle movies and TV shows as well as an important need for creators who want partners that can share in the risk that's inherent in bringing those stories to life. So you think about shows like Stranger Things or Wednesday, Heartstopper, Outer Banks, these shows create amazing hue and fandom and especially with younger audiences. So it's not just one generation. And it's really hard to imagine how that kind of big creative bet would happen and be possible within YouTube's model.

So to Ted's point, it is very competitive out there. And we also feel confident that our model works. It works well for our consumers, it works well for creators, and it works well for our business and helps us generate significant operating margin.

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



Thank you, Ted and Greg. Our next question comes from Maria Ripps of Canaccord. Netflix' CTO, Elizabeth Stone, recently appeared on a podcast where she said that Netflix is exploring how to integrate generative AI into the platform to improve the member experience. Do you think that technology could have more of a potential impact on the content creation or discovery side- How do you think about the relative impact on engagement from improving discovery versus content-

Greg, over to you for this one.

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

Yes. We've been using similar technologies, AI and ML, for many years to improve the discovery experience and drive more engagement through those improvements. We think that generative AI has tremendous potential to improve our recommendations and discovery systems even further. We want to make it even easier for people to find an amazing story that's just perfect for them in that moment. But I think it's also worth noting that the key to our success stacks, right, it's quality at all levels. So it's great movies, it's great TV shows, it's great games, it's great live events, and a great and constantly improving recommendation system that helps unlock all of that value for all of those stories.

Ted, you want to add something-

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

Yes, it begs the question about the impact on creative with AI going forward, which is hard to predict obviously. But I would say this, I think that AI is going to generate a great set of creator tools, a great way for creators to tell better stories. And one thing that's sure, if you look back over 100 years of entertainment, you can see how great technology and great entertainment work hand in hand to build great, big businesses.

You can look no further than animation. Animation didn't get cheaper, it got better in the move from hand-drawn to CG animation. And more people work in animation today than ever in history. So I'm pretty sure that there's a better business and a bigger business in making content 10% better than it is making it 50% cheaper.

So remember, I think that shows and movies, they win with the audience when they connect. It's in the beauty of the writing. It's in the chemistry of the actors. It's in the plot, the surprise and the plot twist, all those things. And I'm not saying that audiences don't notice all these other things, but I think they largely care mostly about connecting with the storytelling. And I'd say they probably don't care much about budgets and arguably, maybe not even about the technology to deliver it.

So my point is they're looking to connect. So we have to focus on the quality of the storytelling. There's a lot of filmmakers and a lot of producers experimenting with AI today. They're super excited about how useful a tool it can be. And we got to see how that develops before we can make any meaningful predictions on what it means for anybody. But our goal remains unchanged, which is telling great stories.

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

Thank you, Ted and Greg. We now have a question from Ben Swinburne regarding product. And the question for Greg is, can you dimensionalize the opportunity from a new home page- You said that this is the biggest update in a decade, which sounds meaningful. What are the primary areas of improvement you're targeting with this-

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

Yes. It's hard to know exactly at this moment how much benefit that new home page will derive. I think it's worth noting that it's less about the improvements that we're going to deliver initially, but it's more about creating a structure that allows us to evolve and advance more freely than the current structure does.

And in terms of what are the pain points, what are we trying to solve, a lot of this is getting to the increase in diversity of entertainment that we are now offering. So we've been amazing at film and series for a long period of time, but now increasingly, we're adding live events into it. It's live events like the Brady roast, which was incredible, but it's sort of a one-off event that we have to create demand for. It's live events like WWE, which are consistent and repeating, that we want to make sure that fans of that experience have an easy way to access those things. We're increasingly promoting games as well into our service.

So what we found is we need to create structures that allow us to flexibly go from one type of content and entertainment to another in terms of how we're promoting and connecting those. So there's things like that. There's also things like we want to increasingly recognize that we're doing, even in the same content type, different jobs for our users in different moments. And that could be Sunday afternoon family movie time. That would be a great experience that we want to provide exactly the right discovery and choosing experience for versus maybe late on Thursday night when you're coming home and you just want to get into the next episode of the series that you're currently cruising through.

So it's that kind of flexibility we want to provide. Our expectation is that this new structure will allow us to deliver, as the old structure did for a decade, multiple repetitive material benefits to users in terms of engagement, which lead into retention and then revenue. But again, that will be a long iterative journey and mostly, we're trying to take that first step and set us up for that.

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

And less technical too, Greg, the UI is beautiful.

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

There we go. We like beauty as well. Beauty is good.

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

It is. It really is.

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

Thank you. Next question is from Jason Helfstein of Oppenheimer. What have been the early results from phasing out the Basic tier in a handful of your markets- And how does that tie back to success in selling ads-

Greg, would you want to take that one-

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

Sure. As you've seen us do multiple times before, we spent a lot of energy on the right product experience for doing this migration. And then what we do is we roll it out and we test it and we see how that goes and let our members tell us if we did a good job there or not. We make whatever changes in iterations before we then scale it out and roll it even further.

And I think it's worth noting here that we feel like, in this migration, we've got a very strong offering for our members. Essentially, we're providing them a better experience, 2 streams versus 1. We've

got higher definition. We got downloads. And of course, all at a lower price, \$6.99 in the United States, we think that represents a tremendous entertainment value. And it includes ads. And for members who don't want that ads experience, they, of course, can choose our ad-free Standard or Premium plans as well. And then in terms of performance, I'll just let our actions speak for ourselves. When those things go well, we typically roll it out. We've had the confidence to move forward with that change in the U.S. and France, so that's an indicator of how it's going.

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

Thank you, Greg. Next question comes from Eric Sheridan from Goldman Sachs. The question is regarding gaming. Can you provide any update on your gaming initiative and user engagement and your ability to scale your gaming efforts-

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

Sure. Games is a big market. It's almost \$150 billion ex China and Russia, and not including ad revenue, which we aren't participating in, in our current model. And we're getting close to 3 years into our gaming initiative, and we're happy with the progress that we've seen. We've had set ourselves pretty aggressive engagement growth targets. And we've met those, exceeded those in many cases. In 2023, we tripled that engagement. We're looking good in our engagement growth in '24, and we've set even more aggressive growth goals for '25 and '26.

But worth noting that, that engagement and that impact on our overall business at the current scale, it's still quite small. And it's also probably worth noting that the investment level in games relative to our overall content spend is also quite small. And we've calibrated the growth in investment with the growth in the business impact. So we're being disciplined about how we scale that. So now obviously, the job is to continue to grow that engagement to the place where it has a material impact

on the business.

I think you've seen this trajectory with us before, whether it's been a new content genre like unscripted or film or maybe getting the content mix right for a particular country, you can think about Japan or India, which we're now in an amazing place through the hard work of our teams there. We continually iterate. We refine our programming based on the signals we get from our members. And if you look over several years with that model, we can make a huge amount of progress.

We've launched over 100 games so far. We've seen what works, what doesn't work. We're refining our program to do more of what is working with the 80-plus games that we currently have in development. And one of those things that really is working is connecting our members with games based on specific Netflix IP that they love. And this is an area that we've been able to move in quickly in a particular space, which is interactive narrative games. These are easier to build. And we place those in a narrative hub that we call Netflix Stories. Q2, we launched Virgin River and Perfect Match. Starting this month in July, we're going to launch about 1 new title per month into Netflix Stories, and this is amazing IP like Emily in Paris and Selling Sunset. And we have lots more, including very different types of games yet to come in the quarters and years ahead.

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

Yes. I just want to chime in for a second, Greg, if you don't mind. This is why I'm really excited about the opportunity in games, which is the way that -- it's pretty rare for the new content vertical like this to actually complement or draft off of each other. So every once in a while, we get something like Squid Game: The Challenge following Squid Game, the scripted series.

But I think our opportunity here to serve super fandom with games is really fun and remarkable. I think the idea of being able to take a show and give the superfan a place to be in between seasons

and even beyond that, to be able to use the game platform to introduce new characters and new storylines or new plot twist events, now you could do those kind of things and then they can then materialize in the next season or in the sequel to the film. It's a really great opportunity and a rare one where 1 and 1 equals 3 here. And to kind of replicate some of the success we've seen building fandom and with live events and consumer products, this actually fits really nicely into that. So I'm really excited to see where this goes.

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

Thank you, Ted. Thank you, Greg. Our last question comes from Jessica Reif Ehrlich of Bank of America. The question is regarding content spend. Ted, you had targeted \$17 billion in cash content spend this year. You're increasing your sports spending within that. How should we think about your spending on entertainment or non-sports entertainment- And what's the overall content spending growth going forward-

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

Thanks for the question. I would like to just back up a little bit and say that creating TV and films for a big global audience is a creative process. So remember, we're programming for more than 600 million people around the world who are watching us for a couple of hours a day, every day. So we've got our work cut out for us. And that \$17 billion, all those exciting news we talked about earlier are all tucked into that \$17 billion. And that \$17 billion will grow as our revenue grows. It won't grow as fast as our revenue grows but it will grow to accommodate that. .

And I think what's really important and where I think we have a real interesting advantage here is that we have these distributed creative teams all over the world. So what's great about that is they are very tightly wound into the creative ecosystem in all these different countries, the star systems,

the producer systems and more importantly, the culture, what fans in those countries really love. So we've got all these folks working at the same time so that in this creative process, which does have hot streaks and cold streaks, they can be operating pretty simultaneously to create a very steady cadence of big exciting hits.

We certainly compete with Hollywood to make the best and most popular programming in the world, but we're also doing that in India, in Spain, in France, in Italy, in Germany, in Korea, in Japan, all over Southeast Asia, in Mexico, in Colombia, Spain, Argentina and the U.K. And the programming that we create in those countries, again, all part of that \$17 billion, are all designed to thrill the local audience. And when they really, really thrill the local audience, there's a possibility and sometimes a probability that they could find a gigantic audience all over the world, including in North America.

So the team in EMEA, particularly in the U.K., is doing a remarkable job of this right now. So they have been able to deliver big global hits, but they've been sensational in country. So Baby Reindeer and The Gentlemen both landed with Emmy nominations yesterday and have been sensations in the U.S., but they are a phenomenon in the U.K. So more than 50% of all of our members in the U.K. have watched or are watching Baby Reindeer and The Gentlemen. Similarly with One Day, our original film Scoop, so those things that are thrilling the world, are super serving the British audience.

The same thing just came out of Paris or out of France with Under Paris, which has 90 million views, 157 million view-hours around the world. More than half of every French member loves this movie. Same thing with The Asunta Case in Spain, more than 50% watching in Spain and big watching all over the world. Queen of Tears in Korea is another example that's happening in APAC right now. So these kind of like super-serving local audiences, creating global content around the world, gives us an efficiency that I think is getting better and better and muscle that's getting stronger and stronger



that I'm really excited about.

And how does that play out- Our slate coming up is unbelievable. So as we've currently forecast, what we're going to deliver for the rest of this year and what we're going to deliver into '25, just before the end of this year, we've got Squid Game return. We've got Emily in Paris return. You've got a new season of Selling Sunset, Lincoln Lawyer, The Diplomat, Virgin River, Love is Blind. Ryan Murphy has an incredible new season of Monsters that tell the Erik and Lyle Menendez story. That's all just coming up before the end of the year.

And then looking forward, through '25, you've got new seasons of Wednesday and Stranger Things and Night Agent. We're in production on One Piece. So there's a ton of excitement there. Just in our series, this week, we kicked off the finale of Cobra Kai, which is going to blow your mind. August 8, we've got the finale of Umbrella Academy kicking off. And a brand-new series that we're also thrilled about, Susanne Bier's The Perfect Couple, this has got Nicole Kidman, and it's just a really fun, fun thriller; Nobody Wants This from Kristen Bell and Adam Brody; Black Doves, a beautiful show out of the U.K.; Beauty in Black from Tyler Perry; No Good Deed, which is bringing Ray Romano and Lisa Kudrow back to TV; Classic Spy with Ted Danson. From Brazil, we have Senna from Colombia. We've got A Hundred Years of Solitude. And then, of course, all those live events I talked to you about.

And our movie slate is fantastic with Rebel Ridge, Will & Harper, Six Triple Eight, The Piano Lesson, Carry-On. We have got a lot packed into that. Our goal and our mission here is we have to spend the next \$1 billion of programming better than anyone else in the world. And there's no one better at doing it than Netflix, so we're excited.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Spencer, how do you not get excited about that and then also get excited about we're going to do all that while growing content spend slower than revenue- That's a lot of stuff going on. Thanks, Ted.

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

It's all in there. And the hotdog contest, too, Spence, don't forget that.

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

All right. Well, I'm going to leave it at that since it sounds like we're going to have a lot to watch. So we all need a little bit more time.

So we'll end the Q2 call here. So thank you, Ted, Greg, and Spence for joining us today. Thank you, investors and analysts, for dialing in to our call, and we look forward to chatting with you next quarter. Thank you very much.