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Corporate Participants

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Conference Call Participants

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Presentation

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. We're going to get started. Good morning, everybody. Ben Swinburne, Morgan Stanley's media analyst. Please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures all appear as a handout available in the registration area and on the Morgan Stanley public website. And with that out of the way, I want to welcome to the conference Spence Neumann, the CFO of Netflix, back here in person. He has been the CFO since January of 2019. Prior to that at Activision and prior to that having several senior positions at Walt Disney. Spence, thanks for being here.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Thanks for having me. It is a little surreal to be in person again. So I'm excited for it. Literally, the last conference I was at, we were saying was this one, just as the world was shutting down a couple of years ago. It's crazy.

Questions and Answers

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

So yes, it's been an eventful 3 years for you at Netflix. We all like to focus and obsess over your quarterly net adds and the volatility in the short term. And maybe Spence, you could start by stepping back for us and tell us how you and the management team think about the long-term opportunity for Netflix from here-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes, sure. Well, for us, I mean, I'd say that is what we're focused on is building an amazingly successful long-term business and being the first in entertainment around the globe. And that long-term opportunity is unchanged.

In fact, we're as excited as ever. So I mean, effectively, the business we're in is the Internet impacting entertainment around the world. And streaming entertainment is the thing, right- And you can see it, more and more time is spent streaming consumption of entertainment. Every household around the world is on the path to having connected TVs, streaming entertainment to their home. And we believe over time, we should be in all or most of those homes around the planet.

So everything we're kind of seeing in terms of how our business continues to grow into those homes is super encouraging even as the world is obviously competing with us in new ways every day.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

So you're 3 years at Netflix, you guys added 28 million, then 37 million, then 18 million. So we've seen a lot more volatility than maybe we were used to from the years before. Is there a way to think about what normal is- Or is that such a thing not exist- How do you guys think about that-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, the fact that we haven't been together in person for 2 years, I'd say we're still kind of searching a little bit for what normal is exactly going to look like post COVID, and we're still working our way through that. But in terms of -- what I would say is I think there's probably an overly focused and attention on subscriber numbers. What we focus on is on as we say, building a great business. We're focused on growing revenue, growing profits, growing cash flow, and that's about driving not just membership, but in driving engagement, increasing engagement and obviously, as we increase member value pricing occasionally into that value that we create.

So for us, it's the combination of those things as opposed to a year-to-year or quarter-to-quarter member number. And we believe with high conviction, we'll continue to drive double-digit revenue growth, continue to increase our profit margins as we've talked about. And now not just that path to cash flow breakeven, but now growing positive free cash flow. So those are kind of our primary metrics and doing it in a healthy way while we continue to kind of aggressively invest into our growth.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

And you and the team have always talked about making kind of incremental improvements and making a lot of them over time to make this business succeed. As you look out over the next several years, what are the things that you guys need to get right to really drive the algorithms that you just laid out for us-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. It's -- I guess sometimes in an audience like this, it doesn't sound that sexy and exciting, but it's true, for us, it's been much focusing on the core and getting better every day and getting better faster. So it's that velocity of decision-making and improvement across the core of our business, which is content, it's product, the kind of the discovery and ease of finding and personalization of the service. And then the marketing and communication of it also that folks love just not just watching titles, but watching titles, but their friends and family and others are talking about. So having that driving that conversation too.

And we just believe we can continue to get better all the time. The reality is the industry has gotten a lot better in the last few years. So it kind of pushes us to get better faster. And there's -- again, there's so much we learn each day around new content categories, new parts of the world being. So we're very focused on improving creative excellence, much more consistency in being great in every part of the world, as they say, on the product side and on the marketing side.

And again, as we do that, we become an increasingly global business, global and local. So we're very focused on doing that well. And we're focused on these newer content categories like video games, which are small for us today, but hopefully, in a decade, they're going to be a very big and important part of our business.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

And maybe one more sort of bigger picture question before we dive into some of the regions. I think the company made a decision to suspend service in Russia this week. I don't know if you want to just update us on that thought process and any way to think about the size of that business or anything else-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes, sure. So well, first, it's -- let me start and lead with it's just a horrible tragedy, and our hearts go out to all that are impacted in Ukraine in that part of the world and what their -- they're just -- the real human suffering is the most important part. For us, in terms of the implications for our business, we had to make the decision given it's just a complex operating -- business operating dynamic right now between increasing sanctions, challenges with payment issues and overlaying what's already a pretty complex regulatory market. So it just for us became also just too difficult to, we thought operate relative to the opportunity, and then there's obviously the moral and other overlay.

So we decided to suspend our operations there. So we stopped all productions, but we also actually suspended the service in terms of the size of the business, again, which is not the primary factor per se, but it's -- you shouldn't view it as not material for us. It's less than 1% of our revenues, and we'll manage through it.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. Got it. So as you know, the market's debating sort of the runway for net adds for you guys, given what we've had in terms of volatility over the last couple of quarters and years. You look at markets like the U.S. that this is clearly maturing, but there are markets across APAC and EMEA, where the penetration is still pretty low. Where do you think we should be expecting the most growth to come from over time- And do you think it's realistic that net adds could reaccelerate for the company over the long term-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, again, we're focused on healthy growth across a combination of memberships and pricing. And again, we're most focused on increasing that viewer member satisfaction and engagement and then driving the business metrics from that. Those are kind of outcomes. So we're focused on growing everywhere around the world.

I mean, recently, you've seen our member growth. If we focus on that, over 90% is coming from outside of the UCAN region in at least recent quarters. But at the same time, we had the biggest growth in the UCAN market, about 1.2 million paid net adds in Q4 of '21. It was our strongest growth in 3 years in the UCAN. Now you were going through U.S. price increases. So obviously, part of our guidance was it to be kind of slowdown in member growth for -- in the near term as we roll out those price increases, and that's to be expected, but we want to push growth everywhere.

We're low penetrated in much of APAC. EMEA is a market that is a multiple of the size of UCAN and we're low penetrated there. LatAm, we're a bit more mature. But again, it's still -- for us, it's not -- it's still early days in the scheme of things. And we are small relative to every kind of metric we look at, whether it's the hundreds of billions of dollars to spend directly on direct-to-consumer entertainment, whether it's the fact that there's over 700 pay-TV households around the world, nearly 1 billion broadband houses, again, this is ex-China. Our share of TV time, we talked about this a lot, we're less than 10% share of TV time in our most penetrated market in the U.S.

So on all those metrics, we feel like we're still early days. I think the last time we were here, we were on the low end of that, you would ask me, "Hey, you're in the kind of low end of the range of what we had kind of talked about kind of the U.S. of that 60 million to 90 million." And now I guess, we're in that middle-ish of the range. But it was a little bit of a guess on the range, right- I don't think there's any kind of hard cap at the high end of the range either, and we're going to keep pushing forward.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Yes. I was going to ask you about UCAN because yes, you guys have landed the plane nicely in the middle of your range from, I think, where you gave that 60 million to 90 million a long time ago. But should we look at the U.S. business as a leading indicator to some extent of what this business could look like from a penetration point of view- And do you think you can keep growing the business from a revenue perspective here-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

I think it would be great if it's a leading indicator, right- So if we can get to that level of penetration around the world, again, by the time we get there, there's probably 1 billion connected TVs around the world. And you can see our penetration in the U.S. that you kind of do that math, we're roughly 60% penetrated today. So that pretty quickly gets us to business that's over 0.5 billion members. And if we can do that, where we keep increasing value and drive kind of a reasonable monthly subscription price, that's a pretty large and healthy revenue model, and we think we can drive pretty big profit pools against it.

So I would kind of love if that -- and again, at the end of the day, we're not done growing in the U.S. So when we get there, we're also going to be a bigger business in the U.S.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Does the fact that the U.S. might be a more competitive -- most competitive market- Tell us anything about the sort of strength of business when you look at engagement or other stats that maybe we can't see-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, to me, that just kind of reinforces our conviction in the long-term opportunity. And the -- I would say the competitive intensity is as strong in the U.S. as anywhere in the world are -- to be clear, we're -- competition has always been part of our business. There's always been throughout -- from the founding of Netflix, there have been big competitors and at least even our recent history, we've been competing with traditional entertainment and they're competing with us in new ways. And then there's newer competitors like the YouTubes and TikToks and video game companies everything else around the world.

So competition is always part of the business, but there's a lot of competition in the U.S. And I think what we've seen is even as these competitors are competing in new ways, streaming entertainment continues to grow and our business continues to grow. So that gets me back to that point of the conviction of like, to me, that's a forward indicator of the future is bright, and we just kind of -- we have to keep our head down and keep executing.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Maybe just one question on seasonality, if I can. You guys guided to the first quarter. Obviously, the market reacted to that guidance. But you've been shifting a bit your free trial strategy over the years. So maybe just help us think about why the historical Q1 seasonality might not be the best way to think about 2022-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. I mean I think there's probably a little bit of that buildup, but that was over a course of 3 to 4 years that we were kind of getting out of the free trial business. So it wasn't like a big impact in any single quarter, but from where we were, say, 2017, '18 in terms of the Q4, Q1 seasonality to where we are 2021 to '22. We no longer have those free trials in December that are converting to paid members in January. So that does have some impact on seasonality. We also talked about the fact in the Q1 guide that some of our content is more back end-weighted.

We've got a big film in The Adam Project and a big -- our most watched season of TV ever other than Squid Game was Bridgerton Season 2 that's happening also late in the quarter. That factored in a little bit to our guidance. And then frankly, we have a price increase in our biggest market in the world that's rolling through in Q1. So that also has an impact on at least our Q1 seasonality this year.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

And should we be thinking about anything around the decision to have Stranger Things season broken into 2- I think the first half is in Q2, second half in Q3. Is that big enough to sort of move the quarters around or...

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Hell, no. I don't know about that. I think it's -- in general, I kind of look at it as -- what we're trying to do is improve -- getting back to what we're focused on. We -- at least between content and product and marketing. On the content side, we're trying to improve our content offering to our members a little bit every day, every year. So we get -- we tend to talk about, hey, is last year's slate better than this year's -- this year's slate better than last year's slate, yes- But we -- you should expect to do it, every quarter better than the prior quarter, we hope so. So we want to get better all the time.

And so some of the things we learned from, and there are certain returning seasons of content where we think that can potentially improve the member experience to give kind of 2 batches of the content. And we're experimenting all the time and learning and we think that will be something that our members enjoy and -- but it's not to try to necessarily smooth quarters or anything like that. We're trying to actually have every week and every month and every quarter would be great.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Got it. Let's shift to pricing. So you mentioned the price increase in the U.S., including, I think, the basic tier, which historically, you guys have been pretty careful around. Talk a little bit about the signals you guys look for and that ultimately led you to the decision to take the pricing that you've taken in the U.S. market this year-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Sure. It all starts with lead with member value. Are we providing more member satisfaction, more member value- Are they enjoying the service- And we look at that in terms of -- there's a number of ways we look at it. But most -- when we talk about a lot is just purely through engagement and acquisition and retention in those trends when we believe they're kind of trending at a level where we've kind of earned the right to charge a little bit more. Because, again, when we charge a little bit more, it's about increasing that revenue to then reinvest in the service.

So this is -- we're trying to drive that positive flywheel of growing revenue, growing profit, reinvesting back into even better content, better product, better discovery and personalization and conversations. So that's the flywheel we're driving. And those are the metrics we're looking at. As we said on the last call, the business is healthy. Like in Q4 when we talked about it, engagement up over the prior year and pre-COVID. Retention or churn levels lower than prior year in pre-COVID, and that was everywhere around the world. And so that -- those are the kind of metrics we're looking at.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Is the pricing philosophy or thought process pretty similar around the world when you think about your decision to take rate- Or do you look at different factors, including maybe competition differently or where you are in the adoption curve-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, it's generally the same factors. I mean those are the core factors. At the same time, we don't ignore competition, right- I mean it's -- that would be silly. But at the end of the day, we're pricing for what we believe is the value we provide and what we've -- right, and the business we're trying to build. So I can't speak to the others. You -- I know it's in your last report on us or I think one of the recent reports you did the kind of profitability analysis. And it's -- we're building a profitable business that's -- last time we were here, I think we were at 13% OI margins and a little over $2 billion, $2.5 billion of operating profit. Now we're, last year, 21% margins, over $6 billion of operating profit, and we were over $3 billion negative free cash flow last time we were here, breakeven last year, will be free cash flow positive this year.

So we're looking to build this amazingly successful business. Those other services are going low price, but I think they're also losing a lot of money. And I don't know what -- I can't speak for how they're going to build their business, but we're focused on ours. So we lead with value. But we have to look at things specific to the market. You see some countries where we drop prices in India. We think we were overpriced relative to the market there, not necessarily relative to competition, but relative to the kind of the dynamics in that market with disposable income, discretionary income and income level.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Yes. That makes sense. And I have to ask you about advertising. Otherwise, I won't be able to leave this room alive. So we had Disney here yesterday, they've obviously introduced the Disney Plus ad-supported tier as a way generally to lower the entry price, and we're seeing this with lots of services around the world. Any change to how you guys are thinking about advertising or not thinking about advertising as an option for Netflix-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

I'd love to get like a show of hands if people like that decision, but I don't think I'll get it. Now for us, it's not like we have religion against advertising to be clear. I mean we're -- we said what we're focused is on building, optimizing for long-term revenue, big profit pools. And we want to do it in a way that is a great experience for our members, great for -- so we lean into consumer experience, consumer choice and what's great for our creators and storytellers.

So if at some point, we determine something that we have the right to kind of player within the space and it meets those dimensions, then great. But that's not something that's in our plans right now. We think we have a great model in the subscription business. It scales globally really well. Again, we were about a $20 billion revenue business 2 years ago when we were here, $30 billion revenue now. You kind of kind of see how that's pretty -- the growth is healthy across every region of the world. So we have a really nice scalable subscription model, and again, never say never, but it's not in our plan, but other folks are learning from it. So it's hard for us to kind of ignore that others are doing it, but for now it doesn't make sense for us.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Sure. Okay. Let's shift gears to content, content strategy, content spending and efficiency and product. I feel like for many years, it was sort of how much can Netflix spend and how quickly, but now we're at a point where it feels like the spending levels are moderating at least in terms of growth. Talk a little bit about whether your approach to assessing content efficiency and return on content is changing or shifting at all- Or how you guys think about your appetite to continue to grow the content budget over time from here-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. Well, I think we still have a long way to grow. But again, we have to grow our business and all those metrics you talked about before as we go increasingly global and get to hopefully a multiple of our current size on a revenue dimension. So our appetite for -- we want to be that first in entertainment around the world. That's a really big ambition with a much larger content budget than what we're spending today in success. But at the same time, how we think about content efficiency is pretty unchanged.

I mean we look at every -- we're managing our business to based on what we believe our revenue growth is, as we've talked about before we manage to profit and continuing to grow those profit margins while strategically investing into like those highest impact next content dollars. And we're trying to get smarter every day about both the absolute impact around the engagement levels, acquisition retention levels of the content that we are putting on the service, both on an absolute basis and relative to something else we can put on the service. So we're getting -- we hope to get smarter every day on that.

And then we've been in the business for a longer period of time in some areas of content. So like English language scripted television, we've been doing originals for about 10 years now. So you can imagine that we're further along on that maturity curve of what do we believe is -- are kind of the needs around the world for English language scripted TV so we can get better every day, but we don't necessarily need more. Whereas our original plays in Poland or Germany or others or pick your country, even in Brazil where we've been for a long time, we're still early days, frankly, in terms of our -- the strength of our slate. So some of that is just getting better. Some of that is more original.

So now the cost structure also is a little bit different in some of these markets, and it will continue to grow and increase, but that helps in terms of that portfolio diversification. So I would say we're moderating in some areas. We're growing faster in others like these non-English original content is a higher-growth area. Film, over the last few years, it's been a higher growth area for us. Animation is still very early for us in terms of animated films. So some pockets are higher growth and between the portfolio mix of what I'd call Hollywood content and other local originals as well as the kind of the relative maturity allows us to kind of manage the growth rate in the content.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

And Spence, one of the things that's been sort of a hallmark of your business is the ability to create a show, particularly in international show that travels around the world. And I think Ted has talked about 80% of what we all watch is sort of the same stuff at least in certain geographies. Do you see that sustaining- Or does that evolve- And does that mean you'll eventually need more local programming to really hit the kind of long-term penetration rates you're looking for- How do you think about that impact on the returns the business can generate-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, I think it's -- I think we're continuing to learn on that. I think that's generally true but we're getting smarter all the time as we grow. So there are certain markets or countries that we've talked about in the past that are stray a little bit from that, where they're more kind of local content, whether it's Japan, Korea, India, the U.S. market, sometimes we forget about the U.S. as being a market in itself and how local the things are that we watch. We don't -- we haven't historically watched a lot of non-English language content in the U.S. We're doing more and hopefully, we've been a part of increasing that with things like Lupin and Squid Game and La Casa de Papel or Money Heist.

So -- but some markets are more local. Generally, content for us first starts with having local impact and then can it travel regionally and globally. And I think over the course of a long horizon that 80% may come down a little bit, where because of the local mix is we're trying to be a larger and larger share of TV viewing time in a local market. But it's over a very extended period of time, the good news is content travels from anywhere to everywhere. And we're increasingly seeing that. It's not just Hollywood content. We've got content like Who Killed Sara and Mexico traveling around the world. I mentioned Lupin in France. And Dark Desire or obviously Squid Game or a lot of the stuff that's coming out of Korea right now.

So I think more and more as we improve both the content that's coming out of these countries as well as the subbing and dubbing that complements the content, I think we'll see more and more content traveling. But content is always a mix of local and global and regional. So I don't want to hold too firm to the 80/20 that may -- that mix may come down a bit over time in terms of the global, but I think in a healthy way.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Let me ask you also a similar question on licensed versus self-produced. I think at the end of the year, little over half your content at least on the balance sheet was self-produced. But license programming, at least in terms of amortization was up pretty significantly in the fourth quarter. Is there sort of a sweet spot between Netflix self-produced and what you get from other studios that you think makes sense for the business long term- Does it matter to the P&L as you think about it over the -- because I think most investors would assume if you own it all, it's probably better than licensing from other studios, but maybe not-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, we're open to where the best ideas are. And so there are still studios we're happy to be in business with. There's some that obviously it's more difficult to be in business with. There were some, I think, specifics on 1 or 2 deals and timing of some, I think, some renegotiations stuff that may have hit in Q4 of last year. But generally, we're continuing to -- branded originals are our future and then whether they're self-produced or partner managed or licensed from another studio, we're not precious about that.

I think you'll assume likely that our branded self-produced will continue to increase just given the natural dynamics of the ecosystem right now, but I don't know if -- that may change, too, 5 years from now.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Okay. And then maybe just lastly on content. I wanted to ask you about Netflix Games, which just feels like sort of the -- maybe the biggest TAM expander that you guys have embarked on in a while. Tell us a little bit about what you've learned so far, anything about engagement on the service, any surprises- And what we should expect in that strategy as we look out over the next couple of years-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Sure. Well, again, it's still super early days. So this is something that, as I mentioned, I think earlier, I hope it's a big part of our business in a decade. It's not going to be a big part of our business in the next 12 months, but we're very pleased with what we're learning so far. The first year was really about just getting the plumbing right. Just -- we went from saying we wanted to get in the games business to launching a game business globally inside of 12 months and having it work on Android and iOS and around the world. So that's kind of first thing.

And now we're kind of learning into what are the games that our members enjoy. We know our members play -- a very significant portion of our members play games around the world, but now they have to play our games. And so we're starting to get a sense as to what that looks like in terms of retention and hours played and trying to get insights into how they value that versus film and TV content. So it's a learning year. We've put 14 games, I think, on the service. They'll be kind of -- we expect a multiple of that by the end of this year as we continue to roll it out, and we'll add new kind of services for those game players. But this is -- again, it is a multiyear build.

We're encouraged with how we progress so far. We're encouraged with the team we've built out that led by Mike Verdu. You see we're growing both internally and through acquisition with some of the things that we've announced recently, starting with Night School Studio last year and then announcement of next games that's not closed but announced. So we'll continue to keep building and keep learning. And hopefully, as you say, it becomes not just something that our members -- our current members enjoy, hopefully expands our membership and expands those plats as a TAM expander like right now, we're primarily mobile.

So if we have a service that a part of our content category that is primarily a mobile experience, that's also great for kind of just extension of our addressable market.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Sure. Maybe in the few minutes we have left, Spencer, I wanted to ask you about margins and cash flow. So first, as you think about -- as we think about 300 basis points as being sort of an average annual margin expansion year for Netflix, help us or remind us the impact from currency this year and why that's obviously something we need to be thinking about- And then talk about your confidence in getting back to that 300 basis points on average as you look out over the next few years, even if the revenue growth maybe is moderating-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes. Well, as we said on the last call, we lost about $1 billion of expected revenue from the kind of middle of '21 until the end of '21. And so when we were kind of thinking about our margin guidance, that's roughly 2 points of margin.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Due to currency-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Yes, due to currency. So that's why we guided to 19% to 20%, which if you kind of adjust for currency that gets you the high end puts us right back on that cadence of roughly 3 percentage points per year over a few year period because we had grown by 5 percentage points to 2 years prior between '21 and '20. So from our perspective, other than the short-term swings in FX, and we've always said, because we don't hedge. If there's big swings in FX, we don't want to unnecessarily swing the business. We want to grow healthy and invest into our growth and appropriately either rightsize our cost structure or adjust pricing over time with some lead time to lead into it. So that's what's reflected in the margins.

Obviously, we're not growing as fast as we'd like. As we said, like we want to keep pushing to sustain or reaccelerate our revenue growth. But at that double-digit revenue growth pace that we're at today, we're still committed to do that margin guidance of roughly 300 basis points over any few year period, and it's -- that now we're kind of catching back up. So you'll see us push towards that. We're not going to give you a specific date as to when we catch up, but you should see that reflected in our performance going forward.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Are you looking at costs any differently as you think about getting to that margin expansion-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Well, we've always managed our cost structure for our margins. So that's not a new thing. I think we'll -- what you see is that we are more focused on all areas of the business. So when we're growing the kind of some of the hyper growth that we experienced in the last decade of growing all around the world and developing a Netflix studio around the world, et cetera, we sacrifice some efficiency for speed and growth. And so we're always very intentional about prioritizing our content dollars as we mentioned. But there's other parts of the business -- there's a lot of other spend.

So while content is roughly 50% of our cost structure, there's another big chunk of our cost structure that's probably not as optimized and so it forces us to prioritize a bit more. And that's good. I mean you all know constraints and budgets are -- can be the mother of invention and innovation. And so we lean into it in a positive way. And then we have -- you can see that in terms of things like G&A, where we actually had deleveraged as opposed to find operating leverage in some areas of the business over the last 3, 4 years. And so that's just for us just being a little more intentional and prioritizing how we spend.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

And then lastly, your free cash flow profile is really starting to inflect. We expect -- certainly, our estimates are free cash flow is going to ramp substantially. How do you think about the right leverage level- I mean you guys haven't talked in terms of EV -- debt-to-EBITDA. But just how does that evolve as the business matures- Do you see a different capital structure approach than you've had in the past emerging-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

It's consistent generally with what we discussed, which is what we've said publicly is that we'll maintain $10 billion to $15 billion of gross leverage. We paid down $700 million of debt this in February, which puts us now at the high end -- inside the high end of that range. We'll continue to grow our cash flow. We expect to continue to grow our free cash flow and then use it first and foremost to invest strategically in the business. You've seen we'll do M&A not as a strategy, but as an accelerator, a tactical accelerator to our growth. And so you've seen M&A across some areas of IP, both film, TV and games as well as content development capabilities like some of the things we've announced like Scanline and the VFX space.

So we'll continue to do that. And then what's left over, we'll keep minimum cash on the balance sheet, a healthy amount. Right now, it's 2 months of revenue. And then beyond that, we'll repurchase our shares opportunistically, and we've done that as well with the excess cash. So we're not like -- there's not like a debt-to-EBITDA ratio that we're targeting. We keep an eye on debt-to-enterprise value. But ultimately, we're -- we kind of let that take its course. And you've kind of seen that with rating agencies and so forth. So that's it in a nutshell. We're trying to be kind of prudent towards cash for shareholders.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Great. Well, it's been a great conversation, we covered everything. Anything you wanted to wrap up with as we look and track your progress going forward-

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

I don't know, go watch Drive to Survive, Bridgerton, Adam Project, go turn on your Netflix, I don't know. And hopefully, we'll see you soon in person. Good too see you all.

Benjamin Daniel Swinburne Morgan Stanley, Research Division - Managing Director

Thank you, Spence.

Spencer Adam Neumann Netflix, Inc. - Chief Financial Officer

Okay. Thank you.