

Good afternoon and welcome to the Netflix Q3 2018 Earnings Interview. I'm Spencer Wang, VP of IR and Corporate Development. Joining me today are CEO, Reed Hastings; CFO, David Wells; Chief Content Officer, Ted Sarandos; and Chief Product Officer, Greg Peters. Our interviewer this quarter is Eric Sheridan from UBS.

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

With that, over to you now Eric, for the first question.

Question-and-Answer Session

Q - Eric Sheridan

Thank you, Spencer. Maybe I'll kick off with what clearly is the headline from the earnings results, much better subscriber performance in Q3, and a fairly robust guide within Q4 in terms of looking out on the subscribers. I'll turn it to you guys to sort of layout the framework you saw develop in Q3, what do you think might develop in Q4 that was different than what happened earlier in the year?

Reed Hastings

Eric, I think we're getting a little better on the forecasting in particular the evolution to paid net ads. So if you look at that paid net ad growth that we showed, you can see how remarkably steady. So I'm afraid the Q2, Q3 story is probably mostly an issue of forecasting as opposed to anything changing in the business, and you can see the noise that the free trials added into the paid, which gets you the total creates. So I think by focusing going forward on paid, we'll be able to be a little more accurate and focused on the fundamentals.

Eric Sheridan

So when you think about some of the distribution deals you've done over the last couple of years, that's creating some noise that I think you're now trying to clear up with these new disclosures. But can you also talk a little bit about what those distribution deals maybe in terms of opening up packets of the market that haven't been available to you before not only just this year, but as you think out longer-term about the business?

Reed Hastings

Sure. Over to you Greg.

Greg Peters

And can you clarify, Eric, in distribution deals you mean the device partners, et cetera.

Eric Sheridan

Correct. Different ways of going to market via partner as opposed to direct.

Greg Peters

Yes. So I think what we are doing is, we are slowly learning more and more about how we can leverage partners. We've seen it sort of an evolution from just doing device integrations and to things like billing integrations, so we can make it that much easier for our members to sign up for the service. This latest round we're seeing now is bundling where whether we're bundling with an Internet service provider or a mobile operator or pay-TV operator. We can make it even easier for people to just find Netflix and to try the service out.

And what we're seeing here is that this allows us to access a set of subscribers, a consumer demographic which might be less technology early adopter than the folks that are signing us up – with us directly, and so we're able to sort of accelerate our growth in a new segment via these deals. So we're learning more and more about that, we're trying to figure out which markets they work and how to optimize that bundle strategy.

David Wells

Eric, I would say these aren't new disclosures in a sense that that's pretty strong term. I would say this is an evolution of a partner strategy, and as Greg talked about, we've been doing many of these for a while. There's nothing sort of strategically different than what we've been doing for the last five years or so.

Eric Sheridan

And maybe following up on something that Greg said there, just where you're discovering growth and awareness of the product that didn't exist before. I'd like to separate that into domestic versus international. I think one of the questions we get from investors all the time are, where is the growth coming from in North America given the brands awareness, given how long the brand has been around in the marketplace. Anything you could tell us about where those pockets of growth are and where you're discovering new awareness for the Company?

Greg Peters

I'd say even in America, where the awareness is super high and the brand is well understood. There's still pockets of consumers who – it's harder for them to get the activation energy to go directly to the website and sign up, but if we can actually put a Netflix application, a call to action and maybe even bundle that the service subscription as part of their pay-TV offering or the mobile offering, they can just click on something and then get right into the service.

And so even for a place where we're well known, we make it easier or more effective for our folks to sign up. We see actual acceleration of ads there. Then obviously in markets where we're less well understood in terms of what the offering is, that simplifying, that making it less friction full provides other types of members maybe that are even more technology adopters, simple way is just to try to experience out and we get the growth there as well.

So I wouldn't say we're seeing the sort of the same dynamic which is to remove friction and it works both in high-penetration and high-awareness markets as well as in lower-penetration and lower-awareness markets.

Eric Sheridan

One of the other things sticking with the domestic market for a minute, pricing power in the business model. You raised prices as we came out of last year and into this year. It's now been a couple of quarters and some of those pricing actions have worked through the marketplace. What have you learned about the value that consumers put on Netflix? And how much pricing power there might be in the business model especially when you look domestically?

Greg Peters

I think we're just – what we're seeing is just reinforcing this sort of core theory that we have, which is our job is to focus on, invest and providing our members incredible experiences, more great content, great product experiences. And when we do that and we do it well, we earn the right to increase price a bit and then we take that new revenue, invested back into the model and that sort of continuous positive cycle we get to keep going, and we foresee that that will keep going for many years in the future.

Eric Sheridan

Maybe pivoting back to international, I'd love to talk about both India and non-India. Within India, we saw a big push earlier this year into local language content. I'd love to talk a little bit about what local language content does in India to stimulate subscriber growth and then how you think about penetrating the India market from who you need to partner with and

how you have to get pricing right over the medium to long-term. So I'll throw that open maybe to probably touch the spot a little bit of everyone within the group?

Ted Sarandos

This is Ted. I'll talk to you about the incredible success with Sacred Games followed it up right away with Ghoul and prior to that with a movie called, Love Per Square Foot. What it really was able to do was take this product that maybe was less known in India, when we launched and make it feel more local, more relevant. And what we saw was a – all of that was following a nice steady increase in viewer engagement prior to us launching those big original shows.

So what they had was a product that people understood more, talked to their friends more about that was written about more in the press and certainly talked about more by influencers, and then delivered with content that isn't otherwise available in the market series being produced at the quality – the production quality of Sacred Games by way of example.

Greg Peters

And then to the question on pricing what I would say is, we're just getting started in India and we feel like with the existing model that we have and the prices that we're at, we've got a long runway still ahead of us. And we've seen that in sort of the increasing traction that we're getting in that segment as we have the great content that Ted was mentioning. We increased our partnerships, we're improving the product experience.

Now we'll experiment with other pricing models, not only for India, but around the world that allow us to sort of broaden access by providing a pricing tier that sits below our current lowest tier and we'll see how that does in terms of being able to accelerate our growth and get more access. But even on the existing model, we feel like we have a long runway ahead of us in India.

Eric Sheridan

But maybe following up on something that Reed has talked about publicly in terms of the potential for growth in India longer-term, how does the model have to morph to maybe line up with longer-term goals of adding 100 million subscribers in a market like India?

Reed Hastings

We'll have to see. We'll go from expanding beyond English into Hindi and then into many more languages, more pricing options, more bundling, all of those things are possible. There's over 300 million mobile phone subscriptions or households, that's almost twice that in mobile phone subscription. So there's a huge market and people in India like around the world love watching television. Now, we'll take 1 million out of time and figure out how to expand the market as we grow.

Ted Sarandos

A couple hundred million people watching content through the Internet in India is a really exciting idea.

David Wells

And just to wrap that, Eric, in terms of investor expectations, Reed's 1 million at a time, we're super encouraged with India and the growth that we've got early on, but we know it's going to be somewhat of a tough market, right. So there's – that notion is along – is a million at a time, right. It's not going to be overnight where we're going to get to those higher numbers.

Eric Sheridan

Is there any way to tease out when you see subscriber growth internationally like you just published for Q3, obviously in even bigger number as you forecast out to Q4 to tease out how much India is contributing to that versus non-India and are there any markets on either the content side or the subscriber side you'd like to call out ex-India?

Reed Hastings

For competitive reasons, we're not going to give you too much color on that. What's driving the P&L progress is doing shows that carry a multiple territories, creating a great synergy around those great excitement, and that's what we really – we hardly look at it U.S. and internationally, when we look at it internally almost all just globally.

Spencer Wang

And Eric, as you probably saw in the Investor Letter, we talked about the growth in our membership being very broad-based and very global. So I think you should read that as what we've said in the past, which is the phenomenon of Internet entertainment is really global phenomenon that we're benefiting from.

Eric Sheridan

Fair enough. One of the things you're shifting a little bit further down, the P&L into revenue, international saw some headwinds from FX this quarter. Understand the translation issues around that, but wanted to understand if FX volatility is causing any headwinds or tailwind you're seeing in terms of end demand for the product or consumption of the product or is it truly a translation issue?

Reed Hastings

It's mostly a translation issue. Absent foreign exchange or ASP, international ASP would have grown, and so I don't think we see any demand effect from foreign exchange.

Eric Sheridan

Fair enough. Maybe two bigger picture questions. One, they came in a lot of formats from people ahead of the call competition. As you look out to 2019, I know not within the forecast period, but as you think about how the competitive landscape might shift? Where the market is going from a global standpoint on the competitive standpoint? How do you think about some of the friction points you're trying to solve for as a company when you look out at that competitive landscape?

Reed Hastings

There are so many competitors, of course Disney is going to enter, AT&T is going to expand HBO, YouTube is just on fire growing around the world, video gaming like Fortnite. I mean there's so many ways to have great entertainment on a screen.

So we don't focus that much in any one because no one seems to affect us that much. What affects us is can we produce the best content the world's ever seen? Can we get people excited about that content? Can we serve it up in ways that make it really fun and easy, again focusing on our fundamentals?

Someday there will have to be competition for wallet share, we're not naive about that, but it seems very far off from everything we've seen. So – and we're continuing to work with many of those firms where it makes sense to for both of us and it's creating a big and vibrant industry.

Eric Sheridan

Maybe one follow-up to that, directed to Ted. When you think about the competitive landscape and what it might mean for either acquiring, sourcing or partnering on content with people globally. Ted, how is that changing the conversations maybe as you look out over the medium to long-term? Where might we see some of the pressure points that competition could play out on the content side?

Ted Sarandos

Well, we've been a pretty dependable buyer and increasing the – some of those sellers have been more complicated sellers, meaning there are conflicts within their companies of what they want to sell, when they want to sell, or what Windows that would allow for. They allow flexibility to offer their own services, which is something we foresaw years ago when we started doing original programming.

But in the meantime, I think that they are the studios and who are always have been somewhat of potential competitors have to look at those things today and say what's the best way to get return on investment for creating great content. And so in some cases it's going to be launching it through their own direct-to-consumer initiatives, in other cases it's going to be selling to Netflix which has proved to be very positive for them for many years.

Eric Sheridan

Can you talk a little bit about – maybe sticking with you Ted about some of the asks are coming from content creators. We continue to hear as we talk to people in the media industry about awards, campaigns or marketing budgets put behind content, people want their content seen who are content creators. How have some of those conversations changed? What might it mean for ways you go-to-market when you look out over the next couple years due to the taking content into the marketplace?

Ted Sarandos

Well, I think what you said was perfect that people definitely want their content seen and the best chance of doing that is doing it with Netflix. And you see in the long list of content brands and newly minted stars, out of Netflix just this quarter. You could see what we're talking about – by putting content into the culture and into the Zeitgeist. And what's really great, it can be nominated and win Emmys or Oscars. And those are really important to filmmakers and creators and we're super proud and happy for them when they win.

But in general, we want to do is try to make great content, elevate it to the right audience in the most efficient way possible, so we can do more of it. And what we've seen more is that these shows that come out on Netflix are really piercing the culture, some of the most watched shows on television are on Netflix and the creators know that.

So when they – the asks that are coming into forms of marketing campaigns and awards campaigns, they're seeing that in very big numbers from us anyway. We had 40 shows nominated for Emmys this year and became the – tied with HBO for the most Emmy wins this year. And that comes with great content and great campaigns both marketing and awards campaigns.

Eric Sheridan

Maybe two follow-ups here. The first one on the products side, the team has talked before about lowering the friction to consumers finding product. That seems like a bit of a machine learning/product development issue that you have to solve for friction points as you look out over the next couple of years. How should investors think about lowering friction to consumers finding content? What are some of those key investments that are being made? How those investments might change in the next couple of years?

Ted Sarandos

Again, I'd draw your attention to the letter of – that list gave some very specific examples, people who went from being completely unknown to being global superstars in the span of a few weeks or a few months of this quarter alone. So I think that it's evident that things are being found in – at incredible pace on Netflix versus getting lost in the [sea] of things on Netflix.

Greg Peters

Our job is to make that even more of the years to come and so we're investing a variety of different dimensions when you mentioned, but in terms of the design, the UX that we have the user experience. Just this quarter, we released an upgrade to our TV UI navigation that allows users to be a little bit more specific in terms of the content that they are looking to browse through.

So imagine, it's Friday night, you what an engaging movie. You can tell us that, and then we will present the recommendations or suggestions that we have of some of our growing impressive film titles that you can really immerse yourself into. And that's just one of a line of multiple product updates that we anticipate having that we think will magnify that effect that Ted is talking about, about incredible content being discovered in the show and then becoming a big social phenomenon.

Eric Sheridan

Bigger theme that maybe I wanted to talk about was alternative content. There was a partnership announced with Sirius XM. How you're thinking about new forms of content to be distributed on Netflix as you look out over the next couple of years? What are some of those things you think your consumer is asking for that reduces churn, gives you more pricing power, gives you higher ROI against some of the investments you're making? We'd love to sort of tee that up broadly for the group.

Ted Sarandos

Well, in the case of the Sirius XM that is a – looking for a kind of a marketing synergy for a stand-up comedy initiative being able to have bites of our stand-up comedy specials that are otherwise only available on Netflix in their entire run as a way to entertain fans of stand-up comedy and discover new talent, and that's just some of the ongoing part of our overall initiatives.

So it's pretty – it's a small test right now to see how that goes, putting up clips and interviews and interview shows featuring our talent and supporting our talent. So think about it as a different way of marketing, the existing program that we're doing when you're not on Netflix when you're more likely on your car, when you shouldn't be on Netflix in your car.

Reed Hastings

So Eric, per Ted's comment, we're not really focused on the monetization of those efforts. It's really around deepening the brand connection, which ultimately monetizes as faster growth for us. So all of our auxiliary efforts are not around creating additional profit streams for now, they're really aimed around strengthening these mega titles because that's what drives the business. And a little bit incremental growth is much more profitable for us than creating separate businesses. So we're always evaluating them on, do they help the core? Did they help that love of the new stand-ups?

Eric Sheridan

Maybe continuing to move through some of the costs in the business model, marketing has been heavily debated topic with investors as we've gone through the last year. Saw a pretty big change from the – over 90% growth in marketing you saw in Q2 to something much lower in Q3, I think prior management's called out the idea that marketing would be sort of in a tested learn mode this year, maybe pivoting away from just fewer subscriber acquisition.

So a couple questions; number one, what have you learned in some of the changes you made in marketing this year? And how do you think that might inform how you go to market as a company going forward both for subscriber growth and then support on the content side?

Reed Hastings

Ted, do you want to take that?

Ted Sarandos

Yes, I would say that, one thing that we've learned as we've gotten along. There was a time when we didn't market any of our content. We spent all of our marketing effort just talking about Netflix and how to use it. And today, we find is that selling house of cards in its final season is really all about selling Netflix.

So what we're learning more and more is that, yes, we can drive some viewing up and down. Yes, we could drive, but that's all mostly centered around getting people excited about watching a show that's only on Netflix because it's a great thing for Netflix and how to sell the service.

So that gives us – and we do it over many titles because people's tastes are very different. And being able to aggregate people to talk about the same things and watch the same things at roughly the same time has got a lot of value, and we're still learning all the fine arts of that.

Spencer Wang

And Eric just sort of on the financial aspect of the marketing spend, some of that as we call that on the letter was sort of timing related and shifted a bit into Q4, so that's sort of the dynamic that you highlighted isn't a signal on any sort of specific change in the strategy.

Eric Sheridan

And that would lead to maybe my next question, so Spencer, teed that one up for me. Thinking about the pace and cadence of investments in Q3 versus Q4, I thought there were some key learnings in the letter, but just want to give a little bit of an opportunity to frame what might have shifted out of Q3 and into Q4? How investors should think about that again some of the longer-term investments you're trying to make in the business?

David Wells

It's either for Ted or I'll take that the sort of marginal progression or the quarterly progression. I think we're balancing the steady growth of operating

margin but allowing the business to have the flexibility to choose sort of optimal release timing and promotional timing and create that flexibility for them. So yes, next year, we see a little bit more steadier progression towards the 13% target that we have for the year, but I think we'll see some natural seasonality in terms of release, content releases and maybe that's a pitch to Ted now to take the next part.

Ted Sarandos

Yes. We've really been trying to optimize and when is the best time for the content creators and for the fans to release that content and sometimes they're regulated by outside forces and other times are just trying to line up that perfect viewing time. And they're trying to lead with that. We end up with very happy members and very happy creators.

Eric Sheridan

Following up on that, the comment from the letter about less quarterly variance, is that then just purely a function mostly of smoothed out marketing spend and I thought that you are such a scale of content that it smoothed out more evenly over the year or is there anything you're doing actively to sort of create less seasonality or less volatility in the cost structure of the companies as you look out into 2019 versus 2018?

David Wells

It's mostly the latter Eric, so we're not actively doing anything to the cost structure. We're just planning a little bit more in terms of the content and the associated promotion that goes with that, but it's a bit of a balance. We don't want to go too far with this either because we again want to create that flexibility for the business, right. We're not optimizing for marginal margin progression by quarter, where optimizing for rolling 12-month growth of operating margin. But we're just indicating this year is a little bit unusual. We don't see as much pronounced lumpiness next year as we do this year.

Eric Sheridan

And maybe just one more on this probably for you, David, the 13% plus or minus keeps up with sort of the pace you guys have talked about over the last couple of years around 200 million to 300 basis points of margin expansion on a rolling forward basis. What are some of the things that could cause that number to arc upward or downward that you think people should keep in the front of their mind as the business continues to take investments you want?

David Wells

The biggest one is foreign exchange in terms of yes, on a mid-terms to longer-term, basis we use pricing to offset negative foreign exchange or dollar appreciation. But in the short-term, we don't immediately do that and so we can go through a couple quarters where you're seeing foreign exchange affect both just like this quarter, where we had it affect international ASP. But on a mid- to long-term basis, that's should even out as we use pricing. So foreign exchange is the big one. And then growth – if we have more to growth than we expected, that's going to drive more revenue and we'll get more of that in the back half of the year, but that could affect us as well...

Reed Hastings

If you think of our content cost as pretty big there's a little bit of flexibility quarter-to-quarter, but not much. The marketing kind of has flexibility, but you really want to launch the title. So it follows the content schedule and you can't shift it around trivially. So then, as David said, they're mostly topline factors between FX and revenue growth, the cost structures, pretty stable for next year.

Eric Sheridan

So following up on that Reed and maybe for anyone who wanted to take it, you talked a little bit off free cash flow in the letter, the lower end of the range, loss about \$3 billion this year and then possibly replicating that a loss around \$3 billion next year. One of the questions that came in to me in a variety of different forms was trying to size out either max free cash flow burn and where some of the variables in the model that people should be focused on and max leverage that you be willing to take up in the business as you take out over the medium- to long-term as well.

Reed Hastings

Eric, you're using the word loss and I think you mean investment. We definitely hope that they're not turning into losses. A track record would show that those investments have turned out to be very successful for us. But I'll let David handle that question.

David Wells

Reed took the immediate one that I was going to take, but so thanks on that. Yes, we're seeing those investments drive a lot of growth. So there's a little bit of attention to that from us. Eric, the biggest thing is that we're

approaching – Netflix is approaching a point where the growth in operating profit is going to grow faster than our growth in content cash spend.

And that's really going to drive the free cash flow towards improvement. It will eventually breakeven. I think what we said in the letter is flat with this year, and mainly that's because 12 to 18 months ago, we probably would have expected a little bit of a steeper peak and then a reduction, which happened is content timing is kind of shifted back, we're growing faster so we're investing some more of that into content and so you get sort of a flattening of the trend forward.

But we expect material improvements in 2020. We still think it's going to be a few years towards breakeven because we're optimizing again for long-term cash flow and long-term profitability, and we think that's the right thing.

And then in terms of peak leverage, I think what you're going to see is, at least electively funding our content that leverage ratio is going to start to improve, but we're also looking at optimal weighted average cost of capital, which we've already discussed and indicated that would be based on about a 20%, 25% leverage to market cap ratios where we think the long-term optimal cost of capital ought to be, and so once we pushed past the point where we're more secure and it's less about funding the immediate working capital needs of the business will turn over a shift to thinking about long-term optimal cost of capital.

Eric Sheridan

One of the key themes in the shareholder letter was you bucketed three different forms of content, number one and number two were licensed and number three clearly was original owned and operated with a theme I thought of preference for bucket three to be the driver for the business over the medium to long-term.

As you do think about some of your partners maybe pulling content off the platform in 2019 that's been talked a lot of publicly. How do you think about either replacing that content from a volume standpoint or just redoubling your efforts around marketing and increasing ROI around existing content and scaling against your own original content plans are rather than thinking about those license buckets?

Ted Sarandos

Well, I'll tell you going back just a few years, that's just we started entering our original programming, what we turned out is that our own original shows tend to be more valuable than licensing someone else's shows and later

windows and the kind of shared window model versus that purely original model.

So when we invest in original show, we find that we're having a better payback its terms of people watching and appreciating Netflix and valuing their subscription, so that's why we're leaning in that way.

We have a variety of models in which we used to get content, so really what we want to do is focus on what is the best programming, so we get to be a little business model agnostic about if we don't own the IP then we want to figure out how to make that deal with the people who do.

In some cases they produce that for us in the first window. In some case they produce that for their own networks and we license it in the second window and that will continue. But we are pointing out in the letter is as has been a big – we are driving a lot of programming to our owned and produced originals that we're producing in-house, some of our biggest brands like Stranger things, our owned and produced in-house and we're still licensing a lot of original programming from our partners as well.

In terms of backfilling things that are coming off the site, one of the better examples we think of how it could work well for us has been in our unscripted initiative, which last year we had no unscripted original programming on Netflix and this year about half of our weighted watching of unscripted programming are Netflix originals, and therefore, the benefits of – and about the same cash outlay, but with much more efficiency, meaning people are watching them in greater numbers for the same dollar spent.

So and with that we have much steadier access to programming, we're building brands that people associate with Netflix like Queer Eye and Fastest Car and Nailed It! and Sugar Rush. These are all the shows that people really love an enormous numbers around the world and we don't have to go through the gun to your head renegotiation every couple years from them.

Eric Sheridan

Ted, you had some good examples before per region like Bodyguard and Sherlock. So maybe you can...?

Ted Sarandos

We announced yesterday our co-production on Sherlock. I'm sorry, not Sherlock, Dracula, from the makers of Sherlock with Steve Moffat. We would love to make more and more content with Steve Moffat. His deal is with the BBC and we get to be partners with them to make this great show Dracula available around the world and in a fast follow model in the UK.

And we'll do a lot more of that. Bodyguard is coming up in a few weeks and it's been a tremendous hit in the UK. And we came in very early on that financially and creatively, and we think they've made a much bigger and better show because of it, and we think we could be great partners with local public broadcasters and networks around the world.

Eric Sheridan

Maybe following up on that because that's both a local as well as a global content sort of comment. How do you think about the ROI of local content and what it can do when it goes global and act as stimulant for the platform in a much broader framework and maybe it was originally planned for?

Ted Sarandos

What's super amazing about that today has been that these local language shows have been incredibly relevant in their home country and then they work very well in their region, and then when they really connect, they play multiregional and sometimes completely global. And we have enough subscribers in the different territories today that we can have a real global hit without much viewing in the U.S. or with a lot of viewing in Latin America and the U.S., but not in Europe.

So we're seeing a lot of those things that are benefit of scale obviously, but also picking great storytellers who tell stories that people want to hear around the world. And what we have found is that a good story well told works and it works in almost any language. So as long as we focus on the quality of production, those shows can be worked to drive local subscribers in country, but also drive global viewing when we do it right.

Eric Sheridan

Maybe one more follow-up on the content side for you Ted, the film side, obviously been a big push for the company, there's now been multiple efforts that have gone out to the marketplace. What have you learned? What are some of the friction points you're still trying to solve for in terms of both go-to-market and partnering with the right content creators on the film side, and how do you think about what that does for the platform again medium to long-term?

Ted Sarandos

Well, we've been thrilled just recently and we're releasing original films on Netflix from really A-list Directors like Alfonso Cuarón and Susanne Bier, the Coen Brothers, Tamara Jenkins, and these are film people who made movies directly just to the theater their entire careers and are now moving to

producing more and more for Netflix, because what they're finding is to your point earlier they want their content to be seen. They want their film to be in the discussion and they're able to do that on Netflix in ways I've never seen before.

Paul Greengrass film 22 July just came out a few days ago and millions of people are enjoying it all over the world and ways that he's never experienced for his films yet. And that'll roll into 2019 with big new films from Michael Bay and Martin Scorsese and we're finding is that people want their audience – their films to find an audience and that they're in a better position to do that with us than without us, and that's a really exciting position to be in for film lovers.

Eric Sheridan

Maybe pivoting back to the product side of the equation, you've talked a lot in the last couple of calls about getting mobile right not only short-term, but as a stimulant for long-term growth. Reed referenced earlier there's a lot of people that want to consume content especially mobile-first as you think globally. What are some of those product developments we should be looking for that you are hearing that from consumers would either increased engagement or increased adoption of the platform that aren't there yet when you think about where mobile viewing of media content globally will go over the long-term.

Greg Peters

Yes, I think we see an opportunity to improve almost every aspect of that product experience, but I'll just throw out a couple interesting ones. One is as a method of acquisition, and again it's very consistent with what we've talked about in terms of extending the partnerships, the kind of partnerships we have with mobile operators, whether that's a bundle model, like we just did our first bundle in Japan with mobile operator KDDI. We've done a bunch of preloads with the Verizon or Android phones in the United States.

So in just all these different ways, which we can use that as a vehicle to bring more subscribers on to the service, but it's also a great sort of subscriber experience component of it too, which is something that we're exploring more and more as not only just a direct content enjoyment part of the experience, but things like previews and teasers and what's coming now and how can we sort of create a continuum of experience, which is not only that great directly engage moment when you're watching that show you've been dying to watch.

But also things that sort of lead up to that which maybe don't take 30 or 45 minute viewing session, but can you get five minutes you're waiting in line

and you can catch a preview a show that you are excited to watch, maybe you watch that when you get home later tonight, and that's the kind of experience I think we really can invest and see good returns from in years to come.

Spencer Wang

Eric, I think we have time for one last question please.

Eric Sheridan

Yes, maybe I'd love to end on a bigger picture question for Reed. Reed, I think you've seen other technology platforms like – some of the other companies I cover diversify more as they become more mature, enter new areas. Netflix's team fairly focused on streaming media and pushing your message globally about adoption and creation of content, how do you think about staying focused on the business model you have today versus looking for areas for diversification as you go globally that can be put on top of the business model, especially the brand awareness and the technology platform you've built as you look out globally over the long-term?

Reed Hastings

Yes, I think about it, if you've got five to 10 years more growth in your current market, you're probably optimizing value to stay in your current market and strengthen. Eventually, your market may not be able to hold your growth ambition. So that happened to us in DVD. We couldn't stay in DVD forever.

Of course, we diversified in a streaming, so we're open to those possibilities. But there is so much growth ahead that's possible in streaming video entertainment. So we're just going to focus on that for a very long time. Unfortunately lots of other companies are also focusing on that, but that's going to make it exciting for us for the next few years, great for consumers, incredible for producers. I mean there's never been so much TV and movies being created around the world.

And so the game is on. We're super excited about pleasing consumers as much as we possibly can. And someday, many, many years from now, we may need to diversify, but for now, let's focus on the core of those amazing title brands. And when you look at the content, we have coming out this quarter and next year, we couldn't be more excited, we couldn't be more busy.