Good afternoon, and welcome to Netflix Q4 2017 Earnings Interview. I'm Spencer Wang, Vice President of Investor Relations 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 Todd Juenger from Bernstein.

Before we begin, please remember that we will be making forward-looking statements and actual results may vary.

With that, let me turn it over to Todd for his first question.

Question-and-Answer Session

Todd Juenger

Thanks, Spencer. Just to get things rolling before we get into the details and one thing that makes this quarter different than other quarters is technically we're putting a close on one year and entering another. So I thought it might be a useful time more than usual to check in and I guess with each of you actually in order, maybe Greg and Ted and Reed and just if you can share the couple biggest things you learned in 2017 and how that's informing your key priorities going forward into the new year 2018 I think that it would be a great way to get started?

Reed Hastings

Greg, I think you're up first.

Greg Peters

Sure. I think looking back to the last year I'm just tremendously excited at seeing the range of opportunities that are in front of us and that the technology that we're investing in can continue to provide incremental benefits and experience which we see through our AV testing. So most excited that we have just so much more runway in front of us.

Ted Sarandos

And I'd say we've had kind of good reinforcement of the value of experimentation getting out from just the core of television and film into things more like unscripted and other projects that are proving that we can do things well across a broad variety of different things as long as we keep doing what we started doing which is hire great people, give them the resources to make great content and get out of their way.

Reed Hastings

And Todd for me it's much more continuous coming up on 20 years here than it is broken up in annual chunks. But certainly expansion around the world is phenomenal. We're continuing to invest in shows around the world. Dark was a big highlight. We'll have more of those from around the world in Q1. And so we're learning better and better about how to be an effective global company both for consumers, for governments and for content producers.

Todd Juenger

Terrific. Thanks. I just realized I left David out of the order there but don't worry, I'll give you plenty of questions similar to that on the way, David. Speaking of growth around the world, the most – not important but the biggest metric investors often look for first in your results is subscriber growth. Clearly, subscriber net additions came in well ahead of your own forecast for the quarter. I guess an obvious question is, is sort of why and where? You addressed that a little bit in your letter saying it was broad based. I think you cited original content slate in the growth of Internet TV. But I got to ask a chance just for everybody who wants to expand on that a little bit how you did so much better coming out of the quarter than you even thought you would going into the quarter?

Reed Hastings

Ted, you want to take that about the role of the big titles.

Ted Sarandos

The great thing is the big players in Q1 and the film Bright and certainly Stranger Things Season 2 not only landed really well with viewers and consumers but also were perfectly global, meaning that the watching was distributed almost exactly like our member bases. So when a good story told well is a global product.

Reed Hastings

And other key things in Q4 were as you pointed out just the continued growth of Internet TV and we see that because Hulu is also growing, YouTube is also growing. And so it's great that we're keeping up with this big Internet-driven transformation and that we're pleasing our members with this extraordinary 8 million net at quarter.

David Wells

And Todd just to annotate Ted and Reed, one thing is we were a little conservative going into Q4 with price changes. And so it reflects a little bit of tempering of our expectations going through there. But given the broad scale of strength of the content offering and then the global strength, you put those two things together and you end up with the quarter that we had in Q4 which was great.

Todd Juenger

Makes sense. I definitely want to talk a little bit about the pricing here in a minute, but before we move on to that, you talked about broad based basically global growth. Can I ask specifically about a couple of geographies? I understand broad based means them all, but Asia has been one particular gigantic region I know of particular focus for your company. Anything you'd want to point out specifically in Asia in the quarter or more broadly over the course of those couple quarters that are going well or not well that we should know about?

Reed Hastings

Well, I think Todd we're not going to do regional breakouts. I won't give you specifics on it. But we definitely are seeing success as you all know and your channel checks and other things tell in the different markets. And when we compare it to Latin America several years ago, we're very pleased with the progress that we're making through India, through Southeast Asia and Japan; so really all across the board. We're seeing growth penetrations that look like the first couple of years of Latin America which as you know has worked out very well for the company.

David Wells

It's worth pointing out, Todd, that we're now lapping two years in our global launch. So for many of these markets we launched with a global product not localized, not tailored to the specific market. We've added some languages along the way. We're adding content along the way. But for many of these markets there are still reflect, so relative youth in terms of how long we've been in the market relative to say Latin America where we're five and six years in and Europe where we're four years and some of the larger markets and a little bit younger in the smaller markets in Europe.

Todd Juenger

Makes sense. And one of the things that you did not cite in Investor Letter at least in terms of sub growth was at least in the paragraph about sub growth was some of the plans you have with partners, MVPD partners and ISP partners, you did talk about that in a different section but you didn't cite it referring to the sub growth. Can you talk a little bit about what contribution those partnerships made to sub growth in the quarter, even help us box what percentage if you will of sort of net adds are on those sorts of relationships or total members are on those – help us understand what proportion to your subscriber base and growth those type of deals are?

David Wells

Netflix continues to be a sort of multi-impression sale and so if somebody joins us through a partner, it isn't necessarily because that partner did a specific promotion but it might be just the most convenient collection mechanism for that. That said, the importance of partnerships has grown as we get embedded in more ISPs and more CE devices and more consumer electronics and things like that. So I'll pitch it to Greg at this point, but I would say Todd it continues to be a meaningful contributor but not a dominant contributor in terms of being a major channel for us in terms of acquisition, again, relative to what I said about Netflix being a multi-impression sale. And then Greg if you want to --

Greg Peters

Yes, I'll just add more briefly, I think that's right. It's all the sort of stops along the way in a customer journey. And one of the things that's working for us well is to shave off friction at each of those different points, whether it's payments or access for engagement, how you sign up. And so while those partners aren't the dominant source of acquisition for us, they still remain important and we'll continue to invest them globally.

Spencer Wang

The only other thing to add there Todd is as you know most of the MVPDs and ISPs are regional, so any one single partnership isn't particularly material to our global net additions.

Todd Juenger

Greg, when you think about the next couple of years where essentially all smart TVs have Netflix, how do you think about the potential in the MVPD space? Kind of roughly what percentage on a global basis are we? What might we become over 5 or 10 years?

Greg Peters

Yes, we think – essentially in MVPD or the operator set-up box integrations that we are doing, we're way younger than we are in TV for example. But unlike TV these operator integrations have a whole bunch of consumer benefits that we haven't really been able to realize in the TV space when you think about payment integration also to different demographic. Typically smart TV purchasers are more towards the frontend of the technology adoption curve and being on a set-up box from an operator allows us to be in the place where a lot of folks are consuming linear TV more traditional and catching a little bit more of the latter adopter and then making it super easy for them to sign up by just actually adding Netflix to their bill or even more what we're looking at now is packaging Netflix into one of those operator offerings, so they just get it as part of a bundle that they're purchasing for the operator. So I think we'll see that grow in importance but again we're a couple years behind what we are in smart TVs today.

Todd Juenger

Got it. One final one on those if you don't mind probably for David. How should we think about the unit economics of one of those subscribers for Netflix especially I guess comes to mind in terms of subscriber acquisition costs, getting a subscriber on your own versus through a partner, but then also any sort of churn or engagement differences that you've been yet to be able to observe about the lifetime value of those two different types of customers?

David Wells

So the headline would be consistent. I don't think – there's nothing different about those sort of new cohorts and new partnerships that we're joining that is different than the ones we've had before. But there is a churn benefit especially if you're thinking about Netflix being bundled in with a consistently lower churn product that has a positive benefit to the lifetime value of that subscriber.

Todd Juenger

And I had one final one specifically on subs before we get probably onto pricing. When we think about the U.S. specifically, I guess the question would be who is left, who is not subscribing Netflix, who are these new subscribers that you continue to add, where are they coming from? One might think that maybe they're among a slightly older demographic. I don't know if that's a myth or whether there's some truth to that, but if there's some truth to that, how are you tracking these subscribers or these members who are just now deciding to sign up for Netflix? Who are they and how should we have confidence you can keep hitting those elusive groups that have eluded you so far?

Reed Hastings

Well, as you recall Todd, it was five years ago when we said we thought the market in the U.S. would be somewhere between 60 million and 90 million.

We're still only at 55. So we got a ways to go just to cross into the bottom of our expectation range. And then we continue, as Greg said, to make it easier to access. And then the real driver is to make the big titles bigger. So what happens is so many people are talking about Bright or Stranger Things 2 or The Crown. That's what pulls in people who haven't yet joined as all their friends are talking about the shows. That's the dominant accelerator.

Todd Juenger

Fair enough.

Ted Sarandos

I think you're addressing like Grace and Frankie which launched its new season this week which clearly reaches an older demographic but it keeps getting broader and bigger every year, meaning that even though it was intended for a specific older demographic, young people love it as well. They're discovering it through word of mouth from a lot of new sources. So I think when we talked about that market size back then, that's a very fluid market in terms of what demographics of people are watching content on the Internet.

Todd Juenger

Got it. Got to talk about pricing a bit, right. So another big thing that happened in the quarter was a significant on a percentage basis pricing increased across most of your plans across most of the world. You I think made a remark earlier that that drove some of your cautiousness in your subscriber guide. It doesn't seem to have affected subscribers in the way that it was implied in your guidance. So any learnings it's fair to say – so any impact at all that we should think about either maybe on churn or as a barrier to new adds and then anything different on the mix of the popularity of different plans now there's a bigger spread between the prices around the world? So a lot in that question but I guess I'm trying to figure out what we can take away from the experience with the price increase.

Reed Hastings

Well, let's see. We moved from roughly €10 to €11 in Europe or $10 to $11 in the U.S., so about a 10% increase. And we saw very little effect on sign ups and growth and thus as you said the really strong results. And you can take away from that that our content is just making us to be really a primary focus for consumers' entertainment. And so our responsibility is then to take that increased revenue and turn that into even better content. That's the fundamental deal. And consumers are tolerant as long as something's improving. So we have to do is push ourselves to just keep doing more incredible content, downloading, easy-to-use, all the things that we're doing and thus continue to earn the trust and affection of consumers. So we've been doing that very well but we're always cautious on it and we have no plans to try to repeat that in any way in the near term. So it's really just focusing now on the quality of the experience and the enjoyment.

Todd Juenger

I think you said before and please correct me if I have it wrong that investors should think about sort of a mid-single digit CAGR in terms of average price. Is that still the way investors – assuming I had that right, is there any change to that based on your experience in the quarter?

Reed Hastings

I think it's a tricky thing because it really has to be a reflection of the underlying quality of the experience on a relative basis. So as long as we're able to continue to improve our content and our whole experience at a remarkable rate, which we can measure in viewing hours and things like that, then asking our customers to help us fund that at higher levels is reasonable. But if we weren't gaining relative value for the customers, then we wouldn't be changing prices. So think of it as just the North Star is not the financial plan, it's the customer satisfaction. But the big way to improve the customer satisfaction even further is to ask to get paid a little bit more on the current service so that we can make it even better.

Ted Sarandos

Right. I think people come up with that value proposition based on how much time they're watching Netflix and how much they're loving that time.

Todd Juenger

So speaking of content, you clearly have confidence that your investments in content are paying off. You can point to growing subscribers, growing pricing. You've telegraphed to almost $8 billion of P&L content spend for the coming years. Let me start with this question. Why is that the right number? Why not 9 billion or 10 billion or why not 6 billion or 7 billion? How do you circle in on that range of spend as being where you're comfortable for the next year at least?

Ted Sarandos

Well, at any given time that is the question. What is the right number? And the big one we find is that as we keep investing in content and we growing hours of viewing and growing hours of engagement and growing net subs, then you're getting good return on the investment. And the question is to bet why this number is the right number is that you don't want to get too far ahead of that number. So we keep investing forward based on the confidence of how we're doing. And at some point if we're seeing – if we're not growing viewing hours or not growing subs or not growing enjoyment, then you've hit a point of diminishing returns. We just haven't seen that yet.

Todd Juenger

Got it.

Reed Hastings

And Todd, it is 8 billion as you've pointed out for this year but it will definitely of course be higher in 2019 and 2020. So don't think of it as 8 billion as some new plateau. Instead it's just a point in time as we grow both the revenue and our content budget.

David Wells

And one of the things that you are seeing too, Todd, along those lines is to increase marketing somewhat slightly relative to content to multiply the value of that content across the business. But that isn't an indication where we're – we're seeing feedback that spending a little bit more marketing is actually going to be better for the business overall, because it amplifies the value of the content.

Todd Juenger

When we think about the 8 billion, 9 billion, 10 billion and growing as investors, how should we think about the execution risk associated with that? That is a lot of projects to manage, a lot more than Netflix used to manage last year and five years ago. How much time do you spend thinking about that and how much of a concern from an investment standpoint do we get in terms of your ability to execute on that much spend?

Ted Sarandos

Well, we have been doubling the effort every year for the last five years year-on-year. And a way to look at it is the investment that we try to make is we try to make sure that we're restricting ourselves to the real core executive skill set which is picking great people, both picking great executives to help shepherd these projects but also picking great creatives and great projects to run with. And if I had the same number of people at the same quality levels as I did five years ago, I'd be anxious. But we've been ramping ourselves up and ramping up our work with creators to continue to keep scaling the business with our focus on is to continue to do it at the same level that we have year-on-year even in double – with a 100% increase in volume.

Todd Juenger

Let’s talk about Bright a little bit. It’s obviously a --

Reed Hastings

An epic moment, an incredible story.

Ted Sarandos

That’s the words I’m looking for, Todd. That’s the word.

Todd Juenger

Yes, so there’s a lot of words and the critics had some other words for it but your members seemed to have loved it. So I just wondered if you can help us reconcile it. How can a film project – how can you reconcile the disconnect between the critical response to that film and what I think you portrayed is a very positive members’ response to that film so much so that you’re agreeing with a sequel. How do you reconcile that? What’s going on with that?

Ted Sarandos

The consumer response, the viewer response to the film has been great and every kind of internal measurement that we look at in terms of viewing and reach, we said it’s one of our most watched pieces of original content, meaning TV show or film that we’ve ever had on Netflix. And if you look at all the kind of external indicators around how people feel about the movie, user reviews on Rotten Tomatoes or user ratings on IMDB, you see a very, very positive experience with that film. So the way we reconcile it is that critics are an important part of the kind of artistic process but are not – they’re pretty disconnected from the commercial prospects of the film. So the way you look at it – we look at it as if people are watching this movie and loving it, that is the measurement of success. And if the critics get behind it or don’t, that is a select group of kind of social media influencers that you look at who are talking to a specific audience.

Reed Hastings

So I would say Todd from an investor standpoint, you want to focus on things like Google Trends relative to other movies like Jumanji or something that opened up at the same time and the critics are pretty disconnected from the mass appeal, especially remembering [indiscernible] international at this point and most of those critical reviews you read are English language and usually just U.S.

Todd Juenger

Speaking a little more broadly about the film budget altogether, I think you've talked about some rather ambitious plans it seems to me at least just for 2018 I think I've heard 80 individual film projects on the slate, something like that.

Ted Sarandos

That's the productions and acquisitions, yes.

Todd Juenger

Got it. Bright was an example I think – of a bigger sort of tent-pole sort of – I don't know if you'd use that word but obviously a big cornerstone film. Not all 80 of those films are going to be like that but just the success of Bright, how does that shape your thought about what the profile of your movie slate goes for? And any – of the $7 billion and $8 billion of content spend, are you willing to share like how much of that roughly is for what you would call films?

David Wells

Ted, there's probably a portion for me and a portion for Ted. So Ted, let me take the – the success of Bright is awesome for us. It doesn't necessarily change our outlook in terms of how much more we're going to do on the film front. Ted has a portion already set aside for films. I think he hasn't really changed that. I think it probably increases his confidence in that portion set aside, but I'll let him answer. But in terms of – from an investor standpoint, feature films are an important aspect of our service that we think we need to get right and provide. And it's a portion of that spend – we don't talk in specifics about the exact proportion of the spend. And then Ted, you can comment on --

Ted Sarandos

Yes, I would say the profile of our original films range anywhere from a movie like I Don't Feel at Home in This World Anymore that was a very low budget film that opened at Sundance Film Festival and ultimately won the Sundance Film Festival last year all the way up to the kind of tent-pole sci-fi action movie like Bright. And what we've seen is that each one of these milestones or budget milestone is that we've had reinforcement in the performance of those films to increase our confidence that this form of subscription is a good way to monetize content at all different budget ranges, including the largest budget ranges for films where I would a while ago I would have said, look, I'm highly confident that we can make small films work well on Netflix and then next year I'll be more confident that we do medium films well on Netflix. But we've seen success at every one of these budget profiles and we're really excited that we can continue to push that out and please more and more people if we're not constrained to small budget films.

Todd Juenger

Connected to all this to me just the sheer volume of output that continues to be added to the service everyday and there was a sentence or paragraph in the Investor Letter that talked about – and David mentioned this before about increasing marketing spend faster than increasing revenue. A clause that you put into it caught my attention said, because our testing something to it says that this would be a good thing to do. Greg maybe or whoever wants to, can you tell us a little more about what that testing is, what are you testing, why does it give you confidence that there's a good return on this marketing spend? We'd love to learn about that a little bit.

Greg Peters

Sure. I think as you're aware, we use experimentation and testing to inform as much of the business we possibly can and has been super exciting to actually bring that experimentation into marketing and marketing around supporting these big title brands and how we can expose them to both members, non-members and grow viewing and acquisition through this purchase. So we basically run the same kinds of experiments and have determined from that that this is a great way to spend that money to support our growth.

Reed Hastings

And Todd, that is all accurate. We look at it as additive input on top of the service. And our sort of Holy Grail dream is that the service was so good of promoting the new content in such relevant ways that we wouldn't have to spend externally. So think of it as there's a little bit of competition between Greg and Kelly Bennett spending to see who can drive the growth of the titles most effectively. And as we are right now, it still is a really good financial investment to increase on the marketing and that may continue to be so but we're always also trying to improve the product in the organic reach, social and PR of the title marketing where you end up having to spend less on the marketing. But we really – as you can understand steer by the data where we're doing these city level, country level experiments to see what are the efficient ways and productive ways to get say Bright viewing very large or a title that we recently had End Of The F****ing World and it's been incredible for us with not much marketing and then we're boosting on it. And we have titles at all different ranges and we want to get people talking about those titles amongst their friends so that you get those social dynamics which then help us grow.

Todd Juenger

And Ted --

Ted Sarandos

I'm anxious not to say that the entire call – that have been chosen who benefitted greatly from the marketing test and other shows that the site is perfectly efficient promoting like to your point, which is it tells us there's a fertile ground to learn more for sure.

Spencer Wang

And Todd, just to add. That increase in marketing spend is obviously embedded in our operating margin guidance. So our [indiscernible] 300 basis points of an increase in operating margin. So that's obviously factored in that increased marketing.

Todd Juenger

We didn't plan it, that's a perfect tee up for one ridiculously mundane sort of accounting question I wanted to ask before we left content, so I guess Spencer or David. There was a write-off in the quarter. I guess that's sort of run-in-the-mill business. Anything you want to say about that? But then more broadly you've had another year of experience. Anything about the amortization scheme for the value of content and the way that shapes that you've learned or would change – because that definitely attracts perhaps margins going forward?

Spencer Wang

No, I don't think there's much to add to that, Todd. So as we've always said as is – we've written in our content accounting over the slide deck on the IR Web site, we do evaluate our content library for impairment. And when we do abandon a project, in this case some unreleased projects, we do write down the value of that. So from an investor transparency perspective that that would be a good thing to highlight this quarter, but really not a material factor in the quarter because as you saw from the results we did exceed our operating income and contribution profit targets.

David Wells

These types of business write-downs are an ongoing facet of Ted's world in terms of producing content, but we just hadn't had one of this magnitude. And related to the societal reset around sexual harassment, so it was somewhat unusual in that respect.

Ted Sarandos

I think it was probably a good indicator too when you have a lot of projects going, high-profile projects that – we've moved away from much concentration risk of any one project having material impact.

Todd Juenger

All right. Segueing on to topic of industry consolidation and what's going on with Disney Fox which some investors are probably wondering why it took me so long to get to that. I've got several questions about that but may be just start at the high level, I guess maybe Reed just Disney is trying to acquire Fox. What are your thoughts?

Reed Hastings

I was as surprised as anyone else that Fox is willing to sell. And to have all those cable networks together in one bundle gives them tremendous pricing power against MVPDs. So I could see the attractiveness of it. And then they're also putting together a Disney direct-to-consumer service which we think will be very successful because Disney has super strong brands. And so we'll see – we don't see it as a threat to us any more than Hulu has been, but it's a great opportunity for them. And will it trigger a wave of consolidations? That's possible. But honestly we try as much as possible to focus on our own consumers, how do we do the shows that we can do and grow our business and these kind of big U.S. media company mergers are pretty peripheral to us. So you wouldn't expect us to be very involved in that.

Todd Juenger

It was a very common question among investors which is well, there's a fair amount of Disney and Fox owned content on the Netflix service and the investors wonder whether there's a risk that will be taken away from you. So I guess I'd like to ask that question. And to the extent in your answer you could help or quantify the extent there is some content that might be at risk over time, how much --?

Ted Sarandos

You shouldn't think of it as risk. I think we have strategically and they have strategically been moving in this direction for a long time. It was one of the reasons we entered into original programming was that if we got to the place where networks didn't want to sell us their content in second windows that we would be replacing that with our own – by creating our own original programming. And as kind of – as is playing out in that direction, the things that are on the site today, most of those are kind of run-of-series deals; so a thing like American Crime Story People v. O. J., as long as they keep making those shows, they continue on Netflix. Our Marvel series that Disney produces for us, we own those shows and they run until we cancel them. So there's no risk of surprise I should put it that way that their content would be coming at lower volume from Disney and Fox that was coming in that direction for a long time.

David Wells

And to reinforce that point, the 17.7 billion of commitments that we have is exactly that, the tractable years of content that we have licensed.

Reed Hastings

And when we say we own those Marvel shows, we get to use them for a very long time. Underlying copyright in that case is still owned by the Marvel side. And for example, Todd, on the Pay 1 deal movie deal we have with Disney in the U.S., that won't get renewed clearly. They'll keep that. But again in most countries of the world, we don't have the Pay 1 movie deal from Disney. So we don't look at that of itself as a hugely material, it's great content. But we're able to grow without it just fine.

Todd Juenger

I wonder if your level of – I don't know if concern is a good word, your level of thinking you do on this issue would change if you thought about this expanding further. Some investors believe while this is just the start, now Warner's, now Universal, all these companies are going to start rethinking their own strategies with their Pay 2 windows where they want their content --

Ted Sarandos

The big bet they have to make – I would say the big bet they have to make, Todd, can they make more money licensing their content to us or somebody else by having their own services and managing their own services. That remains to be seen.

Reed Hastings

CBS for example is taking a middle road where it's got all access with a bunch of shows but then they licensed Star Trek to us internationally which funds most of the production. So think of it as an evolving mix. Fundamentally, if we can monetize content really well, then people will sell to us because we can pay them and that's ultimately the core economic driver. And of course a lot of what Ted's been forecasting and working on these past five years is going directly to producers and talent where we're not going through those other aggregators. So our exposure is significantly less than it used to be and we're feeling good about the path we're on.

Todd Juenger

And you made it clear both in the Letter and your opening remarks in terms of competition from the new Disney direct-to-consumer services, your opinion on that is well understood I think. Let me ask you this nuance. Is there anything to – it seems like Disney might be considering more of a stratified type of consumer offering, we don't know for sure but it seems maybe there will be sort of more of a kid's family type of service and then maybe more adult type of service, maybe a sports type of service. Do you think that there's a market out there that is more interested in sort of a more narrow service at a lower price compared to Netflix which is a more broad concept I think? Is there anything about that that is informing how you think about the space?

Reed Hastings

Well, that's a great illustration of the benefits of competition. Everyone knows the cost of competition. But the benefits are your competitors are challenger brands, so they don't tend to follow your strategy if you call us the leader in streaming. And then they'll try many things; separate sports, other flavors and if some of it works, then we get to learn from that. So our view would be to let them try to innovate on those aspects and watch what they do and learn from consumers. Do they really love it? It doesn't change our strategy. So think of us as our thing is working and what we have to do is not get distracted. We have to do content at a scale very few people have ever done before. We have to do marketing and product at that. And if we do that, the reward should be very solid for us. So we've got a path ahead. Everyone else in streaming is trying to find one. And again, we have to watch them and learn. And I think in particular Disney was at strength of brand and unique content. We'll have some real success and I know I'll be a subscriber of it for my own personal watching in the same way and as many Disney and Fox executives also subscribe to Netflix and watch our shows. So what I see is we'll all learn from each other and total streaming will grow faster because of the competition.

Todd Juenger

Let me ask one very specific but I think in a big market question about Disney Fox. So if that goes through, I guess Disney would presumably become the owner of Hotstar in India, a pretty big user base for that. Does that – in India very obviously big but particular market, does that change the dynamic in your mind at all in that market?

Reed Hastings

Not particularly. YouTube gets the most streaming in India but Hotstar gets the second most. So it's not a widely different landscape. So that wouldn't particularly change our view in India. Hotstar is a great competitor and sometimes collaborator now and I'm sure that would continue to be under Disney.

Todd Juenger

When you described the competition in Investor Letter you segmented into – at least the way I read it into sort of non-advertising supporting service like you guys and Amazon and then free advertising supported service. I guess Hulu would fit in somewhere between there. You've talked in the past about the role or people ask you all the time, so I'm going to ask you again about whether advertising would ever fit into the Netflix service at some bargain you make the consumer, or do you continue to see not having advertising as an important strategic differentiator for Netflix?

Reed Hastings

It is a core differentiator and again we're having great success on the commercial free path. That's what our brand is about. So we're going to continue to expand the relevance of a commercial free service around the world and make that so popular that consumers are very used to and appreciate Netflix.

Spencer Wang

Todd, I think we have time for one last question.

Todd Juenger

Okay. Well, that always puts the pressure on – I'm going to roll up one last question. I haven't asked at all really about the guidance. I'll try and make it one question. I think Reed you're on record saying that the more sort of free cash flow that Netflix invests, the happier your investors should be because that shows the confidence of the service. So if I look at sort of the 3 billion to 4 billion free cash flow loss for next year and combine that with sort of the P&L margin expansion, what would be the sign of success that the investors can look for to have comfort that that level of investment is going to generate the returns that you guys have the confidence in?

Reed Hastings

Well, I think you have to go on the track record. We've been able to convert great shows – let's take Bright as an example where the cash out for that is one to three years before release and then it turns into an enormous movie for us. And so we've had that track record. For the last couple of years have greater and greater scale and we're continuing to take it up a notch. Many investors were quite reasonably concerned about our international expansion. Would we be popular at LATAM or Europe or Asia? That's a reasonable concern. Many companies have issues there. But we're pretty focused on the great execution of this narrow focus of what we do, not getting distracted by everybody else. And I think the core thing is betting on the track record of our ability to invest that money well so that as we bring those content to the service in 2019, 2020 and begin to expense it that we're also – it's great content that's really driving value. But the core thing is betting on the track record that we have.

David Wells

And if I can bag a CFO angle on this, Todd, in terms of – it's not too far off our indications last quarter on where we were going. Yes, the content spend has somewhat come up in some people's minds in terms of our 7.5 billion to 8 billion guide. But in terms of where we've grown the business, how much we grew the business in 2017 seeing accelerating growth in the business, back to Reed's comment on our track record, it's not too far off. It might be a little bit higher in terms of that reinvestment in the business, but I do think that we're starting to see some of the factors influencing the working capital needs on content start to moderate a bit as we've pushed into more categories, as we've grown the content. And so we want to leave ourselves enough room for continued growth and acceleration in that growth of the business, but we are seeing some of those pressures moderate a bit. And as our operating profit grows, we'll be able to pay more for that organically.

Spencer Wang

And perhaps if I can bag the IR angle on top of the CFO angle, I would just lastly say that since this is really just a timing of cash payment issue, we really view the P&L and the growing operating profits and the growing operating margin as really the indicator that the strategy is working. So that's why we try to give you guys as much transparency as we can with respect to how we're advertising the content so you have confidence in the income statement.

Ted Sarandos

And just to assure everyone that we're not resting with the great 2017, coming up in the quarter we still have incredible launches ahead of us, like Altered Carbon which is a huge sci-fi series that launches on January 26 and second seasons of our French series Marseille, Jessica Jones, Santa Clarita Diet and Lemony Snicket coming up later in the quarter. One sleeper that I think people should keep an eye on is a series called Everything Sucks! And new installments of our David Letterman show My Next Guest Needs No Introduction coming up and so great new launches that we're really excited about. So keep an eye on more to come.