Welcome to the Netflix Q2 2017 Earnings Call. I'm David Wells, CFO. I'm joined today on the company side by Reed Hastings, our CEO; and Ted Sarandos, our Chief Content Officer.

Interviewing us today will be Doug Mitchelson from UBS. We're going to try something a little different and have one interviewer just for a little bit more continuity. Then I think Doug will have our first question being our only interviewer.

Before we get started, we will be making forward-looking statements, so actual results may vary.

Doug, over to you for our first question.

Question-and-Answer Session

Q - Doug Mitchelson

Thanks so much, David. I wanted to start simply by asking if there is anything notable in the quarter? For you, Reed, you talked about Netflix being a learning machine. Anything that you've learned that you want to share with us from the past three months?

Reed Hastings

I mean anything notable beyond 5 million net adds in Q2; all-time record for Q2s, up sequentially from Q1,do you mean notable beyond that. I think we're just seeing that the rewards of doing great content focused on the quality of the service are paying off.

Doug Mitchelson

I think I'll run through some of the quotes that you guys have on the letter this quarter, and one of first things that caught my eye was "Due to our amazing content," so Ted did you put that word amazing in there, any update you can give us on thoughts around how content influenced the quarter?

Ted Sarandos

I think it was the combination of a lot of great things. 13 Reasons Why, started right at the end of the quarter, rolled into some of our biggest content brands; new seasons of House of Cards, Orange Is the New Black; ending the quarter with Okja. So just I think it was the combination of a lot of different things, kind of a reinforcement that as long as we are programming to a wide variety of tastes and keep the quality level high that we can turn some success off of that.

Doug Mitchelson

And I think congratulations on all the Emmy nominations to the company and to you specifically, Ted [indiscernible].

Ted Sarandos

Thank you. That's definitely a team effort beyond my own content team, the marketing and PR groups and everyone who kind of makes that happen. It's hard to forget that it is a race, so it's a big campaign that attaches to that stuff too, but 91 nominations is an all-time record for us and we're thrilled.

Doug Mitchelson

Continuing on the letter a little bit, David, for you. You note that our 3Q guidance assumes much of your Q2 momentum will continue. You say you're cognizant of the lessons in the prior quarters where you forecasted lumpiness in net adds. So should we take this to mean that the third quarter includes that you're cognizant of prior quarter?

David Wells

Well, I think back to your earlier question about what lessons into the last 90 days have held for us and one of them is our business is a little bit tough to predict given the success of content and the popularity of content. We still think the major driver is adoption of Internet television. But on top of that we're increasingly growing throughout the world, so we're getting more word of mouth on our newer territories and we're seeing great content slates have an effect like they did in the second quarter. So I think you can take that line to mean that our forward guidance assumes continued good trends and continued great trends. But we're a little bit cognizant of other quarters where we've either under or over forecasted because some of that demand was pulled forward by a great content slate. In this case, in the second quarter we had a really strong content slate.

Doug Mitchelson

And continuing on with you, David, at some point ahead of expectations when you talked in the letter about margins being on track for full year 7%, would that suggest that with subs, and therefore likely the revenue coming better than expected, you're choosing to invest more and maintain that margin target?

David Wells

Yes. So we had a 9% margin in the first quarter and we had a lot of content come on in this quarter, so we got it down to 5%. So on the first six months, we're running right on our target of 7% and our guide is right on 7%. So you can take from that that we're going to reinvest and plough back in the business sort of any over forecasted growth that we have on the top line.

Doug Mitchelson

And David, one more for you. You call un-grandfathering impact in the fourth quarter, I think you had some price increase sort of – perhaps that was back in Q2, and I am un-grandfathering again in 4Q, is there any sizing you can give investors around the pricing strategy issues that impacted, specifically specifically 3Q, but the year as well if you're --??

David Wells

Well, I think last year what we found was because of the PR and the news around the price change in the second quarter, which actually didn't happen or un-grandfathering until the third and fourth quarter, we had a real blended effect through the year. So it's hard to tease out exactly which quarter we saw effects on both acquisition or retention. We do know that the comping off of last year we think we'll have less noise this year, I think that's pretty clear. So I would say it was a median in terms of size and impact on the business from last year.

Doug Mitchelson

Over to Reed. Reed, I'm sure you'd tell me based on the results you just reported, you did well anywhere, but particularly it looks like Europe is really getting critical mass, and every country in Europe is different. So I thought I'd sort of try to screen [ph] on Germany as an example, and particularly I think Germany is sort of a tough market for the U.S. companies, consumers over there don't like to pay for TV, they don't watch as much TV. Obviously, English is not their local language. Amazon was there first as well, so there's a competitive dynamic. Based it looks – based on our tracking, you are actually surpassing Amazon, at least with app downloads if not subs, is that -- are you at the point where you are taking the leadership in Germany – can you talk a little bit about what you've done right and what you're doing right that has caused that market to be able to develop?

Reed Hastings

Doug, Amazon is super successful around the world if you look at U.S. with Prime, incredibly successful. It just doesn't seem to take away from us, so I wouldn't characterize it as us versus Amazon in Germany. I would really characterize it as can we have a service that's so great that Germans find it worthwhile paying for. And clearly we're succeeding at that making our service better and better. In particular, there's no advertisements on Netflix, and so it's great for kids, it's great for teens. And then the great content is so significant in helping the growth that you're picking up. But as you suggested, we're really seeing that around the world, whether it's Brazil or Argentina or Japan, Singapore, or Germany, Internet TV is really catching on for us, for YouTube, for others.

Doug Mitchelson

And I guess what I'm trying to get to, Reed, is you launch two and a half years ago, and I think when you launched, you grew parallel to Latin America and that it will take some time, but you'd figure the markets in Europe out and eventually you're going to have similar levels of success. Do those parallels still hold, and can we look forward to the Europe where there is fits and starts in terms of progress? but if you really hit the point where you reach escape velocity, do you think those markets to be strong markets going forward?

Reed Hastings

Well, I think all throughout the West; so Latin America, North America, and Europe, we're doing very well. We just got to continue what we're doing, more local productions. We've got some amazing new shows we're producing in Europe and in Latin America. With Asia, we've got a lot more to learn. We're really expanding a lot in India, Japan. We're figuring it out market by market. But Asia is very unique and very large. So we see a huge opportunity for us over the next couple of years, all of us spending more time there and investing more.

Doug Mitchelson

Reed, continuing along that line because Asia is so diverse and and you think about Korea, Japan, Thailand, India, they're all very different markets. How do you prioritize your investments in Asia?

Reed Hastings

We look at market size, we look at growth of Internet, kind of all the factors that we've always looked at around the world. And so then we're able to prioritize in what we're doing. And we saw some great success, for example, this quarter with Okja. And maybe, Ted, you want to describe a little bit on that.

Ted Sarandos

Yes, Okja is directed by Bong Joon-Ho who is the most celebrated director in Korea and is a huge star and an attraction in and of himself, but also the movie itself is one of the most ambitious productions in history of Korea. His films tend to travel around the world pretty well. It made a ton of noise at the Cannes Film Festival. It was the most talked about film at the festival. So it helped in attracting new subscribers also, but it also brings a brand halo to Netflix that it's a place for great content worth paying for. And I think we saw some of that benefit throughout Europe and in pockets of Asia where we saw big sign-ups in Korea, but remember for most people, they've learned about Netflix for the first time when Okja was coming out in Korea. So relative to the rest of the world, we've got a lot of work to do. But it was a great introduction to Netflix for a lot of the world.

Doug Mitchelson

And so in carrying that forward that Reed just mentioned, more local content particularly in --?

Ted Sarandos

Yes, and even more so Doug, think about local content for global audiences. So the idea – that's a fantastic story that we make a Korean movie for Korea, but it's even a bigger story that the movie is getting watched by millions all around the world.

Doug Mitchelson

So, Ted, can you talk a little bit about how you're expanding [indiscernible] target overseas, the size of the team and is there capacity growth, is there growth in percentage of budget being allocated to --?

Ted Sarandos

Yes, as Reed mentioned, matching the program into local taste is really the key and we've seen it in our expansion through Latin America, our expansion into Europe. And as we look to Asia, we have to get better and better matching those tastes. And those tastes are not as easily aligned with Western tastes. So we'll invest more time and energy in Asia putting some people on the ground in Asia that we haven't historically, but well within how we've looked at the size of the teams generally but locating them more likely outside of the U.S. as we continue to grow for local audiences in Asia and throughout the rest of Europe.

Reed Hastings

Doug, just to round out Ted's answer, all those things that you mentioned are involved in that. So it's growth of the acquisition and development teams, it's also budget. We already had in place growth in budget in many of these territories who's just trying to deploy that more efficiently. In some cases, it's adding on to the levels of investment. You ask about how we prioritize? Generally, when we see success, we try to add on to that until we reach a point of diminishing returns. And so, if we're going to see success in some markets, we may up the content budget in those markets.

Doug Mitchelson

It all makes sense. Reed, over to you, since I think we are on Asia, if you think about emerging markets broadly, there's certainly a lot of mobile. And I'm curious if you can give us an update on the implication for strategy and efforts that you have underway, and if you could talk about the --?

Reed Hastings

Absolutely, Doug. We've had great success on mobile in the developed markets like the U.S. and Europe and then throughout Latin America, and now and Asia. And all of the Netflix service works extremely well on mobile. We're continuing to get better and better at encoding efficiently our films and TV series so that it takes less and less network bandwidth and we're rising in popularity around the world, and that's paralleling the improvements that YouTube and others are doing to make video a natural part of mobile phones, and so that's just a continued evolution.

Doug Mitchelson

Are mobile Netflix products a different product than we're used to right now?

Reed Hastings

No, mobile's just a 4- or 5-inch screen for us with a great touch interface, and it's very similar to what you see on an iPad to the television. So think of it as there's just many screens that you can enjoy Netflix on.

Doug Mitchelson

When I think about [indiscernible]

Reed Hastings

I'm afraid, Doug, I can't hear you anymore. There seems to be some AV problem.

Doug Mitchelson

Can you hear me now?

Reed Hastings

Barely. You may need to shout.

Doug Mitchelson

So for Reed or David, as you consider emerging markets again broadly, is there a capacity to mass market the product without having the need to lower price point?

Reed Hastings

We'll see. We've been very successful getting to beginnings of a mass model product in Latin America where you've got a lot of fairly developed economies. We'll see in Asia what we can do with that. But for the first couple years, it's focused on more high-end, Western-oriented elites. And then as we grow into that, we can think about expanding beyond that.

Doug Mitchelson

Ted, back over to you. At the beginning of the year, you talked about having a strong second half content slate. Do you feel that the content slate is settling now to where you thought, and and there is a strong second half --?

Reed Hastings

Is there any way you can see what the --?

Ted Sarandos

There's a lot to be really excited about in the second half in terms of our content releases. Starting as early as next week, we have a great show called Ozark starring Jason Bateman that we're really excited to launch. And then in August, we have the release of Death Note, a great new film that we're going to panel at Comic-Con this next. And also in August, The Defenders, which brings together all of the characters from Marvel's Defenders; Jessica Jones, Luke Cage, Daredevil, and Iron Fist for an incredible season that people are really excited about. And of course throughout the year, we have things that will lead up to Bright at the end of the year which is a huge film with Will Smith that will be only available on Netflix that we're incredibly excited about.

Doug Mitchelson

Ted, what do you think Reed means when he says he wants you to be able to cancel more shows?

Ted Sarandos

Look, I think I mentioned before that in this universe we look at a lot of things like failure is not such a bad thing and if you're not failing maybe you're not trying hard enough. So when we have a good hit rate and even with the recent cancelations, 93% of our shows have been renewed. So you want to be introspective and look at that and say, are we being adventurous enough, Daredevil, we're trying new things. And I think when you think of things – when you have a very high hit ratio, you definitely want to keep second guessing yourself even though you do.

Doug Mitchelson

David, when we think about potential for more and more original shows being produced, therefore, likely more and more cancelations over time, any impact on the financials that we should think about? And separately and importantly, is the viewing that you are expecting, whether it's license content or original content, whether it's movies that you are putting out consistent with the amortization schedule that you have in place?

Ted Sarandos

Yes, and I think what you've raised is a good point which is the more shows we add, the more likely in absolute numbers that you'll see cancelations of course. But that's only novel Netflix and it's still novel because you see on network television about two-thirds – about a third of the content gets cut in the first season versus our content which is mostly renewed. And it's not because we're less careful about it, it's because we can more efficiently build it and not a 100% of the time. So we want to launch shows. We love when there's a deep passion fan base for a show. We just need it to be big enough to support the economics of that show so we don't create opportunity cost for future fans of new shows.

David Wells

Doug, just to take the sort of accounting oriented part of that question, I would say no. We don't anticipate right now. We look at this constantly. Every quarter, we look at the trends. Many of these shows, even if they're not picked up for a renewal, they may have a story arc that completes the narrative. And so, it really is for us is about the sort of continuity of viewing over the life of the show. So even if some of that viewing is concentrated as our amortization methodology reflects upfront in the sort of first release, the first month of release of that content on the site, it may have sort of steady viewing over the life. And if it does, then it's going to be sort of reflective of those trends. If it's really concentrated, then yes sure we would have to reflect that. But many of the non renewals get wrapped up. Bloodline is an example, something that we got wrapped up in a narrative. We're going to do a movie wrap up on Sense8. And so I think overall, you'll see us try to wrap the narratives on these.

Doug Mitchelson

And I have some questions on content. I wanted to set it up Reed with a question for you. In the past, we've gotten parallels between Netflix and HBO, and that implies Netflix is a TV network. I think even the letter this quarter, it talked about that, TV network [indiscernible] At the same time, you've expanded to the unscripted movies, original TV, and is Netflix instead more of a Comcast-type version of Internet TV or should we think about it as an Internet-TV network?

Reed Hastings

I think about it more like a super network. We're talking about addressing content desires and needs across the board, as you mentioned unscripted, but also kids and films. This year, the Emmy is just as an example. We have five different series nominated for Best Comedy or Drama. We also have two documentary series nominated for Best Documentary Series, two documentary films nominated for Best Documentary Films. We won 10 daytime Emmys for our kids programming. So we are doing across the board programming, not programming for one niche which networks tend to do.

Doug Mitchelson

And then for Reed, just a question on content spending, how do you decide how much you allow [indiscernible] – how do we measure sort of aggregate value the customers want any one piece of content becoming less and less important as you grow your body of original content?

Reed Hastings

Well, every piece of content that we do is important, and we try to have that content flourish around the world, but in terms of the overall investment levels, we're continuing to see increased median viewing compared to a year ago, two years ago, three years ago as we're winning a few more of the moments of truth of what you do to relax. But still we're such a small player in our viewing compared to linear TV, compared to YouTube. So we've got a long way to go to have more and more content to please more and more members and continue to grow. And what you see us doing as we grow is also improving our margins, so we're getting some efficiency out of that as opposed to spending every dollar in the content. But we are growing the content budget significantly also because of the opportunity that we see.

Doug Mitchelson

Ted, back to you in terms of strategy for how you're producing content. When you think about the fact that Netflix now can self produce titles, you can license exclusive originals from Hollywood Studios, you can license third-party – you can license reruns, where do you see the race will turn at this point in time, and how do you see others responding to your strategy of self producing a few shows?

Ted Sarandos

The success we've had with our self produced shows has given us a lot more confidence to expand it. Because we're a global network, those rights are really important in terms of being able to control our destiny, when we can make shows available, and what formats to make them available. And beyond that, there's an economic tradeoff which is there's a big studio margin that we're able to put on the screen and make better shows when we produce it ourselves. So a show like Stranger Things, when it becomes a big cultural phenomena, we'd like to be able to control the destiny of those brands as we continue to invest in them. But at the same time we want to lean on putting the best programming possible on the air. So not being dogmatic about which shows we pick depending on their business model but being really careful about picking shows that are great regardless of their business model, but you'll see us do a lot more of self producing whenever we can.

Doug Mitchelson

And so last question in the series on content, Ted, I'll probably end up asking this every quarter forever. But any issues on – with your positive content for access to the best shows with more and more players, obviously Apple hired two Sony executives; Facebook announced they're buying some original content, others continue to expand. You're certainly competing very well and the Emmys are sort of proof of the quality of content. But on the margin, do you cost-wise, more than you would like, some projects go to others that you prefer you have yourself?

Ted Sarandos

I think Internet television is an enormous space and there's going to be lots of competition. And as they come in, they're going to bid up the cost of the best stuff which is great. It's great for consumers, because more things get made. And it's great for creators because they're more buyers at the table.

So we expect the content cost to go up on the top premium things, but I think, as I said, I think that's a good result for everybody.

Reed Hastings

And that of course brings in new capacity like you saw Headlines Today that Liberty Global and TPG were forming a new television studio to produce shows for all this new market. So as the prices go up, there's more capacity because there's very large numbers of writers out there.

Doug Mitchelson

In the letter, it talks pretty exclusively about expanding distribution relationships whether it is a content provider, it's a pay-per-view provider, bundling in Netflix service and I guess two questions there. Reed, for you first. What about the reverse? Do you see Netflix as a platform that can bundle other video services and sell that on profit and make a margin. And second as part of that, any specifics behind the point made in the letter that you expect to really expand these efforts?

Reed Hastings

There are several companies who are selling networks on top of their platform. So Hulu is doing that, Amazon is doing that. We don't see that as a business direction for us. We're really focused on making our network as great as it possibly can be. And then as you point out, we're now looking at proposals for including Netflix and some services and beginning to learn the bundling part of the business. We're doing a little bit of that in Europe already and it's been quite successful. Thus we're interested in expanding that.

Doug Mitchelson

And shifting over to David and ASP. I think in the past you've talked about mid-single digit being a good aspirational point to consider. And when you look at the tiers that you have, it seems like the base tier is relatively high in place to the middle tier and the upper tier. I wanted to deal with that into -- are there other ways to differentiate those tiers to create more value and have that be an even bigger part of ASP growth in the future?

David Wells

Doug, I'm not sure I heard the first part of your question on ASP, so just repeat that first part.

Doug Mitchelson

So for ASPs, I think in the past you have said that mid-single digit growth longer term is the right way for investors to think about Netflix's pricing potential.

David Wells

That's correct. So if you're just looking for clarity there, yes. That's an easy answer.

Doug Mitchelson

And when we think about the tiers that you currently have in place, the midsized tier and the higher price tier feel like they're relatively close in price to the base tier. Is there other ways that you're considering to add value to the higher-priced tiers to have tiering up be an increasing part of that ASP growth?

David Wells

I don't think so. Right now, I would say we do see success with people taking the upper tier with just the differentiation of concurrent streams and high definition. We don't think necessarily that we need to add more value. We have the flexibility to add more value in terms of that tier differentiation. But honestly, we think there's progressive growth just from thinking about differentiating those tiers on price point a little more in terms of middle and upper. And then in terms of an expectation of ASP growth, that's reasonable in terms of what you outlined. We are lapping the un-grandfathering of last year, so you are seeing sort of revenue on a year-over-year basis or ASP on a year-over-year basis start to reflect that lapping of a large pool of un-grandfathers coming on.

Reed Hastings

Doug, we're super proud that we've been able to maintain this $8 access point in the U.S. or €8 in Europe which we've had in place since 2010. So all of this decade, Netflix has been available for $8. And when you think about that content increase over the last seven years, it's phenomenal and it's still $8 a month at the base level. And we're getting the ASP growth as people optionally select to get HD and ultra-HD which are amazing new formats that have come on, but again a key part of the successful strategy is that we're staying very, very affordable for people.

Doug Mitchelson

Yes, it's interesting because you mentioned sort of growth in content and the service, Reed, and you mentioned that the median time spent has been increasing. Are newer customers that are coming on the service this year behaving similar to new customers two years ago or four years ago or --?

Reed Hastings

Similar and better. They're watching more. More engaged. Again, that's a combination of the user interface, the algorithms, or the personalization and of course the content itself. And so it's very exciting that we've been able to see even higher engagement with members now compared to last year and the prior years.

Doug Mitchelson

David, I wanted to circle back on churn. You talked about the un-grandfathering churn. I'm just curious if you could sort of help investors understand how churn has evolved over time? And do you see meaningful opportunities to improve churn from here and what specifically those opportunities might be?

David Wells

Well, we generally talk about net additions just because of fluidity of somebody coming back on the service. It's hard to parse the two pieces. I've made comments in the past that generally year-over-year, churn has improved as we improve the service, as we add more content, as subscribers age up. But more and more as our word of mouth and as we penetrate close to 50% in the U.S. today, those lines are fairly indistinct in terms of user rejoin or not and somebody may have been a member of the service 12, 14, 18 months ago. So I would say in answering the spirit of the question, we continue to improve the quality of the service with more content, with a better interface, all the things that Reed just talked about in terms of driving value to the middle and upper tier to have people chose and electively chose a more robust service. I'd say that continues. And then outside the U.S. as we age, we usually – the pattern there is to improve the quality of the library, we better match the taste and that includes both Western content for that local audience and a little bit of local content as well that Ted talked about earlier, so we expect to improve churn outside the U.S. as we get better and better in these markets.

Doug Mitchelson

Sticking with you, David, on the margin side, you've in the last letter and this letter have talked about a 7% margin target this year and modest expansion thereafter, care to help investors out at all in terms of understanding what that pace of margin expansion might be relatively to investment opportunities that you have?

David Wells

We're focused on making the 7% this year. We know that we'll clarify that towards October. But we want to balance both growth of the business and reinvestment back in the business given that we're seeing some great returns on that content given the growth that we experienced this last quarter with sort of a disciplined growth of profit. We also know that you can't just hockey stick it in three to five years and expect the business to be in the right place. So I think it's a bit of a balance and right now that 7% with sort of consistent and deliberate growth after that is the right guidance for our investors.

Reed Hastings

Doug, if you remember last year, we were at 4%. So you might be able to apply something there.

Doug Mitchelson

Thank you, Reed. I appreciate that. What would be helpful as well sort of reading the details a little bit out of David is can you frame a margin progression in terms of where the leverage comes in the cost structure? Is it content side, the marketing side, G&A, tech and dev? Where should we see the most leverage in the cost structure over time?

David Wells

Well, to-date, it's really just been about as we expand globally and people watch a lot of the same content, Ted talked about the cost pressures in terms of as more people pile in at the top end of the market on the unit cost of content costs, but we've been able to grow even faster than that. So we're able to expand both our content spending and our margin at the same time because we're growing faster than that content. And we expect that to continue forward for the foreseeable future. We are leveraging marketing. We're spending more on an absolute basis on marketing as we become more and more of a media company. But on a percent of revenue basis, we're leveraging there. And G&A and tech and dev has kind of run a little bit in line with revenue as we expand internationally and as we become more of a full-fledged studio and a bigger, and at-scale studio. So it's pressured there in terms of adding people, but I do anticipate the ability to leverage some of that down the road.

Doug Mitchelson

The cash flow burn is certainly an interesting comment, and you mentioned it last quarter in the letter, you mentioned it this quarter in the letter. I think similar to margins, investors are trying to read between the lines, understand how free cash flow burn might progress over the next few years. First, I think – actually for you, Reed, why the comfort level with this level of negative free cash flow. And David, any sense you can give investors as to carry forward at these elevated levels, does it get better but take a while to get to breakeven, any help would be appreicated?

Reed Hastings

Look, when we produce an amazing show like Stranger Things, that's a lot of capital upfront, and then you get a payout over many years. And seeing the positive returns on that for the business as a whole is what makes us comfortable that we should continue to invest and integrate to basically self develop many more properties as Ted can find the appropriate ones. And then there's comfort with being able to finance it and of course our debt to market cap is incredibly low and conservative, so we've got lots of room there. And I think that combination that it's spent well and we can raise it is what makes us very excited. And the irony is the faster that we grow and the faster we grow, the owned originals, the more drawn on free cash flow that will be. So in some senses that negative free cash flow will be an indicator of enormous success.

David Wells

And then to annotate your second part of your question, like Reed said, this is a success scenario in a sense of as we scale and if we're scaling faster, we're going to reinvest part of that back into the content and that has implications on the cash side. So for us, as we've seen success with both the popularity of our owned originals, we've expanded into other content verticals. And as we scale faster, as we grow faster globally, that has implications. That said, we gave you an indication of around 2 billion this time. We've updated that to be between 2 billion and 2.5 billion. So you can think about that as a 10% to 15%. When you put that in line and compare that with our subscriber growth on the top line and you kind of get some indication that we're still being very disciplined about the efficiency of our content cohort investments and we're looking at how those shows perform over time, but if we have a bigger prize and if we see a bigger prize with the gross of the growth , that's going to have some implication on the cash flow side.

Doug Mitchelson

A couple more for Ted and then I think we'll wrap up with Reed. Ted, one question I get a lot is investments in new movies. I think part of it is, with the TV series, it's a brand that goes forward, year after year of episodes versus one time for film and some could be very expensive as well and with the [indiscernible] approach. I think in the letter you talked about you believe Internet TV can reinvigorate the film business. So one, talk on your film strategy at this point; and two, any thoughts behind the statement in the letter would be helpful?

Ted Sarandos

Well, look, we're doing a lot in the film space for a lot of the same reasons we're doing it in the television space, which is access to great content when consumers want it around the world. So we think it's a good investment. We're trying a lot of different things. Some of them work out great. Some of them work out not so great and we've learned from every single one of them. So we're going to continue to invest in that space because we can bring films to our members when they want them, which is when the world is talking about them. And that's almost impossible to do with a studio partner. So that's why we're pushing down that road. I think that in success, our films will be able to attract subscribers and retain subscribers the way our series have and that's why we're working so hard at it.

Doug Mitchelson

Another question I get I think is just so noticeable is the investment you made in comedy and you've talked a bit about that last quarter, Ted. But is there something behind that strategy in terms of forming also relationships with comedians that also might be actors in TV shows, movies, or is it simply ROI, so you keep investing more?

Ted Sarandos

Yes, the category is remarkably efficient even at the premiums that you'd have to pay to get the superstar talent attached to them because it gets a big audience. They can watch like movies and just think about it that the main cost of them is the talent themselves versus the cost of production. And it's been also a great way to invest in content partners because like Chris Rock by way of example who's getting ready to shoot his special for Netflix, he is right now starring in the next Adam Sandler movie that's being shot right now in New York. So we're really excited about being able to work with great talent like Aziz Ansari, like we do with Chelsea across the entire platform whenever we can.

Doug Mitchelson

And shifting over to Reed, I've noticed in the letter it said over 1 billion hours a week of viewing on the Netflix platform. Is that 1.1 billion or 1.2 billion?

Reed Hastings

And climbing. That's what we're working on.

Doug Mitchelson

All right. I think I want to wrap up with a couple of questions, first regulatory. Reed, I think you've already expressed your opinion quite clearly on net neutrality. But more broadly if you look at the regulatory environment globally, particularly in Europe, there appears to be an environment that is a challenge for American companies and certainly Google and Facebook. What's your approach to the regulatory environment given these challenges?

Reed Hastings

Well, first on net neutrality, the recent effort that we participated in generated over 3 million additional comments to the FCC demanding that the net neutrality rules stay in place bringing the total to over 8 million comments. So certainly we, other companies, the public have weighed in heavily. We'll see where that goes. When you look at Europe, we're making big investments in local content, local productions, working well with local content companies. And so, I think it will be a really different dynamic or we hope so with Netflix than maybe with other firms, because just of the business structure. We're able to take some great French and German and other content, Spanish, this quarter and share it around the world and that creates big new markets. So think of us much more as trying to curate some of the world's best content and share it with the world versus the moniker of being a disruptive tech company.

Doug Mitchelson

And the last question for me, you're talking a lot about the shift from linear TV to on-demand viewing. It's something that you talk a lot about, Reed, and you talk about how much video time and how many Internet TV services you'll be successful. And while that's all well and good, I imagine that Netflix will have to continue to be the leader in this category. So this final question is, Reed, how does Netflix sustain and expand its leadership position? Because while the market opportunity might be big, I'm sure you are busy executing every day?

Reed Hastings

More watching, less sleep.

Doug Mitchelson

And what are you doing and what is Netflix specifically doing to make sure that Netflix needs that more watching, less sleep charge?

Reed Hastings

Well, again, I'm not sure we are leading it when you look how far ahead YouTube is. Now you might say, well, it's different content but it's still very engaging for the audience that's choosing it. We're not really focused on like who's ahead in certain things. What we focus on is doing our best work. And Ted runs a lot of that with the content. We're doing amazing work on product, making it easy to use, fast and then finally all these distribution agreements and marketing we're doing. So we're just improving around the whole company, growing what we have and we're very excited about what we've accomplished. But what's ahead is also super exciting.