Good afternoon and welcome to the Netflix Q3 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 Doug Mitchelson from UBS.

Before we begin, we will be making forward-looking statement and actual results may vary. With that, let me kick it over to Doug for his first question.

Question-and-Answer Session

Q - Doug Mitchelson

Thank you, Spencer. Good afternoon, everybody. I’m going to ask question for each of you and then we will start rotating by topic. Reed for you to start, it was another strong third quarter. Do you feel like we are hitting some sort of inflection point with streaming video? You have your digital peers, whom perhaps competitors pivoting into Hollywood video. We have a slew of SVOD services that we will be launching over the next couple of quarters. You have the traditional media companies thinking about diving into direct-to-consumer themselves. Do you see a real sort of inflection point in the marketplace?

Reed Hastings

Well, Wall Street loves inflection points. So I’d love to say yes, but I think it's pretty much steady growth. And we've seen new competitors increase streaming around the world, new devices, new formats, just been a continuous evolution. You know we started streaming 10 years ago. Now we are completing our 11th year of streaming. So I’d say, overall, more of the same and continued great success for streaming.

Doug Mitchelson

Ted, takeaways for you from the third quarter, what surprised you? What was better? What was worse than expected?

Ted Sarandos

Well, Doug, I was pleasantly surprised and relieved in our kind of continuing expansion of our original programming verticals, including releasing an adult animated comedy in with Big Mouth, big feature film like Meyerowitz. It's being getting very well received critically and being watched by in big numbers all around the world. David Fincher's new series Mindhunter and an Italian original Suburra that we shot in Rome all Italian for our Italian and European customers, but also for our Netflix users around the world. So, just kind of a continuing breadth of things that are working well for our subscribers, I’m excited about.

Doug Mitchelson

Greg for you to set the table, any learnings from your time in Asia, specifically the Japan launch and how that's informing your strategy as you get started in the early days here as global product manager?

Greg Peters

Sure. I spent a lot of time there obviously trying to grow the service, producing and launching new content, and that experience allows me to bring those lessons back to the work that we do in products. So, I'm looking forward to putting more investment and how we support content. How do we invest in technology to improve the efficiency and effectiveness of the team that the work that Ted's team is doing. producing great content and scale. Also to change the product experience that we have to do a better job at promoting content that has little built in awareness, so we can sell those new original series and films more effectively. But then also to continue to evolve the product experience that we have today to be effective at meeting the needs of the next 100 million, 200 million members, so it can be as compelling as it is for the 100 million members we have today.

Doug Mitchelson

I think we will talk through some of that as we get deeper into the Q&A. And Spencer, when combining the last question between Ted and you, on Millarworld, first company acquisition ever, can you discuss the strategy and how we should measure ROI on that field?

Spencer Wang

Sure, Doug. With respect to Millarworld a couple of things to highlight for you. The first is I think you can tell from our track record we -- this is the first acquisition we’ve done in our 20 year history. So I think from that you can take that we’ve a very strong bias to build over by. Secondly, we remain very, very focused, so we’re now looking to diversify into new businesses, but rather looking opportunistically at intellectual property and other content assets that can help enhance our content library and also accelerate our growth. So overall, I think you should expect us to be selective, but opportunistic as it pertains to M&A.

Ted Sarandos

Yes, I would say Mark and Millarworld had incredible concentration of original projects that we were already kind of circling on the TV side and on the feature side. And so we just we were -- to had us look deeper into the track record of original content creation and the roles they played in creating really iconic films -- that we think we can continue to build on, so we are excited about it.

Doug Mitchelson

Do you see a series of other acquisitions that have similar characteristics?

Ted Sarandos

Obviously we're looking at a lot of things, so -- when there can be these kind of efficiencies, meaning that much creativity under one roof, well that's the one to explore that.

Doug Mitchelson

And -- so I wanted to switch to the third quarter a little bit more and I think David this one might be for you, but perhaps Ted as well, it was a relatively content like quarter not that a lot of content was released, but when you compare it to the third quarter of last year it looked a little bit lighter in terms of important original exclusives. Yet the results were very strong again. I know, in the second quarter you talked about some uncertainty as to how much was driven by content versus just growth in the overall streaming marketplace. So it seems the third quarter the answer is really -- it's the streaming marketplace. Am I reading that right?

David Wells

I think so. I mean, I've been pretty consistent in quarter-after-quarter that the base force that really is the strongest force is the continued adoption of Internet TV and entertainment and that tends to drive the lion share of our net additions. When we try to explain the quarter-to-quarter perturbations or some of the lumpiness in our net additions, we tend to use explanations that sort of focus on the incremental, which could be content slate or particular title that had some notable strength. But I think, in general, it is the continued adoption of Internet entertainment that is driving our growth and it's really helped more and more by the increasing strength of our content slate, notably our global originals are helping drive that. And you saw that show up in the second quarter with all of the growth that we saw on the international line over and above what we thought we might do, but that was continued momentum carry forward from the second quarter as well.

Doug Mitchelson

It's interesting, because I think we've been wondering, for a while in the last few quarters you've talked about having some content strength or some titles that we're surprised that perhaps pulled forward growth, whereas maybe you're getting into the critical mass where instead there is a carryover from strengths in previous quarters, and as you said it might level out from year-to-year. So do you think we are hitting that critical mass of content? And if so, how do you forecast the fourth quarter? It's a strong content slate year-to-year in our view and Ted might follow up with that just to see if you agrees or disagrees? Do you no longer sort of use new big original content like Stranger Things to as a driver of your forecast?

David Wells

Well, I think it's -- you are pointing out that it is hard, right. As we continue to grow the large background force again is the adoption of Internet entertainment, but when we try to explain quarter-to-quarter changes, it becomes a little bit harder and it's hard even for our own team to ascribe certain incremental growth and we do the best that we can. But it is of note that this year in particular will be sort of the flattest growth that we seen from Q1, Q2, Q3, so you've got strengthening content slate and growing content releases, number of releases paired with a seasonal pattern paired with very strong adoption globally and growing global adoption of Internet entertainment, and you get to a little bit of a hard pattern to discern. But we are just pleased that this year's growth if you back away from the quarters and you look at just the four quarters, this year we're growing nearly to 22 million global net additions off -- up from 19 million and that was up from prior-year. So, in general, the background trend is just increasing growth and increasing adoption. And then Ted over to you for the content comments.

Ted Sarandos

I mean, I think it might be just a reflection of the steady drumbeat of high-quality content that people are watching, that are not necessarily all concentrated in the same pockets. There are three different films that released this quarter that if viewing was buying a movie ticket would be sizable successes in Death Note, Naked, and To The Bone. So -- and probably very little audience crossover between them. And so that's kind of the benefit I think of the steady output of great new original programming coming nearly every day on Netflix.

Doug Mitchelson

And then David last question in this wire questioning. When you think about the fourth quarter guidance, can you just discuss for investors what swing factors you do see in there? Obviously, there might be price increase churn, you do have some big content like Stranger Things too coming, though. What were the factors that were driving the guidance for the fourth quarter?

David Wells

Sure. I mean, so one primary factor is just the pricings we had -- again, we had un-grandfathering last year. We got price this year, we have great content coming with Stranger Things too, Crown too and more that Ted will talk about, but some big strong content releases. And we have just the sort of perturbations that we seen. Last year was the largest quarter we ever had, so we are comping off the largest Q4 we've ever had. And this is our best guess, and we’ve been wrong in the past, but it's our best guess of the next 90 days.

Doug Mitchelson

So why don’t we switch to pricing, so for Reed and for David, can you discuss the pricing strategy broadly and then I will have some follow-ups.

Reed Hastings

Well, prices are relative to value. We're continuing to increase the content offering and we're seeing that reflected in viewing around the world. So we try to maintain that feeling that consumers have that were a great value in terms of the amount of the content we have relative to the prices. And of course we maintained our 799 standard of program or €799 in the euro zone, at that incredibly low price. So we’ve got a great range now, super value-oriented in standard F, super-premium is great stuff in the 4K. And I definitely I was watching Mindhunter last night on my Dolby Vision 4K TV, and if you haven't tried it yet you really got to try this HDR TV, it is just unbelievable how beautiful the picture looks.

Doug Mitchelson

David, anything on your end in terms of why now anything that this suggests in terms of the piece of content spend, particularly on the cash side. And one more on that, David, it seems at least from what I’ve seen so far a lot of the price increases have been really hitting the big and perhaps more mature markets or at least the more developed countries. Is that right? Is that the strategy to take up price in developed countries because the emerging markets are revenue driven through self growth?

David Wells

Well, I’d add back to what Reed said, I mean, it’s really about slow and steady. We’ve been in no hurry. We're in no hurries. Many investors have sort of criticized us in the past for being underpriced and I think for us we want to make sure that we do this commensurate with value like Reed said. And as we take up the content library value as we're doing more global originals that people have exclusively and only on Netflix, there's a great association of that value and we think that we can grow that that value and that price slowly and steadily over time. [Technical difficulty] and if we’re going to take the spending up next year [technical difficulty] member growth and partially from the opportunity.

Ted Sarandos

Yes, I mean, I shouldn’t let that go without addressing that there's no timing correlation between our intent to grow content and to grow content spending, and the price increases. I mean, this has been planned for a long time and so we’re sort of growing and slowly growing and planning the business steadily. So we've assumed that we’re going to grow ASP slowly over time and we're taking the content up with that as well.

David Wells

I think -- a great pattern to keep an eye into Doug is, yes, we’re excited that next quarter we are going to release new seasons of established great shows like Stranger Things and the Crown, but this -- and most recently might -- we released new Season 1, the brand new shows like Atypical, like Big Mouth, like Mindhunter that Reed had mentioned already, and like Ozark that I think are -- its a steady drumbeat again of the next show you can live without and the new season of that show that we have to keep going and keep building on.

Doug Mitchelson

And just to make sure we address that in terms of taking up price in developed markets versus undeveloped markets, is that right or we just really seen the price increases in the developed market so far and it's sort of more of a global strategy?

David Wells

Well, in terms of how you define a developed market, I mean, we’ve raised price earlier in the year in Brazil, in other parts of Latin America. So I don't think you can cleanly sort of divide it. It is true that we may not chose to raise price in a market that we’re only a year, 18 months old and specifically around markets that we didn’t have a tailored library launch. We had a -- chose to launch global with sort of an all at once and a global library and we're specifically increasing the engagement in the library quality in many of those markets, if not all. But we may chose in those markets that -- to make the decision that we haven't grown value fast enough, and to be honest lower track with pricing in those markets.

Doug Mitchelson

The last question on the price increase is taking the higher tier of $2 and a question I get asked a lot is whether password sharing is an issue. How high is it on the priority list for the company? Is the reflection of the higher tiers went up $2, or the middle tiers going up a $1 and the lower tier 0, is that you're making password sharing more expensive?

David Wells

Greg, you want to take that?

Greg Peters

Sure. I think -- with regard to the priority, password sharing isn't a huge issue for us right now. So it's not a huge priority to go try and take significant measures to try and stem it, we think that a broader spread in pricing better reflects the value that we're delivering in the higher tiers, the 4K, the HDR, the awesomeness that Reed mentioned in Mindhunter, and so really you're just seeing us push that spread farther apart to try and address that value.

Doug Mitchelson

So let's switchover to the content access for a little bit, Ted, and before I start asking you about all the competitors trying to win over shows that you might want. Just any update on your content slate how the development process is scaling? I think we've got a pretty good visibility on the fourth quarter, but do you see a strong first half '18 coming?

Ted Sarandos

Yes, definitely. And we're really excited, we will wrap up this year with our biggest original film project Bright, which is Will Smith starring with Joel Edgerton and directed by David Ayer's. And it's a big budget event movie that I think people will start seeing the potential for this original movie initiative that it can be done on the big -- on the enormous scale that we have on the television side. What I'm also really excited about is we're ramping up our local language original production, so you're seeing new series in local languages just recently in Italy, upcoming in Germany with Dark and we've had incredible success in those markets with those shows.

And they could -- those shows are continuing to travel outside, which is really exciting for us that those shows we can put more production scale behind them, because they're being watched in markets much larger than just a country of origin. That on top of our kind of steady drumbeat of new original series that is yes you are correct it's becoming a much more competitive marketplace, but we've been really happy with our results in that competitive marketplace.

Doug Mitchelson

Any concerns around access to content, particularly, with Hollywood? Of course, the big new sense you reported last is Disney going direct-to-consumer and going back on the Pay 1 window with you here in the United States and Canada, but also having the Disney channel content in there I think Bog Iger said he's going in hot in terms of his OTT launch in a couple of years on that Disney service. Any concerns that not only the Disney content going away could have an impact on Netflix and its valued subscribers, but also that other traditional media companies might follow suit?

Ted Sarandos

So I think everyone is going to have their own strategies and it's exciting that everyone is trying to make over-the-top television better and better. I think that is good for all of us and we just have to focus on creating content that our members can't live without and get excited about it every month. So that's really the -- and not get too distracted by the competitive landscape around us and whether or not one of our partners decide to produce for us or to compete with us, that's really a choice that they have to make based on their own business. And we're thrilled that more people are doing it, because I think it's great for the -- for innovation. I think it's great for consumers to have a lot of choice, and that we just have to be the best choice out there. I think that's not different. The environment isn't a lot different than it is in the television world where Fox produces for ABC and NBC produces for Fox. And -- so I think that those choices being made on a case-by-case basis. I'm not worried about access, Doug, because we've long-term agreements with all these players that shows that we have our run off series. So if somebody chooses not to renew a deal here and there, the series that are successful on Netflix right out as long as they exist in that second window. By an interesting way of example something like Walking Dead that the deal with AMC expired two years ago and Walking Dead continues to be a successful show in Netflix and will as long as the show is being produced.

Reed Hastings

And just to quantify, Doug, what Ted was saying, our commitments at the end of the quarter were $17 billion over the next years, so that helps sort of put another sort of level of quantification for you on that, and we also have the benefit of our growing library of produced content, of which the net book value at the end of the quarter was about $2.5 billion.

Ted Sarandos

And just one more thing to add would be we are -- included in all these transitions are we are coproducing content with CBS all access by way of example with the Star Trek series, the Star Trek: Discovery. So it's a rapidly changing environment for sure.

Reed Hastings

And, Doug, Disney is a great brand with great content, but internationally we have it only in the Netherlands, Australia, and Canada and you saw how big our international growth was in most of the world without the Disney content. So, although it's got an enormously significant brand in terms of its significance relative to growth, you can see that we've done very well in international without it.

Ted Sarandos

We are ready to partner with them when they're ready too.

Doug Mitchelson

I think that it's an interesting dynamic because increasingly the license content seems to be going to either Hulu or you have a Disney situation with OTT, so I think investors are struggling with Netflix as you look farther and farther down the road, that major U.S media companies might be licensing less and less to Netflix, but you have a strategy of more and more original content. And I'm curious how do you sort of derive the confidence that your ramping original exclusives on Netflix will offset any loss of licensing content in the future?

Ted Sarandos

Well, what I'm confident of is that it will not be an erratic shift, because like I said we have these long-term agreements and those deals kind of run out as we're ramping up. And that has been pretty -- a pretty smooth transition to date. I think that the -- in those partnerships, where there's still a lot of value that I'm sure producers and networks and studios are evaluating is something like Riverdale where having Riverdale on Netflix in the second window meant an enormous audience growth for it in Season 2. In fact, 400% audience increase on CW from Season 1 to Season 2, and the only thing different from that in This Is Us is Riverdale was on Netflix. So I think people have to look at that and look at those trade-offs in value and to see when does the partnership become too competitive and make those decisions when the threat of the competition outweighs the value of the partnership.

Doug Mitchelson

And, Ted, how big was the increase in This Is Us season and season given that it was on Hulu for back season?

Ted Sarandos

I don't know. It wasn't nowhere near the 400%. It was up from Season 1, but not -- nowhere near 400%.

Doug Mitchelson

I think Jeff Bezos has said that he's looking for the next Game of Thrones. Any sense that perhaps Amazon is shifting programming strategy and that would have any impact on Netflix at all?

Reed Hastings

So as Richard Plepler looking for the next Game of Thrones …

Doug Mitchelson

That's Ted Sarandos, so is everybody. I mean, there is a lot of disruption going on at Amazon, it is an interesting sort of lesson that you can't just necessarily buy success in Hollywood and you've had some success obviously and I don't want to belabor the point too much in this forum for investors, but I would be interested if you could sort of discuss what you're doing and how its sustainable in terms of continuing to create high-quality content when others are struggling?

Spencer Wang

I think it's an extension of our employee and corporate culture around freedom of responsibility. It attracts the best and brightest. And I think we've created a place where people want to come and create. They've heard from their friends, they've seen it from their peers, that they have been able to come into the best work of their lives. And that is a bit -- seems to be quite repeatable. So we keep building on that by giving the resources for a content creator to come and have a great professional experience. And that is something that we keep betting on where I think other people want to try to replicate the heavy handedness of the network model that we've avoided so successfully.

Doug Mitchelson

For Reed and Ted, Wall Street Journal reported, I believe, last week that the Board of Weinstein was considering selling the company or shutting down its business. Does the situation at Weinstein impact Netflix at all and if the company was put up for sale given the sort of the massive intellectual property and the studio that that resides there, would Netflix be interested?

Ted Sarandos

Particularly interested in acquisition?

Doug Mitchelson

Yes.

Ted Sarandos

There is a lot of smoke to clear from what’s happening there. Our business with the Weinstein Company is pretty arms distance and we have a second window, the alpha deal on their films, of course theatrical and some second window television agreements with them. So it's not material in either way.

Reed Hastings

It will be extremely unlikely for us to be a better for the firm.

Doug Mitchelson

Thank you. Let me switch over to Greg. So, Greg, on the product side, can you give us what should consumers of Netflix expect in terms of changes over the next -- the short to midterm now that you’re here?

Greg Peters

Tons of changes. I think one -- the ones that I'm most excited about is there is a tremendous opportunity I think to morph the product experience to be more and more effective at explaining to our members, what's great about one of the original shows that Ted's team is making and making that connection with this new novel IP, I think there is a huge opportunity to use also to new forms of assets, video in surprising ways to make those connections.

Doug Mitchelson

And what would you say your priority list is right now?

Greg Peters

Priority list is supporting Ted and his team and making great content at increasing scale, changing that consumer experience to do a better job at promoting those new series. Its making better use of the marketing that we do too, so we can actually provide technical support to our marketing team to really provide the right message in the right channel, at the right time for the right consumers that are targeting and programmatic there as well. Also better leveraging our partners both for new acquisition and engaging our members, and finally making sure again that the product continues to be really, really effective at evolving to respond to the new needs of the consumers, the next 100 million, 200 million members that we will have, to make sure we keep an eye to that shifting global set of use cases and requirements.

Reed Hastings

And, Greg, just add something about Proximus and T-Mobile.

Greg Peters

Yes, I mean, one of the things we're super excited about is the work that we are doing on bundling, we started in Europe with Proximus with SFR/Altice and we just launched in the United States T-Mobile here and we're very, very excited about leveraging our partners to find efficient ways for our members to basically care, our new members to be I should say to find out about our service and sign up and pay very, very effectively.

Doug Mitchelson

And I think to some extend you're touching on mobile access and when investors think about addressing Asia, they immediately think to mobile. Does the company at this point sort of jump -- Reed, David, if you have any comments? Think about mobile as part of the addressable market as part of the TAM or is a focus still broadband and Pay-TV households?

Ted Sarandos

I think for sure, we do. It's just how much -- where we are in the cycle, of both learning and addressing that market and Reed and David differently, but we for sure think that's part of the great global opportunity in terms of Internet delivered entertainment.

Reed Hastings

David, Wells can tell you that I'm often complaining when we see internal metrics would number of broadband households, so it's the Tam. So I think about it is number of people and so it’s very much all people on the planet will get the benefit of the Internet over the next 20 years, and we hope that all of them will get to enjoy Netflix also.

Doug Mitchelson

And so then, Greg, back to you. How are you making the service work better on mobile? Any specifics around how much room there is on encoding and all the fun engineering things like that?

Greg Peters

Sure. So we’re definitely focused on making mobile both effective from a user acquisition perspectives, the new members but also from a member engagement perspective. So, for those members who don't have a smart TV at home or maybe want to watch something while there on the go, we want to make that a great experience. So as you mentioned, one of the things that we are working very hard on is making sure that the encodes that we're using are superefficient, so that we can provide a really, really high quality video experience with lesser and lesser bits. And to give you an example one data point as to how low we've gotten this. You take something like anime, which is superefficient from a coding perspective. We can now provide an amazing quality -- video quality experience on mobile for anime titles at 150 kilobits per second, which is practically unheard of previously. So we're super excited about pushing those numbers down and making that mobile experience is great as we can.

Doug Mitchelson

Since we brought up T-Mobile there's a lot of investor questions about the new distribution deal here in the United States with T-Mobile. If you could walk through the deal at all, again a bit of a jump at all, again a bit of jump all, but I think perhaps David and Spencer more on your court, and how are you going to measure ROI and the benefits of that relationship?

Reed Hastings

Sure. So I can jump in and David can fill out, but to sort of pull it back a little bit, Doug, our partnerships ultimately what we're trying to do is making Netflix easier for customers to sign up for and to access and to enjoy. So the T-Mobile partnership is an extension of that. Beyond that the economic arrangements we generally don’t get into, we have a broadly speaking in our BD partnerships. There are marketing components and marketing benefits that we share. To the extend from a financial reporting perspective, those marketing costs are in our marketing expense line. To the extent that there is a billing relationship and the partner builds on our behalf. Those can processing costs are in our cost of revenues alongside our other payment processing expenses. And, Spencer, if I've forgotten the download of film what's my chance of streaming on airplanes and what's our progress on that front?

Spencer Wang

It's getting better, Reed. So we are partnering with airlines and we just recently announced at the Apex conference at the end of September that we will be leveraging all the great work that Greg's team has done where there is more efficient encodes and in early 2018 we will be opening those up to Airlines that partner with us. So that we can help them more efficiently use bandwidth in-flight and in that case we hope that airlines will begin to somewhat support and promote in-flight streaming which we think is a benefit for our mutual customers. It will hopefully delight passengers as they fly an experience on Netflix. And we think it's good for our brand and generally more engagement is good from attention from Netflix.

Doug Mitchelson

So what does the company have to do in the markets where it's still early-stage were Netflix penetration is still low beyond just localization and I would be curious if David in 2018 you add sort of a percentage of the addressable market that might be localized just to give investors some help on that end. What is Netflix have to do? Is it local programming from Ted, is it Greg continue to work on encoding and more efficient bit rates? Is it just waiting for the markets to develop?

David Wells

We are certainly not waiting for anything, Doug. We are aggressively moving on all those fronts of better streaming on the tech side, more relevant content. But, again, if you have been an investor in Netflix for a number years, you remember our launch in Latin America and how we built out state focused on Mexico and Brazil and we're doing the same thing in Asia. So we know how to run this play. There are specific lessons we've to learn about which content, how to get that developed, we're working on. But again the partnership model we've got that in every nation around the world, so I think we are making really good progress. It just going to take some time to iterate on the content as we did in Latin America five years ago.

Doug Mitchelson

Before I leave the product discussion, I did want to get in one more with Greg on AWS. Are you whetted to that platform? I think Google and Microsoft are trying to make strides?

Greg Peters

I would just say that AWS has been a great partner for us and we really have enjoyed using their infrastructure.

Doug Mitchelson

The -- thank you for the enlightenment. David, switching over to you, just on some of the key financial metrics, again just to reaffirm our earlier discussion any change to the outlook across margins, 40% by in the not-too-distant future, free cash flow, anything that you would like to update?

David Wells

Well, I think, one thing that of note is that 40% U.S contribution margin was our useful target, say a year to two years ago as we grew out U.S profitability and landed international losses. You fast-forward to that and we sort of approach that target three years early, we were able to turn international profitable which will stay profitable on a consolidated basis going forward. So we switch to global operating margin and we really are optimizing the business around global operating margin. So you'll see us shift some spending back and forth notably marketing. I think I've indicated in the past that U.S marketing has gone up on an absolute basis. As we see the benefits and we test around some of the more benefits of promoting our original content, I think you'll see that increase again in '18, and so we really are focused around growing operating margin. We're 7% this year, well on track and guiding to be on track for that, and continued growth forward and we will specify that in January. But we are able to grow from 4% to 7% this past year to give you some indication of that growth.

Doug Mitchelson

Do you have a sense as of now what the 2018 working capital burden might be for building out your original content slate? I think you got about $3 billion or so a year of revenue growth, Ted likes to spend an incremental billion at least in terms of amortization hitting the income statement it seems each year, and that gives investors $2 billion to play with and you obviously have other OpEx, but the big plot that -- the big -- the number that we have trouble calculating, of course is that working capital burden. Do you know at this point what the -- do you have a line of sight on that?

David Wells

Yes, I mean, we obviously have a much better idea given that we're three months away or two months away, 2.5 from next year. I would say without sort of backing us into a corner of giving you a specific number for next year, we are going to spend $7 billion to $8 billion on a P&L basis on content. And in the past the markup or the working capital ratio markup on content cash to P&L has been somewhere in that 1.4 to 1.5 range. This year it will be about 1.5. We really do enjoy the benefits of owned productions, and you are seeing us move more and more of our mix, our content mix to owned productions. So I think that 1.5 becomes around 1.55 again on average. So there is a lot of lumpiness in these numbers as things to shift around from quarter-to-quarter, but we know it's going to be higher and the $7 billion to $8 billion in content spend with a little bit of a markup in the ratio, the offset there is operating profit growth, but you guys run your models and I think that's giving you enough direction in terms of getting towards directionally where working capital and free cash flow goes next year.

Doug Mitchelson

The -- and the two dynamics you had in place is approaching about 50% original content by 2020 and to the extent the company grows faster than expected the content spending might also increase or those still in play?

David Wells

They are and I will just say to socialize that 50% or provide a little bit more context around it is becoming increasingly sort of -- to a Netflix subscriber when they see a Netflix brand on the piece of content that feels like an original. To us, we have sort of different sub classifications whether we own it and made it or we licensed it. At the end of the day to the consumer what's important is that it's exclusive and only on Netflix. But I would say that 50% number that we've talked about in the past that could be higher in the future you know as we accelerate more and more content development and as we like the benefits of owned production. But, Ted, I don’t know if you have something different.

Ted Sarandos

No, I would say that’s accurate and that’s the trend for sure.

Doug Mitchelson

You know, Ted, I think as we’re talking about content spending that naturally makes me wonder what you're going to spend it on? Any update on sort of two categories. One, international. How that's doing in terms of creating more and more local content? How that’s scaling? What kind of percentage of budget are we talking about now or in a few years, then similarly for movies?

Ted Sarandos

Well, I'd say on the international originals, we enjoy a lot of production efficiencies in producing outside of the United States. So we can produce in higher volume and bring kind of higher and higher production standards to those markets. So we’ve been really thrilled with our ability to do that. Greg mentioned earlier about anime just by way of example. We’ve more than 30 and original anime projects in various states of production these days, so just kind of give you some sense of the scale and in the series work that we're doing is in the case of Italy is not a -- just a Suburra, it's not just a show you’re going to see in Italy. It is a show that looks and feels very much like Narcos, like the House of Cards, like a big Global Original, just happens to be in Italian. So we're producing at larger and larger scale outside the United States, inside the United States, and the movie side we are going to -- we -- this past quarter we released 8 original films. We plan on about 80 coming up next year and they range anywhere from the million-dollar Sundance hit, all the way up to something on a much larger scale, like we are seeing on Bright, at the end of this year and Irishman that's a in production right now with Martin Scorsese that should be in early '19.

Doug Mitchelson

And that leads me to wonder about cost of content because you are scaling up the number of hours, the number of titles, at the same time we keep hearing about inflation certainly for the best content in Hollywood. Any sort of comments on the Shonda Rhimes deals specifically but more broadly is content cost inflation something that could become an issue for Netflix at some point?

David Wells

Yes, I’m sorry, if I’m broken record on this one, Doug, but I get asked this a lot and I feel I’m going to say the same thing a lot which is that I compare it to a lot of professional sports where it gets very competitive for the handful of those superstars, but overall player personnel costs are pretty predictable. And I think this case it's been those big unicorn shows, the price of any one of them might go up in a more competitive market, but general content costs are quite predictable. So and we're like and the thing about Shonda Rhimes as you mentioned earlier is creating a place where she wants to create, where she knows that she could spread her wings a little wider, where she can get outside of the network box a little bit, had a lot more to do with her attractiveness to Netflix than we just had to outbid ABC.

And I so I -- as we continue to attract world-class talent like that, that will also attract more world class talents like that.

Reed Hastings

And Doug, [technical difficulty] I would say from an investment perspective, hopefully what gives investors confidence is in terms of our ability to manage content cost inflation is if you look at the long-term trend in our business, we've grown the content budget, we've grown the content library, we made a better but revenues have come faster, which is what's driven the profit improvement and the margin improvement over the years.

David Wells

That's what I was going to say. So we face this content cost escalation over the last three years or at least the speculation of it, so what Spencer said.

Doug Mitchelson

The -- one thing I find interesting sort of switching over to sports rights for a moment, was a question for Reed. So, I think I sort of know what the answer is going to be upfront, but I still wanted to position the question. So I want it -- I was hoping you would engage on it and that is that you just had Facebook bid $0.5 billion for multiyear digital rights for the IPL in India. Obviously, Amazon is on the air right now with Thursday Night Football here in the United States. I think this in anticipation by investors that there will be more and more bidding by video platforms on sports rights. And of course we all know that Netflix has indicated in the past that its sort of not right for you, but it reminds me a little bit of when you were switching from DVDs to streaming that you really sort of waited back not obviously so much in the weeds, but for the marketplace to evolve to the point where it was the right time for you to pursue it. So I'm trying to understand just what the trigger points are for Netflix as it looks longer term at sports content?

Reed Hastings

Well, I have to see over the next 10 years, Doug, what those trigger points might be hypothetically at some point in the near-term. We have so much going on in the global expansion of movies, unscripted, series, documentaries, we're just running a 100 miles an hour doing our thing around the world. And so nothing to really talk about that's interesting in the near-term.

Doug Mitchelson

The other question that we end up asking a lot, but we still want to do it, Amazon is likely to launch some sort of ad product in the first half of next year, that's not clear if it's pre-roll or post-roll or banners or sponsorships or what have you, in my understanding is they're still trying to figure it out and given that you have emerging markets that perhaps require a lower price points than the developed world. Any updated thoughts on pursuing advertising at some point?

Reed Hastings

You know often the right strategy for a challenger brand which is Amazon in the case of streaming video is to try many things, because they're not sure, just copying Netflix is not going to typically get someone very far. The leaders role is to really as the famous phrases to keep the main thing the main thing. And so our focus is not expanding in new ads at all. Our focus is on doing even better content, getting better partnerships, better mobile streaming. We just have to have the discipline to keep doing what we're doing at many times the scale, and if we do that things will work out really well for our global customer base and thus for our investors. And Doug, I think we've time for one last question.

Doug Mitchelson

The --well, it was interesting because I had two that I was going to go with, so for Reed, I'm going to let you try and divide between the two of them. And one was, I was curious, I think the investors are really focusing on competition and access to content these days as the market really evolves. And so one was, I was sort of curious if you would wrap up with the sustainable competitive advantages for Netflix. And I think, separately I was going to ask a regulation question Reed and that is that when you look at sort of content overseas and local quotas when you think about what some of your peers are going through around scale issues, is there anything on the regulatory side regarding those two specific issues that Netflix is focused on right now?

Reed Hastings

Well, Doug, very good about staying in character. We've all got our Stranger Things sweaters on because we're celebrating both the amazing content that's coming in 10 days or so, and also targets a great promotional strategy, we're learning how to do merchandising, we've got some amazing displays and amazing materials out at target. And Ted, do you want to tell us a little bit about Stranger Things?

Ted Sarandos

Well, October 27 we will be releasing the new Season of Stranger Things, that gives you -- answers the question how are you spending your Halloween. And if you -- you too can get one of these ugly sweaters from Target for your next Christmas ugly sweater party, but it really celebrates the spirit of the show in a great way and we are -- we can't wait for this show to come out, which is not only an enormous hit in the United States, but it is equally international across with our membership base. So we are thrilled for Stranger Things coming this month.

Doug Mitchelson

And, Greg, what are we doing on product to support Stranger Things?

Greg Peters

We are doing an amazing job of taking over big parts to the site to basically connect our members with this great show and show off how incredible content it is. And Doug to answer your question on scale, I'm sure others are figuring things out. What we're continuing to do is work with Amazon as well as investing in open connect and being able to handle all of the growth that we anticipate. And we've had a pretty good track record of that for the last 10 years. So I wouldn’t worry about that particularly.