Welcome to the Netflix Q4 2015 earnings call. I am David Wells, CFO. I am joined on my right by Reed Hastings, our CEO; and Ted Sarandos, our Chief Content Officer.

Interviewing us today will be Peter Kafka from Re/code; and Ben Swinburne from Morgan Stanley.

Just a reminder a cautionary statement that we will be making forward-looking statements and actual results may vary.

Over to the first interview question.

Question-and-Answer Session

Q - Ben Swinburne

I'll start out, maybe for Reed and the team, can you reflect on the fourth quarter results for us that we are all going through right now, in particular, talk about the international strength, you mentioned you were pleased with the October - September-October launches, so can we infer that the outperformance versus your expectations may be came from those areas or any color you can give us on the international strength to start us off?

Reed Hastings

You know we've got over 50 countries in Q4, so we had a lot of experience Ben, predicting these markets. And then we launched in Japan in early September and Spain, Portugal and Italy in mid-October and let's say they've gone very well as we said in the letter. In terms of the outperformance, it was pretty broad based, many different contributors around the world to that.

Now what we are seeing basically is that this on-demand Internet TV, watch wherever and whenever you want, it's very popular wherever you go in the world.

Ben Swinburne

And just taking that question over to U.S. for you also may be for David, a little bit later this quarter then your guidance or budget, talk to us a little bit of the churn connects dynamic and anything you would want to add around credit card chipsets or any other issues you want to bring up around Q4 performance in the U.S.?

David Wells

Well Q4 I would say was pretty close to our projections, we're literally with an hours of it, but so we did anticipate that net additions would be lighter year-on-year. I would say the credit card was a background issue in Q3, it continues to be a background issue. But the larger thing is that it's just the next 50 million or a little harder than the first 50 million in terms of growth and we are doing everything on the content side, on the product side, we're continuing to improve that service, but you're seeing that the law or large numbers when you grow steady at 5 million, 6 million net additions a year on a larger number then that percentage growth is smaller year-over-year and that's what we predicted and that's what you see in our guide for Q1 as well.

Peter Kafka

Hey guys, last quarter you said credit card issues were bad rate issue, this quarter you said they are background issue, how long do you anticipate this is going to be a problem for you additionally, any sense of why you are the only major consumer company, that's called this out as a problem?

David Wells

I don't think where the - Peter, this is David, I don't think that were the only one. I think because we are recurring merchant anywhere from five to ten basis points, 15 basis points is sensitive to us, we have optimized, we spend a lot of time optimizing our recurring billing systems in our approach and so we are very sensitive to it. Again it's a small thing. I think we want to focus on the larger things and not the small things. And we anticipate that the ENV rollout will continue into 2016 into Q1 and Q2 and we'll always have even globally these issues where there is mass reissues of things and disruptions in the recurring systems that we have.

Peter Kafka

So this be fall into the small thing category but last quarter you added IOS signups, any impact surprising one way or another from that?

Reed Hastings

You know we've always been able, customers have always been able to sign up on IOS but they had to do it in the mobile web Safari Browser and now they can do it in app. And it's a positive, it's not transformational but it's really nice positive and a particular in new markets as we expand around the world where we're less note and less trusted, the comfort for customers in terms of using the Apple payment mechanism versus entering their international credit card information is helpful. So think of it has one more in our long list of great payment options that we have.

Ben Swinburne

Reed, I want to come back to the outlook in the Q1 guidance in particular, starting with international, you mentioned in the letter, the 2016 markets are you are playing the long game here, but the guidance is obviously impressive and well above the expectation. So is some of - are the 2016 launch is a big contributor to what you are expecting in Q1 and sort of for the year internationally or just continue momentum building on the existing markets, any color you can share there?

Reed Hastings

Yes, a lot of both. I mean honestly our global guides for over 6 million net additions will be a record for Netflix and so we are super excited about that. And what's amazing is we're seeing some of our new shows like "Making A Murderer" not only be huge here in the U.S. but it's emerging as a big hit around the world for us. And you kind of expect Jessica Jones to carry internationally and once been phenomenal about Ted's teams programming is that you know these more unusual content titles have also had great draw around the world.

Ben Swinburne

Let me just ask you about the U.S. just to pick up on David's comment with the next 50 million, so what are you doing as a management team maybe that's head on the content side, what is your research telling about the people who actually don't have Netflix today, what is there, some generous that's not being addressed well enough, is there a distribution decision you guys need to make to go after that, what are you doing to maybe go after that other opportunity in the U.S. market.

Reed Hastings

Well, David is big thinker, so he is thinking about the next 50 million, I'll stick with the next 5 million. And when we can clearly see the next 5 million, it's I've been hearing a lot about it but nothing yet has compelled me to join. And so the big driver is getting people excited about whatever title we have and then making it easy for them to join. So whether it's integrating on the Smart TV or integrated into the MVPD set-top or the Apple TV those are the things that make it easy to fulfill that desire. But the underlying desire is for these new titles which is why we are so excited about the year coming and the content the Ted teams put together, so maybe he can talk about some of the big hallmarks we have in the next few months.

David Wells

Yeah, I mean just upcoming in this quarter, you are going to see, so then we as - we were pleasantly surprised by how excited the world is overfull our house. So this upcoming, you ask about different kinds of programming for the next 50 million or 5 million depending on your level of aggression that getting more and more mainstream and some ways with the programming. But as a function of breath, as a function of doing more for all taste, so opening that up to include multi-camera sitcoms like The Ranch, like Fuller House, we have also really single-camera sitcom with Arnett called Flaked and the four season of House Of Cards, so you've all this kind of breath just in a single quarter we're releasing is more programming than most networks run the whole year.

Ben Swinburne

That being pleasantly surprised that shows that are not necessarily all in English are being embraced by U.S. audience just one of those things that has been rolling around in Hollywood for a long time that U.S. folks don't watch subtitles.

David Wells

The continuing success of Narcos in the U.S. where this primarily Spanish language show is being watched enormously mainstream numbers in the U.S.

Peter Kafka

I guess for Reed and Ted, since last quarter, several of your suppliers most specifically time wonder in Fox have been every more explosive about their desire to pull back on the amount of content they sell to you, is that cause you to accelerate your original programming or you ordering on that same trajectory?

Ted Sarandos

We've been on the trajectory accelerate original programming. I mentioned a couple weeks ago, we're going to launch 600 hours of new original programming this year alone. So it is a function of as our budget continues to grow, as our subscriber base grows, we are licensing programming and we are creating programming. As a percentage of our spent, original spending is growing, but as an absolute there are licensing dollar are continuing to grow as well. And Fox is an important vendor for us just like the all are within we're also a very important source of revenue for them.

Peter Kafka

I mean if that rhetoric was less intense if they went out they are saying look we're going to stop selling to us but would you be pulling back on original spending?

Ted Sarandos

No, I think we've - the positives ever come for original spending have been tremendous in terms of our international growth, in terms of really distinguishing and differentiating Netflix from an explosion of our services.

Peter Kafka

And then when you think about the Marvel relationship, do you see expanding that one or is that kind of sort of stay steady where it is right now?

Ted Sarandos

It's a pretty expansive relationship already and then we have five seasons - five different series going in, we just announced yesterday that we are going to a second season of Jessica Jones. So when you look at those five series with multiple seasons plus the crossover season of the Defenders, it's a huge commitment and we are all the way along the way, you are going to be introducing new characters who have the potential to spinoff and grow that relationship in further. So it's very important for Marvel, it's very important for Disney.

David Wells

And for us.

Ted Sarandos

And for us, absolutely.

Ben Swinburne

Just Ted sticking with you on content, why the call out of family programming emphasis in the letter, any comment around sort of what you are doing maybe differently there and now you have a quarter behind you with some of your movies in the market, what you learn, how does that change your appetite around film?

Ted Sarandos

Well what the reason we call that out is to acknowledge if there is a large volume of specifically if kids programming coming out when normally people think if Netflix's original programming, they were thinking about our sophisticated dramas and adult comedies more so than our kids programming, but quietly but I am asking a very big selection of original kids programming at Netflix. Kidscreen magazine is what the Netflix's number one outlet for kids programming on television which are really proud of. And that's going to continue to grow and we just - we are also looking to grow categories like Fuller House which are programming that are watch together, parents watching - show that their kids love that they don't just tolerate but they enjoy too, and it's a real underserved market and that's why we call that out specifically.

And on the movie side, it was a great for a swing I think with Ridiculous Six and Beasts of No Nation. Beasts of No Nation is in the discussion about the Oscars didn't quite make it there but picked up nominations in almost every other category, the viewing were thrilled with around the world and have been continued to be throughout and thus we expand a new territories both Ridiculous Six and Beasts of No Nation are watched in huge numbers in our new territory. So we're really excited about and we've got an aggressive site in '16 to keep pushing on it.

Ben Swinburne

And just shifting over to the hours date, Reed that you gave in Las Vegas and then some in the letter, this comes up kind of every quarter, people try to understand the penetration growth curve in these international markets. So if you look at the European markets where you gave the subscriber number last fall, I think penetration grows relatively light so far sort of nearly versus say the UK which was much stronger, what do you guys doing with you can David as you think about trying to accelerate the growth in some of these markets that have been tougher out of the gate and what are the characteristics that we as investors and analyst should out in these markets understand the dynamics that drive these growth rates overtime?

Reed Hastings

You know the first year in the UK was a really tough market, so it's usually successful for us now but it's not true that it always well. We saw the same thing in Brazil for different reasons. So being light in the beginning doesn't worry as a bit. And what we've seen in market after market like Spain, Italy, France, Germany, is this building momentum as we do more and more local content. We've got this amazing Sophie Marceau coming out in May, I think will really uplift the way that our French members think about say non-members in particular, so we're really looking forward to that. So it's a natural building cycle. And I think the way you should model that is pretty consistent growth in all of the territories. The variation is pretty modest. Again if you time adjusted you know from whenever we launch.

Ben Swinburne

And just on your time spent number, I think we calculated in the fourth quarter anyway about a 12% increase per average sub year-over-year which is impressive given you added a lot of new international markets, anything you can tell us about sort of the highest and versus the lowest and whether all markets are still growing, it would appear that the U.S. is still growing which is you know impressive, maybe you could talk about that a little bit?

Reed Hastings

Well, we're continuing to invest more in content, more in platforms in terms of the performance and the speed and the service is growing. So I think it's natural that we're continuing to grow on all those dimensions on you know the per membership basis as a service which was in the idea. Think about smart phone usage now compared to ten years ago, of course the number of smart phones is up, but the usage in utility is up. And I think we've only scratch the surface, you know Netflix is a tiny percentage of all video viewing today, so we are tremendous potential growth ahead of us if we can continue to execute, we can continue to produce great shows to have this global launch with no snaffles, so not a hard execution but the market potential is really quiet large.

David Wells

I would add that you, the more content that we're adding the more likely you are going to land on a show that somebody can't live without and I think that's what we're seeing as we are expanding in not just the volume of content but also the breath of generous that we are covering in our original shows and our original movies.

Peter Kafka

Reed, we've talked a couple of ago in addition India you called out Philippines, Saudi Arabia is particularly important markets for you, anything else you want sort of emphasis in terms of the 130 plus counties you rolled out a couple week ago?

Reed Hastings

With also a number of countries that have language match, so Philippines a lot of people speak English, we have English language content. We have subtitles in Arabic, you knew we've translated our service in Arabic, so that's a good match for Saudi Arabia. And then in much of the world Russia, Poland, Central and Eastern Europe, we're still only in English. So we've got a ways to go over the next two year, we'll keep adding more languages and make the service more relevant. So we look at it in sort of two categories where we got language match and where we don't yet. We're seen both a growth but more substantial growth in those obviously where we have language match. And then beyond language, we have work to do on payments in terms of in each country there are often local payments or different traditions around payments that will start to work on.

So think of it as you know we've really begun on the international or global expansion rather than it's all showed up and we're all complete on it.

David Wells

We've had two weeks right, so we've been two weeks in terms of that launch.

Peter Kafka

And what are you thinking about as you move into markets where mobile internet sort of the dominant way the people get online, traditionally people are watching on a connected TV, what happens when they are used to watching or consuming things on a phone?

Reed Hastings

Yeah, same thing, you just watch Netflix on the phone just like you watch YouTube on the phone. A lot of that phone viewing is on Wi-Fi because of the data charges. And then what you do on the sailor networks is try to have the most efficient video codex you can have and we're working hard on that. But think if it has you know it's the same way that people use other Internet video services like YouTube.

Ben Swinburne

David, I want to come back and maybe talk a little bit on the numbers, can you update us on your expected cash burn for '16 and then help us understand the relationship between content, cash to the P&L versus cash as we move through this year maybe into 2017?

David Wells

Yeah, there is no change here, so we said before that we're on pace to burn about a billion dollars of cash mostly on our branded or originals content, that ration of cash to P&L is about 1.3 to 1.4 and that continues to hold. So you see that it will run up in a peak in certain quarters if we take delivery of a lot of original content and then runs back down. But I think the 1.3 to 1.4 range of cash to P&L expense will continue to hold. And so far our expectations of use of cash have been about as expected. You see in the letter that we wrote that we're on pace to use about a billion dollars and maybe a little more this year, but we upsized our debt last year about a year ago and so you know in terms of timing we'd be looking at later this year maybe early next year before we would need to do any more on the capital side.

Ben Swinburne

And on the U.S. margins, and I realize how you allocate cost between the U.S. international markets may change overtime, but you got a lot more operating leverage last year then perhaps we all thought heading into the year, you maintain this 20-20 guidance of 40% contribution margin, is that just being conservative or do you expect maybe some change in amortization rate to slow the margin expansion down, what color can you give us about the pace of U.S. margins?

Reed Hastings

Well not the ladder, I would say there are couple of points on this. One is that you know to the extent that we launched Western World then it was a little early then maybe 24 months ago that we would have been fully global or near fully global. I would say the U.S. P&L did receive a little bit of relief right, but that's a onetime thing and that sort of goes away.

The second point is, we continue to add content and add an efficient level, I mean we look at the hours views and what is generated by the content versus the cost and we continue to see new additions even in the U.S. and markets that are have been in place for four to five years now, we continue to see viewership and Ted talked a little bit about engaging new audiences, you know you'll see us do that.

So I think - you know for the foreseeable future, we think we can grow both margin and grow the content spend even in markets in the U.S.

Ben Swinburne

Back to international, I know you guys aren't going to offer any more guidance on when you might go into China, but when and if you do, do you imagine that you are going to have to restrict or alter the catalog based on censorship or other issues of the Chinese market?

Reed Hastings

Yeah, the standards at least today they are fluid that the government uses restrict like Game of Thrones reportedly as you know had 10 or 15 minutes from many episodes cut from it and so there are issues conforming to those local standards. That's true of all of the Western content that's produced well as well as the Chinese content of that market. So we'll be on a level playing field with all other services.

Peter Kafka

And same territory, would you have to enter with JV or some way you could enter China without doing a JV?

Reed Hastings

There is all different flavors, if you look at how Disney lie for iTunes or others have done. So you know we're talking to different partners building the relationships. But again as I mentioned a few days ago, we have a very long term look and this could be a many years or discussions or it could happen faster than that, where you know going to take our time. And that clearest example is really the iPhone which took many years for Apple to get approval for that and now it's a very large business for Apple. And so our view is for looking out for the business a decade from now, we should just be very patient and continue to build those relationships and listen and learn. So we're in no hurry. And most of our time and effort right now is going in, how do we build the Japanese market, how do we build the Philippines market, how do we build the Saudi Arabian market, markets that are open to us and available right now.

Ben Swinburne

I want to ask about content spending maybe for David and Ted to comment on you know we presume a relation between subscriber growth and content spend is not linear going forward. So as you guys think about growing the U.S. business, how should we think about the pace of growth in content spending? And Ted is the 50-50 original acquired ratio still your long term expectation or have the relationships with the vertical integrated media companies maybe later that at all?

David Wells

Let me take part and then I'll turn it to Ted. So I would say Ben, you know it is true that once you get to $4 billion of spend, the rate of growth is going to slow down, so that is definitely true on the U.S. side. But back to my earlier comment, we still think that there is great content to be added to the U.S. service that is efficient that will continue to increase the competitiveness and attractiveness of the offering in the U.S., so we are going to continue to add to that service. It's had a slower rate of growth but it continues to grow.

And in time, it not true yet, but in time, we will be adding more of our original branded content than our licensed content. So today, we've been adding both, we've been growing originals rather quickly. We'll continue to grow originals quickly but you are seeing a lot of that added to the U.S. market. And to the extent that we're successful and Ted maybe this is good transition to you about finding content that works across markets, you know there will be blurring in the lines between what is really U.S. content and what is international content and vice versa.

Ted Sarandos

Yeah, I mean I think the order this is going to be doing something that doesn't feel modernizing for the world that still feels like great programming for everybody. And then we've had tremendous success so far, I guess that would not goes primarily Spanish language sure working in countries they speak every different language and making it as Reed pointed out, in many parts of the world these kind of true detective documentaries are incredibly popular in Prime Time television. So we're pleased to see these continue to be grow global generous. Where you asked about our suppliers and the confutation is probably overstated, but there is a lot of letter going around right now about how quickly and how aggressively people will license. It's still a very competitive business. And then I think what happens is that people sell their programming to the highest bidder and if we are that bidder, we get the programming and if someone else is, they will get the programming. And that's true today, that was true five years ago.

So I think what's happening now is we're very pleased with the results of the original spend and not just driving it up, not fear are being cutoff on either end.

Peter Kafka

And Ted just on that foot point, what should you glean from your DreamWorks extension obviously that's a family journal and I think it's kind of an output, you could correct me like output deals, and then on the same side, the CW renewal has not happen, I think that deal sort of still out there. Is that an example where you can get some independent studio but not with a vertical integrated one?

Ted Sarandos

No, the DreamWorks is not an output in the traditional sense meaning that we agree to a certain levels of programming but we work together and what that programming is going to be and developing those shows along with DreamWorks. And we've been thrilled with the results, those we took it to be into more territories and expanded the number of years of programming that will come through that deal because it's been working great. And I think this in the CW deal that's just in the process of negotiation, it's not behind in any normal process. And as you know it's a time on tradition to negotiate in the press, so you are seeing some of that for them and right I would say it's just in the process of negotiation.

You should also keep in mind that no matter what happens in the CW deal is the programming that's currently there remains with us to run those series, so it's not like we're going to wake up one day without the programming. And we'd like to make that deal work, it's great programming, we have a great relationship with CBS and Warner Brothers on that deal and we like to continue it.

Ben Swinburne

Reed you said you didn't think Time Warner should spinout HBO but if they ignore your advice, is that changer view of the way HBO would be - would act as a global competitor for you they have ability do things outside of Time Warner, they can't do within Time Warner?

Reed Hastings

You know HBO's been a great competitor one we admire for a very long time. You might have seen the recent news that they are now are offering, HBO now direct to consumer in multiple new nations, they started just in the Nordics then some countries in Latin America, now in Spain. So they will be a formidable global competitor overtime again independent of their ownership.

Ben Swinburne

And then speaking of competitors, Ted want to offer a theory of why your competitors at NBC and Fox and other networks spend a lot of time talking about you last week at the products association?

Ted Sarandos

It might just be putting up a shining object to deflect, they talk about Netflix is sort of what's going on their networks these days. But I really couldn't tell you why, it was - NBC was a particular puzzle both mostly because they used as an example to show that produce for us to try to illustrate how what was and wasn't working with data that didn't feel very true to us, so it surprised everybody at NBC.

Reed Hastings

I think it's just a tactical mess which is kind of funny in the press.

Ben Swinburne

Is the talent to anyone else ask for numbers or they happy now or customer reduction they are going to tell?

Reed Hastings

And we follow the coverage from the DCA most of them offered up that they are very happy with the relationship and not to be under that kind of weekly ratings show that wouldn't matter much of the success anyway, so they are happy not to focus on it.

Ben Swinburne

Coming back to David on some of the financials, David, I think you said at CES or your presentation out in Las Vegas about 120 million loss a quarter internationally, it's on a levels that make sure that's the right way we should be thinking about the year. And then on raising more capital, you mentioned in the letter you are looking at lower your cost of capital which we presume would have been the case, what are you referring to specifically there some of the gyrations in the high yield market causing you to think about raising capital definitely have in the past?

David Wells

So on the first question, you heard me right in terms of 120 million. Looking ahead I would say there is two things that might alter that not materially but plus or minus 10-20 million that would be foreign exchange, I mean we continue to have an environment where we're running deep into some pretty headwinds of foreign exchange, if that continues that might challenge that 120 million upward a little again 10-20 million. And then the other thing is just carving out a little bit of room for us. Like I said we are 14 days you know or two weeks or so into a global launch. We've got lots of markets that were in early days of setting our level of compelling and competitiveness in our service offering. This year is about investment, you'll see that, we're focused, you know we're committed to a global breakeven, but we're also trying to build multiyear businesses in many of these markets. So if we see opportunities, I think there is a little bit of room for us to pursue those later in the year to pour some additional content marking whatever the right mixture of investment is.

But it is true, it’s about a 120 million, it won’t meaningfully depart from that too much but it could be 10-20 million within that.

Ben Swinburne

And then you should assume that that instruments are similar to the ones we’ve used in the past, we’ve been very happy with those.

David Wells

Yeah, sorry Ben on your last question, nothing is changed there, other than our confidence that will continue to drive some meaningful profit in the ‘17-’18 and to the extent that people are focused on backward looking financial metrics in terms of credit worthiness. We think that will become a better credit risk overtime, you irrespective or what’s happening in the high yields markets. You know today, their bonds have traded pretty well.

Ben Swinburne

And just follow-up David on your global breakeven point, I think operating income was down a bit in ‘15 versus ‘14, but if I look at the ‘16 outlook for international losses, you just gave us plus some U.S. margin expansion, I think operating income overall should grow a bit of the 15 basis, I need to know am I thinking about things the wrong way, just I want to know that?

David Wells

No, I think you are doing the right math, but I think you are - that question is a little bit of a modeler in terms of looking at the narrow numbers. That’s true and in terms of the math, but in general I would say this year is about our continued international investment, we’re not really focused on making sure operating grows, the operating income growth is sort of an outcome of you know focused on international expansion but also committed to consolidated breakeven.

Ben Swinburne

Understood.

Peter Kafka

You guys said you are releasing people from grandfathering this spring on this price hikes, David or anyone else, are you thinking about ways you might reach out to folks we’re going to see the buildup by a $1.2 and keeping churn as low as possible?

David Wells

Yeah, it's pretty simple, I mean well, let him know that the certain date, the price change takes effect, so nothing dramatic, pretty straight forward simple stuff.

Peter Kafka

Great, Reed I'll catch you here. Now I've been able to watch sort of what Amazon is doing with its bundle and Starz and Hulu, anymore thought about attaching yourself to any other over the top service in some sort of bundle?

Reed Hastings

Yeah, I mean we do direct consumer research and we haven't been able to detect any significant take rate on those. So we'll continue to watch and learn and detect you know our people on Hulu taking a lot of show time where is it pretty much on the market.

Peter Kafka

But you are seeing it right now?

Reed Hastings

We're not seeing it so far.

Peter Kafka

Thanks.

Ben Swinburne

Let's start little more about the 2016 launches. Can you guys talk about how the go-to-market strategy is it for these markets versus international markets maybe at a high level operationally when you are thinking about markets like India or part of Africa, what's the different about what you are doing here versus what we've seen before?

Reed Hastings

So extremely similar to how we launched Latin America where there is a couple of countries that we focused on directly and there is still some countries that we haven't yet visited you know four or five years later, but we have a lot of members. So the Internets are beautiful thing because of its openness. So again it's a very similar to our Latin America launch.

Ben Swinburne

And anything you are doing on the payment side, since you brought up Latin America, I think that was a challenge initially, I am sure you've learned a lot but what can you do proactively in some of these markets to help smooth that for the consumer?

David Wells

I'll take that one. So I think we - you know we've got pretty robust payments teams that we've invested internally in building that out, getting smart in terms of the payment systems across the world, we're pressing on gift cards and prepaid cards that might open up you know to the market to those people that don't have access to a credit, debit card. But in rest of world, again it's pretty early days and I think we'll take the approach that we took in Latin America which is just to look at our next best opportunities to open up additional pockets of the market. We've done this before not in Lat-Am but in other places and we'll continue that without playbook in the rest of the world. Our partners are another element of this right, so Reed mentioned IOS will be looking to draft off of large partners in the group in terms of IOS, Android and other options you know and there is a lot of evolutions going on in the payments world. But I got miscoded at city by saying that we're interested in big coin, but what I said was it would be nice to have in five to ten years of borderless currency like that coin. I think those people that are so excited about it are interested in breaking down those barriers and in using the power of the Internet and the Internet age you know to reduce the friction of payments that are existing today in some of those banking structures. So we'll be drafting off those long term as well. But in the near term expect us to continue to just knockdown the best opportunities in terms of adding local payment methods, credit, debit cards, drafting off partners as well.

Peter Kafka

Are you guys, you are participating with TMO and their Binge On program, are you going to Verizon on I think they are calling it FreeBee I think they announced today?

David Wells

You know I don't know enough of the details of FreeBee. But generally the great thing what TMO was doing is making a limited video consumption of possibility with freedom from oaring about the data caps. And the Quit Procol from the customer's standpoint on Binge On is that they only get DVD quality on their four or five inch screen, which when you look at the DVD quality is actually very, very good, but that's a really unique grogram that T-Mobile has done and it's seeing our great reception amongst all users and we are seeing viewing going and I think TMO was seeing somewhat positive benefits from that, so we help those kind of programs expand.

Peter Kafka

So Reed, can you explain why you are comfortable and in participating in programs like that and then how that differs from stuff you've complained about a Comcast in the past with their data caps?

Reed Hastings

Well it's voluntary on the customer, any customer of TMOs can decide to turn it on or turn it off, that would a big difference and then they are not charging any of their providers, it's an open program, many of our competitors such as Hulu and HBO are in the program also but it's an open no charge program where they are really focused on trying to get the customers some optionality of limited to DVD quality and then you get unlimited viewing which you know their customers are choosing.

Peter Kafka

So you don't feel what the network putting it and saying we favor this kind of program and from this kind of studio, this kind service?

Reed Hastings

Correct, that's the big difference, that's right.

Peter Kafka

Thanks.

Ben Swinburne

With the 750, $8 price point in these international markets for the immerging markets where you know that's a relatively expensive price, do you reserve the right to sort of go down market overtime as well?

David Wells

Well we're starting off definitely appealing to elite. I mean I mentioned that in Russia and Eastern Europe you know we're still in English. In Vietnam and Cambodia, we're in English. So we're serving elites. You can think of them as a shorthand as iPhone owner, so that they pay $800 for an iPhone, they are comfortable with entertainment in English, and so for them you know $8-$10 is a sweet spot price. Certainly in future years you know as we do more and more and trying to expand it to the mass market, you know we can look at additional pricing option, but we feel good about our pricing and the value for these global originals right now.

Ben Swinburne

And just on these internal markets, you know there is a lot of press coverage on the BTN situation and proxies and maybe you can walk us through what you are doing as a company that's going to change your policy from prior periods and could you envision situation where that might impact your net adds because you have a million of customers in an international market that suddenly have - went from having a fake U.S. accounts or having an access?

Reed Hastings

I don't we'll see any impact and we've always enforced proxy locking with a blacklist, now we've got it expanded an enhanced blacklist. So I don't think we're going to see any huge change.

Peter Kafka

Just to be clear, so if you don't think there is any huge change with VPNs and other proxy workarounds and then why go ahead and do it all, just purely did to play kit content providers?

Reed Hastings

You can call a play kit or you can call catering to their desires which you know they have the gentlemen desires that we license content in Canada you know it's not fair us to be or our customers to be get in that you know if we've only paid for Canada, so we are trying to pay for it all by shifting to global licenses and we are working with our content providers on that, but it's perfectly reasonable what the content owners want and we know there will be some people effected that are using it today which is what we wanted to be open about it, but it's really a continuation of what we've always done now with this enhanced blacklist and some other techniques.

David Wells

And remember all of our originals are fully global, they go live in every country at the same time around the world. Increasingly we are spending most of our licensing dollars on content that's successful in that way from small things to other way to big things like Oscar nominated movie "The Big Short" we'll have the Pay TV window around the world, so people will be able to watch that movie on Netflix wherever they are.

Ben Swinburne

In the past you said piracy is a major competitor in any concern that the VPN and proxy workarounds will push some of your users back to piracy?

Reed Hastings

You know if we see that there is probably so few of them, it's not a big contributor to overall global piracy. Overall global piracy is a big problem and we're working with all the content owners partially to be a great carats and also to have the other services like HBO and Amazon be great carats. And so we can work together on this antipiracy agenda.

David Wells

And I think dual filter hacking in piracy are maybe just in cousins are best, I mean I think dual filter hacking is people hacking to pay versus piracy where people are hacking not to pay.

Ben Swinburne

Thanks.

Peter Kafka

I am curious that you guys could talk about where you are investing on the technology side, I think your long term letter talked about over 700 million in tacking development in 2016, there is some comments in the letter about complexity based in coding. And what about to hear beyond the general areas you are spending money is what are you doing them to reduce the required speed or bit rate that's needed to stream and enjoy Netflix, you know particularly thinking about the 2016 in the mobile first markets?

Reed Hastings

You know I think the whole industry is working on these advanced version of H265 to be able to do very high quality in coding with small bit rates. And so YouTube has made great progress on that, we made great progress. So I think you know again people have been working on efficient video encoding for 50 years, it's one of the classic computer science problem, so we are seeing good progress there, we are seeing a lot of progress on our algorithms and being able to rank videos for each person even that are being able to promote to the right person the right content, hopefully you are seeing some of that in your own experience where this is this Justin's that is the billboard at the top of the page or more often you know very appropriate and something you are just dying to watch.

Ben Swinburne

What are the minimum speed you think someone is going to need in a market like India on fixed line or on mobile to actually stream Netflix?

Reed Hastings

The minimums around half a megabit, so you know that's been consistent in the past. It's a fairly low quality picture, it's around 700 or 800 kilobit to be able to do DVD quality.

Ben Swinburne

Thank you.

Peter Kafka

You guys have said few times now that "Making A Murderer" have surprised you and success surprise you, can you talk a bit about sort of why you had more modest expectations for that, the surprise of that success has gone, how do you sort of rethink sort of your modeling?

Reed Hastings

Well it surprised me because I know so little about these things. When I met with the filmmakers and you know heard about the Murderer, sequence was interesting, but I thought it would be a specialty thing. I would say Ted and his team had that surprise, they always believed in this content.

Ted Sarandos

Yeah, it had a - there is something very special about of it from the beginning. When it came to us it was seven years into making already and this is came to us over three years ago and recognize then even before making original docs that they had something really special on their hands. The surprises that you see it perform at the levels of script and series, even our best documentary series have done very, very well but not performed in such mainstream numbers.

Peter Kafka

Right, so given that surprising you thought we're going to sort of rethink how it evaluates for more shows or you sort of or this is happy success and you are happy to move along with?

Ted Sarandos

Yeah, I mean it's on the continuing of expanding it anyway, so it was, it's only our second documentary series we've - we started with Chef's Table which is a very different show and the next documentary series are probably very different from "Making a Murderer" as well.

Peter Kafka

Ted, some of your competitors -

Ted Sarandos

Including - in fact it starts in a couple of weeks or just or this week, I am sorry Chelsea Handler and Chelsea Does will be our next documentary series.

Reed Hastings

We should take one more question and then let everyone go.

Peter Kafka

Real quickly, Ted - I guess for Ted. Your competitors report that you are in many cases overspending despite significant amount for original programming and as well as repeats, do you think that gap is going to continue, do you think it's going to increase, do you think eventually sort of fall in line with those spending?

Ted Sarandos

Well first of all I'd like thank them for endorsing our spending to talent. But the truth of it is the only reason we can in their own work and John's own words have shock in outspending for a series is because we get shock in our viewing on that series that Dave expected that David said earlier, the efficiency of the content spend has been great meaning that we are spending a lot on great shows and they get a lot of yielding relating to licensed programmed or relative to other programming as well. So we've been excited about it as part of and I think it's a competitive market place and overspending is relative, I would say if the show like "The Get Down" like "The Crown" which are relatively expensive shows are successful it's money where spent the way was for "House of Cards" and "Orange Is the New Black".

Reed Hastings

Out of respect for one of our long time questioners and your colleague Rich Greenfield, who had a question about Charter and was a good, if Charter acquires TWC for the Internet industry OTT. I'll answer proactively that I think it would be a tremendous positive for the OTT industry because Charter has agreed to a multiyear strong net neutrality policy something no one else has publically agreed to and that would cover not only the Charter footprint but the Time Warner cable footprint. And that means that we, Hulu, Amazon and others can compete on an open basis. And so it would be a huge step forward for U.S. policy in terms of OTT.

Thank you all Peter, thank you Ben, we'll talk to you again soon.