Hi. Welcome to the Q2 2015 Netflix Earnings Interview. I am David Wells, CFO. Joining me today on the company site is Reed Hastings, our CEO; and Ted Sarandos, our Chief Content Officer. Interviewing us today is Mark Mahaney from RBC. And sitting (00:29) in for Michael Nathanson, who couldn't make today, is Rich Greenfield, veteran interviewer. So we welcome him back.

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

I think it's over to Mark with our first question.

Question-and-Answer Session

Mark S. Mahaney - RBC Capital Markets LLC

Great. Thanks, David. This was an upside quarter. Let me go through – we'll go through some of those factors. I'd like to ask you about them. You did 900,000 net adds in the U.S. You had guided for 600,000 net adds. That's an usual level of upside. What drove it and how sustainable was it?

David B. Wells - Chief Financial Officer

We think it's content. It's the building momentum of our original content. It's hard to isolate it specifically to that. But given that we've grown at about 600,000 subscribers for the past two years and this year we were up to 900,000 subscribers in Q2, which seasonally is usually a weak quarter for us relative to Q1 and Q3 and Q4, we just had a really strong slate; and I think it showed through in our results, both U.S. and international.

Mark S. Mahaney - RBC Capital Markets LLC

And then, Reed, as a follow up, you've long talked about 60 million to 90 million potential subs in the U.S. market. Looking at these results and looking what's implied in the guidance for next quarter, it looks you're on track to add more subs this year in the U.S. than last year. Do you feel better about the upper end of that range, any comment, any updated thinking on that long-term range?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

No, Mark. We've been tracking at 5 million to 6 million net adds for several years now; and our hope is that we could just keep that going, 5 million to 6 million net adds every year for a number of years. And then we'll be solidly in that range, (02:03).

Rich S. Greenfield - BTIG LLC

Reed, when you look at the price that you offer, the actual Netflix price of $9, when you think about the fact that the average subscriber is now using Netflix over two hours a day, it just seems like that price point doesn't really fit with the amount of usage. How do you think about the elasticity of your price point now? Do you either start raising price more often or do you simply let people increase their price and they take you through the 4K plan or they need four subscriptions per account, like how fast can we get pricing up now?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, Rich, our entry level plan in the U.S. is actually $7.99 for our standard-def one-stream plan. So it is incredibly affordable, and that's part of what's propelling our growth. We also want to motivate people to be able to move up to the two-stream and the high-def and also the ultra-high def plan as you referred to.

Over the last year, we've raised ASP about 5%. We'd like to keep that moving. So we're going to continue to have incentives for people to move up in the plans as suits their usage pattern, but we want to take it very slow. Things are going well. There's no reason to be disruptive. We're not planning anything in the U.S. this quarter. It's really focused on going very steady, very slow; and over the next decade, I think, we'll be able to have more and more content and add more value and then to be able to price that appropriately.

Rich S. Greenfield - BTIG LLC

But are there other ways that you can increase price or tier pricing beyond 4K and number of subscriptions per household? Are there other choices that you've thought about or even tested anywhere globally to drive price or ARPU?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

I'm sure there are other ways to do it, and the way that we've chosen is working very well for us. So then we tend to focus on the core, getting more content, more streaming, better usability and the structure on the price tiering is unlikely to change.

Mark S. Mahaney - RBC Capital Markets LLC

A question for Ted. Going into this year, the company has been saying for a while this is going to be a big original content year, it's showing through in the sub numbers. Does it set up this issue where every other year you've got this tough comp in terms of new content? How do you think about – how do you follow this act, how robust will the new content be next year? Does each year have to (04:28) up higher and higher in order that you don't go down with the subs and the stock and go up with the subs and the stock, how do you make it more – how do you steady it out?

Theodore A. Sarandos - Chief Content Officer

Well, we have two things that are working for us. The one, we're launching new shows that have become great brands on their own, but also as these shows grow into their second and third and fourth seasons, they're actually more attractive on their own. So we're adding more breadth of content, more original series; and those series have become bigger and bigger brands that down the road will become subscriber events as they grow.

Mark S. Mahaney - RBC Capital Markets LLC

And then, David, let me ask you one more question just on the U.S. subs. There was a new user interface on the desktop that much more immersive experience. There were also a lot of competitive launches that maybe gained greater – increased the focus on the streaming potential use case for consumers. Do you get the sense that either of those were materially impactful already or the user interface improvements of those (05:24) of the impact on the sub base?

David B. Wells - Chief Financial Officer

No, Mark. Generally, we don't see – when we do a large user interface improvement. That's a very distributed effect. It's something that we're always focused on improving. Generally, it rolls out across our device landscape. We're pretty proud of a lot of the work that we've done; and in fact it gets – imitation is the best form of flattery. And so our user interfaces get imitated quite frequently across the world; and we're glad to be leading and innovating in that space. But it doesn't really translate immediately to subscriber growth. It's really a diffused retention benefit that we see through year-over-year in terms of the improvements in retention. And then in terms of the competitive announcements, we didn't see anything that was specific that we would point to.

Rich S. Greenfield - BTIG LLC

Ted, you've talked about wanting to being HBO faster than HBO can become Netflix. When you think about the demographics of your user and how – if

Reed wants to get to 5 million to 6 million subscribers in the U.S. each year going forward for several years, what types content do you need to create? And what are the demographics that you're weakest in that you need to figure out programming to hit, beyond just simply the pricing plans that we talked about earlier?

Theodore A. Sarandos - Chief Content Officer

Well, I think what you've seen, Rich, is that we are launching content to multiple demographics and in all genres (06:45). So the reason why you are seeing the kind of engagement that you are seeing is that we're finding content that everyone can love, so not just one show that's meant to appeal to everybody, not a handful of shows that are meant to appeal just (06:57), we're doing shows that are kind of very mainstream comedy, we're doing very elevated shows for some, we're also doing cartoons for kids. So we really are kind of programming it across demographic and not trying to be one thing for all people or not having our brand really define what kind of content that we're doing.

You've seen in a few of our recent announcements a traditional four-camera sitcom that we hope will be watched in even bigger than traditional way, called The Ranch with Ashton Kutcher, bringing back the cast of Full House for a new show called Fuller House. But we're also doing things that are very edgy, very tough, cinematic shows like Narcos that's premiering next month, or the revival of Wet Hot American Summer with an all-star cast with Paul Rudd and Bradley Cooper and Amy Poehler. So it's really programming across demographics.

When I said that we wanted to get to be HBO before they got to be like Netflix, I meant that we'd have to get very good at original programming before they get really great at the technology and the direct-to-consumer relationships that they're only starting to invest in now.

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

And, Ted, do you want to just mention the success we've been having with the Spanish language content in the U.S.?

Theodore A. Sarandos - Chief Content Officer

Absolutely. We've recently expanded beyond our own original shows. The only way to watch those shows in Spanish in the U.S. is on Netflix with subtitles and dubs available that we're making for Latin America. And now we've licensed a lot of programming from Latin America into the U.S. and are getting incredible viewing on shows that were successful for us in Mexico that are now drawing huge numbers in the U.S. And, again, that's a very different demographic than we've targeted before and are just barely starting to touch them by getting hundreds of thousands of hours of days on single shows. So really, really impressed with the relatively quick take-up on these shows.

Rich S. Greenfield - BTIG LLC

And maybe just tying this into international, as you think about the programming that you're now creating across these various segments or demographics, how are you thinking about the ability to leverage the programming and what's the success of these individual programs overseas versus the U.S. and some of the new markets that you've opened up? And just how that ties to David from a margin standpoint overseas, because I think that's a big investor question?

Theodore A. Sarandos - Chief Content Officer

Sure. And the thing that's been very encouraging is that the proportion of international viewing of our series are pretty stacked the way you'd expect relative to the subscriber base. So Orange Is the New Black and Sense8 have enjoyed great success all over the world. And all of our shows, as we launch, are to a differing degrees out-indexing in some cases our U.S. subscriber base or slightly under-indexing depending on the install base and how U.S.-centric or Latin American-centric the show may be.

We expect Narcos will be an enormous success throughout everywhere in the world and maybe out-index in Latin America, given the Brazilian star and Brazilian director and heavy Latin American cast and that we shot the show entirely on location in Colombia. But we also think the show will be a huge hit for us in the U.S. So we're seeing that great global story telling is great story telling.

David B. Wells - Chief Financial Officer

And, Rich, just the part B of that question in terms of for investors, obviously there's benefits if we produce a show. If there's great reach across the world and we can distribute that show and it will be consumed and enjoyed across the world. So there's tremendous benefits there in terms of just the scale of distributing it. As we see so far, content is being viewed – western-produced English language primary content is being consumed in large numbers across the world. There's a lot of similarities in terms of what people like. That's what Ted just talked about. As we penetrate deeper into the markets, there might be a question in terms of do we have to add more of the local mix into that and that will have implications for our content spending in each market, but right now what we're seeing is that our current mixture is working across the markets.

Theodore A. Sarandos - Chief Content Officer

And by the way, David, I think what's exciting about that is as we add local programming into those territories, they will be able to find audiences for that around the world on Netflix, not just in that local territory. So I think we'll be able to find scale on local programming as well.

Mark S. Mahaney - RBC Capital Markets LLC

Let me switchover to just – or follow-up on the international questions, one for David and then a bigger picture one for Reed. So, David, you had about 25% upside to the number of net international subs you thought you would have. Was that pure content or were there other things that really helped in those markets, some marketing efficiencies that you found? A little bit more color on maybe some particular regions of the world that really outperformed versus your numbers?

David B. Wells - Chief Financial Officer

Well, for competitive reasons, we gave less color on the international markets. But I would say you're right in the premise of the question being it's a little bit broader than just content driving that. We think we've got some momentum that's based on brand growth in a number of markets as well and we have a strong launch in Australia as well. So all of those things contributed to the success we saw in the sort of upside versus what we thought we were going to see in Q2.

Mark S. Mahaney - RBC Capital Markets LLC

And then, Reed, big picture question there is a series of these international launches you've got aggressively planned it seems like this year or next year. Can you just talk about how you plan to manage the execution risk associated with doing that many launches and that many major markets at once? How do you feel about managing the risk of couple of these markets just going off the rails, not marketed right, not contented right, et cetera?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

I think that would be unlikely for any material market. If you look at the last four years, we've done a wide variety of launches; now over 50 nations, and we've learned along the way. So I'm not too worried about that. We're very focused. And I'd also say how we do in the first year in a new market is not that determinant of the long-term.

If I think about Brazil, we were pretty weak in the first year and now it's a rocket ship (13:02). And so, we're going to get in and really start the learning process, what's getting watched, why; what's generating buzz, why. And then in every nation we're learning. And if you think about it, around the world everybody wants this on-demand Internet TV. It's just a better experience than linear TV. So I'm really very confident that Internet TV is going to continue to grow.

Rich S. Greenfield - BTIG LLC

This is probably a question that we can start with Reed, but you may all have a feeling about. Hulu was a pretty significant failure; I think self-admitted failure in Japan. Curious, where did Hulu go wrong, why will Netflix – this is one of the biggest or first major market in Asia you are going into – why will Netflix be successful in Japan and what are you going to do differently from the onset?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, Hulu had a couple of missteps. But now, today, four years later, under new ownership, they're actually growing and seeing some real success in Japan. But the initial missteps, where pricing was too high, it was ¥2,000 or about $20 at that time a month, had no local content. So it seems pretty substantial missteps. In contrast, our pricing will be more aggressive than theirs was. We'll have a local content, we may have some local originals. We're really focused on doing a great job. We've got more experience than they had at that time.

And Japan is a unique market because it's very brand sensitive. So Japan will probably be our slowest market to get to certain penetration threshold, but it may be one of our best markets in the long-term because when the Japanese society embraces a brand, it's a very deep connection, very long-term. So we're willing to make that investment, knowing that it's not the quick route to success that might be in other countries.

Rich S. Greenfield - BTIG LLC

And are you seeing the CE companies come out and support you ahead of launch?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Yes. The CE companies, Sony and Panasonic and Toshiba, they're all integrating Netflix into their devices. And, in fact, if you go today and buy a television in Japan, it's going to have a red Netflix button on it, even though we haven't yet launched.

Rich S. Greenfield - BTIG LLC

On the international side, David, if you could talk about the profitability ramps of some of the older markets that Netflix has been in and how they've looked versus either the U.S historically or some of the other older international markets? What's the profitability ramp look like?

David B. Wells - Chief Financial Officer

Well, just like in the U.S. – and we've made some comments in the past on Canadian margin getting to a 30% threshold – we've made general steady improvements year-over-year. We had some headwinds this year with the VAT change in January and with some of the foreign exchange which we've denoted in the letter to give you an indication of the impact on the revenue. But I'd say in general, the profile and the margin profile of each market is steady growth. You want to take a measured approach to make sure we're not running ahead too fast and under investing in the competitiveness of our offering, but in general it's steady growth. And in fact, we've made comments before that our consolidated markets – our wave one or our first wave of markets were profitable on a consolidated basis; and in this case, in this quarter, we expect them to be individually as well.

Mark S. Mahaney - RBC Capital Markets LLC

And then in terms of your guidance going forward, there's a little bit of a surprise to us, your international operating loss is coming down sequentially even though you do have a bunch of launches. I know some of them are in October. I guess the question, I don't know if you'll answer it or not, I doubt that this was the peak international loss quarter, the June quarter, but is it just the timing issue and we really should see the strong content marketing cost behind those launches in the fourth quarter or did we just peak losses?

David B. Wells - Chief Financial Officer

No, you're correct. I mean, we kind of tried to walk through that in terms of the timing. We've got a Japanese launch later this quarter. So you're going to see new content expenses and market expenses related to Japan. And then in Q4 you'll see Southern Europe, Spain and Italy, launch as well. So you've got brand new launches there. So you should expect those losses to continue to kind of work towards that; and then next year we've got rest of world. So you've got some commentary there in terms of we expect those losses to continue to grow through the year.

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

And, David, is it fair to say in our plans, the international losses peak next year?

David B. Wells - Chief Financial Officer

Yes.

Rich S. Greenfield - BTIG LLC

When you look at a year ago or basically 15 months ago, you were on this conference or on this video cast talking about kind of your disappointment that you were forced to basically pay for interconnection and sign deals first with Comcast, then Verizon, AT&T, and Time Warner Cable. Today, you're announcing that you've convinced Charter Communications as part of their attempted merger or acquisition of Time Warner Cable and Bright House to give up on interconnection fees for at least the term of the potential consent decree. Why this issue? Was this so important to you? Were you really that worried about these costs that you would support a merger simply to get settlement-free peering?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Yeah, Rich. I think we've been really clear over the past five years that we saw interconnect fees as the potential next (18:33), where it starts off at very low numbers and then constantly escalates through a set of price discovery battles that impact consumers of various shutoffs to see who can take the pain. And then in general, it sets up an ugly industry structure. And then in fact settlement free was a much stronger way to go where broadband was great for what they do. We and our competitors have to be great for what we do and we don't have to pay each other.

And so we think that's the right way to go. We're thrilled that Charter is willing to commit to that across the entire portfolio. I think that's a very substantial advantage for the public in terms of the growth of broadband in the U.S. So we're really excited about it and what it does is it freezes up from worrying about getting taxed by an ISP; and instead we get to worry about how do we make our experience better for consumers.

Rich S. Greenfield - BTIG LLC

Are there other conditions within Charter-Time Warner that you'd like to see adopted – the government to adopt as part of a consent decree? And is there anyway given how late in the game it is for you to get these types of clauses like settlement-free peering into an AT&T-DirecTV consent decree?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

From a broadband perspective, I think this is the right condition; and so this is the one we're focused on for Charter. And then the government is still working through potential conditions on AT&T-Direct and it would be great from our perspective. Now that the precedent (20:03) is set and the details are clear, if this merger condition proposed by Charter were also applied by the government to AT&T-Direct.

Mark S. Mahaney - RBC Capital Markets LLC

Two more questions on international. One, either for David or Ted. Could you just focus on the China market and what are the variables, the key variables to determine when and how you'll get into that market?

David B. Wells - Chief Financial Officer

Sure, Mark. I would say China continues to be sort of its own entity in terms of the challenges and the particular characteristics of the market. We're taking our time and being deliberate in finding a path and the right model to work. So just continue to stay tuned. We hope to be able to launch the service there next year; and we'll continue to treat it sort of as its own territory.

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

And we described it, Mark, as modest investment once we launch; and nothing has changed since we use the word modest about our investment levels.

Mark S. Mahaney - RBC Capital Markets LLC

Okay. And then, Reed, you've had a long-term forecast in terms of subs going back 10 years and you've generally been – seems like you've been pretty right and the trend seems to definitely support the 60 million to 90 million, the ability to park it in there somewhere. You also seem to have a lot of confidence now about a lot of your international launches. So what's that bogie? How many international subs you think you can get to at some point in the long-term?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, it depends upon the timeframe I suppose.

Mark S. Mahaney - RBC Capital Markets LLC

Long-term.

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

But when we look at the global Internet, if you look at people who are in the future going to be on the Internet, are interested in video entertainment, watch some TV and have enough money to pay for a service, that's a very large potential market. How much of that we'll get, how relevant we will be in Turkey, how relevant we'll be in Indonesia? That's very open-ended question, it depends on what kind of job we can do, how well we execute. So next couple of years, we'll be able to have a clearer picture of how we will do in markets that are quite different from the U.S.

Rich S. Greenfield - BTIG LLC

When you think about peering, obviously you did not get Comcast to submit to anything because the deal didn't happen, you had the deal actually ended up being blocked. Is Comcast still a threat to Netflix, given that they're the largest ISP in the country? You actively pushed for their deal to not happen and they have no rules around interconnection as you look at it?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, there's lots of potential threats and in some ways that's good for consumers that we have to compete with, say, Comcast's new offering called Stream. It's a potential threat on the peering interaction. The key thing about the Charter deal is it's all Internet companies that benefit; us, Hulu, Amazon, HBO Now, so that we can all compete for consumers affection; and it's that openness to everybody that's the key thing. We can hope that over time Comcast will also get to settlement free, it hasn't happened yet. It's something we'll continue to work on.

Rich S. Greenfield - BTIG LLC

And maybe a follow-up for Ted, when you think about the potential combinations, you've got John Malone talking pretty openly about Lions Gate and Stars and really wanting to roll up a whole number of companies into kind of one mega content company you've got – Fox tried to buy Time Warner, I think they still want to buy Time Warner if Jeff Bewkes was open to it. But is meaningful consolidation of studios, TV studios, a risk or a threat as you look at your access to content?

Theodore A. Sarandos - Chief Content Officer

Rich, I really don't think it's a threat. I think it may be inevitable in what's happening around the world today. And I just think that the underlying dynamics of having a great supplier relationship with people who create content, they don't change in the ownership structure.

Mark S. Mahaney - RBC Capital Markets LLC

Let's see, let me follow-up – sorry about that, let me follow-up, Ted, two content questions. I think, Ted, at Con, you said something like 10% of your content spend is now original and you'd like to get to 50%. I think that's kind of consistent with comments you made in the past. Any updated thoughts on the timing and the speed with which you can get to that 50%-50% level?

Theodore A. Sarandos - Chief Content Officer

Yeah. The intent wasn't to steer you towards the percentage, it was to steer you away from it. Meaning that what we are going to do is continue to grow our content spend on original programming, both in absolute numbers and as a percentage of our total spending, because it's been working. It's been helping grow the brand; and more importantly, it's been driving viewing hours, relative to how else we would spend the money. It's been a very efficient investment to program with original hours versus licensed hours; and that's why we keep pushing that out. So I'm not trying to guide you to a specific percentage, because at the end of the day the total content spend doesn't change, just the slices of the pie do.

David B. Wells - Chief Financial Officer

And, Ted – sorry, Mark, I would just say that we're still, given our growth rate, able to grow licensed content. We're not yet at a stage where we're sacrificing or cannibalizing one for the other. The numbers that we put in there, characterizing long-term letter our future content budgets and the growth of those still allow for the growth of licensed content as well. So it's just a trade-off in terms of the brand implications and the efficiency for us.

Theodore A. Sarandos - Chief Content Officer

Yeah. And I think being a partner with the studios and networks, and more importantly being a great source for consumers to watch that programming is always going to be a part of our programming mix.

Mark S. Mahaney - RBC Capital Markets LLC

And then, Ted, one more content question and then over to Rich; and, Rich, if you don't ask Reed for his thoughts on the stock price, I will after that. But, Ted, the Disney content that's coming on next year, at a high level could you explain to us how much of an impact that's going to have on overall content on the site? And do you think that that content that comes on, is it material enough to actually change net sub adds? Just from a high level, what is that content that's coming on and for a basic Netflix user what's the so what (26:05)? How excited should they be?

Theodore A. Sarandos - Chief Content Officer

Look Disney has situated themselves around a handful of very important, very global tent pole brand, like Lucasfilms, like Pixar, like Disney Animation, like Marvel. And that programming causes a great deal of excitement for our subscribers, both in terms of viewing hours and then potentially there could be subscriber events. But more likely, it's about viewing hours and people finding great things to watch. And more than – even things that they watch repeatedly, which is why I think that deal was more important to us than any other studio output deal could have been; and maybe one of the few output deals that we pursue going forward because of the nature of that programming, that very specific programming. It's very complementary to our growing Marvel relationship with our Daredevil series; and households with children love and trust the Disney brand, and we love the affiliation with it.

Rich S. Greenfield - BTIG LLC

Does that playing off of that when you think about EPIX, which is another output deal that you have a relationship with. You struck a deal five years ago, the first two years were exclusive, it was kind of something you used to help build Netflix; the last few years, it's been non-exclusive on both Amazon as well as Netflix. Is that important to you anymore? Is that contract comes up for renewal anywhere near the price you've been reportedly paying?

Theodore A. Sarandos - Chief Content Officer

Well, it helped build us and we certainly helped build EPIX. And it does have a long-term conflict which is, I don't think it's in their long-term strategic best interest to have exclusive deals; and it is in ours. So regardless what happens in the short-term, our long-term will be to move more towards exclusive programming, both films and series; and that deal I think would ultimately have a long-term conflict. But, yeah, we want to have our viewers come to Netflix for great things that they love to watch, but we also want to be differentiated from all the other outlets.

Rich S. Greenfield - BTIG LLC

So, Reed and David, as you think about the stock price, I think we got a tremendous number of people asking kind of trying to tie back the performance. You're up over, well over 100% in afterhours trading year-to-date. Do you sense the same form or do you see the same type of euphoria that you kind of cited in your investor letter not too long ago when you think about the stock price here, or is it warranted given your outperformance in the quarter or even year-to-date your performance?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, I think it probably shows why at least I should keep my day job and not try to be a stock picker, because when the stock was half this price I described it as euphoric. So it's a mystery to me. And what we focus on is how to get incredible content, stream it beautifully, market it in every country, grow the member base; and I think I'm out of the stock commentary business.

Mark S. Mahaney - RBC Capital Markets LLC

Good. Rich, our jobs are safe. Let's see. David, let's talk about the free cash flow in the quarter. You don't give guidance on free cash flow. Did the free cash flow loss that – I'm sorry, the $230 million or whatever, was that largely what you thought it would be?

David B. Wells - Chief Financial Officer

Yes. So we've done our best to indicate the trends that our free cash flow is going to diverge from – I mean that's going to get worse as we invest more and more content. So indeed that was expected. You should expect that to continue as we invest heavily in our original content, which is more front-end loaded from a cash basis perspective. But we've talked in the past about a ratio of content P&L expense to content cash; and that ratio has, in terms of cash over the P&L, been about 1.2 or 20%, it's drifted up to 1.3 and peaked at 1.4. We anticipate that ratio, it was 1.3 in the quarter, that's still holding. Those comments are still valid and that trend will continue. As we invest in original movies and things that are particularly front-end loaded, you might see that peak at 1.4, but we think that that ratio is still a pretty good guide for investors.

Mark S. Mahaney - RBC Capital Markets LLC

And, David, you also put a ratio in the transcript or the release about running debt now at 4.6 times LTM EBITDA. I assume you wouldn't have put that in if that wasn't also something you track. Do you want to comment on the upper and lower band of acceptable – upper and lower acceptable bands on that number?

David B. Wells - Chief Financial Officer

Well, I think we put that in there, Mark, just to make – not to have people have to do their own math as particularly debt investors on the EBITDA number. So the goal of that table is to put things that people will reference and easily want to know upfront. That's why we put content commitments in there as well; and that's why we put EBITDA in there. I don't think we have a target range on that. We fully expect as we invest more in international and as the international loss has pulled the consolidated P&L down, over the next few quarters that that EBITDA number is going to get worse.

But we still have high confidence in the profits delivered in 2017, and it's back to your earlier question about how our existing international markets are doing from a profit growth perspective. Those markets are starting to grow. Each one is better year-on-year. The ones that were not profitable last year are going to start to be profitable and then start to contribute meaningfully to profit; and then we'll see on the new markets. We have a comment on Japan being slow. We've got new markets this year growing. So we have a longer term view on the investments; and that's been validated at least in our earlier waves. So we've got great things to come we think.

Rich S. Greenfield - BTIG LLC

When you think about the bundle, we've seen the bundle clearly starting to fray, every MVPD we hear from is thinking about smaller bundles. We're hearing about virtual MVPDs with small offerings even if Apple – whenever Apple tries to get into the space. But there's clearly this kind of unbundling and then a re-bundling as we see new people put packages together, the way Comcast is doing with the stream that Reed mentioned earlier or even Hulu new packaging in Showtime. Is there a way for Netflix to be part of these new bundles or do you prefer to just have it be pure à la carte offering standing on its own?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, Rich, when we look around the world, NOW TV Sky's offering is an unbundling, Presto in Australia is an unbundling, of course the U.S. example. So that's something we've seen broadly, which is the rise of Internet TV and the idea that individual apps being able to choose; all of that's coming together.

In terms of being in a bundle, we would always want to be separately priced that we think the service has a great value and it's up to consumers to choose that. So it might be billed by a provider. So, for example, Orange in France does that and it's part of your cable, if you will bill, but Netflix is a line item say at $7.99 or whatever the local price is.

Rich S. Greenfield - BTIG LLC

And from a product standpoint, you obviously have refreshed the interface for laptops and PCs. Where are we? What are the big things you're thinking about? Kind of where you'd go from here in terms of kind of product priorities as you move into 2016?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, the core is really continuing to improve the personalization, being able to more and more accurately present content on the screen, whether that's a TV screen or a phone screen that a consumer is just very motivated to click on and watch. And we've seen tremendous benefit as we've done more and more of that big data work. Then in addition on the user interface, we're always working on performance, usability, testing new ideas. We've got some pretty cool stuff in the lab with multi-video streams on the television screen. We'll see if it tests well. I'm pretty optimistic about it. But there is a ton to learn as smart TVs get better and faster as adapters like Chromecast get better. So there's a lot of innovation on the hardware side that we're taking advantage of.

Mark S. Mahaney - RBC Capital Markets LLC

We could get back to a specific question on ARPU or ASPs. In the script you mentioned seeing a nice uptake in our HD two-stream plan. Any more color around that? And also on the four kind of digital out plan, what kind of uptake you've seen for that?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, on our top plan which is the ultra-HD four-stream plan, there's two drivers. There's people who have big families and want to watch more than two different screens at a time; and then the driver that we're really optimistic on is ultra-HD. So as more and more ultra-HD TVs gets sold at major electronics outlets over the next five years, more and more people will want ultra-HD. Each stream is about 15 megabits per second. So it takes a good quality Internet connection. Of course that's getting more and more reliable. So when we see those coming together, we see over time a significant percentage of our membership upgrading to get the ultra-HD service again over the next couple of years.

Mark S. Mahaney - RBC Capital Markets LLC

And then one more question on pricing and particularly the thoughts on global pricing. I think, Reed, you mentioned in Japan trying to come in with an aggressive price point. As you think about all the different markets you're going into, do you want to offer much lower tiered pricing plans for emerging markets or do you want to try to maintain price integrity globally?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, we're somewhere in between. Most of our pricing around the world is pretty close to the U.S. pricing. Now the recent strength in the dollar and then of course when you add VAT and in some cultures, you have to – in some societies you have to back that out. But if you look at the underlying price structure, at this point we're going for a model where it's pretty similar around the world.

Rich S. Greenfield - BTIG LLC

When you think about Sandvine, I've been really surprised by the fact that Amazon despite a pretty significant ramp in programming still represents less than you increased your Sandvine bandwidth share over the course of the last six months. What do you attribute the fact to that no one else has really broken. And despite some pretty substantial $1 billion plus programming spend, no one else seems to be closing in on you, why? Because I think investors are trying to understand the barrier to entry, what is so different about Netflix? Are you becoming Kleenex for Internet streaming or like how do we explain what's happening?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, Amazon is growing a very quickly in terms of total viewing hours, but so are we. And so what's happening is everyone is maintaining their relative share, but the total amount of Internet viewing is growing at a very vigorous rate. So I think they are experiencing significant success on their investments, as is Hulu. I think we'll see that with HBO Now, because there is massive move from linear programming on to the Internet.

If you mean why is our share not compressed, that's a series of reasons that certainly the brand, while in the Kleenex-type reason that you mentioned, the leadership gets conversation about leadership. It's also our only business. So we're totally focused on making a great consumer experience as an entertainment experience; and that's an advantage. So there's a number of those factors and, well, we don't take it for granted. Those kinds of numbers can switch at any time; and so we have to really continue to double down to do new things.

And I think when you look, for example, at the original movie work that Ted's been doing, it's pretty incredible. You'll see with the Beasts of No Nation, a very intense, Oscar caliber, amazing film; and then, with Crouching Tiger and War Machine with Brad Pitt coming, some really major big ticket studio films debuting on Netflix around the world at the same time. So we're continuing to try to raise the antes to get better at what we do; and I think that's the key to continuing to hold on to our share as the whole Internet TV market grows.

Rich S. Greenfield - BTIG LLC

And when you think about the opportunity that you have for Internet TV, is there a way to think about how many more markets you can open up this year? I mean, I think you have obviously talked about the Q3 launches. Are there Q4 launches that could still happen that haven't yet been announced? We've got that question from several people.

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Right. For Q4, we're focused on Spain, Portugal and Italy. Q3 being Japan...

Mark S. Mahaney - RBC Capital Markets LLC

But nothing else before year-end.

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

That's right. That's really going to be a big focus item in those markets for us these next two quarters, so nothing else before year-end.

Mark S. Mahaney - RBC Capital Markets LLC

And is there anything else outside the U.S. that wouldn't actually happen, when you talk about international. Are there actual markets, anything of any substance that wouldn't happen in 2016?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, no, we hope to open the entire rest of the world in 2016. So China, again, we still have some things to figure out, so I suppose that's possible. But in the rest of the world, we're pretty confident that we'll open. And then we'll have to see how successful we are in Poland. We have to see how successful we are in Indonesia. So there's still a lot of work to do.

Mark S. Mahaney - RBC Capital Markets LLC

A question for, Ted, a specific one just on the Crouching Tiger. I think this question came in – I think that was pushed out – the launch date for that was pushed out, any color around that? And I think that will be the first one that will be released both on Netflix and in theaters; and it sounds like you want to do a few others that way. Is there a greater concern on your part to make sure you get it right or were there other factors?

Theodore A. Sarandos - Chief Content Officer

There was a few other factors. One is that we are going to have a premiere of Crouching Tiger, Hidden Dragon 2 in China. It will premiere on several screens in China in 3D; and we wanted to line it up with a better window in that way. Give the film a little more time to do – we also picked up a couple of extra production days to expand on the scope of the film. We're really happy with how that's coming out and that window just lined up perfectly.

On the releasing in theaters, I think for us it's mostly symbolic. I think it's important for people to understand that these movies are not TV movies, they're of the same size and scale and scope of the movies you will see in theaters. So one way to do that is to have them in theaters sometimes. I think the movies, as they go, will be attractive enough that theater owners will want to book them in their theaters at the same time that they're on Netflix. But in terms of – I wouldn't move around to optimize for the theatrical window. So that's not really the driver. This afforded us to do a premiere few days early in China and helped to launch the film and the film brand around the world.

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

And then kind of probably time for two more question here, Mark. I'll let you go.

Mark S. Mahaney - RBC Capital Markets LLC

Let me ask one question and Rich you get the last one. David, you talked a little bit about global rights deals, any implications of that for the P&L? So just a little bit more color there. The global rights deals as you do more and more of those, do those allow international margins long-term to rise up and maybe exceed even U.S. levels? And when would we actually see – we'd see some nice margin boost because of global rights deals. Is that three years or four years out?

David B. Wells - Chief Financial Officer

Mark, it is probably a combo for Ted as well. So I'll take the first part and then he can comment. But generally, it will take a while. The move towards the global right will be one that will take a couple of years, few years to really flow through. Similarly through our move towards exclusivity, and in terms of the P&L implications for international margins. It really is going to be more about the penetration growth and the rate of growth in that market to begin with. But sure, long-term, we could see some benefits in terms of back to the earlier questions on the benefits of a global distribution if it produces a piece of content that is consumed around the world, and certainly their benefits to being able to distribute that globally. And then, Ted, I don't know if you had comments you wanted to pile on and on.

Theodore A. Sarandos - Chief Content Officer

The mechanics of it are simply that we try to gain more marginal subscription revenue and more marginal viewing hours than the marginal cost to pick up the rest of those rights, and the rest of those territories; and there's been some. We've been so encouraged by the international success of all of our original programming and another proof points too like seeing Jurassic World open number one in all 66 theatrical markets around the world, that if you get the content mix right, you can build the demand for it around the world in a pretty equal basis relative to the population. So it's a pretty exciting opportunity, and we think there's a lot more.

Rich S. Greenfield - BTIG LLC

When you look at the programming investments that you've made and the impact it's had on streaming hours, wondering if Reed could give us a quick update on where you stood in the quarter for total global streaming hours across your user base. And just how different or how much of a gap is there between what a U.S. subscriber is streaming per day, and an international subscriber to understand the impact of your programming?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

Well, Rich, U.S. vary somewhat from Mexico, vary somewhat from Norway, but if you look at them all on a graph, it's a big cloud. They're all pretty similar. So U.S. is not unique compared to the range that we see around the world. And with each programming investment, we not only increased the viewing, and increased the satisfaction, but we learn is that the kind of programming that we should do more of, and so you really want to think of us as just a learning machine in terms of the programming, the variety of what we've done, we get so much data about how people watch, how fast they watch, that really propels our programming.

Rich S. Greenfield - BTIG LLC

But no update to the $10 billion?

Wilmot Reed Hastings - Chairman, President & Chief Executive Officer

No update to the $10 billion. We'll wait till we get to some nice fun and big number. But in terms of binge-viewing, of course the most important thing about this call is to let you know that Friday, BoJack Horseman Season 2 launches on Friday. So we hope everyone will have a great binge weekend on one of the most incredible shows; and it's kind of controversial when I quoted on this call Aaron Paul a couple of years ago. So I'll stay away from the bad words, it is licious (44:59) show