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Call Participants

EXECUTIVES

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

ATTENDEES

Michael Nathanson

Robert Fishman

Unknown Attendee

Presentation

Michael Nathanson
Awesome. Everyone here. Because I know the sound has been not great. I want to hear Spencer, Robert? Check, check. [indiscernible] we call them Roger. Thanks, Spencer, for being here. It's an honor to have you. I know you a long, long time.

Question and Answer

Michael Nathanson

And as a gift to us today at Spencer decide -- sign an NFL contract with, for the next 3 years, we just got that text a minute ago. So thank you for doing that. Thank you for making news. What can you say to us about why this, why it makes sense? And anything you could share?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. First, good morning, everybody. Thank you, Michael, for having us. We appreciate the opportunity to chat with you all. Yes, big day, exciting news for us today with our NFL deal, so it's very exciting.

I first want to give a quick shout out and congratulations to our Chief Content Officer, Bela and her team for getting this deal over the goal line, no pun intended. I know it was a lot of hard work.

But I think of this as really more part of our strategy to build out a big log of entice the programming rather than a big move into sports per se. And the step back here, Michael, is that about a year ago, we made a big jump into live, as most of you know, to tap into all that consumer passion around comedy, reality television, sports entertainment and more.

And through that, we've learned that programming like the Chris Rock selective outrage special, most recently the roast with Tom Brady, those types of programming can really deliver huge breakthrough moments that our audiences really love.

And we're going to continue to build on that strategy. Most -- or next up with Mike Tyson and Jake Paul fight in July, and then with the WWE coming to Netflix in January of 2025. And I think that type of engagement is differentially important to both our members and to our business, because in a world of audience fragmentation and so many entertainment choices, I think what's really rare are 3 things: attention; the ability to bring mass audiences together; and thirdly, really passionate viewing.

And I think the NFL really fits in well with that strategy. So again, I really think of this as an extension of that approach to build a big log of entice the programming.

Michael Nathanson

Okay. And anything about the press reports about the cost of it is room in the journal, I think $75 million. It doesn't seem like this is a big risk in terms of what Netflix has to pay to be in this business?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes, that's right. So I can't confirm the specific details of it, but I would say it's a very manageable cost. I would characterize each game as roughly the size of one of our medium-sized original films. It fits within our existing content budget of about $17 billion in cash spend this year, so no impact on our operating margin guidance for this year.

Robert Fishman

Okay. So we're going to ask you to put your old analyst hat back on.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Scary. I'm not sure I was very good at it.

Robert Fishman

Well, let's speak about that. So in terms of the cord cutting that we're seeing today, right, I think you were well ahead of where you thought this was going to go and where we are today. So given that you've had this front row seat to the disruption that we've all been seeing in the media ecosystem, since joining Netflix almost 10 years ago now, I think, but 9 years.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Scares.

Robert Fishman

So maybe what has been the biggest surprise to you over this period and maybe even bringing in, obviously, sports as part of that, how that has the potential to even disrupt further the traditional consistent.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. It's a good question, Robert. I would say the reflection, I don't think is super insightful. I would say I was -- as an analyst, I was pretty convinced that this is the direction that things were headed in.

I think if I reflect, I'm probably surprised by how slowly it's gone actually in a way. So I think the -- you know the numbers here, Michael and Robert, but I think there's still 70 million households in the U.S. that pay roughly $100 for pay-TV. So -- and that's with all the great stuff onstreaming, the added convenience of on-demand and things of that nature.

So if anything, winter TV has actually been, I think, pretty sticky relative to my expectations. And that transition in other countries is also pretty measured. So in a way that just gives us a continued long runway as the world undergoes.

Robert Fishman

The irony is that what has accelerated it, is the pivot to stream. Basically, they followed you in a very economical way to try to become Netflix and they've killed the golden goose more quickly in recent years.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Well, I'm not sure that's totally fair. I think to their credit, they see the trends, too. And I think they're trying to adjust the best they can, and they have to manage a business just like we had to manage a legacy business, which is DVD for us. So we all took different approaches. And I don't behoove them the way they are.

Robert Fishman

Okay. So on that point, it feels like the capital intensity, which drove that surge in content production, pay-TV.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes.

Michael Nathanson

It feels like it's slowed dramatically. So what are you seeing with regards to competitive landscape? And how do you think the meltdown across media is impacting your ability to grab more consumer engagement and attention?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. I'd say, relative to 3 to 4 years ago, there are more licensing opportunities from other CEOs for sure. But I wouldn't say it's a big game changer for us. We've always had a lot of variety, a lot of quality in the catalog. Originals are our present and our future and second-run content is an important ingredient for our offering, but it's not the majority of it.

And I would say the business continues to be really competitive. And we don't take that for granted. We don't take our positioning for granted. We are very respectful of the competitors, the entertainment companies all -- are have their own unique strength. They have really big content libraries. They have established IP and franchises; they have a proven track record of creating great television and film. So they're still really good at that.

And obviously, our technology peers like the Amazon and Apple and YouTube are still investing very heavily. So I'd say the competitive landscape is still really intense, but I would say, honestly, Michael, we don't spend too much time obsessing about it because there's frankly not much we can do about what they're doing. The only thing we can really do is focus on what we deliver for members. That's why you constantly hear us talk about trying to improve all aspects of our service because that's what we learned is really the winning ingredient rather than over-obsessing on what other folks are doing.

Robert Fishman

So on that point, in the last shareholder letter, you talked about to sustain the healthy long-term growth. Netflix has to continue to improve and grow, I guess, the variety and quality of the entertainment offering that you're offering subscribers and potential new subscribers. So can you maybe help us think about different genres as you think about from a company perspective, where you're focusing on improving maybe outside of live events, which is the obvious one today? And maybe how does that translate into overall growth on content spending?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. So as I've mentioned, Robert, we're -- we focus on bringing everything at Netflix, and that includes finance, includes marketing, includes content, the product discovery experience, we're pretty religious about constant improvement.

So focusing specifically on content. I think if Bela was here, she'd say, he's focused on maximizing every dollar she spends on content and the impact that comes from it across core entire portfolio, whether that scripted series or unscripted or original film. We have a new leader and Dan Lin, who's going to make his mark on that content category as well.

So honestly, we see lots of opportunity to improve across all aspects of it. And then we have newer areas like live and games, which we're still at just very early stages on. So again, it's really exciting in a way because we are trying lots of different things, and we still have a lot of opportunity in the core business, also we just get better.

In terms of the content spend also, I don't want to cover that question. So I would say we want to continue to march up our content spend steadily over time, maximizing the impact of each dollar, but we also manage it within the context of our overall margin goals, which is about a 25% margin this year on an FX-neutral basis and then improvement annually from here.

Michael Nathanson

Going to the idea of live events, it's been a year or so, big fights coming. What have you learned over the year live events, so what are the key learnings? And what's approved to you in terms of what you guys had assumed going into it?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes. We learned a lot. So a lot of it is operationally how to do these well at scale. So I think we're putting a lot of attention and focus on that. We're getting better and better at that, more and more seamless at that, hopefully. On the programming side, as I mentioned with Chris Rock like [indiscernible] or the Tom Brady Roast, Netflix Slam, I just think we have realized that eventize programming can have an outsized it back, and then not all hours of viewing are created equalness.

So I think, again, if you can tie in those things I talked about earlier and create big moments that really matter to consumers and that are very pervasive throughout the society or that group -- that audience cohort, it can be really impactful. And there is that not all hours are created equal. And I think we're going to have more and more powerful moments.

Robert Fishman

And one of the things we always heard was an impediment to getting sports rights as the ability to produce them. We've heard from incumbents, look, it's hard to do what we're doing. You guys be able to produce -- how are you going to produce the NFL game or how do you think about that?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes. So we're working through the details on that side, say TBD right now, but we have a rough plan in place, but probably not too early to get into the sales of it. But I'd say that's part of our learning process, right?

So working on things like Netflix Slam or the golf tournament in Las Vegas, Yes, not easy. A lot of work that goes into it, but we're building that muscle. And if anything, the one thing I think Netflix is good at is as Reed has said in the past is that we're a learning machine, and we struck learning as quickly.

Michael Nathanson

Maybe the natural follow-up to that is, as you mentioned earlier, WWE. So as we think about that coming aboard 2025, how do we think about the possible expansion of how impactful that's going to be to learning process in terms of production capabilities and also just bigger picture live and the potential IP that actually comes from IP.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes, super excited to be in business with WWE very anxious to get to 2025 when we can offer this to our members. And I think it's great from many different angles for us. So they have a very established band base, not just in the U.S., but in -- across the world in big markets for us like India as a example, strong following there. It gives us a regular cadence also a live programming, which I think will also help us hone our skills in terms of being able to deliver that type of programming for our audience.

And I think with our reach, with our engagement, we hope that we can also grow the popularity of WWE for them. So I think it's going to be really exciting. And it's -- we haven't had this type of programming on Netflix. So there's a lot we don't know about it just yet, but we're excited to learn what it means to our members.

Robert Fishman

Yes. The international angle is a really interesting angle too.

Michael Nathanson

Yes. So as we now have 5 years of the streaming wars to observe, perhaps we -- maybe this is me, have underappreciated the massive technology advantage you have in content discovery, recommendations, ease of use, efficiency of the network. Are those advantages that others will find in time? Or do you think taking about Netflix' culture and the learning machine that you are that those advantages have come because of the way your company was built and founded and your ethos.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

So I think it's 2 separate things. So I think we probably have some medium-term process or technology advantage, but we fully expect our competitors, they're all profess -- they're all pros, so to learn these things in the fullness of time, too.

So I think that's -- we would expect that. What I do think is a durable advantage for us, though, is this interesting combination of things that are very interconnected. What I mean by that is number one, our reach, so to 270 million paid members, programming for over 0.5 billion people across the world. Number two, a large content library with a lot of variety and quality of titles, married with a discovery and product experience that can best match the right story with members at the right time.

And then on top of that, a great marketing team that can then sort of fuel the fandom and the passion around each of these moments. And I think when you take all those together, that's what enables things like chest sales to skyrocket after Queen's Gambit or for the F1 to grow in popularity from Drive to Survive or for 3 Body Problem book sales that go up the charts when we release that series.

And I said, largely mostly only -- you hear about what happening with Netflix and the business process, I think, as Doug did the Netflix effect or something like that. And I think admittedly, it's hard to quantify. So you can't put in your spreadsheet, but I do think that is something that is quite special and very hard to replicate. And that's taken many, many years of us iterating constantly to the learning point to get this in a position that we can sort of do this, and we want to be able to do it on a more recurring basis more and more.

Robert Fishman

Right. So over the past couple of years, you've clearly rolled out 2 major revenue initiatives...

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes.

Robert Fishman

As you think about the longer-term growth, curious over that shorter period of time. Any big surprises that have occurred, one that comes to mind is the reaction that happened in Canada? And how you've learned from some of the surprises?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes. So I think on reflection, paid sharing has gone really well. And I have to tip my hat off to our Chief Product Officer, Eunice Kim and her team and all the employees at Netflix has worked really hard on this initiative, which is, I think, gone very smoothly. I think they were able to do it in a very elegant manner that was as minimally disruptive to our customers and to our business as possible.

And it wasn't easy. There's a lot of work. So I would say, I think that that's an example of the excellence we strive for as a company. It's not always perfect like that, but I think it's an example of what we really hope to accomplish when we really focus and focus on excellence.

And then on advertising, for me, it's still really early, but it's mostly a reminder that building new businesses from scratch it just takes time. And so we're all impatient and we all want things that happen much faster, but that's just a natural rhythm of starting from 0, quite honestly, in the case of ads. And so really for me, just a reminder, we just had continued grind and we got to continue to iterate and improve every day.

Michael Nathanson

Robert's Canadian, by the way. So he was watching the Canadian experiment with Netflix and people...

Unknown Attendee

[indiscernible] into your...

Robert Fishman

Well, I'm not living there anymore, but a lot of family members...

Michael Nathanson

Family in market research.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

And Canadians never get angry, but they were getting angry when you guys went to the password-sharing and we're like, wow, and then you pivoted and did very differently here.

Michael Nathanson

Yes, that's right. Can you -- let's talk a bit more about the ad products? You said on your last earnings at 40% of all sign-ups in your ad markets are taking the ads here. Is there any significant dispersion by region? Or is that -- or is that dissimilar than the adoption? So basically, give us a sense of the adoption by region, is anything very dissimilar?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

I would say it's very consistent by region by country, sort of plus or minus several percentage points around that 40%.

Michael Nathanson

Okay. And then how different is that adoption versus the low-end plans existed before, right? So back before this...

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes. Relative -- basic very similar.

Michael Nathanson

Okay. There's a way to drive net-net higher ARPU because it's really the long-term play on just higher ARPU net advertising.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

In general, yes. But obviously, as we mentioned on the last earnings call, we're still scaling our ads business, right? So there is still an ARM headwind right now as we scale up our advertising business.

So we've been growing our ads membership base so quickly. So 65% membership growth quarter-on-quarter in Q1 on top of 70% growth in Q4. I thought the 70% growth in the quarter before that, on top of 100% growth. So there is naturally a lag in the monetization of it as we grow our inventory and our supply. But that's a very fixable challenge for us. But I don't want to paint it all is baby right now.

Michael Nathanson

But what are you seeing on the behavioral side of those subscribers?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Really solid engagement, I would say, probably better than our original expectations and consistent were comparable.

Michael Nathanson

Okay. Cool.

Robert Fishman

So switching over to the password sharing side. The initial communication was around this 100 million users that you were looking to target $30 million in UCAN, so curious, as we're into it now, anything you can share in terms of the update and maybe frame the percentage of how the conversion has gone relative to expectations, at least.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. So I would say that you're right on the numbers, which is we did say about 100 million-plus households prior to the rollout of paid sharing. We haven't been specific in terms of where we are in that conversion other than that it's going well and generally greater than expectations. And really, it's not sort of a separate initiative these days. It's really just interwoven into our operations.

And so really, we think of it as just part of the business now. And just like all parts of the business, we'll continue to iterate on it and improve it. And for you all, I think the takeaway is that there are 500 million connected TV households, excluding China and Russia.

We have about 270 million paid memberships today. And now that we have the sort of operational fix with paid sharing that allows us to better penetrate that 500 million household TAM. Because without it, it would have been increasing hard for us to be able to do that. So we're trying to orient folks on that opportunity as opposed to the very narrow sort of sharing pay [indiscernible]

Unknown Attendee

One of the great successes has been in Asia Pacific market, right? In Japan and South Korea, and a big source of growth. Same time, there's a mix shift going on the ARPU line. Can you give us on the hood of what's happening broadly in Asia Pacific in such a complicated market?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes. It is. And you're right, there are several factors, which, frankly, is one of the reasons we're moving away from some of that paid membership in ARM line, which I'm sure you will ask us questions about on the call. But I would say a couple of factors. One, in APAC, many markets haven't had a price change in a while a year plus. And we also have had several countries where about a year or so ago, we actually lowered price. So that's been one factor.

Secondly, another factor is country mix. So if you looked at APAC 5, 6 years ago, it was practically almost all Australia. So that's a higher income market and a higher price market. So the good news is we're growing quite quickly in other markets and countries like India, but the Netflix is lower price there. So that drags down the average. We view that as actually a good thing, not a bad thing. So I would say those are probably the most prevalent.

Michael Nathanson

Okay. It's a good segue, next question.

Unknown Attendee

Yes. I mean we were going to ask you about India because there's been some recent developments in the market where Disney has decided to partner with Reliance. So just maybe curious, as you think about the Indian opportunity, specifically, if you want to comment about how that might impact it. But what do you see as like the future for India for Netflix?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. So I can't speak much to the Reliance and Disney of it all. You probably have to ask them. But I would say India is an important country for us. It is very competitive. But again, it's competitive everywhere. And in a way, it's good for the market in the sense that consumers just have more and more choice and different options.

And our job is to just improve our offering. So it resonates with the Indian consumer, so we can grow faster there. So I would say we don't have any sort of differential insight there in terms of what the competitors may or may not do. And we can't control it. So again, we're just going to focus on what we do.

Unknown Attendee

I think there was comments this was going to be the next $100 million in terms of subscribers. So...

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

It may.

Unknown Attendee

Where are we on that path?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

I would say what I can tell you is that India is one of our fastest-growing countries. So I think we're on the right track there. But again, it's still a lot of hard work. And by no means are we declaring victory. We know we still need to improve a lot there to get to that size that you talked about or that we talked about.

Unknown Attendee

[indiscernible] So when you've been realistic as you are on the stage today about the near-term impact of the advertising opportunity, it takes some time. What are the gating factors to scaling that business in the U.S. and international?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. Let me first start by saying we're generally very optimistic about advertising in the ads business. So I want to make that clear. And TV advertising is a very proven business. We're not reinventing the wheel here. So it's very -- it's been a core part of the entertainment and the media business for a long time. And I think we're really well positioned because we have high-quality premium programming. We have a big growing reach. We have very deep engagement on a per member household basis. So I think we have all the right ingredients.

But you're right, it's not yet material for our business, partly because our subscription business is so big. So it's -- so that's one factor. And secondly, we got to do 2 things: number one, grow our ad membership basis as mentioned earlier. And secondly, we need to continue to develop our capabilities for advertising -- advertisers specifically measurement, verification, all those different factors. We also have to improve our go-to-market sales approach as well. So lots of blocking and tackling, but all doable fullness.

Unknown Attendee

Yes. So one of our bigger surprises over the years is despite continued price increases at Netflix, but we usually see limited negative reaction to that, which, again, speaks to how you guys continue to add value to the service and program appropriately. So curious if you can kind of take us behind the scenes in terms of how you decide and when you decide to raise pricing, given all of that. Do you factor in macroeconomic issues and like just really help us better understand the price raising strategy?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. We think about all those things in general. So we have lots of big brains thinking about all those factors. So we look at on a country-by-country basis, our current trends in retention and acquisition and engagement, we think about the competitive landscape.

We do think about macro factors like disposable income. Inflation, obviously, has been a big factor in parts of [indiscernible]. Well, so we taking into all those -- taking into account all those factors, but I would say the primary factor is engagement for us because, again, that is our best proxy or a sense of how much value we're delivering to our members.

And if we're growing that, that's a signal to us that we are delivering more value. And in general, we want to price a little bit behind that value, so that consumers continue to think of us as a good value for them.

And then if we can adjust prices effectively, what we then want to do is reinvest a bunch of that back into the service, improve the programming, to improve the discovery so we can continue to drive that virtuous cycle.

Michael Nathanson

Take it back to advertising for a second. This is upfront week. You guys have a presentation tomorrow. It's increasingly competitive market because of YouTube and Amazon and there. So when you think about your chief differentiators. What's the go-to-market messaging that you think differentiates you from other people who are chasing CTV and...

Robert Fishman

The way it till tomorrow, Michael.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

So I would say, in general, it's a lot of what I talked about earlier. I think we have great programming that advertisers want to be adjacent to and a part of. I think they want to be part of the conversation around things like the Tom Brady roast or Wednesday or Squid game. I think that's going to be really exciting. And that's our depth of engagement, I think, is also what really separates us from the package, you can see from the Nielsen Gauge data.

Unknown Attendee

Yes. So as Craig Moffett, Front row right there. As you will tell you all too well that there's an upper bound in his industry's ability take price and take price increases.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Professor Moffett [indiscernible] and pricing.

Unknown Attendee

He has [indiscernible] pricing. We have a case studies on that. But -- so to that point, can you talk about the arm lift that may be available to you as your advertising initiatives roll out. So think about just the balance between driving ARM through advertising versus any kind of upper band on pricing power?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

So I think when it comes to pricing, again, we really think of engagement as the best way to measure our ability to grow pricing. And I think Craig is right, if you're not growing the value of your service, there's a limit to how much you can charge folks for to be honest. But if you have a really valuable product that is really critical to people, then I think your customer base will pay for it.

So I think that's why we're focused on improving the engagement, improving the value to our members. And beyond that, I would say advertising, I think, is a nice option. Because it does allow us to segment demand better because there are a range of incomes and a range of needs amongst the population. And I think it's a great option for folks that don't want to necessarily pay that much in our advertising tolerate. So that's sort of a little bit of the trade-off there. And so it's a nice sort of, I think, optimization of our pricing right.

Robert Fishman

So maybe taking that and again, like before all these recent initiatives have taken effect, the market was pretty comfortable assuming long-term ARM growth in, call it, the mid-single-digit range. So as we think about these new initiatives and everything back to our models, any way you can help us think about like the reasonable assumption going forward as we think about is going out?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

I'm not going to give guidance on ARM specifically. Again, we're trying to orient investors around the 3 variables that we focus on engagement, revenue and profit. I would say we're on a good track this year. So we guided to about 13% to 15% revenue growth for the year. We want to continue to sustain that healthy revenue growth beyond this year.

And we're not overly religious about how much of it comes from ARM versus, volume versus, advertising versus other factors. We care about revenue growth, and we care about profitable revenue growth.

Unknown Attendee

So Spencer back when you're an analyst, you may have had a chart, which looks at the correlation on affiliate fees versus ratings. And what you saw in that correlation that there was no correlation.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Right.

Unknown Attendee

And so the question is, as you move into more live sports, is there a subtle hint that, look, we think this can drive higher ARM because live may be worth more to people like us and just rerunning Friends or [indiscernible]?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Well, I'm not sure it's specifically live. I think it's impactful programming. So Squid Game for a lot of people is really impactable. And for me, I really like beef as an example. So I think we need to have all those things for all 270-million-member households.

But to your point, not every hour of engagement is spread equal, which is why there is no correlation in that scatter plot that you talked about. And so I do think the more that we're going to sort of break through moments like that, I think that's good for the business.

So but really early days, but it doesn't have to be live. Again, when we have a great movie to like Barabbas, that's also really impactful too. So again, I don't think it's just live, but I think live can be a big part of it.

Robert Fishman

So obviously, one of the big news items that came out of last quarter was just not specific to any business, but just in terms of disclosure. So here we go. So in terms of the quarterly membership numbers, and clearly, we understand the focus on revenue. You just hit on it, but curious what -- going back to analyst, Spencer, would say about this change. And just really how the investment community should think about the evolution of the business given the disclosure?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. Totally fair question. I think the analysts -- the former analyst in me would like it because it makes updating my model easier. 1 less variable, 2 less variables to worry about across 4 regions.

No, but in all seriousness, we're not trying to obfuscate anything, frankly. And we fully intend to grow subscribers, and we'll continue to report subscribers as we pass certain milestones. So let me lead with that.

Beyond that, though, I think it's really a reflection of the evolution of our business. So we have added new revenue streams like advertising like extra member, which isn't directly tied to a paid net add, as I mentioned earlier, we have increasingly segmented our pricing, not just across countries, but even within countries, right? So the business impact of any one given net add can vary quite a bit depending on what plan we're talking about in which country.

So for all those reasons, that traditional P times Q equation, I think it's just less insightful in terms of what's happening within the business. I would say from a strict IR perspective, I personally feel that there's an overfocus on our quarterly pay net adds that probably adds unnecessary volatility to the stock.

We're a subscription business primarily, which is recurring in nature, generally speaking. So we are very rarely off on revenue by more than plus or minus 1%. But if you look at the stock trading, it's obviously much more volatile than that.

So I think this is a healthy evolution of the business. So we'll take it from there. But again, we're always evaluating what's most helpful to the investment community in terms of external metrics. So we're open minded to that.

We did say we will provide more engagement data over time as well to add on to what I would consider industry-leading transparency on engagement in terms of what we share today. So we'll continue to build on that for you all, and then we'll go from there.

Robert Fishman

Should we expect more disclosure or maybe just more milestone announcements in terms of what advertising revenue is contributing or consumer products or even video games as you continue to build this out?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

That's a potentially natural progression, right? Obviously, they're all quite small today, but as they become hopefully more and more material to the business. That would be in the natural evolution to the business. So I don't want to speculate us yet, but I think that's certainly something we're contemplating to consider.

Unknown Attendee

It's about margins. The margin expansion in the past year has been extraordinary. How should we think about continued margin expansion? I know Spencer talked about this back in the fall, but how do we on the outside dimension potential for the margin expansion?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. So I would say we I think done a good job proving that streaming at scale can be a good business and quite a profitable business. And we're trying to balance long-term investment and sustain growth with also delivering improving profitability.

So again, we'll -- our target this year is to deliver about 4 percentage points of margin expansion. And beyond 2024, we talked about growing our operating margin every year. It will probably vary a little bit. It won't be the sort of consistent 3 percentage point thing that we had several years ago. But our intent is to gradually grow it and grow the business at the same time. So nothing more specific at this point, but our intent is to grow the margins.

Robert Fishman

If I can follow-up on that, and again, given the news this morning, how do you think about the allocation of U.S. content spend versus the global spend, right? So clearly, NFL is a specific item. But as we think about just the allocation of that and as you think about that balance on margins, is it just always mostly from a global perspective? Or is there specific budgets by region?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

No. There are definitely specific budgets by region, by content vertical or category and our team, I think, in the content team does a really nice job portfolio managing as an example. So I would say for us, it -- every piece of programming we've learned needs to be most impactful in the home territory or home country.

And so the NFL is a good example of something that we expect to be very impactful in the U.S. And to the extent that it also takes off in other countries, that sort of extra or gravy for both of us as well as the creator or in this case, the NFL.

So that's how we sort of think about it. Again, we're trying to figure out each year what is the best way to allocate all that $17 billion to be most impactful. And so it is really like a portfolio.

Michael Nathanson

Asking about another one of your jobs, which is corporate finance and looking at business development, can you discuss how Netflix weighs potential M&A opportunities and maybe the buy versus build decisions in some new categories?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Sure. I think going back to my analyst days, and Michael, I don't know if you agree, I think you do, but M&A is hard. And the track record of it is, I would characterize at least large-scale M&A pretty spotty.

So we're very cognizant of that and having lived through a couple of deals at Netflix, it is indeed hard. So I would say the way we think about M&A is really as a tool for us to help advance our business and our strategy.

So the primary focus on any M&A opportunity is how does this help the business relative to similar sized opportunities and the distraction tax. So we weigh those things together to just the idea if this is the best approach buy versus build.

We do all the other stuff that you sort of alluded to, the accretion dilution of it all, the ROI of it all. But as you know, I can make my spreadsheet kind of say whatever I wanted to say, right? And really, it is about why are we doing this, again, relative to the other ways to do it, this is the best path forward relative to the distraction tax and the money you're spending.

Unknown Attendee

Yes. But given the long-term focus about video games, curious how all of that plays into build versus buy on video games. Like is there an opportunity to accelerate that with potential M&A?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes. So we've actually done a series of small game studio acquisitions in our first few years of games. And I would say we're feeling our way along. So really early days for games. We've had some positive signals, Grand Theft Auto in Q4 as an example of a game that well for us. But again, I would say too early to tell. And in terms of M&A, we'll always be open minded, but there's nothing sort of imminent destiny.

Michael Nathanson

You're reaching the 9-year mark within Netflix, and I wondered if we had asked you when you started would it develop this way. So this is a tough question, which is the next few years, 3 to 5 years out, how different will this company look? I'm not sure if you would be able to predict it. If I ask you when you started, but when we see like all the pieces that are coming together, how is Netflix changed 3 to 5-year?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

It's a really good question. I would say one of the things I've learned at Netflix and frankly, in life is changes being in constant and I shall think change is a good thing. When I was younger, a change, it would be kind of scary or stressful, but I've actually certainly at Netflix, learn to sort of embrace change.

I have a couple of colleagues here. I think the relates to the change, everything that happens. And in a way, it's kind of exciting and thrilling because I think it's a signal, we're trying to be bold, entrepreneurial, which is true to our heritage and our culture, and we'll try to move the business forward.

So I think -- the whole world is changing every day across every dimension. So of course, we have to change, right? And we were static, that's probably not a good thing. So it's hard to predict where we're going to go. I would say, in general, our to North Stars as a company are, number one, we want to please our members.

And secondly, we want to grow our profitability. Beyond that, most of the other things are pretty tactical, like getting into advertise or getting into games or things like that. I think we strive to be the best entertainment company in the world, and to do great things as a company and that's what we're sort of marching towards. And my guess is it will be pretty different because who would have predicted where we are today. We're -- and we started as a DVD company, mailing discs in the mail Right? And now we're doing Christmas Day NFL games, like that's kind of nuts if you think about it.

Michael Nathanson

So I guess someone that [indiscernible] said back 2 years ago, when you asked about advertising Morgan Stanley conference, never say never. And I think what I've observed from you is never see never anymore. Like never say never, everything is an opportunity...

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

That's right.

Michael Nathanson

Because you can't just say, no, we'll never do this?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

That's right. And I think we've tried to sort of communicate that to you all, which is never say never in the sense like we're always evaluating things. That's part of our job is to pay attention to what's going on in the world, and we need to adjust as circumstances change. I think that's actually a healthy thing.

And so we're very open-minded to change. And honestly, that's why the culture is the way it is. If you go back to the original culture deck from 2007, we talked about the ability to be adaptable because most companies are very good at this one thing that they do, but business environments are never constant, right.

It may take 10 years, it may take 20 years, it may take 100 years, but things inevitably change. And we want to build a company that can adapt to those changes and thrive regardless of the circumstances. So -- but again, we don't -- we also value focus, too.

So I know these things sound like they're in conflict or intention, but I think that intention is actually healthy, right? So we're always trying to figure out, where do we need to sort of focus but also where do we need to adapt. And I think that was 1 of the great learnings in 2022 when the business slowed down is that we do have to adapt as circumstances change.

Michael Nathanson

And there's having 2 CEOs with very different responsibilities and almost approaches to things, does that help in the ability to adapt quickly?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Look, I don't know if it helps in that dimension. I would say I think it's working really well, partially because I think there's a lot of great trust between Ted and Greg, and they were together for so many years. So they're very familiar with each other. They obviously both bring their own strengths to the table.

And so I think it's working well, but I think it goes beyond that Co-CEO structure. Again, as I talked about, the culture, again, if you go back to our culture memo or culture deck, is really about excellence and how do we do that and building a culture that allows us adaptable and very durable.

Robert Fishman

Maybe just last question, big picture for you. Anything that you want to leave for investors that...

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Well, I did get to say one thing about the NFL. How about the Cowboys. I always want to say that a lot audience [indiscernible] Sam, as you can tell. But no, I would say, first of all, we thank you all for taking time out of your busy day to join us today. We thank our shareholders for going with us on this journey to create, hopefully, a great entertainment company.

And we're excited and optimistic about the business. But we also know we got a ton of hard work to do to more deeply penetrate that $600 million TAM that we talked about. So again, we don't do these conferences too often because we're mostly just sort of heads down focused on executing the best we can, and just I know that that's what we're doing and we're working hard.

And half of Netflix is here in New York City this week, I think, for the upfront because -- it's a really important initiative, and we're eager to get that going here.

Michael Nathanson

Well, Spencer, thank you. behave Craig, Robert and I, we thank you talk for being here. We appreciate it.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations
Thanks all.