

Netflix

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Ben Swinburne: Hi, this is Ben Swinburne. Please note that all important disclosures, including personal holdings disclosures and Morgan Stanley disclosures, appear on the Morgan Stanley public website at morganstanley.com/researchdisclosures, or at the registration desk.

And we're really excited to welcome back to the conference Netflix, and welcome for the first time the man to my left, Spence Neumann, CFO. Spence, thanks for being here.

Spence Neumann: Thanks for having me.

Ben Swinburne: I bet you have a lot going on this week.

Spence Neumann: Yeah, a lot going on. I feel like, hopefully, I am a leg up because I showed up in person relative to our board member, who just was the voice of God.

But, hey, so I think we have, hopefully, before we get going just a video for folks who are maybe a little less familiar with Netflix about what we've been up to and where we're headed.

Ben Swinburne: Okay, roll tape.

[Video Played]

Bruce Springsteen: This is what I pursued as my purpose, because I wanted to hear the whole story. I wanted to know my story, your story, felt like I needed to understand as much of it as I could in order to understand myself. Who was I? Where was I going? Where were we going together as the people?

I studied, and I played, and I worked to be a part of that story in this place and in this time. But most of all, I wanted to be able to tell that story to you.

[Music Playing]

Man 1: I was fully prepared to take one for the team.
Man 2: Oh, ho-ho-ho, my God, this is incredible. I'm a massive fan of yours.

[Music Playing]

Man 3: Try not to cry. Try not to lose it.

Woman 1: So, what happens next? What do we do next?

[Music Playing]

Man 4: The future is not yet written.

[End of Video]

Spence Neumann: All right, that always gets me fired up, not the least of which because I'm a Jersey kid and Bruce is playing the voiceover there. But also, just for kind of where we are and where we're headed, hopefully, it gives you a sense. We're about telling the stories of -- from anywhere in the world, the greatest stories come from anywhere and can be enjoyed anywhere, and that's a lot of what that's about is that storytelling. So, anyway, yeah.

Ben Swinburne: That's great, yeah. And if you just learned what Netflix is from that video, you need to step outside and some people need to talk to you.

Well, thank you for that, Spence. I wanted to ask you, it's been I guess, what, a little over a year now, I think, since you've been at the company?

Spence Neumann: Yeah.

Ben Swinburne: How has your role and your focus evolved over that period of time? What are your priorities in your seat, looking out over 2020?

Spence Neumann: Well, it's definitely evolved a lot. I mean, we try to get folks up the learning curve quickly at the company, but I think it was day eight when I was on my first earnings call, so my head is hopefully spinning a little bit less. And what I'm focused on is a lot of what you saw on that screen and how do we -- how do I, in my role, help support the company in terms of where we're going? So, one, in terms of you know, we're trying to get better with content every day. And that's not just the creative executives, but how do we as a finance and operations team support those initiatives, whether it's the metrics we look at to gauge the effectiveness and impact of our content to, you know, how we support our creative teams and product teams around the world in scaling, you know, our production capabilities globally. So, that's one.

Two is just, how do we support just scaling our business globally? So, you see in our business, 90 percent-plus of our subscriber growth recently has been coming from outside of the U.S., and you know, EMEA, APAC, and LATAM regions. And so, what are the implications for how do we successfully scale our organization, not just our finance team, but our company? And then, with all of that, how do we deliver on continuing to grow and build on what's a healthy business today, but making it healthier and stronger over time? So, delivering on our business objectives of growing our memberships, growing our revenues, scaling our profit margins and overall profitability, and now moving to improve our cash flow trajectory over time. So, spending a lot of time focusing on those business deliverables.

Ben Swinburne: Great. Well, I'm sure we'll dive into all of those topics in this conversation, but before we do, I wanted to ask you something that, I don't know, I don't get to ask a lot on these stages, which is about the culture of the company, in particular, the freedom and responsibility sort of manifest that Netflix has, which I interpret as you delegate a lot and let people make their own decisions and sort of run on their own, but obviously, correct me if I'm wrong. And the question is, given how much bigger the company is today than it was when it was obviously founded, how does that -- how is that a successful operating strategy when you're producing the amount of content the company is producing? It just seems like it gets more and more challenging, the bigger and bigger you guys get globally, particularly on the content production side.

Spence Neumann: Yeah, that's fair. So, I'd say it's actually less about the overall, you know, the challenge to our culture from overall size as much as how the company is evolving in terms of the number of new people and growth of our head count. So, we're still relatively small; we're only about 8,000 employees. But we've been growing a lot over the past few years, so as new employees are coming on board, and also, the changing complexion and mix of our employee base, as we are more and more global and local in that global growth. So as we change in that regard, how do we ensure that our culture remains healthy, that those new employees understand what freedom and responsibility and judgement is all about?

And so, you know, for us, the good news is, one, it is not just a culture memo that's online or on the, you know, on the hallway message board. It is something we live and breathe every day. We are very focused on continuing to communicate and learn from it. And it's also not static. It is something that evolves, and purposefully, we're trying to get better all the time to evolve for that changing mix of our employee base and the changing nature of our company over time. So, it is something that we focus on a lot. We're trying to get better all the time.

And, you know, the other thing is, a lot about what makes that work is we try to lead across the company with radical transparency and context. And when we do that, it helps a freedom and responsibility and judgement culture scale, because if we provide that information, we provide that context, we provide that transparency, then we give us -- and we're not so kind of restricted by our past, but that just informs our future and we continue to build on that, I think it kind of lends itself to a healthy growing culture.

Ben Swinburne: Got it. Thank you; that's helpful. I want to step back and ask you a little bit about the subscriber opportunity ahead of the business. You know, certainly those who are maybe more bearish on the stock would argue that the business is maturing. Your net adds obviously are still healthy, but they were down a tick last year versus the prior year. We also can look at some of your regional numbers like EMEA and APAC and see, you know, penetration is still quite low in those regions. How do you, from where you sit, articulate the global opportunity for Netflix, sort of sitting here right now in early 2020?

Spence Neumann: Sure. I mean, we look at it as, we're in many ways just getting started. Our long-term opportunity is kind of big and unchanged. We talked about that a bit on the last earnings call.

You know, the good news is that, around the world, people love film and television entertainment. That's pretty universal. There's, depending on how you look at addressable market, whether it's, you know, we're not in China, but outside China, about 800 million broadband households, about 800 million pay TV households. We were at about 167 million paying members at the last quarter, ranging from a little over 50 percent penetrated in the U.S. to less than 10 percent penetrated in the APAC region. So, we still think we've got just a long way to go to build a company a multiple of our current size, so long as we keep getting better. So, we're trying to get better -- better content, better product every day, and if we get a little bit better every day, we think there's a long way to go.

Ben Swinburne: Are the things the company has to get better at and execute on different today than they were two, three years ago? Is the world changing rapidly enough that the keys to success are constantly changing?

Spence Neumann: Well, you know, there are subtleties by market, but the model is pretty similar, in that it starts with a great content experience, that content market fit, and a great product experience. And then, obviously, being able to reach those consumers through great marketing and powerful conversations. So, we're trying to get better on the content and

product side every day, and hopefully, you see that we're probably most mature in English-language scripted television. We've been doing that in terms of Netflix Originals for over six years now. There's other categories of content where we're much newer in terms of our local non-English originals around the world or animated film, where we're just starting to scale that business, and you saw some of that in the fourth quarter of last year.

So I think we're getting -- and then, you know, certain parts of the world are just more attuned to local and regional content. So, I think we're getting better and better at that content market fit. We're getting better and better, hopefully, at reducing the friction and providing that consumer empowerment that's so important in terms of the product experience. Even seemingly little things, like the top-10 list that we rolled out in late February to nearly 100 countries around the world, it's just one more way for our consumers to get a sense of what folks are watching, which is important to some, as they're making their content choices and decisions. So, that similarity runs through all of these regions and countries, but we're at a different place in each market.

Ben Swinburne: Yeah. I want to keep going on the market front, but since you brought up the top-10 list, do we assume something like that has been tested all over the place by you guys? And so, if you're actually rolling it out globally, it means likely, it has a positive impact on the business?

Spence Neumann: Well, you know, we're a test-and-learn culture, for sure. And so, you can assume with this also, we were doing testing. I don't know if it's all around the world, but certainly we'll pick some markets. And you know, it's not always an obvious, clear answer, but you see signals, and then we build on those signals.

So, again, I don't think there's anything that is a silver bullet, but this is just when -- you know, people have a lot of different ways to discover content. We're trying to satisfy a lot of consumer tastes, both within the family, across points in time in their lifecycle, even just points in time in the day of the week and the night, and where their head space is. So, this is just one more way to do that. Is it helping you?

Ben Swinburne: I still haven't started *Love is Blind*, even though it's sitting there at number three, I think. I can't remember the exact weekend.

Spence Neumann: Yeah, I was watching it this weekend. I've got four episodes in for that.

Ben Swinburne: Don't spoil it for the --

Spence Neumann: Guilty pleasure.

Ben Swinburne: In the U.S., your new regional disclosure I think has helped people think about the global opportunity more, so thank you for that, but the U.S. is still a focus area. What do you see in this market? You mentioned English language is your most mature in general, content-wise. But is there still room to grow in the U.S. when you look out over the next several years, and is North America a good leading indicator for us to think about the long term in other regions?

Spence Neumann: Well, look, I guess starting with your last point, if it is a leading indicator, that's kind of a good thing, right, because we're 55 percent penetrated, roughly, in the U.S. And if we take that out to the rest of the world and you kind of do the math on that and when it would -- you know, we talk about it as the addressable market, and you're at 400 million to 500 million-plus paying member business, which is a pretty good place to be. But we're not -- we're also not conceding that we've hit some sort of a ceiling in the U.S. I mean, even if we look at Q4 of this past year, we grew in the U.S. One, we grew the top

line considerably, right? So we accelerated revenue growth for our company overall and in the U.S.

Our member growth, we had our -- first, we had quite a bit of pricing growth in the U.S. last year. We also had some new competition that launched that you all are aware of. And even with that, in Q4 we grew our members. Now, we didn't grow as much as we did in the prior year, but we had member growth, and we had 17 percent year-over-year ARPU growth. So, there's not many businesses that can grow their members single digits and grow pricing in the quarter year over year nearly 20 percent. So, it's not surprising that there's some level of price elasticity that we saw in the fourth quarter.

But if you also think about an indicator of the overall health of our business, ultimately, we grow when we satisfy our members and, you know, we provide more member satisfaction, and a good indication for that is member viewing. And what we talked about in Q4 is that, even in the U.S. in Q4, with all that noise in the system, that member engagement grew year over year at similar levels to the prior year. So, I mean, it's a good sign for us that, you know, that it's encouraging that we still have runway to grow in the U.S., and that's what we're going after.

Ben Swinburne: Great. When investors ask me what I think -- where to look for proof points that you guys can scale over the world, I often point to Latin America, and your new disclosure, again, is helpful there. The sub base essentially tripled from 15 to 18. And I know you're relatively new to the company, but what can you take from that region that helps you inform your opportunities in other maybe emerging markets? What's similar, and maybe what's different about Latin America versus places that you guys are earlier in today?

Spence Neumann: Yeah, I mean, it sort of comes back to what we said before, that it is that combination of content, market fit, product experience, enabling our consumers through the product, and reducing that friction in the marketplace, and then being able to kind of reach those audiences. And we've had some more time to work on it in Latin America, because it was one of the earliest markets we went into after the U.S., so we've had some more time to figure it out. It also -- it happens to be a market where content travels into the market in a pretty healthy way, so that accelerated some of that content market fit. But the general approach is the same. It's just that we're earlier days in some markets, and some markets, you know, there is a big more learnings in terms of getting the content right and scaling it over time. But it's kind of more of the same; it's just somewhat localized to each region.

Ben Swinburne: Okay, so Western content travels where -- well in that region.

Spence Neumann: Yeah, yeah.

Ben Swinburne: Okay. The other thing you guys have done in a lot of areas, I think to some extent in Latin America, is leverage third-party partnerships, distribution. I mean, that goes back all the way to the gaming consoles. You're constantly doing more. I think you've got a robust relation with Comcast, one with Sky that has even become more significant recently. How do you look at the value of those partnerships in terms of the tradeoffs between ARPU and churn and SAC, and all the good things that drive the model?

Spence Neumann: Yeah, we're -- I mean, partnerships are a meaningful part of our business. They always have been, even from kind of the earliest days of device partnerships and kind of the Netflix button on the remote control. And they've continued to evolve over time, with now more kind of bundled, cable bundled partnerships, and even mobile partnerships. And at the end of the day, what we're looking for is, is this an effective means to accelerate our growth in a market in a healthy way? So we look at the ability to drive growth, and then the impact on the tradeoff, whether it's cannibalizing other means of access to our consumer. And then, also, is it healthy growth? And particularly if it's

bundled into an offering, we want to make sure that there's healthy engagement with our consumer and it's not bundled in a way that kind of miss -- that folks may be getting the product without being cognizant of it, if you will, because we want it to be healthy growth.

So, those are the tradeoffs. We're obviously doing it in a way where we maintain the Netflix kind of branding and connection, so we think that's important to us in terms of the delivery of the service. And we'll continue to build on it. I mean, I think these partnerships will continue to grow. You've probably seen some of those partnership launches more recently in Latin America last quarter, continue build on our Samsung mobile partnership with some of the announcements recently in terms of some of the content that can be accessed and messaged to consumers that is bonus content that helps, again, market and message and reach the consumer. So, we'll continue to evaluate, but it's another -- it's a helpful kind of complementary way to reach more of our members.

Ben Swinburne: Does the fact we're seeing a lot of the newer streaming launches follow your lead -- Disney+ is going to be on Canal Plus in France, and I think there was some commentary about Deutsche Telekom today -- does the fact that everyone's sort of starting to kind of partner up change how you think about both the opportunities and the risks, or whether you're in more of a rush to get these things set up?

Spence Neumann: The partnerships?

Ben Swinburne: Yeah.

Spence Neumann: Not really. You know, media has always been a competitive space, one. And two, the one thing that is I guess maybe sometimes overlooked a little bit is that we're in the original business, so our future is Netflix Originals, and hopefully you see that in the service. So, to access our content, you have to subscribe to Netflix somehow, whether it's directly or through a partnership. And so, as long as we provide that value and we create value to our partners, that's a good business for us and for them, and so that's what we're focused on. So, yes, there's others that may be distributed on platforms, but we think, again, there's very complementary deals to be done. And as I said, we'll continue to build on our existing partnerships, whether it be in Sky -- with Sky or with Samsung or others around the world.

Ben Swinburne: Okay, great. Let's shift gears a bit to pricing, which is in many ways, I felt like, sort of the dominant discussion of last year, at least other than competition. You guys have talked about elevated churn in the U.S. post your price increase. But at the same time, you also (inaudible) that revenue growth accelerated. So, I think I know the answer, but when you look back at last year, anything you would have done differently around the price increase, and any takeaways as you guy move forward?

Spence Neumann: Yeah, I don't think we would have done anything differently. I mean, we obviously debated a lot, but overall, the pricing moves were very healthy for our business. I mean, we've talked -- you've seen our numbers. Our streaming revenue globally grew I think 34 percent year over year, which was accelerated revenue growth. Now, we did see some price elasticity, but our pricing philosophy hasn't changed, which is, we start with the consumer, start with delivering that member satisfaction and increasing value to the consumer over time. And if we do that, and we do that right, then we think occasionally, we can increase our prices and then drive that, you know, what we think is a great virtuous cycle, where the bulk of that increased revenue, you know, we're reinvesting into the business. So you can see in our financials, roughly half of our revenue is reinvested into content, and then also obviously marketing and product.

But we're trying to create good, you know, amazing experiences for our members and

spend their subscriber dollars responsibly, and that's what you're seeing. And so, we'll continue to do that, where there's kind of gradual pricing over time. It doesn't change our philosophy. We're trying to revenue maximize for the long term, but first and foremost, we're trying to deliver more and more value for our members, and then, as we say, kind of price into it to build a healthy business.

Ben Swinburne: I don't know how much you want to share with us for competitive reasons, but I'd be curious, at least at a high level, how you guys decide, you know, when to implement a price increase in a certain market at a certain time. Is it driven by content strength? You mentioned it starts with the consumer, but that could be analyzed in a lot of different ways.

Spence Neumann: Yeah, well, you know, we are -- one, we have some level -- we have price changes pretty continuously throughout the system, because we are engaged in -- so around the world, we obviously are in so many different countries. So it's not like all of a sudden, we take a look and say, now it's time to kind of turn the pricing on across the world. And then again, it really does start with that consumer satisfaction. And you're right; there's a number of ways to gauge that, but one is just, is we're looking -- you know, again, at our key metrics in terms of what's happening with member growth, what's happening with acquisition retention and member engagement. And if those are on a healthy track, then you know, we'll think about what's the right time to adjust pricing in the market. And so, it's part science; it's part judgement based on the field, the quality of the offering and how that's continuing to scale. And you can see it's not purely scientific. So, when we look at markets anywhere from 12-, 18-, 24-month cycles, it's not like there's a specific timing cycle, so we're trying to gauge when it both looks right in the metrics, and feels right, based on where the product is.

Ben Swinburne: You guys also have some mobile-only plans in the market -- in some markets. What are you guys trying to accomplish there?

Spence Neumann: So, again, it's -- what we're trying to do across the board is provide access to the Netflix service in a way that appeals to various consumer tastes and needs, and so we try to differentiate, while also keeping our choices simple. And so, there are some folks who, you know, you've seen we went from a single price model to basically three different tiers a few years back. And now, this is one more way to kind of increase that accessibility to the Netflix product, but do it in a way where, one, first and foremost, we're trying to build a healthy business and one that maximizes revenue for the long term. So, if we're introducing a mobile offering, it's because we believe that it's revenue accretive to us, meaning that there's a tradeoff there where there's more volume in terms of subscriber acquisition, maybe better for retention.

But overall, net-net, relative to not launching that offering, we believe it's good for us in the medium and long term for sure in terms of the revenue opportunity in the market. And if we can do that in a way that accelerates growth, has more people experiencing our product and our service and talking about it in a positive way, that's a good thing.

Ben Swinburne: Got you. I want to shift gears to content spending and sort of how you think about efficiency on content. You spent I don't know how many years at Disney, but a lot.

Spence Neumann: Almost 17, yeah, a while.

Ben Swinburne: So at Disney, at least back then, you know, monetizing a piece of IP was a little bit more clear. There were specific revenues. At Netflix, it's less. You know, you've got a whole platform. So, I've asked Ted this many times, but how do you guys figure out how much to spend on content in a given year, five-year period? How do you think about content efficiency, and is that changing at all as you guys, you know, I'd say grow up, but you

know, get bigger?

Spence Neumann: Yeah, sure. I'd be curious at Ted's answer. I have to go back to those and see if we're on point. First, as I said to a number of you in the audience, it sounds a little simple, but we do -- part of this is we come at it based on, what can we -- so long as we can spend it in a healthy way, how much can we afford to spend? So, you know, I guess the step back is the starting point is, we believe we've got a lot of opportunity to continue to grow our content spend. We are, even in our most mature market, we're less than 10 percent of share of television time. And as we talked about also, we're in very early days. Even in our most mature area, like English-language scripted television series, we're only about six years or so into it in some of these categories of programming, and certainly parts of the world, even earlier.

So, then we look at what's our -- you know, as we're growing a healthy business, our revenue is relatively predictable because it's a subscription model. We're looking at, what does it take to support that revenue in terms of streaming costs and technology and R&D and support costs? And then there's leftover. We want to build a profitable business over time. You've seen that we're growing our profit margins. But then, as we've been at least ticking up the last few years about 300 basis points a year, this year we've committed to 16 percent operating margins for the business. So when you do that math, there's leftover to spend on content and marketing, right? And so, that is -- it sounds simple, but in a world where we then look at, okay, are we getting the right impact for that spend? You've seen we grew a bunch in our marketing dollars in 2018. We became -- we found some efficiencies where that's growing a little bit slower in 2019. And so, you know, the mix has been a little bit heavier into content.

And then it's about -- really, the tough question is, how do we allocate that content spend? And for every piece of content, we're looking at how impactful we think that can be in terms of growing our business, in terms of member acquisition, retention, and engagement. And then, relative to another piece of content, that relative efficiency. That's really how we're measuring it, and we learn as we go.

Ben Swinburne: Yeah, and the relative efficiency point being largely tied to sort of engagement, are you getting the kind of viewership for your dollar? Is that how you guys typically --

Spence Neumann: Yeah, relative in terms of cost. So, how much impact are we getting in terms of acquisition, retention, and engagement. And then, for every dollar that it -- you know, the relative to another form of content or piece of content, in terms of the cost of driving that impact.

Ben Swinburne: Got you, great.

Spence Neumann: And by the way, there's still judgement. I mean, there's art and science in here, so we try to blend. We're still -- we are an entertainment company, right? So we have a point of view based on the metrics and the science, and then you know, folks like Ted obviously then have to kind of judge that overlay with their kind of creative instincts.

Ben Swinburne: So, continuing on the content conversation, you guys I think are planning over 130 local language original series this year, foreign-language original series. Where, regionally, if you look around the world, are you guys really leaning in, from a content perspective?

Spence Neumann: Yeah, we're definitely expanding our local language originals around the world. It's, you know, roughly, it's doubling, you know, order of magnitude from where we were this year, this past year. And it's across the board, so there are some areas like, you know, EMEA region, where we've been at it longer. So, still growth for sure, but it's off of a larger base. And then there's areas like in certain parts of the APAC regions, whether it be

Japan, Korea, India, where we haven't been at it as long, so it's probably higher growth off of a smaller base. But it's really across the board. I mean, this is an area that is super important to us. When you go back to that video, we are about telling the world's stories, from anywhere in the world, to anywhere in the world. We believe that's a fundamental part of our value proposition as we grow our global service. And so, I think again, it's frankly quite early days in these non-U.S. regions in terms of continuing to build that content (inaudible).

Ben Swinburne: Right. Adam Sandler doesn't actually speak Italian.

Spence Neumann: No, but we're getting better at localizing the product around the world, too, between subs and dubs.

Ben Swinburne: I want to ask you on the movie side, which is probably, if we look back over the last two to three years, there's got to be at least, from a genre perspective, where you guys have really ramped up production.

Spence Neumann: Yeah.

Ben Swinburne: You know, you had a big push last year in the fourth quarter. From a finance and ROI perspective, how do you look at the benefits and cost of these films, particularly these enormous films from a budget perspective, like *The Irishman*, and sort of what's next on the film from for you guys in terms of just scaling that further?

Spence Neumann: Yeah, well we're super excited about the film category. So, as you say, we haven't been at it as long. It's been about four years, and I'd say we've come a long way. We've got a long way to go, but we're -- you know, if there's measures for success, we were -- you know, it was nice coming out of this last Academy Awards. We were the most nominated network, with 24 nominations. And you can see our film slate in Q4 was pretty broad, from everything that was -- from *Two Popes* and *A Marriage Story* to *The Irishman* to *6 Underground* and *Dolemite*, so pretty -- from eclectic or to just fun, action packed.

And I think, you know, as I say, we're pleased with where it's headed. Films are -- it's a great consumer offering, both because it's a known value for consumers. People have a pretty good understanding of what they're spending to enjoy a film, whether it's in a theater or on demand, so there's kind of a value proposition to it. And it's also just a great experience. You know, sometimes you want to really dig into a 10-episode television series, and sometimes you just want an hour-and-a-half movie and then move on to the next. And so, it's just a very complementary part of our service.

As we say, we're pleased with how that is scaling for us. We're very focused on creative excellence at scale. I think you've seen that in other categories of programming for us, and you're starting to see it in film. And I think what you'll see in 2020 is we'll continue to build on that, with a very kind of both artistic excellence and commercial sense -- increasing commercial sensibility to our films. This weekend, we've got *Spenser Confidential*, no -- spelled differently. It's not with a C; no relation to me.

Ben Swinburne: (inaudible).

Spence Neumann: Yeah, exactly. Yeah, neither one of those. But, yeah, you'll see more and more of that as we go. So I think, hopefully, it's going to be a growing and increasingly important piece of the puzzle for us.

Ben Swinburne: How important is third-party content for you guys looking forward? Obviously, we always get the questions about *Friends* and *The Office*, but what gives you confidence you guys can let that stuff go and keep on growing at the levels that people expect?

Spence Neumann: Well, I'd say there's third-party second-run content, and there's third-party original content. So, just to be clear, we are -- our future is originals, for sure. We've been moving more and more to Netflix Originals, which can be licensed from other studios or our own self-produced originals. And you know, we as a business strategy have, to some degree, certainly moved to more self-produced originals because you can't necessarily count on accessing that product from third-party studios. But if folks are willing to license originals to us, we are always open for business.

So, licensed second-run content, like *Friends*, you know, again, it's not the kind of future driver of our business, if you will, but it is something that we're still -- you know, we still do license second-run content when it works for us. But again, we have the benefit of being pretty selective, and our business continues to grow through it. I mean, we went from, what was it, 2011, 2012 when we were purely licensed second-run content, and our business in terms of members has grown globally about 7x, and in the U.S. about three times the size of where we were then, and this is a business that now is predominantly Netflix Originals without access to that content.

So, we feel pretty good about being able to grow through it, but there's always going to be some titles that we'd love to have, and if it's available to us, we'll go after it.

Ben Swinburne: Let me ask you on the -- as we continue sort of down the P&L and talk a little bit more about numbers, you guys have been getting some nice leverage in marketing.

Spence Neumann: Yeah.

Ben Swinburne: And I also think you brought in a new CMO, maybe mid-last year, something like that.

Spence Neumann: Yeah.

Ben Swinburne: What's allowing you to leverage the marketing line, and what's the sort of strategy philosophy on marketing spend going forward?

Spence Neumann: Sure. Well, yeah, so Jackie joined as our new CMO last year. You know, yes, we get leverage, but we're still growing marketing. I mean, we grew marketing a lot in 2018. Our marketing spend grew by almost 70 percent. In 2019. It still grew 12 percent year over year off of a much larger base. So, it's not as if it hasn't been growing, and there's been a lot of learnings along the way. It's just now growing slower than revenue, so it's helping to contribute to our operating margin expansion.

I'd say just generally, one, we're ability to get leverage there, one, because of those learnings; two, because of the scale of the platform, the more the platform can work for us -- I mean, we have regular contact with our members and we want the service to enable that discovery. And then, you know, I think three, we're trying to be forward-looking. If you just kind of do the math on the traditional marketing platforms, those audiences are declining over time. So, in a matter of a handful of years, they could be -- you guys do the math -- they could be half the size they are today, so we don't want to be overly dependent on those traditional linear channels for marketing to and reaching our consumers.

So I think you'll see us continue to get, hopefully, better and smarter at those nontraditional channels, those social and owned and earned publishing platforms, whether it be, you know, the obvious, you know, the obvious endpoint, but also our own channels.

Ben Swinburne: Yeah. In the minutes we have left, Spence, I want to spend time on content amortizations,

with the margin story, and then also the free cash flow debate that's out there. So, how -- you've been there now for a little while. Obviously, you're comfortable with the amortization approach. But how -- why do you believe that viewership is sort of the best way to size up the life of a piece of content on the platform. And, as you guys move more and more towards originals, which you own longer, does the average life extend, which would actually further help the margin trajectory of the business?

Spence Neumann: Yeah, I mean, I guess to the last point, I guess in theory it could extend, because now we own more and more of our intellectual property. But, you know, we amortize at the kind of shorter of the available period of the content or the useful life, and then -- and 10 years. And so, right now we're amortizing inside that window and applying, as you say, our viewership curve to inform that amortization. You know, so I guess the short of it is, we really do tie it to viewership, because the viewership, as we talked about before, that viewership and engagement is the driver of the business, ultimately, so that's what we're matching to, and obviously, we focus on this. You know, especially as the new CFO, I kind of -- I obsessed over it early on, because I wanted to understand our viewership curves and our amortization curves, because it's so --

Ben Swinburne: I'm happy to hear that, actually.

Spence Neumann: Yeah, yeah, so -- hopefully. And as I say, we spend a lot of time on it. We revisit it constantly. I think you (inaudible) all be comfortable with the conversations we have internally and with our auditors in terms of ensuring that we are very much on this in terms of the fidelity of our financials.

Ben Swinburne: And then in terms of actually scaling to free cash flow positive, what are the things between now -- we've actually seen the free cash flow burden come down.

Spence Neumann: Yeah.

Ben Swinburne: Or we expect it to come down this year. What helps get the model to free cash flow positive at some point over time?

Spence Neumann: Yeah, sure. Yeah, and we've talked about it. We're not rushing to get there. It's kind of a gradual ramp to free cash flow positive, and then -- and hopefully, that's just the beginning of a highly cash generative business for us that we can continue to reinvest in more great stuff for our members. And the way we get there is, you know, you're seeing it sort of in our financials. First is just scaling the business. So, we've been growing recently top line at that roughly kind of \$4 billion-ish sort of revenue figure, plus or minus. And then, we've been scaling profitability. Our operating income grew I think 62 percent year over year last year with both percentage margin and absolute margin, so it gives us more profit to convert into and fund that cash investment. And then, we're kind of moving meaningfully up the curve in terms of our business model.

So what you've been seeing in a lot of that negative free cash flow in the last few years is, as we were transitioning from that licensed second-run content business, where essentially, we're paying for that content sort of over the term -- so if we licensed content for five or ten years, we were sort of paying on a cash basis roughly pro rata with the term of that license -- to then licensed originals, Netflix Originals, where we pay a bunch of that cash up front on delivery, and then the bulk of the rest of it over inside of a year to two-year period. And then, to self-produced or content where we own the IP, where we're typically investing anywhere from a year to, with an animated film, four-plus years before it comes on our service. So that was a pretty meaningful pull forward of cash spend for similar content on the service.

We're now at the point where the vast majority of our cash content spend is for Netflix

Originals, and increasingly, for self-produced originals. So, we're a long way through that business transition, and we're a larger business, which is why you're starting to see the benefit in the cash flow, where we were maximum negative cash flow for us in 2019 at about negative \$3.3 billion. We guided to about negative \$2.5 billion for 2020, and we'll kind of gradually ramp from there.

Ben Swinburne: Okay. Don't want to be any more specific on timing than that, I assume.

Spence Neumann: No, because it's -- I mean, it's not our -- our primary objective isn't to hit a certain time. It's more to grow in a healthy way, while we continue to pursue our strategy. So whether it takes X (ph) years or X plus one or two years, as long as we're going in the right direction, I'm not sure why we should rush, versus going after the much larger strategic opportunity that's out there.

Ben Swinburne: All right, anything else besides *Love is Blind* you'd recommend for the audience on their trip back home?

Spence Neumann: There's a lot of stuff. I mean, gosh, it depends what your tastes are. That's the good thing about Netflix. I tapped into *Queen Sono* last night, so that was our first African original I think, which is pretty cool. It's a kind of an action-adventure, CIA-ish kind of a thing, so that was fun. I have been watching (inaudible) *Cheer*, for others in the unscripted. I think that's kind of fun. I watched *Messiah* recently. So, there's some good stuff out that, hopefully, you guys --

Ben Swinburne: There's a lot of *Cheer* fans in the audience. They just don't want to admit it.

Spence Neumann: Yeah, come on, come on. All right.

Ben Swinburne: Well, we're out of time.

Spence Neumann: All right, thanks, man. Appreciate it. Thanks, everybody.

Ben Swinburne: Thanks, everybody.

Spence Neumann: I appreciate it.