THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NFLX - Netflix Inc at Morgan Stanley Technology, Media & Telecom Conference

EVENT DATE/TIME: FEBRUARY 27, 2018 / 6:15PM GMT

CORPORATE PARTICIPANTS

David B. Wells *Netflix, Inc. - CFO & Principal Accounting Officer*

PRESENTATION

Unidentified Analyst

All right. We're going to get started. Please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, are all up here, the handout available in the registration area and on the Morgan Stanley public website.

I'm thrilled to welcome back to the conference, to my left, David Wells, the CFO of Netflix. He's been CFO since December of 2010 and first joined Netflix back in 2004. In case you haven't been paying attention, Netflix recently reported nearly 120 million global streaming subscribers as of the end of last year.

Dave, thanks for being back.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Thanks you. Thanks for having me.

QUESTIONS AND ANSWERS

Unidentified Analyst

So let me ask you maybe the 2 most frequent questions I get about Netflix over time, which is, one, sitting here today, with that significant subscriber base you have, what is the opportunity still ahead of the company? And then second, which I'll follow up with, is really how much content is sort of enough to achieve your long-term ambitions? Maybe we can start with the first.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, people love video, and the Internet has created overwhelming convenience that we've never seen before. So I think you put the 2 together and you get a lot of the tailwinds that Netflix is riding in terms of the adoption of Internet video. We continue to be the leading global service for Internet television and movies, and there's more nonmembers than there are members of Netflix. And so that's our opportunity. If you think about the global broadband household x China, somewhere around 700 million that's fixed and wired, and so that's our opportunity in the near term, and that's going to continue to grow towards 1 billion. And then the outbound opportunity would be the 2 billion monthly actives that YouTube and Facebook have, and so, again, Internet video, very popular. And they've -- they're our aspiration in terms where we could get to in terms of the level of engagement and the number of folks across the globe that are doing that. And so I'd say that's our opportunity.

Unidentified Analyst

Okay. And then on the content spend side, so you'll amortize almost $8 billion of content in '18, and you've also committed to spend over $17 billion over time as of the end of the year. So as the CFO of the company, how do you think about getting your arms around those numbers? And how do you sort of come to the view that this is the right way to optimize the business?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes. There's no magic line if you know exactly where you are in terms of that efficient frontier about the amount of content to spend. But we've been very successful over the last 5, 7 years from sort of the growth -- the birth of streaming through sort of today's period, steadily increasing the operating margins, steadily increasing, in the older days, the contribution margin, that was kind of our north star, and then getting our international businesses towards sort of collective profitability. We achieved both of those. So now we shifted to orient folks around global operating margin. 10% is the target this year and then steadily growing from there. We grew from 7% -- we'll be growing from 7% last year. So I'd say there's a lot of healthy discipline that instills in the company when you're kind of steadily growing that. We used to think that every additional incremental dollar was best spent on content. Now it's a little bit -- I think mostly spent on content but somewhat set on marketing as well. So you're seeing us raise our marketing dollars a little bit because we think that's a multiplier on the content spend. And so I think to answer your question, we look at this from a -- from both a top-down and a bottoms-up basis. And the top down would be an orientation of planning a long-term business with a growing operating margin based on some growth assumptions that we can lever up or down in the longer term as we get further out. And then from a top -- from the bottoms-up basis, we look at the content spend, and we look at the efficiency of that spend. And as long as we're continuing to add global subscribers that are continuing to enjoy that content, we feel pretty comfortable with continuing to expand that.

Unidentified Analyst

Got it. When you think about the opportunity ahead of the company, and you've framed out a pretty long runway, how do you think about the emergence of some of the bigger tech platforms that historically have not been big players in content, getting into this business? You look at the competitive landscape, and you think about the Apples of the world entering the entertainment business, and your sort of key competitive advantage as they start spending more and more capital on the business?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Sure. When we think about our competition, it's a pretty wide set, right? We're competing for people's leisure time as they sit down. They have 30 minutes, 60 minutes, even 15 minutes, and what do they do with that time? Do they read? Do they play video games? Do they do all these other things that they could do with their time? Narrowly, there might be more people entering sort of SVOD or Internet video, but we increasingly think this is not a zero-sum world. We've grown from the introduction of streaming in 2013 through today. HBO subscribers have expanded, not shrunk but expended. And so people are getting wealthier. They're consuming lots of media. The Internet is growing. All these things are pushing up. And so increasingly, we're focused on creating a better product internally. There'll be more and more exclusivity of content and with 117 million global subscribers and growing. We grew more last year than we did the year before than the year before than the year before. We're able to monetize that across that set, and that's our focus.

Unidentified Analyst

Sure. And when you think about your program in that strategy, David, you've -- I think you ended last year with about 20% of the content assets on the balance sheet anyway being self-produced, so you really ramped that business rapidly. But you also continue to acquire a lot of programming, and consumers enjoy acquired content. It's a big part of your strategy. What do you think is going to happen to the supply of third-party content, given some of the activity in the sector around consolidation? And does that impact how you think about how quickly you want to build originals?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, we anticipated sort of some contraction of that supply when we went into the -- our originals business and, increasingly, our own originals business. But the more likely case, the content production world is fragmented, right, so there's a lot of attention being played to sort of vertically integrated companies. But that's only a portion of the market. It's less than 50% of the overall production of the market. More and more of what you'll see is production coming from all types of places in the world and increasingly different global production centers as well as -- people are interested in your story. They don't necessarily care where they came from. They're good stories, they're well told, they're high-production quality. So I think the higher likely case is that folks will continue to produce content for a wide distribution network and not necessarily try to do both.

There'll be some companies who focus on both. But even those companies that are focused on both pursue different monetization channels and continue to do that even despite sort of trying to tap a direct-to-consumer channel. They'll -- likely, they'll be producing across multiple distribution channels. And so I think we feel pretty good about the content. We're about having the best content. We don't necessarily have to do it ourselves. We think there are some advantages to it. But if something comes at us that it's produced by somebody else, we're all about the best content.

Unidentified Analyst

Right. So moving from maybe the big-picture stuff to more into here now. What are your priorities for 2018? Where are you focused and where is the team focused in making sure the company executes this year?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, I think -- a lot of what you hear many of us say is internal execution, right? So we think we have a large market. We just talked about there's so many more nonmembers than there are members, and so our focus is really to continue to improve the product that we have. We'll be adding increasingly more and more of our originals in our global content. This year, we'll have 80 originals in the global category, meaning these are non-English language original produced content things, like Club de Cuervos, Dark -- O Mecanismo is a new one coming from Brazil. And so the -- our muscle in that area is increasingly being built and exercised, and I'm excited about lots of great stories coming from different parts of the world. And again, people seem to love high production quality and a good story. It doesn't really matter where it comes from. So I think our focus is building out our production muscle, building out our global production muscle, increasing our product in various parts of the world. We're the newest in Asia. So I'd say it's continuing to sort of localize pieces in Asia, continue to improve the product there. But we also have an eye towards not losing our leadership position in other parts of the world as well. So it's not like we're not also improving the Americas.

Unidentified Analyst

You mentioned 80 global originals. That's TV series, so that's distinct from your film strategy?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes. That's distinct to film, and it's even distinct from television series that you might describe as sort of global, like Orange Is the New Black or Narcos. These are things that are produced in a non-English language market. So I just want to make that distinction. So there's even more than 80 that are sort of for the global market. If you think about the total number, it might be somewhere in the 700 range.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Right, right. Have you been surprised at the success -- I mean, Narcos is one you've talked a lot about as a non-English language-based show that's done really well outside of its core markets. But shows like Dark you mentioned, have you been surprised with the popularity of those shows globally?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, I don't think we've been surprised because I think our content team had a strong notion that -- the first principle here is that human beings enjoy a good story told well, and so I don't think they were surprised with that. I think there's confirmation evidence for a CFO, as you mentioned, leaning into that $8 billion of P&L and then increasing -- more than that on a cash basis, that these things work outside our primary-language market. Biggest Dark has seen meaningful material hours of Dark, which was a show produced in German for the German-speaking markets, outside of Germany, basically. And we're seeing that not just with Dark. There's Club de Cuervos, which is a show produced in Mexico. It's a fun, perky, soccer drama. We've got O Mecanismo coming out of Brazil coming up. There's a great show on Netflix now called La Casa de Papel. In English, it's Money Heist. But it's a show out of Spain. It's classic sort of prime drama. It's fun. And so I think many of these shows are working well for us.

Unidentified Analyst

Got it, yes. I just wrapped up Dark, and my brain is still kind of...

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

In a dark place.

Unidentified Analyst

In a dark place, yes, trying to come back down to earth. You also guided to 300 basis points. You talked about a 10% margin for '18. You guys are increasing marketing and G&A as a percent of revenue this year. You talk about the decisions to invest aggressively in those 2 areas. You touched on marketing a bit. And is this sort of a multiyear phenomenon, that you've got to scale up before you hit some sort of plateau? Any help there?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Sure. At least on the marketing side, it could be. It doesn't have to be. And so I'd say, we -- for many years, for the last 2 or 3 years prior to '17, we had leveraged marketing. We sort of -- you've seen that come down as a percent of revenue. I think our increasing it again reflects our notion that the next $100 million of incremental spend might be better spent in marketing, amplifying the content that we're already spending, the money that we're already spending on content, as opposed to putting yet another $100 million into content. So I think we're famously an experimental company in terms of trying out different things and seeing if they're working. And I'd say we have a notion that there'll be a healthy economic return on spending a little bit more on marketing in terms of highlighting the shows that we're producing, but that could change. But we think it won't. We think going forward, you'll see us spend not just in the U.S. but outside the U.S. in terms of that promotion. But again, that's still within the bound of growing operating margins. So we're talking about the -- what we're doing with incremental money. And then on the G&A, what you've increasingly gotten as investor, the return on that growth, is the globalization of the -- the expansion, the international expansion of Netflix. The last couple of years, that had been sort of driven a lot by the international expansion. Increasingly, that's giving -- being driven by our studio expansion. So we had both in the past, getting some leverage on the international expansion at this point. But as we expand into more content categories, as we expand into different parts of the world, then we're getting that sort of right mix of global content and local content, you're seeing some growth of G&A there.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

As you think about ramping originals, you guys have this sort of 50-50, I don't know if you call it north star, sort of long-term mix between originals and acquired. Do you have a sense for how much studio infrastructure you need globally and how many years it'll take you to get there?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

So (inaudible), throughout is 50% of content being originals versus 50% licensed, a while ago, back when we were 0 or 5%. So I'd say we don't have a particular target in mind. We're about having the best content. Increasingly, we're doing more of our own because we think it benefits us economically, and we have the ability to launch globally. And we don't have country windows that we have to deal with. We're a global product. We like launching globally, making that available to the Netflix members all at the same time, and so we'll continue to do that. But there's no religion in terms of whether a show comes to us from a licensed format or not. We think we'll continue to grow that percentage, and that is what I talked about in the past in terms of the implications on our cash flow. But again, Hollywood has had -- I don't -- however you want to characterize them, but 10 different production models from a fully owned, fully integrated, vertically integrated show to a fully licensed show or an independent producer that packages a show. That will persist. That's going to continue to persist, and that's that fragmentation that I mentioned earlier in terms of there being a lot of different production models. And we have all of those across our content. We do all of those. Even some of our originals may be packaged or produced by another company and then we distribute it and we brand it and so forth. But I would say expect continued owned original growth from Netflix. Where that gets, I could never see that getting 100%. Could it get over 50%? It could, but there's, again, not -- we don't have a necessary target on that.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

All right. I guess it was a fairly clumsy way of trying to ask if you would get G&A leverage starting in '19.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes. So back to your original question in terms of where do we see the endgame in terms of global studio production capability. It's a little too early to tell. Again, it somewhat, I think, will always persist in an economic model where we'll have sort of sources on the ground, and we may be managing sources from afar. And we're going to continue to do that. I think what we found is there's value in having creative executives stationed in some of the world's -- closer to some of the world's global production centers, which kind of makes sense. But we'll continue to push out and determine where it makes economic sense to have those resources, where it makes economic sense to use third-party resources.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Got it. Let's come back to the U.S. market, which has continued to grow quite nicely, and you're approaching the sort of the lower end of the original $60 million to $90 million TAM that you and Reed have laid for the market years ago. What's the strategy to keep growing the business in a market like the U.S., where you've got fairly strong and healthy penetration? And is the strategy in a market like the U.S. different from how you're running the business in a newer market?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, it's -- sort of there's some obvious points of difference in a market, say, that we're 3% penetrated than 50-plus percent penetrated. The marketing has to do some slightly different tasks. When you're in a newer market, even with our growing global word-of-mouth, you still have to demonstrate to people what exactly Netflix is, how it works, how a streaming service works. So there's some heavy lifting that you do on the front end of the market that we do. In a highly penetrated market, it's given more towards advertising and highlighting our content, and so this is exactly the transition we've had in our marketing spend and our marketing approach over the last couple of years.

Unidentified Analyst

Okay. And I think it's been a little over a year since you guys integrated with Comcast. We were talking about it at the conference last year. And you've had some other partnerships that have been longer term. You've also added some new ones, like T-Mobile. Can you talk about the benefits to Netflix from these kinds of distribution agreements in the U.S. and whether the -- your shareholders should be thinking about the unit economics or the returns from those customers being different in any real way from your traditional distribution model?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

So the short answer on the last -- on the latter is no. We've had partnerships for over a decade, going back to the game consoles, and I'd say these are sort of natural extensions and evolutions of those partnerships. I mentioned on our last earnings call that these partnerships are very -- they're very helpful and especially in a market like the U.S., where we're highly penetrated. Anytime you could lower the resistance towards the consumer sort of being a member is a helpful thing for our company. It's helpful in reaching sort of the back half of an S curve of adoption and getting more people that are sort of less early adopters, technically savvy folks to be a member of Netflix. And it's also reflective in our programming strategy, where you're seeing things like Grace and Frankie that may be catered to an older segment. Either The Joel McHale Show, which is a new show on Netflix, it's catering to a different segment than, say, Narcos is. And so all those things are reflective of sort of penetrating a little deeper into a market. Partnerships are helpful. They're incrementally helpful. We'll continue to do them and -- but there's nothing sort of transformative for them.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Got it. Let me ask you about pricing and pricing power. In sort of the last couple of years in -- I think it was 2016, you went through the un-grandfathering process, and there was a lot of concern about your pricing power and sort of the churn related to that. And then late last year, you implemented another price increase and, obviously, subscriber results were really strong. What do you take away from those sort of 2 periods of executing on pricing and how you're thinking about pricing rules and how you execute on those going forward?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, I think we're pleased with the relationship and value we're providing, price to value that we're providing with our members. And I think that was reflected in our sort of strong results in the fourth quarter even concurrent with come pricing. But we're in so many different markets and so many different currencies and so many different price points so there really isn't a need or a goal to sort of do a global event. Will -- we -- our intent and our sort of our plan is to improve our product over time, and we think that value is reflected in sort of the number of hours viewed and how much a subscriber and a member is using the service. And they're okay to give back a little bit of that along the way in terms of a price, and I think that's our approach.

Unidentified Analyst

Okay. On the engagement front, you guys provided some nice disclosure on engagement, 9% global growth, which we assume is actually higher in markets like the U.S. It's quite bullish. What is driving -- beyond the obvious, what's driving that growth in engagement? Even on a pretty substantial base of viewership for members, it's simply growth and content spend? Or are there other factors you think that we should be thinking about?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

People love video entertainment, right, so it's the content. It's the growth of the content. We've had a lot of great shows. We continue to release great shows, and there'll just be more and more of those. Like this year, there'll be more releases than last year. And so that's our playbook, and we want to continue to improve that product along the way. But it really is about the content.

Unidentified Analyst

Okay. And then on international, that's been a tremendous story for Netflix. How do you think about the need for local programming as you can either build out your international subscriber base? And does that, by definition, make those markets potentially less profitable because you're going to have to spend more on originals that may be less efficient on a global basis, so the margin profile, long term, may be different?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Not necessarily. I mean, when you're talking about that content, it's often at a much -- a fraction of a multiple of production costs, let's say what you might think of as a global original title. And so it is -- it's true that for the most part, we've been in an 80-20 rule where it's 80% sort of global content, 20% local. We're early days in Asia, which might challenge that or push that ratio up a little bit. But in general, what we found is many of these shows, as we talked about earlier with Dark and Club de Cuervos and others, may be non-English language original but might have a much wider audience in their sort of home language country. And I think that's reflective of an increasingly connected world and increasingly sort of global world where people are much more aware through social media of something that might be popular in another area than they used to be. And I'd say that we're going to continue to see that, and we'll play into that with the type of content that we produce. I mean, again, La Casa de Papel is a show in Spain, produced for Spain, and it's doing really well outside of it, right? And you might tweak a few things like calling it Money Heist in the U.S. But ultimately, the show and the story quality is high, and that's what people care about.

Unidentified Analyst

So even though in some markets, you may need more originals, the combination of those being able to travel as well as the lower cost per hour actually, you may end up in the same efficiency place that you might in other markets?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

That's right, and that's on our playbook. We're not trying to replace local television in the Philippines or local television in India. We're providing a global product that's kind of new, right? The consumer in some of these territories that may have a very low video ARPUs, is also used to a very low production quality in television. And so this is a new product that we're offering in many of these markets. And we saw that in Latin America, right? We've been in Latin America over 6 years now. And in the early days, you may have had the same sort of a question in terms of, well, gee, you're going to have to have a lot more local content in Brazil. That's just generally not held out.

Unidentified Analyst

Right, right. You've been in the "rest of world markets" for now a year plus. Can you give us an update on the localization efforts? What are the markets you've localized? And is that a big opportunity or a big driver of growth in those markets in 2018, you think?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes. I think it's a steady driver, right? So I think what we've experienced and what we'll -- we're most likely to continue to experience is there's not some one thing that suddenly like launches a hockey stick in a market. It steady improvement across a number of different aspects of the service. And when you talk about localization, we're increasingly nuanced at that, right? In the -- sort of 5 years ago, you might have talked about localization as being, okay, the site is in the local language, some titles are in local language, dubbing offered in whatever percentage of the library offered that made economic sense. Tailored library, content library, there's all different aspects of localization, local payments. And today, I think what we're finding is you don't necessarily needed to be monolithic across that category but you can pick and choose sort of the more economic aspects of that, and that's what you're seeing us do.

Unidentified Analyst

Are you better and faster at localizing today than you were a year ago?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes, I'd say we're -- the developed digital supply chain of taking Stranger Things, dubbing it in 9 languages, subtitling it in 22 and releasing that all at the same time across the world is much more developed today than it was, say, 3 or 4 years ago.

Unidentified Analyst

Makes sense. And how are you thinking about pricing globally? I mean, historically, I think you have had to have -- you aimed for a global price point to avoid people kind of arbitraging and using VPNs around different markets. It sounds like you're becoming a little more flexible in your thought process -- I don't know -- for the longer term. I don't want to put words in your mouth.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, I think part of it may have been how we communicated. It hasn't solely reflected an internal strategic change in how we're thinking about pricing. I think VPNs and how they work and how you could segment parts of the world are ever-evolving, right? And so that's just something that we try to stay above and -- but they evolve. But I'd say in general, we do have price disparity across, say, on a purchasing power basis in one country at a one S price point to another country at a 4S price point. There's a pretty wide range. And I think that's reflective of both our monetization opportunity across the different pricing tiers as well as the relative value delivered across that country base. But I'd say we haven't necessarily really changed our approach other than continuing to drive value through the tiers and continuing to find the right sort of price points for folks across these tiers.

Unidentified Analyst

Do you think you'll be less aggressive with the price increases or more aggressive with lower price point tiers in emerging markets over time, like in India, for example? Or...

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

I -- again, it's about sort of price to value. And so we want to make sure the value is there for the consumer, right? So it's not necessarily a price problem as much as a value problem, but leaving some opening for options down the road.

Unidentified Analyst

Got it. I wanted to ask you, Dave, a question, shifting gears a bit to the financials, about a comment you made on the last earnings video, which deals with the sort of never-ending debate over free cash flow versus net income. You made a comment that you think the -- your visibility or your line of sight into your working capital needs is better today than it's been in the past or maybe that the challenges -- the drag would be moderate. I don't want to put words in your mouth again. But could you talk about your visibility into free cash flow and what the implication of that comment is for free cash flow burn?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Sure. I mean, my comments were reflective of the fact that we've been ever -- we have been increasing our content spend year after year, but that's law of large numbers, right? The percentage change from '17 to '18 is going to be smaller than the percentage change from '16 to '17. So there's been 3 drivers of our free cash flow relative to P&L. One is just the expansion of content. And as you spend cash before P&L, that's -- when you're expanding content, that's going to drive it. The second thing is then the transition from licensed content to our own produced content. And so if you imagine a business model where you're paying as the content is coming onto the site and charging the consumer for revenue, that's much closer to a one-to-one match. When you move to produce, you might be paying 18 months, 24 months before, that content's on the site. So you're building assets, then you're monetizing it. Then the third aspect or the third driver is the transition to our owned originals, right? So, we -- instead of paying a license or -- for a content that we may brand and have on the site, but they may actually be paying for some of that production upfront, we're doing all of that. And so you may be producing -- optioning a book, producing something where you're shelling out cash for that production 2 or 3 years ahead of time. And so those 3 things together is what's driving that wedge between free cash flow and P&L. And my comments on the call are we've matured enough from the transition of all 3 of those things for me to start seeing, okay, the percentage change on content spend is going to go down just based on the law of large numbers. We're expanding it. But we've already got a pretty big base that we're building off of '17 to '18, and so that'll start to moderate. The transition to produced content is much more further along in terms of the number of categories, the number of things and our ambition. And then the transition to our owned originals is also a little along. Now that's further along, and we'll continue to have working capital being put into that. But it's starting to arrive at a point where I can see some of these things start to moderate. I don't want to put the business in a -- back them -- back us into a corner though. We're chasing a very large market, as we just talked about. And so for us, we think the long term right thing to do for the shareholder and for us is let's continue to add the content. It's working, it's growing, it's driving growth. We're measuring that along the way. But I want to reserve the right to kind of rightsize that over time for the size of the market that we're chasing.

Unidentified Analyst

The fact that you're not adding new geography is also helpful.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes, some. It's certainly -- you'll see that on the commitment line, right? So as we sign up for a new territory and we sign up a 3, 5, 7-year deal for licensed content, that's sort of the lump-sum forklift of commitments that goes on the balance sheet, and that happen every time we would launch a new territory. And you do that before you've got a single revenue dollar in the territory, right? And so that -- if we're not expanding to Mars or we're not expanding to other territories, we're kind of done with that general forklift. But we're raising the content libraries across the globe increasingly on a global-produced side, and so you're seeing some of that transition.

Unidentified Analyst

Does all this imply that this could be the peak-free cash flow burn year, 2018, or don't want to sign up for that?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Not yet signing up for it. I'm signing up for seeing some of the sort of growth drivers of that moderate.

Unidentified Analyst

Got it, okay. And then going back to the exciting topic of GAAP accounting, but I do think for you guys it is relevant because it is the data I have with investors a lot. There's really no comp for the Netflix business model when I think about how you amortize, particularly your originals. I mean, I'm sure you have originals that are 10 years old that people still watch. So when you think about capitalizing and amortizing programming, where do you -- what's the policy and process in which you arrive at a 3- or 4- or 5-year life that then is driving this nice margin expansion we're seeing on the P&L?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Well, it's written up in our critical accounting policies and all that, but I'll try to shorthand it in a sense that it's something that we look at every quarter. It's obviously important to the business, important to the investors, it's important to us. So we look at it every quarter. I've generally been impressed with how we've been able to kind of estimate it. We've changed it a few times, but it hasn't been that big of a change. And I think -- so that should demonstrate a little bit to you that when we look at it, we look at it with a little bit of an eye towards some conservatism. I mean, the fact that 90% of an individual title is amortized in the first full year's is a little bit of nod towards conservatism. There's every indication that you're going to have viewing beyond that fourth year, but there's uncertainty, right? And so that uncertainty is reflected in that assumption. But we think that we're building durable assets. As the business continues to grow, we can bring -- last year, 24 million global subscribers were brand new to

House of Cards Season 1. And if we're able to grow and keep continuing to build that, Narcos Season 1 will have -- be introduced to a wide variety of new subscribers as they come on.

Unidentified Analyst

Sure. Let me ask you one more, and then we'll open it up to the audience. If you have any questions, please raise your hand and wait for a microphone. But I want to ask about the Ryan Murphy news and his decision to come to Netflix. It follows the Shonda Rhimes' deal from last year. The headline numbers are big numbers, big dollar amounts. But maybe talk about strategically why, from a Netflix perspective, committing that kind of capital to a television producer, creator makes sense for you guys financially.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Ryan has been a very successful and prolific producer of television that has been very commercially successful, meaning it's watched by a lot of people across the world. We say these deals are going to be rarer than you might think, in terms of not everybody gets one, because you have to have that track record of being a very prolific producer. Like Shonda Rhimes, we were pleased with the type of content that he creates in terms of being popular globally, not just in the U.S. It generates a lot of customer joy, as we would say. And so it's a lean-in for us. There's some risk for us, right, in terms of leaning in. But in the grand scheme of the $8 billion P&L of content that we're putting, this year's deals are somewhat rare in that sense, right? We're not doing 10 of them, we're not doing 20 of them. And so we felt like it was a good opportunity for someone who's got a great track record to come along, and I look forward to seeing what he produces.

Unidentified Analyst

Great. I won't hand you my script idea that I had then. Why don't we -- got 2 questions right here in the front. Please wait for a microphone.

Unidentified Analyst

I think Reed was quoted as saying that the next 100 million subscribers would come from the Indian market. I'm just curious if you could just talked about -- and I think the same article said you have 0.5 million currently. So can you just talk about the challenges you've had so far? But maybe how the strategy could morph specifically for that market?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes. I would say that Reed was in India when he said that. So he was playing to the local crowd a little. I would say that we launched rest-of-world about 2 years ago in January of 2016 at CES, and we launched that intentionally with a skinned product, right? Prior to that point, we had launched more localized, more tailored sort of launches and products into countries. And we felt like, hey, it was time to go ahead and let's do the jump-start on the rest of the world, and then we'll cherry pick off where we can localize, what investments we'll make, back to my earlier comment about being more nuanced about localization rather than sort of heavy handed across different categories. I'd say in India for us, there's plenty of ability to pay depending upon your measure. It's famously sort of unequal country in terms of the wealth, but there's 6 million to 8 million folks that are plenty wealthy. And our first approach is really to cater towards that global product for people who are able to pay. Now long term, we love to get to 50 million, 100 million. And in order to that, we're going to have to have a much more compelling product than we do today. So we're already increasing the content. We're already increasing local. We have -- we added local Indian payments last September, so local debit cards. There's 400 million debit cards that were enabled with that capability. So we're trying to remove barriers along the way. We know that we need to improve the product. Folks like to talk a lot about the pricing in India, but we think it's the price-to-value again about that. And so we're about improving the product that we have there.

Unidentified Analyst

Go ahead.

Unidentified Analyst

Maybe you could just hit on the comedy approach that you've made with Chris Rock, Chappelle and Letterman. How has that driven gross adds and impacted churn for you guys? And then maybe just hit on commercial -- consumer products' opportunities for things like Stranger Things. Do you think that could be a meaningful business for you over time?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes. I shouldn't admit the opportunity. We've got Sacred Games, which is an Indian original movie coming out. I'll get a comment on that later from my internal team if I didn't hit it. But back to your -- your question was on comedy. We don't track specifically, increasingly, the Netflix sort of growth driver and the effect on our growth is not specific title-driven. I think if you play back over the last 8 earnings calls in terms of our commentary about specific titles, there are some quarters that incrementally have been driven by a single title. But if you look at sort of a 12-month rolling basis, increasingly, it's the body of content and not any one particular title that's important. So I think comedy was an aspect, a category within Netflix that had an opportunity for further development, and we're super happy to have great comedy from Chris Rock, Dave Chappelle. There's a French comic, Gad. There's -- I mean, there's so much. There's more comedy than I can watch on the site, and so I've seen some of it and really enjoyed it. But I think it's a round out to the comedic offering that we had before, but we don't necessarily look at it as a specific driver. It's addressing and rounding out a genre of content that may have been somewhat underdeveloped before.

Unidentified Analyst

And, David, how about on -- just taking up on that question on genre. How about the movie strategy and the efficiency of making films? You did 80 films this year, probably across a wide range of budgets. But why does the -- why is the movie business interesting for you relative to the TV series from an efficiency perspective?

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Yes. I think movies scratch a different itch for a member or for you as a person, right? A lot of folks when they sit down and they want to watch something, they generally have free time. You don't necessarily want to sign up or investigate sort of a 10-hour commitment to a television show. So sometimes movies with a discrete story arc fit that. And so we see that and we think we have a wider business if we can do both. And we were pleased with Bright coming out. Again, it's about commercial success, and it's about what makes people happy. And so we've done that. I myself I have a 10-year-old daughter. Benji, the fresh look on Benji is coming out in mid-March. The trailer looks really engaging to something that's a family watch, and so that's -- I'm somewhat bullish on our ability. We hadn't change the strategy, right? So I think folks look for us to change strategy from one title to another based on some equivalent of box office performance. But for us, it's been about continuing to allocate a certain percentage of our content spend to this genre category, improving our production ability in that category and then trying a few different things and then playing that out over a series of movies.

Unidentified Analyst

Great. Well, we're out of time, I think. David, thanks so much for your time, and I appreciate your insights.

David B. Wells - *Netflix, Inc. - CFO & Principal Accounting Officer*

Thank you.

Unidentified Analyst

Thank you, everybody.