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<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. Let me get started. On behalf of our firm, I want to thank Ted and Spencer for being here. We really appreciate it.

<<Theodore A. Sarandos, Chief Content Officer>>

Yes. I'm thrilled to be here.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Over many years, you always showed up for us, and really, we appreciate that.

<<Theodore A. Sarandos, Chief Content Officer>>

Yes. I'm glad to be here.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

And Spencer, you too.

<<Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development Chief Communications Officer>>

Thank you.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

So, I've known you for more than a decade. And when you look back at what you first started and started to build, what surprised you most about the development of the streaming business?

<<Theodore A. Sarandos, Chief Content Officer>>

Probably just the speed in which original programming has become so relevant and important to the business around the world, that we kind of had an inkling 10 years ago when we first started doing the streaming, that the notion was very quantifiable was very quantifiable, get people to watch a lot of stuff, have a lot of stuff, the best way to have a lot of stuff is not have exclusivity and that whole – but then we've kind of quickly come to realize that it's a pretty quick race to the bottom if you wanted the same content. So how do you differentiate yourself?

And we are 5 years into our business before we started doing any original programming and in just five years it has become kind of our most important investment in our original programing films, television, local language originals, kid's series, now unscripted shows, big feature films, so it has moved pretty quick for such a short time we have be out there.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

And looking back was there anything that you thought would happen that didn't happen?

<<Theodore A. Sarandos, Chief Content Officer>>

That didn't happen, yes, my biggest – the thing I was most worried about probably at the beginning was that the speed in which – the internet would bring such efficiencies to advertising that advertising CPMs could get so big that a single ad would pay for a movie and you know what I mean, and that CPMs would get high and really challenge the subscription model and it turned out to be completely opposite and so over the – over more than a decade.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay, and in your fourth quarter letter you introduced a goal…

<<Theodore A. Sarandos, Chief Content Officer>>

By the way, I think my theory on that is that the CPMs are mostly driven on scarcity and trying to figure out the balance of how do you get higher CPMs in a limited inventory world has been the challenge.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Well, I mean that has always been the case, right? So

<<Theodore A. Sarandos, Chief Content Officer>>

Yes. Reach is a premium, and it's hard to get reach more and more.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Exactly. Exactly. In the fourth quarter letter, you introduced a goal to create more density of viewing, can you explain to everyone on the room what does that mean and why is it so important to your business model?

<<Theodore A. Sarandos, Chief Content Officer>>

Well, it's something we're trying to figure out now, which is the value that a 1 and 1 equals 3 model of people watching at the same time versus watching over a longer period of time. That if you could increase the density, you increase the word of mouth, you increase earned media, you increase the kind of zeitgeist volume of the show because everyone is watching at the same time or nearer the same time than they are now.

So that’s the bet, which just creates some bigger brands that people instantly associate with Netflix and are watching at the same time and when talking about. There is nothing more fun than walking in and people are talking about the same – right now, what, many of you are probably watching Wild Wild Country right now, and you can't wait to talk to somebody about it.

And next year, everyone will have seen it. But in the meantime, you went to and watch it now. So, the idea that we increase that is not by the way like it’s going to be trying to drive all the viewing into one thing, it’s just to increase the

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

What’s funny is, like your competitors what they do is, they stick to a release schedule. Right, so Sunday at 9 o'clock it’s billions, so we all watch it, how does the tension between the bench model you've built versus keeping it protected for one night that you have to come home and talk about the next day?

<<Theodore A. Sarandos, Chief Content Officer>>

Well, I think what’s happening increasingly and it’s generational too, which is this whole notion of the on-demand versus on-linear watching, mainly the appointment viewing is that gap is growing. So, we're meaning that and I think what’s happening likewise is, that you can achieve the same level of volume just over a longer period of time. So, by not having our shows like one a week or my Sunday night in my Netflix thing, we actually do have that, but people are just have watching different episodes of the same show. They are depending of the velocity that they are watching.

And then over the course of the year, you end up with actually more volume relative to like social media posting, Google search trends and all those things. If you look at that over the course of the year the cumulative benefit is much higher all at once than the week over week over week.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. So – and then how do you market to that? So, with that, with the density of focus, has that changed your…?

<<Theodore A. Sarandos, Chief Content Officer>>

A lot of it is brand creation. Meaning that some of the more – I would spend a lot in programmatic online advertising. We spend our time on outdoor and mass media as well. Because I think for brand creation it works pretty nicely for people to kind of see, oh that’s the show I’m watching.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. Over the years, you've been able to navigate the rocks pretty well. And a couple of years ago, it was obvious that the studios are going to stop pulling back the original content. Right? So, you guys decided to do two things; one is, produce more content – self-produce and also go upstream by signing show runners. So, can you talk to the room of financial people, the economics in Netflix's business model going from a rental model to acquire more and more content?

<<Theodore A. Sarandos, Chief Content Officer>>

Yes. So, that is accurate. The thing our big driver and why I tried to make originally programming the House of Cards was this notion that if we believe in our own model then the networks will want to create their own on demand products and they will want to retain those shows for their own products down the road. So, we better see if we can get good at this. And that's – customer that is coming to path as you could see and the difference why own it and buy it, then rent it later or even rent it in the first window from a studio, mostly it is a margin business meaning that this is 30% to 50% markup on the shows that are produced by the studio for us. And that doesn't show up on the screen.

That doesn't end up in the pockets of the talent and by owning the shows ourselves, we can have that kind of short-term economic benefit, but the long term of having more access to the title to do things more creatively and marketing to do L&M show like stranger things that would require a very complicated approval process with the studio partner. Every show in success has a negotiation process that comes down the road. That only gets amplified when you have a three-way negotiation instead of a two-way negotiation. And every time you're trying to take care of a show runner or a piece of talent working on the show for you. Not only do you pay, to pay them within a season, to the studio, on top where you pay there. So, being able to put the cost of the programming on the screen for the viewers or in the pockets of talent, which is, I would say a big driver.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Were you surprised at the time it took the studios to realize that.

<<Theodore A. Sarandos, Chief Content Officer>>

I should point out, by the way, for that money, they bring some value to the table for sure. Lionsgate and Warner Bros. Television, they are two examples of studios who are really excellent producers.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Sony is the…

<<Theodore A. Sarandos, Chief Content Officer>>

Sony and Universal Television, I mean they produce good talents. They bring some efficiency to the market. It is just a matter of how much.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

And the question I asked you about surprises, where you surprised at all by the speed in which the awakening happened on the partner side? I mean, you talked about frenemies for many years ahead of that? Has that speed surprise you both slower or faster?

<<Theodore A. Sarandos, Chief Content Officer>>

Probably, It’s been slower than I thought actually. I thought that – people always asked me like were you surprised that Disney is going to go direct TV source? I don't know what took them so long. Exactly

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Yes. No, it's a -- okay. Yes, we were thinking that, too. One of the things that we focused on is, we all have a hard time analyzing the content consumption on Netflix, right? So, let's turn to third-party data sources like Nielsen and in 7 Parts Data and suggest that a lot of consumption is happening on off-network library content. Does that match it all with what you’re seeing actually in the real data?

<<Theodore A. Sarandos, Chief Content Officer>>

Well, without like parsing the accuracy of data because remember, these are sample sets and models and how they try to model to it and it is very difficult to sample Netflix because people watch through all different devices and all different times of day and all over the world. So, they are all usually only measuring domestic, and they're usually measuring television-viewing or mobile, but not both. So, it is all that stuff.

But broader than that of course the hours of watching would be heavily skewed towards license content because there is more of it. So, we have, we may have 300 episodes of the show versus 13 of one of our own shows. So -- and so a lot of that kind of legacy licensed content is still there, and it's migrating too as we do more and more original.

We'll have 1,000 original releases this year. It is like 470 of those that happen between now and the end of the year, scripted series, films across all of our different content verticals. So it makes sense that the licensed content would be getting more viewing, but it is moving quite steadily and 90% plus of our customers regularly watch our original programming original programming and they all value it in their different ways, and we do too.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. What are the factors behind the decisions to sign those showrunners, like Ryan Murphy, Shonda Rhimes and Jenji Kohan, to an overall deal rather than buying a project out of time, which is how some people shop. So why the decision to get an overall deal? And please explain overall deal, if you will.

<<Theodore A. Sarandos, Chief Content Officer>>

Well, overall deal, basically, Ryan Murphy and Shonda Rhimes, Jenji, as you mentioned, will have a deal at the studio, where they, basically the studio pays their overhead, they give them, which is just our office space and staff. They pay – they give them a fund to acquire a material and in exchange for that, everything that they make, they basically own that content and they can either make it for their own networks or sell it off to other people. So someone like Ryan and Shonda, but what's attracting us to both of them is that they're incredibly prolific and they make a lot of great television, and the things that they make are incredibly popular.

So they're putting out great output of content that is award-winning and more importantly, has a big audience traction because they have a unique voice and a unique way of telling stories that people like. And they're not looking to make a few things great. They're making – they're looking – they have found a way to scale, which is kind of what we're up to all the time anyway.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

So when you go upstream, so now – so when…

<<Theodore A. Sarandos, Chief Content Officer>>

Prior to the Netflix deal, Ryan has a deal with Fox, so if we wanted a Ryan Murphy show, we'd have to buy it from Fox. The clearing price to get it from Fox kept going up and up and up because Fox would like us not to have a Ryan Murphy show. So instead, we will have – Ryan Murphy will make those shows for Netflix, which is a good thing.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

So the question is how many producers

<<Theodore A. Sarandos, Chief Content Officer>>

And, by the way, they're attracted to us because they can – a, we have bigger appetite for their output. So normally, it's – any – whatever that deal is, the studio that – has a network that has a specific demographic that they program to. So if Ryan wants to get a little out of his wheelhouse, so there was no place for him on the network and then they had to go out and sell it. And if he didn't do that then he couldn't make it. For our Netflix, we're going to have an appetite for the vast majority of the things that he wants to make, which we’re very excited about.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

And how much of it also was working for a television network where maybe there is sensitivity around topic or ratings pressures see like...

<<Theodore A. Sarandos, Chief Content Officer>>

They do not want to know. I mean, I know you guys want to know the ratings, but they don't care. They don't want to know. In fact, there is a great comfort that comes from that having this kind of arbitrary apples to oranges measurements against other things on television.

If we are happy they are happy and we are happy because our members are happy and the actual specific number is not really that really relevant, it’s good trivia and I know people are interested in it to know what the exact number is, but the truth of it is, if those shows are successful they go out into multiple seasons and glory with -- but the main thing is, they build a big consumer base that people who love their story and we wouldn't, that didn't do with Ryan if the shows hadn't been successful on that.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

A little bit of inside baseball. Can you a little bit about how you convinced Ryan Murphy to make the switch? I read about in the trade, but it's a pretty interesting story for people who don't, so...

<<Theodore A. Sarandos, Chief Content Officer>>

I would guess that, the nice thing is that people would ask you before like where you guys dimensionally do overall deals? And after a long time, I said no, but when as soon as we said yes, it would be like, yes if we could get a Shonda or a Ryan and – or Jenji who have been really successful making shows for Netflix and the shows that they made for other people that we licensed from in the second and third windows have also been really successful.

So, our very first show that we licensed for Netflix that was still on television. Our first bit of licensing for our streaming content was that has been cancelled and not since indication. So, a pretty narrow things and they are full of things, but our very first show that was on TV was Nip/Tuck, which was a Ryan Murphy show and ever since then everything that he put out that we licensed from Fox really did well for us, not just domestically, but globally.

And so, when we feel we are kind of in that thing, yes, we can get Ryan Murphy we do an overall deal. Or yes, we can get Shonda Rhimes, we do an overall, or if we can do Jenji, Jenji doesn't do the volume of output that they do, but her stuff is always great and it does really great for us from Weeds to Orange is the New Black now to GLOW.

And so, when we do those deals, the one thing where we bought Ryan in, we kind of showed him a lot, like this is, here is how your show has performed. Here is how your shows perform around the world. Here is what American crime and American horror story have in common. Here is how they differ in audience and here is the bunch of unintuitive things you wouldn't know like you might guess from a bunch of other shows, whom I would like American horror story.

I bet you wouldn't guess the people who like Bob's Burger like American horror story. And it is that thread of humor that you've tread to all of his stuff that actually gives us the ability to broaden his audience beyond a single network.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

All right. So, how many more producers are there out there possibly who can still fill that build for him?

<<Theodore A. Sarandos, Chief Content Officer>>

We're not going to name them because it is competitively a nightmare.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

But it is a pretty elite class. It's pretty small. It's a pretty. It is a pretty small group of folks who can, you again really care about making high-quality content that is culturally relevant and also popular from mass audiences. It is a pretty rare combination. And have multiple shows running because it's hard not to get scale had to – they are like five people.

<<Theodore A. Sarandos, Chief Content Officer>>

Yes, it's maybe more than that, but not much more than that. Okay.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Watch the space. So, why is the move announcing to un trip the shows attractive for Netflix?

<<Theodore A. Sarandos, Chief Content Officer>>

Well, we've had. This has been our first year of producing our own original unscripted shows. And a lot of the dynamics of the marketplace in terms of licensing, second window unscripted shows has always been kind of a moving target. So, the scripts and discoveries and these folks of the world, they don't have as much leverage with the MVPDs with their rights. So, the clearing price for us the licensor show gets so high that it outstrips its value and then we move from one to the next one to the next one and then back to first one.

So, these groups of shows come on and off Netflix, and we really don't have any control over the quality of those shows or even the structure of those shows. Some of you I have told this before, but I – in my house we watch an embarrassing amount of Home & Garden television. And if you watch those shows on the network, every time there is a commercial break they recap everything you just watched, but when you put them on Netflix you strip the commercials out and it is ridiculous, it is like you take 7 minutes of the show that there is, but on Netflix we produce a 30 minute unscripted show, it's 30 minutes of programming with no catching up because we figured you remember what you just saw.

So, we started producing across the bunch of different unscripted verticals, by the way using the same production companies in many cases and a lot of the great executives from all the unscripted networks who have come over to Netflix to make these shows and we've had, right out of the gate, we've had incredible success with the show called nailed it, which is a baking competition show that plays incredibly globally and it surprises me that as a percentage of watching it is popular in Mexico as it is in the U.S., which relates roughly.

There is a show for car enthusiast called Fastest Car. It is a really incredible competition show between there is a thing called Ghost Cars, which I don't think that many people even know exist, but it is car enthusiast who build these incredible cars in their garage and then they race against the rich car enthusiast with his Maserati. But it is really, the race is 15 seconds of the show, the real story is the story of the car makers.

We have a show called the Sugar Rush that's upcoming, it is another kind of a take on the cooking competition shows. Queer Eye, which is a reboot of the old Queer Eye for the straight guy, which is a makeover show that is incredibly popular and drives a ton of like Zeitgeist and buzz in the media. Once you're spoofed on Saturday Night Live, you're doing okay. And so that's one of those shows.

So, again across the big variety of shows and brands that we can own and brands that we can design between do we want to make our local language format of this or do we want to make this show travel a little bit better by tweaking the show a little bit that you could never do with those domestic-only licensing.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

How do you measure your ROI between things like that versus the next Ryan Murphy show? So, how do you balance that?

<<Theodore A. Sarandos, Chief Content Officer>>

So, there is a theory that those shows are, even though they get watched a lot that they are slightly less valuable because there's slightly more passive viewing. All of that is based on second window, pull the commercials out, help programming on Netflix versus the stuff we're doing now, but even that being said, what I try to do with my team is we raise the efficiency bar on things like this.

So, unscripted television gets a lot of watching, particularly in the U.S., but it is hard to attribute that people really don't join Netflix to watch it. And they don't necessarily retain because they get to watch it. So, what we do is we raise the efficiency bar and these shows surpass that efficiency test, which is to say that relative to how we spend a dollar on that show doesn't get as much watching as this one regulated for all the different benefits of acquisition and retention.

So, there is some shows that, on Netflix that have small audiences, but are the reason that people join Netflix or the reason they say. Grace and Frankie was one where we didn't have a lot of programming for older female demographics. Lot of people who join Netflix to watch Grace and Frankie, only watch Grace and Frankie. So, 100% of their subscription value is attributed to Grace and Frankie. So, their shows can be really efficient as a membership driver even with smaller audiences, and then over time Grace and Frankie became a very big mainstream show.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

In some ways, I hear answer, I hear the replication of the TV bundle where we subscribe the bundle, and there is little script shows in distributor networks that cost a fraction of what sports or scripted content cost , but they kind of fill in the bundle for people who

<<Theodore A. Sarandos, Chief Content Officer>>

Yes, and I think those -- I think people who look for that, like I even though I watch a lot of Home & Garden television, I don't – if it wasn't on my cable provider, I wouldn't switch to satellite. . You know what I mean? So it's part of that. It is certainly, it is a form of entertainment that I enjoy a great deal and it is, it could be produced at a budget and could be maintained. And if you do it right, you can actually kind of raise the bar on the whole category, which I think my team is up to right now.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Do you sit there with the stuff as to saying content verticals, scripted content check, movies check, unscripted check, do you have a like a sense of content verticals that you want to move in?

<<Theodore A. Sarandos, Chief Content Officer>>

It is kind of what do people want to watch that we don't have? And so, in that case like big scripted is as much as 40% of the watching on domestic television and probably Netflix was closer to 7%. And that's some factor of the window, some factor that it just didn't fit the format very well. So, being able to push deeper into that. Feature films is something that about a third of our watching Netflix in every country is a feature film.

And people watch feature films differently than they watch series. And the one thing that you will do on Netflix is immediately after you watch a series is watch a movie because I think you probably don't want to commit yourself to another 13 hours of 26 hours of the show, so the commitment is probably for a little while and just watch a couple of movies and figure what I want to watch next and it is a way that my wife and I are never on the same episode of anything at the same time. So, if you want to watch together we watch movies.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

So, I understand it was in college big Netflix stand, but they would watch the office after watch?

<<Theodore A. Sarandos, Chief Content Officer>>

Yes, they do like the office.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Yes, so the question is comedy, comedy. They do…

<<Theodore A. Sarandos, Chief Content Officer>>

They do. They do. They think it's a new show. I saw Steve Carell recently, and he says everyone he sees they – now all of a sudden, young people think he's the greatest.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Michael Scott. So the question is comedy, just because they want comedy, sitcoms, it's kind of harder to find great sitcoms, right? So talk a bit about your movement into comedy. You've done comedy but differently because it's hard to create sitcoms on multicams.

<<Theodore A. Sarandos, Chief Content Officer>>

Yes. Yes. So I think it's a dying art form, and I think it's one of those things that I love, I think people really enjoy it. And it is one of those shows, one of those things that it's kind of a lottery system, Mike, because they're expensive to produce, the fixed cost of a sitcom are high, but then they – that they're back nicely if it's a Modern Family or – which is not a multicam but a single cam, but like a Big Bang Theory. So – and it's kind of one of those shows where people get very excited about trying them, but they're a big gamble. So that really – and it really affects the creative. These multicams are tested to death. They will make one episode, and then they test it with 16 people. And they didn't like it, so it dies. And what I found is that there's so much – there's a live performance element of the multicam that makes the chemistry super important.

So the hardest thing about a sitcom – about a multicam is the first couple of episodes. And those – and if they don't work on the network in two or three episodes, they're done. So we are trying to figure out better ways to do that by, in some cases, reshooting the first episode after we're done. In some cases, looking at different ways of doing it that don't really involve audience testing the early episodes and sort of looking at the whole first season as the pilot versus those. So we do one day at a time, which has been nicely successful for us. And Fuller House, whom am I forgetting? We did Disjointed, did not work very well for us, and we moved on. We got to do another Chuck Lorre show that's upcoming.

And The Ranch, which is a really successful show for us, that appeals more to the middle of the country and out, but with a great cast like Ashton Kutcher, Debra Winger, Sam Elliott. So we're trying a bunch of different formats, that if you get a chance to watch The Ranch, if you haven't, what you'll see is a much higher level of production value than a typical sitcom, which are usually oversaturated with lights, and where this one is – feels a little more cinematic even though it is shot in front of a live audience with a multicam.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. Let me take you to international. If there's one place where you've been most surprised, it's the growth of your international business. For those of us of a certain age, we kind of grew up looking at pay-TV penetration, certain Latin American countries, or we're talking about Germany before like cable, and those markets were always great story markets but never ever paid off in terms of the pay-TV penetration. So what do you see as the growth in Mexico, Brazil, Germany, and markets where typically there's been a difficulty building pay-TV, what has Netflix figured out that maybe old folks like me didn't see coming from traditional penetration metrics.

<<Theodore A. Sarandos, Chief Content Officer>>

I think it's – well, I think what's different for us in these markets, where I think a lot of what people judge how people will do in a market is based on the – all the conventional wisdom of that market. And if you think about Germany, as an example, it's just one of the most subsidized television markets in the world, $9 billion of government money that goes into the German television market. And people think of things like, well, German is like this versus like there is like one German that just like things like this.

And their tastes are diverse as everyone else. So we – and you so give people choice and access. They will find a lot of things to watch that are different than what people are thinking the German market wants. There's a thing about people in the U.S. think that everything in Germany has to be dubbed because it's a dubbed market. This is a made-up thing, that when you give people choice, they're just as likely to watch subtitles or dubs. It's just that they were had access to dubbed content because that's the only way it – would – had aired previously in Germany.

And that – so we're finding that, that is – those things are not as country-specific as you think, and what's really great is it works the other way too. So we produce a show called the Dark in Germany, and it is – it's remarkably popular all over the world, including in the U.S. So it is this – we're building to this thing, where The Rain from Denmark; Dark from Germany, of course; 3% from Brazil, these are all shows those that are traveling the world brilliantly and then finding big audiences in the U.S. So when I look at that, I see – now Rain is an example, I think, of where is this great storytelling and we've invested more energy in delivering a really great dubbed experienced for viewers. The cast in Denmark all speaks perfect English.

So they dub themselves in English. So it worked out really well. People love the show. So in this place, where not only are we – be able to produce original local language production that drives subscription in those markets and drives retention to those markets, but they travel throughout the region. So they can be very pan-regional, they're all 100% pan-regional, but they're often very, very global. And the idea that the next Stranger Things could come from anywhere in the world is getting closer and closer to a reality.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

To come back to kind of that, the one in Germany, do you think the ability to penetrate for you is more prevalent in markets where you had a big local broadcaster, like kind of like when I think about Globo in Brazil or…

<<Theodore A. Sarandos, Chief Content Officer>>

Yes, remember Globo in Brazil, when we first launched in Latin America, I remember just thinking, when we went to LATV and had meetings with all the big broadcasters and all the big producers, and everyone just was very enthusiastic. We have a new buyer in the market. They are really thrilled. Globo was the only market, still today, the only broadcaster that has never sold us a minute of programming for Brazil. And at that first meeting, after that whole day of enthusiasm, the guy – one person came from Globo meeting and he was arms crossed like this, and at the end of the presentation, he said, "Good luck."

So we didn't have local programming to launch the services. We had to be really good. And we got really aggressive producing our own original programming there. So right now, we have O Mecanismo and 3%. They're both really loud shows in the market there. And if you go to Brazil, they love Netflix in Brazil, and it's because that we didn't give them what Globo gave them, we gave them what Globo didn't give them. So it was less about novelas and more about big scripted programming and high-quality programming that people really fell in love with, and they felt like they're part of the world.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Right. So one of the debates I've had with clients, Spencer, is the – that idea of traveling content. So in the beginning, way back when, the idea was, hey, we're taking U.S. content, U.S. content works around the world, would have discussed U.S. content. Now you're moving more to local content. Can you – is there anything you could say about the U.S. content popularity's markets? Was it local, the thing that…

<<Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development Chief Communications Officer>>

I don't think the people were really drawn to U.S. content particularly. They're drawn to high production value. And the U.S. market was big enough that we produce on a big scale. So that, I think, was the driver. So I think that you can replicate that in market with local storytellers and local producers and local actors. Those stories can be global too.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Right. So we should – where you're investing more locally, we should expect a follow-through on subscriber up because you guys have made nice things about Latin America, Europe…

<<Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development Chief Communications Officer>>

It's had a nice compounding effect in those markets, for sure, and I think that we'll do more. And in fact, there's a lot of countries we have not produced in yet, but we're shooting in 17 different countries, original programming.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. Now here's a math question for you. Of the $8 billion or so in…

<<Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development Chief Communications Officer>>

I was told there would be no math.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Exactly. How about multiple choice? So the $8 billion or so of programming cost that will hit the P&L in 2018, $8 billion, how much is now earmarked for originally produced content?

<<Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development Chief Communications Officer>>

we don't break it out, and really, you shouldn't – it's not that relevant to the business really. It's the total spend that matters, but it is growing and it's about 85% of all new spending is on original programming, as far as global or original.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Michael Nathanson

85%..

<<Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development Chief Communications Officer>>

Global or original, yes.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. And I think you said $1 billion was – that $1 billion was in Europe last week as part of the…

<<Spencer Wang, Vice President, Finance/Investor Relations & Corporate Development Chief Communications Officer>>

$1 billion in Europe was – and I think that – remember, that multiple shows in France and Spain, producing now in Italy and there's a lot – Poland upcoming. So we've got a ton of unchartered territory in Europe still even at those levels and UK.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

When you guys, when you hit 50, will you tell us when you hit 50?

<<Theodore A. Sarandos, Chief Content Officer>>

What, 50% of spending?

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Yes.

<<Theodore A. Sarandos, Chief Content Officer>>

Well, Spencer – talk to Spencer.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Maybe not. Okay. There is no parade or anything, no? Okay. So is it before you called out shows that have worked cross-border.

<<Theodore A. Sarandos, Chief Content Officer>>

I should say, by the end of 2019, Netflix Studios will be our largest single supplier, if that helps you.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. I just figure who's the biggest supplier now. Okay. So you called out shows like Narcos, where you always a dark and…

<<Theodore A. Sarandos, Chief Content Officer>>

Narcos was intended to be an English-language show that just happened to be set in Colombia, and then when it started working much better in Spanish, we just said it was good. People always forget that, that show's almost completely in Spanish.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Yes. Are those shows the exceptions to the rule about traveling? Or have American producers just underestimated the appetite for more global storytelling?

<<Theodore A. Sarandos, Chief Content Officer>>

100%, 100%. It's just this is what people know. This is what – these are the relationships they know. These are the people that they know. I remember, when we first started doing so much original programming, people said, aren't you worried you're going to run out of stories or storytellers? Then I said, well, if you think they all come from New York and L.A., yes. But there are people who have been telling stories around the world for a long time.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Can you help us better understand how the proposed changes to the EU's broadcasting rules, which extend out to online services and include a quote of 30% on all European VOD works, how does it impact Netflix? Or how are you going to work within that content?

<<Theodore A. Sarandos, Chief Content Officer>>

I don't think it will really have much impact. I mean, first of all, that these are – I mean, at the stage that it's in, it's very early and it's going to ripple through, I think, several years for these things to really become law. And I think, in general, we want to program to what people want. And the idea that these things can be quite global and that – the idea that we would organically be producing 30% of programming in Europe would be very high.

So I'm not – we're not that concerned about it. No, because I said, I guess, I think the things that we're doing, it's not just the number of shows that I think will matter. I think, over time, there will be much more nuance about it, look at that and look at the relevance of those shows. So it's like you could program a bunch of – I heard very a funny story. I think fans of SCTV, you know the SCTV show?

<<Theodore A. Sarandos, Chief Content Officer>>

A couple of nerds, I guess. But they create – and you all know these characters, but there was a specific character that became the big breakout of the show, that basically, they will produce it only because they were trying to increase the level of Canadian programming from the show for local, like, culture, obviously, differences of, and just happened to break out that way. And I think it's the same thing, is that if you make something that's really funny, it's going to be huge. But if you make it just because it has to be Canadian, it may not be.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>:

Right. Sure. Okay. So do you – tomorrow, we have Professor Galloway who's going to talk about why the government should break up Facebook, Amazon and Google. Do you worry that – this is where the question is going, do you worry that governments around the world or regulators start worrying about the impact of Netflix in their – the local markets and somehow the regulatory changes that they put on you guys.

<<Theodore A. Sarandos, Chief Content Officer>>

I think we understand that we become – and we are becoming a bigger presence in countries. We understand that we – how – we are mindful of that and the responsibility that comes with that, and we want to be great partners in those countries. So we follow every – the local laws that apply to us to make sure we're completely mindful of that. We are becoming also a big production partner for – in a country for a lot of these people, who are mostly concerned about disrupting their local production ecosystem, where we are a big buyer and a big producer in those market, not so when it is coming in to tear them down, but someone who is coming in and adding a lot of value to those countries.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Can you touch a bit about the base about the Cannes controversy, maybe it is a good segue about what happened in Cannes, Cannes, whatever you Cannes, you say that and let it ?

<<Theodore A. Sarandos, Chief Content Officer>>

Yes, last week it was kind of Reed had been in France talking about backing up for a second. In France, hardly any people in LA don't understand this either. There is a law in France, not a business practices or a habit or anything or a handshake, a law that if you put a movie in the theatres in France, you can't put it on the subscription service for three years.

So, it is just France, nowhere else in the world has a rule like this. So, we do not put our movies in the theatres in France. And this past year, at the Cannes Film Festival applied that are rule to the films that were into the festival that if you are going to be in, you had to agree to release it in France, which means for, if we wanted to show our movies to the 600 people in the Cannes Film Festival we had agreed not to show it to millions of other people in France who use Netflix.

So, we obviously said we pass. And Reed was making a presentation in France that he was speaking to the French press to say that we are not trying to, we are not trying to disrupt the law. We are not – we are fine with the window if you like it that way.

We just won't, but we are just not going to put the movies in the theatres, but we're not going to try to change the law. And it was misinterpreted in saying that we were going to be less into movies or less into trying to innovate windows in other places, but we are 100% committed to like collapsing windows outside of France because that's what consumers want.

So, really, we're not pro-theatre or anti-theatre or we are pro-consumer and consumers really don't understand windows. They are really at a step I think with the current what I want, where I want, when I want model of programming and it's legitimately the only kind of entertainment like it that still has this window. I mean, in books, video games, live sports all these things are day and day except for movies in theatres.

And if France wants to continue to process with that that's,– we're100% compliant and happy to support the French window, but we're going to keep pushing that outside of France with our original films.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Do you want to be in – do you ever foresee being in theater in a movie – day and date as in theater? I know the theatre...

<<Theodore A. Sarandos, Chief Content Officer>>

Look, it's not up to me. We will put all of our films in theatres day and date. It's that the big theatres won't book the films unless they have a 90-day window. And that window we hope will get smaller, but in general we are not – we are only going to do day and date in the theaters everywhere outside of France.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. That's a segue out of question about – HBO had said that movies are critical to their consumption. . It's just like 60% of their consumption comes from film. What role do you see a film playing for your longer-term at Netflix?

<<Theodore A. Sarandos, Chief Content Officer>>

Well, I've read that same figure. I think that's true of their linear servers but their on-demand service tends mostly television as same as ours though. So, I think there is a lot, there is a difference in there. And I think films will be continued to play a very important role. We're producing, and we've acquired and are releasing 80 films this year, from sub-$7 million indies all the way up to $100 million-plus blockbusters and everything in between.

And we've been really thrilled with the reaction to the films. We think that they can have acquisition value, retention value and viewer value and brand halo, just like the series. And relative to a TV series, you might have 30 hours of viewing, it's tough to stack it against two hours of a 2-hour movie, but one for one, we've been finding efficiency there too, meaning we're getting enough viewing and enough watching of a big-budget movie that is competitive with the films – the TV money as well.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

And what do you think it does for you from a customer acquisition standpoint or

<<Theodore A. Sarandos, Chief Content Officer>>

If it's a big event that people want to see, I mean, I think a big Will Smith science- fiction action movie like Bright, and people will join to watch and retain to watch. And remember, these pay-TV movie deals, we don't find that the viewing of those movies are particularly passionate.

So it's 10 months after they've been in the theater. If you really wanted to, and by that time, it gets to Netflix or HBO or anybody. So for that, we just basically said, look, for that dispassionate viewing that’s quite expensive, maybe we could put that $1 billion that we would have been in the output deals into original production and then have really a passionate movie viewing that you can only see on Netflix. So that’s the driver of the initiative.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

You took my question which was, Disney, obviously, is moving their films off of your platform. How important have their powers been to the brand given how Disney’s been so successful in the past two years.

<<Theodore A. Sarandos, Chief Content Officer>>

Yes, like I said, yes, they did – there’s engagement. People watch them, but it wasn’t particularly passionate watching. And those films are widely available in a bunch of other channels.

And so I think that that’s why we think this is the right move for us to differentiate our programming better. And it will be interesting to see if that’s strong enough, and will they be more aggressive with the window than they were able to or willing to with third parties.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Do you think they will?

<<Theodore A. Sarandos, Chief Content Officer>>

I don’t know. I’m not sure. I mean, that’s – it’s new ground for them. So we’ll figure that they will find their way.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Yes, I don’t think they want to tip their hand until they got approval and the product starts.

<<Theodore A. Sarandos, Chief Content Officer>>

They do make a ton of money selling all that stuff to a bunch of other channels. So turning all that revenue into a content cost is going to be an interesting balance, but they’ve got great brands and they will figure it out.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. Let me ask you about India. Reed, I think, said earlier this year that India’s going to be a major source of your next 100 million subscribers. From a programming perspective, what do you see is the opportunity to serve that market?

<<Theodore A. Sarandos, Chief Content Officer>>

So we've got six really big kind of tempo original shows coming in production India right now. Sacred Games is one that's upcoming that people come to market first and then Selection Day, and these are shows that are – it's interesting about the Indian market, is that it's a culture that loves cinema and is kind of television-starved. So there's not really great local television in India, and what we're trying to do is something really new to the country, which will be kind of cinema-infused television.

So big-budget production but in long-form storytelling. We think it's new. We think it's going to differentiate us in the market. And these are kind of big-budget, big- scale productions with local stars that I think people will like as much as they love movies. So that's what we're trying to invest in that market, in not trying to go into the market and replicate what's on television, it's kind of like what I told you about Globo and bring something new to the market.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

Okay. So I asked Ted and Spencer if we could take some questions from the room. I have more here, but if people want to ask Ted questions, please be our guest. So any questions for Ted or for Spencer?

<<Theodore A. Sarandos, Chief Content Officer>>

Don't be shy.

Q&A

<Q>: You mentioned that some of the ratings systems are looking for trivia. Do you employ social listening or other techniques to get to that zeitgeist value that you mentioned around these programs?

<A – Theodore A. Sarandos>: We look at like Google Trends, like with search trends, we look at social media measurement, external social media measurement, what people are posting about, what are they responding to, what are they searching, all that. Yes. And those are real, not passive listening tools like they use for Nielsen and others as their actual – that's what they're using.

<Q – Michael Brian Nathanson>: How are you incorporating data into your decision making?

<A – Theodore A. Sarandos >: For what we make?

<Q – Michael Brian Nathanson >: Yes programming.

<A – Theodore A. Sarandos>: Yes, very little to what we are deciding what we make. Basically, the best use of data for us is being able to more confidently size the potential for a show. So, if we use the data base on past performance of letters like things that it could raise our confidence that a show with a big budget could also reach a big audience and that we could go – or the others could be true to, which is, we think this is a great show, but it can, even in wild success it

can only reach this many people. So, if we can make it for this amount and say yes to that, but it helps us size the projects better, but it doesn't, we don't use it for any creative input.

<Q>: Is creative input still – it's the god of the production talent saying, I believe in the storyteller, I believe in the storytelling, I believe in …

<A – Theodore A. Sarandos>: It is believing in the story, believing in the storyteller, believing in the storyteller's ability to tell that story. I mean there is no shortage of good ideas, but it is really a rare to have a storyteller who can deliver on our big vision.

<Q – Michael Brian Nathanson>: And that's been one of the changes. You've hired Scott Stuber from Universal, right?

<A – Theodore A. Sarandos>: Yes, yes. That's right.

<Q – Michael Brian Nathanson>: And to run film, that's – so have we seen his product yet hit the..

<A – Theodore A. Sarandos>: Couple of the smaller projects, but some of the bigger ones will be upcoming.

<Q – Michael Brian Nathanson>: Okay. Questions from the room.

<Q>: How many services really do you see an average consumer will end up purchasing? And as Amazon and Disney and Hulu and HBO all copy your model, ramp more original programming, how crowded is that marketplace going to be and different in the U.S. and globally?

<A – Theodore A. Sarandos>: I am not sure with, well how will that broaden out to how many because I think, really what I'm focused on is making sure no matter how many, one of them is out. So that is – our main focus which is as there is more and more options and more, more choices, what none of them will have is stranger things.

What none of them will have this 13 Reasons Why and Wild Wild Country and Evil Genius. So, that is why I think that the unique nature of our programming is something that we have got to really focus on. And we really by doing that by focusing on the customer versus focusing on the competition much.

<Q>: I had a follow-up on that. Amazon, if you can think about sourcing content, how do you compete to get the best new content, not only in the U.S., but around the world, if they are trying to ramp all their stuff?

<A – Theodore A. Sarandos>: There's a couple – remember that there's – creators – I think people always kind of try to guess what the creators want. In some cases, they go, they just will go to the highest bidder. Usually – sometimes, that's true. The other one is, is they really want to be – they want their stories heard. They want their show to be in the zeitgeist. They want to be talked about. They want – I mean, they want to have an impact on the culture.

And in many cases, the creators that we are talking to they are watching Netflix, and they want to be on the networks that they watch. So that's, it is a big advantage for us, which is that people want to be where people are watching and so we have got, that is one part of it. The other one as it is a super-competitive marketplace I mean there are new bidders all the time.

We saw there was a high-profile bidding thing on this, with Reese Witherspoon and Jennifer Aniston and with Apple. So, there's no – it's not like, someone can't come along and outbid. And so, it does happen a lot. So it's a great time to be a producer, that's for sure.

And the way that we can secure those shows is to with – by having great reputation with talent, by having a good – a brand that people want to be associated with and a good track record of delivery. And then the money we have to compete. So…

<Q>: Yes, just on advertising, I know that's something that Netflix had gone away with for a long time. And we're seeing Spotify yet using proprietary ad-supported channels with their on-ramp drivers. Would Netflix consider that approach, or is it really trying save with those advertisers?

<A – Theodore A. Sarandos>: It's part of our brand proposition today, which is to – ad-free. It is something that people react to, which is one of the things that they kind of flee from traditional television is to get away from the advertising, particularly if you have kids that the ads, the non – no advertising on our kids' programming means a lot to parents. So – and we've built the model not to be dependent on advertising. So

<Q – Michael Brian Nathanson>: And second to that, my cable dial, you're not giving me all the news I want, all the sports I want. I think it is basically decade now, what point do you step up and say, you know what those are two verticals that we get a lot of value in, well, in news and daily sports?

<A – Spencer Wang>: I have given up trying to answer this question correctly because it always starts a new, new cycle that I said. I didn't say no, hard enough. But I would say, seriously – when it is the next best use of the next $10 billion that is when we probably do a big sports deal, but it is – that is what would cost to do one of the big deals and we have had better uses of that money for our other kinds of programming up till now. At some point, if that is not true, we would look at that – we could look to that. And news is, there is a lot's of great alternatives for news all over the place for free.

<Q – Michael Brian Nathanson>: Okay. Any more from the room? Yes?

<Q>: [Question Inaudible] in discussions, do you ever worry that you have too much?

<A – Theodore A. Sarandos>: No, because tastes are so diverse. The main thing is do we have something for you and your spouse and your kids and your cousin and your neighbor. And it's likely that those are not the same show. So people say why do you guys release so much more. Can but it is not all for you. So, our goal is we are trying to find that show or shows that you

can’t live without and to do that you have to be – you have to have a lot of diversity in the programming.

And to do that which adds up to a lot of volume, but if we do our jobs right, we don’t clutter your environment with a bunch of things you don’t care about. That’s the beauty of a lot of diversity and a personalization method to make the site relevant for you every time.

<Q – Michael Brian Nathanson>: The companies don’t need people crying or apologizing, but do you think that traditional media companies are going to go over the top? They’re more narrow in that approach. It feels to me like they kind of stick more on what’s our brand, like their brand is..

<A – Theodore A. Sarandos>: I think it’s a bit of doing what they have – that’s what they have done, which is there’s a lot of one- and two-brand networks on television. And as they moved to be over- the-top services, there are one and – there are still one- or two- brand channels, and I think people may not ascribe a net value to them to remain subscribers because they’re not finding enough things to watch. So when I look at it, we’re trying to say are we growing engagement with our viewers, are we growing net subscribers. Then those are the two measurements we look at for diminishing returns on our content investment. If we are not growing hours of viewing and not growing subscribers, then we have kind of hit a plateau, which we’ve not seen signs of that yet.

<Q>: How do you think about as you put more and more content out there, you got to worried a bit, and not worry about [Question Inaudible] are you stepping up [Question Inaudible]?

<A – Theodore A. Sarandos>: For most of the programming, I would say for a lot of the programming, you got to remember we have 125 million people who spend about 2 hours a day on the side. So, we don’t have the inner decision. We have the presentation. We have the billboards. We have all those tools that are geared to the individual taste to make sure that that thing is super relevant.

I actually have a quick question, how many of you all in this room know the movie called Roxanne Roxanne? A couple. How about a movie called Dude? One. There we go. Okay, our competitors in the movie space will say, oh, movies go to Netflix and get lost. Well, what you guys don’t know is about 8 million to 10 million people have seen those movies on Netflix, and these just came out.

And I realize when sometimes I even question my own age and the only thing because I spoke at a campus a few weeks ago and we are taking about in this room. We are talking about what Roseanne meant to ABC, this event of the coming on ABC and getting this huge rating. And I’m talking away about this thing, and I’m, you know, this is the network getting rewarded for programming to 50-year old’s and I look out in the audience, and they’re just glassy-eyed. They have no idea what I’m talking about.

And I go, do you guys know there’s a show called Roseanne? Do you know there is a Roseanne Barr? Do you know there’s an ABC? Nothing, nothing. But when I mentioned Roxanne

Roxanne, and just in passing, about 75% of the room lit up and nodded and started whispering back and forth to each other.

So this is that thing. There is a whole culture that's watching something that we're not all tied into every time. And every once in a while, you get something like a Stranger Things that really crosses over all of them or Bright that crosses over all of them. 13 Reasons Why with a new season coming up next week crosses over all of them.

And these are some of the most watched movies and television shows in the world. But there's also very big audiences for these smaller projects that the site carries almost all the weight of getting people to be aware of them. So it's really – it's particularly exciting, I think it's incredibly an exciting time if you have a story to tell and you're not limited to how many spots there are to buy TV commercials or how many pages to buy ads or how many billboards there are to buy, that you can really find a big meaningful audience. I mean, it's not an apples-an-apples thing, but 8 million to 10 million movie tickets is $100 million box office.

So it's a meaningful thing, and it's happening almost everyday on Netflix. I mean, and there's more than one movie a week coming out that would be attracting audiences in that site.

<Q – Michael Brian Nathanson>: Ted, thank you so much. Wait. One more before you go? Okay, one more.

<Q>: [Question Inaudible]

<A – Theodore A. Sarandos>: Say it again

<Q>: [Question Inaudible]

<A – Theodore A. Sarandos>: No

<Q>: Okay. Do you do a product placement…

<A – Theodore A. Sarandos>: We do, we allow the producers to do product placement. We retain approval rights over it to make sure it's not grotesque.

<<Michael Brian Nathanson, Analyst, MoffettNathanson, LLC>>

And with that note, Ted, thank you. Spencer, thank you.

<<Theodore A. Sarandos, Chief Content Officer>>

Thank you. Okay. Thank you so much.