

Netflix, Inc. NasdaqGS:NFLX

FQ4 2019 Earnings Call Transcripts

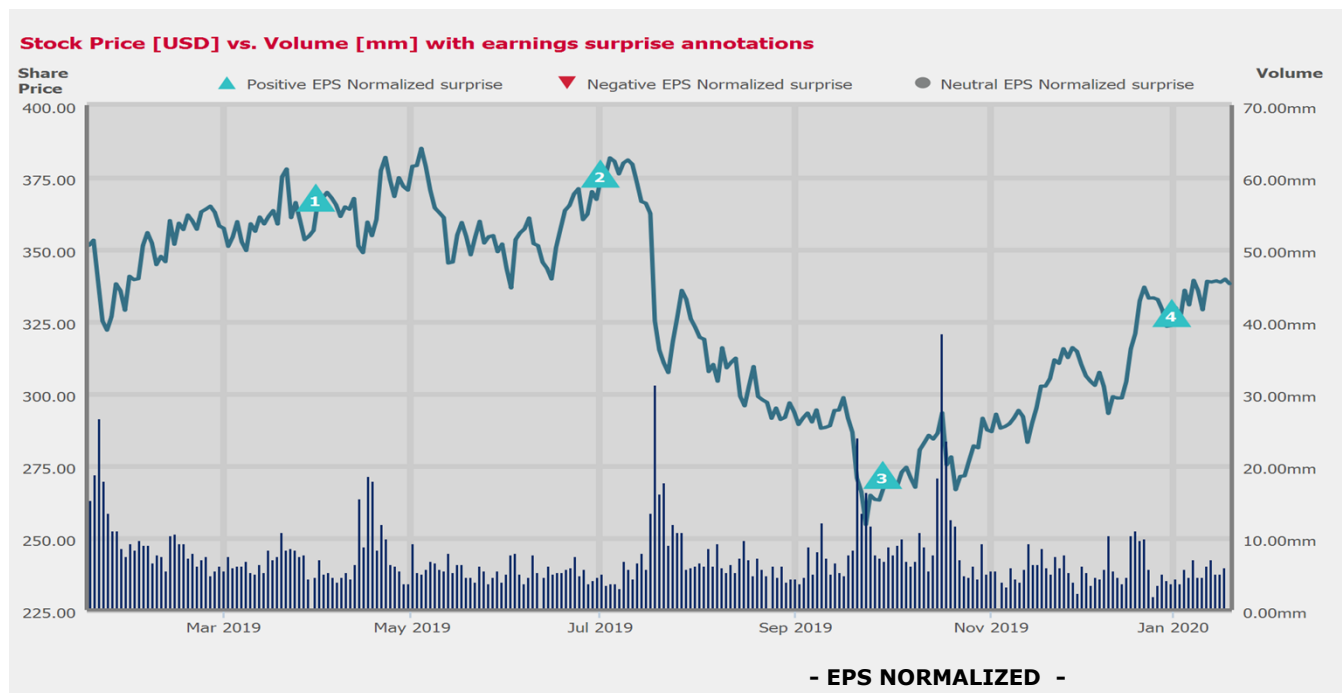
Tuesday, January 21, 2020 11:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-		-FY 2019-			-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.52	1.30	▲145.28	1.18	1.66	3.36	4.13	▲22.92	5.53
Revenue (mm)	5450.56	5467.43	▲0.31	5762.27	5731.00	20140.90	20156.45	▲0.08	24591.16

Currency: USD

Consensus as of Jan-21-2020 10:40 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	0.57	0.76	▲1 33.33 %
FQ2 2019	0.55	0.60	▲2 9.09 %
FQ3 2019	1.05	1.47	▲3 40.00 %
FQ4 2019	0.52	1.30	▲4 145.28 %

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Call Participants

EXECUTIVES

Gregory K. Peters

Chief Product Officer

Spencer Wang

*Vice President of Finance &
Investor Relations*

Spencer Adam Neumann

Chief Financial Officer

Theodore A. Sarandos

Chief Content Officer

Wilmot Reed Hastings

*Co-Founder, Chairman, President
& CEO*

ANALYSTS

Michael C. Morris

*Guggenheim Securities, LLC,
Research Division*

Presentation

Spencer Wang

Vice President of Finance & Investor Relations

Good afternoon, and welcome to Netflix Q4 2019 Earnings Interview. I'm Spencer Wang, VP of IR and Corporate Development. Joining me today are CEO, Reed Hastings; CFO, Spence Neumann; Chief Content Officer, Ted Sarandos; and Chief Product Officer, Greg Peters. Our interviewer this quarter is Mike Morris from Guggenheim.

As a reminder, we'll be making forward-looking statements, and actual results may vary. With that, let me turn it over to Mike now for his first question.

Question and Answer

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Great. Thank you, Spencer, and good afternoon. Before we dive into some of the details that you provided in this quarter's letter, I'd love to have Reed provide some strategic thoughts as we head into the new year, the new decade. Perhaps we can start with just what were the most important strategic accomplishments in your mind of 2019? And as you look forward, what do you hope to accomplish this year?

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

We've had the same strategy basically for 20 years, which is please our members and they help us grow, and we've done that in a variety of ways. Of course, initially just with DVD by mail, then the combination. And if you look at what we've done in expanding film and making that a really strong aspect of Netflix, we've had a lot of continuous progress. But it's the same strategy we've always done, how do we learn how to please our members, whether that's on the product side, marketing side or content side. In the next decade, we anticipate the same, how do we use the great resources that we have to do even better.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Now let's talk a little bit about some of the key specifics from the letter today. The first, of course, is the guidance on your member growth for the coming quarter. We had a very strong fourth quarter compared to your guide. The first quarter is lighter than it was in the prior year. You talk about some of the potential for timing between the first and second quarter. I think the key question on investors' minds is how to think about the full year. 2019 looked very similar to 2018 with the strong fourth quarter. How should we think about the coming year in that regard?

Spencer Adam Neumann

Chief Financial Officer

Want me to take this one?

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

Sure.

Spencer Adam Neumann

Chief Financial Officer

I'll take this one, Mike. So first, I should say, Mike, our opportunity, we view our opportunity -- our long-term opportunity as big and unchanged. So we should be clear about that. We're not providing full year guidance, but when you think about Q1, again, it's coming off of the all-time biggest quarter we've ever had in Q1 of last year. We guided to 7 million paid net adds in 2020. So when you look at that Q1 2020 number of 7 million, that's still a big growth. That's -- we've only had 4 quarters in our history where we've grown more than 7 million in paid net adds. And the number specifically, it reflects, first, there is primarily a U.S. story there, in that we have seen, and we talked about in the letter, some elevated churn in the U.S. from a combination of pricing and competition. We've kind of rolled that through into Q1, including a full quarter of competition in Q1 versus a partial quarter in Q4.

We also anticipate that competition rolling out globally throughout the year. So we're trying to be prudent of thinking about that impact throughout the business. And then what we talked about as well is when we think about the seasonality, the arc between Q1 and Q2, the first half of the year, we think it's likely to be more balanced because of the timing of the price changes we took that rolled through Q2 of 2019. So we

think that our seasonality is going to look more like 2018 than 2019 when you think about the first half of the year.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Okay. And when we talk about competition, you've mentioned churn a couple of times with respect to the potential impact. Can you talk about competition on both gross adds and engagement as well? Especially in engagement, I know it's early, but clearly, the Disney+ product has a very heavy kids and family focus to it. Have you seen any specific engagement change on your content in that genre?

Spencer Adam Neumann

Chief Financial Officer

Sure. Well, I'll chip in. Others can -- we actually alluded to this in the letter, Mike. The great thing is, first off, we're growing in Q4, including in the U.S., even with some of this noise from competitive launches. And ultimately, what drives our business is increasing member satisfaction and viewing. And what you also see in the U.S., what we saw across the board is that our viewing, our per membership viewing grew, not just globally, but in the U.S. through Q4 and continues. So that bodes well for our long-term opportunity as long as we keep getting better.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

And Mike, think of it that Disney product, Disney+ has a lot of great catalog product and one big new show, *Mandalorian*, and it primarily is going to take away from linear TV and takes away a little bit from us. But again, most of the growth in the future is coming out of linear TV.

Theodore A. Sarandos

Chief Content Officer

It draws down by a variety of people because they were so broadly distributed prior to the launch.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Okay. And I guess the last thing on this particular topic is the behavior outside the U.S. as compared to the inside. Clearly, within the U.S., a more mature market, and that's where the products were primarily focused in the fourth quarter, their launches. We do have some more expanded international rollout, particularly Disney talked about or announced a broader European rollout at the end of the first quarter. Any thoughts specific to that? Is that factored in? Is it one of many things? What's your thought there?

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

It's one of many. I mean Disney is going to be a global service quite quickly. And there are many other global services. Remember that we compete a lot for time with YouTube, and it's not dollars because that's ad supported. But we compete very broadly for viewing. And as Spence mentioned, our viewing on a per-member basis is up. And that's because our content is getting better, our service is getting better, and that's all coming out of linear TV.

Theodore A. Sarandos

Chief Content Officer

And I would say that their brands are definitely global brands, but they are no -- with the exception of China, they're not more popular than they are in the U.S. anywhere else in the world.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Okay. And so Greg, a question on pricing. Greg, when we spoke last quarter, you felt that these competitive launches would not have an impact on your pricing. So I guess the first question is now that you have this quarter under your belt, any update on that point in particular?

Gregory K. Peters
Chief Product Officer

Yes. I think it's useful to start with just noticing that our revenue in the United States is up 23% year-over-year in Q4. So we're still seeing pretty significant growth there. And we're not seeing anything that fundamentally contradicts our core model or suggests that it's changed in a material way. That model is, if we do a good job of judiciously investing the money that our members give us every month in great stories and better product experiences, creating more value for them, then we occasionally earn the ability to come back to them and ask them for a little bit more money to keep that virtuous cycle of improvements going. And everything we're seeing continues to support that core model is intact. So that's our job.

Michael C. Morris
Guggenheim Securities, LLC, Research Division

Okay. Great. And to go down that path a little bit further. Historically, you have done some sizable price increases, at least on a percentage basis, on a somewhat spread out time frame. How do you think about possibly doing perhaps a single annual price increase in a more mature market at a more modest rate? I hate to say this, but maybe somewhat more similar to what people have experienced with their cable bill or something to that effect.

Gregory K. Peters
Chief Product Officer

We don't have a fixed model that we're coming in and saying, this is the right approach. So I think our job is to actually listen to our members, give -- the signals that they're giving us in terms of the engagement, that we're seeing that engagement growth that you heard we're going after. And we'll really use that as a mechanism to guide us towards when have we earned that opportunity to come back and ask for more. So we're not really coming in with just a fixed model that we're going to shift to or anything like that.

Theodore A. Sarandos
Chief Content Officer

And if we're putting hits on the Board and we can see that in the terms of watching and engagement and subscriber growth and growth in the zeitgeist around our projects, then the more you could do that, the more frequently you can go back. So we have to -- we have -- we're in this great model where we have to prove ourselves to our members literally every month. So it's a really -- it does hold us to a very high bar and keeps us coming back and doing more and topping ourselves if we need to.

Michael C. Morris
Guggenheim Securities, LLC, Research Division

One last question on this is around premium plan subscribers versus your standard plan subscribers, which largest -- you've mentioned in the past, clearly, the largest group. What has been the trend with respect to your subscribers moving to the premium plan? And is there a way to further incentivize them to almost have a self-opted price increase, but also clearly getting an improved product as well?

Gregory K. Peters
Chief Product Officer

I think we're, again, constantly evaluating the right balance of what features, what prices at those various different tiers. But we haven't seen a significant shift in that, and we see a healthy take rate across all of our plan options, which is a really good sign, I think, that we're providing a range of options at a range of price points that allow consumers in the markets that we serve to sort of select into the right model. Again, we want to be innovative about that, and we'll look for ways to create more value across all of our tiers. But right now, that blend is pretty healthy, we think.

Spencer Wang

Vice President of Finance & Investor Relations

And Mike, I would just add that in terms of plan mix, you have, over the years, seen a slight migration towards the higher price point plan. That is something that we have seen, but it's quite gradual. So there's no sort of big jump in any sort of given quarter, but quite a gradual increase in that, which I think maps to the growth in smart TVs and high-definition TVs.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Okay. I'd like to switch to a few questions on content and content strategy. So Ted, the ramp in feature film product, in particular, both development, release, big step forward for you in 2019. As you look into 2020, what are you most excited about either from a content perspective or an overall thematic perspective? There's a healthy amount of information on some key titles in the letter but would appreciate you highlighting the things that are most important to you.

Theodore A. Sarandos

Chief Content Officer

Well, looking forward to next year, we get the opportunity to do some things that we know have worked and come back with some sequels. In our super popular YA genres, we've got these rom-coms, *To All the Boys I've Loved Before* and *Kissing Booth*, coming back with sequels in Q1 and Q2. We have big, big-ticket action films with Mark Wahlberg and Charlize Theron and Chris Hemsworth, more like the things you've seen coming -- in Q4 and trying to program our movies like we do our series, for every taste, every mood, every region of the world. So it's not trying to make one-size-fits-all programming, that's why we have so much of it. We just wanted -- we all -- we're going to hold it all to a very high entertainment bar. So you're going to see us working across all genres, like we did in Q4, and still continuing to kind of press up the production quality and the production investment in these films.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

And those are all coming out in Q1 and Q2 of this year and some in Q3, Q4. So we just got a tremendous slate this year.

Theodore A. Sarandos

Chief Content Officer

Yes. And I think the one thing we have put out in the letter, it's exciting that we end up with being the most nominated studio at the Oscars this year with our films, but the most exciting thing is those films are all incredibly popular with our members as well.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

So that leads into another question, which is as you have sort of shifted and increased this focus on film, Ted, in particular, you've highlighted a couple of reasons for that and benefits of members. Those have included some comparison with respect to the value proposition, right? You can compare it to a film?

Theodore A. Sarandos

Chief Content Officer

Yes, you know what a movie ticket costs, so sure.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Exactly. I think we've also talked about the ability for film content to travel, there's sort of a -- perhaps a broader global base of interest. Anything else that you would highlight or remind us of for why this shift in investment -- or maybe not shift, but expansion is important? And also now we have another year under

our belt with a pretty robust slate, so have things been progressing as you would have expected given those objectives?

Theodore A. Sarandos

Chief Content Officer

Yes. I'd say, look, when I look back at Q4, I look back and say I'm glad we decided to do this about 1.5 years ago because that's about the time it takes to secure the deals and obviously do the production and get through post and get everything delivered at the level of quality that we are able to. And so now we have all of that kind of ramp-up behind us, and we'll have a steady flow of projects like you've seen in Q4.

Similarly, with feature animation, when I see where we're at today with access to programming and all those other issues, we've been ramping up our feature animation for almost 3 years and really hit the ground with our first project, with Klaus in Q4. That was a complete audience pleaser and an Oscar nominee for Best Animated Feature. And that will keep a steady drumbeat going there as well. In Q2, we have an animated feature called The Willoughbys, and in Q4, we have Over the Moon, which is a -- from Glen Keane, who did Little Mermaid and Beauty and the Beast. So these are big theatrical-scale animated features and big-scale feature films that would be competitive with anything you'd see in the box office. And I think people really do value them. And to your point, they do travel much more predictably than TV series do.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

One of the things you just mentioned and clearly has been very widely reported and seen is the critical acclaim that you've achieved and you've had growth in Golden Globes, now at this point, Oscar nominations. My question is around the business benefit of that and the cost of achieving it as well. Maybe it's a somewhat open-ended question, but how much is it costing you at this point to have those films in a place that they can be considered for that? And what does the time frame for the benefit that the business look like for that?

Theodore A. Sarandos

Chief Content Officer

Well, you've seen the expansion just last year within the confines of our existing content budget. So we're growing -- it's how we're choosing to bring the incremental spending to the table in terms of the bigger breadth and scale of films, but not taking it away from our growth in series, which is also growing, and particularly in our local language series, which we've reported before that we're growing by 130 seasons of local language series around the world as well. So to me, I look at it as the growth -- the benefit to the business is the growth that you're seeing.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

And I would just add to that. So you'll see that if we further our reputation for doing well for content -- sorry, for talent by being one of the best in the world at winning awards for our talent, then the business benefit is that we will win deals that we wouldn't have otherwise won for incredibly entertaining content. So think of all of our awards work as a really smart way to make us the best home for talents in the world.

Gregory K. Peters

Chief Product Officer

And I think it's also worth noting that there is a consumer component to this, too. I mean some of our members around the world use the awards pieces as a sign of what they wanted to watch. So that when we present those -- that information to them, we actually see them respond to that. So there's an immediate benefit there as well.

Theodore A. Sarandos

Chief Content Officer

And I just want to point one more time that there is a -- typically, there seems to be a big gap between critical acclaim and award-winning and popular. And we are really trying to do, and we have in the past quarter, achieved both, meaning we are bringing popular film to the market and at such a high quality that's also being recognized by the critics and by the awards groups.

Spencer Adam Neumann

Chief Financial Officer

Sorry, Mike, and I just want to chime in, just to that point, it is working already. The model is working in terms of seeing the return to our business. I mean that programming at that level of diversity and quality across such a broad member base ultimately is driving member satisfaction. It's growing our member base. It's growing our revenues. If you've seen, roughly 30% revenue growth this year. We're growing our profits, both our profit margin and up to \$2.6 billion of operating profit this year. We're delivering on our cash flow objectives, including on a path to improve our cash flow profile next year, as you saw in the letter, a material improvement from negative \$3.3 billion this year to roughly negative \$2.5 billion next year on that path to cash flow positive over the coming years. So you're seeing it play out in the business model already.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

And to that point, Spence, my next question for you was really around your cash investment on content in the coming year. Can you share a specific in terms of the growth that you're anticipating there? And then also can you help us with the modeling side, which is the amortization of that content, the relationship between that amortization and the cash investment?

Spencer Adam Neumann

Chief Financial Officer

Yes, sure. So we'll continue to increase our content investment across the board next year because, as I just said, we're seeing a great return on that in terms of our business model. Our content amort is just a little under \$10 billion this past year in 2019. You should expect to see, without specific guidance, a similar level of growth, and that kind of -- it grew, I'd say, roughly in that 20% range this past year. And you should assume we'll continue to invest at those types of levels this year. The conversion -- or the relationship between our cash spend and our -- on our amortization, that ratio was about 1.6, meaning 1.6x the cash investment relative to our amortization is about \$15 billion of cash investment this past year in 2019. I think you should see that ratio continue to come down a little bit, again, without a specific number, but we're scaling into the business.

So we've moved a long way in this business model transition from what was once an all licensed content business to now the well over 50% of our cash spend is on originals. The future of our business is mostly originals. And we've very much transitioned there. So that puts less sort of pressure on our working capital. So that's playing out in the numbers as well. So similar growth rate in amortization, but it's getting closer in terms of our cash versus amort, and you're seeing that in terms of the improvement in the cash flow trajectory next year.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

And Mike, I'm sure you realized it, but it is a huge milestone in our growth of last year being peak negative free cash flow. And so we're on the glide path slowly towards positive free cash flow. We're excited about that, but that's not coming from shrinking back our content spending. That's coming from the increase in revenue and the operating income.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Right. Great. So let's pull it back a little bit and talk about some of the -- a couple of additional content issues or topics, if you will. Friends, a big title. I believe one of your more popular titles came off the

service at the end of 2019. I realize we're only 3 weeks in, but you do see the data real time. Has this content being moved off the platform impacted your consumer engagement, your member engagement at all?

Theodore A. Sarandos
Chief Content Officer

Nothing that we've seen or can measure.

Michael C. Morris
Guggenheim Securities, LLC, Research Division

Okay. So let's also talk about viewership then. A couple of things. I had a question here, and then you gave us an entire page of viewership metrics in the letter.

Theodore A. Sarandos
Chief Content Officer

Mike, I should probably put a little more color on that simple answer. That's just to say, we've had, over the years, incredible popular product come on and off the service and expires. And typically, what happens is our members, through our incredible personalization, deep library and broad library, are able to find their next favorite show. And that's -- it will happen with Friends fans, and some of them will find it elsewhere, and some of them will find their next favorite show.

Wilmot Reed Hastings
Co-Founder, Chairman, President & CEO

Mike, just about 10 years ago, we dropped -- we had to drop all the Disney content, not phased out like we are, but all the ones we added to the Starz deal. And we were all worried about the big impact. And instead, people came back, the magic of the personalized service, and they're able to find other things to watch, and viewing growth just kept rising.

Theodore A. Sarandos
Chief Content Officer

Yes. And we've seen that phenomenon over and over again, even in -- one that's maybe even more dramatic than that was all of the Nickelodeon content when they came off and was completely displaced by other kids watching overnight. I should say, all equally good content, just people had the ability to find something new.

Michael C. Morris
Guggenheim Securities, LLC, Research Division

Sure. Understood. And so within that, what I was coming to is the viewership metrics that you provided in the letter for a number of your programs. I'd be curious if you wanted to highlight something that stood out to you, but I'll tell you something that stood out to me is the information you provided around -- about The Crown. Okay. So in particular, season 3 saw growth in early season viewing. And yet it's still, I think, by the metric, 21 million households through the first 4 weeks of season 3 compared to 73 million households worldwide for the series overall. And I guess what strikes me is that your members have enough content that even though that was important, the 73 million, and 21 million was a big step-up, there's still 52 million yet to watch it so...

Theodore A. Sarandos
Chief Content Officer

Correct. But that metric -- what that first 28 days doesn't capture also are things like brand-new viewers to season 1 that just started in the ramp-up to season 3. The show has been incredibly durable in the U.K. and the U.S. and around the world.

Michael C. Morris
Guggenheim Securities, LLC, Research Division

How does that compare to other key shows, right? I understand that every show doesn't behave like The Crown. But is that viewership pattern something that -- somewhat similar for a show like, let's say, Stranger Things that has 3 seasons and people...

Theodore A. Sarandos

Chief Content Officer

It's so unique. Sometimes a show can enter the zeitgeist in such a loud way like Stranger Things season 3 around the Fourth of July phenomenon, everything that happened that a lot of that viewing pops like that. Something similar we saw with a huge launch for Witcher, which was kind of pent-up demand for known IP. But man, the show delivered for people and delivered viewing hours for us. And people loved it right out of the gate. Other shows come out and they pop, and they're dependable and they build, and people are going to watch it as soon as they finish what they're watching right now. So it's very different from show to show. I think you could see that in that list of how those shows will perform. And sometimes, that is a really great indicator of its full year performance. And sometimes it's -- those shows will continue to build on their positive word-of-mouth and become even bigger over time.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

I'd like to ask a couple of questions about product and distribution. So Greg, I'd like to come back to the topic of pricing. We spoke a little bit about the U.S., but you have expanded your mobile-only plans, I believe, during the quarter. Can you talk about where that is now? I think it's India, Indonesia, I believe Malaysia. But maybe the balance between what has become a more permanent part of your offering, what's still being tested and how we should think about that mix going forward?

Gregory K. Peters

Chief Product Officer

Yes. And you've got the 3 countries correct. And we've seen in the performance across those 3 countries is that because we've added this price at a lower price point, this tier at a lower price point, we've been able to add incremental subscribers, which is great. We've seen an increase in retention, not only at that mobile plan, but in other plans as well. And net, that's a revenue-positive action for us. And so we're super excited about that. We think that that's a pretty good indicator that there might be other countries around the world where that kind of offering will work as well. So we're going to continue to test both that in different countries and see how that goes. We're also -- we've got a bunch of different, other approaches that we're going to try out, and we'll really try and be active and innovative in that area to try and improve the accessibility of the service for more and more people around the world, but in a way which we think is long-term revenue optimizing as well.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Can you expand on that as well in terms of expanding that availability?

Gregory K. Peters

Chief Product Officer

I mean really, I'd say that we anticipate that we'll do more testing of the mobile plan in more territories. That's probably the one to talk about at this point, and then we'll sort of see what else works through our testing as we go.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Okay. Great. And then over the weekend, I believe it came out on Sunday, an expanded, I think, you referred to as even strengthened partnership with Sky. What -- how did that become a stronger partnership?

Gregory K. Peters

Chief Product Officer

I think what we are seeing is there's more and more opportunity that we're finding through, whether it's mobile operators, pay-TV operators, ISPs, to reach out to a customer segment that while we're probably growing with, in general, we can actually accelerate that growth. And so it starts by being available on the set-top box or the device that they're using to watch TV, and we can put Netflix there and make it easy to see the service and to potentially sign up there. But increasingly now with bundles, we've removed yet another point of friction. So that's just a part of their offering, and they can just -- we can do a call to action, like right in front of them like Stranger Things, it's launching right now, watch. And that's a very effective way to introduce people to the service. But also we're finding now with co-marketing programs and other things that we're getting more sophisticated at, we can actually do a more effective job of reaching out to more of those members to be around the world.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

You brought up the topic of bundling. Two kind of questions with respect to bundling or different pricing packages. The first is a question of the need for consumers for this reaggregation of these multiple services. And if that is the case, perhaps a third-party would like to or should be taking some portion of the payment for adding value. I guess my question is your position on the need for some sort of aggregation of these multiple services. My second question is around annual pricing versus monthly pricing and perhaps a discount for consumers who choose to take an annual plan. Either of those -- how do either of those factor into your thoughts here?

Gregory K. Peters

Chief Product Officer

Yes. I think we'll see sort of what the right solution is for consumers as we shift to this online streaming world. And I anticipate that there are models that make sense where they will bundle multiple content services together and make it more sort of easier for consumers to access that. And that might be the effect that we're seeing. But really, most of the bundles that we have are either connecting to an existing pay-TV, sort of legacy pay-TV service, or they are connecting to things like your mobile plan or your Internet plan. So I think there's multiple different opportunities to find the right mix where we're able to introduce Netflix as part of a set of offerings that just make it simple for people to sign up, and it's logical and it's intuitive for them to go do so.

Theodore A. Sarandos

Chief Content Officer

And the likelihood is that we have your favorite show or your favorite movie raises the chances that you're going to figure out how to get to us as well.

Gregory K. Peters

Chief Product Officer

That's right. And then you also -- you mentioned, I think, an annual -- a question on annual.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

That's right.

Gregory K. Peters

Chief Product Officer

Yes. So I think it's an interesting model. And certainly, we see some -- there's -- on legacy plans, there are sort of some instances of that. There are certain countries around the world where that's a more common standard, right? So we want to experiment with that and test that out and understand if that's a more effective way for our members to access us. So we'll go do that, and we'll sort of hear from them, if that's something that's more effective or not. We don't know yet.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Okay. I'd like to revisit the topic of advertising as a source of revenue or a means for your members to pay you for access to the service. Remind us -- we talk about it a lot. Every quarter, the topic comes up again. So remind us why advertising is not a right option, given that you do have a focus on providing your members with some optionality in terms of their way to enjoy the service.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

Yes, Mike, I think we addressed this last quarter in the letter, but I'll go over it again, which is Google and Facebook and Amazon are tremendously powerful at online advertising because they're integrating so much data from so many sources. And there's a business cost to that, but it makes the advertising more targeted and effective. And so I think those 3 are going to get most of the online advertising business. And then to grow \$5 billion or \$10 billion advertising business, you have to rip that away from other advertisers. In this case, say -- or other providers, Amazon, Google and Facebook, which is quite challenging. So don't think of that as -- in the long term, there's not easy money there. And instead, we think if we don't have exposure to that, the positive side is we're a much safer place.

We're not integrating everybody's data. We're not controversial that way. We've got a much simpler business model, which is just focused on streaming and customer pleasure. So we think with our model that we'll actually get to a larger revenue, larger profits, larger market cap because we don't have the exposure to something that we're strategically disadvantaged at which is online advertising against those big 3, which, over the next 10 years, are just going to integrate incredible amounts of data about everybody that we won't and we're not trying to have access to. So that's why we're really pretty confident that the best business model is this way certainly in the long term.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

I do think that that last point is something we do hear people lose sight of sometimes, which is you are not aggregating an immense amount of data about your viewers. You have viewership habits. But beyond that, I think correct me if I'm wrong, you don't collect a significant amount of personal data that will be used to target advertising. Is that accurate?

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

We don't collect anything. We're really focused on just making our members happy, and we're not tied up with all that controversy around advertising. And again, if you wanted to succeed in online advertising, you can't just have a little data. To keep up with those giants, you've got to spend very heavily on that and track locations and all kinds of other things that we're not interested in doing. We want to be the safe respite where you can explore, you can get stimulated, have fun, enjoy relax and have none of the controversy around exploiting users with advertising.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Now one of the biggest changes that you guys have made in a while with respect to what you shared with us is the geographic breakdown that you're providing now with respect to your actual. So maybe just briefly, can you remind us the reason that you made this change? We have had some questions whether it was somewhat suggested or required of you. So why did you make the change? And then I do have a couple of specific questions about the markets, if I could.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

Spencer, you want to handle that?

Spencer Wang

Vice President of Finance & Investor Relations

Sure. So to answer your question, Mike, no, this was not a required change. This was a change that we made. And as we talked about, it was to -- we always evolve our view of our business as our business changes. And with our launch of rest of the world in 2016, we're basically a fully global company ex China. So we have increasingly been looking at the business internally along these 4 regions. So we want to map our external reporting and align it with how we look at it internally. So it was not a requirement, but our choice.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

So we worked hard internally to not be U.S. and international. There's no such thing as international. There's a bunch of nuance of every market around the world. And part of our development from -- and originally, just domestic companies to lose those kinds of distinctions and instead think of it as 4 equal regions, and we're growing all of them, and we're sophisticated about all of them. And that's why we look at it in that 4-region way internally, which, of course, drives the external reporting.

Theodore A. Sarandos

Chief Content Officer

It's been a great internal discipline for everybody to think about the business more that way, for sure.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Well, that's a great segue into some questions specifically about the nuances in these regions. Perhaps we can start with Latin America, which was your first broad international launch in 2011. And so what we noticed, and of course, this quarter, you had record member growth in each of the regions, but it does look like Latin America is perhaps closer to being mature with respect to its growth trajectory. At the same time, we would look at the data and say, it's still -- the penetration level of broadband households is still very low in that region. Can you characterize for us where you think we are in the life cycle of member growth in that region?

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

Spence, do you want to take that?

Spencer Adam Neumann

Chief Financial Officer

Yes, sure. I would say across the board, we're still early days, right? So even with the roughly 167 million members across the globe and big membership in Latin America, you can see what -- we're still roughly kind of in that 30% penetration. We think as pay-TV households -- you've seen around the world, whether it's pay-TV or broadband households, we don't see why we can't get into all of those households over time. So yes, we're a bit more mature in Latin America than perhaps we are in APAC and in some specific countries, but we're continuing to grow. It happens to be a region where, similar to the U.S., our price increases were a bit more significant than in other parts of the world. So I think that may have been a bit of a headwind as well. We had foreign exchange working against us more meaningfully in Latin America. But I'd say, in general, very long runway. We continue to see both global content and local content work really well in that region. So we'll -- I think you'll see continued healthy growth on the horizon.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

And then you just -- Spence, you just mentioned APAC, and there's a couple of questions here. One is because this region has both Australia, New Zealand, so larger English-speaking markets and a large emerging market population, the first question is can you share at all the sort of balance of subscriptions

in that market between those 2. And I would think there's still a relatively high ASP there, which would imply some mix to higher-priced markets. But first, the mix there. And then also should we expect that ASP to come down based on what you're seeing now with respect to adoption of the lower-priced mobile plans?

Spencer Adam Neumann

Chief Financial Officer

I'd say in terms of the mix, and others can jump in as well, but we don't break it down specifically by country. I think your takeaway should be, though, that we're seeing healthy growth in all of these markets. So across Japan, Korea, India, I mean all of these markets, we're increasing that content market fit, we're getting much smarter about the markets in both the -- as I say, the content we offer as well as the pricing and packaging, bundling and distribution to our members and payment methods for our members. So I think we're getting better literally every quarter, every year, and that's playing out in terms of very healthy growth across those markets.

And then with respect to pricing, certainly, the pricing is different in every country around the world. But we don't -- we're not managing to ARPU. We're managing to revenue maximization, as we talked about earlier. So we're not going to provide a long-term forecast. Obviously, as we have lower-priced mobile offers, that's going to bring down a blended ARPU in a country or in a market. But if we're doing that in a revenue-accretive way, we think that's great for our long-term business. We're growing subscribers, and we're growing revenue.

Theodore A. Sarandos

Chief Content Officer

And our local content, our original content in Japan and Korea, by way of example, are becoming much more sophisticated about what is super impactful in those countries, plays pan regionally and occasionally plays globally. So those investments are paying up in the form of things like The Naked Director, which was a big, big hit for us in Japan, and Kingdom, which has a second season coming up out of Korea, that's been a big global hit for us. And as you think about the exciting things that happened in the content space, a movie like Parasite coming out of Korea, that's done \$140 million globally, \$100 million in Korea and about \$40 million outside, and the expansion of people finding stories from around the world is going to only make the opportunity bigger and bigger.

Spencer Wang

Vice President of Finance & Investor Relations

Mike, we have time for 1 or 2 more questions, please?

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Okay. Let me hit on EMEA, and then I'll get a wrap-up question here. I think in that European, Middle East and Africa market, it's somewhat similar in terms of some mature markets and some emerging markets and opportunities there. So as you think about that market growth opportunity, is the answer similar to the same as the question about Asia? And I think the question is a little bit rooted in we do have some specific mobile-only lower-price plans in Asia that we've been focused on, but should we think about that EMEA market as perhaps following a similar pattern?

Spencer Adam Neumann

Chief Financial Officer

Greg, do you want to take that pricing? I would say, in terms of the opportunity, we see a huge opportunity in EMEA. It's a multiple of the number of addressable, their pay-TV or broadband households, as you see, for example, in the U.S. and Canada region. We're less than 20% penetrated in the market. You've seen it's driving more than 50% of our paid member additions in recent quarters or roughly 50%. So we're low penetrated, and we're growing in a very healthy clip in that market. I'll turn to Greg though in terms of pricing strategy.

Gregory K. Peters

Chief Product Officer

Yes. In the pricing and plans approach, again, that region, much like APAC, has both sort of very affluent, very mature markets as well as less affluent markets. And so I anticipate that what we'll find is that we'll have a mix of plans and approaches that will spread across that region, that again will be different price points, but it will be looking to sort of maximize revenue through that mix across the entire region.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Great. So I'd like to conclude, again, as we did last time with a little bit of a 5-for-1 question. Last quarter, we talked about each of your -- something each of you was excited about in the coming quarter. This time, I'd like to ask -- you read press analyst reports, et cetera, about your company. I'd love to hear your take on what you think is most misunderstood about the company or least well appreciated about the company. So last -- as with last quarter, I'll start with Spencer and go from there.

Spencer Wang

Vice President of Finance & Investor Relations

Sure. I honestly don't think that there's that much that's misunderstood. We're a single product company. And I think we're pretty straightforward I think for most investors to understand. I think if I had to think about one thing, I personally think there's probably a bit of an overfocus on the streaming wars sort of notion, and I know it's exciting for folks to talk about the Clash of the Titans and all that kind of stuff. But I think really, the big thing that's going on is this transition from linear entertainment to streaming on-demand entertainment, which is really, really big and very similar to that transition the industry went through from broadcast to cable. And there, what you saw was a lot of those new cable networks didn't really take much share from each other but really grew together as broadcasting sort of became smaller over time. And I think that's what's really the big thing that is happening that's probably less well understood.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Thanks, Spencer. What about you, Spence?

Spencer Adam Neumann

Chief Financial Officer

I didn't think you're going to pick on me because I got the order wrong last quarter. Okay. Yes. I'll say I think what's most misunderstood is the business model and what you see in our cash flow generally and folks thinking that we are losing money, if you will, when we -- what we've shown is that we're increasing our profitability, both growing and growing our profit margins. And what you've seen over the last few years is foreign investment as we've been going through a really kind of pretty significant transition of our business model from licensed content or you pay basically ratably for content you receive over the time that it's on the network to original content, not just licensed originals, but self-produced originals, where oftentimes we're investing many years before that content's on the service.

And we moved, as they say, well along the curve there, where the bulk of our cash spend is now on original content. So as we've gotten bigger, as we move towards originals, it just -- it fundamentally changes that cash flow profile over time. And we're a very profitable business and one that will ultimately, over the years, become meaningfully self-funding.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Thanks, Spence. Greg, how about you?

Gregory K. Peters

Chief Product Officer

Yes. Spence actually took mine. It's my favorite sort of gap between external and internal worldview. So I'm very excited to be turning the corner on the free cash flow issue so that we can sort of put that behind us and really focus on growing the business ahead.

Michael C. Morris

Guggenheim Securities, LLC, Research Division

Great. And Ted?

Theodore A. Sarandos

Chief Content Officer

In terms of misunderstood, I think I have to use this notion you hear every once in a while of where there's so much stuff on Netflix, everything gets lost. And I think that the opposite is true, which you'll see in that -- in those numbers that we released to you in the letter. The -- our ability to launch new brands and sustain brands over multiple seasons or multiple sequels and at a very high volume from all over the world has been unparalleled. And the idea that we can create brands out of thin air over and over again, sometimes multiple times in a week, like this past week, is something that I'm super proud of. I think it gets lost on people because they think all this content is for them. It isn't. It's just meant to be your favorite show and your favorite movie, and that's going to be something for everybody.

Wilmot Reed Hastings

Co-Founder, Chairman, President & CEO

And for me, it's really, we keep doing these amazing numbers, doing 8.8 in Q4 is just amazing. So happy with that. And with The Witcher performance, ending the year on a high note of a massive new franchise that will develop season after season. So if you think about the next couple of years, it's really the rate of improvement. That's the big thing, how much we're learning, and we're doing so many shows, our learning is higher, doing so many product tests, our learning is higher. And the quality of our service 2 or 3 years from now will be so much higher than it is today. That's the thing that's not well understood. Everyone focuses on how does the current service look as opposed to how good we're going to be in 3 years.

Thank you, Mike. Great job, and look forward to talking with all of our investors and everyone over the quarter.

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