

Netflix, Inc. NasdaqGS:NFLX

FQ3 2021 Earnings Call Transcripts

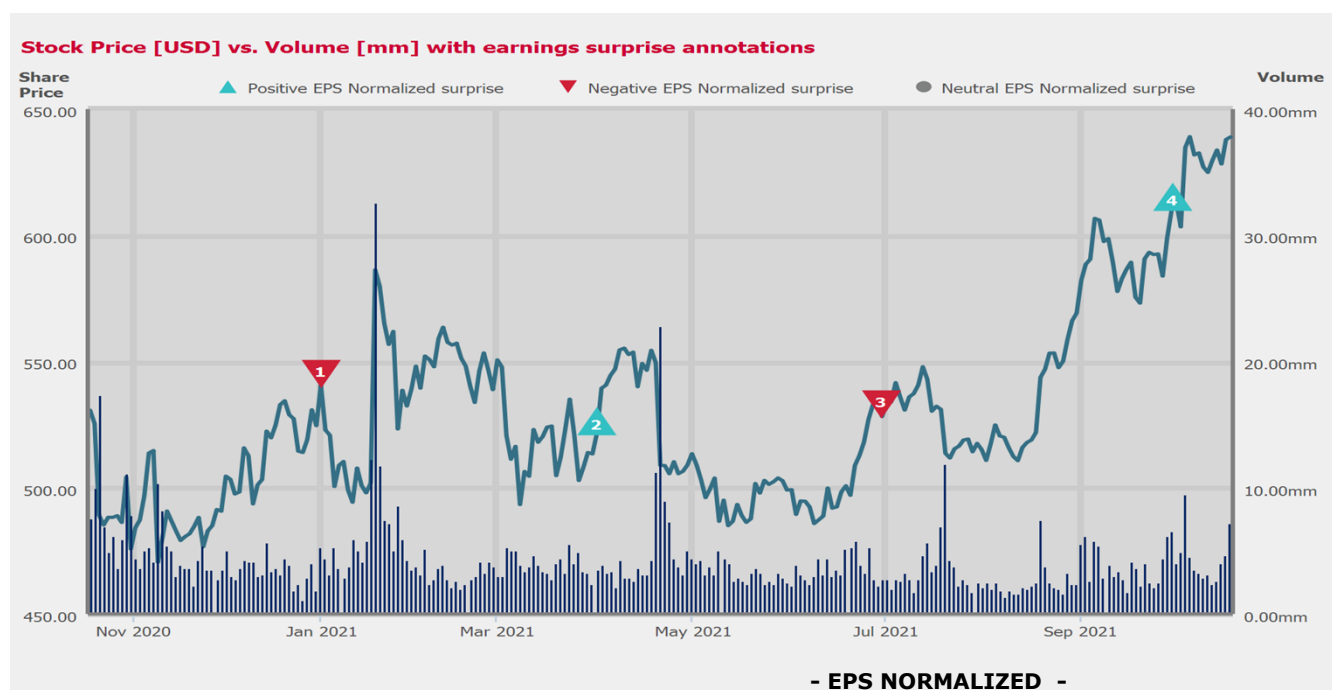
Tuesday, October 19, 2021 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-		-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	CONSENSUS
EPS Normalized	2.56	3.19	▲24.61	1.13	0.80	10.50	12.98
Revenue (mm)	7483.31	7483.47	●0.00	7682.34	7712.00	29667.87	34025.13

Currency: USD

Consensus as of Oct-19-2021 1:16 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	1.40	1.19	▼ (15.00 %)
FQ1 2021	2.99	3.75	▲ 25.42 %
FQ2 2021	3.16	2.97	▼ (6.01 %)
FQ3 2021	2.56	3.19	▲ 24.61 %

Table of Contents

Call Participants	3
Presentation	4
Question and Answer	5

Call Participants

EXECUTIVES

Gregory K. Peters

COO & Chief Product Officer

Spencer Wang

*Vice President of Finance,
Corporate Development & Investor
Relations*

Spencer Adam Neumann

Chief Financial Officer

Theodore A. Sarandos

*Co-CEO, Chief Content Officer &
Director*

Wilmot Reed Hastings

*Co-Founder, Chairman, President
& Co-CEO*

ANALYSTS

Nidhi Gupta

*Fidelity Management & Research
Company LLC*

Presentation

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations

Good afternoon, and welcome to the Netflix Q3 2021 Earnings Interview. I'm Spencer Wang, VP of IR and Corporate Development. Joining me today are Co-CEO, Reed Hastings; Co-CEO and Chief Content Officer, Ted Sarandos; COO and Chief Product Officer, Greg Peters; and CFO, Spence Neumann. Our interviewer this quarter is Nidhi Gupta from Fidelity.

As a reminder, we'll be making forward-looking statements, and actual results may vary. Nidhi, you now have the green light to ask your first question.

Question and Answer

Nidhi Gupta

Fidelity Management & Research Company LLC

Thank you, Spencer. Great to be with you all again. First off, I want to say congratulations on all your success in the quarter, 44 Emmy wins, the amazing viewership of Squid Game. My children will never play red light, green light again, and your acquisition of Night School Studio and the announced acquisition of the Roald Dahl Story Company. So we have a lot to talk about this quarter.

First, I want to start with subs, which came in better than expected. So just help us kind of dissect the outperformance there.

Spencer Adam Neumann

Chief Financial Officer

Sure. I can take that one, Nidhi. So great to see you, and thanks for the kind words in the opening. In terms of what we saw this quarter for Q3, I guess, it really boils down to what we saw as sort of what we expected. We talked about on the last call that we hoped that we were getting towards that kind of tail end of the COVID choppiness, the pull-forward of sub growth into 2020 and those production delays that we're working through as well. And that's kind of what we're seeing.

So throughout the quarter, the business remained healthy as it had been throughout the year with churn at low levels, down prior to the comparable periods, both in 2020 and 2 years ago, pre-COVID in 2019. So retention was very healthy. And viewing was up. Viewing per member, maybe slightly down compared to the very COVID-distorted 2020 Q3, but up healthy compared to 2019 comparable period.

And then what we saw -- as the quarter continued into September, we saw acceleration in our growth, which is what we had been hoping for and expecting but it was good to see as we got into the strength of our schedule. We had a couple big hits. As you know, you mentioned one with Squid Game, La Casa de Papel, the first part of Season 5, but a lot of variety and quality programming throughout the quarter with things like Never Have I Ever, and He's All That and Chestnut Man and Copenhagen at the end of the quarter. So just -- that's basically the way it played out is as we got into the strength of the schedule on top of already kind of healthy business fundamentals, we saw a bit of an uptick in growth.

Nidhi Gupta

Fidelity Management & Research Company LLC

And can you talk a little bit about the weakness that you saw in Latin America? What drove that? And how is that making you think about the longer-term prospects there?

Spencer Adam Neumann

Chief Financial Officer

Sure, I can take that one as well, and others could jump in. For Latin America, we saw that growth was a little bit soft in the quarter. It was primarily -- we took some price increases in Brazil in Q3. And as not unexpected, that tends to -- when we do those things, slow down growth a little bit for the short term. The good news is we only take pricing like that, as Greg speaks to a lot, when we believe we're increasing the value to our members. And we believe we've done that. So there's -- it's a sort of a short-term slowdown in growth, but good for our business. And we're already continuing to grow through it.

But it did slow us down a little bit in Latin America in Q3. And so we also talked about in the letter for Latin America and UCAN, both of those markets are a bit more mature, more tenured, more penetrated than some of our other markets. So we would expect growth to be just a little bit harder to work for, but still a lot of runway for growth in both of those regions.

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

And Nidhi, I'd only add that just like everywhere else in the world, we have to make the shows and films that people in Latin America love, and that's what's going to continue to fuel our growth.

In Q4, by way of example, we have the new season in the Sintonia coming up, which is our largest original series from Brazil. So it really -- and we think that these big, high-profile shows and Luis Miguel in Mexico, new season coming up, will continue to reignite growth in that area as well.

Nidhi Gupta

Fidelity Management & Research Company LLC

Great. And as we look ahead to Q4, you have an extensive content slate coming. What's sort of the magnitude of impact you would expect to see on gross adds and churn just based on history? Or is the huge number of additions that you pulled into the service in 2020 making that relationship less clear, perhaps?

Spencer Adam Neumann

Chief Financial Officer

Well, we don't really break down the differential between the 2, other than to say that the -- what we've sort of been seeing throughout the year, we would expect to continue in terms of that healthy retention. And then this kind of acceleration as we get past those market -- those initial market reopenings with COVID, past that COVID pull forward into the strength of our slate, as you say, across the board from big returning English-language series like The Witcher and Cobra Kai, and even unscripted like Tiger King, and then non-English language series like La Casa that we talked about already. We had the final, final in late in the quarter. And then we've got big films like Red Notice and Harder They Fall. So there's just a lot coming -- so going into that strength of our slate plus stronger seasonal period that's kind of playing into it with underlying healthy retention.

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

What Spencer is saying fundamentally is we're in uncharted territory in that we have so much content coming in Q4 like we've never had. So we'll have to feel our way through, and it rolls into a great next year also.

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

That's it. In one quarter, to have this many high-profile films and the returning seasons of our most popular shows, and we're in new territory of normalized post-COVID or pre-COVID or in-COVID, all those different ways that we kind of -- that impact the metrics and the performance we're all looking at how that's going to impact. But it's -- we certainly think it's positive.

Nidhi Gupta

Fidelity Management & Research Company LLC

Great. And sorry, Spence, were you going to say something?

Spencer Adam Neumann

Chief Financial Officer

No, I was just going to say, the net of it, as you see in the guide. So the guide is at 8.5 million paid net adds is essentially in line with the past few years, even pre-COVID, where we're kind of in that 8 million to 8.8 million-ish range.

Nidhi Gupta

Fidelity Management & Research Company LLC

Right, right. And you mentioned 2022, as the world starts to normalize next year, we'll see what that looks like, but how do you feel about your ability to sort of get back to that 27 million, 28 million annual sub addition level? And I hesitate to even ask the question because we're sort of anchoring to this 27 million,

which -- it would be helpful to understand actually why it fell into that consistent range over the last few years. And are we wrong to sort of anchor on that recent history to begin with?

Spencer Adam Neumann

Chief Financial Officer

Do you want me to take it?

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

I can take it, Spence. The big picture is no one's really sure, Nidhi. We can't come off the craziness of COVID and be confident of the next 2 years. So we're going to push really hard. If you think about the big picture, we're at 200-and-something million. That's pretty small compared to pay TV households, ex China. So just matching the pay TV households, plenty of room for growth. Streaming is developing at a great pace, all kinds of devices and competitors helping that market growing.

Competition, obviously, that's a factor, but the amount of scale of content and entertainment that we have, and the way we're set up -- it's like Squid Game is incredible. But it's not that Ted commissioned it. The most incredible part is it's the system that Ted's built with a highly distributed [business model] when it was one of our leaders in Korea 2 years ago that commissioned it. And so there's got to be other amazing ones like that, that even Ted or I or any of us don't even yet know about that are digesting in the Netflix content engine.

So we certainly hope so, but there's no real certainty. I wouldn't want to give it like management credibility of that. We want it, and we're going to push hard into it. But I think we're all wrestling with the post-COVID, how do things come back together. Spence, anything you want to add on that?

Spencer Adam Neumann

Chief Financial Officer

No. I mean, you really hit it. I mean, at the end of the day, it's about, as Reed talked about, we're just trying to continually improve our service around content and the ability to discover that content with our choosing and driving conversation every day and getting better every day. And if we can do that and be that first choice in entertainment, then ultimately, that's what's driving that secular growth from linear to streaming entertainment. And over long trends, it tends to be, at least to date, fairly predictable just as we saw through Q3.

And if we deliver our guidance through Q4 over a trailing 24-month period, that's about 55 million paid net adds or about 27.5 million, on average, which is kind of where we've been in the last few years. But to Reed's point, we can't predict with certainty, but those secular growth trends are pretty strong so long as we continue to improve our service.

Nidhi Gupta

Fidelity Management & Research Company LLC

Great. Well, Ted, turning it over to you. Squid Game is top of mind for a lot of folks. Clearly, for Reed and Spencer as well, it's the big topic today. Your biggest series launch ever, 142 million viewers in the first few weeks, as you said in the letter. Many of those viewers outside of its home market, South Korea, which makes it even more impressive. Can you talk to us about how this happened? What made the show so successful around the world?

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

Well, I think it's really -- it goes into this kind of storied history of content creation. Squid Game, as Reed pointed out, got -- was picked up a couple of years ago from the Korea team who did recognize it to be one of what they thought would be their biggest title this year. So good that they did. But I can't tell you that we had the same eyeball on it to tell you that it was going to be the biggest title in our history around the world. And to your point, the growth -- the viewing outside of Korea has been phenomenal

and everywhere, everywhere we operate. So if you look at these numbers, they are -- the internal viewing looks a lot like a local language show in any country you look at it. It was enormously successful.

And that's 10 years trying to sell the show. Our team recognized something that nobody else did and created an environment for that creator to make a great show. So how something can go viral is really hard to predict, but it's super powerful when it happens, and to show us to deliver the goods to be able to deliver that much viewing and you have people talk about it in such short hand that you can spoof it on Saturday Night Live because it's so in the zeitgeist. There, I said it for you. And it happens.

And we feel it when it's happening and you know when it's happening. It's a little hard to predict sometimes. Sometimes you think you've got lightning in a bottle and you're wrong. And sometimes, you think you've got a great Korean show that turns out to be lightning in the bottle for the world.

But remember, it's -- that came from Korea, which is super phenomenal, but we've had successes not on that scale, but like that, with La Casa de Papel from Spain, with Lupin from France, with the film Blood Red Sky from Germany, from Sex Education in the U.K., where the stories of the world can increasingly come from anywhere in the world. And this is a thing that we really work on day in and day out.

And the teams that are doing that around the world, the thing that they're mostly focused on is a great, great windfall when these things happen, but they're mostly focused on a bunch of shows you never heard of, like -- but that are hugely impactful in territory. Sintonia in Brazil, Chestnut Man right now in Denmark for us is an enormous success. Coming up in the quarter, a spinout version of Call My Agent! from India (sic) [France]; the Italian film, The Hand of God; new season of Luis Miguel. So these are all shows that are meant to be hugely impactful and loved in territory. And if they really catch on, they travel a lot.

But they're really focused on making a difference. And around the world, non-English content viewing has grown 3x since we started in 2008 making content. So I started thinking about the impact of that and the impact of that growth and the idea that we can put new storytellers into the world from everywhere in the world, and they will dictate the way TV and film is made in the future.

Nidhi Gupta

Fidelity Management & Research Company LLC

Yes -- no. I mean, my guess would be you're reaching close to 1 billion TV fans globally with your content, and that can obviously generate a lot of virality for a great piece of content, as you said, the content has to deliver.

What does a success like Squid Game and all of the other international hits that you've talked about, what does that mean for your ability to acquire the best stories going forward? Especially in international markets where there aren't as many global buyers of content.

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

Yes. Look, the best content has always been competitive. And ever since we got into this, we've been navigating these waters of really competitive spaces to find the content. The one thing we can promise international creators is the possibility of having a Squid Game experience, where the star of your show in Korea can go from 400,000 social media followers to 15 million in 5 days. It's that kind of thing that happens on this -- that can happen on Netflix because we have this really engaged fan base and we have this UI that recognizes and helps them figure out how to find the show they're going to love, even if they've never watched a show from Korea. I think it's an amazing proof point of the content, but it's also an amazing proof point of the delivery system that helps people find content.

Nidhi Gupta

Fidelity Management & Research Company LLC

Right. I mean you're 9 years into your original content strategy, Ted. You've had a steady stream of hit shows. Your -- you have a high share of the top IMDB shows at any given time. You seem to have at least 1 show a year that everyone is talking about.

Can you talk about why we haven't seen sort of that consistency of success in original films yet? Is there anything inherently different about getting a hit film versus a hit show? And if there are, how can you sort of address those over time?

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

Well, remember, we're a few years behind in the film business, the way we -- from our TV business when we started making meaningful budget original film about 3 years ago. So -- and in that time, we've had 5 Oscar-nominated best pictures and some big, big films in terms of viewing. You see that in the letter where we publish some of those numbers. I think it's interesting that, that's going to continue to grow. And I don't think -- I don't have any doubt that we're going to see that kind of excitement in the culture around our movies as we have with our TV show over time.

It's interesting that people love to talk about their favorite TV show in a different way than they do movies. So I think maybe it just feels a little bit louder. But as you see in those numbers, we're getting big viewing on our original films. And we're going to -- some of our biggest bets yet are coming in the fourth quarter of this year and the first half of next year.

Nidhi Gupta

Fidelity Management & Research Company LLC

Great. Switching gears to engagement for a second. You've been doing a lot more with mobile in recent years. You've obviously got the mobile-only plans. You're launching mobile games now. You launched mobile trailers a while ago, Fast Laughs recently. Is it a strategic priority at the company to grow mobile engagement specifically?

Gregory K. Peters

COO & Chief Product Officer

Well, I think the strategic priority, Nidhi, is to sort of meet our members where they're at. And the vast majority of our members engage with us on a mobile device. And so we want to make sure that when they're at that moment, and then sometimes that's when they're out and about, that they have the opportunity to get a great Netflix experience with their mobile phone. And that could be, to your point, it could be trailers, it could be Fast Laughs, something that's short. Or it could be actually just getting the next 10 minutes of Squid Game because they were watching it in their home when they left and they had to go out and then we could have an uninterrupted experience there. So we definitely want to target those devices and do the sort of best we can in terms of giving our members great experiences on those devices as well.

Nidhi Gupta

Fidelity Management & Research Company LLC

And you mentioned mobile games. Great to see you launch some games in the quarter. Greg, maybe talk to us a little bit about what you've learned from the experience of both producing and launching those games, both the mobile games in Poland, Italy and Spain as well as the Oculus game?

Gregory K. Peters

COO & Chief Product Officer

Yes. I would say it's -- we're incredibly early in this process. And mostly what we've done to date is about essentially making sure that all of our systems are working as we expect. So it's really about proving to ourselves that we can do the delivery in the way that we want. And we're building all the systems around it. The same things that's made our service very powerful for recommending movies and TV shows, what Ted mentioned, sort of connecting great content creators into this audience, that's the capability that we need to build on the game side as well now.

So we're really just sort of checking off the first bits of that process, and that's going well. We've got a positive trajectory. But I think what you're trying to get to, which is all the sort of much more exciting questions that come behind that, which means like what's the business value? How do we think about

engagement? What are our specific genre or our title performance, we're still many months and really, frankly, years into learning incrementally about all those details. So really more to come there.

Nidhi Gupta

Fidelity Management & Research Company LLC

As a management team, you've always been laser-focused on the consumer, which has led to a lot of success in TV and films. And I'm curious how can you improve the consumer experience in games? What kinds of new game experiences or new distribution models can you enable, particularly early on not having to worry about direct monetization?

Gregory K. Peters

COO & Chief Product Officer

Yes. And I think it's important to note that, first of all, we're going to learn our way through that just as we have in the other content categories that we've served. And we'll learn by basically putting stuff out there and then having our members tell us what's working and what's not. But we're excited about the idea that by taking away what we see as distractions from the core enjoyment experience associated with other models like advertisements or in-app monetization, per-title costs that we can really give our members a much easier, direct enjoyment experience with games, just like we have with TV shows and movies.

And there's a great flip side to that coin as well, which is that our creators can really put all of their energy, everything they're excited about into making that maximal enjoyment experience for the users, the players of those games, without having to worry about those other things that they have to in other models in terms of monetization. So that's one really key area that we're excited to explore.

And another one is that we think that this just connects really well with the other work that we are doing. We're creating all these amazing universes and worlds and characters and storylines, and we can attach to the passion and fandom that our members have on viewing those on the video side with game experiences and allow them to go deeper and explore spaces that they wouldn't have otherwise seen on the video side. And so we really think there's a good connection and synergy there. And over time, we'll try and bring those closer together and sort of let those 2 worlds more influence each other and have a more direct connection.

But again, that's something that is years in the making. We've really got to iteratively explore, and none of us know exactly what that will look like because we'll have to sort of find our way as we go.

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

And maybe imagine 3 years from now and some future Squid Game is launching, and it comes along with an incredible array of interactive or gaming options and it's all built into the service. And then, of course, you've got your off-Netflix aspects, the experiences that we're building out, consumer products, all of that coming together.

So a company like Disney is still ahead of us in some of those dimensions of putting that whole experience together, but boy, are we making progress. And so exciting over the next 3 to 5 years, kind of closing that gap. And hope to pass them on that spectacular all-around experience.

Nidhi Gupta

Fidelity Management & Research Company LLC

That's great color. And you mentioned Squid Game and this idea of kind of building the worlds and the experiences around the IP. How tightly do you want to control the IP for games and experiences that are created on other platforms? Roblox, for example, has a lot of Squid Game-inspired activities and games right now. How do you think about that going forward?

Gregory K. Peters

COO & Chief Product Officer

Well, it's just tremendously exciting to see something like Squid Game blow up in the cultural zeitgeist. There you go, Ted. I stole your word here. And then how that basically shows up that passion for the title shows up in all these different places. We definitely want to be part of some of that passion in the games and the interactive experiences we do will be designed. And we'll get better and better at trying to make sure that those are available on land and are ready to be complements when that happens.

But there's no, I think, monopoly on that passion. And so you'll see it in other places. And people are sending around TikTok videos or they're doing their own sort of mini games in Roblox or things like that. I think that's great. And I think that we should celebrate that fandom and that excitement as well.

Nidhi Gupta

Fidelity Management & Research Company LLC

Yes, that makes sense. What do you think will be the hardest part about creating great games? What are sort of the skills and assets you feel like you already have versus what you need to attain? And maybe you can sort of comment on Night School Studio in the context of that. Why was that the perfect acquisition for you when you sort of surveyed the landscape?

Gregory K. Peters

COO & Chief Product Officer

Yes. Well, it's a whole different muscle, right? And creating games is this alchemy of a whole variety of stuff, where you have engineering and you have the design and the story and then you have sort of a data element, especially in games that are sort of living and evolve as players interact with it. So we've never done that before. And so the hard part is going to be putting that all together and really learning how to be successful at that.

And again, back to your point previously, we've only been in the originals game for less than a decade. And we've done a pretty good job at building the capability to be better and better at that. And so our plan is to essentially follow that same trajectory and apply the same kind of approaches that we have and really be focusing as a learning organization on how do we advance those skills.

And I think we're going to take a bunch of different approaches to try and be successful in that space, just like we did in movies and TV shows. If you think about license to partner-produced, to self-produced, there's multiple avenues that we get to, to producing incredible entertainment experiences for our members. I think we're going to take a similar approach with games, which will have multiple different approaches, including an internal game development capability. And that internal capability really allows us to sort of push the edges on what is interactive storytelling and how do we bridge that more tightly with the linear storytelling that we're doing on the video side.

So we want to build that up. And one of the ways to sort of accelerate that process is when we find the right opportunities through acquisition, and that's what we did with Night School. And we're tremendously excited about that team in specific because they really -- the core of what they've done is to try and explore story and narrative essentially as the central game mechanic. And we think that fits really, really well with what we're trying to do. And so it's been great to get them on board and involved and to hear their thoughts and ideas. And I expect it will be a sort of a rich partnership over years to come.

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

Greg, and...

Spencer Adam Neumann

Chief Financial Officer

Go ahead. Go ahead, Reed.

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

Greg and Spencer, how do you want to set Nidhi's expectations in terms of future Night Schools?

Gregory K. Peters

COO & Chief Product Officer

Again, it's something that will be opportunistic. So I would say don't expect us to go on a tearing, buying spree or something like that. This will be one of the tools that we use, and we'll use it opportunistically when we find a great opportunity out there. And Spence or Spencer, do you want to elaborate on that?

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations

Yes, I think you hit the nail on the head, Greg. I think Nidhi, as you can tell from our track record, we are fairly selective when it comes to M&A. But as Greg said, when an opportunity presents itself, where we feel like we're aligned with the company, I think that's an opportunity we'll take. But again, it's not -- nothing more than that.

Spencer Adam Neumann

Chief Financial Officer

And the only thing I'd add just more broadly, Nidhi, just -- and Greg talked about this -- touched on this, which is this is going to be that we're learning into this. So this is in terms of business impact over time from games. This is not just months, but years of building. So even in our most kind of ambitious success scenario, it will be years, we would expect, before this could have a meaningful impact on our business. So very excited for the long term. We're going to be patient. We're going to move quickly and learn quickly, but this is a multiyear build.

Nidhi Gupta

Fidelity Management & Research Company LLC

Well, we're excited to see what you build. Moving over to you, Ted. You announced the acquisition of the Roald Dahl Story Company this quarter as well. Can you talk about your vision for this IP?

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

Yes, look, I think the Dahl's characters that were created over the years have had an incredibly enduring staying power for kids and parents. They've done really well in feature film. And I think we had an interesting take when we entered into our commercial relationship with the Storytelling -- with Roald Dahl Story Company to make a very kind of feature-quality animated series based on these characters and books. And through that process, we went through the organization, our live-action film TV teams, our film series teams and everybody going through saying -- and there was enough interest and desire to create in this universe. So we thought it would make sense for it to be -- to all reside here in Netflix, creating stories for the world from this universe with these really richly developed characters that have done great.

Like from James and the Giant Peach to BFG, and of course, Willy Wonka and all the characters that are coming from that. We're doing an origin story series from Willy Wonka. And we've had so much creator interest from all of our overall partners that want to tell stories in this world that we thought it would be a great partnership to, to move forward on and bring it inside Netflix and see if we could preserve these great stories for the future.

And I think, by the way, we'll tell -- we'll create value in our game world. We certainly continue to create good value in the publishing world, and our Consumer Products group is just sinking their teeth into it now.

Nidhi Gupta

Fidelity Management & Research Company LLC

Ted, maybe more broadly, what have been sort of your key learnings developing the kids content vertical over the last 5 years or so? What does it take to really succeed with this audience?

Theodore A. Sarandos*Co-CEO, Chief Content Officer & Director*

It's still a long term -- a long time out. Our investment feels like it's been -- we've been at this a long time, but the production cycles on these feature films, by way of example, it could be 3 to 5 years. So that's -- the learn is we're a pretty impatient lot. So we're trying to run as fast as we can. And we've got this one part of the business that it's going to take a little bit longer to prove itself out or not. What I have found is, though, that we've got some of the greatest storytellers on the planet, making their next projects at Netflix. And we're really excited to see how they're coming together.

What I believe is that you don't need necessarily this enormous machine to create brand loyalty around its characters in kids film. We've had great success on -- without any of the machine, without any of the machine, just being able to be a very important part of kids' viewing life. So I think we've got to really focus on -- like we do everything else, on how good is the storytelling, how good is the execution, how great is the production value, are we advancing the art of animation for the animation world, which will continue to attract the best and brightest? And those things, I think, we're all on the right track for. And I think it's going to take a couple more years for it to really play itself out.

Nidhi Gupta*Fidelity Management & Research Company LLC*

Well, you will definitely have an audience for your Dahl content in my household. I look forward to it.

A couple of you mentioned consumer products. You recently launched an e-commerce site as well as a partnership with Walmart. Can you talk about how developed your plans are for consumer products? And what are you trying to achieve over the long term?

Theodore A. Sarandos*Co-CEO, Chief Content Officer & Director*

I believe that the consumer products is really a great way to enhance the relationship with content and fans. So you can -- like Reed and Spencer are modeling for us right now, if you're loving Squid Game and you show up in that track suit, you're going to be the talk at a dinner party. So the ability to do that, I think, is really -- we have it in our wheelhouse to be able to do it and to grow it big.

I don't think even a huge success against the revenue and margins of the core business that it will look like it will make much difference in terms -- the core for us is that it gets very, very big so that it enhances the talkability and zeitgeist moments around our content and gives fans a way to express that fandom in a way that amplifies it and attracts more fans.

Nidhi Gupta*Fidelity Management & Research Company LLC*

Great. Spence, switching gears to margins, always a fun topic. As you invest in gaming and some of these other initiatives that we've been talking about on this call, how comfortable are you doing that within kind of the 300 basis point margin improvement per year, particularly if revenue growth sort of slows below the 20% level?

Spencer Adam Neumann*Chief Financial Officer*

Sure. Well, as you point out, we're -- our revenue growth remains healthy. It is -- but it is right around that point. So with our guidance, we're guiding to roughly just a tick under 20%, 19% revenue growth for the year. Still very healthy revenue growth. I mean for -- that's on a base of roughly \$30 billion of revenue.

So if we can sustain anything around those levels, that's pretty rare air at that scale. And so we'll work hard to do that. And that comes down to what I said before. Ultimately, what we -- how we control that is -- our best control, it is to make our service better and better every day through this amazing variety and

quality of content and better discovery of that content and connecting with our fans around the world. So that's where we're focused on.

If we can do that and we can kind of manage our business in a prudent, scrappy way, we're committed to doing so. So for the next few years, at least, we're committed to making those trade-offs, growing healthy, strategically investing in the business and growing our margins at that roughly 3 percentage points per year on average on a kind of on a multiyear basis.

Nidhi Gupta

Fidelity Management & Research Company LLC

And longer term, when you think about what it takes to fulfill the content needs of everyone you want to reach, every day of the week, do you look at your current kind of \$17 billion of cash spend and say, "Well, it's easy to imagine that being 2x or 3x that level to achieve what we want to achieve." I remember, Spencer used to throw out an estimate that there's something like \$100 billion being spent globally per year to produce content. And I'm sure that number is higher now. But is that sort of the context you think about? And do you feel like you're still relatively early or fairly far along?

Spencer Adam Neumann

Chief Financial Officer

I can jump in.

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

I'll take it. Spencer, go ahead.

Nidhi Gupta

Fidelity Management & Research Company LLC

[indiscernible]

Spencer Adam Neumann

Chief Financial Officer

We always know that Ted will find ways to spend more on content. So no, the short of it is that we think we're still early days. And when we talk even in the letter about the secular growth here is this transition from linear to streaming entertainment even in our most kind of mature markets like the U.S., which we show in the letter, we're at between 6% of TV share in terms of screen time. And so in categories we talked about, gaming, we're literally just getting started. So who knows where that's going to take us. Animation, we talked about, we're just a few years into a long cycle. These non-English language series and films around the world, we're now producing I think in roughly 45 countries around the world. It will be more than 50 next year, but again, still early days.

So we think we have a super long runway here to address those upwards of 1 billion pay TV households or broadband households, however you measure it, around the world. So what we look at is, are we continuing to grow in a healthy way, driving acquisition, retention, more viewing, delivering more joy to our members.

I don't think there's a precise number there, Nidhi, other than that we have the ability, we believe, to grow across all those content categories for the foreseeable future, some more than others, right, in terms of pace of growth. So some of those are just earlier and higher growth, but we're growing across all those content categories, and we don't see a ceiling at least for the foreseeable future.

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations

And since I threw out that number, Nidhi, I guess, I'll just add on one minor comment, which is, look, I think we feel very confident about the next couple of years given just the trajectory of the business. I think we're just going to feel our way along and monitor all those things that Spence talked about, right,

which is engagement and retention and things of that nature to sort of judge the appropriate level of spend.

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

Nidhi...

Nidhi Gupta

Fidelity Management & Research Company LLC

I saw a thumbs up from Reed when I said 2x or 3x, so I think you're early.

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

We're really entertaining the world. If we -- even ex China, if we're able to pull that off and be the place that the whole world goes to for most of their entertainment, then you're definitely thinking too small. Now it will take a couple of decades to get there. It's not overnight. But in the long term, we've got to be able to monetize it. So we got to be able to have the revenue growth and margins, but it would be incredibly satisfying if we could build up to much bigger content budgets that we have, usefully deploy it for our members' love and that's all those categories.

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations

Nidhi, we have time for 2 last questions, please.

Nidhi Gupta

Fidelity Management & Research Company LLC

Great. Greg, I'll switch it over to you for a second. It's a blessing and a curse, but Netflix has grown so fast that I imagine the company has not been able to sort of dot its Is and cross its Ts along the way. So I'm curious, as you look around the company's operations, what are sort of the biggest areas of optimizations that you see? And maybe more specifically on the studio, what can sort of taking a tech company approach to studio operations unlock over time? And what's kind of the magnitude of games to be had?

Gregory K. Peters

COO & Chief Product Officer

Well, as you know, it's still -- we're a work in progress, but I'd say we're constantly a work in progress because we constantly aspire to be better and better. And one of the things I love about working here is just that unsatiable appetite for improvement. And one of the areas -- one of the biggest dimensions that we're seeing, which is, I think, really apropos to sort of what we've been talking about in this call is how we go from being really a U.S. company that has international relation -- international operations to really a truly global company.

And we can see the opportunity there, whether it's seeing content like Squid Game or Lupin or La Casa de Papel, and we really want to just do that more and more and more. So we're working through how do we, as a company, set ourselves up to operate even more effectively in that context and do even more of what you've sort of seen with those titles. So that's a big dimension of growth for us.

And then on the studio side, we're really excited about how do we leverage some of the -- what we have as DNA in the company around tech and things like that to try and figure out, is there a way to better serve our creators and our creative partners, give them a bigger palette, a bigger envelope to work from. And I think one of the exciting areas around this is -- again, that sort of platform, if you will, of creation, that sort of set of tools and capabilities. If we can do that well, we can sort of give that to everybody, all of our creative partners around the world, and give them sort of a bigger place to stand from and tell their story, and that's pretty exciting.

Nidhi Gupta

Fidelity Management & Research Company LLC

Great. Well, last question for everyone. What is your favorite recent show or movie on Netflix, other than Squid Game?

Wilmot Reed Hastings

Co-Founder, Chairman, President & Co-CEO

I was going to go with the Maid. Just incredible character drama, so well put together. To the investor audience, I'll bet that it's even more pleasing than Squid Game.

Gregory K. Peters

COO & Chief Product Officer

I'm going to go with Chestnut Man, our latest Danish series. So atmospheric. And since I haven't been to Denmark in a long time, I felt like I was there by watching it.

Spencer Adam Neumann

Chief Financial Officer

I can go -- well, gosh, and not Squid. I mean I love La Casa, I'm enjoying Maid, but I'm not all the way through. I'll stop there.

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

Reed stole my thunder on Maid. But I would say that the final season of La Casa de Papel is not disappointing. I can't wait for the second batch to hit so I could talk about it with everybody. It's really got that excitement of a big-budget feature in every hour of that show. Really incredible.

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations

For me, I got 2 episodes left of Squid Game. But I would say the other one is Sex Education Season 3 was my favorite recent one as well.

Ted, do you want to take us home?

Theodore A. Sarandos

Co-CEO, Chief Content Officer & Director

Yes. Look, I want to say, first of all, thanks for doing this, Nidhi. We've had what I think is a tremendous quarter, delivering on films and TV shows that people really love and love to talk about. And if we keep doing that well, that's what fuels our growth.

We are focused on delivering value every time one of our members tries to figure out what they want to watch next, every time they figure out how much they want to spend for -- to entertain themselves, we want to be in that equation. And we do that, I think, if we focus on that, the way we have for films, the way we have for series and the way we will for games, that we're going to be delivering hours and hours and hours of entertainment and hours and hours of joy for our members.

And we're midway through October. And in Q4, still to come, we have our biggest film bets we've ever made. Star-studded, crowd-pleasing movies like Red Notice and Harder They Fall and Don't Look Up; returning seasons of our most popular shows like The Witcher, La Casa de Papel, You, Emily in Paris, Cobra Kai, and it's -- that's just in Q4.

So if we keep doing what we're doing and you keep coming back, we're going to keep you entertained. And thanks for visiting with us.

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