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PRESENTATION

Erin Kasenchak - *Netflix, Inc. - Director of IR*

Good afternoon. I'm Erin Kasenchak, Director of Investor Relations at Netflix, and I'd like to welcome you to our fourth-quarter 2013 earnings interview. During today's discussion, we may make forward-looking statements about the Company's performance and actual results may differ.

Joining me today is Reed Hastings, our CEO; David Wells, CFO; Ted Sarandos, Chief Content Officer; and helping to facilitate is Rich Greenfield of BTIG Research and Doug Anmuth of JPMorgan. Let me turn it over to Doug for our first question.

Doug Anmuth - *JPMorgan - Analyst*

Thanks, Erin. Thanks, everybody, for being here with us today. So first question I wanted to ask about the fourth quarter and guidance, you guided to 2.25 million subs for 1Q and that's 11% above 1Q 2013 net adds. You noted that you're in the middle of the S-curve. Can you give us some color on the seasonal trajectory of 1Q, what percentage of your subs typically come in very early in the quarter? And also can you talk about your conviction in 2014 in delivering more US net adds then you did in 2013?

Reed Hastings - *Netflix, Inc. - CEO*

Sure, Doug, it's Reed here. The seasonal pattern is the same as it typically is or at least it is the same seasonal pattern so far in the quarter, which is it's relatively front loaded compared to other quarters. And then your second question was on conviction of net adds for all of 2014. And we haven't given guidance for the year. We try to avoid that. So I'll just say it's a great start for the year and that that portends very well for us and we're excited about what's unfolding.

Rich Greenfield - *BTIG Research - Analyst*

When you wrote your last quarterly letter, Reed, you talked about the stock price volatility, you referenced it actually broke it out in the letter and you said some of it feels like the euphoria back from 2003. Your stock I think that evening was at $354 a share. That section was removed from the quarterly letter this quarter. I think your stock right now is trading at about $393. Curious, is the euphoria now gone given your business conditions or do you still feel like there's euphoria built into the stock?

Reed Hastings - *Netflix, Inc. - CEO*

Well, at least I was clearly right about the volatility, Rich. We've been all over the map here. And I think we'll just stay focused on doing the best we can on improving the service, growing the membership, and I don't know that I have any differential insight into the right price of the stock.

Doug Anmuth - *JPMorgan - Analyst*

In your long-term view you asked about -- you talked about apps replacing channels, screens proliferating. Just wanted to ask you more specifically on the last point here, we frequently ask about mobile, sometimes I feel like you may downplay it a little bit in terms of impact. But as this user base continues to grow and the viewing takes place across more screens, what's your current thinking on how material mobile is to your business now and going forward?

Reed Hastings - *Netflix, Inc. - CEO*

Well, it's continuing to grow, tablets in particular, phones some. But so much of our viewing is on smart TVs or TVs connected to a Blu-ray player or a game console. For a lot of our entertainment, we're really pretty large screen centric. And so we're less driven by mobile trends than say a music service would be.

Doug Anmuth - *JPMorgan - Analyst*

Do you feel like that differs at all for newer subscribers?

Reed Hastings - *Netflix, Inc. - CEO*

It's a little different in younger subscribers and -- but again, we're not trying to be any one screen. So we work great on a tablet, both Android and iOS. And we work great on a TV and so we're not trying to pick and choose. And in fact in any time period, say a month, many subscribers will use us on multiple screens, they'll watch some on a smart TV, some on their laptop and some on a tablet and that's fine for us.

Doug Anmuth - *JPMorgan - Analyst*

That's even true of watching a specific show, you may start it on one device and end it on another.

Rich Greenfield - *BTIG Research - Analyst*

David, you talked about wanting to have increased transparency for the reason for shifting to a single point estimate for guidance. Is there also a part of that that's driven by better visibility in Q1 now?

David Wells - *Netflix, Inc. - CFO*

I don't think it was related, the timing was related to the quarter that we made the shift. I think for you guys, you're always trying to figure out if our guidance ranges also include modest conservatism on top of an internal forecast. And I think for us it was an attempt to just remove that one marginal layer. You already had the midpoint of our ranges. We wanted to simplify our message and our -- the transparency of our guidance and just moving to our straight internal forecast does that.

Rich Greenfield - *BTIG Research - Analyst*

And when you -- I think two quarters ago -- or sorry, go ahead.

Reed Hastings - *Netflix, Inc. - CEO*

Sorry, Rich. David, would you agree we have the same visibility we have every Q1 at this period, there's nothing special about this Q1?

David Wells - *Netflix, Inc. - CFO*

Yes. That was the intent of my first statement which is there's nothing special about this quarter.

Rich Greenfield - *BTIG Research - Analyst*

But there is something special about this quarter that you highlighted a couple of years ago which is the Olympics. And there is a Winter Olympics and curious to what extent having the Olympics impacts your guidance and whether you can read through anything towards the World Cup this summer? And maybe just one other factor to throw in there as well is you've got season two of House of Cards, is that playing into the increased confidence in Q1 as well?

David Wells - *Netflix, Inc. - CFO*

(Multiple speakers) So, I'll take a crack and then we'll go to Reed. But I would say Rich, that you correctly articulated that there's factors on both sides. The Olympics for us are generally a negative cause people are focused on watching something else rather than signing up for Netflix. We feel like the Sochi games are a small factor in that. They might be disproportionate in the territories that are really excited about the Winter Olympics, the US is excited generally and watches it, but it's not a large factor. And then House of Cards would be on the other side of that which would be a positive.

So our guidance numbers reflect all of those pluses and minuses. But again, there's nothing particularly special about this quarter. You've articulated one or two swing factors. Every quarter we usually have one or two swing factors in terms of influencing our guide.

Doug Anmuth - *JPMorgan - Analyst*

I know it'll be in the filing soon but if you could give us an update on off balance sheet obligation tied to both the US and International businesses?

David Wells - *Netflix, Inc. - CFO*

Sure, Doug. Usually when people are asking this they're asking about that content obligations or the overall obligations filed in our financials. And those rows from 6.5 to 7.3, there's a little bit of rounding so it was a $700 million increase largely driven by some of the deals that you've already heard about and we've announced. So the Marvel deal and some of the originals, the Universal deal, and the Sony deal that we've done in terms of extending some existing deals.

Rich Greenfield - *BTIG Research - Analyst*

And then maybe another balance sheet question to stay on this topic, can you provide some background as to why content assets or prepaid content assets were rolled into other current assets during the most recent quarter's presentation of the balance sheet?

David Wells - *Netflix, Inc. - CFO*

Sure, because it's gotten so small that it's immaterial in terms of those changes. So our team felt like it was not needed to break it out anymore but there wasn't anything more than that.

Doug Anmuth - *JPMorgan - Analyst*

And then perhaps just lastly in terms of 1Q, a strong guide here. But it looks like your -- the EPS is perhaps a little bit lighter for 1Q. Can you talk a little bit more about where you're expecting the incremental spending to come in in the quarter?

David Wells - *Netflix, Inc. - CFO*

Well I'm not sure about the EPS being a little bit lighter. Our DVD business does see a decrease in profitability because of increased usage and the continued small decline of the subscriber base. Our International is going to see pretty good improvement. You've seen that in our guide. We'll see a step up a little bit in our G&A costs as those are reflected in mark-to-market comp -- employee compensation. But those would be the big factors involved in that, but I don't think it's a material step change.

Doug Anmuth - *JPMorgan - Analyst*

Right.

Rich Greenfield - *BTIG Research - Analyst*

Can we move over to pricing? When you look at your long-term view statement, you actually removed the phrase I believe at some point over the last several months, simplicity is at our core. And there seems to be a change in your philosophy surrounding pricing. I think Reed, you had for a long time talked about the importance of keeping it simple with one price point. Wondering what's changed and how does that now play into the various tiers of Netflix that you're now testing and playing with?

Reed Hastings - *Netflix, Inc. - CEO*

That's an interesting story. A friend of mine, I was preaching about simplicity, and a friend of mine pointed out that the simplest iPhone would have no applications but it wouldn't be a better iPhone. In fact, that was the iPhone 1 had no App Store. And that in fact great product is a combination of functionality and ease of use. And that simplicity wasn't always the best choice. And so through the conversations over the last year I think I've shifted away from simplicity to an end goal to simplicity as an input towards ease of use and towards matching functionality that people want.

And so we've slightly are more focused on the best functionality independent of its simplicity and we of course try to make it as easy to use and we try to make our pricing as straightforward as possible, but it's not clear that one price fits all. We added the four screen program almost a year ago back in April of last year. And that's met our expectations in terms of the family take rate. So I think we're justified, we're willing to take on a slightly richer offering and realizing that that might be better for consumers and for us.

Doug Anmuth - *JPMorgan - Analyst*

Reed, can you also comment on the $6.99 plan, who you're targeting with that offering and does it say anything in your view in terms of penetration and maturity in the US?

Reed Hastings - *Netflix, Inc. - CEO*

We're testing lots of things. Some of it's been reported on, some of it's not. One of the things is the $6.99 one stream, I don't think you should read too much into that other then we're probing around the edges. There's no definite plan to do that. I would say generally as we put in the letter we're trying to figure out some models of good, better, best price tiering that makes sense and provide some flexibility for our customers, at least for our new customers. Our existing customers of course we would grandfather very generously.

Rich Greenfield - *BTIG Research - Analyst*

When you look at the $6.99 plan, why does somebody who's willing to spend $7.99 -- why does $1 make a difference? Do you really think that there's that much impact from that $1?

Reed Hastings - *Netflix, Inc. - CEO*

Well, Rich, of course at your income level, not to be too personal, it doesn't. But in going from 33 million US members to hopefully more than twice that, every bit of savings is important to people. And so we definitely look at those kind of factors. But again I wouldn't read too much into the $6.99 other than we're testing some things and we're continuing to try to figure out how to evolve to a good, better, best plan that makes sense to consumers and feels fair.

Rich Greenfield - *BTIG Research - Analyst*

Any early elasticity learnings though you can talk to directly?

Reed Hastings - *Netflix, Inc. - CEO*

No. Once we figure out what we think is the best plan, then we'll talk about that and why we think it is. But we're not specifically taking apart each option that we're testing.

David Wells - *Netflix, Inc. - CFO*

The only thing I would add, this is David, the only thing I'd add on that conversation is just it's not only the question of elasticity and income levels, but in pricing theory there's also a sense that consumers make choices around heuristics. And so $1, Rich, might not sound like a lot on a logical basis but consumers may have shortcuts that they make they take the middle or the upper or the low and so that factors into the right course as well.

Doug Anmuth - *JPMorgan - Analyst*

And if we think about it on the other extreme there's likely a large percentage of subscribers that would perhaps pay dramatically more for a Netflix service that had even more content on it. How does the Company address how they might reach that subset of members without risking the growth at lower prices?

Reed Hastings - *Netflix, Inc. - CEO*

Yes, it's unlikely for us to be able to do that, Doug, because if we license the content it's almost always exclusive because the other licensors don't want us to have it in addition to them. So we have to pay the full not of getting an exclusive license. And so then that's tricky to say also build a $30 a month program that say has all the new releases or something like that. So I think we'll stick at what we're doing now and just continue to do it a little better year after year after year. And that's worked pretty well for us over the last eight quarters.

Rich Greenfield - *BTIG Research - Analyst*

You referenced before the iPod or the iPhone. When you think about ways to tier, obviously there's things like Wi-Fi or many and not many for iPad and iPhone, are there more ways to tier for Netflix then simultaneous streams and SD HD? What other things should we be thinking about?

Reed Hastings - *Netflix, Inc. - CEO*

Well, we'll let you know when we figure out what works best in our testing and research with consumers, but sure, there's a dozen type of things that you could tier on in principle. But the trick is not having too many factors, keeping it understandable, and then really that it feels fair and resonates with consumers.

Doug Anmuth - *JPMorgan - Analyst*

Last week HBO commented that shared passwords are not a big issue for HBO GO because those users eventually will have enough money to subscribe on their own. What's your view around shared passwords?

Reed Hastings - *Netflix, Inc. - CEO*

That was an interesting comment I suppose. So I guess Plepler, the CEO of HBO doesn't mind me then sharing his account information, so it's plepler at HBO.com and his password is (inaudible).

Rich Greenfield - *BTIG Research - Analyst*

When you think about advertising, I think that there is a lot of people who now believe investors that believe that your service has gotten to the point where it's sticky enough that people would tolerate pre-roll ads such as when they go to the movie theater and they're forced to tolerate several minutes of pre-roll ads. Is that something that you would ever envision doing?

Reed Hastings - *Netflix, Inc. - CEO*

We have no plans to go towards advertising-based models. Our brand at least over the next couple of years and at this point really stands for that commercial free experience that we have where the consumer's in control of the experience they get to watch when they want, they get to pause it when they want, they get to play it when they want, watch it how and where they want. So it's fundamental to that control orientation that we don't cram advertisements down people's throats. So I really don't see that.

Rich Greenfield - *BTIG Research - Analyst*

Do your contracts even allow it, though?

Reed Hastings - *Netflix, Inc. - CEO*

At a certain price, anything's allowable, but I'm sure Ted could talk -- it would take a lot more money but it's not something we're contemplating.

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

It tends to be a separate sets of rights. And to your point, Reed, we've got to go to great extremes to give consumers control of the content going all the way to the extreme of putting the entire season out at one time. So the notion of frustrating them for the first or the last couple of minutes seems a little out of step with that.

Doug Anmuth - *JPMorgan - Analyst*

Let's shift gears and talk about net neutrality a little bit. What is the impact of the net neutrality ruling last week and what is your expectation for how the ISPs will act in the near term?

Reed Hastings - *Netflix, Inc. - CEO*

Well as we put in the letter, Doug, there's some draconian scenarios where some ISPs block Netflix, but we think that is very unlikely. And the most likely scenario at least in the near term is that there is no real change. And the reason is if ISPs, especially major ISPs, were to contemplate blocking Netflix or other services, it would significantly fuel the fire for more regulation, which is not something that we're interested in. So the long term we still need to figure out what it means and how that works out. But I think in the short term, it's very likely that there's no change.

Richard Greenfield - *BTIG - Analyst*

You lobbied pretty hard though against the court overturning the net neutrality rules. Verizon obviously lobbied very hard to have the rules overturned. I guess there's a lot of investors who fear that this is a zero-sum game and even if there isn't a notable attack from Verizon or other ISPs, I think the fear is it's a little bit like boiling a frog that they'll just turn it up and tweak it a little bits each year just to disadvantage you versus themselves so it may not be overly noticeable. How much of an issue is little bits of bad behavior?

Reed Hastings - *Netflix, Inc. - CEO*

Well, it's a legitimate fear I suppose, but we operate in 41 countries that have quite a variety of states of net neutrality and we've never had a significant problem to date, doesn't mean we won't, but we haven't to date. And I think what it is is ISPs have a very profitable business and they want to expand that business. And part of delivering and expanding for consumers is having a good Netflix experience, a good YouTube experience, things like that. That's why people get higher speed broadband. And so I think actually our economic interests are pretty co-aligned which is how it's worked so far.

Doug Anmuth - *JPMorgan - Analyst*

And can you comment on Open Connect and does it mitigate some of the impact here and perhaps can you talk about how deeply penetrated you are now with Open Connect?

Reed Hastings - *Netflix, Inc. - CEO*

Sure. Open Connect's a pretty independent issue. We could be delivering through [Akamai] and an ISP could block Netflix bit, so they're really not closely associated other than they both are on bit delivery. And then Open Connect's making great progress, we're continuing to work with more and more ISPs, higher percentage of the traffic. But think of that as a cost savings and improvement as opposed to say fundamental to these net neutrality issues.

Rich Greenfield - *BTIG Research - Analyst*

You're already at I think 30% of peak downstream bandwidth if you listen to the Sandvine studies. I was -- I think when we were looking at the fourth quarter statement, it showed I think 16 megs was the stream necessary for 4K streaming, your eyes pop out when you see the amount of data that a 4K stream for call it a two-hour movie if you think about out streaming all of Breaking Bad over the course of the next few weeks given how many seasons you have. How does 4K going to impact the net neutrality debate just given how much data? I assume that 30% surges because you'll have 4K content before a lot of others, so your 30% could really surge over the next couple of years.

Reed Hastings - *Netflix, Inc. - CEO*

If you're on the cost side of an ISP, then you may be affected by that and think about that, but if you're on the revenue side you're celebrating because now there's a real need to get a 40 or 50 megabit plan so you could support two streams and you've got something to get people to upgrade to the faster plans. And so as long as the fast plans are priced appropriately for the ISP, it's a great interplay. For 20 years we saw PCs get faster, applications get richer, which was a reason to get faster PCs which then enabled richer applications. And that ecosystem really grew.

Now of course, in the short term there's not many people who own a 4K TV. So 4K is going to come about as a percentage of all viewing fairly slowly because you've got to get a 4K TV and then only a percentage of our content is available in 4K. So there's no tidal wave coming in the next 18 months. But it is a great way to work with ISPs so that their higher speed plans have more merit in the consumers' eyes.

Doug Anmuth - *JPMorgan - Analyst*

Great. Let's shift gears and move over to International. You talked about a more extensive European rollout coming in 2014. There's clearly a lot of speculation on you entering France and Germany in particular. But can you talk a little bit about maybe those countries specifically the over the top players that are currently state of broadband and the interest in US content there?

Reed Hastings - *Netflix, Inc. - CEO*

Yes. We haven't been specific about what country or countries we're going to expand to. So there's a number of players in all the major markets and in the smaller markets. They're all doing good work. I think what we've seen with our success in the UK is that there can be very strong players like the BBC iPlayer and LOVEFiLM and Sky and we can still build a very successful business. And so I think the key is having unique content, a great reputation, a good value proposition. And we can succeed and in many cases the competitors can also. So we mostly focus on finding good markets that love content and that will steadily expand in Europe.

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

And to your second part of your question, the appetite for US content around the world still remains very, very high throughout Europe particularly. And you'd think -- and there are some pockets of the world where local content is now outpacing US programming on the movie side. But that doesn't really -- it's not necessarily a reflection of the desire for the content itself as much as it is the specific distribution models in those countries.

Rich Greenfield - *BTIG Research - Analyst*

So you think content like House of Cards or Breaking Bad, those series work well, or would work well in markets like France or Germany specifically?

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

House of Cards and Orange Is the New Black is a hit for us in every territory we operate in and is a hit for others in territories where we don't today, so it travels incredibly well, those shows do. And Breaking Bad is an enormous show for us in every one of our territories.

Rich Greenfield - *BTIG Research - Analyst*

And just because you brought it up, when you have sold shows like Orange Is the New Black into France because you weren't there yet, what happens when you launch in those markets? Do those rights revert back to you if you chose to launch in France or are you out of the market with some of your key originals for the length of the series?

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

It depends. There's multiple windows and we'll continue to have those negotiations as we get closer to those launches.

Doug Anmuth - *JPMorgan - Analyst*

Can you give us some color on how International subs breakout by market? Have you crossed the 2 million sub number in the UK? And then perhaps also comment on profitability in the UK and Canada if you're there yet or how far away?

Reed Hastings - *Netflix, Inc. - CEO*

We really don't break out by country for competitive reasons, either the profitability or the number of subs. We have said in the past or probably two years ago that Canada broke even within two years. But beyond that, we're really treating International as a segment, again for competitive reasons.

Rich Greenfield - *BTIG Research - Analyst*

Why does it matter --

David Wells - *Netflix, Inc. - CFO*

Sorry, Rich. Doug, this is David. I would just say that for those that have been following us for a while, we've been making consistent statements about improvements in every market. So we have given some color in terms of if you have tracked the history from launch, where we might be along the way and you should get some confidence that there's improvements in every market. We've made that comment in several quarters.

Rich Greenfield - *BTIG Research - Analyst*

So there's no way to read into the UK since you haven't broken or since you're not giving any detail, we shouldn't assume that that market has not broken even already because you're no longer ever going to comment on individual market profitability outside of Canada?

Reed Hastings - *Netflix, Inc. - CEO*

A way to think about it, Rich, is you don't really care if we're profitable in London but not -- or in England, but not in Scotland or vice versa. In other words what we care about is the total P&L. And much of the licensing is either when you think of originals, we're really multi-territory, so what we're managing to is the overall P&L.

And then with International you can see the just incredible progress we've made over this last year in terms of lowering the -- improving essentially the contribution margin and we'll continue to make progress on that. So we're making good progress there.

Doug Anmuth - *JPMorgan - Analyst*

Can you talk about the early returns on the set top box integrations in Europe in particular through the middle partnerships, how those are working so far? If you could comment a little bit on the economics and then also what do you think the potential is for future deals that are similar going forward?

Reed Hastings - *Netflix, Inc. - CEO*

Sure, Doug. I'm not going to comment on the economics, but our big first one was with Virgin. Virgin's always been an innovator in the UK market, they're a really strong cable company. Lots of fiber. They've done lots of investment to have some of highest speed broadbands in Europe and in the world. We're thrilled to be working with them. It's on the TiVo platform. It's been a really great reception. It's just very convenient for people to use Netflix right on the -- generally the same input and the same device that they're used to using it on. And of course we've had several years of history of working with TiVo, so the application works very well.

So we're excited by that. We're open to doing more. We're definitely talking to lots of people throughout the world. And I think what an MVPD sees is that people are going to use Netflix anyway. And I as an MVPD would rather have them use it on my remote control and my box then get used to the smart TV, the Apple TV, the Roku. So they see that these things are going to exist anyway and so they might as well have Netflix right on their box integrated, better consumer experience, and the consumer stays within my remote control say if I'm an MVPD. So I think it's a win-win all around and we'll see it start to expand.

Rich Greenfield - *BTIG Research - Analyst*

Reed, it seems based on (multiple speakers). Go ahead, Doug.

Doug Anmuth - *JPMorgan - Analyst*

Go ahead, Rich.

Rich Greenfield - *BTIG Research - Analyst*

I was just going to say (multiple speakers) when you look at the MVPD, the cable companies that I cover and look at, it seems like a no-brainer. This is clearly positive for them. It simplifies the user experience which is what everybody's looking for. But a big piece of this is the programmer. And the programmers try to differentiate where they make content available.

And the more that I can easily choose watching Netflix in the evening easier and easier versus watching CBS's new programming in the evening, that would seem like a meaningful threat if I were an executive at one of these big content programmers in the US. How do you address that?

Reed Hastings - *Netflix, Inc. - CEO*

Ted, I'll pass it over to you.

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

It's a stroke of the remote control, Rich. So the idea that, like Reed said, most of those viewers are doing it now, and their exiting the cable ecosystem to do it, which I think is much more disruptive than the idea of giving ease of use to the consumer to switch back and forth but yet stay within their own ecosystem. So right now I think when you look at the numbers of a cable show people are tuning in on a Sunday night, often the number --

the single show on Netflix could dwarf that number. So I think it's already being changed in that way and the way people get there I think it's in everyone's best interest to keep in mind consumer convenience. So staying within the ecosystem with an easy push of the button I think is great for everybody.

Doug Anmuth - *JPMorgan - Analyst*

So you've talked a lot about personalized merchandising and you have the Emmys to back it up as well. Can you talk a little bit about how much better your predictability algorithms are becoming? Can you quantify the improvement over the past year and how much room there is to go, what this means for the business going forward?

Reed Hastings - *Netflix, Inc. - CEO*

Well, if you think, Doug, about how much better has Google search gotten over the last 10 years? It's pretty hard to quantify, would you say it's twice as good, three times as good? It certainly is a lot better. And I think it's like that for us, which is it's tremendously better than two, three years ago. It's continuing to get better.

We could measure it in the narrow when we do an AV test. So every month we'll have several tests running, we'll figure out which sell actually works better for consumers. But then that leads to an accumulation of improvement. And then it's anybody's guess if in total it's twice as good or three times as good as a couple years ago.

But it's continuing to improve. Where our guys are coming up with new ideas all the time about how to improve it so that the effect of it is that when you turn on Netflix on your tablet or on your TV, that the shows on the initial screen are almost always like three of them you're like, oh, I want to watch that. That's what we're looking for is that sense that you turn on Netflix and there's just already a couple shows right away that you want to watch.

Richard Greenfield - *BTIG - Analyst*

With net adds accelerating, year over year, how do you -- despite the size of your subscriber base, how do you think about the total addressable market in the US? Are you starting to rethink what the upper boundary is or I mean you use to put a pretty wide range on it. Are you getting more comfortable with the upper end of the range? And I guess just to frame that a little bit larger, when you look at you versus HBO (technical difficulty)

Erin Kasenchak - *Netflix, Inc. - Director of IR*

Sorry for all those technical difficulties. We're going to get right back started where we left off and turn it over to Rich.

Rich Greenfield - *BTIG Research - Analyst*

Okay, maybe we could start with then personal profiles. You recently, or you launched them last year, curious what impact that's actually having? How many people are actually using those personal profiles and is it leading to more usage of Netflix than you had before you actually launched them? What changes are you seeing? And then if you could quantify, I think historically you've given numbers about total streaming hours in a month or in a quarter, was wondering if you could give us some type of an update?

Reed Hastings - *Netflix, Inc. - CEO*

Well, Rich, total streaming hours have continued to increase, we don't have a figure today to release. And then terms of profiles it's been very popular amongst new members. As you start with Netflix you're experimenting with different parts of it and learning how Netflix works. And so those people are setting up accounts in significant numbers.

Existing members, they use profiles typically if they have kids at home or something like that where they want to separate the kids viewing from their own viewing. So we're really happy with the feature, it's one more in a drum beat of innovation that we've been doing to make Netflix easier and easier to use.

Doug Anmuth - *JPMorgan - Analyst*

And then a question on content spending, do you still expect original content spend to double in 2014 and what percentage of your content spending would you expect it to be?

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

Doug, it'd be helpful if you think about it's going to continue to grow. It's been quite successful for us, we feel like it both in terms of viewing economics and in terms of brand enhancement and marketing. So I would expect that it's going to keep growing. Today it's still the sub 10% we talked about before and we've announced several new projects that'll take the number -- that'll take it up pretty dramatically. But I would keep in mind that it will -- it is within the total spend of our forecasted content spend, not in addition to. So you should think about it as a piece of the spend the way movies and TV and exclusives and non-exclusive content are all just in different buckets.

David Wells - *Netflix, Inc. - CFO*

And Ted's right and in terms of characterising up dramatically, it's still going to be -- it's still takes time. So it's likely to be under that 10%. We just want to migrate away from the specific number because we've seen great success, we'll continue to invest in it, it'll continue to grow and it'll continue to grow in terms of the ratio of our overall content spend.

Rich Greenfield - *BTIG Research - Analyst*

When you talk about pricing plans, I think one of the questions that comes up is how many people actually are using simultaneous streams? Can you tell in the course of a month when you look at 30-plus million subscribers, roughly, just ballpark it, what percentage of your subscribers have ever had a point in time where there's been two, three or four simultaneous streams running? I think people are curious, is this actually playing out or are people sometimes paying for more streams than they actually need?

Reed Hastings - *Netflix, Inc. - CEO*

Well today there's only the choose of the two stream and the four stream, Rich. And a pretty small number of people need two and do upgrade to the four stream. We of course do know how many people use two streams, how many times in the month, but it's not something that we care to share again for competitive reasons at this point.

Doug Anmuth - *JPMorgan - Analyst*

And on originals, can you comment on the current viewing trends, particularly for shows like House of Cards and Orange compared to when they were first released earlier in 2013? You've talked in the past about how you expected them to build audience going forward, has that been as you've anticipated?

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

Yes, the audience for those shows is continuing to grow as we'd hoped particularly in the last few months around all the awards recognition and awards publicity the shows have received. We've seen nice spikes in viewership of the first episode of these shows.

And there's a lot of rewatching going on as well where with all the buzz around of the new season of House of Cards starting up February 14, people have gone back and are rewatching the first season. In fact we've done things like added directors commentary to that to make that a differentiated experience to go back and watch the show again. So we're seeing both the overall audience expand and viewing hours grow with these shows month over month over month.

David Wells - *Netflix, Inc. - CFO*

Doug, if your angle was on the amortization in terms of that question, it is as expected, as Ted talked about. So we're pleased with the growth, we've got some big second seasons coming out this year and we'll continue to monitor it, but right now it's as expected.

Rich Greenfield - *BTIG Research - Analyst*

Netflix appears to be getting more serious movie production, and when I saw movie production, it seems like your aspirations are not really movie of the week or even a more expensive one time event like Behind the Candelabra which HBO did. It seems like you have bigger aspirations to do a real call it $100 million type movie. Could you discuss why that's interesting and what that could potentially do for Netflix? It seems like your thinking has evolved over the past three to six months.

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

Well Rich without confirming or denying the range or the aspiration, I would say that to the consumers the line between a movie and a TV is getting pretty blurry. So TV shows are 13 hour movies and movies are 2 hour TV shows. So I think the way that we're looking at it, we want to make really compelling model -- really compelling content in multiple formats.

And the one thing that's evolving pretty dramatically I think is the interest and the desire for movies in different windows than today's models allow for. So while I think the viewing is dramatically moving more towards at home and on demand, movies still wait about a year behind theatrical before they're available to folks like HBO and Netflix. So what we like to do is look at ways, different ways that we can accelerate that window. And maybe like with original programming, the most effective way to work that is to do it yourself.

Doug Anmuth - *JPMorgan - Analyst*

David, to follow up on amortization, is there anything unusual that we should think about for 2014 in terms of content amortization versus cash outlays for content? Is there anything in particular that would cause more lumpiness perhaps year over year than we've seen in the past?

David Wells - *Netflix, Inc. - CFO*

No, Doug, no. The only thing is our originals are growing. And so in terms of those cash outlays, when you have more projects, if there's a little bit more upfront cash obviously, more projects means more cash upfront. So that would change the year-over-year trends, but otherwise there's nothing else.

Erin Kasenchak - *Netflix, Inc. - Director of IR*

Rich, do you want to wrap it up with one last question?

Rich Greenfield - *BTIG Research - Analyst*

When you look at your -- I think we lost a little bit of time, so we've got a few more questions if we can, let's see how much time we could actually squeeze in. But when you look at your -- when you look at the releasing strategy, you had basically five episodes of Turbo FAST drop at a time which was the first time you had ever done that. Wondering could you talk about the positives and negatives of that strategy versus doing what you've done with the more adult oriented fair, why the change in the strategy?

And then on top of that, the rest of the industry still has a very grim view of what you're doing from a -- how it translates into social media and the bang for the buck that you get from releasing an episode of Homeland or House of Cards on a week-to-week basis. Are you still very comfortable with this strategy?

Ted Sarandos - *Netflix, Inc. - Chief Content Officer*

Well Rich, thanks for asking. I'm thrilled with this. We're very thrilled with the strategy today and if you look at -- one of the things I think that dispels some of the concern or mythology around what happens to social media when you drop all of the shows at once, check out the Google trends House of Cards and The Americans, which both debuted on the same day, and look at the pattern. And what you see is week over week over week there is more chatter about House of Cards than there is about The Americans week over week over week.

And the same thing is true of the Bridge and Orange Is the New Black that debuted on the same day. So I think that that mythology is pretty well dispelled by now. And the consumers really love it, because they can really decide I'm going to watch the whole show this weekend, I'm going to watch one a week or however they want to do it. So it's really something that the viewers love and that's why we love it.

And as far as Turbo is concerned, Turbo is not a serialized program at all and kids don't watch the same way that you and I do and particularly the same way that you and I watch serialized programming. So giving them five episodes enabled us to accelerate the availability to drop the episodes in the holiday period when kids were home watching a lot of shows and it was a tremendous success. They watched all five, they watched them over and over again, they watched just the way kids watch cartoons. So we're really thrilled with the strategy and I anticipate that we'll continue to play and tweak with it but a departure from it with radically different kinds of programming doesn't signal a change in the strategy.

Doug Anmuth - *JPMorgan - Analyst*

Just a question on the balance sheet in particular, you wrote that you're likely to raise debt in the first quarter perhaps. Can you talk about the rationale for how you're thinking about taking on more debt as opposed to perhaps selling equity at these levels particularly given the fact that you do have the $7 billion plus in off balance sheet obligations?

David Wells - *Netflix, Inc. - CFO*

Well, Doug we don't think that we'll need the money this year or next year. We may not need it at all but given our expansion plans with International and given our content expansion, which tends to run a little bit ahead on cash, we think the current interest rate environment is pretty attractive, so we're going to add to the balance sheet. And in terms of why not equity? We just don't think that we need that. We think that we're well within the bounds on a debt to equity ratio and the business will continue to grow and our credit metrics will continue to improve.

Reed Hastings - *Netflix, Inc. - CEO*

Rich, and Doug, why don't you pick a last question and then let's wrap up here.

Doug Anmuth - *JPMorgan - Analyst*

Rich, go ahead.

Rich Greenfield - *BTIG Research - Analyst*

John Malone's trying to consolidate the cable industry. And I guess if he's successful, he's been pretty openly critical of the fact that the industry let you, I know that's a strong term, but let Netflix get to the point it's at or let it build to the point that it's at. I'm wondering if we do see some pretty notable cable industry meaning ISP consolidation, how do you think that impacts Netflix as you look out over the next few years?

Reed Hastings - *Netflix, Inc. - CEO*

Let's see, in the US I don't think there's much consolidation that's material. Even if Time Warner and Charter get together, they're another Comcast. I don't think that's a big change for us. I have the greatest respect and considerable affection for Malone. So I think we'll just continue to work through those issues.

I think the more that you own cable companies, you want great broadband services, you want consumers to take higher and higher priced tiers, and I think we'll find that our interests are very co-aligned and that fundamentally cable businesses are enormously profitable broadband franchises. And we are an enormously successful over-the-top video Company and that they'll come together in the same way that I mentioned or reinforce each other that applications and PCs did for 20 years post roughly 1990.

Doug Anmuth - *JPMorgan - Analyst*

And the just -- go ahead.

Reed Hastings - *Netflix, Inc. - CEO*

Last question. Go ahead, Doug.

Doug Anmuth - *JPMorgan - Analyst*

A final one, do you think that the creation of potentially virtual MVPDs this year will -- could that impact the business if people can get a combination of linear plus on-demand content across multiple devices as part of a package? For example does that in any way impact your value proposition?

Reed Hastings - *Netflix, Inc. - CEO*

I don't think so. Verizon, what do they have, $8 billion of profit last quarter? So anybody with that much money making investments in this area I mean we try to gain out what do they think they're doing there? And we haven't come up with anything that's earthshaking. I think the earthshaking stuff is probably more like Aereo depending on what happens there. And so we're watching all those guys.

But remember, if you watched Netflix last night, and we won that evening. If you didn't watch Netflix, maybe you watched a football game, maybe you read a magazine, maybe you browsed the web, maybe you watched a current season TV, so we compete so broadly, it's not just the video segment. We really compete for things to do in my leisure time. And that's a very big pool. And that's how you've seen Netflix grow to over 33 million domestic and yet MVPD is still at 100 million, it hasn't shrunk.

And because of that big pool of entertainment time, I really doubt that we'll see a direct effect from an Internet MVPD if such a thing comes about and is successful. Because it's just one more background source. And what makes it different is the quality of our programming, the quality of the streaming, the quality of our service, the things that we control.

Rich Greenfield - *BTIG Research - Analyst*

How many people have watched Netflix in one night, have you ever -- or one day? Would you ever give us that statistic in terms of what percentage of that 33 million actually used Netflix that you so-called won on that given day?

Reed Hastings - *Netflix, Inc. - CEO*

It's a great question, Rich, which I won't answer. But thanks very much for conducting the interview. And we'll continue to focus on the same things we've been focusing on. So thanks to everyone.
