S&P Global
Market Intelligence

Netflix, Inc. NasdaqGS:NFLX

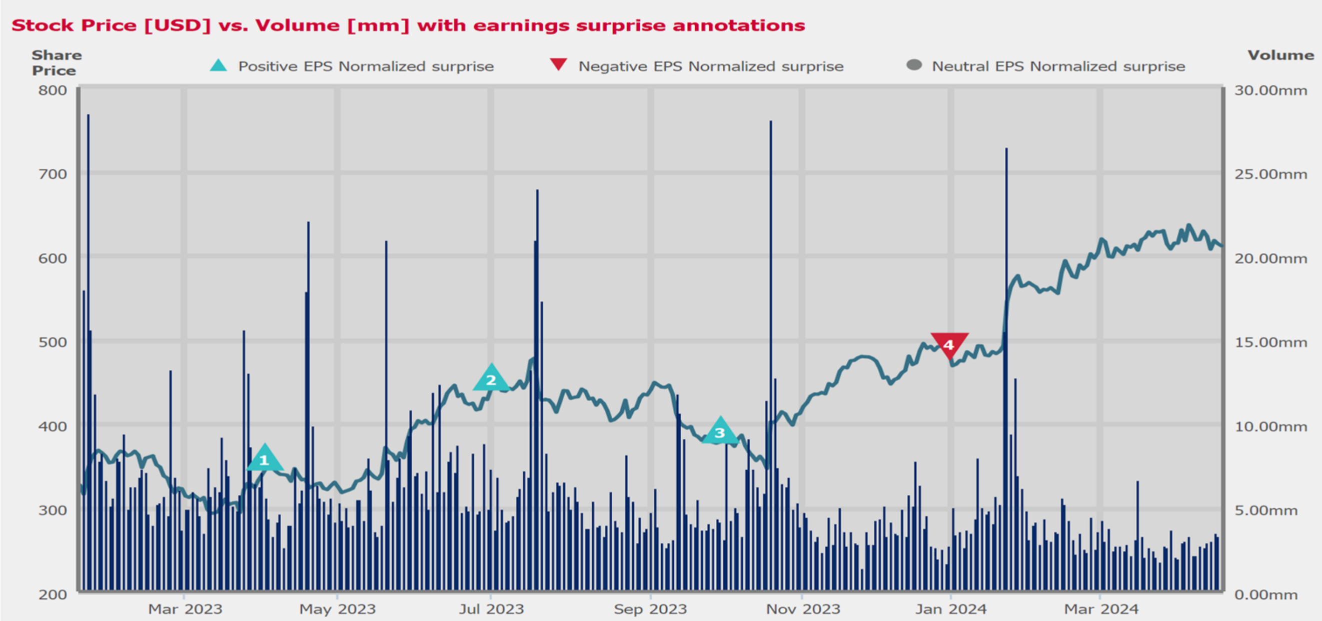
FQ1 2024 Earnings Call Transcripts

Thursday, April 18, 2024 8:45 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-				-FQ1 2024-	-FY 2023-		
	CONSENSUS	ACTUAL	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE
EPS Normalized	2.23	NA	NA	2.15	NA	NA	4.54	12.25
Revenue (mm)	8712.44	NA	NA	8692.00	NA	NA	9278.83	33637.60

Currency: USD
Consensus as of Apr-18-2024 1:12 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	2.86	2.88	0.70 %
FQ2 2023	2.86	3.29	15.04 %
FQ3 2023	3.49	3.73	6.88 %
FQ4 2023	2.23	2.11	(5.38 %)

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Call Participants

EXECUTIVES

Gregory K. Peters
Co-CEO, President & Director

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Spencer Adam Neumann
Chief Financial Officer

Theodore A. Sarandos
Co-CEO & Director

Presentation

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Good afternoon and welcome to the Netflix Q1 2024 Earnings Interview. I'm Spencer Wang, VP of Finance, IR and Corporate Development. Joining me today are Co-CEOs, Ted Sarandos and Greg Peters; and CFO, Spence Neumann.
As a reminder, we will be making forward-looking statements, and actual results may vary.

Question and Answer

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

With that, we will now take questions that have been submitted by the analyst community. And we'll begin first with some questions about paid membership reporting and our results and forecast.

So for our first question, it comes from Justin Patterson of KeyBanc. And I'll direct this at Greg initially. Greg, could you please talk about the decision to stop reporting quarterly membership in ARM data in 2025? Why eliminate this? And since you said success stems -- starts with engagement, how are you thinking of expanding these disclosures?

Gregory K. Peters
Co-CEO, President & Director

Yes. As we noted in the letter, we've evolved and we're going to continue to evolve, developing our revenue model and adding things like advertising and our extra member feature, things that aren't directly connected to number of members.

We've also evolved our pricing and plans with multiple tiers, different price points across different countries. I think those price points are going to become increasingly different. So each incremental member has a different business impact. And all of that means that, that historical simple math that we all did, number of members times the monthly price, is increasingly less accurate in capturing the state of the business.

So this change is really motivated by wanting to focus on what we see are the key metrics that we think matter most of the business. So we're going to report and guide on revenue, on OI, OI margin, net income, EPS, free cash flow. We'll add a new annual guidance on our revenue range to give you a little bit more of a long-term view.

We'll also -- we're not going to be silent on members as well. We'll periodically update when we grow and we hit certain major milestones, we'll announce those. It's just not going to be part of our regular reporting. We want to do all of this thoughtfully and give everyone time to adjust this transition. So we're going to continue to report subscribers until Q1 of next year, which links into our next annual revenue guidance for 2025. So we think that provides long-range continuity, and we expect that will provide an effective bridge and transition. But ultimately, we think this is a better approach that reflects the evolution of the business, and it more matches and is consistent with how we manage internally to engagement, revenue and profit.

Theodore A. Sarandos
Co-CEO & Director

Yes. And on engagement, Greg, as a reminder, we currently report our engagement on our biannual engagement report, leading the industry and viewing transparency and granularity. And we're going to look into building on that both in granularity, which would be kind of tough. We -- our current report covers about 99% of viewing on Netflix. But we'll look at the regularity in different ways that we can make it even easier to track our progress on engagement.

And -- but importantly, why we focus on engagement is because we believe it's the single best indicator of customer satisfaction with our offering, and it is a leading indicator for retention and acquisition over time. So happy members watch more, they stick around longer, they do a, which all grows engagement, revenue and profit, our North Stars. And so -- and we believe that those are the measurements of success in streaming.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. Thank you, Ted and Greg. I'll move us along to the next question from Ben Swinburne of Morgan Stanley, who asked 2 years ago, Netflix stopped adding members. What changes inside Netflix and/or the broader industry explain the significant improvement in member growth we're seeing today, excluding the paid-sharing initiative? In other words, what are you doing better today as a company than in the first half of 2022?

Theodore A. Sarandos
Co-CEO & Director

That's a great question. I would say the thing we're doing is we're thrilling our members. That's the thing we set out about why we all bounced out of bed in the morning. I look at this last quarter, 8 of the first 11 weeks of the year, we've had the #1 film on streaming. 9 of the first 11 weeks, we've had the #1 original series, and I'm talking about hits like Avatar, The Last Airbender, Grasela, Damsel, Love is Blind, [Three Body] Problem, all of that just in the last few months. So this consistent and dependable and expected drumbeat of hit shows, films and games, that's the business that we're in. And that's what we have to do every day, and we have to do it all over the world.

So if you think about that and how we're doing about kind of quality and scale and multiple cultures in multiple regions, I look at this last quarter, you see Fool Me Once, A Day, Gentlemen, Scoop, The Super Buzzy, Baby Reindeer, all that from the U.K., all in the last few months. Berlin, Society of the Snow, Alpha Males, all from Spain and all just in the last few months. So that's been one of those things that we just keep building and building and building on; and local unscripted, which is a fairly new initiative for us. And we're finding huge success with things like our second season of Physical 100 in Korea recently and Love is Blind Sweden. These are all kind of hard-to-replicate things that we keep getting better and better at every day that we're really proud of the teams for doing that. So -- and remember, engagement captures all of this, and none of that is possible without great tech and product. We need to do both.

Gregory K. Peters
Co-CEO, President & Director

Yes, I think that's right. I mean the fundamental is all those amazing series, film, games, live events. But a key component of our something that we're seeking to get constantly better at is that ability to find audiences for all those great titles. Part of making that happen is just the number of people who look to us for entertainment. We mentioned over 0.5 billion people in this letter.

But part of that is that product we do to effectively connect those folks with titles that they will love, which then enables us to find the largest audiences for those titles that we think that they could get anywhere. And I think as you mentioned, Ted, this applies globally to titles from all over the world, which is super exciting.

So -- and then, of course, we seek to maximize the fandom and the impact on the conversation and the cultural zeitgeist that all those titles have. And when we do that well, that feeds positively into that cycle as we launch new titles. So in terms of what are we doing better, what do we do better? We seek to get better at all of those things. And if we can make that whole flywheel spin a little bit faster, then that's great for our members. It's great for our titles and it's great for creators.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Thank you, Ted and Greg. Moving us along, we have Barton Crockett from Rosenblatt. There's a question about our revenue guidance. So I will direct this question to Spence. Spence, can you please explain what drives the revenue deceleration for the full year? So 13% to 15% revenue growth through the full year compared with the 15% to 16% growth in the first and second quarters of this year. Secondly, he also has a question about second quarter subscriber growth. Will that be higher or lower than Q2 of 2023?

Spencer Adam Neumann
Chief Financial Officer

All right. Sure. Well, thanks for the question. So first, regarding revenue growth overall, full year outlook, I feel really good about where we are in our growth outlook. So I just want to be clear about that. We've done a lot of hard work over the past 18 months or so to reaccelerate the business and reaccelerate revenue through combination of improving our core service, which Greg and Ted just talked about, and rolling out paid sharing, launching our ads business. And that reacceleration really started in the back half of '23 and it built through the year.

So our growth in the back half of '24 is really kind of comping off of those hard comps. And at the high end of our revenue forecast, our growth in the second half is consistent with our growth in the first half, even with those tougher comps.

And it's still early in the year. We still got a lot to execute against. We also -- as you see in our letter, there's been some FX that -- with the strengthening dollar, that's a bit of a headwind. So we'll see where that goes throughout the year. But we're guiding a healthy double-digit revenue growth for the full year, which is what we set out to deliver, and that's what's reflected in the range.

And I guess maybe it's -- in the question, I guess, this is a little bit of like what's really kind of the outlook for our growth of the business, not just the back half of this year but into '25. And it's too early to provide real -- specific guidance, but we're going to work hard to sustain healthy double-digit revenue growth for our business.

And we really like the kind of the opportunity ahead of us. And we're so small in every aspect. We're only 6% roughly of our revenue opportunity. We're less than 10% of TV share in every country in which we operate. There's still hundreds of millions of homes that are not Netflix members. And we're just getting started on advertising. So the key is to, as you just heard from Greg and Ted, continually improve our service, drive more engagement, more member value. As we do that, we'll have more members. We'll be able to occasionally price and add value and and also have a big, highly engaged audience for advertisers. So more to come on '25 guidance, but that's -- we feel good about the outlook. And then I guess the second part of the question, I'm trying to remember, I'm sorry.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

I can take -- I'll be the bad guy on this one, Spence. So the second question was, do you expect Q2 subscriber growth to be higher or lower than Q2 of the prior year? So Barton, as you know, we don't give formal subscriber guidance. We did give an indication in the letter for you that we expect fairly typical seasonality. So paid net adds in Q2 of this year will be lower than Q1 of this year, and that's the limit of the color we'll provide there.

Spencer Adam Neumann
Chief Financial Officer

Thanks, Spencer.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

No problem, Spence. So to follow up on the revenue guidance question, we have Jason Helfstein from Oppenheimer, who's asking for some more color on the drivers of the full year revenue guidance with respect to subscriber growth versus ARM growth and how that -- those 2 dynamics will play into the revenue forecast, Spence.

Spencer Adam Neumann
Chief Financial Officer

Yes. I take this one as well?

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes.

Spencer Adam Neumann
Chief Financial Officer

Okay. I'll jump in. Others can chime in as well. But when you think about the outlook for the year, it's in terms of the mix of revenue growth. It's kind of pretty similar to -- we expect it will be pretty similar to what you see in Q1, where it's primarily driven by member growth because of the kind of full year impact of paid sharing rolling through the year and continued strong acquisition and retention trends.

But you are -- we are seeing some ARM growth as well. We saw it in Q1, about 1% on a reported basis, 4% FX-neutral. And what -- I just want to be clear, what's happening is that with ARM is price changes are going well. And that's why we're seeing those strong acquisition retention trends because it's a testament to the strength of our slate, the overall improvement in the value of our service.

But we've only really changed prices in a few big markets, and that was U.S., U.K., France, late last year. And only on some of the plan tiers in those markets, not even all the plan tiers. And since then, it's been mostly pretty small countries other than Argentina. And in Argentina, as you can see, we're sort of pricing into the local currency devaluation, and you see that in the difference between FX-neutral and reported growth in Q1.

So mostly what you're seeing in our growth profile this year is the fact that we haven't taken pricing in most countries for the past 2 years really. And we also have some ARM kind of headwinds in the near term that you see in Q1. You'll probably see throughout most of this year, which is that, one, we have some this plan mix shift as we roll out paid sharing. So it's -- while it's highly revenue-accretive, as you can see in our numbers and our reported growth -- strong reported growth in Q1 and outlook for the year, that -- as we spin off into new paid memberships, they tend to spin off into a mix of plan tiers that's a little bit of a lower price SKU than what we see in our tenured members.

And we're also growing our ads tier at a nice clip, as you've seen and I'm sure we'll talk about. And monetization is lagging growth there. I'm sure we'll talk about that a bit as well. We also have some country mix shifts. So that whole combination of factors results in pretty modest ARM growth -- still some ARM growth but pretty modest in Q1 and probably throughout the year. But again, the key there is that this is all -- we're kind of managing this business transition in a way that's really healthy for overall revenue growth as you see with 15% reported revenue growth in the quarter, strong outlook for the year.

And we're building into a much more kind of durable and healthy foundation for revenue growth going forward across a larger base of paid members and a really kind of strong and scaled, highly engaged audience for it to build into our advertising over time and a strong paid-sharing solution also to kind of penetrate into those households. So we'll increasingly kind of see that mix in our revenue growth, and we start to see some of it this year.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. Spence, the next question comes from Kannan Venkateshwar from Barclays, and it's for you, which is, do you expect margin growth trajectory to continue being on the present path for a few years? Can you attain margins that are comparable to legacy media margins?

Spencer Adam Neumann
Chief Financial Officer

Well, thanks, Kannan. Our focus is on sustaining healthy revenue growth and growing margins each year. That's what we talk about a lot that. We also talked about it in the letter. And we feel good about what we've been delivering. 21% margins last year, that's up from 18% in the year before. And now we're targeting 25% this year, which is up a tick from the start of the year when we were guiding to 24%.

So I'd say just like we have in the past, we'll take a disciplined approach to balancing margin improvement with investing into our growth. We've managed that balance historically pretty well, growing content investment, growing profit, growing profit margin and growing cash flow. You should expect we'll continue to do that. But the amount of annual margin expansion in any given year could bounce around a bit with FX and other investment opportunities. But again, we're committed to grow margin each year, and we see a lot of runway to continue to grow profit and profit margin over the long term.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Thank you, Spence. Our next question comes from Alan Gould of Loop Capital. Which inning are we in with respect to enforcing paid sharing? 2 years ago, you said 100 million subscribers were sharing passwords with 30 million in UCAN. How many do you estimate still borrow passwords? And I'll turn the floor over to Greg to answer that question.

Gregory K. Peters
Co-CEO, President & Director

Yes. As we mentioned last quarter, we're at the point where we've operationalized the paid-sharing work. So this is just now part of that standard mechanism that we've been building and iterating on over time to translate more entertainment value and great film, series, games, live events into revenue.

And like we do with all of the significant parts of our product experience, we're iterating on that, testing it, improving it continually. So rather than thinking beyond sort of specific cohorts or specific numbers, we really think about this more as developing more mechanisms, more effective ways to convert folks who are interacting with us, whether they be borrowers or folks that were members before they were coming back, we call them rejoiners, or folks that have never been a Netflix member. So we want to find the right call to action, the right offer or the right nudge at the right time to get them to convert.

And just to be clear, we still see opportunities to improve this process. We've got line of sight on several improvements, this value translation mechanism, we expect will deliver and contribute to business growth for the next several years to come. But I also very much believe that just like for the last 15 years, we've always found something to improve in this process. And even beyond those for years and decades to come, we'll be working on this and making it better and better and better.

So all of those improvements could allow us to effectively get more of that 500 million-plus smart TV households sign up and become members. Spence mentioned hundreds of millions yet to come. This is a way to effectively get at more of those folks and make them part of our membership base.

And as we mentioned earlier on the call, too, I think we're noting that while we're fully anticipating continuing to grow subs, the overall business growth now has extra levers and extra drivers like plan optimization, including things like extra members, ads revenue, pricing into more value, which is important. So those levers are also an increasingly important part of our growth model as well.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. I'll move this on now to a series of questions around advertising. The first of which comes from Doug Anmuth of JPMorgan. What are the most important drivers of scaling your ad tier when you think about adjustments you could make to pricing and plans, partner bundles and marketing? How do you get people over the hump for -- that a few minutes of ads an hour can still be a very good experience at the right price? Greg, why don't you take that one?

Gregory K. Peters
Co-CEO, President & Director

Yes. All the things you mentioned in the question matter. And I would say we're generally taking our entire playbook, everything that we've learned about how do you grow members, and we're applying it to our ads tier now. So clearly, that means partner channels, it means device integrations, bundles, integrated. Those are all important tools for growth just as they are and will continue to be in our non-ads offering; increasing awareness of the quality of our ads experience, especially relative to the linear TV ads experience, which in many countries is really quite poor. That's an important and iterative tool when we talk about sort of marketing and awareness building. That's going to be part of our growth mechanism.

Low price, that's important to consumers. $6.99 is an example in the United States for multiple streams, full HD downloads. We think that's a great entertainment value, especially at the industry-leading low ad load that we've got. So that's critical as well.

So I think you can see the results of leveraging all of these mechanisms and more and how our ads tier has been scaling over the last couple of quarters. So we're 65% up quarter-to-quarter this last quarter. That's after 2 quarters of about 70% quarter-over-quarter growth. For me, it's exciting to see that growth rate stay high even as we've grown the base so much because obviously, the numbers indicate that, that means that there's more absolute additions each quarter. So we're making good progress there.

But look, we've got much, much more to do in terms of scaling. We've got more to do in terms of effective go-to-market, more technical features, more ads products. There's plenty of work ahead for us on ads.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. Greg, our next question on advertising comes from Rich Greenfield, the LightShed. He has a 3-part question. Part one, can you update us on your thinking around the optimal spread between the ad tier and the ad-free tier? Secondly, is your advertising ARPU, excluding the subscription fee, up meaningfully versus your original comments that it was in the $8 to $9 range last year? And then lastly, can you give us a sense of what ARPU would look like if supply was not outstripping demand?

Gregory K. Peters
Co-CEO, President & Director

Yes. I'll take the first one and then maybe hand the ARPU/ARM points to Spence. We don't have a fixed operator position on sort of the optimal pricing spread. And much like we've done with price changes in general, we really use signals from our customers, things like plan take rate, conversion rates, churn to guide us along an iterative path to get to that right pricing.

And I think it's also probably worth noting that sort of right pricing is not really a static position. As we continue to evolve and improve our offering, that's going to change as well. But I think a good general guideline for us in the long term is that it would be healthy for us to land overall monetization between our ads and non-ad offerings and roughly equivalent position. So that really comes down to what works best for any given member, and it's really a member choice about which plan they think serves them the best.

And then I'll hand it over to Spence on ARM questions.

Spencer Adam Neumann
Chief Financial Officer

Sure. Thanks, Greg. So in terms of ARM and your question, Rich, in terms of how we're doing now relative to what we discussed when we first launched business, as Greg said, we've been growing our inventory at quite a fast clip. And so monetization hasn't fully kept up with that growth in scale and inventory as we're still early in building out our sales capabilities and our ad products. But that is an opportunity for us because this -- we're still a very premium content environment, very highly engaged audience that's at an increasing scale. So our CPMs remain strong.

And we're building out our capabilities, as Greg talked about. So the revenue is going to follow engagement over time, and it's already kind of growing nicely, which is great just off a small base. So then really, as Greg said, what that means for ARM is right now, it is a bit of a drag on our ARM because of -- we're kind of under-monetizing relative to supply. But over time, we expect to be similar in revenue on our ads tier, a combination of subscription as well as ads revenue with those kind of non-ads offering. So that's how to think about it, but we're building to it over time.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. Last question on advertising comes from John Holick at UBS. How are you approaching this year's upfronts? And do you believe the base of ad support users is now of the scale that upfront commitments can drive a meaningful change in advertising revenue and be a contributor to ARM growth in 2025? So perhaps, Ted, maybe you could start and then, Greg, a follow-up to that.

Theodore A. Sarandos
Co-CEO & Director

Yes, of course. Look, first and foremost, this is our second upfronts. We're really excited to go and share with advertisers this incredible slate that we're very, very proud of. So they're going to get a look at some of the shows that are upcoming right away, like brand-new seasons of Bridgerton and Sweet Tooth and The 90's Show; some of our unscripted events upcoming, like our Tom Brady Roast, by way of example; and brand-new shows like DeBoy Detectives and Shane Gilles' new show, Tires; Eric, a great new limited series out of the U.K.; Bedtime Box that we're super excited about. And then it'll even get a longer look at what's coming up in the second half of the year, which is, again, returning seasons at Cobra Kai, Emily in Paris, The Night Agent, Outer Banks; and Squid Game, our big one; and a brand-new season of Monsters from Ryan Murphy, which is the Lyon Eric Meninda story this year, which is going to be really an incredible thing to share with our advertisers; brand-new original series and limited series like American Prime Evil from Peberg; Heartburn with an all-star cast, Nicole Kidman and Shriver; Cana, which is this great limited series on the great Brazilian Formula One driver that we're really excited about.

And also, I look at our early -- at our movies coming up that we'll end the year with, with like Eddie Murphy and his most iconic role, Axle Foley, and Beverly Hills Cop Back so Foley; Carry On, a big new animated feature, Spellbound. So we've got a lot of entertainment in store for the audience at the upfronts.

Gregory K. Peters
Co-CEO, President & Director

Yes. I think this is an opportunity to reengage with advertisers and look at the fundamentals of what our offering is. I mean, first and foremost, it's an incredible list of titles that brands want to be connected with. It's just super excited to hear that roster. We've got great engagement from our members on our ads tier. We've got an opportunity to grow that even further. We think that's connected again to the the power of those titles.

We're rapidly growing scale, as we mentioned. That's the #1 request we've had from advertisers. So that's exciting. We're making progress on technical features like measurement ads products. So we're excited to get that out there. And really, this is just an opportunity to bring all of that progress in a package to advertisers and then -- and of course, to get input from them because we know that they're going to have comments and they're going to have things that they're going to want us to continue to work on.

And then really then just to continue that journey because we know there's plenty more to go do to realize the potential we have in the space. And so I would say we're continuing to grow here. We're growing off of a relatively small base in terms of the impact against already big and substantial business. So even though it's growing quite quickly, it takes a while to grow that into the point where it's material. So we look forward to that increasing in '25 and then increasing further in '26 and beyond.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. I'll now transition us to several questions around content. And this first one, I'll direct to Ted. It's a rare question around why don't we spend more. Given what seems like a very favorable current backdrop for Netflix to acquire and license content, why not lean in even more aggressively? Could it make sense to spend more than $17 billion in cash content this year?

Theodore A. Sarandos
Co-CEO & Director

Yes. Independent of the availability of licensed content, you should look at it -- I think we're -- we've always been very disciplined about the way we invest in the business and how we grow it. And we can get a lot of bang for our buck by spending our money well and producing our shows really well and also by acquiring the right content.

And the floodgates have opened a little more on licensing for sure. But again, we're very focused on the ones that we think will drive the business. So I think at our current level of spending and our current rate of growth that we're pretty comfortable spending just behind that anticipated rate of growth.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

And Ted, Jason Healthsen's follow-up is also about license content or second-run content. And his question is, how would a second -- more second-run licensing impact your margins and free cash flow?

Theodore A. Sarandos
Co-CEO & Director

Well, the budget is the budget. So that's -- it's all part of how we're spending against the content. And the free cash flow economics, we've gotten pretty close in our cash flow against P&L on our content spend generally. So I don't think it would have much -- very much impact on that, unless you want to add some color to that, Spence?

Spencer Adam Neumann
Chief Financial Officer

I just love you talking about the discipline on our content budgets, Ted. It makes me happy. No, I agree with all of it. I mean, yes, we spend the opportunity but with, I think, prudent constraints and discipline.

And to be clear, like -- as you say, there has been more license content opportunity, but the vast majority of our content spend is still into original programming. It's -- and it is and is likely to continue to be. So we'll always complement it with great license content for that variety and quality for our members, but the original content is still our future, too, yes.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Next question is from Michael Morris, Guggenheim. Specific about the Jake Paul-Mike Tyson fight for Ted. What are the characteristics of the upcoming Jake Paul-Mike Tyson fight that make this the type of sports programming you're interested in investing in? How does that content benefit your member base and advertising growth goals?

Theodore A. Sarandos
Co-CEO & Director

So we're in the very early days of developing our live programming. And it's -- I would look at this as an expansion of the types of content we offer, the way we expanded to film and unscripted and animation, and most recently, games.

On-demand streaming have been unbelievable for consumer choice and control, and it's really put the controls of television back in the hands of consumers, which has been really phenomenal. But there's also something incredibly magic about folks gathering around the TV together in the living room to watch something all at the same time. We believe that these kind of eventized cultural moments, like the Jake Paul and Mike Tyson Fight, are just that kind of television that we want to be part of winning over those moments with our members as well. So that, for me, is the excitement part of this.

We have -- beyond the fight itself, we have several nights of live comedy coming from the Netflix As a Joke Festival next month. And starting in January, we've got 52 weeks of live sports with WWE Raw that's going to be coming to our members every week on Netflix. And we think it's going to be a real value add to watch those things in real time.

And we're going to continue to try a lot of new things. But the core of it is, do our members love it. And judging from the early excitement around the Jake Paul-Mike Tyson fight, there's going to be a lot of people waking up in the middle of the night all over the world to watch this fight in real time.

Gregory K. Peters

Co-CEO, President & Director

I think worth noting that just as what's relevant to members in terms of these large cultural events that Ted talks about, that's what has relevance to advertisers as well. So it's an opportunity for us to expand our advertising offering and give those brands access to these kind of culture-defining moments.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Thanks, Ted and Greg. And I'm personally looking forward to that event, and my money is on Mike Tyson. But as a follow-up on...

Gregory K. Peters
Co-CEO, President & Director

He's old.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Yes, he's still going. But as a follow-up to the sports question for Ted, as you continue to scale Netflix in become bigger and bigger and potentially gain more leverage, how could your sports strategy change beyond what you're doing today around primarily sports entertainment?

Theodore A. Sarandos
Co-CEO & Director

We said this many times, but not anti-sports, but pro profitable growth. And I think at the core of everything we do in all kinds of programming, including sports. So our North Star is to grow engagement, revenue and profit. And if we find opportunities, we could drive all 3 of those, we will do that across an increasingly wide variety of quality entertainment.

So when and if those opportunities arrive that we can come in and do that, which we feel like we did in our deal with WWE, if we can repeat those dynamics and other things, including sports, we'll look at it for sure. So I think it's -- we've had the benefit of building an enormous business without a loss leader. And we continue to believe that we can grow on that path, just as you've seen. So I think the core of it is, is that we're going to look at those opportunities with the same discipline that we do when we talk to movie producers and television networks about putting our content on the air.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. The next question comes from Rich Greenfield from LightShed about our film strategy. So for Ted, a recent New York Times article cited internal communications from new Netflix to chief Dan Lynn, stating: "The aim is to make Netflix's movies better, cheaper and less frequent. Lynn wants his team to become more aggressive producers developing their own material rather than waiting for projects from producers and agents that come to them." Everyone wants to make better cheaper films, but we find it hard to believe we being rich, find it hard to believe that there is a magic formula. Help us understand the strategy shift under Dan Lin versus Scott Stuber.

Theodore A. Sarandos
Co-CEO & Director

Thanks for that question, Rich. I would send you back to that New York Times article because that was not a quote from Dan. And I would say that -- nor did we participate in that article. I would say, just to be clear, there is no appetite to make fewer films, but there is an unlimited appetite to make better films always. Even though we have made and we are making great films, we want to make them better, of course.

We're super excited to have Dan join the company. He just joined a couple of weeks ago, and he's joined us running 100 miles an hour. Bella has said this publicly, that our strategy remains variety and quality, and she's doing an amazing job of bringing new fresh thinking to our content and our content organization. Bringing Dan on board is a great example of that.

We want to have a lot of movies. We want them to thrill our audiences, and they all have different tastes, and we want them all to be great. So we take a very audience-centric view of what quality is. And Dan knows that from having produced for us. As the CEO of Ride Back, he produced the Oscar-nominated film The Two Popes. He did Avatar The Last Airbender for us recently. So he understands Netflix and the audience really, really well. And his success in live action and animation is very hard to define in the business. So we're thrilled he's doing it here.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

The next question comes from Kannan Venkateshwar from Barclays. Could you please provide an update on engagement trends now that paid sharing is mostly behind you? So I'll kick it over to Ted first. And Greg, you can feel free to add on.

Theodore A. Sarandos
Co-CEO & Director

Well, look, it's important to note that we compete for every hour of viewing all the time, every day, everywhere we operate. And we think that, that engagement report is very important and that metric is important because, again, it's the best indicator of customer satisfaction.

I know I just said this 10 minutes ago, but I'm going to repeat it. 8 of the first 11 weeks of this year, we've had the #1 movie, and 9 over the last 11 weeks of this year we've had the #1 series. And that's according to the Nielsen streaming data. And for us, that is what we're personally focused on. And we've actually seen in that Nielsen data our share tick up a little bit even in this incredibly competitive space, where you've got a lot of folks competing for attention, for time and for money.

Gregory K. Peters
Co-CEO, President & Director

Yes, Ted, I think you can repeat that 8 and 11, 9 11 as many times as you want, as far as I'm concerned.

Theodore A. Sarandos
Co-CEO & Director

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I'm going to close with that too.

Gregory K. Peters
Co-CEO, President & Director

As we have said, due to the work that we've been doing on password sharing, essentially cutting off some viewers who are not payers, and therefore, we're going to lose some viewing associated with that. So when you see our next engagement report, you are going to see some impact to our overall absolute view hours as a result of that.

But despite that impact and despite the general pressure from strong competition that Ted noted, we think our engagement remains healthy. You can see it in the stat that Ted indicated in terms of the Nielsen ratings and our modest growth in TV time in the United States.

But we also wanted to do an apples-to-apples view of engagement. So we looked at the population not impacted by paid sharing. It will be called owner households. And in Q1 of '24, the hours viewed per account were steady with the year ago quarter. So that's a pretty good sign that our engagement is holding up, and it sort of cuts through the noise around paid sharing.

And again, I just want to reiterate, we think we have plenty of real engagement, right? We're still less than 10% of TV hours even in our most mature markets. So there's tons of room of growth ahead of us.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Thank you, Ted and Greg. I'm going to move us along now to a series of questions around plans and pricing and pricing strategy. So from Steve King Hall from Wells Fargo, Greg, as you continue to expand, do you think there is a ceiling for pricing? If so, how close are we to that ceiling in mature markets? And do you envision Netflix having content here so that you can continue to expand your content genres and further segment your customer base?

Gregory K. Peters
Co-CEO, President & Director

Yes. We don't have a set position on a ceiling. I mean, sure, you can look at Pay TV as a potential markers for where people have spent before. But we really actually don't think of it so much is defined by that. We see it as an opportunity to continue the process that we've been working on, which is let's continue to try and invest wisely, add more entertainment value. And as we add more entertainment value, then, of course, we can go back to our subscribers and ask them to pay a little bit more to keep that virtuous cycle moving.

And really, the markers for us in terms of the upside potential more around the hours on TV that we are winning, how many moments of truth, we call it, that we are winning, again, less than 10% in our even most mature markets. There's tons of room there. You can use total consumer spend on entertainment in the markets and categories that we compete in. That's between 5% and 6%. So there's just a lot of runway still ahead of us to go do a good job at making that investment happen, deliver more value and then ask folks to pay a little bit more.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. Next question on pricing comes from March Mollick of Bernstein. Can you please share progress on how the retirement of the basic plan is going in the U.K. and Canada? And is there any color you can share on if when we could expect a similar rollout in the U.S. Greg, why don't you take that one?

Gregory K. Peters
Co-CEO, President & Director

Yes. As we shared in the Q4 '23 letter, we were planning on retiring our basic plan in some of our ads countries. We've now started that process in Canada and the U.K. And very similar to what you see -- what you saw us do with paid sharing, we're going to work hard to make this a smooth transition. Part of that is listening to our members before we make any further moves, so we've got nothing more to announce and we really want to see how this goes.

Yes. And we know that this is a change for our basic members, but we think we've got a strong offering for them. They're going to get more for less, 2 streams versus 1. We've got higher definition, we've got downloads, all at a lower price. And of course, it goes without saying, hopefully, that members can always choose our ads-free plans as well as they prefer.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. Thank you, Greg. Couple of questions on overall capital allocation. So these would be for Spence primarily from John Blackledge of TD Cowen. You mentioned evolving capital allocation strategy in your investor letter with the -- with your new investment-grade status. Can you please talk about the changes in how investors will see that change?

Spencer Adam Neumann
Chief Financial Officer

Yes. Sure. Thanks for the question. It's really quite a modest evolution of our capital allocation strategy to better reflect our investment-grade status. And that's really what it is. It's -- we're still going to have the same financial policies and principles in terms of prioritizing profitable growth by reinvesting in our core business, maintaining a healthy balance sheet with ample liquidity and returning excess cash beyond several billion dollars on the balance sheet of minimum cash and anything that we use for selective M&A to return to shareholders through share repurchase.

So really, the only change is that now that we're solidly investment grade, we're going to -- while we will hold still several billion dollars of cash on the balance sheet, we won't have the same marker of 2 months of revenue. The equivalent of a few months of revenue on the balance sheet allows us to be a bit more efficient there. We also upsized our revolver, which was announced today, up to $3 billion from $1 billion, which also gives us more access to capital and better cash efficiency. And then, again, any cash beyond that, we'll return to shareholders.

We've historically been mostly a build-versus-buy company with select strategic kind of acceleration through M&A. And that -- there's nothing right now planned, but that still is kind of our philosophy is to build predominantly. And we're also going to kind of refinance our existing debt as those maturities approach. But we don't plan to kind of lever up through stock buyback. We want -- we really do value that balance sheet flexibility.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. Last question on capital allocation for you. This comes from Vikram of Baird. What are your latest thoughts on the appropriate level of can spend for the business beyond 2024? Specifically in the past, you have referenced a [1.1x] content spend-to-amortization ratio. Is that still the case? And what would you need to see in an opportunity to meaningfully exceed that framework?

Spencer Adam Neumann
Chief Financial Officer

Yes. It still holds. It still holds. So we're still basic -- the short of it is we're really kind of managing to that. So as we said, we've been focused on driving that acceleration of our revenue growth, continuing to grow our business, grow our profitability. As we do that, we would expect to continue to grow our content investment as we have historically into the highest-impact areas but also be quite disciplined there. So we want to grow our free cash flow. So we believe we can manage to that roughly 1.1x of cash content spend relative to expense on the P&L. And that leads to overall revenue growth, increased profit, profit margins, growing free cash flow. And that still gives us a lot of opportunity to spend into the all those kind of content and entertainment categories that Greg and Ted have been talking about.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Thanks, Ben. We have a few more minutes left. So we'll wrap up with a few higher-level questions. The next one comes from Eric Sheridan of Goldman Sachs. And I think both Ted and Greg can tackle this one. The question is, what are your thoughts on the competitive impact from short-form video consumption?

Theodore A. Sarandos
Co-CEO & Director

So I look at how -- what people watch and when they watch it. I have a lot to do with [one] another. What are the choices and how much time do they have? So our version of short form is more like giving our members the ability to watch 10 minutes of an episode of a series at their binging right now if they only have 10 minutes. But some -- and when I look at the short-form viewing on YouTube and TikTok, some of it is adjacent and quite complementary to our viewing. So our trailers or creators expressing their fandom for our shows like doing posting a Wednesday dance or ugly crying watching one day, all those kind of things that become viral sensations and actually increase the fandom of our shows.

Now that being said, some of that viewing is directly competitive with us. The same as it is with other media companies who provide content to YouTube, by way of example. The art of this has always been finding the right balance of both. So -- I also would point out that these platforms have been a way to have new voices emerge, and we've got our eye on them as well to try to develop them into the next generation of great storytellers on Netflix.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations

Great. And I think for our final question, we'll take that from Dan Salmon of New Street Research. What is the opportunity for Netflix to leverage generative AI technology in the near and long term? What do you think great storytellers should be focused on as this technology continues to emerge quickly? I'll turn that over to Greg, please.

Gregory K. Peters
Co-CEO, President & Director

Yes. Worth noting, I think, that we've been leveraging advanced technologies like ML for almost 2 decades. These technologies are the foundation for our recommendation systems that help us find these largest audiences for our titles and deliver the most satisfaction for members. So we're excited to continue to involve and improve those systems as new technologies emerge and are developed.

And we also think we're well positioned to be in the vanguard of adoption and application of those new approaches from our just general capabilities that we've developed and how we've already developed systems that do all these things.

We also think that we have the opportunity to develop and deliver new tools to creators to allow them to tell their stories in even more compelling ways. That's great for them, it's great for the stories, and it's great for our members.

And what should storytellers be focused on? I think storytellers should be focused on great storytelling. It is incredibly hard and incredibly complex to deliver thrilling stories through film, through series, through games. And storytellers have a unique and critical role in making that happen, and we don't see that changing.

Spencer Wang
Vice President of Finance, Corporate Development & Investor Relations
Great. Thank you very much, Greg. And we are now out of time. So I want to thank you all for taking the time to listen into our earnings call. And we look forward to speaking with you all next quarter. Thank you