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NFLX - Q4 2016 Netflix Inc Earnings Call

EVENT DATE/TIME: JANUARY 18, 2017 / 10:00PM GMT

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Scott Devitt *Stifel Nicolaus - Analyst*

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PRESENTATION

David Wells - *Netflix Inc. - CFO*

Welcome to the Netflix Q4 2016 earnings call. I am David Wells, the CFO. Joining me from the Company is Reed Hastings, our CEO, and Ted Sarandos, our Chief Content Officer. Interviewing us on today's call, or interview, is Doug Mitchelson from UBS and Scott Devitt from Stifel Nicolaus. A cautionary note that we will be making forward-looking statements; actual results may vary. Scott, I think you have the first question, so over to Scott.

QUESTIONS AND ANSWERS

Scott Devitt - *Stifel Nicolaus - Analyst*

Yes, thanks, David.

First question for Reed. Just an outstanding quarter both domestically and internationally, relative to expectation from a subscriber standpoint. And there is so much focus on international given the opportunity there to grow the Business, as well as the way you have built out the international business with some more mature markets that you have been in for quite some time. Some newer markets like France and Germany that are starting to kick in, and the 130 that were added at the beginning of 2016. So was wondering if you could frame, potentially, the overperformance in the quarter and where you saw strength regionally?

Reed Hastings - *Netflix Inc. - CEO*

You describe it as overperformance in the quarter, but if you look at it on a longer term basis, like over the last couple years, it smoothes it out. So we are seeing some lumpiness in the quarters, depending on when we launch certain content, but the big picture is remarkably steady, and so we have a huge quarter like Q4. This quarter, it is a little bit less, and so think of it, really, as this big adoption of Internet TV. It has been somewhat influenced by the content in the short-term, and then you asked about the international expansion, which has been remarkably steady. Again, if you do not look at it by the quarter, but you look at it by the year, what we have seen in Latin America, steady growth; Europe as a whole, has been really picking up momentum for us; and Asia, we are just getting started.

Scott Devitt - *Stifel Nicolaus - Analyst*

And then secondly, possibly for David, you have got in the first quarter US contribution margin above the longer term, I think, target. Understanding that there is lumpiness in that, you are going to continue to invest in the Business. Is there any update on that longer term target, in terms of the contribution margin for the US market?

David Wells - *Netflix Inc. - CFO*

No, Scott, we did, as you correctly asked me, there is two pieces. One is the US contribution margin pops up in the first quarter, and we are indicating that that is we are going to continue to reinvest. And then on the international line, we actually broke through into profitability for our consolidated international segment, and we will continue to invest and take that back down through the year. So I think that we do not talk about long-term targets, other than an operating margin target.

We had mentioned before that we would produce meaningful operating profit in 2017 and beyond. So we fleshed that out a little bit for you, the investor, now targeting a 7% operating margin for this year and steady growth afterward. And then we do not think anything structurally is at hand in terms of our international businesses. It really depends on the competitiveness of each market, but we think we can continue to grow the over at profitability.

So we will grow operating profit by continuing to grow US margin, and also reduce international losses, with respect to adding on more investment. So I think long-term, we will reduce those losses and grow international margin, but we have not provided a specific target.

Scott Devitt - *Stifel Nicolaus - Analyst*

Thank you.

Doug Mitchelson - *UBS - Analyst*

I think on the fourth quarter results, so I am curious in the US, what content, specifically, drove the strong performance, relative to budgets?

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

Well, we had a pretty powerful release in Q4, so you see particularly shows like Luke Cage, Narcos -- new seasons of Narcos, really travel really well around the world. We know that they are exciting here, as consumers have television in America, but it has been fantastic to see how these shows are adopted around the world.

David Wells - *Netflix Inc. - CFO*

Doug, I would just add to that that you are now seeing the benefit of Netflix having, in its third and fourth year of original slates, so we are now getting -- as Ted mentioned, Narcos season two comes out. But we have got new seasons, as well, so you are getting the benefit of shows that might take hold in their second or third season, but some new shows, as well. Like Stranger Things did for us in the third quarter, and continued to be popular through the fourth quarter, as well.

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

A nice upside surprise is something like Gilmore Girls, where you would think would be incredibly domestic in its popularity, But we found it to be incredibly internationally popular, as well, particularly performing great in Europe.

Doug Mitchelson - *UBS - Analyst*

This might seem relatively obvious, given comments so far, that content is drived through subscribers. But in terms of your ability to measure how content is driving subscribers, and you talked last quarter about including new content into your subscriber growth guidance, and then you see this result this quarter. Is it tangible title by title? Are you making just an overall estimate based on spending or number of [inverals] released?

Reed Hastings - *Netflix Inc. - CEO*

Think of it as, it is a cumulative effect. Very few people will join Netflix just because of a single title, but there is a tipping point. You have one more title that has great excitement, that you are hearing a lot about, and that triggers you to finally sign up for Netflix.

So it is a cumulative effect of all of these, and again, you will see front loading pull forward, but the basic demand creation is increasing as people get more comfortable and more aware of the idea of Internet television. Where you do not get the commercial interruptions, where you just get to watch when and where you want. So those are the big drivers. And then the things that capture the demand are really these big launches that we are doing of particular title franchises.

Scott Devitt - *Stifel Nicolaus - Analyst*

Just to feed off Doug's question, there is commentary in the letter regarding content being a driver for subscribers in the second half of 2017. Is that just looking at the slate in that period as a driver for their business, or is there something else to that comment?

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

You should look at it, we have multiple seasons of our shows, and we see that the audience continues to build cumulatively. And therefore, the excitement for the upcoming season builds, as well. So in Q2 of this year, we have new seasons of a lot of our very popular shows like Orange is the New Black and Kimmy Schmidt, Bloodline, Sense8, Master of None, and we think that they should have a pretty nice impact on subscriber growth, as well.

David Wells - *Netflix Inc. - CFO*

And Doug, if I -- and Scott, if I can knit these comments together, Reed's comments, Ted's comments and your questions. There is a difference between -- so the baseline demand, as Reed said, is just the transition to Internet TV and the overwhelming convenience of it.

We get talking a lot about the quarter, inter-quarter, whether we hit above, or we expect it or not, based on some of how these shows perform. And if they are brand new shows, they do not tend to -- if they are having to punch into the consciousness of the consumer, they do not tend to draw new subscribers in as great of numbers as some of our existing shows.

So what we were saying is in the first quarter, we have some great new shows like the OA, that are doing well, but they do not tend to draw numbers like House of Cards did last year. In terms of we are lapping House of Cards, and for us, it was a surprise of Making a Murderer, as well. So I think what Ted is saying is we have all these great shows coming in the back half of the year, and more of them are second season that tend to draw in more subscribers because they are better known shows.

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

Second, third, fourth and fifth seasons, even.

Scott Devitt - *Stifel Nicolaus - Analyst*

And sorry to be so myopic around the more near-term subs, but one final question on that for me. Is there was a -- I think a comment, as well, in terms of potentially being a pull forward in subscribers into Q4 from Q1 as part of the explanation for the Q1 sub guidance. And can you flesh that just a bit, and what gives you that type of visibility?

David Wells - *Netflix Inc. - CFO*

Sure, Reed or I could do that, but I will take a stab at it. I think what we saw in 2016 around our un-grandfathering, our price change, was a lot of lumpiness in our subscribers in terms of we grew some in the first quarter, second and third, more modestly, and then building into the fourth quarter. And what we found was, we found a lot of rejoins coming back. So yes, there was a reaction to the price change, but we got many of those subscribers back.

And so I think what we are talking about in the first quarter or the fourth quarter is we got many of them back that may have come in the first quarter. We may have seen some of those folks in the first quarter, so we tend to look less at a specific quarter's performance, and we look over a 6- or 9- or 12-month period, in terms of what is the real trend here. Not focusing too much on any specific quarter, because they do seem to have bleeds in terms of some folks joining in a quarter that they would have joined the former quarter.

Scott Devitt - *Stifel Nicolaus - Analyst*

Thank you.

Doug Mitchelson - *UBS - Analyst*

Two more questions for me on near-term subscriber trends. First, Reed, you said that Europe is really picking up, and I think when you launched those markets, you indicated it would take some time for them to work; Latin America, now that is happening. But investors are still wondering, something specific that you have done differently or done recently that has been driving improvements, particularly in Germany and France?

Reed Hastings - *Netflix Inc. - CEO*

No, there is no specific like pricing, marketing tactic. It is the cumulative effect of show after show being in market, just the steady work that we have done. And this is what we also saw in Latin America, is there was no step function, there was just the steady discipline of staying on our game of great shows, great movies and the enjoyment continues to increase. There is slightly incremental more partners that we have, but there is no real step function. Again, it is really the continued build up of momentum.

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

Yes, we are seeing as we are adding more and more global shows, that it is rising all boats across the world.

Doug Mitchelson - *UBS - Analyst*

And I think we have talked about acquisition a lot near-term, when you think about churn management, investors are curious, both on -- did X1 integration have anything in the quarter? Did other bundling deals throughout the world, you certainly have done quite a bit for them, have any influence? And as you think about churn trends, is there anything noticeable for investors assessment, and how should we think about that on a flow basis going forward?

Reed Hastings - *Netflix Inc. - CEO*

All the partnership deals, we really believe in; that is why we are doing more of them. But you can see we had big out performance in international and in domestic, so it was not just a Comcast story; in which case, it would have been domestic only. It is fundamentally a story of the broad acceptance of Internet TV and the content, and then on the margin, those partnership deals are good for the customers, good for us and good for the partner.

Scott Devitt - *Stifel Nicolaus - Analyst*

The cable set top box deals, the -- I think John Malone was quoted recently at Lionsgate Analyst Day as saying that you had approached some operators in terms of being bundled into service, where carriers would cover it. And just interested in terms of the accuracy of the statement, is that something you are interested in, and what you think the benefit of that would be?

Reed Hastings - *Netflix Inc. - CEO*

We would not want to speculate on future deals in general around the world. We have done extremely well focusing on our service as a discrete service, $7.99 a month, and incredible content. And so we are just going to keep pounding that drum as we expand around the world and also here in the US.

Scott Devitt - *Stifel Nicolaus - Analyst*

And the X1 interface, which by the way, we have it at our house, are there -- I assume that there is interest in doing more integrations like that. Is there any reason other than simply being able to cut those deals, technology restriction standpoint with other providers, that would limit the ability to do deals with others?

Reed Hastings - *Netflix Inc. - CEO*

Yes, the X1 is a very advanced set top, so not all MSOs in the US have such advanced, so they basically cannot do Internet apps or cannot do Netflix. So the X1 is very strong in that way, so is the Dish receiver, so we are able to operate on ones that are relatively modern and have other ID apps, also.

Doug Mitchelson - *UBS - Analyst*

Reed, I think you have had an advantage just because of the technology investment you have made over time, the scale that you have deployed. Any concerns longer term that to the extent more and more of your competitors are bundled in on the same aggregating platforms, like X1, that you could lose a bit of technology edge as consumers access your content all through the same interface that they are accessing [in leaders]?

Reed Hastings - *Netflix Inc. - CEO*

Well, when the consumer finds in the Comcast -- you watch some Netflix show, they click on that and it opens the Netflix app. And then the consumers, in the Netflix app, they enjoy the show, and then we control after the show, the post play experience, which guides them into another show, another show.

So we look at it as an entry ramp onto our application, and we are -- we feel that our application really is the best way to enjoy Netflix content. But that does not mean there should not be easy entry ramps from interfaces like the Comcast user interface, because that is very effective for customers.

Doug Mitchelson - *UBS - Analyst*

Circling back to some of the subscriber trends, I am curious any learnings now that the global rollout is a full year behind you? When you look back, anything that is fine, anything different than expected, and when can we expect the next round of taking some of those skin markets like Poland and Turkey and turning them into market launches?

Reed Hastings - *Netflix Inc. - CEO*

We will continue with more Poland and Turkey light launches this year with several countries, so that will just be a steady process we are going through. We have really liked what we saw once we localized in Poland and Turkey in terms of increased viewing, increased membership growth.

So we will just keep on that pattern. So think of it, from a near term subscriber standpoint, it is a background influence, compared to the big established markets in Europe, Latam, and North America. And then of course, over time, they should be quite substantial. But they are long term plays.

David Wells - *Netflix Inc. - CFO*

And Doug, from a financial standpoint, just keep in mind that when we talk about the investments in international, content is the big piece of that, localization is relatively modest compared to the content.

Scott Devitt - *Stifel Nicolaus - Analyst*

Ted, I think the last time that you spoke publicly about the -- you were doing local language content in 10 different countries. And I was wondering if you could talk about success or challenges of that, and that was tied to original comp. And then also more broadly, local language in newer markets, as well as marketing campaigns, which was identified in 2016 as something that needed to be put in place to get some of the newer markets to begin to progress.

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

Well, so far, we have been really happy with the success of our local language productions in France and Mexico and Brazil, and as I mentioned last time, we have rolled it out to Germany, to Spain, to Italy. We are deep in production, we are entering into a couple of new productions in Asia. What we find is that it creates a lot of great excitement for Netflix in the market because it is a really elevated form of television, relative to what else is available in the market. And we love that we are working with local storytellers, local producers to make that content, and even more importantly, making it available around the world has been a huge differentiator for us.

So when I mentioned earlier about the Gilmore Girls being so popular globally, so if it was a little softer anywhere, it might have been in Brazil at about the same time we were launching a really great little science fiction show called the 3%, a local Portuguese language show that we shot in Brazil that was enormously popular in Brazil, and played to millions of subscribers around the world, including in the US. So it has been a great way to find great new global storytellers and make Netflix feel a lot more local in those countries.

Scott Devitt - *Stifel Nicolaus - Analyst*

And then I think you were also quoted as saying that 1,000 hours of content in 2017 seemed to be pretty conservative. Can you speak to that in terms of -- it was local language as a contributor to that, but also as genres and geographies, and what actually is going to be the makeup of those 1,000 hours?

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

I would like to focus a little less on the 1,000 hours and more on the quality of those 1,000 hours. About half of the most searched for shows on television around the world this year were Netflix original shows, and that is the kind of thing we are really proud of, a little bit -- even more so than the volume of it all.

It is interesting, and it is an artifact of fast growth and commitment, that it is so many hours, but this -- the rest of this quarter, we still have 42 original launches to launch the rest of this quarter. Including shows like Santa Clarita Diet with Drew Barrymore and Timothy Olyphant, a second season of Love, Iron Fist, our latest Marvel series, will be launching this quarter. So I really want to focus you on, yes, it is a lot of volume, but it is also a ton of quality that consumers are falling in love with.

Doug Mitchelson - *UBS - Analyst*

Shifting over to strategies, I am just curious how -- Reed, David, did you learn anything about the pricing power of Netflix, and a bit about what investors should expect from your pricing strategies in 2017 and beyond, please?

Reed Hastings - *Netflix Inc. - CEO*

Well, you should expect us to continue to invest in the consumer experience, making the content incredible, and we do not have any plans for any near term changes. So I would just continue to look at us or model us as expanding membership base at these terrific rates.

David Wells - *Netflix Inc. - CFO*

I also think, Doug, in terms of nothing has changed in terms of our long term view of our belief and ability to continue to add great value. And slowly, steadily assume that value over time, so I do not think anything has changed in that respect.

Doug Mitchelson - *UBS - Analyst*

I think along the lines of some of the things you have been saying, Reed, one of the questions we get from investors is why focus on earnings at all at Netflix? Shareholders have clearly rewarded the community for subscriber growth and revenue growth and leadership position in the marketplace. While Ted is ramping content pretty aggressively, I am sure Her is always asking for more money. Why the philosophy around [kryland's] growth with delivering earnings?

Reed Hastings - *Netflix Inc. - CEO*

Yes, we do not really believe in hockey stick kind of businesses, like suddenly, we will turn significantly profitable at 200 million members. We think it is much smarter to grow into that bit by bit. So expect us to modestly move up operating income and operating margins as we have from 4% to 7%, and to continue a slow and growing into that as we grow larger.

We will keep an eye on the investment levels that are necessary to protect the advantages that we have, so do not worry about that. But I would say in general, you grow into the profitability as opposed to postponement forever, and then hope that you can change the business model to deliver on the profitability front later.

David Wells - *Netflix Inc. - CFO*

The only thing I would add to that, and Ted probably has his own answer, is a little bit of scarcity goes a long way in terms of efficiency, and just making sure that we continue to focus on quality.

Doug Mitchelson - *UBS - Analyst*

Well said.

Scott Devitt - *Stifel Nicolaus - Analyst*

Ted, how did The Crown do? And did it -- it seemed like it would perform well in the UK. How did it travel throughout? How did it perform in the US and other regions?

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

We are incredibly proud of it, for the -- both for the reasons you just mentioned, which is that it has been incredibly popular globally. There is an enormous interest in the royal family around the world, so in the UK, it was really celebrated as something that only the BBC could do, just a couple of years ago. And really beloved in the UK, in the US, but also even in countries throughout Asia, throughout Europe, obviously, where people just love that story, and more importantly, they loved how it was told. And we were thrilled that it won at the Golden Globes for Best Drama, it was our first Best Drama award there. And we are excited -- we are deep into Season 2 now, and are excited to tell the rest of the story.

Scott Devitt - *Stifel Nicolaus - Analyst*

Great, thank you. And Reed, in the test market, your are one quarter away, I think you are going to be approaching 50 million US paying subscribers at the end of the first quarter. There is over 100 million households in the US that subscribe to cable and satellite cable. The price point and the value proposition, it really does not seem like there is any reason why, over time, with broadband speeds, that you should be able to address all households. When you look at the next 50 million in the US, where do you incur the friction points that are limiting you right now to getting to those [members] faster?

Reed Hastings - *Netflix Inc. - CEO*

I think that it is really just this diffusion to the society as more and more people use Netflix, we have better and better shows and more of them. You just get the word of mouth, which is how you grow from the nearly 50 million to 60, and hopefully, we keep going.

In terms of getting to a full one-to-one tie ratio with today's cable, that includes a lot of sports, which we do not have and do not have plans for. So you will want to weight that a little bit. But in terms of the next couple years, again, I think if you look back four or five years, it has been really pretty steady growth overall.

And it is following this formula of just improving the value, improving the content and improving the service, like adding our offline viewing. It is really creating a big wave of customer joy, the video merchandising that you will see, where you get to choose content by looking at content. So we are continuing to innovate on multiple fronts to just make it a better experience.

Doug Mitchelson - *UBS - Analyst*

Two questions for me for David. Just on some of the financial commentary in the letter, I think you gave 7% guidance for full year 2017. I think it would help investors just to understand on the cost category, buying category, what the outlook might be for 2017. So when you look at G&A, and Tech and Dev, and Marketing, if you could give us a sense of what the dynamics for each of those are this year, that would be helpful.

David Wells - *Netflix Inc. - CFO*

Sure, Doug, and we updated our long term letter a little bit in this respect, as well. So think about $6 billion in content, $1 billion in Tech and Dev, somewhere around $1 billion in G&A, to round out the operating profit expense lines, and that should get you there. Will that work?

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Doug Mitchelson - *UBS - Analyst*

And then also notable, free cash flow burn, $2 billion for this -- that was a bit higher than, I believe you suggested a few months ago, so what has changed?

David Wells - *Netflix Inc. - CFO*

Well, I think what we put in the October letter was that free cash flow might be similar to Q3; it was more than that. We do think it is going to come down this quarter in Q1, but we wanted to give an indication that it is pretty lumpy right now.

Even my team has -- we do not really focus on trying to optimize a single quarter. We are looking at sort of across four and eight quarters, and we think the run rate is around $500 million right now, in terms of a quarter as we continue to expand content. It is not too different from 2016. We moved up to $1.7 billion in 2016, and so we are indicating it might be around $2 billion for this year, and we will go from there.

I mean, I think what you will find is we will organically fund more and more of our own content expansion with the growth of our operating profit. And so more and more, as we transition over the next few years, our debt will be about content expansion, but it will also transition to being about optimization of cost of capital.

Doug Mitchelson - *UBS - Analyst*

And to think -- I think you have said at one point in time, or possibly it was Reed, that if content was available, you would be willing to take on more leverage or take [eight] on versus otherwise letting it go because it does not fit into the P&L, currently. So with -- and I am paraphrasing there, but with where you are now and the $2 billion drag, but where content spend seems to me, it is beginning to normalize in terms of the outlay versus the P&L spend. Is there visibility to when the business becomes self-funded based on the current trajectory?

David Wells - *Netflix Inc. - CFO*

We have not provided that guidance, Scott. It really depends on how much we want to continue to expand content and the growth of the business itself. So we are a little bit guarded in terms of providing specifics because there is inner dependencies there, right?

What I think and this is back to Doug's question prior, is part of the reason that our working capital needs have gone up a little bit is because we are owning more and more of our content. And I think that is a good thing for the investor and the shareholder.

We control more of the rights, more of the global advantages from being a platform that is increasingly having 90 million and beyond global subscribers, will be advantageous for us to own that content. So I think the slight step up from years past, a couple years to the $2 billion that we are talking about this year is inclusive of more owned content and increasingly more content categories, so I think you get both of those in there.

Doug Mitchelson - *UBS - Analyst*

And then secondly, as investors begin to look at the US market as a template for rest of world, this happens with businesses in the Internet when they grow globally. Can you just talk about some takes in terms of what could lead to similar margin profile of markets outside the US versus higher or lower as the churn?

David Wells - *Netflix Inc. - CFO*

Sure, I think I will pitch it to Reed; I will say something, and Reed can follow on. But I would say it is competitiveness in those markets. Generally, overall, I would say there is nothing fundamental that we cannot get to margins equal or better in some places of the US.

So then you think about an average across the globe, and it really is about -- determined somewhat by competitiveness, it is determined by the cost of that content. But the more we can grow and provide -- spread the cost of popular content that is engaging to a large portion of the world, the more advantage and scale advantage we see there in terms of being able to do that. So I would provide those comments and then see if Reed has anything he might want to add to that.

Reed Hastings - *Netflix Inc. - CEO*

I think that is perfect, David. Our North star is providing an incredible value to consumers because upon that, you can build a very large and very profitable franchise. But it starts with an amazing value to consumers, which is a great service and amazing content behind that.

Scott Devitt - *Stifel Nicolaus - Analyst*

Two questions for Ted. Ted, anything new in terms of ROIs on your investment in content? You look at acquired versus originals, are the lines starting to cross in any way? And as part of that, are you willing to give us an update in hours consumed? Globally, we have not had that number from you in awhile.

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

Well, stay tuned for those numbers; we do not have anything to report today. But I will tell you, I think the -- as David had mentioned, while it is a bit more cash consumptive, owning our own content and including our original productions has a lot of big scale advantages to the business. Probably the most meaningful one is removing the studio markup and overhead on those productions, and being able to put more of that on the screen. Owning the IP, as we expand into multiple seasons, having control over the windows.

And so I lean into both original programming and owned original programming, but we are still a very active buyer of second window content from our studio partners. We are increasingly co-producing some of that programming with networks and studios around the world. Where they will take one country and we will premier the show globally or -- at the same time, which takes off some of that risk, and also enhances our partnerships with those networks and studios.

But I do think there is a lot of value in owning the IP, and a lot of value in creating your own content. But we need to have great programming for our members, and sometimes we do not have that, so we will have to go out and -- we are buying it elsewhere to enhance what we are doing.

Scott Devitt - *Stifel Nicolaus - Analyst*

I think along those lines, any suggestions as to where the emphasis will be going forward? I think there is still a feeling that this could use more movie content. You made huge investments on the comedy side, which they -- if you want to talk about that. Particular genres that we should expect you to focus ongoing forward?

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

Well, you could look at those comedy investments as a good example of taking a category that we primarily bought second window from other people just a few years ago, and now are producing original programming that takes it from being just something people watch to something people really value Netflix for differentially.

The rest of this quarter, you are going to see stand up shows from Amy Schumer, Dave Chappelle, Trevor Noah, Jim Norton, like some of the top names in comedy. And as you are -- going out, we already talked about Chris Rock and Jerry Seinfeld's recent deals. But that is a category, we took it from being kind of cheap, second window programming to something that really becomes an event and a subscriber acquisition driver for Netflix.

Same thing with unscripted programming, with shows that we will be launching in -- even this quarter, like Ultimate Beastmaster and Abstract, which is a variant on Chef's Table, but about design. And it is all of that programming that we used to license in second window, that we are finding to be much more valuable to go ahead and produce originally for Netflix.

David Wells - *Netflix Inc. - CFO*

Scott and Doug, I think we have time for maybe one final question from either one of you, or one each?

Scott Devitt - *Stifel Nicolaus - Analyst*

I will go first. The question that I had is -- squeeze in net neutrality edits, it is commented on the letter, but we could -- you know just the assumption of the new administration entitled to that neutrality is rolled back, what are the implications for Netflix?

Reed Hastings - *Netflix Inc. - CEO*

I think we addressed that in the letter. I do not have really anything to add to that.

Doug Mitchelson - *UBS - Analyst*

I think from my end, last question, just curious for ultimate vision at this point. We are churning the new calendar year, I think, we have had a conversation in the past where you talked about to satisfy consumers, you have to give them all of the television shows they want for $25. I am just curious as you talk about in the letter, your decade -- your next decade is going to be pretty exciting. What is your ultimate vision at this point for the services?

Reed Hastings - *Netflix Inc. - CEO*

You know, you never want to characterize something as an ultimate vision because when you get there, there is always more that you want to do. And so we are taking it year by year, we are growing around the world, we are thrilled with our global expansion. Ex- China, we ere really focused on all of the different markets; Asia; still doing work in Europe. We are building up our content production muscle; we are able to produce shows now in many countries around the world.

So think of us as just continuing to iterate on a basic cycle of more content, better product, that combines as a great service at a great price. And hopefully, with that, we can attract many more people to join Netflix and then that fuels the whole cycle. So we are just going to lather, rinse, repeat again and again for the next couple years and expand that.

We have a long way to go when you think about how many movies and TV shows we don't have. We want to be able to just think about the great range of content that we have, and we are very ambitious about what we can do, especially around the world, so there is a lot for us to work on. And then just the next six weeks, I am in Brazil, Europe, Asia; we are having a blast just spreading and evangelizing this vision of Internet TV where you get to control what you watch and you get incredible quality content. We hope to land this quarter in a 99 million subscribers, which would be quite an achievement. Thank you very much all for your support, and look forward to talking to you again in the quarter.
