S&P Global
Market Intelligence

Netflix, Inc. NasdaqGS:NFLX

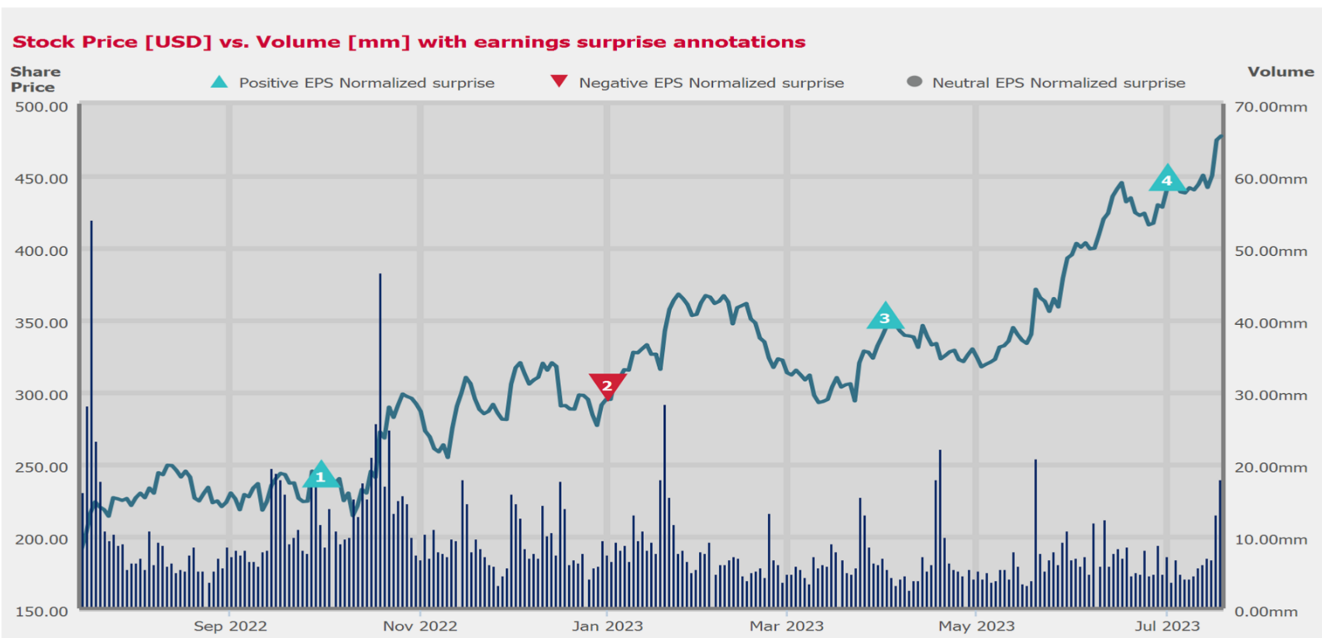
FQ2 2023 Earnings Call Transcripts

Wednesday, July 19, 2023 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-		-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	CONSENSUS
EPS Normalized	2.86	3.29	▲15.04	3.23	3.52	11.30	14.72
Revenue (mm)	8290.48	8187.30	▼(1.24 %)	8677.38	8520.00	34071.47	38439.98

Currency: USD
Consensus as of Jul-19-2023 2:21 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	2.16	3.10	1 43.52 %
FQ4 2022	0.51	0.12	2 (76.47 %)
FQ1 2023	2.86	2.88	3 0.70 %
FQ2 2023	2.86	3.29	4 15.04 %

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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, President & Director

ANALYSTS

Douglas Till Anmuth
JPMorgan Chase & Co, Research Division

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Presentation

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

Hello, and welcome to the Netflix Q2 2023 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. Our interviewer this quarter is Jessica Reif Ehrlich from Bank of America.
As a reminder, we'll be making forward-looking statements, and actual results may vary. Jessica, I'll now turn over the call to you for your first question.

Question and Answer

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Well, let's start with the top of the not 1, but 2 strikes. Can you give us your views of how this affects your business on a practical basis? How far out does your original content take you? And how much of the content spend do you think gets pushed from '23 -- from this year into next year?

Theodore A. Sarandos
Co-CEO, President & Director

Thanks, Jessica. Good afternoon. Thanks for the questions. Let me start by making something absolutely clear. These strikes, this strike is not an outcome that we wanted. We make deals all the time. We are constantly at the table negotiating with writers, with directors, with actors and producers with everyone across the industry and we very much hoped to reach an agreement by now.

So I also want to say, if I may, on a personal level, I was raised in a union household. My dad was a member of IBEW Local 640 as a local -- he was a union electrician. And I remember his local because that union was very much a part of our lives when I was growing up.

And I also remember on more than 1 occasion, my dad being out on strike. And I remember that because it takes an enormous pole on your family financially and emotionally. So you should know that nobody here, nobody within ANPTP and I'm sure nobody had SAG or nobody at the WGA took any of this lightly. But we've got a lot of work to do. There are a handful of complicated issues. We're super committed to getting to an agreement as soon as possible. 1 that's equitable and 1 that enables the industry and everybody in it to move forward into the future.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

And in terms of content, how much original content -- do you have to run out, like at a certain point in time, you probably will.

Theodore A. Sarandos
Co-CEO, President & Director

Well, look, we've put some of our upcoming content in the letter. We've said in the last call, we produced heavily across all kinds of content TV, film, unscripted, scripted, the local domestic, English, non-English, all those things. And they're all true. But us besides the point. The real point is we need to get to this strike to a conclusion so that we can all move forward.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Absolutely. So let's move on to password sharing, which is something everyone on the call wants to hear about. Could you just give us a kind of like State of the Union, what progress have you made to date? And when will the rollout be complete?

Gregory K. Peters
Co-CEO, President & Director

Yes, Jessica. So we've worked really hard, iteratively over many months and really even over 1.5 years to find an approach that we thought was a good product experience for most consumers that gave them the information that they needed to make clear decisions that included features that they wanted. So think about transferring our profile and your viewing history to a new account, easy ways to manage your devices and account access, being able to purchase that extra membership for a loved one. So we've done a good job at building those features, we think, but also in a way that balances those user considerations with making sure that Netflix was able to get reasonably paid when we delivered entertainment to someone.

So then, of course, we can invest that into making the service better for everyone. As of today, we've now launched that experience in almost all the countries that we operate in, and we're seeing that it's working. We're positive in terms of both revenue and subscribers relative to prelaunch in all of our regions. But I also think it's important to note that the business impacts of that product experience will roll in over several quarters. So it's not an overnight kind of thing. Because, in part, the interventions are applied gradually and in part because some borrowers won't immediately sign up for their own account, but we'll do so next month or 3 months or 6 months or maybe even longer down the line, as we launch a title that they're particularly interested in.

So we're live in the vast majority of countries, over 90% of countries by revenue, and we're going to continue to iterate and execute that model.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Is there a way to think about segments of borrowers who have yet to convert. I mean it feels like there's another wave coming or maybe several ways. Maybe college students who are home for the summer and will go back in August or September. I don't know that mobile devices have been shut off yet. Anecdotally, many people who are not on mobile devices have said they haven't been cut off yet. Can you help us think through that?

Gregory K. Peters
Co-CEO, President & Director

Yes. So there's components of it that are essentially what you described where whether it's because there's behaviors or because how we've organized the product experience, how those roll out, they'll happen over time. And so we'll see those interventions broaden to more of those cohorts over a period of time. So that's 1 sort of component of phasing it out.

The other component is that we see differential engagement across that borrower population. So there are some borrowers who are using it the service every day. And those folks are very likely to transfer to their own accounts very soon. And then some folks are less engaged. And it's going to take us a little bit longer to convince them to move over with great stories, great TV shows and films. So that's -- both of those effects essentially are what distributes the business impact from this product experience. So that's why I would think about it as we're seeing effects right now, but we'll also see those effects over the next many quarters.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Can you provide any color on the results? Like what percent have converted to paying what plan? Like how many more members versus subscribers, your subscriber numbers were great this quarter, but there are also add-ons to households. So can you help us think through? And what kind of did people change plans?

Gregory K. Peters
Co-CEO, President & Director

Yes. I would say, generally, what we see is these are well-qualified members. So in other words, they are choosing plans and are engaging at rates, have retention characteristics that generally look like higher tenure members, that's good because they are well qualified, that retention is quite good in essence. So that's a broad way to think about what those borrower cohorts are.

And that's consistent also with the fact that we'll convert essentially those most engaged, most well-qualified borrowers first. That's a general way to think about it. And then beyond that, I won't comment on more specific numbers.

Jessica Jean Reif Ehrlich Cohen

BofA Securities, Research Division

Well, maybe you can help us think through like in you can, how much of the ARM growth is a function of add-on members to existing accounts versus new subs signing up to higher-priced plans. And it sounds like from your letter that ARM will accelerate in the second half as you get further along in password sharing. Is that correct?

Gregory K. Peters
Co-CEO, President & Director

Spence, do you want to take this 1 on?

Spencer Adam Neumann
Chief Financial Officer

Yes. Maybe just broadly thinking about our kind of revenue in Q2 and going forward. Jessica, the key is that we delivered revenue in line in Q2 with our expectations, and we're on track to accelerate that revenue in Q3 and further accelerated in Q4. And that's really our primary objective around revenue acceleration, and we're set to deliver on it.

But if we step back on thinking about our revenue growth and components overall or within a given region, it's driven by a combination of pricing, volume and new revenue streams like ads. So if we think about each 1 of those, so we're now more than a year out from any price adjustments in our big revenue countries. We largely paused them during paid sharing rollout and so that's to be expected. For ads, that new revenue stream, we've expected a gradual revenue build, and so that's not expected to be a big contributor this year. So continues to be on target.

So most of our revenue growth this year is from growth in volume through new paid memberships, and that's largely driven by our paid sharing rollout. It is our primary revenue accelerator in the year and we expect that impact, as Greg said, to build over several quarters. So that's what we're seeing in each of our regions and in UCAN. So UCAN is a little bit more benefit from ads per since it's a bigger advertising market, but still very, very small overall because it's still nascent to the business.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

But there's another surprise that you had this in the last couple of weeks, which seems like it could also be a very positive driver to ARM, and that is that you dropped the basic plan in Canada several weeks ago, and you just announced that in the U.S. and U.K. So I guess a couple of questions here.

Are there any plans for the rest of the world? And has it so far from your experience in Canada, has it driven the response that you hoped for? Is the response that you -- more people go to the advertising tier? And then I guess 1 other final part of this question is that it's an obvious positive for ARPU. I mean it feels like the impact is like $5 or more per month. When this is fully rolled out over years like over what period of time do you think this will have the most impact?

Gregory K. Peters
Co-CEO, President & Director

Sure. We think of this as a continuation of what we've generally done for a long period of time. Which is, think about how do we optimize the plan structure, the pricing, the features that we have with really 2 goals in mind. One goal is we want to give consumers access across a wide range of price points so that more people around the world can enjoy the great stories that team is doing. That means the appropriate spread of prices and the appropriate corresponding futures, including ads, no ads, video quality, number of simultaneous streams, and we'll seek to actually add to that list of features over a period of time.

And the second big goal that we've got and think about this is optimizing long-term revenue, and that includes a bunch of factors that you might expect. It's sign up conversion, it's plan take rate, engagement, retention. And just as we evolve from a single plan years ago, and have adjusted our offering over time.

This latest move reflects what we think will best achieve those goals in the countries that we launched it in U.S., U.K. and Canada.

And I think it's also important to note that from that perspective, accessibility and affordability, we think the entry prices that we have right now in those countries, so $6.99 in the United States, GBP 4.99 in the U.K. and CAD 5.99 in Canada represent an amazing entertainment value, and those are attracting a healthy share of sign-ups.

So in terms of the specific effects that you're talking about, it's pretty much what you would expect, which is when we drop that basic tier, folks that would have signed up for that tier essentially sort into 2 tiers. They either take the ads plan, which is that really low attractive entry-level price or they move into the standard plan. And so we see that sorting. In terms of what we would expect, I mean we are rolling this out in an iterative fashion across countries, and that allows us to understand the impacts and not be surprised. So I think things are generally going as we expect in that regard.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

So 1 last question and then I'll move on to advertising. But for your new members or new subs from the past were churn, are there any noticeable differences in churn?

Gregory K. Peters
Co-CEO, President & Director

Well, I would say, as I mentioned before, the way to think about these the way that we're seeing them in terms of the members that are signing up, borrowers are spinning off right now. I would characterize them as well qualified. They are folks that have watched Netflix for a long period of time, and they know how Netflix works. So they're behaving in terms of retention characteristics, churn characteristics like more higher tenure subscribers, which is good. That means better retention.

Spencer Adam Neumann
Chief Financial Officer

And Jessica, maybe just a number of the questions you were asking is kind of getting in a little bit of -- I think you mentioned ARPU and we call it ARM or average revenue per member, but what are we kind of seeing in the numbers? And how does that play out with -- as you think about the to move out of the basic ad-free tier as you mentioned in Canada and a couple of other countries as of today and also as we build our ads.

So maybe if I can just for a second talk that through because you can get a little complicated. But if you think about the drivers of average revenue per member, starting with the revenue drivers that we spoke about a moment ago, you can see our FX-neutral ARM is -- it was down 1% FX neutral in Q2 and we expect similar in Q3, flat to slightly down. That's mostly due to the limited price adjustments we mentioned over the past year in our big revenue markets in advance of rolling out paid sharing. There's also some at play here, some movement in plan and country mix shift over time. Most of our member growth over the past year has been outside of UCAN, so in lower ARM countries. So that plays into the ARM trends. But importantly, over time and over the medium to longer term, we expect ARM will benefit from price adjustments. I mean we haven't changed our long-term pricing philosophy and it will benefit from ads and the extra members that you mentioned. It's just that both of those are early.

We're still only a small percentage of our members are on the ads tier even with the moves we just mentioned, nice growth in the ads tier but still off a small base. And we're really early in terms of paid sharing impacts, including extra member, for the reasons that Greg mentioned, that's going to build up over multiple quarters. And as they do, we'll see all of that demonstrating itself in growth in ARM over time, we would expect.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Moving on to advertising. Could you give some color on some of the innovative or nontraditional offerings that you have? I mean one of the things you talked about in the upfront was like offering advertisers the ability to go into the top 10, which is -- provides an incredible reach a guaranteed reach really every -- all the time. Just talk through some of the ways because you're thinking in ways that are very different from traditional media.

Gregory K. Peters
Co-CEO, President & Director

Yes. I think stepping back, it's useful to start with. We've got a lot of work to grow this business. And the first priority that we're focused on is scale. We know that reach is one of the predominant consideration -- the dominant considerations that advertisers have when they think about where to go to spend their dollars. We want to be in that top list. We grew ads planned membership almost 100% quarter-to-quarter. So that's good growth. That's a good trajectory, as Spence mentioned. We want to continue that. So that's job #1.

Job #2 is we've got a really solid list of advertiser-facing features that are not in that innovation category that are really more following a well-trodden path. We're rolling those out. These are things like verification, their measurement, their targeting. I'd actually include in that bucket building out our go-to-market and sales capabilities in every country so that we can serve more advertisers and serve them more effectively. So there's a bunch of very straightforward work. These following this well-established path. We just need to do the work. We know we can do it, so it's heads down and execute.

And then we get to a little bit what you're talking about, which is an opportunity over time to really think about our offering, both in terms of unique capabilities that we can deliver that blend TV with properties of digital advertising and also work at the interface of the user experience and the ads experiencing. And that really leverages the core capabilities that we've used for a long, long period of time of UX testing, iterative development, data-driven personalization to establish over time, a leadership position in defining what is the premium ads experience on CTV.

You can see glimpses of that right now. You mentioned top 10. I think that, that is a creative way to think about how we give advertisers a different way to have essentially a guaranteed participation in the most popular shows, most popular films at any given moment on Netflix. So that's exciting. But there's just tons of work ahead of us, tons of opportunity, and we're really focused on continual improvement. And we're also confident that all the fundamentals are there and that we can build over those several years, a material ads business.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Has there been any change to advertising ARM since last quarter when you said advertising ARM was at least as high as the standard here, indicating that advertising-only part of it was $8.50 or more.

Spencer Adam Neumann
Chief Financial Officer

I can dig it if you want, Greg. It's no change. Our overall ads ARM continues to be higher than basic ad free globally, same as statement on standard in terms of standard where the ads higher than standard ad free in the U.S. And so generally, we're just -- we're pleased with our per member ad economics and continue to feel really good about the opportunity to grow the ads plan, the ads offering good for members, good for our business. But as Greg said, we just got -- we've got a lot of work to do to get from here to where it can be, we believe, over time, which is a material additional incremental revenue and margin driver for the business.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Can you tell us about your initial upfront advertising performance? I mean, you seem to have everything advertisers are looking for. But this is a really tepid overall advertising environment. So is there anything you can say about how -- what the reaction has been?

Gregory K. Peters
Co-CEO, President & Director

Yes, sure. It's -- first of all, it's great to be able to have an opportunity to meet with so many advertisers in a concentrated period and hear what they need from us. And so that's helpful to synthesize what are our top requirements and how can we better support those advertisers.

I think you're absolutely right that the general market is soft. We're seeing that across most different companies. But we benefit right now from being relatively small. So there's scarcity around our inventory. So I think we're able to manage that process effectively, and we're seeing good demand and good progress on the upfront within that sort of broader soft market. But our job really now is to add as quickly as we can advertiser features that meet their needs so that we can make that -- our offering more attractive as we scale that inventory up.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

What tools and how much time do you need to like invest to build your own ad-tech infrastructure?

Gregory K. Peters
Co-CEO, President & Director

Well, I would say we're -- it's a gradual ramp, if you're looking for a specific number, we have tens of engineers working on this at this point in time. They're delivering features on a consistent basis. Microsoft has even more than that, that are delivering features on a consistent basis. And we're working in collaboration essentially in a priority order when we see back to that what are advertisers telling us they need. We're just sort of knocking these down 1 after another.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

But is there like a time period in order to achieve scale, is this like a 3-year plan before you feel like you really have all the tech capabilities in place?

Gregory K. Peters
Co-CEO, President & Director

Yes, both scale in terms of reach and the tech capabilities in terms of features aren't sort of a binary condition. It's not like you have it -- you don't have it 1 day and then you suddenly have it the next day.

So I would say we're just constantly iterating and walking up both of those hills. So scale, I'm pretty impressed with being able to get to 100% quarter-to-quarter growth. So that's a good trajectory that feel like puts us in a good place, and that will be better and better every year essentially.

And then the technical features, again, we've got a long list, and it's not as if 1 day we're magically done. But continued progress on what we're doing right now, allows us to sort of move from building the basics into that sort of innovative space that you mentioned before.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Spence, this 1 maybe for you, but -- what's your vision for the advertising contribution? You've said in the past that you'd like it to be 10% of revenue. But given the decline of linear, are you rethinking this so that it would be a higher percent?

Spencer Adam Neumann
Chief Financial Officer

Well, I think we've got a long way to go from where we are today to even getting to 10%, Jessica. So I just -- we don't want to get ahead of our skis, if we will. We've got a lot of blocking and tackling to do. We believe it can be a meaningful part of our business. So when we say 10%, it's impart because we wouldn't spend all this effort, time and energy, resource allocation, senior management focus of Greg and Ted and others, if we didn't think it could be at least 10% of revenue. So I would say that's something that is a bar we're shooting for hoping to meet or beat over time.

But -- and as you say, there's a lot of branded TV ad dollars that are -- that we set our sights on over time because we think we're a great ecosystem and environment to collect that demand, but we have to prove it out over time. So not ready to kind of increase our long-term projections from 1 we haven't even really come close to getting to yet, Jessica, gives us a little time, I guess, is what I would ask.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Sure. But maybe to follow up on what you just said, like where do you think the pool of ad dollars will come from over time? Like why would it -- given that all of the capabilities that Greg just talked about, why would it be limited to linear because you're going to have such extraordinary capabilities, like shouldn't the pool be linear and digital?

Spencer Adam Neumann
Chief Financial Officer

Yes. And it should be -- well, I'll let Greg speak to it.

Gregory K. Peters
Co-CEO, President & Director

I think it's fair to say that over a period of time, we anticipate pulling both linear and digital dollars. But where we are today, we're much more targeted at that linear brand-focused TV advertising. And that's a sweet spot that we can speak to right now. We're definitely building capabilities and have an aspiration to build capabilities that over time will allow us to expand that envelope. But again, we -- price #1 first is to go after that brand advertising. There's a lot of dollars there. There's a lot of dollars looking for great consumers to connect with, and we think we can provide that solution.

Spencer Adam Neumann
Chief Financial Officer

Jessica, it's really over time to be a better than TV model. And so it starts with that, but it's blending the 2 together and capturing both brand and digital dollars over time.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

One last question on this, and then I'll move on. But has engagement changed in the past quarter or so, are there any noticeable differences between the tiers?

Douglas Till Anmuth
JPMorgan Chase & Co, Research Division

Well, there's generally some differences across the tiers that you might expect, more qualified, more engagement generally means as a broad statement, higher tier participation, but we haven't seen a change over time if that's special what we're getting to. So we're seeing good engagement across all of our tiers, good engagements across our ads plan as well.

Spencer Adam Neumann
Chief Financial Officer

Ted, if you -- I know you all on.

Theodore A. Sarandos

Co-CEO, President & Director

Yes. No, the thing to keep in mind is that a streaming continues to grow. So it's 37% of TV time now in the U.S. And then we continue to grow our share of streaming in that growing space, even though it's very, very competitive. Probably best evidence is for nearly every week of this year we've had the #1 show and the #1 film on streaming, which is -- so that creates an enormous amount of, to your point, Jessica, of possibilities, but all dependent on building those capabilities.

So as we put those things together, there's an enormous opportunity as eyeballs increasingly move to streaming. And they -- or by the way, they're moving to streaming because this is where the consumer demand is running. This isn't like we've invented something and we're dragging them in. Basically, the consumers are long away from this notion of the linear grid dictating what they can watch and where they can watch it and how they can watch it and the demand is on us to deliver on streaming and high-quality content that they love.

And our ability to monetize it both through pure subscription and through advertising if they choose to do so, is really dependent on us having the content that they're excited about, day in and day out, week in and week out and in every country in the world.

Gregory K. Peters
Co-CEO, President & Director

Yes, I think that's exactly right. And just the foundation of our attractiveness to advertisers is ultimately our reach, this high-level engagement and amazing titles, TV shows and films like Ted mentioned in the top 10 that they want to have their brands next to them.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

So let's move on to free cash flow. You had an extraordinary quarter, this second quarter, and you said -- you talked about the outlook for Q3. Could you just maybe address the underlying dynamics? Talk a little bit about content spend and other investments?

Spencer Adam Neumann
Chief Financial Officer

Yes, sure. I can take that one, Jessica. I mean what you see in our cash flow forecast, we took it up for 2023 in terms of our expectations. It's really driven by a few things. One, just higher certainty in our forecast with the success of the early success of the paid sharing rollout.

We also had some move in production timing, just the typical ins and outs of the schedule. And then lastly, the impact of the strikes. And so there's still a pretty wide range of outcomes for where we where we're going to ultimately land on cash flow this year given the ongoing strikes, but -- and that may also create some lumpiness actually between 2023 and '24. So still a substantial expected free cash flow in '24, but some lumpiness between the years.

But more broadly, we're past that most cash-intensive phase of building out our original programming strategy. So we'll have some near-term lumpiness. But if we apply a multiyear lens, we expect positive and growing free cash flow trajectory in the years ahead. So that's generally what you're seeing. And of course, as part of that just ongoing prudent expense management, still growing our expenses but trying to grow slower than revenue in a responsible way that helps us scale healthy.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

What's your content spend outlook for the next few years? What is normal post the strikes plural?

Spencer Adam Neumann
Chief Financial Officer

Well, what you've seen is -- and what we talked about when our revenue had slowed down in early '22 is that we would keep our content -- our cash content spend roughly flat. And that's what we've been doing from 2022 through with the plan through '24 with the lumpiness that we talked about, some of it because of that kind of coming out of the throws of COVID, as we talked about in the last couple of calls and now most recently because of the strikes.

But our hope and our expectation is we get back up to those levels similar to levels in '24 as we were in '22. So we will grow next year is our hope and expectation back to those levels. And we talked about it in the letter too, what that works out to is roughly about 1.1 ratio in terms of our cash content spend relative to our content expense.

So that allows us to kind of scale in a healthy way while also kind of growing our cash flow over time. And then as we prove out revenue acceleration, which we expect to do and as we've guided to, to start in Q3 and then further in Q4, we hope to start ticking up our cash spend on content again and doing it in a healthy way. We just -- we have to prove that out, obviously. But we've got a lot of great entertainment that we hope to provide to members all around the world is as Ted said.

So we think we've got a lot more we can spend into, spend into a big opportunity, but we want to do it responsibly.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

But would your content spend very measured, let's put it that way, and you're kind of maybe investing in ad tech capabilities. But beyond that, like it feels like there's tremendous leverage in your business model. So is there a way I like to think about growth and free cash flow beyond '24?

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

So I would say, Jessica, the best way to think about it is we expect to grow revenue and profits over time. As Spence mentioned, we are past the most cash-intensive phase. So that cash -- content cash spend to content amortization ratio that we've talked a lot about in the past, we think, is going to be roughly in the neighborhood of 1.1x in 2024 and probably somewhere around that area for the foreseeable future based on the current plans.

So I think that gives you a the right sort of building blocks and be able to get a rough sense of it. I think what you would see is that would lead to very healthy free cash flow generation for the foreseeable future.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

So can we talk about uses of free cash flow? And maybe possibly M&A. I mean there are a lot of distressed assets in media land, maybe you give the lowest multiples in memory that we've seen. What assets might be interesting to you?

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

Ander, do you want to...

Theodore A. Sarandos
Co-CEO, President & Director

Yes, we just said we've got -- we've always looked at these things in terms of the opportunity for IP versus those assets, some of those assets are stressed for a reason. And so we're mostly looking at when we look at our M&A activity would be mostly around IP that we can develop into great content for our members, which is our real strength in business.

So that's -- I would think we have traditionally been very strong builders over buyers, and that really hasn't fundamentally changed. But if there are opportunities that give us access to pools of IP that we could develop into and against that could be super interesting.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

And just maybe moving to sort of a little bit away on that, but you've developed a library over 10-plus years at this point. And it's pretty substantial, and you've got some amazing -- I mean, really amazing global titles. Would you consider selling your library content to others?

Theodore A. Sarandos
Co-CEO, President & Director

Look, we've always found that we offer this content to our members in an unbelievable value on Netflix as now. And then almost anywhere else we put it, there's either a crossover and they otherwise have Netflix account or a much smaller viewing base. So we're -- we think we're taking the right course in terms of offering the content to our members and having it around even after its original run on Netflix.

So the syndication market, home video markets that continue to exist today are kind of contracting in a way that isn't too exciting to build up against versus this opportunity we have with please our members and thrill our members with our content all the way back through the history of our content and the opportunity, we've also seen things like when Extraction 2 just did so well for us this past quarter, Extraction 1 was popped right back up into the top 10. We've seen that a lot with new seasons of shows when Queen Charlotte hit into top 10. Here comes Bridgerton 1 and 2. So it's a really -- it's a very fluid way a very fluid and dynamic offering in that way. And it's even better the deeper and richer that library becomes.

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

We have time for probably 1 last question. You can make it 2 parts if you want, Jessica.

Jessica Jean Reif Ehrlich Cohen
BofA Securities, Research Division

Okay. Well, can you talk a little bit about your life strategy, including sports experimentation. I mean there seems to be a lot going on in sports. I mean you supposedly outbid or reportedly outbid for NFL sports documentary. So maybe if you could include in live sports, that would be great.

Theodore A. Sarandos
Co-CEO, President & Director

Look, it's -- our position in live sports remains unchanged. We're super excited about the success of our sports adjacent programming. We just had it recently -- just launched a great 1 called Quarterbacks with the NFL. A few months -- a few weeks ago, we had TordeFrance, which did exactly what we saw with Drive to Survive, which is introduced to a brand-new audience to a sport that's been around for a really long time and not very well understood and you do that through exceptional storytelling, not through the liveness of the game.

So -- by doing that, we can now offer this wide variety of sports programming for sports fans that's in season year round, and it really leans on our strengths, which are storytelling. So we're really excited about that. And you read some of the experimental stuff that we're going to be doing, like this live golf match in November.

And we're excited about that because it serves as a promotional vehicle for our sports brands like full swing and driver survive. So we really think that we can have a really strong offering for sports fans on Netflix without having to be part of the difficulty of the economic model of live sports licensing.

Spencer Wang

Vice President of Finance, Corporate Development & Investor Relations
Great. Well, thank you, Ted, for that answer. Thank you, Jessica, for your questions, and thanks to the audience for tuning into the video interview, and we look forward to speaking to you all next quarter. Thank you.