



Netflix (NFLX) 2017 Q4 Earnings Summary

January 2018

*Sign Up For Additional Research From Evolution Media Capital*



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## Netflix Added 8.3 Million Streaming Subscribers In Q4 2017

### CONTENT

- Will continue to invest in content as long as they are growing viewers, subscribers, and not seeing a point of diminishing returns
  - **Content spend will be \$8 billion for this year, but it will definitely be higher in 2019 and 2020**
- Value in getting out from just the core of television and film and into things more like unscripted and other projects
  - Expansion of the same strategy: hire great people, give them the resources to make great content and get out of their way
- **Critics are pretty disconnected from the commercial prospects of films, especially as the audience becomes more global**

### MARKETING

- **Increasing marketing somewhat slightly relative to content to multiply the value of that content across the business**
- Use testing to determine the optimal approach to exposing the big-title brands to both members and non-members
  - Conduct city-level or country-level experiments to figure out the most productive way to grow viewing and subscribers
- **Continually trying to improve the organic reach, social and PR of the title marketing, in order to spend less on paid marketing**
  - **Word of mouth from friends is the dominant accelerator for subscriber growth**

### GLOBAL SCALE

- **Continuing to invest in shows around the world and learning how to be an effective global company, for consumers, for governments and for content producers**
  - Many of the international markets were launched with a global product that was not localized or tailored to specific markets
- **While still relatively early compared to other markets, good progress is being made in Japan, India, and Southeast Asia**
  - Seeing growth penetrations that look like the first couple of years of Latin America, which was successful

### COMPETITION

- **Competitors need to determine if they can make more money licensing content to Netflix or by managing their own service**
  - Fundamentally, if Netflix can monetize content really well, then people will sell because they will be paid
- Competitors are challenger brands, so they will try many different things rather than follow the same strategy
  - **Focusing on not getting distracted by Disney and others, but will watch what they do and learn from consumers**
- **Commercial-free offering is a core differentiator and want to make it popular around the world so consumers are used to it**

### PARTNERSHIPS

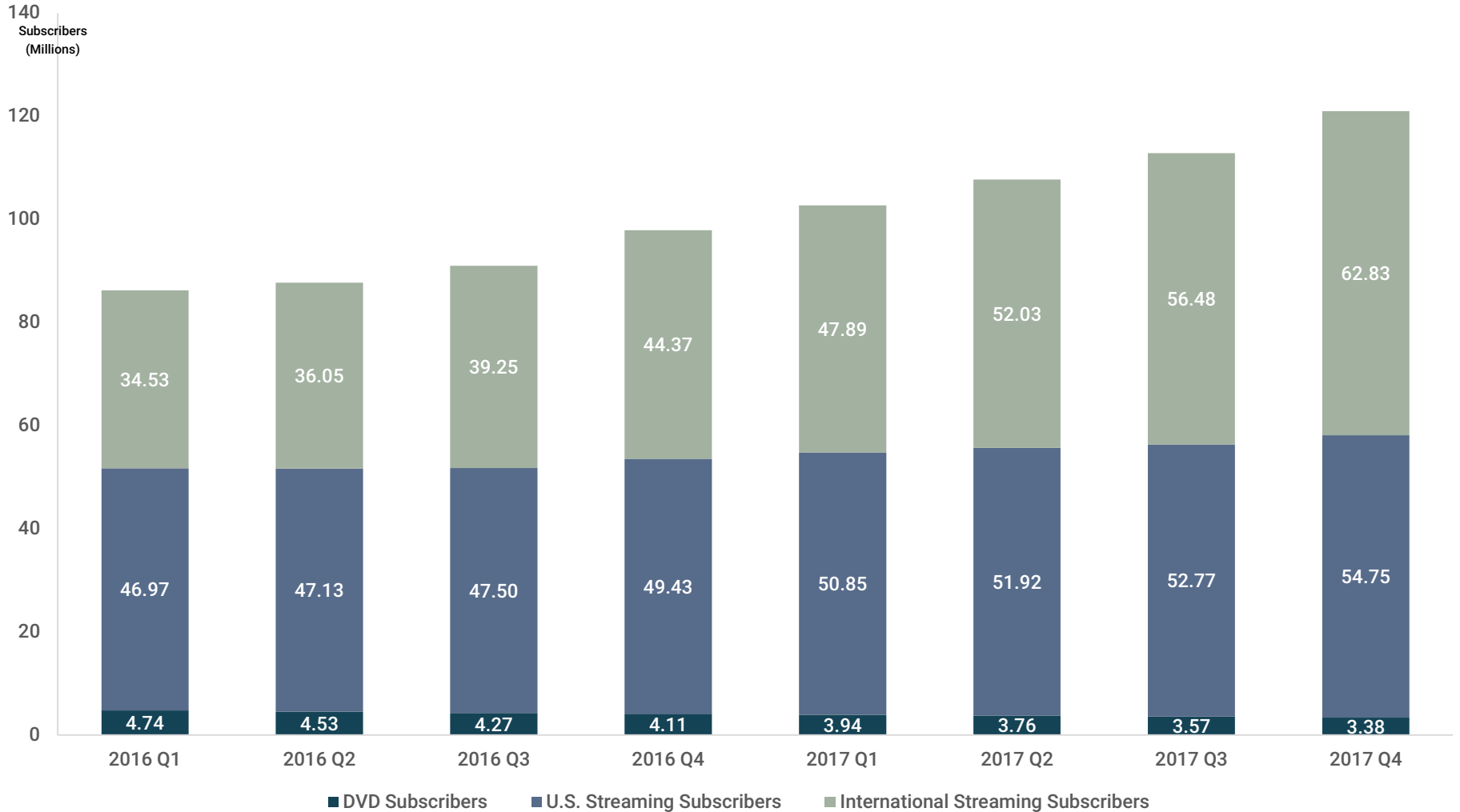
- **Partnering with a growing number of MVPDs and ISPs across the world to make it easier for consumers to sign up for Netflix**
  - Continues to be a meaningful contributor but not a dominant source of customer acquisitions
  - Not necessarily gaining new demographics, but accessing some of the late technology adopter population
- Operator integrations have a whole bunch of consumer benefits that they haven't really been able to realize
  - **Bundling makes it easier for users to pay, and reduces churn, which boosts the lifetime value of subscribers**

*Netflix is planning to increase marketing spending over 50% this year to continue to drive membership growth*

# Subscribers



Netflix Now Has 121 Million Global Subscribers

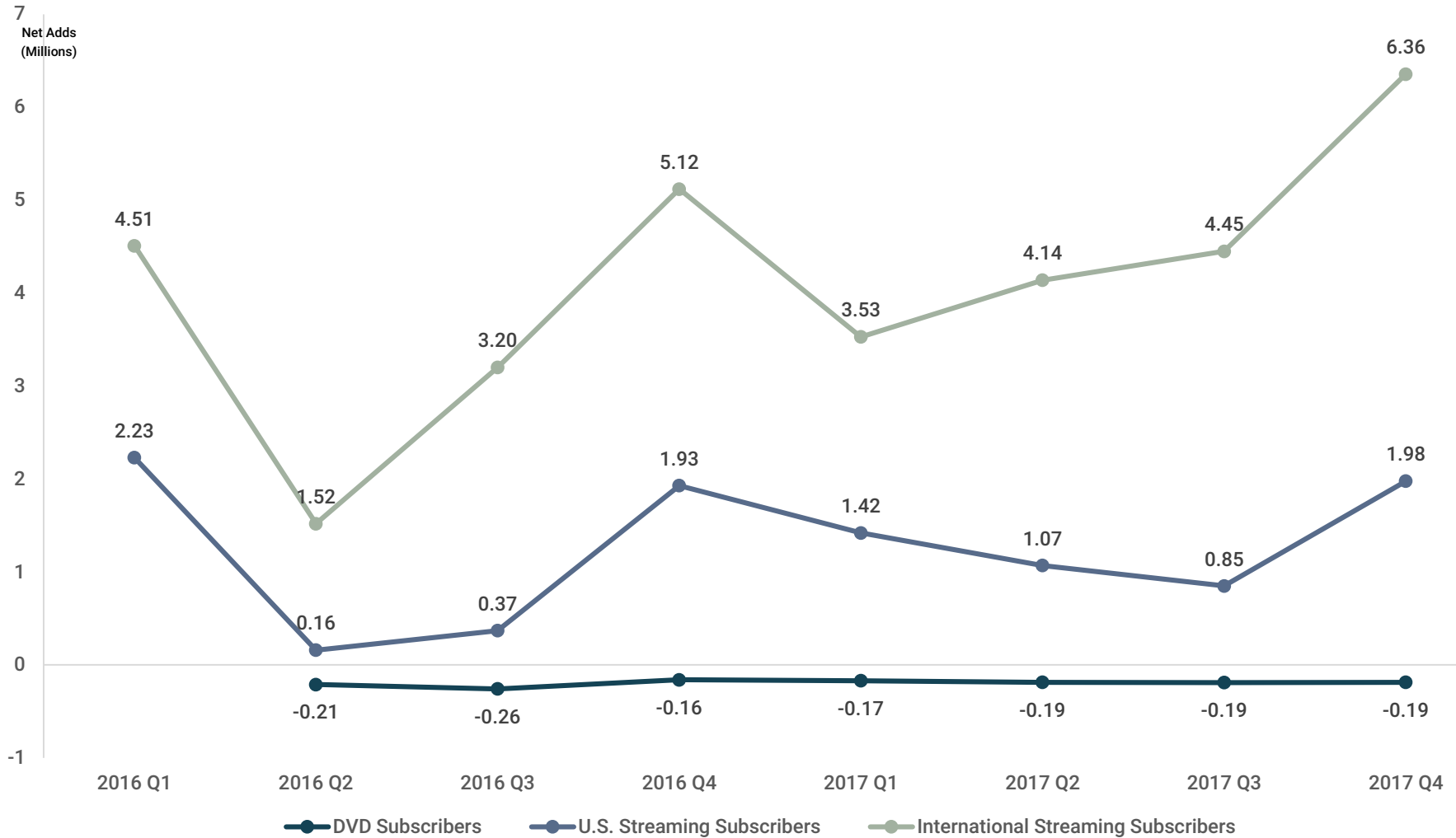


*U.S. market is starting to near its saturation point, with belief that the TAM is 60 – 90 million subscribers*

# Net Adds



Despite Increasing Costs In Q4, Subscriber Net Adds Hit A Record High



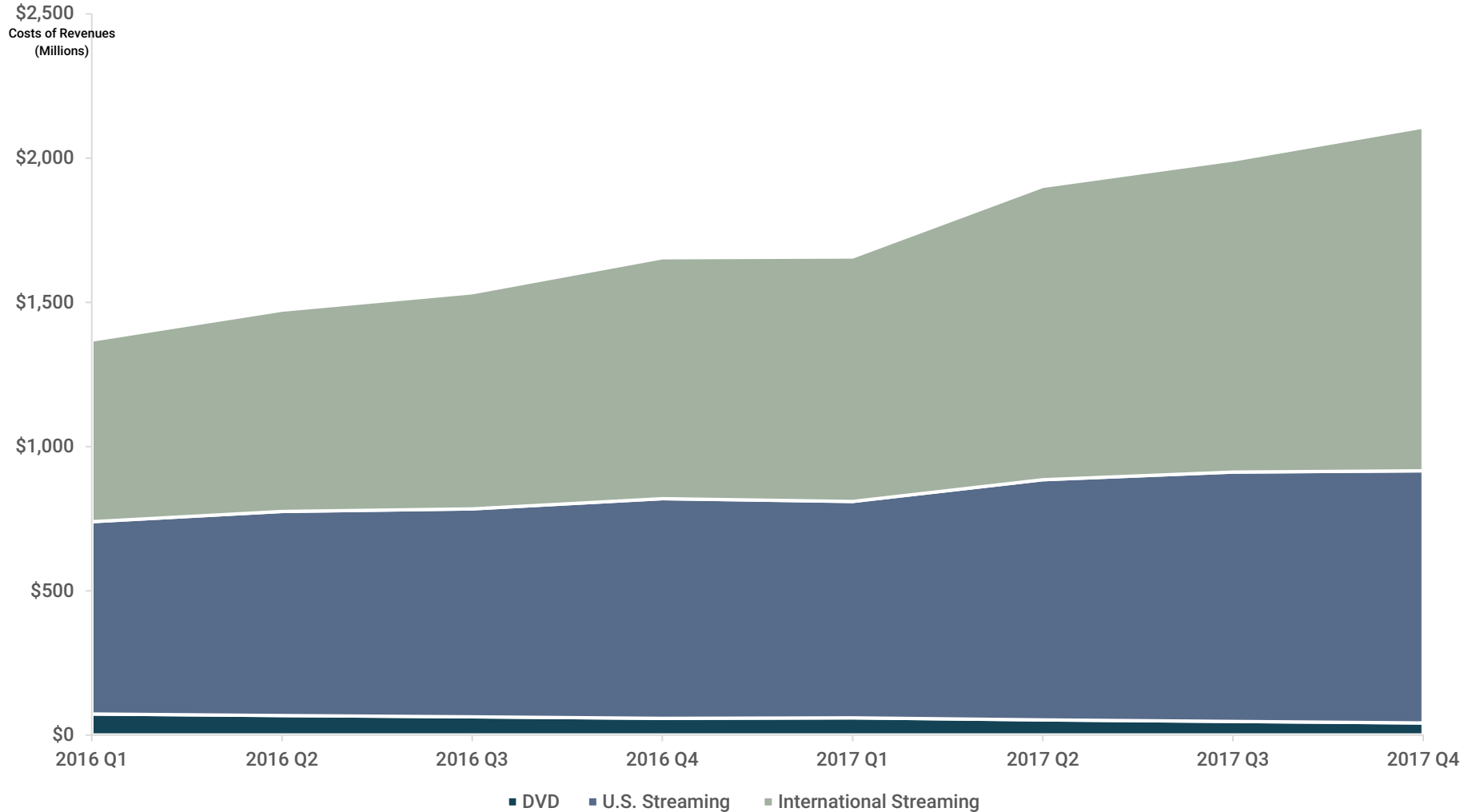
*Internet TV adoption is still growing, especially in emerging markets across the world*



# Cost of Revenues



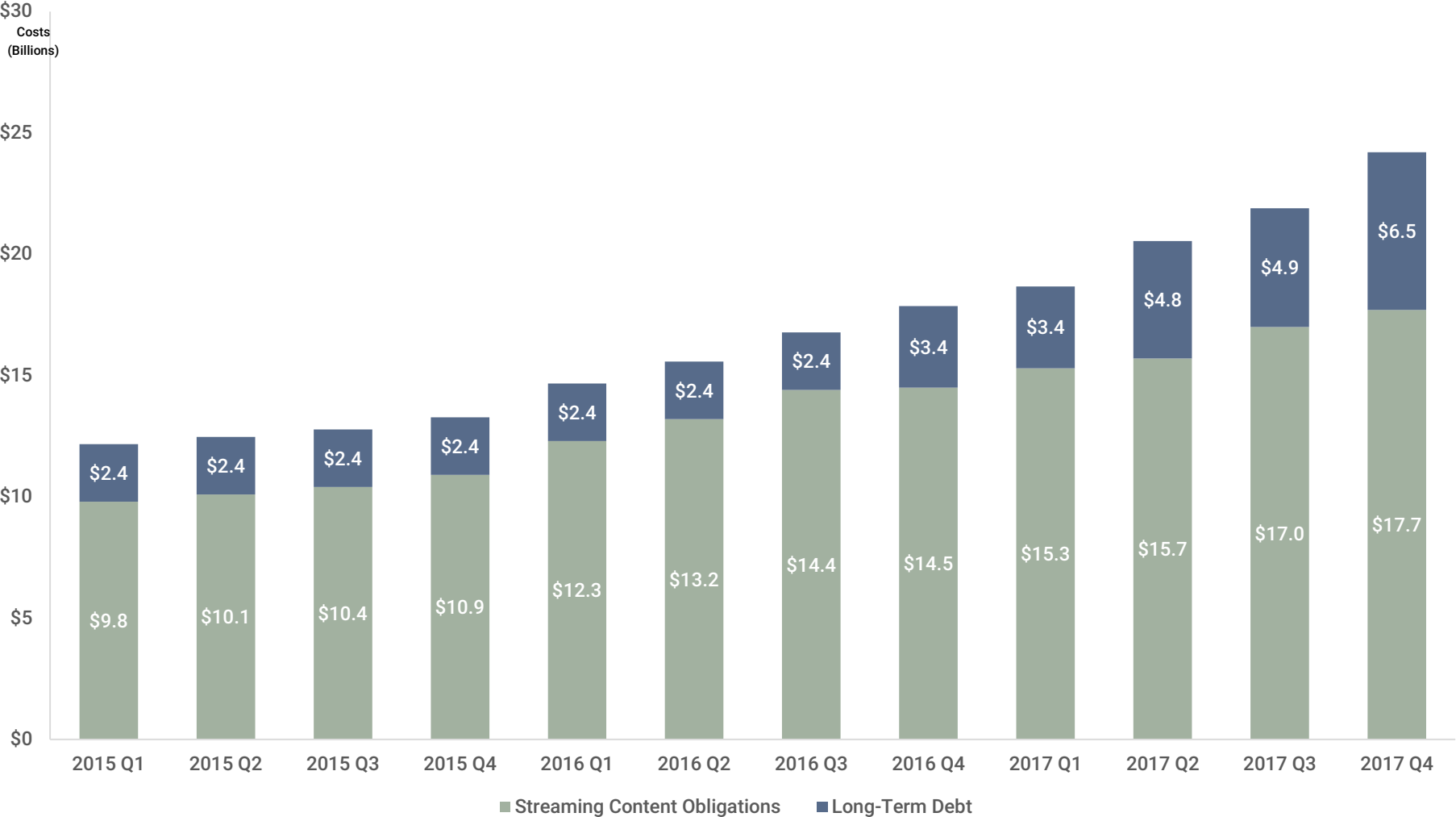
## Netflix Continues To Focus On Local Language Original Productions



*Global distribution model allows for successful monetization of quality content at all budget sizes*

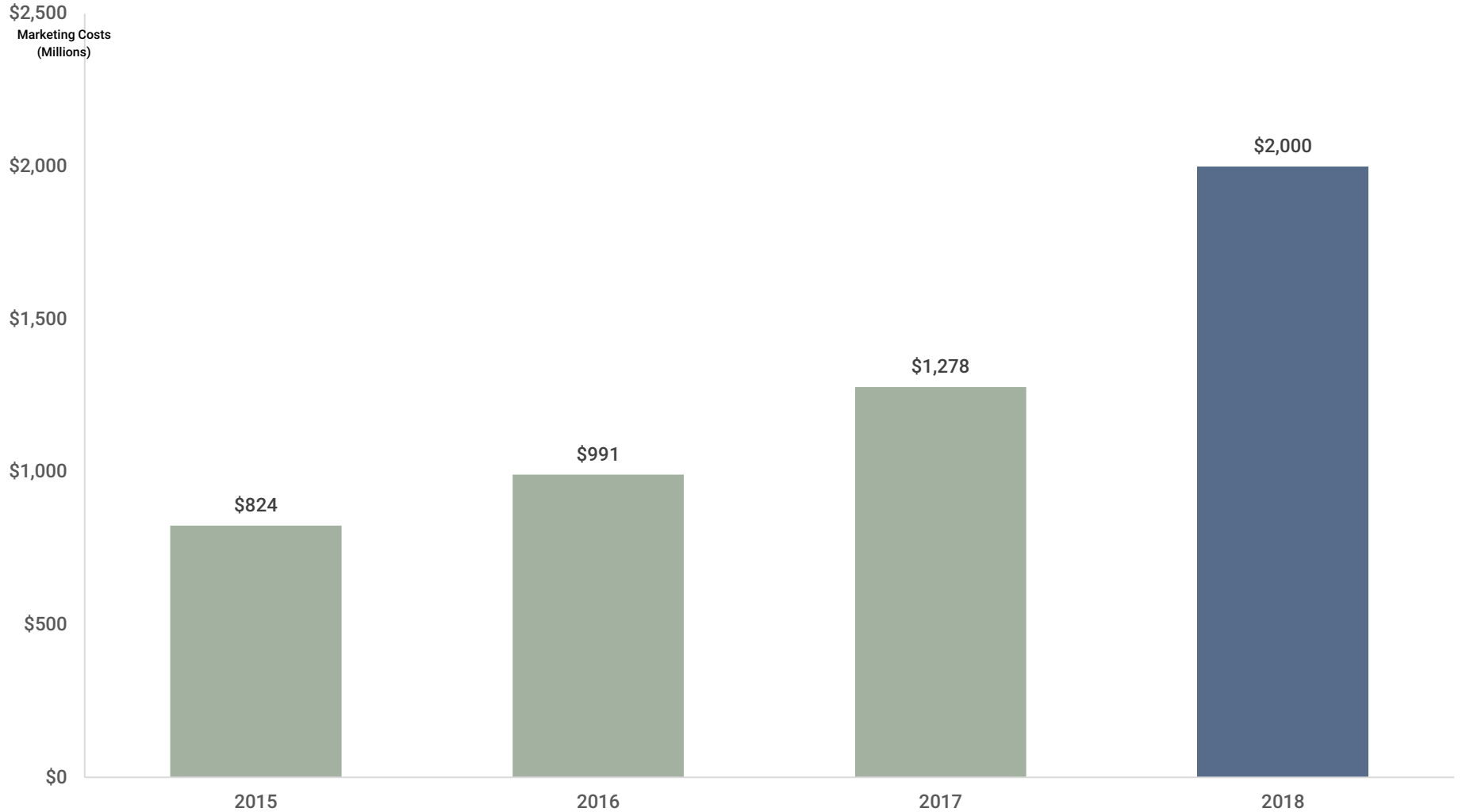
# Content Costs

## Netflix Continues To Use Debt To Accelerate Its Investments In Original Content



*While new content will attract subscribers, free cash flow is expected to decrease to negative \$3 - \$4 billion in 2018*

## Netflix Uses Testing And Experimentation To Help Spend Marketing Dollars Efficiently



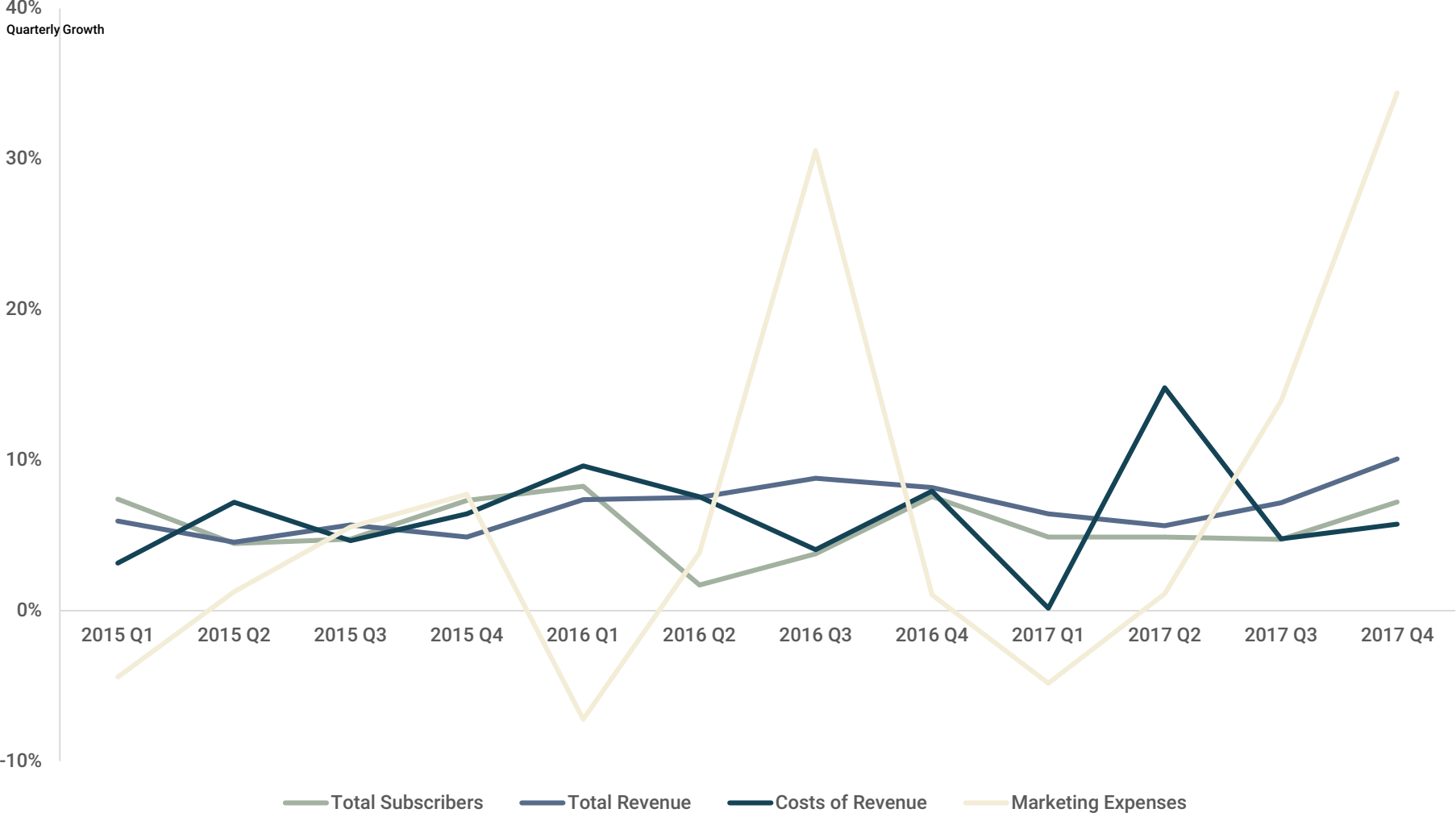
*Marketing is becoming more important as new entrants (Disney) enter the SVOD market*



# Comparison of Costs



**Marketing Costs Will Continue To Increase Over The Next Year**



*The goal is to develop a platform that can effectively promote the content itself, without the need for external marketing*

