Harvard Business Case Analysis: Netflix & International Expansion

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Netflix is known as a $20 billion "strong unicorn", but what started off as a great success in the United States quickly turned into trouble expanding globally.[1] Netflix started the game with an innovative business model, a movie subscription process offered online rather than in stores. This changed the game for the movie and entertainment industry. The United States represented about two-thirds of Netflix's revenue, so when Netflix experienced a 50% drop in U.S profits, Netflix knew it had to expand globally to remain sustainable.[2]

Company Overview

Expanding internationally came with substantial uncertainties and challenges in the global arena. These included competition, expensive international content creation expenses, relatively underdeveloped infrastructure (bad internet connection) in other markets, religious differences/censorship from country to country, and language barriers just to name a few. Netflix learned that in many countries the market environment is often very different from the environment in the United States. Constant efforts to improve services internationally by "bleeding money" did not pay off in the long run for Netflix.[3]

Although recently, Netflix has made huge international success with its new series "Squid Game". "Squid Game" has become Netflix's most popular show ever, with 142 million households sampling the title, and the number one program in 94 countries.[4] Although "Squid Game" was a huge success for Netflix, there are obvious areas where they could improve. Many viewers claim that Netflix botched some of the Korean to English translations in the series.[5] In expanding content for other countries, Netflix also needs to be aware of cultural norms and communications. Things like translating subtitles could have been improved with better research and development. Today we will explore some more of the challenges Netflix has faced when trying to expand internationally. We will also assess the causes of those challenges and present some alternative solutions, as well as what we believe the best solution is for Netflix regarding international expansion.

Challenges Netflix Faced in the Global Arena

It is impossible for an organization to globally expand without facing any challenges. One of the obvious challenges that Netflix faces is competing with other large companies such as Hulu and Amazon. These were just a couple of Netflix's competitors, not including large companies in other countries. In India, Netflix had to compete with India's most popular service providers which included Eros Now, Ditto TV, Spuul, and Hotstar. In Japan, Netflix was up against Rakuten Showtime.[6] When it comes to competition between Netflix and another country's service provider, the other country may be at an advantage because their service providers are made to follow the regulatory restrictions of that country, whereas Netflix faces the challenge of having to modify itself to fit the regulatory restrictions of that country. Not only do other country's service providers already follow the regulatory restrictions, but since they were established in that specific country, they most likely provide a huge amount of content specifically directed to the people in that country.

Which leads to another challenge that Netflix had to face: creating and providing content that was attractive to a specific country in order to lure that country onto Netflix's side. Not only is it important for Netflix to provide area-specific content, but it is also important for them to have it available in most languages.[7] Most, if not all, people would like to know and understand what is going on in the movie or show that they are watching. Unfortunately, Netflix only provided its services in 20 languages at most, and in some countries, only in English.[8] There are a number of countries where people speak little to no English, so expanding the languages that Netflix's services are provided in can be added to the list of challenges that they had to face. A very important item to have when streaming using any service provider is a good internet connection. Some countries had very poor network connection, which made it difficult to stream their shows and movies on Netflix.[9] If people have difficulties streaming their shows and movies, they may decide to unsubscribe from Netflix or decide not to subscribe at all in the first place. It is safe to say that finding a solution to the network issues in other countries was just another item added to the list of challenges that Netflix had to overcome.

Lastly, global expansion usually requires an organization to spend a lot of money. Netflix had to pay for partnerships with domestic companies, programming, marketing, distribution, and technology costs when entering just one new country. All those costs added up for each country Netflix decides to enter, is a huge amount of money. On top of those costs, Netflix went as far as to purchase premiums for their global licensing deals.[10] Thankfully, Netflix is a multibillion-dollar company, and these costs are not too much for them to handle. However, if Netflix continues to face so many expenses and not enough success with their expansion, it could become an issue for them in the future. Therefore, financials could be another challenge that Netflix may need to plan to face.

Assessing Causes of Challenges in the Global Arena

It is apparent that Netflix has experienced many international management complications. Many of these challenges were the results of their slow growth into the international market. Netflix relied heavily on the United States instead of expanding globally. The U.S. contributed to a large portion of the company's revenue. Meanwhile, other streaming services such as Hulu and

Amazon, provided their services to other countries including Japan and the United Kingdom.[11] Other competitors offered free streaming and completely avoided working with content providers and obtaining licensing. When Netflix did expand, they were present in over 190 countries. However, by only providing 20 different languages they were not meeting the needs of their consumers.[12]

In addition to these conflicts causing challenges, Netflix also faced religious differences throughout the various cultures using their streaming services. Global expansion challenges continued when faced with expensive premiums to receive these global licenses. With that said, Netflix was strategic about expanding. They used a three-stage process to enter other markets and although it was challenging in the beginning this could be a large contributor to their success as of now.[13]

The first stage being to expand into similar markets such as Canada. This allowed for expansion on a lower scale into countries that are similar to the United States. The second stage was a more intense expansion stage. At this stage Netflix was present in about 50 countries. Each of these countries was a strategic move. They selected the market based on similarities and wealth. The third stage was the largest expansion into 190 countries.[14]

Netflix used the information gained from entering markets in stage one and two to understand different audiences and what content they enjoy. Although the company faced countless challenges entering these markets, their plan helped them work through language barriers and content regulations for different markets. This exponential globalization was a smart move for the company and allowed them to expand to a global market efficiently.

Although Netflix had a three-stage process to help them enter other markets, Netflix was still faced with several challenges. Competition increasing substantially with companies such as

Amazon Prime or Hulu are on the rise.[15] Netflix needs to create a comparative advantage in order to remain sustainable. This will involve adjusting its expansion plan to compete with new entrants. Local streaming services have a greater understanding of their consumer needs in regional markets which has negatively impacted Netflix in the long run.

Netflix combated these cultural differences in the global markets by investing large amounts of money into research that the company aimed to use to become more educated on these different markets and understand what the best approach would be. Netflix had to be proactive in adding more language options. They had to combat the slow internet in specific countries by using technology and servers that are specific to each market. The barriers to expansion were extreme. It cost Netflix a lot of money and research to combat the causes of these challenges in order to expand quickly.[16]

Evaluating Alternative Solutions

Netflix has become the number one streaming service in the world.[17] The company has experienced great popularity and has succeeded in entering global markets. With that said, the company did experience many roadblocks during global expansion. Some alternative solutions could have been expanded sooner rather than later. By making their services available overseas earlier on, it may have minimized their competition. Services such as Hulu already being globally present created an obstacle. This could have been avoided had they expanded prior to the competitors.

The company also faced challenges providing attractive content to different cultures.[18] By maintaining an awareness of changing customer interest and market trends, Netflix could have avoided this obstacle. It is in the company's best interest to be up to date on all the different cultural expectations and adapt content to serve the local consumers' needs. This could include the streaming options and languages available. Being familiar with the cultural rules and boundaries of a new market and assessing these obstacles from a global perspective is vital when earning the trust of new consumers.

Another solution is to increase financial commitment to research and development. Extensive research could have minimized risks associated with entering a new market.[19] If Netflix implemented more research into their expansion, they could have had a competitive advantage over other streaming services. Research would have shown that internet quality and streaming availability may be unstable in certain markets, and they could have addressed these issues prior to entering those environments.

In addition to entering sooner, understanding cultural expectations, and increasing their financial commitment to research, expanding their international business relationships could have aided Netflix in the globalization process as well.[20] International relations are crucial to understanding how cultures, people and businesses all work together. Utilizing overseas business connections prior to entering a foreign market gives a company greater insight into the viewers' wants and needs.

What Is The Next Step?

In assessing challenges, the causes of those challenges, and evaluating alternative solutions, the best alternative solution for Netflix to help better expansion into global markets would be to increase financial commitment in the research and development areas of the company. If Netflix were to implement this alternative solution, they would be saving both time and money. Netflix performing more research on a market/country they plan to expand to, would make Netflix more aware of the trends in that particular market/country.[21] Which in turn would help Netflix better tailor their product to their target consumer at hand. Netflix would be able to know beforehand the type of content they need to produce and the languages that content needs to be in. Once market trends and customer needs are established, Netflix can take the time to make any changes necessary to ensure a smooth expansion and market penetration process. This approach would be much more beneficial than the approaches that Netflix has taken in the past to try and solve its challenges. If Netflix were to use this alternative solution to create a competitive advantage, they would save money by doing their research beforehand, which would leave them with more money to spend on the development of the infrastructures in the countries that need upgrades in order to have access to proper service connection required for the streaming of Netflix's services.[22]

Unfortunately, Netflix's choice to expand into certain countries without doing extensive and efficient research ended up hurting them in the long run. By doing so, Netflix has had to learn the hard way that there are issues with bringing their product into foreign markets without first tailoring their product to suit the needs of the consumer in that market/country.[23] With these mistakes being made, the company is now having to spend more time and money to fix these issues. In the end, Netflix would benefit greatly from an increase in their financial obligation to their research and development in other countries to help better tailor their product to meet the needs of the target market consumer. Therefore, the best solution for Netflix would be to better their market penetration process by increasing their commitment to research and development in order to properly tailor their product to the target market consumers' needs.

Exhibit 1: Financial Data of Netflix (2019-2021)

Netflix, Inc.
Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	Twelve Months Ended December 31, 2019	Three Months Ended March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	Twelve Months Ended December 31, 2020	Three Months Ended March 31, 2021	June 30, 2021	September 30, 2021	Nine Months Ended September 30, 2021
Revenues	$ 4,520,992	$ 4,923,116	$ 5,244,905	$ 5,467,434	**$ 20,156,447**	$ 5,767,691	$ 6,148,286	$ 6,435,637	$ 6,644,442	**$ 24,996,056**	$ 7,163,282	$ 7,341,777	$ 7,483,467	**$ 21,988,526**
Cost of revenues	2,870,614	3,005,657	3,097,919	3,466,023	**12,440,213**	3,599,701	3,643,707	3,867,751	4,165,160	**15,276,319**	3,868,511	4,018,008	4,206,589	**12,093,108**
Marketing	616,578	603,150	553,797	878,937	**2,652,462**	503,830	434,370	527,597	762,565	**2,228,362**	512,512	603,973	635,948	**1,752,433**
Technology and development	372,764	383,233	379,776	409,376	**1,545,149**	453,817	435,045	453,802	486,936	**1,829,600**	525,207	537,321	563,887	**1,626,415**
General and administrative	201,952	224,657	233,174	254,586	**914,369**	252,087	277,236	271,624	275,539	**1,076,486**	297,196	334,845	321,790	**953,831**
Operating income	459,084	706,419	980,239	458,512	**2,604,254**	958,256	1,357,928	1,314,863	954,242	**4,585,289**	1,959,856	1,847,630	1,755,253	**5,562,739**
Other income (expense):														
Interest expense	(135,529)	(152,033)	(160,660)	(177,801)	**(626,023)**	(184,083)	(189,151)	(197,079)	(197,186)	**(767,499)**	(194,440)	(191,322)	(190,429)	**(576,191)**
Interest and other income (expense)	76,104	(53,470)	192,744	(131,378)	**84,000**	21,697	(133,175)	(256,324)	(250,639)	**(618,441)**	269,086	(62,519)	96,135	**302,702**
Income before income taxes	399,659	500,916	1,012,323	149,333	**2,062,231**	795,870	1,035,602	861,460	506,417	**3,199,349**	2,034,502	1,593,789	1,660,959	**5,289,250**
Benefit from (provision for) income taxes	(55,607)	(230,266)	(347,079)	437,637	**(195,315)**	(86,803)	(315,406)	(71,484)	35,739	**(437,954)**	(327,787)	(240,776)	(211,888)	**(780,451)**
Net income	$ 344,052	$ 270,650	$ 665,244	$ 586,970	**$ 1,866,916**	$ 709,067	$ 720,196	$ 789,976	$ 542,156	**$ 2,761,395**	$ 1,706,715	$ 1,353,013	$ 1,449,071	**$ 4,508,799**
Earnings per share:														
Basic	$ 0.79	$ 0.62	$ 1.52	$ 1.34	**$ 4.26**	$ 1.61	$ 1.63	$ 1.79	$ 1.23	**$ 6.26**	$ 3.85	$ 3.05	$ 3.27	**$ 10.18**
Diluted	$ 0.76	$ 0.60	$ 1.47	$ 1.30	**$ 4.13**	$ 1.57	$ 1.59	$ 1.74	$ 1.19	**$ 6.08**	$ 3.75	$ 2.97	$ 3.19	**$ 9.90**
Weighted-average shares of common stock outstanding:														

Netflix, Inc.
Consolidated Balance Sheets
(unaudited)
(in thousands)

	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021
Assets											
Current assets:											
Cash and cash equivalents	$ 3,348,557	$ 5,004,247	$ 4,435,018	**$ 5,018,437**	$ 5,151,884	$ 7,153,248	$ 8,392,391	**$ 8,205,550**	$ 8,403,705	$ 7,777,530	$ 7,526,681
Other current assets	820,350	872,910	892,740	**1,160,067**	1,295,897	1,410,891	1,434,089	**1,556,030**	1,703,803	1,826,746	1,889,106
Total current assets	4,168,907	5,877,157	5,327,758	**6,178,504**	6,447,781	8,564,139	9,826,480	**9,761,580**	10,107,508	9,604,276	9,415,787
Content assets, net	20,878,317	21,937,845	23,227,772	**24,504,567**	25,266,889	25,155,117	25,067,633	**25,383,950**	26,043,991	27,291,640	28,974,045
Property and equipment, net	434,372	452,399	481,992	**565,221**	650,455	751,941	828,118	**960,183**	1,015,419	1,107,437	1,220,114
Other non-current assets	1,737,036	1,903,938	1,904,189	**2,727,420**	2,694,785	2,704,084	2,900,312	**3,174,646**	2,956,096	2,967,616	3,129,911
Total assets	**$ 27,218,632**	**$ 30,171,339**	**$ 30,941,711**	**$ 33,975,712**	**$ 35,059,910**	**$ 37,175,281**	**$ 38,622,543**	**$ 39,280,359**	**$ 40,123,014**	**$ 40,970,969**	**$ 42,739,857**
Liabilities and Stockholders' Equity											
Current liabilities:											
Current content liabilities	$ 4,858,899	$ 4,846,525	$ 4,857,520	**$ 4,413,561**	$ 4,761,585	$ 4,664,733	$ 4,599,654	**$ 4,429,536**	$ 4,297,957	$ 4,197,874	$ 4,110,962
Accounts payable	439,496	442,194	444,129	**674,347**	545,488	446,668	541,298	**656,183**	532,942	622,931	643,059
Accrued expenses and other liabilities	750,720	752,488	1,040,745	**843,043**	1,061,090	986,595	1,259,124	**1,102,196**	1,291,812	1,125,591	1,413,120
Deferred revenue	808,692	892,777	915,506	**924,745**	986,753	1,029,261	1,040,202	**1,117,992**	1,140,271	1,187,364	1,182,632
Short-term debt	-	-	-	**-**	498,809	499,161	499,517	**499,878**	698,788	699,128	699,473
Total current liabilities	6,857,807	6,933,984	7,257,900	**6,855,696**	7,853,725	7,626,418	7,939,795	**7,805,785**	7,961,770	7,832,888	8,049,246
Non-current content liabilities	3,560,364	3,564,440	3,419,552	**3,334,323**	3,206,051	3,208,164	2,926,574	**2,618,084**	2,465,626	2,265,286	2,301,026
Long-term debt	10,305,023	12,594,135	12,425,746	**14,759,260**	14,170,692	15,294,998	15,547,616	**15,809,095**	14,860,552	14,926,889	14,793,691
Other non-current liabilities	792,380	973,232	977,008	**1,444,276**	1,420,148	1,710,948	1,875,235	**1,982,155**	1,950,986	2,082,035	2,281,277
Total liabilities	21,515,574	24,065,791	24,080,206	**26,393,555**	26,650,616	27,840,528	28,289,220	**28,215,119**	27,238,934	27,107,098	27,425,240
Stockholders' equity:											
Common stock	2,439,773	2,566,365	2,677,972	**2,793,929**	2,935,532	3,127,813	3,303,482	**3,447,698**	3,600,084	3,721,246	3,852,531
Treasury stock at cost	-	-	-	**-**	-	-	-	**-**	-	(500,022)	(600,022)
Accumulated other comprehensive income (loss)	(25,600)	(20,352)	(41,246)	**(23,521)**	(47,054)	(34,072)	(1,147)	**44,398**	4,137	9,775	(19,835)
Retained earnings	3,288,885	3,559,535	4,224,779	**4,811,749**	5,520,816	6,241,012	7,030,988	**7,573,144**	9,279,859	10,632,872	12,081,943
Total stockholders' equity	5,703,058	6,105,548	6,861,505	**7,582,157**	8,409,294	9,334,753	10,333,323	**11,065,240**	12,884,080	13,863,871	15,314,617

Netflix, Inc.
Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Three Months Ended March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	Twelve Months Ended December 31, 2019	Three Months Ended March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	Twelve Months Ended December 31, 2020	Three Months Ended March 31, 2021	June 30, 2021	September 30, 2021	Nine Months Ended September 30, 2021
Cash flows from operating activities:														
Net income	$ 344,052	$ 270,650	$ 665,244	$ 586,970	**$ 1,866,916**	$ 709,067	$ 720,196	$ 789,976	$ 542,156	**$ 2,761,395**	$ 1,706,715	$ 1,353,013	$ 1,449,071	**$ 4,508,799**
Adjustments to reconcile net income to net cash provided by (used in) operating activities:														
Additions to content assets	(2,997,746)	(3,325,103)	(3,648,292)	(3,945,542)	**(13,916,683)**	(3,294,275)	(2,510,782)	(2,653,886)	(3,320,341)	**(11,779,284)**	(3,284,576)	(4,096,750)	(4,666,237)	**(12,047,563)**
Change in content liabilities	(14,698)	(12,414)	(95,548)	(571,351)	**(694,011)**	258,945	(108,432)	(379,458)	(528,488)	**(757,433)**	(266,040)	(312,208)	(29,246)	**(607,494)**
Amortization of content assets	2,124,686	2,231,915	2,279,977	2,579,669	**9,216,247**	2,483,385	2,607,159	2,733,743	2,982,625	**10,806,912**	2,719,196	2,806,803	2,963,051	**8,489,050**
Depreciation and amortization of property, equipment and intangibles	23,561	25,496	26,704	27,818	**103,579**	28,517	26,661	28,589	31,943	**115,710**	35,741	38,434	70,253	**144,428**
Stock-based compensation expense	101,200	103,848	100,262	100,066	**405,376**	97,019	104,210	106,357	107,594	**415,180**	107,230	101,583	95,078	**303,891**
Foreign currency remeasurement loss (gain) on debt	(57,600)	61,284	(171,360)	122,100	**(45,576)**	(93,060)	119,161	249,194	257,983	**533,278**	(253,330)	63,074	(136,488)	**(326,744)**
Other non-cash items	45,708	60,695	57,934	63,893	**228,230**	65,448	70,301	83,851	73,526	**293,126**	72,657	108,103	102,211	**282,971**
Deferred income taxes	6,627	35,519	52,105	(188,694)	**(94,443)**	46,619	223,308	(40,277)	(159,584)	**70,066**	159,733	51,127	50,967	**261,827**
Changes in operating assets and liabilities:														
Other current assets	(32,076)	(24,231)	145	(195,951)	**(252,113)**	(127,353)	3,066	(22,974)	(40,362)	**(187,623)**	(221,555)	(52,373)	(95,145)	**(369,073)**
Accounts payable	(124,467)	(2,674)	(7,643)	230,847	**96,063**	(149,153)	(112,027)	111,677	107,898	**(41,605)**	(137,313)	72,313	24,836	**(40,164)**
Accrued expenses and other liabilities	157,647	(26,705)	260,872	(234,036)	**157,778**	214,191	(105,450)	266,027	(176,585)	**198,183**	177,897	(171,430)	269,774	**276,241**
Deferred revenue	47,793	84,085	22,729	9,239	**163,846**	62,008	42,508	10,941	77,790	**193,247**	22,279	47,093	(4,732)	**64,640**
Other non-current assets and liabilities	(4,486)	(26,119)	(44,923)	(47,003)	**(122,531)**	(41,446)	(38,803)	(19,999)	(93,827)	**(194,075)**	(61,368)	(72,543)	(11,014)	**(144,925)**
Net cash provided by (used in) operating activities	(379,799)	(543,754)	(501,794)	(1,461,975)	**(2,887,322)**	259,912	1,041,076	1,263,761	(137,672)	**2,427,077**	777,266	(63,761)	82,379	**795,884**
Cash flows from investing activities:														
Purchases of property and equipment	(60,381)	(39,584)	(45,333)	(107,737)	**(253,035)**	(98,015)	(141,741)	(109,811)	(148,356)	**(497,923)**	(81,001)	(110,278)	(167,327)	**(358,606)**
Change in other assets	(19,722)	(10,452)	(4,021)	(99,834)	**(134,029)**	(288)	(260)	(8,840)	1,957	**(7,431)**	(4,615)	(1,000)	(21,304)	**(26,919)**
Net cash used in investing activities	(80,103)	(50,036)	(49,354)	(207,571)	**(387,064)**	(98,303)	(142,001)	(118,651)	(146,399)	**(505,354)**	(85,616)	(111,278)	(188,631)	**(385,525)**
Cash flows from financing activities:														
Proceeds from issuance of debt	-	2,243,196	-	2,226,110	**4,469,306**	-	1,009,464	-	-	**1,009,464**	-	-	-	**-**
Debt issuance costs	-	(18,192)	-	(17,942)	**(36,134)**	-	(7,559)	-	-	**(7,559)**	-	-	-	**-**
Repayments of debt	-	-	-	-	**-**	-	-	-	-	**-**	(500,000)	-	-	**(500,000)**
Proceeds from issuance of common stock	22,972	21,896	11,989	15,633	**72,490**	43,694	89,060	68,665	33,987	**235,406**	48,071	19,749	18,445	**86,265**
Repurchases of common stock	-	-	-	-	**-**	-	-	-	-	**-**	-	(500,022)	(100,000)	**(600,022)**
Net cash provided by (used in) financing activities	22,972	2,246,900	11,989	2,223,801	**4,505,662**	43,694	1,090,965	68,665	33,987	**1,237,311**	(451,929)	(480,273)	(81,555)	**(1,013,757)**
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(5,014)	4,998	(29,325)	29,810	**469**	(70,902)	11,819	28,459	66,674	**36,050**	(42,138)	23,477	(63,843)	**(82,504)**
Net increase (decrease) in cash, cash equivalents, and restricted cash	(441,944)	1,658,108	(568,484)	584,065	**1,231,745**	134,401	2,001,859	1,242,234	(183,410)	**3,195,084**	197,583	(631,835)	(251,650)	**(685,902)**
Cash, cash equivalents, and restricted cash beginning of period	3,812,041	3,370,097	5,028,205	4,459,721	**3,812,041**	5,043,786	5,178,187	7,180,046	8,422,280	**5,043,786**	8,238,870	8,436,453	7,804,618	**8,238,870**
Cash, cash equivalents, and restricted cash end of period	$ 3,370,097	$ 5,028,205	$ 4,459,721	$ 5,043,786	**$ 5,043,786**	$ 5,178,187	$ 7,180,046	$ 8,422,280	$ 8,238,870	**$ 8,238,870**	$ 8,436,453	$ 7,804,618	$ 7,552,968	**$ 7,552,968**
Non-GAAP free cash flow reconciliation:														
Net cash provided by (used in) operating activities	$ (379,799)	$ (543,754)	$ (501,794)	$ (1,461,975)	**$ (2,887,322)**	$ 259,912	$ 1,041,076	$ 1,263,761	$ (137,672)	**$ 2,427,077**	$ 777,266	$ (63,761)	$ 82,379	**$ 795,884**
Purchases of property and equipment	(60,381)	(39,584)	(45,333)	(107,737)	**(253,035)**	(98,015)	(141,741)	(109,811)	(148,356)	**(497,923)**	(81,001)	(110,278)	(167,327)	**(358,606)**
Change in other assets	(19,722)	(10,452)	(4,021)	(99,834)	**(134,029)**	(288)	(260)	(8,840)	1,957	**(7,431)**	(4,615)	(1,000)	(21,304)	**(26,919)**
Non-GAAP free cash flow	$ (459,902)	$ (593,790)	$ (551,148)	$ (1,669,546)	**$ (3,274,386)**	$ 161,609	$ 899,075	$ 1,145,110	$ (284,071)	**$ 1,921,723**	$ 691,650	$ (175,039)	$ (106,252)	**$ 410,359**

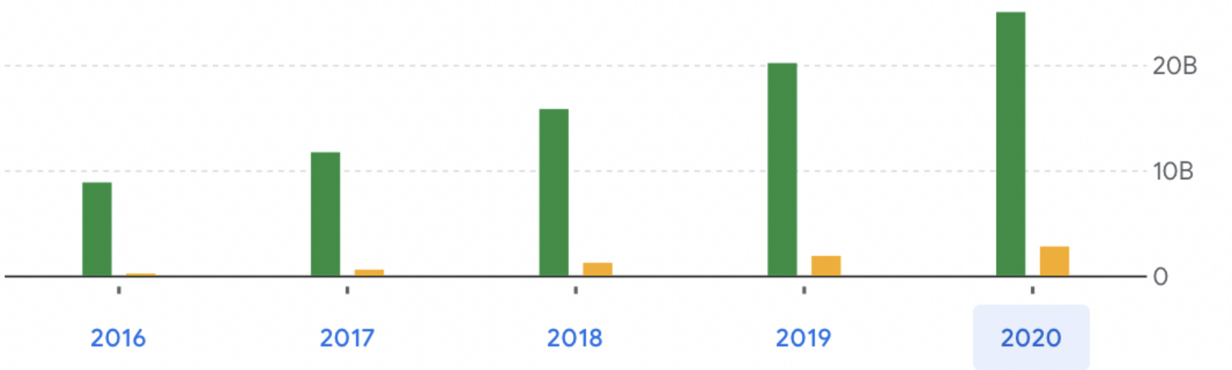
Netflix, Inc.
Streaming Revenue and Membership Information by Region
(unaudited)
(in thousands, except for average revenue per membership and percentages)

	As of / Three Months Ended March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019	As of / Year Ended December 31, 2019	As of / Three Months Ended March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020	As of / Year Ended December 31, 2020	As of / Three Months Ended March 31, 2021	June 30, 2021	September 30, 2021	As of / Nine Months Ended September 30, 2021
United States and Canada (UCAN)														
Revenues (1)	$ 2,256,851	$ 2,501,199	$ 2,621,250	$ 2,671,908	**$ 10,051,208**	$ 2,702,776	$ 2,839,670	$ 2,933,445	$ 2,979,505	**$ 11,455,396**	$ 3,170,972	$ 3,234,643	$ 3,257,697	**$ 9,663,312**
Paid net membership additions (losses)	1,876	(132)	613	548	**2,905**	2,307	2,935	177	855	**6,274**	448	(433)	73	**88**
Paid memberships at end of period	66,633	66,501	67,114	67,662	**67,662**	69,969	72,904	73,081	73,936	**73,936**	74,384	73,951	74,024	**74,024**
Average paying memberships	65,695	66,567	66,808	67,388	**66,615**	68,816	71,437	72,993	73,509	**71,689**	74,160	74,168	73,988	**74,105**
Average revenue per membership (2)	$11.45	$12.52	$13.08	$13.22	**$12.57**	$13.09	$13.25	$13.40	$13.51	**$13.32**	$14.25	$14.54	$14.68	**$14.49**
% change as compared to prior-year period	4%	12%	17%	17%	**13%**	14%	6%	2%	2%	**6%**	9%	10%	10%	**9%**
Constant currency % change as compared to prior-year period*	4%	13%	17%	17%	**13%**	14%	6%	3%	2%	**6%**	9%	9%	9%	**9%**
Europe, Middle East and Africa (EMEA)														
Revenues	$ 1,233,379	$ 1,319,087	$ 1,428,040	$ 1,562,561	**$ 5,543,067**	$ 1,723,474	$ 1,892,537	$ 2,019,083	$ 2,137,158	**$ 7,772,252**	$ 2,343,674	$ 2,400,480	$ 2,432,239	**$ 7,176,393**
Paid net membership additions	4,724	1,687	3,126	4,423	**13,960**	6,956	2,749	759	4,456	**14,920**	1,810	188	1,804	**3,802**
Paid memberships at end of period	42,542	44,229	47,355	51,778	**51,778**	58,734	61,483	62,242	66,698	**66,698**	68,508	68,696	70,500	**70,500**
Average paying memberships	40,180	43,386	45,792	49,567	**44,731**	55,256	60,109	61,863	64,470	**60,425**	67,603	68,602	69,598	**68,601**
Average revenue per membership (2)	$10.23	$10.13	$10.40	$10.51	**$10.33**	$10.40	$10.50	$10.88	$11.05	**$10.72**	$11.56	$11.66	$11.65	**$11.62**
% change as compared to prior-year period	-4%	-6%	1%	3%	**-1%**	2%	4%	5%	5%	**4%**	11%	11%	7%	**10%**
Constant currency % change as compared to prior-year period*	2%	3%	6%	7%	**4%**	4%	8%	3%	0%	**3%**	4%	2%	3%	**3%**
Latin America (LATAM)														
Revenues	$ 630,472	$ 677,136	$ 741,434	$ 746,392	**$ 2,795,434**	$ 793,453	$ 785,368	$ 789,384	$ 788,522	**$ 3,156,727**	$ 836,647	$ 860,882	$ 915,297	**$ 2,612,826**
Paid net membership additions	1,470	343	1,490	2,037	**5,340**	2,901	1,750	256	1,213	**6,120**	357	764	330	**1,451**
Paid memberships at end of period	27,547	27,890	29,380	31,417	**31,417**	34,318	36,068	36,324	37,537	**37,537**	37,894	38,658	38,988	**38,988**
Average paying memberships	26,812	27,719	28,635	30,399	**28,391**	32,868	35,193	36,196	36,931	**35,297**	37,716	38,276	38,823	**38,272**
Average revenue per membership (2)	$7.84	$8.14	$8.63	$8.18	**$8.21**	$8.05	$7.44	$7.27	$7.12	**$7.45**	$7.39	$7.50	$7.86	**$7.59**
% change as compared to prior-year period	-11%	-5%	8%	9%	**0%**	3%	-9%	-16%	-13%	**-9%**	-8%	1%	8%	**0%**
Constant currency % change as compared to prior-year period*	7%	12%	17%	18%	**13%**	12%	13%	5%	4%	**8%**	5%	2%	8%	**5%**
Asia-Pacific (APAC)														
Revenues	$ 319,602	$ 349,494	$ 382,304	$ 418,121	**$ 1,469,521**	$ 483,660	$ 569,140	$ 634,891	$ 684,609	**$ 2,372,300**	$ 762,414	$ 799,480	$ 834,002	**$ 2,395,896**
Paid net membership additions	1,534	801	1,543	1,748	**5,626**	3,602	2,657	1,012	1,988	**9,259**	1,361	1,022	2,176	**4,559**
Paid memberships at end of period	12,141	12,942	14,485	16,233	**16,233**	19,835	22,492	23,504	25,492	**25,492**	26,853	27,875	30,051	**30,051**
Average paying memberships	11,374	12,542	13,714	15,359	**13,247**	18,034	21,164	22,998	24,498	**21,674**	26,173	27,364	28,963	**27,500**
Average revenue per membership (2)	$9.37	$9.29	$9.29	$9.07	**$9.24**	$8.94	$8.96	$9.20	$9.32	**$9.12**	$9.71	$9.74	$9.60	**$9.68**
% change as compared to prior-year period	-2%	-1%	0%	-1%	**-1%**	-5%	-4%	-1%	3%	**-1%**	9%	9%	4%	**7%**
Constant currency % change as compared to prior-year period*	3%	5%	3%	0%	**3%**	-3%	1%	-1%	0%	**-1%**	3%	1%	2%	**2%**

(1) Excludes DVD revenues of $297 million, $239 million, $44 million and $140 million for the years ended December 31, 2019, 2020, and the three and nine months ended September 30, 2021, respectively. Total US revenues for the years ended December 31, 2019, 2020, and the three and nine months ended September 30, 2021 were $9.5 billion, $10.8 billion, $3.0 billion and $9.0 billion, respectively.
(2) Average revenue per membership (ARM) is defined as streaming revenue divided by the average number of streaming paid memberships divided by the number of months in the period. These figures do not include sales taxes or VAT.
* The company believes that constant currency information is useful in analyzing the underlying trends in average revenue per membership. In order to exclude the effect of foreign currency rate fluctuations on average revenue per membership, the Company estimates the current period revenue assuming foreign exchange rates had remained constant with foreign exchange rates from each of the corresponding months of the prior-year period.

Source: "Financial Statements." *Netflix Investors,* https://ir.netflix.net/financials/financial-statements/default.aspx.

Exhibit 2: Annual Financial Performance of Netflix (2016-2020)



(USD)	2020 ⓘ	Year/year change
● REVENUE	25.00B	↑24.01%
● NET INCOME	2.76B	↑47.91%
DILUTED EPS	6.08	↑47.22%
NET PROFIT MARGIN	11.05%	↑19.33%
OPERATING INCOME	4.59B	↑76.07%
NET CHANGE IN CASH	3.20B	↑159.39%
CASH ON HAND	8.21B	↑63.51%
COST OF REVENUE	15.28B	↑22.80%

Source: "Netflix Inc (NFLX) Stock Price & News." ***Google Finance*****, Google, https://www.google.com/finance/quote/NFLX:NASDAQ?sa**

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