#### October 16, 2018

#### Fellow shareholders,

Our broad slate of original programming helped drive a solid quarter of growth with streaming revenue increasing 36% year over year and global membership surpassing 130 million paid and 137 million total. We're thrilled to be growing internet entertainment across the globe.

(in millions except per share data and Streaming Content Obligations)		Q3'17		Q4'17		Q1'18	(	Q2'18	Q3'18	Q4'18		
										Fo	recast	
Total (Including DVD):												
Revenue	\$	2,985	\$	3,286	\$	3,701	\$	3,907	\$ 3,999	\$	4,199	
Y/Y % Growth		30.3%		32.6%		40.4%		40.3%	34.0%		27.8%	
Operating Income	\$	209	\$	245	\$	447	\$	462	\$ 481		205	
Operating Margin		7.0%		7.5%		12.1%		11.8%	12.0%		4.9%	
Net Income	\$	130	\$	186	\$	290	\$	384	\$ 403	\$	105	
Diluted EPS	\$	0.29	\$	0.41	\$	0.64	\$	0.85	\$ 0.89	\$	0.23	
Total Streaming:												
Revenue	\$	2,875	\$	3,181	\$	3,602	\$	3,814	\$ 3,911	\$	4,114	
Y/Y % Growth		33.2%		35.3%		43.2%		42.8%	36.0%		29.3%	
Paid Memberships		104.02		110.64		118.90		124.35	130.42		138.02	
Paid Net Additions		4.99		6.62		8.26		5.45	6.07		7.60	
Total Memberships		109.25		117.58		125.00		130.14	137.10		146.50	
Net Additions		5.30		8.33		7.41		5.15	6.96		9.40	
US Streaming:												
Revenue	\$	1,547	\$	1,630	\$	1,820	\$	1,893	\$ 1,937	\$	1,995	
Contribution Profit	\$	554	\$	561	\$	697	\$	740	\$ 762	\$	663	
Contribution Margin		35.8%		34.4%		38.3%		39.1%	39.3%		33.2%	
Paid Memberships		51.35		52.81		55.09		55.96	56.96		58.46	
Paid Net Additions		1.02		1.47		2.28		0.87	1.00		1.50	
Total Memberships		52.77		54.75		56.71		57.38	58.46		60.26	
Net Additions		0.85		1.98		1.96		0.67	1.09		1.80	
International Streaming:												
Revenue	\$	1,327	\$	1,550	\$	1,782	\$	1,921	\$ 1,973	\$	2,119	
Contribution Profit (Loss)	\$	62	\$	135	\$	272	\$	298	\$ 338	\$	211	
Contribution Margin		4.7%		8.7%		15.3%		15.5%	17.1%		10.0%	
Paid Memberships		52.68		57.83		63.82		68.39	73.46		79.56	
Paid Net Additions		3.97		5.16		5.98		4.58	5.07		6.10	
Total Memberships		56.48		62.83		68.29		72.76	78.64		86.24	
Net Additions		4.45		6.36		5.46		4.47	5.87		7.60	
Consolidated:												
Net cash (used in) operating activities	\$	(420)	\$	(488)	\$	(237)	\$	(518)	\$ (690)			
Free Cash Flow	\$	(465)	\$	(524)	\$	(287)	\$	(559)	\$ (859)			
EBITDA	\$	273	\$	313	\$	534	\$	563	\$ 584			
Shares (FD)		447.4		448.1		450.4		451.6	451.9			
Streaming Content Obligations* (\$B)		17.0		17.7		17.9		18.4	18.6			

\*Corresponds to our total known streaming content obligations as defined in our financial statements and related notes in our most recently filed SEC Form 10-K



## **Q3** Results and **Q4** Forecast

Streaming revenue grew 36% year over year in Q3, as average paid membership increased 25% and ASP rose 8%. International revenue included a -\$90 million year over year impact from currency. Excluding the impact of F/X, international ASP rose 11% year over year and 2% sequentially.

Operating margin expanded 500 bps year over year to 12%. This exceeded our forecast of 10.5% due to the timing of content and marketing spend, a portion of which moved into Q4. EPS of \$0.89 vs. \$0.29 last year included an \$8 million non-cash unrealized gain from F/X remeasurement on our Eurobond and a \$38 million tax benefit related to adjustments to the transition tax on the repatriation of foreign earnings and the remeasurement of certain deferred tax assets (both related to true-ups from the 2017 US tax reform).

As a reminder, the quarterly guidance we provide is our internal forecast at the time we report and we strive for accuracy in our forecast. This means in some quarters we will be high and other quarters low relative to our guidance. This quarter, we under-forecasted memberships. Total net additions of 7.0m (up 31% vs. 5.3m last year) was higher than our forecast of 5.0m, and represented a new Q3 record. The variance relative to forecast was due to greater-than-expected acquisition globally, with strong growth broadly across all our markets including Asia.

For Q4, we forecast paid net additions of 7.6m, and total net additions of 9.4m, up 15% and 13% compared with 6.6m and 8.3m in Q4 last year. We're still targeting operating margin to be at the lower end of the 10%-11% range for the full year 2018. This means that in Q4 we expect operating margin will dip to 5% from 7.5% in the year ago quarter. As we have written in previous letters, this sequential decline in operating margin in the second half of 2018 is due to the timing of content spend and a higher mix of original films in Q4'18 (film amortization is more accelerated than series amortization due to more front-loaded viewing). We would have preferred our operating margin to have been a little steadier over the course of the year, and we will target a little less quarterly variance next year in our progress to our full year target of 13% (assuming no major FX moves).

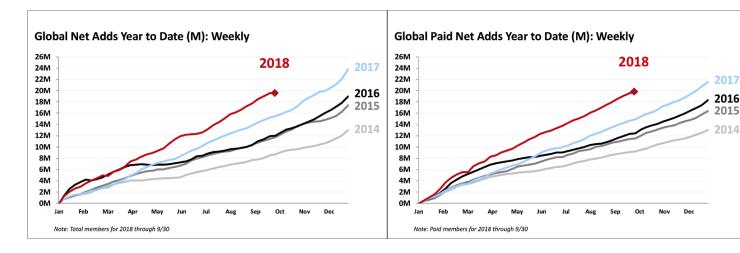
Next quarter, we expect to reclassify certain personnel costs from G&A to Content and Marketing, and from Technology & Development to Other Cost of Revenues. This change would reflect the ongoing evolution of our business to include self-production of content. A growing number of employees are becoming involved in developing content as we migrate to self-produce more of our content vs. only licensing original and non-original content. We expect to make the same change with marketing and other tech employee costs to maintain consistency in approach. The change would result in a comprehensive view of our total spending on content and marketing. This reclassification would have no impact on total operating expenses, operating profit or operating margin. If enacted, we will provide quarterly pro-formas so investors will see the change cleanly.

## **Evolving to Paid Membership Focus**

The chart below illustrates our weekly *paid* net additions (on the right) and *total* net additions (on the left, which includes paid + free) over the last several years. Paid net adds are more steady, as total net additions can be skewed by free trials of varying quality. This skew adds noise to our membership



forecasts in a way that isn't material to revenue or the business. In comparison, paid net adds are a more reliable indicator of revenue growth.



Because growth in paid memberships is more steady, our forecast for paid net adds has been historically more accurate than our total net adds forecast. For example in Q2'18, our paid net adds forecast was off by 11% compared to a 17% variance for total net adds forecast. In addition, we are learning that no free trial may result in greater revenue in some markets, so free trial count at the end of a quarter will likely be a less insightful predictor of future growth than in the past.

As a result, starting with our earnings report in January 2019, we'll only guide to paid memberships; a year after that, in 2020, we'll cease reporting on end-of-quarter free trial count. We will show the weekly paid net adds graph, as above on the right, in each earnings letter going forward. We expect this additional disclosure will be helpful to your understanding of our business, in particular, how steady our paid membership growth is in the near term.

## **Content**

We have three major categories of content: licensed non-first-window content such as *Shameless*, licensed original first-window content such as *Orange is the New Black* (owned and developed by Lionsgate), and now owned original first-window content from the Netflix studio, such as *Stranger Things*. Within those categories there are lots of subdivisions and per-territory treatments, but those are the big three buckets.

It was just two years ago when we began building the third category: a film and TV studio within Netflix. Some of our notable owned-titles in addition to *Stranger Things* include: *Big Mouth, The Ranch, Bright, Godless, The Kissing Booth, 3%, Dark, Sacred Games* and *Nailed It.* In addition to reducing our reliance on outside studios, this initiative provides us with greater control over the content we create (e.g., long term global rights), the ability to strengthen title-brand-love and franchise value (like consumer products) and potentially lower costs (as we can avoid the markup 3rd party studios charge us). To do this, we've had to develop new capabilities to manage the entire production process from creative support, production planning, crew and vendor management to visual effects, to name a few.



Today, we employ hundreds of people in physical production, working on a wide variety of owned titles spread across scripted and unscripted series, kids, international content, standup, docs and feature films from all over the world. To support our efforts, we'll need more production capacity; we recently announced the selection of <u>Albuquerque</u>, <u>New Mexico</u> as the site of a new US production hub, where we anticipate bringing \$1 billion dollars in production over the next 10 years and creating up to 1,000 production jobs per year. Our internal studio is already the single largest supplier of content to Netflix (on a cash basis).

We strive to offer a wide breadth of programming because we want to maximize the size of our membership base and people have very diverse tastes that we seek to satisfy. This also reduces our dependence on any individual title. Even our largest titles, which are viewed by tens of millions of our members, only account for a low single digit percentage of total streaming hours. Therefore, the vast majority of our growth in any given quarter is not attributable to any one piece of content, as you can see by the steadiness in our paid net additions.

This past quarter, in original series, we launched new seasons of *Orange is the New Black, Ozark, Marvel's Luke Cage* and debuted *Insatiable*. Late in the quarter, we released *Maniac*, a limited series starring Emma Stone and Jonah Hill. We have also been ramping up our animated adult comedy offering. In Q3, we successfully premiered *Disenchantment*, from Matt Groening who created *The Simpsons* and *Futurama*, and *Paradise PD*, from the makers of *Brickleberry*, to complement *Big Mouth, Bojack Horseman* and *F is for Family*.

We also continue to expand our international originals, with projects spanning India, Mexico, Spain, Italy, Germany, Brazil, France, Turkey and throughout the Middle East to just name a few. In India, our hit series *Sacred Games* was followed up by *Ghoul* in late August. *La Casa de las Flores*, our latest Mexican original, has become a big hit.

As part of our <u>Summer of Love</u> and building on the success of *Set It Up* and *The Kissing Booth*, we released original films *Like Father* (starring Kristen Bell and Kelsey Grammer in a daughter-father dramedy), *Sierra Burgess Is a Loser* (starring *Stranger Things'* Barb, Shannon Purser) and *To All the Boys I've Loved Before*, which is one of our most viewed original films ever with strong repeat viewing. More than 80 million accounts have watched one or more of the *Summer of Love* films globally and we are already in production for the next set of original rom-coms for our members.

This December, we'll be launching <u>ROMA</u>, from Oscar-winning director Alfonso Cuarón. We support simultaneous release in cinema and on Netflix, and the film will debut on Netflix and on over 100 screens worldwide, just as we are doing currently with <u>22 July</u>, from Oscar-nominated director Paul Greengrass. We believe in our member-centric simultaneous release model for our original films and welcome additional theatre chains that are open to carrying our films to provide the shared-viewing, big-screen experience to their customers who enjoy that option.

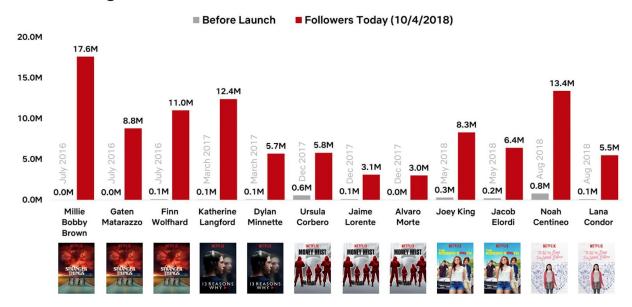
We've come a long way in the five years since launching original content on Netflix. In addition to our commercial success, we're ecstatic when the creators we work with are recognized for their inspiring work. This year, Netflix originals led with 112 Emmy nominations spanning 40 of our shows, docs and



specials across nearly every category and we're humbled to have tied HBO with the most number of Emmy wins with 23.

We're also thrilled that Netflix has been a launching pad for a new generation of global stars like Millie Bobby Brown, Jacob Elordi, Noah Centineo and Gaten Matarazzo. When our service helps our talent develop huge fan bases (from small followings to over 10 million Instagram followers), we can attract the best talent in the world. This explosive growth in popularity is a good indicator that our shows and stars are breaking out around the planet.

## Instagram Followers Before and After Netflix Launches



#### More EU content

The European Union is currently rewriting its audio visual rules, which will eventually require subscription streaming services to devote a minimum of 30% of their catalog to European works. In addition, some member states are looking to require services like ours to invest some portion of local revenues into European works. We anticipate being able to meet these requirements by evolving our content offering.

We are heavily investing around the world to share stories broadly and to strengthen local production capacity and opportunity. We'd prefer to focus on making our service great for our members, which would include producing local content, rather than on satisfying quotas, but we anticipate that a regional content quota which approximates the region's share of our global membership will only marginally reduce member satisfaction. Nonetheless, quotas, regardless of market size, can negatively impact both the customer experience and creativity. We believe a more effective way for a country to support strong local content is to directly incentivize local content creators, independent of distribution channel.



## **Product and Partnerships**

We continue to expand our partnerships with pay TV providers, ISPs and mobile operators across the globe. In Q3, we rolled out the first mobile bundle in Japan with KDDI and expanded our partnership with Verizon to pre-install the Netflix app on Android phones. In Q4, we plan to roll out our previously announced partnership with Sky UK.

## Competition

We compete for entertainment time with linear TV, YouTube, video gaming, web browsing, social media, DVD and PPV, and more. In that competition for screen hours, we lose most of the time, but we win enough to keep growing.

As internet entertainment grows, more companies see the large opportunity. Content companies such as WarnerMedia and Disney/Fox are moving to self-distribute their own content; tech firms like Apple, Amazon and others are investing in premium content to enhance their distribution platforms. Amid these massive competitors on both sides, plus traditional media firms, our job is to make Netflix stand out so that when consumers have free time, they choose to spend it with our service.

Within linear TV, New Fox appears to have a great strategy, which is to focus on large simultaneous-viewing sports and news. These content areas are not transformed by on-demand viewing and personalization in the way that TV series and movies are, so they are more resistant to the rise of the internet. Other linear networks are likely to follow this model over time.

## **Free Cash Flow**

Free cash flow in Q3 was -\$859 million vs. -\$465 million in the year ago quarter. As a reminder, our growing mix of self-produced content, which requires us to fund content during the production phase prior to its release on Netflix, is the primary driver of our working capital needs that creates the gap between our positive net income and our free cash flow deficit.

We anticipate that FCF will be closer to -\$3 billion than to -\$4 billion for the full year 2018. We expect our quarterly FCF deficit will increase sequentially from Q3 to Q4 as our year to date FCF is -\$1.7 billion. We currently see next year's negative FCF as roughly flat with this year.

We recognize we are making huge cash investments in content, and we want to assure our investors that we have the same high confidence in the underlying economics as our cash investments in the past. These investments we see as very likely to help us to keep our revenue and operating profits growing for a very long time ahead.

## Reference

For quick reference, our eight most recent investor letters are: <u>July 2018</u>, <u>April 2018</u>, <u>January 2018</u>, <u>October 2017</u>, <u>July 2017</u>, <u>April 2017</u>, <u>January 2017</u>, <u>October 2016</u>.



# October 16, 2018 Earnings Interview, 3pm PST

Our video interview with Eric Sheridan of UBS will be on <a href="mailto:youtube/netflixir">youtube/netflixir</a> at 3pm PST today. Questions that investors would like to see asked should be sent to <a href="mailto:eric.sheridan@ubs.com">eric.sheridan@ubs.com</a>. Reed Hastings, CEO, David Wells, CFO, Ted Sarandos, Chief Content Officer, Greg Peters, Chief Product Officer and Spencer Wang, VP of IR/Corporate Development will all be on the video to answer Eric's questions.

#### **IR Contact:**

Spencer Wang VP, Finance/IR & Corporate Development 408 809-5360

#### PR Contact:

Richard Siklos VP, Corporate Communications 408 540-2629

#### Use of Non-GAAP Measures

This shareholder letter and its attachments include reference to the non-GAAP financial measure of free cash flow and EBITDA. Management believes that free cash flow and EBITDA are important liquidity metrics because they measure, during a given period, the amount of cash generated that is available to repay debt obligations, make investments and for certain other activities or the amount of cash used in operations, including investments in global streaming content. However, these non-GAAP measures should be considered in addition to, not as a substitute for or superior to, net income, operating income, diluted earnings per share and net cash provided by operating activities, or other financial measures prepared in accordance with GAAP. Reconciliation to the GAAP equivalent of these non-GAAP measures are contained in tabular form on the attached unaudited financial statements.

#### Forward-Looking Statements

This shareholder letter contains certain forward-looking statements within the meaning of the federal securities laws, including statements regarding reclassification of personnel costs and its impact on financials; revenue impact of no free trials; impact of our Albuguergue, NM production hub; internal studio as supplier of content; expansion of international originals; content launches, including simultaneous release in theatre and on Netflix; our ability to adapt to changing content laws in Europe; partnerships; competition; content spend and strategy, including outside the US and impact on future growth; resistance to internet competition for certain linear TV strategies; domestic and international net, total and paid membership; revenue; contribution profit (loss) and contribution margin for both domestic international operations, as well as consolidated operating income, operating margins; net income, earnings per share and free cash flow. The forward-looking statements in this letter are subject to risks and uncertainties that could cause actual results and events to differ, including, without limitation: our ability to attract new members and retain existing members; our ability to compete effectively; maintenance and expansion of device platforms for streaming; fluctuations in consumer usage of our service; service disruptions; production risks; actions of Internet Service Providers; and, competition, including consumer adoption of different modes of viewing in-home filmed entertainment. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our filings with the



Securities and Exchange Commission, including our Annual Report on Form 10-K, as amended by Form 10-K/A, filed with the Securities and Exchange Commission on February 5, 2018. The Company provides internal forecast numbers. Investors should anticipate that actual performance will vary from these forecast numbers based on risks and uncertainties discussed above and in our Annual Report on Form 10-K, as amended by Form 10-K/A. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this shareholder letter.



## **Consolidated Statements of Operations**

(unaudited)

(in thousands, except per share data)

		1	hre	e Months Ende	Nine Months Ended						
	Se	ptember 30, 2018		June 30, 2018	Se	ptember 30, 2017	S	eptember 30, 2018	Se	ptember 30, 2017	
Revenues	\$	3,999,374	\$	3,907,270	\$	2,984,859	\$	11,607,500	\$	8,406,958	
Cost of revenues		2,412,346		2,289,867		1,992,980		6,898,288		5,552,312	
Marketing		435,269		526,780		312,490		1,441,271		858,083	
Technology and development		327,026		317,213		255,236		944,969		779,427	
General and administrative		344,065		311,197		215,526		933,513		623,760	
Operating income		480,668		462,213		208,627		1,389,459		593,376	
Other income (expense):											
Interest expense		(108,862)		(101,605)		(60,688)		(291,686)		(162,912)	
Interest and other income (expense)		7,004		68,028		(31,702)		9,289		(76,473)	
Income before income taxes		378,810		428,636		116,237		1,107,062		353,991	
Provision for (benefit from) income taxes		(24,025)		44,287		(13,353)		29,754		(19,421)	
Net income	\$	402,835	\$	384,349	\$	129,590	\$	1,077,308	\$	373,412	
Earnings per share:	-										
Basic	\$	0.92	\$	0.88	\$	0.30	\$	2.48	\$	0.87	
Diluted	\$	0.89	\$	0.85	\$	0.29	\$	2.39	\$	0.84	
Weighted-average common shares outstanding:											
Basic		435,809		435,097		432,404		435,033		431,473	
Diluted		451,919		451,552		447,362		451,283		446,367	



## **Consolidated Balance Sheets**

	As of				
	Se	eptember 30, 2018		December 31, 2017	
Assets					
Current assets:					
Cash and cash equivalents	\$	3,067,534	\$	2,822,795	
Current content assets, net		4,987,916		4,310,934	
Other current assets		674,531		536,245	
Total current assets		8,729,981		7,669,974	
Non-current content assets, net		13,408,443		10,371,055	
Property and equipment, net		371,152		319,404	
Other non-current assets		856,653		652,309	
Total assets	\$	23,366,229	\$	19,012,742	
Liabilities and Stockholders' Equity					
Current liabilities:					
Current content liabilities	\$	4,613,011	\$	4,173,041	
Accounts payable		441,427		359,555	
Accrued expenses		527,079		315,094	
Deferred revenue		716,723		618,622	
Total current liabilities		6,298,240		5,466,312	
Non-current content liabilities		3,593,823		3,329,796	
Long-term debt		8,336,586		6,499,432	
Other non-current liabilities		127,927		135,246	
Total liabilities		18,356,576		15,430,786	
Stockholders' equity:					
Common stock		2,215,736		1,871,396	
Accumulated other comprehensive loss		(14,508)		(20,557)	
Retained earnings		2,808,425		1,731,117	
Total stockholders' equity		5,009,653		3,581,956	
Total liabilities and stockholders' equity	\$	23,366,229	\$	19,012,742	



#### **Consolidated Statements of Cash Flows**

	TI			e Months Ende	<u></u>			Nine Mon	nths Ended		
	Se	otember 30, 2018		June 30, 2018		eptember 30, 2017	Sep	otember 30, 2018	Se	ptember 30, 2017	
Cash flows from operating activities:											
Net income	\$	402,835	\$	384,349	\$	129,590	\$	1,077,308	\$	373,412	
Adjustments to reconcile net income to net cash used in operating activities:											
Additions to streaming content assets		(3,238,717)		(3,033,721)		(2,315,017)		(9,259,185)		(7,328,104)	
Change in streaming content liabilities		65,868		288,474		(34,587)		733,227		846,560	
Amortization of streaming content assets		1,911,767		1,817,817		1,627,477		5,478,428		4,483,954	
Amortization of DVD content assets		9,959		11,154		13,259		32,247		48,368	
Depreciation and amortization of property, equipment and intangibles		21,161		19,736		19,238		59,938		52,838	
Stock-based compensation expense		82,316		81,232		44,763		231,943		133,679	
Other non-cash items		8,962		13,921		9,896		31,092		43,081	
Foreign currency remeasurement loss (gain) on long-term debt		(7,670)		(85,410)		50,830		(52,000)		115,050	
Deferred taxes		(39,453)		(9,539)		(57,090)		(71,041)		(104,556	
Changes in operating assets and liabilities:											
Other current assets		(30,364)		(25,564)		(41,399)		(111,833)		(147,000	
Accounts payable		(4,449)		7,733		34,029		77,367		10,590	
Accrued expenses		134,000		(52,851)		74,006		200,198		119,506	
Deferred revenue		18,983		23,848		32,947		98,101		94,777	
Other non-current assets and liabilities		(25,609)		40,582		(7,549)		28,803		(40,146	
Net cash used in operating activities		(690,411)		(518,239)		(419,607)		(1,445,407)		(1,297,991	
Cash flows from investing activities:											
Acquisition of DVD content assets		(7,731)		(12,552)		(10,217)		(31,079)		(43,213	
Purchases of property and equipment		(39,333)		(27,323)		(33,963)		(103,826)		(151,717	
Change in other assets		(121,630)		(441)		(1,107)		(123,857)		(2,940	
Purchases of short-term investments		_		`		(2,799)				(74,819	
Proceeds from sale of short-term investments		_		_		250,278		_		320,154	
Proceeds from maturities of short-term investments		_		_		_		_		22,705	
Net cash provided by (used in) investing activities		(168,694)		(40,316)		202,192	_	(258,762)		70,170	
Cash flows from financing activities:	_						_		_		
Proceeds from issuance of debt		_		1,900,000		_		1,900,000		1,420,510	
Debt issuance costs		_		(16,992)		(312)		(16,992)		(15,325	
Proceeds from issuance of common stock		29,781		26,936		34,669		113,052		73,673	
Other financing activities		(544)		(532)		65		(1,397)		189	
Net cash provided by financing activities	_	29,237	_	1,909,412	_	34,422	_	1,994,663	_	1,479,047	
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	_	(5,562)	_	(36,340)	_	10,685		(34,725)		27,667	
Net increase (decrease) in cash, cash equivalents, and restricted cash		(835,430)		1,314,517		(172,308)		255,769		278,893	
Cash, cash equivalents, and restricted cash at beginning of period		3,913,994		2,599,477		1,918,777		2,822,795		1,467,576	
Cash, cash equivalents, and restricted cash at end of period	\$	3,078,564	\$	3,913,994	\$	1,746,469	\$	3,078,564	\$	1,746,469	
cash, cash equivalents, and restricted cash at end of period	÷		=		÷		<u> </u>		_		
	Se	September 30, 2018		e Months Ender June 30, 2018	_	eptember 30, 2017	Nine Mo September 30, 2018			ended ptember 30, 2017	
Non-GAAP free cash flow reconciliation:  Net cash used in operating activities	\$	(690,411)	ς .	(518,239)	ς .	(419,607)	Ś	(1,445,407)	\$	(1,297,991	
Acquisition of DVD content assets	Ţ	(7,731)	Ţ	(12,552)	Ţ	(10,217)	Ÿ	(31,079)	Ţ	(43,213	
Purchases of property and equipment		(39,333)		(27,323)		(33,963)		(103,826)		(151,717	
Change in other assets		(121,630)		(441)		(1,107)		(103,820)		(2,940	
•	ċ		ć		ċ		ċ		Ċ		
Non-GAAP free cash flow	\$	(859,105)	<u> </u>	(558,555)	<u>&gt;</u>	(464,894)	\$	(1,704,169)	\$	(1,495,861	



## **Segment Information**

		As of / Three Months Ended							As of/ Nine Months Ended				
		Sep	otember 30, 2018		June 30, 2018	Sep	otember 30, 2017	Se	ptember 30, 2018	September 30, 2017			
Dom	estic Streaming												
	Paid net membership additions		998		872		1,022		4,147		3,440		
	Paid memberships at end of period		56,957		55,959		51,345		56,957		51,345		
	Total memberships at end of period		58,464		57,379		52,772		58,464		52,772		
	Revenues	\$	1,937,314	\$	1,893,222	\$	1,547,210	\$	5,650,555	\$	4,522,751		
	Cost of revenues		991,823		925,703		864,408		2,812,399		2,445,858		
	Marketing		183,521		227,961		128,901		639,504		357,547		
	Contribution profit		761,970		739,558		553,901		2,198,652		1,719,346		
Inter	rnational Streaming												
	Paid net membership additions		5,070		4,580		3,965		15,631		11,493		
	Paid memberships at end of period		73,465		68,395		52,678		73,465		52,678		
	Total memberships at end of period		78,635		72,762		56,476		78,635		56,476		
	Revenues	\$	1,973,283	\$	1,921,144	\$	1,327,435	\$	5,676,513	\$	3,538,862		
	Cost of revenues		1,383,422		1,324,240		1,081,485		3,966,471		2,946,414		
	Marketing		251,748		298,819		183,589		801,767		500,536		
	Contribution profit		338,113		298,085		62,361		908,275		91,912		
Dom	estic DVD												
	Paid memberships at end of period		2,828		2,971		3,520		2,828		3,520		
	Total memberships at end of period		2,852		2,999		3,569		2,852		3,569		
	Revenues	\$	88,777	\$	92,904	\$	110,214	\$	280,432	\$	345,345		
	Cost of revenues		37,101		39,924		47,087		119,418		160,040		
	Contribution profit		51,676		52,980		63,127		161,014		185,305		
Cons	solidated												
	Revenues	\$	3,999,374	\$	3,907,270	\$	2,984,859	\$	11,607,500	\$	8,406,958		
	Cost of revenues		2,412,346		2,289,867		1,992,980		6,898,288		5,552,312		
	Marketing		435,269		526,780		312,490		1,441,271		858,083		
	Contribution profit		1,151,759		1,090,623		679,389		3,267,941		1,996,563		
	Other operating expenses		671,091		628,410		470,762		1,878,482		1,403,187		
	Operating income		480,668		462,213		208,627		1,389,459		593,376		
	Other expense		(101,858)		(33,577)		(92,390)		(282,397)		(239,385)		
	Provision for (benefit from) income taxes		(24,025)		44,287		(13,353)		29,754		(19,421)		
	Net income	\$	402,835	\$	384,349	\$	129,590	\$	1,077,308	\$	373,412		



## Non-GAAP Information

	Sep	September 30, 2017		ecember 31, 2017	March 31, 2018	June 30, 2018	Se	ptember 30, 2018
Non-GAAP Adjusted EBITDA reconciliation:								
GAAP net income	\$	129,590	\$	185,517	\$ 290,124	\$ 384,349	\$	402,835
Add:								
Other expense		92,390		113,973	146,962	33,577		101,858
Provision for (benefit from) income taxes		(13,353)		(54,187)	9,492	44,287		(24,025)
Depreciation and amortization of property, equipment and intangibles		19,238		19,073	19,041	19,736		21,161
Stock-based compensation expense		44,763		48,530	68,395	81,232		82,316
Adjusted EBITDA	\$	272,628	\$	312,906	\$ 534,014	\$ 563,181	\$	584,145

