Letter to Our Employees, Investors, Shareholders:

The streaming wars have presented challenges to all companies that partake in this market, and no one is immune to the everchanging conditions; given the difficult environment, we are pleased to have delivered strong results thus far and hope to continue doing so. Through a constant emphasis on the core Netflix culture values of independent decision-making, sharing and being candid with coworkers, being effective, and avoiding rules, we continue to successfully execute our market strategy. Like all strategies within an everchanging market, at some point or another a shift is needed. In order to prevent another company from disrupting us, we must, once again, disrupt ourselves in several different aspects.

Where We’ve Been: What we are doing with our company is really nothing different than what we have done to grow our company since 1997. We are staying true to our proven business model and company culture by disrupting the status quo.

Where We Are Heading

<table>
<thead>
<tr>
<th>1 Partnerships</th>
<th>2 Original Content</th>
<th>3 Virtual Reality</th>
<th>4 Revenue Stream</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce new partnerships with Verizon and Delta Airlines</td>
<td>Re-invest money into original content creation</td>
<td>Disrupt the physical way people watch content by introducing virtual reality into home entertainment</td>
<td>Continue with single revenue stream with a backup option</td>
</tr>
</tbody>
</table>

1 Partnerships

No one streaming company is able to stand alone without some other form of income or partnerships. Companies such as Hulu, Amazon, Apple, and Disney are all entering the streaming world with different partnerships and strategies, making them to be the first companies that could disrupt us. They could disrupt us in the bundles they offer or the ways in which they allow people to stream their content. They also could disrupt because they have income from other revenues that could be used to get their streaming services off the ground and more advanced quicker.

There are a multitude of companies I examined when deciding who we should move forward with a partnership on, and I think Verizon and Delta Airlines would be the best course of action.
I have chosen Verizon for various reasons, but the main one is that this company provides the opportunity for the most growth. A partnership with Verizon can look like many different things, when I envision it. The first is that Netflix can come predownloaded on all devices they sell, as well as providing a subscription for a year with the purchase of a new device. This is something we have done with Verizon in the past, so making this a consistent offer would increase exposure to Netflix.

Partnering with Verizon also allows us to make streaming on a mobile device a better experience. We could use the Verizon network to better stream videos to phones and other devices that do not require Wifi. I think that this would set us above our competitors, as no one has mastered the art of streaming without a consistent Wifi connection. When thinking about the usage of their network, that’s when I thought Delta Airlines would also be a good third partner to add. This is because people watch a lot of content when in flight and having a small selection of Netflix originals on the flight could increase exposure of Netflix. It would also be nice if Delta Airlines could offer that people start streaming a Netflix movie or show while waiting to board a plane, and then they could continue that streaming in flight.

2 Original Content

It is no secret that Netflix’s original content has received heavy criticism for its quality, considering the large budget we have set aside for it. You may have thought I would suggest ceasing all original content creation and focus on a new venture for the company; however, we should rethink the way we use the money we have allocated in this budget. I am going to ask our human resources department to hire a combination of people who would succeed in a traditional Hollywood studio as well as people who match our company culture. I want our human resources team to actively reach out to producers who have created phenomenal series or movies and ask them if they are genuinely happy with whoever they are contracted by. If not, see how they could fit into Netflix. Combining different types of people with different strengths should increase the quality of our original content thus increasing the positive reviews we receive on the content. Once we have established ourselves in the space of creating original content, we could change our subscription service to cost additional money for our original content.

Using the three-box solution proposed by Vijay Govindarajan, I do not want the company to abandon its attempts at creating original content, but instead to forget what hasn’t worked in the past and try new approaches to this. Also, in alignment with this thought process, if we find that this new approach is not producing the results we want, we can abandon this part of our venture. It is important for us to use the data we have on our previous original content to make conscious decisions of where we take this part of the company. Within the next two years, we should have hired a new team to create this content as well as have several ideas that can be tested within focus groups for different shows and movies.

3 Virtual Reality

Twenty-two years ago, Netflix disrupted the way people consume tv shows and movies in a way no one predicted. The way people consume this media has been consistent for a few years,
leaving this market open to being disrupted. The physical way in which people stream could be and is on the verge of being disrupted. I am convinced that virtual reality will at one point disrupt merely sitting on a couch watching a screen. Because of this I am asking our financial team to put more money into research the feasibility of virtual reality being within home entertainment. Currently this market does not have one large company that holds majority of the share, making it easy for us to disrupt another market. Small companies such as Unity Technologies, Within, and Livelike hold different parts of the market. Perhaps, acquiring Within and using their technology to help create virtual reality content would set us apart from our competitors. Because Within has already created a product and produced short-films, they have completed the design-thinking process. We could add them into our company, test how it works with our company culture, and proceed to expand on this venture or find an alternative route.

Once research and development has taken place with virtual reality and we have a final product we are willing to put in stores, our partnership with Verizon will come into play, again. We will be able to partner with Verizon in creating the technology needed to add virtual reality into home entertainment and have it sold in their stores. I think having a demo of what the entertainment system would look like in a home is key to having people actually wanting to purchase for their own home. We could start by selling the virtual reality system only through Verizon for the first year or two, then offer it to be sold in other stores.

4 Revenue Stream

Now you may be thinking, “Ok Reed where are we going to get all of this money for all of these new ventures?” First, nothing is concrete and set in stone. These are all ideas I have for the company, and in sharing them with you all, I am asking for you to help me make them come to life. I do recognize that we are a single revenue stream company, and I do not foresee that changing any time in the near future. Yes, I am talking about the elephant in the room, ads. If we would get into financial trouble, we could always sell the data we have collected on our subscribers. You may be thinking that that is going to cause a whole host of problems; however, I think only selling data to Verizon and companies we partner with would be the best route. We could also not sell all data, but only certain points. I also think data could be sold to producers and creators within Netflix, so that they are more able to create shows that people will really want to watch.

Our goal is to partner with the right people, hire the right people, and produce content our consumers will enjoy. We want to respond and anticipate our customers’ needs and wants. We have continuously disrupted the market we are in becoming the lead company within it. These ideas will help us to continue to stay in this position. Together we can make all of these ideas come to life. Some may work; some may flop. We must continue to succeed in what we are doing well in now, forget what worked in the past but may no longer work, and think about where we want to go in the future.

Sincerely,

Reed Hastings