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POWERED BY NETFLIX

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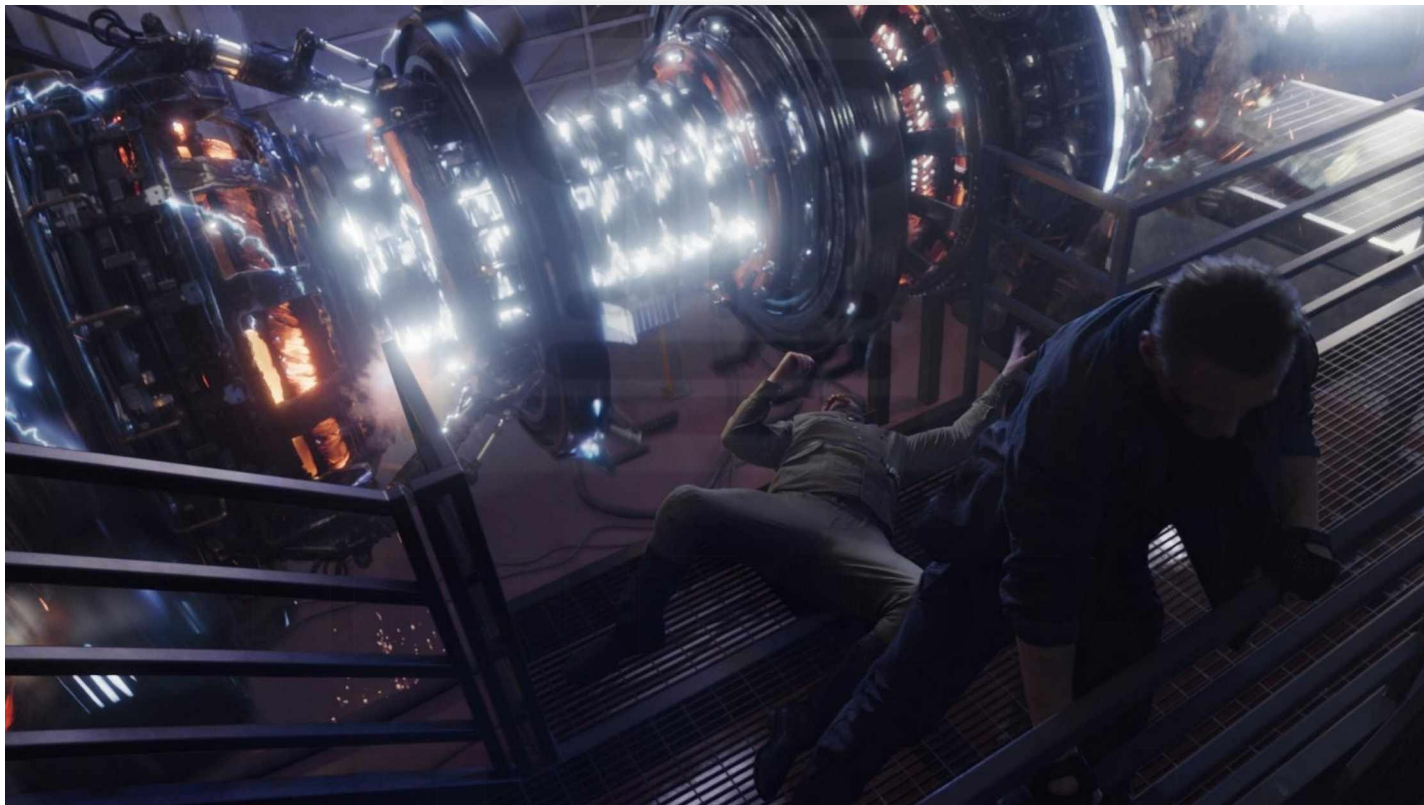
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NETFLIX**EXHIBIT**
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Bringing More VFX Magic to Our Members With the Acquisition of Scanline VFX

**Amy Reinhard**

VP of Studio Operations

Business · 22 November 2021

Global

Canada

United Kingdom (Great Britain)

South Korea (Republic of Korea)

Germany

From the interstellar landscape of *Cowboy Bebop* and the ravenous vampires of *Blood Red Sky* to the exploding underground reactor in *Stranger Things 3*, we want to surprise and delight our members by pushing the boundaries of visual effects. So we're pleased to announce today our plans to acquire Scanline VFX, one of the most creative and innovative VFX studios in the world.*

Scanline was founded in 1989 and is now led by Stephan Trojansky, a trailblazing VFX Supervisor whose proprietary fluid rendering system Flowline won an Academy Award for Technical Achievement in 2008. The company has offices in Vancouver, Montreal, Los Angeles, London, Munich, Stuttgart, and Seoul.

Scanline is known for its complex, photorealistic effects and expertise in virtual production. It's also done an extraordinary job of supporting our creators on everything from the above-mentioned VFX achievements to those in upcoming titles like *Don't Look Up*, *The Gray Man*, *Slumberland*, *The Adam Project* and *Stranger Things 4*.

Netflix will invest in Scanline's pipeline, infrastructure and workforce and continue to support the pioneering work that Scanline's Eyeline Studios is doing in virtual production to push the boundaries of what is visibly possible.

<https://web.archive.org/web/20211122213954/https://about.netflix.com/en/news/bringing-more-vfx-magic-to-our-members-with-scanline-vfx>



increase in ARM on a F/X neutral basis. We still target a 19%-20% operating margin for the full year 2022, assuming no material swings in F/X rates from when we set this goal in January of 2022.

Cash Flow and Capital Structure

Net cash generated by operating activities in Q1 was \$923 million vs. \$777 million in the prior year period. Free cash flow³ amounted to \$802 million vs. \$692 million. We continue to expect to be free cash flow positive for the full year 2022 and beyond.

During the quarter, we completed two acquisitions (leading visual effects company [Scanline](#) and gaming studio [Boss Fight Entertainment](#)), which had a -\$125 million impact on cash. We also announced our purchase of Helsinki-based gaming company [Next Games](#). We've completed the tender offer and expect to complete the transaction in the second half of 2022.

We finished Q1 with gross debt of \$14.6 billion after repaying \$700 million of our senior notes. We're now within the top end of our gross debt target range of \$10-\$15 billion. With cash of \$6.0 billion, net debt was \$8.6 billion at the end of the quarter, equating to a 1.3x LTM leverage ratio⁴. Given those uses of cash and our minimum cash target, we didn't engage in share repurchase activity during the quarter.

Environmental, Social, and Governance (ESG)

We recently published our [2021 ESG Report](#) (March 30, 2022). We've made good progress on our [climate commitments](#) announced last year - reducing or avoiding more than 14,000 metric tons of emissions in 2021. This enabled us to reduce our Scope 1 and 2 footprint by more than 10% from what it otherwise would have been and puts us on track to cut 45% of these emissions by 2030.

We continue to develop our inclusion lens. In 2021, women made up 51.7% of our global workforce⁵, up from 48.7% in 2020. Half of our US workforce (50.5%) is made up of people from one or more historically excluded ethnic and/or racial backgrounds, including Asian, Black, Hispanic or Latino, Middle Eastern, Native American, and Pacific Islander⁶. That's up from 46.8% in the previous year. The number of US Black employees increased from 8.6% to 10.7% and Black leadership increased from 10.9% to 13.3%. The number of US Hispanic or Latino employees increased from 7.9% to 8.6%, and US Hispanic or Latino leadership grew slightly from 4.3% to 4.4%.

As noted in our last investor letter and our [2022 preliminary proxy](#), the board has decided to recommend to shareholders that Netflix evolve to a more standard large cap company governance structure. At this year's annual meeting in June, we'll present proposals to declassify our board, remove supermajority

³ For a reconciliation of free cash flow to net cash provided by (used in) operating activities, please refer to the reconciliation in tabular form on the attached unaudited financial statements and the footnotes thereto.

⁴ Defined as net debt divided by last twelve months (LTM) adjusted EBITDA (Net income before interest expense and other income/expense, income taxes, depreciation and amortization of property, plant and equipment and further adjusted to exclude other non-cash charges).

⁵ 2020 numbers as of December 2020, and 2021 numbers as of December 2021.

⁶ Categories based on US reporting requirements.

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https://s22.g4cdn.com/959853165/files/doc_financials/2022/q1/FINAL-Q1-22-Shareholder-Letter.pdf