

Investment Stewardship

Vote Bulletin: Netflix, Inc.

Company	Netflix, Inc. (NASDAQ: NFLX)
Market and Sector	United States, Communication Services
Meeting Date	June 2, 2022
Key Resolutions ¹	<p>Item 1a: Elect Director Timothy Haley</p> <p>Item 1d: Elect Director Ann Mather</p> <p>Item 6: Advisory Vote to Ratify Named Executive Officers' Compensation</p> <p>Item 8: Report on Lobbying Payments and Policy (Shareholder proposal)</p>
Key Topics	Corporate political activities, executive compensation
Board Recommendation	The board recommends shareholders vote FOR Items 1a, 1d, 6, and AGAINST Item 8
BlackRock Vote	BlackRock voted AGAINST Items 1a, 1d, 6 and voted FOR Item 8

Overview

Netflix, Inc. (Netflix) is one of the world's largest entertainment services companies.

BlackRock Investment Stewardship (BIS) has engaged with Netflix on a range of corporate governance and sustainable business matters that we believe contribute to the company's ability to deliver the durable, long-term shareholder returns on which our clients depend to meet their financial goals, including board effectiveness, shareholder rights, human capital management, executive compensation and corporate political activities disclosures.

On the ballot at Netflix's 2022 annual general meeting (AGM) were two shareholder proposals along with several management-proposed items for shareholder consideration. In addition to the proposals discussed in the section below, several of the management-proposed items respond to shareholder feedback, including from BlackRock, provided to the company in engagements following the 2021 AGM. BIS welcomes the company's responsiveness and the corporate governance enhancements proposed and therefore voted in support of management's plans to:

- Declassify the board: The Netflix board will eliminate the classified board structure and provide for annual election of directors, to be phased in through 2025 (Item 2);
- Eliminate supermajority voting provisions (Item 3);

¹ Netflix, Inc., "2022 Proxy Statement".

- Introduce a stockholder right to call a special meeting (20% “net long position”) (Item 4).

Rationale for BlackRock’s vote

Item 1a: Elect Director Timothy Haley (AGAINST)

Item 6: Advisory Vote to Ratify Named Executive Officers’ Compensation (AGAINST)

We have concerns about the company’s executive compensation practices, particularly the monthly flexibility for individuals to allocate any portion of their designated compensation amount toward stock options or cash. As a result, BIS did not support management’s say on pay proposal. We also determined to not support the re-election of Director Timothy Haley, a member of the Compensation Committee, to escalate our concern about this pay practice, which we do not believe aligns executives’ and shareholders’ long-term financial interests.

As discussed in our commentary, [Incentives aligned with value creation](#), we believe companies benefit from disclosing how their compensation policies and outcomes are consistent with the financial interests of long-term shareholders. Any situation where there may be perceived or actual misalignment should be explained in detail and justified in terms of how it serves the interests of long-term shareholders.

Netflix has a unique compensation program which includes allowing executives to choose between cash and stock options, the use of options without specified vesting criteria and a lack of stock ownership guidelines. Notably, the company made changes to the 2021 compensation program by removing all guardrails, thus providing executives even more flexibility in determining the structure of their incentive pay.²

At the 2021 AGM, management’s say on say proposal narrowly passed with just 50.7% support, demonstrating significant shareholder concern about the company’s compensation philosophy. However, despite the low level of shareholder support, Netflix has not responded with any changes to its executive compensation plan.

As a result of our continuing concerns about the company’s pay practices and the lack of responsiveness to the vote outcome in 2021, we did not support the say on pay proposal or the re-election of one of the directors on the Compensation Committee.

Item 1d: Elect Director Ann Mather (AGAINST)

BIS did not support the re-election of Director Ann Mather because we consider her to be overcommitted per our [U.S. proxy voting guidelines](#). Mather serves on five public company boards, which we believe may limit her ability to effectively fulfil her responsibilities on each board.

We believe that sound corporate governance — underpinned by a capable, well-functioning board — is integral to our clients’ long-term financial interests in the companies we invest in on their behalf. BIS has long had a policy on director commitments, assessing whether directors have the time and capacity to be fully engaged in the work of each board.

As the role of directors is becoming more complex, it is important that directors have the capacity to meet all of their responsibilities — including when there are unforeseen events. Therefore, we believe that serving on an excessive number of boards could impair their ability to fulfill their duties to each board. Director overcommitment, or “over-boarding,” remains a key focus for BIS when engaging with companies. We encourage directors to have the necessary time and effort to advise and oversee management. We believe that when directors limit the number of boards on which they serve, they are more likely to have sufficient capacity to fulfill their responsibilities on each board. We appreciate when boards explain the time commitments expected

² Specifically, Netflix had previously required some equity alignment through a minimum 5% equity allocation on top of the allocatable compensation. In 2021, they removed that condition and added 5% back into allocatable compensation while also removing any minimum equity take.

of their directors and how they gain comfort with any commitments that board members may have to other companies or roles.

As we explain in our [U.S. proxy voting guidelines](#), we believe non-CEO directors are best able to fulfill their responsibilities when they serve on no more than four public company boards. Currently Ms. Mather serves on five public company boards. As a result, we did not support her re-election given our concerns about board overcommitments.

Item 10: Report on Lobbying Payments and Policy (FOR)

BIS supported this proposal because we believe that Netflix could make further progress on enhancing their disclosure of their corporate political activities.

The shareholder proposal requested that the company prepare an annual report disclosing Netflix's "1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications. 2. Payments by Netflix used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient. 3. Netflix's membership in and payments to any tax-exempt organization that writes and endorses model legislation. 4. Description of management's and the Board's decision-making process and oversight for making payments described in sections 2 and 3 above."³

As explained in our commentary on [Our perspective on corporate political activities](#), we look to companies that engage in political activities to develop, maintain, and disclose robust processes, including effective board oversight, to guide these activities and mitigate associated risks. It is helpful to investors' understanding if companies provide accessible and clear disclosures so that investors can easily understand how companies' political activities support their long-term strategy, including on their stated public policy priorities.

We acknowledge that in 2021 Netflix issued their first disclosure on corporate political activities, which, includes an explanation of how they engage in the public policy process, board oversight of those activities, links to their political contributions and filed lobbying contribution report, total amounts contributed to state, local and section 527 organizations, as well as trade associations of which Netflix is a member.⁴ However, we believe shareholders would benefit from Netflix making the information more readily accessible for stakeholders by disclosing a report directly on the company's website, as is best practice, rather than providing a link to governmental website databases'.

Accordingly, BIS supported the shareholder proposal seeking enhanced disclosure practices by Netflix on their corporate political activities. We did not consider the request made in the proposal to be unduly burdensome and believe the information would help investors better assess how Netflix manages the risks and benefits of engaging in the public policy process. Therefore, we believe it was in our clients' long-term financial interests to support this proposal.

³ Netflix, Inc., "2022 Proxy Statement".

⁴ Netflix, Inc. "[Political Activities Disclosures](#)".

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.⁵

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

contactstewardship@blackrock.com

This Vote Bulletin is provided for information and educational purposes only and does not constitute legal advice, a recommendation or an offer or solicitation to buy or sell the securities of any company. The information here is as of June 29, 2022. BlackRock has no obligation to provide any updates. Investing involves risk, including the loss of principal.

Prepared by BlackRock, Inc.

©2022 BlackRock, Inc. All rights reserved. BLACKROCK is a trademark of BlackRock, Inc., or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

⁵ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.