Council of Institutional Investors®
The voice of corporate governance

July 5, 2018

Jay C. Hoag, Lead Independent Director
Richard N. Barton, Member, Nominating & Governance Committee
Bradford L. Smith, Member, Nominating & Governance Committee
c/o David Hyman, General Counsel and Secretary
Netflix, Inc.
100 Winchester Circle
Los Gatos, CA 95032

Dear Messrs. Hoag, Barton, and Smith:

As in each of the last five years when Netflix has disregarded the results of shareholder votes, I am writing on behalf of the Council of Institutional Investors (CII) to inquire about how the board plans to respond to five shareholder proposals that won majority support at your annual meeting held June 6.

The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of public, corporate, and union employee benefit funds, and other employee benefit plans, foundations, and endowments with combined assets under management exceeding $3.5 trillion. Our member funds include major long-term shareholders with a duty to protect the retirement savings of millions of workers and their families.[1]

Once again, we find ourselves in a familiar predicament: Netflix shareholders owning a majority of outstanding shares have lent strong support to a series of proposals meant to enhance the company's corporate governance and shareholder value. Setting aside for a moment the substance of the proposals, CII policies, approved by CII members, have long held that boards should respond to shareholder proposals that win majority support by adopting the recommended actions.

As previously stated, CII members, who have been the proponents in many shareholder proposals at Netflix over the years, have long-term investment horizons and share the company's commitment to sustainable value creation. It is entirely counterproductive, therefore, to assume such an intensely and consistently defensive posture against them.

Regarding the substance of these proposals, Netflix must realize that it has become an outlier among large public companies. A proposal asking Netflix to provide shareholders access to the company's proxy received support from 58% of votes cast this year. 2018 marks the fourth consecutive year that this proposal has won majority support at Netflix. Proxy access is widely considered a corporate governance best practice, and in a few short years of congenial engagement between shareholders and boards, 68% of S&P 500 and 80% of S&P 100 companies have adopted proxy access.

A second proposal asking Netflix to replace any supermajority voting requirement in its charter and bylaws with a simple majority voting standard won support from 85% of votes cast. A third proposal seeking a majority voting standard in uncontested director elections earned 71% support. 2018 marks

[1] For more information about the Council of Institutional Investors (CII), including its members, please visit http://www.cii.org/members.

the fifth time in six years that shareholders have overwhelmingly backed both proposals.[2] CII policies emphatically embrace this electoral standard: "Directors in uncontested elections should be elected by a majority of the votes cast."[3] We believe that if a director nominee fails to win majority support in an uncontested election, it is inappropriate for that person to remain on the board, and most large-cap companies agree. Less than 10% of S&P 500 companies do not employ majority voting in uncontested director elections, and far fewer have so resisted persistent shareholder attempts to adopt it.

Two more governance-related resolutions won majority support this year: one proposing to amend the bylaws to allow shareholders to call special meetings earned 57% of votes cast and another asking for a right to act by written consent earned 52%. Additionally, a proposal to declassify the board and hold annual director elections received 60–90% of votes cast at six consecutive annual meetings between 2012 and 2017. Netflix shareholders, as the company's owners and providers of capital, deserve to have their consistently conveyed desires for higher governance standards seriously considered and addressed by the board.

Among American and global consumers alike, Netflix has become a household name revered for the revolutionary change and quality content it has brought to the entertainment industry. Among the investor community, conversely, Netflix has sadly earned itself a misanthropic reputation—a company that tells investors seeking productive engagement and value-enhancing corporate governance that they are not welcome.

In Netflix's critically-acclaimed original series *House of Cards,* Frank Underwood ascends to the presidency by inveigling his adversaries, professing honest intentions while pursuing his own opportunistic agenda. Much like Underwood's political casualties, Netflix shareholders are left wondering how the board can continually claim to act in their best interests while disregarding the results of their votes year after year.[4] Underwood's aside as he recites the oath of office that "democracy is so overrated" may provide a provocative plot point in a fictional political drama, but it is a poor precept to apply to public companies.

Please share this letter with the full board. We would appreciate a response and remain eager to engage on these issues further with you. Please contact me at ken@cii.org or (202) 261-7098, or CII Director of Research Glenn Davis at glenn@cii.org or (202) 261-7097, with any questions or to schedule a discussion.

Sincerely,

Ken Bertsch
Executive Director

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[2] The simple majority voting proposal won majority support in 2013, 2015, 2016, 2017, and 2018. The majority voting in director elections proposal won majority support in 2013, 2014, 2016, 2017, and 2018.

[3] Policies on Corporate Governance, section 2.2, Council of Institutional Investors, https://www.cii.org/corp_gov_policies.

[4] Underwood's experience also reinforces the enduring adage that "pride goeth before a fall."