

Say on Pay at Netflix, Inc.

December 2024

Company: Netflix, Inc. (Netflix)

Meeting date: June 6, 2024

Proposal(s): Item 3: Advisory Vote to Ratify Named Executive Officers' Compensation

How the funds voted

At the 2024 annual meeting of Netflix, Inc., an entertainment services company, the Vanguard-advised funds supported an advisory vote to approve the compensation of the company's executives ("Say on Pay").¹

The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds evaluate compensation plans on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. Compensation policies linked to long-term relative performance are fundamental drivers of sustainable, long-term returns for a company's investors. Providing effective disclosure of compensation policies, their alignment with company performance, and their outcomes is

crucial to giving shareholders confidence in the link between executives' incentives and rewards and the creation of long-term returns for shareholders. We do not believe there is a one-size-fits-all approach to executive compensation, as the norms and practices for executive compensation vary by industry type, company size, company maturity, and region.

The Vanguard-advised funds are more likely to support compensation plans in which a majority of executive compensation remains variable, or "at risk," with rigorous performance targets set well beyond the next quarter. Some of the key considerations that we evaluate when reviewing executive compensation include:

Alignment of pay and performance. The funds look for evidence of clear alignment between pay outcomes and company performance. This is mainly assessed through alignment of incentive targets with corporate strategy and analysis of three-year total shareholder return and realized pay over the same period vs. a relevant set of peer companies. If there are concerns that pay and performance are not aligned, a fund may vote against a pay-related proposal.

¹ Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

Pay plan structure. Plan structures should be aligned with the company's stated long-term strategy and should support pay-for-performance alignment. Where the funds have determined that a plan's structure has led to, or could in the future lead to, pay-for-performance misalignment, a fund may vote against a pay-related proposal. For compensation structures that are not typical of a market, the Vanguard-advised funds look for specific disclosure demonstrating how the structure supports long-term returns for shareholders.

Governance of pay plans. The funds look for boards to have a clear philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholder feedback over time. The funds also look for boards to explain these matters to shareholders via company disclosures. Where pay-related proposals consistently receive low support, the funds look for boards to seek to understand and respond to shareholder concerns.

Analysis and voting rationale

From 2019 to 2023, the Vanguard-advised funds did not support Say on Pay at Netflix. The funds also did not support the election of Compensation Committee members from 2020 to 2022 due to ongoing concerns related to the plan's structure. During this period, we engaged with independent directors and members of the Netflix management team to share our perspectives on the compensation plan's structure and governance. Specific feedback from the Vanguard Investment Stewardship team included concerns regarding the compensation

plan design, which consisted entirely of base salary and grants of fully vested option awards.

Before 2023, the compensation plan enabled executives to freely allocate their total compensation between cash and equity (in the form of stock options). In addition, none of these awards were contingent upon long-term performance goals linked to the company's stated strategy. This resulted in executives' compensation exceeding industry peers while lacking structural alignment with the company's relative performance in some years. In our engagements with directors and company leaders, we encouraged them to consider how to more fully align pay outcomes with relative company performance in both good and poor markets.

In analyzing Netflix's 2024 Say on Pay vote, we observed the implementation of the company's announced plan changes and noted additional enhancements that the company disclosed it planned to make in the following fiscal year. These changes included eliminating executives' ability to freely allocate compensation between cash and option grants, introducing a long-term incentive plan with time-restricted and performance-conditioned equity, integrating a relative performance metric within the long-term equity plan, and adopting stock ownership guidelines. These collective structural changes, in our assessment, would increase the proportion of at-risk pay and improve the degree of plan alignment with relative company performance.

After considering pay and performance alignment for the year in review, the company's implemented and planned structural changes, and the governance demonstrated by the Compensation Committee, the funds supported Say on Pay at Netflix's 2024 annual meeting.

Vanguard publishes information regarding its voting and engagement activities, including the funds' proxy voting policies, Insights, and quarterly reports, to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our effort to provide useful disclosure of Vanguard's investment stewardship activities. We aim to provide clarity on Vanguard's positions on governance matters beyond what a policy document or a single vote can provide.

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