Netflix (NASDAQ: NFLX) is expected to report earnings on April 18th after market close. Leading up to that release, investors have been weighing the potential for a continuation of the membership growth that was witnessed in the fourth quarter of 2023, after the company began cracking down on shared memberships and pushed its ad supported memberships. The move led to some compelling figures in Q4'23. The question now is can that growth continue?

In simplest terms, Netflix's initiatives seem to be working.Streaming is a competitive business, and one of the main concerns for Netflix has been its ability to continue driving membership growth as rivals like Disney (NYSE: DIS) and Paramount Global (NASDAQ: PARA) continue pushing for market share in streaming. For Netflix investors, that mounting competition hasn't damaged their investment over the last twelve months. Shares are up roughly 82%, and the impact of ad based memberships and crackdowns on password sharing appear to be working.

Global paid memberships increased 12.8% year over year in Q4 2023 to 260.28 million, compared to a 4% increase the year prior. Operating margins were a whopping 16.9% compared to margins of 7% in Q4'22, and earnings hit $2.11 per diluted share vs. earnings of $0.12 per diluted share in Q4 2022.

While these figures are great, what really encourages me is the continued positive forecasting. First quarter revenue is forecast to reach $9.24 billion; a 13.2% increase year over year, while operating margins are forecast to reach 26.2% compared to 21% in 2023. Forecasted net income of $1.98 billion would mark a 51% increase over Q1'23, and provide forecasted earnings of $4.49 per diluted share. That would represent almost 56% growth year over year.

The bull case

Looking at the full year, insights from the fourth quarter shareholder's letter gave us a clue as to what is expected:

"We enter 2024 with good momentum. We expect healthy double digit revenue growth for the full year 2024 on a F/X neutral basis driven by continued membership growth as well as improvement in F/X neutral ARM as we adjust prices."

Management further reiterated their intentions to continue building their ad business, which I ultimately feel is what will be necessary for all streamers if they wish to profitably gather up market share from more traditional forms of content.

As mentioned, the stock's performance over the last 12 months has been strong at 82%. For that kind of trend to continue, the subscriber story is arguably the most important metric. Continued membership growth will feed every other metric like revenue, earnings, etc. The other most important thing in my eyes is whether the company can continue to figure out advertising. Ad related plans give Netflix something that counterparts like Hulu and Parmount+ take advantage of on the regular.

Netflix continues to drive new content, while seemingly putting a better focus on creating the best environment for increasing total membership growth and engagement.

Current analyst estimates for 2024 are calling for earnings of $17.21 per share. That would give Netflix a valuation of a little over 35x forward full year earnings on a price-to-earnings basis. That is well below the 5 year average of 62x earnings listed on Ycharts. If the company can report solid membership growth, coupled with earnings that are in line with expectations, this stock could have room to run.