

## Netflix, Inc.

## Crowning the king in streaming

Reiterate Rating: BUY | PO: 585.00 USD | Price: 481.24 USD

## Victory in the streaming wars

It is becoming increasingly clear that Netflix has won the “streaming wars.” Over the last 18 months, changing market dynamics, investor focus on profitability, and the various talent strikes have led several media companies to re-evaluate their streaming aspirations. These changes (e.g., reducing content spend/output, increasing third-party licensing) have been a tacit acknowledgement that not all media companies will be able to achieve Netflix’s global reach and scale in streaming. Overall, we believe that this is a win-win for the industry and Netflix. For Netflix, the availability to purchase third-party content will likely drive additional efficiencies with its content spend going forward as the company no longer needs to finance as much higher-risk new production and can supplement more concentrated “bets” with well-known established content. Notably, the recent top 10 list from Netflix has been dominated by third-party content, underscoring the high hit rate that this content has on its platform.

## Still an opportunity in password sharing and AVOD

We believe that there is still runway from NFLX’s crackdown on password sharing near term and the advertising video on demand (AVOD) opportunity (medium and long term). At the \$6.99 price point, the ad-supported tier provides an attractive low-priced option for “borrowers” who still wish to access the Netflix service. In our view, the broader crackdown on password sharing will be an accelerant to NFLX’s ad-supported tier. Just recently, Netflix announced that it has 23mn active users on the ad-supported tier, up from 15mn in November and 5mn in May. We continue to be bullish on the longer-term opportunity in AVOD as 1) NFLX’s pricing strategy should drive scale and 2) new bundling agreements (e.g., NFLX/Max) lower the retail price for consumers and decrease marketing spend and churn for Netflix.

## Adjust our forecasts for FX

We adjust our forecasts to reflect updated FX. We now project 4Q revenue of \$8.79bn (versus \$8.69bn previously) and operating income (OI) of \$1.22bn (versus \$1.16bn previously). We also adjust our CY24 revenue/OI to \$39.5/\$9.2bn (from \$39.2/\$9.0bn). Notably, our net add forecasts of +9mn in 4Q and +19.7mn in CY24 are unchanged.

## Reiterate Buy and \$585 PO

We reiterate our Buy rating and raise our price objective (PO) to \$585 (from \$525). Our PO is based on 23x our revised CY25E EBITDA forecast (from 24.8x prev.) as we roll our valuation basis to 2025. Substantial FCF generation should help drive shareholder returns (NFLX increased its buyback authorization for an additional \$10bn in October). Supported by its world-class brand, leading global subscriber base, and position as an innovator, we believe that Netflix is poised to outperform and reiterate our Buy rating.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	11.24	9.95	12.17	17.81	22.59
EPS Change (YoY)	84.9%	-11.5%	22.3%	46.3%	26.8%
Consensus EPS (Bloomberg)			12.24	16.01	19.65
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	43.8x	49.5x	40.4x	27.6x	21.8x
EV / EBITDA*	35.6x	38.2x	32.4x	23.8x	19.3x
Free Cash Flow Yield*	-0.1%	0.8%	3.0%	2.5%	4.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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Timestamp: 17 January 2024 05:00AM EST

17 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	525.00	585.00
2023E Rev (m)	33,582.6	33,677.4
2024E Rev (m)	39,198.7	39,505.0
2025E Rev (m)	43,882.6	44,493.1
2023E EPS	12.05	12.17
2024E EPS	17.42	17.81
2025E EPS	21.80	22.59
2023E EBITDA (m)	6,978.4	7,038.0
2024E EBITDA (m)	9,378.3	9,575.0
2025E EBITDA (m)	11,399.5	11,791.1

**Jessica Reif Ehrlich**  
Research Analyst  
BofAS  
+1 646 855 2921  
[jessica.reif@bofa.com](mailto:jessica.reif@bofa.com)

**Brent Navon, CFA**  
Research Analyst  
BofAS  
+1 646 855 3827  
[brent.navon@bofa.com](mailto:brent.navon@bofa.com)

**Peter Henderson**  
Research Analyst  
BofAS  
+1 646 855 4564  
[peter2.henderson@bofa.com](mailto:peter2.henderson@bofa.com)

**David Plaus**  
Research Analyst  
BofAS  
+1 646 855 1572  
[david.plaus@bofa.com](mailto:david.plaus@bofa.com)

## Stock Data

Price	481.24 USD
Price Objective	585.00 USD
Date Established	17-Jan-2024
Investment Opinion	C-1-9
52-Week Range	285.33 USD - 503.41 USD
Mkt Val (mn) / Shares Out (mn)	215,408 USD / 437.7
Free Float	98.6%
Average Daily Value (mn)	2034.47 USD
BofA Ticker / Exchange	NFLX / NAS
Bloomberg / Reuters	NFLX US / NFLX.OQ
ROE (2023E)	26.0%
Net Dbt to Eqty (Dec-2022A)	44.3%
ESGMeter™	Medium

ESGMeter is not indicative of a company’s future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research’s equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to “BofA ESGMeter Methodology”.

# iQprofile<sup>SM</sup> Netflix, Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.8%	13.2%	15.0%	19.9%	22.0%
Return on Equity	38.0%	24.5%	26.0%	32.7%	32.5%
Operating Margin	20.9%	17.8%	19.8%	23.3%	25.6%
Free Cash Flow	(132)	1,619	6,557	5,330	8,894

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.1x	0.5x	1.3x	0.7x	1.0x
Asset Replacement Ratio	2.5x	1.2x	1.0x	1.3x	1.3x
Tax Rate	12.4%	14.7%	11.7%	12.0%	12.0%
Net Debt-to-Equity Ratio	59.1%	44.3%	35.3%	20.1%	0.2%
Interest Cover	8.1x	8.0x	9.6x	13.9x	18.2x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	29,698	31,616	33,677	39,505	44,493
% Change	18.8%	6.5%	6.5%	17.3%	12.6%
Gross Profit	12,365	12,447	13,391	17,275	20,064
% Change	27.2%	0.7%	7.6%	29.0%	16.1%
EBITDA	6,403	5,970	7,038	9,575	11,791
% Change	36.2%	-6.8%	17.9%	36.0%	23.1%
Net Interest & Other Income	(354)	(369)	(474)	(238)	(195)
<b>Net Income (Adjusted)</b>	<b>5,116</b>	<b>4,492</b>	<b>5,479</b>	<b>7,889</b>	<b>9,855</b>
<b>% Change</b>	<b>85.3%</b>	<b>-12.2%</b>	<b>22.0%</b>	<b>44.0%</b>	<b>24.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	5,116	4,492	5,479	7,889	9,855
Depreciation & Amortization	208	337	360	372	397
Change in Working Capital	(242)	(758)	486	(1,960)	(640)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(4,690)	(2,044)	603	(500)	(212)
Capital Expenditure	(525)	(408)	(371)	(471)	(507)
<b>Free Cash Flow</b>	<b>-132</b>	<b>1,619</b>	<b>6,557</b>	<b>5,330</b>	<b>8,894</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>305.1%</b>	<b>-18.7%</b>	<b>66.9%</b>
Share / Issue Repurchase	(426)	36	(5,267)	(3,159)	(3,557)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(500)	(700)	0	(700)	(700)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	6,028	5,147	6,726	8,197	12,834
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	2,042	4,119	3,598	5,009	5,778
Property, Plant & Equipment	1,323	1,398	1,512	1,611	1,721
Other Non-Current Assets	35,191	37,930	37,252	36,282	34,925
<b>Total Assets</b>	<b>44,585</b>	<b>48,595</b>	<b>49,088</b>	<b>51,099</b>	<b>55,258</b>
Short-Term Debt	700	0	400	400	400
Other Current Liabilities	7,789	7,931	8,419	6,486	5,235
Long-Term Debt	14,693	14,353	13,901	13,201	12,501
Other Non-Current Liabilities	5,553	5,533	4,934	4,168	3,248
<b>Total Liabilities</b>	<b>28,735</b>	<b>27,817</b>	<b>27,653</b>	<b>24,254</b>	<b>21,383</b>
<b>Total Equity</b>	<b>15,849</b>	<b>20,777</b>	<b>21,435</b>	<b>26,845</b>	<b>33,875</b>
<b>Total Equity &amp; Liabilities</b>	<b>44,585</b>	<b>48,595</b>	<b>49,088</b>	<b>51,099</b>	<b>55,258</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Entertainment

## Company Description

Netflix is a global leader in the streaming market offering a best-in-class subscription and advertising video on demand service to more than 238mn subscribers in over 190 countries. Netflix allows its subscribers to stream its deep library of high quality, original and licensed content on any internet-connected device including TVs, PC, and mobile devices.

## Investment Rationale

Supported by its world class brand, leading global subscriber base (>247mn) and position as a leading innovator, we believe Netflix is poised to outperform driven by four main catalysts: (1) a significant subscriber runway accelerated by the shift from linear to streaming, (2) the introduction of a value-oriented, ad-supported tier, which expands the total addressable market (TAM) and monetization, (3) a crackdown on password sharing, and (4) an inflection point in free cash flow.

## Stock Data

Average Daily Volume 4,133,767

## Quarterly Earnings Estimates

	2022	2023
Q1	3.53A	2.88A
Q2	3.20A	3.29A
Q3	3.10A	3.73A
Q4	0.12A	2.26E

**Exhibit 1: NFLX—Variance Table**

We modestly adjust our 4Q and 2024 forecasts to reflect updated FX trends

	Current Quarter							Current Year							Next Year						
Fiscal Year Ends 12/31	Guide	Act.	Est.		Old			Act.	New		Old			Est.	New		Old				
NFLX: BofAS Estimate Revisions	4Q23	4Q22A	4Q23E	Y/Y	4Q23E	Y/Y	D	2022A	2023E	Y/Y	2023E	Y/Y	D	2023E	2024E	Y/Y	2024E	Y/Y	D		
UCAN Net Adds		909	1,750	841	1,750	841	-	(919)	4,775	5,694	4,775	5,694	-	4,775	4,375	(400)	4,375	(400)	-		
EMEA Net Adds		3,195	3,500	305	3,500	305	-	2,693	10,531	7,838	10,531	7,838	-	10,531	5,575	(4,956)	5,575	(4,956)	-		
LATAM Net Adds		1,763	1,250	(513)	1,250	(513)	-	1,738	3,196	1,458	3,196	1,458	-	3,196	2,900	(296)	2,900	(296)	-		
APAC Net Adds		1,795	2,500	705	2,500	705	-	5,391	6,904	1,513	6,904	1,513	-	6,904	6,855	(49)	6,855	(49)	-		
TOTAL Net Adds		7,662	9,000	1,338	9,000	1,338	-	8,903	25,406	16,503	25,406	16,503	-	25,406	19,705	(5,701)	19,705	(5,701)	-		
TOTAL Subscribers		230,747	256,153	25,406	256,153	25,406	-	230,747	256,153	25,406	256,153	25,406	-	256,153	275,858	19,705	275,858	19,705	-		
UCAN ARM		\$16.23	\$16.91	4.2%	\$16.90	4.1%	\$0.01	\$15.87	\$16.35	3.0%	\$16.34	3.0%	\$0.00	\$16.35	\$17.52	7.2%	\$17.49	7.0%	\$0.04		
EMEA ARM		\$10.43	\$10.86	4.1%	\$10.64	2.0%	\$0.22	\$10.99	\$10.90	-0.8%	\$10.84	-1.3%	\$0.06	\$10.90	\$11.76	7.9%	\$11.34	4.5%	\$0.42		
LATAM ARM		\$8.30	\$8.65	4.2%	\$8.50	2.4%	\$0.15	\$8.48	\$8.67	2.2%	\$8.63	1.8%	\$0.04	\$8.67	\$8.74	0.9%	\$8.91	3.2%	-\$0.16		
APAC ARM		\$7.69	\$6.77	-12.0%	\$6.64	-13.6%	\$0.12	\$8.52	\$7.52	-11.7%	\$7.49	-12.1%	\$0.03	\$7.52	\$8.71	15.8%	\$8.47	13.1%	\$0.24		
Global Blended ARM		\$11.49	\$11.64	1.3%	\$11.51	0.2%	\$0.13	\$11.77	\$11.65	-1.0%	\$11.62	-1.3%	\$0.03	\$11.65	\$12.39	6.3%	\$12.29	5.8%	\$0.10		
Revenues																					
UCAN Streaming Revenue		\$3,594,791	\$3,966,994	10.4%	\$3,964,526	10.3%	\$2,468	\$14,084,643	\$14,910,220	5.9%	\$14,907,752	5.8%	\$2,468	\$14,910,220	\$17,173,583	15.2%	\$17,138,057	15.0%	\$35,526		
EMEA Streaming Revenue		\$2,350,135	\$2,785,168	18.5%	\$2,728,684	16.1%	\$56,484	\$9,745,015	\$10,558,125	8.3%	\$10,501,641	7.8%	\$56,484	\$10,558,125	\$12,494,470	18.3%	\$12,267,605	16.8%	\$226,864		
LATAM Streaming Revenue		\$1,016,846	\$1,148,157	12.9%	\$1,128,428	11.0%	\$19,729	\$4,069,973	\$4,438,595	9.1%	\$4,418,866	8.6%	\$19,729	\$4,438,595	\$4,827,788	8.8%	\$4,921,500	11.4%	-\$93,712		
APAC Streaming Revenue		\$856,711	\$886,643	3.5%	\$870,486	1.6%	\$16,156	\$3,570,221	\$3,687,655	3.3%	\$3,671,498	2.8%	\$16,156	\$3,687,655	\$5,009,169	35.8%	\$4,871,575	32.7%	\$137,594		
Global Streaming Revenue		\$7,818,483	\$8,786,962	12.4%	\$8,692,124	11.2%	\$94,838	\$31,469,852	\$33,594,595	6.8%	\$33,499,757	6.5%	\$94,838	\$33,594,595	\$39,505,010	17.6%	\$39,198,738	17.0%	\$306,273		
Domestic DVD Revenue		\$33,570	\$0	-100.0%	\$0	-100.0%	\$0	\$145,698	\$82,839	-43.1%	\$82,839	-43.1%	\$0	\$82,839	\$0	-100.0%	\$0	-100.0%	\$0		
TOTAL Revenue		\$8,692mn	\$7,852,053	\$8,786,962	\$8,786,962	\$8,692,124	\$8,692,124	\$94,838	\$31,615,550	\$33,677,434	6.5%	\$33,582,596	6.2%	\$94,838	\$33,677,434	\$39,505,010	17.3%	\$39,198,738	16.7%	\$306,273	
TOTAL Cost of Revenues		\$5,404,160	\$5,879,030	8.8%	\$5,861,953	8.5%	\$17,078	\$19,168,285	\$20,286,913	5.8%	\$20,269,836	5.7%	\$17,078	\$20,286,913	\$22,230,202	9.6%	\$22,182,523	9.4%	\$47,679		
TOTAL Gross Profit		\$2,447,893	\$2,907,932	18.8%	\$2,830,172	15.6%	\$77,760	\$12,447,265	\$13,390,521	7.6%	\$13,312,761	7.0%	\$77,760	\$13,390,521	\$17,274,809	29.0%	\$17,016,215	27.8%	\$258,594		
Y/Y Growth		-1%	19%	--	16%	--	3%	1%	8%	--	7%	--	-1%	8%	29%	--	28%	--	-1%		
Gross Margin		31%	33%	--	33%	--	1%	39%	40%	--	40%	--	0%	40%	43.7%	--	43.4%	--	0%		
Marketing		\$831,610	\$571,153	-31.3%	\$564,988	-32.1%	\$6,164	\$2,530,502	\$2,312,419	-8.6%	\$2,306,254	-8.9%	\$6,164	\$2,312,419	\$2,898,224	25.3%	\$2,876,864	24.7%	\$21,360		
Technology and Development		\$673,926	\$633,716	-6.0%	\$626,876	-7.0%	\$6,840	\$2,711,041	\$2,636,133	-2.8%	\$2,629,293	-3.0%	\$6,840	\$2,636,133	\$3,237,827	22.8%	\$3,212,456	22.2%	\$25,371		
General and Administrative		\$392,453	\$483,283	23.1%	\$478,067	21.8%	\$5,216	\$1,572,891	\$1,764,295	12.2%	\$1,759,079	11.8%	\$5,216	\$1,764,295	\$1,936,117	9.7%	\$1,920,880	9.2%	\$15,237		
EBITDA		\$643,291	\$1,309,684	103.6%	\$1,250,144	94.3%	\$59,540	\$5,969,513	\$7,037,958	17.9%	\$6,978,418	16.9%	\$59,540	\$7,037,958	\$9,574,974	36.0%	\$9,378,350	34.4%	\$196,625		
Depreciation and Amortization		\$93,387	\$89,903	-3.7%	\$89,903	-3.7%	\$0	\$336,682	\$360,283	7.0%	\$360,283	7.0%	\$0	\$360,283	\$372,334	3.3%	\$372,334	3.3%	\$0		
TOTAL Operating Income		\$1,160mn	\$549,904	\$1,219,781	\$1,219,781	\$1,160,241	\$1,160,241	\$59,540	\$5,632,831	\$6,677,675	18.5%	\$6,618,135	17.5%	\$59,540	\$6,677,675	\$9,202,640	37.8%	\$9,006,015	36.1%	\$196,625	
Y/Y Growth		-13%	122%	--	111%	--	11%	-9%	19%	--	17%	--	1%	19%	38%	--	36%	--	2%		
Operating Margin		13.30%	7%	14%	--	13%	--	18%	19.8%	--	20%	--	0%	20%	23.3%	--	23.0%	--	0%		
Net Income (Loss)		\$956mn	\$55,284	\$1,008,827	\$1,008,827	\$956,432	1630.0%	\$52,395	\$4,491,924	\$5,478,979	22.0%	\$5,426,584	20.8%	\$52,395	\$5,478,979	\$7,888,579	44.0%	\$7,715,549	42.2%	\$173,030	
EPS		\$2.15	\$0.12	\$2.26	\$2.26	\$1.748	4.4%	\$0.12	\$9.95	\$12.17	22.0%	\$12.05	21.1%	\$0.12	\$12.17	\$17.81	46.4%	\$17.42	44.6%	\$0.39	
FCF			\$332,265	\$1,212,426	NM	\$1,155,979	NM	\$56,447	\$1,618,528	\$6,556,793	305.1%	\$6,500,346	301.6%	\$56,447	\$6,556,793	\$5,330,178	-18.7%	\$5,161,683	-20.6%	\$168,495	
FCF/S			\$0.74	\$2.72	NM	\$2.59	NM	\$0.13	\$3.58	\$14.56	306.5%	\$14.43	303.0%	\$0.13	\$14.56	\$12.06	-17.1%	\$11.68	-19.0%	\$0.38	

Source: BofA Global Research

**Exhibit 2: NFLX—Income Statement**

We project 17% revenue growth in 2024

	2022					2023							
Fiscal Year Ends 12/31	2021A	Q1A	Q2A	Q3A	Q4A	2022A	Q1A	Q2A	Q3A	Q4E	2023E	2024E	2025E
<b>NFLX: Income Statement</b>	2021	2022.1	2022.2	2022.3	2022.4	2022	2023.1	2023.2	2023.3	2023.4	2023	2024	2025
	<b>\$29,697,84</b>					<b>\$31,615,55</b>					<b>\$33,677,43</b>	<b>\$39,505,01</b>	<b>\$44,493,13</b>
<b>Revenue</b>	<b>4</b>	<b>\$7,867,767</b>	<b>\$7,970,141</b>	<b>\$7,925,589</b>	<b>\$7,852,053</b>	<b>0</b>	<b>\$8,161,503</b>	<b>\$8,187,301</b>	<b>\$8,541,668</b>	<b>\$8,786,962</b>	<b>4</b>	<b>0</b>	<b>9</b>
Y/Y Growth	19%	10%	9%	6%	2%	6%	4%	3%	8%	12%	7%	17%	13%
	11.00%												
Cost of Revenues	\$17,332,683	\$4,284,705	\$4,690,755	\$4,788,665	\$5,404,160	\$19,168,285	\$4,803,625	\$4,673,470	\$4,930,788	\$5,879,030	\$20,286,913	\$22,230,202	\$24,429,473
as % of Revenues	58.4%	54.5%	58.9%	60.4%	68.8%	60.6%	58.9%	57.1%	57.7%	66.9%	60.2%	56.3%	54.9%
Marketing	\$2,545,146	\$555,978	\$574,960	\$567,954	\$831,610	\$2,530,502	\$555,362	\$627,168	\$558,736	\$571,153	\$2,312,419	\$2,898,224	\$3,043,231
as % of Revenues	8.6%	7.1%	7.2%	7.2%	10.6%	8.0%	6.8%	7.7%	6.5%	6.5%	6.9%	7.3%	6.8%
Technology and Development	\$2,273,885	\$657,530	\$716,846	\$662,739	\$673,926	\$2,711,041	\$687,275	\$657,983	\$657,159	\$633,716	\$2,636,133	\$3,237,827	\$3,490,531
as % of Revenues	7.7%	8.4%	9.0%	8.4%	8.6%	8.6%	8.4%	8.0%	7.7%	7.2%	7.8%	8.2%	7.8%
General and Administrative	\$1,351,621	\$397,928	\$409,297	\$373,213	\$392,453	\$1,572,891	\$400,924	\$401,497	\$478,591	\$483,283	\$1,764,295	\$1,936,117	\$2,135,831
as % of Revenues	4.6%	5.1%	5.1%	4.7%	5.0%	5.0%	4.9%	4.9%	5.6%	5.5%	5.2%	4.9%	4.8%
	<b>\$12,365,16</b>					<b>\$12,447,26</b>					<b>\$13,390,52</b>	<b>\$17,274,80</b>	<b>\$20,063,66</b>
<b>Gross Profit</b>	<b>1</b>	<b>\$3,583,062</b>	<b>\$3,279,386</b>	<b>\$3,136,924</b>	<b>\$2,447,893</b>	<b>5</b>	<b>\$3,357,878</b>	<b>\$3,513,831</b>	<b>\$3,610,880</b>	<b>\$2,907,932</b>	<b>1</b>	<b>9</b>	<b>6</b>
Y/Y Growth	27%	9%	-1%	-4%	-1%	1%	-6%	7%	15%	19%	8%	29%	16%
Gross Margin	41.6%	45.5%	41.1%	39.6%	31.2%	39.4%	41.1%	42.9%	42.3%	33.1%	39.8%	43.7%	45.1%
<b>Operating Income</b>	<b>\$6,194,509</b>	<b>\$1,971,626</b>	<b>\$1,578,283</b>	<b>\$1,533,018</b>	<b>\$549,904</b>	<b>\$5,632,831</b>	<b>\$1,714,317</b>	<b>\$1,827,183</b>	<b>\$1,916,394</b>	<b>\$1,219,781</b>	<b>\$6,677,675</b>	<b>\$9,202,640</b>	<b>\$11,394,07</b>
Y/Y Growth	35%	1%	-15%	-13%	-13%	-9%	-13%	16%	25%	122%	19%	38%	24%
Operating Margin	20.9%	25.1%	19.8%	19.3%	7.0%	17.8%	21.0%	22.3%	22.4%	13.9%	19.8%	23.3%	25.6%
<b>EBITDA</b>	<b>\$6,402,921</b>	<b>\$2,046,228</b>	<b>\$1,661,788</b>	<b>\$1,618,206</b>	<b>\$643,291</b>	<b>\$5,969,513</b>	<b>\$1,804,652</b>	<b>\$1,916,568</b>	<b>\$2,007,054</b>	<b>\$1,309,684</b>	<b>\$7,037,958</b>	<b>\$9,574,974</b>	<b>\$11,791,13</b>
Y/Y Growth	36.2%	2.5%	-11.9%	-11.4%	-7.5%	-6.8%	-11.8%	15.3%	24.0%	103.6%	17.9%	36.0%	23.1%
EBITDA Margin	21.6%	26.0%	20.9%	20.4%	8.2%	18.9%	22.1%	23.4%	23.5%	14.9%	20.9%	24.2%	26.5%
Interest Expense	(\$765,620)	(\$187,579)	(\$175,455)	(\$172,575)	(\$170,603)	(\$706,212)	(\$174,239)	(\$174,812)	(\$175,563)	(\$171,604)	(\$696,218)	(\$661,218)	(\$627,618)
Interest and Other Income	\$411,214	\$195,645	\$220,226	\$261,404	(\$339,965)	\$337,310	(\$71,204)	\$26,961	\$168,218	\$98,218	\$222,193	\$422,872	\$432,872
Income Before Income Taxes	\$5,840,103	\$1,979,692	\$1,623,054	\$1,621,847	\$39,336	\$5,263,929	\$1,468,874	\$1,679,332	\$1,909,049	\$1,146,394	\$6,203,649	\$8,964,294	\$11,199,327
Benefit From (Provision For) Income Taxes	(\$723,875)	(\$382,245)	(\$182,103)	(\$223,605)	\$15,948	(\$772,005)	(\$163,754)	(\$191,722)	(\$231,627)	(\$137,567)	(\$724,670)	(\$1,075,715)	(\$1,343,919)
Tax Rate (%)	12.4%	19.3%	11.2%	13.8%	-40.5%	14.7%	11.1%	11.4%	12.1%	12.0%	11.7%	12.0%	12.0%
<b>Net Income</b>	<b>\$5,116,228</b>	<b>\$1,597,447</b>	<b>\$1,440,951</b>	<b>\$1,398,242</b>	<b>\$55,284</b>	<b>\$4,491,924</b>	<b>\$1,305,120</b>	<b>\$1,487,610</b>	<b>\$1,677,422</b>	<b>\$1,008,827</b>	<b>\$5,478,979</b>	<b>\$7,888,579</b>	<b>\$9,855,408</b>
<b>Diluted Earnings per Share</b>	<b>\$11.24</b>	<b>\$3.53</b>	<b>\$3.20</b>	<b>\$3.10</b>	<b>\$0.12</b>	<b>\$9.95</b>	<b>\$2.88</b>	<b>\$3.29</b>	<b>\$3.73</b>	<b>\$2.26</b>	<b>\$12.17</b>	<b>\$17.81</b>	<b>\$22.59</b>
Y/Y Growth	85%	-6%	8%	-3%	-91%	-11%	-18%	3%	20%	1748%	22%	46%	27%
Diluted Weighted Average Shares Outstanding	455,321	452,984	450,169	450,344	451,649	451,239	452,417	451,572	450,011	445,877	450,235	442,845	436,327

Source: BofA Global Research

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**Exhibit 3: NFLX—FCF Statement**

We project over \$6bn in FCF in 2023

	2022					2023							
Fiscal Year Ends 12/31	2021A	Q1A	Q2A	Q3A	Q4A	2022A	Q1A	Q2A	Q3A	Q4E	2023E	2024E	2025E
NFLX: Free Cash Flow (FCF) Derivation	2021	2022.1	2022.2	2022.3	2022.4	2022	2023.1	2023.2	2023.3	2023.4	2023	2024	2025
FCF Derivation													
+ Net Cash Provided By (Used In) Operating Activities	\$392,610	\$922,839	\$102,750	\$556,810	\$443,858	\$2,026,257	\$2,178,740	\$1,440,232	\$1,992,315	\$1,316,355	\$6,927,642	\$5,801,360	\$9,400,299
- Purchases of Property and Equipment	\$524,585	\$121,158	\$90,018	\$84,960	\$111,593	\$407,729	\$62,019	\$100,972	\$103,929	\$103,929	\$370,849	\$471,182	\$506,520
+ Change in Other Assets	\$26,919	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
= FCF	(\$158,894)	\$801,681	\$12,732	\$471,850	\$332,265	\$1,618,528	\$2,116,721	\$1,339,260	\$1,888,386	\$1,212,426	\$6,556,793	\$5,330,178	\$8,893,778
FCF/S	(\$0.35)	\$1.77	\$0.03	\$1.05	\$0.74	\$3.58	\$4.68	\$2.97	\$4.20	\$2.72	\$14.56	\$12.06	\$20.39
Y/Y Growth	-108%	17%	-107%	-549%	-159%	-1126%	164%	10386%	301%	270%	307%	-17%	69%
Leverage Statistics													
Total Debt	\$15,392,895	\$14,534,561	\$14,233,303	\$13,888,117	\$14,353,076	\$14,353,076	\$14,437,128	\$14,469,538	\$14,300,368	\$14,300,368	\$14,300,368	\$13,600,368	\$12,900,368
- Cash and Cash Equivalents	\$6,027,804	\$6,008,946	\$5,819,449	\$6,113,733	\$5,147,176	\$5,147,176	\$6,714,594	\$7,662,788	\$7,353,245	\$6,725,502	\$6,725,502	\$8,196,966	\$12,834,096
= Net Debt	\$9,365,091	\$8,525,615	\$8,413,854	\$7,774,384	\$9,205,900	\$9,205,900	\$7,722,534	\$6,806,750	\$6,947,123	\$7,574,866	\$7,574,866	\$5,403,402	\$66,272
Debt/TTM EBITDA	2.3x	2.3x	2.2x	2.2x	2.4x	2.4x	2.4x	2.5x	2.4x	2.2x	2.2x	1.4x	1.1x
Net Debt/TTM EBITDA	1.4x	1.3x	1.3x	1.2x	1.5x	1.5x	1.3x	1.2x	1.2x	1.2x	1.2x	0.6x	0.0x
TTM EBITDA	\$6,693,352	\$6,402,921	\$6,453,552	\$6,229,276	\$6,021,976	\$6,021,976	\$5,969,513	\$5,727,937	\$5,982,717	\$6,371,565	\$6,371,565	\$9,501,256	\$11,287,610

Source: BofA Global Research

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Netflix, Inc. (NFLX)

Our \$585 price objective is based on 23x our CY2025E EBITDA. We use DCF as a cross check, which assumes an approximate 6% terminal growth rate and 11% WACC. We believe a premium to the market's approximately 12x multiple is warranted given Netflix's superior EBITDA growth.

Downside risks to our price objective are (1) the heightened competition from traditional M&A companies and large tech. companies, (2) a wave of industry consolidation resulting in larger entities with increased financial capacity and reach to effectively compete with NFLX, (3) the efficiency of NFLX's content spend relative to output and quality, and (4) an effectively higher penetration (particularly in UCAN) if password sharing initiatives prove challenging.

## Analyst Certification

I, Jessica Reif Ehrlich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Cable, Entertainment and Satellite Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Comcast Corp	CMCSA	CMCSA US	Jessica Reif Ehrlich
	Endeavor Group Holdings, Inc.	EDR	EDR US	Jessica Reif Ehrlich
	Madison Square Garden Entertainment	MSGE	MSGE US	Peter Henderson
	Netflix, Inc.	NFLX	NFLX US	Jessica Reif Ehrlich
	Spotify Technology	SPOT	SPOT US	Jessica Reif Ehrlich
	Walt Disney Co.	DIS	DIS US	Jessica Reif Ehrlich
	Warner Bros. Discovery	WBD	WBD US	Jessica Reif Ehrlich
<b>NEUTRAL</b>				
	Charter Communications	CHTR	CHTR US	Jessica Reif Ehrlich
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Warner Music Group Corporation	WMG	WMG US	Jessica Reif Ehrlich
<b>UNDERPERFORM</b>				
	Altice USA, Inc.	ATUS	ATUS US	Jessica Reif Ehrlich
	iHeartMedia, Inc.	IHRT	IHRT US	Jessica Reif Ehrlich
	Paramount Global	PARA	PARA US	Jessica Reif Ehrlich
<b>RSTR</b>				
	Liberty SiriusXM Group	LSXMA	LSXMA US	Jessica Reif Ehrlich
	Liberty SiriusXM Group	LSXMK	LSXMK US	Jessica Reif Ehrlich
	Sirius XM Holdings Inc	SIRI	SIRI US	Jessica Reif Ehrlich

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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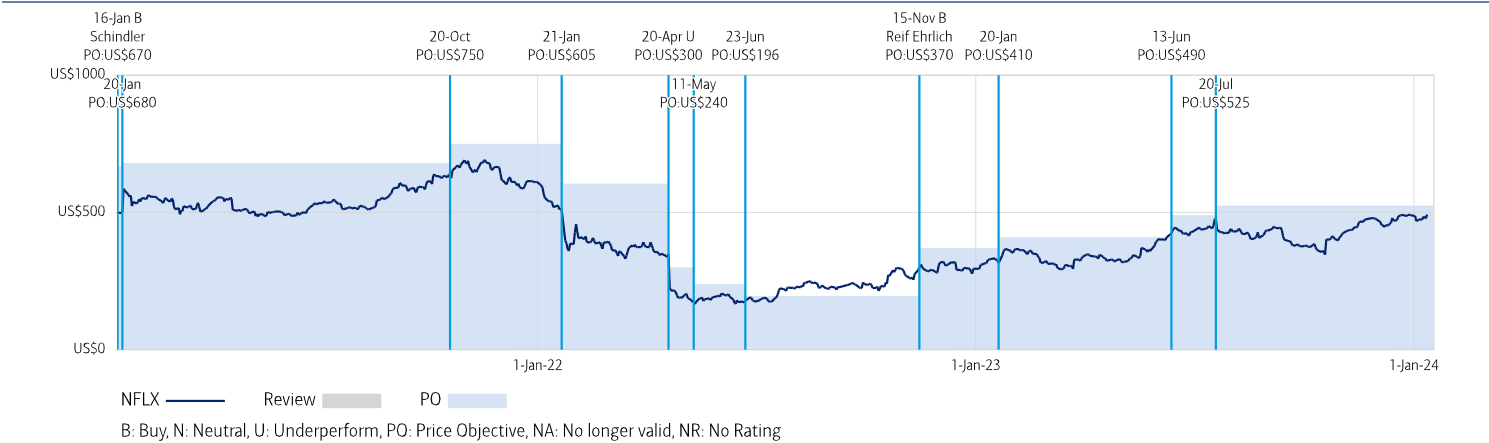
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Netflix (NFLX) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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