Netflix (NFLX) – Discounted Cash Flow Analysis

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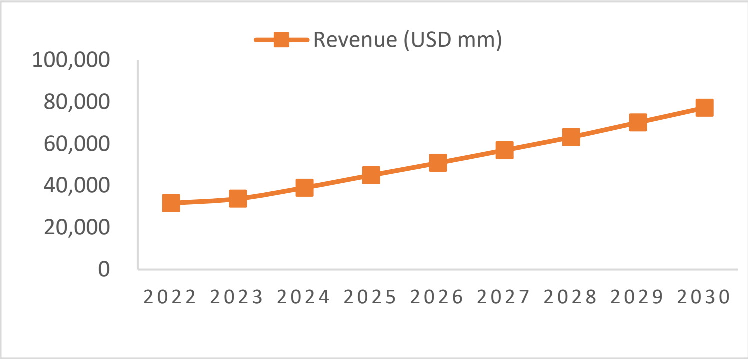
Business & Industry Overview

Netflix operates the world's largest subscription-based video streaming platform, delivering on-demand content directly to consumers across more than 190 countries. The company's direct-to-consumer model generates predominantly recurring revenue and has scaled to over US$40 billion in annual revenue, making Netflix the largest pure-play streaming platform globally.

As the business has reached global scale, Netflix has transitioned from a subscriber growth–led strategy to one focused on monetization, operating efficiency, and sustainable free cash flow generation. The company has been consistently profitable at the operating level in recent years, with margins expanding as revenue growth increasingly outpaces content and operating cost growth.

Business Highlights



- Highly recurring subscription revenue with growing ARPU contribution
- Disciplined, data-driven content investment focused on return on spend
- Operating leverage supports margin expansion and cash flow growth

The global video streaming industry continues to benefit from the long-term structural shift away from linear television toward on-demand and multi-device consumption. After an extended period of content-led expansion, the industry is entering a more mature phase characterised by increased emphasis on profitability, capital discipline, and cash flow sustainability.

Industry Dynamics

- Scale-driven economics favour global leaders able to amortise content costs
- Advertising-supported tiers and pricing bundles expand monetisation
- Competitive intensity remains elevated but increasingly rationalised

Investment Merits & Valuation Overview

Key Investment Merits

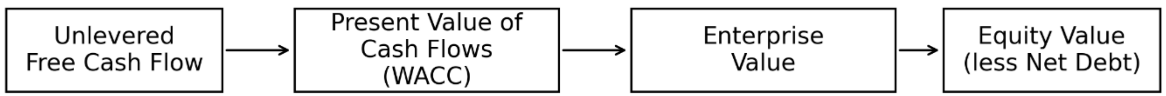
- **Margin expansion driven by operating leverage:** Content and platform costs grow more slowly than revenue, supporting structural improvement in operating margins over the explicit forecast period.
- **Free cash flow as the core valuation driver:** Normalising content spend, limited working capital requirements, and stable capital intensity underpin strong unlevered free cash flow growth.
- **Attractive monetisation levers:** Pricing optimisation, tiered plans, and advertising-supported offerings provide ARPU uplift even as subscriber growth moderates.
- **DCF reflects durable cash generation:** Valuation is based on a five-year unlevered DCF with conservative terminal growth and a mid-single-digit WACC, resulting in an implied equity value broadly in line with the current market price.

DCF Valuation Summary

Key Assumptions	
WACC	7.3%
Terminal Growth	2.5%
Forecast Period	5y
Valuation Outputs	
Enterprise Value	$416 bn
Equity Value	$411 bn
Implied Price	$89.90
Current Price	$90.70
Upside/(Downside)	(0.09)

Valuation Overview

Valuation is derived from an unlevered discounted cash flow analysis, reflecting Netflix's ability to generate sustainable and growing free cash flow as the business matures. Over the five-year explicit forecast period, free cash flow expands meaningfully as operating margins improve and content investment normalises. Cash flows are discounted at a **7.3% WACC** with a **2.5% perpetual growth rate**, resulting in an implied enterprise value of approximately **US$416bn** and an equity value of approximately **US$411bn**. This implies a **fair value of ~US$89.9 per share**, broadly in line with the current market price.



Key Risks & Mitigants

Margin Expansion Execution Risk

Rising content production and marketing costs could limit the pace of operating margin expansion assumed in the forecast.
Mitigant: Netflix's scale, data-driven content commissioning, and global reuse of content support disciplined spend and improving returns on investment.

Revenue Growth Moderation

Subscriber growth may slow in mature markets, reducing top-line growth and free cash flow generation.
Mitigant: Pricing optimisation, tiered plans, and advertising-supported offerings provide alternative monetisation levers to sustain revenue growth.

Valuation Sensitivity to Assumptions

The DCF valuation is sensitive to changes in WACC and terminal growth assumptions, given the significance of terminal value.
Mitigant: Conservative discount rate and terminal growth assumptions are applied, with sensitivity analysis demonstrating limited downside under reasonable scenarios.