

UTEFA

Netflix

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NETFLIX

01

Overview: Netflix

Value Proposition of Netflix

Netflix delivers endless **entertainment** through a **vast selection** of original and licensed content, **tailored** to your preferences and accessible anytime, anywhere, making it your go-to source for all things **streaming**.



Netflix Timeline

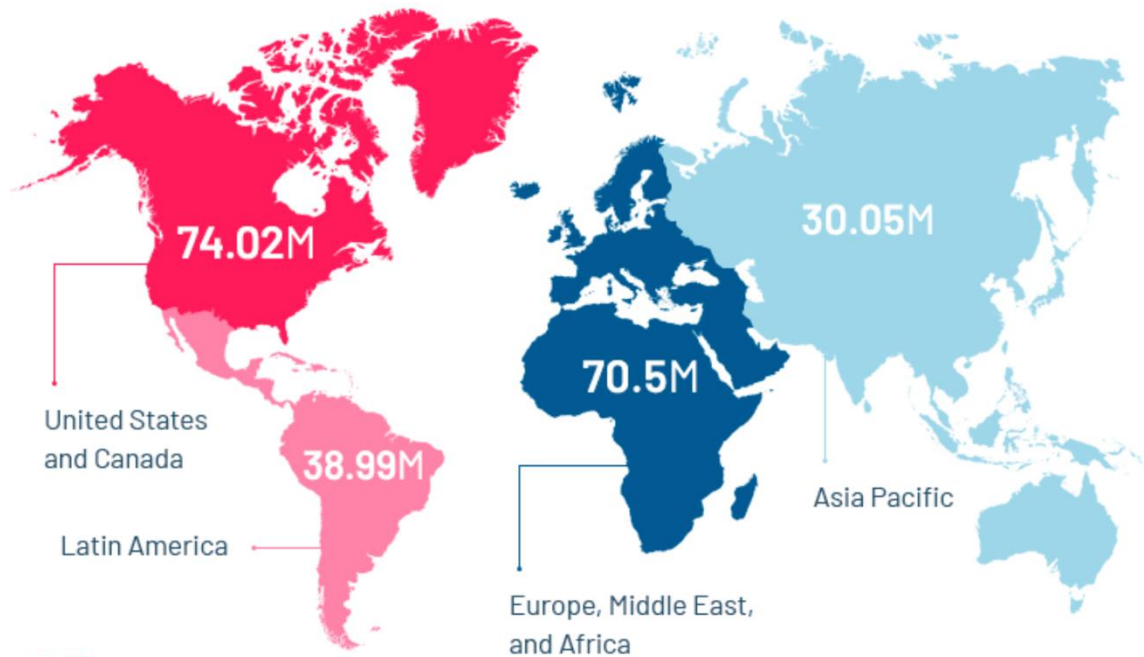
- 1997:** Founded as an online DVD rental service
- 2007:** Started offering subscribers option
- 2010:** Netflix shifts its focus to streaming
- 2015:** Netflix presence in 50 countries
- 2021:** Netflix hits 209 million subscribers in 190 countries

Industry

Industry: Entertainment, Streaming
Consumer Base: Anyone interested in entertainment

Netflix: Global Presence

Netflix User Count by Region



Total Subscribers; 214 million

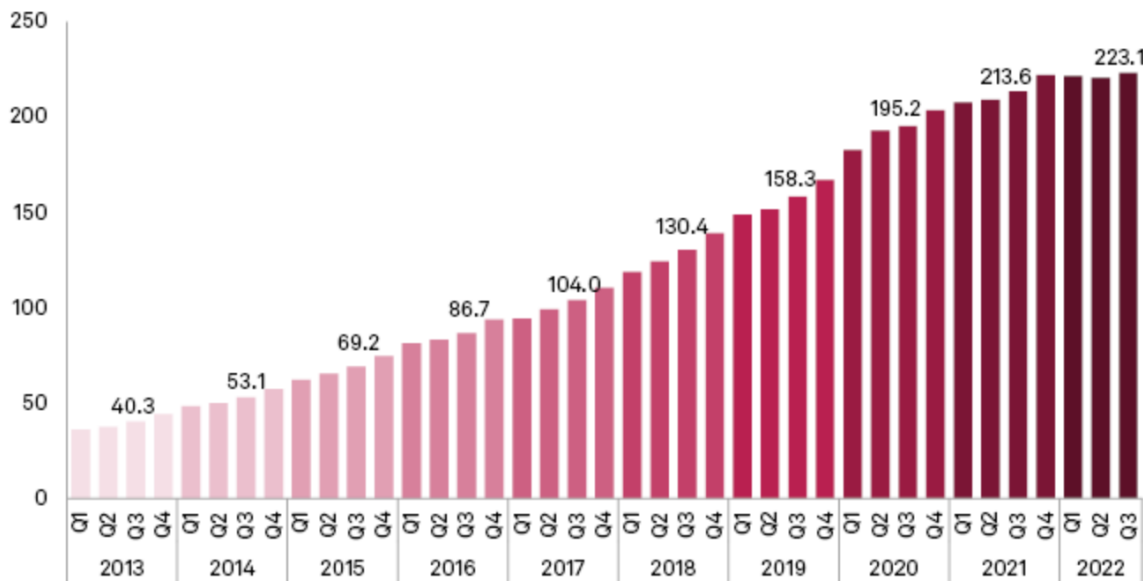
Global Presence in +190 countries

1. North America
2. Europe, Middle East, Africa
3. Latin America
4. Asia Pacific

Netflix: Key Performance Metrics

Subscriber Growth

Netflix global paid streaming subscribers, Q1 2013 to Q3 2022 (million)



Subscriber growth:

1. Netflix's **ambitious global expansion strategy**
2. COVID-19 **pandemic** as a catalyst

2020: **22% growth** in subscription

2023: **223 million** subscribers

= increase subscriber retention

Netflix: Key Performance Metrics

Pricing

Netflix's Tiered Pricing Model

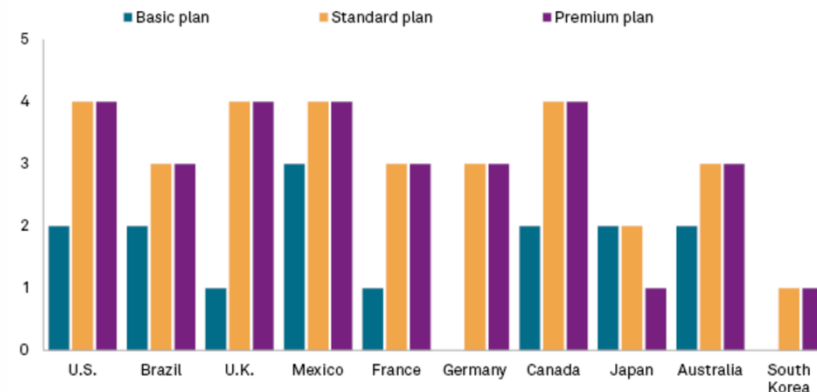
Tier 1: Basic

Tier 2: Standard

Tier 3: Premium

Netflix's aggressive pricing strategy for standard & premium tiers

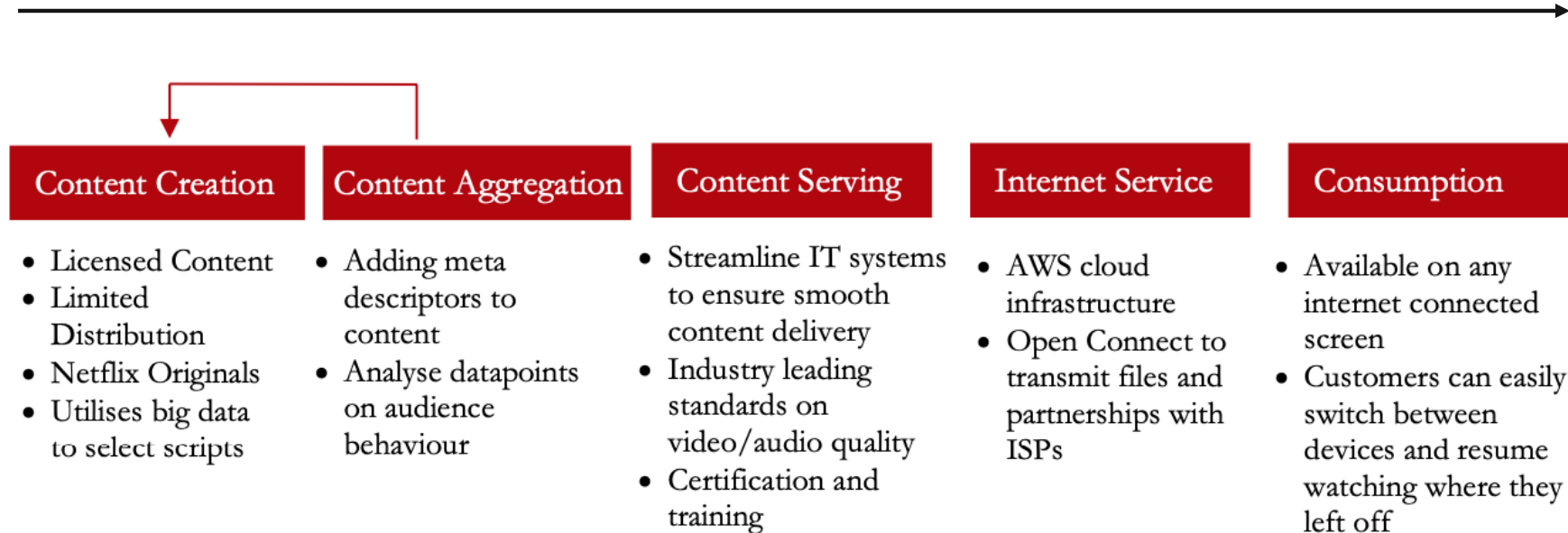
Netflix number of price increases by plan for select markets, 2016-2022



Quality of Content

- 2021: Netflix received greatest # of awards (Emmy's, Oscars)
- greatest # of original content in the top 10 viewed productions

Business Model: Netflix Value Chain



02

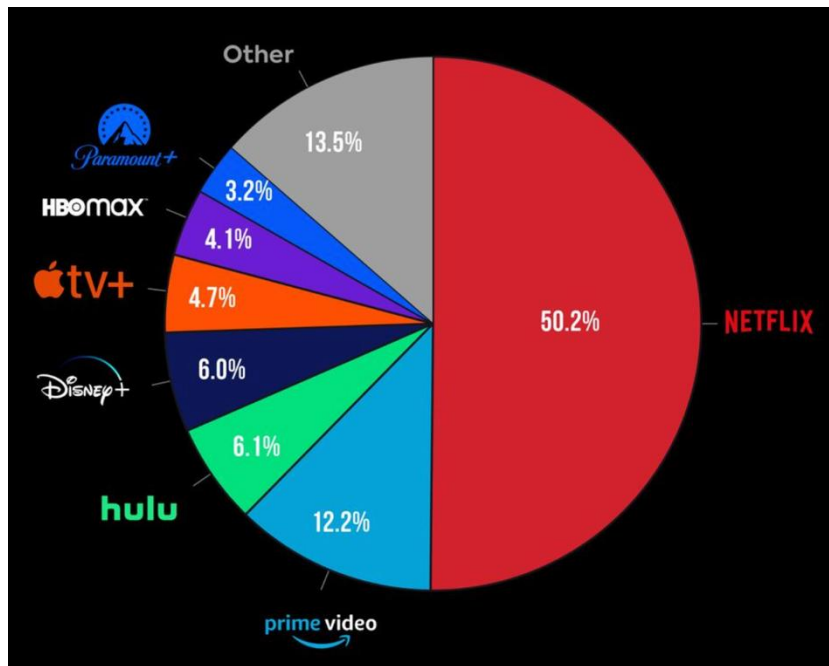
Industry Overview

Streaming Industry

\$554.3B

Market size
(2023)

Global Platform and share for all digital originals (2021)



Challenges: Streaming Industry

Streaming Industry

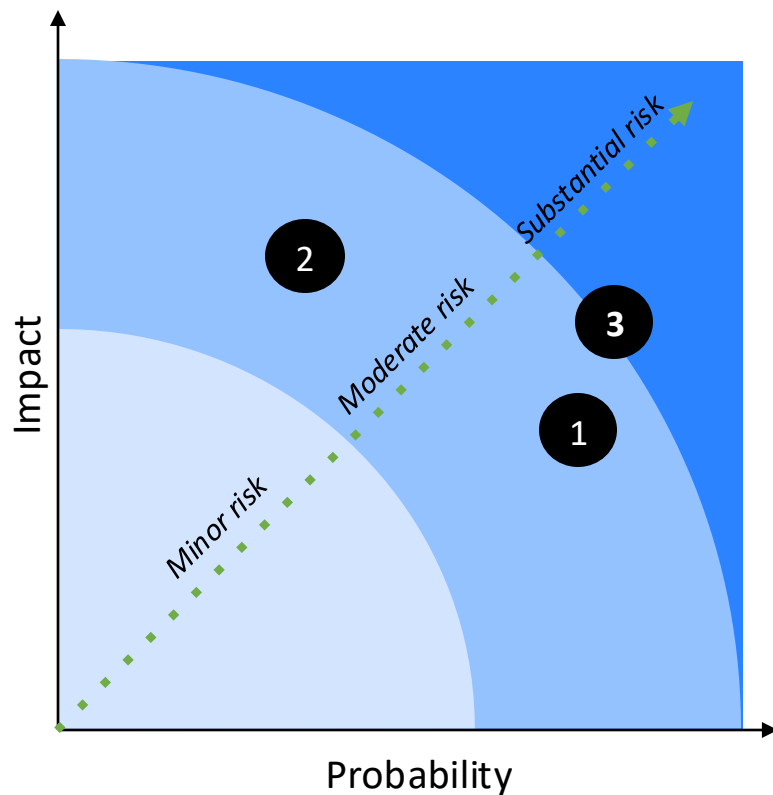
1. Competitive Rivalry: **High and Increasing**
2. Buyer Power: **High**
3. Supplier Power: **Moderate**
4. Threat of New Entrants: **High**
5. Threat of Substitutes: **Moderate**



Netflix's Competitive Advantage

1. **First-mover advantage**: retain largest market share
2. Creates **entertainment value**
3. Retain **majority of the rights** to the content they purchase
4. **Immense** amount of data
5. Relatively **inexpensive** and easier to access

Netflix: Risks and Mitigations



Risks

1

Increasing Competition

2

Increase in prices

3

Internal Risks: Password and Account Sharing

Growth Opportunities

Prevalence of Password Sharing

Netflix's new initiative: **Sharing Fee**

Retaining Subscribers

Netflix's new initiative: **ad-based tier** membership

Cheaper pricing for subscribers

Netflix's new initiative: **doubled down** on content spending

03

Valuation

Estimated Valuation

\$573.37

Per share

Company Value (1000s)

Current Netflix Price: \$564.64

DCF Equity valuation: \$573.37

Enterprise value: \$245,022,347

Equity Value: \$253,164,347

Number of Shares: 441,537

Growth Metrics

Income Statement Growth Metrics Projected to Consistently Increase

(in thousands, except per share data) x											
Income Statement	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
Revenue	\$ 38,439,883	\$ 42,852,825	\$ 46,987,099	\$ 51,894,980	\$ 57,805,692	\$ 64,014,406	\$ 70,771,637	\$ 78,402,834	\$ 86,923,078	\$ 96,254,535	
% growth	14.0%	11.5%	9.6%	10.4%	11.4%	10.7%	10.6%	10.8%	10.9%	10.7%	
EBIT	\$ 8,666,621	\$ 10,486,537	\$ 12,402,805	\$ 14,697,350	\$ 17,484,184	\$ 20,594,469	\$ 24,130,833	\$ 28,242,189	\$ 32,984,735	\$ 38,378,782	
% of sales	22.5%	24.5%	26.4%	28.3%	30.2%	32.2%	34.1%	36.0%	37.9%	39.9%	
Taxes	\$ 1,126,661	\$ 1,363,250	\$ 1,612,365	\$ 1,910,656	\$ 2,272,944	\$ 2,677,281	\$ 3,137,008	\$ 3,671,485	\$ 4,288,016	\$ 4,989,242	
% of EBIT	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	
Cash Flow Items	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	
D&A	\$ 166,225	\$ 178,328	\$ 191,137	\$ 180,485	\$ 213,969	\$ 252,639	\$ 273,961	\$ 298,949	\$ 327,005	\$ 367,580	
% of sales	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	
% of CapEx	33.6%	32.2%	35.3%	33.8%	31.9%	33.3%	33.3%	33.5%	33.2%	33.0%	
Amortization of Content Library	\$ 16,652,555	\$ 18,358,376	\$ 20,092,500	\$ 22,355,086	\$ 24,752,471	\$ 27,503,274	\$ 30,355,956	\$ 33,637,393	\$ 37,317,466	\$ 41,295,512	
% of sales	43.3%	42.8%	42.8%	43.1%	42.8%	43.0%	42.9%	42.9%	42.9%	42.9%	
% of additions to streaming content	68.8%	85.9%	90.2%	93.8%	89.0%	89.8%	90.6%	90.7%	90.1%	90.3%	
Total D&A	\$ 16,818,780	\$ 18,536,704	\$ 20,283,637	\$ 22,535,570	\$ 24,966,440	\$ 27,755,913	\$ 30,629,917	\$ 33,936,342	\$ 37,644,471	\$ 41,663,092	
% of sales	43.8%	43.3%	43.2%	43.4%	43.2%	43.4%	43.3%	43.3%	43.3%	43.3%	
% of CapEx	86.5%	84.6%	88.9%	92.4%	87.6%	88.5%	89.2%	89.3%	88.8%	88.9%	
Capital Expenditures	\$ 494,380	\$ 553,771	\$ 541,439	\$ 534,256	\$ 669,823	\$ 757,794	\$ 823,302	\$ 891,858	\$ 986,209	\$ 1,112,311	
% of sales	1.3%	1.3%	1.2%	1.0%	1.2%	1.2%	1.2%	1.1%	1.1%	1.2%	
Additions to Streaming Content	\$ 18,953,047	\$ 21,362,545	\$ 22,277,418	\$ 23,845,353	\$ 27,821,543	\$ 30,621,515	\$ 33,497,241	\$ 37,093,452	\$ 41,420,495	\$ 45,752,201	
% of sales	49.3%	49.9%	47.4%	45.9%	48.1%	47.8%	47.3%	47.3%	47.7%	47.5%	
Capital Expenditures + Additions	\$ 19,447,427	\$ 21,916,316	\$ 22,818,857	\$ 24,379,610	\$ 28,491,366	\$ 31,379,309	\$ 34,320,543	\$ 37,985,310	\$ 42,406,704	\$ 46,864,513	
% of sales	50.6%	51.1%	48.6%	47.0%	49.3%	49.0%	48.5%	48.4%	48.8%	48.7%	

Model Assumptions

DCF Assumption

- **Key Metrics** such as Revenue , EBIT, and Taxes are calculated using an **average growth rate of historical data**.
- It is predicted that as Netflix **matures** as a company, it will start diverging their focus away from **revenue growth** and into **profitability growth** instead.
- Current marginal tax rate of Netflix is **13%**, the model assumes that it will steadily increase towards the US corporate tax of **21%**

04

Conclusion

Buy Netflix.

05

Appendix

Additions to Streaming Content have been steadily decreasing, this model assumes that the Additions to Streaming Content margin will change by the average YoY change over the past 5 years

Change in Net working Capital	\$	43,043	\$	(31,873)	\$	(241,977)	\$	25,288	\$	(122,704)
% of Sales		0.2%		-0.1%		-0.8%		0.1%		-0.4%
% change in sales				-0.7%		-5.1%		1.3%		-5.8%

TGR

TRG

TGR

3.0%

TGR

1.5%

TGR

1.00%

CDF	2019	2020	2021	2022	2023	1	2	3	4	5	6	7	8	9	10
Revenue	\$ 20,156,447	#####	#####	#####	#####	\$ 36,783,166	\$ 41,005,916	\$ 44,962,007	\$ 49,386,632	\$ 54,342,091	\$ 59,899,769	\$ 66,141,567	\$ 73,161,571	\$ 81,067,997	\$ 89,985,476
% Growth		24.0%	18.8%	6.5%	6.7%	9.1%	11.5%	9.6%	9.8%	10.0%	10.2%	10.6%	10.8%	11.0%	11.0%
Conservative Case						9.1%	9.2%	7.7%	8.1%	8.5%	8.9%	9.3%	9.7%	10.1%	10.5%
Base Case						9.1%	11.5%	9.6%	9.8%	10.0%	10.2%	10.4%	10.6%	10.8%	11.0%
Optimistic Case						9.1%	13.8%	11.6%	11.6%	11.6%	11.5%	11.5%	11.5%	11.5%	11.5%
EBIT	\$ 2,604,254	\$ 4,585,289	\$ 6,194,509	\$ 5,632,831	\$ 6,954,003	\$ 8,293,099	\$ 10,034,578	\$ 11,868,258	\$ 14,207,628	\$ 16,922,202	\$ 20,073,676	\$ 23,734,294	\$ 27,988,731	\$ 32,936,328	\$ 38,693,755
% Margin	12.9%	18.3%	20.9%	17.8%	20.6%	22.5%	24.5%	26.4%	28.8%	31.1%	33.5%	35.9%	38.3%	40.6%	43.0%
Conservative Case						22.5%	19.6%	21.1%	23.5%	25.8%	28.1%	30.5%	32.8%	35.2%	37.5%
Base Case						22.5%	24.5%	26.4%	28.8%	31.1%	33.5%	35.9%	38.3%	40.6%	43.0%
Optimistic Case						22.5%	29.4%	31.7%	33.2%	34.8%	36.3%	37.9%	39.4%	41.0%	42.5%
Taxes	\$ 195,315	\$ 437,954	\$ 723,875	\$ 772,005	\$ 797,415	\$ 1,078,103	\$ 1,326,794	\$ 1,595,621	\$ 1,941,709	\$ 2,350,306	\$ 2,832,619	\$ 3,401,916	\$ 4,073,915	\$ 4,867,257	\$ 5,804,063
% of EBIT	7.5%	9.6%	11.7%	13.7%	11.5%	13.0%	13.2%	13.4%	13.7%	13.9%	14.1%	14.3%	14.6%	14.8%	15.0%
Conservative Case						13.0%	13.6%	14.1%	14.7%	15.2%	15.8%	16.3%	16.9%	17.4%	18.0%
Base Case						13.0%	13.2%	13.4%	13.7%	13.9%	14.1%	14.3%	14.6%	14.8%	15.0%
Optimistic Case						13.0%	12.9%	12.8%	12.7%	12.6%	12.4%	12.3%	12.2%	12.1%	12.0%
EBIAT						\$ 7,214,997	\$ 8,707,784	\$ 10,272,636	\$ 12,265,919	\$ 14,571,896	\$ 17,241,058	\$ 20,332,379	\$ 23,914,815	\$ 28,069,071	\$ 32,889,692
D&A	\$ 9,319,826	#####	#####	#####	#####	\$ 15,600,722	\$ 17,418,462	\$ 19,128,270	\$ 21,042,876	\$ 23,189,783	\$ 25,600,540	\$ 28,311,383	\$ 31,363,986	\$ 34,806,334	\$ 38,693,755
% of sales	46.2%	43.7%	41.9%	44.6%	42.3%	42.4%	42.5%	42.5%	42.6%	42.7%	42.7%	42.8%	42.9%	42.9%	43%
CapEx	\$ 14,169,718	#####	#####	#####	#####	\$ 14,432,216	\$ 16,488,360	\$ 18,516,927	\$ 20,820,063	\$ 23,438,325	\$ 26,418,707	\$ 29,815,720	\$ 33,692,680	\$ 38,123,210	\$ 43,193,029
% of sales	70.3%	49.1%	61.4%	53.6%	38.3%	39.2%	40.2%	41.2%	42.2%	43.1%	44.1%	45.1%	46.1%	47.0%	48%
Change in NWC	\$ 43,043	(\$1,873)	(\$241,977)	\$ 25,288	(\$122,704)	(\$134,708)	(\$88,859)	(\$141,896)	(\$147,915)	(\$150,671)	(\$178,174)	(\$192,741)	(\$211,223)	(\$237,142)	(\$261,749)
% of sales	0.2%	-0.1%	-0.8%	0.1%	-0.4%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Unlevered Free Cash Flow						\$ 8,518,211	\$ 9,726,745	\$ 11,025,875	\$ 12,636,646	\$ 14,474,025	\$ 16,601,065	\$ 19,020,783	\$ 21,797,345	\$ 24,989,337	\$ 28,652,167
Present Value of FCF						\$ 7,887,232	\$ 8,339,116	\$ 8,752,695	\$ 9,288,312	\$ 9,850,778	\$ 10,461,487	\$ 11,098,444	\$ 11,776,427	\$ 12,500,890	\$ 13,271,497
Terminal Value															\$306,125,781.04
Present Value of Terminal Value															\$141,795,468.31
Enterprise Value															\$ 245,022,347
(+) Cash															\$ 6,000,000
(-) Debt															\$ 14,142,000
Equity Value															\$ 253,164,347
Number of Shares															441,537
Implied Price Per Share															\$ 573.37