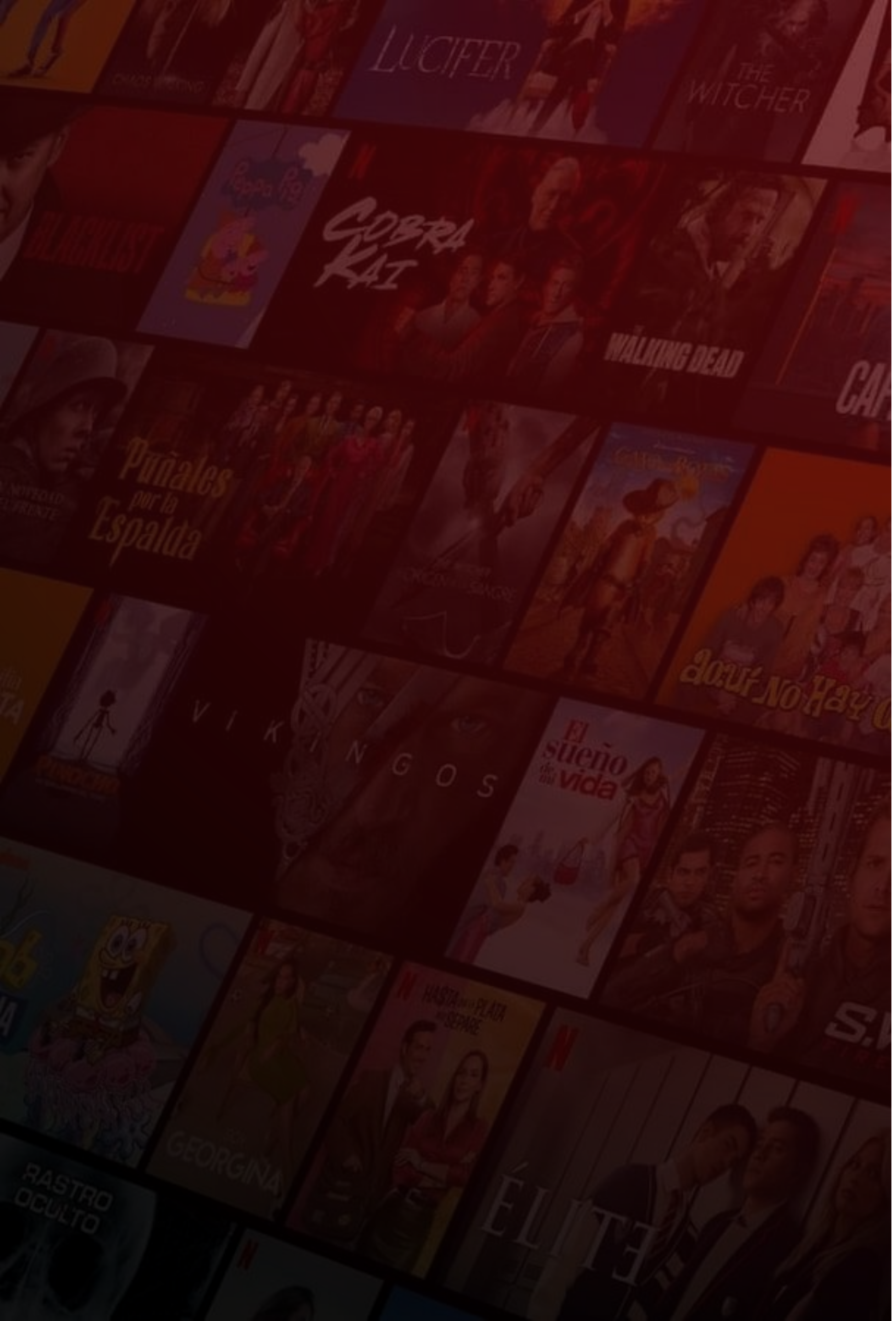
CORPORATE FINANCE CHALLENGE

GROUP 01

NETFLIX



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EXECUTIVE SUMMARY

Industry Analysis: Highlights (2022)

Revenue
US$
81bn

Global demand
share
NFLX (41.5%)

ARPU
US$ 70

Americas has the
biggest market in
VoD ARPU

Company Overview: Netflix (2022)

Revenue
US$ 31.6
bn

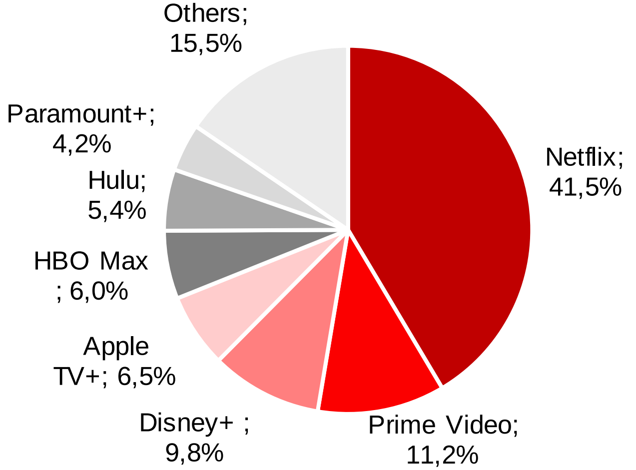
Subscribers
#221 mm

ARPU
US$ 11.5

Original productions
#101

Competitors

Global platform demand share for all streaming original



Historical Financial Analysis

Income Statement

- Revenue slowdown
- The deceleration of income growth is reflected in the EBITDA
- Deceleration of content spending due to slow revenue growth

Balance Sheet

- Lower growth of content spending
- Increase in cash levels
- Reinvestment of all profits

Assumptions

P&L Projection

- Maintain sustained growth over the next two quarters, due to the increase in subscribers.
- ARPU is projected to experience slight declines.
- Cost of revenues (68%) are expected to increase by the fourth quarter.
- Marketing costs (10.6%) are expected to increase by the fourth quarter.

Balance Sheet

- Increase of Capex
- A 13% Depreciation is used
- Declining growth rate of content spend
- Accounts receivable represents 15% of total sales
- Accounts payable represents 13% of the total cost of revenues.

Cash Position

- Projected high cash levels
- No debt issuance is expected
- Short-term investments are expected to increase

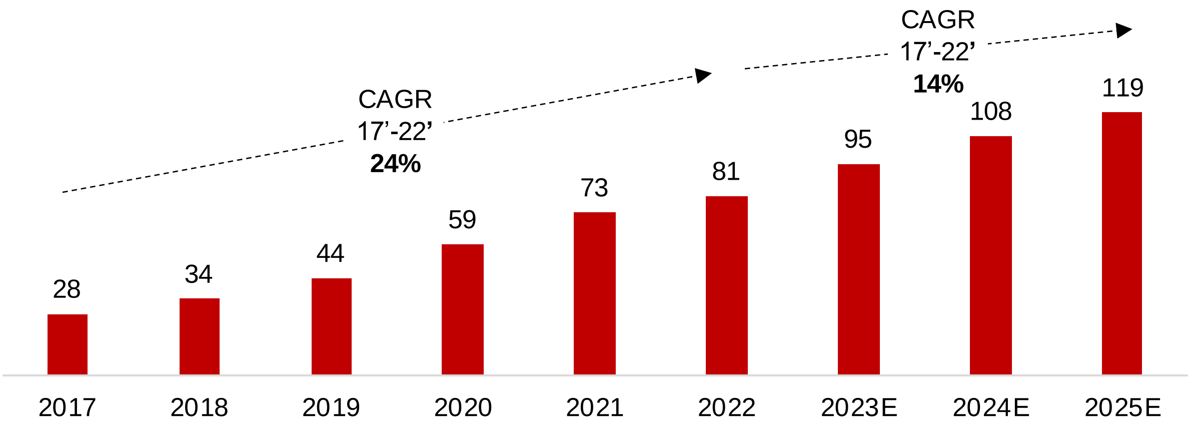
CHAPTER

01

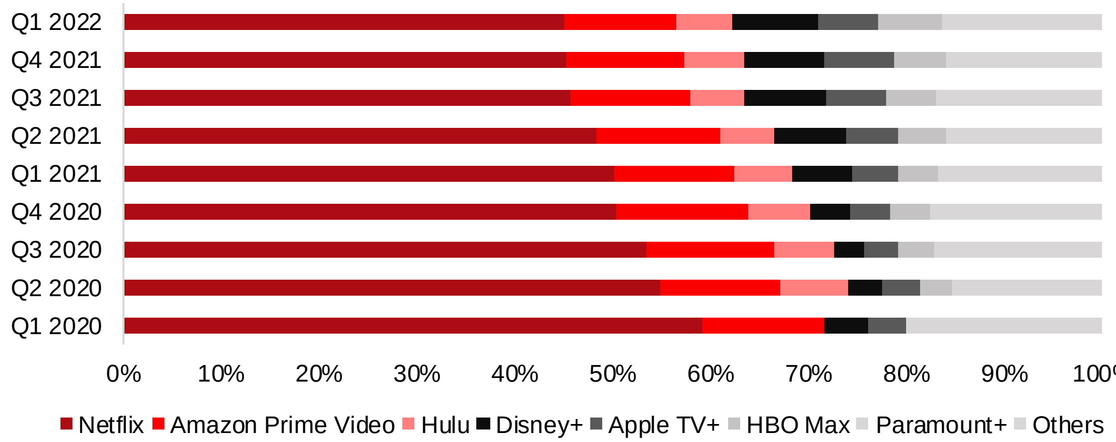
INDUSTRY ANALYSIS

POSITIVE FORECAST AND SUSTAINED GROWTH IN THE MARKET

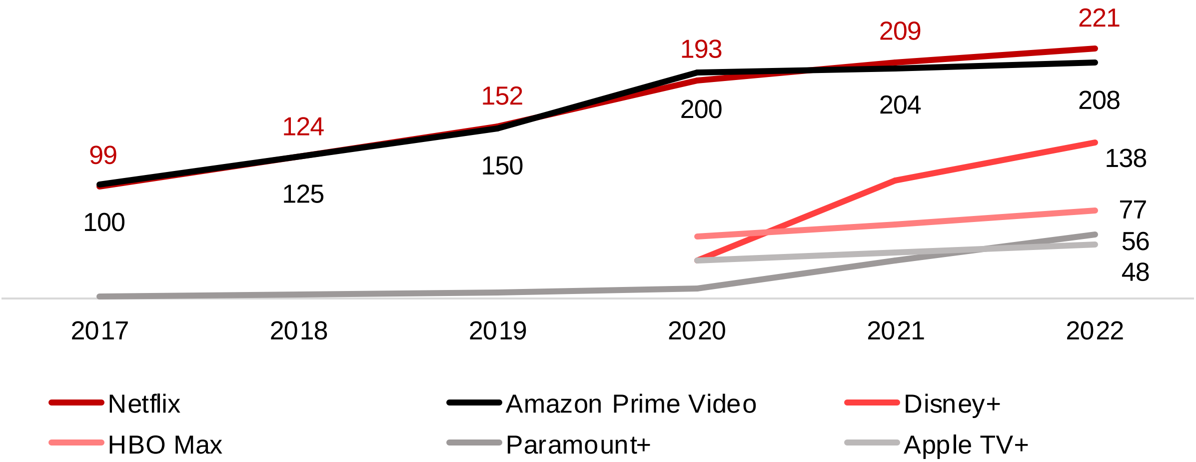
Industry revenues (US$ bn)



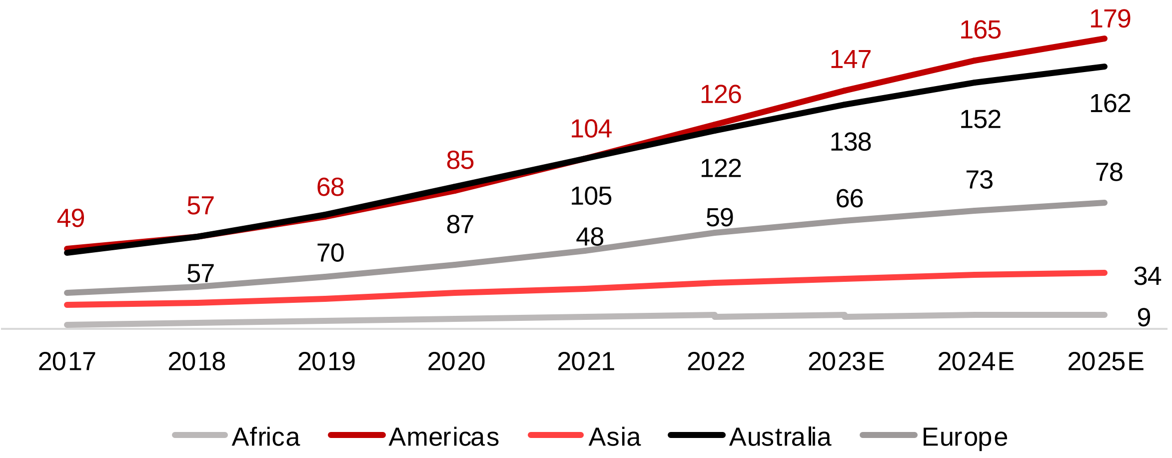
Share of global demand for original programming (1Q20-1Q22)



Subscribers per platform (mm)



ARPU by region (US$ annual)



Source: Statista Market Insight

CHAPTER

02

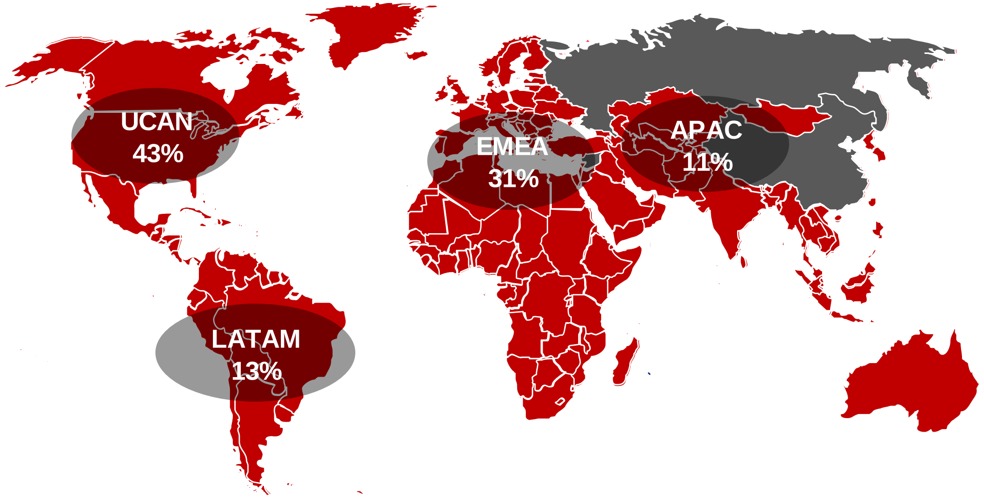
COMPANY OVERVIEW

COMPANY OVERVIEW

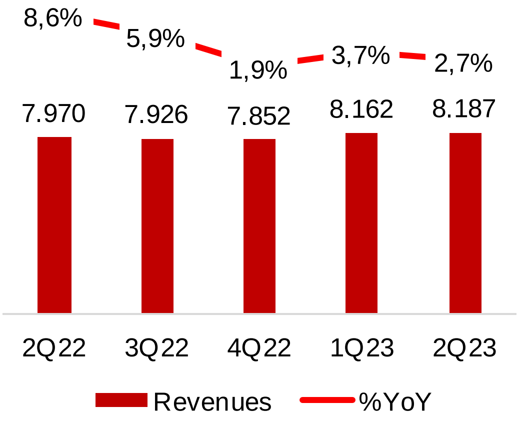
Company Description

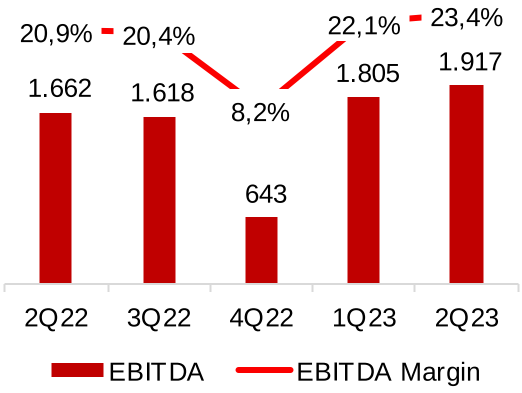
- **Netflix, Inc.** (the “Company” or “Netflix”) is is one of the world’s leading entertainment service.
- Its **services includes TV series, films and games** across a wide variety of genres and languages.
- The Company have approximately **231 million paid memberships in over 190 countries.**
- Its strategy is to **grow their business globally within the parameters** of their operating margin target.
- Netflix launched paid sharing in 100+ countries to increase subscribers and its future income.
- **The writers and actors strike (SAG – AFTRA)** generates big delays in film production.
- Countries where Netflix is restricted:
  - **China and North Korea:** Difficulties with government regulations for the reproduction of foreigner´s conten
  - **Russia and Syria:** Blockades due to war situations

Global Presence (% of revenues in 2Q23)

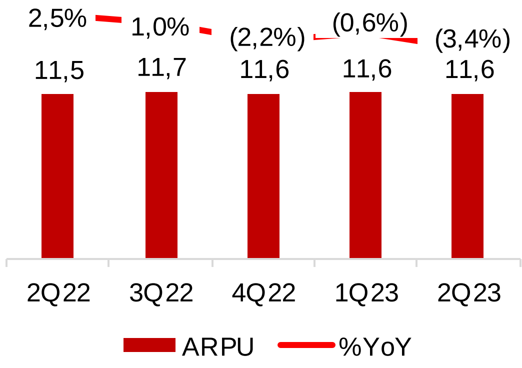


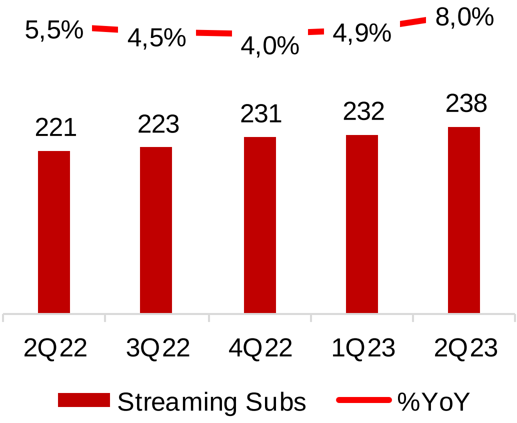
Key financial indicators in 2Q22 vs 2Q23 (US$ mm, %)





Only US$





Source: SEC

CHAPTER

03

HISTORICAL FINANCIAL ANALYSIS

INCOME STATEMENT

Income Statement (USD mm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Revenues	7,868	7,970	7,926	7,852	8,162	8,187
Cost of revenues	(4,285)	(4,691)	(4,789)	(5,404)	(4,804)	(4,673)
Gross Income	**3,583**	**3,279**	**3,137**	**2,448**	**3,358**	**3,514**
Marketing	(556)	(575)	(568)	(832)	(555)	(627)
Technology and development	(658)	(717)	(663)	(674)	(687)	(658)
General and administrative	(398)	(409)	(373)	(392)	(401)	(401)
Operating income	**1,972**	**1,578**	**1,533**	**550**	**1,714**	**1,827**
D&A	75	84	85	93	90	89
EBITDA	**2,046**	**1,662**	**1,618**	**643**	**1,805**	**1,917**

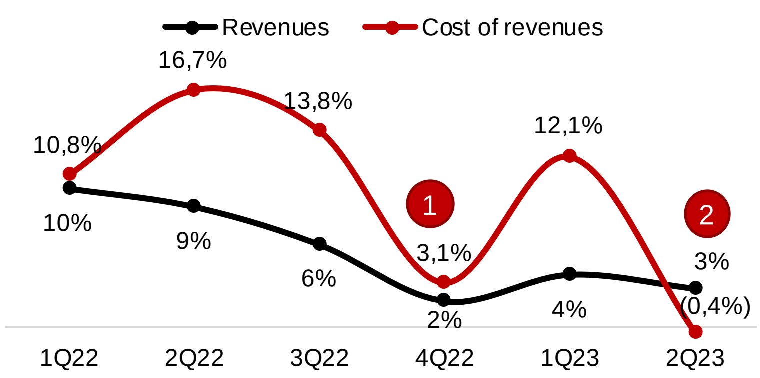
1 **Revenues:** The slower pace of revenue growth was due to Netflix losing subscribers for the first time in over a decade.

2 Netflix cut its spending on new content in 2023 due to lower growth compared to previous years.

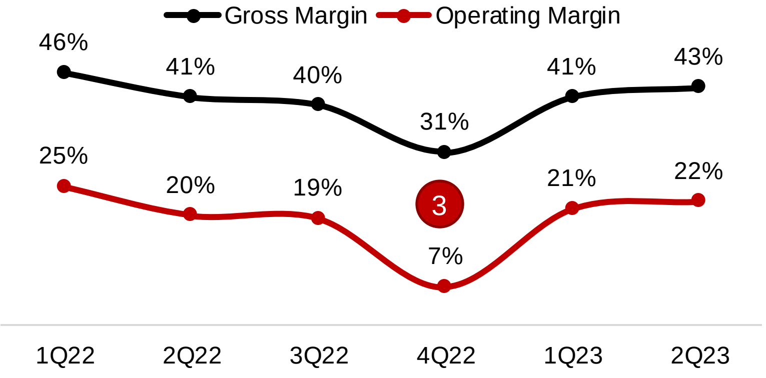
3 The difference between the two margins was due to higher expenses in 4Q 2022 from investment in new content, advertising and technology such as artificial intelligence and machine learning

4 The slowdown in revenue growth was reflected in the company's EBITDA, which had a downward trend but has been recovering due to the increase in subscribers in the first quarters of 2023.

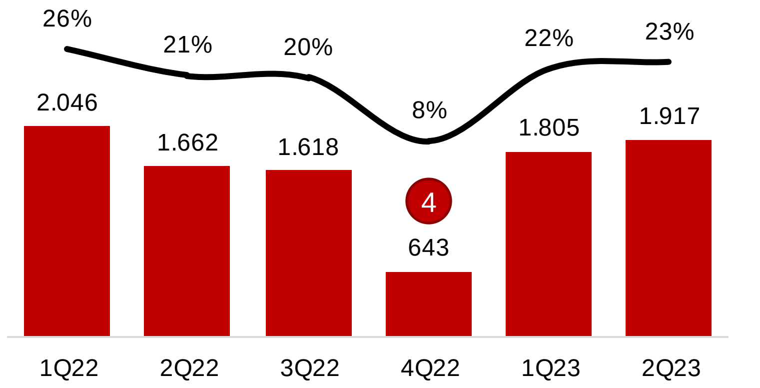
Revenue (YoY%)



Profit Margin (% of revenue)



EBITDA (US$ mm, % of revenue)



Source: Netflix Inc. - SEC

BALANCE SHEET

Balance Sheet (USD mm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Cash and cash equivalents 1	6,009	5,819	6,114	5,147	6,715	7,663
Other current assets	2,089	2,021	2,703	4,119	3,768	3,844
Total current assets	**8,098**	**7,841**	**8,817**	**9,266**	**10,483**	**11,506**
Content library, net 2	31,192	32,533	32,777	32,737	32,349	32,521
Other non-current assets	6,041	5,977	5,968	6,592	6,659	6,790
Total assets	**45,331**	**46,351**	**47,562**	**48,595**	**49,490**	**50,817**
Current content liabilities	4,066	4,175	4,226	4,480	4,345	4,440
Accounts Payable	617	504	560	672	592	615
Other Current Liabilities	3,056	2,821	2,980	2,779	3,380	3,620
Total current liabilities	**7,740**	**7,500**	**7,766**	**7,931**	**8,316**	**8,676**
Long-term debt	14,535	14,233	13,888	14,353	14,038	14,070
Other non-current liabilities	5,513	5,542	5,380	5,533	5,308	5,239
Total liabilities	**27,787**	**27,275**	**27,034**	**27,817**	**27,662**	**27,985**
Common Stock	4,156	4,317	4,474	4,638	4,762	4,874
Other comprehensive income (loss)	(898)	(969)	(1,072)	(1,041)	(1,421)	(2,016)
Retained earnings (accumulated deficit) 3	14,287	15,728	17,126	17,181	18,486	19,974
Total stockholders' equity	**16,646**	**18,107**	**19,456**	**19,736**	**20,408**	**20,816**

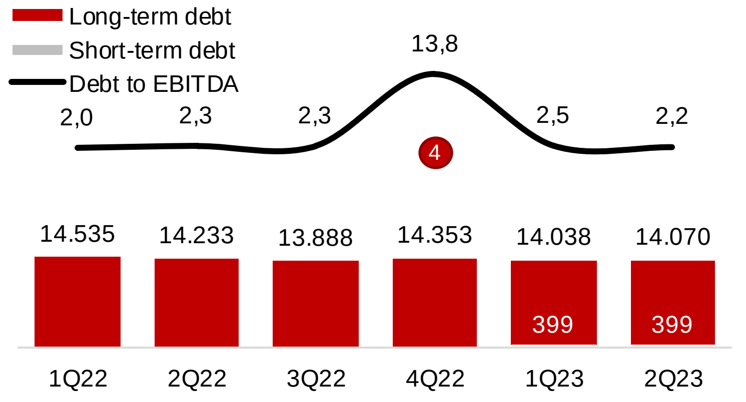
1 **Cash and cash equivalents:** With the increase of subscribers and the launch of shared payment accounts, Netflix managed to increase its revenue. Cash is maintained above the minimum, which represents more than 2 months of income (5,500 million).

2 **Content Library, net:** Due to the start of the productions and the strikes, the expenses generated a lower content expense, which is expected to be maintained during the rest of the year.

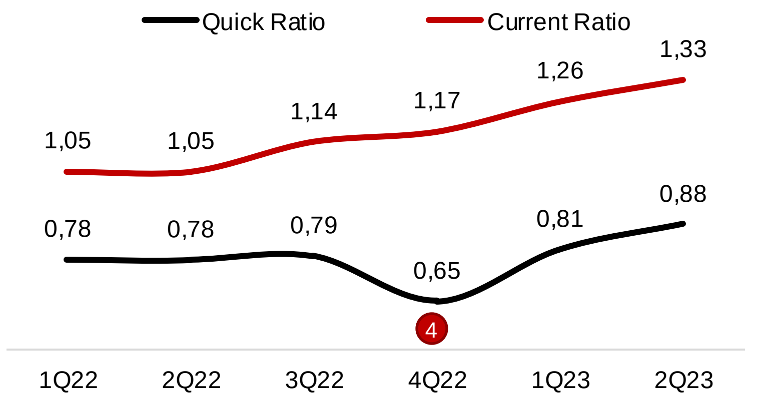
3 **Retained Earnings:** Netflix does not pay dividends on its capital stock and does not anticipate paying in the near future, so all retained earnings are reinvested to innovate, improve and invest in creating more content.

4 The higher sales costs and marketing expenses registered in the last quarter produced the result of these ratios

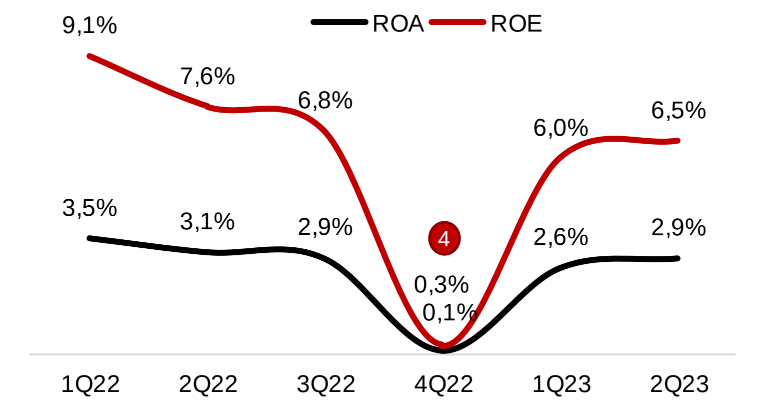
Solvency (US$ mm)



Liquidity Ratio



Profitability (%)



Source: Netflix Inc. - SEC

CHAPTER

04

P&L PROJECTION

INCOME STATEMENT PROJECTION

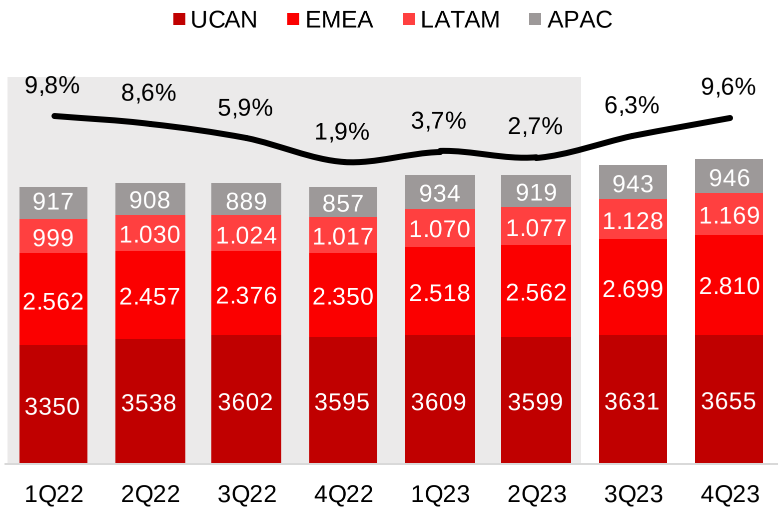
Income Statement (US$ mm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E
Revenues	7,868	7,970	7,926	7,852	8,162	8,187	8,427	8,605
Cost of revenues	(4,285)	(4,691)	(4,789)	(5,404)	(4,804)	(4,673)	(4,810)	(5,922)
Gross Income	**3,583**	**3,279**	**3,137**	**2,448**	**3,358**	**3,514**	**3,617**	**2,683**
Marketing	(556)	(575)	(568)	(832)	(555)	(627)	(609)	(911)
Technology and development	(658)	(717)	(663)	(674)	(687)	(658)	(693)	(708)
General and administrative	(398)	(409)	(373)	(392)	(401)	(401)	(414)	(422)
Operating income	**1,972**	**1,578**	**1,533**	**550**	**1,714**	**1,827**	**1,900**	**641**
D&A	75	84	85	93	90	89	88	95
EBITDA	**2,046**	**1,662**	**1,618**	**643**	**1,805**	**1,917**	**1,988**	**736**
D&A	(75)	(84)	(85)	(93)	(90)	(89)	(88)	(95)
Interest expense	(188)	(175)	(173)	(171)	(174)	(175)	(175)	(175)
Interest and other income (expense)	196	220	261	(340)	(71)	27	27	27
Income before income taxes	**1,980**	**1,623**	**1,622**	**39**	**1,469**	**1,679**	**1,752**	**493**
Benefit from (provision for) income taxes	(382)	(182)	(224)	16	(164)	(192)	(193)	(54)
Net income	**1,597**	**1,441**	**1,398**	**55**	**1,305**	**1,488**	**1,560**	**439**

1. **Revenues:** Netflix revenue is forecast to increase and maintain sustained growth over the next two quarters, due to the increase in subscribers.

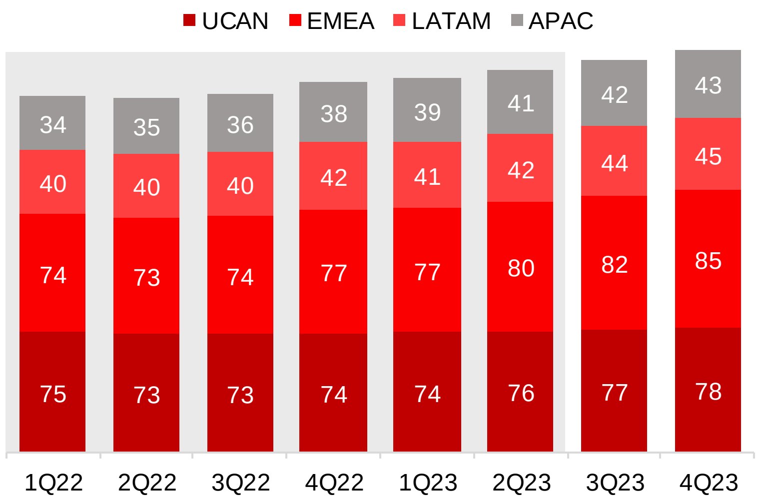
2. ARPU is projected to experience slight declines, following a similar trend to that observed in the last quarter. This is due to both the introduction of new, more affordable account types and the initial stage of implementation of advertising on the platform.

3. Cost of revenues (68%) and marketing costs (10.6%) are expected to increase by the fourth quarter of 2023 as they regularly do every last quarter of the year.

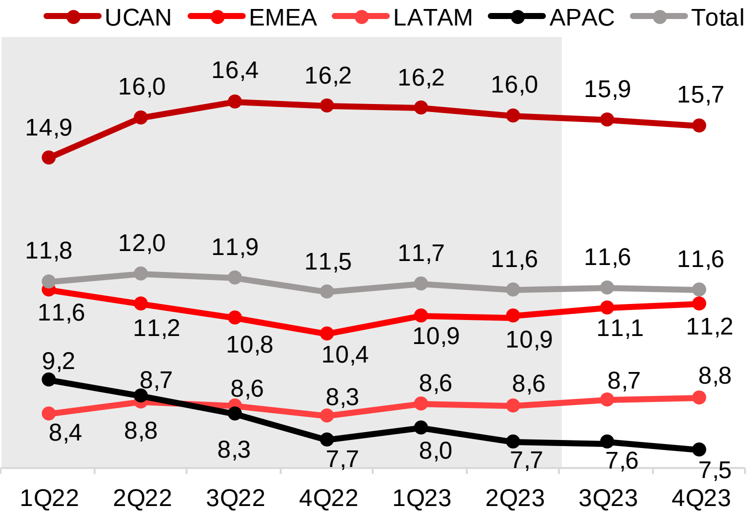
Revenues (USD mm, YoY %)



Streaming subs (USD mm, YoY %)



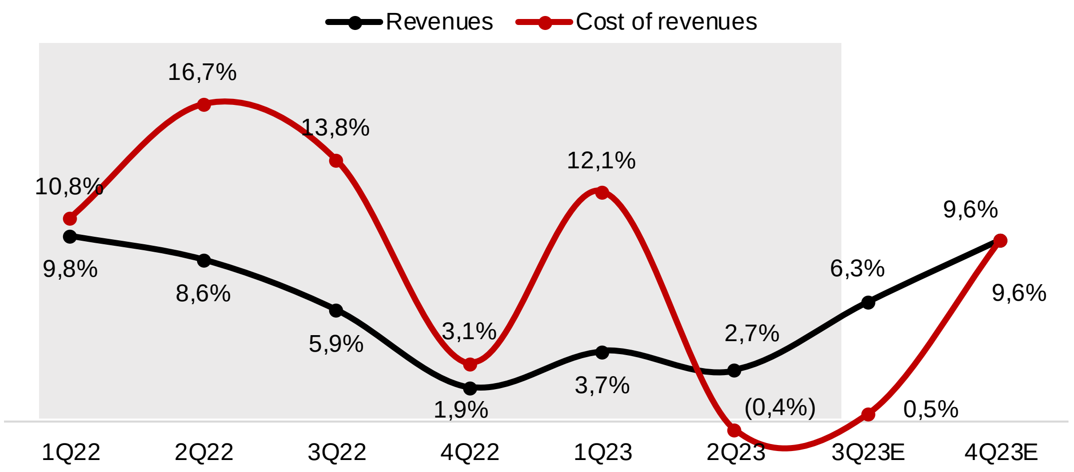
ARPU (US$)



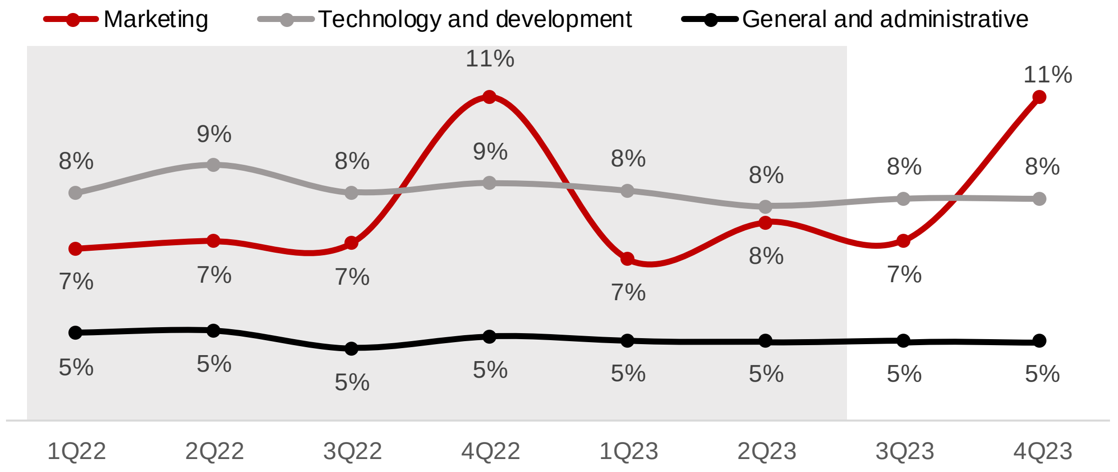
Source: Netflix Inc. - SEC, Own proyections

INCOME STATEMENT PROJECTION

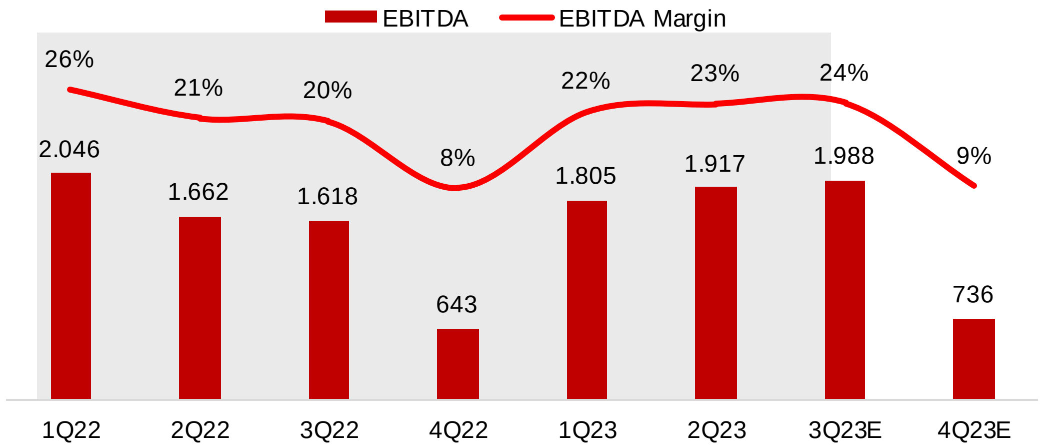
Revenues (YoY%)



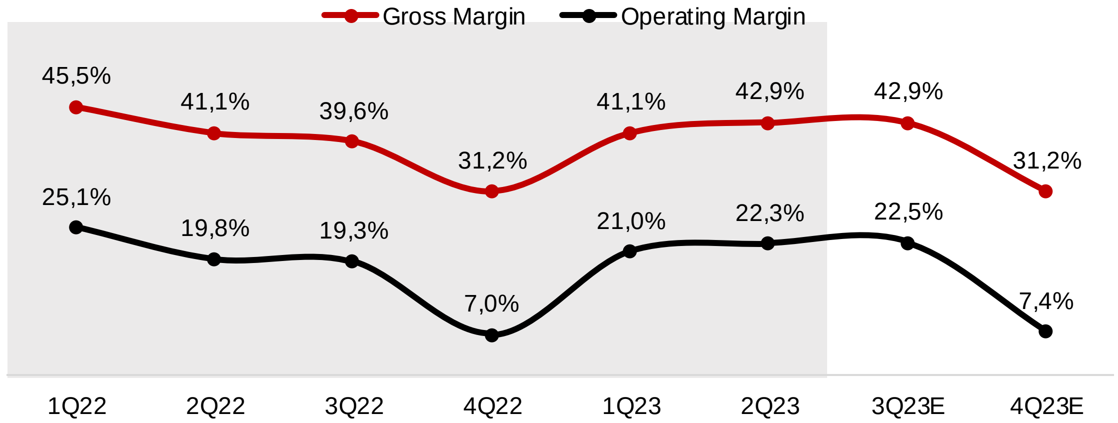
Evolution of Expenses (% of revenues)



EBITDA (US$ mm, % of revenues)



Profit Margin (% of revenues)



Source: Netflix Inc. - SEC, Own proyections

CHAPTER

05

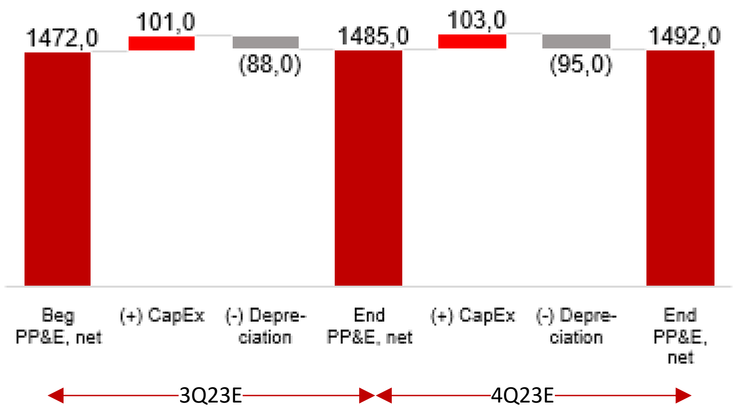
BALANCE SHEET & CASH POSITION PROJECTION

BALANCE SHEET

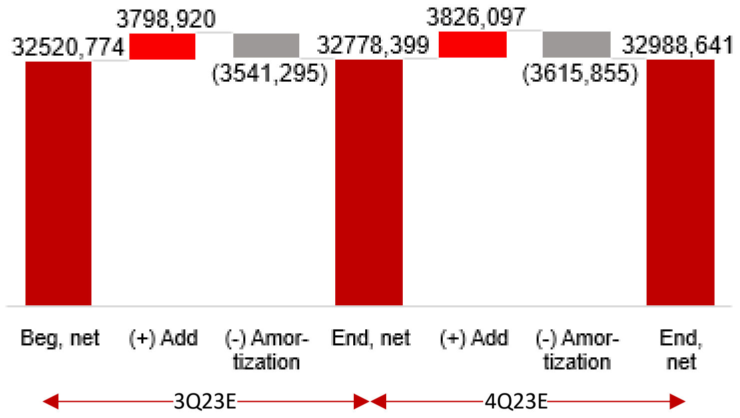
Balance Sheet (US$ mm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E
Cash and cash equivalents	6.009	5.819	6.114	5.147	6.715	7.663	8.891	9.113
Other current assets	2.089	2.021	2.703	4.119	3.768	3.844	4.132	4.436
Trade receivables	825	765	875	989	1.026	1.218	1.254	1.280
Total current assets	**8.098**	**7.841**	**8.817**	**9.266**	**10.483**	**11.506**	**13.023**	**13.549**
Content library, net	31.192	32.533	32.777	32.737	32.349	32.521	32.778	32.989
Property and equipment, net	1.384	1.362	1.373	1.398	1.413	1.472	1.485	1.492
Other non-current assets	4.657	4.615	4.595	5.193	5.245	5.318	5.318	5.318
Total assets	**45.331**	**46.351**	**47.562**	**48.595**	**49.490**	**50.817**	**52.605**	**53.348**
Current content liabilities	4.066	4.175	4.226	4.480	4.345	4.440	4.528	4.624
Accounts Payable	617	504	560	672	592	615	633	780
Other Current Liabilities	3.056	2.821	2.980	2.779	3.380	3.620	3.620	3.620
Total current liabilities	**7.740**	**7.500**	**7.766**	**7.931**	**8.316**	**8.676**	**8.782**	**9.023**
Long-term debt	14.535	14.233	13.888	14.353	14.038	14.070	14.070	14.070
Other non-current liabilities	5.513	5.542	5.380	5.533	5.308	5.239	5.358	5.420
Total liabilities	**27.787**	**27.275**	**27.034**	**27.817**	**27.662**	**27.985**	**28.210**	**28.514**
Common Stock	4.156	4.317	4.474	4.638	4.762	4.874	4.874	4.874
Retained earnings	14.287	15.728	17.126	17.181	18.486	19.974	21.534	21.972
Other accounts	(898)	(969)	(1.072)	(1.041)	(1.421)	(2.016)	(2.016)	(2.016)
Total stockholders' equity	**17.544**	**19.076**	**20.528**	**20.777**	**21.828**	**22.832**	**24.392**	**24.831**

1. An increase in Capex is expected based on 1% of sales
2. Spending on content is expected to slow its growth rate, due to the stalling of projects because of the writers' and actors' strike.
3. Accounts receivable remained at 15% of total sales and accounts payable maintained a value of 13% of total cost of sales.
3. Depreciation is calculated by applying linear depreciation with a 13-year horizon (average useful life of the assets)
4. Amortization is calculated based on the average percentage of the sales level of the last 2 quarters (42%)

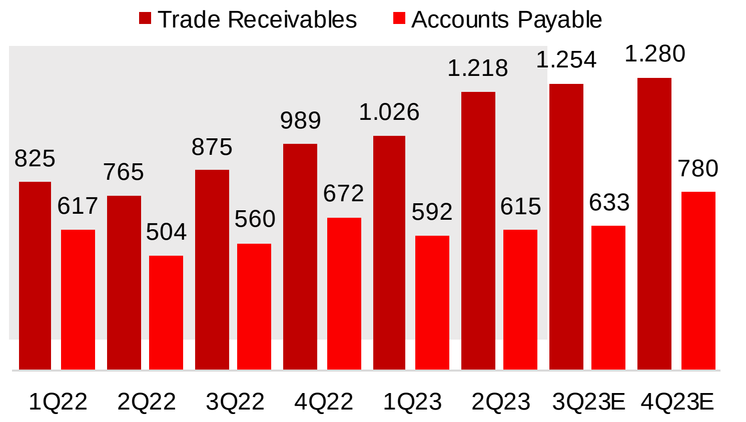
PP&E, CapEx & Dep (US$ mm)



Content Library (US$ mm)



Working Capital



Source: Netflix Inc. - SEC, Own proyections

CASH POSITION PROJECTION

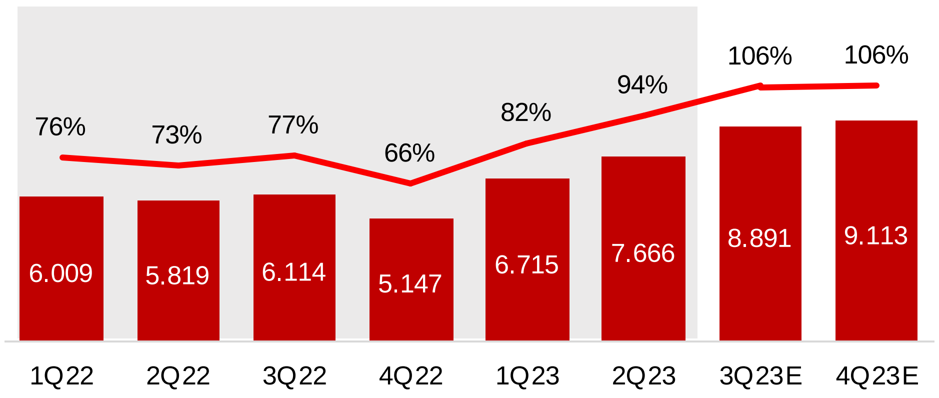
Cash Flow Statement (USD mm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E
Net income	1,597	1,441	1,398	55	1,305	1,488	1,560	439
Additions to streaming content library	(3,584)	(4,687)	(4,583)	(3,985)	(2,459)	(3,683)	(3,799)	(3,826)
Change in streaming content liabilities	(347)	191	61	274	(355)	46	206	158
Amortization of streaming content library	3,166	3,261	3,654	3,945	3,460	3,410	3,541	3,616
Depreciation and amortization of property, equipment and intangibles	75	84	85	93	90	89	88	95
Changes in working capital		(123)	93	(754)	(64)	(35)	(18)	120
Other changes in operating activities	(10)	(65)	(152)	815	201	125	-	-
Net cash provided by operating activities	**923**	**103**	**557**	**444**	**2,179**	**1,440**	**1,578**	**602**
Purchases of short-term investments	-	-	-	(911)	(202)	(303)	(252)	(278)
Purchases of property and equipment	(121)	(90)	(85)	(112)	(62)	(101)	(101)	(103)
Other changes in investing activities	(125)	(69)	-	(564)	-	502	-	-
Net cash provided by investing activities	**(246)**	**(159)**	**(85)**	**(1,587)**	**(264)**	**98**	**(353)**	**(380)**
Other changes in financing activities	(686)	11	4	7	(374)	(649)	-	-
Net cash provided by financing activities	**(686)**	**11**	**4**	**7**	**-374**	**-649**	-	-
Effect of exchange rate changes on cash and cash equivalents	(11)	(145)	(180)	165	26	39		
Net increase in cash and cash equivalents	(18.86)	(189)	294	(967)	1,567	928	1,225	221
Cash and cash equivalents, end of period	**6,009**	**5,819**	**6,114**	**5,147**	**6,715**	**7,666**	**8,891**	**9,113**

1 Projected cash levels are higher due to lower content spending and higher revenues.

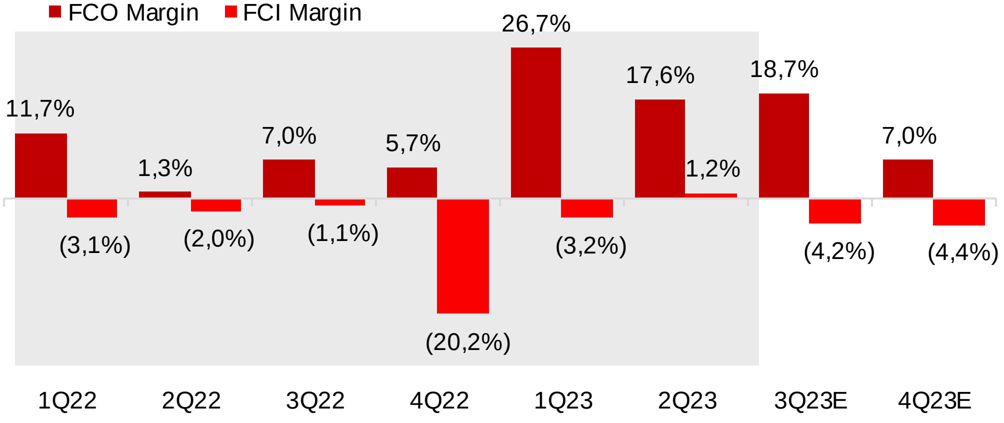
2 Due to high cash flows, no debt issuance is expected in the next two quarters.

3 Due to high cash flows, short-term investments are expected to increase in the remainder of the year.

Cash Flow evolution (US$ mm, % of revenues)



FCO and FCI margin evolution (% of revenues)

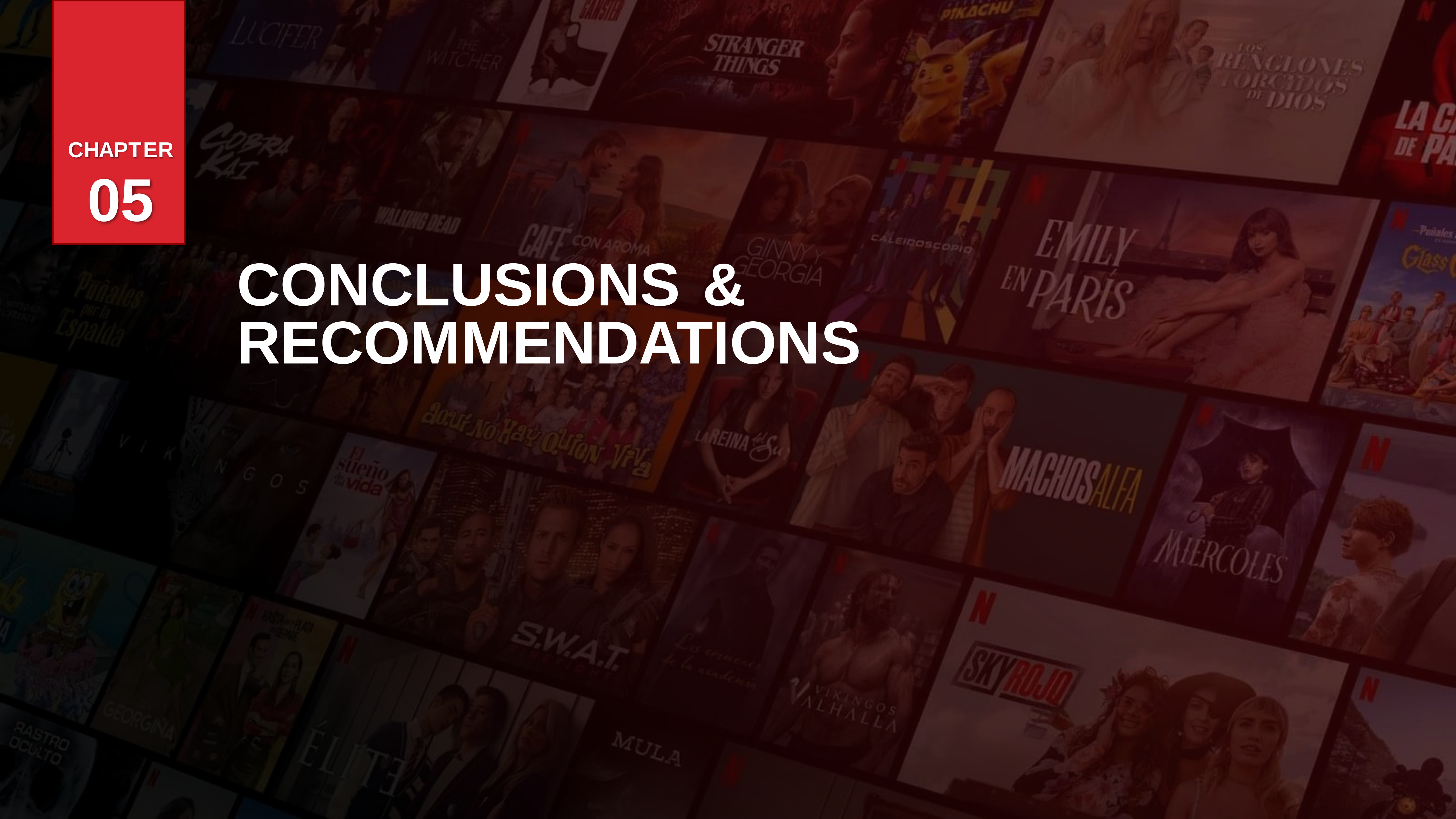


Source: Netflix Inc. - SEC, Own proyections

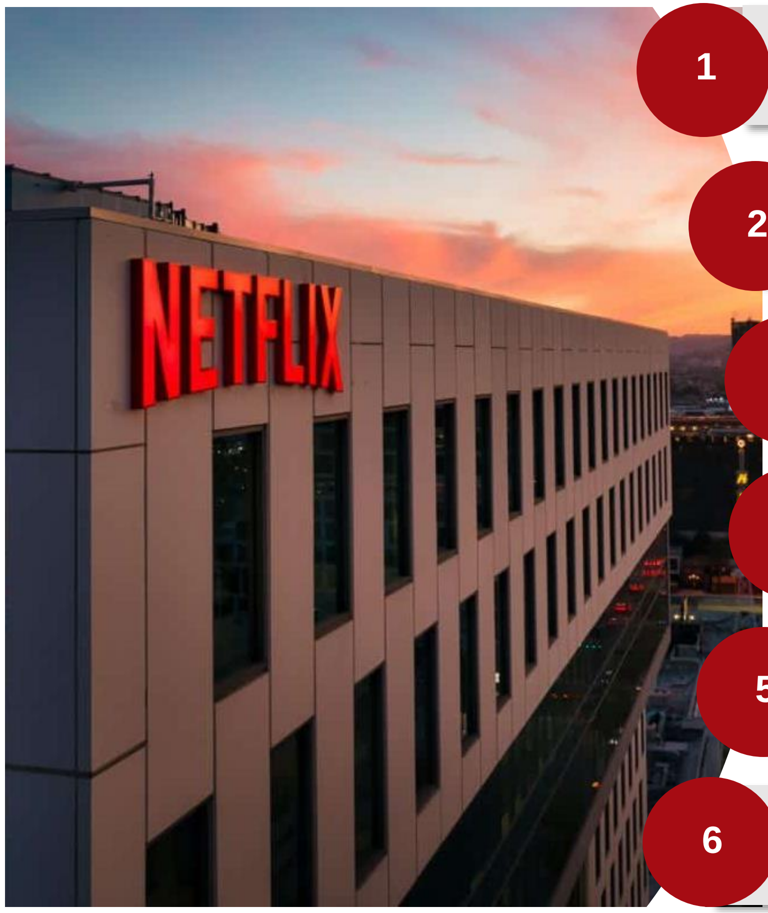
CHAPTER

05

CONCLUSIONS & RECOMMENDATIONS

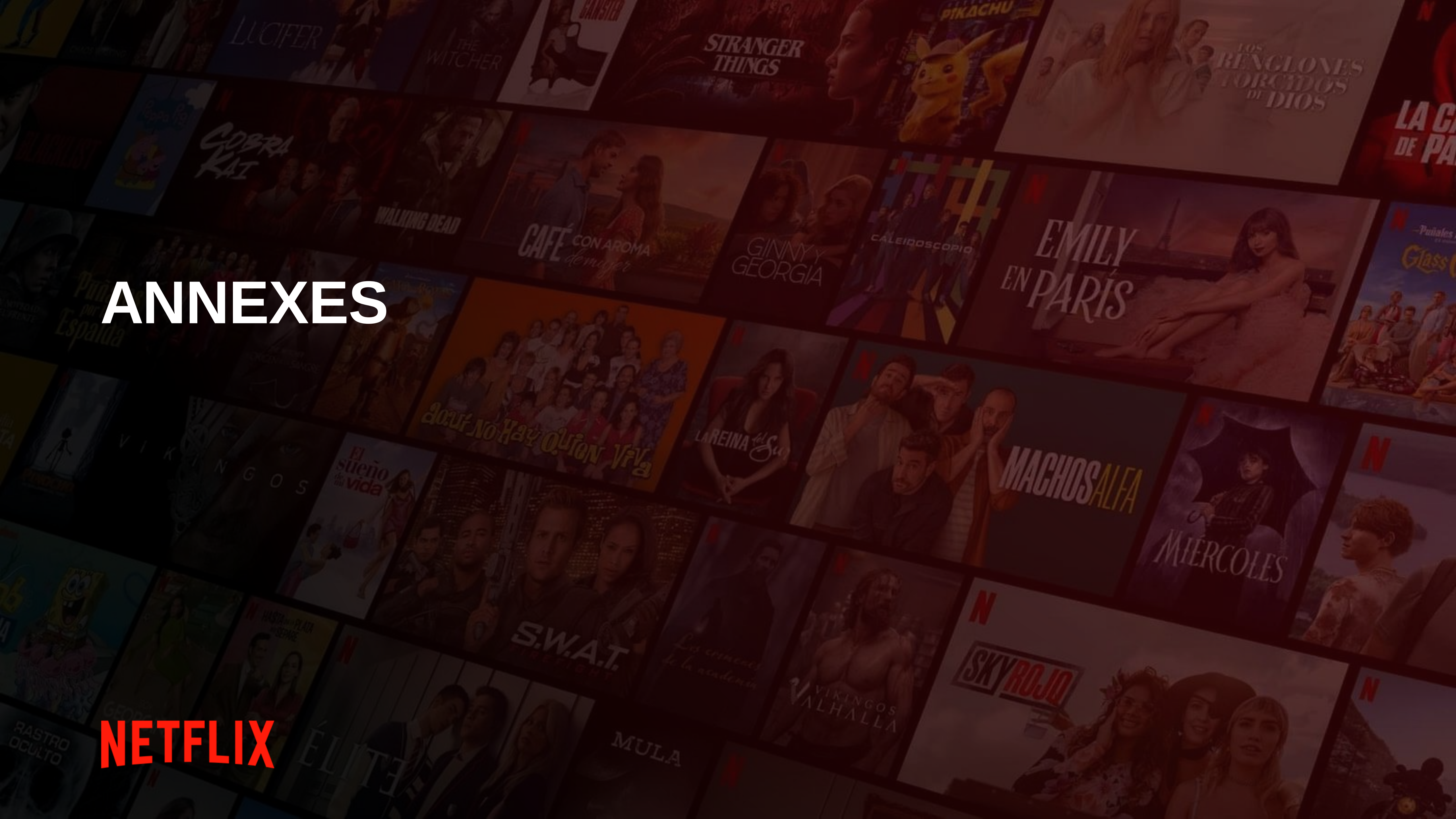


CONCLUSIONS AND RECOMMENDATIONS



1. Revenue growth is expected, mainly due to the increase in subscribers resulting from the elimination of shared accounts.
2. Negative cash flows are not anticipated for the remainder of the year.
3. Selling and marketing expenses are projected to be elevated by the fourth quarter of 2023.
4. The strategy of the new advertising plan and the prohibition of password sharing has yielded positive results. The year is anticipated to conclude with a substantial cash balance.
5. The anticipated outcomes will hinge on the continuation of the writers' and actors' strike, the persistence of measures against the use of shared accounts, and the ongoing introduction of more affordable account rates.
6. Excess cash flow can be utilized to bolster the company's investments and explore potential new acquisitions.

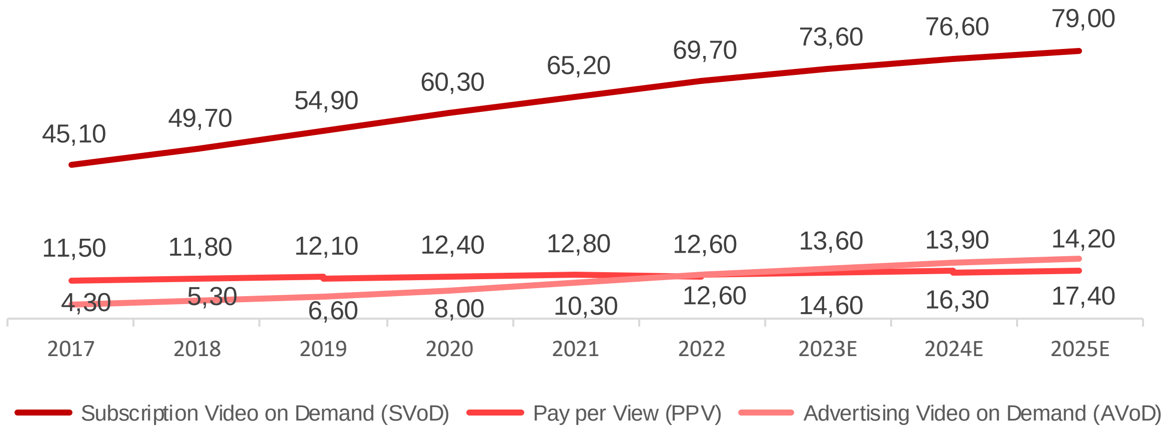
ANNEXES



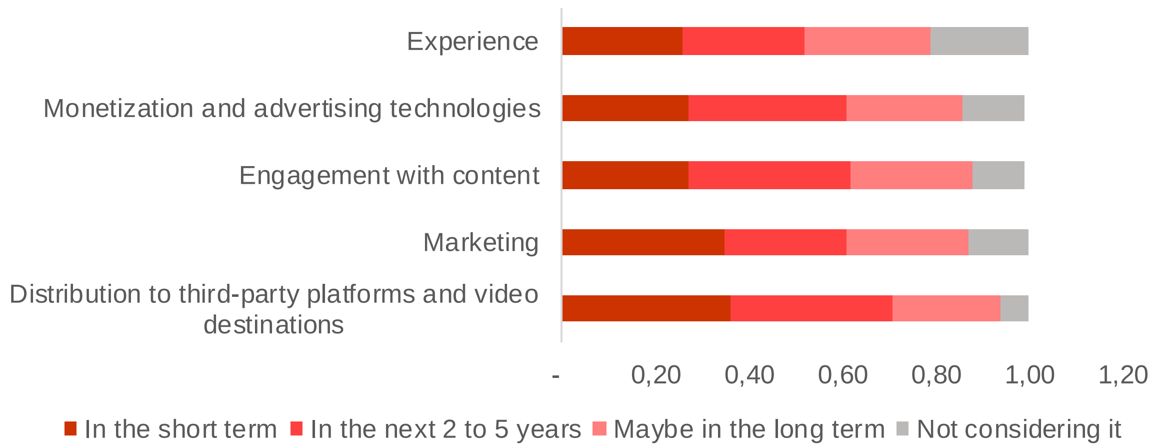
NETFLIX

INDUSTRY ANALYSIS AND POSITIVE FORECAST

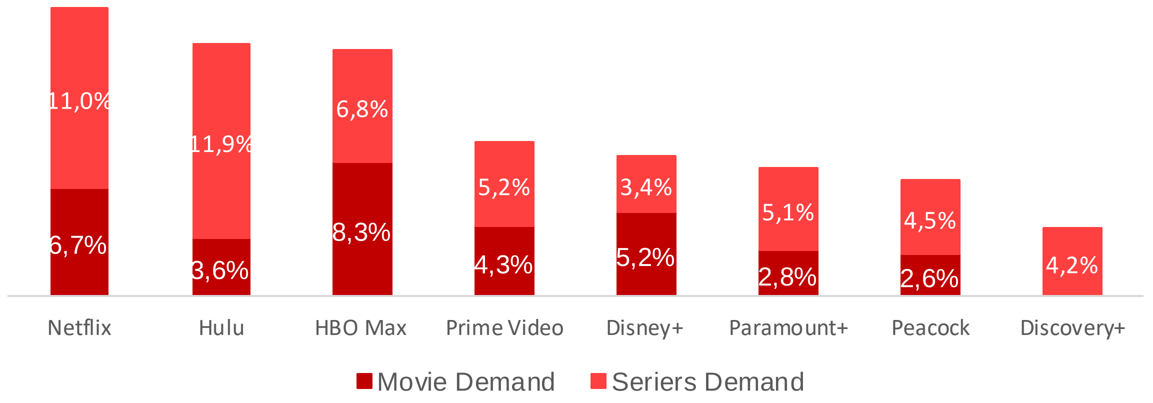
ARPU forecast in different business models (US$)



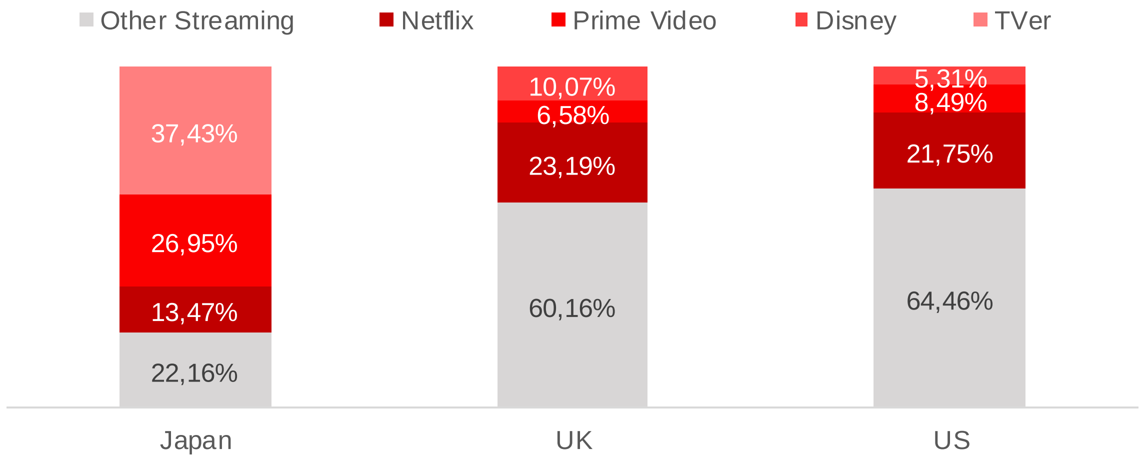
Investment plans SVoD



Total Catalog Demand Share (2022)



Share of Viewing (%)



CANVAS MODEL

Key Partners

- Content producers
- Film production companies
- Video game developers

Key Activities

- Original content production

Key Resources

- Own platform

Value Propositions

- Pioneers in streaming service
- Full customer experience
- High-quality and exclusive content
- Omission of advertising

Customer Relationship

- Self-service
- Suggestion algorithm
- Customer support

Channels

- Any device connected to the internet

Customer Segment

- Designed for any audience

Cost Structure

- Original content production
- Content licensing
- Software research and development
- Platform maintenance
- Operating expenses

Revenue Streams

- Membership plans
- Suscriptions
- Monthly fees
- Film studio with original programs

PESTEL ANALYSIS

Censorship in many countries, especially in one of the biggest economies like China. In other countries don't operate due US policies.

Besides, has to pay 26% traditional media tax as of operating their business in Europe.

Political

Economic

High exchange rate in many countries, becoming Netflix a luxury brand for many customers.

The annual revenue and net income of Netflix during the pandemic year of 2020 has increased by 26.19% and 98.48% respectively.

Netflix and its CEO not only do they allocate 2% of their annual income to the black community, but they also support students with low family incomes.

Availability of reliable broadband connectivity and wide area target networks for expansion should also be seen

Social

Technological

Coming 5G technology will be a major transformation for Netflix as it will increase the speed of surfing.

Hermes, the automatic translating software, is quite popular with Netflix users.

The company's recent investment in joining hands with EPA showcases its willingness to shift to renewable energy. Well, this increased environmental awareness may lead to growth.

Other steps towards a sustainable future include reduced use of papers in the office.

Enviromental

Legal

The sudden hike in subscription prices led the company to have a conflict with its customers. Some dissatisfied customers even filed class-action against the company.

The demand to access copyright content has increased by studios and TVs.

INCOME STATEMENT - VERTICAL ANALYSIS

Income Statement (US$ mm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	(54.5%)	(58.9%)	(60.4%)	(68.8%)	(58.9%)	(57.1%)	(57.1%)	(68.8%)
Gross Income	45.5%	41.1%	39.6%	31.2%	41.1%	42.9%	42.9%	31.2%
Marketing	(7.1%)	(7.2%)	(7.2%)	(10.6%)	(6.8%)	(7.7%)	(7.2%)	(10.6%)
Technology and development	(8.4%)	(9.0%)	(8.4%)	(8.6%)	(8.4%)	(8.0%)	(8.2%)	(8.2%)
General and administrative	(5.1%)	(5.1%)	(4.7%)	(5.0%)	(4.9%)	(4.9%)	(4.9%)	(4.9%)
Operating income	25.1%	19.8%	19.3%	7.0%	21.0%	22.3%	22.5%	7.4%
D&A	0.9%	1.0%	1.1%	1.2%	1.1%	1.1%	1.0%	1.1%
EBITDA	26.0%	20.9%	20.4%	8.2%	22.1%	23.4%	23.6%	8.6%

Source: Netflix Inc. - SEC

BALANCE SHEET - VERTICAL ANALYSIS

Balance Sheet (US$ mm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23E	4Q23E
Cash and cash equivalents	13.3%	12.6%	12.9%	10.6%	13.6%	15.1%	16.9%	17.1%
Short-term investments	-	-	-	1.9%	2.2%	1.8%	2.2%	2.7%
Current content library, net	-	-	-	-	-	-	-	-
Other current assets	4.6%	4.4%	5.7%	6.6%	5.4%	5.8%	5.6%	5.6%
Trade receivables	1.8%	1.7%	1.8%	2.0%	2.1%	2.4%	2.4%	2.4%
Total current assets	17.9%	16.9%	18.5%	19.1%	21.2%	22.6%	24.8%	25.4%
Content library, net	68.8%	70.2%	68.9%	67.4%	65.4%	64.0%	62.3%	61.8%
Property and equipment, net	3.1%	2.9%	2.9%	2.9%	2.9%	2.9%	2.8%	2.8%
Other non-current assets	10.3%	10.0%	9.7%	10.7%	10.6%	10.5%	10.1%	10.0%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Current content liabilities	9.0%	9.0%	8.9%	9.2%	8.8%	8.7%	8.6%	8.7%
Accounts Payable	1.4%	1.1%	1.2%	1.4%	1.2%	1.2%	1.2%	1.5%
Accrued expenses	4.0%	3.4%	3.8%	3.1%	3.5%	3.8%	3.6%	3.6%
Deferred revenue	2.7%	2.6%	2.5%	2.6%	2.6%	2.6%	2.5%	2.5%
Short-term debt	-	-	-	-	0.8%	0.8%	0.8%	0.7%
Other Current Liabilities	6.7%	6.1%	6.3%	5.7%	6.8%	7.1%	6.9%	6.8%
Total current liabilities	17.1%	16.2%	16.3%	16.3%	16.8%	17.1%	16.7%	16.9%
Long-term debt	32.1%	30.7%	29.2%	29.5%	28.4%	27.7%	26.7%	26.4%
Non-current content liabilities	6.5%	6.5%	6.2%	6.3%	5.9%	5.6%	5.6%	5.7%
Other non-current liabilities	5.7%	5.5%	5.1%	5.0%	4.8%	4.7%	4.5%	4.5%
Total liabilities	61.3%	58.8%	56.8%	57.2%	55.9%	55.1%	53.6%	53.5%
Common Stock	9.2%	9.3%	9.4%	9.5%	9.6%	9.6%	9.3%	9.1%
Retained earnings (accumulated deficit)	31.5%	33.9%	36.0%	35.4%	37.4%	39.3%	40.9%	41.2%
Treasury stock at cost	(1.8%)	(1.8%)	(1.7%)	(1.7%)	(2.5%)	(3.7%)	(3.6%)	(3.5%)
Accumulated other comprehensive income (loss)	(0.2%)	(0.3%)	(0.5%)	(0.4%)	(0.4%)	(0.3%)	(0.3%)	(0.3%)
Additional paid-in capital	-	-	-	-	-	-	-	-
Other accounts	(2.0%)	(2.1%)	(2.3%)	(2.1%)	(2.9%)	(4.0%)	(3.8%)	(3.8%)
Total stockholders' equity	38.7%	41.2%	43.2%	42.8%	44.1%	44.9%	46.4%	46.5%

Source: Netflix Inc. - SEC, Own proyections

CONTENT CALENDAR

2024 (Indefinite)

January, 2024