Netflix (NASDAQ: NFLX) Equity Research Report

Pacific Market Insights

April 30, 2025

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Target Price: USD 1,113.46

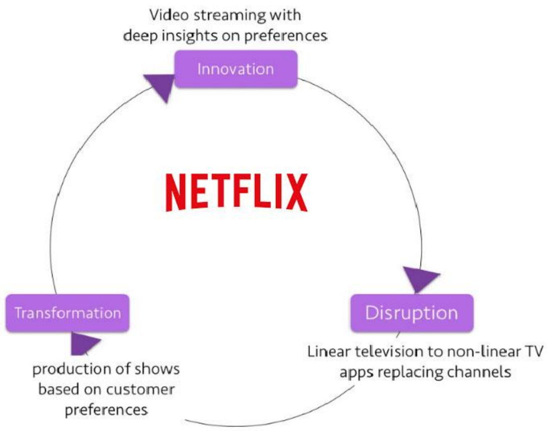
Recommendation: Hold

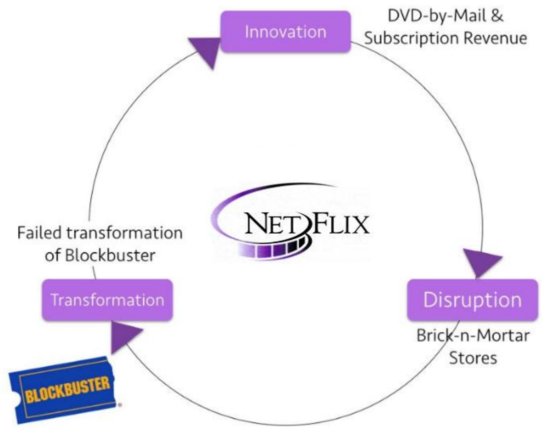
Company Overview:

Netflix was founded in Scotts Valley, California, in late 1997 as a DVD-by-mail service. From the outset, the company provided a value proposition that aimed to outdo its competitors. The company has continued along this innovative trend of technology advancement by creating one of the largest streaming service catalogues in the world, offering many of the world's most popular shows and movies from multiple continents. Netflix profits from a subscription-based model, where customers have the option between a few different plans, for which they pay monthly fees for access to the entire catalogue. Netflix has continued to stay ahead of market competition by establishing an economic moat around its business model, highlighted by its original content series. Popular shows on the platform bring in large sums of revenue for the company. They also come with a hefty price from their original network producers, to whom the company pays commission or outright buys out the content. To avert this, Netflix has begun investing heavily in its original content. Starting with the service's initial launch in 2013, Netflix propelled its initial three original series, House of Cards, Orange is the New Black, and Hemlock Grove. Today, they have over 3,700 original movies and TV seasons and continue to impress with blockbuster series such as House of Cards, Stranger Things, and Squid Game.

More recently, Netflix has begun purchasing a large majority of its catalogue from content-creating studios, cutting out commission costs associated with longer-term partnerships. However, this decision has come at the expense of a few notable series being removed from the platform (Space Jam, Interstellar, The Karate Kid). Netflix also engages in aggressive reinvestment of the majority of its revenue, continually building out its catalogue to capture a larger share of the market segment. Another method the company employs to diversify its revenue streams is product placement. Because of the freedom of production, the company has surrounded its original content, it can charge companies such as PlayStation and Coca-Cola to appear in its series, advancing its relationship with other major consumer-facing brands while associating the show with a wider audience.

Netflix has always believed in the concept of disruption to expand its value proposition. Its initial business model revolved around innovation, disruption, and transformation of the media market to capture customers from both DVD brick-and-mortar stores (Blockbuster) and linear television channels (HBO, Peacock), replacing them with a more engaging and cost-effective alternative: streaming.





Leadership Structure:

Netflix has adopted an industry-defying corporate structure, with co-CEOs Ted Sarandos and Greg Peters at the helm of the company. The company is also unstandardized as they operate in a flat and decentralized structure, with no traditional management format. Instead, the company is divided into small, autonomous teams that diversify and tackle individual issues spanning specific areas such as content, product, and marketing. Because of this unique nature, the company boasts strong confidence in both its employees and leadership, and a higher employee rating than any of its competitors, according to multiple sources.

Company	Overall Satisfaction (out of 100)	Glassdoor Rating (out of 5)	% Recommend to Friend	Comparably Happiness Score (out of 100)	Pay & Rewards Score	Work-Life Balance	Benefits Rating (out of 5)
Netflix	84	4.3	85%	88	57.60%	B	4.4
Disney	78	3.8	72%	80	13.10%	B+	4.1
Amazon	75	3.9	76%	78	10.50%	B	4
Hulu	73	3.8	70%	77	12.00%	B	4
Roku	74	3.9	72%	79	14.00%	B	4.1
Fubo TV	72	3.7	68%	75	8.00%	B–	3.8
AMC	72	3.7	67%	74	7.00%	B–	3.7

Economic Moat:

One of the most powerful factors that can elevate a company to monopolistic heights in its industry is brand genericization: a phenomenon in which a company and its namesake become synonymous with the product/service it provides. Although I would hazard to say Netflix is quite on the level of Google or Tupperware, it is certainly climbing the ladder and has established itself as a household name in the media streaming industry. Because of this dominance, the company can employ the first of its tactics to establish an economic moat, scale economics. Its massive scale and sheer subscriber volume allow it to reinvest heavily into content while reducing average costs per user. This benefits the company twofold, as it allows them to capture further market segments with the constant rollout of relevant and popular shows and movies, but also continually reduces prices for users and allows the company the expand its value proposition by offering cheaper packages than its competitors. This ties in well with the second factor behind its dominance, the strong brand image surrounding its name. As it was one of the first companies to experiment with online streaming, its prevalence allows it to attract and retain a worldwide following and command premium prices (if it chooses) to its competitors. Despite this, the company still offers a range of pricing services (catalyzed by rampant growth following the pandemic and a potential slowdown now with the global trade war) that both undercut or match (at the lowest tier) and overprice (at the premium tier) their services relative to competitors.

Service	Ad-Supported Plan	Standard/Ad-Free Plan	Premium/4K Plan
Netflix	$7.99	$17.99	$24.99
Disney+	$9.99	$15.99	-
Hulu	$9.99	$18.99	-
Disney+ & Hulu Duo	$10.99 (with ads)	$19.99 (no ads)	-
Max (HBO)	$9.99	$16.99	$20.99
Amazon Prime Video	$8.99 (ads)	$11.98 (ad-free)	-
Apple TV+	-	$9.99	-
Paramount+	$7.99	$12.99 (with Showtime)	-

The final layer of their economic moat lies within the counter-positioning and disruption of the traditional cable TV model by offering cheap and reliably expansive shows at a fraction of the broadcast's price. A user experience and UI that is easier to navigate and features a flexible on-demand service allows customers to personalize their experiences, without the need to watch at a specific time to catch the latest episode of their favourite new series. Now, that is all available anytime, anywhere, and despite competition from other streaming services such as Disney+ and Hulu attempting to match Netflix's offerings, the prestige and sheer volume (the second largest) of their catalogue entices customers of all income levels to own an account with Netflix.

Analyst Thesis:

Qualitative:

With the uncertainty of the market surrounding the recent events and Donald Trump's unpredictable foreign policy, banking professionals have forecasted a recession as a more than likely possibility. Many companies will suffer because of this, as unemployment rises and consumerism diminishes, people will begin reducing their expenses to make up for the lack of disposable income. With no end in sight from either the US or China and both countries being led by extremely prideful individuals (Trump and Jinping), we are likely in for a long and drawn-out conflict. However, Netflix and its simplistic value proposition may be able to skirt this volatility and remain stable fundamentally due to its competitive advantage in self-produced films, and relatively cheap offering, especially now with its tiered and ad-supported options for consumers. Unemployed individuals often spend more time online, and the biggest streaming giant may see strong growth potential in this demographic during times of global economic downturn.

Quantitative:

Netflix has seen a rampant turnaround in both revenue and guidance following the company's lackluster performance in the mid 2022s. In 2025, Q1 revenue reached over the $10 billion mark for the second consecutive quarter in the company's history, beating estimates and establishing a 12.5% growth on the previous year. Further, its guidance projects almost $45 billion across 2025, affirming the company's confidence in its continued success, despite economic uncertainty revolving around the global trade war. Supported by price increases, the introduction of ad-supported options, and international expansion (of both their catalogue and serviceable obtainable market), the company forecasts 12.2% CAGR by 2030, signalling to investors that management is confident in the business and its performance moving forward. With over 300 million worldwide subscribers, ad-tier subscriptions now make up roughly 35% of all new signups, with average revenue per user (ARPU) expected to rise as ad revenue scales. So far, the company has allocated over $18 billion to content in 2025, expanding to work with professional sports and entertainment organizations such as the NFL and WWE. With such a high allocation of funds for reinvestment, the company is committed to expanding its service for customers and creating the best option in the world for consumers interested in all forms of content. From the investors' perspective, the 2025 Q1 ESP reached $5.70, exceeding analysts' expectations and invigorating investors to project strong growth of 15-20% over the next year. Another driver of investor confidence in the stability of the stock price is the aggressive buyback operations the company has done in 2024 ($6.2 billion) and has authorized $15 billion in 2025. Overall, the shared outstanding has trended downward in recent years, increasing EPS and improving investment conditions.

Drivers:

Relatively stable outlook despite global uncertainty

Netflix is a very cost-efficient platform for users, with over 94 billion hours of content available for the small price of USD 7.99/month (at the lowest tier). Through this expansive range of shows, movies, documentaries, and live streams, its catalogue appeals to a wide range of individuals with varying interests, making it the perfect entertainment source for families of all ages. There is always something for someone to enjoy on Netflix, and the sheer volume of its offerings is enough to entice families of all income levels to subscribe to the service.

Income Bracket (Annual)	% of Netflix Users
Under $25,000	~14%
$25,000 – $50,000	21%
$50,000 – $75,000	~23%
$75,000 – $100,000	~21%
$100,000+	~21%

This ease of access has led investors to posit that the stock is “recession-proof”. This means that with the ongoing uncertainty of the market, Netflix, along with a select group of similarly resilient stocks, will be generally unharmed by these swings of volatility, at least compared to its competitors. This has caused a sharp incline in the company's valuation and has led to a moderate trading P/E multiple. This macroeconomic trend has yet to appear in the hard data on the company’s financial statements, but consumer sentiment is trending upward. Confidence in alternatives is waning, allowing for a more optimistic growth rate and lower required ROI in the DCF analysis, looking into the next 5 years for the company.

Content success and originals

Netflix has one of the most prolific and largest content catalogues in the world, with hit originals such as Stranger Things, Squid Game, and Wednesday as some of the many different series driving the company's growth. Netflix has seen rapid success with this innovation and has expanded to include mobile games and sports media partnerships in its offerings, aiming to experiment and serve a different aspect of customers' interests. Its history of success will only continue to boost stock prices with the successive releases of more original content, but with some of the most prolific shows making a return in 2025 – the final season of Stranger Things, Squid Game season 3, and Wednesday season 2 all set to return this year, consumers following these shows are inclined to subscribe to the platform for exclusive access to these shows. There are also some exciting new shows coming to the platform, such as Long Story Short (an animated series by the creators of the popular show Bojack Horseman), Jurassic World: Chaos Theory, and a sports documentary surrounding one of the most influential teams in America, the Boston Red Sox. Overall, Netflix aims to expand on its current dominance over the original content space and has strong projects planned for some of its most popular shows, driving growth and revenue for the company in the coming years.

Strong multiple trends, both trading and operational

As is evident within the comparable company analysis, Netflix is both fiscally healthier and trades at a higher multiple than many of its competitors. However, the strong internal health and investor confidence indicate that in a time of market uncertainty, investors will choose to put their money into a stock they can trust to perform, which, of course, will support the company in its efforts to expand. Overall, Netflix's financial well-being, lean operating model, and healthy growth prospects position it well within the competitive streaming sector. That the company is in a position to command high trading multiples, as well as its excellent operating margins, attests to investors' confidence in its long-term value proposition. This combination of strength and opportunity suggests Netflix is well-placed to aggressively pursue further growth initiatives, like strategic transactions, expansion into new content platforms (e.g., live sports), or increased investment in foreign markets. Eventually, Netflix's budgetary discipline and proven ability to adapt to changing consumer habits should enable it to continue generating value for both its subscribers and shareholders.

Bulls say:

- Netflix’s existing market dominance and relatively cheap service provide a natural economic moat around its value proposition, making the company relatively immune to economic fluctuations surrounding the current political uncertainty, effectively rendering the stock “recession-proof”.
- Their new pricing model fits with ad-supported options, expands its customer segment, and provides ample room for growth in future quarters.
- Netflix has a strong current ratio (1.2), reflecting high liquidity and investor downside protection.
- Netflix has by far the largest global reach of any of its competitors, as well as the strongest catalogue of international content, which will allow it to maintain its revenue streams even in a global economic slowdown.
- Netflix is expanding aggressively to diversify its revenue streams, exploring partnerships with key entertainment companies like WWE and the NFL. It also plans to expand into live events and gaming as other options, fueling investor confidence in upside potential.
- Netflix has a history of stability through economic uncertainty (2020-2022) and will replicate this resilience now.

Bears say:

- Slowing growth (down 4% in Q1 2025 from Q4 2024) despite strong forward guidance, indicating a potential discrepancy between management expectations and investor forecasts.
- Strong reinvestment in annual content costs risks margin pressure if the engagement falters.
- Increasing size of competition (with Amazon Prime overtaking Netflix as the largest paid catalogue service) and rampant, aggressive expansion by others (Disney+: 7%, Peacock: 6%) and Netflix’s slowing expansion rate worry investors about the sustainability of its model in the current competitive climate.
- Surrounded by economic uncertainty, Netflix has decided to forego reporting quarterly subscriber numbers in 2025, which could mark a slowdown in user growth that the company is not willing to disclose to investors.
- As Netflix reinvests heavily into its content, investors worry that this massive investment (over $18 billion annually) may not translate into proportional subscriber revenue growth.
- Management is cautious of possible market headwinds, as the Netflix team failed to raise its full-year guidance heading into the Trump administration and global uncertainty.
- Netflix continues to trade at a premium valuation (P/E ~46x) compared to competitors like Disney (~27x), and Amazon (~37x).
- Investors emphasize the need for the company to maintain its current momentum into this time of economic uncertainty to maintain its current valuation, indicating that the stock price (and the market as a whole) is in a state of instability.

Recent News:

Donald Trump’s tariffs

The tariffs Donald Trump has imposed on almost all of America’s global trade partners have sparked an international trade war and spooked investors across all markets during this time of extreme volatility. Retaliatory tariffs from other countries, such as China and the EU, have further increased the stress of investors and caused almost all assets (apart from gold) to dive in the past few months. This has caused investors to look for assets that they can rely on will perform strongly through this time. Fortunately for Netflix, the stock has been labelled “recession-proof” by many Wall Street analysts, which has pushed the price up further as the uncertainty persists. However, this is not to say this company is immune to risks, such as economic ripple effects, retaliatory international policies, and supply chain disruptions. Tariffs on goods will impact the everyday consumer, leaving individuals with less disposable income, and thus a smaller amount of money they can spend on entertainment services such as Netflix. Compounding this effect is the increasing supply chain costs with companies as globally dominant as Netflix. Although it does not transfer physical objects and instead offers a service, supply chain price hikes internationally will impact all businesses operating on a global scale.

Netflix is raising its prices on all tiers, but maintains a strong revenue outlook

Across the board, Netflix has raised its prices for subscribers starting in early 2025. The company cited that these changes are associated with the expansion of its catalogue, as well as counteracting inflation and changes in local taxes, although economic uncertainty surrounding Trump's election is also a likely factor in this price hike. The CaaS (content as a service) nature of the business limits its exposure as it has a far lesser dependence on global supply chains to sustain its business, allowing the company to sustain its business at a lower increase in costs compared to many of its competitors. In Q1, Netflix reported revenue of $10.54 billion, beating analysts' expectations of $10.52 billion. Netflix may attribute most of this confidence to a strong diversification of revenue streams, highlighting in particular their ad-supported tier as a main driver of revenue growth, as this tier has driven a reported 55% of new signups in countries where it's available. If the global economic unrest continues, many individuals will likely turn to this new tier as a means of maintaining their entertainment source and seeking a more cost-effective alternative to Netflix’s competitors.

Former Co-CEO Reed Hastings steps down from position

One of the founders of the company, Reed Hastings, has voluntarily stepped down from his position as co-CEO to serve as chairman of the board in a non-executive director position. After 27 years of service with the company, the co-founder has decided to move on and quietly step down, showing maturity in his passing of power to his successor, Greg Peters. On April 17, 2025, in their Q1 earnings call to investors, the company announced Reed’s departure, as well as mentioning that their longest-standing independent director, Tim Haley, would not stand for re-election. This signifies a dramatic shift in the company's leadership. However, the company has maintained its 2025 guidance, and investors appear confident in the stock's current trajectory, as the value of the stock stabilized over the next few days on this news.

Comparable Company Analysis

From a shortlist of comparable companies provided by CapIQ, a list of both trading and operating multiples has been compiled and contrasted for a better understanding of the relative value of the Netflix company.

Trading multiples

Moving from left to right, each of these multiples tells a different story about how Netflix is valued by traders relative to its peers. All statistics were gathered based on information from the company in the past 12 months of operations. The first, TEV/Total Revenue, presents a mean of 3x across all competitors, with a high of 7.5x (Spotify). Netflix trades beyond this multiple, at 11.9x. This indicates that investors value the stock of Netflix at a much higher premium relative to the revenue the company generates, indicating strong belief in the companies growth potential, but also highlighting a potential overvaluation of the companies stock price (i.e. It may be trading at a much higher value than what the company is internally worth.) However, this multiple does not tell the full story, as Netflix trades at a TEV/EBITDA margin of 39.4, much closer to the industry average of 27.8x. Still higher than average, the company cuts the difference down significantly from its TEV/Total Revenues multiple, indicating much lower operating costs than its competitors. Further, its below-average TEV/EBIT multiple indicates that Netflix has a smaller stock of depreciating assets, meaning it has a more advanced operational efficiency than its competitors, according to multiple data sources. These three decreasing ratios (relative to industry averages), along with the average P/E ratio, indicate Netflix is generating strong revenue, has very efficient operating costs, and is below average concerning depreciating assets. All these factors culminate in indicating a strong growth stock and help contribute to the proposed growth rate of 5% in the DCF.

Currency:	US Dollar			
As-Of Date:	Apr-26-2025			
Company Comp Set	LTM Multiples			
Company Name	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest
Warner Bros. Discovery, Inc. (NasdaqGS:WBD)	1.5x	7.5x	116.6x	NM
Spotify Technology S.A. (NYSE:SPOT)	7.5x	77.6x	83.8x	109.0x
Roku, Inc. (NasdaqGS:ROKU)	2.0x	49.4x	NM	NM
The Walt Disney Company (NYSE:DIS)	2.2x	10.2x	14.9x	29.4x
Paramount Global (NasdaqGS:PARA)	0.8x	8.4x	9.8x	NM
Live Nation Entertainment, Inc. (NYSE:LYV)	1.5x	15.6x	28.2x	48.5x
CuriosityStream Inc. (NasdaqCM:CURI)	3.4x	40.2x	NM	NM
Alphabet Inc. (NasdaqGS:GOOGL)	5.3x	13.6x	16.0x	18.1x
Netflix, Inc. (NasdaqGS:NFLX)	11.9x	39.4x	42.9x	52.1x

Summary Statistics	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM - Latest
High	7.5x	77.6x	116.6x	109.0x
Low	0.8x	7.5x	9.8x	18.1x
Mean	3.0x	27.8x	44.9x	51.2x
Median	2.1x	14.6x	22.1x	38.9x

Operating Multiples

Netflix shows high margins across the board, indicating strong operational efficiency in almost all categories. Its gross margin is slightly above the industry average at 46.9%, highlighting the company's ability to regulate production costs relative to sales. Despite being only 6% above the average, the only companies with higher margins are Curiosity Stream and Alphabet Inc. Curiosity Stream has a much smaller catalogue and is owned and operated by a small group of content creators, many of whom source their main audience through educational YouTube content. This allows the platform to have very small operating margins and little advertising or partnership expenses, as it’s owned by its creators. Alphabet has a vast network of other services, including Google, Chrome, Waymo, Android, and YouTube, meaning it's difficult to compare directly to Netflix, as its earnings and expenses are diversified across so many different revenue streams. Netflix has strong EBITDA, EBIT, and Net Income Margins, beating all competitors save for Alphabet (likely due to their extremely profitable advertising business) across all categories. This strengthens investor confidence and is evidence of high levels of free cash flow (FCF), much of which the company chooses to reinvest into its content. This investment has caused investor confidence to waiver, as the company possesses a moderate 42.03% total debt/capital ratio, but high levels of FCF and efficient operations costs mean the company can easily pay back its debt in a few years, and the only reason the company finds itself in such a position is because of the rampant reinvestment into their content. A final piece of solace that investors hold onto is the lower-than-average total debt/EBITDA multiple, which again reaffirms the company's ability to quickly lay back its debt if it so chooses, at the expense of some content.

Currency:	US Dollar					
As-Of Date:	Apr-26-2025					
Company Comp Set	LTM Multiples					
Name	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Net Income Margin %	LTM Total Debt/Capital %	LTM Total Debt/EBITDA
Warner Bros. Discovery, Inc. (NasdaqGS:WBD)	42.60%	19.50%	1.60%	-28.77%	55.18%	5.3x
Spotify Technology S.A. (NYSE:SPOT)	30.20%	9.40%	9.00%	7.26%	27.31%	1.4x
Roku, Inc. (NasdaqGS:ROKU)	43.90%	2.00%	-4.60%	-3.15%	19.19%	3.6x
The Walt Disney Company (NYSE:DIS)	36.70%	19.90%	14.50%	6.07%	29.80%	2.3x
Paramount Global (NasdaqGS:PARA)	33.50%	10.00%	8.60%	-21.19%	48.55%	5.4x
Live Nation Entertainment, Inc. (NYSE:LYV)	25.20%	7.80%	5.40%	3.87%	80.96%	3.7x
CuriosityStream Inc. (NasdaqCM:CURI)	50.40%	12.40%	-25.70%	-25.31%	6.89%	0.6x
Alphabet Inc. (NasdaqGS:GOOGL)	58.60%	37.70%	33.20%	30.86%	7.62%	0.2x
Netflix, Inc. (NasdaqGS:NFLX)	46.90%	28.50%	27.70%	23.07%	42.03%	1.4x

Summary Statistics	LTM Gross Margin %	LTM EBITDA Margin %	LTM EBIT Margin %	LTM Net Income Margin %	LTM Total Debt/Capital %	LTM Total Debt/EBITDA
High	58.60%	37.70%	33.20%	30.86%	80.96%	5.4x
Low	25.20%	2.00%	-25.70%	-28.77%	6.89%	0.2x
Mean	40.10%	14.80%	5.30%	-3.79%	34.44%	2.8x
Median	39.70%	11.20%	7.00%	0.36%	28.56%	3.0x

Growth Multiples

Netflix far supersedes all of its main competitors in the past year across revenue and EBIT growth, but lags slightly behind in net income. A potential cause of this is the rampant reinvestment the company is currently pursuing into expanding its media streams, experimenting with livestreaming events in partnership with the WWE or NFL, creating a catalogue of mobile games within the app, and expanding on its current selection of extremely popular originals. Despite this, investor confidence is high, and the stock continues to trade at a premium. Investors believe this constant reinvestment will expand the company's market segments and allow for healthy internal growth, justifying the P/E multiple the company currently trades at relative to its competitors.

Currency:	US Dollar		
As-Of Date:	Apr-26-2025		
Company Comp Set	LTM Growth		
Name	LTM Total Revenues, 1 Yr Growth %	LTM EBIT, 1 Yr Growth %	LTM Net Income, 1 Yr Growth %
Warner Bros. Discovery, Inc. (NasdaqGS:WBD)	-4.84%	-	-
Spotify Technology S.A. (NYSE:SPOT)	18.31%	-	-
Roku, Inc. (NasdaqGS:ROKU)	18.03%	-	-
The Walt Disney Company (NYSE:DIS)	4.01%	30.49%	88.04%
Paramount Global (NasdaqGS:PARA)	-1.48%	36.12%	-
Live Nation Entertainment, Inc. (NYSE:LYV)	1.89%	12.20%	60.94%
CuriosityStream Inc. (NasdaqCM:CURI)	-10.12%	-	-
Alphabet Inc. (NasdaqGS:GOOGL)	13.07%	29.20%	34.69%
Netflix, Inc. (NasdaqGS:NFLX)	15.00%	41.41%	44.05%

Summary Statistics	LTM Total Revenues, 1 Yr Growth %	LTM EBIT, 1 Yr Growth %	LTM Net Income, 1 Yr Growth %
High	18.31%	36.12%	88.04%
Low	-10.12%	12.20%	34.69%
Mean	4.86%	27.00%	61.23%
Median	2.95%	29.85%	60.94%

Discounted Cash Flow Analysis

Implied Share Price

Based on the results of the discounted cash flow analysis, the implied share price for Netflix is $1113.46, driven by a required rate of return (ROI) of 7.22% and an expected growth rate of 5%. This rate is noticeably higher compared to industry averages, but Netflix's prominence and dominance in both trading and operational multiples make this a viable assumption, given the company maintains its current trajectory.

The Enterprise value comes in at an estimated $482 billion, slightly higher than industry estimates ($477 billion per CapIQ), and is comprised of a present value (PV) of future cash flows of $43 billion, as well as a PV of terminal value at $438 billion.

The equity value was taken from adjusting the enterprise value to increase with current cash ($8 billion) less current and long-term debt ($15 billion), arriving at a final value of $474 billion ($469 per CapIQ estimates).

This valuation posits that the company is poised for strong future growth and needs only to generate a small ROI compared to historical averages to perform well, due to the current market uncertainty and loss of consumer confidence in many other financial instruments.

Implied Share Price Calculation	
Sum of PV of FCF	43,412
Growth Rate	5.0%
Required ROI (WACC)	7.22%
Terminal Value	621,142
PV of Terminal Value	438,257
Enterprise Value	481,668
(+) Cash	7,805
(-) Debt	15,583
(-) Minority Interest	0
Equity Value	473,890
Diluted Shares Outstanding (mm)	425.60
Implied Share Price	**1,113.46**

Sensitivity Analysis

Terminal FCF Growth Rate vs. Discount Rate gives a range of implied share prices:

Sensitivity Table						
		Growth Rate				
	1,113.46	4.50%	4.75%	5.00%	5.25%	5.50%
WACC	7.72%	773.00	832.85	903.69	988.85	1,093.14
	7.47%	840.53	912.03	997.97	1,103.24	1,235.18
	7.22%	920.46	1,007.21	1,113.46	1,246.63	1,418.42
	6.97%	1,016.55	1,123.80	1,258.22	1,431.62	1,663.83
	6.72%	1,134.26	1,269.94	1,444.97	1,679.37	2,009.51

Projected Unlevered Free Cash Flow

Assuming a slight decline in 2025 and 2026, with the hype from ad-sponsored pricing dying down and competitors offering similar models, the model projects consistent growth in sales in the following years. COGS will remain stable as the company continues to maintain its operational efficiency. Expenses related to research and development (R&D), selling, general, and administrative (SG&A), and taxes will all remain constant in the following years.

Unlevered free cash flow will see a dramatic increase in 2025, with steady growth projected into the year 2029. This sudden increase can be attributed to a moderate increase in net operating profit after tax (NOPAT), as well as a sizeable increase in the net working capital. Aside from that outlier, the assumptions have been included in the net working capital section, there are no further notable changes in the projections for the company. Netflix is projected to sustain its margins and generate substantial free cash flow to position itself for long-term growth.

Unlevered Free Cash Flow (mm)								
Fiscal Year	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Revenue	31,616	33,723	39,001	44,071	49,800	55,776	62,470	69,966
COGS	19,168	19,715	21,038	23,773	26,864	30,088	33,698	37,742
Gross Profit	**12,447**	**14,008**	**17,963**	**20,298**	**22,936**	**25,689**	**28,771**	**32,224**
R&D Exp.	2,711	2,676	2,925	3,306	3,735	4,184	4,686	5,248
Selling, General, Administrative	4,103	4,378	4,620	5,220	5,899	6,607	7,399	8,287
Total Operating Expenses	6,814	7,054	7,545	8,526	9,634	10,790	12,085	13,535
EBITDA	**5,633**	**6,954**	**10,418**	**11,772**	**13,302**	**14,899**	**16,686**	**18,689**
Depreciation & Amortization	616	754	855	778	831	887	947	1,011
Operating Profit (EBIT)	**5,017**	**6,200**	**9,563**	**10,994**	**12,472**	**14,012**	**15,739**	**17,678**
Operating Taxes	772	797	1,254	1,516	1,720	1,932	2,170	2,437
NOPAT (Net Operating Profit After Taxes)	**4,245**	**5,403**	**8,309**	**9,478**	**10,752**	**12,080**	**13,569**	**15,240**
(+) Depreciation & Amortization	616	754	855	778	831	887	947	1,011
(-) Capital Expenditures	609	798	1,045	1,090	1,164	1,243	1,327	1,416
(-) Change in NWC	1,010	231	2,779	90	1,238	1,403	1,647	1,929
NWC	2,098	2,329	5,108	5,198	6,436	7,839	9,485	11,414
Current Assets	8,870	9,509	12,668	14,440	16,880	19,536	22,587	26,088
Current Liabilitites	6,772	7,180	7,561	9,243	10,444	11,698	13,101	14,673
Unlevered Free Cash Flow	**3,242**	**5,128**	**5,340**	**9,076**	**9,180**	**10,321**	**11,543**	**12,906**

Assumptions								
Fiscal Year	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Revenue Growth		6.7%	15.6%	13.0%	13.0%	12.0%	12.0%	12.0%
COGS % of Revenue	60.6%	58.5%	53.9%	53.9%	53.9%	53.9%	53.9%	53.9%
R&D % of Revenue	8.6%	7.9%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
SG&A % of Revenue	13.0%	13.0%	11.8%	11.8%	11.8%	11.8%	11.8%	11.8%
Tax % of EBIT	15.4%	12.9%	13.1%	13.8%	13.8%	13.8%	13.8%	13.8%

Revenue Growth Justification

Netflix has its 2025e guidance set at a range of 11-13% revenue growth, with industry consensus predicting a further 12.2% CAGR between 2024-2027. Netflix is rapidly accelerating its advertising business and expects advertising revenue to “roughly double year-over-year again in FY 2025”. However, with the potential for an influx of new customers in the coming years, many analysts place this as an underestimate, estimating growth in the range of 5x to $8.5 billion in 2025 from this segment. Another key driver of this growth that may be difficult to quantify with current expectations is live event revenue. Netflix saw over 100 million viewers during their livestream of the Paul-Tyson boxing match and generated substantial yet unpredictable revenue that may not factor into conservative guidance expectations.

Net Working Capital

A dramatic increase in net working capital (NWC) in 2024, due to the company's expansion into various media streams (livestreaming, mobile games, sports partnerships). This saw the company increase its balance sheet assets by over $3 billion from the previous year. This led to a sharp decline in free cash flow (FCF) as most of their profits went towards these new assets. In the projected year 2025E, investment expectations cool to a moderate figure, explaining the large discrepancy in year-on-year FCF. Averages were estimated for both days sales outstanding and days payable outstanding, to complement the estimated moderate expansion going into a time of economic uncertainty, where most companies will slow down investments, while cash and short-term (ST) investments see a slight increase to make up for this diversion of funds. Other current assets are held stable as they represent a relatively small portion of overall revenue. For similar reasons, the current portion of leases and unearned revenue are projected to remain at 1.1% and 4.1% of annual revenue, respectively. Finally, other current liabilities are held constant, as they have a relatively stable history as a % of total revenue, and the nature of these liabilities makes it difficult for analysts to estimate their magnitude and direction moving forward.

Net Working Capital									
Fiscal Year	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Total Cash & ST Investments	6,028	6,059	7,138	9,584	11,021	12,976	15,118	17,587	20,431
Total Receivables	804	1,587	1,842	1,988	2,329	2,632	2,948	3,302	3,698
Other Current Assets	911	1,225	529	1,096	1,346	1,571	1,816	2,098	2,421
Current Assets	**7,743**	**8,870**	**9,509**	**12,668**	**14,696**	**17,179**	**19,882**	**22,986**	**26,549**
Accounts Payable	837.5	671.5	747.4	899.9	992.2	1121.2	1255.7	1406.4	1575.1
Curr. Port. of Leases	315	356	383	429	496	560	628	703	787
Unearned Revenue, Current	1,209	1,265	1,443	1,521	1,822	2,059	2,306	2,583	2,893
Other Current Liabilities	4,293	4,480	4,607	4,712	6,096	6,889	7,715	8,641	9,678
Current Liabilities	**6,655**	**6,772**	**7,180**	**7,561**	**9,406**	**10,629**	**11,905**	**13,333**	**14,933**

Assumptions									
Fiscal Year	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Revenue	29,698	31,616	33,723	39,001	44,851	50,682	56,764	63,575	71,204
COGS	17,333	19,168	19,715	21,038	24,194	27,339	30,620	34,295	38,410
Days Sales Outstanding (DSO)	9.7	18.1	19.7	18.4	18.7	18.7	18.7	18.7	18.7
Days Payable Outstanding (DPO)	17.4	12.6	13.6	15.4	14.8	14.8	14.8	14.8	14.8
Total Cash & ST Investments as a % of Revenue	20.3%	19.2%	21.2%	24.6%	24.6%	25.6%	26.6%	27.7%	28.7%
Other Current Assets as a % of Revenue	3.1%	3.9%	1.6%	2.8%	3.0%	3.1%	3.2%	3.3%	3.4%
Curr. Port. Of Leases as a % of Revenue	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Unearned Revenue, Current as a % of Revenue	4.1%	4.0%	4.3%	3.9%	4.1%	4.1%	4.1%	4.1%	4.1%
Other Current Liabilities as a % of Revenue	14.5%	14.2%	13.7%	12.1%	13.6%	13.6%	13.6%	13.6%	13.6%

Fixed Assets

The fixed asset projections were created to estimate the change in depreciation and amortization (D&A) and the capital expenditures (CapEx) year over year. For the D&A section, an average was taken over the past few years, which coincides with Netflix's reduced investment expectation moving into 2025, holding this figure stable for the next 5 years, as a percentage of the total value of beginning property, plant, and equipment (PP&E). For CapEx, the percentage of beginning PP&E used was held constant at the rate from 2024, as the company will likely continue to invest in new ventures to maintain consumer engagement with their product.

Fixed Assets Schedule								
Fiscal Year	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Beginning PP&E	4,386	4,379	4,423	4,614	4,926	5,259	5,615	5,995
D&A	616	754	855	778	831	887	947	1,011
CapEx	609	798	1,045	1,090	1,164	1,243	1,327	1,416
Ending PP&E	**4,379**	**4,423**	**4,614**	**4,926**	**5,259**	**5,615**	**5,995**	**6,400**

Assumptions								
Fiscal Year	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
D&A as a % of Beginning PP&E	14.1%	17.2%	19.3%	16.9%	16.9%	16.9%	16.9%	16.9%
CapEx as a % of Beginning PP&E	13.9%	18.2%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%

Risks

Loss of consumer willingness and/or ability to purchase a subscription

This will have no immediate impact on the company, but growth and network volume may flatline in the coming months, as American consumers on the margin will no longer be able to afford Netflix subscriptions, given the inflationary pressures on the economy. This will force Netflix to either raise prices or invest in further marketing/catalogue expansion to drive growth, both of which will come at a significant cost to the company's bottom line. This will alleviate short-term pressures from the company but may leave them with less available cash for future investments following this period of instability.

Growth rate limitations

In the DCF calculations performed above, a growth rate of 5% was assumed to be the base case for the year-on-year growth rate for the company. However, historical averages point to a 4% CAGR, indicating that the valuation may be slightly skewed in the long direction. Given the projections and analysis made in the qualitative assessment of the company, this expansion rate is feasible, but some limitations may prohibit the company from reaching this metric. These may include competitive pressures, market saturation, and global economic headwinds. All of these factors threaten to slow Netflix's expansion and make this growth rate slightly above market expectations, leading to a selloff of the stock, given a competitive acquisition or further global uncertainty.

Rising content costs and historical precedent

As Netflix continues to pour its profits into creating a network of original content, it risks unsatisfactory returns on its investment if the content fails to engage a sufficient share of the population. Further, consumer likeness and trading confidence in the stock have become volatile in times of low ratings for the shows the media company produces. In 2022, Netflix's stock dropped over 70% across just a few quarters, to below $300 per share at its lowest. Following the pandemic, people went outside and reconnected with nature, reveling in their newfound freedoms. If a trade war were to push the global economy into a recession - something many big banks have predicted (JPMorgan, Goldman Sachs, Morgan Stanley, etc.) – a similar surge and eventual selloff may occur in the recovery period, as people look to spend their newfound disposable income on more integrated forms of entertainment. This would create strong volatility surrounding the stock price, and a difficulty for most investors who buy during this period to stomach their losses, leading to a selloff of stock, furthering the downward trajectory of the price post-trade war.