David’s Re-Recommendation: Netflix

David Gardner | June 21, 2013

CURRENT PRICE: NFLX $ 470.91 ↑ $ 2.87 (0.6%)

To borrow from Mark Twain, reports of **Netflix**'s (NASDAQ: NFLX) demise have been greatly exaggerated.

By now, critics expected Amazon.com to have won the media-streaming war by throwing its gobs of cash into licensing deals. Or for the TV networks and movie studios to have cut out the middleman. Or for another challenger to have simply built a better mousetrap. It hasn't happened.

Sure, Netflix faces competition, and it always will. But its first-mover advantage and well-known brand, its technological savvy, its singular focus on viewing data, and its top-notch leadership will keep it ahead of the pack for the foreseeable future. Add to the mix its original programming — something no competitor can precisely duplicate, and just boosted by Netflix's deal with (*SA* recommendation) DreamWorks Animation for 300 hours of new shows — and Netflix has a wider moat than many believe it does.

Cable companies and streaming content providers like Hulu seem to be inept, indifferent, or simply unable to operate with freedom. Netflix is a middleman, but in the hidebound entertainment industry, that's an advantage — I'm not sure the studios and networks will ever be able to create a sufficiently better experience to overcome Netflix's huge head start. My money is on Netflix, led by the smartest guys in the room, to keep maneuvering its way to dominance.

That doesn't take starry-eyed optimism. The company already has 30 million streaming U.S. subscribers, and CEO Reed Hastings expects to double or even triple that number. Perhaps more important, Netflix is investing heavily to make sure it secures the same early advantages in other markets, from Canada to Latin America to an increasingly broad swath of Europe. Eventually, I expect foreign

NETFLIX

Netflix has expanded its DVDs-by-mail service to provide streaming Web content to millions of subscribers.

WHY BUY:

- Management's data-driven programming decisions give the company an edge in buying and financing content.
- Netflix's international growth is still in its infancy.
- It's the undisputed leader in streaming media and shows no signs of giving up its position.

KEY FACTS:

- **Recent Price:** $232.31
- **Risk Rating:** 11 of 25 — coconut
- **Industry Position:** Leader
- **Market Cap:** $13,578
- **Cash/Debt:** $1,026 / $700
- **Revenue ('11/'12/TTM):** $3,205 / $3,609 / $3,764
- **Earnings ('11/'12/TTM):** $226 / $17 / $24
- **Insider Ownership:** 2.1%
- **Biggest Threat:** Subscriber growth slows
- **The Team Says:** Break out the popcorn

subscribers to make up the bulk of revenue, and for Netflix's $13 billion market cap to grow to a more global scale.

Scroll left/right to view wide tables

Track NFLX in My Scorecard

Data as of 6/19/13. Dollar amounts in millions except recent price.

The Foolish Bottom Line

This will mark Netflix's seventh appearance on our scorecard — six times on my side and once on Tom's. Every position has more than doubled, and my best is up 17-fold. My frequent returns to the well should make it clear that I think this company deserves a prominent place in a focused portfolio of 15 or so stocks. Past performance may not guarantee future results, but it's a pretty strong hint — great companies with great leadership tend to stay great. That's why Netflix is a Core company, and this month I'm happy to move it back up to the top of the scorecard.

Karl Thiel contributed to this report. The Motley Fool owns shares of AMZN and NFLX. See the team's and David and Tom Gardner's holdings here.

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