

NETFLIX INC.

SOMYA AND DEBANIK



MACRO-ECONOMIC ANALYSIS

❑ US Economy –

- Interest rates – 4.75% - 5%
- Consumer Price Index - +0.4%
- Inflation rate – 6.04% , Target – 2%

❑ Global Economy –

Inflation –

- Expected to fall to 6.6% in 2023
- Declining but still above pre-pandemic levels.

❑ Russia-Ukraine conflict

COMMUNICATION SERVICES SECTOR

❑ Created in 2018 – Comprises of a mix of:

- Telecommunication,
- Entertainment and
- Technology company stocks

❑ Dissimilarity between companies

❑ Economically Sensitive Companies – High-growth, Cyclical Stocks

❑ Less economically sensitive companies – Utility-like services

COMMUNICATION SERVICES SECTOR

❑ Advantages of Investing in Communication Stocks:

- Innovation
- High growth potential
- Global Reach

❑ Risks of Investing in Communication Stocks:

- Volatility
 - Competition
 - Regulatory threats
-

MEDIA AND ENTERTAINMENT INDUSTRY

- Produce and Distribute films, television series, music, books, news, and radio programming.
 - Proliferation of mobile devices and digital media organizations
 - Consumer engagement
 - Strong players – The Walt Disney Co. , Warner Bros. Discovery, Paramount Global and Netflix.
-

WHY MEDIA AND ENTERTAINMENT INDUSTRY?

- **Differentiated Content** – Unique intellectual property and licenses to broadcast
 - **Scale** – Broader distribution and access to additional marketing support.
 - **Diversification** – Across formats, distribution methods, and geographies
 - **Technology** – Supports DTC distribution to boost profit margins
-

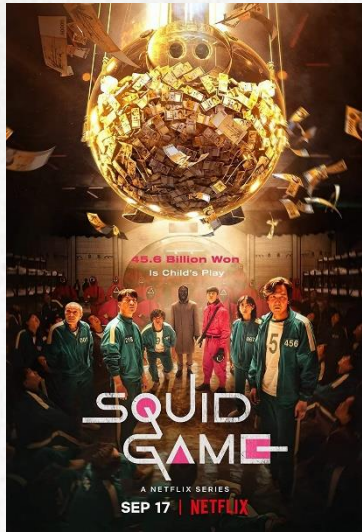
NETFLIX

- ❑ Founded in 1997 by Reed Hastings and Marc Randolph
 - ❑ Streaming service – TV shows, movies, anime, documentaries, and more.
 - ❑ Approximately 231 million paid memberships in over 190 countries
 - ❑ New TV shows and movies are added every week.
 - ❑ Subscription charges – Plans range from \$6.99 to \$19.99 a month. No extra costs, no contracts.
 - ❑ One operating segment.
 - ❑ Competition – Linear TV, Streaming entertainment providers, content producers, and social media.
-

KEY STATS

- Headquarters – Los Gatos, California
 - CEO: Ted Sarandos
 - Total Employees: 12,800
 - Market Cap: 154.4B
 - Revenue: 31.6M
 - Total Assets: 48.5M
 - P/E Ratio: 34.97
 - Share Price: 342.35
 - Shares Outstanding: 445.4M
-

POPULAR NETFLIX ORIGINAL CONTENT



SQUID GAME



THE CROWN



STRANGER THINGS



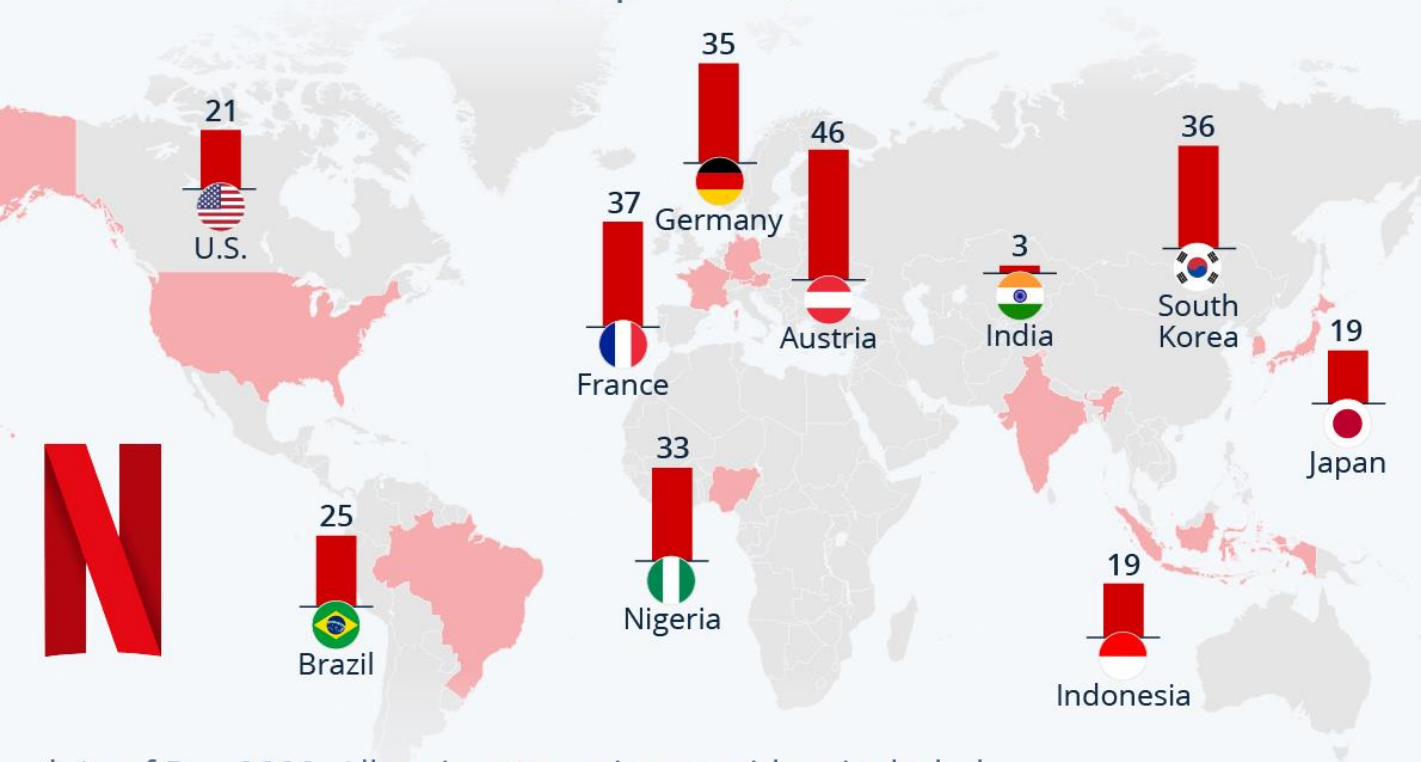
HOUSE OF CARDS

BRIEF HISTORY

- ❑ Selling and Renting DVD by Rent (1997)
 - ❑ DVD Subscription Services (1998)
 - ❑ Video on Demand Streaming Platform (2007)
 - ❑ Content Production (2012)
-

Where Netflix Still Has Customers to Win

Share of Netflix accounts in all video streaming accounts in selected countries (in percent)*



* As of Dec 2022. All major streaming providers included, some data might be unavailable on smaller ones.

Source: Flixpatrol

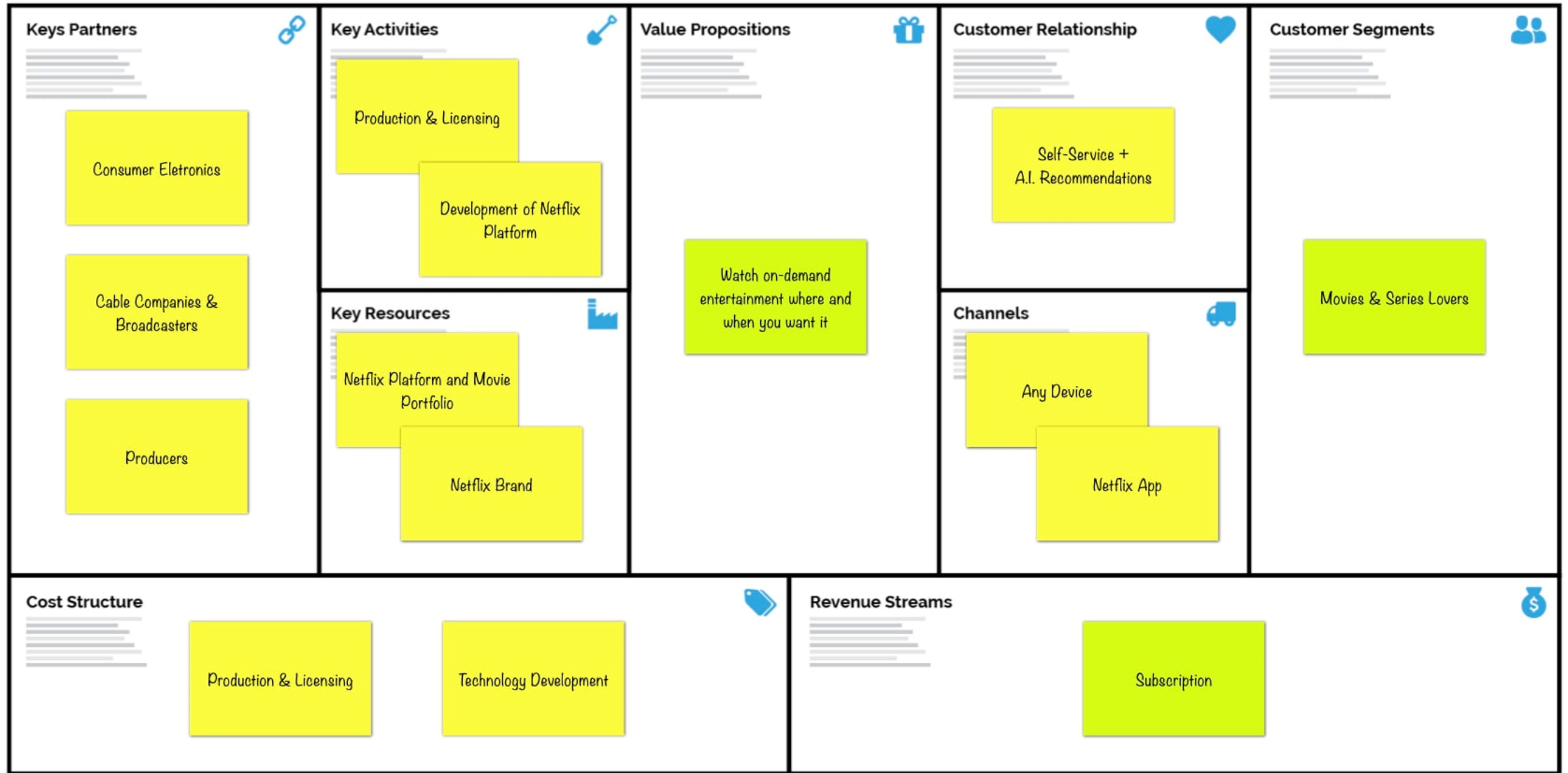


NETFLIX, INC.

LIST OF SIGNIFICANT SUBSIDIARIES*

Legal Name	Jurisdiction
Netflix Entretenimento Brasil LTDA	Brazil
Netflix International B.V.	The Netherlands
Netflix G.K.	Japan
Netflix Studios, LLC	United States
Netflix Global, LLC	United States
Netflix México S. de R.L. de C.V.	Mexico
Netflix Pte. Ltd.	Singapore
Netflix Services France S.A.S.	France
Netflix Services UK Limited	United Kingdom
Netflix Australia Pty Ltd	Australia
Netflix Services Germany GmbH	Germany
Netflix Services Italy S.R.L.	Italy
Netflix Worldwide Entertainment, LLC	United States
Netflix Services Canada ULC	Canada
Netflix Servicios de Transmisión España, S.L.	Spain

NETFLIX - Business Model Canvas

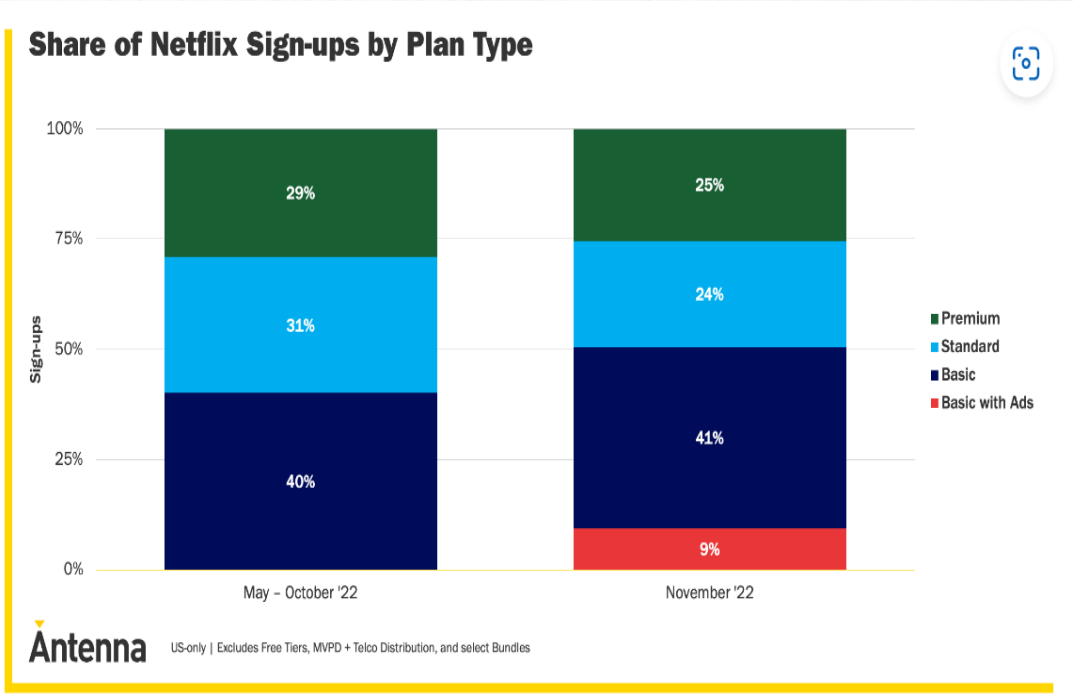


CLOUD COMPUTING AND SERVERS

- Netflix uses a private version of Amazon Web Services (AWS) to deliver streaming contents all over the world.
 - Also uses 3rd party solutions like- Google Cloud Computing for Machine Learning.
 - Two Types of Servers: Hard Disk Drives based and Flash Drives based
 - They Spend around \$28 million/per month on E2C(Elastic Compute Cloud) of AWS.
 - Benefits of using AWS E2C: Scale, Flexibility and Automation
 - AWS provides an hourly basis billing(\$40k/per hour)- Reducing their infrastructural cost by millions
 - Netflix stores 12 TB per hour per customer account (that's four years' worth of HD video at standard definition or over eight years' worth at high definition), which only takes up 0.3% of overall capacity of Amazon's AWS.
-

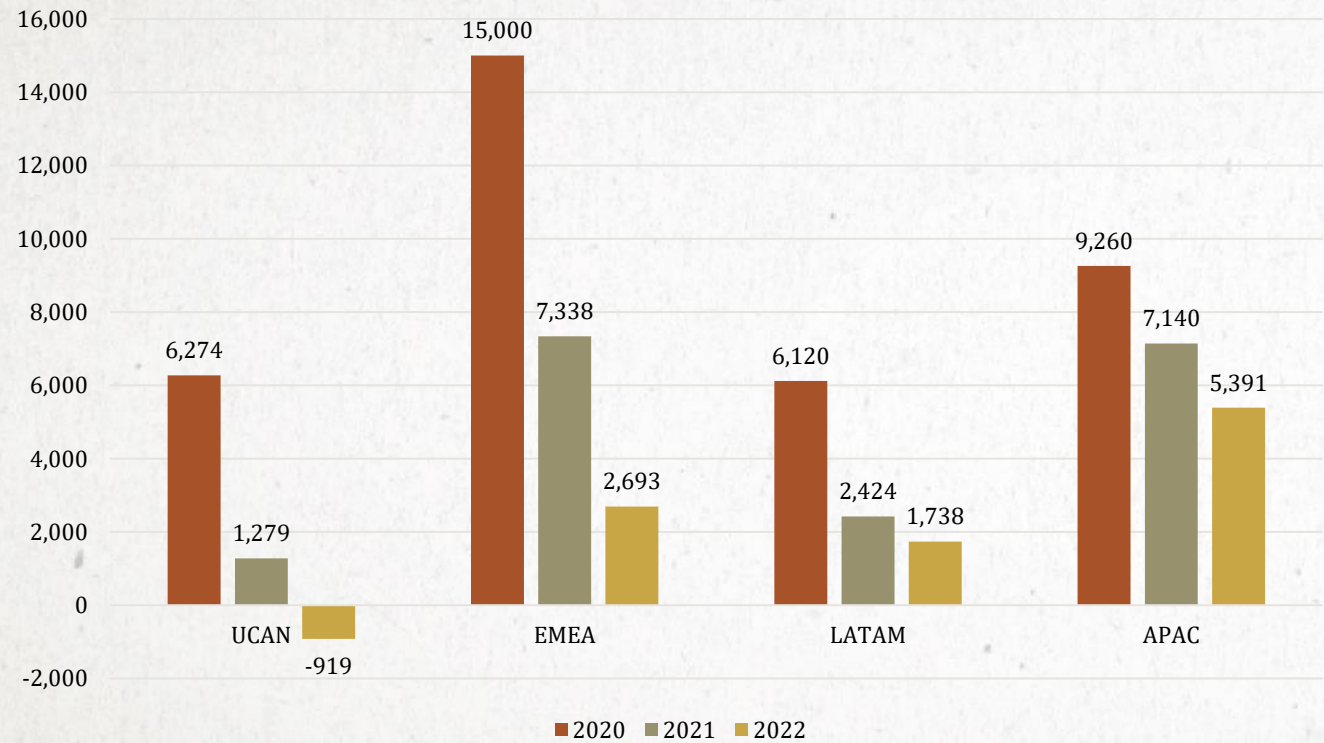
Subscription plan	Monthly price	Streaming quality	Simultaneous streams	Access to content
Basic with Ads	\$6.99	Video quality up to 720p/HD	One	Due to licensing restrictions some titles are inaccessible
Basic	\$9.99	Video quality up to 720p/HD	One	Every Netflix title
Standard	\$15.49	High Definition (HD)	Two	Every Netflix title
Premium	\$19.99	HD and 4K Ultra HD	Four	Every Netflix title

SUBSCRIPTION PLANS

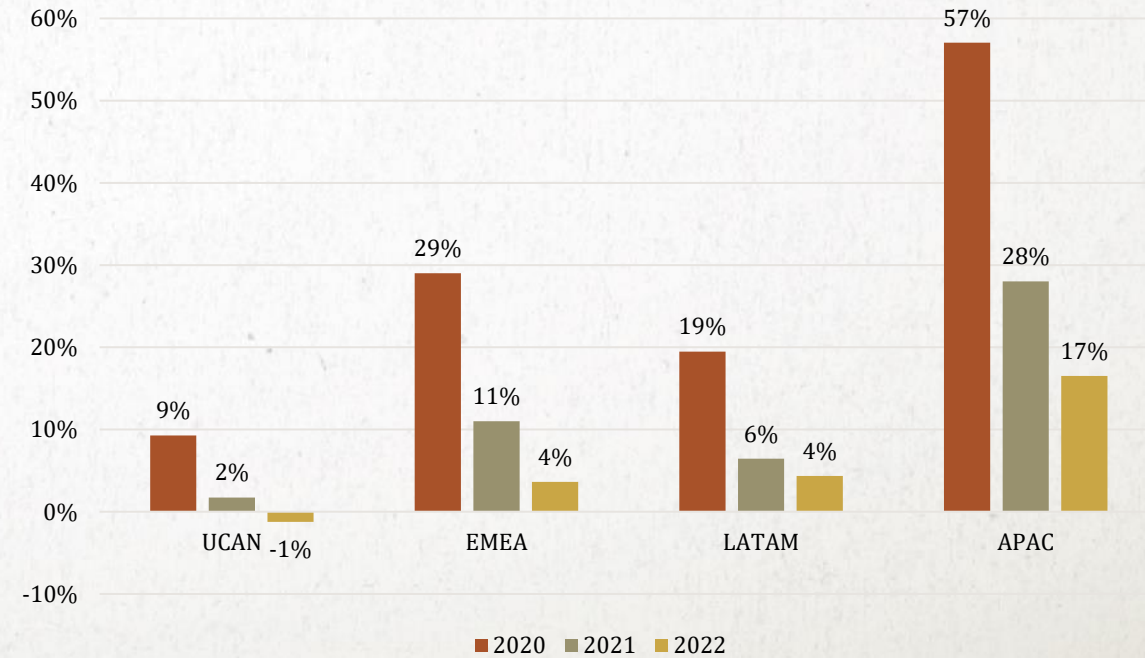


SUBSCRIBER ANALYSIS BY REGIONS EACH YEAR

Net Change in Subscribers by Regions

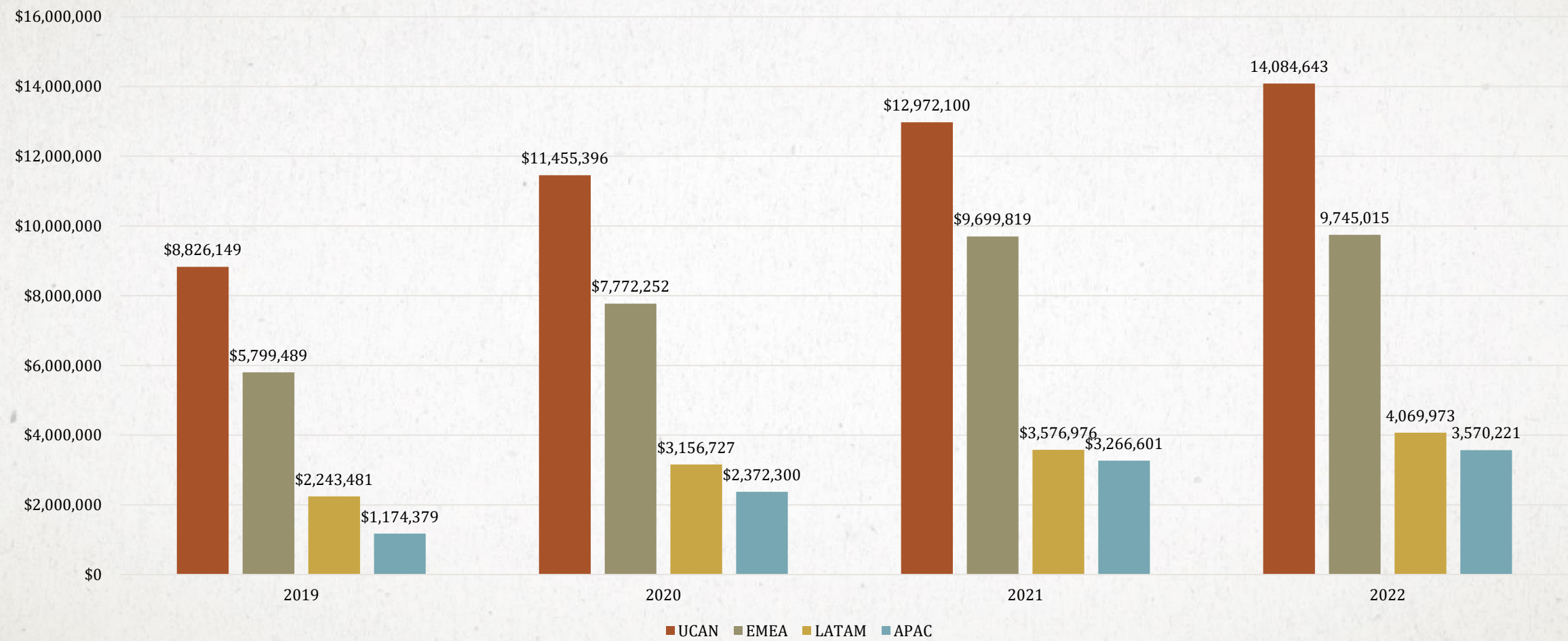


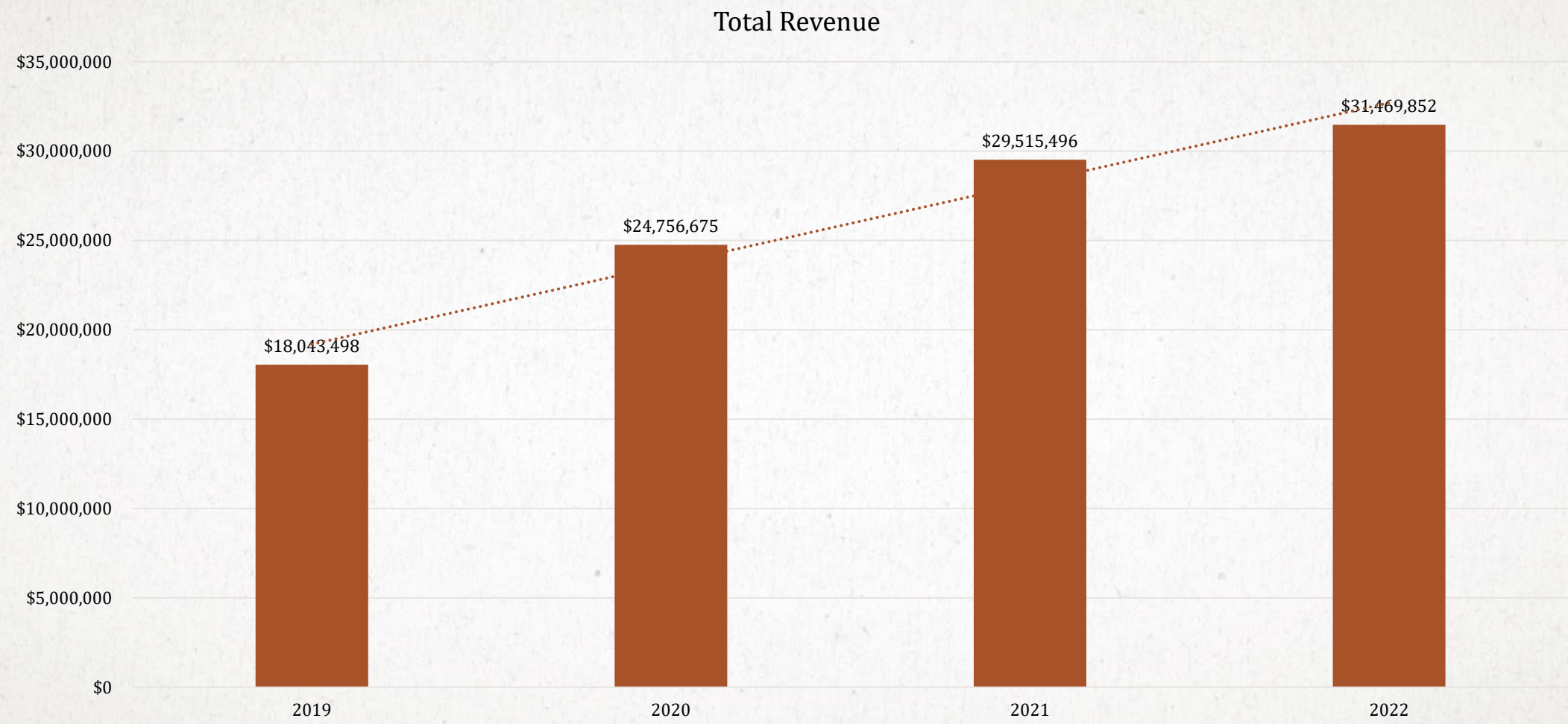
Net Change in Subscribers by Regions (%)



REVENUE ANALYSIS BY REGIONS EACH YEAR

Breakdown of Revenue by Region Each Year





SWOT ANALYSIS

➤ Strengths:

- First-mover advantage in streaming services
- Variety of Original Content
- Highest number of membership

➤ Opportunities:

- International Licensing Agreements
- Theatrical Releases

➤ Weaknesses:

- Password sharing feature
- Quality
- Cultural issues with content created

➤ Threats:

- Competition in Domestic & International Market
- Non-renewal of licensing contracts
- Cyber-security problems

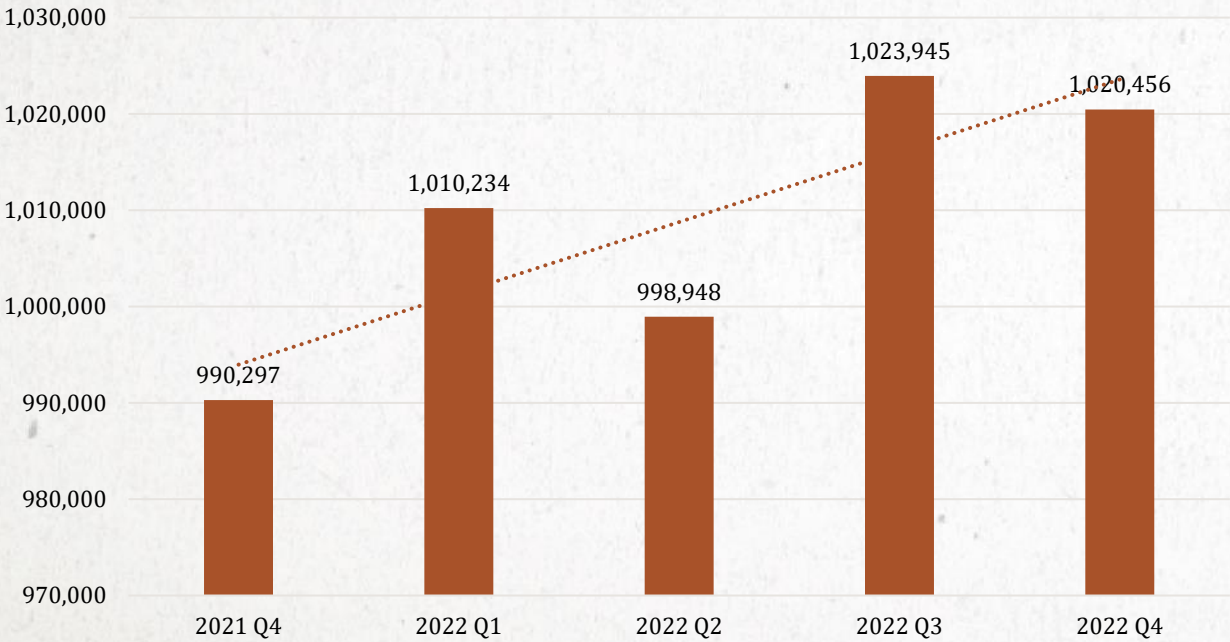
FUTURE REVENUE DRIVERS

1) Password Sharing Payments

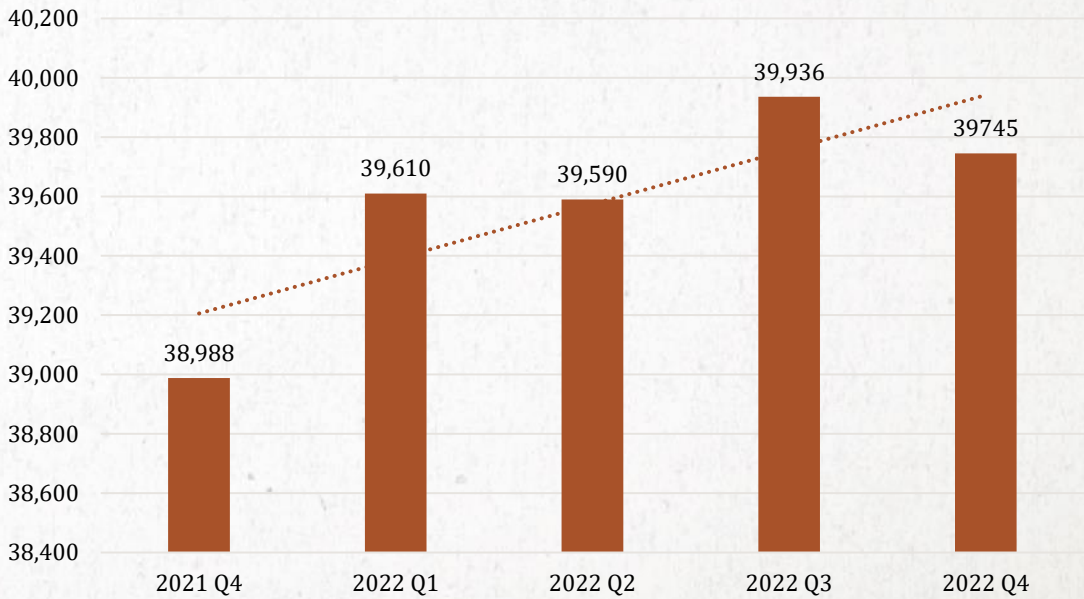
- In a Survey(2020) found almost 17% of Netflix users around the world (100 million plus) households share passwords.
- Reported around 1.5 billions potential revenue loss due to password sharing in 2021 Q1
- Setting Primary Location and Additional Payment (\$6-\$3) on each additional profile in Standard and Premium.
- Initiated Password Sharing Crackdown on Q1 2022 in Latin America. Later in Canada, NZ, Spain and Portugal.
- Subscribers increment in Latin America under Q3 2022 has been a great indicator as a revenue drivers

RESULTS FROM LATIN AMERICA

Impact of Password Share Crackdown on Revenue- LATAM



Impact of Password Share Crackdown on Subscribers- LATAM



FUTURE REVENUE DRIVERS

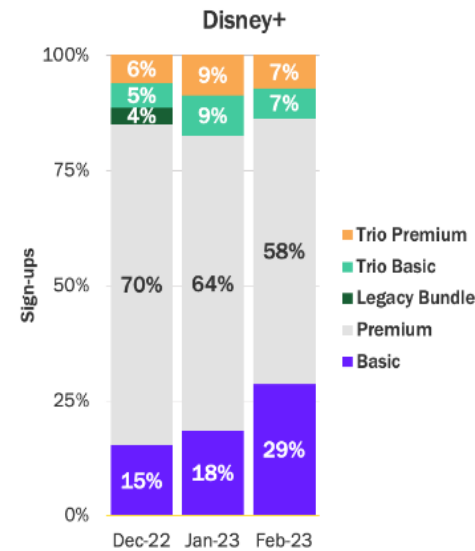
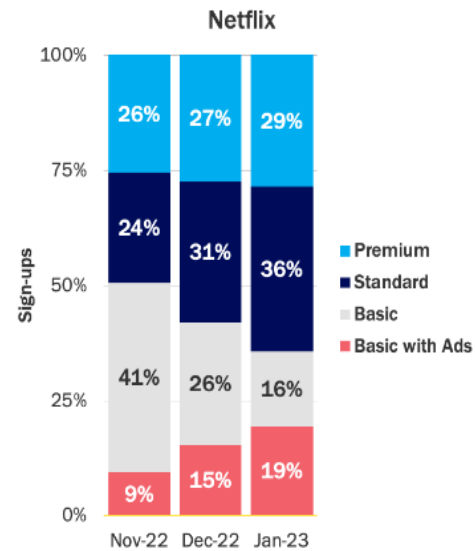
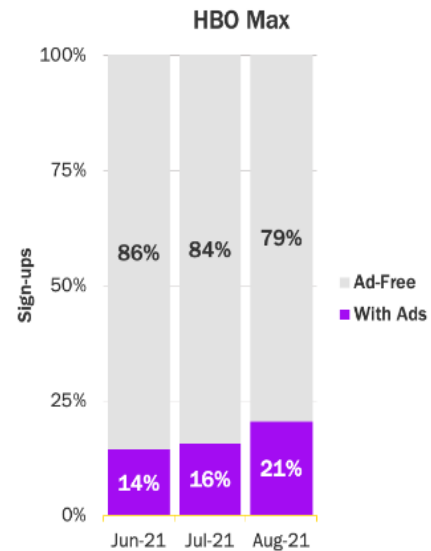
2) Ad Revenue Income

- Basic with Ads---- Started in US: November 2022, Price-\$7, Duration: 4-5 minutes/ per hour
- Analysts predict they would earn \$1-\$3 billion from ad tiers.
- Hub Entertainment Study: 57% customers said they would rather watch add and pay \$4-5 less.
- Has some limitations (5-10% contents are unavailable, Test of Tolerance, Huge Competition)
- Enjoys Competitive Cost Advantage in terms of ad tier plans except Paramount Plus
- To be available in 12 countries, including the U.S., the U.K., Australia, Brazil, Canada, France, Germany, Italy, Japan, Korea, Mexico, and Spain.

UPDATES ON BASIC WITH ADS PLAN

Share of Sign-ups by Plan Type

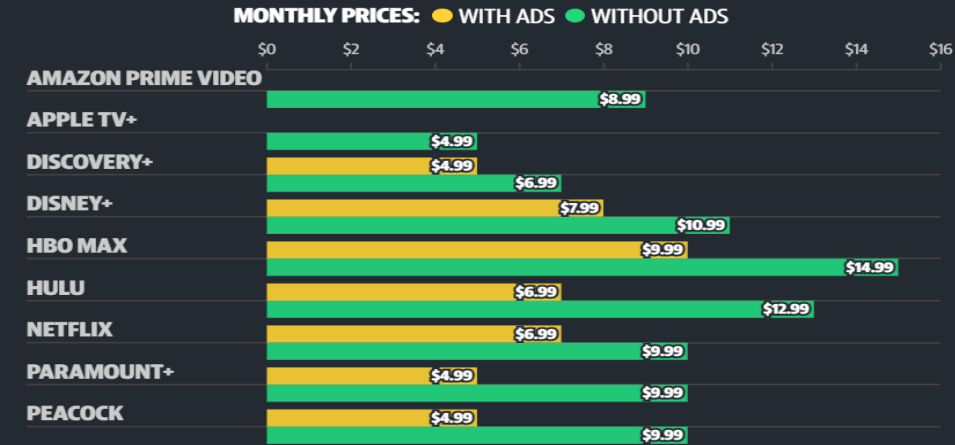
Launch of Ad-Supported Plans



Antenna

US-only | Excludes Free Tiers, MVPD + Telco Distribution, and select Bundles (i.e. Disney Bundle Sign-ups distributed through Hulu)

MORE STREAMING PLATFORMS EMBRACE AD-SUPPORTED

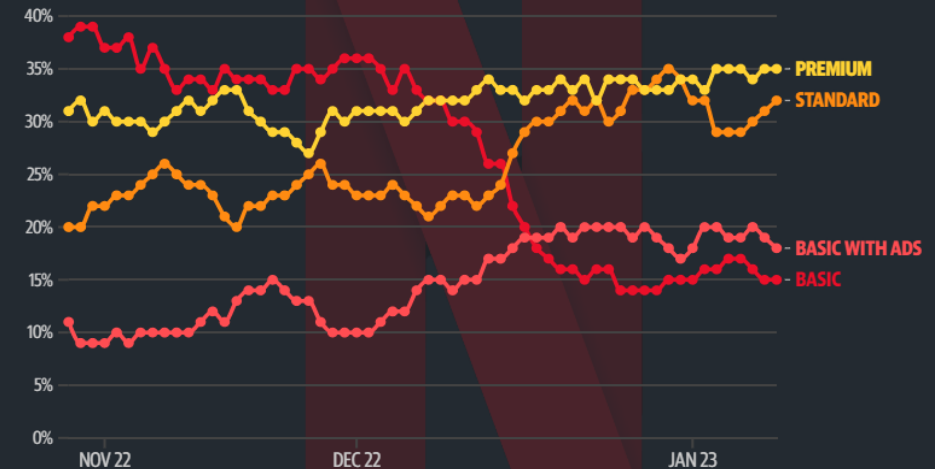


SOURCE: YAHOO FINANCE

yahoo! finance

NETFLIX'S AD-SUPPORTED TIER GAINING MOMENTUM

WEEKLY PLAN MIX OF GROSS SUBSCRIBER ADDITIONS IN THE U.S.



SOURCE: YIPITDATA • PHOTO: GETTY IMAGES

yahoo! finance

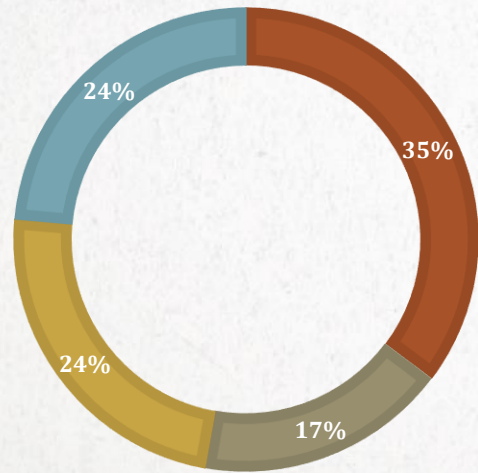
ORIGINAL CONTENTS

- First Original Content 'Lilyhammer' was released in 2012
 - 'House of Cards' (2013) is the first successful TV shows- 33 Emmy Nominations
 - Academic Awards Winning Films and TV Series- Don't Look Up (Oscar Nominated)
 - Impacts the Cost of Revenue and Operating Expense highly
 - Produced Content Assets
 - Short Term Loss, yet Long-Term Asset?
-

PRODUCED VS LICENSED CONTENT

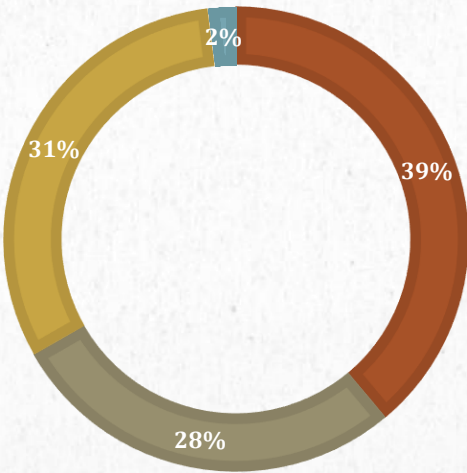
CONTENT ASSESTS- 2021

Licensed Released Contents Under Production Pre-production

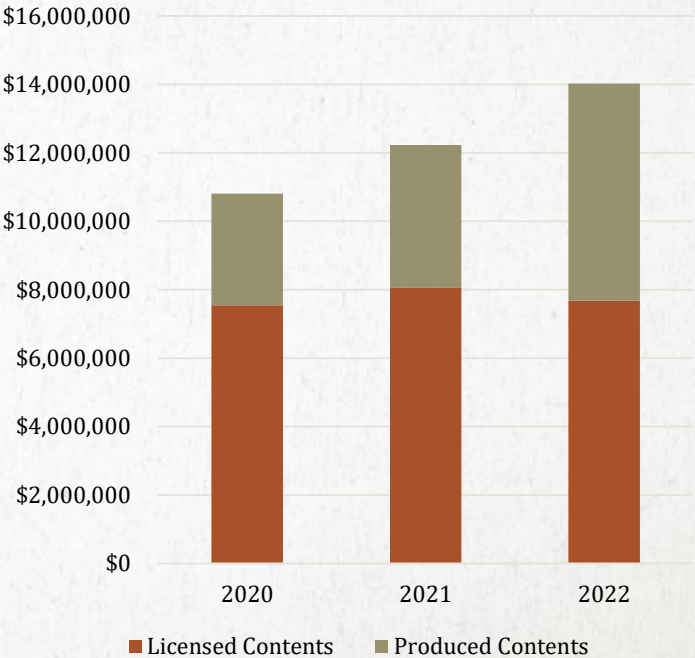


CONTENT ASSETS- 2022

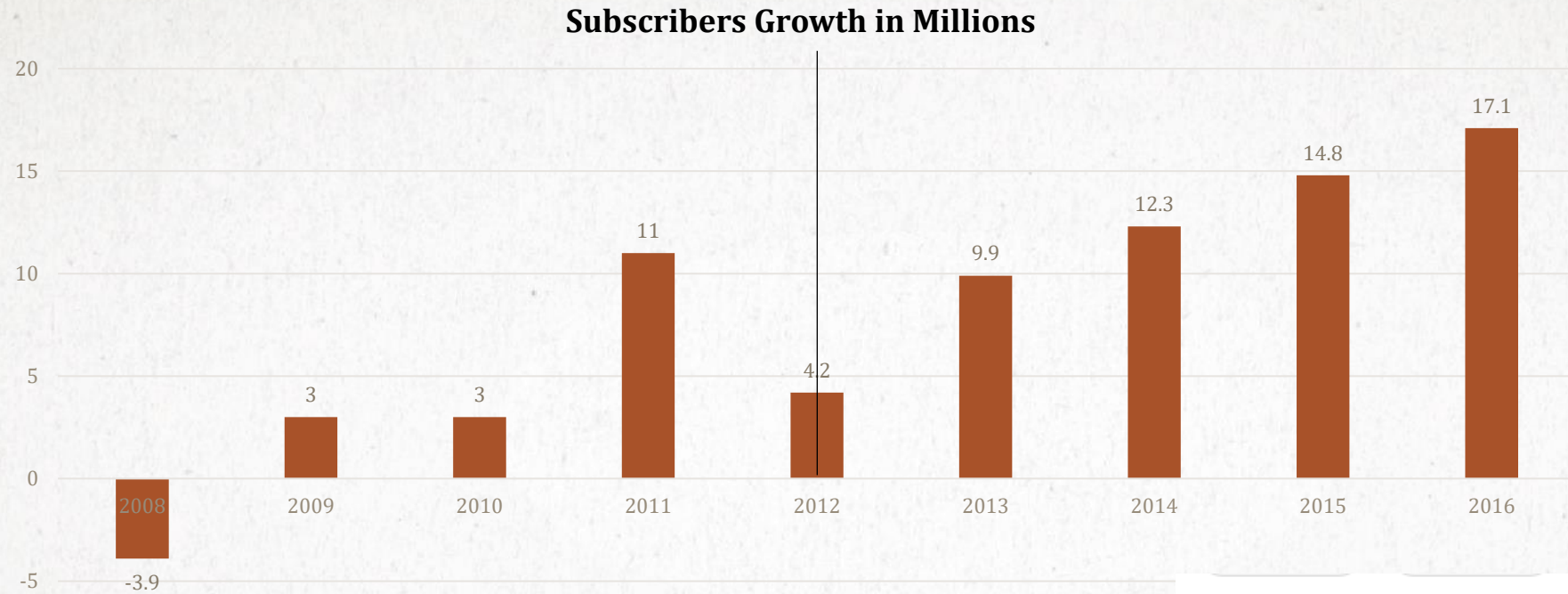
Licensed Released Contents Under Production Pre-production



Amortization of Content Asset-
Major Cost of Revenue



ORIGINAL CONTENT AND SUBSCRIBER GROWTH

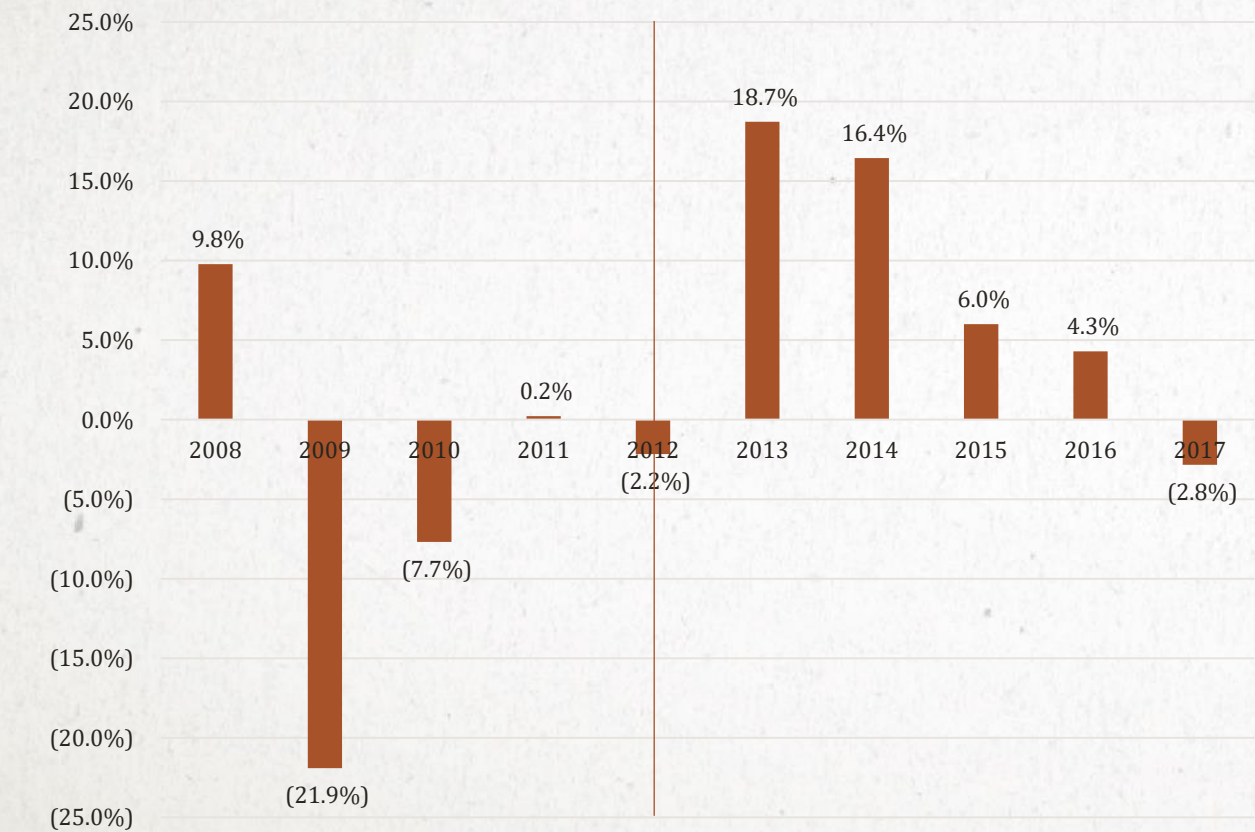


Indirect Impact on Stock Price

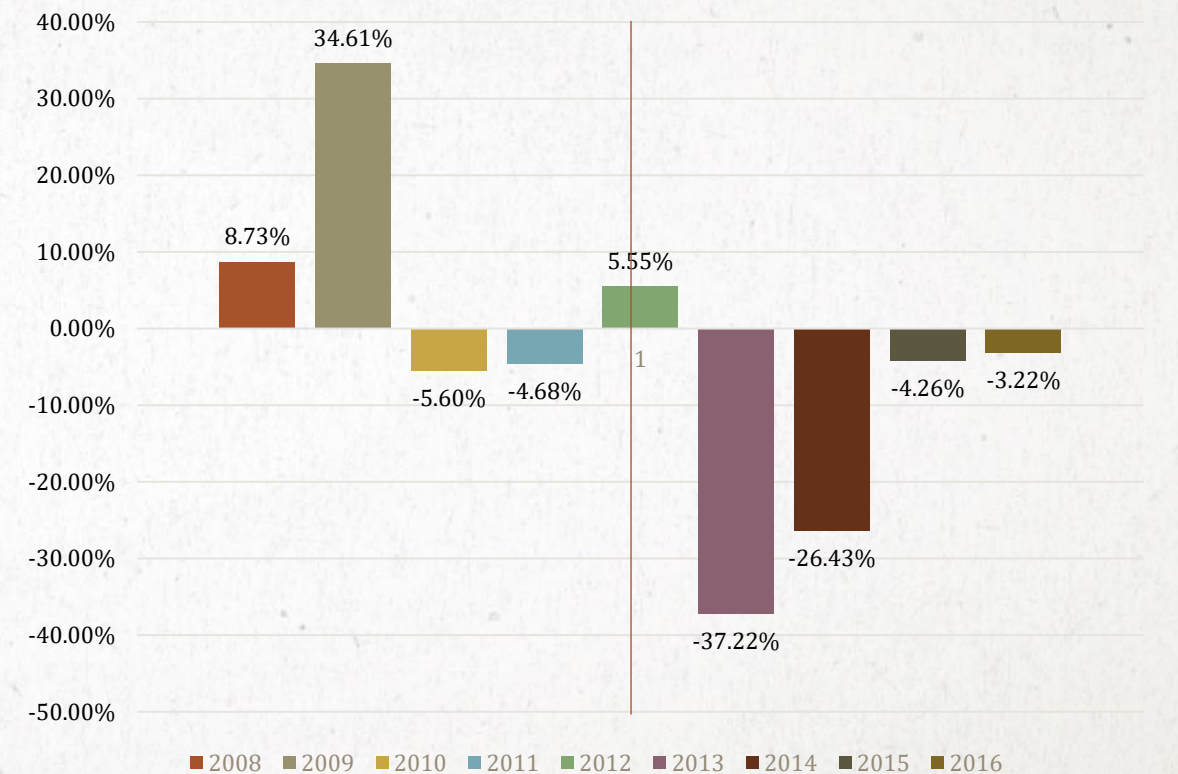


IMPACT OF ORIGINAL CONTENT ON FINANCIALS

Revenue Growth (%)



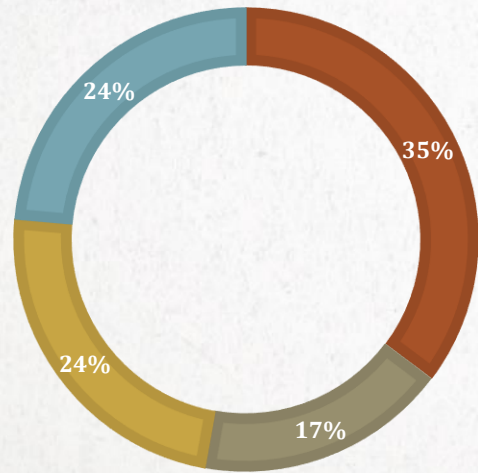
Change in Cost of Revenue (%)



PRODUCED VS LICENSED CONTENT

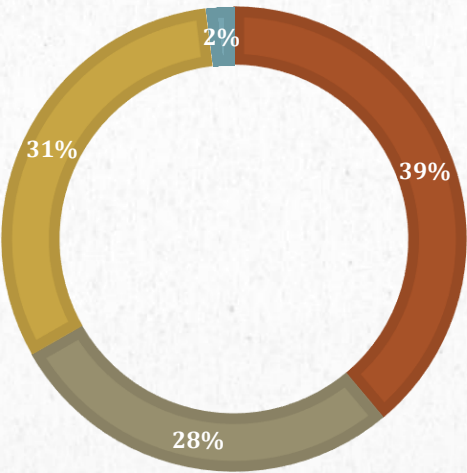
CONTENT ASSESTS- 2021

Licensed Released Contents Under Production Pre-production

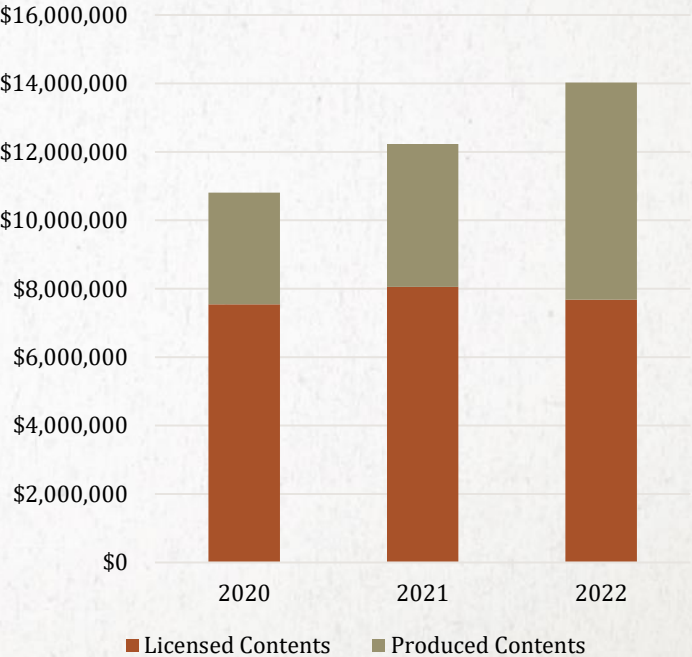


CONTENT ASSETS- 2022

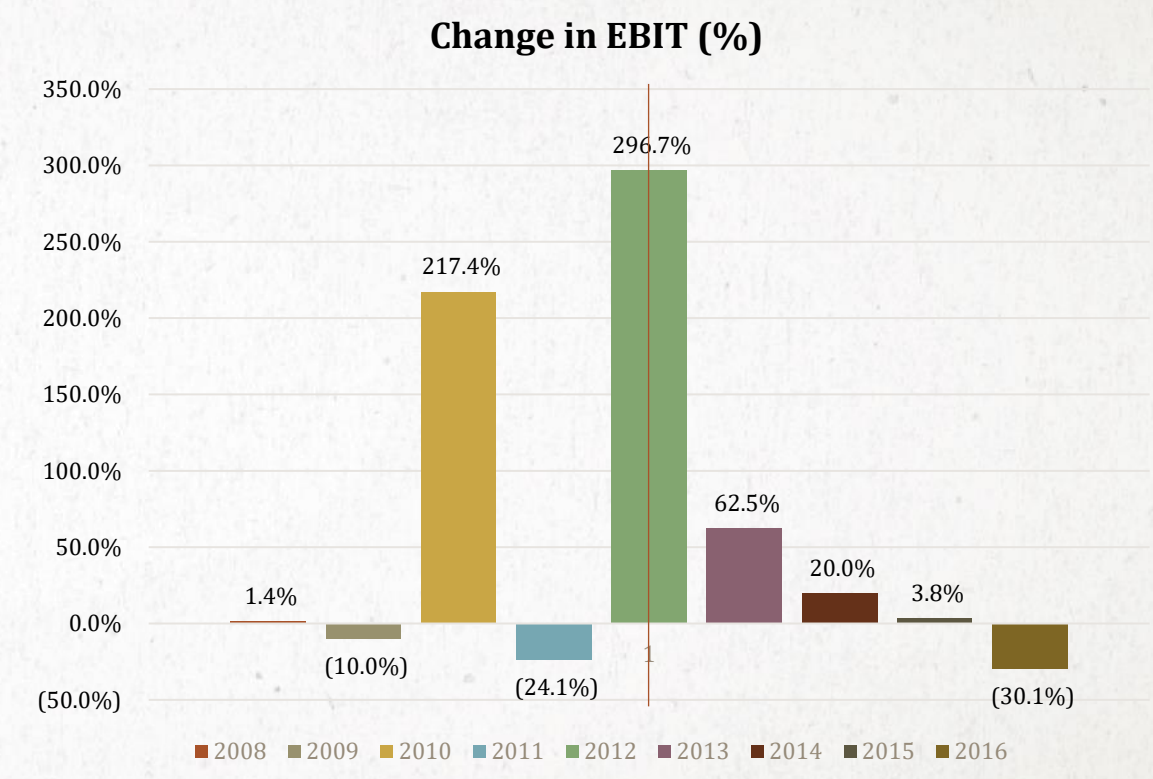
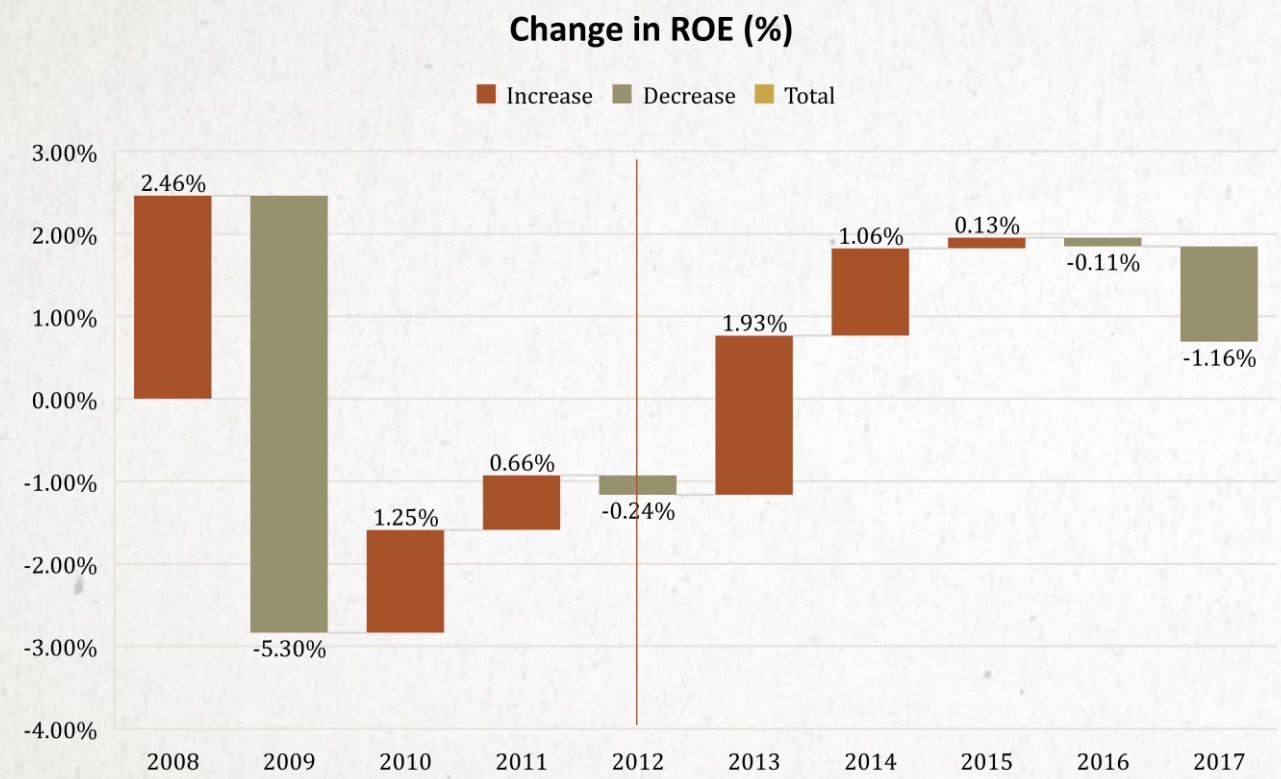
Licensed Released Contents Under Production Pre-production



Amortization of Content Asset-
Major Cost of Revenue



IMPACT OF ORIGINAL CONTENT ON FINANCIALS



PAYMENT METHODS ANALYSIS

- Credit Cards (American Express, Visa Cards, Mastercards)
- Competitive Advantage of Amazon Prime
- PayPal and Other Regional Payment Methods



FUTURE PROSPECTS

- Content Acquisitions:
Millarworld(2017), StoryBots(2019), Roald Dahl Story Company(2021),
 - Studio Acquisitions:
Scanline VFX, Night School Studio LLC (2021), Albuquerque Studios(2018)
 - Netflix Games
-

COMPARABLE COMPANIES



The
WALT DISNEY
Company

THE WALT DISNEY
COMPANY

EV/ EBITDA MULTIPLES:

- NETFLIX – 20.29x
- THE WALT DISNEY COMPANY – 16.56x
- PARAMOUNT GLOBAL – 8.34x
- WARNER BROS DISCOVERY - 19.73x



PARAMOUNT GLOBAL



WARNER BROS.
DISCOVERY

RESULTS OF OPERATION

Financial Results:	2022	2021	2020
Streaming revenues	\$31,469,852	\$29,515,496	\$24,756,675
DVD revenues	\$145,698	\$182,348	\$239,381
Total revenues	\$31,615,550	\$29,697,844	\$24,996,056
Operating income	\$5,632,831	\$6,194,509	\$4,585,289
Operating margin	18%	21%	18%
Global Streaming Memberships:			
Paid net membership additions	8,903	18,181	36,573
Paid memberships at end of period	230,747	221,844	203,663
Average paying memberships	222,924	210,784	189,083
Average monthly revenue per paying membership	\$11.76	\$11.67	\$10.91

RESULTS OF OPERATION

	Average monthly revenue per paying membership		
Company	2022	2021	2020
Disney +	4.26	4.08	5.08
HBO Max	NA	11.15	11.72
Paramount +	NA	9	NA
Netflix	11.76	11.67	10.91

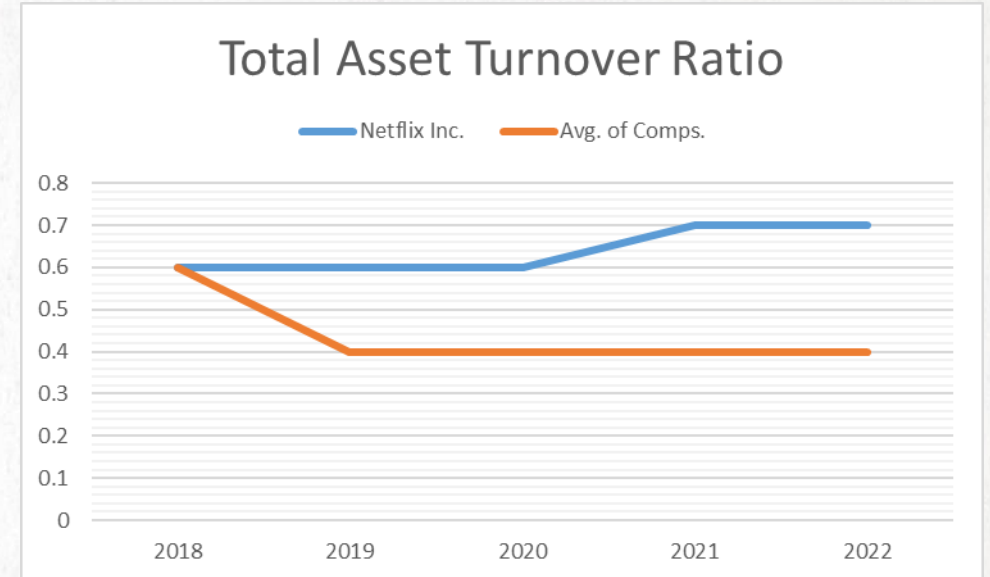
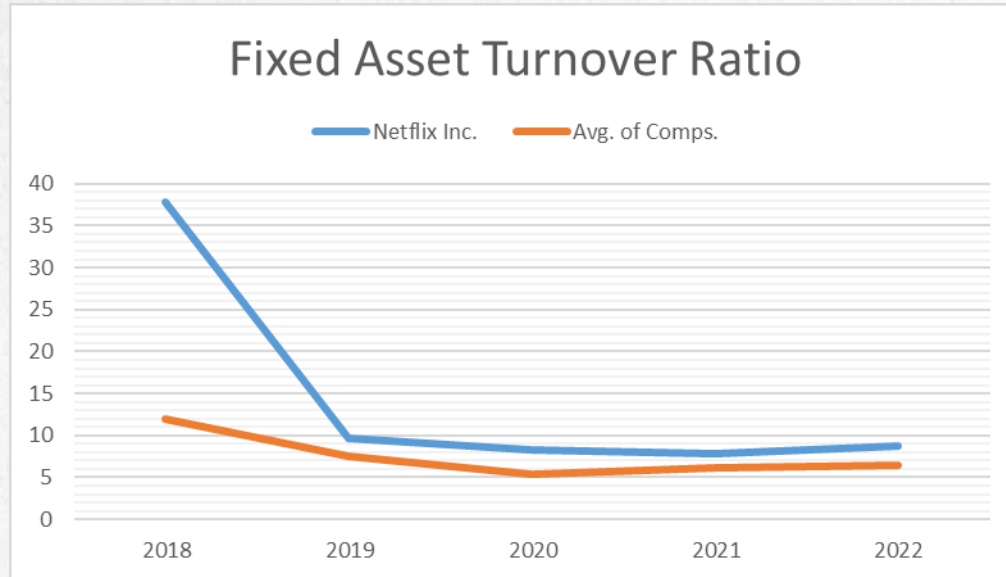
NETFLIX'S RATIOS

	2018	2019	2020	2021	2022
<u>Activity Ratio</u>					
Total Asset Turnover	0.7	0.7	0.7	0.7	0.7
Payables Turnover	21.6	20.1	23	23.2	25.4
Receivables Turnover	NA	49.3	46.9	42	35.3
Inventory Turnover	NA	NA	NA	NA	NA
<u>Liquidity Ratios</u>					
Current Ratio	1.5	0.9	1.3	1	1.2
Quick Ratio	0.7	0.8	1.1	0.8	0.9
Cash Ratio	0.6	0.7	1.05	0.7	0.8

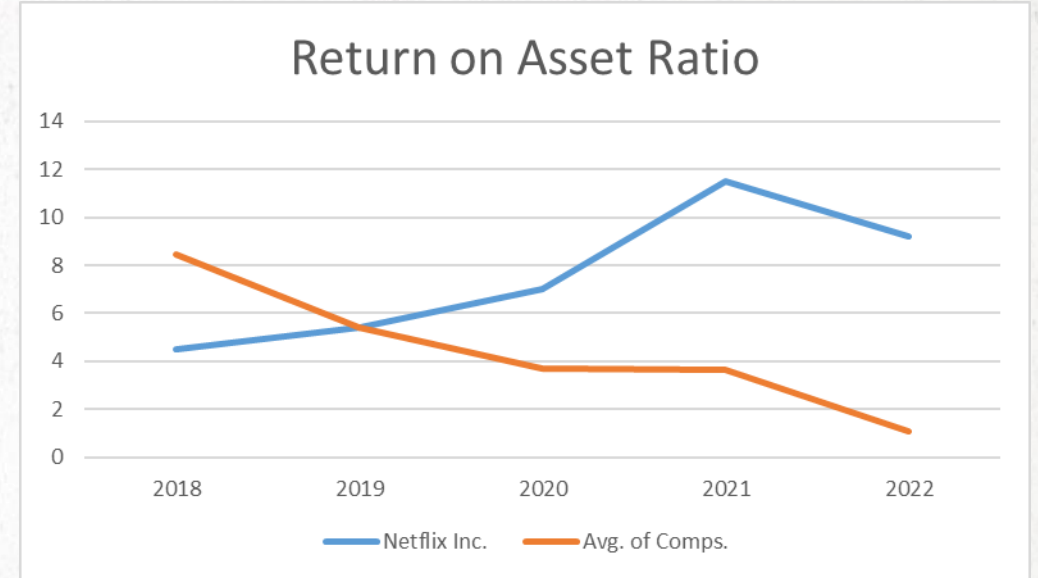
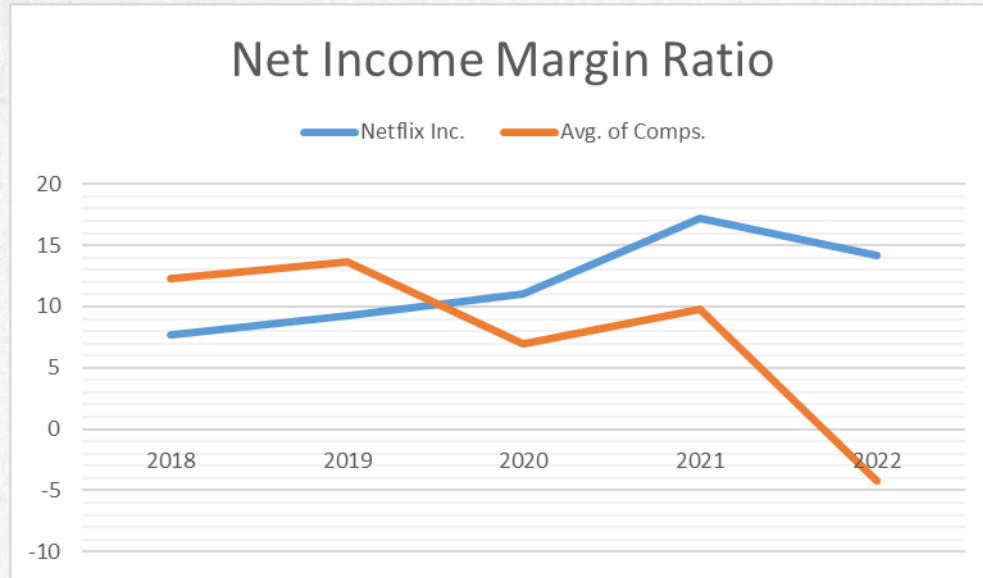
NETFLIX'S RATIOS

<u>Solvency Ratios</u>	2018	2019	2020	2021	2022
Debt-to-assets Ratio	79.8	77.7	71.8	64.5	57.2
Debt-to-capital Ratio	66.4	68.3	62.6	53.3	44.9
Debt-to-equity ratio	197.8	215.9	167.3	114.3	81.5
Interest coverage ratio	3.8	4.2	6	8.1	8
<u>Profitability Ratios</u>					
Gross Profit Margin	36.9%	38.3%	38.9%	41.6%	39.4%
Net Profit Margin	7.7%	9.3%	11.0%	17.2%	14.2%
Operating Profit Margin	10.16%	12.92%	18%	20.86%	17.82%
Return on Assets	4.5%	5.4%	7.8%	9.2%	7.6%
Return on Equity	27.5%	29.1%	29.6%	38.0%	24.5%

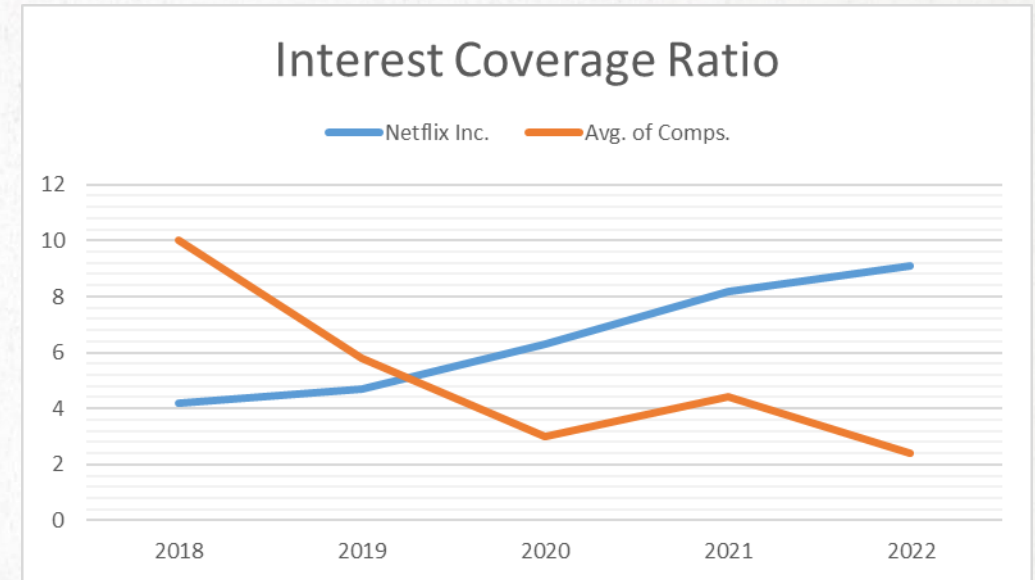
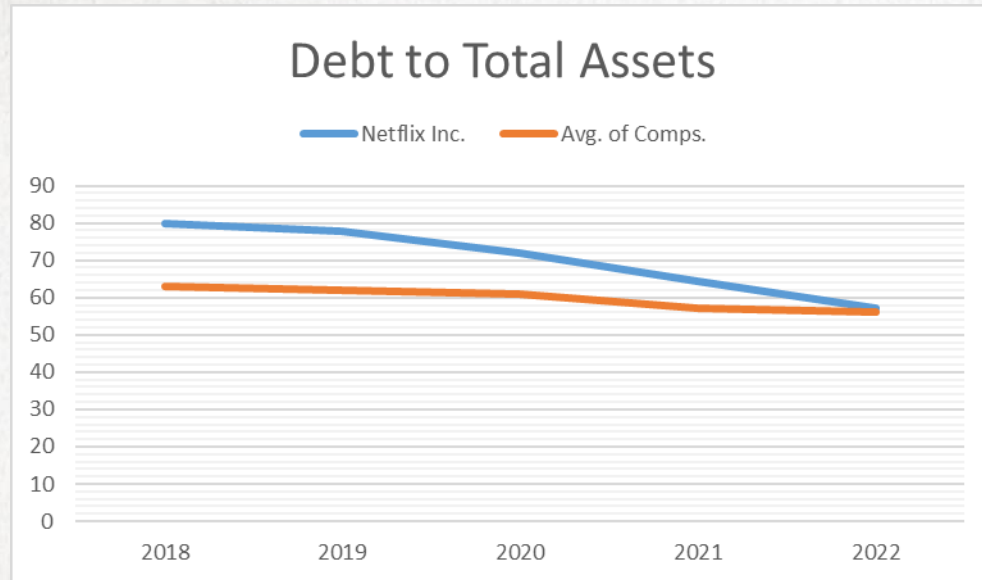
ACTIVITY RATIOS



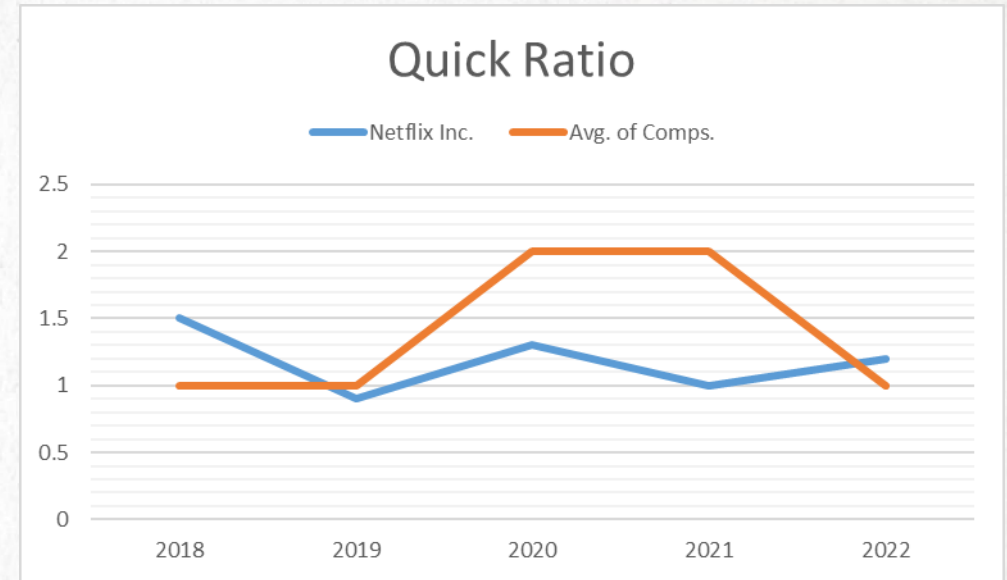
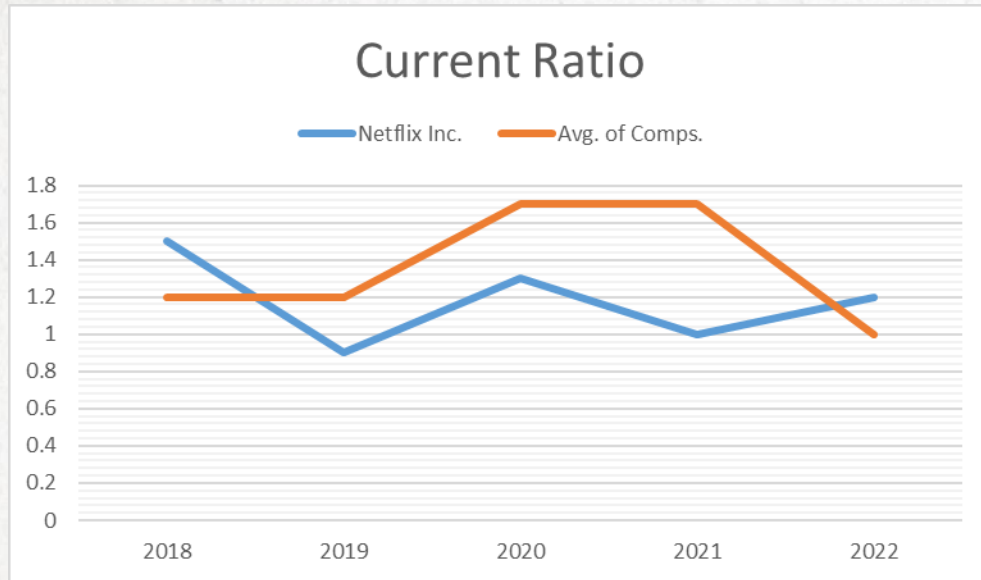
PROFITABILITY RATIOS



SOLVENCY RATIOS

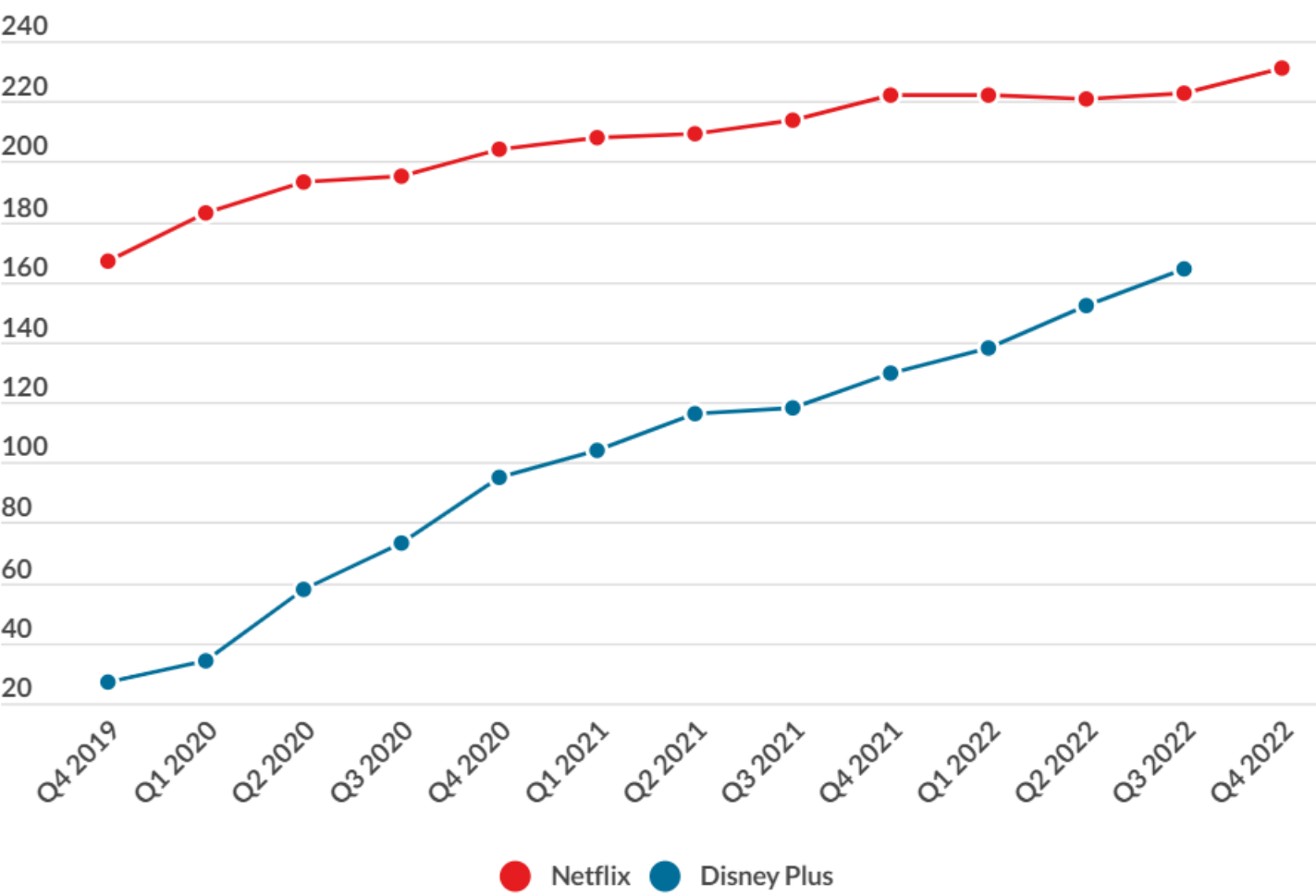


LIQUIDITY RATIOS



SUBSCRIBER'S ENGAGEMENT COMPARISON

Netflix vs Disney Plus: subscribers



Program name (Provider)	Number of streamed minutes in the US (in millions)
Clickbait (Netflix)	1,460
Money Heist (Netflix)	452
Turning Point: 9/11 and the War on Terror (Netflix)	447
Only Murders in the Building (Hulu)	444
Grace and Frankie (Netflix)	421
Nine Perfect Strangers (Hulu)	320
Outerbanks (Netflix)	252
What If (Disney+)	235
Virgin River (Netflix)	233
Family Reunion (Netflix)	226

TECHNICAL ANALYSIS

342.35 USD ▼ **-37.8 (-9.94%)** past year

340.26 ▼ **2.09 (0.61%)** After Hours · April 5, 7:59 PM EDT · Market Closed

Day

Week

Month

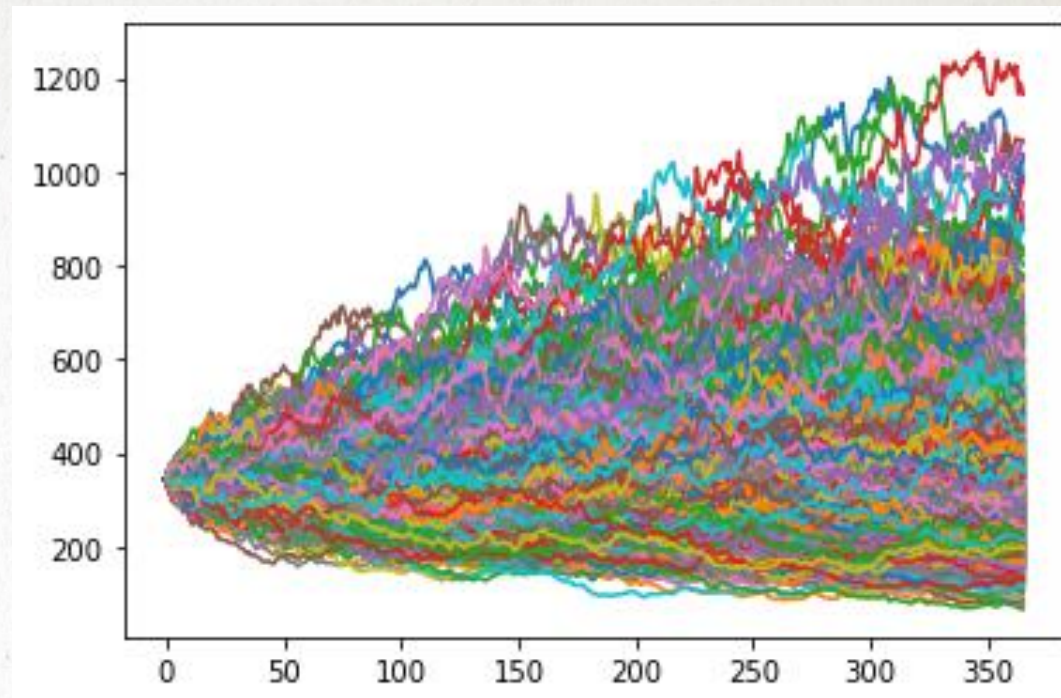
Year

5 Year

Max



Open	345.30	P/E	37.95	Vol	4.21 M
High	345.43	52wk High	390.00	Avg Vol	6.61 M
Low	336.25	52wk Low	162.71	Mkt Cap	152.46 B



Risk Free Rate= 4%

Volatility= 22% (daily volatility * 252)

Time= 1 Year

Time Path= 365

Simulations= 1000 times

Formula used:

$$S_t = S_{t-\Delta t} e^{\left[\left(r - \frac{\sigma^2}{2}\right) \Delta t + \sigma \sqrt{\Delta t} * Z\right]}$$

Result= \$348.42 after 1 year

DCF ANALYSIS- OUR ASSUMPTIONS

Revenue Growth Assumption	2023	2024	2025
Bull Case	10%	11%	12%
Base Case	8%	9%	10%
Bear Case	5%	5.5%	6%

EBIT Margin Assumption	2023	2024	2025
Bull Case	20%	21%	22%
Base Case	16%	17%	18%
Bear Case	12%	13%	14%

DCF ANALYSIS- BASE CASE

NYSE: NFLX

Based on 31st December ended annual reports

x Unlevered Free Cash Flows

Fiscal year ended	Actual				Forecasts				
	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Revenue	20,156.4	24,996.1	29,697.8	31,615.6	32,074	34,960	38,456	42,302	46,532
% growth		24.0%	18.8%	6.5%	8.0%	9.0%	10.0%	10.0%	10.0%
EBITDA	2,707.8	4,701.0	6,402.9	5,969.5	5,773	6,642	7,691	8,460	9,306
% margin	13.4%	18.8%	21.6%	18.9%	18.0%	19.0%	20.0%	20.0%	20.0%
EBIT	2,604.3	4,585.3	6,194.5	5,632.8	5,132	5,943	6,922	7,614	8,376
% margin	12.9%	18.3%	20.9%	17.8%	16.0%	17.0%	18.0%	18.0%	18.0%
Tax on EBIT	247	628	768	826	770	891	1,038	1,142	1,256
Tax rate	9.5%	13.7%	12.4%	14.7%	15.0%	15.0%	15.0%	15.0%	15.0%
x NOPAT (aka EBIAT)	2,358	3,958	5,427	4,807	4,362	5,052	5,884	6,472	7,119
Depreciation & amortization	104	116	208	337	641	699	769	846	931
Changes in net working capital	(4,917.3)	11.4	61.7	1,065.0	(1,666)	(1,816)	(1,997)	(2,197)	(2,417)
Capital expenditures	(253.0)	(497.9)	(524.6)	(407.7)	(505)	(551)	(606)	(667)	(733)
as % of revenue	(1.3%)	(2.0%)	(1.8%)	(1.3%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)	(1.6%)
Unlevered free cash flows (UFCF)	7,125	3,564	5,049	3,671	6,164	7,016	8,044	8,849	9,733
x Present Value of UFCF					5,933	6,257	6,647	6,775	6,905

Terminal value - growth in perpetuity approach

Long term growth rate	2.0%
2027 FCF x (1+g)	9,928
Terminal value in 2027	167,448
Present value of terminal value	118,784
Present value of stage 1 cash flows	32,517
x Total enterprise value (TEV)	151,300

Terminal value - EBITDA multiple approach

Terminal year EBITDA	9,306
EBITDA multiple	20.3x
Terminal value in 2026	188,828
Present value of terminal value	188,828
Present value of stage 1 cash flows	32,517
Total enterprise value (TEV)	221,344

Valuation

	Perpetuity	EBITDA
Enterprise value	151,300	221,344
Net debt	10,873	10,873
Equity value	140,427	210,471
Shares outstanding	445	445
Equity value per share	\$315.35	\$472.65

DCF ANALYSIS- WACC AND SENSITIVITY

WACC

Inputs

Cost of debt	4.0%
Tax rate	15.0%
Cost of debt (after tax)	3.4%

Risk free rate	4.0%
Beta	1.27
Market risk premium	6.0%
Cost of equity	11.6%

Capital Structure

Total debt	16,932
Total equity	20,777
Total capital	37,709
Weight of debt	44.9%
Weight of equity	55.1%

Cost of capital (WACC)	7.9%
------------------------	------

After Tax Cost of Debt	Cost of equity					
	7.9%	10.6%	11.1%	11.6%	12.1%	12.6%
	2.4%	6.9%	7.2%	7.5%	7.7%	8.0%
	2.9%	7.1%	7.4%	7.7%	8.0%	8.2%
	3.4%	7.4%	7.6%	7.9%	8.2%	8.5%
	3.9%	7.6%	7.9%	8.1%	8.4%	8.7%
	4.4%	7.8%	8.1%	8.4%	8.6%	8.9%

WACC	Equity value per share					
	Long term growth rate (g)					
	\$315.35	1.0%	1.5%	2.0%	2.5%	3.0%
	8.9%	237.35	251.22	267.11	285.47	306.95
	8.4%	255.32	271.46	290.12	311.94	337.81
	7.9%	275.90	294.86	317.05	343.33	374.99
	7.4%	299.71	322.25	348.97	381.14	420.63
	6.9%	327.57	354.73	387.43	427.56	477.99

WACC	Equity value per share					
	Exit EBITDA Multiple					
	\$472.65	19.3x	19.8x	20.3x	20.8x	21.3x
	8.9%	450.30	460.75	471.20	481.65	492.10
	8.4%	451.15	461.60	472.05	482.50	492.95
	7.9%	452.01	462.46	472.91	483.36	493.81
	7.4%	452.89	463.34	473.79	484.24	494.69
	6.9%	453.79	464.24	474.69	485.14	495.59

DCF ANALYSIS RESULTS

BASE CASE

Valuation	Perpetuity	EBITDA
Enterprise value	151,300	221,344
Net debt	10,873	10,873
Equity value	140,427	210,471
Shares outstanding	445	445
Equity value per share	\$315.35	\$472.65

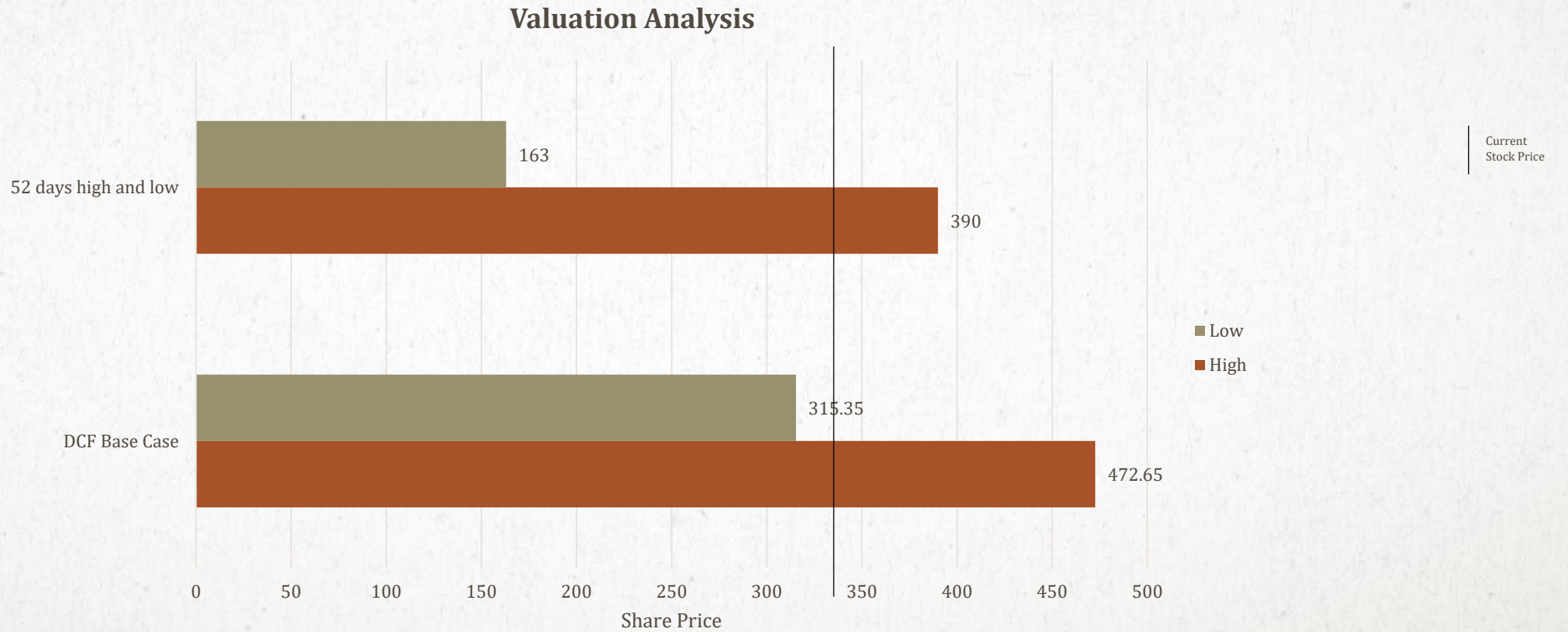
BULL CASE

Valuation	Perpetuity	EBITDA
Enterprise value	191,304	288,197
Net debt	10,873	10,873
Equity value	180,431	277,324
Shares outstanding	445	445
Equity value per share	\$405.19	\$622.78

BEAR CASE

Valuation	Perpetuity	EBITDA
Enterprise value	108,275	151,712
Net debt	10,873	10,873
Equity value	97,402	140,839
Shares outstanding	445	445
Equity value per share	\$218.73	\$316.28

VALUATION SUMMARY CHART



INVESTMENT THESIS- BUY

- Huge Growth Prospects
- Better Leverage Condition
- Best Original Contents
- Cost Management
- Current Uprising Trend
- Fairly Valued stock

Limitations:

Weak Fixed Asset Ratio

Huge Investment in Original Contents

Limitations of the both revenue driver strategies

Analyst Ratings Netflix Inc.

	3 Months Ago	1 Month Ago	Current
Buy	<div><div></div></div> 19	<div><div></div></div> 18	<div><div></div></div> 18
Overweight	<div><div></div></div> 4	<div><div></div></div> 4	<div><div></div></div> 4
Hold	<div><div></div></div> 19	<div><div></div></div> 19	<div><div></div></div> 20
Underweight	0	0	0
Sell	<div><div></div></div> 3	<div><div></div></div> 3	<div><div></div></div> 3
Consensus	<div><div></div><div></div><div></div><div></div><div></div><div></div></div> OVERWEIGHT	<div><div></div><div></div><div></div><div></div><div></div><div></div></div> OVERWEIGHT	<div><div></div><div></div><div></div><div></div><div></div><div></div></div> OVERWEIGHT

Forecasts

Stock Report | **March 25, 2023** | NasdaqGS Symbol: **NFLX** | **NFLX** is in the S&P 500**Netflix, Inc.****Recommendation** **STRONG BUY** ★ ★ ★ ★ ★**Price**
USD 328.39 (as of market close Mar 24, 2023)**12-Mo. Target Price**
USD 390.00**Report Currency**
USD**Investment Style**
Large-Cap Growth**Equity Analyst** Kenneth Leon**GICS Sector** Communication Services
Sub-Industry Movies and Entertainment**Summary** Netflix provides subscription-based streaming of TV episodes and movies to 230.4 million paid subscribers in more than 200 countries around the world.

REFERENCE

- Capital IQ
 - Statista
 - Bloomberg
 - Polygon.com
 - Yahoo Finance
 - Antenna
 - The Business Model Analyst
 - CNNMoney
 - Google
 - SEC Filings of Netflix (10k and 10Qs of 2022)
 - Netflix Annual Report
 - Yahoo Finance
 - Capital IQ
 - wbd.com
 - www.paramount.com
 - The Walt Disney Company
 - <https://www.fool.com/investing/stock-market/market-sectors/communication/media-stocks/>
-