



Netflix Q3 Board of Directors Report

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EXECUTIVE SUMMARY

Introduction

Netflix is the largest global subscription streaming service, leading the industry with 220 million subscribers at the end of Q2 2022. Over the past decade, Netflix has increased subscribers on an annual basis by sixteen percent; however, 2022 marks the first year that we have lost subscribers in a decade, about 1.6 million. Our recommendation is to acquire FuboTV to diversify Netflix's content, add a livestream extension and reduce the time to market. With this acquisition and the continuation of Netflix's highly ranked original content, we are confident Netflix will regain the lost subscribers and begin to acquire the subscribers of our competitors as well.

Current Financial State

Despite a loss in subscribers, Netflix still grew revenues by increasing the subscription price by \$1. Revenues increased from 2020 to 2021 by almost five million dollars, ending 2021 with \$29.7 billion in revenue. Netflix ended 2021 with over six million in cash. We plan to make the acquisition of FuboTV entirely in cash. Our analysis estimates that the acquisition will cost between \$700 million to \$1 billion dollars.

Competitive Landscape

Competitors such as Hulu have begun to add live streaming services to their subscription models. Some competitors now offer joint subscriptions (Hulu+ESPN+Disney) to diversify their content without having to create more content themselves.

Competitive Edge

Of the Nielsen Ratings top fifteen Original Content Streaming Programs of 2021, twelve were produced by Netflix and the first ten ranked were original content programs created by Netflix. Hulu's live TV service package costs \$74.99 and offers lower ranked original content on Hulu's streaming platform, and only 75 channels. Netflix and FuboTV's live streaming package will offer Netflix's top ranked original content and FuboTV's 138 live streaming channels. With our acquisition, we can price match our main competitor while also offering a better value.

Conclusion

To prevent the further loss of subscribers and to continue to grow our subscriber base, Netflix must diversify its platform to offer more. We recommend acquiring FuboTV, its live streaming platform technology patent, and streaming rights and licenses to decrease our time to market for our live streaming platform extension.

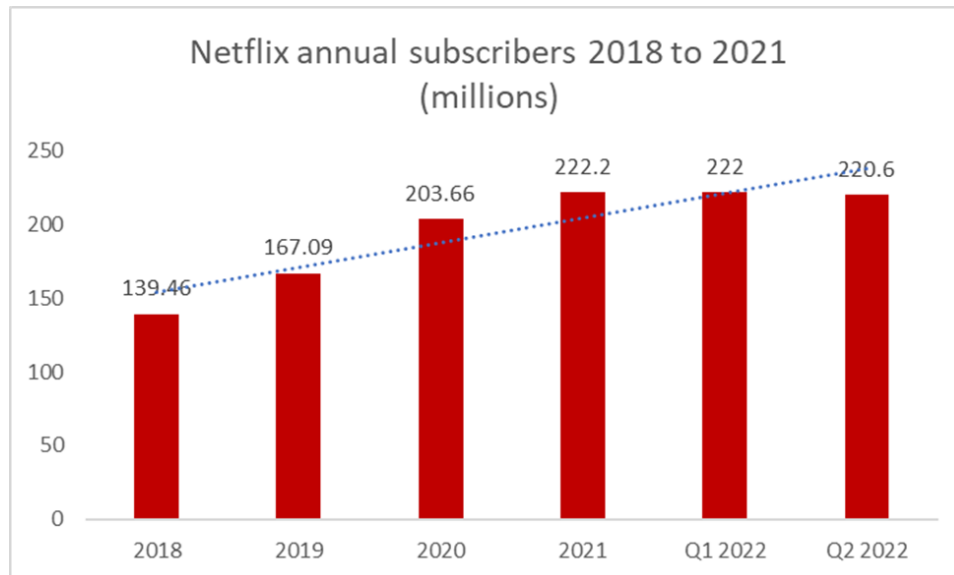
NETFLIX'S CURRENT POSITION

Netflix has been a global market leader in the streaming space for more than a decade and its streaming services alone constitute about 15 percent of the Internet's bandwidth. Spanning across 190 countries, our largest presence is in the North America region, which accounts for about 58.6 percent of Netflix viewers worldwide in 2022.

As we move into the post-pandemic era, as opposed to COVID era, where we saw a major boost in the streaming services space, we are experiencing a shift in how consumers use streaming platforms. Despite the current challenges to subscribe growth, Netflix is continuing to expand globally. We at Netflix believe in seeking excellence and pushing the frontiers on entertaining the world.

We recommend moving into the livestreaming space by acquiring FuboTV and essentially the livestreaming technology to provide more value to our customers in the coming years. Our recommendation is scoped for the North America region, which is our primary target market as it contributes to 43% of our global revenue at Netflix. This report highlights the rationale behind this approach, supported by industry trends and future projections.

Over the past two quarters, Netflix has seen a drop in subscribers, from 222.2 million subscribers at the peak to 220.6 million currently. This is attributed to a shift in consumer behavior in the new normal and the need for diverse content on the platform. The pandemic led to huge gain in subscribers as more people worked from home and led to higher watch hours due to the lockdowns, adding more than 36 million subscribers in 2020 and passed 200 million subscribers globally. To maintain profitability, we increased our monthly prices from \$9.99 per month for the basic plan (up from \$8.99), \$15.49 per month for its standard tier (up from \$13.99), and \$19.99 per month for its 4K tier (up from \$17.99). Although the price change is not steep, it took a hit on our subscriber growth, which dropped post the price hike.



With rising inflation, many customers had to make a choice between Netflix and our competition. Netflix is still the leader in this video streaming business sector, but with over 200 new players in the fragmented streaming market, many subscribers are lost to our new competitors. More specifically, the Hulu + Live TV/Disney/ESPN bundle is our main competition to which we lost our major market share.

INDUSTRY TRENDS

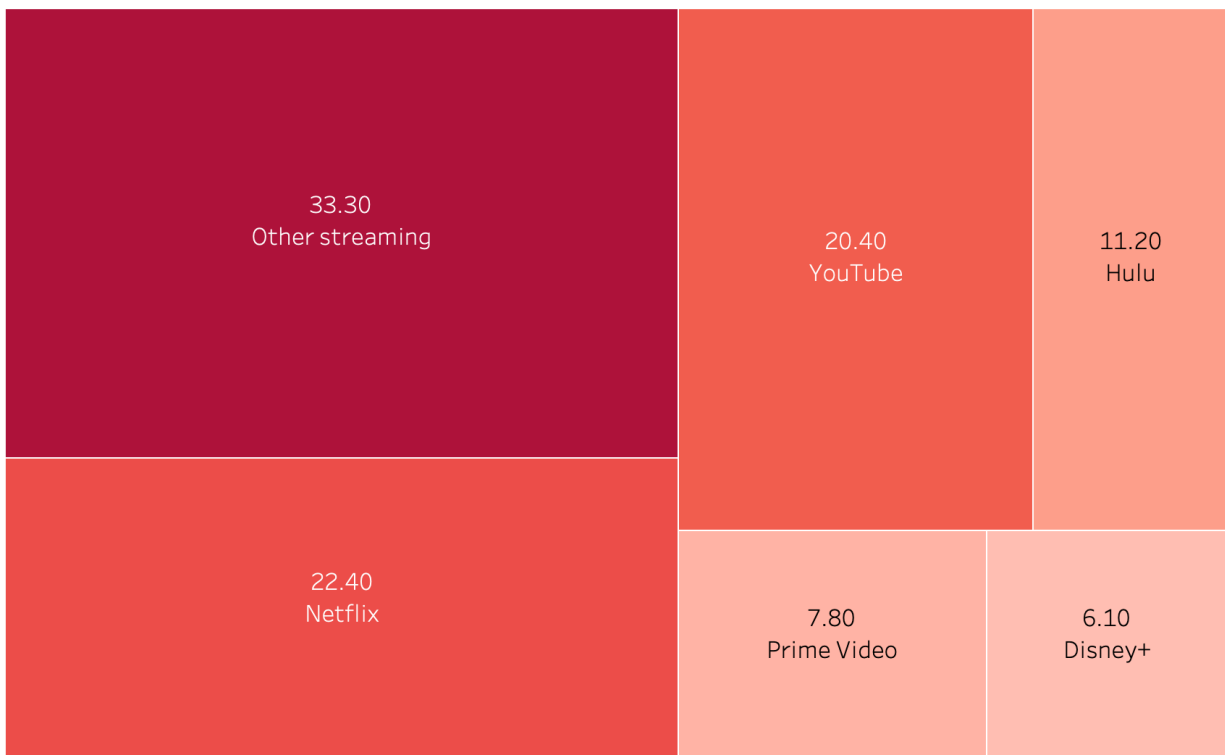
75% percent of Americans have more than two subscriptions to various streaming services, but with inflation expected to increase to 8.5% this year [US Inflation Calculator, 2022], people must choose between their subscriptions. We must seize this chance to diversify our content because more people are canceling multiple subscriptions and looking for platforms that will provide them the most value. Hulu has seen 3X growth in revenue and subscribers after its adoption to LiveTV.

According to the Nielsen Gauge Reports [Nielsen 2022], Streaming gained 6 share points from 12 months ago, while cable showed the largest year-over-year decline with a loss of 5 share points. Moreover, Live TV is projected to grow at CAGR at 12% and the expected market share

would be \$842.93B by 2027. [Seeking Alpha, 2022]. Our competitors have leveraged live streaming content as an opportunity to diversify and rope in more subscribers [Hulu Live Stream Revenue]

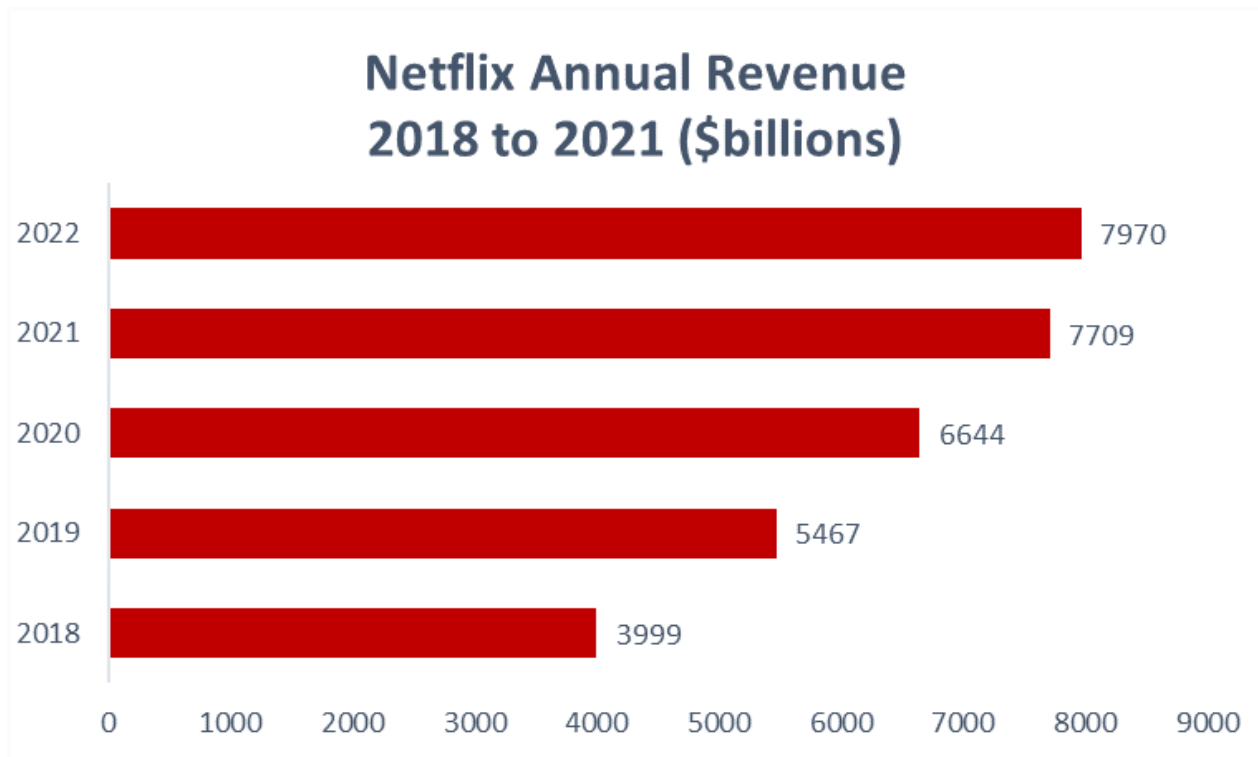
Netflix is a leading video streaming platform with over 222M Subscribers in 190+ countries. 43% of regional subscribers are from US & Canada. Their revenue model is based on subscription. Netflix offers TV Shows, Movies(on-demand) and documentaries which can be accessed from desktops to smartphones. With the video streaming platform expected to grow at a compound annual growth of 21.3% by 2030 and valued approximately 180+ Billion dollars, it is imperative for us to invest in our content and look for new avenues of growth for our platform.

US audience streaming minutes 2022 (%)



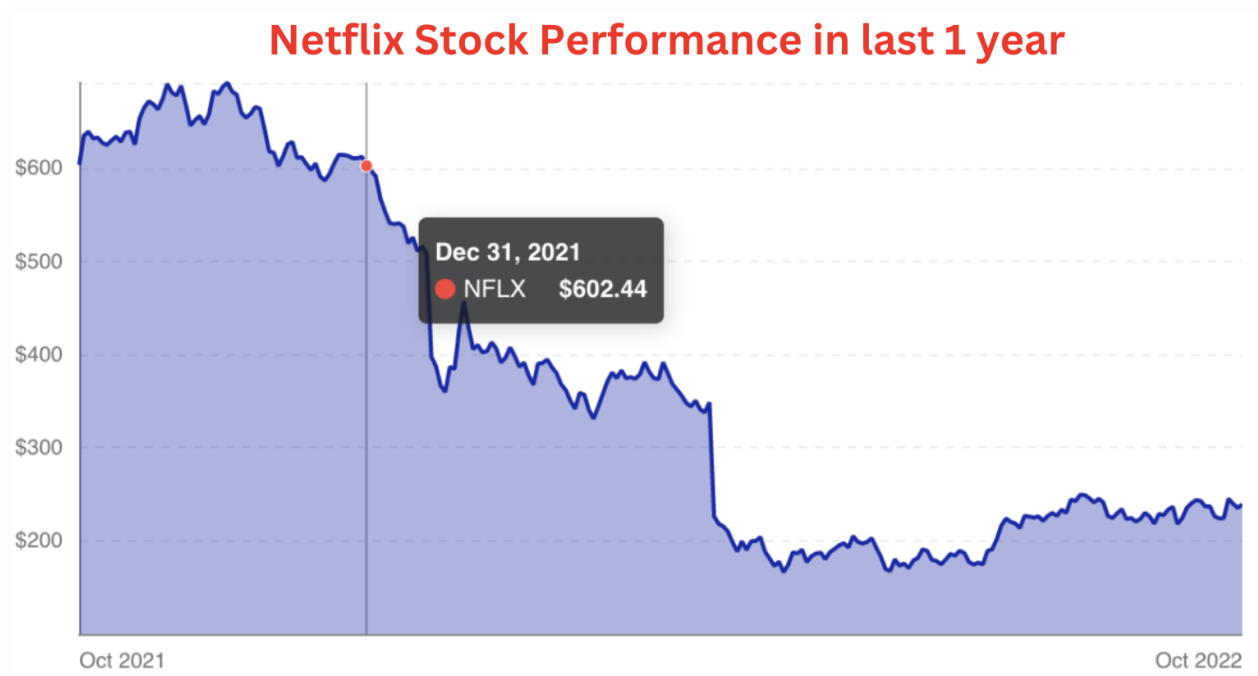
FINANCIAL REPORT

Netflix has reported a 1.3% jump in Q2 2022 revenue, making \$7.97 billion [Business of Apps, 2022]. The significant contributing factors are price hike and subscriber count, which are correlated to each other. As the prices increase, we saw a dip in subscriber count, but our revenue for Q2 increase due to the net effect.



As per our estimated reports, we expected to add 2.5 million subscribers in Q1 2022. But the post pandemic, due to changing consumer behavior, growing competition offering diversified content with live streaming capabilities, we witnessed a drop of 200,000 subscribers in Q1 and 1.4 million in Q2.

Industry analysts projected that Netflix would add 2.7 million subscribers in Q1 2022. However, the combined effect of lower projection compared to the same quarter of the previous year, unable to meet the idealistic projections made by analysts and drop in subscriber count for the first time in over a decade resulted in sentimental deposition of Netflix's stock by investors. The stock has lost more than 60% this year, with analysts growing more bearish in the past few months [Forbes, 2022]. Netflix traded at roughly \$600/share at the end of 2021 and dropped to a 52-week low of \$162.7/share, currently trading at approximately \$240/share [Fool.com, 2022]

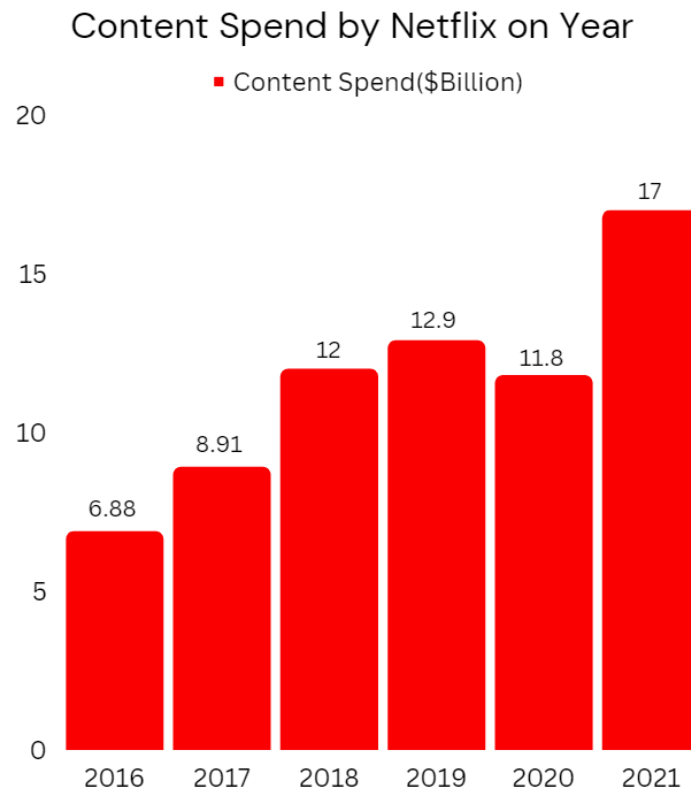


Netflix witnessed a drop in its market share from Q1 2020 to Q1 2022 and the trend is similar in Q2 2022. It declined from 55.7% to 45.2% globally, and from 52.4% and 42.4% in the U.S.[TechCrunch, 2022].

The numbers mentioned above suggest moving towards content diversification, additional streams of monetization and shorter time to market to mitigate our losses. Hence our recommendation to acquire FuboTV and leverage its livestream platform to create an additional revenue stream. We are proposing a flywheel model to engage existing customers to drive them into the livestream extension to generate additional revenue that can be utilized to create original Netflix content.

ACQUISITION DETAILS

FuboTV has current outstanding shares as 185.3M, trading at \$3.96/share. Its current market capitalization is \$733.77 million. According to our estimates, considering a 20% premium paid on average in the Media and entertainment industry, we can acquire FuboTV for \$880 million. Given that we've spent \$17 billion on content last year, the acquisition comes at a low cost in terms of financial impact and customer growth prospects.

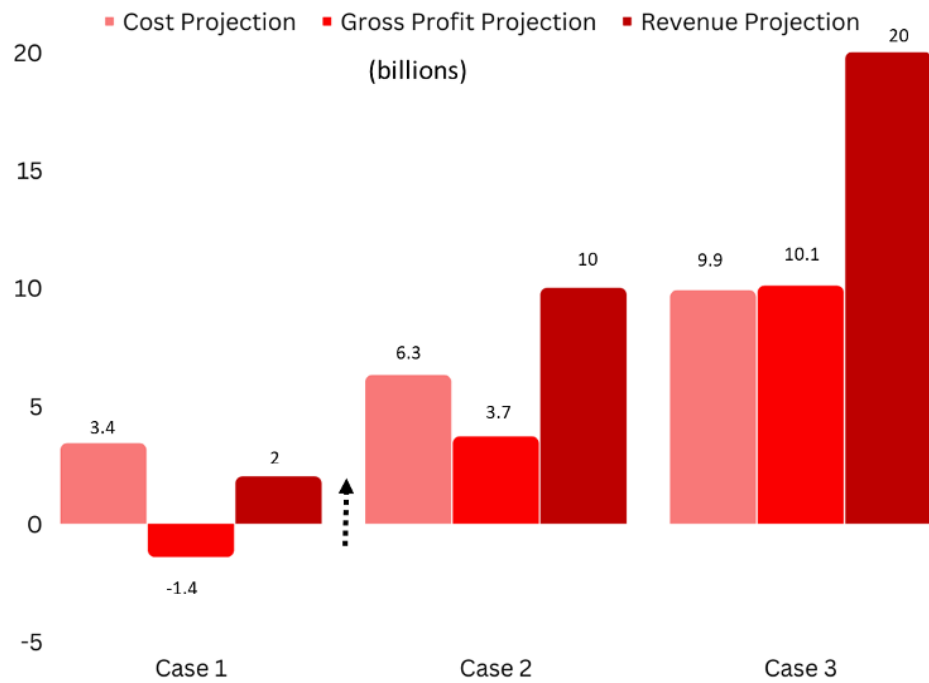


ROI, PROJECTIONS AND BREAK EVEN

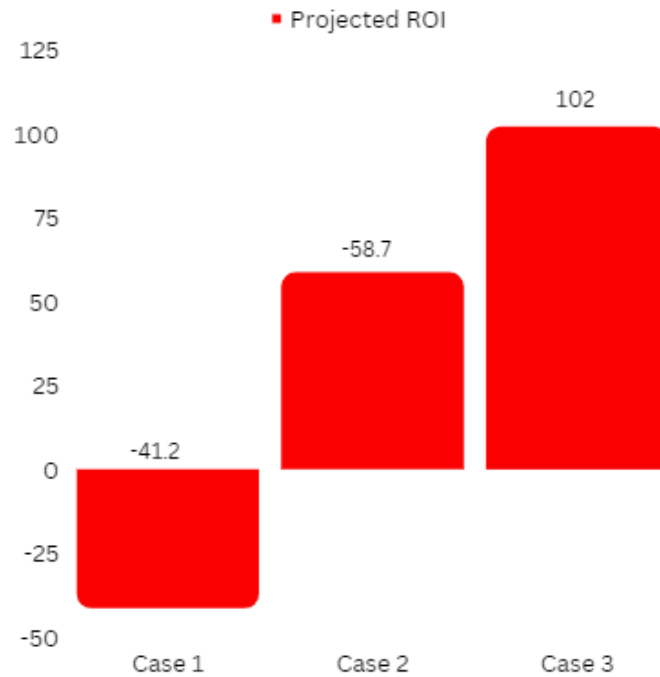
To understand the future impact of the acquisition of FuboTV, we have considered the following three cases:

- Case 1: 1% Netflix users adopt Netflix + FuboTv
- Case 2: 5% Netflix users adopt Netflix + FuboTv

- Case 3: 10% Netflix users adopt Netflix + FuboTv



Our estimated breakeven point stands at 2.11% of conversion of Netflix users to Netflix+ FuboTv. The charts below show the projections and ROI for the 3 cases, respectively.



CALL TO ACTION

Because of the changing competitive landscape of streaming services, being a media bank full of only videos is no longer sufficient. To stay on top, we must innovate. The board should approve the acquisition of FuboTV based on our recommendations. The acquisition will enable us to increase our company's revenue, subscribers, and profitability. An investment of this magnitude will allow us to maintain or reign supreme in the streaming industry.

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