# MBUS 629 Corporate Financial Reporting

Company: Netflix

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## Introduction

Netflix, a global entertainment powerhouse, was founded in 1997 when Reed Hastings and Marc Randolph had an idea to rent DVDs by mail. In its early years, Netflix focused on improving its DVD rental model, launching lots of functions that provide their customers with a better experience. As technology advanced and the internet become increasingly prevalent, in 2007, Netflix made a game-changing decision by introducing their streaming service, allowing subscribers to access a variety of movies and TV shows instantly on their devices. Besides providing the streaming service, Netflix also made a strategic investment in original content production, starting with the release of the series “House of Cards” in 2013. This moves solidified Netflix’s position not only as a provider but a content creator attracting and garnering a dedicated following subscriber.

In 2013, Netflix brought the service to people in more than 190 countries and 21 languages around the world. The company continues to localize its content offerings, adapting to diverse cultural preferences and expanding their subscriber base worldwide. Netflix membership’s hits 100 million members globally in 2017 and this number increase sharply to 200 million in 2021. Netflix has been riding an upward trend and hits the peak during Covid-19 pandemic, but after the restriction regulation died down, the needs of watching films and TV shows declined. After several years of success, in 2022, Netflix experienced a slowing down and started regressing, the streamer lost 1.2 million subscribers in the first six months of 2022. Regardless of the headwind in 2022, Netflix is seemed to charge ahead and keep their position as the most popular streaming platform.

## Board Structure

Executive Board, responsible for setting strategy; senior management, directing daily operations; and regional business units that oversee local markets around the globe. Standing at the top of this pyramid is Netflix executive chairman Reed Hastings, who co-founded Netflix with Marc Randolph in 1997 and has since guided them to become one of the most successful media companies ever. Netflix was led with a board of directors consisting of 12 members. This is a large number of directors that can lead to indecision. However, this is the typical number of board members of large entertainment companies. By comparison, Disney Plus has 11 and Hulu has 13. A large number of board members can lead to slow decision-making and conflicting views. However, it also allows for more diverse experiences that can help a company be more innovative and stable. Despite the downside of being less agile, 12 member boards is a meaningfully fitting number for a major entertainment company like Netflix.

The average age of the board of directors is 55 years old, and members range in age from 40 to 75. This large age range allows multiple generations to offer different perspectives and different expertise when discussing. Additionally, the slightly higher average age means the board has brought in a variety of perspectives without sacrificing experience. In fact, the majority of members are in their 50s and 60s. This is ideal as it makes the board very experienced without making it impossible to adapt and innovate.

Chief Executive Officer, Reed Hastings holds a position on the board This could create a conflict of interest between the board and the executives hired. However, given the company's compensation structure, it's smart to include the CEO on the board because it bridges the gap between board members and the board of directors. This will allow for a more holistic view of the company and allow for faster decision making. There are also plenty of board members to offset any bias that including the CEO may bring. Having a CEO on the board isn't uncommon, and it's likely more of an asset than a liability here.

*Insider Shareholders:*

- Leslie Kilgore: Leslie Kilgore, a non-executive member of the Netflix Board of Directors, owns 35,196 Netflix shares, representing 0.02% of the company's total shares outstanding. Kilgore previously served as Netflix's Chief Marketing Officer for 12 years before joining the board. She can be considered an insider shareholder due to her position on the board.
- David Hyman: David Hyman, serving as the General Counsel and Secretary of Netflix, owns 31,610 Netflix shares, representing 0.01% of the total shares outstanding. As a key member of the company's management team responsible for legal affairs and public policy, he qualifies as an insider shareholder.
- Greg Peters: Greg Peters, the Chief Product Officer of Netflix, holds 13,090 Netflix shares, which represent less than 0.01% of the company's total shares outstanding. Peters has been with Netflix since 2008 and is responsible for leading the product team. While his ownership stake is relatively small, he is considered an insider due to his executive role within the company.

*Institutional Shareholders:*

The majority of Netflix shares are held by institutional investors. Here are the top three institutional shareholders:

- Capital Research Global Investors: This institutional investor owns 37.9 million shares of Netflix, representing 8.6% of the total shares outstanding. Capital Research Global Investors is an investment management firm that operates several mutual funds, and Netflix is one of their significant holdings.
- Vanguard Group Inc: Vanguard Group holds 34.1 million shares of Netflix, accounting for 7.8% of the total shares outstanding. As a prominent mutual fund and ETF management company, Vanguard manages a significant amount of assets globally. Netflix is one of the holdings in their funds.
- BlackRock Inc: BlackRock owns 28.4 million shares of Netflix, representing 6.5% of the total shares outstanding. As another major mutual fund and ETF management company, BlackRock has substantial assets under management. Netflix is included in their portfolio of holdings.
- In summary, among the top shareholders of Netflix, there are both insider shareholders, including board members and key executives, and institutional shareholders who hold significant positions in the company. While insiders may have a more direct connection to the company's operations and decision-making, institutional shareholders represent external entities investing in Netflix on behalf of their clients or funds.

## Beta Coefficient

The beta of an investment security is a measurement of its volatility of returns relative to the entire market (CFI, 2023). The Beta coefficient for Netflix was computed by conducting a comprehensive analysis using financial data spanning a period of five years, from June 1st, 2018 to June 1st, 2023. The data frequency employed in this analysis was on a monthly basis. Through the application of regression analysis, the monthly returns of Netflix's stock were examined as the dependent variable, while the independent variable consisted of the monthly returns of the S&P 500 index. The results of this regression analysis yielded a beta of 1.288 for Netflix. To assess the accuracy of this beta estimate, a comparison was made with the reported beta available on Yahoo Finance, which indicated a value of 1.27. Although there exists an extremely slight disparity, only 0.01, between the computed and reported beta, it is important to acknowledge that variations in the beta calculation can arise from differences in methodologies and the specific data samples employed. Nevertheless, both the calculated and reported betas suggest a positive relationship between Netflix's stock and the broader market, with the stock exhibiting a slightly higher sensitivity to market movements. This implies that Netflix's stock tends to move in line with, or slightly more than, the overall market, as represented by the S&P 500.

## Cost of Equity

Cost of equity is the rate of return a company must pay out to equity investors (Harvard Business School, 2022). Cost of equity is calculated using the Capital Asset Pricing Model (CAPM). To begin, the risk-free rate was selected as the 10-year treasury yield as of June 1st, 2023, which stood at 3.69%. In order to estimate the expected market return, the most recent yearly dividend of the S&P 500 was multiplied by its average growth rate of 6.54%. The resulting value was divided by the respective price of the S&P 500 and then the average growth rate was added again. This process was conducted using data collected over a five-year period, from December 31st, 2018 to December 31st, 2022. Based on this analysis, the expected market return was determined to be 8.44%. The market risk premium was then calculated by subtracting the risk-free rate from the expected market return, resulting in a value of 4.75%. Finally, the cost of equity for Netflix was derived using the Capital Asset Pricing Model (CAPM) equation. Considering these inputs, the cost of equity for Netflix was computed as 9.81%. The selection of the risk-free rate and market risk premium was motivated by the use of current and historical market data to ensure an accurate estimation of Netflix's cost of equity.

## Unlevered Beta

Unlevered beta is the beta of a company without the impact of debt (CFI, 2023). Based on the beta of 1.288 for Netflix's equity cost of capital and Netflix’s balance sheet, the unlevered beta for the company was computed. To determine the unlevered beta, the company's net debt as of December 31st, 2022, which amounted to $9,205,900,000, was considered in relation to its total capitalization of $35,130,477,000 as of the same date. By multiplying the computed beta by the proportion of equity in the total of debt and equity, the unlevered beta was derived as 1.021. This calculation takes into account the company's capital structure and provides a measure of Netflix's systematic risk without the influence of debt.

The calculated beta and cost of equity above is seemed to be reasonable as they reflect the strength of Netflix throughout the last five years. The beta index of 1.288 indicates that Netflix's stock is slightly more volatile to market movements compared to the overall market. A beta greater than 1 suggests that Netflix's stock tends to move in line with, or slightly more than, the boarder market, as represented by the S&P 500 index. The beta also shows a moderate level of market risk associated with Netflix's stock. Netflix has unlevered beta of 1.021, which is lower than the beta of 1.288, which indicates that the inclusion of debt in the company's capital structure has a slightly dampening effect on the stock's volatility. This is in line with the expectation that debt can act as a mitigating factor on Netflix's overall risk. While the above indicators show a high level of risk when investing in Netflix, it also offers a good return on investment. This is also reasonable because Netflix is a powerhouse in the world's streaming segment, the growth rate in recent years is clearly shown in the number of registered members.

**Income Statement**

Netflix's consolidated statements of operations (page 38) provide its Net Income of $4,491,924 thousand in 2022. This number can also be traced under the Net Income area of the consolidated statements of stockholders' equity (page 42). Here its Net Income of $4,491,924 thousand is added with its Retained Earnings of $12,689,372 thousand from 2021 to become $17,181,296 thousand retained as of December 31, 2022. The number is eventually reported under the Equity section as Retained Earnings of $17,181,296 thousand for the 2022 fiscal year in the consolidated balance sheets (page 41). A similar approach could be implemented with the figures of any fiscal years to identify the consistency of financial statements. This analysis consolidates that Netflix's statements of operations, statement of stockholders' equity, and balance sheets obviously work as a system.

Looking at Netflix's income statement,

a) It is apparent that the Net Income incredibly increased from $2,761,395 to $5,116,229 from 2020 to 2021 before a mild drop to $4,491,924 in 2022. Even though Netflix's revenues grew over the period, its profitability went up and down since the operating expenses rose.

b) Netflix still has its revenues grown in the last 3 years. Nevertheless, the growth rate was dramatically slowed down three times from approximately 18.81% in 2021 to only 6.46% in 2022.

c) The computed Gross Margin, Operating Margin, and Net Profit Margin for Netflix are shown in the table below. These numbers generally all increased from 2020 to 2021 and then dropped in 2022. Despite the decrease, the margins remain relatively high in the industry on average.

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| **Gross margin** | 39.37% | 41.64% | 38.89% |
| **Operating margin** | 17.82% | 20.86% | 18.34% |
| **Net profit margin** | 14.21% | 17.23% | 11.05% |

d) Expenses that have changed significantly over 3 years are technology and development as well as general and administrative. These expenses have gone up by roughly 50% from 2020 to 2022.

e) In this case, the Income Statement does not show any potentially non-recurring revenues or expenses as all revenues and expenses listed have recurred every year.

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NETFLIX, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Net income | $ 4,491,924 | $ 5,116,228 | $ 2,761,395 |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (176,811) | (84,893) | 67,919 |
| Comprehensive income | $ 4,315,113 | $ 5,031,335 | $ 2,829,314 |

See accompanying notes to consolidated financial statements.
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f) The revenue growth rate of around 6% in 2022 from b) is mostly explained by the growth in average paying membership which resulted from Netflix's price changes.
The decrease in Operating Margin in 2022 as mentioned in c) resulted from the negative impacts of the Covid-19 pandemic on foreign exchange rates and delays in content releases. Similarly, the pandemic resulted in the rise of amortization of content assets, making up the majority of cost of revenues.
The significant increase in technology and development as well as general and administrative expenses from d) generally resulted from personnel-related costs.

### Statements of Comprehensive Income

1. Looking at Netflix's consolidated statements of comprehensive income, it is apparent that the company's Comprehensive Income is different from the Net Income in 2020, 2021 and 2022. These Income numbers are different since there are Unrealized Losses in 2021 and 2022 as well as Unrealized Gains in 2020 from foreign currency translation adjustments.

2. These Unrealized Gains and Losses of -$176,811, -$84,893, and $67,919 in 2022, 2021 and 2020, respectively, can also be traced in Accumulated Other Comprehensive Income account (AOCI) of the consolidated statements of stockholders' equity (as highlighted in the table). At the end of the 2022 fiscal year, there is Accumulated Other Comprehensive Loss of $217,306 thousands. This number is accumulated from Unrealized Gains and Losses from previous fiscal years. It accounts for approximately 1.05% of the Total Stockholders' Equity as of December 31, 2022. As a result, it may slightly decrease Netflix's Net Income in the future.

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NETFLIX, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

| | Common Stock and Additional Paid-in Capital | | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balances as of December 31, 2019 | 438,806,649 | $ 2,793,929 | $ — | $ (23,521) | $ 4,811,749 | $ 7,582,157 |
| Net income | — | — | — | — | 2,761,395 | 2,761,395 |
| Other comprehensive income | — | — | — | 67,919 | — | 67,919 |
| Issuance of common stock upon exercise of options | 4,088,612 | 238,589 | — | — | — | 238,589 |
| Stock-based compensation expense | — | 415,180 | — | — | — | 415,180 |
| Balances as of December 31, 2020 | 442,895,261 | $ 3,447,698 | $ — | $ 44,398 | $ 7,573,144 | $ 11,065,240 |
| Net income | — | — | — | — | 5,116,228 | 5,116,228 |
| Other comprehensive loss | — | — | — | (84,893) | — | (84,893) |
| Issuance of common stock upon exercise of options | 2,632,324 | 173,643 | — | — | — | 173,643 |
| Repurchases of common stock | (1,182,410) | — | (600,022) | — | — | (600,022) |
| Shares withheld related to net share settlement | (382,068) | — | (224,168) | — | — | (224,168) |
| Stock-based compensation expense | — | 403,220 | — | — | — | 403,220 |
| Balances as of December 31, 2021 | 443,963,107 | $ 4,024,561 | $ (824,190) | $ (40,495) | $ 12,689,372 | $ 15,849,248 |
| Net income | — | — | — | — | 4,491,924 | 4,491,924 |
| Other comprehensive loss | — | — | — | (176,811) | — | (176,811) |
| Issuance of common stock upon exercise of options | 1,383,669 | 37,588 | — | — | — | 37,588 |
| Stock-based compensation expense | — | 575,452 | — | — | — | 575,452 |
| Balances as of December 31, 2022 | 445,346,776 | $ 4,637,601 | $ (824,190) | $ (217,306) | $ 17,181,296 | $ 20,777,401 |

See accompanying notes to consolidated financial statements.
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3. Netflix's consolidated statements of operations is shown below:

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NETFLIX, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Revenues | $ 31,615,550 | $ 29,697,844 | $ 24,996,056 |
| Cost of revenues | 19,168,285 | 17,332,683 | 15,276,319 |
| Marketing | 2,530,502 | 2,545,146 | 2,228,362 |
| Technology and development | 2,711,041 | 2,273,885 | 1,829,600 |
| General and administrative | 1,572,891 | 1,351,621 | 1,076,486 |
| Operating income | 5,632,831 | 6,194,509 | 4,585,289 |
| Other income (expense): | | | |
| Interest expense | (706,212) | (765,620) | (767,499) |
| Interest and other income (expense) | 337,310 | 411,214 | (618,441) |
| Income before income taxes | 5,263,929 | 5,840,103 | 3,199,349 |
| Provision for income taxes | (772,005) | (723,875) | (437,954) |
| Net income | $ 4,491,924 | $ 5,116,228 | $ 2,761,395 |
| Earnings per share: | | | |
| Basic | $ 10.10 | $ 11.55 | $ 6.26 |
| Diluted | $ 9.95 | $ 11.24 | $ 6.08 |
| Weighted-average common shares outstanding: | | | |
| Basic | 444,698 | 443,155 | 440,922 |
| Diluted | 451,290 | 455,372 | 454,208 |

See accompanying notes to consolidated financial statements.
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a) By dividing the Income Tax Expenses by the according Income Before Taxes, the Effective Tax Rates of Netflix for the last three fiscal years are provided in the table below:

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| **Income tax expenses** | 772,005 | 723,875 | 437,954 |
| **Income before taxes** | 5,263,929 | 5,840,103 | 3,199,349 |
| **Effective tax rate** | 14.67% | 12.39% | 13.69% |

As shown in the table, Netflix's Effective Tax Rate decreased in 2021 before increasing in 2022.

b) The Basic Earnings per Share computed from the Net Income are similar to the reported Basic EPS of the consolidated statements of operations in each year. This suggests that Netflix's Earnings per Share calculations track with reported Net Income for each year. Hence, there is no Preferred Dividends. There are diluted Earnings per Share over the period, meaning that Netflix may hold convertible debts or securities.

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| **Net income** | 4,491,924 | 5,116,228 | 2,761,395 |
| **Weighted-average basic common shares** | 444,698 | 443,155 | 440,922 |
| **Basic EPS** | 10.10 | 11.55 | 6.26 |

4. a) It is evident that there is no Dividends declared in the consolidated statements of stockholders' equity in the last three years. It is also written in Netflix's Dividend Policy that they have never declared or paid any cash dividends on their capital stock, and they do not currently anticipate paying any cash dividends in the foreseeable future.

   b) The Total Unrealized Income of $44,398 is hidden in the Total Equity of $11,065,240 in 2020. Similarly, there is a Total Unrealized Loss of $40,495 hidden in $15,849,248 in 2021 and $217,306 hidden in $20,777,401 in 2022. The Total Unrealized Income or Loss is reflected in the ending balance of AOCI account in each year.

**Balance Sheet**

1. a) Dividing each asset by total assets on Netflix's Balance Sheet, the composition of its assets in 2021 and 2022 is shown in the table below:

| Assets Composition | 2022 | 2021 | Change |
|---|---|---|---|
| Cash and cash equivalents | 10.59% | 13.52% | -21.66% |
| Short-term investments | 1.88% | 0.00% | 1.88% |
| Other current assets | 6.60% | 4.58% | 44.14% |
| Total current assets | 19.07% | 18.10% | 5.35% |
| Content assets, net | 67.37% | 69.35% | -2.86% |
| Property and equipment | 2.88% | 2.97% | -3.07% |
| Other non-current assets | 10.69% | 9.58% | 11.54% |
| Total assets | 100.00% | 100.00% | |

It is no surprising that content assets make up the majority of its total assets with almost 70%. This proves that Netflix focuses on investing its core business which is a streaming service. Followed by content assets are cash and other non-current assets with both approximately 11%. Regarding changes, the proportion of cash and cash equivalents decreased by 21.66% while that of other current assets significantly increased by 44.14% in 2022. Nevertheless, there has not been any significant changes in the composition of Netflix's assets during this period as content assets remain a major component.

b) Dividing total liabilities and total stockholders' equity by total liabilities and equity, Netflix's capital structure in 2021 and 2022 is provided in the table below:

| Capital Structure | 2022 | 2021 | Changes |
|---|---|---|---|
| Total liabilities | 57.24% | 64.45% | -11.18% |
| Total stockholders' equity | 42.76% | 35.55% | 20.28% |
| Total liabilities and equity | 100.00% | 100.00% | |

It is evident that Netflix finances its activities by debt more than by stockholders' equity. The gap between the proportion of liabilities and equity was roughly 30% in 2021 before it was narrowed to around 12% in 2022. It is explained by a drop in the composition of total liabilities by 11.18% and a growth in total equity counterpart by 20.28%.

c) Dividing current liabilities and long-term liabilities by total liabilities, the composition of each liability is shown in the table below:

| | 2022 | 2021 | Changes |
|---|---|---|---|
| **Current liabilities** | 28.51% | 29.54% | -3.49% |
| **Long-term liabilities** | 71.49% | 70.46% | 1.46% |
| **Total liabilities** | **100.00%** | **100.00%** | |

The percentages of current liabilities and long-term liabilities in total liabilities are approximately 30% and 70%, respectively. The given share can be considered ideal since it ensures liquidity and solvency of Netflix from having adequate current liabilities. Moreover, the make-up of current and long-term liabilities has remained almost unchanged over the last 2 years.

d) As shown on the Balance Sheet below, the total unrealized income items of -$217,306 in 2022 and -$40,495 in 2021 are reported in accumulated other comprehensive loss account of the equity section of Netflix.

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NETFLIX, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

| | As of December 31, 2022 | As of December 31, 2021 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,147,176 | $ 6,027,804 |
| Short-term investments | 911,276 | — |
| Other current assets | 3,208,021 | 2,042,021 |
| Total current assets | 9,266,473 | 8,069,825 |
| Content assets, net | 32,736,713 | 30,919,539 |
| Property and equipment, net | 1,398,257 | 1,323,453 |
| Other non-current assets | 5,193,325 | 4,271,846 |
| Total assets | $ 48,594,768 | $ 44,584,663 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Current content liabilities | $ 4,480,150 | $ 4,292,967 |
| Accounts payable | 671,513 | 837,483 |
| Accrued expenses and other liabilities | 1,514,650 | 1,449,351 |
| Deferred revenue | 1,264,661 | 1,209,342 |
| Short-term debt | — | 699,823 |
| Total current liabilities | 7,930,974 | 8,488,966 |
| Non-current content liabilities | 3,081,277 | 3,094,213 |
| Long-term debt | 14,353,076 | 14,693,072 |
| Other non-current liabilities | 2,452,040 | 2,459,164 |
| Total liabilities | 27,817,367 | 28,735,415 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.001 par value; 10,000,000 shares authorized at December 31, 2022 and December 31, 2021; no shares issued and outstanding at December 31, 2022 and December 31, 2021 | — | — |
| Common stock, $0.001 par value; 4,990,000,000 shares authorized at December 31, 2022 and December 31, 2021; 445,346,776 and 443,963,107 issued and outstanding at December 31, 2022 and December 31, 2021, respectively | 4,637,601 | 4,024,561 |
| Treasury stock at cost (1,564,478 shares at December 31, 2022 and December 31, 2021) | (824,190) | (824,190) |
| Accumulated other comprehensive loss | (217,306) | (40,495) |
| Retained earnings | 17,181,296 | 12,689,372 |
| Total stockholders' equity | 20,777,401 | 15,849,248 |
| Total liabilities and stockholders' equity | $ 48,594,768 | $ 44,584,663 |

e) As highlighted on the Balance Sheet above, accounts from accruals that Netflix has done are accounts payable and accrued expenses. There is also accrued revenue from trade receivables which is hidden in total other current assets account on the Balance Sheet.

*Other Current Assets*

Other current assets consisted of the following:

| | As of December 31, 2022 | As of December 31, 2021 |
|---|---|---|
| | (in thousands) | |
| Trade receivables | $ 988,898 | $ 804,320 |
| Prepaid expenses | 392,735 | 323,818 |
| Other (1) | 1,826,388 | 913,883 |
| Total other current assets | $ 3,208,021 | $ 2,042,021 |

(1) $598 million of tax incentives earned on production spend is included in Other as of December 31, 2022.

The increase in Other was primarily due to a modification of a content licensing arrangement.

Meanwhile, accounts created from deferrals are deferred revenue and content assets. Account content assets is considered as deferred expense since Netflix makes upfront cash payments and does not recognize them as cost of revenues on Statement of Operations until an estimated period of use happens, as highlighted on the notes of financial statements below. Similar to account trade receivables, account prepaid expenses, which is deferred expense, is hidden in total other current assets on the Balance Sheet.

*Content*

The Company acquires, licenses and produces content, including original programming, in order to offer members unlimited viewing of video entertainment. The content licenses are for a fixed fee and specific windows of availability. Payment terms for certain content licenses and the production of content require more upfront cash payments relative to the amortization expense. Payments for content, including additions to content assets and the changes in related liabilities, are classified within "Net cash provided by (used in) operating activities" on the Consolidated Statements of Cash Flows.

The Company recognizes content assets (licensed and produced) as "Content assets, net" on the Consolidated Balance Sheets. For licensed content, the Company capitalizes the fee per title and records a corresponding liability at the gross amount of the liability when the license period begins, the cost of the title is known and the title is accepted and available for streaming. For produced content, the Company capitalizes costs associated with the production, including development costs, direct costs and production overhead. Participations and residuals are expensed in line with the amortization of production costs.

Based on factors including historical and estimated viewing patterns, the Company amortizes the content assets (licensed and produced) in "Cost of revenues" on the Consolidated Statements of Operations over the shorter of each title's contractual window of availability or estimated period of use or ten years, beginning with the month of first availability. The amortization is on an accelerated basis, as the Company typically expects more upfront viewing, and film amortization is more accelerated than TV series amortization. On average, over 90% of a licensed or produced content asset is expected to be amortized within four years after its month of first availability. The Company reviews factors impacting the amortization of the content assets on a regular basis. The Company's estimates related to these factors require considerable management judgment.

2.

a) As highlighted on the Statements of Cash Flows below, it is apparent that Netflix's primary source of Cash is from Operating activities in the last 3 fiscal years, roughly 2 billion dollars. Despite a plummet to only $392,620 thousands in 2021, operating activities provided Cash for Netflix.

b) Netflix primarily used Cash for Investing activities in 2020,2021, and 2022. The Net Cash used in Investing activities dramatically grew every fiscal year, from $500 million in 2020 to $2 billion in 2022. The surge is majorly resulted from acquisitions and purchases of short-term investments. It is also noteworthy that Netflix used enormous amount of Cash for financing activities, specifically for repayments of debt and repurchases of common stock.

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NETFLIX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2021 | 2020 |
| Cash flows from operating activities: | | | |
| Net income | $ 4,491,924 | $ 5,116,228 | $ 2,761,395 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Additions to content assets | (16,839,038) | (17,702,202) | (11,779,284) |
| Change in content liabilities | 179,310 | 232,898 | (757,433) |
| Amortization of content assets | 14,026,132 | 12,230,367 | 10,806,912 |
| Depreciation and amortization of property, equipment and intangibles | 336,682 | 208,412 | 115,710 |
| Stock-based compensation expense | 575,452 | 403,220 | 415,180 |
| Foreign currency remeasurement loss (gain) on debt | (353,111) | (430,661) | 533,278 |
| Other non-cash items | 533,543 | 376,777 | 293,126 |
| Deferred income taxes | (166,550) | 199,548 | 70,066 |
| Changes in operating assets and liabilities: | | | |
| Other current assets | (353,834) | (369,681) | (187,623) |
| Accounts payable | (158,543) | 145,115 | (41,605) |
| Accrued expenses and other liabilities | (55,513) | 180,338 | 198,183 |
| Deferred revenue | 27,356 | 91,350 | 193,247 |
| Other non-current assets and liabilities | (217,553) | (289,099) | (194,075) |
| Net cash provided by operating activities | 2,026,257 | 392,610 | 2,427,077 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (407,729) | (524,585) | (497,923) |
| Change in other assets | — | (26,919) | (7,431) |
| Acquisitions | (757,387) | (788,349) | — |
| Purchases of short-term investments | (911,276) | — | — |
| Net cash used in investing activities | (2,076,392) | (1,339,853) | (505,354) |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of debt | — | — | 1,009,464 |
| Debt issuance costs | — | — | (7,559) |
| Repayments of debt | (700,000) | (500,000) | — |
| Proceeds from issuance of common stock | 35,746 | 174,414 | 235,406 |
| Repurchases of common stock | — | (600,022) | — |
| Taxes paid related to net share settlement of equity awards | — | (224,168) | — |
| Net cash provided by (used in) financing activities | (664,254) | (1,149,776) | 1,237,311 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (170,140) | (86,740) | 36,050 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (884,529) | (2,183,759) | 3,195,084 |
| Cash, cash equivalents and restricted cash, beginning of year | 6,055,111 | 8,238,870 | 5,043,786 |
| Cash, cash equivalents and restricted cash, end of year | $ 5,170,582 | $ 6,055,111 | $ 8,238,870 |
| Supplemental disclosure: | | | |
| Income taxes paid | $ 811,720 | $ 509,265 | $ 291,582 |
| Interest paid | 701,693 | 763,432 | 762,904 |

See accompanying notes to consolidated financial statements.

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c) There are minor differences between Netflix's Net Income and Net Operating Cash Flows in 2020. However, the differences are extremely concerning in 2022 and 2021 when the Net Operating Cash Flows are two-to-one hundred times lower than its Net Income ($400 million versus $5 billion in 2021 and $2 billion versus $4.5 billion in 2022). This stems from the subtraction of Additions to content assets with approximately $17 billion. As mentioned in 1e), Netflix deferred its expenses in acquiring Leased and Produced Content and thus Cash is taken out from its Net Income when content assets are added onto the Balance Sheet. Even though this subtraction is mitigated by adding back Amortization of content assets, the remaining amount is still negatively high of around of around $2 billion and $5 billion in 2022 and 2021, respectively. Additionally, the negative differences are coming from the subtractions of Foreign currency remeasurement loss on debt, and Other current assets.

d) Overall, Netflix has maintained strong Cash position over the past 3 years as its ending balances have remained big positive, ranging from $5 billion to $8 billion. The source and use of Cash are reasonable, with majority of Cash coming from Operating activities and going to Investing counterpart. This movement of Cash demonstrates Netflix's success in the streaming industry and wise strategies in focusing on Investing to push growth of the company. Nevertheless, Netflix should pay attention to the significant negative differences between the Net Income and Net Operating Cash Flow in the last 2 years. As payment terms for certain content commitments may require more up-front cash payments whereas membership and revenue growth may not meet Netflix's expectations, its results from operations could be adversely affected in the future.

**Ratios Analysis**

1. ***Ratios Computation:***

**a. Return on Assets (ROA)**

- 2022

ROA= $\frac{NI + interest\ expense*(1-tax\ rate)}{Average\ total\ assets} = \frac{4{,}491{,}924+706{,}212*(1-0.21)}{(48{,}594{,}768+44{,}584{,}663)/2} = \frac{5{,}049{,}831.48}{46{,}589{,}715.5}$ = 10.84%

- 2021

ROA= 0.1364 = 13.64%

- 2020

ROA= 0.0919 = 9.19%

**b. ROA Decomposition**

- 2022

Profit margin= $\frac{EBI}{net\ sales} = \frac{5{,}049{,}831.48}{31{,}615{,}550}$ = 0.1597 = 15.97%

Asset turnover= $\frac{net\ sales}{average\ total\ assets} = \frac{31{,}615{,}550}{46{,}589{,}715.5}$ = 0.6786

ROA= profit margin * asset turnover = 0.1597 * 0.6786 = 10.84%

- 2021

Profit margin= 0.1926 = 19.26%

Asset turnover= 0.7082

ROA= 13.64%

- 2020

Profit margin= 0.1347 = 13.47%

Asset turnover= 0.6824

ROA= 9.19%

**c. Return on Equity (ROE)**

Netflix did not pay dividends in the last three fiscal years. Moreover, the company has not issued any preferred stocks. Therefore, its total common equity is equal to the total stockholders' equity on the Balance Sheet.

- 2022

ROE= $\frac{NI-preferred\ dividends}{Average\ common\ equity} = \frac{4{,}491{,}924-0}{(20{,}777{,}401+15{,}849{,}248)/2} = \frac{4{,}491{,}924}{18{,}313{,}324.5}$ = 0.2453 = 24.53%

- 2021

ROE= 0.3802 = 38.02%

- 2020

ROE= 0.2962 = 29.62%

**d. ROE Decomposition**

- 2022

ROA= 10.84%

Earning leverage= $\frac{NI{-}preferred\ dividends}{EBI} = \frac{4{,}491{,}924 - 0}{5{,}049{,}831.48} = 0.8895$

Financial structure leverage= $\frac{Average\ total\ assets}{Average\ common\ equity} = \frac{46{,}589{,}715.5}{18{,}313{,}324.5} = 2.544$

ROE= ROA * earning leverage * financial structure leverage = 10.84%*0.8895*2.544 = 24.53%

- 2021

ROA= 13.64%

Earning leverage= 0.8943

Financial structure leverage= 3.116

ROE= 38.02%

- 2020

ROA= 9.19%

Earning leverage= 0.81

Financial structure leverage= 3.9285

ROE= 29.62%

**e. Current Ratio**

- 2022

Current ratio= $\frac{current\ assets}{current\ liabilities} = \frac{9{,}266{,}473}{7{,}930{,}974} = 1.1684$

- 2021

Current ratio= 0.9506

- 2021

Current ratio= 1.2506

**f. Quick/Acid-test Ratio**

Netflix classifies marketable securities with original maturities in excess of 90 days available-for-sale as short-term investments shown on the Balance Sheet (explained on page 43). Additionally, its account receivables is shown as trade receivables and hidden in total other current assets account on the Balance Sheet.

*Other Current Assets*

Other current assets consisted of the following:

| | As of December 31, 2022 | As of December 31, 2021 |
| --- | --- | --- |
| | (in thousands) | |
| Trade receivables | $ 988,898 | $ 804,320 |
| Prepaid expenses | 392,735 | 323,818 |
| Other (1) | 1,826,388 | 913,883 |
| Total other current assets | $ 3,208,021 | $ 2,042,021 |

(1) $598 million of tax incentives earned on production spend is included in Other as of December 31, 2022.

The increase in Other was primarily due to a modification of a content licensing arrangement.

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- 2022

Quick ratio= $\frac{cash+marketable\ securities+account\ receivables,net}{current\ liabilities} = \frac{5,147,176+911,276+988,898}{7,930,974} =$ 0.8886

- 2021

Quick ratio= 0.8048

- 2020

Quick ratio= 1.1295

**g. Accounts Receivable Turnover**

- 2022

A/R turnover= $\frac{net\ sales}{average\ A/R} = \frac{31,615,550}{(988,898+804,320)/2}$ = 35.26

Days in A/R= $\frac{365}{35.26}$ = 10.35

- 2021

A/R turnover= 41.97

Days in A/R= 8.70

- 2020

A/R turnover= 31.44

Days in A/R= 11.61

**h. Inventory Turnover**

Since Netflix provides streaming services, its inventories account is special than other typical manufacturing companies. In this case, Netflix has prepaid expenses/assets account hidden in its total other current assets as shown in the picture from 1f). As a result, prepaid expenses account serves as Netflix's inventories.

- 2022

Inventory turnover= $\frac{cost\ of\ goods\ sold}{average\ inventory} = \frac{19,168,285}{(392,735+323,818)/2}$ = 53.50

Days in Inventory= $\frac{365}{53.50}$ = 6.82

- 2021

Inventory turnover= 65.8

Days in Inventory= 5.55

- 2020

Inventory turnover= 79.56
Days in Inventory= 4.59

**i. Accounts Payable Turnover**

- 2022

A/P turnover= $\frac{Inventory\ purchased}{average\ A/P} = \frac{392{,}735+19{,}168{,}285-323{,}818}{(671{,}513+837{,}483)/2}$ = 27.33
Days in A/P= $\frac{365}{27.33}$ = 13.35

- 2021

A/P turnover= 23.37
Days in A/P= 15.62

- 2020

A/P turnover= 23
Days in A/P= 15.87

**j. Cash Conversion Cycle**

- 2022

Cash conversion cycle= days in A/R + days in Inventory - days in A/P = 10.35 + 6.82 – 13.35 = 3.82 days

- 2021

Cash conversion cycle= -1.37 days

- 2020

Cash conversion cycle= 0.33 days

**k. Debt-to-Assets Ratio**

- 2022

Debt-to-Assets Ratio= $\frac{total\ liabilities}{total\ assets} = \frac{27{,}817{,}367}{48{,}594{,}768}$ = 0.5724 = 57.24%

- 2021

Debt-to-Assets Ratio= 0.6445 = 64.45%

- 2020

Debt-to-Assets Ratio= 0.7183 = 71.83%

**l. Debt-to-Equity Ratio**

- 2022

Debt-to-Equity Ratio= $\frac{total\ liabilities}{total\ equity} = \frac{27{,}817{,}367}{20{,}777{,}401}$ = 1.34

- 2021

Debt-to-Equity Ratio= 1.81

- 2020

Debt-to-Equity Ratio= 2.55

**m. Times Interest Earned (Interest Coverage) Ratio**

- 2022

Times Interest Earned Ratio= $\frac{NI+interest\ expense+tax\ expense}{interest\ expense} = \frac{4,491,924+706,212+772,005}{706,212}$ = 8.45

- 2021

Times Interest Earned Ratio= 8.63

- 2020

Times Interest Earned Ratio= 5.17

**n. Cash Interest Coverage Ratio**

- 2022

Cash Interest Coverage Ratio= $\frac{CFO+interest\ paid+taxes\ paid}{interest\ paid} = \frac{2,026,257+701,693+811,720}{701,693}$ = 5.04

- 2021

Cash Interest Coverage Ratio= 2.18

- 2020

Cash Interest Coverage Ratio= 4.56

***2. And 3. Ratios Analysis:***

The table below shows how each ratio of return, profitability, and efficiency assessment has changed over the last three years. It is apparent that there is deterioration in ROE, Financial structure leverage whereas other ratios, namely ROA, Profit margin, Asset turnover experienced an extremely slight improvement from 2020 to 2022. Additionally, Earning leverage is the only ratio that improved throughout the period, from 81% to 89%. It is also noteworthy that the first 4 ratios in the table have the same trend of growing in 2021 before dropping again in 2022.

| Return | 2022 | 2021 | 2020 | Trend |
|---|---|---|---|---|
| ROA | 10.84% | 13.64% | 9.19% | |
| Profit margin - Profitability | 15.97% | 19.26% | 13.47% | |
| Asset turnover - Efficiency | 0.6786 | 0.7082 | 0.6824 | |
| ROE | 24.53% | 38.02% | 29.62% | |
| Earning leverage | 88.95% | 89.43% | 81.00% | |
| Financial structure leverage | 2.54% | 3.12% | 3.93% | |

Overall, these changes lead to the deterioration in return for Netflix's shareholders while stabilizing the return for the company as a whole (both debtholders and shareholders) in this period. Moreover, Netflix's profitability and efficiency are also deteriorated.

The next table provides the fluctuation of liquidity ratios. There is a decline in both static and dynamic measures, namely Current ratio, Quick ratio, and Cash conversion cycle, from 2020 to 2021 before an increase in 2022. Meanwhile, its turnover ratios witnessed different trends. While A/R turnover and A/P turnover increased, Inventory turnover decreased during this time span.

| Liquidity | 2022 | 2021 | 2020 | Trend |
|---|---|---|---|---|
| Current ratio | 1.1684 | 0.9506 | 1.2506 | |
| Quick ratio | 0.8886 | 0.8048 | 1.1295 | |
| Cash conversion cycle | 3.82 | -1.37 | 0.33 | |
| A/R turnover | 35.26 | 41.97 | 31.44 | |
| Inventory turnover | 53.5 | 65.8 | 79.56 | |
| A/P turnover | 27.33 | 23.37 | 23 | |

Overall, these fluctuations prove improvement Netflix's Current ratio and deterioration in the Quick ratio and Cash conversion cycle (as it takes longer to get cash back) from 2020 to 2022. Nevertheless, its Quick ratio and Cash conversion cycle still remain good despite a mild deterioration.

The last table illustrates trends in Netflix's solvency ratio. Apparently, its leverage ratios, which are Debt-to-assets ratio and Debt-to-equity ratio, underwent a significant drop from 2020 to 2022. Meanwhile, its coverage ratios, which are TIE and Cash interest coverage slightly improved overtime.

| Solvency | 2022 | 2021 | 2020 | Trend |
|---|---|---|---|---|
| Debt-to-Assets ratio | 57.24% | 64.45% | 71.83% | |
| Debt-to-Equity ratio | 1.34 | 1.81 | 2.55 | |
| Times Interest Earned | 8.45 | 8.63 | 5.17 | |
| Cash Interest Coverage | 5.04 | 2.18 | 4.56 | |

In conclusion, the changes in all ratios above affect the assessment for Netflix. Specifcially, there is a mild improvement in Netflix's solvency ratios and one of liquidity ratio, which is Current ratio, from 2020 to 2022. In contrast, the company's return, profitability, efficiency, and liquidity in general experienced a slight deterioration over the past three years.

## Leverage Comparison

This report aims to analyze and compare the leverage of Netflix with other key players in the video streaming industry. Leverage, measured by the ratio of total debt or long-term debt to total assets, provides insights into a company's financial risk and capital structure. The selected competitors for this comparison are The Walt Disney Company, Warner Bros. Discovery, Amazon, and Apple. These companies were chosen due to their significant presence in the video streaming industry and their potential impact on Netflix's market position. The Walt Disney Company operates Disney+ and Hulu, two major streaming platforms that pose strong competition to Netflix. Warner Bros. Discovery, formed through a merger, has a diversified portfolio of content and streaming services such as HBO Max, making it a prominent player. Amazon, with its Prime Video service, leverages its vast customer base and e-commerce platform to compete aggressively. Apple, although primarily known for its hardware, has made substantial investments in original content for Apple TV+.

| | Netflix | The Walt Disney | Warner Bros. | Amazon | Apple |
|---|---|---|---|---|---|
| **Leverage** | 0.295 | 0.238 | 0.366 | 0.303 | 0.340 |
| **Long-term Debt** | 14,353,076 | 48,369,000 | 48,999,000 | 140,118,000 | 120,069,000 |
| **Total Asset** | 48,594,768 | 203,631,0 | 134,001,000 | 462,675,000 | 352,755,000 |

When comparing the leverage ratios as of the 2022 fiscal year, it is evident that each company has a distinct level of financial risk and capital structure. Netflix exhibits a moderate leverage ratio of 0.295 among its competitors, indicating that approximately 29.5% of its total assets are financed through debt. In contrast, The Walt Disney Company has a lower leverage ratio of 0.238, suggesting a conservative capital structure with 23.8% debt financing. On the other hand, Warner Bros. Discovery displays a higher leverage ratio of 0.366, signifying a more aggressive capital structure with 36.6% debt financing. Amazon and Apple, with leverage ratios of 0.303 and 0.340 respectively, fall between the aforementioned companies in terms of financial risk. In addition, a mean leverage of 0.308 shows that Netflix has a relatively lower level of debt financing compared to the average in the industry. This could indicate that Netflix has a more conservative approach to capital structure and may have lower financial risk associated with debt.

**Capital Structure Decision**

Netflix operates with an emphasis on equity financing. Specifically, the company relies more on equity financing than debt financing. The company raised capital by issuing equity, including common stock and convertible bonds, to fund its growth initiatives, content production, and global expansion. Proof of this is that Netflix's debt ratio is currently only 30.3%, which is an acceptable number. This approach has allowed Netflix to maintain flexibility and minimize interest expenses. However, borrowing has also brought certain benefits to Netflix. By using debt, Netflix can effectively reduce taxable income and reduce tax liability, which can contribute to increased cash flow and improved financial performance. In addition, the application of debt as a disciplinary mechanism has also been applied by Netflix in the past 5 years, specifically, The reduction of the debt-to-equity ratio from 162.7% to 66.1% in the past 5 years for the company's efforts in managing debt levels.

The lower the Debt Level, which is a strong point for Netflix's bankruptcy risk, the lower the debt level, the lower the bankruptcy risk. The declining debt-to-equity ratio and satisfactory debt levels (30.3%) suggest that Netflix has succeeded in reducing the risk of bankruptcy. Has Netflix borrowed its last available dollar of debt? Currently, the company has yet to borrow its last dollar, Netflix still has a debt-to-equity ratio of 66.1% and cash and short-term investments of $7.8 billion, which indicates that there is still the possibility of borrowing if needed in the future.

## Default Risks

When investing in any company, it is important to understand two different types of investment. If the investment taste tends to favor short-term, stocks are the suitable options, while investing in bonds will provide a long-term favor. Therefore, the default risks of Netflix are very important to investors who want to invest in their company. As a stock investor, I would not be worried about Netflix’s current level of default risk, even though the beta ratio of Netflix is 1.26 (Yahoo Finance, 2023) showing that this a slightly riskier stock. The diluted EPS ratio of Netflix shows a dramatic growth over the past five years (2018 – 2022) from 2.68 in 2018 to 9.95 in 2022 (Nasdaq, 2023), which shows that Netflix’s stock is a potential investment. As a bond investor, Netflix is also present as an attractive long-term investment opportunity. Especially after the recent covid 19 pandemics, Netflix has shown their strong growth in all aspects, they have proven to the market that the growth exceeds even the market lockdown. However, long-term investment needs to consider many other factors such as the company's ability to repay debts as well as their capital structure. Especially when strong competitors in the industry like Amazon Prime, HBO Go, Hulu have spent billions of dollars to get the rights to show and movies. S&P ranks the global streaming services leader BBB, two steps above high yield. Moody’s has a Ba1 rating, just one step shy of investment grade, with a positive outlook, after upgrading the company in April (Bloomberg, 2022). As a result, Netflix will have to issue more bonds to finance its investment in self-produced TV shows and movies, thus increasing their debt ratio. To conclude, Netflix’s stocks and bonds are a very potential investment.

## Optimal Level of Leverage

As defined by Nasdaq, optimum leverage ratio is to find the borrowing level that maximizes the value of the firm and the cost of capital to the firm is minimized at the same level. In 2022, Netflix has a current ratio of 1.17, which means that Netflix have enough financial resources to remain solvent. Also in 2022, Netflix had Debt/ Equity ratio of 0.69, which shows that most of the assets are sponsored by the equity and the company has less risk of bankruptcy. As a result, it can be seen that Netflix is quite close to the optimal leverage level at the moment. The company's financial ratios are all at good levels and show a relatively stable growth business situation as well as a relatively good way of managing capital and using capital.

## Conclusion

Netflix demonstrates a moderate level of financial risk and a conservative approach to capital structure compared to its competitors in the video streaming industry. With a leverage ratio of 0.295 and a debt ratio of 30.3%, Netflix relies more on equity financing and has successfully reduced the risk of bankruptcy. The company's emphasis on equity financing provides flexibility and helps minimize interest expenses. While the beta ratio indicates slightly higher stock risk, Netflix's strong growth in diluted EPS makes it a potential investment for stock investors. Additionally, as a bond investor, Netflix presents an attractive long-term investment opportunity, considering its ability to repay debts and its credit ratings. However, the competitive landscape and the need for funding self-produced content may require Netflix to issue more bonds, potentially increasing its debt ratio.

Overall, the analysis suggests that Netflix has managed its financial leverage prudently and maintained a competitive position in the streaming industry. However, investors should continue to monitor the company's capital structure decisions, competition dynamics, and market trends to make informed investment decisions based on their risk preferences and investment goals.

## Appendix 1

Monthly return of Netflix and S&P 500

| **Date** | Adj Close | NFLX Return | S&P 500 Return |
|---|---|---|---|
| 7/1/18 | 337.450012 | | |
| 8/1/18 | 367.679993 | 8.96% | 3.03% |
| 9/1/18 | 374.130005 | 1.75% | 0.43% |
| 10/1/18 | 301.779999 | -19.34% | -6.94% |
| 11/1/18 | 286.130005 | -5.19% | 1.79% |
| 12/1/18 | 267.660004 | -6.46% | -9.18% |
| 1/1/19 | 339.5 | 26.84% | 7.87% |
| 2/1/19 | 358.100006 | 5.48% | 2.97% |
| 3/1/19 | 356.559998 | -0.43% | 1.79% |
| 4/1/19 | 370.540009 | 3.92% | 3.93% |
| 5/1/19 | 343.279999 | -7.36% | -6.58% |
| 6/1/19 | 367.320007 | 7.00% | 6.89% |
| 7/1/19 | 322.98999 | -12.07% | 1.31% |
| 8/1/19 | 293.75 | -9.05% | -1.81% |
| 9/1/19 | 267.619995 | -8.90% | 1.72% |
| 10/1/19 | 287.410004 | 7.39% | 2.04% |
| 11/1/19 | 314.660004 | 9.48% | 3.40% |
| 12/1/19 | 323.570007 | 2.83% | 2.86% |
| 1/1/20 | 345.089996 | 6.65% | -0.16% |
| 2/1/20 | 369.029999 | 6.94% | -8.41% |
| 3/1/20 | 375.5 | 1.75% | -12.51% |
| 4/1/20 | 419.850006 | 11.81% | 12.68% |
| 5/1/20 | 419.730011 | -0.03% | 4.53% |
| 6/1/20 | 455.040009 | 8.41% | 1.84% |
| 7/1/20 | 488.880005 | 7.44% | 5.51% |
| 8/1/20 | 529.559998 | 8.32% | 7.01% |
| 9/1/20 | 500.029999 | -5.58% | -3.92% |
| 10/1/20 | 475.73999 | -4.86% | -2.77% |
| 11/1/20 | 490.700012 | 3.14% | 10.75% |
| 12/1/20 | 540.72998 | 10.20% | 3.71% |
| 1/1/21 | 532.390015 | -1.54% | -1.11% |
| 2/1/21 | 538.849976 | 1.21% | 2.61% |
| 3/1/21 | 521.659973 | -3.19% | 4.24% |
| 4/1/21 | 513.469971 | -1.57% | 5.24% |
| 5/1/21 | 502.809998 | -2.08% | 0.55% |
| 6/1/21 | 528.210022 | 5.05% | 2.22% |

| | | | |
|---|---|---|---|
| 7/1/21 | 517.570007 | -2.01% | 2.27% |
| 8/1/21 | 569.190002 | 9.97% | 2.90% |
| 9/1/21 | 610.340027 | 7.23% | -4.76% |
| 10/1/21 | 690.309998 | 13.10% | 6.91% |
| 11/1/21 | 641.900024 | -7.01% | -0.83% |
| 12/1/21 | 602.440002 | -6.15% | 4.36% |
| 1/1/22 | 427.140015 | -29.10% | -5.26% |
| 2/1/22 | 394.519989 | -7.64% | -3.14% |
| 3/1/22 | 374.589996 | -5.05% | 3.58% |
| 4/1/22 | 190.360001 | -49.18% | -8.80% |
| 5/1/22 | 197.440002 | 3.72% | 0.01% |
| 6/1/22 | 174.869995 | -11.43% | -8.39% |
| 7/1/22 | 224.899994 | 28.61% | 9.11% |
| 8/1/22 | 223.559998 | -0.60% | -4.24% |
| 9/1/22 | 235.440002 | 5.31% | -9.34% |
| 10/1/22 | 291.880005 | 23.97% | 7.99% |
| 11/1/22 | 305.529999 | 4.68% | 5.38% |
| 12/1/22 | 294.880005 | -3.49% | -5.90% |
| 1/1/23 | 353.859985 | 20.00% | 6.18% |
| 2/1/23 | 322.130005 | -8.97% | -2.61% |
| 3/1/23 | 345.480011 | 7.25% | 3.51% |
| 4/1/23 | 329.929993 | -4.50% | 1.46% |
| 5/1/23 | 395.230011 | 19.79% | 0.25% |
| 6/1/23 | 400.470001 | 1.33% | 2.45% |

**Appendix 2**

Yearly dividend of S&P 500

| Date | Yield | Growth | Dividend | Price |
|---|---|---|---|---|
| 31-Dec-22 | 1.71% | 10.80% | 68.4 | 3,839.50 |
| 31-Dec-21 | 1.29% | 3.63% | 65.72 | 4,766.18 |
| 31-Dec-20 | 1.58% | 0.07% | 67.87 | 3,756.07 |
| 31-Dec-19 | 1.83% | 8.36% | 68.75 | 3,230.78 |
| 31-Dec-18 | 2.09% | 9.84% | 64.9 | 2,506.85 |

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