

Netflix Stock Profile Analysis

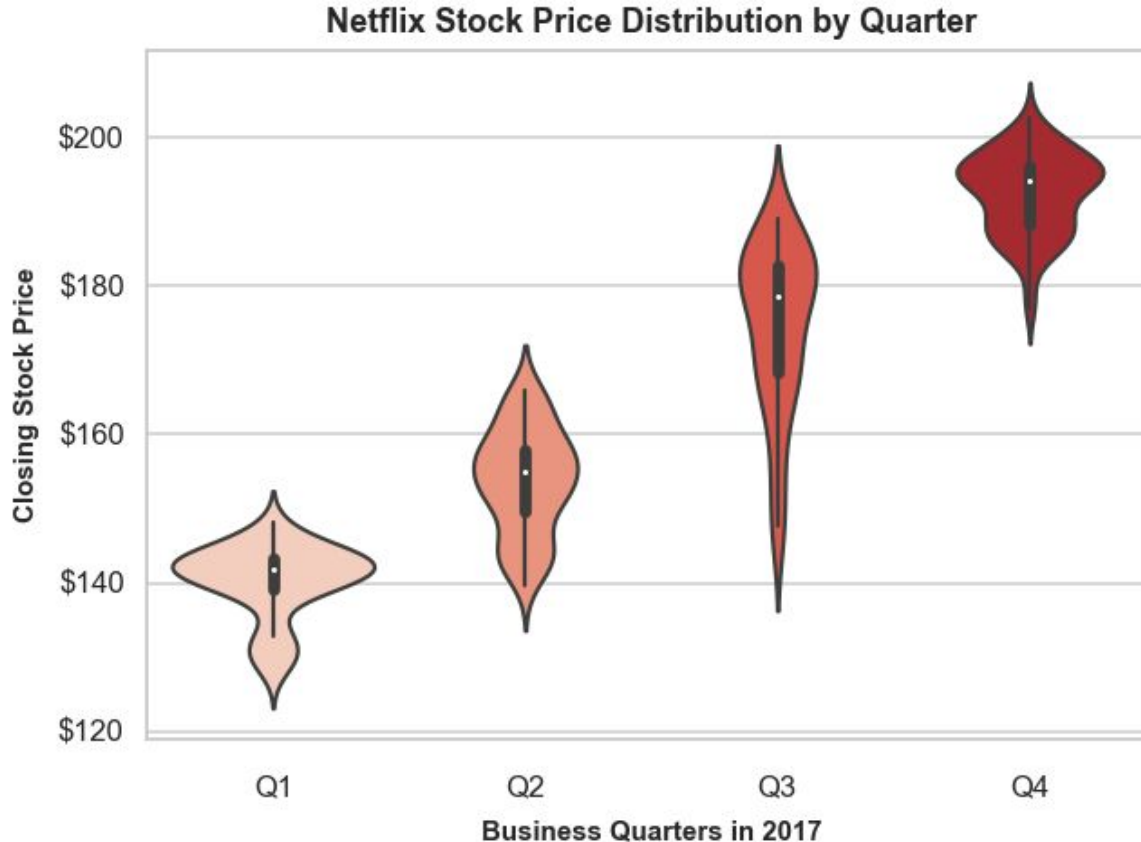
Jamie Chu

List of Visualizations

In order to analyze the 2017 stock profile of Netflix, a series of visualizations were created to reflect the performance of Netflix stock over time and in comparison to the Dow Jones Industrial Average.

- I. Netflix Stock Price Distribution**
- II. Netflix Summary of Revenues and Earnings**
- III. Netflix Earnings Per Share Projection**
- IV. Netflix Performance Against Dow Jones Average**

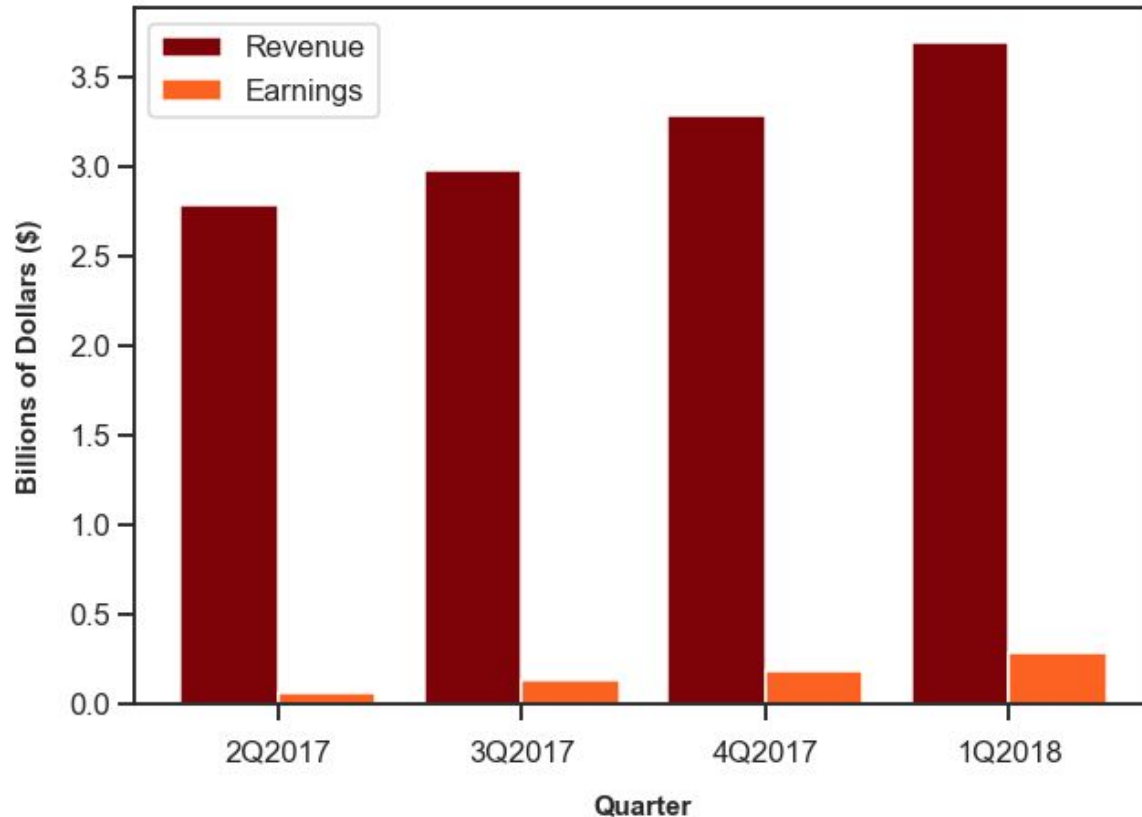
Netflix Stock Price Distribution



Netflix experienced steady growth in its stock price over 2017. They began the year at **median of \$140 in Q1** and increased to a **median of \$195 in Q4**. The distribution of each quarter was generally bimodal, indicating that there were two prices at which most days within the quarter closed. This visualization is also useful in demonstrating that the variance of stock prices in each quarter has decreased as well with Q4 exhibiting majority of stock prices within the interquartile range and 95% confidence interval.

Netflix Summary of Revenues and Earnings

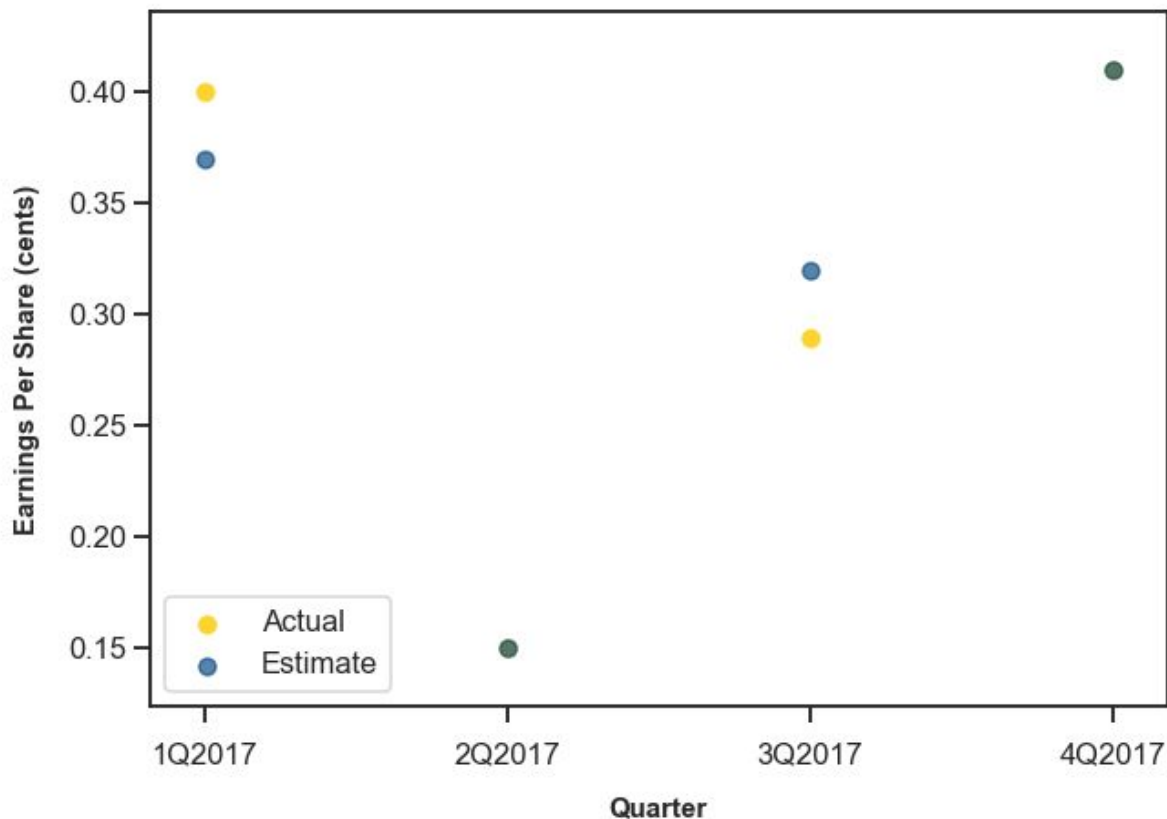
Netflix Revenue vs. Earnings in 2017



Netflix's revenue and earnings both exhibited a steady trend upwards through 2017. More specifically, revenue grew each year by about **\$250million** while earnings grew by about **\$60million**, which indicates that earnings is roughly 20% of revenue per quarter. This rough approximation and visualization show earnings as staying proportional to revenue even as the latter grows each year, implying that earnings has a relatively direct relationship to revenue.

Netflix Earnings Per Share Projection

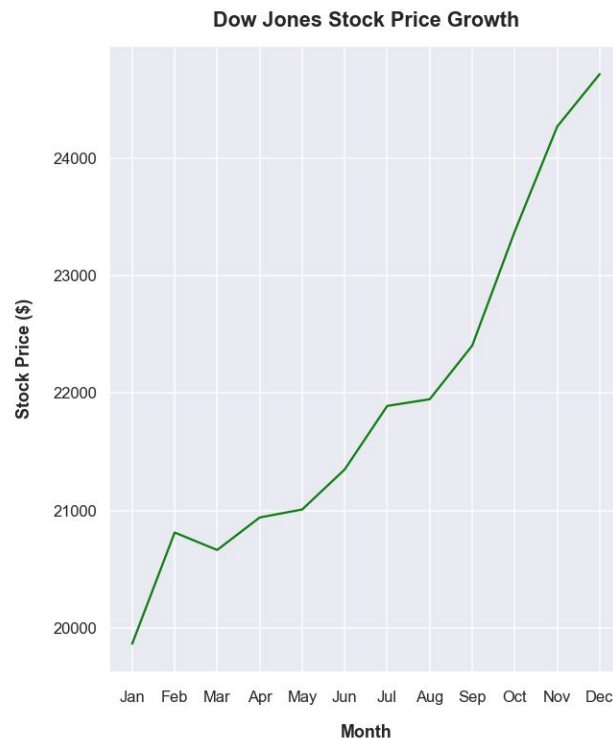
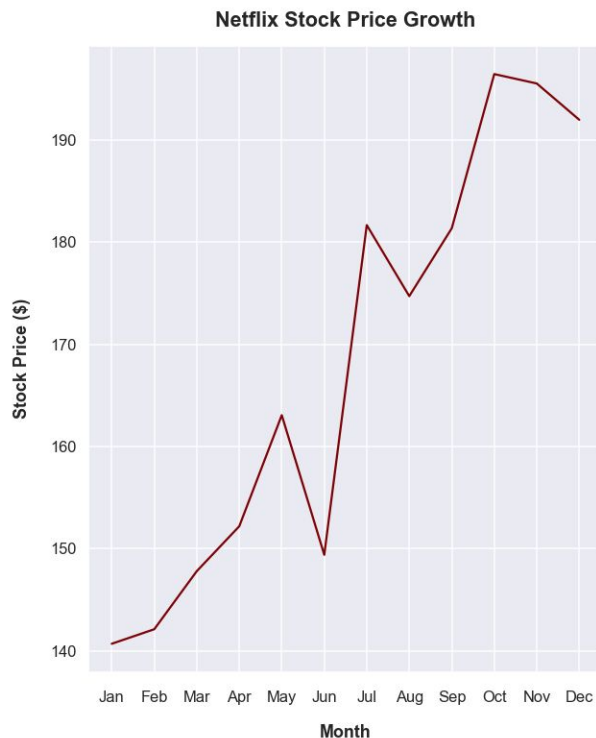
How Actual EPS Compares to Estimate EPS



The estimate earnings per share has been fairly accurate in predicting the actual earnings per share for Netflix.

As indicated by the green points on the visualization, the estimate and actual EPS were the same in Q2 and Q4. Furthermore, even when not exactly the same as actual (Q1 and Q3), the difference between the two was within 5 ¢. The ability to so accurately predict EPS is a sign that Netflix performance was relatively stable throughout 2017.

Netflix Performance Against Dow Jones Average



Netflix experienced more fluctuation in their stock price over 2017 as their stock fell sharply in June but recovered rapidly by July, then decreased again in August and December. Dow Jones growth was less volatile as it increased steadily over the year. Please note that Dow Jones stock price is much higher than that of Netflix because the former is a weighted average of 20 stocks instead of a single stock.

Summary of Netflix Stock Profile Analysis

Netflix experienced substantial growth in quarterly revenue from \$2.79billion to \$3.7billion in 2017, which contributed to its increased earnings and subsequently earnings per share. This increase in earnings per share also informs investors and the market on the company's current performance as well as acts as an indication of potential earnings in the future. The overall increase in stock price over 2017 shows that the market is generally optimistic about Netflix's profitability, though as a single company, Netflix is more vulnerable to fluctuations in price, as demonstrated by its stock price trajectory compared to that of Dow Jones Average, because investors can be influenced by the reported revenue and earnings of each quarter.

To provide some context, the revenue generated from Netflix is mainly from its subscription model so its growth is attributed to its growth in subscribers or users on their platform. However, even as their subscription base continues to grow their earnings remain a small percentage of revenue due to the heavy costs they incur for their business. **As indicated on their 10-K, Netflix has large fixed costs associated with licensed content which accounts for the majority of their library and consequently limits their operating flexibility due to the lack of liquidity of their assets, which are tied to contractual costs of maintaining their library.** On the other hand, Netflix's ability to continue licensing content is also threatened by traditional networks moving toward launching their own streaming platforms, which Netflix has responded by sinking more costs into replicating big original content hits such as Stranger Things and House of Cards. This is a considerable risk as they must continue to grow their subscriber base substantially in order to overcome the cost of acquiring talent, such as Shonda Rhimes and Ryan Murphy, exclusively.

Therefore, in quarters when Netflix invests more heavily in original content, their earnings may seemingly decrease due to their high costs, which could influence market perception of their short-term and long-term profitability — all together contributing to the volatility of stock price demonstrated in the last visualization, as news about the company's investments and risks associated influence individual investors' decision on buying or selling their stock, consequently driving stock price up or down. **Despite the risk associated, the steady growth exhibited by all components of Netflix's stock profile indicates that it would be a strong addition to one's stock portfolio.**