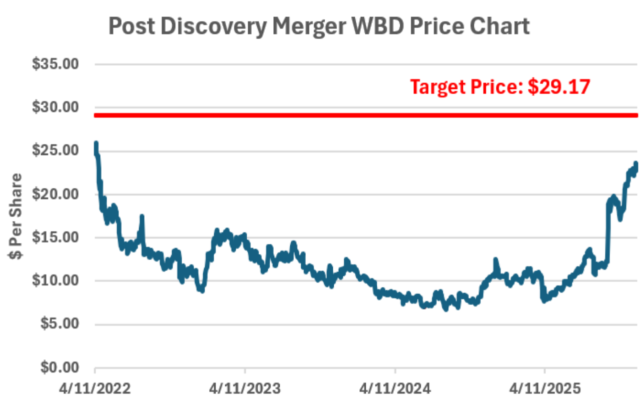
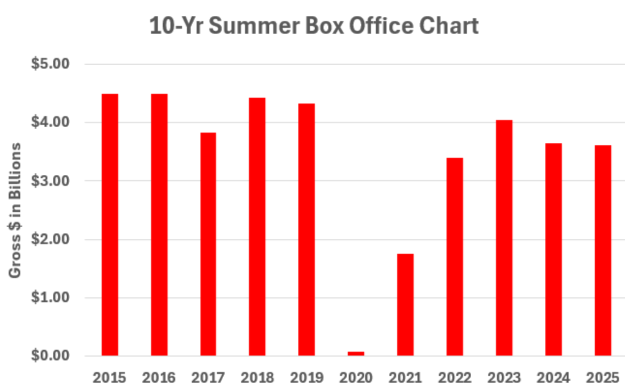
NETFLIX | WARNER BROS. DISCOVERY

Target Price: $29.17
Current WBD Price: $22.88
60-Day VWAP: $18.45





Implied Equity Value WBD	
Enterprise Value	$110,182
Total Debt	($43,006)
Preferred Stock + Minority	($901)
Cash and Cash Equivalents	$5,312
Implied Equity Value (Market Cap)	$71,587
Fully Diluted Shares Outstanding	2,454
Implied Price Per Share	**$29.17**

Executive Summary:

Arms Race for Content Justifies M&A Activity

Netflix acquiring Warner Bros. Discovery would be a major shift in global entertainment. Netflix must find new engines of steady growth as subscriber expansion slows, while WBD struggles with a shrinking legacy TV business, leadership uncertainty, and a large debt load that limits investment. The broader film industry continues to decline in real terms, with box office revenue failing to keep pace with inflation, making scale and distribution efficiency more important than ever.

Netflix gains world class intellectual property including Batman, Harry Potter, and Game of Thrones, plus stronger monetization through theatrical and linear channels and immediate scale in sports. WBD gains financial strength, technology advantages, and a platform that can fully unlock the value of its content engine which it has been unable to do alone.

A standalone DCF for WBD indicates an intrinsic value of $29.17 per share, showing meaningful undervaluation as markets price in linear decline. With expected synergies, a combined DCF valuation of $130.59 per share for Netflix implies significant upside for shareholders at current prices hovering around $105 a share for NFLX.

Acquirer Firm Description

Netflix

The world's leading streaming platform with unmatched scale and a powerful global brand, delivering content to audiences in 190+ countries while continuing to redefine the future of on-demand entertainment.

- Q3 revenue up 17% YoY with record ad-sales quarter; full-year revenue projected at $45.1B (≈16% growth)
- Strong engagement growth: 94M MAUs, up 20M+ since prior disclosure and 74M added in a single quarter at beginning of year.
- Transitioning from subscriber growth focus to margin expansion and positive FCF (pricing strategy + ad tier)
- Asset-light model supports superior margins vs. legacy media peers with declining linear exposure.
    - Low leverage balance sheet improves financial flexibility vs. traditional studio competitors.

Strategic Target Traits Based on Risk Factors

1. **Strong Intellectual Properties**
2. **More Efficient Production Line of Business**
3. **Strengthen Monetization Beyond Subscription & Advertising**
4. **Value Add to Content Library**

Target Firm Description

Warner Bros. Discovery

One of the four major studios and media powerhouse with a deep portfolio of iconic franchises and entertainment brands, generating value through storytelling across film, television, streaming, licensing, and consumer products.

- Revenue mix is still heavily reliant on declining legacy cable networks (ex. TNT, TBS, CNN), pressured by cord-cutting and advertising slowdown.
- High leverage capital structure with $40B+ debt load post-Discovery merger creates refinancing and FCF constraints, prevents further investment into streaming.
- Significant operational integration risk following two major corporate restructurings in seven years: Time Warner acquired by AT&T (2018) and merging with Discovery (2022)

Recent News:

Netflix:

- Crackdown on password sharing and launch of ad-tier driving strong incremental revenue.
    - +285% stock appreciation since May 2023 when these initiatives began being implemented.
- Expanding into live sports (NFL, MLB rights), gaming, and international localization.

WBD:

- WBD has explored splitting into two companies due to structural pressures from linear cable burdens.
- Paramount–Skydance takeover attempts (ranging from $19 to $23.50/share)
- Dominated the competition in a relatively weak 2025 summer box office.
- WBD revenue has declined for 3 straight years and is forecast to continue falling
    - Suffered major strategic loss missing NBA rights in 2024.
    - Wrote down cable assets at massive loss.

Motives for Potential Acquisition:

Netflix:

- Netflix would secure a library of iconic franchises that provide decades of reusable high value storytelling. These marquee brands help differentiate Netflix from intensifying competition as growth in streaming subscribers slows.
- The acquisition expands Netflix's revenue mix beyond subscription fees by unlocking theatrical releases, cable carriage economics, and syndication.
- Would fill major strategic gaps by gaining scaled theatrical distribution, access to cable bundle economics, and a premium sports footprint. These are capabilities Netflix has struggled to build organically and they offer new windows that reinforce long term profitability.
- The vast WBD content engine allows Netflix to scale merchandise, console and mobile gaming. The gaming industry has surpassed the entertainment industry in the last decade.
- Combining platforms enhances pricing power and viewer engagement by giving audiences a complete entertainment ecosystem. This strengthens Netflix's competitive positioning against tech giants like Amazon and Apple that are investing aggressively in media to drive ecosystem lock in.

WBD:

- WBD's streaming growth cannot replace earnings decline from its legacy television, which still generate significant cash but continue losing viewers and revenue. Without scale, the current business model heads toward sharp decline.
- Significant debt obligations restrict reinvestment into high potential franchises and weaken WBD's valuation. Joining Netflix provides the financial flexibility needed to fund bigger creative bets while reducing refinancing risk in a rising rate environment.
- WBD's studio and franchise engine remains undercapitalized and unable to fully monetize properties such as DC and Wizarding World. Netflix can optimize release strategies, invest in premium creative, and expand these franchises across multiple formats and markets.
- Without a buyer with the capital and technology expertise to reposition the business, WBD's situation worsens with each passing year. The ship does not sink overnight but continues to drift in a shrinking linear ecosystem while the industry consolidates around companies with scale.

Discounted Cash Flow Analysis and Valuation

DCF Method: A Gordon growth model is applied to reflect Warner Bros. Discovery's position as a mature media enterprise with stable long term cash flow potential.

Sales: Revenue has declined over the past three years as traditional linear television continues to lose subscribers and advertising demand. This decline is expected to continue through 2027 with the lowest point around a 5% reduction in revenue. As Warner Bros. Discovery continues shifting away from legacy assets and scales its streaming operations, revenue is expected to gradually improve and stabilize at a 3% growth rate by 2031.

EBITDA: EBITDA margins have decreased as the business shifts away from historically high margin linear channels toward lower margin streaming. Near term profitability will remain pressured by restructuring costs and lower linear earnings. Margins are expected to improve slowly as operations become more efficient and direct to consumer revenue grows, although still trailing peer averages.

D&A: D&A is expected to increase over the next two to three years due to accelerated depreciation of legacy assets and amortization of past content investments. As the company reduces exposure to capital intensive operations and optimizes its asset base, **D&A** as a percentage of sales should stabilize in the later years of the projection.

Taxes: Cash tax rates have been inconsistent and at times significantly elevated due to impairments, restructuring activity and limitations on interest deductibility. Over time, as the business stabilizes and the balance sheet improves, tax rates are expected to normalize toward approximately 25 percent with greater volatility in the early projection years.

Cap Ex: Net capital expenditure has historically represented approximately 3% of sales given the company's reliance on studio real estate, content production, and distribution networks.

NWC: A continued use of cash is expected in the near term as internal operations and the content pipeline stabilize. Later in the projection period, working capital pressure is expected to ease as operating processes are simplified.

WACC: The heavy debt load results in a higher cost of capital, particularly in the early forecast years where rising interest costs and refinancing risk elevate the company's risk profile. As deleveraging occurs and operational consistency improves, the cost of capital is expected to decline. The average weighted cost of capital throughout the projection is 9.1%.

Operating Scenario	FY 2025	2026	2027	2028	2029	2030	2031
	Current						
Sales	37,863.0	37,484.4	35,610.2	34,719.9	34,719.9	35,240.7	36,297.9
% Sales Growth	-3.7%	-1.0%	-5.0%	-2.5%	0.0%	1.5%	3.0%
EBITDA	7,643.0	6,747.2	5,697.6	5,555.2	5,728.8	6,167.1	7,078.1
EBITDA Margin	20.2%	18.0%	16.0%	16.0%	16.5%	17.5%	19.5%
Depreciation and Amortization	6,012.0	6,184.9	5,875.7	5,555.2	5,208.0	4,757.5	4,174.3
D&A/Sales	15.9%	16.5%	16.5%	16.0%	15.0%	13.5%	11.5%
EBIT	1,631.0	562.3	(178.1)	0.0	520.8	1,409.6	2,903.8
EBIT Margin	4.3%	1.5%	-0.5%	0.0%	1.5%	4.0%	8.0%
Taxes	1,335.0	140.6	(44.5)	0.0	127.6	338.3	682.4
Tax Rate	81.9%	25.0%	25.0%	25.0%	24.5%	24.0%	23.5%
Unlevered Free Cash Flow	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
EBIAT	296.0	421.7	(133.5)	0.0	393.2	1071.3	2221.4
Depreciation and Amortization	6,012.0	6,184.9	5,875.7	5,555.2	5,208.0	4,757.5	4,174.3
D&A/Sales	15.9%	16.5%	16.5%	16.0%	15.0%	13.5%	11.5%
Capex	(1030.0)	(1124.5)	(1068.3)	(1006.9)	(972.2)	(951.5)	(943.7)
Capex/Sales	-2.7%	-3.0%	-3.0%	-2.9%	-2.8%	-2.7%	-2.6%
Less Increase (or Plus Decrease) in NW(	857.0	187.4	142.4	104.2	34.7	(35.2)	(108.9)
NWC/Sales	2.3%	0.5%	0.4%	0.3%	0.1%	-0.1%	-0.3%
Unlevered Free Cash Flow to the Firm	6,135.0	5,669.5	4,816.3	4,652.5	4,663.8	4,842.1	5,343.1
Discounting of Annual Free Cash Flow	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Discount Period (Mid-Year Convention)		0.5	1.5	2.5	3.5	4.5	5.5
WACC	7.8%	8.3%	8.9%	9.6%	10.1%	9.8%	9.5%
PVLS Factor	1.00	0.96	0.89	0.83	0.77	0.71	0.66
Present Value of Free Cash Flow	$6,135.00	$5,460.55	$4,303.12	$3,855.99	$3,585.66	$3,453.40	$3,534.97

Gordon's Growth	
WACC	9.14%
Terminal Year UFCF	$5,343.05
Long Term Normal Growth Rate	4.71%
Terminal Value	$126,245.67
Discount Factor	0.64

Enterprise Value:	
Cumulative PV of UFCF	29,987
PV of Terminal Value	$80,195
% of Enterprise Value	72.78%
Enterprise Value	$110,182

Results:

Using the Gordon Growth method, the intrinsic value of Warner Bros. Discovery is estimated at $29.17 per share. This implies an upside of approximately 58.1% relative to the 60 day VWAP of $18.45. This level of upside is reasonable given that the current market valuation reflects investor concerns around declining revenue, leadership uncertainty, and the company's elevated leverage position. Terminal value represents roughly 70% of enterprise value in this analysis, which is consistent with expectations for a mature media company with stable long term cash flow prospects.

NFLX vs. WBD Value Drivers

Netflix outperforms WBD across every major value driver. Its higher CF margin and lower cash tax rate demonstrate stronger operational efficiency and superior cash generation. Netflix's revenue growth continues to expand while WBD faces ongoing decline. Netflix also maintains a stronger EBITDA margin supported by its global scale and technology advantage, whereas WBD's profitability is pressured by declining linear earnings and heavy content costs. Overall, Netflix's healthier financial profile reinforces why it is the right platform to unlock WBD's underperforming assets and create a more competitive and sustainable entertainment leader.

Acquiring Firm (NFLX)	
Value Drivers	
CF Margin	23.72%
Cash Tax Rates	12.96%
Rev Growth	11.22%
EBITDA Margin	29.96%

Target Firm (WBD)	
Value Drivers	
CF Margin	16.20%
Cash Tax Rates	68.24%
Rev Growth	-3.71%
EBITDA Margin	20.19%

Adjusted DCF: Combining Synergies and Using Asset Weighted WACC

The combined company begins with an asset-weighted WACC near 8.8%, then reflects the added cost of WBD's balance sheet. The blended WACC is allowed to rise toward 9.8% by 2027 as leverage increases and credit spreads widen, before gradually stepping down as debt is reduced and credit strength improves.

On revenue, the acquisition extends Netflix's ability to sustain mid-teens growth. Premium IP, expanded theatrical distribution, the HBO Max subscriber base, and a scaled ad platform support higher top-line growth than Netflix could achieve independently.

Integration headwinds are openly recognized:

• Integration and restructuring expenses

• Higher near-term D&A as acquired assets are revalued

• Increased capex and working capital tied to studio and theatrical operations

• EBITDA and EBIT margin pressure during platform and content integration

By year three post-close, margins and cash conversion gradually shift back toward Netflix norms as technology unification, marketing efficiency, and back-office synergies are realized at scale.

Under these assumptions, the combined DCF supports an implied Netflix share value of about $130.59 per share. This exceeds the current trading level near $105 and the standalone implied value of roughly $98 per share, indicating that the transaction delivers accretion even with measured synergy timing.

Operating Scenario	FY 2025	2026	2027	2028	2029	2030	2031
	Current						
Sales	67,560.8	79,721.7	95,666.1	112,886.0	130,947.7	149,280.4	164,208.5
% Sales Growth	-2.1%	18.0%	20.0%	18.0%	16.0%	14.0%	10.0%
EBITDA	14,154.7	14,748.5	18,654.9	23,706.1	30,118.0	38,812.9	48,441.5
EBITDA Margin	21.0%	18.5%	19.5%	21.0%	23.0%	26.0%	29.5%
Depreciation and Amortization	7,905.6	7,640.6	8,212.1	8,561.4	8,621.7	7,589.5	5,064.3
D&A/Sales	9.8%	9.6%	8.6%	7.6%	6.6%	5.1%	3.1%
EBIT	7,544.5	7,107.9	10,442.8	15,144.7	21,496.3	31,223.4	43,377.2
EBIT Margin	11.2%	8.9%	10.9%	13.4%	16.4%	20.9%	26.4%
Taxes	1,859.4	1,563.7	1,879.7	2,271.7	3,224.4	4,683.5	6,506.6
Tax Rate	24.6%	22.0%	18.0%	15.0%	15.0%	15.0%	15.0%

Unlevered Free Cash Flow	2025	2026	2027	2028	2029	2030	2031
EBIAT	5,685.1	5,544.2	8,563.1	12,873.0	18,271.8	26,539.9	36,870.6
Depreciation and Amortization	7,905.6	7,640.6	8,212.1	8,561.4	8,621.7	7,589.5	5,064.3
D&A/Sales	0.8%	9.6%	8.6%	7.6%	6.6%	5.1%	3.1%
Capex	(1554.6)	(5181.9)	(6218.3)	(6208.7)	(5892.6)	(5224.8)	(4105.2)
Capex/Sales	-2.3%	-6.5%	-6.5%	-5.5%	-4.5%	-3.5%	-2.5%
Less Increase (or Plus Decrease) in NWC	809.9	(3986.1)	(4305.0)	(5079.9)	(5237.9)	(4478.4)	(3284.2)
NWC/Sales	1.2%	-5.0%	-4.5%	-4.5%	-4.0%	-3.0%	-2.0%
Unlevered Free Cash Flow to the Firm	12,846.0	4,016.8	6,251.9	10,145.8	15,763.0	24,426.2	34,545.5

Discounting of Annual Free Cash Flow	2025	2026	2027	2028	2029	2030	2031
Discount Period (Mid-Year Convention)		0.5	1.5	2.5	3.5	4.5	5.5
WACC	8.8%	9.3%	9.8%	9.6%	9.4%	9.2%	9.0%
PVLS Factor	1.00	0.96	0.88	0.81	0.74	0.68	0.63
Present Value of Free Cash Flow	$12,845.99	$3,851.21	$5,510.23	$8,220.16	$11,740.12	$16,723.52	$21,742.15

Gordon's Growth	
WACC	9.28%
Terminal Year UFCF	$34,545.54
Long Term Normal Growth Rate	4.71%
Terminal Value	$791,191.66
Discount Factor	0.65

Implied Equity Value	
Enterprise Value	$609,767
Total Debt	($61,001)
Other	($3,250)
Cash and Cash Equivalents	$13,117
Implied Equity Value (Market Cap	$558,632
Fully Diluted Shares Outstanding	4,278
Implied Price Per Share	**$130.59**

Conclusion:

This transaction carries real challenges, including a heavier debt load in a higher rate environment, regulatory pushback over further consolidation, and a complex integration that will weigh on margins in the near term, but the strategic upside remains substantial: Netflix has repeatedly shown superior efficiency, disciplined balance sheet management, and constant product innovation, while WBD continues to struggle with declining linear revenues, churn, and the inability to fully monetize its assets, making independence increasingly unsustainable. This combined with Netflix's platform scale and operating rigor with WBD's IP, theatrical distribution, and creative infrastructure creates a more competitive business capable of diversified monetization beyond subscriptions, and although the risks are real, WBD needs this deal to survive while Netflix needs it to secure long-term dominance in a rapidly consolidating entertainment industry.