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HF RESEARCH HenryFund.Org

NETFLIX INC (NFLX)

April 10, 2024

Communication Services – Media & Entertainment

Stock Rating BUY

Investment Thesis

Netflix established its first-mover advantage early in the streaming space and has not looked back. The firm experienced a big bounce in subscriber growth in 2023 due to its introduction of an advertising tier and a crackdown on passwords. We believe Netflix will grow its advantage in the streaming space through the introduction of advertising, live sports, and growth in emerging markets. For this reason, we recommend a **buy** rating on Netflix with a target price of $667, representing a 7.4% return from its current price.

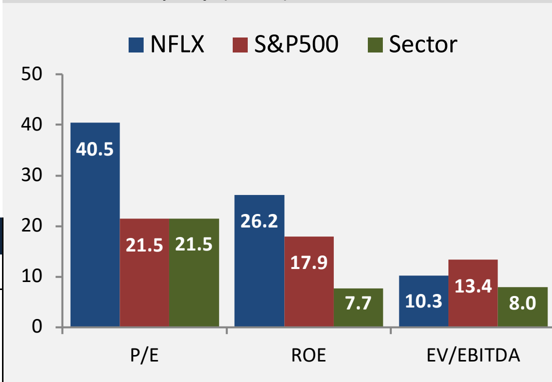
Drivers of Thesis

- Netflix is experimenting with live sports and would see higher subscriber numbers and lower churn if they were to buy media rights to a major league(s)
- We expect the firm to grow revenues through 2028 at a CAGR of 10%, built off a bounce in subscribers from its introduction of an advertising tier, as well as high growth in Asia amongst other emerging markets
- Netflix's subscriber churn rate of 2% is significantly lower than its peers, which will allow the firm to weather an economic downturn better than competitors

Risks to Thesis

- Netflix chooses to not spend on live sports rights, which would only increase customer retention and grow subscribers
- International conflict or recessions may risk Netflix's growth in emerging markets as it may slow or decline subscriber acquisition rates
- The cost of originally produced content remains high over the forecasted period, making the firm rely on licensed content and not build strong Netflix original brands

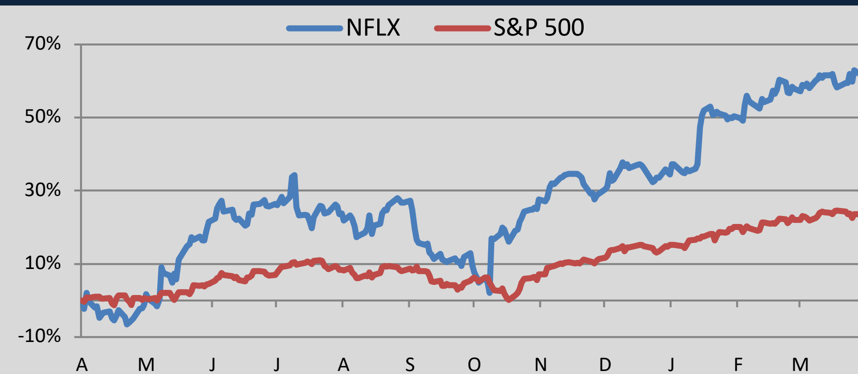
Target Price	$667
Henry Fund DCF	$667
Henry Fund DDM	$629
Relative Multiple	$387
Price Data	
Current Price	$618
52wk Range	$316 – 639
Consensus 1yr Target	$621
Key Statistics	
Market Cap (B)	$272.0
Shares Outstanding (M)	432.8
Institutional Ownership	82.6%
Beta	1.30
Dividend Yield	0.0%
Est. 5yr EPS Growth	84.8%
Price/Earnings (TTM)	40.5
Price/Earnings (24E)	33.6
Price/Sales (TTM)	6.5
Price/Sales (24E)	7.0
Profitability	
Operating Margin	20.6%
Profit Margin	41.5%
Return on Assets (TTM)	11.0%
Return on Equity (TTM)	26.2%



Earnings Estimates

Year	2021	2022	2023	2024E	2025E	2026E
EPS	$11.55	$10.10	$12.25	$17.19	$21.24	$25.39
HF est.				$18.23	$23.15	$27.61
Growth	*84.5%*	*-12.6%*	*21.3%*	*40.3%*	*23.6%*	*19.5%*

12 Month Performance[1]



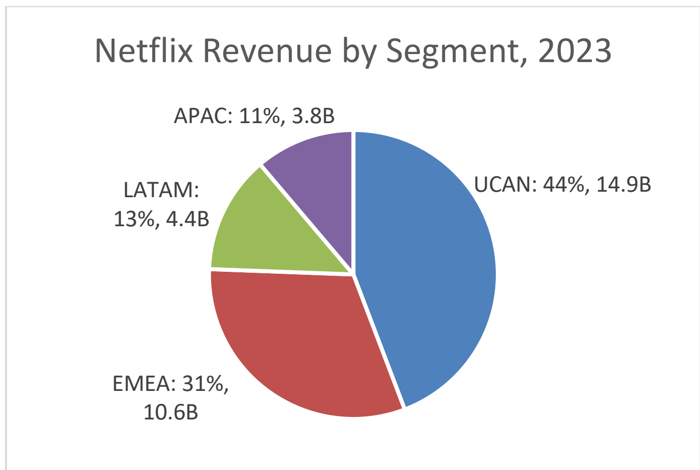
Company Description

Netflix is a leading media and entertainment company and was the first mover in the streaming service industry. The company operates its service in four main segments: United States and Canada (UCAN), Europe, Middle East, and Africa (EMEA), Latin America (LATAM), and Asia Pacific (APAC). The firm offers different tiers of subscription, and leverages algorithms to suggest content to users and keep them from canceling their subscription. Netflix's platform is built on both licensed and Netflix-produced content.

Important disclosures appear on the last page of this report.

COMPANY DESCRIPTION

Netflix is an industry leader in the media and entertainment space. Netflix's only revenue stream comes from its streaming service. The firm has different subscription plans based on location, including an ad-supported plan, standard plan, and premium plan. In FY23, Netflix generated $33.7B in revenue, with $14.9B coming from the United States and Canada (UCAN), $10.6B from Europe, Middle East, and Africa (EMEA), $4.4B from Latin America (LATAM), and $3.8B coming from APAC.

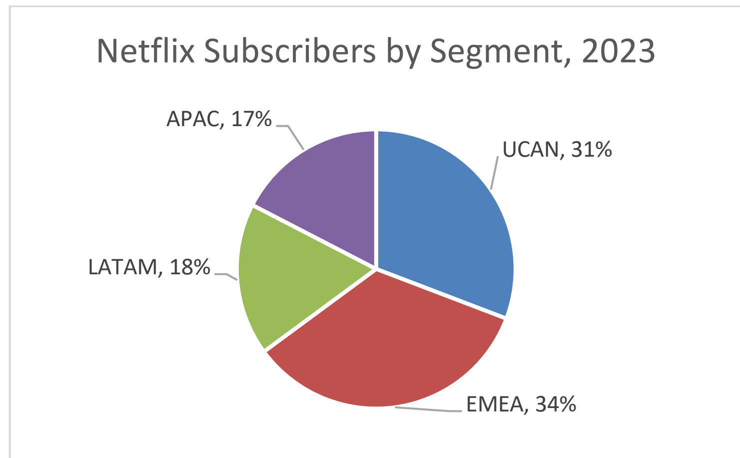


Source: Netflix 10k

Netflix's content is in one of two categories: Netflix-produced or licensed. The firm built its service on the back of licensed content. As other players entered the streaming service industry they pivoted to making their own content. As of July 2023, approximately 55% of its US library are Netflix Originals[22]. In the past year or so, the pendulum has swung away from produced content and back to licensed content. This is for a couple reasons: legacy media companies have struggled to compete in the streaming industry and the costs of producing content have gone up due to COVID-19 and the Hollywood strikes[15]. Netflix has served as a hit-maker for otherwise idle-shows such as *Suits* (licensed from Comcast) and has licensed premier Warner Brothers Discovery content such as the DC Cinematic Universe and old HBO shows.

In January, co-founder and co-CEO Reed Hastings stepped down from his position[19]. Co-CEO Ted Sarandos and former chief content officer Greg Peters took the helm as co-CEOs. Although unconventional, the two have unique expertise that allow them to mesh well together. Sarandos is deeply entrenched in the mechanics of Hollywood and relationship management with talent, while Peters has a background in technology and is focused on the product side. In their first year of leadership, Netflix saw an approximate 13% growth in subscribers, and its customer churn rates remain low despite a crackdown on password-sharing.

The firm has an international focus, with 69% of its subscriber base coming internationally. In 2022, Netflix's EMEA segment passed its UCAN segment for total subscribers. However, UCAN's average revenue per user (ARPU) remains 50% higher than EMEA's due to lower subscription costs for customer acquisition tactics.



Source: Netflix 10k

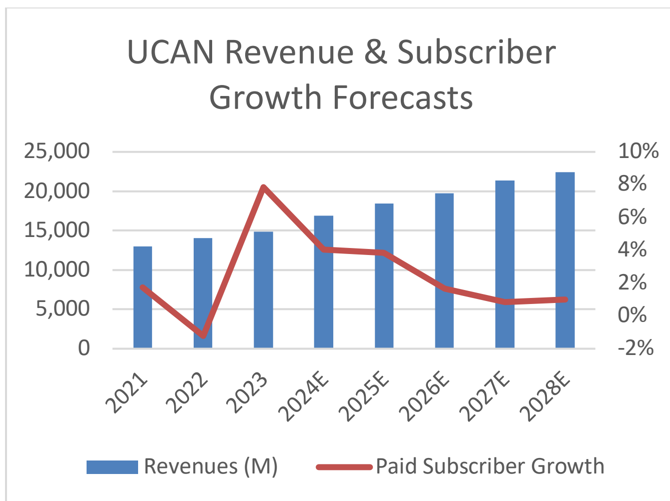
Netflix is the only streaming service in the industry to turn a profit, and as a result has much stronger streaming margins than competitors. We expect those to grow in future years through its password-sharing crackdown and subscriber growth in emerging markets. We expect Netflix's overall gross margin to grow by a CAGR of 2.98% through 2028.

United States and Canada (UCAN)

In 2023, Netflix's UCAN segment clawed its way out from negative subscriber growth in 2022 to its largest net subscriber add since 2020. This was due to Netflix's password-sharing crackdown churning less users than expected[16], and Netflix weathering the storm of the Hollywood strikes by creating hits out of licensed shows.

The introduction of an advertising plan and Hollywood strikes are both unique events, so we anticipate 2023's growth to be a peak in subscriber growth for the coming future. We forecast 2024-2025 subscriber growth to be approximately 4%, which is above 2021-2022 levels as we anticipate the bump in subscribers due to the new

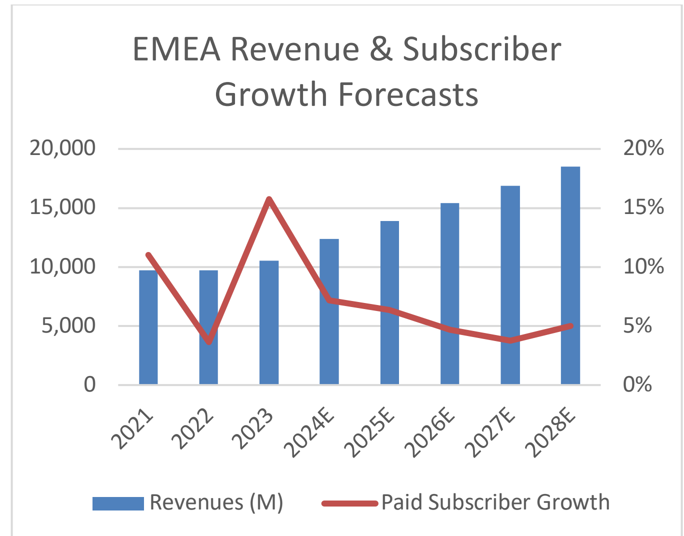
advertising tier to continue into the near future. We believe Netflix's initiative to retire their basic-ad free plan, starting with Canada and the UK later this year, will increase the number of subscribers in these markets. However, near 2026 we anticipate subscriber growth to slow down to about 1% a year, because Netflix will reach near market saturation. As of 2023, the firm has nearly a 62% penetration rate in UCAN households (approximately 145 million). We believe the cap on Netflix's penetration rate in the United States is in the 80% range, as traditional pay-TV reached its peak penetration rate around 88% in 2010[4]. In a couple years, we believe the UCAN market will turn into a cash cow with a goal of preventing churn, while Netflix utilizes international markets for growth.



Source: Netflix 10k & HF Estimates

Europe, Middle East, and Africa (EMEA)

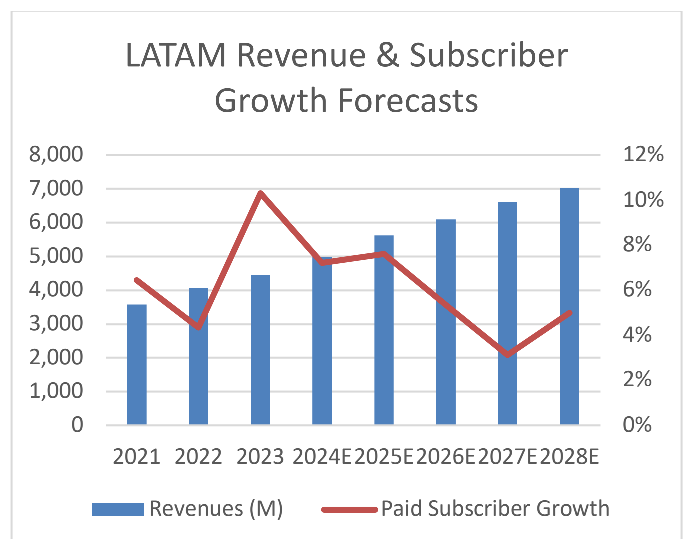
Netflix's EMEA segment has seen significant growth in recent years. In 2022, it passed UCAN for the highest segment subscriber total. We expect Netflix's strong subscriber growth to continue in EMEA. The firm's 2023 penetration rate in EMEA households (18%) is much lower than its rate in UCAN (62%). We forecast EMEA subscriber growth to remain above 6% in 2024 and 2025 as the password-sharing crackdown plays out in the EMEA region. From 2026-2028, we project the EMEA to grow steadily at approximately 4.5% per year. Netflix's growth plan in EMEA causes its ARPU to be lower than UCAN as it uses lower prices in emerging markets to entice potential subscribers and account for lower household income. We believe this approach is important as other countries' economies do not have the strength of the United States' economy, and Netflix does not have the cultural grasp abroad that it does in the U.S. yet.



Source: Netflix 10k & HF Estimates

Latin America (LATAM)

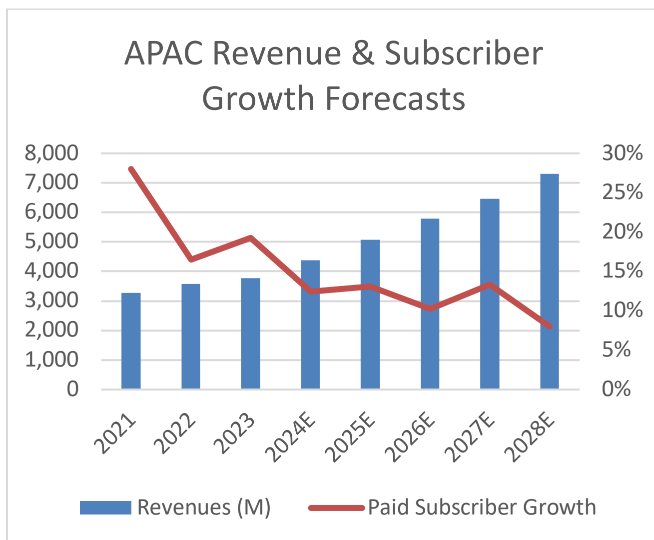
The LATAM segment boasts Netflix's third highest subscriber count and revenue totals. We expect the sgement to post subscriber growth near 8% in 2024 and 2025, ahead of 2021-2022 levels. This is due to the introduction of ad-supported plans and Netflix's lower prices to entice subscribers. We project ARPU growth to fluctuate but remain positive over the course of the forecast. The firm's household penetration rate in the LATAM segment is approximately 25%, which gives the company a lot of room to run. Netflix's overseas content spend is set to surpass U.S. spend for the first time, as the firm loads up on local language content for international viewers[23].



Source: Netflix 10k & HF Estimates

Asia Pacific (APAC)

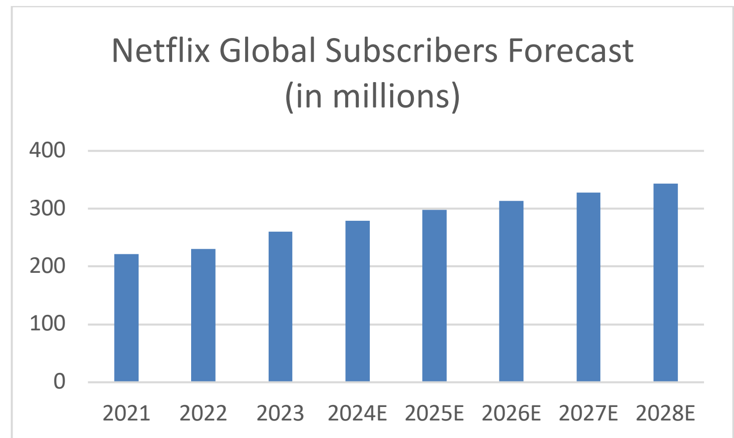
The Asia Pacific region is Netflix's biggest growth area. The company has seen massive growth in the region, and we expect this trend to continue. Many of Netflix's most watched shows from January-June 2023 were Asian titles, and *Squid Game* became a worldwide phenomenon. We forecast double digit growth for Netflix over the next four years for a multitude of reasons. The first is the company-wide advertising tier initiative, but the main driver is the amount of success Netflix is seeing in Asia. The firm is establishing a larger cultural footprint in Asia than many other regions, so we anticipate the firm pursuing subscribers in a significant way. Netflix is banned in China, part of the government's efforts to limit foreign influence and its citizens' access to information about their own country. Netflix's penetration rate in Asian households (ex-China) is 6.89%. This leaves a lot of room to grow. We estimate APAC to gain a larger subscriber base than LATAM in 2024, and out-earn LATAM by 2028.



Source: Netflix 10k & HF Estimates

Revenue Analysis

Netflix has a relatively simple business model. Its revenues are based off the number of subscribers it has, and the amount of revenue it earns per each subscriber. Each country has a unique set of plans, but the typical three levels are ad-supported, standard, and premium.



Source: Netflix 10k & HF Estimates

We project Netflix to continue hiking prices in its UCAN segment, where it has seen sticky subscriber retention after introducing the password-sharing crackdown. We believe UCAN subscribers see Netflix as an entertainment necessity, which gives the firm strong pricing power. The other region we project to have strong ARPU growth in is EMEA. Netflix's foothold in the market is becoming strong enough that they can start hiking prices after utilizing low-priced plans to acquire customers. We believe the LATAM and APAC segments will have ARPUs that remain lower as they are still in subscriber-acquisition mode. Over the forecasted period, we project Netflix's overall ARPU to grow by a CAGR of 3.32% to $13.70, a $2.06 rise from its 2023 level. The introduction of an advertising tier will slow ARPU growth, particularly in the UCAN segment, due to customers flipping subscriptions or new subscribers signing up for the ad-tier. However, we believe that Netflix's first-mover advantage in streaming has built a strong consumer habit for the premium tier.

Netflix ARPU Forecast

Year	UCAN	EMEA	LATAM	APAC	NFLX
2021	14.56	11.63	7.73	9.56	11.67
2022	15.86	10.99	8.48	8.50	11.76
2023	16.28	10.87	8.66	7.64	11.64
2024E	17.24	11.19	8.71	7.59	11.94
2025E	18.11	11.80	9.15	7.80	12.43
2026E	18.83	12.40	9.33	7.97	12.81
2027E	20.11	13.03	9.70	7.94	13.32
2028E	20.91	13.68	9.89	8.14	13.70

Source: Netflix 10k & HF Estimates

Cost Structure Analysis

Netflix's costs of revenues have trended up in recent years. This is due to the rising rates in content amortization, as Netflix has grown content spending and amortizes its titles over a short period. We project Netflix's amortization of content assets as a percentage of content assets to rise by an average of 1% a year. This represents the growing need of Netflix to increase amortization to keep up with their content spend, which is growing at a higher level. We project Netflix to spend north of $16b on content in 2024. This is due to the need for fresh content to prevent churn in UCAN and develop hit local language shows and movies in international markets. This amount of content spend is sustainable until emerging markets reach a similar saturation level to the UCAN segment. Once that begins, spending less on content will likely need to happen to keep profit margins stable. We also anticipate Netflix's marketing, technology & development, and general and administrative expenses to decrease over the next five years. Netflix's cost categories have been dropping in recent years, and we believe this trend will continue as Netflix matures as a business and becomes more of a utility than an add-on service. Through Netflix's rapid growth in foreign markets and lowered cost structure, we project Netflix's gross margin and operating margin to improve significantly.

Target Market

Netflix's target market is incredibly diverse and spans different generations. The streamer develops content of all kinds, including kids' entertainment, documentaries, scripted and reality television, etc. The typical Netflix user likely falls in a younger age bracket, as many older consumers are less likely to ditch cable for a streaming alternative. Consumers aged 18-54 likely make up the bulk of Netflix's userbase.

Firm Differentiation

Netflix is unique compared to most Hollywood competitors due to its tech focus and lack of historical library. Netflix's large initiative to produce its own content over the last decade created a more even playing field for its content library. This happened as it lost licensed content to other studios when they started streaming services, as they needed content for their own platforms and Netflix was too successful. Netflix is also a pure media and entertainment company compared to other tech players in the space, such as Google, Amazon, and Apple. Netflix's first-mover advantage gives the company leverage over competitors who were late to the streaming space and have yet to turn a profit. The firm has 260m subscribers, which is 73% higher than the next highest media-focused streamer, Disney+ (150m). Netflix also upended the model of Hollywood, by paying larger fees upfront to creators and talent, instead of paying through residuals on the back end. We anticipate this model will change slightly due to changes made after the 2023 Hollywood strikes, but this played a key role in helping Netflix build its library. Netflix is also the only media-focused streamer that does not utilize movie theaters for new releases. We believe this strategy helps build the power of Netflix but is not replicable by other firms who have weaker streaming subscribers and profitability.

Business Model Viability

Netflix's business model is possible due to its first-mover advantage. The word Netflix is synonymous with streaming, and this allows them to be on the cutting edge of Hollywood and entertainment. Their international approach in emerging markets positions them well to continue growth as their UCAN segment matures. We believe Netflix is not just competing with other streaming services, but also YouTube, Tik Tok, and video games. As Netflix matures in certain regions, the focus will shift away from subscriber growth to time spent on the platform, which will increase advertising dollars and prevent customer churn. We believe investing in live sports rights with a consistent audience and time-consuming content such as reality TV will provide Netflix with the content base it needs to prevent subscription cancellations.

Debt Maturity Analysis

Netflix currently has $14.6b in long-term debt outstanding with a weighted average coupon of 4.72%. The firm has a credit rating of BBB+ from S&P. This trails Disney and Comcast who have more diver revenue streams but beats out Warner Bros. Discovery and Paramount.

Firm	S&P Debt Rating
Netflix	**BBB+**
Disney	A-
Warner Bros. Discovery	BBB-
Comcast	A-
Paramount	BB+

Netflix maintains a strong track record of paying off its debts. We forecast a large rise in cash flow over the next five years and anticipate the company will spread the cash across paying debt, share buybacks, and increasing its content spend. We do not expect Netflix will need to push out the maturity of its debt. The company has also stated it is not in the market for acquiring companies with declining linear assets such as Paramount or Warner Bros. Discovery. This contributes to our belief that Netflix will start to pay down its long-term debt over the coming years. The firm also has some around $7b of licensed content obligations that are recorded on the balance sheet as "Current content liabilities." Again, we expect Netflix will have the requisite cash it needs to pay down content obligations as part of its operating business flow.

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment ($mil)
2024	5.75	$400
2025	4.44	1,819
2026	4.38	1,000
2027	3.63	1,436
2028	5.42	3,500
Thereafter	4.64	6,456
Total	4.72	$14,611

Source: FactSet & Netflix 10k

ESG Analysis

Firm	Sustainalytics ESG Rating
Netflix	**16.0 (low risk)**
Disney	15.7 (low risk)
Warner Bros. Discovery	19.9 (low risk)
Comcast	21.8 (medium risk)
Paramount	15.0 (low risk)

Source: Sustainalytics

Governance is the ESG category to keep an eye on, as Netflix deploys a co-CEO model. Performance was very strong in the first year of the Greg Peters and Ted Serandos era. The two complement each other well and round out Netflix's approach to tech and Hollywood. We believe in the two as leaders but will monitor how the two deal with struggles if performance was able to dip. The co-CEO model lends itself to difficulties during stressful times, and leaders can become territorial or stubborn about their beliefs which hurts the overall company. However, Netflix has implemented multiple CEOs for years now and has seen success with this model. Netflix and Disney both implemented succession plans in recent years, and Netflix's has gone much better than Disney's, who had Bob Iger return to his seat as CEO.

RECENT DEVELOPMENTS

Recent Earnings Announcement

Netflix reported Q4 earnings for FY23 on January 23, 2024. Shares jumped nearly 11% after the company reported strong data for the quarter. The firm added nearly 13.1 million subscribers during Q4, which beat Wall Street consensus by around five million subscribers. The growth in subscribers was due to strong customer retention as Netflix builds its ad-support service and continues to crackdown on password-sharing. The firm posted EPS for Q4 slightly below consensus ($2.11 vs. $2.22), while revenue for the quarter slightly beat consensus ($8.83b vs. $8.72b). Q4 revenue grew 12% YoY due to the strong subscriber growth and favorable exchange rates.

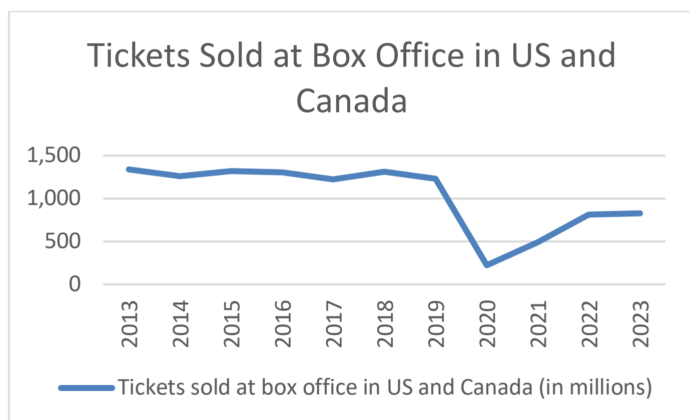
On the day of its earnings call, Netflix also announced a major new deal to partner with the WWE to air "Monday Night Raw."[4] Beginning in 2025, the deal will pay TKO Group $500 million a year for media rights to air the WWE's flagship weekly wrestling program in the U.S., Canada, UK, and Latin America, with more countries and regions over time. The deal is Netflix's first major play into live sports. The deal pays about twice what Comcast currently pays to air the show on the USA Channel. The premium is likely due to the ability to control the international rights. We believe the deal is a strong one for Netflix, as it will add a consistent weekly audience to Netflix's platform. WWE is an international brand with a very committed fanbase and gives Netflix the potential to make ancillary content about it. Management said that the WWE deal fits into their anticipated content spend for the year, and it does not change their strategy with sports. The Henry Fund believes the WWE deal will test Netflix's ability to host live sports and if it is successful will change Netflix's sports plan. If the firm were to say they were all-in on sports, they would lose negotiation power with leagues such as the NBA whose media rights are up for sale currently.

Management also shifted its Q1 FY24 EPS projection to $4.49, which was higher than the initial consensus projection of $4.10. We forecast Netflix to beat these projections, as our average FY24 quarterly EPS is $4.61, and Q1 is historically a stronger quarter for Netflix. We believe this will be due to continued growth from its

advertising tier and the introduction of a foreign exchange hedging program.

COVID-19 & Movie Theaters

The Covid-19 pandemic had a profound impact on the entertainment business, and streaming services are still dealing with the fallout to this day. The lockdowns led to a substantial increase in streaming subscriptions, which led some stocks to all-time highs. The growth was so rapid that Disney beat their five-year growth goal in a matter of a couple months. Disney and Warner Brothers Discovery also started to implement straight-to-streaming movie releases. Although this was convenient for consumers, it was highly costly to the studios. In the past year or so, there has been a shift back to theatrical releases, with all streamers besides Netflix utilizing them. Despite theaters growing out of favor with consumers and becoming increasingly tough to run, they are beneficial to streamers on multiple fronts. They allow the initial rush of fans to pay for the individual title and serve as an advertising and marketing play for when the titles drop on streaming. It will be important for streamers to decipher which movies are theater plays versus straight to streaming. The recent "Barbenheimer" and "Gentleminions" phenomena display that there is still a desire for theatrical events. Theaters may never fully recover from the pandemic, but still play an important role in entertainment distribution. However, Netflix has proven that they do not need theatrical releases to create hit movies. We believe the firm is uniquely positioned compared to legacy Hollywood studios to not utilize movie theaters, which helps them prevent subscription churn. Netflix's streaming profitability allows them this advantage, while other studios need theaters to earn some revenue as its streaming endeavors struggle.



Source: Statista

M&A Activity

Recent Media M&A Activity		
Deal:	**Date:**	**Size:**
Disney, Fox, WBD to create sports streaming service JV	2/6/24	N/A
Disney to purchase stake in Epic Games	2/7/24	$1.5b
Disney to merge Indian operations with Reliance Industries[18]	2/28/24	$8.5b
Paramount enters exclusive merger talks with Skydance Media[1]	4/4/24	N/A
WBD allowed to engage in M&A after two-year lockup period[1]	4/8/24	N/A

Source: Bloomberg

M&A is one of the key areas to monitor in the streaming space. The industry is ripe for movement, and we anticipate there to be many moves towards a consolidated industry. Most of the M&A activity moving forward will be focused on creating platforms with the requisite amount of content and subscribers to be sustainable. We do not believe Netflix will get involved with any traditional media companies that own declining linear assets. However, we will monitor if Netflix pursues activity within the gaming space, as it attempts to diversify the offerings of its platform. The two deals that affect Netflix the most are discussed below:

1. *Disney, Warner Brothers Discovery, and Fox to create sports streaming service*[5]

Disney, Warner Bros. Discovery, and Fox are joining forces to create a comprehensive sports streaming service, which is a significant shift in the sports media landscape. The yet-to-be-named service will be launched in the fall and offer content from all major leagues. Each company will have one-third ownership of the new service, a model like the original Hulu. The new service is expected to encompass 55% of US sports rights and will be available as a standalone app or as part of bundles for Max, Hulu, and Disney+ subscribers. The new service will not include content from Comcast's NBCUniversal or Paramount, who both hold major sports rights. Consumers will likely win from this deal, but there are still question marks for the

companies. Despite the new service being targeted towards people who are cord-nevers (young people who have never subscribed to a traditional TV bundle), if the platform is successful, it will accelerate the decline of linear television. As these companies are still earning profit from traditional pay-TV, they may contribute to the downfall of that business segment. The companies have also been fierce competitors in the market for live-sports rights and their own streaming services. It remains to be seen if they will be able to set their individual motivations aside to work together on this project. The platform is expected to cost between $40-50/month and exemplifies the shift back to a cable-like model where you can get all your channels in one place. This deal would be beneficial to consumers who are sports-focused and looking for the cheapest and most convenient place to watch. If the sports streaming service makes it past regulatory concerns and launches, Netflix should not have high churn because they do not have live sports as is. We expect the largest customer churn to come from YouTube TV and traditional cable. We believe Netflix would see massive success from strategically adding live sports right as it sees fit. We do not believe a sports streaming conglomerate will wipe out Netflix's chances at gaining sports rights. Leagues would likely be eager to access Netflix's user data for insights and global reach. Even if the firm did not control weekly rights for a major league, Netflix would remain a player for smaller scale sports rights, such as the NBA in-season-tournament, tennis, or a European soccer tournament.

2. *Disney to buy a $1.5 billion stake in Epic Games*[14]

On February 7, Disney announced a deal to buy a $1.5 billion equity stake in Epic Games, the gaming company behind Fortnite. The two companies have collaborated in the past, bringing Disney characters to the Fortnite Universe. The deal exemplifies a growing relationship between media and gaming. Disney will be able integrate and advertise its content through Fortnite and other Epic Games properties. There is also potential for Disney to produce Fortnite movies, TV shows, and parks experiences. Video game adaptations are growing in popularity, as *The Last of Us* was a hit HBO show in 2023 and *The Super Mario Bros. Movie* was the second highest earner at the box office[17]. Gaming offers streaming companies a different source of revenue while providing vertical integration to promote their brand. All the details have not released yet but moves like this will keep media brands competitive in the long-term. Netflix has slowly started to build up its gaming area and we believe that moves like Disney's Epic Games stake would benefit Netflix. The ability to incorporate Netflix franchises in video games and create television and movies based off games offers high growth opportunity to the firm. Unlike Disney, Netflix is adding games to its platform. We believe this could contribute to Netflix being a one-stop-shop for entertainment down the road.

The M&A Activity in streaming is important to track as the next iteration of companies takes place. The industry is at an inflection point, and firms with declining linear assets are at risk of being left behind by competitors. We believe Netflix and Disney are suited well to survive M&A Activity in their current states, while Comcast, Warner Bros. Discovery, and Paramount are all ripe for mergers and acquisitions. The primary reason is that these firms do not have the content library or tech they need to turn their streaming services into profitable standalone ventures.

INDUSTRY TRENDS

The *Suits* Phenomenon

While original content slowed during the strikes over the past year, *Suits* dominated streaming as the number one television show. The power of Netflix was on full display, as an old show (originally aired in 2011) from the USA network became the number one hit in America in 2023. Because Netflix has such a large user base, their platform is a machine for creating hits[6]. The success of *Suits* on Netflix has led other streamers to license their old hits to Netflix, such as *Ballers* and *Six Feet Under* from Warner Bros. Discovery. This establishes Netflix as a clear leader in the streaming space. After the rush to compete with Netflix, traditional media companies are crawling back asking for help. Netflix is positioned extremely well given the viral nature of their platform. Despite other competitors having older TV content, Netflix is uniquely positioned to utilize old content. The firm's top ten lists, and algorithmic recommendations serve as a hit-making machine that other firms do not have. Many consumers log on to Netflix without an idea of they watch, while they go to other platforms for specific titles only.

Global Growth

The global expansion of streaming services, exemplified by the success of shows like "Squid Game," shows a shift in consumer preference and allows US services to grow worldwide. "Squid Game" also showed how US consumers

are interested in foreign content. This opens synergies across Netflix's four segments as the firm is producing large amounts of international content. By 2028, the worldwide penetration rate of over-the-top video is projected to grow to approximately 55%, which is about 10% higher than current levels. With most growth for streaming subscriptions coming internationally, there is a huge opportunity to make diverse content that will garner foreign customers. Services with global audiences and brands such as Netflix and Disney are positioned best to distribute streaming globally.

Gaming

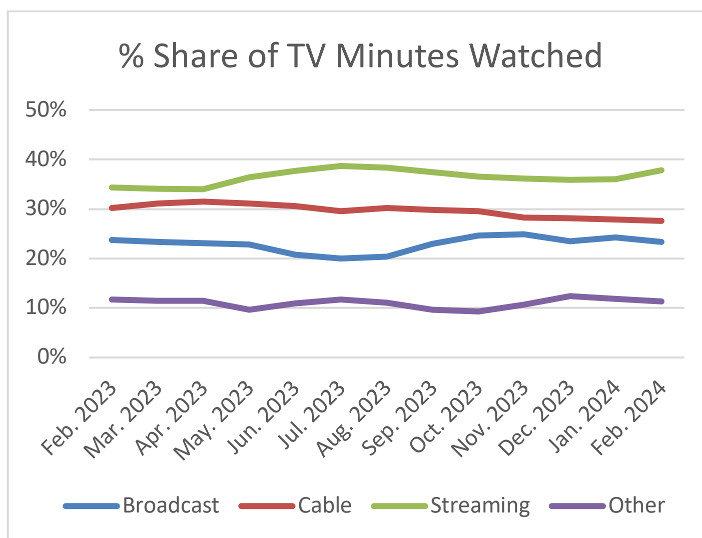
Netflix and Disney are at the forefront of incorporating video games into their streaming offerings. Netflix has added many popular games to their mobile app, indicating that they are serious about making their platform a hub for all-things entertainment. Disney has also pursued gaming with their recent equity purchase in Epic Games. Both developments are positive outcomes for each company as they diversify their offerings and add new sources of income with high growth potential. Netflix's gaming efforts are not enough to change its financial outlook yet, but we believe their initiative shows strong forward outlook from management[20]. The firm has yet to report any substantial data on its gaming data.

Short-Form Video

Eyeballs may be taken away from highly produced content on streaming services as younger generations flock to social media to spend their time. In particular, the growth of Tik Tok and Instagram Reels is concerning for media companies who are competing for attention. In 2019, Tik Tok had approximately 650 million subscribers, which has grown to around two billion in five years. Given the addictive nature of short-form video, consumers may be quicker to ditch streaming services in favor of social media if disposable income levels lower. We hold the opinion that short-form video can play well with streaming services, however. Apps like Tik Tok can generate buzz for titles coming from streamers and be used as a promotional tool. Due to Netflix's maturity in its UCAN segment, Tik Tok is a competitor of the firm for attention. We believe Netflix has a very strong grasp on the streaming market, which should prevent Tik Tok from contributing to Netflix churn.

Minutes Watched

In an industry driven by attention, minutes watched play a crucial role in subscriber retention. The longer a service can hold a subscriber's attention, the less likely that customer is to churn. According to Nielsen, streaming takes up approximately 37.7% of TV viewing. Cable and broadcast TV take up a little over 50% of minutes watched, showing they still have some economic value despite being in decline. The larger trends at hand are streaming's share increasing while linear declines, but the chart below shows there is some seasonality to TV viewing. Cable and broadcast took a dip in the summer months, when there are less live sports, while streaming hit its peak for 2023 in July. Netflix pursuing live sports will help round out the edges to its programming schedule.



Source: Nielsen

MARKETS AND COMPETITION

Streaming Subscriptions

Netflix is a leader in this category. It displays the company's dominance. Not only are they the largest streaming service, but they are also the only company to see a dime of profit on one. This gives them massive scale and the ability to dictate market outcomes. Netflix's ad tier generated one of their best quarters of growth ever in 4Q, 2023, and Paramount+ and Peacock both appear to lack the growth prospects to catch up to the pack.

Streaming Service	FY23 Total Subscribers (M)
Netflix	**260**
Prime Video (Amazon)	230*
Disney+	150
Max	98
Paramount+	67.5
Hulu (Disney)	48.5
Peacock (Comcast)	31
Apple TV+	25*
YouTube TV	8

Source: Company Financial Statements; estimation*

Major Players

To examine the companies that make up the streaming industry, they easily divide into three major categories: large tech firms who are in streaming as a side hustle, leading streamers, and lagging streamers. Each firm has varying pricing plans and motivations to be in the industry.

Streaming Service	U.S. Standard Plan Monthly Cost (ex-ads)
Netflix	**$15.49**
Prime Video (Amazon)	$12
Disney+	$13.99
Max	$15.99
Paramount+	$11.99
Hulu (Disney)	$17.99
Peacock (Comcast)	$11.99
Apple TV+	$9.99
YouTube TV	$72.99

Source: Company Websites

Large Tech Firms:

Free Cash Flow (in $ billions)	
Apple	106.87
Google	69.50
Amazon	32.22

Source: FactSet

All three of the major tech firms that are involved in streaming are positioned well to be leaders in the consolidation of the streaming industry. The future of each company is not reliant on streaming which adds an interesting element to the industry since they are the most equipped with cash.

Apple (AAPL):

Apple, one of the largest companies in the world, introduced their streaming service in late 2019, and it has mostly been for high-end content and promoting the Apple brand. In an ideal world, Apple's goal would likely be to replicate the business they had with the iTunes store with streaming. Given their penetration of the US smartphone and device market, they are a very strong candidate to seamlessly integrate a hub for streaming.

Google (GOOGL):

Google is a unique case given their business with YouTube. They created the most popular streaming broadcast TV platform in YouTube TV[1] and have a constant pipeline of advertisable content on YouTube. In the past year, they acquired the rights to Sunday Ticket, which proved to be a boon for the company. Google, like Apple, has a large user base and would be able to host a central streaming bundle under the YouTube umbrella. Google's streaming ventures are set up well through YouTube alone, as its customers generate its monetized content.

Amazon (AMZN):

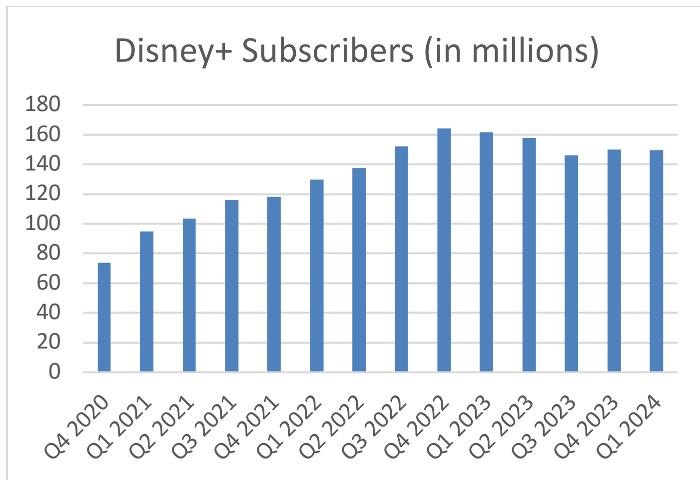
Prime Video has a large subscription base through Amazon Prime subscribers. Most subscribers to Prime Video are focused on free shipping and buying household goods. Amazon pivoted to have all subscribers receive ads and made a premium tier worth an extra three dollars. We anticipate the ad revenue to generate more cash for Amazon since a low percentage of customers are projected to pay up for the more expensive tier[1]. Amazon has also dipped into live sports with Thursday Night Football and is a strong contender to be the originator of a future streaming bundle. They already offer some other services such as Max and Paramount+ as add-ons to Prime Video, which is a sign that they hope to bundle streaming subscriptions.

Leading Streamers

Disney (DIS):

Disney is the most notorious and well-known media company. Their entertainment, sports, and experiences create a well-rounded brand that is hard for consumers to

avoid. After mismanagement under Bob Chapek, Bob Iger returned as CEO to get things in order. We are just now seeing developments of his second tenure as CEO come through. We expect subscriber growth to stop stagnating and to increase due to new projects spearheaded from Iger. Disney's strong brand and large streaming footprint through Disney+ and Hulu set the firm up better than other competitors who also have declining linear assets.

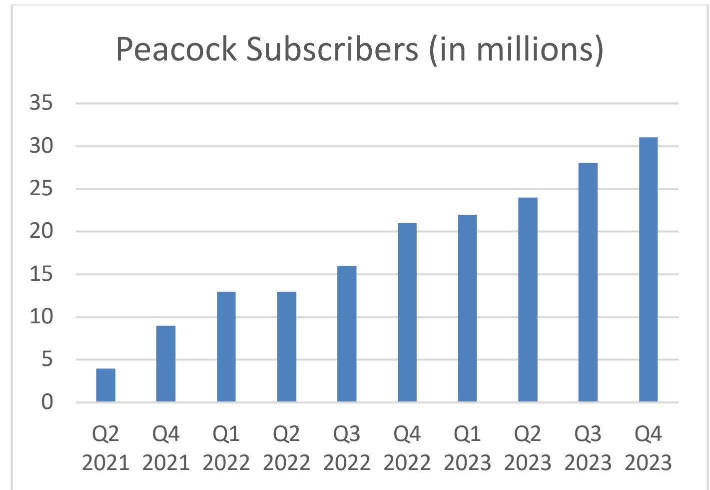


Source: Statista

Lagging Streamers

Comcast (CMCSA):

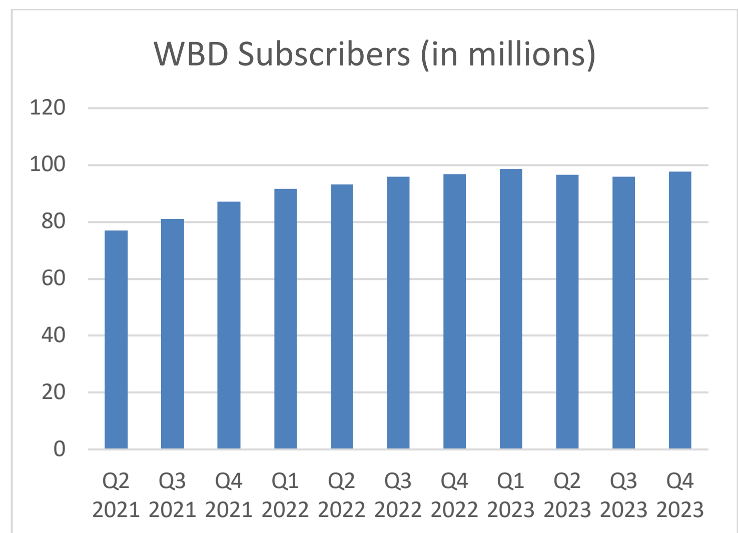
Comcast has utilized Peacock to stream its content library but has not been able to turn a profit on it yet despite subscriber growth. The company recently aired the first ever exclusively streamed NFL playoff game, which set streaming records but still lagged linear TV the prior year in the same window[7]. Peacock struggles with churn, as consumers come in for sports and then leave when seasons end. Their content library leaves a little to be desired, and they seem to typically be a step behind. For example, they licensed out *Suits* to Netflix last year which was a huge success for their competitor. Comcast has spent large amounts on Peacock, and despite growth in subscribers, they lost more money in 2023 than 2022. It appears unlikely they will be able to garner they scale they need to make the service profitable. For Comcast to become an appealing investment, the Peacock experiment would need to end.



Source: *Statista*

Warner Bros. Discovery (WBD):

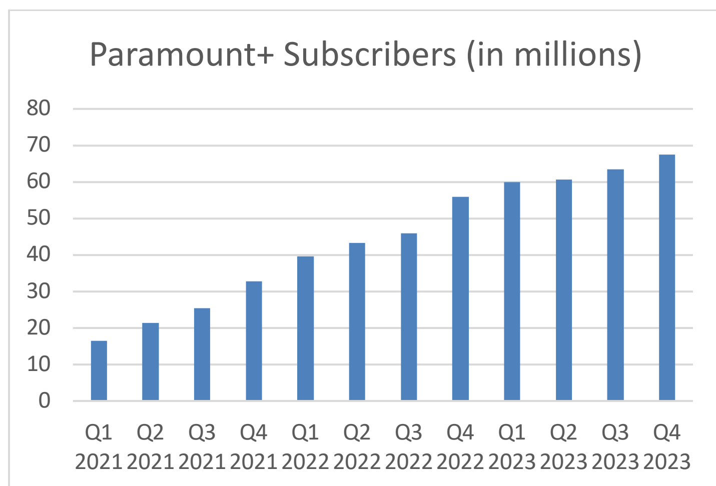
Warner Bros. Discovery has undergone major change in the past year. They rebranded their streaming service from HBO Max to Max and have taken aggressive tactics to get rid of their large debt amount. These include cutting already finished new movies for tax rebates and licensing content to Netflix[1]. The company seemingly will struggle to pay for expensive NBA rights coming out in the next year, but their new sports streaming service with Fox and Disney has the potential to remedy that. In upcoming months, WBD will be allowed to merge or acquire again, which is where we anticipate the company is headed. It is hard to envision an outcome where they become the destination streaming service for general content. Netflix beat them to the punch there.



Source: *Statista*

Paramount (PARA):

Paramount has lost a considerable amount of market cap over the past year. With the company up for sale, it may be the first domino in several M&A moves to reconstruct the streaming industry. They are skating by on the NFL and college football and are too weak to support their own streaming service. The firm has struggled to adapt to the streaming landscape and has taken large losses on its streaming service. The combination of personal dynamics with the Redstone family, a shift away from legacy media, and a risk of bankruptcy has put a major dent into the prospects of Paramount as a standalone company. What happens with the sale and how many parties are involved will be something to watch over the coming months. We believe the deal with David Ellison and Skydance Media is the odds-on favorite, however, we would not be surprised if shareholders make a push for a large private equity firm.



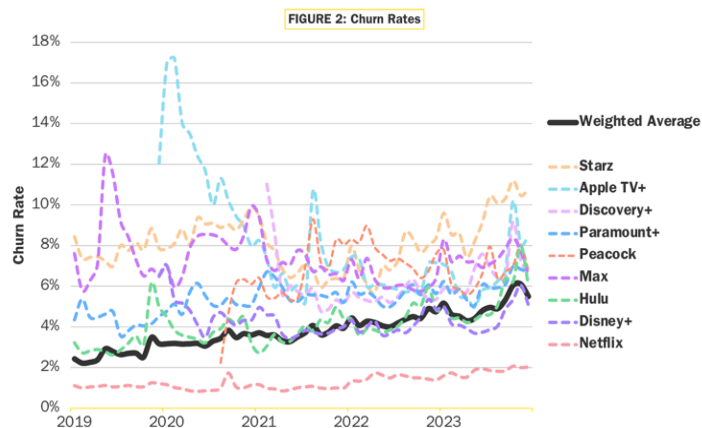
Source: *Statista*

Structure and Stability

The streaming industry is hyper-competitive and shaped by consumer preferences and the evolving maturity of media companies shifting from traditional TV to streaming. The firms are nowhere near an equilibrium state, as they are all adapting to the marketplace and figuring out whether they will be able to compete or not. A main issue is many services try to be a one-stop-shop and general content hub but don't have the audience to compete with Netflix and Disney. In the next couple of years, it is highly likely that there will be movement to create a more sustainable sector and traditional media companies are likely to lose out and sell their parts to Disney, a tech company, or merge together. Firms that are a most likely to see M&A activity are Warner Bros. Discovery and Paramount.

Risk of Substitution

The risk of substitution in the streaming industry revolves around the potential for customers to switch services or to shift to alternative forms of entertainment such as short-form video or gaming. Because the market is too saturated with streaming services, subscriber churn is high. This heightens the competition between competitors and ultimately has created a clear hierarchy of who the best companies are moving forward. Netflix is at the top of that list, who has a 2% monthly churn rate, which is much lower than competitors. We believe the primary reason for this is due to its first-mover advantage.



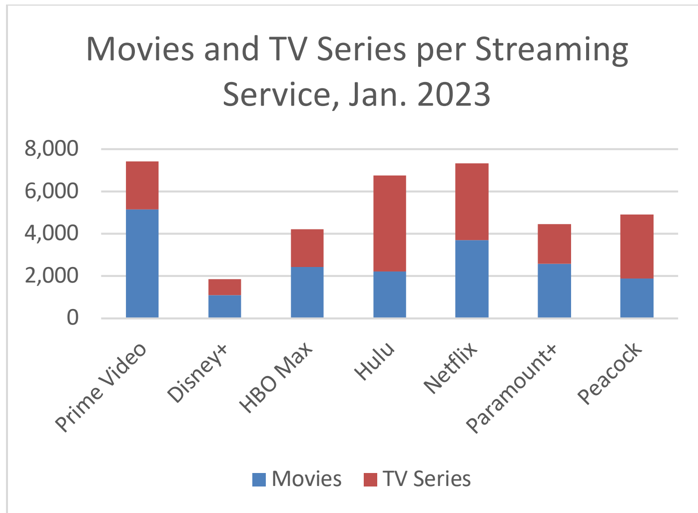
Source: Antenna

Threat of New Entrants

There are significant barriers to entry to get into the streaming industry. You either need a ton of cash and a high amount of consumers (see tech companies) or have massive amounts of content. All the potential players in the streaming industry have entered the arena, and now we are approaching the point where only the top companies will survive.

Peer Comparisons

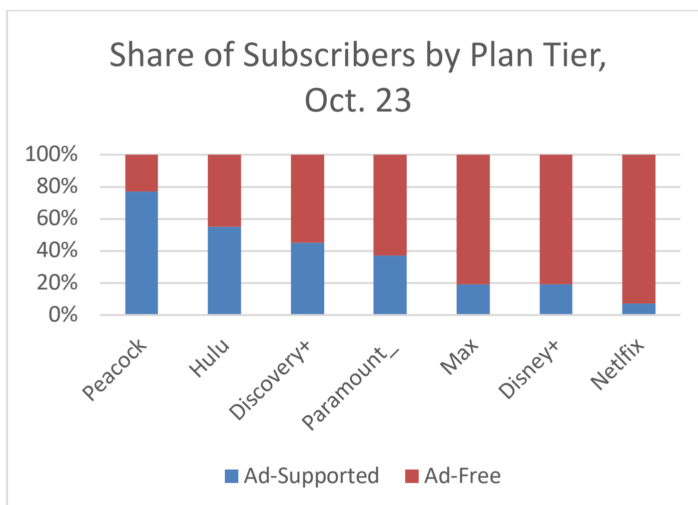
Titles per Streamer



Source: Statista

Each streaming service has a unique makeup of movies and TV series on its platform. Netflix has an almost even split, with 51% of their content in movies. Amazon Prime Video has the highest percentage of movies with 69% invested, compared to 31% in TV series on their platform. The only two services with more television than movies are Hulu and Peacock. Hulu was built up as a television service, and Peacock has a stable of content from NBC. We believe Netflix's near even split contributes to its generalist nature. Consumers utilize Netflix for all things entertainment.

Advertising Share of Subscribers

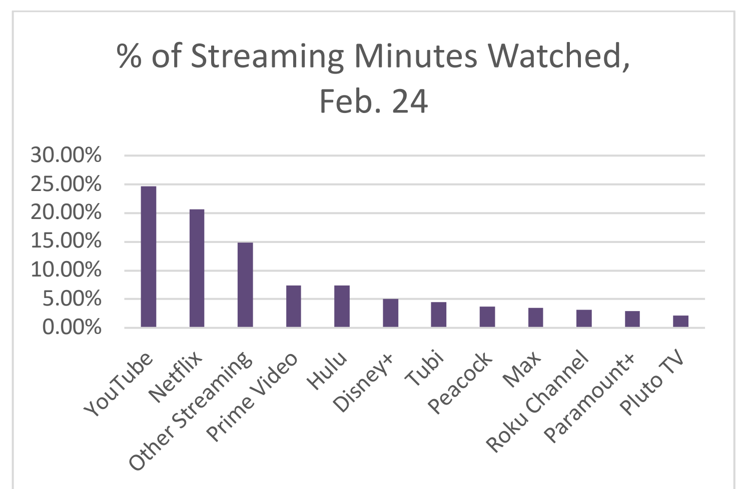


Source: Antenna

Netflix's ad-supported tier takes up a much lower percentage of its subscriber base than its competitors. The main reason for that is because its ad-supported tier is relatively new. We believe that the share of subscribers purchasing Netflix's ad-supported tier will rise but remain below most competitors. This is due to consumer preference, and subscribers being trained to the idea of having Netflix without ads. Netflix's share of advertising subscribers should rise to a level between where it is now and where Max and Disney+ currently stand. On the other end of the spectrum, Peacock and Hulu have more ad-supported subscribers than ad-free. We believe Hulu will shift to have more ad-free than not once it is merged on to Disney+, but Peacock's ad-supported rate should remain high due to many subscribers buying the cheaper tier as it is a secondary service to most consumers.

Minutes Spent Watching

The power of Netflix is on full display in the chart below. It was easily the best performing streaming service in 2023. Netflix's domination of streaming bodes well for its future, as it has captured mainstream notoriety, while historic Hollywood studios are fighting at the bottom for attention. In the chart below, the market share of each streaming service is on display. Streaming makes up 37.7% of TV market share.



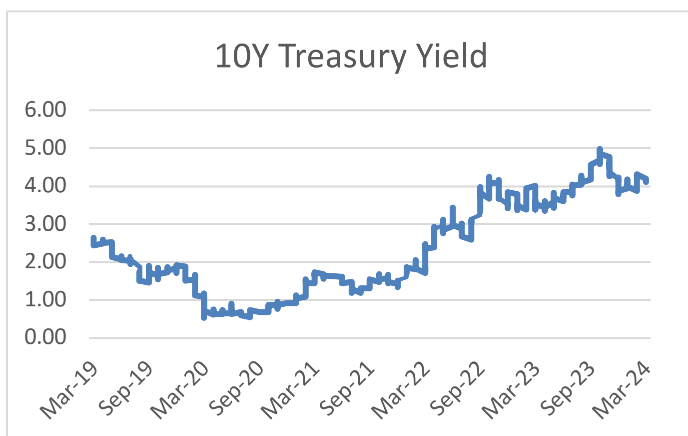
Source: Nielsen

ECONOMIC OUTLOOK

Interest Rates

Interest rates are a significant factor for streaming services, particularly in terms of content production. In previous years, zero-interest-rate policy allowed for a

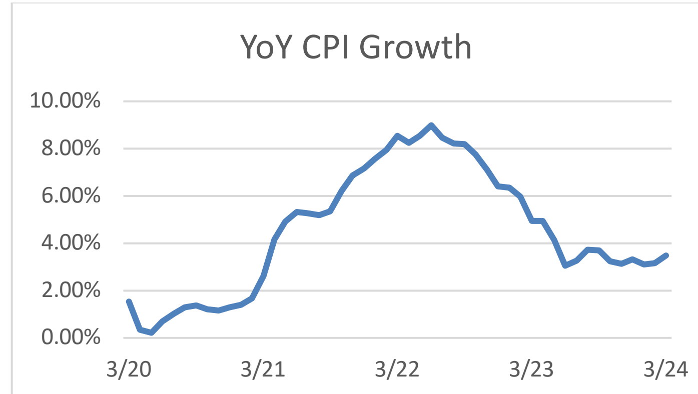
boom in original programming. As streaming services were building out, it was easier for companies to get projects off the ground while cash was cheap. With the recent rise in interest rates, and Fed Chairman Jerome Powell saying he expects rates to stay higher for longer[13], original content is bound to slow down in the short-term for firms like Netflix who fund content production with debt. We believe this will expand upon the trend of licensing content between streamers. This gets fresh content onto platforms while not having the high costs of producing new content. This is beneficial to Netflix in particular, who has seen licensed old content from other studios become viral on its platform. In the long-term however, we expect the yield curve to normalize and for content to become cheaper to produce.



Source: Federal Reserve Economic Data (FRED)

CPI Inflation

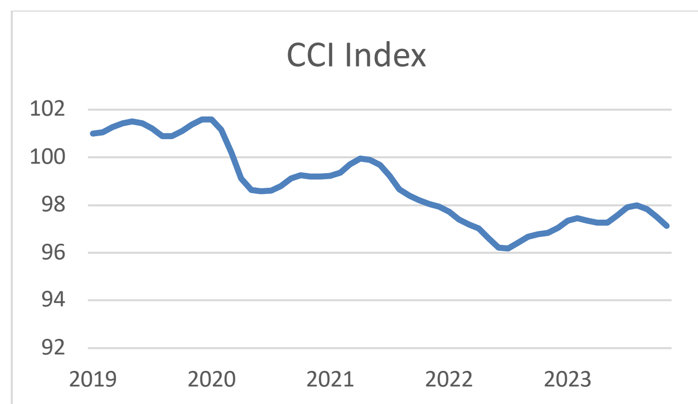
Inflation impacts streamers from multiple perspectives. As living expenses rise, streamers face increased costs of production and licensing content, and may have to hike the subscription price of their service. That in turn affects consumers, who may be quicker to cancel their subscriptions with higher costs. Inflation may lower discretionary spending as consumers pivot to spend more on important goods than luxury media and entertainment. For firms besides Netflix, inflationary pressures have likely contributed to high churn rates in recent years. The firm has seen the cost of original content production rise through inflation, so it has leaned on old content. We believe inflation will slow, which should create a better environment for producing content and retaining subscribers for Netflix.



Source: Federal Reserve Economic Data (FRED)

Consumer Confidence

Consumer Confidence plays a crucial role in shaping the landscape for firms with streaming services. High levels of consumer confidence correlate with high levels of disposable income. As a non-essential good, streaming services rely on a consumer-friendly economy to perform well. Consumer confidence is still attempting to reach pre-pandemic highs but has grown 17% over the past year. If the Fed pulls off a soft-landing, it is our belief that Netflix will be set up well to continue growth with consumer confidence on the rise.

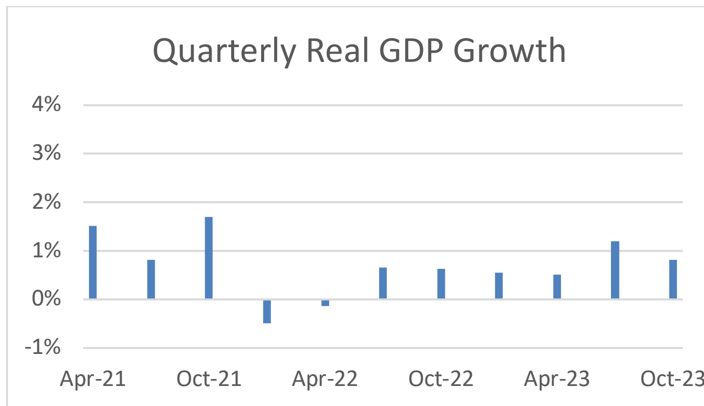


Source: OECD

Real GDP

Real GDP is an important economic component for streaming services. As a key indicator of economic health, changes in real GDP can influence consumer spending habits. When Real GDP continues to grow, consumers are more likely to spend disposable income on experiences and entertainment, including streaming services. Aside from a dip due to Covid-19 in the spring of 2020, Real GDP has grown consistently over the past five years. Our team expects this level of growth to continue, which would be a

beneficial development for Netflix as the industry heads towards consolidation and competition heats up.



Source: Federal Reserve Economic Data (FRED)

VALUATION

Revenue Growth:

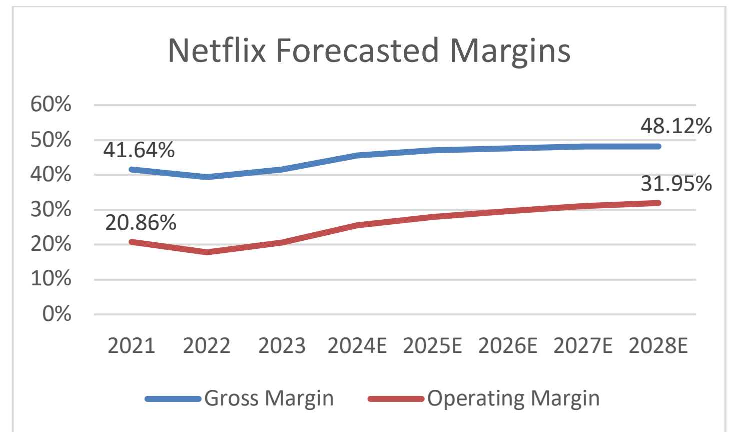
We project revenue to grow 14.57% in 2024, which is the highest projected growth of the forecasted period. We forecasted revenues to be consistent with consensus. This is due to fallout from Netflix's introduction of an advertising plan, and the crackdown on passwords continuing. We project overall revenue growth to slow but remain high through its terminal year of 2028 (7.68%) due to multiple factors. Netflix's growth will come from emerging markets such as Asia and Latin America. We believe the firm's subscription total in its UCAN segment will reach maturity, but the other three segments will still be growing significantly in 2028.

Operating Expenses:

Netflix is unique in that most of their cost of revenues comes from rapid content amortization. The firm amortizes titles for a useful life somewhere between three to five years. We project the firm to amortize its content as a percentage of its content assets at an increasing rate. We also project the operating expense categories of marketing, technology & development, and general & administrative stay on trend and decrease over the forecasted period. We believe Netflix will spend less in these categories as they become more established in new markets and the costs of production drop from current inflated levels.

Profit Margin Forecasts:

We forecast Netflix to improve their profit margins over the next five years. This is primarily due to operating expenses dropping at the same time they will be seeing massive growth in emerging markets and a bounce in its subscribers in its UCAN segment due to new plans.



Source: Netflix Financial Statements, HF Estimates

Earnings Estimates Relative to Consensus:

We expect Netflix to out earn its consensus EPS estimates. The largest reason for this is due to lower cost projections than Wall Street estimates. We believe Netflix's costs will follow a slower growth rate than estimates due to less money being spent on customer acquisition in the UCAN segment and less originally produced content in the short-term.

Year	2021	2022	2023	2024E	2025E	2026E
EPS	$11.55	$10.10	$12.25	$17.19	$21.24	$25.39
HF est.				$18.23	$23.15	$27.61
Growth	*84.5%*	*-12.6%*	*21.3%*	*40.3%*	*23.6%*	*19.5%*

Content CapEx Assumptions:

We believe Netflix's will increases its content assets significantly, as it puts cash to work from its strong FY23 earnings. Over the course of the forecasted period, we anticipate Netflix growing its content spend from $16.6b in 2024 to $23b in 2028. Netflix's high projected cash flows will give the firm more money to spend on content. We believe this will provide strong opportunity for the firm to chase live sports media rights, which typically are sold at a premium.

Capital Structure:

We anticipate Netflix to utilize its high free cash flow projections to repurchase shares. The firm completed $6b

in buybacks in 2024, and we anticipate this trend to continue. We project the firm's share repurchase to grow at a CAGR of 15.3%, as it will position the firm to have strong EPS and they do not have M&A activity or massive new business lines on the horizon.

Payout Policy Forecasts

The firm does not pay out dividends and we believe management's guidance that they will not begin soon.

Valuation Models:

DCF/EP:

Our DCF and Economic profit model yielded a value of $699 per share, the highest of our three models. Key drivers of our DCF projection include a 7.5% CV Growth of NOPLAT, our estimated WACC of 10.45%, and our Bloomberg Raw Beta 5Y average of 1.30. We believe the 7.5% growth in the terminal year is justified because Netflix will still be seeing significant subscriber growth in emerging markets, and this number is in line with nominal GDP growth in many of these markets. We believe the DCF is a better suited match for Netflix than other models because it has never paid a dividend and relative valuation models don't give an accurate picture of Netflix's true value given poor performance of competitors.

DDM:

We do not place much weight on this model due to Netflix's lack of a dividend. However, we project Netflix to have a price of $629 through our DDM model. Key drivers include a 7.5% growth rate and a 50.5% ROE in the CV year.

Relative Valuation:

Our P/E relative value based on EPS24 projects a price of $387. This is due to low P/E ratios from traditional media competitors who have lower stock valuations due to the unsure future of each company. We believe Netflix is deserving of a higher multiple relative to competitors due to its unmatched success in streaming and growth internationally.

Sensitivity Analysis:

		CV Growth of NOPLAT						
	699.37	6.75%	7.00%	7.25%	7.50%	7.75%	8.00%	8.25%
WACC	9.79%	738.38	796.36	865.76	950.31	1,055.58	1,190.26	1,368.66
	10.04%	676.92	725.17	782.07	850.17	933.14	1,036.45	1,168.61
	10.29%	624.16	664.82	712.16	767.99	834.82	916.23	1,017.59
	10.54%	578.36	612.99	652.88	699.34	754.12	819.68	899.56
	10.79%	538.24	568.01	601.99	641.12	686.70	740.44	804.76
	11.04%	502.80	528.61	557.81	591.14	629.53	674.24	726.96
	11.29%	471.28	493.80	519.11	547.75	580.45	618.11	661.96

The CV Growth of NOPLAT has the largest effect on our DCF's share value. We believe that the rate is justified due to emerging market growth. We strongly believe in our WACC of 10.54%, as just a 25bps dip would have a projected stock price that is too far ahead of where we anticipate Netflix growing to.

KEYS TO MONITOR

As Netflix enters 2024, we will keep our eyes on subscriber growth, the performance of its new advertising tier, and its experimentation with sports.

Key Drivers:

We believe an important next step for Netflix is establishing consistent audiences through live sports. The firm's airing of the Jake Paul vs. Mike Tyson fight will be an important step for Netflix to learn more about managing streaming technology for live events. We also anticipate the firm to continue high subscriber growth in Asia and other emerging markets. If Netflix can create a worldwide hit like *Squid Game* again, we believe subscriber growth will beat consensus.

Key Risks:

The main risk with Netflix is the lack of diverse revenue streams. Unlike Disney, Netflix does not have theme parks or major merchandise lines to lean on if streaming struggles. Despite this, Netflix boasts the best churn rates in the streaming industry and is likely seen as more of a necessity to consumers than discretionary spending. For this reason, our team is bullish on Netflix's ability to weather a recession. An economic slowdown would hurt growth, but we anticipate Netflix to perform well. If Netflix did not enter the live sports space within the forecasted period, we would reconsider our buy rating due to a lack of aspiration to become the number one stop in daily entertainment.

Conclusion:

In conclusion, we utilized our DCF model to arrive at our target price of $667. We believe strong growth in new markets, as well as lower costs will contribute to Netflix having high revenue gains in our forecasted period. Our earnings estimates beat consensus due to these factors. We believe the stock has high upside and give it a **buy** rating.

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16. Business Insider
17. Box Office Mojo
18. New York Times
19. Variety
20. The Verge
21. Antenna
22. Economic Times
23. Variety

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Netflix
Revenue Decomposition
in millions, aside from ARPU

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
United States and Canada (UCAN)								
Revenues	12,972	14,085	14,874	16,916	18,464	19,725	21,332	22,390
growth	13.24%	8.58%	5.60%	13.73%	9.15%	6.83%	8.15%	4.96%
Paid net membership additions	1.28	(0.92)	5.83	3.24	3.21	1.45	0.75	0.89
growth	-79.61%	-171.85%	734.60%	-44.44%	-1.02%	-54.87%	-48.52%	19.12%
Paid memberships at end of period	75.22	74.30	80.13	83.37	86.58	88.02	88.77	89.66
growth	1.73%	-1.22%	7.85%	4.04%	3.85%	1.67%	0.85%	1.00%
Average paying memberships	74.23	74.00	76.13	81.75	84.97	87.30	88.40	89.21
growth	3.55%	-0.31%	2.87%	7.39%	3.94%	2.74%	1.26%	0.92%
UCAN Monthly ARPU	14.56	15.86	16.28	17.24	18.11	18.83	20.11	20.91
growth	9.31%	8.93%	2.65%	5.92%	5.01%	3.98%	6.80%	4.00%
Europe, Middle East, and Africa (EMEA)								
Revenues	9,700	9,745	10,556	12,355	13,907	15,410	16,878	18,498
growth	24.80%	0.47%	8.33%	17.04%	12.56%	10.81%	9.52%	9.60%
Paid net membership additions	7.34	2.69	12.08	6.38	6.03	4.72	3.96	5.49
growth	-50.82%	-63.30%	348.72%	-47.19%	-5.48%	-21.80%	-16.15%	38.94%
Paid memberships at end of period	74.04	76.73	88.81	95.19	101.23	105.94	109.90	115.39
growth	11.00%	3.64%	15.75%	7.19%	6.34%	4.66%	3.73%	5.00%
Average paying memberships	69.52	73.90	80.93	92.00	98.21	103.59	107.92	112.65
growth	15.05%	6.31%	9.50%	13.69%	6.75%	5.47%	4.19%	4.38%
EMEA Monthly ARPU	11.63	10.99	10.87	11.19	11.80	12.40	13.03	13.68
growth	8.49%	-5.50%	-1.09%	2.95%	5.44%	5.06%	5.12%	5.00%
Latin America (LATAM)								
Revenues	3,577	4,070	4,446	4,979	5,623	6,103	6,610	7,017
growth	13.31%	13.78%	9.25%	11.97%	12.95%	8.53%	8.30%	6.16%
Paid net membership additions	2.42	1.75	4.30	3.31	3.76	2.84	1.75	2.88
growth	-60.39%	-27.89%	145.88%	-22.92%	13.49%	-24.47%	-38.49%	65.04%
Paid memberships at end of period	39.96	41.70	46.00	49.31	53.07	55.91	57.66	60.54
growth	6.46%	4.35%	10.31%	7.20%	7.63%	5.35%	3.12%	5.00%
Average paying memberships	38.57	40.00	42.80	47.65	51.19	54.49	56.78	59.10
growth	9.28%	3.70%	7.01%	11.33%	7.42%	6.45%	4.21%	4.08%
LATAM Monthly ARPU	7.73	8.48	8.66	8.71	9.15	9.33	9.70	9.89
growth	3.76%	9.70%	2.12%	0.53%	5.15%	1.96%	3.92%	2.00%
Asia Pacific (APAC)								
Revenues	3,267	3,570	3,764	4,387	5,079	5,797	6,455	7,311
growth	37.70%	9.29%	5.42%	16.56%	15.78%	14.14%	11.35%	13.25%
Paid net membership additions	7.14	5.39	7.32	5.63	6.66	5.92	8.45	5.76
growth	-22.89%	-24.50%	35.69%	-23.07%	18.42%	-11.17%	42.79%	-31.85%
Paid memberships at end of period	32.63	38.02	45.34	50.97	57.63	63.55	72.00	77.76
growth	28.01%	16.52%	19.24%	12.41%	13.07%	10.27%	13.30%	8.00%
Average paying memberships	28.46	35.02	41.03	48.15	54.30	60.59	67.77	74.88
growth	31.31%	23.04%	17.17%	17.35%	12.76%	11.59%	11.86%	10.48%
APAC Monthly ARPU	9.56	8.50	7.64	7.59	7.80	7.97	7.94	8.14
growth	4.82%	-11.09%	-10.12%	-0.62%	2.68%	2.29%	-0.45%	2.50%
ALL REGIONS (TOTAL)								
DVD Revenue	182	146	83	-	-	-	-	-
growth	-23.83%	-20.10%	-43.14%	-100.00%	-	-	-	-
Streaming Revenue	29,515	31,470	33,640	38,637	43,074	47,036	51,275	55,215
growth	19.22%	6.62%	6.90%	14.85%	11.48%	9.20%	9.01%	7.68%
Total Revenue	**29,698**	**31,616**	**33,723**	**38,637**	**43,074**	**47,036**	**51,275**	**55,215**
growth	18.81%	6.46%	6.67%	14.57%	11.48%	9.20%	9.01%	7.68%
Paid net membership additions	18.18	8.91	29.53	18.56	19.66	14.92	14.90	15.03
growth	-50.29%	-50.98%	231.30%	-37.14%	5.93%	-24.10%	-0.17%	0.85%
Paid memberships at end of period	221.8	230.7	260.3	278.8	298.5	313.4	328.3	343.4
growth	8.93%	4.01%	12.80%	7.13%	7.05%	5.00%	4.75%	4.58%
Average paying memberships	210.8	222.9	240.9	269.6	288.7	306.0	320.9	335.8
growth	11.48%	5.76%	8.06%	11.90%	7.09%	5.99%	4.87%	4.66%
Netflix Monthly ARPU	11.67	11.76	11.64	11.94	12.43	12.81	13.32	13.70
growth	6.95%	0.82%	-1.07%	2.64%	4.10%	3.03%	3.95%	2.89%

Netflix

Income Statement

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Revenues	29,698	31,616	33,723	38,637	43,074	47,036	51,275	55,215
Costs:								
Amortization of content assets	12,230	14,026	14,197	14,831	15,991	17,279	18,710	20,302
Other cost of revenues	5,102	5,142	5,518	6,225	6,833	7,343	7,877	8,344
Cost of revenues	17,333	19,168	19,715	21,056	22,824	24,623	26,587	28,646
Marketing	2,545	2,531	2,658	2,949	3,179	3,354	3,528	3,662
Technology & development	2,274	2,711	2,676	2,872	2,987	3,027	3,043	3,001
General & administrative	1,352	1,573	1,720	1,894	2,025	2,117	2,205	2,264
Operating income (loss)	**6,195**	**5,633**	**6,954**	**9,866**	**12,059**	**13,915**	**15,911**	**17,642**
Other income (expense):								
Interest expense	766	706	700	752	714	683	649	650
Interest & other income (expense)	411	337	(49)	22	22	23	24	26
Income (loss) before income taxes	5,840	5,264	6,205	**9,136**	**11,367**	**13,256**	**15,286**	**17,017**
Provision for (benefit from) income taxes	(724)	(772)	(797)	(1,320)	(1,642)	(1,915)	(2,208)	(2,458)
Net income (loss)	**5,116**	**4,492**	**5,408**	**7,816**	**9,725**	**11,341**	**13,078**	**14,559**
Weighted average shares outstanding - basic	443	445	442	429	420	411	401	391
Year end shares outstanding	444	445	433	425	415	406	396	386
Net earnings (loss) per share - basic	11.55	10.10	12.25	18.23	23.15	27.61	32.61	37.21

Netflix

Balance Sheet

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
ASSETS								
Current Assets:								
Cash & cash equivalents	6,028	5,147	7,117	6,420	6,054	5,658	6,186	6,231
Short-term investments	-	911	21	22	23	24	26	27
Current content assets, net	-	-	-	-	-	-	-	-
Other current assets	2,042	3,208	2,780	2,921	3,069	3,224	3,387	3,559
Total current assets	8,070	9,266	9,918	9,363	9,146	8,907	9,599	9,816
Content assets, net	30,920	32,737	31,658	33,598	35,740	38,109	40,730	43,633
Property & equipment, net	1,323	1,398	1,491	1,540	1,597	1,661	1,732	1,809
Other non-current assets	4,272	5,193	5,664	5,951	6,252	6,568	6,901	7,250
Total assets	**44,585**	**48,595**	**48,732**	**50,452**	**52,736**	**55,245**	**58,961**	**62,508**
LIABILITIES AND EQUITY								
Current liabilities:								
Current content liabilities	4,293	4,480	4,466	4,656	4,864	5,091	5,339	5,610
Accounts payable	837	672	747	856	955	1,042	1,136	1,224
Accrued expenses & other liabilities	1,449	1,515	1,804	2,067	2,304	2,516	2,743	2,954
Deferred revenue	1,209	1,265	1,443	1,653	1,843	2,013	2,194	2,363
Short-term debt	700	-	400	-	-	-	-	-
Total current liabilities	8,489	7,931	8,861	9,232	9,966	10,662	11,412	12,150
Non-current content liabilities	3,094	3,081	2,578	2,652	2,732	2,818	2,910	3,008
Long-term debt	14,693	14,353	14,143	13,800	13,201	12,553	12,569	12,069
Other non-current liabilities	2,459	2,452	2,561	2,691	2,827	2,970	3,121	3,278
Total liabilities	**28,735**	**27,817**	**28,144**	**28,376**	**28,726**	**29,003**	**30,011**	**30,506**
Stockholders' equity:								
Common stock	4,025	4,638	5,145	6,135	7,125	8,114	9,104	10,094
Treasury stock at cost	(824)	(824)	(6,922)	(14,240)	(23,021)	(33,119)	(44,480)	(56,976)
Accumulated other comprehensive income (loss)	(40)	(217)	(224)	(224)	(224)	(224)	(224)	(224)
Retained earnings (accumulated deficit)	12,689	17,181	22,589	30,405	40,130	51,471	64,549	79,108
Total stockholders' equity (deficiency)	15,849	20,777	20,588	22,077	24,010	26,243	28,950	32,002
Total liabilities and stockholders' equity	**44,585**	**48,595**	**48,732**	**50,452**	**52,736**	**55,245**	**58,961**	**62,508**

Netflix

Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2021	2022	2023
Cash flows from operating activities:			
Net income (loss)	5,116	4,492	5,408
Adjustments to reconcile net income to net cash provided by operating activities:			
Additions to content assets	(17,702)	(16,839)	(12,555)
Change in streaming content liabilities	233	179	(586)
Amortization of content assets	12,230	14,026	14,197
Amortization of DVD content library	-	-	-
Amortization of DVD content assets	-	-	-
Depreciation & amortization of property, equipment & intangibles	208	337	357
Stock-based compensation expense	403	575	339
Excess tax benefits from stock-based compensation	-	-	-
Other non-cash items	377	534	512
Foreign currency remeasurement loss (gain) on debt	(431)	(353)	176
Deferred income taxes	200	(167)	(459)
Other current assets	(370)	(354)	(181)
Accounts payable	145	(159)	94
Accrued expenses	180	(56)	104
Deferred revenue	91	27	179
Other non-current assets & liabilities	(289)	(218)	(311)
Net cash flows from operating activities	**393**	**2,026**	**7,274**
Cash flows from investing activities:			
Purchases of property & equipment	(525)	(408)	(349)
Acquisition of DVD content library	-	-	-
Acquisition of DVD content assets	-	-	-
Change in other assets	(27)	-	-
Acquisitions	(788)	(757)	-
Purchases of short-term investments	-	(911)	(505)
Proceeds from sale of short-term investments	-	-	-
Proceeds from maturities of short-term investments	-	-	1,395
Net cash flows from investing activities	**(1,340)**	**(2,076)**	**542**
Proceeds from issuance of debt	-	-	-
Debt issuance costs	-	-	-
Repayments of debt	(500)	(700)	-
Proceeds from issuance of common stock	174	36	170
Repurchases of common stock	(600)	-	(6,045)
Taxes paid related to net share settlement of equity awards	(224)	-	-
Excess tax benefits from stock-based compensation	-	-	-
Principal payments of lease financing obligations	-	-	-
Other financing activities	-	-	(75)
Net cash flows from financing activities	**(1,150)**	**(664)**	**(5,951)**
Net increase (decrease) in cash, cash equivalents & restricted cash	(2,184)	(885)	1,948
Cash & cash equivalents, beginning of year	-	-	-
Cash, cash equivalents & restricted cash, beginning of year	8,239	6,055	5,171
Cash, cash equivalents & restricted cash, end of year	6,055	5,171	7,119
Income taxes paid	509	812	1,155
Interest paid	763	702	685

Netflix

Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2024E	2025E	2026E	2027E	2028E
Operating Cash Flows					
Net Income	7,816	9,725	11,341	13,078	14,559
Depreciation + Amortization	14,831	15,991	17,279	18,710	20,302
Change in Other current assets	(141)	(148)	(155)	(163)	(171)
Change in Current content liabilities	190	208	227	248	271
Change in Accounts payable	109	98	88	94	87
Change in Accrued expenses & other liabilities	263	237	212	227	211
Change in Deferred revenue	210	190	170	181	169
Net cash flows from operating activities	23,278	26,301	29,161	32,375	35,428
Investing Cash Flows:					
Content Spend	(16,770)	(18,134)	(19,648)	(21,331)	(23,205)
Change in Short-term investments	(1)	(1)	(1)	(1)	(1)
Change in Other non-current assets	(287)	(301)	(316)	(332)	(349)
Property & equipment, net	(49)	(57)	(64)	(71)	(77)
Net cash flows from investing activities	(17,107)	(18,493)	(20,029)	(21,735)	(23,632)
Financing Cash Flows:					
Change in Non-current content liabilities	74	80	86	92	98
Change in Other non-current liabilities	130	136	143	150	158
Change in Short-term debt	(400)	-	-	-	-
Change in Long-term debt	(343)	(599)	(648)	16	(500)
Change in Common stock	990	990	990	990	990
Change in Treasury stock at cost	(7,318)	(8,781)	(10,098)	(11,361)	(12,497)
Net cash flows from financing activities	(6,868)	(8,174)	(9,528)	(10,113)	(11,751)
Change in Cash	**(697)**	**(366)**	**(396)**	**528**	**45**
Beginning of Year Cash	7,117	6,420	6,054	5,658	6,186
End of Year Cash	**6,420**	**6,054**	**5,658**	**6,186**	**6,231**

Netflix

Common Size Income Statement

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Costs:								
Content cost of revenues	41.18%	44.36%	42.10%	38.38%	37.13%	36.74%	36.49%	36.77%
Other cost of revenues	17.18%	16.26%	16.36%	16.11%	15.86%	15.61%	15.36%	15.11%
Cost of revenues	58.36%	60.63%	58.46%	54.50%	52.99%	52.35%	51.85%	51.88%
Marketing	8.57%	8.00%	7.88%	7.63%	7.38%	7.13%	6.88%	6.63%
Technology & development	7.66%	8.58%	7.93%	7.43%	6.93%	6.43%	5.93%	5.43%
General & administrative	4.55%	4.98%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%
Operating income (loss)	20.86%	17.82%	20.62%	25.54%	28.00%	29.58%	31.03%	31.95%
Other income (expense):								
Interest expense	2.58%	2.23%	2.08%	1.95%	1.66%	1.45%	1.27%	1.18%
Interest & other income (expense)	1.38%	1.07%	-0.14%	0.06%	0.05%	0.05%	0.05%	0.05%
Income (loss) before income taxes	19.67%	16.65%	18.40%	23.65%	26.39%	28.18%	29.81%	30.82%
Provision for (benefit from) income taxes	-2.44%	-2.44%	-2.36%	-3.42%	-3.81%	-4.07%	-4.31%	-4.45%
Net income (loss)	**17.23%**	**14.21%**	**16.04%**	**20.23%**	**22.58%**	**24.11%**	**25.51%**	**26.37%**
Weighted average shares outstanding - basic	1.49%	1.41%	1.31%	1.11%	0.98%	0.87%	0.78%	0.71%
Year end shares outstanding	1.49%	1.41%	1.28%	1.10%	0.96%	0.86%	0.77%	0.70%
Net earnings (loss) per share - basic	0.04%	0.03%	0.04%	0.05%	0.05%	0.06%	0.06%	0.07%

Netflix

Common Size Balance Sheet (as a % of sales)

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
ASSETS								
Current Assets:								
Cash & cash equivalents	20.30%	16.28%	21.10%	16.62%	14.06%	12.03%	12.06%	11.29%
Short-term investments	0.00%	2.88%	0.06%	0.06%	0.05%	0.05%	0.05%	0.05%
Current content assets, net	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other current assets	6.88%	10.15%	8.24%	7.56%	7.12%	6.85%	6.61%	6.44%
Total current assets	27.17%	29.31%	29.41%	24.23%	21.23%	18.94%	18.72%	17.78%
Content assets, net	104.11%	103.55%	93.88%	86.96%	82.97%	81.02%	79.43%	79.02%
Property & equipment, net	4.46%	4.42%	4.42%	3.99%	3.71%	3.53%	3.38%	3.28%
Other non-current assets	14.38%	16.43%	16.80%	15.40%	14.51%	13.96%	13.46%	13.13%
Total assets	**150.13%**	**153.71%**	**144.51%**	**130.58%**	**122.43%**	**117.45%**	**114.99%**	**113.21%**
LIABILITIES AND EQUITY								
Current liabilities:								
Current content liabilities	14.46%	14.17%	13.24%	12.05%	11.29%	10.82%	10.41%	10.16%
Accounts payable	2.82%	2.12%	2.22%	2.22%	2.22%	2.22%	2.22%	2.22%
Accrued expenses & other liabilities	4.88%	4.79%	5.35%	5.35%	5.35%	5.35%	5.35%	5.35%
Deferred revenue	4.07%	4.00%	4.28%	4.28%	4.28%	4.28%	4.28%	4.28%
Short-term debt	2.36%	0.00%	1.19%	0.00%	0.00%	0.00%	0.00%	0.00%
Total current liabilities	28.58%	25.09%	26.27%	23.90%	23.14%	22.67%	22.26%	22.01%
Non-current content liabilities	10.42%	9.75%	7.65%	6.86%	6.34%	5.99%	5.67%	5.45%
Long-term debt	49.48%	45.40%	41.94%	35.72%	30.65%	26.69%	24.51%	21.86%
Other non-current liabilities	8.28%	7.76%	7.60%	6.97%	6.56%	6.31%	6.09%	5.94%
Total liabilities	96.76%	87.99%	83.45%	73.44%	66.69%	61.66%	58.53%	55.25%
Stockholders' equity:								
Common stock	13.55%	14.67%	15.26%	15.88%	16.54%	17.25%	17.76%	18.28%
Treasury stock at cost	-2.78%	-2.61%	-20.53%	-36.86%	-53.45%	-70.41%	-86.75%	-103.19%
Accumulated other comprehensive income (loss)	-0.14%	-0.69%	-0.66%	-0.58%	-0.52%	-0.48%	-0.44%	-0.41%
Retained earnings (accumulated deficit)	42.73%	54.34%	66.98%	78.70%	93.17%	109.43%	125.89%	143.27%
Total stockholders' equity (deficiency)	53.37%	65.72%	61.05%	57.14%	55.74%	55.79%	56.46%	57.96%
Total liabilities and stockholders' equity	150.13%	153.71%	144.51%	130.58%	122.43%	117.45%	114.99%	113.21%

Netflix

Value Driver Estimation

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
NOPLAT:								
EBITA:								
Revenues	29,698	31,616	33,723	38,637	43,074	47,036	51,275	55,215
Operating Costs:								
Cost of revenues	17,333	19,168	19,715	21,056	22,824	24,623	26,587	28,646
Marketing	2,545	2,531	2,658	2,949	3,179	3,354	3,528	3,662
Technology & development	2,274	2,711	2,676	2,872	2,987	3,027	3,043	3,001
General & administrative	1,352	1,573	1,720	1,894	2,025	2,117	2,205	2,264
Operating income	6,195	5,633	6,954	9,866	12,059	13,915	15,911	17,642
Depreciation	208	337	357	317	327	339	353	368
Stock-based compensation expense	403	575	339	386	431	470	513	552
EBITA:	**6,806**	**6,545**	**7,650**	**10,569**	**12,817**	**14,725**	**16,777**	**18,562**
Less: Adjusted taxes								
Total income tax provision (income tax expense)	724	772	797	1,320	1,642	1,915	2,208	2,458
Add: tax shield on interest expense	111	102	101	109	103	99	94	94
Minus: tax on interest or investment income	59	49	(7)	3	3	3	4	4
Total adjusted taxes	775	825	906	1,425	1,742	2,010	2,298	2,548
Change in deferred taxes	129	(334)	(408)	-	-	-	-	-
NOPLAT	**6,161**	**5,386**	**6,336**	**9,144**	**11,075**	**12,715**	**14,479**	**16,014**
Invested Capital (IC):								
Operating Current Assets (CA):								
Normal cash	4,835	5,147	5,490	6,290	7,013	7,658	8,348	8,989
Other current assets	2,042	3,208	2,780	2,921	3,069	3,224	3,387	3,559
Current content assets, net	-	-	-	-	-	-	-	-
Total operating current assets	6,877	8,355	8,271	9,211	10,081	10,882	11,735	12,548
Non Interest-Bearing Current Liabilities (CL):								
Current content liabilities	4,293	4,480	4,466	4,656	4,864	5,091	5,339	5,610
Accounts payable	837	672	747	856	955	1,042	1,136	1,224
Accrued expenses	1,449	1,515	1,804	2,067	2,304	2,516	2,743	2,954
Deferred revenue	1,209	1,265	1,443	1,653	1,843	2,013	2,194	2,363
Total non interest-bearing operating current liabilities	7,789	7,931	8,461	9,232	9,966	10,662	11,412	12,150
Net operating working capital	(912)	424	(190)	(21)	116	220	323	397
Property & equipment, net	1,323	1,398	1,491	1,540	1,597	1,661	1,732	1,809
Net Other Operating Assets:								
Content assets, net	30,920	32,737	31,658	33,598	35,740	38,109	40,730	43,633
Other non-current assets	4,272	5,193	5,664	5,951	6,252	6,568	6,901	7,250
Net other operating assets:	35,191	37,930	37,322	39,549	41,992	44,677	47,630	50,883
Other Operating Liabilities:								
Non-current content liabilities	3,094	3,081	2,578	2,652	2,732	2,818	2,910	3,008
Other Operating Liabilities:	3,094	3,081	2,578	2,652	2,732	2,818	2,910	3,008
INVESTED CAPITAL (IC)	**32,508**	**36,671**	**36,045**	**38,416**	**40,974**	**43,741**	**46,775**	**50,081**
Free Cash Flow (FCF):								
NOPLAT	6,161	5,386	6,336	9,144	11,075	12,715	14,479	16,014
Change in IC	7,288	4,163	(626)	2,370	2,558	2,767	3,035	3,305
FCF	**(1,128)**	**1,223**	**6,962**	**6,774**	**8,517**	**9,948**	**11,444**	**12,708**
Return on Invested Capital (ROIC):								
NOPLAT	6,161	5,386	6,336	9,144	11,075	12,715	14,479	16,014
Beginning IC	25,220	32,508	36,671	36,045	38,416	40,974	43,741	46,775
ROIC	**24.43%**	**16.57%**	**17.28%**	**25.37%**	**28.83%**	**31.03%**	**33.10%**	**34.24%**
Economic Profit (EP):								
Beginning IC	25,220	32,508	36,671	36,045	38,416	40,974	43,741	46,775
x (ROIC - WACC)	13.89%	6.03%	6.74%	14.83%	18.29%	20.49%	22.56%	23.70%
EP	3,502	1,959	2,471	5,345	7,026	8,397	9,868	11,084

Netflix

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		*ASSUMPTIONS:*
Risk-Free Rate	4.42%	*10-year Treasury Bond*
Beta	1.30	*Average Raw Beta, 5Y*
Equity Risk Premium	5.00%	*Henry Fund Estimate*
Cost of Equity	**10.92%**	
Cost of Debt:		
Risk-Free Rate	4.42%	*7-year Treasury Bond*
Implied Default Premium	0.75%	
Pre-Tax Cost of Debt	5.17%	*Netflix 7Y Bond*
Marginal Tax Rate	14%	
After-Tax Cost of Debt	**4.43%**	

Market Value of Common Equity:		**MV Weights**
Total Shares Outstanding	432.8	
Current Stock Price	$618.58	
MV of Equity	**267,721.42**	94.16%
Market Value of Debt:		
Short-Term Debt	400	
Current Portion of LTD	0	
Long-Term Debt	14,143	
PV of Operating Leases	2,047	
MV of Total Debt	**16,590.06**	5.84%
Market Value of the Firm	**284,311.49**	100.00%

Estimated WACC	**10.54%**

Netflix

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	7.50%
CV Year ROIC	34.24%
WACC	10.54%
Cost of Equity	10.92%

Fiscal Years Ending Dec. 31	2024E	2025E	2026E	2027E	2028E
DCF Model:					
Free Cash Flow (FCF)	6774.0	8517.1	9948.2	11443.9	12708.5
Continuing Value (CV)					411352.1
PV of FCF	6128.1	6970.3	7365.2	7664.7	275507.9
Value of Operating Assets:	303636.2				
Non-Operating Adjustments					
Excess Cash	1626.6				
Short-term Investments	21.0				
Less: Total Debt	-16590.1				
Less: ESOP	-8240.3				
Value of Equity	280453.4				
Shares Outstanding	432.8				
Intrinsic Value of Last FYE	$ 648.00				
Implied Price as of Today	$ 666.80				
EP Model:					
Economic Profit (EP)	5345.1	7025.9	8396.6	9868.2	11083.5
Continuing Value (CV)					364576.7
PV of EP	4835.4	5749.9	6216.5	6609.3	244179.6
Total PV of EP	267590.7				
Invested Capital (last FYE)	36045.5				
Value of Operating Assets:	303636.2				
Non-Operating Adjustments					
Excess Cash	1626.6				
Short-term Investments	21.0				
Less: Total Debt	-16590.1				
Less: ESOP	-8240.3				
Value of Equity	280453.4				
Shares Outstanding	432.8				
Intrinsic Value of Last FYE	$ 648.00				
Implied Price as of Today	$ 666.80				

Netflix

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending	2024E	2025E	2026E	2027E	2028E
EPS	$ 18.23	$ 23.15	$ 27.61	$ 32.61	$ 37.21
Key Assumptions					
CV growth of EPS	7.50%				
CV Year ROE	50.29%				
Cost of Equity	10.92%				
Future Cash Flows					
P/E Multiple (CV Year)					24.89
EPS (CV Year)					$ 37.21
Future Stock Price					$ 925.95
Dividends Per Share	0	0	0	0	0
Discounted Cash Flows	0	0	0	0	$ 611.738
Intrinsic Value as of Last FYE	$ 611.74				
Implied Price as of Today	**$ 629.48**				

Netflix

Relative Valuation Models

Ticker	Company	Price	EPS 2024E	EPS 2025E	P/E 24	P/E 25	Market Cap (M)	Sales 2024E	Sales 2025E	P/S 24	P/S 25
DIS	Walt Disney Company	$122.82	$4.04	$5.05	30.40	24.32	$215,255	$91,921	$96,630	2.34	2.23
CMCSA	Comcast	$50.69	$3.97	$4.32	12.77	11.73	$161,310	$124,264	$124,018	1.30	1.30
FOX	Fox Corporation	$28.42	$2.86	$3.58	9.94	7.94	$14,213	$14,059	$15,134	1.01	0.94
PARA	Paramount	$13.02	$0.41	$1.38	31.76	9.43	$7,870	$30,817	$31,091	0.26	0.25
WBD	Warner Bros. Discovery	$13.21	~~($0.32)~~	~~$1.20~~	~~(0.01)~~	~~11.01~~	$20,786	$41,563	$42,275	0.50	0.49
				Average	**21.22**	**13.36**			Average	**1.08**	**1.04**
NFLX	Netflix	$618.58	$18.23	$23.15	33.9	26.7	$271,950	38,637	43,074	7.04	6.31

Implied Relative Value:

P/E (EPS24)	**$ 386.82**
P/E (EPS25)	**$ 309.23**
P/S (Market Cap 24)	**$ 97.45**
P/S (Market Cap 25)	**$ 106.90**

Netflix
Key Management Ratios

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Liquidity Ratios:								
Current Ratio (current assets / current liabilities)	0.95	1.17	1.12	1.01	0.92	0.84	0.84	0.81
Net Working Capital % of Revenue	-3.07%	1.34%	-0.56%	-0.06%	0.27%	0.47%	0.63%	0.72%
Cash Ratio (cash / current liabilities)	0.71	0.65	0.80	0.70	0.61	0.53	0.54	0.51
Asset-Management Ratios:								
Cash Turnover Ratio (Revenue / Cash)	4.93	6.14	4.74	6.02	7.11	8.31	8.29	8.86
Asset turnover ratio (Revenue / average total assets)	0.71	0.68	0.69	0.78	0.83	0.87	0.90	0.91
Working capital turnover ratio (revenue/(current assets - current liabilities)	(70.85)	23.67	31.89	295.75	(52.56)	(26.80)	(28.27)	(23.66)
Financial Leverage Ratios:								
LT Debt/Total Equity	0.93	0.69	0.69	0.63	0.55	0.48	0.43	0.38
LT Debt/Total Assets	0.33	0.30	0.29	0.27	0.25	0.23	0.21	0.19
Total Debt/Total Assets	0.35	0.30	0.30	0.27	0.25	0.23	0.21	0.19
Profitability Ratios:								
Return on Equity (NI/Beg TSE)	46.24%	28.34%	26.03%	37.96%	44.05%	47.23%	49.83%	50.29%
Gross Margin	41.64%	39.37%	41.54%	45.50%	47.01%	47.65%	48.15%	48.12%
Return on Assets (NI/Avg Total Assets)	12.20%	9.64%	11.11%	15.76%	18.85%	21.01%	22.90%	23.97%
Operating Margin	20.86%	17.82%	20.62%	25.54%	28.00%	29.58%	31.03%	31.95%
Payout Policy Ratios:								
Total Payout Ratio (Dividends + Stock Buybacks)/ Earnings	0.12	-	1.12	0.94	0.90	0.89	0.87	0.86
Dividend Payout Ratio (Dividends per share / EPS)	-	-	-	-	-	-	-	-

Netflix

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	20
Average Time to Maturity (years):	5.35
Expected Annual Number of Options Exercised:	3.68
Current Average Strike Price:	$ 268.86
Cost of Equity:	10.92%
Current Stock Price:	$618.58

Fiscal Years Ending Dec. 31	2024E	2025E	2026E	2027E	2028E
Increase in Shares Outstanding:	3.68	3.68	3.68	3.68	3.68
Average Strike Price:	$ 268.86	$ 268.86	$ 268.86	$ 268.86	$ 268.86
Increase in Common Stock Account:	**990**	**990**	**990**	**990**	**990**
Share Repurchases ($)	7,318	8,781	10,098	11,361	12,497
Expected Price of Repurchased Shares:	$ 618.58	$ 686.12	$ 761.04	$ 844.14	$ 936.31
Number of Shares Repurchased:	**12**	**13**	**13**	**13**	**13**
Shares Outstanding (beginning of the year)	433	425	415	406	396
Plus: Shares Issued Through ESOP	4	4	4	4	4
Less: Shares Repurchased in Treasury	12	13	13	13	13
Shares Outstanding (end of the year)	**425**	**415**	**406**	**396**	**386**

Netflix

Valuation of Options Granted under ESOP

Current Stock Price	$618.58
Risk Free Rate	4.42%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	35.00%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	19,695,109	268.86	5.35	$ 418.39	$ 8,240,327,080
Total	19,695,109	$ 268.86	5.35	$ 418.39	**$ 8,240,327,080**