MASTER IN FINANCE

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Netflix in the streaming market – a strategic analysis of growth and competition

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Abstract

This report focuses on Netflix's growth strategy, market positioning, and competitive landscape in the highly dynamic streaming industry. By examining market trends, competitor approaches, and Netflix's unique strategies for content and pricing, this section identifies the key factors driving the company's competitive success and challenges in the global market. The analysis highlights how Netflix adapts to regional markets, stays competitive, and uses innovative growth strategies to maintain its leadership. These insights provide a clear picture of Netflix's current market position and play an essential role in the overall equity analysis presented in the joint report.

Keywords

- Streaming Market
- Competitive Landscape
- Market Positioning
- Netflix's Valuation

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This report is part of the **Netflix Equity Research Report – See what's next**, developed by Jonna Sistek (58795) and Maike Jancin (58583) and should be read has an integral part of it.

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Introduction

This report constitutes an individual contribution to the joint Netflix Equity Research Report – See what's next, developed in collaboration with Jonna Sistek. While the joint report provides a comprehensive assessment of Netflix's financial performance and valuation, this section emphasizes the company's strategic positioning, market dynamics, and associated risks. By examining Netflix's competitive landscape, growth strategy, macroeconomic influences, equity structure, and the broader subscription video-on-demand (SVoD) market, this analysis lays the foundation for a well-rounded investment recommendation.

The report begins with an analysis of Netflix's business model and market advantages, focusing on its subscription-based revenue structure and ability to adapt pricing strategies across regional markets. Netflix's growth strategy is explored in depth, with an emphasis on initiatives such as ad-supported subscription tiers, investments in exclusive content, and expansion into adjacent markets like gaming. These efforts are evaluated in the context of their potential to drive sustainable growth and profitability while navigating intensifying competition.

Additionally, macroeconomic factors are analysed to assess their impact on Netflix's operations and consumer demand. Key indicators such as inflation, GDP trends and shifts in disposable income are considered to evaluate Netflix's resilience to economic fluctuations. The report further situates Netflix within the competitive SVoD landscape, highlighting challenges posed by direct and indirect competitors.

The valuation section integrates a Multiple Analysis and Scenario Analysis to assess Netflix's financial position and future outlook. By comparing Netflix's financial metrics with industry peers and exploring various potential scenarios, the report evaluates the company's ability to navigate uncertainties and capitalize on growth opportunities. The key risks section addresses potential challenges that could impact Netflix's strategic goals and financial performance, including competitive pressures, regulatory changes, and the increasing cost of content production. These risks are analyzed alongside potential mitigation strategies to provide a balanced perspective.

The report concludes with a recommendation that integrates insights from both this analysis and the joint report, offering a comprehensive and informed perspective on Netflix's investment potential.

Company Overview

Company Description

Netflix, Inc. (Netflix or NFLX) is a global leader in entertainment services, which offers streaming access to a broad library of TV series and movies to a worldwide audience. Founded in 1997 by Reed Hastings and Marc Randolph, and headquartered in Los Gatos, California. Netflix started as an online DVD rental service. In 2007, the company revolutionized the entertainment industry with its transition to a subscription-based streaming model. Thereby, Netflix became an innovator in the area of video-on-demand (VoD) services. In 2010, it expanded internationally by offering its services in Canada, Latin America and the Caribbean.

Today, Netflix serves customers in over 190 countries with content in more than 30 languages and over 282 million subscribers worldwide (Netflix, 2024c). Its platform is known for high-quality, original productions like Stranger Things, The Crown, and The Witcher. Netflix's offers different pricing plans which provide subscribers with access to the library of high-quality licensed and original content.

Business Segments and Business Model

Standard with ads $6.99	Standard $15.49	Premium $22.99
Ad-supported access with restrictions	Unlimited access	Unlimited access
Watch on 2 devices	Watch on 2 devices	Watch on 4 devices
1080p (Full HD)	1080p (Full HD)	4K (Ultra HD) + HDR
Download on 2 devices	Download on 2 devices	Download on 6 devices
-	Option to add one extra member	Option to add 2 extra members

Figure 1: Plans and pricing of Netflix in the U.S. (Netflix, n.d.-c)

The company has one main revenue stream: subscription fees for its streaming services. Netflix provides a variety of membership rates based on streaming quality and the number of devices that may stream concurrently. Each tier has a distinct pricing point, allowing Netflix to reach a wider audience. In the U.S., the "Standard Plan" costs $15.49 per month and allows streaming in 1080p resolution on up to two devices simultaneously, along with the ability to download content to two devices. The "Premium Plan," priced at $22.99 per month, provides 4K Ultra HD and HDR streaming on up to four devices simultaneously and includes the option to download on six devices (Netflix, n.d.-c). To diversify its offerings, Netflix introduced a more affordable "Standard with ads" plan in 2022, priced at $6.99 per month. This ad-supported tier offers the same streaming quality as the Standard Plan but comes with advertisements, providing an economical alternative while generating revenue through ads (PEOPLE, 2022; Tamanini, 2022).

Netflix's revenue from streaming services is segmented regionally into four main markets: UCAN (U.S. and Canada), EMEA (Europe, the Middle East, and Africa), LATAM (Latin America), and APAC (Asia-Pacific). Each region has distinct growth potential and pricing strategies. For example, markets with slower growth, like UCAN, focus on maintaining high "average revenue per user" (ARPU), whereas emerging markets in APAC see lower ARPU but higher subscriber growth potential. Despite its revenue allocation, Netflix operates as a one operating

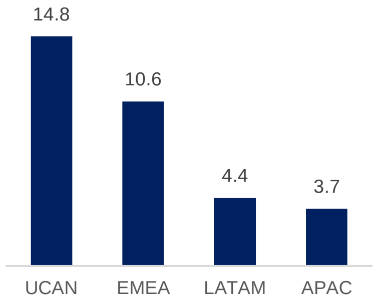


Figure 2: Revenue by region in 2023 in $bn (Netflix, 2024c)

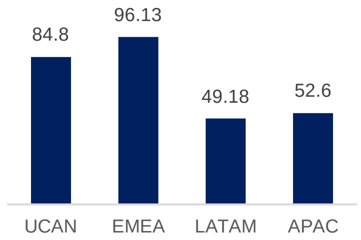


Figure 3: Subscribers per region as of 3rd Quarter 2024 (Netflix, 2024d)

segment and considers all income and expenses on a consolidated basis. In total Netflix generated $33.7 billion in revenues in 2023, of which 44% come from Canada and the U.S (Netflix, 2024c).

Additionally, Netflix is developing new revenue streams through licensing and partnerships, particularly with mobile carriers and smart TV manufacturers, to enhance accessibility and reach in emerging markets. While direct revenue from content licensing is limited compared to streaming subscriptions, partnerships increase customer acquisition and brand visibility, indirectly supporting revenue growth.

Company Growth Strategy

Netflix pursues a growth strategy centered on continuously expanding its membership base and increasing user engagement. Through strategic decisions and business model adjustments, the company has experienced strong revenue and subscriber growth since 2002. With the discontinuation of its DVD rental service in September 2023, Netflix now focuses exclusively on streaming, aligning with shifting consumer habits and supporting the company's digital transformation (Milmo, 2023). As Q3 2024, Netflix has 282 million subscribers worldwide, of which the majority are located in the UCAN and EMEA region (Netflix, 2024d).

Implementation of "Standard with ads"

As part of its growth strategy, Netflix implemented the ad-supported subscription model, designed to attract price-sensitive customers and generate additional revenue streams through targeted advertising. This structure enhances market compatibility by potentially facilitating seamless integrations with other providers, such as Disney+ and Hulu, thereby expanding growth potential.

Continued investments in exclusive content

A further essential aspect of this strategy is the consistent investment in a diverse media library comprising both licensed materials and exclusive original productions. This diversification supports customer acquisition while promoting long-term engagement among existing subscribers (Netflix, 2024d).

Starting video games business

In line with its service expansion, Netflix has incorporated video games into its platform since November 2021, primarily targeting mobile app users. This initiative aims to increase user engagement, which can lead to higher advertising revenue through more frequent ad impressions (Adgate, 2021).

Using fixed licensing model

Moreover, Netflix has adopted a cost-efficiency strategy focused on long-term profitability, resulting in a significant increase in its operating margin. By employing a fixed licensing model that covers production costs plus a 30% premium – compared to the typical 60-70% in this market – Netflix can fully leverage economies of scale as its user base grows, further enhancing profitability.

Consequently, the operating margin increased from around 7% in 2017 to over 27.2% in 2024 (Netflix, 2024c).

Ownership Structure

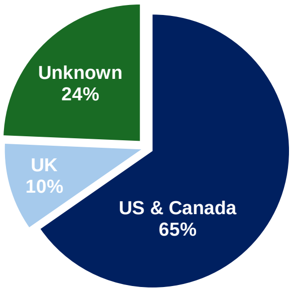


Figure 4: Geographical origin of shareholders (Marketscreener, n.d.)

Netflix is listed on the NASDAQ and has an equity structure that is mainly influenced by institutional investors. The largest shareholders include Vanguard Group (8.7%), BlackRock, Inc. (7.4%), Fidelity Management & Research Co. LLC (4.8%), and State Street Corporation (3.97%). Geographically, most of Netflix's investors come from the United States (63.20%), followed by the United Kingdom (10.33%) and Canada (2.13%) which reflects Netflix's primary market area and indicates the demand for streaming services in these regions (Marketscreener, n.d.).

As of September 20, 2024, approximately 86.36% of Netflix's outstanding shares were held by institutional investors. This significant institutional ownership indicates strong confidence from large investment entities in Netflix's future growth.

The presence of long-term investors enhances Netflix's overall stability and allows the company to focus on sustainable growth strategies. By fostering relationships with institutional investors, the company can ensure that its capital-raising efforts through equity offerings and stock sales are more efficient. This capability is crucial for content financing, which are central components of its business model (Corporate Finance Institute, n.d.).

Leadership Team

Netflix's leadership team consists of 22 board members, eight of whom are women, bringing a wealth of professional expertise to the company. The majority of the board members are relatively new, and their diverse backgrounds cover key industries such as film production, advertising, and Big Tech.

Co-CEOs Ted Sarandos and Greg Peters currently lead Netflix, contributing complementary expertise to the company. This shared leadership structure is designed to enhance decision-making processes and offer a comprehensive perspective on strategic initiatives, particularly in content and technology. In early 2023, Reed Hastings, the company's co-founder and former CEO, assumed the role of Executive Chairman and continues to support the leadership team as a trusted advisor (Netflix, n.d.-b).

Sector Analysis

Macroeconomic Factors

The environment in which Netflix operates is significantly influenced by macroeconomic and geopolitical factors that directly impact the company's strategic direction and financial stability.

Inflation

Inflation is a key macroeconomic factor for Netflix, as it affects both operating costs and consumer purchasing power. Higher inflation rates lead to increased price pressure and heightened sensitivity to subscription costs. In North America, Netflix's largest revenue market, inflation rates are moderate (on average 2.9% in 2024) and are expected to decline further (International Monetary Fund, n.d.-a).

GDP

Another critical element is economic growth. An increase in GDP influences the willingness of consumers to pay for streaming services. In Netflix's core markets, such as North America and Europe, moderate economic recovery with a real GDP growth of 2.59% in North America and 1.53% in the EMEA region fosters a positive consumption climate. Latin America’s improving economy, with 1.95% growth, offers potential for subscriber increases, while the APAC region’s robust 4.05% growth present significant opportunities (International Monetary Fund, n.d.-b).

Geopolitical events & currency fluctuations

Additionally, geopolitical events and currency fluctuations influence Netflix's market conditions, as Netflix has exposure to over 190 countries and 45 currencies (Seekingalpha, 2023). Conflicts in the Middle East and the Ukraine war, for instance, can create widespread economic uncertainties and currency fluctuations that affect international operating companies like Netflix. Such geopolitical tensions can lead to higher production costs and more unstable financial markets.

Subscription Video On Demand

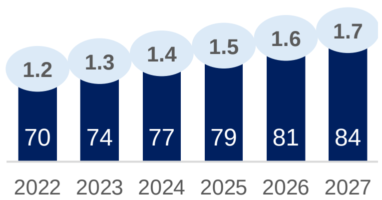


Figure 5: SVoD market ARPU in $ and Users in billion (Statista, 2024i)

The global SVoD market has experienced a remarkable rise in user adoption, and this growth is expected to continue in the coming years. From 2017 to 2027, the total number of SVoD users is forecasted to increase from 0.6 billion to 1.7 billion at a CAGR of 11.2%. This growth is influenced by several factors including the increasing availability of affordable internet access, the spread of smart devices, and a strong demand for exclusive on-demand content. At the same time, ARPU has seen steady growth, rising from $45.03 in 2017 to $83.69 in 2027, which indicates the willingness of existing users to spend more for premium offerings. Thereby, market revenues are forecasted to reach $137.7 billion by 2027, which represents a CAGR of 14.2% (Statista, 2024i).

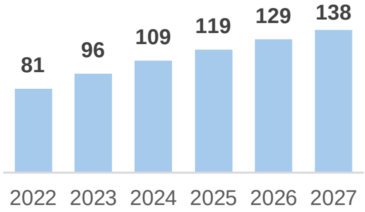


Figure 6: SVoD market revenue in $bn (Statista, 2024i)

However, analysts assume that the SVoD market faces challenges that could limit its global potential. Developed markets, including North America and parts of Europe, are nearing saturation, where most households already subscribe to one or more streaming services. Consequently, future growth will increasingly rely on user acquisition in emerging markets such as India and parts of Asia. Yet, in large potential markets like China, a general lack of willingness to pay for subscription content and regulatory constraints pose a significant challenge to further expansion (Statista, 2024i).

Market Trends

In the dynamic VoD streaming landscape, Netflix faces the challenge of adapting to market trends that influence its continued leadership. These trends, shaped by technological advancements, evolving consumer expectations, and rise of new streaming models, are reshaping the industry's strategic and operational landscape.

High-quality streaming: A significant trend is the rising demand for high-quality streaming, particularly in 4K and 8K resolution, which enhances the viewing experience and meets consumers' growing expectations for superior content. Netflix is responding by continually investing in high-resolution content and HDR technology, ensuring its platform remains at the forefront of visual quality (Netflix, 2020).

Additional streaming services: Another notable trend is the increasing demand for integrated services that offer a comprehensive entertainment experience, reducing the need for users to switch between different platforms. To address this, Netflix has begun expanding its offerings by incorporating additional services like video games and live sports (Gartenberg, 2021). Recently, the company made waves by streaming a high-profile live boxing match between Mike Tyson and Jake Paul, which attracted significant attention and viewership, showcasing Netflix's ability to diversify its content. However, some technical issues during the live stream caused disruptions and frustrated many viewers (Nasdaq, 2024).

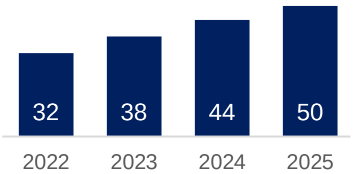


Figure 6: AVoD market revenue in $bn (Statista, 2024a)

Ad-based streaming: The shift towards ad-based streaming models is also gaining momentum, as more consumers seek affordable alternatives to traditional subscription-based services. The Advertising-based Video on Demand (AVoD) market is projected to generate $48.32 billion in revenue by 2024, with an impressive annual growth rate of 17.5% (Statista, 2024a). Netflix has launched an ad-based tier, though it is not yet available in all markets where the company operates, marking a strategic move to tap into new revenue streams (Netflix, 2023).

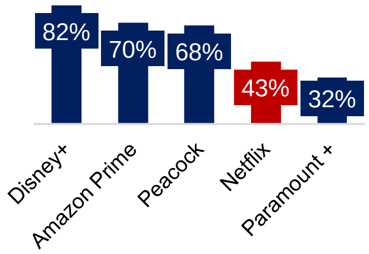


Figure 7: Forecast % change in spending on original content between 2022 and 2027 (fDi Intelligence, 2022)

Original content: Exclusive original content remains a cornerstone of the VoD market, providing platforms with a significant competitive edge. By offering content that can only be found on their platform, streaming services foster stronger brand loyalty among viewers. Netflix continues to leverage this strategy by investing in high-profile original series, such as *Stranger Things*, ensuring its library remains distinct and appealing to a global audience. This focus on exclusive content not only differentiates Netflix from its competitors but also drives subscriber growth and retention (Moviepilot, 2021).

Competitive Landscape

Netflix operates in a highly competitive market, with the majority of its revenue generated in the UCAN region. As a result, the competitive analysis focuses on competitors that are primarily active in this region, including Alphabet, Apple, Warner Bros. Discovery, Walt Disney, Amazon, and Comcast. These competitors can be divided into two categories: direct competitors, whose primary business model revolves around streaming, and indirect competitors, whose main business is not necessarily streaming but are still well-integrated into the streaming market.

- Direct Competitors

Warner Bros. Discovery (WBD), formed in 2022 from the merger of WarnerMedia and Discovery, is a significant player in the streaming market. With a revenue of approximately $41.3 billion in 2023 and over 97.7 million subscribers to HBO Max and Discovery+, the company has a solid presence. Warner Bros. Discovery stands out in delivering a wide range of premium content, with its key strengths rooted in blockbuster franchises like Harry Potter, complemented by popular TV programming and unscripted content (Warner Bros. Discovery, 2024).

Walt Disney (DIS) is another major player in the streaming space. With Disney+, the company reached 158 million subscribers in 2024 (Statista, 2024b). Disney appeals to a wide range of audiences with content from children's entertainment to Marvel, Pixar, and Star Wars. This diversity makes Disney a formidable competitor, well-established in the streaming sector (The Walt Disney Company, 2024).

- Indirect Competitors

Alphabet (GOOG), the parent company of Google, is a significant indirect competitor with YouTube. While YouTube is known for user-generated content, YouTube TV offers a paid streaming service that directly competes with Netflix. With a revenue of $307 billion in 2023, Alphabet has the resources to invest heavily in the streaming market (Alphabet Inc, 2024).

Apple (AAPL) has established itself as a strong competitor with Apple TV+. The service focuses on high-quality, exclusive original content and had over 42.1 million subscribers in 2023. Through its integration with the broader Apple ecosystem, Apple TV+ benefits from a loyal user base and competes with Netflix for premium content (Statista, 2022).

Amazon Prime Video (AMZN), with over 200 million Amazon Prime members, is a major player in the streaming market (Statista, 2024e). The company bundles Prime Video with its e-commerce membership, creating added value beyond streaming. This bundling approach gives Amazon a financial flexibility that Netflix, as a pure-play streaming service, does not have. With a revenue of approximately $574 billion in 2023, Amazon has the financial power to continue investing in content and technology (Amazon.com Inc, 2024).

Comcast (CMCSA), with its streaming service Peacock, is also a key competitor in the US market. Peacock had over 36 million paying subscribers in 2024 (Statista, 2024f). Comcast combines free and paid content and leverages its strong cable and broadband services to assert its presence in the streaming sector (Comcast Corporation, 2024).

Netflix has established itself as a leader in the SVoD sector. Through continuous investments in content and technology, the company has secured a strong market position. Netflix invested approximately $17.2 billion in content, accounting for about 26% of its revenue (Statista, 2023a). In comparison, Disney spent around $27.2 billion on content, with most of it directed towards Disney+, which has seen strong growth due to its brand franchises (Statista, 2024b). Amazon Prime Video invested around $18.9 billion in content, mainly driven by the acquisition of sports rights and exclusive series (The Wrap, 2024). While Netflix continues to focus on a broad content library, competitors like Disney and Amazon strengthen their market position through additional portfolios and bundling.

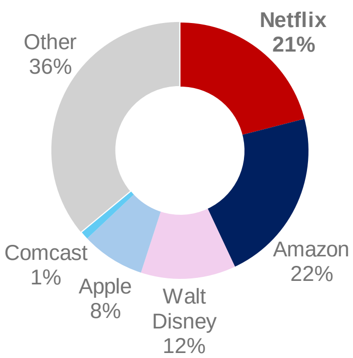


Figure 8: Market shares of the SVoD market (Statista, 2024h)

In terms of market share, Amazon leads the American VoD market with around 22%, followed closely by Netflix with about 21%, and Disney+ with around 12%. Other competitors like Apple, Comcast, and Warner Bros. Discovery have smaller shares but continue to expand their market positions through various business strategies, such as bundling content with other services (Statista, 2024h). With over 600 million users worldwide and ongoing international expansion, Netflix has the opportunity to further solidify its leadership position. Particularly in regions where the company has not yet fully penetrated, substantial growth opportunities remain (Netflix, 2024d).

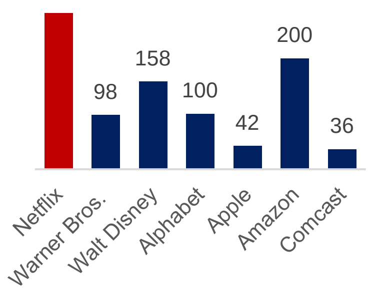


Figure 9: SVoD subscriber worldwide in million (Statista, 2024d)

Regarding the number of subscribers, Netflix remains the largest player in the streaming market with approximately 282 million subscribers worldwide (Statista, 2024g). Amazon follows with around 200 million members for Amazon Prime (Statista, 2024e), and Disney+ reports about 158 million subscribers in 2024 (Statista, 2024d).

Market Advantages

A critical component of Netflix's success lies in its globally recognizable brand identity. Netflix has established itself as a globally recognized brand. In the United States, 96% of VoD users are ware of Netflix with more than half of them displaying loyalty and regular usage (Statista, 2023b). Similarly, in Germany, 94% of VoD users recognize the brand, with 67% expressing a favorable view of it (Statista, 2023c).

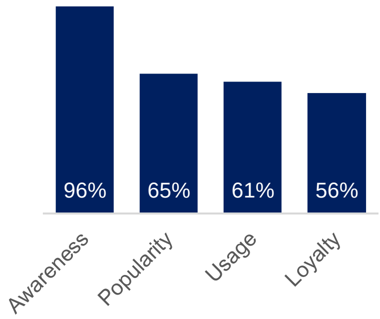


Figure 10: Netflix brand KPI profile in the U.S. (Statista, 2023b)

Furthermore, Netflix success in heavily driven by its substantial investments In a vast library of content, including original productions. As of 2023, the library consists of more than 15,000 titles, combining licensed content and original series like Squid Game (Focus Online, n.d.)

Moreover, a central aspect of Netflix's strategic orientation is the diversification of its subscription model. By offering various pricing tiers, Netflix achieves broad market penetration and effectively appeals to price-sensitive and value-oriented consumers. This enables the company to align itself flexibly with diverse market segments and reach a wider target audience.

Figure 11: Map of countries where Netflix is available

Additionally, Netflix's global presence in over 190 countries represents a significant strategic advantage, as it facilitates the accessibility and scalability of its content on a worldwide scale. Productions like *Heeramandi* in India and *The Gentlemen* demonstrate its commitment to creating culturally specific content with universal appeal (Asia News Network, n.d.).

Company	Churn
Netflix	**2%**
Apple TV+	8%
Hulu	5.8%
Disney+	4.8%
Amazon Prime	4%

Figure 12: Churn rates Q1 2024 (Hurff, 2023)

Finally, another pivotal element contributing to Netflix's market success is its sophisticated recommendation algorithm. This algorithm delivers a highly personalized viewing experience, thereby significantly boosting audience engagement. Approximately 80% of the content consumed by users is derived from Netflix's recommendations, which serves as evidence to the considerable influence of the algorithm on user behavior (Stratoflow, 2024). Through analysis of viewing habits and individual preferences, Netflix is expert at offering targeted recommendations that enhance user interaction. This personalized approach is further strengthened by the company's cultural adaptability, as advertising is tailored to reflect the specific interests and preferences of viewers across various regions. By integrating these strategies, Netflix not only optimizes the user experience but also reduces churn, with Netflix loosing only 2% of its users quarterly (Hurff, 2023).

Consequently, Netflix solidifies its position as a global, multifaceted provider, crafting a customized viewing experience that affords it a distinct market advantage.

Stock Performance

Company / Index	Annualized Returns in %
MSCI World	9.19
S&P 500	17.15
Alphabet	34.23
Apple	50.65
Comcast	-11.27
Netflix	**32.71**
Walt Disney	-5.51

Figure 13: Annualized returns of indices and peers

Netflix's stock performance has been both impressive and highly volatile over recent years. With a share price of $756.10 as of November 1st 2024, Netflix has considerably outperformed both its direct competitors and broader market indices. From the end of 2019 to 2024, Netflix generated an annualized return of 32.71%, far exceeding that of major indices such as the MSCI World (9.19%) and the S&P 500 (17.15%). This outperformance illustrates the company's ability to deliver substantial shareholder value, driven largely by its rapid growth in global subscriber numbers and dominance in the streaming sector.

Company / Index	Annualized Volatility in %
MSCI World	4.48
S&P 500	4.57
Alphabet	6.97
Apple	6.91
Comcast	6.15
Netflix	**9.94**
Walt Disney	7.41

Figure 14: Annualized volatility of indices and peers

However, this growth has come with a higher level of volatility. Netflix's annualized volatility stands at 9.94%, notably higher than the MSCI World (4.48%) and the S&P 500 (4.57%), indicating that the stock experiences more pronounced fluctuations. When compared to its competitors in the market Netflix's volatility is above the industry average of 6.94%, which was calculated by average the annualized volatility of Google, Apple, Comcast and Disney. Netflix's stock sees more fluctuations than many of its peers, which may indicate a less stable performance. Due to a slightly higher volatility, investors may face significant market movements in response to the company's evolving strategies and competitive landscape.

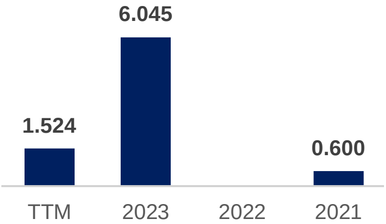


Figure 15: Share buybacks last 4Y in $bn (Netflix, 2024c)

In addition to stock performance, Netflix's approach to shareholder returns differentiates it from many large-cap peers. Since going public, Netflix has not issued dividends, preferring to reinvest earnings into growth initiatives such as content production and technology improvements. Instead, Netflix has chosen to return capital to shareholders through share buybacks. Beginning in March 2021, Netflix initiated a repurchase program of up to $5 billion, which was expanded by an additional $10 billion in September 2023. By the end of 2023, Netflix had repurchased approximately 14.5 million shares, totaling $6.045 billion, leaving $8.4 billion available for future buybacks (Netflix, 2024c). This program not only signals management's confidence in Netflix's long-term value but also gives the company flexibility to generate cash flow if needed, as the program can be adjusted or paused based on market conditions.

The graph illustrates Netflix's stock performance compared to the MSCI World and S&P 500, highlighting Netflix's higher growth trajectory and greater volatility. Despite the June 2022 dip due to growth concerns and rising competition, Netflix's recent strategies and robust content lineup have sustained investor interest and supported its stock price recovery. Overall, Netflix remains a high-growth, high-volatility stock, positioning itself as a leader in the streaming industry while managing shareholder returns through strategic buybacks instead of dividends.

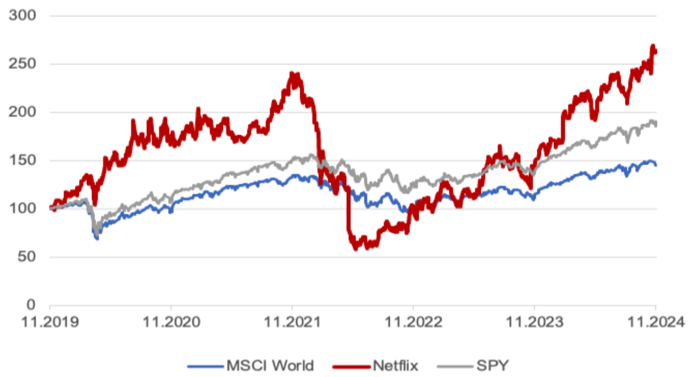


Figure 16: Netflix stock performance against selected indices

Valuation

Comparable Company Analysis

A comparable valuation analysis was conducted to assess Netflix's valuation relative to a selected peer group. The peer group was chosen based on companies with comparable market dynamics and financial performance, focusing on Alphabet, Apple, Comcast, and Walt Disney. These peers were deemed most suitable for comparison, while companies such as Amazon, Warner Bros., and Paramount were excluded due to their low net profit margins, which limit comparability.

The analysis revealed that Netflix trades at higher P/E multiples, EV/Sales, and EV/EBIT multiples compared to its selected peers. To account for this premium valuation, the 75th percentile of the group was used as the basis for valuation, rather than the median. For instance, the EV/Sales multiple for Netflix is 8.52x, significantly above the peer median of 7.99x. Similarly, the P/E multiple stands at 42.87x, well above the peer median of 33.74x. A similar pattern is observed with the EV/EBIT multiple (35.83x), which is remarkable higher than the peer median of 25.77x, suggesting that Netflix's profitability is valued more highly, independent of its capital structure. However, the EV/EBITDA multiple was excluded from this

	EV/Sales	EV/EBIT	P/E
DIS	2.36	19.18	33.91
GOOG	5.73	18.98	21.44
AAPL	8.75	27.96	33.22
CMCSA	1.97	10.21	10.09
NFLX	**8.52**	**35.83**	**42.87**
75th Percentile	**7.99**	**25.77**	**33.74**

Figure 53: Peer multiples comparison

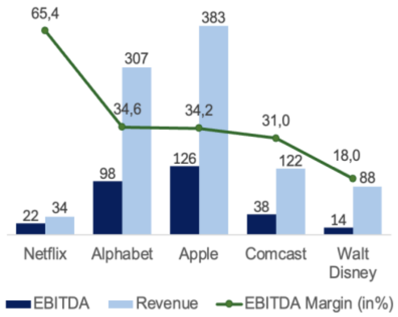


Figure 54: Revenue (in $bn) and EBITDA margin (in %)

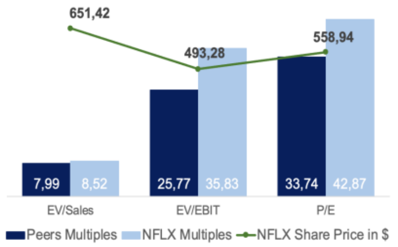


Figure 55: 75th Percentile multiples

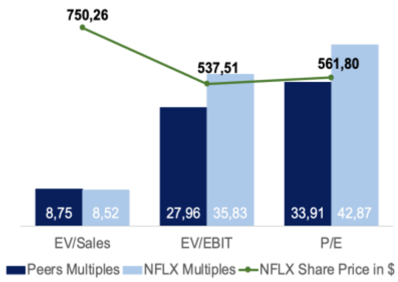


Figure 56: Maximum multiples

analysis due to Netflix's uniquely high EBITDA margin of 65.43%, driven by substantial amortization of its content assets. This elevated EBITDA figure distorts the multiple and inflates Netflix's valuation compared to peers with more diversified business models and lower EBITDA margins, such as Alphabet (34.6%), Apple (34.2%), Comcast (31.0%), and Walt Disney (18.0%).

The valuation multiples were applied to Netflix’s financials to calculate its implied share price. Using the EV/Sales multiple of 7.99x, the resulting share price is $651.41, reflecting the value of Netflix’s enterprise relative to its revenue. When applying the EV/EBIT multiple of 25.77x, the implied share price is $493.28. Finally, the P/E multiple of 33.74x produces a share price of $558.94, representing the market’s valuation of Netflix's earnings relative to its peers. The equity bridge remained consistent with that of the DCF model across all methods, except for the P/E method, which directly calculates the equity value.

To further validate the analysis, we examined how the implied share prices change when using the median and maximum values of the multiples. Even when applying the maximum value for each multiple, the implied share prices remain significantly below Netflix's current market price. Here, the EV/Sales multiple produces the highest share price of $750.3. For the EV/EBIT multiple, the implied share price is $537.5, while the P/E multiple yields an implied share price of $561.8, both well below the current share price of $936.56.

Therefore, despite applying the 75th percentile and the maximum multiples to reflect Netflix's premium position, the multiples-based valuation reinforces the conclusion that Netflix is overvalued.

Scenario Analysis

- Worst Case

In our scenario analysis, we developed a worst-case forecast for Netflix to understand the impact of potential downside risks on the company’s valuation. The risks and factors that could lead Netflix to underperform in the downside scenario are diverse and outlined in the following section. These include heightened competition and geopolitical shifts. The scenario assumes slower-than-anticipated growth in both subscriber numbers and ARPU across Netflix's regional markets. Adjustments in subscriber growth assume modest gains in more saturated markets like UCAN and more conservative growth of 0.05% below the base case in emerging markets such as APAC and LATAM. ARPU growth is also adjusted by 0.05% regions facing economic challenges or competitive pressures, such as EMEA and LATAM.

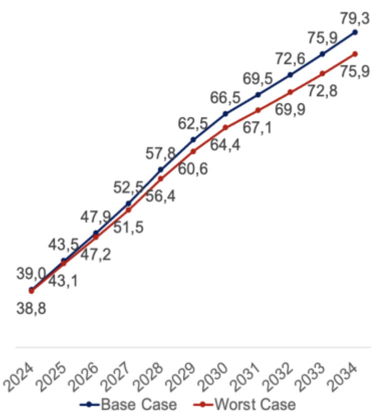


Figure 57: Revenue (in $bn) development Base Case vs. Worst Case

Additionally, key income statement line items were re-evaluated to reflect a more conservative financial outlook. Amortization rates for both licensed and produced content were adjusted to align with potentially slower revenue growth. It is assumed that operating expenses, including marketing costs per user, G&A in percentage of sales and technology and development expenses in percentage of sales are approximately 10% higher in the worst-case scenario. Balance sheet items, such as the average collection period and accounts payable, were adjusted to reflect slower payment and collection cycles in a challenging environment.

Under these assumptions, Netflix's share price in the worst-case scenario drops to $317.5, representing a substantial 24% ($96.0) decline from our base case valuation.

- Best Case

In the best-case scenario, Netflix grows in a market environment with stable economic conditions, high demand and with the ability to maintain its current leading market position. In this case, it is expected that Netflix will achieve robust revenue growth, driven by growth in both subscriber numbers and ARPU across all regions while effectively controlling costs. This scenario assumes strong expansion in high-potential markets like APAC and LATAM with growth of 1% over the base case. In more mature markets like UCAN and EMEA, we still foresee consistent growth, although at a more moderate pace (0.05% over base case). Under these assumptions, Netflix's revenues are expected to reach $85 billion in 2034, which represents an increase of 7.6% over the base case revenue forecast.

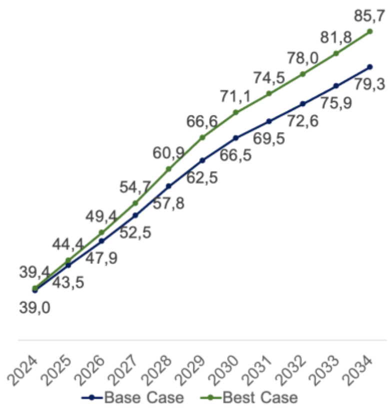


Figure 58: Revenue (in $bn) development Base Case vs. Best Case

Meanwhile, cost management remains favorable in this scenario, with efficient control over streaming, content amortization, and marketing expenses. Therefore, we assume cost of revenues to be significantly lower than in the base case. Marketing costs per user are assumed to be highly efficient with 5% less than in the base case, ensuring Netflix's spending is impactful.

In our best-case scenario, Netflix's projected share price rises to $507.2, which represents an $94.0 increase compared to the base case.

Key risks

After conducting an analysis of Netflix and its value, it is crucial to examine the key risks that could significantly impact Netflix future performance, as these factors could hinder its growth and profitability.

One of the central components of Netflix's strategy is the continuous production and licensing of exclusive original content. While this approach carries moderate

Content production and licensing

risks, the potential economic impact is significant. The company depends heavily on creating content that resonates with a global audience, and any failure to produce high-quality, engaging content could lead to subscriber churn.

Competitive market dynamics

Netflix's position in a highly dynamic and competitive streaming market adds another layer of risk. Major players such as Amazon Prime Video, Disney+, and numerous local platforms create a competitive environment. To maintain its competitive edge, Netflix must consistently innovate and adapt to changing consumer preferences. Failure to stay ahead of the curve in terms of content offerings or technological advancements could result in market share loss and a long-term financial health loss.

Geopolitical and operational challenges

Additionally, Netflix also faces risks from its global presence, which exposes the company to geopolitical and operational challenges. Operating across various regions with diverse political, economic, and regulatory environments means that events such as trade tensions or regional conflicts could disrupt Netflix's ability to operate efficiently in certain areas.

Regulatory challenges

Regulatory risks represent another significant concern for Netflix. As governments worldwide impose stricter content regulations, privacy laws, and tax policies, Netflix must navigate complex legal environments to maintain compliance. This could involve additional operational costs or adjustments to its business practices, further complicating the company's operations.

Recommendation

Recommendation - SELL

Based on the analysis presented in this report, our recommendation is to **SELL** Netflix stock due to an observed discrepancy between our calculated intrinsic value and its current market price. Our analysis projects a share price of $483.2 for Netflix by 31 December 2025.

Our target share price for Netflix is $483.2 – 48% below the current share price

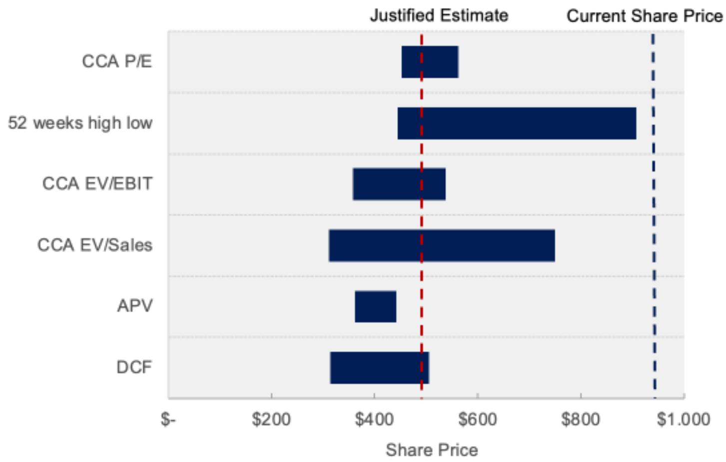


Figure 59: Football Field Valuation Summary

To derive this target, we employed a weighted approach, allocating 50% to our cash flow-based valuation and 50% to the multiple valuations from the CCA analysis. This weighting choice reflects our view that cash flow-based methods, which emphasize the company's operational capabilities and earnings potential, offer a precise measure of Netflix's intrinsic value, but are highly dependent on assumptions. The multiple-based analysis provides a supplementary market-oriented perspective, which we value as particularly relevant for Netflix given its competitive positioning.

As of 30th November 2024, Netflix closing stock price was $936.56 per share, which marks a 48% premium over our valuation of $483.2. This overvaluation indicates a substantial misalignment with our estimated fair value. Consequently, we recommend selling Netflix stock to allow investors to capitalize on current market conditions before a potential price correction brings it closer to its intrinsic valuation.

Appendix

Financial Statements

Balance Sheet

	Historical Period					Current								Steady State		
	2019A	2020A	2021A	2022A	2023A	2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Operating Invested Capital																
Operating Cash	1.007.822	1.249.803	1.484.892	1.580.778	1.686.165	1.948.311	2.175.524	2.393.399	2.623.626	2.888.159	3.122.509	3.325.461	3.474.566	3.630.441	3.793.396	3.963.759
5% of cash	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Content																
Licensed Content	14.703.352	13.747.607	13.799.221	12.732.549	12.722.701	12.586.092	12.944.368	13.939.155	13.999.670	13.816.950	13.214.457	14.073.350	14.704.364	15.364.026	16.053.654	16.774.629
Produced Content	9.801.215	11.636.343	17.120.318	20.004.164	18.935.355	20.535.203	24.039.541	29.620.705	34.275.054	39.325.167	44.239.703	47.115.130	49.227.654	51.436.086	53.744.840	56.158.541
Total Content	**24.504.568**	**25.383.951**	**30.919.539**	**32.736.713**	**31.658.056**	**33.121.294**	**36.983.910**	**43.559.860**	**48.274.724**	**53.142.117**	**57.454.159**	**61.188.480**	**63.932.019**	**66.800.111**	**69.798.494**	**72.933.170**
% growth		4%	22%	6%	-3%	5%	12%	18%	11%	10%	8%	6%	4%	4%	4%	4%
Other Current Assets (Less Trade Receivables)	703.805	943.428	1.234.512	2.215.713	1.491.727	1.886.253	2.106.228	2.317.163	2.540.057	2.796.163	3.023.049	3.219.536	3.363.892	3.514.802	3.672.567	3.837.503
Trade Receivables	454.399	610.819	804.320	988.898	1.287.054	1.696.352	2.160.640	2.711.405	3.390.331	4.257.179	5.250.074	5.591.311	5.842.011	6.104.093	6.378.081	6.664.523
Property, Plant and Equipment	565.221	960.183	1.323.453	1.398.257	1.491.444	1.464.252	1.635.014	1.925.729	2.134.167	2.349.349	2.539.979	2.705.069	2.826.357	2.953.152	3.085.707	3.224.287
Operating current assets	**27.235.815**	**29.148.183**	**35.766.717**	**38.920.359**	**37.614.446**	**40.116.463**	**45.061.315**	**52.907.555**	**58.962.906**	**65.432.967**	**71.389.770**	**76.029.857**	**79.438.845**	**83.002.599**	**86.728.245**	**90.623.243**
Operating Deferred Tax Assets	485.652	320.729	163.150	354.182	861.751	548.775	612.773	674.141	738.989	813.498	879.507	936.672	978.670	1.022.575	1.068.474	1.116.459
Other Non Current Assets, Net	601.452	571.863	1.640.469	2.459.748	2.207.266	2.185.954	2.440.881	2.874.883	3.186.057	3.507.297	3.791.886	4.038.345	4.219.414	4.408.704	4.606.593	4.813.476
Operating non-current assets	**1.087.104**	**892.592**	**1.803.619**	**2.813.930**	**3.069.017**	**2.734.729**	**3.053.654**	**3.549.024**	**3.925.046**	**4.320.796**	**4.671.393**	**4.975.017**	**5.198.084**	**5.431.279**	**5.675.067**	**5.929.936**
Content Liabilities	(7.747.884)	(7.047.620)	(7.387.180)	(7.561.427)	(7.044.643)	(7.060.402)	(7.261.383)	(7.819.427)	(7.853.374)	(7.750.874)	(7.412.894)	(7.894.707)	(8.248.686)	(8.618.735)	(9.005.595)	(9.410.039)
Accounts Payable	(674.347)	(656.183)	(837.483)	(671.513)	(747.412)	(882.087)	(950.992)	(1.069.962)	(1.166.525)	(1.269.422)	(1.355.745)	(1.440.798)	(1.501.878)	(1.565.656)	(1.632.253)	(1.701.798)
Accrued Expenses and Other Liabilities	(843.043)	(1.102.196)	(1.449.351)	(1.514.650)	(1.803.960)	(1.657.447)	(1.850.739)	(2.179.811)	(2.415.751)	(2.659.324)	(2.875.106)	(3.061.978)	(3.199.269)	(3.342.793)	(3.492.838)	(3.649.702)
Deferred Revenue	(924.745)	(1.117.992)	(1.209.342)	(1.264.661)	(1.442.969)	(1.361.546)	(1.520.330)	(1.790.654)	(1.984.472)	(2.184.560)	(2.361.819)	(2.515.329)	(2.628.110)	(2.746.011)	(2.869.269)	(2.998.129)
Operating current & non-current liabilities	**(10.190.004):-**	**(9.923.979):-**	**(10.883.342):-**	**(11.012.241):-**	**(11.038.973):-**	**(10.961.470):-**	**(11.583.433):-**	**(12.859.843):-**	**(13.420.110):-**	**(13.864.169):-**	**(14.005.553):-**	**(14.912.799):-**	**(15.577.931):-**	**(16.273.184):-**	**(16.999.942):-**	**(17.759.656):-**
Operating Invested Capital	**18.132.899**	**20.116.784**	**26.686.979**	**30.722.038**	**29.644.479**	**31.889.710**	**36.531.524**	**43.596.725**	**49.467.829**	**55.889.583**	**62.055.598**	**66.092.063**	**69.058.987**	**72.160.682**	**75.403.357**	**78.793.510**
Change YoY		10,94%	32,66%	15,12%	-3,51%	7,57%	14,56%	19,34%	13,47%	12,98%	11,03%	6,50%	4,49%	4,49%	4,49%	4,50%
Non Core Invested Capital																
Short Term Investments	-	-	-	911.276	20.973											
Cash Investments	25.349	33.320	27.307	23.406	22.575											
Other Non Current Assets (Non Operating DTA)	172.554	268.362	(15.055)	(92.641)	12.799											
Other Non Current Liabilities, net	-	-	-	-	-											
Non-Operating Invested Capital	**197.903**	**301.682**	**12.252**	**842.041**	**56.347**	-	-	-	-	-	-	-	-	-	-	-
Total Invested Capital	**18.330.802**	**20.418.466**	**26.699.231**	**31.564.079**	**29.700.826**	**31.889.710**	**36.531.524**	**43.596.725**	**49.467.829**	**55.889.583**	**62.055.598**	**66.092.063**	**69.058.987**	**72.160.682**	**75.403.357**	**78.793.510**
Financing																
Net Debt																
Debt	14.759.260	16.308.973	15.392.895	14.353.076	14.543.261	14.424.807	15.003.013	15.542.935	16.090.628	16.585.993	17.017.352	17.445.262	17.950.556	18.473.101	19.013.034	19.574.800
Excess of Cash	(4.010.615)	(6.955.747)	(4.542.912)	(3.566.399)	(5.430.748)	(4.148.986)	(3.921.774)	(3.703.899)	(3.473.671)	(3.209.139)	(2.974.789)	(2.771.837)	(2.622.731)	(2.466.857)	(2.303.901)	(2.133.538)
Net Debt	**10.748.645**	**9.353.226**	**10.849.983**	**10.786.678**	**9.112.513**	**10.275.821**	**11.081.240**	**11.839.036**	**12.616.956**	**13.376.854**	**14.042.563**	**14.673.426**	**15.327.824**	**16.006.244**	**16.709.133**	**17.441.262**
Stockholders' Equity	7.582.157	11.065.240	15.849.248	20.777.401	20.588.313	21.613.889	25.450.285	31.757.688	36.850.873	42.512.729	48.013.035	51.418.637	53.731.162	56.154.438	58.694.225	61.352.249
Total funds reconciliation	**18.330.802**	**20.418.466**	**26.699.231**	**31.564.079**	**29.700.826**	**31.889.710**	**36.531.524**	**43.596.725**	**49.467.829**	**55.889.583**	**62.055.598**	**66.092.063**	**69.058.987**	**72.160.682**	**75.403.357**	**78.793.510**
Check	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR	WAHR

Free Cash Flow Map

	Historical Period					Current	High growth					Steady State				
	2019A	2020A	2021A	2022A	2023A	2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Operating Income before Taxes	**2.604.254**	**4.585.289**	**6.194.509**	**5.632.831**	**6.954.003**	**9.937.427**	**12.214.074**	**12.656.346**	**14.083.111**	**15.987.473**	**17.833.657**	**19.093.691**	**20.065.687**	**21.084.308**	**22.151.755**	**23.270.333**
Less Taxes on Operating Income	(546.893)	(962.911)	(1.300.847)	(1.182.895)	(1.460.341)	(2.086.860)	(2.564.956)	(2.657.833)	(2.957.453)	(3.357.369)	(3.745.068)	(4.009.675)	(4.213.794)	(4.427.705)	(4.651.868)	(4.886.770)
Tax Adjustments	77.554	101.670	169.398	41.950	119.328	135.615	151.424	166.663	182.765	201.317	217.655	231.890	242.296	253.175	264.549	276.441
NOPLAT	**2.134.915**	**3.724.048**	**5.063.060**	**4.491.886**	**5.612.990**	**7.986.182**	**9.800.543**	**10.165.177**	**11.308.423**	**12.831.421**	**14.306.244**	**15.315.906**	**16.094.189**	**16.909.778**	**17.764.435**	**18.660.004**
Plus D&A	9.216.247	10.806.912	12.230.367	14.026.132	14.197.437	14.413.345	15.025.015	17.341.384	18.824.786	20.289.539	21.467.415	22.862.723	23.887.830	24.959.476	26.079.804	27.251.058
Operating gross cash flow	**11.351.162**	**14.530.960**	**17.293.427**	**18.518.018**	**19.810.427**	**22.399.527**	**24.825.558**	**27.506.560**	**30.133.209**	**33.120.960**	**35.773.659**	**38.178.628**	**39.982.019**	**41.869.254**	**43.844.240**	**45.911.062**
Less: Δ in NWC		(1.116.828)	92.270	(272.186)	(844.428)	(521.011)	(421.614)	(91.625)	(778.644)	(1.130.983)	(1.478.902)	22.676	15.254	15.870	16.514	17.185
Less: Δ in PP&E and intangibles (CAPEX)		(12.081.257)	(18.129.226)	(15.918.110)	(13.211.967)	(15.849.392)	(19.058.392)	(24.208.049)	(23.748.090)	(25.372.113)	(25.970.087)	(26.762.133)	(26.752.657)	(27.954.364)	(29.210.742)	(30.524.315)
Less: Δ in Net Other Operating Assets		407.289	(763.606)	(1.870.894)	936.517	(288.173)	(186.824)	(106.910)	(169.157)	(208.196)	(184.441)	(159.730)	(117.351)	(122.678)	(128.251)	(134.081)
Less: Δ Operating Invested Capital		**(12.790.796)**	**(18.800.562)**	**(18.061.190)**	**(13.119.878)**	**(16.658.576)**	**(19.666.830)**	**(24.406.584)**	**(24.695.891)**	**(26.711.292)**	**(27.633.430)**	**(26.899.187)**	**(26.854.754)**	**(28.061.172)**	**(29.322.480)**	**(30.641.211)**
Operating Unlevered Free Cash Flow		**1.740.164**	**(1.507.135)**	**456.828**	**6.690.549**	**5.740.951**	**5.158.728**	**3.099.976**	**5.437.318**	**6.409.668**	**8.140.229**	**11.279.441**	**13.127.265**	**13.808.083**	**14.521.760**	**15.269.851**
Non Operating Profit	84.000	(618.441)	411.214	337.310	(48.772)	–	–	–	–	–	–	–	–	–	–	–
Taxes	142.560	262.112	246.794	220.635	396.634	–	–	–	–	–	–	–	–	–	–	–
Change in Non-Operating Assets		(103.779)	289.430	(829.789)	785.694	56.347	–	–	–	–	–	–	–	–	–	–
Other Comprehensive Income		67.919	(84.893)	(176.811)	(6.639)	–	–	–	–	–	–	–	–	–	–	–
Total Unlevered free cash flows		**1.347.975**	**(644.591)**	**8.173**	**7.817.466**	**5.797.298**	**5.158.728**	**3.099.976**	**5.437.318**	**6.409.668**	**8.140.229**	**11.279.441**	**13.127.265**	**13.808.083**	**14.521.760**	**15.269.851**
Financing Cash Flow	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**	**2033F**	**2034F**
Financial Profit before Tax	(626.023)	(767.499)	(765.620)	(706.212)	(699.826)	(712.919)	(707.112)	(735.456)	(761.923)	(788.771)	(813.055)	(834.200)	(855.176)	(879.946)	(905.562)	(932.029)
Tax Shield	131.465	161.175	160.780	148.305	146.963	149.713	148.494	154.446	160.004	165.642	170.741	175.182	179.587	184.789	190.168	195.726
Change in Net debt		(1.395.420)	1.496.757	(63.306)	(1.674.165)	1.163.308	805.419	757.797	777.920	759.897	665.709	630.863	654.399	678.420	702.889	732.129
Transactions with Shareholders		3.483.083	4.784.008	4.928.153	(189.088)	1.025.576	3.836.396	6.307.404	5.093.185	5.661.856	5.500.306	3.405.602	2.312.525	2.423.276	2.539.786	2.658.024
Comprehensive Income	**1.862.977**	**2.829.314**	**5.031.335**	**4.315.113**	**5.401.351**	**7.422.976**	**9.241.924**	**9.584.166**	**10.706.504**	**12.208.291**	**13.663.931**	**14.656.888**	**15.418.599**	**16.214.621**	**17.049.041**	**17.923.700**
Financial FCF		**(1.347.975)**	**644.591**	**(8.173)**	**(7.817.466)**	**(5.797.298)**	**(5.158.728)**	**(3.099.976)**	**(5.437.318)**	**(6.409.668)**	**(8.140.229)**	**(11.279.441)**	**(13.127.265)**	**(13.808.083)**	**(14.521.760)**	**(15.269.851)**
Check Cash Flows		–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

Income Statement	Historical Period					Current						Steady State				
	2019A	2020A	2021A	2022A	2023A	2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Revenues	20.156.447	24.996.056	29.697.844	31.615.550	33.723.297	38.966.229	43.510.482	47.867.978	52.472.526	57.763.171	62.450.173	66.509.218	69.491.325	72.608.817	75.867.928	79.275.185
% growth		24%	19%	6%	7%	16%	12%	10%	10%	10%	8%	6%	4%	4%	4%	4%
Streaming Revenues	19.859.230	24.756.675	29.515.496	31.469.852	33.640.458	38.966.229	43.510.482	47.867.978	52.472.526	57.763.171	62.450.173	66.509.218	69.491.325	72.608.817	75.867.928	79.275.185
% growth		25%	19%	7%	7%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
DVD Revenues	297.217	239.381	182.348	145.698	82.839	-	-	-	-	-	-	-	-	-	-	-
% growth		-19%	-24%	-20%	-43%	-29%	-29%	-29%	-29%	-29%	-29%	-29%	-29%	-29%	-29%	-29%
Cost of Revenues	12.440.213	15.276.319	17.332.683	19.168.285	19.715.368	20.882.748	22.248.881	25.288.707	27.536.584	29.879.720	31.835.760	33.904.974	35.425.189	37.014.419	38.675.844	40.412.791
Amortization of licensed content	7.242.799	7.544.631	8.055.811	7.681.978	7.145.446	8.024.141	7.545.492	8.125.370	8.160.645	8.054.135	7.702.931	8.203.595	8.571.423	8.955.951	9.357.947	9.778.216
Amortization of produced content	1.973.448	3.262.281	4.174.556	6.344.154	7.051.991	6.389.204	7.479.523	9.216.014	10.664.141	12.235.404	13.764.484	14.659.128	15.316.406	16.003.525	16.721.857	17.472.842
Other streaming costs	3.100.759	4.469.407	5.102.316	5.142.153	5.517.931	6.469.403	7.223.866	7.947.323	8.711.798	9.590.182	10.368.345	11.042.252	11.537.359	12.054.943	12.596.040	13.161.733
DVD costs	123.207	-	-	-	-											
Gross Profit	7.716.234	9.719.737	12.365.161	12.447.265	14.007.929	18.083.481	21.261.600	22.579.270	24.935.942	27.883.451	30.614.413	32.604.243	34.066.136	35.594.397	37.192.084	38.862.394
Overhead Expenses	5.111.980	5.134.448	6.170.652	6.814.434	7.053.926	8.146.055	9.047.526	9.922.924	10.852.831	11.895.977	12.780.756	13.510.552	14.000.449	14.510.089	15.040.329	15.592.061
Marketing	2.652.462	2.228.362	2.545.146	2.530.502	2.657.883	3.107.243	3.421.087	3.733.007	4.067.490	4.426.490	4.705.182	4.910.094	5.014.367	5.120.878	5.229.675	5.340.807
Technology and Development	1.545.149	1.829.600	2.273.885	2.711.041	2.675.758	3.138.887	3.504.944	3.855.958	4.226.873	4.653.056	5.030.613	5.357.585	5.597.806	5.848.933	6.111.467	6.385.935
General and Administrative	914.369	1.076.486	1.351.621	1.572.891	1.720.285	1.899.925	2.121.495	2.333.959	2.558.468	2.816.431	3.044.961	3.242.873	3.388.275	3.540.279	3.699.187	3.865.319
Core Result before Taxes (EBIT)	2.604.254	4.585.289	6.194.509	5.632.831	6.954.003	9.937.427	12.214.074	12.656.346	14.083.111	15.987.473	17.833.657	19.093.691	20.065.687	21.084.308	22.151.755	23.270.333
Statutory Taxes	(546.893)	(962.911)	(1.300.847)	(1.182.895)	(1.460.341)	(2.086.860)	(2.564.956)	(2.657.833)	(2.957.453)	(3.357.369)	(3.745.068)	(4.009.675)	(4.213.794)	(4.427.705)	(4.651.868)	(4.886.770)
Tax Rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Tax adjustments																
Impact of foreign juristidiction	(56.969)	(12.212)	86.489	(104.665)	32.292	6.847	7.640	8.479	9.365	10.434	11.283	12.104	12.656	13.233	13.837	14.469
R&D Tax Credits	134.523	113.882	82.909	146.615	87.036	128.767	143.784	158.184	173.400	190.883	206.372	219.785	229.640	239.942	250.712	261.972
Core Result (NOPLAT)	2.134.915	3.724.048	5.063.060	4.491.886	5.612.990	7.986.182	9.800.543	10.165.177	11.308.423	12.831.421	14.306.244	15.315.906	16.094.189	16.909.778	17.764.435	18.660.004
Non Core Result Before Taxes	84.000	(618.441)	411.214	337.310	(48.772)											
Interest and Other Income (Expenses)	84.000	(618.441)	411.214	337.310	(48.772)											
Statutory Taxes	(17.640)	129.873	(86.355)	(70.835)	10.242											
Tax Rate	21,0%	21,0%	21,0%	21,0%	21,0%											
Tax Adjustments	160.200	132.239	333.149	291.470	386.392											
Non Core Result	226.560	(356.329)	658.008	557.945	347.862	0	0	0	0	0	0	0	0	0	0	0
Financing Result																
Interest Expense	(626.023)	(767.499)	(765.620)	(706.212)	(699.826)	(712.919)	(707.112)	(735.456)	(761.923)	(788.771)	(813.055)	(834.200)	(855.176)	(879.946)	(905.562)	(932.029)
Financing Result before Taxes	(626.023)	(767.499)	(765.620)	(706.212)	(699.826)	(712.919)	(707.112)	(735.456)	(761.923)	(788.771)	(813.055)	(834.200)	(855.176)	(879.946)	(905.562)	(932.029)
Statutory Taxes	131.465	161.175	160.780	148.305	146.963	149.713	148.494	154.446	160.004	165.642	170.741	175.182	179.587	184.789	190.168	195.726
Tax Rate	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%
Financing Result	(494.558)	(606.324)	(604.840)	(557.907)	(552.863)	(563.206)	(558.618)	(581.010)	(601.919)	(623.129)	(642.313)	(659.018)	(675.589)	(695.157)	(715.394)	(736.303)
Other Comprehensive Income	(3.939)	67.919	(84.893)	(176.811)	(6.639)											
Comprehensive Income incl. OCI	1.862.977	2.829.314	5.031.335	4.315.113	5.401.351	7.422.976	9.241.924	9.584.166	10.706.504	12.208.291	13.663.931	14.656.888	15.418.599	16.214.621	17.049.041	17.923.700
Comprehensive Income excl. OCI	1.866.916	2.761.395	5.116.228	4.491.924	5.407.990	7.422.976	9.241.924	9.584.166	10.706.504	12.208.291	13.663.931	14.656.888	15.418.599	16.214.621	17.049.041	17.923.700
Check	-	-	-	-	-											

DCF Valuation

DCF	-1	0	1	2	3	4	5	6	7	8	9	10
	Current								Steady State			
	2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	TV
Operating Free Cash Flow to Firm (base case)		5.158.728	3.099.976	5.437.318	6.409.668	8.140.229	11.279.441	13.127.265	13.808.083	14.521.760	15.269.851	15.971.231
Operating Free Cash Flow to Firm (default case)		854.177	- 2.182.517	- 41.712	314.428	1.224.093	3.568.376	4.871.992	5.133.315	5.407.389	5.694.820	5.956.397
Ultimately expected Cash Flow		5.143.663	3.081.487	5.418.142	6.388.334	8.116.022	11.252.452	13.098.371	13.777.721	14.489.860	15.236.338	15.936.179
discounted @ WACC		9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%
Discount factor		1,00	0,91	0,84	0,76	0,70	0,64	0,58	0,53	0,49	0,44	0,41
Discounted FCF			2.816.119	4.525.136	4.875.954	5.661.165	7.172.993	7.630.644	7.335.199	7.050.004	6.774.799	134.075.179

Enterprise Value	**187.917.193,4**
Share Projection Period	*28,7%*
Share Terminal Value	*71,3%*
(+) Invested Capital Non Core Operations	56.347,0
(-) Net Debt	- 11.081.239,5
Equity Value	**176.892.300,8**
Total shares outstading (mn)	428.239,0
Price per share ($)	**413,1**

NETFLIX, INC.

COMPANY REPORT

ENTERTAINMENT

17 DECEMBER 2024

JONNA SISTEK & MAIKE JANCIN

58795, 58583@novasbe.pt

Netflix Equity Research Report – See what's next.

Competitive Markets and Overvaluation?

- **Our recommendation is to SELL Netflix based on a target price of $483.19 as of 31st December 2025.** This target represents a downside of 48% from the closing price of $936.56 as of 12th December 2024.
- **The streaming market continues to expand, but growth is slowing in mature regions.** While demand for streaming services remains strong, subscriber growth in markets like the United States and Europe has slowed down, forcing Netflix to rely on ARPU increases to drive revenue. Emerging markets, such as the Asian market, provide opportunities but require tailored strategies.
- **Netflix's shift toward original content and reduced reliance on licensed material is a key strategic focus.** As Netflix faces pressure from companies like Disney+, Amazon Prime Video, and Apple TV, the company had to limit content spending and shift towards a larger share of original content.
- **Although Netflix's profitability and operational efficiency are improving, these gains appear priced into the current valuation.** With net profit margins projected to reach 23% by 2034 and free cash flows forecasted to grow steadily, the company is fundamentally strong, but its recently increased market price limits further upside, which supports our **SELL recommendation**.

Company description

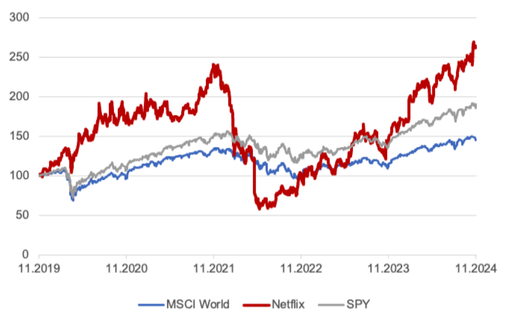
Netflix is a global leader in digital streaming, which offers an online on demand streaming subscription with over 282 million paid subscribers globally. It is available in over 190 countries and has tailored its content to international audiences by offering local content in multiple languages. The company invests strongly in original productions next to licensing content from various providers.

Recommendation:	**SELL**
Price Target FY25:	**483.19 $**
Price (as of 12-Dec-24)	**936.56 $**

Yahoo Finance: NFLX:US

52-week range ($)	461.86 – 941.75
Market Cap ($b)	394.817
Outstanding Shares (m)	427.46

Source: Yahoo Finance



Netflix and S&P500 and MSCI World Historical Prices (USD)
Source: Yahoo Finance, Annual Reports Netflix

(Values in $ millions)	2023A	2024E	2025F
Revenues	33,723	38,996	43,510
Gross Profit	14,007	18,289	20,960
Net profit	5,407	7,585	9,032
Gross Profit Margin	41.5%	46.9%	48.2%
EBITDA Margin	62.7%	62.5%	62.6%
Net Income Margin	16.0%	19.5%	20.7%
Operating ROIC	18.3%	27.5%	30.3%
Paid Memberships (in m)	241	271	298
ARPU	139.6	144.1	146.1

Source: Annual Reports Netflix

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Company Overview

Company Description

Netflix, Inc. (Netflix or NFLX) is a global leader in entertainment services, which offers streaming access to a broad library of TV series and movies to a worldwide audience. Originally an online DVD rental service, Netflix was founded in 1997 by Reed Hastings and Marc Randolph and is based in Los Gatos, California. In 2007, the company revolutionized the entertainment industry with its transition to a subscription-based streaming model. Thereby, Netflix became an innovator around subscription video on demand (SVoD) services. In 2010, it expanded internationally by offering its services in Canada, Latin America and the Caribbean (Netflix, n.d.-a).

Today, Netflix serves customers in over 190 countries with content in more than 30 languages and over 282 million subscribers worldwide (Netflix, 2024c). Its platform is known for high-quality, original productions like *Black Mirror* and *House of Cards.* The company offers different pricing plans which provide subscribers with access to the library of high-quality licensed and original content.

Business Segments and Business Model

Standard with Ads $6.99	Standard $15.49	Premium $22.99
Ad-supported access with restrictions	Unlimited access	Unlimited access
Watch on 2 devices	Watch on 2 devices	Watch on 4 devices
1080p (Full HD)	1080p (Full HD)	4K (Ultra HD) + HDR
Download on 2 devices	Download on 2 devices	Download on 6 devices
-	Option to add one extra member	Option to add 2 extra members

Figure 1: Plans and pricing of Netflix in the U.S. (Netflix, n.d.-c)

The company's primary revenue stream is subscription fees for its streaming services. Netflix offers a variety of membership pricing based on the quality of streaming and the number of devices that can stream at once. Each tier has a unique price point, allowing Netflix to reach a larger audience. In the United States, the *Standard Plan* is $15.49 per month and allows for simultaneous 1080p viewing on up to two devices, as well as content downloads to two devices. The *Premium Plan*, priced at $22.99 per month, provides 4K Ultra HD and HDR streaming on up to four devices simultaneously and includes the option to download on six devices (Netflix, n.d.-c). To diversify its offerings, Netflix introduced a more affordable *Standard with Ads Plan* in 2022, priced at $6.99 per month. This ad-supported tier offers the same streaming quality as the Standard Plan but comes with advertisements, providing an economical alternative while generating revenue through ads (PEOPLE, 2022; Tamanini, 2022).

Netflix's revenue from streaming services is segmented regionally into four main markets: UCAN (U.S. and Canada), EMEA (Europe, the Middle East, and Africa), LATAM (Latin America), and APAC (Asia-Pacific). Each region has distinct growth potential and pricing strategies. For example, markets with slower growth, like UCAN, focus on maintaining a high average revenue per user (ARPU), whereas

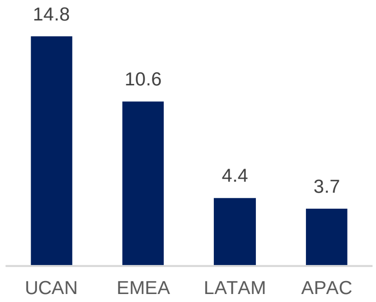

Figure 2: Revenue by region in 2023 in $bn (Netflix, 2024c)

emerging markets in APAC see lower ARPU but higher subscriber growth potential. Despite its revenue allocation, Netflix operates as a one operating segment and considers all income and expenses on a consolidated basis. In total Netflix generated $33.7 billion in revenues in 2023, of which 44% were generated in Canada and the U.S (Netflix, 2024c).

Additionally, Netflix is developing new revenue streams through licensing and partnerships, particularly with mobile carriers and smart TV manufacturers, to enhance accessibility and reach in emerging markets. While direct revenue from content licensing is limited compared to streaming subscriptions, partnerships increase customer acquisition and brand visibility, indirectly supporting revenue growth.

Company Growth Strategy

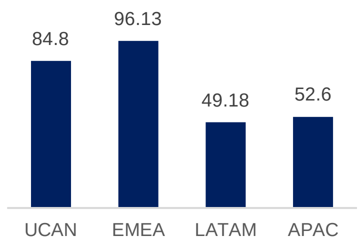

Figure 3: Subscribers per region as of 3rd Quarter 2024 (Netflix, 2024d)

Netflix pursues a growth strategy centered on continuously expanding its membership base and increasing user engagement. Since 2002, the company has grown significantly in terms of revenue and subscribers thanks to strategic decisions and business model changes. With the discontinuation of its DVD rental service in September 2023, Netflix now focuses exclusively on streaming, aligning with shifting consumer habits and supporting the company's digital transformation (Milmo, 2023). As of Q3 2024, Netflix has 282 million subscribers worldwide, of which the majority are located in the UCAN and EMEA region (Netflix, 2024d).

Implementation of "Standard with ads"

As part of its growth strategy, Netflix implemented the ad-supported subscription model, designed to attract price-sensitive users and creating new revenue opportunities through targeted advertisements (Netflix, 2023). This structure enhances market compatibility by potentially facilitating seamless integrations with other providers, such as Disney+, thereby expanding growth potential.

Continued investments in exclusive content

A further essential aspect of the company's strategy is the consistent investment in a diverse media library comprising both licensed materials and exclusive original productions. This diversification supports customer acquisition while promoting long-term engagement among existing subscribers (Netflix, 2024d).

Starting video games business

In line with its service expansion, Netflix has incorporated video games into its platform since November 2021, primarily targeting mobile app users. This initiative aims to increase user engagement, which can lead to higher advertising revenue through more frequent ad impressions (Adgate, 2021).

Using fixed licensing model

Moreover, Netflix has adopted a cost-efficiency strategy focused on long-term profitability, resulting in a significant increase in its operating margin. By employing a fixed licensing model that covers production costs plus a 30% premium –

compared to the typical 60-70% in this market – Netflix can fully leverage economies of scale as its user base grows, further enhancing profitability. Consequently, the operating margin increased from around 7% in 2017 to over 27.2% in 2024 (Netflix, 2024c).

Ownership Structure

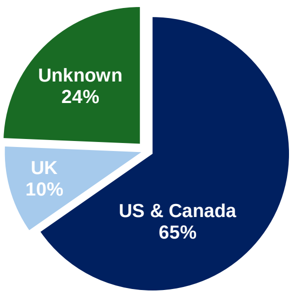

Figure 4: Geographical origin of shareholders (Marketscreener, n.d.)

Netflix is listed on the NASDAQ and has an equity structure that is mainly shaped by institutional investors, including the Vanguard Group (8.7%), BlackRock, Inc. (7.4%), Fidelity Management & Research Co. LLC (4.8%), and State Street Corporation (3.97%). As of September 20, 2024, approximately 86.36% of Netflix's outstanding shares were held by institutional investors. This significant institutional ownership indicates strong confidence from large investment entities in Netflix's future growth. Geographically, most of Netflix's investors come from the United States (63.20%), followed by the United Kingdom (10.33%) and Canada (2.13%) which reflects Netflix's primary market area and indicates the demand for streaming services in these regions (Marketscreener, n.d.).

The presence of long-term investors enhances Netflix's overall stability and allows the company to focus on sustainable growth strategies. By fostering relationships with institutional investors, the company can ensure that its capital-raising efforts through equity offerings and stock sales are more efficient. This capability is crucial for content financing, which are central components of its business model (Corporate Finance Institute, n.d.).

Leadership Team

Netflix's leadership team is composed of 22 board members, including eight women, all of whom contribute a diverse range of professional expertise to the organization. The majority of the board members are relatively new, and their diverse backgrounds cover key industries such as film production, advertising, and Big Tech.

Co-CEOs Ted Sarandos and Greg Peters currently lead Netflix, contributing complementary expertise to the company. This shared leadership structure is designed to enhance decision-making processes and offer a comprehensive perspective on strategic initiatives, particularly in content and technology. In early 2023, Reed Hastings, the company's co-founder and former CEO, assumed the role of Executive Chairman and continues to support the leadership team as a trusted advisor (Netflix, n.d.-b).

Sector Analysis

Macroeconomic Factors

The environment in which Netflix operates is significantly influenced by macroeconomic and geopolitical factors that directly impact the company's strategic direction and financial stability.

Inflation

Inflation is a significant macroeconomic factor influencing Netflix, as it impacts both operational expenses and consumers' purchasing power. Elevated inflation rates can increase cost pressures and make consumers more price-sensitive regarding subscription fees. In Netflix's largest revenue market, North America, inflation rates are moderate, averaging 2.9% in 2024, and are anticipated to decrease further (International Monetary Fund, n.d.-a).

GDP

Another critical element is economic growth. An increase in gross domestic product (GDP) influences the willingness of consumers to pay for streaming services. In Netflix's core markets, such as North America and Europe, moderate economic recovery with a real GDP growth of 2.59% in North America and 1.53% in the EMEA region fosters a positive consumption climate. Latin America's improving economy, with 1.95% growth, offers potential for subscriber increases, while the APAC region's robust 4.05% growth present significant opportunities (International Monetary Fund, n.d.-b).

Geopolitical events & currency fluctuations

Additionally, geopolitical events and currency fluctuations influence Netflix's market conditions, as Netflix has exposure to over 190 countries and 45 currencies (Seekingalpha, 2023). Conflicts in the Middle East and the Ukraine war, for instance, can create widespread economic uncertainties and currency fluctuations that affect international operating companies like Netflix. Such geopolitical tensions can lead to higher production costs and more unstable financial markets.

Subscription Video On Demand

The global SVoD market has seen a significant increase in consumer utilization, which is likely to continue in the future years. From 2017 to 2027, the total number of SVoD users is forecasted to increase from 0.6 billion to 1.7 billion at a CAGR of 11.2%. This growth is influenced by several factors including the increasing availability of affordable internet access, the spread of smart devices, and a strong demand for exclusive on-demand content. At the same time, ARPU has seen steady growth, rising from $45.03 in 2017 to $83.69 in 2027, which indicates the willingness of existing users to spend more for premium offerings. Thereby, market

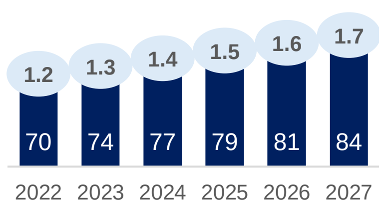

Figure 5: SVoD market ARPU in $ and Users in billion (Statista, 2024i)

revenues are forecasted to reach $137.7 billion by 2027, which represents a CAGR of 14.2% (Statista, 2024i).

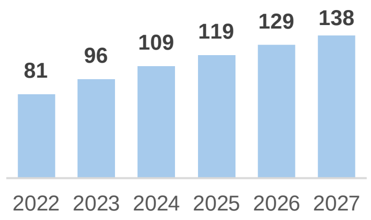

Figure 6: SVoD market revenue in $bn (Statista, 2024i)

However, analysts assume that the SVoD market faces challenges that could limit its global potential. Developed markets, including North America and parts of Europe, are nearing saturation, where most households already subscribe to one or more streaming services. Consequently, future growth will increasingly rely on user acquisition in emerging markets such as India and parts of Asia. Yet, in large potential markets like China, a general lack of willingness to pay for subscription content and regulatory constraints pose a significant challenge to further expansion (Statista, 2024i).

Market Trends

Netflix faces a challenge of adjusting to market developments that will influence its continued success. These shifts, driven by technical advancements, shifting consumer expectations, and the emergence of new streaming models, are changing the industry's strategic and operational landscapes.

High-quality streaming: A significant trend is the rising demand for high-quality streaming, particularly in 4K and 8K resolution, which enhances the viewing experience and meets consumers' growing expectations for superior content. Netflix is responding by continually investing in high-resolution content and HDR technology, ensuring its platform remains at the forefront of visual quality (Netflix, 2020).

Additional streaming services: Another notable trend is the increasing demand for integrated services that offer a comprehensive entertainment experience, reducing the need for users to switch between different platforms. To address this, Netflix has begun expanding its offerings by incorporating additional services like video games and live sports (Gartenberg, 2021). Recently, the company made waves by streaming a high-profile live boxing match between Mike Tyson and Jake Paul, which attracted significant attention and viewership, showcasing Netflix's ability to diversify its content. However, some technical issues during the live stream caused disruptions and frustrated many viewers (Nasdaq, 2024).

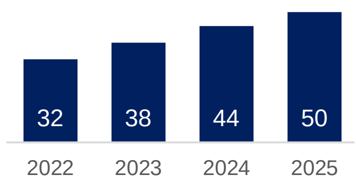

Figure 7: AVoD market revenue in $bn (Statista, 2024a)

Ad-based streaming: The shift towards ad-based streaming models is also gaining momentum, as more consumers seek affordable alternatives to traditional subscription-based services. The Advertising-based Video on Demand (AVoD) market is projected to generate $48.32 billion in revenue by 2024, with an impressive annual growth rate of 17.5% (Statista, 2024a). Netflix has launched an ad-based tier, though it is not yet available in all markets where the company operates, marking a strategic move to tap into new revenue streams (Netflix, 2023).

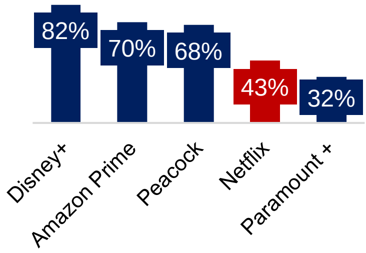

Figure 8: Forecast % change in spending on original content between 2022 and 2027 (fDi Intelligence, 2022)

Original content: Exclusive original content remains a cornerstone of the SVoD market, providing platforms with a significant competitive edge. By offering content that can only be found on their platform, streaming services foster stronger brand loyalty among viewers. Netflix continues to leverage this strategy by investing in high-profile original series, such as *Stranger Things*, ensuring its library remains distinct and appealing to a global audience. This focus on exclusive content not only differentiates Netflix from its competitors but also drives subscriber growth and retention (Moviepilot, 2021).

Competitive Landscape

Netflix operates in a market with strong competition, with the majority of its revenue generated in the UCAN region. As a result, the competitive analysis focuses on competitors that are primarily active in this region, including Alphabet, Apple, Warner Bros. Discovery, Walt Disney, Amazon, and Comcast. These competitors can be divided into two categories: direct competitors, whose primary business model revolves around streaming, and indirect competitors, whose main business is not necessarily streaming but are still well-integrated into the streaming market.

- Direct Competitors

Warner Bros. Discovery (WBD) was formed in 2022 when WarnerMedia and Discovery merged. The business is an essential player in the streaming industry. The company has a strong presence with over 97.7 million customers to HBO Max and Discovery+ and an estimated $41.3 billion in revenue in 2023. Warner Bros. Discovery stands out in delivering a wide range of premium content, with its key strengths rooted in blockbuster franchises like *Harry Potter*, complemented by popular TV programming and unscripted content (Warner Bros. Discovery, 2024).

Walt Disney (DIS) is another major player in the streaming space. With Disney+, the company reached 158 million subscribers in 2024 (Statista, 2024b). Walt Disney attracts a diverse audience by offering content that ranges from children's programming to popular titles like *Marvel, Pixar*, and *Star Wars*. This diversity makes Disney a challenging competitor, well-established in the streaming sector (The Walt Disney Company, 2024).

- Indirect Competitors

Alphabet (GOOG), the parent company of Google, is a significant indirect competitor with YouTube. While YouTube is known for user-generated content, YouTube TV offers a paid streaming service that directly competes with Netflix.

With a revenue of $307 billion in 2023, Alphabet has the resources to invest heavily in the streaming market (Alphabet Inc, 2024).

Apple (AAPL) has established itself as a strong competitor with Apple TV+. The service focuses on high-quality, exclusive original content and had over 42.1 million subscribers in 2023. Through its integration with the broader Apple ecosystem, Apple TV+ benefits from a loyal user base and competes with Netflix for premium content (Statista, 2022).

Amazon Prime Video (AMZN), with over 200 million Amazon Prime members, is a major player in the streaming market (Statista, 2024e). The company bundles Prime Video with its e-commerce membership, creating added value beyond streaming. This bundling approach gives Amazon a financial flexibility that Netflix, as a pure-play streaming service, does not have. With a revenue of approximately $574 billion in 2023, Amazon has the financial power to continue investing in content and technology (Amazon.com Inc, 2024).

Comcast (CMCSA), with its streaming service Peacock, is also a key competitor in the US market. Peacock had over 36 million paying subscribers in 2024 (Statista, 2024f). Comcast combines free and paid content and leverages its strong cable and broadband services to assert its presence in the streaming sector (Comcast Corporation, 2024).

Netflix has positioned itself as a dominant player in the SVoD industry. Through continuous investments in content and technology, the company has secured a strong market position. Netflix invested approximately $17.2 billion in content, accounting for about 26% of its revenue (Statista, 2023a). In comparison, Disney spent around $27.2 billion on content, with most of it directed towards Disney+, which has seen strong growth due to its brand franchises (Statista, 2024b). Amazon Prime Video invested around $18.9 billion in content, mainly driven by the acquisition of sports rights and exclusive series (The Wrap, 2024). While Netflix continues to focus on a broad content library, competitors like Disney and Amazon strengthen their market position through additional portfolios and bundling.

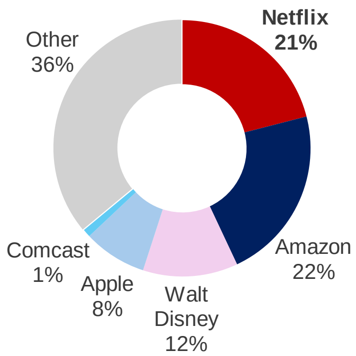

Figure 9: Market shares of the SVoD market (Statista, 2024h)

With over 22% of the market, Amazon dominates the American video-on-demand (VoD) market. Netflix comes in second with roughly 21%, while Disney+ comes in third with roughly 12%. Other competitors like Apple, Comcast, and Warner Bros. Discovery have smaller shares but continue to expand their market positions through various business strategies, such as bundling content with other services (Statista, 2024h). With over 600 million users worldwide and ongoing international expansion, Netflix has the opportunity to further solidify its leadership position.

Particularly in regions where the company has not yet fully penetrated, substantial growth opportunities remain (Netflix, 2024d).

Netflix continues to lead the streaming market in terms of subscribers with approximately 282 million subscribers worldwide (Statista, 2024g). Amazon follows with around 200 million members for Amazon Prime (Statista, 2024e), while Disney+ reports about 158 million subscribers in 2024 (Statista, 2024d).

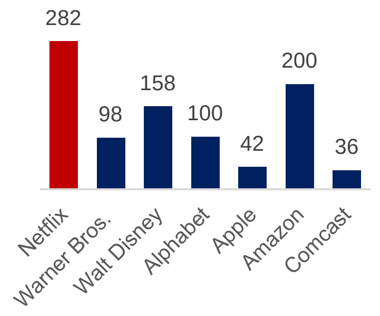

Figure 10: SVoD subscriber worldwide in million (Statista, 2024d)

Market Advantages

A critical component of Netflix's success lies in its globally recognizable brand identity. Netflix has established itself as a globally recognized brand. In the United States, 96% of VoD users are ware of Netflix with more than half of them displaying loyalty and regular usage (Statista, 2023b). Similarly, in Germany, 94% of VoD users recognize the brand, with 67% expressing a favorable view of it (Statista, 2023c).

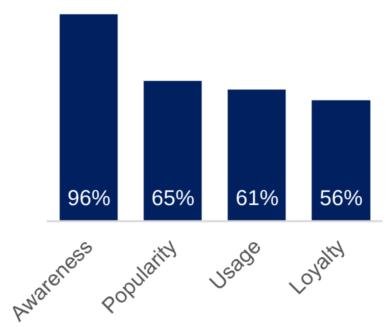

Figure 11: Netflix brand KPI profile in the U.S. (Statista, 2023b)

Furthermore, Netflix success in heavily driven by its substantial investments In a vast library of content, including original productions. As of 2023, the library consists of more than 15,000 titles, combining licensed content and original series like Squid Game (Focus Online, n.d.)

Moreover, a central aspect of Netflix's strategic orientation is the diversification of its subscription model. By offering various pricing tiers, Netflix achieves broad market penetration and effectively appeals to price-sensitive and value-oriented consumers. This enables the company to align itself flexibly with diverse market segments and reach a wider target audience.


Figure 12: World map of countries where Netflix is available

Additionally, Netflix's global footprint in over 190 countries represents a significant strategic asset, as it facilitates the accessibility and scalability of its content on a worldwide scale. Productions like *Heeramandi* in India and *The Gentlemen* demonstrate its commitment to creating culturally specific content with universal appeal (Asia News Network, n.d.).

Company	Churn
Netflix	**2%**
Apple TV+	8%
Hulu	5.8%
Disney+	4.8%
Amazon Prime	4%

Figure 13: Churn rates Q1 2024 (Hurff, 2023)

Finally, another pivotal element contributing to Netflix's market success is its sophisticated recommendation algorithm. This algorithm delivers a highly personalized viewing experience, thereby significantly boosting audience engagement. Approximately 80% of the content consumed by users is derived from Netflix's recommendations, which serves as evidence to the considerable influence of the algorithm on user behavior (Stratoflow, 2024). Through analysis of viewing habits and individual preferences, Netflix is expert at offering targeted recommendations that enhance user interaction. This personalized approach is further strengthened by the company's cultural adaptability, as advertising is tailored to reflect the specific interests and preferences of viewers across various regions. By integrating these strategies, Netflix not only optimizes the user experience but also reduces churn, with Netflix loosing only 2% of its users quarterly (Hurff, 2023).

As a result, Netflix strengthens its role as a global provider, that offers a personalized viewing experience and gives it a clear market advantage.

Stock Performance

Company / Index	Annualized Returns in %
MSCI World	9.19
S&P 500	17.15
Alphabet	34.23
Apple	50.65
Comcast	-11.27
Netflix	**32.71**
Walt Disney	-5.51

Figure 14: Annualized returns of indices and peers

Company / Index	Annualized Volatility in %
MSCI World	4.48
S&P 500	4.57
Alphabet	6.97
Apple	6.91
Comcast	6.15
Netflix	**9.94**
Walt Disney	7.41

Figure 15: Annualized volatility of indices and peers

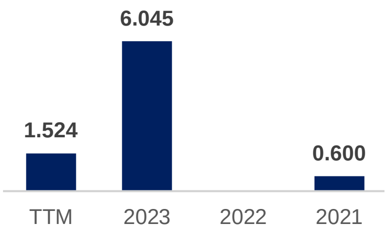

Figure 16: Share buybacks last 4Y in $bn (Netflix, 2024c)

Netflix's stock performance has been both impressive and highly volatile over recent years. With a share price of $756.10 as of November 1st 2024, Netflix has considerably outperformed both its direct competitors and broader market indices. From the end of 2019 to 2024, Netflix generated an annualized return of 32.71%, far exceeding that of major indices such as the MSCI World (9.19%) and the S&P 500 (17.15%). This outperformance illustrates the company's ability to deliver substantial shareholder value, driven largely by its growth in global subscribers, although strong competitors such as Alphabet and Apple have shown even higher annualized returns.

However, this growth has come with a higher level of volatility. Netflix's annualized volatility stands at 9.94%, notably higher than the MSCI World (4.48%) and the S&P 500 (4.57%), indicating that the stock experiences more pronounced fluctuations. When compared to its competitors in the market Netflix's volatility is above the industry average of 6.94%, which was calculated by average the annualized volatility of Google, Apple, Comcast and Disney. Netflix's stock sees more fluctuations than many of its peers, which may indicate a less stable performance. Due to a slightly higher volatility, investors may face significant market movements in response to the company's evolving strategies and competitive landscape.

In addition to stock performance, Netflix's approach to shareholder returns differentiates it from many large-cap peers. Since going public, Netflix has not issued dividends, preferring to reinvest earnings into growth initiatives such as content production and technology improvements. Instead, Netflix has chosen to return capital to shareholders through share buybacks. Beginning in March 2021, Netflix initiated a repurchase program of up to $5 billion, which was expanded by an additional $10 billion in September 2023. By the end of 2023, Netflix had repurchased approximately 14.5 million shares, totaling $6.045 billion, leaving $8.4 billion available for future buybacks (Netflix, 2024c). This program not only signals management's confidence in Netflix's long-term value but also gives the company flexibility to generate cash flow if needed, as the program can be adjusted or paused based on market conditions.

The graph shows Netflix's stock performance in relation to the S&P 500 and MSCI World, emphasizing the company's stronger growth trajectory and higher volatility. Despite the June 2022 dip due to growth concerns and rising competition, Netflix's recent strategies and robust content lineup have sustained investor interest and supported its stock price recovery. Overall, Netflix remains a high-growth, high-volatility stock, positioning itself as a leader in the streaming industry while managing shareholder returns through strategic buybacks instead of dividends.

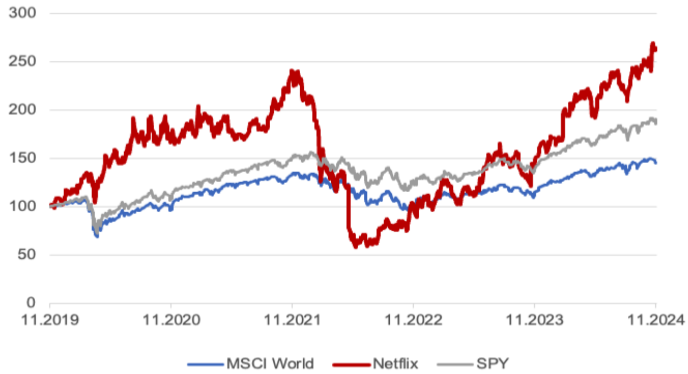

Figure 17: Netflix stock performance against selected indices

Company Analysis and Forecast

Historical Financial Analysis

Assessing Netflix's financial health involves a comprehensive analysis of its financial statements, liquidity metrics, and capital structure over the past five years. In a next step, we compared these figures to those of the broader industry and specific competitors, namely Alphabet Inc., Comcast Corp. and Walt Disney Co.

- Revenue Growth

The **UCAN** region, Netflix's most established market, has seen steady but moderate revenue growth. Subscriber growth in this region was relatively low, peaking at 8% in 2019 before leveling out, with minimal growth (0-4%) in subsequent years as the market matured. Despite limited subscriber increases, revenue growth in UCAN has been driven by steady ARPU increases. The ARPU growth reached a high of 9% in 2021, although it slowed to 3% by 2023. As a result, UCAN's total revenue increased consistently but at a decelerating rate, from 14% growth in 2020 to 5.6% in 2023. This trend reflects Netflix's emphasis on increasing pricing rather than gaining new subscribers in this saturated market.

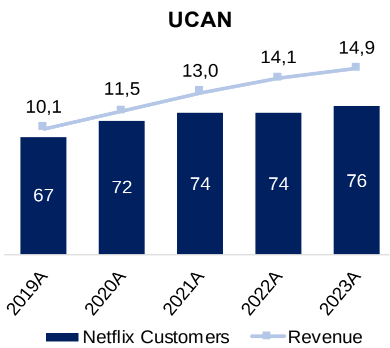

Figure 18: UCAN subscribers & revenue growth

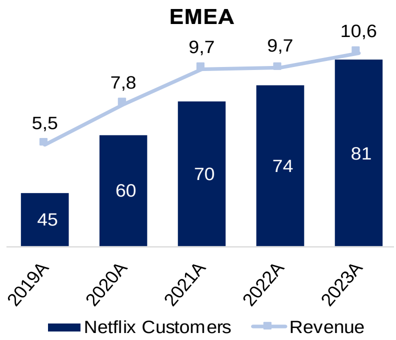

Figure 19: EMEA subscribers & revenue growth

In the **EMEA** region, Netflix experienced a more substantial revenue growth rate, supported by relatively robust subscriber increases. Subscriber growth was particularly high in 2019 (35%) and 2020 (15%), but it slowed down to 10% in 2023 as the region matured. Revenue growth for EMEA initially mirrored this trend, with an impressive 40.2% increase in 2020 and a 25% rise in 2021, but it flattened to 0% in 2022 before recovering to 8% in 2023. ARPU in EMEA fluctuated, with a notable 8% growth in 2021, followed by declines of 5% in 2022 and 1% in 2023. This volatility in ARPU might be tied to economic factors and regional pricing strategies, contributing to the revenue growth slowdowns in recent years.

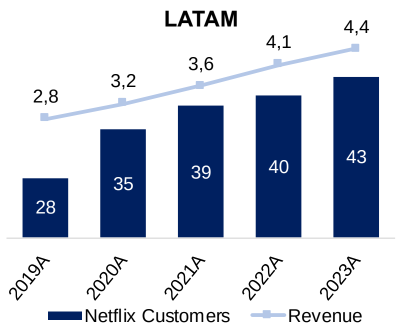

Figure 20: LATAM subscribers & revenue growth

The **LATAM** region exhibited moderate growth in both subscribers and ARPU. Subscriber growth ranged from 24% in 2019 to a low of 4% in 2022, before recovering to 7% in 2023. Correspondingly, revenue growth in LATAM remained stable, showing a pattern of around 12.9% growth in 2020, 13% in 2021, 14% in 2022, and a slight decline to 9% in 2023. ARPU growth in LATAM was relatively weak in the earlier years, with a negative growth of -9.2% in 2019, but it picked up to 3.7% in 2021 and 10% in 2022, before stabilizing at 2% in 2023. These numbers suggest that Netflix has adjusted its pricing strategies to balance affordability with revenue goals in this region.

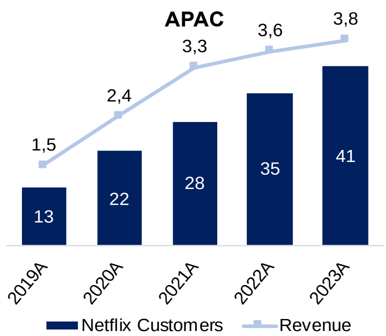

Figure 21: APAC subscribers & revenue growth

APAC, the smallest revenue-generating region for Netflix, has shown the highest potential for subscriber growth. Subscriber growth in APAC peaked at 64% in 2019, though it gradually declined to 17% by 2023. Revenue growth closely followed this pattern, with a massive 61.4% increase in 2020, which tapered down to 5% by 2023. ARPU in APAC, however, has been challenging; it declined by 1.3% in 2019 and 11% in 2022, followed by a further 10% decline in 2023. This downward ARPU trend suggests competitive pressures or pricing adjustments to attract and retain a price-sensitive customer base in APAC. Despite lower ARPU, the APAC region remains a high-growth market for Netflix due to its large untapped subscriber base.

- Profitability and Returns

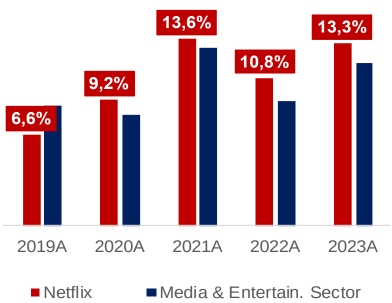

Figure 22: Return on assets – Netflix vs. sector

An analysis of Netflix's financial performance from 2019 to 2023 highlights a clear trend of growth in both operational efficiency and profitability. Gross profit improved from $7.7 billion in 2019 to $14.0 billion in 2023A. This growth trend is supported by an increase in the net profit margin, rising from 9.2% in 2019 to 16.0% in 2023A. This solid growth in net profit indicates Netflix's improved operational profitability, even as it invested heavily in content. When comparing net profit margins, Netflix's exceeds competitors like Disney, which struggled to maintain positive margins, and Comcast, which remained around 10-13% during the same period. Netflix's 16.0%

margin also closely approaches the media and entertainment sector average of 19.8% in 2023.

Company / Index	Asset Turnover
Netflix	**0.83**
Alphabet	0.76
Comcast	0.41
Walt Disney	0.43
Sector	**0.60**

Figure 23: Asset Turnover as of 2023

Netflix has demonstrated notable improvements in its returns, with its Return on Assets (ROA) increasing from 6.6% in 2019 to 13.3% in 2023. This growth indicates Netflix's enhanced efficiency in utilizing its assets to generate profits. While its ROA trails Alphabet Inc., which peaked at 21% during the same period, Netflix consistently outperforms Comcast and Disney, whose ROAs have remained in the lower single digits or even negative in Disney's case. Compared to the media and entertainment sector average of 12% in 2023, Netflix's ROA of 13.3% highlights its strong operational effectiveness. In terms of Asset Turnover, Netflix has maintained a consistently high ratio, improving from 0.71 in 2019 to 0.83 in 2023. This outpaces competitors like Comcast and Disney. Additionally, Netflix's asset turnover consistently exceeds the sector average of 0.60 in 2023.

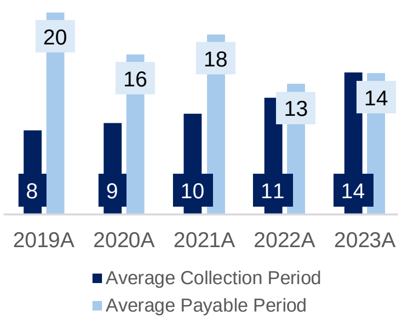

Figure 24: Cash conversion cycle

- Liquidity

Examining Netflix's **liquidity**, we see some volatility. The cash conversion cycle turned from -11.6 days in 2019 to near zero days in 2023, indicating an increasing reliance on short-term cash cycles and faster collections, though collection periods lengthened from 8.2 days in 2019 to 13.9 days in 2023. Netflix's liquidity ratios indicate some fluctuation but remain competitive within the industry. The current ratio, which rose from 0.90 in 2019 to 1.25 in 2020, declined slightly to 1.12 in 2023, staying close to Disney's 1.05 and outperforming Comcast's 0.60, though still below the sector average of 1.67. The quick ratio followed a similar trend, peaking at 1.13 in 2020 and ending at 0.95 in 2023, ahead of Comcast (0.50) and Disney (0.85) but underperforming the sector average of 1.53. Netflix's cash ratio, which reached 1.05 in 2020, declined to 0.80 in 2023, surpassing both Comcast (0.15) and Disney (0.46) but remaining below the sector average of 1.05.

Company / Index	Current ratio
Netflix	**1.12**
Alphabet	2.10
Comcast	0.60
Walt Disney	1.05
Sector	**1.67**

Figure 25: Current ratio as of 2023

- Solvency and Capital Structure

Netflix's capital structure and solvency have improved significantly, indicating better financial health and less dependence on debt. From 1.47 in 2019 to 0.6 in 2023, the debt-to-equity ratio showed improvement, moving closer to the sector average of 0.37 and competition like Disney (0.51). Its strong ability to fulfill its debt commitments is demonstrated by its interest coverage ratio, which increased from 4.16 in 2019 to 9.94 in 2023, considerably higher than the sector average of 1.05. Likewise, the debt-to-assets ratio decreased from 0.52 in 2019 to 0.36 in 2023, indicating a less leveraged and stronger balance sheet. Netflix's debt-to-capital ratio decreased from 0.66 in 2019 to 0.41 in 2023, putting it in line with the sector average of 0.27 and Disney (0.34).

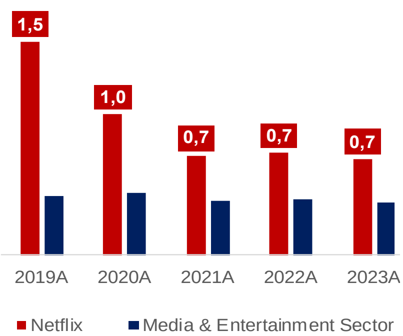

Figure 26: D/E ratio – Netflix vs. sector

Revenue Forecast

Our revenue forecasts consider both subscriber growth and ARPU, key metrics that impact Netflix's top-line figures. To ensure a reliable forecast, we set analyzed influencing factors of the two and set up a regression model for most regions. This model combined key factors such as population growth and the number of fixed broadband subscriptions, given their strong correlation, and delivered significant results. ARPU was forecasted using a trend line method for most regions, which was further validated by expected market trends. This two-fold approach allows for a complete outlook on Netflix's revenue potential.

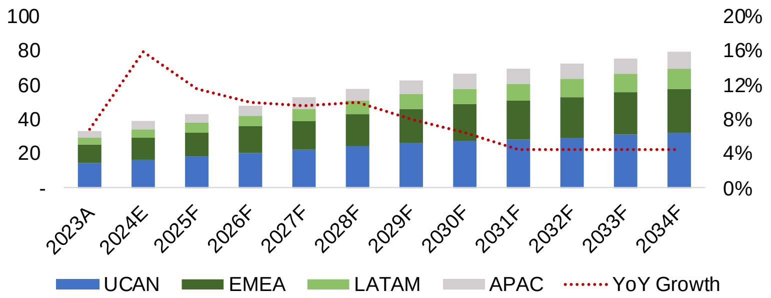

Figure 27: Netflix forecasted revenues from 2023 to 2034 by geographic area (in $m)

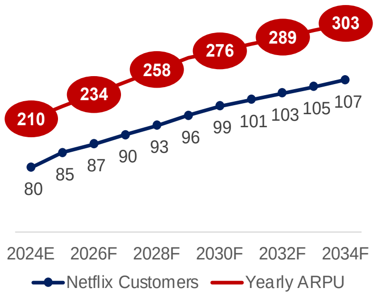

Figure 28: UCAN – ARPU in $ and subscriber in million

The **UCAN** region accounts for approximately 44% of Netflix's total revenues in 2023, making it the company's most significant market. Based on an analysis of historical data from 2019 to 2023, we identified that subscriber growth in UCAN closely correlates with two primary variables: regional population growth and fixed broadband subscriptions. Combining these variables produced a statistically robust model with an R^2 of 78% and a p-value below 0.05, confirming their predictive strength. For ARPU projections in UCAN, we observed an even stronger correlation specifically with fixed broadband subscriptions, resulting in an R^2 of 97% and a low p-value, underscoring the reliability of this variable in forecasting ARPU trends.

Based on these findings, our forecast indicates that UCAN revenues will reach approximately $16 billion in 2024, with further growth at a CAGR of 9% to $25 billion by 2029. Entering the steady phase from 2030 to 2034, we anticipate ARPU growth to align with inflation rates (2.33% for UCAN), while subscriber growth will mirror long-term GDP trends of 2% . Our projections show a peak in revenue growth for UCAN in 2024, which is consistent with Netflix's latest Quarterly Earnings Q3 reporting (Netflix, 2024).

The **EMEA** region is Netflix's second-largest market, generating 31% of total revenue in 2023, which translates to $10 billion in sales. To forecast subscriber

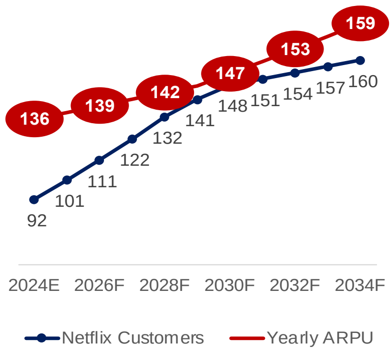

Figure 29: EMEA – ARPU in $ and subscriber in million

growth in this region, we used the same approach applied to UCAN. Our model showed a high R-squared of 91% and a p-value of 0.01, indicating a statistically significant correlation. We applied these projections to the growth phase, while for the steady-state phase, we adjusted the growth rate to 2%, in line with projected long-term GDP growth of the EMEA region (International Monetary Fund, n.d.-b). To forecast the ARPU, our initial model lacked statistical significance, so we adopted a trend line method. Although the R-squared was low, validating each year's projection ensured consistency. This brings ARPU from $130 in 2023 to an estimated $144 in 2029, resulting in a CAGR of 10% for revenue in the growth phase. For the steady phase, ARPU growth is expected to align with inflation at 2.04% per year (International Monetary Fund, n.d.-a).

For the **LATAM** region, which accounts for around 14% of Netflix's revenues, our projections indicate substantial growth potential due to several factors. Netflix has increased its investment in original content for LATAM, such as localized programming in Spanish and Portuguese, which has attracted a significant audience. For instance, Netflix's original series like Pálpito (Colombia) and Sintonia (Brazil) achieved widespread popularity, highlighting Netflix's effective strategy of local-language productions, which resonate strongly with LATAM viewers and boost engagement across the region (Location Colombia, 2022).

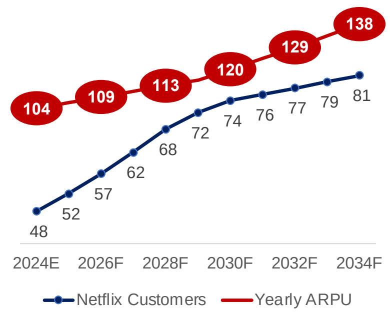

Figure 30: LATAM – ARPU in $ and subscriber in million

We forecast subscriber growth in LATAM to rise at a CAGR of 8% in the growth phase. This growth rate is supported by Netflix's competitive advantage in local-language content and the region's expanding digital infrastructure, such as increasing broadband access and a favorable demographic profile with a young, digital-native population. For ARPU, we applied a trend line approach, acknowledging the initially low R-squared. This was largely due to the disruption caused by COVID-19. After analyzing annual data, we concluded that the numbers align well with the realistic market growth expectations. Thereby, ARPU is expected to grow at a CAGR of 2%, reaching $116 in 2029. Over the long term, we project ARPU growth to match inflation rates for the LATAM region, reaching an estimated $138 by 2034, up from a baseline of $104 in 2023.

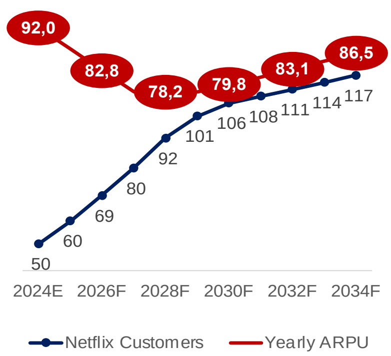

Figure 31: APAC – ARPU in $ and subscriber in million

For the **APAC** region, Netflix currently earns the smallest share of its global revenue, yet it holds substantial growth potential due to the region's increasing subscriber base. APAC has shown high subscriber growth rates, with increases between 31% and 17% year-over-year in recent years, despite a decreasing ARPU. The ARPU decline has been largely attributed to Netflix's pricing strategies aimed at affordability in highly price-sensitive markets like India and Indonesia. These strategies, while reducing ARPU, are crucial for driving subscriber acquisition and retention as Netflix continues to expand in a region with significant potential for future growth (Señal News, 2023).

For forecasting APAC's subscribers, we applied the same model as used in other regions, yielding a realistic CAGR of 15% for the growth period. In the steady growth phase, subscriber expansion is expected to align with GDP growth of 4.4% (International Monetary Fund, n.d.-b). ARPU was forecasted using a trend line method. Although ARPU is projected to remain relatively stable in 2024, it is expected to continue decreasing until 2027, at which point it should reach its lowest point at $78. Thereafter, ARPU is projected to grow in line with inflation of 4.6% (International Monetary Fund, n.d.-a).

Content Strategy and Capex

Netflix is undergoing a significant shift in its content strategy, focusing heavily on original productions while reducing dependance on licensed content. Over the historical period, licensed content decreased from 60% of total content assets to 40%, while produced content increased from to 60%. Company data shows that 62 of the top 100 most-watched titles during the first months of 2023 were Netflix originials (Vitrina AI, n.d.). Therefore, our projections indicate that this trend will continue into the future, with licensed content stabilizing at 23% of the total portfolio by 2029 and produced content growing to 77%.

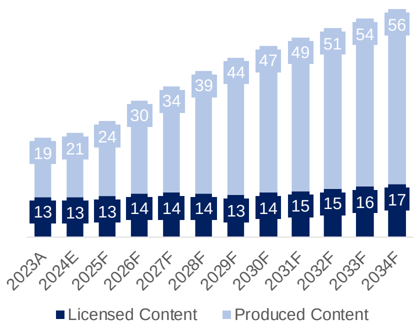

Figure 32: Content assets as of book value in $bn

We have forecasted Netflix's content assets as a percentage of revenue based on historical trends. Historically, content assets have ranged from 102% to 94% of revenue as of 2023, reflecting a gradual decline. For 2024, we anticipate content assets to decline to 85% of revenue, reflecting Netflix's focus on optimizing its content spend relative to revenue generation during this stabilization phase. Beyond 2024, we project this ratio to stabilize at approximately 92% of revenue. Based on these assumptions, total content assets will grow modestly by 5% in 2024, reaching $33.1 billion. Between 2025 and 2029, total content assets are projected to grow at a CAGR of 12%, reaching $57.4 billion by 2029 and $72.9 billion by 2034. Licensed content is projected to increase modestly at a 1% CAGR, growing from $12.6 billion in 2024 to $16.8 billion in 2034. In contrast, original content will see a robust 17% CAGR between 2024 and 2029, rising from $20.5 billion to $56.2 billion by 2034.

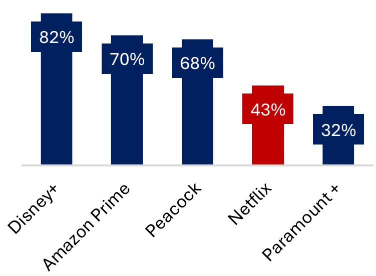

Figure 33: Forecast % change in spending on original content between 2022 and 2027 (fDi Intelligence, 2022)

Broader industry trends, which show that rivals like Disney+ and Amazon Prime Video are making significant investments in original content, support this forecast. Disney+ is anticipated to raise its yearly spending in original content by 82% between 2022 and 2027. Similarly, Amazon Prime Video is projected to grow its spending by 70%. While Netflix is anticipated to grow its original content spending by 43% during the same period, the pace of investment by competitors signals the increased competition in the market (fDi Intelligence, 2022).

- Capex

Netflix's capital expenditures (CAPEX) are unique compared to traditional industries because they are heavily focused on intangible assets - particularly content assets. Unlike capital spending in most industries, where spending goes toward physical infrastructure, Netflix's capital spending is primarily used to build and maintain its extensive content library. This includes both produced content, such as Netflix originals, and licensed content purchased from third parties. Therefore, we classify Netflix's content spending as CAPEX because it represents long-term investments that generate revenue over multiple years, similar to how traditional companies invest in property, plant, and equipment (PP&E). These investments are capitalized on the balance sheet and amortized over their useful lives, aligning costs with the revenue they generate.

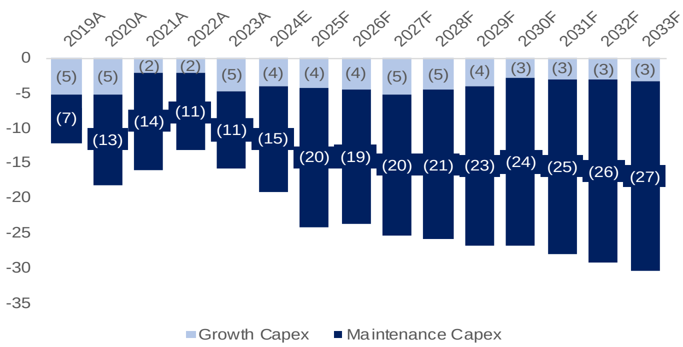

Figure 34: Capex forecast from 2019 to 2034 in $bn

By 2023, Netflix's total content assets reached approximately $31.7 billion, far surpassing its physical PP&E of $1.5 billion. Thereby, maintenance CAPEX represent the majority of Netflix's total investments. These expenses are closely related to the company's significant content amortization costs. By 2024, maintenance CAPEX are expected to reach $15.0 billion and further increase to $27.3 billion by 2034 as Netflix invests in updating and replacing content.

Growth CAPEX, on the other hand, represents investments aimed at expanding Netflix's content portfolio or supporting future strategic initiatives. Growth CAPEX is determined by calculating the annual growth in sales and multiplying it by the proportion of content assets and PP&E relative to revenue. Here, we observe that content assets and PP&E as a percentage of revenue remain steady at 89% for 2024-2025, increasing to 96% in subsequent years. Thereby, growth CAPEX is comparatively smaller than maintenance CAPEX. In 2024, growth CAPEX is forecasted at $4.0 billion, with an increase to $5.1 billion by 2029. By 2034, growth

CAPEX is expected to decline to $3.3 billion, reflecting reduced marginal costs due to economies of scale.

Cost of Revenues Forecast

Over the historical period, Netflix's cost of revenues grew steadily, increasing from $12.4 billion in 2019 to $19.7 billion in 2023, representing a CAGR of approximately 12.2%. This growth was driven by higher amortization expenses for both licensed and produced content.

Licensed content amortization decreased from $7.2 billion in 2019 to $7.1 billion in 2023 and exhibited a declining trend as a percentage of total cost of revenues, reflecting Netflix's strategic pivot away from licensed content. By 2023, licensed content amortization represented 56% of licensed content assets, down from 60% in 2022. This decline aligns with Netflix's effort to mitigate licensing costs and focus on building an original content portfolio.

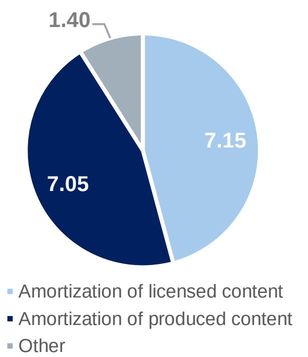

Figure 35: Cost of revenues as of 2023 in $bn

Produced content amortization rose significantly, from $1.9 billion in 2019 to $7.1 billion in 2023, representing a CAGR of 37%. As Netflix increased its focus on original productions, the amortization of produced content grew in tandem with its expanding portfolio. Produced content amortization as a percentage of total produced content assets reached 37% by 2023, up from 20% in 2019, reflecting accelerated investment in and usage of original content.

Other streaming costs, which include expenses such as content delivery and customer support, grew from $3.1 billion in 2019 to $5.5 billion in 2023, maintaining a consistent ratio of approximately 16% of revenue. This reflects Netflix's scalable operations and efficiency in cost management, even as the subscriber base expanded globally.

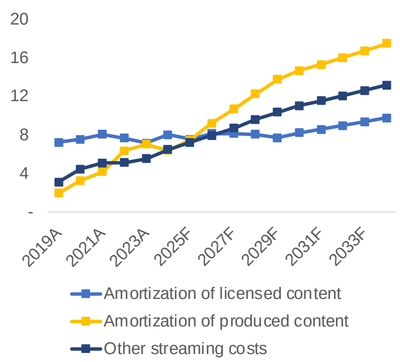

Figure 36: Cost of revenue forecast in $bn

Looking ahead, Netflix's cost of revenues is projected to increase from $20.9 billion in 2024 to $40.4 billion in 2034. Licensed content amortization is expected to grow modestly from $8.0 billion in 2024 to $9.8 billion in 2034. Its contribution to total cost of revenues is expected to stabilize as Netflix continues to decrease its reliance on licensed content. In contrast, the amortization of produced content is expected to rise significantly, reaching $17.5 billion by 2034. Produced content amortization as a percentage of total produced content assets is forecasted to stabilize at approximately 31%, reflecting an efficient utilization of content over its economic lifecycle.

Other streaming costs are anticipated to grow steadily, increasing from $6.5 billion in 2024 to $13.2 billion in 2034. As a percentage of revenue, these costs are expected to remain stable at approximately 17% throughout the forecast period.

The projected trends in cost of revenues reflect Netflix's strategic shift toward original content. While licensed content amortization is expected to grow modestly, its relative contribution to the total cost of revenues will continue to decline. Overall, cost of revenues as a percentage of revenue is expected to remain steady at approximately 59% from 2024 onward, highlighting Netflix's ability to align cost growth with revenue expansion.

Operating Expenses Forecast

Netflix incurs core business expenses include three main segments: marketing, technology and development, and general and administrative costs.

- Marketing Expenses

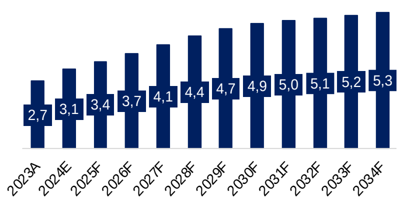

Figure 37: Marketing expense forecast in $bn

Netflix's marketing expenses are directed toward promoting its streaming service. Effective global advertising and branding campaigns have set Netflix apart from its competitors, supporting rapid subscriber growth and reinforcing its brand image worldwide. In 2019, Netflix spent approximately $2.6 billion on marketing, which is equivalent to 13% of its revenues, as it expanded its presence in new regions and further strengthened its brand in established markets.

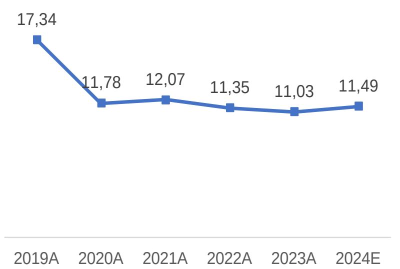

Figure 38: Marketing costs per user in $

To forecast Netflix's future marketing expenses, we analyzed the historical trend in spending per user, which has averaged around $11.49. Using this value as a basis, we projected future marketing expenses by linking them to our subscriber growth forecasts. Based on this method, we expect marketing expenses to rise steadily, reaching $3.1 billion in 2024 and expanding to approximately $4.7 billion by 2029. We assume that Netflix will manage marketing spend effectively, allowing it to achieve consistent returns on investment as it strengthens its brand in new regions.

- Technology and Development Costs

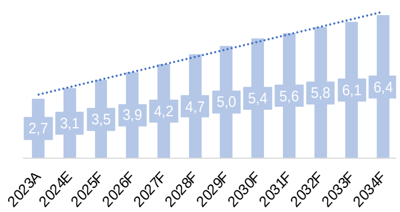

Figure 39: Technology and development expense forecast in $bn

Technology and development costs are another significant component of Netflix's operating expenses, reflecting its investment in streaming technology, user interface improvements, and overall platform enhancement. These costs cover payroll, cloud computing services, and third-party services that support Netflix's streaming delivery. In 2019, technology and development expenses totaled around $1.5 billion, representing 8% of Netflix's revenues.

Given the importance of platform innovation and user experience in the streaming industry, we expect technology and development costs to grow in line with revenue. Consequently, we project that these expenses will remain stable at approximately 8% of sales, reaching $3.1 billion by 2024 and increasing to nearly $5 billion by 2029. This growth reflects Netflix's ongoing investment in maintaining a seamless and cutting-edge streaming experience, which is essential for retaining subscribers and competing with other major streaming services.

- General and Administrative (G&A) Expenses

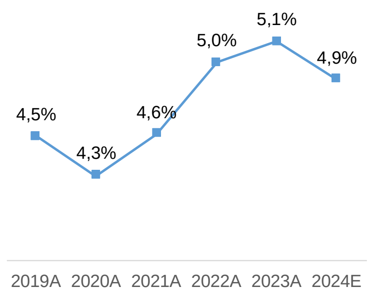

Figure 40: G&A as percentage of revenue

G&A expenses have also been on an upward trend as Netflix expands its operational footprint worldwide. This category includes payroll, professional fees, contractor and consultant costs, and other corporate expenses. In 2019, G&A costs amounted to $914 million, representing 5% of Netflix's total revenues. Given the steady nature of these expenses relative to revenue, we forecast G&A costs to continue at approximately 5% of revenue in the coming years. In line with Netflix's revenue growth, G&A expenses are expected to reach $1.9 billion by 2024 and around $3 billion by 2029. The rise in G&A expenses reflects Netflix's need to support an expanding global workforce, establish new offices, and manage the administrative demands of its increasingly complex international operations.

Margins and Operational Performance

Netflix's operational performance and margins have shown significant improvement over the historical period, with sustained growth projected into the forecast horizon. The company's focus on content investments, operating efficiencies, and strategic pricing has driven consistent margin expansion, as reflected in the trends visible in the provided data and chart.

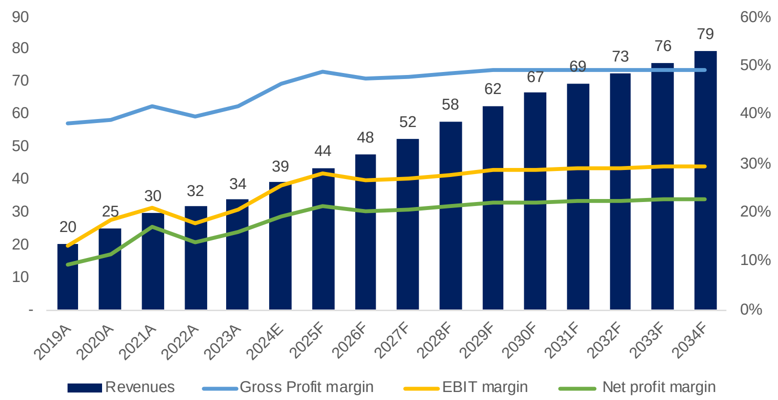

Figure 41: Global revenue and margin forecast in $bn

Gross profit margins have increased steadily, rising from 38.3% in 2019 to 41.5% in 2023. This improvement reflects Netflix's ability to scale its operations, optimize its content spending, and increase subscriber monetization. Margins are forecasted to expand further, reaching 49.0% by 2028 and stabilizing at that level through 2034. This consistent increase underscores its transition toward a more profitable content mix.

Netflix's EBIT margin has shown notable improvement, climbing from 12.9% in 2019 to 20.6% in 2023. This growth reflects reductions in marketing expenses as a percentage of revenue (from 13% in 2019 to 8% in 2023) and a stable level of technology and development expenses at around 8% of revenue. The margin is projected to further expand to 29.4% by 2034. We assume that Netflix will grow its profitability further as it broadens its content library and leverages operational efficiencies.

At the bottom line**,** the net profit margin has also improved significantly. From 9.2% in 2019 it increased to 16.0% in 2023. We further expect profitability expansion at the bottom line, with margins projected to reach 22.6% by 2034. This assumption reflects Netflix's ability to convert operational improvements into bottom-line profitability. Moreover, the steady growth of net profit margins is an indicator for higher returns on content investments.

Capital Structure Forecast

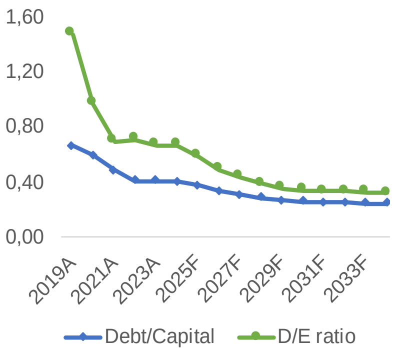

Figure 42: Netflix’s forecasted capital structure ratios

Netflix's capital structure is experiencing considerable modification as the company decreases leverage and increases its equity position. This demonstrates Netflix's growth as a leader in the streaming market, as well as its ability to generate reliable cash flows. As a result, the company's debt-to-equity (D/E) ratio has decreased significantly, from 1.47 in 2019 to 0.66 in 2023. This trend is expected to continue, with Netflix's D/E ratio projected to decline to 0.32 by 2034. This trajectory will bring Netflix closer to the sector average of 0.37. The reduction in leverage is mostly driven by Netflix's equity expansion, which is forecast to rise from $7.6 billion in 2019 to $61.4 billion by 2034. This expansion is driven by retained earnings from higher profit margins and revenue increases. At the same time, Netflix's debt is rather constant in line with historical averages, increasing modestly from $14.8 billion in 2019 to $19.5 billion in 2034.

The debt-to-capital ratio has also improved from 0.66 in 2019 to 0.41 in 2023 and is expected to stabilize at 0.24 by 2034. This brings Netflix’s financial structure closer to the broader media and entertainment sector, where the average debt-to-capital ratio is 0.27. By reducing its reliance on debt, Netflix ensures that it can sustain long-term growth while moderating financial risk.

Netflix’s cash conversion cycle (CCC) also reflects its evolving financial management practices. The CCC, which measures working capital efficiency, turned positive in 2023 after years of being negative, rising from -11.56 days in 2019 to 0.09 days in 2023. By 2034, the CCC is expected to rise to 15.31 days as Netflix balances its revenue growth with effective working capital management.

When compared to its peers, Netflix's historical leverage has been relatively high but is now moving towards industry norms. As mentioned, Alphabet Inc., for example, maintains a minimal D/E ratio of 0.11 in 2023, while Comcast Corp. and Walt Disney Co. operate at 1.26 and 0.55, respectively. By 2034, Netflix's D/E ratio of 0.32 and debt-to-capital ratio of 0.24 will position the company more favorably.

Valuation

Free Cash Flow

To estimate Netflix's enterprise value and share price, we analyzed its Free Cash Flow (FCF) statement. We see a course toward sustained positive cash flow generation in recent years. By 2023, Netflix reported an unlevered free cash flow (UFCF) of approximately $7.8 billion, a significant improvement from the negative $0.6 billion UFCF recorded in 2021. This positive change reflects an adjustments in Netflix's content investment strategy and more systematic CAPEX allocation. The short-term outlook indicates a temporary decrease in CAPEX, particularly in 2024 and 2025, leading to projected UFCFs of $5.7 billion and $5.2 billion. As mentioned in the CAPEX section of this report, this reduction reflects a stabilization phase in Netflix's content portfolio growth, allowing for stronger cash flow generation. However, starting in 2026, CAPEX is expected to rise as Netflix is expected to increase its investment in original content. This increase is projected to reduce UFCF to $3.1 billion in 2026. From 2027 onward, Netflix's UFCF is forecasted to grow steadily as its content strategy matures. By 2030, UFCF is expected to exceed $11.3 billion, with sustained growth through to 2034, when it is projected to reach approximately $15.3 billion.

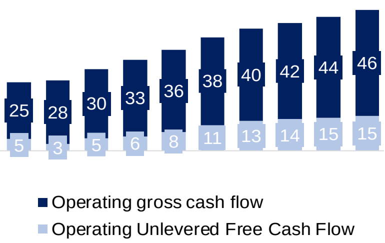

Figure 43: Netflix's forecasted cash flow's from 2025-2034

WACC

To estimate a fair value for Netflix, we discounted the company's future cash flows using the weighted average cost of capital (WACC). This critical valuation metric reflects the blended cost of Netflix's capital sources and serves as the rate of return required by investors. Given the dynamic nature of Netflix's capital structure and the significant impact of content investments on its financial profile, we approached each component of the WACC calculation with precision, as outlined below.

WACC Inputs	
Risk-free rate	3.73%
Market Risk Premium	4.60%
Levered Beta	1.3
Cost of Equity	9.71%
Cost of Debt	4.26%
Tax Rate	21%
D/EV	5.29%
E/EV	94.71%

Figure 44: WACC inputs

- Capital Structure

A thorough evaluation of Netflix's financial status was carried out in order to match its capital structure with its long-term strategic goals. From 2019 to 2023, Netflix maintained a conservative debt-to-enterprise value (D/EV) ratio, averaging 5.29%. This low D/EV ratio reflects Netflix's strategy of minimizing debt reliance and funding content growth primarily from internal cash flows. In 2023, the D/EV ratio stands at 4.15%, down from 7.59% in 2022, as the company has continued to decrease debt and boost cash reserves, achieving net debt of $9.1 billion and cash holdings of $5.4 billion. Compared to competitors, Netflix's D/EV ratio is notably lower. Disney for instance has a D/EV ratio of 22%, while Comcast's ratio also lies at a high level of 41%.

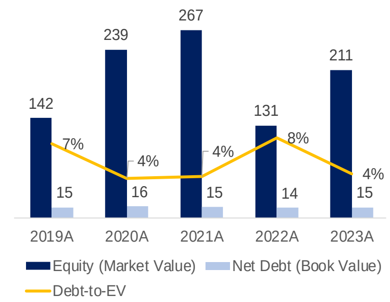

Figure 45: Historical D/EV

Further, in recent earnings calls and reports, Netflix management reiterated its commitment to reducing debt and increasing cash reserves, emphasizing that a low D/EV ratio is central to the company's financial strategy. This focus on low leverage is particularly prudent in a high interest rate environment, where minimizing debt helps reduce interest costs and preserves cash flow for operations (Netflix, 2024d). Based on this knowledge, we assume Netflix's historical D/EV average of 5.29% as the target ratio going forward.

- Cost of Equity

The Capital Asset Pricing Model was applied to ascertain Netflix's cost of equity. Our choice was the 10-year U.S. As the risk-free rate, we used the 10-year US Treasury bond, which is currently 3.73% (CNBC, 2024). This decision is consistent with the substantial U.S. presence of Netflix and the widespread usage of U.S. Treasuries as a trustworthy, risk-free stand-in. Additionally, considering our long-term projection horizon, the 10-year maturity is suitable. For the market risk premium, we applied a 4.6% rate, sourced from NYU Stern's Country Default Spreads and Risk Premiums Tables as of January 5, 2024. Here we see the latest equity risk premiums for different countries, with 4.6% for the United Stated (Damodaran, 2024).

	Weekly	Monthly
3 Year	1.70	2.14
5 Year	0.12	**1.30**

Figure 46: Netflix's calculated beta

To determine Netflix's Beta (β), we calculated the covariance of Netflix's returns with the MSCI World Index. Given Netflix's extensive global activities, the MSCI World index was selected over the S&P 500 to correctly reflect the company's international exposure. Beta was calculated using five years of monthly data, resulting in a levered beta of 1.30. This selection of a longer data set and monthly frequency reduces potential biases associated with shorter time frames or daily data, thereby providing a more reliable estimate of Netflix's sensitivity to market movements.

Alphabet	Weekly	Monthly
3 Year	1.14	1.04
5 Year	0.96	**1.04**
	Weekly	**Monthly**
3 Year	1.14	1.11
5 Year	1.02	**1.15**

Figure 47: Alphabet's and Apple's calculated beta

To validate our findings, we compared Netflix's beta with those of Alphabet and Apple, as these two indirect competitors exhibit similarly low Debt-to-Enterprise Value (D/EV) ratios to Netflix. Our analysis reveals that Netflix demonstrates a slightly higher beta, particularly when considering the 3-year data. This difference could be attributed to Netflix's relatively earlier stage of maturity compared to the more established positions of Alphabet and Apple. Overall, we find that our estimations align well with the competitive landscape. Therefore, with the levered beta of 1.3 we calculated Netflix's cost of equity at 9.71%.

- Cost of Debt

Issue Date	Market Value	YTM	Weight
2020-04-28	423.3	25.0%	0.04
2020-04-28	450.5	25.6%	0.04
2018-10-26	1.641.4	4.0%	0.15
2019-04-26	2.025.2	4.0%	0.19
2019-10-26	1.120.0	4.2%	0.10
2019-10-26	872.7	4.1%	0.08
2019-04-29	1.260.8	2.8%	0.12
2019-04-29	948.4	4.2%	0.09
2019-10-25	1.129.7	3.1%	0.10
2019-10-25	1.031.5	4.2%	0.09

Figure 48: Selected bonds for YTM calculation

To calculate Netflix's long-term debt cost, we examined the market values of several bonds with varying maturity dates. Here, we chose the ten most recently issued bonds. By weighting the yields to maturity (YTM) of these bonds according to their outstanding values, we derived an overall weighted YTM of 5.55%. This calculation provides an accurate representation of Netflix's effective borrowing cost across its debt portfolio.

The cost of debt was then adjusted by incorporating a loss given default of 53.90%, sourced from S&P, along with a probability of default of 0.35% as for the Baa2 rating applicable to Netflix, sourced from Moody's. Applying these factors yielded a cost of debt of 5.36%.

To account for tax effects, we applied Netflix's tax rate of 21%, resulting in a post-tax cost of debt of 4.26%. This tax-adjusted cost of debt is a crucial component in the WACC calculation, which we use to discount Netflix's projected future cash flows and derive a fair valuation for the company. Based on the above, we calculated a WACC of 9.42%.

ROIC and Long-Term Growth

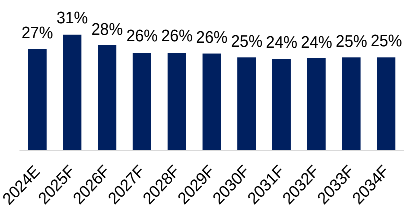

Figure 49: ROIC forecast

To evaluate Netflix's capital efficiency, we analyzed its Return on Invested Capital (ROIC), which indicates the company's ability to generate returns relative to the capital it has invested. From 2019 to 2023, Netflix's ROIC has shown significant fluctuation, reflecting both shifts in capital allocation and the competitive streaming landscape. ROIC improved from 20.3% in 2019 to a peak of 26.9% in 2024, before moderating to approximately 25.6% by 2029. This level consistently surpasses Netflix's WACC, indicating effective capital management and strategic allocation toward high-return projects.

The improvement in ROIC through 2024 aligns with Netflix's shift toward internally produced content, which enhances capital efficiency by reducing dependency on licensed content that typically requires higher upfront payments. As Netflix's operating invested capital grew from $18.1 billion in 2019 to an estimated $43.6 billion in 2026, the company's focus on producing original content internally has contributed to a more sustainable long-term return on capital. By 2034, ROIC is projected to stabilize at around 24.7%, reflecting Netflix's ability to maintain strong profitability from its content investments.

To forecast long-term growth, we calculated a long-term growth rate based on two factors: inflation and GDP growth. For the long-term inflation rate, we relied on the International Monetary Fund's (IMF) forecast data for 2024 to 2029. To arrive at an inflation rate, we calculated the average inflation rate across all regions for this forecast period. This approach ensures that our long-term inflation estimate reflects a balanced view of global inflation trends across both developed and emerging economies. Thereby, we arrived at an inflation rate of 2.51% (International Monetary Fund, n.d.-a).

Long-Term Growth Calculation	
Long-term Inflation Rate	2.51%
5y average GDP Growth	2.09%
TV Growth Rate	**4.59%**

Figure 50: Long-Term growth rate

For the long-term real GDP growth rate, we used the IMF's historical and forecasted GDP growth data spanning 2001 to 2029. We calculated the average annual GDP growth rate over this 28-year period. However, we excluded the APAC (Asia-Pacific) region from this calculation due to unrealistically high values. While APAC is a high-growth region and Netflix is expected to experience substantial expansion there, we excluded it to avoid introducing an upward bias that might overstate global long-term growth potential. By focusing on the remaining regions, we arrived at an average real GDP growth rate of 2.09%. This value reflects a conservative and balanced estimate of long-term economic growth aligned with Netflix's broader global market exposure. Remarkably, we arrive at the same long-term growth rate by multiplying Netflix's operating return on invested capital (ROIC) by its retention rate (RR). This consistency highlights Netflix's mature position within the streaming industry, where growth is expected to align with the broader economy.

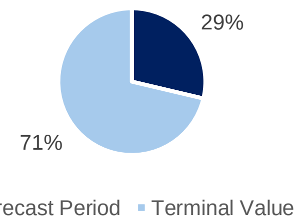

Figure 51: Distribution of enterprise value between forecast period and terminal value

Discounted Cash Flow and APV

Netflix was assessed using the Discounted Cash Flow (DCF) approach, which is widely accepted for determining the intrinsic value of enterprises with consistent cash flows. The projection period was separated into two phases: a high-growth era from 2026 to 2030, followed by a steady-state period beginning in 2031. This framework enables a smoother transition as Netflix evolves in the highly competitive streaming sector.

By discounting our future cashflows with the WACC, the enterprise value of Netflix as of December 31, 2025, was estimated at $187.8 billion. After adjusting for net debt and other non-core operations as of 2023 book value, the resulting equity value was $176.8 billion. This is then divided by the total number of outstanding shares, which amounts to 428.24 million as of December 2024. This calculation results in an estimated share price of $412.9, considerably lower than the current share price of $936.6.

Equity Bridge	
Enterprise Value	**187.848.148**
+ Invested Capital Non-Core Operations	56.347
- Net Debt	(11.077.356)
Equity Value	**176.827.138**
Share Price	**$412.9**

Figure 52: DCF Equity Bridge

In the case of the APV model, the unlevered free cash flows were discounted to Netflix's unlevered cost of capital (9.47%). To account for the benefits of debt financing, tax shields from debt interest were discounted using the identical unlevered cost of capital. The APV valuation resulted in an enterprise value of $183.1 billion. After correcting for net debt and non-core invested capital as described in the DCF, the equity value was $172.07 billion. This is divided by the total number of outstanding shares, yielding an equity value of $401.8 per share. The APV analysis shows a modest divergence from the DCF valuation, approximately 2.7%.

Sensitivity Analysis

The sensitivity analysis conducted on Netflix's valuation reveals that small adjustments in the WACC and Terminal Growth Rate (TGR) can lead to significant changes in the company's estimated enterprise value and share price. Netflix's valuation is highly sensitive to assumptions around WACC and TGR. A modest 0.5% change in either metric can shift the enterprise value by approximately $20 billion and the share price by around $50.

	WACC				
187.848.148	8,42%	8,92%	9,42%	9,92%	10,42%
3,59%	202.163.502	181.148.599	163.806.388	149.263.313	136.901.763
4,09%	219.741.152	194.850.083	174.699.936	158.067.589	144.116.493
4,59%	241.906.395	211.714.740	187.848.148	168.523.215	152.568.410
5,09%	270.724.746	232.980.908	204.031.803	181.142.867	162.605.588
5,59%	309.720.642	260.630.317	224.439.233	196.675.938	174.720.184

Figure 53: WACC vs. Terminal-Growth Sensitivity Analysis

When the WACC increases by 0.5%, Netflix's enterprise value drops from $187.8 billion to $168.5 billion, underscoring how the company's valuation is sensitive to its cost of capital. Conversely, a decrease in WACC to 8.92% raises the valuation to $211.7 billion. Raising the TGR by 0.5% boosts the enterprise value to $204.0 billion. This shift reflects the importance of Netflix's projected growth, as even slight adjustments in long-term expectations can have a profound effect on valuation. The effect is particularly prominent because more than 70% of Netflix's enterprise value is derived from the terminal value in the DCF valuation, making the model highly responsive to changes in long-term growth expectations. This can also be seen in the share price, which drops to $370.3 when the cost of capital is increased to 9.92%.

	WACC				
412,92	8,42%	8,92%	9,42%	9,92%	10,42%
3,59%	444,6	398,3	360,0	328,0	300,7
4,09%	483,3	428,4	384,0	347,3	316,6
4,59%	532,1	465,5	412,9	370,3	335,2
5,09%	595,5	512,3	448,5	398,1	357,2
5,59%	681,3	573,2	493,4	432,2	383,9

Figure 54: WACC vs. terminal growth sensitivity analysis

	Cost of Debt				
412,9	5,00%	5,20%	5,40%	5,60%	5,60%
9,31%	453,5	452,6	451,7	450,7	450,7
9,51%	433,2	432,3	431,5	430,6	430,6
9,71%	414,5	413,7	412,9	412,1	412,1
9,91%	397,2	396,5	395,8	395,0	395,0
10,11%	381,2	380,6	379,9	379,2	379,2

Figure 55: Cost of debt vs. cost of equity sensitivity analysis

Our findings indicate that variations in the cost of equity have a significantly greater impact on the share price compared to changes in the cost of debt. This disparity is primarily attributable to Netflix's low leverage ratio, which reduces the relative influence of debt financing on the overall cost of capital and, consequently, on the valuation. For a 0.4% decrease in the cost of equity, we see an $40 increase in the projected share price.

Comparable Company Analysis

	EV/Sales	EV/EBIT	P/E
DIS	2.36	19.18	33.91
GOOG	5.73	18.98	21.44
AAPL	8.75	27.96	33.22
CMCSA	1.97	10.21	10.09
NFLX	**8.52**	**35.83**	**42.87**
75th Percentile	**7.99**	**25.77**	**33.74**

Figure 56: Peer multiples comparison

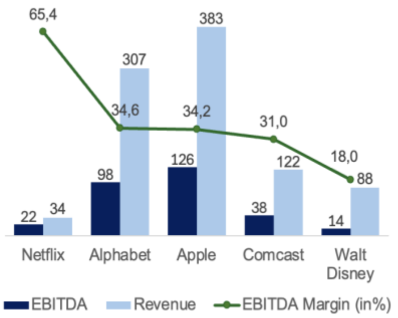

Figure 57: Revenue (in $bn) and EBITDA margin (in %)

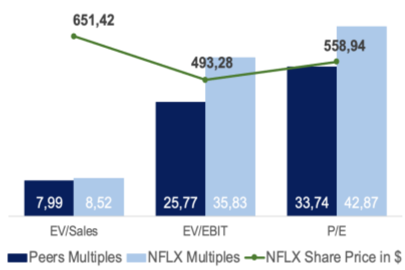

Figure 58: 75th Percentile multiples

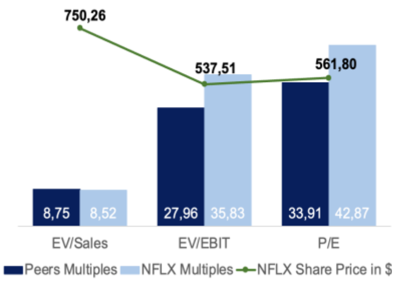

Figure 59: Maximum multiples

A comparable valuation analysis was conducted to assess Netflix's valuation relative to a selected peer group. The peer group was chosen based on companies with comparable market dynamics and financial performance, focusing on Alphabet, Apple, Comcast, and Walt Disney. These peers were deemed most suitable for comparison, while companies such as Amazon, Warner Bros., and Paramount were excluded due to their low net profit margins, which limit comparability.

The analysis revealed that Netflix trades at higher P/E multiples, EV/Sales, and EV/EBIT multiples compared to its selected peers. To account for this premium valuation, the 75th percentile of the group was used as the basis for valuation, rather than the median. For instance, the EV/Sales multiple for Netflix is 8.52x, significantly above the peer median of 7.99x. Similarly, the P/E multiple stands at 42.87x, well above the peer median of 33.74x. A similar pattern is observed with the EV/EBIT multiple (35.83x), which is remarkable higher than the peer median of 25.77x, suggesting that Netflix's profitability is valued more highly, independent of its capital structure. However, the EV/EBITDA multiple was excluded from this analysis due to Netflix's uniquely high EBITDA margin of 65.43%, driven by substantial amortization of its content assets. This elevated EBITDA figure distorts the multiple and inflates Netflix's valuation compared to peers with more diversified business models and lower EBITDA margins, such as Alphabet (34.6%), Apple (34.2%), Comcast (31.0%), and Walt Disney (18.0%).

The valuation multiples were applied to Netflix's financials to calculate its implied share price. Using the EV/Sales multiple of 7.99x, the resulting share price is $651.41, reflecting the value of Netflix's enterprise relative to its revenue. When applying the EV/EBIT multiple of 25.77x, the implied share price is $493.28. Finally, the P/E multiple of 33.74x produces a share price of $558.94, representing the market's valuation of Netflix's earnings relative to its peers. The equity bridge remained consistent with that of the DCF model across all methods, except for the P/E method, which directly calculates the equity value.

To further validate the analysis, we examined how the implied share prices change when using the median and maximum values of the multiples. Even when applying the maximum value for each multiple, the implied share prices remain significantly below Netflix's current market price. Here, the EV/Sales multiple produces the highest share price of $750.3. For the EV/EBIT multiple, the implied share price is

$537.5, while the P/E multiple yields an implied share price of $561.8, both well below the current share price of $936.6.

Therefore, despite applying the 75th percentile and the maximum multiples to reflect Netflix's premium position, the multiples-based valuation reinforces the conclusion that Netflix is overvalued.

Scenario Analysis

- ### Worst Case

In our scenario analysis, we developed a worst-case forecast for Netflix to understand the impact of potential downside risks on the company's valuation. The risks and factors that could lead Netflix to underperform in the downside scenario are diverse and outlined in the following section. These include heightened competition and geopolitical shifts. The scenario assumes slower-than-anticipated growth in both subscriber numbers and ARPU across Netflix's regional markets. Adjustments in subscriber growth assume modest gains in more saturated markets like UCAN and more conservative growth of 0.05% below the base case in emerging markets such as APAC and LATAM. ARPU growth is also adjusted by 0.05% regions facing economic challenges or competitive pressures, such as EMEA and LATAM.

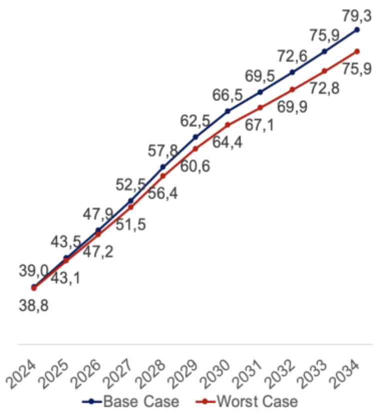

Figure 60: Revenue development (in $bn) Base Case vs. Worst Case

Additionally, key income statement line items were re-evaluated to reflect a more conservative financial outlook. Amortization rates for both licensed and produced content were adjusted to align with potentially slower revenue growth. It is assumed that operating expenses, including marketing costs per user, G&A in percentage of sales and technology and development expenses in percentage of sales are approximately 10% higher in the worst-case scenario. Balance sheet items, such as the average collection period and accounts payable, were adjusted to reflect slower payment and collection cycles in a challenging environment.

Under these assumptions, Netflix's share price in the worst-case scenario drops to $317.5, representing a substantial 24% ($96.0) decline from our base case valuation.

- ### Best Case

In the best-case scenario, Netflix grows in a market environment with stable economic conditions, high demand and with the ability to maintain its current leading market position. In this case, it is expected that Netflix will achieve robust revenue growth, driven by growth in both subscriber numbers and ARPU across all regions while effectively controlling costs. This scenario assumes strong

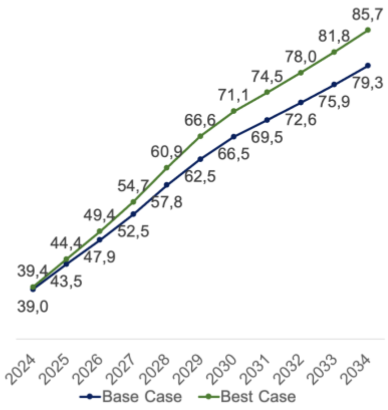

Figure 61: Revenue development (in $bn) Base Case vs. Best Case

expansion in high-potential markets like APAC and LATAM with growth of 1% over the base case. In more mature markets like UCAN and EMEA, we still foresee consistent growth, although at a more moderate pace (0.05% over base case). Under these assumptions, Netflix's revenues are expected to reach $85.7 billion in 2034, which represents an increase of 7.6% over the base case revenue forecast.

Meanwhile, cost management remains favorable in this scenario, with efficient control over streaming, content amortization, and marketing expenses. Therefore, we assume cost of revenues to be significantly lower than in the base case. Marketing costs per user are assumed to be highly efficient with 5% less than in the base case, ensuring Netflix's spending is impactful.

In our best-case scenario, Netflix's projected share price rises to $507.2, which represents an $94.0 increase compared to the base case.

Key risks

After conducting an analysis of Netflix and its value, it is crucial to examine the key risks that could significantly impact Netflix future performance, as these factors could hinder its growth and profitability.

Content production and licensing

One of the central components of Netflix's strategy is the continuous production and licensing of exclusive original content. While this approach carries moderate risks, the potential economic impact is significant. The company depends heavily on creating content that resonates with a global audience, and any failure to produce high-quality, engaging content could lead to subscriber churn.

Competitive market dynamics

Netflix's presence in the highly competitive streaming environment adds another layer of risk. Major players such as Amazon Prime Video, Disney+, and numerous local platforms create a competitive environment. To maintain its competitive edge, Netflix must consistently innovate and adapt to changing consumer preferences. Failure to keep up with the competition in terms of content offerings or technology improvements may result in lost market share and long-term financial health.

Geopolitical and operational challenges

Additionally, Netflix also faces risks from its global presence, which exposes the company to geopolitical and operational challenges. Operating across various regions with diverse political, economic, and regulatory environments means that events such as trade tensions or regional conflicts could disrupt Netflix's ability to operate efficiently in certain areas.

Regulatory challenges

Regulatory risks represent another significant concern for Netflix. As governments worldwide impose stricter content regulations, privacy laws, and tax policies, Netflix must navigate complex legal environments to maintain compliance. This could involve additional operational costs or adjustments to its business practices, further complicating the company's operations.

Recommendation

Recommendation - SELL

With respect to the analysis provided in this report, it is recommended to SELL Netflix stock owing to the observed gap between the determined intrinsic value and its current market price. Netflix's share price is expected to reach $483.2 by December 31, 2025, according to our analysis.

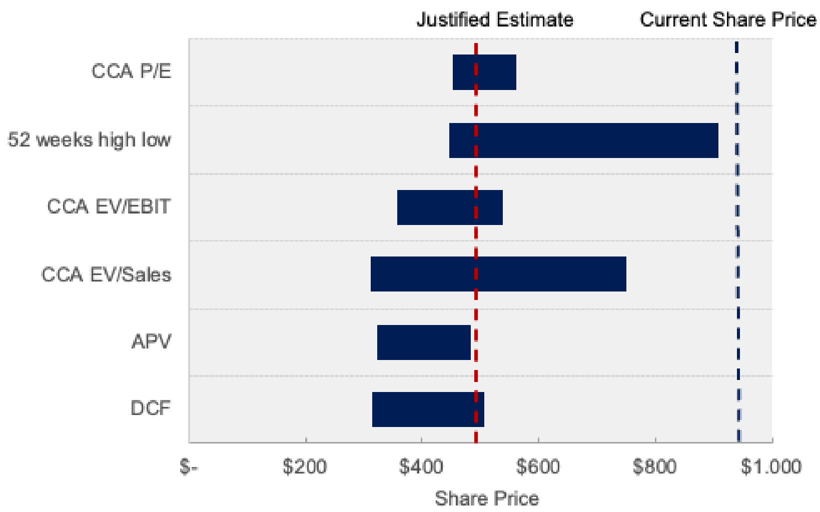

Figure 62: Football Field Valuation Summary

Our target share price for Netflix is $483.2 – 48% below the current share price

To derive this target, we employed a weighted approach, allocating 50% to our cash flow-based valuation and 50% to the multiple valuations from the CCA analysis. This weighting choice reflects our view that cash flow-based methods, which emphasize the company's operational capabilities and earnings potential, offer a precise measure of Netflix's intrinsic value, but are highly dependent on assumptions. The multiple-based analysis provides a supplementary market-oriented perspective, which we value as particularly relevant for Netflix given its competitive positioning.

As of 30th November 2024, Netflix closing stock price was $936.56 per share, which marks a 48% premium over our valuation of $483.2. This overvaluation indicates a substantial misalignment with our estimated fair value. Consequently, we recommend selling Netflix stock to allow investors to capitalize on current market conditions before a potential price correction brings it closer to its intrinsic valuation.

Appendix

Balance Sheet 2019A – 2034F in $k

	2019A	2020A	2021A	2022A	2023A	2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Operating Invested Capital																
Operating Cash	1.007.822	1.249.803	1.484.892	1.580.778	1.686.165	1.948.311	2.175.524	2.393.399	2.623.626	2.888.159	3.122.509	3.325.461	3.474.566	3.630.441	3.793.396	3.963.759
5% of cash	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Content																
Licensed Content	14.703.352	13.747.607	13.799.221	12.732.549	12.722.701	12.586.092	12.944.368	13.939.155	13.999.670	13.816.950	13.214.457	14.073.350	14.704.364	15.364.026	16.053.654	16.774.629
Produced Content	9.801.215	11.636.343	17.120.318	20.004.164	18.935.355	20.535.203	24.039.541	29.620.705	34.275.054	39.325.167	44.239.703	47.115.130	49.227.654	51.436.086	53.744.840	56.158.541
Total Content	24.504.568	25.383.951	30.919.539	32.736.713	31.658.056	33.121.294	36.983.910	43.559.860	48.274.724	53.142.117	57.454.159	61.188.480	63.932.019	66.800.111	69.798.494	72.933.170
% growth		*4%*	*22%*	*6%*	*-3%*	*5%*	*12%*	*18%*	*11%*	*10%*	*8%*	*6%*	*4%*	*4%*	*4%*	*4%*
Other Current Assets (Less Trade Receivables)	703.805	943.428	1.234.512	2.215.713	1.491.727	1.886.253	2.106.228	2.317.163	2.540.057	2.796.163	3.023.049	3.219.536	3.363.892	3.514.802	3.672.567	3.837.503
Trade Receivables	454.399	610.819	804.320	988.898	1.287.054	1.696.352	2.160.640	2.711.405	3.390.331	4.257.179	5.250.074	5.591.311	5.842.011	6.104.093	6.378.081	6.664.523
Property, Plant and Equipment	565.221	960.183	1.323.453	1.398.257	1.491.444	1.464.252	1.635.014	1.925.729	2.134.167	2.349.349	2.539.979	2.705.069	2.826.357	2.953.152	3.085.707	3.224.287
Operating current assets	27.235.815	29.148.183	35.766.717	38.920.359	37.614.446	40.116.463	45.061.315	52.907.555	58.962.906	65.432.967	71.389.770	76.029.857	79.438.845	83.002.599	86.728.245	90.623.243
Operating Deferred Tax Assets	485.652	320.729	163.150	354.182	861.751	548.775	612.773	674.141	738.989	813.498	879.507	936.672	978.670	1.022.575	1.068.474	1.116.459
Other Non Current Assets, Net	601.452	571.863	1.640.469	2.459.748	2.207.266	2.185.954	2.440.881	2.874.883	3.186.057	3.507.297	3.791.886	4.038.345	4.219.414	4.408.704	4.606.593	4.813.476
Operating non-current assets	1.087.104	892.592	1.803.619	2.813.930	3.069.017	2.734.729	3.053.654	3.549.024	3.925.046	4.320.796	4.671.393	4.975.017	5.198.084	5.431.279	5.675.067	5.929.936
Content Liabilities	(7.747.884)	(7.047.620)	(7.387.180)	(7.561.427)	(7.044.643)	(7.060.402)	(7.261.383)	(7.819.427)	(7.853.374)	(7.750.874)	(7.412.894)	(7.894.707)	(8.248.686)	(8.618.735)	(9.005.595)	(9.410.039)
Accounts Payable	(674.347)	(656.183)	(837.483)	(671.513)	(747.412)	(882.087)	(950.992)	(1.069.962)	(1.166.525)	(1.269.422)	(1.355.745)	(1.440.798)	(1.501.878)	(1.565.656)	(1.632.253)	(1.701.798)
Accrued Expenses and Other Liabilities	(843.043)	(1.102.196)	(1.449.351)	(1.514.650)	(1.803.960)	(1.657.447)	(1.850.739)	(2.179.811)	(2.415.751)	(2.659.324)	(2.875.106)	(3.061.978)	(3.199.269)	(3.342.793)	(3.492.838)	(3.649.702)
Deferred Revenue	(924.745)	(1.117.992)	(1.209.342)	(1.264.661)	(1.442.969)	(1.361.546)	(1.520.330)	(1.790.654)	(1.984.472)	(2.184.560)	(2.361.819)	(2.515.329)	(2.628.110)	(2.746.011)	(2.869.269)	(2.998.129)
Operating current & non-current liabilities	(10.190.004)	(9.923.979)	(10.883.342)	(11.012.241)	(11.038.973)	(10.961.470)	(11.583.433)	(12.859.843)	(13.420.110)	(13.864.169)	(14.005.553)	(14.912.799)	(15.577.931)	(16.273.184)	(16.999.942)	(17.759.656)
Operating Invested Capital	18.132.899	20.116.784	26.686.979	30.722.038	29.644.479	31.889.710	36.531.524	43.596.725	49.467.829	55.889.583	62.055.598	66.092.063	69.058.987	72.160.682	75.403.357	78.793.510
Change YoY		*10,94%*	*32,66%*	*15,12%*	*-3,51%*	*7,57%*	*14,56%*	*19,34%*	*13,47%*	*12,98%*	*11,03%*	*6,50%*	*4,49%*	*4,49%*	*4,49%*	*4,50%*
Non Core Invested Capital																
Short Term Investments	-	-	-	911.276	20.973											
Cash Investments	25.349	33.320	27.307	23.406	22.575											
Other Non Current Assets (Non Operating DTA)	172.554	268.362	(15.055)	(92.641)	12.799											
Other Non Current Liabilities, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Operating Invested Capital	197.903	301.682	12.252	842.041	56.347	-	-	-	-	-	-	-	-	-	-	-
Total Invested Capital	18.330.802	20.418.466	26.699.231	31.564.079	29.700.826	31.889.710	36.531.524	43.596.725	49.467.829	55.889.583	62.055.598	66.092.063	69.058.987	72.160.682	75.403.357	78.793.510
Financing																
Net Debt																
Debt	14.759.260	16.308.973	15.392.895	14.353.076	14.543.261	14.421.107	14.999.130	15.538.865	16.086.365	16.581.533	17.012.687	17.440.385	17.945.456	18.467.768	19.007.457	19.568.968
Excess of Cash	(4.010.615)	(6.955.747)	(4.542.912)	(3.566.399)	(5.430.748)	(4.148.986)	(3.921.774)	(3.703.899)	(3.473.671)	(3.209.139)	(2.974.789)	(2.771.837)	(2.622.731)	(2.466.857)	(2.303.901)	(2.133.538)
Net Debt	10.748.645	9.353.226	10.849.983	10.786.678	9.112.513	10.272.120	11.077.356	11.834.966	12.612.694	13.372.394	14.037.898	14.668.548	15.322.725	16.000.911	16.703.556	17.435.429
Stockholders' Equity	7.582.157	11.065.240	15.849.248	20.777.401	20.588.313	21.617.589	25.454.168	31.761.758	36.855.135	42.517.189	48.017.699	51.423.514	53.736.262	56.159.771	58.699.801	61.358.081
Total funds reconciliation	18.330.802	20.418.466	26.699.231	31.564.079	29.700.826	31.889.710	36.531.524	43.596.725	49.467.829	55.889.583	62.055.598	66.092.063	69.058.987	72.160.682	75.403.357	78.793.510

Income Statement 2019A – 2034F in $k

	2019A	2020A	2021A	2022A	2023A	2024E	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Revenues	20.156.447	24.996.056	29.697.844	31.615.550	33.723.297	38.966.229	43.510.482	47.867.978	52.472.526	57.763.171	62.450.173	66.509.218	69.491.325	72.608.817	75.867.928	79.275.185
% growth		*24%*	*19%*	*6%*	*7%*	*16%*	*12%*	*10%*	*10%*	*10%*	*8%*	*6%*	*4%*	*4%*	*4%*	*4%*
Streaming Revenues	19.859.230	24.756.675	29.515.496	31.469.852	33.640.458	38.966.229	43.510.482	47.867.978	52.472.526	57.763.171	62.450.173	66.509.218	69.491.325	72.608.817	75.867.928	79.275.185
% growth		*25%*	*19%*	*7%*	*7%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*
DVD Revenues	297.217	239.381	182.348	145.698	82.839	-	-	-	-	-	-	-	-	-	-	-
% growth		*-19%*	*-24%*	*-20%*	*-43%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*	*-29%*
Cost of Revenues	12.440.213	15.276.319	17.332.683	19.168.285	19.715.368	20.882.748	22.248.881	25.288.707	27.536.584	29.879.720	31.835.760	33.904.974	35.425.189	37.014.419	38.675.844	40.412.791
% of revenue	*62%*	*61%*	*58%*	*61%*	*58%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*	*59%*
Amortization of licensed content	7.242.799	7.544.631	8.055.811	7.681.978	7.145.446	8.024.141	7.545.492	8.125.370	8.160.645	8.054.135	7.702.931	8.203.595	8.571.423	8.955.951	9.357.947	9.778.216
% of licensed content	*49%*	*55%*	*58%*	*60%*	*56%*	*58%*	*58%*	*58%*	*58%*	*58%*	*58%*	*58%*	*58%*	*58%*	*58%*	*58%*
of customers	*47,34*	*39,90*	*38,22*	*34,46*	*29,66*	*29,66*	*25,33*	*25,00*	*23,05*	*20,90*	*18,80*	*19,19*	*19,63*	*20,09*	*20,55*	*21,03*
Amortization of produced content	1.973.448	3.262.281	4.174.556	6.344.154	7.051.991	6.389.204	7.479.523	9.216.014	10.664.141	12.235.404	13.764.484	14.659.128	15.316.406	16.003.525	16.721.857	17.472.842
% of produced content	*20%*	*28%*	*24%*	*32%*	*37%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*	*31%*
of customers	*12,90*	*17,25*	*19,80*	*28,46*	*29,27*	*23,62*	*25,11*	*28,36*	*30,12*	*31,75*	*33,60*	*34,29*	*35,09*	*35,90*	*36,73*	*37,58*
Other streaming costs	3.100.759	4.469.407	5.102.316	5.142.153	5.517.931	6.469.403	7.223.866	7.947.323	8.711.798	9.590.182	10.368.345	11.042.252	11.537.359	12.054.943	12.596.040	13.161.733
% of revenue	*15%*	*18%*	*17%*	*16%*	*16%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*	*17%*
DVD costs	123.207	-	-	-	-											
Gross Profit	7.716.234	9.719.737	12.365.161	12.447.265	14.007.929	18.083.481	21.261.600	22.579.270	24.935.942	27.883.451	30.614.413	32.604.243	34.066.136	35.594.397	37.192.084	38.862.394
Overhead Expenses	5.111.980	5.134.448	6.170.652	6.814.434	7.053.926	8.146.055	9.047.526	9.922.924	10.852.831	11.895.977	12.780.756	13.510.552	14.000.449	14.510.089	15.040.329	15.592.061
Marketing	2.652.462	2.228.362	2.545.146	2.530.502	2.657.883	3.107.243	3.421.087	3.733.007	4.067.490	4.426.490	4.705.182	4.910.094	5.014.367	5.120.878	5.229.675	5.340.807
% of revenue	*13%*	*9%*	*9%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
of users	*17,34*	*11,78*	*12,07*	*11,35*	*11,03*	*11,49*	*11,49*	*11,49*	*11,49*	*11,49*	*11,49*	*11,49*	*11,49*	*11,49*	*11,49*	*11,49*
of newly gained users	*73,47*	*102,68*	*209,68*	*140,86*	*89,72*	*113,72*	*125,98*	*128,20*	*130,14*	*182,44*	*263,75*	*540,88*	*540,77*	*540,65*	*540,54*	*n.a.*
Technology and Development	1.545.149	1.829.600	2.273.885	2.711.041	2.675.758	3.138.887	3.504.944	3.855.958	4.226.873	4.653.056	5.030.613	5.357.585	5.597.806	5.848.933	6.111.467	6.385.935
% of revenue	*8%*	*7%*	*8%*	*9%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*
General and Administrative	914.369	1.076.486	1.351.621	1.572.891	1.720.285	1.899.925	2.121.495	2.333.959	2.558.468	2.816.431	3.044.961	3.242.873	3.388.275	3.540.279	3.699.187	3.865.319
% of revenue	*5%*	*4%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Core Result before Taxes (EBIT)	2.604.254	4.585.289	6.194.509	5.632.831	6.954.003	9.937.427	12.214.074	12.656.346	14.083.111	15.987.473	17.833.657	19.093.691	20.065.687	21.084.308	22.151.755	23.270.333
Statutory Taxes	(546.893)	(962.911)	(1.300.847)	(1.182.895)	(1.460.341)	(2.086.860)	(2.564.956)	(2.657.833)	(2.957.453)	(3.357.369)	(3.745.068)	(4.009.675)	(4.213.794)	(4.427.705)	(4.651.868)	(4.886.770)
Tax Rate	21%	21%	21%	21%	21%	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*
Tax adjustments																
Impact of foreign juristidiction	(56.969)	(12.212)	86.489	(104.665)	32.292	6.847	7.640	8.479	9.365	10.434	11.283	12.104	12.656	13.233	13.837	14.469
R&D Tax Credits	134.523	113.882	82.909	146.615	87.036	128.767	143.784	158.184	173.400	190.883	206.372	219.785	229.640	239.942	250.712	261.972
Core Result (NOPLAT)	2.134.915	3.724.048	5.063.060	4.491.886	5.612.990	7.986.182	9.800.543	10.165.177	11.308.423	12.831.421	14.306.244	15.315.906	16.094.189	16.909.778	17.764.435	18.660.004
Non Core Result Before Taxes	84.000	(618.441)	411.214	337.310	(48.772)											
Interest and Other Income (Expenses)	84.000	(618.441)	411.214	337.310	(48.772)											
Statutory Taxes	(17.640)	129.873	(86.355)	(70.835)	10.242											
Tax Rate	*21,0%*	*21,0%*	*21,0%*	*21,0%*	*21,0%*											
Tax Adjustments	160.200	132.239	333.149	291.470	386.392											
Non Core Result	226.560	(356.329)	658.008	557.945	347.862	0	0	0	0	0	0	0	0	0	0	0
Financing Result																
Interest Expense	(626.023)	(767.499)	(765.620)	(706.212)	(699.826)	(712.919)	(706.931)	(735.266)	(761.724)	(788.563)	(812.836)	(833.971)	(854.937)	(879.696)	(905.300)	(931.756)
Financing Result before Taxes	(626.023)	(767.499)	(765.620)	(706.212)	(699.826)	(712.919)	(706.931)	(735.266)	(761.724)	(788.563)	(812.836)	(833.971)	(854.937)	(879.696)	(905.300)	(931.756)
Statutory Taxes	131.465	161.175	160.780	148.305	146.963	149.713	148.455	154.406	159.962	165.598	170.696	175.134	179.537	184.736	190.113	195.669
Tax Rate	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*	*21,00%*
Financing Result	(494.558)	(606.324)	(604.840)	(557.907)	(552.863)	(563.206)	(558.475)	(580.860)	(601.762)	(622.964)	(642.140)	(658.837)	(675.400)	(694.960)	(715.187)	(736.087)
Other Comprehensive Income	(3.939)	67.919	(84.893)	(176.811)	(6.639)											
Comprehensive Income incl. OCI	1.862.977	2.829.314	5.031.335	4.315.113	5.401.351	7.422.976	9.242.068	9.584.317	10.706.661	12.208.456	13.664.103	14.657.068	15.418.788	16.214.818	17.049.248	17.923.916
Comprehensive Income excl. OCI	1.866.916	2.761.395	5.116.228	4.491.924	5.407.990	7.422.976	9.242.068	9.584.317	10.706.661	12.208.456	13.664.103	14.657.068	15.418.788	16.214.818	17.049.248	17.923.916

DCF Valuation in $k

	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	TV
Operating Free Cash Flow to Firm (base case)	3.099.976	5.437.318	6.409.668	8.140.229	11.279.441	13.127.265	13.808.083	14.521.760	15.269.851	15.971.231
Operating Free Cash Flow to Firm (default case)	- 2.182.517	- 41.712	314.428	1.224.093	3.568.376	4.871.992	5.133.315	5.407.389	5.694.820	5.956.397
Ultimately expected Cash Flow	3.081.487	5.418.142	6.388.334	8.116.022	11.252.452	13.098.371	13.777.721	14.489.860	15.236.338	15.936.179
discounted @ WACC	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%	9,42%
Discount factor	0,91	0,84	0,76	0,70	0,64	0,58	0,53	0,49	0,44	0,41
Discounted FCF	2.816.078	4.525.003	4.875.738	5.660.831	7.172.464	7.629.968	7.334.441	7.049.171	6.773.899	134.010.556

Equity Bridge	
Enterprise Value	187.848.148
Share Projection Period	*28,7%*
Share Terminal Value	*71,3%*
(+) Invested Capital Non Core Operations	56.347
(-) Net Debt	(11.077.356)
Equity Value	176.827.138
/ Total shares outstading (m)	428.239
Price per share ($)	412,9

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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