A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

Equity Research Report - Netflix

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A Project carried out on the Master in Finance Program, under the supervision of:

Francisco Martins

17-12-2021

"NETFLIX INC."

COMPANY REPORT

"ENTERTAINMENT AND MEDIA INDUSTRY"

17 DECEMBER 2021

STUDENT: "FELIX FRICKE, JAN HUEHSAM"

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Netflix is not going to "chill"

- Netflix is acting as a market leader in a growing SVoD industry, with its increase further amplified through the persistent trend of Cord-Cutting and the recent COVID-19 pandemic.
- The largest portion of revenue is achieved in Netflix domestic, however maturing market. Other markets like EMEA and LATAM are promising more growth which is attracting Netflix, as well as new competitors to enter the market, challenging Netflix' established position in an ongoing Streaming Wars.
- Contrary to the industry trend of inorganic subscribers' growth by consolidation executed, e.g. by Disney, Netflix is investing into own content production and diversification to further gain subscribers – a development that will maintain in the future with Netflix recent investments into Gaming as a manifestation of their focus on own content.
- Deducting the underlying value of Netflix' share applying a Discounted Cash Flow Model led to an estimation of the share price target of $530.78 for the end of 2022. The closing share price of $591.06 implies that the stock is overvalued by 10.2%, therefore a SELL recommendation is issued.

Company description

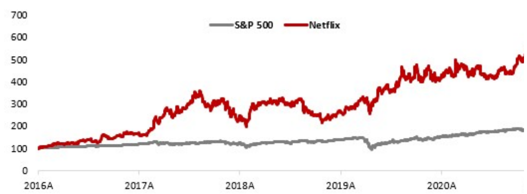
Netflix, Inc. is a provider of subscription streaming entertainment service, located in Los Gatos, California. The Company offers a wide variety of commercial-free content to over 213 million subscribers in more than 190 countries as of Q3 2021.

Recommendation:	**SELL**
Price Target FY21:	**530.78 $**
Price (as of 17-Dec-21)	**591.06 $**

Reuters: NFLX.OQ, Bloomberg: NFLX US

52-week range ($)	478.40-700.99
Market Cap ($bn)	261.81
Outstanding Shares (m)	442.95

Source: Bloomberg



Source: Eikon / Refinitiv

(Values in $ millions)	2020	2021E	2022F
Revenues	24,996	27,509	30,152
Gross Profit	9,719	12,592	11,635
EBIT	4,585	5,639	2,204
NOPLAT	3,693	4,561	1,934
ARPU ($)	10.13	10.23	10.39
Subscriber growth (%)	21.89	9.21	8.18
ROIC (%)	18.36	18.09	6.00

Source: Company Data, Analyst Estimate

Abstract

Equity Research Report – Netflix

The thesis was written with the intention to provide an investment advice on Netflix with regards to its current valuation, hence a Discounted Cash Flow Model was constructed. Therefore, developments within Netflix' operating regions as well as existing and anticipated trajectories within the respective industry and their implications on the company's sales drivers were analyzed. To regard Netflix engagement in content production a special emphasis was put on the ramifications on the firms cost structure.

Keywords (up to four): Netflix, Streaming Wars, Subscription Video-on-Demand, Content Production

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR

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Financial Health

Liquidity Ratios	
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Quick Ratio	1.25
Cash Ratio	1.05

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Source: Netflix, 2020

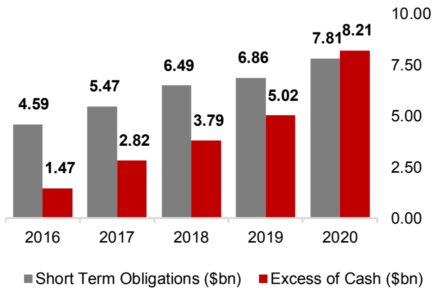

Figure 2 Excess Cash vs Short-Term Obligations
Source: Netflix, 2020

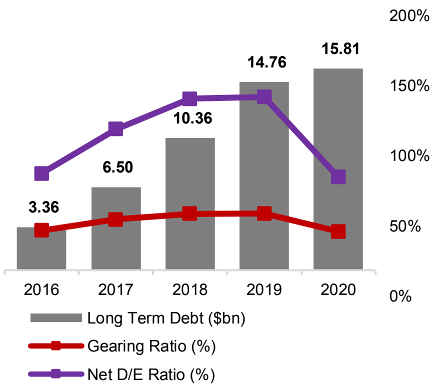

Figure 3 Long-Term Debt vs Gearing and Net D/E Ratio
Source: Netflix, 2020

A short synopsize of the liquidity and debt structure as well as certain balance sheet items over the past four years is necessary to comprehend the financial risks involved as well as some Balance sheet targets of Netflix Board of Directors. Focusing on Netflix short-term liquidity, the firm seems to be able to cover the total of its short-term obligations (Figure 1). Therefore, Netflix fulfils the rule of short-term financial equilibrium. Furthermore, an increasing Cash Ratio, which converges to the current ratio, implies a strong tendency of a faster rising cash position compared to other short-term assets & liabilities. (Figure 2) (Netflix, 2020) A high cash ratio hints a strong financial stability as executional risk is minimized. Nonetheless, in terms of optimal resource allocation the cash is not deployed to achieve respective returns. Netflix maintains a high cash position to ensure a certain financial flexibility accompanied by the ability to finance content productions or possible acquisitions out of their pocket. (Netflix, 2021) This can be considered as a business advantage, given the dynamic within the SVoD industry by reacting on trends and rapidly changing customer needs. The long-term debt position has been growing on an absolute basis within the time frame. The gearing ratio as well as the Net Debt to Equity ratio based on book values have been increasing in the past with a first-time downtrend in 2020 during the regarded period. (Figure 3) (Netflix, 2020) The relatively high debt levels over the past years are a result of Netflix reliance to finance day-to-day operations with debt. The Company has indicated to be able to escape this trend, which would at least keep the ratios constant (Netflix, 2021) The decreasing indebtedness of Netflix in conjunction with its strong liquidity position in combination with stable revenues provide a sense of a strong financial position over the past years.

Sales Driver Analysis

Region	ARPU	Subscriber	Revenue
UCAN	10.8%	8.2%	19.8%
EMEA	8.6%	36.9%	48.7%
LATAM	0.3%	23.9%	24.3%
APAC	1.7%	57.7%	60.3%
Total	**6.2%**	**22.6%**	**28.8%**

Figure 4 CAGR Table of selected Sales Driver from 2017 to 2020
Source: Netflix, 2020

Netflix revenue has been growing at a CAGR of 28.8% and is a result of the product of ARPU and the number of users – the latter being used in this report interchangeably with subscribers. Growth of users contributing more to the revenue increase than price adjustments are a positive indicator, as sales improvements achieved through higher prices are usually an indicator of a maturing market. (Figure 4) (Netflix, 2020) Nonetheless, the YoY subscriber's growth is slowing down slightly. Moreover, Netflix subdivides its sales into regions in which Netflix is operating, enabling the analyzation of the different dynamics in each of Netflix operating locations. (Netflix, 2020)

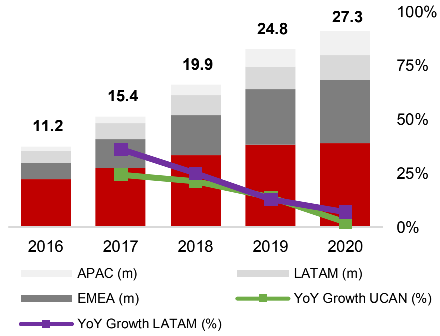

Figure 5 Revenue Growth and Split accross Regions with YoY of UCAN and LATAM
Source: Netflix, 2020

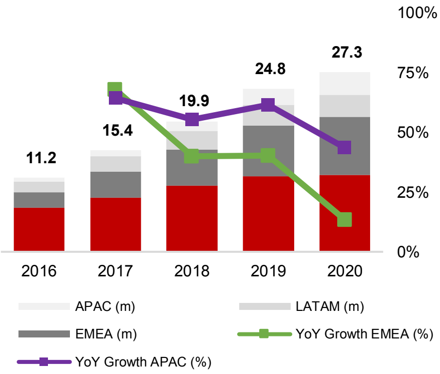

Figure 6 Revenue Growth and Split accross Regions with YoY of EMEA and APAC
Source: Netflix, 2020

Exemplary, a degree UCAN has reached of maturity to some extent, with revenue growth becoming crescively reliant on price increases rather than subscription growth within the past few years, indicating for a rather developed market. (Figure 5) (Statista, 2021) In 2020 revenue growth was however driven by subscription growth, which still can be aligned with the assumption of a maturing market, if the exceptional situation of the respective year is taken into account, combined with the presumption of these circumstances are not reoccurring. LATAM stipulates a similar case of a market maturity, and a higher penetration of broadband homes, making a further rollout for Netflix a challenging matter. (Netflix, 2021) The low ARPU-CAGR can be explained by a price reduction from 2019 to 2020 of 5.5%. LATAM subscribers seem to have a rather high price sensitivity (Figure 4) (Netflix, 2021), as the respective reduction did not spark a stronger subscriber growth compared to the previous year and a price increase in 2021 slowing down growth in Q3, 2021. (Figure 5) (Barhart, 2020) Contrarily, subscriber additions in EMEA and especially in APAC over the considered time-period are implying a market growth with high a velocity. (Figure 6) The growing importance of the APAC region for Netflix is becoming even more evident by the fact that it has been the largest contributor to Netflix membership growth for two consecutive quarters in the current fiscal year, responsible for half of the subscriber additions of Netflix within that quarter. (Netflix, 2021) As mentioned before, these differences in growth rates are due to the different maturities of the respective regions and the coherent penetration rate of the market. (Figure 4) (Statista, 2021)

Reviewing the Company's history, it seems reasonable that UCAN and LATAM are more mature than EMEA and APAC, as Netflix started their business and expansion strategy within these regions. (Howley, 2021) The different potential becomes even more evident when looking at the CAGRs of subscriber growth per region from 2016 to 2020. (Figure 4) (Netflix, 2021) The special focus on subscriptions as a revenue driver becomes apparent considering the current status of the Streaming Wars. Market share will be imperative to sustain within the industry. Additionally, it is believed that the price won't be a differentiating factor within these developments. (Bowman, 2021)

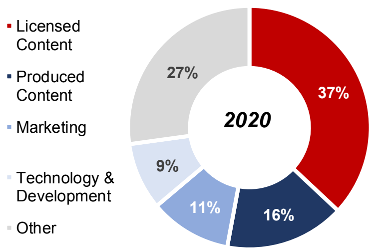

Figure 7 Operating Expenses in 2020
Sources: Netflix, 2020

Cost Driver Analysis

Netflix total operating expenses have been growing with a CAGR of 23.4% from 2017 to 2020. The most influential cost drivers are amortization of content, marketing, as well as technology and development, as they were identified as the predominant contributors to the operating expenses. (Figure 7) (Netflix, 2021)

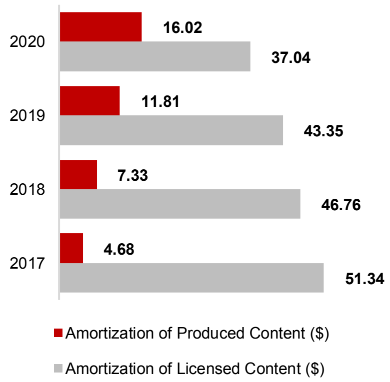

Figure 8 Amortization of Produced and Licensed Content per User
Source: Netflix, 2020

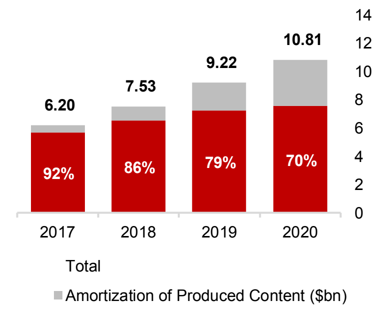

Figure 9 Amortization of Produced and Licensed Content Split
Source: Netflix, 2020

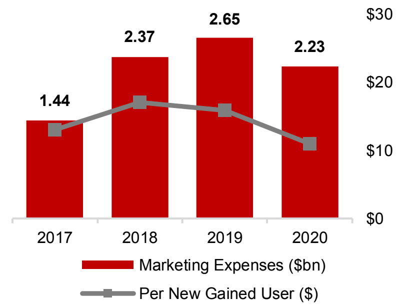

Figure 10 Marketing Expenses
Source: Netflix, 2020

Pursuant to Netflix business model the Company's possibility to achieve a competitive edge is contingent on its ability to create value through content. Therefore, costs linked directly to content as the largest cost drivers within the Company's Income Statement and expressed as amortization of content, consisting as a part of revenue costs. These costs are divided into amortization of licensed content and amortization of produced content. In accordance with the previously mentioned strategic shift of the Company focusing on produced content, the related amortization has been increasing tremendously YoY with a CAGR of 84.7% over the last four years, whereas the growth of expenses related to licensed content have been decelerating, resulting in a CAGR of 9.9% throughout the same time period. The metric that encapsulates that produced content is the cynosure of the company is the comparison of the two amortizations per user. (Figure 8) (Netflix, 2021)

Due to the amount of the amortization of licensed content and the deceleration of investments into this division the growth of amortization of total content has been declining slightly. This downtrend was amplified in 2020 by the pandemic actively hindering content production successively leading to a less steep increase of the amortization costs associated with produced content. (Figure 9) (Walt Disney, 2021)

The development of marketing costs over the timeframe is captured by a CAGR of 15.8%. More expressive power, however, lies within the evolution of marketing spent per new subscriber which has more than doubled over the last four years - even with a drop in marketing expenses in 2020. This metric basically captures the increasing difficulty for Netflix to attract users, resulting in higher customer acquisition costs. A trend further strengthening the hypothesis of a rather saturated market with increased competition. (Figure 10)

Capital Driver Analysis

Closely intertwined with the amortization costs are balance sheet items of licensed and produced content, which are constituting the heart of Netflix assets. Combined they account for 64.6% of total assets of the Company's balance sheet in 2020. (Netflix, 2020) Multiple indicators highlight the increasing relevance of Netflix' own production. This corresponds to a CAGR of 59%, whereas the CAGR of licensed content over the same time is 5.3%. These investments caused a change in the composition of total content, from produced content making up a fifth of the content in 2017 to the two being almost equal in 2020. In 2020 licensed content was decreasing for the first time within the regarded period, also in line with the content strategy. The strongly decelerating YoY growth from 2019 to 2020 has been, as previously mentioned before, due to the pandemic actively influencing production possibilities. The largest lability Netflix records on its balance sheet are content liabilities. (Netflix, 2020)

Margins and Profitability

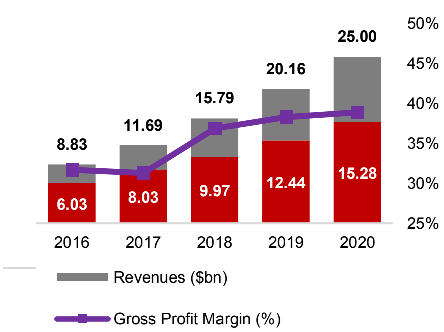

Figure 11 Gross Profit Margin over Time
Source: Netflix, 2020

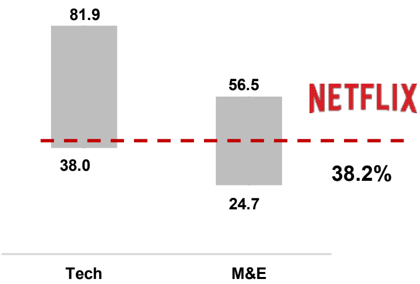

Figure 12 Netflix Operating Margin compared to Industry Peers
Source: Eikon/Refinitiv

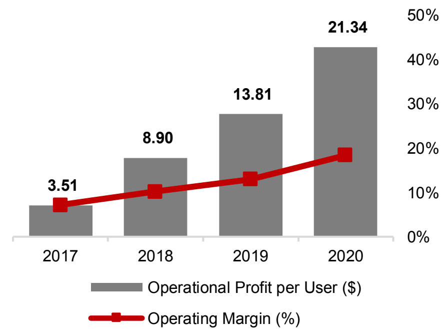

Figure 13 Operational Profit per User and Operating Margin
Source: Netflix, 2020

The ability of the Company to increase its gross margin from 2017 to 2020 indicates a revenue growth unmatched by its variable cost increases in the past. (Figure 11) The evolution of the relation is therefore implying an improving production process as Netflix has been able to offset the large content investments by a combination of subscriber and ARPU growth. The subscriber's growth being important as they allow the distribution of the cost of revenue onto a wider foundation. The slight increase of the metric in 2020 has the mentioned as this increase has most likely been largely influenced by the circumstances accompanied to the pandemic situation, which resulted in a larger than expected subscribers' growth, boosting revenues, while simultaneously affecting production possibilities, effectively lowering the cost of revenue combined with a decline in marketing expenses (Figure 10). Therefore, the trend of Netflix becoming more effective in 2020 needs to be evaluated with care. Especially regarding the increased content production which will lead to higher costs via amortization, therefore affecting gross margin as well as operating margin. The severeness of the situation can be grasped when looking at the amount of subscriptions Disney has accumulated since its launch in 2020 possibly leading to a stronger deceleration of subscriber growth. Comparing Netflix operating margin on one hand with a peer group of technology companies and on the other hand with entertainment companies further strengthens Netflix position as a content producer as the margin is rather comparable to entertainment companies like Fox Corp. and Comcast Corp. while the Company constitutes the lower end of the tech companies in terms of gross margin due to content amortization expenses. (Figure 12) (Eikon/Refinitiv, 2021) Already indicated by a higher CAGR of revenue growth compared to total operating expenses over the last three years, Netflix operating margin has been increasing. The uptrend was in line with the proposed 3% increase on average p.a. resulting in a margin slightly above target of 18.3% in 2020. (Netflix, 2021) In line with the development is a strong increase of operating profit per user, which grew from $3.51 in 2017 to $21.34 in 2020 (excl. DVD). (Figure 13) (Netflix, 2020)

The Return on Invested Capital (ROIC) as a profitability measure has been steadily increasing throughout the regarded time-period for the total Company as well as for its core business with an unusually high increase in 2020. (Figure 14) The

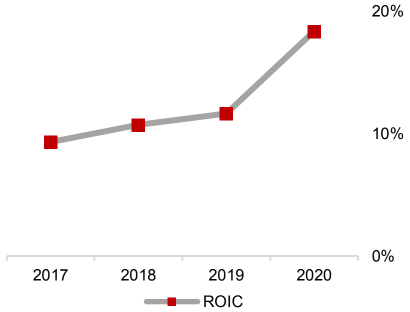

Figure 14 ROIC Development over Time
Source: Netflix, 2020

increase of the core ROIC is due to the steadily increasing core operational margin, discussed previously, as the core asset turnover has been decreasing from 2017 to 2019. The decline of the metric can be explained by the increasing content assets, which are vital to Netflix operations. The higher ROIC in 2020 is due to an uptrend in asset turnover caused by the influences of the pandemic on Netflix business model. (Netflix, 2020)

Concluding the Company Analysis, the success of Netflix will strongly depend on its ability to generate new subscriptions within key areas such as the rapidly growing APAC and to maintain a relatively high market share within its regions closer to maturity against existing and newly emerging competitors. Netflix has been focusing on local and global content production, recently adopting content diversification in form of gaming to achieve these goals. (Toh, 2021) Therefore, there will be a special focus on these metrics to estimate Netflix prospects within a fast-paced industry.

Forecasting Rationale

Differentiating Measures

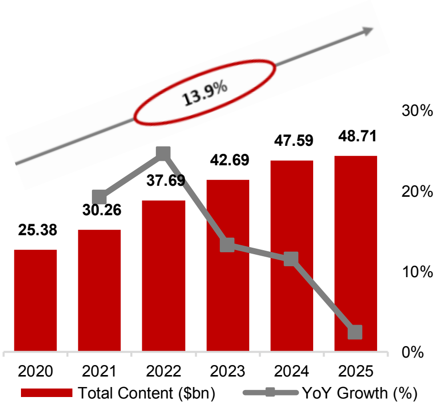

Figure 15 Total Content Assets Development
Source: Netflix, 2021; Analyst Estimate, 2021

Netflix outlook depends heavily on the content it will produce to individualize the Company from the competition and enable a gain in market share while increasing retention rate. Therefore, tremendous investments into own content are required. (Netflix, 2021) (Levy, 2021) Especially from 2020 until 2025 the balance sheet item is assumed to increase monumentally due to the Streaming Wars. (Figure 15) (Netflix, 2021) Netflix differentiation strategy entails the establishment of local hubs worldwide, to adapt to regional content requirements, therefore making it easier to capture market share within the growth regions of APAC and EMEA. Rollouts like the one in Madrid in 2019 and the content production thereafter are serving as justification for the assumed continuous increase of the balance sheet item. (Netflix, 2018) Another recent strategy Netflix has adopted to protrude its production and therefore contributing to the increase of content is the implementation of its gaming division. (Netflix, 2021) The outlook of the Company's executives, to create an entertainment universe including merchandize and gaming based on their movie content, therefore bringing Netflix closer to Disney, entails the goal to increase retention rate. The strategy of increasing own content was assumed to amplify the evident past trend of Netflix changing its content composition over the next years, further aligning the Company's goal to deliver unique and high quality content to retain subscribers, as well as to attract new subscribers. (Figure 16) (Pring-Mill, 2020) (Netflix, 2021) Additionally, external

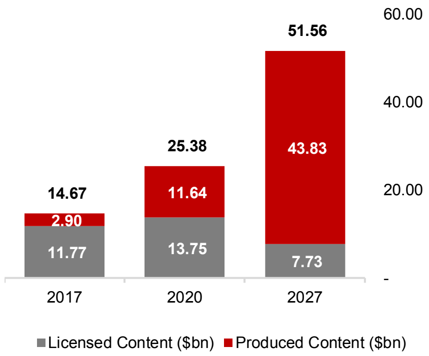

Figure 16 Produced and Licensed Content Investments Development
Source: Netflix, 2020; Analyst Estimate, 2021

factors like Disney halting their licensing of content to Netflix, as well as licensed content becoming more expense by the virtue of more demand due to increasing competition within the industry are developments further justifying the assumption of a drastic composition change. (Netflix, 2021) (Meredith & Kovach, 2021) These factors lead to the believe that Netflix will be continuously increasing their produced content while simultaneously decreasing their licensed content until 2026, where there is forecasted to be a stable ratio of licensed to produced content of 15%, assuming Netflix will still own licensed content to some degree. This is in line with a contract made with Disney of Netflix getting back licenses to Disney movies produced from 2016 through 2018. (Shaw, 2019) Furthermore, Netflix plans to start licensing gaming to add to their produced content validates the assumption. (Netflix, 2021)

As the total content was forecasted through a relationship of sales and is set to converge to a constant ratio after the period of heavy financing, the underlying assumption was that in the future, content will increase with sales growth YoY. The relationship was tested using a yearly and a quarterly linear regression over the last four years, implying a high goodness-of-fit. However, due to the reasons mentioned above the assumption of a further linear relationship based on past levels was not deemed reasonable for the future.

Revenue Forecast

Total Revenue

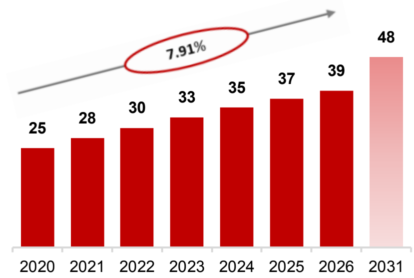

Figure 17 Forecasted Revenues ($bn) with CAGR 2020-2026
Source: Analyst Estimate, 2021

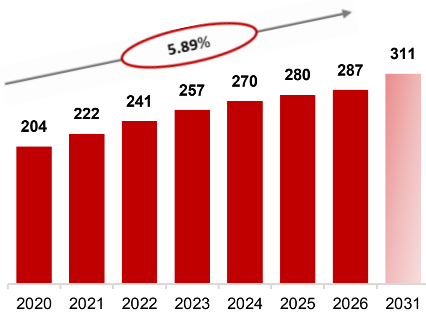

Figure 18 Forecasted Subscriber (m) with CAGR 2020-2026
Source: Analyst Estimate, 2021

As established Netflix is amid the Streaming Wars, reporting positively influenced numbers in 2020 due to COVID-19 not exemplifying the grasp of the magnitude of the situation. (PwC, 2021) One of many better indicators capturing the dynamics of the industry is the high consolidation activity within the market indication a preparation of what is about to happen. (Glasner, 2021) Due to the competitive landscape, Netflix will have to invest heavily into the future concordant with the plans of Netflix executives, recognizing content production as a differentiating factor, to retain existing and acquire new subscribers. (Netflix, 2021) These investments will affect Netflix cost structure as well as revenues through altering subscriber growth and prices through adjustments for the increasing expenses on content. The total revenue growth for Netflix from 2020 to 2026 is forecasted to slow down compared to the last four years, effectively regarding the streaming wars and the previously discussed developing maturity within certain regions. (Kantar, 2021) Within the time frame, revenues are assumed to grow at a CAGR of 7.9% driven by subscription and ARPU increases at CAGRs of 5.9% and 2.1% respectively, resulting in $39.5bn revenues (Figure 17), with 287 million

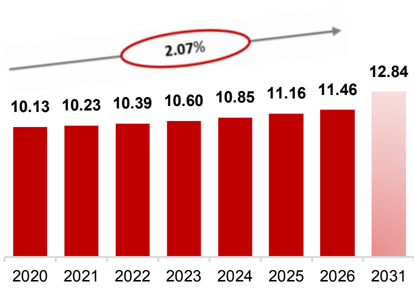

Figure 19 Forecasted Average Revenue Per User ($) Development with CAGR 2020-2026
Source: Analyst Estimate, 2021

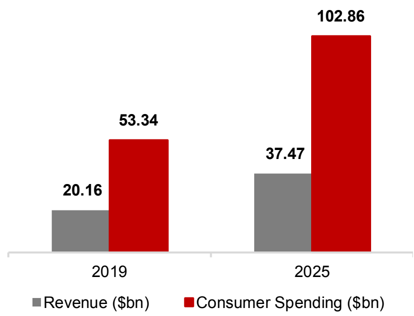

Figure 20 *Forecasted Revenues compared to global SVoD Spending ($bn)*
Source: Statista, 2021; Analyst Estimate 2021

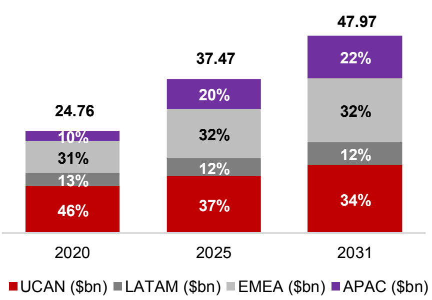

Figure 21 Revenue Split Across Regions
Source: Analyst Estimate, 2021

subscribers (Figure 18) at a monthly ARPU of $11.46 (Figure 19) in 2026. Thereafter, revenue growth is expected to further decelerate with continuous saturation of the market, smoothing out at 3.8% after 2029, leaving Netflix with an estimated sales volume of $48bn at the end of the forecasting period in 2031. (Figure 17) (Winslow, 2021) The corresponding ARPU has been constantly declining YoY converging to forecasted USD inflation of 2.3% in 2029 remaining constant thereafter. Subscribers levelling at 1.5% in 2029 remaining constant thereafter. (IMF, 2021) The Streaming Wars is assumed to be responsible for both reverberations – the continuously decreasing ARPU growth, as well as its balancing at the inflation rate. The former is due to the increased competitiveness in the coming years, whereas the latter is an effect of a rather stable market environment with a few remaining competitors offering a similar proposal to their customers. (Winslow, 2021) Therefore, a differentiating factor, to justify higher prices against competitors doesn't exist anymore. In 2021, all regions are assumed to experience a drop in revenue growth, as already indicated by Netflix quarterly statements, portraying a smoothing-out effect to the strong growth trend in 2020. (Netflix, 2021) Accounting for the different conditions of Netflix operating regions, the underlying sales drivers and therefore its revenue in each territory is forecasted to evolve differently, according to the predominant factors influencing each area. (Statista, 2021) According to industry estimates, the consumer spending on SVoD services will experience a stronger growth compared to Netflix revenues according to the forecasts in this report from 2019 to 2025. (Figure 20) (Statista, 2021) Under the assumption that Netflix has been in the market for a relatively long time, achieving a certain level of penetration, especially in mature markets, the Company is assumed to not completely participate in the growth of the industry. (Galloway, 2021) Accounting for the different conditions of Netflix operating regions, the underlying growth of the sales drivers and therefore its revenue in each territory is forecasted to evolve differently, according to the predominant factors influencing each area.

United States and Canada

UCAN has been the largest contributor to Netflix revenues in the past and is assumed to remain the leader in terms of absolute revenue during the forecasting period. (Figure 21) (Netflix, 2021) The strong revenues are a consequence of UCAN being a maturing market accompanied by a high SVoD penetration rate, resulting in a correspondingly large TAM with Netflix allocating 47% of the market

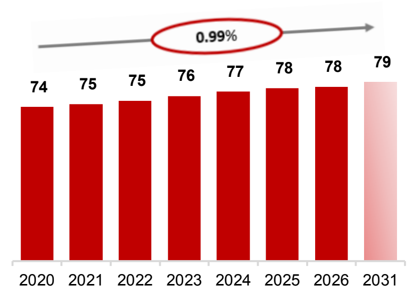

Figure 22 Subscriber Forecast in UCAN with CAGR 2020-2026
Source: Analyst Estimate, 2021

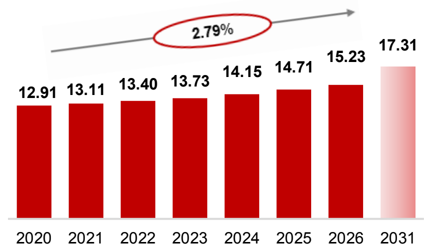

Figure 23 ARPU Forecast in UCAN with CAGR 2020-2026
Source: Analyst Estimate, 2021

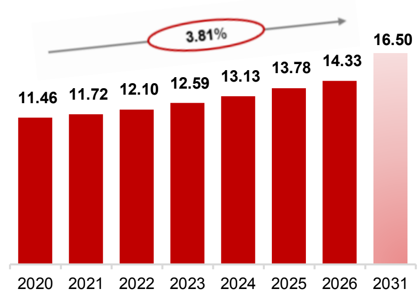

Figure 24 Revenue Forecast in UCAN with CAGR 2020-2026
Source: Analyst Estimate, 2021

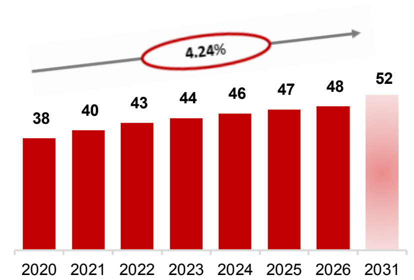

Figure 25 Subscriber Forecast in LATAM with CAGR 2020-2026
Source: Analyst Estimate, 2021

share.[1] (Statista, 2021) Assuming the market share to decrease slightly until 2023, remaining constant thereafter at 43% illustrates the reason for the high revenues assumed to be achieved in the region. (Figure 21) The drop in the subscribers' growth rate in 2021 is justified by the assumption of the decelerating growth trend continuing from the past, further amplified by the added users during COVID-19 being more prone to cancel their subscription. (Hayden, 2021) The maturity of the market, in concert with further entrances, additional to Netflix high penetration leave little room for additional subscriber growth. (Shafer, 2021) The assumption that Netflix will not experience a drastic reduction in audience, induced by growing streaming services is derived by that fact that the competitors' growth has been non-organic within the region, therefore the offered content did not change too dramatically. (The Economist, 2021) Even though the market has reached a rather saturated level, (Shafer, 2021) the forecast of slight subscriber growth pick up was made to regard Netflix entrance into gaming, combined with further investments in its historically successful own production both functioning as diversifying factors during the Streaming Wars. (Figure 22) (Whitten, 2021) The same rational was applied for an uptick in Netflix pricing until 2025, as Netflix is assuming to offer additional value through its gaming content. (Netflix, 2021) The influence on pricing is not exorbitant as Netflix is already one of the more expensive competitors within the region. (Shaw, 2021) Thereafter, the price growth will converge to the inflation because of a similar value proposal by competitors as they have started a rollout into gaming as well. (Figure 23) (Schiesel, 2020) The described developments in UCAN are leading to the evolution mentioned of the region being the largest competitor in terms of revenue over the forecasting period contributing $16.5bn (Figure 24), which amasses to 34.4% of the total forecasted revenue. (Figure 21)

Latin America

Like UCAN the LATAM market is not a growth market, with Netflix longest international presence. (Statista, 2021) However, LATAM has not been a large contributor to the Company's revenue stream with the explanation being twofold. (Figure 21) (Netflix, 2021) First, the market size being significantly smaller in terms of industry revenue due to a lower achievable ARPU. (Statista, 2021) Secondly, the lower penetration rate of Netflix due to a fragmented market with local service providers who organically acquired market expertise and are offering a different service proposal of a combination of Pay-Tv and SVoD services, which is adopted by the population. (O'Halloran, 2021) This results in a lower market share,

[1] The TAM was estimated for the respective forecasting period by combining information from UN about population, population growth and the average size of households per country with information about the penetration rates of the SVoD market per from country, obtained from Statista. Finally, clustering the SVoD subscribed households into the respective regions.

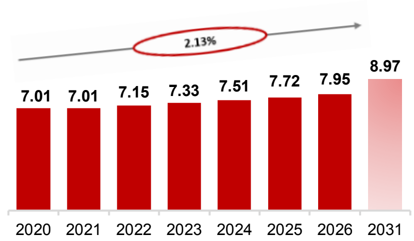

Figure 26 ARPU Forecast in LATAM with CAGR 2020-2026
Source: Analyst Estimate, 2021

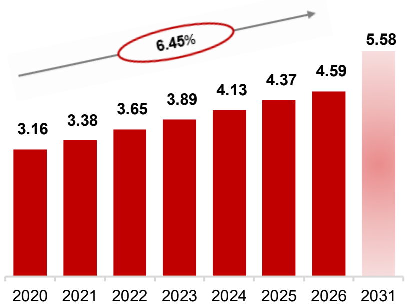

Figure 27 Revenue Forecast in LATAM with CAGR 2020-2026
Source: Analyst Estimate, 2021

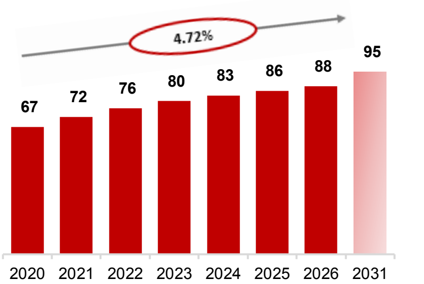

Figure 28 Subscriber Forecast in EMEA with CAGR 2020-2026
Source: Analyst Estimate, 2021

compared to UCAN of roughly a third of the estimated TAM. With the market size not being susceptible to Netflix, the penetration rate is regarded as the adjusting screw for the Company. Regarding the synopsize of the market the expectation for the LATAM subscribers' growth constitutes the following train of thought. The high fragmentation conjoint with the local expertise of SVoD providers are leading to Netflix being slightly deprived of market share by increasing users at a CAGR of 4.2% until 2026, below market growth. (Figure 25) During this period Netflix subscribers increase is converging to the industry and is growing in equilibrium with the market. This results in Netflix maintaining its market share of 30%. The maintenance of Netflix presence in the market is prompted by its diversification strategy, in this case especially into the local hubs, increasing the proximity of Netflix to the users in LATAM. (Shaw, 2020) The achievement of Netflix' converging growth rate to the market is conditioned on Netflix only slowly aggrandizing its ARPU to inflation as customers in the region are rather price sensitive, as the fragmentation hinders intensive price growth, additionally implied by the -5% price adjustment by Netflix in 2020, as well as the much lower industry forecast on average spending on SVoD services per year. (Figure 26) (Statista, 2021) The conditions contingent to LATAM are forecasted to result in the region contributing $5.6bn to Netflix revenue stream, which results in 11.6% of Netflix forecasted revenue stream (Figure 21), therefore making it the smallest contributor, due to the combination of little spending power and the small market size, unique to the area. (Figure 27)

Europe, Middle East, and Asia

EMEA is seemingly different due to another dynamic within the market. Especially the region Africa and Middle East portraying high growth possibilities and new entries into a fragmented market. (Mann, 2021) (Windride, 2021) These market entries and the rather low spending budget within the growing parts of the region are challenging. Therefore, the tactic used to penetrate the market is a free mobile subscription plan or similar strategies. Respecting the industry metrics, forecasting the region was contingent on the following main assumptions. With Netflix being well position in the region with a market share of 25% of the largest TAM of the regions in 2020, the subscribers' growth rate will be declining constantly with a rather large drop in 2021 due to the previously mentioned inflated growth through COVID-19 in the previous year. (Statista, 2021) Subscribers growth is slowing down as Netflix is penetrating these markets already and the new entries will therefore grow at a higher pace leaving Netflix to grow below market expectations. (Statista, 2021) (Figure 28) Simultaneously the Company is participating in rollout of free-of-charge mobile subscription plans, which is imperative to stay competitive

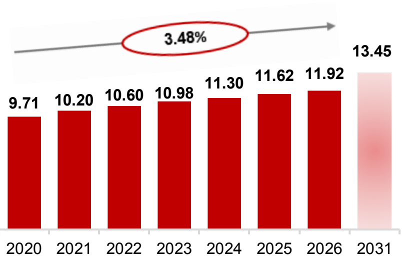

Figure 29 ARPU Forecast in EMEA with CAGR 2020-2026
Source: Analyst Estimate, 2021

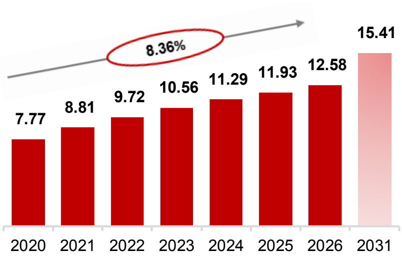

Figure 30 Revenue Forecast in EMEA with CAGR 2020-2026
Source: Analyst Estimate, 2021

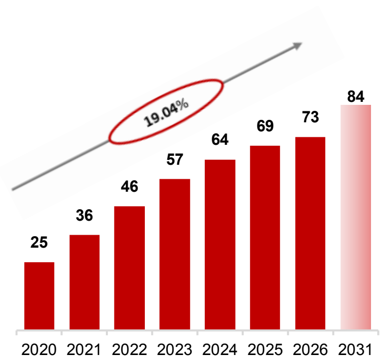

Figure 31 Subscriber Forecast in APAC with CAGR 2020-2026
Source: Analyst Estimate, 2021

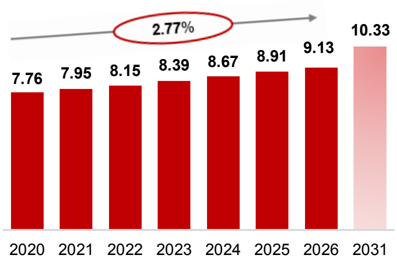

Figure 32 ARPU Forecast in APAC with CAGR 2020-2026
Source: Analyst Estimate, 2021

within the region, therefore experiencing a deceleration of the ARPU growth. (Figure 29) (Singh, 2021) The decreasing growth of revenue drivers is slightly mitigated as the establishment of production hubs in Europe with increased content investments planned, combined with the gaming rollout are representing diversifying factors for Netflix especially in Europe, where the ARPU tends to be higher compared to the other sub-regions. However, in this region further competition is making it difficult for Netflix, which has been growing immensely during the previous period. (Mureithi, 2021) As EMEA portrays a strategically important market due to its size, the Company must adapt its prices rather competitively to retain market share. (Reuters, 2020) This results in a forecasted subscriber growth and ARPU growth from 2020 to 2026 of 4.7% and 3.5%, converging thereafter against market growth and inflation rate until 2031 respectively. According to these metrics the revenue generated in the region is almost catching up to UCAN by 2031, making up 32.1% of total sales with a volume of $15.4bn. (Figure 30) Therefore, the market is remaining the second strongest region of Netflix.

Asia-Pacific

APAC is promising the highest growth potential, although paired with comparably low ARPUs (Statista, 2021), due to market size still expanding impelled by emerging countries (Howley, 2021). However, the market size is attracting competitors, all trying to get a piece of the pie, especially Disney with its recently incorporation into the market and overtaking Netflix in terms of subscribers in key country India. (Purnell, 2021) Considering the large future potential, the market is considered a key battle ground within the Streaming Wars, where it is crucial for Netflix to be engaged in and they know it. (Borgohain, 2018) Since the Company has already targeted the region, a significant amount of resources has been deployed with the intention to further invest into content. (Zhao, 2020) Therefore, a market share of 16% of the TAM has been acquired by 2020. This is the smallest penetration rate for Netflix throughout the regions, resulting in the lowest revenue contribution in 2020 with $2.4bn, indicating a possible stronger user growth compared to the other regions. (Netflix, 2021) (Statista, 2021)

Considering the market conditions, the following train of thought resulted for the estimation of future developments. The subscribers' growth rate will be declining YoY due to the competitive nature contained within the region. However, Netflix will be able to further materialize the trend of gaining a substantial number of subscribers, with growth rates in the double digits until 2024, enabling the Company to achieve a CAGR of 19% from 2020 to 2026 in terms of subscriber's growth. (Figure 31) The high growth is a consequence of a combination of factors.

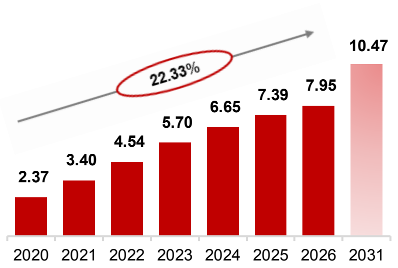

Figure 33 Revenue Forecast in APAC with CAGR 2020-2026
Source: Analyst Estimate, 2021

First, Netflix aiming at market share within the region, is investing heavily into local content as well as establishing an APAC headquarter to grasp the dynamics of the region. (Zhao, 2020) Secondly, Netflix investment in gaming further spur growth, as the APAC region is prone to be affected more positively than other regions and is setting in in 2023 after two years of development. (Goldstein Research, 2021) Lastly, Netflix adapting to the low ARPU characteristics by offering a low-cost mobile only plan with the intention to gain market share. (Figure 32) (Toh, 2021) This leaves Netflix with 69 million subscribers in 2025, above industry estimates of 50 million, therefore presenting a comparably bullish, nonetheless justifiable case under the assumptions presented and comparing to numbers to past growth of other regions, portraying similar figures. (Statista, 2021)

Comparing the subscriptions of 2025 assumed in this scenario seems even more justifiable when comparing the number to industry forecasts of Disney, which amount to 120 million in 2025. (Statista, 2021) As content provided by Netflix is seen as a differentiator. The mobile plan, the characteristics of the region and the main objective of retaining market share leave little room for price increase, however from 2023 until 2026 Netflix it's feasible for the Company increase prices due to the impact of gaming its' going to offer. (Netflix, 2021)

Regarding the time-period from 2020 to 2026 pricing is growing at a CAGR of 2.8% and will thereafter converge to 2.5%, due to gaming being a differentiating factor. Merging the assumptions in terms of revenue implies the amplification of APACs importance to Netflix revenue stream in the future. In 2017 the region made up for only 5.1% of revenue, while in the future it's already predicted to overtake LATAM in 2021 and in 2031 being responsible for 21.8% of sales at $10.5bn. (Figure 21) (Figure 33) Even though the market promises great subscriber growth potential the total revenue of Netflix made in APAC remains behind the EMEA, due to its rather low pricing flexibility and the presence of Disney in the area. (Statista, 2021)

Effects on the Cost Structure

Cost of Revenue

As content is amortized through cost of revenues, investments into content are directly affecting the cost structure. The forecasted change of the content composition is influencing the cost structure positively, considering that produced content is longer lasting, which is expressed in a lower amortization rate (Figure 34) (Netflix, 2020) The assumed increase of content on the balance sheet item through tremendous investments throughout the Streaming Wars will affect the content structure as well, leading to larger amortization costs in absolute terms. (Figure 35) Additionally, the amortization rate is assumed to increase, during the

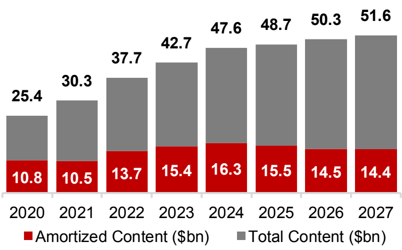

Figure 34 Development of Content Armortization and Total Content Assets
Source: Analyst Estimate, 2021

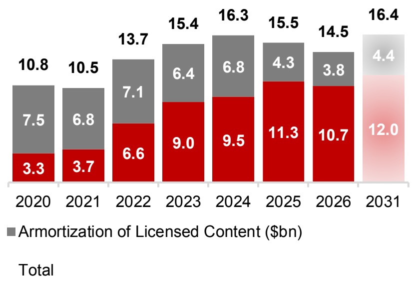

Figure 35 Forecasted Produced and Licensed Content
Source: Analyst Estimate, 2021

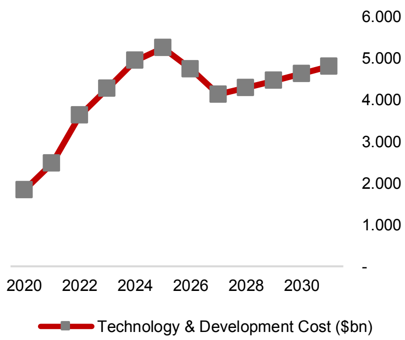

Figure 36 Forecasted Technology & Development Costs
Source: Analyst Estimate, 2021

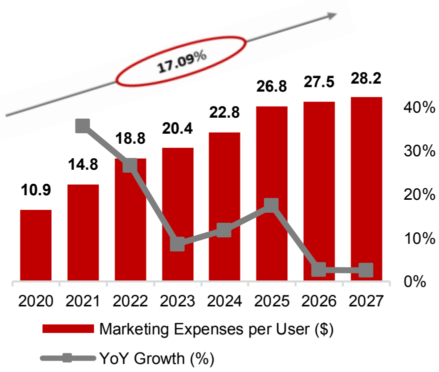

Figure 37 Forecasted Marketing Expeses per User with CAGR and YoY Growth
Source: Analyst Estimate, 2021

first years of Netflix differentiating its content through gaming, as the first content investments into gaming are regarded as an experimental phase, therefore not leading to sustainable investments at the beginning. (Netflix, 2021)

Technology and Development Costs

The underlying assumption was that the relationship of technology and development costs to revenues is going to increase gradually 2024 and thereafter decline slightly until 2028, staying constant in the subsequent years. (Figure 36) The rational to the hike within the high growth period was the planed and partly executed rollout of Netflix into mobile gaming. Moving into this direction will entail investments into technology and development to successfully implement the business venture. The constant level of 10% is above the current relationship because of Netflix involvement in the technology industry, which is assumed to require additional investments into innovations to ensure the competitiveness of Netflix against its contestants. Nonetheless, looking at industry dynamics and the recent development of Meta Platforms (former Facebook) and the plan to create a metaverse it is imaginable that the Company will follow a similar path of creating a more interactive version to increase user engagement, ensuring a higher retention rate and engagement, which is already taking place through the establishment of the gaming department. (Netflix, 2021) (Meta Platforms, 2021)

Marketing Expenses

As it will become increasingly difficult for Netflix to attract new subscriber due to the intensifying competitiveness of the industry. (Variety Intelligence Platform, 2021) The assumption was made that the Company will need to raise its marketing expenses. Moreover, increasing marketing expenses are in line with more produced content to be marketed. The marketing expenses are assumed to increase YoY until 2027 at that time it was assumed that Netflix will have promoted its gaming rollout, and the market conditions will have tranquilized due to the streaming wars will be approaching its concluding period. Thereafter, marketing expenses reach a steady state with YoY growth corresponding to sales growth as the costs were forecasted as a ratio of sales. (Figure 37)

Evolution of Margins

The effects of the upcoming period and the underlying assumptions are cumulatively captured by development of Netflix operating margin. In 2021 the divestment of licensed content and COVID-19 still affecting content productions are offsetting the decreasing growth of revenue. Thereafter, the ramifications of

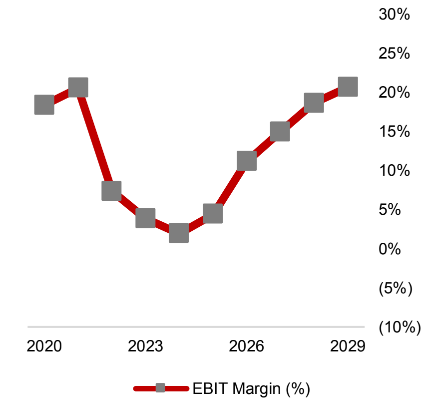

Figure 38 Forecasted EBIT Margin
Source: Analyst Estimate, 2021

the Streaming Wars become evident. The increasing competition in combination with a continuing market saturation are both impacting the top line by slowing down the revenue growth rate. Furthermore, the costs are increasing due to the content investments associated with the Streaming Wars to either retain or expand market share. This combination is resulting in the plummet of the margin. After 2025 the investments are starting to normalize in line with a calming market leading to a balancing EBIT-Margin in 2029 of 20.62%. (Winslow, 2021) The idea that the EBIT-Margin could grow up to 40% comparing Netflix to Pay-TV networks is not deemed reasonable as the operation is based on a monthly cancellable subscription plan for which it was assumed that a EBIT margin that high would leave to little investments into content to retain customers. (Figure 38) (Netflix, 2021)

Intrinsic Valuation

Core Free Cash Flow

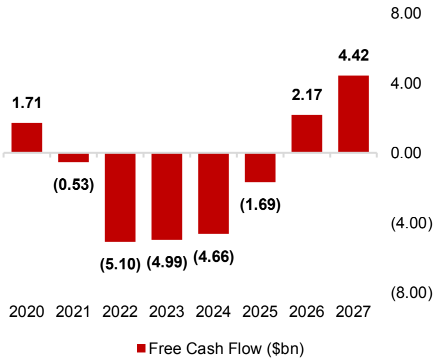

Figure 39 Core Free Cash Flow Forecast
Source: Analyst Estimate, 2021

Netflix top line is forecasted to be affected by less subscriber growth due to maturing markets and price growth forcibly kept low as a ramification of increasing competitiveness. Additionally, tremendous content investments impacting the profitability are leading to a decline of NOPLAT. Moreover, the investments are proceeding the invested capital to grow. All these developments are reflected in the forecasted Free Cash Flows as these are negative until 2026 and will then turn positive. The assumption is that Netflix it is possible for the Company to turn cash flow positive, as they have shown in 2020, although it is anticipated to take just need a little longer than the management anticipates. (Figure 39) (Netflix, 2021)

ROIC, RONIC and Growth Rate

During the last 3 years of the forecasting period the ROIC is stabilizing at 14.2%, after a recovering period caused by the impacts of the Company's efforts to diversify its content, aligning with the assumption of reaching a steady state. With 14.2% the ROIC is higher compared to the median of streaming service providers and comparable M&E companies, but lower than the ROIC of comparable tech companies. The figure amid industry medians and above the Netflix' WACC is due to the unique company composition being a tech company focused on content production, with no other business venture unlike Disney for example. Similar to the ROIC, the revenue growth rate of the Company is balancing at 3.8%, aligned with the respective GDP and inflation. Moreover, the RONIC is approaching magnitudes similar to the ROIC. (Eikon/Refinitiv, 2021)

WACC Metrics	
Debt	
Probability of Deflault	53.90%
Loss given Default	0.18%
Weighted Yield to Maturity	2.27%
Credit Rating by S&P	BBB
Outstanding Period (Median 8 Long Term Bonds)	7.72 Years
CAPM	
Beta 95% confidence (lower)	0.6
Beta 95% confidence (upper)	0.78
R-Squared	0.17

Figure 40 WACC Table
Source: Eikon/Refinitiv, 2021; Analyst Estimate, 2021

Weighted Average Cost of Capital

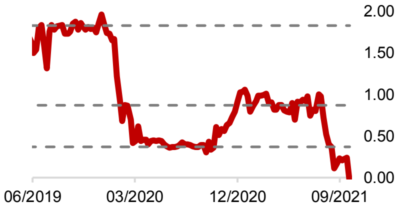

Figure 41 Rolling 26 Weeks Beta
Source: Eikon/Refinitiv

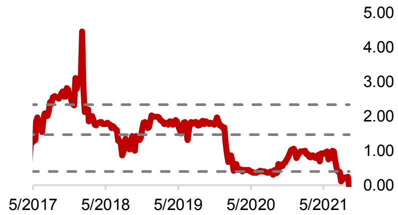

Figure 42 Rolling 52 Weeks Beta
Source: Eikon/Refinitiv

Peers	EV/ EBIT	Price/ Sales	Peers	EV/ EBIT	Price/ Sales
Technology			Media & Entertainment		
Alphabet	14,67x	8,19x	amc ENTERTAINMENT	22,65x	9,97x
amazon	62,78x	3,86x	COMCAST	14,51x	1,92x
Apple	29,30x	7,83x	FOX	7,94x	1,58x
AT&T	14,65x	0,94x	VIACOMCBS	10,17x	0,73x
ebay	18,07x	3,77x	Walt Disney	72,85x	4,12x
EA	17,49x	5,00x			
Meta	18,32x	8,17x			
twitter	56,71x	7,74x			
Median	18,19x	6,37x	Median	14,51x	1,92x

Figure 43 Peer Group Overview
Source: Eikon/Refinitiv

EV/ EBIT	$ 458.58
PRICE/ SALES	$ 227.00

Figure 44 Application of Industry Multiple to Netflix
Source: Analyst Estimate, 2021

The calculated Weighted Average Cost of Capital (WACC) of the Company amounted to 5.40% combining cost of debt of 2.16% and cost of equity of 5.55% with a Net Debt-to-Equity ratio 4.04%. (Figure 40) To calculate cost of equity the Capital Asset Pricing Model (CAPM) was applied with an adjusted beta of 0.9 which was captured by a three-year weekly regression against the MCSI World. The rational for the chosen index was the assumption, that it captures the global operations of Netflix most accurately. The regarded period was chosen to include the increasing stability of Netflix business model especially during recent years. To regard the insecurities within the market caused by the pandemic and the recent Omicron scare, affecting Netflix stock movement mostly contrarily to the market movements and additionally capturing the mean-reverting properties of beta, it has been adjusted upward. A beta slightly below one entails the assumption of Netflix being a well-placed technology company in an increasingly relevant entertainment sector, with a promising long-term strategy. To validate the beta rolling betas were considered (Figure 41/42) It was refrained from adjustments using industry betas, because of the absence of true comparable companies.

Relative Valuation

As briefly mentioned in in the Intrinsic Valuation, peers accurately representing Netflix' business model don't exist. To adjust for this obstacle comparable companies within the technology industry were regarded, capturing the high growth potential attributed to the peers and Netflix, as illustrated by the P/E-ratios. Furthermore, conglomerates with similar business ventures of providing streaming services, therefore including the industry dynamics into the valuation, were regarded. (Figure 43) It was refrained from using companies from the M&E industry, as they are depicting significant differences to Netflix with regards to e.g., market capitalization, D/E and P/E ratios. Using the median of an EV/EBIT multiple and of a P/Sales multiple for the filtered companies, putting special emphasis on Disney due to Netflix trajectory to converge in their direction resulted in a wide valuation range. (Figure 44) (Netflix, 2021) Accompanying the delineated issues the resulting valuation has to be regarded with care. (Eikon/Refinitiv, 2021)

Deviation Analysis

Scenario Analysis

To establish a range of the share price contingent on different developments a best a worst-case scenario was established, dependent on the sales drivers, especially

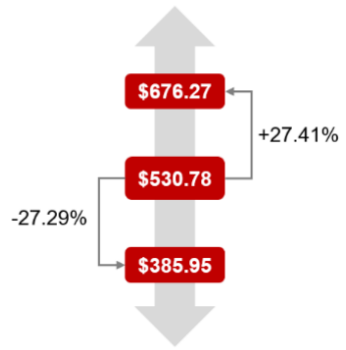

Figure 45 Share Price Range
Source: Analyst Estimate, 2021

EV		WACC		
		5.20%	5.40%	5.60%
Growth Rate	3.59%	252,762,905	221,464,990	196,418,690
	3.79%	283,322,561	244,433,282	214,163,375
	3.99%	323,967,319	273,901,223	236,301,922

Share Price		WACC		
		5.20%	5.40%	5.60%
Growth Rate	3.59%	549.59	478.92	422.37
	3.79%	618.59	530.78	462.43
	3.99%	710.36	597.92	512.42

Figure 46 Enterprise Value and Share Price Sensitivity Analysis Table
Source: Analyst Estimate, 2021

regarding the growth markets, EMEA and APAC. For the rather mature markets Netflix was assumed to be relatively stable due to their long presence within these markets, aligning with a comfortable position. Within the best-case Netflix will retain almost a quarter of the TAM in EMEA and slightly more than a third of the TAM in APAC while being able to achieve a slightly higher ARPU in all regions, assuming their content diversification is strongly adopted making Netflix out to be one of the victors of the streaming wars. In contrast, the worst case portrays the exact opposite assumptions of Netflix, while still relevant, is developing to be a rather small contester among the larger ones, therefore losing their strong positions in key regions. These two contrary cases lead to a wide range of possible share prices, implying one more time how important the right content investments are for Netflix to retain its leadership in the market. (Figure 45)

Sensitivity Analysis

To capture a range of the estimated Enterprise value and the share price of Netflix a sensitivity analysis with 2 variables was conducted. The WACC as one of the variables ranges from 5.20% to 5.60% with a step size of 0.2%: The terminal growth rate as the other variable ranges from 3.39% to 4.39% with the same step size applied. Applied to the EV the analysis yields a range from $196bn in the worst case to $324bn in the best case. Conducting the same analysis for the share price results in a span of a minimum share price amounting to $422.37 to a maximum share price of $710.36. (Figure 46)

Conclusion

According to the DCF valuation based on the assumptions laid out during this equity research report the estimated share price for Netflix as of December 2022 is $530.78, therefore 10.2% below the market share price of today (16.12.2021). Even though the business model seems promising the market seems to overvalue the stock slightly, consequently the recommendation issued is a “SELL”.

Appendix

Financial Statements

Income Statement

Income Statement (in $k)	2016A	2017A	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
			Historical Period			Current			High Growth Period					Steady State		
x Income Statement																
Revenues	8.830.669	11.692.713	15.794.341	20.156.447	24.996.056	27.508.724	30.152.779	32.838.755	35.252.286	37.471.066	39.462.170	41.248.019	42.897.473	44.520.912	46.209.404	47.965.697
Streaming Revenues	8.288.402	11.242.216	15.428.752	19.859.230	24.756.675	27.315.927	30.008.181	32.744.766	35.205.291	37.471.066	39.462.170	41.248.019	42.897.473	44.520.912	46.209.404	47.965.697
DVD Revenues	542.267	450.497	365.589	297.217	239.381	192.797	144.598	93.989	46.994	-	-	-	-	-	-	-
Cost of Revenues	6.029.901	8.033.000	9.967.538	12.440.213	15.276.319	14.915.920	18.516.879	20.645.378	21.963.915	21.485.445	20.751.337	20.955.506	21.494.074	22.307.510	23.153.540	24.033.543
Amortization of licensed content		5.680.373	6.511.689	7.242.799	7.544.631	6.825.752	7.085.059	6.419.869	6.798.933	4.273.191	3.783.182	3.876.852	3.951.245	4.100.778	4.256.303	4.418.074
Amortization of produced content		517.444	1.020.399	1.973.448	3.262.281	3.661.411	6.595.920	8.964.980	9.527.635	11.252.561	10.691.782	10.518.245	10.720.079	11.125.776	11.547.730	11.986.628
Other streaming costs		1.632.658	2.282.353	3.100.759	4.469.407	4.375.204	4.795.735	5.222.934	5.606.800	5.959.693	6.276.374	6.560.409	6.822.751	7.080.956	7.349.507	7.628.841
DVD costs		202.525	153.097	123.207	-	53.553	40.165	37.596	30.546	-	-	-	-	-	-	-
Gross Profit	2.800.768	3.659.713	5.826.803	7.716.234	9.719.737	12.592.804	11.635.900	12.193.377	13.288.370	15.985.621	18.710.832	20.292.513	21.403.399	22.213.403	23.055.864	23.932.154
Overhead Expenses	2.420.975	2.821.034	4.221.577	5.111.980	5.134.448	6.953.620	9.431.147	10.928.039	12.612.518	14.343.127	14.316.035	14.138.943	13.417.417	13.034.776	13.529.130	14.043.335
Marketing	991.078	1.436.281	2.369.469	2.652.462	2.228.362	3.301.047	4.522.917	5.254.201	6.169.150	7.494.213	7.892.434	8.249.604	7.292.570	6.678.137	6.931.411	7.194.855
Technology and Development	852.098	953.710	1.221.814	1.545.149	1.829.600	2.475.785	3.618.333	4.269.038	4.935.320	5.245.949	4.735.460	4.124.802	4.289.747	4.452.091	4.620.940	4.796.570
General and Administrative	577.799	431.043	630.294	914.369	1.076.486	1.176.788	1.289.897	1.404.800	1.508.048	1.602.964	1.688.141	1.764.537	1.835.099	1.904.548	1.976.779	2.051.911
Core Result before Taxes (EBIT)	379.793	838.679	1.605.226	2.604.254	4.585.289	5.639.184	2.204.752	1.265.338	675.853	1.642.495	4.394.797	6.153.570	7.985.982	9.178.627	9.526.734	9.888.819
Statutory Taxes	(132.928)	(293.538)	(337.097)	(546.893)	(962.911)	(1.184.229)	(462.998)	(265.721)	(141.929)	(344.924)	(922.907)	(1.292.250)	(1.677.056)	(1.927.512)	(2.000.614)	(2.076.652)
Tax Rate	35%	35%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
R&D and Other																
Impact of foreign jurisdiction	(14.639)	87.514	(63.519)	(56.969)	(12.212)	(81.169)	(93.185)	(104.884)	(114.880)	(123.299)	(130.780)	(137.645)	(144.106)	(150.374)	(156.920)	(163.757)
R&D Tax Credits	41.144	79.868	140.749	134.523	113.882	218.284	319.019	376.390	435.135	462.522	417.514	363.673	378.216	392.530	407.417	422.901
Non Ddeductable Expenses	(28)	(28)	(14.377)	(24.111)	(30.351)	(30.449)	(33.376)	(36.349)	(39.021)	(41.477)	(43.681)	(45.657)	(47.483)	(49.280)	(51.149)	(53.093)
Core Result (NOPLAT)	273.342	712.495	1.330.982	2.110.804	3.693.697	4.561.621	1.934.213	1.234.774	815.158	1.595.317	3.714.942	5.041.692	6.495.553	7.443.991	7.725.468	8.018.219
Non Core Result Before Taxes	30.828	(115.154)	41.725	84.000	(618.441)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)
Interest and Other Income (Expenses)	30.828	(115.154)	41.725	84.000	(618.441)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)
in % of Cash Investments	627,35%	-2040,65%	237,64%	331,37%	-1856,07%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%
Statutory Taxes	(10.790)	40.304	(8.762)	(17.640)	129.873	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019
Tax Rate	35,0%	35,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%
Tax Adjustments	(9.129)	76.116	179.487	184.311	162.590	-	-	-	-	-	-	-	-	-	-	-
Other Comprehensive Income	(5.257)	28.008	975	(3.939)	67.919	-	-	-	-	-	-	-	-	-	-	-
Non Core Result	5.653	29.274	213.425	246.732	(258.059)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)
Financing Result																
Interest Expense	(150.114)	(238.204)	(420.493)	(626.023)	(767.499)	(962.907)	(736.073)	(1.069.514)	(1.377.779)	(1.815.850)	(1.991.076)	(1.835.383)	(1.786.760)	(1.814.654)	(1.871.067)	(1.893.917)
in % of Debt		7,08%	6,47%	6,04%	5,20%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%
Financing Result before Taxes	(150.114)	(238.204)	(420.493)	(626.023)	(767.499)	(962.907)	(736.073)	(1.069.514)	(1.377.779)	(1.815.850)	(1.991.076)	(1.835.383)	(1.786.760)	(1.814.654)	(1.871.067)	(1.893.917)
Statutory Taxes	52.540	83.371	88.304	131.465	161.175	202.210	154.575	224.598	289.333	381.328	418.126	385.430	375.220	381.077	392.924	397.723
Tax Rate	35,00%	35,00%	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	(97.574)	(154.833)	(332.189)	(494.558)	(606.324)	(760.697)	(581.497)	(844.916)	(1.088.445)	(1.434.521)	(1.572.950)	(1.449.952)	(1.411.541)	(1.433.577)	(1.478.143)	(1.496.194)
Comprehensive Income	181.421	586.937	1.212.217	1.862.977	2.829.314	3.687.995	1.239.786	276.929	(386.217)	47.867	2.029.063	3.478.810	4.971.083	5.897.485	6.134.396	6.409.095

Balance Sheet

Balance Sheet (in $k)	2016A	2017A	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
			Historical Period			Current			High Growth Period					Steady State		
x Balance Sheet																
Core Invested Capital																
Operating Cash	441.533	584.636	789.717	1.007.822	1.249.803	1.375.436	1.507.639	1.641.938	1.762.614	1.873.553	1.973.108	2.062.401	2.144.874	2.226.046	2.310.470	2.398.285
Content																
Licensed Content	9.595.315	11.771.778	14.081.463	14.703.352	13.747.607	13.616.819	14.134.115	12.807.114	13.563.317	8.524.668	7.547.140	7.734.004	7.882.411	8.180.718	8.490.978	8.813.697
Produced Content	1.380.078	2.896.910	6.020.864	9.801.215	11.636.343	16.642.778	23.556.858	29.883.267	34.027.269	40.187.719	42.767.127	43.826.020	44.666.994	46.357.400	48.115.542	49.944.282
Total Content	10.975.393	14.668.688	20.102.327	24.504.567	25.383.950	30.259.597	37.690.973	42.690.381	47.590.586	48.712.386	50.314.267	51.560.024	52.549.405	54.538.117	56.606.520	58.757.978
DVD	25.415	13.301	-	-	-											
Other Current Assets (Less Trade Receivables)	260.202	536.245	385.754	703.805	943.428	964.659	1.057.379	1.151.569	1.236.205	1.314.012	1.383.835	1.446.460	1.504.302	1.561.232	1.620.443	1.682.031
Trade Receivables	-	-	362.712	454.399	610.819	641.365	703.011	765.634	821.906	873.637	920.059	961.696	1.000.153	1.038.004	1.077.371	1.118.319
Property, Plant and Equipment	250.395	319.404	418.281	565.221	960.183	921.289	1.319.184	1.707.615	2.379.529	1.948.495	1.509.428	1.128.272	1.149.923	1.193.441	1.238.703	1.285.783
Operating Deferred Tax Assets	13.523	292.546	435.371	485.652	320.729	507.884	556.700	606.291	650.851	691.815	728.576	761.548	792.001	821.974	853.148	885.574
Other Non Current Assets, Net	48.073	33.154	199.629	601.452	571.863	656.246	939.672	1.216.356	1.694.969	1.387.938	1.075.185	803.683	819.104	850.103	882.344	915.879
Content Liabilities	(6.527.365)	(7.502.837)	(8.440.588)	(7.747.884)	(7.047.620)	(7.077.955)	(7.721.945)	(6.996.960)	(7.410.099)	(4.657.314)	(4.123.258)	(4.225.348)	(4.306.428)	(4.469.403)	(4.638.908)	(4.815.221)
Accounts Payable	(312.842)	(359.555)	(562.985)	(674.347)	(656.183)	(803.674)	(1.027.049)	(1.160.277)	(1.270.634)	(1.316.648)	(1.288.675)	(1.289.670)	(1.282.947)	(1.298.778)	(1.348.035)	(1.399.270)
Accrued Expenses and Other Liabilities	(197.632)	(315.094)	(481.874)	(843.043)	(1.102.196)	(1.026.764)	(1.278.924)	(1.448.563)	(1.614.836)	(1.652.901)	(1.707.256)	(1.749.527)	(1.783.098)	(1.850.579)	(1.920.764)	(1.993.767)
Deferred Revenue	(443.472)	(618.622)	(760.899)	(924.745)	(1.117.992)	(1.206.674)	(1.503.018)	(1.702.382)	(1.897.789)	(1.942.524)	(2.006.402)	(2.056.080)	(2.095.534)	(2.174.839)	(2.257.321)	(2.343.116)
Total Core IC	4.533.223	7.651.866	12.447.445	18.132.899	20.116.784	25.211.408	32.243.621	38.471.603	43.943.302	47.232.450	48.778.867	49.403.459	50.491.756	52.435.319	54.423.971	56.492.477
Non Core Invested Capital																
Short Term Investments	266.206	-	-	-	-											
Cash Investments	4.914	5.643	17.558	25.349	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320
Other Non Current Assets (Non Operating DTA)	213.725	185.720	129.054	172.554	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362
Other Non Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non Core IC	484.845	191.363	146.612	197.903	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682
Total IC	5.018.068	7.843.229	12.594.057	18.330.802	20.418.466	25.513.090	32.545.303	38.773.285	44.244.984,21850	47.534.132	49.080.549	49.705.141	50.793.438	52.737.001	54.725.653	56.794.159
Net Debt																
Debt	3.364.311	6.499.432	10.360.058	14.759.260	16.308.973	(12.467.028)	(18.114.593)	(23.335.743)	(30.755.450)	(33.723.294)	(31.086.286)	(30.262.756)	(30.735.208)	(31.690.678)	(32.077.691)	(32.496.399)
Excess of Cash	(1.026.043)	(2.238.159)	(3.004.766)	(4.010.615)	(6.955.747)	-	-	-	-	-	-	-	-	-	-	-
Net Debt	2.338.268	4.261.273	7.355.292	10.748.645	9.353.226	12.467.028	18.114.593	23.335.743	30.755.450	33.723.294	31.086.286	30.262.756	30.735.208	31.690.678	32.077.691	32.496.399
Common Equity	2.679.800	3.581.956	5.238.765	7.582.157	11.065.240	13.046.062	14.430.711	15.437.542	13.489.534	13.810.838	17.994.263	19.442.385	20.058.230	21.046.323	22.647.962	24.297.760
Financing	5.018.068	7.843.229	12.594.057	18.330.802	20.418.466	25.513.090	32.545.303	38.773.285	44.244.984,21850	47.534.132	49.080.549	49.705.141	50.793.438	52.737.001	54.725.653	56.794.159
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Capital Structure and Flow to Equity																
Net Debt-to-Equity Ratio	87,26%	118,96%	140,40%	141,76%	84,53%	95,56%	125,53%	151,16%	227,99%	244,18%	172,76%	155,65%	153,23%	150,58%	141,64%	133,74%
Transaction with Shareholders		720.735	1.069.872	1.131.175	1.620.106	(1.707.173)	144.863	729.902	(1.561.791)	273.437	2.154.361	(2.030.688)	(4.355.238)	(4.909.392)	(4.532.757)	(4.759.297)
Payout ratio	0,00%	122,80%	88,26%	60,72%	57,26%	46,29%	-11,68%	-263,57%	-404,38%	-571,24%	-106,18%	58,37%	87,61%	83,25%	73,89%	74,26%
Investment Rate (1-payout ratio)	100,00%	-22,80%	11,74%	39,28%	42,74%	53,71%	111,68%	363,57%	504,38%	671,24%	206,18%	41,63%	12,39%	16,75%	26,11%	25,74%

Core Free Cash Flow

	2016A	2017A	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
			Historical Period			Current			High Growth Period					Steady State		
x Free Cash Flow Map																
Core Result	273.342	712.495	1.330.982	2.110.804	3.693.697	4.561.621	1.934.213	1.234.774	815.158	1.595.317	3.714.942	5.041.692	6.495.553	7.443.991	7.725.468	8.018.219
YoY Growth		160,66%	86,81%	58,59%	74,99%	23,50%	-57,60%	-36,16%	-33,98%	95,71%	132,87%	35,71%	28,84%	14,60%	3,78%	3,79%
Change in Core IC		3.118.642	4.795.579	5.685.454	1.983.884	5.094.624	7.032.213	6.227.981	5.471.700	3.289.148	1.546.417	624.592	1.088.296	1.943.563	1.988.652	2.068.506
Core FCF	273.342	(2.406.147)	(3.464.598)	(3.574.651)	1.709.813	(533.003)	(5.098.001)	(4.993.207)	(4.656.542)	(1.693.831)	2.168.525	4.417.100	5.407.257	5.500.428	5.736.816	5.949.713
%change		-980,27%	43,99%	3,18%	-147,83%	-131,17%	856,47%	-2,06%	-6,74%	-63,62%	-228,02%	103,69%	22,42%	1,72%	4,30%	3,71%
Non Core Result	5.653	29.274	213.425	246.732	(258.059)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)
Change in Non Core IC		(293.482)	(44.751)	51.291	103.779	-	-	-	-	-	-	-	-	-	-	-
Non-core FCF	5.653	322.756	258.176	195.441	(361.838)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)
Free Cash Flow	278.995	(2.083.391)	(3.206.422)	(3.379.210)	1.347.975	(645.932)	(5.210.930)	(5.106.136)	(4.769.471)	(1.806.760)	2.055.596	4.304.170	5.294.327	5.387.499	5.623.886	5.836.783
Financing Result	(97.574)	(154.833)	(332.189)	(494.558)	(606.324)	(760.697)	(581.497)	(844.916)	(1.088.445)	(1.434.521)	(1.572.950)	(1.449.952)	(1.411.541)	(1.433.577)	(1.478.143)	(1.496.194)
Change in Net Debt and Other Claims		1.923.004	3.094.019	3.393.353	(1.395.420)	3.113.802	5.647.565	5.221.150	7.419.707	2.967.844	(2.637.008)	(823.530)	472.452	955.470	387.013	418.708
Change in Equity		902.156	1.656.809	2.343.392	3.483.083	1.980.822	1.384.649	1.006.831	(1.948.008)	321.304	4.183.425	1.448.122	615.845	988.093	1.601.639	1.649.798
Comprehensive Income	(181.421)	(586.937)	(1.212.217)	(1.862.977)	(2.829.314)	(3.687.995)	(1.239.786)	(276.929)	386.217	(47.867)	(2.029.063)	(3.478.810)	(4.971.083)	(5.897.485)	(6.134.396)	(6.409.095)
Financing Cash Flow	(278.995)	2.083.391	3.206.422	3.379.210	(1.347.975)	645.932	5.210.930	5.106.136	4.769.471	1.806.760	(2.055.596)	(4.304.170)	(5.294.327)	(5.387.499)	(5.623.886)	(5.836.783)
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Core ROIC	6,03%	9,31%	10,69%	11,64%	18,36%	18,09%	6,00%	3,21%	1,86%	3,38%	7,62%	10,21%	12,86%	14,20%	14,19%	14,19%
Core RONIC			19,83%	16,26%	27,84%	43,75%	-51,57%	-9,95%	-6,74%	14,26%	64,44%	85,80%	232,77%	87,15%	14,48%	14,72%
Core Growth Rate		160,66%	86,81%	58,59%	74,99%	23,50%	-57,60%	-36,16%	-33,98%	95,71%	132,87%	35,71%	28,84%	14,60%	3,78%	3,79%

	on two devices	
Premium	HD & 4K streaming quality on four devices	$17.99

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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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NOVA SCHOOL OF BUSINESS & ECONOMICS

MASTER IN FINANCE

“NETFLIX INC.”

COMPANY REPORT

“ENTERTAINMENT AND MEDIA INDUSTRY”

17 DECEMBER 2021

STUDENT: “FELIX FRICKE, JAN HUEHSAM”

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Netflix is not going to “chill”

- Netflix is acting as a market leader in a growing SVoD industry, with its increase further amplified through the persistent trend of Cord-Cutting and the recent COVID-19 pandemic.
- The largest portion of revenue is achieved in Netflix domestic, however maturing market. Other markets like EMEA and LATAM are promising more growth which is attracting Netflix, as well as new competitors to enter the market, challenging Netflix’ established position in an ongoing Streaming Wars.
- Contrary to the industry trend of inorganic subscribers’ growth by consolidation executed, e.g. by Disney, Netflix is investing into own content production and diversification to further gain subscribers – a development that will maintain in the future with Netflix recent investments into Gaming as a manifestation of their focus on own content.
- Deducting the underlying value of Netflix’ share applying a Discounted Cash Flow Model led to an estimation of the share price target of $530.78 for the end of 2022. The closing share price of $591.06 implies that the stock is overvalued by 10.2%, therefore a SELL recommendation is issued.

Company description

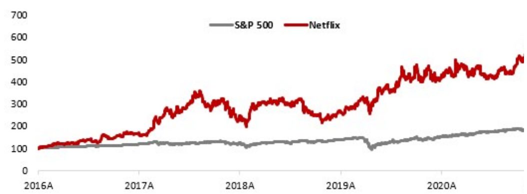
Netflix, Inc. is a provider of subscription streaming entertainment service, located in Los Gatos, California. The Company offers a wide variety of commercial-free content to over 213 million subscribers in more than 190 countries as of Q3 2021.

Recommendation:	**SELL**
Price Target FY21:	**530.78 $**
Price (as of 17-Dec-21)	**591.06 $**

Reuters: NFLX.OQ, Bloomberg: NFLX US

52-week range ($)	478.40-700.99
Market Cap ($bn)	261.81
Outstanding Shares (m)	442.95

Source: Bloomberg



Source: Eikon / Refinitiv

(Values in $ millions)	2020	2021E	2022F
Revenues	24,996	27,509	30,152
Gross Profit	9,719	12,592	11,635
EBIT	4,585	5,639	2,204
NOPLAT	3,693	4,561	1,934
ARPU ($)	10.13	10.23	10.39
Subscriber growth (%)	21.89	9.21	8.18
ROIC (%)	18.36	18.09	6.00

Source: Company Data, Analyst Estimate

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Company Overview

Evolution of Netflix

Figure 1 Netflix Geographical Footprint
Source: Netflix, 2021

Netflix, Inc. ("Netflix", "the Company") runs one of the leading video streaming platforms with around 15,000 titles available in more than 190 countries and approximately 214 million paying memberships reported in the third quarter of 2021. (Netflix, 2021) (Figure 1) The Company offers its subscribers a selection of video content covering a variety of genres and languages. Unlike linear TV, the service enables the user to play, pause and resume watching without any limitations in terms of commercial breaks or content access. Additionally, Netflix is engaged in content production, creating its own shows on an international level through owned production hubs. (Netflix, 2021)

Figure 2 Netflix Timeline
Source: Netflix, 2021

The Company was founded in 1997 by Reed Hastings and Marc Randolph, with the latter one still acting as the Chief Executive Officer of Netflix to date, alongside Ted Sarandos since 2020. Originally, the business model of the Company was to ship and rent/sell DVDs to customers within the United States based on a monthly subscription plan. As the digital era progressed, the product offering changed, resulting in Netflix implementing an online streaming platform, five years after their IPO in 2002. Customers could thus access over 1,000 licensed titles on demand, provided they had a device with Internet access and were registered as a Netflix subscriber. The enlargement of provided video content encountered acceptance and leading the Company to redirect their focus on the streaming business in 2011 resulting in two decoupled divisions, Netflix and DVD.com. Further diversification was implemented as the corporate management decided to progressively invest in the production of own content, followed by the release of the first "Netflix Originals" called "House of Cards" and "Lilyhammer" in 2013. Leveraging the flexibility of a comparably young player in the Media and Entertainment industry the Company started its international rollout by successfully expanding to Canada in 2010. Thereafter, Netflix broadened its global appearance through entering key market areas such as parts of Latin America (LATAM), Europe, Middle East and Africa (EMEA) until 2012 before successfully expanding to 130 new countries in 2016. Through the strategic shift of putting a higher emphasis on in-house productions rather than on licensing content Netflix won their first Academy Award in 2017 and was the most nominated studio at the Emmys in 2020. These accomplishments further strengthened Netflix position as a leading Video-on-Demand provider with more than 200 million paying memberships in 2021. (Netflix, 2021) (Figure 2)

Business Model

Subscription Plan	Features	Monthly Price
Basic	Standard streaming quality on one device	$8.99
Standard	HD streaming quality on two devices	$13.99
Premium	HD & 4K streaming quality on four devices	$17.99

Figure 3 Netflix US Subscription Plans
Source: Netflix, 2021

Netflix' business model can be divided into two segments: The DVD rental business and its Subscription Video on Demand (SVoD) streaming services. The fundamental concept of the latter one is based on a monthly cancellable subscription plan. Depending on the region, three different configurations of this plan are available – Basic, Standard and Premium. These options vary in terms of their features, such as content resolution, number of devices streaming simultaneously, and pricing. (Netflix, 2021) (Figure 3)

The price for a membership in the US ranged from $8.99 to $17.99 in 2021 and significantly differs comparing fees to other regions. Especially in selected emerging markets like Asia Pacific (APAC) and Africa, the Company offers mobile streaming plans for a US dollar equivalent of $3 to further accelerate subscriber growth and global market penetration. (Epstein, 2020)

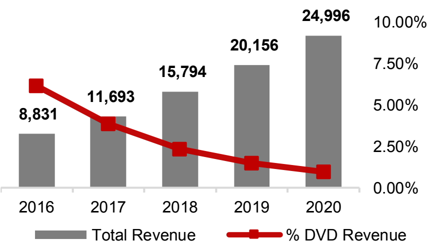

Figure 4 DVD Revenue vs Total Revenue

The DVD rental offering is only available in the United States and requires a separate subscription plan. Considering the progressively diminishing influence of the domestic DVD segment on Netflix business model, accounting for 0.96% of total revenues in 2020, this Equity Research Report is mainly focused on domestic and international streaming activities. (Netflix, 2020) (Figure 4)

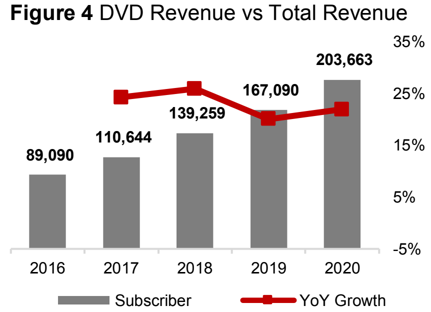

Figure 5 Subscriber Growth
Source: Netflix, 2020

In contrast to the revenue development of the DVD segment, the number of subscribers depicts a continuous growth trend over the last 4 years with the magnitude slowing down in the more recent periods. (Figure 5) Therefore, the main portion of revenue is being generated by the monthly membership fee charged to the client. (Netflix, 2020) This being said, the success of Netflix' business model is closely intertwined with the variety and quality of offered content and the overall appreciation of the subscriber. The recently adapted strategic approach of producing content exclusively through internationally owned production hubs enables Netflix to better address the customer needs locally and to react in a more flexible manner to current trends and genre hypes. The management sees a considerable competitive advantage by reducing the portion of content licensed from external providers and replacing it with a more tailormade streaming library. (Figure 6) (Netflix, 2021) This strategic proposition is in line with the Company's ongoing international expansion to emerging markets such as parts of Asia Pacific and Africa in order to further ensure a sustainable subscriber growth in the long-term. (Netflix, 2021)

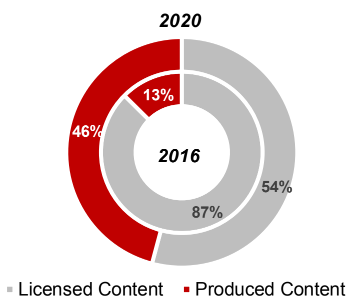

Figure 6 Produced vs. Licensed Content
Source: Netflix, 2020

Stock Performance

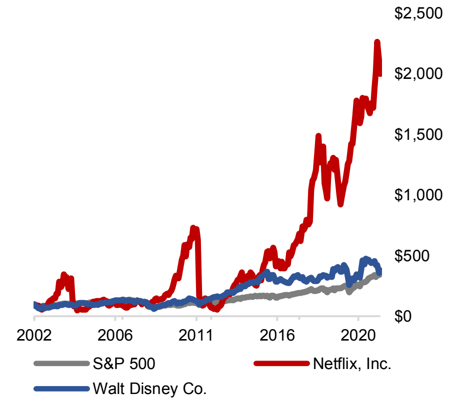

Figure 7 Netflix Stock Performance
Source: Eikon/Refinitiv, 2021

Netflix stocks are traded under the "NFLX" ticker in the NASDAQ stock exchange since its IPO took place in May 2002. With the initial emission of 5.5 million, valued at $15 per stock, the Company issued equity worth $82.5 million to its shareholders. Thereafter, the share price plummeted until October 2002 to a price of $4.85 per share. After the minimum the share recovered, and a two-for-one stock split was executed at $71.96 in January 2004 resulting in a share price of $37.3. An investor that would have obtained 66 shares at the IPO date for an equivalent of $990, would have gained approximately $4000 and faces a Return on Invest (ROI) of ca. 397%. Another notable development has been the third and fourth quarters of 2011. The management announced the separation of the DVD and streaming segments and let customers pay extra for the streaming service from now on. The market reacted negatively to the strategic decision and the share lost roughly 88% of its value within 4 months. In June 2015, after good quarterly results, Netflix announced that its board of directors has approved a seven-for-one stock split changing the nominal value of each common share to $98.17 the day after. (Yang, 2021) As of December 14^{th,} 2021, the aforementioned investment, made in 2002, would result in a total value of $546,546 (54,654.6% ROI) by owning 924 common shares with a price of $595.50 each. (Eikon/Refinitiv, 2021)

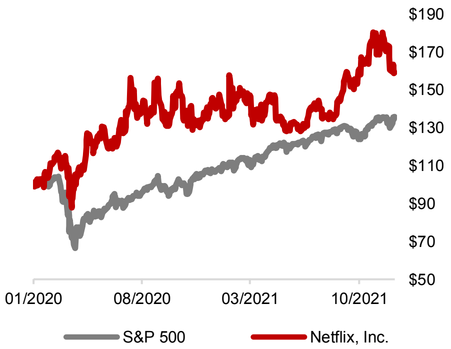

Figure 8 Pandemic Stock Performance
Source: Eikon/Refinitiv, 2021

Considering the performance of the S&P 500 as a benchmark, Netflix has been outperforming both the market and its competitors over time. (Figure 7) Additionally, the stock value benefited through the recent developments within the market affected by the still ongoing pandemical situation. Given this extraordinary environment in composition with the nature of Netflix business model, the share price shows a 20% increase Year over Year (YoY) and seems to be moving slightly contrarily to the market. (Figure 8) (Eikon/Refinitiv, 2021)

Industry Overview

Media & Entertainment Industry

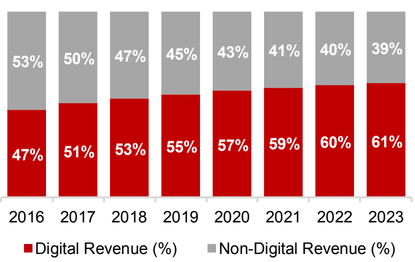

Figure 9 Digital Revenues in M&E
Source: PwC, 2020

Driven by the digitization and altering consumer behaviors the Media & Entertainment (M&E) industry is experiencing a fundamental transformation. Companies with digital business models approaching the consumer with on demand solutions for comparably low cost and offsetting the global revenues in the industry from non-digital to digital. According to forecasts, the share of digital revenues will increase to approximately 61% by 2023, coming from 47% in 2016. The shift towards streaming content from home better addresses the current customer needs for convenience and comparably low-cost content solutions.

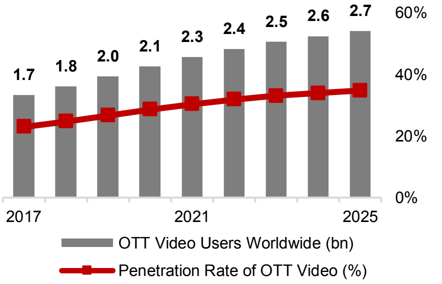

Figure 10 OTT Video Users Worldwide
Source: Statista, 2021

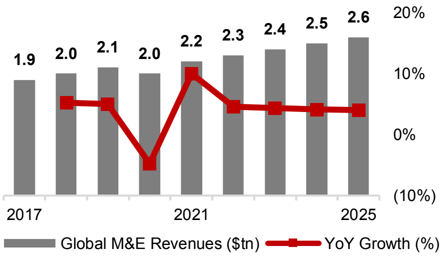

Figure 11 Digital Revenues in M&E Industry
Source: PwC, 2021

Figure 12 Market Decomposition SVoD
Source: *Oracle, 2011*

Region	ARPU per Region
North America	$180.76
Europe	$75.29
East Asia	$42.80
Middle East	$31.01
Latin America	$27.61
South East Asia	$21.33
Central Asia	$14.76
South Asia	$14.39
Africa	$13.64
Weighted	**$65.68**

Figure 13 ARPU per Region in 2021
Source: Statista, 2021

(Lu, 2020) This trend is particularly noticeable in times of the ongoing COVID-19 pandemic since consumers had to find digital alternatives for traditional entertainment activities. (McKinsey & Company, 2020) This development spurred up the digital transformation, resulting in record growth rates for subscribers of Over-The-Top (OTT) video companies (Figure 10) (Statista, 2021) and, conversely, led to substantial declines in revenues for Out-Of-Home entertainment players. (PwC, 2021)

Despite the given dynamics in the industry, the global M&E revenue volume is expected to grow. The drop in revenues caused by the pandemic was offset by a strong fiscal year 2021 and continue to grow at a compounded annual growth rate (CAGR) of 5%, resulting in $2.6tn in 2025. (Figure 11) Increasing penetration rates in fixed broadband connections and mobile device usage can be seen as further indicators of growth and success for digitally sophisticated business models in the M&E industry. (PwC, 2021)

Subscription Video on Demand

Video-on-Demand (VoD) is considered as a sub segment of the OTT video industry. Users have access to a wide selection of video content via an online streaming platform viewing live events or a selection of TV-shows and movies. The market can be decomposed into different categories according to variations in business models. These differ in terms of content access, monetization, and advertisement. (Figure 12) (Oracle, 2021) Companies in the SVoD segment are enabling users to consume as much content as they desire in exchange for a flat rate per month that is mostly cancellable on a monthly basis. (Halkyard, 2021)

The SVoD industry accounts for the largest share in the VoD market and is expected to reach a revenue volume of $70.9bn at the end of the current fiscal year. With a predicted annual growth rate of 11.2%, the segment is going to capture 85.5% of total revenues in 2025, resulting in $108.7bn. (Statista, 2021)

Spurred by the events and political decisions during the Corona pandemic, record growth was noted across the market. Analogous to the OTT industry, the SVoD market experienced a surge in subscriber growth in 2020, since people had to stay at home and adopted to video streaming services. This rising demand combined with less spendings for Out-Of-Home entertainment activities led to a higher willingness to pay for such service. For instance, in 2017 the average amount spent per user on SVoD services globally amounted to $45.85, compared to an expected weighted Average Revenue per User (ARPU) of $65.68 in 2021. (Figure 13) (Statista, 2021)

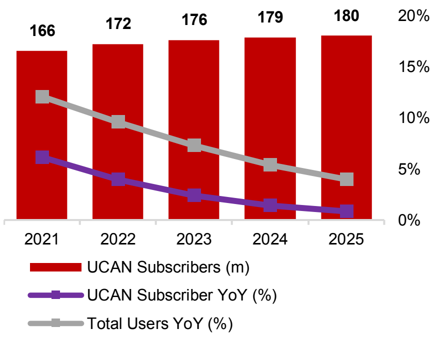

Figure 14 UCAN Subscriber Forecast
Source: Statista, 2021

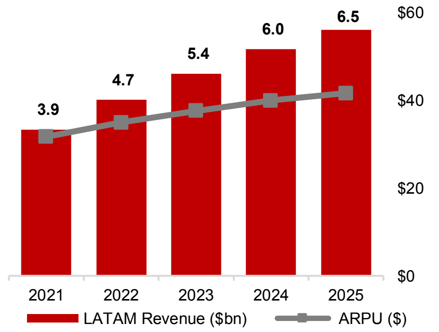

Figure 15 LATAM Revenue/ARPU Forecast
Source: Statista, 2021

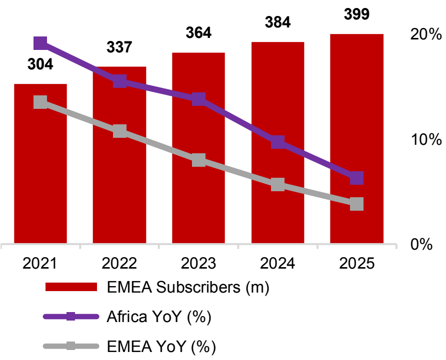

Figure 16 EMEA/African Subscriber Forecast
Source: Statista, 2021

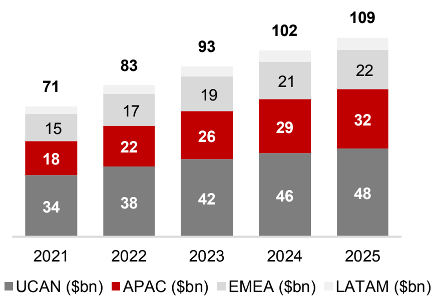

Figure 17 Global SVoD Revenue Forecast
Source: Statista, 2021

Since market penetration, ARPU and potential growth heavily differ across geographic areas, a regional split is useful when portraying the Total Addressable Market (TAM). This being said, the largest portion of revenue is being captured in the United States, caused by a high penetration of Fixed broadband (FBB) subscriptions (The World Bank, 2021) in composition with an above average disposable income per citizen. (OECD, 2021) The market is expected to account for $48.3bn in revenue volume, being generated by approximately 181 million subscribers spending on average $267 p.a. for SVoD services in 2025. (Statista, 2021) Since the US is considered as a first mover in video streaming the market seems to be more mature compared to other regions with respect to its YoY growth rate (Figure14), caused by the high penetration rate and number of SVoD services offered. (Kantar, 2021)

With a projected revenue volume of $3.9bn contributed by 123 million paying memberships, the LATAM area is representing the smallest contribution to SVoD revenue volumes in 2021. Although total users are expected to grow by 6.3% annually until 2025, the ARPU remains ca. 37% below average, with $41.44 p.a.. (Figure 15) (Statista, 2021) Furthermore, the market shows a high level of locally operating video entertainment provider offering a combination of SVoD products and Pay-Tv services, which demand is merely declining or even remaining stable in some parts of LATAM. (FTI Consulting, 2019)

In terms of SVoD users, the EMEA area is expected to remain the largest addressable region with 400 million projected users in 2025. Despite the high number of users growing annually around 7.02% within the next four years, the growth is partially being offset by a comparably low ARPU in the African and Middle East region. (Statista, 2021) (Figure 16) However, large SVoD players increasingly approach the emerging areas of EMEA by offering low-cost, or even free of charge, subscription plans exclusively for mobile devices to aim for a higher market penetration globally and increase ARPU in the medium term. (Windride, 2021) This aggressive expansion strategy is fueled by the above average growth expectations in the African region combined with a high market fragmentation that keeps the market leadership undefined. (Mureithi, 2021) Nevertheless, in terms of revenue volumes the EMEA region is expected to account for ca. $22bn, mainly contributed by the EU market. (Figure 16) (Statista, 2021)

According to estimates and recent developments, the APAC region seems to be the fastest growing, and consequently, most promising market area for SVoD companies to operate in. With a CAGR of 14.9% revenue volumes are predicted to reach $32.2bn in 2025 (Figure 17) driven constantly by accelerating penetration rates in emerging countries and strong user growth fueled by lockdowns in major

Figure 18 SVoD Providers in APAC
Source: 9TO5 Mac, 2021

countries such as India, Indonesia, and South Korea. (Statista, 2021) With respect to this macroeconomic setting and promising growth opportunities large SVoD providers are entering the market by offering low-price subscription plans for mobile devices. Furthermore, a selection of market participants is increasingly investing into local production hubs to better address content needs for potential viewers. (Figure 18) (9TO5Mac, 2021) However, due to the attractiveness of APAC to operate in, companies trying to raise customer attention by offering low-cost mobile subscription plans combined with local production hubs or cross-border M&A to better address their users' needs since customer preferences differ substantially compared to Western Europe and UCAN. (Mahanta, 2021)

Given the framework and aim of this report, China was not included in this market research, due to the imposed restrictions by the government for foreign SVoD providers to operate within the country. (Toh, 2021)

Cord-Cutting Trend

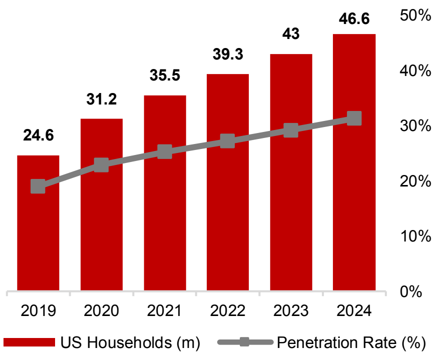

Figure 19 Cord-Cutting in the US
Source: eMarketer, 2020

Cord-Cutting refers to the cancellation of multichannel cable, satellite, and other pay TV subscription services by television viewers. While this development has been manifesting globally in the past, an amplifying trend can be identified, contingent on technologically induced innovations in the broadcasting sector like SVoD and OTT video services. On the TV media environment of the US, portraying one of the largest markets for Pay-TV, the aforementioned tendency has had an especially recognizable effect. (Backus, 2021)

Serving as an additional indicator for the trend is the decrease in penetration rate from 88% to 74% since 2010. Furthermore, recent data suggest that by 2024 more than 46 million US households will have canceled their Pay-TV subscription (Figure 19) (eMarketer, 2020) Compared to 65% of adults in the age between 18-29 years receiving cable or satellite TV in the US in 2015, only 34% are still actively paying for such services in 2021. (Bloom D. ´., 2021)

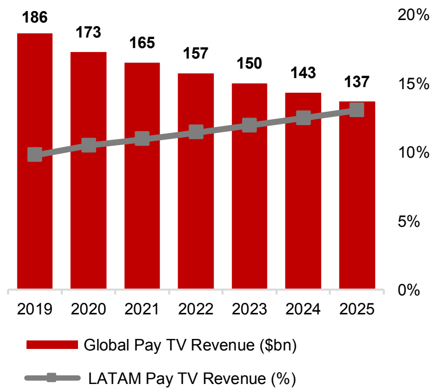

Figure 20 Stable Pay-TV Revenue in LATAM
Source: Digital TV Research, 2021

Once started in the US, the trend is also emerging in other regions. In 2020, SVoD subscriptions have surpassed pay TV subscriptions in 30 countries, reaching a penetration rate of 43% compared to only 36% of all households with a Pay-Tv subscription. (Statista, 2021) Especially in parts of Western Europe and APAC, such as Germany, Spain and South Korea, Pay-Tv churn rates steadily increasing since the customer shifts its digital consumption towards SVoD products.

While the majority cutting the cord, traditional Pay-Tv is still expanding in less mature markets with lower penetration rates such as LATAM, which diminishes the number of Pay-Tv leavers. (Figure 20) (Digital TV Research, 2021)

Competitive Landscape

Ongoing Streaming Wars

Initiated by the general shift in consumer behavior towards digital consumption and further accelerated through the ongoing pandemic and cord-cutting trend, the SVoD market gets more and more competitive. (Adgate, 2021) As previously mentioned, the market offers substantial growth opportunities in the APAC and EMEA region and attracts not only established players like Netflix to expand, but also companies with a different nature of business pursuing a diversification approach. Large companies with an existing expertise in Technology or M&E continue to enter the market, considering the comparably low threshold of broadening their target group through providing their SVoD services online. For instance, four of the most valuable organizations listed in the S&P 500 launched their video streaming platforms in 2020 and, considering size and the scalability of technology firms, the international rollout began simultaneously with its launch in their domestic market. (Shaw, What the Streaming Wars Mean for the Future of TV, 2019) By aiming for industry penetration and securing market share in the fast-growing regions as quickly as possible, the so-called "Streaming Wars" will intensify, spurred by additional market entries in 2021 and beyond. (Figure 21) (Variety Intelligence Platform, 2021)

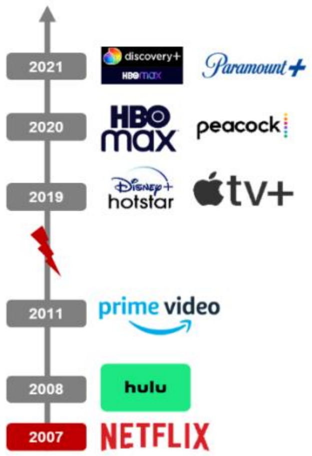

Figure 21 SVoD Market Entries Timeline
Source: Variety Intelligence Platform, 2021

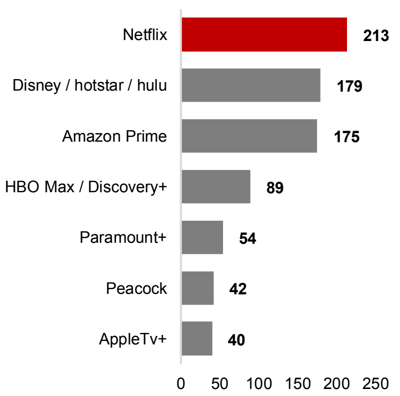

Figure 22 SVoD Subscriber Comparison (*m*)
Source: Variety Intelligence Platform, 2021

Peers	Catalog Size	Consumer Satisfaction	Footprint	Price Range	Free Trial Conversion
Disney+ hotstar	1,598	79%	Global	$7.99	-
hulu	5,334	75%	U.S.	$5.99 - $70.99	70%
prime video	13,274	71%	Global	$8.99 - $12.99	-
discovery+ HBO max	3,629	76%	U.S.	$9.99 - $14.99	81%
peacock	3,003	56%	U.S.	$4.99 - $9.99	82%
Paramount+	2,223	71%	U.S.	$4.99- $9.99	73%
tv+	54	65%	Global	$4.99	59%
NETFLIX	7,289	79%	Global	$8.99 - $17.99	N.A.

Figure 23 Selected Peers SVoD Overview
Variety Intelligence Platform, 2021

By launching their streaming platforms Apple TV+ and Disney+ in November 2019, media conglomerate Walt Disney and tech giant Apple kicked off a new era in the battle for subscribers internationally. Established market leaders like Netflix, Amazon Prime Video, HBO Max or the former joint venture between NBC Universal and News Co. – Hulu, faced increased competition in terms of pricing and rights for exclusive content to offer over the last two years. (Hill, 2019) As for now, Netflix maintains its international market leadership with reported 213 million paying memberships in Q3 2021 and a record growth rate caused by the pandemic. (Figure 22) (Variety Intelligence Platform, 2021)

However, since more and more services launching internationally and offering low-price subscription plans combined with a wide range of content, newcomers like Disney+ and AT&Ts re-designed HBO Max, intensify the competitive environment. (Figure 23) This being said, the ongoing Streaming Wars will continue to impact market shares of more matured player, such as Netflix, especially in high potential areas and the availability of licensing exclusive content. (Deloitte, 2021)

Challenging Key Competitors

Spurred by the above-mentioned developments within the Streaming Wars over the past two years and factors such as the cord cutting trend and COVID-19, the market environment for Netflix as a pioneer in SVoD has changed decisively. Beyond the target audience in APAC and EMEA, market players whose business models and strategies are fundamentally different from Netflix have to be evaluated in detail to concretize the chances of success and upcoming challenges for the Company during the Streaming Wars.

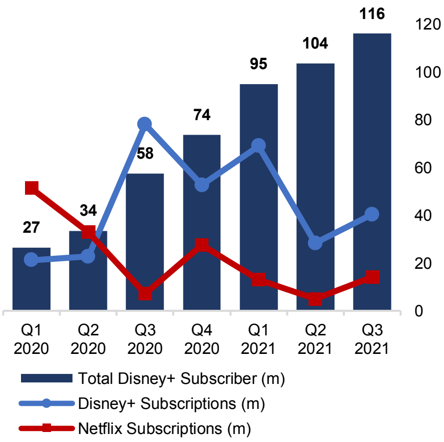

Figure 24 Disney+ Quartely Subscriber Gains
Source: Walt Disney, 2021; Netflix, 2021

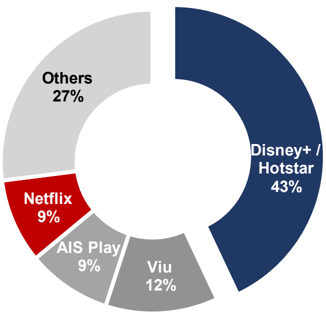

Figure 25 Subscriber Share for Q2/2021 (SEA)
Source: Digital TV News, 2021

Disney+ / Hulu / hotstar

Considering the short time-period since Walt Disney launched its streaming platform, Disney+ is perceived as one of the most decisive market challengers. According to company data, the media conglomerate gained approximately 159 million subscribers within two years (including all running platforms). The content library covers ca. 7,480 shows and movies internationally, less than half of what Netflix offers its subscribers. (Figure 23) (Variety Intelligence Platform, 2021) Although originally producing video content and running theme parks, Disney successfully entered the SVoD market and rapidly obtained a remarkable portion of market share in terms of subscribers. (Figure 24) (Walt Disney, 2021) Disney pursues a low-cost strategy, resulting in a weighted ARPU of $4.12 reported in Q4 2021. (Walt Disney, 2021)

Strategically, corporate management relies on the inorganic growth, acquiring knowledge and content from peers within the technology and M&E industry. The acquisition of high-quality content rights did enlarge the originally family-oriented library, followed by the acquisition of BAMTech in 2017 in order to set up a well-functioning streaming platform. To bulk up the Disney+ library a huge stake of Fox' film and television catalog was acquired for $71.3bn before its launch in 2019. (Johnston, 2021) The deal included the controlling rights for streaming service hulu, US sport network ESPN+ and hotstar, a leading live-streaming platform for sport events and non-fiction content in the APAC region. (Figure 25) (Digital TV News, 2021)

With hotstar, Disney acquired a key platform for its market entry in APAC. With currently 46.4 million subscribers the acquired platform constitutes almost one third of the total users reported in the current fiscal year, capturing 41% of new subscribers in Q2 2021 (Figure 25) (Digital TV News, 2021) and resulting in Disney

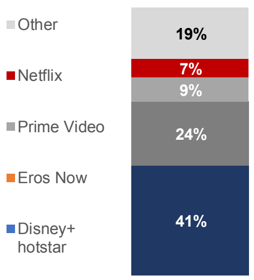

Figure 26 Market Share Overview in India
Source: Omdia, 2021

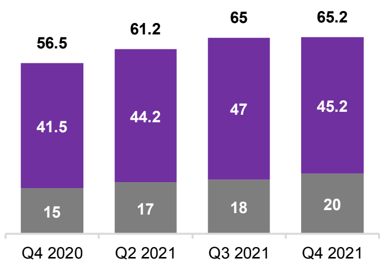

Figure 27 HBO Max/Discovery+ User Growth
Source: Variety Intelligence Platform, 2021

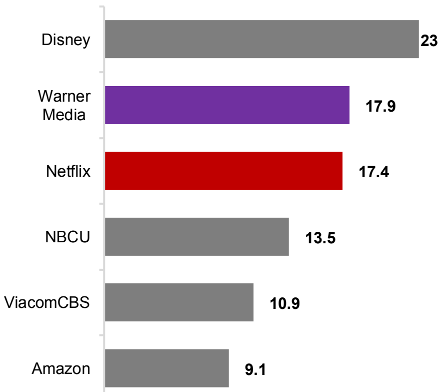

Figure 29 SVoD Content Investments ($bn)
Source: Variety Intelligence Platform, 2021

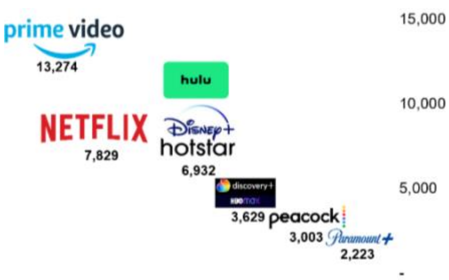

Figure 28 Library Size SVoD Peer Group
Source: Variety Intelligence Platform, 2021

as the market leader in India, which is considered, similarly to South Korea, as a key market in APAC. (Figure 26) The rollout of the platform in South Korea and other parts of Southeast Asia (SEA) is planned in December 2021. (The Economist, 2021) Furthermore, the company announced 50 Asian originals coming to the platform by 2023 covering a variety of genres. This enlargement is most likely going to push the market share of Disney Asia to the forefront and leads to more pressure on Netflix APAC performance in the coming years. (Seung-hyun, 2021)

HBO Max / Discovery+

AT&T, a leading US telecommunications company, has initially entered the SVoD market with the launch of HBO Go in May 2020, followed by an international rollout covering parts of the LATAM region. The company boosted their range of offered content through the acquisition of Warner Media for $85bn in late 2017, before announcing a 29% spin-off to Discovery in 2020. (Shephard, 2021)

By combining HBO's scripted fiction content provided by Warner Media with the large collection of non-fiction media from Discovery+, the new created platform will cover a wide variety of genres approaching SVoD users globally. As for now, both platforms running separately before merging their libraries in early 2022. Combined, the subscribers of both services are amounting to 65.2 million, mostly located in the US and selected parts of Europe. (Figure 27) (Variety Intelligence Platform, 2021) The international rollout is planned as soon as the transaction is officially closed, and the joint platform is up and running. (Meredith & Kovach, 2021)

However, this merger / spin-off confirms the ongoing trend of consolidation in the market, since large players are gearing up to capture important market shares in high growth markets. With HBO Max and Discovery+, the competitive landscape has changed for Netflix and other established SVoD services. Considering the number of subscribers obtained, the size of their content libraries (Figure 29) and the considerable investment resources of the parent companies, such as AT&T/Warner Media and Discovery, new substantial competitors have emerged. Considering the invested resources during the current fiscal year, both companies invested accumulated $17.9bn into content assets which puts them right behind leading streaming platforms like pioneer Netflix and newcomer Disney+. This being said, the jointly created platform will likely become a serious challenger within the Streaming Wars. (Figure 28) (Variety Intelligence Platform, 2021)

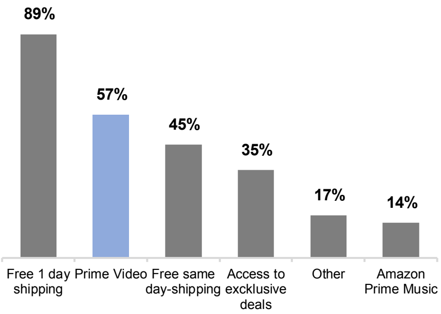

Figure 30 Reasons for Subscribing to Amauon Prime Video
Source: RBC Capital Markets, 2020

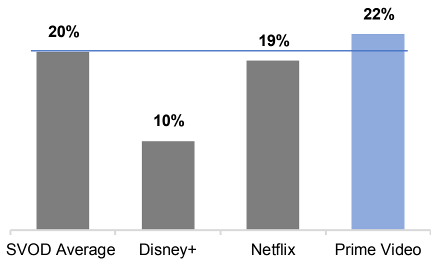

Figure 31 Daily Usage of SVoD Services among Older Audiences (55+ age)
Source: MIDIA Research, 2021

Date Finalized	Companies	Value
Jun-18	AT&T > Time Warner	$85bn
Mar-19	Disney > FOX	$71bn
Jun-22	Warner Media > Discovery	$43bn
Oct-18	Comcast > Sky	$39bn
Dec-19	CBS > Viacom	$12bn
Mar-18	Discovery > Scripps Networks	$12bn
Aug-19	Sinclair > FOX Sports Network	$10bn
Dec-21	**Amazon > MGM Studios**	**$8.5bn**
Oct-21	Univision > Groupo Televisia	$4.8bn

Figure 32 Recent M&A Activity Timeline within the SvoD Industry
Source: Variety Intelligence Platform, 2021

Prime Video

Amazons Prime Video division offers customers both, streaming video on demand by subscribing as a Prime Member or buying / renting titles virtually. Although the value proposition of Prime Video shows substantial similarities to the platforms of Disney and Netflix, parent company Amazon is pursuing a different strategy. Prime Video is considered as an add-on service and is part of the wide catalogue of benefits for signing up as a prime member (Katz, 2021), such as free delivery, Prime Reading, and unlimited access to Amazon Music Prime. (Amazon, 2021)

This being said, a tremendous portion of Amazons Prime Members did not initially sign up for consuming video content. (Figure 30) (RBC Capital Markets, 2020) The wide range of included services, combined with the largest content library in the market (Figure 29), creates a low threshold for new customers becoming a Prime Member and makes Prime Video especially appreciated by older audiences, compared to peers Netflix and Disney+. (MIDIA Research, 2021) (Figure 31) Excluding the SVoD add-on, Amazon customers pay $4.99/delivery in the U.S. As a member, it is covered, and the monthly subscription fee is $12.99. (Amazon, 2021)

With more than 200 million estimated Prime Members, Amazon must be considered, when exploiting the competitive environment in the SVoD market. (Curry, 2021) Despite the different strategic game plan of Prime Video, Amazon acquired Metro-Goldwyn-Mayer studios for $8.45bn in July 2021 to enhance production capabilities of “Prime Originals” and offer exclusive content like “James Bond“ or “Lord of the Rings” to its members. (Figure 32) (Amazon, 2021) The recent acquisition is a sign that Amazon is here to stay in the Streaming Wars and plans on allocating more investment resources to its VOD platform to compete with other large platforms, such as Disney+, HBO Max / Discovery+ or Netflix globally. (Moore, 2021)

The Trend of Consolidation and Local Players

Besides the above-mentioned players dominating the industry, there are a several companies that joined the race for subscribers recently. Apple launched their platform AppleTV+ simultaneously with Disney in November 2019 (Apple, 2019), and gained within 2 years 40 million members globally. (Variety Intelligence Platform, 2021) NBC Universals “Peacock” service, which is ultimately owned by parent company Comcast, plans to launch its joint venture, in collaboration with live sport streaming platform Sky, in Europe soon. (Sky, 2021) The merged media conglomerates Viacom and CBS created the joint venture Paramount+ and also partnering with Sky to pave their way for the European and Asian market entry in 2022, according to company data. (Yeo, 2021)

In contrast to the geographical presence and the given level of monetary flexibility of above-mentioned players, the SVoD market seems to be fragmented. (Mann, 2021) Local Pay-Tv provider altering their business model towards VOD and take advantage of their organically grown market expertise. Cord-Cutting, a growing FBB penetration and multiple SVoD provider entering the market, results in a decreasing market share for comparably small Pay-Tv provider. Given this level of competition, even small services forming joint ventures and picking up the idea of streaming VOD combined with tailormade content for its respective target audience. Especially in regions like Africa and some parts of SEA, LATAM and Western Europe, such as Germany, a comparably high level of fragmentation can be observed. (Boston ConsultingGroup, 2021)

Netflix' Position within Streaming Wars

Started as a pioneer in the industry in 2007, Netflix established itself as the market leader and successfully kept this status even during the ongoing Streaming Wars. (Winslow, Amazon, Apple, HBO Max Grow U.S. Streaming Shares in Q3, 2021) Nevertheless, due to the increased competition and planned market entries, the management is keen on maintaining market share in rather saturated spaces like UCAN and increasing penetration in APAC and EMEA. Unlike Disney, AT&T and Amazon, for example, the Company follows a more differentiated approach to retain subscribers and generate more growth in the long run. (Glasner, 2021)

Local Production of Netflix Originals

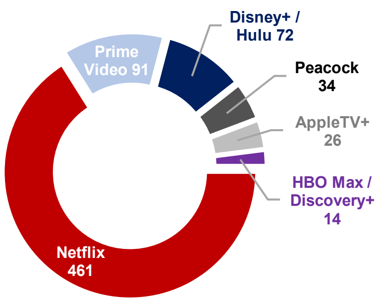

Figure 33 Number of Originals (m) by service
Source: Wheelwright, 2020

Industry peers invest more in content, relying on capital-intensive M&A transactions and either acquiring production studios, like Amazon did with MGM, or creating joint ventures to enlarge their library to offer clients a wider variety in genres. (Siglin, 2021) Looking at Netflix's M&A history, it is noticeable that the management relies more on in-house production, diversification, and brand power than on inorganic growth and licensing. (Netflix, 2021) Acquired targets rather support the business in gaining local awareness or to further strengthen their quality of producing content. For instance, the Company recently acquired German based visual effects studio Scanline, with whom they have previously worked on productions such as Stranger Things season 3 or Cowboy Bebop. (Sperling, 2021)

With its "Netflix Original" format, the Company has the strategic advantage of being able to produce and publish a variety of content flexibly and cost-effectively. (Figure 33) Compared to the market and Netflix largest competitors, the Company

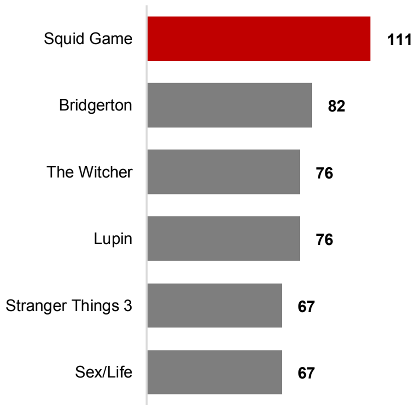

Figure 34 Accounts watched (m) after 28 days
Source: Statista, 2021

has by far the highest ratio of "Originals" compared to Amazon Prime or Disney+. (Bowman, 2021) (Wheelwright, 2020) The volume of originals and frequent release of in-house productions increase the likelihood of starting "hypes". Exemplified by the recent release of the hit series "Squid Game," which was initially intended as supplemental content for key country South Korea. For the first season, $21.4m were invested in production. The show went online on September 17 and became the most successful original in Netflix history within weeks (Statista, 2021), reporting 111 million subscribers watching the series within 28 days. (Figure 34) (Robertson, 2021) In the third quarter, additional subscribers were gained mainly in markets such as APAC (2.1m) and EMEA (1.8). Results exceeded analysts' expectations of global subscriber growth by 25.7% at 4.4m globally. (Bursztynsky, 2021)

Bottom line: Netflix has been investing heavily in its own production for years and has built up a broad content library and pours half of its content investments into “Netflix Original” productions across the globe. Management aims for tailormade content, capturing the local needs and “Stories” in different countries. This strategic proposition ensures some degree of flexibility. If released content did not meet expectations, the investment was manageable and at least approached the local audience. If it develops into an international hit like Squid Game, Stranger Things or La Casa de Papel, production continues with a budget raise and merchandise strategies to further strengthen the brand. (Rodriguez, 2021)

However, due to the ongoing consolidation in the market, competitors have acquired decisive streaming rights to international hits, such as Disney with Marvel and Lucasfilm or HBO Max with DC Universe or Warner Bros. (Adgate, 2021) Amazon is also picking up on successful formats and is currently producing the series for the "Lord of Rings" trilogy - a project that costs the internet company approximately $500m per season. (Whitten, 2021)

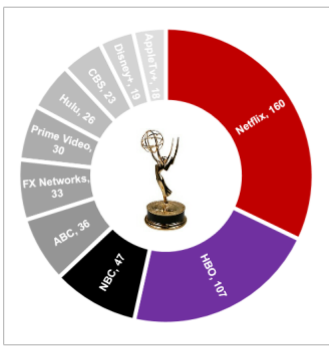

Figure 35 Emmy Nominations / Studio 2020
Source: Yahoo News, 2020

With a lot of content being released within the Streaming Wars, it is not the quantity but rather the quality of the films and shows, measured by hours that user actually spend on the platform, that will be decisive. (Sherman, 2021) In terms of Netflix's "Original" format, the SVoD pioneer looks back on pleasing viewers over time. As the most nominated studio at the 2020 Emmys and winning Academy Awards, the quality of the content is therefore high and to a certain extent justifies Netflix's strategic approach. (Figure 35) (Faughnder, 2020)

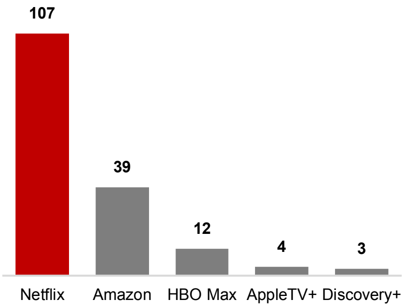

Figure 36 Titles released in the EU in 2021
Source: OMDIA, 2021

International Production Hubs as a Competitive Advantage

The historically grown international presence of Netflix's production facilities across multiple countries paves the way to rely more on content production. (Howley, 2021) With regard to Netflix's main competitors such as Amazon, AT&T/Discovery and Disney, the Company published the most "Originals" and reports the highest ratio of produced to licensed content in the industry. (Figure 36) (Silver, 2021)

Consequently, Netflix content investments are pouring into the further development and expansion of local film studios. (Netflix, 2021) This gives the SVoD Company a high degree of flexibility, considering the aforementioned hit series Squid Game. Produced in South Korea, the show exceeded management's expectations by far and production of the second season began immediately. The local presence enabled Netflix to be more customer-oriented, putting them a step ahead of their challengers, compared to the number of local releases on other streaming platforms, for the time being.

The quality and customer-specific orientation of content determine the satisfaction of the viewer. Beyond that, the exclusivity and variety of the offering must be considered as well. For instance, media company NBCU has announced that it will withdraw popular titles such as "The Office" or "Friends" from the Netflix and Hulu platforms by 2024 to make Peacock more exclusive to potential users. (Duff, 2021)

Mobile Gaming Entry

In August 2021 Netflix announced that it will increasingly focus on the in-house development of a mobile gaming division and plans to invest in research and development of gaming offerings in the coming years. (Reuters, 2021) The Company released its first five mobile games in November 2021 and made them available for Android users worldwide in different languages. The only requirement to access these applications, which are partly available online, is the the basic subscription plan. Combining the gaming customer experience with exclusive Netflix Original brands like “Stranger Things” the leading SVoD platform enlarges its product offering and awaits further brand awareness among younger generations. (Netflix, 2021) Considering the ever-growing popularity of video games, both on-the-go and at home, it is the move towards gaming seems reasonable. Corporate Management is therefore not only focusing on its direct challengers within SVoD, rather competing for screen time in general, which includes both, mobile and television. With games like Fortnite in 2019, the Company reported to lose more potential customers than to HBO, especially among the younger generations (Deloitte, 2021) (Figure 37), what rationalize the merge into the mobile gaming industry even more. (Netflix, 2019)

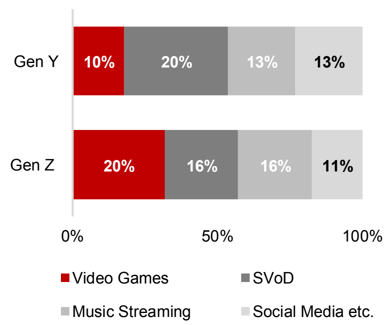

Figure 37 Popularity of Digital Entertainment among younger generations
Source: Deloitte, 2021

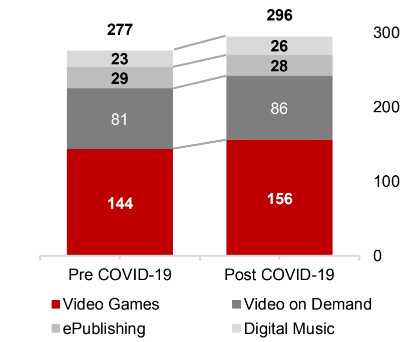

Figure 38 Revenue Volumes ($bn) Pre- and Post COVID Accross Digital Entertainment
Source: Statista, 2021

But not only is gaming the favourite activity for tens of millions of people around the world, it is also the biggest digital entertainment exceeding VOD, ePublishing or Digital Music by far in terms of revenue volumes. According to estimates, digital gaming revenue amounted to $156 billion worldwide in 2021, transcending the combined total for digital video, music, and publishing. (Figure 38) (Statista, 2021) And while Netflix's gaming push is still in its very early stages the Company's ambitions are high and monetary resources given, as its highly successful push into original scripted content has proven over the years. (O'Leary, 2021)

Company Analysis

Financial Health

Liquidity Ratios	
Current Ratio	1.25
Quick Ratio	1.25
Cash Ratio	1.05

Figure 39 Liquidity Ratios Overview
Source: Netflix, 2020

A short synopsize of the liquidity and debt structure as well as certain balance sheet items over the past four years is necessary to comprehend the financial risks involved as well as some Balance sheet targets of Netflix Board of Directors.

Focusing on Netflix short-term liquidity, the firm seems to be able to cover the total of its short-term obligations (Figure 39). Therefore, Netflix fulfils the rule of short-term financial equilibrium. Furthermore, an increasing Cash Ratio, which converges to the current ratio, implies a strong tendency of a faster rising cash position compared to other short-term assets & liabilities. (Figure 40) (Netflix, 2020) A high cash ratio hints a strong financial stability as executional risk is minimized. Nonetheless, in terms of optimal resource allocation the cash is not deployed to achieve respective returns. Netflix maintains a high cash position to ensure a certain financial flexibility accompanied by the ability to finance content productions or possible acquisitions out of their pocket. (Netflix, 2021) This can be considered as a business advantage, given the dynamic within the SVoD industry by reacting on trends and rapidly changing customer needs.

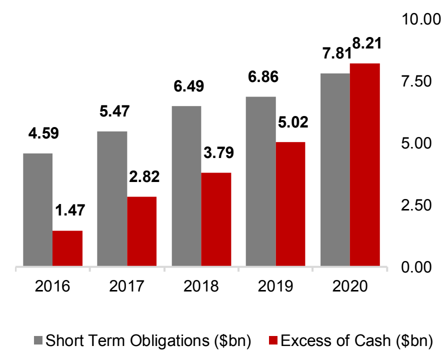

Figure 40 Excess Cash vs Short-Term Obligations
Source: Netflix, 2020

The long-term debt position has been growing on an absolute basis within the time frame. The gearing ratio as well as the Net Debt to Equity ratio based on book values have been increasing in the past with a first-time downtrend in 2020 during the regarded period. (Figure 41) (Netflix, 2020) The relatively high debt levels over the past years are a result of Netflix reliance to finance day-to-day operations with debt. The Company has indicated to be able to escape this trend, which would at least keep the ratios constant (Netflix, 2021) The decreasing indebtedness of Netflix in conjunction with its strong liquidity position in combination with stable revenues provide a sense of a strong financial position over the past years.

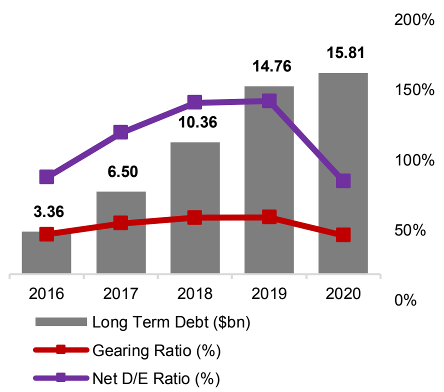

Figure 41 Long-Term Debt vs Gearing and Net D/E Ratio
Source: Netflix, 2020

Sales Driver Analysis

Region	ARPU	Subscriber	Revenue
UCAN	10.8%	8.2%	19.8%
EMEA	8.6%	36.9%	48.7%
LATAM	0.3%	23.9%	24.3%
APAC	1.7%	57.7%	60.3%
Total	**6.2%**	**22.6%**	**28.8%**

Figure 42 CAGR Table of selected Sales Driver from 2017 to 2020
Source: Netflix, 2020

Netflix revenue has been growing at a CAGR of 28.8% and is a result of the product of ARPU and the number of users – the latter being used in this report interchangeably with subscribers. Growth of users contributing more to the revenue increase than price adjustments are a positive indicator, as sales improvements achieved through higher prices are usually an indicator of a maturing market. (Figure 42) (Netflix, 2020) Nonetheless, the YoY subscriber's growth is slowing down slightly. Moreover, Netflix subdivides its sales into regions in which Netflix is operating, enabling the analyzation of the different dynamics in each of Netflix operating locations. (Netflix, 2020)

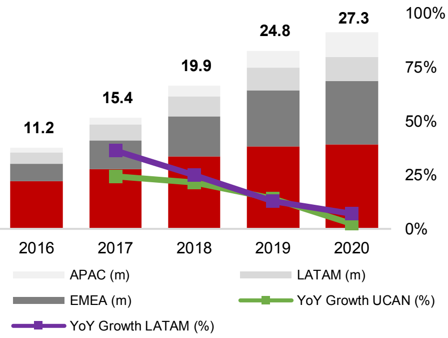

Figure 43 Revenue Growth and Split accross Regions with YoY of UCAN and LATAM
Source: Netflix, 2020

Exemplary, a degree UCAN has reached of maturity to some extent, with revenue growth becoming crescively reliant on price increases rather than subscription growth within the past few years, indicating for a rather developed market. (Figure 43) (Statista, 2021) In 2020 revenue growth was however driven by subscription growth, which still can be aligned with the assumption of a maturing market, if the exceptional situation of the respective year is taken into account, combined with the presumption of these circumstances are not reoccurring.

LATAM stipulates a similar case of a market maturity, and a higher penetration of broadband homes, making a further rollout for Netflix a challenging matter. (Netflix, 2021) The low ARPU-CAGR can be explained by a price reduction from 2019 to 2020 of 5.5%. LATAM subscribers seem to have a rather high price sensitivity (Figure 42) (Netflix, 2021), as the respective reduction did not spark a stronger subscriber growth compared to the previous year and a price increase in 2021 slowing down growth in Q3, 2021. (Figure 43) (Barhart, 2020)

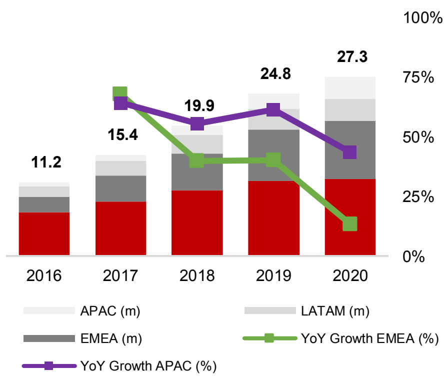

Figure 44 Revenue Growth and Split accross Regions with YoY of EMEA and APAC
Source: Netflix, 2020

Contrarily, subscriber additions in EMEA and especially in APAC over the considered time-period are implying a market growth with high a velocity. (Figure 44) The growing importance of the APAC region for Netflix is becoming even more evident by the fact that it has been the largest contributor to Netflix membership growth for two consecutive quarters in the current fiscal year, responsible for half of the subscriber additions of Netflix within that quarter. (Netflix, 2021) As mentioned before, these differences in growth rates are due to the different maturities of the respective regions and the coherent penetration rate of the market. (Figure 43) (Statista, 2021)

Reviewing the Company's history, it seems reasonable that UCAN and LATAM are more mature than EMEA and APAC, as Netflix started their business and expansion strategy within these regions. (Howley, 2021) The different potential becomes even more evident when looking at the CAGRs of subscriber growth per

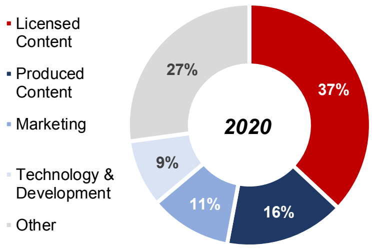

Figure 45 Operating Expenses in 2020
Sources: Netflix, 2020

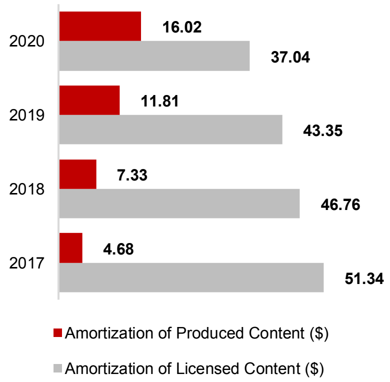

Figure 46 Amortization of Produced and Licensed Content per User
Source: Netflix, 2020

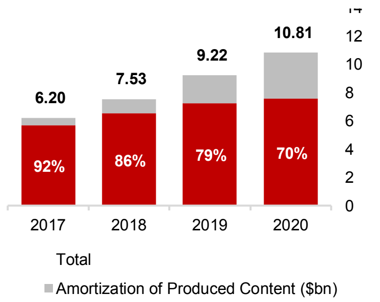

Figure 47 Amortization of Produced and Licensed Content Split
Source: Netflix, 2020

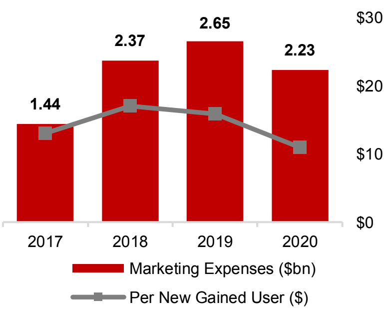

Figure 48 Marketing Expenses
Source: Netflix, 2020

region from 2016 to 2020. (Figure 44) (Netflix, 2021) The special focus on subscriptions as a revenue driver becomes apparent considering the current status of the Streaming Wars. Market share will be imperative to sustain within the industry. Additionally, it is believed that the price won't be a differentiating factor within these developments. (Bowman, 2021)

Cost Driver Analysis

Netflix total operating expenses have been growing with a CAGR of 23.4% from 2017 to 2020. The most influential cost drivers are amortization of content, marketing, as well as technology and development, as they were identified as the predominant contributors to the operating expenses. (Figure 45) (Netflix, 2021)

Pursuant to Netflix business model the Company's possibility to achieve a competitive edge is contingent on its ability to create value through content. Therefore, costs linked directly to content as the largest cost drivers within the Company's Income Statement and expressed as amortization of content, consisting as a part of revenue costs. These costs are divided into amortization of licensed content and amortization of produced content. In accordance with the previously mentioned strategic shift of the Company focusing on produced content, the related amortization has been increasing tremendously YoY with a CAGR of 84.7% over the last four years, whereas the growth of expenses related to licensed content have been decelerating, resulting in a CAGR of 9.9% throughout the same time period. The metric that encapsulates that produced content is the cynosure of the company is the comparison of the two amortizations per user. (Figure 46) (Netflix, 2021)

Due to the amount of the amortization of licensed content and the deceleration of investments into this division the growth of amortization of total content has been declining slightly. This downtrend was amplified in 2020 by the pandemic actively hindering content production successively leading to a less steep increase of the amortization costs associated with produced content. (Figure 47) (Walt Disney, 2021)

The development of marketing costs over the timeframe is captured by a CAGR of 15.8%. More expressive power, however, lies within the evolution of marketing spent per new subscriber which has more than doubled over the last four years - even with a drop in marketing expenses in 2020. This metric basically captures the increasing difficulty for Netflix to attract users, resulting in higher customer acquisition costs. A trend further strengthening the hypothesis of a rather saturated market with increased competition. (Figure 48)

Capital Driver Analysis

Closely intertwined with the amortization costs are balance sheet items of licensed and produced content, which are constituting the heart of Netflix assets. Combined they account for 64.6% of total assets of the Company's balance sheet in 2020. (Netflix, 2020) Multiple indicators highlight the increasing relevance of Netflix' own production. This corresponds to a CAGR of 59%, whereas the CAGR of licensed content over the same time is 5.3%. These investments caused a change in the composition of total content, from produced content making up a fifth of the content in 2017 to the two being almost equal in 2020. In 2020 licensed content was decreasing for the first time within the regarded period, also in line with the content strategy. The strongly decelerating YoY growth from 2019 to 2020 has been, as previously mentioned before, due to the pandemic actively influencing production possibilities. The largest lability Netflix records on its balance sheet are content liabilities. (Netflix, 2020)

Margins and Profitability

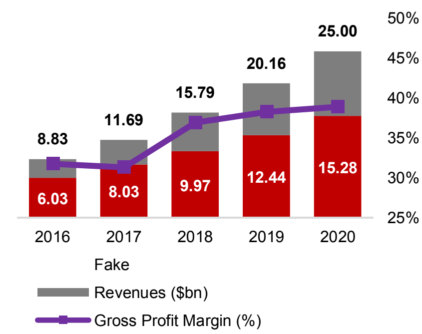

Figure 49 Gross Profit Margin over Time
Source: Netflix, 2020

The ability of the Company to increase its gross margin from 2017 to 2020 indicates a revenue growth unmatched by its variable cost increases in the past. (Figure 49) The evolution of the relation is therefore implying an improving production process as Netflix has been able to offset the large content investments by a combination of subscriber and ARPU growth. The subscriber's growth being important as they allow the distribution of the cost of revenue onto a wider foundation. The slight increase of the metric in 2020 has the mentioned as this increase has most likely been largely influenced by the circumstances accompanied to the pandemic situation, which resulted in a larger than expected subscribers' growth, boosting revenues, while simultaneously affecting production possibilities, effectively lowering the cost of revenue combined with a decline in marketing expenses (Figure 48). Therefore, the trend of Netflix becoming more effective in 2020 needs to be evaluated with care. Especially regarding the increased content production which will lead to higher costs via amortization, therefore affecting gross margin as well as operating margin. The severeness of the situation can be grasped when looking at the amount of subscriptions Disney has accumulated since its launch in 2020 possibly leading to a stronger deceleration of subscriber growth. Comparing Netflix operating margin on one hand with a peer group of technology companies and on the other hand with entertainment companies further strengthens Netflix position as a content producer as the margin is rather comparable to entertainment companies like Fox Corp. and Comcast Corp. while the Company constitutes the lower end of the tech companies

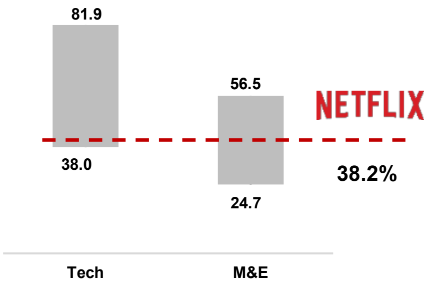

Figure 50 Netflix Operating Margin compared to Industry Peers
Source: Eikon/Refinitiv

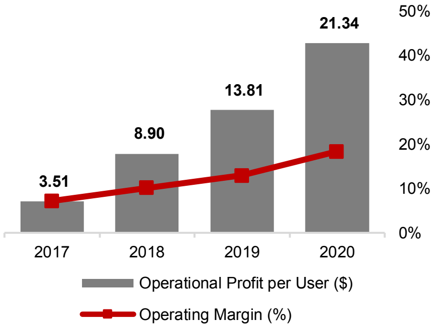

Figure 51 Operational Profit per User and Operating Margin
Source: Netflix, 2020

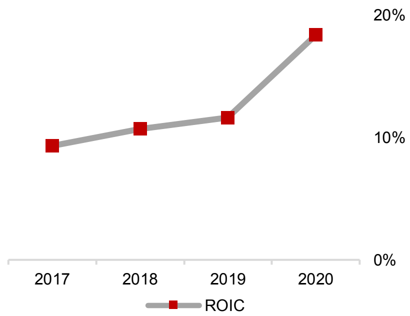

Figure 52 ROIC Development over Time
Source: Netflix, 2020

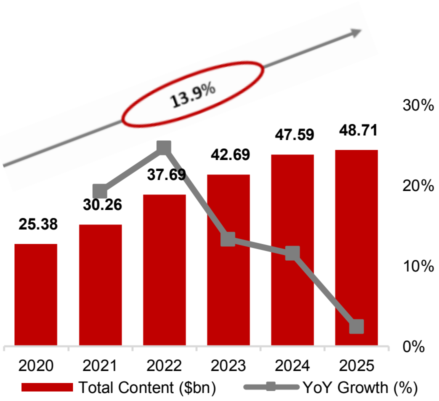

Figure 53 Total Content Assets Development
Source: Netflix, 2021; Analyst Estimate, 2021

in terms of gross margin due to content amortization expenses. (Figure 50) (Eikon/Refinitiv, 2021)

Already indicated by a higher CAGR of revenue growth compared to total operating expenses over the last three years, Netflix operating margin has been increasing. The uptrend was in line with the proposed 3% increase on average p.a. resulting in a margin slightly above target of 18.3% in 2020. (Netflix, 2021) In line with the development is a strong increase of operating profit per user, which grew from \$3.51 in 2017 to \$21.34 in 2020 (excl. DVD). (Figure 51) (Netflix, 2020)

The Return on Invested Capital (ROIC) as a profitability measure has been steadily increasing throughout the regarded time-period for the total Company as well as for its core business with an unusually high increase in 2020. (Figure 52) The increase of the core ROIC is due to the steadily increasing core operational margin, discussed previously, as the core asset turnover has been decreasing from 2017 to 2019. The decline of the metric can be explained by the increasing content assets, which are vital to Netflix operations. The higher ROIC in 2020 is due to an uptrend in asset turnover caused by the influences of the pandemic on Netflix business model. (Netflix, 2020)

Concluding the Company Analysis, the success of Netflix will strongly depend on its ability to generate new subscriptions within key areas such as the rapidly growing APAC and to maintain a relatively high market share within its regions closer to maturity against existing and newly emerging competitors. Netflix has been focusing on local and global content production, recently adopting content diversification in form of gaming to achieve these goals. (Toh, 2021) Therefore, there will be a special focus on these metrics to estimate Netflix prospects within a fast-paced industry.

Forecasting Rationale

Differentiating Measures

Netflix outlook depends heavily on the content it will produce to individualize the Company from the competition and enable a gain in market share while increasing retention rate. Therefore, tremendous investments into own content are required. (Netflix, 2021) (Levy, 2021) Especially from 2020 until 2025 the balance sheet item is assumed to increase monumentally due to the Streaming Wars. (Figure 53) (Netflix, 2021) Netflix differentiation strategy entails the establishment of local hubs worldwide, to adapt to regional content requirements, therefore making it easier to capture market share within the growth regions of APAC and EMEA. Rollouts like the one in Madrid in 2019 and the content production thereafter are serving as

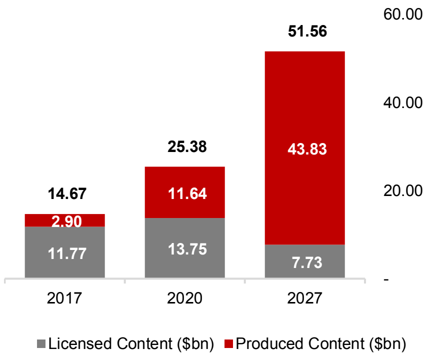

Figure 54 Produced and Licensed Content Investments Development
Source: Netflix, 2020; Analyst Estimate, 2021

justification for the assumed continuous increase of the balance sheet item. (Netflix, 2018) Another recent strategy Netflix has adopted to protrude its production and therefore contributing to the increase of content is the implementation of its gaming division. (Netflix, 2021) The outlook of the Company's executives, to create an entertainment universe including merchandize and gaming based on their movie content, therefore bringing Netflix closer to Disney, entails the goal to increase retention rate. The strategy of increasing own content was assumed to amplify the evident past trend of Netflix changing its content composition over the next years, further aligning the Company's goal to deliver unique and high quality content to retain subscribers, as well as to attract new subscribers. (Figure 54) (Pring-Mill, 2020) (Netflix, 2021) Additionally, external factors like Disney halting their licensing of content to Netflix, as well as licensed content becoming more expense by the virtue of more demand due to increasing competition within the industry are developments further justifying the assumption of a drastic composition change. (Netflix, 2021) (Meredith & Kovach, 2021) These factors lead to the believe that Netflix will be continuously increasing their produced content while simultaneously decreasing their licensed content until 2026, where there is forecasted to be a stable ratio of licensed to produced content of 15%, assuming Netflix will still own licensed content to some degree. This is in line with a contract made with Disney of Netflix getting back licenses to Disney movies produced from 2016 through 2018. (Shaw, 2019) Furthermore, Netflix plans to start licensing gaming to add to their produced content validates the assumption. (Netflix, 2021)

As the total content was forecasted through a relationship of sales and is set to converge to a constant ratio after the period of heavy financing, the underlying assumption was that in the future, content will increase with sales growth YoY. The relationship was tested using a yearly and a quarterly linear regression over the last four years, implying a high goodness-of-fit. However, due to the reasons mentioned above the assumption of a further linear relationship based on past levels was not deemed reasonable for the future.

Revenue Forecast

Total Revenue

As established Netflix is amid the Streaming Wars, reporting positively influenced numbers in 2020 due to COVID-19 not exemplifying the grasp of the magnitude of the situation. (PwC, 2021) One of many better indicators capturing the dynamics of the industry is the high consolidation activity within the market indication a preparation of what is about to happen. (Glasner, 2021) Due to the competitive

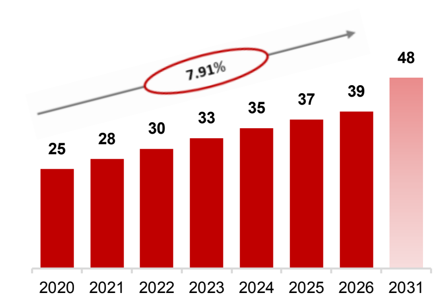

Figure 55 Forecasted Revenues ($bn) with CAGR 2020-2026
Source: Analyst Estimate, 2021

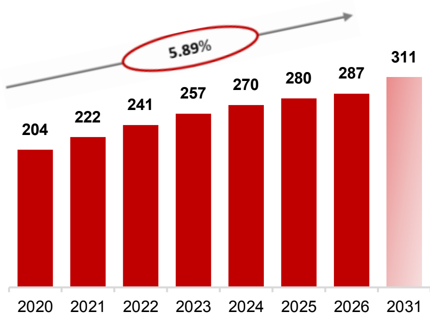

Figure 56 Forecasted Subscriber (m) with CAGR 202-2026
Source: Analyst Estimate, 2021

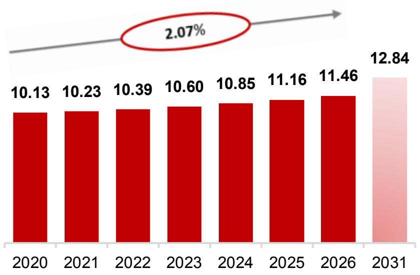

Figure 57 Forecasted Average Revenue Per User ($) Development with CAGR 2020-2026
Source: Analyst Estimate, 2021

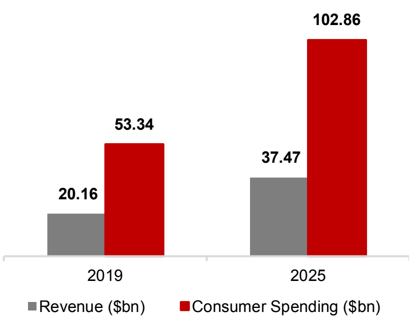

Figure 58 *Forecasted Revenues compared to global SVoD Spending ($bn)*
Source: Statista, 2021; Analyst Estimate 2021

landscape, Netflix will have to invest heavily into the future concordant with the plans of Netflix executives, recognizing content production as a differentiating factor, to retain existing and acquire new subscribers. (Netflix, 2021) These investments will affect Netflix cost structure as well as revenues through altering subscriber growth and prices through adjustments for the increasing expenses on content. The total revenue growth for Netflix from 2020 to 2026 is forecasted to slow down compared to the last four years, effectively regarding the streaming wars and the previously discussed developing maturity within certain regions. (Kantar, 2021) Within the time frame, revenues are assumed to grow at a CAGR of 7.9% driven by subscription and ARPU increases at CAGRs of 5.9% and 2.1% respectively, resulting in $39.5bn revenues (Figure 55), with 287 million subscribers (Figure 56) at a monthly ARPU of $11.46 (Figure 57) in 2026.

Thereafter, revenue growth is expected to further decelerate with continuous saturation of the market, smoothing out at 3.8% after 2029, leaving Netflix with an estimated sales volume of $48bn at the end of the forecasting period in 2031. (Figure 55) (Winslow, 2021) The corresponding ARPU has been constantly declining YoY converging to forecasted USD inflation of 2.3% in 2029 remaining constant thereafter. Subscribers levelling at 1.5% in 2029 remaining constant thereafter. (IMF, 2021) The Streaming Wars is assumed to be responsible for both reverberations – the continuously decreasing ARPU growth, as well as its balancing at the inflation rate. The former is due to the increased competitiveness in the coming years, whereas the latter is an effect of a rather stable market environment with a few remaining competitors offering a similar proposal to their customers. (Winslow, 2021) Therefore, a differentiating factor, to justify higher prices against competitors doesn't exist anymore.

In 2021, all regions are assumed to experience a drop in revenue growth, as already indicated by Netflix quarterly statements, portraying a smoothing-out effect to the strong growth trend in 2020. (Netflix, 2021) Accounting for the different conditions of Netflix operating regions, the underlying sales drivers and therefore its revenue in each territory is forecasted to evolve differently, according to the predominant factors influencing each area. (Statista, 2021)

According to industry estimates, the consumer spending on SVoD services will experience a stronger growth compared to Netflix revenues according to the forecasts in this report from 2019 to 2025. (Figure 58) (Statista, 2021) Under the assumption that Netflix has been in the market for a relatively long time, achieving a certain level of penetration, especially in mature markets, the Company is assumed to not completely participate in the growth of the industry. (Galloway, 2021) Accounting for the different conditions of Netflix operating regions, the underlying growth of the sales drivers and therefore its revenue in each territory is forecasted to evolve differently, according to the predominant factors influencing each area.

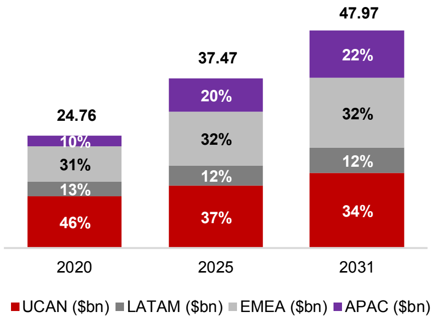

Figure 59 Revenue Split Across Regions
Source: Analyst Estimate, 2021

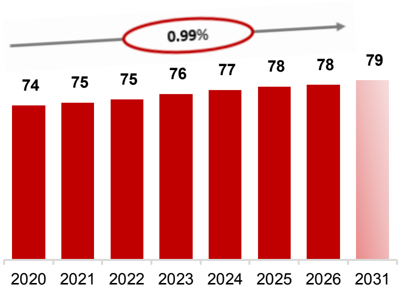

Figure 60 Subscriber Forecast in UCAN with CAGR 2020-2026
Source: Analyst Estimate, 2021

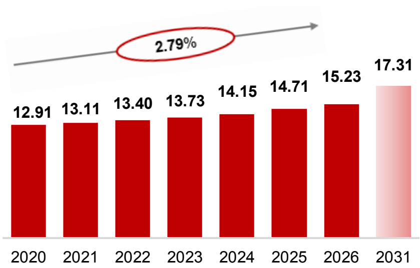

Figure 61 ARPU Forecast in UCAN with CAGR 2020-2026
Source: Analyst Estimate, 2021

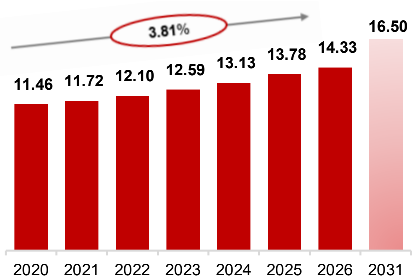

Figure 59 Revenue Forecast in UCAN with CAGR 2020-2026
Source: Analyst Estimate, 2021

United States and Canada

UCAN has been the largest contributor to Netflix revenues in the past and is assumed to remain the leader in terms of absolute revenue during the forecasting period. (Figure 59) (Netflix, 2021) The strong revenues are a consequence of UCAN being a maturing market accompanied by a high SVoD penetration rate, resulting in a correspondingly large TAM with Netflix allocating 47% of the market share.[1] (Statista, 2021) Assuming the market share to decrease slightly until 2023, remaining constant thereafter at 43% illustrates the reason for the high revenues assumed to be achieved in the region. (Figure 59) The drop in the subscribers' growth rate in 2021 is justified by the assumption of the decelerating growth trend continuing from the past, further amplified by the added users during COVID-19 being more prone to cancel their subscription. (Hayden, 2021) The maturity of the market, in concert with further entrances, additional to Netflix high penetration leave little room for additional subscriber growth. (Shafer, 2021) The assumption that Netflix will not experience a drastic reduction in audience, induced by growing streaming services is derived by that fact that the competitors' growth has been non-organic within the region, therefore the offered content did not change too dramatically. (The Economist, 2021) Even though the market has reached a rather saturated level, (Shafer, 2021) the forecast of slight subscriber growth pick up was made to regard Netflix entrance into gaming, combined with further investments in its historically successful own production both functioning as diversifying factors during the Streaming Wars. (Figure 60) (Whitten, 2021) The same rational was applied for an uptick in Netflix pricing until 2025, as Netflix is assuming to offer additional value through its gaming content. (Netflix, 2021) The influence on pricing is not exorbitant as Netflix is already one of the more expensive competitors within the region. (Shaw, 2021) Thereafter, the price growth will converge to the inflation because of a similar value proposal by competitors as they have started a rollout into gaming as well. (Figure 61) (Schiesel, 2020) The described developments in UCAN are leading to the evolution mentioned of the region being the largest competitor in terms of revenue over the forecasting period contributing $16.5bn (Figure 62), which amasses to 34.4% of the total forecasted revenue. (Figure 59)

[1] The TAM was estimated for the respective forecasting period by combining information from UN about population, population growth and the average size of households per country with information about the penetration rates of the SVoD market per from country, obtained from Statista. Finally, clustering the SVoD subscribed households into the respective regions.

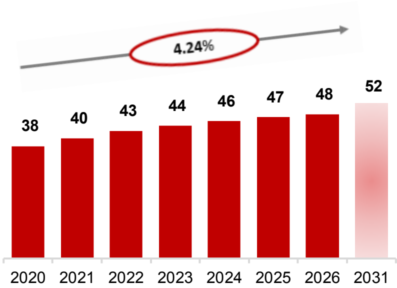

Figure 63 Subscriber Forecast in LATAM with CAGR 2020-2026
Source: Analyst Estimate, 2021

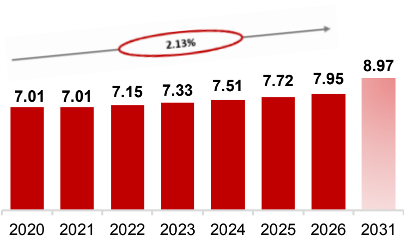

Figure 62 ARPU Forecast in LATAM with CAGR 2020-2026
Source: Analyst Estimate, 2021

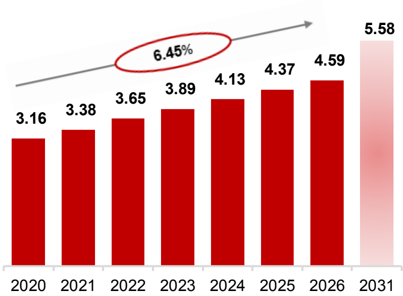

Figure 61 Revenue Forecast in LATAM with CAGR 2020-2026
Source: Analyst Estimate, 2021

Latin America

Like UCAN the LATAM market is not a growth market, with Netflix longest international presence. (Statista, 2021) However, LATAM has not been a large contributor to the Company's revenue stream with the explanation being twofold. (Figure 63) (Netflix, 2021) First, the market size being significantly smaller in terms of industry revenue due to a lower achievable ARPU. (Statista, 2021) Secondly, the lower penetration rate of Netflix due to a fragmented market with local service providers who organically acquired market expertise and are offering a different service proposal of a combination of Pay-Tv and SVoD services, which is adopted by the population. (O'Halloran, 2021) This results in a lower market share, compared to UCAN of roughly a third of the estimated TAM. With the market size not being susceptible to Netflix, the penetration rate is regarded as the adjusting screw for the Company. Regarding the synopsize of the market the expectation for the LATAM subscribers' growth constitutes the following train of thought. The high fragmentation conjoint with the local expertise of SVoD providers are leading to Netflix being slightly deprived of market share by increasing users at a CAGR of 4.2% until 2026, below market growth. (Figure 64) During this period Netflix subscribers increase is converging to the industry and is growing in equilibrium with the market. This results in Netflix maintaining its market share of 30%. The maintenance of Netflix presence in the market is prompted by its diversification strategy, in this case especially into the local hubs, increasing the proximity of Netflix to the users in LATAM. (Shaw, 2020) The achievement of Netflix' converging growth rate to the market is conditioned on Netflix only slowly aggrandizing its ARPU to inflation as customers in the region are rather price sensitive, as the fragmentation hinders intensive price growth, additionally implied by the -5% price adjustment by Netflix in 2020, as well as the much lower industry forecast on average spending on SVoD services per year. (Figure 64) (Statista, 2021) The conditions contingent to LATAM are forecasted to result in the region contributing $5.6bn to Netflix revenue stream, which results in 11.6% of Netflix forecasted revenue stream (Figure 60), therefore making it the smallest contributor, due to the combination of little spending power and the small market size, unique to the area. (Figure 65)

Europe, Middle East, and Asia

EMEA is seemingly different due to another dynamic within the market. Especially the region Africa and Middle East portraying high growth possibilities and new entries into a fragmented market. (Mann, 2021) (Windride, 2021) These market entries and the rather low spending budget within the growing parts of the region are challenging. Therefore, the tactic used to penetrate the market is a free mobile

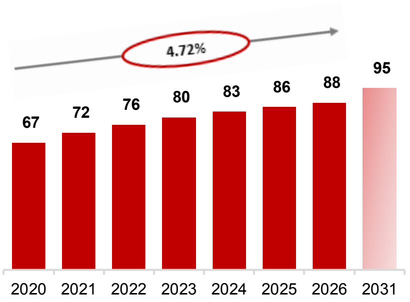

Figure 64 Subscriber Forecast in EMEA with CAGR 2020-2026
Source: Analyst Estimate, 2021

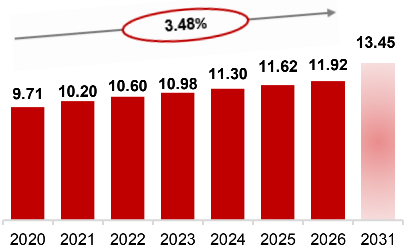

Figure 65 ARPU Forecast in EMEA with CAGR 2020-2026
Source: Analyst Estimate, 2021

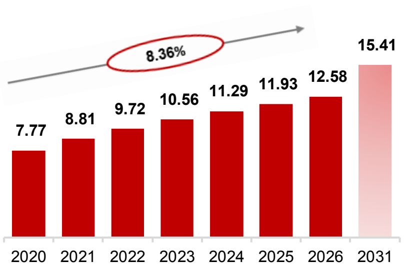

Figure 66 Revenue Forecast in EMEA with CAGR 2020-2026
Source: Analyst Estimate, 2021

subscription plan or similar strategies. Respecting the industry metrics, forecasting the region was contingent on the following main assumptions. With Netflix being well position in the region with a market share of 25% of the largest TAM of the regions in 2020, the subscribers' growth rate will be declining constantly with a rather large drop in 2021 due to the previously mentioned inflated growth through COVID-19 in the previous year. (Statista, 2021) Subscribers growth is slowing down as Netflix is penetrating these markets already and the new entries will therefore grow at a higher pace leaving Netflix to grow below market expectations. (Statista, 2021) (Figure 66) Simultaneously the Company is participating in rollout of free-of-charge mobile subscription plans, which is imperative to stay competitive within the region, therefore experiencing a deceleration of the ARPU growth. (Figure 67) (Singh, 2021) The decreasing growth of revenue drivers is slightly mitigated as the establishment of production hubs in Europe with increased content investments planned, combined with the gaming rollout are representing diversifying factors for Netflix especially in Europe, where the ARPU tends to be higher compared to the other sub-regions. However, in this region further competition is making it difficult for Netflix, which has been growing immensely during the previous period. (Mureithi, 2021) As EMEA portrays a strategically important market due to its size, the Company must adapt its prices rather competitively to retain market share. (Reuters, 2020) This results in a forecasted subscriber growth and ARPU growth from 2020 to 2026 of 4.7% and 3.5%, converging thereafter against market growth and inflation rate until 2031 respectively. According to these metrics the revenue generated in the region is almost catching up to UCAN by 2031, making up 32.1% of total sales with a volume of $15.4bn. (Figure 68) Therefore, the market is remaining the second strongest region of Netflix.

Asia-Pacific

APAC is promising the highest growth potential, although paired with comparably low ARPUs (Statista, 2021), due to market size still expanding impelled by emerging countries (Howley, 2021). However, the market size is attracting competitors, all trying to get a piece of the pie, especially Disney with its recently incorporation into the market and overtaking Netflix in terms of subscribers in key country India. (Purnell, 2021) Considering the large future potential, the market is considered a key battle ground within the Streaming Wars, where it is crucial for Netflix to be engaged in and they know it. (Borgohain, 2018) Since the Company has already targeted the region, a significant amount of resources has been deployed with the intention to further invest into content. (Zhao, 2020) Therefore, a market share of 16% of the TAM has been acquired by 2020. This is the smallest

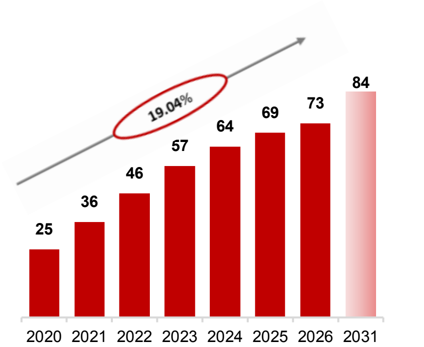

Figure 69 Subscriber Forecast in APAC with CAGR 2020-2026
Source: Analyst Estimate, 2021

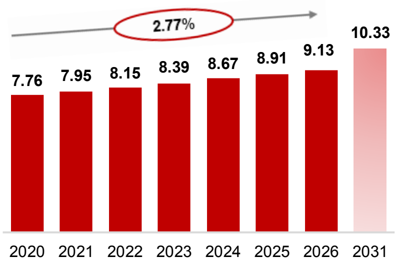

Figure 70 ARPU Forecast in APAC with CAGR 2020-2026
Source: Analyst Estimate, 2021

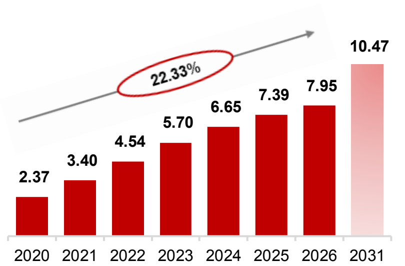

Figure 67 Revenue Forecast in APAC with CAGR 2020-2026
Source: Analyst Estimate, 2021

penetration rate for Netflix throughout the regions, resulting in the lowest revenue contribution in 2020 with $2.4bn, indicating a possible stronger user growth compared to the other regions. (Netflix, 2021) (Statista, 2021)

Considering the market conditions, the following train of thought resulted for the estimation of future developments. The subscribers' growth rate will be declining YoY due to the competitive nature contained within the region. However, Netflix will be able to further materialize the trend of gaining a substantial number of subscribers, with growth rates in the double digits until 2024, enabling the Company to achieve a CAGR of 19% from 2020 to 2026 in terms of subscriber's growth. (Figure 69) The high growth is a consequence of a combination of factors. First, Netflix aiming at market share within the region, is investing heavily into local content as well as establishing an APAC headquarter to grasp the dynamics of the region. (Zhao, 2020) Secondly, Netflix investment in gaming further spur growth, as the APAC region is prone to be affected more positively than other regions and is setting in in 2023 after two years of development. (Goldstein Research, 2021) Lastly, Netflix adapting to the low ARPU characteristics by offering a low-cost mobile only plan with the intention to gain market share. (Figure 70) (Toh, 2021) This leaves Netflix with 69 million subscribers in 2025, above industry estimates of 50 million, therefore presenting a comparably bullish, nonetheless justifiable case under the assumptions presented and comparing to numbers to past growth of other regions, portraying similar figures. (Statista, 2021)

Comparing the subscriptions of 2025 assumed in this scenario seems even more justifiable when comparing the number to industry forecasts of Disney, which amount to 120 million in 2025. (Statista, 2021) As content provided by Netflix is seen as a differentiator. The mobile plan, the characteristics of the region and the main objective of retaining market share leave little room for price increase, however from 2023 until 2026 Netflix it's feasible for the Company increase prices due to the impact of gaming its' going to offer. (Netflix, 2021)

Regarding the time-period from 2020 to 2026 pricing is growing at a CAGR of 2.8% and will thereafter converge to 2.5%, due to gaming being a differentiating factor. Merging the assumptions in terms of revenue implies the amplification of APACs importance to Netflix revenue stream in the future. In 2017 the region made up for only 5.1% of revenue, while in the future it's already predicted to overtake LATAM in 2021 and in 2031 being responsible for 21.8% of sales at $10.5bn. (Figure 59) (Figure 71) Even though the market promises great subscriber growth potential the total revenue of Netflix made in APAC remains behind the EMEA, due to its rather low pricing flexibility and the presence of Disney in the area. (Statista, 2021)

Effects on the Cost Structure

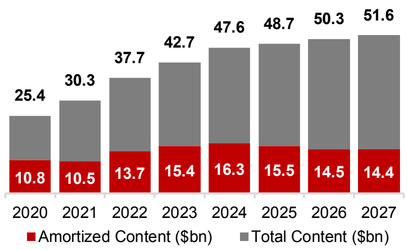

Figure 68 Development of Content Armortization and Total Content Assets
Source: Analyst Estimate, 2021

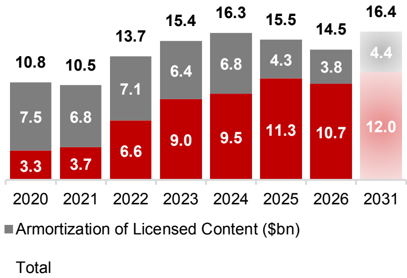

Figure 69 Forecasted Produced and Licensed Content
Source: Analyst Estimate, 2021

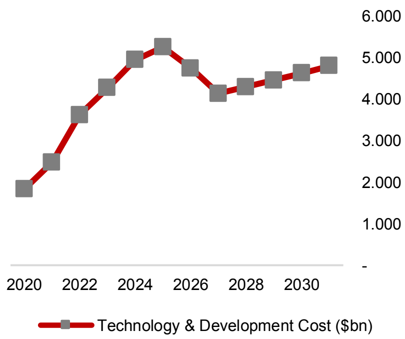

Figure 70 Forecasted Technology & Development Costs
Source: Analyst Estimate, 2021

Cost of Revenue

As content is amortized through cost of revenues, investments into content are directly affecting the cost structure. The forecasted change of the content composition is influencing the cost structure positively, considering that produced content is longer lasting, which is expressed in a lower amortization rate. (Figure 72) (Netflix, 2020) The assumed increase of content on the balance sheet item through tremendous investments throughout the Streaming Wars will affect the content structure as well, leading to larger amortization costs in absolute terms. (Figure 73) Additionally, the amortization rate is assumed to increase, during the first years of Netflix differentiating its content through gaming, as the first content investments into gaming are regarded as an experimental phase, therefore not leading to sustainable investments at the beginning. (Netflix, 2021)

Technology and Development Costs

The underlying assumption was that the relationship of technology and development costs to revenues is going to increase gradually 2024 and thereafter decline slightly until 2028, staying constant in the subsequent years. (Figure 74) The rational to the hike within the high growth period was the planed and partly executed rollout of Netflix into mobile gaming. Moving into this direction will entail investments into technology and development to successfully implement the business venture. The constant level of 10% is above the current relationship because of Netflix involvement in the technology industry, which is assumed to require additional investments into innovations to ensure the competitiveness of Netflix against its contestants. Nonetheless, looking at industry dynamics and the recent development of Meta Platforms (former Facebook) and the plan to create a metaverse it is imaginable that the Company will follow a similar path of creating a more interactive version to increase user engagement, ensuring a higher retention rate and engagement, which is already taking place through the establishment of the gaming department. (Netflix, 2021) (Meta Platforms, 2021)

Marketing Expenses

As it will become increasingly difficult for Netflix to attract new subscriber due to the intensifying competitiveness of the industry. (Variety Intelligence Platform, 2021) The assumption was made that the Company will need to raise its marketing expenses. Moreover, increasing marketing expenses are in line with more produced content to be marketed. The marketing expenses are assumed to increase YoY until 2027 at that time it was assumed that Netflix will have promoted

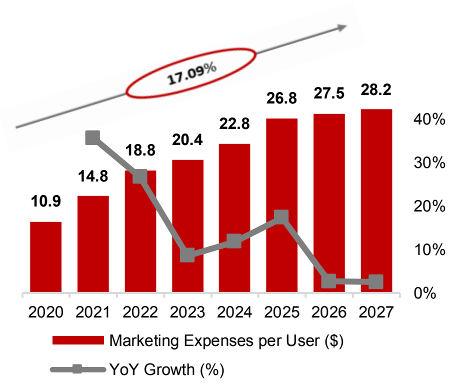

Figure 71 Forecasted Marketing Expeses per User with CAGR and YoY Growth
Source: Analyst Estimate, 2021

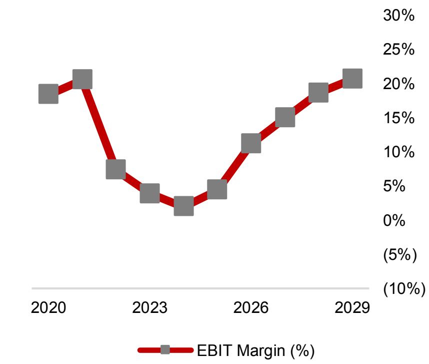

Figure 72 Forecasted EBIT Margin
Source: Analyst Estimate, 2021

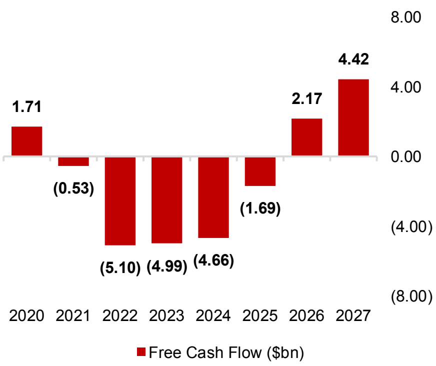

Figure 73 Core Free Cash Flow Forecast
Source: Analyst Estimate, 2021

its gaming rollout, and the market conditions will have tranquilized due to the streaming wars will be approaching its concluding period. Thereafter, marketing expenses reach a steady state with YoY growth corresponding to sales growth as the costs were forecasted as a ratio of sales. (Figure 75)

Evolution of Margins

The effects of the upcoming period and the underlying assumptions are cumulatively captured by development of Netflix operating margin. In 2021 the divestment of licensed content and COVID-19 still affecting content productions are offsetting the decreasing growth of revenue. Thereafter, the ramifications of the Streaming Wars become evident. The increasing competition in combination with a continuing market saturation are both impacting the top line by slowing down the revenue growth rate. Furthermore, the costs are increasing due to the content investments associated with the Streaming Wars to either retain or expand market share. This combination is resulting in the plummet of the margin. After 2025 the investments are starting to normalize in line with a calming market leading to a balancing EBIT-Margin in 2029 of 20.62%. (Winslow, 2021) The idea that the EBIT-Margin could grow up to 40% comparing Netflix to Pay-TV networks is not deemed reasonable as the operation is based on a monthly cancellable subscription plan for which it was assumed that a EBIT margin that high would leave to little investments into content to retain customers. (Figure 76) (Netflix, 2021)

Intrinsic Valuation

Core Free Cash Flow

Netflix top line is forecasted to be affected by less subscriber growth due to maturing markets and price growth forcibly kept low as a ramification of increasing competitiveness. Additionally, tremendous content investments impacting the profitability are leading to a decline of NOPLAT. Moreover, the investments are proceeding the invested capital to grow. All these developments are reflected in the forecasted Free Cash Flows as these are negative until 2026 and will then turn positive. The assumption is that Netflix it is possible for the Company to turn cash flow positive, as they have shown in 2020, although it is anticipated to take just need a little longer than the management anticipates. (Figure 77) (Netflix, 2021)

ROIC, RONIC and Growth Rate

During the last 3 years of the forecasting period the ROIC is stabilizing at 14.2%, after a recovering period caused by the impacts of the Company's efforts to

WACC Metrics	
Debt	
Probability of Deflault	53.90%
Loss given Default	0.18%
Weighted Yield to Maturity	2.27%
Credit Rating by S&P	BBB
Outstanding Period (Median 8 Long Term Bonds)	7.72 Years
CAPM	
Beta 95% confidence (lower)	0.6
Beta 95% confidence (upper)	0.78
R-Squared	0.17

Figure 74 WACC Table
Source: Eikon/Refinitiv, 2021; Analyst Estimate, 2021

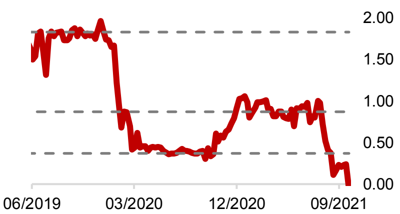

Figure 76 Rolling 26 Weeks Beta
Source: Eikon/Refinitiv

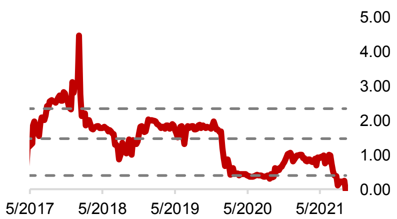

Figure 75 Rolling 52 Weeks Beta
Source: Eikon/Refinitiv

Peers	EV/ EBIT	Price/ Sales	Peers	EV/ EBIT	Price/ Sales
Technology			**Media & Entertainment**		
Alphabet	14,67x	8,19x	amc ENTERTAINMENT	22,65x	9,97x
amazon	62,78x	3,86x	COMCAST	14,51x	1,92x
	29,30x	7,83x	FOX	7,94x	1,58x
AT&T	14,65x	0,94x	VIACOMCBS	10,17x	0,73x
ebY	18,07x	3,77x	Walt Disney	72,85x	4,12x
EA	17,49x	5,00x			
Meta	18,32x	8,17x			
twitter	56,71x	7,74x			
Median	**18,19x**	**6,37x**	**Median**	**14,51x**	**1,92x**

Figure 81 Peer Group Overview
Source: Eikon/Refinitiv

diversify its content, aligning with the assumption of reaching a steady state. With 14.2% the ROIC is higher compared to the median of streaming service providers and comparable M&E companies, but lower than the ROIC of comparable tech companies. The figure amid industry medians and above the Netflix' WACC is due to the unique company composition being a tech company focused on content production, with no other business venture unlike Disney for example. Similar to the ROIC, the revenue growth rate of the Company is balancing at 3.8%, aligned with the respective GDP and inflation. Moreover, the RONIC is approaching magnitudes similar to the ROIC. (Eikon/Refinitiv, 2021)

Weighted Average Cost of Capital

The calculated Weighted Average Cost of Capital (WACC) of the Company amounted to 5.40% combining cost of debt of 2.16% and cost of equity of 5.55% with a Net Debt-to-Equity ratio 4.04%. (Figure 78) To calculate cost of equity the Capital Asset Pricing Model (CAPM) was applied with an adjusted beta of 0.9 which was captured by a three-year weekly regression against the MCSI World. The rational for the chosen index was the assumption, that it captures the global operations of Netflix most accurately. The regarded period was chosen to include the increasing stability of Netflix business model especially during recent years. To regard the insecurities within the market caused by the pandemic and the recent Omicron scare, affecting Netflix stock movement mostly contrarily to the market movements and additionally capturing the mean-reverting properties of beta, it has been adjusted upward. A beta slightly below one entails the assumption of Netflix being a well-placed technology company in an increasingly relevant entertainment sector, with a promising long-term strategy. To validate the beta rolling betas were considered (Figure 79/80) It was refrained from adjustments using industry betas, because of the absence of true comparable companies.

Relative Valuation

As briefly mentioned in in the Intrinsic Valuation, peers accurately representing Netflix' business model don't exist. To adjust for this obstacle comparable companies within the technology industry were regarded, capturing the high growth potential attributed to the peers and Netflix, as illustrated by the P/E-ratios. Furthermore, conglomerates with similar business ventures of providing streaming services, therefore including the industry dynamics into the valuation, were regarded. (Figure 81) It was refrained from using companies from the M&E industry, as they are depicting significant differences to Netflix with regards to e.g. market capitalization, D/E and P/E ratios. Using the median of an EV/EBIT multiple

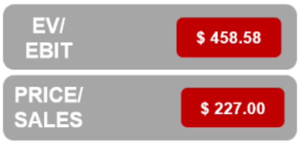

Figure 82 Application of Industry Multiple to Netflix
Source: Analyst Estimate, 2021

and of a P/Sales multiple for the filtered companies, putting special emphasis on Disney due to Netflix trajectory to converge in their direction resulted in a wide valuation range. (Figure 82) (Netflix, 2021) Accompanying the delineated issues the resulting valuation has to be regarded with care. (Eikon/Refinitiv, 2021)

Deviation Analysis

Scenario Analysis

To establish a range of the share price contingent on different developments a best a worst-case scenario was established, dependent on the sales drivers, especially regarding the growth markets, EMEA and APAC. For the rather mature markets Netflix was assumed to be relatively stable due to their long presence within these markets, aligning with a comfortable position. Within the best-case Netflix will retain almost a quarter of the TAM in EMEA and slightly more than a third of the TAM in APAC while being able to achieve a slightly higher ARPU in all regions, assuming their content diversification is strongly adopted making Netflix out to be one of the victors of the streaming wars. In contrast, the worst case portrays the exact opposite assumptions of Netflix, while still relevant, is developing to be a rather small contester among the larger ones, therefore losing their strong positions in key regions. These two contrary cases lead to a wide range of possible share prices, implying one more time how important the right content investments are for Netflix to retain its leadership in the market. (Figure 83)

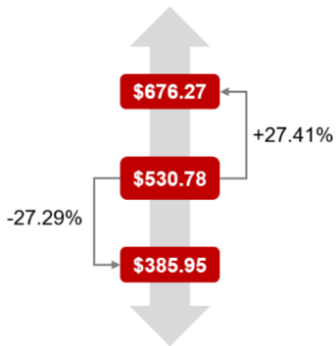

Figure 83 Enterprise Value and Share Price Sensitivity Analysis Table
Source: Analyst Estimate, 2021

Sensitivity Analysis

To capture a range of the estimated Enterprise value and the share price of Netflix a sensitivity analysis with 2 variables was conducted. The WACC as one of the variables ranges from 5.20% to 5.60% with a step size of 0.2%: The terminal growth rate as the other variable ranges from 3.39% to 4.39% with the same step size applied. Applied to the EV the analysis yields a range from $196bn in the worst case to $324bn in the best case. Conducting the same analysis for the share price results in a span of a minimum share price amounting to $422.37 to a maximum share price of $710.36. (Figure 84)

EV		WACC		
		5.20%	5.40%	5.60%
Growth Rate	3.59%	252,762,905	221,464,990	196,418,690
	3.79%	283,322,561	244,433,282	214,163,375
	3.99%	323,967,319	273,901,223	236,301,922

Share Price		WACC		
		5.20%	5.40%	5.60%
Growth Rate	3.59%	549.59	478.92	422.37
	3.79%	618.59	530.78	462.43
	3.99%	710.36	597.92	512.42

Figure 84 Enterprise Value and Share Price Sensitivity Analysis Table
Source: Analyst Estimate, 2021

Conclusion

According to the DCF valuation based on the assumptions laid out during this equity research report the estimated share price for Netflix as of December 2022 is $530.78, therefore 10.2% below the market share price of today (16.12.2021). Even though the business model seems promising the market seems to overvalue the stock slightly, consequently the recommendation issued is a “SELL”.

Appendix

Financial Statements

Income Statement

			Historical Period			Current			High Growth Period					Steady State		
Income Statement (in $k)	2016A	2017A	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
x Income Statement																
Revenues	8.830.669	11.692.713	15.794.341	20.156.447	24.996.056	27.508.724	30.152.779	32.838.755	35.252.286	37.471.066	39.462.170	41.248.019	42.837.473	44.520.912	46.209.404	47.965.697
Streaming Revenues	8.288.402	11.242.216	15.428.752	19.859.230	24.756.675	27.315.927	30.008.181	32.744.766	35.205.291	37.471.066	39.462.170	41.248.019	42.837.473	44.520.912	46.209.404	47.965.697
DVD Revenues	542.267	450.497	365.589	297.217	239.381	192.797	144.598	93.989	46.994	-	-	-	-	-	-	-
Cost of Revenues	6.029.901	8.033.000	9.967.538	12.440.213	15.276.319	14.915.920	18.516.879	20.645.378	21.963.915	21.485.445	20.751.337	20.955.506	21.494.074	22.307.510	23.153.540	24.033.543
Amortization of licensed content		5.680.373	6.531.689	7.242.799	7.544.631	6.825.752	7.085.059	6.419.869	6.798.933	4.273.191	3.783.182	3.876.852	3.951.245	4.100.778	4.256.303	4.418.074
Amortization of produced content		517.444	1.020.399	1.973.448	3.262.281	3.661.411	6.595.920	8.964.980	9.527.635	11.252.561	10.691.782	10.518.245	10.720.079	11.125.776	11.547.730	11.986.628
Other streaming costs		1.632.658	2.282.353	3.100.759	4.469.407	4.375.204	4.795.735	5.222.934	5.606.800	5.959.693	6.276.374	6.560.409	6.822.751	7.080.956	7.349.507	7.628.841
DVD costs		202.525	153.097	123.207	-	53.553	40.165	37.596	30.546	-	-	-	-	-	-	-
Gross Profit	2.800.768	3.659.713	5.826.803	7.716.234	9.719.737	12.592.804	11.635.900	12.193.377	13.288.370	15.985.621	18.710.832	20.292.513	21.403.399	22.213.403	23.055.864	23.932.154
Overhead Expenses	2.420.975	2.821.034	4.221.577	5.111.980	5.134.448	6.953.620	9.431.147	10.928.039	12.612.518	14.343.127	14.316.035	14.138.943	13.417.417	13.034.776	13.529.130	14.043.335
Marketing	991.078	1.436.281	2.369.469	2.652.462	2.228.362	3.301.047	4.522.917	5.254.201	6.169.150	7.494.213	7.892.434	8.249.604	7.292.570	6.678.137	6.931.411	7.194.855
Technology and Development	852.098	953.710	1.221.814	1.545.149	1.829.600	2.475.785	3.618.333	4.269.038	4.935.320	5.245.949	4.735.460	4.124.802	4.289.747	4.452.091	4.620.940	4.796.570
General and Administrative	577.799	431.043	630.294	914.369	1.076.486	1.176.788	1.289.897	1.404.800	1.508.048	1.602.964	1.688.141	1.764.537	1.835.099	1.904.548	1.976.779	2.051.911
Core Result before Taxes (EBIT)	379.793	838.679	1.605.226	2.604.254	4.585.289	5.639.184	2.204.752	1.265.338	675.853	1.642.495	4.394.797	6.153.570	7.985.982	9.178.627	9.526.734	9.888.819
Statutory Taxes	(132.928)	(293.538)	(337.097)	(546.893)	(962.911)	(1.184.229)	(462.998)	(265.721)	(141.929)	(344.924)	(922.907)	(1.292.250)	(1.677.056)	(1.927.512)	(2.000.614)	(2.076.652)
Tax Rate	35%	35%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
R&D and Other																
Impact of foreign jurisdiction	(14.639)	87.514	(63.519)	(56.969)	(12.212)	(81.169)	(93.185)	(104.884)	(114.880)	(123.299)	(130.780)	(137.645)	(144.106)	(150.374)	(156.920)	(163.757)
R&D Tax Credits	41.144	79.868	140.749	134.523	113.882	218.284	319.019	376.390	435.135	462.522	417.514	363.673	378.216	392.530	407.417	422.901
Non Deductable Expenses	(28)	(28)	(14.377)	(24.111)	(30.351)	(30.449)	(33.376)	(36.349)	(39.021)	(41.477)	(43.681)	(45.657)	(47.483)	(49.280)	(51.149)	(53.093)
Core Result (NOPLAT)	273.342	712.495	1.330.982	2.110.804	3.693.697	4.561.621	1.934.213	1.234.774	815.158	1.595.317	3.714.942	5.041.692	6.495.553	7.443.991	7.725.468	8.018.219
Non Core Result before Taxes	30.828	(115.154)	41.725	84.000	(618.441)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)
Interest and Other Income (Expenses)	30.828	(115.154)	41.725	84.000	(618.441)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)	(142.948)
In % of Cash Investments	627,35%	-2040,65%	237,64%	331,37%	-1856,07%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%	-429,02%
Statutory Taxes	(10.790)	40.304	(8.762)	(17.640)	129.873	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019	30.019
Tax Rate	35,0%	35,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%	21,0%
Tax Adjustments	(9.129)	76.116	179.487	184.311	162.590	-	-	-	-	-	-	-	-	-	-	-
Other Comprehensive Income	(5.257)	28.008	975	(3.939)	67.919	-	-	-	-	-	-	-	-	-	-	-
Non Core Result	5.653	29.274	213.425	246.732	(258.059)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)
Financing Result																
Interest Expense	(150.114)	(238.204)	(420.493)	(626.023)	(767.499)	(962.907)	(736.073)	(1.069.514)	(1.377.779)	(1.815.850)	(1.991.076)	(1.835.383)	(1.786.760)	(1.814.654)	(1.871.067)	(1.893.917)
In % of Debt		7,08%	6,47%	6,04%	5,20%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%	5,90%
Financing Result before Taxes	(150.114)	(238.204)	(420.493)	(626.023)	(767.499)	(962.907)	(736.073)	(1.069.514)	(1.377.779)	(1.815.850)	(1.991.076)	(1.835.383)	(1.786.760)	(1.814.654)	(1.871.067)	(1.893.917)
Statutory Taxes	52.540	83.371	88.304	131.465	161.175	202.210	154.575	224.598	289.333	381.328	418.126	385.430	375.220	381.077	392.924	397.723
Tax Rate	35,00%	35,00%	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	(97.574)	(154.833)	(332.189)	(494.558)	(606.324)	(760.697)	(581.497)	(844.916)	(1.088.445)	(1.434.521)	(1.572.950)	(1.449.952)	(1.411.541)	(1.433.577)	(1.478.143)	(1.496.194)
Comprehensive Income	181.421	586.937	1.212.217	1.862.977	2.829.314	3.687.995	1.239.786	276.929	(386.217)	47.867	2.029.063	3.478.810	4.971.083	5.897.485	6.134.396	6.409.095

Balance Sheet

			Historical Period			Current			High Growth Period					Steady State		
Balance Sheet (in $k)	2016A	2017A	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
x Balance Sheet																
Core Invested Capital																
Operating Cash	441.533	584.636	789.717	1.007.822	1.249.803	1.375.436	1.507.639	1.641.938	1.762.614	1.873.553	1.973.108	2.062.401	2.144.874	2.226.046	2.310.470	2.398.285
Content																
Licensed Content	9.595.315	11.771.778	14.081.463	14.703.352	13.747.607	13.616.819	14.134.115	12.807.114	13.563.317	8.524.668	7.547.140	7.734.004	7.882.411	8.180.718	8.490.978	8.813.697
Produced Content	1.380.078	2.896.910	6.020.864	9.801.215	11.636.343	16.642.778	23.556.858	29.883.267	34.027.269	40.187.719	42.767.127	43.826.020	44.666.994	46.357.400	48.115.542	49.944.282
Total Content	10.975.393	14.668.688	20.102.327	24.504.567	25.383.950	30.259.597	37.690.973	42.690.381	47.590.586	48.712.386	50.314.267	51.560.024	52.549.405	54.538.117	56.606.520	58.757.978
DVD	25.415	13.301	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets (Less Trade Receivables)	260.202	536.245	385.754	703.805	943.428	964.659	1.057.379	1.151.569	1.236.205	1.314.012	1.383.835	1.446.460	1.504.302	1.561.232	1.620.443	1.682.031
Trade Receivables	-	-	362.712	454.399	610.819	641.365	703.011	765.634	821.906	873.637	920.059	961.696	1.000.153	1.038.004	1.077.371	1.118.319
Property, Plant and Equipment	250.395	319.404	418.281	565.221	960.183	921.289	1.319.184	1.707.615	2.379.529	1.948.495	1.509.428	1.128.272	1.149.923	1.193.441	1.238.700	1.285.783
Operating Deferred Tax Assets	13.523	292.546	435.371	485.652	320.729	507.884	556.700	606.291	650.851	691.815	728.576	761.548	792.001	821.974	853.148	885.574
Other Non Current Assets, Net	48.073	33.154	199.629	601.432	571.863	656.246	939.672	1.216.356	1.694.969	1.387.938	1.075.185	803.683	819.104	850.103	882.344	915.879
Content Liabilities	(6.527.365)	(7.502.837)	(8.440.588)	(7.747.884)	(7.047.620)	(7.077.955)	(7.721.945)	(6.996.960)	(7.410.099)	(4.657.314)	(4.123.258)	(4.225.348)	(4.306.428)	(4.469.403)	(4.638.908)	(4.815.221)
Accounts Payable	(312.842)	(359.555)	(562.985)	(674.347)	(656.183)	(803.674)	(1.027.049)	(1.160.277)	(1.270.634)	(1.316.648)	(1.288.675)	(1.289.670)	(1.282.947)	(1.298.778)	(1.348.035)	(1.399.270)
Accrued Expenses and Other Liabilities	(197.632)	(315.094)	(481.874)	(843.043)	(1.102.196)	(1.026.764)	(1.278.924)	(1.448.563)	(1.614.836)	(1.652.901)	(1.707.256)	(1.749.527)	(1.783.098)	(1.850.579)	(1.920.764)	(1.993.767)
Deferred Revenue	(443.472)	(618.622)	(760.899)	(924.745)	(1.117.992)	(1.206.674)	(1.503.018)	(1.702.382)	(1.897.789)	(1.942.524)	(2.006.402)	(2.056.080)	(2.095.534)	(2.174.839)	(2.257.321)	(2.343.116)
Total Core IC	4.533.223	7.651.866	12.447.445	18.132.899	20.116.784	25.211.408	32.243.621	38.471.603	43.943.302	47.232.450	48.778.867	49.403.459	50.491.756	52.435.319	54.423.971	56.492.477
Non Core Invested Capital																
Short Term Investments	266.206	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Investments	4.914	5.643	17.558	25.349	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320	33.320
Other Non Current Assets (Non Operating DTA)	213.725	185.720	129.054	172.554	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362	268.362
Other Non Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non Core IC	484.845	191.363	146.612	197.903	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682	301.682
Total IC	5.018.068	7.843.229	12.594.057	18.330.802	20.418.466	25.513.090	32.545.303	38.773.285	44.244.984,21850	47.534.132	49.080.549	49.705.141	50.793.438	52.737.001	54.725.653	56.794.159
Net Debt																
Debt	3.364.311	6.499.432	10.360.058	14.759.260	16.308.973	(12.467.028)	(18.114.593)	(23.335.743)	(30.755.450)	(33.723.294)	(31.086.286)	(30.262.756)	(30.735.208)	(31.690.678)	(32.077.691)	(32.496.399)
Excess of Cash	(1.026.043)	(2.238.159)	(3.004.766)	(4.010.615)	(6.955.747)	-	-	-	-	-	-	-	-	-	-	-
Net Debt	2.338.268	4.261.273	7.355.292	10.748.645	9.353.226	12.467.028	18.114.593	23.335.743	30.755.450	33.723.294	31.086.286	30.262.756	30.735.208	31.690.678	32.077.691	32.496.399
Common Equity	2.679.800	3.581.956	5.238.765	7.582.157	11.065.240	13.046.062	14.430.711	15.437.542	13.489.534	13.810.838	17.994.263	19.442.385	20.058.230	21.046.323	22.647.962	24.297.760
Financing	5.018.068	7.843.229	12.594.057	18.330.802	20.418.466	25.513.090	32.545.303	38.773.285	44.244.984,21850	47.534.132	49.080.549	49.705.141	50.793.438	52.737.001	54.725.653	56.794.159
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Capital Structure and Flow to Equity																
Net Debt-to-Equity Ratio	87,26%	118,96%	140,40%	141,76%	84,53%	95,56%	125,53%	151,16%	227,99%	244,18%	172,76%	155,65%	153,23%	150,58%	141,64%	133,74%
Transaction with Shareholders		720.735	1.069.872	1.131.175	1.620.106	(1.707.173)	144.863	729.902	(1.561.791)	273.437	2.154.361	(2.030.688)	(4.355.238)	(4.909.392)	(4.532.757)	(4.759.297)
Payout ratio	0,00%	122,80%	88,26%	60,72%	57,26%	46,29%	-11,68%	-263,57%	-404,38%	-571,24%	-106,18%	58,37%	87,61%	83,25%	73,89%	74,26%
Investment Rate (1-payout ratio)	100,00%	-22,80%	11,74%	39,28%	42,74%	53,71%	111,68%	363,57%	504,38%	671,24%	206,18%	41,63%	12,39%	16,75%	26,11%	25,74%

Core Free Cash Flow

			Historical Period			Current			High Growth Period					Steady State		
	2016A	2017A	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
x Free Cash Flow Map																
Core Result	273.342	712.495	1.330.982	2.110.804	3.693.697	4.561.621	1.934.213	1.234.774	815.158	1.595.317	3.714.942	5.041.692	6.495.553	7.443.991	7.725.468	8.018.219
YoY Growth		160,66%	86,81%	58,59%	74,99%	23,50%	-57,60%	-36,16%	-33,98%	95,71%	132,87%	35,71%	28,84%	14,60%	3,78%	3,79%
Change in Core IC		3.118.642	4.795.579	5.685.454	1.983.884	5.094.624	7.032.213	6.227.981	5.471.700	3.289.148	1.546.417	624.592	1.088.296	1.943.563	1.988.652	2.068.506
Core FCF	273.342	(2.406.147)	(3.464.598)	(3.574.651)	1.709.813	(533.003)	(5.098.001)	(4.993.207)	(4.656.542)	(1.693.831)	2.168.525	4.417.100	5.407.257	5.500.428	5.736.816	5.949.713
% change		-980,27%	43,99%	3,18%	-147,83%	-131,17%	856,47%	-2,06%	-6,74%	-63,62%	-228,02%	103,69%	22,42%	1,72%	4,30%	3,71%
Non Core Result	5.653	29.274	213.425	246.732	(258.059)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)
Change in Non Core IC		(293.482)	(44.751)	51.291	103.779	-	-	-	-	-	-	-	-	-	-	-
Non-core FCF	5.653	322.756	258.176	195.441	(361.838)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)	(112.929)
Free Cash Flow	278.995	(2.083.391)	(3.206.422)	(3.379.210)	1.347.975	(645.932)	(5.210.930)	(5.106.136)	(4.769.471)	(1.806.760)	2.055.596	4.304.170	5.294.327	5.387.499	5.623.886	5.836.783
Financing Result	(97.574)	(154.833)	(332.189)	(494.558)	(606.324)	(760.697)	(581.497)	(844.916)	(1.088.445)	(1.434.521)	(1.572.950)	(1.449.952)	(1.411.541)	(1.433.577)	(1.478.143)	(1.496.194)
Change in Net Debt and Other Claims		1.923.004	3.094.019	3.393.353	(1.395.420)	3.113.802	5.647.565	5.221.150	7.419.707	2.967.844	(2.637.008)	(823.530)	472.452	955.470	387.013	418.708
Change in Equity		902.156	1.656.809	2.343.392	3.483.083	1.980.822	1.384.649	1.006.831	(1.948.008)	321.304	4.183.425	1.448.122	615.845	988.093	1.601.639	1.649.798
Comprehensive Income	(181.421)	(586.937)	(1.212.217)	(1.862.977)	(2.829.314)	(3.687.995)	(1.239.786)	(276.929)	386.217	(47.867)	(2.029.063)	(3.478.810)	(4.971.083)	(5.897.485)	(6.134.396)	(6.409.095)
Financing Cash Flow	(278.995)	2.083.391	3.206.422	3.379.210	(1.347.975)	645.932	5.210.930	5.106.136	4.769.471	1.806.760	(2.055.596)	(4.304.170)	(5.294.327)	(5.387.499)	(5.623.886)	(5.836.783)
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Core ROIC	6,03%	9,31%	10,69%	11,64%	18,36%	18,09%	6,00%	3,21%	1,86%	3,38%	7,62%	10,21%	12,86%	14,20%	14,19%	14,19%
Core RONIC			19,83%	16,26%	27,84%	43,75%	-51,57%	-9,95%	-6,74%	14,26%	64,44%	85,80%	232,77%	87,15%	14,48%	14,72%
Core Growth Rate		160,66%	86,81%	58,59%	74,99%	23,50%	-57,60%	-36,16%	-33,98%	95,71%	132,87%	35,71%	28,84%	14,60%	3,78%	3,79%

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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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