



Netflix, Inc.

(NFLX)



The technology, media, and telecom
(TMT) sector: NFLX-NASDAQ

Current Price: \$327.66 - Target Price: \$385.49 ->
Recommendation: BUY



Presenting Members: Anas Elmangoush, Fiona Trepanier, Ahsan Ayaz, Irene Park
& Zaryab Chaudhry



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Overview**

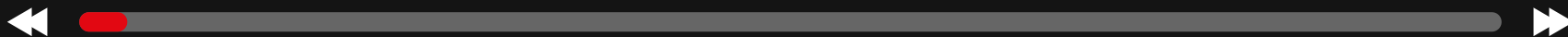
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01

Company Overview

Episode 1: Long, Long
Time





Company Information

Netflix, Inc. Company Information	
Headquarters	Los Gatos, CA
Employees	12,800
Industry	Media
Date Founded	29 August '97
IPO Date	22 May '02

Highlights

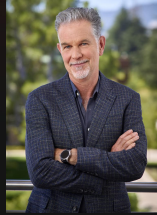
- 231 million subscribers in over 190 countries. Operating as one segment.
- Approximately 12,800 full-time employees located globally in 65 countries.
- Geographic regions: United States and Canada (UCAN), Europe, Middle East, and Africa (EMEA), Latin America (LATAM), and Asia-Pacific (APAC).

Share Price Performance

Annualized Performance (%) As of 12/31/22. Source: Bloomberg. For NFLX, based on IPO price, split adjusted. Total Shareholder Returns basis.				
	1 Year	5 Year	10 Year	Since IPO
NFLX	-51%	9%	36%	31%
S&P 500	-18%	9%	13%	8%
NASDAQ	-33%	10%	15%	10%



Management



Reed Hastings - 26 Yrs

Founder and Executive Chairman



Ted Sarandos - 22 Yrs

Co-CEO



Greg Peters - 15 Yrs

Co-CEO



Scott Stuber - 20 Yrs(Exp)

Chairman of Netflix Film



Bela Bajaria: 7 Yrs

Chief Content Officer





| Recent News & Events



Fitness

Nike Training Club on Netflix Launched Dec. 30.



Live Events

For the first time ever, Netflix streamed a massive global event live - March 4th.



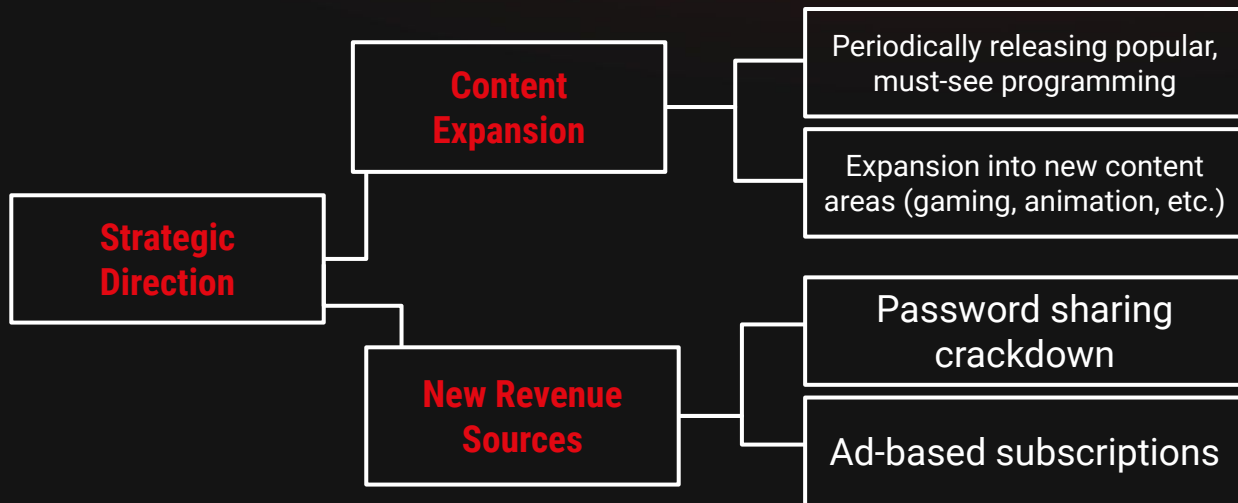
Metaverse

Netflix entered Decentraland metaverse promoted by Ryan Gosling.





| Strategy: How to re-accelerate revenue growth?



Co-CEO Ted Sarandos:
"equal parts HBO and FX and AMC and Lifetime and Bravo and E! and Comedy Central."

Bela Bajaria, Netflix's head of global TV: The company wants to "replace all television."



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| Recent Acquisitions



Targets:	Next Games Oy	Animal Logic	Spry Fox
Date of announcement:	Mar 02, 2022	July 19, 2022	Oct 31, 2022





02

Company Analysis

Episode 2: Endure &
Survive



N SÉRIE
LA CASA DE PAPEL





SWOT Analysis

S

- Financial Performance
- Customer Base
- Geographical Network

**W**

- Lawsuits
- Liquidity

**O**

- Global Movies & Entertainment Industry
- Growth Strategies for achieving Market Synergy
- Partnerships

**T**

- Dependence on Third-Party Vendors
- Security Issues
- Increase in Regulations and Laws





Competitor Analysis

Exhibit 6
Proprietary OTT and Streaming Industry Update
Prominent SVOD Companies

	NETFLIX	hulu	prime video	SHOWTIME	STARZ	apple tv+
Launch Date	January 2007	March 2008	July 2015	April 2016	November 2019	November 2019
Regions	Worldwide	U.S.	Worldwide	U.S.	Worldwide	Worldwide
Pricing ¹	\$6.99 per month: Basic with Ads \$9.99 per month: Basic \$15.49 per month: Standard \$19.99 per month: Premium	\$7.99 per month (or \$79.99 per year): Ad-supported \$14.99 per month: Ad-free	\$8.99 per month for non-Amazon Prime users	\$10.99 per month (Ad-free)	\$8.99 per month (Ad-free)	\$6.99 per month (Ad-free)
	Disney+	peacock	HBO max	discovery+	Paramount+	
Launch Date	November 2019	April 2020	May 2020	January 2021 ²	January 2021 ²	
Regions	Worldwide	U.S.	U.S., Caribbean and Latin America, and Europe	Worldwide	Australia, Canada, Europe, Latin America, and U.S.	
Pricing ¹	\$7.99 per month: Ad-supported \$10.99 per month: Ad-free	\$4.99 per month: Ad-supported \$9.99 per month: Ad-free	\$9.99 per month (or \$99.99 per year): Ad-supported \$15.99 per month (or \$149.99 per year): Ad-free	\$4.99 per month: Ad-supported \$6.99 per month: Ad-free	\$4.99 per month (or \$49.99 per year): Ad-supported \$9.99 per month (or \$99.99 per year): Ad-free	

¹As of January 13, 2023; prices shown in USD.

²U.S. launch date

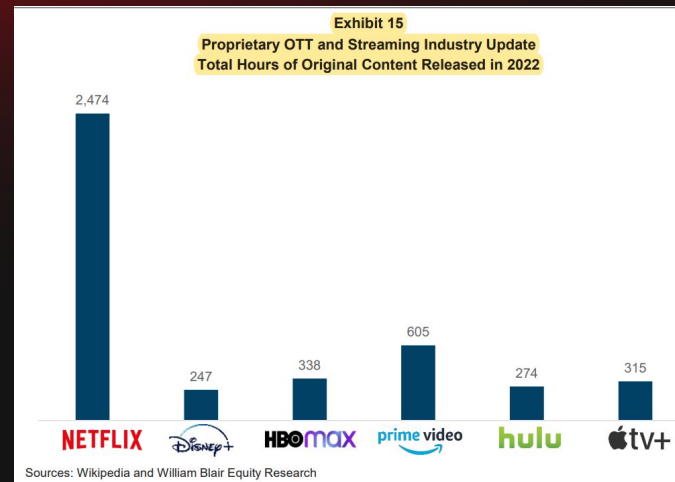
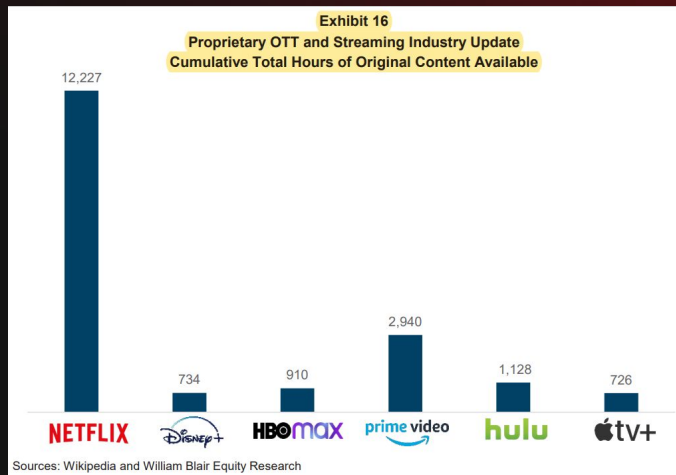
Sources: Company Websites, Variety Intelligence Platform Analysis, and William Blair Equity Research

2022 Top 15 Streaming Programs (Originals)

	Program Name	Originator	Episodes	Mins viewed (Billions)
1	STRANGER THINGS	Netflix	34	52.0
2	OZARK	Netflix	44	31.3
3	WEDNESDAY	Netflix	8	18.6
4	COBRA KAI	Netflix	50	16.7
5	BRIDGERTON	Netflix	16	14.0
6	VIRGIN RIVER	Netflix	42	13.6
7	DAHMER	Netflix	10	13.4
8	LOVE IS BLIND	Netflix	40	13.1
9	INVENTING ANNA	Netflix	9	12.9
10	THE CROWN	Netflix	50	12.7
11	THE BOYS	Prime Video	24	10.6
12	GREAT BRITISH BAKING SHOW	Netflix	85	10.6
13	THE UMBRELLA ACADEMY	Netflix	30	10.5
14	THE LAST KINGDOM	Netflix	46	10.4
15	THE RINGS OF POWER	Prime Video	8	9.4

12/27/2021-12/25/2022 | Rank based on Persons 2+ Minutes Viewed in Billions
Source: Nielsen Streaming Content Ratings (Netflix, Amazon Prime, Disney+, Apple TV+, Hulu, HBO Max (beginning 5/30) and Peacock (beginning 9/26/22), Nielsen National TV Panel, Viewing through Television.





2014
DISNEY: WE
HAVE ESPN!



2023
DISNEY: WE
HAVE ESPN...



imgflip.com

TECH · APPLE TV

Apple secures exclusive rights to stream Major League Soccer in \$250 million deal

YouTube secures \$14bn NFL streaming deal as Big Tech chases sports rights

Amazon's Thursday Night Football deal will start early





Favorable changes in comparison to FY 2021:



Sales revenue increased by 6.5% from \$29.7 billion to \$31.6 billion.



Sales and marketing expenses to sales went down from 8.6% to 8%.



Debt to equity went down 28.9% from 1.0 to 0.7.



The current ratio increased by 23.2% from 0.9 to 1.2.



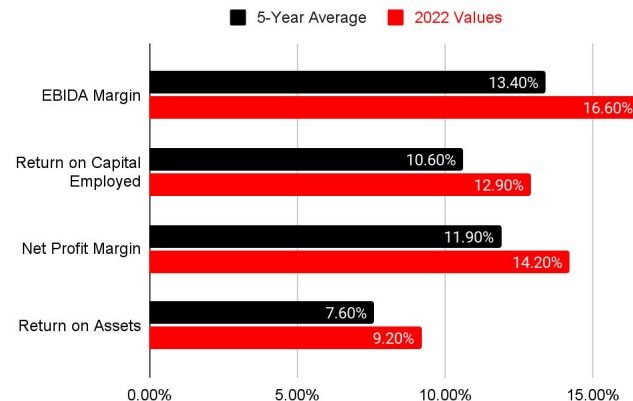
Retained earnings to total assets increased by 6.9% from 28.5% to 34.4%.

FINANCIAL ANALYSIS

5-Year CAGR:

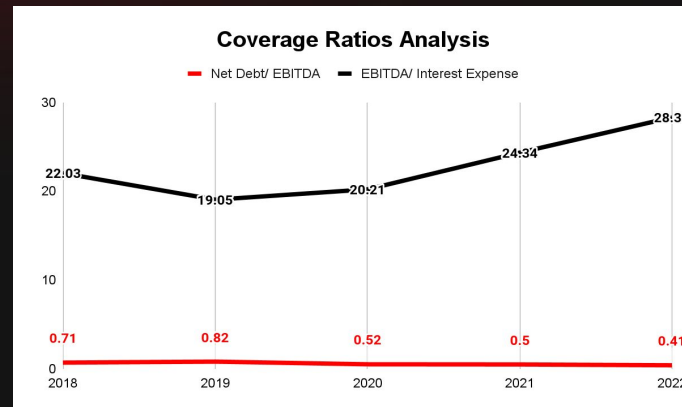
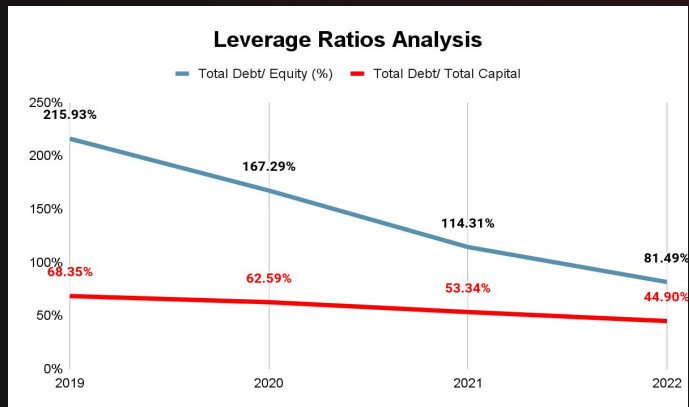
- Total Revenue: 22%
- EBITDA: 48.7%
- Operating Profit: 48.7%
- Net Profit: 51.7%

5-Year Record of Financial Margins





FINANCIAL ANALYSIS



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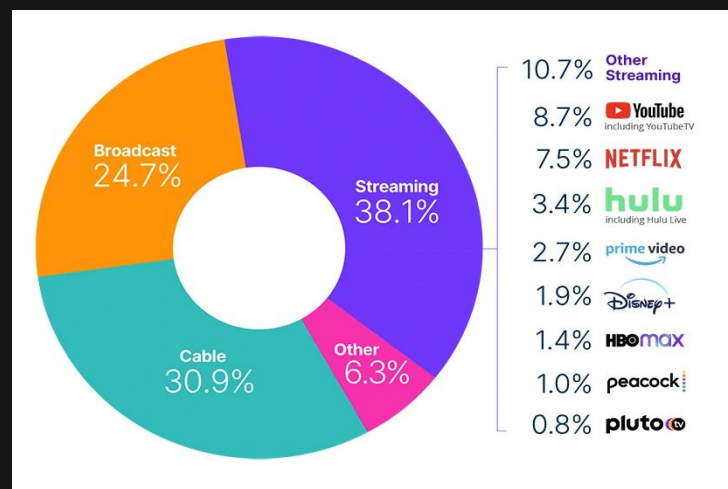
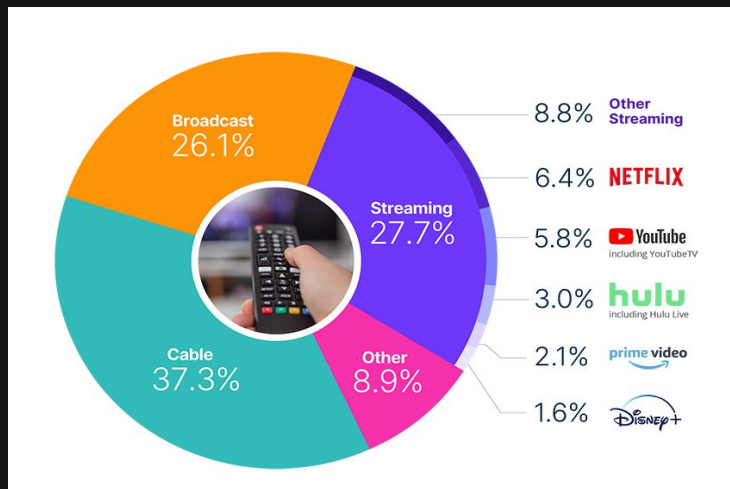
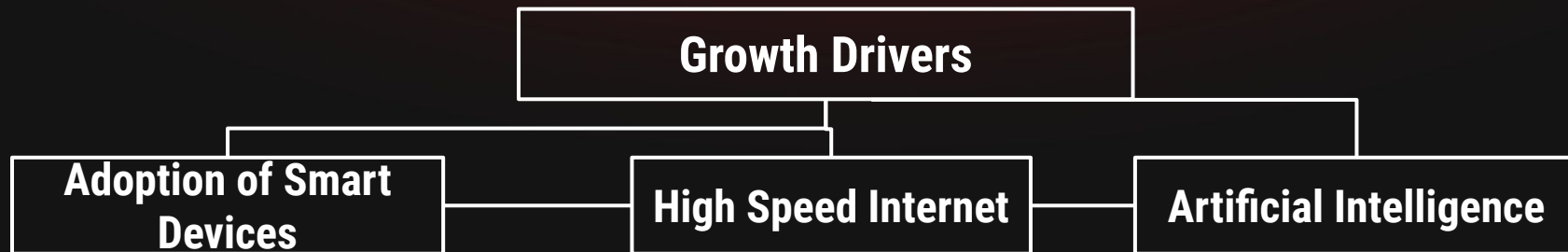
Industry Outlook & Analysis

Episode 3: Why We Fight





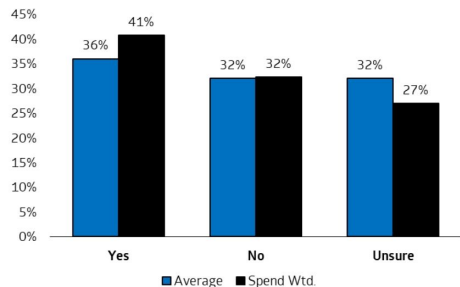
Industry Trend 1: Cord-Cutting (Left: 2021 & Right: 2022)





Industry Trend 2: Ads & Media Spending

Do You Expect Your Client to Advertise on Netflix in 2023? (%) - Avg & Spend Weighted



Source: Cowen and Company Proprietary Ad Buyer Survey, Dec 2022 (n=50).

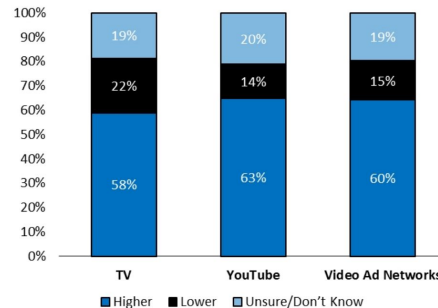
More Than a Third of Ad Buyers Plan to Spend on Netflix.

Yes: 41%

No: 32%

Unsure: 27%

How Do You Expect Netflix CPMs to Compare to Pricing on Other Platforms? (%) - Spend Weighted



Source: Cowen and Company Proprietary Ad Buyer Survey, Dec 2022 (n=50).

Ad Buyers Expect Higher CPMs on Netflix When Compared to Other Video Platforms.

NFLX CPM > TV: 58%

NFLX CPM > Youtube: 63%

NFLX CPM > Video Ad Networks: 60%





Industry Analysis: Porter's 5 Forces

Buyer Power (Moderate)

- Simple to start, end and switch a subscription.
- Consumers not limited to one subscription.

Supplier Power (Low - Moderate)

- Some content -> external firms with licensing structure.
- Supplier switching cost is time-consuming and inefficient.

Threat of Substitution (Moderate)

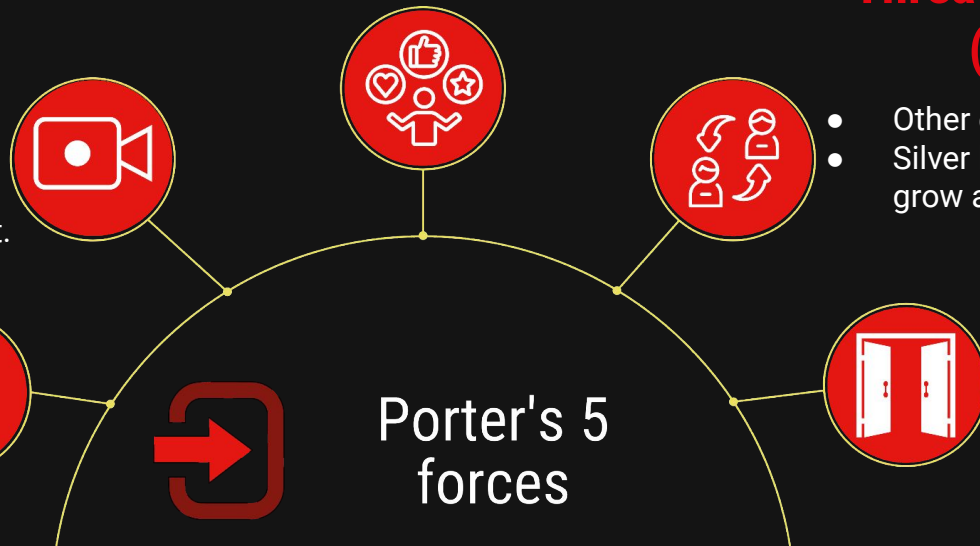
- Other entertainment options
- Silver lining: Netflix has room to grow and expand its market share

Rivalry (Moderate/High)

- Very Intense short-term
- Long run -> Industry shakeout

Threat of Entry (Low)

- Start-up costs
- Licensing fees
- Regulations
- Brand building



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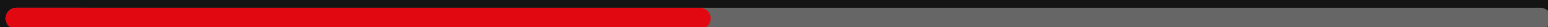
04

Investment

Thesis



Episode 4: Look for the Light





| The Three Musketeers

**Strong Growth Opportunities
for (SVOD) Services**

New Revenue Streams

**Strong Cash Flow Business
Model**





Thesis 1: Strong Growth Opportunities for (SVOD) Services

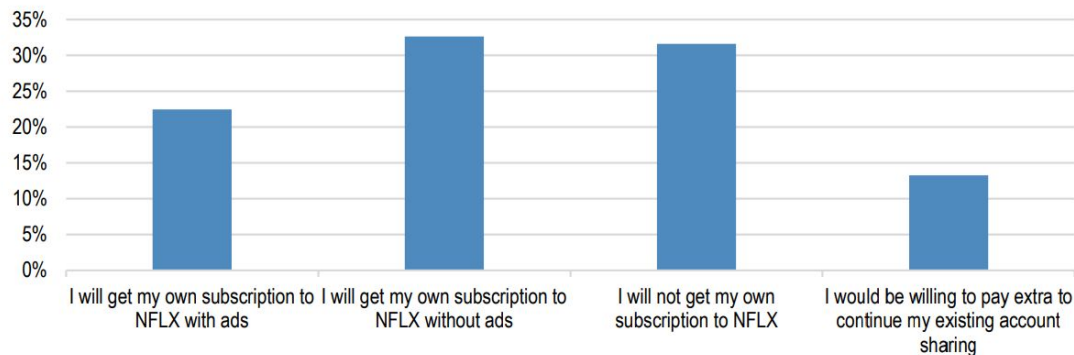
	Opportunity #1: Embrace Interactive Experiences	Opportunity #2: Diversify Service Offerings to Add Value for the Customer	Opportunity #3: Produce Local Content to Boost Demand
Context & Definition	Younger generations choose digital entertainment options that are more social and interactive.	Customers may be more willing to pay for a subscription if they have access to multiple services.	Some regional markets have their own video consumption patterns with higher demand for local content.
Call to Action	Netflix must integrate technologies, such as virtual reality, that make the streaming experience more immersive and interactive.	Netflix must integrate their services with other complementary entertainment options -> Netflix becomes more appealing to customers and reduce subscriber churn.	Netflix must differentiate by having exclusive, locally produced catalogues on their platforms.





I Thesis 2: Password-Sharing Revenue Stream

Figure 2: Among Netflix password sharers: "Once my sharing is limited..."



Source: J.P. Morgan.

Oppenheimer Research: "Depending on the recapture rate, we see \$2–8B revenue upside representing 6–23% of our '23 revenue estimate"

UCAN Password Sharing Adoption		Annual (Base)
UCAN Password Sharing HHs (MM)		30
x Sharer would pay to maintain access		13.0%
= Paid Sharing Members (MM)		3.90
x Monthly Fee		\$7.99
x Months		12
= Paid Sharer Revenue: New Paid Sharer (MM)		373.9
UCAN Password Sharing Adoption		Annual (Base)
UCAN Password Sharing HHs (MM)		30
x Sharer's get a plan with ads		22.0%
= Paid Sharing Members (MM)		6.60
x UCAN Ads Plan Price		6.99
x Months		12
= Paid Sharer Revenue: New Paid Sharer (MM)		553.6
UCAN Password Sharing Adoption		Annual (Base)
UCAN Password Sharing HHs (MM)		30
x Sharer's get a plan with ads		33.0%
= Paid Sharing Members (MM)		9.90
x UCAN Regular Price		9.99
x Months		12
= Paid Sharer Revenue: New Paid		1,186.8
Total UCAN Revenue from Paid Sharing Initiative (MM)		2,114.4





| Thesis 2: AD Revenues Projections - UCAN (2023 - 2032)

589	Averages -> BASE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
590	Streaming hours per sub per day		1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
591	Streaming hours per sub per month		45	45	45	45	45	45	45	45	45	45
592	Number of months		12	12	12	12	12	12	12	12	12	12
593	AVoD AVG		7.40	14.50	19.20	20.70	25.73	33.24	41.18	49.58	58.45	60.24
594	streaming hours (mm)		3,996.0	7,830.0	10,368.0	11,176.0	13,893.8	17,951.5	22,238.2	26,772.9	31,563.0	32,531.4
595	Y/Y Growth:			95.9%	32.4%	7.8%	24.3%	29.2%	23.9%	20.4%	17.9%	3.1%
596	Ad ARPU and Revenues											
597	CPM		45	47.5	50	52.5	55	57.5	60	62.5	65	67.5
598	Spots per hour		8	8	8	8	8	8	8	8	8	8
599	Value per spot (mm)		179.82	371.93	518.40	586.74	764.16	1032.21	1334.29	1673.30	2051.59	2195.87
600	Revenue potential		1438.56	2975.40	4147.20	4693.93	6113.26	8257.71	10674.32	13386.44	16412.75	17566.96
601	Sell out ratio		60%	61%	63%	64%	65%	66%	68%	69%	70%	70%
602	Rev share w/ Ad partners		20%	19.5%	19.0%	18.5%	18.0%	17.5%	17.0%	16.5%	16.0%	15.0%
603	= UCAN Ad-revenue (MM)		690.5	1467.1	2099.5	2438.8	3258.4	4513.4	5980.3	7684.7	9650.7	10452.3
604	Y/Y Growth:			112.5%	43.1%	16.2%	33.6%	38.5%	32.5%	28.5%	25.6%	8.3%
605	Ad ARPU, \$/mo		7.8	8.4	9.1	9.8	10.6	11.3	12.1	12.9	13.8	14.5
606	Ad ARPU - ANNUAL		93.3	101.2	109.4	117.8	126.6	135.8	145.2	155.0	165.1	173.5
607	Total UCAN AVOD streaming revenues		1289.9	2683.3	3758.3	4280.5	5616.7	7651.8	9984.8	12650.4	15680.5	16853.6
608	Y/Y Growth:			108.0%	40.1%	13.9%	31.2%	36.2%	30.5%	26.7%	24.0%	7.5%





Thesis 3: Promising Cash Flow Business Model

2022 FCFF: \$1.6 Billion

Surpassing \$1B target

2023 FCFF: \$3 Billion

Management Estimate

2022 Operating Margins: 18%

2017: 7%
2023 Mgt Estimate: 18 - 20%

Target Debt Balance: \$10B - \$15B

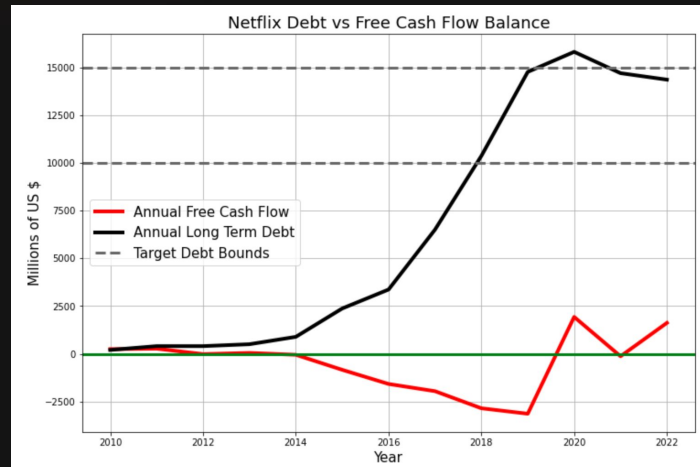
Current Debt: 14.3B
Last two years: Zero Borrowing

Acquisitions - Cash Funded

"We no longer have a need to raise external financing to fund our day-to-day operations."

Share Repurchase Program (\$5 Billion)

Netflix already used over \$724 million to repurchase shares.



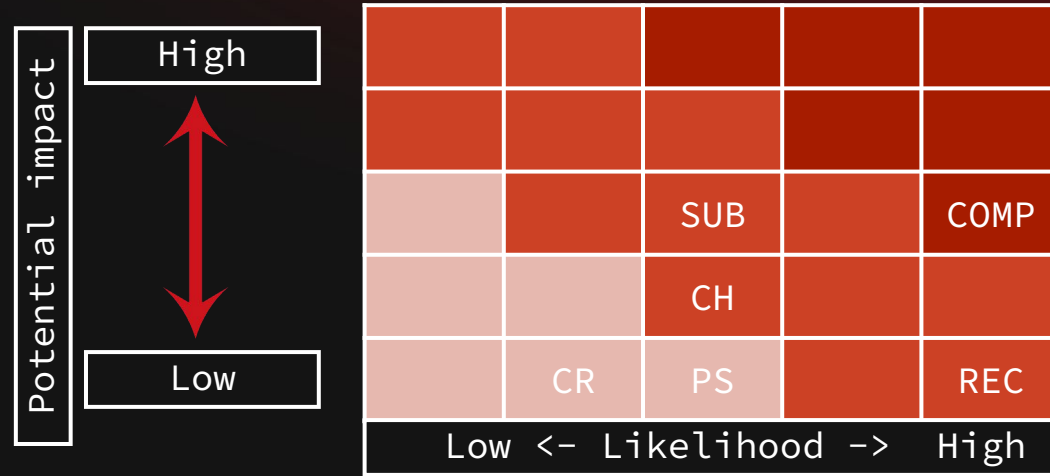


05

Risks & Mitigants

Episode 5: When You're
Lost in the Darkness





- COMP -> Competition
- SUB -> Subscriber Growth
- REC -> Recession
- PS -> Password Sharing
- CH -> Currency Hedging
- CR -> Cyber Risk

MITIGANTS

Competition: Challenging to build a large and profitable streaming platform + entertainment market is enormous

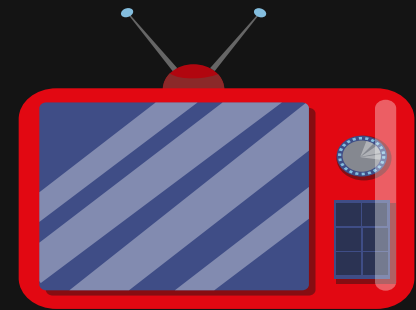
Password Sharing: Gains > Costs

Subscriber Growth: International markets + decline in linear TV

Recession: 'anchor tenant' for consumers in video streaming

Cyber security + Piracy: Systematic and rare

Currency risk: Financial derivatives - hedging

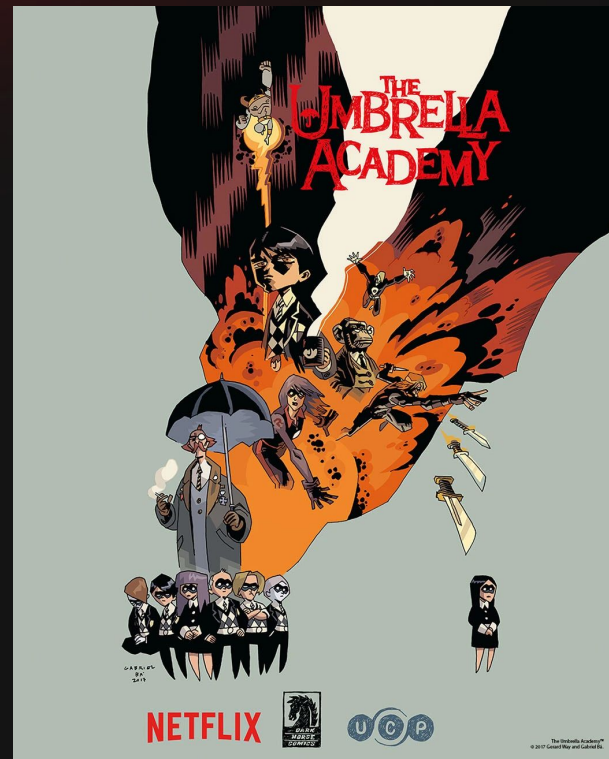




06

Valuation

Episode 6: Numbers
- Hold My Hand

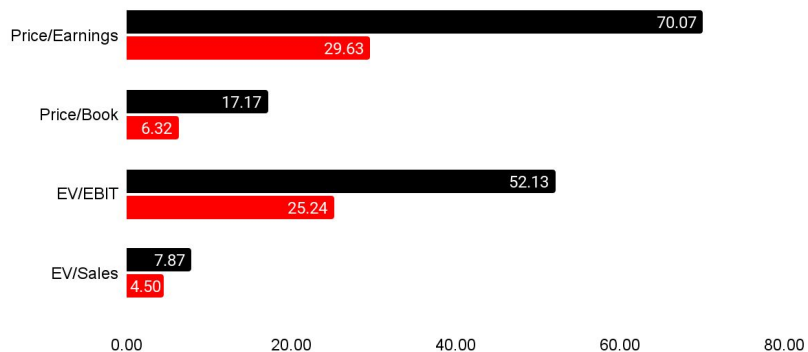




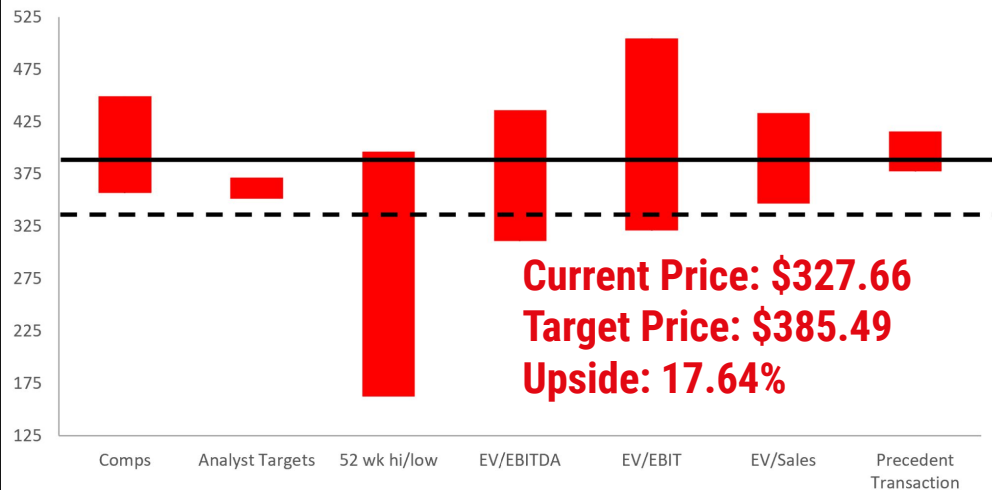
- 60% weight on DCF (Three exit multiples), 20% on Analyst Targets, 10% on Comps, and 10% on Precedent Transactions.
- Team's calculated WACC is 9.75%, close to FactSet estimate. 2022 ROIC is 12.78%, making the stock attractive.
- Looking at historical valuations, most 2022 valuation ratios are less than 5-YR averages -> undervalued considering the rise of FCFF and bright industry outlook.

Netflix Valuation Ratios

■ 5-Year Average ■ 2022 Values



NFLX Football Field Valuation





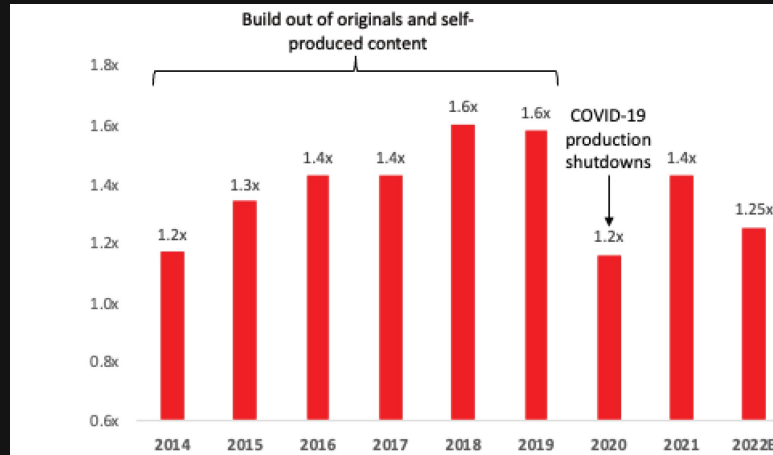
Forecasting Assumptions

Forecasting Revenue

1. Forecast AVG worldwide subscribers (2023 - 2032) and break it down for each of the four geographic regions.
2. Each region, break further into AVoD and SVoD subscribers.
3. Forecast average monthly revenue per user (ARPU) for each region and for both, SVoD & AVoD.
4. Forecast password sharing monetization & AD revenues.


Cash content Spend-to-Content Amortization Ratio

- Management: “expected to be about 1.25 in 2022 and to **decline going forward.**”





| Bear & the Bull

	Bull Case	Base Case	Bear Case
	Faster international subscriber growth, faster timeline for 1.0 ratio, slight reduction in cost of revenues, better password sharing monetization, higher long-term ad revenues due to in house capabilities + more.	Aligning with management guidance + neutral approach in analysis and research.	Slower international subscriber growth, slower timeline for 1.0 ratio, slight increase in cost of revenues, slower password sharing monetization, lower long-term ad revenues due fall in CPM's.



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Bonus: Home Run

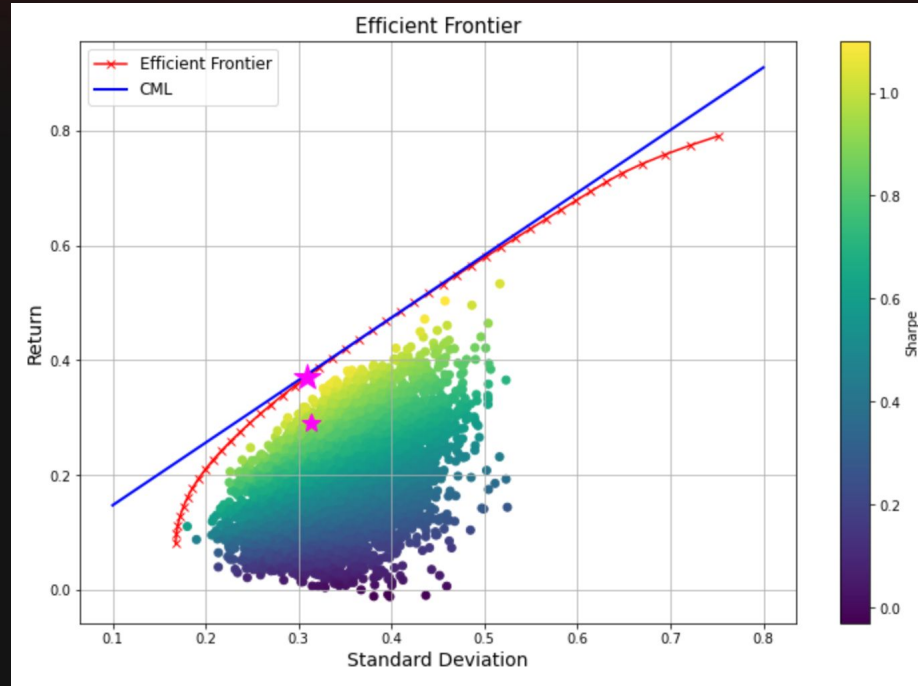
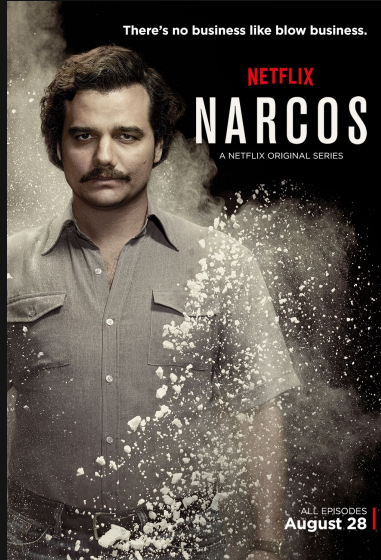
Epilogue: The Endgame



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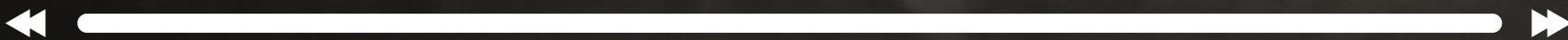
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THANK YOU FOR LISTENING!





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*Contact Anas Elmangoush for list of works
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