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Netflix Stock Valuation

Jingyuan Fu

Abstract

The COVID-19 pandemic wrought significant changes in people's lifestyles, leading them to turn to entertainment options, with online streaming emerging as a popular choice during quarantine periods. In the initial half of 2020, Netflix experienced a surge, gaining over 26 million global subscribers (ACCA, 2020). This surge was mirrored in its stock price, skyrocketing from $287 per share in September 2019 to $690 in October 2021. Despite a subsequent decline to $482 as of January 2024, the stock still maintains nearly double its value from five years ago. As the pandemic's influence wanes and more leisure options become available, questions arise about the justifiability of Netflix's current stock valuation. This report employs two approaches to assess the fairness of Netflix's stock: discounted cash flow valuation (DCF) and comparable companies analysis (CCA). The DCF method indicates a slightly lower intrinsic value than Netflix's current stock price by half a dollar. The CCA model, utilizing data from Netflix and its six major competitors' annual reports spanning 2017 to 2023, including the pre and post-pandemic periods, suggests that Netflix is significantly overvalued. Considering Netflix's overall trend and underlying assumptions, the conclusion is drawn that Netflix's stock price is overvalued.

Keywords: Netflix, stock valuation, company analysis

Business and Financial Strategy

Business Summary

Netflix, Inc. is a global entertainment powerhouse, boasting around 231 million paid memberships spanning over 190 countries. These members indulge in a diverse array of TV series, films, and games across various genres and languages. The company strongly emphasizes ensuring optimal member experiences, granting them the flexibility to subscribe, pause, or cancel plans at their convenience. Netflix's central strategy is expanding its global footprint while adhering to specified operating margin targets. The commitment to enhancing member satisfaction remains unwavering, achieved through the continuous delivery of captivating content that delights existing members and attracts new ones. Additionally, Netflix actively fosters conversations around its content to elevate the overall joy of its members. The company consistently evolves its user interface to help members discover content that aligns with their preferences.

The landscape of entertainment video is fiercely competitive and constantly evolving. Netflix engages in competition across a wide spectrum of activities that are vying for consumers' leisure time. This includes contending with other entertainment video providers such as linear TV, streaming services, and gaming. Moreover, it competes on a broader scale against various sources of entertainment like social media, all of which are potential choices for its members during their free time. In the quest for content, Netflix faces competition from other entertainment video providers and content producers, whether for licensed or original projects. While consumers may simultaneously juggle relationships with multiple entertainment sources, Netflix strives for its platform to be the preferred choice during those precious moments of free time, a goal often referred to as "winning moments of truth." To achieve this, the company focuses on continuously improving its service, encompassing advancements in technology and enhancing content offerings.

Risk Factors

Risk factors encompass various elements or conditions that can threaten a company's operations, financial well-being, and overall success. These factors represent uncertainties or events that could adversely impact a company's ability to achieve its objectives. Identifying, assessing, and managing these risk factors are integral to effective corporate governance and strategic planning.

In the subsequent sections, Netflix's risk factors are categorized using a top-down approach into three segments: general, industry, and company. The general section highlights the prominent risks most companies face in the current economic circumstances. The industry section delves into risks specific to entertainment and streaming companies. Finally, the company section details risks that are specifically pertinent to Netflix.

General

Global Pandemic Impact. The global pandemic and the ensuing responses have ushered in considerable uncertainty, instability, and economic upheaval. Potential disruptions to employees' work and travel, restrictions on gatherings, and elevated costs linked to various business processes contribute to the existing uncertainties (Netflix Form of 10-K, 2023). These disruptions directly impact companies' cost structures and overall operational results. COVID-19 has prompted adjustments in business operations, including alterations in content production, driven by directives from authorities or the companies' decisions in the best interests of stakeholders. The effects of such changes on the business, members, suppliers, vendors, and financial results remain uncertain. Additionally, the enduring repercussions on the global economy, shaped by responses to COVID-19, may influence consumers' willingness or ability to pay for services and vendors' capacity to provide essential services, potentially leading to adverse effects on business and operational outcomes.

International Operation. Netflix grapples with many intricate challenges in its global operations, encompassing the meticulous adaptation of content and user interfaces to diverse cultural nuances. The complexities extend to staffing, management, and compliance with varying laws, including the Foreign Corrupt Practices Act and the UK Bribery Act (Netflix Form of 10-K, 2023). Adherence to local regulations, particularly concerning ownership requirements for streaming content providers, adds additional complexity. Political, economic, and social uncertainties further complicate the international landscape, leading to the constant threat of disruptions in specific jurisdictions due to regulatory requirements or government actions. Foreign intellectual property laws, currency exchange rates, payment processing systems, censorship, internet connectivity, and privacy laws contribute to the intricate challenges. Netflix also contends with trade disputes, piracy concerns, and regulations promoting local content production. Effective management of these challenges is imperative, as failure to do so could significantly impact the company's international operations and overall business outcomes, necessitating a vigilant and adaptable approach to strategic execution.

Privacy. Safeguarding privacy is integral to ethical business conduct, fostering trust, loyalty, and the overall prosperity of both customers and the company. Any substantial disruption or unauthorized access to the computer systems of companies or their partnered third parties, whether due to cybersecurity issues or cyber-attacks, could lead to service disruptions, unauthorized disclosure of data (including member and corporate information), or the theft of intellectual property, such as digital content assets.

Industry

Competitive Offerings. The entertainment market is characterized by intense competition and swift changes, providing consumers with an expanding array of options through new and established distribution channels. These channels operate on diverse economic models, encompassing subscription, transactional, ad-supported, and piracy-based approaches, each capable of securing substantial segments of the entertainment video market. Traditional providers such as broadcasters, cable network operators, and internet-based e-commerce or entertainment video providers are actively expanding their streaming video services (Netflix Form of 10-K, 2023). Many competitors boast extensive operating histories, large customer bases, robust brand recognition, exclusive content rights, extensive content libraries, and considerable financial, marketing, and other resources. This dynamic landscape underscores the need for online streaming platforms to navigate a fiercely competitive environment and continually evolve to meet consumer demands.

Government Regulations & Tax. As government regulations evolve, especially in the internet and entertainment sectors like streaming services, Netflix must adapt its business practices or confront heightened operating expenses. In the United States, discussions involve the potential introduction of a 4% state sales tax on streaming services, and Chicago has already implemented a 9% subscription tax in 2015 (Vlessing & Roxborough, 2023). On the other hand, the major regions where Netflix operates outside the United States, namely Canada and Europe, are actively working to safeguard their local content. The country's goods and services tax is considered for adding to streaming services in Canada.

Meanwhile, in Europe, national governments are implementing the Audiovisual Media Services Directive (AVMSD) to create a unified regulatory system for all media content, from over-the-air live TV to streaming video-on-demand. Significantly, this directive mandates that any European streaming service must include at least 30 percent European content on its platform. These potential regulations present challenges for Netflix, potentially increasing its operating costs as a global corporation (Vlessing & Roxborough, 2023). Hence, these alterations might pose challenges for Netflix's operations.

Liquidity. The online video streaming industry heavily relies on elevated fixed costs (Netflix Form of 10-K, 2023). The substantial fixed costs in streaming encompass significant upfront investments in content creation, licensing, and infrastructure. These costs are integral to acquiring or producing original content, securing diverse licensing deals, and maintaining a robust streaming platform. The strategic adoption of high fixed costs allows companies in the industry to present a broad and diverse content library, attract a sizable subscriber base, and effectively compete in the dynamic streaming market.

Company

Attract & Retain Subscribers. The success of Netflix's business is intricately tied to its effectiveness in attracting and retaining members (Netflix Form of 10-K, 2023). Given that Netflix's primary revenue source is subscription fees to its platform, constantly adding new members is essential to replace canceled memberships and expand the business beyond the existing membership base. The company's ability to attract and retain members globally hinges on its consistent delivery of compelling content choices that engage members, foster active discussions around its content and service, and provide a high-quality experience for selecting and enjoying TV series, films, and games. Additionally, the competitive landscape, encompassing service levels, content offerings, pricing, and related features offered by competitors, can adversely impact Netflix's ability to attract and retain members. As a result, Netflix must offer its users content that is of high quality and provides substantial value.

Positive Reputation. A favorable reputation is pivotal in attracting and retaining members for Netflix (Netflix Form of 10-K, 2023). Failure to uphold a positive image regarding the service and content provided may expose Netflix to regulatory scrutiny, potentially adversely impacting its operating results.

Technology Disruptions. Netflix employs a blend of proprietary and third-party technology to conduct its business. This encompasses developing technology to recommend and showcase content to consumers, facilitating swift and efficient content delivery to members across various consumer electronic devices. The failure, unavailability, or underperformance of the technology integral to Netflix's operations could adversely affect its business and operations. As an illustration, Netflix relies on Amazon Web Services for specific aspects of its service, and any disruption or interference with its use of Amazon Web Services would significantly impact operations, leading to adverse effects on the overall business (Netflix Form of 10-K, 2023).

MD&A and Financial Strategy

Sales Revenue

Netflix operates under a unitary corporate structure, functioning as a solitary operating segment that garners its primary revenues from monthly membership fees linked to streaming content for its members. Since its journey in 1997 as a DVD rental company, Netflix has evolved significantly. In the early 2000s, it introduced the groundbreaking pre-rental DVD model before eventually transitioning to streaming services in 2007. While still maintaining a segment of its DVD rental business, an overwhelming majority—surpassing 99%—of its revenue is now derived from streaming services. The proportion of revenue from DVD rentals has consistently diminished year over year, as depicted in Appendix A, Figure A1. In terms of regional breakdown, as of the end of 2022, 44.8% of its streaming revenue emanates from the United States and Canada, 31.0% from Europe, the Middle East and Africa, 12.9% from Latin America, and 11.3% from Asian-Pacific regions (Appendix A, Figure A2). The streaming revenue in all regions showcases a notable increase from 2020 to 2022 (Appendix A, Figure A3).

Gross Margin

Gross margin, a financial metric gauging the profitability of a company's primary business operations, is calculated by determining the disparity between its revenue and the cost of goods sold (COGS). A heightened gross margin signifies a company's adeptness at efficiently covering production costs and retaining a larger share of revenue as gross profit. In the case of Netflix, its gross margin has demonstrated stability within the 30-40% range. The margin has exhibited an upward trajectory, ascending from 31.30% in 2017 to 39.49% in 2023, as depicted in Appendix B, Figure B1. Notably, the gross margin reached its zenith in 2021, peaking at 41.64%. This surge coincided with the impact of the COVID-19 pandemic, wherein increased homestay led to a greater utilization of online entertainment resources.

Operating Margin

Operating margin, a key financial metric assessing a company's profitability, measures the proportion of revenue contributing to operating income, excluding specific non-operational expenses like interest and taxes. A heightened operating margin reflects the company's proficiency in efficiently managing operational costs and generating profit from core activities. Conversely, a lower operating margin may indicate challenges in controlling costs or generating revenue from core operations. In the context of Netflix, its operating margin is ascending, rising from 7.17% in 2017 to 18.35% in 2023. Aligning with the gross margin trend, the operating margin peaked in 2021 at 20.86% (Appendix B, Figure B2).

Value Drivers

Value drivers influence a business's overall success and worth, pivotal in enhancing its performance, profitability, and competitive stance. A company's value is determined by evaluating the rate of return in conjunction with the balance between risk and growth potential. Strategies to augment a company's value include improving profits, cutting costs, or accelerating growth. Appendix C visually represents a business life cycle (CFI, 2023). Upon scrutinizing the figure, Netflix is presently in the growth stage, characterized by substantial sales expansion from 2017 to 2020, showcasing an average revenue growth rate of 26.38%.

Consequently, the primary value driver for Netflix during this period is its notable growth rate, which is evident in the upward trends of gross profit, operating profit, and net income (Appendix B, Figure B1). However, the year-over-year revenue growth has decelerated in 2021, maintaining single-digit figures. This slowdown suggests that Netflix is approaching the shake-out stage, indicating an anticipated slowdown in revenue growth (Appendix C). Therefore, Netflix should prioritize maximizing its returns at this stage as it moves closer to the mature stage.

Industry Analysis

Netflix, Inc. specializes in delivering entertainment services and provides a diverse range of leisure activities. As classified by Yahoo Finance, Netflix falls within the communication services sector and the entertainment industry. This report focuses on Netflix as an online streaming service, analyzing its position in the competitive landscape. Prominent rivals in this sector comprise Apple (Apple TV), Amazon (Amazon Prime Video), Comcast (Xfinity Instant TV), Disney (Disney+ and Hulu), Alphabet (YouTube), and Warner Bros (HBO). While all of them are leading providers of popular streaming services, it's worth noting that some of the listed competitors may have diverse operations beyond the entertainment industry.

Ratio Analysis

Current Ratio

The current ratio serves as a financial metric, gauging a company's capability to meet its short-term obligations with its immediate assets. Netflix boasts the highest current ratio at 1.29 (Appendix D, Table D1). A current ratio surpassing 1 signifies that the company possesses more current assets than current liabilities, indicative of robust short-term financial health.

Return on Assets

Return on Assets (ROA) is a financial metric assessing a company's effectiveness in leveraging its assets for profit generation. The calculation divides the company's net income by its average total assets. According to Investopedia, a ROA exceeding 5% is considered good, and an ROA surpassing 20% is deemed excellent (Hargrave, 2022). Netflix demonstrates a ROA of 7.74%, outperforming most of the competitors listed, with exceptions such as Apple and Google (Appendix D, Table D1). Positioned slightly above the 5% benchmark, Netflix efficiently utilizes its assets to generate profits.

Return on Equity

Return on Equity (ROE) is a financial metric gauging a company's profitability by evaluating how efficiently it employs shareholders' equity to yield returns. Calculated by dividing the company's net income by its average shareholders' equity, a higher ROE is generally considered advantageous, signifying effective use of equity for generating returns. In comparing Netflix's ROE to its competitors, it surpasses all except Apple and exceeds the industry average of 0.10% (Appendix D, Table D1). This underscores Netflix's efficiency in utilizing shareholders' equity to generate favorable returns.

P/E Ratio (TTM)

The trailing P/E, or price-earnings ratio, assesses the investor's spending for every dollar of annual net income and is calculated by dividing the current price by past earnings. As of January 9th, 2023, Netflix's trailing P/E is 48.31. This figure surpasses all its competitors except Amazon and Disney. Furthermore, it exceeds the entertainment industry's average P/E ratio of 31.17, indicating a potential perception of the company's stock as overvalued or signaling investors' anticipation of strong future growth rates.

Operating Margin

The preceding section of this report delved into Netflix's operating margin. This section will now juxtapose Netflix's operating margin with the industry's. Appendix D, Table D2 outlines the annual operating margin for Netflix and its six competitors, while Appendix D, Figure D1 visually represents the data, elucidating the operating margin trend for each company. Netflix's operating margin is notably high and stable compared to its competitors. Despite the evident decline in Disney and Warner Bros' operating margins in 2020 and 2022, respectively, Netflix has managed to sustain its high margin and foster growth simultaneously.

SWOT Analysis

SWOT analysis is a strategic planning tool employed to assess an organization or project's strengths, weaknesses, opportunities, and threats. It aids organizations in gaining a deeper comprehension of their internal and external landscapes, facilitating informed decision-making. This, in turn, enables the development of strategies that capitalize on strengths, address weaknesses, seize opportunities, and counteract threats. The report delves into specific examples within each category, as Appendix E outlines.

Strengths

Original Content. Netflix offers a broad and varied selection of films, TV series, documentaries, and exclusive content, catering to a diverse audience with different tastes and preferences. The platform's commitment to original programming is a significant asset, with highly praised and widely popular shows such as *Stranger Things*, *The Crown*, and *Narcos* playing a pivotal role in attracting and retaining subscribers.

Global Presents. With a presence in over 190 countries, Netflix boasts an extensive global reach, enabling it to engage with diverse markets and cultures.

User Data & Recommendation Algorithm. Netflix's intuitive interface and advanced recommendation algorithm elevate the user experience, fostering engagement and facilitating seamless content discovery. The vast amount of user data also empowers Netflix to create movies and series tailored to the most popular genres.

Weaknesses

Licensing Costs. Netflix relies on licensed third-party content rather than owning most of its offerings. Securing licensing rights for external content can be costly, influencing the company's profit margins and potentially necessitating subscription fee adjustments. Additionally, there's a risk of content providers discontinuing collaboration with Netflix.

Dependency on UCAN. While Netflix operates globally, it heavily depends on the North American market. As illustrated in Appendix A, Figure A2, more than 48% of its total revenue, totaling $14,084.64 million, is generated within North America. This reliance on a single market could pose challenges, particularly as the market approaches saturation.

High Priced Membership. Netflix increased the prices for its basic plan (no longer available to new subscribers) to $11.99/month and premium plan to $22.99/month, up from $9.99 and $19.99, respectively. Despite Netflix's claim that the new pricing remains highly competitive with other streaming services, skepticism arises as Appendix F illustrates the monthly fees of major U.S.-based streaming services, with Netflix ranking as the highest in all categories (Maas, 2023).

Opportunities

Partnerships and Collaborations. Strategic partnerships with other media companies or tech giants could provide opportunities for exclusive content deals or innovative collaborations, strengthening Netflix's position in the market.

Niche Marketing. Netflix has the potential to collect data on the diverse geographical locations of its subscribers and integrate region-specific content to cater to the preferences of different members.

Threats

Government Regulations. As discussed in the risk section of this report, changes in regulations related to the streaming industry, content censorship, or data privacy could pose challenges for Netflix's operations in various regions.

Piracy Issues. As mentioned in the risk section, the illegal distribution of content threatens streaming services, potentially impacting revenue and subscriber numbers.

Competition from New Entrants. Technology and gaming companies may opt for a horizontal expansion into online streaming services. The continuous influx of new streaming services challenges Netflix's market share, as consumers might opt for alternative platforms that offer compelling content.

Change in Consumer Preferences. Changes in consumer behavior or preferences, like a shift towards shorter-form content or different genres, can influence Netflix's viewership. Moreover, with the waning impact of COVID-19, customers may choose to engage in other activities during their free time, such as traveling. These shifts in lifestyle pose threats to Netflix.

Valuation

This section evaluates Netflix's current stock price using two approaches: the discounted cash flow (DCF) method and comparable companies analysis (CCA). The DCF method estimates the investment's value based on projected future cash flows, adjusting them to their present value and considering the time value of money. This acknowledges that a dollar received in the future is less valuable than a dollar today due to factors like inflation and the opportunity cost of not investing elsewhere. On the other hand, comparable companies analysis involves assessing the target company's financial metrics compared to similar publicly traded companies. This report employs two multiples, price-to-earnings (P/E) and price-to-sales (P/S), for this analysis.

Discounted Cash Flow (DCF)

The discounted cash flow model in Appendix G, Table G1, is based on specific assumptions. Firstly, all values used in the calculation reflect year-end 2022 data. Secondly, a tax rate of 15%, consistent with Netflix's 2022 year-end report, is assumed. Lastly, a terminal growth rate of 3%, representing the inflation rate, is applied. The outcome of this model indicates an intrinsic value of $481.53 per share, closely aligning with Netflix's current stock price of $482.09 as of January 9th, 2024. This suggests that Netflix's stock is reasonably priced, with the actual price slightly exceeding the predicted intrinsic value by half a dollar.

Comparable Companies Analysis (CCA)

Appendix G, Table G2 assesses Netflix's stock price through its performance measures and multiple comparables with its competitors. The Price-to-Earnings (P/E) and Price-to-Sales (P/S) multiples suggest that Netflix is overvalued. Most of the target price range falls between $100 and $400, indicating a substantial undervaluation compared to Netflix's current stock price.

A thorough examination incorporating discounted cash flow modeling and comparable multiples like the Price-to-Earnings (P/E) and Price-to-Sales (P/S) ratios consistently points toward an overvaluation of Netflix's stock price. Despite the discounted cash flow model revealing an intrinsic value closely aligned with the actual stock price, an overvalued trend persists. The assessment using industry competitors and their P/E and P/S multiples further solidifies the notion of overvaluation. Given that most target prices are considerably lower than the current stock price, investors may want to exercise caution and reconsider their positions in light of these discerning findings.

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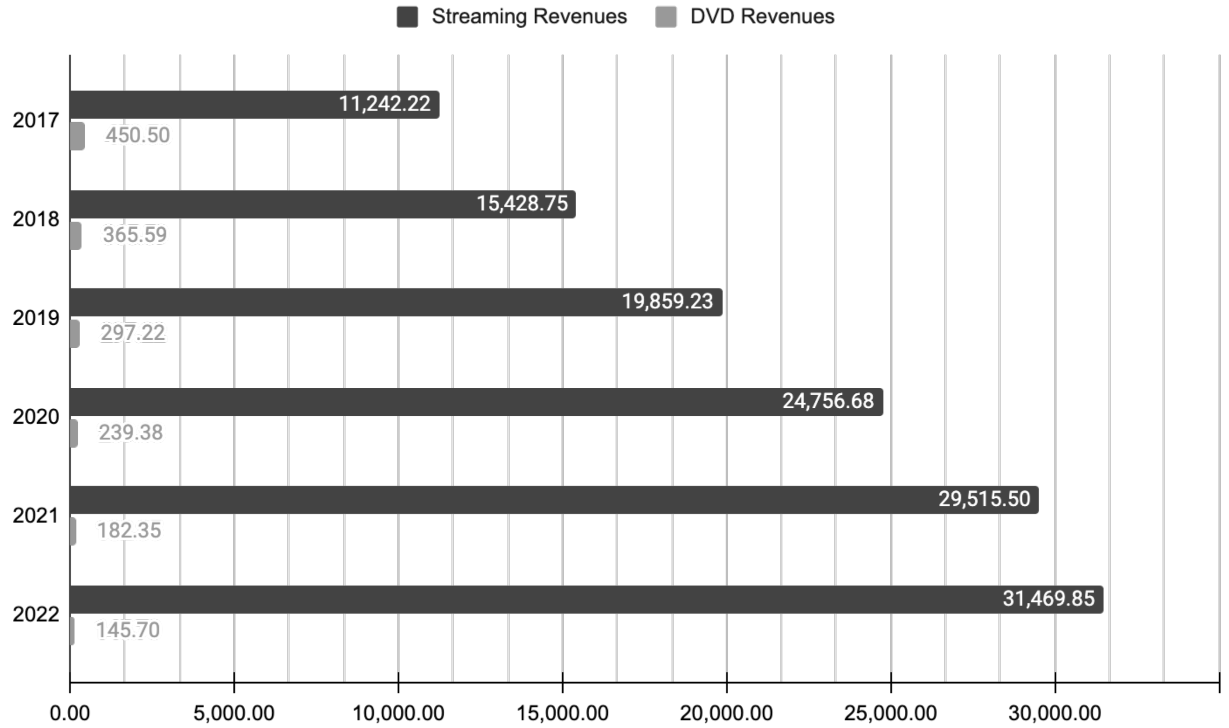
Appendix A

Netflix's Revenue Breakdown & Trends

Figure A1

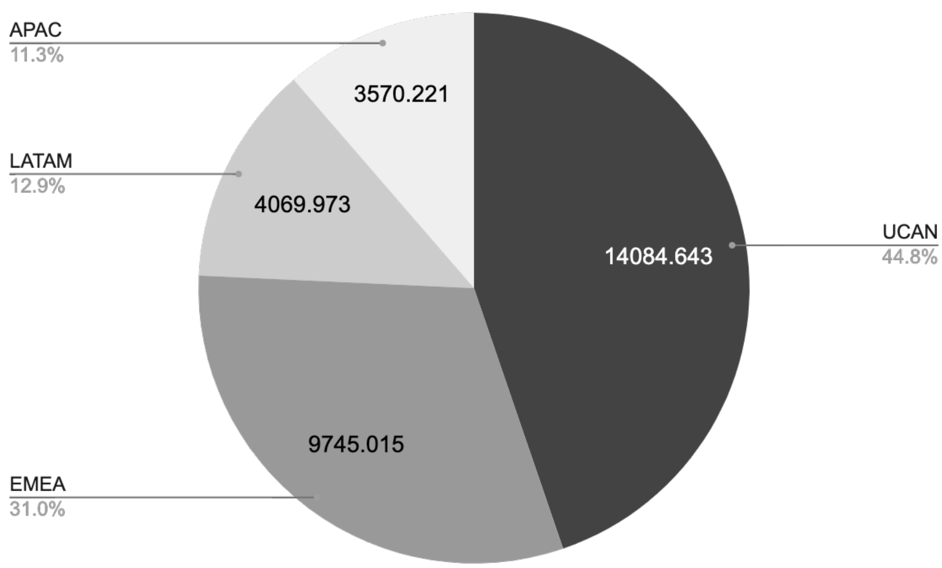
Streaming Revenues and DVD Revenues from 2017 to 2022 (in millions)



Note. The x-axis illustrates revenues in millions, while the y-axis corresponds to the years spanning from 2017 to 2022. The data for these values has been extracted from Netflix's 10-K annual reports spanning the same period.

Figure A2

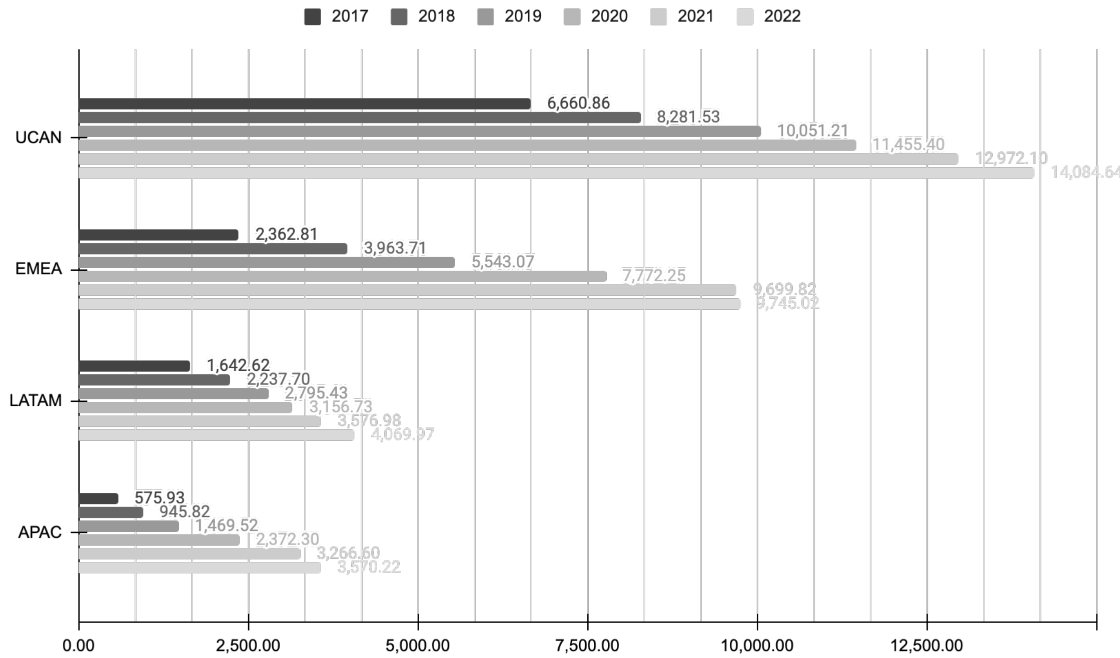
Streaming Revenues Percentage by Region in 2022 (in millions)



Note. The pie chart depicts the distribution of Netflix's revenue percentages across various geographic jurisdictions. All the information has been sourced from the 2022 10-K report.

Figure A3

Streaming Revenues by Region from 2017 to 2022 (in millions)



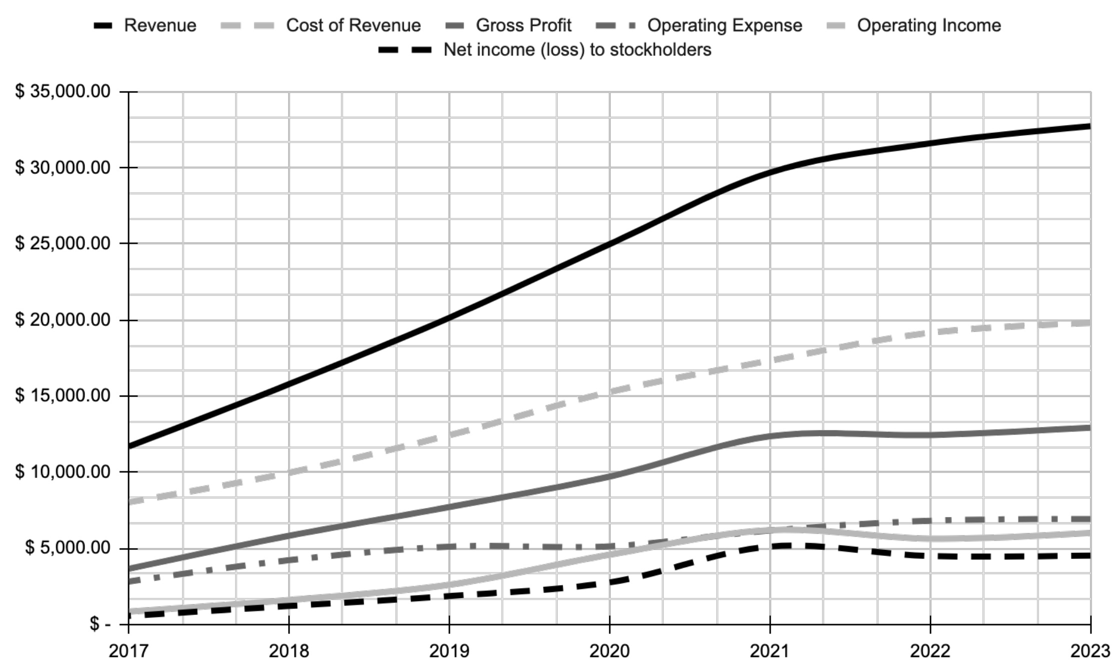
Note. The x-axis represents revenues in millions, and the y-axis corresponds to geographic locations. The data for these metrics has been extracted from Netflix's 10-K annual reports from 2017 to 2022.

Appendix B

Netflix's Financial Data & Trends

Figure B1

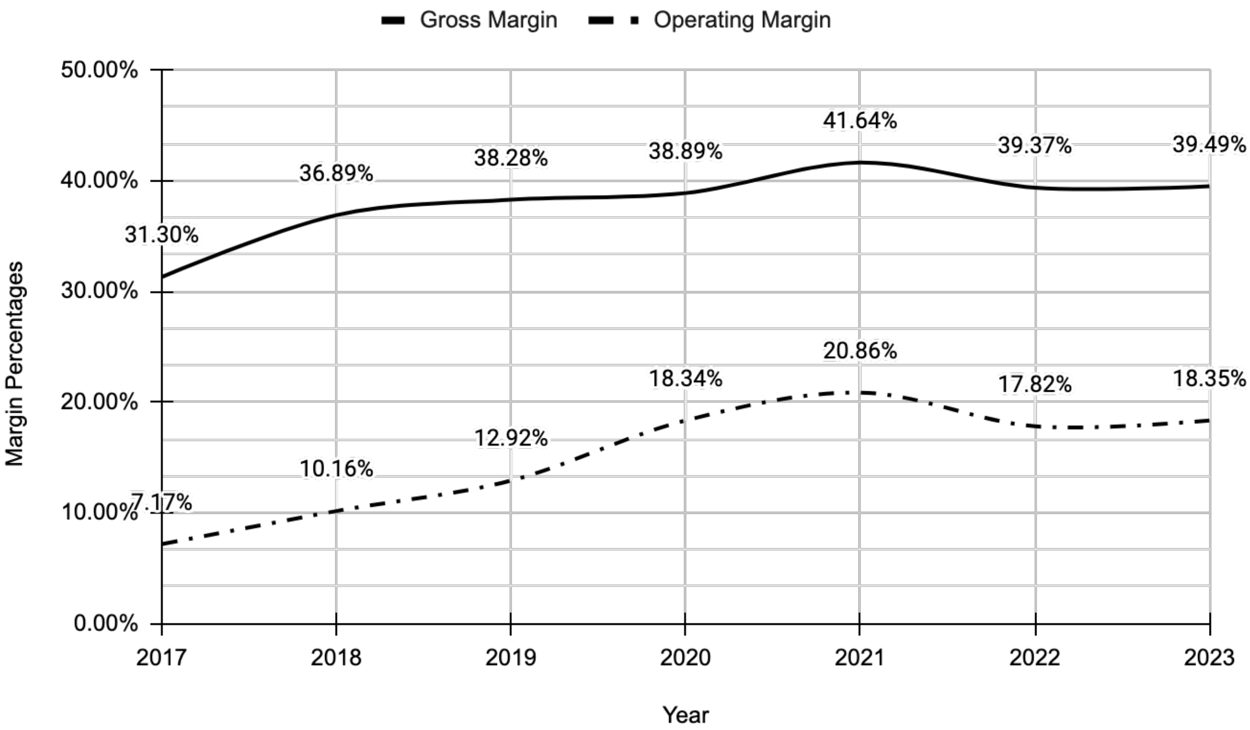
Financial Matrix of Netflix from 2017 to 2022 (in millions)



Note. The x-axis spans from 2017 to 2023, with the y-axis denoting dollar values in millions. The figure encompasses elements such as revenue, cost of revenue, gross profit, operating expenses, operating income, and net income. All the data for these metrics has been sourced from Netflix's 10-K annual reports from 2017 to 2022.

Figure B2

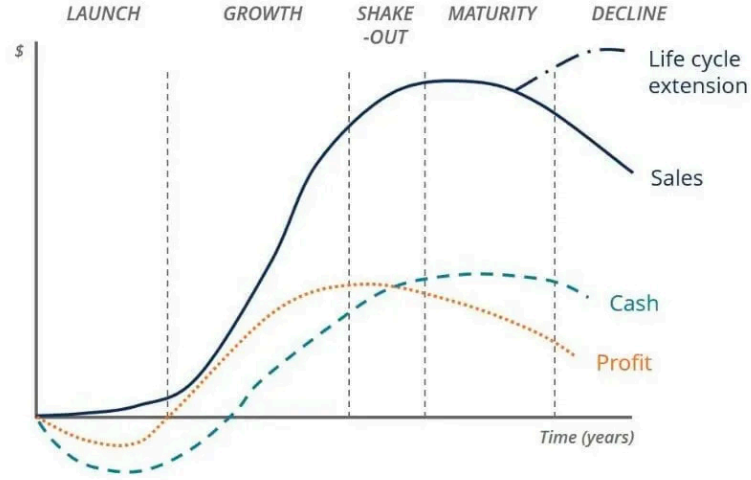
Gross Margin & Operating Margin of Netflix from 2017 to 2022 (in percentages)



Note. The x-axis extends from 2017 to 2023; the y-axis is expressed in percentages. The figure includes gross margin and operating margin trends. Gross margin is derived by dividing gross profit by revenue, while operating margin is determined by dividing operating income by revenue.

Appendix C

Business Life Cycle Illustration



Note. The x-axis signifies time, while the y-axis denotes dollar values. The figure incorporates components including sales, cash, and profit, illustrating their movement over time. The CFI Team crafts the graph; additional details can be explored in the reference section.

Appendix D

Financial Data of Netflix & Competitors

Table D1

Financial Ratios of Netflix & Competitors

	NFLX	AAPL	AMZN	CMCSA	DIS	GOOG	WSB	Competitor Avg.	Industry Avg.
Current Ratio	1.29	0.99	0.99	0.70	1.05	2.04	0.88	1.13	0.89
Debt-to-Equity Ratio	75.83%	199.42%	90.76%	122.92%	44.84%	11.14%	97.11%	91.72%	87.76%
Return on Assets	7.74%	20.26%	3.61%	5.66%	2.85%	13.49%	-0.61%	7.57%	N/A
Return on Equity	21.23%	171.95%	12.53%	18.00%	3.06%	25.33%	-9.91%	34.60%	0.10%
P/E Ratio (TTM)	48.31	30.32	78.06	12.18	70.97	26.97	10.93	39.68	31.17

Note. The table presents key financial ratios for Netflix and its six competitors, including the current ratio, debt to equity ratio, return on assets, return on equity, and R/E ratio (TTM). All company data is directly calculated from their respective 10-K reports, while the industry average is derived from the NYU dataset. Further details can be explored in the references.

Table D2

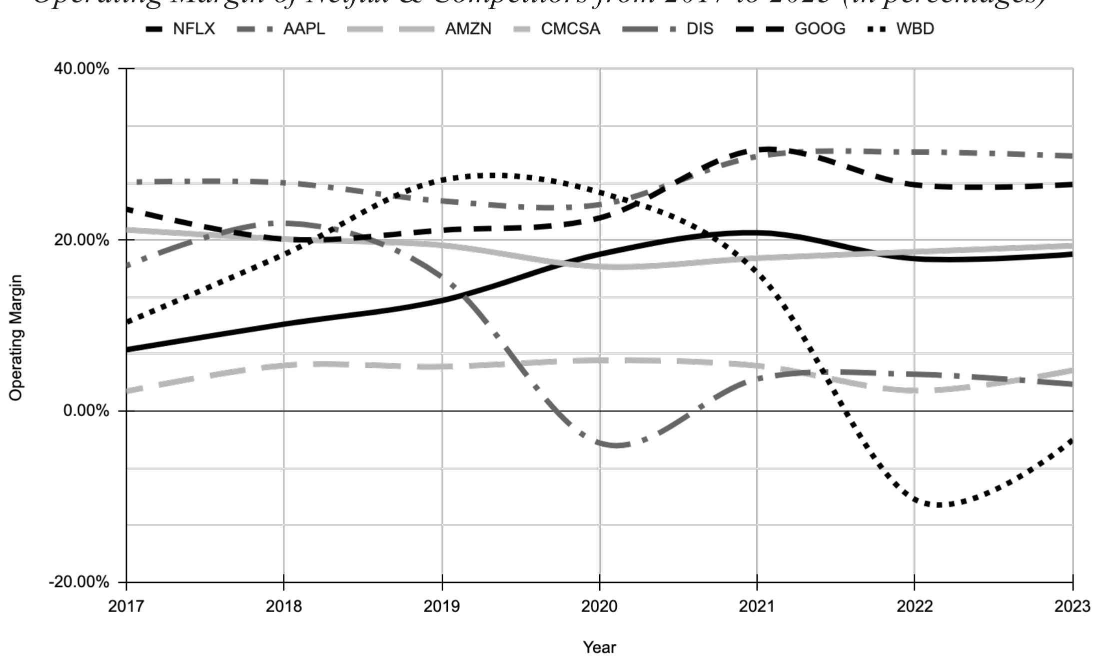
Operating Margin of Netflix & Competitors from 2017 to 2023 (in percentages)

	2023	2022	2021	2020	2019	2018	2017
NFLX	18.35%	17.82%	20.86%	18.34%	12.92%	10.16%	7.17%
AAPL	29.82%	30.29%	29.78%	24.15%	24.57%	26.69%	26.76%
AMZN	4.76%	2.38%	5.30%	5.93%	5.18%	5.33%	2.31%
CMCSA	19.33%	18.63%	17.89%	16.89%	19.39%	20.11%	21.19%
DIS	3.13%	4.30%	3.76%	-3.73%	15.69%	21.98%	16.99%
GOOG	26.51%	26.46%	30.55%	22.59%	21.15%	20.12%	23.61%
WBD	-3.38%	-10.34%	16.18%	25.58%	27.00%	18.33%	10.37%

Note. The table presents operating margins from 2017 to 2023 for Netflix and its six competitors. All company data is directly calculated from their respective 10-K reports.

Figure D1

Operating Margin of Netflix & Competitors from 2017 to 2023 (in percentages)



Note. The x-axis spans from 2017 to 2023; the y-axis is represented in percentages. The figure encompasses the gross margin data for Netflix and its six competitors.

Appendix E

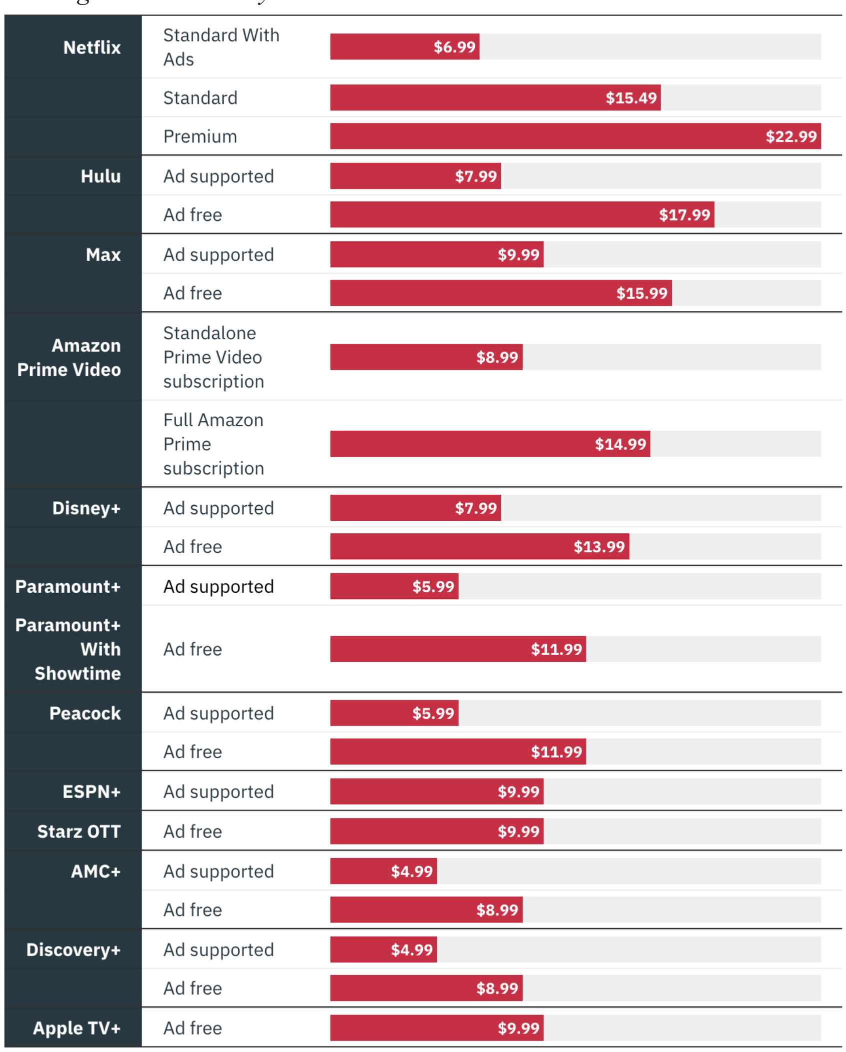
SWOT Analysis of Netflix

Strengths	Weaknesses
Original Content Global Presents User Data & Recommendation Algorithm	Licensing Costs Dependency on UCAN High Priced Membership
Opportunities	**Threats**
Collaboration & Parternership Niche Marketing	Government Regulations Privacy Issues Competition from New Entrants Change in Consumer Preferences

Note. The table enumerates Netflix's strengths, weaknesses, opportunities, and threats as discussed in this report. These are illustrative examples and may not encompass all aspects.

Appendix F

Major U.S.-Based Streaming Service Monthly Prices



Note. This visual representation compares Netflix's monthly membership fee with other prominent streaming companies. The data for this figure is sourced from Variety, and additional details can be found in the references.

Appendix G

Table G1

Netflix DCF Valuation

Netflix	
Year	2022
Long-term Debt	14,353.08
Shareholder's Equity	20,777.40
Total Capitalization	35,130.48
Interest Expense	706.21

Current Market Data	
Tax Rate	15%
Risk Free Rate	4%
Beta	1.28
Market Rate of Return	10.26%

Cost of Debt			
rD =	Interest Exp.	*(1-T)	/Long-term debt
4.18%	706.21	85%	14,353
Cost of Equity			
rE (CAPM) =	rf+	(E[Rmkt] - rf)*	Beta
12.01%	4%	6.26%	1.28

WACC =			
Componets	A-T Price	Weight	Product
Long-term Debt	4.18%	40.86%	1.71%
Common Stock	12.01%	59.14%	7.10%
		WACC	8.81%

	0	1	2	3	4	5
Projected Year	2022	2023	2024	2025	2026	2027
Free Cash Flow	1,618.53	5,676.63	7,453.00	9,894.00	12,351.00	14,896.00
Terminal Value					256,230.78	
Total Flows		5,676.63	7,453.00	9,894.00	268,581.78	
Present Value of Flows	210768.58					
Less: Debt	14.353076					
Equity Value	210754.23					
Current Shares Outstanding	437.68					
Intrinsic Value	481.53	Current Value	482.09			

Note. The financial information for Netflix is sourced from its 2022 10-K report. The risk-free rate corresponds to the 30-year treasury rate, while the market rate of return is based on the S&P 500. Valueinvesting provides projections for free cash flow estimates; detailed information can be found in the references section. All figures are presented in millions.

Table G2

Comparable Companies Analysis of Netflix

	Valuation target	Comparables						
	Netflix	Apple	Amazon	Comcast	Disney	Google	Warner Bros	
Ticker	NFLX	AAPL	AMZN	CMCSA	DIS	GOOG	WBD	
Recent price	482.09	185.14	151.37	43.28	89.67	142.56	11.03	
P/E		28.17	38.76	10.27	19.49	21.05	126.58	Forward
Price/Sales		7.65	2.8	1.52	1.88	6.05	0.66	TTM
EPS	10.04							
Sales	32,743	Million						
Shares outstanding	437.68	Million						
Sales per share	74.81							

P/E Ratio Estimates	Comparable Multiple	28.17	38.76	10.27	19.49	21.05	126.58
	Performance Measure	10.04	10.04	10.04	10.04	10.04	10.04
	Target Price	282.83	389.15	103.11	195.68	211.34	1270.86

Price/Sales Estimates	Comparable Multiple	7.65	2.8	1.52	1.88	6.05	0.66
	Performance Measure	74.81	74.81	74.81	74.81	74.81	74.81
	Target Price	572.29	209.47	113.71	140.64	452.60	49.37

Note. The financial ratios and stock prices have been collected from Yahoo Finance as of January 9th, 2024. For further details, please refer to the references section.