INSTITUTO
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Equity Valuation: Netflix, Inc.

Pedro Miguel Nunes Timóteo

Master (MSc) in Finance

Supervisor:

PhD Pedro Manuel de Sousa Leite Inácio, Assistant Professor,

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BUSINESS
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Resumo

Esta tese tem como objetivo determinar o justo valor da ação da Netflix, Inc. com referência à data de 31 de dezembro de 2022. Para o efeito, e com base na revisão de literatura, na análise à indústria de entretenimento e média, e no desempenho histórico financeiro e operacional da streamer, desenvolveu-se uma avaliação patrimonial que fornecesse aos investidores uma recomendação sobre a opção de comprar, vender ou manter ações da empresa, com base na potencial valorização ou desvalorização do mercado e nos riscos potenciais, dada a volatilidade da bolsa de valores.

Com este fim, adotou-se como metodologia principal de avaliação o modelo do Fluxo de Caixa Descontado, partindo do WACC como taxa de desconto, em conjunto com uma Avaliação Relativa. Onde, em adição, se conduziu uma análise de sensibilidade às componentes mais significativos da nossa projeção, com vista a consolidar a robustez do trabalho realizado.

Nesse sentido, a aplicação do modelo DCF culminou num preço-alvo de $319.97 face à Avaliação Relativa, onde o preço era ~14.7% inferior. Não obstante, atendendo às especificidades do modelo, face aos pressupostos projetados de longo prazo, optou-se por considerar apenas a primeira abordagem para efeito de recomendação nesta tese.

Desta forma, considerámos que a Netflix se encontrava subvalorizada, recomendando aos investidores uma posição de *Hold*, com tendência para *Buy* face ao ativo na sua carteira de investimentos.

Palavras-Chave: Avaliação Patrimonial; Netflix, Inc.; Streaming de Vídeo; Entretenimento e Média; Fluxo de Caixa Descontado; Múltiplos.

Classificação JEL: G30; G32.

Abstract

This thesis aims to determine the fair value of the Netflix, Inc. share with reference to the date of December 31, 2022. To this end, and based on the literature review, the analysis of the entertainment and media industry, and the historical financial and operational performance of the streamer, an equity valuation was developed in order to guide investors with a recommendation on the option to buy, sell or hold the company's shares, based on the potential appreciation or devaluation of the market and the potential risks, given the volatility of the stock exchange.

To this end, the Discounted Cash Flow model was adopted as the primary valuation methodology, using WACC as the discount rate alongside, with a Relative Valuation. Furthermore, a sensitivity analysis was conducted on the most significant components of our projection to consolidate the robustness of the analysis.

Consequently, the application of the DCF model culminated in a target price of $319.97 compared to the Relative Valuation, where the price was ~14.7% lower. However, given the specificities of the model and the projected long-term assumptions, it was decided to consider only the first approach for recommendation proposed in this thesis.

Accordingly, we considered that Netflix was undervalued, recommending investors take a *Hold* with tendency to *Buy* position in relation to the asset in their investment portfolio.

Keywords: Equity Valuation; Netflix, Inc.; Video Streaming; Entertainment and Media; Discounted Cash Flow; Multiples.

JEL Classification System: G30; G32.

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List of Abbreviations

APAC – Asia-Pacific
APT – Arbitrage Pricing Theory
APV – Adjusted Present Value
ARPU – Average Revenue Per User
ASC – Alternative Simplified Credit
AT&T – American Telephone and Telegraph Company
AVoD – Advertising-Based Video on Demand
CA – California
CAC – Customers Acquisition Cost
CAGR – Compound Annual Growth Rate
CAPEX – Capital Expenditures
CAPM – Capital Asset Pricing Model
CEO – Chief Executive Officer
CFPV – Cash Flow Per User
CL – Customer's Life
CLV – Customer Lifetime Value
COVID-19 – Coronavirus Disease
CPO – Chief Product Officer
D&A – Depreciation and Amortization
D/E – Debt to Equity
DCF – Discounted Cash Flow
DDM – Dividend Discount Model
E&M – Entertainment and Media
EBIT – Earnings Before Interest and Taxes
EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization
EMEA – Europe, Africa, and Middle East
EPS – Earnings per Share
ESG – Environmental, Social and Governance
EST – Electronic Sell-through (Video Downloads)
EV – Enterprise Value
EVA- Economic Value Added
EV/EBIT – Enterprise Value-to-EBIT
EV/EBITDA – Enterprise Value-to-EBITDA
FAANG – Facebook, Apple, Netflix, and Google (Alphabet)
FAST – Free ad-supported streaming TV

FCF – Free Cash Flow
FCFE – Free Cash Flow to Equity
FCFF – Free Cash Flow to the Firm
FY – Fiscal Year
GDP – Gross Domestic Product
IMF – International Monetary Fund
IPO – Initial Public Offering
KPIs – Key Performance Indicators
LATAM – Latin America
LTM – Last Twelve Months
NASDAQ – NASDAQ Composite Index
Netflix/NFLX – Netflix, Inc.
NOPLAT – Net Operating Profit Less Adjusted Taxes
NPV – Net Present Value
NTM – Next Twelve Months
NWC – Net Working Capital
NYU – New York University
M2 – Money Supply Measurement
MVA – Market Value Added
OTT – Over-the-Top
P/BV – Price-to-Book
P/CE – Price to Cash Earnings
P&E – Property and Equipment
PER or P/E – Price to Earnings
P/LFCF – Price to Levered Free Cash Flow
P/S – Price to Sales
PV – Present Value
PwC – PricewaterhouseCoopers
QREs – Qualified Search Expenses
Value P/E – Price-to-Earnings
R&D – Research and Development
ROA – Return on Assets
ROC – Return on Capital
ROCE – Return on Common Equity
ROE – Return on Equity
ROIC – Return on Invested Capital
SG&A – Selling, General, and Administrative

S&P 500 – Standard and Poor's 500
SVoD – Subscription Video on Demand
TGR – Terminal Growth Rate
TV – Television or Terminal Value
TVoD – Transitional Video on Demand
UCAN – North America
UK – United Kingdom
US – United States
WACC – Weighted Average Cost of Capital
WC – Working Capital
YoY – Year-on-Year
YTM – Yield-to-Maturity
10-K – Form 10-K (comprehensive report mandated by SEC that public companies must file annually, detailing their financial performance)

Introduction

Uncertainty has defined the past two decades. In 2022, the global economy faced challenges to return to normalcy after the pressure exerted by the COVID-19 crisis and the ongoing effects of the Russian-Ukrainian War on markets. Significantly, the United States experienced an annual inflation rate of 8%, accompanied by stock market declines, rising interest rates, and a gradual deceleration in pandemic-era growth trends.

Based on the assumption that an equity valuation corresponds to financial advice to investors, this issue can impact how they aspire to invest their capital, especially in a global market where diversifying portfolios into other emerging assets, such as cryptocurrencies, is becoming more prevalent.

This dynamic inevitably poses additional challenges to companies, pressing them to be increasingly competitive to ensure that investors' capital continues to justify allocating this type of asset – in this sense and honoring John Keynes' insightful words: "The markets can remain irrational longer than you can remain solvent," at a time in which M2 (money supply) registered record growth rates, resulting in overvaluations of the underlying value of stocks.

As a result, this research does not intend to serve solely as a decision-making tool for investors. Instead, based on the assumption that the stock market is not an independent variable, it is proposed that this project allows an understanding of investors' motivations for choosing this mechanism and the inherent risks they are willing to take.

This project aims to estimate *Netflix's* market value accurately and, consequently, the fair-share value on 31st December 2022 without overlooking the abovementioned assumptions. Netflix is a subscription-based business model, which, despite dating back to the 17th-cent newspaper industry, remains innovative as it requires the company to manage the content of its portfolio based on retention and attraction of new customers, leveraging revenues.

Concerning the structure of the master's thesis, the initial milestone comprises the literature review to corroborate the methodology chosen for the valuation. In this regard, the most pertinent corporate valuation models will be introduced, along with a rationale that proves their suitability, advantages, and disadvantages to the case study under analysis.

Afterward, there will be a sector analysis so that the reader can understand the economic landscape in which *Netflix* operates, encompassing key trends - offering investors enhanced portfolio valuation capabilities. Subsequently, it will include a specific analysis of the company to understand its business model and operating functioning in the recent short term, with possible risks and opportunities.

Ultimately, the DCF model will be applied, followed by Relative Valuation – based on *Netflix's* pro forma financial statements. This comprehensive analysis aims to derive the target share price, enabling the design of a brief overall investment recommendation.

1. Literature Review

1.1. Overview

Luehrman (1997) states that "valuation is the financial analytical skill that general managers want to learn and master more than any other." This statement highlights corporate valuation's fundamental and indispensable role in the global economy. These mechanisms allow the monitoring of the company's valuation process, helping to identify sources of creation or destruction of economic value, as well as the importance they demonstrate in decision-making processes in mergers and acquisitions.

In finance, an asset is a resource with economic value controlled to proportionate a future benefit. Generally, we can classify an asset into two distinct categories: real or financial. So, according to Damodaran (2012), each asset has a value regardless of that. Therefore, the “key to successful investing and managing” these assets is not based solely on their calculated value but also their sources. Thus, the corporate valuation process should always highlight the main objective of corporate finance: maximizing shareholder value and always maintaining a mutual relationship among financial decisions, internal strategy, and company value.

It is a fact that uncertainty associated with corporate valuation exists; however, the efficient use of valuation methodologies that best suit the characteristics of the asset under analysis may significantly mitigate this risk. Thus, and considering that several models can be viable, we must run a benchmark that considers the premises, details, advantages, and disadvantages of each – verifying the information of Copeland (2000), which emphasizes that good decisions by investors depend on the quality of the information they hold.

1.2. Valuation Methodologies

According to Penman (2016), any valuation must follow the well-established finance theory. That is, we must certify the rigor of our analysis by ensuring the evaluation of critical elements of economic theory and macroeconomic considerations.

Numerous corporate valuation models offer analysts a range of approaches, varying from the simplest to the most complex. Moreover, despite different price assumptions, they share common characteristics and can be more broadly classified. Damodaran (2012, p. 1) referred to the valuation problem, stating that "in valuation is not that there are not enough models to value an asset, it is that there are too many," warning that choosing the suitable model is as vital to obtaining a reasonable value as understanding the methodology.

In addition to the chosen model, Fernández (2005, p. 141) states that "a valuation is always an opinion," showing that the quality of the valuation model is directly related to the consistency of the assumptions we make, hence, with the same valuation approach, the result can be completely different.

So, there are numerous classifications and a substantial amount of literature on the valuation process. Damodaran (2006) organizes the broad field of valuation by presenting four main approaches: discounted cash flows, relative valuation, contingent claim, and asset-based valuation approaches.

Regarding the valuation models and analysing articles by other authoritative authors such as Frykman and Tolleryd (2003) and Fernández (2007), it is possible to state that the methodologies used are precisely the same despite being presented differently.

This chapter will describe the abovementioned methodologies for evaluating the most suitable for carrying out an equity research, with the key conclusions provided at the end.

1.3. Discounted cash-flow valuation

According to Luehrman (1997), the discounted cash-flow valuation (DCF) emerged in the '70s as the most effective method for valuating corporate assets. Based on this model, a corporation's worth corresponds to its projected FCF discounted to present value at the WACC. Damodaran (2006) also classified this model as the correct approach to corporate valuation in corporate finance.

Nowadays, this is “the only conceptually correct valuation method” and, therefore, widely used, given that the company is considered a cash flow generator and its future expectations. Furthermore, this is only feasible by establishing a discount rate for risk consideration using historical volatility (Fernández, 2007).

The general equation underlying the DCF methodology can be summarized as follows:

$$DCF = \frac{CF_1}{(1+R)^1} + \frac{CF_2}{(1+R)^2} + \ldots + \frac{CF_n + RV_n}{(1+R)^n} \quad \textbf{(1)}$$

$$RV_n = \frac{CF_n \times (1+g)}{R-g} \quad \textbf{(2)}$$

where,

- CF_n = Cash flow generated by the company in period n;
- R = Appropriate discount rate for the cash flow risk (WACC);
- RV_n = Residual value of the company in period n;
- g = Expected growth rate of the cash flows after period n.
- note that $CF_{n+1}=CF_n\times(1+g)$ only if the growth rate between n-1 and n was also g.

Regardless of the model's popularity, this analysis is strongly linked to the accuracy problem, as the high reliance on the correctness of the forecasted future cash flows and the multiple sets of assumptions made will dictate the precision of the valuation.

We can approach the DCF valuation model in two different ways. The primary proposal is to value the entire enterprise, including assets-in-place and growing assets (firm or enterprise

valuation). The second option is to value the equity stake in the business, known as equity valuation (Damodaran, 2006).

Despite the approach managers choose, either guarantees them a set of possible models to implement. For example, concerning the firm valuation, the Free Cash Flow to the Firm (FCFF) is frequently used; instead, the second approach considers the Free Cash Flow to the Equity (FCFE).

1.3.1. Enterprise Valuation Models

1.3.1.1. Enterprise Value

It is important to note that when carrying out a corporate valuation using the DCF-FCFF methodology, the present value of the FCF discounted at the WACC expresses the Enterprise Value:

$$\text{Enterprise Value} = \sum_{t=1}^{n} \frac{FCFF_t}{(1 + WACC)^t} + \frac{TV_n}{(1 + WACC)^n} \quad \textbf{(3)}$$

where,

- $FCFF_t$ = free cash flow to the firm in the time period, period =1 to n;
- WACC = weighted average cost of capital;
- TV_n = terminal value at the end of the time period.

Moreover, looking closely at the formula and referencing Damodaran (2012, p. 302), we realize that a component is related to the TV since it is impossible to calculate cash flows ad infinity; thus, "generally impose closure in discounted cash flow valuation by stopping your estimation of cash flows sometime in the future and then computing a terminal value that reflects the value of the firm at that point."

Following this, we can deduce that the equity value is determined based on:

$$\text{Equity Value} = \text{Enterprise Value} + \text{Non-operating Assets} - \text{Non-equity Claims} \quad \textbf{(4)}$$

1.3.1.1.1. Free Cash Flow to the Firm, $FCFF$

Regarding corporate valuation as a whole, and according to Inselbag and Kaufold (1997), the favorite approach among practitioners is the use of FCFF discounted to the WACC.

In accordance to Pinto et al. (2010, p. 320), the FCFF "is the part of the cash flow generated by the company's operations that can be withdrawn by bondholders and stockholders without economically impairing the company" as a result of deducting all corporate expenses from the estimated amount (including working capital and net capital expenditures). It is appropriately defined as a performance indicator, as it measures profitability levels, allowing the comparison and analysis of a company's financial health.

The general formula is presented as follows:

$$FCFF = EBIT\ (1 - t_c) + D\&A - CAPEX \pm \Delta WC \quad \textbf{(5)}$$

where,

- EBIT = Earnings Before Interest and Taxes;
- t_c = corporate marginal tax rate;
- D&A = depreciations & amortizations;
- CAPEX = Capital Expenditures, net of disposals;
- ΔWC = Changes in Working Capital.

1.3.1.1.2. Weighted Average Cost of Capital, $WACC$

Discount rates represent the payoff that investors aspire to obtain by taking the risk of investing in an asset where capital is not guaranteed. The discount rate can be volatile, depending on the macroeconomic environment and the specifics of each asset.

The discount rate applied in this approximation is the WACC, which Fernández (2011, p. 3) states "is neither a cost nor a required return, but weighted average of a cost and a required return" and can be computed using the formula below:

$$WACC = \frac{E}{D + E} \times r_E + \frac{D}{D + E} \times r_D \times (1 - t_c) \quad \textbf{(6)}$$

where,

- E = market value of equity;
- D = market value of debt (interest-bearing);
- r_E = required rate of return to equity;
- r_D = cost of debt before taxes.

Luehrman (1997) explains that this is a tax-adjusted discount rate as it is "intended to pick up the value of interest tax shields that come from using an operation's debt capacity."

This approach is more suitable for the corporate valuation of enterprises without a stable capital structure; companies in a leverage change regime should consider the FCFF method (which we will examine in the subsequent sections of this chapter).

1.3.1.1.3. Cost of Debt

Generally, this cost is an effective rate that measures companies' efforts to obtain loans that make their operations viable. Moreover, given that interest expenses are deductible, the rate used in most circumstances corresponds to the after-tax cost of debt.

Therefore, the cost of debt is a prominent indicator in corporate valuation; as Damodaran (2012) stated, there exists a positive correlation between the credit obtained and the corresponding increase in default risk. Koller et al. (2010) also warn that the analysis of this cost must ensure that tax shields and the risk-free rate are also considered, in addition to the risk of default.

The same authors state unequivocally that investment-grade companies (debt rated at BBB or higher) must estimate the cost of debt using "the yield to maturity of the company's long-term, option-free bonds" since the probability of the company going bankrupt is significantly low. Nonetheless, they recommend that enterprises quantified as below-investment-grade debt use the "adjusted present value (APV) discounted at the unlevered cost of equity, rather than the WACC, to value the company," given that the YTM represents a promised rate of return, and so does not evidence the probability of default, for not being an expected rate of return.

1.3.1.1.4. Cost of Equity

The cost of equity is used as a capital budgeting threshold, representing the return shareholders demand on their investments in exchange for bearing the risk of owning an asset. Even more, the model presupposes that investors are rational and risk-averse, which Damodaran (2008b) confirmed, stating that investors demand a higher risk premium as the level of risk associated with the investment increases.

Koller et al. (2010) suggests that to infer this cost, one of these three models is commonly employed: Arbitrage Pricing Theory (APT), Fama & French 3-factor model, or the Capital Asset Pricing Model. In this sense, we realize that the CAPM stands out as the most employed approximation in the corporate market to determine this cost of equity (Brealey, 2011).

CAPM, being a single-factor model rooted in the principles of Modern Portfolio Theory, is outlined as follows, as stated by Koller et al. (2010):

$$r_E = r_f + \beta_L \times [\, E(r_M) - r_f \,] \quad \textbf{(7)}$$

where,

- r_f = risk-free rate;
- β_L = beta levered;
- $E(r_M)$ = expected market return;
- $E(r_M) - r_f$ = market risk premium.

This approach is developed based on three assumptions: the market is perfect, information symmetry is absent, and there is no frictionless market (no taxes and trading costs).

1.3.1.1.4.1. Risk-free rate

Damodaran (2008b) states that for an investment to be considered risk-free, "the actual returns should always be equal to the expected return" and highlights that it must meet two requirements. Namely, the non-existence of default risk excludes any private firm that issues securities, as despite being well managed, it cannot control currency printing, unlike government bonds. Along with the non-reinvestment risk, and hence must have the same duration as the discounted cash flow.

1.3.1.1.4.2. Beta

"The CAPM adjusts for company-specific risk through the use of beta" (Goedhart et al., 2010), which quantifies the volatility - or systematic risk associated with a specific security or portfolio, when compared to the market; therefore, the more significant the determined beta, the greater the sensitivity of the Netflix's shares to market fluctuations.

The most recurrent computations of beta use the historical industry beta or the average of similar enterprises; however, the accuracy of the calculated value will depend on the degree of the operational level, on the type of business that the company is under analysis fits into or on the financial leverage considered.

1.3.1.1.4.3. Market Risk Premium

The market risk premium corresponds to the difference between the expected return on a market portfolio and the risk-free rate. Damodaran (2008a) shows that the expected return on an investment corresponds to the "sum of the risk-free rate and a risk premium to compensate for the risk." Thus, this indicator allows us to quantitatively understand the extra return demanded by participants who bear the increased market risk.

This factor is variable over time and is generally calculated based on the economic fluctuation of each country; thus, when instability is more significant, the premiums increase to incorporate these risks. Unfortunately, there is no consensus on the market risk premium at the financial level, so numerous possible approaches exist.

Thus, according to Damodaran (2008a), the most applied methodology is "the historical premium approach." This approach involves measuring the actual returns earned from stocks and comparing them to the actual returns on a default-free investment, often government bonds, during a specific timeframe. Note that the sample time interval should be as long as possible and implement an arithmetic average as it is the best unbiased estimator (Koller et al., 2010).

1.3.1.1.5. Terminal Value, TV

Usually, companies apply a considerable portion of the results obtained, achieving significant returns and high growth rates. However, the historical information we hold tells us that most companies disappear or reach a point of stagnation. So, when performing a corporate valuation, it is crucial to forecast the company's life stage, examining the terminal value, whether in a continuity or liquidation approach.

Rutkowski et al. (2013, p. 3) claim that "the terminal value incorporates the value of all the company's cash flow following the final discrete projection period, into perpetuity." As a result, the TV is one of the most significant elements of the DCF approach, as it represents the

majority of the cash flow value (Young, 1999). Also, Schill (2013) states that, on average, it represents between half to four-fifths of the firm's total value, varying on the years considered in the annual forecasts.

In this sense, Damodaran (2012) states that it is possible to determine the TV in three different approaches. In the primary alternative, we must consider a "liquidation of the firm's assets in the terminal year" and assess what others would pay for the accumulated firm's assets. The remaining approaches (multiples or stable growth model) pivot on the premise that the company will continue its operations beyond the explicit projection period when estimating its terminal value.

"One applies a multiple to earnings, revenues, or book value to estimate the value in the terminal year." The other, which is undoubtedly the most used, is based on the premise that the firm's cash flows, after the explicit period, grew at a stable growth rate, evidencing the steady state of the business - this allows the application of a perpetual model to estimate the TV, as described by Damodaran (2002):

$$TV_n = \frac{CF_{n+1}}{(r - g)} \quad \textbf{(8)}$$

where,

- CF_{n+1} = cash flow at the end of the first year of the perpetuity;
- r = discount rate;
- g = expected perpetual growth rate.

As Koller et al. (2010) emphasized, the most accurate estimate for the growth rate should encompass the expected long-term rate specific to the sector in which the firm operates, adjusted for inflation.

1.3.1.2. Adjusted Present Value Model, *APV*

The APV methodology consists of the individual analysis of the different areas of the financial statements through the subsequent addition of their value to the company. This approach is made known by Myers (1974), who subdivided the main cash flows into two categories: "real" cash flows closely related to the business's corporate operations and the "side effects" arising from its financing practices, as an example, consider the tax incentives obtained.

According to Luehrman (1997), this approach is more flexible compared to the WACC, as it provides managers with more detail, allowing them to have access to additional information on the asset value (NPV>0); that is, it also allows him to understand its origin. Furthermore, Luehrman adds that, unlike the WACC, the APV is more effective in dealing with the "side effects" mentioned above, requiring fewer assumptions, making it a more accurate model.

Damodaran (2006) briefly explained that this approach starts by considering the company's value without debt. Subsequently, when adding debt to the firm, the net effect is

accounted for, considering the benefits and costs of the borrowing. The author explains that, in general, "using debt to fund a firm's operations creates tax benefits (because interest expenses are tax deductible) on the plus side and increases bankruptcy risk (and expected bankruptcy costs) on the minus side."

Then consider the subsequent formula:

Value of business = Value of business with 100% equity financing + PV **(9)**
+ of Expected Tax Benefits of Debt - Expected Bankruptcy Cost

For this calculation, it is necessary to perform the following *intermediate calculations*:

- Determination of the unleveraged cost of equity capital, estimated through the rewriting of equation (6), as a function of:

$$r_U = r_f + \beta_U \times [\, E(r_M) - r_f \,] \quad \textbf{(10)}$$

where,

- r_U = unlevered cost of equity;
- β_U = beta unlevered;
- $[\, E(r_M) - r_f \,]$ = market risk premium.

- Assessing the benefit of debt financing, according to Damodaran (2012), can be computed as:

$$\text{PV of Tax Shields} = \sum_{t=1}^{n} \frac{t_c \times D \times r_D}{(1+ r_D)^t} \quad \textbf{(11)}$$

Concerning the optimal amount of debt, it is essential to mention that this is a variable value depending on the company to be analyzed; hence, debt issuance must occur whenever the implicit benefit offsets the inherent costs.

- Calculation of bankruptcy costs (the most prominent in borrowings) using the following formula:

$$\text{PV of Expected Bankruptcy Costs} = \pi_a \times \text{PV of Bankruptcy Costs} \quad \textbf{(12)}$$

where,

- π_a = probability of default.

According to Brealey et al. (2011, p. 482), "financial distress occurs when promises to creditors are broken or honored with difficulty"; this is a critical issue for investors because they know that leveraged companies can get into financial difficulties, leading to bankruptcy. Thus, this concern will directly impact the current market value of the leveraged company's securities.

Damodaran (2006, p. 47) assumes that "the key limitation of the compressed APV approach, notwithstanding its simplicity, is that it ignores expected bankruptcy costs." It is noteworthy that, after completing the calculations, the conclusion reached is that the APV model will always value companies with a higher debt ratio.

Regarding this theme, the author adds that "neither the probability of bankruptcy nor the bankruptcy cost can be estimated directly." Regarding the estimation of bankruptcy probability,

it presents, as an indirect suggestion for the calculation, the assessment of the bond's rating or a statistical approach based on corporate performance for the different debt levels.

1.3.2. Equity Valuation Models

1.3.2.1. Free Cash-Flow to Equity, $FCFE$

Damodaran (2006, p. 8) begins by introducing equity valuation models, stating that "we focus our attention of the equity investors in a business and value their stake by discounting the expected cash flows to these investors at a rate of return that is appropriate for the equity risk in the company." Koller et al. (2010) add that FCFE "can be viewed as free cash flows after investments which a company could distribute to its shareholders."

Therefore, the FCFE formula can be given by:

$$FCFE = NI + D\&A - CAPEX - \Delta WC + \text{New Debt Issued} - \text{Debt Repayments} \quad \textbf{(13)}$$

where,

- NI = Net Income.

The application of this model happens recurrently as an alternative to the dividend discount methodology, particularly in companies that do not pay dividends, such as *Netflix*. Nonetheless, Viebig et al. (2008) state in this context that "one way to describe a free cash flow to equity model is that it represents a model where we discount potential dividends rather than actual dividends."

Koller et al. (2010) further state that forecasting this model can be complex since it incorporates the firm's capital structure in the cash flows. So it will be, therefore, more recommended for companies whose activities (operational and financial) are difficult to distinguish - as financial institutions.

Unlike the DCF-FCFF discussed above, the DCD-FCFE allows the company's equity value to be estimated directly. So, the implicit formula of the FCFF model is as follows:

$$\text{Equity Value} = \sum_{t=1}^{n} \frac{FCFE_t}{(1 + r_E)^t} + \frac{TV_n}{(1 + r_E)^n} \quad \textbf{(14)}$$

where,

- $FCFE_t$ = free cash flow to equity in the time period, period = 1 to n.

To conclude and follow the line of thought of Pinto et al. (2010), we realized that despite the FCFF being the most used approach, the FCFE would be more direct and practical when the company's capital structure is stable. However, in the case of a leveraged company with negative FCFE, using the FCFF to value shares should be more accessible. Additionally, it is worth mentioning that in cases where a company has a track record of leverage changes," a growth rate in FCFF may be more meaningful than an ever-changing growth pattern in FCFE."

1.3.2.2. Dividend Discount Model, DDM

An investor who holds shares in his investment portfolio intends to generate income by obtaining capital gains from speculation on the value of these assets or by receiving dividends. Pinto et al. (2010, p. 56) state that "the DDM is the simplest and oldest present value approach to valuing stock." The price of a firm's stock, concerning this approach, equals to the “present value of the perpetual stream of future dividends, discounted at the cost of equity”, as shown by the subsequent equation presented firstly by Williams (1938):

$$V_0 = \sum_{t=1}^{\infty} \frac{D_t}{(1 + r_E)^t} \quad \textbf{(15)}$$

where,

- V_0 = current stock value;
- D_t = expected dividend during each holding period.

1.3.3. Profitability Models

1.3.3.1. Economic Value Added, EVA

Damodaran (2006) states that the profitability model EVA "is a measure of the surplus value created by an investment" and can be seen as an alternative approach to the DCF valuation, distinguished by the fact that it makes fewer assumptions and is more market oriented. So, it represents the excess return of this type of financial application over the invested capital.

As a result, the corporation will only generate economic profit if the ROIC exceeds the WACC, demonstrating the corporate efficiency in allocating resources.

Consider the following computation to assess EVA:

$$\text{EVA} = \text{Invested Capital} \times (\text{ROIC} - \text{WACC}) = \text{NOPLAT} - (\text{Invested Capital} \times \text{WACC}) \quad \textbf{(16)}$$

where,

- NOPLAT = after-tax operating income;
- Invested Capital = total amount of capital to fund operations.

Following the EVA, addressing the Market Value Added (MVA) is relevant, which Damodaran classifies as "a simple extension of the net present value" that illustrates the PV of the entire economic value generated, usually discounted at WACC.

MVA assesses past and potential value creation, indicating corporate management's ability to enhance shareholder value over time.

$$\text{NPV} = \sum_{t=1}^{t=n} \frac{\text{EVA}_t}{(1 + \text{WACC})^t} \quad \textbf{(17)}$$

Using this methodology, the Enterprise Value (EV) is estimated as follows:

$$\text{EV} = \text{Invested Capital} + \text{MVA} \quad \textbf{(18)}$$

After that, starting with EV as a starting point, we can estimate the company´s Equity Value by adding the market value of all non-operating assets and subtracting the amount of non-equity claims.

1.3.2.3. Dynamic Return on Equity Methodology, ROE

The ROE approach follows EVA's reasoning since the result is also an excess return. In this sense, its main differentiator is the technique in which analysts analyze the acquired results since this approach does not assess the company's overall value but rather the equity value.

$$EV = E_0 + \sum_{t=1}^{t=n} \frac{E_{t-1} \times (RoE_t - R_e)}{(1+R_e)^t} \quad \textbf{(19)}$$

RoE is a percentage and can be with any company whenever profit and equity are positive (>0). Thus, and carefully analyzing the above formula, we see that the mathematical reasoning is induced similarly to the EVA approach since here, too, value creation will occur whenever the return on equity is greater than the cost of equity.

In contrast to the cash flow models previously outlined, the RoE methodology was designed based on short-term forecasts.

1.4. Relative Valuation

Damodaran (2006, p. 56) claims that in relative valuation, "we value an asset based upon how similar assets are priced in the market." Koller et al. (2010, p. 351) add that "such an analysis can help a company to stress-test its cash flow forecasts, to understand mismatches between its performance and that of its competitors, and to hold useful discussions about whether it is strategically positioned to create more value than other industry players are."

Thus, it is essential to mention that this methodology used extensively by financial analysts consists of a 2-step process: selecting a group of pairs and then deciding which multiples to consider.

To conclude, even though DCF valuation is "the most accurate and flexible method for valuing companies," the use of relative valuation, a more simplified methodology with fewer assumptions, is frequently used as a complement to the valuation, which allows for increasing the accuracy of the obtained results (Koller T., 2010).

1.4.1. Peer Group

Henschke & Homburg (2009, p. 1) state, "It is difficult to find a peer group which corresponds to a target firm in all relevant value characteristics." Furthermore, to compare one firm to another, it must be priced in the market and operate in the same industry to ensure that the

risk, cash flows, and growth rate are similar. In this case, for sectors with a limited number of enterprises with varying business dimensions, it is critical to carry out a standardization that converts market prices into quantitatively comparable variables, boosting the valuation's accuracy (Liu, 2002).

Damodaran (2006), similarly to the author above, highlights the difficulty of matching these characteristics and suggests alternative factors that can be further analyzed, including the earnings per share (EPS), betas, or return on equity.

Thus, this is a thorough process; Koller et al. (2010) concludes that "the ability to choose appropriate peers distinguishes sophisticated veterans from newcomers."

1.4.2. Multiples

The selection of multiples is a critical stage that fits the aforementioned requirements; thus, this selection must match the company's nature and sector of activity under analysis.

According to Koller et al. (2010), this selection is one of the fundamental principles to carry out a consistent valuation. In this context, the author states that EV/EBITDA and PER are the most employed metrics by analysts, despite "it is distorted by capital structure and nonoperating gains and losses."

However, a variety of alternative multiples can be applied. Both Damodaran (2006) and Fernández (2001) categorize these among three possible groups *(Appendix A).*

Koller et al. (2010) recommend enterprise value multiples over equity multiples because equity multiples, like the P/E ratio discussed earlier, can be susceptible to manipulation through changes in capital structure.

To summarize, the likelihood of the value computed using this methodology differing from that reached using the DCF valuation is high since the assumptions about the markets are substantially different. While this approximation presupposes that the market is correct on average, DCF valuation recognizes that markets make mistakes; however, a correction will ease its impact in the future.

1.5. Subscription Based Valuation Approach

McCarthy et al. (2017) tell us that if we compare the aforementioned corporate valuation methodologies with a customer-based corporate valuation, the paradigm shift happens because here, the valuation of companies is "bottom-up" instead of "top-down," where "they pay little attention to the health and composition of the company's customer base." The authors further add that this approach assumes the premise that "every dollar of revenue that a company generates must come from a customer – and that not all customers are "created equal."" (McCarthy, 2017)

Accordingly, the accounting method should catch that at the end of a given period, the number of customers should be equal to the number of new customers acquired plus those who have remained with the company since the beginning of that period, thus reflecting retention patterns of subscriptions and, consequently, the average revenue per user (ARPU). Moreover, based on an adequate customer list, analysts can estimate abandonment patterns, translating into an essential contribution to corporate valuation.

Damodaran adds that similar to the previously provided equation, we must deduct the value of corporate expenses when assessing the worth of the firm's operations derived from the user (note the summary scheme presented below).

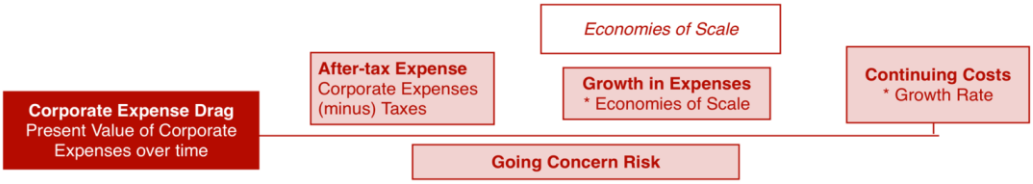


Figure 1: Corporate Expense Summary

Source: Damodaran (2017)

According to Kvick (2019), starting from assumptions identical to those previously presented by McCarthy, it is then possible via Monte Carlo based on different KPIs on unit economics to analyse and estimate the value of a subscription model company. Hazlett (2015) states that unit economics represents "for each customer how much it costs to get them vs how much they are worth to you." Therefore, the unit's economy will be a popular tool to analyse companies that fall into this typology; so, firms that manage to attract a more significant number of customers and keep them linked to their services will have better results because the revenues with a customer are generated continuously (Shea&Company, 2017).

Hence, according to the article *Subscription Economy: Business Perspective* – the "rate of churn, rate of customer acquisition, and cost of customer addition are popular metrics used by subscription businesses." Based on this, consider the formulas presented below, associated with the themes mentioned above, so that in the development of the methodology and respective calculations, it is possible to understand the terminology and applied deductions.

Thus, the churn rate expresses the proportion of subscriptions that this typology of business loses in a pre-defined period. Consider the following formula:

$$churn_t = \frac{CU_t}{U_{t-1}} \quad \textbf{(20)}$$

where,

- CU_t = # churned users over the period;
- U_{t-1} = # users at the begging of the period.

Note that the formula presented does not consider users who were added during the period *t* and are no longer subscribers before that period, so the technique used usually goes through considering the denominator $\bar{U}_t$, that is, the average number of users during period *t*.

Consequently, the retention rate will be:

$$retention_t = 1 - churn_t \quad \textbf{(21)}$$

Afterward, the customer's life (CL) will allow monitoring the duration that an average user uses a specific service, as shown in the formula below:

$$CL = \sum_{t=0}^{\infty} (1 - churn_t)^t = \frac{1}{churn_t} \quad \textbf{(22)}$$

It is also important to mention how the customer acquisition cost (CAC) is determined:

$$CAC_t = \frac{\text{Total Sales \& Marketing expenses}_t}{\text{Number of new customer added}_t} \quad \textbf{(23)}$$

Finally, let us consider the aforementioned Average Revenue per User (ARPU) so that the methodology to be applied provides an integral notion of all the underlying concepts.

$$ARPU_t = \frac{\text{Total Revenue}_t}{\text{Average number of Users}_t} \quad \textbf{(24)}$$

According to Hardie et al. (2012), the most accurate notation for the expected lifetime value of the customer is given by E(CLV), even when compared to CLV.

There are several approaches to calculating the E(CLV), which, of course, depend on the assumptions made at the time of calculation. For instance, when assuming that the Average Revenue Per User (ARPU) remains constant throughout the customer's lifetime (CL), the desired value is obtained by multiplying ARPU by CL.

In this context, let us consider the Kvick (2019) methodology, which draws upon Pfeifer et al. (2005), based on the following equations:

- E(CLV) for newly acquired customers:

$$E(CLV) = \sum_{t=1}^{\infty} CFPU \times \frac{(1 - churn)^t}{(1 + r)^t} = CFPU \times \frac{1 - churn}{r + churn} \quad \textbf{(25)}$$

where,

  - CFPU = cash flow per user.

- E(CLV) for to-be-acquired customers:

$$E(CLV) = \sum_{t=0}^{\infty} CFPU \times \frac{(1 - churn)^t}{(1 + r)^t} - CAC = CFPU \times \frac{1 + r}{r + churn} - CAC \quad \textbf{(26)}$$

1.6. Brief Conclusions

Netflix's recent credit rating upgrade to BBB+ in the Investment Grade category by S&P Global Ratings, coupled with stable financial indicators indicating a predominantly self-financed operation, as discussed in Chapter 4 - Company Analysis, led us to choose the DCF model over APV. Following this decision, a Relative Assessment will complement the DCF model, offering a robust evaluation in the second stage. *(The Wrap, 2023)*

It is essential to highlight that, due to limitations in subscriber information disclosure by Netflix, both previously mentioned models incorporate elements of the Subscription Based Valuation Approach methodology in determining the streamer's revenue. This adaptation became necessary to overcome the challenges posed by the unavailability of comprehensive subscriber data for an exclusive model-guided assessment.

2. Business Description

2.1. Company Description

Netflix, Inc., founded in 1997 by Mark Randolph and Reed Hastings (Executive Chairman), based in Los Gatos, CA, is today one of the world's leading entertainment services (and leader in *SVoD*) with approximately 231 million subscriptions from over 190 countries. Notably, Ted Sarandos and Greg Peters now serve as co-CEOs.

This provider offers its subscribers a wide range of TV series, documentaries, films (on-demand), feature films, and mobile games adapted to various genres and languages.

Five years after its founding, in 2002, Netflix became a public interest entity, becoming a member of the NASDAQ under the ticker "NFLX," where 5.5 million shares were made available at an initial public offering price (IPO) of 15$.

(Yahoo Finance, 2023) (Figure 3) The company's final share price all-time high of $691.69 takes place on November 17, 2021. Nevertheless, it is still in 4Q of 2021 that its continued growth ended, "triggering a dramatic fallout likened to the dotcom crash" (Nicolaou, 2022). As a result, Netflix became the worst-performing stock on the S&P 500 in the first half of 2022, giving rise to the term "Great Netflix Correction" in Hollywood, which warned of weaknesses in the streaming business model and its high vulnerability to a global recession. Starting from Q3 2022, it successfully reversed the price decline, with the August 2023 price surpassing the crash levels by at least double.

The company's first international expansion was to Canada in 2010, followed by Latin America and the Caribbean the following year. Later, in 2016, this strategy continued, reaching a global presence in 190 countries and 21 languages.

In 2013, Netflix invested in content creation, where it quickly achieved a great return, winning international awards with its productions the same year. As a result, the company currently has over 200 million subscribers, making it the undisputed leader in entertainment streaming services. *(Netflix, 2023) (Figure 2)*

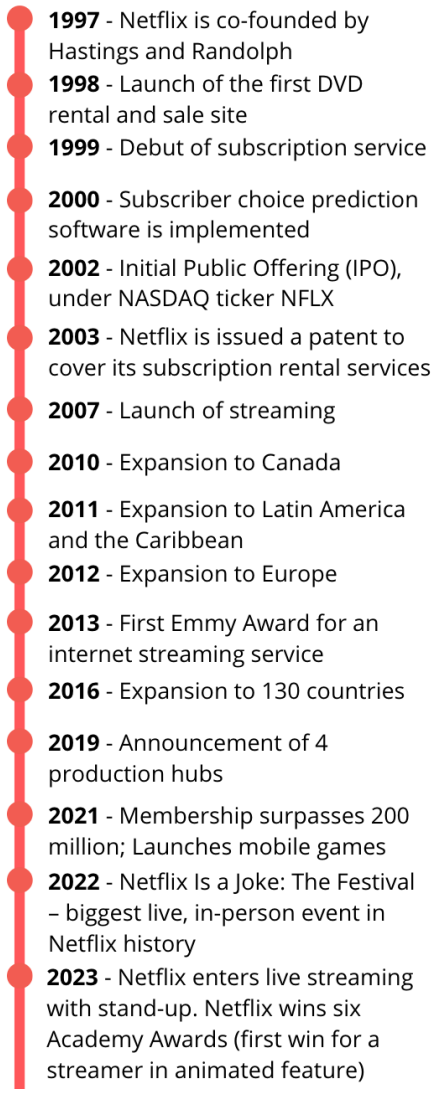


Figure 2: Netflix Timeline
Source: Netflix´s Website

Figure 3: Netflix historical close prices (in $)
Source: Yahoo Finance

2.2. *Business* Segments *and Business Model*

Netflix's sources of income are subscription plans for its content and DVD-by-mail services. The company operates in domestic and international streaming and domestic DVD (the US only). Therefore, for any of the lines of business, revenues come from monthly subscription fees.

Since 1998, the home DVD segment has allowed subscribers to rent DVDs and Blu-Rays online through their specific website and then have them shipped to their homes. Thus, Netflix consolidates this segment differently and isolatedly, showing a progressive revenue drop (0.46% of total revenues in 2022). *(Netflix, 2023) (Figure 4)*

(Netflix, 2022) (Figure 5) Since 2007, the company has followed the same business model, earning it a reputation as a pioneer in the delivery of streaming entertainment. Netflix has consistently developed an ecosystem for internet-connected screens so subscribers can watch its available content by paying that monthly subscription fee.

In early 2023, the provider implemented the password-sharing policy to monitor the number of people using a single account. In this sense, it has added to its plans a feature that makes adding users who do not live in the same house possible.

The plans are similar worldwide, although a mobile-only plan exists exclusively for less developed regions (south Asia and sub-Saharan Africa). *(Netflix, 2023) (Figure 6)*

(Moody, 2022) The company consistently employs divergent pricing strategies globally, such as its recent reduction in India to secure a larger market share against competitors. *(Netflix, 2022)*

(The Verge, 2023) With the standard with-ads plan offered at more competitive prices, Netflix began restructuring its basic subscription plan in Canada, the US, and the UK for new or returning members.

(Figure 6) Monthly prices in its primary market (US) are not significantly different from those charged at the European level. However, the global variation ranges from around $2 to $26 for the premium plan.

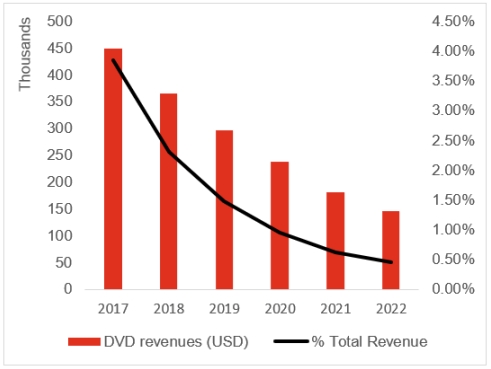


Figure 4: Domestic DVD Segment
Source: Netflix [2019-2022] Annual Report

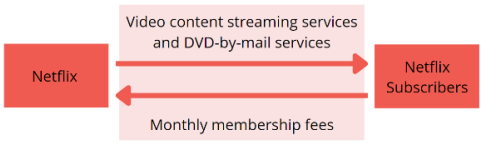


Figure 5: Netflix Business Model
Source: Netflix

FY22

Plan	Features	Monthly Price (U.S. 2022)	Monthly Price (Portugal 2022)
Basic	1 simultaneous screen Standard definition	$9.99	7.99€
Standard	2 simultaneous screen HD available	$15.49	11.99€
Premium	4 simultaneous screen Ultra HD available	$19.99	15.99€

FY23

Plan	Features	Monthly Price (U.S. 2023)	Monthly Price (Portugal 2023)
Basic	1 simultaneous screen HD definition	N/A	7.99€
Standard with adds	2 simultaneous screen Full HD available	$6.99	N/A
Standard	2 simultaneous screen Full HD available Add 1 extra member who doesn't live with you	$15.49*	11.99€**
Premium	4 simultaneous screen Ultra HD available Up to 2 extra members who don't live with you	$19.99*	15.99€**

NOTE: *Extra member slots can be added for $7.99 each / month
NOTE: ** Extra member slots can be added for 3.99€ each /month

Figure 6: Netflix Subscription Plans FY22 vs FY23
Source: Netflix´s Website

3. Industry Overview and Competitive Positioning

3.1. Media and Entertainment Industry

Netflix's business line (SVoD) is part of the entertainment and media (E&M) industry, which considers five segments: traditional TV and video, cinema, over-the-top video (OTT), video games and esports, and internet advertising. The industry has undergone an intense digital transformation caused mainly by consumers' behavioural changes (predominantly among the younger generations) and our fast-paced technological environment.

The pandemic impacts of COVID-19 pandemic and the Russia-Ukraine war heavily influenced the prior year of our analysis, resulting in uncertainties in the supply chain, public health, and geopolitics.

In this regard, 2022 witnessed the global economy's decisive struggle to restore normalcy. In this context, the gradual increase of global central banks' interest rates and the drop in stock markets, among other macroeconomic constraints, led to a subdued growth trajectory in the E&M market of 5.4% in 2022 (2,32 trillion of US$) compared to 10.4% in 2021.

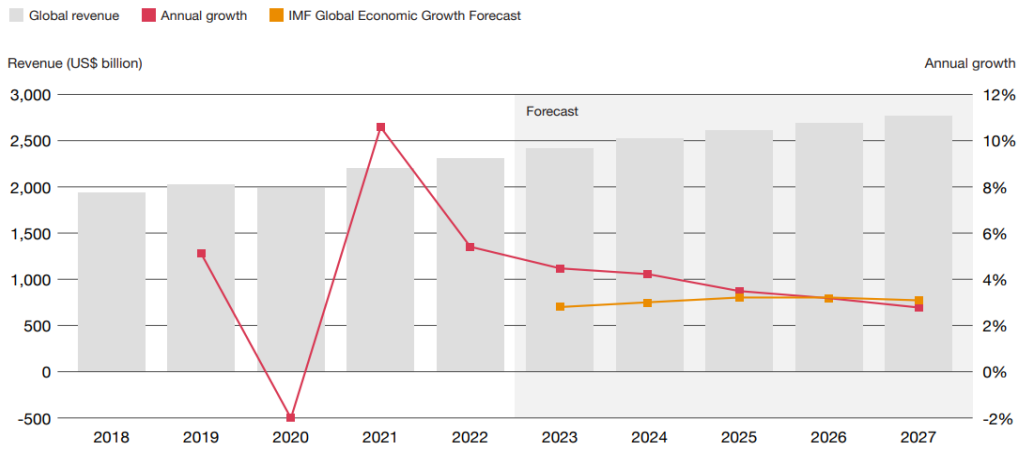


Figure 7: Global E&M annual growth
Source: PwC´s Global Entertainment & Media Outlook 2023-2027, Omdia, IMF

(PwC, 2023) (Figure 7) The perspective indicates that the growth rate will gradually decline within the upcoming five years, reaching a turning point where growth stands at a mere 2.8% compared to the preceding year, representing that the rate of overall economic growth that the International Monetary Fund (IMF) foresee to be higher (3.1%). This slowdown, essentially caused by the deceleration in consumer spending, has forced companies like Netflix to redefine expectations; the main decisions of the big players have been restructuring strategies by geographic hotspots and the search for efficient mechanisms of emerging technology, such as the creative process generated by AI. *(PwC, 2023)*

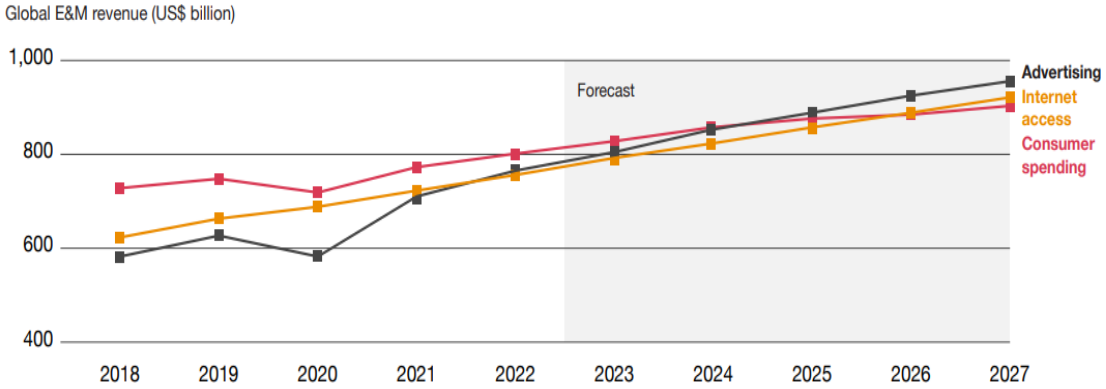


Figure 8: Approaching a trillion-dollar market
Source: PwC´s Global Entertainment & Media Outlook 2023-2027, Omdia

The downshift in consumer consumption, which has historically been the main driver of global E&M yield value, is forecast to grow between 2022 and 2027 at a rate of 2.4% CAGR (approximately $900 billion in 2027). In this context, analysts anticipate advertising to surpass this threshold by 2025, forecasting a CAGR of 4.5% over the same period (totalling $950 billion). This projection positions advertising as a potential pioneer, becoming the inaugural E&M category to attain an annual revenue of one trillion dollars. *(PwC, 2023) (Figure 8)*

In this sense, it is essential to balance the aforementioned situation with the ongoing transition that Netflix is undergoing in its business segments, as outlined in the preceding chapter. This transition involves the gradual shift across its operational markets towards an inclusive base plan featuring advertising.

3.2. Over-the-top Video

OTT video is a segment of the E&M industry that includes all providers that autonomously make content available to their viewers over the Internet as an alternative to cable, broadcast, or satellite providers. As a result, the intermediary between content producers and consumers is no longer necessary, justifying the use of the word “over” in this segment.

OTT industry total revenue is the sum of *TVoD* (transactional video on demand), *SVoD* (subscription video on demand), *AVoD* (advertising-based video on demand), EST (video downloads), and FAST (Free ad-supported streaming TV). *TVoD* differs from *SVoD* as it requires a subscription fee (Netflix also employs it), whereas *AVoD* derives its revenue from the advertisements that consumers engage with to access the content.

(PwC, 2022) The contents available are unlimited, appearing exponentially, making the market increasingly competitive in the face of the limited set of dollars the consumer has at his disposal. In this sense, platforms have recognized the need to strike an equilibrium, as their sources of income may not be sufficient for their growth ambitions; for example, Netflix lost subscribers for the first time in a decade (April 2022), in addition to a sharp drop in share price (similarly to many of the most prominent players).

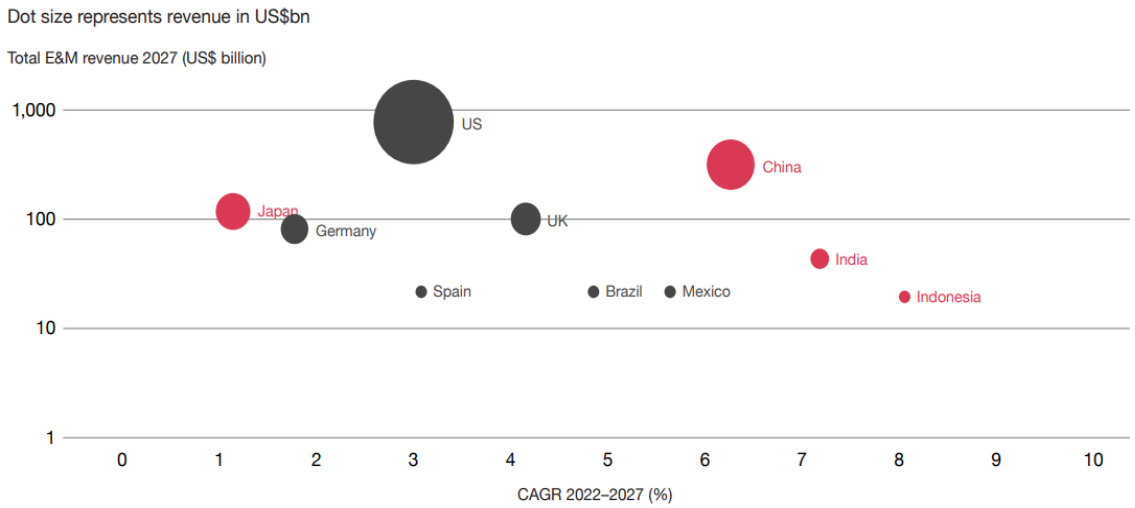


Figure 9: Expected E&M Growth by Geographic Markets
Source: PwC´s Global Entertainment & Media Outlook 2023-2027, Omdia

OTT streaming has grown more prominently in emerging countries due to the combination of typically underserved demographics, large-scale dissemination of mobile bandwidth, and increasing demand for regional and sports content. Consequently, major streaming providers are recognizing substantial growth prospects within this landscape.

Hence, in Asia, specifically Indonesia, India, and China, the growth hotspot is foreseen, through a convergence of critical elements, presenting a significantly higher CAGR rate considerably higher than those of the North American market, the largest segment (2.6%). As for China's second largest E&M market, a 6.1% CAGR growth rate is anticipated, primarily driven by increased internet advertising revenue of 9.1%. *(PwC, 2023) (Figure 9)*

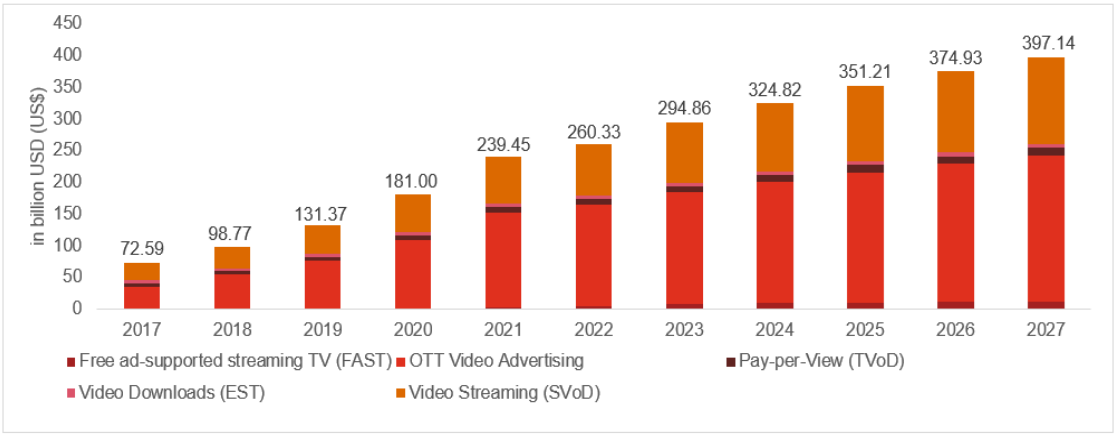


Figure 10: Revenues decomposition in the Over-the-Top video segment (FY17 – FY27)
Source: Statista´s Market Insights – updated in August 2023

(Statista, 2022) (Figure 10) The segment's revenue under review amounts to $260.33 billion in 2022, demonstrating a steady evolution projected through 2027, with an expected annual growth rate of 8.81%. Notably, the most substantial segment pertains to AVoD, sustaining its prominence throughout the covered period, with a market volume of $160.20 billion in 2022.

3.3. Streaming Video on Demand Market

As previously stated, *(Figure 9)*, the *SVoD* market is one of the OTT subsets expected to experience a gradual yet accelerated pace in the forthcoming years. Thus, among the *VoD* monetization models, *SVoD* generates revenue through paid subscriptions (akin to the business model employed by Netflix).

In 2022, the worldwide SVoD market generated $84.12 billion in revenue and hosted 1.2 million users. As a result, an expected CAGR of 10.04% will drive global revenue (2023-2027), resulting in a projected market volume of $144.04 billion by 2027 (1.6 million users). This trajectory signifies a rise in the user penetration rate from 15.2% in 2022 to 20.6% by 2027. Penetration varies globally, so the industry will likely grow at diverse rates in different countries. *(Statista, 2022) (Figure 11 & 12)*

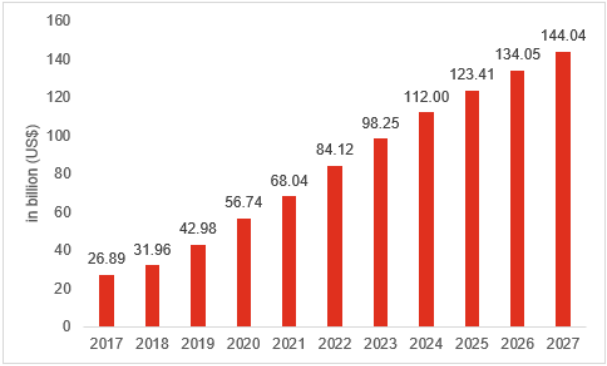


Figure 11: Worldwide SVoD Revenues (USD: FY17 – FY27)
Source: Statista´s Market Insights - updated in August 2023

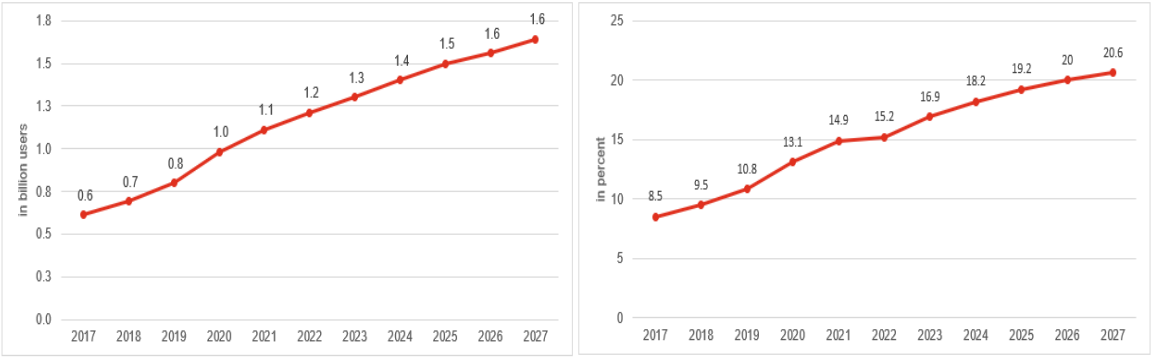


Figure 12: Global SVoD Users (in billions: FY17 – FY27) vs Global SVoD Penetration (in %: FY17 – FY27)
Source: Statista´s Market Insights

In a global comparison analysis, UCAN generated the most revenue in 2022 with US$34.1 million, with a clear dominance of the US of $32.350 million (representing a penetration rate of 44%), in sharp contrast to Canada's contribution of $1.704 million (equivalent to a penetration rate 38.6%). As a result, the forecasted 2023 ARPU in the US is $257.14, compared to $133.72 in Canada. Therefore, the discernible geographic variance becomes particularly evident when comparing the projected ARPU values to the global benchmark of $69.08. (Statista, 2023) *(Figure 12)*

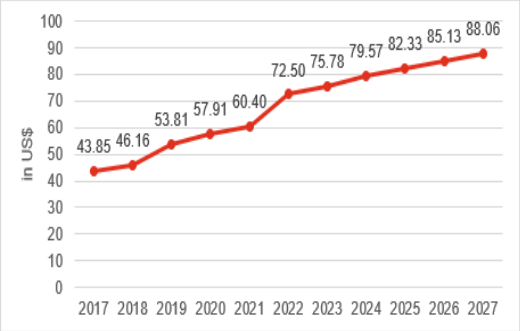


Figure 13: Average Revenue per User (FY17 – FY27)
Source: Statista´s Market Insights

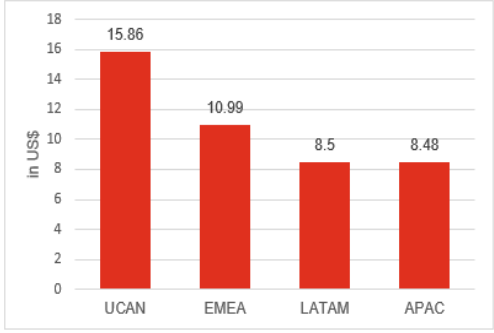


Figure 14: Netflix's worldwide ARPU in 2022, by market segment
Source: Statista´s Market Insights

In 2022, reports indicate that Netflix recorded an average revenue of 15.86 U.S. dollars per active paying streaming customer in North America, showcasing an increment from the preceding year's 14.56 dollars. Meanwhile, the monthly ARPU derived from streaming subscriptions in Europe, the Middle East, and Africa totalled 10.99 dollars in 2022, experiencing a minor decline compared to the figures recorded in 2021. In contrast, the Asia Pacific and Latin America regions exhibit comparable monthly profitability figures, hovering around 8.5 dollars in 2022. (Statista, 2023) *(Figure 14)*

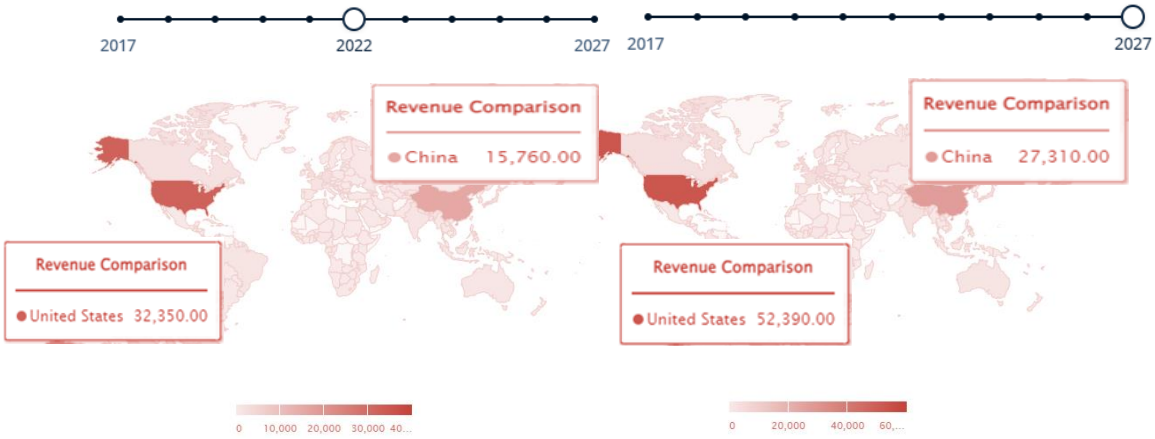


Figure 15: Global Revenue Comparation (FY17 vs FY27)
Source: Statista´s Market Insights - updated in August 2023

Projections indicate that the profits generated in the SVoD segment will remain relatively consistent till 2027, given the global geographic distribution. (Statista, 2023) (Figure 15) Furthermore, the anticipated trajectory indicates that the EMEA region will remain the preeminent leader in user engagement over the long term.

For its part, APAC should be the region that generates the lowest revenue among the geographical segments, a phenomenon attributed to Southeast Asia's propensity to consume its ARPU. Nevertheless, in terms of market penetration, the emerging market will be a big window of opportunity for streaming providers.

3.4. Competitive Overview

The video-on-demand streaming market is intensely competitive and subject to rapid changes, so even though Netflix is an industry veteran with a sizable market share, the company must constantly improve its product in the face of high competition. This industry's competition is so intense that it originated the term "Streaming Wars."

Thus, although there are constraints that create a barrier to entry in the sector, this trend has been reversing, as a result of technological dynamism, with the introduction of a more significant number of valuable companies appearing in the market, disputing the attention and interaction of viewers – consider Disney+, Apple TV+, among others.

According to the company's most recent annual report, Netflix identifies its competition as all video entertainment providers, distributors of multichannel video programming, streaming entertainment providers (including those providing pirated content), and video games. The company goes further, stating that it identifies as a competitor with any source of entertainment that its users can choose to enjoy in their free time; so, given the ecosystem of the entertainment market in which it operates, the competition entails raising exclusively licensed content as well as original content projects. *(Netflix, 2022)*

3.4.1. Streaming Wars

Streaming Platform	Monthly Price (US$. 2023 - Aug)	Subscribers Q4 2022 - in millions	Number of Originals	Ad tier
Netflix	$6.99 - $19.99/m (+$7.99 member)	231	3,600+	Yes
Disney +	$7.99 - $10.99/m or $110/y	137.7	1,200+	Yes
Amazon Prime Video	$8.99/m	208	390+	In the future
HBO Max	$9.99 - $19.99/m or $99.99 - $199.99/y	76.8	1,750+	Yes
Apple TV+	$6.99/m	47.6	55+	No
Hulu	$7.99/m or $79.99/y	41.4	80+	Yes
Peacock	$5.99 - $11.99/m or $59.99 - $119.99/y	20	unknown	Yes
YouTube premium	$7.99-$22.99/m or $139.99/y	80	unknown	No
Paramount +	$5.99 - $11.99/m or $59.99/y	55.9	35+	Yes

Table 1: Streaming Services Comparison (last available data)
Source: multiple sources

In the Streaming War, the differentiating factor that should reflect the platforms' success is the amount of content made available, given that content produced in the past with high recognition from the public and entertainment critics are valued, as is original content - here, justifying Netflix's great success with an extensive catalogue of over 3,600 exclusive movies and series. Disney+ also benefits from this condition due to the high visibility and recognition of its contents within the broader public sphere. *(Table 1)*.

Regarding subscriptions, Netflix has a significant advantage closely attributable to its maturity in the SVoD market. Amazon Prime Video, in this respect, has very high public loyalty because its streaming service is an integral part of its "Amazon Prime" service focused on its

commercial retail business. Meanwhile, Disney+ also stands out, achieving constantly higher subscription rates; the cause substantiates itself through its recent platform's shallow viewer saturation level and the substantial investment fund dedicated to producing original content.

The summary table also illustrates that most providers have incorporated ad-supported options into their initial plans. The operator boasting the lowest price is Peacock, driven by its decision to discontinue the provision of a free initial plan. This strategic shift, previously justified by subscriber loyalty, was revised to accommodate the surge in subscribers over the previous year *(Figure 16)*.

Contrary to previous projections, which foresaw Disney+ emerging as the SVoD platform with the highest number of subscriptions, more recent studies place Netflix as the leader until 2028. However, Amazon Prime Video has a very competitive number of subscriptions compared to Netflix, which will dictate that the performance of each provider in the short term could mean a change in the leader by 2028. *(Figure 16)*

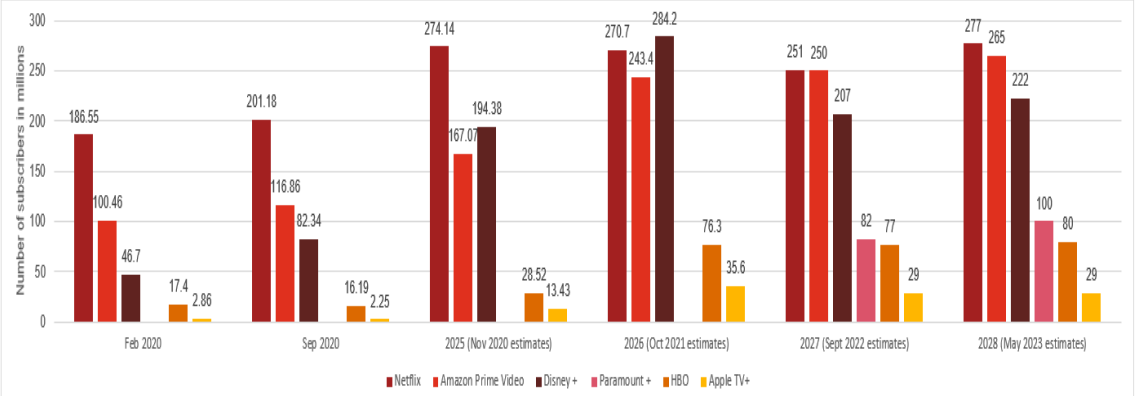


Figure 16: Number of subscribers by platform (2020-2028)
Source: Statista´s Website

In 2018, Disney+ acquired 21st Century Fox, a transaction encompassing the incorporation of TV station Star India—an esteemed streaming platform within India—and subsequently introduced "Disney Plus Hotstar." This strategic manoeuvre has positioned Disney+ as a prominent contender, intensifying provider competition. Notably, this transformation in the business model has led to a substantial decline in the streamer's Average Revenue Per User (ARPU) due to the markedly reduced pricing structures prevailing in these regions.

From this report, we realize national markets' extreme importance in the streaming video-on-demand market, which can impact global results. For example, Netflix suffers in the Dutch market, competing directly with local streaming services (such as Ziggo), which attract many viewers by providing content in their language and adapting to their culture. Additionally, pirated content can be discouraging for the high investment in creating original content for all the producers. *(Statista, 2022)*

3.5. Environmental, Social & Governance (ESG)

Company	ESG Risk Rating	Industry Group
Netlfix	16.3	Media
The Walt Disney Company	15.7	Media
Amazon	30.6	Retailing
Apple	17.2	Technology Hardware
Alphabet, Inc. (Google)	24.2	Software & Services

Figure 17: Netflix ESG Risk Rating & ESG scores major competitors (2022)
Source: Morningstar Company – Sustainalytics

Netflix exhibits a risk magnitude of 16.34, according to Sustainalytics' ESG Risk Rating. This system assists companies and investors in identifying problems related to ESG factors, consequently representing a material financial risk for organizations. This metric is an absolute measure of risk, enabling comparison between companies. The quantification assigned to Netflix emanates from the equilibrium achieved between its exposure — reflecting the company's limited vulnerability to ESG risks attributable to industry and business model specificities — and its management approach — indicating a moderate risk due to the measures employed by the company to mitigate identified risks, manifesting through initiatives, practices, or policies.

Netflix is ranked 126th out of 288 companies in the media industry, below its direct competitor Disney, and ranked 103rd with an ESG risk rating of 15.7. *(Morningstar Company, 2023) (Figure 17)*

(Appendix B) Some of the recent results and policies implemented by Netflix are listed in the aforementioned summary table.

3.6. Michael E. Porter´s five forces model

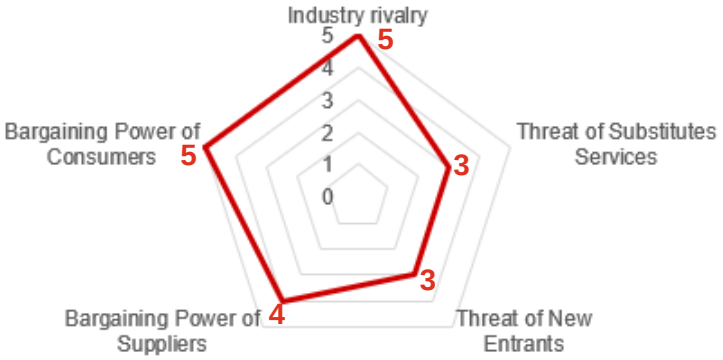


Figure 18: Michael E. Porter´s five forces
Source: Author Analysis

Kindly examine the analysis conducted in Appendix C.

4. Company Analysis and Forecasting

4.1. Stock Performance

Netflix's common stock (NFLX) began trading on the NASDAQ Global Select Market in 2002 for a $15 IPO. As of December 31, 2021, there were 2,788 registered shareholders, though there are many more beneficial owners of the company's ordinary shares. Netflix has never paid cash dividends on its share capital to its shareholders and has no plans to do so shortly. *(Netflix, 2022)*

Following its poor performance up to October 2002, the situation reversed, and less than two years after entering the stock market, the first stock split occurred (February 12, 2004) in a two-for-one split when it was trading at $71.96. The company made the decision when it surpassed $1 billion in market capitalization, closing at $37.30 per share (ROI 397% since the IPO), and still only operated with a DVD-by-mail subscription service.

Later, in 2015, as a result of exponential growth in subscriptions, with an emphasis on the international market, Netflix leveraged the shares to around $700 each, becoming one of the most expensive stocks traded in the S&P 500, deciding on July 15, perform a seven-to-one stock split, which closes at $98.13 per share (ROI 9.058% since the IPO).

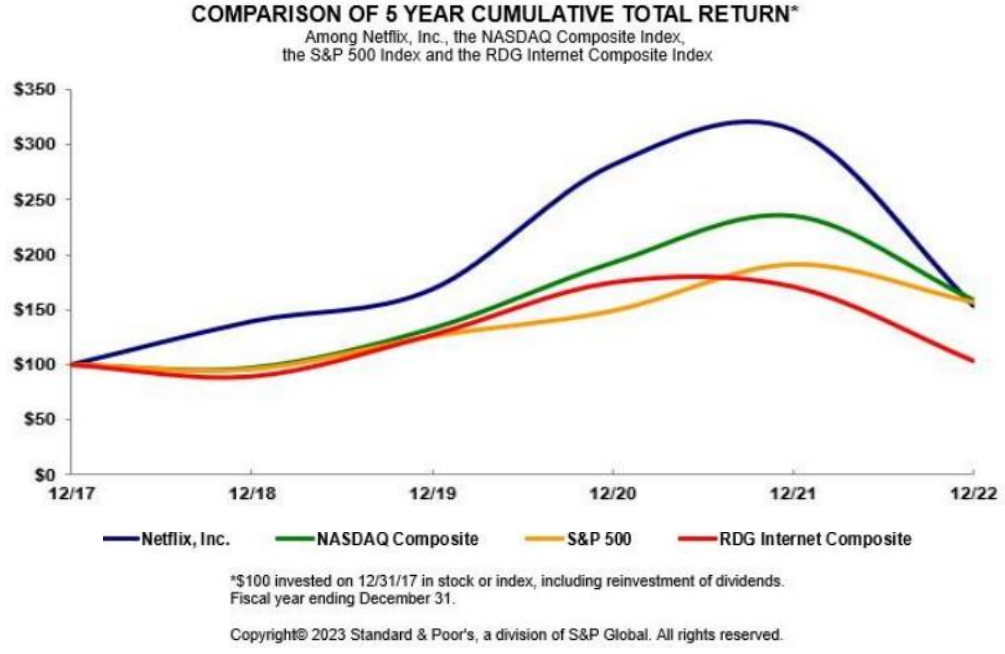


Figure 19: Comparation of 5-year cumulative total return (2017-2022)
Source: Netflix 2022 Annual Report

Derived from the contents of Netflix's annual report, the cumulative total shareholder return (for every $100 invested five years ago) as of December 31, 2022, is compared to the cumulative total return of the NASDAQ, S&P 500, and RDG Internet indices. Note that the measurement points correspond to the final trading day of each Company's fiscal year ending on December 31.

This analysis reveals that when juxtaposed with the leading indices, Netflix is undergoing a counter-cyclical growth phase concerning favourable return margins. Nonetheless, its performance aligns closely with the benchmark NASDAQ and the S&P 500 set while maintaining a distance from the RDG Internet Composite Index - which means that Netflix holds a significant position within these portfolios *(Netflix, 2022) (Figure 19)*

Netflix is a company comprising the FAANG shares, a group of big tech companies in the US market - this group gained substantial prominence during the recent bullish market. The table delineates the return generated by these shares over the past decade, of which only Alphabet does not exceed a 1,000% growth rate. Notably, the furnished figures have already incorporated the 2022 setbacks experienced by Meta and Netflix, both of which encountered a 70% decline. Although FAANG companies "faced heightened scrutiny and profit-taking by investors seeking opportunities in other sectors," they remain remarkably profitable over the long term. (Groves, 2023) *(Figure 20)*

Name and stock market ticker	Market cap. ($ trillion)	10 year total returns
Apple (AAPL)	$2.9	1,625%
Netflix (NFLX)	$0.2	1,492%
Meta (META) (previously Facebook)	$0.7	1,314%
Amazon (AMZN)	$1.3	1,004%
Aplhabet (GOOGL) (previously Googlw)	$1.6	566%

Figure 20: FAANGs performance - 10-year total returns
Source: Forbes Advisor (Morningstar Direct – 19 June 2023)

Figure 21: Netflix's PE Ratio (Set 2020 – Aug 2023)
Source: Finance Charts

The PE Index was 32.86% on December 31, 2022, a low value given the historical ratios of the provider. Nevertheless, higher than that recorded between Q2 and Q3 of the year, consistently below 25%. The latest data, referring to the Q2 of 2023, attributed Netflix a ratio of 47.39%, to which, among FAANG shares, only Amazon is superior. *(Financial Charts, 2023) (Figure 21)*

4.2. Profitability

Netflix's profitability has emerged recently, with revenues increasing at a CAGR of 8.15% between 2020 and 2022. Nonetheless, the relative year-over-year (YoY) revenue growth rate for the same period decreased from 24.01% in 2020 to 6.46% in 2022. *(Appendix D)*

Revenues have increased across all geographic segments, with UCAN continuing to be the region with the highest expression, with more than $14.1 million in revenue in 2022. However, it is also the region with the lowest growth rate for the period under consideration between 2020 and 2022 (6.76% CAGR), as opposed to APAC, which grew faster at 14.60% CAGR. *(Figure 22)*

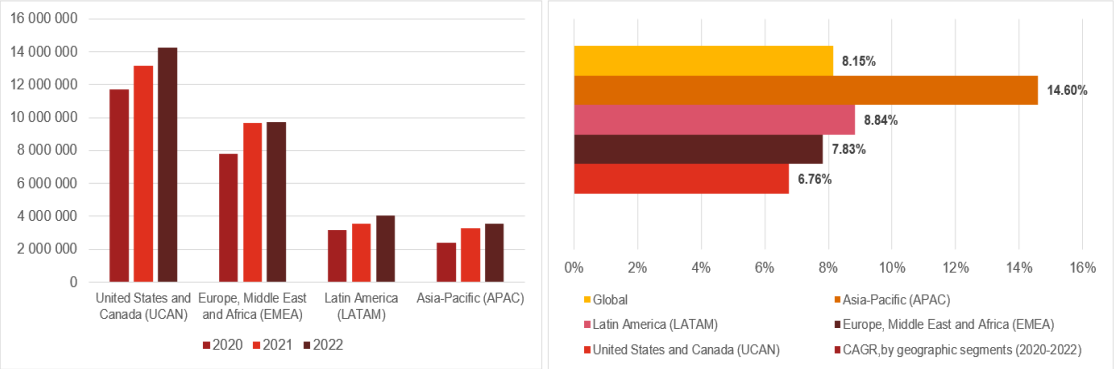


Figure 22: Netflix`s revenues & CAGR per geographic segments (2020-2022)
Source: Netflix´s Financial Statements, Fourth Quarter Earnings 2022

Netflix's ROCE exhibited a consistent upward trend between 2017 and 2021, implying that the company was becoming increasingly efficient at employing capital. Nevertheless, the indicator decreased to 24.53% in 2022, which is justified by the decline in the profitability of investments due to the drop in operational efficiency during the reference year. Additionally, this fluctuation reflects the challenges that Netflix faced, given the unfavourable economic environment, especially for the activity sector of large technology companies, with the end of the recent bullish market.

Both the ROCE and ROE should rise over time; even so, given the aggregated historical data, it is possible to state that Netflix consistently demonstrates its adeptness in generating shareholder value by effectively reinvesting profits. In 2022, the average ROE for S&P 500 companies was roughly 21.17%, which Netflix outperforms.

The ROA in 2022 was 9.64%, which shows that Netflix's management is ensuring, at a reasonable level, the efficient usability of its resources. Of course, the comparability between other companies in the sector is not very easy to perform since most operate in a broader market than just streaming and production; even so, according to Finbox (2023), the company is in the 84.7 percentiles for their industry, which is a frankly positive outcome.

The rate of return on invested capital (ROIC) aligns with the abovementioned indicators, registering 13.49% in 2022, justified by Netflix's decrease in profitability and, consequently, allocation of funds. *(Appendix E)*

4.3. Liquidity and Solvency

At Netflix, the account receivables balance is null since receipts are processed instantly; hence the Quick Ratio and Cash Ratio are the same for the period considered in this report.

Between 2017 and 2020, both ratios showed an upward trend, following the increase in cash and cash equivalents, reaching a value of 1.05 in 2020. This figure indicated that the company was in a favourable situation, with sufficient cash and cash equivalents to pay off all short-term debts. However, from fiscal year 2021, the indicator decelerated, reaching 0.76 in 2022, which given Netflix's specificities, is adequate given the substantial investment in the creation and licensing of content (and not interpreted as an indicator of risk). Thus, despite the general decline in Netflix's financial performance, in 2022, current assets were sufficient to cover the integrity of the current liquidity ratio.

Following the company's expansion strategy, Netflix has been resorting to debt, reaching $14.353 million in the last year, exclusively in senior notes issued at par and assuming semi-annual payments at fixed rates.

Regarding the debt/equity ratio, Netflix's ratios have consistently declined since 2019, culminating in a value of 81.49 in 2022, a drop that already exceeds twice the average values recorded in the period covered in the table above. The previous ratios did not translate into unstable financial health for the provider since the financial risk was covered through efficient debt management to leverage its equity returns and growth opportunities. Still, the current ratio suggests that the company has more equity than debt, inevitably translating into less risk exposure for the company.

The debt to total assets ratio provides insight into how financially stable a company is; the Netflix ratio for 2022 (34.84) falls within the reference range the market considers comfortable. In this context, Netflix takes advantage of the benefits of debt acquisition tax while not being burdened, indicating that the firm is financially stable with no related risk of default. *(Appendix F)*

4.4. Revenue

Netflix's revenue derives from two distinct sources: domestic DVD (US) and streaming revenue. For the first source of income, with the progressive decline in subscriptions, we assumed this premise for the period under analysis, given its immateriality.

Nevertheless, the secondary source of revenue is responsible for Netflix's performance as a leader in the SVoD sector. Furthermore, as of 2017, the company began disclosing financial data partitioned down into four distinct geographic segments; thus, given the importance of the company's internationalization strategy, our (descriptive) analysis will be oriented towards this segmentation, adjusting the different indicators to the behavioural nuances inherent of each geographical sphere.

In this sense, the selected model[1] is aimed explicitly at the SVoD industry (through a bottom-up approach), which has as a critical element the consideration of the three key revenue drivers of this operational framework, namely:

1. Existing subscribers and the renewal rate;
2. New subscribers and their renewal rate;
3. Monthly fees and price fluctuation.

For every enterprise encompassed in this business model, regardless of size and growth rate (as long as it is at an average level), the primary source of revenue is closely related to the first key driver. Netflix, in this regard, is no exception. The rationale behind this conclusion aligns with the premise that a portion of existing user at the start of period n will renew their subscription throughout year n (regardless of the fluctuations between available plans they decide to do). This behaviour tendency then allows us to estimate, with significant precision, the number of subscribers who persistently uphold their monthly subscriptions during the entire period n.

However, over its existence, Netflix has not disclosed its churn rate (a metric of the company's customer turnover metric). Moreover, since this indicator is crucial for the accuracy of our forecast, we took into account sources that seemed credible to assume an indicative value, namely: an article by a former Netflix CPO who stated that by 2020, the monthly churn of customers was close to at 2%; and a report by Antenna, which displayed that in Q3 the rate was 3.5%, after an increase of +0.1p points compared to Q2, and +1.5p compared to the preceding year *(Antenna, 2022) (Figure 23)*. Thus, considering that the values do not undergo significant changes, even because the trends in the SVoD market pointed to stabilization and some prudence requirements, we considered a churn rate of 3.75% as an indicative benchmark.

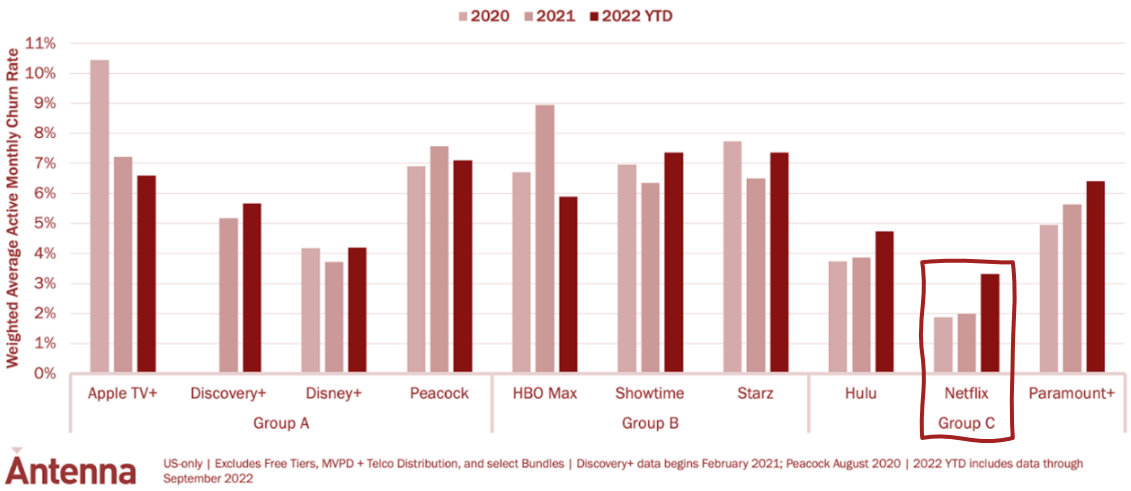


Figure 23: Premium SVoD Weighted Average Active Monthly Churn Rate (FY20 – FY22 YTM)
Source: Antenna

[1]See step by step video guideline: https://www.youtube.com/watch?v=_MtzsX3F_qE (Mergers & Inquisitions, 2016)

Based on the assumptions stated above and considering that the churn rate fluctuates between the different regional segments, we guarantee that the weighted average of churn rates, factoring in the number of existing subscribers in 2022, was 3.75%. Although, we projected a lower rate of 3% in the company's principal market (UCAN), as consumers perceive Netflix as a supplementary offering rather than a substitute. Followed by EMEA, with 3.75% (which, given historical information and significant European contribution), is the next region with the lowest turnover rate. Finally, given the standard of living and severe competition, the LATAM and APAC regions assumed rates of 4.2% and 4.7%, respectively, although more prominent in the latter (with the significant introduction of local OTT companies).

Next, we presume that renewal rates would decrease repeatedly due to the expected grow in the subscriber group in each segment. Here, and in line with the aforementioned geographic rationale, we forecast an annual decline of 0.5%, 1%, 1.5%, and 2% until FY28.

The second key driver is the principal driver of revenue growth in subscription-based business models. Empirical observations drawn from historical datasets of several companies in the sector reveal that new subscribers cancel their subscriptions more quickly than existing ones during the initial year. As a result, we initiated the analysis by employing the previously stipulated churn rates for existing subscribers and raising them by 2%. Furthermore, to be deemed an existing subscriber, a new subscriber must remain loyal for at least one year; consequently, new users would have the same renewal rate as existing users after the first year.

Additionally, within the scope of net growth rates at the level of the company's subscribers, the projection was established based on the number of subscribers in the prior year (n-1). Here, and in order to make our projection as accurate as possible, three different factors were accounted for, namely:

a) the rates of subscriber additions were derived based on figures released by forecasts from relevant sources within the market. Notably, Statista's estimate that by 2028 the number of subscribers will reach 277 million; the latest study conducted by Digital TV Research corroborated the projected number of subscribers, increasing the degree of reliability of this assumption;

b) within the scope of the number of subscriptions to be achieved by 2028, and based on the study above, using a constant annual growth rate, the provider's subscribers expect a growth rate of 3.09%. However, considering the preceding financial year marked a paradigm shift characterized by fluctuations in Netflix's growth trajectory, including subscriptions and share unit value, it was decided to apply a recovery rate of 50 % higher for the year 2023, translating into a growth rate of 4.64% – on account of information released by Netflix, a decision supported by information published by Netflix in its second-quarter earnings report

and addressed to shareholders. Consequently, this assumption means a rate correction for the remaining period of our projection (FY24 E – FY28 E) from 3.09% to 2.79% *(Table 2)*;

c) despite the estimated addition rates, being oriented toward the number of subscribers to be attainable (shown in the table above), also were defined percentage ranges for each of the operational segments in which Netflix operates to ensure that they respected the company's strategy in capturing subscribers. For instance, lower rates were applied at UCAN by at least 50% of the APAC, given the former region's higher level of market consolidation when compared to the latter, which, as we mentioned, is seen by the market as the growth hotspot, and where Netflix has already confirmed its proactive efforts in defining strategies to achieve a progressively higher market share.

	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Paid # memberships at end of period	230 747	241 448	248 173	255 086	262 191	269 494	277 000
Subscribers Growth YoY	4.64%	2.79%	2.79%	2.79%	2.79%	2.79%	2.79%

Table 2: Netflix's paid membership forecast (base scenario: FY22 – FY28 E)
Source: Own estimates

Regarding the third key driver, our approach started from the data disclosed on Netflix's 10-K form regarding the average monthly subscription fee, also known as ARPU. However, since it is impossible to predict exchange rate fluctuations consistently, we relied on the IMF's inflation projection for the time frame under consideration. Thus, although Netflix's high pricing power is known, it fluctuates significantly depending on the region. In this sense, except for the UCAN region, where we maintain the forecasted inflation rates for forecast integrity, the other segments were only considered a portion of inflation for FY23, considering the circumstances in which Netflix currently operates in the short term, with the stabilization (retention) of the number of subscribers being critical, where the introduction of a new plan featuring advertising further amplifies this significance.

Within the EMEA segment, with only Europe being more susceptible to accepting price changes and considering Netflix's historical performance in these markets, we only considered one-third fluctuation in inflation. Again, given the circumstances and internal cost-oriented strategy, a conservative 25% level of inflation for both the EMEA and APAC segments was considered. Moving forward into the subsequent years (FY24 – FY28), there are no assumptions about the inflation rates disclosed by the IMF. *(Appendix G)*

After comprehensively considering the assumptions above, we established the average annual fluctuations in subscribers and the average monthly fees per subscriber (ARPU). Moreover, through the product between them, we derived the profitability of streaming revenues by segment. *(Figure 24) (Appendix H – Base Scenario)*

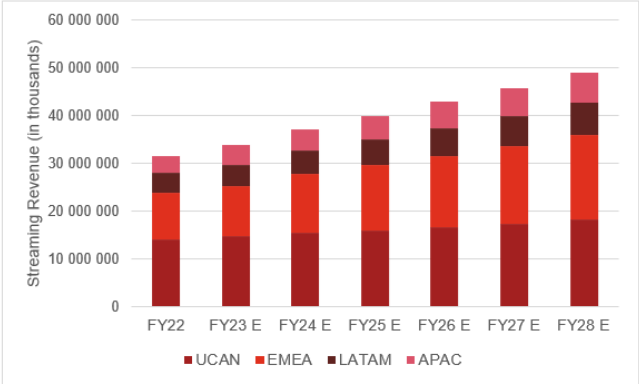


Figure 24: Netflix´s projected streaming revenue in thousands of dollars (FY22 – FY28 E)
Source: Own estimates

Finally, given the immateriality of Netflix's income sources for the domestic DVD segment, we forecast that revenue would continue to align with historical trends, as evidenced by a CAGR of -20.21% for 2017-2022 *(Figure 25)*.

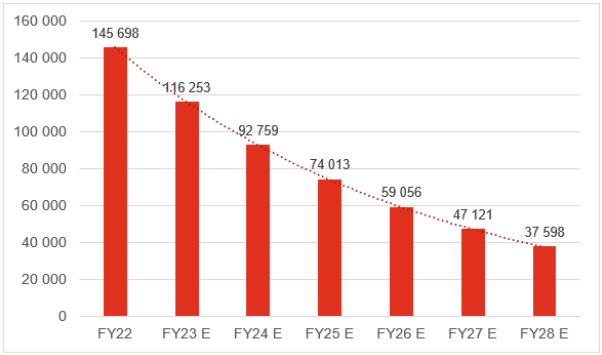


Figure 25: Netflix´s projected domestic DVD revenue in thousands of dollars (FY21 – FY28 E)
Source: Own estimates

4.4.1. Scenario Analysis

The selected model suggests the feasibility of analysing scenarios in the forecast of the provider's revenues. This approach allows us to obtain a comprehensive perspective of the potential outcomes by considering fluctuations likely to occur in the long-term alignment face to the initially defined assumptions. In this sense, four scenarios were considered in addition to the base one, explained in detail above, with expected changes in the first two key drivers, as shown below. *(Figure 26)*

Scenario	Key driver 1		Key driver 2
	Existing Subscriber Renewal Rate	New Subscriber Renewal Rate	Subscriber Adds
Upside	+ 0.5%	+ 0.5%	+ 0.5%
Extreme Upside	+ 1%	+ 1%	+ 1%
Downside	- 0.5%	- 0.5%	- 0.5%
Extreme Downside	- 1%	- 1%	- 1%

Figure 26: Alternative scenarios employed in the Netflix´s revenue forecast
Source: Own estimates

Adopting a dynamic model makes it possible to evaluate the volatility of streamer's revenue based on the main drivers of the business model and its impact on the implicit stock price, to be explored in the last chapter of this dissertation.

Recently, Netflix has seen its annual growth rates in terms of revenue increase exponentially, perpetuating the bull market moment in which technology enterprises lived. Nevertheless, during the pandemic resolution phase, the provider and many other companies in the same sector witnessed an extreme slowdown, indicative of market saturation reaching unprecedented levels. This phenomenon already impacted the 2022 fiscal year, with a growth rate of slightly 6.62%.

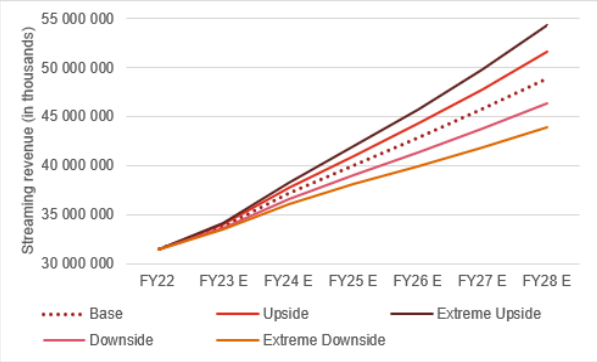


Figure 27: Case scenarios of streaming revenue (FY22 – FY28)
Source: Own estimates

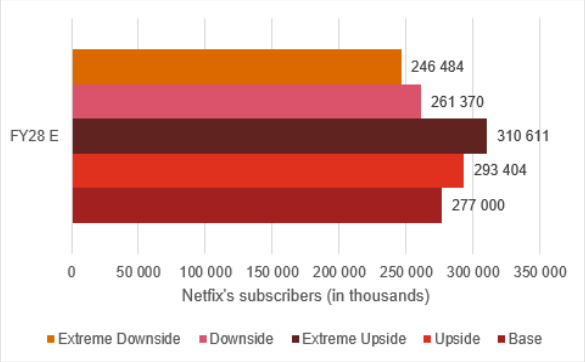


Figure 28: Case scenarios of streaming subscribers (FY22 – FY28)
Source: Own estimates

Next, about the base scenario, an average annual growth rate of streaming revenues of 7.63% is expected, anticipating that 2028 profit would exceed 48.9 billion dollars. On the other hand, the upside scenario would grow at a rate of 8.58%, and the extreme upside at 9.53%. In contrast, the downside scenario would already present a rate of 6.67%, compared to the extreme downside of 5.72%. This analysis underscores Netflix's trajectory toward a mature growth stage, characterized by a steady market presence, as evidenced by the subtle percentage variations across scenarios. *(Figure 27)*

Concerning the number of subscribers, the base scenario presents the indicative value of Statista's forecast of 277 million, and, given the scenarios set up, the expected number of viewers will fluctuate within a range between 246 million and 311 million. *(Figure 28) (Appendix H – Upside Scenario, Extreme Upside, Downside Scenario and Extreme Downside)*

4.5. Investment in Content – Strategy and Forecast

Netflix has been restructuring its content strategy available to its subscribers, so the firm increased its proportion of created content (in net terms under content assets) from 19.75% in FY17 to 61.11% in FY22. *(Appendix I)*

Netflix has been deliberating internally about the slowdown in revenue growth, which it believes is predominantly a result of connected TV adoption, account sharing, competitive

pressures, and macroeconomic influences such as sluggish economic growth, largely thanks to the impacts of the Ukrainian conflict (Netflix, 2023). Despite these challenges, in the latest communications to shareholders, the company stated that the revenue decline would not affect its content production; this assertion substantiates by Netflix's recent announcement of its acquisition of a prominent animation studio, a strategic move aimed at fortifying its commitment to developing top-tier animation content.

Additionally, Netflix emphasized the growing significance of producing content in languages other than English to create an impact in many of the geographic points where it operates and spread stories of local impact to its entire subscription community. As well as acquiring three game studios, in line with its new long-term commitment to this specific market.

Indeed, the corporation's strategic intent is evident in its commitment to amplifying investments in content development while concurrently concentrating on competitive dynamics. The previously mentioned acquisition is a clear example of this, as its competitor Disney+ has a consolidated position within the market on animation production.

Thus, Netflix will continue to spend a significant amount of money since its production temporarily triggers the related expenditures, with a direct return only after its release on the platforms. In this regard, the corporation disregards the short-term deterioration of FCF performance, the influence on short-and long-term ROIC, and the strength of growth.

Beginning with the assumption that the expansion of Netflix's membership base is closely related to the delivery of high-quality content tailored to the various geographic realities in which it operates. Subsequently, our predictions anticipate that content expenditures will behave similarly to the expected proportion of revenues for the period under consideration (FY22-FY28), indicating the company's size and leverage potential. *(Figure 29) (Appendix J – [C] Content Assets, Net)*

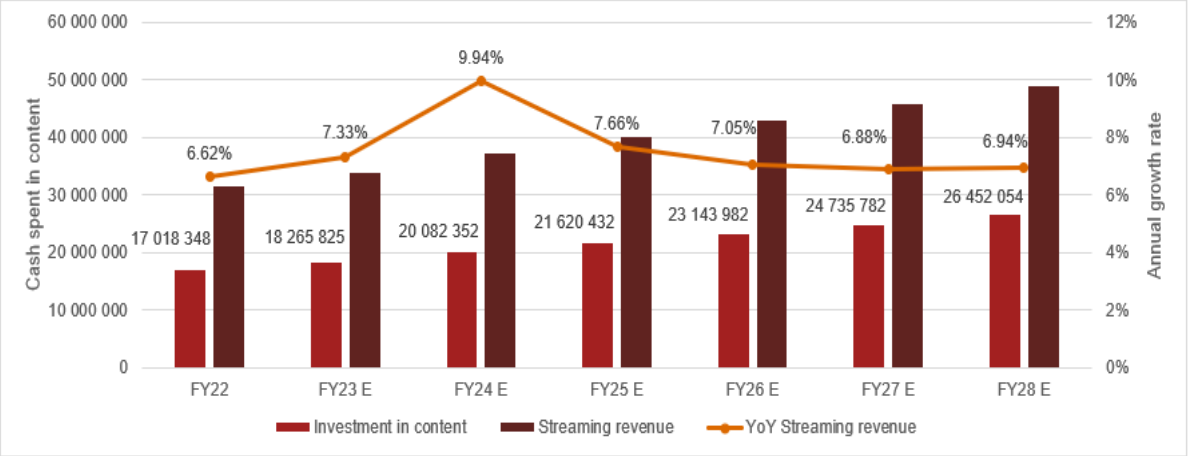


Figure 29: Netflix´s Investment in content – thousands of dollars (FY22 – FY28)
Source: Own estimates

4.6. Cost of Revenues

According to the information disclosed on Netflix's 10-K form for FY22, it is clear that the revenue costs come from two different sources, namely:

a) amortization of content assets – content acquisition, licensing, and production expenses;

b) streaming delivery costs and other operations costs.

The first source represents most of Netflix's yearly cost of revenues, accounting for ~73.17% of the historical data considered in our estimates for the valuation period, on average. Amortization is accelerated based on "the shorter of each title's contractual window of availability or estimated period of use or ten years, beginning with the month of first availability." This accelerated nature is due to the corporation expecting a higher flow of viewing at the launch of the content, referring that "on average, over 90% of a licensed or produced content asset is expected to be amortized within four years after its month of first availability." (Netflix, 2022a, p. 44)

The remainder is related to the second source; The company's global content delivery network, "Open Connect," predominantly absorbs the cost of streaming delivery, enabling the transmission of a high volume of content to its subscribers spread across different regions. The acquisition costs are related to the same software, encompassing payroll, personnel expenses, third-party costs, customer service, payment processing fees, and all costs incurred directly in streaming the content to its subscribers. (Netflix, 2022a, p. 44)

Returning to the first cost source, the content accounting used by Netflix (2022a, p. 44) in the amortization approach has a subjective character. Considering the streamer’s latest financial data, it is impossible to guarantee with a comfortable level of confidence that, on average, 90% of the streaming content amortizes within four years after its release, warning that "our estimates related to these factors require considerable management judgment," implying potential adjustments to the abovementioned amortization levels.

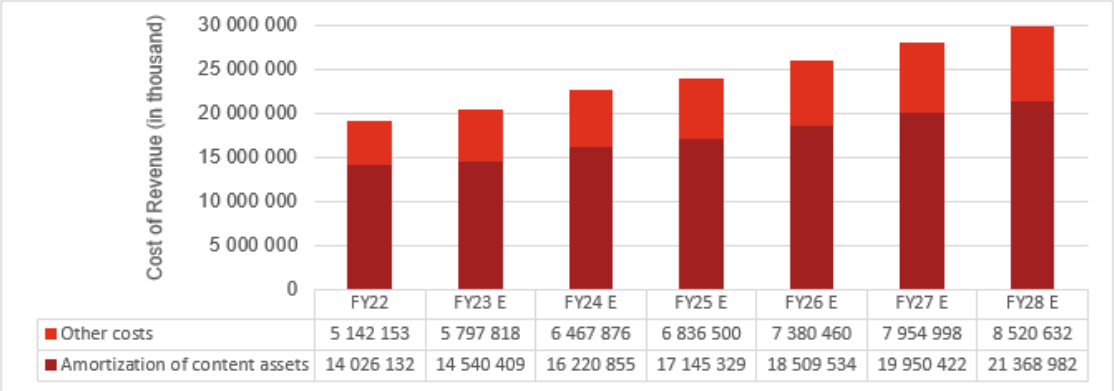
Effectively, between FY17 and FY22, cash expenses with content have been successively higher than the disclosed amortization costs *(Appendix K).* Therefore, investors should consider and integrate this data into their valuation, particularly in the current period that Netflix crosses.

In this concern, and since we had already forecast the investment in content for the entire duration of our valuation, we decided to correlate this information to the amortization expenses, guided by the following rationale:

i) we determine the amortization of content assets based on investments in content over the last four years (inclusive) using historical data from the period between FY17 and FY22, subsequently translating into the calculation of the weighted average between FY20 and FY22 – estimating a rate of ~22.27%;

ii) we applied the rate of ~22.27% on the investment in content from FY23 to FY28, thus obtaining the projection for the amortization costs. In this way, we disregarded the above accounting policy to avoid overlooking the prudence requirement associated with our valuation;

iii) we also consider that Netflix amortizes licensed content considerably faster than produced one. Thus, based on the company's objective of achieving an increasingly significant share of content produced, we adjust the amortization rates for each type of content to this trend.



	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Other costs	5 142 153	5 797 818	6 467 876	6 836 500	7 380 460	7 954 998	8 520 632
Amortization of content assets	14 026 132	14 540 409	16 220 855	17 145 329	18 509 534	19 950 422	21 368 982

Figure 30: Netflix´s expected cost of revenue – thousands of dollars (FY22 – FY28)
Source: Own estimates

Later, we calculated cost source b), named by Netflix as "Other costs," as a weighted average of these by total revenue costs – ~28.51% (FY20 – FY22). We guarantee that the revenue costs equal the sum of amortizations (cost source a)) with these "Other costs" (cost source b)) maintaining the same percentage allocation throughout the projections. *(Figure 35) (Appendix J – [B] Cost of Revenues)*

4.7. Marketing, Technology and Development, and G&A Forecast

In addition to the revenue costs presented above, we must also consider other expenses related to the company's core business, namely:

a) Marketing – advertising expenses (promotional activities: digital and television), payroll, and related expenses for personnel that support marketing activities;

b) Technology and development – payroll and related expenses for technology personnel responsible for making improvements to Netflix services, general use computer hardware and software;

c) General and administrative – payroll and related expenses for corporate personnel, professional fees, and other general corporate expenses. *(Netflix, 2022)*

Regarding marketing costs (a), the company's strategy focuses entirely on the streaming industry. On the other hand, Netflix is known for its highly effective communication campaigns, oriented towards its long-term vision, prioritizing investment in campaigns for its self-produced titles, and growth with local communities in line with its international expansion strategy.

The company's historical data shows that the percentage spent on marketing, proportionally compared to revenues, has decreased, representing approximately 8% in FY22. Thus, commencing with the -5.03% negative CAGR observed during the period between FY20 and FY22, we applied it to the period of our projection since we believe that in the coming years, despite the fierce competition, the increase of its produced contents unknown to the public, and betting on a new segment (video games), Netflix should see its marketing costs decrease at a slower pace cause is at a stage of maturity in the market, with its brand image established and moving towards greater operational efficiency.

Concerning technology and development costs (b), the proportion of expenses in relation to income has not undergone any materially relevant fluctuation, so we will consider a static ratio of 7.86%, referring to the weighted average of the historical information considered in our projections.

Finally, concerning general and administrative costs, historical data tells us that Netflix has been growing its costs in proportion to its revenues at a meagre pace, as the CAGR between FY19 and FY22 was just 3.28%. Here, once again, the latest internal communications released by Netflix reveal its strategy to deal with the "password crackdown" effect and the adoption of other functionalities related to artificial intelligence. In this sense, the company will have to spend a greater cash flow than historically to efficiently monetize password-sharing accounts and review processes adopted to make them more independent of human understanding. Therefore, for the projected period, Netflix should continue to see its general and administrative costs increase, although at a slower rate, also considering the initial stage of maturity in which it finds itself. *(Appendix L) (Appendix J – [C] Operating Expenses)*

4.8. Non-operating Items

Concerning interest expense, Netflix (2022a, p. 23) assumes that it "consists primarily of the interest associated with our outstanding debt obligations, including the amortization of debt issuance costs." In this sense, we considered all the company's reporting on its debt, entirely in the form of senior notes, almost unchanged between FY22 and FY21. Additionally, we project an annual financial expense based on each senior note's average opening and closing balances, increasing in specific years due to the expected maturity until FY28.

On the other hand, "interest and other income (expense)" predominantly consolidate "foreign exchange gains and losses on foreign currency denominated balances and interest earned on cash and cash equivalents." Here, the item's weight in FY22, as a percentage of revenues, was considered by applying to the projected revenues for the entire period. This decision was because the exchange rate estimate was inaccurate, in addition to the fact that the weight of senior notes in euros represents about 30% of the debt. *(Appendix J – [D] Interest and Other Income (Expense))*

4.9. Income Taxes

The information released on Netflix's 10-K form for FY22 reinforces that the company's operating deferred income taxes are mainly due to Federal and CA R&D tax credits. In this context, "The R&D tax credit equals: 15% of the excess of California qualified research expenses for the taxable year over the base period research expenses". (AndreTaxCo, 2022)

The R&D tax credit is a tax incentive that allows US businesses to expand their research and development spending by reducing or refunding the tax (Berry-Johnson, 2022). For R&D projection purposes, California allows the use of two different methods, the regular and the simplified, at a credit rate of 15%. However, the second often generates lower credit amounts. *(Howes, 2021)*

As a result, because no conditions prevent adopting the Alternative Simplified Credit (ASC) approach, this will be chosen for our valuation forecasts. In this sense, the following steps were considered:

a) calculation of Netflix's 3-year average qualified search expenses (QREs);

b) our base amount will be the previous 3-year average considered at a rate of 50%;

c) where later, must deduct this amount b) from the QREs calculated for the company's current year to obtain the credit assessment by applying a rate of 15%. *(Berry Johnson, 2022)*

The statutory rate in the US was 21% from the fiscal year 2017. However, due to legal adjustments, Netflix has only paid the effective rate. As a result, we do not assume any modification directly altering the effective rate in any of our estimates.

Thus, following the calculation of non-operating items, we obtained pre-tax income.

First, the US federal statutory tax rate expected through FY28 of 21% was applied to get the "Expected tax expense." Subsequently, to calculate the "current income tax," the "Excess tax benefits on stock-based compensation" was added, projected based on a 2-year moving average, considering the variable nature of the remuneration of equity ownership rights in the company.

Ultimately, when comparing our methodology to that of Netflix, it is evident that we analyse fewer tax effects than the company. Nonetheless, we are secure in our approach because the recalculation of the effective rate for the historical period under consideration was highly accurate. *(Appendix J – [E] Benefit from (Provision for) Income Taxes)*

5. Peer Group

In the context of conducting a relative valuation of Netflix, as part of the final section of this dissertation, we have identified a cohort of peers. In this sense, we identified a set of companies that, essentially due to their business model, are likely to be considered for a comparative analysis of future performance. Nonetheless, most of these companies predominantly derive their core revenue streams from sources other than the SVoD market.

	Company	Ticker	Industry	Hist Market Cap (Value) $B - 31/12/2022	Net Margin	ROE	Debt/Equity	Beta (5Y Monthly)	Revenue CAGR FY20 - 22
	Netflix Inc	NFLX	Entertainment	131.32	13.04%	22.51%	69.08%	1.29	17.11%
1	Apple Inc	AAPL	Technology	2 058.40	25.31%	175.50%	238.81%	1.27	21.71%
2	Alphabet Inc (Google is a subsidiary, Youtube)	GOOGL	Software	1 133.67	21.20%	23.62%	5.86%	1.06	29.62%
3	Amazon.com, Inc. (prime video)	AMZN	E-commerce	860.33	-0.53%	-1.91%	60.60%	1.24	20.15%
4	Meta Platforms Inc (Facebook)	META	Internet	314.57	21.19%	19.72%	8.44%	1.23	21.28%
5	Walt Disney Co (also owns 90% of Hulu)	DIS	Entertainment	154.73	4.30%	3.48%	51.18%	1.29	14.48%
6	Comcast Corporation (NBCUniversal - Peacock)	CMCSA	Telecommunications	147.56	4.06%	6.07%	123.52%	0.99	12.75%
7	AT&T Inc.	T	Telecommunications	131.22	-5.69%	-6.32%	139.51%	0.61	-4.33%
8	BCE Inc	BCE	Telecommunications	54.25	12.10%	12.80%	174.35%	0.49	8.62%
9	Charter Communications Inc	CHTR	Telecommunications	51.76	10.83%	43.64%	1070.33%	1.12	10.36%
10	Warner Bros Discovery Inc (HBO Max)	WBD	Telecommunications	23.04	-21.58%	-25.12%	104.61%	1.52	85.37%
11	Fox Corp (tubi)	FOXA	Entertainment	16.28	8.40%	11.41%	69.47%	0.87	14.77%
12	Paramount Global (Pluto TV, Showtime)	PARA	Entertainment	10.97	3.45%	3.19%	68.79%	1.69	13.71%
13	DISH Network Corp	DISH	Telecommunications	7.46	14.23%	13.76%	118.99%	1.84	8.04%
14	Roku, Inc.	ROKU	Telecommunications	5.70	-15.93%	-18.40%	3.02%	1.76	38.09%
15	Lions Gate Entertainment Corp (Starz)	LGF.A	Entertainment	1.31	-52.37%	-115.99%	515.39%	1.40	14.88%
	First Quartile (25th percentile) **[a]**				-0.53%	-1.91%	8.44%	0.99	10.36%
	Median value (50th percentile) **[a]**				4.30%	6.07%	60.60%	1.23	14.77%
	Third Quartile (75th percentile) **[a]**				21.20%	23.62%	139.51%	1.27	21.71%
	[a] - only for stocks that meet the first criterion (1-7)			≥ 50% to NFLX	≥ First Quartile	≥ First Quartile	≥ Median value	≥ First Quartile	*>50% to NFLX*

Table 3: Comparable companies' analysis
Source: Thomson Reuters

Therefore, we began by defining an immediate exclusion criterion based on the market capitalization of companies, which should always exceed at least 50% of Netflix ($97.465 billion), to filter businesses likely to present identical risks and growth opportunities. Although the companies in the first three positions have significantly higher market shares than Netflix, excluding them is not warranted, as they invest heavily to increase streaming revenues, representing significant growth potential *(Netflix, 2023)*.

Among the fifteen initially considered companies, only the first seven met the criteria above – starting from this more restricted group, we computed the average values, first quartile, and third quartile in order to apply an additional criterion, where companies should satisfy at least three of the requirements listed below:

a) the net margin generated in 2022 must be at least equal to the first quartile;

b) the ROE must match or exceed the first quartile;

c) the Debt/Equity ratio must be equal to or higher than the company median;

d) the Beta must match or exceed the first quartile;

e) the companies' revenue growth rate must correspond to at least 50% of Netflix.

From this analysis, we excluded only the American telecommunications multinational AT&T. This decision stemmed from its negative net margin – which could indicate a growth phase inverse to Netflix, a negative ROE – which reflects an inability to generate positive returns on shareholder investments and a notably low beta – which suggests a low and considerably less volatile level of risk than Netflix. *(Thomson Reuters, 2023) (Table 3)*

6. Valuation

After presenting the external and internal perspectives of the company, along with the formulation of a set of assumptions, which made it possible to predict the expected evolution of Netflix's performance, culminating in obtaining the Income Statement *(Appendix J)*, Balance Sheet *(Appendix M)* and Cash Flow Statement *(Appendix N)* in a format similar to those disclosed in Netflix's 10-K form.

This chapter will present the intrinsic and relative estimate of the streamer, as well as a sensitivity analysis, to acknowledge the possible repercussions of changes in WACC depending on beta and the perpetual growth rate considered.

6.1. Intrinsic Valuation Model – Discounted Cash Flow

6.1.1. Cost of Equity, k_e

To ascertain the cost of equity, we used the Capital Asset Pricing Model as a basis, applying the rationale previously listed in the literary review.

In this context, we began by estimating a proxy for the risk-free rate, where the 10-year US Treasury yield rate was applied, as it presents a high level of liquidity and absence of default risk.

We obtained the financial information from the US Department of the Treasury and applied a baseline value of 0.96% as of 31 December 2022.

Next, the equity risk premium was defined, which consists of the compensation that investors expect to obtain for assuming the risk of investing in the stock market, which is typically volatile, instead of investing their capital in risk-free assets, such as those considered at the risk-free rate presented above. Hence, we incorporated an equity risk premium of 5.94% based on data available from the NYU Stern website.

Regarding the Market Risk Premium, the non-adjustment of the indicator through a Global Country Risk Premium was since this required detailed and updated data on the specific risks of the countries in which Netflix operates; however, the streamer only discloses this information in aggregate form between 4 geographic segments, without disclosing the actual proportion of each country in relation to its region. By consulting the NYU Stern website, it became evident that the dispersion of the indicator is very significant, mitigating the need to apply a straightforward arithmetic average to around 55% of revenues coming from segments other than UCAN, where Moody's rating is Prime. In addition, we also validated that for countries where, according to internal data, the size of Netflix is more significant, the credit rating is "Investment Grade," which supports our prudent decision to avoid data distortion.

Finally, the levered beta was selected; we started by validating, through the website mentioned above, the latest beta data by sector in the United States, specifically in the entertainment sector, comprising a cohort of 110 companies, yielding a beta of 1.45, for the reference period of our dissertation. In this assessment, we opted to validate Netflix beta by

applying two distinct methodologies, selecting the one that most accurately captured the characteristics of both Netflix and its respective market.

From this perspective, we applied the Blume Adjusted Beta and the Pure Play Method.

The first mechanism involved a linear regression, encompassing a five-year historical dataset ending on December 31, 2022, which correlated the returns of the NASDAQ Composite Index and Netflix share prices, yielding a beta value of 1.22.

Under Damodaran's (2002) second approach, which relies on the leveraged beta of comparable companies, in this case, the pre-selected peers for the relative valuation of the company, consulted through the Thomson Reuters and employing equation (27) in a first phase and its inverse, resulted in an estimated beta of 1.37.

$$\beta_{unlevered} = \frac{\beta_{levered}}{1 + \frac{D}{E} \times (1 - \text{Tax rate})} \quad \textbf{(27)}$$

We chose to weight 75% of the Beta of the first methodology compared to 25% of the second - "β~1.26", as we consider that the combination of models would represent an optimal point, preventing the estimate from being excessively conservative concerning Netflix's risk, especially since it would be unlikely that the streamer was significantly less volatile than the market in which it operates.

Nevertheless, the deliberate reduction in the percentage allocation, in contrast to the first methodology, was a strategic move aligning Netflix's business model more closely with competitors in the market. This adjustment aimed to mitigate potential excessive influence from other business segments inherent in the betas of comparable companies that extend beyond the domain of video streaming. *(Appendix O)*

So, having acquired all necessary inputs for the CAPM application, the calculation derived in a cost of equity at 8.44%. *(Table 4)*

Cost of Equity	
Risk-free rate	0.96%
Market Risk Premium	5.94%
Levered Beta	1.26
k_e	8.44%

Table 4: Cost of Equity
Source: NYU Stern, U.S. Department of the Treasury, Thomson Reuters, Yahoo Finance, Own Estimates

6.1.2. After-tax Cost of Debt, $kd(1-tc)$

Regarding the information disclosed in Netflix's 10-K form regarding debt, it is noticeable that the streamer only presents aggregated outstanding notes in circulation in its portfolio, which in 2022 amounted to $14.353 million, already net of issuance costs.

Netflix issued each note at par, with different maturities and remuneration rates, categorizing them as unsecured liabilities.

Furthermore, interest is paid semi-annually at fixed rates denominated in the notes. In this way, Netflix not only releases a summary of the outstanding debt it holds but also what it

classifies as "Level 2 Fair Value", which is essentially the fair values based on market prices for similar assets for the reference period of our projections.

Therefore, considering the detail mentioned above, we could determine the pre-tax cost using a yield-to-maturity methodology by assuming that the pre-tax cost of debt represents the weighted average of the YTM.

Netflix's disclosures also state that all notes had clauses providing total or partial repayment before maturity. However, we assumed that this would not happen in the fullness of our analysis, as it is not a recurring practice, nor does any disclosure exist that reflects this intention on the part of the streamer.

Ultimately, we computed the weighted average of the profitability rates to maturity, resulting in a rate of 5.17% (where the market value of the debt equals $14.083 million).

To compute the post-tax cost of debt, it was necessary to consider a marginal tax of 21% (under the assumptions listed in the Income Taxes section in the previous chapter), leading to an effective rate of 4.09%. *(Appendix P)*

6.1.3. Equity Market Value

After estimating the market value of the debt, we proceeded to calculate the market value of the equity. To achieve this, we opted for a methodology identical to the one suggested in the Thomson Reuters. Instead of considering the number of outstanding shares in circulation, we considered the weighted average of diluted shares. We decided to provide a more comprehensive representation of the firm's capital structure in the dissertation, as these shares encompass all of the streamer's obligations.

Netflix Market Value	
Share price (31/12/2022)	$ 294.88
Number of basic shares outstanding	445.35
Number of outstanding options	19.90
Number of diluted weighted average shares	451.29
Hist Market Cap	131 324
Market Cap (Diluted Shares)	133 076
MV of Debt	14 083
Enterprise Value	**147 159**

Table 5: Netflix's Enterprise Value
Source: Netflix Annual Report, Thomson Reuters, Own Estimates

As the table above suggests, we obtained a company value of $147.159 million on December 31, 2022. *(Table 5)*

6.1.4. Weighted Average Cost of Capital, $WACC$

Following conducting all the estimations mentioned above in the pursuit of determining the WACC, we identified a benchmark figure of 8.03% (refer to Table 6).

WACC	
E / (E+D) as %	90.43%
Cost of Equity	8.44%
D / (E+D) as %	9.57%
After-tax Cost of Debt	4.09%
WACC	**8.03%**

Table 6: Netflix's WACC
Source: Own Estimates

6.1.5. Present Value of the Free Cash Flow to the Firm, $PV\ FCFF$

	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
	1	2	3	4	5	6
Operating Cash Flow	20 354 661	22 295 205	24 096 284	25 790 913	27 581 009	29 507 844
Free Cash Flow to The Firm	1 862 545	1 665 832	2 149 777	1 885 199	2 323 202	2 089 216
WACC (%)	8.03%					
Discount Factor	1.08	1.17	1.26	1.36	1.47	1.59
PV of FCFF	1 724 156	1 427 483	1 705 310	1 384 321	1 579 198	1 314 628

Table 7: Forecasted Netflix's Operating Cash Flow, FCFF and PV of FCFF
Source: Own Estimates

(Appendix R) The appendix shows the underlying rationale for calculating the company's FCFF. Furthermore, our projections foresee that the operating cash flow will grow at a CAGR rate of 7.71% for the entire period. However, the FCFF is markedly lower, implying that the growth rate is only 2.32% for the same time window.

This modest growth rate can be attributed primarily to the deduction of capital expenditures, particularly investments in content - where our projections suggest that these investments are expected to grow more substantially and constitute a more significant portion of expenses than licensed content. This strategic emphasis on growth and international expansion, as adopted by Netflix, takes precedence overachieving a more substantial FCFF.

Following that, and based on the WACC mentioned above, it was then possible to determine the associated discount factor, which, subsequently adjusted to the FCFF, gave us the PV of FCFF. *(Table 7)*

6.1.6. Terminal Growth Rate

In order to valuate Netflix, and from the perspective of the chosen methodology, it becomes crucial to hold the implicit assumption that the streamer will continue to generate cash flows ad infinity. Therefore, it is necessary to determine the company's terminal value derived from a constant growth rate.

In this sense, we sought to understand the approaches that would best suit the reality of Netflix, having chosen to apply two different methodologies in order to ensure that the determined rate did not present a pace that was too equidistant from the growth rate observed in the economy (Damodaran, 2002).

Therefore, we begin by determining, through equation (28), a terminal growth rate that combines the forecasted inflation rate *(Appendix A)* with the GDP growth rate *(Appendix Q)*, which would ensure that we consider the macroeconomic scope in our projection.

$$TGR = (1+\text{Expected Inflation Rate}) \times (1+\text{Expected GDP Growth rate}) - 1 \quad \textbf{(28)}$$

In this regard, after adjusting the two variables to Netflix's revenue by business segment, we established a rate of 5.23%.

Additionally, and as mentioned above, it was determined through the Gordon Growth Model based solely on future free cash flows (instead of dividends, often associated with the model since Netflix never distributed dividends), a second growth rate constant and perpetual.

$$TGR = \text{Reinvestment Rate} \times ROE \quad \textbf{(29)}$$

where,

$$\text{- Reinvestment Rate} = \frac{CAPEX + \Delta \text{Net Working Capital}}{NOPAT}$$

Resulting, then, in a terminal growth rate of 1.33%.

Consequently, considering each growth rate mentioned above, we isolated the Terminal Value for computation. Subsequently, we accounted 75% of the first approach and 25% of the second one, yielding an implicit terminal growth rate of approximately 4.74%. *(Appendix R)*

6.1.7. Terminal Cash Flow and respective Present Value

$$\text{Terminal Value} = \frac{NOPLAT + (1 - \text{Reinvestment Rate}) \times (1 + TGR)}{(WACC - TGR)} \quad \textbf{(30)}$$

(Appendix H) As previously stated, equation (30) was employed to ascertain the Terminal Value, resulting in a total of $229,593,135 thousand.

$$\text{PV of Terminal Value} = \frac{\text{Terminal Value}}{(1+WACC)^{t}} \quad \textbf{(31)}$$

Which subsequently adjusted, under the discount factor, translates into a PV of the terminal cash flow of $144,470,294 thousand – in accordance with equation (31).

6.1.8. Fair Value

Implied Intrinsic Share Price (Base Scenario)		
VL	$	9 135 098
Terminal Value	$	229 593 135
PV Terminal Value	$	144 470 294
Enterprise Value	$	153 605 392
Cash & Cash Equivalents (+)	$	5 147 176
Debt (-) : short and long term	$	14 353 076
Implied Equity Value	$	144 399 492
Diluted Shares Outstanding		451 290
Implied Intrinsic Share Price	$	319.97

Table 8: Forecasted Netflix's Implied Share Price – 31/12/2022
Source: Own Estimates

We derived the enterprise value from the PV of the terminal value. Subsequently, we incorporated the amount of cash and cash equivalents as an offset to the amount of debt. This process allowed the determination of an implicit equity value amounting to $144,399,492 thousand, which was subsequently decomposed based on the number of diluted shares in circulation, ultimately resulting in an implicit intrinsic share price of $319.97. *(Table 8)*

By direct comparison with the market value of $294.88, this estimate showed a notable level of precision. According to the model's foundational assumptions, the calculated upside rate of 8.51% implies that the company's valuation is lower than its intrinsic value (undervalued) - even when applying our threshold, which recommends a "*Hold*" with a tendency to "*Buy*" position. *(Appendix S)*

Scenarios	Share Price	Probability	Recommendation
Base	$ 319.97	50%	Hold
Upside	$ 354.82	18.75%	Buy
Downside	$ 287.09	18.75%	Hold
Extreme Upside	$ 391.73	6.25%	Strong Buy
Extreme Downside	$ 256.11	6.25%	Reduce

Table 9: Forecasted Netflix's weighted Target Price – 31/12/2022
Source: Own Estimates

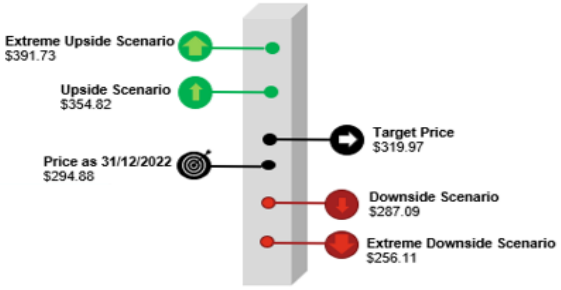


Figure 31: Forecasted Netflix's Share Price Diagram –31/12/2022
Source: Thomson Reuters, Own Estimates

Our forecasts are designed based on a dynamic subscription revenue model. Within this framework, we meticulously devised five distinct scenarios. It was then possible for us to automatically update all the financial data presented throughout the dissertation. Consequently, our examination of the DCF model revealed a noteworthy range of price fluctuations, spanning $135.62, as it oscillated between extreme downside and extreme upside scenarios. *(Figure 31)*

Finally, we estimated the target price-weighted between the five mentioned scenarios, assuming that the base scenario had a 50% probability of occurrence, compared to 37.5% of the intermediate and extreme scenarios with only 12.5%, which proved to be slightly different from the base scenario – $320.83, since the positive and negative sides offset each other. *(Table 9)*

6.1.9. Sensitivity Analysis

After determining the fair value for the base scenario in our DCF model projections, we selected to perform a sensitivity analysis on the most representative components within our projection; this practice makes it possible to give greater robustness to the work carried out, providing readers with the possibility to interpret inherent risks, and giving them information to make a more informed decision.

In this regard, we identified the components with the most substantial impact on fair value projection - we decided to opt for WACC through the fluctuation of the leveraged beta ("β") and the perpetual growth rate (g).

This decision is underpinned by the predominance of the cost of equity within Netflix's WACC, especially in comparison to the Debt/Equity (D/E) ratio, where, when estimated through the CAPM, it proved to be the only element accounted with a component of the past

company's performance. Furthermore, according to data from the Thomson Reuters, the historical fluctuation of 'β' over the company's existence has been highly significant.

We also scrutinized the perpetual growth rate due to its substantial influence on the company's valuation. This analysis stems from the assessment's fundamental premise, which anticipates Netflix's transition into a phase characterized by moderate growth in the future, diverging from its historical performance. This shift aligns with industry expectations for mature sectors such as streaming, where a gradual deceleration is a recurring pattern over time (also supported by subscriber forecasts based on this dissertation).

Given the above rationale, and as expected, the implicit share price proved extremely volatile, varying from a maximum of $551.60 to a minimum of $224.93. Based on the output obtained, we drew through a straight line the area of incidence under which share prices were within the limits obtained between the downside and upside scenario (37.5% of occurrence) and with a dashed line the extreme downside and upside scenario (12.5% of occurrence), as previously defined. In this way, we limited the number of prices susceptible to our analysis, as we do not consider them all reasonable. The price for the base model translates into a "*Hold*" investment recommendation, although with tendency to "*Buy*".

WACC Evolution as function of Beta (±2.5bps)																	
		1.06	1.08	1.11	1.13	1.16	1.18	1.21	1.23	1.26	1.28	1.31	1.33	1.36	1.38	1.41	1.43	1.46
		6.95%	7.09%	7.22%	7.35%	7.49%	7.62%	7.76%	7.89%	8.03%	8.16%	8.30%	8.43%	8.56%	8.70%	8.83%	8.97%	9.10%
Terminal Growth Rate (±5 bps)	4.44%	417.43	396.25	377.10	359.73	343.88	329.37	316.03	303.73	292.35	281.80	271.98	262.82	254.25	246.23	238.70	231.61	224.93
	4.49%	426.12	404.07	384.19	366.18	349.78	334.78	321.02	308.35	296.63	285.77	275.68	266.28	257.50	249.28	241.56	234.31	227.48
	4.54%	435.16	412.21	391.55	372.87	355.88	340.38	326.17	313.10	301.03	289.86	279.49	269.84	260.82	252.40	244.50	237.07	230.09
	4.59%	444.59	420.66	399.19	379.79	362.20	346.16	331.48	317.99	305.56	294.06	283.40	273.48	264.24	255.59	247.50	239.90	232.75
	4.64%	454.42	429.47	407.12	386.97	368.73	352.13	336.96	323.04	310.22	298.38	287.42	277.23	267.73	258.87	250.57	242.79	235.48
	4.69%	464.69	438.64	415.36	394.42	375.50	358.30	342.61	328.24	315.02	302.83	291.54	281.07	271.32	262.22	253.72	245.75	238.26
	4.74%	475.42	448.21	423.94	402.16	382.51	364.69	348.46	333.61	319.97	307.40	295.79	285.02	275.00	265.67	256.94	248.77	241.11
	4.79%	486.65	458.19	432.87	410.20	389.79	371.31	354.50	339.15	325.07	312.11	300.15	289.07	278.78	269.19	260.25	251.87	244.02
	4.84%	498.41	468.61	442.17	418.56	397.33	378.16	360.75	344.87	330.33	316.97	304.64	293.24	282.66	272.82	263.63	255.05	247.01
	4.89%	510.74	479.51	451.87	427.25	405.17	385.26	367.22	350.78	335.76	321.97	309.27	297.53	286.65	276.53	267.11	258.30	250.06
	4.94%	523.68	490.92	462.00	436.31	413.32	392.63	373.91	356.90	341.36	327.13	314.03	301.94	290.74	280.35	270.67	261.64	253.19
	4.99%	537.29	502.87	472.59	445.75	421.79	400.28	380.85	363.22	347.15	332.44	318.93	306.47	294.95	284.26	274.32	265.05	256.39
	5.04%	551.60	515.40	483.66	455.59	430.61	408.22	388.04	369.77	353.13	337.93	323.99	311.14	299.28	288.29	278.08	268.56	259.67

Base Scenario (50% occurance)

Downside and Upside Scenario (37.5% of occurrence)

Extreme Downside and Extreme Upside Scenario (12.5% of occurrence)

Table 10: Netflix's Sensitivity Analysis of WACC as function of Beta and Perpetual Growth Rate
Source: Own Estimates

In summary, calculating a weighted average based on the probabilities of occurrence previously defined, we perceive that 19.8% of prices reflect a positive view of the asset, suggesting a high level of confidence and growth potential that justifies its acquisition; 70.5% indicate a neutral stance and straight performance without great expectations of growth above the market and 9.7% demonstrate that the investor should show caution regarding the asset under analysis. However, from the last set mentioned, it is essential to mention that 8.4% are associated with the "*Reduce*" recommendation, compared to only 1.3% of "*Sell*," which translates into the vision of potential risk in the asset, which could justify position reduction or partial sale, and where the complete sale scenario is implausible. *(Table 10) (Appendix T)*

6.2. Relative Valuation

From the restricted group of companies that satisfied the requirements outlined previously in the "Peer Group" chapter, we retrieved their Income Statement and Balance Sheet from Thomson Reuters. Subsequently, we compiled a financial overview encompassing the six companies subject to our analysis. Note that it was necessary to adjust the information from Apple and Walt Disney since, for the reference date of our dissertation, it was the first quarter of the 2023 fiscal year, which coincided with December 31, 2022, having been our LTM in order to compare all pairs accurately. *(Appendix T)*

Additionally, we collected available information regarding projections from Thomson Reuters, dated December 31, 2023, so that it corresponded to our NTM, as we believe that these forward-looking multiples offer a more precise method of pricing, a perspective consistent with the approach advocated by Koller et al. (2015).

As a result, the appendix outlined above serves as the foundation for a comprehensive summary table that encompasses all the data underpinning our relative valuation analysis. To enhance comparability and mitigate risk, we adopted a strategy of excluding outlier values, specifically those highlighted in pink. We based this decision on the criterion that any indicators falling outside the range of the mean adjusted by standard deviation would be excluded from consideration *(Appendix V)*

As expected, employing LTM multiples predominantly tied the results to historical performance, which we found entirely unsuitable for capturing the future trajectory we anticipate for Netflix. Hence, it becomes crucial to direct our attention towards the implicit price of NTM shares, as they incorporate the outlook for future growth and the effect of the high volatility experienced by FAANG companies, of which Netflix is a constituent, along with their respective recovery, as early as 2023.

	Implied Share Price LTM	Implied Share Price NTM
[A] - EV / Revenue	$ 153.58	$ 262.44
[C] - EV / EBIT	$ 193.32	$ 238.50
[D] - Price / Revenue	$ 174.47	$ 344.63
[E] - Share Price / EPS	$ 190.67	$ 246.31
		$ 272.97 Reduce

Table 11: Netflix's Implied Share Price under Relative Valuation Methodology
Source: Thomson Reuters, Own Estimates

(Table 11) To conclude, according to the methodology under analysis, the implicit share price should range between $238.50 and $344.63, which translates into an average price of $272.97, associated with a "Reduce" recommendation, under our threshold. *(Appendix S and V)* Notably, this swing has an implied negative rate of ~7.43% when compared to the price as of 31/12/2022, significantly lower than our DCF valuation target price of ~14.7% higher.

7. Investment Snapshot

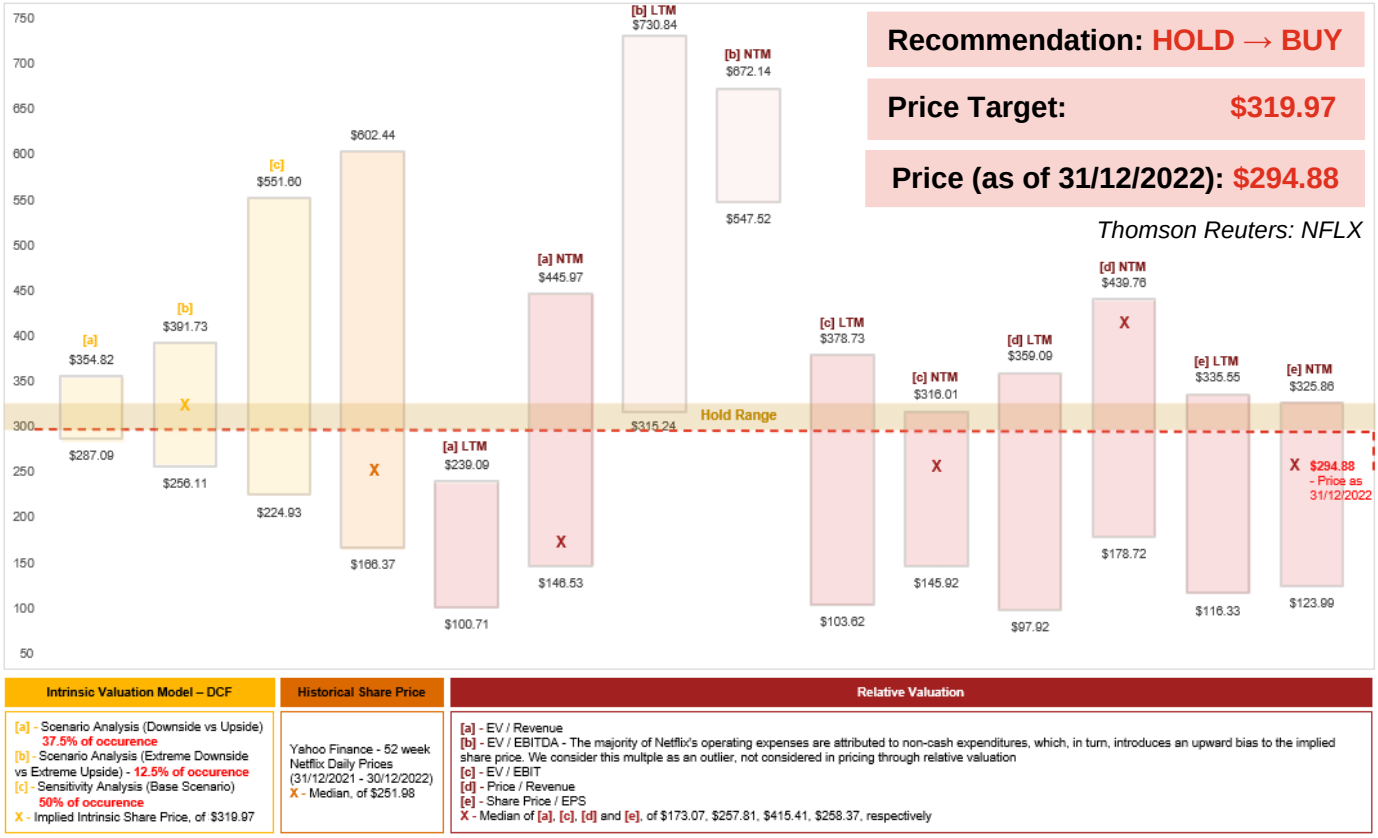


Figure 32: Netflix's Financial Analysis Summary
Source: Own Estimates

- The historical share price in the 52 weeks before our analysis's reference date shows extreme volatility to which the asset is subject;

- The intrinsic valuation model estimated an implicit share price ~14.7% higher than the pricing obtained through relative valuation;

- In the DCF model assumptions, we aimed to align them with long-term expectations of the SVoD market, where the main valuation component is related to perpetuity, which involved adjusting a rate for Netflix's maturity stage and macroeconomic factors;

- Both the scenario analysis and sensitivity analysis suggest that, as of the reference date, Netflix is likely to be well-valued - and within the least likely scenarios, it is more likely that Netflix is undervalued;

- In the relative valuation, the implicit price suggests a reduction recommendation due to potential risks affecting the asset's future performance. However, it is crucial to consider that these estimates, based on NTM multiples, have a short-term focus, which contradicts our long-term FY28 perspective presented throughout the dissertation;

- Even if we ignored the weaknesses identified in the relative valuation, if we computed the average between the implicit price of both methodologies, the target price would be $296.47, showing an undervaluation of the asset and a "*Hold*" recommendation, under our threshold – supporting our final decision. *(Appendix S)*

8. Conclusion

Throughout the dissertation, we meticulously formulated a set of premises that accurately reflected the characteristics of the SVoD market in which Netflix operates, as well as its stage of maturity, without disregarding the expected macroeconomic evolution, which significantly contributed to the observed volatility of the fair value of the streamer's share, in the short term. Our rationale aimed to give investors a confidently derived estimate, enabling them to make informed decisions regarding the asset by comparing the December 31, 2022, price to our target price obtained through two robust methodologies widely adopted in Corporate Finance.

In this sense, the primary approach was the DFC model derived through the FCFF through a six-year projection, as it was the period in which, at the date of publication of this dissertation, there was rigorous internal and external information, worked on by renowned entities in the market, which increased the robustness of our assumptions.

The target price was $319.97, which suggests a saturation of the SVoD market, a notable deceleration in subscriber growth, and cost pressures, particularly in the LATAM and APAC regions, the latter classified as a growth hotspot, requiring close monitoring of Netflix's activities. Hence, we concluded that these conditions reduced the CAGR of FCFF, justifying a perpetual growth rate lower than the typical rates observed among FAANG companies.

Even though, given the specificity of the PV of the projected FCFF, which is markedly smaller compared to the proportion of the terminal value, it did not explicitly demonstrate this adjustment made, being camouflaged by the fact that the majority of the enterprise value comes from the TV, standard in companies in the maturity phase with slower growth, where the majority of the value is associated with the cash flow generated after the explicit projection period, derived from the belief that the company will continue to generate cash at a stable and consistent pace in the long term.

To complement our primary model, we employed a relative valuation that resulted in approximately ~14.7% lower pricing outcomes than the DFC valuation. However, as previously mentioned in the investment snapshot, this analysis is static and from the perspective of the short term, which translates into some fragility of the model, especially as Netflix is going through an initial phase of maturation with slower growth and recovering from the "Great Netflix Correction," after having been the worst performing stock in the S&P 500 in the first half of 2022, in addition to the fact that there is no comparable company that generates profit exclusively from the same business model, which could bias the financial indicators used.

In conclusion, we have chosen to rely solely on the first approach for our recommendation within this dissertation. According to this approach, the target price suggests that Netflix is undervalued. However, considering our established threshold and adhering to a prudence criterion, we recommend maintaining a '*Hold*' position in the investment portfolio with tendency to “*Buy*”, not being seen as an aggressive buying opportunity nor with an urgent reason to sell. *(Appendix S)*

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Appendixes

Appendix A – Multiples Categorization

Equity Value Multiples	P/BV - Price to Book Value P/CE - Price to Cash Earnings P/LFCF - Price to Levered Free Cash Flow P/E or PER - Price to Earnings Ratio P/S - Price to Sales
Enterprise Value Multiples	EV/EBITDA - Enterprise Value to EBITDA EV/FCF - Enterprise Value to Cash Flow EV/Sales - Enterprise Value to Sales
Growth-referenced Multiples	EV/EG - Enterprise Value to EBITDA Growth PEG - Price/ Earnings to growth ratio

Source: Damodaran (2006) & Fernández (2001)

Appendix B – Netflix's ESG results and policies (2022)

Environmental	Social	Governance
in 2022, for example, Netflix:	***in 2022, for example, at Netflix:***	***at the 2022 annual meeting, stockholders sanctioned a board proposal for substantial alterations to Netflix's corporate governance, encompassing:***
- revised its Scope 3 target to achieve a 55% reduction in these emissions per million USD of value added by 2030;	- women exhibit the highest gender representation;	- embarks on a phased declassification of our board, commencing in 2023. As of 2025, the entirety of our board will undergo annual elections;
- achieved net-zero Scope 1, 2, and 3 emissions through investments in nature-based solutions aimed at retaining and capturing carbon;	- the workforce in the US comprises over 50% of individuals from historically marginalized ethnic and/or racial backgrounds;	- eliminates supermajority voting provisions outlined in our articles of incorporation and bylaws;
- has implemented clean technologies in over 60% of the productions it manages directly;	- persists in its investment in the Netflix Fund for Creative Equity, contributing to the expansion of opportunities within the entertainment sector;	- empowers shareholders with the ability to call special meetings;
- pledged to feature at least one electric vehicle (EV) on screen in its directly managed productions, and its "Everybody In" partnership with GM will further support EV usage;	- employee giving program entails a 2:1 match on employee donations. In 2022, Netflix and its employees jointly contributed $34 million to over 5,000 charities worldwide;	- implemented a majority voting standard for uncontested director elections and restructured the co-CEO compensation program for 2023. This restructuring encompasses a CEO salary cap, a performance-based annual cash bonus, and a minimum allocation of 50% of compensation to stock options with one-year vesting;
- supports creators integrating sustainability into their narratives, with over 165 million households globally (more than 70% of our members) opting to view climate and/or sustainability-focused stories.	- has incorporated disclosures regarding product accessibility into our ESG Report, recognizing the critical importance of enabling all our members—regardless of language, device, connectivity, or ability—to enjoy our entertainment offerings.	- executives engaged with shareholders holding approximately 51% of outstanding shares over the past year, actively seeking their feedback. Independent directors took part in a majority of these meetings.

Source: Netflix's Environmental Social Governance Report 2022

Appendix C – Michael E. Porter's five forces model analysis

Industry rivalry: Very High ⬆⬆

The SVoD market has become increasingly fragmented, evidencing the high competitiveness each media player gradually began to provide its streaming service (reducing prices and, consequently, profitability). However, there is a sizeable perceptible barrier to the entry of new rivals: the high costs of acquiring and producing content. One of the main constraints that this reality implies is the product's low differentiation, which results in companies competing in selecting content to attract the most significant number of subscriptions. For example, when WarnerMedia, which owned the broadcasting rights to "Friends," launched "HBO Max," Netflix lost one of its most popular series.

Threat of Substitutes Services: Moderate ➡

There are few substitute products in this industry, and traditional media's role in shaping society is becoming less dominant. Nonetheless, Netflix, like other providers, suffers from seasonality in its services (higher consumption during cold weather periods) because its customers prefer other sources of entertainment and leisure activities. Furthermore, and in a highly replaceable product, piracy concerns streaming providers, even more so in the absence of a direct cost.

Threat of New Entrants: Very High ⬆⬆

When there were few providers in the market other than Netflix, the threat level from new entrants was very high. However, since the most prominent entertainment players have already entered the streaming market, the risk is substantially lower today, apart from technological constraints.

Moreover, the business model of these operators is easy to replicate. However, their competitive advantage lies in the content available, implying high investment and networking in the sector, so, given their level of saturation, the threat of a new entrant with power is less and less likely to take away market share from the big players.

Bargaining Power of Suppliers: High ⬆

There are few content producers, and Netflix, like other providers, must guarantee contracts with the most famous studios in order to maintain the quality that its subscribers have come to expect. In addition, the contracts specify the number of platform subscribers, so fluctuations outside the expected standards may represent increased costs for the platforms and content in exclusivity, which also has very restrictive clauses. Thus, licenses entail high price negotiations, which reach ever-higher values due to intense competition.

Bargaining Power of Consumers: Very High ⬆⬆

Netflix, like other providers, allows customers to subscribe to one service for a month and then switch to another. As a result, the business model ensures that consumers have a high level of bargaining power, and providers must practice competitive (low) pricing in response to customer demand and, consequently, the competition's offer. In addition, this consumer influence compels operators to maintain a high level of service based on their subscribers' preferences.

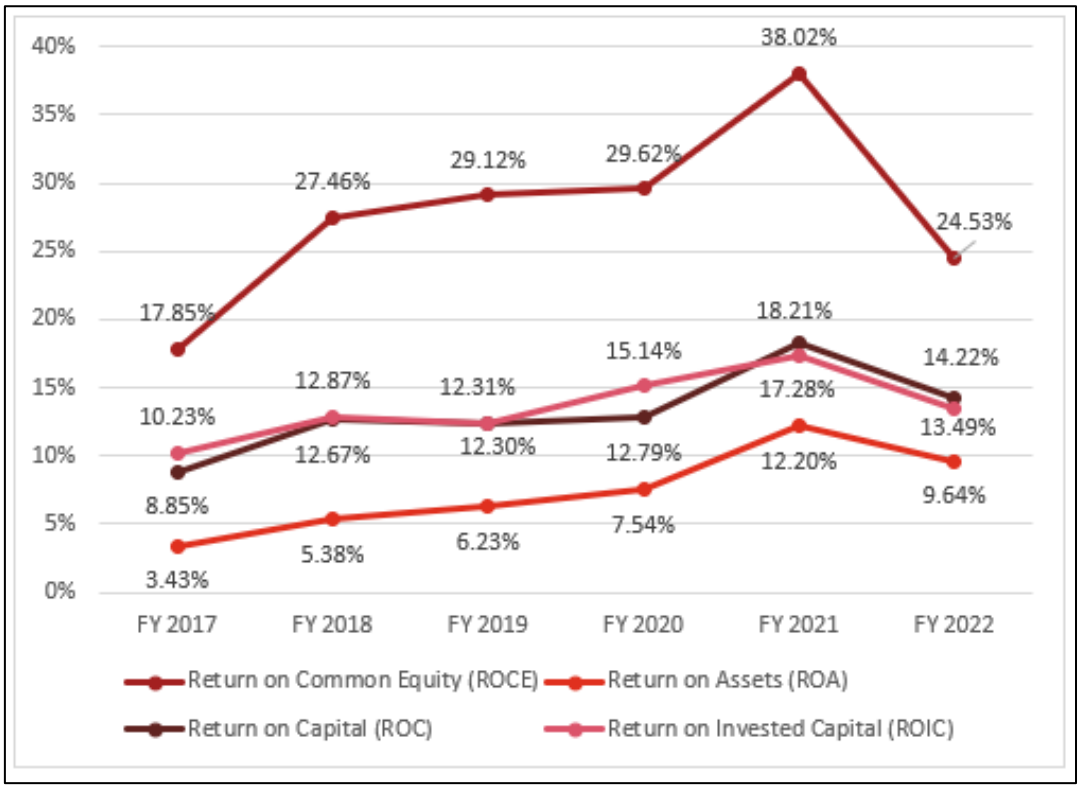
Appendix D – Netflix's sales return (2020-2022)

	Return on Sales	FY 2020	FY 2021	FY 2022
	Total Revenues	**24 996 056**	**29 697 844**	**31 615 550**
(1)	United States and Canada (UCAN)	11 455 396	12 972 100	14 084 643
	DVD Revenues (US)	239 381	182 348	145 698
	Europe, Middle East and Africa (EMEA)	7 772 252	9 699 819	9 745 015
	Latin America (LATAM)	3 156 727	3 576 976	4 069 973
	Asia-Pacific (APAC)	2 372 300	3 266 601	3 570 221
	YoY % growth	24.01%	18.81%	6.46%
	Operating Income	**4 585 289**	**6 194 509**	**5 632 831**
	Operating Margin (%)	18.34%	20.86%	17.82%
	Income before income taxes	**3 199 349**	**5 840 103**	**5 263 929**
	Income before income taxes Margin (%)	12.80%	19.67%	16.65%
	Net Income	**2 761 395**	**5 116 228**	**4 491 924**
	Net Income Margin (%)	11.05%	17.23%	14.21%

(1) Excludes DVD revenues of $0.2 billion, $0.2 billion and $0.1 billion for the years ended December 31, 2020, 2021 and 2022, respectively. Total US revenues for the years ended December 31, 2019, 2020 and 2021 were $9.5 billion, $10.8 billion and $12.1 billion, respectively.

Source: Netflix´s Financial Statements, Fourth Quarter Earnings 2022

Appendix E – Netflix's return on investment ratios (FY17 – FY22)



Source: Bloomberg

Appendix F – Netflix's Liquidity (FY17 –FY22)

In Millions of USD (except Per Share) 12 Months Ending	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Cash Ratio	0.52	0.58	0.73	1.05	0.71	0.76
Current Ratio	1.40	1.49	0.90	1.25	0.95	1.17
Quick Ratio	0.52	0.58	0.73	1.05	0.71	0.76
Long-Term Debt/Equity	181.45	197.76	213.42	160.46	107.90	79.78
Growth (YoY)	**44.53%**	**8.99%**	**7.92%**	**-24.82%**	**-32.75%**	**-26.06%**
Long-Term Debt/ Capital	64.47	66.42	67.55	60.03	50.35	43.96
Growth (YoY)	**15.82%**	**3.02%**	**1.71%**	**-11.13%**	**-16.13%**	**-12.70%**
Long-Term Debt/ Total Assets	34.18	39.89	47.63	45.20	38.36	34.11
Growth (YoY)	**38.05%**	**16.68%**	**19.41%**	**-5.10%**	**-15.14%**	**-11.07%**
Total Debt/Equity	181.45	197.76	215.93	167.29	114.31	81.49
Growth (YoY)	**44.53%**	**8.99%**	**9.19%**	**-22.53%**	**-31.67%**	**-28.71%**
Total Debt/Capital	64.47	66.42	68.35	62.59	53.34	44.90
Growth (YoY)	**15.82%**	**3.02%**	**2.91%**	**-8.43%**	**-14.78%**	**-15.82%**
Total Debt/ Total Assets	34.18	39.89	48.19	47.12	40.63	34.84
Growth (YoY)	**38.05%**	**16.68%**	**20.82%**	**-2.21%**	**-13.77%**	**-14.25%**
CFO/Total Liabilities	-11.57	-12.93	-10.94	8.60	1.37	7.28
CFO/CapEx	-10.31	-15.41	-11.41	4.87	0.75	4.97

Source: Bloomberg

Appendix G – Forecasted Inflation Rate, Average Consumer Prices (FY22 – FY28)

INFLATION RATE, AVERAGE CONSUMER PRICES (ANNUAL PERCENT CHANGE)

	2021	2022	2023	2024	2025	2026	2027	2028
UCAN	4.1	7.4	4.2	2.35	2	1.95	2.0	2.1
Canada	3.4	6.8	3.9	2.4	1.9	1.9	1.9	2.0
United States	4.7	8.0	4.5	2.3	2.1	2.0	2.0	2.1
EMEA	9.5	12.9	11.6	8.2	6.3	5.7	5.5	5.3
Europe	3.5	9.9	6.6	3.6	2.7	2.4	2.3	2.3
Middle East	12.1	14.5	12.6	8.8	7.4	7.1	7.0	6.9
Africa	12.8	14.3	15.5	12.1	8.9	7.7	7.3	6.6
LATAM	9.8	14.0	13.3	9.0	6.9	6.5	6.1	5.7
APAC	3.0	6.6	5.8	4.6	3.8	3.5	3.5	3.5

g/external/datamapper/PCPIPCH@WEO/OEMDC/USA

Source: International Monetary Fund

Appendix H – Forecasted revenue under a Subscription Revenue Model (FY22 – FY28)[2]

Base Scenario

Last Historical Year:	*31/12/2022*
Months in Year:	*12*
# Years in Model:	*6*

Selected Scenario: Base

NETFLIX

Revenue Forecast

(1) Note that, the historical data presented below excluded the domestic DVD segment

(1) Subscription Revenue:	*Units:*	Historical FY22 (Actual)	Projected FY23	FY24	FY25	FY26	FY27	FY28	CAGR FY22 - 28
Global Streaming Revenues:	*in thousands*	$ 31 469 852	$ 33 776 652	$ 37 135 721	$ 39 979 897	$ 42 797 203	$ 45 740 715	$48 914 398	7.63%
UCAN		14 084 643	14 731 848	15 334 074	15 938 736	16 657 978	17 372 286	18 157 558	4.32%
EMEA		9 745 015	10 597 687	12 340 494	13 725 919	14 953 638	16 317 693	17 873 084	10.64%
LATAM		4 069 973	4 373 061	4 884 088	5 294 267	5 716 969	6 194 087	6 715 391	8.70%
APAC		3 570 221	4 074 056	4 577 064	5 020 975	5 468 618	5 856 649	6 168 365	9.54%
Global Revenue Growth Rate:	%	6.62%	7.33%	9.94%	7.66%	7.05%	6.88%	6.94%	-
UCAN		8.58%	4.60%	4.09%	3.94%	4.51%	4.29%	4.52%	-
EMEA		0.47%	8.75%	16.45%	11.23%	8.94%	9.12%	9.53%	-
LATAM		13.78%	7.45%	11.69%	8.40%	7.98%	8.35%	8.42%	-
APAC		9.29%	14.11%	12.35%	9.70%	8.92%	7.10%	5.32%	-
Average Annual Subscribers:	*M Subs*	226 296	236 098	244 811	251 629	258 638	265 842	273 247	3.19%
UCAN		74 756	75 039	76 313	77 767	79 722	81 550	83 524	1.87%
EMEA		75 383	78 935	82 387	84 717	86 798	89 579	92 973	3.56%
LATAM		40 830	42 387	43 431	44 040	44 654	45 599	46 771	2.29%
APAC		35 328	39 737	42 680	45 105	47 465	49 114	49 979	5.95%
Average Monthly Fees per Subscriber:	*$ as Stated*	$ 11.59	$ 11.92	$ 12.64	$ 13.24	$ 13.79	$ 14.34	$ 14.92	4.30%
UCAN		15.70	16.36	16.74	17.08	17.41	17.75	18.12	2.41%
EMEA		10.77	11.19	12.48	13.50	14.36	15.18	16.02	6.84%
LATAM		8.31	8.60	9.37	10.02	10.67	11.32	11.97	6.27%
APAC		8.42	8.54	8.94	9.28	9.60	9.94	10.28	3.39%

Auxiliary Data:

Paid # memberships at end of period	FY22 (Actual)	FY23	FY24	FY25	FY26	FY27	FY28
Global	230 747	**241 448**	**248 173**	**255 086**	**262 191**	**269 494**	**277 000**
UCAN	74 296	72 067	69 545	66 763	63 759	60 571	57 239
EMEA	76 729	73 852	70 344	66 299	61 824	57 032	52 042
LATAM	41 699	39 948	37 671	34 958	31 917	28 661	25 308
APAC	38 023	36 236	33 808	30 867	27 564	24 063	20 526
		3 715	3 510	3 370	3 218	3 057	2 889
		7 289	6 797	6 406	5 974	5 511	5 029
		3 127	2 887	2 679	2 446	2 196	1 939
		5 215	4 761	4 347	3 882	3 389	2 891
			3 789	3 562	3 401	3 231	3 054
			6 491	5 988	5 584	5 151	4 701
			3 231	2 933	2 678	2 405	2 124
			5 340	4 768	4 258	3 717	3 171
				4 995	4 670	4 437	4 193
				7 109	6 487	5 984	5 460
				3 722	3 324	2 985	2 635
				6 319	5 517	4 816	4 108
					5 705	5 306	5 014
					7 925	7 152	6 526
					4 651	4 083	3 606
					7 408	6 319	5 390
						5 744	5 314
						10 535	9 403
						5 852	5 050
						7 294	6 076
							6 999
							11 421
							6 696
							8 196

[2]See step by step video guideline: https://www.youtube.com/watch?v=_MtzsX3F_qE (Mergers & Inquisitions, 2016)

Paid net membership additions	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Global	8 903	19 604	6 725	6 913	7 105	7 303	7 506
UCAN	-919	1 486	1 062	1 845	2 064	1 593	2 356
EMEA	2 693	4 412	2 491	2 170	1 991	3 573	3 216
LATAM	1 738	1 376	713	505	723	1 167	1 176
APAC	5 391	3 428	2 458	2 392	2 328	970	759
% Global (%Base Subscribers)	4.01%	8.84%	2.79%	2.79%	2.79%	2.79%	2.79%
UCAN	-1.22%						
EMEA	3.64%						
LATAM	4.35%						
APAC	16.52%						

Subscriber Renewal Rates:		FY23	FY24	FY25	FY26	FY27	FY28
FY23	UCAN	97.00%	96.50%	96.00%	95.50%	95.00%	94.50%
FY23	EMEA	96.25%	95.25%	94.25%	93.25%	92.25%	91.25%
FY23	LATAM	95.80%	94.30%	92.80%	91.30%	89.80%	88.30%
FY23	APAC	95.30%	93.30%	91.30%	89.30%	87.30%	85.30%
FY24	UCAN		94.50%	96.00%	95.50%	95.00%	94.50%
FY24	EMEA		93.25%	94.25%	93.25%	92.25%	91.25%
FY24	LATAM		92.30%	92.80%	91.30%	89.80%	88.30%
FY24	APAC		91.30%	91.30%	89.30%	87.30%	85.30%
FY25	UCAN			94.00%	95.50%	95.00%	94.50%
FY25	EMEA			92.25%	93.25%	92.25%	91.25%
FY25	LATAM			90.80%	91.30%	89.80%	88.30%
FY25	APAC			89.30%	89.30%	87.30%	85.30%
FY26	UCAN				93.50%	95.00%	94.50%
FY26	EMEA				91.25%	92.25%	91.25%
FY26	LATAM				89.30%	89.80%	88.30%
FY26	APAC				87.30%	87.30%	85.30%
FY27	UCAN					93.00%	94.50%
FY27	EMEA					90.25%	91.25%
FY27	LATAM					87.80%	88.30%
FY27	APAC					85.30%	85.30%
FY28	UCAN						92.50%
FY28	EMEA						89.25%
FY28	LATAM						86.30%
FY28	APAC						83.30%

Upside Scenario

Last Historical Year:	*31/12/2022*
Months in Year:	*12*
# Years in Model:	*6*

Selected Scenario: Upside

(1) Note that, the historical data presented below excluded the domestic DVD segment

(1) Subscription Revenue:	*Units:*	Historical FY22 (Actual)	Projected FY23	FY24	FY25	FY26	FY27	FY28	CAGR FY22 - 28
Global Streaming Revenues:	*in thousands*	$ 31 469 852	$ 33 942 092	$ 37 675 631	$ 40 953 064	$ 44 262 161	$ 47 763 150	$51 569 917	8.58%
UCAN		14 084 643	14 804 778	15 560 618	16 331 923	17 234 064	18 147 030	19 151 367	5.25%
EMEA		9 745 015	10 649 195	12 518 062	14 057 600	15 463 156	17 036 567	18 838 666	11.61%
LATAM		4 069 973	4 394 571	4 955 623	5 424 283	5 914 726	6 470 751	7 083 215	9.67%
APAC		3 570 221	4 093 548	4 641 328	5 139 259	5 650 215	6 108 803	6 496 669	10.49%
Global Revenue Growth Rate:	%	6.62%	7.86%	11.00%	8.70%	8.08%	7.91%	7.97%	-
UCAN		8.58%	5.11%	5.11%	4.96%	5.52%	5.30%	5.53%	-
EMEA		0.47%	9.28%	17.55%	12.30%	10.00%	10.18%	10.58%	-
LATAM		13.78%	7.98%	12.77%	9.46%	9.04%	9.40%	9.47%	-
APAC		9.29%	14.66%	13.38%	10.73%	9.94%	8.12%	6.35%	-
Average Annual Subscribers:	*M Subs*	226 296	237 251	248 359	257 739	267 474	277 577	288 063	4.10%
UCAN		74 756	75 410	77 441	79 685	82 479	85 187	88 096	2.77%
EMEA		75 383	79 319	83 572	86 764	89 755	93 526	97 996	4.47%
LATAM		40 830	42 596	44 068	45 122	46 199	47 636	49 333	3.20%
APAC		35 328	39 927	43 279	46 168	49 041	51 229	52 639	6.87%
Average Monthly Fees per Subscriber:	*$ as Stated*	$ 11.59	$ 11.92	$ 12.64	$ 13.24	$ 13.79	$ 14.34	$ 14.92	4.30%
UCAN		15.70	16.36	16.74	17.08	17.41	17.75	18.12	2.41%
EMEA		10.77	11.19	12.48	13.50	14.36	15.18	16.02	6.84%
LATAM		8.31	8.60	9.37	10.02	10.67	11.32	11.97	6.27%
APAC		8.42	8.54	8.94	9.28	9.60	9.94	10.28	3.39%

Auxiliary Data:

Paid # memberships at end of period	FY22 (Actual)	FY23	FY24	FY25	FY26	FY27	FY28
Global	**230 747**	**243 756**	**252 962**	**262 516**	**272 431**	**282 723**	**293 404**
UCAN	74 296	72 439	70 265	67 806	65 094	62 165	59 056
EMEA	76 729	74 235	71 080	67 349	63 139	58 562	53 730
LATAM	41 699	40 156	38 068	35 517	32 605	29 442	26 145
APAC	38 023	36 426	34 168	31 366	28 167	24 730	21 219
		4 086	3 882	3 746	3 596	3 434	3 263
		7 673	7 193	6 816	6 390	5 926	5 438
		3 336	3 096	2 888	2 651	2 394	2 126
		5 405	4 962	4 555	4 090	3 591	3 081
			4 209	3 977	3 818	3 646	3 464
			6 962	6 457	6 054	5 615	5 152
			3 479	3 177	2 916	2 633	2 338
			5 598	5 027	4 514	3 963	3 401
				5 485	5 156	4 924	4 678
				7 671	7 038	6 528	5 990
				4 018	3 608	3 258	2 893
				6 661	5 848	5 135	4 406
					6 279	5 871	5 577
					8 596	7 801	7 157
					5 016	4 429	3 933
					7 855	6 740	5 783
						6 391	5 944
						11 402	10 233
						6 318	5 484
						7 824	6 556
							7 779
							12 458
							7 271
							8 850

Paid net membership additions	FY21	FY23	FY24	FY25	FY26	FY27	FY28
Global	**8 903**	**21 912**	**9 206**	**9 554**	**9 915**	**10 291**	**10 681**
UCAN	-919	2 229	1 831	2 658	2 928	2 488	3 329
EMEA	2 693	5 179	3 328	3 057	2 924	4 617	4 324
LATAM	1 738	1 793	1 151	957	1 196	1 678	1 716
APAC	5 391	3 808	2 896	2 881	2 866	1 509	1 312
% Global (%Base Subscribers)	**4.01%**	**9.88%**	**3.78%**	**3.78%**	**3.78%**	**3.78%**	**3.78%**
UCAN	-1.22%						
EMEA	3.64%						
LATAM	4.35%						
APAC	16.52%						

Subscriber Renewal Rates:		FY23	FY24	FY25	FY26	FY27	FY28
FY23	**UCAN**	97.50%	97.00%	96.50%	96.00%	95.50%	95.00%
FY23	**EMEA**	96.75%	95.75%	94.75%	93.75%	92.75%	91.75%
FY23	**LATAM**	96.30%	94.80%	93.30%	91.80%	90.30%	88.80%
FY23	**APAC**	95.80%	93.80%	91.80%	89.80%	87.80%	85.80%
FY24	**UCAN**		95.00%	96.50%	96.00%	95.50%	95.00%
FY24	**EMEA**		93.75%	94.75%	93.75%	92.75%	91.75%
FY24	**LATAM**		92.80%	93.30%	91.80%	90.30%	88.80%
FY24	**APAC**		91.80%	91.80%	89.80%	87.80%	85.80%
FY25	**UCAN**			94.50%	96.00%	95.50%	95.00%
FY25	**EMEA**			92.75%	93.75%	92.75%	91.75%
FY25	**LATAM**			91.30%	91.80%	90.30%	88.80%
FY25	**APAC**			89.80%	89.80%	87.80%	85.80%
FY26	**UCAN**				94.00%	95.50%	95.00%
FY26	**EMEA**				91.75%	92.75%	91.75%
FY26	**LATAM**				89.80%	90.30%	88.80%
FY26	**APAC**				87.80%	87.80%	85.80%
FY27	**UCAN**					93.50%	95.00%
FY27	**EMEA**					90.75%	91.75%
FY27	**LATAM**					88.30%	88.80%
FY27	**APAC**					85.80%	85.80%
FY28	**UCAN**						93.00%
FY28	**EMEA**						89.75%
FY28	**LATAM**						86.80%
FY28	**APAC**						83.80%

Extreme Upside Scenario

Last Historical Year:	*31/12/2022*
Months in Year:	*12*
# Years in Model:	*6*

Selected Scenario: Extreme Upside

(1) Note that, the historical data presented below excluded the domestic DVD segment

(1) Subscription Revenue:	*Units:*	Historical FY22 (Actual)	Projected FY23	FY24	FY25	FY26	FY27	FY28	CAGR FY22 - 28
Global Streaming Revenues:	*in thousands*	$ 31 469 852	$ 34 107 531	$ 38 219 060	$ 41 941 389	$ 45 763 842	$ 49 855 896	$54 343 882	9.53%
UCAN		14 084 643	14 877 708	15 788 655	16 731 307	17 824 731	18 948 936	20 189 859	6.19%
EMEA		9 745 015	10 700 702	12 696 779	14 394 412	15 985 389	17 780 336	19 847 104	12.59%
LATAM		4 069 973	4 416 082	5 027 627	5 556 341	6 117 490	6 757 127	7 467 588	10.64%
APAC		3 570 221	4 113 040	4 705 999	5 259 329	5 836 231	6 369 497	6 839 331	11.44%
Global Revenue Growth Rate:	%	6.62%	8.38%	12.05%	9.74%	9.11%	8.94%	9.00%	-
UCAN		8.58%	5.63%	6.12%	5.97%	6.54%	6.31%	6.55%	-
EMEA		0.47%	9.81%	18.65%	13.37%	11.05%	11.23%	11.62%	-
LATAM		13.78%	8.50%	13.85%	10.52%	10.10%	10.46%	10.51%	-
APAC		9.29%	15.20%	14.42%	11.76%	10.97%	9.14%	7.38%	-
Average Annual Subscribers:	*M Subs*	226 296	238 405	251 930	263 944	276 530	289 719	303 539	5.02%
UCAN		74 756	75 782	78 575	81 634	85 306	88 951	92 873	3.68%
EMEA		75 383	79 702	84 765	88 843	92 786	97 609	103 242	5.38%
LATAM		40 830	42 804	44 708	46 220	47 782	49 744	52 010	4.12%
APAC		35 328	40 117	43 882	47 246	50 656	53 415	55 415	7.79%
Average Monthly Fees per Subscriber:	*$ as Stated*	$ 11.59	$ 11.92	$ 12.64	$ 13.24	$ 13.79	$ 14.34	$ 14.92	4.30%
UCAN		15.70	16.36	16.74	17.08	17.41	17.75	18.12	2.41%
EMEA		10.77	11.19	12.48	13.50	14.36	15.18	16.02	6.84%
LATAM		8.31	8.60	9.37	10.02	10.67	11.32	11.97	6.27%
APAC		8.42	8.54	8.94	9.28	9.60	9.94	10.28	3.39%

Auxiliary Data:

Paid # memberships at end of period	FY22 (Actual)	FY23	FY24	FY25	FY26	FY27	FY28
Global	230 747	**246 063**	**257 797**	**270 090**	**282 970**	**296 468**	**310 611**
UCAN	74 296	72 810	70 990	68 860	66 450	63 792	60 921
EMEA	76 729	74 619	71 821	68 409	64 476	60 124	55 464
LATAM	41 699	40 365	38 467	36 083	33 304	30 240	27 004
APAC	38 023	36 616	34 529	31 870	28 779	25 412	21 930
		4 458	4 257	4 129	3 985	3 826	3 653
		8 057	7 593	7 233	6 817	6 357	5 864
		3 544	3 307	3 102	2 863	2 600	2 321
		5 595	5 164	4 766	4 304	3 801	3 280
			4 636	4 404	4 250	4 080	3 897
			7 441	6 939	6 540	6 098	5 626
			3 732	3 426	3 162	2 871	2 564
			5 860	5 291	4 778	4 219	3 641
				5 991	5 662	5 435	5 191
				8 251	7 612	7 098	6 548
				4 323	3 904	3 545	3 165
				7 011	6 191	5 467	4 718
					6 879	6 467	6 176
					9 297	8 484	7 826
					5 397	4 793	4 280
					8 320	7 180	6 196
						7 077	6 617
						12 316	11 116
						6 808	5 944
						8 380	7 064
							8 614
							13 564
							7 883
							9 544

Paid net membership additions	FY21	FY23	FY24	FY25	FY26	FY27	FY28
Global	8 903	**24 219**	**11 734**	**12 293**	**12 880**	**13 498**	**14 144**
UCAN	-919	2 972	2 615	3 502	3 841	3 450	4 392
EMEA	2 693	5 946	4 179	3 977	3 910	5 735	5 531
LATAM	1 738	2 210	1 598	1 427	1 697	2 226	2 305
APAC	5 391	4 188	3 342	3 387	3 432	2 086	1 915
% Global (%Base Subscribers)	4.01%	**10.92%**	**4.77%**	**4.77%**	**4.77%**	**4.77%**	**4.77%**
UCAN	-1.22%						
EMEA	3.64%						
LATAM	4.35%						
APAC	16.52%						

Subscriber Renewal Rates:		FY23	FY24	FY25	FY26	FY27	FY28
FY23	UCAN	98.00%	97.50%	97.00%	96.50%	96.00%	95.50%
FY23	EMEA	97.25%	96.25%	95.25%	94.25%	93.25%	92.25%
FY23	LATAM	96.80%	95.30%	93.80%	92.30%	90.80%	89.30%
FY23	APAC	96.30%	94.30%	92.30%	90.30%	88.30%	86.30%
FY24	UCAN		95.50%	97.00%	96.50%	96.00%	95.50%
FY24	EMEA		94.25%	95.25%	94.25%	93.25%	92.25%
FY24	LATAM		93.30%	93.80%	92.30%	90.80%	89.30%
FY24	APAC		92.30%	92.30%	90.30%	88.30%	86.30%
FY25	UCAN			95.00%	96.50%	96.00%	95.50%
FY25	EMEA			93.25%	94.25%	93.25%	92.25%
FY25	LATAM			91.80%	92.30%	90.80%	89.30%
FY25	APAC			90.30%	90.30%	88.30%	86.30%
FY26	UCAN				94.50%	96.00%	95.50%
FY26	EMEA				92.25%	93.25%	92.25%
FY26	LATAM				90.30%	90.80%	89.30%
FY26	APAC				88.30%	88.30%	86.30%
FY27	UCAN					94.00%	95.50%
FY27	EMEA					91.25%	92.25%
FY27	LATAM					88.80%	89.30%
FY27	APAC					86.30%	86.30%
FY28	UCAN						93.50%
FY28	EMEA						90.25%
FY28	LATAM						87.30%
FY28	APAC						84.30%

Downside Scenario

Last Historical Year:	*31/12/2022*
Months in Year:	*12*
# Years in Model:	*6*

Selected Scenario: Downside

(1) Note that, the historical data presented below excluded the domestic DVD segment

(1) Subscription Revenue:	*Units:*	Historical FY22 (Actual)	Projected FY23	FY24	FY25	FY26	FY27	FY28	CAGR FY22 - 28
Global Streaming Revenues:	*in thousands*	$ 31 469 852	$ 33 611 212	$ 36 599 331	$ 39 021 775	$ 41 368 376	$ 43 786 825	$46 373 270	6.67%
UCAN		14 084 643	14 658 918	15 109 023	15 551 701	16 096 238	16 624 018	17 206 892	3.39%
EMEA		9 745 015	10 546 180	12 164 076	13 399 332	14 456 631	15 623 091	16 948 899	9.66%
LATAM		4 069 973	4 351 550	4 813 023	5 166 278	5 524 138	5 926 889	6 363 543	7.73%
APAC		3 570 221	4 054 565	4 513 209	4 904 464	5 291 369	5 612 826	5 853 937	8.59%
Global Revenue Growth Rate:	%	6.62%	6.80%	8.89%	6.62%	6.01%	5.85%	5.91%	-
UCAN		8.58%	4.08%	3.07%	2.93%	3.50%	3.28%	3.51%	-
EMEA		0.47%	8.22%	15.34%	10.15%	7.89%	8.07%	8.49%	-
LATAM		13.78%	6.92%	10.60%	7.34%	6.93%	7.29%	7.37%	-
APAC		9.29%	13.57%	11.31%	8.67%	7.89%	6.08%	4.30%	-
Average Annual Subscribers:	*M Subs*	226 296	234 944	241 286	245 614	250 020	254 505	259 068	2.28%
UCAN		74 756	74 667	75 193	75 879	77 033	78 037	79 151	0.96%
EMEA		75 383	78 551	81 209	82 702	83 913	85 766	88 166	2.65%
LATAM		40 830	42 179	42 800	42 976	43 148	43 632	44 320	1.38%
APAC		35 328	39 547	42 084	44 058	45 927	47 069	47 431	5.03%
Average Monthly Fees per Subscriber:	*$ as Stated*	$ 11.59	$ 11.92	$ 12.64	$ 13.24	$ 13.79	$ 14.34	$ 14.92	4.30%
UCAN		15.70	16.36	16.74	17.08	17.41	17.75	18.12	2.41%
EMEA		10.77	11.19	12.48	13.50	14.36	15.18	16.02	6.84%
LATAM		8.31	8.60	9.37	10.02	10.67	11.32	11.97	6.27%
APAC		8.42	8.54	8.94	9.28	9.60	9.94	10.28	3.39%

Auxiliary Data:

Paid # memberships at end of period	FY22 (Actual)	FY23	FY24	FY25	FY26	FY27	FY28
Global	230 747	**239 141**	**243 430**	**247 798**	**252 243**	**256 767**	**261 370**
UCAN	74 296	71 696	68 828	65 731	62 444	59 010	55 469
EMEA	76 729	73 468	69 611	65 260	60 529	55 535	50 398
LATAM	41 699	39 739	37 275	34 405	31 240	27 897	24 494
APAC	38 023	36 046	33 451	30 373	26 971	23 411	19 853
		3 343	3 143	3 001	2 851	2 694	2 533
		6 906	6 405	6 005	5 569	5 110	4 637
		2 919	2 680	2 473	2 246	2 005	1 761
		5 025	4 562	4 143	3 679	3 193	2 708
			3 377	3 157	2 999	2 834	2 664
			6 028	5 531	5 130	4 707	4 271
			2 986	2 696	2 448	2 186	1 920
			5 085	4 516	4 010	3 481	2 952
				4 521	4 204	3 973	3 735
				6 564	5 956	5 465	4 959
				3 435	3 051	2 724	2 392
				5 987	5 197	4 511	3 825
					5 158	4 771	4 485
					7 282	6 536	5 931
					4 301	3 755	3 297
					6 978	5 917	5 018
						5 136	4 725
						9 714	8 621
						5 411	4 642
						6 791	5 623
							6 273
							10 448
							6 157
							7 580

Paid net membership additions	FY21	FY23	FY24	FY25	FY26	FY27	FY28
Global	8 903	**17 297**	**4 289**	**4 367**	**4 445**	**4 523**	**4 604**
UCAN	-919	743	308	1 063	1 247	761	1 466
EMEA	2 693	3 645	1 670	1 315	1 107	2 600	2 200
LATAM	1 738	959	283	69	275	693	683
APAC	5 391	3 047	2 028	1 920	1 816	469	254
% Global (%Base Subscribers)	4.01%	**7.80%**	**1.79%**	**1.79%**	**1.79%**	**1.79%**	**1.79%**
UCAN	-1.22%						
EMEA	3.64%						
LATAM	4.35%						
APAC	16.52%						

Subscriber Renewal Rates:		FY23	FY24	FY25	FY26	FY27	FY28
FY23	UCAN	96.50%	96.00%	95.50%	95.00%	94.50%	94.00%
FY23	EMEA	95.75%	94.75%	93.75%	92.75%	91.75%	90.75%
FY23	LATAM	95.30%	93.80%	92.30%	90.80%	89.30%	87.80%
FY23	APAC	94.80%	92.80%	90.80%	88.80%	86.80%	84.80%
FY24	UCAN		94.00%	95.50%	95.00%	94.50%	94.00%
FY24	EMEA		92.75%	93.75%	92.75%	91.75%	90.75%
FY24	LATAM		91.80%	92.30%	90.80%	89.30%	87.80%
FY24	APAC		90.80%	90.80%	88.80%	86.80%	84.80%
FY25	UCAN			93.50%	95.00%	94.50%	94.00%
FY25	EMEA			91.75%	92.75%	91.75%	90.75%
FY25	LATAM			90.30%	90.80%	89.30%	87.80%
FY25	APAC			88.80%	88.80%	86.80%	84.80%
FY26	UCAN				93.00%	94.50%	94.00%
FY26	EMEA				90.75%	91.75%	90.75%
FY26	LATAM				88.80%	89.30%	87.80%
FY26	APAC				86.80%	86.80%	84.80%
FY27	UCAN					92.50%	94.00%
FY27	EMEA					89.75%	90.75%
FY27	LATAM					87.30%	87.80%
FY27	APAC					84.80%	84.80%
FY28	UCAN						92.00%
FY28	EMEA						88.75%
FY28	LATAM						85.80%
FY28	APAC						82.80%

Extreme Downside Scenario

Last Historical Year:	*31/12/2022*
Months in Year:	*12*
# Years in Model:	*6*

Selected Scenario: Extreme Downside

(1) Note that, the historical data presented below excluded the domestic DVD segment

(1) Subscription Revenue:	*Units:*	Historical FY22 (Actual)	Projected FY23	FY24	FY25	FY26	FY27	FY28	CAGR FY22 - 28
Global Streaming Revenues:	*in thousands*	$ 31 469 852	$ 33 445 773	$ 36 066 458	$ 38 078 588	$ 39 975 096	$ 41 899 742	$43 942 583	5.72%
UCAN		14 084 643	14 585 988	14 885 465	15 170 772	15 548 610	15 901 549	16 297 866	2.46%
EMEA		9 745 015	10 494 672	11 988 807	13 077 801	13 971 933	14 952 149	16 064 688	8.69%
LATAM		4 069 973	4 330 040	4 742 426	5 040 301	5 336 151	5 668 914	6 027 115	6.76%
APAC		3 570 221	4 035 073	4 449 761	4 789 714	5 118 401	5 377 129	5 552 914	7.64%
Global Revenue Growth Rate:	%	6.62%	6.28%	7.84%	5.58%	4.98%	4.81%	4.88%	-
UCAN		8.58%	3.56%	2.05%	1.92%	2.49%	2.27%	2.49%	-
EMEA		0.47%	7.69%	14.24%	9.08%	6.84%	7.02%	7.44%	-
LATAM		13.78%	6.39%	9.52%	6.28%	5.87%	6.24%	6.32%	-
APAC		9.29%	13.02%	10.28%	7.64%	6.86%	5.05%	3.27%	-
Average Annual Subscribers:	*M Subs*	226 296	233 790	237 784	239 692	241 617	243 554	245 505	1.37%
UCAN		74 756	74 296	74 081	74 020	74 413	74 646	74 970	0.05%
EMEA		75 383	78 168	80 039	80 717	81 099	82 083	83 566	1.73%
LATAM		40 830	41 970	42 172	41 928	41 679	41 733	41 977	0.46%
APAC		35 328	39 357	41 493	43 028	44 425	45 093	44 992	4.11%
Average Monthly Fees per Subscriber:	*$ as Stated*	$ 11.59	$ 11.92	$ 12.64	$ 13.24	$ 13.79	$ 14.34	$ 14.92	4.30%
UCAN		15.70	16.36	16.74	17.08	17.41	17.75	18.12	2.41%
EMEA		10.77	11.19	12.48	13.50	14.36	15.18	16.02	6.84%
LATAM		8.31	8.60	9.37	10.02	10.67	11.32	11.97	6.27%
APAC		8.42	8.54	8.94	9.28	9.60	9.94	10.28	3.39%

Auxiliary Data:

Paid # memberships at end of period	FY22 (Actual)	FY23	FY24	FY25	FY26	FY27	FY28
Global	230 747	236 834	238 734	240 651	242 583	244 526	246 484
UCAN	74 296	71 324	68 115	64 709	61 150	57 481	53 745
EMEA	76 729	73 084	68 882	64 232	59 254	54 070	48 798
LATAM	41 699	39 531	36 882	33 858	30 574	27 149	23 701
APAC	38 023	35 856	33 095	29 885	26 388	22 773	19 198
		2 972	2 779	2 640	2 495	2 345	2 192
		6 522	6 017	5 610	5 176	4 723	4 262
		2 710	2 475	2 272	2 051	1 822	1 590
		4 834	4 365	3 942	3 481	3 004	2 532
			2 972	2 764	2 612	2 455	2 296
			5 572	5 085	4 691	4 280	3 863
			2 746	2 466	2 226	1 977	1 726
			4 835	4 269	3 770	3 253	2 742
				4 063	3 758	3 532	3 303
				6 035	5 447	4 970	4 486
				3 158	2 788	2 476	2 162
				5 664	4 888	4 218	3 556
					4 636	4 265	3 988
					6 668	5 951	5 371
					3 967	3 443	3 006
					6 564	5 533	4 665
						4 564	4 176
						8 936	7 886
						4 993	4 259
						6 313	5 195
							5 598
							9 537
							5 651
							7 001

Paid net membership additions	FY21	FY23	FY24	FY25	FY26	FY27	FY28
Global	8 903	14 990	1 900	1 917	1 932	1 944	1 958
UCAN	-919	0	-431	310	475	-8	655
EMEA	2 693	2 877	865	492	273	1 694	1 273
LATAM	1 738	542	-139	-350	-147	254	235
APAC	5 391	2 667	1 605	1 465	1 331	4	-205
% Global (%Base Subscribers)	4.01%	6.76%	0.80%	0.80%	0.80%	0.80%	0.80%
UCAN	-1.22%						
EMEA	3.64%						
LATAM	4.35%						
APAC	16.52%						

Subscriber Renewal Rates:		FY23	FY24	FY25	FY26	FY27	FY28
FY23	UCAN	96.00%	95.50%	95.00%	94.50%	94.00%	93.50%
FY23	EMEA	95.25%	94.25%	93.25%	92.25%	91.25%	90.25%
FY23	LATAM	94.80%	93.30%	91.80%	90.30%	88.80%	87.30%
FY23	APAC	94.30%	92.30%	90.30%	88.30%	86.30%	84.30%
FY24	UCAN		93.50%	95.00%	94.50%	94.00%	93.50%
FY24	EMEA		92.25%	93.25%	92.25%	91.25%	90.25%
FY24	LATAM		91.30%	91.80%	90.30%	88.80%	87.30%
FY24	APAC		90.30%	90.30%	88.30%	86.30%	84.30%
FY25	UCAN			93.00%	94.50%	94.00%	93.50%
FY25	EMEA			91.25%	92.25%	91.25%	90.25%
FY25	LATAM			89.80%	90.30%	88.80%	87.30%
FY25	APAC			88.30%	88.30%	86.30%	84.30%
FY26	UCAN				92.50%	94.00%	93.50%
FY26	EMEA				90.25%	91.25%	90.25%
FY26	LATAM				88.30%	88.80%	87.30%
FY26	APAC				86.30%	86.30%	84.30%
FY27	UCAN					92.00%	93.50%
FY27	EMEA					89.25%	90.25%
FY27	LATAM					86.80%	87.30%
FY27	APAC					84.30%	84.30%
FY28	UCAN						91.50%
FY28	EMEA						88.25%
FY28	LATAM						85.30%
FY28	APAC						82.30%

Assumptions

We assumed that after the first year the new subscribers would have a renewal rate equal to the existing subscribers.

	Existing Subscriber Renewal Rate:		FY23	FY24	FY25	FY26	FY27	FY28
Base	Projection	UCAN	97.00%	96.50%	96.00%	95.50%	95.00%	94.50%
		EMEA	96.25%	95.25%	94.25%	93.25%	92.25%	91.25%
		LATAM	95.80%	94.30%	92.80%	91.30%	89.80%	88.30%
		APAC	95.30%	93.30%	91.30%	89.30%	87.30%	85.30%
Upside	Projection (+ 0.50% Base)	UCAN	97.50%	97.00%	96.50%	96.00%	95.50%	95.00%
		EMEA	96.75%	95.75%	94.75%	93.75%	92.75%	91.75%
		LATAM	96.30%	94.80%	93.30%	91.80%	90.30%	88.80%
		APAC	95.80%	93.80%	91.80%	89.80%	87.80%	85.80%
Extreme Upside	Projection (+ 1% Base)	UCAN	98.00%	97.50%	97.00%	96.50%	96.00%	95.50%
		EMEA	97.25%	96.25%	95.25%	94.25%	93.25%	92.25%
		LATAM	96.80%	95.30%	93.80%	92.30%	90.80%	89.30%
		APAC	96.30%	94.30%	92.30%	90.30%	88.30%	86.30%
Downside	Projection (- 0.5% Base)	UCAN	96.50%	96.00%	95.50%	95.00%	94.50%	94.00%
		EMEA	95.75%	94.75%	93.75%	92.75%	91.75%	90.75%
		LATAM	95.30%	93.80%	92.30%	90.80%	89.30%	87.80%
		APAC	94.80%	92.80%	90.80%	88.80%	86.80%	84.80%
Extreme Downside	Projection (- 1% Base)	UCAN	96.00%	95.50%	95.00%	94.50%	94.00%	93.50%
		EMEA	95.25%	94.25%	93.25%	92.25%	91.25%	90.25%
		LATAM	94.80%	93.30%	91.80%	90.30%	88.80%	87.30%
		APAC	94.30%	92.30%	90.30%	88.30%	86.30%	84.30%
Selected Renewal Rate:			97.00%	96.50%	96.00%	95.50%	95.00%	94.50%
			96.25%	95.25%	94.25%	93.25%	92.25%	91.25%
			95.80%	94.30%	92.80%	91.30%	89.80%	88.30%
			95.30%	93.30%	91.30%	89.30%	87.30%	85.30%

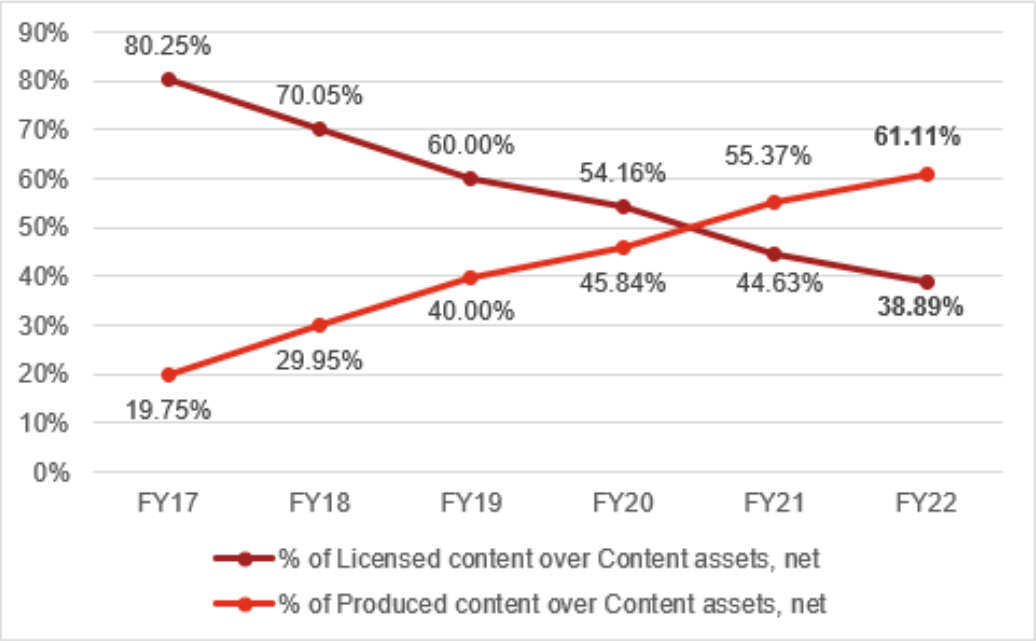
	New Subscriber Renewal Rate:		FY22	FY23	FY24	FY25	FY26	FY27
Base	Projection	UCAN	95.00%	94.50%	94.00%	93.50%	93.00%	92.50%
		EMEA	94.25%	93.25%	92.25%	91.25%	90.25%	89.25%
		LATAM	93.80%	92.30%	90.80%	89.30%	87.80%	86.30%
		APAC	93.30%	91.30%	89.30%	87.30%	85.30%	83.30%
Upside	Projection (+ 0.5% Base)	UCAN	95.50%	95.00%	94.50%	94.00%	93.50%	93.00%
		EMEA	94.75%	93.75%	92.75%	91.75%	90.75%	89.75%
		LATAM	94.30%	92.80%	91.30%	89.80%	88.30%	86.80%
		APAC	93.80%	91.80%	89.80%	87.80%	85.80%	83.80%
Extreme Upside	Projection (+ 1% Base)	UCAN	96.00%	95.50%	95.00%	94.50%	94.00%	93.50%
		EMEA	95.25%	94.25%	93.25%	92.25%	91.25%	90.25%
		LATAM	94.80%	93.30%	91.80%	90.30%	88.80%	87.30%
		APAC	94.30%	92.30%	90.30%	88.30%	86.30%	84.30%
Downside	Projection (- 0.5% Base)	UCAN	94.50%	94.00%	93.50%	93.00%	92.50%	92.00%
		EMEA	93.75%	92.75%	91.75%	90.75%	89.75%	88.75%
		LATAM	93.30%	91.80%	90.30%	88.80%	87.30%	85.80%
		APAC	92.80%	90.80%	88.80%	86.80%	84.80%	82.80%
Extreme Downside	Projection (- 1% Base)	UCAN	94.00%	93.50%	93.00%	92.50%	92.00%	91.50%
		EMEA	93.25%	92.25%	91.25%	90.25%	89.25%	88.25%
		LATAM	92.80%	91.30%	89.80%	88.30%	86.80%	85.30%
		APAC	92.30%	90.30%	88.30%	86.30%	84.30%	82.30%
	Selected Renewal Rate:		95.00%	94.50%	94.00%	93.50%	93.00%	92.50%
			94.25%	93.25%	92.25%	91.25%	90.25%	89.25%
			93.80%	92.30%	90.80%	89.30%	87.80%	86.30%
			93.30%	91.30%	89.30%	87.30%	85.30%	83.30%

	Subscriber Adds as % of Base:		FY23	FY24	FY25	FY26	FY27	FY28
Base	Projection	UCAN	5.000%	5.00%	6.50%	7.25%	7.11%	8.50%
		EMEA	9.500%	8.00%	8.50%	9.24%	12.00%	12.50%
		LATAM	7.500%	7.50%	8.50%	10.50%	13.00%	14.50%
		APAC	13.715%	12.88%	14.39%	16.00%	15.00%	16.53%
Upside	Projection (+ 0.5% Base)	UCAN	5.50%	5.50%	7.00%	7.75%	7.61%	9.00%
		EMEA	10.00%	8.50%	9.00%	9.74%	12.50%	13.00%
		LATAM	8.00%	8.00%	9.00%	11.00%	13.50%	15.00%
		APAC	14.21%	13.38%	14.89%	16.50%	15.50%	17.03%
Extreme Upside	Projection (+ 1% Base)	UCAN	6.00%	6.00%	7.50%	8.25%	8.11%	9.50%
		EMEA	10.50%	9.00%	9.50%	10.24%	13.00%	13.50%
		LATAM	8.50%	8.50%	9.50%	11.50%	14.00%	15.50%
		APAC	14.71%	13.88%	15.39%	17.00%	16.00%	17.53%
Downside	Projection (- 0.5% Base)	UCAN	4.50%	4.50%	6.00%	6.75%	6.61%	8.00%
		EMEA	9.00%	7.50%	8.00%	8.74%	11.50%	12.00%
		LATAM	7.00%	7.00%	8.00%	10.00%	12.50%	14.00%
		APAC	13.21%	12.38%	13.89%	15.50%	14.50%	16.03%
Extreme Downside	Projection (- 1% Base)	UCAN	4.00%	4.00%	5.50%	6.25%	6.11%	7.50%
		EMEA	8.50%	7.00%	7.50%	8.24%	11.00%	11.50%
		LATAM	6.50%	6.50%	7.50%	9.50%	12.00%	13.50%
		APAC	12.71%	11.88%	13.39%	15.00%	14.00%	15.53%
	Selected Subscriber Adds as % of Base:		**0.05**	5.00%	6.50%	7.25%	7.11%	8.50%
			0.095	8.00%	8.50%	9.24%	12.00%	12.50%
			0.075	7.50%	8.50%	10.50%	13.00%	14.50%
			0.137145	12.88%	14.39%	16.00%	15.00%	16.53%

	Subscriber Adds as % of Base:		FY23	FY24	FY25	FY26	FY27	FY28
Base	Projection	UCAN	5.000%	5.00%	6.50%	7.25%	7.11%	8.50%
		EMEA	9.500%	8.00%	8.50%	9.24%	12.00%	12.50%
		LATAM	7.500%	7.50%	8.50%	10.50%	13.00%	14.50%
		APAC	13.715%	12.88%	14.39%	16.00%	15.00%	16.53%
Upside	Projection (+ 0.5% Base)	UCAN	5.50%	5.50%	7.00%	7.75%	7.61%	9.00%
		EMEA	10.00%	8.50%	9.00%	9.74%	12.50%	13.00%
		LATAM	8.00%	8.00%	9.00%	11.00%	13.50%	15.00%
		APAC	14.21%	13.38%	14.89%	16.50%	15.50%	17.03%
Extreme Upside	Projection (+ 1% Base)	UCAN	6.00%	6.00%	7.50%	8.25%	8.11%	9.50%
		EMEA	10.50%	9.00%	9.50%	10.24%	13.00%	13.50%
		LATAM	8.50%	8.50%	9.50%	11.50%	14.00%	15.50%
		APAC	14.71%	13.88%	15.39%	17.00%	16.00%	17.53%
Downside	Projection (- 0.5% Base)	UCAN	4.50%	4.50%	6.00%	6.75%	6.61%	8.00%
		EMEA	9.00%	7.50%	8.00%	8.74%	11.50%	12.00%
		LATAM	7.00%	7.00%	8.00%	10.00%	12.50%	14.00%
		APAC	13.21%	12.38%	13.89%	15.50%	14.50%	16.03%
Extreme Downside	Projection (- 1% Base)	UCAN	4.00%	4.00%	5.50%	6.25%	6.11%	7.50%
		EMEA	8.50%	7.00%	7.50%	8.24%	11.00%	11.50%
		LATAM	6.50%	6.50%	7.50%	9.50%	12.00%	13.50%
		APAC	12.71%	11.88%	13.39%	15.00%	14.00%	15.53%
	Selected Subscriber Adds as % of Base:		**0.05**	5.00%	6.50%	7.25%	7.11%	8.50%
			0.095	8.00%	8.50%	9.24%	12.00%	12.50%
			0.075	7.50%	8.50%	10.50%	13.00%	14.50%
			0.137145	12.88%	14.39%	16.00%	15.00%	16.53%

Source: Own Estimates

Appendix I – Netflix's total content decomposition (FY17 – FY22)



Source: Netflix [2019-2022] Annual Report

Appendix J – Netflix's Consolidated Income Statement (FY22 – FY28)

NETFLIX

Income Statement

(in thousands, except per share data)

			Projected					
		FY22 (Actual)	FY23	FY24	FY25	FY26	FY27	FY28
	Revenues	$ 31 615 550	$ 33 892 906	$ 37 228 481	$ 40 053 910	$ 42 856 259	$ 45 787 836	$ 48 951 996
	Only Streaming (by region)	31 469 852	33 776 652	37 135 721	39 979 897	42 797 203	45 740 715	48 914 398
	UCAN	14 084 643	14 731 848	15 334 074	15 938 736	16 657 978	17 372 286	18 157 558
	EMEA	9 745 015	10 597 687	12 340 494	13 725 919	14 953 638	16 317 693	17 873 084
	LATAM	4 069 973	4 373 061	4 884 088	5 294 267	5 716 969	6 194 087	6 715 391
	APAC	3 570 221	4 074 056	4 577 064	5 020 975	5 468 618	5 856 649	6 168 365
[A]	Domestic DVD	145 698	116 253	92 759	74 013	59 056	47 121	37 598
[B]	**Cost of Revenues**	19 168 285	20 338 228	22 688 731	23 981 829	25 889 995	27 905 419	29 889 614
	Gross Profit	**$ 12 447 265**	**$ 13 554 678**	**$ 14 539 750**	**$ 16 072 081**	**$ 16 966 264**	**$ 17 882 417**	**$ 19 062 382**
[C]	**Operating expenses**	6 814 434	7 001 316	7 610 531	8 112 209	8 608 865	9 132 684	9 705 325
	Marketing	2 530 502	2 588 330	2 700 132	2 759 011	2 803 636	2 844 831	2 888 521
	General and administrative	1 572 891	1 749 625	1 984 922	2 205 694	2 437 512	2 689 767	2 970 073
	Technology and development	2 711 041	2 663 362	2 925 477	3 147 504	3 367 717	3 598 085	3 846 730
	Operating income	**$ 5 632 831**	**$ 6 553 362**	**$ 6 929 218**	**$ 7 959 872**	**$ 8 357 399**	**$ 8 749 734**	**$ 9 357 057**
	Non-Operating (Income) Expense	-368 902	-320 389	-273 301	-191 549	-99 668	-21 304	132 480
	Interest Expense	-706 212	-681 996	-670 496	-618 889	-556 906	-509 819	-389 795
[D]	Interest and other Income (Expense)	337 310	361 607	397 195	427 340	457 238	488 516	522 275
	Pre-Tax Income	**$ 5 263 929**	**$ 6 232 973**	**$ 6 655 917**	**$ 7 768 323**	**$ 8 257 731**	**$ 8 728 430**	**$ 9 489 536**
[E]	**Benefit from (provision for) income taxes**	**772 005**	**904 075**	**1 028 046**	**1 221 537**	**1 322 370**	**1 396 736**	**1 540 123**
	Current Income Tax	906 532	1 125 869	1 268 610	1 475 254	1 591 510	1 683 617	1 846 819
	Deferred Income Tax	-134 527	-221 794	-240 563	-253 717	-269 140	-286 880	-306 696
	Net income	**$ 4 491 924**	**$ 5 328 897**	**$ 5 627 871**	**$ 6 546 786**	**$ 6 935 361**	**$ 7 331 694**	**$ 7 949 414**
	Basic Earnings per share	$ 10.10	$ 11.98	$ 12.64	$ 14.69	$ 15.55	$ 16.42	$ 17.79
	Basic Weighted-average common shares outstanding	444 698	444 843	445 313	445 712	446 108	446 521	446 968

[A] DOMESTIC DVD REVENUES

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Domestic DVD Revenue	450 497	365 589	297 217	239 381	182 348	145 698	116 253	92 759	74 013	59 056	47 121	37 598
CAGR FY17 - FY22	-20.21%											

[B] COST OF REVENUES

- Investment in content forecast

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Additions to content assets	9 805 763	13 043 437	13 916 683	11 779 284	17 702 202	16 839 038						
Change in content liabilities	-900 006	-999 880	694 011	757 433	-232 898	179 310						
Streaming revenue (Base Scenario)	11 242 216	15 428 752	19 859 230	24 756 675	29 515 496	31 469 852	33 776 652	37 135 721	39 979 897	42 797 203	45 740 715	48 914 398
YoY Streaming revenue		35.23%	21.32%	-14.19%	39.35%	-2.58%	7.33%	9.94%	7.66%	7.05%	6.88%	6.94%
Investment in content	8 905 757	12 043 557	14 610 694	12 536 717	17 469 304	17 018 348	18 265 825	20 082 352	21 620 432	23 143 982	24 735 782	26 452 054

- Amortization of content assets forecast

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Investment in content	8 905 757	12 043 557	14 610 694	12 536 717	17 469 304	17 018 348	18 265 825	20 082 352	21 620 432	23 143 982	24 735 782	26 452 054
Amortization of content assets	6 197 817	7 532 088	9 216 247	10 806 912	12 230 367	14 026 132						
Amortization / (4y Investment in content)	-	-	-	22.47%	21.59%	22.76%	22.27%	22.27%	22.27%	22.27%	22.27%	22.27%
Average between FY20-FY22	22.27%											
Amortization of content assets	6 197 817	7 532 088	9 216 247	10 806 912	12 230 367	14 026 132	14 540 409	16 220 855	17 145 329	18 509 534	19 950 422	21 368 982

> "On average, over 90% of a licensed or produced content asset is expected to be amortized within four years after its month of first availability"

- Cost of revenue forecast

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Cost of Revenue	8 033 000	9 967 538	12 440 213	15 276 319	17 332 683	19 168 285						
Other costs	1 835 183	2 435 450	3 223 966	4 469 407	5 102 316	5 142 153						
Other Costs over Cost of Revenue	22.85%	24.43%	25.92%	29.26%	29.44%	26.83%						
average between FY17-FY22	28.51%											
Amortization of content assets	6 197 817	7 532 088	9 216 247	10 806 912	12 230 367	14 026 132	14 540 409	16 220 855	17 145 329	18 509 534	19 950 422	21 368 982
Cost of Revenue	8 033 000	9 967 538	12 440 213	15 276 319	17 332 683	19 168 285	20 338 228	22 688 731	23 981 829	25 889 995	27 905 419	29 889 614

- Other costs forecast

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Cost of Revenue	6 197 817	7 532 088	9 216 247	10 806 912	12 230 367	14 026 132	20 338 228	22 688 731	23 981 829	25 889 995	27 905 419	29 889 614
Amortization of content assets	6 197 817	7 532 088	9 216 247	10 806 912	12 230 367	14 026 132	14 540 409	16 220 855	17 145 329	18 509 534	19 950 422	21 368 982
Other costs	1 835 183	2 435 450	3 223 966	4 469 407	5 102 316	5 142 153	5 797 818	6 467 876	6 836 500	7 380 460	7 954 998	8 520 632

[C] OPERATING EXPENSES

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Marketing	1 436 281	2 369 469	2 652 462	2 228 362	2 545 146	2 530 502	2 588 330	2 700 132	2 759 011	2 803 636	2 844 831	2 888 521
Revenues	11 692 713	15 794 341	20 156 447	24 996 056	29 697 844	31 469 852	33 892 906	37 228 481	40 053 910	42 856 259	45 787 836	48 951 996
As a percentage of revenues	12.28%	15.00%	13.16%	8.91%	8.57%	8.04%	7.64%	7.25%	6.89%	6.54%	6.21%	5.90%
CAGR FY20-FY22	-5.03%											

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
General and Administrative	431 043	630 294	914 369	1 076 486	1 351 621	1 572 891	1 749 625	1 984 922	2 205 694	2 437 512	2 689 767	2 970 073
Revenues	11 692 713	15 794 341	20 156 447	24 996 056	29 697 844	31 469 852	33 892 906	37 228 481	40 053 910	42 856 259	45 787 836	48 951 996
As a percentage of revenues	3.69%	3.99%	4.54%	4.31%	4.55%	5.00%	5.16%	5.33%	5.51%	5.69%	5.87%	6.07%
CAGR FY19-FY22	3.28%											

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Technology and development	953 710	1 221 814	1 545 149	1 829 600	2 273 885	2 711 041	2 663 362	2 925 477	3 147 504	3 367 717	3 598 085	3 846 730
Revenues	11 692 713	15 794 341	20 156 447	24 996 056	29 697 844	31 469 852	33 892 906	37 228 481	40 053 910	42 856 259	45 787 836	48 951 996
As a percentage of revenues	8.16%	7.74%	7.67%	7.32%	7.66%	8.61%	7.86%	7.86%	7.86%	7.86%	7.86%	7.86%
Average between FY19-FY22	7.86%											

[D] INTEREST AND OTHER INCOME (EXPENSE)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Revenues (Base Scenario)	11 692 713	15 794 341	20 156 447	24 996 056	29 697 844	31 615 550	33 892 906	37 228 481	40 053 910	42 856 259	45 787 836	48 951 996
Interest and other Income (Expense)	-115 154	41 725	84 000	-618 441	411 214	337 310	361 607	397 195	427 340	457 238	488 516	522 275
as a % of revenues	-1.0%	0.3%	0.4%	-2.5%	1.4%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%

[E] BENEFIT FROM (PROVISION FOR) INCOME TAXES

R&D credit provision & Effective Tax Rate

*computed by applying the Alternative Simplified Credit (ASC)

https://bench.co/blog/tax-tips/rd-tax-credit/

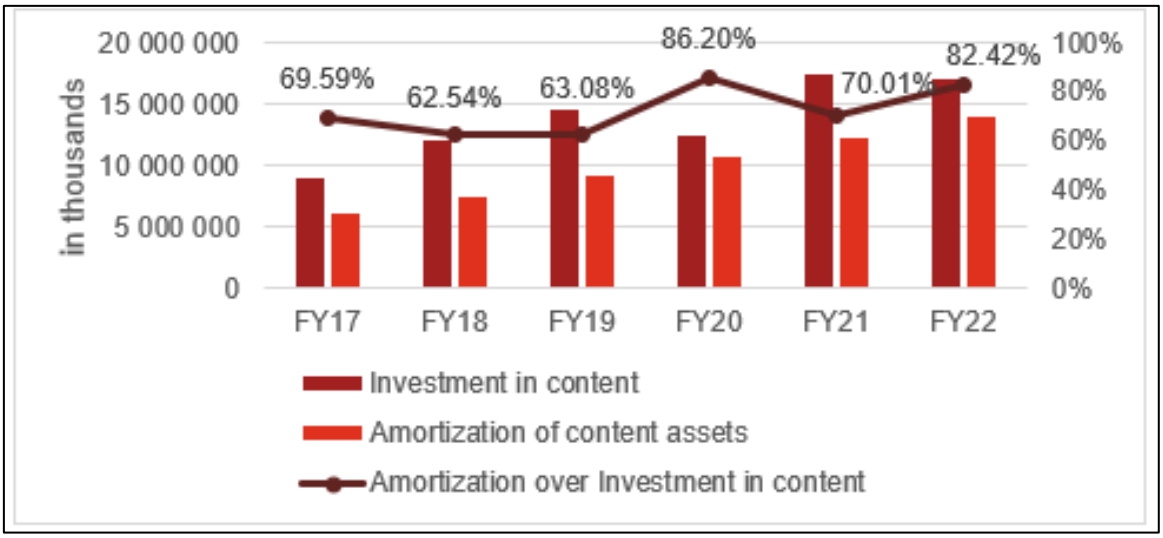
	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
R&D expenses	953 710	1 221 814	1 545 149	1 829 600	2 273 885	2 711 041	2 663 362	2 925 477	3 147 504	3 367 717	3 598 085	3 846 730
[a] = Netflix´s average qualified research expenses (QREs) for the past 3-years							2 369 472	2 643 441	2 912 114	3 146 899	3 371 102	3 604 178
[b] = [a] * 50%							1 184 736	1 321 721	1 456 057	1 573 450	1 685 551	1 802 089
[c] = [b] - Netflix´s current year QREs							1 478 626	1 603 756	1 691 447	1 794 267	1 912 534	2 044 642
[d]: R&D credit = [c] * 15%							**-221 794**	**-240 563**	**-253 717**	**-269 140**	**-286 880**	**-306 696**

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
[1]*[2]=[3] = Expected tax expense at U.S. Federal statutory rates	169 860	257 556	433 059	671 864	1 226 422	1 105 428	1 308 924	1 397 743	1 631 348	1 734 123	1 832 970	1 992 803
State income taxes, net of Federal income tax effect	6 404	33 611	47 909	65 808	111 400	92 084						
Foreign earnings at other than U.S. rates	-87 514	63 519	56 969	12 212	-23 963	112 628						
Federal and California R&D tax credits	-79 868	-140 749	-134 523	-113 882	-82 909	-146 615						
Valuation allowance on California R&D tax credits	0	0	0	183 283	0	0						
[4] = Excess tax benefits on stock-based compesation	-157 888	-191 323	-148 693	-339 436	-290 899	-75 211	-183 055	-129 133	-156 094	-142 614	-149 354	-145 984
Rate Change / Transition Tax	79 077	-71 516	0	0	0	0						
Tax effects of the Tax Cuts and Jobs Act	0	43 099	-127 534	-87 194	-254 763	-368 976						
Global corporate structure simplification	0	0	35 939	0	0	0						
Nondeductible Officers Compesation	28	14 377	24 111	30 351	26 874	33 836						
Other	-3 707	6 642	8 078	14 948	11 713	18 831						
[6] = Provision for income taxes	**-73 608**	**15 216**	**195 315**	**437 954**	**723 875**	**772 005**						
[6]/[2]=[7] = Effective Tax Rate	**-15.17%**	**1.24%**	**9.47%**	**13.69%**	**12.39%**	**14.67%**	**14.50%**	**15.45%**	**15.72%**	**16.01%**	**16.00%**	**16.23%**
[2] = Earnings Before Taxes **(Pre Tax Income)**	485 321	1 226 458	2 062 231	3 199 349	5 840 103	5 263 929	6 232 973	6 655 917	7 768 323	8 257 731	8 728 430	9 489 536
[1] = US Federal Statutory tax rate	35%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
[3]-[4]=[5] = Current income tax	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	**1 125 869**	**1 268 610**	**1 475 254**	**1 591 510**	**1 683 617**	**1 846 819**

[8] 2y moving average >>> The stock-based compensation is arbitrary to the board of governors' decision making

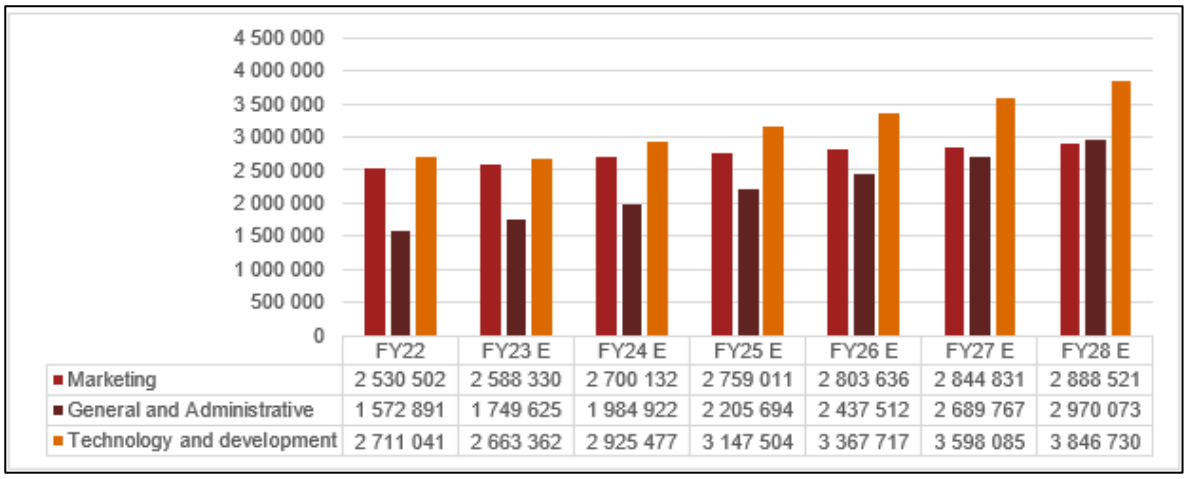
Source: Netflix Annual Report, Own Estimates

Appendix K – Netflix's investment in content compared to the amortization costs – thousands of dollars (FY17 – FY22)



Source: Netflix [2019-2022] Annual Report

Appendix L – Netflix's expected cost of operating items – thousands of dollars (FY22 – FY28)



	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Marketing	2 530 502	2 588 330	2 700 132	2 759 011	2 803 636	2 844 831	2 888 521
General and Administrative	1 572 891	1 749 625	1 984 922	2 205 694	2 437 512	2 689 767	2 970 073
Technology and development	2 711 041	2 663 362	2 925 477	3 147 504	3 367 717	3 598 085	3 846 730

Source: Own estimates

Appendix M – Netflix's Consolidated Balance Sheets (FY22 – FY28)

NETFLIX

Balance Sheet

(in thousands, except per share data)

			Projected					
		FY22 (Actual)	FY23	FY24	FY25	FY26	FY27	FY28
	Assets							
	Current assets:							
	Cash and cash equivalents	5 147 176	7 566 760	12 430 828	12 278 584	13 932 329	17 437 802	17 319 089
	Current content assets, net	0	0	0	0	0	0	0
[A]	Short-term investments	911 276	0	0	0	0	0	0
[B]	Other current assets	3 208 021	3 658 796	4 275 605	4 893 956	5 570 860	6 332 147	7 202 183
	Total current assets	9 266 473	11 225 556	16 706 433	17 172 540	19 503 189	23 769 949	24 521 272
[C]	Content assets, net	32 736 713	36 462 129	40 323 626	44 798 729	49 433 177	54 218 537	59 301 610
[D]	Property and equipment, net	1 398 257	1 688 823	2 024 841	2 375 357	2 747 810	3 144 996	3 569 619
[E]	Other non-current assets	5 193 325	5 221 347	5 735 206	6 170 476	6 602 190	7 053 812	7 541 264
	Total assets	**$ 48 594 768**	**$ 54 597 855**	**$ 64 790 105**	**$ 70 517 102**	**$ 78 286 366**	**$ 88 187 293**	**$ 94 933 764**
	Liabilities and Stockholders' Equity							
	Current liabilities:							
[F]	Current content liabilities	4 480 150	4 648 630	5 110 934	5 502 373	5 890 115	6 295 226	6 732 016
[G]	Accounts payable	671 513	1 001 947	864 916	1 108 345	1 021 923	1 274 177	1 185 185
[H]	Accrued expenses and other liabilities	1 514 650	1 638 919	1 800 213	1 936 839	2 072 349	2 214 108	2 367 114
[I]	Deferred revenue	1 264 661	1 367 965	1 502 593	1 616 631	1 729 738	1 848 061	1 975 770
	Short-term debt	0	400 000	1 803 000	1 000 000	1 391 000	3 500 000	4 161 000
	Total current liabilities	7 930 974	9 057 461	11 081 657	11 164 189	12 105 125	15 131 572	16 421 085
[J]	Non-current content liabilities	3 081 277	3 271 218	3 596 539	3 871 993	4 144 845	4 429 919	4 737 286
	Long-term debt	14 353 076	14 353 076	13 953 076	12 150 076	11 150 076	9 759 076	6 259 076
[K]	Other non-current liabilities	2 452 040	2 717 604	2 985 057	3 211 606	3 436 304	3 671 364	3 925 073
	Total liabilities	27 817 367	29 399 359	31 616 329	30 397 864	30 836 350	32 991 932	31 342 520
	Stockholders' equity:							
[L]	Common stock	4 637 601	4 782 362	5 253 018	5 651 693	6 047 110	6 460 762	6 907 231
	Treasury stock at cost	-824 190	-1 876 753	0	0	0	0	0
[M]	Accumulated other comprehensive income (loss)	-217 306	-217 306	-217 306	-217 306	-217 306	-217 306	-217 306
	Retained earnings	17 181 296	22 510 193	28 138 064	34 684 851	41 620 212	48 951 905	56 901 319
	Total stockholders' equity	20 777 401	25 198 496	33 173 777	40 119 237	47 450 016	55 195 361	63 591 244
	Total liabilities and stockholders' equity	**$ 48 594 768**	**$ 54 597 855**	**$ 64 790 105**	**$ 70 517 102**	**$ 78 286 366**	**$ 88 187 293**	**$ 94 933 764**

[A] SHORT-TERM INVESTMENTS

The majority of the Company's time deposits are domestic deposits, which mature within one year.
We have no information that accounts for Netflix's intention to make new deposits.

[B] OTHER CURRENT ASSETS

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Revenues	11 692 713	15 794 341	20 156 447	24 996 056	29 697 844	31 615 550	33 892 906	37 228 481	40 053 910	42 856 259	45 787 836	48 951 996
Other current assets	536 245	748 466	1 160 067	1 556 030	2 042 021	3 208 021	3 658 796	4 275 605	4 893 956	5 570 860	6 332 147	7 202 183
as a % of revenues	4.59%	4.74%	5.76%	6.23%	6.88%	10.15%	10.80%	11.48%	12.22%	13.00%	13.83%	14.71%
average between FY17-FY22	6.39%											

[C] CONTENT ASSETS, NET

- Content assets, net
in accordance with the assumptions of Netflix's Consolidated Income Statament (FY22 - FY28), presented on Appendix C

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Content assets, net	10 357 754	14 951 141	24 504 567	25 383 950	30 919 539	32 736 713	36 462 129	40 323 626	44 798 729	49 433 177	54 218 537	59 301 610
Investment in content	8 905 757	12 043 557	14 610 694	12 536 717	17 469 304	17 018 348	18 265 825	20 082 352	21 620 432	23 143 982	24 735 782	26 452 054
Amortization of content assets	6 197 817	7 532 088	9 216 247	10 806 912	12 230 367	14 026 132	14 540 409	16 220 855	17 145 329	18 509 534	19 950 422	21 368 982

- Content library strategy (historical data used as basis for the forecasts presented above)

	FY17	FY18	FY19	FY20	FY21	FY22
Licensed content, net	11 771 778	14 081 463	14 703 352	13 747 607	13 799 221	12 732 549
as a % of Content assets, net			60.00%	54.16%	44.63%	38.89%
CAGR FY19 - FY22	-4.68%					
Produced content, net	2 896 910	6 020 864	9 801 215	11 636 343	17 120 318	20 004 164
as a % of Content assets, net			40.00%	45.84%	55.37%	61.11%
CAGR FY19 - FY22	26.85%					

Note that:
> Netflix aggregated a portion of the content assets in the current assets item line, in FY17 and FY18.
For this reason, we discarded the financial data relating to that period in our projections.

[D] PROPERTY AND EQUIPMENT, NET

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Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the shorter of the estimated useful lives of the respective assets, generally up to 30 years, or the expected lease term for leasehold improvements, if applicable.

Note that:

> The projections made below, based merely on the accounting balances between FY17 and FY22, are justified since the financial data provided by Netlfix was not sufficient and detailed, even more so given the complexity of the depreciation model adopted, where it would be necessary to consider a diverse set of assets with different useful lives.

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Property and equipment, net	319 404	418 281	565 221	960 183	1 323 453	1 398 257	1 688 823	2 024 841	2 375 357	2 747 810	3 144 996	3 569 619
Purchases of property and equipment	173 302	173 946	253 035	497 923	524 585	407 729	502 003	551 408	593 257	634 763	678 184	725 050
as a % of revenues	1.48%	1.10%	1.26%	1.99%	1.77%	1.29%	1.48%	1.48%	1.48%	1.48%	1.48%	1.48%
CAGR FY17 - FY22	18.66%											
average of % of revenues	1.48%											

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Less: Accumulated depreciation	321 814	368 519	416 005	494 790	616 306	753 741						
Amortization		46 705	47 486	78 785	121 516	137 435	211 437	215 391	242 740	262 310	280 999	300 427
as % of 2y Accumulated Purchases of Property and Equipment	14.74%											

[E] OTHER NON-CURRENT ASSETS

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Other non-current assets	665 610	910 843	2 727 420	3 174 646	4 271 846	5 193 325	5 221 347	5 735 206	6 170 476	6 602 190	7 053 812	7 541 264
as a % of revenues	5.69%	5.77%	13.53%	12.70%	14.38%	16.43%	15.41%	15.41%	15.41%	15.41%	15.41%	15.41%
average (2y)	15.41%											

[F] CURRENT CONTENT LIABILITIES

in accordance with the assumptions of Netflix's Consolidated Income Statament (FY22 - FY28), presented on Appendix C

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Current content liabilities	4 167 724	4 681 562	4 413 561	4 429 536	4 292 967	4 480 150	4 648 630	5 110 934	5 502 373	5 890 115	6 295 226	6 732 016
Investment in content	8 905 757	12 043 557	14 610 694	12 536 717	17 469 304	17 018 348	18 265 825	20 082 352	21 620 432	23 143 982	24 735 782	26 452 054
as a % of Investment in content	46.80%	38.87%	30.21%	35.33%	24.57%	26.33%	25.45%	25.45%	25.45%	25.45%	25.45%	25.45%
average (2y)	25.45%											

[G] ACCOUNTS PAYABLE

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Cost of revenue	8 033 000	9 967 538	12 440 213	15 276 319	17 332 683	19 168 285	20 338 228	22 688 731	23 981 829	25 889 995	27 905 419	29 889 614
Accounts payable	359 555	562 985	674 347	656 183	837 483	671 513	1 001 947	864 916	1 108 345	1 021 923	1 274 177	1 185 185
2y moving average of Accounts payable		461 270	618 666	665 265	746 833	754 498	836 730	933 432	986 631	1 065 134	1 148 050	1 229 681
Payables turnover		21.61	20.11	22.96	23.21	25.41	24.31	24.31	24.31	24.31	24.31	24.31
average (2y)	24.31											

[H] ACCRUED EXPENSES AND OTHER LIABILITIES

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Accrued expenses and other liabilities	320 411	481 874	843 043	1 102 196	1 449 351	1 514 650	1 638 919	1 800 213	1 936 839	2 072 349	2 214 108	2 367 114
as a % of revenues	2.74%	3.05%	4.18%	4.41%	4.88%	4.79%	4.84%	4.84%	4.84%	4.84%	4.84%	4.84%
average (2y)	4.84%											

[I] DEFERRED REVENUES

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Deferred revenue	618 622	760 899	924 745	1 117 992	1 209 342	1 264 661	1 367 965	1 502 593	1 616 631	1 729 738	1 848 061	1 975 770
as a % of revenues	5.29%	4.82%	4.59%	4.47%	4.07%	4.00%	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%
average (2y)	4.04%											

[J] NON-CURRENT CONTENT LIABILITIES

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Non-current content liabilities	3 329 796	3 759 026	3 334 323	2 618 084	3 094 213	3 081 277	3 271 218	3 596 539	3 871 993	4 144 845	4 429 919	4 737 286
Investment in content	8 905 757	12 043 557	14 610 694	12 536 717	17 469 304	17 018 348	18 265 825	20 082 352	21 620 432	23 143 982	24 735 782	26 452 054
as a % of Investment in content	37.39%	31.21%	22.82%	20.88%	17.71%	18.11%	17.91%	17.91%	17.91%	17.91%	17.91%	17.91%
average (2y)	17.91%											

[K] OTHER NON-CURRENT LIABILITIES

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Other non-current liabilities	135 246	129 231	1 444 276	1 982 155	2 459 164	2 452 040	2 717 604	2 985 057	3 211 606	3 436 304	3 671 364	3 925 073
as a % of revenues	1.16%	0.82%	7.17%	7.93%	8.28%	7.76%	8.02%	8.02%	8.02%	8.02%	8.02%	8.02%
average (2y)	8.02%											

[L] COMMON STOCK

	FY17	FY18	FY19	FY20	FY21	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E
Common stock	1 871 396	2 315 988	2 793 929	3 447 698	4 024 561	4 637 601	4 782 362	5 253 018	5 651 693	6 047 110	6 460 762	6 907 231
as a % of revenues	16.00%	14.66%	13.86%	13.79%	13.55%	14.67%	14.11%	14.11%	14.11%	14.11%	14.11%	14.11%
average (2y)	14.11%											

[M] ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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Foreign Currency

The functional currency for the Company's subsidiaries is determined based on the primary economic environment in which the subsidiary operates. The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenues and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in cumulative translation adjustment included in "Accumulated other comprehensive income (loss)" in Stockholders' equity on the Consolidated Balance Sheets.

The Company remeasures monetary assets and liabilities that are not denominated in the functional currency at exchange rates in effect at the end of each period. Gains and losses from these remeasurements are recognized in interest and other income (expense). Foreign currency transactions resulted in a gain of $282 million and $403 million for the years ended December 31, 2022 and 2021, respectively, and a loss of $660 million for the year ended December 31, 2020. These gains and losses were primarily due to the non-cash remeasurement of our Senior Notes denominated in euros and the remeasurement of cash and content liability positions denominated in currencies other than functional currencies.

The foreign currency exchange is already factored into the ARPU projections.
As a result, we assume no adjustments to the amount accounted for in 2022.

Source: Netflix Annual Report, Own Estimates

Appendix N – Netflix's Consolidated Cash Flow Statements (FY23 – FY28)

NETFLIX

Cash Flow Statement

(in thousands)

	Projected					
	FY23	FY24	FY25	FY26	FY27	FY28
Cash flow from operating activities:						
Net income	5 328 897	5 627 871	6 546 786	6 935 361	7 331 694	7 949 414
Adjustments from operating activities:						
Investment in content	-18 265 825	-20 082 352	-21 620 432	-23 143 982	-24 735 782	-26 452 054
Amortization of content assets	14 540 409	16 220 855	17 145 329	18 509 534	19 950 422	21 368 982
Amortization of property and equipment	211 437	215 391	242 740	262 310	280 999	300 427
Changes in working capital items:						
Other current assets	-450 775	-616 809	-618 351	-676 904	-761 287	-870 036
Current content liabilities	168 480	462 304	391 440	387 742	405 111	436 789
Accounts payable	330 434	-137 031	243 429	-86 422	252 255	-88 992
Accrued expenses and other liabilities	124 269	161 294	136 626	135 510	141 759	153 005
Deferred revenue	103 304	134 628	114 038	113 107	118 323	127 710
Net cash provided by (used in) operating activities	**2 090 631**	**1 986 151**	**2 581 605**	**2 436 255**	**2 983 492**	**2 925 245**
Cash flow from investing activities:						
Purchases of property and equipment	-502 003	-551 408	-593 257	-634 763	-678 184	-725 050
Other non-current assets	-28 022	-513 860	-435 269	-431 714	-451 622	-487 452
Non-current content liabilities	189 941	325 321	275 454	272 852	285 075	307 366
Other non-current liabilities	265 564	267 453	226 549	224 698	235 060	253 709
Short-term investments	911 276	0	0	0	0	0
Net cash used in investing activities	**836 756**	**-472 493**	**-526 523**	**-568 927**	**-609 672**	**-651 427**
Beginning Cash & Cash Equivalents	5 147 176	7 566 760	12 430 828	12 278 584	13 932 329	17 437 802
Additional (less) cash flow for financing	2 927 386	1 513 658	2 055 082	1 867 328	2 373 820	2 273 818
Net cash available for debt financing	**8 074 562**	**9 080 418**	**14 485 910**	**14 145 912**	**16 306 150**	**19 711 619**
Cash flow from financing activities						
Short-term debt	400 000	1 403 000	-803 000	391 000	2 109 000	661 000
Long-term debt	0	-400 000	-1 803 000	-1 000 000	-1 391 000	-3 500 000
Common stock	144 761	470 657	398 674	395 417	413 652	446 470
Treasury stock at cost	-1 052 563	1 876 753	0	0	0	0
Net cash provided by financing activities	**-507 802**	**3 350 410**	**-2 207 326**	**-213 583**	**1 131 652**	**-2 392 530**
Ending Cash & Cash Equivalents	**7 566 760**	**12 430 828**	**12 278 584**	**13 932 329**	**17 437 802**	**17 319 089**

Source: Netflix Annual Report, Own Estimates

Appendix O – Netflix's Beta Estimation

BETA Estimation

- Blame Adjusted Beta

Summary Output

Regression Statistics	
Multiple R	0.5702
R Square	0.3252
Adjusted R Square	0.3226
Standard Error	0.0568
Observations	260

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.4006	0.4006	124.3200	7.98185E-24
Residual	258	0.8314	0.0032		
Total	259	1.2320			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.0021	0.0035	0.5845	0.5594	-0.0049	0.0090	-0.0049	0.0090
X Variable 1	1.2230	0.1097	11.1499	0.0000	1.0070	1.4390	1.0070	1.4390

- Pure-play Method

Company	Beta (5Y Monthly)	Margin Tax Rate	Debt/Equity	Unlevered Beta
Netflix Inc	1.29	21%	69.08%	0.83
Apple Inc	1.27	21%	238.81%	0.44
Alphabet Inc	1.06	21%	5.86%	1.01
Amazon.com, Inc.	1.24	21%	60.60%	0.84
Meta Platforms Inc	1.23	21%	8.44%	1.15
Walt Disney Co	1.29	21%	51.18%	0.92
Comcast Corporatior	0.99	21%	123.52%	0.50
Average Peers				0.81
Netflix Inc (derived)	1.3696	21%	69.08%	0.81

- Conclusion

75% Blame Adjusted and 25% Pure-Play Beta	1.2596
Blame Adjusted Beta	1.2230
Pure-Play Beta	1.3696
NYU Stern Beta for Entertainment Industry	1.4500

> We chose to weight 75% of the Beta of the first methodology compared to 25% of the second - "β~1.26", as we consider that the combination of models would represent an optimal point, preventing the estimate from being excessively conservative concerning Netflix's risk, especially since it would be unlikely that the streamer was significantly less volatile than the market in which it operates. Nevertheless, the deliberate reduction in the percentage allocation, in contrast to the first methodology, was a strategic move aligning Netflix's business model more closely with competitors in the market. This adjustment aimed to mitigate potential excessive influence from other business segments inherent in the betas of comparable companies that extend beyond the domain of video streaming.

Source: Yahoo Finance and Thomson Reuters, Own Estimates

Appendix P – Netflix's Debt Analysis (FY22 – FY28)

NETFLIX

Debt

		Principal Amount at Par						Level 2 Fair Value as of [3]			
		FY 22	FY 21	FY 20	FY 19	Issuance Year [2]	Maturity	FY 22	FY 21	FY 20	FY 19
	5.375% Senior Notes	0	0	500	500	2013	2021	0	0	502	518
	5.500% Senior Notes	0	700	700	700	2015	2022	0	704	735	744
1	5.750% Senior Notes	400	400	400	400	2014	2024	404	437	449	444
2	5.875% Senior Notes	800	800	800	800	2015	2025	811	899	921	896
3	3.000% Senior Notes [1]	503	535	574	0	2020	2025	495	581	616	0
4	3.625% Senior Notes	500	500	500	0	2020	2025	479	529	535	0
5	4.375% Senior Notes	1 000	1 000	1 000	1 000	2016	2026	980	1 111	1 110	1 026
6	3.625% Senior Notes [1]	1 391	1 480	1 588	1 459	2017	2027	1 338	1 702	1 776	1 565
7	4.875% Senior Notes	1 600	1 600	1 600	1 600	2017	2028	1 557	1 829	1 807	1 670
8	5.875% Senior Notes	1 900	1 900	1 900	1 900	2018	2028	1 930	2 293	2 280	2 111
9	4.625% Senior Notes [1]	1 177	1 252	1 344	1 234	2018	2029	1 151	1 565	1 630	1 378
10	6.375% Senior Notes	800	800	800	800	2018	2029	830	999	995	916
11	3.875% Senior Notes [1]	1 284	1 366	1 466	1 346	2019	2029	1 201	1 651	1 700	1 429
12	5.375% Senior Notes	900	900	900	900	2019	2029	885	1 068	1 061	960
13	3.625% Senior Notes	1 177	1 252	1 344	1 234	2019	2030	1 078	1 493	1 533	1 273
14	4.875% Senior Notes	1 000	1 000	1 000	1 000	2019	2030	944	1 169	1 155	1 019
		14 432	**15 485**	**16 416**	**14 873**			**14 083**	**18 030**	**18 805**	**15 949**

[1] The following Senior Notes have a principal amount denominated in euro: 3.000% Senior Notes for €470 million, 3.625% Senior Notes for €1,300 million, 4.625% Senior Notes for €1,100 million, 3.875% Senior Notes for €1,200 million, and 3.625% Senior Notes for €1,100 million.
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Each of the Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. The Company may redeem the Notes prior to maturity in whole or in part at an amount equal to the principal amount thereof plus accrued and unpaid interest and an applicable premium. The Notes include, among other terms and conditions, limitations on the Company's ability to create, incur or allow certain liens; enter into sale and lease-back transactions; create, assume, incur or guarantee additional indebtedness of certain of the Company's subsidiaries; and consolidate or merge with, or convey, transfer or lease all or substantially all of the Company's and its subsidiaries assets, to another person. As of December 31, 2022 and December 31, 2021, the Company was in compliance with all related covenants.

[2] None senior note was issued during 2022
[3] Level 2 assets are financial assets and liabilities that do not have regular market pricing, but whose fair value can be determined based on other data values or market prices.

			FY23	FY24	FY25	FY26	FY27	FY28
		Interest expense	681 996	670 496	618 889	556 906	509 819	389 795
		Short term debt	400	1 803	1 000	1 391	3 500	4 161
			14 432					
1	**Senior Notes at 5.750% maturing in 2024**							
	Opening Balance		400	400	0	0	0	0
	Mandatory repayment		0	-400	0	0	0	0
	Closing Balance	400	400	0	0	0	0	0
	Average Balance		400	200	0	0	0	0
	Interest expense		23	12	0	0	0	0
	Cash remaining for paydown							
2	**Senior Notes at 5.875% maturing in 2025**							
	Opening Balance		800	800	800	0	0	0
	Mandatory repayment		0	0	-800	0	0	0
	Closing Balance	800	800	800	0	0	0	0
	Average Balance		800	800	400	0	0	0
	Interest expense		47	47	24	0	0	0
	Cash remaining for paydown							
3	**Senior Notes at 3.000% maturing in 2025**							
	Opening Balance		503	503	503	0	0	0
	Mandatory repayment		0	0	-503	0	0	0
	Closing Balance	503	503	503	0	0	0	0
	Average Balance		503	503	252	0	0	0
	Interest expense		15	15	8	0	0	0
	Cash remaining for paydown							
4	**Senior Notes at 3.625% maturing in 2025**							
	Opening Balance		500	500	500	0	0	0
	Mandatory repayment		0	0	-500	0	0	0
	Closing Balance	500	500	500	0	0	0	0
	Average Balance		500	500	250	0	0	0
	Interest expense		18	18	9	0	0	0
	Cash remaining for paydown							

5	**Senior Notes at 4.375% maturing in 2026**							
	Opening Balance		1 000	1 000	1 000	1 000	0	0
	Mandatory repayment		0	0	0	-1 000	0	0
	Closing Balance	1 000	1 000	1 000	1 000	0	0	0
	Average Balance		1 000	1 000	1 000	500	0	0
	Interest expense		44	44	44	22	0	0
	Cash remaining for paydown							
6	**Senior Notes at 3.625% maturing in 2027**							
	Opening Balance		1 391	1 391	1 391	1 391	1 391	0
	Mandatory repayment		0	0	0	0	-1 391	0
	Closing Balance	1 391	1 391	1 391	1 391	1 391	0	0
	Average Balance		1 391	1 391	1 391	1 391	696	0
	Interest expense		50	50	50	50	25	0
	Cash remaining for paydown							
7	**Senior Notes at 4.875% maturing in 2028**							
	Opening Balance		1 600	1 600	1 600	1 600	1 600	1 600
	Mandatory repayment		0	0	0	0	0	-1 600
	Closing Balance	1 600	1 600	1 600	1 600	1 600	1 600	0
	Average Balance		1 600	1 600	1 600	1 600	1 600	800
	Interest expense		78	78	78	78	78	39
	Cash remaining for paydown							
8	**Senior Notes at 5.875% maturing in 2028**							
	Opening Balance		1 900	1 900	1 900	1 900	1 900	1 900
	Mandatory repayment		0	0	0	0	0	-1 900
	Closing Balance	1 900	1 900	1 900	1 900	1 900	1 900	0
	Average Balance		1 900	1 900	1 900	1 900	1 900	950
	Interest expense		112	112	112	112	112	56
	Cash remaining for paydown							
9	**Senior Notes at 4.625% maturing in 2029**							
	Opening Balance		1 177	1 177	1 177	1 177	1 177	1 177
	Mandatory repayment		0	0	0	0	0	0
	Closing Balance	1 177	1 177	1 177	1 177	1 177	1 177	1 177
	Average Balance		1 177	1 177	1 177	1 177	1 177	1 177
	Interest expense		54	54	54	54	54	54
	Cash remaining for paydown							
10	**Senior Notes at 6.375% maturing in 2029**							
	Opening Balance		800	800	800	800	800	800
	Mandatory repayment		0	0	0	0	0	0
	Closing Balance	800	800	800	800	800	800	800
	Average Balance		800	800	800	800	800	800
	Interest expense		51	51	51	51	51	51
	Cash remaining for paydown							
11	**Senior Notes at 3.875% maturing in 2029**							
	Opening Balance		1 284	1 284	1 284	1 284	1 284	1 284
	Mandatory repayment		0	0	0	0	0	0
	Closing Balance	1 284	1 284	1 284	1 284	1 284	1 284	1 284
	Average Balance		1 284	1 284	1 284	1 284	1 284	1 284
	Interest expense		50	50	50	50	50	50
	Cash remaining for paydown							
12	**Senior Notes at 5.375% maturing in 2029**							
	Opening Balance		900	900	900	900	900	900
	Mandatory repayment		0	0	0	0	0	0
	Closing Balance	900	900	900	900	900	900	900
	Average Balance		900	900	900	900	900	900
	Interest expense		48	48	48	48	48	48
	Cash remaining for paydown							
13	**Senior Notes at 3.625% maturing in 2030**							
	Opening Balance		1 177	1 177	1 177	1 177	1 177	1 177
	Mandatory repayment		0	0	0	0	0	0
	Closing Balance	1 177	1 177	1 177	1 177	1 177	1 177	1 177
	Average Balance		1 177	1 177	1 177	1 177	1 177	1 177
	Interest expense		43	43	43	43	43	43
	Cash remaining for paydown							
14	**Senior Notes at 4.875% maturing in 2030**							
	Opening Balance		1 000	1 000	1 000	1 000	1 000	1 000
	Mandatory repayment		0	0	0	0	0	0
	Closing Balance	1 000	1 000	1 000	1 000	1 000	1 000	1 000
	Average Balance		1 000	1 000	1 000	1 000	1 000	1 000
	Interest expense		49	49	49	49	49	49
	Cash remaining for paydown							

COST OF DEBT

Netflix 2022 Annual Report

As of December 31, 2022, the Company had aggregate outstanding notes of $14,353 million, net of $79 million of issuance costs, with varying maturities (the "Notes"). As of December 31, 2021, the Company had aggregate outstanding long-term notes of $15,393 million, net of $92 million of issuance costs. Each of the Notes were issued at par and are senior unsecured obligations of the Company. Interest is payable semi-annually at fixed rates. A portion of the outstanding Notes is denominated in foreign currency (comprised of €5,170 million) and is remeasured into U.S. dollars at each balance sheet date (with remeasurement gain totaling $353 million for the year ended December 31, 2022).

Each of the Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. The Company may redeem the Notes prior to maturity in whole or in part at an amount equal to the principal amount thereof plus accrued and unpaid interest and an applicable premium. The Notes include, among other terms and conditions, limitations on the Company's ability to create, incur or allow certain liens; enter into sale and lease-back transactions; create, assume, incur or guarantee additional indebtedness of certain of the Company's subsidiaries; and consolidate or merge with, or convey, transfer or lease all or substantially all of the Company's and its subsidiaries assets, to another person. As of December 31, 2022 and December 31, 2021, the Company was in compliance with all related covenants.

Assumption: Netflix provides in its Form 10-k the level 2 fair value of its senior notes, thus we use them as an approximation to the real market value of debt, in order for us to compute the cost of debt using the YTM method.

1 - Senior Notes at 5.750% maturing in 2024	
Market Value	(404.0)
Par Amount	400
Rate	5.750%
Interest Payment	11.5
N	4
YTM	2.61%
YTM Adj	5.22%

2 - Senior Notes at 5.875% maturing in 2025	
Market Value	(811.0)
Par Amount	800.0
Rate	5.875%
Interest Payment	23.5
N	6
YTM	2.69%
YTM Adj	5.37%

3 - Senior Notes at 3.000% maturing in 2025	
Market Value	(495.0)
Par Amount	503.0
Rate	3.000%
Interest Payment	7.545
N	6
YTM	1.78%
YTM Adj	3.56%

4 - Senior Notes at 3.625% maturing in 2025	
Market Value	(479.0)
Par Amount	500.0
Rate	3.625%
Interest Payment	9.0625
N	6
YTM	2.58%
YTM Adj	5.15%

5 - Senior Notes at 4.375% maturing in 2026	
Market Value	(980.0)
Par Amount	1000.0
Rate	4.375%
Interest Payment	21.9
N	8
YTM	2.47%
YTM Adj	4.93%

6 - Senior Notes at 3.625% maturing in 2027	
Market Value	(1 338.0)
Par Amount	1391.0
Rate	3.625%
Interest Payment	25.2
N	10
YTM	2.24%
YTM Adj	4.48%

7 - Senior Notes at 4.875% maturing in 2028	
Market Value	(1 557.0)
Par Amount	1 600.0
Rate	4.875%
Interest Payment	39.0
N	12
YTM	2.70%
YTM Adj	5.41%

8 - Senior Notes at 5.875% maturing in 2028	
Market Value	(1 930.0)
Par Amount	1 900.0
Rate	5.875%
Interest Payment	55.8
N	12
YTM	2.78%
YTM Adj	5.56%

9 - Senior Notes at 4.625% maturing in 2029	
Market Value	(1 151.0)
Par Amount	1 177.0
Rate	4.625%
Interest Payment	27.2
N	14
YTM	2.50%
YTM Adj	5.00%

10 - Senior Notes at 6.375% maturing in 2029	
Market Value	(830.0)
Par Amount	800.0
Rate	6.375%
Interest Payment	25.5
N	14
YTM	2.86%
YTM Adj	5.72%

11 - Senior Notes at 3.875% maturing in 2029	
Market Value	(1 201.0)
Par Amount	1 284.0
Rate	3.875%
Interest Payment	24.9
N	14
YTM	2.49%
YTM Adj	4.98%

12 - Senior Notes at 5.375% maturing in 2029	
Market Value	(885.0)
Par Amount	900.0
Rate	5.375%
Interest Payment	24.2
N	14
YTM	2.83%
YTM Adj	5.67%

13 - Senior Notes at 3.625% maturing in 2030	
Market Value	(1 078.0)
Par Amount	1 177.0
Rate	3.625%
Interest Payment	21.3
N	16
YTM	2.45%
YTM Adj	4.91%

14 - Senior Notes at 4.875% maturing in 2030	
Market Value	(944.0)
Par Amount	1 000.0
Rate	4.875%
Interest Payment	24.4
N	16
YTM	2.88%
YTM Adj	5.76%

Weighted Average YTM

ID	Senior Notes Rates	Market Value	Par Amount	YTM Adj	% of total
1	5.75%	-404	400	5.22%	2.8%
2	5.88%	-811	800	5.37%	5.5%
3	3.00%	-495	503	3.56%	3.5%
4	3.63%	-479	500	5.15%	3.5%
5	4.38%	-980	1 000	4.93%	6.9%
6	3.63%	-1 338	1 391	4.48%	9.6%
7	4.88%	-1 557	1 600	5.41%	11.1%
8	5.88%	-1 930	1 900	5.56%	13.2%
9	4.63%	-1 151	1 177	5.00%	8.2%
10	6.38%	-830	800	5.72%	5.5%
11	3.88%	-1 201	1 284	4.98%	8.9%
12	5.38%	-885	900	5.67%	6.2%
13	3.63%	-1 078	1 177	4.91%	8.2%
14	4.88%	-944	1 000	5.76%	6.9%
Total		**-14 083**	**14 432**	**5.22%**	**100%**

Weighted Average YTM	**5.17%**

Source: Netflix Annual Report, Own Estimates

Appendix Q – Real GDP Growth (FY22 – FY28)

REAL GDP GROWTH (ANNUAL PERCENT CHANGE)								
	2021	2022	2023	2024	2025	2026	2027	2028
UCAN	5.5	2.8	1.6	1.3	2.0	2.0	1.9	1.9
Canada	5.0	3.4	1.5	1.5	2.2	1.9	1.7	1.7
United States	5.9	2.1	1.6	1.1	1.8	2.1	2.1	2.1
EMEA	5.0	4.1	2.3	2.9	3.1	3.0	3.0	3.0
Europe	5.7	2.4	0.6	1.5	2.0	1.9	1.7	1.6
Middle East	4.3	6.2	2.7	3.0	2.9	2.9	3.0	3.0
Africa	4.9	3.8	3.7	4.2	4.3	4.3	4.4	4.5
LATAM	7.0	4.0	1.6	2.2	2.3	2.6	2.3	2.3
APAC	6.9	4.0	4.4	4.4	4.1	4.1	3.9	3.9
								©IMF, 2023
	https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD							

Source: International Monetary Fund

Appendix R – Netflix's Forecasted Present Value of FCFF and DFC Implied Intrinsic Share Price under the five design Revenues Scenarios (FY22 – FY28)

NETFLIX

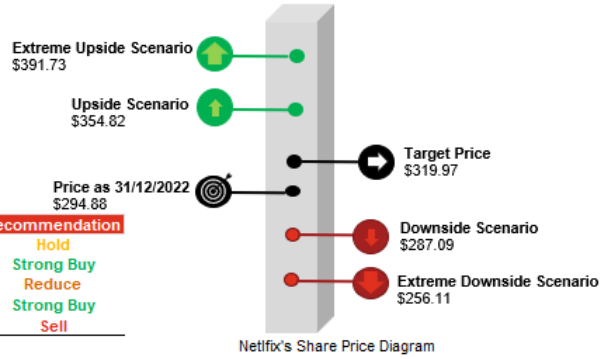
Discounted Cash Flow Model

			Projected						
		FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E	
		0	1	2	3	4	5	6	
	Aux Data	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	
	EBIT		$ 6 553 362	$ 6 929 218	$ 7 959 872	$ 8 357 399	$ 8 749 734	$ 9 357 057	
	Effective Tax Rate		14.50%	15.45%	15.72%	16.01%	16.00%	16.23%	
	Adjusted Taxes		$ 950 547	$ 1 070 259	$ 1 251 657	$ 1 338 330	$ 1 400 145	$ 1 518 622	
	NOPLAT		$ 5 602 815	$ 5 858 959	$ 6 708 215	$ 7 019 068	$ 7 349 588	$ 7 838 435	
	Plus:								
D&A	Amortization of content assets		$ 14 540 409	$ 16 220 855	$ 17 145 329	$ 18 509 534	$ 19 950 422	$ 21 368 982	
D&A	Amortization of P&E		$ 211 437	$ 215 391	$ 242 740	$ 262 310	$ 280 999	$ 300 427	7.71%
	Operating Cash Flow		$ 20 354 661	$ 22 295 205	$ 24 096 284	$ 25 790 913	$ 27 581 009	$ 29 507 844	CAGR
	Less:								
	Investment in content		$ 18 265 825	$ 20 082 352	$ 21 620 432	$ 23 143 982	$ 24 735 782	$ 26 452 054	
CapEx	Purchases of P&E		$ 502 003	$ 551 408	$ 593 257	$ 634 763	$ 678 184	$ 725 050	
	Δ NWC		$ -275 712	$ -4 386	$ -267 182	$ 126 969	$ -156 160	$ 241 523	
									2.32%
	Free Cash Flow to The Firm		$ 1 862 545	$ 1 665 832	$ 2 149 777	$ 1 885 199	$ 2 323 202	$ 2 089 216	CAGR
	WACC (%)	8.03%							
	Discount Factor		1.08	1.17	1.26	1.36	1.47	1.59	
	PV of FCFF		$ 1 724 156	$ 1 427 483	$ 1 705 310	$ 1 384 321	$ 1 579 198	$ 1 314 628	

1.3.	VL	$	9 135 098
	Terminal Value	$	229 593 135
	PV Terminal Value	$	144 470 294
	Enterprise Value	$	153 605 392
	Cash & Cash Equivalents (+)	$	5 147 176
	Debt (-) : short and long term	$	14 353 076
	Equity Value	$	144 399 492
	Diluted Shares Outstanding		451 290
	Implied Intrinsic Share Price	$	319.97

Scenarios	Share Price	Probability	Recommendation
Base	$ 319.97	50%	Hold
Upside	$ 354.82	18.75%	Strong Buy
Downside	$ 287.09	18.75%	Reduce
Extreme Upside	$ 391.73	6.25%	Strong Buy
Extreme Downside	$ 256.11	6.25%	Sell
Weighted Target Price	**$ 320.83**		

Price as 31/12/2022	$	294.88
DCF Share Price	$	319.97
Share Price Upside Rate		8.51%



Netflix's Share Price Diagram

TERMINAL VALUE

computed as $TV = \frac{NOPLAT + (1 - Reinvestment\ Rate) \times (1 + TGR)}{(WACC - TGR)}$

1.1. 75%	TGR [A]	5.23%	1.2. 25%	TGR [B]	1.33%	(equivalent to the Expected Perpetual Growth Rate)
	WACC	8.03%		WACC	8.03%	
	TV	271 454 352.10		TV	$ 104 009 484	

It was decided to determine the Terminal Growth Rate through the proportion 75% of the estimated Terminal Value calculated in **1.1.** with 25% of Terminal Value **1.2**, as a way of ensuring that the model [A], when considering indicators of global economic performance, corrects the financial data previously projected until FY28, used in model [B].

1.3.	Implicit TGR		4.74%
	Weighted TV	$	229 593 135

TERMINAL GROWTH RATE [A]

computed as $TGR = (1 + Expected\ Inflation\ Rate) \times (1 + Expected\ GDP\ Growth\ Rate) - 1$

Subscription Revenue:	FY22 (Actual)	Weight (%)	Expected Inflation FY28	Expected GDP Growth-rate FY28	Inflation Rate Weighted	GDP Growth-rate Weighted
UCAN	14 084 643	44.76%	2.05%	1.90%	0.92%	0.85%
EMEA	9 745 015	30.97%	5.27%	3.03%	1.63%	0.51%
LATAM	4 069 973	12.93%	5.70%	2.30%	0.74%	0.10%
APAC	3 570 221	11.34%	3.50%	3.90%	0.40%	0.05%
	31 469 852				**3.68%**	**1.50%**
TGR	5.23%					

EXPECTED PERPETUAL GROWTH RATE (g)

computed as $Reinvestment\ Rate \times ROE$

We used the Stable Growth Rate, also known as Gordon Growth Model

			FY23 E	FY24 E	FY25 E	FY26 E	FY27 E	FY28 E	
	CapEx		$ 502 003	$ 551 408	$ 593 257	$ 634 763	$ 678 184	$ 725 050	
	D&A		$ 14 751 846	$ 16 436 246	$ 17 388 069	$ 18 771 845	$ 20 231 421	$ 21 669 409	
	Δ NWC		$ -275 712	$ -4 386	$ -267 182	$ 126 969	$ -156 160	$ 241 523	
	EBIT		$ 6 553 362	$ 6 929 218	$ 7 959 872	$ 8 357 399	$ 8 749 734	$ 9 357 057	
Reinvestment Rate			4.04%	9.34%	4.86%	10.85%	7.10%	12.33%	8.09%
	ROE		23.18%	19.28%	17.86%	15.84%	14.29%	13.38%	
Net income	$	4 491 924	$ 5 328 897	$ 5 627 871	$ 6 546 786	$ 6 935 361	$ 7 331 694	$ 7 949 414	
Total stockholders' equity	$	20 777 401	$ 25 198 496	$ 33 173 777	$ 40 119 237	$ 47 450 016	$ 55 195 361	$ 63 591 244	
Average Total stockholders' equity (n-1 & n)			$ 22 987 949	$ 29 186 136	$ 36 646 507	$ 43 784 627	$ 51 322 688	$ 59 393 303	
	g		0.94%	1.80%	0.87%	1.72%	1.01%	1.65%	1.33%

Source: Netflix Annual Report, Own Estimates

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Appendix S – Netflix's Report Recommendations Threshold

Report Recommendations

Report Recommendations	Intervals
Strong Buy - Forecasted implied intrinsic share price higher than 20% of the Price as 31/12/2022	>$353.86
Buy - Forecasted implied intrinsic share price higher than 10% but lower than 20% of the Price as 31/12/2022	]$324.37-$353.86]
Hold - Forecasted implied intrinsic share price between 0% and 10% of the Price as 31/12/2022	]$294.88-$324.37]
Reduce - Forecasted implied intrinsic share price between -10% and 0% of the Price as 31/12/2022	]$265.39-$294.88]
Sell - Forecasted implied intrinsic share price lower than -10% of the Price as 31/12/2022	<$265.39

Source: Own Estimates

Appendix T – Netflix's Sensitivity Analysis

NETFLIX

Sensitivity Analysis

Terminal Growth Rate (±5 bps)	WACC Evolution as function of Beta (±2.5bps)																
	1.06	1.08	1.11	1.13	1.16	1.18	1.21	1.23	1.26	1.28	1.31	1.33	1.36	1.38	1.41	1.43	1.46
	6.95%	7.09%	7.22%	7.35%	7.49%	7.62%	7.76%	7.89%	8.03%	8.16%	8.30%	8.43%	8.56%	8.70%	8.83%	8.97%	9.10%
4.44%	417.43	396.25	377.10	359.73	343.88	329.37	316.03	303.73	292.35	281.80	271.96	262.82	254.25	246.23	238.70	231.61	224.93
4.49%	426.12	404.07	384.19	366.18	349.78	334.78	321.02	308.35	296.63	285.77	275.68	266.28	257.50	249.28	241.56	234.31	227.48
4.54%	435.16	412.21	391.55	372.87	355.88	340.38	326.17	313.10	301.03	289.86	279.49	269.84	260.82	252.40	244.50	237.07	230.09
4.59%	444.59	420.66	399.19	379.79	362.20	346.16	331.48	317.99	305.56	294.06	283.40	273.48	264.24	255.59	247.50	239.90	232.75
4.64%	454.42	429.47	407.12	386.97	368.73	352.13	336.96	323.04	310.22	298.38	287.42	277.23	267.73	258.87	250.57	242.79	235.48
4.69%	464.69	438.64	415.36	394.42	375.50	358.30	342.61	328.24	315.02	302.83	291.54	281.07	271.32	262.22	253.72	245.75	238.26
4.74%	475.42	448.21	423.94	402.16	382.51	364.69	348.46	333.61	**319.97**	307.40	295.79	285.02	275.00	265.67	256.94	248.77	241.11
4.79%	486.65	458.19	432.87	410.20	389.79	371.31	354.50	339.15	325.07	312.11	300.15	289.07	278.78	269.19	260.25	251.87	244.02
4.84%	498.41	468.61	442.17	418.56	397.33	378.16	360.75	344.87	330.33	316.97	304.64	293.24	282.66	272.82	263.63	255.05	247.01
4.89%	510.74	479.51	451.87	427.25	405.17	385.26	367.22	350.78	335.76	321.97	309.27	297.53	286.65	276.53	267.11	258.30	250.06
4.94%	523.68	490.92	462.00	436.31	413.32	392.63	373.91	356.90	341.36	327.13	314.03	301.94	290.74	280.35	270.67	261.64	253.19
4.99%	537.29	502.87	472.59	445.75	421.79	400.28	380.85	363.22	347.15	332.44	318.93	306.47	294.95	284.26	274.32	265.05	256.39
5.04%	551.60	515.40	483.66	455.59	430.61	408.22	388.04	369.77	353.13	337.93	323.99	311.14	299.28	288.29	278.08	268.56	259.67

Report Recommendations	Intervals	% on Sensitivity Analysis	% on Expected Incidence Area 50% of occurance	% on Expected Incidence Area 37.5% of occurance	% on Expected Incidence Area 12.5% of occurance	Weighted % on Expected Incidence Area
Strong Buy - Forecasted implied intrinsic share price higher than 20% of the Price as 31/12/2022	>$353.86	36.2%	0.0%	1.5%	20.3%	3.1%
Buy - Forecasted implied intrinsic share price higher than 10% but lower than 20% of the Price as 31/12/2022	]$324.37-$353.86]	11.8%	0.0%	38%	18.8%	16.7%
Hold - Forecasted implied intrinsic share price between 0% and 10% of the Price as 31/12/2022	]$294.88-$324.37]	14.5%	100.0%	47%	23.2%	70.5%
Reduce - Forecasted implied intrinsic share price between -10% and 0% of the Price as 31/12/2022	]$265.39-$294.88]	17.2%	0.0%	13%	27.5%	8.4%
Sell - Forecasted implied intrinsic share price lower than -10% of the Price as 31/12/2022	<$265.39	20.4%	0.0%	0%	10.1%	1.3%

Appendix U – Netflix's Peers Financial Data, LTM and NTM (in $ millions)

Apple's 2023 fiscal year 2023 first quarter endend December 31, 2022. For that reason we consider this financial information as our LTM, in order to compare all the peers accurately. The formula for the % Y/Y revenue growth was corriged, in order to ensure that its only accounted a period of 4Q´s.

Apple Inc		Sep-2022	31/12/2022
	FY21	**FY22**	**Q1 FY23 (LTM)**
Total Revenues	365 817	394 328	387 537
% Y/Y revenue growth		7.8%	2.4%
Cost of Revenues	212 981	223 546	220 666
as a % of revenues	58.2%	56.7%	56.9%
Gross Profit	152 836	170 782	166 871
Gross Profit Margin (%)	41.8%	43.3%	43.1%
Selling/General/Administrative Expense	21 973	25 094	25 252
Labor & Related Expense	--	--	--
Research & Development	21 914	26 251	27 654
Total	43 887	51 345	52 906
as a % of revenues	12.0%	13.0%	13.7%
Depreciation/Amortization	--	--	--
as a % of revenues	--	--	--
Nomalized EBITDA	120 233	130 541	125 288
EBITDA Margin (%)	32.9%	33.1%	32.3%
EBIT	108 949	119 437	113 965
EBIT Margin (%)	29.8%	30.3%	29.4%
Interest Inc.(Exp.),Net-Non-Op., Total	198	-106	-197
Other Non-Operating Income (Expense)	60	-228	-283
Total	258	-334	-480
as a % of revenues	0.1%	-0.1%	-0.1%
Net Income Before Taxes	109 207	119 103	113 485
Net Income Before Taxes Margin (%)	29.9%	30.2%	29.3%
Provision for Income Taxes	14 527	19 300	18 314
Effective tax rate (%)	13.3%	16.2%	16.1%
Net Income After Taxes	94 680	99 803	95 171
Basic Normalized Earnings Per Share	5.66	6.14	5.92
Diluted Normalized Earnings Per Share	5.61	6.10	5.89

Hist Market Capitalization	2 058.40
- Cash	18
- Cash and Equivalents	3
- Short Term Investments	31
+ Total Debt	111
- Minority Interest	--
- Redeemable Preferred Stock, Total	--
- Preferred Stock - Non Redeemable, Net	--
Hist Enterprise Value	2 118.16

Forecasted NTM (31/12/2023) - Thomas Reuters

Enterprise Value $M - 31/12/2023	2 672.31
Revenue	389 471.82
EBITDA	127 908.70
EBIT	116 797.10
Diluted EPS	6.26

Alphabet Inc (Google is a subsidiary, Youtube)

	FY21	FY22 (LTM)
Total Revenues	257 637	282 836
% Y/Y revenue growth	--	9.8%
Cost of Revenues	110 939	126 203
as a % of revenues	43.1%	44.6%
Gross Profit	146 698	156 633
Gross Profit Margin (%)	56.9%	55.4%
Selling/General/Administrative Expense	36 422	42 291
Research & Development	31 562	39 500
Total	67 984	81 791
as a % of revenues	26.4%	28.9%
Depreciation/Amortization	--	--
as a % of revenues	--	--
Nomalized EBITDA	91 144	90 771
EBITDA Margin (%)	35.4%	32.1%
EBIT	78 714	74 842
EBIT Margin (%)	30.6%	26.5%
Interest Inc.(Exp.),Net-Non-Op., Total	13 517	-4 693
Other Non-Operating Income (Expense)	-1 497	1 179
Total	12 020	-3 514
as a % of revenues	4.7%	-1.2%
Net Income Before Taxes	90 734	71 328
Net Income Before Taxes Margin (%)	35.2%	25.2%
Provision for Income Taxes	14 701	11 356
Effective tax rate (%)	16.2%	15.9%
Net Income After Taxes	76 033	59 972
Basic Normalized Earnings Per Share	5.70	5.70
Diluted Normalized Earnings Per Share	4.49	4.49

Hist Market Capitalization	1 133.67
- Cash	--
- Cash and Equivalents	22
- Short Term Investments	92
+ Total Debt	15
- Minority Interest	--
- Redeemable Preferred Stock, Total	--
- Preferred Stock - Non Redeemable, N	--
Hist Enterprise Value	1 034.90

Forecasted NTM (31/12/2023) - Thomas Reuters

Enterprise Value $M - 31/12/2023	1 674.93
Revenue	304 674.77
EBITDA	121 853.55
EBIT	84 236.78
Diluted EPS	5.63

Amazon.com, Inc. (prime video)	FY21	FY22 (LTM)
Total Revenues	469 822	513 983
% Y/Y revenue growth	--	9.4%
Cost of Revenues	272 344	288 831
as a % of revenues	58.0%	56.2%
Gross Profit	197 478	225 152
Gross Profit Margin (%)	42.0%	43.8%
Selling/General/Administrative Expense	110 913	130 185
Labor & Related Expense	5 572	8 243
Research & Development	56 052	73 213
Total	172 537	211 641
as a % of revenues	36.7%	41.2%
Depreciation/Amortization	--	--
as a % of revenues	--	--
Nomalized EBITDA	62 675	54 169
EBITDA Margin (%)	13.3%	10.5%
EBIT	24 941	13 511
EBIT Margin (%)	5.3%	2.6%
Other Operating Expenses, Total	-62	-1 263
Interest Inc.(Exp.),Net-Non-Op., Total	10 110	-15 588
Other Non-Operating Income (Expense)	3 162	-2 596
Total	13 210	-19 447
as a % of revenues	2.8%	-3.8%
Net Income Before Taxes	38 151	-5 936
Net Income Before Taxes Margin (%)	8.1%	-1.2%
Provision for Income Taxes	4 791	-3 217
Effective tax rate (%)	12.6%	54.2%
Net Income After Taxes	33 360	-2 719
Basic Normalized Earnings Per Share	3.58	-0.27
Diluted Normalized Earnings Per Share	3.52	-0.27

Hist Market Capitalization	860.33
- Cash	--
- Cash and Equivalents	54
- Short Term Investments	16
+ Total Debt	89
- Minority Interest	--
- Redeemable Preferred Stock, Total	--
- Preferred Stock - Non Redeemable,	--
Hist Enterprise Value	878.80

Forecasted NTM (31/12/2023) - Thomas Reuters

Enterprise Value $M - 31/12/2023	1 450.44
Revenue	569 752.47
EBITDA	100 155.52
EBIT	28 739.42
Diluted EPS	2.20

Meta Platforms Inc (Facebook)

	FY21	FY22 (LTM)
Total Revenues	117 929	116 609
% Y/Y revenue growth	--	-1.1%
Cost of Revenues	22 649	25 249
as a % of revenues	19.2%	21.7%
Gross Profit	95 280	91 360
Gross Profit Margin (%)	80.8%	78.3%
Selling/General/Administrative Expense	22 391	25 214
Labor & Related Expense	1 481	1 863
Research & Development	24 655	35 338
Total	48 527	62 415
as a % of revenues	41.1%	53.5%
Depreciation/Amortization	--	--
as a % of revenues	--	--
Nomalized EBITDA	54 720	37 640
EBITDA Margin (%)	46.4%	32.3%
EBIT	46 753	28 945
EBIT Margin (%)	39.6%	24.8%
Interest Inc.(Exp.),Net-Non-Op., Total	414	196
Other Non-Operating Income (Expense)	117	-322
Total	531	-126
as a % of revenues	0.5%	-0.1%
Net Income Before Taxes	47 284	28 819
Net Income Before Taxes Margin (%)	40.1%	24.7%
Provision for Income Taxes	7 914	4 109
Effective tax rate (%)	16.7%	14.3%
Net Income After Taxes	39 370	24 710
Basic Normalized Earnings Per Share	13.99	9.19
Diluted Normalized Earnings Per Share	13.79	8.86

Hist Market Capitalization	314.57
- Cash	6
- Cash and Equivalents	9
- Short Term Investments	26
+ Total Debt	11
- Minority Interest	--
- Redeemable Preferred Stock, Total	--
- Preferred Stock - Non Redeemable,	--
Hist Enterprise Value	284.44

Forecasted NTM (31/12/2023) - Thomas Reuters

Enterprise Value $M - 31/12/2023	812.85
Revenue	132 567.28
EBITDA	68 020.33
EBIT	42 951.34
Diluted EPS	13.31

Comcast Corporation (NBCUniversal - Peacock)	FY21	FY22 (LTM)
Total Revenues	116 385	121 428
% Y/Y revenue growth	--	4.3%
Cost of Revenues	38 450	38 213
as a % of revenues	33.0%	31.5%
Gross Profit	77 935	83 215
Gross Profit Margin (%)	67.0%	68.5%
Selling/General/Administrative Expense	35 533	38 251
Advertising Expense	7 695	8 506
Research & Development	--	--
Total	43 228	46 757
as a % of revenues	37.1%	38.5%
Depreciation	8 628	8 724
Amortization of Intangibles	5 177	5 097
Total	13 805	13 821
as a % of revenues	11.9%	11.4%
Nomalized EBITDA	34 912	36 458
EBITDA Margin (%)	30.0%	30.0%
EBIT	20 902	22 637
EBIT Margin (%)	18.0%	18.6%
Unusual Expense (Income)	-86	-8 596
Interest Inc.(Exp.),Net-Non-Op., Total	-1 936	-4 753
Other Non-Operating Income (Expense)	211	-4
Total	-1 811	-13 353
as a % of revenues	-1.6%	-11.0%
Net Income Before Taxes	19 092	9 284
Net Income Before Taxes Margin (%)	16.4%	7.6%
Provision for Income Taxes	5 259	4 360
Effective tax rate (%)	27.5%	47.0%
Net Income After Taxes	13 833	4 924
Basic Normalized Earnings Per Share	3.04	2.48
Diluted Normalized Earnings Per Share	3.00	2.47

Hist Market Capitalization	147.56
- Cash	--
- Cash and Equivalents	5
- Short Term Investments	--
+ Total Debt	100
+ Minority Interest	1
- Redeemable Preferred Stock, Total	--
- Preferred Stock - Non Redeemable,	--
Hist Enterprise Value	243.887

Forecasted NTM (31/12/2023) - Thomas Reuters

Enterprise Value $M - 31/12/2023	267.95
Revenue	120 241.33
EBITDA	37 498.71
EBIT	23 669.43
Diluted EPS	3.507

Walt Disney Co's 2023 fiscal year 2023 first quarter endend December 31, 2022. For that reason we consider this financial information as our LTM, in order to compare all the peers accurately. The formula for the % Y/Y revenue growth was corriged, in order to ensure that its only accounted a period of 4Q´s.

Walt Disney Co (also owns 90% of Hulu)		Oct-2022	31/12/2022
	FY21	**FY22**	**Q1 FY23 (LTM)**
Total Revenues	67 418	82 722	84 415
% Y/Y revenue growth	--	22.7%	15.7%
Cost of Revenues	45 131	54 401	56 220
as a % of revenues	66.9%	65.8%	66.6%
Gross Profit	22 287	28 321	28 195
Gross Profit Margin (%)	33.1%	34.2%	33.4%
Selling/General/Administrative Expense	13 517	16 388	16 428
Research & Development	--	--	--
as a % of revenues	20.0%	19.8%	19.5%
Depreciation/Amortization	5 111	5 163	5 200
as a % of revenues	7.6%	6.2%	6.2%
Nomalized EBITDA	8 870	11 929	11 795
EBITDA Margin (%)	13.2%	14.4%	14.0%
EBIT	3 659	6 770	6 567
EBIT Margin (%)	5.4%	8.2%	7.8%
Unusual Expense (Income)	-528	-237	-306
Other Operating Expenses, Total	100	-4	28
Interest Inc.(Exp.),Net-Non-Op., Total	-569	-1 244	-989
Other Non-Operating Income (Expense)	--	0	70
Aditional movements	-101	0	0
Total	-1 098	-1 485	-1 197
as a % of revenues	-1.6%	-1.8%	-1.4%
Net Income Before Taxes	2 561	5 285	5 370
Net Income Before Taxes Margin (%)	3.8%	6.4%	6.4%
Provision for Income Taxes	25	1 732	1 656
Effective tax rate (%)	1.0%	32.8%	30.8%
Net Income After Taxes	2 536	3 553	3 714
Basic Normalized Earnings Per Share	1.77	2.43	2.46
Diluted Normalized Earnings Per Share	1.76	2.42	2.46

Hist Market Capitalization	154.73
- Cash	--
- Cash and Equivalents	8
- Short Term Investments	--
+ Total Debt	48
+ Minority Interest	13
- Redeemable Preferred Stock, Total	--
- Preferred Stock - Non Redeemable,	--
Hist Enterprise Value	207.37

Forecasted NTM (31/12/2023) - Thomas Reuters	
Enterprise Value $M - 31/12/2023	197.16
Revenue	89 742.68
EBITDA	16 600.33
EBIT	13 097.47
Diluted EPS	2.55

Source: Thomson Reuters, Own Estimates

Appendix V – Netflix's Multiples – Implied Share Price Determination

	Multiples	[A] - EV / Revenue		[B] - EV / EBITDA		[B] - EV / EBIT		[C] - Price / Revenue		[D] - Share Price / EPS	
		LTM	NTM	LTM	NTM	LTM	NTM	LTM	NTM	LTM	NTM
1	Apple Inc	5.5x	6.9x	16.9x	20.9x	18.6x	22.9x	5.3x	7.2x	22.1x	29.0x
2	Alphabet Inc	3.7x	5.5x	11.4x	13.7x	13.8x	19.9x	4.3x	5.7x	19.7x	24.5x
3	Amazon.com, Inc.	1.7x	2.5x	16.2x	14.5x	65.0x	50.5x	1.7x	2.6x	-311.1x	65.5x
4	Meta Platforms Inc	2.4x	6.1x	7.6x	12.0x	9.8x	18.9x	3.1x	6.1x	13.6x	23.3x
5	Walt Disney Co	2.5x	2.2x	17.6x	11.9x	31.6x	15.1x	1.9x	1.7x	35.3x	22.7x
6	Comcast Corporation	2.0x	2.2x	6.7x	7.1x	10.8x	11.3x	1.2x	1.6x	14.2x	12.1x
	Max	3.7x	6.1x	16.9x	14.5x	31.6x	22.9x	5.3x	6.1x	35.3x	29.0x
	Min	1.7x	2.2x	7.6x	11.9x	9.8x	11.3x	1.7x	2.6x	13.6x	12.1x
	Median	2.4x	2.5x	13.8x	12.8x	13.8x	18.9x	3.1x	5.7x	19.7x	23.3x
	Average + Standard Deviation	4.4x	6.4x	17.6x	17.8x	46.1x	37.1x	4.6x	6.6x	101.4x	48.0x
	Average - Standard Deviation	1.6x	2.1x	7.9x	8.9x	3.7x	9.1x	1.3x	1.7x	-170.2x	11.0x

	LTM			NTM		
Relative Valuation [A]	**Min**	**Median**	**Max**	**Min**	**Median**	**Max**
EV / Revenue	1.7x	2.4x	3.7x	2.2x	2.5x	6.1x
Netflix Revenue FY22 (LTM) & FY23 (NTM)	31 616	31 616	31 616	33 893	33 893	33 893
Implied Enterprise Value	**54 056**	**77 119**	**115 682**	**74 462**	**86 282**	**207 817**
Net Debt	9 206	9 206	9 206	9 206	9 206	9 206
Implied Equity Value	**44 850**	**67 913**	**106 476**	**65 256**	**77 077**	**198 611**
Number of basic shares outstanding	445.35	445.35	445.35	445.35	445.35	445.35
Implied Share Price	$ 100.71	$ 152.49	$ 239.09	$ 146.53	$ 173.07	$ 445.97

	LTM			NTM		
Relative Valuation [B]	**Min**	**Median**	**Max**	**Min**	**Median**	**Max**
EV / EBITDA	7.6x	13.8x	16.9x	11.9x	12.8x	14.5x
Netflix EBITDA FY22 (LTM) & FY23 (NTM)	19 796	19 796	19 796	21 305	21 305	21 305
Implied Enterprise Value	**149 599**	**273 434**	**334 684**	**253 042**	**273 723**	**308 540**
Net Debt	9 206	9 206	9 206	9 206	9 206	9 206
Implied Equity Value	**140 393**	**264 228**	**325 478**	**243 836**	**264 518**	**299 334**
Number of basic shares outstanding	445.35	445.35	445.35	445.35	445.35	445.35
Implied Share Price	$ 315.24	$ 593.31	$ 730.84	$ 547.52	$ 593.96	$ 672.14

	LTM			NTM		
Relative Valuation [C]	**Min**	**Median**	**Max**	**Min**	**Median**	**Max**
EV / EBIT	9.8x	13.8x	31.6x	11.3x	18.9x	22.9x
Netflix EBIT FY22 (LTM) & FY23 (NTM)	5 633	5 633	5 633	6 553	6 553	6 553
Implied Enterprise Value	**55 353**	**77 890**	**177 871**	**74 189**	**124 021**	**149 941**
Net Debt	9 206	9 206	9 206	9 206	9 206	9 206
Implied Equity Value	**46 148**	**68 684**	**168 665**	**64 983**	**114 815**	**140 735**
Number of basic shares outstanding	445.35	445.35	445.35	445.35	445.35	445.35
Implied Share Price	$ 103.62	$ 154.23	$ 378.73	$ 145.92	$ 257.81	$ 316.01

	LTM			NTM		
Relative Valuation [D]	**Min**	**Median**	**Max**	**Min**	**Median**	**Max**
Price / Revenue	1.7x	3.1x	5.3x	2.6x	5.7x	6.1x
Netflix Revenue FY22 (LTM) & FY23 (NTM)	31 616	31 616	31 616	33 893	33 893	33 893
Implied Enterprise Value	**52 816**	**98 925**	**169 127**	**88 799**	**194 206**	**205 052**
Net Debt	9 206	9 206	9 206	9 206	9 206	9 206
Implied Equity Value	**43 610**	**89 720**	**159 921**	**79 594**	**185 000**	**195 846**
Number of basic shares outstanding	445.35	445.35	445.35	445.35	445.35	445.35
Implied Share Price	$ 97.92	$ 201.46	$ 359.09	$ 178.72	$ 415.41	$ 439.76

	LTM			NTM		
Relative Valuation [E]	**Min**	**Median**	**Max**	**Min**	**Median**	**Max**
Share Price / EPS	13.6x	19.7x	35.3x	12.1x	23.3x	29.0x
Netflix Net Income FY22 (LTM) & FY23 (NTM)	4 492	4 492	4 492	5 329	5 329	5 329
Implied Enterprise Value	**61 011**	**88 268**	**158 642**	**64 426**	**124 270**	**154 325**
Net Debt	9 206	9 206	9 206	9 206	9 206	9 206
Implied Equity Value	**51 805**	**79 062**	**149 436**	**55 220**	**115 064**	**145 119**
Number of basic shares outstanding	445.35	445.35	445.35	445.35	445.35	445.35
Implied Share Price	$ 116.33	$ 177.53	$ 335.55	$ 123.99	$ 258.37	$ 325.86

	LTM					NTM				
Multiples	**[A]**	**[B]**	**[C]**	**[D]**	**[E]**	**[A]**	**[B]**	**[C]**	**[D]**	**[E]**
Corrected Average by the Standard Deviation	2.5x	13.0x	16.9x	2.7x	21.0x	3.7x	13.0x	17.6x	4.8x	22.3x
Netflix Revenue FY22 (LTM) & FY23 (NTM)	31 616			31 616		33 893			33 893	
Netflix EBITDA FY22 (LTM) & FY23 (NTM)		19 796					21 305			
Netflix EBIT FY22 (LTM) & FY23 (NTM)			5 633					6 553		
Netflix Net Income FY22 (LTM) & FY23 (NTM)					4 492					5 329
Implied Enterprise Value	**77 604**	**257 788**	**95 299**	**86 904**	**94 121**	**126 083**	**277 257**	**115 421**	**162 686**	**118 898**
Net Debt	9 206	9 206	9 206	9 206	9 206	9 206	9 206	9 206	9 206	9 206
Implied Equity Value	**68 398**	**248 582**	**86 093**	**77 698**	**84 915**	**116 877**	**268 051**	**106 215**	**153 480**	**109 692**
Number of basic shares outstanding	445.35	445.35	445.35	445.35	445.35	445.35	445.35	445.35	445.35	445.35
Implied Share Price	$153.58	$558.18	$193.32	$174.47	$190.67	$262.44	$601.89	$238.50	$344.63	$246.31
			Average LTM	$178.01				Average NTM	$272.97	

Source: Thomson Reuters, Own Estimates