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Equity Valuation: Netflix, Inc.

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Master in Finance

Supervisor:
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Iscte Business School

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BUSINESS
SCHOOL

Department of Finance

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Resumo

O principal objetivo desta avaliação de empresa é determinar se as ações da Netflix, Inc. estavam cotadas acima ou abaixo do seu valor justo no último dia de 2023. Após comparar o valor justo das ações com o preço a que estavam a ser transacionadas no mercado, será feita uma recomendação de investimento a potenciais investidores para comprar, vender ou manter as ações da Netflix.

A Netflix é uma empresa americana que se destaca como líder na indústria dos serviços de entretenimento, conhecida pela sua plataforma de *streaming* e pelo seu extenso conteúdo de elevada qualidade. Devido à sua posição competitiva na indústria de entretenimento e às suas estratégias inovadoras, a Netflix é uma empresa particularmente interessante para uma avaliação de empresa.

Para avaliar a Netflix, foram escolhidos dois métodos de avaliação: o método dos fluxos de caixa descontados e a avaliação relativa. Ambas as abordagens fornecem perspetivas e pressupostos diferentes, complementando-se mutuamente.

Os resultados obtidos indicam que, à data de 29 de dezembro de 2023, as ações da Netflix estavam a ser negociadas abaixo do seu valor justo de $496.19, obtido através da abordagem dos fluxos de caixa descontados. Considerando que as ações da Netflix estavam subvalorizadas e que a empresa tem uma forte posição de mercado e um forte potencial de crescimento, é uma oportunidade de investimento atrativa. Consequentemente, os resultados obtidos levaram-nos a recomendar a potenciais investidores a compra das ações da empresa.

Palavras-Chave: Netflix, Inc.; Avaliação de Empresas; Fluxo de Caixa Descontados; Avaliação Relativa

Classificação JEL: G30; G32

Abstract

The main objective of this equity valuation is to assess whether Netflix's shares were priced above or below their estimated fair value on the last trading day of 2023. After comparing the estimated fair value with the observed market price, an investment recommendation to buy, sell or hold Netflix's shares was made for potential investors.

Netflix is an American company that stands as a global leader in the entertainment services industry, renowned for its unique streaming platform and its extensive library of high-quality content. Due to its distinctive competitive position in the entertainment services industry and due to its innovative strategies, Netflix is a particularly interesting company for an equity valuation.

To value Netflix, two valuation methods were chosen: the discounted cash flow approach, specifically the free cash flow to the firm method, and relative valuation. Both methodologies provide different perspectives and assumptions, therefore complementing each other.

The results obtained from this equity valuation indicate that, on December 29, 2023, Netflix's shares were being traded below their actual fair value of $496.19, obtained through a discounted cash flow method. Considering that Netflix's shares are undervalued and that the company has a strong market position and a strong growth potential, it is deemed an attractive investment opportunity. Thus, the obtained results lead us to recommend potential investors to buy the company's shares.

Keywords: Netflix, Inc.; Equity Valuation; Discounted Cash Flow; Relative Valuation.

JEL Classification: G30; G32

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Glossary

AI - Artificial Intelligence

APAC – Asia-Pacific

APV – Adjusted Present Value

ARPU – Average Revenue Per User

AT&T – American Telephone and Telegraph Company

AVoD - Advertising-based Video on Demand

CAGR – Compound Annual Growth Rate

CAPEX – Capital Expenditures

CAPM – Capital Asset Pricing Model

CF – Cash Flow

COVID-19 – Coronavirus Disease

D&A – Depreciation and Amortization

DCF – Discounted Cash Flow

DDM - Dividend Discount Model

&M - Entertainment and Media

EBIT – Earnings Before Interest and Taxes

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

EMEA - Europe, Middle East, and Africa

EPS – Earnings per Share

EQV – Equity Value

ESG – Environmental, Social, and Governance

EST – Electronic Sell-through (Video Downloads)

EV – Enterprise Value

FAST - Free Ad-supported Streaming TV

FCFE – Free Cash Flow to Equity

FCFF – Free Cash Flow to the Firm

GDP – Gross Domestic Product

IPO - Initial Public Offering

IMF – International Monetary Fund

LATAM - Latin America

MAANG – Meta, Apple, Amazon, Netflix and Google

NASDAQ - National Association of Security Dealers Automated Quotations

Netflix – Netflix, Inc.

NOA – Non-Operating Assets

NWC - Net Working Capital

OTT - Over-The-Top

P/E - Price to Earnings ratio

PwC - PriceWaterhouseCoopers

R&D – Research and Development

ROA – Return on Assets

ROCE – Return on Common Equity

ROIC – Return on Invested Capital

SVoD - Subscription Video on Demand

S&P 500 - Standard & Poor's 500

TGR – Terminal Growth Rate

TV – Television or Terminal Value

TVoD - Transactional Video on Demand

UCAN - United States and Canada

US – United States

WACC – Weighted Average Cost of Capital

WC – Working Capital

YoY - Year-Over-Year

10-K – Form 10-K (comprehensive report mandated by SEC that public companies must file annually, detailing their financial performance)

Introduction

Understanding the true value of a company is essential in the finance sector. Investors, financial analysts, and stakeholders rely on equity valuations as a tool for informed investment decisions, enabling the estimation of a company's fair value, risk exposure and growth potential.

The purpose of this equity valuation is to estimate the fair value of Netflix's shares on December 29, 2023, and compare it to the observed market price at that date. Through our equity valuation, we aim to determine whether Netflix's shares were being traded at a premium or at a discount, and to provide an investment recommendation to potential investors on whether to buy, sell or hold Netflix's shares.

Netflix, Inc. is a public American company that operates in the entertainment industry. Founded in 1997 by Reed Hastings and Marc Randolph as a DVD-by-mail rental service, the company transitioned in 2007 into a subscription-based streaming platform (Netflix, n.d.). Netflix's ability to rapidly adapt to market trends, innovate, and offer a wide range of entertainment content has secured its position as a global leader in the entertainment services industry. As of 2024, Netflix was operating in more than 190 countries, each with its own library of licensed and original content, and has secured approximately 302 million paid memberships, operating with a global workforce of around 14 000 full time employees (Neflix, n.d.). Netflix is publicly traded on the NASDAQ under the ticker NFLX.

This master thesis encompasses four chapters, with each chapter focusing on different aspects of Netflix's equity valuation. Following the introduction, the first chapter covers the most relevant literature, enabling us to prudently select the most suitable methodologies to value Netflix. Subsequently, the second chapter includes an analysis of the macroeconomic framework, an overview of the industry dynamics, and an overview of Netflix's competitive position. Afterwards, the third chapter presents a detailed analysis of Netflix's historical performance, business model, stock performance, as well as a financial analysis of the company's profitability, liquidity, and solvency ratios. Finally, the fourth chapter presents the process of estimating Netflix's value using the Discounted Cash Flow (DCF) and relative valuation methods, as well as a sensitivity analysis of the company's share price. The section closes with a final recommendation advising investors to sell, hold or buy Netflix's shares, considering the extensive analysis completed in this mater thesis report.

1. Literature Review

This literature review begins with a brief introduction to the concept of valuation, followed by an analysis of the main valuation methodologies. The main characteristics of the most important valuation methodologies will be analysed in order to correctly choose the most appropriate methods to value Netflix.

1.1. Valuation

Pinto et al. (2010) define valuation as the "estimation of an asset's value based on variables perceived to be related to future investment returns, on comparisons with similar assets, or, when relevant, on estimates of immediate liquidation proceeds" (p. 1). According to Fernández (2007), equity valuations can be applied in a wide range of contexts, such as for valuing companies, identifying key value drivers, operational and strategic planning, among others. Their extreme versatility makes them a useful tool in several key areas of finance, such as mergers and acquisitions, portfolio management, corporate finance, capital budgeting, investment analysis, risk management, among many others (Damodaran, 2012).

To estimate a company's value, analysts rely on several valuation methodologies, each with their own distinctive features, strengths, and weaknesses. Since so many valuation approaches exist, choosing the appropriate valuation model can be a challenging task. As stated by Damodaran (2012), "the problem in valuation is not that there are not enough models to value an asset, it is that there are too many" (p. 662). As such, analysts should employ the valuation methods that most accurately reflect the operational, financial, and risk features of a company.

According to Damodaran (2012), performing a valuation is "not an objective exercise" (p. 6). When analysts perform a valuation, they provide an estimate of the company's value, which is achieved through a set of assumptions about the company's future and economic environment which are subject to the analyst's preconceptions. As such, even though the tools used for a valuation are of a quantitative nature, the subjectivity of the analyst bears a large impact on the final recommendation, and a reasonable margin of error should be accounted for in the final valuation.

Damodaran (2012) states that there are three different approaches to valuation: the DCF method, which derives the value of an asset based on the Present Value (PV) of its estimated future cash flows; the relative valuation, which values an asset by considering the pricing of other similar assets; and the contingent claim valuation, which equates an asset to a financial instrument with option-like characteristics, relying on option pricing models to estimate the

asset's value. The following sections cover the two most common methodologies used to value companies, the DCF model and the relative valuation model, which will be used for valuing Netflix.

1.2. Discounted Cash Flow Valuation

The most widely adopted valuation method, according to Frykman and Tolleryd (2003), is the DCF model. Even though most real-life valuations are performed using the relative valuation approach, the DCF model stands as the most important valuation approach since it serves as the basis for every other valuation method (Damodaran, 2012). The DCF valuation relies on accurate projections of each financial element associated with the production of cash flows that are consistent with the business's activities for each time period (Fernández, 2007).

The core concept of this valuation approach is that the value of a company can be obtained by discounting its estimated future cash flows to their present value using a discount rate that accurately represents their overall riskiness (Frykman and Tolleryd, 2003; Damodaran, 2012). As such, the DCF method consists in projecting the future cash flows of a company, estimating their overall level of risk at each point in time to obtain an accurate discount rate, and discounting them back to their present value. Since the discount rate is obtained as a function of the cash flows' riskiness, riskier assets will demand a higher discount rate while safer assets will require a lower discount rate (Damodaran, 2012).

According to Frykman and Tolleryd (2003) and Larrabee and Voss (2013), the company's value can be divided into two components. The first component involves computing the PV of the future cash flows during the explicit forecast period. The second component focuses on estimating the Terminal Value (TV) of the company, which represents the PV of all future cash flows beyond the explicit forecast period (Frykman and Tolleryd, 2003).

Formally, the DCF approach is expressed as:

$$V = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_3}{(1+r)^3} + \ \ldots + \frac{CF_n + TV_n}{(1+r)^n} \tag{1}$$

where:

- V = Present value of the cash flows
- CF_t = Cash Flow generated by the company at period t
- r = Appropriate discount rate for the cash flow's risk
- TV_n = Terminal Value of the company at period n
- n = Last year of the explicit forecast period

The TV period starts when the company's growth can be assumed to be stable. As such, according to Damodaran (2012), since a stable growth can be sustained in perpetuity, the TV can be estimated using a perpetual growth model:

$$TV_n = \frac{CF_{n+1}}{(r - g)} \quad (2)$$

where:

- g = Perpetual growth rate

According to Larrabee and Voss (2013), the calculation of the TV is the most critical part of the valuation process, as it represents more than half of the company's estimated value. Therefore, determining an appropriate growth rate is crucial for an accurate TV. As per Damodaran (2012), the growth rate cannot exceed the growth rate of the economy. Steiger (2008) adds that this rate should range from 0% to 5% and should never be higher than 5% as that would not be viable in the long term.

The following sections present several valuation models that exist within the DCF approach: the Free Cash Flow to the Firm (FCFF), the Free Cash Flow to Equity (FCFE), the Adjusted Present Value (APV), and the Dividend Discount Model (DDM).

1.2.1. Free Cash Flow to the Firm

The FCFF is a methodology within the DCF framework that represents the cash flows available to the company's stakeholders after deducting all operating expenses, investments in working capital and capital expenditures (Pinto et al., 2010). The company's stakeholders include "common stockholders, bondholders, and sometimes, preferred stockholders" (Pinto et al., 2010, p. 147).

There are two ways for calculating the FCFF, as mentioned by Damodaran (2012). The simplest one is presented below:

$$FCFF = EBIT * (1 - t) + \text{Depreciation and Amortization} - CAPEX - \Delta WC \quad (3)$$

where:

- $EBIT$ = Earnings Before Interest and Taxes
- t = Corporate Tax Rate
- $CAPEX$ = Capital Expenditures
- ΔWC = Changes in Working Capital

The FCFF can be estimated by subtracting the taxes and the costs of reinvestment, such as CAPEX and changes in working capital, from the Earnings Before Interest and Taxes (EBIT)

(Damodaran, 2012). Since these cash flows are received before any debt is repaid, the FCFF is also referred to as the "unlevered cash flow" (Damodaran, 2012, p. 283).

To determine the firm's value, the FCFF is discounted using the Weighted Average Cost of Capital (WACC), which considers the effects of both equity and debt financing (Damodaran, 2006). Since the WACC is computed using the after-tax cost of debt, it already accounts for the tax benefits of debt (Damodaran, 2006). As such, including the tax benefits of interest payments in the FCFF would double count their impact (Damodaran, 2012).

The FCFF method requires two steps to calculate the equity value of a company: firstly, we compute the company's total value, denoted as Enterprise Value (EV); and secondly, we adjust it by adding the non-operating assets and subtracting the non-equity claims, thus obtaining the Equity Value (EQV). Therefore, the first step of the FCFF approach is to compute the EV, which corresponds to the PV of the cash flows discounted at the WACC, as follows:

$$EV = \sum_{t=1}^{n} \frac{FCFF_t}{(1+WACC)^t} + \frac{TV_n}{(1+WACC)^n} \quad (4)$$

where:

- EV = Enterprise Value
- $FCFF_t$ = Free cash flow to the firm at period t
- $WACC$ = Weighted Average Cost of Capital
- TV_n = Terminal Value of the company at period n

Additionally, the terminal value can be broken down as follows:

$$TV_n = \frac{FCFF_{n+1}}{(WACC - g)} \quad (5)$$

Once the EV has been computed, the valuation of the company's total value has been achieved, and the final step is to determine the portion of the company owned by the shareholders, which corresponds to the EQV. Therefore, the EQV can be computed using the following equation:

$$EQV = EV + \text{Non-operating assets} - \text{Non-equity claims} \quad (6)$$

The first item to be adjusted is the Non-Operating Assets (NOA), which denotes all the assets held by the company but not used in its operational functions. Hence, the NOA will not affect the future performance of the company, but it still represents value to the shareholders. The NOA includes cash and near-cash investments, investments in equity or bonds of other companies, holdings in other private companies, and assets that add value to the firm without generating cash flows, such as unused land or goodwill (Damodaran, 2012).

The second and final item to be adjusted are the non-equity claims, which are comprised of debt, debt equivalents, and hybrid securities, such as convertible debt (Koller et al., 2020).

Finally, the company's fair value per share can be achieved by dividing the equity value by the total number of outstanding shares (Steiger, 2008).

1.2.1.1. Weighted Average Cost of Capital

The WACC represents the returns that all investors within a company, both debt and equity holders, expect to receive for investing their funds in a specific business, as opposed to investing in alternative business opportunities with a similar risk profile (Koller et al., 2020).

The WACC is defined by three key components: the cost of equity financing, the cost of debt financing, and the company's capital structure (Koller et al., 2020). As such, formally, the WACC is computed as a function of the weighted average cost of equity and the after-tax cost of debt:

$$WACC = \frac{E}{E+D} * r_E + \frac{D}{E+D} * r_D * (1-t) \quad (7)$$

where:

- r_E = Cost of Equity
- r_D = Cost of Debt
- E = Market Value of Equity
- D = Market Value of Debt
- $\frac{E}{E+D}$ = Target level of Equity to Value
- $\frac{D}{E+D}$ = Target level of Debt to Value
- $t =$ Corporate Tax Rate

According to Luehrman (1997), the WACC is commonly used due to its simplicity, practicality, and because it keeps calculations used in discounting to a minimum. Therefore, managers and investors tend to use the WACC to estimate the company's fair value since it is intuitive and straightforward. However, the WACC has several drawbacks. As per Luehrman (1997), the WACC is only appropriate for companies with simple and stable capital structures. Hence, in most real-word scenarios, the WACC must be adjusted to accurately reflect the impact of tax benefits, dynamic capital structures, debt issuance costs, among others, and consequently becomes easier to misestimate (Luehrman, 1997).

In order to calculate the WACC, it is necessary to estimate its main components, namely the cost of equity and the cost of debt, which will be detailed in the following subsections.

1.2.1.2. Cost of Equity

The cost of equity represents the rate of return demanded by investors on an equity investment (Damodaran, 2012). The two most well know models that can be used to estimate the cost of equity are the Capital Asset Pricing Model (CAPM) and the Fama-French three-factor model. Nonetheless, according to Frykman and Tolleryd (2003), the best-known approach is the CAPM.

Based on the principles of Modern Portfolio Theory (Markowitz, 1952), the CAPM is a single factor model that defines the relationship between the expected return of an asset and its risk relative to the overall market return (Sharpe, 1964). Womack and Zhang (2003) state that the CAPM intends to reflect and quantify the dynamics between the beta of an asset and its expected rate of return. As such, the expected rate of return of the company equals the risk-free rate plus the firm's beta times the market risk premium (Koller et al., 2020), where the market risk premium represents the returns that investors expect to receive for holding the market portfolio (Berk and DeMarzo, 2017). Formally, the CAPM is defined as:

$$r_E = r_f + \beta_L * [E(r_M) - r_f] \quad (8)$$

where:

- r_E = Cost of Equity
- r_f = Risk-free rate
- β_L = Levered Beta
- $E(r_M)$ = Expected Market Return
- $E(r_M) - r_f$ = Market Risk Premium

1.2.1.3. Risk-Free Rate

As per Berk and DeMarzo (2017), the risk-free rate is "the rate at which money can be borrowed or lent without risk" (p. 114). Damodaran (2008) defines a risk-free investment as an investment with zero risk, that is, where the rate of return is known in advance. According to Damodaran (2008), two conditions must apply for an investment to be considered riskless. Firstly, default risk must be absent, implying that only securities that are issued by government agencies can be considered risk-free. Secondly, reinvestment risk must be absent since it introduces uncertainty, making it impossible to accurately predict the future rates at which returns will be reinvested. As such, the investment's actual return would no longer match its expected return.

According to Koller et al. (2020), for valuing companies in the United States, the preferred security to serve as a proxy for the risk-free rate is a 10-year zero coupon United States government bond.

1.2.1.4. Market Risk Premium

Formally, the market risk premium is the difference between the expected return of the market portfolio and the risk-free interest rate (Berk and DeMarzo, 2017). It represents the excess returns that investors would receive for investing in the market portfolio instead of investing in a risk-free asset (Damodaran, 2012; Larrabee & Voss, 2013). Since investing in the market portfolio represents a greater risk than investing in the risk-free asset, investors demand a higher return to compensate for the additional risk exposure (Frykman & Tolleryd, 2003).

Despite the lack of a general consensus on how to estimate the market risk premium, the most commonly used approach is to estimate the average of the historical excess stock returns (Mayfield, 2004). Nonetheless, Damodaran (2008) considers that the market risk premium can be estimated using three different methods. The first approach, and most commonly used, is to obtain the returns earned on stocks over an extended period of time and compare them to the returns earned on a risk-free investment for that same period of time. Consequently, their difference represents the market risk premium. The second approach consists in surveying a group of investors or managers to obtain an estimate of their predictions for the market risk premium in the future. The third and final approach aims to predict a future premium by analyzing market rates or the prices of traded assets.

1.2.1.5. Beta

The beta quantifies the stock's systematic risk, commonly referred to as volatility, relative to the market, i.e., it measures the sensitivity of the returns on a company's stocks to fluctuations of the market's returns (Larrabee & Voss, 2013). According to Damodaran (2012), the beta can be calculated by dividing the covariance between the asset and the market portfolio by the variance of the market portfolio, as represented in the following formula:

$$\beta_i = \frac{\sigma_{i,m}}{\sigma_m^2} \tag{9}$$

where:

- $\sigma_{i,m}$ = Covariance of asset i with the market portfolio
- σ_m^2 = Variance of the market portfolio

Regarding the beta of an asset, if its value is higher than 1 it means that the asset is riskier than the average, while if its value is lower than 1 it means that the asset is safer than the average. If the beta is 0, it means that it is a riskless asset (Damodaran, 2012).

According to Larrabee and Voss (2013), only the betas for public companies are published. Therefore, the betas for unlisted companies must be estimated, which can be accomplished by using the betas of similar public traded companies. According to Damodaran (2012), the first step to calculate the beta of an unlisted company is to select a benchmark in terms of the levered beta. The second step is to estimate the unlevered beta of the benchmark, formally defined as:

$$\beta_u = \frac{\beta_L + \beta_D * \frac{D}{E} * (1 - t)}{1 + \frac{D}{E} * (1 - t)} \tag{10}$$

where β_D is defined as:

$$\beta_D = \frac{r_D - (r_f + \text{Country Risk Premium})}{\text{Market Risk Premium}} \tag{11}$$

where:

- β_u = Unlevered Beta
- β_L = Levered Beta
- β_D = Beta of the Debt
- $\frac{D}{E}$ = Debt-to-equity ratio
- r_D = Cost of Debt
- r_f = Risk-free rate

The third step is to conduct a weighted average of the unlevered betas computed in the previous step and to assume that this average corresponds to the company's unlevered beta. The final step is to compute the levered beta by considering the company's data and the unlevered beta calculated in the previous step. Thus, the levered beta is defined as follows:

$$\beta_L = \beta_u + (\beta_u - \beta_D) * \frac{D}{E} * (1 - t) \tag{12}$$

1.2.1.6. Cost of Debt

Steiger (2008) defines the cost of debt as the "interest rate that a company pays on its outstanding debt" (p. 8), and, as such, serves as a proxy to determine how much the company pays when borrowing funds. In the context of the WACC computation, the cost of debt is commonly referred to as the after-tax cost of debt, which is obtained by adjusting the pre-tax

cost of debt using the marginal corporate tax rate, reflecting the tax benefits of debt within the WACC (Larrabee and Voss, 2013). Formally, the after-tax cost of debt is:

$$r_d^* = r_d * (1 - t) \quad (13)$$

where:

- r_d^* = Cost of debt after considering the tax deductibility of interest
- r_d = Cost of debt before considering the tax deductibility of interest
- t = Corporate Tax Rate

As stated by Damodaran (2012), the pre-tax cost of debt, in general terms, is determined by using the risk-free rate and a default spread that reflects the default risk of a company:

$$r_d = r_f + \text{Default Spread} \quad (14)$$

Nonetheless, Damodaran (2012) and Koller et al. (2020) present various approaches in order to determine the pre-tax cost of debt. The first approach states that for investment grade companies, the yield-to-maturity of a firm's long-term bonds should serve as a reasonable proxy for the pre-tax cost of debt. The second approach states that for companies that do not trade on a regular basis, the pre-tax cost of debt can be determined by using their ratings and their default spreads. The last approach states that for smaller companies and non-rated companies, the pre-tax cost of debt can be determined using a company's recent borrowing history, or alternatively, using a synthetic rating based on a company's financial ratios.

1.2.2. Free Cash Flow to Equity

Another methodology of the DCF approach, presented by Damodaran (2012), is the FCFE. The FCFE represents the cash flows that are available exclusively to the equity investors of a firm "after all operating expenses (including taxes) have been paid, capital investments have been made, and other transactions with other suppliers of capital have been carried out" (Pinto et al., 2010, p. 164). The FCFE is formally defined as:

$$FCFE = \text{Net Income} + \text{Depreciation and Amortization} - CAPEX - \Delta WC + \Delta Debt \quad (15)$$

where:

- $CAPEX$ = Capital Expenditures
- ΔWC = Changes in Working Capital
- $\Delta Debt$ = Changes in Debt

According to Berk and DeMarzo (2017), the FCFE can be estimated directly as a function of the FCFF by subtracting the after-tax interest expenses and adding the net borrowing of debt:

$$FCFE = FCFF - [\text{Interest Expenses} * (1 - t)] + \Delta Debt \quad (16)$$

Once the FCFE estimates are obtained, the next step is to compute the company's EQV. In contrast to the FCFF approach, in the FCFE approach there is no need to calculate the EV, as the FCFE already reflects the cash flows available to the company's shareholders, and as such the EQV can be calculated directly. Therefore, the EQV can be calculated by discounting the projected cash flows at the appropriate discount rate demanded by the shareholders, r_E, which appropriately reflects the cost of equity financing. Thus, the company's equity value may be calculated by using the following formula:

$$EQV = \sum_{t=1}^{n} \frac{FCFE_t}{(1 + r_E)^t} + \frac{TV_n}{(1 + r_E)^n} \tag{17}$$

where:

- $FCFE_t$ = Free Cash Flow to Equity at period t
- r_E = Cost of Equity
- TV_n = Terminal Value of the company at period n

Under the FCFE approach, the terminal value is calculated as follows:

$$TV_n = \frac{FCFE_{n+1}}{(r_E - g)} \tag{18}$$

Similarly to the FCFF approach, to obtain the fair value per share through the FCFE approach we divide the EQV of a firm by its total number of outstanding shares.

1.2.3. Adjusted Present Value Method

The Adjusted Present Value (APV) model, first introduced by Myers (1974), is a valuation approach distinct from the other DCF valuation methodologies. According to Berk and DeMarzo (2017) and Damodaran (2006), a company's valuation is divided into three steps. The first step consists in obtaining the value of a firm by discounting its cash flows using a cost of capital that assumes no debt financing. The second step consists in measuring the present value of the interest tax shield by estimating the tax savings from the interest payments of the debt. The third and final step consists in estimating the present value of the expected bankruptcy costs of a firm, if the company defaulted on its debt payments. As such, the APV relies on the core concept of value additivity, as a company's value is divided into three individual parts which are added back together to obtain the firm's total value (Damodaran, 2006). Therefore, the value of the firm using the APV method is:

$$\begin{aligned}\text{Value of the firm} = \ &\text{Unlevered Value of the firm} + \\ &\text{Present Value of Interest Tax Shield} - \text{Expected Bankruptcy Costs}\end{aligned} \tag{19}$$

1.2.4. Dividend Discount Models

The Dividend Discount Model (DDM) is a valuation method that estimates the value of a company's stock through the expected dividends paid to its shareholders (Berk and DeMarzo, 2017).

Investors who buy stocks usually receive two sources of income: dividends throughout the holding period, and the expected capital gains at the end of the holding period (Damodaran, 2012). Similarly to the other DCF approaches, the DDM is also based on the present value rule. This implies that the value of any stock is the present value of the expected future dividends, discounted at the rate of return required by the investors (Damodaran, 2012). Introduced by Williams (1938), the general model of the dividend discount model is defined as:

$$V_0 = \sum_{t=1}^{\infty} \frac{D_t}{(1 + r_E)^t} \tag{20}$$

where:

- V_0 = Current share value
- D_t = Expected dividend during each holding period
- r_E = Cost of Equity

As per Damodaran (2006), several versions of the DDM have been developed to capture different perspectives of a firm's future growth. Developed by Gordon and Shapiro (1956) and Gordon (1962), the Gordon Growth Model stands as the simplest DDM model, and "assumes that dividends grow indefinitely at a constant rate" (Pinto et al., 2010, p. 97). The main drawback of the Gordon Growth Model is its sensitivity to the estimates of the growth rate, and as such can only be used under the assumption that companies sustain a stable growth rate in perpetuity (Damodaran, 2012).

The current share value, using the Gordon Growth Model, can be expressed as follows:

$$V_0 = \frac{D_1}{r_E - g} \tag{21}$$

where:

- V_0 = Current share value
- D_1 = Expected dividend in the next time period
- r_E = Cost of Equity
- $g =$ Perpetual Growth rate

Due to the sensibility of the single stage DDM model to growth rate estimates, other alternative approaches were developed that more accurately reflect the growth stages of a

company – the multistage dividend discount models (Pinto et al., 2010). According to Pinto et al. (2010), the three most widely used multistage DDMs are the two-stage DDM, the H-model DDM, which is a variant of the two-stage DDM, and the three-stage DDM. On the one hand, the general two-stage DDM differentiates between two stages of growth: an initial period where the growth rate is high, followed by a period where the growth rate decreases and remains stable in perpetuity. On the other hand, the H-model DDM assumes a high initial growth rate that declines linearly over time, until it reaches the second stage of stable and constant growth. Finally, the three-stage DDM divides the company's growth into three stages: an initial stage of high growth, followed by a second stage where the growth rate slows down until it reaches the third stage, where the growth rate stabilizes and remains constant in perpetuity (Damodaran, 2012).

1.3. Relative Valuation

While DCF valuations can be considered a more precise and flexible approach for valuing companies, the reality is that most valuations are relative valuations (Damodaran, 2012; Koller et al., 2020). As referred by Damodaran (2012), most equity research valuations and various acquisition valuations are relative valuations, which use a combination of multiples based on comparable companies.

The relative valuation method lies on the foundation that "similar assets should sell for similar prices" (Koller et al., 2020, p. 367). As such, a firm's value can be estimated by analyzing other companies that share similar characteristics.

According to Damodaran (2012), a relative valuation can only be performed under two conditions. Firstly, prices must be standardized to allow the comparison between companies. This is usually achieved by converting them into multiples, which facilitates the comparison by adjusting for size and scale. The second requirement is that a peer group of similar firms is found, which can be quite difficult as there are no two identical companies which share the same capital structure, risk profile, or growth opportunities (Damodaran, 2012).

Relative valuations are usually preferred over other valuation methods due to their simplicity. The relative valuation offers several advantages compared to the DCF approach: it relies on less restrictive assumptions and is quicker to implement; its comparative nature makes it easier to present and to understand; and it can more accurately reflect the current market sentiment, as it measures "relative and not intrinsic value" (Damodaran, 2012, p. 334).

According to Damodaran (2012), the relative valuation has several weaknesses. Firstly, it can result in inconsistent estimates as it requires fewer assumptions. Furthermore, since multiples reflect the current market sentiment, a company's value can be overestimated or underestimated depending on overall market conditions. Additionally, due to a lack of transparency regarding the underlying assumptions, the relative valuation can be easily influenced and manipulated. A biased analyst can select the peer group and the multiple that the valuation is based on, making almost any value justified (Damodaran, 2012). Fernández (2001) defends that this approach should be used in a second stage of the valuation, as a complementary valuation method, in order to critically evaluate, compare, and validate the results of the primary valuation method.

1.3.1. Multiples

According to Koller et al. (2020), in order to conduct a consistent relative valuation, it is necessary to use the appropriate multiples and to estimate the multiples in a consistent manner. Fernández (2001) divides the multiples into three categories: equity value multiples, enterprise value multiples and growth-referenced multiples, as presented in Table 1.1:

Table 1.1:

Multiples categorization

Equity Value Multiples	○ P/E (Price to Earnings Ratio) ○ P/S (Price to Sales) ○ P/BV (Price to Book Value)
Enterprise Value Multiples	○ EV/EBITDA (Enterprise Value to EBITDA) ○ EV/Sales (Enterprise Value to Sales) ○ EV/FCF (Enterprise Value to Free Cash Flow)
Growth – Referenced Multiples	○ PEG (P/E to EPS Growth) ○ EV/EG (Enterprise Value to EBITDA Growth)

Source: Adapted from Fernández (2001)

The equity value multiples are based on the company's capitalization and are the most straightforward multiples to understand and to compute. Among them, the P/E multiple is the most common valuation multiple (Fernández, 2001).

The enterprise value multiples are based on the company's total value and therefore divide the enterprise value by another parameter (Fernández, 2001). As per Pinto et al. (2010), the enterprise value multiples are less sensitive than the equity value multiples to effects of financial

leverage when comparing companies that use different amounts of leverage. According to Fernández (2001), the EV/EBITDA multiple is also one of the most widely used multiples.

The growth referenced multiples are mainly used in growth industries. Specifically, the PEG multiple is primarily employed in luxury goods, health and technology industries, while the EV/EG multiple is predominantly used in the health, technology and telecommunications industry (Fernández, 2001).

1.3.2. Peer Group

The final step in order to conduct a consistent relative valuation is to select the right peer group. As per Koller et al. (2020), the recommended approach is to select a group of 8 to 15 peers. However, it is preferable to have a smaller group of peers that compete in the same markets and offer similar products and services than having a bigger set of peers that do not share most characteristics.

According to Damodaran (2006), the peer group should consist of companies that have some characteristics in common, such as similar cash flows, growth potential and risks. As such, Damodaran (2006) assumes that companies within the same sector have these similar characteristics, thereby allowing for a more legitimate comparison. Koller et al. (2020) further support this perspective, stating that comparable companies should also belong to the same industry or sector.

Once the multiples have been computed for each company that belongs in the peer group, the following step is to compare each company's multiple to the average of the peer group in order to identify and eliminate the outliers. After completing this process and determining the weighted average of the multiples, a relative valuation can be performed.

2. Market Overview

This section begins with a macroeconomic outlook, in which external factors that can influence Netflix's financial performance will be analysed, such as the inflation rate and the real GDP growth rate. Sequentially, an industry analysis will be performed, as it provides insights on the industry trends, competitive positioning, growth prospects and potential risks, ensuring an informed assessment of Netflix.

2.1. Macroeconomic Outlook

The year of 2023 was marked by the beginning of another war, characterized by an armed conflict between Israel and Palestinian militants. This conflict in the Middle East is devastating the local economies, disrupting global shipping, and leading to a reduction in the oil supply, which is causing an increase in oil prices, and consequently higher inflation.

Furthermore, the global economy is still heavily influenced by the ongoing war between Russia and Ukraine, which started in 2022. This geopolitical event has caused an increase in the overall prices of goods and services, leading to higher inflation. Various companies have decided to suspend their services in Russia to protest against the country's invasion of Ukraine. Specifically, Netflix has suspended its services in Russia, which resulted in a loss of 700,000 subscribers (Chmielewski & Datta, 2022).

Additionally, the global economy is still being impacted and facing challenges from the COVID-19 pandemic. Nevertheless, the entertainment sector, particularly the streaming industry, benefitted from the pandemic as various mandatory measures to stay at home were implemented which modified the consumer's behaviours. Although the production of films and series had to be shut down, which caused major disruptions in the release schedule of content, the number of users significantly increased as people were obliged to stay at home.

Netflix's ability to attract and retain members, raise additional capital and refinance existing debt is related to macroeconomic factors, such as inflation and the GDP growth rate.

Figure 2.1 showcases the inflation rate globally and in the United States. The inflation rate in the United States increased from 1.25% in 2020 to 7.99% in 2022, which is still lower than the inflation registered globally, which increased from 3.25% in 2020 to 8.71% in 2022. The inflation experienced globally between 2020 and 2022 has severally limited the purchasing power of consumers all around the world, mainly due to issues in the energy supply chain and the impact of the war in Ukraine, but also due to the lingering impact of the COVID-19 pandemic. In 2023, the inflation remained high in both the United States and globally, showing

improvements from the previous year. Nonetheless, according to forecasts provided by the International Monetary Fund (IMF), inflation is predicted to gradually decline in the upcoming years (IMF, 2024).

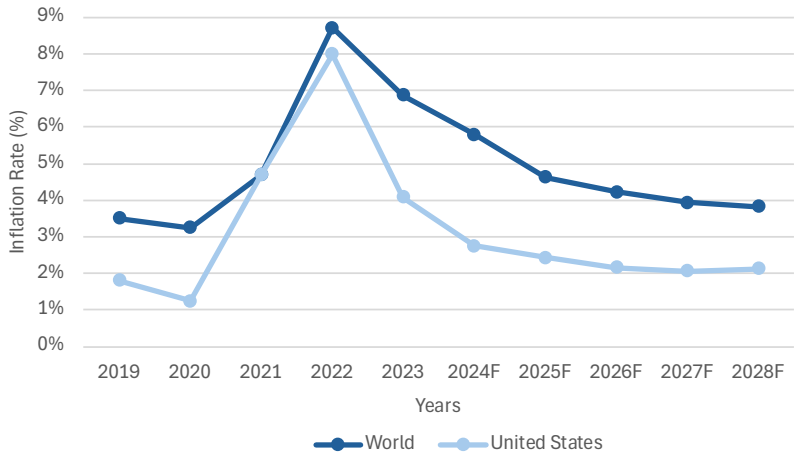

Figure 2.1: **Inflation Rate (%)**. Adapted from IMF Outlook Database (2023).

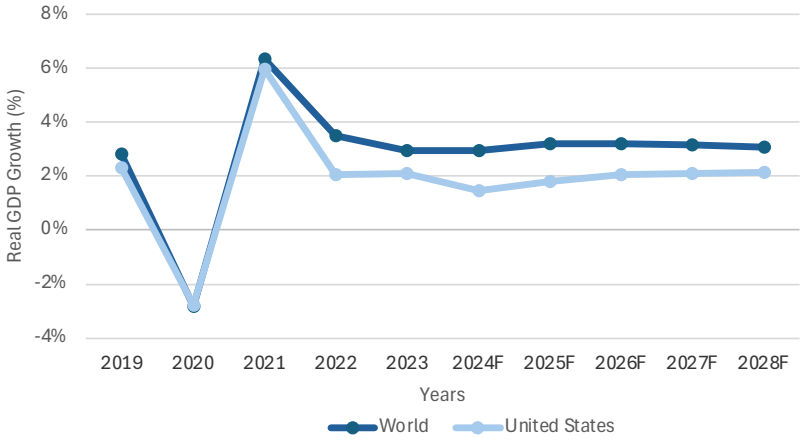

Figure 2.2: **Real GDP Growth (%)**. Adapted from IMF Outlook Database (2023).

In 2020, the GDP growth rate reached its lowest level, registering -3% in both the United States and globally. This significant decline observed in 2020 is essentially due to the global COVID-19 pandemic, which had severe repercussions on the global economy. Governments implemented strict measures to stop the proliferation of the virus, which in most cases meant closing businesses. In 2021, the GDP growth rate suffered an exponential growth both globally and in the United States, but in 2022 it suffered another sharp decrease, due to the invasion of Ukraine by Russia. In 2024 it is expected that the GDP will suffer a small decrease due to the impact of the war between Israel and Palestinian militants. Nonetheless, by analysing the forecasted GDP growth rate for the whole world and for the United States, it is expected that it will reach pre-pandemic levels in the long run.

2.2. Entertainment and Media Industry

Netflix operates within the Subscription Video on Demand (SVOD) segment, a subset of the Over-The-Top (OTT) video sector, which is part of the broader Entertainment and Media (E&M) industry. The E&M industry comprises five segments: traditional TV and video; cinema; OTT video; video games and sports; and internet advertising. The E&M industry is constantly changing towards greater personalization and more interactive user-generated content due to technological innovations.

Figure 2.3 represents the global revenue of the E&M industry, which has become increasingly dependent on digital products and services. In the long run, all the growth in the E&M revenues will come from digital products and services (PwC, 2023).

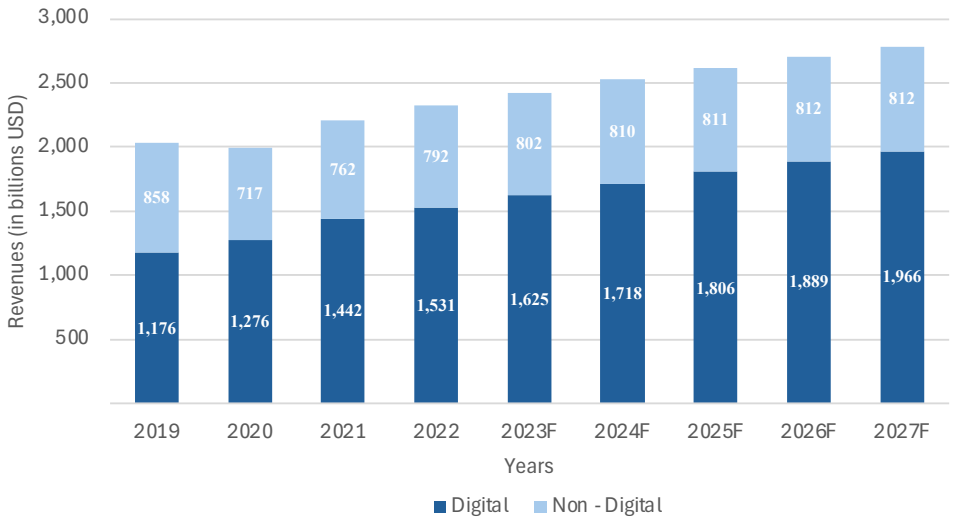

Figure 2.3: **Global E&M Revenue (in billions USD)**. Adapted from PwC's Global Entertainment & Media Outlook 2023–2027.

The global E&M revenues grew at a steady pace until 2019, while in 2020 they decreased due to the pandemic. Nonetheless, the global revenues rose 10.6% in 2021, as economies and industries were gradually recovering from the challenges caused by the COVID-19 pandemic. In 2022, global revenues faced a deceleration, increasing only by 5.4%. In the following years, the revenue growth rate of the E&M industry is expected to decrease (PwC, 2023).

This slowdown is essentially caused by the reduction of consumer spending on E&M products and services, which was impacted by inflation, the pandemic, uncertainties of wars, and geopolitical instability. This slowdown is forcing companies to redefine expectations and explore alternative strategies to increase their growth, such as investing in advertising. In the coming years, revenues from advertising are expected to almost double, representing a core revenue stream in the streaming industry. In 2022, Netflix launched its ad-supported tier at a

lower price in certain territories, and by May 2023 Netflix reported that its ad-tier service had nearly 5 million subscribers. Another appealing growth opportunity is the gaming sector, which stands as one of the leading forces within the E&M industry (Deloitte, 2023; PwC, 2023).

2.3. Over-the-Top Video Sector

Netflix is one of the global leaders of the OTT video sector, which is a segment of the E&M industry. The OTT video sector refers to all the services and content that are offered directly to viewers over the internet that can be viewed on smartphones, smart TVs, computers, tablets or other devices that bypass traditional distribution channels such as cable and satellite TV providers (Amazon Ads, 2020).

The most known OTT services include SVoD, Transactional Video on Demand (TVoD), Advertising-based Video on Demand (AVoD), Free Ad-supported Streaming TV (FAST), and Video Downloads (EST). Firstly, SVoD services deliver unlimited access to ad-free content but require a subscription fee (e.g. Netflix). Secondly, TVoD services allow users to rent or buy a specific content and do not require any subscription (e.g. iTunes). Thirdly, AVoD delivers content for free but, unlike SVoD and TVoD, consumers must watch advertisements to view the content (e.g. YouTube). Next, FAST refers to traditional television programming and movies that are available to users at no cost, but with advertisements (e.g. Pluto TV). Finally, EST refers to digital video content acquired in a single transaction that is permanently accessible (Amazon Ads, 2020).

The unlimited content available in OTT services, which is growing exponentially, is the driving force behind cord-cutting. Cord-cutting denotes a phenomenon characterized by cancelling paid cable television subscription in favour of lower-cost online streaming services, such as Netflix. Nonetheless, there are other causes for cord-cutting, such as the high costs of the traditional cable TV services, negative experiences with traditional cable TV services and fewer advertisements on streaming services. This phenomenon has been increasing significantly in the United States and is expanding to Western Europe.

The global revenues of the OTT video sector have experienced an exponential growth, from 71 billion US dollars in 2019 to expectably achieving 231 billion US dollars in 2027, as denoted in Figure 2.4. The revenues are expected to grow exponentially across all segments, with a notable emphasis on the revenue increase of the SVoD segment. The high growth of the OTT video market is being driven by a higher demand for streaming services and a higher worldwide availability of internet connections.

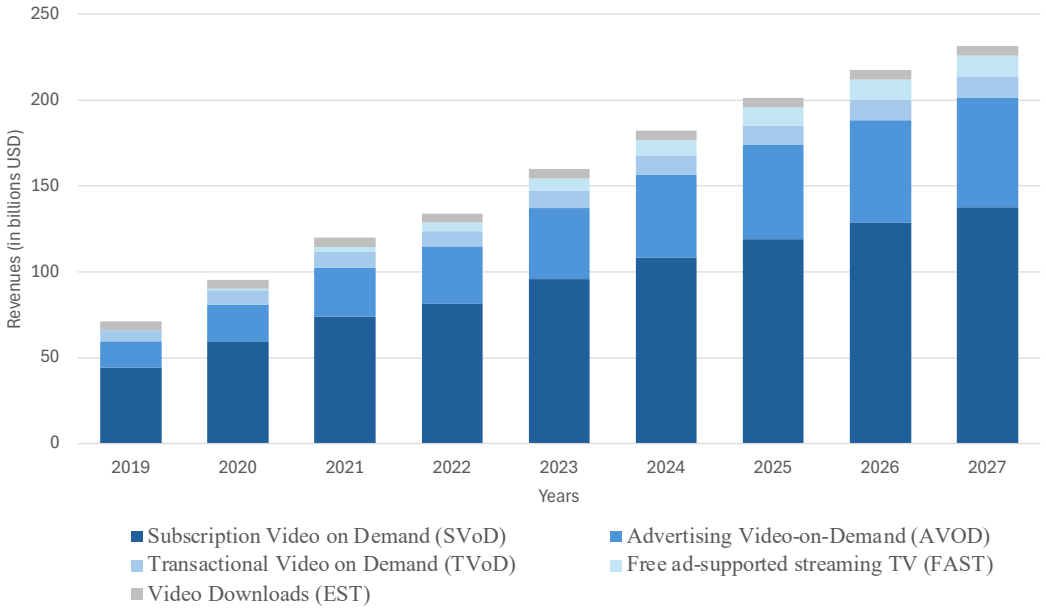

Figure 2.4: **Revenue decomposition of the Over-the-Top Video Sector worldwide (in billions USD)**. Adapted from Statista (2024).

In recent years, the United States have been dominating the OTT video sector. Nonetheless, this sector is expanding rapidly in emerging markets due to the combination of historically underserved rural populations, widespread distribution of mobile broadband, and increasing demand for local and sports content. Therefore, the major streaming services are considering the growth prospects in these areas, in particular Indonesia, China and India, where the combination of existing size, scale and anticipated rapid growth in consumer demand leads to significant growth opportunities (PwC, 2023).

2.4. Subscription Video on Demand Segment

As previously stated, the SVoD market is a subset of the OTT video sector, and it is characterized for offering unlimited access to ad-free content by paying a monthly subscription fee. Therefore, the SVoD segment generates revenue from paid subscriptions. This business model is employed by several streaming platforms, such as Netflix and Amazon Prime Video.

In 2019, the revenues in the SVOD market were US$44.16 billion, and it is expected that the revenues will reach US$108.50 billion in 2024 and US$137.70 billion by 2027 (Figure 2.5). This worldwide significant increase indicates that the demand for streaming services has increased exponentially, suggesting a promising growth potential for this market. When comparing the revenues generated across various countries, the United States emerges as the global SVoD market leader (Statista, 2023). In terms of the number of users of the SVoD

market, 800 million users were registered in 2019, and this number is expected to reach 1.6 billion by 2027. This substantial growth indicates an increase in the adoption of streaming services worldwide (Statista, 2023).

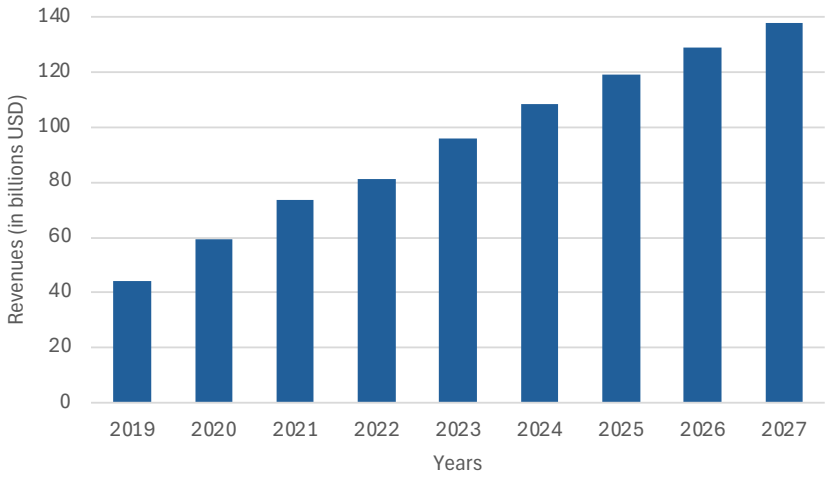

Figure 2.5: **Worldwide SVoD Revenues (in billions USD)**. Adapted from Statista (2023).

2.5. Competitive Overview

The SVoD market is highly competitive and subject to rapid changes, as is the whole E&M industry. Netflix is one of the dominant forces of the SVoD market with a significant market share, having achieved considerable success over the years. However, Netflix faces persistent and increasing competition, with each platform aiming to attract consumers to their subscription service (Netflix, 2023). As stated in Netflix's Form 10-K, "We compete with a broad set of activities for consumers' leisure time, including other entertainment video providers, such as linear TV, streaming entertainment providers (including those that provide pirated content), video gaming providers and more broadly against other sources of entertainment, like social media, that our members could choose in their moments of free time. We also compete against entertainment video providers and content producers in obtaining content for our service, both for licensed content and for original content projects" (Netflix, 2023, p. 1).

The competition within this industry is so fierce that it has been formally branded as the streaming wars. This term is used to characterize the increasing competition between established providers and newcomers to gain and retain subscribers, as more and more video streaming services enter the SVoD market (Statista Market Insights, 2022). The first major players that have entered this market were Netflix, Hulu and Amazon Prime Video, followed a few years later by Disney+, Apple TV+, HBO Max, Peacock, and others. These companies are competing to attract and retain subscribers by offering original and unique content, obtaining

licence agreements for popular shows and movies, and offering competitive prices. In Table 2.1, a comparative analysis of the most popular streaming services is presented.

Table 2.1:

Comparison of the most popular streaming services

Services	Launch Date	Price per month (USD April/2024)	Ad Tier	Number of Emmy Awards won in 2024	Number of Subscribers in December 2023
Netflix	2007	Standard with Ads: $6.99 Standard: $15.49 Premium: $22.99	Yes	22	260 280 000
Hulu	2010	$7.99 (or $79.99/year)	Yes	4	49 700 000
Amazon Prime Video	2011	Prime Video w/ Amazon Prime membership: $14.99 Prime Video: $8.99 Ad-free Prime Video w/ Amazon Prime membership: $17.98 Ad-free Prime Video: $11.98	Yes	6	200 000 000 (Estimated)
Disney +	2019	Basic with Ads: $7.99 Premium with no Ads: $13.99	Yes	9	149 900 000
Apple TV+	2019	$9.99	No	10	40 000 000 (Estimated)
HBO Max	2020	With Ads: $9.99 Ad-Free: $15.99 Ultimate Ad-Free: $19.99	Yes	31	82 000 000 (Estimated)
Peacock	2020	Ad-supported Premium: $5.99 Ad-free Premium Plus: $11.99	Yes	2	31 000 000
Paramount +	2021	Ad-supported Paramount+ Essential plan: $5.99 Premium plan: $11.99	Yes	-	67 500 000
Discovery +	2021	Plan with Ads: $4.99 Ad-Free Plan: $8.99	Yes	-	15 000 000 (Estimated)

Source: Adapted from multiple sources.

The various streaming services presented in Table 2.1 have different subscription plans. Most of them have an additional subscription plan at a lower cost that includes advertisements, and some of them also have a free trial period. The prices of the streaming services presented range from $4.99 per month to $22.99 per month. However, some of these streaming services can be paid annually for a discounted price. The cheapest streaming service of the list above is Discovery+, while the most expensive one is Netflix. According to a survey performed by Deloitte (2024), the price of the SVoD services is the major factor influencing how subscribers

value a paid SVoD subscription, and almost half of the SVoD subscribers would cancel their favourite SVoD service if the monthly price increased by US$5.

Some of the content produced by these streaming services can be commercially successful and critically acclaimed, enhancing brand recognition. For example, during the Emmy Awards celebration in 2024, HBO Max was the streaming service that received the highest number of Emmy nominations, 127, winning 31 of them, closely followed by Netflix with 103 nominations and 22 wins (Statista Market Insights, 2022).

In 2023, Netflix was the streaming service with the highest number of global subscriptions, totalling 260 million subscriptions, followed by Amazon Prime Video with 200 million subscribers and Disney+ with 150 million subscribers (Table 2.1). Currently, Netflix remains the most recognized and popular streaming service worldwide, followed by Amazon Prime Video and Disney+. However, Amazon Prime Video and Disney+ are slowly catching up and it is expected that Disney+ will overtake Netflix in 2026 in terms of subscribers (Figure 2.6).

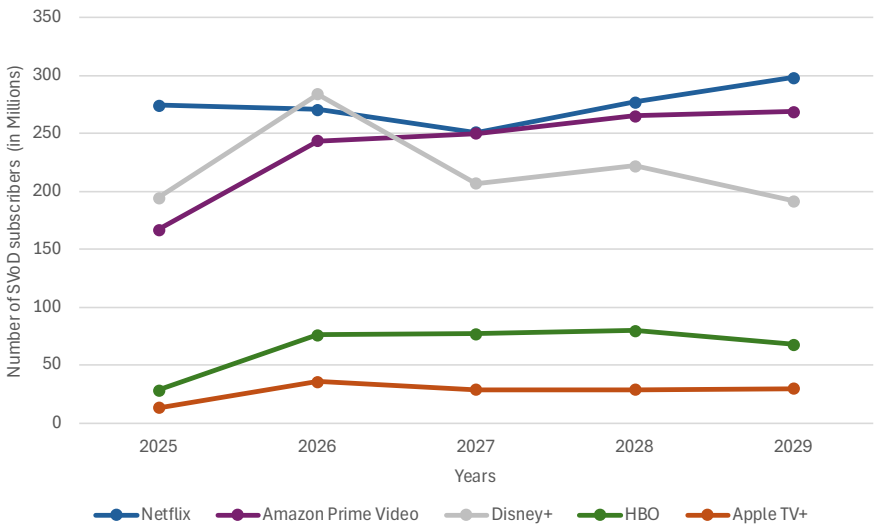

Figure 2.6: **Estimated number of SVoD subscribers worldwide from 2025 to 2029, by service (in millions)**. Adapted from Statista (2023).

As the SVoD industry continues to grow with the entry of new streaming services, it is important for existing streaming services to offer new and original content, as it will provide a competitive advantage in the upcoming years. Netflix is the streaming service that produces the most TV shows and movies, and the one that invests the most in original content. However, other streaming services such as Disney+ and HBO Max are gradually increasing their investment in original content productions. These companies are also increasing their investments in non-English-language content, which will increase the competition among the services.

3. Company Overview

This section provides a detailed overview of Netflix's profile and history, followed by an analysis of the shareholder structure and an analysis of Netflix's main business areas. Next, a financial analysis will be performed using profitability, liquidity and solvency indicators. Finally, an analysis of Netflix's stock performance will be presented.

3.1. Company Profile & History

Netflix is a leading global entertainment company that offers an extensive collection of TV shows, movies, documentaries, games, and other forms of entertainment to over 300 million subscribers worldwide (Netflix, n.d.). Founded by Reed Hastings and Marc Randolph in 1997 in Los Gatos, California (US), Netflix only began operating in 1998 as a DVD-by-mail rental service (Netflix, n.d.).

In 2002, five years after its founding, Netflix made its Initial Public Offering (IPO) selling 5.5 million shares at $15 under NASDAQ ticker NFLX (Netflix, 2002). One year later, in 2003, Netflix achieved an important milestone by exceeding 1 million DVD subscribers, and by 2006 the company had surpassed 5 million DVD subscribers.

In 2007, Netflix launched its streaming platform in the US, allowing subscribers to have access to unlimited content by paying a monthly subscription fee. Later, the company started expanding internationally, beginning with Canada (2010); followed by Latin America and the Caribbean (2011); then the United Kingdom, Ireland, and the Nordic countries (2012); next Austria, Belgium, France, Germany, Luxembourg and Switzerland (2014); and finally, Australia, Cuba, Italy, Japan, Spain and New Zealand (2015) (Brennan, 2018). By the end of 2016, the company was offering its services in more than 130 countries.

In 2013, Netflix entered the content-production industry and launched its first original TV show, House of Cards, which received critical acclaim, winning 3 Emmy Awards the year it was released. Later, in 2015, the company launched its first non-English-language content. In 2017, Netflix achieved another important milestone by reaching 100 million subscribers. By 2021, the company had surpassed 200 million subscribers and dived into another entertainment sector by launching its first mobile game, available on its platform. In 2022, the company implemented a new pricing strategy in some countries by introducing for the first time a new and cheaper subscription plan that included advertisements.

2023 was a year when Netflix focused on reaccelerating growth by improving the features of the standard subscription plan with ads, improving the services to maintain and attract new

members and advertisers, and continuing to address account sharing in all jurisdictions. In 2023, Netflix implemented a new policy to control password-sharing to track the number of people sharing the same account, adding an option to include users who live in different households (Netflix, 2023).

Currently, Netflix remains the global leader in the entertainment services industry, providing its services in over 190 countries. The company continues to maintain its strong market position with a strong number of subscribers worldwide, continues offering a wide range of content, including original productions, continues expanding internationally, and continues investing in technological innovations to contribute to its position as a leader in the entertainment services industry.

3.2. Shareholder Structure

As of December 31, 2023, the company had 432,759,584 outstanding shares, valued at $486.88 each. Currently, the majority of the company's shares are publicly traded on the NASDAQ, with an estimated free float of 99% of the total shares (GuruFocus, 2023).

According to NASDAQ (2023), institutional investors own 81.26% of the outstanding shares, retail investors own 12.30% of the outstanding shares, and insiders own 6.44% of the outstanding shares, as showcased in Figure 3.1. Netflix has never paid dividends to its shareholders and does not expect to do so in the foreseeable future (Netflix, 2023).

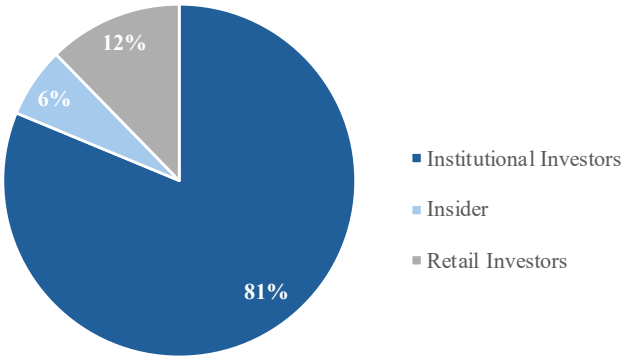

Figure 3.1: **Netflix Stock Ownership**. Adapted from NASDAQ (2023).

Table 3.1 presents the three principal institutional investors of Netflix, as each one of them hold more than 5% of the outstanding shares. Vanguard Group, Inc. holds the largest ownership stake among institutional investors, owning 36,438,570 shares, representing 8.46% of outstanding shares. BlackRock Inc. is the second biggest institutional investor with 30,899,510 shares, representing 7.17% of the outstanding shares, followed by Fmr LLC which holds 21,947,230 shares, representing 5.09% of the outstanding shares.

Table 3.1

Top institutional investors of Netflix

Name	Hold	Shares	Value
Vanguard Group Inc	8.46%	36,438,570	$20.58B
Blackrock Inc	7.17%	30,899,510	$17.45B
Fmr LLC	5.09%	21,947,230	$12.40B

Source: Adapted from NASDAQ (2023).

3.3. Business Areas

Netflix currently operates as a streaming service. However, the company used to operate in two different segments, namely the domestic and international streaming segment, and the domestic DVD segment. In September 2023, the company announced its plans to discontinue its DVD segment, as this segment had an extremely small impact in the company's financial results. As such, the company's revenues primarily derive from monthly subscription fees. The company also earns revenue from other sources, such as advertisements on its streaming services and consumer products, though these are not significant compared to the subscription fees (Netflix, 2023). Table 3.2 showcases Netflix's streaming subscription plans:

Table 3.2:

Netflix's Subscription Plans in the US

Subscription Plan	Monthly Price	Features
Standard with ads	$6.99/month	• Ad-supported, a few movies and TV shows are not available, unlimited mobile games • Watch in Full HD on 2 supported devices at a time • Download on 2 supported devices at a time
Standard	$15.49/month (extra member slots can be added for $7.99 each/month)	• Unlimited ad-free movies, TV shows, and mobile games • Watch in Full HD on 2 supported devices at a time • Download on 2 supported devices at a time • Option to add 1 extra member who does not live in the same household
Premium	$22.99/month (extra member slots can be added for $7.99 each/month)	• Unlimited ad-free movies, TV shows, and mobile games • Watch in Ultra HD on 4 supported devices at a time • Download on 6 supported devices at a time • Option to add up to 2 extra members who do not live in the same household

Source: Adapted from Netflix.

The costs and features of each subscription plan can differ significantly across different countries (Netflix, 2023). Nowadays in the US, Netflix has three subscription plans: Standard with ads, Standard, and Premium (Table 3.2). Netflix's standard subscription plan with ads was launched in November 2022 in the US and it is currently available in the US, United Kingdom, Australia, Brazil, Canada, France, Germany, Italy, Japan, Korea, Mexico, and Spain (Netflix, 2022).

The company's streaming revenues can be divided into four geographic segments, as showcased in Figure 3.2: UCAN (United States and Canada), EMEA (Europe, Middle East, and Africa), LATAM (Latin America), and APAC (Asia-Pacific). These regions differ in various aspects, such as their revenues, number of subscribers, and the cost of subscription fees.

As showcased in Figure 3.2, the region that accounted for the highest revenues was UCAN. However, the market in this region is nearly saturated due to the high number of competitors. The region that accounted for the lowest revenues was APAC. Nonetheless, this region has been rapidly expanding and presents significant growth opportunities.

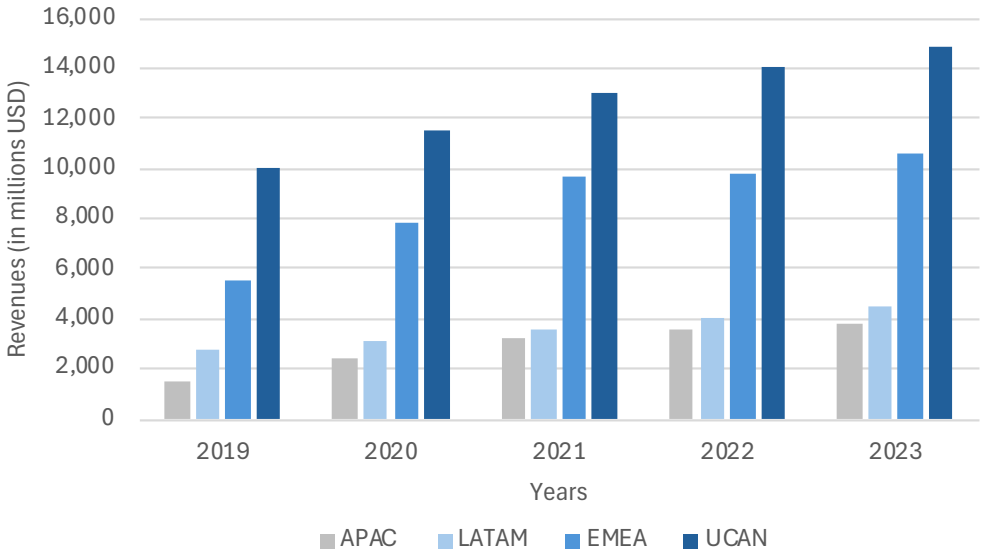

Figure 3.2: **Revenues per Region (2019-2023)**. Adapted from Netflix.

3.4. Financial Analysis

3.4.1. Profitability

In line with the information presented in the previous sections, Netflix has become more profitable in recent years. Figure 3.3 represents Netflix's revenues, cost of revenues, and EBITDA margin between 2019 and 2023.

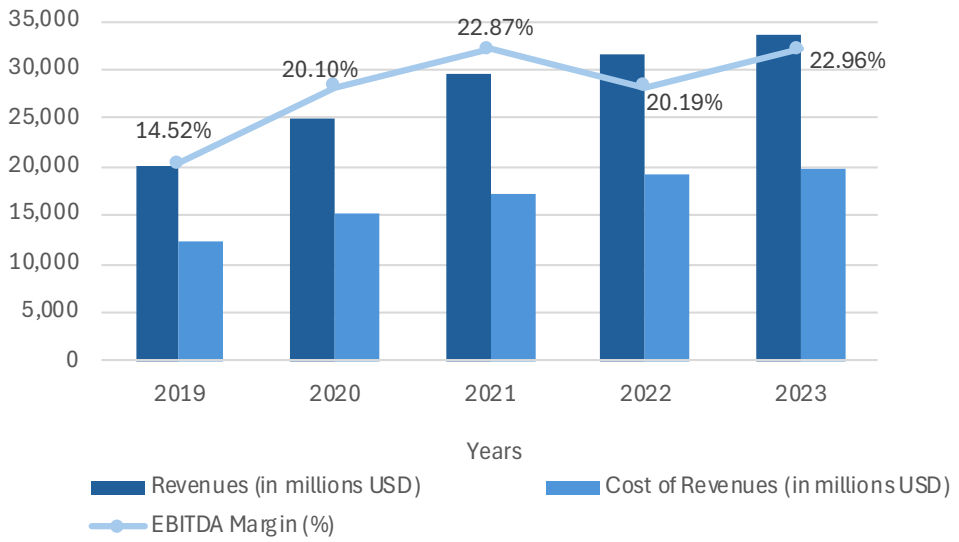

Figure 3.3: **Revenues, Cost of Revenues and EBITDA Margin (2019 – 2023)**. Adapted from Bloomberg.

Netflix's revenues exhibited an upward trend between 2019 and 2023 as a result of the company's increase in the number of subscribers, increase in the investment in original content, and increase in its subscription plans. The year-over-year (YoY) revenue growth rate decreased from 24.01% in 2020 to 6.46% and 6.67% in 2022 and 2023, respectively. The revenue growth rate was quite high in 2020 due to the COVID-19 pandemic, which forced people to stay at home and consequently increased the demand for entertainment services and media content.

The cost of revenues also showed an increasing trend, reaching US$19,715 million in 2023, increasing US$7,275.16 million since 2019. This change is mainly justified by the acquisition, licensing, and production of new content, including more exclusive and original programming, and global inflationary pressures, as mentioned in Chapter 2.

Similarly to the revenues and the cost of revenues, the EBITDA margin also showed an increasing trend during the period under analysis, increasing from 14.52% in 2019 to 22.87% in 2021. After a decrease in performance from 2021 to 2022, Netflix managed to have a stable recovery in 2023, increasing its EBITDA margin to 22.96%.

With regards to Netflix's return ratios (Figure 3.4), the Return on Common Equity (ROCE) evolved favourably from 2019 to 2021, reaching 38.02% in 2021, indicating that the company was extremely efficient at employing capital. However, in 2022 this ratio dropped to 24.53%, revealing a reduction in the company's profitability. With respect to the Return on Invested Capital (ROIC), this ratio evolved favourably, increasing 4.05% from 2019 to 2023, suggesting that the company became more effective using its capital to generate profits. In 2022, the ROIC had a slight decrease, reaching 13.49%, signifying a decrease in Netflix's profitability. However, in 2023 the ratio increased again to 16.35%. Considering that Netflix makes

significant investments to maintain its business model, this ratio is an important measure of Netflix's profitability. Lastly, the Return on Assets (ROA) increased from 6.23% in 2019 to 11.11% in 2023, indicating that Netflix efficiently used its assets to generate profits.

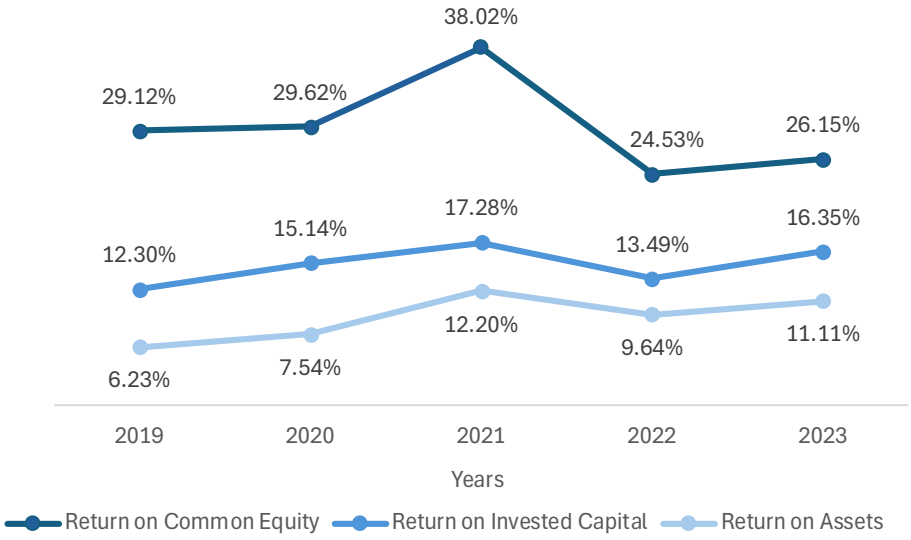

Figure 3.4: **Netflix's Return Ratios**. Adapted from Bloomberg.

3.4.2. Liquidity

The analysis of liquidity indicators is crucial to understand a company's ability to pay its short-term debt obligations without having to raise external capital. Some of the most used liquidity indicators are the current ratio, quick ratio and cash ratio, which will be used to analyse Netflix, as showcased in Table 3.3.

Table 3.3:

Liquidity ratios

	2019	2020	2021	2022	2023
Current Ratio	0.9012	1.2506	0.9506	1.1684	1.1193
Quick Ratio	0.732	1.0512	0.7101	0.7639	0.8056
Cash Ratio	0.732	1.0512	0.7101	0.7639	0.8056

Source: Adapted from Bloomberg.

The current ratio is the simplest liquidity ratio, which measures a company's ability to cover its current liabilities using its current assets (Berk & DeMarzo, 2017). As shown in Table 3.3, Netflix's current ratio was above 1.00 in 2020, 2022 and 2023, indicating that the company had enough current assets to cover its current liabilities. However, in 2019 and 2021 the company reported a current ratio below 1.00, indicating that Netflix would not be able to pay its current liabilities with its current assets. Nonetheless, Netflix did not face financial issues.

The quick ratio compares a company's current liabilities with its most liquid assets, such as cash and cash and equivalents, marketable securities, and accounts receivable (Berk & DeMarzo, 2017). Additionally, the cash ratio is the most restrictive liquidity ratio, as it assesses a company's ability to settle its current liabilities exclusively with cash and cash equivalents (Berk & DeMarzo, 2017). As showcased in Table 3.3, Netflix had the same values for the quick ratio and the cash ratio for the period under analysis, as the company did not have accounts receivable for this period due to the receipts being processed instantly. In 2020 these ratios had a significant increase reaching 1.05, indicating that Netflix had enough cash and cash equivalents to entirely pay all short-term debts. However, in the remaining periods under analysis these ratios stayed below 1.00. It is not feasible for a company to maintain large amounts of cash, and as such the low cash ratio and quick ratio can indicate that Netflix made large investments in creating and licensing content, which is not interpreted as risky.

3.4.3. Solvency

Another crucial factor to consider when evaluating a company is its ability to meet its long-term debt obligations. The principal solvency ratios used to evaluate a company are the debt-to-assets ratio, debt-to-equity ratio, debt-to-capital ratio, and the interest coverage ratio, which will be used to analyse Netflix.

Table 3.4:

Netflix's solvency ratios (2019 – 2023)

	2019	2020	2021	2022	2023
Debt-to-Assets	0.48	0.47	0.41	0.35	0.35
Debt-to-Equity	2.16	1.67	1.14	0.81	0.82
Debt-to-Capital	0.68	0.63	0.53	0.45	0.45
Interest Coverage Ratio	4.29	5.17	8.63	8.45	9.87

Source: Adapted from Bloomberg.

As showcased in Table 3.4, Netflix's debt-to-assets, debt-to-equity and debt-to-capital ratios decreased between 2019 and 2023, indicating that Netflix has become gradually less dependent on debt to expand and finance its business.

The debt-to-assets ratio is calculated by dividing the company's total debt by its total assets, providing insights on Netflix's capital structure by highlighting the portion of the company's assets that are financed by debt. In 2023, Netflix reported a debt-to-assets ratio of 0.35, implying that the company is financially stable.

Similarly to the debt-to-assets ratio, the debt-to-equity ratio is calculated by dividing the company's debt by its total equity. Netflix's debt-to-equity ratio decreased significantly since 2019, reaching 0.82 in 2023, which is lower than the debt-to-equity reported by most of the companies in the entertainment services industry. The 2023 debt-to-equity ratio indicates that the company had more equity than debt, ultimately implying that Netflix was exposed to less financial risk. Nonetheless, Netflix's higher debt-to-equity ratios in previous years indicate that the company was able to rely on debt to remain competitive and increase its growth opportunities.

Concerning the debt-to-capital ratio, it is calculated by dividing the company's total debt by its total capital, considering both debt and equity, providing information on Netflix's capital structure. Netflix's debt-to-capital ratio reached 0.45 in 2023, which is significantly lower than the values that Netflix reported in the previous years, reflecting that the company was being funded with more equity than debt, thereby becoming less risky.

Lastly, the interest coverage ratio assesses the "firm's ability to meet its interest obligations" (Berk and DeMarzo, 2017, p.72). This ratio indicates how many times the company can cover its interest expenses with its EBIT. Netflix's interest coverage ratio increased significantly since 2019, reaching 9.87 in 2023, and therefore increasing its ability to pay its interest expenses using its operating income.

3.5. Stock Performance

In 2002, Netflix became a publicly traded company through an IPO, selling 5.5 million shares of its common stock at a price of $15 per share. Netflix began trading on the NASDAQ, the world's second-largest stock exchange, under the ticker NFLX (Netflix, 2002).

Until October 2002, Netflix's stock suffered a downward trend. However, two years after entering the stock market, the situation reversed and on February 12, 2004, Netflix decided to issue its first stock split. Netflix decided to double its shares by issuing a two-for-one split when it was trading at $71.96, closing the day trading at $37.30 per share (Netflix, 2004). At this point in time, the company had just surpassed $1 billion in market capitalization and was only operating as a DVD-by-mail service.

A few years later, in 2015, Netflix was experiencing a tremendous growth in the number of subscribers, expanding its brand internationally, and consequently becoming one of the most expensive stocks traded in the S&P500. Thus, on July 15, 2015, Netflix issued a seven-to-one

stock split, opening the day trading at $703 per share, and then closing the day at $98.13 per share (Netflix, 2015).

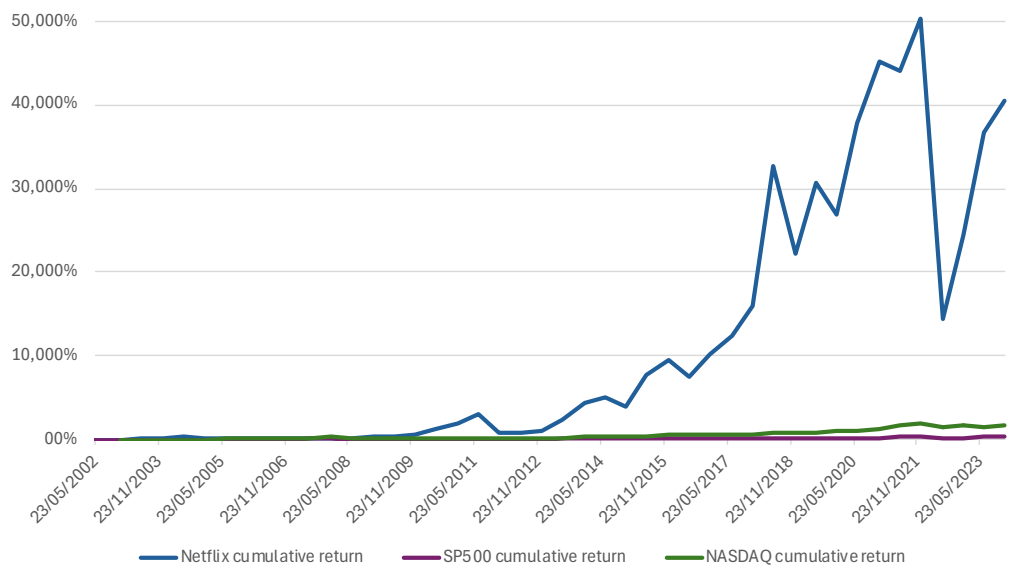

Figure 3.5: **Cumulative Returns of Netflix, S&P 500 and NASDAQ**. Adapted from Yahoo Finance.

Figure 3.5 compares the cumulative stock returns of Netflix, the S&P 500, and the NASDAQ since May 23, 2002. Netflix's depicted share price already accounts for both the 2-for-1 and the 7-for-1 stock splits issued by the company in 2004 and 2015, respectively. By considering the impact of the stock split in the share price, we are ensuring that the comparison throughout the years is being scaled consistently.

Throughout its lifetime, Netflix outperformed both indices by a large margin, but at the expense of being an extremely volatile share. The share price surged during the COVID-19 pandemic when global shutdowns drove consumer reliance on digital entertainment, causing a significant increase in the demand for electronics, entertainment services and media content.

Netflix reached its all-time high price of $691.69 on November 17, 2021. By the end of 2021, Netflix's subscriptions rose sharply due to the release of the TV show Squid Game, which became Netflix's most viewed original content (Netflix, 2024). Furthermore, this coincided with the announcement that Netflix would be acquiring the videogame company Night School Studio to facilitate their expansion into the gaming sector (Netflix, 2021).

In 2022, the share price suffered an exponential decrease, reaching $166.37 on May 11, 2022. The decline was caused due to a large increase in competition, as several companies launched their own streaming services, reducing Netflix's market share (NASDAQ, 2023). However, the company closed 2023 with a stock price of $486.88, managing to regain the shareholders' trust.

4. Valuation

In the literature review section, we presented several valuation methods used by analysts and investors, highlighting their strengths and weaknesses. To value Netflix, the DCF approach, specifically the FCFF, and the relative valuation approach will be used.

4.1. Valuation Assumptions

Netflix's valuation will be performed by analyzing its historical financial performance between 2019 and 2023, to fully understand the impact of the COVID-19 pandemic and compare it to the present period, as well as to comprehend potential trends within the company.

We will assume a forecasting period of five years (2024F – 2028F) to estimate the fair value of Netflix's shares. Following this period, we will consider a perpetual existence for the company, where the cash flows will grow at a constant growth rate in perpetuity.

The following sections of this chapter will present the main assumptions and forecasts used for conducting the valuation process.

4.1.1. Revenues

Netflix's revenues primarily derive from its domestic and international streaming service (Netflix, 2023). As the company has historically had different strategies for the four geographic segments (UCAN, EMEA, LATAM and APAC), our analysis will be oriented towards these segments, adjusting each assumption to the historical characteristics and behaviours of each region.

In order to accurately project Netflix's revenues, we considered the following key drivers:

1. Existing subscribers and their renewal rate;
2. New subscribers and their renewal rate;
3. Monthly subscription fees and price fluctuations.

The first key driver, existing subscribers and their renewal rate, is the primary source of revenue for most of the companies in the SVoD industry. Therefore, Netflix is no exception and most of the company's revenues come from its existing subscribers. The reasoning behind this is that a certain number of existing subscribers who are subscribed to a company's service will decide to renew their membership during that given year. Therefore, this behavior pattern and the calculation of the renewal rates will enable us to accurately estimate the number of subscribers at the end of a given year.

Since Netflix does not disclose its global or regional renewal rate, we will base our assumptions of each regions' renewal and churn rates on recently developed SVoD market studies. A research analysis published by Ampere Analysis (2024) indicates that the average yearly churn rate of all streaming services is 14%, with most streaming services presenting higher rates. Furthermore, a recent study developed by Parks Associates (2024) mentions that Netflix sustains a churn rate of about 9%, which is low when compared with its direct competitors in the SVoD market. Considering the aforementioned sources, we have assumed different renewal rates for the existing subscribers of each of the four geographic regions. Regarding UCAN, we assumed a renewal rate of 91% for 2024, the highest renewal rate for all regions, as it represents the company's principal market. For EMEA, we assumed a renewal rate of 90% for 2024, due to this region being the second largest market in which Netflix operates. Finally, for LATAM and APAC regions, we assumed the lowest renewal rates of 89% and 88%, respectively. From 2024 onwards, we have assumed that the renewal rates will decrease continuously over time due to the increase in the number of subscribers. Hence, we assumed an annual decrease of the renewal rates of UCAN, EMEA, LATAM and APAC of 0.5%, 1%, 1.5% and 2%, respectively (Annex A).

The second key driver, new subscribers and their renewal rate, is the principal factor of revenue growth for companies within the SVoD industry. Historically, during the first year subscribed to a service, new subscribers have cancelled their membership at a faster rate than existing subscribers, and as such the renewal rates for new subscribers tend to be lower than the renewal rates for existing subscribers. Therefore, we assumed that the renewal rates for the new subscribers would be 5% lower than the renewal rates of the existing subscribers for each region. We assumed an annual decrease of the new subscribers' renewal rates of the regions of UCAN, EMEA, LATAM and APAC of 0.5%, 1%, 1.5% and 2%, respectively, similarly to the renewal rate of existing subscribers (Annex B). Furthermore, we assumed that beyond the first year, new subscribers would turn into existing subscribers and, consequently, would adopt the renewal rate of the existing subscribers (Annex C).

The total number of subscribers at the end of the period for each region was calculated based on some preliminary assumptions. To guarantee the precision of our projections, we based them on market forecasts, specifically a research carried out by Statista (2023) concerning the estimated number of SVoD subscribers worldwide by service from 2025 to 2029, which assumes that Netflix will have 298 million subscribers by 2029.

With respect to the percentage of addition of new subscribers, we assumed that UCAN and EMEA would have the lowest rates in 2024, of 10% and 12% respectively, since these are

Netflix's biggest markets and Netflix has a high level of market consolidation. For LATAM and APAC, in 2024, we assumed higher percentages of 16% and 18%, respectively, given that these regions have less market consolidation and are expanding emerging markets. APAC is the region with the highest percentage of new subscribers, as it is a region seen by the market as a key driver of growth, expanding rapidly in recent years. Furthermore, the region is composed of large, historically underserved rural populations, which present a strong demand for streaming content (PwC, 2023). Regarding the annual growth rate of new subscribers, we assumed an annual increase of 0.5%, 1%, 1.5% and 2% for UCAN, EMEA, LATAM and APAC, respectively (Annex D). In order to estimate the new subscribers' additions every year, for each region we multiplied our projected percentage of new subscribers' additions by the total number of subscribers from the previous year, in order to maintain realistic growth expectations.

The total number of subscribers at the end of the period for each region was obtained using two factors: the number of new subscribers' additions; and the renewal of existing subscribers' subscriptions. The latter was obtained by multiplying the paid subscriptions at the end of the previous period by their respective renewal rates (Annex E to H). Table 4.1 showcases the average of the paid memberships at the end of each period for every region.

Table 4.1:

Netflix's Average Annual Subscribers in Millions (2024F-2028F)

Region	2024F	2025F	2026F	2027F	2028F
UCAN	80,529	81,134	81,532	81,911	82,272
EMEA	89,701	91,229	92,492	93,726	94,930
LATAM	47,147	49,320	51,391	53,510	55,678
APAC	46,698	49,296	51,809	54,400	57,067
Global Average Annual Subscribers	**264,075**	**270,979**	**277,225**	**283,548**	**289,947**

Source: Own Estimates.

In relation to the third key driver, monthly subscription fees and price fluctuations, our reference starting point was the average monthly revenue per paying membership for each segment, disclosed in Netflix's Form 10-K. Furthermore, we assumed that Netflix's subscribers purchasing power would be affected by inflation (Annex I). Hence, we projected the monthly average revenue per paying membership for each region by taking into consideration the inflation rates projected by the IMF (2024) and the historical average of the price

increase/decrease in the average monthly revenue per paying membership, 1.60%. Table 4.2 presents the average monthly fees per subscriber for each region for the forecasting period.

Table 4.2:

Average Monthly Fees per Subscriber (2024F-2028F)

Region	2024F	2025F	2026F	2027F	2028F
UCAN	$16.99	$17.60	$18.24	$18.90	$19.59
EMEA	$12.24	$13.78	$15.23	$16.53	$17.84
LATAM	$10.27	$11.23	$12.05	$12.78	$13.48
APAC	$8.15	$8.64	$9.09	$9.55	$10.03

Source: Own Estimates.

Considering that Netflix's subscribers pay monthly fees for the streaming service, we forecasted the subscription revenue using a monthly basis instead of a yearly basis. Thus, Netflix's global streaming revenues were determined by multiplying the average annual subscribers (Table 4.1) by the average monthly fees per subscriber (Table 4.2), subsequently multiplying the result by 12 to obtain yearly estimates, as showcased in Table 4.3.

Table 4.3:

Netflix's Global Streaming Revenues in Millions (2024F-2028F)

Region	2024F	2025F	2026F	2027F	2028F
UCAN	$16,423	$17,138	$17,847	$18,581	$19,340
EMEA	$13,175	$15,088	$16,904	$18,587	$20,324
LATAM	$5,809	$6,649	$7,433	$8,209	$9,008
APAC	$4,567	$5,109	$5,651	$6,234	$6,870
Global Streaming Revenues (Million USD)	**$39,974**	**$43,985**	**$47,836**	**$51,610**	**$55,542**

Source: Own Estimates.

4.1.2. EBITDA

EBITDA, which stands for Earnings Before Interest, Taxes, Depreciation, and Amortization, is a measure of the company's operating performance and ability to generate profitability (Berk & DeMarzo, 2017). To project Netflix's EBITDA for the forecasting period (2024 to 2028), the EBITDA's growth rate for 2019/2020 was excluded, as its value deviates from the standard EBITDA values registered by the company due to the impact of the COVID-19 pandemic.

Netflix's EBITDA growth rate in 2019/2020 was 74%, while from 2021 to 2023 it averaged 17.30%, representing 20.71% of the total revenues (Annex J).

Table 4.4:

Netflix's EBITDA Projections (2024F-2028F)

EBITDA (Million USD)	2024F	2025F	2026F	2027F	2028F
% of Total Revenues	21.45%	23.00%	25.10%	27.76%	30.95%
YoY	17.30%	17.98%	18.65%	19.33%	20.00%
EBITDA	8,576	10,118	12,005	14,324	17,189

Source: Own Estimates.

As presented in Table 4.4, the historical growth rate of 17.30% will be assumed for the first year of the forecasts and this value will increase by 0.67% every year until reaching 20% by 2028. For the years between 2024 and 2028, the growth rate was progressively adjusted over the years in order to reach the target of 20% in 2028. The historical average of Netflix's EBITDA as a percentage of total revenues was 20.71% between 2021 and 2023, gradually increasing to an average of 25.65% between 2024 and 2029. Hence, these projections anticipate that Netflix will continue to prioritize cost management, enabling a stronger EBITDA growth compared to previous years.

4.1.3. Depreciation and Amortization

Depreciation and Amortization (D&A) are accounting costs that refer to the reduction in the value of tangible and intangible assets over time (Sutton, 2004). Netflix's D&A is calculated using the straight-line method over the asset's estimated useful lives, typically not exceeding 30 years (Netflix, 2023).

Netflix's D&A increased consistently during the historical period (2019-2023), averaging 0.76% of Netflix's total revenues. Nonetheless, Netflix's D&A expenses in 2022 and 2023 averaged 1.06% of the total revenues (Annex K). To project the company's D&A, we assumed that this item would grow by 15% in 2024, decreasing 1.75% annually until 2028, where the forecasted growth rate is of 8%. For the explicit forecasting period it was assumed that the D&A expenses would remain at approximately 1.06% of the company's total revenues. As showcased in the table below, Netflix's D&A increased gradually between 2024 and 2028.

Table 4.5:

Netflix's D&A Projections (2024F-2028F)

D&A (Million USD)	2024F	2025F	2026F	2027F	2028F
% of Total Revenues	1.03%	1.06%	1.08%	1.10%	1.11%
YoY	15.00%	13.25%	11.50%	9.75%	8.00%
D&A	410	465	518	569	614

Source: Own Estimates.

4.1.4. Effective Tax Rate

The effective tax rate corresponds to the overall rate at which a company's pre-tax profits are taxed. Netflix's effective tax rate has consistently remained below the statutory US federal corporate tax rate of 21%. According to Netflix's Form 10-K, part of the difference between the effective tax rate and the Federal statutory rate of 21% is due to the "impact of international provisions of the Tax Cuts and Jobs Act, Federal and California R&D credits, and the recognition of excess tax benefits of stock-based compensation" (Netflix, 2022, p.24). Additionally, a significant portion of Netflix's revenues are generated in jurisdictions where corporate tax rates are lower than in the United States, reducing the company's overall tax burden. Therefore, it can be assumed that Netflix's effective tax rate during the forecasted period (2024-2028) will be below the Federal statutory rate of 21%.

Table 4.6:

Netflix's Effective Tax Rate (2019-2023)

Categories (%)	2019	2020	2021	2022	2023
Effective Tax Rate	9.47%	13.69%	12.39%	14.67%	12.85%
Average					**12.61%**

Source: Own Estimates.

According to Table 4.6, during the period under analysis, Netflix's effective tax rate has ranged between 9.47% and 14.67%, with an average tax rate of 12.61%. For forecasting purposes, this average rate will be assumed as the effective tax rate for the projected period (2024-2028).

4.1.5. CAPEX

Capital Expenditure (CAPEX) refers to the funds a company uses on investment activities, such as acquiring, upgrading and maintaining physical assets like property, plants, and equipment, with the aim to enhance operational efficiency (Berk & DeMarzo, 2017). To forecast Netflix's CAPEX, the growth rate of 2019/2020 was excluded from the analysis as it deviates significantly form the company's benchmarks due to the impact of the COVID-19 pandemic. Between 2021 and 2023, Netflix's CAPEX had an average annual decline of 10%, leading to a decrease in the weight of the revenues from 1.99% to 1.03% (Annex L).

Table 4.7:

Netflix's CAPEX Projections (2024F-2028F)

CAPEX (Million USD)	2024F	2025F	2026F	2027F	2028F
% of Total Revenues	0.78%	0.68%	0.62%	0.61%	0.62%
YoY	-10%	-5%	0%	5%	10%
CAPEX	314	298	298	313	344

Source: Own Estimates.

As showcased in Table 4.7, Netflix´s CAPEX in 2024 is expected to decrease by 10%, which corresponds to the historical average growth rate of Netflix's CAPEX between 2021 and 2023. This value will stabilize until it reaches a steady growth rate of 10%, which is expected to be the YoY growth in 2028. For the projected period, it is assumed that the CAPEX will remain just under 1% of the company's total revenues.

4.1.6. Changes in Net Working Capital

Net Working Capital (NWC) is a measure of a company's short-term financial health and operational liquidity. It is calculated as the difference between the company's current assets and current liabilities (Berk & DeMarzo, 2017).

In order to calculate Netflix's NWC we will only consider the current assets and current liabilities items that are related to the company's operational activities. Hence, we only considered one item for the current assets, namely other current assets, and four items for the current liabilities, namely current content liabilities, accounts payable, accrued expenses, and other liabilities and deferred revenue.

The historical averages of Netflix's current assets and current liabilities expressed as a percentage of the total revenue were 7% and 26%, respectively. Over the historical period, from

2019 to 2023, the average YoY growth rates of the current assets and the current liabilities were 27% and 5%, respectively (Annex M).

Table 4.8:

Netflix's change in NWC Projections (2024F-2028F)

Million USD	2024F	2025F	2026F	2027F	2028F
Current Assets	**3,539**	**4,307**	**5,002**	**5,531**	**5,808**
% of Revenues	8.85%	9.79%	10.46%	10.72%	10.46%
YoY	27.28%	21.71%	16.14%	10.57%	5.00%
Current Liabilities	**9,730**	**10,946**	**12,041**	**12,944**	**13,591**
% of Revenues	24.34%	24.89%	25.17%	25.08%	24.47%
YoY	15.00%	12.50%	10.00%	7.50%	5.00%
NWC	**-6,191**	**-6,639**	**-7,038**	**-7,413**	**-7,783**
Change in NWC	**-511**	**-448**	**-399**	**-374**	**-371**

Source: Own Estimates.

In 2024, Netflix's current assets are expected to grow by 27%, which corresponds to the historical average growth rate. This value will progressively change until it reaches a fixed 5%, which is the year-over-year growth rate anticipated for 2028, ensuring a consistent percentage of current assets in relation to Netflix's total revenues.

Concerning Netflix's current liabilities, we assumed that in 2024 they would grow by 15%, while in 2028 they are expected to grow by 5% in order to ensure a consistent weight of 24% to 25% in relation to Netflix's total revenues. Hence, during the forecasted period (2024 to 2028), Netflix's change in NWC maintained a weight of -1% relative to Netflix's total revenues.

4.2. Discounted Cash Flow Valuation

The first step to conduct a DCF valuation is to estimate Netflix's FCFF for the forecasted period of five years (2024F – 2028F). Following this, we will estimate an appropriate discount rate and a Terminal Growth Rate (TGR) in order to calculate Netflix's enterprise value and equity value. After obtaining these estimates, we can determine the fair value of Netflix's share price at the end of 2023. Lastly, we will conduct a sensitivity analysis to understand how changes in the TGR and WACC impact Netflix's share price.

4.2.1. Free Cash Flow to the Firm

Having established all the fundamental assumptions and forecasts regarding the revenues, EBITDA, depreciation and amortization, corporate tax rate, CAPEX, and net working capital in the previous sections, the FCFF is determined using the formula defined in Equation 3.

Table 4.9:

Netflix's FCFF Forecasts (2024F-2028F)

Million USD	2024F	2025F	2026F	2027F	2028F
EBITDA	8,576	10,118	12,005	14,324	17,189
D&A	410	465	518	569	614
EBIT	8,165	9,653	11,486	13,756	16,575
Taxes	1,030	1,218	1,449	1,735	2,091
NOPLAT	7,135	8,435	10,037	12,020	14,484
D&A	410	465	518	569	614
Operating CF	7,546	8,900	10,556	12,589	15,099
CAPEX	314	298	298	313	344
Changes in NWC	-511	-448	-399	-374	-371
FCFF	**7,743**	**9,050**	**10,657**	**12,651**	**15,125**

Source: Own Estimates.

4.2.2. Discount Rate

The following subchapters aim to determine the appropriate discount rate for the FCFF approach, i.e., the WACC. To accurately estimate the WACC it will be necessary to calculate Netflix's cost of equity, cost of debt and capital structure.

4.2.2.1. Cost of Equity

Netflix's cost of equity will be determined by employing the CAPM model, as mentioned in the literature review section 1.2.1.2. To determine the cost of equity, we will have to accurately determine the risk-free rate, the levered beta and the market risk premium.

Firstly, regarding the risk-free rate, we decided to use the yield of the United States 10-year government bond as a proxy. Hence, we assumed that the risk-free rate would be 4.02%, which corresponds to the yield of the 10-year US government bonds registered in December 2023, as reported by the Federal Reserve Bank of Saint Louis.

Secondly, concerning the levered beta, since Netflix is a listed company, its levered beta is publicly available. Thus, according to Zacks (2024), Netflix's levered beta is 1.259.

Lastly, according to Damodaran (2024), the market risk premium for the United States registered in January 2024 was 4.60%. Recalling Equation 8, we obtain a cost of equity of 9.81%, as showcased in Table 4.10.

Table 4.10:

Netflix's Cost of Equity

Risk-Free Rate	Levered Beta	Market Risk Premium	Cost of Equity
4.02%	1.259	4.60%	**9.81%**

Source: Own Estimates.

4.2.2.2. Cost of Debt

Netflix's pre-tax cost of debt can be determined by adding the default risk to the risk-free rate, as mentioned in section 1.2.1.6 of the literature review. Given that the risk-free rate has already been established, the following step is to determine the default spread, which will be done according to the table developed by Damodaran (2024), which represents the relationship between a firm's interest coverage ratio, a synthetic rating, and the associated default spread. Given that Netflix qualifies as a large firm (market capitalization exceeding $5 billion) and its interest coverage ratio in 2023 was 9.94, its default risk is 0.59% (Annex N).

Thus, by adding the risk-free rate of 4.02% to the default spread of 0.59%, we obtain a pre-tax cost of debt of 4.61%. Following Equation 13 and assuming a corporate tax rate of 12.61%, the estimated after-tax cost of debt is 4.03%.

4.2.2.3. Capital Structure

To thoroughly determine Netflix's capital structure, it is necessary to calculate the market value of equity and the market value of debt.

The market value of equity is obtained by multiplying the total number of outstanding shares at the end of 2023 by the observed share price as of 29 December 2023. Thus, Netflix's market value of equity was $210,702 million, as showcased in Table 4.11.

Regarding Netflix's market value of debt, we assume it corresponds to the book value of debt disclosed in Netflix's 2023 annual report. Therefore, the market value of debt is comprised

of long-term debt and the current maturities of long-term debt, totaling $14,604 million (Table 4.11).

Table 4.11:

Netflix's capital structure

Capital Structure (Million USD)	2023
Outstanding shares	433
Share price	486.88
Market Value of Equity	210,702
Market Value of Debt	14,604
Equity/Capital	93.52%
Debt/Capital	6.48%

Source: Own Estimates.

4.2.2.4. WACC

Having computed the values of the cost of equity, cost of debt and capital structure, it is now possible to calculate the WACC following Equation 7. As such, we obtain a WACC of 9.44%, as showcased in Table 4.12.

Table 4.12:

Netflix's WACC

Equity/Capital	Cost of Equity	Debt/Capital	After-tax Cost of Debt	WACC
93.52%	9.81%	6.48%	4.03%	**9.44%**

Source: Own Estimates.

4.2.3. Terminal Growth Rate

Assuming that Netflix's cash flows will continue to grow in perpetuity after the last forecasted cash flow period, it is essential to determine the TGR, which is the growth rate at which a company's cash flows are expected to grow perpetually after the forecasted period.

To accurately estimate Netflix's TGR, we considered the inflation rate of the regions where the company operates, taking into account the varying contribution of each region to the company's total revenue. As shown in Table 4.13, we calculated the contribution of each region (UCAN, EMEA, LATAM and APAC) to Netflix's total revenues in 2028, then multiplied it by the expected inflation rate for 2028. As such, the estimated TGR is of 3.90%, which reflects the expectations regarding Netflix's ability to maintain subscriber growth, expand into new

markets, and manage competitive pressure, thereby reflecting the company's long-term growth potential and profitability.

Table 4.13:

Netflix's TGR

Region	Revenues Weight (2028)	Expected Inflation Rate (2028)	TGR
UCAN	34.82%	2.00%	0.70%
EMEA	36.59%	5.93%	2.17%
LATAM	16.22%	3.80%	0.62%
APAC	12.37%	3.40%	0.42%
TGR			**3.90%**

Source: IMF and Own Estimates.

4.2.4. Enterprise Value

After obtaining Netflix's FCFF, WACC and TGR estimates, its EV can now be determined. To estimate Netflix's EV, each forecasted FCFF between 2024 and 2028 was discounted using the WACC to obtain its present value. For the cash flows beyond 2028, the TV was calculated using the TGR in accordance with Equation 5, and subsequently it was discounted to its present value utilizing the WACC. Ultimately, as per Equation 4, an EV of 222,195 million USD was obtained by summing the discounted free cash flows and the discounted terminal value, as shown in Table 4.14.

Table 4.14:

Netflix's Enterprise Value

Million (USD)	2024F	2025F	2026F	2027F	2028F	Perpetuity
FCFF	7,743	9,050	10,657	12,651	15,125	15,716
PV of FCFF	7,075	7,556	8,131	8,820	9,636	
TV						284,077
PV OF TV						180,977
EV	**222,195**					

Source: Own Estimates.

4.2.5. Equity Value

Now that we have determined Netflix's EV, we need to determine the portion of the company that is owned by the shareholders, in other words, the EQV. Therefore, as outlined in Equation

6, we need to make some adjustments to the EV, specifically to add the value of the non-operating assets and subtract the value of the non-equity claims.

Two items from Netflix's 2023 balance sheet were considered as non-operating assets, namely cash and cash equivalents, and short-term investments, amounting to a total of 7,138 million USD. Netflix's non-equity claims are valued at 14,604 million USD, corresponding to the company's debt book value, which is considered a good proxy for the debt market value. Thus, we obtained an EQV of 214,729 million USD, as showcased in Table 4.15. Ultimately, to determine Netflix's share's fair price, we divided the EQV by the total number of outstanding shares, resulting in a final share price of 496.19 USD. This value represents an upside potential of 2% when compared to Netflix's closing price of 486.88 USD on December 29, 2023.

Table 4.15:

Netflix's Share Price

Million USD	
EV	222,195
NOA	7,138
Non-Equity Claims	14,604
EQV	214,729
Outstanding Shares (Million)	433
Fair Price (USD)	**496.19**

Source: Own Estimates.

4.2.6. Sensitivity Analysis

To obtain the fair value of Netflix's share price through the DCF approach, several assumptions were made that impact the valuation of Netflix. Hence, a sensitivity analysis was performed to evaluate the impact of key variables on the company's fair value.

Two key variables were chosen for this sensitivity analysis, namely the WACC and the TGR, to enhance the robustness of this equity valuation by enabling investors to better interpret risks and make informed investment decisions. The two key variables were subject to incremental and decremental changes of 0.50%. This value was chosen considering that Netflix is transitioning into a mature stage but still faces uncertainty from competition and evolving consumer behavior.

Table 4.16:

Sensitivity Analysis (price in $)

		WACC				
		8.44%	8.94%	9.44%	9.94%	10.44%
TGR	2.90%	514.42	468.02	428.76	395.12	365.98
	3.40%	559.82	505.20	459.68	421.16	388.16
	3.90%	615.24	549.77	496.19	451.52	413.73
	4.40%	684.40	604.18	539.95	487.37	443.55
	4.90%	773.15	672.08	593.37	530.35	478.75

Source: Own Estimates.

Table 4.17:

Sensitivity Analysis (price change in %)

		WACC				
		8.44%	8.94%	9.44%	9.94%	10.44%
TGR	2.90%	3.68%	-5.68%	-13.59%	-20.37%	-26.24%
	3.40%	12.83%	1.82%	-7.36%	-15.12%	-21.77%
	3.90%	23.99%	10.80%	0.00%	-9.00%	-16.62%
	4.40%	37.93%	21.77%	8.82%	-1.78%	-10.61%
	4.90%	55.82%	35.45%	19.59%	6.88%	-3.51%

Source: Own Estimates.

As shown in Tables 4.16 and 4.17, Netflix's share price fluctuates between a minimum of 365.98 and a maximum of 773.15. The minimum share price is obtained when the WACC is 10.44% and the TGR is 2.90%, corresponding to a reduction of 26.24% compared to the share price obtained through the DCF model. Conversely, the maximum share price is obtained when the WACC is 8.44% and the TGR is 4.90%, corresponding to an increase of 55.82% over the DCF model share price.

The sensitivity analysis reveals that Netflix's share price is extremely sensitive to small changes in the WACC and the TGR. Under the ceteris paribus condition, an increase in the WACC results in a decrease in Netflix's share price since higher discount rates reduce the PV of the cash flows, while an increase in the TGR results in an increase in Netflix's share price as stronger long-term growth increases the TV.

The vast fluctuation of the share price under the sensitivity analysis highlights the impact of the WACC and TGR on the implied share price. Changes in macroeconomic factors or changes in company-specific risks can cause a large impact on the implied value of Netflix's shares, hence impacting the decision to buy, hold or sell the company's shares.

4.3. Relative Valuation

As previously stated in Chapter 1, a relative valuation aims to value a company by analyzing the market prices of similar companies (Damodaran, 2012). A relative valuation is particularly important during the second phase of the valuation process, as it complements the results obtained from the DCF approach, thereby enhancing the overall accuracy and credibility of the valuation. Therefore, a relative valuation will be performed to assess Netflix's share price and to complement the DCF valuation.

The first step to perform a relative valuation is the selection of a peer group. To achieve this, we considered the companies identified by Bloomberg as Netflix's comparable companies. The second step consists in selecting the appropriate multiples. From the range of multiples identified in Table 1.1, two multiples were selected, the P/E ratio and the EV/EBITDA.

As showcased in Annex O, this relative valuation considers a peer group of 15 companies, including companies from the E&M industry, and the firms that belong to the MAANG group of companies. The MAANG group is comprised of the leading and most influential American technological companies: Meta, Apple, Amazon, Netflix, and Alphabet (commonly referred to as Google). The data regarding the P/E and EV/EBITDA multiples for all the comparable companies were retrieved from Yahoo Finance and from the financial statements of each company, with values dated December 31, 2023.

To enhance the accuracy of the peer group and to ensure the inclusion of only relevant and truly comparable companies to Netflix, it is necessary to identify and remove the outliers from the peer group. As a starting point, we defined an exclusion criterion based on the market capitalization, requiring each company to have a minimum of 50% of Netflix's market capitalization ($213.1 billion) as of 31 December 2023. As a result, 8 companies were removed from the valuation process: Charter Communications, Inc.; Warner Bros. Discovery, Inc.; Fox Corporation; Roku, Inc.; Paramount Global; TKO Group Holdings, Inc.; Lions Gate Entertainment Corporation; and AMC Networks Inc. Hence, the peer group was reduced to 7 companies, as detailed in Table 4.18.

Following the initial exclusion criterion, a further criterion was established to remove the remaining outliers of the peer group for each of the multiples previously defined. Thus, all the companies whose multiples were not included in the defined range of [Mean - Standard Deviation; Mean + Standard Deviation] were also excluded from the valuation process. As a result, for the P/E multiple, The Walt Disney Company and Sony were

excluded from the valuation process, as highlighted in red in Table 4.18. Similarly, for the EV/EBITDA multiple, Microsoft and Sony were also excluded, as highlighted in Table 4.18.

Table 4.18:

Netflix's Relative Valuation

Comparable Companies	P/E	EV/EBITDA
Apple Inc.	31.41	23.66
Microsoft Corporation	36.44	24.43
Alphabet Inc.	26.76	17.83
Amazon.com, Inc.	52.40	22.32
Meta Platforms, Inc.	31.24	18.62
The Walt Disney Company	69.99	16.59
Sony Group Corporation	20.42	9.03
Average	**38.38**	**18.93**
Standard Deviation	**17.11**	**5.31**
Upper Bound	**55.49**	**24.23**
Lower Bound	**21.27**	**13.62**

Source: Own Estimates.

The steps in order to estimate Netflix's EQV are highly dependent on the chosen multiples. As showcased in Table 4.19, to reach the EQV of the P/E multiple it is necessary to multiply the obtained peer group multiple (35.65x) by Netflix's net income registered in 2023. Conversely, to reach the EQV of the EV/EBITDA multiple it is necessary firstly to calculate the EV by multiplying the obtained peer group multiple (19.80x) by the company's EBITDA from 2023. After determining the EV of the EV/EBITDA multiple, we can now determine the EQV by adding Netflix's NOA (7,138 million) and deducting the debt (14,604 million) registered in 2023. Upon determining Netflix's EQV, we divide it by the number of the outstanding shares in order to determine the company's implied share price.

As shown in Table 4.19, the implied share price using the P/E multiple is $445.50, while the implied share price using the EV/EBITDA multiple is $317.31. These values indicate a decrease of 8% and 35% when considering the P/E and the EV/EBITDA multiple, respectively, compared to the share price as of December 29, 2023.

Table 4.19:

Netflix's Relative Valuation Results

Results	Ratios	
	P/E	**EV/EBITDA**
Average	35.65	19.80
Net Income ($ million)	5,408	-
EBITDA ($ million)	-	7,311
Enterprise Value ($ million)	-	144,786
NOA ($ million)	-	7,138
Long- Term Debt ($ million)	-	14,604
Equity Value ($ million)	192,795	137,320
Shares Outstanding (million)	433	433
Implied Share Price ($)	**445.50**	**317.31**
Implied Upside/Downside	**-8%**	**-35%**

Source: Own Estimates.

4.4. Valuation Results

After determining the fair value of Netflix's shares using the DCF-FCFF and the relative valuation methods, we will present in this subchapter a critical analysis of the obtained results. Thus, Table 4.20 systemizes the obtained results as well as the market value of Netflix's shares on December 29, 2023.

Table 4.20:

Summary of Netflix's Valuation Results

Valuation Method	Share Price (USD)
(29/12/2023) Market Value	486.88
FCFF Approach	496.19
P/E Multiple	445.50
EV/EBITDA Multiple	317.31

Source: Own Estimates

The table above showcases that the use of the different valuation methodologies to value Netflix leads to different conclusions. The DCF-FCFF approach produced a share price of $496.19 for Netflix's shares, which represents an upside potential of 2% compared to the actual share price of $486.88 registered on December 29, 2023. This analysis suggests that Netflix's share price at the end of 2023 was undervalued, and hence according to the DCF method results, our recommendation is to buy the company's shares.

Conversely, the relative valuation, which includes the P/E multiple and the EV/EBITDA multiple, produced unfavorable outcomes. The P/E multiple indicated a share price of $445.50, which is 8% below the actual share price at that time, and the EV/EBITDA produced a share price of $317.31, which is 35% lower than the actual share price at that time. This suggests that, according to the outcome of Netflix's relative valuation, our recommendation would typically be to sell the shares.

The DCF and the relative valuation methods produced opposite conclusions regarding Netflix's fair value. While the DCF indicates that Netflix was undervalued, suggesting growth potential and a positive investment opportunity, the relative valuation approach suggests that the company is overvalued. Despite the opposite outcomes, the results of the DCF model should be prioritized when valuing Netflix for several key reasons.

Firstly, the DCF approach provides a more detailed analysis of Netflix by taking into account specific value drivers, such as the company's cash flows, the membership growth rates in the various regions, the revenues for each region, the price increases in each region, the company's financial strategies, and the company's cost of capital.

Additionally, the relative valuation approach presents several limitations when applied to Netflix, as identifying truly comparable companies can be challenging. Netflix is a company which operates with a unique business model and has a distinct competitive positioning in the streaming industry. As such, choosing an inappropriate peer group may lead to misleading conclusions over Netflix's fair value. Moreover, the relative valuation relies on the performance of other firms and their multiples, which can be influenced by short-term market sentiment. Since Netflix's valuation is largely driven by its high growth potential, relying on the existing financial metrics of its peers instead of future growth prospects can lead to a misleading estimate of Netflix's fair value.

In conclusion, Netflix's stock price has demonstrated a consistent growth since the end of December 2023, overcoming the 900 USD mark by the end of December 2024. This upward trend is aligned with the positive forecasts obtained from the DCF valuation model, which suggests a strong future potential for the company, reflecting the company's ability to maintain its growth trajectory in the increasingly competitive streaming industry. Taking all these considerations into account, the final recommendation as of the 29th of December of 2023, is to buy Netflix's shares, acknowledging the robustness of the DCF valuation and the inherent challenges associated with the relative valuation.

Conclusion

In this master thesis, we conducted an equity valuation of Netflix, Inc. to determine whether Netflix's share price was being traded below or above its fair value as of December 29, 2023. As such, our primary goal was to accurately determine the fair value of Netflix's shares to provide a reliable investment recommendation to Netflix's potential investors.

To obtain accurate and reliable results, we employed some of the most commonly used valuation models, in particular the DCF method and the relative valuation method. Under the DCF valuation methodology, we adopted the FCFF approach, which consisted in projecting Netflix's future cash flows from 2024 to 2028 and discounting them to their present value using the WACC. Several assumptions were made to reflect the expected trends through 2028, such as forecasting the growth in the number of paid memberships, revenues, and cost structures, as well as forecasting macroeconomic factors such as inflation. Additionally, a sensitivity analysis was performed to assess how changes in key variables, namely the WACC and the TGR, could impact the valuation, considering optimistic and pessimistic forecasts.

With regards to the relative valuation, we selected a peer group of comparable companies that operate in the same sector as Netflix and computed the relevant multiples to conduct the valuation. The peer group was chosen based on their market capitalization as of December 29, 2023. As such, only direct competitors which had a market capitalization of at least half of Netflix's market capitalization were chosen as part of the peer group. The chosen multiples were the P/E and the EV/EBITDA, since these are the most widely used multiples among analysts. Since the DCF model provides more in-depth understanding of paid membership growth and revenue and cost growth, the relative valuation was used as a complementary tool to the DCF model.

According to the DCF-FCFF model, Netflix's estimated share price is of 496.19 USD, which is higher than the observed market price of 486.88 USD on December 29, 2023. This analysis suggests that Netflix's share price was undervalued by 2%. Contrarily, the relative valuation yielded negative results. The P/E multiple suggests that Netflix's share price is overvalued by 8% and the EV/EBITDA suggests that Netflix's share price is overvalued by 35%. Regardless of the different conclusions obtained from both valuation methods, the final investment recommendation is to buy Netflix's shares, relying on the results obtained from the DCF valuation method.

It is important to emphasize that the assumptions made throughout the analysis were based on my own estimates and judgment. While these assumptions are grounded in available data

and macroeconomic trends, they may be subject to inaccuracies or sudden changes in the market environment, and as such we recommend conducting a new equity valuation as more information regarding the streaming industry, and Netflix itself, comes out.

For future research, it would be interesting to employ other valuation methodologies, such as asset-based approaches or real options analysis, which would offer a different valuation perspective and allow to cross-check our results.

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Annexes

Annex A:

Existing Subscribers' Renewal Rate (2024F-2028F)

Region	2024F	2025F	2026F	2027F	2028F
UCAN	91.0%	90.5%	90.0%	89.5%	89.0%
EMEA	90.0%	89.0%	88.0%	87.0%	86.0%
LATAM	89.0%	87.5%	86.0%	84.5%	83.0%
APAC	88.0%	86.0%	84.0%	82.0%	80.0%

Source: Own Estimates

Annex B:

New Subscribers' Renewal Rate (2024F-2028F)

Region	2024F	2025F	2026F	2027F	2028F
UCAN	86.0%	85.5%	85.0%	84.5%	84.0%
EMEA	85.0%	84.0%	83.0%	82.0%	81.0%
LATAM	84.0%	82.5%	81.0%	79.5%	78.0%
APAC	83.0%	81.0%	79.0%	77.0%	75.0%

Source: Own Estimates

Annex C:

Subscribers' Renewal Rate (2024F-2028F)

Year of Subscription	Region	2024F	2025F	2026F	2027F	2028F
2023	UCAN	91.0%	90.5%	90.0%	89.5%	89.0%
	EMEA	90.0%	89.0%	88.0%	87.0%	86.0%
	LATAM	89.0%	87.5%	86.0%	84.5%	83.0%
	APAC	88.0%	86.0%	84.0%	82.0%	80.0%
2024	UCAN		85.5%	90.0%	89.5%	89.0%
	EMEA		84.0%	88.0%	87.0%	86.0%
	LATAM		82.5%	86.0%	84.5%	83.0%
	APAC		81.0%	84.0%	82.0%	80.0%
2025	UCAN			85.0%	89.5%	89.0%
	EMEA			83.0%	87.0%	86.0%
	LATAM			81.0%	84.5%	83.0%
	APAC			79.0%	82.0%	80.0%
2026	UCAN				84.5%	89.0%
	EMEA				82.0%	86.0%
	LATAM				79.5%	83.0%
	APAC				77.0%	80.0%
2027	UCAN					84.0%
	EMEA					81.0%
	LATAM					78.0%
	APAC					75.0%

Source: Own Estimates

Annex D:

Percentage of addition of new subscribers (2024F-2028F)

Region	2024F	2025F	2026F	2027F	2028F
UCAN	10.0%	10.5%	11.0%	11.5%	12.0%
EMEA	12.0%	13.0%	14.0%	15.0%	16.0%
LATAM	16.0%	17.5%	19.0%	20.5%	22.0%
APAC	18.0%	20.0%	22.0%	24.0%	26.0%

Source: Own Estimates

Annex E:

UCAN paid memberships at the end of the period in thousands (2024F-2028F)

Year of Subscription	2024F	2025F	2026F	2027F	2028F
2023	72,916	65,989	59,390	53,154	47,307
2024	8,013	6,851	6,166	5,518	4,911
2025		8,498	7,223	6,465	5,753
2026			8,947	7,560	6,729
2027				9,399	7,895
2028					9,852
Total paid memberships in UCAN	**80,929**	**81,338**	**81,726**	**82,096**	**82,447**

Source: Own Estimates

Annex F:

EMEA paid memberships at the end of the period in thousands (2024F-2028F)

Year	2024F	2025F	2026F	2027F	2028F
2023	79,932	71,139	62,603	54,464	46,839
2024	10,658	8,952	7,878	6,854	5,894
2025		11,777	9,775	8,504	7,313
2026			12,862	10,546	9,070
2027				13,968	11,314
2028					15,094
Total paid memberships in EMEA	**90,589**	**91,868**	**93,117**	**94,336**	**95,524**

Source: Own Estimates

Annex G:

LATAM paid memberships at the end of the period in thousands (2024F-2028F)

Year	2024F	2025F	2026F	2027F	2028F
2023	40,937	35,820	30,805	26,031	21,605
2024	7,360	6,072	5,222	4,412	3,662
2025		8,452	6,846	5,785	4,801
2026			9,565	7,604	6,312
2027				10,750	8,385
2028					12,008
Total paid memberships in LATAM	**48,297**	**50,344**	**52,438**	**54,582**	**56,774**

Source: Own Estimates

Annex H:

APAC paid memberships at the end of the period in thousands (2024F-2028F)

Year	2024F	2025F	2026F	2027F	2028F
2023	39,897	34,312	28,822	23,634	18,907
2024	8,161	6,610	5,553	4,553	3,643
2025		9,612	7,593	6,226	4,981
2026			11,117	8,560	6,848
2027				12,740	9,555
2028					14,486
Total paid memberships in APAC	**48,058**	**50,534**	**53,085**	**55,714**	**58,420**

Source: Own Estimates

Annex I:

Inflation Rate (2024F-2028F)

Region	2024F	2025F	2026F	2027F	2028F
UCAN	2.75%	1.95%	2.00%	2.00%	2.00%
EMEA	10.83%	8.77%	6.80%	6.27%	5.93%
LATAM	16.70%	7.70%	5.60%	4.40%	3.80%
APAC	5.00%	4.30%	3.60%	3.40%	3.40%

Source: International Monetary Fund

Annex J:

Netflix's historical EBITDA (2019-2023)

EBITDA (Million USD)	2019	2020	2021	2022	2023
EBITDA	2,708	4,701	6,403	5,970	7,311
YoY		74%	36%	-7%	22%
EBITDA Margin	13.43%	18.81%	21.56%	18.88%	21.68%

Source: Adapted from Netflix's Form 10-K

Annex K:

Netflix's historical D&A (2019-2023)

D&A (Million USD)	2019	2020	2021	2022	2023
D&A	104	116	208	337	357
YoY		12%	80%	62%	6%
D&A (% of Revenue)	0.51%	0.46%	0.70%	1.06%	1.06%

Source: Adapted from Netflix's Form 10-K

Annex L:

Netflix's historical CAPEX (2019-2023)

CAPEX (Million USD)	2019	2020	2021	2022	2023
CAPEX	253	498	525	408	349
YoY		97%	5%	-22%	-15%
CAPEX (% of Revenue)	1.26%	1.99%	1.77%	1.29%	1.03%

Source: Adapted from Netflix's Form 10-K

Annex M:

Netflix's historical NWC (2019-2023)

NWC (Million USD)	2019	2020	2021	2022	2023
Other current assets	1,160	1,556	2,042	3,208	2,780
Current Assets	**1,160**	**1,556**	**2,042**	**3,208**	**2,780**
YoY		34%	31%	57%	-13%
Current Assetes / Revenues	5.8%	6.2%	6.9%	10.1%	8.24%
Current content liabilities	4,414	4,430	4,293	4,480	4,466
Accounts payable	674	656	837	672	747
Accrued expenses and other liabilities	843	1,102	1,449	1,515	1,804
Deferred revenue	925	1,118	1,209	1,265	1,443
Current Liabilities	**6,856**	**7,306**	**7,789**	**7,931**	**8,461**
YoY		7%	7%	2%	7%
Current Liabilities / Revenues	34.01%	29.23%	26.23%	25.09%	25.09%
Net Working Capital	**-5,696**	**-5,750**	**-5,747**	**-4,723**	**-5,681**
Change of Net Working Capital	**43**	**-54**	**3**	**1,024**	**-958**

Source: Adapted from Netflix's Form 10-K

Annex N:

Credit risk rating

For larger firms (market cap > $5 billion)			
If interest coverage ratio is			
>	*≤ to*	*Rating is*	*Spread is*
-100000	0.199999	D2/D	20.00%
0.2	0.649999	C2/C	17.00%
0.65	0.799999	Ca2/CC	11.78%
0.8	1.249999	Caa/CCC	8.51%
1.25	1.499999	B3/B-	5.24%
1.5	1.749999	B2/B	3.61%
1.75	1.999999	B1/B+	3.14%
2	2.2499999	Ba2/BB	2.21%
2.25	2.49999	Ba1/BB+	1.74%
2.5	2.999999	Baa2/BBB	1.47%
3	4.249999	A3/A-	1.21%
4.25	5.499999	A2/A	1.07%
5.5	6.499999	A1/A+	0.92%
6.5	8.499999	Aa2/AA	0.70%
8.5	100000	Aaa/AAA	0.59%

Source: Aswath Damodaran's database.

Annex O:

Netflix's comparable companies and their multiples

Comparable Companies	P/E	EV/EBITDA	Market Capitalization (Billion USD)
The Walt Disney Company	69.99	16.59	165.26
Warner Bros. Discovery, Inc.	-8.89	3.53	27.75
Paramount Global	-7.51	48.73	9.83
Fox Corporation	14.47	8.23	13.85
Roku, Inc.	-18.30	-251.21	13.06
Lions Gate Entertainment Corp.	-1.24	6.04	2.45
TKO Group Holdings, Inc.	18.57	16.38	6.69
Charter Communications, Inc.	12.69	7.45	57.49
AMC Networks Inc.	3.82	2.36	0.82
Apple Inc.	31.41	23.66	2,990.00
Alphabet Inc.	26.76	17.83	1,760.00
Amazon.com, Inc.	52.40	22.32	1,570.00
Meta Platforms, Inc.	31.24	18.62	909.63
Sony Group Corporation	20.42	9.03	116.65
Microsoft Corporation	36.44	24.43	2,790.00

Source: Adapted from Yahoo Finance