

UPDATE

Netflix Inc.

Original Content Drives Growth; Increasing Debt Fuels Cash Burn

WHAT'S CHANGED

Mega investment on streaming contents & fierce marketing: In Q4, free cash flow amounted to -\$524 million, bringing full year 2017 FCF to -\$2.0 billion. Cash outflows will continue in 2018, slightly lower compared to the cash outflows it reported for last year, as it ploughs more money into content commissioning that may not reach screens for up to three years. That will send NFLX returning to the debt markets to raise capital. NFLX is expected to spend as much as \$8B on programming this year and it will shell out another \$2B for marketing.

Strong growth rate over the estimation: NFLX growth was far better than estimation with significant subscription inflows. This unexpected outperformance was backed up by its original contents: Bright, Crown and Stranger Things. NFLX in Q4 signed up 8.33M subscribers for the global streaming service surpassing 6.3-6.5M of analyst predictions. The momentum will continue with its robust Original contents. Importantly, average streaming hours per membership increased 9% in 2017.

Wider gap between operating profit & FCF burn as expected, but also a driver of NFLX's global strength. NFLX posted 4Q op inc upside excl. a \$39M non-cash charge for unreleased content (we believe mostly related to House of Cards), & FCF burn closed the year at (\$2.0B).

IMPLICATIONS

Exclusive contents from licensing and popular Netflix Original contents resulted a beautiful 4Q, breaking the analysts' forecast. Regarding a single platform revenue source, the achievement is impressive. Average viewing per subscription increased by 9% in 2017 and Netflix will continue to benefit from relatively low tax rate.

VALUATION

PRICE TARGET **\$273.6**

Our \$273.6 PT reflects our base case DCF valuation and ~13x EV / 2022E base case EBITDA discounted back to YE2018. Our DCF assumes a 11.9% WACC and +10% long-term growth rate. NFLX currently trades at ~5.9x EV / '18E Sales.

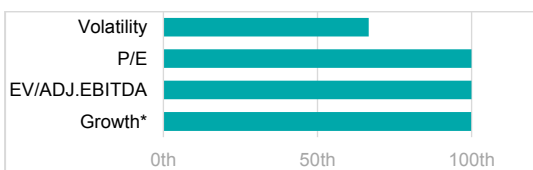
KEY RISKS

1. Continues large FCF burn for contents investments
2. Potential higher churn at higher price point post pricing change
3. Poor performance on global market against the competitors
4. Changes in network operators' policy and access to data could adversely impact on operating expenses
5. Dependence on AWS for service operation that cannot be mobilized easily

KEY DATA

	NFLX
Recommendation	Buy
12-month price target (\$)	273.6
Upside/downside (%)	118.2
Price as of January 31 (\$)	265.07
Market cap (\$ bn.)	115.03
Enterprise value (\$ bn.)	114.01

INVESTMENT PROFILE



Percentile rank within industrial peer group.
*Calculated as 12-month EPS estimate over current EPS

FINANCIALS

\$ MN.	2017A	2018F	2019F	2020F
Revenue	11,692.7	15,595.1	19,251.7	22,736.3
% Growth	32.41%	33.37%	23.45%	18.10%
EPS (\$)	\$1.25	\$2.34	\$3.66	\$5.69
% Growth	193.91%	86.90%	56.34%	55.52%
EBIT	839	1,092	1,944	3,024
% Margin	7.17%	0.07	0.101	0.133
Debt / EBITDA	5.9x	6.9x	4.0x	2.7x

PRICE CHART



PRICE PERFORMANCE

%	3M	6M	12M
Absolute	32.77	47.40	88.49
Relative to S&P 500 Index	7.13	4.49	4.05

Sources: Company data, Bloomberg; Thomson Eikon

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Valuation Outlook

We updated our 2018E base case price target to \$279.7

PRICE TARGET



UPSIDE CASE \$376.6

2022E EV/EBITDA multiple of 16.643x and EPS of \$9.86

Robust marketing & leverage investment drive total sub growth, reaching 203M+ global streaming subs by 2022 (Current market). Domestic streaming subs reach 67-70M by 2020E, followed by nearly 80M in 2022E. Total int'l subs grow to 108M+ by 2020E and 130M by 2022E on successful penetration of newer markets.

BASE CASE \$273.6

2022E EV/EBITDA multiple of 12.939x and EPS of \$8.68

Marketing & leverage investment drive total sub growth, reaching 203M+ global streaming subs by 2022 (Current market). Our 2018/19 revenue increases by 26.74%. Domestic streaming subs reach 67-70M by 2020E, followed by nearly 80M in 2022E. Total int'l subs grow to 108M+ by 2020E and 130M by 2022E on successful penetration of newer markets. DVD sector continues to decrease as we expected but still generates the profit.

CONSERVATIVE CASE \$172.6

2022E EV/EBITDA multiple of 8.633x and EPS of \$7.37

Our conservative case valuation assumes 5.2x EV / EBITDA in a hypothetical US recession, strong repulse from Net Neutrality and competition from major competitors. Under circumstances, our conservative case assumes that modest international market penetration and slightly lower domestic market share. Domestic market subs growth will decelerate, reaching 69M in 2022E. International streaming subs will record approximately 125M by 2022E with not very impressive market penetration.

INVESTMENT THESIS

- / The main driver of share performance will be the international market penetration and returns on massive contents investments.
- / Successful market penetration will feed the global subs growth. With huge contents investments, acquiring exclusive contents will help Netflix to differentiate oneself from the competitors.
- / Key secular trend: The proliferation of Internet-connected devices and increasing consumer preference for on-demand video consumption over the Internet rather than linear TV.

POTENTIAL CATALYSTS

- / Further integration with MVPD offerings & acquisition of exclusive streaming contents
- / Success in international markets
- / Successful investment on streaming contents
- / Constant increase in membership price

POTENTIAL RISKS

- / Substantial amount of indebtedness and obligations which could adversely affect our financial position
- / Changes in how ISPs handle and charge for access to data that travel across their networks
- / Potential additional indebtedness in the future and to incur other obligations, including additional streaming content obligations

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Upside Case Model

\$ MN. EXCEPT PER SHARE	ACTUAL				PROJECTED (UPSIDE CASE)				DCF
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P	TERMINAL YEAR
FISCAL YEAR ENDING	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	16.643X EV/EBITDA
Revenue	3,898	5,399	7,291	7,291	8,823	11,039	13,583	15,960	27,411
% Growth	493	611	1,093	1,010	1,485	2,317	3,008	4,093	
EBITDA	305.8	379.8	838.7	913.0	1,365.2	2,176.9	2,851.5	3,919.8	3,008
% Growth	13.6%	28.3%	(15.2%)	4.3%	16.0%	16.0%	16.0%	16.0%	
EBIT	264	272	966	874	1,147	1,829	2,395	3,293	
% Margin									
Effective Tax Rate	62.3	57.5	71.9	97.5	119.5	139.9	156.2	172.7	
EBIAT (NOPAT)	(1,125.6)	(1,962.9)	(2,549.6)	(2,177.6)	(2,152.5)	(2,131.9)	(1,799.0)	(1,064.2)	
D&A of prop, equip and intangibles	44.3	108.6	182.2	184.5	247.5	299.1	340.6	373.1	
Changes in WC assets	124.7	173.7	182.2	0.0	0.0	0.0	0.0	0.0	
Non-Cash Items	(80.5)	(65.1)	0.0	0.0	0.0	0.0	0.0	0.0	
Stock-based compensation	(1,111.2)	(2,024.6)	(2,523.1)	(2,362.1)	(2,400.0)	(2,431.1)	(2,139.6)	(1,437.2)	
Stock-based compensation expense	(5,771.7)	(8,653.3)	(9,805.8)	(11,730.2)	(13,703.6)	(15,341.0)	(16,965.9)	(17,487.5)	
Excess tax benefits from stock-based compensation	1,162.4	1,772.7	900.0	1,556.0	1,749.0	1,643.8	1,874.3	1,756.8	
Non-Cash Items	3,405.4	4,788.5	6,197.8	7,812.1	9,554.6	11,266.1	12,951.9	14,293.4	
Additions to streaming content assets	79.4	79.0	60.7	0.0	0.0	0.0	0.0	0.0	
Change in streaming content liabilities	0.0	0.0	140.8	0.0	0.0	0.0	0.0	0.0	
Amortization of streaming content assets	31.6	40.9	57.2	0.0	0.0	0.0	0.0	0.0	
Amortization of DVD content assets	(18.4)	(52.3)	(73.8)	0.0	0.0	0.0	0.0	0.0	
Foreign currency remeasurement loss on long-term debt	(58.7)	(46.8)	(208.7)	0.0	0.0	0.0	0.0	0.0	
Other non-cash items	191.3	244.7	132.8	473.9	401.7	374.6	295.7	258.3	
Other non-current assets and liabilities	51.6	32.2	74.6	123.2	93.3	79.2	51.4	33.4	
Deferred taxes	139.6	212.4	58.2	350.6	308.4	295.4	244.3	224.9	
Change in Non-Cash Working Capital	18.7	47.0	(234.1)	0.0	0.0	0.0	0.0	0.0	
Accounts payable	48.8	68.7	114.3	118.2	116.6	116.5	102.3	81.1	
Income (Dec) in other	72.1	96.8	178.0	232.5	191.8	178.9	142.0	143.8	
Other current assets	(608)	(1,388)	(1,379)	(733)	(485)	211	1,048	2,659	
Accrued expenses	(169.2)	(184.8)	(227.0)	(216.6)	(265.5)	(311.0)	(347.1)	(383.8)	
Deferred revenue	(78.0)	(77.2)	(53.7)	0.0	0.0	0.0	0.0	0.0	
Unlevered CFO	(91.2)	(107.7)	(173.3)	(216.6)	(265.5)	(311.0)	(347.1)	(383.8)	
Changes in Fixed & Intangibles	(10.0)	234.6	261.4	0.0	0.0	0.0	0.0	0.0	
Acquisition of DVD content assets	(1.9)	(0.9)	(6.7)	0.0	0.0	0.0	0.0	0.0	
Purchases of property and equipment	(371.9)	(187.2)	(74.8)	0.0	0.0	0.0	0.0	0.0	
Other Investing Activities	259.1	282.5	320.2	0.0	0.0	0.0	0.0	0.0	
Other assets	104.8	140.2	22.7	0.0	0.0	0.0	0.0	0.0	
Purchases of short-term investments	(787)	(1,339)	(1,345)	(949)	(750)	(100)	701	2,276	
Proceeds from sale of short-term investments		(41.2%)	(0.4%)	41.7%	(26.6%)	(86.7%)	(802.9%)	224.6%	
Proceeds from maturities of short-term investments	3,898	5,399	7,291	7,291	8,823	11,039	13,583	15,960	

Unlevered FCF	493	611	1,093	1,010	1,485	2,317	3,008	4,093	137,777
% growth		0	0	0	0	0	0	0	
Discount factor				100.0%	200.0%	300.0%	400.0%	500.0%	500.0%
Midperiod adjustment factor				1.00	1.00	1.00	1.00	1.00	
Present value of Unlevered FCF				-489	156	822	1,424	2,008	78,582

VALUATION

Enterprise Value	176,113
Less: Net Debt	3,676.64
Equity Value	172,436.01
Equity value per share	\$382.7
Market premium / (discount)	-30.73%
Implied TV perpetual growth rate	8.108%

ASSUMPTIONS

Terminal year exit EBITDA multiple	16.095x
Weighted average cost of capital	11.9%
Risk-free rate	2.8%
Beta	1.55
Effective tax rate	16.0%

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Base case Model

\$ mn. except per share	Actual				Projected (Conservative Case)				DCF TERMINAL YEAR 16.643X EV/EBITDA
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P	
Fiscal Year Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	
Revenue	6,780	8,831	11,693	15,595	19,252	22,736	25,575	28,495	27,411
% Growth	23.16%	30.26%	32.41%	33.37%	23.45%	18.10%	12.49%	11.42%	
EBITDA	572	493	611	1,093	1,190	2,066	3,167	3,972	3,008
% Growth	-13.83%	23.98%	78.86%	8.89%	73.60%	53.32%	25.41%	20.74%	
EBIT	306	380	839	1,092	1,944	3,024	3,811	4,616	
% Margin	4.51%	4.30%	7.17%	7.00%	10.10%	13.30%	14.90%	16.20%	
Effective Tax Rate	13.56%	28.34%	-15.16%	4.30%	16.00%	16.00%	16.00%	16.00%	
EBIAT (NOPAT)	264	272	966	1,045	1,633	2,540	3,201	3,878	
D&A of prop, equip and intangibles	-43	-49	-21	-21	-21	-21	-21	-21	
Changes in WC assets									
Non-Cash Items	0	0	0	0	0	0	0	0	
Stock-based compensation	0	0	0	0	0	0	0	0	
Stock-based compensation expense	2,015	2,016	2,017	2,018	2,019	2,020	2,021	2,022	
Excess tax benefits from stock-based compensation	42,369	42,735	43,100	43,465	43,830	44,196	44,561	44,926	
Non-Cash Items	0	0	0	0	0	0	0	0	
Additions to streaming content assets	123	187	559	1,045	1,633	2,540	3,201	3,878	
Change in streaming content liabilities	62	58	72	98	121	143	161	180	
Amortization of streaming content assets	-1,126	-1,963	-2,550	-2,178	-2,153	-2,135	-1,806	-1,050	
Amortization of DVD content assets	44	109	182	185	247	294	335	370	
Foreign currency remeasurement loss on long-term debt	125	174	182	0	0	0	0	0	
Other non-cash items	-80	-65	0	0	0	0	0	0	
Other non-current assets and liabilities	-1,111	-2,025	-2,523	-2,362	-2,400	-2,430	-2,141	-1,420	
Deferred taxes	-5,772	-8,653	-9,806	-11,731	-13,626	-15,292	-16,991	-17,804	
Change in Non-Cash Working Capital	1,162	1,773	900	1,556	1,694	1,627	1,913	2,007	
Accounts payable	3,405	4,788	6,198	7,812	9,532	11,235	12,938	14,377	
Income (Dec) in other	79	79	61	0	0	0	0	0	
Other current assets	0	0	141	0	0	0	0	0	
Accrued expenses	32	41	57	0	0	0	0	0	
Deferred revenue	-18	-52	-74	0	0	0	0	0	
Unlevered CFO	1,383	1,996	1,845	2,581	3,307	4,146	5,093	5,864	
Changes in Fixed & Intangibles	52	32	75	123	88	77	55	59	
Acquisition of DVD content assets	140	212	58	361	323	315	267	251	
Purchases of property and equipment	19	47	-234	0	0	0	0	0	
Other Investing Activities	49	69	114	122	122	124	111	91	
Other assets	72	97	178	239	201	192	156	161	
Purchases of short-term investments	-749	-1,474	-1,786	-551	12	941	1,879	3,317	
Proceeds from sale of short-term investments	0	0	0	0	0	0	0	0	
Proceeds from maturities of short-term investments	-169	-185	-227	-218	-270	-318	-358	-399	
Unlevered FCF	1,484	2,097	2,034	2,825	3,517	4,347	5,259	6,014	137,777
% growth		0	0	0	0	0	0	0	
Discount factor				100.0%	200.0%	300.0%	400.0%	500.0%	500.0%
Midperiod adjustment factor				1.00	1.00	1.00	1.00	1.00	
Present value of Unlevered FCF				-687	-206	444	970	1,664	78,582

VALUATION

Enterprise Value	129,729
Less: Net Debt	3,676.64
Equity Value	126,052.16
Equity value per share	\$279.7
Market premium / (discount)	-5.24%

ASSUMPTIONS

Terminal year exit EBITDA multiple	13.125x
Weighted average cost of capital	11.9%
Risk-free rate	2.8%
Beta	1.55
Effective tax rate	16.0%

Implied TV perpetual growth rate

8.926%

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Conservative case Model

\$ mn. except per share	Actual		Projected (Conservative Case)						DCF TY 16.643X EV/EBITDA
	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P	
Fiscal Year Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	
Revenue	6,780	8,831	11,693	15,474	18,962	22,213	24,796	27,411	27,411
% Growth	23.16%	30.26%	32.41%	32.34%	22.54%	17.15%	11.63%	10.55%	
EBITDA	572	493	611	1,093	1,010	1,485	2,317	3,008	3,008
% Growth	-13.83%	23.98%	78.86%	-7.53%	46.93%	56.05%	29.82%	36.06%	
EBIT	306	380	839	913	1,365	2,177	2,852	3,920	
% Margin	4.51%	4.30%	7.17%	5.90%	7.20%	9.80%	11.50%	14.30%	
Effective Tax Rate	13.56%	28.34%	-15.16%	4.30%	16.00%	16.00%	16.00%	16.00%	
EBIAT (NOPAT)	264	272	966	874	1,147	1,829	2,395	3,293	
D&A of prop, equip and intangibles	-43	-49	-21	-21	-21	-21	-21	-21	
Changes in WC assets									
Non-Cash Items	0	0	0	0	0	0	0	0	
Stock-based compensation	0	0	0	0	0	0	0	0	
Stock-based compensation expense	2,015	2,016	2,017	2,018	2,019	2,020	2,021	2,022	
Excess tax benefits from stock-based compensation	42,369	42,735	43,100	43,465	43,830	44,196	44,561	44,926	
Non-Cash Items	0	0	0	0	0	0	0	0	
Additions to streaming content assets	123	187	559	874	1,147	1,829	2,395	3,293	
Change in streaming content liabilities	62	58	72	97	119	140	156	173	
Amortization of streaming content assets	-1,126	-1,963	-2,550	-2,178	-2,152	-2,132	-1,799	-1,064	
Amortization of DVD content assets	44	109	182	185	248	299	341	373	
Foreign currency remeasurement loss on long-term debt	125	174	182	0	0	0	0	0	
Other non-cash items	-80	-65	0	0	0	0	0	0	
Other non-current assets and liabilities	-1,111	-2,025	-2,523	-2,362	-2,400	-2,431	-2,140	-1,437	
Deferred taxes	-5,772	-8,653	-9,806	-11,730	-13,704	-15,341	-16,966	-17,488	
Change in Non-Cash Working Capital	1,162	1,773	900	1,556	1,749	1,644	1,874	1,757	
Accounts payable	3,405	4,788	6,198	7,812	9,555	11,266	12,952	14,293	
Income (Dec) in other	79	79	61	0	0	0	0	0	
Other current assets	0	0	141	0	0	0	0	0	
Accrued expenses	32	41	57	0	0	0	0	0	
Deferred revenue	-18	-52	-74	0	0	0	0	0	
Unlevered CFO	1,383	1,996	1,845	2,409	2,875	3,452	4,249	5,029	
Changes in Fixed & Intangibles	52	32	75	123	93	79	51	33	
Acquisition of DVD content assets	140	212	58	351	308	295	244	225	
Purchases of property and equipment	19	47	-234	0	0	0	0	0	
Other Investing Activities	49	69	114	118	117	117	102	81	
Other assets	72	97	178	232	192	179	142	144	
Purchases of short-term investments	-749	-1,474	-1,786	-732	-484	211	1,048	2,660	
Proceeds from sale of short-term investments	0	0	0	0	0	0	0	0	
Proceeds from maturities of short-term investments	-169	-185	-227	-217	-265	-311	-347	-384	
Unlevered FCF	1,484	2,097	2,034	2,651	3,085	3,648	4,403	5,143	137,777
% growth		0	0	0	0	0	0	0	
Discount factor				100.0%	200.0%	300.0%	400.0%	500.0%	500.0%
Midperiod adjustment factor				1.00	1.00	1.00	1.00	1.00	
Present value of Unlevered FCF				-848	-599	-71	447	1,298	78,582

VALUATION

Enterprise Value	81,564
Less: Net Debt	3,676,64
Equity Value	77,886,91
Equity value per share	\$172.9
Implied TV perpetual growth rate	8.893%

ASSUMPTIONS

Terminal year exit EBITDA multiple	8.925x
Weighted average cost of capital	11.9%
Risk-free rate	2.8%
Beta	1.55

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Financial Statement Model

CASH FLOW STATEMENT									
Fiscal year	2014A	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Fiscal year end date	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Net income	266.8	122.6	186.7	558.9	1,252.3	2,030.8	3,025.2	3,858.4	4,406.7
D&A of prop, equip and intangibles	54.0	62.3	57.5	71.9	99.3	125.9	151.3	172.2	192.1
Non-Cash Items	(493.4)	(1,125.6)	(1,962.9)	(2,549.6)	(2,177.6)	(2,154.2)	(2,135.9)	(1,792.5)	(992.9)
<i>Stock-based compensation</i>	25.9	44.3	108.6	182.2	184.5	245.8	298.6	346.9	386.7
<i>Stock-based compensation expense</i>	115.2	124.7	173.7	182.2	0.0	0.0	0.0	0.0	0.0
<i>Excess tax benefits from stock-based compensation</i>	(89.3)	(80.5)	(65.1)	0.0	0.0	0.0	0.0	0.0	0.0
<i>Non-Cash Items</i>	(489.2)	(1,111.2)	(2,024.6)	(2,523.1)	(2,362.1)	(2,400.0)	(2,434.4)	(2,139.4)	(1,379.6)
<i>Additions to streaming content assets</i>	(3,773.0)	(5,771.7)	(8,653.3)	(9,805.8)	(11,752.4)	(13,852.4)	(15,465.6)	(17,243.8)	(18,043.1)
<i>Change in streaming content liabilities</i>	593.1	1,162.4	1,772.7	900.0	1,571.7	1,849.2	1,694.0	2,020.2	2,112.6
<i>Amortization of streaming content assets</i>	2,656.3	3,405.4	4,788.5	6,197.8	7,818.6	9,603.3	11,337.2	13,084.2	14,551.0
<i>Amortization of DVD content assets</i>	71.5	79.4	79.0	60.7	0.0	0.0	0.0	0.0	0.0
<i>Foreign currency remeasurement loss on long-term debt</i>	0.0	0.0	0.0	140.8	0.0	0.0	0.0	0.0	0.0
<i>Other non-cash items</i>	15.3	31.6	40.9	57.2	0.0	0.0	0.0	0.0	0.0
<i>Other non-current assets and liabilities</i>	(52.4)	(18.4)	(52.3)	(73.8)	0.0	0.0	0.0	0.0	0.0
<i>Deferred taxes</i>	(30.1)	(58.7)	(46.8)	(208.7)	0.0	0.0	0.0	0.0	0.0
Change in Non-Cash Working Capital	189.1	191.3	244.7	132.8	499.5	472.9	447.2	376.5	341.7
<i>Accounts payable</i>	83.8	51.6	32.2	74.6	124.7	103.1	84.8	66.0	70.0
<i>Income (Dec) in other</i>	105.3	139.6	212.4	58.2	374.8	369.8	362.4	310.6	271.7
<i>Other current assets</i>	(9.2)	18.7	47.0	(234.1)	0.0	0.0	0.0	0.0	0.0
<i>Accrued expenses</i>	55.6	48.8	68.7	114.3	126.3	138.0	140.8	127.3	97.9
<i>Deferred revenue</i>	58.8	72.1	96.8	178.0	248.4	231.8	221.6	183.3	173.7
Cash from operating activities	16.5	(749.4)	(1,474.0)	(1,785.9)	(326.5)	475.4	1,487.8	2,614.7	3,947.6
Changes in Fixed & Intangibles	(144.5)	(169.2)	(184.8)	(227.0)	(220.7)	(279.7)	(336.1)	(382.8)	(427.0)
Acquisition of DVD content assets	(74.8)	(78.0)	(77.2)	(53.7)	0.0	0.0	0.0	0.0	0.0
Purchases of property and equipment	(69.7)	(91.2)	(107.7)	(173.3)	(220.7)	(279.7)	(336.1)	(382.8)	(427.0)
Other Investing Activities	101.7	(10.0)	234.6	261.4	0.0	0.0	0.0	0.0	0.0
Other assets	1.3	(1.9)	(0.9)	(6.7)	0.0	0.0	0.0	0.0	0.0
Purchases of short-term investments	(426.9)	(371.9)	(187.2)	(74.8)	0.0	0.0	0.0	0.0	0.0
Proceeds from sale of short-term investments	385.3	259.1	282.5	320.2	0.0	0.0	0.0	0.0	0.0
Proceeds from maturities of short-term investments	142.0	104.8	140.2	22.7	0.0	0.0	0.0	0.0	0.0
Cash from investing activities	(42.9)	(179.2)	49.8	34.3	(220.7)	(279.7)	(336.1)	(382.8)	(427.0)
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from (Repayment) Debt	398.9	1499.5	1000.2	3020.8	2000.0	0.0	0.0	-500.0	-700.0
Proceeds from issuance of debt	400.0	1500.0	1000.0	3020.5	2,000.0	0.0	0.0	0.0	0.0
Repayment of Longterm Debt	(1.1)	(0.5)	0.2	0.3	0.0	0.0	0.0	-500.0	-700.0
Other Financing Activities (Issuance costs)	(7.1)	(17.6)	(10.7)	(32.2)	0.0	0.0	0.0	0.0	0.0
Cash of Equity (Proceeds from issuance of common stock)	60.5	78.0	37.0	88.4	0.0	0.0	0.0	0.0	0.0
Excess tax benefits from stock-based compensation	89.3	80.5	65.1	0.0	0.0	0.0	0.0	0.0	0.0
Revolver	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from financing activities	541.7	1,640.3	1,091.6	3,077.0	2,000.0	0.0	0.0	(500.0)	(700.0)
Effect of exchange rate changes on cash and cash equivalents	(6.7)	(15.9)	(9.2)	29.8	0.0	0.0	0.0	0.0	0.0
Net (decrease) increase in cash and cash equivalents	508.6	695.7	(341.8)	1,355.2	1,452.8	195.7	1,151.7	1,732.0	2,820.6
Net change in cash beginning of period	605.0	1,113.6	1,809.3	1,467.6	2,822.8	4,275.6	4,471.3	5,622.9	7,354.9
Net change in cash end of period	1,113.6	1,809.3	1,467.6	2,822.8	4,275.6	4,471.3	5,622.9	7,354.9	10,175.5

Financial Statement Model

BALANCE SHEET									
Fiscal year	2014A	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Fiscal year end date	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Current Assets:									
Cash and cash equivalents +ST Investments	1,608.5	2,310.7	1,733.8	2,822.8	4,275.6	4,471.3	5,622.9	7,354.9	10,175.5
Cash and cash equivalents	1,113.6	1,809.3	1,467.6	2,822.8	4,275.6	4,471.3	5,622.9	7,354.9	10,175.5
Short-term investments	494.9	501.4	266.2	0.0	0.0	0.0	0.0	0.0	0.0
Other Short-term assets	2,318.6	3,121.1	3,986.5	4,847.2	5,581.0	6,530.1	7,258.6	7,918.1	7,810.3
Current content library	2,166.1	2,906.0	3,726.3	4,310.9	5,044.7	5,993.9	6,722.3	7,381.9	7,274.1
Other current assets (inc. non-trade receivables)	152.4	215.1	260.2	536.2	536.2	536.2	536.2	536.2	536.2
Non-Current Assets:									
Property, plant & equipment	149.9	173.4	250.4	319.4	440.8	594.6	779.5	990.0	1,224.9
Non-current content library / Intangibles	2,773.3	4,312.8	7,274.5	10,371.1	13,571.1	16,871.1	20,271.1	23,771.1	27,371.1
Other non-current assets	192.2	284.8	341.4	652.3	652.3	652.3	652.3	652.3	652.3
Total assets	7,042.5	10,202.9	13,586.6	19,012.7	24,520.7	29,119.4	34,584.3	40,686.4	47,234.1
Payables & Accruals									
Accounts payable	271.3	393.9	510.5	674.6	925.7	1,166.8	1,392.5	1,585.7	1,753.7
Accrued expenses	201.6	253.5	312.8	359.6	484.3	587.4	672.2	738.2	808.2
Other Short-term liabilities	69.7	140.4	197.6	315.1	441.4	579.4	720.2	847.6	945.5
Current content liabilities	2,391.8	3,135.7	4,076.2	4,791.7	5,911.8	7,092.8	7,908.3	8,811.8	9,598.1
Deferred revenues	2,117.2	2,789.0	3,632.7	4,173.0	5,044.7	5,993.9	6,587.9	7,308.1	7,920.7
Long term debt	274.6	346.7	443.5	618.6	867.1	1,098.9	1,320.5	1,503.7	1,677.5
Other non-current liabilities, Total	1,575.8	2,371.4	3,364.3	6,499.4	8,499	8,499	8,499	7,999	7,299
Non current liabilities	945.8	2,078.5	2,955.8	3,465.0	4,165	5,065	6,165	7,465	8,965
Other non-current liabilities	885.8	2,026.4	2,894.7	3,329.8	4,030	4,930	6,030	7,330	8,830
Revolver	60.0	52.1	61.2	135.2	135	135	135	135	135
Total liabilities	5,184.8	7,979.4	10,906.8	15,430.8	19,502.0	21,824.0	23,965.3	25,862.0	27,616.3
Common equity + APIC	1,042.9	1,324.8	1,599.8	1,871.4	2,056	2,302	2,600	2,947	3,334
Accumulated other comprehensive loss (FX risks)	(4.5)	(43.3)	(48.6)	(20.6)	(20.6)	(20.6)	(20.6)	(20.6)	(20.6)
Retained earnings / accumulated deficit	819.3	941.9	1,128.6	1,731.1	2,983	5,014	8,039	11,898	16,304
Total equity	1,857.7	2,223.4	2,679.8	3,582.0	5,018.8	7,295.3	10,619.1	14,824.4	19,617.8
Ratios									
Net debt	(227.8)	217.0	1,427.1	3,676.6	4,223.8	4,028.2	2,876.5	644.5	(2,876.1)
Asset turnover (Revenue / Total assets)	0.78x	0.66x	0.65x	0.61x	0.64x	0.69x	0.69x	0.67x	0.65x
Net profit margin	4.8%	1.8%	2.1%	4.8%	7.9%	10.2%	12.6%	14.1%	14.4%
Return on assets (ROA)	3.8%	1.2%	1.4%	2.9%	5.1%	7.0%	8.7%	9.5%	9.3%
Return on book equity (ROE)	14.4%	5.5%	7.0%	15.6%	25.0%	27.8%	28.5%	26.0%	22.5%

NETFLIX INC.

Financial Statement Model

INCOME STATEMENT									
Fiscal year	2014A	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Fiscal year end date	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Revenue	5,504.7	6,779.5	8,830.7	11,692.7	15,764.8	19,979.6	24,008.3	27,340.4	30,499.3
Cost of sales (enter as -)	(3,752.8)	(4,591.5)	(6,029.9)	(7,659.7)	(10,089.4)	(11,987.8)	(13,444.6)	(14,763.8)	(16,164.6)
Gross Profit	1,751.9	2,188.0	2,800.8	4,033.0	5,675	7,992	10,564	12,577	14,335
Technology and development	(472.3)	(650.8)	(852.1)	(1,052.8)	(1,340.0)	(1,698.3)	(1,968.7)	(2,050.5)	(2,134.9)
Marketing	(607.2)	(824.1)	(991.1)	(1,278.0)	(2,002.1)	(2,597.3)	(3,481.2)	(4,237.8)	(5,123.9)
General and administrative	(269.7)	(407.3)	(577.8)	(863.6)	(1,024.7)	(1,278.7)	(1,512.5)	(1,695.1)	(1,830.0)
Operating profit (EBIT)	402.6	305.8	379.8	838.7	1,308	2,418	3,601	4,593	5,246
%margin	7.3%	4.5%	4.3%	7.2%	8.3%	12.1%	15.0%	16.8%	17.2%
Interest income	(50.2)	(132.7)	(150.1)	(238.2)	0.0	0.0	0.0	0.0	0.0
Interest expense & other expense(enter as -)	(3.1)	(31.2)	30.8	(115.2)	0.0	0.0	0.0	0.0	0.0
Pretax profit	349.4	141.9	260.6	485.4	1,309	2,418	3,601	4,593	5,246
Taxes (enter expense as -)	(82.6)	(19.2)	(73.8)	73.6	(56.3)	(386.8)	(576.2)	(734.9)	(839.4)
Net income	266.9	122.7	186.7	559.0	1,252	2,031	3,025	3,858	4,407
Basic shares outstanding	420.5	425.9	428.8	431.9	432	432	432	432	432
Impact of dilutive securities	11.4	10.6	9.8	15	15	15	15	15	15
Diluted shares outstanding	431.9	436.5	438.7	446.8	447	447	447	447	447
Basic EPS	\$0.63	\$0.29	\$0.44	\$1.29	\$2.90	\$4.70	\$7.00	\$8.93	\$10.20
Diluted EPS	\$0.62	\$0.28	\$0.43	\$1.25	\$2.80	\$4.55	\$6.77	\$8.64	\$9.86
%growth		(54.5%)	51.4%	193.9%	124.0%	62.2%	49.0%	27.5%	14.2%
Growth rates & margins									
Revenue growth	NA	23.2%	30.3%	32.4%	34.8%	26.7%	20.2%	13.9%	11.6%
Domestic Subscription Growth					11.5%	11.3%	8.3%	6.1%	3.0%
International Subscription Growth					30.7%	19.8%	14.2%	11.0%	9.2%
Gross profit as % of sales	31.8%	32.3%	31.7%	34.5%	36.0%	40.0%	44.0%	46.0%	47.0%
Technology and development margin	8.6%	9.6%	9.6%	9.0%	8.5%	8.5%	8.2%	7.5%	7.0%
Marketing margin	11.0%	12.2%	11.2%	10.9%	12.7%	13.0%	14.5%	15.5%	16.8%
G&A margin	4.9%	6.0%	6.5%	7.4%	6.5%	6.4%	6.3%	6.2%	6.0%
Tax rate	23.6%	13.6%	28.3%	(15.2%)	4.3%	16.0%	16.0%	16.0%	16.0%
EBITDA reconciliation									
Depreciation	54.0	62.3	57.5	71.9	99	126	151	172	192
Amortization:	2,727.8	3,484.8	4,867.5	6,258.5	7,818.6	9,603.3	11,337.2	13,084.2	14,551.0
Content amortization	2,656.3	3,405.4	4,788.5	6,197.8	7,818.6	9,603.3	11,337.2	13,084.2	14,551.0
DVD amortization	71.5	79.4	79.0	60.7	0.0	0.0	0.0	0.0	0.0
D&A excluding content amortization	125.5	141.7	136.5	132.6	99.3	125.9	151.3	172.2	192.1
Stock based compensation	115.2	124.7	173.7	182.2	0.0	0.0	0.0	0.0	0.0
EBITDA	3,228	3,898	5,399	7,291	9,226	12,147	15,090	17,850	19,989
EBITDA (excluding add-back of content amort)	572	493	611	1,093	1,408	2,543	3,752	4,765	5,438
%margin	10.4%	7.3%	6.9%	9.3%	8.9%	12.7%	15.6%	17.4%	17.8%
%growth		(13.8%)	24.0%	78.9%	28.8%	80.7%	47.5%	27.0%	14.1%
Debt / EBITDA	2.8x	4.8x	5.5x	5.9x	6.0x	3.3x	2.3x	1.7x	1.3x

NETFLIX INC.

In-depth Analysis

Positive Netflix Investment Thesis with 3 charts and 1 table

THE KEY: ROBUST INVESTMENT ON CONTENTS AND SUCCESS IN ORIGINAL CONTENTS

In Figure1, as the larger their subscriber base grows (and their ARPU increases) the more we believe Netflix can acquire more potential from the investment on original content, which will contribute to the growth in the potential target market (In Figure2, Netflix is already initiated the service in the most of countries). According to Table1, diverse programming contents reduces existing subscriber churn + increases the ability to take gradual price increases.

There are other factors that ease the barriers to penetrate and boost:

1. Rising broadband speeds and penetration around the world
2. Higher adoption of internet TV and streaming;
3. Improving quality of service, including streaming and encoding;
4. Positive word-of-mouth effects from growth in Netflix's brand; and
5. Significant investments in foreign language original programming.

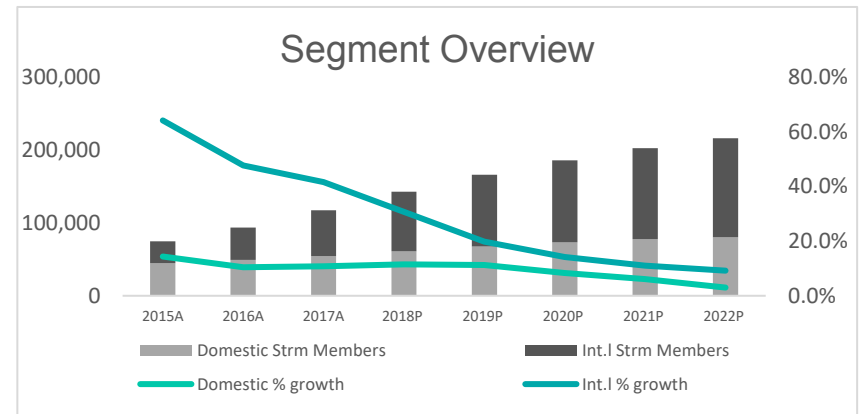


Figure 1



Figure 2

Table1. Netflix Original Releases

Premiere Date	2017 Title 1Q17	Type	Premiere Date	2018 Title 1Q18	Type
06-Jan	One Day at a Time	Original Series	05-Jan	The End Of The F***ing World	Original Series
10-Jan	Jim Gaffigan Cinco	Comedy	12-Jan	My Next Guest Needs No Introduction with David Letterman (monthly)	Original Talk Show
13-Jan	A Series of Unfortunate Events	Original Series	19-Jan	Grace and Frankie S4	Original Series
03-Feb	Santa Clarita Diet	Original Series	26-Jan	One Day at a Time S2	Original Series
24-Feb	Ultimate Beastmaster	Original Reality	02-Feb	Altered Carbon S1	Original Series
07-Mar	Amy Schumer: The Leather Special	Comedy	02-Feb	Coach Snoop (Snoop Dogg)	Original Series
17-Mar	Marvel's Iron Fist	Original Series	23-Feb	Marseille S2	Original Series
21-Mar	Dave Chappelle 2 Comedy Specials	Comedy	08-Mar	Marvel's Jessica Jones S2	Original Series
24-Mar	Grace and Frankie S3	Original Series	30-Mar	A Series of Unfortunate Events S2	Original Series
31-Mar	13 Reasons Why	Original Series			
2Q 2017			Release Date TBD		
04-Apr	Louis C.K. 2017	Comedy	2018	13 Reasons Why S2	Original Series
07-Apr	The Get Down Part II	Original Series	2018	Arrested Development S5	Original Series
14-Apr	Chelsea Weekly Talk Show	Original Talk Show	2018	Chris Rock: Stand-Up Special (2)	Comedy
14-Apr	Sandy Wexler	Original Film	2018	Ellen DeGeneres: Stand-up Special	Comedy
28-Apr	Casting JonBenet	Documentary	2018	Marvel's Luke Cage S2	Original Series
05-May	Sense8 Season 2	Original Series	2018	Narcos S4	Original Series
12-May	Master of None Season 2	Original Series	TBD	3% S2	Original Series
16-May	Tracy Morgan: Staying Alive	Comedy	TBD	Comedians in Cars Getting Coffee S10	Comedy
19-May	Unbreakable Kimmy Schmidt Season 3	Original Series	TBD	Daredevil S3	Original Series
19-May	The Keepers	Documentary	TBD	House of Cards S6	Original Series
26-May	War Machine	Original Film	TBD	Jerry Seinfeld: Stand-Up Special #2	Comedy
27-May	Bloodline Season 3	Original Series	TBD	Making A Murderer S2	Original Docuseries
30-May	House of Cards Season 5	Original Series	TBD	Marvel's The Punisher S2	Original Series
09-Jun	Orange Is The New Black Season 5	Original Series	TBD	MINDHUNTER S2	Original Series
16-Jun	The Ranch Season 2	Original Series	TBD	Orange Is The New Black S6-7	Original Series
23-Jun	GLOW	Original Series	TBD	Stranger Things S3	Original Series
28-Jun	OKJA	Original Film			
3Q17					
21-Jul	Last Chance U Season 2	Original Docuseries			
21-Jul	Ozark	Original Series			
18-Aug	Marvel's The Defenders	Original Series			
01-Sep	Narcos Season 3	Original Series			
08-Sep	Bolack Horseman Season 4	Original Series			
19-Sep	Jerry Before Seinfeld	Comedy			
22-Sep	Fuller House Season 3	Original Series			
Sept 25 (ongoing)	Star Trek: Discovery (Int'l only)	Original Series			
4Q17					
13-Oct	The Meyerowitz Stories (Adam Sandler)	Original Film			
13-Oct	MINDHUNTER (David Fincher)	Original Series			
27-Oct	Stranger Things S2	Original Series			
17-Nov	Marvel's The Punisher	Original Series			
22-Nov	Godless	Original Series			
23-Nov	She's Gotta Have It (Spike Lee)	Original Series			
08-Dec	The Crown S2	Original Series			
15-Dec	The Ranch Season 2 (Part 4)	Original Series			
22-Dec	Bright (Will Smith)	Original Film			
29-Dec	Black Mirror S4	Original Series			
31-Dec	Dave Chappelle Stand-Up Specials: The Bird Revelation & Equanimity	Comedy			

Source: Netflix Website