LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER OF SCIENCE IN FINANCE

MASTERS FINAL WORK
PROJECT

EQUITY RESEARCH
NETFLIX INC.

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October 2016

Acknowledgements

I would first like to thank my supervisor Prof. Pedro Rino Vieira. The door to Prof. Pedro Rino Vieira's office was always open whenever I ran into a trouble or had a question about my research or writing.

To thank also Prof. Clara Raposo, who always shown support during the master, especially when I went for the exchange program in Milan, Italy. Without her, my experience abroad would not be possible. Professor Clara is certainly one the best professors I've ever had during my student life.

I would also like to thank my family and friends for being supportive in this long and hard period of time, without them this work would not be possible. Special thanks to my parents and my girlfriend who gave me strengths and were always there for me to achieve this goal. To thank also my grandparents, who always gave me confidence.

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Abstract

This study contains the valuation of Netflix, Inc. elaborated in accordance with the Lisbon School of Economics & Management´s (ISEG) Finance Master´s Final Work Project. Our research is issued considering the public available information on Netflix, Inc. on October 15th, 2016. Thus, the report does not consider any events or circumstances which have arisen after this date. The study was elaborated recurring to the Discounted Cash Flow (DCF) Approach. The assumptions considered to conduct this work were the result of a historical data analysis publicly disclosed by the company. The final recommendation for Netflix, Inc. stands for 'Buy', with a price target of USD 125.57 for 2016YE, corresponding to an upside potential of +23.8% when compared to the closing price on October 14th 2016 of USD 101.47.

Resumo

Este estudo contém a avaliação da Netflix, Inc., elaborado em conformidade com o Trabalho Final do Programa de Mestrado em Finanças do Insituto Superior de Economia e Gestão (ISEG). Esta pesquisa é emitida tendo em conta a informação pública disponível em 15 de Outubro de 2016. Assim, o relatório não considera quaisquer eventos ou circunstâncias que surgiram após esta data. O estudo foi elaborado através do método dos Fluxos de Caixa Descontados (DCF). Os pressupostos considerados para realização deste trabalho foram o resultado de uma análise de dados históricos divulgada publicamente pela empresa. A recomendação final para Netflix, Inc. é de 'Comprar', com um preço-alvo de USD 125,57 para 2016YE, correspondendo a um ganho potencial de +23.8% aquando comparado com o preço de fecho a 14 de Outubro de 2016 de USD 101,47.

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David Harse Dipac Parbhu is also known as Harsh Deepak

NETFLIX INC

INVESTMENT SNAPSHOT

NASDAQ: NFLX
Industry: Internet Services

BUY

RECOMMENDATION

We issue a Buy recommendation for Netflix Inc. with a price target of USD 125.57 for 2016YE. Having a high-risk profile based on the fierce competition the company faces as well as the degree of dependence on its international activities, our price target registers an upside potential of +23.8% compared to the closing price on 14th October 2016 of USD 101.47.

► Massive international acceptance and domestic consolidation

In 2015, the company managed to attract 16.4 million paid subscribers, of which 10.7 million were external and 5.7 million internal, conducting thus to a record USD 6.8b in revenues (+23.2%). The international acceptance in the streaming services continued high during the first half of 2016 and the financials show us that the large investments done in acquisitions of contents, licensing and rights are starting to pay off.

► Satisfying long term perspectives

Our analysis on the industry demonstrate that the market is shifting to online sources over cable and satellite. Online TVs are conducting people to new viewing habits preferring to watch video on demand programming rather than scheduled and live TV. In addition, the number of connected video devices such as tablets, mobile devices and smart TVs will be higher than today and will make streaming services the primary source of TV.

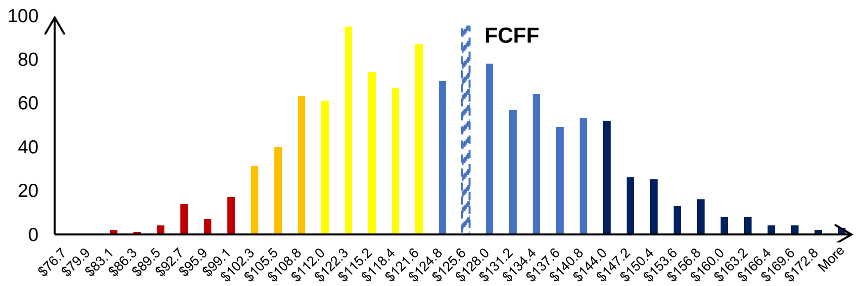
► Highly accepted and awarded titles give confidence to subscribers

Having subscribers happy and excited is the key for the success of the company because they feel engaged with the service. This is the case when companies like Netflix have awarded and exciting titles, such as, "*House of Cards*" and "*The Orange is the New Black*". Besides that, Netflix has a huge number of contents on its library and it is an ad-free service.

RISK TO PRICE TARGET

Figure 1 | Simulations on WACC and Terminal Growth Rate & *Monte Carlo* Price Distribution | Red – Sell, Orange – Reduce, Yellow – Hold, Blue – Buy and Dark Blue – Strong Buy | Source: H. Deepak analysis

	Weighted Average Cost of Capital						
$ 125.57	6.00%	6.50%	7.00%	7.30%	7.50%	8.00%	8.50%
Terminal Growth Rate 1.50%	$ 127.80	$ 115.17	$ 104.81	$ 99.39	$ 96.14	$ 88.78	$ 82.45
2.00%	$ 143.30	$ 127.58	$ 114.96	$ 108.46	$ 104.60	$ 95.94	$ 88.58
2.50%	$ 163.23	$ 143.08	$ 127.36	$ 119.42	$ 114.75	$ 104.40	$ 95.74
2.74%	$ 175.04	$ 152.04	$ 134.39	$ 125.57	$ 120.41	$ 109.05	$ 99.64
3.00%	$ 189.81	$ 163.01	$ 142.86	$ 132.93	$ 127.15	$ 114.54	$ 104.20
3.50%	$ 227.02	$ 189.59	$ 162.80	$ 149.98	$ 142.65	$ 126.95	$ 114.34
4.00%	$ 282.83	$ 226.80	$ 189.37	$ 172.21	$ 162.59	$ 142.45	$ 126.75



Risk Assessment	HIGH
Time Horizon	3 MONTHS
Industry View	FAVORABLE
Price Target	USD 125.57

DCF Valuation

WACC	7.30%
Global Terminal Growth	2.74%
Enterprise Value	**56,992**
Debt 2016	3,371
Cash 2016	1,461
Equity Value	**55,082**
Shares Outstanding 2016	438.65
Target Share Price	**$ 125.57**
Share Price at 14/10/2016	$ 101.47
Upside Potential	**+23.75%**

STATISTICS

Market Cap	USD 43.55b
Adjusted Beta	1.37
Float	> 95%
52 Wk High	USD 130.93
52 Wk Low	USD 82.79
Dividend Yield	NA

FINANCIAL METRICS YE2016

Revenues	USD 8.6b
Net Profit Margin	2.7%
Equity Ratio	18.9%
Debt-to-Equity Ratio	137.4%
ROE	9.4%

STOCK PERFORMANCE

Source: yahoofinance.com on 14th October 2016 | Right axis refers to volume in millions

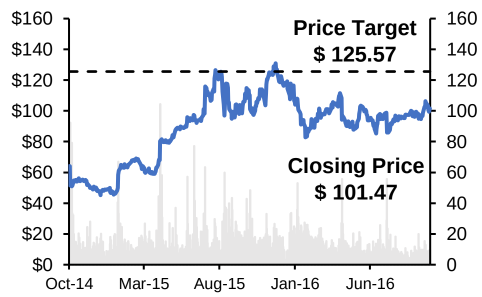
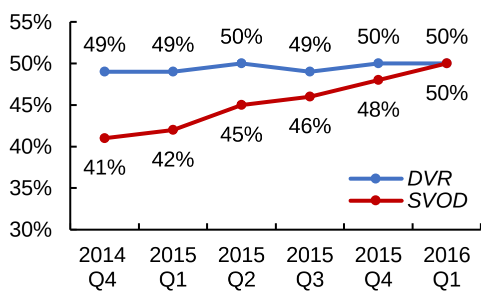


Figure 2 | US Device Penetration in TV households | Source: Nielsen Total Audience Report Q1 2016



NETFLIX, INC.

Founded in 1997, Netflix is an American global provider of streaming movies and TV series with over 93 million subscribers around the world. Known as a streaming video-on-demand provider (*SVoD*), the members of this service can watch the contents they want, anytime and anywhere as long as they have an internet-connected device.

It all started as a DVD-by-mail delivery service. In 2007, the company reported its billionth DVD sold and began to move from its original core business to streaming. In fact, back at the beginning of the decade, the market trends and technologies were changing and the management promptly decided to turn into a completely different new business line. Since then, the company managed to add a huge number of subscribers and steadily increase their revenues, offering an appealing programming mix of content. Not just as a provider of streaming service, Netflix also acts as a producer, having already won awards and gain members' confidence.

Headquartered in Los Gatos, California, the company has three segments: Domestic Streaming, International Streaming and Domestic DVD. For every business line, the revenues are derived from monthly subscription fees. The majority of them are generated in the United States.

The Netflix service is considered the biggest source of Internet traffic in North America, according to Sandvine's Global Internet Phenomena report. With 3,700 employees, serve over 190 countries and produce hundreds of hours of original programming.

Ownership Structure

According to the company's notice of Annual Meeting of stockholders held on June 2016, 80.7% of the company ownership were held by institutional and mutual funds, 4.9% held by directors and executive officers and the remaining 14.4% to non-institutional organizations as public and others (Figure 6). The highest share position among the institutional shareholders belongs to Capital Research Global Investors with 8.0% of shares and recognized as the world's oldest and largest investment management organization.

Each holder of a share of common stock will be entitled to one vote for each share held on all matters voted upon at the Annual Meeting. These ordinary shares grant also the right to receive information, profit sharing and pre-emptive rights in capital increases, as well as the generally applicable obligations of capital contributions and loyalty.

Corporate Governance

Netflix's is organized through an Anglo-Saxon model, which includes a board of directors, an audit committee, a compensation committee, a nominating & governance committee and a statutory auditor (EY). The company has a flat structure. Has 5 independent directors from a total of 17 members of the board of directors. According to the annual reports, Netflix continuously assesses good practices within the governance model, aiming also to be adaptable to the new challenging world.

Figure 3 | Official logo |
Source: Netflix Media Center

NETFLIX

Figure 4 | Netflix's offices around the world |
Source: Netflix.com

Note: Netflix does not have offices in China, Crimea, North Korea and Syria.

Figure 5 | Total paid subscribers per year |
Numbers in millions | Source: Netflix Form 10-K

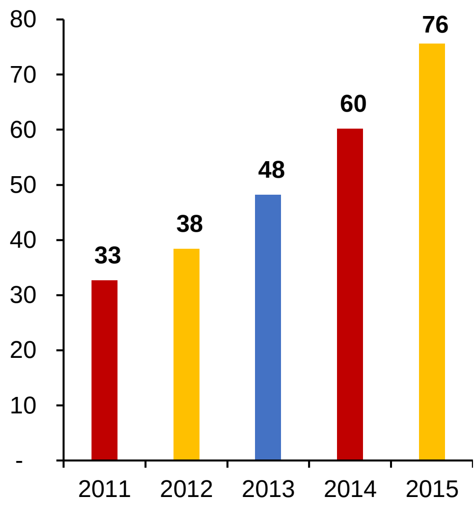
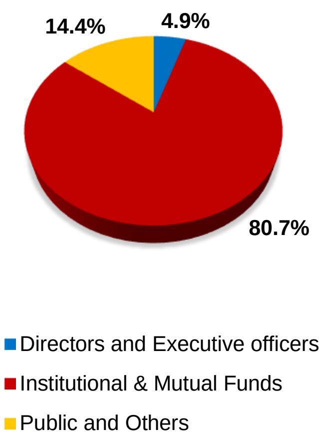


Figure 6 | Ownership structure |
Source: NASDAQ.com



Company's Key Members

Reed Hastings serves Netflix Inc. as the Chairman, President and Chief Executive Officer. He is one of the co-founders and is graduated in Artificial Intelligence from Stanford University. *Reed* is also a board member of Facebook and was on the board of Microsoft from 2007 to 2012. *David Wells* is the company's Chief Financial Officer since 2010, holds an MBA and M.P.P. from The University of Chicago. *Ted Sarandos* has led content acquisition for Netflix since 2000 as a Chief Content Officer. He was considered one of the most influential people in 2013. *Ted* has also been a producer of several awarded winning documentaries and movies. *Neil Hunt* serves Netflix as the Chief Product Officer, leading the optimization of the Netflix experience. He holds a Doctorate in Computer Science from the University of Aberdeen. *Kelly Bennett* became Netflix Chief Marketing Officer in 2012 after nearly a decade at Warner Bros. *Bennett* is a graduate of Simon Fraser University. *Tawni Cranz* became Chief Talent Officer in October 2012 and manages the human resources. *Tawni* holds an EMBA from Claremont University's Peter F. Drucker and Masatoshi Ito Graduate School of Management. *Jonathan Friedland* leads the global team responsible for corporate communications, content publicity, social media and brand public relations as the Chief Communications Officer. He has a MSc in Economics from the London School of Economics. *David Hyman* is General Counsel for Netflix, responsible for all legal and public policy matters for the company. *David* earned his JD and bachelor's degrees from the University of Virginia. *Greg Peters* is International Development Officer for Netflix, responsible for the global partnerships with provider and distributors. *Greg* holds a degree in physics and astronomy from Yale University (Table 2).

Netflix, Inc. Competitive Position

Table 1 | SWOT analysis |
Source: H. Deepak Analysis

Strengths

- Leader in the industry;
- Internationally recognized and strong brand management;
- High quality and diverse contents;
- Employees with specialized know-how.

Weaknesses

- Driven by seasonality in some situations;
- Does not hedge against fluctuations in currency rates;
- Strong dependence in suppliers;
- Switching costs are low.

Opportunities

- Improve securitization in the system and streaming service;
- Provide more compelling mix of contents in markets where the company just entered;
- Expand to China;
- Partnerships.

Threats

- Subject to rapid technology change;
- Cyber-attacks, viruses and hackers;
- Fraudulent usage of the payment methods;
- Refusal of licenses by studio content providers and other right holders.

Table 2 | Certain shareholders | Source: Netflix's notice of annual meeting of stockholders - June 2016

Name	Description	%
Capital Research Global Investors	Investment Group	8.08%
Morgan Stanley	Investment Bank	5.34%
BlackRock, Inc.	Asset Management	5.71%
The Vanguard Group, Inc.	Investment Group	5.57%
Reed Hastings	Chairman / CEO	2.94%
Jay C. Hoag	Nominating & Governance Committee	1.29%
Neil Hunt	CPO	< 1%
Ted Sarandos	CCO	< 1%
Richard N. Barton	Executive Chairman of the Board	< 1%
Leslie Kilgore	Served the Company as CMO	< 1%
A. George (Skip) Battle	Compensation Committee & Investor	< 1%
Greg Peters	-	< 1%
Timothy M. Haley	Compensation Committee	< 1%
David Wells	CFO	< 1%
Ann Mather	Audit Committee	< 1%
Bradford L. Smith	President / CLO, Microsoft Corp	< 1%
Anne M. Sweeney	Served the Company as a director	< 1%
All directors and executive officers as a group		4.90%

Table 3 | Key management compensations | Numbers in 000' of dollars | Source: Netflix's notice of annual meeting of stockholders - June 2016

Name & Position	Annual Salary		Stock Options	
	2015	2016	2015	2016
Reed Hastings	1,000	900	13,700	19,050
Neil Hunt	1,000	1,000	1,875	2,150
Greg Peters	1,000	1,000	2,725	3,275
Ted Sarandos	1,000	1,000	9,600	11,800
David Wells	2,000	2,400	1,675	1,800
Total	**6,000**	**6,300**	**29,575**	**38,075**

NETFLIX BUSINESS SEGMENTS

Domestic Streaming

Revenues in the Domestic Streaming segment hit USD 4.2b in 2015, representing a growth of 21.8% year on year (Figure 7). This growth was due to an increase of 5.7 million (+15.1%) paid subscribers and, at the same time, an increase of 5.8% in the *MRPU*. For the first 2 quarters of 2016, revenues continued to register an upward trend. Historically, the Q1 is strong in terms of additions and that was the case, as it added 2.3 million paid subscribers against 290 thousand in Q2'16 (Table 4).

The efforts made by Netflix in attracting the domestic market resulted in an increase of 12.4% in costs. Including more exclusive and original programming, cost of revenues increased 13.0% and marketing 8.2%. Despite these factors, the segment improved its contribution margin to 32.9% (+5.6 pp).

Table 4 | Overview on Domestic Streaming paid members and MRPU |
Source: Netflix Form 10-K, Q2 2016 earnings and H. Deepak analysis

	Year Ended		3 Months Ended	
In millions except for MRPU	**2014**	**2015**	**Q1'16**	**Q2'16**
Paid Memberships	37.698	43.401	45.714	46.004
Additions	+5.986	+5.703	+2.313	+0.290
MRPU	$ 7.59	$ 8.03	$ 8.47	$ 8.75

Table 5 | Top 3 titles in US between 1st January – 30th June 2016 | Demand Expressions™: Total audience demand, across all platforms, within a market | Source: parrotanalytics.com

	Titles	Channel	Median Demand Expressions™	IMDb Rating
1	Fuller House	Netflix	6,545,791	7.1 / 10
2	Orange Is The New Black	Netflix	6,292,863	8.3 / 10
3	11.22.63	Hulu	5,564,009	8.3 / 10

International Streaming

For 2015, International Streaming segment showed an impressive growth of 63.5% in paid subscribers, leading to a USD 2.0b (+49.3%) in revenues outside US (Figure 8). Netflix managed to add 10.7 million people with its strong market penetration around the world during 2015. Its *MRPU* decreased to USD 5.93 cents (-8.7%), due to the impact of exchange rate fluctuations. In Q1'16, the segment registered the highest addition in a quarter since 2010, the beginning of the expansion (Table 6).

Financially speaking, the segment reported losses. The fact of having to adapt contents to its international market, country by country, by investing in contents locally accepted, makes its content costs base very high, which, when coupled with marketing expenses surpass the segment revenues. As a result, for 2015, the contribution margin deteriorated 4.9 pp. For the first half of 2016, the situation is a bit different. The company managed to improve its contribution margin up to -9.1% in Q2'16 (+1.1 pp.), giving us signs that from 2017 onwards, it starts delivering profits.

Table 6 | Overview on International Streaming paid members and MRPU |
Source: Netflix Form 10-K, Q4 earnings and H. Deepak analysis

	Year Ended		3 Months Ended	
In millions except for MRPU	**2014**	**2015**	**Q1'16**	**Q2'16**
Paid Memberships	16.778	27.438	31.993	33.892
Additions	+7.056	+10.660	+4.555	+1.899
MRPU	$ 6.50	$ 5.93	$ 6.79	$ 7.46

Figure 7 | Domestic Streaming revenues and contribution margin | Numbers in 000' except for contribution margin | Source: Netflix Form 10-K, Q2 2016 earnings and H. Deepak Analysis

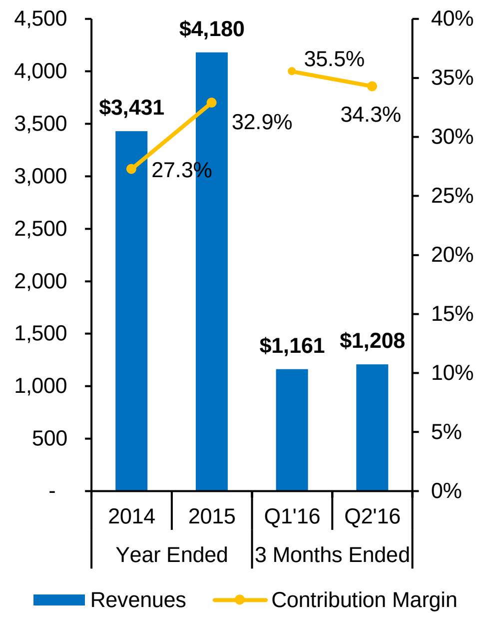


Figure 8 | International Streaming revenues and contribution margin | Numbers in 000' except for contribution margin | Source: Netflix Form 10-K, Q2 2016 earnings and H. Deepak Analysis

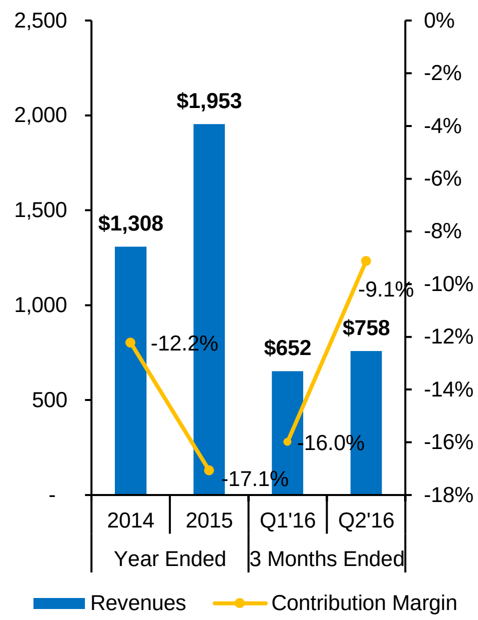
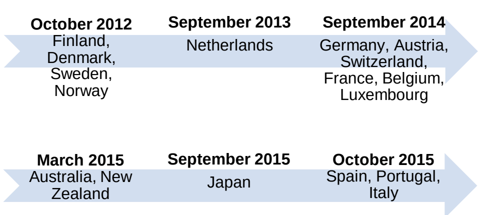


Figure 9 | International expansion timeline from October 2012 onwards |
Source: Netflix Form 10-K



Domestic DVD

Unlike streaming segments, Domestic DVD segment revenues present a downward trend, reaching to a USD 645.7m in 2015, a decrease of 16.0% compared with 2014 (Figure 11). The negative trend is explained by the decline in paid memberships to 4.8 million people, which corresponds to a loss of 881 thousand people. Historically, the Q1 for the DVD segment represents a slow in losses and that was verified with a loss of 140 thousand compared to 212 thousand in Q2'16 (Table 7).

The strong acceptance of the streaming services had an important impact for the company lower its investments in the DVD segment. Nevertheless, the segment continues to deliver profits and we highlight the fact that this is the business line with the highest contribution margin. Since 2014, the company benefits from the absence of marketing expenses, which boosts its contribution margins up to, approximately, 50.0%.

Table 7 | Overview on Domestic DVD paid memberships and MRPU |
Source: Netflix Q2 earnings and H. Deepak Analysis

	Year Ended		3 Months Ended	
In millions except for MRPU	**2014**	**2015**	**Q1'16**	**Q2'16**
Paid Memberships	5.668	4.787	4.647	4.435
Additions	-1.097	-0.881	-0.140	-0.212
MRPU	$ 11.25	$ 11.24	$ 10.38	$ 10.43

Netflix segments weight

In 2015, Netflix revenues came from 61.7% of Domestic Streaming, 28.8% of International Streaming and 9.5% of Domestic DVD (Figure 12). Even though Domestic DVD is an obsolete segment, we highlight the fact that it still delivers profits, in which, the company uses to invest in the streaming part of the business. Considering all the operational expenses, Domestic Streaming segment is the most efficient one, with 32.9% of contribution margin in the overall business. International Streaming segment, which is still giving losses, is expected to turn into a profit-making segment after large investments done in contents and marketing in the last 2 years. To note that international marketing expenses surpassed domestic ones in 2014. In 2015, it ended USD 188.8m ahead of domestic (Figure 10 & 13).

Figure 10 | Marketing expenses per segment |
Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis

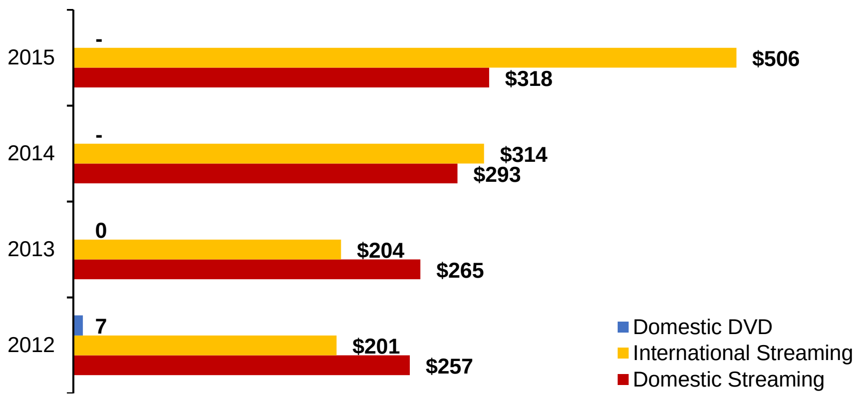


Figure 11 | Domestic DVD revenues and contribution margin | Numbers in 000' except for contribution margin | Source: Netflix Form 10-K, Q2 earnings and H. Deepak analysis

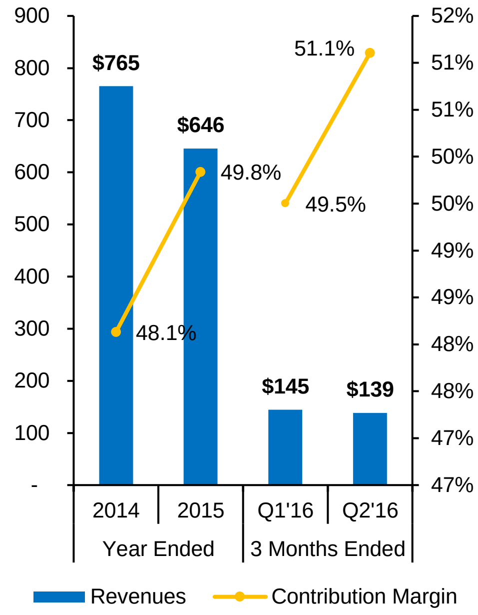


Figure 12 | Segment weights |
Source: Netflix Form 10-K and H. Deepak Analysis

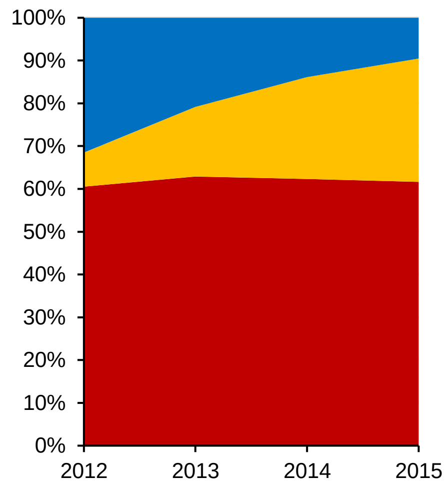
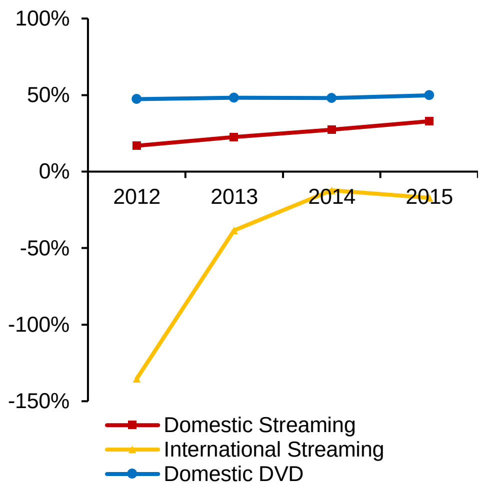


Figure 13 | Contribution margin per segment |
Source: Netflix Form 10-K and H. Deepak analysis



Boston Consulting Group Matrix

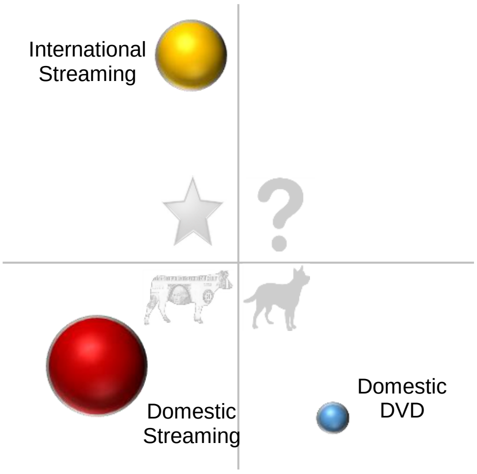
From a BCG perspective, the displayed figure (Figure 14) shows the position of the 3 segments Netflix operates relative to market growth and market share. Given the Form 10-K, the firm has its segments on Cash Cow, Star and Dog.

The 'Cash Cow' at Netflix is the Domestic Streaming segment. The growth perspectives of this segment for the medium / long term are moderate to low. The company will need to continuously attract people with new and interesting content. Currently, Netflix is the leader in US, having a market share of around 80%, according to Parrot Analytics. Its 47.9 million paid subscribers help the company generate high amounts of cash, allowing the company to reinvest the money in their International segment. It is the flagship of the company.

We classified the International Streaming segment as 'Star', as this segment presents a high growth rate. However, there is some uncertainty relatively of how much market share the segment earned around the world during 2015 and 2016. Its heavy investments need to be justified with high revenues. Its content offerings need to be in line with the peoples' preferences. It is important to note that the company is in a learning process when offers its packages, as it needs to adapt them country by country. We could classify the segment as a 'Question Mark', but we believe Netflix will manage to attract many people by extending and improving its library of contents. We believe Netflix will be the world leader in *SVoD* services.

Domestic DVD segment is evaluated as 'Dog'. This segment is the foundation of the firm and it is still generating revenues even if it has been broken down some years ago due to the technology changes in the industry. There are no growth perspectives and the market share for DVDs is completely consumed by streaming services and piracy. Cleary the segment has achieved its break even in the past, as it is experiencing declines in subscriptions year over year.

Figure 14 | BCG Matrix |
Source: H. Deepak Analysis



Income Statement

In 2015, Netflix managed to increase its **revenues** to USD 6.8b (+23.2%). The improvements were essentially driven by the growth in international activities, in which the company added more than 10 million paid subscribers in the overall base. Revenues could have been higher if the *MRPU* was not affected by exchange rate fluctuations. Despite that, their Domestic Streaming segment also performed well, reporting a growth of 21.8% in revenues and adding 5.7 million paid subscribers (Figure 16). To note that this number represents a slowdown in **additions** (2014: 6.0 million), however, this was partially offset by an increase in *MRPU* of 5.8%.

Cost of revenues rose 22.3% to USD 4.6b. The costs were mainly driven by the licensing and acquisition of new streaming **contents** as a result of the company's expansion to Australia, New Zealand, Japan, Spain, Portugal and Italy. Other costs' details, comprising cost of revenues, such as, streaming delivery expenses (cloud computing costs), equipment costs and customer service and payment processing fees also increased.

Marketing expenses, seen as a key operating source to attract people, grew by 35.7%, mainly due to advertisements done on the territories launched. General & administrative costs raised 51.0% as a consequence of the implementation of new offices as well as the hiring of new employees. And technology & development, 37.8% (Figure 17). In general, operating costs grew by 39.5% and deteriorated EBIT to USD 305.8m (vs USD 402.6m), a decrease of 2.8 pp. in margin.

Interests expenses more than doubled deteriorating its interest cover ratio (Figure 18). This is explained by the fact that Netflix issued two **long-term senior notes** in February 2015 of USD 700.0m and USD 800.0m maturing on 2022 and 2025, respectively. The firm is now committed to pay interests semi-annually on April and October at fixed rates of 5.5% and 5.9%.

In the overall, the investments done throughout the year affected the profitability of the company. Due to the **expansion**, Netflix increased its operating costs and acquired new contents, which triggered to a lower, but still positive, Net Income of USD 122.6m (vs USD 266.8m) (Figures 15).

Figure 15 | Income Statement bridge in 2015 |
Numbers in millions | Source: Netflix Form 10-K and H. Deepak Analysis

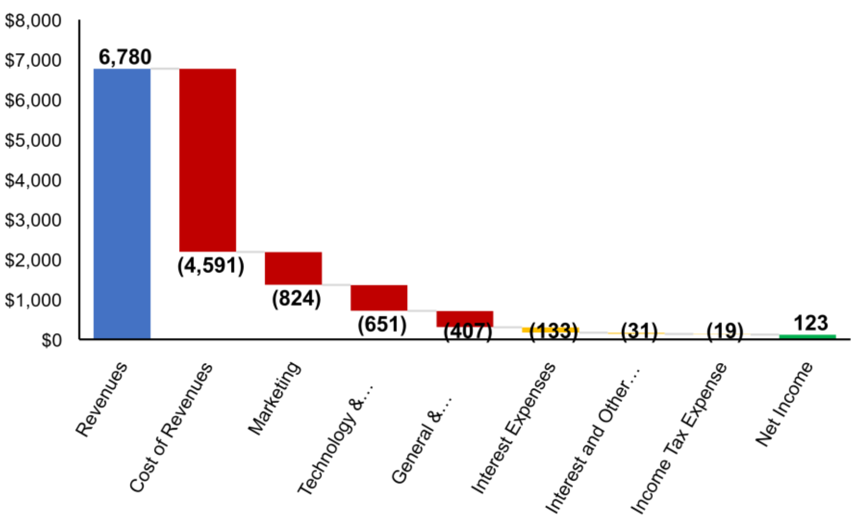


Figure 16 | Additions per segment in 2014 and 2015 | Numbers in 000' | Source: Netflix Form 10-K

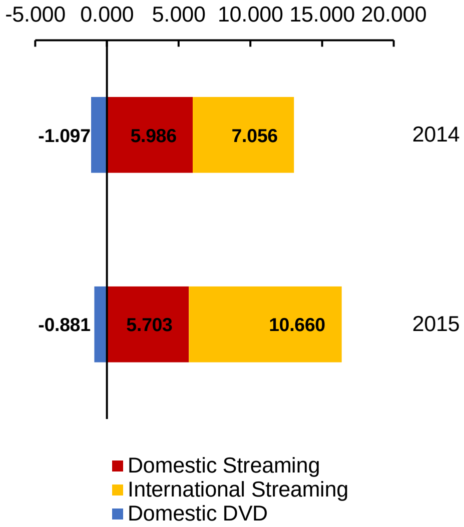


Figure 17 | Operating costs evolution |
Numbers in millions | Source: Netflix Form 10-K

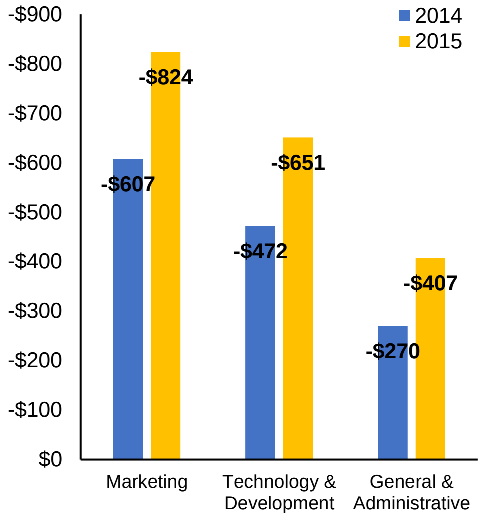
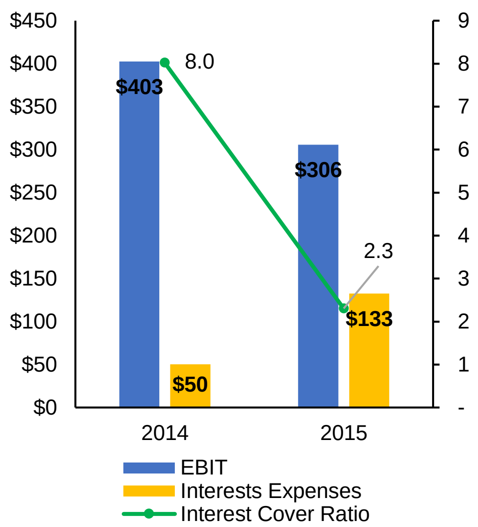


Figure 18 | Interest cover ratio in 2014 and 2015 |
Numbers in millions except for interest cover ratio |
Source: Netflix Form 10-K and H. Deepak analysis



For what the first half of 2016 accounts look like, the company is showing signs of a good performance. Additions during Q1'16 and Q2'16 amounted to 6.7 and 2.0 million people, respectively. A large part of additions was made by its International Streaming segment with 6.5 million new paid subscribers (74.1% of total additions in the first half of 2016) (Figure 20). To note that, the company is reporting higher levels of revenues every quarter. In Q2'16, revenues amounted to USD 2.1b (Figure 22). For this to occur, not only helped additions, but also the positive performance seen in *MRPU.* Comparing with YE2015, *MRPU* raised by 11.4% (USD +0.85 cents) at the end of the first half 2016 (Figure 19).

Given the Q2'16 financials, Netflix is showing us signs that its international expansion is starting to pay off. Even with higher amounts expensed in operations (Figure 21), the company is recovering its margin (Figure 22). We highlight the fact that from Q1'16 to Q2'16, the operating margin increased 0.8 pp to 3.3%.

There is still a lot of work to do. The high investments in contents and in licensing must be justified by higher revenues and that will be the key for the success of the company.

Figure 19 | *MRPU* evolution |
Source: Netflix Form 10-K and H. Deepak analysis

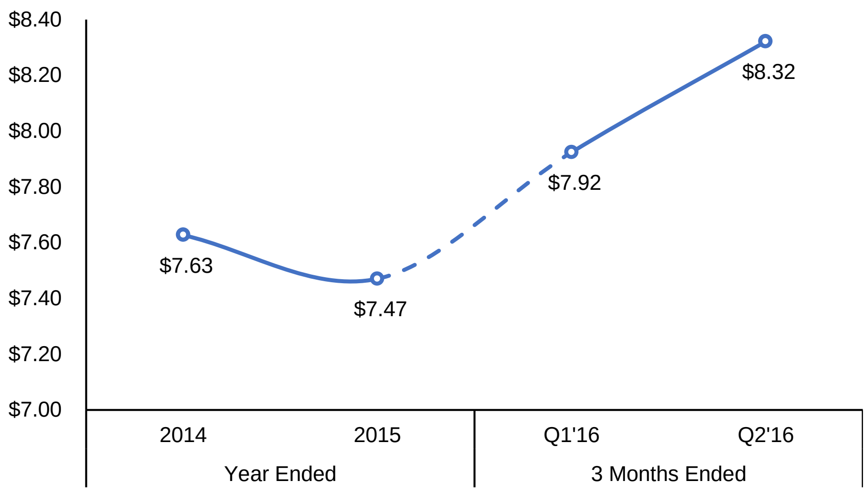


Figure 20 | Additions per segment in Q1 and Q2 2016 | Numbers in 000' | Source: Netflix Q2 earnings

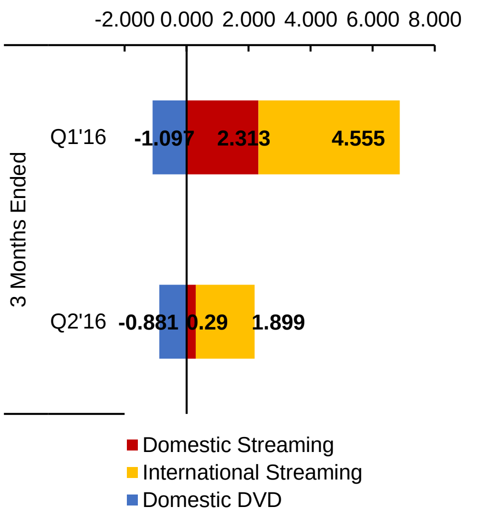


Figure 21 | Operating costs in Q1 and Q2 2016 | Numbers in millions | Source: Netflix Q2 earnings

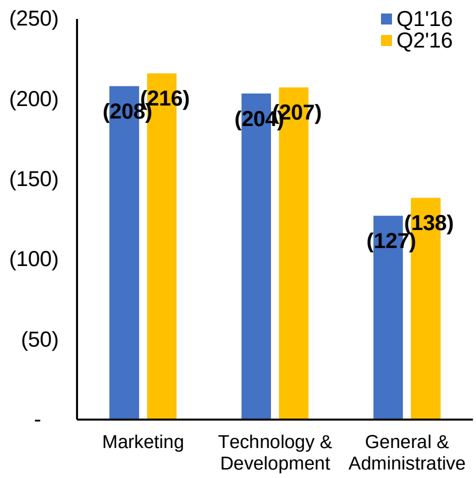
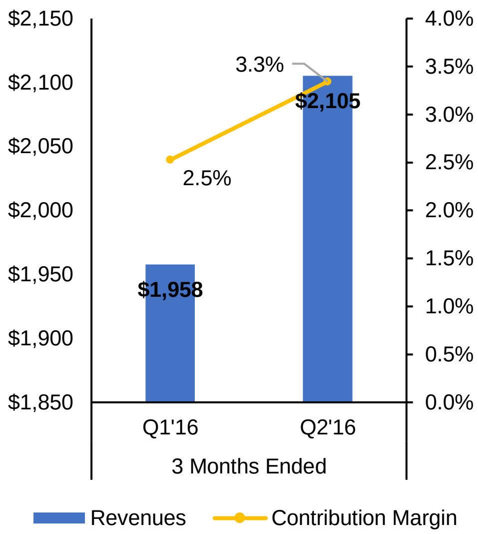


Figure 22 | Revenues and contribution margin in Q1 and Q2 2016 | Numbers in millions | Source: Netflix Q2 earnings and H. Deepak analysis



Balance Sheet

On the **Assets** side, the main components are contents and cash & cash equivalents, representing 70.8% and 17.7% of total B/S, respectively. To note that of 70.8%, 42.3% corresponds to non-current contents and 28.5% to current contents. As reported in the statuary accounts, they grew 46.1% from USD 4.9b in 2014 to USD 7.2b in 2015, leading to a B/S size increase of 44.9% from USD 7.0b to USD 10.2b in 2015. As aforementioned, this increase is associated with the investments in acquisitions and licensing of streaming content for the countries Netflix expanded during the year.

On the **Equity & Liabilities** side, the main components are the obligations of contents and its long-term debt, representing 47.2% and 23.2% of total B/S, respectively. Every time a title becomes available for streaming, a content liability is recorded on the B/S. Under these circumstances, the recent purchases of contents triggered to an increase of obligations to content and right holders. In 2015, these content liabilities increased by 30.4% from USD 3.7b to USD 4.8b (Figure 24). Equity ratio stood at 21.8%, a decrease of 4.6 pp. due to the lower results for the year. To note that, in the last 5 years, the company managed to keep its Equity weigh nearly 1/5 of the total B/S.

Net Debt

Historically, Netflix has either held more cash & cash equivalents than debt or the reverse situation. In 2014, had a net cash position of USD 227.8m while in 2015 it had a net debt position of USD 562.0m (Figure 24).

- Over the last 4 years, cash & cash equivalents registered an increase of 6.2x from USD 290.3m in 2012 to USD 1.8b in 2015. This substantial increase is a proof of how much cash Netflix can generate. As its International Streaming segment is still giving losses, money came directly from its domestic segments, in which, Domestic Streaming segment contributes the most.

- Netflix's debt more than doubled in 2015, surpassing the level of Equity. Its debt-to-equity ratio raised to 106.7% from 47.7% (Figure 28). Following the policy of using debt instead of equity to finance its growth, the company issued two long-term senior notes amounting to USD 700.0m and USD 800.0m. The issuance of these debts led the company to be in a net debt position of USD 562.0m in 2015.

Figure 24 | Net debt vs net cash from 2013 to 2015 | Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis

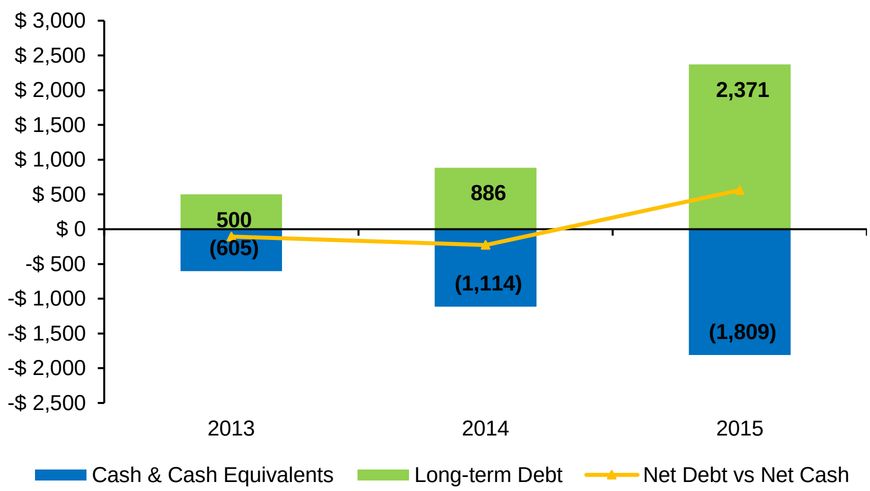


Figure 23 | Balance sheet composition in 2015 | Source: Netflix Form 10-K and H. Deepak analysis

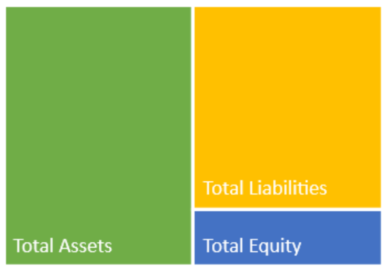


Figure 25 | Total Content Assets vs Streaming Liabilities | Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis

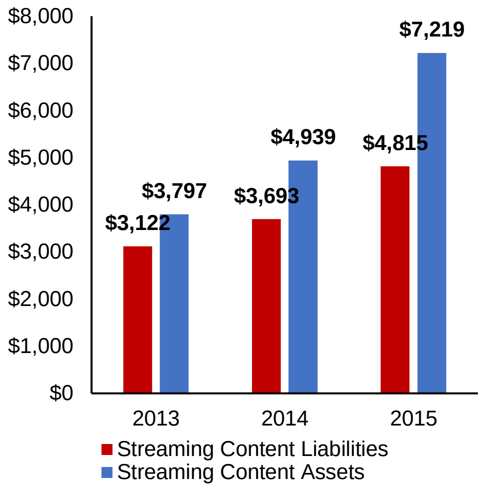


Figure 26 | Streaming content liabilities maturities | Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis

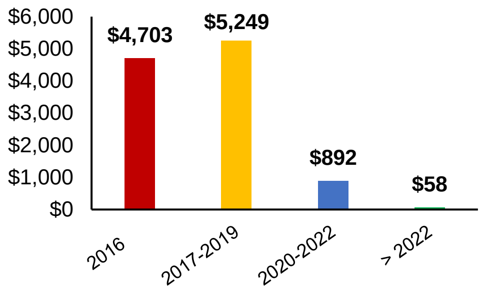
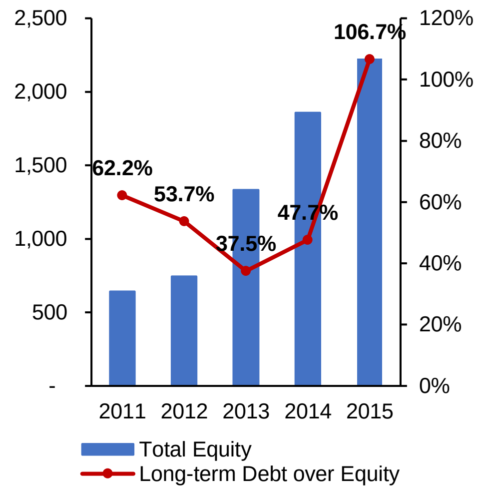


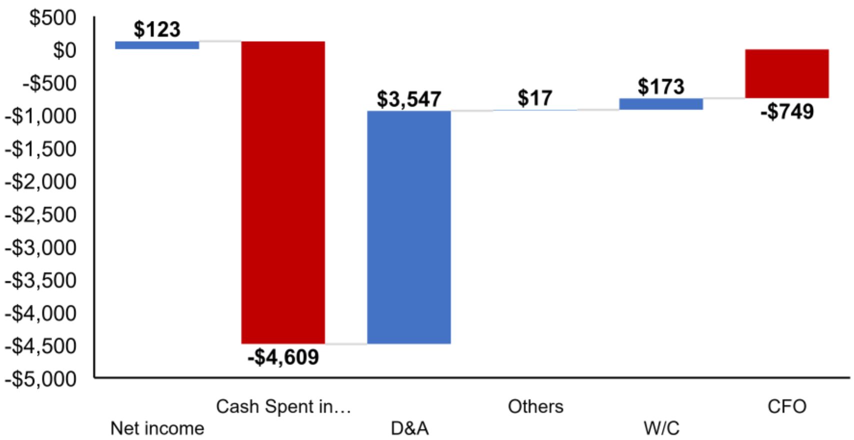
Figure 27 | Debt-to-Equity ratio evolution | Left axis in millions | Source: Netflix Form 10-K and H. Deepak analysis



Cash Flow Statement

The lower Net Income in 2015 coupled with a higher amount of **cash spent in contents** led to a negative Cash Flow from Operations. The substantial increase in cash spent in contents from USD 3.2b in 2014 to USD 4.6b in 2015 (+44.9%) was a direct consequence of the company's expansion. Focused in offering the best packages for each country the company entered during the year, Netflix had to acquire contents and licensing's locally accepted even though it had the possibility to operate with its awarded original contents.

Figure 30 | Cash flow bridge in 2015 |
Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis



Despite the higher level of cash spent on contents, the company improved its **working capital** in 2015. To note that, the company does not have receivables neither inventories due to its business model. As they are an all cash company, Netflix collects its monthly subscription fees by charging the subscribers every month on the sign-up date. As per the inventory, Netflix has a "library of contents", in which contains DVD and streaming contents. The company classifies DVD contents as non-current content assets. The reason DVD is labeled as non-current is based on the estimated time the asset will be used. For streaming contents, the portion available for streaming within one year is recognized as current content assets and the remaining portion as non-current content assets.

Working capital has been steadily improving since 2012 (Figure 29). However, its **Cash Flow from Operations was negative** reflecting the heavy acquisitions made in streaming contents, which amounted to USD 4.6b and corresponds to nearly 70% of revenues. International expansion is bringing risks to the company as it is consuming a big part of its cash (Figure 30).

To worsen the situation, the company's Cash Flow from Investments suffered a decrease of USD 136.3m due to lower **sales of short-term investments**. These factors together lead the company to issue more debt. Cash Flow from Financing tripled due to the issuance of USD 1.5b in senior notes. At the end, Net Change in Cash stood at USD 695.7m, an increase of USD 186.6m in comparison with 2014 (Figure 28).

For what the first half of 2016 cash flow figures look like, the company is showing that the investments done in the countries expanded in 2015 are starting to **pay off** and generate cash. Cash spent in contents continued to increase quarter by quarter as the company adapts its packages country by country. Despite the higher content expenses, the company ended Q2'16 with a positive Net Change in Cash of USD 1.3b (Figure 31).

Figure 28 | Summary of the cash flows in the last 3 years | Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis

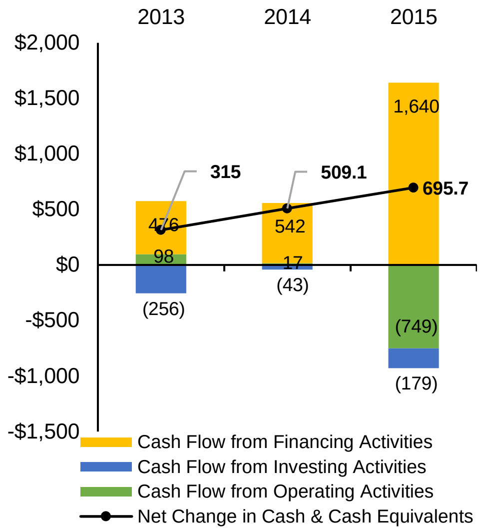


Figure 29 | Working capital development |
Numbers in millions | Source: H. Deepak analysis

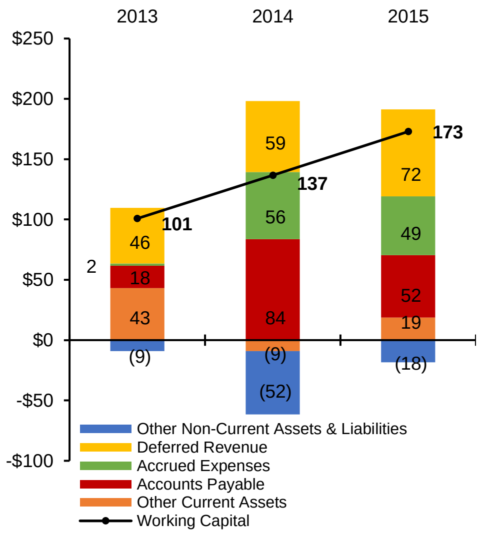
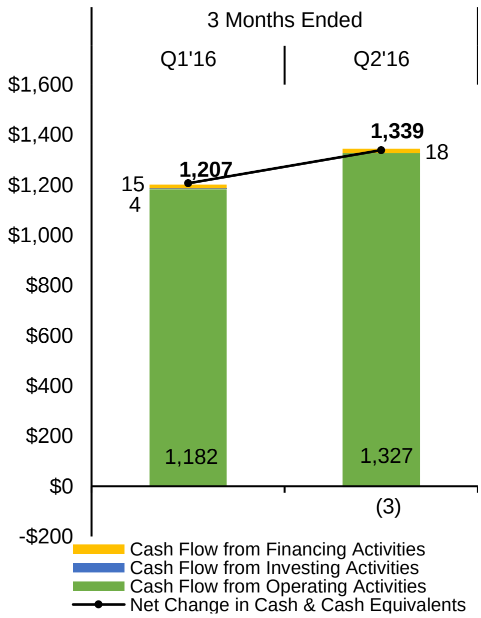


Figure 31 | Cash flows in Q1'16 and Q2'16 | Numbers in millions | Source: Netflix Form 10-K, Q2 earnings and H. Deepak analysis



INDUSTRY OUTLOOK

Not long ago, "watching TV" meant sitting in front of the screen in our living room, waiting for the favorite program to come up at a scheduled time. Today, traditional TV providers such as, cable, satellite and telecommunications are threatened by the rise of online TV, creating extensive options for consumers and changing our viewing habits.

The appearance of online TVs is conducting people to watch video-on-demand - *VoD* - programming rather than scheduled and live TV. This type of programming is mostly offered through the internet instead of through traditional set-top boxes. Often referred as **Over-the-Top Television** – *OTT* TV, people get access to these types of programming via subscription with online *VoD* providers. Once the subscription is done, we download the content we want and start watching it.

Many industries have gone through a digital transformation process. Music, travel and retail are some of the industries that were reshaped by the internet. Some other industries are preparing for what is coming, just like the TV industry. *OTT* TV is the digital turning point for the TV industry.

Figure 32 | TV connections |
Source: H. Deepak Analysis

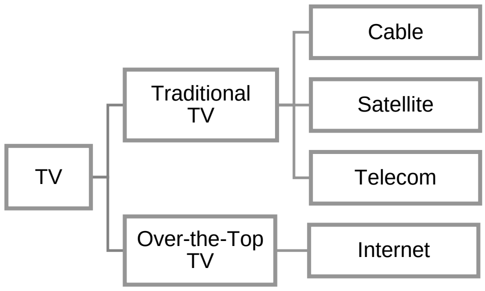
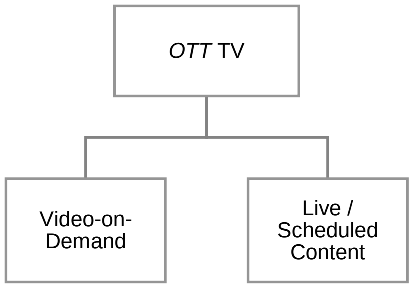


Figure 33 | *OTT* options |
Source: H. Deepak Analysis



"OTT TV also provides contents passed on the traditional TV. To battle against the rise of such online providers, traditional TV operators created the TVE service – TV Everywhere – accessible online."

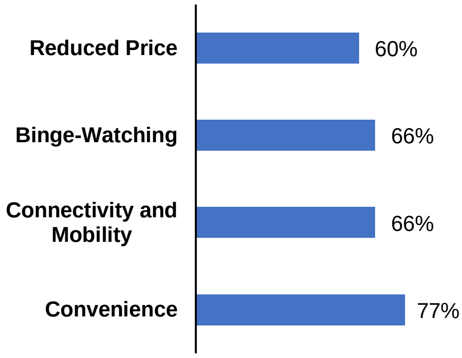
Please see below for more details.

TRADITIONAL TV VS *OTT* TV – PEOPLE'S BEHAVIOR

The impact of *OTT* TVs is not limited to the way we watch TV, but yet related to whether or not it changes our viewing habits. 2015 was the first year many traditional TV providers faced a decline in its subscriber's base. *OTT* TV is making people to cut the cord and realize the advantages it delivers. It is a sign that *VoD* is transforming the way we watch TV. So, what truly make people prefer *OTT* TV over traditional TV? The Nielsen's Global Video-on-Demand Survey pooled over 30,000 online respondents across 61 countries answers this question (Figure 34 & 35):

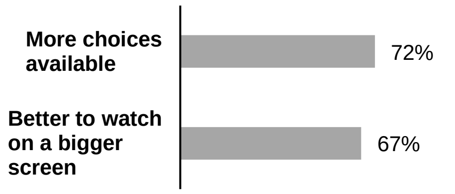
1. As expected, **convenience** is appointed by the respondents to be the most important factor to watch *VoD*. Among those who watch *VoD*, 77% say that they do because they can watch the content at a time that is convenient for them.
2. The **connectivity and mobility** that allows multiple people watch different programs on different devices at the same time is another reason pointed out by 66% of the respondents.
3. The possibility of watching several episodes in a row, known as **binge-watching**, is considered by 66% of the respondents a fundamental feature and a tremendous motivator to have *VoD*. People recognize this added value in comparison with traditional TV and some of them even use this way as a primary method to watch TV.
4. Finally, when it comes to pricing, people are sensitive and so they are when they compare the **reduced price** *VoD* offers over traditional TV providers. 60% say that watching programs through *OTT* TV services is less expensive than watching through cable or satellite.

Figure 34 | *OTT* TV drivers |
Source: Nielsen Global Video on Demand Report, March 2016



Not just talking about the benefits of *VoD*, 72% say that they would like to have more program choices available and 67% indicated that watching *VoD* programs on an online or mobile device is not as good as watching it on a bigger screen. We believe, as well, that the internet coverage is somewhat affecting people to access *VoD*. In rural areas, the internet speed is not as fast as urban areas and given the high internet speed requirement by *VoD* services to download contents, we consider the low internet coverage in rural areas an issue to consumers watch *VoD*.

Figure 35 | OTT TV inconvenient |
Source: Nielsen Global Video on Demand Report, March 2016



REPLACE OR SUPPLEMENT?

It is important to note that many traditional TV companies include these *VoD* programming in its packages through partnerships. *VoD* could also be downloaded or streamed over traditional TV. Given this, the question that arises is to understand whether people replace or supplement *VoD* services to its cable/satellite TV packages. Let's see.

Following Nielsen's Global Video-on-Demand Survey, while 26% of viewers say they pay to watch *VoD* programs via subscription to an online service provider, 72% say they pay to watch it via a traditional TV connection (Figure 36). At a first glance, we note that it is acting more as a **supplement** than a replacer.

However, in US, traditional TV watching time per day has been decreasing since 2013 (Figure 37). At the same time, we saw an extraordinary increase in some *OTT* TVs subscribers' base, in particular, Netflix. Does this mean *OTT* TV is moving to the center stage and winning audiences against traditional TVs? A realistic way to assess this issue is to analyze the time spent per day watching TV across the population by group ages. Let's call: Generation Z to people from 15 to 20 years old, Millennials from 21 to 34, Generation X between 35 and 49, Baby Boomers in a range of 50-64 and Silent Generation from 65 onwards.

Nielsen's Global Video-on-Demand report revealed that older viewers watch more traditional TV. Generation Z and Millennials watch less linear TV (Figure 38). This means that long-term prospects for *VoD* players are in a good way. Roughly 40% of Generation Z and 38% of Millennials who are consumers of cable or satellite services say they plan to cut the cord in favor of an online service provider – a rate that is approximately 3 times higher than Baby Boomers and 4 times higher than Silent Generation (Figure 39). If at the beginning, we said that *VoD* services were supplementing traditional TV, here, we consider it will be a **replacer** considering the long-term prospects it will have. Backed by its young generation, these people will become fathers and mothers one day, and as it is usually said "children learn from family", certainly their kids will learn watching TV through *OTT* TVs and will never know what really "watching TV" through traditional TV connection was. In fact, in 2015, Millennials became the largest group age in US, surpassing Baby Boomers. This is a clear signal that younger viewers are changing the rules. Could we assume that the end of the traditional TV might be nigh?

Figure 38 | Percentage of respondents who currently pay providers for programming | Source: Nielsen Global Video on Demand Report, March 2016

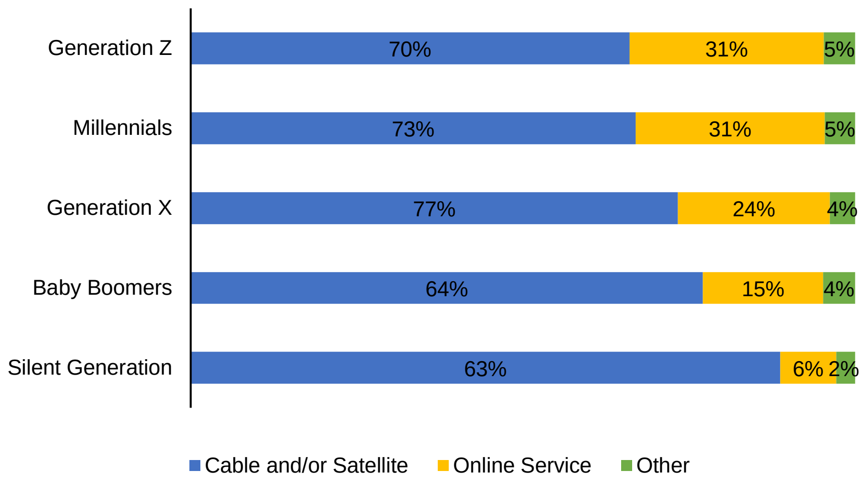


Figure 36 | How do people watch *VoD*? | Source: Nielsen Global Video on Demand Report, March 2016

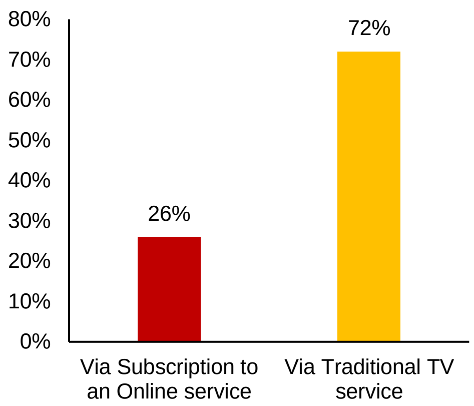


Figure 37 | Average live TV watching per year vs Netflix's streaming subscribers per year | Left axis in time & right axis in millions | Source: Nielsen Audience reports and Netflix's Form 10-K

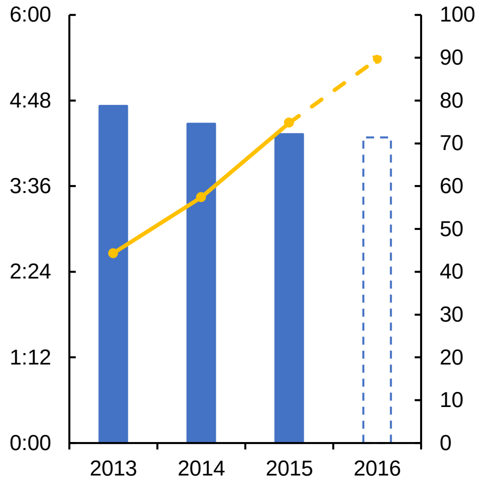
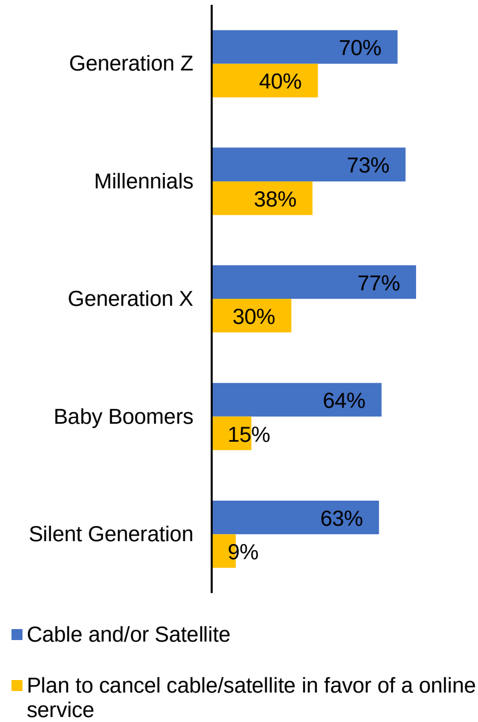


Figure 39 | Percentage of cable / satellite subscribers who plan to cancel its service in favor of an online service | Source: Nielsen Global Video on Demand Report, March 2016



WHAT IS TRADITIONAL TV DOING TO FIGHT FOR ITS FUTURE?

- **TV Everywhere**

To fight against the rising of *OTT* TVs, traditional TV companies started to play on the same ground as them. Many linear TV companies created an online platform, known as TV Everywhere - *TVE*. This service is complementary to the regular TV and allows viewers to stream TV content (generally live TV, catch up TV and some *VoD*) over the internet (same process as *OTT* TVs). The expectations generated around *TVE* were very high, but the truth is *TVE* has not reached yet enough potential to battle face-to-face against *OTT* TVs. Therefore, traditional TV providers are working in the improvement and personalization of *TVE* platforms, at the same time, willing to raise further awareness and usage.

- **Partnerships, Merges & Acquisitions**

We aforementioned that many regular TV providers include *VoD* services in their package options through partnerships. In fact, even if traditional providers control two important utilities for most of the households, television and internet, they assume that is almost impossible to fight and win against them. *TVE* is the perfect example of it. It was not sufficient to captive people.

To bypass and gain some leverage, traditional TV providers started to make deals with *OTT* competitors. "If you can't beat them, join them". Partnerships, merges and acquisitions are expected in the next few years leading to a massive consolidation in the TV industry (Figure 41). Not standing aside, some traditional TV operators are starting to reevaluate its business models, setting-up teams to create *VoD* platforms. Over the next years, we can expect, as well, a huge number of entrants on the TV industry, offering an incredible number of *VoD* options and increasing competition.

Table 8 | *OTT* TV offerings: Previous and releases |
Source: Google.com

2014 **2015** **2016**

- **Live Content**

One clear advantage for traditional TV providers is that there are no substitutes for live content, such as, news and sports. The only reason people stick with traditional TV it's because it airs live. In our view, we think that this important feature will be the key to boost partnerships and merges with the exchange of live content with *VoD* options.

Can we expect *OTT* players to air live? We don't know yet, but some of them are interested.

Figure 40 | TVEverywhere players |
Source: Google.com

Figure 41 | Consolidation of power |
Source: Google.com

While Comcast's efforts to acquire Time Warner Cable (TWC) were rejected by the FCC, Charter Communications has stepped in to purchases TWC for $55.1B. In addition, Charter is also buying Bright House Networks for $10.4B. AT&T is in the process of buying DirecTV for an estimated $48.5B. The consolidation spree even goes beyond our borders with Netherlands based Altice, a group aiming to be a major multi-national cable provider. They've picked up Suddenlink and Cablevision for just under $30B. While Charter would move into the top 3 list for US providers, Altice could arguable become just as powerful in the market as content providers begin to take a more global approach to licensing in the years to come.

Though Comcast has been side lined in near term, it expected that if they took the telecom acquisition route they would see less resistance. Comcast will continue to search for the appropriate merger to help sustain their dominance.

Figure 42 | Live airing |
Source: Netflix Media Center

- ## Advertisement

Putting traditional TV operators and *OTT* TVs together will appeal not only audiences worldwide, but also advertisers. Advertisement companies follow audiences. So, what will happen to ads with the appearance of *OTT* TVs? 2016 could be the first-year US digital ad spend surpasses TV ad spend, according to eMarketer.com estimates, indicating what was previously said - advertisers are moving together with viewers to *VoD* platforms.

It is a fact that many viewers do not like to waste their time watching ads, giving reasons to ad companies to be afraid. Nielsen's Video-on-Demand report shows that 62% of the respondents who watch *VoD* say that online ads are distracting and 65% say they wish they could block or avoid all the ads. The numbers disclose that ad companies must do something to survive in its future, but what? Are they stuck? Will we see the end of ad in line with the possible end of traditional TVs?

The good news for advertisers is that many consumers value ads, but most of them consider it irrelevant. While 51% strongly agree that ads in *VoD* content give them good ideas for new products, 59% say they do not mind watch ads if they can view *VoD* for free. Given the numbers, there are two facts ad companies should focus around:

1. First, create more relevant ads that speak directly to consumers because 66% say that most ads in *VoD* content are for products they do not want.
2. And second, discover new ways to advertise, because what is happening, basically, is people paying to avoid ads.

Figure 44 | Favorable reasons related with ads |
Source: Nielsen Global Video on Demand Report, March 2016

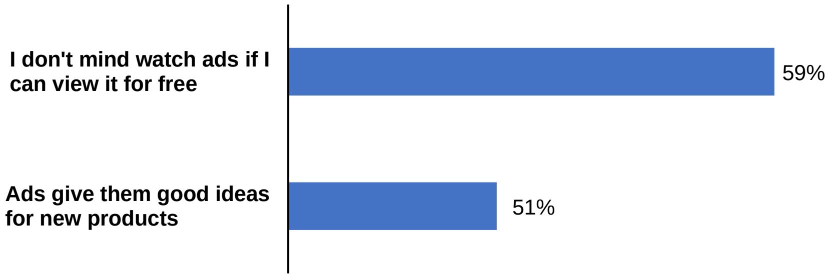


Figure 43 | US TV vs Digital Ad Spending |
Numbers in billions | Source: eMarketer.com

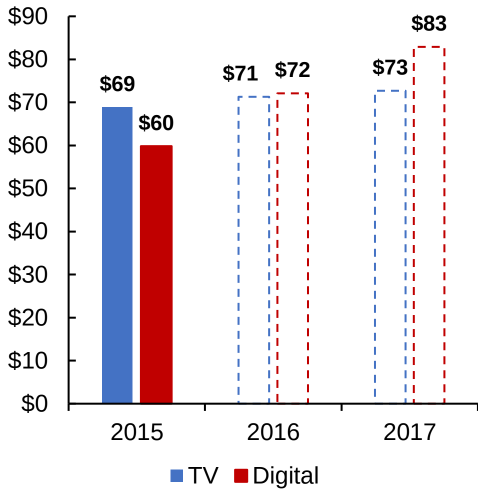
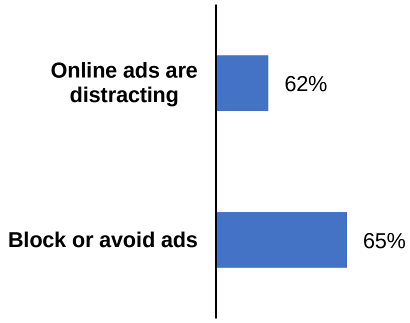


Figure 45 | Unfavorable reasons related with ads |
Source: Nielsen Global Video on Demand Report, March 2016



WHY DO PEOPLE LIKE NETFLIX?

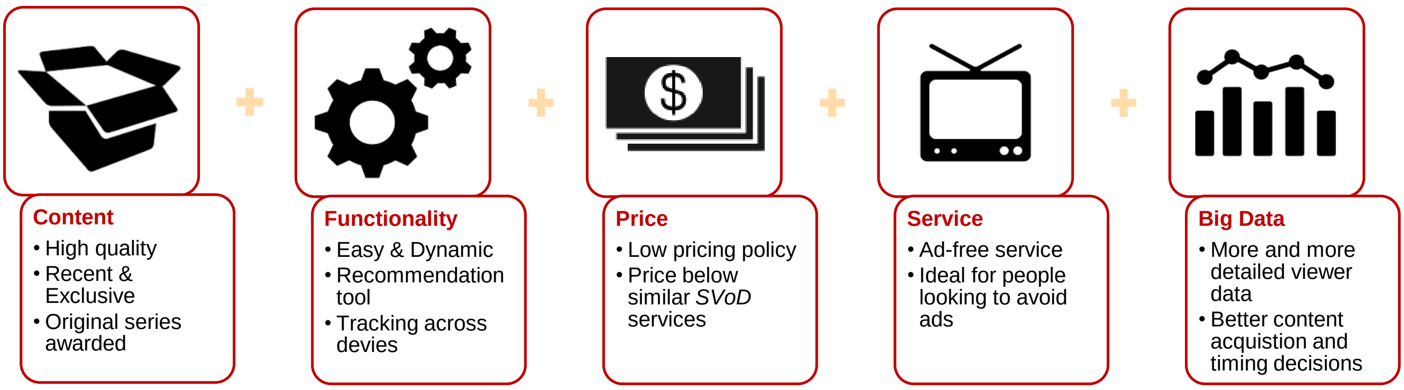
Netflix is an example of an *OTT* TV. The company launched its *VoD* service in 2007 in US and since then has been broken all the limits. What do they do to be so successful?

The key to its success is the service offered to subscribers:

1. First of all, and for us the most important factor, is related with the content it offers. **Quantity and quality** of contents are two features Netflix does not give away to captive people. It makes difference when viewers decide in which *VoD* platform to subscribe. In US, Netflix has around 9,000 titles and in countries within their operations, they exceed 2,000 titles for each country. Moreover, some of the TV series Netflix offers are **exclusively available** on its platform, making it more appealing for consumers. Despite having exclusive contents, Netflix is also known as a content producer. With originals like "*The House of Cards*" and "*Orange is The New Black*" produced, the company has already won **Emmy Awards** and a good reputation among the consumers. In addition, having the library of contents always **up-to-date** makes the service more attractive.
2. Secondly, Netflix's platform is **dynamic, easy** and **well designed**, allowing viewers to ease its navigation. The platform also guides viewers to certain contents with its **recommendation tool**, refreshing them with new entries and signaling trending contents.
3. Thirdly, the internet neutrality rules in US and in Europe prohibit Internet Service Providers – *ISP*, to demand for compensations regarding the amount of traffic web publishers generate through its *ISP*'s network, allowing Netflix and other internet TV companies to offer a competitive price to its subscribers compared, per example, with a traditional TV provider offering a similar *VoD* service. This free ride on the internet makes Netflix's service **one of the cheapest** in the market of *OTT* TVs.
4. *OTT* TV enables the collection of **detailed viewer data**, given the possibility of precisely track what has been viewed by consumers. These detailed information Netflix and other companies collect, allows them to better estimate the audience size when, per example, a new content is to be produced. On the other side, showing this data to content holders gives them a competitive advantage in relation to traditional TV operators, since they are not able to collect such detailed data themselves. In this regard, *OTT* TVs have got the gold in his hands to convince content owners to license.
5. And finally, Netflix is **ad-free**. We aforementioned that 65% of the people who watch *VoD* wish they could block or avoid ads. That's right, being an ad-free service, makes these people feel in heaven.

Of course, at the end, all these features together enhance fidelity and confidence among the subscribers. The achievements Netflix has been reaching along the way are not just linked to the features pointed out above. Like all the other successful companies, Netflix had its luck. Initially, several content owners underestimated the potential of *VoD* services, licensing contents at a "low-cost" price. As a consequence, the company could provide appealing contents with a modest monthly subscription price and quickly captive an extraordinary number of subscribers.

Figure 46 | Netflix success factors |
Source: PwC Outlook Special on Over-the-Top Television and H. Deepak analysis



COMPETITORS

With the rise of *VoD* platforms, players in the market struggle with each other to offer the best package at the best price possible. The competition in the TV industry is high and is expected to increase sharply in the coming years with the appearance of new players. *VoD* offerings will be the key to catch peoples' viewing. It will be necessary to look for what competitors will do and follow or differentiate them.

Netflix's main competitors are **Amazon Prime Video** and **Hulu Plus**, putting aside the illegal *VoD* players. For that ones, Netflix could not compete as they offer content for free with the inconvenience of having lots of ads incorporated. Therefore, we will not consider them here. According to a study released by Digitalsmiths, in US, Netflix is the leader with 51.8% market share, following Amazon Prime Video with 24.8% and Hulu Plus with 9.9%. Please note that we have not performed a financial peer analysis because Amazon and Hulu (Owned by Hulu LLC, a joint venture with The Walt Disney Company (30%), 21st Century Fox (30%), Comcast (30%), and Time Warner (10%, minority stake)) report consolidated accounts. As such, we have focused on the strategy/service each one has.

Being the leader does not mean being the best in all features. They all differ in processes to reach viewers. While Amazon Prime Video is not capable to obtain precise viewer data as Netflix and Hulu Plus do, due to its business model that only allows to access user's shopping data, Amazon can obtain data of what people is looking for watch by analyzing which **books** and TV/shows sell the most. After collecting the top sellers' data, Amazon provides the opportunity to people decide which content the company is going to produce. At the end, giving people the power of such decisions, make them feel more engaged and gain fidelity with the service they pay. Notwithstanding, Netflix doesn't give the possibility of people to decide, however, they don't need to do it due to the very detailed data they collect, which indirectly gives the company an idea of what people want. Moving forward, one clear competitive advantage Amazon had was the allowance of watching contents **offline**. However, to watch the content, we need first to download it, and that is not possible without an internet connection. Netflix was one step back on this but recently, they updated its platform with the offline viewing feature. With this, the company expects users to somewhat reduce their problems in viewing content, especially in rural areas where internet coverage is not the best. If the offline feature was the competitive advantage until soon, now **Streaming Partners Program** – *SPP* – is the one who gets the position. Amazon's *SPP* supports small and medium players to scale their business and reach a higher number of customers by merchandising its videos on Amazon's platform. For that reason, we consider Amazon Prime Video not just a consumer-focus but also a company-focus player in the market, driven by its creative business model. We can say that Netflix is the leader of the market, but the innovation award goes to Amazon Prime Video.

Hulu Plus is playing in a different proportion as it doesn't have the size of Netflix and Amazon (yet). In 2013, the CEO and its content team were replaced by Hollywood executives. Since then, they managed to raise by 50% its subscribers' base as a result of a massive marketing initiatives and partnerships with traditional TV operators. To be able to reach the level of the competitors, Hulu Plus needs to follow what has been made by Netflix and Amazon. One is concerning the release time as they still release episodes once a week and, two is related with the content offered as their main focuses are comedies and reality, due to its low budget requirements. With that in mind, we could imagine they will begin to release outside the traditional seasonality as there is more opportunity to engage viewers and improve its offerings and originals to help attract more subscribers.

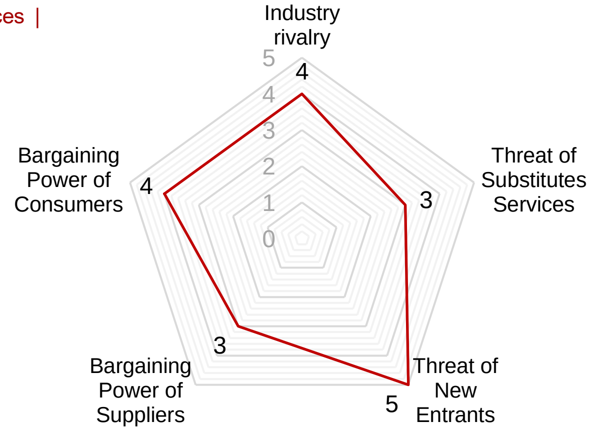
Figure 48 | Amazon Prime logo |
Source: Amazon Press room

Figure 47 | Hulu logo |
Source: Hulu.com

Michael E. Porter's five forces model

Porter's model is based on the insight that a corporate strategy should meet the opportunities and threats in the organizations external environment. Companies should focus on competitive strategy and understand the industry changes. Porter has identified five competitive forces that shape every industry. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization.

Figure 49 | Michael E. Porter's five forces |
Source: H. Deepak Analysis



Industry rivalry: High

The market for *VoD* is highly competitive. The product differentiation is low, enhancing competition among providers. Companies compete on content selection and the best they can do is to attract people with the features they have. One common feature among competitors is the "next-day viewing" of current hits. Netflix does not have the same ability to stream soon after airing as Amazon does. In other words, some people would think "*watching a TV show three months after it airs is not as exciting as to see it before catching up*". In terms of pricing, the difference is minimal, but, Netflix has the highest price and that pressure them to make sure its selection of titles justifies the price.

Threat of Substitutes Services: Moderate

Traditional cable services, such as HBO and Fox, continue to be popular and will be a threat once they provide their own streaming service for free to their subscribers. There is also a high degree of seasonality on Netflix services. In general, when the weather is colder, the company has more subscribers. As spring hits, many people watch less Netflix and do other things. Piracy is another concern for the company. It is hard to compete against free and it is considered a highly replaceable "service" of Netflix.

Threat of New Entrants: Very High

Since *VoD* become popular, the number of new entrants have been rising and it is expected to further welcome more players in the next 3 years. Some companies are trying to appeal people with contents of his interests. This strategy can make subscribers switch services. An example of this situation is linked with *Fandor*, which offers foreign films, independent movies and documentaries different from Netflix. On the other side, to compete the size of Netflix, new entrants would need to partner with an established brand, network or studio. *YouTube Red* is an example of it. It is backed by *Google* and a possible competitor of Netflix in the near future.

Bargaining Power of Suppliers: Moderate

Netflix needs to make sure it secures contracts with the most popular networks and studios in order to keep its customers happy. Some of the contracts are related towards the number of subscribers and if, for any reason, Netflix's subscriber base shrinks, the company still has to pay the rights for the length of the contract. Suppliers could stop providing their own productions to Netflix if something goes wrong. It is possible for these suppliers to keep content exclusive to their platforms or even charge Netflix a huge premium to stream it. For this reason, Netflix has a diversified number of suppliers in which they developed a strategic alliance. Additionally, the company also produces content and for the long-term, the goal is to achieve 50% of self-produced contents on its entire portfolio.

Bargaining Power of Consumers: High

One of the biggest issues Netflix faces is related with low costs of switching services. There is no contract and the cost of signing up for a service is minimal or sometimes even free. It is easy to a customer subscribe one month with one service and then switch to another one. In fact, most *VoD* providers offer a free trial to attract people subscribe into the service. Pricing and content selections are issues for consumers. People will always choose the best combined options among the players and Netflix is well positioned in these concerns.

FUTURE MOVES

The future might be bright for these players, but that does not mean they stop innovating its services. Netflix's plans for the near future are live content, starting with **news and sports**, **Bollywood contents**, the largest movie industry in the world, **anime content** to attract kids and expand to **China** (long-term goal). We do not know what are the plans of the competitors spoken above, but what we know is if one starts with something new, the others will follow. There might be innumerous possibilities to differentiate but as we reach the saturation in the market, differentiation will be harder.

What could we expect in the following years?

Over the next years, the number of connected video devices such as tablets, mobile devices and smart TVs will be higher than today and will conduct to open the doors for a huge proliferation of *OTT* TV offerings. As a consequence, we expect traditional TV companies to have an *OTT* strategy to secure their position in the market or even continue forming alliances as some are doing today. In addition, we will see the competition to steadily increase with the appearance of new players. They could be legal companies or even illegal ones. We will see legal companies fight against piracy as this is the main concern for them to lose subscribers. We will see consumers move to *OTT* TVs over cable or satellite TV. *OTT* will become the primary provider of TV for younger audiences as Baby Boomers exit the market. We will see a complete transformation in our TV packages. We will control every content we wish to see. The demand will be high but the supply even higher. The subscription prices could increase but people will expect to pay less for greater content. And we are going to stop guessing what might happen because the truth is, there is a world of possibilities that could happen. We do not know the future. We will never know. But the signs of today are indicating us that the world is changing and the TV industry as well.

Traditional scheduled TV watching is **no longer the norm**. *OTT* TV is now the **mainstream** and has arrived as the superstar to the industry. Television used to control people viewing habits, but now, people get control of **WHAT** they watch, **WHEN** they watch and **HOW** they watch.

Revenues

The starting point is related to our revenues forecast. We have forecasted the revenues by segment. If we had foreseen in a consolidated basis, we could have underestimated the total revenues. So that, in our point of view, it was more reliable analyzing the revenues by each business line of the company.

We have forecasted our revenues by studying the historical revenues' growth on each segment over the past 5 years. To have a true view on revenues for 2016, we also performed an analysis quarter by quarter over the past 2 years and the first 3 quarters of 2016. Attached to that process, we also considered the additions on paid subscribers year on year based on the business line.

After all, to validate our forecasts, we compared our results with the analysts' general estimates (Figure 51).

Gross Profit Margin

To the intent of reaching a value, we analyzed the company's gross profit margin performance in the past 5 years and forecasted a margin up to 40% until 2021. We believe the company will do good by then and will reduce its cost of revenues as they become more efficient (Figure 52).

Cash Spent in Contents & Amortizations

Considering that a large part of the costs contains amortizations of contents, we forecasted amortizations through the relationship with cash spent in contents, by analyzing the ratio between them (cash spent in contents / total amortizations), which states that, if the ratio is higher than 1, the company is investing more than its depreciating and below 1, the reverse situation.

First, we started by seeing what proportion of revenues were used to invest in contents in the past 5 years and more precisely in the past 2 years' quarter by quarter. The reason behind studying the proportion of revenues quarter by quarter is related with the company's expansion during that time, in which, large acquisitions and licensing were done.

By seeing the historical data and considering the dual effect of the high competition in the industry and the increasing programming costs, we forecasted an average of 64.6% of revenues used in contents for the next 5 years, which is the same level compared with the last 2 years (Figure 53). Reaching to the future values on cash spent, we then saw the ratios between cash spent in contents and amortizations in the past and forecasted it until 2021. We have considered a multiple above 1 due to the company's content production focusses (Figure 50).

Figure 50 | Ratio: Cash spent on contents / Amortizations of contents | Source: H. Deepak analysis

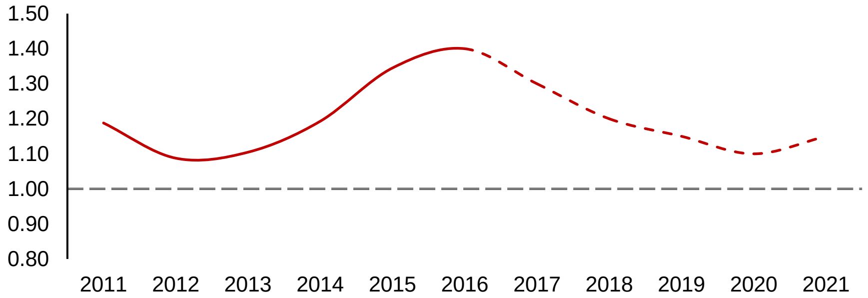


Figure 51 | Revenues forecast by segment | Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis

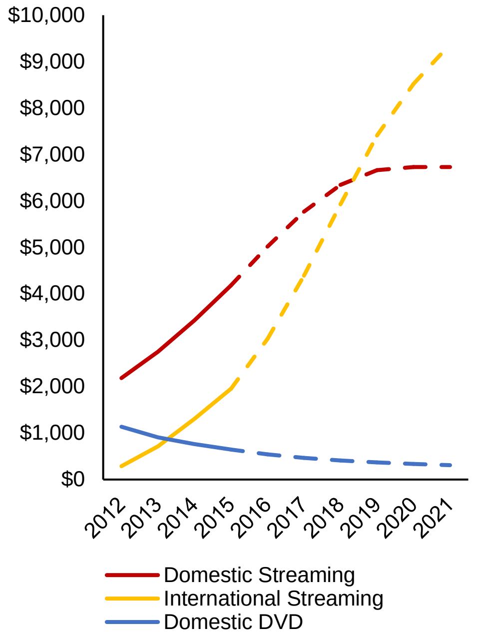


Figure 52 | Gross profit margin estimates | Source: Netflix Form 10-K and H. Deepak analysis

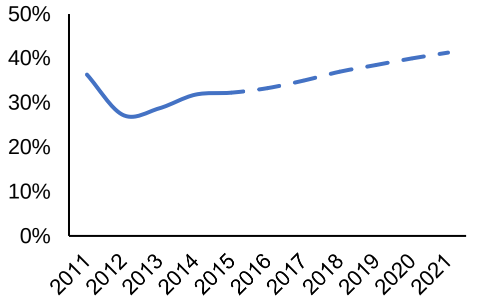
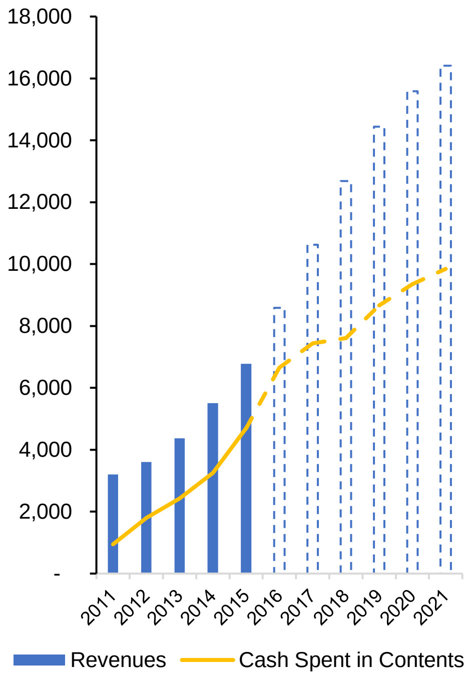


Figure 53 | Cash spent in contents vs Total revenues | Numbers in millions | Source: Netflix Form 10-K and H. Deepak analysis



Operational Expenses

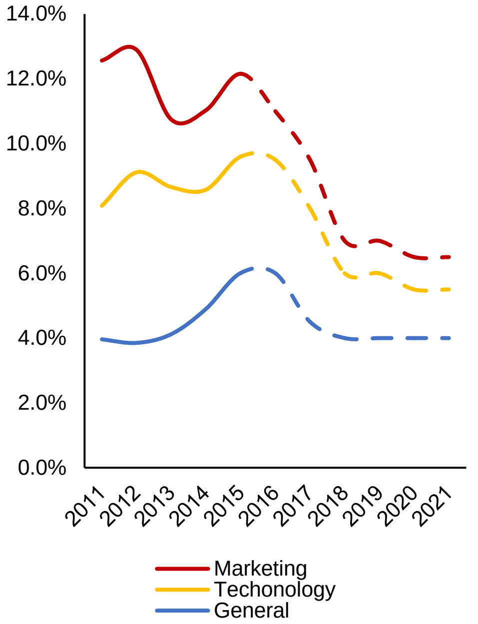
Historically analyzed, marketing, technology & development and general and administrative expenses were forecasted as a percentage of the total revenues. To note that we have considered increased operational expenses for 2016 and 2017 due to its international activities and then slightly declining until 2018. From 2018 onwards, we kept the levels constant. Here, we have also studied the movements in these 3 items quarter by quarter in the last 2 years to avoid discrepancies (Figure 54).

Working Capital

The company's working capital is composed by other current assets, accounts payables, accrued expenses, deferred revenue and other non-current assets & liabilities. Since we do not have any details regarding these items, except for accounts payables, we estimated values for the next 5 years as a percentage of total revenues.

For the next 2 years, we estimated account payables based on 20 days of cost of revenues, which corresponds to the average of the last 2 years. Until 2021, we believe the company will be more efficient year over year and stretch the payables days' period to 30.

Figure 54 | Operational expenses forecast as a % of revenues | Source: Netflix Form 10-K and H. Deepak analysis



VALUATION METHODOLOGIES

We have followed the Discounted Cash Flow (DCF) method for the valuation of Netflix, Inc. A Dividend Discount Model is not suitable, as Netflix's dividend distribution is rare. A Multiple valuation was not performed because the Netflix's main competitors present consolidated reports, and thus we do not have sufficient financials to perform such valuation method. By using a DCF approach, we estimated the corresponding streams of Free Cash Flow to the Firm (FCFF). To note that the valuation was performed considering constant prices.

Methodology: *WACC = We * Re + Wd * Rd (1-Tx)*

Cost of Equity: *Re = Rf + ß (Rm-Rf)*

To compute our cost of equity (*Re*), we have followed the Capital Asset Pricing Model. Firstly, we started by computing the market return (*Rm*) by extracting the monthly historical stock prices of Morgan Stanley Capital International - All Country World Index (MSCI ACWI) over the last 5 years until 15th October 2016. The reason behind choosing such index is by the fact that Netflix is a worldwide entity and labors everywhere, therefore, we think this index suits the most as it works with developed and undeveloped countries, giving a realistic vision of the global market return nowadays. After extracting, we computed the monthly returns, and then the geometric mean of them. We had to add 1 to calculate the geometric mean since this approach does not work with negative returns. We then annualized the result and reached to a market return of 7.95%.

The next step was to find a risk-free rate (*Rf*), and as such, we decided to consider an US 30-year treasury bond yield as we believe that constitutes a reasonable proxy for an American company. The rate observed on 14th October 2016 was 2.55%. Thus, we could compute the market risk premium *(Rm-Rf)* of 5.40%.

Finally, we needed the beta *(ß).* Therefore, we proceeded in the same manner as we did with the market return, but this time with the extraction of weekly historical stock prices on ACWI index and Netflix Inc. over the last two years. We extracted weekly stock prices over the last two years to better capture the risks the company faced in the expansion to 12 countries during that time. Once we calculated the returns of both indexes, we computed the raw beta using the excel function "*Slope*", giving us a value of 1.55. Then, we computed the adjusted beta, i.e., the Blume adjusted beta, which basically corresponds to an estimation of the security's future beta. We have assumed that the Netflix's true beta will move towards the market average of 1 over time. The formula used to adjust the beta was: $2/3$ x raw beta + $1/3$ x 1.0. Based on that, we have reached to an adjusted beta of 1.37. At the end, our cost of equity was equal to 9.93% as you can see below:

9.93% = 2.55% + 1.37 (7.95% - 2.55%)

Cost of Debt

To estimate our cost of debt (*Rd*), we have used the weighted average interest rate on the company's debt of 3.96%.

Table 9 | Netflix's debt |
Source: Netflix Form 10-K and finra.com

Issuer name	Callable	Coupon	Yield	Maturity	Moody	Debt Amount	Yield x Debt Amount
NETFLIX INC	Yes	5.500%	3.726%	01-03-22	B1	717,500,000	26,734,050
NETFLIX INC	Yes	5.875%	4.382%	01-02-25	B1	820,000,000	35,932,400
NETFLIX INC	Yes	5.750%	4.337%	15-02-24	B1	411,000,000	17,825,070
NETFLIX INC	Yes	5.375%	3.340%	15-02-21	B1	525,000,000	17,535,000
					Total	2,473,500,000	98,026,520

Weights

For *We,* we picked up the market capitalization registered on 14th October 2016 on yahoofinance.com, which was USD 43.55b. For *Wd,* we summed up the debt amount (Table 9) and the operating lease commitments. In the latter, we computed the present value of the operating leases (Table 10). The adjusted debt value was at the end of USD 2.89b. Given the values, the Enterprise value stood at USD 46.44b, with Equity weight of 93.8% and Debt weight of 6.2%. We are assuming that the current indebtedness corresponds to the target D/E in the long term.

Table 10 | Present value of operating leases | Source: Netflix Form 10-K and H. Deepak analysis

Year	Commitment	Present Value
1	42,545,000	40,923,186
2	54,811,000	50,711,860
3	58,015,000	51,630,106
4	53,152,000	45,499,145
5	51,844,000	42,687,728
Thereafter	269,377,000	186,623,089
	Number of years to estimate	6
	Total	**418,075,114**

Corporate Tax

We considered a corporate tax rate of 20.0% given the average level of tax paid in the last 2 years, which was 18.6%. We made a conservative adjustment and decided to add 1.4 pp.

WACC

Taking into consideration all the parameters mentioned above, our *WACC* was estimated at 9.93%. However, since we are working with constant prices, we had to take out the inflation values. Therefore, we accessed the IMF's World Economic Outlook (WEO) – October 2016 data base to see the forecast of the world inflation rates until 2021. After extracting the values, we computed the compounded annual growth rate on the inflation rate and reached to a value of 2.06%. At the end, taking out the expected inflation rate, our *WACC* was estimated at **7.30%**.

Terminal Growth

For the terminal growth rate, we accessed the IMF's WEO – October 2016 and extracted the World Gross Domestic Product (GDP) estimates until 2021. Considering that Netflix does not operate in Crimea, North Korea and Syria, we deducted these countries' GDP from the World GDP. After this process, we computed the compounded annual growth rate and reached to a value 4.35%. Since the World GDP estimated values were not available in constant prices, we, once again, had to take out the inflation rate computed above. At the end, and doing an adjustment of +0.50%, our estimated terminal growth rate stood at **2.74%**.

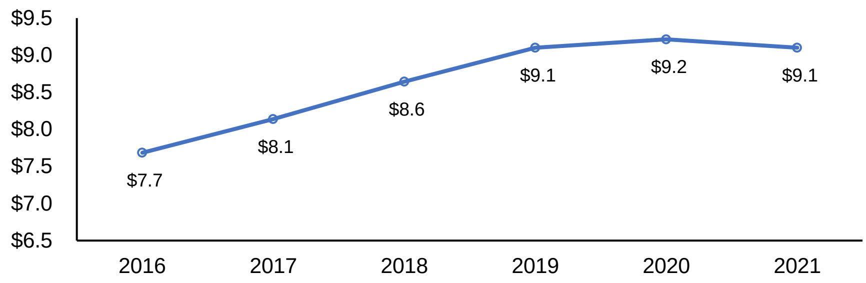
Valuation Period

It would make sense to have an extended period of valuation due to the longevity of the industry in which the company operates, but for practical reasons, and being concerned about the technology changes, we considered a projected period of 5 years, from 1st January 2016 to 31st December 2021. The terminal value was added at the end of this period.

FINANCIAL FORECAST

Netflix makes clear its intentions of international growth, sacrificing current margins for the benefit of higher international growth opportunities. Indeed, we estimated international revenues weight to be higher than the domestic ones for the next 5 years, not only due to an optimistic international performance but also to a moderation of the performance in the domestic market due to its high competition and threat of new entrants. Furthermore, despite of their contents being highly accepted in US, the Netflix's content team producers have the responsibility to maintain the quality of the contents, and that, we believe, will somewhat get difficult as people become more demanding. For Domestic DVD, we admit that the company will still get revenues, however at a reduced level year over year, considering the fast penetration of streaming in the market and the advantages it brings to peoples' daily life (Figure 55). In total, we expect Netflix to reach 150.3 million paid subscribers with a general *MRPU* of USD 9.1 cents by the end of 2021. The latter is expected to increase USD 1.4 cents by 2019 and then stagnate until 2021 (Figures 56 & 59).

Figure 56 | Expected *MRPU* |
Source: H. Deepak analysis



From 2015 onwards, revenues are expected to gradually raise up to USD 16.4b. A major part of the revenues will be from its international activities which by the end of 2019 will surpass domestic revenues. We expect by the end of 2021, International weight 57.1%, Domestic Streaming 41.0% and Domestic DVD 1.9% in total revenues (Figure 58).

The contribution margin will show signs of recovery after its investments in 2015. Their international strategy will start to pay off. Thereby, gross profit and contribution margins should start to enlarge as effect of operational efficiency. As shown on the graph below, we expect the company to improve its margins up to 40.0% and 25.0%, respectively.

Figure 57 | Estimated contribution margin |
Numbers in millions | Source: H. Deepak analysis

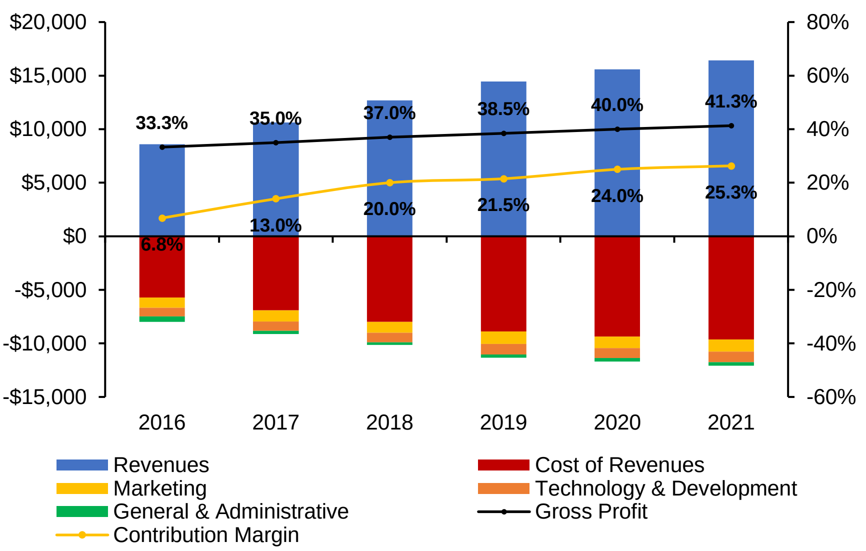


Figure 55 | Revenues growth by segment |
Source: H. Deepak analysis

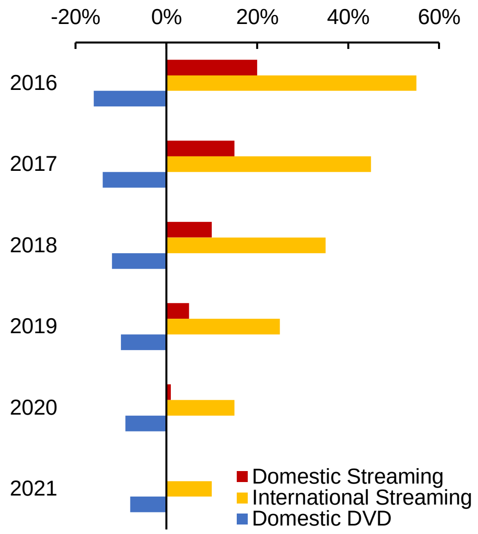


Figure 59 | Expected paid subscribers by segment | Numbers in millions | Source: H. Deepak analysis

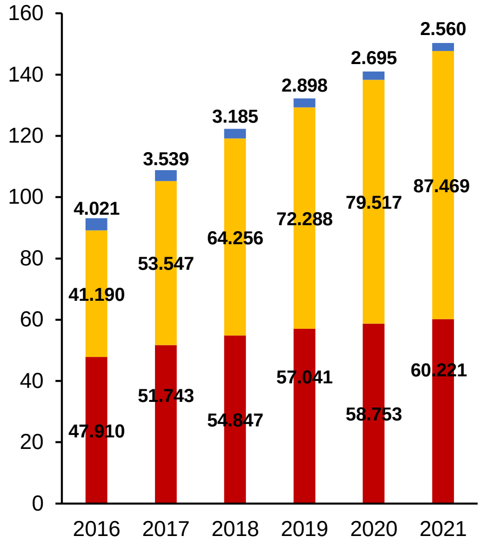
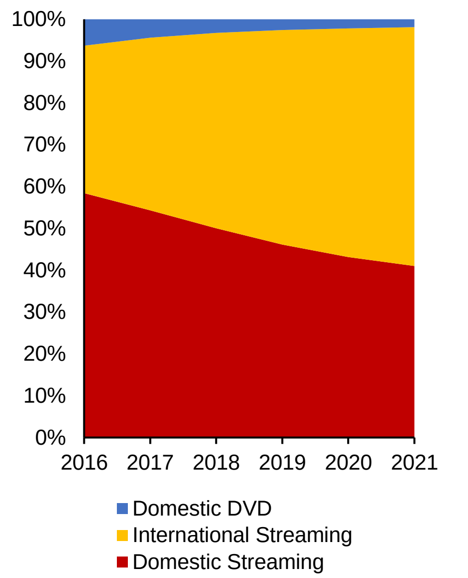


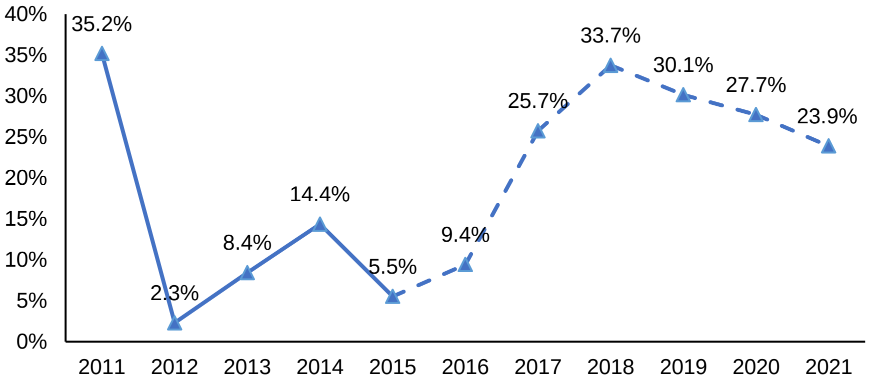
Figure 58 | Netflix expected segment weight |
Source: H. Deepak analysis



Proceeding with our brief analysis on the forecast, we expect the level of revenues spent in contents to be maintained due to the management's goal of having 50% of self-produced contents in its portfolio. Producing contents is more expensive than buying them. Notwithstanding, we are certain that the company will continue to buy contents externally produced to provide the best and the most complete package of contents to all subscribers. Maintaining the members happy will be the key for the future success. Additionally, we also took into consideration the competition the company faces, in which, is expected to further increase with new entrants on the market. They will look for contents and fight for exclusivity. Demand for contents will increase and will conduct to higher content prices. Given all the above, we forecasted our ratio (cash spent in contents / revenues) on an average of 64.6% (vs 64.1%) of revenues, which by the end of 2021, will correspond to USD 9.8b (Please refer to the figure 53 on page 19). To note that we only considered the average of cash spent on contents as a percentage of revenues in the last 2 years, due to the company's expansion in 12 countries during that time (Appendix: Table 30).

Return on Equity shows a downward trend, having registered 14.4% in 2014 and 5.5% in 2015. According to our estimates, ROE will revert in 2016 to the levels seen in 2013 of 9.4%, and then reach in 2021 to 23.9% (Figure 60 and Appendix: Table 21). Between 2018 and 2021, we expect the ROE to go down slowly as a result of the market requirements. Our predictions from 2018 onwards are that the market will be very demanding and that will affect the company's operational expenses, which in turn will impact Net Income and deteriorate ROE. Based on that, our ROE for the next 5 years is as follows:

Figure 60 | Netflix's ROE |
Source: Netflix Form 10-K and H. Deepak analysis



Please refer to appendices on page 26 to see our complete forecasts.

INVESTMENT RISKS

Market Risk: Exchange rate *Number 2 (yellow) on the graph.*

The company FX exposure is high as they recently began operating internationally. The finance department does not use hedging derivatives. Its FX exposure will rise as they move increasingly towards global licensing. In terms of impact, we classified the risk as 'Medium'.

Economic Risk: Competition *Number 4 on the graph.*

The company is subject to high competition. The industry is expected to face partnerships, merges and acquisitions in the coming years, which will make competitors bigger. They will fight for exclusivity and there will be pressure in prices. This situation may lead the loss of market share. We classified it in terms of impact as 'Medium/High'.

Corporate Risk: Quality of originals *Number 2 (green) on the graph.*

Despite of Netflix originals being highly rated and watched, the content management team will have the responsibility to maintain the quality of its contents to keep the subscribers happy. If nowadays people get excited on Netflix originals, in the future, subscribers will have even higher expectations. If their expectations do not meet the quality of contents, people will get rid of the service and affect badly the business. We classified this risk with 'Low' impact.

Corporate Risk: Studios, content providers and other rights holders *Number 2.5 on the graph.*

The company's ability to provide members content of their interests other than its originals depends on studios, content providers and rights holders to distribute such content. If these players are no longer willing to license contents to the company, the business will be adversely affected and costs increase. We assess this as 'Medium/High' in terms of impact.

Corporate Risk: Piracy *Number 5 on the graph.*

Through new and existing distribution channels, consumers have increasing options to access entertainment video. One of the options is through pirate channels. Piracy is a threat to the business as it offers free content and it is subject to fast growth. In terms of impact, we classified this risk as 'Critical'.

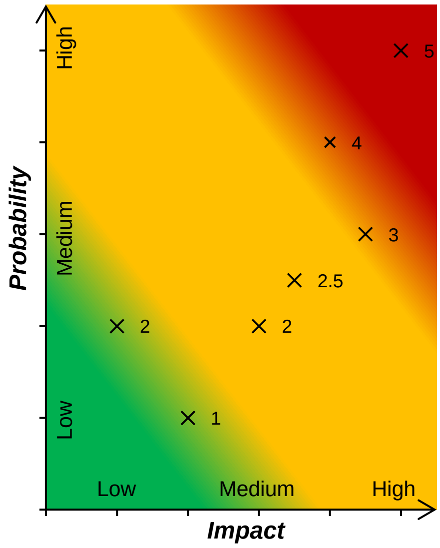
Corporate Risk: Payment processing *Number 1 on the graph.*

Netflix's members pay for the service using a variety of payment methods, including credit and debit cards, gift cards etc. They rely on internal systems. Any disruptions in their payment processing systems or fraudulent usage of payment methods, their business could be adversely impacted. The impact is classified as 'Medium/Low'.

Corporate Risk: Amazon Web Services *Number 3 on the graph.*

Amazon is Netflix's main competitor but also its partner. Amazon provides a cloud computing service in which the company runs its business operations. Any interference with the use of the service would impact their operations. Despite being a competitor, Netflix does not believe Amazon will access information on the service to gain a competitive advantage against them. Given this, the impact is classified as 'Medium/High'.

Figure 61 | Netflix risk matrix |
Source: H. Deepak analysis



Sensitivity analysis

A sensitivity analysis has been conducted to test our price target. The main variables chosen to test our price were the WACC and the Terminal Growth Rate. Our investment recommendation was decided in accordance with the ranges shown in the Table 11. The results have shown that out of 49 different outputs, 14 (28.6%) were for Strong Buy, 14 (28.6%) for Buy, 7 (14.3%) for Hold/Neutral, 6 (12.6%) for Reduce and 8 (16.3%) for Sell (Table 12).

Table 11 | Analyst's assessment |
Source: H. Deepak analysis

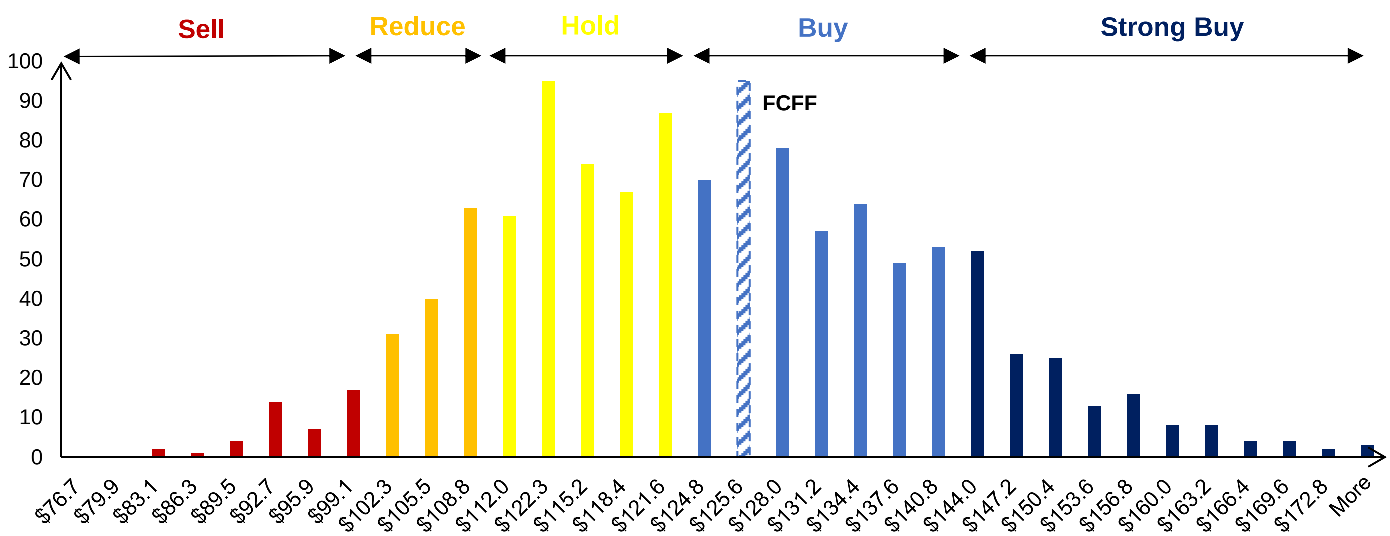
Intervals	Recommendation	Upside Potential ($ 101.47)	Weights on recommendation from Table 12
] 147.13; +∞ [	Strong Buy	> 45%	28.6%
] $ 121.76; 147.13]	Buy	> 20% & ≤ 45%	28.6%
] $ 111.62 ; $ 121.76]	Hold/Neutral	> 10% & ≤ 20%	14.3%
] $ 101.47; $ 111.62]	Reduce	> 0% & ≤ 10%	12.6%
] -∞; $ 101.47]	Sell	≤ 0%	16.3%

Table 12 | Changes in WACC and Terminal Growth Rate |
Red - Sell, Orange - Reduce, Yellow - Hold/Neutral, Blue - Buy, Dark Blue - Strong Buy and Green - Price Target |
Source: H. Deepak analysis

		Changes in WACC						
	$ 125.57	6.00%	6.50%	7.00%	7.30%	7.50%	8.00%	8.50%
Changes in Terminal Growth Rate	1.50%	$ 127.80	$ 115.17	$ 104.81	$ 99.39	$ 96.14	$ 88.78	$ 82.45
	2.00%	$ 143.30	$ 127.58	$ 114.96	$ 108.46	$ 104.60	$ 95.94	$ 88.58
	2.50%	$ 163.23	$ 143.08	$ 127.36	$ 119.42	$ 114.75	$ 104.40	$ 95.74
	2.74%	$ 175.04	$ 152.04	$ 134.39	**$ 125.57**	$ 120.41	$ 109.05	$ 99.64
	3.00%	$ 189.81	$ 163.01	$ 142.86	$ 132.93	$ 127.15	$ 114.54	$ 104.20
	3.50%	$ 227.02	$ 189.59	$ 162.80	$ 149.98	$ 142.65	$ 126.95	$ 114.34
	4.00%	$ 282.83	$ 226.80	$ 189.37	$ 172.21	$ 162.59	$ 142.45	$ 126.75

Additionally to our sensitivity analysis, we have performed a *Monte Carlo* simulation covering 1,000 simulations to test our price target for 2017 with the variables previously mentioned. According to our simulation results, the mean price target was USD 124.80, which gave us the same recommendation as the DCF price target of USD 125.57 to a Buy.

Figure 62 | *Monte Carlo* simulation |
Red - Sell, Orange - Reduce, Yellow - Hold/Neutral, Blue – Buy and Dark Blue - Strong Buy |
Source: H. Deepak analysis



Appendices

CONSOLIDATED INCOME STATEMENT

Table 13 | Netflix's Consolidated Income Statement |

	As of December 31										
In millions of dollars	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Total Paid Memberships	32.639	38.412	48.199	60.144	75.626	93.121	108.828	122.288	132.228	140.965	150.251
ARPU in Netflix	$ 98.2	$ 94.0	$ 90.8	$ 91.5	$ 89.6	$ 92.2	$ 97.6	$ 103.7	$ 109.2	$ 110.6	$ 109.2
MRPU in Netflix	$ 8.2	$ 7.8	$ 7.6	$ 7.6	$ 7.5	$ 7.7	$ 8.1	$ 8.6	$ 9.1	$ 9.2	$ 9.1
Revenues	3,205	3,609	4,375	5,505	6,780	8,587	10,626	12,683	14,441	15,586	16,411
Cost of Revenues	(2,040)	(2,626)	(3,117)	(3,753)	(4,591)	(5,727)	(6,907)	(7,990)	(8,881)	(9,352)	(9,633)
Gross Profit	**1,165**	**983**	**1,257**	**1,752**	**2,188**	**2,859**	**3,719**	**4,693**	**5,560**	**6,234**	**6,778**
Marketing	(403)	(465)	(470)	(607)	(824)	(945)	(1,009)	(888)	(1,011)	(1,013)	(1,067)
Technology & Dev.	(259)	(329)	(379)	(472)	(651)	(816)	(850)	(761)	(866)	(857)	(903)
General & Administrative	(127)	(139)	(180)	(270)	(407)	(515)	(478)	(507)	(578)	(623)	(656)
EBIT	**376**	**50**	**229**	**403**	**306**	**584**	**1,382**	**2,537**	**3,105**	**3,741**	**4,152**
Interest Expenses	(20)	(20)	(29)	(50)	(133)	(236)	(292)	(292)	(334)	(334)	(328)
Other Income/Expense	3	0	(28)	(3)	(31)	(60)	(111)	(101)	(31)	(75)	(42)
EBT	**360**	**31**	**171**	**350**	**142**	**289**	**979**	**2,144**	**2,741**	**3,333**	**3,783**
Income Tax Expense	(133)	(13)	(59)	(83)	(19)	(58)	(196)	(429)	(548)	(667)	(757)
Net Income	**227**	**17**	**113**	**267**	**123**	**231**	**783**	**1,715**	**2,193**	**2,666**	**3,026**

Table 14 | CAGR 2011 - 2015 vs CAGR 2016-2021 - Income Statement figures |

	Total Paid Memberships	**ARPU**	**Revenues**	**Gross Profit**	**EBIT**	**Net Income**
CAGR: 2011-2015	11.9%	-2.5%	11.2%	10.1%	-6.3%	-37.0%
CAGR: 2016-2021	6.7%	2.9%	8.1%	9.6%	13.2%	14.0%

Table 15 | Netflix's Income Statement Size |

	As of December 31										
In millions of dollars	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenues	63.7%	72.8%	71.3%	68.2%	67.7%	66.7%	65.0%	63.0%	61.5%	60.0%	58.7%
Gross Profit	**36.3%**	**27.2%**	**28.7%**	**31.8%**	**32.3%**	**33.3%**	**35.0%**	**37.0%**	**38.5%**	**40.0%**	**41.3%**
Marketing	12.6%	12.9%	10.7%	11.0%	12.2%	11.0%	9.5%	7.0%	7.0%	6.5%	6.5%
Technology & Dev.	8.1%	9.1%	8.7%	8.6%	9.6%	9.5%	8.0%	6.0%	6.0%	5.5%	5.5%
General & Administrative	4.0%	3.9%	4.1%	4.9%	6.0%	6.0%	4.5%	4.0%	4.0%	4.0%	4.0%
EBIT	**11.7%**	**1.4%**	**5.2%**	**7.3%**	**4.5%**	**6.8%**	**13.0%**	**20.0%**	**21.5%**	**24.0%**	**25.3%**
Interest Expenses	0.6%	0.6%	0.7%	0.9%	2.0%	2.7%	2.7%	2.3%	2.3%	2.1%	2.0%
Other Income/Expense	-0.1%	0.0%	0.6%	0.1%	0.5%	0.7%	1.0%	0.8%	0.2%	0.5%	0.3%
EBT	**11.2%**	**0.9%**	**3.9%**	**6.4%**	**2.1%**	**3.4%**	**9.2%**	**16.9%**	**19.0%**	**21.4%**	**23.0%**
Income Tax Expense	4.2%	0.4%	1.3%	1.5%	0.3%	0.7%	1.8%	3.4%	3.8%	4.3%	4.6%
Net Income	**7.1%**	**0.5%**	**2.6%**	**4.9%**	**1.8%**	**2.7%**	**7.4%**	**13.5%**	**15.2%**	**17.1%**	**18.4%**

CONSOLIDATED BALANCE SHEET

Table 16 | Netflix's Consolidated Balance Sheet |

	As of December 31										
In millions of dollars	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Non-Current Content Assets	1,047	1,506	2,091	2,773	4,313	6,194	7,949	9,846	11,317	12,360	13,370
Property & Equipment, Net	136	132	134	150	173	186	204	227	247	259	257
Other Non-Current Assets	55	89	129	192	285	343	425	507	578	623	656
Total Non-Current Assets	**1,238**	**1,727**	**2,354**	**3,115**	**4,771**	**6,723**	**8,578**	**10,580**	**12,142**	**13,243**	**14,284**
Cash & Cash Equivalents	508	290	605	1,114	1,809	1,461	1,481	2,229	3,373	5,845	7,774
Short-Term Investments	290	458	595	495	501	429	638	634	866	779	985
Current Content Assets	920	1,368	1,706	2,166	2,906	4,130	5,299	6,564	7,545	8,240	8,913
Other Current Assets	113	125	152	152	215	258	319	254	289	312	328
Total Current Assets	**1,831**	**2,241**	**3,059**	**3,927**	**5,432**	**6,277**	**7,736**	**9,681**	**12,073**	**15,177**	**18,000**
Total Assets	**3,069**	**3,968**	**5,413**	**7,043**	**10,203**	**13,001**	**16,314**	**20,261**	**24,215**	**28,419**	**32,284**
Preferred Stock	-	-	-	-	-	-	-	-	-	-	-
Common Stock	0	0	0	1,043	1,325	1,325	1,325	1,325	1,325	1,325	1,325
Additional Paid-In Capital	219	302	777	-	-	-	-	-	-	-	-
Acc. Other Comprehensive Loss	1	3	4	(4)	(43)	(43)	(13)	7	7	7	7
Retained Earnings	423	440	552	819	942	1,173	1,956	3,671	5,864	8,530	11,556
Total Equity	**643**	**745**	**1,334**	**1,858**	**2,223**	**2,454**	**3,268**	**5,003**	**7,196**	**9,862**	**12,888**
Non-Current Content Liabilities	740	1,077	1,346	1,576	2,026	2,864	3,304	4,235	5,019	5,053	5,325
Long-Term Debt	400	400	500	886	2,371	3,371	4,171	4,171	4,171	4,171	4,106
Other Non-Current Liabilities	62	71	79	60	52	86	106	127	144	156	164
Total Non-Current Liabilities	**1,201**	**1,547**	**1,925**	**2,522**	**4,450**	**6,322**	**7,581**	**8,533**	**9,334**	**9,380**	**9,595**
Current Content Liabilities	925	1,367	1,776	2,117	2,789	3,224	4,023	5,036	5,632	6,538	6,711
Accounts Payable	88	86	108	202	253	314	378	547	608	769	792
Accrued Expenses	64	53	54	70	140	258	425	380	578	779	985
Deferred Revenue	149	169	216	275	347	429	638	761	866	1,091	1,313
Total Current Liabilities	**1,225**	**1,676**	**2,154**	**2,663**	**3,530**	**4,225**	**5,464**	**6,724**	**7,685**	**9,177**	**9,801**
Total Liabilities	**2,426**	**3,223**	**4,079**	**5,185**	**7,979**	**10,546**	**13,046**	**15,258**	**17,019**	**18,557**	**19,396**
Total Equity & Liabilities	**3,069**	**3,968**	**5,413**	**7,043**	**10,203**	**13,001**	**16,314**	**20,261**	**24,215**	**28,419**	**32,284**

Table 17 | CAGR 2011 - 2015 vs CAGR 2016-2021 - Balance Sheet Assets figures |

	Non-Current Content Assets	**Current Content Assets**	**Cash & Cash Equivalents**	**Total Assets**
CAGR: 2011-2015	15.1%	13.9%	14.5%	14.2%
CAGR: 2016-2021	9.0%	9.0%	12.6%	9.8%

Table 18 | CAGR 2011 - 2015 vs CAGR 2016-2021 - Balance Sheet Liabilities figures |

	Total Equity	**Non-Current Content Liabilities**	**Current Content Liabilities**	**Long-Term Debt**	**Total Liabilities**
CAGR: 2011-2015	14.4%	13.1%	13.7%	16.3%	14.1%
CAGR: 2016-2021	12.6%	7.9%	8.7%	3.3%	7.8%

Table 19 | Netflix's Balance Sheet Size |

	As of December 31										
In millions of dollars	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Non-Current Content Assets	34.1%	38.0%	38.6%	39.4%	42.3%	47.6%	48.7%	48.6%	46.7%	43.5%	41.4%
Property & Equipment, Net	4.4%	3.3%	2.5%	2.1%	1.7%	1.4%	1.3%	1.1%	1.0%	0.9%	0.8%
Other Non-Current Assets	1.8%	2.3%	2.4%	2.7%	2.8%	2.6%	2.6%	2.5%	2.4%	2.2%	2.0%
Total Non-Current Assets	**40.3%**	**43.5%**	**43.5%**	**44.2%**	**46.8%**	**51.7%**	**52.6%**	**52.2%**	**50.1%**	**46.6%**	**44.2%**
Cash & Cash Equivalents	16.6%	7.3%	11.2%	15.8%	17.7%	11.2%	9.1%	11.0%	13.9%	20.6%	24.1%
Short-Term Investments	9.4%	11.5%	11.0%	7.0%	4.9%	3.3%	3.9%	3.1%	3.6%	2.7%	3.1%
Current Content Assets	30.0%	34.5%	31.5%	30.8%	28.5%	31.8%	32.5%	32.4%	31.2%	29.0%	27.6%
Other Current Assets	3.7%	3.1%	2.8%	2.2%	2.1%	2.0%	2.0%	1.3%	1.2%	1.1%	1.0%
Total Current Assets	**59.7%**	**56.5%**	**56.5%**	**55.8%**	**53.2%**	**48.3%**	**47.4%**	**47.8%**	**49.9%**	**53.4%**	**55.8%**
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stock	0.0%	0.0%	0.0%	14.8%	13.0%	10.2%	8.1%	6.5%	5.5%	4.7%	4.1%
Additional Paid-In Capital	7.1%	7.6%	14.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Acc. Other Comprehensive Loss	0.0%	0.1%	0.1%	-0.1%	-0.4%	-0.3%	-0.1%	0.0%	0.0%	0.0%	0.0%
Retained Earnings	13.8%	11.1%	10.2%	11.6%	9.2%	9.0%	12.0%	18.1%	24.2%	30.0%	35.8%
Total Equity	**20.9%**	**18.8%**	**24.6%**	**26.4%**	**21.8%**	**18.9%**	**20.0%**	**24.7%**	**29.7%**	**34.7%**	**39.9%**
Non-Current Content Liabilities	24.1%	27.1%	24.9%	22.4%	19.9%	22.0%	20.2%	20.9%	20.7%	17.8%	16.5%
Long-Term Debt	13.0%	10.1%	9.2%	12.6%	23.2%	25.9%	25.6%	20.6%	17.2%	14.7%	12.7%
Other Non-Current Liabilities	2.0%	1.8%	1.5%	0.9%	0.5%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%
Total Non-Current Liabilities	**39.1%**	**39.0%**	**35.6%**	**35.8%**	**43.6%**	**48.6%**	**46.5%**	**42.1%**	**38.5%**	**33.0%**	**29.7%**
Current Content Liabilities	30.1%	34.4%	32.8%	30.1%	27.3%	24.8%	24.7%	24.9%	23.3%	23.0%	20.8%
Accounts Payable	2.9%	2.2%	2.0%	2.9%	2.5%	2.4%	2.3%	2.7%	2.5%	2.7%	2.5%
Accrued Expenses	2.1%	1.3%	1.0%	1.0%	1.4%	2.0%	2.6%	1.9%	2.4%	2.7%	3.1%
Deferred Revenue	4.8%	4.3%	4.0%	3.9%	3.4%	3.3%	3.9%	3.8%	3.6%	3.8%	4.1%
Total Current Liabilities	**39.9%**	**42.2%**	**39.8%**	**37.8%**	**34.6%**	**32.5%**	**33.5%**	**33.2%**	**31.7%**	**32.3%**	**30.4%**
Total Liabilities	**79.1%**	**81.2%**	**75.4%**	**73.6%**	**78.2%**	**81.1%**	**80.0%**	**75.3%**	**70.3%**	**65.3%**	**60.1%**
Total Equity & Liabilities	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

CONSOLIDATED CASH FLOW STATEMENT

Table 20 | Netflix's Consolidated Cash Flow Statement |

	As of December 31										
In millions of dollars	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Net income	**226**	**17**	**112**	**267**	**123**	**231**	**783**	**1,715**	**2,193**	**2,666**	**3,026**
Additions to Streaming Cont. Assets	(2,321)	(2,516)	(3,031)	(3,773)	(5,772)	(7,792)	(8,571)	(9,428)	(9,899)	(10,147)	(10,147)
Change in Streaming Cont. Liabilities	1,460	762	674	593	1,162	1,137	1,133	1,818	1,235	795	300
Amortization of Streaming Cont. Assets	699	1,591	2,122	2,656	3,405	4,658	5,607	6,215	7,459	8,416	8,477
Amortization of DVD Cont. Assets	97	65	71	72	79	95	114	127	75	85	86
D&A of property, equipment & Intangibles	44	45	48	54	62	74	88	104	124	144	166
Stock-based Compensation Expense	62	74	73	115	125	125	125	125	125	125	125
Excess Tax Benefits from Stock-based Compensation	(46)	(5)	(82)	(89)	(80)	(60)	(60)	(60)	(60)	(60)	(60)
Other Non-Cash Items	(4)	8	5	15	32	100	100	100	100	100	100
Loss on Extinguishment of Debt	-	-	25	-	-	-	-	-	-	-	-
Deferred Taxes	(19)	(30)	(22)	(30)	(59)	(59)	(59)	(59)	(59)	(59)	(59)
Other Current Assets	(5)	(5)	43	(9)	19	(42)	(61)	65	(35)	(23)	(17)
Accounts Payable	24	(5)	18	84	52	60	65	169	61	160	23
Accrued Expenses	75	10	2	56	49	117	167	(45)	197	202	205
Deferred Revenue	22	21	46	59	72	83	208	123	105	225	222
Other Non-Current Assets & Liabilities	3	5	(9)	(52)	(18)	(25)	(61)	(62)	(53)	(34)	(25)
Cash Flow from Operating Activities	**318**	**38**	**98**	**17**	**(749)**	**(1,298)**	**(421)**	**908**	**1,568**	**2,596**	**2,423**
Acquisition of DVD Cont. Assets	(85)	(48)	(66)	(75)	(78)	(67)	(74)	(76)	(87)	(94)	(98)
Purchases of Property & Equipment	(50)	(40)	(54)	(70)	(91)	(86)	(106)	(127)	(144)	(156)	(164)
Other Assets	4	9	6	1	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Purchases of Short-term Investments	(224)	(477)	(550)	(427)	(372)	(352)	(626)	(521)	(782)	(452)	(582)
Proceeds from Sale of Short-term Investments	51	283	348	385	259	284	303	378	451	345	281
Proceeds from Maturities of Short-term Investments	38	29	61	142	105	140	115	146	99	194	96
Cash Flow from Investing Activities	**(266)**	**(245)**	**(256)**	**(43)**	**(179)**	**(82)**	**(391)**	**(201)**	**(465)**	**(164)**	**(470)**
Proceeds from Issuance of Common Stock	20	4	125	61	78	-	-	-	-	-	-
Proceeds from Public Offerings	200	(0)	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Debt	198	(0)	500	400	1,500	1,000	800	-	-	-	-
Issuance Costs	-	-	(9)	(7)	(18)	(11)	(10)	-	-	-	-
Repurchases of Common Stock	(200)	-	-	-	-	-	-	-	-	-	-
Redemption of Debt	-	-	(219)	-	-	-	-	-	-	-	(66)
Excess Tax Benefits from Stock-based Compensation	46	5	82	89	80	60	60	60	60	60	60
Principal Payments of Lease Financing Obligations	(2)	(2)	(1)	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(3)
Cash Flow from Financing Activities	**262**	**6**	**476**	**542**	**1,640**	**1,048**	**848**	**57**	**57**	**57**	**(9)**
Exchange Rate Effects	-	(0)	(3)	(7)	(16)	(16)	(16)	(16)	(16)	(16)	(16)
Net Change in Cash & Cash Equivalents	**314**	**(201)**	**315**	**509**	**696**	**(348)**	**20**	**748**	**1,144**	**2,472**	**1,928**
Beginning Cash & Cash Equivalents	194	491	290	605	1,114	1,809	1,461	1,481	2,229	3,373	5,845
Ending Cash & Cash Equivalents	508	290	605	1,114	1,809	1,461	1,481	2,229	3,373	5,845	7,774

RETURN ON EQUITY

Table 21 | Netflix's DuPont Identity |

	As of December 31										
In millions of dollars	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Net Income	226	17	112	267	123	231	783	1,715	2,193	2,666	3,026
Revenues	3,205	3,609	4,375	5,505	6,780	8,587	10,626	12,683	14,441	15,586	16,411
Net Profit Margin	**7.1%**	**0.5%**	**2.6%**	**4.8%**	**1.8%**	**2.7%**	**7.4%**	**13.5%**	**15.2%**	**17.1%**	**18.4%**
Net Income	226	17	112	267	123	231	783	1,715	2,193	2,666	3,026
EBT	360	30	171	349	142	289	979	2,144	2,741	3,333	3,783
Tax Burden (1 - tax rate)	**62.9%**	**56.3%**	**65.7%**	**76.4%**	**86.4%**	**80.0%**	**80.0%**	**80.0%**	**80.0%**	**80.0%**	**80.0%**
EBT	360	30	171	349	142	289	979	2,144	2,741	3,333	3,783
EBIT	376	50	228	403	306	584	1,382	2,537	3,105	3,741	4,152
Interest Burden	**95.6%**	**61.0%**	**74.9%**	**86.8%**	**46.4%**	**49.4%**	**70.9%**	**84.5%**	**88.3%**	**89.1%**	**91.1%**
EBIT	376	50	228	403	306	584	1,382	2,537	3,105	3,741	4,152
Revenues	3,205	3,609	4,375	5,505	6,780	8,587	10,626	12,683	14,441	15,586	16,411
EBIT Margin	**11.7%**	**1.4%**	**5.2%**	**7.3%**	**4.5%**	**6.8%**	**13.0%**	**20.0%**	**21.5%**	**24.0%**	**25.3%**
Revenues	3,205	3,609	4,375	5,505	6,780	8,587	10,626	12,683	14,441	15,586	16,411
Total Assets	3,069	3,968	5,413	7,043	10,203	13,001	16,314	20,261	24,215	28,419	32,284
Asset Turnover	**1.0x**	**0.9x**	**0.8x**	**0.8x**	**0.7x**	**0.7x**	**0.7x**	**0.6x**	**0.6x**	**0.5x**	**0.5x**
Total Assets	3,069	3,968	5,413	7,043	10,203	13,001	16,314	20,261	24,215	28,419	32,284
Total Equity	643	745	1,334	1,858	2,223	2,454	3,268	5,003	7,196	9,862	12,888
Leverage	**4.8x**	**5.3x**	**4.1x**	**3.8x**	**4.6x**	**5.3x**	**5.0x**	**4.0x**	**3.4x**	**2.9x**	**2.5x**
Return on Equity	**35.2%**	**2.3%**	**8.4%**	**14.4%**	**5.5%**	**9.4%**	**24.0%**	**34.3%**	**30.5%**	**27.0%**	**23.5%**
Return on Equity - 5 Step	**35.2%**	**2.3%**	**8.4%**	**14.4%**	**5.5%**	**9.4%**	**24.0%**	**34.3%**	**30.5%**	**27.0%**	**23.5%**

KEY FINANCIAL RATIOS

Table 22 | Netflix's Key Financial Ratios |

	As of December 31										
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Efficiency											
Asset Turnover	1.04	0.91	0.81	0.78	0.66	0.66	0.65	0.63	0.60	0.55	0.51
Payables Period	15.8	12.1	12.7	19.6	20.2	20.1	20.0	25.0	25.0	30.1	30.0
Payables Turnover	23.2	30.4	28.7	18.6	18.1	18.3	18.3	14.6	14.6	12.2	12.2
Cash Conversion Cycle	(15.8)	(12.1)	(12.7)	(19.6)	(20.2)	(20.1)	(20.0)	(25.0)	(25.0)	(30.1)	(30.0)
Activity											
Capex / Amortization of Contents	1.19	1.09	1.10	1.19	1.35	1.40	1.30	1.20	1.15	1.10	1.15
Marketing Expenses (As a % of Revenues)	12.6%	12.9%	10.7%	11.0%	12.2%	11.0%	9.5%	7.0%	7.0%	6.5%	6.5%
Technology and Dev. (As a % of Revenues)	8.1%	9.1%	8.7%	8.6%	9.6%	9.5%	8.0%	6.0%	6.0%	5.5%	5.5%
General and Adm. (As a % of Revenues)	4.0%	3.9%	4.1%	4.9%	6.0%	6.0%	4.5%	4.0%	4.0%	4.0%	4.0%
Liquidity											
Current Ratio	149%	134%	142%	147%	154%	149%	142%	144%	157%	165%	184%
Cash Ratio	65%	45%	56%	60%	65%	45%	39%	43%	55%	72%	89%
Profitability											
Gross Profit Margin	36.3%	27.2%	28.7%	31.8%	32.3%	33.3%	35.0%	37.0%	38.5%	40.0%	41.3%
EBIT Margin	11.7%	1.4%	5.2%	7.3%	4.5%	6.8%	13.0%	20.0%	21.5%	24.0%	25.3%
Net Profit Margin	7.1%	0.5%	2.6%	4.8%	1.8%	2.7%	7.4%	13.5%	15.2%	17.1%	18.4%
ROE	35.2%	2.3%	8.4%	14.4%	5.5%	9.4%	24.0%	34.3%	30.5%	27.0%	23.5%
ROA	7.4%	0.4%	2.1%	3.8%	1.2%	1.8%	4.8%	8.5%	9.1%	9.4%	9.4%
ROCE	20.4%	2.2%	7.0%	9.2%	4.6%	6.7%	12.7%	18.7%	18.8%	19.4%	18.5%
EPS	$ 0.59	$ 0.04	$ 0.27	$ 0.62	$ 0.28	$ 0.52	$ 1.76	$ 3.81	$ 4.82	$ 5.81	$ 6.52
Debt											
Equity Ratio	20.9%	18.8%	24.6%	26.4%	21.8%	18.9%	20.0%	24.7%	29.7%	34.7%	39.9%
Total Liabilities to Equity Ratio	3.8x	4.3x	3.1x	2.8x	3.6x	4.3x	4.0x	3.0x	2.4x	1.9x	1.5x
Interest Coverage Ratio	18.78	2.50	7.84	8.02	2.30	2.48	4.73	8.69	9.31	11.21	12.64
Long-term Debt over Total Assets	13.0%	10.1%	9.2%	12.6%	23.2%	25.9%	25.6%	20.6%	17.2%	14.7%	12.7%
Long-term Debt over Equity (Debt-to-Equity Ratio)	62.2%	53.7%	37.5%	47.7%	106.7%	137.4%	127.6%	83.4%	58.0%	42.3%	31.9%

Table 23 | Netflix's DCF |

	As of December 31					
In millions	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Expected Paid Memberships in Domestic Streaming	47.910	51.743	54.847	57.041	58.753	60.221
Expected Annual ARPU	$ 104.7	$ 111.5	$ 115.7	$ 116.8	$ 114.5	$ 111.7
Expected Monthly ARPU	$ 8.7	$ 9.3	$ 9.6	$ 9.7	$ 9.5	$ 9.3
Expected Paid Memberships in International Streaming	41.190	53.547	64.256	72.288	79.517	87.469
Expected Annual ARPU	$ 73.5	$ 82.0	$ 92.2	$ 102.5	$ 107.1	$ 107.1
Expected Monthly ARPU	$ 6.1	$ 6.8	$ 7.7	$ 8.5	$ 8.9	$ 8.9
Expected Paid Memberships in Domestic DVD	4.021	3.539	3.185	2.898	2.695	2.560
Expected Annual ARPU	$ 134.9	$ 131.8	$ 128.9	$ 127.5	$ 124.7	$ 120.8
Expected Monthly ARPU	$ 11.2	$ 11.0	$ 10.7	$ 10.6	$ 10.4	$ 10.1
Revenues in Domestic Streaming	5,016	5,769	6,346	6,663	6,730	6,730
Revenues in International Streaming	3,028	4,390	5,927	7,409	8,520	9,372
Revenues in Domestic DVD	542	466	411	369	336	309
Total Revenues	8,587	10,626	12,683	14,441	15,586	16,411
Cost of Revenues	(5,727)	(6,907)	(7,990)	(8,881)	(9,352)	(9,633)
Gross Profit	2,859	3,719	4,693	5,560	6,234	6,778
Marketing Expenses	(945)	(1,009)	(888)	(1,011)	(1,013)	(1,067)
Technology and Development	(816)	(850)	(761)	(866)	(857)	(903)
General & Administrative	(515)	(478)	(507)	(578)	(623)	(656)
Operating Income (EBIT)	584	1,381	2,537	3,105	3,741	4,152
Corporate Tax	(117)	(276)	(507)	(621)	(748)	(830)
EBIT (1 - Tax)	467	1,105	2,029	2,484	2,992	3,322
Amortizations of Contents	4,753	5,722	6,342	7,535	8,501	8,562
D&A of Property, Equipment & Intangibles	74	88	104	124	144	166
Cash Spent in Contents	(6,655)	(7,438)	(7,610)	(8,665)	(9,352)	(9,847)
Purchases of Property & Equipment	(86)	(106)	(127)	(144)	(156)	(164)
Changes in Working Capital	193	318	251	276	529	409
UFCF	(1,254)	(312)	990	1,609	2,660	2,448

Table 24 | Historical prices of MSCI and NFLX |
Source: yahoofinance.com

	MSCI ACWI			Netflix, Inc.		Netflix's Excess Returns	ACWI's Excess Returns
Date	Adj Close	Return	Plus 1	Adj Close	Return	Difference	Difference
01-12-16	$ 59.17	2.0%	1.019623	$ 123.80	5.8%	2.8%	-1.1%
01-11-16	$ 58.03	1.0%	1.01035	$ 117.00	-6.3%	-9.4%	-2.0%
03-10-16	$ 57.44	-1.9%	0.98088	$ 124.87	26.7%	23.6%	-5.0%
01-09-16	$ 58.56	0.9%	1.009394	$ 98.55	1.1%	-1.9%	-2.1%
01-08-16	$ 58.01	0.3%	1.003428	$ 97.45	6.8%	3.7%	-2.7%
01-07-16	$ 57.81	3.8%	1.037702	$ 91.25	-0.3%	-3.3%	0.7%
01-06-16	$ 55.71	0.0%	0.999503	$ 91.48	-10.8%	-13.9%	-3.1%
02-05-16	$ 55.74	0.3%	1.003344	$ 102.57	13.9%	10.9%	-2.7%
01-04-16	$ 55.55	1.3%	1.013379	$ 90.03	-11.9%	-15.0%	-1.7%
01-03-16	$ 54.82	7.4%	1.073946	$ 102.23	9.4%	6.4%	4.3%
01-02-16	$ 51.05	-1.2%	0.987514	$ 93.41	1.7%	-1.4%	-4.3%
04-01-16	$ 51.69	-5.3%	0.946972	$ 91.84	-19.7%	-22.8%	-8.4%
01-12-15	$ 54.59	-2.1%	0.978942	$ 114.38	-7.3%	-10.3%	-5.2%
02-11-15	$ 55.76	-0.5%	0.994662	$ 123.33	13.8%	10.7%	-3.6%
01-10-15	$ 56.06	7.7%	1.076567	$ 108.38	5.0%	1.9%	4.6%
01-09-15	$ 52.07	-3.4%	0.965628	$ 103.26	-10.2%	-13.3%	-6.5%
03-08-15	$ 53.93	-6.8%	0.931932	$ 115.03	0.6%	-2.4%	-9.9%
01-07-15	$ 57.87	0.8%	1.008242	$ 114.31	21.8%	18.7%	-2.2%
01-06-15	$ 57.39	-2.6%	0.974217	$ 93.85	5.3%	2.2%	-5.6%
01-05-15	$ 58.91	0.0%	1.000000	$ 89.15	12.1%	9.1%	-3.1%
01-04-15	$ 58.91	2.9%	1.028657	$ 79.50	33.6%	30.5%	-0.2%
02-03-15	$ 57.27	-1.5%	0.985388	$ 59.53	-12.3%	-15.3%	-4.5%
02-02-15	$ 58.12	5.5%	1.055084	$ 67.84	7.5%	4.4%	2.4%
02-01-15	$ 55.08	-1.3%	0.986838	$ 63.11	29.3%	26.3%	-4.4%
01-12-14	$ 55.82	-2.4%	0.976423	$ 48.80	-1.4%	-4.5%	-5.4%
03-11-14	$ 57.17	1.4%	1.013756	$ 49.51	-11.8%	-14.8%	-1.7%
01-10-14	$ 56.39	1.2%	1.012054	$ 56.11	-12.9%	-16.0%	-1.9%
02-09-14	$ 55.72	-3.3%	0.966842	$ 64.45	-5.5%	-8.6%	-6.4%
01-08-14	$ 57.63	2.6%	1.025762	$ 68.23	13.0%	9.9%	-0.5%
01-07-14	$ 56.18	-1.4%	0.985563	$ 60.39	-4.1%	-7.1%	-4.5%
02-06-14	$ 57.01	1.8%	1.018182	$ 62.94	5.4%	2.4%	-1.2%
01-05-14	$ 55.99	2.0%	1.020058	$ 59.69	29.7%	26.7%	-1.1%
01-04-14	$ 54.89	1.2%	1.011868	$ 46.01	-8.5%	-11.6%	-1.9%
03-03-14	$ 54.24	0.6%	1.005708	$ 50.29	-21.0%	-24.1%	-2.5%
03-02-14	$ 53.94	5.2%	1.052047	$ 63.66	8.9%	5.8%	2.1%
02-01-14	$ 51.27	-4.6%	0.953662	$ 58.48	11.2%	8.1%	-7.7%

	MSCI ACWI			Netflix, Inc.		Netflix's Excess Returns	ACWI's Excess Returns
Date	Adj Close	Return	Plus 1	Adj Close	Return	Difference	Difference
02-12-13	$ 53.76	2.1%	1.020692	$ 52.60	0.6%	-2.4%	-1.0%
01-11-13	$ 52.67	1.6%	1.015522	$ 52.26	13.4%	10.4%	-1.5%
01-10-13	$ 51.86	4.0%	1.039503	$ 46.07	4.3%	1.2%	0.9%
03-09-13	$ 49.89	5.5%	1.055392	$ 44.17	8.9%	5.9%	2.5%
01-08-13	$ 47.27	-2.3%	0.977051	$ 40.56	16.1%	13.1%	-5.4%
01-07-13	$ 48.38	4.6%	1.0458	$ 34.93	15.8%	12.8%	1.5%
03-06-13	$ 46.27	-2.6%	0.973983	$ 30.16	-6.7%	-9.8%	-5.7%
01-05-13	$ 47.50	-0.4%	0.996168	$ 32.32	4.7%	1.7%	-3.4%
01-04-13	$ 47.68	2.8%	1.028374	$ 30.87	14.2%	11.1%	-0.2%
01-03-13	$ 46.37	1.8%	1.018258	$ 27.04	0.6%	-2.4%	-1.2%
01-02-13	$ 45.54	-0.1%	0.998998	$ 26.87	13.8%	10.8%	-3.2%
02-01-13	$ 45.58	3.8%	1.037645	$ 23.61	78.5%	75.4%	0.7%
03-12-12	$ 43.93	2.9%	1.029041	$ 13.23	13.3%	10.3%	-0.2%
01-11-12	$ 42.69	1.6%	1.015931	$ 11.67	3.1%	0.1%	-1.5%
01-10-12	$ 42.02	-0.5%	0.99486	$ 11.32	45.6%	42.5%	-3.6%
04-09-12	$ 42.24	2.7%	1.027057	$ 7.78	-8.8%	-11.9%	-0.4%
01-08-12	$ 41.12	2.8%	1.027809	$ 8.53	5.0%	2.0%	-0.3%
02-07-12	$ 40.01	0.8%	1.008206	$ 8.12	-17.0%	-20.1%	-2.2%
01-06-12	$ 39.69	5.1%	1.050723	$ 9.78	8.0%	4.9%	2.0%
01-05-12	$ 37.77	-9.3%	0.907201	$ 9.06	-20.8%	-23.9%	-12.3%
02-04-12	$ 41.63	-1.1%	0.988559	$ 11.45	-30.3%	-33.4%	-4.2%
01-03-12	$ 42.12	1.1%	1.01114	$ 16.43	3.9%	0.8%	-1.9%
01-02-12	$ 41.65	4.9%	1.04946	$ 15.82	-7.9%	-10.9%	1.9%
03-01-12	$ 39.69			$ 17.17			

Table 25 | World Inflation |
Source: IMF's World Economic Outlook data base, October 2016

Consumer Prices Index (average)	**As of December 31**						
%	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**CAGR**
World Inflation	2.90%	3.28%	3.28%	3.23%	3.27%	3.25%	**2.06%**

Table 26 | World Gross Domestic Product |
Source: IMF's World Economic Outlook data base, October 2016

Current Prices	**As of December 31**						
In billions of dollars	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	
World	75,213	79,536	83,811	88,539	93,599	98,632	
Syria	75.21	79.54	83.81	88.54	93.60	98.63	
Korea	1,404.38	1,521.00	1,591.30	1,668.97	1,746.81	1,819.34	
North Korea	19.56	20.68	21.79	23.02	24.34	25.64	
South Korea	1,384.83	1,500.32	1,569.51	1,645.95	1,722.48	1,793.69	
							CAGR
Total World GDP excluding North Korea and Syria	75,118	79,436	83,706	88,428	93,481	98,508	**4.35%**

Table 27 | Beta Calculation |
Source: yahoofinance.com

	Netflix, Inc.		MSCI ACWI		
Date	Adj Close	Return	Adj Close	Return	Plus 1
10-10-16	$ 101.47	-3.2%	$ 57.48	-1.3%	0.99
03-10-16	$ 104.82	6.4%	$ 58.22	-0.6%	0.99
26-09-16	$ 98.55	2.7%	$ 58.56	-0.1%	1.00
19-09-16	$ 95.94	-3.6%	$ 58.59	2.2%	1.02
12-09-16	$ 99.48	3.1%	$ 57.30	-0.4%	1.00
06-09-16	$ 96.50	-0.9%	$ 57.55	-1.9%	0.98
29-08-16	$ 97.38	-0.2%	$ 58.68	1.0%	1.01
22-08-16	$ 97.58	1.8%	$ 58.09	-0.9%	0.99
15-08-16	$ 95.87	-0.7%	$ 58.63	0.1%	1.00
08-08-16	$ 96.59	-0.5%	$ 58.58	1.2%	1.01
01-08-16	$ 97.03	6.3%	$ 57.90	0.2%	1.00
25-07-16	$ 91.25	6.2%	$ 57.81	0.7%	1.01
18-07-16	$ 85.89	-12.7%	$ 57.43	0.4%	1.00
11-07-16	$ 98.39	1.4%	$ 57.18	2.2%	1.02
05-07-16	$ 97.06	0.4%	$ 55.94	0.2%	1.00
27-06-16	$ 96.67	9.3%	$ 55.83	3.8%	1.04
20-06-16	$ 88.44	-6.4%	$ 53.80	-1.9%	0.98
13-06-16	$ 94.45	0.7%	$ 54.85	-1.1%	0.99
06-06-16	$ 93.75	-5.9%	$ 55.46	-1.1%	0.99
31-05-16	$ 99.59	-3.6%	$ 56.07	0.4%	1.00
23-05-16	$ 103.30	11.7%	$ 55.88	2.2%	1.02
16-05-16	$ 92.49	5.2%	$ 54.66	0.5%	1.01
09-05-16	$ 87.88	-3.3%	$ 54.37	-0.7%	0.99
02-05-16	$ 90.84	0.9%	$ 54.74	-1.5%	0.99
25-04-16	$ 90.03	-6.1%	$ 55.55	-1.2%	0.99
18-04-16	$ 95.90	-14.0%	$ 56.24	1.1%	1.01
11-04-16	$ 111.51	7.4%	$ 55.64	2.4%	1.02
04-04-16	$ 103.81	-1.8%	$ 54.32	-0.8%	0.99
28-03-16	$ 105.70	7.5%	$ 54.78	1.4%	1.01
21-03-16	$ 98.36	-2.7%	$ 54.01	-1.4%	0.99
14-03-16	$ 101.12	3.5%	$ 54.76	1.2%	1.01
07-03-16	$ 97.66	-3.9%	$ 54.14	1.5%	1.01
29-02-16	$ 101.58	7.2%	$ 53.35	4.0%	1.04
22-02-16	$ 94.79	6.2%	$ 51.32	0.9%	1.01
16-02-16	$ 89.23	2.1%	$ 50.87	3.2%	1.03
08-02-16	$ 87.40	5.6%	$ 49.28	-1.8%	0.98
01-02-16	$ 82.79	-9.9%	$ 50.19	-2.9%	0.97
25-01-16	$ 91.84	-8.8%	$ 51.69	2.0%	1.02
19-01-16	$ 100.72	-3.2%	$ 50.67	2.0%	1.02
11-01-16	$ 104.04	-6.6%	$ 49.66	-2.7%	0.97
04-01-16	$ 111.39	-2.6%	$ 51.03	-6.5%	0.93
28-12-15	$ 114.38	-2.5%	$ 54.59	-1.1%	0.99
21-12-15	$ 117.33	-0.6%	$ 55.19	2.9%	1.03
14-12-15	$ 118.02	-0.7%	$ 53.64	0.3%	1.00
07-12-15	$ 118.91	-9.2%	$ 53.50	-4.3%	0.96
30-11-15	$ 130.93	4.4%	$ 55.92	0.0%	1.00

23-11-15	$ 125.44	1.3%	$ 55.92	-0.4%	1.00
16-11-15	$ 123.84	19.5%	$ 56.13	3.1%	1.03
09-11-15	$ 103.65	-9.1%	$ 54.46	-3.4%	0.97
02-11-15	$ 114.06	5.2%	$ 56.36	0.5%	1.01
26-10-15	$ 108.38	8.3%	$ 56.06	-0.8%	0.99
19-10-15	$ 100.04	1.1%	$ 56.49	1.5%	1.01
12-10-15	$ 98.99	-12.7%	$ 55.66	0.8%	1.01
05-10-15	$ 113.33	6.8%	$ 55.23	4.0%	1.04
28-09-15	$ 106.11	3.8%	$ 53.09	1.6%	1.02
21-09-15	$ 102.24	-0.4%	$ 52.26	-2.0%	0.98
14-09-15	$ 102.62	5.2%	$ 53.34	-0.3%	1.00
08-09-15	$ 97.51	-1.3%	$ 53.50	2.5%	1.03
31-08-15	$ 98.79	-16.0%	$ 52.18	-4.0%	0.96
24-08-15	$ 117.63	13.1%	$ 54.35	1.3%	1.01
17-08-15	$ 103.96	-15.7%	$ 53.64	-6.3%	0.94
10-08-15	$ 123.39	-0.1%	$ 57.24	-0.3%	1.00
03-08-15	$ 123.52	8.1%	$ 57.38	-0.8%	0.99
27-07-15	$ 114.31	4.5%	$ 57.87	0.9%	1.01
20-07-15	$ 109.34	-4.7%	$ 57.32	-2.3%	0.98
13-07-15	$ 114.77	18.0%	$ 58.69	1.8%	1.02
06-07-15	$ 97.23	3.4%	$ 57.65	-0.2%	1.00
29-06-15	$ 94.04	1.0%	$ 57.78	-1.7%	0.98
22-06-15	$ 93.09	-0.8%	$ 58.79	0.3%	1.00
15-06-15	$ 93.87	-0.6%	$ 58.61	0.2%	1.00
08-06-15	$ 94.42	4.4%	$ 58.50	0.4%	1.00
01-06-15	$ 90.46	1.5%	$ 58.25	-1.1%	0.99
26-05-15	$ 89.15	0.4%	$ 58.91	-1.6%	0.98
18-05-15	$ 88.84	1.4%	$ 59.87	-0.3%	1.00
11-05-15	$ 87.61	6.7%	$ 60.03	0.7%	1.01
04-05-15	$ 82.09	3.2%	$ 59.61	0.3%	1.00
27-04-15	$ 79.58	-0.2%	$ 59.45	-0.6%	0.99
20-04-15	$ 79.77	-2.3%	$ 59.78	2.0%	1.02
13-04-15	$ 81.65	25.7%	$ 58.61	-0.7%	0.99
06-04-15	$ 64.94	9.8%	$ 59.03	2.1%	1.02
30-03-15	$ 59.15	-0.2%	$ 57.79	0.7%	1.01
23-03-15	$ 59.25	-3.2%	$ 57.37	-1.6%	0.98
16-03-15	$ 61.19	-2.3%	$ 58.32	3.4%	1.03
09-03-15	$ 62.63	-3.5%	$ 56.41	-1.1%	0.99
02-03-15	$ 64.87	-4.4%	$ 57.05	-1.8%	0.98
23-02-15	$ 67.84	-0.7%	$ 58.12	-0.2%	1.00
17-02-15	$ 68.31	2.6%	$ 58.21	0.9%	1.01
09-02-15	$ 66.59	4.9%	$ 57.67	2.1%	1.02
02-02-15	$ 63.48	0.6%	$ 56.47	2.5%	1.03
26-01-15	$ 63.11	1.0%	$ 55.08	-1.8%	0.98
20-01-15	$ 62.49	29.7%	$ 56.07	1.5%	1.02
12-01-15	$ 48.19	2.4%	$ 55.23	0.0%	1.00
05-01-15	$ 47.04	-5.6%	$ 55.25	-0.8%	0.99
29-12-14	$ 49.85	2.6%	$ 55.69	-2.0%	0.98
22-12-14	$ 48.58	0.0%	$ 56.82	1.2%	1.01
15-12-14	$ 48.59	1.7%	$ 56.17	2.7%	1.03

08-12-14	$ 47.78	-4.7%	$ 54.67	-4.3%	0.96
01-12-14	$ 50.13	1.2%	$ 57.13	-0.1%	1.00
24-11-14	$ 49.51	-3.8%	$ 57.17	0.0%	1.00
17-11-14	$ 51.47	-6.7%	$ 57.18	1.2%	1.01
10-11-14	$ 55.15	0.5%	$ 56.49	0.5%	1.01
03-11-14	$ 54.88	-2.2%	$ 56.19	-0.4%	1.00
27-10-14	$ 56.11	2.0%	$ 56.39	2.6%	1.03
20-10-14	$ 55.00	7.8%	$ 54.94	3.1%	1.03
15-10-14	$ 51.01		$ 53.27		1.00

Table 28 | Weighted Average Cost of Capital |

US-30y Treasury Bond	2.55%	**Cost of Debt**	**3.96%**
Cost of Equity	**CAPM**	**Average Corporate Tax**	**20.00%**
Rm Month	0.66%		
Rm Annual	7.95%	**WACC**	9.51%
Rf	2.55%	Terminal Growth rate (Adjustment of +0.50%)	4.85%
MRP	5.40%		
Beta	1.55	CAGR on Inflation rate	2.1%
Adjusted Beta	1.37	**Real WACC**	**7.30%**
Re = Rf + B * (MRP)	**9.93%**	**Real Terminal Growth Rate**	**2.74%**

Table 29 | Netflix's Perpetuity Growth Model |

	As of December 31					
In millions	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
UFCF	(1,254)	(312)	990	1,609	2,660	2,448

Perpetuity Growth Model			
WACC	7.30%	Debt 2016	3,371
PV	5,598	Cash 2016	1,461
Global Terminal Growth	2.74%	**Equity Value**	**55,082**
Terminal Value	55,147	Shares Outstanding 2016	438.65
PV Terminal Value	51,394	**Target Share Price**	**$ 125.57**
Enterprise Value	**56,992**	Share Price at 14/10/2016	$ 101.47
		Upside Potential	**+23.75%**

Table 30 | Cash Spent in Contents as a % of Revenues |

	As of December 31		
In millions of dollars	**2014**	**2015**	***Average***
Cash Spent in Contents	59.1%	69.1%	64.1%
Absolute value	3,255	4,687	

	As of December 31						
In millions of dollars	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	***Average***
Cash Spent in Contents	77.5%	70.0%	60.0%	60.0%	60.0%	60.0%	64.6%
Absolute value	(6,655)	(7,438)	(7,610)	(8,665)	(9,352)	(9,847)	

REVENUES FORECAST

Table 31 | Domestic Streaming Segment |

	As of December 31					
In millions of dollars	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues Growth	20.0%	15.0%	10.0%	5.0%	1.0%	0.0%
Estimated Revenues in Domestic Streaming	5,016	5,769	6,346	6,663	6,730	6,730
Growth in Paid Memberships	10.39%	8.00%	6.00%	4.00%	3.00%	2.50%
Total Expected Paid Memberships	**47.91**	**51.74**	**54.85**	**57.04**	**58.75**	**60.22**
Annual ARPU	$104.70	$111.49	$115.70	$116.81	$114.54	$111.75
Monthly ARPU	$8.73	$9.29	$9.64	$9.73	$9.55	$9.31
Growth in Monthly Subscription Fee	8.7%	6.5%	3.8%	1.0%	-1.9%	-2.4%

Table 32 | International Streaming Segment |

	As of December 31					
In millions of dollars	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues Growth	55.0%	45.0%	35.0%	25.0%	15.0%	10.0%
Estimated Revenues in International Streaming	3,028	4,390	5,927	7,409	8,520	9,372
Growth in Paid Memberships	50.12%	30.00%	20.00%	12.50%	10.00%	10.00%
Total Expected Paid Memberships	**41.19**	**53.55**	**64.26**	**72.29**	**79.52**	**87.47**
Annual ARPU	$73.51	$81.99	$92.24	$102.49	$107.15	$107.15
Monthly ARPU	$6.13	$6.83	$7.69	$8.54	$8.93	$8.93
Growth in Monthly Subscription Fee	3.3%	11.5%	12.5%	11.1%	4.5%	0.0%

Table 33 | Domestic DVD Segment |

	As of December 31					
In millions of dollars	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues Growth	-16.0%	-14.0%	-12.0%	-10.0%	-9.0%	-8.0%
Estimated Revenues in Domestic DVD	542	466	411	369	336	309
Growth in Paid Memberships	-16.00%	-12.00%	-10.00%	-9.00%	-7.00%	-5.00%
Total Expected Paid Memberships	**4.021**	**3.539**	**3.185**	**2.898**	**2.695**	**2.560**
Annual ARPU	$135	$132	$129	$127	$125	$121
Monthly ARPU	$11.24	$10.99	$10.74	$10.62	$10.40	$10.07
Growth in Monthly Subscription Fee	0.0%	-2.3%	-2.2%	-1.1%	-2.2%	-3.2%

OTHER FORECAST DETAILS

Table 34 | Forecast Details |

	As of December 31										
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Revenues Growth	NA	13%	21%	26%	23%	27%	24%	19%	14%	8%	5%
Gross Profit Margin	36%	27%	29%	32%	32%	33%	35%	37%	39%	40%	41%
Marketing Expenses (As a % of Revenues)	13%	13%	11%	11%	12%	11%	10%	7%	7%	7%	7%
Technology and Dev. (As a % of Revenues)	8%	9%	9%	9%	10%	10%	8%	6%	6%	6%	6%
General and Administrative (As a % of Revenues)	4%	4%	4%	5%	6%	6%	5%	4%	4%	4%	4%
EBIT Margin	12%	1%	5%	7%	5%	7%	13%	20%	22%	24%	25%
Interest Rate on Borrowing	5%	5%	6%	6%	6%	7%	7%	7%	8%	8%	8%
Long-term debt	400	400	500	886	2,371	3,371	4,171	4,171	4,171	4,171	4,106
Other Income/Expense (on EBIT)	-1%	-1%	12%	1%	10%	10%	8%	4%	1%	2%	1%
Tax Rate	37%	43%	34%	24%	14%	20%	20%	20%	20%	20%	20%
Cash & Cash Equivalents (As a % of Revenues)	16%	8%	14%	20%	27%	17%	14%	18%	23%	38%	47%
Short-Term Investments (As a % of Revenues)	9%	13%	14%	9%	7%	5%	6%	5%	6%	5%	6%
Change in Short-Term Investments	NA	168	138	(101)	6	(72)	208	(3)	232	(87)	205
Other Current Assets (As a % of Revenues)	4%	3%	3%	3%	3%	3%	3%	2%	2%	2%	2%
Other Non-Current Assets (As a % of Revenues)	2%	2%	3%	3%	4%	4%	4%	4%	4%	4%	4%
Account Payables Days	16	12	13	20	20	20	20	25	25	30	30
Other Non-Current Liabilities (As a % of Revenues)	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Accrued Expenses (As a % of Revenues)	2%	1%	1%	1%	2%	3%	4%	3%	4%	5%	6%
Deferred Revenues (As a % of Revenues)	5%	5%	5%	5%	5%	5%	6%	6%	6%	7%	8%
Purchases of Property & Equipment (As a % of Revenues)	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Amortization of Contents	796	1,657	2,193	2,728	3,485	4,753	5,722	6,342	7,535	8,501	8,562
Streaming Amortization % on Total Amortization	88%	96%	97%	97%	98%	98%	98%	98%	99%	99%	99%
DVD Amortization % on Total Amortization	12%	4%	3%	3%	2%	2%	2%	2%	1%	1%	1%
Cash Spent in Contents	945	1,802	2,423	3,255	4,687	6,655	7,438	7,610	8,665	9,352	9,847
Acquisition of DVD Cont. / Cash Spent in Cont.	9%	3%	3%	2%	2%	1%	1%	1%	1%	1%	1%
Additions to Streaming Cont. Assets Growth	NA	8%	20%	24%	53%	35%	10%	10%	5%	3%	0%
Principal Payments of Lease Financing Obligations (As a % of Revenues)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
New Shares Issued (millions)	-	52	(11)	7	5	5	5	5	5	5	5
Paid-In Capital per Share	$0.57	$0.69	$1.83	$ -	$ -	$1.83	$1.83	$1.83	$1.83	$1.83	$1.83
Book Value per Share	$1.7	$1.7	$3.1	$4.3	$5.1	$5.6	$7.3	$11.1	$15.8	$21.5	$27.8

Source: 2016 Sandvine's Global Internet Phenomena, Africa, Asia-Pacific and Middle East and 2016 Sandvine Global Internet Phenomena, Latin America & North America

Table 35 | Top 10 Peak Period Applications in North America, Fixed Access |

Upstream		Downstream		Aggregate	
BitTorrent	18.37%	Netflix	35.15%	Netflix	32.72%
YouTube	13.13%	YouTube	17.53%	YouTube	17.31%
Netflix	10.33%	Amazon Video	4.26%	HTTP - OTHER	4.14%
SSL - OTHER	8.55%	HTTP - OTHER	4.19%	Amazon Video	3.96%
Google Cloud	6.98%	iTunes	2.91%	SSL - OTHER	3.12%
iCloud	5.98%	Hulu	2.68%	BitTorrent	2.85%
HTTP - OTHER	3.70%	SSL - OTHER	2.53%	iTunes	2.67%
Facebook	3.04%	Xbox One Games Download	2.18%	Hulu	2.47%
FaceTime	2.50%	Facebook	1.89%	Xbox One Games Download	2.15%
Skype	1.75%	BitTorrent	1.73%	Facebook	2.01%
	69.32%		74.33%		72.72%

Table 36 | Top 10 Peak Period Applications in North America, Mobile Access |

Rank	Upstream	2016	Downstream		Aggregate	Share
1	Facebook	14.85%	YouTube	20.87%	YouTube	19.16%
2	SSL - OTHER	14.02%	Facebook	13.97%	Facebook	14.07%
3	Google Cloud	9.28%	HTTP - OTHER	9.36%	HTTP - OTHER	9.32%
4	HTTP - OTHER	8.92%	SSL - OTHER	6.85%	SSL - OTHER	7.62%
5	YouTube	5.01%	Instagram	6.66%	Instagram	6.31%
6	Snapchat	4.36%	Snapchat	5.17%	Snapchat	5.09%
7	Instagram	3.35%	Netflix	3.72%	Google Cloud	3.56%
8	BitTorrent	2.16%	iTunes	3.02%	Netflix	3.41%
9	FaceTime	1.97%	Google Cloud	2.87%	iTunes	2.86%
10	iCloud	1.82%	MPEG - OTHER	2.37%	MPEG - OTHER	2.17%
		65.76%		74.87%		73.57%

Table 37 | Top 10 Peak Period Applications in Latin America, Fixed Access |

Upstream		Downstream		Aggregate	
BitTorrent	30.03%	YouTube	28.48%	YouTube	25.91%
YouTube	9.30%	HTTP - OTHER	11.66%	HTTP - OTHER	11.12%
HTTP - OTHER	7.59%	SSL - OTHER	9.76%	BitTorrent	10.06%
Facebook	6.72%	Netflix	8.31%	SSL - OTHER	9.28%
SSL - OTHER	6.19%	BitTorrent	6.96%	Netflix	7.45%
Ares	5.27%	Facebook	5.10%	Facebook	5.32%
Skype	2.53%	MPEG - OTHER	2.28%	MPEG - OTHER	2.10%
Netflix	1.97%	RTMP	1.79%	RTMP	1.66%
Dropbox	1.16%	Google Market	1.69%	Google Market	1.52%
MPEG - OTHER	0.92%	Flash Video	1.60%	Flash Video	1.46%
	71.69%		77.63%		75.87%

Table 38 | Top 10 Peak Period Applications in Latin America, Mobile Access |

Upstream		Downstream		Aggregate	
Facebook	30.49%	YouTube	26.09%	YouTube	23.91%
WhatsApp	15.76%	Facebook	22.92%	Facebook	23.55%
Google Cloud	11.96%	HTTP - OTHER	8.00%	HTTP - OTHER	7.70%
YouTube	6.18%	WhatsApp	7.98%	WhatsApp	7.43%
SSL - OTHER	5.94%	Instagram	4.91%	Google Market	5.85%
HTTP - OTHER	5.26%	Google Market	4.64%	Instagram	4.65%
Instagram	2.55%	MPEG - OTHER	4.46%	Google Cloud	4.41%
Google Market	1.57%	Google	3.50%	MPEG - OTHER	4.05%
MPEG - OTHER	0.94%	SSL - OTHER	2.95%	SSL - OTHER	3.27%
Snapchat	0.79%	Snapchat	1.02%	Snapchat	0.98%
	81.44%		86.28%		85.51%

Table 39 | Top 10 Peak Period Applications in Africa, Fixed Access |

	Upstream		Downstream		Aggregate	
Rank	Application	Share	Application	Share	Application	Share
1	BitTorrent	17.47%	YouTube	18.88%	HTTP	16.52%
2	HTTP (Other)	11.59%	HTTP (Other)	17.52%	YouTube	16.35%
3	Facebook	7.31%	Facebook	9.27%	BitTorrent	9.35%
4	SSL (Other)	5.93%	BitTorrent	7.65%	Facebook	8.93%
5	YouTube	5.71%	SSL (Other)	5.80%	SSL	5.88%
6	Google	5.14%	MPEG	3.64%	Google	3.40%
7	Skype	2.54%	Windows Update	3.30%	MPEG	3.17%
8	Dropbox	2.17%	Google	2.94%	Windows Update	2.81%
9	Gmail	1.67%	Google Market	1.84%	Google Market	1.60%
10	WhatsApp	1.55%	iTunes	1.69%	iTunes	1.45%
		61.07%		72.54%		69.46%

Table 40 | Top 10 Peak Period Applications in Africa, Mobile Access |

	Upstream		Downstream		Aggregate	
Rank	Application	Share	Application	Share	Application	Share
1	HTTP (Other)	11.84%	HTTP (Other)	22.70%	HTTP (Other)	20.54%
2	WhatsApp	7.94%	YouTube	11.78%	YouTube	9.87%
3	Facebook	6.85%	WhatsApp	6.83%	WhatsApp	7.42%
4	SSL (Other)	5.77%	Facebook	6.38%	Facebook	6.14%
5	Skype	3.82%	Google Market	5.96%	Google Market	3.98%
6	BitTorrent	3.22%	BitTorrent	4.77%	SSL (Other)	3.95%
7	Viber	3.18%	Opera Mini	3.77%	BitTorrent	3.66%
8	BlackBerry	3.05%	BlackBerry	3.65%	Opera Mini	3.30%
9	Opera Mini	2.25%	SSL (Other)	3.51%	BlackBerry	3.25%
10	YouTube	1.74%	WAP v2	2.93%	WAP v2	2.69%
		49.66%		72.29%		64.80%

Table 41 | Top 10 Peak Period Applications in Asia-Pacific, Fixed Access |

	Upstream		Downstream		Aggregate	
Rank	Application	Share	Application	Share	Application	Share
1	BitTorrent	46.60%	YouTube	32.78%	YouTube	27.41%
2	QVoD	7.89%	BitTorrent	18.23%	BitTorrent	24.02%
3	YouTube	6.44%	HTTP (Other)	8.03%	HTTP (Other)	7.01%
4	RTSP (Other)	4.66%	Facebook	4.25%	RTSP (Other)	3.71%
5	Thunder	3.91%	RTSP (Other)	3.46%	Facebook	3.29%
6	HTTP (Other)	3.00%	MPEG (Other)	2.70%	QVoD	2.84%
7	Skype	1.81%	iTunes	1.63%	Thunder	2.51%
8	Facebook	1.71%	SSL (Other)	1.52%	MPEG (Other)	2.23%
9	SSL (Other)	1.05%	PC: Valve's Steam Service	1.11%	SSL (Other)	1.43%
10	Dropbox	0.93%	Google Market	1.10%	iTunes	1.37%
		78.01%		74.81%		75.79%

Table 42 | Top 10 Peak Period Applications in Asia-Pacific, Mobile Access |

	Upstream		Downstream		Aggregate	
Rank	Upstream	Share	Downstream	Share	Aggregate	Share
1	HTTP (Other)	14.72%	YouTube	22.45%	YouTube	20.55%
2	Facebook	10.36%	HTTP (Other)	17.88%	HTTP (Other)	17.53%
3	SSL (Other)	8.22%	Facebook	8.58%	Facebook	8.78%
4	YouTube	6.21%	MPEG (Other)	7.81%	MPEG (Other)	7.14%
5	BitTorrent	5.48%	SSL (Other)	5.48%	SSL (Other)	5.76%
6	Skype	2.32%	iTunes	2.90%	iTunes	2.79%
7	Google	2.31%	Dailymotion	2.84%	Dailymotion	2.61%
8	iTunes	1.93%	Google Market	2.61%	Google Market	2.30%
9	MPEG (Other)	1.91%	Instagram	2.50%	BitTorrent	2.09%
10	Whats App	1.76%	BitTorrent	1.64%	Instagram	1.98%
		55.22%		74.68%		71.53%

Table 43 | Top 10 Peak Period Applications in Middle East, Mobile Access |

	Upstream		Downstream		Aggregate	
Rank	Application	Share	Application	Share	Application	Share
1	YouTube	15.79%	YouTube	24.90%	YouTube	21.20%
2	Instagram	14.38%	Facebook	11.65%	HTTP (Other)	11.47%
3	HTTP (Other)	13.15%	HTTP (Other)	10.34%	Facebook	10.03%
4	MPEG (Other)	8.22%	Instagram	6.23%	Instagram	9.54%
5	Facebook	7.62%	MPEG (Other)	5.50%	MPEG (Other)	6.59%
6	BitTorrent	5.07%	SSL (Other)	3.73%	BitTorrent	3.98%
7	Whats App	3.80%	iTunes	3.56%	SSL (Other)	3.71%
8	SSL (Other)	3.67%	BitTorrent	3.23%	Whats App	2.85%
9	Skype	1.85%	Google Market	2.62%	iTunes	2.59%
10	Dailymotion	1.82%	WhatsApp	2.48%	Skype	2.45%
		67.16%		75.12%		74.00%

Table 44 | Description of the applications above |

Traffic Category	Description	Examples
Storage	Large data transfers using the File Transfer Protocol or its derivatives. Services that provide file-hosting, network back-up, and one-click downloads	FTP, Rapidshare, Mozy, zShare, Carbonite, Dropbox
Gaming	Console and PC gaming, console download traffic, game updates	Nintendo Wii, Xbox Live, Playstation 2, Playstation 3, PC games
Marketplaces	Marketplaces where subscribers can purchase and download media including applications, music, movies, books, and software updates	Google Android Marketplace, Apple iTunes, Windows Update
Administration	Applications and services used to administer the network	DNS, ICMP, NTP, SNMP
Filesharing	Filesharing applications that use a peer-to-peer or Newsgroups as a distribution models	BitTorrent, eDonkey, Gnutella, Ares, Newsgroups
Communications	Applications, services and protocols that allow email, chat, voice, and video communications; information sharing (photos, status, etc) between users	Skype, WhatsApp, iMessage, FaceTime
Real-Time Entertainment	Applications and protocols that allow “on-demand” entertainment that is consumed (viewed or heard) as it arrives	Streamed or buffered audio and video (RTSP, RTP, RTMP, Flash, MPEG - OTHER), peercasting (PPStream, Octoshape), specific streaming sites and services (Netflix, Hulu, YouTube, Spotify,)
Social Networking	Websites and services focused on enabling interaction (chat, communication) and information sharing (photos, status, etc) between users	Facebook, Twitter, Linkedin, Instagram
Tunneling	Protocols and services that allow remote access to network resources or mask application identity.	Remote Desktop, VNC, PC Anywhere, SSL - OTHER, SSH,
Web Browsing	Web protocols and specific websites	HTTP, WAP browsing, Opera Mini

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ABBREVIATIONS

52 Wk	52 weeks
Adm.	Administrative
ARPU	Annual Revenue per User
B/S	Balance Sheet
ß	Beta
BCG	Boston Consulting Group
CAGR	Compound Annual Growth Rate
Cap.	Capitalization
CCO	Chief Content Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer / Cash Flow from Operations
CMO	Chief Marketing Officer
Cont.	Contents
CPO	Chief Product Officer
D&A	Depreciations & Amortizations
DCF	Discounted Cash Flow
Dev.	Development
Div.	Dividend
DVD	Digital Video Disc
DVR	Device Video Record
EBIT	Earnings Before Interests and Taxes
EMBA	Executive Master of Business Administration
EPS	Earnings Per Share
EY	Ernest & Young
GDP	Gross Domestic Product
HBO	Home Box Office
i. e.	That is
IMDb	Internet Movie Data base
IMF	International Monetary Fund
Inc.	Incorporated
ISEG	Lisbon School of Economics & Management
JD	Juris Doctor
Kd	Cost of Debt
Ke	Cost of Equity
M.P.P.	Master of Public Policy
MBA	Master of Business Administration

MRPU	Monthly Revenue per User
MSc	Master of Science
MSCI ACWI	Morgan Stanley Capital International - All Country World Index
NA	Not Applicable
OTT	Over-The-Top
Out.	Outstanding
pp.	Percentage Points
Prof.	Professor
Qx	Quarter 1, 2, 3 or 4
Re	Cost of Equity
Rf	Risk-free Rate
Rm	Market Return
ROA	Return On Assets
ROCE	Return On Capital Employed
ROE	Return On Equity
SPP	Streaming Partners Program
SVoD	Streaming Video on Demand
SWOT	Strengths, Weaknesses, Opportunities and Threats
TV	Television
Tx	Corporate Tax
UFCC	Unlevered Free Cash Flow
US	United States of America
USD	United States Dollar
USD xxx b	United States Dollars xxx Billions
USD xxx m	United States Dollars xxx Millions
VoD	Video on Demand
W/C	Working Capital Changes
WACC	Weighted Average Cost of Capital
Wd	Debt Weight
We	Equity Weight
WEO	World Economic Outlook
YE	Year Ended