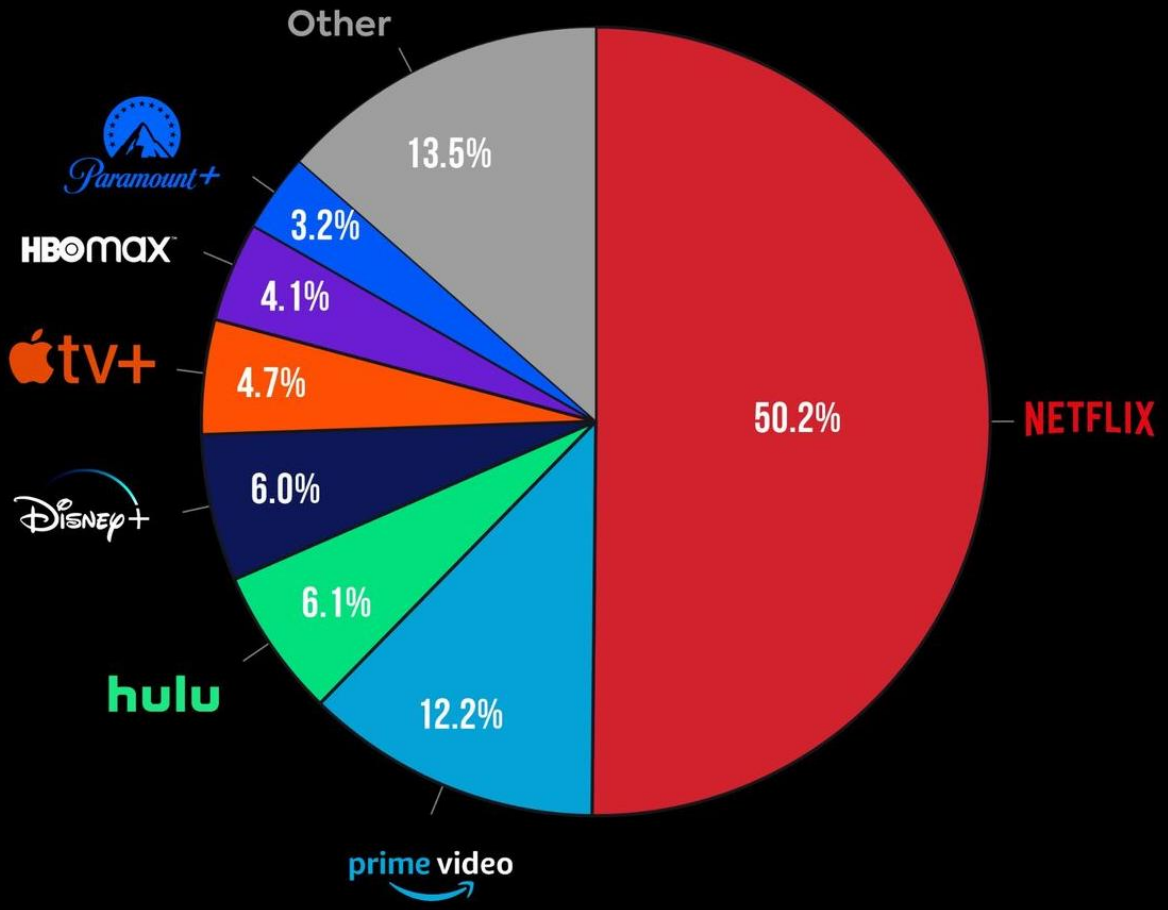
NETFLIX

Top 10 Streaming Industry Facts in the US Today



Netflix is **still** the dominant player, but recently its market share is in decline

In 2021, Netflix accounted for **64.6%** of the market (in 2023 it dropped to **50.2%**)

Last year, Netflix subscribers dropped by **31%**

The Fab Five are Back

Barriers to Entry
High

Supplier Power
High

Rivalry/Competition
High

Threat of Substitutes
Low

Buyer Power
High

Since You Liked How to Get Rich

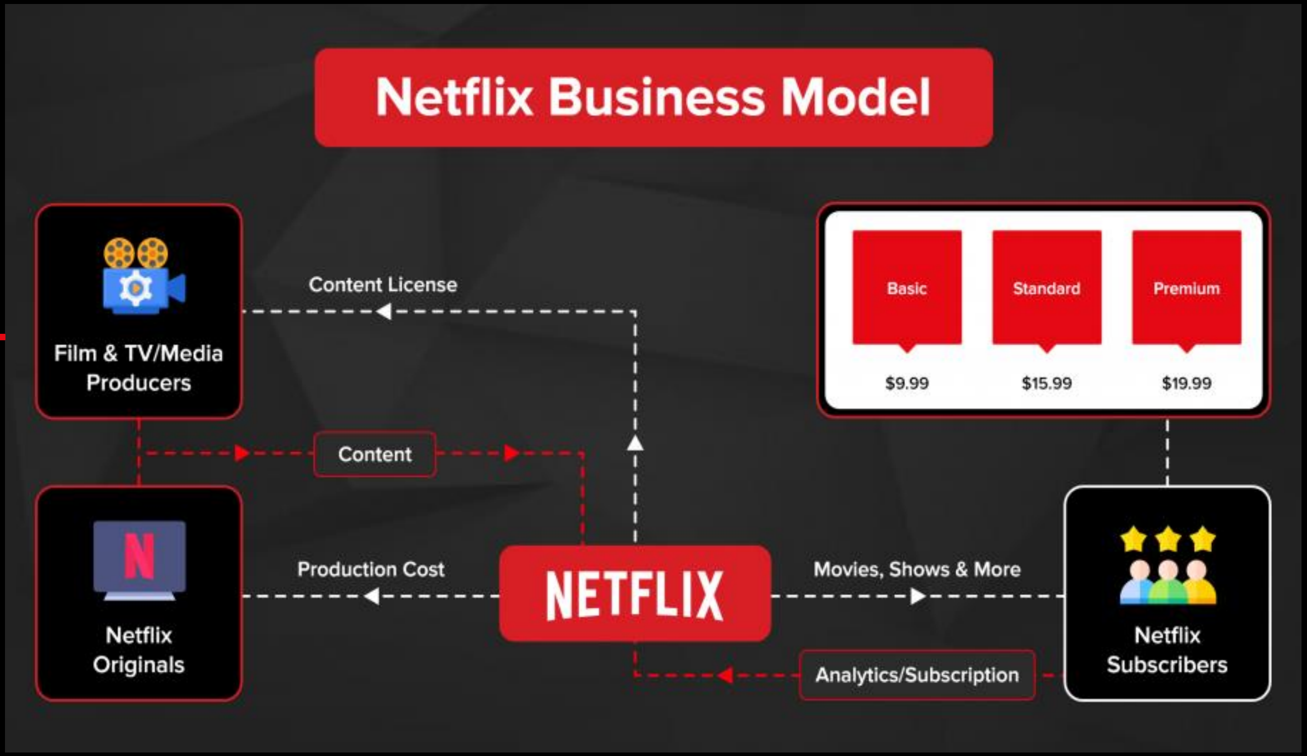
Netflix follows a subscription-based business model and makes its revenue through –

- **Subscriptions & partnerships** (~90% of revenue)
- **Ad revenue** (~10% of revenue)

Subscription plans include **Basic**, **Standard** and **Premium** plans

In certain regions in APAC, they have also added a much more affordable plan called **Mobile**

Netflix is also known for its strategic partnerships and alliances (**140+ partnerships** on record)



Only on Netflix

Netflix started as a subscription-based DVD delivery service which then evolved to one of the first subscription-based video streaming services for popular movies and TV shows (They still sell DVDs 😳)

It soon started creating original content for its platform

Main competitive advantages earlier: first-mover advantage, a wide variety of original content, and its personalization algorithm;

Competitive advantages now: pricing power, feature innovation, global reach, and localized content

Only on Netflix

Netflix's value chain is as follows

Firm Infrastructure – Planning, General Management, Quality Management, Legal Services, Finance and Accounting

Human Resource – Based on employee participation and rewards

Technology Development – Aims to provide the most advanced customer experience in online video streaming

Procurement – Obtains copyright licenses and produces original content

Inbound Logistics

Strong relationships with content developers to add to the streaming content

Outbound Logistics

This includes Netflix's apps and website.

Operations

The cloud architecture for hosting the content, the personalization algorithm and device management are all part of the operations

Marketing and Sales

Marketing is a huge part of Netflix's value chain. Each year, Netflix spends ~10% of the previous year's revenues for marketing

Services

Netflix is a service business that provides the service after payment from customers

Margin

Between 2020-2022, Netflix had an operating margin between 18%-21% as a result of its value chain

Only on Netflix

- Over the years, Netflix has been seeing approximately constant growth in subscribers. However, in 2022, subscriber growth fell by 51% from 2021

- As of 2022, Netflix's stock price was down 60% to $180.97 given the news of the password crackdown

- Revenue growth has slumped from 19% in 2021 to 7% in 2022

- Netflix also started investing in multiple different revenue sources and features in 2022 such as new studios in New Jersey, an ad-supported basic subscription tier, and mobile games

Because you watched Hulu, Prime Video, and a bunch of our competitors

Company Name	EV/EBITDA
Meta Platforms, Inc	8.38
Salesforce, Inc	14.34
Walt Disney Co	13.73
Warner Bros Discover, Inc	6.90
Paramount Global	10.51
Alphabet, Inc	10.41
Electronic Arts, Inc	13.98
Activision Blizzard Inc	15.56
Fox Corp	6.95
Comcast Corp	6.90
Take-Two Interactive Software Inc	17.79
Lions Gate Entertainment Corp	16.32
Sony Group Corp	7.37
Weighted Average EBITDA Multiple	**10.23**

Forecasting revenue growth

Year	US & Canada	EMEA	Latin America	Asia-Pacific
2018	64.7	37.8	26	10.6
2019	67.6	51.7	31.4	16.2
2020	73.9	66.7	37.5	25.4
2021	75.2	74	39.9	32.6
2022	74.2	76.7	41.6	38

- Growth has slowed in U.S. & Canada, but is growing at 6%-7% in international markets
- We expect continued growth coming from ad-based subscribers.

2% ↑ **Growth from APRU**

6% ↑ **Growth from new subscribers**

8.12% **Revenue growth rate for forecasting period**

2% ↑ **Terminal revenue rate based on GDP**

Forecasting revenue growth

Subscriber growth

ARPU: Average Revenue per user (monthly)

2 levers for revenue growth

- Ad-based subscription option will drive both metrics*
- Subscriber growth will mostly come from international markets

$15.49 < $6.99

Current ARPU

Ad-based plan might be cheaper but is better for APRU !!!

Top Pick for You:
Forecasts Written by Analysts

	2023	2024	2025	2026	2027	2028	2029	2030
EBIT	$ 7,623	$ 8,101	$ 8,611	$ 9,157	$ 9,741	$ 10,366	$ 11,036	$ 11,752
Less: Taxes @ 21%	(1,600.9)	(1,701.1)	(1,808.3)	(1,923.0)	(2,045.7)	(2,176.9)	(2,317.5)	(2,467.9)
Net Operating Profit After Taxes (NOPAT)	6,022.4	6,399.6	6,802.8	7,234.2	7,695.6	8,189.5	8,718.1	9,284.2
Plus: Depreciation	24,605.0	25,633.3	26,714.3	27,851.1	29,046.7	30,304.6	31,628.3	33,021.4
Plus: Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Plus: Share-based Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: Capital Expenditures	(17,589.0)	(17,647.2)	(17,709.4)	(17,775.9)	(17,847.2)	(17,923.4)	(18,004.9)	(18,092.3)
Less: Working Capital Investment	(749.6)	(764.6)	(779.8)	(795.4)	(811.4)	(827.6)	(844.1)	(861.0)
Unlevered Free Cash Flow	$12,288.8	$13,621.1	$15,027.9	$16,513.9	$18,083.8	$19,743.1	$21,497.3	$23,352.3

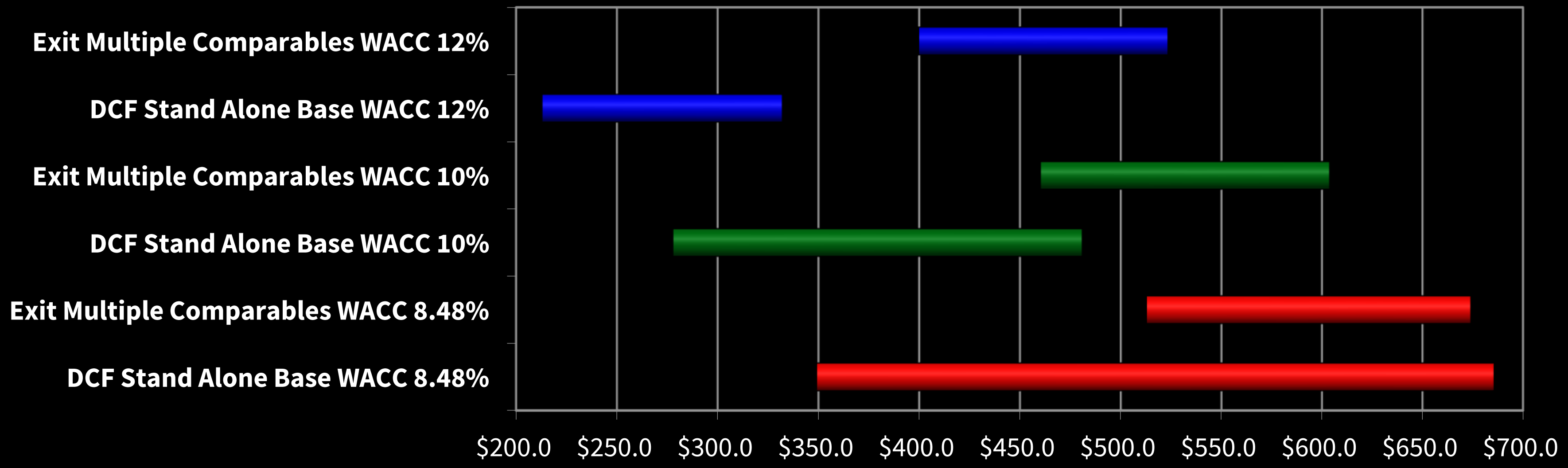
Since You Liked Shark Tank

Comparable Exit Multiple:

Discount Rate	Per Share Value at Exit Multiple of: 9.2x	10.2x	11.2x
7.5%	$ 592.28	$ 645.84	t
8.0%	571.12	622.73	674.33
8.5%	550.79	**600.53**	650.26
9.0%	531.27	579.21	627.15
9.5%	512.51	558.72	604.94

DCF:

Discount Rate	Per Share Value at Growth Rate of: 1.0%	2.0%	3.0%
7.5%	$ 496.61	$ 573.99	$ 685.92
8.0%	451.42	515.16	604.48
8.5%	412.48	**465.61**	538.14
9.0%	378.59	423.36	483.11
9.5%	348.85	386.93	436.76



Can gaming be the game-changer?

With increasing competition for eyeballs from various streaming, social and gaming platforms, focusing on subscriber engagement for driving ARR is the need of the hour.

>1% *Less than 1% of current subscribers have downloaded Netflix games*

Opportunity

Target 200+ million subscribers

- **Diversification**
- **Maximize IP**

Impact on KPIs

Improve stickiness, engagement, retention

- **Increase ARPU**
- **Reduce Churn**

Best case scenario

Create a blockbuster viral game (such as Candy Crush) based on IP

- **Capture a share of the $25 Billion F2P Market**
- **Acquire Gaming Studios**

We Reckon You'll Want to Buy Us

Strategic buyer: Apple

+ Captures synergies in similar industries

+ Higher valuation

- Lose control of operations (e.g. right-size business)

Financial buyer: (P.E. firm or Hedge Fund)

+ Reinforce / maintain current business model
- No synergies
- Lower valuation

Coming Soon – What's Next for Netflix?

APAC Expansion

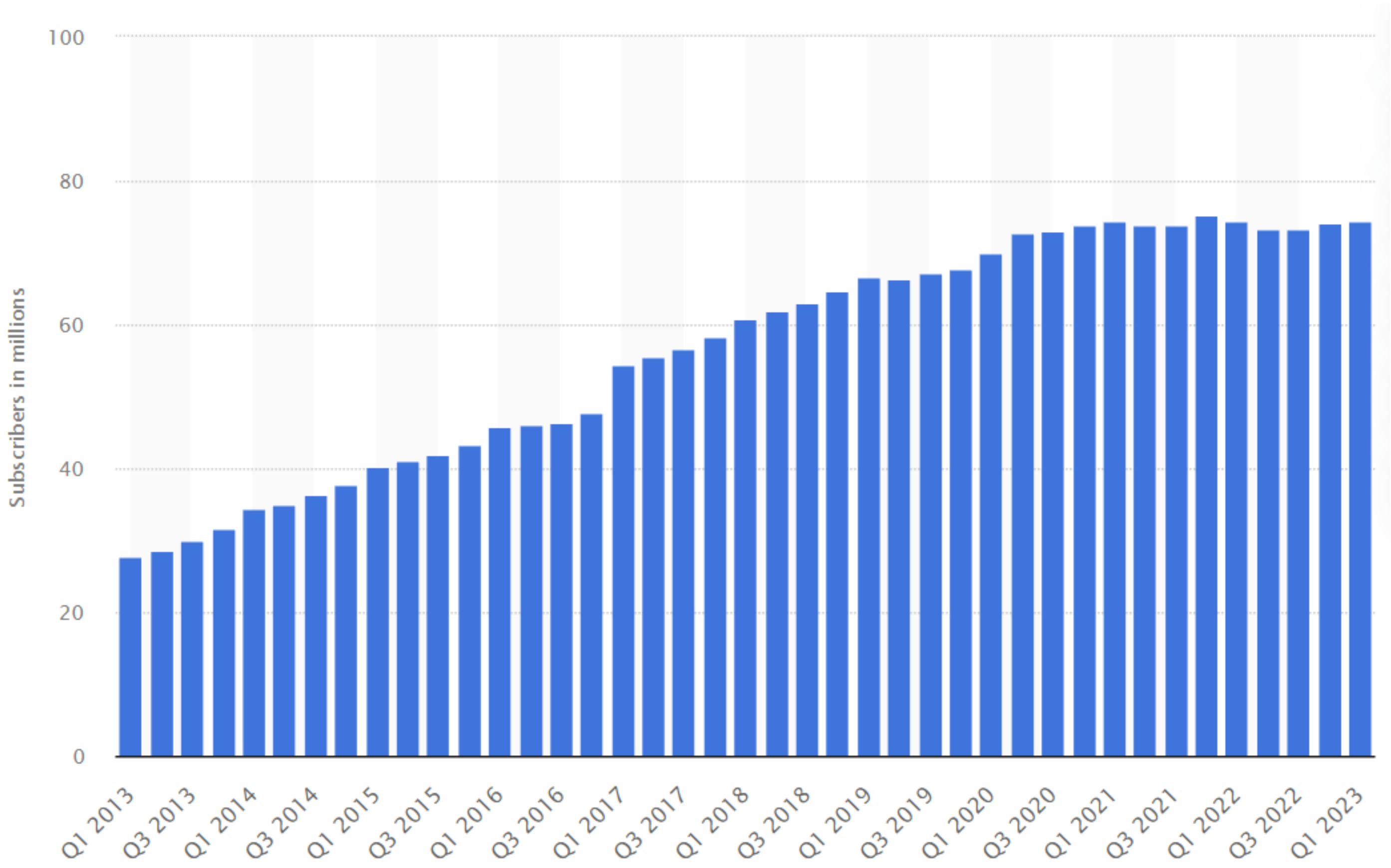
+ Bollywood expansion
+ Korean production studio acquisition

$22B

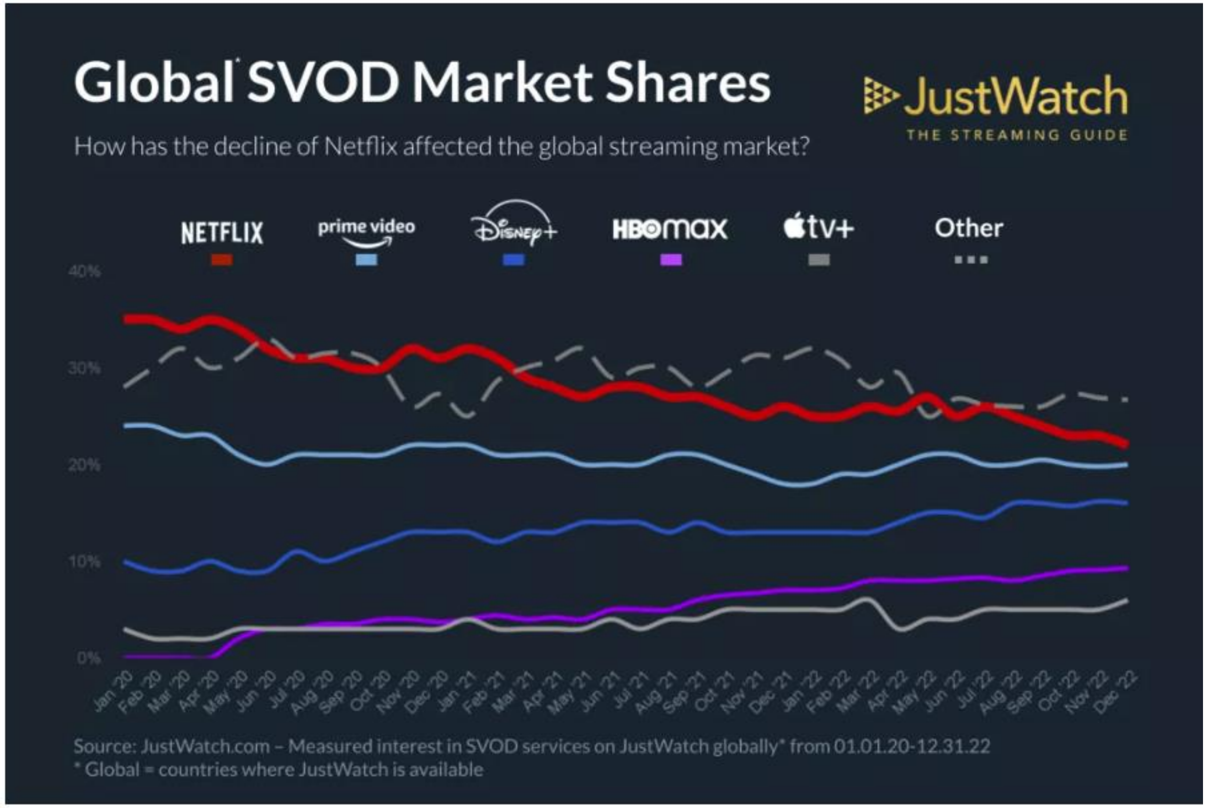
Acquire top gaming studio
Take-Two

APPENDIX

Subscriber Growth



SVOD Market Shares



Netflix Stock Performance