



Netflix Inc. (NFLX)

Updated September 22, 2019 by Katherine Peach

Key Metrics

Current Price:	\$271	5 Year CAGR Estimate:	-2.6%	Volatility Percentile:	95.0%
Fair Value Price:	\$185	5 Year Growth Estimate:	5.1%	Momentum Percentile:	8.7%
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-14.0%	Growth Percentile:	52.5%
Dividend Yield:	0.0%	5 Year Price Target	\$238	Valuation Percentile:	12.7%
Dividend Risk Score:	NA	Retirement Suitability Score:	NA	Total Return Percentile:	3.5%

Overview & Current Events

Netflix Inc. (NFLX) is an American media company founded in 1997 and headquartered in Los Gatos, California. Initially, Netflix's business centered around DVD rentals through the mail, but in 2010, the company began transitioning to online streaming media. In 2012, in addition to licensing popular films and series, the company began producing its own content. Hit Netflix original shows include *Stranger Things*, *Orange Is the New Black*, and *House of Cards*. As of 2019, Netflix had nearly 150 million paid subscriptions around the globe and operations in more than 190 countries.

On September 22, 2019, Netflix's market cap stood at \$118.5 billion. Its cash on hand came in at \$5 billion. However, Netflix also carried \$13.7 billion in debt on its balance sheet.

On July 17, 2019, Netflix released second-quarter results that fell short of analysts' expectations. Shares plunged more than 10% at the news. Earnings per share clocked in at 60 cents, four cents higher than the consensus estimate, but revenue was reported at \$4.92 billion, versus the \$4.93 billion Wall Street expectation. More damning was a huge drop in U.S. paid subscriber additions. Whereas analysts had figured on a gain of 352,000, Netflix actually recorded a loss of 126,000. Internationally, paid subscriber additions came in at 2.83 million, again missing the 4.81 million target.

Netflix shares plummeted further in September 2019, knocking \$12 billion off its market cap in three days. The sudden and steep downtrend was caused by worries over increased competition in the streaming space, as both Disney (DIS) and Apple (AAPL) are preparing to enter the market.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.28	\$0.42	\$0.59	\$0.04	\$0.30	\$0.53	\$0.28	\$0.43	\$1.43	\$2.68	\$3.70	\$4.75
DPS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Shares¹	374.1	369.5	387.8	389.1	417.3	422.9	427.9	430.1	433.4	436.6	435.0	400.0

Netflix was a pioneer in the internet entertainment space, but the competition has grown up around it and now threatens its position as No. 1. It's now one of many in the field, and it has formidable competition. The upcoming debuts of streaming platforms from Disney and Apple pose a serious threat to Netflix's business.

The company's revenues depend on the addition of paid subscribers. However, the most recent quarterly decline in this area is likely a preview of what's to come. When Netflix unrolled its streaming services, millions of consumers "cut the cords" to their cable TVs. Now that new – and sometimes more exciting – streaming services are coming online, the same viewers are severing their Netflix ties. That trend could continue... and ramp up for the foreseeable future.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	22.4	39.5	46.4	318.73	201.21	79.07	402.32	294.76	153.57	99.9	106.6	50
Avg. Yld.	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

¹ Share count is in millions.

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So far, Netflix's response to increased streaming competition has been to turn its back on licensing agreements (which are dwindling as studios and networks move into the streaming space) and push further into content creation. While Netflix has had great critical and commercial success with hits like *Orange Is the New Black*, the company is burning through billions of dollars in order to generate exclusive content. This is weighing heavily on Netflix's bottom line, as debt is skyrocketing.

Because Netflix continues to focus its business on entertainment production, it's easy to criticize the company as turning into just another TV network. With that in mind, comparisons of Netflix to the traditional U.S. network CBS Corp. (CBS), which has recently agreed to merge with Viacom (VIA), are not flattering. Although Netflix is valued higher than CBS, both companies generated roughly the same amount of revenue in 2018. Plus, CBS still has plenty of free cash flow.

With declining paid subscribers that fail to make up for the costs spent on new content, plus the loss of popular licensed content such as *The Office* and *Friends*, and a top-heavy load of debt, we think Netflix is significantly overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	55.9%	52.7%	58.0%	69.2%	67.0%	58.6%	85.9%	127%	61.4%	62.2%	58.1%	55.0%

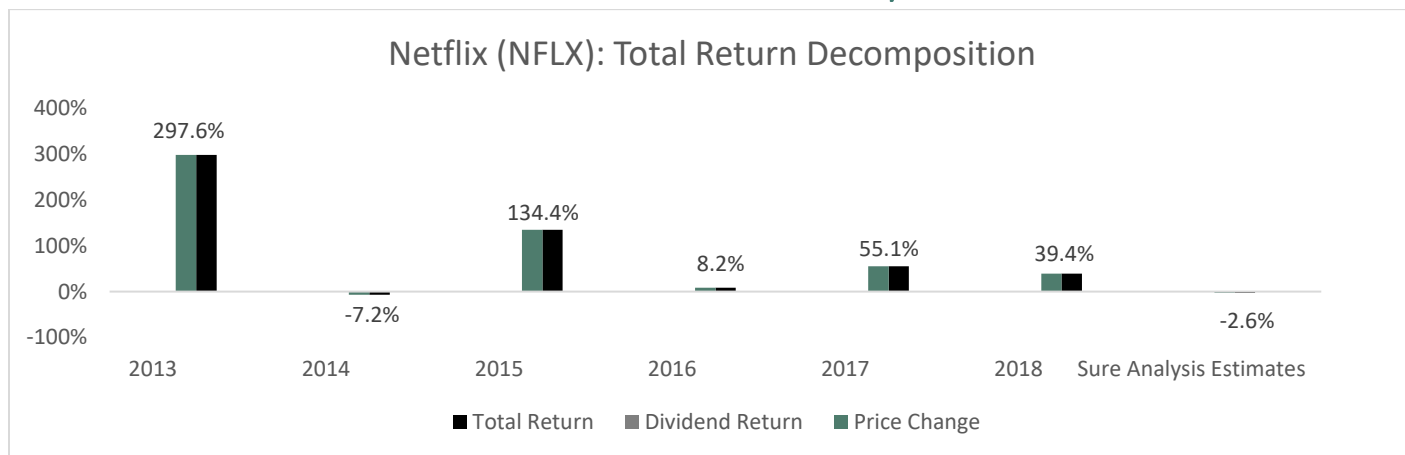
As stated above, Netflix is quickly losing its competitive edge. Perhaps the biggest blow – Disney's upcoming streaming service – is still in motion. Disney+, which is expected to launch in November 2019, will not only feature films and shows produced by Disney and its subsidiary studios (most notably Pixar and Marvel), but it can also be bundled with ESPN+ and Hulu subscriptions for \$12.99 per month – the same price as Netflix.

If a recession hits – and people start looking for ways to save money – canceling Netflix looks like an easy way to shave \$12.99 off the monthly budget. In 2011, during the aftermath of the Great Recession, Netflix's stock bottomed out by 80% as it lost roughly 800,000 customers. Netflix won viewers back by rolling out original content. However, Netflix is set to spend more than \$15 billion on original content in 2019, and that amount grows each year.

Final Thoughts & Recommendation

For the foreseeable future, Netflix is not a big winner or even a safe stock. There are no dividends to keep shareholders happy, either. The company is overvalued and overburdened with debt. We recommend that you hold onto any Netflix shares. If you don't want to hang on to see what happens in the long term, you might want to sell the next time the stock trends higher.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1670	2163	3205	3609	4375	5505	6780	8831	11693	15794
Gross Profit	591	805	1165	957	1257	1752	2188	2573	3660	5827
Gross Margin	35.4%	37.2%	36.3%	26.5%	28.7%	31.8%	32.3%	29.1%	31.3%	36.9%
SG&A Exp.	289	358	530	578	650	877	1231	1413	1867	3000
D&A Exp.	38	339	840	1702	2242	2782	3547	4925	6330	7656
Operating Profit	187	284	376	50	228	403	306	380	839	1605
Operating Margin	11.2%	13.1%	11.7%	1.4%	5.2%	7.3%	4.5%	4.3%	7.2%	10.2%
Net Profit	116	161	226	17	112	267	123	187	559	1211
Net Margin	6.9%	7.4%	7.1%	0.5%	2.6%	4.8%	1.8%	2.1%	4.8%	7.7%
Free Cash Flow	279	119	183	-67	-22	-128	-919	-1659	-2013	-2893
Income Tax	76	107	133	13	59	83	19	74	-74	15

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	680	982	3069	3968	5413	7043	10203	13587	19013	25974
Cash & Equivalents	134	194	508	290	605	1114	1809	1468	2823	3794
Goodwill & Int. Ass.			1047	1506	2091	2773	4313	7275	10371	14961
Total Liabilities	481	692	2426	3223	4079	5185	7979	10907	15431	20736
Accounts Payable	93	223	87	86	108	202	253	313	360	563
Long-Term Debt	200	200	400	400	500	886	2371	3364	6499	10360
Shareholder's Equity	199	290	643	745	1334	1858	2223	2680	3582	5239
D/E Ratio	1.00	0.69	0.62	0.54	0.37	0.48	1.07	1.26	1.81	1.98

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	17.9%	19.4%	11.2%	0.5%	2.4%	4.3%	1.4%	1.6%	3.4%	5.4%
Return on Equity	42.4%	65.7%	48.5%	2.5%	10.8%	16.7%	6.0%	7.6%	17.9%	27.5%
ROIC	31.0%	36.2%	29.5%	1.6%	7.5%	11.7%	3.3%	3.5%	6.9%	9.4%
Shares Out.	374.1	369.5	387.8	389.1	417.3	422.9	427.9	430.1	433.4	436.6
Revenue/Share	4.08	5.69	8.42	8.75	10.29	12.75	15.53	20.13	26.17	35.00
FCF/Share	0.68	0.31	0.48	-0.16	-0.05	-0.30	-2.10	-3.78	-4.51	-6.41

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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