Universidade do Minho
Escola de Economia e Gestão

Pedro Armindo Lopes Pereira

Equity Research: Netflix

maio de 2023

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Projeto
Mestrado em Finanças

Trabalho efetuado sob a orientação do
Professor Doutor Artur Jorge Pereira Rodrigues

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DIREITOS DE AUTOR E CONDIÇÕES DE UTILIZAÇÃO DO TRABALHO POR TERCEIROS

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To all those who played a role in my study, I extend my heartfelt thanks. Your support and kindness will always be remembered and appreciated.

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I further declare that I have fully acknowledged the Code of Ethical Conduct of the University of Minho.

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RESUMO

Equity Research: Netflix

Este projeto procura fornecer uma análise da Netflix, Inc. (NASDAQ: NFLX) e uma recomendação sobre se comprar, manter ou vender suas ações. Para isso, uma análise detalhada da indústria, fundamentos da empresa e aspectos financeiros foram considerados. Além disso, foi usado o método de *Discounted Cash Flow*, que refletiu todas as informações obtidas na análise, bem como uma *Relative Valuation* para apoiar essa análise de *Discounted Cash Flow*.

A análise financeira da Netflix mostra que a empresa tem conseguido gerar um crescimento consistente em termos de receita, impulsionado tanto pelo crescimento de assinantes quanto pelo aumento de preços. No entanto, esse crescimento desacelerou consideravelmente em 2022 e foi marcado pelo primeiro trimestre em que a Netflix perdeu assinantes. Isso também é resultado de uma concorrência mais forte no mercado de streaming de vídeo, com muitos participantes diversos que viram no streaming um setor atraente para entrar.

Com base na análise, foi emitida uma classificação de "venda" para as ações da Netflix, com um preço-alvo de $230,23. Acreditamos que o mercado esperava que a empresa apresentasse um crescimento improvável de alcançar, uma vez que a Netflix atinge níveis de saturação no mercado UCAN (Estados Unidos e Canadá) e não consegue aumentar os preços na região APAC (Ásia-Pacífico).

Palavras-chave: Investimento em Conteúdo, *Streaming* de Vídeo *on Demand*, *Streaming Wars*, *Subscription-based*

ABSTRACT

Equity Research: Netflix

This project seeks to provide an analysis of Netflix, Inc. (NASDAQ: NFLX) and a recommendation on whether to buy, hold or sell its equity. For this a detailed analysis on the industry, company's fundamentals, and financials were considered. Furthermore, a Discounted Cash Flow model was used, which reflected all the information obtain from the analysis and a Relative Valuation to support this Discounted Cash Flow analysis.

The financial analysis on Netflix shows that the company has been able to generate consistent revenue growth, driven by both subscriber growth and prices increases. However, this growth slow down considerably in 2022 and was marked by the first ever quarter where Netflix lost subscribers. This is also an effect of stronger competition in the streaming video market, from a lot of diverse players that saw on streaming an attractive sector to enter.

Based on the analysis, a "sell" rating was issued for Netflix stock, with a target price of $230.23. We believe that the market expected the company to deliver growth that is unlikely to reach as Netflix reaches saturation levels in the UCAN (United States and Canada) market and is unable to increase the prices in the APAC (Asia Pacific) region.

Keywords: Content Investment, Streaming Video on Demand, Streaming Wars, Subscription-based

Netflix

EQUITY RESEARCH REPORT

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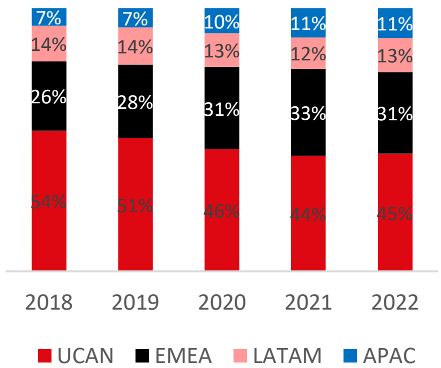
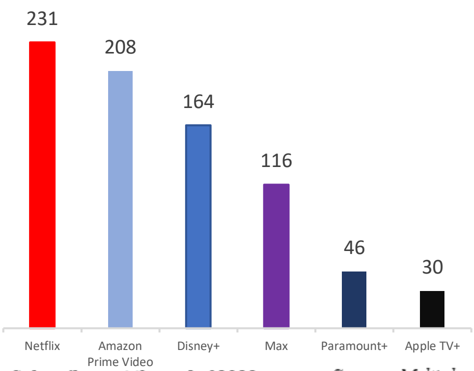
Student: Pedro Armindo Lopes Pereira

RECOMMENDATION	SELL
Date	24.01.2023
Current Price	$363.83
Target Price	$230.23
Downside	36.72%
Industry	Entertainment
Sector	Communication Services
Ticker	NFLX
Stock Exchange	NASDAQ

Shares Outstanding	445M
Market Capitalization	162 billion
EPS (2022)	$10.10
Free Float	439M



Share of Revenue *Source: Netflix*



Subscribers at the end of 2022 *Source: Multiple*

Historical 5 years performance *Source: Eikon*

Netflix is the leading streaming service provider, renowned for its exclusive productions as well as its vast collection of licensed content from a variety of production studios. Despite its dominant position in the industry, we believe that the company's current valuation is unjustifiably high. Market expectations for Netflix remain ambitious, and this may not be fully reflective of the company's actual performance.

Investment Summary

We issue a **SELL** recommendation for Netflix with a one-year target price of $230.23, presenting a downside of 36.72% on the closing price of $363.83 on January 24th, 2023. The target price is based on a Discounted Cash Flow method and supported by Relative Valuation. The major catalysts for our recommendation are:

- Netflix's expansion in the UCAN market is likely to fall short of industry standards due to the saturation of the market. The penetration of Netflix in this region is already quite high, which limits Netflix's potential for growth.
- Netflix subscriber base in the APAC (Asia-Pacific) region is projected to experience robust growth. However, this growth may not translate to high revenue gains as Netflix's pricing in the region is comparatively steep, rendering it less competitive against other streaming services.
- Netflix is expected to improve its profit margins. However, this will be contingent upon the company's ability to consistently produce high-quality, original content.
- One of the majors factors that has driven Netflix's strong growth over the past few years has been the global pandemic, which has led to a surge in subscriber numbers, resulting in a significant increase in revenue. However, as economies slow down due to inflation and individuals spend less time at home, it is anticipated that this growth may taper off.

Forecast Summary	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Sales ($M)	15,794	20,156	24,996	29,698	31,616	33,998	36,643	39,519	42,660	46,122
EBIT ($M)	1,605	2,604	4,585	6,195	5,633	6,301	7,051	7,884	8,812	9,854
Net Income ($M)	1,211	1,867	2,761	5,116	4,492	5,596	6,346	7,179	8,107	9,149
EPS ($)	2.78	4.26	6.26	11.60	10.10	12.58	14.26	16.13	18.22	20.56
Subscribers (M)	139.27	167.09	203.67	221.85	230.75	243.42	257.12	271.96	288.05	305.50
ARPU ($)	113.41	120.63	122.73	133.87	137.01	139.67	142.51	145.31	148.10	150.97

Financials Summary from 2018 to 2027

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1. Business Description

- **1997** - Reed Hastings and Marc Randolph co-found Netflix
- **1998** - Netflix.com, the first DVD rental and sales site, is launched
- **1999** - The Netflix subscription service debuts
- **2002** - Netflix makes its initial public offering (IPO)
- **2006** - Membership grows to 5 million
- **2007** – Streaming is Introduced
- **2010** - Netflix launches in Canada
- **2011** - Netflix launches in Latin America and the Caribbean
- **2012** – Netflix launches in Europe
- **2013** – Debut of Netflix Original programming such as "House of Cards"
- **2014** - Membership surpasses 50 million
- **2015** – Netflix launches in Asia
- **2017** - Membership hits 100 million members globally. Netflix wins its first Academy Award
- **2018** - Netflix is the most-nominated studio at the Emmys
- **2019** - Netflix launch of International Originals. Announcement of 4 production hubs
- **2021** - Membership surpasses 200 million. Netflix launches mobile games

Fig 1. Netflix Timeline *Source: Netflix*

Plan	Features	Monthly Price (U.S. 2023)
Basic with ads	1 simultaneous screen / HD	$6.99
Basic	1 simultaneous screen / HD / AD-free	$9.99
Standard	2 simultaneous screens / Full HD / AD-free	$15.49
Premium	4 simultaneous screens / Ultra HD / Ad-free	$19.99

Fig 2. Plans and prices USA 2023 *Source: Netflix*

Plan	Features	Monthly Price (India 2023)
Mobile	1 simultaneous phone or tablet / HD	₹149
Basic	1 simultaneous screen / HD / AD-free	₹199
Standard	2 simultaneous screens / Full HD / AD-free	₹499
Premium	4 simultaneous screens / Ultra HD / Ad-free	₹649

Fig 3. Plans and prices India 2023 *Source: Netflix*

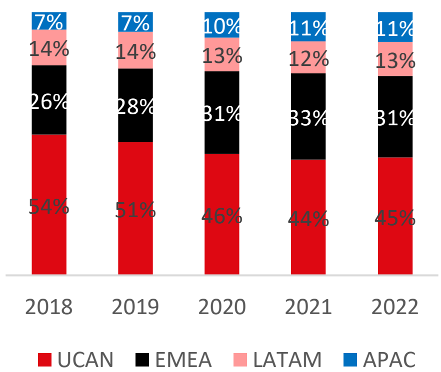

Fig 4. Share of Revenue *Source: Netflix*

Netflix is an online streaming platform that offers a wide range of movies, TV shows and other video content to subscribers through the internet. The company was founded in 1997 as a mail-order DVD rental service but has since shifted its focus to streaming video. It expanded globally in 2010 and is now available in over 190 countries, with a subscriber base of over 230 million. It procures content from various studios and production companies, including original productions and third-party sources. The company has invested in producing its own exclusive content, such as "Stranger Things," "The Crown," and "Orange is the New Black."

Netflix offers various pricing plans for its subscribers (Fig 2.), including basic with ads, basic, standard, and premium options and some regions have exceptions, like lower-cost, mobile-only plan in India and Malaysia launched back in 2019. The basic plan with ads allows users to stream content on one device in standard definition with advertisement, the basic plan allows the same without advertisement, the standard plan enables users to stream content on two devices in high definition, and the premium plan enables users to stream content on four devices in ultra-high definition. Prices vary by region and currency (Fig. 2 and 3.). Netflix also offers a DVD rental by mail service.

One of the key factors that contributes to Netflix's financial success is its ability to scale its operations. As the company grows its subscriber base, the fixed costs associated with licensing and producing content are spread across a larger number of users, leading to increased profitability. The increasing competition in the streaming industry also puts pressure on Netflix to continuously acquire and retain subscribers, which can be costly.

Overall, Netflix's financial performance is dependent on its ability to continue acquiring and retaining subscribers, producing successful original content, and effectively managing its expenses. As the company faces increasing competition in the streaming industry, it will be important for Netflix to continue to innovate and adapt its business model to stay ahead of the curve.

2. Industry Overview

2.1 Media and Entertainment Industry

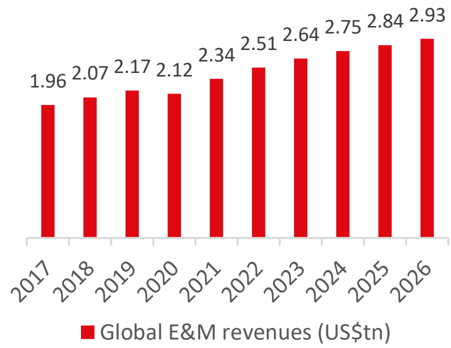

Fig 5. Global E&M Revenues *Source: PWC*

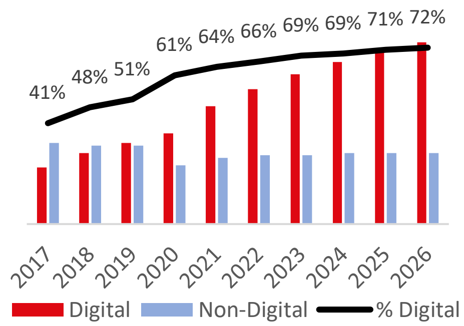

Fig 6. Share of Digital and Non-Digital E&M Revenues
Source: PWC

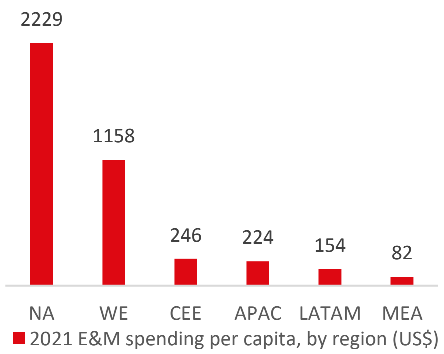

Fig 7. E&M Spending per Capita *Source: PWC*

The media and entertainment industry is a huge field that includes a variety of content, platforms, and distribution methods. This includes traditional media like television, radio, and print, as well as newer forms like digital streaming and social media. The industry generates a lot of money, with revenues estimated at over $2.34 trillion in 2021 and expected to reach $2.93 trillion by 2026, which represents a 4.6% compound annual growth rate (CAGR) (PWC, 2021) (Fig. 5). In recent years, there has been a trend towards digital platforms replacing traditional methods of distributing content like cable and satellite TV.

The competitiveness of the industry has led to consolidation, with larger media companies buying smaller ones to expand their reach and increase their power when negotiating with advertisers. The advertising market is predicted by PWC to reach $1 trillion in revenue, up from $750 billion currently. Currently, 64% of this revenue comes from digital advertising, and it is expected to grow by a CAGR of 6.6% by 2026, with digital making up over 71% of total revenue (PWC, 2021) (Fig. 6). PWC also reports that North America and Western Europe spend the most per capita, while the largest growth is happening in Latin America, the Middle East, Asia and Africa (PWC, 2021) (Fig. 7).

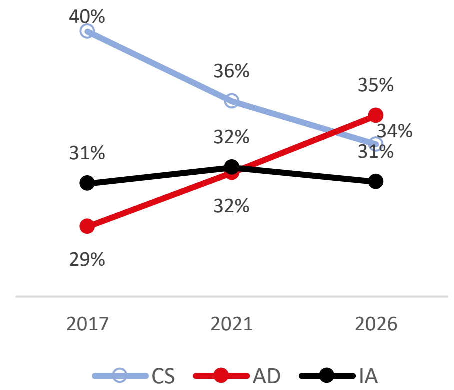

Fig 8. Share of E&M Revenue by Type *Source: PWC*

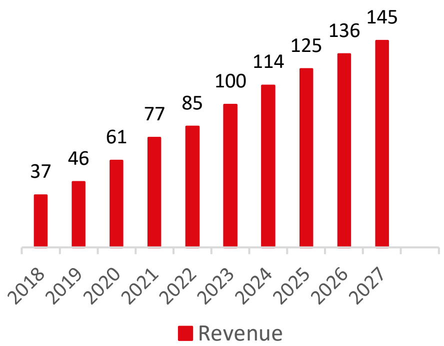

Fig 9. Global SVOD Revenue (US$bn) *Source: Statista*

2.2 Advertisement

In 2017, consumer spending made up 40% of total revenue, while advertising was 29% of total revenue. However, by 2022, advertising overtook internet access, and by 2026 it is expected to be the largest sector, accounting for nearly 35.1% of all industry revenue (PWC, 2021) (Fig. 8). One of the major factors driving the global media and entertainment industry has been the rise of streaming services like Netflix, Disney+, and Amazon Prime, which offer a wide range of content on a subscription basis and have become major players in the industry. It's likely that, because of this, most streaming services are adding new subscriber plans that include ads and lowering the price for consumers while increasing diversifying and increasing their revenue through advertisement.

2.3 Streaming Video on Demand

Streaming video on demand (SVOD) is a type of media streaming service that allows users to access a variety of television shows, movies, and other video content over the internet where Netflix is included and one of the leaders.

The SVOD market is expected to have high growth, with revenue projected to increase at a CAGR of 7.75% between 2022 and 2027. The number of users is expected to grow at a CAGR of 4.76% while the average revenue per user will increase at a CAGR of 2.84%. By 2027, the global SVOD market is expected to reach a total revenue of $145.15 billion, with over 1.6 billion users and an average revenue per user (ARPU) of $7.09 (Statista, 2023) (Fig. 9).

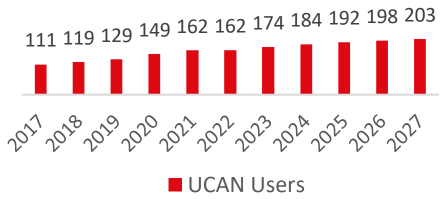

Fig 10. SVOD UCAN Users (M) *Source: Statista*

Currently, the majority of SVOD revenue comes from North America (UCAN), which has the highest revenue at $35.94 billion, the highest ARPU at $18.47, and users at 162.19 million. However, this region is expected to have the lowest CAGR for revenue at 7.08% with the number of users in UCAN is expected to grow at a CAGR of 3.10%, while the ARPU will increase at a CAGR of 3.86%. By 2027, the UCAN region is expected to have a total revenue of $58.46 billion, with 202.69 million users and an ARPU of $24.04 (Statista, 2023) (Fig. 10, more information can be found in Appendix 1).

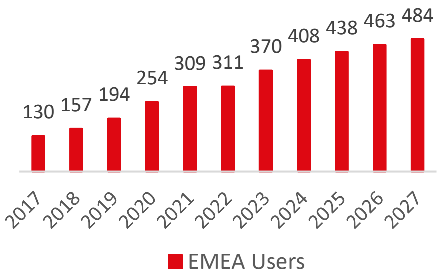

Fig 11. SVOD EMEA Users (M) *Source: Statista*

The Europe, Middle East, and Africa (EMEA) region is also a big contributor to the global SVOD market, with a revenue of $16.11 billion, 310 million users, and ARPU of $4.32. This region is expected to have the highest growth in revenue and users, with a CAGR of 8.29% and a CAGR of 5.55% respectably. However, the ARPU is expected to have the slowest growth at a CAGR of 2.60%. By 2027, the EMEA region is expected to have a revenue of $30.37 billion, 484.08 million users and ARPU of $5.23 (Statista, 2023) (Fig. 11, more information can be found in Appendix 2).

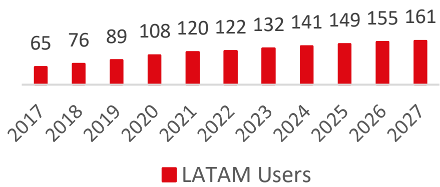

Fig 12. SVOD LATAM Users (M) *Source: Statista*

The Latin America (LATAM) has a revenue of $6.78 billion, 122.48 million users, and an ARPU of $4.61. This region is expected to grow slower than the global average between 2022 and 2027, with a CAGR in revenue of 7.11%, a CAGR in users of 3.97%, and a CAGR in ARPU of 3.02%. By 2027, the LATAM is expected to have a total revenue of $10.86 billion, with around 160 million users and an ARPU of $5.63 (Statista, 2023) (Fig. 12, more information can be found in Appendix 4).

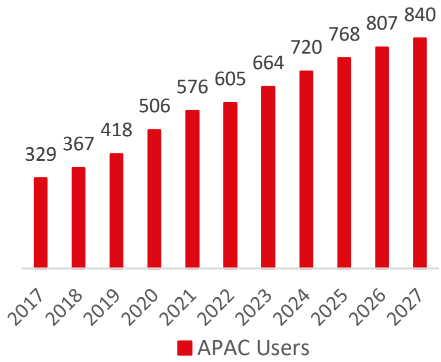

Fig 13. SVOD APAC Users (M) *Source: Statista*

The Asia Pacific (APAC) region currently has the highest number of users at 604.71 million, as well as the second-highest revenue at $26.02 billion, behind UCAN. It also has an ARPU of $3.59. This region is expected to continue to have the highest number of users between 2022 and 2027, with a CAGR of 4.82%, and to have the second-highest revenue growth rate, with a CAGR of 8.19%. The ARPU is expected to have a CAGR of 3.22%. By 2027, the APAC region is expected to have a total revenue of $45.56 billion, with 839.80 million users and an ARPU of $4.52 (Statista, 2023) (Fig. 13, more information can be found in Appendix 5).

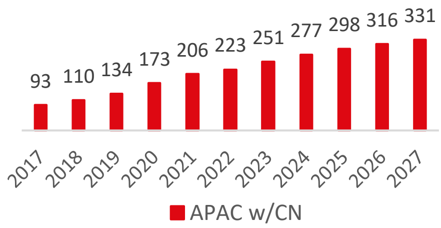

Fig 14. SVOD APAC w/CN Users (M) *Source: Statista*

It's worth noting that Netflix is not currently available in China, which is the largest country in the APAC region. Without China, the numbers for the APAC look less impressive, with 222.94 million users, a revenue of $7.66 billion, and an ARPU of $2.86. This shows the significant impact that China can have on the overall SVOD market in the APAC. This region is expected to be the one with the most growth in terms of users but the worst growth ARPU of just CAGR of 2.32%. This may explain why companies like Netflix recently lowered prices in places like India to attract more users and increase attachment to the service. By 2027, the number of users in the APAC, without China, is expected to be 330.97 million, with a revenue of $13.45 billion and an ARPU of $3.39 (Statista, 2023) (Fig. 14, more information can be found in Appendix 6).

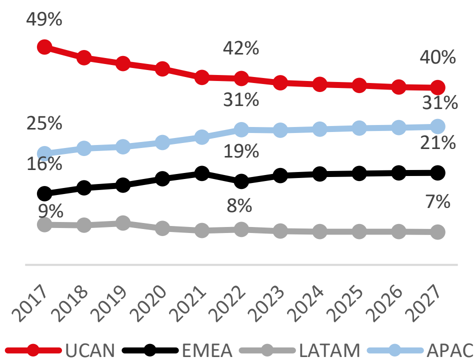

Fig 15. Global SVOD Share of Revenue *Source: Statista*

Overall, the global SVOD market is expected to continue its rapid growth in the coming years, with the APAC and EMEA regions leading the way in terms of both revenue and user growth. While UCAN is currently the dominant player in the market, it is expected to see slower growth compared to other regions. The Latin America region is also expected to see slower growth and will have the lowest revenue and number of users among all regions (Statista, 2023) (Fig. 15).

Rank	SVOD Provider	Program Name	# of Episodes	Minutes (Millions)
1	Netflix	Wednesday (2022)	8	3335
2	Netflix	Firefly Lane	19	1361
3	Netflix	Harry & Meghan (2022)	3	1265
4	Netflix	Dead To Me	30	600
5	Netflix	The Crown	50	550
6	Netflix	Snack vs. Chef	8	460
7	Netflix	Manifest	52	376
8	Disney+	The Santa Clauses	5	331
9	Netflix	1899 (2022)	8	321
10	Netflix	Crime Scene: The Texas Killing Fields	3	287

Fig 16. Most watched SVOD Original Shows 5 to 11 December 2022 USA

Source: Nielsen

Rank	SVOD Provider	Program Name	# of Episodes	Minutes (Millions)
1	Netflix	Wednesday (2022)	8	3335
2	Netflix	Firefly Lane	19	1361
3	Netflix	Bullet Train (2022)	1	1345
4	Netflix	Harry & Meghan (2022)	3	1265
5	Netflix	Cocomelon	18	945
6	Netflix	NCIS	339	885
7	HBO Max	The White Lotus	13	752
8	HBO Max	Friends	235	737
9	Peacock	Yellowstone	40	726
10	Netflix	Gilmore Girls	153	628

Fig 17. Most watched SVOD Shows 5 to 11 December 2022 USA

Source: Nielsen

2.4 Competitive Positioning

Netflix is a leading streaming service that offers a wide range of movies, TV shows, and other video content to subscribers around the world. In recent years, Netflix has faced increasing competition from other streaming services, including Amazon Prime Video, Disney+, HBO Max, Paramount+ and Apple TV+.

In terms of competitive positioning, Netflix has several strengths that have helped it to maintain its market leadership. These include:

- Strong brand recognition: Netflix is a well-known and trusted brand, with a strong reputation for offering high-quality content and a user-friendly experience.
- Large content library: Netflix has a large library of movies, TV shows, and other video content, including popular original series such as Stranger Things, The Crown, Narcos and Wednesday.
- Wide availability: Netflix is available in over 190 countries, making it one of the most widely available streaming services on the market.
- Strong distribution and local partnerships: Netflix have partnerships with major distributors, including cable and satellite companies, which helps to increase its reach and accessibility, and a strong local presence which grants them a number of international succeed shows like "La casa de Papel" e "Squid Games".

Despite these strengths, Netflix faces significant competition from other streaming services. Amazon Prime Video, for example, has an advantage of being bundled with other Amazon services such as free shipping and discounts on purchases as well as their originals. Disney+ has a strong brand and a large library of content, including popular franchises such as Star Wars and Marvel. HBO Max is known for their premium content, including popular series such as "Game of Thrones", "Chernobyl" and "Westworld".

In the tables (Fig 16. And Fig 17.) shows how strong Netflix is positioned, from the top 10 most watched shows in the US between 5 to 11 December, 7 were provided by Netflix, as for originals it was 9, good way to increase and retain subscribers is exclusive content (Nielsen, 2022) (Fig. 16 and 17).

3. Competition Overview

Netflix is a streaming video on demand service that offers a range of movies, TV shows, and other video content. It faces competition from several other companies, including Amazon Prime Video, Disney+, HBO Max, Discovery+, Paramount+, and Apple TV+.

3.1 Amazon Prime Video

Amazon Prime Video is a streaming service offered as part of the Amazon Prime membership program. It offers a range of movies, TV shows, and other video content, including original productions. It is investing heavily in original content, with a budget of over $15 billion for 2022 (Bloomberg, 2022). It has an estimated 208 million subscribers worldwide and is expected to continue growing. The monthly subscription price in the US is $14.99, or $139/year as part of the Amazon Prime package. There is no subscription tier with ads (Amazon, 2022).

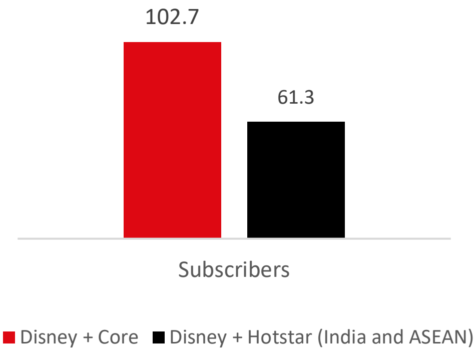

Fig 18. Disney + Subscribers per Region (M)

Source: Disney

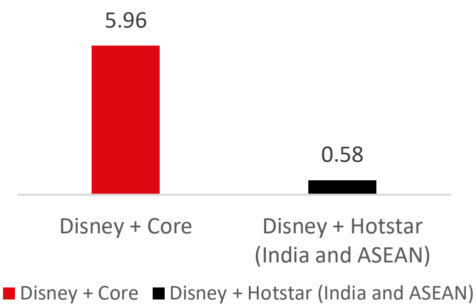

Fig 19. Disney + ARPU per Month per Region (US$)

Source: Disney

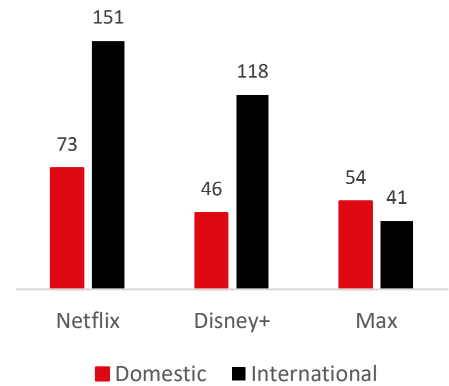

Fig 20. Netflix / HBO / Disney+ Domestic and International Subscribers (M)

Source: Netflix / Disney / WBD

3.2 Disney+

Disney+ is a streaming service offered by The Walt Disney Company. It offers a range of movies, TV shows, and other video content from Disney, Pixar, Marvel, Star Wars, and other brands. It is investing heavily in original content, with a budget of over $33 billion for 2022 (Disney, 2022). The monthly subscription price in the US is $10.99 or $109.99/year without ads, or $7.99 or $79.99/year with ads. It is available as part of a bundle with ESPN+ and Hulu for $19.99/month without ads or $12.99/month with ads. Disney+ had an estimated 164 million subscribers worldwide in 2022. Large amounts come from India and ASEAN where they have more than 61 million subscribers, but their ARPU per month in these regions is only $0.58 while Disney+ in other regions have an ARPU per month of $5.96 (Disney, 2022) (Fig. 18 and 19).

3.3 HBO Max

HBO Max is a streaming service offered by Warner Media. It offers a range of movies, TV shows, and other video content from HBO, DC, Cartoon Network, and other brands. In terms of original content has a budget of over $14 billion for 2022 (Warner Bros. Discovery, 2022). The monthly subscription price in the US is $14.99 or $149.99/year without ads, or $9.99/month or $99.99/year with ads. It is available as part of a bundle with Cinemax and Showtime. HBO Max had 92 million subscribers in 2022. This streaming service is more domestic (UCAN) than international (Fig. 20).

3.4 Paramount+

Paramount+ is a streaming service offered by Viacom CBS. It offers movies, TV shows, and other video content, including original productions and content from networks like CBS, MTV, and Nickelodeon. The monthly subscription price in the US is $9.99 or $99.99/year for the ad-free tier, or $4.99/month or $49.99/year for the ad-supported tier. It is available on a variety of devices. Paramount+ is estimated to have 46 million subscribers in 2022.

3.5 Discovery+

Discovery+ is a streaming service offered by Discovery, Inc. It offers a range of movies, TV shows, and other video content from Discovery, HGTV, Food Network, and other brands. It is investing in original content with a budget of over $4 billion for 2022 (Warner Bros. Discovery, 2022). The monthly subscription price in the US is $4.99 for the ad-supported tier or $6.99 for the ad-free tier. It had an estimated 24 million subscribers worldwide in 2022 and is expected to continue growing.

3.6 Apple TV+

Apple TV+ is a streaming service offered by Apple. It offers a range of movies, TV shows, and other video content, including original productions. It is investing in original content with a estimated budget of over $6 billion for 2019 (Financial Times, 2019), as the company does not report updated numbers. The monthly subscription price in the US is $6.99. There is no subscription tier with ads. Apple TV+ is estimated to have between 20 to 40 million subscribers worldwide in 2022 and is expected to continue growing.

3.7 Overview

In early spring of 2023, it is expected that Discovery+ and HBO Max will merge into a single service called Max. The ad-free tier of this new service is expected to cost $19.99 per month, while the ad-supported tier is expected to cost $12.99 per month (Toms Guide, 2022). These prices are only speculation at this point, but it is worth noting that the ad-free tier of the merged service would have the same price as Netflix's premium tier.

Service	Ad-Free	AD-tier	Titles	Originals
Netflix	$19.99	$6.99	7318	3618
Amazon Prime Video	$14.99		7429	2277
Disney+	$10.99	$7.99	1868	783
Max	$19.99*	$12.99*	10410	6285
Paramount+	$9.99	$4.99	4449	1855
Apple TV+	$6.99		155	155

Fig 21. Table for different SVOD providers USA.

Source: Multiple

Overall, Netflix faces competition from several major players in the SVOD industry. From all the companies the two that stand out as a serious competition is Disney + and Max, because as Amazon Prime Video is part of the membership program prime and such people mainly subscribe to these services for free and one day shipping, as for the other players for now they are small in terms of content and subscribers.

Disney + even though is increasing their competition against Netflix in terms of subscribers their ARPU is much lower and they offer a bundle with other services they own such as Hulu and ESPN+, when people subscribe to this bundle they count as 3 subscribers and with a lot of subscribers coming from Disney + Hotstar their ARPU is really low compared to Netflix which makes the question if they could grow their subscriber base further.

In terms of Max, the company that owns the service Warner Bros. Discovery was recently founded as was the spin off of Warner Bros and merged with Discovery to found the new company. Max had an increasing number of subscribers as the company simultaneously release 2021 movies on the service and theatres, and such films were disappointing in the cinemas with the company reporting $2.3 Billion in losses, this to boost subscriber accounts for their streaming service. Nowadays the company has over $47 billion in net debt with a $27 billion in Market capitalization as of 31 of December of 2022 (Observer 2022) (NBC News, 2022) (Warner Bros. Discovery, 2022).

These companies are all investing heavily in their original content and are competing for a share of the market. It is important for Netflix to continue to offer a strong selection of content and to keep up with the competition to maintain its position in the industry.

4. Streaming Wars

The streaming wars have had a significant impact on Netflix and the broader SVOD industry. As more companies have entered the market and invested heavily in content, competition for subscribers has intensified. Netflix has faced strong competition from several major players, including Amazon Prime Video, Disney+, Max, Paramount+ and Apple TV+.

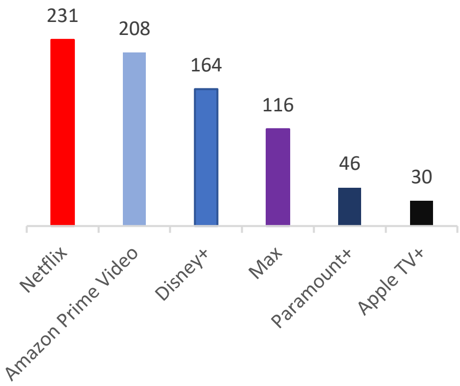

Fig 22. **Subscribers per SVOD provider (M)**
Source: Multiple

Despite this increased competition, Netflix has managed to maintain strong growth in terms of subscribers. As of 2021, the company had over 208 million subscribers worldwide, with an estimated 47 million of those being first-time subscribers. Netflix has also maintained a high customer retention rate (Fierce SVideo, 2021), with most of its subscribers remaining active users over time.

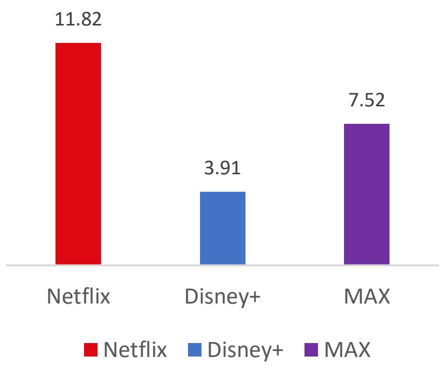

Fig 23. **ARPU per month by SVOD provider (US$)**
Source: Netflix / Disney / WBD

In terms of ARPU, Netflix has generally outperformed its peers (Fig. 23). Internationally, the company has consistently had a higher ARPU than its competitors. This is largely due to Netflix's strong brand and the high demand for its content, as well as its ability to effectively monetize its subscriber base through its subscription pricing model.

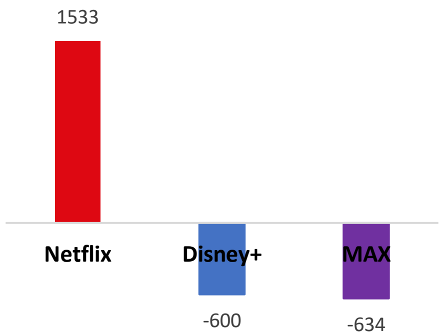

Fig 24. **Operating income from the SVOD section of the Company (US$m)**
Source: Netflix / Disney / WBD

One of the key factors that has allowed Netflix to outperform its peers in terms of operating income is it ARPU (Fig. 24). Unlike many of its competitors, which have been burning money to acquire more content and grow their subscriber bases, Netflix has been able to generate cash from its operations. This has given the company more flexibility and financial stability, allowing it to invest in content and other growth initiatives without taking on significant amounts of debt, and these is especially relevant to companies like Disney that have been lowering their ARPU to boost subscribers but their new appointed CEO already stated that making Streaming profitable is a priority (Reuters, 2022).

In conclusion, the streaming wars have had a significant impact on Netflix and the broader SVOD industry. While the company has faced strong competition from several major players, it has been able to maintain strong growth and outperform its peers in terms of ARPU. As the industry continues to evolve and new players enter the market, it will be important for Netflix to continue to innovate and differentiate itself to maintain its competitive edge.

5. Valuation

My valuation is $230.23 per share, which has been calculated as the composite target price derived from DCF and supported by Relative Valuation. The DCF method has been accorded greater significance as Netflix evolves into a profitable and more advanced stage, as it is the most appropriate method to employ. Additionally, as there is no comparable company in the market that closely resembles Netflix, for instance, no company that solely generates revenue from SVOD, we deemed it necessary to assign a relatively lower weight to relative valuation and instead, we applied relative valuation to firms with similar growth, risk and margins. The target price reflects a 36.72% potential for depreciation in relation to the current market value as 24 of January of 2023.

5.1 Discounted Cash Flow Valuation

Upon conducting a DCF analysis, I arrived at a target price of $230.23 utilizing a weighted average cost of capital of 11.31% (WACC). The assumptions underpinning this model included the assumption that the streaming wars would conclude in 2023 and that rival companies would prioritize the profitability of their services, thus resulting in a less significant increase in spending on content. This would enable Netflix to focus more on its own profitability, with the operating margin gradually increasing to 35% of revenue account for R&D expenses capitalized. As the industry expands, Netflix is expected to grow in parallel with differences between regions (see more in Appendix 19) and the R&D expenses associated with content will be treated as assets that are amortized over a period of four years (Netflix, 2023).

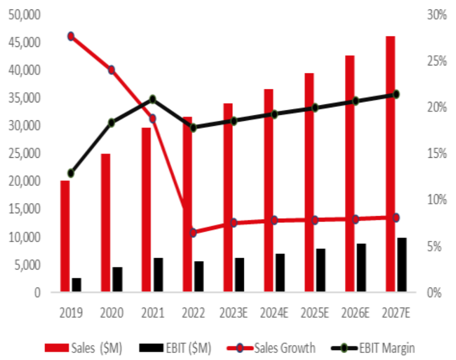

Fig 25. Netflix Sales and Operating Income from 2019 to 2027 (US$m)

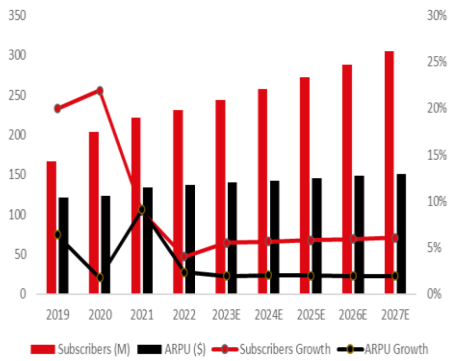

Fig 26. Netflix Subscribers and ARPU from 2019 to 2027 (M) (US$)

	Revenue	Users	ARPU
UCAN	4.74%	0.91%	3.79%
EMEA (w/Russia)	10.72%	7.79%	2.71%
LATAM	7.30%	3.92%	3.25%
APAC (w/China)	12.27%	11.51%	0.68%

Fig 27. Netflix growth rates from 2023 to 2027

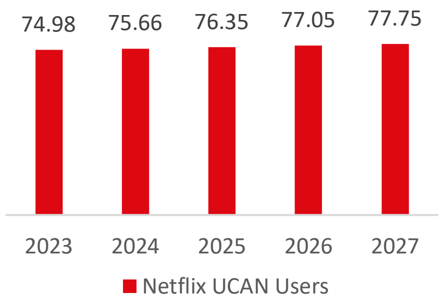

Fig 28. Netflix UCAN users (M)

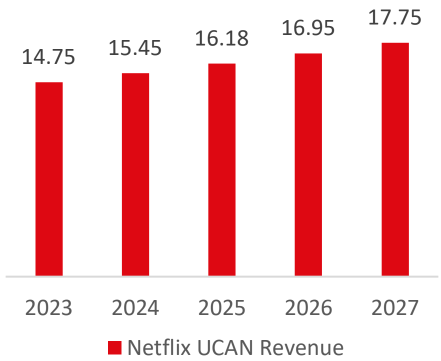

Fig 29. Netflix UCAN Revenue (US$bn)

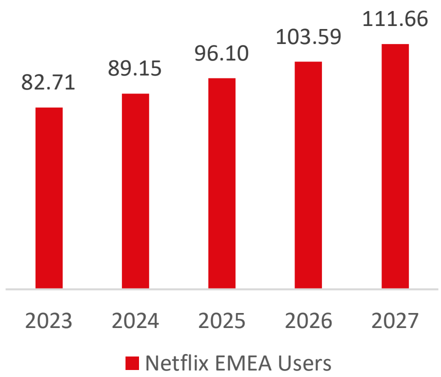

Fig 30. Netflix EMEA users (M)

Revenue from 2023 to 2027

UCAN

From 2018 to 2022, Netflix's share of the total SVOD users in UCAN diminished from 54% to 46%, and their ARPU dropped from 88% of the industry average to 85%. This illustrates a decline in Netflix's market share in terms of revenue, from 48% in 2018 to 38% in 2022, and this trend is expected to persist as Netflix penetration in the market remains high.

In terms of subscribers, the share of users decreased as the market matured and competition intensified, and in terms of ARPU, it decreased as more North Americans subscribed to multiple SVOD services, resulting in lower revenue per user for Netflix compared to the industry. Our projections indicate that Netflix's share of users in UCAN will continue to decline from 46% in 2022 to 38% in 2027, as more than 85% of households in the region have subscribed to at least one SVOD service (Kantar, 2022). In terms of ARPU, it is expected to continue to decrease gradually, as it did before, and in 2022, Netflix's ARPU was 85% of the industry average, and we anticipate it to drop to 79% in 2027.

The Compound Annual Growth Rate (CAGR) for users for Netflix during this period is 0.91%, and the CAGR for ARPU is 3.79% (Fig. 27, more information can be found in Appendix 19).

EMEA

From 2018 to 2022, Netflix's share of total SVOD users in EMEA remained relatively stable, fluctuating from 24% in 2018 to 27% in 2022. However, the ARPU decreased from 262% to 230% (see more in Appendix 14 and 15).

Despite the influx of competitors entering the market and the emergence of domestic SVOD services, the subscriber base remained consistent. However, the ARPU decreased as Netflix deliberately moderated its growth rate to better compete with the industry, as more individuals subscribe to multiple services.

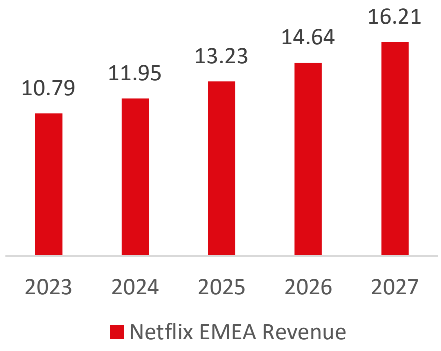

Fig 31. Netflix EMEA Revenue (US$bn)

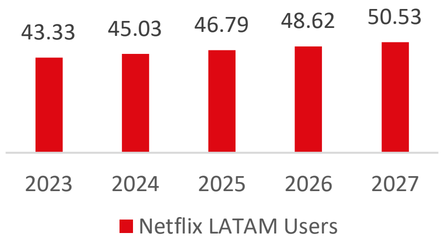

Fig 32. Netflix LATAM users (M)

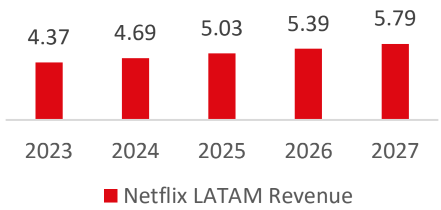

Fig 33. Netflix LATAM Revenue (US$bn)

Our projections indicate that Netflix's share of users relative to the industry will remain relatively constant, fluctuating from 26% in 2022 to 25% in 2027, and their ARPU will continue to decrease as Netflix continues to moderate its growth rate in terms of ARPU (Streaming guider, 2022).

The CAGR for users for Netflix during this period is 7.79% and the CAGR for ARPU is 2.71% (Fig. 28 and 29 more information can be found in Appendix 19).

LATAM

From 2018 to 2022, Netflix's share of total SVOD users in Latin America remained relatively consistent with the industry, fluctuating from 34% of users in 2018 to 34% in 2022. Similarly, the ARPU also remained relatively stable, fluctuating from 184% of the industry average to 176%.

The subscription and ARPU were maintained as the region gradually attracted SVOD users, as domestic players were slow to adapt to the SVOD industry.

Our projections indicate that in terms of users and ARPU, Latin America is expected to slightly underperform the industry as new competitors such as Disney, Amazon, and Max enter the market and gain a foothold (MediaPlayNews, 2022). As a result, we anticipate Netflix's share of users to decrease from 33% of the industry in 2022 to 30% in 2027 and the ARPU to drop from 176% to 166% of the industry average (see more in Appendix 14 and 15).

The CAGR for users for Netflix during this period are 3.92% and the CAGR for ARPU is 3.25% (Fig. 30 and 31 more information can be found in Appendix 19).

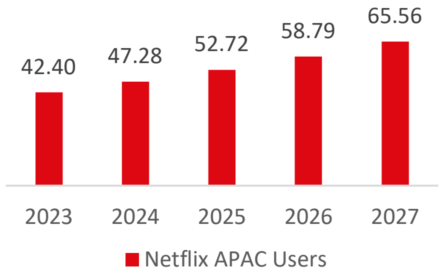

Fig 34. Netflix APAC users (M)

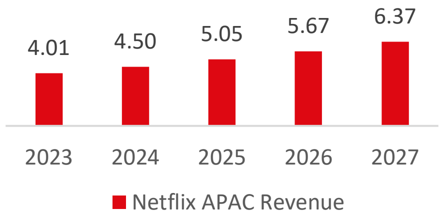

Fig 35. Netflix APAC Revenue (US$bn)

APAC

From 2018 to 2022, Netflix's share of total users in Asia-Pacific significantly outperformed, rising from only 10% in 2018 to 17% in 2022. The ARPU decreased from 363% of the industry average in 2018 to 273% in 2022 (see more in Appendix 14 and 15), as Netflix recently lowered prices in India to better compete with cheaper domestic alternatives (WSJ, 2021).

The number of users Netflix acquired in this region was astounding, with an impressive CAGR of 35.94% between 2018 and 2022. However, ARPU underperformed compared to the industry, as Netflix is a relatively expensive service in this region, with a CAGR of only -0.68% (see more in Appendix 17).

Our projections indicate that Netflix's strategy in this region will likely remain unchanged, prioritizing increasing subscribers over increasing ARPU. Given this, it is likely that most of the Netflix's subscriber growth in the next 5 years will come from this region. As a result, we anticipate the ARPU to decrease from 273% of the industry average to 239% in 2027 and the number of users to rise from 17% in 2022 to 20% in 2027. The CAGR for users for Netflix during this period will be 11.51% and the CAGR for ARPU is 0.68% (Fig. 32 and 33 more information can be found in Appendix 18 and 19).

Worldwide

Subscribers	2023	2024	2025	2026	2027
Worldwide	243.42	257.12	271.96	288.05	305.50

Fig 36. Netflix Worldwide users (M)

The revenue is projected to expand during this period, from $31.6 billion in 2022 to $46.1 billion in 2027, demonstrating a CAGR of 7.86%. The subscribers are projected to increase from 230.75 in 2022 million to 305.50 in 2027 (Fig. 34 more information can be found in Appendix 20).

Average Revenue per User

	2018	2019	2020	2021	2022
UCAN	88%	91%	85%	85%	86%
EMEA	262%	250%	249%	253%	230%
LATAM	184%	183%	180%	180%	176%
APAC (CN)	363%	312%	294%	295%	273%

Fig 37. Netflix ARPU vs Industry per Region 2018 - 2022

The Average Revenue per User ARPU of Netflix in relation to the industry has been declining, which is to be expected as it becomes more common for individuals to subscribe to multiple SVOD services.

	2023	2024	2025	2026	2027
UCAN	82%	81%	80%	80%	79%
EMEA	218%	214%	212%	211%	211%
LATAM	169%	166%	165%	165%	166%
APAC (CN)	261%	254%	248%	243%	239%

Fig 38. Netflix ARPU vs Industry per Region 2023- 2027

	2018	2019	2020	2021	2022
UCAN	54%	52%	50%	47%	46%
EMEA	24%	27%	26%	24%	27%
LATAM	34%	35%	35%	33%	34%
APAC (CN)	10%	12%	15%	16%	17%

Fig 39. Netflix Users vs Industry per Region 2018 - 2022

	2023	2024	2025	2026	2027
UCAN	43%	41%	40%	39%	38%
EMEA	25%	25%	25%	25%	26%
LATAM	33%	32%	31%	31%	31%
APAC (CN)	17%	17%	18%	19%	20%

Fig 40. Netflix Users vs Industry per Region 2023 - 2027

As a result, the prices of the ARPU in the industry have risen more than those of Netflix.

All regions have registered a decline in their ARPU relative to the industry, and this trend is expected to persist, particularly in the EMEA and APAC regions, as Netflix is perceived as a premium service, particularly when compared to domestic offerings (Fig. 35 and 36).

Total number of Users

Compared to the industry, this number has decreased in the UCAN region as it is the most mature market. In the EMEA region, it has remained relatively steady with a significant increase in 2022 as Netflix withdrew from Russia and was subsequently removed from the industry calculations. In the LATAM region, the numbers have remained stagnant, while in the APAC region, the numbers have dramatically increased in comparison to the industry.

These trends are projected to persist, with Netflix continuing to lose market share of subscribers in the UCAN region, stabilizing in the EMEA and LATAM regions, and generally increasing market share in the APAC region (Fig. 39 and 40).

Revenue from 2028 to 2032

The revenue growth rate is expected to gradually decline to the terminal growth rate of 3.2%, as the EMEA and APAC regions mature. As Netflix becomes more profitable, it will strive to become more efficient and offer higher quality programming in order to retain its current user base, rather than focusing on acquiring new users. The EBIT margin is projected to grow gradually to 35%.

2032 and beyond - The terminal growth rate used in this projection is the perpetuity growth rate of 3.2%, which is aligned with the projected GDP growth worldwide, as forecasted by the International Monetary Fund (IMF) in 2027.

Weighted Average Cost of Capital (WACC)

1. The Cost of Equity accounts for 89.57% of Netflix's capital, as calculated using the following inputs (Fig. 40):

- The 10-year Treasury note of the United States, as of December 31, 2022, was used as the risk-free rate, 3.60%
- According to Moody's, the credit spread is AAA, which is considered riskless (Source: Moody's, 2023).
- The Beta used in the calculation was the Beta of the Global Entertainment Industry, unlevered, taken from Damodaran Data Set. This was chosen as more than 50% of Netflix's revenue comes from outside of the United States. The beta was later leveraged to Netflix's cost of capital, resulting in a beta of 1.087 (Source: Damodaran, 2023).
- The Equity Risk premium used in the calculation was the weighted average of the revenue for every region in which Netflix operates, at 7.83%.

Region	Revenue	% Of total	ERP	% Of ERP
UCAN	14,085	44.76%	5.94%	2.66%
EMEA	9,745	30.97%	8.22%	2.54%
LATAM	4,070	12.93%	12.78%	1.65%
APAC	3,571	11.35%	8.47%	0.96%
Total	31,471	100%		7.82%

Fig 41. Netflix ERP

	Spread
Netflix	2.42%
USA	0%
Risk free rate	3.60%
Tax Rate	25%
Levered Beta	1.087
Weighted ERP	7.82%
Industry	Global Entertainment
Unlevered Beta	1

Fig 42. Main inputs of WACC

2. The Cost of Debt accounts for 10.43% of Netflix's capital, calculated using the following inputs:

- The company's credit rating according to Moody's (Ba1).
- The corresponding credit spread from Damodaran's Data Set (2.42%) (Damodaran's, 2023).
- The risk-free rate- 10-year treasury note of the United States: 3.60%.
- The corporate marginal tax rate for the US which is 25% (Source: Damodaran's, 2023).
- The cost of debt calculated was 4.52%.

3 The Cost of Equity and Debt account for the Cost of Capital, resulting in a WACC of 11.32% (Fig. 41).

	Equity	Debt	Capital
Market Value	154,760	18,030	172,790
Weight in Cost of Capital	89.57%	10.43%	100.00%
Cost of Component	12.10%	4.52%	11.31%

Fig 43. Netflix WACC

Sensitivity Analysis

To fully understand the potential variance of the Netflix stock price under different scenarios, a sensitivity analysis was conducted using two variables: Revenue growth for the first 5 years and the Target Operating Margin in year 10. For the revenue growth variable, five different scenarios were considered:

- Half of subscribers and ARPU growth of the industry, with a growth rate of 5%.
- Half of subscriber growth but with the same ARPU growth as the industry, with a growth rate of 6.77%.
- Base Scenario, with a growth rate of 7.86%.
- Same performance as the Netflix had against the industry in the last 5 years in Subscribers and ARPU growth, with a growth rate of 10.08%.
- Same performance as the industry in the next 5 years in Subscribers and ARPU growth, with a growth rate of 11.36%.

Similarly, for the operating margin variable, five different scenarios were considered: 30%, 32.5%, 35%, 37.5% and 40%. These scenarios reflect different potential outcomes of the streaming wars and the industry's reaction to them.

		Revenue Growth Rate in the first 5 years				
		5.00%	6.77%	7.86%	10.08%	11.36%
	30.00%	$ 172.65	$ 181.55	$ 186.29	$ 198.48	$ 206.15
	32.50%	$ 191.05	$ 202.27	$ 208.26	$ 223.65	$ 233.35
Operating Margin in Year 10	35.00%	$ 209.44	$ 222.99	$ 230.23	$ 248.82	$ 260.54
	37.50%	$ 227.83	$ 243.72	$ 252.20	$ 274.00	$ 287.73
	40.00%	$ 246.23	$ 264.44	$ 274.17	$ 299.17	$ 314.94

Fig 44. Sensitivity Analysis

5.2 Relative Valuation

The selection of companies for the relative valuation process was based on identifying firms that are like Netflix in terms of growth, margins, and risk. These companies were screened through metrics such as return on equity, monthly beta over the past five years, and their projected revenue growth rate for the upcoming year. In other words, the companies selected are similar to Netflix in terms of cash flows, growth potential, and risk.

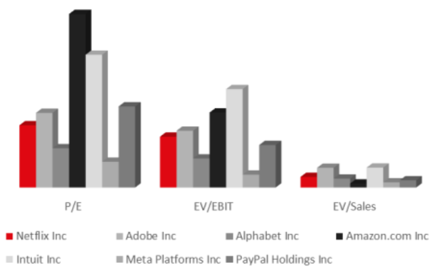

Fig 45. Company per Multiple *Source: Eikon*

The multiples analysed were the price-to-earnings ratio, the enterprise value-to-operating income, and the enterprise value-to-sales. These multiples were chosen as they allow for a comparison of how Netflix is priced in relation to its profits and sales when compared to other growing companies. All variables, including share price, net income, net debt, operating income, and sales, were obtained from Eikon as of December 31, 2022, and were adjusted for any discrepancies and recalculated as necessary.

Company	P/E	EV/EBIT	EV/Sales
Netflix Inc	**27.8**	**22.7**	**4.7**
Adobe Inc	33.3	25.3	8.8
Alphabet Inc	17.5	13.0	4.0
Amazon.com Inc	77.5	33.5	1.8
Intuit Inc	59.3	43.9	8.9
Meta Platforms Inc	11.5	5.7	2.3
PayPal Holdings Inc	36.2	19.0	3.2
25th Percentile	**17.7**	**9.0**	**2.5**
Median	**23.8**	**12.4**	**2.7**
75th Percentile	**30.0**	**15.7**	**3.0**

Fig 46. Table Relative Valuation *Source: Eikon*

The values used to price Netflix were the median values from each multiple, with each multiple representing one-third of the final price. The P/E multiple was selected as it is an important variable for firms with higher expected growth rates, as it allows for a comparison of earnings growth among similar firms. The EV/EBIT multiple was chosen instead of the EV/EBITDA as Netflix incurs amortization of its content and thus a portion of the company's operating expenses are non-cash charges. An evaluation using the EV/EBITDA would result in an upward valuation, thus the enterprise value-to-EBIT was used instead. Additionally, this multiple considers the tax rate for different businesses, which can lead to a biased pricing. The EV/Sales multiple was chosen as it is more consistent and considers revenue growth, which is a key variable for Netflix's future. This multiple also takes into account the operating margin of the companies, as a high operating

	P/E	EV/EBIT	EV/SALES
Netflix	27.8	22.7	4.7
Median	23.8	12.4	2.7
Price per Share	$252.94	$151.26	$161.54
Valuation		$188.58	

Fig 47. Results Relative Valuation

profit margin would result in a high EV/Sales. One of the main variables for selecting the companies was the return on equity.

The table shows the different multiples for the companies, and the corresponding target prices for each median multiple. With these multiples, a valuation according to relative valuation is $188.58 per share (Fig. 47).

5.3 Risks to our Price target

WACC Computation

The cost of capital is a crucial variable in the Discounted Cash Flow analysis, which can have a substantial impact on the company's valuation.

One potential risk associated with the cost of capital is that as Netflix matures, its cost of capital may decrease significantly, providing more room for a lower cost of capital. This is expected as the company becomes more profitable, as demonstrated by the projected decrease in cost of capital from year 5 to year 10. However, this may occur sooner than anticipated, thus presenting a risk.

Industry Slows / Grows more than expected.

The primary factors considered in forecasting the revenue growth rate for Netflix were derived from industry projections and an analysis of Netflix's performance relative to the industry over the past five years.

While this forecast is based on reliable data, as with all predictions it is inherently uncertain, and the streaming video-on-demand market is difficult to predict as it is still evolving, and it is uncertain when it will reach maturity as an industry.

Competitors continue to splash money to increase subscribers.

As we have observed over the past year, many companies that have amassed substantial amounts of debt and are not generating profit may find themselves in peril as interest rates and the cost of capital increase. The companies that Netflix competes with in the SVOD market, except for Amazon, are all carrying high levels of debt and have reported operating losses in this sector of their business but have stated that they expect to become profitable next year. This is a favourable development for Netflix, as these competitors have been expending significant sums on content and marketing campaigns to acquire subscribers. As the cost of capital increases, it is likely that these unprofitable competitors will be forced to withdraw, enabling other companies to moderate their expenses and improve profitability. However, it is important to note that the situation is subject to change, and if the cost of capital decreases or there are major shifts in the industry, these companies may once again seek to aggressively gain market share, potentially hindering Netflix's ability to increase its operating profits.

6. Financial Analysis

Operating Performance & Earnings

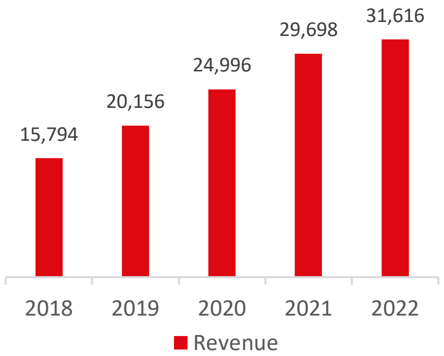

Fig 48. Netflix Revenue (US$m) *Source: Netflix*

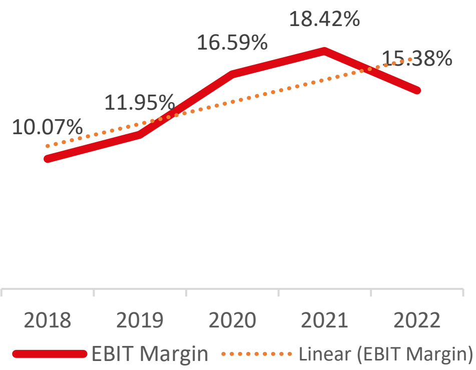

Fig 49. Netflix EBIT Margin *Source: Netflix*

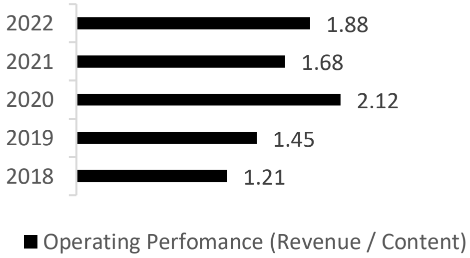

Fig 50. Netflix Operating Performance *Source: Netflix*

- Revenue - Over the past 5 years, from 2018 to 2022, the revenue has more than doubled, from $15.794 billion to $31.616 billion, this is an increase at a CAGR of 14.89%. Reflecting the high growth that Netflix has had in the past few years, even not accounting for the impact of the Covid-19 pandemic, their revenue increased by more than 27% between 2018 and 2019. For the period of 2018 to 2022, the regions that experienced the greatest growth were EMEA and APAC (Fig. 48 more information can be found in Appendix 16).
- EBIT Margin - Their EBIT margin has had a sustainable growth as Netflix has grown their subscribers, they have also grown their ARPU which has meant higher margins, even as content spending has increased. Their margins went from 10.07% in 2018 to 15.38% in 2022. This was accelerated by the Covid-19 pandemic as Netflix increased their margin due to a slowdown in content production because of the health crisis (Fig. 49).
- Operating Performance - This operating performance is a ratio between Sales and Content (S/C) spending. This ratio went from 1.21 S/C in 2018 to 1.88 S/C in 2022 which is an increase of 55.37%. We can see as well in the graph a great increase in 2020 that did not keep up to 2021 and 2022. This is due to content spending as the health crisis obligated Netflix to slow down on their shows and even stop for a few months (Fig. 50).
- Net Profit - The Net Income of Netflix was $1.211 billion in 2018 and grew at a CAGR of 29.97% to $4.492 billion in 2022. This made their earnings per share go from $2.78 to $10 (see more in Appendix 21).

Cash Flow

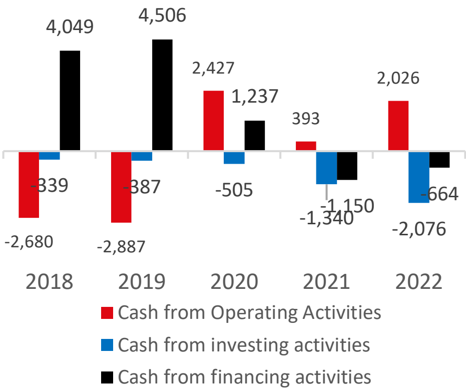

Fig 51. Netflix Cash Flows (US$m) *Source: Netflix*

- Cash from operating activities - The cash from operating activities went from -$2.680 billion to $2.026 billion. This marked a transition for Netflix to become free cash flow positive, a situation that occurred in 2020. However, Netflix had only expected this to happen in 2021. But due to the pandemic in 2020 and their lower content costs, they reached a earlier free cash flow positive. But the trend was for no year to be negative, and from 2021 on, it was always positive (Fig. 51).
- Cash from investing activities - Netflix's outflow from investing activities primarily consists of capital expenditures. In 2021, it increased to -$1.340 billion, with $700 million allocated for acquisitions, of which $500 million was used to purchase the Roald Dahl Story Company (Polygon, 2022) (Fig. 51).
- Cash from financing activities - Netflix no longer finances its activities through debt. From 2021 on, the cash from financing activities were negative, as the company paid off debt that had matured and began to conduct stock buybacks as it became free cash flow positive (Fig. 51 more information can be found in Appendix 23).

Profitability

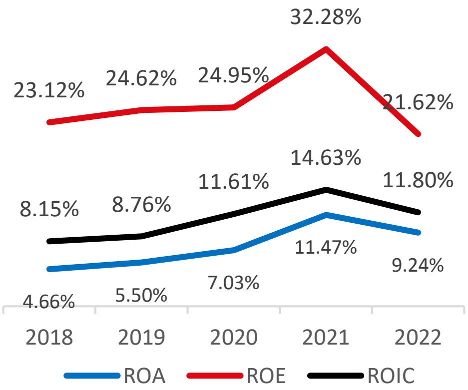

Fig 52. Netflix Profitability Returns *Source: Netflix*

- ROA - Return on assets increased from 4.66% in 2018 to 9.24% in 2022. This growth seems to have happened every year, notably their assets are increasing too (Fig. 52).
- ROE - The return on equity remained stable in this period from 23.12% in 2018 to 21.62% in 2022, this is while the equity more than tripled from $5.239 billion to $20.777 billion. This shows the tremendous efficiency of converting their equity into financing their profits (Fig. 52).
- ROIC - The return on invested capital grew from 8.15% in 2018 to 11.80% in 2022, this is an indication of how Netflix required less to generate more profit (Fig. 52).

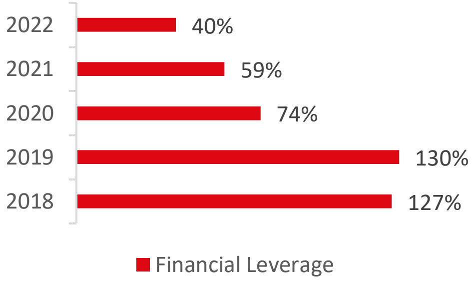

Fig 53. Netflix Financial Leverage *Source: Netflix*

- Financial Leverage - Netflix has successfully managed to reduce their financial leverage since 2018, when their net debt/equity was 127% and went down to 40% in 2022, this shows a comfortable financial position in the years to come (Fig. 53 more information can be found in Appendix 22).

Balance Sheet & Financing

- Capital Structure - The increase in net income has resulted in an increase in retained earnings, which, in conjunction with the payment of their debt, has significantly improved their debt-to-equity ratio.
- Liquidity - Netflix has healthy liquidity ratios. Their current ratio grew to 1.75 in 2022, indicating their ability to readily meet short-term obligations. Their quick ratio, which measures their ability to pay off current liabilities with their most liquid assets, is 0.76 (Fig. 54).

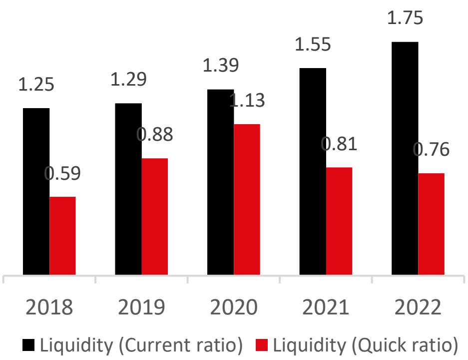

Fig 54. Netflix Liquidity *Source: Netflix*

- Solvency - The solvency ratios were favorable at the end of 2022, with their total debt-to-EBITDA ratio of 0.71 and their net debt-to-EBITDA ratio of 0.41, indicating a comfortable level of debt relative to their income. Additionally, their interest expenses to EBITDA ratio was only 3.47% in 2022, demonstrating a strong ability to manage and service their debt obligations (Fig. 55 more information can be found in Appendix 22).

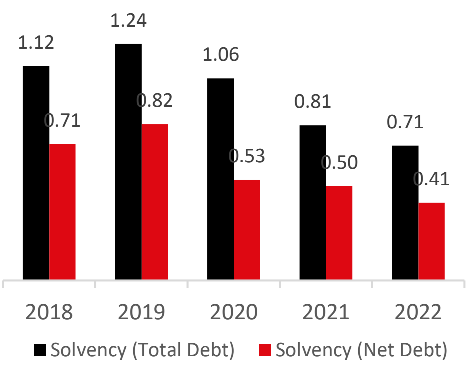

Fig 55. Netflix Solvency *Source: Netflix*

Other Headings Relevant to Company

Netflix's message to shareholders: Focus on revenue, profit, not subscriber adds (cnbc.com)

The streaming wars are over | CNN Business

Netflix Tests New Way of Charging Users for Password-Sharing (businessinsider.com)

Netflix stock soars as the dollar slides | CNN Business

7. Investment Risks

- Foreign Exchange Risk - As demonstrated in 2022 with a strong US dollar, and with more than 50% of their revenue coming from other currencies, Netflix is becoming increasingly susceptible to fluctuations in currencies. If the company does not decide to hedge against these fluctuations, it may suffer substantial losses or gains in revenue and debt, as 20% of which is denominated in Euro. This risk arises when their costs are primarily in US dollars, but their revenues are in a variety of currencies.
- Economic Risk in Western Countries - With many parts of the developing world still recovering from the pandemic and a strong US dollar, the developing countries are still struggling to recover. In 2023, we expect a recession in Europe and the US (Reuters, 2023), which could have a detrimental impact on Netflix as many people may unsubscribe as one of the first steps to cut down their costs. This can be a risk as many people will feel the financial pain and the bad economy can punish companies like Netflix.
- Content Risk - As with all streaming services, content is the primary factor that attracts and retains viewers on the platform. One of the major challenges for Netflix is to continue producing high-quality and high-quantity content. In recent years, Netflix has been successful in this, but the future is uncertain, and a few periods without popular and high-quality shows may damage the company's reputation and scare subscribers away from their platform.

8. Environmental, Social & Governance

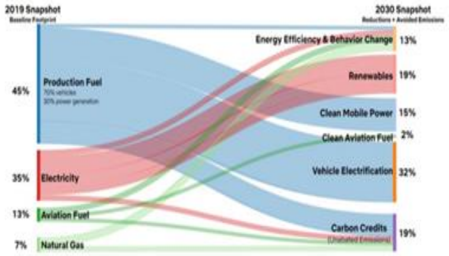

Fig 56. Netflix 2030 Environmental Snapshot

Source: Netflix

Environmental: As a streaming giant, Netflix's carbon footprint is significant, with a large portion of it stemming from the energy consumption of its data centers through Amazon Web Services (AWS). However, the company has committed to achieving carbon neutrality by 2025 and has invested in renewable energy sources. Netflix has also announced plans to reduce the amount of single-use plastics used in its productions, such as replacing water bottles with reusable ones on set (Netflix, 2023).

TOPICS	ACTIVITY METRIC - MEDIA & ENTERTAINMENT	2020	2021	SASB CODE
Total recipients of media and the number of subscribers	Subscribers	204 million	222 million	SV-ME 000.A
TOPICS	**ACCOUNTING METRICS MEDIA & ENTERTAINMENT**	**2020**	**2021**	**SASB CODE**
MEDIA PLURALISM*	**Percentage of gender and racial/ethnic group representation for management, professionals, and all other employees**			SV-ME-260a.1
	Women (Global)	48.7%	51.7%	
	Women in management (Global)	47.8%	51.1%	
	Black/African Americans (US)	8.6%	10.7%	
	Black/African Americans in management (US)	10.9%	13.3%	
	Hispanics/Latinx (US)	7.9%	8.6%	
	Hispanics/Latinx in management (US)	4.3%	4.4%	
	Asians (US)	24.0%	23.5%	
	Asians in management (US)	15.3%	16.2%	
	American Indian or Alaska Native (US)	0.3%	0.3%	
	American Indian or Alaska Native in management (US)	0.0%	0.1%	
	Native Hawaiian / other Pacific Islander (US)	0.5%	0.5%	
	Native Hawaiian / other Pacific Islander in management (US)	0.6%	1.0%	
	Middle Eastern / North African (US)	0.8%	1.3%	
	Middle Eastern / North African in management (US)	0.3%	0.3%	
	Description of policies and procedures to ensure pluralism in media content			SV-ME-260a.1

Fig 57. Netflix Percentage per Gender and racial/ethic group in employees

Source: Netflix

Social: Netflix's content library has a significant impact on society, and the company has faced criticism for some of its programming choices. The company has responded by implementing content moderation policies and partnering with organizations to promote diversity and inclusion. Additionally, Netflix has implemented policies to improve workplace diversity and has invested in employee training and development programs (Netflix, 2023).

Governance: Netflix has a relatively independent board of directors, with a majority of its members having no affiliation with the company's management. The company has also implemented several shareholder-friendly policies, such as annual director elections and proxy access. Additionally, Netflix has faced criticism for its executive compensation practices, particularly regarding the lack of performance-based pay (Netflix, 2023).

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Appendix

Note: Revenue in $USm, users in millions and ARPU in $US.

SVOD Industry Data by Region

1. UCAN

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	14,540	17,290	20,990	27,070	32,790	35,940	41,520	46,670	50,960	54,880	58,460
Revenue Growth		19%	21%	29%	21%	10%	16%	12%	9%	8%	7%
Users	110.75	118.96	128.93	148.57	161.72	162.19	173.97	184.36	192.39	198.37	202.69
Users Growth		7%	8%	15%	9%	0%	7%	6%	4%	3%	2%
Average Revenue per User	131.29	145.35	162.80	182.20	202.75	221.60	238.66	253.15	264.87	276.65	288.42
Revenue per User Growth		11%	12%	12%	11%	9%	8%	6%	5%	4%	4%

2. EMEA

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	4,751	6,429	8,317	11,895	15,958	16,112	20,395	23,482	26,034	28,336	30,373
Revenue Growth		35%	29%	43%	34%	1%	27%	15%	11%	9%	7%
Users	130.13	156.95	194.29	254.48	308.66	310.93	369.54	408.04	438.26	463.31	484.08
Users Growth		21%	24%	31%	21%	1%	19%	10%	7%	6%	4%
Average Revenue per User	36.51	40.97	42.81	46.74	51.70	51.82	55.19	57.55	59.40	61.16	62.74
Revenue per User Growth		12%	4%	9%	11%	0%	7%	4%	3%	3%	3%

3. EMEA without Russia

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	4,705	6,345	8,139	11,562	15,415	15,641	19,785	22,803	25,301	27,553	29,553
Revenue Growth		35%	28%	42%	33%	1%	26%	15%	11%	9%	7%
Users	126.21	150.50	182.65	233.46	277.54	283.28	331.12	363.55	389.14	410.76	429.06
Users Growth		19%	21%	28%	19%	2%	17%	10%	7%	6%	4%
Average Revenue per User	37.28	42.16	44.56	49.52	55.54	55.21	59.75	62.72	65.02	67.08	68.88
Revenue per User Growth		13%	6%	11%	12%	-1%	8%	5%	4%	3%	3%

4. LATAM

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	2,686	3,295	4,329	5,049	5,975	6,777	7,702	8,579	9,416	10,203	10,859
Revenue Growth		23%	31%	17%	18%	13%	14%	11%	10%	8%	6%
Users	64.92	75.60	89.13	108.33	119.84	122.48	132.31	141.26	148.82	155.33	160.78
Users Growth		16%	18%	22%	11%	2%	8%	7%	5%	4%	4%
Average Revenue per User	41.37	43.59	48.57	46.60	49.86	55.33	58.21	60.73	63.27	65.68	67.54
Revenue per User Growth		5%	11%	-4%	7%	11%	5%	4%	4%	4%	3%

5. APAC

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	7,433	9,693	12,294	16,882	22,292	26,021	30,733	35,079	38,822	42,313	45,564
Revenue Growth		30%	27%	37%	32%	17%	18%	14%	11%	9%	8%
Users	329.48	366.87	417.82	505.72	576.22	604.71	663.74	720.44	767.82	807.33	839.80
Users Growth		11%	14%	21%	14%	5%	10%	9%	7%	5%	4%
Average Revenue per User	22.56	26.42	29.42	33.38	38.69	43.03	46.30	48.69	50.56	52.41	54.26
Revenue per User Growth		17%	11%	13%	16%	11%	8%	5%	4%	4%	4%

6. APAC without China

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	2,208	2,924	3,881	5,482	6,982	7,661	9,093	10,359	11,492	12,523	13,454
Revenue Growth		32%	33%	41%	27%	10%	19%	14%	11%	9%	7%
Users	92.51	109.87	133.60	173.01	206.11	222.94	250.85	276.57	297.87	315.88	330.97
Users Growth		19%	22%	30%	19%	8%	13%	10%	8%	6%	5%
Average Revenue per User	23.87	26.62	29.05	31.69	33.87	34.36	36.25	37.46	38.58	39.64	40.65
Revenue per User Growth		12%	9%	9%	7%	1%	5%	3%	3%	3%	3%

7. Worldwide Revenue

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	29,410	36,708	45,929	60,895	77,014	84,850	100,350	113,810	125,231	135,731	145,255

8. Worldwide Revenue without China and Russia

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	24,139	29,854	37,339	49,162	61,161	66,019	78,099	88,411	97,169	105,158	112,326

Netflix Data

9. Netflix UCAN

	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	8,255	10,050	11,456	12,973	14,085	14,752	15,450	16,182	16,948	17,751
Revenue Growth		21.74%	13.99%	13.24%	8.57%	4.74%	4.74%	4.74%	4.74%	4.74%
Users	64.76	67.66	73.94	75.22	74.30	74.98	75.66	76.35	77.05	77.75
Users Growth		4.48%	9.28%	1.73%	-1.22%	0.91%	0.91%	0.91%	0.91%	0.91%
Average Revenue per User	127.47	148.54	154.94	172.47	189.57	196.75	204.21	211.94	219.97	228.30
Revenue per User Growth		16.53%	4.31%	11.31%	9.92%	3.79%	3.79%	3.79%	3.79%	3.79%

10. Netflix EMEA

	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	4,054	5,543	7,772	9,699	9,745	10,789	11,946	13,226	14,643	16,212
Revenue Growth		36.73%	40.21%	24.79%	0.47%	10.72%	10.72%	10.72%	10.72%	10.72%
Users	37.82	51.78	66.70	74.04	76.73	82.71	89.15	96.10	103.59	111.66
Users Growth		37%	29%	11%	4%	8%	8%	8%	8%	8%
Average Revenue per User	107.19	107.05	116.52	131.00	127.00	130.45	133.99	137.62	141.36	145.19
Revenue per User Growth		-0.13%	8.85%	12.42%	-3.05%	2.71%	2.71%	2.71%	2.71%	2.71%

11. Netflix LATAM

	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	2,095	2,794	3,156	3,577	4,070	4,367	4,686	5,027	5,394	5,788
Revenue Growth		33.37%	12.96%	13.34%	13.78%	7.30%	7.30%	7.30%	7.30%	7.30%
Users	26.08	31.42	37.54	39.96	41.70	43.33	45.03	46.79	48.62	50.53
Users Growth		20.48%	19.48%	6.45%	4.35%	3.92%	3.92%	3.92%	3.92%	3.92%
Average Revenue per User	80.33	88.92	84.07	89.51	97.60	100.78	104.06	107.44	110.94	114.54
Revenue per User Growth		10.70%	-5.46%	6.48%	9.03%	3.25%	3.25%	3.25%	3.25%	3.25%

12. Netflix APAC

	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	1,024	1,469	2,373	3,266	3,571	4,009	4,501	5,054	5,674	6,371
Revenue Growth		43.46%	61.54%	37.63%	9.34%	12.27%	12.27%	12.27%	12.27%	12.27%
Users	10.61	16.23	25.49	32.63	38.02	42.40	47.28	52.72	58.79	65.56
Users Growth		52.97%	57.05%	28.01%	16.52%	11.51%	11.51%	11.51%	11.51%	11.51%
Average Revenue per User	96.51	90.51	93.10	100.09	93.92	94.57	95.21	95.86	96.52	97.18
Revenue per User Growth		-6.22%	2.85%	7.52%	-6.16%	0.68%	0.68%	0.68%	0.68%	0.68%

13. Netflix Revenue as % of the Market

	2018	2019	2020	2021	2022
UCAN	48%	48%	42%	40%	39%
EMEA	63%	67%	65%	61%	62%
LATAM	64%	65%	63%	60%	60%
APAC	35%	38%	43%	47%	47%

	2023E	2024E	2025E	2026E	2027E
UCAN	36%	33%	32%	31%	30%
EMEA	55%	52%	52%	53%	55%
LATAM	57%	55%	53%	53%	53%
APAC	44%	43%	44%	45%	47%

14. Netflix ARPU as % of the Market

	2018	2019	2020	2021	2022
UCAN	88%	91%	85%	85%	86%
EMEA	262%	250%	249%	253%	230%
LATAM	184%	183%	180%	180%	176%
APAC	363%	312%	294%	295%	273%

	2023E	2024E	2025E	2026E	2027E
UCAN	82%	81%	80%	80%	79%
EMEA	218%	214%	212%	211%	211%
LATAM	169%	166%	165%	165%	166%
APAC	261%	254%	248%	243%	239%

15. Netflix Users as % of the Market

	2018	2019	2020	2021	2022
UCAN	54%	52%	50%	47%	46%
EMEA	24%	27%	26%	24%	27%
LATAM	34%	35%	35%	33%	34%
APAC	10%	12%	15%	16%	17%

	2023E	2024E	2025E	2026E	2027E
UCAN	43%	41%	40%	39%	38%
EMEA	25%	25%	25%	25%	26%
LATAM	33%	32%	31%	31%	31%
APAC	17%	17%	18%	19%	20%

16. CAGR Market per Region from 2018 to 2022

	Revenue	Users	ARPU
UCAN	20.07%	8.06%	11.12%
EMEA (w/Russia)	25.82%	18.64%	6.05%
LATAM	19.76%	12.82%	6.15%
APAC (w/China)	27.22%	19.35%	6.60%

17. Netflix CAGR per Region from 2018 to 2022

	Revenue	Users	ARPU
UCAN	14.29%	3.50%	10.43%
EMEA	24.52%	19.35%	4.33%
LATAM	18.06%	12.45%	4.99%
APAC	36.65%	37.59%	-0.68%

18. Projections of the CAGR of the Market per region from 2023 to 2027

	Revenue	Users	ARPU
UCAN	10.22%	4.56%	5.41%
EMEA (w/Russia)	13.57%	8.66%	4.52%
LATAM	9.89%	5.59%	4.07%
APAC (w/China)	11.92%	8.22%	3.42%

19. My Projections of the CAGR of Netflix per region from 2023 to 2027

	Revenue	Users	ARPU
UCAN	4.74%	0.91%	3.79%
EMEA	10.72%	7.79%	2.71%
LATAM	7.30%	3.92%	3.25%
APAC	12.27%	11.51%	0.68%

20. Netflix Subscribers Projections

Subscribers	2023E	2024E	2025E	2026E	2027E
Worlwide	243.42	257.12	271.96	288.05	305.50

Financial Statements

21. Income Statement

	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Reporting Unit	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands
Revenues	15,794,341	20,156,447	24,996,056	29,697,844	31,615,550	33,997,506	36,642,972	39,519,070	42,659,755	46,121,513
UCAN	8,255,000	10,050,000	11,456,000	12,973,000	14,085,000	14,751,931	15,450,442	16,182,027	16,948,253	17,750,761
EMEA	4,054,000	5,543,000	7,772,000	9,699,000	9,745,000	10,789,322	11,945,559	13,225,703	14,643,034	16,212,253
LATAM	2,095,000	2,794,000	3,156,000	3,577,000	4,070,000	4,366,929	4,685,520	5,027,355	5,394,128	5,787,659
APAC	1,024,000	1,469,000	2,373,000	3,266,000	3,571,000	4,009,325	4,501,452	5,053,985	5,674,340	6,370,840
DVD	366,000	297,000	239,000	182,000	130,000	80,000	60,000	30,000	0	0
Cost of Revenue	9,967,538	12,440,213	15,276,319	17,332,683	19,168,285	20,414,224	21,741,148	23,154,323	24,659,354	26,262,212
Marketing	2,369,469	2,652,462	2,228,362	2,545,146	2,530,502	2,593,765	2,693,624	2,774,433	2,871,538	2,974,052
Technology and development	1,221,814	1,545,149	1,829,600	2,273,885	2,711,041	2,982,145	3,280,360	3,641,199	4,041,731	4,506,530
General and administrative	630,294	914,369	1,076,486	1,351,621	1,572,891	1,706,587	1,877,245	2,064,970	2,274,564	2,524,766
Operating Income	1,605,226	2,604,254	4,585,289	6,194,509	5,632,831	6,300,787	7,050,594	7,884,145	8,812,567	9,853,953
Interest expense	(420,493)	(626,023)	(767,499)	(765,620)	(706,212)	(695.548)	(695.548)	(672.548)	(591.373)	(547.623)
Interest and other income (expense)	41,725	84,000	(618,441)	411,214	337,310					
Income before income taxes	1,226,458	2,062,231	3,199,349	5,840,103	5,263,929	6,300,091	7,049,899	7,883,472	8,811,976	9,853,405
Taxes	(15,216)	(195,315)	(437,954)	(723,875)	(772,005)	(781,211)	(874,187)	(977,551)	(1,092,685)	(1,221,822)
Net Income	1,211,242	1,866,916	2,761,395	5,116,228	4,491,924	5,518,880	6,175,711	6,905,922	7,719,291	8,631,583

22. Balance Sheet

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Reporting Unit	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands
Assets ($ Thousands)											
Cash and Short Term Investments	2,822,795	3,794,483	5,018,437	8,205,550	6,027,804	6,058,452	5,356,063	6,605,552	7,728,166	8,687,739	9,444,973
Accounts Receivable - Trade, Net	4,310,934	5,513,898	454,399	610,819	804,320	988,898	1,063,098	1,225,796	1,408,260	1,613,284	1,844,861
Prepaid Expenses	--	178,833	180,999	203,042	323,818	392,735	416,181	473,835	538,279	610,477	691,823
Other Current Assets, Total	536,245	206,921	524,669	742,169	913,883	1,826,388	1,733,090	1,767,391	1,797,663	1,823,459	1,844,861
Total Current Assets	7,669,974	9,694,135	6,178,504	9,761,580	8,069,825	9,266,473	9,215,046	9,876,673	10,592,112	11,369,365	12,222,201
Property/Plant/Equipment, Total - Gross	641,218	786,800	2,513,226	3,492,699	4,386,332	4,379,120	4,523,221	5,030,503	5,592,851	6,218,146	6,918,227
Property/Plant/Equipment, Total - Net	319,404	418,281	2,097,221	2,997,909	3,770,026	3,625,379	3,716,243	4,103,352	4,531,045	5,005,155	5,534,582
Accumulated Depreciation, Total	(321,814)	(368,519)	(416,005)	(494,790)	(616,306)	(753,741)	(806,978)	(927,151)	(1,061,806)	(1,212,992)	(1,383,645)
Intangibles, Net	10,371,055	14,951,141	24,504,567	25,383,950	30,919,539	32,736,713	33,532,832	37,000,208	40,829,761	45,073,573	49,811,234
Other Long Term Assets, Total	652,309	910,843	1,195,420	1,136,920	1,825,273	2,966,203	2,984,918	3,237,355	3,513,208	3,815,895	4,150,936
Total Assets	19,012,742	25,974,400	33,975,712	39,280,359	44,584,663	48,594,768	49,449,039	54,217,588	59,466,126	65,263,988	71,718,953
Liabilities ($ Thousands)											
Accounts Payable	4,532,596	5,244,547	5,087,908	5,085,719	5,130,450	5,151,663	4,937,271	5,090,382	5,240,713	5,388,188	5,534,582
Accrued Expenses	315,094	481,874	843,043	1,102,196	1,449,351	1,514,650	1,619,690	1,858,938	2,126,945	2,427,782	2,767,291
Notes Payable/Short Term Debt	0	0	0	0	0	0	0	0	0	0	0
Current Port. of LT Debt/Capital Leases	--	--	--	499,878	699,823	0	0	0	0	0	0
Other Current liabilities, Total	618,622	760,899	924,745	1,117,992	1,209,342	1,264,661	1,283,709	1,404,129	1,536,480	1,682,489	1,844,861
Total Current Liabilities	5,466,312	6,487,320	6,855,696	7,805,785	8,488,966	7,930,974	7,840,670	8,353,448	8,904,137	9,498,459	10,146,733
Total Long Term Debt	6,528,932	10,360,058	14,759,260	15,809,095	14,693,072	14,353,076	13,726,296	14,118,836	14,498,444	14,864,197	15,220,099
Total Debt	6,528,932	10,360,058	14,759,260	16,308,973	15,392,895	14,353,076	13,726,296	14,118,836	14,498,444	14,864,197	15,220,099
Other Liabilities, Total	3,435,542	3,888,257	4,778,599	4,600,239	5,553,377	5,533,317	5,310,589	5,483,765	5,655,282	5,825,245	5,995,797
Total Liabilities	15,430,786	20,735,635	26,393,555	28,215,119	28,735,415	27,817,367	26,877,555	27,956,049	29,057,864	30,187,901	31,362,629
Shareholders Equity ($ Thousands)											
Common Stock, Total	1,871,396	2,315,988	2,793,929	3,447,698	4,024,561	4,637,601	4,730,006	5,197,660	5,713,035	6,283,014	6,918,227
Common Stock	1,871,396	2,315,988	2,793,929	3,447,698	4,024,561	4,637,601	4,730,006	5,197,660	5,713,035	6,283,014	6,918,227
Retained Earnings (Accumulated Deficit)	1,731,117	2,942,359	4,811,749	7,573,144	12,689,372	17,181,296	17,841,479	21,063,879	24,695,227	28,793,072	33,438,097
Treasury Stock - Common	--	--	--	--	(824,190)	(824,190)	(659,352)	(532,994)	(383,219)	(206,837)	0
Other Equity, Total	(20,557)	(19,582)	(23,521)	44,398	(40,495)	(217,306)	(173,845)	(140,529)	(101,040)	(54,535)	0
Total Equity	3,581,956	5,238,765	7,582,157	11,065,240	15,849,248	20,777,401	22,571,485	26,261,539	30,408,262	35,076,086	40,356,324
Total Liabilities & Shareholders' Equity	19,012,742	25,974,400	33,975,712	39,280,359	44,584,663	48,594,768	49,449,039	54,217,588	59,466,126	65,263,988	71,718,953

23. Cash Flow Statement

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Reporting Unit	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands
Cash Flow-Operating Activities ($ Thousands)											
Net Income/Starting Line	558,929	1,211,242	1,866,916	2,761,395	5,116,228	4,491,924	5,066,309	5,629,899	6,254,409	6,948,663	7,725,752
Depreciation	71,911	83,157	103,579	115,710	208,412	336,682	323,742	334,986	346,237	357,516	368,972
Amortization of Intangibles	6,258,474	7,573,300	9,216,247	10,806,912	12,230,367	14,026,132	14,176,412	15,431,736	16,796,591	18,285,922	19,924,494
Deferred Taxes	(208,688)	(85,520)	(94,443)	70,066	199,548	(166,550)	0	0	0	0	0
Non-Cash Items	(8,525,551)	(11,756,425)	(14,022,664)	(11,295,133)	(17,119,968)	(15,903,844)	(16,318,803)	(17,027,134)	(18,301,983)	(19,689,989)	(21,215,896)
Changes in Working Capital	58,977	293,767	43,043	(31,873)	(241,977)	(758,087)	94,653	(258,126)	(273,509)	(291,304)	(313,950)
Cash from Operating Activities	(1,785,948)	(2,680,479)	(2,887,322)	2,427,077	392,610	2,026,257	3,342,311	4,111,360	4,821,744	5,610,807	6,489,371
Cash Flow-Investing Activities ($ Thousands)											
Capital Expenditures	(227,022)	(212,532)	(253,035)	(497,923)	(524,585)	(407,729)	(407,777)	(439,560)	(474,117)	(511,857)	(553,458)
Other Investing Cash Flow Items, Total	261,351	(126,588)	(134,029)	(7,431)	(815,268)	(1,668,663)	(1,742,900)	(1,958,536)	(2,198,555)	(2,466,433)	(2,767,291)
Cash from Investing Activities	34,329	(339,120)	(387,064)	(505,354)	(1,339,853)	(2,076,392)	(2,150,678)	(2,398,096)	(2,672,672)	(2,978,289)	(3,320,749)
Cash Flow-Financing Activities ($ Thousands)											
Financing Cash Flow Items	(31,898)	(37,827)	(36,134)	(7,559)	(224,168)	0	0	0	0	0	0
Issuance (Retirement) of Stock, Net	88,378	124,502	72,490	235,406	(425,608)	35,746	(379,373)	(856,315)	(1,406,066)	(2,038,697)	(2,767,291)
Issuance (Retirement) of Debt, Net	3,020,510	3,961,852	4,469,306	1,009,464	(500,000)	(700,000)	(626,780)	392,540	379,608	365,752	355,903
Cash from Financing Activities	3,076,990	4,048,527	4,505,662	1,237,311	(1,149,776)	(664,254)	(1,006,153)	(463,775)	(1,026,458)	(1,672,945)	(2,411,388)
Foreign Exchange Effects	29,848	(39,682)	469	36,050	(86,740)	(170,140)	0	0	0	0	0
Net Change in Cash	1,355,219	989,246	1,231,745	3,195,084	(2,183,759)	(884,529)	185,481	1,249,490	1,122,614	959,572	757,234
Net Cash - Beginning Balance	1,467,576	2,822,795	3,812,041	5,043,786	8,238,870	6,055,111	5,170,582	5,356,063	6,605,552	7,728,166	8,687,739
Net Cash - Ending Balance	2,822,795	3,812,041	5,043,786	8,238,870	6,055,111	5,170,582	5,356,063	6,605,552	7,728,166	8,687,739	9,444,973
Cash Interest Paid	213,313	375,831	599,132	762,904	763,432	701,693	743,525	784,251	827,332	873,138	922,430
Cash Taxes Paid	113,591	131,069	400,658	291,582	509,265	811,720	781,211	874,187	977,551	1,092,685	1,221,822
Net Changes in Working Capital	58,977	293,767	43,043	(31,873)	(241,977)	(758,087)	94,653	(258,126)	(273,509)	(291,304)	(313,950)
Free Cash Flow	(2,012,970)	(2,893,011)	(3,140,357)	1,929,154	(131,975)	1,618,528	3,750,088	4,550,920	5,295,861	6,122,664	7,042,829