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Netflix, Inc.

(NFLX)

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Prepared for: Eva Luate
Prepared by: ValuationBot

Table of contents

Tap a section title to jump

- 1. Executive summary
- 2. Overview
- 3. Investment summary
- 4. Company background
- 5. Financial summary
- 6. Investment thesis
- 7. Catalysts
- 8. Valuation
- 9. Risks
- 10. Appendix

1. Executive summary

Company: Netflix, Inc.

Ticker: NFLX

Recommendation: Strong Sell

Current price: US$1,241.35

Estimated value: US$334.88

Upside: -73.0%

Expected IRR: 5.7%

I believe Netflix is overvalued at US$1,241. The market is pricing in 18.8% revenue growth, a 16 year runway to stability, and a 42.5% long run net income margin. I see a different picture. The data point to mid teens at best near term and nearer 11.5% through the cycle, a 10 year glide path to maturity, and sustainable net margins around 26% given ongoing content intensity, FX exposure, and tight competition. Relative to peers whose median multiples map to US$496–US$610, my DCF centres on the 50th percentile of simulated intrinsic values at about US$331, within a 25th–75th percentile range of US$297–US$367. That implies roughly 70–76% downside from today's price. In short, the market overestimates both margin potential and growth duration. Earnings in late October 2025 and FY 2025 results in January 2026 should test this view. The main risks are faster ad monetisation, stronger pricing power with low churn, and a longer growth runway. Taking everything together, I rate the shares a Strong Sell over the next 12–18 months.

2. Overview

Company	Netflix, Inc.
Ticker	NFLX
Analysis date	Oct 22, 2025
Expected IRR	5.7%
Latest filing	10-Q, Jul 18, 2025
Industry	Entertainment
Sector	Communication Services
Recommendation	Strong Sell
Upside potential	-73.0%
Exchange	NASDAQ
Market cap	$527.48bn
Current price	US$1,241.35
Estimated value	US$334.88

3. Investment summary

Recommendation: Strong Sell NFLX (Netflix, Inc.) shares at US$1,241.

Thesis: The market assumes Netflix can compound revenue near 19% for many years and settle at a 42.5% net margin. I expect 11.5% growth, a 10 year path to stability, and a 26% margin because content intensity, FX, and competition cap pricing power and slow operating leverage.

Catalysts: Q3 2025 results around October 28th 2025 (unconfirmed) and FY 2025 results on January 21st 2026 (unconfirmed) should show growth in the low to mid teens and net margins nearer 24–26%, not 42.5%. A reset toward peer medians could move the share price toward US$500–US$610, with further drift toward intrinsic value near US$300–US$370.

Valuation: Fair value is about US$300–US$370 per share (50th percentile around US$331), implying 70–76% downside from US$1,241.

Risks: Upside risks are faster ad scaling, durable pricing power, and an extended runway; in that case, prices could hold near current levels or re rate toward upper quartile peer implied prices (US$1,233–US$2,437).

4. Company background

Industry
Entertainment

Description
Netflix operates a global direct to consumer streaming platform monetised via monthly memberships across pricing tiers, including an ad supported plan. It produces and licenses content across regions and distributes over internet connected devices. Content spend, product innovation, and distribution underpin engagement and retention.

Key products
Streaming memberships (ad supported, standard, premium); original and licensed content; mobile games; emerging live events and consumer products.

Business model
Value proposition: Broad, on demand entertainment with personalisation and global availability.
Revenue engine: Monthly memberships across tiers plus growing advertising revenue.
Cost drivers and investment focus: Heavy content production/licensing, delivery infrastructure, marketing, and product/technology.

Unit economics
Key unit: Paid membership.
Revenue per unit: ~US$11.70 per month (2024 ARM).
Cost per unit: ~US$6.30 per month (content driven cost of revenue, 2024).
Contribution margin: ~46% gross margin in 2024.

Competitive landscape
Direct competitors: Direct competitors: Amazon Prime Video, Disney+/Hulu/Max, Apple TV+, Paramount+ and regional streamers.
Relative positioning: Relative positioning: Global leader by scale and engagement but facing aggressive bundles and content spend by rivals.
Key threat/trend: Content cost inflation, FX volatility, and ad market execution risk as the mix shifts to ads.

Operating segments
Streaming memberships and advertising (~97%): Core subscription and ads revenue at global scale

Other (~3%): Games, live events, consumer products and ancillary

Geographic segments

UCAN (~45%): High ARPU, mature market with price sensitivity
EMEA (~30%): Broad footprint, mixed ARPU, currency exposure
LATAM (~13%): Lower ARPU, ad tier supports monetisation
APAC (~12%): Fastest membership growth, lowest ARPU

5. Financial summary

All financial figures in $ millions

Fiscal year	2024	2023	2022	2021	2020
Revenue	39,001	33,723	31,616	29,698	24,996
YoY growth	15.7%	6.7%	6.5%	18.8%	24.0%
Adjusted net profit	9,667	6,303	5,791	6,234	3,389
Margin	24.8%	18.7%	18.3%	21.0%	13.6%
Reinvestment	4,236	428	5,826	5,809	3,625
FCFE	5,431	5,875	(36)	426	(235)
Adjusted equity	36,197	31,086	30,380	24,153	18,251
Return on equity (ROE)	26.7%	20.3%	19.1%	25.8%	18.6%
Sales to equity ratio	1.08	1.08	1.04	1.23	1.37

6. Investment thesis

The market assumes Netflix can compound revenue near 19% for many years and settle at a 42.5% net margin. I expect 11.5% growth, a 10 year path to stability, and a 26% margin because content intensity, FX, and competition cap pricing power and slow operating leverage.

Double digit growth, not near 20% compounding: The market bakes in about 18.8% growth, which I see as too high; I forecast 11.5%. Management's guidance and consensus point to mid teens at best near term, and FX plus competitive bundles curb ARPU and net adds. Ads scale from a small base and help, but they do not sustain a near 20% compound rate. Expect low to mid teen growth that converges toward low single digits into maturity.

Content intensity caps long run margins: The market implies a 42.5% net margin, which is not consistent with a content heavy cost base; I see 26.0%. Content amortisation, localisation, and marketing needs limit operating leverage even as ads and pricing help. FX and competition constrain pricing power, so mid 20s net margins look achievable and durable; 40%+ would require a richer ads mix and lower content intensity than evidence supports.

Runway is long but not 16 years to stability: Investors imply a 16 year path to stability; I model 10 years. Streaming is mature in UCAN and EMEA and still expanding in APAC/LATAM from low ARPU bases, which stretches growth but with diminishing returns. Ads, games and live events add optionality yet do not extend the high growth window by another half decade. A 10 year glide path better fits a saturated category that will settle toward GDP like growth.

7. Catalysts

October print should reset growth expectations: Around October 28th 2025 (unconfirmed based on typical timing), Netflix reports Q3 2025. If constant currency revenue growth lands near 13–15% and guidance implies a 2025 exit rate below the market's 18.8%, investors should revise toward our 11.5%. A multiple reset toward the 50th percentile peer P/E implies roughly US$610, a drop of about 51% from US$1,241, with further downside as estimates normalise.

FY 2025 results to anchor mid 20s net margins: On January 21st 2026 (unconfirmed), FY 2025 results and 2026 guidance should show operating margins around the high 20s and net margins near 24–26%, far below 42.5%. That would compress valuation toward peer medians, implying US$500–US$610 (" 51% to " 60%), and set the stage for a drift toward intrinsic value as the margin narrative resets.

2026 outlook to shorten the glide path: In late January to February 2026 (unconfirmed), management's 2026 outlook and content spend plan are likely to signal steady, not extended, operating leverage, aligning with about 10 years to stability. A revision from a 16 year to a 10 year runway would pull the price toward the 25th to 50th percentiles of simulated intrinsic values, or about US$297–US$331, implying roughly 73–76% downside from today.

8. Valuation

Current price: US$1,241.35

Base case value: US$334.88

Upside potential: -73.0%

Expected IRR: 5.7%

Currency: USD

Report date: Oct 22, 2025

Latest annual financials: Dec 31, 2024

Base case assumptions   DCF model   Bull/Bear scenarios

Story:

Netflix sits in a mature growth stage with global scale, rising average revenue per member, and an expanding advertising layer. Pricing power, a deep content slate, and international reach support healthy growth, while ads add a second engine from a small base. Content obligations, FX, and competition temper upside and keep reinvestment needs high. The most likely path is solid double digit growth in the near term that tapers toward low single digits, with margins edging up to a sustainable mid 20s level as scale and ads offset content intensity.

Multiples snapshot

Large cap streaming and media names trade across wide bands; mapping sector percentiles to Netflix suggests median implied prices near US$610 on P/E and US$496 on P/S, with P/B at US$213 but less meaningful for an intangible heavy model. Netflix trades at rich levels today (P/E 54.6, P/S 13.5, P/B 14.6), placing it around the 75th to 90th percentiles, supported by strong brand, scale, and enthusiasm for ads. Yet our fundamentals—11.5% growth, a 10 year runway, and a 26% margin—do not justify a top quartile premium. I view fair valuation closer to sector medians, emphasising P/E and P/S and de emphasising P/B as not meaningful, implying US$500–US$610. This still represents 51–60% downside and supports a Strong Sell rating, with DCF indicating further decline toward US$300–US$370.

Price-to-sales: 13.5x (78th percentile vs. peers) with implied share prices from US$128 to US$1,882 across the revenue-weighted peer set.

Price-to-earnings: 54.6x (75th percentile vs. peers) with implied share prices from US$239 to US$2,437 across the revenue-weighted peer set.

Price-to-book: 14.6x ("e90th percentile vs. peers) with implied share prices from US$60 to US$894 across the revenue-weighted peer set.

9. Risks

Ads and pricing drive sustained high teens growth: A faster ad ramp, bundled offerings, and persistent hit content could push revenue growth to 18–20% through 2027, closer to the market's 18.8% view. That would sustain premium multiples and prevent a de rating. The share price could hold near current levels or move toward the 75th to 90th percentile peer implied prices on P/E and P/S (about US$1,233–US$2,437).

Mix shift and efficiency lift margins beyond 26%: If ad mix expands rapidly, content amortisation moderates, and pricing sticks with low churn, net margins could climb well above 26% and approach the high 30s. That outcome would validate higher market assumptions and support elevated multiples. The shares could trade toward US$1,233–US$2,437, challenging the Strong Sell view.

New verticals extend high growth window: Success in games, live events, and regional monetisation could lengthen the high growth phase toward 16 years. A longer runway would raise terminal value and justify upper quartile peer multiples. The price could gravitate toward US$1,074–US$1,882 on P/S benchmarks, reducing expected downside.

10. Appendix

10.1 Base case assumptions

Valuation story

Netflix sits in a mature growth stage with global scale, rising average revenue per member, and an expanding advertising layer. Pricing power, a deep content slate, and international reach support healthy growth, while ads add a second engine from a small base. Content obligations, FX, and competition temper upside and keep reinvestment needs high. The most likely path is solid double digit growth in the near term that tapers toward low single digits, with margins edging up to a sustainable mid 20s level as scale and ads offset content intensity.

Revenue growth rate

Value: 11.5%
Explanation: Consensus points to revenue rising from ~$39B to ~$68B over five years, an ~11–12% CAGR; this anchors a first five year growth rate near 11.5%. Pricing, ads scaling from a small base, and international expansion support double digit growth early. Competitive intensity and FX volatility argue against a higher base rate.

Stable growth rate

Value: 3.0%
Explanation: In maturity, growth should track long run nominal GDP and inflation. A 3% terminal rate sits below the provided risk free rate and fits a global, scaled but saturated streaming market.

Years to stability

Value: 10.0
Explanation: Netflix operates in a mature growth phase with durable scale yet ongoing runway in ads and international. Ten years allows five years of near consensus double digit gains, then a taper to low single digits as markets saturate and competition caps pricing power.

Sales-to-equity ratio

Value: 1.1
Explanation: History shows 1.04–1.23 and industry 75–90th percentiles range 0.8–1.3, so 1.1 is consistent with a capital light platform relative to equity. Ongoing buybacks and content capitalisation sustain high sales per dollar of equity near term.

Stable net profit margin

Value: 26.0%
Explanation: Adjusted net margin reached ~25% with operating margin near high 20s; scale and a growing ads mix can add modest uplift. Competitive content costs and FX suggest margins settle near 26%, above the industry median but below the most profitable media peers.

FY+1 net profit margin

Value: 25.5%
Explanation: Consensus implies higher profitability next year, and management targets higher operating efficiency. On our adjusted basis (capitalising R&D, S&M, and G&A), a mid 25% net margin bridges from ~25% while reflecting heavier content amortisation and FX noise.

Margin convergence

Value: 6.0
Explanation: Ad monetisation, pricing, and scale should lift margins gradually, but content intensity and regional mix slow the pace. Six years matches a steady climb from mid 20s to a sustainable 26%.

Stable ROE

Value: 18.0%
Explanation: ROE has run in the high teens to mid 20s; competition, higher tax normalisation, and a growing equity base should pull returns down but keep them above the stable cost of equity. An 18% long run ROE is realistic for a scaled leader with enduring but not absolute pricing power.

Credit rating

Value: Baa2/BBB
Explanation: Strong, recurring cash flow and sizable scale support investment grade status, while ~$16B of debt, large content obligations, and industry volatility limit headroom. Liquidity and access to markets justify a solid BBB profile.

Recovery ratio

Value: 35.0%
Explanation: Recovery skews modest due to intangible heavy assets and content rights with uncertain resale value. Senior unsecured structures and platform value support some recovery but not high levels.

10.2 DCF model

All financial data in US$ millions unless stated otherwise

	Base year	FY+1	FY+2	FY+3	FY+4	FY+5	FY+6
Revenue	39,001	43,486	48,487	54,063	60,280	67,212	73,799
YoY growth, %	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	9.8%
All expenses	29,334	32,397	36,082	40,187	44,758	49,849	54,673
Net profit	9,667	11,089	12,405	13,876	15,522	17,363	19,126
Net margin, %	24.8%	25.5%	25.6%	25.7%	25.8%	25.8%	25.9%
Reinvestment	4,236	4,077	4,546	5,069	5,652	6,302	5,988
Invested equity	36,197	40,274	44,820	49,889	55,541	61,843	67,831
ROE, %		27.5%	27.7%	27.8%	27.9%	28.1%	28.2%
S/E ratio, x	1.1	1.1	1.1	1.1	1.1	1.1	1.1
FCFE	5,431	7,012	7,858	8,807	9,870	11,061	13,138
Stable value							
FCFs to discount		7,012	7,858	8,807	9,870	11,061	13,138
Discount factor		1.0	0.9	0.8	0.7	0.6	0.6
Cost of equity, %	12.1%	12.1%	12.0%	11.9%	11.8%	11.7%	11.6%
PV of FCFE		6,862	6,869	6,880	6,896	6,918	7,360
	...		**FY+7**	**FY+8**	**FY+9**	**FY+10**	**Stability**
Revenue			79,777	84,883	88,872	91,538	94,285
YoY growth, %			8.1%	6.4%	4.7%	3.0%	3.0%
All expenses			59,035	62,813	65,765	67,738	69,771
Net profit			20,742	22,070	23,107	23,800	24,514
Net margin, %			26.0%	26.0%	26.0%	26.0%	26.0%
Reinvestment			5,434	4,642	3,627	2,424	4,086
Invested equity			73,266	77,907	81,534	83,958	
ROE, %			28.3%	28.3%	28.3%	28.3%	18.0%
S/E ratio, x			1.1	1.1	1.1	1.1	1.1
FCFE			15,308	17,428	19,480	21,376	20,428
Stable value							246,318
FCFs to discount			15,308	17,428	19,480	21,376	246,318
Discount factor			0.5	0.5	0.4	0.4	0.4
Cost of equity, %			11.5%	11.5%	11.4%	11.3%	11.3%
PV of FCFE			7,688	7,853	7,880	7,770	89,534

Sum of PV of FCFE	162,509.4
Less: Distress adjustments	4,794.9
Distress likelihood, %	3.2%
Recovery ratio, %	35.0%
Value of common equity	157,714.5
Less: Employee options	15,274.4
Less: Unfunded liabilities	140.0
Value of common shareholders' equity	142,300.1
Divide: Share count	424.9
Equity value per share	US$334.88

10.3 Scenarios

Bear case

Value: US$202.10
Upside: -83.7%
Story: I assume pricing actions trigger higher churn and slower member additions, while

ads scale more slowly than hoped. FX and regulatory friction, including tax disputes, weigh on reported results and limit operating leverage. Content costs remain high and lumpy, forcing sustained reinvestment and weaker capital efficiency. In this bear path, Netflix sits in late mature growth drifting toward full maturity, with slower top line expansion and a lower, but still solid, profitability base.
Revenue growth rate: 8.0%
Stable growth rate: 2.5%
FY+1 net margin: 23.5%
Stable net margin: 22.0%
Sales-to-equity ratio: 0.9
Years to stability: 8.0
Stable ROE: 16.0%

Bull case
Value: US$453.97
Upside: -63.4%
Story: In the bull case, Netflix converts its scale into a second growth engine from advertising while sustaining pricing power and strong slate cadence. International expansion, better ad targeting, and selective live content raise engagement and average revenue per member. Content spend stays high but monetisation improves, pushing margins higher as the platform benefits from operating leverage. I treat Netflix as a mature growth company with a longer runway and higher quality of cash flows than history implied, yet still bounded by content intensity and competition.
Revenue growth rate: 12.5%
Stable growth rate: 3.5%
FY+1 net margin: 26.5%
Stable net margin: 28.5%
Sales-to-equity ratio: 1.2
Years to stability: 12.0
Stable ROE: 20.0%

10.4 Other claims

(in US$ millions unless stated)

Employee stock options
Number of stock options: 15.4
Weighted avg. strike price: 312.48
Weighted avg. maturity: 5.2
Assumed volatility: 0.0%
Assumed dividend yield: 0.0%
Value of options: 15,274.4

Unfunded liabilities
Pension obligations: 0.0
Post-retirement benefits: 0.0
Healthcare liabilities: 0.0
Deferred compensation: 0.0
Lawsuit contingencies: 0.0
Environmental liabilities: 0.0
Other: 140.0 – The company disclosed Brazilian non income tax assessments with potential exposure of $400m as of December 31st 2024. I applied a 35% probability given stated 'meritorious defences' but high uncertainty, giving an expected value of $140m.
Total liabilities: 140.0

10.5 Cost of equity

Inputs for risk-free rate

Ten-year bond yield, %	4.1%
Bond yield country	United States of America
Default spread, %	0.4%
Risk-free rate, %	3.7%

Beta calculation

Operating segment	Sales	EV/Sales	Weight, %	Business beta
Interactive Media and Services	39,001	6.5	100.0%	1.3

Business beta	1.31
Debt-to-equity ratio, %	3.4%
Cash-to-firm value ratio, %	1.8%
Marginal tax rate, %	24.0%
Equity beta	1.3

Equity risk premium (ERP) calculation

Geographic segment	Sales	Weight, %	ERP, %	Tax rate, %
Latin America (LATAM)	4,840	12.4%	10.9%	31.4%
Asia-Pacific	4,415	11.3%	6.1%	25.5%
North America	17,359	44.5%	4.6%	21.9%
Europe, Middle East, and Africa (EMEA)	12,387	31.8%	7.2%	23.6%

Company ERP, %	6.4%

Cost of equity calculation

Risk-free rate, %	3.7%
Beta x ERP	8.4%
Equity beta	1.3
Equity risk premium, %	6.4%
Cost of equity, %	12.1%

Stable cost of equity calculation

Risk-free rate, %	3.7%
Beta x ERP	7.6%
Stable beta (clamped)	1.2
Equity risk premium, %	6.4%
Stable cost of equity, %	11.3%

10.6 Reverse DCF

Expected IRR	5.7%

Driver	Base value	Market-implied value	Difference
Stable net profit margin, %	26.0%	42.5%	+16.5
Revenue growth rate, %	11.5%	18.8%	+7.3
Years to stability	10	16	+6