

Netflix Inc. (NFLX)

Rating (from NEUTRAL) **OUTPERFORM**
Price (06-Jul-18, US\$) 408.25
Target price (US\$) (from 330.00) 500.00
52-week price range (US\$) 416.76 - 152.67
Market cap(US\$ m) 177,463
Enterprise value (US\$ m) 184,387

Target price is for 12 months.

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ASSUMING COVERAGE

Content Ramp Adding Torque to the Flywheel

- We are assuming coverage of NFLX with an **Outperform and \$500 Target**.
- **Our Thesis:** The first U.S. premium pay service, HBO, has never seen its clear leadership challenged, and its lead in profitability has been only widening over time. We believe the global streaming SVOD marketplace will share a similar path, with NFLX enjoying unchallenged leadership and disproportionate scale benefits. Near term, we see a favorable content slate and expect net adds in-line to ahead of the Street (CS 29.2m '18e net adds).
- **Key Debates:** Will streaming competition, in particular traditional media companies launching direct-to-consumer streaming (DTC) services, hamper NFLX's subscriber growth or content access/cost; will NFLX's business model ultimately prove attractive (pricing power, margins at ultimate scale); will Asia/India start to scale before English language countries mature; should investors now conceive of NFLX's market universe as smartphone customers, a much larger base in coming years, rather than broadband homes.
- **Catalysts:** The predominant driver of NFLX shares, in our experience, has been quarterly subscriber performance; 2Q18 reporting is July 16.
- **Valuation:** NFLX is quite expensive on any traditional measure, but is also growing very rapidly and investing aggressively to scale its business. Thus, we believe it is necessary to analyze long-term prospects to properly gauge valuation. However, discounting back at 10% per annum, our forecast shows NFLX trading at 19x 2023e P/E against still strong EPS growth of 32% that year, a very attractive 0.87 PEG. Our \$500 target price is derived via DCF, using a 10% cost of equity, 5% pre-tax cost of debt, and 3% terminal growth. Risks include missing quarterly subscriber guidance, DTC competition, access to content, successfully scaling in-house production, cost of content, regulations, and recessions.

Share price performance



On 06-Jul-2018 the S&P 500 INDEX closed at 2759.82
Daily Jul07, 2017 - Jul06, 2018, 07/07/17 = US\$150.18

Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.40	0.15	0.29	0.41
2018E	0.64	0.79	0.64	0.56
2019E	1.13	1.13	1.13	1.20

Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
EPS (Excl. ESO) (US\$)	1.72	3.22	5.18	7.86
EPS (CS adj.,)	1.25	2.63	4.59	7.31
Prev. EPS (CS adj., US\$)	1.19	3.74	6.28	-
P/E (CS adj.) (x)	326.4	155.1	88.9	55.9
P/E rel. (CS adj., %)	1522.8	883.8	556.6	385.7
Revenue (US\$ m)	11,692.7	16,081.1	20,142.4	24,433.1
EBITDA (US\$ m)	910.6	1,763.2	2,856.6	4,540.9
Net Debt (US\$ m)	3,677	6,924	9,663	10,492
OCFPS (US\$)	-4.00	-6.64	-5.29	-0.95
P/OCF (x)	-102.1	-61.5	-77.1	-427.6
Number of shares (m)	434.69			13.13
BV/share (Next Qtr., US\$)	10.2			40.6
Net debt (Next Qtr., US\$ m)	4,807.0			-
Dividend yield (%)	-			-

Source: Company data, Thomson Reuters, Credit Suisse estimates

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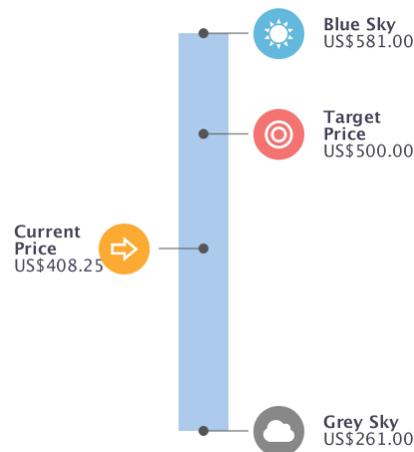
Netflix Inc. (NFLX)

Price (06 Jul 2018): **US\$408.25**; Rating: (from NEUTRAL) **OUTPERFORM**; Target Price: (from 330.00) **500.00**; Analyst: **Douglas Mitchelson**

Income Statement	12/17A	12/18E	12/19E	12/20E
Revenue (US\$ m)	11,692.7	16,081.1	20,142.4	24,433.1
Sales	11,692.7	16,081.1	20,142.4	24,433.1
EBITDA	910.6	1,763.2	2,856.6	4,540.9
Operating profit	838.7	1,687.1	2,780.4	4,464.7
Recurring profit	485.3	1,231.3	2,219.2	3,870.8
Cash Flow	12/17A	12/18E	12/19E	12/20E
Cash flow from operations	(1,786)	(2,997)	(2,405)	(436)
CAPEX	(234)	(265)	(334)	(392)
Free cashflow to the firm	(2,020)	(3,262)	(2,739)	(829)
Cash flow from investments	34	(265)	(334)	(392)
Net share issue/(repurchase)	88	56	0	0
Dividends paid	0	0	0	0
Issuance (retirement) of debt	2,988	3,000	2,000	0
Other	0	(0)	0	0
Cashflow from financing activities	3,077	3,056	2,000	0
Effect of exchange rates	30	7	0	0
Changes in Net Cash/Debt	(1,780)	(3,247)	(2,739)	(829)
Net debt at end	3,677	6,924	9,663	10,492
Balance Sheet (\$US)	12/17A	12/18E	12/19E	12/20E
Assets				
Other current assets	4,847	5,333	5,515	5,704
Total current assets	7,670	7,952	7,394	6,755
Total assets	19,013	24,281	29,078	33,067
Liabilities				
Short-term debt	0	0	0	0
Total current liabilities	5,466	6,158	6,595	7,030
Long-term debt	6,499	9,542	11,542	11,542
Total liabilities	15,431	19,155	21,581	21,938
Shareholder equity	3,582	5,126	7,496	11,129
Total liabilities and equity	19,013	24,281	29,078	33,067
Net debt	3,677	6,924	9,663	10,492
Per share	12/17A	12/18E	12/19E	12/20E
No. of shares (wtd avg)	447	451	454	457
CS adj. EPS	1.25	2.63	4.59	7.31
Prev. EPS (US\$)	1.19	3.74	6.28	-
Dividend (US\$)	0.00	0.00	0.00	0.00
Free cash flow per share	(4.52)	(7.23)	(6.03)	(1.81)
Earnings	12/17A	12/18E	12/19E	12/20E
Sales growth (%)	32.4	37.5	25.3	21.3
EBIT growth (%)	120.8	101.2	64.8	60.6
Net profit growth (%)	199.4	112.6	75.6	60.1
EPS growth (%)	193.9	110.4	74.5	59.1
EBIT margin (%)	7.2	10.5	13.8	18.3
Valuation	12/17A	12/18E	12/19E	12/20E
EV/Sales (x)	15.49	11.47	9.29	7.69
EV/EBIT (x)	216.0	109.3	67.3	42.1
P/E (x)	326.4	155.1	88.9	55.9
Quarterly EPS	Q1	Q2	Q3	Q4
2017A	0.40	0.15	0.29	0.41
2018E	0.64	0.79	0.64	0.56
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Company Background
 Netflix is a global internet subscription service for streaming television shows & movies. The company's subscribers can watch unlimited television shows & movies streamed over the internet to their televisions, computers, and mobile devices.

Blue/Grey Sky Scenario



Our Blue Sky Scenario (US\$) (from 465.00) 581.00

Our Blue Sky valuation is based on revenue growth of 42.5% in '18 and 30% in '19 (vs. base 37.5% and 25% resp.) as well as '19 EBITDA margins of 17.5% (vs. 14% base). This represents faster sub growth than our base forecast based on content success (not higher marketing spend) in which revenue upside leads to higher margins. We believe this faster growth would be accompanied by a higher valuation of 13x 2019 revenue, which leads to a \$581 target.

Our Grey Sky Scenario (US\$) (from 151.00) 261.00

Our Grey Sky scenario valuation is based on slower revenue growth of 32.5% in '18 and 20% in '19 with '19 EBITDA margins of 14% in-line with base case. This represents slower sub growth than our base forecast, but we see marketing spend lowered to maintain margins. We believe this slower subscriber growth would be accompanied by a lower valuation, specifically 7x 2019 EBITDA, which equates to a \$261 target.

Share price performance



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Source: Company data, Thomson Reuters, Credit Suisse estimates

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Executive Summary

While Netflix's valuation certainly looks very expensive on any traditional measure, we believe a number of visible factors suggest the opposite is true and Netflix is actually quite reasonably priced, including:

1. **Subscription streaming video ("SVOD") is very difficult:** Arguably, no one else has really succeeded at it other than Netflix, while many have failed. Perhaps this is because Netflix is the first company to successfully meld a technology culture and a media culture, but we also suspect it is due to the quality of management and its maniacal discipline keeping Netflix focused on just one core service and keeping that service very simple for customers to use and understand (ad-free; available on any device anywhere; full on demand access to all content, including entire seasons of new TV content; and simple pricing options). Even if one were to consider Amazon Prime and Hulu successes, Netflix video consumption is many multiples of their usage even when considering only the U.S., leaving its top competitors a very distant second and third. New entrants that do not enjoy Amazon's appetite for risk and synergies with their core business, or Hulu's access to content from its owners, might find their path to scale even more challenging than what those companies have experienced. It is telling that Google and Facebook have not pursued Hollywood-driven SVOD businesses.
2. **Netflix's leading global scale has created structural advantages** that appear to us to be virtually insurmountable at this point. Investors often look to content and brands when considering the potential for SVOD services, and while content is certainly the foundation of any video service, a successful SVOD business is much more than that. For example, Netflix spends \$2b on marketing and \$1.3b on technology every year, which in our view yields cumulative benefits to brand, original content awareness, and service quality. Looking from Netflix's global launch in early 2016 through the time Disney is expected to launch its direct-to-consumer Disney-branded service in the U.S. in late CY19, Netflix will have already spent almost \$7b on marketing and \$5b on technology & development. Another structural advantage is the relationships Netflix has been able to strike with content creators around the world, wireless & wired distributors, and network & payment vendors, all with a first mover advantage.
3. **While competition will always be a concern, the SVOD marketplace is not a zero sum game:** Many consumers will adopt multiple services if they have differentiated content and reasonable pricing. It is worth revisiting that HBO, Showtime, and Starz have not lost subscribers while Netflix has gone from zero to almost 60m subscribers in the U.S. Further, U.S. consumer spending on video services relative to time spent with video continues to place video as the cheapest consumer entertainment option by far. Regardless, for those with tighter budgets, the consumer wallet continues to be opened up as pay TV subscribers shift to cheaper online pay TV services such as Sling TV or skinnier traditional pay TV bundles.
4. **Netflix's content flywheel, while well known at this point, is still underestimated longer-term, in our view (they add more torque every year):** We estimate Netflix will have \$8b of content amortization in 2018 growing to \$14b in 2023, with the original content portion of that spending tripling from \$2.5b in 2018 to \$7.5b in 2023. For illustrative purposes, that \$5b increase in Netflix's original content annual budget over the next five years is the equivalent of adding 128 more high-quality original Netflix TV shows (average \$3m/episode across genres x 13 episodes/season x 128 shows = \$5b). Each year's original content produced then stacks with prior years' originals on Netflix's servers, all available unwatched for first-time subscribers to the service. It is particularly interesting how dramatically Netflix should be able to scale its local content around the world, where production costs are substantially lower than in the U.S. and where Netflix can differentiate vs. local TV networks with significantly better production

quality than those consumers are used to. We never forecast penetration of broadband homes for international (37.5% in 2028 and beyond) to come close to catching up with U.S. levels (75% in 2028 and beyond), we would posit that Netflix should have an easier path to provide a superior video service in many foreign markets than it does in the highly competitive, well-developed U.S.

5. **The market for streaming video is enormous** (eventually essentially all video consumption), and while Netflix streaming is a decade in, it is still early. Mr. Hastings, chairman and CEO of Netflix, likes to say that his target market is everyone globally, since everyone everywhere likes video. Even if we limit Netflix's target market to broadband homes ex-China, ignoring an intriguing long-term mobile opportunity, we see the ability for Netflix to reach \$50b/year of revenue and a 40% operating margin within the next ten years, with another decade of growth beyond that.

We certainly admit that investors need to look to the longer-term opportunity for Netflix's valuation to appear appealing. That suggests we are undertaking unusual short-term volatility risk around quarterly earnings results, in which growth might have fits and starts due to seasonal and other dynamics that do not reflect any shift in the long-term outlook for Netflix. Since the company has exceeded its quarterly guidance and Street estimates for several quarters in a row now, this risk should be considered particularly elevated at this point – Netflix will miss estimates again at some point and the short-term penalty will likely be severe.

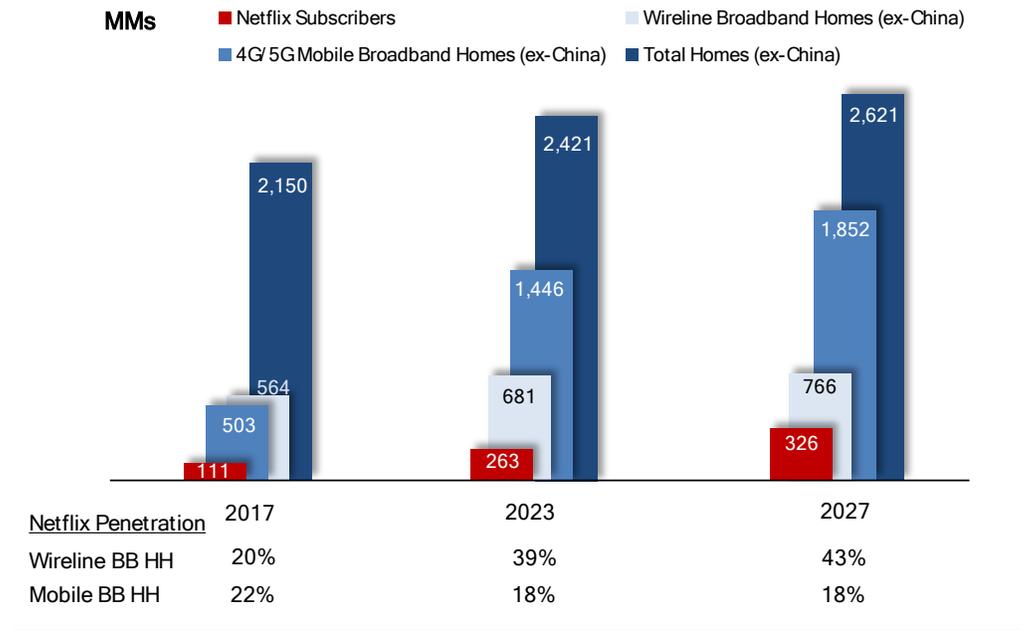
Notwithstanding short-term quarterly earnings risk, we are hard pressed to see other negative catalysts that would suggest the long-term bull case for Netflix is off the mark. Privacy regulatory concerns are not an issue as Netflix does not sell or share user data. Net neutrality is not an issue, in our view, as Netflix is an important service for broadband providers to offer their customers. Access to Hollywood content will remain a long-term risk, though Netflix has several years of content already signed up and has already been aggressively shifting to original Netflix-owned content. A recession or other dynamic that would restrict Netflix's access to capital could cause Netflix to pull back on its aggressive pace of investment in growth to reduce or eliminate its cash burn rate. While a short-term pause would be unlikely to meaningfully affect its competitive positioning, it would certainly cause investors to reconsider long-term growth prospects. (Ironically, reducing or eliminating its cash burn would be perceived to hamper Netflix's growth prospects and likely meaningfully reduce its equity valuation.)

Overall, our Blue Sky (\$581)/Grey Sky (\$261) scenarios show a balanced upside/downside skew, but we believe the Blue Sky scenario more likely. Given 20% upside potential to our base case \$500 target price, we are assuming coverage of Netflix with an Outperform rating.

Investment Thesis in Charts

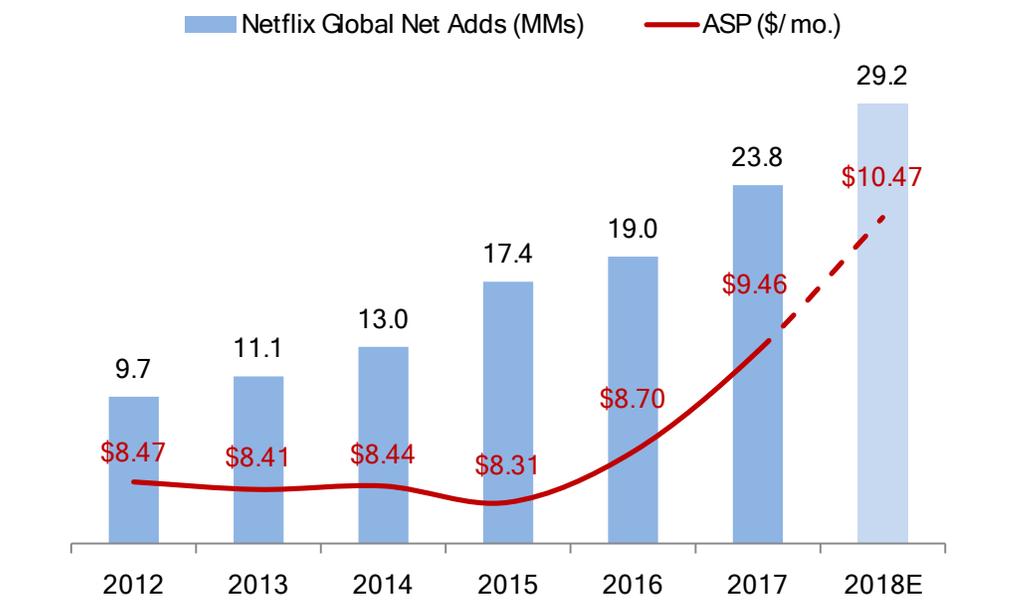
Enormous Market Opportunity, Still Early Days

Figure 1: Market Opportunity: What is the right way to think about Netflix's Total Addressable Market? We only consider broadband homes in our forecast, but mobile could be a major driver in the future.



Source: Company data, OECD, Ericsson, CS estimates.

Figure 2: Market Opportunity: Netflix net additions are still accelerating, two years after its global rollout and even with step-ups in ASPs



Source: Company data, Credit Suisse estimates

How concerning is competition?

Figure 3: Large, well-capitalized competitors are interested in content...

Apple	Apple Readies \$1 Billion War Chest for Hollywood Programming - WSJ
Facebook	Facebook Is Willing to Spend Big in Video Push Social-media giant could spend as much as \$1 billion to cultivate original shows for its platform - WSJ
Amazon	Amazon Wins Exclusive U.K. Rights to Broadcast Some Premier League Matches - NYT
Google	YouTube Grows Up: Inside the Plan to Take on Netflix and Hulu - THR
Disney	Disney will pull its movies from Netflix and start its own streaming services - CNBC
Hulu	Hulu Expands Originals Slate and Announces New Content Deals - Hulu
AT&T	HBO is Getting Bigger Budget Under AT&T to Challenge Netflix - Bloomberg

Source: Company data, Credit Suisse estimates

Figure 4: ...But streaming is a difficult business -- most streaming services have failed to achieve their vision, or shut down outright

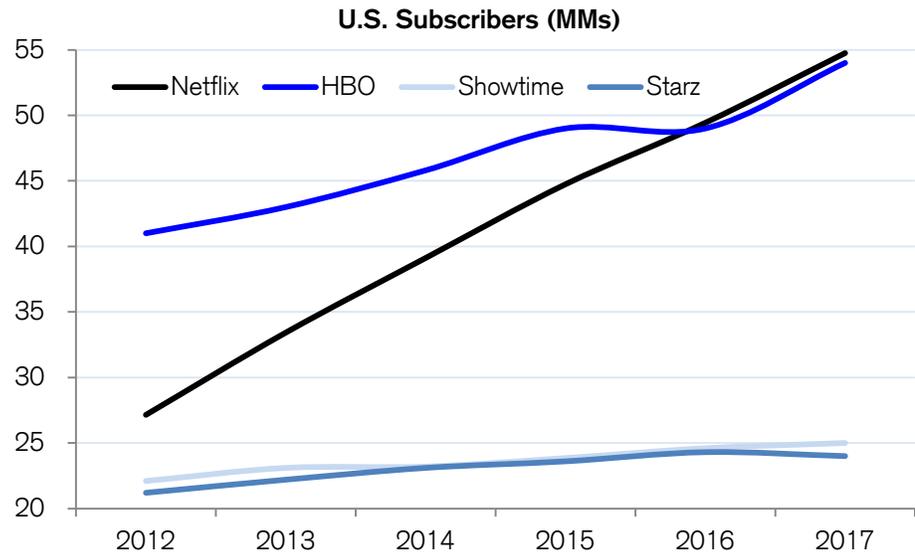


Here Lie:

Afrostream (France)	Presto (Australia)
Buzzfeed Video	Seeso
Blockbuster On Demand	Shomi (Canada)
dittoTV	Sony Crackle
Feeln	TVPlayer (UK)
Fullscreen	Vessel
Go90	Vimeo On Demand
Maker Studios	Youtube Red

Source: Company websites, Credit Suisse

Figure 5: Even if new entrants succeed, subscription content services are not a zero-sum game

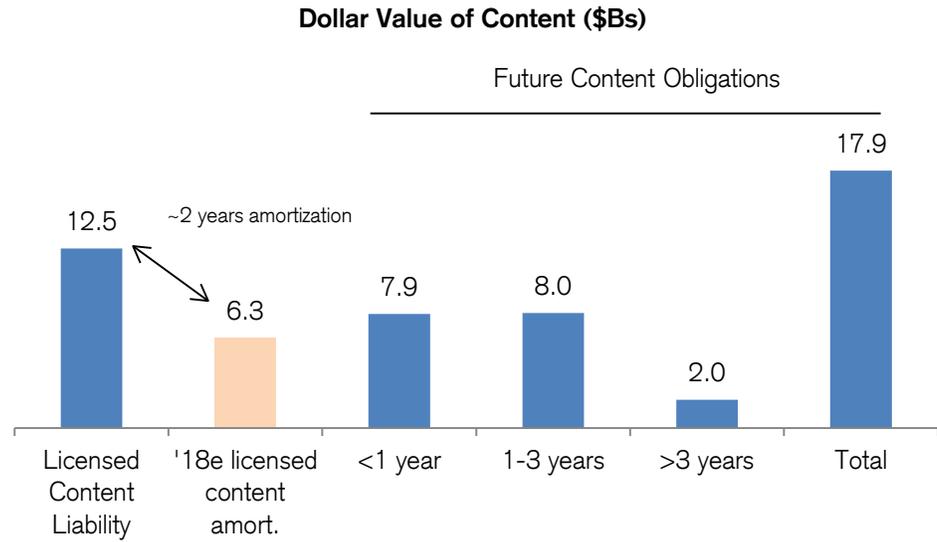


Source: Company data, Credit Suisse estimates

Figure 6: As traditional media shifts to streaming, will they limit Netflix's ability to access to Hollywood content? Unlikely to be an issue in our view...

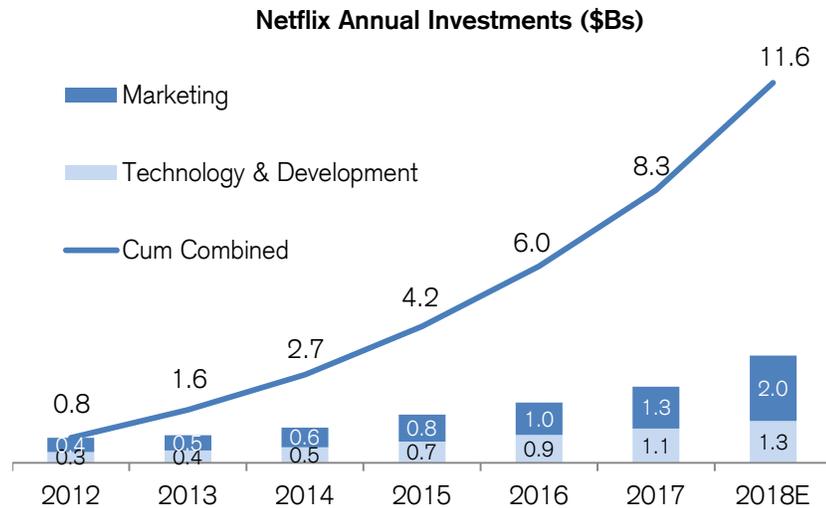
- Content production is highly fragmented. The Producers Guild of America has over 8,300 members.
- Global talent can increase to meet demand.
- Significant pipeline of yet-to-be licensed content. (See Figure 7.)
- Proven track record. Writing checks does not guarantee popular content.
- Many content creators prefer Netflix. No advertising, no artificial time restrictions on episodes, no ratings, longer time for show to be viewed.

Figure 7: Large content pipeline locked in - Netflix's licensed backlog is 2x amortization, with overall backlog even bigger



Source: Company data, Credit Suisse estimates. Note we estimate majority of Content Obligations are licensed vs. originals.

Figure 8: And finally, Netflix's competitive edge is more than just content -- Success has come from years of investment in marketing and technology, as well as distribution and connectivity partnerships



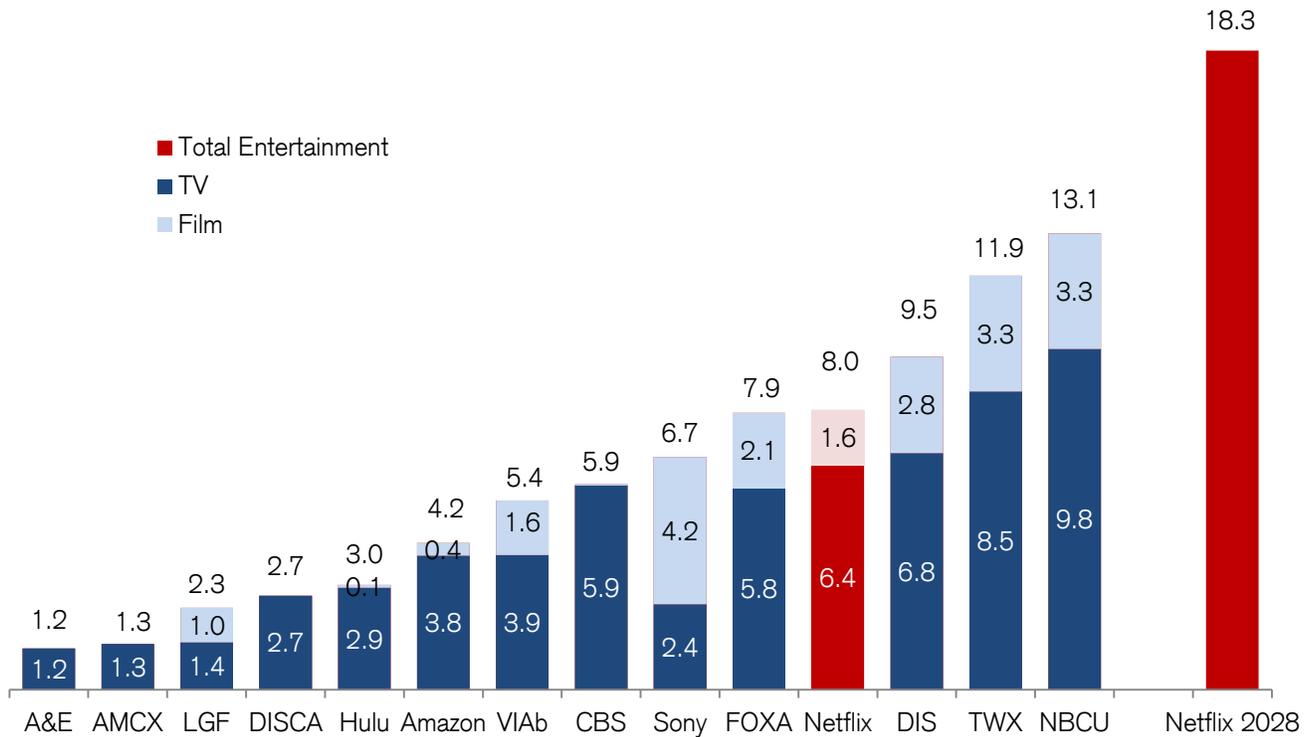
Source: Company data, Credit Suisse estimates

Netflix's Content Flywheel is Underestimated

Figure 9: Netflix is on pace to become the largest entertainment content producer in the world...

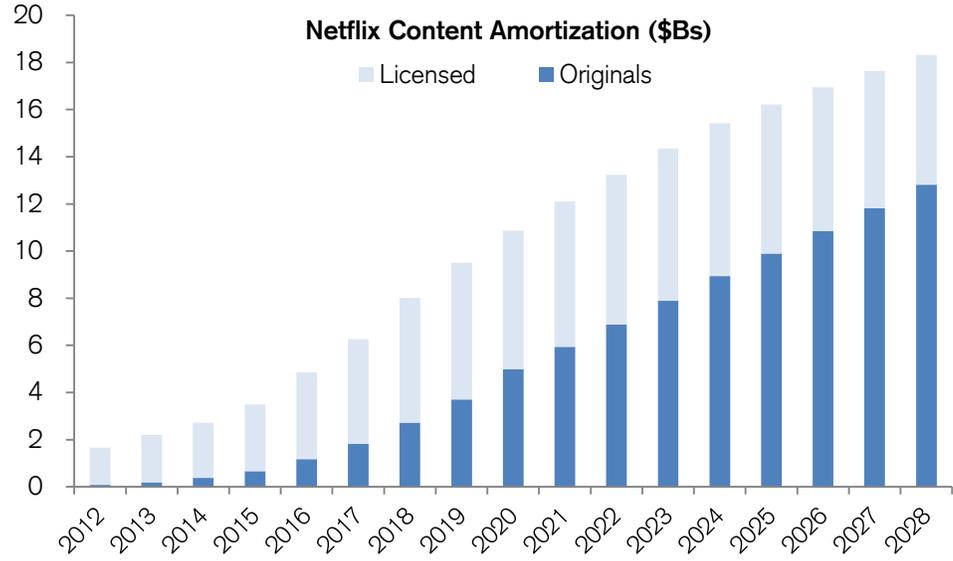
Global Entertainment Content Spending, CY18E

\$ in Billions



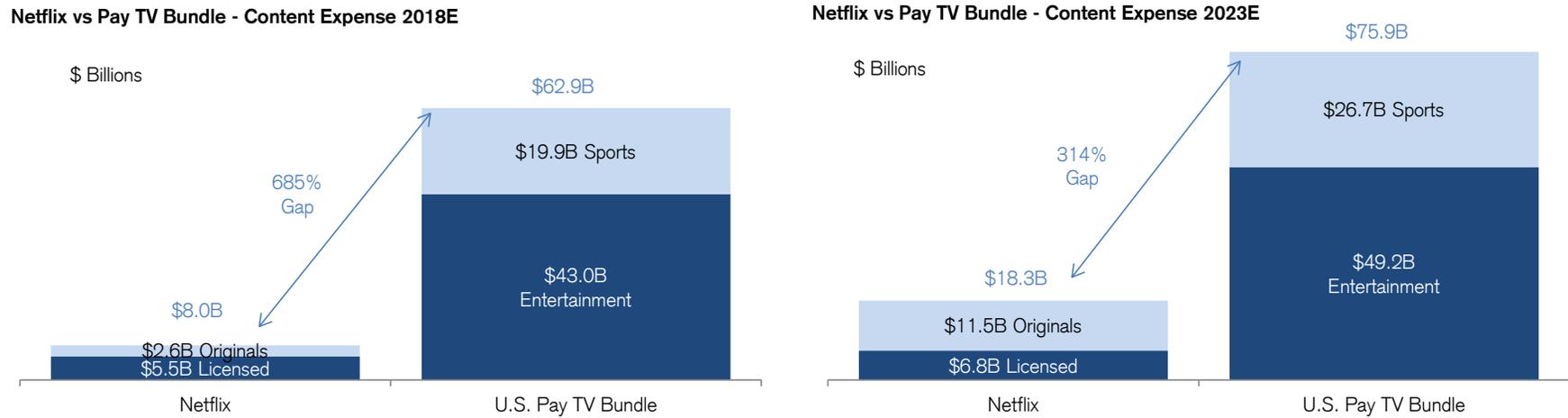
Source: Company data, Credit Suisse estimates. Note spending is content amortization.

Figure 10: ...and has shifted spending toward exclusive originals - Netflix's original content investment should exceed licensed content by 2021



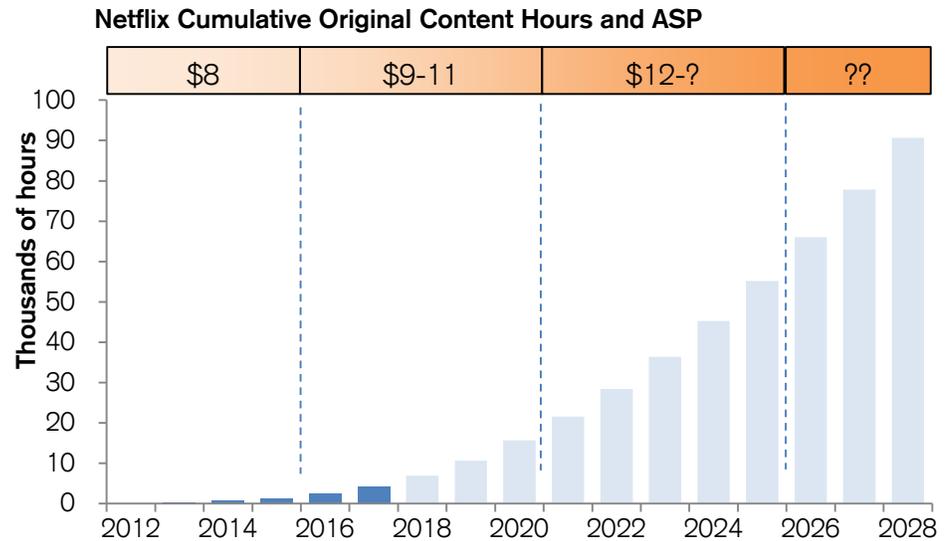
Source: Company data, Credit Suisse estimates.

Figure 11: By 2023, Netflix will be spend close to one-quarter of the entire content spending going into the U.S. pay TV bundle and, importantly, 37% of the entire entertainment spending of the bundle.



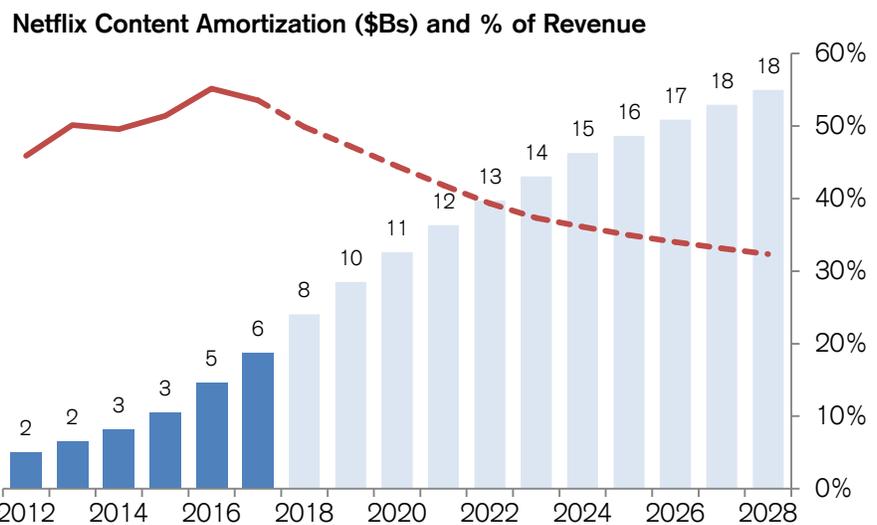
Source: Credit Suisse, Company Reports; Pay TV Bundle includes the estimated global content budgets for Broadcast, Ad Supported Cable and Premium Networks owned by CBS, Walt Disney, Twenty First Century Fox, Comcast, AMC Networks, Discovery, Sony, AT&T, Viacom and Lionsgate.

Figure 12 The cumulative quantity of original content (shown in thousands of hours) should be a very significant competitive differentiator and enhance Netflix’s pricing power.



Source: Company data, Credit Suisse

Figure 13: Despite this expected rapid ramp in content spending, due to the size of the market opportunity Netflix’s margins are expected to improve dramatically.

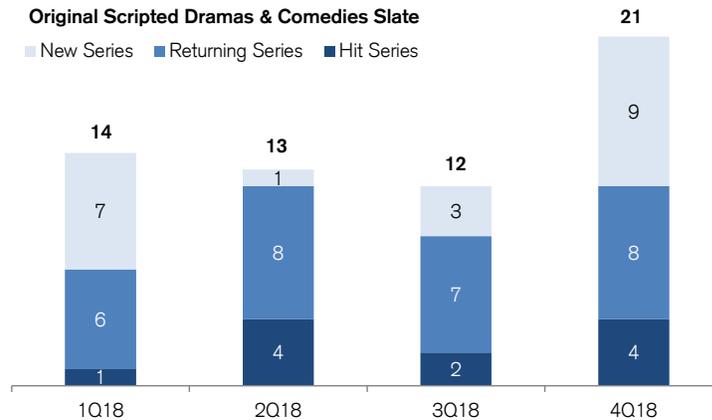


Source: Company data, Credit Suisse

Near term, Original Content Slate is Compelling

We are encouraged by the growing number of scripted series returning for a second and third season, where audience typically builds from the first season. Netflix is also ramping its international originals (see Figure 14), film slate, and unscripted (reality, documentaries, comedy specials, etc.) and children’s programming.

Figure 14: Original content slate continues to ramp, with growing number of returning and int’l series



Source: Company data, Credit Suisse estimates

Figure 15: The content line-up for the rest of 2018 looks strong, in our view.

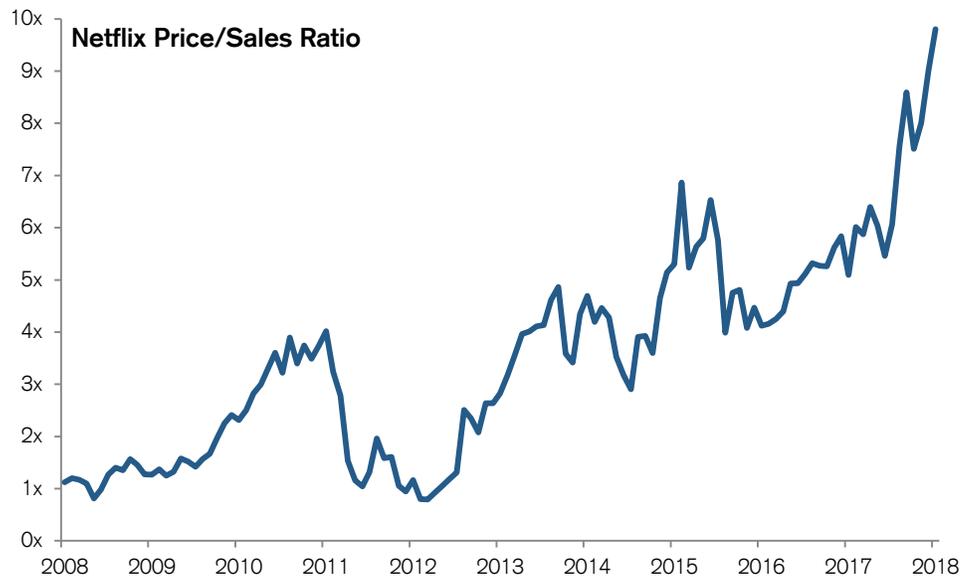
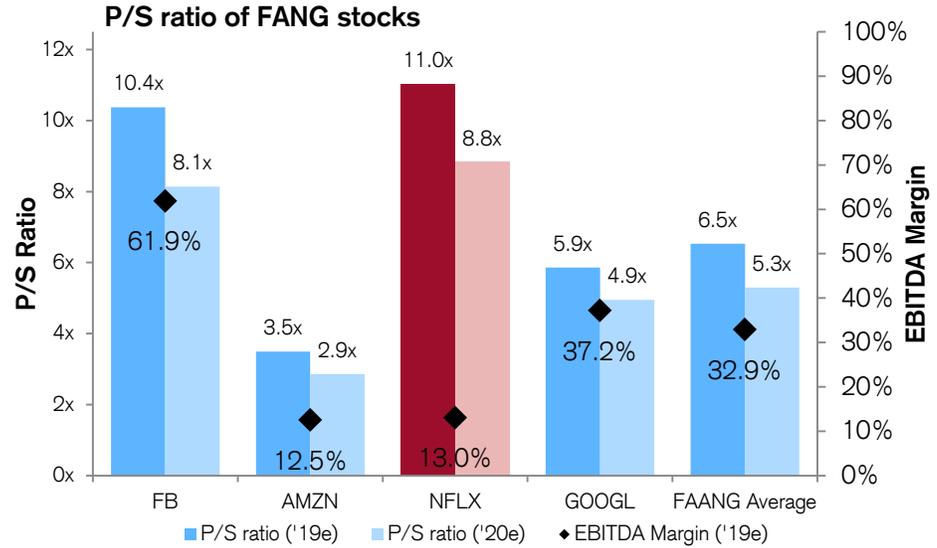
	1Q18	2Q18	3Q18	4Q18
Hit Series	Marvel's Jessica Jones - S2	13 Reasons Why - S2 House of Cards - S6 (Final) Marvel's Luke Cage - S2 3% - S2 (Brazil)	Orange is the New Black - S6 Narcos - S4	<i>Stranger Things - S3</i> <i>Marvel's Daredevil - S3</i> <i>Fuller House - S4</i> <i>Club de Cuervos - S4 (Mexico)</i>
Returning Series	Trailer Park Boys - S12 Series of Unfortunate Events - S2 Grace & Frankie - S4 One Day At a Time - S2 Love- S3 (Final) Santa Clarita Diet - S2 Disjointed - S2 (Cancelled)	Sense8 - Special Finale Fauda - S2 (Israel) Arrested Development - S5 The Ranch - S3 Kimmy Schmidt - S4 (Final) Dear White People - S2 G.L.O.W. - S2 Paquita Salas - S2 (Mexico)	<i>Ingobemable - S2 (Mexico)</i> Anne with an E - S2 Ozark - S2 BoJack Horseman - S5 <i>Big Mouth - S2</i> <i>American Vandal - S2</i> Friends from College - S2	<i>Dark - S2 (German)</i> <i>Mindhunter - S2</i> <i>The OA - S2</i> <i>Travelers - S3</i> <i>Cable Girls - S3 (Spain)</i> The Ranch - S3.5 <i>F is for Family - S3</i> <i>Atypical - S2</i>
New Series	Lost in Space Altered Carbon 7 Seconds On My Block Alexa & Katie Everything Sucks! (Cancelled)	Kiss Me First	The Innocents Sacred Games (India) All About the Washingtons	<i>Umbrella Academy</i> <i>Dogs of Berlin (German)</i> <i>O Mecanismo (Brazil)</i> <i>Osmosis (France)</i> <i>The Rain (Denmark)</i> <i>Green Eggs</i> <i>Samantha!</i> <i>Generation Q (France)</i> <i>Insatiable</i>

Source: Company data, Credit Suisse estimates. *Release dates for titles in italic are not yet confirmed.*

Valuation

Netflix is the most expensive stock of the FAANGs on a price-to-sales basis, but also has a very strong sales growth outlook and a disproportionate margin opportunity from current levels.

Figure 16: NFLX valuation is the most expensive among the FANG stocks, and expensive compared with its own history



Source: Company data, Thomson Reuters, Credit Suisse estimates

Figure 17: Netflix Valuation Analysis

Calendar Year	2018E	2019E	2020E	2021E	2022E	2023E	'19-'23
MMs, except per share							
Closing price on: 07/06/18	\$408.25	\$408.25	\$408.25	\$408.25	\$408.25	\$408.25	
Fully Diluted Shares, EOP	458	461	463	466	469	472	0.6%
Public Equity Value	186,864	188,022	189,179	190,337	191,494	192,652	
Debt, EOP	9,542	11,542	11,542	11,042	10,342	10,342	
Less: Cash, EOP	(2,618)	(1,879)	(1,051)	(1,766)	(4,955)	(11,491)	
Net Debt, EOP	6,924	9,663	10,492	9,277	5,388	(1,149)	NM
• Gross Leverage	5.4x	4.0x	2.5x	1.7x	1.1x	0.9x	
• Net Leverage	3.9x	3.4x	2.3x	1.4x	0.6x	-0.1x	
Less: Minorities / Investments	-	-	-	-	-	-	
Less: Option proceeds	(1,408)	(1,408)	(1,408)	(1,408)	(1,408)	(1,408)	
Total Hidden Value	(1,408)	(1,408)	(1,408)	(1,408)	(1,408)	(1,408)	0.0%
Enterprise Value	192,380	196,277	198,263	198,206	195,474	190,095	-0.8%
Revenue	16,081	20,142	24,433	28,939	33,674	38,455	17.5%
EV / Sales	12.0x	9.7x	8.1x	6.8x	5.8x	4.9x	
• At CS Target Price	14.6x	11.8x	9.9x	8.3x	7.1x	6.1x	
EBITDA, Reported	2,039	3,140	4,833	6,900	9,375	12,022	
Add: Stock Comp Expense	(276)	(284)	(292)	(301)	(310)	(320)	
EBITDA, CS	1,763	2,857	4,541	6,599	9,064	11,703	42.3%
EV / EBITDA Multiple	109.1x	68.7x	43.7x	30.0x	21.6x	16.2x	
• At CS Target Price	132.9x	83.5x	53.0x	36.5x	26.3x	19.9x	
EPS, CS	\$2.63	\$4.59	\$7.31	\$11.13	\$15.79	\$20.87	46.0%
P/E Multiple	155.1x	88.9x	55.9x	36.7x	25.9x	19.6x	
• At CS Target Price	190.0x	108.9x	68.4x	44.9x	31.7x	24.0x	
Free Cash Flow	(\$3,262)	(\$2,739)	(\$829)	\$1,215	\$3,889	\$6,537	NM
FCF per Share	(\$7.23)	(\$6.03)	(\$1.81)	\$2.64	\$8.40	\$14.04	
FCF Yield	-1.7%	-1.5%	-0.4%	0.6%	2.0%	3.4%	
FCF Multiple	NM	NM	NM	154.5x	48.6x	29.1x	

Source: Company data, Credit Suisse estimates

NFLX is quite expensive on any traditional measure but is also growing very rapidly and investing aggressively to scale its business. Thus, we believe it is necessary to analyze long-term prospects to properly gauge valuation. For example, we show NFLX trading at 19x 2023e P/E, against still strong EPS growth of 32% that year, a very attractive 0.87 PEG (discounting back at 10% per annum) if our forecast proves accurate. Our \$500 target price is derived via DCF, using a 10% cost of equity, 5% pre-tax cost of debt, and 3% terminal growth.

Figure 18: Our DCF Target is \$500/share

\$MMs, except per share														
Calendar Year	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2041E	2042E	2043E	2044E	
EBITDA	3,140	4,833	6,900	9,375	12,022	14,086	16,301	18,472	20,596	57,739	61,564	65,601	69,860	
Less: CapEx	(302)	(366)	(434)	(505)	(577)	(594)	(612)	(630)	(649)	(982)	(1,011)	(1,042)	(1,073)	
Less: Cash Taxes	(444)	(774)	(1,192)	(1,707)	(2,275)	(2,024)	(2,353)	(2,676)	(2,992)	(8,514)	(9,083)	(9,684)	(10,318)	
Less: Working Capital	156	311	261	364	211	-	-	-	-	-	-	-	-	
Free Cash Flow	2,550	4,004	5,535	7,526	9,382	11,468	13,336	15,165	16,954	48,244	51,470	54,875	58,469	
2018 PV of FCF Discounted at 9.8%	2,323	3,322	4,182	5,179	5,881	6,547	6,934	7,182	7,313	5,626	5,467	5,308	5,152	
Sum of discounted FCF			157,245			Sum of Free Cash Flow at PV			157,245					
Terminal value @ 2044			876,851			Terminal Value (9.8% discount rate)			77,257					
Enterprise Value										234,503				
Enterprise Value / '18E EBITDA										133.0x				
Debt, Year End '18E										(9,542)				
Cash, Year End '18E										2,618				
Other														
Net Asset Value										227,579				
Non-consolidated assets										0				
Investments / JVs										0				
Options / Warrant Proceeds										1,408				
Other														
Total Asset Value										228,986				
Shares Outstanding (Year End '18E)										437				
Option Shares										21				
Fully Diluted Shares Out										458				
Market Value per Share										\$500.28				
Target Price per Share										\$500				
Closing price on: 07/06/18										\$408.25				
Difference vs. Target										22.5%				

Equity	Cost of Equity	
Target Price	Risk Free Rate	3.00%
Fully Diluted Shares	Equity Risk Premium	6.00%
Equity Value	Beta	1.2
Equity Weight	Cost of Equity	10.0%
Debt	Cost of Debt	
Debt (Year End '18E)	Wtd Avg Interest Rate	4.9%
Preferred Stock	Cost of Debt after tax	4.1%
Debt Value		
Debt Weight	WACC	9.8%

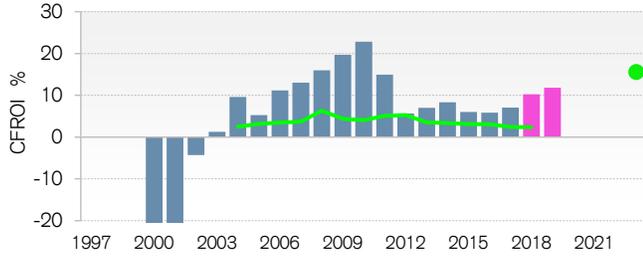
Price Target Sensitivity Analysis			
2018 Equity Value Per Share			
Terminal Growth			
	1.9%	2.9%	3.9%
W 8.8%	\$591	\$629	\$684
A 9.8%	\$477	\$500	\$531
C 10.8%	\$394	\$408	\$426
Terminal Value EBITDA Multiple			
Terminal Growth			
	1.9%	2.9%	3.9%
W 8.8%	12.4x	14.7x	17.9x
A 9.8%	10.8x	12.6x	14.8x
C 10.8%	9.6x	11.0x	12.7x
Terminal Value FCF Multiple			
Terminal Growth			
	1.9%	2.9%	3.9%
W 8.8%	14.9x	17.6x	21.4x
A 9.8%	13.0x	15.0x	17.7x
C 10.8%	11.5x	13.1x	15.1x

Source: Company data, Credit Suisse estimates

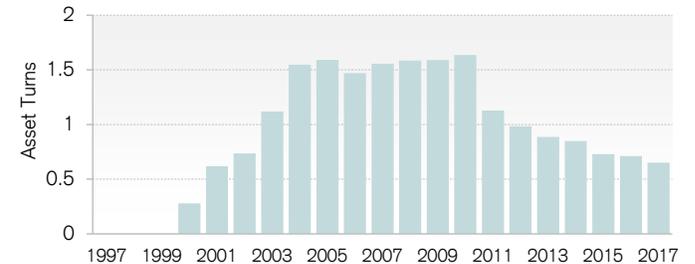
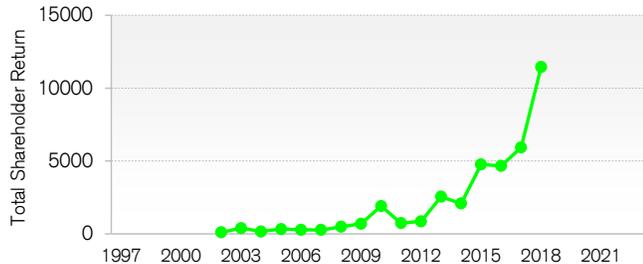
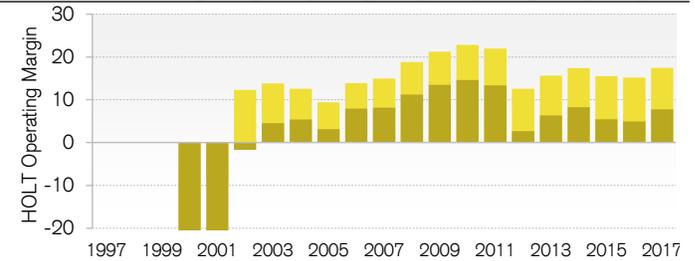
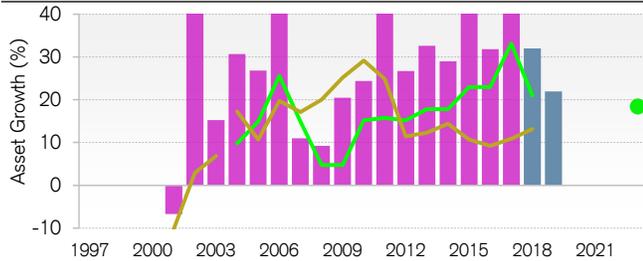
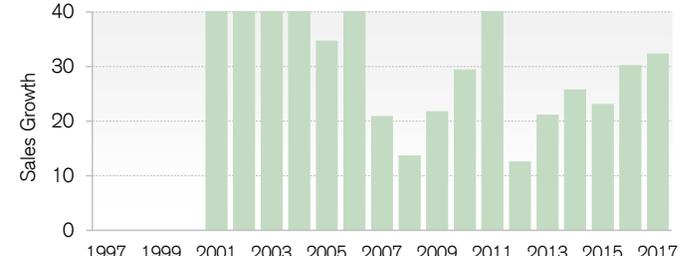
HOLT® Valuation Analysis

Figure 19: NFLX HOLT Valuation Analysis

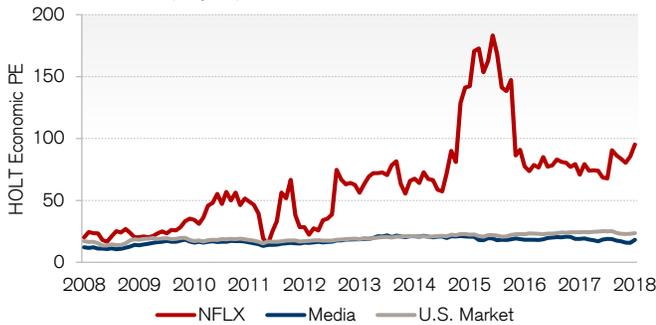
Relative Wealth Chart, Asset Growth & TSR



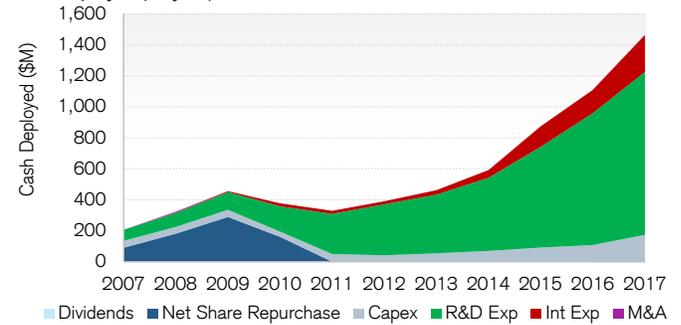
Operating Drivers



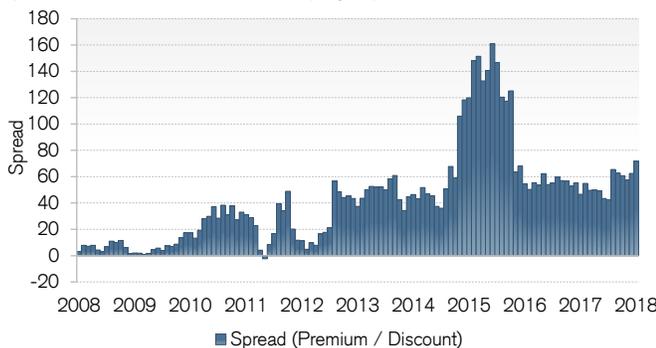
HOLT Economic PE (10-year)



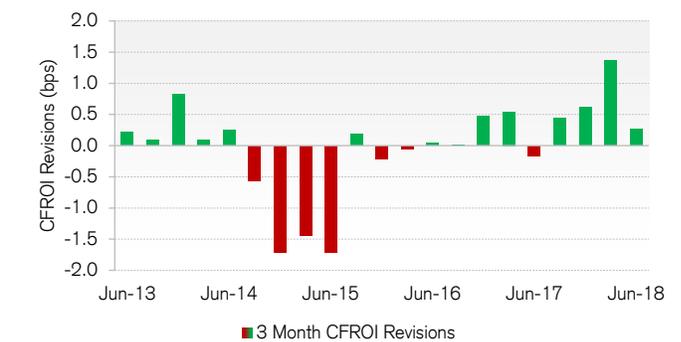
Cash Deployed (10-year)



Spread between NFLX & U.S. Market (10-year)



CFROI® Revisions by Quarter (5-year)



Source: HOLT

Scenario Analysis

- **Blue Sky (\$581 Target Price):** Our \$581 Blue Sky scenario valuation is based on revenue growth of 42.5% in 2018 and 30% in 2019 (vs. base case of 37.5% and 25% resp.) as well as 2019 EBITDA margins of 17.5% (vs. 14% base case). This represents faster subscriber growth than our base forecast based on content success (as opposed to higher marketing spend), in which revenue upside leads to higher margins. We believe this faster growth would be accompanied by a higher valuation, specifically 13x 2019 revenue, which leads to a \$581 target.
- **Grey Sky (\$261 Target Price):** Our \$261 Grey Sky scenario valuation is based on revenue growth of 32.5% in 2018 and 20% in 2019 as well as 2019 EBITDA margins of 14% (in-line with base case). This represents slower subscriber growth than our base forecast, but we see marketing spend being lowered to maintain base case margins. Regardless of margins, we believe this slower subscriber growth would be accompanied by a lower valuation, specifically 7x 2019 EBITDA, which equates to a \$261 target.

Forecast Summary

Figure 20: Credit Suisse vs. the Consensus

CS FORECAST VS. STREET								
MMs, except EPS		2Q18E	3Q18E	4Q18E	2018E	2019E	2020E	CAGR
Revenue	CS	3,932	4,118	4,330	16,081	20,142	24,433	23.3%
	Consensus	3,941	4,137	4,361	16,104	20,102	24,571	23.5%
	Difference	-0.2%	-0.4%	-0.7%	-0.1%	+0.2%	-0.6%	
EBIT	CS	453	404	383	1,687	2,780	4,465	62.7%
	Consensus	466	442	445	1,789	2,869	4,381	56.5%
	Difference	-2.6%	-8.7%	-13.8%	-5.7%	-3.1%	+1.9%	
EPS	CS	\$ 0.79	\$ 0.64	\$ 0.56	\$ 2.63	\$ 4.59	\$ 7.31	66.6%
	Consensus	\$ 0.80	\$ 0.74	\$ 0.71	\$ 2.86	\$ 4.63	\$ 7.32	60.1%
	Difference	-\$0.01	-\$0.10	-\$0.16	-\$0.23	-\$0.04	-\$0.02	
FCF	CS	(858)	(958)	(1,159)	(3,262)	(2,739)	(829)	-49.6%
	Consensus	(830)	(891)	(1,005)	(3,079)	(1,484)	(382)	-64.8%
	Difference	+3.4%	+7.6%	+15.3%	+5.9%	+84.6%	+117.0%	

Source: Company data, Credit Suisse estimates

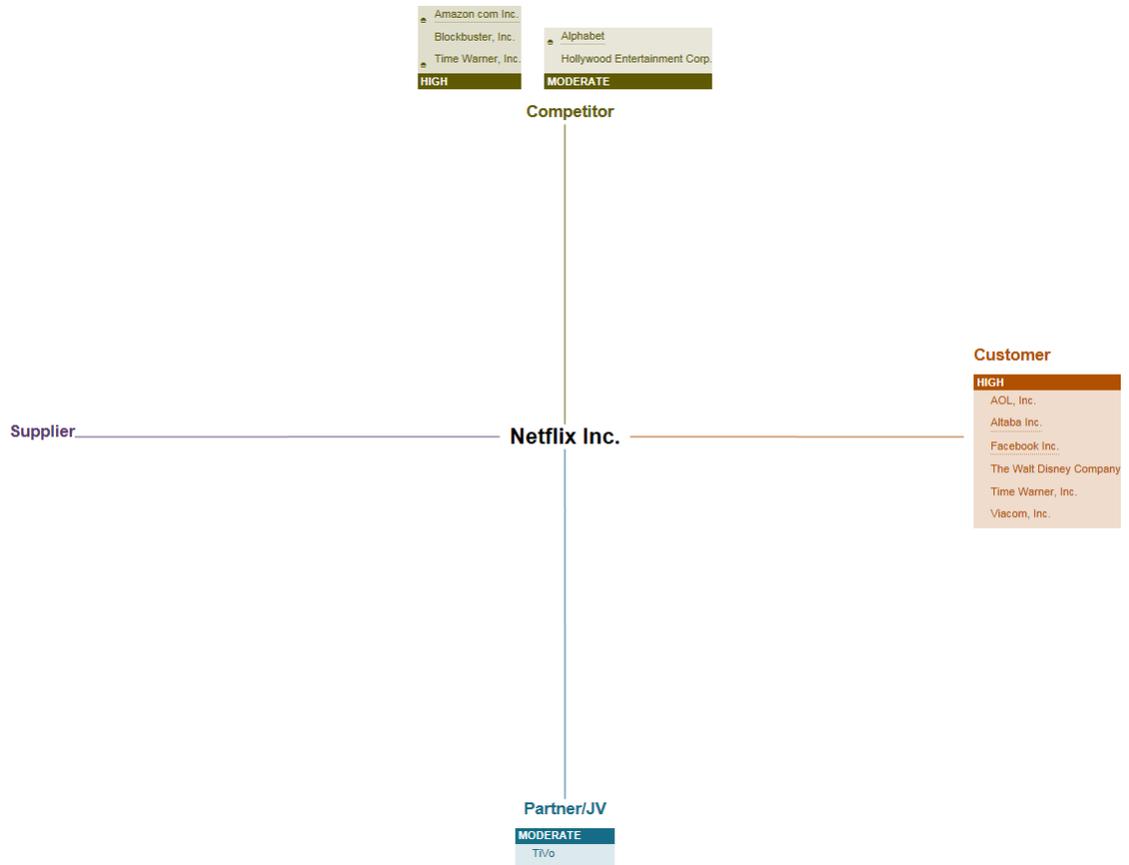
Figure 21: Netflix Summary Forecast

Subs 000s, \$MMs	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18E	3Q18E	4Q18E	2016	2017	2018E	2019E	2020E	2021E	2022E	'18-'23
U.S. Streaming																
U.S. Broadband Homes									93,300	95,912	98,789	101,753	103,788	105,864	107,981	2.2%
Total Net Adds	1,423	1,067	851	1,978	1,955	1,205	950	1,800	4,693	5,319	5,910	4,621	4,305	3,793	3,156	
Total Subscribers	50,854	51,921	52,772	54,750	56,705	57,910	58,860	60,660	49,431	54,750	60,660	65,281	69,586	73,379	76,535	5.6%
% Y/Y	8.3%	10.2%	11.1%	10.8%	11.5%	11.5%	11.5%	10.8%	10.5%	10.8%	10.8%	7.6%	6.6%	5.5%	4.3%	
% of U.S. BB Homes									53%	57%	61%	64%	67%	69%	71%	
Guidance	50,930	51,450	52,670	54,020	56,200	57,910	-	-								
ARPU	\$10.07	\$10.07	\$10.15	\$10.43	\$11.25	\$11.36	\$11.39	\$11.42	\$9.21	\$10.18	\$11.36	\$11.66	\$12.25	\$12.86	\$13.63	4.7%
% Y/Y	16.0%	14.6%	7.9%	5.3%	11.6%	12.8%	12.3%	9.4%	8.3%	10.6%	11.5%	2.7%	5.0%	5.0%	6.0%	
Revenue	1,470	1,505	1,547	1,630	1,820	1,898	1,943	1,994	5,077	6,153	7,655	8,621	9,669	10,782	12,003	11.4%
% Y/Y	26.6%	24.6%	18.6%	16.2%	23.8%	26.1%	25.6%	22.3%	21.5%	21.2%	24.4%	12.6%	12.2%	11.5%	11.3%	
Guidance	50,930	51,450	52,670	54,020	56,200	57,910	-	-								
EBIT	606	560	554	561	697	751	743	730	1,839	2,280	2,920	3,400	4,096	4,910	5,911	18.7%
% Y/Y	46.7%	35.1%	16.6%	4.6%	15.1%	34.1%	34.1%	30.0%	33.7%	24.0%	28.0%	16.4%	20.5%	19.9%	20.4%	
% Margin	41.2%	37.2%	35.8%	34.4%	38.3%	39.6%	38.2%	36.6%	36.2%	37.1%	38.1%	39.4%	42.4%	45.5%	49.2%	
Guidance	607	552	576	556	666	751	-	-								
Int'l Streaming																
Int'l Broadband Homes (ex-China)									450,802	467,623	485,149	503,837	522,868	541,012	557,115	3.3%
Total Net Adds	3,529	4,137	4,445	6,356	5,458	5,000	5,400	7,432	14,341	18,467	23,290	23,287	22,808	21,574	20,405	
Total Subscribers	47,894	52,031	56,476	62,832	68,290	73,290	78,690	86,122	44,365	62,832	86,122	109,409	132,216	153,790	174,195	17.6%
% Y/Y	38.7%	44.3%	43.9%	41.6%	42.6%	40.9%	39.3%	37.1%	47.8%	41.6%	37.1%	27.0%	20.8%	16.3%	13.3%	
% of Int'l BB Homes									10%	13%	18%	22%	25%	28%	31%	
Guidance	48,070	50,490	55,680	61,530	67,730	73,290	-	-								
ARPU	\$8.09	\$8.29	\$8.73	\$9.35	\$9.77	\$9.77	\$9.77	\$9.77	\$7.81	\$8.66	\$9.77	\$10.29	\$10.70	\$11.13	\$11.57	4.3%
% Y/Y	10.7%	8.1%	8.4%	15.4%	20.7%	17.8%	11.9%	4.4%	4.4%	10.8%	12.8%	5.4%	4.0%	4.0%	4.0%	
Revenue	1,046	1,165	1,327	1,550	1,782	1,942	2,088	2,256	3,211	5,089	8,067	11,255	14,571	18,025	21,593	25.7%
% Y/Y	60.5%	53.7%	55.5%	63.6%	70.3%	66.6%	57.3%	45.5%	64.4%	58.5%	58.5%	39.5%	29.5%	23.7%	19.8%	
Guidance	1,045	1,141	1,306	1,553	1,780	1,943	-	-								
EBIT	43	(13)	62	135	272	261	246	270	(309)	227	1,049	2,186	3,699	5,439	7,371	55.2%
% Y/Y	NM	NM	NM	NM	537.9%	NM	294.2%	100.7%	NM	NM	363.1%	108.3%	69.2%	47.0%	35.5%	
% Margin	4.1%	-1.1%	4.7%	8.7%	15.3%	13.5%	11.8%	12.0%	-9.6%	4.5%	13.0%	19.4%	25.4%	30.2%	34.1%	
Guidance	16	(28)	30	115	234	274	-	-								
Total Company																
Streaming Net Adds	4,952	5,204	5,296	8,334	7,413	6,205	6,350	9,232	19,034	23,786	29,200	27,908	27,113	25,366	23,561	
Streaming Subscribers	98,748	103,952	109,248	117,582	124,995	131,200	137,550	146,782	93,796	117,582	146,782	174,690	201,803	227,169	250,730	13.2%
% Y/Y	21.2%	25.0%	25.9%	25.4%	26.6%	26.2%	25.9%	24.8%	25.5%	25.4%	24.8%	19.0%	15.5%	12.6%	10.4%	
% of BB Homes (ex-China)									17%	21%	25%	29%	32%	35%	38%	
Guidance	99,000	101,940	108,350	115,550	123,930	131,200	-	-								
ARPU	\$9.19	\$9.24	\$9.46	\$9.89	\$10.45	\$10.48	\$10.48	\$10.47	\$8.70	\$9.46	\$10.47	\$10.83	\$11.26	\$11.71	\$12.23	4.0%
% Y/Y	11.2%	9.7%	6.5%	8.1%	13.8%	13.5%	10.7%	5.9%	4.6%	8.8%	10.7%	3.4%	3.9%	4.0%	4.4%	
Revenue	2,637	2,785	2,985	3,286	3,701	3,932	4,118	4,330	8,831	11,693	16,081	20,142	24,433	28,939	33,674	19.0%
% Y/Y	34.7%	32.3%	30.3%	32.6%	40.4%	41.2%	38.0%	31.8%	30.3%	32.4%	37.5%	25.3%	21.3%	18.4%	16.4%	
Guidance											5,515					
Content Amortization	1,324	1,567	1,641	1,726	1,760	1,947	2,100	2,207	4,867	6,258	8,015	9,503	10,862	12,107	13,237	12.3%
% Y/Y	22.7%	31.1%	32.0%	27.9%	32.9%	24.3%	28.0%	27.9%	39.7%	28.6%	28.1%	18.6%	14.3%	11.5%	9.3%	
% of Revenue	50.2%	56.3%	55.0%	52.5%	47.6%	49.5%	51.0%	51.0%	55.1%	53.5%	49.8%	47.2%	44.5%	41.8%	39.3%	
Other Cost of Revs	333	335	352	381	436	460	484	512	1,162	1,401	1,892	2,341	2,789	3,241	3,691	16.9%
% Y/Y	14.5%	20.6%	21.7%	25.1%	31.1%	37.4%	37.5%	34.2%	5.0%	20.5%	36.1%	23.7%	19.2%	16.2%	13.9%	
Marketing	271	274	312	420	479	460	496	565	991	1,278	2,000	2,560	2,875	3,166	3,417	12.7%
% Y/Y	30.4%	27.0%	10.8%	47.3%	76.7%	67.6%	58.8%	34.5%	20.3%	29.0%	56.5%	28.0%	12.3%	10.2%	7.9%	
% of Revenue	10.3%	9.8%	10.5%	12.8%	12.9%	11.7%	12.1%	13.0%	11.2%	10.9%	12.4%	12.7%	11.8%	10.9%	10.1%	
Tech & Dev	257	267	255	273	301	314	325	338	852	1,053	1,278	1,499	1,745	1,980	2,203	13.4%
% Y/Y	26.3%	28.8%	18.1%	21.4%	17.0%	17.6%	27.5%	23.6%	30.9%	23.6%	21.4%	17.3%	16.4%	13.5%	11.3%	
% of Revenue	9.8%	9.6%	8.6%	8.3%	8.1%	8.0%	7.9%	7.8%	9.6%	9.0%	7.9%	7.4%	7.1%	6.8%	6.5%	
G&A	194	214	216	240	278	297	309	325	578	864	1,209	1,459	1,696	1,923	2,136	14.0%
% Y/Y	52.7%	54.6%	40.7%	50.8%	43.2%	38.8%	43.3%	35.4%	41.9%	49.5%	40.0%	20.7%	16.3%	13.3%	11.1%	
Total OpEx	2,380	2,658	2,776	3,040	3,254	3,478	3,715	3,947	8,451	10,854	14,394	17,362	19,968	22,417	24,685	13.3%
% Y/Y	24.7%	30.6%	27.1%	30.9%	36.8%	30.9%	33.8%	29.8%	30.5%	28.4%	32.6%	20.6%	15.0%	12.3%	10.1%	
EBIT	257	128	209	245	447	453	404	383	380	839	1,687	2,780	4,465	6,523	8,988	47.1%
% Y/Y	419.6%	81.6%	96.8%	59.4%	73.8%	254.8%	93.4%	56.3%	24.2%	120.8%	101.2%	64.8%	60.6%	46.1%	37.8%	
% Margin	9.7%	4.6%	7.0%	7.5%	12.1%	11.5%	9.8%	8.9%	4.3%	7.2%	10.5%	13.8%	18.3%	22.5%	26.7%	
Diluted EPS	\$0.40	\$0.15	\$0.29	\$0.41	\$0.64	\$0.79	\$0.64	\$0.56	\$0.43	\$1.25	\$2.63	\$4.59	\$7.31	\$11.13	\$15.79	51.3%
% Y/Y	533.6%	58.0%	146.5%	172.9%	61.0%	436.9%	121.5%	34.7%	51.5%	193.9%	110.4%	74.5%	59.1%	52.3%	41.9%	
Cash Content Spend	2,349	2,664	2,315	2,478	2,987	3,119	3,418	3,588	8,653	9,806	13,111	14,633	15,199	15,960	16,514	5.4%
% Y/Y	1.4%	48.7%	-5.2%	17.8%	27.2%	17.0%	47.6%	44.8%	49.9%	13.3%	33.7%	11.6%	3.9%	5.0%	3.5%	
Content Obligations	6,897	7,451	7,439	7,503	7,911	8,038	8,138	8,173	6,527	7,503	8,173	8,630	9,127	9,461	9,925	
% Y/Y	20.3%	25.4%	14.9%	14.9%	14.7%	7.9%	9.4%	8.9%	35.6%	14.9%	8.9%	5.6%	5.1%	3.7%	4.9%	
Free Cash Flow	(423)	(608)	(465)	(524)	(287)	(858)	(958)	(1,159)	(1,660)	(2,020)	(3,262)	(2,739)	(829)	1,215	3,889	
% Y/Y	62.1%	139.4%	-8.2%	-18.0%	-32.2%	41.1%	106.1%	121.2%	80.3%	21.7%	61.5%	-16.0%	-69.			

PEERs

PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers, and competitors. The database is built from our research analysts’ insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage. For more information, see our November 2016 PEERs report, titled *A Chain Reaction: Supply Chain Strategies*.

Figure 22: NFLX PEERs Map



Source: Credit Suisse PEERs

Financial Statements

Figure 23: NFLX Income Statement

\$MMs, Calendar Year	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E
Revenue	6,780	8,831	2,637	2,785	2,985	3,286	11,693	3,701	3,932	4,118	4,330	16,081	20,142	24,433
% Y/Y	23.2%	30.3%	34.7%	32.3%	30.3%	32.6%	32.4%	40.4%	41.2%	38.0%	31.8%	37.5%	25.3%	21.3%
Guidance								3,686						
Consensus									3,941	4,137	4,361	16,106	20,045	24,608
Operating Expenses	6,474	8,451	2,380	2,658	2,776	3,040	10,854	3,254	3,478	3,715	3,947	14,394	17,362	19,968
% of revenue	95.5%	95.7%	90.3%	95.4%	93.0%	92.5%	92.8%	87.9%	88.5%	90.2%	91.1%	89.5%	86.2%	81.7%
Non-Recurring	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	306	380	257	128	209	245	839	447	453	404	383	1,687	2,780	4,465
% Y/Y	-24.0%	24.2%	419.6%	81.6%	96.8%	59.4%	120.8%	73.8%	254.8%	93.4%	56.3%	101.2%	64.8%	60.6%
% of revenue	4.5%	4.3%	9.7%	4.6%	7.0%	7.5%	7.2%	12.1%	11.5%	9.8%	8.9%	10.5%	13.8%	18.3%
Guidance								362						
Consensus									466	442	445	1,788	2,870	4,388
D&A from PPE	62	58	15	19	19	19	72	19	19	19	19	76	76	76
EBITDA (incl stock comp)	368	437	272	146	228	264	911	466	472	423	403	1,763	2,857	4,541
% Y/Y	-19.4%	18.8%	323.3%	73.2%	89.2%	57.3%	108.2%	71.2%	222.8%	85.5%	52.3%	93.6%	62.0%	59.0%
% of revenue	5.4%	5.0%	10.3%	5.3%	7.6%	8.0%	7.8%	12.6%	12.0%	10.3%	9.3%	11.0%	14.2%	18.6%
Interest Expense	(133)	(150)	(47)	(55)	(61)	(75)	(238)	(81)	(91)	(102)	(121)	(395)	(561)	(594)
Other	(31)	31	14	(58)	(32)	(39)	(115)	(66)	5	-	-	(61)	-	-
Equity Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	142	261	224	14	116	131	485	300	367	302	263	1,231	2,219	3,871
Income Tax (Benefit)	19	74	46	(52)	(13)	(54)	(74)	9	11	12	11	43	133	531
% eff rate	13.6%	28.3%	20.4%	NM	NM	NM	NM	3.2%	3.0%	4.0%	4.0%	3.5%	6.0%	13.7%
Net Income Pre-Minorities	123	187	178	66	130	186	559	290	356	290	252	1,188	2,086	3,340
Less: Minority Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income: GAAP	123	187	178	66	130	186	559	290	356	290	252	1,188	2,086	3,340
% Y/Y	-54.0%	52.2%	NM	61.0%	151.5%	177.9%	199.4%	62.8%	NM	123.6%	36.0%	112.6%	75.6%	60.1%
Diluted EPS: GAAP	\$0.28	\$0.43	\$0.40	\$0.15	\$0.29	\$0.41	\$1.25	\$0.64	\$0.79	\$0.64	\$0.56	\$2.63	\$4.59	\$7.31
Guidance								\$0.63	\$0.79					
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income: Adj.	123	187	178	66	130	186	559	290	356	290	252	1,188	2,086	3,340
% Y/Y	-54.0%	52.2%	NM	61.0%	151.5%	177.9%	199.4%	62.8%	NM	123.6%	36.0%	112.6%	75.6%	60.1%
Diluted EPS: Adj.	\$0.28	\$0.43	\$0.40	\$0.15	\$0.29	\$0.41	\$1.25	\$0.64	\$0.79	\$0.64	\$0.56	\$2.63	\$4.59	\$7.31
% Y/Y	-54.5%	51.5%	NM	58.0%	146.5%	172.9%	193.9%	61.0%	NM	121.5%	34.7%	110.4%	74.5%	59.1%
Consensus								\$0.64	\$0.80	\$0.74	\$0.71	\$ 2.86	\$ 4.60	\$ 7.35

Source: Company data, Credit Suisse estimates, Thomson Reuters

Figure 24: NFLX Balance Sheet

\$MMs, Calendar Year	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E
Cash & Equivalents	1,809	1,468	1,078	1,919	1,746	2,823	2,823	2,594	2,485	2,277	2,618	2,618	1,879	1,051
Short term investments	501	266	263	246	-	-	-	-	-	-	-	-	-	-
Current content assets, net	2,906	3,726	4,027	4,149	4,223	4,311	4,311	4,627	4,627	4,627	4,627	4,627	4,627	4,627
Other Current Assets	215	260	292	387	415	536	536	597	546	573	707	707	888	1,078
Current Assets	5,432	5,720	5,660	6,701	6,385	7,670	7,670	7,818	7,658	7,477	7,952	7,952	7,394	6,755
Non-current content assets, net	4,313	7,275	8,029	9,078	9,740	10,371	10,371	11,315	12,484	13,800	15,180	15,180	20,308	24,647
PP&E	173	250	275	310	322	319	319	342	382	425	471	471	696	987
Other Assets	285	341	395	428	504	652	652	678	678	678	678	678	678	678
Total Assets	10,203	13,587	14,359	16,517	16,952	19,013	19,013	20,153	21,202	22,380	24,281	24,281	29,078	33,067
Current content liabilities	2,789	3,633	3,861	4,095	4,142	4,173	4,173	4,466	4,565	4,652	4,706	4,706	4,862	5,193
Accounts payable	253	313	295	273	301	360	360	436	417	371	395	395	471	499
Accrued expenses	140	198	296	249	332	315	315	429	278	297	316	316	377	399
Deferred revenue	347	443	459	505	535	619	619	674	654	698	742	742	885	939
Current Liabilities	3,530	4,587	4,911	5,123	5,311	5,466	5,466	6,006	5,914	6,019	6,158	6,158	6,595	7,030
Non-current content liabilities	2,026	2,895	3,035	3,356	3,297	3,330	3,330	3,444	3,473	3,486	3,467	3,467	3,768	3,934
Long-term debt	2,371	3,364	3,365	4,837	4,889	6,499	6,499	6,542	7,292	8,042	9,542	9,542	11,542	11,542
Other Long-term Liabilities	52	61	73	89	128	135	135	140	77	29	(13)	(13)	(324)	(568)
Common Stock	1,325	1,600	1,669	1,728	1,807	1,871	1,871	1,995	2,064	2,133	2,202	2,202	2,486	2,779
AOCI	(43)	(49)	(46)	(31)	(25)	(21)	(21)	4	4	4	4	4	4	4
Retained Earnings / Accumulated deficit	942	1,129	1,350	1,416	1,546	1,731	1,731	2,021	2,377	2,667	2,919	2,919	5,006	8,346
Total Equity	2,223	2,680	2,974	3,113	3,327	3,582	3,582	4,021	4,445	4,804	5,126	5,126	7,496	11,129
Total Liabilities & Equity	10,203	13,587	14,359	16,517	16,952	19,013	19,013	20,153	21,202	22,380	24,281	24,281	29,078	33,067

Source: Company data, Credit Suisse estimates

Figure 25: NFLX Cash Flow Statement

\$MMs, Calendar Year	2015	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E
Net Income	123	187	178	66	130	186	559	290	356	290	252	1,188	2,086	3,340
Additions to streaming content assets	(5,772)	(8,653)	(2,349)	(2,664)	(2,315)	(2,478)	(9,806)	(2,987)	(3,119)	(3,418)	(3,588)	(13,111)	(14,633)	(15,199)
Change in streaming content liabilities	1,162	1,773	366	515	(35)	53	900	379	100	100	100	679	400	100
Amortization of streaming content assets	3,405	4,788	1,306	1,551	1,627	1,714	6,198	1,749	1,947	2,100	2,207	8,003	9,503	10,862
Amortization of DVD content assets	79	79	19	17	13	12	61	11	12	11	11	45	33	23
D&A (PP&E)	62	58	15	19	19	19	72	19	19	19	19	76	76	76
Stock-based Comp	125	174	45	44	45	49	182	68	68	69	70	276	284	292
Excess tax benefits from stock-based comp	(80)	(65)	-	-	-	-	-	-	-	-	-	49	-	-
Other	32	41	22	76	61	40	198	49	-	-	-	(175)	(311)	(244)
Deferred Tax	(59)	(47)	(27)	(21)	(57)	(104)	(209)	(22)	(62)	(48)	(42)	(175)	(311)	(244)
Working Capital	173	192	81	(136)	92	21	59	206	(111)	(10)	(113)	(28)	156	311
Cash from Operations	(749)	(1,474)	(344)	(535)	(420)	(488)	(1,786)	(237)	(789)	(887)	(1,084)	(2,997)	(2,405)	(436)
Acquisitions of DVD content assets	(78)	(77)	(25)	(8)	(10)	(11)	(54)	(11)	(10)	(10)	(10)	(41)	(32)	(26)
CapEx	(91)	(108)	(53)	(65)	(34)	(22)	(173)	(37)	(59)	(62)	(65)	(223)	(302)	(366)
Change in other assets	(2)	(1)	(1)	(1)	(1)	(4)	(7)	(2)	-	-	-	(2)	-	-
Short term investments	(8)	236	3	17	247	0	268	-	-	-	-	-	-	-
Cash from Investing	(179)	50	(76)	(56)	202	(36)	34	(50)	(69)	(72)	(75)	(265)	(334)	(392)
Capex consensus								47	53	47		184		243
Debt Raise (Paydown)	1,482	989	-	1,405	(0)	1,583	2,988	-	750	750	1,500	3,000	2,000	-
Issuance of common stock	78	37	24	15	35	15	88	56	-	-	-	56	-	-
Excess tax benefits from stock-based comp	80	65	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1)	0.2	0.1	0.1	0.1	0.1	0.3	(0)	-	-	-	(0)	-	-
Cash from Financing	1,640	1,092	24	1,420	34	1,598	3,077	56	750	750	1,500	3,056	2,000	0
Impact of FX	(16)	(9)	5	12	11	2	30	7	-	-	-	7	-	-
Cash, Begin	1,114	1,809	1,468	1,078	1,919	1,746	1,468	2,823	2,593	2,485	2,277	2,823	2,618	1,879
Change in Cash	696	(342)	(390)	841	(172)	1,076	1,355	(223)	(108)	(208)	341	(199)	(739)	(829)
Chg in Restricted Cash								(6)						
Cash, End	1,809	1,468	1,078	1,919	1,746	2,823	2,823	2,593	2,485	2,277	2,618	2,618	1,879	1,050
Free Cash Flow														
Cash From Operations	(749)	(1,474)	(344)	(535)	(420)	(488)	(1,786)	(237)	(789)	(887)	(1,084)	(2,997)	(2,405)	(436)
Acquisitions of DVD content assets	(78)	(77)	(25)	(8)	(10)	(11)	(54)	(11)	(10)	(10)	(10)	(41)	(32)	(26)
Change in other assets	(2)	(1)	(1)	(1)	(1)	(4)	(7)	(2)	-	-	-	(2)	-	-
CapEx	(91)	(108)	(53)	(65)	(34)	(22)	(173)	(37)	(59)	(62)	(65)	(223)	(302)	(366)
Free Cash Flow	(921)	(1,660)	(423)	(608)	(465)	(524)	(2,020)	(287)	(858)	(958)	(1,159)	(3,262)	(2,739)	(829)
% Y/Y	NM	80.3%	62.1%	139.4%	-8.2%	-18.0%	21.7%	-32.2%	41.1%	106.1%	121.2%	61.5%	-16.0%	-69.8%
Consensus								(649)	(830)	(891)	(1,005)	(3,095)	(1,452)	(333)
FCF per shr	(\$2.11)	(\$3.78)	(\$0.95)	(\$1.36)	(\$1.04)	(\$1.17)	(\$4.52)	(\$0.64)	(\$1.90)	(\$2.12)	(\$2.56)	(\$7.23)	(\$6.03)	(\$1.81)
% Y/Y	NM	79.4%	59.4%	135.1%	-10.0%	-19.5%	19.5%	-32.9%	39.6%	104.1%	119.1%	59.9%	-16.6%	-69.9%

Source: Company data, Credit Suisse estimates, Thomson Reuters

Investment Risks

Risks to our target price and rating that are specific to NFLX include:

- **Missing quarterly subscriber estimates:** Subscriber net adds are the single most important metrics for Netflix's share price, in our view. Past misses have been met with severe stock declines, particularly if the misses were perceived to be related to pricing power, or competition.
- **Competition/Content Costs:** Competition that affects subscriber growth or content costs (or both) would be negative for Netflix.
- **Access to content:** With the majority of content available on Netflix licensed from traditional media companies, to the extent these companies pull back on the supply of content, Netflix could be affected.
- **Scale challenges:** Our projections imply Netflix reaches massive scale, which comes with difficulties in managing content production and maintaining the high level of execution that Netflix has demonstrated thus far.
- **Regulations:** Netflix has avoided the privacy issues related to digital advertising that certain tech company peers have encountered (its model is not ad supported). However, Netflix is disrupting existing markets in many countries around the world (including theaters, pay and free to air TV, etc.) and could run afoul of governments looking to protect these industries.

Companies Mentioned (Price as of 06-Jul-2018)

Alphabet (GOOGL.OQ, \$1155.08)
Facebook Inc. (FB.OQ, \$203.23)
Netflix Inc. (NFLX.OQ, \$408.25, OUTPERFORM, TP \$500.0)
The Walt Disney Company (DIS.N, \$104.78)
Viacom, Inc. (VIAB.OQ, \$30.0)

Disclosure Appendix

Analyst Certification

I, Douglas Mitchelson, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Netflix Inc. (NFLX.OQ)

NFLX.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
10-Jul-15	97.23	100.00	N
16-Jul-15	115.81	110.00	
09-Oct-15	113.33	130.00	
15-Oct-15	101.09	124.00	
12-Jan-16	116.58	119.00	
20-Jan-16	107.74	126.00	
18-Apr-16	108.40	127.00	
19-Apr-16	94.34	116.00	
15-Jul-16	98.39	119.00	
19-Jul-16	85.84	122.00	
17-Oct-16	99.80	132.00	
18-Oct-16	118.79	130.00	
11-Jan-17	130.50	133.00	
19-Jan-17	138.41	143.00	
17-Apr-17	147.25	144.00	
18-Apr-17	143.36	149.00	
10-Jul-17	152.67	154.00	
18-Jul-17	183.60	190.00	
11-Oct-17	194.95	210.00	
17-Oct-17	199.48	209.00	
08-Jan-18	212.05	224.00	
23-Jan-18	250.29	266.00	
17-Apr-18	336.06	330.00	



* Asterisk signifies initiation or assumption of coverage.

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Restricted	2%	

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Netflix Inc. (NFLX.OQ)

Method: Our \$500 target price and Outperform rating are derived via DCF, using a 10% cost of equity, 5% pre-tax cost of debt, and 3% terminal growth.

Risk: Risks to our Outperform rating and \$500 target price include missing quarterly subscriber guidance, DTC competition, access to content, successfully scaling in-house production, cost of content, regulations, and recessions.

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