

Netflix (NFLX US)

Entering the AVOD space

We remain positive on Netflix's long-term subs trend, AVOD expansion, paid-sharing rollout and margin expansion, backed by its vibrant original content pipeline and efficient investment. After its better-than-feared 3Q23, Netflix demonstrated strong net adds, resilient margin guidance (22%-23% OPM in FY24E, +2~3ppts YoY) and increasing FCF (guiding US\$6.5bn), partly alleviating market concerns about content spending and competition. Looking ahead, we forecast Netflix to deliver 11%/24% rev/earnings CAGR during FY23-25E, with 7.6% subs CAGR (driven by international market expansion, AVODs and paid-sharing penetration). With competition to pull back and strikes to settle, we think it is a good time to accumulate the stock. Initiate with BUY with TP at US\$512.

- **Global streaming leader on clear growth trajectory.** Netflix is a global leading online video platform, with 247mn subs in >190 countries (by 3Q23). Backed by its sizable subs, vibrant original content and exclusive IP reserve, we forecast Netflix to deliver 24% earnings CAGR in FY23-25E.
- **Leveraging original content edge for share gains and price hikes.** Netflix prides itself on exclusive high-quality original content (e.g. suspense & survival categories), backed by stepped-up investment and rational industrial production system with top-tier studios and producers. Such content edge enhances its leadership and supports its continuous price hike (seven times in 2011-23, forecasting ARM at 3.4% CAGR in FY23-25E). With competition to pull back and strikes to settle, we expect its share gain to continue.
- **Bearing fruit from AVOD expansion and paid-sharing initiatives.** We are bullish on Netflix's AVOD expansion, and expect positive impact on both net adds and ARPU. With a lower-priced package, AVOD can help Netflix spread its global reach and tap into price-sensitive users (forecasting TAM of 380mn subs worldwide). Netflix has signed up >5mn ad-supported subs in May 2023, and the US "Standard with Ads" Plan accounted for 30% of new sign-ups in Sep 2023. Looking ahead, we expect Netflix's AVOD subs to rise to 32mn in FY25E (11% subs mix), at 51% CAGR. Moreover, we expect paid-sharing initiatives (launched on 23 May) to transfer more users into add-on subs (>100mn password-sharing users in Netflix). We forecast ~30mn extra subs from paid initiatives by 2025E (6% rev mix), implying ~30% conversion rate.
- **Initiate with BUY.** We set our DCF-based TP at **US\$512** (implying **33x** FY24E P/E), 15% below historical multiple but largely above industry average. Key catalysts: 1) Content pipeline to pick up after strikes; 2) resilient net adds; and 3) higher UE and ARPU ahead to drive margin improvement.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	29,698	31,616	33,580	37,981	41,488
YoY change (%)	19%	6%	6%	13%	9%
Adj. net income (US\$)	5,116	4,492	5,397	6,825	8,351
Adj. EPS (US\$)	11.24	9.94	12.00	15.45	19.15
YoY growth (%)	NA	NA	21%	29%	24%
Consensus EPS (US\$)	NA	NA	12.22	15.96	19.41
P/E (x)	NA	NA	34.3	26.7	21.5
P/S (x)	NA	NA	5.4	4.7	4.3
ROE (%)	38.02	24.53	25.00	27.84	28.27

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiation)

Target Price **US\$512**
 Up/Downside **+20.6%**
 Current Price **US\$424.7**

Global Entertainment Sector

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Stock Data

Mkt Cap (US\$ mn)	179,996
Avg 3 mths t/o (US\$ mn)	2,340
52w High/Low (US\$)	485/ 252
Total Issued Shares (mn)	438

Source: Bloomberg

Shareholding Structure

Capital Group	9.22%
Vanguard	8.27%
BlackRock	6.84%

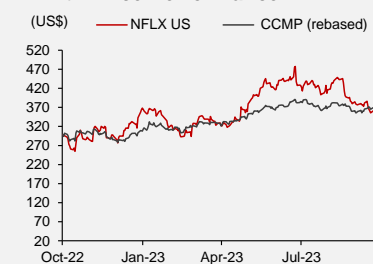
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.9%	10.6%
3-mth	-3.8%	6.1%
6-mth	27.5%	17.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

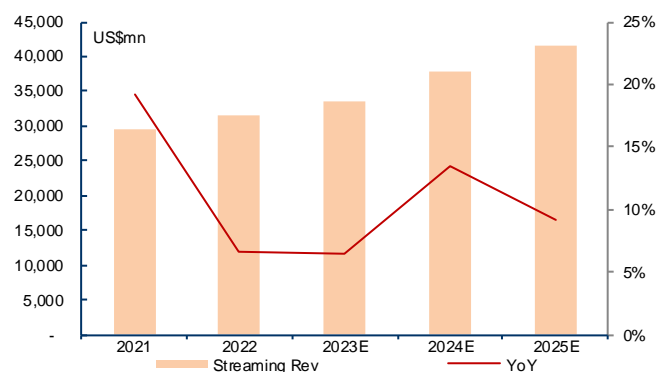
Auditor: ERNST & YOUNG LLP

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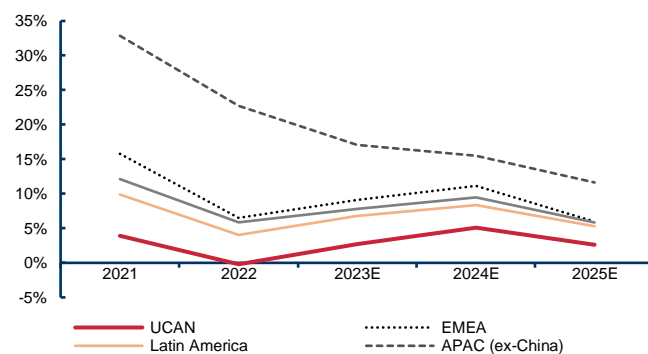
Focus Charts

Figure 1: Revenue estimates



Source: Company data, CMBIGM estimates

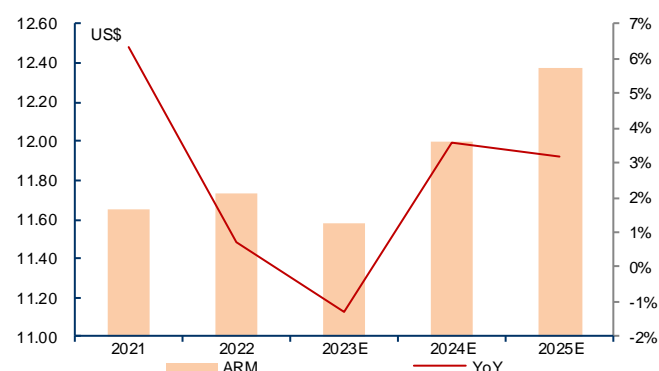
Figure 2: Subs growth estimates by region



Source: Company data, CMBIGM estimates

Note: UCAN – the US and Canada

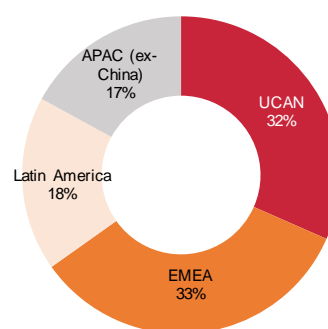
Figure 3: ARM estimates



Source: Company data, CMBIGM estimates

Note: ARM – average revenue per membership

Figure 4: Revenue mix by region in FY23E



Source: Company data, CMBIGM estimates

Figure 5: Revenue estimates for ad-supported tier plan

US\$ mn	1Q23E	2Q23E	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2023E	2024E	2025E	2026E
Paid Ending Subs (mn)	1.2	6.0	10.2	14.2	16.0	17.9	20.4	23.4	14.2	23.4	32.4	40.4
QoQ Growth		400%	70%	39%	13%	12%	14%	15%				
YoY Growth					1233%	198%	100%	65%		65%	38%	25%
% mix	1%	3%	4%	6%	6%	7%	8%	9%	6%	9%	11%	13%
Average Paid Subs (mn)		3.6	8.1	12.2	15.1	17.0	19.2	21.9	7.9	19.4	27.9	36.4
Net Adds (mn)		4.8	4.2	4.0	1.8	1.9	2.5	3.0	13.0	9.2	9.0	8.0
QoQ Growth			-13%	-5%	-55%	6%	32%	20%				
YoY Growth						-60%	-40%	-25%		-29%	-2%	-11%
% mix		81%	48%	43%	50%	70%	55%	57%	50%	57%	62%	60%
ARPU (US\$)	15	15	15	15	15.3	15.3	15.3	15.3	15	15.3	15.6	15.9
YoY Growth					2%	2%	2%	2%		2%	2%	2%
Ad-supported tier rev		162	365	549	693	778	879	1,005	1,076	3,355	5,225	6,953
QoQ Growth			125%	51%	26%	12%	13%	14%				
YoY Growth						380%	141%	83%		212%	56%	33%
% mix		2%	4%	6%	7%	8%	9%	10%	3%	9%	13%	15%

Source: Company data, CMBIGM estimates

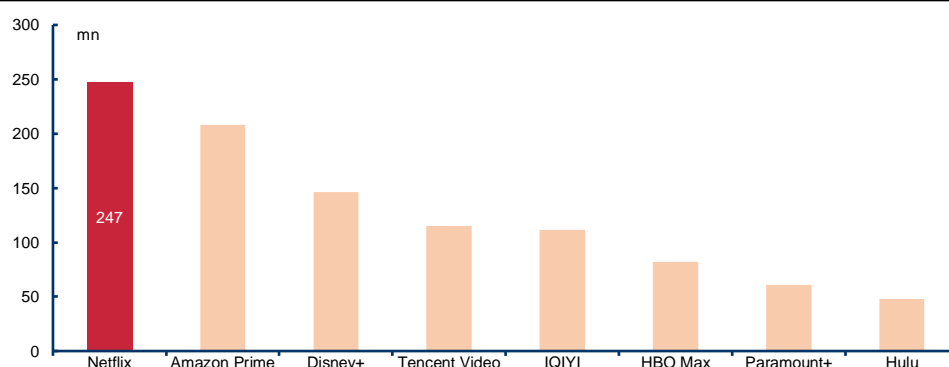
Company Overview

A global streaming leader to embrace full screen era

A video streaming pioneer on the upward trajectory

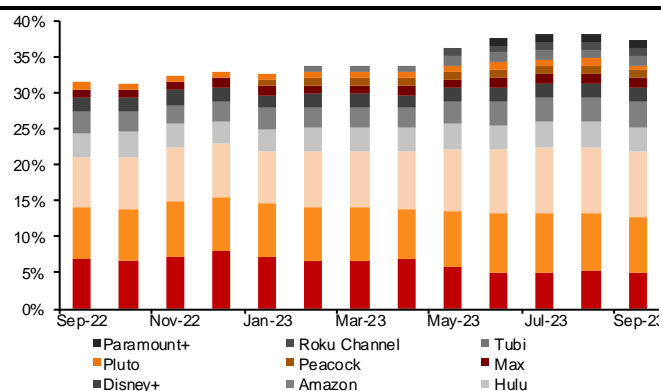
Netflix is the global leader in subscription video-on-demand over-the-top streaming service, with 247mn paid subs in more than 190 countries (by 3Q23). Founded in 1997, it started its business with DVD-by-mail service, and then distributed films and television series from various genres in multiple languages. By 2022, original productions accounted for half of Netflix's library in the US. Other than that, Netflix had ventured into other categories, such as online ads and video game publishing.

Figure 6: Rank of streaming services by subs (by 3Q23)



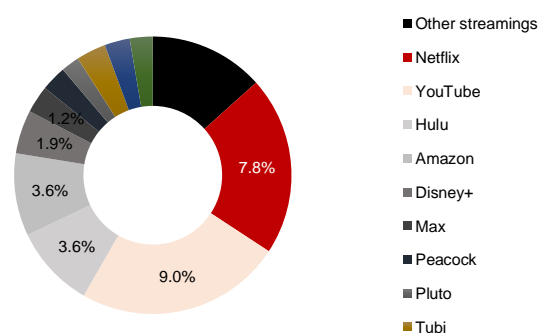
Source: Company data, Flix Patrol, CMBIGM

Figure 7: Share changes among streaming platforms



Source: Nielsen (by viewing), CMBIGM

Figure 8: Share of streaming platforms in terms of viewing (in Sep 2023)



Source: Nielsen, CMBIGM

Successful transition into streaming giant, with ramp-up of subs

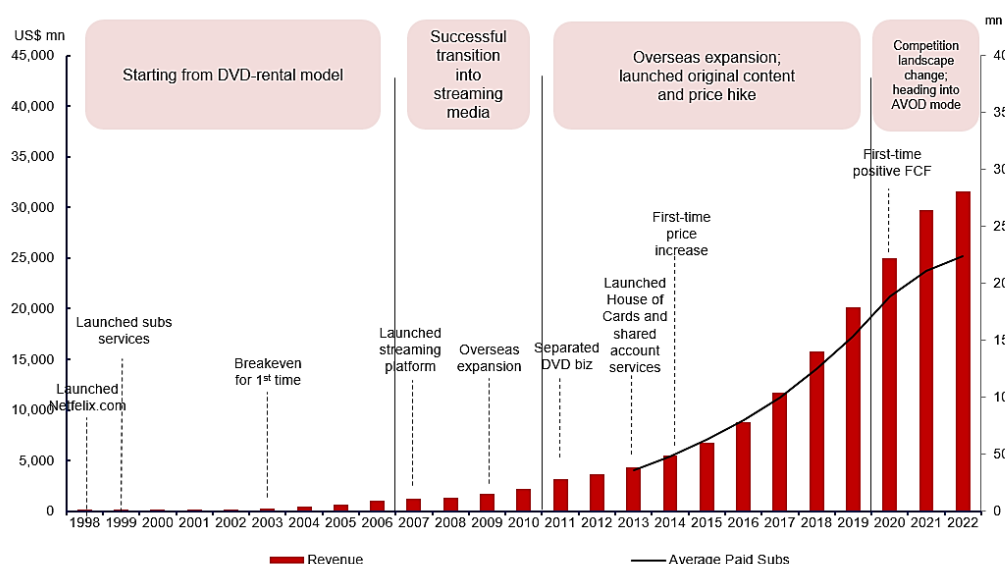
Phase One (1997-2006): Starting from DVD-rental model. In the late 1990s, DVD rental was the core business for home-video. Compared to traditional players (e.g. Blockbuster), Netflix adopted the "online ordering + offline delivering + subscription-based" model, improving from the offline rentals with late fees. Netflix had accumulated over 4mn paying users by 2015 and gained share from peers for its innovative mode.

Phase Two (2007-2010): Successful transition into streaming media. In Feb 2007, Netflix officially launched its online video-on-demand service, after YouTube's popularity. Its paying subs climbed up to 20mn in 2020, making it the top 1 streaming provider in the US, backed by deep cooperation with diverse channels (e.g. PCs, mobile devices). In 2011, it separated the DVD business from streaming business.

Phase Three (2010-2020): Overseas expansion with original content and price increases. Netflix kicked off global expansion in Sep 2010 by entering Canada, followed by Latin America, Europe, Australia, and Asia in the ensuing six years. By 2016, it had covered 150 countries, with overseas subs up to 57.8mn in 2017 (surpassing domestic subs of 52.8mn). Nowadays, Europe, the Middle East, and Africa are the fastest-growing markets for Netflix. In 2013, Netflix launched its famous original series <House of Cards> (紙牌屋), which gained traction. From 2014 to 2020, Netflix raised its subscription prices seven times, while gradually diversifying its business by stepping into ads, gaming, and other relevant verticals.

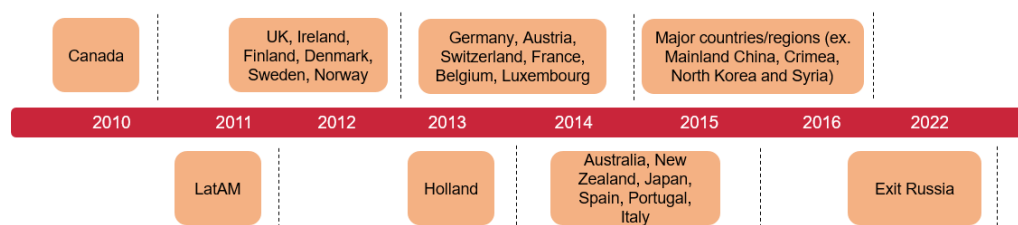
Phase Four (2020-present): Competitive landscape changing; heading into AVOD mode. Since 2019, two new entrants, Disney and Amazon, have ventured into streaming business, leading to rising content cost and subs volatility with intensified competition. In 2022, Netflix lost 0.7mn users as it exited the Russia market. In 1H23, competitors began to cut content cost with priority on profitability amid macro uncertainty, suggesting competition to pull back. To diversify its monetization, Netflix has headed into the AVOD mode, with paid sharing initiatives to unlock membership upside.

Figure 9: The four phases of development



Source: Company data, CMBIGM

Figure 10: The path of global expansion



Source: Company data, CMBIGM

High barrier with high-quality content library

Differentiated content strategy. Compared to other streaming platforms, Netflix focuses more on original scripted dramas with abundant content reserve, and is famous for suspense and survival categories. Netflix sometimes does not fully engage in the process of making original content, but adopts the sole investment and customization model (by cooperating with third parties); nevertheless, its self-made drama mix has expanded. HBO MAX (i.e. Max) positions itself as a premium provider of original content, programming for kids and families, and sports. After the merger of WarnerMedia (parent company) and Discovery, MAX's content library comprises HBO Max, Discovery+, Food Network, HGTV, etc. Disney builds its product portfolio with Disney+ (comedy, animation), Hulu (drama), and ESPN+ (sports), to cater to diversified needs. It differentiates itself with brand effect, exclusive IPs and notable movie & animation studios (e.g. Marvel, Pixar, Fox).

Figure 11: Platform comparison by genre, popular shows and content details

Platform	Key categories	Popular shows
Netflix	Drama, crime, fantasy, love, adventure	<Money Heist>, <Friends>, <Pablo Escobar, The Drug Lord>, <Squid Game>, <The Blacklist>, <StarTrek Picard>, <The Marvelous Mrs. Maisel>, <The Lord of the Rings: The Rings of Power>
Amazon Prime	Action, fantasy, sci-fi, drama	Marvel, Pixar, Fox, and National Geographic
Disney+	Family, animation, comedy	<Harlots>, <Handmaid's Tale>, <Only Murder in the Building>
Hulu	Drama, comedy	Professional sports events (such as NFL and NBA) and sports news
ESPN+	Sports	<The Sopranos>, <The Wire>, <Game of Thrones>, <Lord of the Ring>, <Harry Potter>
HBO MAX	Warner Bros and its subsidiaries	<Ted Lasso>, <CODA>
Apple TV+	Drama, film, documentary, sports	

Source: Company data, CMBIGM

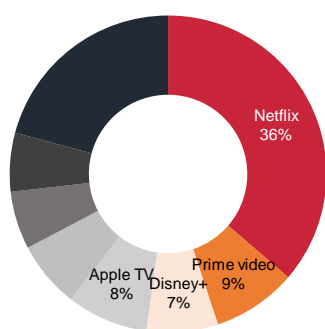
Figure 12: Top 10 shows on Netflix/Disney+/HBO in 2023 (on Oct 30, 2023)

Platform	Title	Genre	Launch date	IMDb score
Netflix	Bodies	Sci-fi	2023	7.5/10
	Life on Our Planet	Documentary	2023	8.2/10
	Lupin	Crime	2021	7.5/10
	Elite	Crime	2018	7.2/10
	Strong Gril Nam-soon	Crime	2023	7.7/10
	Beckham	Documentary	2023	8.3/10
	Pact of Silence	Drama	2023	6.7/10
	Get Gotti	Documentary	2023	7.1/10
	The Fall of the House of Usher	Horror	2023	8.1/10
	Castaway Diva	Comedy	2023	NA
Disney+	Loki	Superhero	2021	8.2/10
	Bluey	Animation	2018	9.4/10
	The Simpsons	Animation	1989	8.7/10
	Grey's Anatomy	Drama	2005	7.6/10
	Goosebumps	Horror	2023	6.5/10
	Modern Family	Comedy	2009	8.5/10
	Family Guy	Animation	1999	8.2/10
	Malcolm in the Middle	Comedy	2000	8.2/10
	The Kardashians	Reality-Show	2022	4.5/10
	Gravity Falls	Animation	2012	8.9/10
HBO	30 Coins	Horror	2020	7.1/10
	The Gilded Age	Drama	2022	8.0/10
	Rick and Morty	Animation	2013	9.1/10
	The Last of Us	Sci-fi	2023	8.8/10
	Teenage Kiss: The Future Is Dead	Drama	2023	NA
	Candy Cruz	Comedy	2023	5.5/10
	Starstruck	Comedy	2021	7.5/10
	And Just Like That..	Comedy	2021	5.7/10
	The Winter King	Fantasy	2023	5.6/10
	Love Is In The Air	Comedy	2020	7.3/10

Source: FlixPatrol, CMBIGM

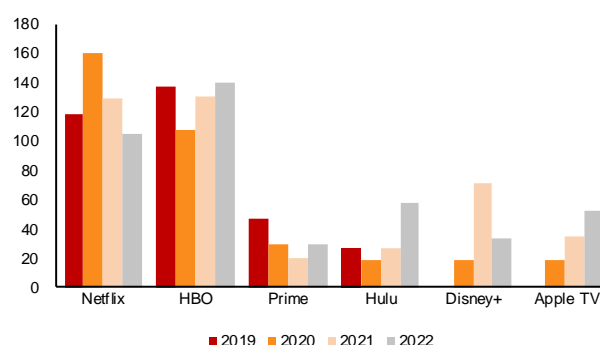
Fruitful awards in originals. Netflix's original content accounted for 36% of all streaming originals in 2Q23, ranking the first place among streaming platforms. Netflix has been rewarded the Emmy Awards, Golden Globe Awards, and Oscars, with various hit series (e.g. <House of Cards>, <Orange is the New Black>, <Black Mirror>, <The Crown>) and blockbuster films (e.g. <Roma> and <The Irishman>). Netflix and HBO MAX are key competitors in terms of nominations for the Emmy Awards. In 2020, Netflix performed well at the 72nd Emmy Awards (2020), with 160 nominations, surpassing HBO for the first time. Surprisingly, Disney+ won 71 nominations one year after its launch, and its parent company, Walt Disney, received 24 Oscar nominations in 2022, closely following Netflix's 27 nominations.

Figure 13: US platform demand share for all streaming originals in 2Q23



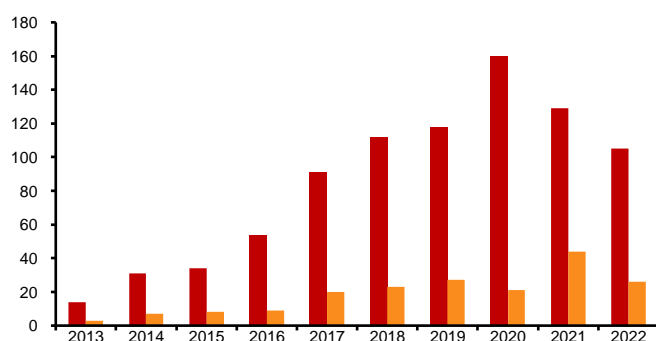
Source: Parrot Analytics, CMBIGM

Figure 14: Emmy Award nominations for streaming platforms during 2019-22



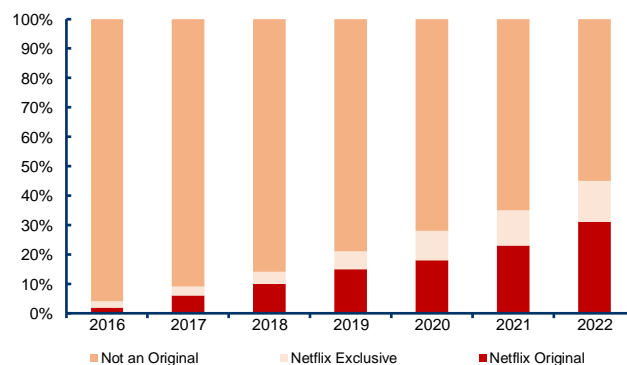
Source: Public data, CMBIGM

Figure 15: Netflix's nominations and wins in Emmy Awards during 2013-2022



Source: Public data, CMBIGM

Figure 16: Netflix USA catalogue share by original status, 2017-2022 (%)



Source: Ampere, CMBIGM

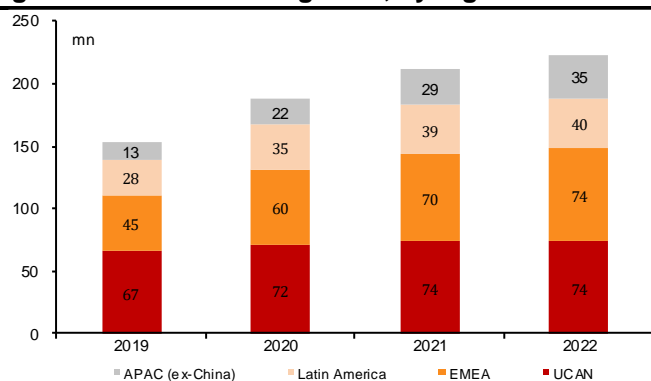
Diversifying monetization: from subs to ads

Subscription is the key revenue contributor for Netflix. After subs declined in 2022, Netflix targets to regain momentum in both revenue and profit with diversified monetization, backed by: 1) password-sharing crackdown to enlarge the subs base; 2) the lower-priced ad-supported plan; and 3) new initiatives to explore ecommerce and games.

Subs: solid growth in APAC, a slowdown in UCAN. As of 2022, the UCAN and EMEA markets each contributed 33% of total subs, while LatAm and APAC accounted for 18% and 16%, respectively, indicating more than half of subs from overseas markets. UCAN subs have hit a plateau (+0% YoY in 2022, <10% growth since 2019), and subs in

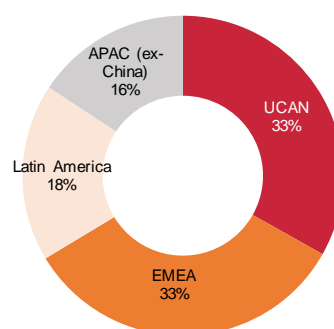
EMEA/LatAm moderated at +6%/4% YoY in 2022, while the APAC is still on fast-growth trajectory (+23% YoY).

Figure 17: Paid streaming subs, by region



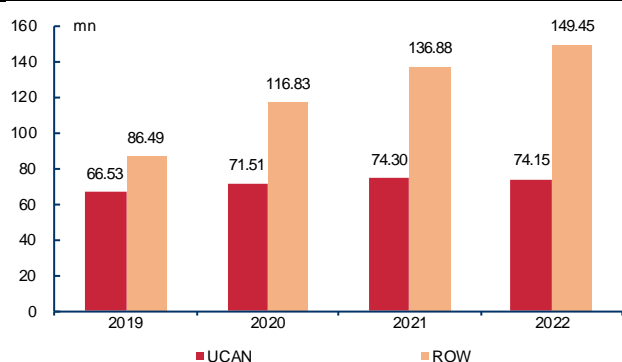
Source: Company data, CMBIGM

Figure 18: Mix of subs, by region (2022)



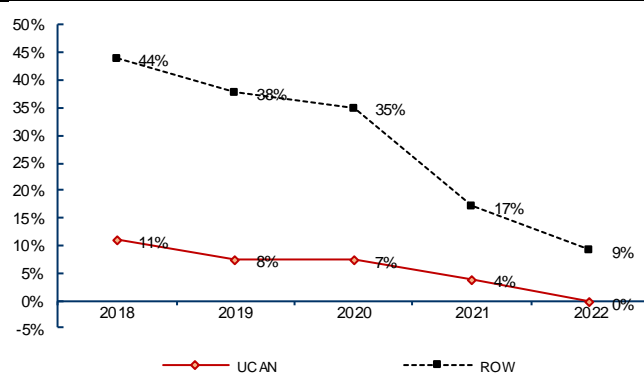
Source: Company data, CMBIGM

Figure 19: Paid streaming subs, by UCAN and ROW



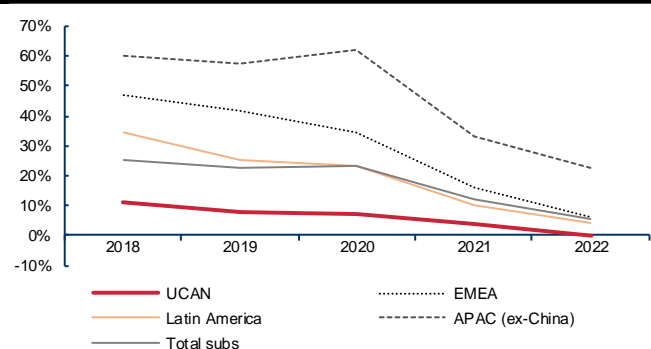
Source: Company data, CMBIGM
Note: ROW – rest of the world

Figure 20: Growth of subs in UCAN and ROW



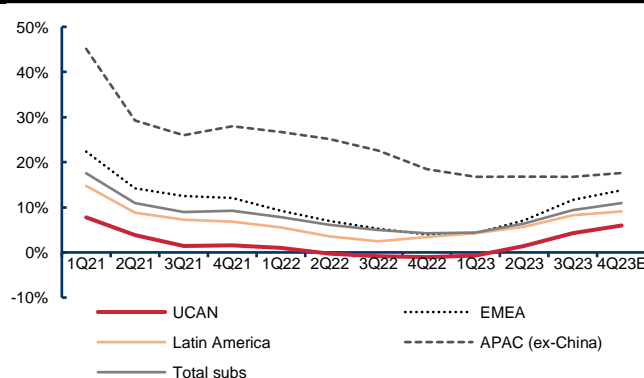
Source: Company data, CMBIGM

Figure 21: Annual growth of subs, by region



Source: Company data, CMBIGM

Figure 22: Quarterly growth of subs, by region



Source: Company data, CMBIGM estimates

Ad-supported tier: fast-growing business but limited contribution in near term. As consumer budgets tighten, lower-priced or free ad-supported streaming is gaining traction. In Nov 2022, Netflix launched its ad-supported plan which costs US\$6.99/month and is available in 12 countries (including Australia, Brazil, Canada, France, Germany, Italy, Japan, Korea, Mexico, Spain, the UK, and the US). In May, Netflix said it had signed up >5mn members for ad-supported plans, with 25% of new subs engaged.

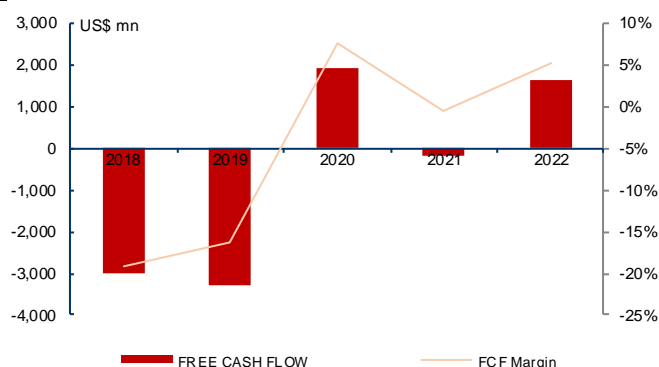
Games: In 2Q21, Netflix announced its plan to enter gaming development, as another new content category, to offer users with more player enjoyment. Netflix has launched 55 games. Another 40 new launches this year include Terra Nil (a reverse city builder) and Mighty Quest (the first new game from an internal studio, OXENFREE II).

E-commerce: In Jun 2021, Netflix officially launched its first online retail platform, Netflix.shop, which regularly sells limited-edition clothing, lifestyle products, and collectibles related to hit shows.

Clear margin expansion with enhancing scale and effective investment

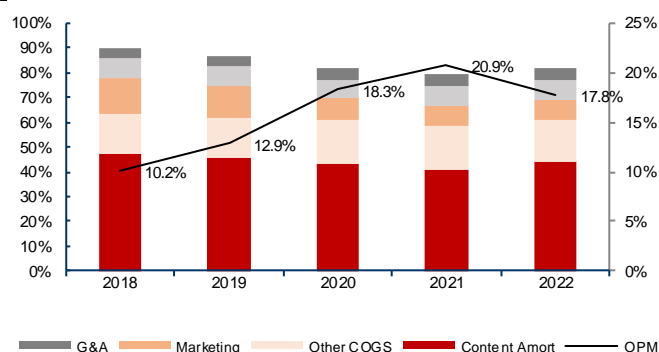
Netflix net margin climbed up from 5% in 2017 to 17% in 2021, and slightly declined to 14% in 2022 for heavy content investment amid competition. As cash payment is more front-loaded than 2nd-run content licenses, investment in original content would weigh on FCF. Netflix achieved positive FCF in 2020 for the first time, backed by its higher ROI and price hikes. We are positive on its margin expansion, attributable to 1) efficient content spending with competition to pull back; 2) incremental revenue driven by password-sharing crackdown and the ad-supported tier; and 3) continuous price increases.

Figure 23: FCF trend



Source: Company data, CMBIGM

Figure 24: COGS and opex breakdown



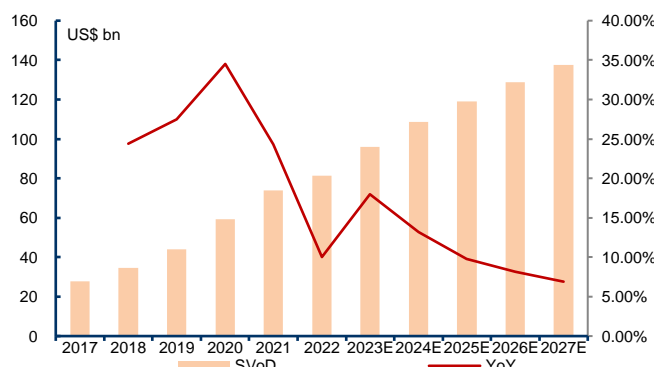
Source: Company data, CMBIGM

Investment Summary

Competition to pull back, with growing streaming tailwinds

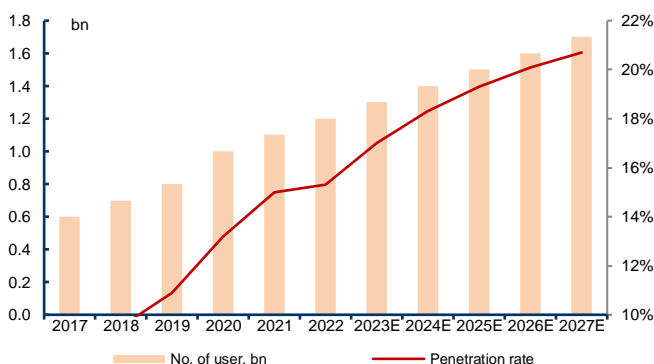
We are positive on streaming's growth potential, backed by: 1) ramp-up of non-pay TV viewers; 2) competition among LFFVs (long-form video platforms) to normalize; and 3) time spent on SFVs (short-form video platforms) to stay stable. According to Statista, the global Video Streaming (SVoD) market size is projected at US\$95.9bn in 2023, and to expand to US\$137.7bn in 2027 (9.5% CAGR in 2023-27). By 2027, the number of users could climb up to 1.6bn, with user penetration at 20.7% (vs. 17% in 2023).

Figure 25: SVoD global market size (by revenue)



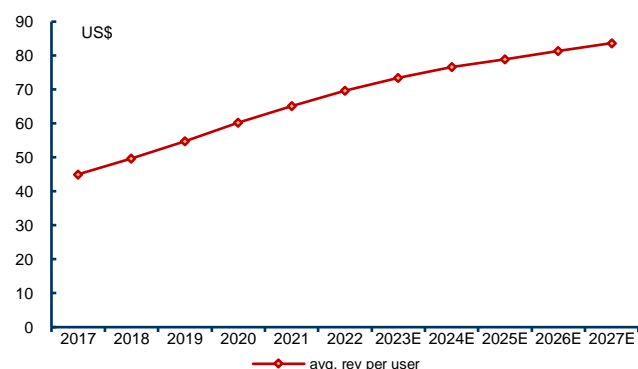
Source: Statista, CMBIGM

Figure 26: SVoD users and penetration rate



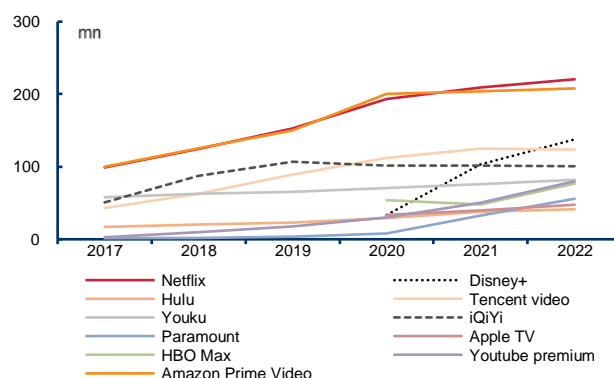
Source: Statista, CMBIGM

Figure 27: ARPU of SVoD



Source: Statista, CMBIGM

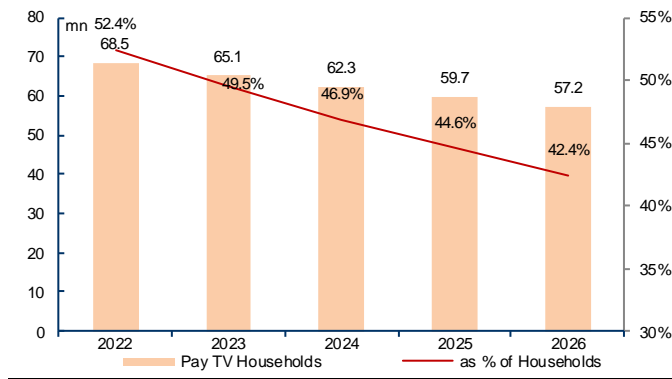
Figure 28: Subs by platforms



Source: Statista, CMBIGM

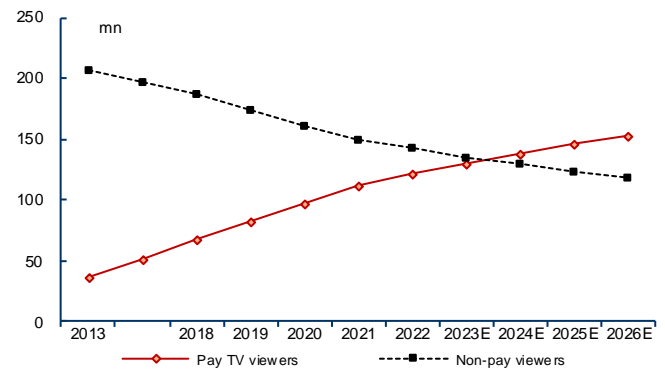
No. of non-pay TV viewers to ramp up. Significant changes in the television landscape are taking place, primarily driven by rising non-pay TV viewers, amid the emergence of alternative platforms (mainly streaming platforms). According to eMarketer, the number of US non-pay TV viewers (138.1mn) will surpass that of pay TV viewers (129.3mn) for the first time by 2024, along with declining pay-TV households.

Figure 29: US pay TV households



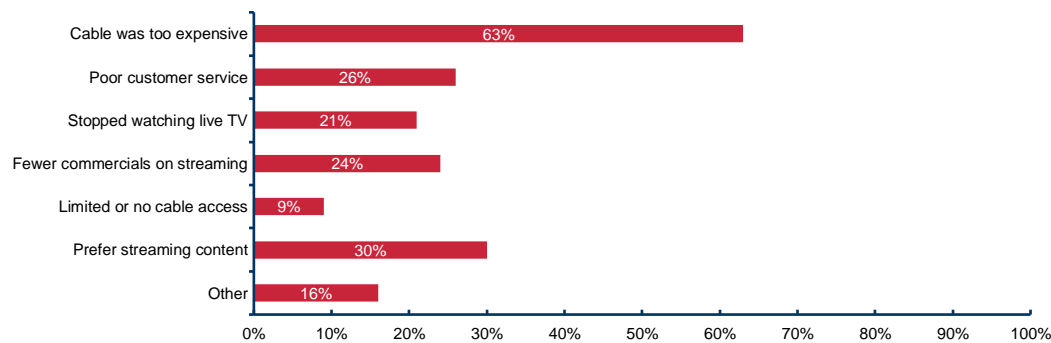
Source: eMarketer, CMBIGM

Figure 30: US pay TV vs. non-pay TV viewers



Source: eMarketer, CMBIGM

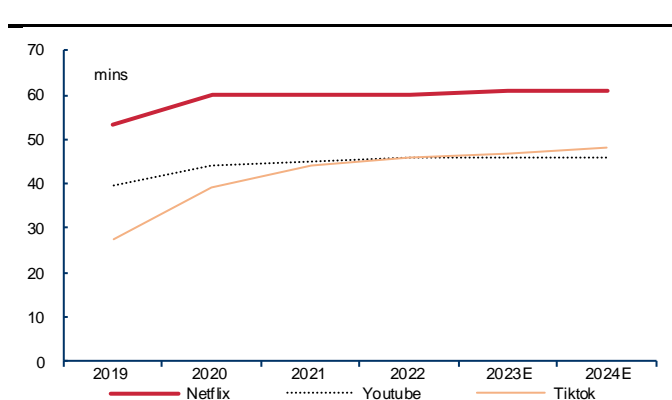
Figure 31: Reasons for non-pay TV viewers by demographics (US adults)



Source: eMarketer, CMBIGM estimate

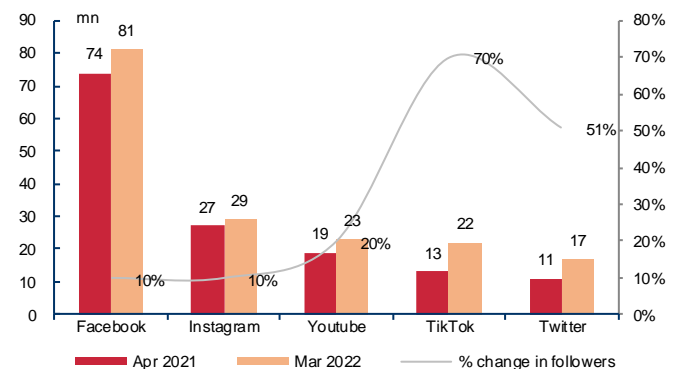
Manageable impact from SFVs with stable time spent. In the US market, TikTok's user time spent has stabilized since 2020, and this is also the case for streamers. In addition, SFVs are efficient channels for LTVs to promote and acquire users. Major streaming platforms have opened official accounts on TikTok to promote their series and movies. Notably, Netflix experienced a significant increase in its TikTok audience from Apr 2021 to Mar 2022, at 70% YoY, surpassing the growth on other social media platforms.

Figure 32: Average daily time spent (US adults)



Source: eMarketer, CMBIGM estimates

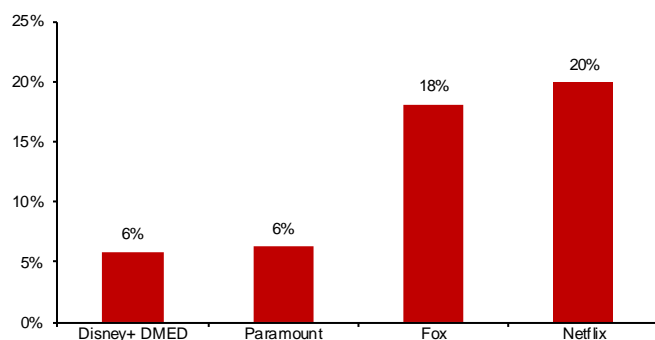
Figure 33: No. of Netflix followers and changes on social platforms



Source: RightMetric, CMBIGM

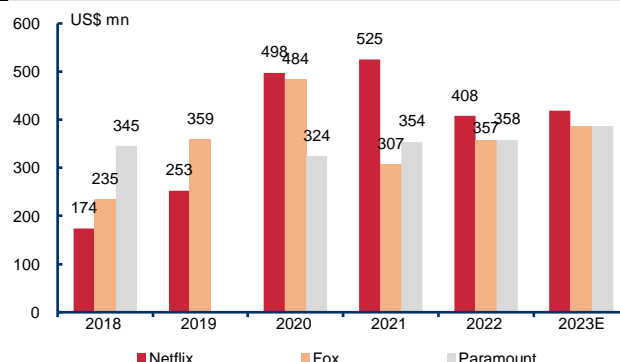
Competition among LFFVs to pull back. LFFV competition has intensified as major platforms increased content investment since 2019. For instance, Amazon spent US\$7bn on original shows and licensed programs and sports in 2022 (vs. US\$5bn in 2021). However, competition tends to be moderate as their focus shifts from growing subs to profitability and free cash flow. Streaming platforms are now prioritizing content quality and cost control since 1H23. For example, Warner Bros has reduced DTC (direct-to-consumer) movie releases and license them out under flat budgets. Disney cut streaming cost by over 50% in 2Q23 (streaming loss narrowed to US\$512mn), with price hikes.

Figure 34: Estimated OPM of streamers in 2023E



Source: Bloomberg, CMBIGM estimates

Figure 35: Capex of streaming platforms



Source: Macroaxis, CMBIGM estimates

Expecting content pick-up with strikes to settle. From May 2023, Hollywood actors and writers organized strikes to demand additional protection from AI, and better pay with stable work in the streaming era. The WGA (the Writers Guild of America) settled the strikes on Sep 27, 2023, with a tentative agreement. With upcoming content production resumption, streaming platforms will gradually recover from the content shortage. For Netflix, some favorite shows might get delayed (e.g. <Strange Things>), but we think Netflix would be more resilient against the strikes for its extensive content library and globalization.

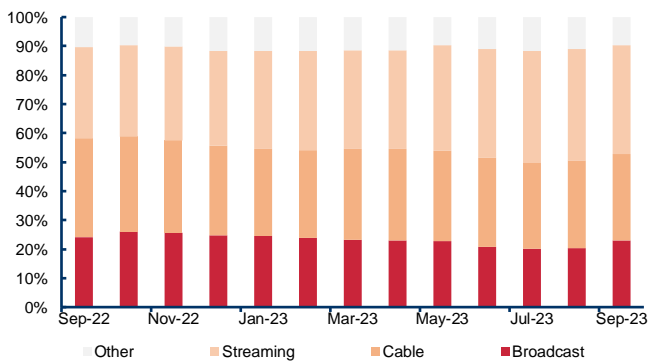
Figure 36: Strike impact across key platforms

Netflix	Disney+	WBD/Max	Amazon Prime	Apple TV
Less effected with extensive content library and globalization	Fall somewhere in between		Suffer from a lack of content, but streaming is not a key business	
Netflix has vast volume of content, as it is likely that Netflix has anticipated such situations and stockpiled additional material. In addition, global production will greatly benefit them during these times. they have a pool of talented writers and actors who are not affiliated with the striking unions.	Disney+ fares well due to its extensive collection of kids' content with repeated viewership, along strong global presence. However, Hulu (a subsidiary) may face challenges as it heavily relies on linear television services and limited global reach.	Warner Bros Discovery (WBD)/Max is in a favorable position due to its substantial library content, particularly the Discovery's vast catalog.	Amazon seems better positioned attributable to extensive content library backed by an established partnership with content providers and service offerings, as well as wide global reach.	Apple won't release new content during this period, but the setback won't dampen Apple as a company in the long run.

Source: CMBIGM

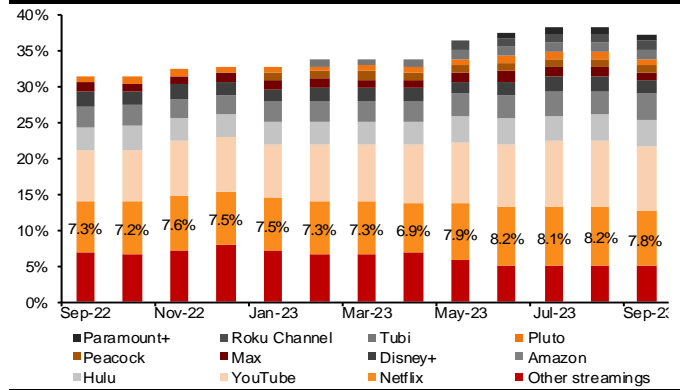
Resilient streaming viewing in Aug & Sep 2023. Streaming views remained robust in Aug & Sep 2023 although the metric experienced a slight decline of 1.6% vs. Jul, attributed to school returning. Notably, Netflix maintained its market share with top 2 titles, <Suits> and <The Lincoln Lawyer>. Meanwhile, broadcast and cable witnessed slight recovery in market share temporarily, thanks to diverse variety shows and the NFL preseason, respectively.

Figure 37: Share changes among TV platforms



Source: Nielsen, CMBIGM

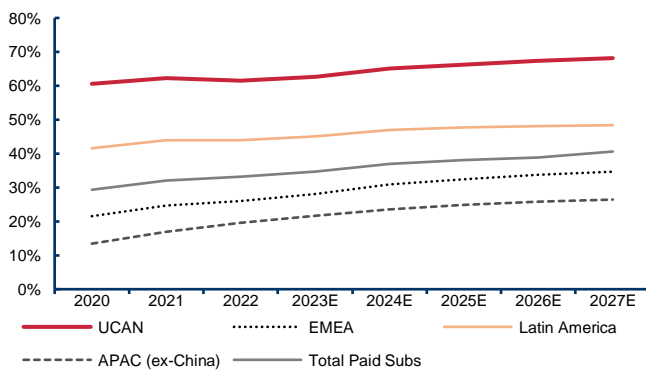
Figure 38: Share changes among streaming platforms



Source: Nielsen, CMBIGM

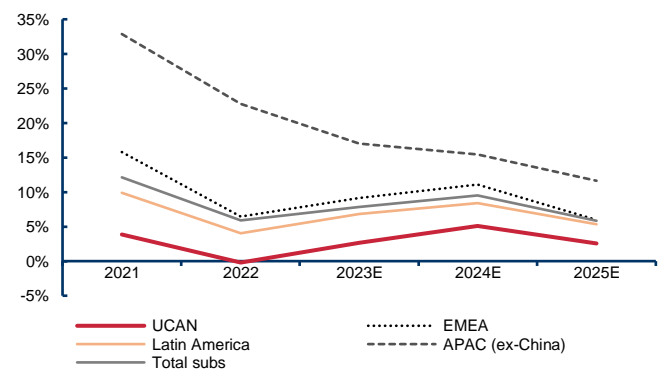
Solid subs growth potential from overseas expansion. We expect overseas market expansion to be key driver for Netflix's organic subs growth, as penetration there (24%-45% in FY23E) still lags behind the UCAN market (63%). We forecast subs to rise at a 7.6% CAGR in FY23-25E, with APAC (ex-China)/EMEA/LatAm potentially logging 13.5%/8.5%/6.8% CAGRs. By quarter, net adds in subs in 4Q23E could be similar to 3Q23E, at 9mn (up to 256mn), based on our forecasts.

Figure 39: Netflix's addressable broadband homes penetration



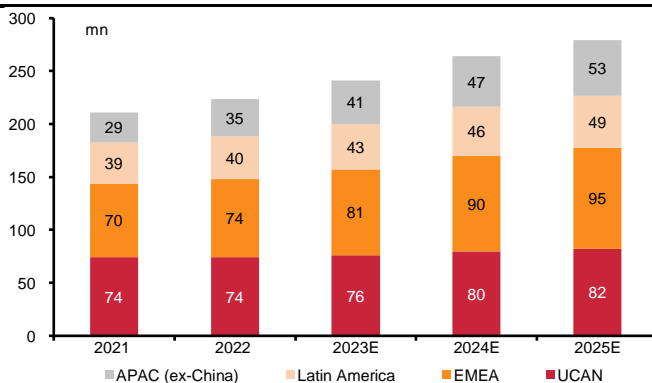
Source: Statista, Company data, CMBIGM estimates

Figure 40: Subs growth estimates by regions



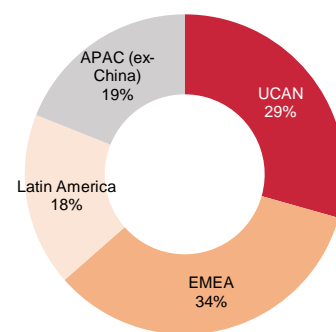
Source: Company data, CMBIGM estimates

Figure 41: Subs estimates



Source: Company data, CMBIGM estimates

Figure 42: Overseas market to account for 71% of total subs by FY25E



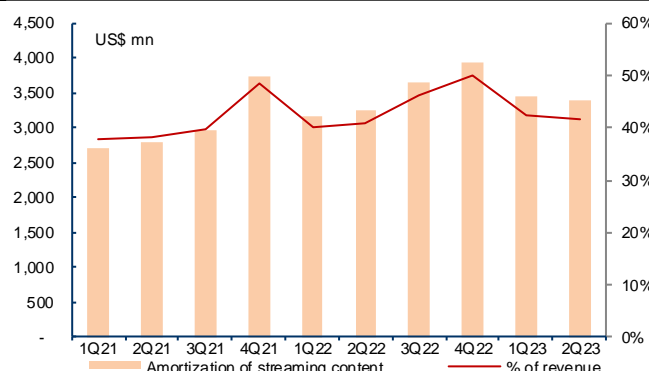
Source: CMBIGM estimates

Vibrant original content to strengthen leadership and price hikes

Enhancing original content edge with effective investment and rational industrial production system

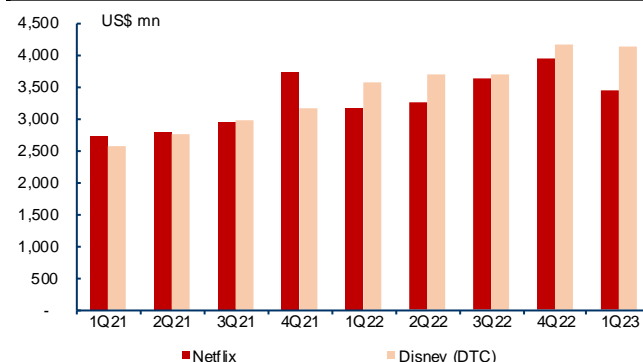
Stepped-up investment in original content. Netflix has continued to invest in originals to enhance its core advantage (except for the pandemic outbreak in 2020 and strikes in 2023). Netflix even invests heavily in individual shows, exemplified by the hit series <House of Cards S1>, which costs US\$5mn per episode, totaling US\$65mn. Furthermore, the critically acclaimed original series <The Crown> in 2016 was the most expensive production with costs up to US\$13mn per episode, totaling US\$130mn.

Figure 43: Netflix's amortization of content



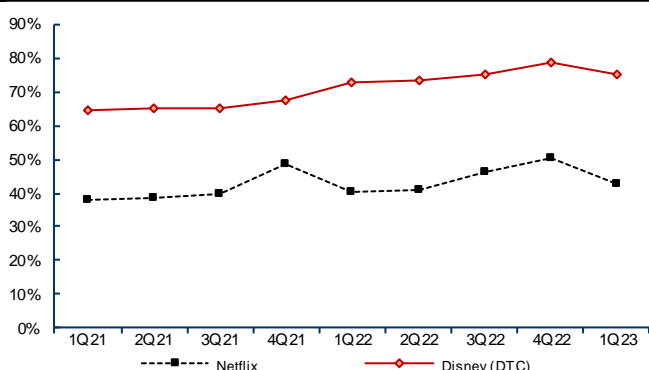
Source: Company data, CMBIGM

Figure 44: Content cost of Netflix and Disney (DTC)



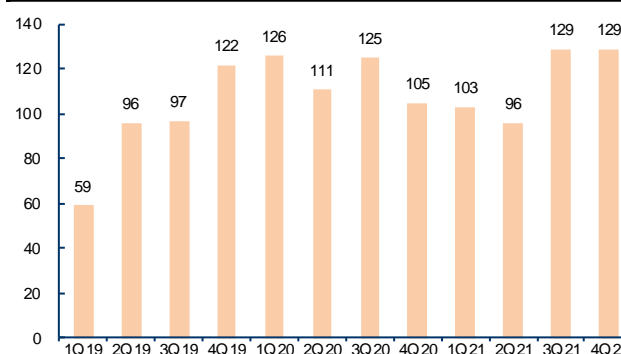
Source: Company data, CMBIGM

Figure 45: Content cost as % of revenue



Source: Company data, CMBIGM

Figure 46: No. of originals Netflix launched



Source: Statista, CMBIGM

Figure 47: Netflix's investment in original content (partially)

Title	Content cost (US\$ mn)	Episode	Cost per episode (US\$mn)	Launch date	Awards
Orange Is the New Black S1	52	13	4	2013	
House of Cards S1	65	13	5	2013	
Macro Polo	100	10	10	2014	Received 6 nominations in Emmy 1 win in Busan International Film Festival
Sense8	108	12	9	2015	
The Crown S1	130	10	13	2016	1 win of 4 nominations in Emmy
The Get Down	132	12	11	2016	
Stranger Things S1	48	8	6	2016	5 wins of 6 nominations in Emmy
The Witcher S1	80	8	10	2019	
Bridgerton	56	8	7	2020	

Source: Company data, CMBIGM

Rational industrial production system with top-tier producers and directors. Netflix has signed exclusive agreements with top producers and directors, enabling them to produce high-quality content that transcends cultural barriers. This approach solidifies Netflix's content diversity and globalization. Moreover, Netflix can leverage the rational Hollywood production system, to build an "assembly line" for efficient production, distribution and exhibition.

Figure 48: Producers and directors (partially) that have signed contract with Netflix

Producer(s)/Director(s)	Masterpiece(s)	Signing time	Duration
Amblin Partners	Jaws, Extraterrestrial, Saving Private Ryan	2020	Multiple years
David Benioff and D.B	Game of Thrones	2017	Long term
Matt Reeves	Batman, Dawn of the Planet of Apes	2019	Multiple years
Ryan Murphy	American Horror Story	2016	5 years
Shonda Rhimes	Grey's Anatomy, Anatomy of a Scandal	2017.8	Multiple years
Adam Sandler	Hotel Transylvania	2014/17	4 films respectively
Alex Pina	Money Heist	2018.7	Multiple years
Luc Paul Maurice Besson	The Professional	2018.1	Multiple years
Steven S. DeKnight	Pacific Rim: Uprising	2018.6	Multiple years

Source: Company data, CMBIGM estimate

Diversified content pipeline with global exposure

Expanding international content library to meet diversified needs. To cater to global audience preferences, Netflix invests in local studios and supports them with Hollywood-standard techniques. In 2Q23, the number of non-English content was on par with that of English content, with a total of 106 originals. In 3Q23, the number of non-English content originals amounted to 81. Top non-English dramas include <Squid Game: 鱿鱼游戏> (South Korean), <Money Heist: 纸钞屋> (Spain), <The Glory: 黑暗荣耀> (South Korean). Non-English content has gained traction. For example, views of non-English content have surged 90% in the past three years in UK. In 2022, >70% of the views came from members watching a title from other countries.

Moving beyond moderate pipeline in 4Q23 due to strikes. Despite a robust pipeline in 3Q23 with 105 originals, Netflix's 4Q23 pipeline is expected to be moderate with estimated 52 originals, vs. 82/105 in 4Q22/3Q23. We attribute the discrepancy to strikes. Some titles for 4Q23 will be rescheduled for release in 2024 to address content gaps caused by the strikes.

Figure 49: Netflix content pipeline in 2H23E

Type	Language	3Q23 pipeline	Total	Language	4Q23 pipeline (partial)	Total
Scripted TV	English	The Lincoln Lawyer S2 Vol.1	20	English	Lupin	13
	English	Sweet Magnolias S3		English	Everything Now	
	English	The Witcher S3 (Vol. 6-8)		Japanese	Last One Standing	
	English	Heartstopper S3		English	The Fall of the House of Usher	
	English	PainKiller		German	Bodies	
	Korean	Mask Girl		Turkish	Creature	
	English	Ragnarok		Korean	Doona!	
	Spanish	Who is Erin Carter?		English	Elite	
	English	Infamy		English	All the Light We Cannot See	
	English	Top Boy S5		Dutch	Ferry: The Series	
	German	Dear Child		English	Obliterated	
	English	Virgin River		French	Pax Massilia	
	Korean	A Time Called You		English	Money Heist: Berlin	
	Spanish	Burning Body				
	English	Spy Ops				
	French	Class Act				
	English	Wrestlers				

	English	The Club				
	Portuguese	Sintonia S4				
	Korean	Song of the Bandits				
Comedy / Stand-up	English	Survival of the Thickest	14	German	Neon	2
	English	Mark Normand: Soup to Nuts		English	Tore	
	English	Heartstopper				
	English	At Home with Furys				
	Korean	Zombieverse				
	English	The Upshaws				
	English	Lighthouse				
	English	Tahir's House				
	Brazilian	Reporting for Duty				
	Argentinian	Thursday's Widows				
	English	Surviving Summer				
	English	Sex Education				
	English	One Piece S1				
	India	Guns and Gulaabs S1				
Documentaries /Docuseries	English	Unknown: The Lost Pyramid	28	English	Beckham	6
	German	Wham !		German	Race to the Summit	
	English	Unkown: Killer Robots		English	Camp Courage	
	English	Quarterbacks S1		English	The Devil on Trial	
	English	Unknown: Cave of Bones		French	Vjeran Tomic: The Spider-Man of Paris	
	English	The Deepest Breath		English	Life on Our Planet	
	English	Unknown: Cosmic Time Machine				
	English	Untold: Jake Paul the Problem Child				
	English	Mark CavendishL Never Enough				
	English	Poisoned: The Dirty Truth About Your Food				
	English	Untold: Johnny Football				
	German	Untold: Hall of Shame				
	Portuguese	A Life Too Short: The Isabella Nardoni Case				
	English	The Hunt for Veerappan				
	English	Predators				
	English	Scouts Honor: The Secret Files of the Boy Scouts of America				
	Spanish	Rose Peral's Tapes				
	English	Spy Ops				
	English	Wrestlers				
	English	Inside the World's Toughest Prisons				
	English	The Saint of Second Chances				
	German	Who Killed Jill Dando				
	German	Encounters				
	Spanish	The Darkness within La Luz Del Mundo				
	English	Ladies First: A story of Women in Hip-Hop				
	English	Untold: Swamp Kings				
	English	Live to 100: Sectrets of the Blue Zones				
	English	Heart of Invictus				
Films	German	The Out-laws	22	Spanish	A deadly Invitation	21
	English	65		Mandarin	Ballerina	
	English	They Cloned Tyrone		English	Fair Play	
	English	Happiness for Beginners		Thai	Once Upon a Star	

	Japanese	Zom 100: Bucket List of the Dead		English	The Conference	
	Arabic	Head to Head		German	Crypto Boy	
	Chinese	Marry My Dead Body		German	Old Dads	
	English	Heart of Stone		Spanish	Sister Death	
	Spanish	Killer Book Club		English	Pain Hustlers	
	Spanish	The Great Seduction		French	WingWomen	
	English	Choose Love		English	Nyad	
	English	Happy Ending		English	The Killer	
	English	A Day and A Half		English	Best. Christmas. Ever!	
	Spanish	El Conde		English	All-time High	
	English	Love at First Sight and Suits		English	Rustin	
	German	Street Flow 2		English	Leo	
	English	The Wonderful Story of Henry Sugar		English	Family Switch	
	German	Znachor		English	May December	
	German	Love is in the Air		English	Leave the World Behind	
	Turkey	Do Not Disturb		English	Maestro	
	Spanish	Nowhere		English	Rebel Moon	
	German	Reptile				
Animated series/kids	English	StoryBots: Answer Time	12	Japanese	Good Night World	7
	English	Sonic Prime S2		Japanese	Pluto	
	English	Dew Drop Diaries		Japanese	Onimusha	
	English	Miraculous: Ladybug & Cat Noir		English	Blue Eye Samurai	
	English	Bastard		English	Scott Pilgrim: Takes Off	
	English	The Monkey King		English	Chicken Run: Dawn of the Nugget	
	English	Gabby's Dollhouse S8		English	Pokemon Concierge	
	English	Spy Kids Armageddon				
	German	Power Rangers: Cosmic Fury				
	English	Disenchantment				
	Chinese	My Dad the Bounty Hunter S2				
	Japanese	The Seven Deadly Sins: Grudge of Edinburgh Part II				
Reality shows/Others	English	Hack My Home	9	German	Surviving Paradise	3
	English	Five Star Chef S1		English	Squid Game: The Challenge	
	English	Too Hot to Handle		Japanese	Love Like a K-Drama	
	Korean	Risque Business				
	Japanese	Is She the Wolf?				
	English	Selling OC				
	Portuguese	Love is Blind				
	Korean	The Devil's Plan				
	English	The Great British Baking Show				

Source: Company data, CMBIGM

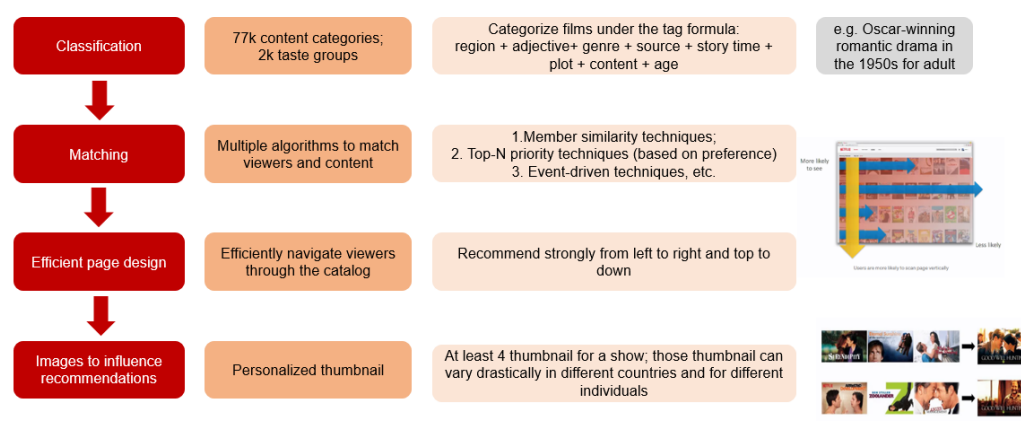
Leveraging AI to enhance recommendation, production and targeting

Extensive tag database to categorize viewers precisely. Netflix employs a dedicated team to tag every single title in the catalog with highly specific categories to make the recommendation system more personalized. They label films with multiple elements, including sex, violence, romance, and narrative storytelling, etc. As a result, Netflix has developed an extensive tag database with approximately 77,000 categories and 2,000 communities, enabling precise viewer profiling and more tailored viewing experience.

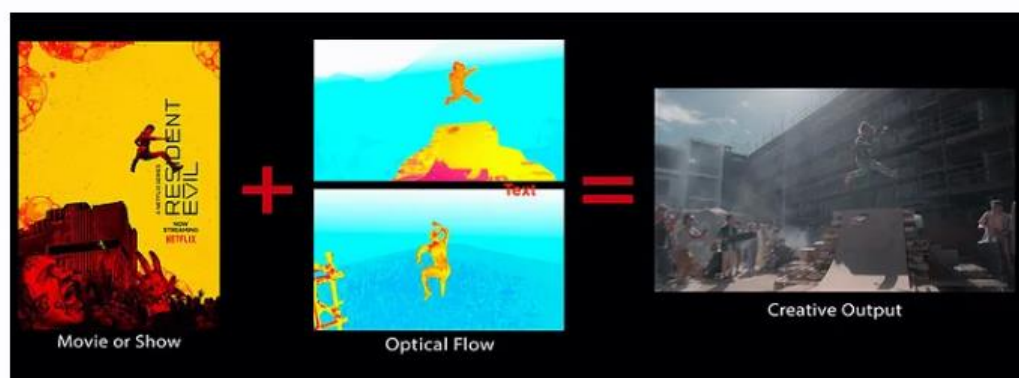
Advanced AI to enhance full service offerings. Netflix has heavily invested in AI to optimize the entire service offerings. 1) Recommendation: Netflix AI recognizes new content similar to the viewers' historical record/preference and recommend it to the targeted user. 2) Production optimization: AI optimizes the script by understanding successful characteristics and features in the past, to predict audience reception, and identifies potential areas for improvement. 3) High-quality streaming: AI optimizes video and audio encoding, adaptive bitrate selection, and its in-house CDN (accounting for 1/3 of North America internet traffic). AI algorithms predict peak usage hours and strategically place video assets near subscribers in advance, ensuring smooth streaming. 4) Effective user acquisition: AI empowers advertising strategies (advertising spend, channel mix, and advertising creative) to better target and acquire new subscribers effectively. For instance, AI-generated thumbnails are designed to prompt user clicks by annotating and ranking frames from existing movies or TV programs.

Continuous investment in media-focused ML innovations. Netflix remains committed to investing in multimodal content understanding, a media-focused ML (machine learning), that utilizes multiple modalities (e.g. video, audio, closed captions, scripts) to fully understand media content. Netflix has successfully employed different combinations of modalities, such as video and text, video and audio, script alone, and the integration of video, audio, and scripts. In the future, multimodal content understanding will be used to address complex issues including content production, VFX (visual effects), promotion asset creation, and personalization.

Figure 50: Netflix's recommendation algorithm



Source: Company data, CMBIGM

Figure 51: Media-focused ML brings science and art together

Source: Netflix Technology Blog

Strong pricing power with differentiated originals

Price hikes and premiums backed by differentiated originals. Netflix charges a slightly higher monthly fee of US\$15.49/month (standard plan in U.S.), above that of Disney+, Amazon Prime, and Apple TV. In addition, Netflix has raised prices multiple times in the past 10 years along with user expansion, backed by high user retention rate and differentiated originals. Its blended ARPU saw a 4.5% CAGR in FY17-22, rising to US\$11.7 in FY22.

Figure 52: Plans comparison on five major streaming platforms

		Netflix	Disney+	Amazon Prime	HBO Max	Apple TV
Plans (US\$/mo)	Ad-supported	6.99	7.99	8.99	9.99	-
	Basic	-	-	-	-	6.99
	Standard	15.49	-	14.99	15.99	-
	Premium	22.99	13.99	-	19.99	-
Supported device(s)		2~4	4	6	2~4	6
Max definition		4K	4K	4K	4K	4K

Source: Company data

Figure 53: Netflix's monthly subs plan

	Standard with ads	Standard plan	Premium plan
US\$/month	6.99	15.49	22.99
No. of devices for watching at a time	2	2	4
Rights	All but a few movies and TV shows available, unlimited mobile games	Unlimited ad-free movies, TV shows, and mobile games	
Ads	Ad-supported	Ad-free	
Extra member(s)*	-	1 extra member	2 extra members
No. of devices for download at a time	-	2	6
Definition	Full HD	Full HD	Ultra HD

Source: Company data

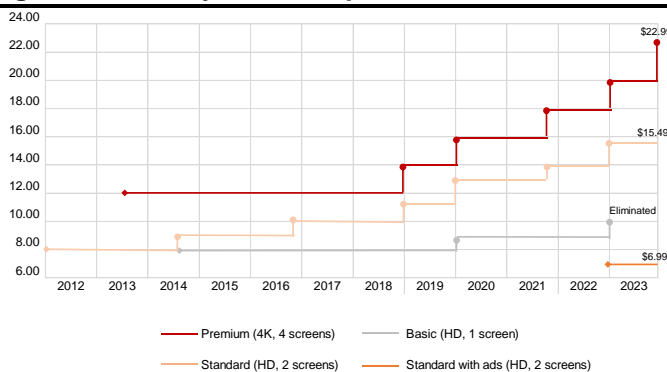
Rising ARM with price hikes and AVOD expansion, despite short-term dilution

High visibility for ARM increase in the long run, with content pick-up and industrial wave of price increases. In 2023, the streaming industry has seen a price hike wave (+7%-27% across streamers) for creeping inflation and rising costs (especially after Hollywood strikes). Netflix slightly raised its premium plan price to US\$22.99 from US\$19.99 in the US (+15%), to 17.99 pounds in Britain (+12.5%) and 19.99 euros in France (+11%), in Oct 2023, after strikes. We expect this trend to continue, forecasting blended ARPU to grow at a 3.4% CAGR in FY23-25E.

Better ARM with AVOD expansion and removal of basic plan, while expecting dynamic impacts from paid-sharing initiatives. As management stated higher ARPU (ad-supported tier ARPU + ads ARPU) for the US ad-supported tier than the Standard plan in 2Q23, we expect rising adoption of AVODs would boost its long-term ARPU. As Netflix removed basic plan in the US, the UK, and Canada in Jun & Jul 2023, more subs would shift to higher-ARM plans. For paid-sharing initiatives, we think it might depend on the conversion rate. As the paid-sharing plan only contributes ~8% of total revenue in FY25E, we expect limited impact on ARM from it.

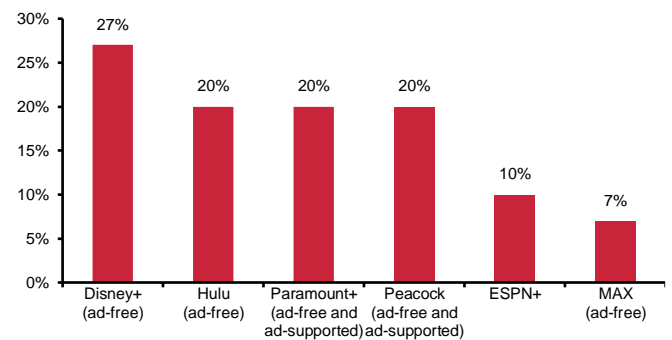
Short-term ARM dilution by overseas expansion, price decreases in emerging markets, and spindown activity. With continuous overseas expansion, Netflix blended ARPU might be slightly diluted by higher revenue share of international subs with lower ARM (US\$7.6-10.8 vs. US\$16.2 in UCAN in FY23E). International subs mix will climb up to 70.6% in FY25E, from 68.4% in FY22, in our estimates. Also, Netflix lowered prices by 20%-60% in 100+ regions (mainly in developing countries) in Feb 2023. Although management stated these markets contributed less than 5% of its total revenue, there could still be mild ARM dilution until Feb 2024. As such, we expect FY23E blended ARPU to decline 1% YoY, but gradually pick up in FY24-25E, backed by price hikes and higher ARPU of AVODs.

Figure 54: History of Netflix price increases



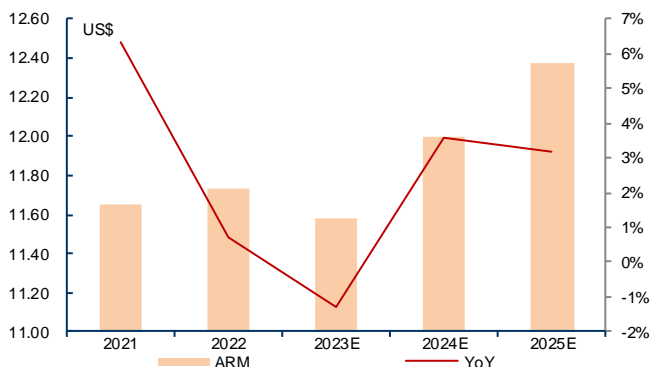
Source: Company data, CMBIGM

Figure 55: Price increases in 2023 by platforms



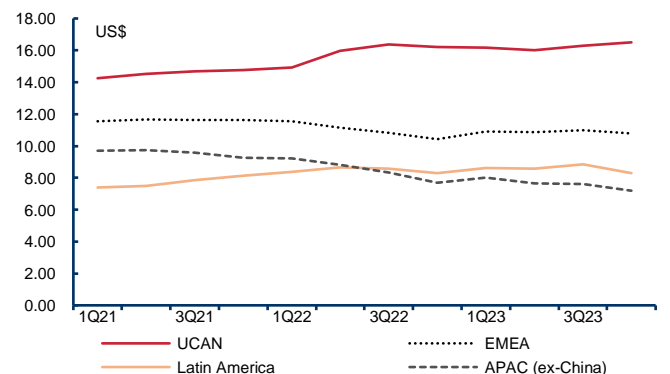
Source: Company data, CMBIGM

Figure 56: ARM estimates



Source: Company data, CMBIGM estimates

Figure 57: Quarterly ARM trend by region

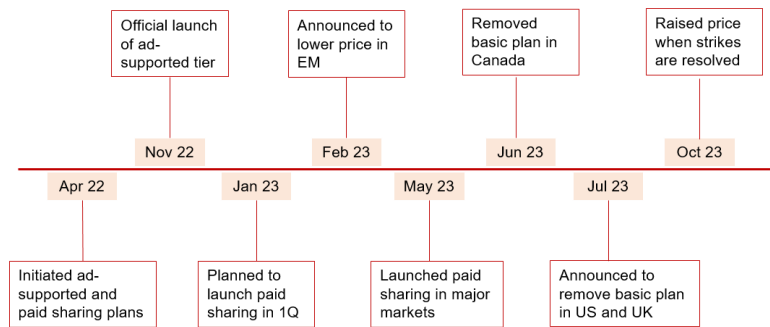


Source: Company data, CMBIGM estimates

Riding on AVOD expansion

Ad-supported tier plan to be rolled out. As consumer budgets tighten, lower-priced or free ad-supported streaming is gaining traction. In Nov 2022, Netflix launched its ad-supported plan which costs US\$6.99/month and is available in 12 countries (including Australia, Brazil, Canada, France, Germany, Italy, Japan, Korea, Mexico, Spain, the UK, and the US). In May 2023, Netflix said it had signed up >5mn members for ad-supported plans, with 25% of new subs engaged. We will address the key market debates surrounding AVODs' TAM, ARM dynamics and ads strategy for Netflix.

Figure 58: Ad-supported tier initiatives

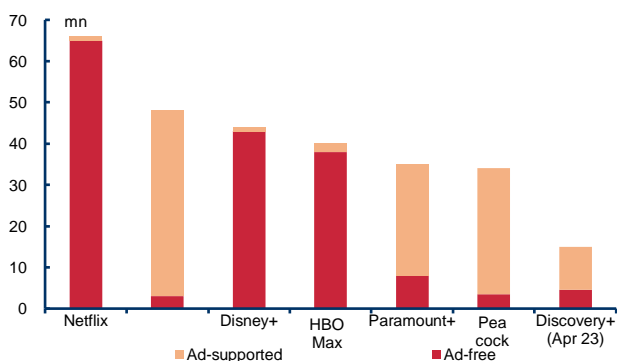


Source: Company data, CMBIGM

TAM of ad-supported tier initiatives?

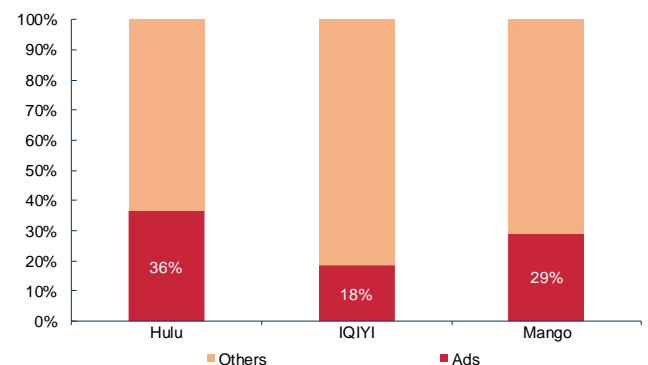
We are bullish on Netflix's AVOD (ad-based video-on-demand) expansion and expect positive impact on both net adds and ARPU. With a lower-priced package, AVODs can help Netflix spread global reach and tap into price-sensitive users. Before that, some players have already leveraged subs & ads modes, such as Hulu, Paramount+, Peacock, and IQIYI. Hulu, Paramount+, and Peacock are key AVOD players in the US (~45mn/25mn/30mn ad-supported subs by Jun 2023, based on Ampere data), with ad-supported subs making up >70% of the mix. Major Chinese platforms are also AVOD players (e.g. Tencent video, IQIYI, Mango), among which IQIYI/Mango ads revenue accounted for 18.4%/29.1% in 2022. Given the proven record of successful hybrid tiers from peers, we expect Netflix could gain ads share with its high-quality content and strong user engagement.

Figure 59: Ad-free/ad-supported subs by platform



Source: Ampere, CMBIGM

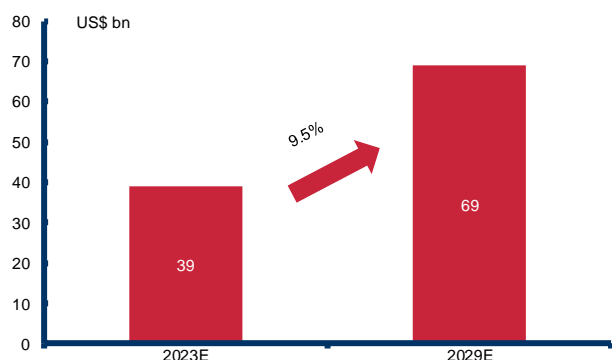
Figure 60: Ads revenue share by platform (in 2022)



Source: Walt Disney, company data, CMBIGM

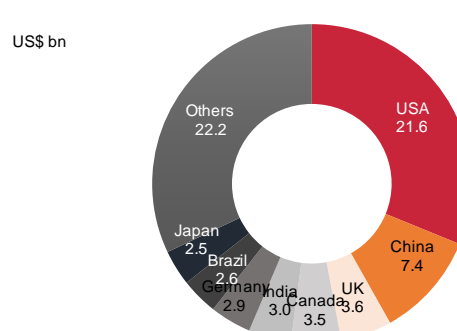
According to Digital TV Research, the global AVOD market would grow up to US\$69bn by 2029, from US\$39bn in 2023 (vs. SVOD at US\$96bn), suggesting a 9.5% CAGR. The US will account for 31% by 2029, down from 40% in 2023. Ad-supported subs in the US have already surpassed 100mn (based on Ampere data), and we estimate TAM of ad-supported subs at 380mn worldwide.

Figure 61: Global AVOD market size



Source: Digital TV Research, CMBIGM

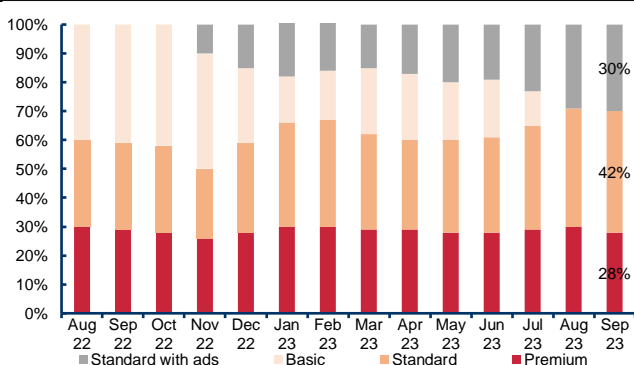
Figure 62: AVOD revenue by country in 2029



Source: Digital TV Research, CMBIGM

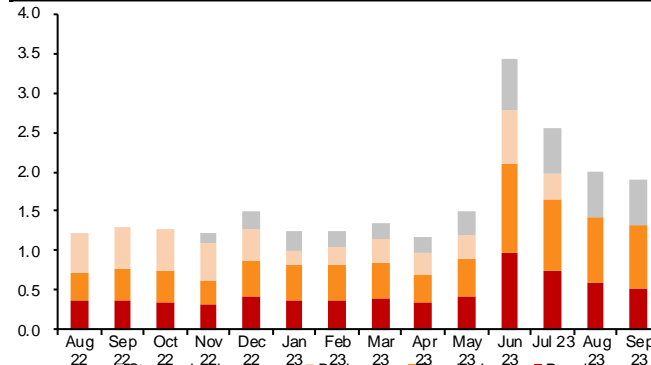
Netflix ceased the “basic plan” for new customers in the US, the UK and Canada in Jun & Jul 2023, and the US “Standard with Ads” Plan accounted for 30% of new sign-ups in Sep 2023, from 10% in Nov 2022, based on Antenna. Combined with gross adds data (2.1mn in Sep; 6.7mn in 3Q23), we estimate Netflix’s net adds of “Standard with Ads” in Sep/3Q23 reached 0.63mn/1.8mn in the US. In its 3Q23 results, management stated that ads plan sign-ups rose 70% QoQ, accounting for 30% of sign-ups of its ads countries. Looking ahead, we expect Netflix AVOD subs to increase to 32.4mn in FY25E (11% of the subs mix), from 14mn in FY23E, with a 51% CAGR.

Figure 63: Netflix US sign-ups by plan (as % of total)



Source: Antenna, CMBIGM

Figure 64: Netflix US sign-ups by plan



Source: Antenna, CMBIGM estimates

Ads expansion strategy as new entrant?

Netflix would expand its ads business via multiple strategies, via: 1) cooperating with more strategic partners: Netflix restructured its exclusive, two-year ad-tech agreement with Microsoft, to explore more ad-tech partners (despite with reduced guarantee from Microsoft); 2) enriching ads formats, including title sponsorship (a brand to sponsor a show or season), “Binge” ads, and live sports events; and 3) enhancing ads tech to improve ads efficiency (e.g. targeting, matching).

ARM dynamics and revenue contribution with ad-supported tier plan?

Netflix AVOD will limit ad loads to four minutes per hour. Based on Nielsen data, daily time spent per subs for Netflix reached 1.4h on average in the US in 2022 & 2023. As Netflix seeks to attract more advertising for shows beyond the top 10, we estimate Netflix ads CPM (cost per mille) to range at US\$40 to US\$45 (below US ads pricing of US\$65 on average), based on Digital News Daily. As such, we forecast its ads ARPU at US\$8.8/month.

In 2Q23, the US ad-supported tier generated higher ARPU (ad-supported tier ARPU + ads ARPU) than the \$15.49/month Standard plan, per management. That implies ad revenue per subscriber surpassed US\$8.50/month for the “Standard with Ads” plan, in line with our estimates.

Assuming relatively stable ARPU of US\$15, we forecast ad-supported subs revenue to climb up to US\$5.2bn in FY25E, accounting for 13% of total rev (in line with mgmt's target of >10% over time), coupled with 8mn~12mn net adds per year.

Figure 65: Rev estimates for ad-supported tier plan

US\$ mn	1Q23E	2Q23E	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2023E	2024E	2025E	2026E
Paid Ending Subs (mn)	1.2	6.0	10.2	14.2	16.0	17.9	20.4	23.4	14.2	23.4	32.4	40.4
QoQ Growth		400%	70%	39%	13%	12%	14%	15%				
YoY Growth					1233%	198%	100%	65%		65%	38%	25%
% mix	1%	3%	4%	6%	6%	7%	8%	9%	6%	9%	11%	13%
Average Paid Subs (mn)		3.6	8.1	12.2	15.1	17.0	19.2	21.9	7.9	19.4	27.9	36.4
Net Adds (mn)		4.8	4.2	4.0	1.8	1.9	2.5	3.0	13.0	9.2	9.0	8.0
QoQ Growth			-13%	-5%	-55%	6%	32%	20%				
YoY Growth						-60%	-40%	-25%		-29%	-2%	-11%
% mix		81%	48%	43%	50%	70%	55%	57%	50%	57%	62%	60%
ARPU (US\$)	15	15	15	15	15.3	15.3	15.3	15.3	15	15.3	15.6	15.9
YoY Growth					2%	2%	2%	2%		2%	2%	2%
Ad-supported tier rev		162	365	549	693	778	879	1,005	1,076	3,355	5,225	6,953
QoQ Growth			125%	51%	26%	12%	13%	14%				
YoY Growth						380%	141%	83%		212%	56%	33%
% mix		2%	4%	6%	7%	8%	9%	10%	3%	9%	13%	15%

Source: Company data, CMBIGM estimates

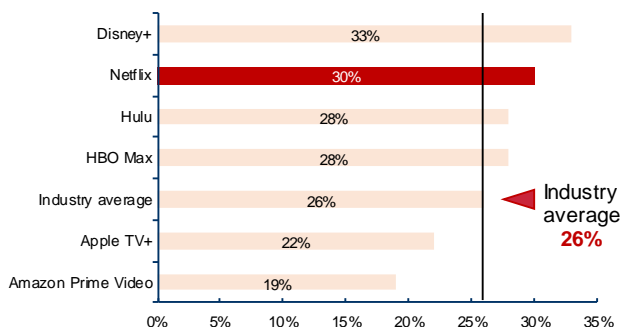
Paid sharing initiatives to unlock membership upside

Tapping into 100mn password-sharing users. On 23 May 2023, Netflix began a password-sharing crackdown in 103 countries and territories (one account is limited to three profiles only), in order to convert users who share accounts with others into paying subs. Members can transfer a profile of someone outside their household so the person can begin new membership they pay for on their own. Or they can pay an extra fee of US\$7.99/month per person, outside of their household using their account.

The password-sharing crackdown is likely to benefit topline and subs growth, as Netflix said they had more than 100mn password-sharing users. In the US, 26% of subs are shared on average (Disney+/Netflix: 33%/30%), based on NPS Prism US Telecom. After Netflix's password-sharing crackdown in May, rising account owners have stopped sharing their accounts, and 42% of those subs who share passwords plan to pay US\$7.99 fee, according to Occam Data in Aug 2023. As the majority of account borrowers are price sensitive (younger users with lower income), we expect the password-sharing crackdown to help to transfer more users into new subs of the low-priced package (US\$6.99 ad-supported tier or US\$7.99 sharing fee).

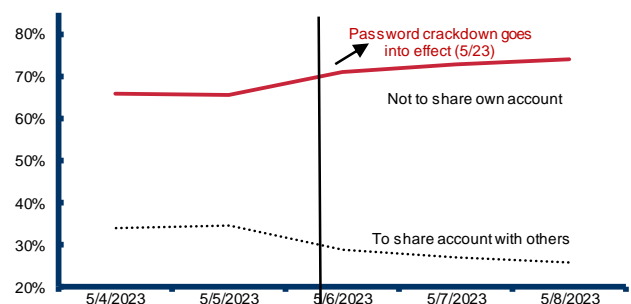
For conservative estimates, we forecast ~30mn add-on subs to pay US\$7.99/month by the end of 2025E (<30% of total password-sharing users, vs 42% willingness). Assuming no price hike for the paid sharing plan, we expect incremental revenue of US\$2.7bn in FY25E from paid sharing crackdown, contributing 6% of total revenue.

Figure 66: Percentage of subs are shared



Source: NPS Prism US Telecom (in 2Q22), CMBIGM

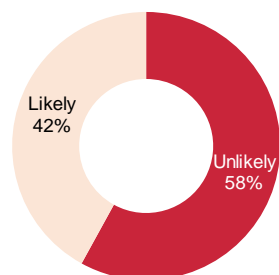
Figure 67: Password crackdown goes into effect



Source: Occam Data, CMBIGM

Figure 68: Paid sharing willingness

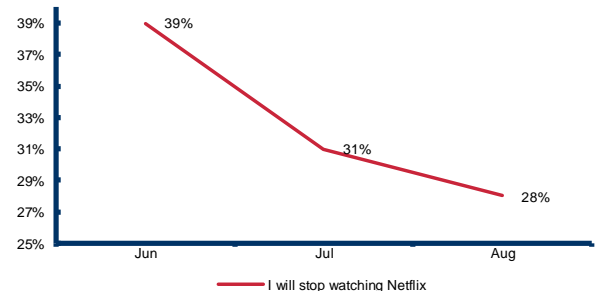
Will you pay the additional US\$7.99 to continue sharing your account?
(asking of those sharing a Netflix account)



Source: Occam Data, CMBIGM

Figure 69: Quit willingness

What will you do now that Netflix is charging an additional US\$7.99 to share accounts?
(asked of those using someone else's Netflix account)



Source: Occam Data, CMBIGM

Figure 70: Revenue estimates for paid-sharing initiatives

US\$ mn	2Q23E	3Q23E	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E	2023E	2024E	2025E	2026E
Add-on Ending Subs (mn)	12	16	20.00	21	22.3	23.8	25.6	20	25.6	29.9	32.3
QoQ Growth		33%	25%	5%	6%	7%	8%				
YoY Growth					86%	49%	28%		28%	17%	8%
Average Paid Subs (mn)	12.0	14	18	20.5	21.7	23.1	24.7	16.0	23.2	27.75	31.1
Net Adds (mn)	12.0	4.0	4.0	1.0	1.3	1.5	1.8	20	5.6	4.3	2.4
QoQ Growth		-67%	0%	-75%	30%	15%	20%				
YoY Growth					-89%	-63%	-55%		-72%	-23%	-44%
ARPU (US\$)	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99	7.99
YoY Growth					0%	0%	0%		0%	0%	0%
Paid-sharing rev	288	336	431	491	519	553	592	1,055	2,155	2,661	2,982
QoQ Growth		17%	29%	14%	6%	6%	7%				
YoY Growth					80%	65%	37%		104%	23%	12%
% mix	4%	4%	5%	5%	6%	6%	6%	3%	6%	6%	7%

Source: Company data, CMBIGM estimates

Financial Analysis

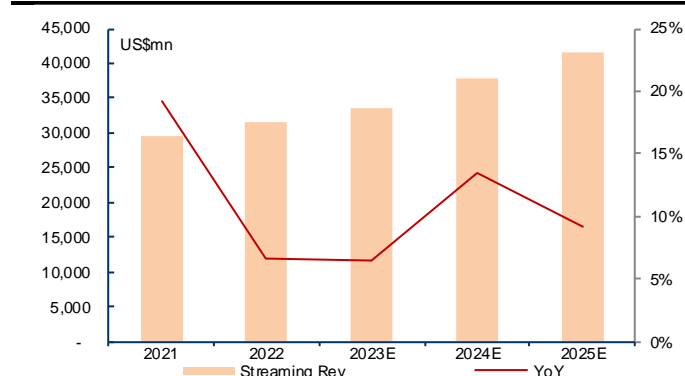
Revenue Breakdown

We forecast Netflix revenue to grow 6%/13%/9% YoY in FY23/24/25E, for which streaming subs still serve as the key contributor. We believe the number of subs backed by overseas expansion, AVODs and paid-sharing initiatives will be the main revenue driver in the long run. We anticipate a 7.6% CAGR of subs and 3.4% for ARM during FY23-25E.

Key topline drivers come from:

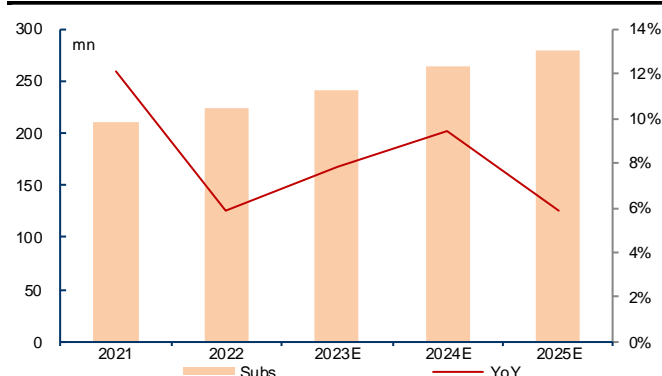
- **Subs:** We forecast a 7.6% CAGR in FY23-25E, mainly driven by 1) overseas expansion (esp. in APAC (ex-China)/EMEA/LatAm with 13.5%/8.5%/6.8% CAGR in FY23-25E); 2) rising adoption of the low-priced ad-supported tier among price-sensitive users; and 3) the password-sharing crackdown to convert password-sharing users into paid subs (TAM >100mn).
- **ARM:** We expect a 3.4% CAGR in FY23-25E, mainly on 1) continuous price hikes on unique content, the wave of industry-wide price increases and higher content cost due to the WGA strike; 2) better ARPU attributable to scaling ad revenue under the ad-supported tier, although partially offset by a larger mix shift towards emerging markets (price reductions seen in CAS, SSA, MENA and CEE).

Figure 71: Revenue estimates



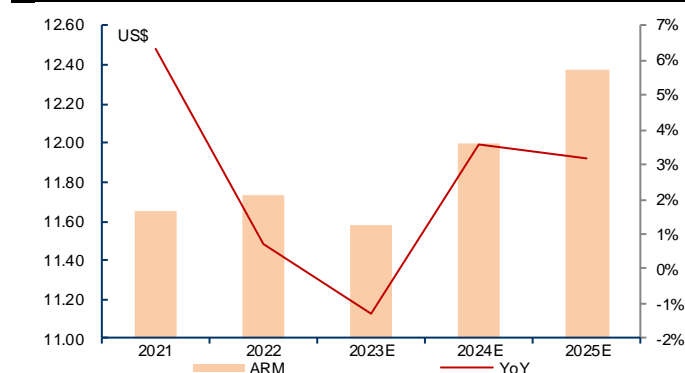
Source: Company data, CMBIGM estimates

Figure 72: Subs estimates



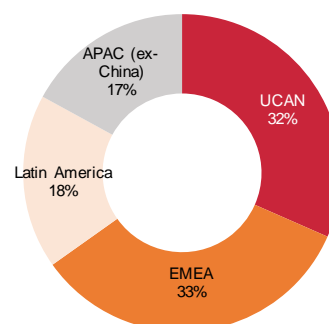
Source: Company data, CMBIGM estimates

Figure 73: ARM estimates



Source: Company data, CMBIGM estimates

Figure 74: Revenue mix by region in FY23E



Source: Company data, CMBIGM estimates

Figure 75: Revenue driver estimates

US\$ mn, Dec-YE	2021	2022	2023E	2024E	2025E	23-25E CAGR
Streaming Rev	29,515	31,470	33,497	37,981	41,488	11.3%
YoY	19%	7%	6%	13%	9%	
 Subs (mn)	 211	 224	 241	 264	 279	 7.6%
YoY	12%	6%	8%	9%	6%	
ARM (US\$)	11.65	11.73	11.58	11.99	12.38	3.4%
YoY	6%	1%	-1%	4%	3%	
Subs (mn), by region						
UCAN	74.3	74.2	76.1	80.0	82.1	3.8%
EMEA	69.7	74.2	81.0	90.0	95.3	8.5%
Latin America	38.6	40.2	42.9	46.5	49.0	6.8%
APAC (ex-China)	28.6	35.1	41.1	47.4	52.9	13.5%
 YoY						
UCAN	3.9%	-0.2%	2.7%	5.1%	2.6%	
EMEA	15.8%	6.5%	9.1%	11.1%	6.0%	
Latin America	9.9%	4.0%	6.8%	8.4%	5.3%	
APAC (ex-China)	32.9%	22.7%	17.1%	15.5%	11.6%	
 As % of total subs						
UCAN	35.2%	33.2%	31.6%	30.3%	29.4%	
EMEA	33.0%	33.2%	33.6%	34.1%	34.1%	
Latin America	18.3%	18.0%	17.8%	17.6%	17.5%	
APAC (ex-China)	13.5%	15.7%	17.0%	18.0%	19.0%	
ARM (US\$), by region						
UCAN	14.55	15.83	16.22	17.21	18.07	5.6%
EMEA	11.60	10.94	10.85	11.31	11.65	3.7%
Latin America	7.72	8.44	8.55	8.83	9.10	3.2%
APAC (ex-China)	9.52	8.48	7.59	7.59	7.89	1.9%
 YoY						
UCAN	9.0%	8.8%	2.4%	6.1%	5.0%	
EMEA	7.8%	-5.6%	-0.9%	4.3%	3.0%	
Latin America	3.1%	9.4%	1.2%	3.3%	3.0%	
APAC (ex-China)	3.6%	-11.0%	-10.4%	-0.1%	4.0%	

Source: Company data, CMBIGM estimates

Income Statement

Cost discipline and price hikes to support margin expansion

Netflix net margin climbed up from 5% in 2017 to 17% in 2021, and slightly declined to 14% in 2022 for heavy content investment amid competition. Going forward, we expect its OPM to improve to 19.7%/22.4%/24.6% in FY23/24/25E (without significant changes in FX), thanks to price hikes (better ARPU) and a disciplined approach to balancing margin improvement and investments (incl. content categories, ads capabilities, live offerings and games).

As such, we estimate its adjusted NPM to see 2% improvement during FY23-25E each year, attributable to 1) manageable content investment amid a disciplined approach and normalizing competition; and 2) incremental revenue driven by the password-sharing crackdown and AVODs. We forecast its bottom line to grow at a 24% CAGR in FY23-25E.

Figure 76: Income statement

US\$ mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E	23-25E CAGR
Revenue	29,698	31,616	33,580	37,981	41,488	11.2%
Cost of sales	(17,333)	(19,168)	(20,010)	(21,858)	(23,335)	
Gross profit	12,365	12,447	13,570	16,123	18,153	15.7%
S&M	(2,545)	(2,531)	(2,496)	(2,765)	(2,874)	
Admin.Exp.	(1,352)	(1,573)	(1,758)	(1,882)	(1,973)	
Technology and Development	(2,274)	(2,711)	(2,698)	(2,957)	(3,116)	
Others	-	(15)	-	(0)	(0)	
Operating profit	6,195	5,633	6,617	8,520	10,190	24.1%
Pre-tax profit	5,840	5,264	6,099	8,029	9,825	
Tax	724	772	702	1,204	1,474	
Profit for the period	5,116	4,492	5,397	6,825	8,351	24.4%
Net profit attributable to ordinary shareholders	5,116	4,492	5,397	6,825	8,351	
Margin Analysis						
Gross margin	41.6%	39.4%	40.4%	42.5%	43.8%	
Operating margin	20.9%	17.8%	19.7%	22.4%	24.6%	
Net margin	17.2%	14.2%	16.1%	18.0%	20.1%	
Growth Analysis						
Revenue	18.8%	6.5%	6.2%	13.1%	9.2%	
Gross profit	27.2%	0.7%	9.0%	18.8%	12.6%	
Operating profit	NA	-9.1%	17.5%	28.7%	19.6%	
Net profit	85.3%	-12.2%	20.2%	26.4%	22.4%	

Source: Company data, CMBIGM estimates

Figure 77: CMBIGM estimates vs consensus

US\$ mn, Dec-YE	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	33,580	37,981	41,488	33,595	38,265	42,386	0.0%	-0.7%	-2.1%
Gross Profit	13,570	16,123	18,153	13,763	16,345	18,728	-1.4%	-1.4%	-3.1%
Operating Profit	6,617	8,520	10,190	6,665	8,629	10,400	-0.7%	-1.3%	-2.0%
Adj. net profit	5,397	6,825	8,351	5,490	7,172	8,739	-1.7%	-4.8%	-4.4%
EPS (US\$)	12.00	15.45	19.15	12.22	15.96	19.41	-1.8%	-3.2%	-1.4%
Gross Margin	40.4%	42.5%	43.8%	41.0%	42.7%	44.2%	-0.6ppts	-0.3ppts	-0.4ppts
Operating Margin	19.7%	22.4%	24.6%	19.8%	22.5%	24.5%	-0.1ppts	-0.1ppts	+0.0ppts
Net Margin	16.1%	18.0%	20.1%	16.3%	18.7%	20.6%	-0.3ppts	-0.8ppts	-0.5ppts

Source: Company data, Bloomberg, CMBIGM estimates

Figure 78: Quarterly financial forecast

US\$ mn	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	QoQ	YoY	Consensus	Diff %
Revenue	7,483	7,709	7,868	7,970	7,926	7,852	8,162	8,187	8,542	8,690	1.7%	10.7%	8,696	0%
Gross profit	3,277	2,470	3,583	3,279	3,137	2,448	3,358	3,514	3,611	3,087	-14.5%	26.1%	3,277	-6%
Operating profit	1,755	632	1,972	1,578	1,533	550	1,714	1,827	1,916	1,160	-39.5%	110.9%	1,203	-4%
Net profit	1,449	607	1,597	1,441	1,398	55	1,305	1,488	1,677	927	-44.7%	1576.9%	1,009	-8%
EPS (US\$)	3.19	1.33	3.53	3.20	3.10	0.12	2.88	3.29	3.73	2.08	-44.1%	1601.1%	2.20	-5%
Margin (%)														
Gross margin	43.8%	32.0%	45.5%	41.1%	39.6%	31.2%	41.1%	42.9%	42.3%	35.5%			37.7%	
Operating margin	23.5%	8.2%	25.1%	19.8%	19.3%	7.0%	21.0%	22.3%	22.4%	13.3%			13.8%	
Adj. net margin	19.4%	7.9%	20.3%	18.1%	17.6%	0.7%	16.0%	18.2%	19.6%	10.7%			11.6%	
Growth (%)														
Revenue (YoY)	16.3%	16.0%	9.8%	8.6%	5.9%	1.9%	3.7%	2.7%	7.8%	10.7%			10.5%	
Revenue (QoQ)	1.9%	3.0%	2.1%	1.3%	-0.6%	-0.9%	3.9%	0.3%	4.3%	1.7%			10.7%	
Operating profit	33.5%	-33.8%	0.6%	-14.6%	-12.7%	-13.0%	-13.1%	15.8%	25.0%	110.9%			NA	
Net profit	83.4%	12.0%	-6.4%	6.5%	-3.5%	-90.9%	-18.3%	3.2%	20.0%	1576.9%			NA	

Source: Company data, Bloomberg, CMBIGM estimates

Figure 79: Quarterly revenue breakdown

	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	QoQ	YoY
Revenue (US\$ mn)	7,483	7,709	7,868	7,970	7,926	7,852	8,162	8,187	8,542	8,690	1.7%	10.7%
Total Streaming Revenues	7,439	7,667	7,828	7,933	7,890	7,818	8,130	8,158	8,519	8,690	2.0%	11.1%
UCAN	3,258	3,309	3,350	3,538	3,602	3,595	3,609	3,599	3,735	3,873	3.7%	7.7%
EMEA	2,432	2,523	2,562	2,457	2,376	2,350	2,518	2,562	2,693	2,766	2.7%	17.7%
LATAM	915	964	999	1,030	1,024	1,017	1,070	1,077	1,143	1,109	-2.9%	9.1%
APAC	834	871	917	908	889	857	934	919	948	942	-0.7%	9.9%
DVD	44	42	40	37	35	34	32	29	22	0	NA	NA

Source: Company data, CMBIGM estimates

Balance Sheet

Healthy cash position along with continued share buybacks

Thanks to its sustainable profitability, Netflix is projected to maintain a healthy cash position. According to our estimates of PBT and change in working capital, Netflix has solid cash flow to support content investment in the next three years. We anticipate that Netflix will maintain cash positions of US\$7.7bn/10.3bn/13.9bn in FY23/24/25E.

Netflix's target minimum cash is approximately two months of revenue (~US\$6bn), which they have already exceeded and continue to stay above. Management plans to return excess cash (above the minimum threshold) to shareholders as it accumulates on the balance sheet. In 3Q23, Netflix repurchased US\$2.5bn of shares and ramped up buyback authorization by US\$10bn, on the back of a sufficient cash position.

Figure 80: Balance sheet

US\$ mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E
Non-current assets	36,515	39,328	38,362	40,757	42,073
Fixed asset	1,323	1,398	1,535	1,571	1,618
Content library, net	30,920	32,737	31,179	32,701	33,396
Others	4,272	5,193	5,648	6,485	7,059
Current assets	8,070	9,266	11,481	14,458	18,407
Cash	6,028	5,147	7,708	10,314	13,942
Content library, net	0	0	0	0	0
Others	2,042	4,119	3,773	4,144	4,465
Current content liabilities	8,489	7,931	7,895	8,751	9,499
Account payable	4,293	4,480	4,333	4,827	5,254
Deferred revenue	837	672	607	633	663
Accrued expenses	1,209	1,265	1,217	1,476	1,607
Others	1,449	1,515	1,738	1,815	1,976
Non-current liabilities	20,246	19,886	19,151	19,428	18,145
Convertible debt	14,693	14,353	13,901	13,501	11,693
Non-current content liabilities	3,094	3,081	2,715	3,024	3,292
Others	2,459	2,452	2,536	2,904	3,161
Total equity	15,849	20,777	22,398	26,637	32,436
Debt Analysis					
Total Debt	14,693	14,353	13,901	13,501	11,693
Total Equity	15,849	20,777	22,398	26,637	32,436
D/E ratio	93%	69%	62%	51%	36%
D/A ratio	39%	30%	28%	24%	19%
Current ratio (x)	1.0	1.2	1.5	1.7	1.9

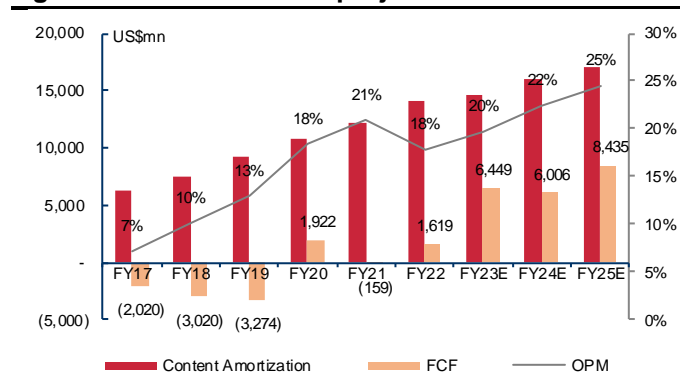
Source: Company data, CMBIGM estimates

Cash Flow and Working Capital

Substantial business expansion with growing FCF

Netflix has delivered sustainable growth in the past few years driven by stepped-up content investment (content amort. +~2x, from US\$6.2bn to US\$14.6bn in FY23E), along with margin expansion (OPM +~3x, from 7% in FY17 to 20% in FY23E) and FCF improvement (from –US\$7bn in FY17 to US\$6.5bn in FY23E). We attribute this to valuable content through strategic partnerships with top creators. We expect FCF to reach US\$6.4bn/6.0bn/8.4bn in FY23/24/25E.

Figure 81: Free cash flow projections



Source: Company data, CMBIGM estimates

Figure 82: Cash flow and working capital analysis

US\$ mn, Dec-YE	FY21	FY22	FY23E	FY24E	FY25E
Cash Flow					
Profit before taxation	(130)	102	88	118	155
Depreciation and amortization	208	337	372	421	431
Change in working capital	(242)	(758)	(764)	(477)	(317)
Others	556	2,346	7,160	6,400	8,645
Operating cash flow	393	2,026	6,855	6,462	8,913
CAPEX	(525)	(408)	(406)	(456)	(479)
Acquisitions	(788)	(757)	-	-	-
Others	(27)	(911)	397	-	-
Investing cash flow	(1,340)	(2,076)	(9)	(456)	(479)
Proceeds from share issuance	(500)	(678)	61	(400)	(1,808)
Issuance of convertible bond	(600)	-	(4,295)	(3,000)	(3,000)
Others	(50)	14	(14)	-	-
Financing cash flow	(1,150)	(664)	(4,249)	(3,400)	(4,808)
Cash at period end	6,028	5,147	7,708	10,314	13,942
Free cash flow	(159)	1,619	6,449	6,006	8,435
Working Capital Turnover					
Inventory days	NA	NA	NA	NA	NA
Trade receivables days	35	25	24	23	22
Trade payables days	46	47	42	38	34
Cash conversion cycle	(10)	(22)	(18)	(15)	(12)

Source: Company data, CMBIGM estimates

Valuation

Investment Thesis

We initiate BUY with a DCF-based TP of US\$512, implying 33x FY24E P/E. After its better-than-feared 3Q23 results, we think Netflix has demonstrated its strong net adds (guiding similar net adds in 4Q23E), resilient margin guidance (22%-23% OPM in FY24E, +2~3ppts YoY) and increasing FCF (guiding US\$6.5bn, vs. prior US\$5.0bn), partly alleviating market concerns about content spending and competition. Despite global macro uncertainty, we remain positive on Netflix's long-term subs trend, AVOD expansion and margin expansion, backed by its vibrant original content pipeline and efficient investment. In our view, Netflix's positive price drivers and catalysts would originate from: 1) Content pipeline to pick up after strikes; 2) competition to pull back; 3) resilient net adds from paid-sharing initiatives and AVODs penetration; and 4) higher UE and ARPU ahead to drive margin improvement.

DCF valuation

We use DCF valuation as our primary method since we deem it reasonable to apply DCF valuation to streaming companies with healthy cash flows in the long run. Assuming a WACC of 12.2% and a terminal growth rate of 3%, our estimated TP is **US\$512**, representing **33x** FY24E P/E.

Figure 83: DCF valuation

DCF Valuation (US\$ mn)											
	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	6,617	8,520	10,190	12,084	14,136	17,104	20,525	24,425	28,577	33,149	38,122
Tax	(702)	(1,204)	(1,474)	(1,781)	(2,133)	(1,814)	(2,176)	(2,590)	(3,030)	(3,515)	(4,042)
D&A	1,704	(376)	514	1,629	2,985	3,104	3,228	3,358	3,492	3,632	3,777
Change in working capital	(764)	(477)	(317)	(346)	(319)	(287)	(259)	(233)	(209)	(189)	(170)
CAPEX	(406)	(456)	(479)	(502)	(528)	(554)	(582)	(611)	(641)	(673)	(707)
FCF	6,449	6,006	8,435	11,083	14,141	17,553	20,737	24,349	28,188	32,404	36,980
FCF Growth	298%	-7%	40%	31%	28%	24%	18%	17%	16%	15%	14%
PV	6,449	5,354	6,703	7,851	8,929	9,881	10,405	10,891	11,239	11,518	143,183
Terminal Value											414,918

Assumptions	
WACC	12.1799%
Tax rate	11.0%
Risk free rate	4.95%
Cost of debt	6.1%
Beta	1.20
Market risk return	10.7%
Cost of equity	12.2%
Debt/Assets	0.0%
Long term growth	3.0%

Equity Value	
PV	232,403
minus: Net debt (US\$ mn)	5,678
minus: Minority interest (US\$ mn)	0
Equity Value(US\$ mn)	226,725
No. of shares (mn)	443
Target Price (US\$) based on DCF	512

		WACC				
Terminal growth rate	~	10%	11%	12%	13%	14%
	1.5%	626.7	543.3	466.3	422.7	378.0
	2.0%	652.7	562.4	479.9	433.7	386.6
	2.5%	682.2	583.7	495.0	445.7	395.9
	3.0%	715.9	607.7	511.7	459.0	406.0
	3.5%	754.8	634.9	530.3	473.6	417.1
	4.0%	800.2	666.0	551.2	489.8	429.3
	4.5%	853.8	701.8	574.8	508.0	442.8

Source: Company data, Bloomberg, CMBIGM estimates

Peers comparison

As a crosscheck, we select 10 global TMT giants, eight entertainment & content peers, six media & streaming peers and seven China video entertainment comps for comparison. The industry multiple is 18x FY24E P/E, below our DCF-based multiple of 33x FY24E P/E.

For global peers, we see Paramount Global and Disney as the most comparable ones for the streaming business involved. Currently, Paramount Global and Disney's FY24E P/E is 9.0x/17x, below our TP-based multiple. Since Netflix is a clear leader in the global market and derives 100% of its revenue from streaming (vs. Paramount/Disney with streaming revenue contribution at 16%/21% in 2Q23), we think Netflix deserves a premium multiple, backed by: 1) healthy FCF and a better margin outlook; and 2) a clear growth trajectory with AVOD expansion and paid-sharing initiatives. For China video comps, iQIYI and Mango are now trading at 10x/18x FY24E P/E, with low valuation owing to suppressed sentiment for China's entertainment sector. Compared to China peers, we think Netflix can benefit more from ads monetization, overseas expansion and price hikes. We think our valuation is not demanding for Netflix (15% below historical P/E mean of 38.8x), since Netflix differentiates itself with high-quality original content creation, data analytics to better target user preferences, and valuable IP reserves. We believe its potential hit dramas, AVOD expansion and margin enhancement should bring further upside.

Figure 84: Peers valuation

Company	Ticker	Mkt cap (USD mn)	Currency	Price	CMBI Rating	CMBI TP	PE			PS			FY23-25 EPS CAGR
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	
Netflix	NFLX US	174,140	USD	412	BUY	512	34.3	26.7	21.5	5.4	4.7	4.3	26%
Global TMT Giants													
Meta	META US	762,555	USD	297	NA	NA	20.7	16.5	14.8	5.7	5.1	4.5	19%
Alphabet	GOOGL US	1,536,658	USD	122	NA	NA	20.7	17.6	15.4	6.0	5.4	4.7	20%
Netflix	NFLX US	174,140	USD	398	NA	NA	31.7	24.3	19.9	5.2	4.6	4.1	27%
Amazon	AMZN US	1,320,069	USD	128	NA	NA	37.5	28.2	21.3	2.3	2.1	1.8	27%
Apple	AAPL US	2,629,991	USD	168	NA	NA	27.5	26.1	24.8	6.9	6.5	6.1	11%
Microsoft	MSFT US	2,451,234	USD	330	NA	NA	29.2	25.5	21.5	10.1	8.9	7.7	17%
NVIDIA	NVDA US	1,000,350	USD	405	NA	NA	37.6	23.9	20.9	18.3	12.3	10.3	38%
Oracle	ORCL US	276,650	USD	101	NA	NA	17.8	15.9	13.9	5.2	4.7	4.3	14%
Salesforce	CRM US	191,263	USD	197	NA	NA	24.1	21.4	18.0	5.5	5.0	4.4	17%
AMD	AMD US	155,799	USD	96	NA	NA	34.8	24.3	20.1	6.8	5.7	5.0	36%
Average							28.2	22.4	19.1	5.4	4.9	4.4	18%
Digital entertainment & content													
Alphabet	GOOGL US	1,536,658	USD	122	NA	NA	20.7	17.6	15.4	6.0	5.4	4.7	20%
Meta	META US	762,555	USD	297	NA	NA	20.7	16.5	14.8	5.7	5.1	4.5	19%
Snap	SNAP US	15,311	USD	9	NA	NA	NA	90.7	68.3	3.3	2.9	2.6	96%
Spotify	SPOT US	31,630	USD	159	NA	NA	NA	NA	50.5	2.2	1.9	1.7	NA
Pinterest	PINS US	16,321	USD	24	NA	NA	23.6	22.2	16.3	5.4	4.7	4.0	19%
Match Group	MTCH US	9,449	USD	34	NA	NA	16.3	13.4	11.5	2.8	2.5	2.3	22%
Average							20.3	17.4	14.5	4.2	3.7	3.3	20%
Media & streaming													
Paramount Global	PARA US	7,079	USD	11	NA	NA	44.6	8.8	7.1	0.2	0.2	0.2	93%
Disney	DIS US	145,156	USD	79	NA	NA	23.4	16.7	14.0	1.6	1.5	1.5	26%
Warner Bros Discovery	WBD US	23,277	USD	10	NA	NA	NA	NA	20.7	0.6	0.5	0.5	NA
Fox Corporation	FOXA US	13,855	USD	29	NA	NA	9.1	8.1	8.6	1.0	0.9	0.9	9%
Roku	ROKU US	7,974	USD	56	NA	NA	NA	NA	NA	2.4	2.1	1.8	NA
New York Times	NYT US	6,567	USD	40	NA	NA	27.7	25.2	21.7	2.7	2.6	2.4	13%
Average							26.2	14.7	14.4	1.4	1.3	1.2	16%
China entertainment													
Tencent	700 HK	357,650	HKD	294	BUY	460	17.9	15.0	13.2	4.2	3.8	3.4	16%
Alibaba	BABA US	210,646	USD	83	BUY	155	9.1	8.5	7.6	1.6	1.5	1.3	12%
iQIYI	IQ US	4,590	USD	5	BUY	9	13.1	9.5	7.8	1.0	1.0	0.9	28%
Mango	300413 CH	6,427	CNY	25	NA	NA	20.8	17.5	15.5	3.1	2.8	2.5	17%
Kuaishou	1024 HK	27,834	HKD	50	BUY	97	26.6	14.5	9.6	1.8	1.6	1.4	69%
Bilibili	BILI US	5,523	USD	13	BUY	26	NA	NA	49.3	1.8	1.5	1.3	NA
China Literature	772 HK	3,494	HKD	27	NA	NA	17.3	15.1	13.4	3.3	3.0	2.8	13%
Average							15.6	13.4	11.2	2.1	1.9	1.7	17%
Average							24.1	18.1	15.5	3.3	2.9	2.6	18%

Source: Bloomberg, CMBIGM estimates

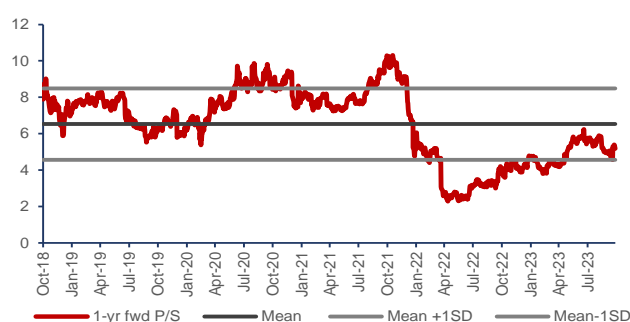
Note: Data as of Oct 30, 2023

Figure 85: Netflix historical P/E band



Source: Bloomberg, company data, CMBIGM

Figure 86: Netflix historical P/S band



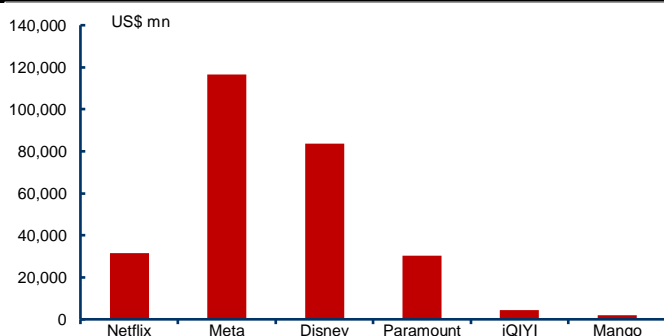
Source: Bloomberg, company data, CMBIGM

Figure 87: Financial metrics of Netflix and peers in FY22

US\$m	Netflix	Meta	Paramount	Disney	iQIYI	Mango
Ticker	NFLX US	META US	PARA US	DIS US	IQ US	300413 CH
Revenue	31,616	116,609	30,154	83,745	4,312	2,038
Gross profit	12,447	91,360	10,309	28,671	993	690
GPM	39%	78%	34%	34%	23%	34%
Adj.NP	4,331	27,208	1,116	4,671	42	263
Adj. NPM	14%	23%	4%	6%	1%	13%

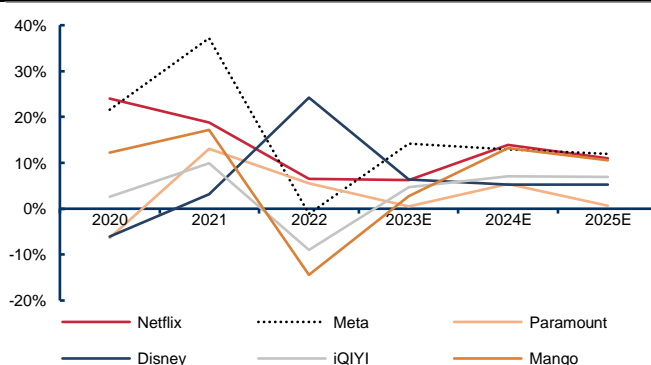
Source: Bloomberg, company data, CMBIGM

Figure 88: FY22 revenue comparison



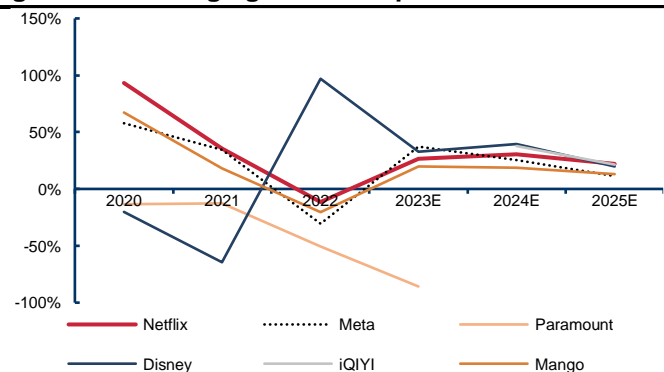
Source: Bloomberg, company data, CMBIGM

Figure 89: Revenue growth comparison



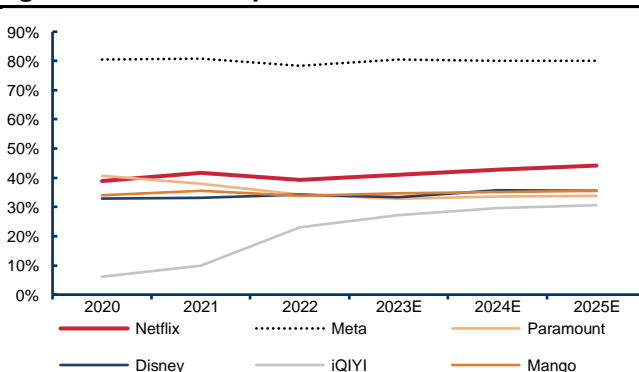
Source: Bloomberg, company data, CMBIGM estimates

Figure 90: Earnings growth comparison



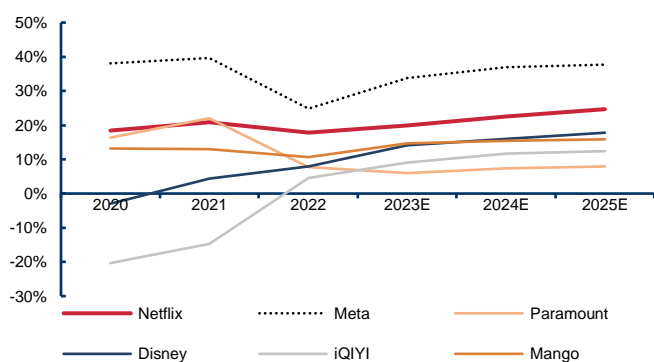
Source: Bloomberg, company data, CMBIGM estimates

Figure 91: GPM comparison



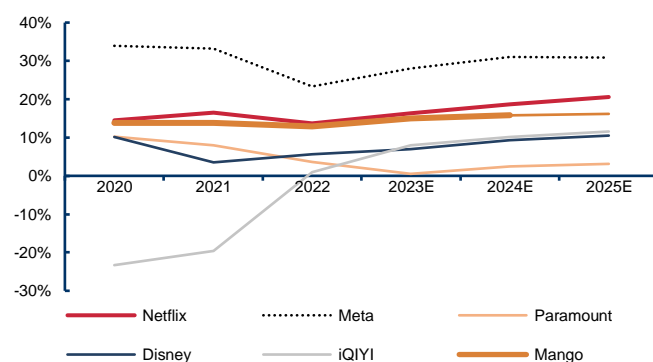
Source: Bloomberg, company data, CMBIGM estimates

Figure 92: OPM comparison



Source: Bloomberg, company data, CMBIGM estimates

Figure 93: Adj. NPM comparison



Source: Bloomberg, company data, CMBIGM estimates

Key Investment Risks

Key investment risks: 1) subs churning due to price hikes; 2) lower-than-expected expansion of the ad-supported tier and unsuccessful password-sharing crackdown; 3) ARM pressure from the low-priced package and overseas expansion; 4) ramped-up content investment on intensified competition; 5) margin dilution on stepped-up investment; and 6) global macro uncertainty.

Financial Summary

Income statement

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	29,698	31,616	33,580	37,981	41,488
Streaming	29,515	31,470	33,497	37,981	41,488
DVD	182	146	83	-	-
COGS	(17,333)	(19,168)	(20,010)	(21,858)	(23,335)
Gross profit	12,365	12,447	13,570	16,123	18,153
S&M	(2,545)	(2,531)	(2,496)	(2,765)	(2,874)
Admin.Exp.	(1,352)	(1,573)	(1,758)	(1,882)	(1,973)
Technology and Development	(2,274)	(2,711)	(2,698)	(2,957)	(3,116)
Others	-	(15)	-	(0)	(0)
Operating profit	6,195	5,633	6,617	8,520	10,190
Financial income	(766)	(706)	(698)	(675)	(611)
Other income	411	337	179	184	246
Pre-tax Income	5,840	5,264	6,099	8,029	9,825
Income Tax	724	772	702	1,204	1,474
MI	-	-	-	-	-
Share of equity investment	-	-	-	-	-
Net profit	5,116	4,492	5,397	6,825	8,351

Cash flow summary

YE 31 Dec (US\$ mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net income	(130)	102	88	118	155
D&A	208	337	372	421	431
Change in WC	(242)	(758)	(764)	(477)	(317)
Others	556	2,346	7,160	6,400	8,645
Operating CF	393	2,026	6,855	6,462	8,913
Capex	(525)	(408)	(406)	(456)	(479)
Acquisitions	(788)	(757)	-	-	-
Others	(27)	(911)	397	-	-
Investing CF	(1,340)	(2,076)	(9)	(456)	(479)
Proceeds from debt	(500)	(678)	61	(400)	(1,808)
Repurchases of common stock	(600)	-	(4,295)	(3,000)	(3,000)
Others	(50)	14	(14)	-	-
Financing CF	(1,150)	(664)	(4,249)	(3,400)	(4,808)
Net change in cash	(2,178)	(881)	2,561	2,606	3,627
Cash (beg of yr)	8,206	6,028	5,147	7,708	10,314

Balance sheet

YE 31 Dec (US\$ mn)	FY21A	FY22E	FY23E	FY24E	FY25E
Non-current assets	36,515	39,328	38,362	40,757	42,073
Fixed asset	1,323	1,398	1,535	1,571	1,618
Content library, net	30,920	32,737	31,179	32,701	33,396
Others	4,272	5,193	5,648	6,485	7,059
Current assets	8,070	9,266	11,481	14,458	18,407
Cash	6,028	5,147	7,708	10,314	13,942
Content library, net	-	-	-	-	-
Others	2,042	4,119	3,773	4,144	4,465
Current liabilities	8,489	7,931	7,895	8,751	9,499
Current content liabilities	4,293	4,480	4,333	4,827	5,254
Account payable	837	672	607	633	663
Deferred revenue	1,209	1,265	1,217	1,476	1,607
Accrued expenses	1,449	1,515	1,738	1,815	1,976
Non-current liabilities	20,246	19,886	19,151	19,428	18,145
Convertible debt	14,693	14,353	13,901	13,501	11,693
Non-current content liabilities	3,094	3,081	2,715	3,024	3,292
Others	2,459	2,452	2,536	2,904	3,161
Total net assets	15,849	20,777	22,797	27,036	32,835
Shareholders' equity	15,849	20,777	22,398	26,637	32,436

Key ratios

YE 31 Dec	FY21A	FY22E	FY23E	FY24E	FY25E
Sales mix (%)					
Streaming	99.4	99.5	99.8	100.0	100.0
DVD	0.6	0.5	0.2	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0
Growth rate (%)					
Revenue	18.8	6.5	6.2	13.1	9.2
Gross profit	27.2	0.7	9.0	18.8	12.6
EBIT	NA	NA	NA	28.7	19.6
Net profit	85.3	(12.2)	20.2	26.4	22.4
P&L ratios (%)					
Operating margin	20.9	17.8	19.7	22.4	24.6
Pre-tax margin	19.7	16.6	18.2	21.1	23.7
Adj. net margin	17.2	14.2	16.1	18.0	20.1
Effective tax rate	12.4	14.7	11.5	15.0	15.0
Returns (%)					
ROE	38.0	24.5	25.0	27.8	28.3
ROA	12.2	9.6	11.0	13.0	14.4
Per share					
EPS (US\$)	11.2	9.9	12.0	15.5	19.1
DPS (US\$)	0.0	0.0	0.0	0.0	0.0
BVPS (US\$)	34.8	46.0	49.8	60.3	74.4

Source: Company data, CMBIGM estimates

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