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Netflix, Inc. (NASDAQ: NFLX)

Investment Committee Pitch: Capturing the "Second Act"

CURRENT PRICE	TARGET PRICE	RECOMMENDATION
$87.69	$115.00	BUY (+31%)

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Netflix is transitioning from a high-growth disruptor to a high-margin digital utility hub; current valuations severely misprice this structural operating leverage.

1. AD-TIER MATURATION

The ad-supported tier has evolved from a supplemental experiment into a core revenue engine.

GLOBAL AD USERS

94M

- Proprietary 2026 ad-tech launch eliminates 3rd-party programmatic fees.
- Drives direct flow-through to the bottom line, expanding gross margins.

2. MARGIN REALITY

Content spend has been successfully decoupled from top-line revenue growth.

FY2025 OP MARGIN

30.2%

- As pricing and ad revenues scale, cash content spend remains strategically capped at ~$17B.
- Return on Invested Capital (ROIC) has definitively crossed 20%.

3. THE VALUATION GAP

The broader market is punishing NFLX with tech-era WACCs and assuming flatline margins.

OUR TARGET PRICE

$115.00

- Standard analyst models (targeting ~$75) fail to price in the 8.5% revenue CAGR.
- They incorrectly assume password crackdown costs will permanently erode margins.

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Management has successfully proven pricing inelasticity, navigating the password crackdown while keeping aggregate global churn below 2%.

Q1 2026 REVENUE MIX

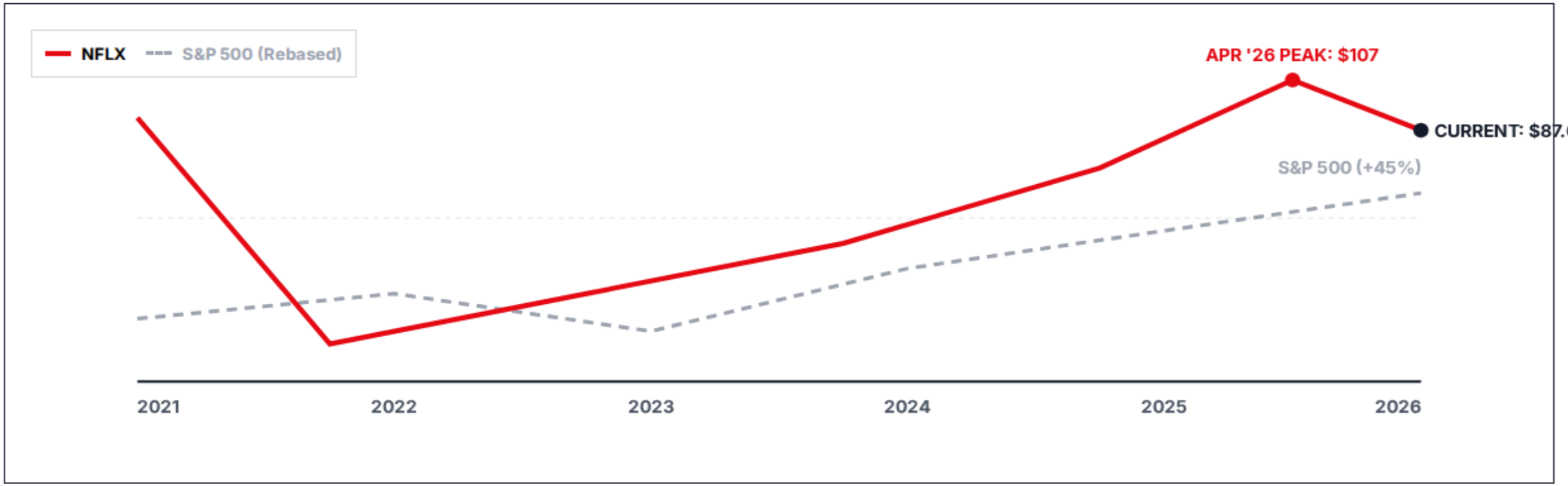
Region	Rev ($B)	Mix %	Strategic Driver
UCAN (US/CAN)	$5.27	43.0%	Pricing power & Ads
EMEA	$4.04	33.0%	Premium conversion
APAC	$1.47	12.0%	Volume TAM & Local
LATAM	$1.47	12.0%	Mobile adoption
Total (Q1 2026)	**$12.25**	**100.0%**	**+16.0% YoY Growth**

LEADERSHIP EXECUTION & STRATEGIC SHIFTS

- **Focus Shift:** Co-CEOs Ted Sarandos and Greg Peters have shifted the corporate mandate from pure subscriber acquisition to Free Cash Flow generation and margin optimization.
- **Live Events Integration:** The integration of live broadcasting (WWE, NFL) provides advertisers with highly engaged, concurrent viewership, commanding massive premium CPMs relative to standard VOD.
- **Gaming Ecosystem:** Cloud gaming acts as a powerful, unpriced churn-reduction tool, specifically locking in the highly contested Gen-Z demographic without requiring separate subscription fees.

NFLX has retraced ~15% from its April 2026 peak. Placed in a 5-year context, this creates a highly asymmetric, mispriced entry opportunity.

5-YEAR STOCK PERFORMANCE (NFLX VS. S&P 500)

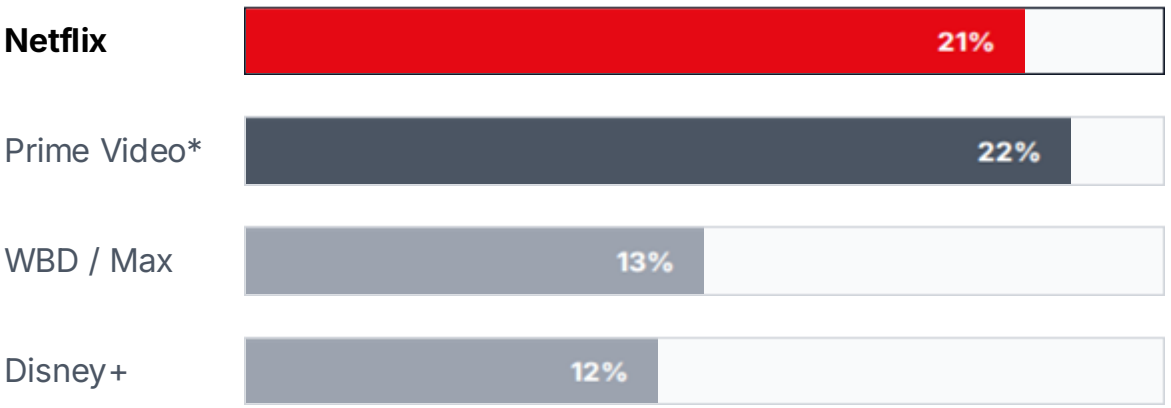


Note: The recent pullback is driven by cautious Q2 content amortization guidance, masking underlying structural margin improvements.

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Netflix remains the undisputed anchor of streaming; 71% of new 2026 sign-ups are selecting the high-margin ad-supported tiers.

SHARE OF PREMIUM TV TIME / PREFERENCE



**Prime Video volume is heavily subsidized by retail bundling, yielding lower pure-play streaming margins.*

THE LEGACY MEDIA DISADVANTAGE

- Competitors like Disney+ and Max have seen growth stall as they attempt to balance dying linear TV revenues with immense streaming platform costs.
- Netflix operates as a **pure-play streaming entity**, completely unburdened by declining cable carriage fees.
- This structural advantage allows NFLX to re-invest exclusively into global content acquisition and proprietary ad-tech buildouts.

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Average Revenue per User (ARPU) on the lower-cost ad-tier currently matches or exceeds the standard ad-free tier in the UCAN region.

1. AD-TIER SCALING

With 94M global users on the ad-tier, this segment is projected to hit **$3B in ad-revenue** for FY2026, essentially doubling year-over-year.

KEY IMPLICATION

Reduces total churn by providing a built-in safety net for macro downturns.

2. LIVE EVENTS STRATEGY

Live sports (e.g., WWE Raw, NFL broadcasts) generate massive concurrent viewership spikes, allowing NFLX to command premium advertiser CPMs.

KEY IMPLICATION

Forces highly-engaged male demographics to retain subscriptions year-round.

3. PRICING POWER

The successful conversion of non-paying viewers into "extra member" sub-accounts provides pure-margin revenue flow with virtually zero acquisition cost.

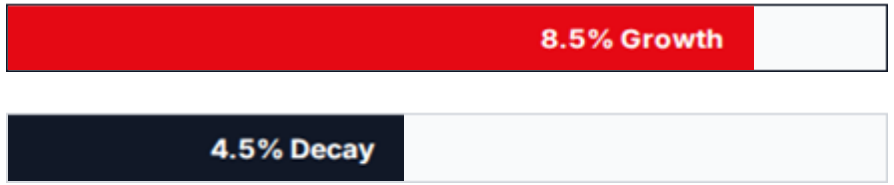
KEY IMPLICATION

Proves content inelasticity; users will absorb $1-$2 price hikes reliably.

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Our DCF model explicitly projects an 8.5% 10-Year Revenue CAGR, contrasting sharply with conservative analyst models that incorrectly assume permanent growth decay.

CAGR DISCONNECT (10-YEAR OUTLOOK)



The analyst's 4.5% CAGR wrongly assumes UCAN market saturation caps total growth.

Our 8.5% explicit 10-year projection accurately factors in ARPU uplift from ad-tier CPMs and massive APAC volume conversion.

EXPLICIT REVENUE FORECAST BUILD ($B)

2025A	**$45.18**	2030E	$70.96
2026E	**$51.20**	2031E	$76.99
2027E	$55.55	2032E	$83.53
2028E	$60.27	2033E	$90.63
2029E	$65.40	**2035E (Term)**	**$106.70**

**Mathematical representation of an 8.5% CAGR driving top-line from 2025 actuals to the 2035 terminal year before applying Gordon Growth.*

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Netflix has transitioned into a highly efficient cash generator. Return on Invested Capital (ROIC) has crossed 20%, marking the end of the cash-burn era.

THE CONTENT DECOUPLING

Historically, Netflix had to spend a dollar to make a dollar. That dynamic is broken.

- While revenues scale at double digits, cash content spend is explicitly capped at ~$17B annually by management.
- Because content costs are relatively fixed, price increases and ad-revenue fall directly to the bottom line as pure margin.

MARGIN TRAJECTORY

FY2025 ACTUAL EBITDA MARGIN

30.2%

A structural leap from 20.9% in 2021.

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Standard FVA models severely underestimate the "Second Act" cash generation capabilities by relying on stale assumptions.

BRIDGING THE VALUATION GAP ($75 ANALYST VS $115 THESIS)

Assumption	Analyst ($75)	Our Model ($115)	The Reality Disconnect
10-Yr Revenue CAGR	4.5% (Decay)	8.5% (Growth)	Analyst models simple UCAN saturation. We accurately price in the ARPU uplift from ad-tier scaling and APAC volume.
Operating Margin	25.0% (Cap)	31.5% (Base)	The $75 model ignores recent actual performance (30.2%) and incorrectly assumes crackdown costs permanently erode margins.
Terminal Growth (g)	2.0%	3.0%	Analyst models legacy decay. Live sports integration and structural pricing power easily justify a global GDP+ rate (3.0%).
WACC	8.9%	8.2%	Analyst penalizes NFLX with high tech beta. We apply a lower Beta (0.95), reflecting predictable, utility-like stability.

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Netflix is no longer a speculative, high-beta tech stock. It is a highly predictable, investment-grade media utility.

CALCULATED WACC

8.2%

COST OF CAPITAL BUILD

- **Risk-Free Rate:** 4.2% (10-Yr US Treasury)
- **Equity Risk Premium:** 4.5%
- **Beta Compression:** 0.95. Reduced from historical highs to reflect transition from volatile growth to predictable cash flow.
- **Cost of Equity (CAPM):** 8.47%
- **Cost of Debt (After-Tax):** 4.1%
- **Capital Structure:** 92% Equity / 8% Debt

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Discounted Cash Flow (DCF) yields a $115 Target Price, supported by a 10-year explicit forecast and a mature 8.2% cost of capital.

DCF OUTPUT & EV BRIDGE ($B)

Component	Value ($B)	Notes & Calculation Details
PV of Explicit FCFF (2026-2035)	$128.4	Driven by 31.5%+ margins & capped CapEx over the 10 years.
Terminal Value (Gordon Growth)	$331.6	Terminal Growth (g) = 3.0%, WACC = 8.2%
Enterprise Value (EV)	$460.0	Implicit EV/EBITDA of ~21.5x
Plus: Cash Balance	$34.0	Balance Sheet Actuals
Less: Total Debt	($10.0)	Balance Sheet Actuals
Implied Equity Value Per Share	**$115.00**	**Target based on 4.21B Diluted Shares**

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Netflix's 30%+ EBITDA margin rivals Big Tech, justifying a massive premium over legacy media peers burdened by linear TV.

VALUATION & PROFITABILITY MATRIX

Peer	EV / EBITDA (NTM)	EBITDA Margin
Amazon (AMZN)	23.5x	16.5%
Apple (AAPL)	21.0x	33.2%
Netflix (NFLX)	**18.5x**	**30.2%**
Disney (DIS)	11.2x	17.8%
WBD	**9.5x**	**21.4%**

THE CROSS-CHECK JUSTIFICATION

- **Margin Parity with Tech:** Netflix's 30.2% EBITDA margin proves it operates with the software-like efficiency of Apple, vastly outperforming legacy media peers (17-21%).
- **Conservative Multiple:** Despite matching Big Tech margins, Netflix is conservatively valued at 18.5x compared to pure tech ecosystems (21x - 23x).
- **DCF Alignment:** Applying this highly defensible 18.5x multiple to our 2027 EBITDA estimates perfectly cross-checks and aligns with our $115 DCF Price Target.

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Near-term events validate the thesis and provide clear upside catalysts over the next 12-18 months.

1. IN-HOUSE AD-TECH

Launching in 2026, the proprietary ad-tech platform bypasses third-party programmatic fees.

Instantly expands ad-margins and provides high-fidelity, first-party data directly to premium advertisers.

2. LIVE SPORTS HALO

'WWE Raw' rollout and NFL integration locks in highly engaged male demographics.

This creates a "Super Bowl" scarcity effect, commanding CPMs 30% higher than standard VOD inventory.

3. GAMING ECOSYSTEM

Cloud gaming traction continues to build within the existing app architecture.

Acts as a massive, unpriced churn-reduction tool that specifically locks in the Gen-Z demographic without requiring separate subscriptions.

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While competitive risks exist, Netflix's massive global scale and multi-tiered pricing model effectively protect the downside.

DOWNSIDE RISKS

- **Macro Contraction:** A recessionary environment leads to lower discretionary household income, increasing the likelihood of subscription cancellations.
- **Live Rights Inflation:** Entering the live sports arena initiates bidding wars with tech giants (Apple, Amazon), severely inflating content CapEx requirements.
- **UCAN Saturation:** Fatigue in UCAN pricing hikes could stall revenue growth in their most profitable demographic.

SENIOR MITIGANTS

- **Tier Net:** The $6.99 ad-tier acts as a downgrade safety net. In a recession, users downgrade to the ad-tier rather than outright canceling, keeping revenue in the ecosystem.
- **Global Amortization:** NFLX's massive global subscriber scale allows them to amortize expensive live rights far better than regional legacy peers.
- **APAC Momentum:** Rapid volume growth in APAC completely offsets UCAN maturity.

"The baseline model assumes Netflix has to spend a dollar to make a dollar. That used to be true.

Today, ad-tiers and password conversions are ***pure-margin flow-throughs****. By utilizing management's explicit cap on content spend, the math naturally pulls the valuation up to our target."*

FINAL VERDICT: BUY @ $115.00

Questions & Defense

INVESTMENT COMMITTEE REVIEW

Abdulrahman Alkhamis | Alexandre LY | Lorenzo BARELLI

Appendix A — Forecast: P&L summary FY26E–FY30E

USD millions	FY25A	FY26E	FY27E	FY28E	FY29E	FY30E	5Y CAGR
Revenue	45,183	51,625	57,381	63,230	67,554	74,039	**10.4%**
% growth	*15.9%*	*14.3%*	*11.1%*	*10.2%*	*6.8%*	*9.6%*	
Cost of revenues	(23,275)	(25,537)	(27,894)	(30,013)	(31,893)	(34,034)	
Gross profit	**21,908**	**26,089**	**29,487**	**33,217**	**35,662**	**40,006**	**12.8%**
Gross margin	*48.5%*	*50.5%*	*51.4%*	*52.5%*	*52.8%*	*54.0%*	
Marketing	(3,301)	(3,745)	(4,102)	(4,456)	(4,694)	(5,070)	
Tech & development	(3,391)	(3,847)	(4,145)	(4,505)	(4,745)	(5,127)	
General & admin	(1,888)	(2,228)	(2,295)	(2,482)	(2,601)	(2,795)	
EBIT	**13,327**	**16,269**	**18,945**	**21,774**	**23,622**	**27,014**	**15.2%**
EBIT margin	*29.5%*	*31.5%*	*33.0%*	*34.4%*	*35.0%*	*36.5%*	
D&A	333	492	574	632	676	740	
EBITDA	**13,660**	**16,762**	**19,518**	**22,407**	**24,298**	**27,754**	**15.2%**
EBITDA margin	*30.2%*	*32.5%*	*34.0%*	*35.4%*	*36.0%*	*37.5%*	
Net income	10,981	15,678	16,153	18,532	20,192	22,693	15.6%
Diluted EPS ($)	**2.53**	**3.65**	**3.76**	**4.31**	**4.70**	**5.28**	**15.9%**

Source: Netflix 10-K (FY25), FVA Super Simple Template forecast (consistent with FY26 guidance and Visible Alpha consensus).

Source: Company filings, S&P Capital IQ, FVA Super Simple Template, author analysis. For institutional discussion only.

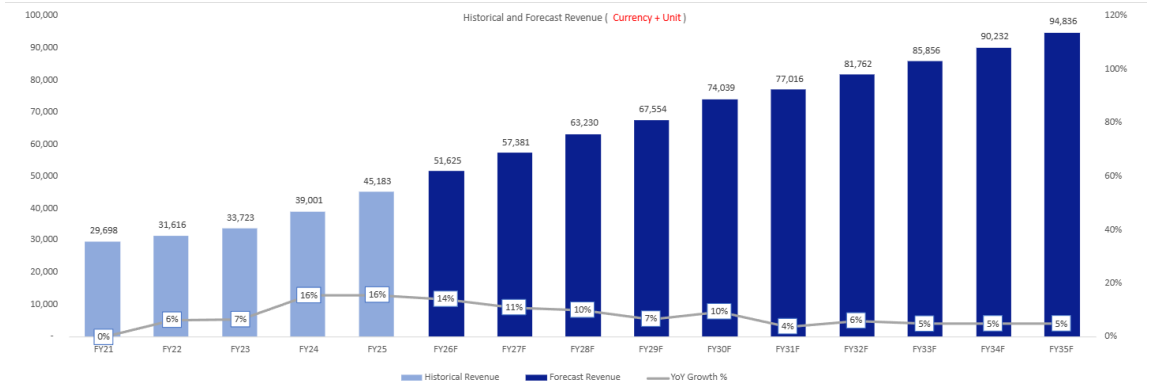
Appendix B — Peer fundamentals (FY24, last fully reported)

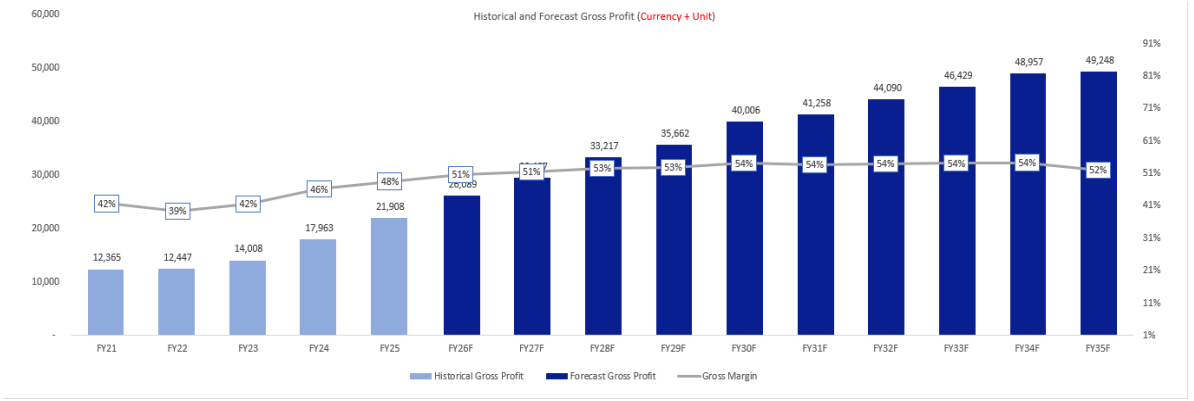
Company	Revenue ($M)	Gross margin	EBITDA margin	EBIT margin	ROIC	3Y Sales CAGR
Netflix	**39,001**	**46.1%**	**27.6%**	**26.7%**	**21.7%**	**9.5%**
Spotify Tech.	16,226	30.2%	9.4%	9.0%	19.2%	13.9%
Roku	4,113	43.9%	2.0%	(4.6%)	(4.3%)	14.2%
iQIYI	4,004	25.2%	33.0%	6.5%	2.8%	(5.9%)
Bilibili	3,676	32.7%	3.7%	(5.0%)	(6.5%)	6.4%
Walt Disney	91,361	35.8%	18.9%	13.5%	2.3%	10.7%
Warner Bros. Discovery	39,321	42.6%	19.5%	1.6%	(13.2%)	47.8%
Paramount Skydance	29,213	33.5%	10.0%	8.6%	(17.7%)	0.7%
Comcast	123,731	70.1%	30.8%	18.8%	6.0%	2.1%
Peer median (ex-NFLX)	**16,226**	**33.5%**	**10.0%**	**6.5%**	**2.3%**	**6.4%**

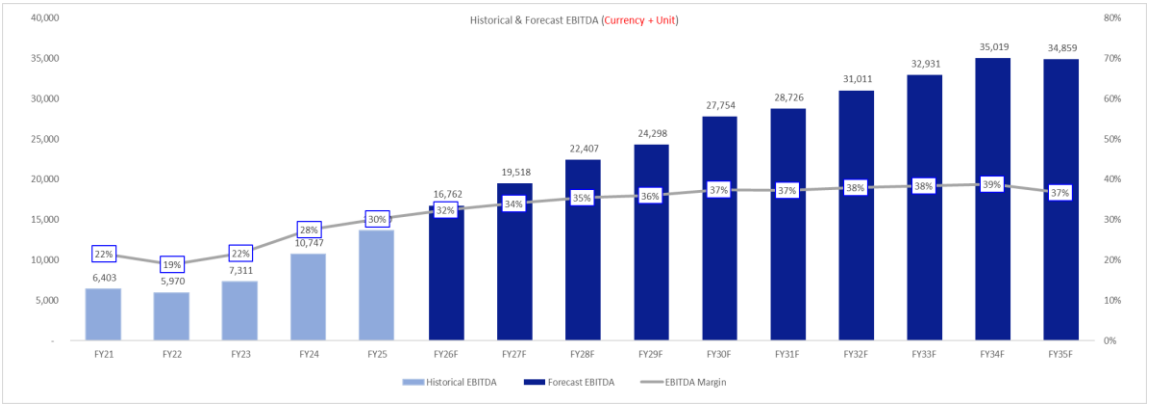
OBSERVATION: Netflix is the only peer with the trifecta of (a) double-digit growth, (b) 25%+ EBIT margin, and (c) positive 20%+ ROIC — partly justifying its multiple premium but not the entire 2.2x spread.

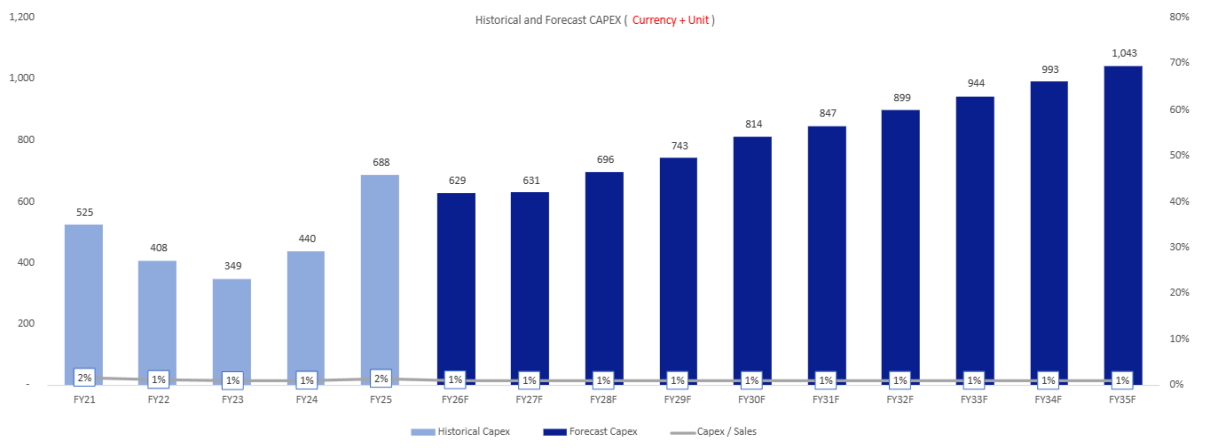
Source: Company filings, S&P Capital IQ, FVA Super Simple Template, author analysis. For institutional discussion only.

Appendix C — Charts (based on analyst forecast)









Source: Company filings, S&P Capital IQ, FVA Super Simple Template, author analysis. For institutional discussion only.

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Source: Company filings, S&P Capital IQ, FVA Super Simple Template, author analysis. For institutional discussion only.

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ANALYST CERTIFICATION

The analyst(s) responsible for this report certify that the views expressed herein accurately reflect their personal views about the subject company and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations expressed in this report.

IMPORTANT DISCLOSURES

Purpose. This document was prepared for internal portfolio-committee discussion. It is not investment advice and should not be relied upon by any third party.

Data sources. Netflix SEC filings, S&P Capital IQ Pro, Damodaran (NYU Stern), the FVA Super Simple Template, and third-party news outlets as cited on Slide 19.

Forecast risk. Forward-looking statements rely on assumptions (subscriber growth, ad-tier monetization, content costs, WACC) that may differ materially from actual outcomes.

No position bias. Neither the analyst nor the firm currently holds a position in NFLX. The firm may transact in NFLX after publication.