

NETFLIX

Browse

Personalize

KIDS

DVDs

Search



Valuation of Netflix, Inc.

TheCaseSolutions.com

More Info On:
Netflix: A Company Valuation

Executive Summary

1. Company Overview
2. Industry Analysis
3. Competitive Analysis
4. Capital Structure
5. Corporate Governance
6. Valuation
7. Sensitivity Analysis
8. Summary
9. Future of Netflix

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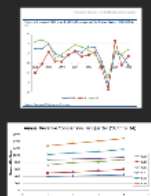
Company Overview

- Netflix, Inc. (NFLX)
- Founded in 1997
- Corporate HQ: Los Gatos, CA
- IPO: May 29, 2002 - NASDAQ

"Leader and first mover in realm of Internet video streaming electronically delivered TV shows, movies, original content and monthly DVD subscriptions"

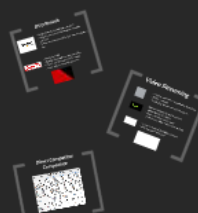
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Industry Analysis



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Competitive Analysis



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Corporate Governance

- Email address available to which stockholders may send communications

How Effective is the Board?

- No established formal claw back policy regarding executive incentive pay
- Failed to disclose target objectives for CEO
- Weak ability to align executives' interests with long-term value creation
- Pay is below the median

Other Issues

- Entrenched board
- Over-boarded Directors
- Expense Recognition
- Asset-Liability Valuation

Capital Structure

- High cash balances in excess of total funded debt
- Fund new operations with use of internally generated funds from existing earnings

- Ended 2014 with \$1.6 billion in cash and equivalents & long-term debt of \$900 million
- Raised \$1.5 billion in senior notes in two tranches (Feb-2015)
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- Total reported liabilities in 2014 were \$5.1 million

Valuation

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Beta

WACC

Free Cash Flow

Sensitivity Analysis

Growth Rate

Variable	Value	Impact on Value
Revenue Growth	15.0%	100.0%
Operating Margin	15.0%	100.0%
WACC	10.0%	100.0%

- Change in growth rate from 15% to 10% resulted in a 10% decrease in value
- In practical application, one variable does not change at a time

WACC

Variable	Value	Impact on Value
Revenue Growth	15.0%	100.0%
Operating Margin	15.0%	100.0%
WACC	10.0%	100.0%

- Utilized WACC in finding because Netflix does not pay dividends

Summary

- Increasing competition
- Corporate Governance: below average
- 2014 Valuation: under-valued

Future could be bright if

- Offset increasing competition through international expansion
- Increase original content and title selection

Future of Netflix

- Shares last week soared 25% when reports of additional 4.9 Million subscribers in first quarter of 2015.
- More good content, more viewing, more subscribers, more \$ for programming, more subscribers
- New wave of competition with HBO (HBO now doesn't require cable or satellite)
- "It will be like the Yankees and the Red Sox. I predict HBO will do the best creative work of their lives in the next 10 years because they are on war footing. They haven't really had a challenge for a long time, and now they do. It's going to spur us both on to incredible work" - Reed Hastings

Thanks for watching!

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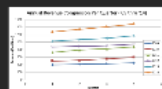
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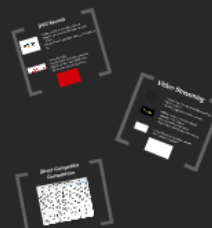
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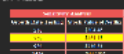
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Sensitivity Analysis

Growth Rate



- Change in growth rate from 9% to 10% created inverse relationship to stock value
- In practical application, one variable does not change

Summary

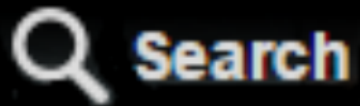
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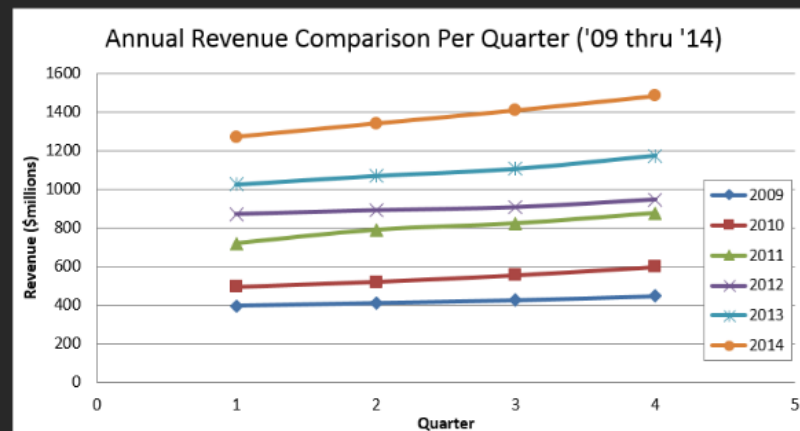
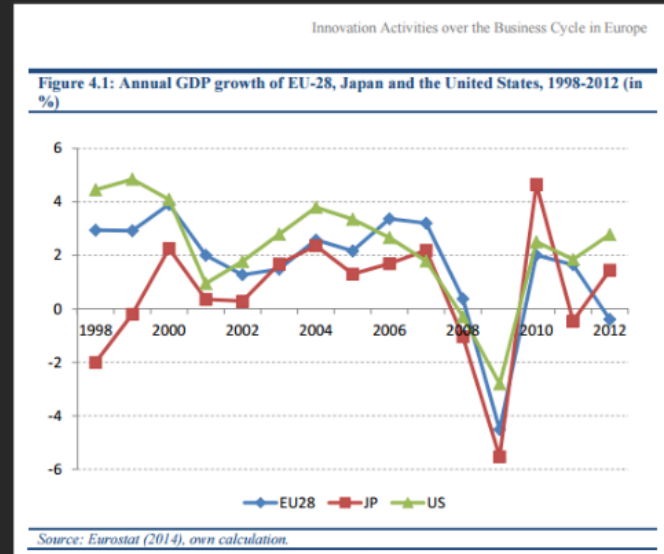
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Industry Analysis



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Competitive Analysis

DVD Rentals



- Large variety of available content
- Targets consumers looking for specific content
- Newer movies available, but some require a fee



- Privately held
- Newly released movies available
- Quick, on-the-spot DVD rental
- New online streaming service



Video Streaming



- Original content not available elsewhere
- Niche content
- Licensing agreement with Amazon



- Allows viewers to watch current episodes of TV shows
- Does not offer convenient experience: advertising commercials



- Large variety of available content
- Not very personalized

Direct Competitor Comparison

	Netflix	Amazon	Hulu	HBO GO	Netflix
Subscription Fee	\$7.99	\$7.99	\$7.99	\$7.99	\$7.99
Content Library	Large	Large	Large	Large	Large
Original Content	Yes	Yes	Yes	Yes	Yes
Device Compatibility	Yes	Yes	Yes	Yes	Yes
Ad Experience	Yes	Yes	Yes	Yes	Yes
Personalization	Yes	Yes	Yes	Yes	Yes
Customer Support	Yes	Yes	Yes	Yes	Yes
Marketing Strategy	Yes	Yes	Yes	Yes	Yes
Competitive Advantage	Yes	Yes	Yes	Yes	Yes

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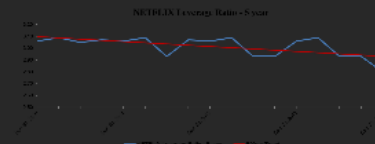
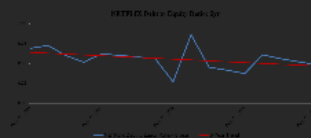
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$$\text{Beta} = \frac{\text{Covariance of the share price index value}}{\text{Variance stock value 5/29/2002 - 12/31/14}} = 1.79$$

10 YR U.S. T Bond yield = 2.17%

Market risk premium S & P 500 = 7.5%

$$R_{ce} = R_f + \text{Beta} * (R_m - R_f)$$

$$R_{ce} = .0217 + 1.79 * (.075 - .0217) = 11.74\%$$

WACC

$$\text{WACC} = W_d * R_d * (1 - \text{tax rate}) + W_{ce} * R_{ce}$$

$W_d = 4.20\%$ (weight of debt outstanding)

$W_{ce} = 95.80\%$ (weight of common equity)

$R_d = 5.54\%$ (weighted average of debt notes)

$$\text{WACC} = 0.0420 * 0.0554 * (1 - 0.35) + 0.9580 * 0.1174$$

$$\text{WACC} = 11.40\%$$

Free Cash Flow

Forecasted Sales Growth = 23.5% vs. 7%

Total Enterprise Value: Approx. \$29.5B

2014 Valuation: \$464.43 @ 60 million shares

2014 Actual Stock Price: \$341.61