



# Portfolio Managers, Should We be Upset by Netflix Cancellations?

A Thought Exercise, for Active Managers

## Introduction

**According to Footnote 6 in Netflix's most recent form 10-Q, Netflix owes Hollywood roughly \$15 billion for content.** NFLX's content is a phantom component of Enterprise Value. The content liability, is like an unfunded pension liability in Enterprise Value for a mature company. As Netflix owes Hollywood +/- \$15 billion at some point the content cost needs to be monetized, to be cut or Netflix must dilute the equity in to address the escalating obligation. So far, the liability has been allowed to expand from \$700 million in 2012 because subscription and revenue growth are strong and the pace of the Capitalization has expanded faster than revenue growth.

Conservatively NFLX's Enterprise Value when including the liability is closer to \$83 billion than \$68 billion. In a deal, I suspect a smart strategic partner will balk paying a premium given the liability just as SIRI balked at paying a premium for Pandora. Thus, if a buyer believes there is roughly \$70 billion in value the buyer will target approximately \$120 a share and not \$150 a share. (I am short and this is a hypothetical and not a price target!)

Cancelling shows suggests Netflix is managing costs. What may be troubling is for years, the Wall Street Daily affirmation has been "NFLX knows what its subscribers watch" thus content risk on new programming was dismissed as an issue. Wall Street will also say a Netflix Show is Popular when the Company does not provide any user metrics. Thus, Wall Street underweights the risk lurking off the balance sheet.

Netflix, Inc. (NFLX)		\$152.72		
U.S. Dollar   Bmrk/Ind: FactSet - Country / Consumer Services -SEC		As of: 13 Jun '17		
Key Items				
Trading Information		Valuation	5Y Trend	Current
Current Price	\$152.72	P/E (LTM)		200.9
52 Wk Range	\$84.50 - 166.87	P/E (NTM)		106.7
Avg Daily Vol (3m)	6.10 (M)	P/Sales		7.2
Short Int (% of Float)	6.6%	P/Bk		22.1
Key Statistics		P/CF		-
Mkt Value (M)	\$65,823	EV/EBITDA		11.8
Ent Value (M)	\$67,847	EV/Sales		1.0
Shares Out (M)	431.0			0.9
Dividend (Ann)	\$0.00	Profitability (%)	10Y Trend	LTM
Div Yld	0.0%	Gross Margin		33.6
Estimates		EBITDA Margin		38.4
EPS (FY0)	\$0.43	EBIT Margin		31.1
EPS (FY1)	\$1.05	Net Margin		60.5
EPS (FY2)	\$1.90	ROE		17.6
Coverage	42 Analysts			11.1
Target Price	\$158.46	Growth (%)	10Y Trend	LTM
LT Growth Rate	52.1%	Sales		3.5
Avg Rating	Overweight (1.50)	EBITDA		11.4
		EBIT		7.8
		EPS (Dil)		21.6
				12.2
				12.7
				17.3
				-1.0

If Netflix truly had a better content acquisition model owing to its big data; Netflix would be spending less on content per sub and Netflix would never have to cancel a show. Belief in Netflix's Big Data is at the heart of the Wall Street Bull Case which is why NFLX can have a premium multiple, a greater content liability and less than 10% of the EBITDA as compared to CBS. Some investors believe NFLX cannot make a mistake in terms of content risk and reward. There are 15 billion reasons why Wall Street consensus is exaggerated. Trading at 200x earnings, some might suggest NFLX has limited content risk discounted in the current price.

## 6. Commitments and Contingencies

### **Streaming Content**

As of March 31, 2017, the Company had **\$15.3 billion** of obligations comprised of \$3.9 billion included in "Current content liabilities" and \$3.0 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and **\$8.4 billion** of obligations that are **not reflected on the Consolidated Balance Sheets** as they did not yet meet the criteria for asset recognition.

As of December 31, 2016, the Company had \$14.5 billion of obligations comprised of \$3.6 billion included in "Current content liabilities" and \$2.9 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and \$8.0 billion of obligations that are not reflected on the Consolidated Balance Sheets as they did not yet meet the criteria for asset recognition.

The expected timing of payments for these streaming content obligations is as follows:

As of	March 31,				December 31,	
	2017				2016	
	(in thousands)					
Less than one year	\$ 6,599,754				\$ 6,200,611	
Due after one year and through three years		6,939,847				6,731,336
Due after three years and through five years		1,562,941				1,386,934
Due after five years		187,592				160,606
<b>Total streaming content obligations</b>	<b>\$ 15,290,134</b>				<b>\$ 14,479,487</b>	

Source Netflix SEC 10-Q

## Content is pricey and so is Netflix

**Netflix trades with higher multiples as compared to peers**

**Netflix's balance sheet is not as strong as it once was with the expansion of debt.** The table below does not include the \$15 billion content liability which is contingent. Including the liability makes NFLX roughly as levered as Tesla.

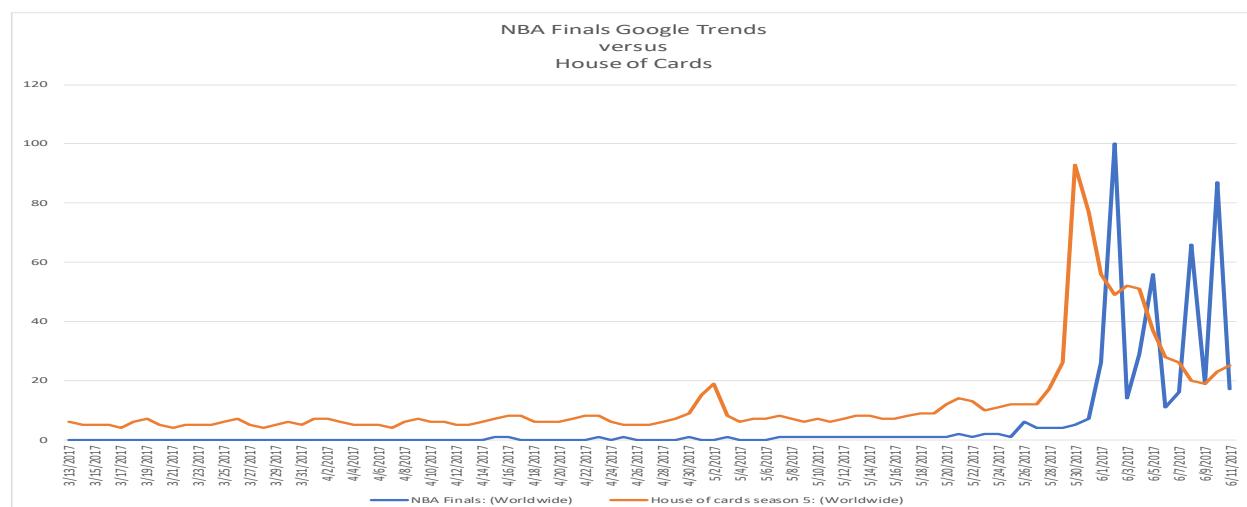
## Cancelling Shows may be good for earnings near term

Netflix does not provide user metrics but for years I have compared Netflix programming to other TV events and have extrapolated intent to view from Google Trends and Twitter Trends Data. The idea is if something like the NBA finals has Google Search Footprint and House of Cards are trending concurrently viewership can be extrapolated. The Google Trends comparison could provide an estimate of the Netflix views if an estimate of the NBA views is accurate and correlated. Is it perfect? no, but the extrapolation has been validated in the past. Thus, I am 80% confident the extrapolation will yield an estimate for Netflix views +/- 2 million. My estimate is a more accurate data point then management comments. About Sense 8 Management said "Sense 8 was not watched and expensive (Netflix Original) .....in 2015. They also stated ....it (Sense8) was mind blowing and International in 2015 and has the best 4 hours of anything we have done. (in the Hollywood Reporter).

Views and time spent viewing is now an important metric for NFLX. Netflix may now need to write down content as Netflix is capitalizing content. Under capitalizing and expense rules, if shows are cancelled after 2 or 3 years and they are not well viewed the accountants will make Netflix expense the shows more conservatively. Better matching the expense and timing of revenue could weigh on earnings. The write down is also more likely if Netflix is amortizing the shows over a 4 to 6 year period. Any content company cannot expense as if the Original is going to last 10 years and get 10 million viewers if it is cancelled after 3 years and gets 3 only million viewers. Moreover, while a write down is noncash in some most industry cases, the new expensing following a write down suggests lower margins and less opportunity for earnings growth. Netflix would certainly have fewer assets, and less equity to support the debt needed to fund remainder of its \$15 billion liability. A Company burning cash and taking on liabilities to fund future earnings and FCF is undermined by a write down as the asset is marked down because the Cash Flows did not pass the accounting means test.

Google trends is a relative qualitative measure. It measures performance against its self thus a search term that has 100 hit today versus 50 hits yesterday and 100 is an all-time high has a Google trend of 100 today and 50 yesterday. If the search term has half the hits as a compared another term then the Google trend is 50 today versus 100 for the compared term.

Based on the Google Trends, Netflix has roughly 6 million unique viewers in the US as compared to 30 million for the NBA finals. This audience has grown by roughly 100% since S1E1 when HOC was estimated to have 2.5 million unique fans. I would also suggest that Kevin Spacey needs to put Donald Trump on his Christmas card list because based on Google Trends the House of Cards has benefitted from Trump's Palace intrigues, IMHO.



Source: Google Trends and TenXresearch.com

# Have we seen peak TV? Is the Golden Age of Scripted TV over?

When we compare House of Cards (HOC, Black), to Netflix's Cancelled Shows and also Homeland (HL, RED) on Show Time we can get feel for how the shows are trending over the same period from 2013 to the present. We also note, over all TV ratings for all scripted Shows are down double digits in 2017 thus the Golden age of TV is over and maybe it was over the second the last episode of Breaking Bad was dropped. The ratings below are C+3 and the actual views of each season may be more than 100% greater when including time shifted views.

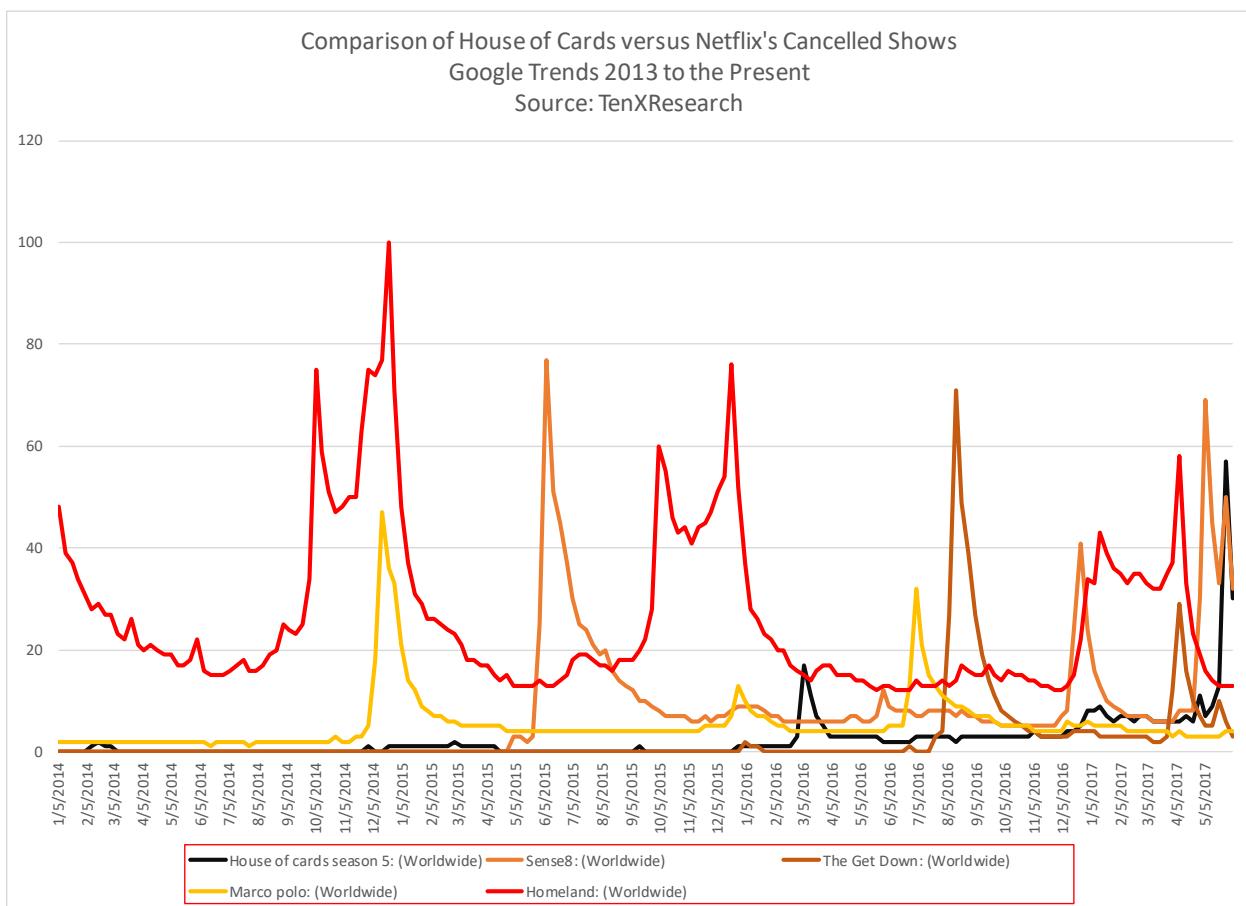
**Current/latest season's ratings data, sorted by initial airings**

	Showtime TV shows			Viewers (mil)	Year-to-year change
1	<a href="#">Shameless (renewed)</a>	s7	1.416		-9.39%
2	<a href="#">Homeland (renewed)</a>	s6	1.276		-16.51%
3	<a href="#">Ray Donovan (renewed)</a>	s4	1.227		-11.70%
4	<a href="#">Billions (renewed)</a>	s2	0.88		-19.85%
5	<a href="#">The Affair (renewed)</a>	s3	0.649		-22.87%
6	<a href="#">Penny Dreadful (ended)</a>	s3	0.578		-5.23%
7	<a href="#">Masters of Sex (cancelled)</a>	s4	0.453		-23.85%
8	<a href="#">Episodes (renewed/ending)</a>	s4	0.349		-35.35%
9	<a href="#">Twin Peaks</a>	s3	0.331		
10	<a href="#">House of Lies (cancelled)</a>	s5	0.323		-44.64%
11	<a href="#">Roadies (cancelled)</a>	s1	0.307		
12	<a href="#">Dice (renewed)</a>	s1	0.191		
13	<a href="#">I'm Dying Up Here</a>	s1	0.167		
14	<a href="#">Guerrilla</a>	s1	0.102		

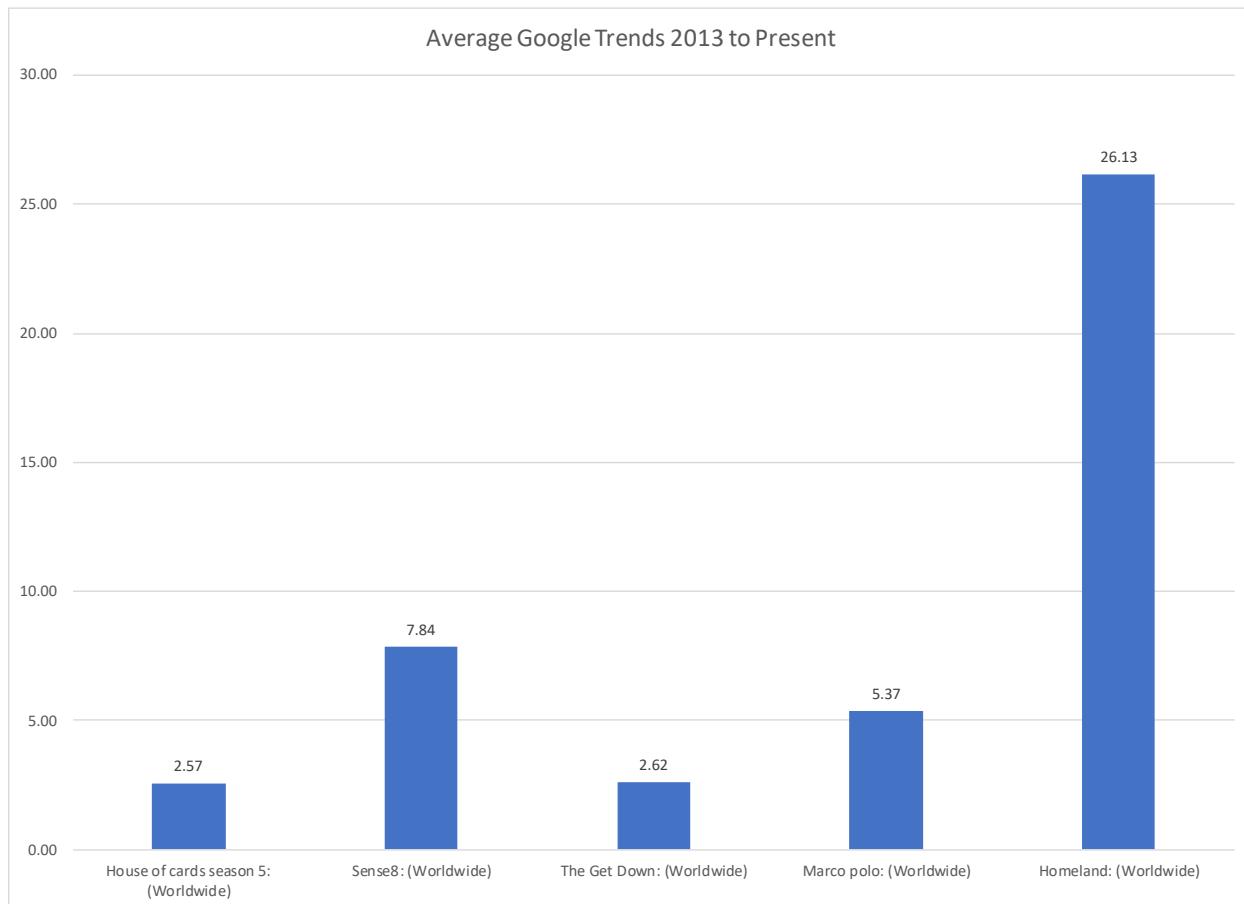
Nielsen Ratings

## While House of Cards Clearly outperforms; Netflix's Fallen Stars seem popular according to Google Trends.

As compared to Home Land and HOC: Sense8, The Get Down, and Marco Polo, three notable cancelled Netflix Shows, appear to have Google Trends that are in the same league as House of Cards and likely had similar viewership. However, I suspect since HOC is cheaper to produce and a key Netflix tentpole thus the show was not cancelled. However, if the Netflix model is based on retaining HOC and Orange is the New Black Subscribers throughout the year Netflix is going to need to find another way to combat churn. Maybe the new content is Cinema or International but so far Netflix does not have a runaway movie hit that compares to House of Cards, or Orange is the New Black.



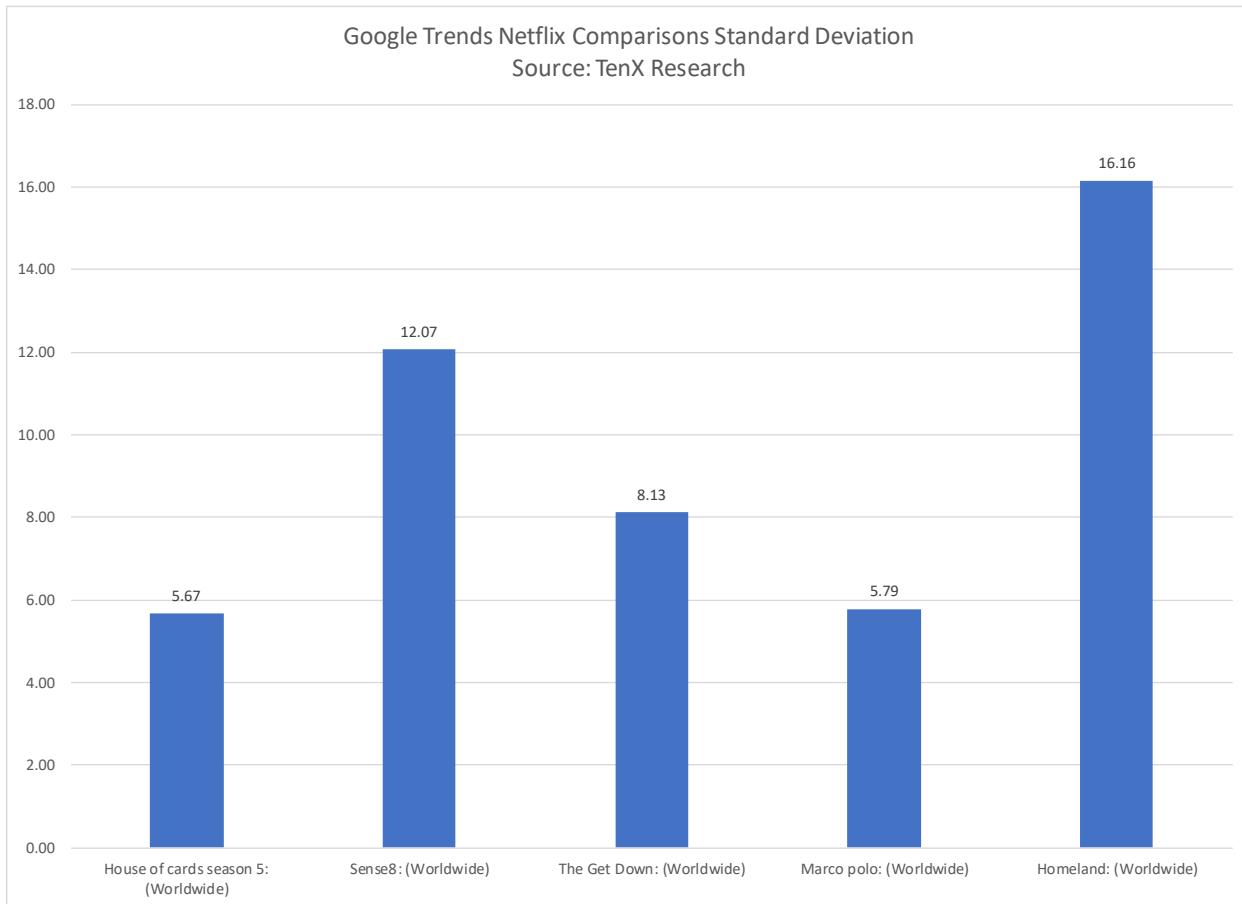
When we look at the average Google Trends of the Netflix programming sample HOC lags the cancelled Originals comparison set. Sense8 and Marco Polo had global Google trends which are roughly double HOC. I suspect these Originals were at some point more popular than HOC but are not more popular today.



## There is more to statistics than an average.

The goal of good expensive content is to retain audiences and keep people from cancelling subscriptions. The Standard Deviation may be a good measure of retention for a particular Original.

Netflix, owing to its business model, must essentially renew its subscriber base each month. If Netflix had popular stable content retention is an easier task as compared to blowing up the Internet every month with a spectacular premier. HOC may be less popular at times as compared to the cancelled Netflix shows. However, over time HOC has fewer ups and downs as exemplified by the lower standard deviation on Google Trends. Thus, the HOC audience is more bankable than The Get Down or even Homeland due to the low average variance over time.



## Conclusion

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Warning: Combined with the departure of Reed Hunt, the exit of some of Netflix's long time hedge fund holders, I would be very cautious on Netflix. I respect this company and for many years the Netflix has created alpha by marketing direct to the consumer. Recently, Netflix in addition to cancelling shows (which if the model was 100% effective they would not need to do) Netflix has out licensed programming to TenCen in China and Altice. While these deals will be good for earnings and the top line, long term the lack of exclusivity undermines the Netflix Brand which is about disruption.

The Bull Case Changes occurring today will lead to greater earnings growth than modeled in the consensus. The Bull Case also would suggest current cuts have no immediate influence on subscriber growth rates in the near term or the remainder of 2017. In the Bull Case NFLX retains subs at lower cost as compared to the cancelled shows, the current 52 week range could be sustained and a short is a bad idea.

The Bear Case The bear case is NFLX is reacting and not cutting to the where the ball will be. I think that is bad for a Company with a triple digit multiple, a 6 year old SVOD business, that owes Hollywood \$15 billion. Under the Bear Case the rate of subscriber growth slows faster than expected and the forecast for 100 million US Subs is pushed out yet again from to 2026. Under the Bear Case fewer expenses are capitalized and earnings approximates NFLX's negative FCF. Under the Bear Case NFLX capitalizes the liability and earnings are depressed. Under the Bear Case, I think it reasonable to assume that over 2 to 3 years the Netflix EV to Sales multiple contracts roughly 50% which is still growthy and a premium to the S&P 500.

I think in the near term the Bull Case is 70% probable and in the long-term the Bear Case could be optimistic. If Netflix responds - poorly and slowly to the apparent Originals Content bubble bursting -as evidenced by poor TV ratings and high costs- Netflix could have more downside.

Devising a strategy to exploit this bi modal data set is a challenge. To para phrase Miyamoto Musashi, the great 16<sup>th</sup> Century General, "You must understand that there is more than one path to the top of the mountain" So Netflix requires out of the box thinking given I think it could go up 20% and down +50%.

Personally, I have been systematically buying puts and pressing positions, and then hedging after about 10% downside. After 3 years, the strategy has worked but I would have made more money being long NFLX shares. After the recent sell off, I am not naked short today. The sell off has little to do with this report, I am looking for a career not a trade. However, if I were running Institutional Funds I would be rebalancing long positions because NFLX is not a name I would be overweight after a 30% run over the last 12 months and even more from the \$84 52 week low. Musashi also said, "Do nothing that is of no use".

If I were managing Long/ Short assets I would be long Netflix shares, and have a disproportional 10:1 position in Netflix Puts. For example, If I were long \$150 million in stock and \$1.5 million out of the money puts the stock could go up \$15 and the position could be profitable. If the stock goes down owing to put leverage and writing calls against the long the position would be profitable. That would be my strategy which is borrowed from David Rocker many years ago. The benefit of my trade is if management does start to falter, I would also be positioned to be an activist and lobby for change. I like those options and the opportunity to create value multiple ways.

**Business Description**

Netflix, Inc. operates as an Internet subscription service company, which provides subscription service streaming movies and TV episodes over the Internet and sending DVDs by mail. The company operates its business through the following segments: Domestic streaming, International streaming and Domestic DVD. Netflix obtains content from various studios and other content providers through fixed-fee licenses, revenue sharing agreements and direct purchases. It markets its service through various channels, including online advertising.... More

Source: FactSet Fundamentals

**Financial Valuation Ratios**

	Dec '18A	Mar '17LTM	12/2017E	12/2018E
TEV/Sales	7.88	7.13	6.02	5.02
TEV/EBITDA	12.79	11.78	88.75	40.98
TEV/EBIT	178.64	115.53	86.07	48.09
EBITDA/Interest Expense	35.34	35.89	8.77	11.03
EBIT/Interest Expense	2.53	3.84	5.25	9.40
EBITDA/CapEx/Interest Expense	34.10	34.25	5.89	10.13
Total Debt/EBITDA	0.64	0.58	-	-
Total Debt/TEV	0.05	0.05	-	-
PE	355.16	200.95	148.99	80.04

TEV and PE as of Latest Available in USD; Source: FactSet Fundamentals, 9/18

**Financial Summary**

	Mar '17Q	Mar '17LTM	Dec '15A	Dec '16A	Dec '17E	Dec '18E
Revenue	2,836.84	9,509.57	8,779.51	8,830.87	11,263.20	13,503.70
Growth (%)	34.7	32.7	23.2	33.3	-	19.9
Gross Income	979.81	3,192.18	2,188.03	2,800.77	-	-
Margin (%)	37.2	33.6	32.3	31.7	-	-
EBITDA	1,598.27	5,757.83	3,852.87	5,304.77	1,018.47	1,655.89
Margin (%)	60.5	60.5	56.8	60.1	9.0	12.3
EBIT	256.94	587.28	305.83	379.79	788.26	1,410.72
Margin (%)	9.7	6.2	4.5	4.3	7.0	10.4
Net Income	178.22	337.24	122.84	188.68	488.92	885.87
Margin (%)	6.8	3.5	1.8	2.1	4.1	6.4

Source: FactSet Fundamentals, 9/18; USD, millions

**Top Institutional Holders**

Holders	MV (MM)	%Out
Capital Research & Management Co....	7,853.9	11.7
The Vanguard Group, Inc.	4,113.3	6.3
Fidelity Management & Research Co.	3,150.5	4.8
Sage Funds Management, Inc.	2,855.8	4.1
BlackRock Fund Advisors	2,580.2	3.9
Jennison Associates Llc	1,960.7	3.0
T. Rowe Price Associates, Inc.	1,611.6	2.5
Srix Investment Management Llc	1,538.1	2.4
Other Institutions	28,214.9	43.2
<b>Total Institutions</b>	<b>53,448.8</b>	<b>81.9</b>

Source: FactSet Ownership, USD

**Top Insiders/Stakeholders**

Holders	MV (MM)	%Out
Tcmi, Inc.	898.9	1.4
Haslings Wilmot Reed Jr	887.8	1.4
Hunt Neil D	89.7	0.1
Houg Jay Crandall	85.5	0.1
The Hillman Co.	53.0	0.1
Glynn Capital Management Llc	23.1	0.0
Dragoner Investment Group Llc	17.3	0.0
Battle A George	8.5	0.0
Other Insiders/Stakeholders	16.8	0.0
<b>Total Insiders/Stakeholders</b>	<b>2,942.6</b>	<b>3.1</b>

Source: FactSet Ownership, USD

**Current Credit Ratings**

	Date	Rating	Direction	Watch	Outlook
Moody's	22-Jan-15	B1	Downgrade	-	Stable
S&P	25-Feb-16	B+	-	-	Stable
Fitch	-	-	-	-	-

Source: Moody's, S&amp;P, Fitch

**Key Comps**

Comp Name	Revenue	# of Employees	Equity Value	TEV	TEV/EBITDA
Netflix	9,509.57	4,700	68,030.30	70,054.80	12.17
Amazon.com	142,573.00	341,400	480,587.00	479,794.00	38.28
Best Buy	39,488.00	125,000	18,222.80	15,787.80	8.47
Redbox Automated Retail LLC	-	-	-	-	-

Source: Hoover's, FactSet Fundamentals, USD, in millions except employees

**Headquarters**

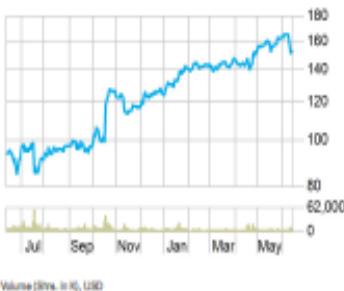
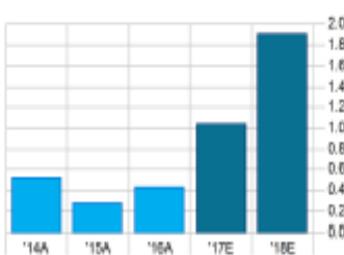
100 Winchester Circle  
Los Gatos, California 95032  
United States  
+1.408.540.3700  
http://www.netflix.com

Source: FactSet Fundamentals

**Current Capitalization**

Price in USD as of 13 Jun '17	152.72
# Shares Outstanding	430.99
Equity Value	65,821.30
- Cash and ST Investments	1,341.23
+ Total Debt	3,385.43
- Preferred Equity	0.00
- Minority Interest	0.00
+ Total Enterprise Value (TEV)	67,845.50

Source: FactSet Fundamentals; USD as of 31 Mar '17, millions

**Price Volume****EPS Estimate Forecast**

Source: EPS

**Segments**

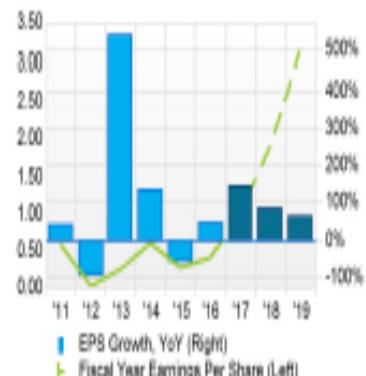
Source: FactSet Fundamentals

#### Latest 5 Mergers & Acquisitions

Announce Date	Close Date	Buyer	Target	Deal Value	EV/EBITDA
13-May-2010	Rumor Cancelled	Amazon.com, Inc.	Netflix, Inc.	-	-
13-Jul-2009	Rumor Cancelled	Amazon.com, Inc.	Netflix, Inc.	-	-

Source: FactSet Mergersat; USD, million

#### EPS Growth



Source: FactSet Fundamentals; S&P

#### Latest Equity Deals

Offer Date	Offer Type	Exchange	Curr	Offer Price	Tot Sha Offered	% Over-Alloc Excr.	Gross Proceeds
21-Nov-2011	Follow-On	NASDAQ	USD	70.00	2,857,143	Not Offered	200.00
28-Apr-2008	Follow-On	NASDAQ	USD	30.00	3,500,000	Not Offered	105.00
22-May-2002	IPO	NASDAQ	USD	15.00	8,325,000	100.00	94.88

Source: FactSet New Issues; Monetary values in millions except Price

#### Latest 5 Issued Bonds

Issue Date	Issuer	Issued	Coupon (%)	Maturity	Price	YTW	Spread
02-May-17	Netflix, Inc.	1300.0	EUR	3.825	15-May-27	102.800	-
02-May-17	Netflix, Inc.	1300.0	EUR	3.825	15-May-27	100.000	-
27-Oct-18	Netflix, Inc.	1000.0	USD	4.375	15-Nov-28	100.583	-
27-Oct-18	Netflix, Inc.	1000.0	USD	4.375	15-Nov-28	100.583	-
05-Feb-18	Netflix, Inc.	700.0	USD	5.500	15-Feb-22	109.000	-

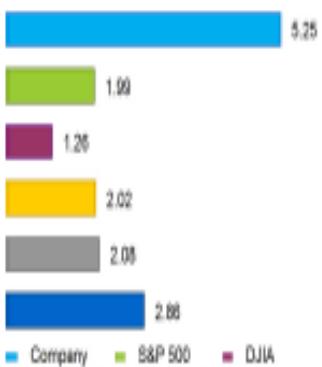
Source: Dealogic and Mergers; Monetary values in millions

#### Management & Board

Name	Position
Reed Hastings	Chairman, President & Chief Executive Officer
David B. Wells	Chief Financial Officer
Tim Haley	Independent Director
Neil D. Hunt	Chief Product Officer
Jay C. Hoag	Lead Independent Director

Source: FactSet Fundamentals

#### Relative Takeover Defense Protection



Source: FactSet ShareRepurch - TrueCause

#### Latest StreetAccount News

Date	Headline
05/25/2017	Hedge funds change modi operandi to compete with tech firms for talent - WSJ
05/08/2017	Facebook plans debut of TV shows next month - Business Insider, citing sources
05/04/2017	YouTube to take on Netflix and Amazon with 40 new original shows -- Bloomberg
05/02/2017	LA Times looks at deal that studios, writers struck
05/02/2017	Writers Guild of America, Alliance of Motion Picture and Television Producers reach agreement - LA Times

Source: FactSet StreetAccount

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**Corporate Information**

Headquarters: Los Gatos, California 95032 US  
 Management: Reed Hastings, Jr.  
 David B. Wells, MBA  
 SVP, Business  
 # Employees: 4,700

**EPS**

FY Ending	Dec '15	Dec '16	Dec '17E	Dec '18E
Q1 (Mar)	0.11	0.06	0.40	0.46
Q2 (Jun)	0.06	0.09	0.15	0.37
Q3 (Sep)	0.07	0.12	0.22	0.44
Q4 (Dec)	0.10	0.15	0.27	0.49
<b>Fiscal Year</b>	<b>0.28</b>	<b>0.43</b>	<b>1.04</b>	<b>1.91</b>
P/E (x)	437.5	290.7	147.0	80.0
<b>CF Ending</b>	<b>Dec '15</b>	<b>Dec '16</b>	<b>Dec '17E</b>	<b>Dec '18E</b>
<b>Cal. Year</b>	<b>0.28</b>	<b>0.43</b>	<b>1.04</b>	<b>1.91</b>
P/E (x)	437.5	290.7	147.0	80.0

**EPS Estimate Revisions (%)**

	1 Week	1 Month	3 Months	6 Months
Qtr End Jun '17	0.7	-5.6	-34.3	-37.1
Qtr End Sep '17	1.8	1.8	-2.6	-17.0
FY End Dec '17	-0.1	-1.0	-5.5	9.4
FY End Dec '18	-0.1	0.4	-3.6	-0.1

**Sales**

FY Ending	Dec '15	Dec '16	Dec '17E	Dec '18E
Q1 (Mar)	1,573.1	1,557.7	2,036.6	3,178.5
Q2 (Jun)	1,644.7	2,105.2	2,761.5	3,279.1
Q3 (Sep)	1,738.4	2,292.2	2,075.2	3,398.4
Q4 (Dec)	1,023.3	2,477.5	3,014.4	3,537.6
<b>Fiscal Year</b>	<b>6,779.5</b>	<b>8,839.7</b>	<b>11,263.2</b>	<b>13,503.7</b>
<b>CF Ending</b>	<b>Dec '15</b>	<b>Dec '16</b>	<b>Dec '17E</b>	<b>Dec '18E</b>
<b>Cal. Year</b>	<b>6,779.5</b>	<b>8,839.7</b>	<b>11,263.2</b>	<b>13,503.7</b>

**Valuation Summary**

	5 Year				
	Current	High	Low	Avg	Vs Ind
P/E (LTM)	200.9	658.7	17.7	264.9	8.3
P/E (NTM)	103.6	504.5	41.2	157.0	3.6
PEG (NTM)	1.8	20.0	1.1	5.8	1.3
P/Bk	22.1	28.7	4.3	17.2	6.0
PCF	-	4,168.2	13.3	772.7	-
PSales	7.2	9.7	0.9	5.3	2.7
EV/EBITDA	11.8	16.3	1.7	9.2	1.1
EV/Sales	7.1	9.4	0.7	5.2	1.9
Dv Yld	0.0%	0.0%	0.0%	0.0%	0.0

**Growth Summary - CAGR (%)**

	1Y	3Y	5Y	10Y
Sales	30.3	26.4	22.5	24.4
EBITDA	37.7	28.0	34.1	37.7
EBIT	24.2	16.5	-0.3	20.3
Net Income	52.2	18.4	-3.0	14.0
EPS (Diluted)	53.6	17.6	-0.3	15.5
Dividends	-	-	-	-
BVPS	19.9	24.9	30.3	21.9
Free CFlow	-88.1	-	-	-

**Key Statistics**

52 Week Range	\$94.50 - 160.87
Avg Daily Vol (3 Mo)	6,021,417.5
Market Value (M)	65,823
Ent Value (M)	67,847
Shares Out (M)	431.0
Dividend Yield	0.0%
Float	96.9%
Institutional	81.9%
Top 10 Inst Holders	43.1%
Analyst Coverage	40
Target Price	\$159.08
LT Growth Rate	58.2%
Avg Rating	Buy

**Business Segments**

	Tot Rev	% of Tot	Op. Inc	Assets	Cap Ex
Domestic Streaming	5,077	57	1,039	-	-
International Streaming	3,211	36	-309	-	-
Domestic DVD	542	6	280	-	-
Other Operating Expenses	-	-	-1,430	-	-

**Price Volume****Price, Financials & Ratios History**

2011	2012	2013	2014	2015	2016	2017	5Y Avg
-60.6	33.6	297.6	-7.2	134.4	8.2	23.4	Price Change ...
-60.6	20.2	260.0	-18.6	135.1	-1.3	14.4	+/- S&P 500 (%)
-87.3	-11.0	256.6	-21.9	132.5	-12.0	8.3	+/- Industry (%)
0.0	0.0	0.0	0.0	0.0	0.0	0.0	Div Yld (%)
Dec '11	Dec '12	Dec '13	Dec '14	Dec '15	Dec '16	Dec '17E	5Y CAGR
3,205	3,609	4,375	5,505	6,700	8,031	11,203	Sales
1,225	1,752	2,470	3,104	3,853	5,005	1,016	EBITDA
305	50	228	403	306	300	708	EBIT
226	17	112	267	123	187	467	Net Inc
0.59	0.04	0.26	0.02	0.28	0.43	1.04	EPS (Dil)
0.00	0.00	0.00	0.00	0.00	0.00	0.00	Dvps PS
381	412	425	432	436	439	-	Sha Out (Dil)
1.06	1.91	3.20	4.38	5.20	6.23	7.04	Bk PS
789	748	1,200	1,009	2,311	1,734	-	Cash & ST Inv
3,069	3,968	5,413	7,057	10,203	13,507	-	Assets
606	505	905	1,277	1,902	1,134	-	Wkgs Cap
432	431	530	828	2,400	3,394	-	LT Debt
310	23	98	16	-749	-1,474	-	Net Op CF
-125	-90	-120	-145	-171	-186	-	Cap Ex
200	-19	44	-53	-941	-1,502	-	FCF
Dec '11	Dec '12	Dec '13	Dec '14	Dec '15	Dec '16	Dec '17E	5Y Avg
36.3	27.2	29.5	31.0	32.3	31.7	30.7	Gross Margin ...
30.2	48.5	56.5	57.9	58.0	60.1	60.0	EBITDA Margin ...
12.0	1.4	5.2	7.3	4.5	4.3	7.0	EBIT Margin (%)
7.1	0.5	2.6	4.0	1.0	2.1	4.1	Net Margin (%)
11.2	0.5	2.4	4.3	1.4	1.6	3.7	ROA (%)
48.5	2.5	10.0	16.7	6.0	7.6	16.4	ROE (%)
1.6	1.0	0.9	0.9	0.8	0.7	0.9	Asset Turn
4.0	5.3	4.1	3.0	4.6	5.1	4.6	Assets/Equity
1.36	1.49	1.68	2.25	1.83	1.80	1.86	Sales/Emp
-	-	-	-	-	-	-	DSO
20	12	12	15	18	17	15	DPO
1.5	1.3	1.4	1.5	1.5	1.2	1.4	Current Ratio
1.5	1.3	1.4	1.5	1.5	1.2	1.4	Quick Ratio
40.3	36.7	20.5	33.4	51.9	55.9	41.3	TDebt%Cap
67.5	58.0	38.0	50.0	100.0	126.6	76.5	TDebt%TDE

Monetary values in millions of U.S. Dollars, except per share data | Fundamental and estimate reporting standards may differ

**Key Comps**

	Price	MV (M)	PE (NTM)	PEG (NTM)	ROE (%)	EPS YoY (%)
Netflix, Inc.	151.44	65,271	102.8	1.7	12.7	53.6
Amazon.com, Inc.	964.91	461,203	107.0	3.9	14.2	292.0
Best Buy Co., Inc.	57.12	17,419	14.3	1.2	26.2	67.3
Apple Inc.	145.42	759,197	14.4	1.3	34.6	-9.9
AT&T Inc.	39.07	240,202	13.0	1.8	10.2	-11.4

Mutual Fund Holders	MV	% O/S
American Funds Growth Fund of America	3,651	5.5
American Funds AMCAP Fund	1,759	2.7
Fidelity Contrafund	1,412	2.1
Vanguard Total Stock Market Index Fund	1,408	2.1
Vanguard 500 Index Fund	1,010	1.5
<b>Total Mutual Funds</b>	<b>45.0</b>	

## Supply Chain Overview

## Suppliers (5 of 46)

D Direct Disclosure R Reverse Disclosure M Mutual Disclosure

Company Name	% of Revenue	Market Value (M)	FactSet Sector	FactSet Industry	Country
DreamWorks Animation SKG, Inc. Class A	33.00%	-	Consumer Services	Movies/Entertainment	USA
CBS Corporation Class B	-	25,161	Consumer Services	Broadcasting	USA
Twenty-First Century Fox, Inc. Class A	-	51,616	Consumer Services	Movies/Entertainment	USA
Comcast Corporation Class A	-	195,472	Consumer Services	Cable/Satellite TV	USA
TiVo Inc.	-	-	Consumer Durables	Electronics/Appliances	USA

## Customers (5 of 19)

Company Name	% of Revenue	Market Value (M)	FactSet Sector	FactSet Industry	Country
TiVo Inc.	-	-	Consumer Durables	Electronics/Appliances	USA
IPic Entertainment LLC	-	-	Consumer Services	Movies/Entertainment	USA
ProSiebenSat.1 Media SE	-	9,686	Consumer Services	Broadcasting	DEU
PCCW Limited	-	4,356	Communications	Major Telecommunications	HKG
DISH Network Corporation Class A	-	30,769	Consumer Services	Cable/Satellite TV	USA

## Partners (5 of 20)

Company Name	Partnership Type	Market Value (M)	FactSet Sector	FactSet Industry	Country
CBS Corporation Class B	In-licensing	25,161	Consumer Services	Broadcasting	USA
TiVo Inc.	In-licensing, Out-licensing	-	Consumer Durables	Electronics/Appliances	USA
Time Warner Inc.	In-licensing	76,933	Consumer Services	Movies/Entertainment	USA
Twenty-First Century Fox, Inc. Class A	In-licensing	51,616	Consumer Services	Movies/Entertainment	USA
Comcast Corporation Class A	In-licensing	195,472	Consumer Services	Cable/Satellite TV	USA

Source: FactSet Supply Chain Relationships.

Sorted by related revenue, relationship disclosure, product overlap, and name.

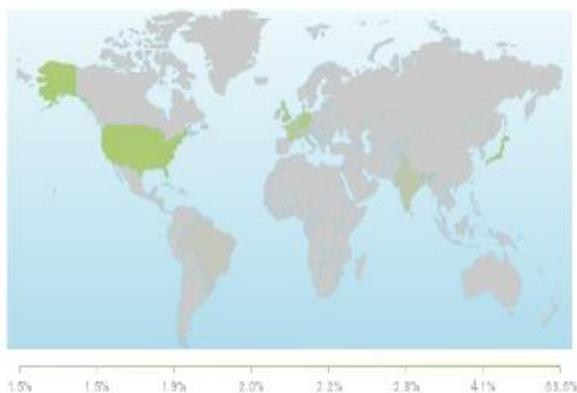
All Values in USD

## Revenue Exposure By Country

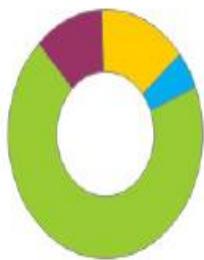
Total LTM Revenue \$9.5B

	% of Tot. Rev.	% Chg (Y/Y)	3 Yr Trend
United States*	63.6	-10.8	↓
Japan	4.1**	-9.3	↓
Germany	2.8**	-17.1	↓
United Kingdom	2.2**	-26.1	↓
France	2.0**	-18.1	↓
India	1.9**	-	
Italy	1.5**	-18.4	↓
Brazil	1.5**	-19.6	↓

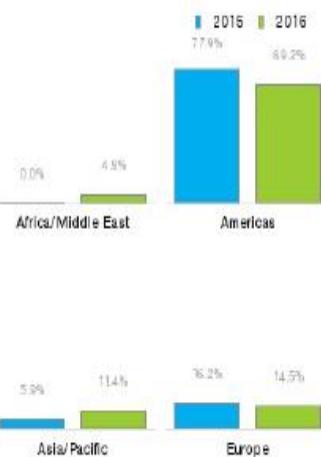
## Country Map of Revenue Exposure



## Revenue Exposure By Super-region



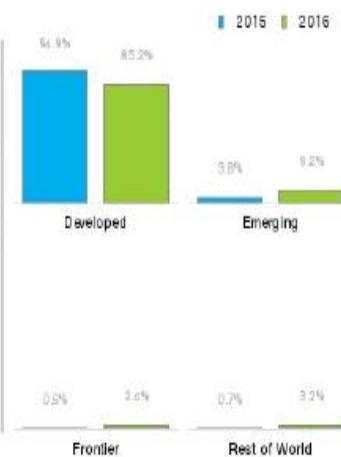
Africa and Middle East: 4.9%  
 Americas: 69.2%  
 Asia/Pacific: 11.4%  
 Europe: 14.5%  
 Unspecified: 0.0%



## Revenue Exposure By Economy



Developed: 85.2%  
 Emerging: 9.2%  
 Frontier: 2.4%  
 Rest of World: 3.2%  
 Unspecified: 0.0%



### **Full Disclosure**

Investors should assume the author has a trading interest in any of the enterprises noted in this report and investors should not use the findings in this report as the sole basis for an investment decision. Readers should not view any of the views in this report as a buy sell recommendation.

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