

EQUITY INVESTMENT ANALYSIS REPORT

# Netflix, Inc.

**NASDAQ: NFLX**

Streaming & Entertainment | Software & IT Services

<b>REPORT DATE:</b>	February 27, 2026
<b>DATA COVERAGE:</b>	FY2021–FY2025 Financial Data
<b>SOURCES:</b>	SEC Filings, Refinitiv, Analyst Consensus
<b>RECOMMENDATION:</b>	BUY — Price Target \$1,200

Target: \$1,200

**BUY**

## 1. Executive Summary

Netflix, Inc. (NASDAQ: NFLX) is the world's leading streaming entertainment service, with over 300 million paid memberships across 190+ countries. FY2025 was a landmark year: revenue surged 15.8% to \$45.2 billion, net income reached a record \$11.0 billion (+26% YoY), and operating margin expanded to 29.5% — exceeding the company's own guidance for the second consecutive year. Diluted EPS grew to \$2.53 (+27.8% YoY), powered by subscriber growth, advertising tier expansion, and disciplined cost management.

Netflix's pivot to an advertising-supported tier, password-sharing crackdown, and live events strategy (NFL Christmas games, boxing) have unlocked a new growth vector that management estimates could double the addressable market. With the ad-supported tier now its fastest-growing plan in every market where it is offered, and live sports rights under negotiation, the company is transitioning from a pure subscription business to a multi-revenue-stream media platform. Free cash flow surged to \$9.5 billion in FY2025 — up from negative territory just three years ago — providing ample capital for content investment and aggressive share buybacks (\$8.5B in FY2025).

Metric	2021	2022	2023	2024	2025
Revenue (\$M)	\$29,698	\$31,616	\$33,723	\$39,001	\$45,183
Gross Profit (\$M)	\$12,365	\$12,447	\$14,008	\$17,963	\$21,908
EBITDA (\$M)	\$18,633	\$19,996	\$21,508	\$26,048	\$30,082
Net Income (\$M)	\$4,861	\$4,122	\$5,408	\$8,712	\$10,981
Diluted EPS	\$1.07	\$0.91	\$1.20	\$1.98	\$2.53
Gross Margin	41.6%	39.4%	41.5%	46.1%	48.5%
Operating Margin	20.9%	17.8%	20.6%	26.7%	29.5%
Free Cash Flow (\$M)	-\$132	\$1,619	\$6,926	\$6,922	\$9,461
Op. Cash Flow (\$M)	\$393	\$2,026	\$7,274	\$7,361	\$10,149

Table 1: Five-Year Key Financial Summary (USD Millions unless noted)

RATING	PRICE (~Feb 27)	12M TARGET	UPSIDE	DIV. YIELD
■ BUY	~\$995	\$1,200	+20.6%	None

## 2. Company Overview

Founded in 1997 as a DVD rental service, Netflix has evolved into the world's dominant streaming platform with operations in 190+ countries. The company's content library spans original series, films, documentaries, anime, and increasingly live events including sports. Netflix spends approximately \$17B annually on content, with a growing proportion allocated to original programming — a key competitive moat that drives subscriber acquisition and retention.

Parameter	Detail
Full Name	Netflix, Inc.
Ticker / Exchange	NFLX / NASDAQ

<b>Headquarters</b>	Los Gatos, California, USA
<b>Founded</b>	1997 (28 years in operation)
<b>Co-CEO</b>	Greg Peters & Ted Sarandos (since 2023)
<b>Approx. Employees (2024)</b>	~14,000
<b>Markets</b>	190+ countries worldwide
<b>Business Model</b>	Subscription + Advertising-supported streaming
<b>Market Cap (Feb 2026)</b>	~\$395.9 billion
<b>Enterprise Value (2025)</b>	~\$401.3 billion
<b>Dividend History</b>	No dividends paid (growth/buyback model)

Table 2: Company Profile

### 3. Financial Performance Analysis

#### 3.1 Revenue & Profitability

Netflix delivered record revenue of \$45.2 billion in FY2025, a 15.8% increase year-over-year. This acceleration (vs. +15.6% in FY2024) reflects strong subscriber additions, average revenue per membership growth, and a maturing advertising business. Gross profit surged 22.0% to \$21.9 billion, with gross margin expanding 240 basis points to 48.5% — a record high driven by content amortization efficiency and scale economies. Net income of \$11.0 billion represents a net margin of 24.3%, up from 22.3% in FY2024.

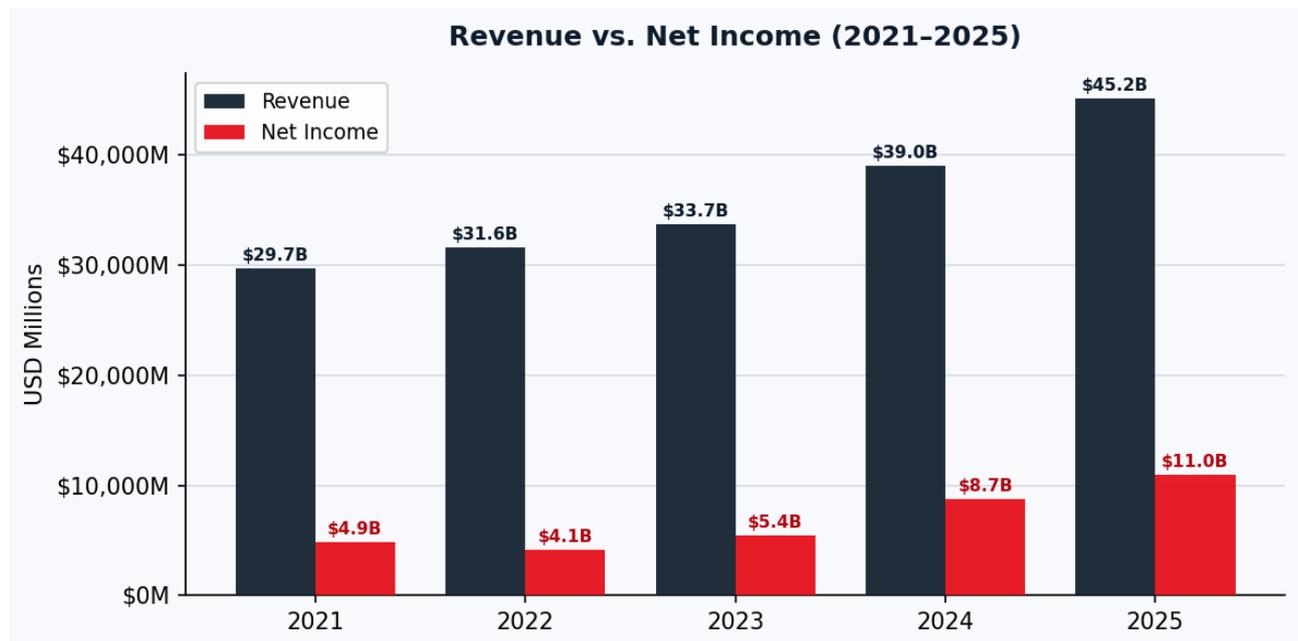


Chart 1: Annual Revenue vs. Net Income (2021–2025, USD Millions)

#### 3.2 Margin Expansion Story

The margin trajectory is Netflix's most compelling financial narrative. Operating margin improved to 29.5% in FY2025 from 17.8% just three years prior — a 1,170 basis point expansion over three years. This was driven by leveraging the fixed cost base of content across a larger subscriber base, improved content spend efficiency, and the high-margin advertising revenue contribution. Gross margin crossed 48% for the first time, and management has guided toward continued operating margin expansion of ~100-200 basis points annually.

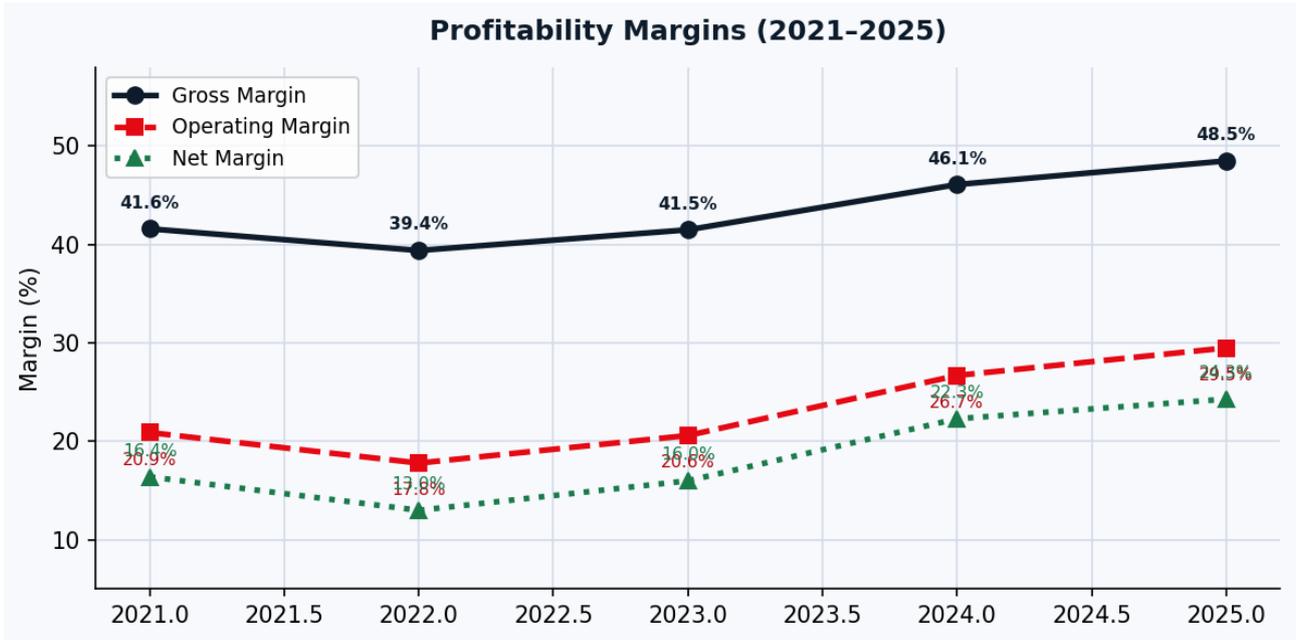


Chart 2: Profitability Margin Trends (2021–2025)

### 3.3 Earnings Per Share Growth

Diluted EPS reached a record \$2.53 in FY2025, up 27.8% year-over-year and representing a 24.0% CAGR since 2021. This growth is amplified by aggressive share repurchases — Netflix bought back \$8.5 billion of stock in FY2025 alone, reducing diluted share count from ~4,554M shares in 2021 to ~4,344M in 2025. Management has guided for mid-to-high twenties EPS growth in FY2026, with analyst consensus at approximately \$3.15–\$3.25 diluted EPS.



Chart 3: Diluted EPS Growth 2021–2025 (Red = FY2025 Record)

### 3.4 Free Cash Flow Transformation

Netflix's free cash flow transformation is one of the most dramatic in recent corporate history. FCF swung from -\$132M in FY2021 to \$9.5 billion in FY2025 — a \$9.6 billion improvement in four years. Operating cash flow reached \$10.1 billion (+37.9% YoY). CapEx remains modest at \$688M (production infrastructure), as content costs are classified as operating expenditures and amortized. The \$9.5B FCF funded \$8.5B in buybacks and leaves ample capacity for continued content investment and strategic acquisitions.

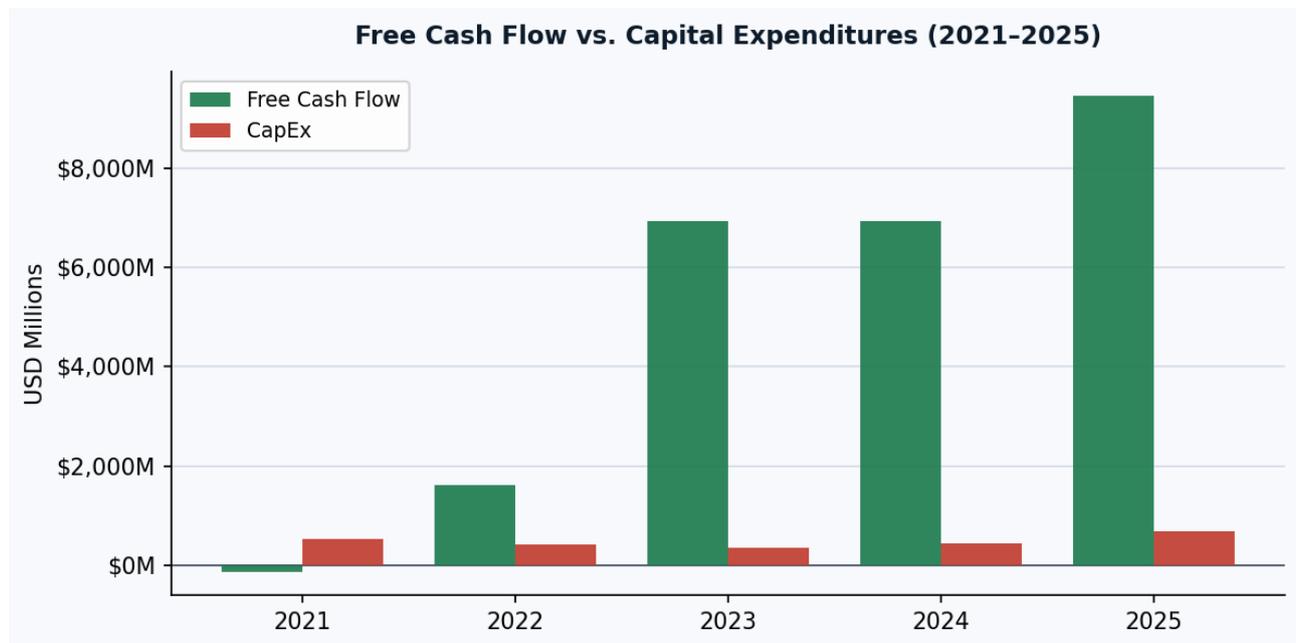


Chart 4: Free Cash Flow vs. Capital Expenditures (2021-2025, USD Millions)

### 3.5 Balance Sheet

Netflix's balance sheet has strengthened materially. Total debt declined to \$14.5 billion in FY2025 (from \$15.4B in 2021) while cash & equivalents stand at \$9.0 billion, resulting in net debt of ~\$5.4 billion — just 0.18x EBITDA. Common equity grew to \$26.6 billion. The company's investment-grade credit rating and ~\$13.3 billion interest coverage ratio make refinancing risk negligible. No dividends are paid; all excess capital is returned via buybacks.

Leverage Metric	2021	2022	2023	2024	2025
Total Debt (\$M)	\$15,393	\$14,353	\$14,543	\$15,583	\$14,463
Total Equity (\$M)	\$15,849	\$20,777	\$20,588	\$24,744	\$26,615
Cash & Equivalents (\$M)	\$6,028	\$5,147	\$7,117	\$7,805	\$9,034
Net Debt (\$M)	\$9,365	\$9,206	\$7,426	\$7,778	\$5,429
Net Debt / EBITDA	0.50x	0.46x	0.35x	0.30x	0.18x
Interest Coverage (EBIT/Int)	8.1x	8.0x	9.9x	14.3x	17.2x
Debt / Equity	97.1%	69.1%	70.6%	63.0%	54.3%

Table 3: Balance Sheet & Leverage Overview

## 4. Operating Metrics & Subscriber Growth

Netflix surpassed the 300 million paid subscriber milestone in FY2024, adding a record 41.4 million net subscribers — nearly 5x the 8.9 million added in the challenging FY2022 period. The password-sharing crackdown, launched in mid-2023, proved to be a transformational catalyst: it converted estimated 100M+ "borrowers" into paying subscribers while preserving content engagement. The advertising-supported (Standard with Ads) tier has grown to represent the majority of new sign-ups in the ~40 markets where it is available, at a lower price point that expands total addressable market while generating advertising revenue alongside subscription fees.

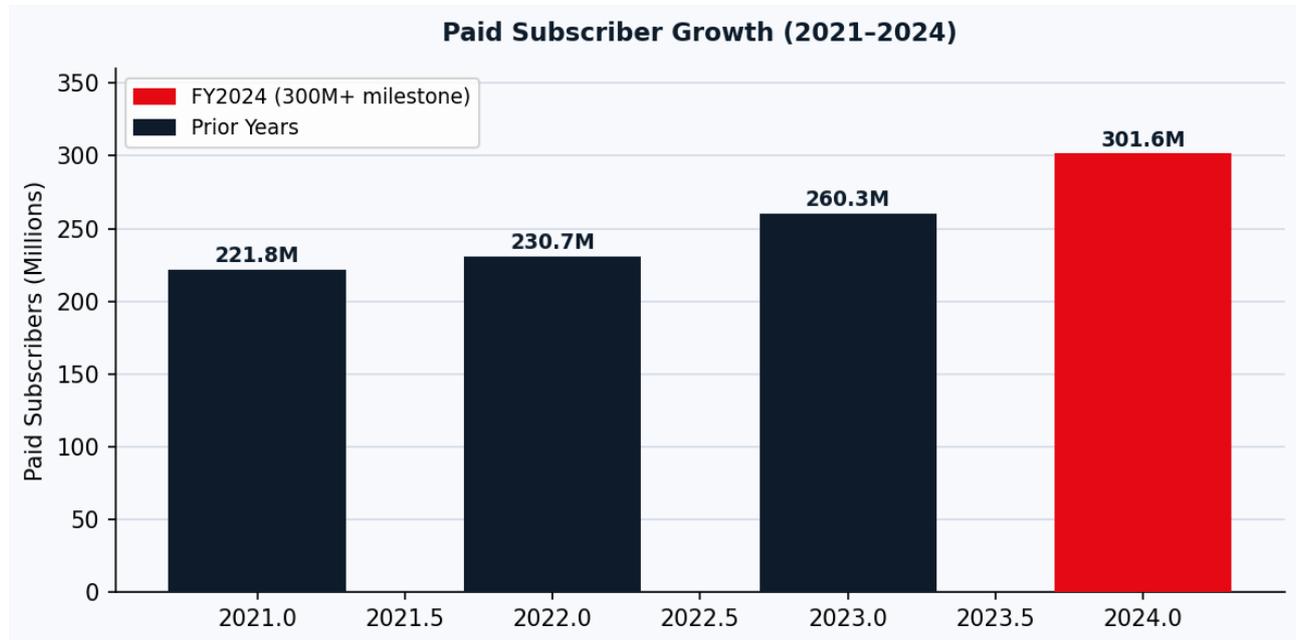


Chart 5: Paid Subscriber Growth (2021–2024, Millions)

Operating KPI	2021	2022	2023	2024
<b>Paid Subscribers (M)</b>	221.8	230.7	260.3	301.6
<b>Net Adds (M)</b>	+18.2	+8.9	+29.5	+41.4
<b>Avg. Revenue / Member / Mo.</b>	\$11.67	\$11.76	\$11.64	\$11.70
<b>Operating Margin</b>	20.9%	17.8%	20.6%	26.7%
<b>Gross Margin</b>	41.6%	39.4%	41.5%	46.1%
<b>Return on Equity (ROE)</b>	32.5%	20.6%	26.2%	38.1%
<b>Return on Assets (ROA)</b>	11.5%	8.5%	11.1%	16.3%
<b>Content Spend (est., \$B)</b>	~\$17B	~\$17B	~\$17B	~\$17B

Table 4: Operating Metrics & Efficiency Ratios

## 5. Geographic Revenue Breakdown

Netflix generates revenue across four geographic segments. The United States & Canada (UCAN) region remains the largest, contributing approximately 43% of total revenue in FY2025 with the highest average revenue per membership. Europe, Middle East & Africa (EMEA) is the second-largest segment at ~31%, benefiting from strong original content localisation (e.g., Squid Game season 2, European originals). Latin America and Asia-Pacific segments represent the highest long-term growth opportunities, with significant white-space for subscriber penetration as average revenue per membership converges upward over time.

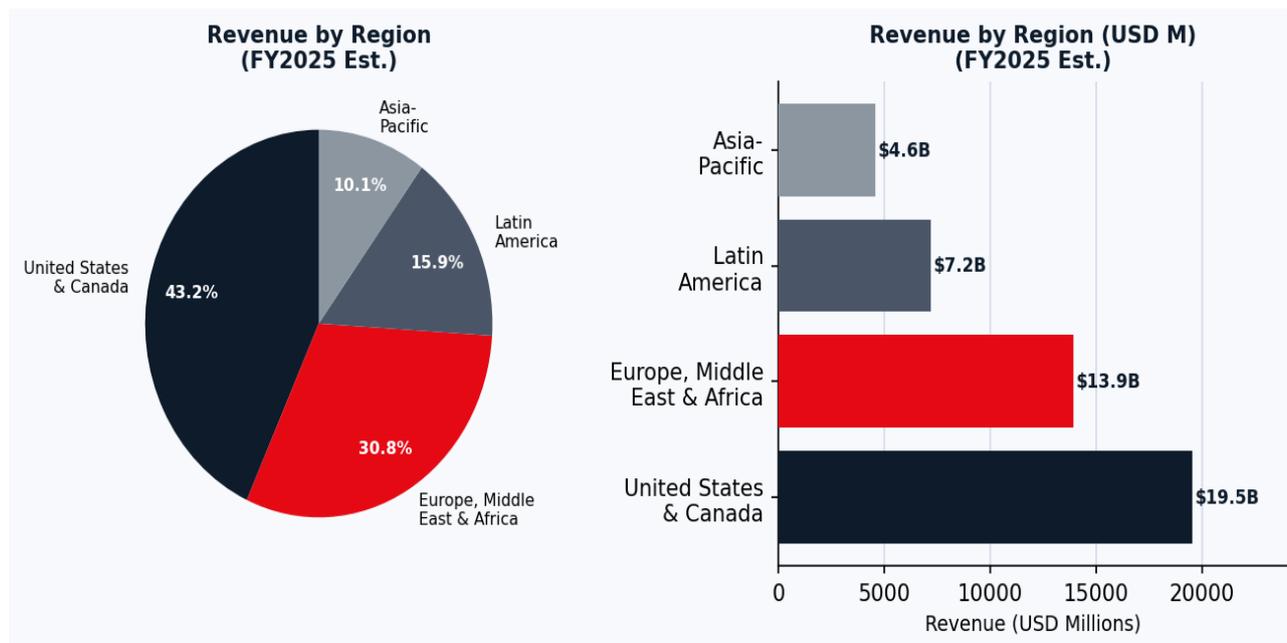


Chart 6: Estimated Revenue by Geographic Region (FY2025)

Region	Rev. Est. (\$M)	Rev. Share	Key Driver
US & Canada (UCAN)	\$19,519	~43.2%	Highest ARPU; ad tier maturation
Europe, ME & Africa (EMEA)	\$13,916	~30.8%	Localized originals; password fix
Latin America (LATAM)	\$7,184	~15.9%	Subscriber penetration growth
Asia-Pacific (APAC)	\$4,564	~10.1%	Long-term growth; price expansion

Table 5: Geographic Revenue Breakdown (FY2025 Estimates)

## 6. Valuation Analysis

At a current price of approximately \$995 per share (February 27, 2026), Netflix trades at a premium to the broader S&P; 500 but at a discount to its own historical multiples given the step-change improvement in earnings quality and free cash flow generation. The P/E of ~37x FY2025A is elevated in absolute terms but justified by the ~25% EPS CAGR trajectory, ~29% operating margins, and growing advertising revenue contribution. Wall Street consensus (40+ analysts) rates the stock predominantly Buy/Overweight with 12-month targets ranging from \$900 to \$1,300, clustering around \$1,100–\$1,200.

Valuation Metric	FY2025A	FY2026E	Commentary

<b>P/E (Price/EPS)</b>	~37.1x	~28-30x	Premium vs. market; justified by 25%+ EPS growth
<b>EV/EBITDA</b>	~13.3x	~11-12x	In line with 5Y avg 12.3x; compressing rapidly
<b>Price/Sales</b>	~8.8x	~7.5x	Premium for durable double-digit rev growth
<b>Price/FCF</b>	~41.9x	~32-35x	FCF yield ~2.4%; expanding as FCF grows
<b>EPS Growth (YoY)</b>	+27.8%	~25%E	Mgmt guidance; consensus \$3.15-\$3.25 FY2026E
<b>Revenue Growth</b>	+15.8%	~12-14%E	Advertising + price increases; new markets
<b>EV/Revenue</b>	~8.9x	~7.8x	Reflects subscription + ad hybrid model premium

Table 6: Valuation Metrics (E = Estimate)

### Analyst Consensus

40+ Wall Street analysts cover Netflix. The consensus rating is Strong Buy/Buy, with median 12-month price target of ~\$1,150. Key recent upgrades include Morgan Stanley (Overweight, \$1,300 target), Goldman Sachs (Buy, \$1,150), and JPMorgan (Overweight, \$1,200). FY2026 consensus EPS estimate is ~\$3.15–\$3.25, implying ~28x forward P/E at current prices — reasonable for a company growing earnings 25%+ with expanding FCF margins.

Firm	Rating	Price Target	Date
<b>Morgan Stanley</b>	Overweight	\$1,300	Feb 2026
<b>JPMorgan</b>	Overweight	\$1,200	Feb 2026
<b>Goldman Sachs</b>	Buy	\$1,150	Jan 2026
<b>Consensus (40+ analysts)</b>	Buy	\$1,050-\$1,200	Feb 2026
<b>Wall Street Range</b>	Mostly Buy	\$900-\$1,300	Current

Table 7: Analyst Ratings &amp; Price Targets

## 7. Key Investment Catalysts

Catalyst	Description	Impact
<b>Advertising Tier Scaling (Primary Catalyst)</b>	Ad-supported tier is fastest-growing plan in all ~40 markets. Netflix advertising revenue estimated to reach \$2-4B by 2026. Partnership with Google/The Trade Desk for programmatic. Ad CPMs 2-5x higher than competitors. Potential to double TAM.	<b>VERY HIGH +</b>
<b>Password Sharing Monetization</b>	Phase 2 of crackdown: conversion of remaining borrowers in emerging markets. Estimated 100M+ accounts sharing passwords globally; incremental conversion at even 20% adds ~20M subscribers worth ~\$3-4B incremental annualized revenue.	<b>HIGH +</b>
<b>Live Events &amp; Sports Strategy</b>	NFL Christmas Day games, boxing (Paul vs. Tyson), WWE RAW (10-year deal). Live events drive subscriber acquisition and reduce churn. Sports rights negotiation ongoing; potential NBA/F1 deals could be transformational.	<b>HIGH +</b>
<b>Margin Expansion Path</b>	Mgmt targets 100-200bps op. margin improvement annually. FY2026 guidance implies ~31-32% operating margin. Content amortization efficiency + ad revenue mix shift = structural margin upside to 35%+ long-term.	<b>MEDIUM +</b>
<b>AI-Driven Content Efficiency</b>	Netflix deploying AI for content recommendation (already world-class), production cost reduction, and localization at scale. AI could reduce content production costs 10-20% over 3-5 years while improving personalization.	<b>MEDIUM +</b>
<b>International Penetration</b>	APAC and LATAM subscriber penetration remains well below UCAN. Price increases in emerging markets and ad tier adoption provide a long multi-year growth runway in highest-population-density regions.	<b>MEDIUM +</b>

Table 8: Key Investment Catalysts

## 8. Risk Assessment

Risk	Description	Level	Mitigation
<b>Competition</b>	Disney+, Apple TV+, Amazon Prime, Max, YouTube intensify. Studios may pull content.	<b>HIGH</b>	Original content moat; 300M+ subscribers; data advantage; ad tech scale
<b>Content Cost Inflation</b>	Writers' strikes, talent costs, sports rights escalation could pressure margins.	<b>MEDIUM</b>	AI efficiency; diversified content mix; multi-year rights deals; pricing power
<b>Subscriber Saturation</b>	UCAN market approaching penetration ceiling; growth must shift to ARPU expansion.	<b>MEDIUM</b>	Ad revenue offsets; price increases; live events reduce churn; APAC/LATAM runway

<b>Regulatory / Geo-political Risk</b>	Content regulation in EU, India, China market access; data privacy (GDPR).	<b>MEDIUM</b>	Local content production; regulatory compliance investment; geo diversification
<b>FX Currency Risk</b>	~57% of revenue outside USD; strong dollar headwinds compress reported revenue.	<b>LOW-MED</b>	Natural hedges; USD-denominated pricing in key markets; hedging programs
<b>Advertising Execution Risk</b>	Ad business is nascent; missing revenue targets could disappoint in near term.	<b>LOW-MED</b>	Google/TTD partnerships; improving targeting; growing inventory as base scales
<b>No Dividend / Pure Growth Valuation</b>	High P/E multiple vulnerable to macro rate rise or growth deceleration.	<b>LOW</b>	25%+ EPS growth; FCF yield improving; buyback yield ~2%+; diversified revenue

Table 9: Risk Assessment Matrix

## 9. Investment Thesis & Conclusion

Netflix represents a rare combination of dominant market position, accelerating profitability, and multiple durable growth vectors that are still in early innings. The company has successfully executed three consecutive transformations — from DVD to streaming, from streaming loss-maker to cash flow machine, and now from subscription-only to a hybrid subscription/advertising platform. Each transition has expanded the addressable market and strengthened competitive moats.

Bull case: FY2026 operating margin reaches 31-32%, EPS grows ~25% to ~\$3.15-\$3.25, advertising revenue exceeds \$3B, and the live sports strategy attracts incremental subscribers. At 35x forward earnings, the stock is worth ~\$1,140-\$1,200. Bear case: subscriber growth decelerates to ~15M adds in FY2026, ad revenue disappoints, and re-rating to 28x would imply ~\$900. Even in the bear scenario, the risk/reward remains attractive given the FCF generation and buyback support. Three structural long-term value drivers underpin the thesis: (1) content flywheel — more subscribers fund better content which attracts more subscribers; (2) advertising platform build-out creating a second revenue engine with structurally higher margins; and (3) live events as a churn-reduction and subscriber acquisition tool expanding the total addressable market.

### INVESTMENT CONCLUSION

**RATING: BUY | 12M Price Target: \$1,200 | Upside: ~+20.6% | Dividend Yield: None**

**POSITIVES: Record FY2025 results (EPS \$2.53 +28%, Net Income \$11.0B +26%, Op. Margin 29.5%) | FCF transformation (\$9.5B in FY2025, from -\$132M in 2021) | Ad tier scaling as second revenue engine | 300M+ subscriber base with pricing power | Password-sharing monetization still ongoing | Live events strategy reducing churn | 25%+ EPS growth guidance | \$8.5B buyback in FY2025 | Near-zero net leverage (0.18x Net Debt/EBITDA)**

**RISKS: Intensifying competition (Disney+, Apple TV+, Amazon) | Content cost inflation & sports rights escalation | Subscriber saturation in UCAN | Ad business execution risk | FX headwinds (~57% ex-USD revenue) | High P/E multiple susceptible to rate/growth shocks**

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