

NETFLIX

Case Study

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COMPANY DESCRIPTION & HISTORY

Netflix company is one of the biggest movie producer and provider companies in the world. The company was established in 1997. At this time, they have provided DVD to customers with the help of mail. In 1998 they have created their own website, under the name as we know it nowadays: www.netflix.com. That time they were renting and selling DVD online. In 1999 they have increased their service list. Netflix saw the problem existing in other competitive companies and tried to find a solution for them. They have created a system where someone with subscription was able to reach unlimited DVDs and they have even cancelled the late fee for renting. Due to these new changes their customer base has significantly increased. Next year, in 2000 they have created a personal recommendation system. This system was the very base of the today worldwide famous recommendation system, which has brought the success for the company.

By 2002 the Netflix company has success that much, that they could sell their first share on the stock market for 1 USD. It's price today is 355.88 USD / share.

In

2003 they have decided to register a patent about their unique idea. Since they felt that it is working on the market, and did not want that the competition has stolen their own special idea. In 2005 they have created a new function, where people did not only receive a personalized offer, but they could even create they by themselves, according to their taste and future interest. 5 years later, in 2010 they made Netflix available even on mobile divide, with what it became accessible for more people, that's to what they could increase their customer base. In 2015 they have launched their own first NETFLIX produces movie. This was an important and Signiant step in their history, since after this action they could create their own films, by which they earned more money and they did not have to buy new films from other producer companies. Also, they have collected that to the personalized lists enough information about their customers taste to create movies, which will bring them success and profit after its appearance. In 2021 the Netflix company has more than 200 million memberships, they are available in more than 190 countries and they offer films and series in more than 30 languages. Their main mission is to entertain the whole world, all the human beings, whatever their taste and wherever their location is situated.

CULTURE OF THE COMPANY

Netflix is a very open-minded company. They want their employees to use their own creativity and to be able to make decisions without the interruption of the

higher positions. They have 11 300 lucky employees, since the main reason for staying with what the company describes itself is joy, friendship, laugh and fun.



The Netflix logo is the word 'NETFLIX' in a bold, red, sans-serif font.

Netflix has 5 rules:

- *encourage independent decision-making by employees*
- *share information openly, broadly, and deliberately*
- *are extraordinarily candid with each other*
- *keep only our highly effective people*
- *avoid rules.*

COMPETITION

The competition of Netflix on the market is very high. Since they are not only streaming movies and series, but they also create them their competitor base is wider and more dynamic. Since 2022 they are even providing video games to their clients. The reason why do they offer games is that, they want to target a new group on the market. Those people, who prefer games over movies. They do want to follow the latest trends and technologies, thanks to which they can provide the best service for their clients.

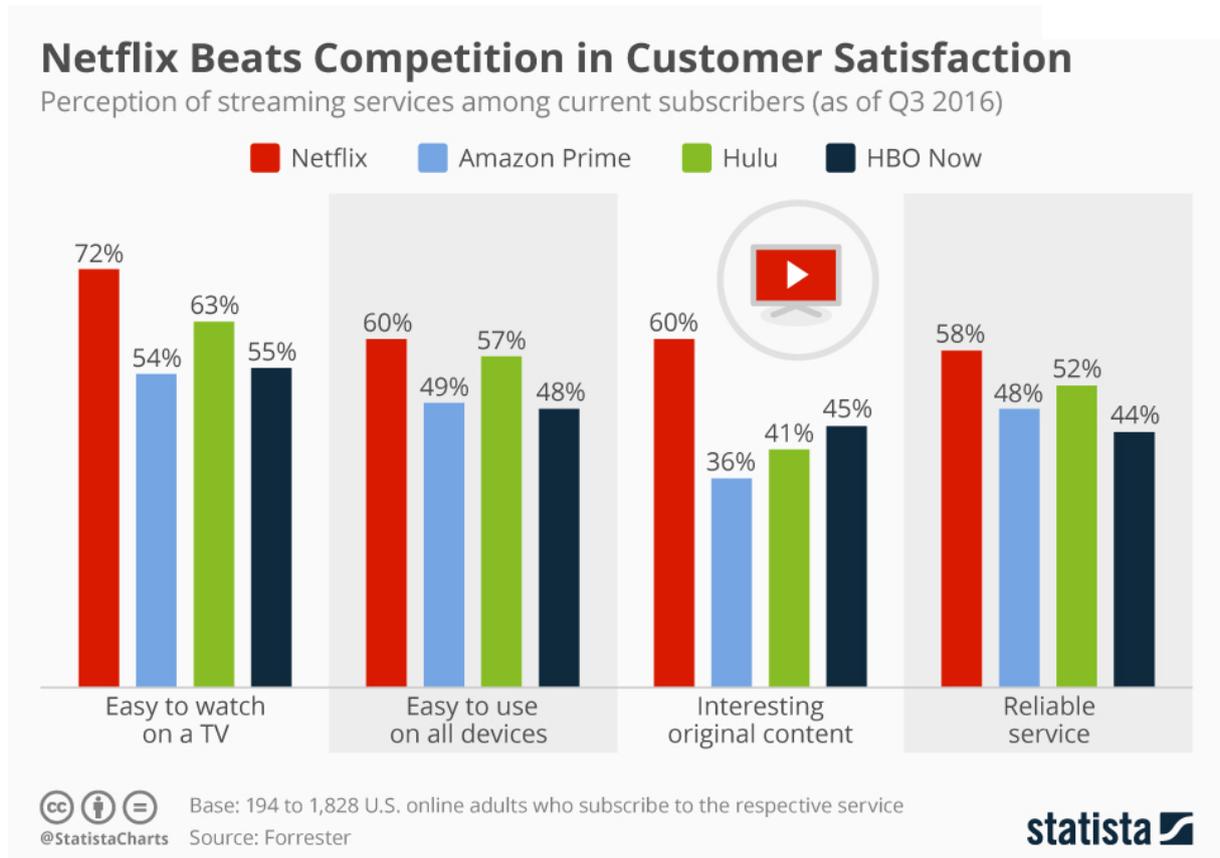


Chart 1: Netflix Beats Competition in Customer Satisfaction

Source: <https://www.statista.com/chart/7893/customer-satisfaction-video-streaming-services/>

Chart 1 represents the competition of Netflix in customer satisfaction level. Red color shows the satisfaction rate of Netflix. We can see that according to the opinion of the customers Netflix is the platform, which provides the highest satisfaction level to their customers in all the categories. Clients think that Netflix

is the easiest to watch on TV, it is followed by Hulu, HBO and then Amazon Prime. The second category was the easy to watch on all devices. The ranking was very similar to the previous category. According to the content quality and interestingness, again Netflix was winning, followed by HBO Now, Hulu and Amazon Prime. Finally, they have rated it according to its reliability. The results were the following: Netflix as the lead on the list, then Hulu, Amazon Prime and finally HBO Now.

RISK & OPPORTUNITIES

Company Netflix has to have fights with various challenges daily. Since the technology development in the 21st century is extremely fast, the Netflix team has to be on the edge about following the latest trends and applying them in practice. Moreover, we cannot even forget about the negative effects brought by the technological development, the cyber security. Cyber security is a fact, what cannot be forgotten in the case of Netflix neither. We all perfectly know, that Netflix is collecting a huge amount of various data about their customers, which can be dangerous if it gets into bad hands, none of the less, they can get into significant and extremely uncomfortable trouble in case if the collected data gets stolen. Netflix always has to be ready and prepared for cyber-attacks by the hackers.

Secondly, they cannot forget about international operations. Netflix is a company being available in more than 190 countries of the world. For being available and being successful, they need to follow various rules and laws. Also,

we cannot forget about foreign policies influencing them and their activities on the market, which change rapidly.

Human resources are a variable which can be an opportunity and a risk in the same time for Netflix. First of all, it can be opportunity for getting new unique and creatives ideas, new point of view. However, it can be dangerous in case of employee fluctuation. If their team members, employees are changing position they also take with themselves away the specific knowledge of the company. Moreover, people make mistakes, which in some cases lead to profit loss. It is also an important risk to be mentioned in the point of view of the company, since in some cases these mistakes could be avoided.

Finally, Netflix in their annual report (2021) mentioned stock ownership as a risky factor from the point of view of the company. They do not want that the stock owners got significant ownership right of the company, since it can lead to decision making loss.

As opportunities, they mentioned providing and offering theatre plays on their platform, thanks to which they could reach a new target group and increasing their client base.

Also, they could stream music as well. Providing a platform, which is 2-in-1 and clients do not have to pay for the services of two separate platforms.

Moreover, tutorials, podcasts could be streamed by Netflix in the future. In the following years they would like to increase the language offer of their movies and series, since some cases the language barrier can be a fact, which is stopping people from subscribing for their services.

Also, their mission is to make movies and filming available for everyone in the world without any limitations. For achieving this goal, they would like to increase their market all around the world.

Also, the collection of movies and series has to be constantly actualized and updated, otherwise their customers will get bored from the movies offered by them.

Finally, they would like to create partnerships and collaborations with other companies, due to which they could increase the quality and quantity of their services.

STOCK

The company of Netflix is registered on the stock market. They started to sell their stocks in 2002 for 1USD/stock. Actually in 2022 the price of 1 stock is 355.88 USD.

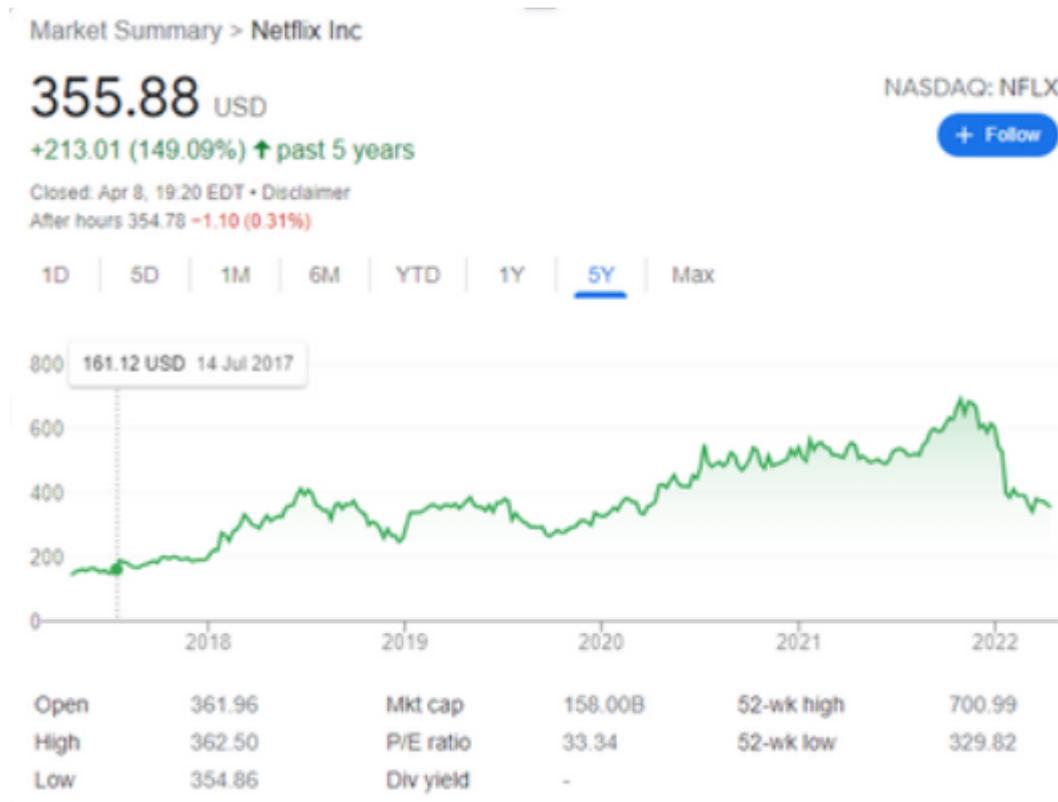


Chart 2: Netflix – Stock market

Source: Google

According to forecast made by walletinvestor in 1 year 1 stock of Netflix will cost 471.043 USD/stock and in 5 years the price reach even 781.718 USD/stock. It can be explained by their Stabil position on the entertainment market. They have created a special bond with people. They perfectly knew how a secret, they need to make their customers addicted and emotionally connected to their platform, so they will keep continue the subscription after the 1 free trial month as well.

Also, the idea of the 1st trial month, is brilliant. Since it is a period perfectly enough for getting emotionally addicted to the platform.

We tried to compare Netflix stocks with other streaming platforms on the stock market. However, they are all part of a bigger financial group. Finally, we have taught that Walt Disney is a a group which is the best option to compare Netflix with on stock market according to their group members and activities. While the price of one stock of Netflix on the stock market is 355.88 USD, while the price of one stock in Walt Disney Co. is 131.87 USD. What is important to mention that the 5 yearly growth rate of Netflix stock prices is 149.09%, and in the case of the Walt Disney Co. the growth rate is only 15.23%. We can see from the comparison that Netflix company is an extremely fast growing and developing streamer company on the market.

(in millions except per share data)	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22 Forecast
Revenue	\$ 6,644	\$ 7,163	\$ 7,342	\$ 7,483	\$ 7,709	\$ 7,903
Y/Y % Growth	21.5%	24.2%	19.4%	16.3%	16.0%	10.3%
Operating Income	\$ 954	\$ 1,960	\$ 1,848	\$ 1,755	\$ 632	\$ 1,765
Operating Margin	14.4%	27.4%	25.2%	23.5%	8.2%	22.3%
Net Income	\$ 542	\$ 1,707	\$ 1,353	\$ 1,449	\$ 607	\$ 1,304
Diluted EPS	\$ 1.19	\$ 3.75	\$ 2.97	\$ 3.19	\$ 1.33	\$ 2.86
Global Streaming Paid Memberships	203.66	207.64	209.18	213.56	221.84	224.34
Y/Y % Growth	21.9%	13.6%	8.4%	9.4%	8.9%	8.0%
Global Streaming Paid Net Additions	8.51	3.98	1.54	4.38	8.28	2.50
Net cash provided by (used in) operating activities	\$ (138)	\$ 777	\$ (64)	\$ 82	\$ (403)	
Free Cash Flow*	\$ (284)	\$ 692	\$ (175)	\$ (106)	\$ (569)	
Shares (FD)	455.3	455.6	455.1	454.9	455.8	
Note: Figures are consolidated, including DVD.						
* Free cash flow represents Net Cash provided by (used in) operating activities less purchases of property and equipment and change in other assets.						

Chart 3: Financial overview- Netflix

Source: Annual report

Chart 3 represents us the financial overview in Netflix in 2021. The revenue showed a Stabil rise during the year 2021.

	Year ended December 31,		
	2021	2020	2019
Revenues	\$ 29,697,844	\$ 24,996,056	\$ 20,156,447
Cost of revenues	17,332,683	15,276,319	12,440,213
Marketing	2,545,146	2,228,362	2,652,462
Technology and development	2,273,885	1,829,600	1,545,149
General and administrative	1,351,621	1,076,486	914,369
Operating income	6,194,509	4,585,289	2,604,254
Other income (expense):			
Interest expense	(765,620)	(767,499)	(626,023)
Interest and other income (expense)	411,214	(618,441)	84,000
Income before income taxes	5,840,103	3,199,349	2,062,231
Provision for income taxes	(723,875)	(437,954)	(195,315)
Net income	\$ 5,116,228	\$ 2,761,395	\$ 1,866,916
Earnings per share:			
Basic	\$ 11.55	\$ 6.26	\$ 4.26
Diluted	\$ 11.24	\$ 6.08	\$ 4.13
Weighted-average common shares outstanding:			
Basic	443,155	440,922	437,799
Diluted	455,372	454,208	451,765

Chart 4: Financial Overview- Netflix

Source: Annual Report

On chart 4, we can see perfectly the revenue of Netflix according to some categories. Their revenue and even costs are increasing parallely.

INDICATORS

We have studied and analyzed some indicators as well. P/E ratio (price to earning) in the case of Netflix was 33.34 USD, while for Disney almost the double,

78.26 USD. The P/E ratio shows the rate, the connection between the price of the share and the earning per share what the share will bring. In the case of Disney, it's the double, which means it means the double earning compared to the price as Netflix.

If we check them according to the EV/EBITDA they are on the same level, Netflix 28.2X and for Disney 27.07. Finally, we have checked Sales/EV ration, the both studied companies were on the same level, Netflix 5.7 and Disney 5.6.

SUMMARY

The company of Netflix is a leader on the entertainment marketing. We need to say that their popularity did not began after the millennial. Netflix was created even in 1997 when they worked with the lending and selling of DVD. They have always had a successful lifetime, since their main issue was to create a platform and services what gives their customers the best and the most customized services as possible.

Their secret was in personalized services and in customization. Nowadays, in the 21st century they are the most preferable entertainment platform by the people all around the world.

If we need to answer the question if it is worth investing into Netflix or no, I would say YES and NO. Yes, because Netflix is a company of the stock market, which is growing extremely, so yes, we should invest into them. However, it is not the correct time, because it is not stabile because of the

happenings in the world (political issues, war and financial crisis). The number of their subscribers is decreasing since from Engels law we know, that if the

populations income is high they have more money to invest or spend for not necessary (luxury) things and services. However, now due to the rising prices and the inflation it is changing. Furthermore, Netflix has even increased their subscription prices in some countries. If the number of subscribers has a decreasing trend their profit will be lower, too. This fact leads to negative effect on their position on the stock market.