

US Internet

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NFLX 1Q24 Model Update (Neutral, target increases to \$605 from \$600)

Lower ad revenue, but higher operating margins

April 19, 2024

What's new: Our target price increases to \$605 from \$600 on higher FCF estimates. Please see our initial take on results [HERE](#), including our neutral view on the disclosure changes.

- We lower our ad revenue over the next 1-2 years owing to lower fill rate assumptions, as the rapid growth of ad-supported members and monthly active users (MAUs) outstrips current demand. After that, fill rates gradually increase back to 90%+ as NFLX ad sales team and tech stack mature.
- We slightly lower 2Q24 paid net additions, but slightly increase them for full year 2024.
- We slightly lower ARM estimates as 1Q24 results flow through, and partially due to lower advertising revenue and FX impacts.
 - We expect ARM growth of 0.4% y/y in 2024, continuing at a 2.5% CAGR 24E-30E, though qualitative management commentary around pricing may leave room for upside in 2H24.
- We raise 2024 operating margins based on higher management guidance.
- We lower content spend slightly to \$16.9B in 2024 based on reiterated guidance (we had been slightly above \$17B prior).
- Our FCF estimates increase to \$6.3B (versus \$6.1B prior) in 2024 owing as lower cash content spend, which more than offset lower revenue.
- **We raise our target price to \$605 from \$600** due to the FCF higher estimates. Maintain Neutral rating.

Estimate Changes: 2Q24 FCF down, but 2024 FCF up slightly

- **2Q24:** our EBITDA and FCF estimates are lower due to lower net adds and lower ARM/ad revenue based on lower fill rates, partially offset by higher margins.
- **2024:** we raise net adds slightly, but lower ad revenue/ARM leads more than offsets leading to lower revenue growth. We raise margins based on higher guidance, leading to higher EBIT. Combined with lower content spend, FCF is higher.

	1Q24A						2Q24E					FY24E					
\$ in mn except EPS	NSR Old	NSR est.	▲ NSR	Pr. Cons.	Cons.	Guide	NSR old	NSR est.	▲ NSR	Cons.	Guidance	NSR old	NSR est.	▲ NSR	Cons.	Pr. Guide	New Guide
Total paid net adds	3.1	9.3	199.5%	7.9	3.4	1.8M-13.1M	4.8	4.7	-2.8%	4.2	down q/q	18.9	26.0	37.8%	18.8		
Monthly ARM	\$11.75	\$11.79	0.3%	\$11.57	\$11.79		\$11.94	\$11.61	-2.8%	\$11.92		\$12.00	\$11.69	-2.6%	\$11.99		
y/y growth %	0.4%	0.8%	0.3%	0.7%	0.8%	up y/y FXN	3.4%	0.5%	-2.8%	3.2%	up y/y FXN	3.1%	0.4%	-2.7%	3.0%		
Ad revenue	\$375	\$276	-26.4%				\$473	\$384	-18.9%			\$2,062	\$1,654	-19.8%			
Total revenue	\$9,231	\$9,370	1.5%	\$8,719	\$9,275	\$9,240	\$9,522	\$9,474	-0.5%	\$9,525	\$9,491	\$38,742	\$38,460	-0.7%	\$38,683		
y/y growth %	13.1%	14.8%	1.7%	11.0%	13.6%	13.2%	16.3%	15.7%	-0.6%	16.3%	15.9%	14.9%	14.0%	-0.8%	14.7%	"DD rev growth FXN"	+13% to +15%
Gross profit	\$4,052	\$4,393	8.4%	\$3,182	\$4,170		\$4,192	\$4,251	1.4%	\$4,269		\$16,676	\$16,918	1.5%	\$16,892		
Gross margin %	43.9%	46.9%	299 bps	36.5%	45.0%		44.0%	44.9%	85 bps	44.8%		43.0%	44.0%	95 bps	43.7%		
Total operating profit	\$2,343	\$2,633	12.3%	1,215	2,421	\$2,420	\$2,436	\$2,512	3.1%	\$2,445	\$2,520	\$9,338	\$9,600	2.8%	\$9,263	\$9,230	\$9,615
Operating margin %	25.4%	28.1%	271 bps	13.9%	26.1%	26.2%	25.6%	26.5%	93 bps	25.7%	26.6%	24.1%	25.0%	86 bps	23.9%	24.0%	25.0%
Adj. EBITDA	\$2,620	\$2,796	6.7%	\$1,402	\$2,610		\$2,722	\$2,677	-1.6%	\$2,622		\$10,500	\$10,271	-2.2%	\$9,991		
Margin %	28.4%	29.8%	146 bps	16.1%	28.1%		28.6%	28.3%	-33 bps	27.5%		27.1%	26.7%	-40 bps	25.8%		
Net Income	\$1,932	\$2,332	20.7%	\$989	\$1,985	\$1,976	\$2,009	\$2,060	2.5%	\$1,986	\$2,063	\$7,692	\$8,031	4.4%	\$7,511		
y/y growth %	48.0%	78.7%	30.7%	1688.6%	52.1%	51.4%	35.1%	38.5%	3.4%	33.5%	38.7%	42.2%	48.5%	6.3%	38.9%		
EPS	\$4.35	\$5.28	21.5%	\$2.21	\$4.52	\$4.49	\$4.58	\$4.68	2.4%	\$4.54	\$4.68	\$17.63	\$18.31	3.9%	\$17.24		
y/y growth %	50.7%	83.1%	32.4%	1703.9%	56.5%		38.9%	42.2%	3.3%	37.8%		46.5%	52.2%	5.7%	43.3%		
Cash additions to content	-\$4,085	-\$3,918	-4.1%	-\$3,999	-\$4,040		-\$3,540	-\$3,948	11.5%	-\$4,101		-\$17,284	-\$16,998	-1.7%	-\$16,713	"up to \$17B"	"up to \$17B"
% of sales	-44.2%	-41.8%		-45.9%	-43.6%		-37.2%	-41.7%		-43.1%		-44.6%	-44.2%		-43.2%		
FCF	\$1,371	\$2,137	55.9%	\$1,215	\$1,847		\$2,265	\$1,497	-33.9%	\$1,548		\$6,095	\$6,345	4.1%	\$6,373	~\$6BN	~\$6BN
Margin %	14.9%	22.8%	795 bps	13.9%	19.9%		23.8%	15.8%	-798 bps	16.2%		15.7%	16.5%	77 bps	16.5%		

Target Price: Raising to \$605 from \$600 based on slightly higher FCF estimates

- Our target implies 20.9x 2025 adjusted EBITDA and 27.6x EPS, which compares to 17.1x and 26.5x, for the comparable set.
- We believe NFLX should trade at a premium due to its global scale, profitability, lack of legacy media operations, and early advertising monetization.
- Our target averages two comparable multiple valuations (EV/adjusted EBITDA and P/E) and a 10-year DCF.

New target price

Valuation on 2025E	EV/adj. EBITDA	P/E	DCF Summary	Triangulated
Adj. EBITDA	12,595			
Target Multiple	23.0x	GAAP EPS 21.65	Terminal Mult. 20.0x	EV/revenue 6.3x
Enterprise Value	289,055	Target Multiple 27.5x	Discount Rate 9.7%	EV/adj. EBITDA 21.2x
Net cash (debt)	(5,611)		Equity value 231,246	P/E 28.0x
Equity value	283,444			FCF Yield 2.4%
Price target	\$656.33	\$594.24	\$565.74	\$605.44
% potential appreciation	18.6%	7.4%	2.2%	9.4%

Old target price

Valuation on 2025E	EV/adj. EBITDA	P/E	DCF Summary	Triangulated
Adj. EBITDA	12,411			
Target Multiple	23.0x	GAAP EPS 21.75	Terminal Mult. 20.0x	EV/revenue 6.1x
Enterprise Value	284,827	Target Multiple 27.5x	Discount Rate 9.7%	EV/adj. EBITDA 20.9x
Net cash (debt)	(7,136)		Equity value 221,283	P/E 27.6x
Equity value	277,691			FCF Yield 2.3%
Price target	\$659.31	\$597.03	\$544.32	\$600.22
% potential appreciation	7.8%	(2.3%)	(11.0%)	(1.8%)

Comps and Historical EV/Adjusted EBITDA Valuation

4/19/2024					Shares	Market	EV/Rev			EV/EBITDA			P/E			2024E	2024E	FCF Yield		
Company	Ticker	Price	Target	Rating	Out (M)	Cap (M)	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	PEG	vs S&P	2023E	2024E	2025E
Walt Disney	DIS	\$112.61	NR	NR	1,834	\$206,561	2.6x	2.7x	2.6x	16.7x	14.2x	11.9x	29.9x	24.0x	20.4x	nm	1.2x	2.4%	12.7%	20.0%
Netflix	NFLX	\$555.04	\$605	Neutral	442	\$245,136	7.5x	6.6x	6.8x	33.0x	24.6x	19.9x	46.1x	30.3x	25.6x	0.6x	1.5x	2.8%	2.6%	4.3%
Sirius XM Radio	SIRI	\$3.09	NR	NR	3,846	\$11,886	5.6x	5.2x	5.4x	7.5x	7.5x	7.1x	nm	nm	nm	nm	nm	10.0%	11.0%	13.6%
Spotify	SPOT	\$275.83	NR	NR	202	\$55,649	3.7x	3.1x	3.3x	nm	38.8x	28.4x	nm	72.1x	48.0x	0.3x	3.5x	1.3%	3.0%	4.1%
Roku	ROKU	\$56.90	NR	NR	152	\$8,661	1.9x	1.7x	1.8x	nm	70.7x	28.5x	nm	nm	nm	nm	nm	2.1%	2.5%	3.6%
TKO Group Holdings, Inc.	TKO	\$95.52	NR	NR	172	\$16,424	7.3x	6.9x	6.2x	17.4x	15.8x	13.3x	nm	44.2x	27.8x	nm	2.1x	3.4%	4.2%	5.8%
Vizio	VZIO	\$10.78	NR	NR	198	\$2,134	1.1x	1.0x	1.0x	25.3x	18.9x	10.6x	77.0x	12.9x	10.6x	nm	2.5x	-0.3%	3.5%	nm
Streaming Media						Mean	4.2x	3.9x	3.9x	20.0x	27.2x	17.1x	51.0x	36.7x	26.5x	nm	2.2x	3.1%	4.5%	6.3%
Comps						Median	3.7x	3.1x	3.3x	17.4x	18.9x	13.3x	46.1x	30.3x	25.6x	nm	2.1x	2.4%	3.2%	4.3%



Related Research

- [NFLX First Take: Disclosure Change Underscores Maturing Business](#)
- [NFLX: Quick Thoughts Ahead of the Print](#)
- [TTD: Sizing the Revenue Impact of the Expanded DIS Partnership](#)
- [US Internet: Implications if WMT buys VZEO \(AMZN, GOOGL/YouTube, ROKU, and TTD\)](#)
- [Digital Ad Exec Speaker Recap \(GOOGL, AMZN, META, NFLX, TTD, MELI, U, APP, etc.\): YouTube Still Rising as Prime Video Expands Ads](#)
- [Top Controversies for U.S. Internet in 2024](#)
- [Updating our Ad Model](#)
- [NFLX: How the new engagement report can help the advertising business](#)
- [META, AMZN, GOOG, NFLX: Top Takes from Tinuiti 3Q23 Ad Report](#)
- [Conflicting reports on NFLX ad deal with MSFT](#)
- [Takeaways from the NFLX Upfront & Group Meeting](#)
- [Survey Points to Better Password Restriction Traction](#)
- [Refreshing our Detailed Ad Model](#)
- [Takeaways from our latest Ad Exec Speaker series \(NFLX & DIS, TTD + CRYPTO?, TikTok vs META/YouTube/SNAP\)](#)
- [NFLX Initiation: We Now Pause for this Commercial Interruption](#)



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