



What it does

Netflix is a streaming service that allows members to watch TV series, documentaries and feature films across a wide variety of genres and languages. Members can watch as much as they want, anytime, anywhere, on any internet-connected screen and can play, pause and resume watching, all without commercials or commitments.

Why we own it

- The first truly global content & distribution media brand. A huge intangible advantage against disjointed, national competition.
- Latent pricing power – monthly charge under-prices.
- Quality product on demand.
- Netflix has proven that local shows can enjoy great international success.
- One of the most unique cultures in the world.
- Scale matters – the economics improve substantially as the business grows.

How it could be worth many times more

- The global expansion of Netflix may still be in its early stages. Tailored local language content and pricing strategies unlock new user populations and higher ARPU, notably in EMEA and APAC.
- Nascent ad-supported tier proves attractive for brands (hundreds of millions of viewers across a range of demographics). It could feasibly generate c.20% higher ARPU than the non-ad tier.
- Tens of millions of household account password sharers are finally monetised.
- Both subscribers and the catalogue of inventory keep growing and returns to scale kick in as Netflix amortises these costs over an ever-larger subscriber base. Cost-per-hit remains far lower than its peers.
- Additional boosts to ARPU in future from recent forays into gaming, non-digital immersive experiences, merchandise and licensing.

Where we might be wrong

- Growing competition from peers (e.g. Amazon and Disney) and from left-field (e.g. YouTube, gaming) slows Netflix's growth internationally, increases churn, and throttles margin expansion.
- Netflix's once-lauded culture atrophies as the company scales and matures.

Short 10 questions

Can sales double in the next five years?

1

Further international expansion; development of the ad-supported tier; and monetisation of non-paying accounts.

Ten years and beyond?

2

Streaming continues to displace cable. Netflix users and ARPU continue to grow. Gaming becomes material to ARPU growth.

Competitive advantage?

3

Scale + data = Netflix produces high impact content far more cost-effectively than peers.

Is the business culture different?

4

Very. A striking track record of adaptability and innovation.

Customers like you? Contribute to society?

5

Superior user experience, diverse and extensive catalogue.

Are returns worthwhile?

6

The shift to original content has reduced the variable costs associated with licensed content and helped to pay down long-term debt. Operating margin >20%.

Will they rise or fall?

7

Rise, thanks to growing users and ARPU, whilst keeping content spend per user relatively stable. Net margin could climb to c.20%.

How is capital allocated?

8

Primarily on content, but in a controlled manner.

Could it be worth 5x as much?

9

Plausible over 5-10 years. Helped by the ad-supported tier, monetization of non-paying households, and internationalization.

What doesn't the market understand?

10

Obsessed with competition and quarterly subscriber numbers.

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