BLUEGRASS CAPITAL RESEARCH

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Communication | *Entertainment*
May 1st, 2026

Netflix Inc.

Bullish on Binge

Netflix is the largest streaming video-on-demand provider globally, yet continues to tap into underserved markets to expand its reach. As the entertainment industry becomes more competitive, Netflix maintains its pricing power by diversifying its portfolio with new content offerings. **We initiate $NFLX with a BUY rating and a one-year price target of $102.**

Thesis Point 1: Despite its maturity, Netflix continues to increase monetization of its existing subscriber base and penetrate previously underserved demographics. They have employed this by focusing on price-sensitive customers with their latest ad-supported, budget-tier subscription, which captured roughly 60% of new signups in Q1 2026. More ad-tier subscribers translate to more inventory, advertiser revenue, and a widened subscriber pool, a flywheel paired with content expansion that compounds both reach and monetization simultaneously. More evidence of its success is its advertiser base growing 70% YOY in 2025 to ~4,000, causing ad revenue to double year-over-year in 2025 and projecting to double again in 2026. This is reflected across its margins and multiples, such as its gross profit margin, which sits at an impressive 49% LTM.

Thesis Point 2: Netflix is actively accelerating industry quality standards, expanding its moat, and positioning itself for long-term dominance. They have strengthened their brand identity and optimized their costs to create unmatched pricing flexibility. Netflix Originals create platform-exclusive demand with an experience that any other providers can't replicate; this is the structural definition of pricing power. This pricing power allows Netflix to offer subscribers the highest user value among SVOD providers, a value also enjoyed by content creators through efforts like Netflix's acquisition of InterPositive, which develops proprietary GenAI tools specifically for filmmakers. As Netflix creates a home for skilled creators, they shift more from a content distributor to a content creator, which allows it to further improve the quality of the content they offer for users. Netflix isn't competing to be the top SVOD provider; it's building the infrastructure, brand, and creator ecosystem to make the category of comparison irrelevant.

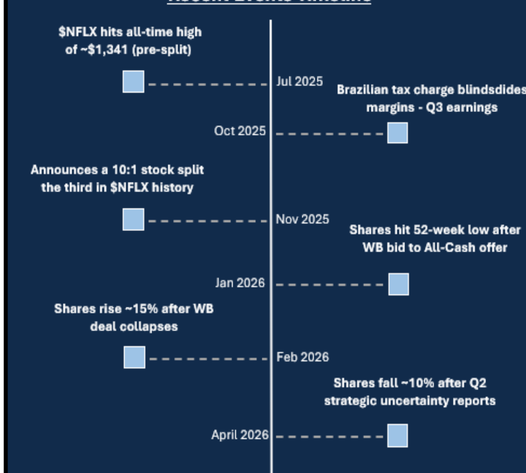
Company Overview: Founded in 1997, Netflix Inc. is currently the world's largest entertainment company, valued at roughly $400 billion. It currently operates in 190+ countries and 50+ languages, allowing it to eclipse 325 million subscribers as of Q4, 2025. NFLX has prioritized global expansion within the parameters of its target operating margins while improving customer satisfaction rates. While they do possess a strong foreign presence, they still generate ~44% of total revenue from the UCAN market (United States and Canada), followed by ~31% in Europe. They offer a variety of products across the entertainment sector, including tiered subscription-based streaming, live programming, and video games. As Netflix scales its streaming service and introduces innovative features, it is focused on developing its proprietary technologies and utilizing third-party cloud services. Netflix's stock has historically followed seasonal screen-time patterns driven by factors such as households buying new streaming devices and weather, with the highest period typically in Q4. However, their recent focus has been on diversifying their portfolio to capture more consistent streams of attention throughout the year.

NETFLIX

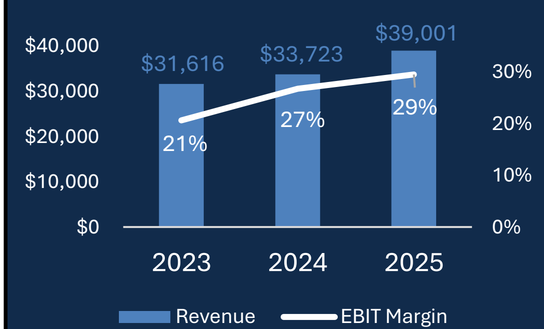
TICKER:	$NFLX
RATING:	BUY
PRICE:	$89
PRICE TARGET:	$102
MARKET CAP:	$388bn
52-W RANGE:	$75 – 134
NTM P/E:	29.7x
IMPLIED UPSIDE:	16%

1 Year Price History

Recent Events Timeline



EBIT Margin with Annual Revenue



Netflix Inc. | *NASDAQ:* $NFLX
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Risk 1: Netflix's growth is increasingly dependent on developing regions with lower average revenue per user (ARPU) and greater geopolitical uncertainty. Their current growth rate is satisfied by their monetization rate; eventually, content spend will deteriorate monetization as the subscriber growth slows. An example of this is their UCAN market, where they have higher penetration rates and a higher average price per household. This limits further pricing ability and lowers growth multiples. Failure to complete these missions simultaneously would result in reduced pricing power and a need for higher content spend to maintain current user value, which, in turn, would compress margins as growth slows.

Risk 2: Netflix's subscribers have begun to develop new tastes in content, and the stakes for high-performing content are rising significantly. Short-form, creator-driven platforms like YouTube and TikTok have been harmful to Netflix because of their quick dopamine hits and endless-scrolling ability. The risk isn't just the short-form content itself but the creator-centric model in which it is produced. On other platforms like YouTube, creators produce content of their own free will and are monetized based on the engagement they receive. Compared to Netflix, where content is assigned a monetary value up front without seeing any results, creating the risk of overpaying for content that underperforms.

Catalysts: A key development for Netflix is the expansion of its content offerings to include categories such as live programming and vertical video. This facilitates portfolio diversification and continuous expansion into untapped markets. With 55% of broadband households underpenetrated and Netflix's ~5% global TV viewing share, the ceiling for addressable market growth relative to current penetration is immense. Netflix's key player for tapping into these markets has been their live programming events, such as the World Baseball Classic in Japan. This event delivered ~31.4M viewers, becoming the most-watched program on Netflix ever, and resulted in the largest single-day signup surge in Japan, which was reflected in their accelerated APAC revenue growth. While their live events and vertical video offerings have a lower average viewing time, they deliver higher viewer value as they carry higher engagement.

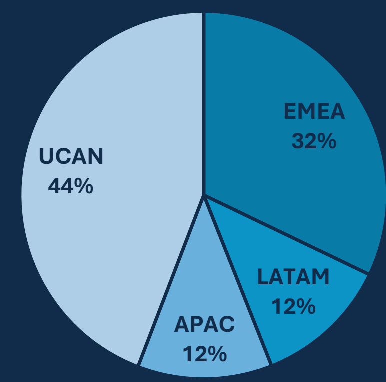
Valuation – PT $102

DCF Analysis ($mm)	**FY2026**	**FY2027**	**FY2028**	**FY2029**	**FY2030**	**FY2031**
	12/31/2026	**12/31/2027**	**12/30/2028**	**12/30/2029**	**12/30/2030**	**12/31/2031**
Revenue	51,500	58,968	66,412	73,551	80,079	85,685
Revenue Growth	*14%*	*15%*	*13%*	*11%*	*9%*	*7%*
Entertainment Streaming	51,500	58,968	66,412	73,551	80,079	85,685
EBIT	16,000	18,870	22,082	25,375	28,628	31,703
EBIT Margin	*31%*	*32%*	*33%*	*35%*	*36%*	*37%*
Tax Expense	2,500	3,113	3,726	4,377	5,046	5,707
Effective Tax Rate	*17%*	*17%*	*17%*	*17%*	*18%*	*18%*
NOPAT	13,500.00	15,756.12	18,355.69	20,998.02	23,582.56	25,996.73
D&A	450	442	531	625	721	814
Capex	800	649	780	919	1,061	1,200
Changes in NWC	(750)	(413)	66	662	1,361	2,142
UFCF	13,900	15,963	18,040	20,042	21,881	23,469
PV of FCF	13,475	14,309	14,713	14,872	14,772	14,416

Our base 5yr DCF model assumes revenue growth at a CAGR of 11%, and EBIT scaling from 30% to 37% through FY2031. This is primarily due to Netflix's new ad-supported tier, which allows them to expand subscriber growth while growing revenue per user. This has also been aided by their acquisition of proprietary AI tools, which, if utilized effectively, could trim costs and push operating margins over 40%.

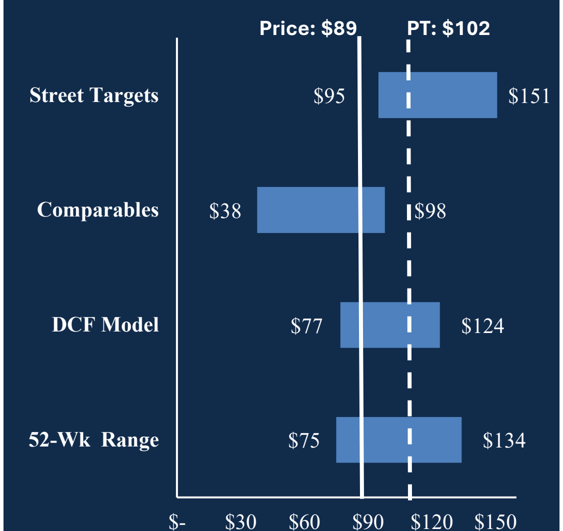
Conclusion: We believe Netflix is well-positioned for sustained outperformance, as it evolves from purely a content distributor into a full creative ecosystem. Supported by its expanding ad-supported flywheel, pricing power, and pushes into new forms of content creation and offerings. With ad revenue projected to double again in 2026 and 55% of broadband households still underpenetrated, the runway for compounding growth remains substantial. **We initiate $NFLX with a BUY rating and a PT of $102.**

Geographic Revenue Breakdown

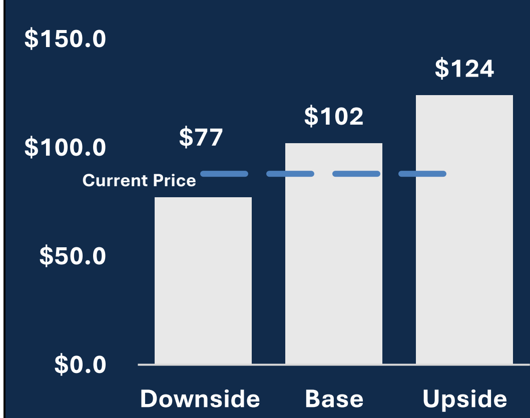


Terminal Value	
EV/EBIT Exit Multiple	18.0x
Terminal Value	$570,660
PV of Terminal Value	$350,536
Implied TEV	$437,093
(-) Debt	$16,976
(+) Cash	$9,062
Implied Equity Value	$429,180
Diluted Shares Outstanding	4,211
Implied Share Price	$101.92
Upside/Downside	16.0%

Football Field Valuation Range



Risk vs. Reward - DCF Cases



Bluegrass Capital Research

Income Statement ($mm)	2025A	2026E	2027E	2028E	2029E	CAGR%
Revenue	45,183	51,500	58,968	66,412	73,551	13.0%
EBITDA	13,660	16,450	19,312	22,613	26,000	17.5%
EBIT	13,327	16,000	18,870	22,082	25,375	17.5%
NOPAT	11,136	13,500	15,756	18,356	20,998	17.2%

Margin & Growth Data	2025A	2026E	2027E	2028E	2029E	AVG%
EBITDA Margin	30.2%	31.9%	32.8%	34.1%	35.4%	32.9%
EBIT Margin	29.5%	31.1%	32.0%	33.3%	34.5%	32.1%
Revenue Growth	15.9%	14.0%	14.5%	12.6%	10.8%	13.5%
EBIT Growth	27.9%	20.1%	17.9%	17.0%	14.9%	19.6%

Valuation Metrics	2025A	2026E	2027E	2028E	2029E	AVG%
P/FCF	34.2x	27.9x	24.3x	21.5x	19.3x	25.4x
EV/Sales	8.8x	7.7x	6.7x	6.0x	5.4x	6.9x
EV/EBITDA	29.0x	24.0x	20.5x	17.5x	15.2x	21.2x
FCF Yield	2.9%	3.6%	4.1%	4.7%	5.2%	4.1%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Spotify Technology S.A. (NYSE:SPOT)	$91,207	$84,500	29.3x	$20,564	$2,870
Roku, Inc. (NasdaqGS:ROKU)	$16,603	$14,809	190.9x	$4,737	$278
The Walt Disney Company (NYSE:DIS)	$179,455	$225,949	14.9x	$95,716	$19,306
Paramount Skydance Corporation (NasdaqGS:PSKY)	$11,658	$24,670	-14.2x	$28,891	$2,681
Netlfix	$387,899	$392,353	29.7x	$46,890	$14,289

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Spotify Technology S.A. (NYSE:SPOT)	29.4x	32.3%	14.0%	13.7%	8.0%
Roku, Inc. (NasdaqGS:ROKU)	53.2x	43.8%	5.9%	0.0%	15.2%
The Walt Disney Company (NYSE:DIS)	11.7x	37.3%	20.2%	14.6%	3.5%
Paramount Skydance Corporation (NasdaqGS:PSKY)	9.2x	31.8%	9.3%	6.5%	(1.1%)
Netlfix	27.5x	49.0%	30.5%	29.7%	16.7%

High	53.23x	49.0%	30.5%	29.7%	16.7%
75th Percentile	29.45x	43.8%	20.2%	14.6%	15.2%
Average	26.21x	38.8%	16.0%	12.9%	8.5%
Median	27.46x	37.3%	0.0%	13.7%	8.0%
25th Percentile	11.70x	32.3%	9.3%	6.5%	3.5%
Low	9.20x	31.8%	5.9%	0.0%	-1.1%

Netlfix		
Implied Enterprise Value (25th Percentile)	$	167,226
Implied Enterprise Value (Median)	**$**	**392,353**
Implied Enterprise Value (75th Percentile)	$	420,762
Implied Share Price (25th Percentile)	$	37.83
Implied Share Price (Median)	**$**	**91.30**
Implied Share Price (75th Percentile)	$	98.05

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.55
Risk Free Rate	4.39%
Cost of Equity	9.35%
Weighted Average Cost of Debt	4%
Tax Rate	16.5%
Cost of Debt	.52%
Total Equity	$387,646
Total Debt	$7,913
Equity/Total Capitalization	84.39%
Debt/Total Capitalization	15.61%
WACC	9.87%

Downside Case: Our **-12%** downside case prices in slower annual subscriber growth and decreased (ARPU) and margin pressure from escalating industry competition, with a multiple **16x** representing a loss of market share and pricing power leading to a price target of **$77.**

Upside Case: Our **41%** upside case assumes Netflix's new ad features, paired with live content, will create growth that hasn't been accurately projected. With a premium upside multiple of **19x** priced on the assumption that new developments increase subscriber growth and pricing power in underserved markets for a price target of **$124.**