

Introduction: Netflix (NFLX) is the world's leading subscription video-on-demand (SVOD) over-the-top (OTT) streaming platform, with 301.6mil paid members in over 190 countries offering TV series, films, and games across a wide variety of genres and languages. NFLX allows members to play, pause, and resume watching as much as they want, anywhere. Users receive streaming content through a host of internet-connected devices, including TVs, digital video players, TV set-top boxes, and mobile devices. NFLX was co-founded in 1997 by Reed Hastings (Exec Chairman/ex-CEO) and Marc Randolph as a subscription-based mail-order DVD rental service with no due date/late fees, whose convenience was highly disruptive to traditional brick-and-mortar competitors like Blockbuster's in-store per-title DVD rentals and late fees. NFLX went public in 2002, but its evolution was marked by its continuous ability to be strategic and innovative, investing early in streaming in 2005 and pivoting to streaming in 2007, and international expansion from 2010. It survived the 2011 Qwikster DVD misstep and shifted into original programming from 2012 onwards. "House of Cards" and "Orange Is the New Black" earned it critical acclaim, cementing NFLX's position as an emerging disruptor. The strategy was transformative. With continuous investment in "original content", NFLX transitioned from a content distributor into a major entertainment producer and dominant distribution platform, expanding internationally, becoming increasingly vertically integrated, and extending its early lead in the streaming entertainment landscape.

Tailwind: NFLX is riding the continued secular tailwind of streaming OTT entertainment, displacing traditional linear TV (cable, fiber, and over-the-air). People love movies and TV shows, but they often dislike the linear TV experience, where channels present programs only at specific times on non-portable screens with complicated remote controls. Streaming entertainment, which is on demand, personalized, and available on any screen, continues to displace linear TV. Beginning in the mid-2000s, the increasing flexibility and ubiquity of the worldwide internet, combined with faster internet data transmission, enabled high-definition video content to be streamed instantly on connected devices, such as smart TVs and mobile devices. Streaming's share of total US viewing time (Nielsen, Persons 2+) has grown from 26% in 2021 to 46% in 2025, while cable has declined from 40% to 23%. While NFLX leads in US SVOD view share (8.3%), it still has less than 10% of TV hours, 6% of the US\$600bn+ market and ad revenues, and still has hundreds of millions of customers to sign up against the 750mil+ broadband households (ex-China & Russia), suggesting a long runway for growth as streaming continues to expand globally. Connected TV (CTV) advertising presents a significant opportunity as advertisers transition from linear TV to CTV. Ads allow NFLX to offer a lower subscription price point across a broader consumer base.

Products: NFLX typically offers three subscription plans (US prices as of 28Jul25) : (1) Standard with ads (US\$7.99/mth up to 2 devices in 1080p), (2) Standard (US\$17.99/mth, ad-free), and (3) Premium (US\$24.99/mth, up to 6 devices, in 4K + HDR). In countries where ads are not supported yet, the cheapest tier is the Basic tier (ad-free, one device in 720p). Currently, the majority of revenues are derived primarily from monthly membership fees paid by consumers to access streaming entertainment content. As people's tastes are very broad, NFLX's business is more about offering a wide variety of content by acquiring and producing quality content at scale (16,182 titles), rather than making blockbuster content (Disney, HBO, Apple TV+), which tends to lead to high churn. Content mix by titles has shifted towards more shows than films (33% in 2H23 to 51% in 1H25). Users spend 75% of their viewing hours on shows and 25% on films. No single show/film accounted for more than 1% of total viewing time for 1H25, with the top ~20% of content (1,575 shows & 1,501 films) accounting for ~80% of total viewing time. NFLX is not a generic "video" company that streams all types of video, such as news, user-generated, live sports, porn, and music videos. NFLX is an entertainment service offering movies, TV series, and games. NFLX has expanded its content slate from Western/English to International/Non-English (Spanish - Money Heist, Korean - Squid Game, French - Lupin, Japanese - Alice in Borderland, British - The Crown), across different genres like action, anime, comedies, crime, documentaries, dramas, horror, K-dramas, kids, romance, sci-fi, etc. These can be produced cheaply and made popular with NFLX's recommendation engine. With customer feedback (👏, 👍, 👍👍) and personalized recommendations, NFLX can produce more content that their members like and want.

Geography: NFLX operates in over 190 countries, excluding China, Crimea, North Korea, and Russia. It is diversified geographically, with UCAN, EMEA, LATAM, and APAC accounting for 30%, 34%, 18%, and 19% of paid memberships, respectively, with faster-growing APAC and EMEA gaining share. UCAN has managed to grow its ARPU higher over time (from US\$10.0 to US\$17.2) while EMEA (US\$11.0), LATAM (US\$8.2), and APAC (US\$7.3) have held steady. UCAN (45%) and EMEA (32%) accounted for 75% of total revenues versus LATAM (12%) and APAC (11%). Similar trends should continue to persist.

Manufacturing: For licensing streaming content, NFLX typically enters into multi-year commitments with studios and content providers. For original content, NFLX enters into multi-year commitments for content it produces, either directly (in some cases) or indirectly (in most cases) through third-party production studios, such as non-cancelable commitments under talent agreements. NFLX made the strategic shift towards its owned original content production since 2013, with produced content now accounting for 62% of content assets and 50% of content amortisation costs versus licensed content's 38% and 50% respectively. NFLX pioneered paying for talent upfront, taking all the financial risks, attracting the best talent, allowing talents to focus on making the best work. Thus, NFLX is almost like a "venture capitalist" (VC) for entertainment, making creative asymmetric bets with these upfront investments, and reaping most of the upside when something breaks out. Diversification allows it to absorb more failures (customers have other shows to watch). Producers also prefer to work with NFLX because it tends to pay competitively, allowing content to be distributed widely to the entire world across the largest streaming membership base at the lowest cost structure (content amortization/user).

Distribution: NFLX disrupted the traditional entertainment value chain with increasing vertical integration of production and distribution by bypassing the legacy media networks to work with producers directly for original content. By bypassing legacy MVPD distributors with OTT, It allowed NFLX's content to be directly streamed to viewers globally over the internet across multiple platforms and devices. NFLX is cloud-native on AWS, and its streaming content is delivered via its global Open Connect content delivery network (CDN), which is a multi-tier CDN architecture that partners with Internet Service Providers (ISPs) to deploy servers closer to end users. NFLX provides hardware for free to ISPs, who host them in their data centers across 6,000+ locations in 175 countries. By caching and encoding content at the edge of the network, streams are delivered from local ISP data centers rather than distant global servers, reducing latency and improving quality. Multiple versions of videos are created to match device capabilities (e.g., 240p to 4K), ensuring efficient bandwidth use and maintaining high quality for diverse user setups. NFLX's proprietary CDN achieves the lowest latency amongst competitors, enabling near-instant content delivery from the moment a user presses "play". It also reduces bandwidth costs by minimizing reliance on third-party networks, leveraging localized infrastructure to serve 90%+ of global traffic, allowing NFLX to effectively stream a high volume of content to members over the internet. In advertising, its non-walled garden multiple-DSP approach with DV360, TTD, and MSFT prioritizes global accessibility over proprietary control, allowing them to leverage existing DSPs and optimize ad pricing.

Competition: NFLX is the leading SVOD platform with the largest paid subscriber base (302mil vs peers <125m), the largest content libraries (over 16,100+ shows/movies), the lowest content amortization per user (US\$50.7 vs peers US\$57-132), the highest user engagement (~2 hours per paid membership/day, 18-20%+ DAU/MAU vs peers <15%), the highest user retention (80%+ vs peers <60%), the lowest monthly churn (~2% vs peers 4-10%), and the most profitable (35.5% EBITDA margins vs peers <12.8%). In terms of share of US TV time, NFLX is the 2nd largest (8.3%) after YouTube (12.8%), Disney+, Prime, Roku, Tubi, Paramount+, Peacock, and HBO Max. YouTube has grown its share faster in the last 2 years and emerged as a key competitor outside of SVOD in the broader fight for consumer attention. That said, while viewing is key, NFLX's most significant opportunity is winning a large share of the 80%+ of TV time that neither NFLX nor YouTube has today. Notably, their content models differ significantly. YouTube dominates with a vast library of user-generated content, promotional material, and increasingly professionalized content (e.g., YouTube TV). Its free-access model and aggregation of channels make it a hub for cord-cutters and casual viewers. Whereas NFLX focuses on high-end, professionally produced original content and licensed programming, maintaining a subscription-based

model whose strategy prioritizes retaining and expanding its core audience through content quality rather than competing directly on short-form or free content. Thus, while YouTube and NFLX are not direct competitors in content production. NFLX is vying for a share of its members' time and strives for its customers to keep choosing them in moments of free time (winning moments of truth).

Competitive Advantage: NFLX has multiple competitive advantages that it has kept strengthening with its (1) first-mover advantage. From scale (largest content library, content spend, user base), to (2) network effects (highest user engagement, retention, LTV, lowest churn, CAC), to (3) economies of scale (lowest content amortisation per user), (4) technological advantage and (personalized recommendation engine, Open Connect multi-tier CDN, first-party ad tech platform, working with external content producers) providing a highly scalable tech architecture. NFLX's vertical integration of content purchases/production with customer management/distribution enables a virtuous flywheel: great content (more originals) → existing subs watch/like → new subs → subscription revenue → advertisers → ad revenue → revenue → reinvest in more content → raise prices. NFLX's DNA to invest early and test new initiatives, iron out issues before scaling (e.g., streaming, PW sharing, advertising, etc), and strong discipline in content investments (e.g., in live sports), gives us confidence in its ability to keep evolving.

Financials: While the majority of NFLX's revenues are from paid subscriptions, programmatic CTV advertising remains early (despite 2X off a small base). Ads will be a larger contributor to revenue growth in the coming years. Ad-supported paid subscription tiers allow NFLX to access a broader customer base at lower price points to drive subscriber growth. As NFLX remains the cheapest per hour viewed across SVODs, NFLX should be able to keep raising prices gradually over time without much churn. Because of the "fixed-cost" nature of produced content spend (for originals) not being tied to success (member usage or size of membership base), it provides high operating leverage to gross profit margins with content spend amortization, accounting for ~73% of COGS. Content spend operating leverage has driven COGS margins lower from 116% in 2009 to 69% in 2024, significantly expanding gross profit, EBIT, earnings, OCF, and FCF margins from 2018 onwards, driving faster earnings and FCF growth.

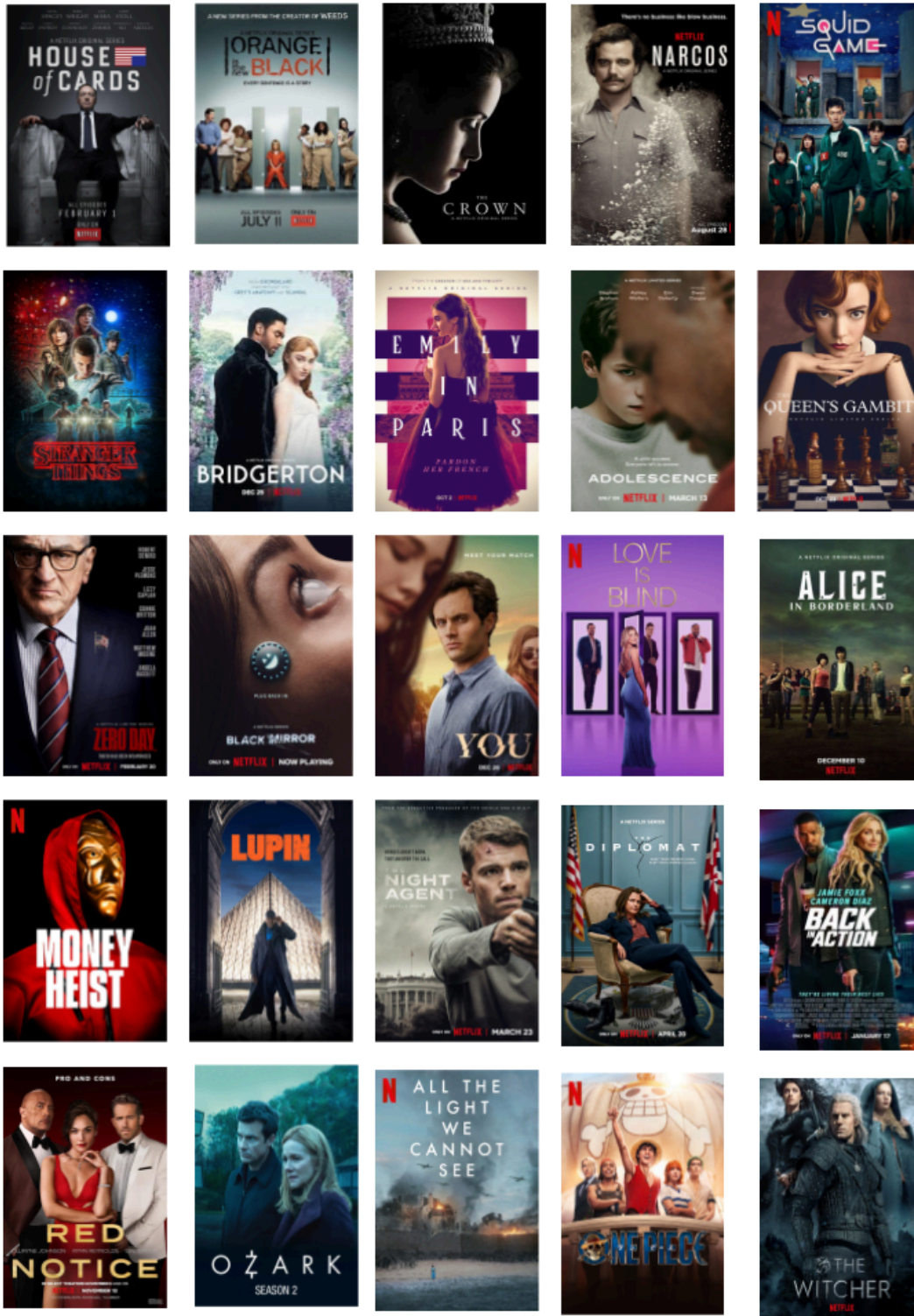
Management: In 2023, following the stepdown of co-founder and ex-CEO, Reed Hastings (age 64), Ted Sarandos (age 60) & Greg Peters (age 54) were promoted to Co-CEOs/Co-Presidents. Ted joined NFLX early in 2000 as VP of Content Acquisitions, later becoming the Chief Content Officer, where he was responsible for overseeing licensed content acquisition and original content production. Ted pushed NFLX's transition into original content in 2013, releasing the entire first season of "House of Cards" at once, inventing "binge watching" that has become the industry standard. He further expanded NFLX into international originals, film, animation, and unscripted content, bets that have broadened NFLX's content slate. Greg joined NFLX in 2008, initially serving as Chief Streaming and Partnerships Officer, then Chief Product Officer (Jul17-Jul20), and COO (Jul20-Jan23), then Co-CEO in January 2023. Greg was pivotal in several key areas, including smart downloads, mobile games, advertising, password sharing crackdown, and international content development. NFLX's success has been a combination of Reed's solid succession planning with Ted and Greg's strong execution and leadership. While insider ownership is low, Hastings (1%), Sarandos (0.13%), and Peters (0.06%) remain sufficiently incentivized. Strong Glassdoor ratings with 4.2 stars, 82% recommend to a friend, and 89% CEO approval scores.

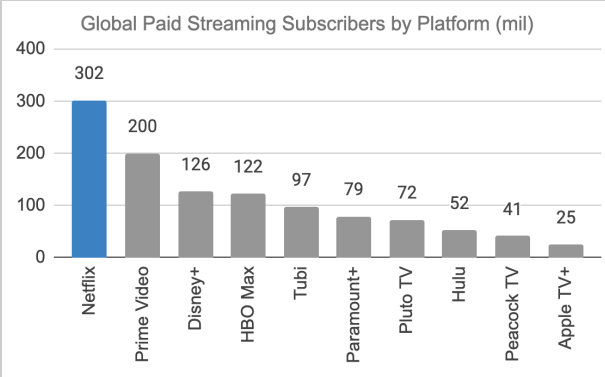
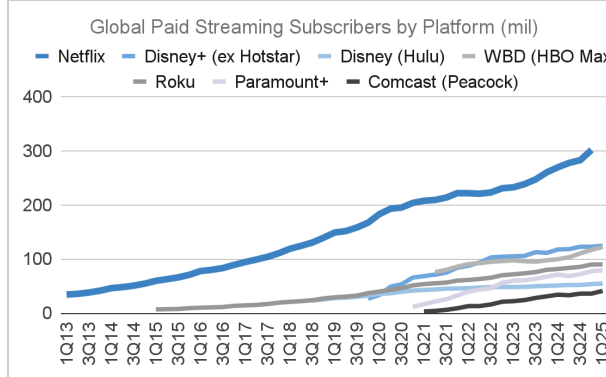
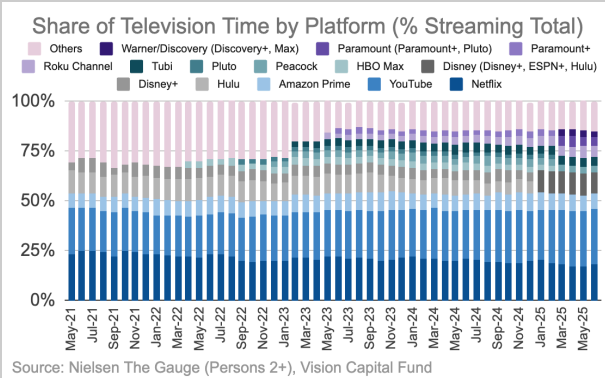
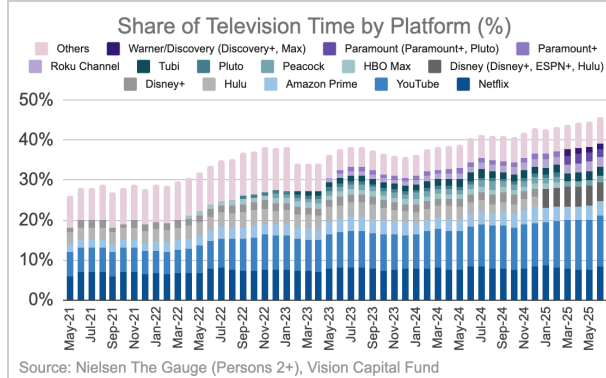
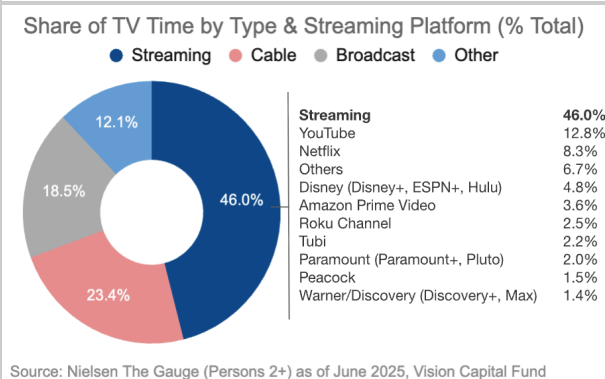
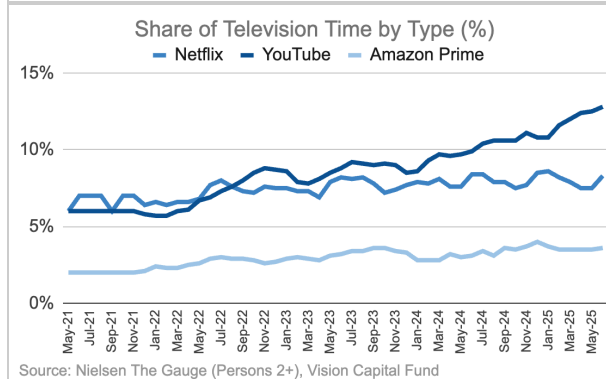
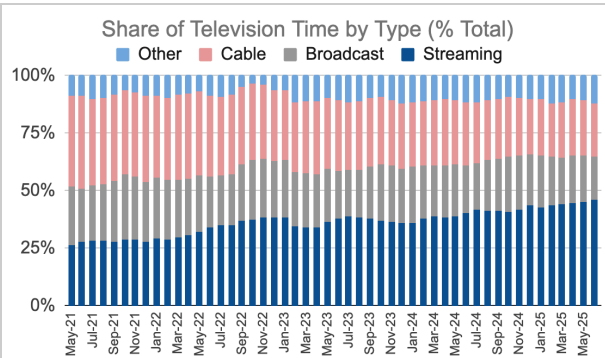
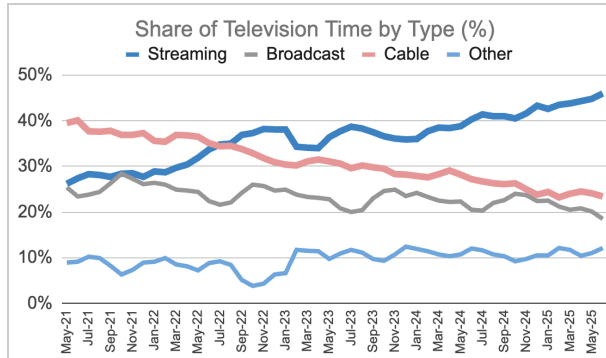
Valuation: If NFLX can grow TTM revenues of US\$41.7bn at 10-15% CAGR over the next five years, supported by ARPM increases, subscriber growth, and advertising, and with continued content cost operating leverage, FCF margins could expand to 25.0-32.5%. With 30-50X EV/FCF valuation multiples, NFLX could return +1-23% CAGR with a base 14% CAGR. Would want to add more on attractive prices.

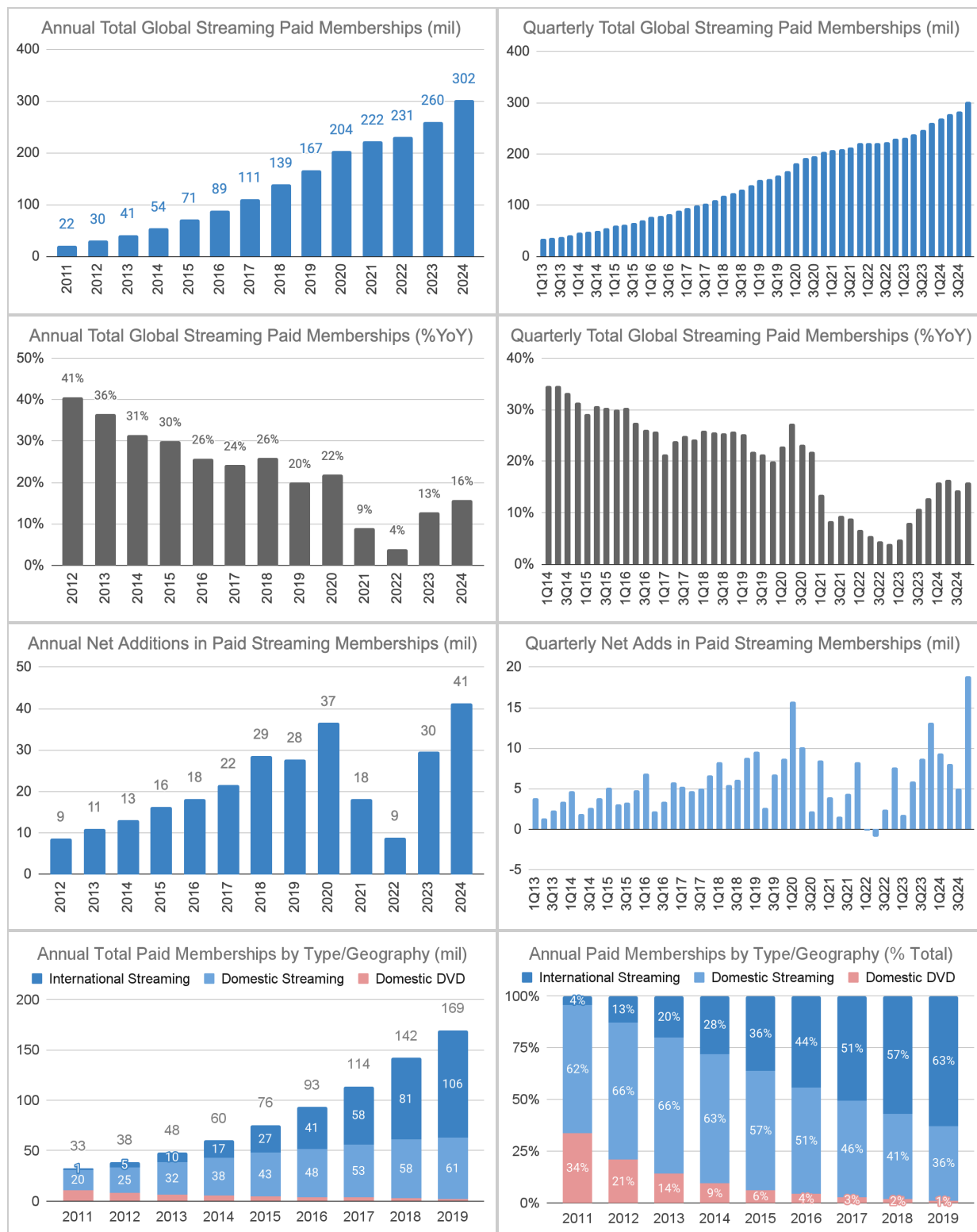
Risks: The biggest risks for NFLX would be if (1) subscriber growth slows, user metrics deteriorate with poor content and strategy execution, (2) expansion into newer verticals (live/sports, animation, games) struggling, (3) weaker advertising execution, and (4) higher competition (low switching costs).

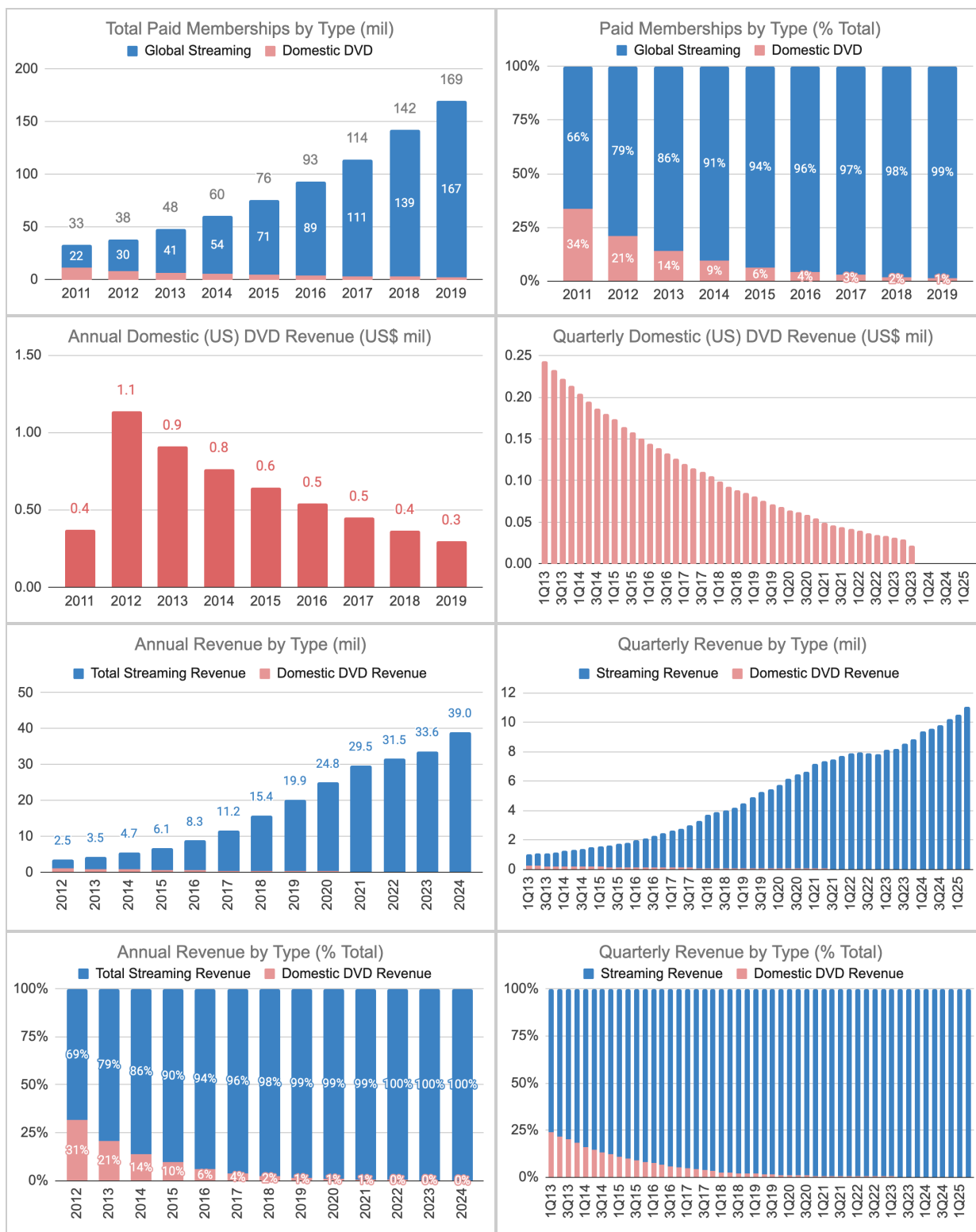
Vision: Netflix aligns with our philosophy of vision investing, with its mission "to entertain the world", by providing a wide array of high-quality shows, films, and games to a global audience with diverse tastes and preferences, making quality streaming entertainment accessible to everyone, everywhere.

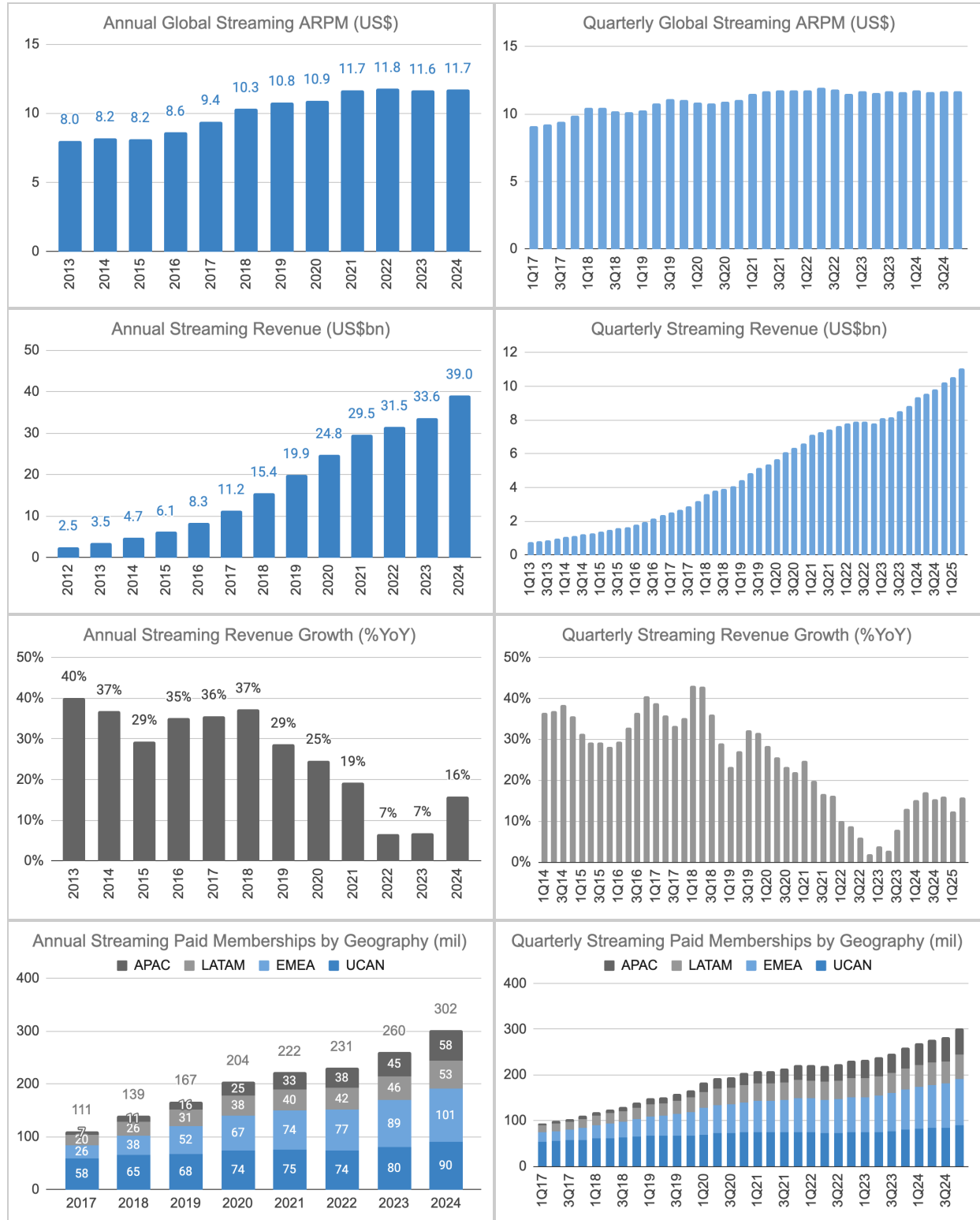
Selected Highly-Rated Netflix Original Content (Series & Films)

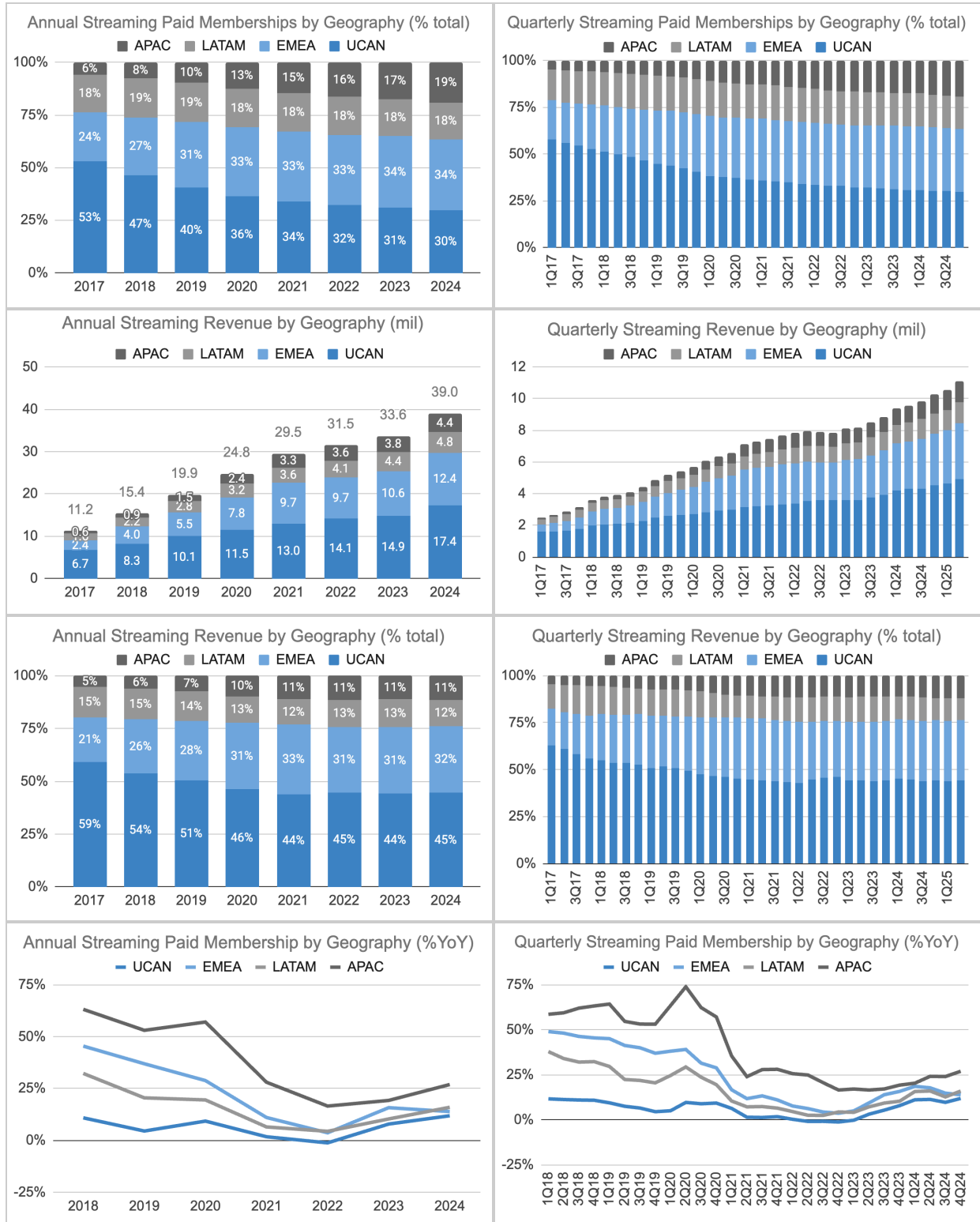


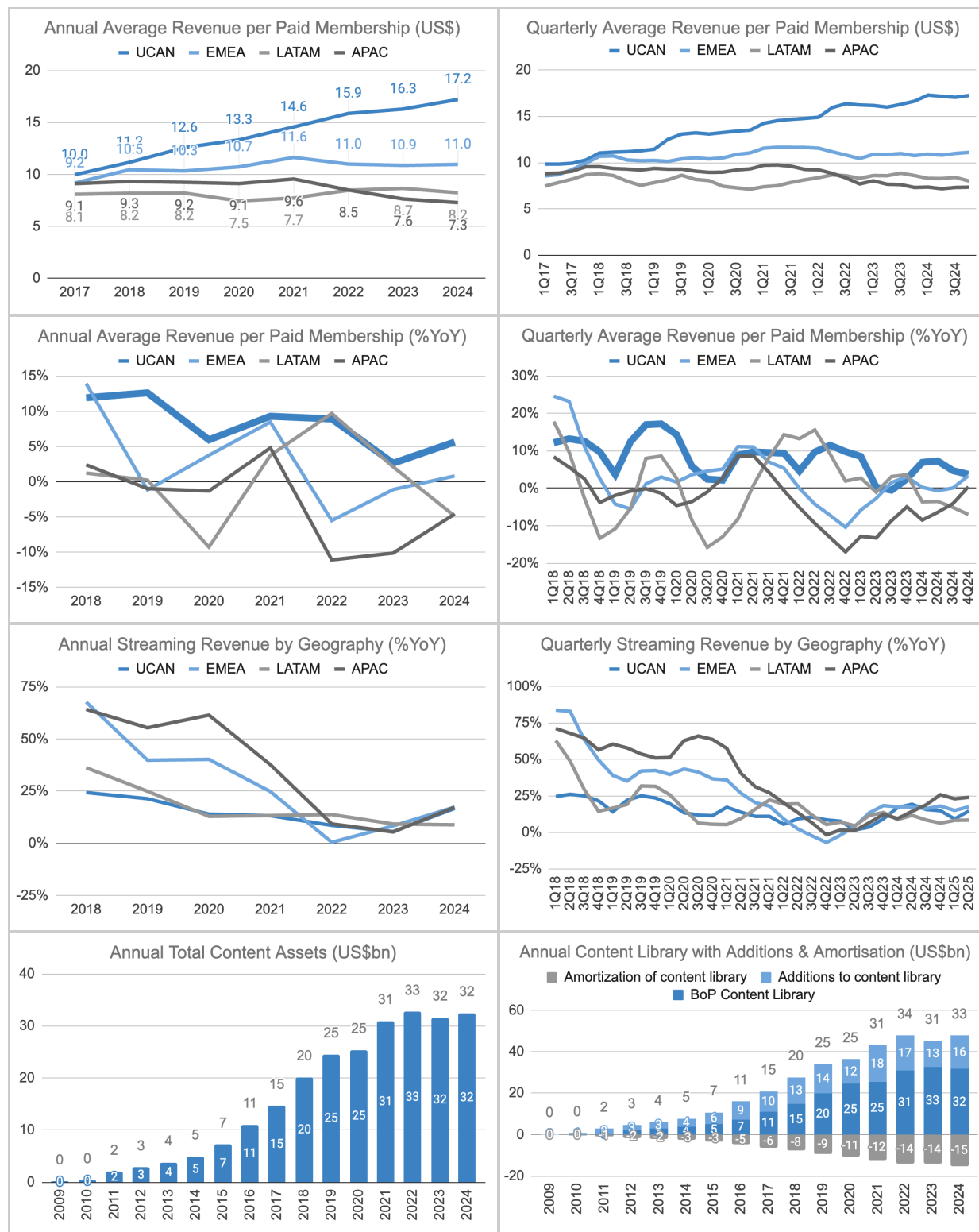


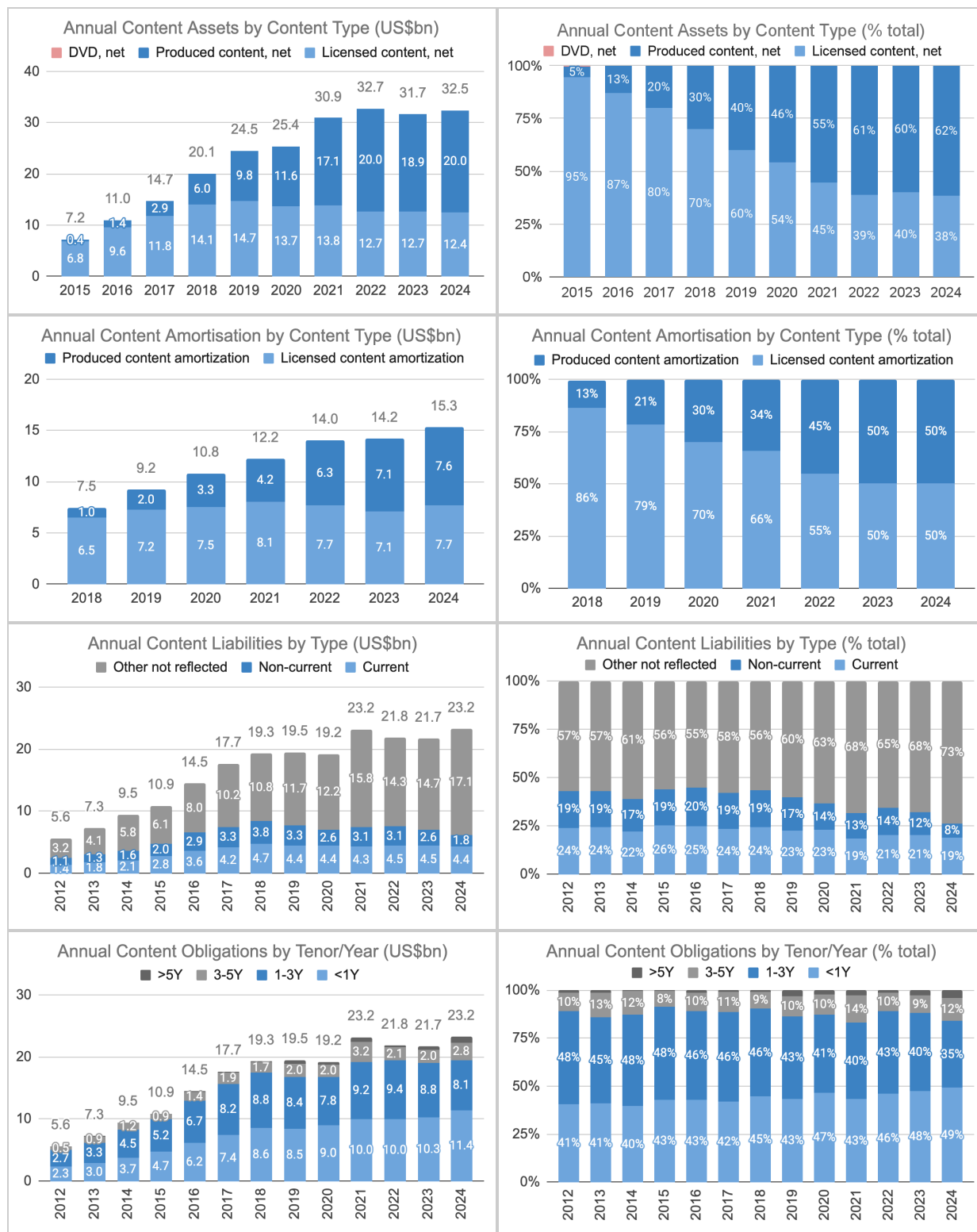


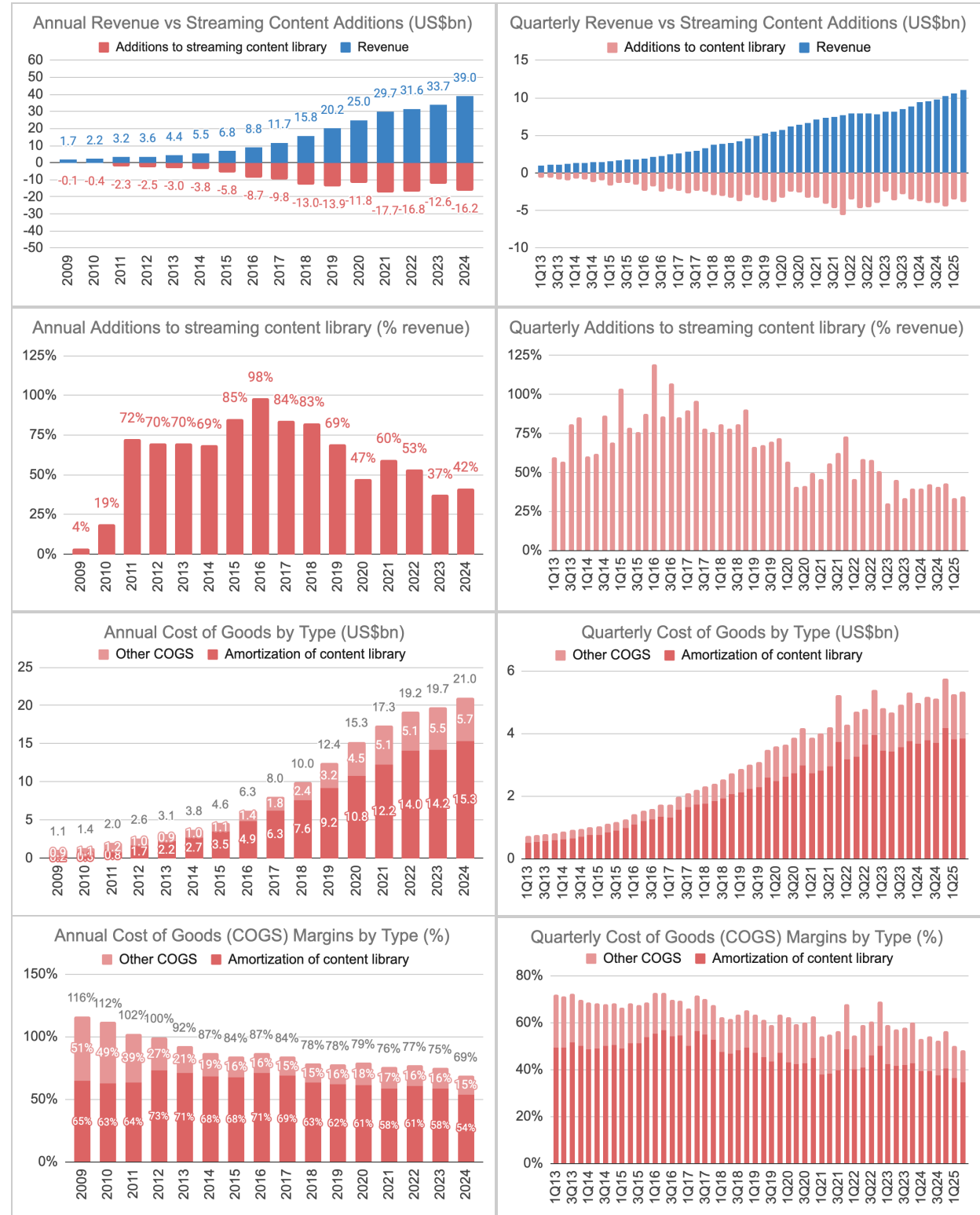


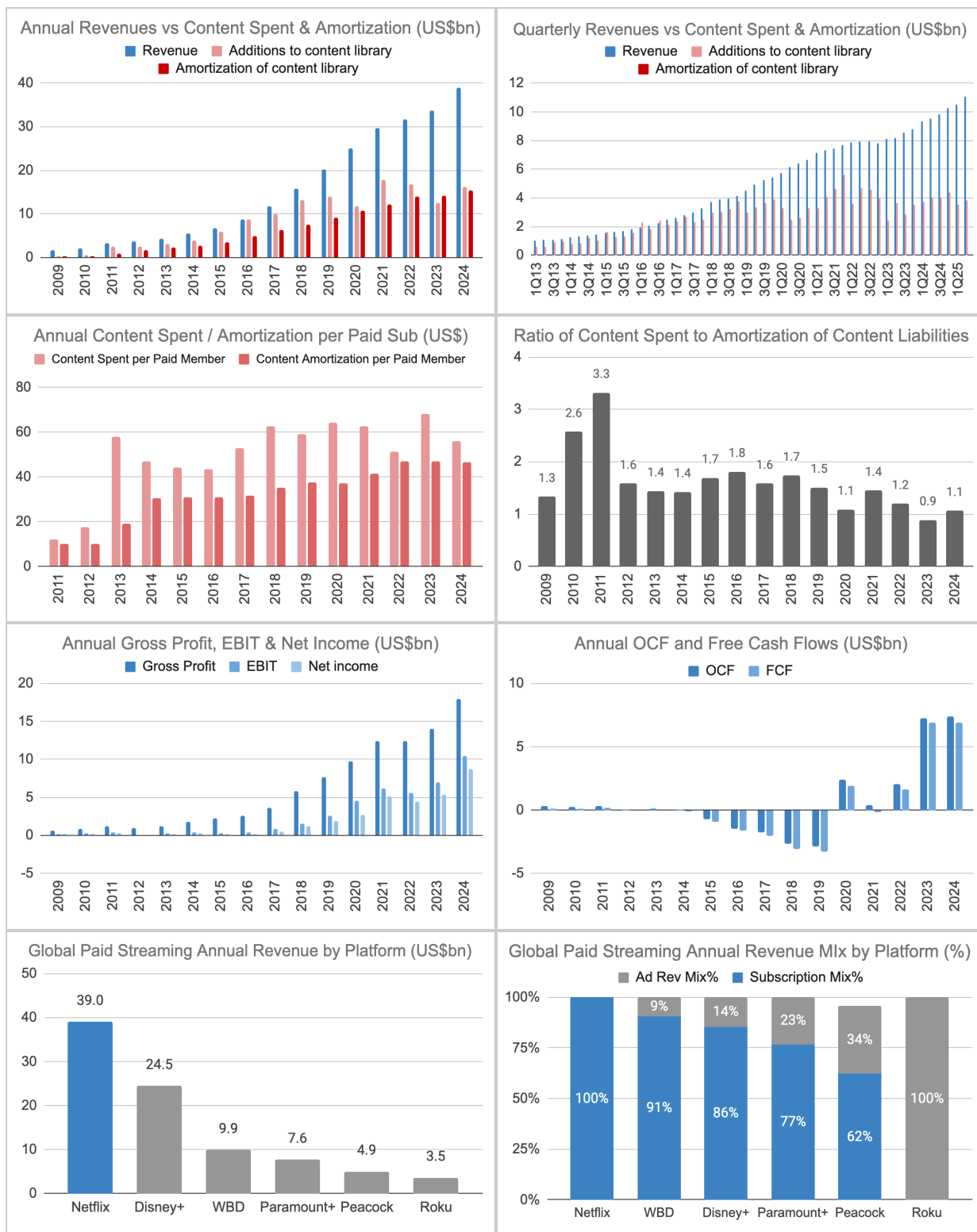




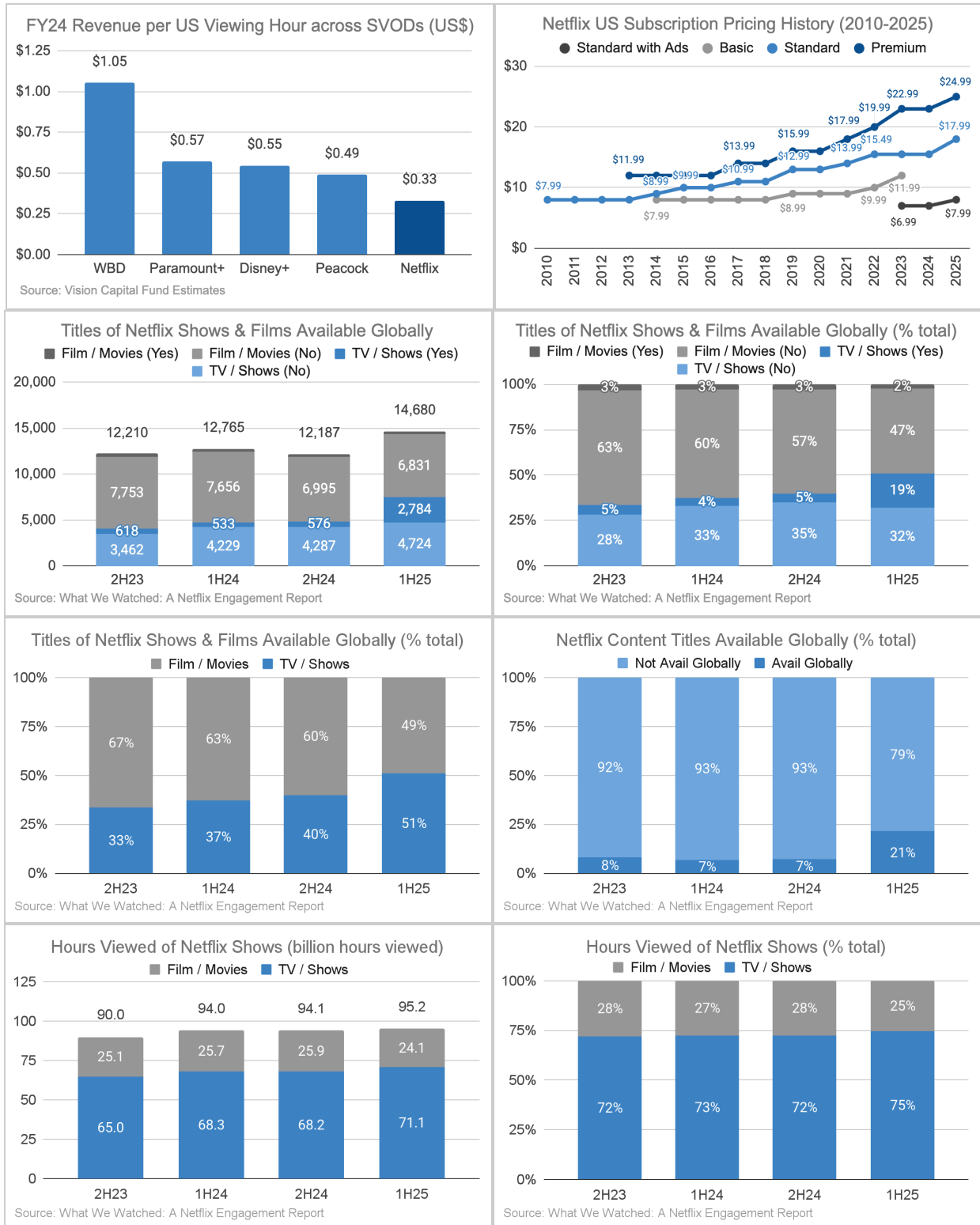


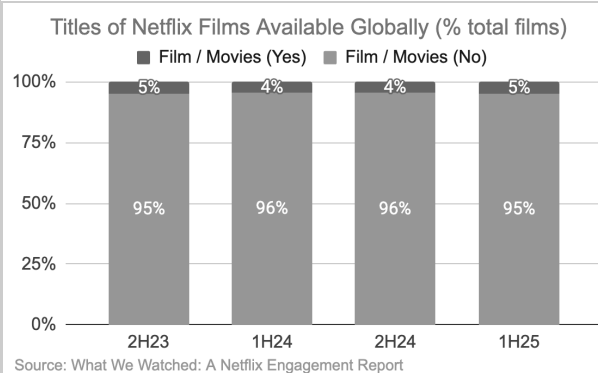
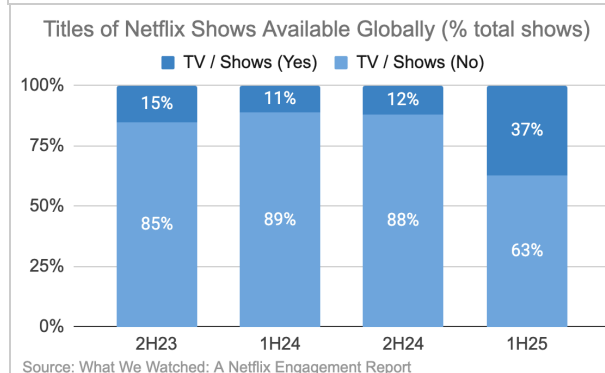
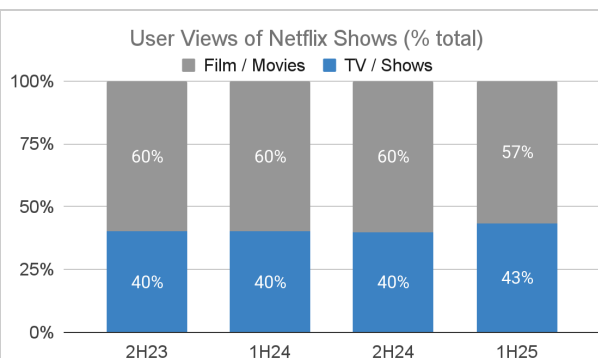
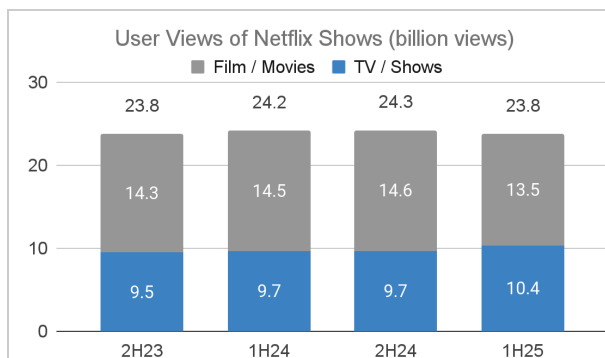






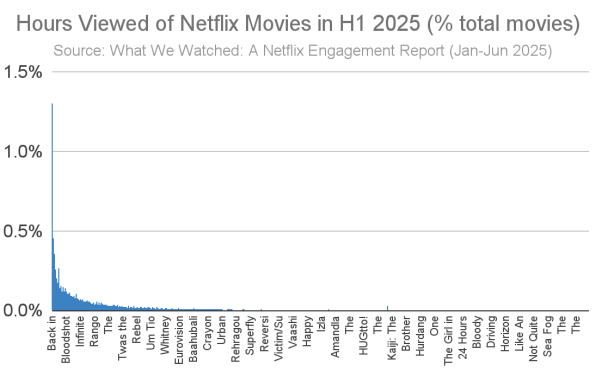
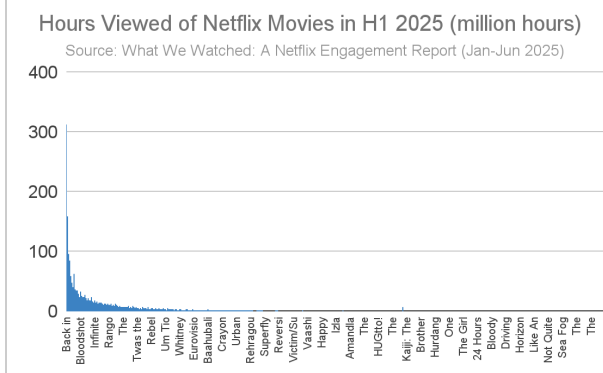
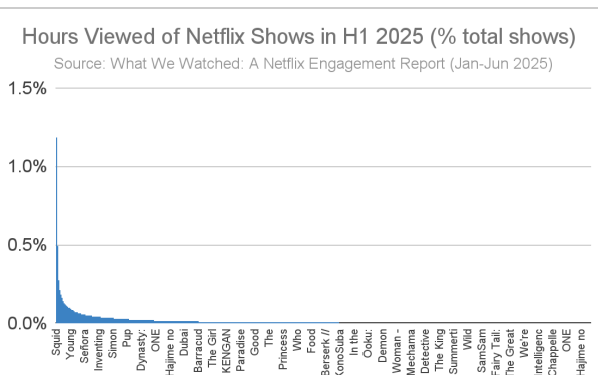
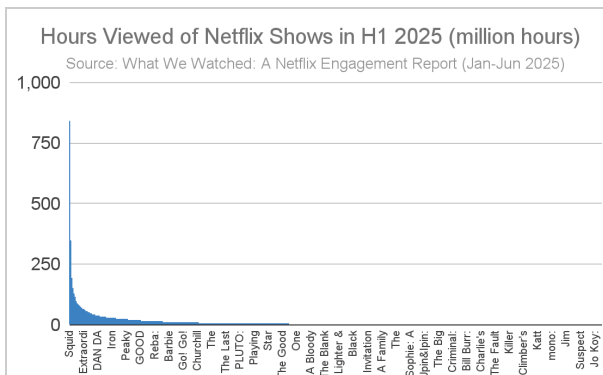


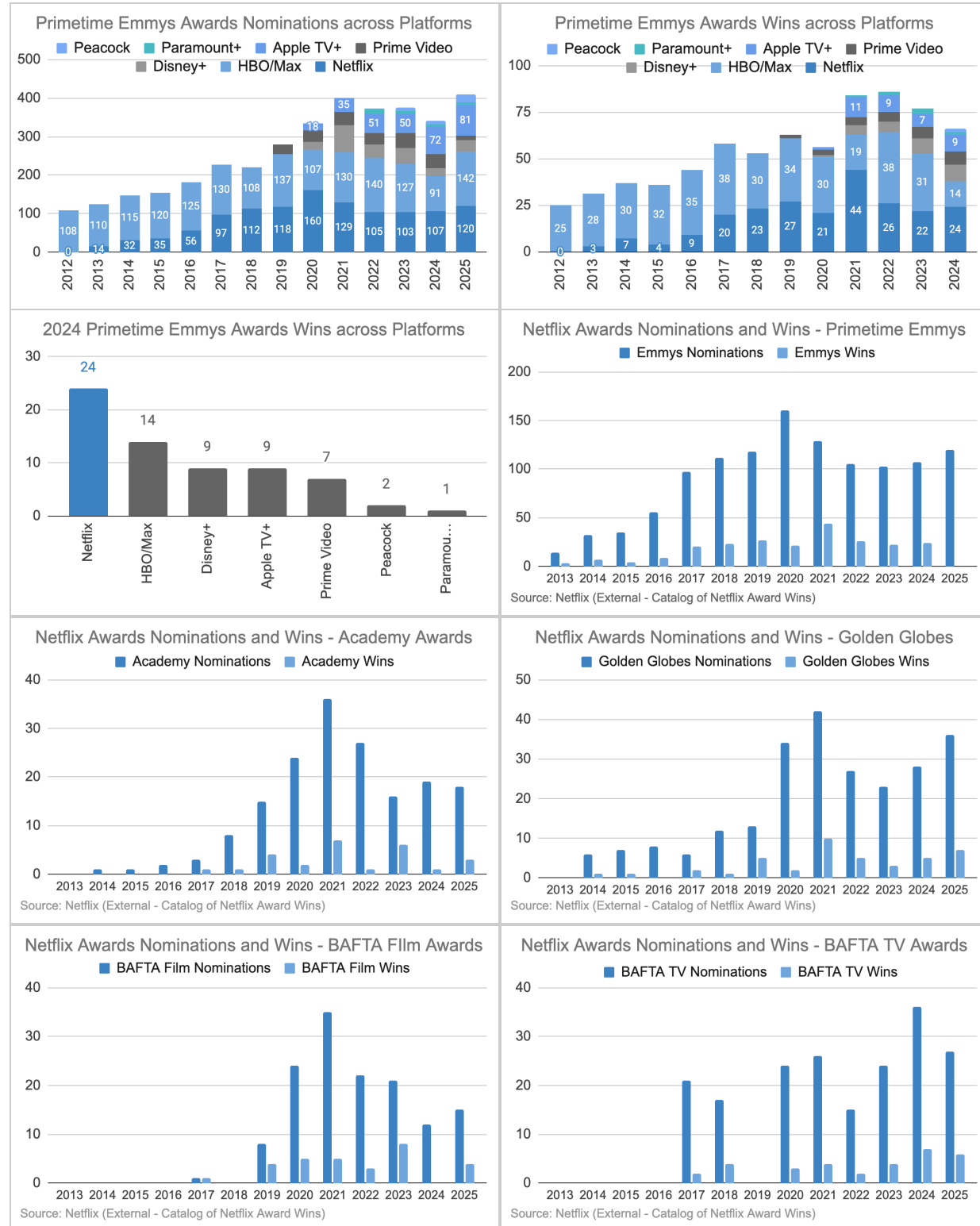


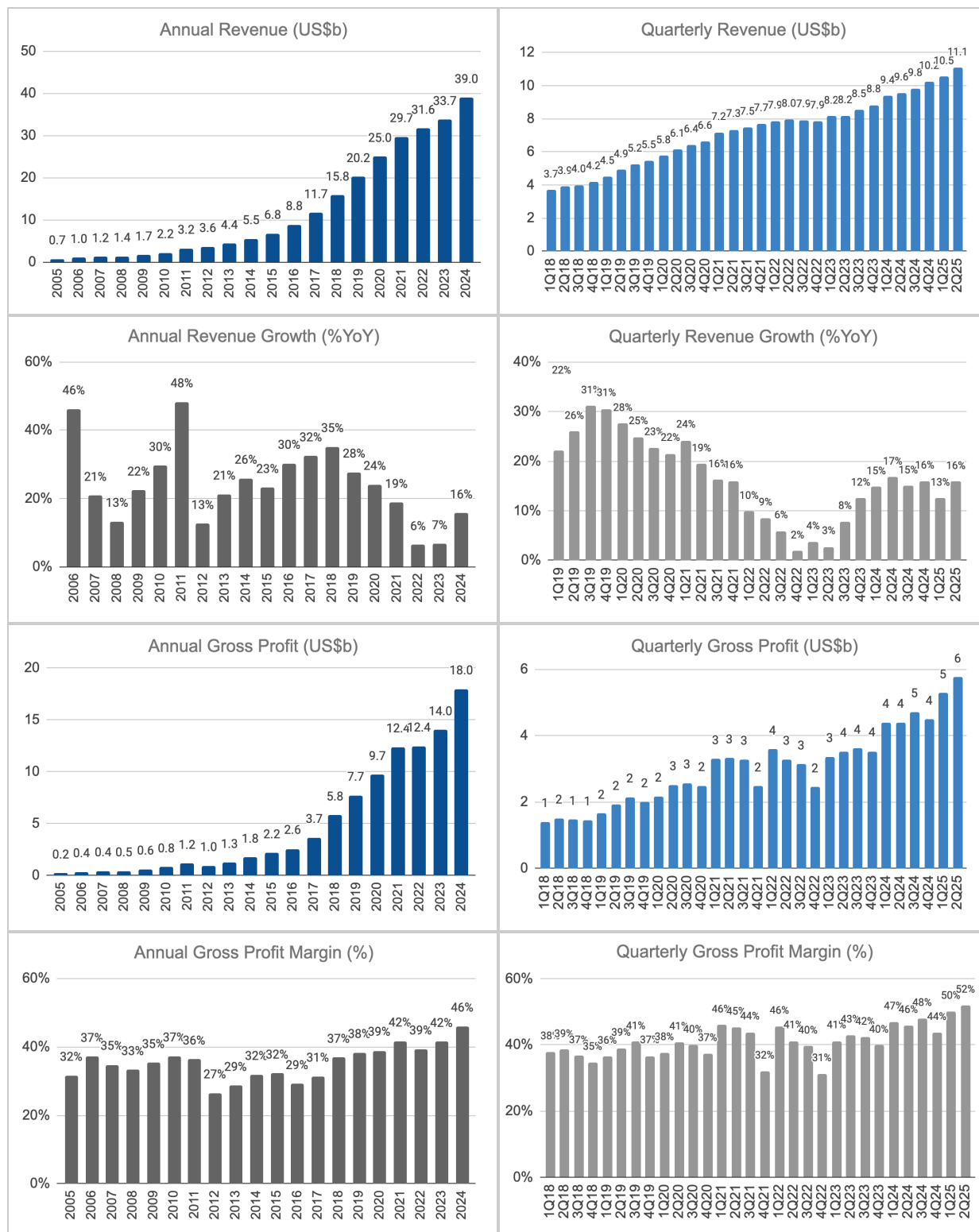


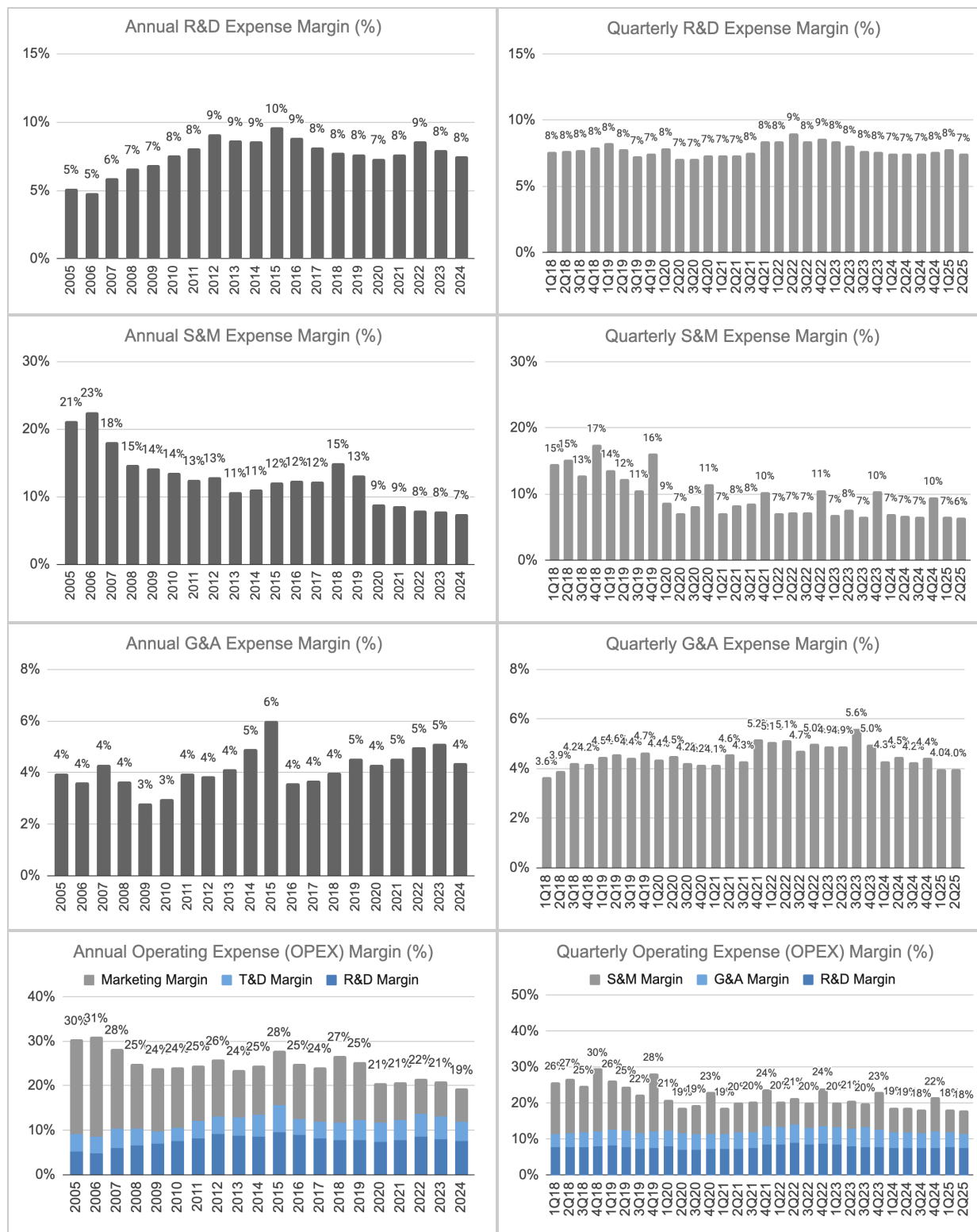
Power Laws: ~Top 20% of Titles (Shows & Films) account ~80% of H1 2025 viewing hours

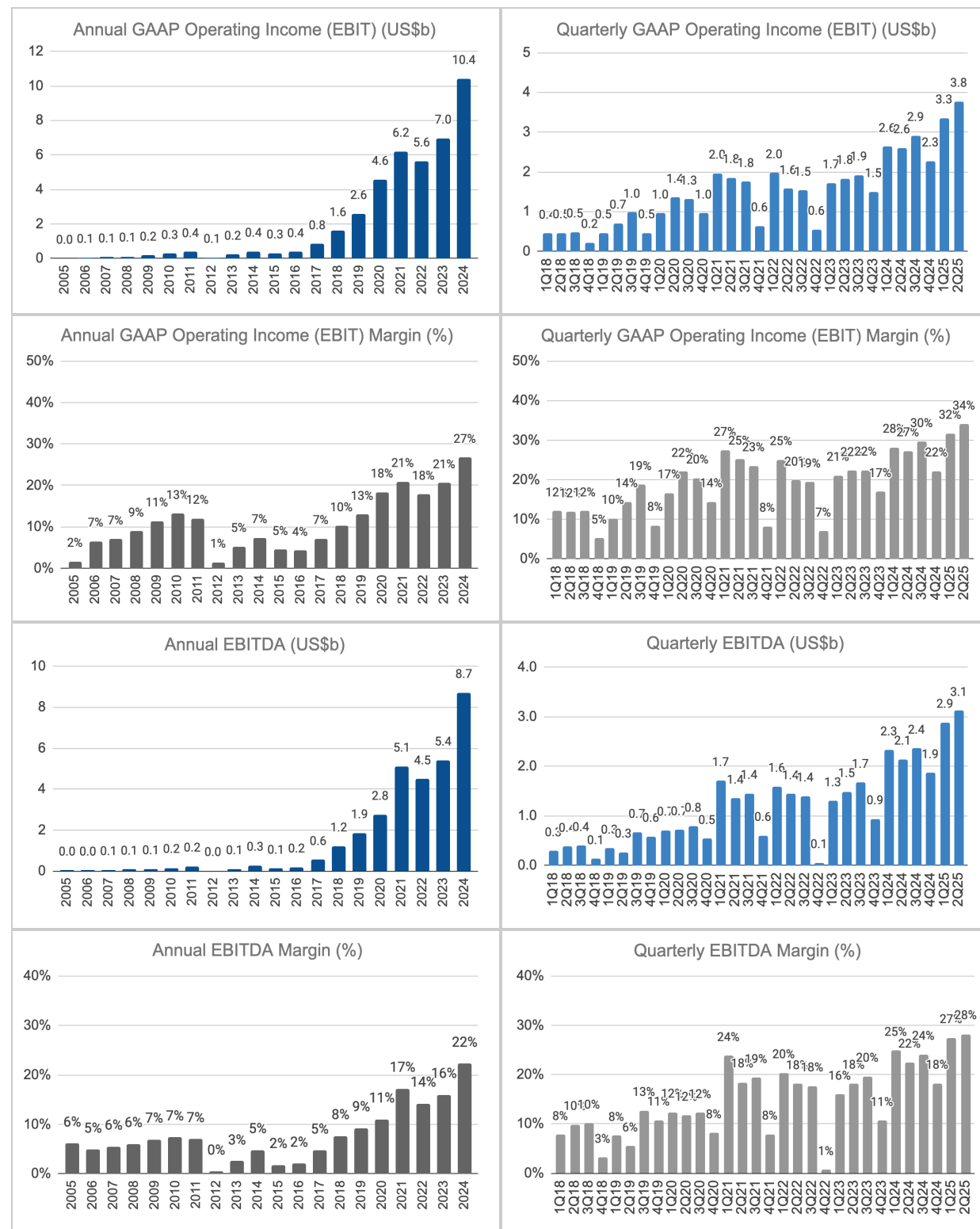
Netflix plays the long tail (not just blockbuster titles), every show/movie accounts for less than 1% of total viewing hours.

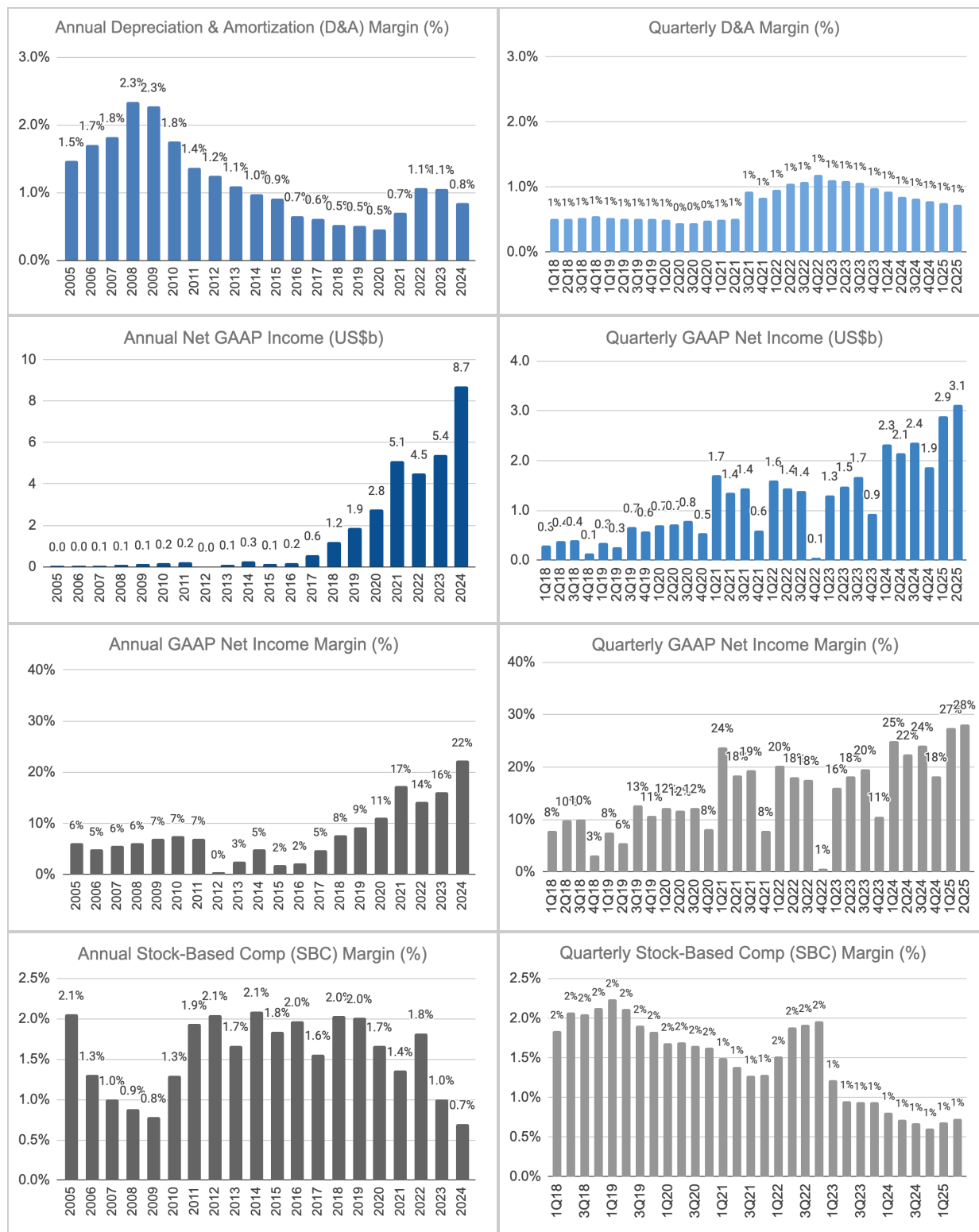


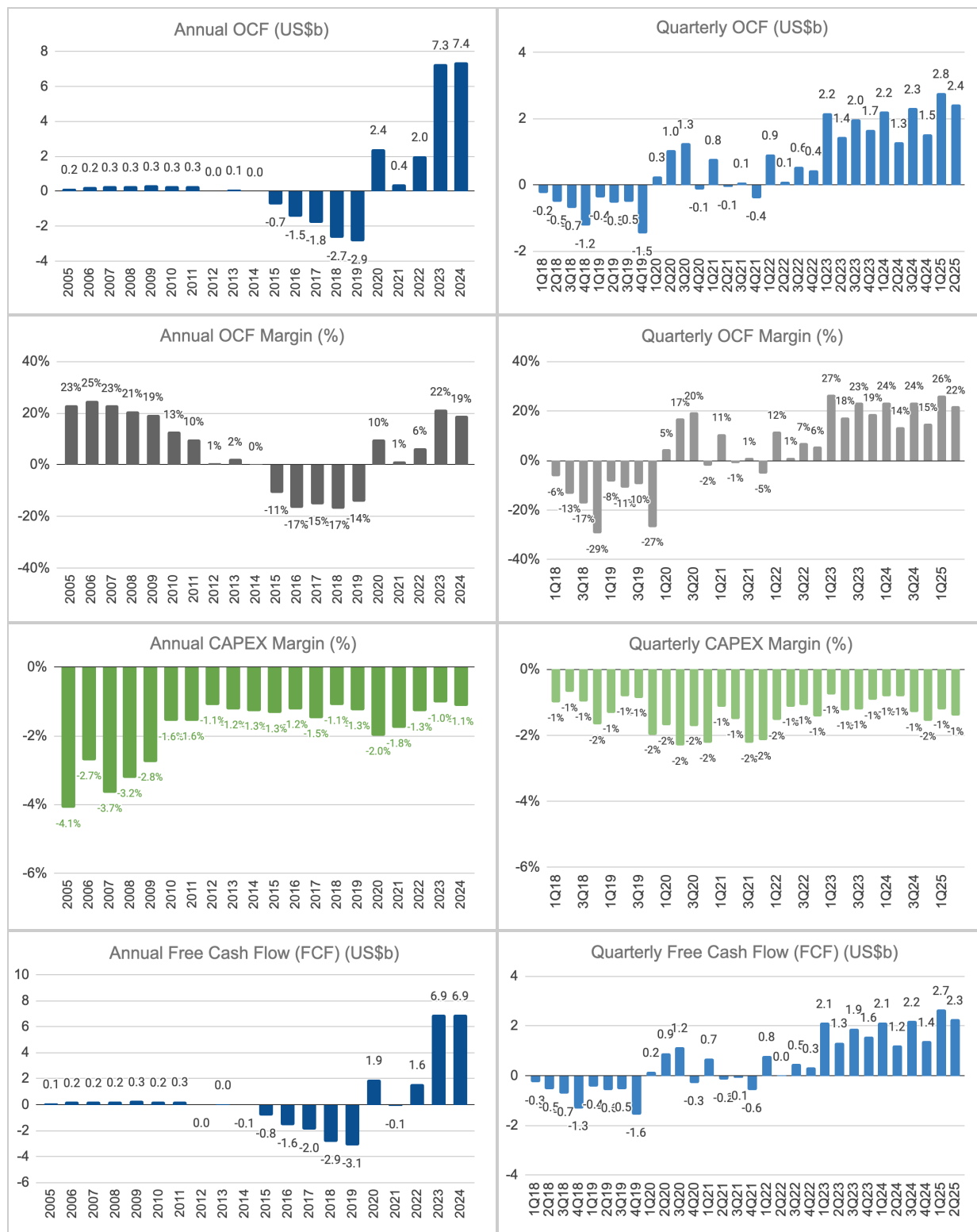


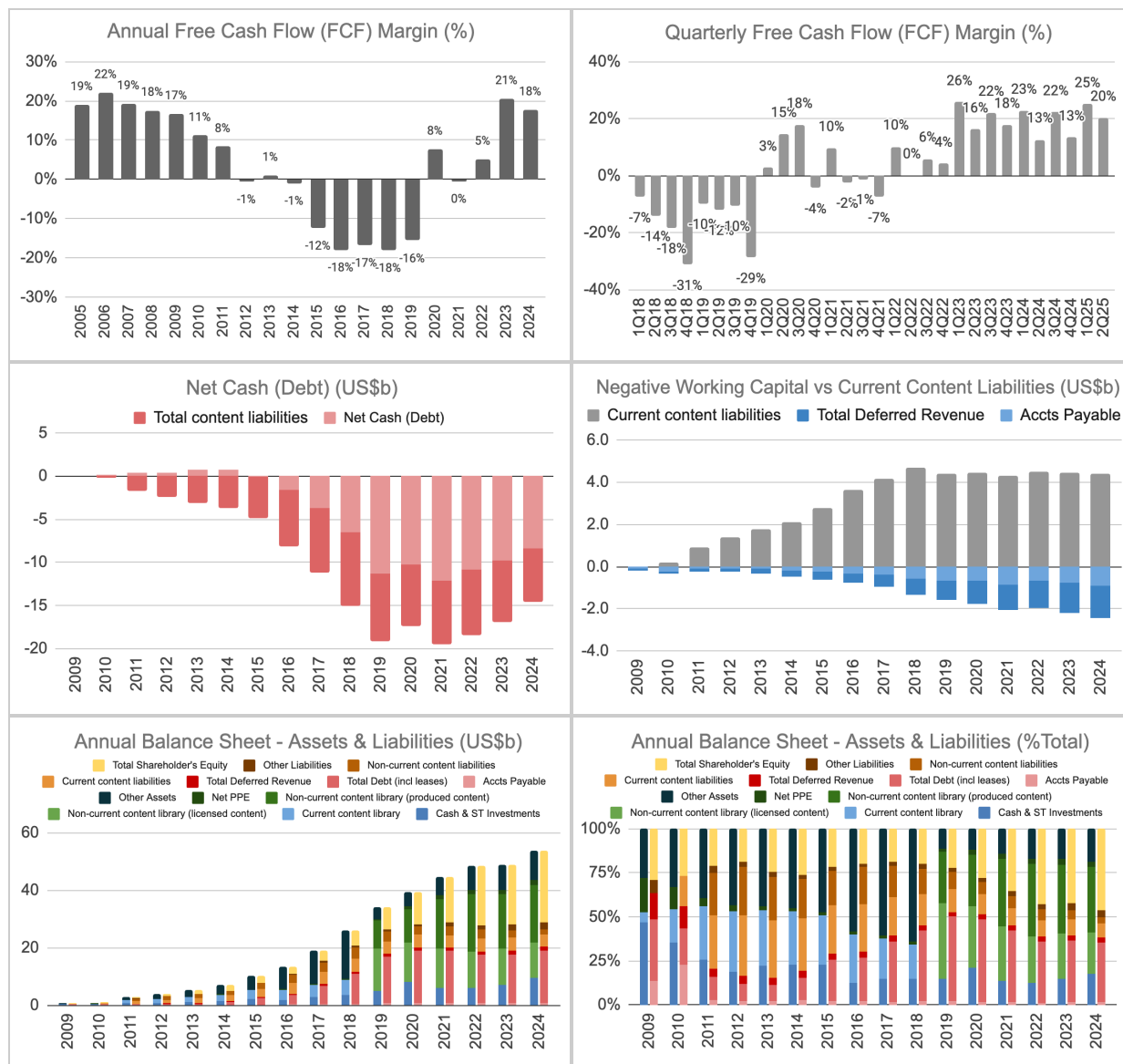












Potential Forward Return Analysis

Potential Return Analysis (EV/FCF) - NFLX as of 29-Jul-2025	Bear	Base	Bull
TTM Revenue (US\$b)	\$41.7	\$41.7	\$41.7
Revenue CAGR	10.0%	12.5%	15.0%
Years	5	5	5
Future Revenue (US\$b)	\$67.1	\$75.1	\$83.9
FCF Margin	25.0%	30.00%	32.5%
FCF (US\$b)	\$16.8	\$22.5	\$27.3
Current TTM EV/FCF Valuation Multiple	60.8	60.8	60.8
Future EV/ FCF Valuation Multiple	30.0	40.0	50.0
Future Enterprise Value (EV)	\$503.6	\$901.6	\$1,362.7
Existing Market Cap (US\$b)	\$499.1	\$499.1	\$499.1
Less Net Cash (FY24)	-\$18.0	-\$18.0	-\$18.0
Existing Enterprise Value (EV)	\$517	\$517	\$517
Dilution (-) / Buybacks (+)	0.0%	0.0%	0.0%
FCF Yield	1.6%	1.6%	1.6%
Return Multiple	1.1	1.9	2.9
Return CAGR %	1%	14%	23%

Additional Reading Resources

[Netflix Culture Deck by Reed Hastings](#) (2009)

[No Rules Rules: Netflix and the Culture of Reinvention, Reed Hastings](#) (2020)

[That Will Never Work: The Birth of Netflix and the Amazing Life of an Idea, Marc Randolph](#) (2022)

Disclaimer: This investment thesis is for informational purposes only and does not constitute financial advice. None of the information or analysis presented is intended to form the basis for any offer or recommendation. Vision Capital Fund owns shares in **Netflix Inc (NASDAQ: NFLX)**. Holdings of Vision Capital Fund are subject to change at any time.