



Netflix, Inc.

NFLX

EQUITY RESEARCH REPORT

August 14, 2026

NFLX — Netflix, Inc.

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Exchange: NASDAQ | **CIK:** 0001065280 | **SIC:** 7841 | **State of Incorporation:** DE

EXECUTIVE SUMMARY

Metric	Value
Recommendation	**AVOID**
Current Price	**\$78.24 / €67.74**
Fair Value (Base Case, 2026E)	\$72.00 / €62.34
Margin of Safety	** -8.0%** (price exceeds fair value)
Re-Review Entry Price	\$60.00 / €51.95

Return Profile	Value
Dividend Yield	**0.0%** (no dividend)
Expected Dividend Growth	n/a
Expected Price Appreciation (Base)	7.3% CAGR
Total Expected Return (Base)	**7.3% CAGR**
Bear Case Total Return	** -4.9% CAGR**
Bull Case Total Return	+13.4% CAGR
Probability-Weighted Return	**5.8% CAGR**

Risk Assessment	Value
Wealth Preservation Score	**40 / 100**
Downside Protection Score	25 / 100
Quality Score	47 / 100 (67/100 on a dividend-neutral basis)
Risk Level	**ELEVATED**
Probability of >50% Loss	~10%
Recession Profile	**SENSITIVE**
Max Historical Drawdown (10Y)	~-76% (Nov 2021 to Jun 2022)

One-Line Thesis:

Netflix runs one of the best operating businesses in global media, but it pays no dividend, has just signed an \$82.7 billion all-cash acquisition that converts an asset-light balance sheet into a levered one, and offers you a bear case that loses money every year for a decade.

INVESTMENT THESIS

You are being asked to buy a 28x forward earnings multiple on a discretionary consumer subscription business that returns nothing to you in cash while management borrows tens of billions of dollars to buy a declining legacy studio and streaming portfolio. The operating record supports a premium. Revenue compounded from \$29.7 billion in 2021 to \$45.3 billion in 2025, operating margin widened from 17.8% to 29.6%, and Q1 2026 operating margin reached 32.3%. Free cash flow reached roughly \$14.7 billion in 2025 on a 32.5% margin. Return on invested capital sits above 20% against a cost of capital in the high single digits. On the operating metrics alone, this clears our quality bar.

The capital structure and the capital allocation decision do not. Netflix's 8-K disclosures show a definitive agreement to acquire Warner Bros. Discovery's streaming and studios businesses at an enterprise value near \$82.7 billion, amended so that the \$27.75 per share consideration goes to WBD holders entirely in cash. The company then disclosed a \$5 billion revolving credit facility and \$20 billion of delayed-draw term loan facilities to fund that cash. The provided data does not quantify the acquired business's EBITDA, the total incremental debt, the pro forma interest burden, or the covenant package. That is the problem. Our solvency gate asks whether the company survives a 30% revenue decline for two years while servicing its debt and avoiding a dilutive equity raise. For standalone Netflix the answer is a confident yes. For pro forma Netflix, the provided disclosures do not let us answer at all, and a wealth preservation mandate does not permit you to buy the unknown side of an \$82.7 billion balance sheet transformation.

The return math then fails on its own terms. With no dividend, every dollar of your return depends on earnings growth and the multiple the market assigns. Our base case gives Netflix a 10.5% earnings CAGR over ten years and a terminal multiple of 23x, which produces 7.3% annually. That barely clears the 7% hurdle before you account for the fact that you earn in euros and hold a dollar asset. The bear case, in which content spend keeps climbing (management said "\$18 billion is not a ceiling"), engagement stagnates (viewing hours grew roughly 2% in the first half of 2026), ad monetization underdelivers, and the multiple compresses to 14x, returns **-4.9% annually for ten years**. A 4% savings account beats that by nine points per year. The near-term downside is worse than the ten-year figure suggests: at 16x a \$2.60 earnings number, the stock trades at \$44, which is 44% below today's price. Netflix already did this once, falling roughly 76% between November 2021 and June 2022 on nothing more severe than two quarters of subscriber losses.

Against alternatives, the case gets thinner. Our framework awards 30 of 100 quality points to income reliability, and Netflix scores zero on all of it. You can buy a regulated utility or a consumer staple with a 3% covered dividend, a 4% earnings growth rate, and a bear case that stays positive, and reach the same 7% total return without accepting a 44% drawdown risk or an unquantified \$82.7 billion integration. That trade is the entire wealth preservation discipline in one sentence.

1. BUSINESS QUALITY ASSESSMENT

Stage 1 Sector Screen

Question	Answer	Verdict
Understandable business?	Yes. Subscription video with an advertising overlay	Continue
Sector in secular decline?	No. Streaming continues taking share from CTV and TV.	Continue
Defensive or cyclical?	**Moderately cyclical.** Subscriptions are down with households plateauing, the showing is gradually	Continue
Sector tailwinds	(1) Linear-to-streaming migration, (2) ad-tie monetization required, (3) live s	Continue
Sector valuation vs history	Netflix trades below its own 2024-2025 peak multiples (P/E ratio)	Continue

Sector Verdict: CONTINUE. The industry is not in decline and the business model is comprehensible. The cyclicity of both subscription and advertising revenue triggers heightened balance sheet scrutiny, which is exactly where this analysis breaks down.

Revenue Model

Stream	Character	Assessment
Subscription fees	Recurring, tiered pricing, paid sharing	Core engine; ~\$45.3B base in 2025
Advertising	Growing, cyclical, targeting roughly \$3B scale	Optionality with cycle risk attached
Content licensing / gaming / live events	Emerging, not established as major reported segments	Not included in the provided data

Geographic breakdown is not available in the provided data. The company operates in more than 190 countries across 45+ currencies, which introduces translation exposure into a US-dollar reporting line and a second layer of currency exposure for you as a euro-based holder.

4.1 Moat Assessment

Moat Component	Type	Durability
Scale economies in content amortization and marketing	Cost advantage	Medium-High
Personalization and viewing data	Data advantage	Medium
Brand and default-destination habit	Brand power	Medium
Content library breadth and local-language originals	Originals advantage / scale	Medium

Netflix holds no regulated monopoly, no meaningful contractual switching cost, and no patent wall. A household cancels in two clicks. What protects the business is convenience, habit, and a cost structure that spreads content spend across the largest subscriber base in the industry. That protection works while competitors keep losing money on streaming, and it thins when Amazon and Apple subsidize their services from other profit pools and bid content costs higher. The absence of broad live sports rights, which competitors use to lock in high-retention audiences, remains a structural gap that the NFL Christmas Day and MLB special-event deals only partly address.

Can the competitive position materially erode over ten years? Possible but manageable on subscriptions. Elevated risk on engagement share, given short-form video platforms and AI-generated content competing for

the same attention hours. The 2% viewing-hours growth in the first half of 2026 against 13-14% guided revenue growth tells you the revenue line is now driven by price and mix rather than by attention.

- **Primary Moat:** Scale economies, Medium-High durability
- **Threat Assessment:** Moderate to Elevated
- **Moat Preservation Confidence:** **MEDIUM**

2. FINANCIAL FORTRESS ANALYSIS

2.1 Solvency Check

Metric	Threshold	Standalone Netflix	Pro Forma (post-WBD)	Result
Debt-to-Equity	<1.0x	~0.5x (derived: implied book equity of \$28.3B / \$25B P/B of 1.1x) (2025 data)	~0.5x (derived: implied book equity of \$28.3B / \$25B P/B of 1.1x) (2025 data)	UNVERIFIABLE
Interest Coverage	>5.0x min	Well above 10x on \$13,419M EBIT	Not provided	UNVERIFIABLE
Current Ratio	>1.5x	Not provided	Not provided	UNVERIFIABLE
FCF positive 4 of 5 years	Required	2025 confirmed at ~\$14.7B	Not provided	UNVERIFIABLE
Debt maturity schedule	No >30% cliff in 2 years	Not provided	\$20B delayed-draw term loan	UNVERIFIABLE
Cash as % of total debt	>20%	Not provided	Cash will be consumed by the transaction	UNVERIFIABLE

Stress Test: revenue drops 30% for two years.

Standalone Netflix survives this comfortably. Operating margin of 29.6% gives 20 points of cushion before the operating line turns negative, content spend is discretionary at the margin, and there is no dividend to defend. Pro forma Netflix carrying an unquantified debt load against a studio business with its own cost base is a different question, and the provided disclosures do not answer it.

Solvency Assessment: **ADEQUATE (standalone FORTRESS; pro forma UNVERIFIABLE).**

Under our framework, an unverifiable solvency position during a transformative debt-funded transaction does not earn the benefit of the doubt. It earns a hold on the file until the pro forma capital structure is filed and readable.

2.2 Earnings Quality

Test	Result	Assessment
OCF vs net income	~\$19.6B OCF vs \$10,981M net income = 178%	Passes the 80% screen easily
Receivables vs revenue	Not provided	Unverified
Inventory vs COGS	Not applicable	n/a
One-time items	\$619M Brazil tax charge in Q3 2025, described in the filing	Not a concern
Restatements	None indicated	Clean
Auditor warnings / going concern	None indicated in the provided filing summary	Clean

The single item that deserves your attention is content accounting. Netflix capitalizes programming spend and amortizes it over judgment-based useful lives. Reported operating income and reported cash flow diverge according to the relationship between current-period cash content spend and prior-period amortization. When amortization runs above cash outlay, operating cash flow looks excellent. When the slate expands, amortization becomes a margin headwind in later years. Management's comment that "\$18 billion is not a ceiling" for content investment is the single most important forward-looking statement in the entire research file, because it tells you the margin expansion that drove the 2024-2025 rerating is not contractually protected.

Earnings Quality: ACCEPTABLE with a content-amortization caveat.

2.3 Dilution Check

Share count history is not provided in the pipeline data. Derived diluted shares from 2025 net income of \$10,981M and diluted EPS of \$2.53 give approximately 4,340 million shares. The company announced a \$25 billion repurchase authorization, taking total capacity to \$31.8 billion, which points to net share reduction rather than dilution.

The complication: that authorization was announced alongside an all-cash acquisition funded by \$20 billion of delayed-draw term loans. Those two claims on the same balance sheet cannot both be maximized. One of the two commitments will be scaled back, and you do not know which.

Dilution Assessment: ACCEPTABLE (unverified). No evidence of value extraction through share issuance. Also no evidence that the buyback capacity survives the deal.

2.4 Dividend Sustainability

Netflix pays no dividend. This is not a defect in the business; it is a defect in the fit against this mandate.

Metric	Value
Dividend Yield	0.0%
Payout Ratio	n/a
Consecutive Years of Dividend	0
Income cushion in a drawdown	None

Dividend Sustainability: NOT APPLICABLE. Consequence: the Income Reliability component of the Quality Score (30 of 100 points) scores zero, and every dollar of your expected return depends on price appreciation, which depends on a multiple you do not control.

2.5 Capital Efficiency

Derived from provided data:

- NOPAT $\approx$ EBIT \$13,419M $\times$ 0.75 = ~\$10.1B
- Invested capital $\approx$ implied book equity of \$28-33B (from P/B of 10.3-12.0x against a \$340B market capitalization) plus mid-teens-billion debt = ~\$45-48B
- **ROIC $\approx$ 21-22%**
- WACC estimate: 8-9%

Five-year trend: operating margin moved 17.8% (2022) to 20.6% (2023) to 26.5% (2024) to 29.6% (2025), with Q1 2026 at 32.3%. ROIC has improved materially alongside it.

ROIC: ~21% | vs. WACC ~8.5% | Trend: Improving | Verdict: Value Creating

This is the strongest section of the report. The business earns very high returns on the capital it employs. The question the WBD transaction raises is whether the next \$82.7 billion of capital earns anything close to that.

Five-Year Financial Record

FY	Revenue	YoY	EBIT	Op Margin	Net Income	YoY	EPS	Gross Margin	Net Margin
2021	\$29,698M	—	\$6,195M	20.9%	\$5,116M	—	\$1.12	41.6%	17.2%
2022	\$31,616M	+6.5%	\$5,633M	17.8%	\$4,492M	-12.2%	\$1.00	39.4%	14.2%
2023	\$33,723M	+6.7%	\$6,954M	20.6%	\$5,408M	+20.4%	\$1.20	41.5%	16.0%
2024	\$38,877M	+15.3%	\$10,292M	26.5%	\$8,712M	+61.1%	\$1.98	45.9%	22.4%
2025	\$45,274M	+16.5%	\$13,419M	29.6%	\$10,981M	+26.0%	\$2.53	48.6%	24.3%

2025 free cash flow: approximately \$14.7 billion, up roughly 22%, a 32.5% FCF margin. FCF figures for 2021-2024 are not present in the pipeline data and have not been estimated.

Note the 2022 line. Revenue grew 6.5% and net income fell 12.2%. That single year of deceleration produced a 76% peak-to-trough share price decline. The operating business barely wobbled. The multiple collapsed. That is the risk you are underwriting here, and it is a valuation risk, not a solvency risk.

3. DIVIDEND ANALYSIS

Not applicable. Netflix has never paid a dividend and the provided data contains no indication of intent to initiate one. Capital returns run entirely through repurchase, currently authorized at \$31.8 billion of total capacity, which is a real return to continuing holders but delivers nothing in a drawdown and nothing you can spend.

For this mandate the practical effect is that the position offers no income cushion. In the 2022 analogue, a holder received zero cash while the position lost three quarters of its value.

4. VALUATION ANALYSIS

4.1 Multiple Reconciliation

The provided research data contains valuation multiples that do not reconcile to the authoritative current price of \$78.24. We recalculate from first principles and flag the conflicts.

Metric	Source-Reported	Recalculated at \$78.24	Note
P/E (TTM)	23.34-24.03x	**30.9x** on FY2025 EPS of \$2.58	Source figures imply TTM EPS near \$3.3

Metric	Source-Reported	Recalculated at \$78.24	Note
Forward P/E	Not provided	**~28.4x** on 2026E EPS of ~\$2.75 (derived from \$51.2B revenue midpoint)	
EV/EBITDA	9.22x (Yahoo)	~11.3x minimum on \$30,175M EBITDA figure (\$340B market cap) higher on	
P/FCF	25.5-25.6x	**23.1x** on 2025 FCF of \$14.7B; **27.2x** on 2026 FCF guidance of \$12.7B	
P/B	10.29-12.03x	Accepted as given	Implies book equity of \$28-33B
Historical context	Macrotrends showed 53.58x on 2025-09-05		Current multiple sits near the low end of t
Industry average P/E	20.89x (Investing.com)	—	Netflix trades at a ~48% premium on our
Analyst consensus target	~\$94-95, Buy / Moderate Buy	+20% implied upside	Sell-side sees value where our framework

Note on the pipeline data: `deep\_dive\_metrics` (forward_pe, peg_ratio, ev_ebitda, beta, roe, short_float, analyst_target, 52-week range, debt_to_equity) were not supplied for this report. No values in this section have been invented to fill those fields.

4.2 Margin of Safety

Fair value construction, base case:

- 2026E EPS: \$2.75 (derived from company guidance)
- Fair multiple for a business growing earnings at ~10% with medium moat durability, zero dividend, and an unquantified pro forma balance sheet: **26x**
- **Fair Value: \$72.00 / €62.34**
- **Margin of Safety: -8.0%**

You are paying 8% above our estimate of fair value for a business with no income component and an open financing question. The framework requires a minimum 10% margin of safety below fair value for a BUY. The gap between where we would buy and where the stock trades is roughly 23%.

Valuation: FULL

5. SCENARIO ANALYSIS

5.1 Ten-Year Total Return Model

Total Return CAGR = Dividend Yield (0.0%) + Earnings Growth + Annual Multiple Change

Scenario	Weight	Key Assumptions	2035E EPS	Terminal P/E	10Y Target	Total CAGR
Bear	25%	Content spend escalates (pass \$1.1B/yr) with no ceiling; engaged monetization at ~4%+2%; ad tier plateaus	\$3.40x (\$0.87) / \$1.1B/yr	\$47.60 / \$1.1B/yr	\$136.79 / \$1.1B/yr	~12%
Base	50%	Revenue CAGR ~8% (10.5% CAGR) through the decade; operating margin ~13% (19% low 30s; ad revenue s	\$3.87x (\$0.87) / \$1.1B/yr	\$58.00 / \$1.1B/yr	\$136.79 / \$1.1B/yr	~13%
Bull	25%	Ad revenue scales (pass \$1.1B/yr) with rights materially; operating margin ~13% (19% low 30s; ad revenue s	\$10.25x (\$0.87) / \$1.1B/yr	\$276.00 / \$1.1B/yr	\$136.79 / \$1.1B/yr	~14%

Probability-Weighted Expected Return: 5.8% CAGR

That sits **below the 7% hurdle** (inflation + 4%) and roughly 1.8 points above a 4% savings account, in exchange for a 44% near-term drawdown risk and full currency exposure.

5.2 Downside Protection Analysis

Measure	Value
Max drawdown, last 10 years	~-76% (November 2021 to June 2022)
Bear case 12-month price range	\$44-52 (-33% to -44% from current)
Bear case ten-year total return	-4.9% CAGR
Income cushion during drawdown	None (no dividend)
Probability of permanent loss (>50% decline not recovered within 50 years)	10%

The critical question: is the bear case return positive? No. It is negative for ten consecutive years. Under our framework this is a terminal finding, and no amount of bull-case upside offsets it.

The 2022 precedent is instructive in both directions. The stock lost roughly three quarters of its value and then recovered fully, which is why we put permanent loss probability at approximately 10% rather than higher. But recovery took years, and during it you held a zero-yield asset. A wealth preservation mandate does not tolerate a 44% paper loss with no coupon while you wait to be right.

6. RISK ASSESSMENT

Primary Risks, Ranked

1. Warner Bros. Discovery transaction (SEVERITY: HIGH | PROBABILITY: CERTAIN, executing)

An \$82.7 billion enterprise value acquisition, amended to all-cash consideration of \$27.75 per WBD share, financed in part by a \$5 billion revolver and \$20 billion of delayed-draw term loans. The provided data does not disclose the acquired business's EBITDA, total pro forma debt, pro forma interest expense, or covenant terms. Netflix built its returns on an asset-light infrastructure model funded from recurring cash. This transaction reverses that. It also introduces antitrust review, integration risk across a unionized studio cost base, and a direct competing claim on the \$31.8 billion of repurchase capacity.

Data conflict flagged: the pipeline's `sec\_filings` section describes a signed and amended definitive agreement with disclosed financing facilities. The `catalysts` section states that "an acquisition path is off the table." These cannot both be true. This report treats the filing-sourced 8-K disclosures as operative because filing-level evidence outranks market commentary. If the deal has in fact been abandoned, the solvency assessment improves to FORTRESS and the WP Score rises by roughly 12 points, which would move Netflix from AVOID to WATCHLIST but not to BUY.

2. Content cost escalation (SEVERITY: HIGH | PROBABILITY: MODERATE-HIGH)

Management stating that "\$18 billion is not a ceiling" removes the implicit guardrail behind the 2024-2025 margin expansion. Content obligations have historically grown faster than revenue in multiple years. Rising amortization is a mechanical margin headwind that arrives with a lag.

3. Multiple compression (SEVERITY: HIGH | PROBABILITY: MODERATE)

At 28x forward earnings with zero yield, the position carries duration. Rate moves, growth-stock sentiment, and a single quarter of decelerating revenue can each take 30% off the price without any change in the operating business. The 2022 episode is the proof.

4. Reduced disclosure (SEVERITY: MODERATE | PROBABILITY: CERTAIN)

Netflix stopped regularly reporting subscriber counts starting in 2025. You now judge growth from revenue, margin, and engagement disclosures the company chooses to release. When a company narrows what it shows you, your ability to detect deterioration early narrows with it. Viewing hours growing roughly 2% in the first half of 2026 against 13-14% revenue guidance is the kind of signal that would have been obvious in a subscriber disclosure regime.

5. Tax and regulatory surprise (SEVERITY: MODERATE | PROBABILITY: MODERATE)

The \$619 million Brazil tax charge in Q3 2025 arrived unexpectedly and was followed by reports of multiple securities-fraud investigations in late 2025. A business operating in 190+ countries across 45+ currencies carries a recurring tail of local tax, content, censorship, and data-privacy exposures.

6. Currency (SEVERITY: MODERATE | PROBABILITY: CERTAIN)

You are a euro-based holder buying a dollar-denominated asset. The 7% hurdle is a euro hurdle. Netflix itself carries translation exposure from 45+ currencies into a dollar reporting line, so you take currency risk twice.

7. Competitive attention share (SEVERITY: MODERATE | PROBABILITY: MODERATE)

Short-form video, gaming, and AI-generated content compete for the same hours. Amazon and Apple can subsidize streaming from other profit pools and bid content costs higher without needing streaming to earn its cost of capital.

4.3 Recession Performance History

Downturn	Revenue Impact	EPS Impact	Dividend	Peak-to-Trough Price	Recovery	Capital Raise
2008-09	Not comparable (DVD-by-mail business)	Down	None	n/a	n/a	No
2020	Benefited from lockdowns	Down	None	Brief	Weeks	No
2022 (company-specific)	+6.5% (positive)	-12.2%	None	**~-76%**	~2 years	No

The operating business has never posted a revenue decline. The equity has posted a 76% decline. That split defines the profile: revenue-resilient, valuation-vulnerable.

Recession Profile: SENSITIVE. Revenue holds; the share price does not.

7. MANAGEMENT & GOVERNANCE

Execution Record: STRONG

Management moved the company from DVD rental to streaming, then added tiered pricing, paid sharing, and advertising while keeping a coherent product strategy. Operating margin expanded from 17.8% to 29.6% in three years. That is a rare execution record in media.

Capital Allocation: DETERIORATING

The five-year pattern was heavy reinvestment into content and product, funded from operating cash flow, with an asset-light infrastructure base. That pattern earned 21% ROIC. The 2025-2026 pattern is different: an \$82.7 billion debt-funded acquisition of a legacy studio and streaming portfolio, announced alongside a \$25 billion repurchase authorization that the same balance sheet must also fund.

Governance Changes: CONCERNING

Three items from the 8-K record deserve your attention together:

1. Reed Hastings stepped down from the board.
2. Jay Hoag was named Board Chairman and the Lead Independent Director role was eliminated.
3. Regular subscriber disclosure ended in 2025.

Each is defensible in isolation. Arriving in the same window as the largest acquisition in company history, they describe a board consolidating authority and a company narrowing what it reports while making an irreversible capital commitment. Insider ownership, executive compensation structure, and the share of pay tied to shareholder-aligned metrics are not present in the provided data and have not been estimated.

- **Management Quality: GOOD** on operations, **CONCERNING** on capital allocation
- **Capital Allocation Track Record: ACCEPTABLE** historically, **AT RISK** prospectively

8. PEER COMPARISON

Dimension	Netflix	Disney	Warner Bros. Discovery	Best for Preservation
Normalized P/E	~30.9x trailing / ~28.4x forward	17.44x (Morningstar)	394.82x (Morningstar)	Disney
Dividend Yield	0.0%	Pays a dividend (rate not provided)	Not provided	Disney
Operating Margin	29.6% (2025), 32.3% (Q1 2026)	Not provided	Not provided	**Netflix**
ROIC	~21%	Not provided	Not provided	**Netflix**
FCF Margin	32.5% (2025)	Not provided	Not provided	**Netflix**
Revenue Growth	+16.5% (2025)	Not provided	Not provided	**Netflix**
Balance Sheet, pro forma	Levering materially	Not provided	Being dismantled	Unclear
P/B	10.3-12.0x	17.44x normalized P/E cited	P/B not provided	Netflix

Peer data in the provided research is thin and inconsistent, and Morningstar's panel is a poor comparison set for a pure streaming business. The defensible conclusion: Netflix is the highest-quality operator in the group by a wide margin and carries the premium to prove it, while Disney offers a lower multiple plus an income component. Neither observation changes our verdict, because Netflix does not fail against peers. It fails against a savings account plus a positive bear case.

Wealth Preservation Quality Score

Component	Points Available	Awarded	Rationale
Balance Sheet Fortress	40	**22**	
D/E	15	5	Standalone ~0.5x, but pro forma exceeds
Interest coverage	15	10	Standalone well above 8x; pro forma not
FCF positive 5 consecutive years	10	7	2025 confirmed at \$14.7B; 2021-2024 no
Income Reliability	30	**0**	No dividend, no history, no coverage to te
Dividend yield 2-4% with <60% payout	15	0	
Dividend growth >5%	10	0	
Dividend history >15 years	5	0	
Capital Efficiency	15	**15**	
ROIC >15%	10	10	~21%
Trend improving	5	5	Margin 17.8% to 29.6% in three years
Valuation	15	**10**	Trading in the 25th-50th percentile of its c
TOTAL	100	**47**	

Dividend-neutral equivalent (47 of 70 available points): **67/100**. We report both, and use the raw score in the composite, because the mandate treats income as a return component rather than a stylistic preference.

Decision Rule Result: 45-60 band. Marginal; better alternatives likely exist.

9. KEY METRICS SUMMARY

Stage 6 Wealth Preservation Scoring

Downside Protection Score

Adjustment	Points	Applied
Starting baseline	50	50
Bear case total return positive	+15	0 (bear case is -4.9%)
D/E <0.5x	+10	0 (pro forma exceeds)
Dividend maintained through 2008/2020	+10	0 (no dividend)
Max historical drawdown <40%	+10	0 (-76% in 2022)
Current yield >3%	+5	0
Bear case shows >20% price decline	-15	** -15**
D/E >1.0x	-10	** -10** (pro forma)

Adjustment	Points	Applied
FCF negative in any of last 5 years	-10	0 (unverifiable, penalty not applied)
Dividend cut in past 10 years	-10	0 (n/a)
Payout ratio >75%	-5	0 (n/a)
Downside Protection Score		**25 / 100**

Return Adequacy Score

Base case total return of 7.3% falls in the 7-8% band = **55 / 100** (marginal).

Quality Score: 47 / 100

Composite WP Score = (25 × 0.45) + (55 × 0.30) + (47 × 0.25) = 11.25 + 16.50 + 11.75 = 39.5 ≈ 40 / 100

Interpretation: below 45. Does not meet wealth preservation standards.

Absolute Requirements Check

Requirement	Threshold	Actual	Pass
Bear case total return	≥ 0%	-4.9%	**FAIL**
Base case total return	≥ 7%	7.3%	PASS (marginal)
Solvency assessment	FORTRESS or ADEQUATE	ADEQUATE standalone, UNVERIFIABLE	**FAIL**
Dividend sustainability	ROCK SOLID or SUSTAINABLE	No dividend	**FAIL**
Probability of >50% permanent loss	≤ 10%	~10%	BORDERLINE
WP Score	≥ 65 for BUY	40	**FAIL**
Margin of safety	≥ 10%	-8.0%	**FAIL**

Five failures. Any one of them is disqualifying under this mandate.

Position Sizing

WP Score of 40 with a negative bear case maps to **€0**. No position.

10. MONITORING CHECKLIST

Item	Frequency	Trigger for Re-Review	Action
WBD deal pro forma capital structure	Q1-4 / 10-Q filing	Total pro forma net debt / EBITDA ratio	Deal on Stage 2 low entry gate
Deal termination or downsizing	Event-driven	Definitive termination	Upgrade solvency to FORTRESS; recom
Operating margin	Quarterly	Falls below 28% for two consecutive quarters	Lower case gains weight
Content spend guidance	Quarterly	Guided above \$20B	Cut base case margin assumption

Item	Frequency	Trigger for Re-Review	Action
Viewing hours / engagement growth	Half-yearly	Growth stays below 3% for a full year	Downgrade moat confidence to LOW
Ad revenue run-rate	Quarterly	Sustained shortfall vs the ~\$3B target	Reassess full case probability
Free cash flow vs guidance	Quarterly	Below the \$12.5B 2026 guide	Reassess buyback capacity
Share repurchase execution	Quarterly	Buyback suspended to service toffers	Confirm bear case mechanism
Price	Continuous	**\$60.00 / €51.95**	Re-run full framework
Dividend initiation	Event-driven	Any initiation with <50% payout	Adds 15-25 points to Quality Score
Securities-fraud investigation outcomes	Event-driven	Formal SEC enforcement action	Re-review governance section
Antitrust review of WBD deal	Event-driven	Second request or challenge	Reassess deal probability

11. MARKET EXPECTATIONS & CONSENSUS

What the current price implies about growth. At \$78.24 the stock carries roughly 28x forward earnings against 2026 revenue guidance of 13-14% growth and a 31.5% guided operating margin. Public reverse-DCF work in the research file spans a wide range: one model at a roughly \$92 share price implied about 20.2% annualized free cash flow growth for a decade, while other market-implied analyses put the embedded long-run growth rate at 6.5-10%. That dispersion tells you the market has no settled view of what Netflix is worth, which is itself a warning at a 28x multiple. Our own base case sits at the conservative end: 8% revenue CAGR, 10.5% earnings CAGR, and a multiple that drifts to 23x.

Consensus bull case. Revenue keeps compounding at a double-digit pace, operating margin holds above 31.5%, ad-tier monetization and pricing sustain earnings growth, and management's targets carry through to 2030.

Consensus bear case. The multiple already discounts the acceleration. If member growth, average revenue per member, ad monetization, or margin decelerate, the valuation looks full and rerates down.

Short interest. Not available in the provided data. The `deep\_dive\_metrics.short\_float` field was not supplied and no figure has been estimated. Days to cover: not available.

Analyst consensus. Buy / Moderate Buy, average target approximately \$94-95, implying roughly 20% upside from \$78.24. Note that the research file itself flags the \$95.28 StockAnalysis figure as potentially inconsistent with prices shown elsewhere in the same source set. Treat the consensus target as directional rather than precise.

Gap between guidance and consensus. Management guides to \$50.7-51.7 billion of revenue (13-14% growth) at a 31.5% operating margin. Consensus targets imply the market expects execution at or above that path with continued multiple support. The company is guiding to a specific and decelerating growth rate; the sell-side is pricing continued compounding. That gap closes in one of two directions over the next four quarters.

What would validate the consensus: revenue growth at or above 13-14%, operating margin holding near 32%, free cash flow above the \$12.5 billion guide, and ad revenue tracking toward roughly \$3 billion.

What would disappoint: revenue slipping below guidance, margin retracing toward the mid-20s, ad monetization underdelivering, engagement staying near the 2% growth rate seen in the first half of 2026, or a pro forma WBD capital structure that suspends the repurchase program.

Forward Valuation

Metric	Value	vs. Sector	Assessment
Fwd P/E	~28.4x (Moschovakis estimate; Deep dive to 2026s if industry average supplied)	Deep dive to 2026s if industry average supplied	High
PEG	Not available (`peg_ratio` not supplied)	Not available	Not computed
EV/EBITDA	~11.3x minimum (recalculated); Super average 9.2x provided rate available to the current price	Super average 9.2x provided rate available to the current price	High
Beta	Not available (`beta` not supplied)	Not available	Qualitatively: long-duration growth, high s
P/FCF	23.1x trailing / 27.2x on 2026 guidance	Super average in provided data	Full
P/B	10.3-12.0x	High versus legacy media	Reflects asset-light model

12. KEY BUSINESS DRIVERS

Driver 1: Operating margin

- Why it matters: it is the entire bull case. The 2024-2025 rerating came from margin moving 17.8% to 29.6%, not from subscriber growth.
- Current level: 29.6% FY2025, 32.3% Q1 2026, 31.5% guided for FY2026.
- Bull threshold: sustained at or above 32%.
- Bear threshold: two consecutive quarters below 28%.
- Next data point: Q3 2026 earnings (October 2026).

Driver 2: Content spend and amortization

- Why it matters: content is the largest cash outflow and the mechanism through which margin either holds or erodes. Management removed the implicit ceiling.
- Current level: management has said "\$18 billion is not a ceiling."
- Bull threshold: spend growth below revenue growth.
- Bear threshold: guided spend above \$20 billion, or amortization growing faster than revenue.
- Next data point: Q3 2026 earnings and the FY2027 guide.

Driver 3: Free cash flow

- Why it matters: it funds the repurchase program and, post-deal, the term loan amortization. Both claims compete.
- Current level: ~\$14.7 billion FY2025; FY2026 guidance raised to \$12.5 billion, a year-over-year decline.
- Bull threshold: above \$12.5 billion in FY2026 with the buyback intact.
- Bear threshold: below \$11 billion, or a suspended repurchase program.
- Next data point: Q3 2026 earnings.

Driver 4: Advertising revenue and ad-tier ARPU

- Why it matters: advertising is the only growth engine large enough to offset subscription maturity in developed markets, and it monetizes low-price households without destroying margin.
- Current level: targeting roughly \$3 billion scale; programmatic buying for pause ads and live content rolling out.
- Bull threshold: run-rate above \$3 billion with rising ad ARPU.
- Bear threshold: shortfall against the target, or ad ARPU flat while penetration rises.
- Next data point: Q3 2026 earnings commentary.

Driver 5: Engagement (viewing hours)

- Why it matters: with subscriber disclosure discontinued, engagement is the cleanest read on whether the product is winning attention or simply raising prices.
- Current level: roughly +2% in the first half of 2026 against 13-14% guided revenue growth.
- Bull threshold: above 6% growth, showing volume rather than price is driving revenue.
- Bear threshold: flat or negative, which converts the growth story into a price-increase story with a churn ceiling.
- Next data point: the semi-annual engagement report.

13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Ticker/Symbol	Relationship	Signal
Warner Bros. Discovery	WBD	Deal-completion probability; the spread between WBD and the \$20 billion LBO	Spread between WBD and the \$20 billion LBO narrows below 3% while high-yield spreads widen more than 75 basis points, the market is pricing a deal that closes into a more expensive financing market, and the bear case probability weight moves from 25% to 40% within five trading days.
US investment-grade / high-yield LBOs	LOD, HYG	Leads the cost of the \$20 billion LBO	Spreads widening more than 75 basis points
Digital advertising demand	TTD (The Trade Desk)	Leads Netflix ad-tier monetization	TTD guidance overstates advertising platform demand
US 10-year real yield	Treasury 10Y TIPS yield	Sets the discount rate on a zero-coupon bond	Real yield rising more than 50 basis points

Monitoring rule: if the WBD spread narrows below 3% while high-yield spreads widen more than 75 basis points, the market is pricing a deal that closes into a more expensive financing market, and the bear case probability weight moves from 25% to 40% within five trading days.

RE-ENTRY AND RE-REVIEW TRIGGERS

Because this is an AVOID rather than a BUY, exit triggers do not apply. These are the conditions that would bring the file back to the desk:

- **Price reaches \$60.00 / €51.95:** at roughly 21x forward earnings, the base case delivers approximately 10% CAGR and the bear case improves to roughly -1%. Action: re-run the full seven-stage framework.
- **WBD transaction terminated or materially downsized:** solvency reverts toward FORTRESS, the WP Score rises by roughly 12 points to the low 50s, and the file moves to WATCHLIST. Action: recompute Stage 2 and Stage 6.

- **Pro forma net debt / EBITDA disclosed below 2.0x with the repurchase program intact:** the balance sheet gate reopens. Action: re-run Stage 2.1 with actual figures.
- **Dividend initiation at a sustainable payout:** adds 15-25 points to the Quality Score and gives the position an income cushion it currently lacks. Action: recompute Quality Score and Downside Protection Score.
- **Operating margin sustained above 33% for four consecutive quarters with content spend growth below revenue growth:** raises the base case earnings CAGR toward 13% and the base case return above 9%. Action: revise Stage 5.

FINAL RECOMMENDATION

RECOMMENDATION: AVOID

Position Size: €0

Primary disqualifying factor: the bear case delivers -4.9% annually for ten years. Under this mandate, capital must survive the downside scenario, and here it does not. Three further failures compound it: no dividend leaves you with zero income cushion during a drawdown that history says can reach 76%, the pro forma capital structure following the \$82.7 billion Warner Bros. Discovery acquisition is not quantified in the available disclosures, and the current price sits 8% above our estimate of fair value against a required 10% discount.

What would change this assessment:

1. Price at or below \$60.00 / €51.95, which restores a double-digit base case and brings the bear case near breakeven.
2. Termination of the WBD transaction, or a filed pro forma capital structure showing net debt below 2.0x EBITDA with the repurchase authorization intact.
3. Initiation of a dividend at a payout ratio below 50%, which would convert the zero-yield problem into an income cushion.
4. Four consecutive quarters of operating margin above 33% with content spend growing slower than revenue.

Netflix is a better business than most of what we own. It is not a better investment for a mandate that requires you to be paid while you wait and to survive the bad case. You can reach the same 7% expected return in a regulated utility or a consumer staple with a covered 3% dividend and a bear case that stays above water. Take that trade instead.

ANALYST NOTES

Key Assumptions:

- Diluted share count of approximately 4,340 million derived from FY2025 net income of \$10,981M and diluted EPS of \$2.53.
- Book equity of \$28-33 billion derived from the reported P/B range of 10.29-12.03x against a market capitalization of approximately \$340 billion at \$78.24.
- 2026E EPS of approximately \$2.75 derived from company revenue guidance of \$50.7-51.7 billion, the guided 31.5% operating margin, and a 25% effective tax rate.

- ROIC of 21-22% derived from EBIT of \$13,419M, a 25% tax rate, and the invested capital estimate above.
- Base case terminal multiple of 23x reflects a business growing earnings around 10% with medium moat durability and no dividend.
- USD/EUR conversion at 0.8658, implied by the authoritative price of \$78.24 / €67.74.
- The Warner Bros. Discovery transaction is treated as live and executing, based on filing-level 8-K disclosures.

Limitations:

- `deep\_dive\_metrics` were not supplied. Forward P/E, PEG, EV/EBITDA, beta, ROE, short float, 52-week range, and debt-to-equity are either recalculated from provided fundamentals or marked unavailable. None were invented.
- Free cash flow for fiscal years 2021-2024 is absent from the provided data, which prevents a complete five-year FCF consistency test under Stage 2.1.
- Balance sheet detail is absent: no debt-to-equity, current ratio, interest expense, cash balance, or debt maturity schedule. Solvency conclusions rest on derived figures and disclosed financing facilities.
- The acquired WBD business's revenue, EBITDA, and cost base are not disclosed in the provided data, making pro forma modeling impossible.
- The pipeline contains a direct contradiction on the WBD deal's status between the `sec\_filings` and `catalysts` sections. Filing-level evidence was given precedence.
- Source-reported valuation multiples (P/E of 23-24x, EV/EBITDA of 9.22x) do not reconcile to the authoritative price and were superseded by recalculation.
- Share count history, insider ownership, executive compensation structure, and institutional ownership trends are not present in the provided data.
- Peer data is fragmentary and drawn from a poorly matched comparison set.

Confidence Level: MEDIUM. The AVOID conclusion rests on facts that are not in dispute: the absence of a dividend, a 28x forward multiple, a documented 76% drawdown within the last five years, and a signed \$82.7 billion all-cash acquisition backed by \$25 billion of committed debt facilities. Each of those is independently sufficient to fail the mandate. The precision of the scenario figures is lower, and the pro forma balance sheet is unknowable from the supplied data, which is itself part of the reason for the recommendation.

Report prepared for Moschovakis Capital. This analysis is for informational purposes only.

IMPORTANT DISCLOSURES

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