Netflix

NASDAQ: NFLX · STREAMING ENTERTAINMENT

EXCEPTIONAL 5/5 CLASS OF 2026

SECTOR	INDUSTRY	HQ	EMPLOYEES	MARKET CAP
Communication Services	Entertainment	Los Gatos, CA	16,000	$331.4bn

THE ONE-MINUTE VERSION

Netflix sells one thing: a monthly subscription to watch what it has made or licensed. The economics turn on a fact easy to miss — a programme costs the same to make whether ten people watch it or two hundred million, so every additional subscriber on an existing show is close to pure profit. That is why the business spent a decade looking expensive and then, once the audience was large enough to carry the content bill, began converting growth into profit at a rate very few businesses reach. Earnings have compounded at **44.6% a year over twelve years**, and the current strength of the business reads higher on our checks than any other company we have assessed. That is what we mean by a **structural compounder**.

WHAT IS IT?

A subscription streaming service operating worldwide, which both licenses programmes and increasingly makes its own. Netflix stopped reporting subscriber numbers in 2025, saying revenue and operating margin better represent the business — so those are what we judge it on.

HOW IT CREATES VALUE

Content cost is fixed; audience is not. The same programme serves one more subscriber at almost no extra cost, so margin expands as the base grows. Net margin now stands at 28.2%.

THE MOAT

Scale economics compounding into a habit. A larger base funds more programming, which retains the base. Add years of viewing data shaping what gets commissioned, and the wheel turns without a marketing push behind it.

THE TREND SHAPING ITS MARKET

Television is still moving from scheduled broadcast to on-demand streaming, and advertising is following the audience. **Netflix is the destination that shift has been moving toward, not a challenger to it.**

THE STRUCTURAL BOTTLENECK

Not distribution — **the ability to fund a global content slate**. Scale buys a budget rivals cannot match without losing money, and that budget is what keeps the audience.

THE COMPETITION — THE HONEST BIT

Disney, Amazon and Apple fund streaming from deeper balance sheets and can accept losses on strategic grounds — a competitor that does not need to make money is the hardest kind. But the live question is now Netflix's own: it is **acquiring Warner Bros. Discovery's streaming and studios businesses**, including HBO and HBO Max, with $42.2bn of bridge financing committed. Watch operating margin through the integration.

THE FIVE STRUCTURAL TESTS — EVERY COMPANY, THE SAME FIVE

COMPOUNDING	EARNINGS QLTY	BALANCE SHEET	CAPITAL ALLOC.	PER-SHARE VAL.
PASS	PASS	PASS	PASS	PASS

TRAJECTORY · IMPROVING ↑ Margin and advertising revenue have both strengthened over the last four quarterly reports. The pending WBD acquisition will change the balance sheet materially — the record here predates it.

THE COMPOUNDING RECORD — SAME FIVE METRICS FOR EVERY COMPANY IN THE SERIES

EPS CAGR, 12 YRS	YEARLY COMPARISONS UP	WORST EARNINGS DRAWDOWN	NET MARGIN	NET DEBT / EQUITY
44.6%	81%	20%	28.2%	0.17x

The Exceptional Company Series is where The Conviction Play profiles the small number of businesses whose economics we judge genuinely exceptional — companies that pass all five of our structural tests and have compounded earnings through a full cycle. The premise is simple: **conviction is built on business quality and an enduring competitive advantage**, not on a price forecast. We publish what the moat is, how it is defended, and what would change our mind — dated. What we never publish is a price target.

— EXPLORE: The seven forces & twenty-two themes

— ARCHIVE: Every company profile to date

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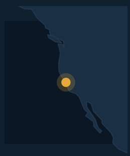
Business quality and price are two different judgements — this asset makes only the first, and takes no view on the share price. Fact pack overleaf.

HEAD OFFICE

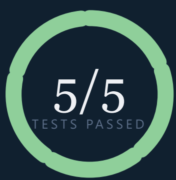


Los Gatos, California, United States

Communication Services · Entertainment

ROIC	37.7%
REVENUE GROWTH	+13.4%
EPS GROWTH	+11.1%
INTEREST COVER	23.9×
FINANCIAL STRENGTH	5 / 5
WEBSITE	netflix.com
INVESTOR RELATIONS	IR site

THE CONVICTION WHEEL



COMPOUNDING
Revenue +13.4%, EPS +11.1%

EARNINGS QLTY
28.2% net margin

BALANCE SHEET
Interest covered 23.9x

CAPITAL ALLOC.
37.7% return on capital

PER-SHARE VAL.
44.6%/yr per share, 12y

PEER GROUP — STREAMING & ENTERTAINMENT

NFLX · profiled | DIS Disney

WHY THE ECONOMICS ARE EXCEPTIONAL

Fixed cost, unlimited audience. A season of television costs what it costs. Whether it is watched by ten million households or a hundred million changes the revenue and barely touches the cost. Netflix spent a decade on the wrong side of that equation, funding a slate for an audience it did not yet have; it is now firmly on the right side of it.

Scale is the moat, and it compounds. The largest subscriber base funds the largest content budget, which is what retains the largest subscriber base. A rival must outspend Netflix while earning less from the spending — possible with a deep enough parent, but not indefinitely rational.

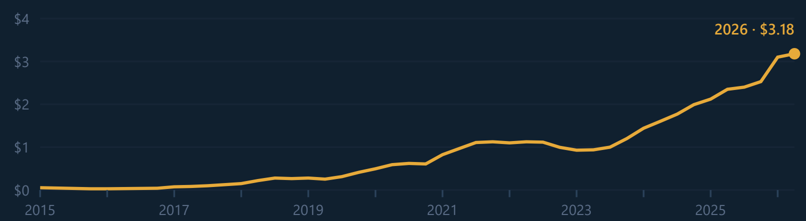
The advertising tier is margin, not just revenue. It monetises price-sensitive households that were never going to pay full subscription, on content already commissioned and already paid for.

The honest risk, and it has changed. Netflix has agreed to acquire Warner Bros. Discovery's streaming and studios businesses — HBO, HBO Max, the film and television studios — and has committed $42.2bn of bridge financing to do it. Its own filing states the transaction will materially increase outstanding indebtedness. Every figure on this page describes the business *as it has been*: debt-light, self-funding, compounding on its own cash. The company that emerges from this deal will be a different one, and the record above cannot speak for it. Rivals with deeper pockets were the risk before; execution and leverage are the risk now.

Share price, twelve years of monthly closes — **the same window as the earnings chart below, so the two can be read against each other.**

Not a valuation. Marker = date profiled. Refreshes quarterly.

Trailing twelve-month EPS, twelve years of quarterly data. **Four-fold in the last five years alone.**



The flat stretch is 2021-22, when subscriber growth stalled and the market decided the story was over. The shape is the grade.

WHERE THE REVENUE COMES FROM (COMPANY-REPORTED REGIONS)

United States & Canada ≈ 44% | Rest of world ≈ 56%

Source: Netflix FY2025 Form 10-K, streaming revenues by region (UCAN $19.96bn of $45.18bn total = 44.2%).

WHAT THIS IS, AND WHAT IT IS NOT

An assessment of business quality — how durable the economics are, and how consistently they have become earnings. Produced by Legend, our rules-based framework, applied identically to every company.

Not a valuation, price target, forecast or recommendation. We publish no view on the share price. A company can be exceptional and still be expensive.