

Netflix, Inc. (NFLX)

Value Fit 7 / 10

University of Wisconsin–Milwaukee | Lubar College of Business | Investment Management Certificate Program

Analyst: Lilly Keillor Recommendation: BUY As of: 09/13/2026

WISCONSIN VALUE FUND LENS — Maximize return by buying improving companies at reasonable valuations.

Performance level — ROIC (FY2026E) vs. ke	32.5% vs 9.8% → Above ke
Change in performance — ΔROIC	+1.2 pts, FY2026E vs FY2025A → Improving
Lifecycle phase	Phase III — highest expectations
Valuation gap — target vs. price	+29.4% → Price below our value



BUSINESS DESCRIPTION

Netflix, Inc. engages in providing entertainment services. It also offers activities for leisure time, entertainment video, video gaming, and other sources of entertainment. It operates through the United States and International geographic segments. The company was founded by Marc Randolph and Wilmot Reed Hastings on August 29, 1997 and is headquartered in Los Gatos, CA.

INVESTMENT THESIS

Netflix is executing well as a business, and the negativity from reduced guidance and customer engagement are temporary shocks. Netflix is undervalued given its focus on margins, TAM, and proven tier shift.

MARKET SNAPSHOT

Current Price	\$82.67	Market Cap (\$B)	\$344.2	Beta	1.22
52-Week Range	\$68 — \$126	Inst. Ownership	84.7%	Insider Own.	0.7%
Shares Out. (mm)	4,249.5	Short Interest (% float)	2.2%	Dividend Yield	0.0%
Consensus L-T Growth	22.9%	Payout Ratio	0.0%	Cost of Equity	9.8%
Price Target	\$107.00	Upside to Target	29.4%	Value Range	\$65 — \$147

VALUATION SUMMARY — equity DCF, FCFE discounted at ke

Method	Value / Share	Upside	Terminal Assumption
Equity DCF — terminal P/E	\$100.67	21.8%	21.0x P/E
Equity DCF — terminal P/S	\$115.86	40.2%	7.2x P/S
Equity DCF — terminal P/B	\$146.86	77.6%	11.0x P/B
Equity DCF — constant growth	\$64.65	(21.8%)	2.0% g, 9.8% ke
Average of methods	\$107.01	29.4%	Equal-weighted
Analyst price target	\$107.00	29.4%	Blue = analyst override

PHILOSOPHY FIT — Five pillars · Score: 5 / 5

		Fit?
1. Fundamental improvement & valuation discipline	ΔROIC +1.2 pts; price is 0.77x our average value	Yes
2. Investing through company cycles	Phase III; EBIT margin 29.6% → 32.0%	Yes
3. Initial position sizing & risk limits	Initial position sized within fund limits; risk limits set at entry	Yes
4. Capital allocation discipline	Net debt/invested capital 17.4%; net debt/EBIT 0.6x	Yes
5. Identifiable catalysts & conservative underwriting	Three drivers, each with a monitor; equal-weighted FCFE valuation	Yes

VALUE CRITERIA — 10-Point Checklist · Score: 7 / 10

	Pass?
1. Catalyst / Investment Drivers	Yes
Driver 1 — Expanding Margins	Operating leverage on a largely fixed content base. Revenue grows through price and advertising while content amortization grows more slowly, so incremental revenue falls through at a high rate. Model EBIT margin expands 29.6% (FY2025A) to 32.0% (FY2028E), lifting ROIC to 32.5% in FY2026E.
Driver 2 — Under-Penetrated TAM	Subscriber TAM: 325M+ paid memberships against an audience "approaching one billion people" across 190+ countries, so the runway is penetration rather than new markets. Ad TAM: fill rate was 45% in 2025, meaning over half the inventory Netflix already owns generates nothing — and monetizing that supply requires no new subscribers, only advertiser demand.
Driver 3 — Tier-Driven Mix Shift	The cheap ad-supported tier converts customers who would otherwise not subscribe, while the premium tiers capture willingness to pay from those who would have paid more anyway. Netflix monetizes both ends of the demand curve rather than pricing at a single point, which lifts blended ARPU without forcing churn.
What does management say?	Shift away from M&A toward organic investment, plus rollout of generative AI in production and ad tooling — consistent with holding content-spend growth below revenue growth, which is what the margin driver requires.

2. Low P/E Ratio							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
EPS (model)	\$1.22	\$2.03	\$2.58	\$3.59	\$3.83	\$4.59	
P/E at current price	67.5x	40.8x	32.0x	23.0x	21.6x	18.0x	
Peer median P/E (FactSet, subject excl.)	25.9x	FY2026E P/E vs. peer median		(11%)			
3. Low Price / Cash Flow							No
FCFE / share	\$1.32	\$1.50	\$2.54	\$2.30	\$2.42	\$3.23	
Price / FCFE	62.7x	55.3x	32.5x	35.9x	34.2x	25.6x	
Peer median P/CF (FactSet, subject excl.)	21.3x	Price / FCFE (today) vs. peer median		+52%			
4. Low Price / Book Value							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Book value / share	\$4.66	\$5.76	\$6.26	\$7.44	\$8.83	\$10.32	
Price / Book	17.7x	14.4x	13.2x	11.1x	9.4x	8.0x	
ROE (EOY book)	26.3%	35.2%	41.3%	48.3%	43.4%	40.1%	
Peer median P/B (FactSet, subject excl.)	2.2x	Price / book (today) vs. peer median		+509%			

Netflix, Inc. (NFLX) — Value Criteria, continued

5. Financial Soundness							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Total debt (\$mm)	16,973	17,995	16,976	16,976	16,976	16,976	
Net debt (\$mm)	9,834	8,409	7,908	6,142	4,456	812	
Total debt / equity (gross)	82.4%	72.7%	63.8%	55.5%	48.0%	40.2%	
Total debt / assets (gross)	34.1%	32.7%	30.5%	27.9%	24.7%	22.0%	
Net debt / invested capital	23.7%	18.9%	17.4%	12.3%	7.9%	1.3%	
Net debt / EBIT	1.4x	0.8x	0.6x	0.4x	0.3x	0.0x	
Tax rate	13.7%	Book equity (\$mm)	26,615				
6. Positive Earnings Dynamics							No
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Sales growth	6.7%	15.3%	16.5%	10.0%	11.0%	10.3%	
EBIT margin	20.6%	26.5%	29.6%	30.0%	32.0%	32.0%	
EPS growth	21.2%	65.6%	27.4%	39.1%	6.6%	19.8%	
7. Business Strategy & Segment Mix							Yes
Strategy	Tiered pricing (ad-supported / standard / premium) with content spend growing slower than revenue — the mechanism behind Drivers 1 and 3.						
Segment / geography mix	United States, EMEA, APAC, LATAM						
8. Capable Management & Insider Ownership							Yes
Insider ownership	0.7%	Inst. ownership	84.7%	Buybacks, % of NOPAT (FY1E)		83.7%	
Insider activity / governance	Recent net insider selling; insider ownership is only 0.7%, so alignment rests on comp design.						
9. Valuation — Value Creation (ROIC vs. ke)							Yes
ROIC (FY1E)	32.5%	Cost of equity (ke)	9.8%	EVA spread (ROIC – ke)		22.7%	
Price target / upside	\$107.00	29.4%		Value / share range (low–high)		\$65 – \$147	
10. Uses of Capital — allocation discipline							Yes
Reinvestment 20% of NOPAT, dividends + buybacks 84% in FY2026E; no dividend and no large M&A — full detail in the Uses of Capital table below.							
VALUE FIT SCORE — criteria met		7 / 10					

FINANCIAL SUMMARY (\$mm except per share)							
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	CAGR 2023–2028
Sales	33,723	38,877	45,274	49,802	55,280	60,974	12.6%
Gross margin	41.5%	45.9%	48.6%	51.0%	52.0%	53.0%	
EBIT	6,954	10,292	13,419	14,940	17,690	19,512	22.9%
Net income	5,408	8,712	10,981	14,791	15,368	17,987	27.2%
EPS (basic)	\$1.22	\$2.03	\$2.58	\$3.59	\$3.83	\$4.59	30.3%
Dividend / share	—	—	—	—	—	—	
FCFE / share	\$1.32	\$1.50	\$2.54	\$2.30	\$2.42	\$3.23	19.6%
Invested capital	41,464	44,383	45,481	49,878	56,477	63,683	9.0%
ROIC	17.5%	24.4%	31.3%	32.5%	34.3%	35.0%	
NOPAT margin	18.0%	23.1%	25.6%	25.9%	27.6%	27.6%	
Sales / NWC	-6.36x	-7.73x	-8.13x	-7.69x	-8.33x	-8.33x	
Sales / NFA	0.85x	0.93x	1.06x	1.08x	1.08x	1.10x	
Sales / invested capital (ex cash)	0.98x	1.06x	1.22x	1.26x	1.24x	1.27x	

USES OF CAPITAL — full range, as % of cash generated (NOPAT)							
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Avg 2023–2028
NOPAT before reinvestment (\$mm)	6,060	8,997	11,582	12,894	15,266	16,838	
Uses, as % of NOPAT							
CapEx, R&D & content (Δ NFA)	8.6%	22.4%	6.1%	27.4%	33.2%	25.2%	20.5%
Working capital (Δ NWC)	(15.4%)	3.0%	(4.7%)	(7.0%)	(1.0%)	(4.1%)	(4.9%)
Dividends	—	—	—	—	—	—	—
Share buybacks	92.4%	50.6%	78.6%	83.7%	69.4%	66.3%	73.5%
Debt repaid (neg. = borrowing)	(0.7%)	(11.4%)	8.8%	—	—	—	(0.5%)
Cash & securities build	17.8%	27.2%	(4.5%)	13.7%	11.0%	21.6%	14.5%
Interest & other (residual)	(2.7%)	8.1%	15.6%	(17.8%)	(12.7%)	(9.1%)	(3.1%)
Total uses of capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discipline — reinvestment, % of NOPAT	(6.8%)	25.4%	1.5%	20.4%	32.2%	21.2%	15.6%
Dividends + buybacks, % of NOPAT	92.4%	50.6%	78.6%	83.7%	69.4%	66.3%	73.5%

Framework: the full range of capital allocation — CapEx/R&D/brand, dividends, buybacks, cash and debt. Cautious at the top of the cycle; invest for the future at the bottom, without over-levering. Total ties to 100% by construction, with interest and unallocated items in the residual.

COMPS OVERVIEW (current multiples, FactSet)							
Ticker	Company	P/E	P/S	P/B	P/CF	EV/EBIT	
NFLX	Netflix, Inc.	26.0x	7.2x	11.4x	29.4x	30.8x	
ROKU	Roku, Inc. Class A	67.6x	4.6x	8.3x	46.7x		
SPOT	Spotify Technology SA	29.6x	5.5x	12.0x	29.6x	45.6x	
SIRI	SiriusXM Holdings Inc.	11.7x	1.2x	0.8x	4.8x	8.8x	
DIS	Walt Disney Company	22.1x	1.9x	1.7x	11.0x	18.2x	
WBD	Warner Bros. Discovery, Inc. Series A		2.0x	2.2x	21.3x	66.5x	
Median	Peer median (subject excluded)	25.9x	2.0x	2.2x	21.3x	31.9x	
NFLX	Subject, at current price	32.0x	7.8x	13.2x	32.5x	26.8x	
Premium / (discount) to peer median		+24%	+284%	+509%	+52%	(16%)	

Note: NFLX appears in its own peer list (AutoTearSheet-SPageID4:DI9). It is excluded from the median, but replace that slot with a real peer to use all six.

KEY RISKS	
1. Engagement and pricing power stall — viewing per membership has flattened and FY2026 guidance came down; if price increases stop sticking, 10.0% FY2026 revenue growth proves too high and the P/S case breaks first. Watch engagement and post-price-change churn.	
2. Consolidating rivals bid up content — WBD and Paramount combinations create better-funded bidders for sports and franchise rights, lifting cost per viewing hour and attacking the margin path this thesis needs. Watch content-spend guidance and rights auctions.	
3. The valuation itself is a risk — at 13.2x book and 7.8x sales versus peer medians of 2.2x and 2.0x, loss is likelier from multiple compression than from missed earnings; the constant-growth case of \$65 is -21.8% from here.	
Exit discipline — exit if TTM ROIC falls two consecutive quarters, if full-year EBIT margin guidance drops below the 29.6% FY2025A base, or if the position breaches the fund's drawdown limit.	

