NFLX: Netflix Investment Analysis

Prepared for: The Gordon Spellman Fund Board of Directors

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EXECUTIVE SUMMARY

Recommendation: Netflix has demonstrated sturdy growth and innovation, but its 8.67% weight in the Spellman Fund is excessive, posing portfolio risk. Trimming 1.6 shares would reduce overexposure and better align the fund with the S&P 500 benchmark.

NFLX Stock Price Graph:

Netflix Company Background: Founded in 1997, Netflix has evolved into the world's leading streaming platform, with over 301 million global subscribers and a growing portfolio of original content, live sports, and interactive entertainment. As of 2024, Netflix added 19 million subscribers in Q4 alone, boosted by new ventures and strategic pricing tiers.

Governance Board: Netflix's board is composed of experienced leaders from media, tech, and finance, with 83% independent directors, and average tenure of 11.7 years, and .598% insider ownership. Co-CEOs Ted Sarandos and Greg Pepters guide Netflix's global strategy and innovation, while CFO Spencer Neumann oversees its financial health and content investment.

EXECUTIVE SUMMARY

Growth Opportunities: Netflix's greatest growth opportunities lie in the Asia Pacific and Latin America regions, where subscriber bases are expanding rapidly, and market penetration remains low. The introduction of ad-supported subscription plans is expected to further accelerate user growth in these cost-sensitive, developing markets.

Industry Outlook: The global streaming industry continues to grow, driven by rising demand for digital content and international access. Although competition is intensifying, Netflix retains its leading position by investing in original programming, technology, and user personalization. Strategic innovation remains key as customer preferences shift and new players enter the space.

Financial Information: Netflix's strong EPS growth and high ROE (rising from 29.80% to 40.84%) highlight its exceptional profitability and efficient equity use compared to rivals like Disney and Amazon.

Netflix SWOT Analysis:

STRENGTHS • Strong global brand with over 301 million subscribers. • Leading platform for original content and live sports expansion.	**OPPORTUNITIES** • Growth in emerging markets like Asia Pacific and Latin America. • Expansion of ad-supported and gaming subscription models.
WEAKNESSES • Heavy reliance on third-party licensing for popular shows. • High content production costs impacting profit margins.	**THREATS** • Rising competition from Disney+, Amazon Prime, and others. • Regulatory risks and currency fluctuations in international markets.

NETFLIX

INTRODUCTION

Netflix Inc. Is a global leader in the streaming entertainment industry, providing on-demand access to a vast number of TV series, documentaries, and feature films across multiple genres and languages. Its innovative recommendation algorithms and original content production have helped differentiate the platform and attract a broad international subscriber base.

This report aims to provide an overview of Netflix's business model, highlighting its core strengths, strategic challenges, and avenues for future expansion. By examining the company's financial performance, competitive landscape, and evolving content strategies, this report offers insights for investors and stakeholders seeking to understand Netflix's role within the global media and entertainment ecosystem and assesses its long-term growth potential in an increasingly competitive digital streaming market.

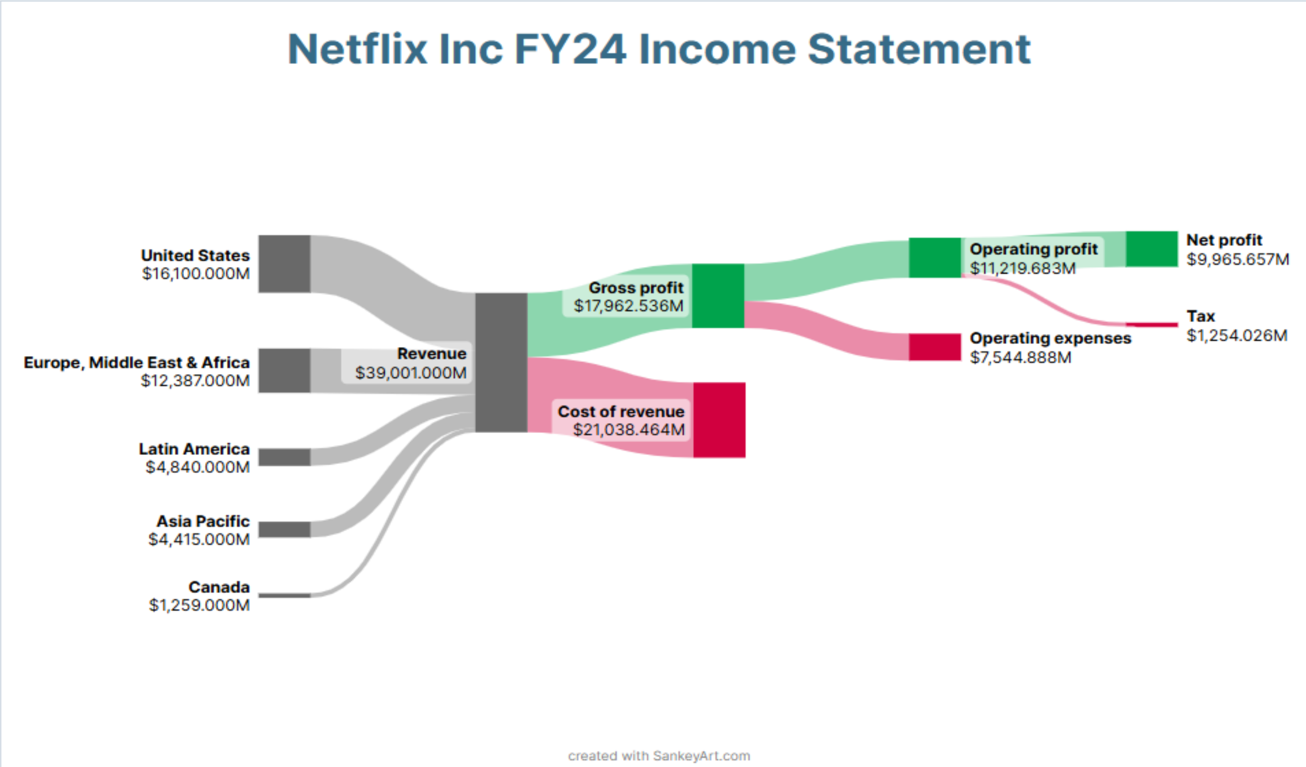
NETFLIX BACKGROUND

Netflix is a global streaming platform that offers a subscription-based service, allowing users to access a wide variety of content including documentaries, TV shows, movies, and even interactive games. Operating in over 190 countries, Netflix has established itself as one of the most accessible and recognizable names in the streaming industry. North America, particularly the U.S. and Canada, remains its largest market, accounting for approximately 73 million subscribers combined.

In 2024, the company saw a major boost in growth, adding 19 million new subscribers in the fourth quarter alone—a significant contributor to its revenue. This surge may have been fueled in part by Netflix's expansion into live sports streaming, a move that resonated well with both new and existing users. To appeal to a broader audience, the company also introduced more affordable, ad-supported subscription plans, which opened new revenue streams while meeting the needs of cost-conscious consumers.

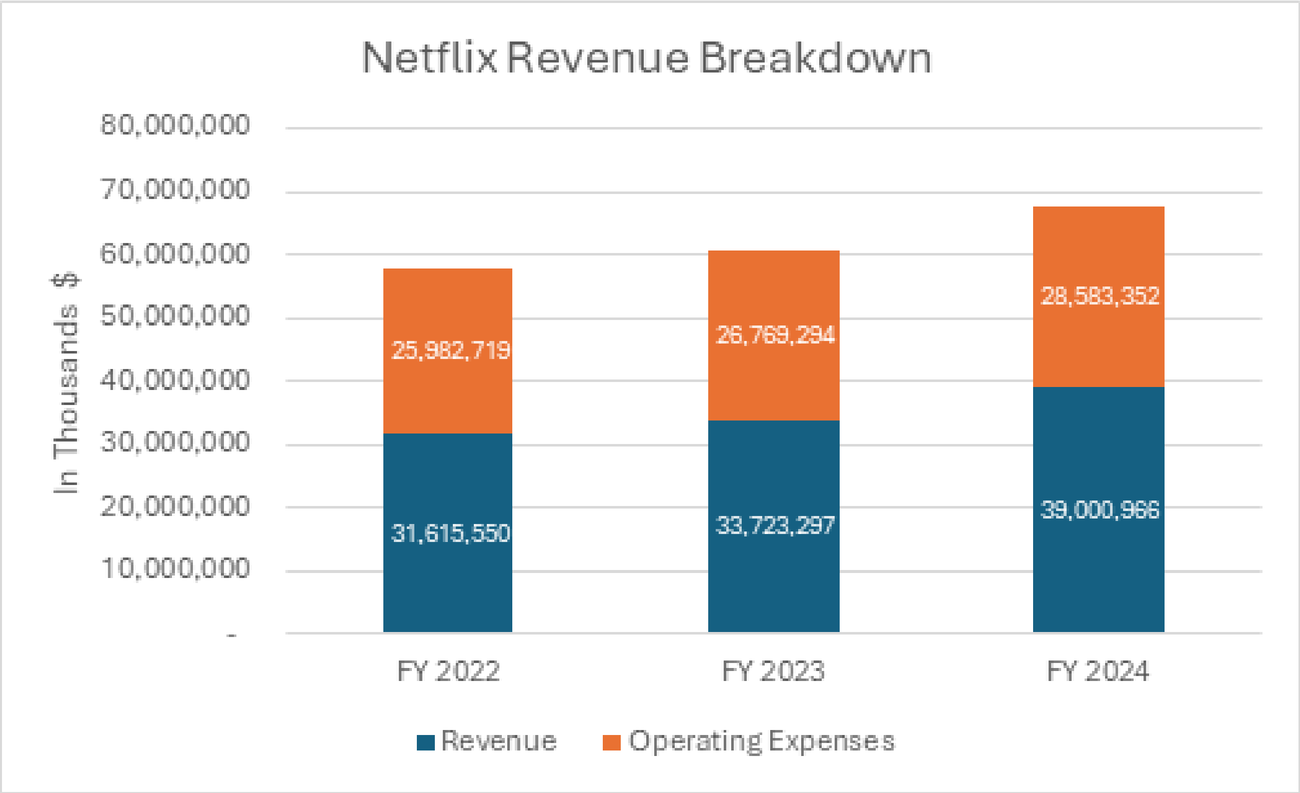
Netflix's leadership plays a key role in its ongoing success. Its board of directors includes individuals with diverse expertise in media, finance, and technology, which has provided the company with well-rounded strategic guidance. As of 2024, Netflix is led by co-CEOs Ted Sarandos and Greg Peters, who oversee everything from content strategy to global business development, ensuring the platform continues to evolve and thrive in an increasingly competitive market.

REVENUE BREAKDOWN

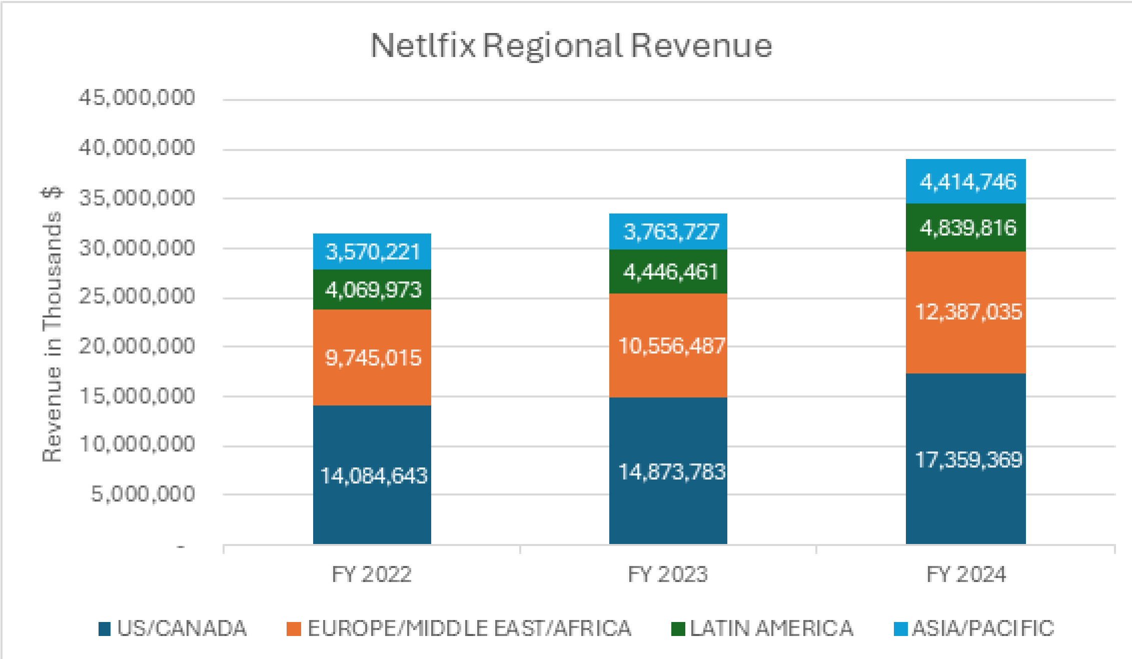


The chart presents Netflix Inc.'s FY24 income statement through a Sankey diagram, which visually tracks the flow of revenue and expenses. Netflix generated a total revenue of $39.001 billion, with the United States contributing the largest share at $16.1 billion, followed by Europe, the Middle East & Africa with $12.387 billion. Other regions, including Latin America ($4.84B), Asia Pacific ($4.415B), and Canada ($1.259B), contributed smaller but notable portions. This regional revenue flows into total gross profit and cost of revenue, with the cost amounting to $21.038 billion, leaving a gross profit of approximately $17.963 billion.

From the gross profit, operating expenses totaled $7.545 billion, resulting in an operating profit of $11.220 billion. After accounting for taxes of $1.254 billion, the net profit for FY24 stood at $9.966 billion. The diagram effectively breaks down how Netflix's revenue is allocated across cost structures and ultimately transformed into net profit, highlighting operational efficiency and profitability. The strong margin between operating profit and net income indicates relatively moderate tax liability and efficient cost control, particularly in content production and administrative operations.



Netflix's year over year revenue breakdown has shown consistent growth in both annual revenue and operating expenses. The increases in revenue reflect strong performance. Some drivers could include growth in less penetrated markets such as Asia/Pacific and Latin America, subscription price increases alongside password crackdowns that have shown to increase memberships, and potentially ad-supported subscription plans. Additionally, the introduction of live sports and events in 2024 could also have been a driver for Netflix in 2024. This was the first year these live events were introduced, and their impact could have been a primary driver. Operating costs is an umbrella term that includes the cost of revenues, sales and marketing, technology and development, as well as general and administrative expenses. Operating costs have also been increasing, likely due to increases in content costs, and introductions of new features that have been aforementioned. Sales and marketing expenses have seen steady increases, likely due to additional marketing and penetration of potential high-growth areas such as Asia/Pacific and Latin America.



Taking a deeper dive into Netflix's revenue, all regions have shown consistent growth. Adjusting prices based on local price levels, as well as continuous global expansion have led to these increases. Additionally, the ad-supported subscription model of Netflix has led to increases in membership which contributed to the revenue gains. This model allows Netflix to be streamed on lower quality internet speed, which opened Netflix to numerous new markets and subscribers that previously were unable to purchase. Additionally, live events in 2024 were a driver in the growth in revenue as these were introduced for the first time. The 16.7% increase from 2023 to 2024 for Netflix was the largest increase in that year for the region, likely due to the aforementioned reasons. Although growth has been modest for Asia/Pacific and Latin America, in recent earnings calls the executives at Netflix believe there is room for high growth due to the introduction of lower pricing tiers, increased localization of content, and partnerships with regional telecom providers to improve accessibility and affordability.

CORPORATE GOVERNANCE

Board Composition: As of 2025, Netflix's Board of Directors includes a diverse group of leaders from technology, media, and finance. Key members include Chairman Reed Hastings, Co-CEOs Ted Sarandos, and Greg Peters, former Disney executive Anne Sweeney, and other notable figures such as Brad Smith, Ann Mather, and Susan Rice. Their combined expertise supports Netflix's global strategy and innovation in content, technology, and user experience.

83%	11.7	.598%
Independent Directors	Average Tenure (yrs)	Insider Ownership

Management Overview: The management team is comprised of 14 senior executives. The average tenure among these leaders is about 5 years, reflecting a balance of experience and fresh perspectives.

Chief Executive Officers (CEO):

Ted Sarandos – Serving as Co-CEO since July 2020, Sarandos oversees Netflix's content operations and has been instrumental in expanding the company's original programming and global reach.

Greg Peters – Appointed Co-CEO in January 2023, Peters focuses on product development, partnerships, and business operations. He has played a key role in Netflix's advertising initiatives and international expansion.

Chief Financial Officer (CFO): Spencer Neumann – Serving as CFO since January 2019, Neumann is responsible for Netflix's financial planning, investor relations, and strategic initiatives. He has emphasized the company's commitment to content investment and growth in advertising revenue.

ESG REPORTING

Netflix is actively working to modernize its operations and reduce its environmental impact by improving energy efficiency and integrating green technologies into content production. Since 2022, it has significantly cut direct carbon emissions and continues to collaborate with vendors to decarbonize its value chain. Additional they support creators who highlight sustainability themes, reinforcing their commitment to climate risk management and long-term environmental goals.

Looking at Netflix's sustainability report card in April 2025, a mixed picture emerges. Sustainalytics gives them an impressive score of 15.9 ESG risk rating that puts them in the "negligible risk" category. Breaking it down, they are absolutely crushing it on environmental measures with a tiny 0.2 risk score, while their social (7.4) and governance (8.4) performances are decent, though not standout. They are ranked 44th out of 66 companies in their industry.

S&P Global paints a less flattering picture, handing Netflix a 28 out of 100 ESG score. Their Corporate Sustainability Assessment score is just 24, and they're disclosing only about 46% of the information their competitors share. The message is clear: Netflix needs to be more transparent about its ESG practices.

To their credit, Netflix hasn't been idle. They've cut their direct carbon emissions by half since 2022 by improving energy efficiency and making their productions greener. On the social side, initiatives like the Fund for Creative Equity show they’re backing up diversity goals with real investment. And in 2023, they updated their Code of Ethics to address compliance, accountability, and workplace culture.

Netflix has made solid environmental gains, but there's still work to be done, especially around governance and transparency in their ESG efforts overall.

KEY STRENGTHS & WEAKNESSES

Netflix has become a dominant force in the entertainment industry, redefining how audiences engage with television and film. Through its innovative streaming model, extensive content library, and global reach, the company has built a strong competitive advantage. However, as the streaming landscape becomes increasingly competitive, Netflix also faces significant challenges that could impact its growth and sustainability.

First, we will explore Netflix's strengths. One of its biggest strengths is its brand name. Netflix is widely recognized for consistently offering high-quality TV shows and movies. In a saturated streaming market with competitors like HBO Max, Amazon Prime, and Hulu, Netflix maintains a loyal customer base while also attracting new subscribers based solely on its reputation. Its strong brand name has also allowed Netflix to expand into new markets, such as live sports and comedy. For example, the Jake Paul vs. Mike Tyson fight was one of the first major sporting events streamed on Netflix, drawing 108 million live viewers, a significant milestone for a streaming service.

Another key strength is Netflix's global presence. Operating in over 190 countries, Netflix has access to diverse markets, reducing its reliance on any single region. This global reach not only diversifies its revenue streams but also provides a significant competitive advantage over regional platforms. Additionally, Netflix enables regional shows to gain international popularity. Squid Game is a prime example originally created for South Korean audiences; it became a worldwide sensation thanks to Netflix's global platform.

Despite these strengths, Netflix also faces notable weaknesses. One major issue is its limited copyright ownership of many popular shows and movies. While Netflix owns its original productions, many third-party titles are subject to licensing agreements that can expire. For example, The Office, one of America's most popular comedy series, was removed from Netflix on January 1, 2021, due to licensing rights. Many other popular shows and movies have also been removed due to copyright restrictions, reducing content variety and potentially leading to subscriber churn.

Netflix's stock also has its own strengths and weaknesses. On the positive side, it offers strong growth potential due to its global market dominance and expanding revenue streams, including ad-supported tiers and gaming. Its use of AI-driven recommendations and strong financial performance further enhance its long-term outlook. However, risks include intense competition from Hulu, HBO, and others, high production costs, and declining subscriber growth in key markets. While Netflix continues to innovate and expand internationally, investors should carefully weigh its profitability focus against the challenges of the streaming industry.

In addition to content and market expansion, Netflix's technology infrastructure is a critical asset that supports its competitive edge. The platform utilizes advanced algorithms and data analytics to personalize user experiences, keeping engagement high and reducing churn. Its interface is designed for seamless navigation across devices, contributing to high customer satisfaction. Moreover, Netflix has invested heavily in cloud computing and content delivery networks to ensure fast, reliable streaming worldwide even in areas with lower internet bandwidth. These technological advancements not only enhance user experience but also create operational efficiencies that help Netflix scale globally while managing costs.

NETFLIX RISK

Member Retention: Retaining members is key to Netflix's success, and low growth or high membership losses would severely damage Netflix's operations.

Streaming Competition & Piracy: In the "streaming wars" there is a constant effort by competitors to chip away at Netflix's largest member base and undercut Netflix's price offerings, also online piracy of entertainment is also prevalent in attracting members away.

Content Commitments: Acquiring content is part of Netflix's operations, but high costs to acquire or produce content with minimal member engagement can lead to loss of members and inefficient spending.

Cybersecurity & Data Breaches: Due to Netflix possessing vast amounts of personnel data, as well as operating in 6 continents, data breaches are bound to happen and could damage reputation and member trust.

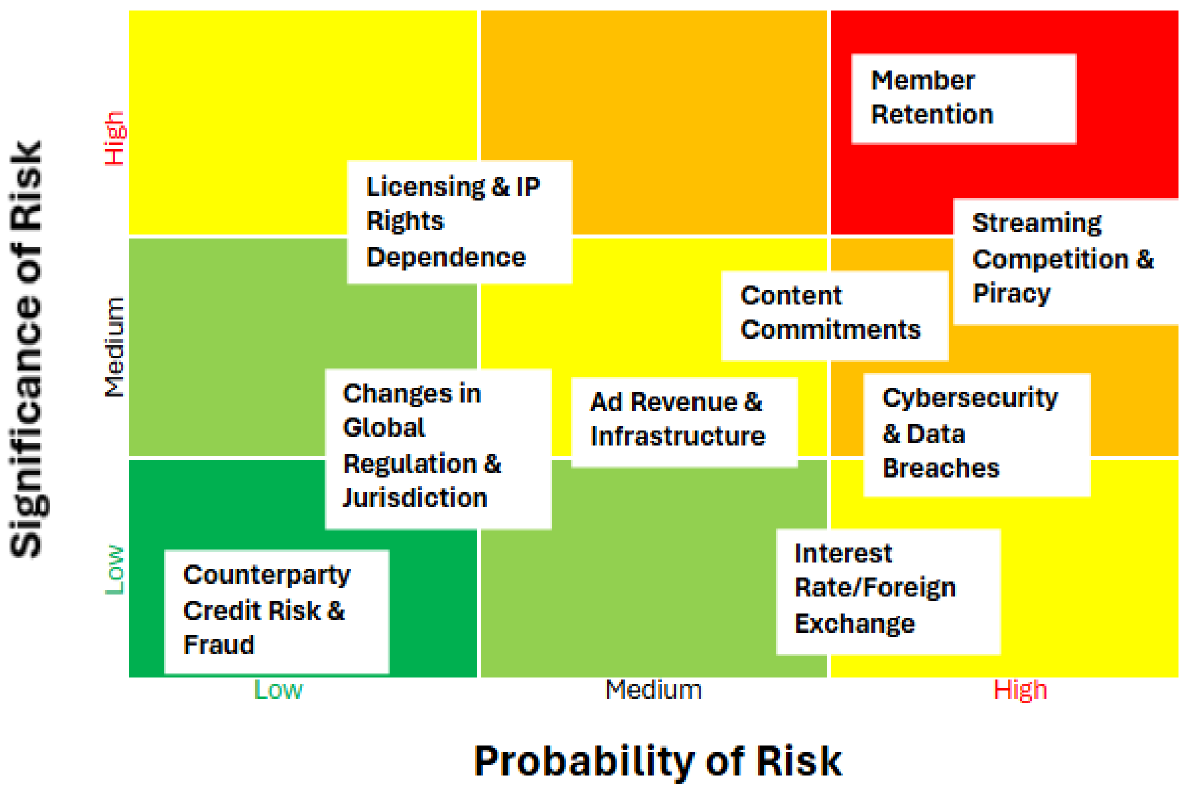
Ad Revenue & Infrastructure: The ad-supported option of Netflix is relatively new and so far, has been very successful as it has a chance to be Netflix's most purchased model. However, poor adoption and infrastructure of ads could limit revenue growth, especially in price-sensitive markets and regions where Netflix is currently seeing high growth.

Licensing Rights & IP Rights Dependence: Popular content drives Netflix's catalog and consistently losing licensing rights could weaken Netflix's total offerings and lead members to competitors.

Changes in Global Regulations & Jurisdictions: In certain regions, there could be major regulations and restrictions in content, and failure to adhere to these restrictions and reduce growth opportunities and lead to legal issues.

Interest Rate/Foreign Exchange: 40% of Netflix's subscriptions are not denominated in USD, meaning exchange rate risk is prevalent and needs constant monitoring. Also, as Netflix operates in six continents, interest rates also need to be monitored, luckily Netflix already has many hedges in place against both.

Counterparty Credit Risk & Fraud: Netflix subscriptions are monthly expenses and therefore are almost always purchased on lines of credit. Fraud, failure of members to meet obligations on time, and subscriptions canceled prematurely and bound to occur and hurt revenue.



FINANCIAL INFORMATION

	EPS	P/E	ROE	ROA	NPM	D/E	PEG
2024-Q1	$14.70	42.14	29.80%	13.09%	24.86%	77.28%	2.09
2024-Q2	$16.34	42.17	31.57%	14.20%	22.54%	74.73%	3.78
2024-Q3	$18.06	40.14	34.71%	15.29%	24.18%	81.46%	3.81
2024-Q4	$20.27	44.95	38.43%	16.64%	18.33%	72.73%	3.67
2025-Q1	$21.64	44.07	40.84%	18.37%	27.85%	72.51%	6.52

Dividend Policy and EPS Growth: Netflix does not offer any dividends but the current earnings per share and the projected earnings per share are enough to please investors.

P/E Ratio and Stock Valuation: In recent quarters, Netflix's P/E ratio has ranged from 40 to 45, which is much higher than the industry average. The market anticipates sustained earnings growth, as indicated by this high P/E ratio. But it also shows how much investors value Netflix more than more established media firms like Disney or Warner Bros. Discovery, whose P/E ratios are usually lower (usually between 10 and 20). Because of its aggressive international expansion strategy and ability to dominate the global streaming market, Netflix has a higher P/E ratio than its rivals. Furthermore, Netflix is able to command a higher price than rivals like Amazon Prime Video and Hulu, whose financial ratios tend to be more conservative, thanks to its creative content creation, data-driven personalized experiences, and pricing power.

ROE, D/E Ratio, and Sales Revenue: With a ROE of 29–40%, Netflix far outperforms rivals like Disney (12–18%) and Amazon (18–20%). Because of its robust content monetization strategies, high margins on international subscriptions, and operational efficiencies, Netflix is more effective at turning equity into profit. Given its reliance on debt to finance content creation and international expansion, Netflix's D/E ratio is comparatively high, ranging between 70 and 80%. Nonetheless, the use of leverage is justified by Netflix's capacity to produce steady revenue and positive cash flow from its global subscriber base. Disney and Amazon, on the other hand, have lower D/E ratios, which is indicative of their more varied business strategies and reduced dependence on debt for expansion.

COMPANY DEBT

As of the end of 2024, Netflix maintained a balanced capital structure, strategically managing its debt to support ongoing growth while preserving financial stability. The company reported total debt of approximately $15.58 billion, a 7% increase from the prior year. This includes both short-term and long-term liabilities, with long-term debt slightly decreasing to $13.8 billion—a 2.4% reduction from 2023. Netflix's debt-to-equity ratio stood at 0.56, indicating moderate leverage, with 56 cents of debt for every dollar of equity.

Netflix’s debt primarily consists of senior unsecured notes with staggered maturities and varying interest rates. In 2024, the company issued $1.8 billion in new bonds: $1 billion in 10-year notes with a 4.9% interest rate, and $800 million in 30-year notes at 5.4%. These funds were largely allocated to refinancing upcoming maturities in 2025, such as the 5.875% Senior Notes. To ensure flexibility, Netflix also secured a $3 billion revolving credit facility in April 2024, which remained unused as of the latest filings. This facility is intended for general corporate purposes and acts as a liquidity buffer.

Netflix’s approach to managing debt emphasizes maintaining a staggered maturity profile, avoiding over-concentration of obligations in any single year, and refinancing when beneficial. This strategy, combined with steady operating performance, allows Netflix to continue investing in original content and expanding internationally, while limiting the financial risk associated with high leverage. Overall, the company’s debt policies reflect a prudent balance between aggressive content-driven growth and long-term financial sustainability.

INDUSTRY SUMMARY

Netflix works in the entertainment and streaming media sector, which has grown and changed significantly in the last ten years. Globally, Netflix has transformed the way people consume entertainment by being a pioneer in the subscription-based streaming service. With a very large subscriber base in more than 190 countries, Netflix is a major force in the streaming market. To accommodate a variety of audience likings, the company provides a broad range of content, such as original productions, TV shows, documentaries, and films. Netflix has Several other well-known streaming services competitors, including Amazon Prime Video, Disney+, HBO Max, Hulu, and up-and-coming services like Apple TV+ and Peacock. Intense competition fueled by pricing tactics, technological innovation, and content differentiation defines the competitive environment. Netflix uses a subscription-based business model, with monthly subscriptions being its main source of income.

To draw and keep subscribers, the business makes significant investments in content production and acquisition, emphasizing originality. Netflix also uses data analytics to improve user experience and personalize recommendations. Netflix consistently makes technological investments to boost content delivery, optimize user interfaces across devices, and improve streaming quality. AI-driven content recommendations, adaptive streaming technology, and collaborations with internet service providers to guarantee flawless streaming experiences are further examples of the company's technological innovations. Even though it leads the market, Netflix still has to contend with issues like growing content prices, rivalry, and changing customer tastes. Opportunities do exist, though, in diversifying content offerings, expanding internationally, and forming strategic alliances with distributors and content producers. Even though it leads the market, Netflix still has to contend with issues like growing content prices, rivalry, and changing customer tastes. Opportunities do exist, though, in diversifying content offerings, expanding internationally, and forming strategic alliances with distributors and content producers. Netflix wants to continue growing by concentrating on creating original content, growing internationally, and utilizing technological advancements to keep a competitive edge in the ever-changing streaming media market.

COMPETITORS

Netflix faces intense competition in the global streaming industry, with major competitors including Disney+ and Max (formerly HBO Max). These platforms challenge Netflix's market share through exclusive franchises, bundled service offerings, and aggressive international expansion. To maintain its leadership position, Netflix focuses on producing high volumes of original content, expanding ad-supported tiers, and tapping into live entertainment like sports and interactive gaming.

Max (WBD): Previously HBO Max, Max is Warner Bros. Discovery's streaming platform offering premium original content, films, and excusive releases.

- Max reported 2024 revenue of 411.2 billion, showing a 5.3% increase from the previous year.
- Has 95 million subscribers as of early 2025
- 2024 revenue was about 35% of Netflix's.

Disney+ (DIS): Launched in 2019, Disney+ leverages Disney's extensive IP library including Marvel, Star Wars, Pixar, and National Geographic to attract family and franchise focused audiences.

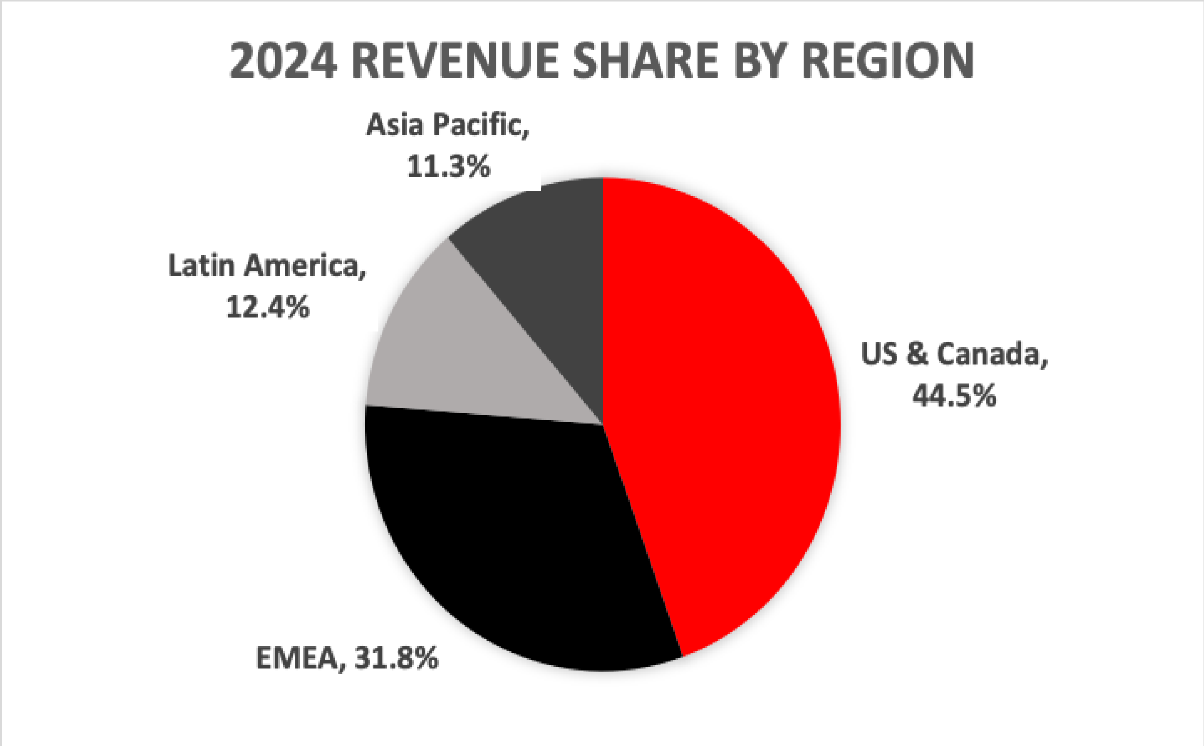
- Disney+ reported 2024 revenue of $9.5billion, marking a 6.2% increase from 2023.
- Total subscriber base reached 157 million globally.
- Revenue was approximately 29% of Netflix's 2024 total revenue.

Competitor Financial Rations as of 2024:

	EPS	P/E	P/B	ROE	ROA	NPM	D/E	PEG
WBD	$ -4.62	-1.85%	N/A	-28.54%	-9.95%	-28.78%	1.23	.01
DIS	$ 2.72	29.60%	N/A	4.97%	2.47%	5.47%	.45	.9

GROWTH OPPORTUNITIES

Netflix is unique in the aspect that the individual segments that revenue is earned is not available to the public, but rather by four regions with include the United States and Canada, Europe, Middle East, and Africa (EMEA), Latin America, and Asia Pacific. The two primary regions that are of focus are the United States and Canada, and EMEA with historical trends of high revenue and a strong market presence. On the contrary, Latin America and the Asia Pacific regions have seen high growth in recent years and Netflix has an aggressive growth plan in place which includes expanding into smaller markets.



United States and Canada:

The United States and Canada has been the birthplace of Netflix as it was found in 1997 in Scotts Valley, California. Although the market presence is already strong, Netflix is still looking to expand in this market with the goal of making content for everyone (Netflix, Jan 2025). A recent venture that Netflix started was live sports which is focused in the United States including NFL football and WWE Wrestling with expectations of new contracts being signed with this corporations. These live sports increased Netflix viewership and shattered records for streaming live sports. On the contrary, the number of competitors that have become more popular in recent years could hinder the growth in this region. These competitors include Disney, Paramount, and Peacock with Paramount being a CBS service and Peacock being an NBC service having live sports contracts already set in place.

Europe, Middle East & Africa:

The EMEA region is important Netflix's growth for multiple reasons which include European countries being a significant number of users of Netflix and the Middle East and Africa being newer markets. EMEA countries make up the highest share of subscribers with 101.13 million out of 301.63 million total subscribers with the majority coming from European countries (Statistica, 2025). In the Middle East and Africa, their market share is smaller, which gives them room for significant growth, but they are undeveloped countries, and the growth is dependent on that factor. In Europe, soccer is the most popular sport and Peacock, an NBC service which has the rights to stream the Premier League which is one of the biggest soccer leagues in Europe which limits Europe's growth in subscribers when adding live sports.

Latin America and Asia Pacific:

Latin America and Asia Pacific have the two lowest revenue shares due to them being developing areas of the world. Netflix recently added a subscription plan that includes advertisements making it more affordable for users all over the world. Netflix's plan to expand and grow aggressively, along with the high growth rates in recent years in these countries are a crucial piece to Netflix's overall growth but the probability of high success in these markets is limited to where they are at with the current development of these regions.

Changes in growth through the last 7 years:

	Change 2018-19	Change 2019-20	Change 2020-21	Change 2021-22	Change 2022-23	Change 2023-24	Average Growth
US & Canada	4.48%	9.32%	1.76%	-1.20%	7.85%	11.85%	5.68%
EMEA	36.77%	29.01%	10.94%	3.69%	15.75%	13.87%	18.34%
Latin America	20.77%	19.43%	6.40%	4.51%	10.31%	15.94%	12.89%
Asia Pacific	52.83%	56.79%	28.35%	16.63%	19.24%	26.92%	33.46%

Scenario Analysis:

	2024	2025	2026	2027	2028		
G	20.45%	5.45%	5.17%	4.91%		avg G	8.997%
EPS	19.80	23.85	25.15	26.45	27.75		
Pessimistic EPS	18.61	22.42	23.64	24.86	26.09	Pes. G	5.997%
Optimistic EPS	22.18	26.71	28.17	29.62	31.08	Opt. G	11.997%

The projected growth for earnings per share is to change by an average of 8.997%. This came from taking the projected EPS from 2025 to 2028. We decided to drop this by 3% for the pessimistic and raise it by 3% for the optimistic based on the recent trends of Netflix EPS over the years. Even if the EPS decreases, Netflix will still be an acceptable stock hold.

CORRELATION MATRIX

Fund	0.614999	AMT	0.249359	DIS	0.517382
UNH	0.13114	JNJ	0.084108	GOOGL	0.432042
UNP	0.345629	GM	0.420441	NXST	0.270163
AAPL	0.490379	PRU	0.325226	SAP	0.527479
MA	0.274602	INTC	0.252736	PFE	0.081676
RIO	0.099275	META	0.264178	EMR	0.347114
AMAT	0.456328	KO	-0.01134	NVDA	0.609456
NEE	0.310144	BKNG	0.381448	HD	0.38536
QCOM	0.375321	PYPL	0.419123	FAST	0.354167
MSFT	0.563461	HEAR	0.431274	JPM	0.504477
PG	0.063948	BA	0.314746		
CVS	0.008763	XOM	0.037018		

The correlation coefficient for Netflix in the Spellman Fund is 0.61 which is high showing that the fund is moving in a similar direction as Netflix. Netflix is a large contributor to the fund holding a weight of 8.67% in the entire fund. There are several other stocks that have a high correlation which include but are not limited to UNP, AMAT, MSFT, PRU BKNG, DIS, SAP, and EMR. The Spellman fund's purpose is to mimic the movement of the market. The current weight of communication services is 9.75% in the Spellman fund which is more than the weight of communication services of 9.09% in the S&P 500. Breaking down the weights of the S&P 500 even further, the entertainment industry only makes up a mere 3.89% showing that the Spellman fund may be overflooded in this sector.

Netflix is a strong stock in the fund with its high anticipated growth, but the high amount of communication services, specifically the entertainment sector shows that an adjustment needs to be made with the stock. Trimming the stock while the price is high is ideal so that a fair return can be achieved.

VALUATION

FCFF	FCFE	Overall FCF	Combined 1-year target price	Adjustment for stocks current dividend yield	Latest market price per share
1805.67	1790.70	1798.185	1389.517	513.94%	917.05

The stock's valuation appears to be fairly strong based on the information provided, but there are some significant details. Free Cash Flow to the Firm (FCFF) and Free Cash Flow to Equity (FCFE), two important metrics for evaluating a company's capacity to produce cash flow to support its operations and value for shareholders, are the foundation of the two main methods for evaluating the stock.

FCFF, which is reported at 1805.67, FCFE at 1790.70, and an overall Free Cash Flow (FCF) of 1798.185 all support the P/E target price. According to these numbers, the business is operating with a healthy cash flow, which should theoretically support its future expansion and give shareholders returns. This suggests that the stock may have some upside potential from its current market price, as it corresponds with a combined 1-year target price of 1389.517.

However, the 513.94% adjustment for the stock's current dividend yield seems excessively high and is very unexpected. An exceptional dividend payment could be the cause of this, which could temporarily distort the valuation. Such a high dividend yield is uncommon in general. The most recent market price per share is 917.05, indicating that the market value and the modified target price determined by these calculations differ significantly.

The company's total capacity to generate cash flow, its capital expenditures, and its net debt are the main factors influencing the Free Cash Flow estimates (FCFF and FCFE). These are important factors that affect the total valuation, and the information presented here shows that the business is making enough money. The stock has room to grow given the healthy FCF estimates and the current market price being below the target price, but sustainability is called into question by the unusually high dividend yield. For the time being, I would advise holding onto the stock while you wait for more information about Netflix's dividend policy and whether it’s a one-time occurrence or a regular tactic. A more stable performance might follow if the dividend yield turns out to be unsustainable or if the market adjusts to the actual cash flow potential. Care should be taken if the dividend keeps rising at such high rates.

RECOMMENDATIONS

Netflix is a strong stock in the fund; however, it is overweighted in the fund and trimming down the stock can mitigate risk. Netflix has had solid growth historically, with a growth plan that the board and company executives have preached strongly about. Netflix has tapped into new markets across the globe and has begun working with live sports and developing interactive games on their platforms in recent years. It has also made an advertisement subscription plan allowing more users the opportunity to purchase their services. This cheap form of entertainment is great considering the expectations of an upcoming recession and the recent tariffs that have come to light, which Netflix is not affected by.

When looking at the current Spellman Fund Portfolio, Netflix weighs a whooping 8.67% of the fund. If we compare the communications sector of the fund to the index S&P500, the communication services sector is 9.75% in the fund and 9.33% in the S&P500. With the goal of matching the market as the S&P500 does, selling off some of the communication services would be ideal, and given the overwhelming weight of Netflix, selling off 1.6 shares would be ideal to match the market.

Netflix is a great stock to have in the portfolio and has strong projections with earnings and cashflow. But holding a single stock at the weight it is in a portfolio is risky because the projections cannot go as planned. The increased competition in the entertainment sector of streaming services has also been increasing which could increase the likelihood of potential users choosing other options. At this time when the stock price is at an all-time high, is an ideal time to trim.

CONCLUSION

With its vast content library, creative use of technology, and calculated market expansions, Netflix has solidified its position as a market leader in the global streaming space. Netflix is well-positioned for future growth thanks to its diverse revenue streams, which include the launch of ad-supported plans and its foray into live sports, despite obstacles from growing competition, rising content costs, and shifting consumer preferences.

Given its strong financial position and strategic investments in international markets, artificial intelligence, and original content, Netflix appears well-positioned to handle market obstacles and seize new opportunities. Even though sustainability and market volatility are still issues, Netflix's capacity to adjust to changing market conditions and its track record of success support its potential for long-term growth.

In conclusion, Netflix is still a wise investment because it has strong growth potential and the adaptability to change with the quickly evolving entertainment market. Netflix is in a strong position to maintain its market leadership and provide investors with value thanks to its ongoing emphasis on innovation and global expansion.

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