

Analysis of Sales/Earnings
Erratum: Breaking Good; Bull Case Playing Out (Again); Raising Target to \$500

Erratum: In our note issued 1/20/15, we incorrectly accounted for the international ramp and its impact to our 2015 estimates. In this corrected note, we are adjusting near-term profitability estimates to appropriately account for the international ramp. Our long-term estimates are essentially unchanged, as is our price target of \$500.

Executive Summary: After posting strong 4Q:14 results and providing solid guidance for 1Q:15, we believe Netflix is skillfully navigating the transition between slowing subscriber growth in the profitable U.S. segment and international expansion. Commentary from management this quarter was also very positive, particularly regarding Netflix's international operations. The company now believes it can complete its global expansion in the next two years, which we believe is a significantly faster pace than most investors expected. In short, the company seems to be successfully executing its plan to become the leading global Internet TV network. As such, we are raising our price target to \$500.

Navigating the Transition: In our recent upgrade, we wrote that Netflix was undergoing a transition between slowing subscriber growth in the profitable U.S. segment and international expansion. With strong 4Q results that showed strong subscriber additions (and particular strength internationally) and solid guidance for 1Q:15 streaming subscribers, we believe Netflix is through the transition. Although shares opened up ~19% after earnings, we believe a number of catalysts remain in 2015, including a strong content cycle and recent / upcoming international launches.

Completing the Global Expansion in the Next Two Years: Management now believes it can complete its global expansion over the next two years (while maintaining overall profitability). The company has had success in varied markets, is now at scale to purchase global rights for content rather than going country-by-country, and has found original programming not only has global appeal but is also some of its most efficient content in terms of cost per viewing hour.

Domestic Subscriber Growth Slowing but Long-Term Outlook Remains Solid: After further review, the company openly stated that the recent pricing increase is not the leading cause of lower domestic net adds, but that the reduction in y/y net adds is a function of the law of large numbers. However, the company remains positive that large growth remains ahead as Internet video adoption rises.

Reiterate Buy; Raising Estimates and Price Target to \$500: We raise our 2015E domestic streaming net adds to 4.97mm from 4.96mm and raise international streaming net adds to 8.78mm from 8.59mm. We also raise our longer-term international net adds by 2mm over the next 10 years. We temper our near-term profitability outlook as international investments are pulled forward but expect a faster margin ramp beyond 2016E.

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Changes	Previous	Current
Rating	—	Buy
Target Price	\$380.00	\$500.00
FY15E EPS (Net)	\$5.29	\$3.24
FY16E EPS (Net)	\$7.10	\$5.02
FY15E Rev (Net)	\$6.77B	\$6.76B
FY16E Rev (Net)	\$8.05B	\$8.16B

Price (01/21/15):	\$411.20
52-Week Range:	\$489 – \$300
Market Cap.(mm):	25,831.6
Shr.O/S-Diluted (mm):	62.8
Enterprise Val. (mm):	\$27,380.0
Avg Daily Vol (3 Mo):	2,330,473
LT Debt/Total Cap.:	29.0%
Net Cash/Share:	\$11.43
Dividend(\$ / %)	\$0.00 / 0.0%
S&P Index	2,026.41
Price is intraday 1/21/15.	

EPS (Net)	2014A	2015E	2016E
Q1	\$0.86	\$0.61	\$NE
Q2	1.15	0.75	NE
Q3	0.96	0.93	NE
Q4	1.35	0.96	NE
FY Dec	\$4.32A	\$3.24	\$5.02

Rev (Net)	2014A	2015E	2016E
FY Dec	\$5.50B	\$6.76B	\$8.16B
EV/Revenue	5.0x	4.0x	3.4x

EBITDA	2014A	2015E	2016E
FY Dec	\$571.9A	\$608.0	\$822.0
EV/EBITDA	47.9x	45.0x	33.3x



Exhibit 1. 4Q14 Results

	Q4 2014A					
	Actual	Stifel	\$ Change	% Change	Guide	Consensus
Total Revenue	1,485	1,489	-4	-0.3%		1,485
Gross Profit	470	425	46	10.8%		440
Gross Margin	31.7%	28.5%				29.6%
Operating Income	65	56	9	16.2%	57	58
GAAP Net Income	83	27	56	210.7%	27	28
GAAP EPS	\$1.35	\$0.43	\$0.92	214.0%	\$0.44	\$0.45
PF EPS	\$0.72	\$0.74	(\$0.02)	-2.7%		\$0.74
<u>Domestic Streaming</u>						
Domestic Streaming Subs	39.1	39.1	0.0	0.1%	39.1	
Domestic Net Adds (Q/Q)	1.9	1.8	0.0	2.3%		
Revenue	917	915	1.7	0.2%	917	926
Contribution Profit	\$257	\$260	(\$3.4)	-1.3%	\$260	
Contribution Margin	28.0%	28.4%			28.4%	
<u>International Streaming</u>						
International Subs	18.3	18.0	0.3	1.6%	18.0	
International Net Adds (Q/Q)	2.4	2.1	0.3	13.8%		
Revenue	388	392	-4.1	-1.1%	388	389
Contribution Profit	(\$79)	(\$94)	\$14.8		(\$95)	
Contribution Margin	-20.3%	-23.9%			-24.5%	

Source: Company reports, FactSet, Stifel estimates

Exhibit 2. 2015-2016 Estimate Changes (vs. pre-4Q:14 estimates)

	2015E				2016E			
	Current	Previous	\$ Change	% Change	Current	Previous	\$ Change	% Change
Total Revenue	6,761	6,769	-8	-0.1%	8,162	8,046	116	1.4%
Gross Profit	2,021	2,135	-114	-5.3%	2,421	2,515	-93	-3.7%
Gross Margin	29.9%	31.5%			29.7%	31.3%		
Operating Income	401	585	-184	-31.4%	576	770	-194	-25.2%
GAAP Net Income	202	331	-129	-38.9%	314	446	-132	-29.5%
GAAP EPS	\$3.24	\$5.29	(\$2.05)	-38.8%	\$5.02	\$7.10	(\$2.08)	-29.3%
PF EPS	\$4.70	\$6.65	(\$1.95)	-29.3%	\$6.76	\$8.67	(\$1.91)	-22.0%
<u>Domestic Streaming</u>								
Domestic Streaming Subs	44.1	44.0	0.1	0.1%	48.0	47.8	0.3	0.6%
Domestic Net Adds in period	5.0	5.0	0.0	0.1%	4.0	3.7	0.2	6.0%
Revenue	4,074	4,038	35.5	0.9%	4,674	4,571	103.7	2.3%
Contribution Profit	\$1,250	\$1,237	\$13.7	1.1%	\$1,552	\$1,491	\$60.4	4.1%
Contribution Margin	30.7%	30.6%			33.2%	32.6%		
<u>International Streaming</u>								
International Subs	27.1	26.6	0.5	1.8%	35.0	33.1	1.9	5.7%
International Net Adds in period	8.8	8.6	0.2	2.3%	7.9	6.5	1.4	21.2%
Revenue	2,029	2,065	-35.6	-1.7%	2,900	2,880	20.1	0.7%
Contribution Profit	(\$259)	(\$80)	(\$178.9)		(\$196)	\$32	(\$228.4)	
Contribution Margin	-12.8%	-3.9%			-6.8%	1.1%		

Source: Company reports, Stifel estimates

Target Price Methodology/Risks

Target Price Methodology: We use a DCF approach to arrive at our \$500 price target, utilizing a perpetual growth rate of 4.0% and discount rate of 10.5%.

Risks: In addition to general market and macroeconomic risks, for Netflix, the risks include: competition, shifts in subscriber trends, usage-based broadband pricing, and rising content costs.

Company Description

Netflix is the world's leading Internet television network, with over 50 million members in nearly 50 countries enjoying more than two billion hours of TV shows and movies per month, including original series. For one low monthly price, Netflix members can watch as much as they want, anytime, anywhere, on nearly any Internet-connected screen. Members can play, pause, and resume watching, all without commercials or commitments. Additionally, in the U.S., Netflix members can receive DVDs delivered quickly to their homes as part of a separate membership fee.

Netflix DCF Valuation (USD millions, except per share data)	Historical Financials			Forecasted Financials										
	2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Free Cash Flow Reconciliation														
Total Revenue	\$3,205	\$3,609	\$4,375	\$5,505	\$6,761	\$8,162	\$9,525	\$10,736	\$11,877	\$12,963	\$13,993	\$14,993	\$15,965	\$16,928
y/y Growth - %	48.2%	12.6%	21.2%	25.8%	22.8%	20.7%	16.7%	12.7%	10.6%	9.1%	7.9%	7.1%	6.5%	6.0%
(x) Adj. EBITDA Margin	15.3%	4.7%	8.0%	10.4%	9.0%	10.1%	12.0%	14.7%	17.8%	20.3%	23.0%	25.9%	29.0%	31.5%
Adj. EBITDA	\$490	\$169	\$350	\$572	\$608	\$822	\$1,144	\$1,573	\$2,109	\$2,632	\$3,221	\$3,884	\$4,623	\$5,329
(-) Cash Taxes	(133)	(13)	(59)	(83)	(121)	(184)	(282)	(428)	(613)	(795)	(1,003)	(1,235)	(1,495)	(1,744)
(+/-) Changes in Working Capital	119	26	120	137	132	52	81	44	50	45	45	41	40	42
(-) Capex & DVD Acquisition	(135)	(90)	(120)	(145)	(154)	(86)	(94)	(102)	(109)	(117)	(123)	(129)	(134)	(139)
(-) Stock-Based Compensation	(62)	(74)	(73)	(115)	(147)	(173)	(197)	(211)	(222)	(229)	(233)	(242)	(250)	(257)
Unlevered Free Cash Flow (UFCF)	\$279	\$18	\$218	\$367	\$319	\$431	\$651	\$876	\$1,215	\$1,536	\$1,907	\$2,319	\$2,784	\$3,232
% of Revenue	8.7%	0.5%	5.0%	6.7%	4.7%	5.3%	6.8%	8.2%	10.2%	11.8%	13.6%	15.5%	17.4%	19.1%
% of Adj. EBITDA	57.0%	10.9%	62.3%	64.1%	52.4%	52.5%	57.0%	55.7%	57.6%	58.3%	59.2%	59.7%	60.2%	60.7%

DCF Valuation Assumptions

Valuation Date	1/31/16
Cost of Equity	11.0%
Cost of Debt	5.4%
Marginal Tax-Rate	38.0%
Long-Term Debt / Total Cap.	6.0%
WACC	10.5%

Perpetual Growth Rate 4.0%

Source: Company reports, Stifel estimates

12-Month Forward DCF Valuation

Enterprise Value	\$32,989
(-) Total Debt	(2,663)
(+) Cash & Equivalents	1,114
Equity Value	\$31,439
(÷) Fully Diluted Shares	63
Implied Equity Value per Share	\$500

Equity Value Sensitivity: WACC vs. Perpetual Growth Rate

	9.5%	10.0%	10.5%	11.0%	11.5%
\$31,439					
3.50%	35,583	32,326	29,548	27,153	25,068
4.00%	38,350	34,598	\$31,439	28,744	26,420
4.50%	41,671	37,285	33,646	30,581	27,966

Equity Value per Share Sensitivity: WACC vs. Perpetual Growth Rate

	9.5%	10.0%	10.5%	11.0%	11.5%
\$500					
3.50%	566	514	471	433	400
4.00%	609	550	\$500	458	422
4.50%	661	592	535	487	446

Netflix Model	2013				2014				2015E			
(USD millions, except per share data)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E
Income Statement												
Total Revenue	\$1,024.0	\$1,069.4	\$1,106.0	\$1,175.2	\$1,270.1	\$1,340.4	\$1,409.4	\$1,484.7	\$1,572.8	\$1,645.3	\$1,729.0	\$1,813.9
(-) Cost of Revenues	(737.0)	(760.7)	(798.9)	(820.7)	(869.2)	(914.8)	(954.4)	(1,014.3)	(1,066.0)	(1,171.1)	(1,236.7)	(1,266.6)
Gross Profit	\$287.0	\$308.7	\$307.1	\$354.6	\$400.9	\$425.6	\$455.0	\$470.4	\$506.9	\$474.2	\$492.3	\$547.4
(-) Marketing Expenses	(119.1)	(114.6)	(108.2)	(128.0)	(137.1)	(120.8)	(145.7)	(203.7)	(200.3)	(162.2)	(157.2)	(203.7)
(-) Technology & Development Expenses	(92.0)	(93.1)	(95.5)	(98.1)	(110.3)	(115.2)	(121.0)	(125.9)	(141.3)	(139.7)	(144.9)	(150.2)
(-) General & Administrative Expenses	(44.1)	(43.8)	(46.2)	(46.1)	(55.9)	(60.0)	(78.0)	(75.8)	(85.0)	(78.6)	(78.4)	(78.1)
(-) Legal Settlement	--	--	--	--	--	--	--	--	--	--	--	--
(+) Gain on Disposal of DVDs	--	--	--	--	--	--	--	--	--	--	--	--
(-) Restructuring Charges	--	--	--	--	--	--	--	--	--	--	--	--
GAAP Operating Income	\$31.8	\$57.1	\$57.1	\$82.3	\$97.6	\$129.6	\$110.4	\$65.0	\$80.3	\$93.7	\$111.8	\$115.4
(-) Interest Expense	(8.7)	(7.5)	(7.4)	(7.4)	(10.1)	(13.3)	(13.5)	(13.4)	(13.5)	(13.5)	(13.5)	(13.5)
(+) Interest & Other Income	(24.2)	(2.9)	(0.2)	(0.8)	1.4	1.1	0.6	(6.2)	(6.0)	(6.0)	(6.0)	(6.0)
Pre-Tax Income	\$0.9	\$46.6	\$49.5	\$74.0	\$88.9	\$117.4	\$97.5	\$45.5	\$60.8	\$74.2	\$92.3	\$95.9
(+/-) Tax Provision	1.8	(17.2)	(17.7)	(25.6)	(35.8)	(46.4)	(38.2)	37.9	(22.8)	(27.8)	(34.6)	(36.0)
GAAP Net Income	\$2.7	\$29.5	\$31.8	\$48.4	\$53.1	\$71.0	\$59.3	\$83.4	\$38.0	\$46.4	\$57.7	\$59.9
(-) Diluted Shares	60.1	60.6	61.0	61.3	61.5	61.6	61.8	61.8	62.0	62.2	62.3	62.5
GAAP Earnings Per Share	\$0.05	\$0.49	\$0.52	\$0.79	\$0.86	\$1.15	\$0.96	\$1.35	\$0.61	\$0.75	\$0.93	\$0.96
Sharecount												
Weighted Avg. Basic Shares	56.0	58.2	59.1	59.5	59.8	60.0	60.2	60.3	60.5	60.7	60.9	61.0
Weighted Avg. Diluted Shares	60.1	60.6	61.0	61.3	61.5	61.6	61.8	61.8	62.0	62.2	62.3	62.5
Period-End Shares	56.1	58.9	59.3	59.6	59.9	60.1	60.2	60.4	60.6	60.8	61.0	61.1
Statutory Tax Rate	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%

Source: Company reports, Stifel estimates (Fiscal Year ends Dec. 31)

Historical Financials				Forecasted Financials			
2011	2012	2013	2014	2015E	2016E	2017E	2018E
\$3,204.6	\$3,609.3	\$4,374.6	\$5,504.7	\$6,761.1	\$8,161.7	\$9,525.4	\$10,735.8
(2,039.9)	(2,625.9)	(3,117.2)	(4,740.4)	(5,740.4)	(6,843.8)	(7,315.5)	
\$1,164.7	\$983.4	\$1,257.4	\$1,751.9	\$2,020.8	\$2,421.4	\$2,881.6	\$3,420.3
(402.6)	(475.6)	(469.9)	(607.2)	(723.3)	(795.7)	(833.2)	(859.5)
(259.0)	(329.0)	(378.8)	(472.3)	(576.1)	(679.2)	(773.6)	(850.4)
(117.9)	(128.8)	(180.3)	(269.7)	(320.1)	(370.1)	(412.8)	(443.8)
(9.0)	--	--	--	--	--	--	--
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\$376.1	\$50.0	\$228.3	\$402.6	\$401.2	\$576.4	\$861.9	\$1,266.5
(20.0)	(20.0)	(29.1)	(50.2)	(54.0)	(54.0)	(54.0)	(54.0)
3.5	0.5	(28.1)	(3.1)	(24.0)	(24.0)	(24.0)	(24.0)
\$359.5	\$30.5	\$171.1	\$349.4	\$323.2	\$498.4	\$783.9	\$1,188.5
(133.4)	(13.3)	(58.7)	(82.6)	(121.2)	(184.4)	(282.2)	(427.9)
\$226.1	\$17.2	\$112.4	\$266.8	\$202.0	\$314.0	\$501.7	\$760.7
54.4	58.0	60.8	61.7	62.3	62.6	62.9	63.2
\$4.16	\$0.30	\$1.85	\$4.32	\$3.24	\$5.02	\$7.98	\$12.04
\$490.4	\$169.4	\$349.8	\$571.9	\$608.0	\$822.0	\$1,143.8	\$1,573.5
446.7	123.9	301.4	517.9	547.7	749.3	1,058.8	1,477.7
\$4.87	\$1.09	\$2.60	\$5.48	\$4.70	\$6.76	\$9.98	\$14.18
52.8	55.5	58.2	60.1	60.8	61.1	61.4	61.7
54.4	58.0	60.8	61.7	62.3	62.6	62.9	63.2
55.4	55.6	59.6	60.4	61.1	61.4	61.8	62.1
38%	38%	38%	38%	38%	37%	36%	36%

Netflix Model (USD millions)	2013				2014				2015E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E
Balance Sheet												
Assets:												
Cash & Cash Equivalents	\$418.1	\$370.7	\$439.1	\$605.0	\$1,157.5	\$1,214.2	\$1,183.2	\$1,113.6	\$1,342.6	\$1,308.2	\$1,257.2	\$1,399.2
Short-Term Investments	607.8	709.4	695.9	595.4	510.8	500.1	483.6	494.9	494.9	494.9	494.9	494.9
Current Content Library, Net	1,391.5	1,363.6	1,577.5	1,706.4	1,771.4	1,786.3	2,007.0	2,125.7	2,260.3	2,239.6	2,481.2	2,750.5
Prepaid Content	57.3	32.1	30.5	--	--	--	--	--	--	--	--	--
Other Current Assets	82.5	94.5	106.3	151.9	147.1	167.7	149.7	206.3	183.3	192.1	198.2	211.8
Total Current Assets	\$2,557.1	\$2,570.3	\$2,849.3	\$3,058.8	\$3,586.8	\$3,668.4	\$3,823.5	\$3,940.5	\$4,281.1	\$4,234.8	\$4,431.5	\$4,856.4
Content Library, Net	1,576.7	1,682.2	1,808.4	2,091.1	2,179.5	2,348.8	2,631.9	2,773.3	2,896.0	3,067.6	3,389.4	3,655.6
Net PP&E	129.3	127.9	127.3	133.6	133.5	141.7	144.1	149.9	153.1	159.1	166.9	167.3
Deferred Income Taxes	100.2	100.3	116.4	129.1	148.4	166.9	178.8	193.0	193.0	193.0	193.0	193.0
Other Non-Current Assets	--	--	--	--	--	--	--	--	--	--	--	--
Total Assets	\$4,363.3	\$4,480.8	\$4,901.3	\$5,412.6	\$6,048.1	\$6,325.8	\$6,778.3	\$7,056.7	\$7,523.2	\$7,654.5	\$8,180.8	\$8,872.2
Liabilities:												
Content Liabilities	\$1,355.0	\$1,321.2	\$1,592.0	\$1,776.0	\$1,844.9	\$1,858.0	\$2,074.8	\$2,117.2	\$2,315.3	\$2,304.9	\$2,659.8	\$2,958.6
Accounts Payable	102.8	103.4	100.9	108.4	133.9	137.2	150.4	201.6	189.4	169.2	167.5	190.5
Accrued Expenses	52.0	59.0	46.4	54.0	54.9	98.5	70.6	69.7	101.1	95.5	87.7	102.3
Current Portion of Lease Financing Obligations	--	--	--	--	--	--	--	--	--	--	--	--
Deferred Revenue	178.9	186.6	195.8	215.8	230.0	241.3	253.0	274.6	283.8	296.6	311.7	327.4
Total Current Liabilities	\$1,688.7	\$1,670.3	\$1,935.1	\$2,154.2	\$2,263.7	\$2,335.1	\$2,548.7	\$2,663.2	\$2,889.6	\$2,866.2	\$3,226.7	\$3,578.9
Long-Term Debt	700.0	500.0	500.0	500.0	900.0	900.0	900.0	900.0	900.0	900.0	900.0	900.0
Lease Financing Obligations	--	--	--	--	--	--	--	--	--	--	--	--
Non-Current Content Liabilities	1,083.4	1,124.2	1,179.1	1,345.6	1,321.9	1,390.8	1,510.4	1,575.8	1,673.0	1,760.2	1,835.0	2,063.6
Other Non-Current Liabilities	78.2	80.6	82.8	79.2	84.2	90.2	94.4	60.0	121.9	109.5	107.9	123.5
Total Liabilities	\$3,550.4	\$3,375.1	\$3,697.0	\$4,079.0	\$4,569.7	\$4,716.1	\$5,053.5	\$5,198.9	\$5,584.5	\$5,635.9	\$6,069.7	\$6,666.0
Shareholders' Equity:												
Preferred Equity	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--
Common Stock	0.1	0.1	0.1	0.1	0.1	0.1	0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Additional Paid-In Capital	369.8	635.0	698.7	777.4	868.2	926.5	987.3	1,042.8	1,085.8	1,119.3	1,154.2	1,189.3
AOC Income / (Loss)	0.3	(1.7)	1.6	3.6	4.5	6.5	1.6	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Retained Earnings	442.8	472.2	504.1	552.5	605.6	676.6	735.9	819.3	857.3	903.7	961.3	1,021.3
Total Shareholders' Equity	\$812.9	\$1,105.6	\$1,204.4	\$1,333.6	\$1,478.4	\$1,609.7	\$1,724.9	\$1,857.7	\$1,938.7	\$2,018.6	\$2,111.1	\$2,206.2
Total Liabilities & Shareholders' Equity	\$4,363.3	\$4,480.8	\$4,901.3	\$5,412.6	\$6,048.1	\$6,325.8	\$6,778.3	\$7,056.7	\$7,523.2	\$7,654.5	\$8,180.8	\$8,872.2
Working Capital & Other B/S Items												
Days Payable Outstanding	36.8	37.5	36.9	36.4	40.3	42.3	39.8	39.7	40.6	40.6	40.2	40.3
Current Assets - % of Total Revenue	8.1%	8.8%	9.6%	12.9%	11.6%	12.5%	10.6%	11.9%	11.7%	11.5%	11.5%	11.7%
Accrued Expenses - % of Non-Content Opex	20.4%	23.5%	18.6%	19.8%	18.1%	33.3%	20.5%	22.9%	23.7%	25.1%	23.0%	23.7%
Deferred Revenue - % of Total Revenue	17.5%	17.4%	17.7%	18.4%	18.1%	18.0%	17.9%	18.1%	18.0%	18.0%	18.0%	18.1%
Other Non-Current Liabilities - % of Non-Content Opex	30.7%	32.0%	33.1%	29.1%	27.8%	30.5%	27.4%	28.7%	28.6%	28.8%	28.4%	28.6%

Source: Company reports, Stifel estimates (Fiscal Year ends)

Historical Financials				Projections			
2011	2012	2013	2014	2015E	2016E	2017E	2018E
Balance Sheet							
\$508.1	\$290.3	\$605.0	\$1,113.6	\$1,399.2	\$1,568.8	\$2,012.1	\$2,737.0
289.8	457.8	595.4	494.9	494.9	494.9	494.9	494.9
919.7	1,368.2	1,706.4	2,125.7	2,750.5	3,197.1	3,578.7	3,903.6
56.0	59.9	--	--	--	--	--	--
57.3	64.6	151.9	206.3	211.8	280.8	313.0	361.1
\$1,830.9	\$2,240.8	\$3,058.8	\$3,940.5	\$4,856.4	\$5,541.5	\$6,398.8	\$7,496.6
1,046.9	1,506.0	2,091.1	2,773.3	3,655.6	4,336.9	4,955.1	5,517.4
136.4	131.7	133.6	149.9	167.3	180.1	189.4	195.6
55.1	89.4	129.1	193.0	193.0	193.0	193.0	193.0
--	--	--	--	--	--	--	--
\$3,069.2	\$3,967.9	\$5,412.6	\$7,056.7	\$8,872.2	\$10,251.6	\$11,736.3	\$13,402.6
Liabilities							
\$935.0	\$1,366.8	\$1,776.0	\$2,117.2	\$2,958.6	\$3,432.7	\$3,851.5	\$4,234.0
87.0	86.5	108.4	201.6	190.5	246.3	253.6	279.0
54.2	53.1	54.0	69.7	102.3	106.0	121.8	126.8
--	--	--	--	--	--	--	--
148.8	169.5	215.8	274.6	327.4	401.2	464.8	525.8
\$1,225.1	\$1,675.9	\$2,154.2	\$2,663.2	\$3,578.9	\$4,186.1	\$4,691.6	\$5,165.5
400.0	400.0	500.0	900.0	900.0	900.0	900.0	900.0
--	--	--	--	--	--	--	--
739.6	1,076.6	1,345.6	1,575.8	2,063.6	2,361.0	2,614.9	2,834.9
61.7	70.7	79.2	60.0	123.5	111.4	138.0	138.6
\$2,426.4	\$3,223.2	\$4,079.0	\$5,198.9	\$6,666.0	\$7,558.5	\$8,344.6	\$9,039.0
Shareholders' Equity							
\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--
0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
219.1	301.6	777.4	1,042.8	1,189.3	1,362.2	1,559.1	1,770.3
0.7	2.9	3.6	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
422.9	440.1	552.5	819.3	1,021.3	1,335.3	1,837.0	2,597.7
\$642.8	\$744.7	\$1,333.6	\$1,857.7	\$2,206.2	\$2,693.1	\$3,391.7	\$4,363.6
\$3,069.2	\$3,967.9	\$5,412.6	\$7,056.7	\$8,872.2	\$10,251.6	\$11,736.3	\$13,402.6
Working Capital & Other B/S Items							
40.8	33.8	38.5	54.6	43.0	48.8	45.9	47.3
1.8%	1.8%	3.5%	3.7%	3.1%	3.4%	3.3%	3.4%
7.0%	5.7%	5.2%	5.2%	6.3%	5.7%	6.0%	5.9%
4.6%	4.7%	4.9%	5.0%	4.8%	4.9%	4.9%	4.9%
7.9%	7.6%	7.7%	4.4%	7.6%	6.0%	6.8%	6.4%

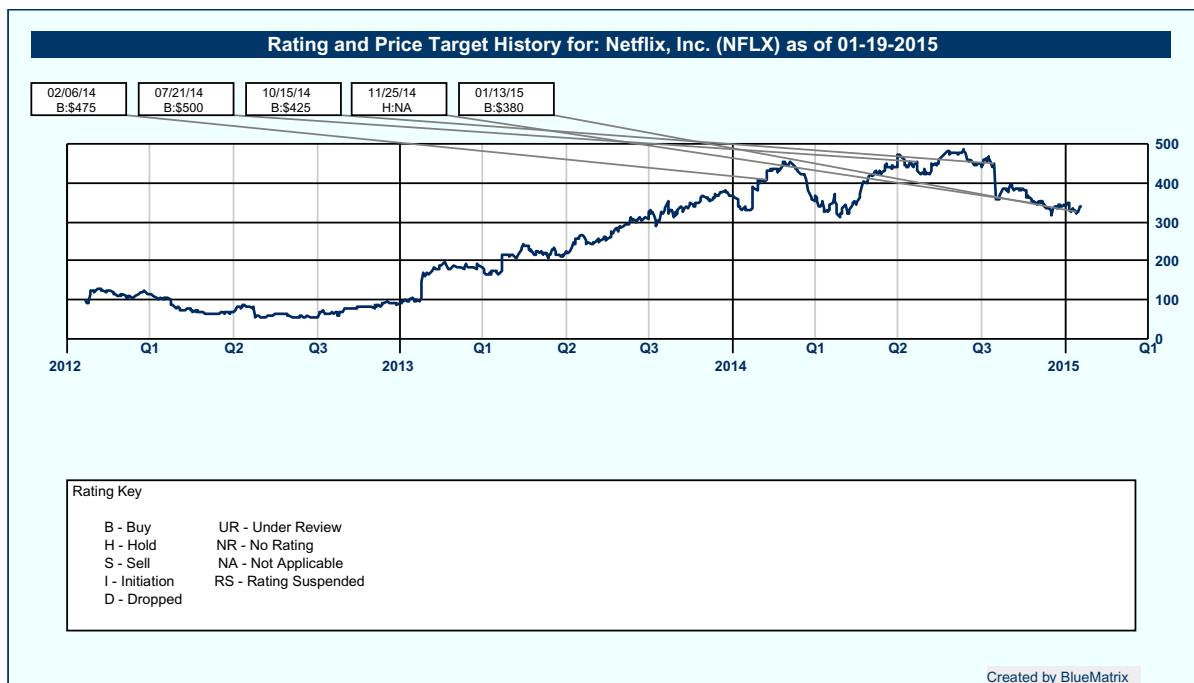
Netflix Model (USD millions)	2013				2014				2015E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E
Cash Flow Statement												
Operating Cash Flow:												
Net Income	\$2.7	\$29.5	\$31.8	\$48.4	\$53.1	\$71.0	\$59.3	\$83.4	\$38.0	\$46.4	\$57.7	\$59.9
Additions to Streaming Content Library	(591.9)	(593.5)	(878.3)	(986.0)	(749.4)	(813.3)	(1,202.5)	(1,008.3)	(1,027.3)	(1,008.4)	(1,500.0)	(1,507.7)
Change in Streaming Content Liabilities	9.7	7.3	310.2	346.6	42.2	78.4	346.8	125.8	295.2	76.8	429.7	527.4
Amortization of Streaming Content Library	485.7	510.3	553.4	572.6	600.7	639.0	686.2	730.4	765.2	861.2	934.2	971.2
Amortization of DVD Content Library	18.2	17.7	17.5	17.8	16.1	16.9	18.3	20.2	20.5	19.0	20.3	21.1
Depreciation & Amortization of PP&E & Intangibles	12.1	12.0	11.5	12.8	12.4	13.0	14.4	14.3	14.9	15.1	15.4	14.9
Stock-Based Compensation	17.7	18.0	18.5	18.9	25.8	29.3	29.9	30.3	43.0	33.5	34.9	35.1
Excess Tax Benefit from Exercise of Stock Options	(11.6)	(20.4)	(20.5)	(29.2)	(32.7)	(14.6)	(21.1)	(20.9)	--	--	--	--
Amortization of Intangible Assets	--	--	--	--	--	--	--	--	--	--	--	--
Other Non-Cash Items	26.9	1.2	2.0	0.4	2.2	3.3	3.4	6.5	--	--	--	--
Deferred Income Taxes	(6.7)	(2.0)	(2.4)	(10.8)	(13.1)	(16.6)	(7.9)	7.5	--	--	--	--
Funds from Operations (FFO)	(\$37.3)	(\$20.0)	\$43.6	(\$8.4)	(\$42.6)	\$6.3	(\$73.4)	(\$11.0)	\$149.5	\$43.6	(\$7.9)	\$122.0
Changes in Working Capital:												
Prepaid Content	\$2.7	\$25.2	\$1.5	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--	\$--
Other Current Assets	(8.4)	8.6	8.4	24.3	35.1	(20.7)	13.0	(36.1)	22.9	(8.7)	(6.2)	(13.6)
Accounts Payable	17.1	(5.1)	(5.9)	12.4	22.8	(3.1)	13.0	51.1	(12.1)	(20.2)	(1.8)	23.0
Accrued Expenses	(4.1)	10.5	(11.5)	7.0	(0.4)	59.0	(7.0)	4.1	31.3	(5.6)	(7.8)	14.6
Deferred Revenue	9.4	7.7	9.3	19.9	14.2	11.3	11.6	21.6	9.2	12.8	15.2	15.7
Other Non-Current Assets & Liabilities	8.4	7.1	(10.8)	(13.7)	7.3	3.1	5.3	(68.2)	62.0	(12.4)	(1.6)	15.6
Changes in Working Capital	\$25.1	\$53.9	(\$9.0)	\$49.9	\$79.0	\$49.7	\$35.9	(\$27.5)	\$113.3	(\$34.1)	(\$2.2)	\$55.4
Operating Cash Flow	(\$12.2)	\$33.9	\$34.7	\$41.4	\$36.4	\$56.0	(\$37.4)	(\$38.5)	\$262.7	\$9.5	(\$10.0)	\$177.4
Investing Cash Flow:												
Acquisition of DVD Content Library	(\$21.2)	(\$14.0)	(\$15.5)	(\$15.2)	(\$14.9)	(\$21.0)	(\$15.5)	(\$23.4)	(\$15.7)	(\$22.8)	(\$17.8)	(\$20.1)
Purchases of Short-Term Investments	(235.6)	(148.1)	(116.1)	(52.5)	(60.5)	(170.9)	(123.9)	(71.6)	--	--	--	--
Proceeds from Sale of Short-Term Investments	61.2	34.0	81.2	151.1	143.0	89.7	107.6	45.0	--	--	--	--
Proceeds from Maturities of Short-Term Investments	4.4	5.4	48.9	2.2	3.1	92.0	32.1	14.7	--	--	--	--
Capex	(12.2)	(8.1)	(10.8)	(23.1)	(13.3)	(19.9)	(21.0)	(15.5)	(18.1)	(21.1)	(23.2)	(15.3)
Other Assets	4.1	1.1	(1.3)	2.1	0.3	1.1	0.3	(0.4)	--	--	--	--
Investing Cash Flow	(\$179.3)	(\$127.7)	(\$13.7)	\$64.6	\$57.6	(\$29.0)	(\$20.4)	(\$51.1)	(\$33.7)	(\$43.9)	(\$41.0)	(\$35.4)
Financing Cash Flow:												
Proceeds from Issuance of Common Stock	\$39.1	\$28.8	\$25.6	\$31.0	\$32.4	\$14.5	\$9.9	\$3.8	\$--	\$--	\$--	\$--
Issuance Costs	--	--	--	--	(6.7)	(0.4)	--	--	--	--	--	--
Principal Payments of Lease Financing Obligations	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	--	--	--	--
Excess Tax Benefit from Exercise of Stock Options	11.6	20.4	20.5	29.2	32.7	14.6	21.1	20.9	--	--	--	--
Repurchase of Common Equity	--	--	--	--	--	--	--	--	--	--	--	--
Changes in Debt	271.2	--	--	--	400.0	--	--	--	--	--	--	--
Financing Cash Flow	\$321.6	\$49.0	\$45.8	\$59.9	\$458.2	\$28.5	\$30.7	\$24.4	\$--	\$--	\$--	\$--
Effects of FX	(\$2.3)	(\$2.6)	\$1.6	(\$0.1)	\$0.3	\$1.3	(\$3.8)	(\$4.4)	\$--	\$--	\$--	\$--
Beginning Cash	\$290.3	\$418.1	\$370.7	\$439.1	\$605.0	\$1,157.5	\$1,214.2	\$1,183.2	\$1,113.6	\$1,342.6	\$1,308.2	\$1,257.2
(+/-) Net Changes in Cash	127.8	(47.4)	68.4	165.9	552.5	56.8	(31.0)	(69.6)	229.0	(34.4)	(51.0)	142.0
(+/-) Restatements / Adjustments (pre-10-Q / K)	--	--	--	--	--	--	--	--	--	--	--	--
Ending Cash	\$418.1	\$370.7	\$439.1	\$605.0	\$1,157.5	\$1,214.2	\$1,183.2	\$1,113.6	\$1,342.6	\$1,308.2	\$1,257.2	\$1,399.2
Reported Free Cash Flow (Non-GAAP)	(\$41.5)	\$12.9	\$7.1	\$5.2	\$8.4	\$16.3	(\$73.7)	(\$77.7)	\$229.0	(\$34.4)	(\$51.0)	\$142.0

Source: Company reports, Stifel estimates (Fiscal Year ends Dec. 31)

Historical Financials				Projections			
2011	2012	2013	2014	2015E	2016E	2017E	2018E
\$226.1	\$17.2	\$112.4	\$266.8	\$202.0	\$314.0	\$501.7	\$760.7
(2,320.7)	(2,515.5)	(3,049.8)	(3,773.5)	(5,043.4)	(5,600.1)	(6,252.0)	(6,706.2)
1,460.7	762.1	673.8	593.1	1,329.1	771.5	672.8	602.4
699.1	1,591.2	2,122.0	2,666.3	3,531.8	4,394.9	5,179.0	5,749.6
96.7	65.4	71.3	71.5	80.9	77.2	73.3	69.4
43.7	45.5	48.4	54.0	60.3	72.8	84.9	95.7
61.6	73.9	73.1	115.2	146.5	172.8	196.9	211.2
(45.8)	(4.5)	(81.7)	(89.3)	--	--	--	--
--	--	--	--	--	--	--	--
(4.1)	(8.4)	30.5	15.3	--	--	--	--
(18.6)	(30.1)	(22.0)	(30.1)	--	--	--	--
\$198.8	(\$3.2)	(\$22.0)	(\$120.6)	\$307.2	\$203.1	\$456.6	\$782.8
\$6.2	(\$3.9)	\$29.4	\$--	\$--	\$--	\$--	\$--
(4.5)	(1.5)	32.8	(8.8)	(5.5)	(69.0)	(32.3)	(48.0)
25.0	(3.8)	18.5	83.8	(11.1)	55.8	7.3	25.4
67.9	9.8	1.9	55.6	32.6	3.6	15.8	5.0
21.6	20.7	46.3	58.8	52.8	73.8	63.6	61.0
2.8	4.7	(9.0)	(52.4)	63.6	(12.2)	26.6	0.6
\$118.9	\$26.0	\$120.0	\$137.1	\$132.4	\$52.1	\$81.0	\$44.0
\$317.7	\$22.8	\$97.9	\$16.5	\$439.6	\$255.2	\$537.6	\$826.8
(\$85.2)	(\$48.3)	(\$65.9)	(\$74.8)	(\$76.3)	\$--	\$--	\$--
(223.8)	(477.3)	(550.3)	(426.9)	--	--	--	--
51.0	283.0	347.5	385.3	--	--	--	--
38.1	29.4	60.9	142.0	--	--	--	--
(49.7)	(41.5)	(54.2)	(69.7)	(77.7)	(85.6)	(94.2)	(101.9)
3.7	8.8	5.9	1.3	--	--	--	--
(\$265.8)	(\$245.9)	(\$256.1)	(\$42.9)	(\$154.0)	(\$85.6)	(\$94.2)	(\$101.9)
\$219.6	\$4.1	\$124.6	\$60.5	\$--	\$--	\$--	\$--
--	--	--	(7.1)	--	--	--	--
(2.1)	(1.1)	(1.2)	(1.1)	--	--	--	--
45.8	4.5	81.7	89.3	--	--	--	--
(199.7)	--	--	--	--	--	--	--
198.1	(1.9)	271.2	400.0	--	--	--	--
\$261.7	\$5.6	\$476.3	\$541.7	\$--	\$--	\$--	\$--
\$--	(\$0.2)	(\$3.5)	(\$6.7)	\$--	\$--	\$--	\$--
\$194.5	\$508.1	\$290.3	\$605.0	\$1,113.6	\$1,399.2	\$1,568.8	\$2,012.1
313.6	(217.8)	314.7	508.6	285.6	169.6	443.4	724.9
\$508.1	\$290.3	\$605.0	\$1,113.6	\$1,399.2	\$1,568.8	\$2,012.1	\$2,737.0
\$186.6	(\$58.2)	(\$16.3)	(\$126.7)	\$285.6	\$169.6	\$443.4	\$724.9

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For a price chart with our ratings and target price changes for NFLX go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=NFLX>

Prior to November 25, 2014, a different Stifel research analyst provided research coverage of Netflix, Inc. and its securities. Netflix, Inc.'s price chart for the period prior to November 25, 2014 reflects the rating and price target history of the former Stifel research analyst for such issuer and its securities.

Stifel expects to receive or intends to seek compensation for investment banking services from Netflix, Inc. in the next 3 months.

Stifel makes a market in the securities of Netflix, Inc..

Stifel research analysts receive compensation that is based upon (among other factors) Stifel's overall investment banking revenues.

Our investment rating system is three tiered, defined as follows:

BUY -For U.S. securities we expect the stock to outperform the S&P 500 by more than 10% over the next 12 months. For Canadian securities we expect the stock to outperform the S&P/TSX Composite Index by more than 10% over the next 12 months. For other non-U.S. securities we expect the stock to outperform the MSCI World Index by more than 10% over the next 12 months. For yield-sensitive securities, we expect a total return in excess of 12% over the next 12 months for U.S. securities as compared to the S&P 500, for Canadian securities as compared to the S&P/TSX Composite Index, and for other non-U.S. securities as compared to the MSCI World Index.

HOLD -For U.S. securities we expect the stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. For Canadian securities we expect the stock to perform within 10% (plus or minus) of the S&P/TSX Composite Index. For other non-U.S. securities we expect the stock to perform within 10% (plus or minus) of the MSCI World Index. A Hold rating is also used for yield-sensitive securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

SELL -For U.S. securities we expect the stock to underperform the S&P 500 by more than 10% over the next 12

months and believe the stock could decline in value. For Canadian securities we expect the stock to underperform the S&P/TSX Composite Index by more than 10% over the next 12 months and believe the stock could decline in value. For other non-U.S. securities we expect the stock to underperform the MSCI World Index by more than 10% over the next 12 months and believe the stock could decline in value.

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