Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economic Theories

Diploma Thesis

Financial analysis of Netflix

Bc. Anca-Ioana Mos

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Anca-Ioana Mos

Economics and Management
Economics and Management

Thesis title

Financial analysis of a chosen firm

Objectives of thesis

The main objective of the master thesis is to analyze and appraise the financial situation of a chosen company in order to visualize what gives the company its' position in the industry. In this process we will not only analyze the company's liquidity in short- and long-term periods of time but, our aim is to understand how its' capital impacts on solvency. The competitiveness will also be a factor illustrated in detail, followed by an analysis of the whole impact of the internal and external pressures.

Methodology

In order to evaluate the company's financial situation, there will be used both qualitative and quantitative methods. In the process of obtaining an evaluation, primary and secondary data will be used for gathering results. As part of the primary data, surveys will be taken into aspect while in the case of secondary data, financial statements from previous years will be gathered as a source of information. In order to assess the objectives of the thesis we will also state hypothesis, whose main purpose is the provide information about company's condition.

The proposed extent of the thesis

60-80

Keywords

financial analysis, competitiveness, financial situation, solvency, capital, risks, evaluation

---

Recommended information sources

BARAN, D. et al. 2011. Financial analysis of the company I., EPI Kunovice.
Casson. H.N. 1991, How to overcome competition, Tynron Press, Syngapore
Cochran P. L., Wood R. A. 1984. Corporate Social Responsibility and Financial Performance. AMJ, 27
Christoffersen, P. F. 2012, Elements of Financial Risk Managament, Second Edition, Elsevier
Jenster, P. V., Hussey, D. 2001. Company analysis: Determining strategic capability. Chichester

---

Expected date of thesis defence

2021/22 WS – FEM

The Diploma Thesis Supervisor

Ing. Pavel Srbek, Ph.D.

Supervising department

Department of Economic Theories

Electronic approval: 11. 12. 2020	Electronic approval: 22. 1. 2021
doc. PhDr. Ing. Lucie Severová, Ph.D.	**Ing. Martin Pelikán, Ph.D.**
Head of department	Dean

Prague on 28. 11. 2021

Declaration

I declare that I have worked on my diploma thesis titled "Financial analysis of Netflix" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 28.11.2021 ______Anca-Ioana Mos _____

Acknowledgement

I would like to thank Ing. Pavel Srbek, Ph.D. and all other persons, for their advice and support during my work on this thesis.

Financial analysis of Netflix

Abstract

Companies need to conduct extensive financial analysis to evaluate their capabilities both internally and externally. First, the vertical analysis allows the company to obtain valuable insights about its internal environment. Second, the horizontal analysis helps identify the strengths in comparison with the external environment of the company. The company might complete these analytical tools with a ratio analysis in order to identify room for growth. In the course of this thesis, the objective will be to evaluate the financial performance of a company working in the sector of media and entertainment. The industry overview will help understand how threats should be addressed and how opportunities should be seized. The questionnaire will then provide valuable insights from the customers of the company, as part of the success of the business model relies on their experience. To summarize, we will dive into the financial performance of Netflix as well as its direct competitors, with the aim of offering tailored recommendations and practical measures to improve the overall financial strategy and performance of the company.

Keywords: financial performance, internal analysis, external analysis, verticality, horizontality, market, media and entertainment, competition

Finanční analýza Netflixu

Abstraktní

Společnosti potřebují provést rozsáhlou finanční analýzu, aby zhodnotily své schopnosti jak interně, tak externě. Za prvé, vertikální analýza umožňuje společnosti získat cenné poznatky o jejím vnitřním prostředí. Za druhé, horizontální analýza pomáhá identifikovat silné stránky ve srovnání s vnějším prostředím společnosti. Společnost může doplnit tyto analytické nástroje o poměrovou analýzu, aby identifikovala prostor pro růst. V průběhu této práce bude cílem zhodnotit finanční výkonnost společnosti působící v sektoru médií a zábavy. Přehled odvětví pomůže pochopit, jak by se měly řešit hrozby a jak využít příležitosti. Dotazník pak poskytne cenné poznatky od zákazníků společnosti, protože úspěch obchodního modelu závisí na jejich zkušenostech. Abychom to shrnuli, ponoříme se do finanční výkonnosti Netflixu i jeho přímých konkurentů s cílem nabídnout přizpůsobená doporučení a praktická opatření ke zlepšení celkové finanční strategie a výkonnosti společnosti.

Klíčová slova: finanční výkonnost, interní analýza, externí analýza, vertikalita, horizontalita, trh, média a zábava, konkurence

Table of Contents

List of figures

List of tables

1 Introduction

The 21st century witnessed the surge of telecommunications, internet services and technological devices. These major evolutions have had a tremendous impact on the sector of media and entertainment, with the rise of streaming services available at all time and locations on the planet. Consequently, for the actors of this sector, the market and specifically the number of customers has skyrocketed. Nowadays, streaming platforms offer their services to hundreds of millions of subscribers. As the market develops and grows bigger, so does the competition, the quality of the service and the means to obtain growing market shares. The intensified competition drives companies to increase the profitability and productivity of both the human and capital factors. To begin with, developing a strong financial strategy is the backbone of the success of the company.

My thesis will focus on the evaluation of the financial performance of Netflix through specific key indicators. With the results gained from the analysis, I will draw up an assessment of the company's weaknesses and provide practical measures in order to tackle them. These measures will be adapted to its current needs and will aim to efficiently use the available financial capacities to grow.

The first part of the thesis will establish a literature review focusing on the scholar approach to financial analysis in all business environments. That is, I will define the terms and approaches that evaluate how important the financial performance drives the success and growth of a company. A discussion will then assess the accuracy of the studied terms and theories in the context of the company.

The second part will focus on the current financial situations of Netflix and its competitors in the sector of media and entertainment. I will detail the vertical and horizontal analysis of the company and gather the first insights to build the practical measures and recommendations.

The third part will focus on the ratio analysis, to help get a deeper understanding of how the company should drive its financial capacities to their maximum.

In the fourth part, I will discuss how the company should address threats and benefit from opportunities, through the competitor's analysis.

Finally, the fifth part will be dedicated to analyzing the results obtained and discuss how the measures suggested would help the company grow market shares by being financially healthier.

2 Objectives and Methodology

2.1 Objectives

The objectives of this diploma thesis are aimed at evaluating the financial performance of a company that is situated in the media and entertainment industry globally. The process will be focused not only on the traditional type of financial analysis with the help of horizontal and vertical analysis to assess the levels of liquidity and assets management on the short and long-term but also by applying financial ratios to the financial data listed in the balance sheet and income statement. The competitiveness will also be an analysed factor, as contextualization of the results obtained is necessary in order to comprehend the real financial positioning of our company within a certain industry.

Taken into account all the above-mentioned objectives we will focus on answering the following research questions:

- Can the limited and traditional tools used for our financial analysis fully assess the real performance of our chosen company taking into the account its competitors?
- Has the pandemic played a major role in the financial positioning of our company in 2020 leaving misleading traces concerning the actual financial performance?

2.2 Methodology

In this master thesis, both qualitative and quantitative analysis techniques will be used in order to evaluate the financial performance of our chosen firm. The process will start with the literature review part in which we will gather relevant information about the tools we will need to use in order to do the actual financial analysis. This part will involve not only listing the financial tools, but also its users, steps and limitations. Having in mind the types of financial analysis and tools, then we will conduct the evaluation of both the balance sheet and the income statement during a seven-year period of time, between 2014 and 2020. The reason for choosing this longevity for our research is to obtain a more accurate overall performance of the company and to avoid bias due to certain limitations of financial analysis, such as seasonality and therefore misleading financial results. Taking into account the recent events of the sanitary crisis, we will also treat this with a part in the thesis, solely decidicated to it in order to assess our level of bias when compiling results. The main source of information and data used in this thesis will be gathered from different authors, case studies and actuality websites where valuable information can be found due to the popularity of our chosen firm. The analysis will be done by adopting a traditional approach of the financial analysis with the help of horizontal, vertical when it comes to the financial statements and ratio analysis. This part will be treated as a base for our financial analysis but it will be not sufficient. For this reason, in order to bring value to the results, a contextualization of the ratios will be implied by involving the financial situation of certain competitors in the industry. The competitor have been chosen based on the top performing firms in the industry, next to our chosen firm. The contextualization and comparison will be done with the help of five main ratios such as activity, liquidity, profitability, financing and market ratios in order to achieve a better overview of the positioning of our chosen company in the industry. After conducting the analysis, we will look into the main conclusions gathered. A questionnaire will be conducted in order to see the consumer's behaviour and tendencies when it comes to our chosen firm, tool that will also help us conclude whether the consumer behaviour changed during a certain point in time and help with understanding the level of limitations. However, this is not the only use of the questionnaire, which in fact will showcase data regarding our two research questions. Financial analysis solely has its own limitations and for this reason having an insight from the customers of our chosen firm can lead to a much more qualitative result. A discussion will be built based on the research questions we have listed, as part of the objectives of this thesis in order to evaluate the results of our financial analysis. By answering these research questions we will be able to assess the accuracy of our financial analysis and also bring more value to our research by looping in the sanitary crisis that affected many businesses in the last year. Based on these findings we will be able to assess what could be some of the reasons for the obtained financial performance of the company as well as possible improvements necessary to improve the overall competitiveness.

3 Literature review

3.1 Definition of financial analysis

Financial analysis is the process through which a company can evaluate their profitability by using logical connections. These connections are made between all the listed items in the financial statements which are a collection of data kept in a historical manner and generated yearly in order to assess the performance of the company at a certain point in time Ravinder (2013). These financial statements are the balance sheet, the income statement and the cash flow statement.

This analysis of the financial performance of the company is also used in order to generate strategic management ideas to generate or maintain a competitive advantage on the market, all by using monetary terms according to Ravinder (2013).

According to Mishra (2015), the term “financial analysis” is composed of two terms – “financial” and “analysis”. The first term is meant to proclaim that the data that is going to be analysed is expressed in monetary terms and both and short terms assets and debts are exhibited in the financial statement mentioned in this chapter before. The term “analysis” is meant to highlight that those financial values don’t actually bring any value to the company’s strategy unless they are interpreted. By using this interpretation method, the financial values and simplified and methodologically translated into strengths, weaknesses and strategic moves. The two terms are complementary and interconnected as “Analysis is useless without interpretation and interpretation without analysis is difficult or even impossible.”

O'Regan (2016) enforces this argument in his book Financial Information Analysis by highlighting that the analysis not done merely on intuitive thinking but based on facts and the use of the financial data is certainly valuable.

However, the interpretation does not solely rely on the financial values but also the interpretation is frequently hard to understand unless backed up with changing trends, laws and market changes. Fridson, Alvarez (2011) state the importance of perseverance and persistence in order to fully obtain results based on the reality and not just numbers.

The Balance Sheet

In short the balance sheet is a financial statement that reports one company's liabilities and shareholder's equity on the right side and the assets on the left, in order to evaluate the business according to Fernando (2020). It is charactirized by this „double entry“ which not only verifies the equality of the both sides, left and right, but also states the correlation between the two sides, explainin how two transations take place simultaneously on the accouts (sides) according to Kulikova, Garyntsev and Gafieva (2015). In other words, it represents „snapshot“ of what a company owns but also what it owes, at a certain point in time.

The Income Statement

In essence the role of the income statement is to show the profit and the loss of a buisness at a certain point in time. As we will see later in this thesis, according to Chen (2021), the operating activities will play a vital role in the process of gathering financial conclusions, the income stamenent generates the profit or loss by substracting expenses from both operating activities and non-operating ones. We will list further the components and significance of each later in this thesis, when we will analyse the concrete example of our chosen company.

The Cash Flow statement

Mainly the cash flow statement will act a viaduct between the balance sheet and the income statement, as it will ease the understanding of how certain transactions were made, in and out of the business. According to Corporate Finance Institute (2021), this financial statement has 3 sections: operating activities, investing activities and financial activities whose significance will be also explained further in the practical part of this thesis.

3.1.1 Objectives of the Financial Analysis

The main objective of the financial analysis is to help decision making by providing valuable information about the performance of a company. As mentioned before, the operational side of the company alongside with the financial one will play key role into determining a good evaluation of the company's situation at a certain moment in time. According to Ravinder

(2013), the objectives of the financial analysis could be mainly narrowed down to 6 main ones:

- Finding out the financial stability
    - The evaluate the earnings capacity
    - To estimate the possible future growth
    - To estimate the possibility of paying short and long-terms debts
    - To evaluate the efficiency of the business

3.1.2 Users and significance of financial analysis

O'Regan (2016) clearly stated and categorized the main users of the financial information into the following:

- Shareholders and investors: since they represent the party that doesn't have such a felt involvement with the company or its operations, they are merely interested in how the business has been performing over a period of time and of course expect a satisfactory result in order to benefit their investment in the company. According to (Meaning, significance and objectives of financial analysis), the financial data helps them predict future changes such as bankruptcy and failure in general and help take preventive measure.
- Financial analysts: as mentioned before, the analysis of all the financial information has the role of simplifying the listings of only numbers and to interpret them. This is the role of the financial analysts, to "translate" and make comprehensible all the valuable information to the ones that don't have the knowledge of the special terms used in financial analysis. The analysis helps a financial analyst to assess the operational efficiency, analyse the financial strengths and weaknesses and thus the current position of the analysis, evaluate and assess the types of assets and liabilities, generate information with the help of ratios according to Meaning, Significance and Objectives of Financial Analysis (2020). Management: their role in using the financial data is to assess future decisions and to allocate roles in order to generate performance and a competitive advantage. The financial analysis can help management to see whether the resources of the firm are used in an efficient manner, evaluate the financial condition of the firm and the success of the company's operations, to appraise one individual's performance and investigate future prospects according to Meaning, Significance and Objectives of Financial Analysis (2020).

- Employees: Since more and more information is made available and public and the employees' have a better awareness of the schemes that have been made before, they use financial information in order to evaluate whether their work environment is safe in terms of financial capacities and chances of promotions. The significance of the financial analysis will be in this case to see whether price changes or products or services will be able to sustain possible wage increases according to Meaning, Significance and Objectives of Financial Analysis (2020).
- Lenders: they are the parties whose interests lie upon knowing if the company they lent, possesses the cash necessary to have their loans repaid and the value of any given assets. The financial analysis plays a significant role in the case of lenders in order to visualize the profitability of the company over a period of time, to assess the connection between various sources of funds and to assess future risk based on certain patterns of performances, according to Meaning, Significance and Objectives of Financial Analysis (2020).
- Taxation authorities: they sole objective is to determine the tax liability they are entitled to take from the company based on their revenues.
- Others: this refers to any individual from the wide public who might be interested in finding out the company's performance for personal purposes but also refers to organizations whose goal is to point out certain possibly unethical operating processes to the detriment of financial data gathered.

3.1.3 Types of financial analysis

In order to do the financial analysis of a company there are several methods, the analysis itself being of three types, vertical analysis, horizontal analysis and ratio analysis. Ravinder (2013) in his study state that in order to interpret the position of a company the vertical and horizontal analysis are the ones allowed and most used. We will go into detail more about the ratio analysis in a full subchapter, later in this work.

Vertical

The vertical financial analysis represents the analysis made by comparing different components but which represent the same unit. It is a static analysis which takes into account the units and their total for a given period of time. Examples of vertical analysis are the comparison of current assets to current liabilities or debt to equity. According to Friedlob and Schleifer (2003), one key characteristic is that vertical analysis concentrates on making a comparison at a single point in time, this being the main difference as to what horizontal analysis is meant to do

Lakada, Lapian and R. Tumiva (2017) state that the data used in vertical analysis is secondary data gathered from the financial statements such as the balance sheet, income statement, cash flow but also from any other sources that might be relevant for the analysis. Vertical analysis is shown as a percentage of one item from another item. Once we have chosen a certain point in time, the same financial year then the formula can be applied. The formula for vertical analysis is the following:

$$\frac{Amount\ of\ indiividual\ item\ \ x\ 100}{Amount\ of\ base}$$

Where:

- amount of individual item - represents the chosen analysed item
- Amount of base – represents the amount of benchmark

According to Lakada, Lapian and R. Tumiva (2017), by multiplying with 100 we obtain the required value as a percentage. This percentage's aim is to "measure, know, describe, define and compare the proportions of the items".

Horizontal

In order to generate trends and insights about future strategic decisions, horizontal analysis is used to compare certain amounts over multiple periods in time. Lakada, Lapian and R. Tumiva, (2017) mention that in this case we can evaluate how company's changes in time, have influenced the financial situations. As stated before, the main key different characteristic in order to distinguish horizontal and vertical analysis is the time span they are treating. The formula for obtaining the values in case of horizontal analysis is the following:

$$\frac{Rupiah\ change\ \ x\ \ 100}{Amount\ of\ the\ item\ in\ the\ base\ year}$$

Where:

- Rupiah change - which is equal to the value obtained by subtracting the amount of the base year from the amount of the item in comparison
- Amount of the item in the base year – is basically the amount used in the Rupiah change calculation also.

By multiplying with 100 we obtain the required value as a percentage, which is used to highlight any increases or decreases that have taken place during the chose period of years.

3.1.4 Techniques and tools for financial analysis

O'Regan (2016) illustrates that in order to analyse the financial data, meaning putting it into context there are certain techniques and tools needed. However, like mentioned before the raw financial data gathered from the financial statements, is not self-sufficient for understanding the actual reality, meaning the macro context has to be also taken into account. This argument is also reinforced by Bull (2008), by suggesting that participants in financial analysis should look at any other indicators, financial or non-financial in order to "measure its true and sustainable success".

O'Regan (2016) sees that at a general, more simplified level, the book mentions two main techniques used in fundamental analysis:

- Common-size statements;
- Ratios

A very important concept he is giving importance in his work, is the concept of time and thus, the relativity of the financial information to other information. To fully understand his point, he illustrates how having only data concerning one single point in time will not suggest any new valuable conclusion about new trends or performance, unless it is compared to a previous point in time in order to do a comparison. In other words, if we only have the data concerning the revenue for one year, it is ideal to contextualize the information by comparing it to the revenue from last year for example, or to any other point in time, depending on the type of conclusions we are seeking.

We will look deeper later into the comparison between our chosen company for this thesis and its nearest competitors regarding the end results of the financial analysis. But for now, as O'Regan (2016) mentioned in his book, it is important to understand that the contextualization of the financial information could lead to "good" or "poor" results in terms of performance, which is subjective. He illustrates that comparing the efficiency of two companies is not the best approach, as the results should be treated as "value-free' meaning

what is “acceptable” for one of the companies could not be for the other. He states that it is vital for the financial information user to be aware of his or her “perspectives, prejudices and paradigms.”
Bull (2008) considers it also necessary that perspectives differ from one company to the other, and that each business might have a different “destination”, meaning the results obtained from financial analysis should primarily be treated as a guide or direction but certainly not as a target or point of referral of any other competitor out there.

Common-size statement

Helfert (2001) defines the common-size financial statement as being simply the analysis of any financial statement by using percentages. In the case of the balance sheet, assets are taken as 100% to which all the other elements are compared to while in case of the income statement the net income is viewed as a 100% element of comparison.
O'Regan (2016) shows that this method is mainly used for assessing comparison between different firms’ performance. There are certain advantages to this approach. Firstly, having a specific common base, such as net sales or revenue as seen before, facilitates the relation between elements. Secondly, having expressed both balance sheet and income statement in terms of percentages, it is easy to generate a deeper understanding of trends and “cause-effect” links between relative changes over time. Thirdly, being easily graphed, this technique for financial analysis helps and fosters the reach to specific industry characteristics in terms of performance and positioning.
Despite of the many advantages the common-size statement technique implies, there is one main disadvantage that occurs when the analysed firm’s size is fluctuating. As a result, when having an in between period of time type of comparison, there could be some difficulties into reaching qualitative results due to a constant state of flux.

Example of Common-size Income Statement:

£ (000s)					Common size percentage			
1	2	3	4	Years	1	2	3	4
500	600	700	800	Sales	100	100	100	100
125	180	210	240	Cost of sales	25	30	30	30
100	90	112	136	Selling expenses	20	15	16	17
50	66	84	104	Admin. expenses	10	11	12	13
225	264	294	320	Operating profit	45	44	42	40
10	12	14	40	Interest	2	2	2	5
215	252	280	280	Profit before tax	43	42	40	35
75	96	98	96	Corporation tax	15	16	14	12
140	156	182	184	Profit after tax	28	26	26	23
40	48	56	80	Dividends	8	8	8	10
100	108	126	104	Retained profits	20	18	18	13

Source: O'Regan (2016)

As we can see in the example above, the sales are taken as a common base for the comparison. They are being valued at a 100% rate during a period of four different years. The raw data from the left side is visually simplified by being represented as a percentage on the right side, helping in the process of gathering important information.

3.1.5 Financial ratios

I decided to treat the topic of financial ratios in a wider manner, by explaining it a whole subchapter. According to O'Regan (2016), the fundamental analysis of a firm with the use of ratios, weights as being the most important tool or technique for reducing the abundance of financial data.

Whittington (1980) has identified two main uses of financial ratios. The first one is the traditional one, also called normative. Its name suggests a comparison with a norm, also called a standard value. Secondly, the other main use of the financial ratios is the positive use, which is situated in an empirical context this time, in order to make predictions.

Barnes (1987) defines the use of financial ratios as being for multiple purposes, ratios which in the end actually affect the performance of the company in front of a specific target or objective set. These uses include assessment of a firm's ability to pay its debts, evaluation, managerial performance and so on.

Bull (2008) connects the use of ratios to the assessment of a firm's efficiency, effectiveness and efficacy, calling them "The Three Eff's" later in his book. He defines efficiency as "the economic use of scarce resources", effectiveness as "the production of a result or effect" and efficacy as "the production of the results intended". As the three terms are all included in the uses of financial ratios, the later one – efficacy is not as so easily pinned down using the financial terms and data as it is in the case of the effectiveness and efficiency. We will compute more details about which ratios corresponds to each of these assessments later in this chapter.

Due to the large number of ratios, a thorough and more specific interpretation can be done with the help of the results. Hence, they are separated into 5 main categories: activity ratios, liquidity ratios, financing ratios, profitability ratios and finally investment ratios. The following table is listing the categories of ratios with specific examples that will be detailed within this work:

Category	Examples
Activity	• Asset turnover ratio • Fixed asset turnover ratio • Inventory turnover ratio • Days Sales Outstanding ratio
Liquidity	• Current ratio • Quick ratio / Acid test
Leverage	• Long-term debt ratio • Debt ratio • Debt to equity
Profitability	• Operating margin ratio • Return on total assets ratio • Return on common equity ratio • Return on invested capital ratio • Basic earning power ratio • Net Profit Margin
Market	• Earnings per share ratio • Earnings ratio

	• Dividend yield ratio

Source: Own creation of the author

As we can see and already conclude, when it comes to assessing the efficiency of a firm, the activity ratios used are the stock, debtors or creditors days ratio and asset turnover ratio. As the table is quite self-explanatory, we will start listing the ratios in detail based on these categories.

Activity Ratios

Also known as asset management ratios according to Brigham & Houston (2019), they are used to measure the efficiency, more specifically how effectively a firm is managing its assets. In the view of the authors, efficiency within a firm's asset management is equal to obtaining a balance in regarding to the ownerships of assets.

A first ratio from the activity ratios category is the asset turnover ratio. Sales are divided by the total assets, and the result is meant to show how effectively the total assets are used in the process of generating revenue. The formula for this ratio is the following:

$$Asset\ turnover\ ratio = \frac{Sales}{Total\ assets}$$

Fixed asset turnover ratio shows efficiency in terms of using plant and equipment to generate sales. The formula is the following:

$$Fixed\ assets\ turnover\ ratio = \frac{Sales}{Net\ fixed\ assets}$$

Inventory turnover ratio is another type of ratio which is meant to show how many times the inventory is "turned over" in a year. More specifically how well the firms are holding on to the inventory in the storage and whether is a good decision or not. The sales are divided by inventories, the formula being the following:

$$Inventory\ turnover\ ratio = \frac{Sales}{Inventories}$$

Days sales outstanding is another ration taking part in this category of activity ratios, which takes into account the account receivables of a firm and annual sales. The result obtained are meant to show the wait time a firm has to endure in order to receive the cash they are owed and thus, the ability to pay its debts or bills. There are two possible formulas for this ratio. The first one takes into account the average sales per day and account receivables, the formula being the following:

$$DSO = Days\ Sales\ Outstanding = \frac{Account\ receivables}{Average\ sales\ per\ day}$$

The second option in order to calculate the days sales outstanding ratio, is by taking into account the total of account receivables that is divided by the total annual sales this time. All the result is then divided by 365, a fixed number representing the number of days within a year period of time. The formula is the following:

$$DSO = Days\ Sales\ Outstanding = \frac{Accounts\ receivables}{Annual\ Sales/356}$$

Liquidity ratios

Liquidity ratios are used to assess the conversion of assets into cash in order to better address the payment of the liabilities. For this category of ratios, there are two main ratios used, the current ratio and the quick ratio which is also called the acid test ratio.

The current ratio is generated by dividing current assets over current liabilities. With the help of this ratio, the analysis concerning the ability of paying short-term debts due within 1 year can be done in detail. The formula is the following:

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities}$$

The second most important ratio in this category is the quick ratio. The difference between this ratio and the current ratio is that inventories are being deducted from current assets, only after the result is divided by current liabilities. By using this stated deduction, we are not relying at all on the inventories which in fact represent the assets with the most possible losses if liquidation were to occur. The formula for the quick ratio is the following:

$$Quick\ ratio = Acid\ test = \frac{Current\ assets - Inventories}{Current\ liabilities}$$

Leverage ratios

O'Regan (2016) In what concerns the financing ratios, often also called debt management ratios as the author called them, they are used to determine a firm's debts. The optimal amount of debt is hard to be determined but there are three simple ways to look at a firm's debt and that is using three main ratios: the long term debt ratio, the debt ratio and the times-interest-earned ratio.

The long-term debt ratio is used to assess the capability of a company to pay its long-term borrowings, that are due in more than one year. Generated as a percentage, it is obtained by dividing the long-term debt over the total assets and it is done on a yearly basis to determine the leverage trend.

$$Long - term\ Debt\ ratio = \frac{Long - term\ debt}{Total\ assets} = \frac{Long - term\ debt}{Total\ debt + Equity}$$

The debt ratio, also called the total debt to total capital ratio is generated as a percentage, by dividing the total amount of debt from the balance sheet to the total capital. Logically, the lower the ratio, the better in order to acquire new investments from creditors and lower the chances of facing financial risks. The formula for the ratio is the following:

$$Debt\ ratio = \frac{Total\ debt}{Total\ capital} = \frac{Total\ debt}{Total\ debt + Equity}$$

The times interest ratio is meant to evaluate whether a firm is capable of meeting its annual interest payments. The formula is a division of earnings before interest and taxes by the amount of interest charges:

$$Times - interest - earned\ ratio = TIE\ ratio = \frac{EBIT}{Interest}$$

The debt-to-equity ratio is part of the leverage ratio which is meant calculate the leverage level of a firm compared to the equity levels. The importance of this ratio is high as it can indicate how a company is sourcing it's financing through debt compared to wholly owned funds. The formula for this ratio is the following:

$$Debt - to - equity\ ratio = \frac{Total\ liabities}{Equity}$$

Profitability ratios

Helfert (2001) brings up again the effectiveness 'evaluation of a firm being possible with the help of the financial ratios. Specifically, the profitability ratios show how assets' employment has been able to generate profit. According to the author the timing difference and the nature of the chosen values might distort the end results gathered from the ratios. The importance of a very careful evaluation and analysis is also strengthened by Brigham & Houston (2019) who define the profitability ratios as being the providers of clues of which decision to take when it comes to the future of the firm. He added another value to the characterization of these ratios, the quality of reflecting on a firm's financial policies besides that of reflecting on its operating decision only.

The first profitability ratio is the operating margin ratio which is formulated as a division between earnings before interest and taxes (EBIT) and the total of sales. From the result there can be gathered information about whether there is an "ideal" equilibrium between the operating costs and sales. The higher the result, the better the firm is handling the operating costs. The formula is the following:

$$Operating\ margin\ profit = \frac{EBIT}{Sales}$$

The profit margin ratio is achieved by simply dividing net income over the sales. As opposed to the ratio before, net income does not include interest and taxes. This means that the analysis and interpretation have to be done carefully since the interest amounts can differ from one firm to the other, leading to different "incomparable" outcomes. The formula is the following:

$$Profit\ margin = \frac{Net\ income}{Sales}$$

Return on total assets is another ratio from this category, which shows the rate of return on a company's assets. Visibly, we can conclude that a higher ratio result means a better use of the assets for generating profit. However, results are dependent on the actual situation within the company and the hidden facts between the numbers listed in the financial statements. The formula for this ratio is the following:

$$Return\ on\ total\ assets\ (ROA) = \frac{Net\ income}{Total\ assets}$$

Another ratio included in this category is the return on common equity ratio which measures the rate of return on common stock-holders investment. In simpler words, this ratio is telling investors how well the company is doing in giving returns to their investments based on net income. The formula is the following:

$$Return\ on\ common\ equity\ (ROE) = \frac{Net\ income}{Common\ equity}$$

The return-on-investment ratio is a ratio used to quantify the relationship between profits and the underlying investment made or needed to be made to generate those profits. O'Regan (2016) states that there is a flexible approach to this ratio as it can be applied to calculate the return on investment as a whole but also just for a single element in the capital base. The formula for the return-on-investment ratio is the following:

$$Return\ on\ investment\ (ROI) = \frac{Net\ income}{Investment\ Cost}$$

The return on invested capital ratio shows the total return that a company has given to its investors. Brigham and Houston (2019) believe this ratio is different from ROA from two perspectives. Firstly, the return rate is based on the total capital invested and not on the total assets reported by in the balance sheet. Secondly, instead of net income, on the top part of the fraction it is used the total amount of income available to shareholders, more specifically the operating income after subtracting the taxes. The formula is the following:

$$Return\ on\ invested\ capital\ (ROIC) = \frac{EBIT(1-T)}{Total\ invested\ capital} = \frac{EBIT}{Debt + Equity}$$

The last profitability ratio in this category is the basic earning power ratio. In this case the result we will generate by applying the formula is the capability of the assets to generate operating income. The formula is the following:

$$Basic\ earning\ power\ (BEP) = \frac{EBIT}{Total\ assets}$$

Market ratios

Brigham and Houston (2019) states that investment ratios or also called market value ratios have three main uses. The first use is for investors in order to evaluate whether it is a good decision to buy or sell stock. The second use is for investment bankers when they need to set a share price for stocks. Lastly, the third use is done by the firms when they are considering a merger with another company and thus, to know how much to offer to the other participant in the merger.

Helfert (2001) believes that contrary to the previous author's exterior point of view, from the company owner's point of view, the investment ratios are measuring the "proportional participation of each unit of investment in corporate earnings". These two points of view offer a different perspective for the participants to the analysis which sometimes is limited; however, both of the perspectives should be taken into account when making decisions for the future.

The first investment ratio is the earnings per share ratio. It is a very important ratio according to Helfert (2001), to which both the side that owns the company and the exterior participants are paying much attention to. It is the main ratio used for strategic management and for setting goals. The formula is applied by dividing the net profit to common stock by the average number of shares outstanding:

$$Earnings\ per\ share = \frac{Net\ profit\ to\ common}{Average\ number\ of\ shares\ outstanding}$$

Price to earnings ratio is a commonly used ratio to show how much investors are willing to pay for one dollar of current earnings. Brigham and Houston (2019) consider it as one of the most varying ratios existing, since it has been seen over time that it can differ from one corporation to another. The main rule concluded over time is that often companies which have a high potential of growth will have higher values of this ratio. The formula is applied by simply dividing the price per share by the earning per share:

$$Price\ to\ earnings\ (P/E)\ ratio = \frac{Price\ per\ share}{Earnings\ per\ share}$$

The price to book ratio is used to compare a market's capitalization to its book value. It reflects how the market participants are envisioning the value of the compare as compared to its book value. The formula is the following:

$$Price\ to\ book\ (P/B)\ ratio = \frac{Market\ price\ per\ share}{Book\ value\ per\ share}$$

The steps of financial analysis

According to O'Regan (2016) theoretically there is a five step process of ratio analysis:

1. Observation: This mainly represents gathering the needed financial data from the trusted sources.
2. Calculation: This involves simplifying the abundant data from the financial statements by doing the actual calculations of the ratios using their formula.
3. Analysis: In this step, main basic conclusions can be generated by putting the results into context.
4. Interpretation: This step is a much more advanced analysis, meant to elucidate a better understanding of the situation and paving the way for deciding the next strategic move.

5. Decision-making: This is the final step which involves making actions based on all the conclusions and outcomes gathered with the help of ratio analysis.

3.2 Limitations of financial analysis

Earlier we have concentrated on highlighting the advantages of financial analysis for a firm, but it certainly has its own limitations, and we will dig deeper in this chapter, into the difficulties it might bring to the financial interpretation.

Brigham and Houston (2019) made a list of the most important possible limitations of the financial analysis. They believe that, in general, in order to obtain accurate averages about a certain industry there is needed meaningful clear data, which is harder to obtain when a company has divisions in several types of industries. However, when this average is obtained in a certain industry, firms tend to use it as a benchmark in terms of performance, fact that is not advantageous in reality. The solution here, would be to benchmark the highest level of performance for each industry in order to be "better than the average". O'Regan (2016) elucidates that size is one of the scales removed by ratios, obscuring the importance of economies of scales in the process of obtaining "good" and real outcomes. Another big issue arises in case of inflation. It represents the main cause of distortion for the market values of the firms, since it affects directly the value of assets, depreciation, and cost of inventory and therefore profits in general. This is most common when a comparative analysis is done between different periods of time or different firm's longevity. A specific example of this would be comparing two firms, one which hasn't been long on the market and one that has a long history. Brigham and Houston (2019) say that seasonal factors play also a role in limiting the accuracy of the financial analysis in the case of industries which have very variable inventories during a certain period of time. O'Regan (2016) strengthens this argument by exemplifying it with the case of a retail store which adopts a financial year-end date of 31 January when they have really low stock levels, significantly differing from the firm' normal stock activity.

Brigham and Houston (2019) also come up with a new term called "window dressing" to which they refer as covering up the actual numbers of the financial statements by borrowing money and then investing them. This technique recently discovered is very misleading and makes it possible for firms to report much bigger "apparent" sizes in order to attract more investors. A different kind of limitation is that of different accounting practices used when doing the financial analysis, making it harder to compare firms between them, as some of the listings in the financial statements are not the same. Lastly, although the utility of ratios is valid, it is hard to pinpoint if the ratios are interpreted accurately and if the conclusions gathered are representing the reality of the firm's current state.

In a study of financial analysis done by Ravinder (2013), the authors mention a few other limitations to financial analysis which are interconnected to the ones mentioned before. They express the difficulty coming from using secondary data and the possibility of company maintaining some secrecy, which might not represent valuable information in the end. This fact is sustaining that the "window dressing" might have larger "borders" than just being limited to covering loans.

O'Regan (2016) believes that statistical issues are extremely relevant for financial limitations, as the base ratio interpretation is based on analysing the simplified results by applying the ratios. In this case, we must consider negative numbers when both the components of a division have negative values, small numbers when dividing by small numbers for example and lastly the relationship between numerator and denominator which is considered linear usually, but it is not the case when there are economies of scales involved.

4 Practical Part

4.1 History of the company

In this subchapter we will look into the history of the company providing information that can be found on the official website of Netflix.

Back in 1997 the founders of Netflix Reed Hastings and Marc Randolph came up with the idea of renting a DVD. In order to test out the feasibility of their idea, they tried sending a DVD by email and realized that the content of it arrived intact. This is how the idea of Netflix was born followed by the launch of their website one year later in 1998, site on which it was possible to rent and sell DVDs, making themselves pioneers in this field. The very well-known subscription concept nowadays, has emerged in 1999 when the company was offering their member unlimited access to DVDs rentals which was very advantageous because there was no due date, late fees or even a monthly limit of DVDs able to rent.

The much-known name of the company wasn't presented there at the beginning, as in the early times the company was known under the name of Kibble temporarily as the founders had a hard time sticking with one name in particular. For a short period of time the DVD rental segment was known under the name of Qwikster which turned out to be hated by the public and eventually the process of name brand naming ended by sticking to the appellative of Netflix.

As they continue to lead the market in the present times, reviews of product and services were adopted in 2000 by Netflix. They used this feature as a strategy for committing their users to their services, by offering movie recommendations based on clients' ratings. The inception of the algorithms that would "rule" the people's choices 20 years later, has proven to contain customers' engagement even at this early point in time when technology wasn't as developed as it is today. The success brought by the public, Netflix considered selling itself to Blockbuster, offer which was turned down by the later. Ironically, the party which turned down the offer ended up struggling to evolve on the Internet economy 4 years later in 2004 and eventually filed for bankruptcy in 2010.

Following a very successful period, in 2002, Netflix listed an initial public offering for the price of 1 dollar per share under the NASDAQ ticker NFLX. The really high number of members having a subscription, reaching 1 million dollars in 2003, urged the company to patent their subscription rental services under the U.S. Patent and Trademark Office. As technology was evolving and increasing customer retention was a set objective for Netflix, back in 2005 the company strategically started to offer even more personalized lists of different type of users and even different moods one client could be possible searching for. Definitely the strategy worked its wonders as Netflix reached a record of 5 million in terms of memberships.

As the times were changing, in the world of technology where everything was evolving and actually continues to evolve at a very fast pace currently, customers are doing that also. Simplifying the living with the help of technology, decreased people’s patience and thus, longer waiting time for a product or service has become less and less appealing. For this reason, instant access to series and films on online platforms was introduced, Netflix adopting this concept in 2007. However developed the technology was at the time, members were still dependable on owning certain electronics in order to benefit from the streaming service. For this reason, Netflix partnered with different electronic brands in order to motivate customers to continue being a member of their online community. Some examples of such devices back in 2008 were Xbox 360, Blu-ray players and TV set-top boxes.

Company has shown over the years the implication with their customers and the following year they launched a Culture Deck to expand even more this involvement, by spreading their “motto” of “Freedom and Responsibility”. As it was all about the expansion, reaching a membership number of 10 million, didn’t encourage Netflix to stagnate at all even at such a high level of success. To expand their horizons, Netflix arrived in Canada in 2010 when it was finally possible to have access to their services even on mobile devices. To top this success off, Netflix was covering the target market of adults but observed that more and more children were prone to using technology early on and even more parents were looking for ways to focus their children’s attention on something. They came up with the idea that a full kids experience could be covered by their platform, as there was already a big number of series and films dedicated to the younger audience. Limitless was the motto of Netflix expansion as arriving Canada was just the beginning of an impressing journey. In 2011, Netflix expanded throughout Latin America and the Caribbean. As their previous pattern used to envision the company in a nutshell, pairing up with different electronic companies was very advantageous for both parties as the demand for Netflix was huge and there was a need for a faster and easier way to access the streaming platform. For this reason, the Netflix button on remote controls was born. The success was continued by a massive expansion in 2012 into the United Kingdom, Ireland and the Nordic Countries as the number of subscribers reached 25 million.

The high amounts of yearly sales and generated net income, offered the company the possibility of creating their own streaming material, originally made by Netflix. This decision proved to be highly successful as some of the works achieved several Emmy awards, fact which made Netflix again a pioneer in the streaming industry as there wasn't a precedent of this. Following this event in 2013, in 2014 expansion was on the agenda again when they managed to offer their services to even more countries in Europe. To list a few, Austria, Belgium and France were between the new hosts of Netflix being motivated probably by the emerging of 4K Ultra HD streaming option. However, "universal" was English as a language used in movies, Netflix dared to thing the contrary when they launched the first non-English original series in Spanish followed by an Asian original series. This success was followed by the adoption of Netflix on other continents and even more European countries in 2015. In total by 2016 Netflix was present in more than 190 countries and offered subtitles 21 languages all around the world. Movies and series downloading started to become an option for the customers who didn't have constant access to Internet making traveling more enjoyable for example.

Another record is reached in 2017 when membership reached 100 million subscribers globally which proved to bring even more awards to their original work.

Between 2017 and the present time, Netflix focused on containing customer engagement and obviously generating even more customer satisfaction by adopting new buttons and options. In order to offer each member an idea of what's trending at a certain point in time they opted out for a top 10 listings for the day in the specific region the customer was.

Overall Netflix has proven a massive desire for expansion, backed up with an impressive success of their strategic planning. One of the advantages offered by the company is the affordability available to different social groups of people, as more and more people with a lower or middle income are capable of paying for the services offered by Netflix. It continues to be one of the go-to platforms for streaming even if competition didn't hesitate to face Netflix over time. We will dig deeper later in another chapter, about the topic of the consequences suffered by Netflix due to the increase success of competition.

Main competitors

Walt Disney Company

The Walt Disney Company began as a joint venture between Walt-Disney and his brother Roy in 1923, and within three years the company already produced three movies. In time, Disney became a diversified global entertainment that mainly operates theme parks, resorts, broadcast networks and streams TV shows and movies. For the purpose of this thesis, the company represents a veritable competitor for our chosen company, Netflix, as Disney has entered the streaming service market in 2015. According to Stoll (2021) as of 2020, the company managed to expand its streaming services nearly all over the world, topping their record of subscribers in August 2021 with 116 million subscribers.

Amazon

According to McFadden (2021), unexpectedly, Amazon started as a simple bookstore in a garage without any expectation to become the giant multinational company that it is today. Amazon has managed to expand rapidly over the years, especially when it launched Amazon Prime, the revolutionary subscription service that will ease people's life through the fast delivery offered services. Although, since the beginning of Amazon Prime there have been many layers within the service such as Amazon Music, Amazon Pantry, Amazon Photos and so on, the company is relevant for this thesis because of one specific layer called Amazon Prime Video launched in 2011.

AT&T

According to AT&T (2019), AT&T is known worldwide and for relevant reasons, since its story began around 140 years ago with the invention of the telephone. For decades, the company has reinvented the experience for the consumers in the world of media and entertainment. They are operating as a broadband connectivity provider, high-speed fiber and wireless broadband networks which are meant to connect people. Even if AT&T's activity is somehow vast, it represents an important competitor for Netflix through the streaming service HBO Max incorporated and developed since 2016 after acquiring Warner Media. As of summer 2021, HBO Max has around 67.5 million subscribers.

4.2 Financial analysis of Netflix

In order to find more information about the financial performance of Netflix, in this chapter we will do both vertical and horizontal financial analysis between the years of 2016 and 2020. We will try to focus on the major changes occurred within the company and to gather conclusions of the financial situation from year to year. Within this chapter we will also look into how the pandemic might have affected the company for the year 2020 and whether there were positive consequences or not. In order to better understand we will compare the values of the financial ratios with some of Netflix's competitors as mentioned before, putting values into context will give us the most qualitative and accurate results.

4.2.1 Vertical analysis

As stated in the literature part, the vertical analysis is focusing on comparing all the elements of the balance sheet or the income statement at a fixed certain point in time. In our case the analysis will be done for each year separately.

Table 1: vertical analysis of the Balance Sheet for Netflix, 2014-2020

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Cash on Hand	20.89%	14.77%	14.61%	14.85%	12.76%	22.65%	22.84%
Other Current Assets	3.96%	3.41%	22.71%	25.49%	29.34%	30.59%	32.92%
Total Current Assets	24.85%	18.19%	37.32%	40.34%	42.10%	53.24%	55.76%
Property, Plant and Equipment	2.44%	1.66%	1.61%	1.68%	1.84%	1.70%	2.13%
Other Long-Term Assets	72.70%	80.15%	61.07%	57.98%	56.05%	45.06%	42.11%
Total Long-Term Assets	75.15%	81.81%	62.68%	59.66%	57.90%	46.76%	44.24%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Total Current Liabilities	19.87%	20.18%	24.98%	28.75%	33.76%	34.59%	37.82%
Long-Term Debt	40.25%	43.44%	39.89%	34.18%	24.76%	23.24%	12.58%
Other Non-Current Liabilities	11.71%	14.06%	14.97%	18.22%	21.76%	20.37%	23.23%
Total Long-Term Liabilities	51.96%	57.51%	54.86%	52.41%	46.52%	43.61%	35.81%
Total Liabilities	71.83%	77.68%	79.83%	81.16%	80.28%	78.21%	73.62%
Common Stock Net	8.78%	8.22%	8.92%	9.84%	11.77%	12.98%	14.81%
Retained Earnings (Accumulated Deficit)	19.28%	14.16%	11.33%	9.11%	8.31%	9.23%	11.63%
Comprehensive Income	0.11%	-0.07%	-0.08%	-0.11%	-0.36%	-0.42%	-0.06%
Other Share Holders Equity	-	-	-	-	-		
Shareholders Equity	28.17%	22.32%	20.17%	18.84%	19.72%	21.79%	26.38%
Total Liabilities and Shareholders Equity	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Own creation of the author

4.2.1.1 Vertical analysis of the Balance Sheet

In what concerns the comparison of the total of current assets and non-current assets for the year 2014 and 2015, there aren't huge discrepancies between the values recorded. If at the beginning of our chosen period of time both current and non-current assets are somehow symmetrical, the differences start to show in 2016 when the non-current assets outgrow the current ones. The same situation applies to liabilities, with the mention that in 2014 is only year when non-current liabilities are higher than the current ones.

As of 2016, the two elements, current and non-current assets, are quite close in terms of their value, as we can see in the table above. The lower element is represented by the total current assets being 15% smaller than the total of 57.90% total of non-current assets. In what concerns the liabilities' structure of Netflix for the year 2016, there isn't a big gap between the total of current liabilities and the total of non-current liabilities meaning the company has both long- and short-term debt, non-current liabilities having the higher value of 46.52% compared to 33.76% for total current liabilities. As seen in the table above, in the comparison

of total assets, total liabilities and shareholder's equity for this respective year, liabilities are touching a share of 80.28% from the total assets, meaning the amount of debt owed by the company at this certain point in time is quite high, while the shareholder's equity is only 19.72%.
For the year 2017, the non-current assets are dominant compared to the current ones with values of 59.66% and 40.34% respectively. In 2017, the situation is a bit different in the case of liabilities, this time total current liabilities are much lower than the non-current ones. Total non-current liabilities represent 52.41% of total assets while the total current liabilities are reaching a percentage of 28.75%, meaning that both are separated by a difference of 23.66%. Compared to the total assets, total liabilities for this year represent a big share with a percentage of 81.16%, leaving only 18.84% share to shareholder's equity.

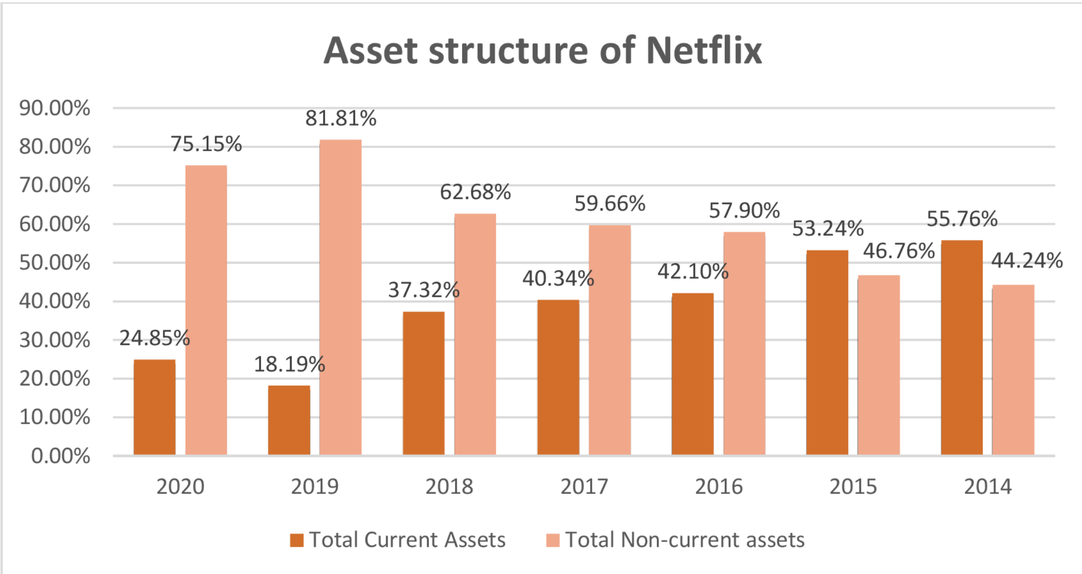
Moving on to 2018, total current assets are only around 37.32% from the total assets compared with the non-current assets (62.68%) which are dominant in this case again. Table 1 shows that the long-term debt taking part in the total non-current liabilities is more than double than the short-term liabilities, reaching values of 54.86% and 24.98% respectively. Table 1 shows that the total liabilities representing the firm's debt reaches a value of 79.83%, while the shareholder's equity has a value of 20.17%.

In what concerns the year of 2019, there is a huge discrepancy between current assets and non-current assets, with a difference of 63.62%. Non-current assets with a share of 81.81% from total assets could show the leverage the company has gathered through its investments which are expected to be turned into cash at any point, being much more valuable than the 18.19% current assets. Visibly there is also a huge gap between non-current liabilities and current ones, proving the huge amount of long-term debt (57.51%) the company went through in 2019 but also it shows a capability of paying its short terms liabilities (20.18%) much faster. From total assets, liabilities are valued at around 78% while shareholder's equity is valued around 22%.

Lastly, for the year 2020, total non-current liabilities represent 75.15% of total assets, while the current assets are valued at 24.85%. In what concerns liabilities, Netflix's non-current liabilities represent 51.96% of total assets while the current ones only 19.87%. Shareholder's equity is valued at 28.17% leaving a total of 71.83% of total liabilities.

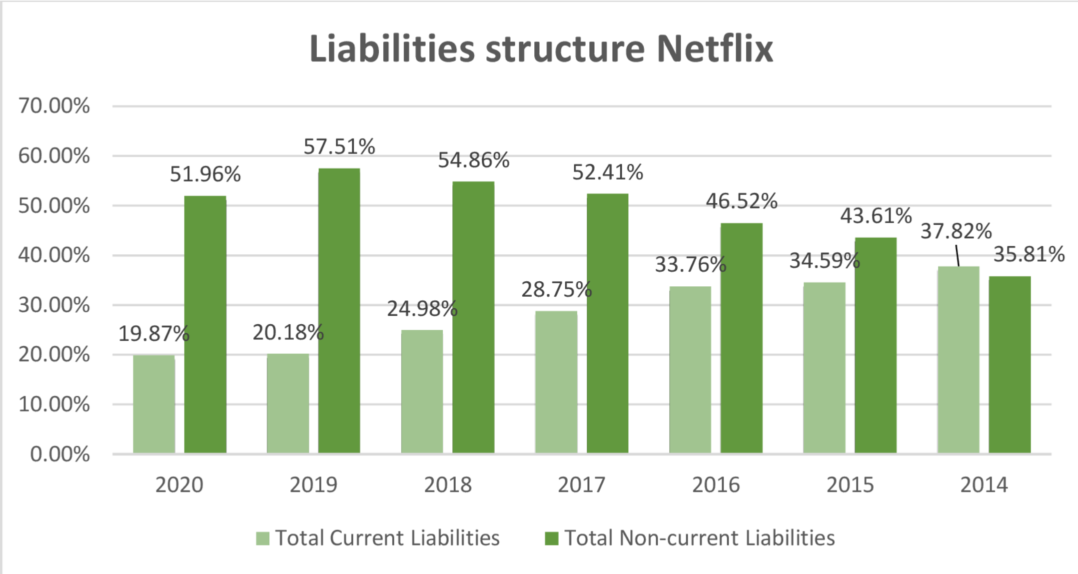
To reach a general conclusion for the vertical analysis of the balance sheet, the constant increase in the non-current assets and non-current liabilities over our chosen period of time does not come as a surprise since Netflix has continued to invest in producing and licencing new streaming content. According to the financial notes listed on the United States Securities and Exchange Commission website, the cash was temporarily off-set at certain moments in time due to the issuance of debt which was then invested, increasing the non-current assets. The amortization for these investments listed in the long-term liabilities is covered during several years, thus the constant increase in debt.

Figure 1: Asset structure of Netflix, 2014-2020



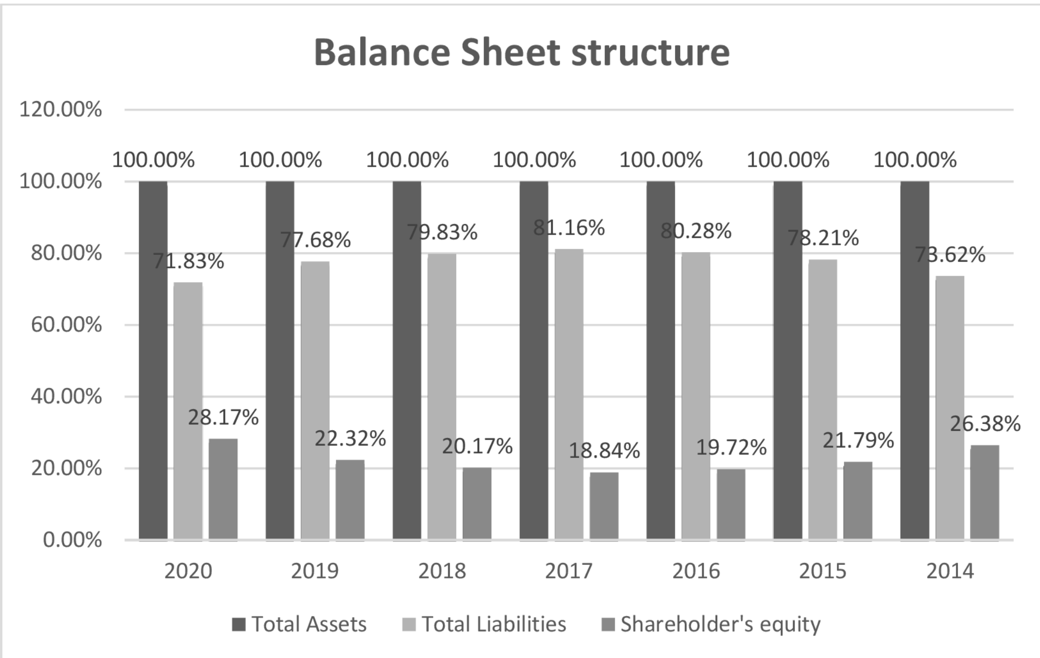
Source: Own creation of the author

Figure 2: Liabilities structure of Netflix, 2014-2020



Source: Own creation of the author

Figure 3: Balance Sheet structure of Netflix, 2014-2020



Source: Own creation of the author

Moving on to the liabilities and equity part, we can see that even if the total current liabilities have decreased since 2014 (37.82%) until 2020 (19.87%), the total long-term debt has significantly increased. This is due to capital funding Netflix used in order to pay its debts which we will see later in the cash flow analysis. Other long-term liabilities have decreased which could mean the company is actually managing to pay its debts in time. The total liabilities globally have decreased, which at a first look could look odd since the cash on hand is also increasing constantly but we will dig deeper into this discussion later.

4.2.1.2 Vertical analysis of the Income Statement

In what concerns the vertical analysis of the Income Statement for Netflix, between 2014 and 2020, the table below is illustrating the situation at each point in time. The meaning of this analysis is to understand how the company was performing financially each year and to reach some initial possible conclusions that will later be contextualized.

Table 2: vertical analysis of the Income Statement for Netflix, 2014-2020

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	61.11%	61.72%	63.11%	68.70%	70.86%	67.73%	68.17%
Gross Profit	38.89%	38.28%	36.89%	31.30%	29.14%	32.27%	31.83%
Research and Development Expenses	7.32%	7.67%	7.74%	8.16%	8.84%	9.60%	8.58%
SG&A Expenses	13.22%	17.70%	18.99%	15.97%	16.00%	18.16%	15.93%
Other Operating Income or Expenses	-	-	-	-	-	-	-
Operating Expenses	81.66%	87.08%	89.84%	92.83%	95.70%	95.49%	92.69%
Operating Income	18.34%	12.92%	10.16%	7.17%	4.30%	4.51%	7.31%
Total Non-Operating Income/Expenses	-5.54%	-2.69%	-2.40%	-3.02%	-1.35%	-2.42%	-0.97%
Pre-tax Income	12.80%	10.23%	7.77%	4.15%	2.95%	2.09%	6.35%
Income Taxes	1.75%	0.97%	0.10%	-0.63%	0.84%	0.28%	1.50%
Income After Taxes	11.05%	9.26%	7.67%	4.78%	2.11%	1.81%	4.85%
Income from Continous Operations	11.05%	9.26%	7.67%	4.78%	2.11%	1.81%	4.85%
Income from Discontinued Operations	-						
Net Income	11.05%	9.26%	7.67%	4.78%	2.11%	1.81%	4.85%
EBITDA	62.04%	59.16%	58.38%	60.79%	60.07%	56.83%	57.85%
EBIT	18.34%	12.92%	10.16%	7.17%	4.30%	4.51%	7.31%

Source: Own creation of the author

If we take a look at the table above which is comparing the most important elements of the income statement, meaning the share of operating income, pre-tax income and net income from the total revenue, quantified here at 100%, we could have a better general understanding of the situation for each specific year.

To start with the year 2014 and 2015, the situation is quite stagnant, as there aren't major changes. However, in 2015 the Netflix registered the least net income out of all the period, that was due to losses resulted primarily from the measurement of significant content liabilities denominated in currencies that are not in the functional currencies.

The variance between the total revenue and the rest of the main component is immensely high, meaning the company's expenses were subtracting a generous amount of money from the total revenue. In the table above we can see that the total operating expenses have cumulated a share of 95%, with the costs of goods sold being the most prominent. Even with the other operating income (16%) generated by the company, the total amount of operating income is of 4.30%. The share of pre-tax income is of 2.95%, resulting in a total of 2.11% net income after tax deductions.

In 2017, the cost of goods sold is reaching 68.7%, more than the double of research and development share of 31.30%. Including all the other elements, the operating expenses are valued at 92.83% out of total revenue. The pre-tax income is valued at 4.15%, but this year, income taxes are represented by a share of -0.63%, meaning the company managed to generate income instead of paying income taxes. This negative amount could be tied down to the new reform president Donald Trump at the time under Tax Cuts and Jobs Act which decreased the corporate tax from 35% to 21%. Thus, this year the income after tax which is equal to the net income (4.78%) is higher in value than the pre-tax income (4.15%) as seen in the table below.

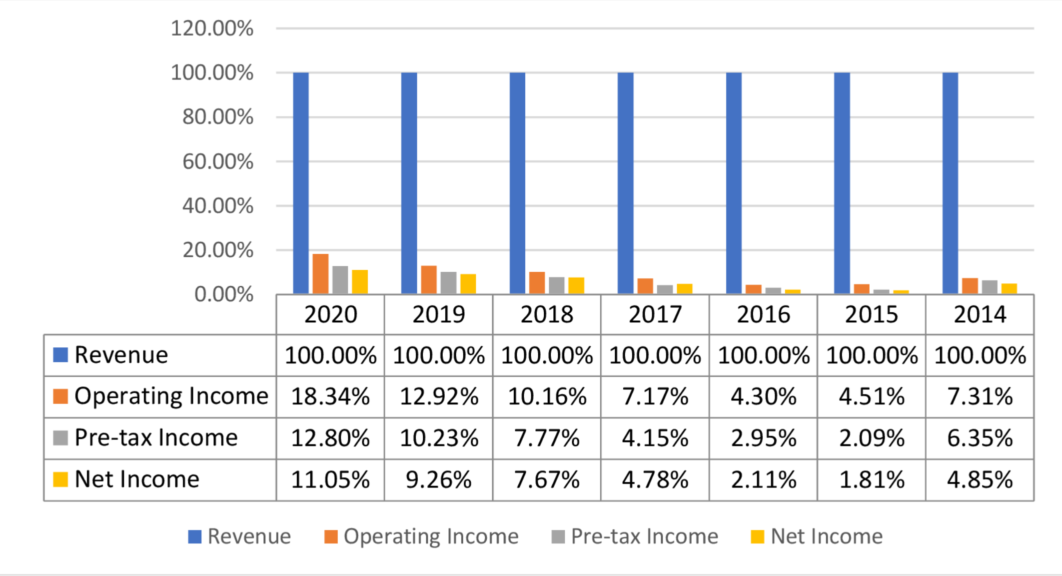
Most likely, according to (Gardner, 2019) and (Marks, 2019), Netflix has managed to not pay tax during certain years in the United States. The hypothesis behind this "performance" are supposing, given the limited public information about the company, that in order to avoid double taxation Netflix has claimed tax credit on certain foreign earnings. We could conclude that the company is paying taxes but certainly not in the U.S. since the amount does not match with the 21% requirement for U.S. corporate tax. Netflix is one of the huge corporations which are known for not paying any of income taxes, especially for the year 2018. If we look at this specific year, 2018, the operating income is valued 10.16% share from the revenue, pre-tax income at 7.77%, but this time, the net income is valued at 7.76% meaning Netflix paid only 0.10% income tax this year on foreign earnings outside of the United states.

If take into account the year of 2019, the operating income reaches 12.92%, following the trend for the previous year in which the company did pay income taxes of 0.95%, leaving the company with 9.23% net income, based on which we can conclude the company is doing great and if we were to briefly compare it to the previous years, the ascending path in terms of great financial performance is really visible.

The record year of 2020 had Netflix reach a net income share of the revenue of 11.05%, with only 61.11% share of costs of goods sold, and small percentages of other expenses totalling up to 81.66% operating expenses, leaving the operating income at 18.34%, which alone is a great sign of good financial performance. This year the tax income is valued at 1.75% leaving the company with 11.05% net income.

In the table below, we can better contextualize the main information needed to assess the vertical analysis of Netflix by listing the main key factors taken into account:

Figure 4: Income Statement structure of Netflix, 2014-2020



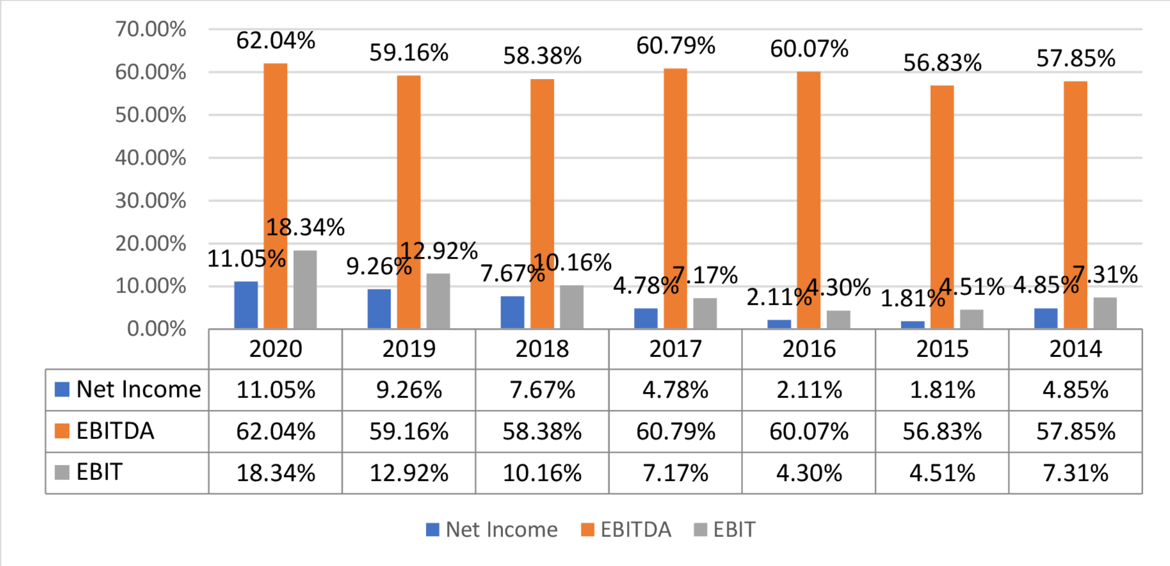
	2020	2019	2018	2017	2016	2015	2014
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating Income	18.34%	12.92%	10.16%	7.17%	4.30%	4.51%	7.31%
Pre-tax Income	12.80%	10.23%	7.77%	4.15%	2.95%	2.09%	6.35%
Net Income	11.05%	9.26%	7.67%	4.78%	2.11%	1.81%	4.85%

Source: Own creation of the author

Based on the table below, which is a representation of the comparison of net income, EBITDA and EBIT we can briefly just mention that the company is showing an improved financial performance from 2014 till 2020.

According to Netflix's financial notes, the company has started to invest heavily in licensing content from external sources in order to achieve a higher number of subscribers. Due to this, the cost of good sold and operating expenses had a higher impact on the net income. However, the company switched to leveraging and investing into its own produced content. Operating expenses have managed to decrease in time as licensing was a heavier investment, as well as the upfront payments. The situation was also advantaged by the low-income taxation Netflix has undergone by paying taxes outside the United States.

Figure 5: Income statement structure of Netflix, 2014-2020



	2020	2019	2018	2017	2016	2015	2014
Net Income	11.05%	9.26%	7.67%	4.78%	2.11%	1.81%	4.85%
EBITDA	62.04%	59.16%	58.38%	60.79%	60.07%	56.83%	57.85%
EBIT	18.34%	12.92%	10.16%	7.17%	4.30%	4.51%	7.31%

Source: Own creation of the author

4.2.2 Horizontal analysis

Table 3: Horizontal analysis of the Balance Sheet for Netflix, 2014-2020

	Year 12/31/2020	Changes %	Year 12/31/2019	Changes %	Year 12/31/2018	Changes %	Year 12/31/2017	Changes %	Year 12/31/2016	Change %	Year 12/31/2015	Change %	Year 12/31/2014
Cash on Hand	8205.55	63.51%	5018.437	32.26%	3794.483	34.42%	2822.795	62.81%	1733.782	-24.97%	2310.715	43.66%	1608.496
Receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-paid Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Current Assets	1556.03	34.13%	1160.067	-80.34%	5899.652	21.71%	4847.179	21.59%	3986.509	27.73%	3121.125	34.61%	2318.557
Total Current Assets	9761.58	57.99%	6178.504	-36.27%	9694.135	26.39%	7669.974	34.08%	5720.291	5.31%	5431.84	38.32%	3927.053
Property, Plant and	960.193	69.88%	565.221	35.13%	418.281	30.96%	319.404	27.56%	250.395	44.39%	173.412	15.70%	149.875
Long-Term Investments	-	-		-		-		-		-	-	-	-
Goodwill And Intangible	-	-		-		-		-		-	-	-	-
Other Long-Term Assets	28558.6	4.87%	27231.99	71.68%	15861.98	43.89%	11023.36	44.74%	7615.924	65.65%	4597.619	55.03%	2965.572
Total Long-Term Assets	29518.78	6.19%	27797.21	70.74%	16280.27	43.53%	11342.77	44.19%	7866.319	64.88%	4771.031	53.14%	3115.447
Total Assets	39280.36	15.61%	33975.71	30.80%	25974.4	36.62%	19012.74	39.94%	13586.61	33.16%	10202.87	44.88%	7042.5
Total Current Liabilities	7805.785	13.86%	6855.696	5.68%	6487.32	18.68%	5466.312	19.18%	4586.657	29.95%	3529.624	32.54%	2663.154
Long-Term Debt	15809.09	7.11%	14759.26	42.46%	10360.06	59.40%	6499.432	93.19%	3364.311	41.87%	2371.362	167.69%	885.849
Other Non-Current	4600.239	-3.73%	4778.599	22.90%	3888.257	12.21%	3465.042	17.23%	2955.842	42.21%	2078.459	27.06%	1635.789
Total Long-Term Liabilities	20409.33	4.46%	19537.86	37.12%	14248.31	42.99%	9964.475	57.66%	6320.153	42.03%	4449.821	76.47%	2521.638
Total Liabilities	28215.12	6.90%	26393.55	27.29%	20735.63	34.38%	15430.79	41.48%	10906.81	36.69%	7979.445	53.90%	5184.792
Common Stock Net	3447.698	23.40%	2793.929	20.64%	2315.988	23.76%	1871.396	16.98%	1599.762	20.75%	1324.809	27.03%	1042.87
Retained Earnings	7573.144	57.39%	4811.749	63.59%	2941.359	69.91%	1731.117	53.39%	1128.603	19.82%	941.925	14.97%	819.284
Comprehensive Income	44.398	288.76%	-23.521	20.12%	-19.582	-4.74%	-20.557	57.67%	-48.565	12.14%	-43.308	874.09%	-4.446
Other Share Holders Equity	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholders Equity	11065.24	45.94%	7582.157	44.73%	5238.765	46.25%	3581.956	33.67%	2679.8	20.53%	2223.426	19.69%	1857.708
Total Liabilities and	39280.36	15.61%	33975.71	30.80%	25974.4	36.62%	19012.74	39.94%	13586.61	33.16%	10202.87	44.88%	7042.5

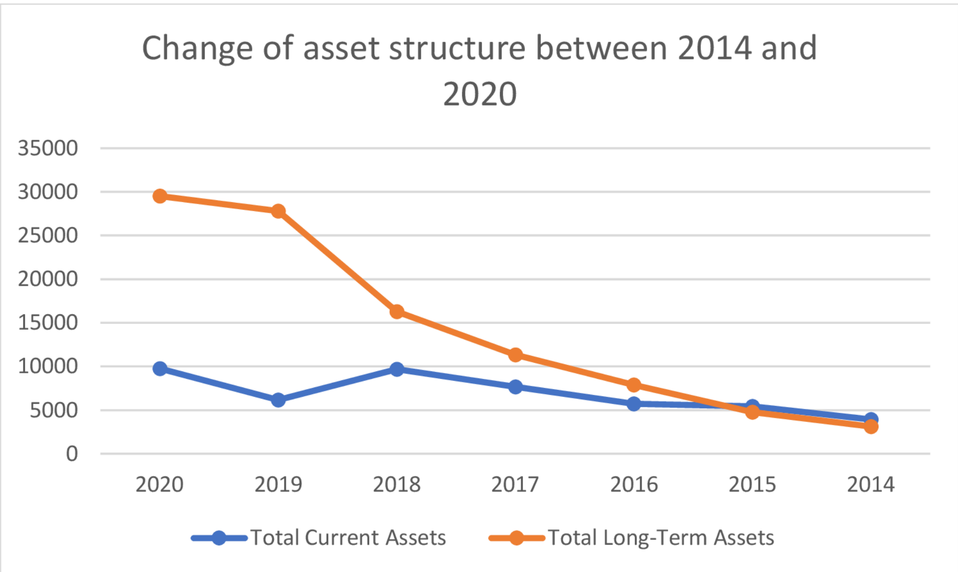
Source: Own creation of the author

In the table above, where it is shown the vertical analysis of the Balance Sheet of Netflix for the years 2014-2020, we can see that the company managed to have a great increase of Cash on Hand throughout the years. The two most significant changes occurred between 2016 and 2017 with a change of 62.81% and from 2019 to 2020 with a change of 63.51%. The peak in terms of value, was however in the year 2020, with a significant increase from 2019, showing the company could be doing well in the present, probably as expected after looking into the historical part about the company and the investments and developments it went through. Since the company is offering streaming services instead of actual products, for obvious reasons this doesn't entitle having any inventory, receivables since the services are paid on the spot and neither pre-paid expenses. From the total assets, a certain amount of it consists of other current assets which are visible in the table above, and which have fluctuated between 2014 and 2020. If the changes stay somehow constant between 2016 and 2018, with share of change of 21% proving an increase in other current assets, there is a visible decrease of 80.34% from 2018 to 2019. This is the only year with such a great amount of change, while from 2019 to 2020, there is again an increase of 34.13%, representing the biggest increase from the chosen year for our work. In what concerns non-current assets, property, plant and equipment, there is a continuous increase between 2016 and 2020. Nonetheless the 69.88% in 2020 could mean that the company has invested quite a lot since

2019 in this asset. Netflix does not have any long-term investments or goodwill and intangible assets, however other long-term assets expected to be turned into cash at a certain point, have increased between 2016 and 2018 with approximately 44% each year, with a peak in 2019 due to the increase of 71.68%. As much as this pattern was expected to give a certain predictability, from 2019 to 2020 the change was only of 4.87%. These are supposably assets from the licensing procedures Netflix has obtained through time, offering their customers access to thousands of shows otherwise not available in high definition. We could say that the reason for the small increase in from 2019 to 2020, could be due to the pandemic situation that affected the production of movies, influencing Netflix to not really undergo any major investments in long-term assets like the previous years.

Having this in mind, the pandemic did have an impact on the company in which we will dig deeper in the results and discussion chapter, but what we can mention now is the generally there has been an increase in the investments but there is also an increase in the cash on hand. Eventually one would think the bigger the increase in debt the lower the cash on hands but this is not the case in 2020 when due to stopping production during the pandemic, some payments were delayed and therefore this helped have a positive cashflow as well as an increase in some of the assets within the balance sheet.

Figure 6: Change of asset structure for Netflix, 2014-2020

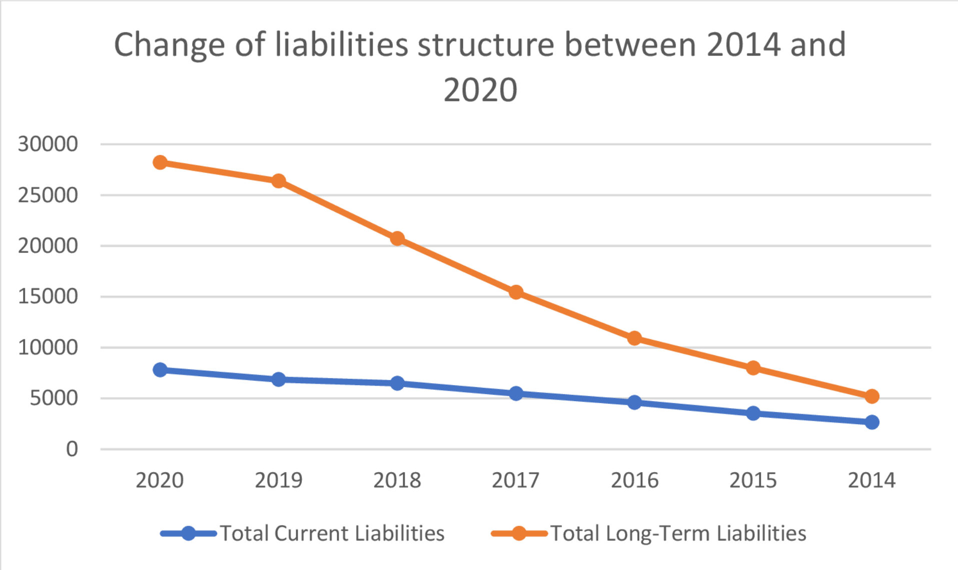


Source: Own creation of the author

In the table above the graph is exposing the change that took place within the company and how the total long-term assets and total current assets have evolved between 2014 and 2020. We can see that the turning point for the gap between them was in 2018 when the company invested much more in log-term assets rather than current assets which in general distinguishes the company as a service provider from other companies that operate based on another business model. These gaps should not come out as a surprise since the company the company decided to invest into sourcing their own movies to the public as well as the ones not made by Netflix, leaving the company with a big leverage.

Moving on to the current and non-current liabilities' part, in table above, globally there has been an increase in both between these years. The smallest increase in total current liabilities has been between 2018 and 2019 with only 5.68%, while during the other years the changes variates between 13% and 19%. If we look at the long-term debt, there is massive change between 2016 and 2017 of 93.19% meaning the company has decided to loan money in order to pay some of its debts from previous years This is due to capital funding Netflix used in order to pay its debts, and if look at the years after the long-term debt percentage of change is decreasing. If we take the change from 2019 to 2020 in terms of other long-term liabilities, we have a negative percentage of change which could mean the company is actually managing to pay its debts in time. If we look at the pattern of changes for long-term liabilities and then the total liabilities, the change is lower and lower each year and while this is a reality it is odd since the cash on hand is also increasing constantly but we will dig deeper into this discussion later.

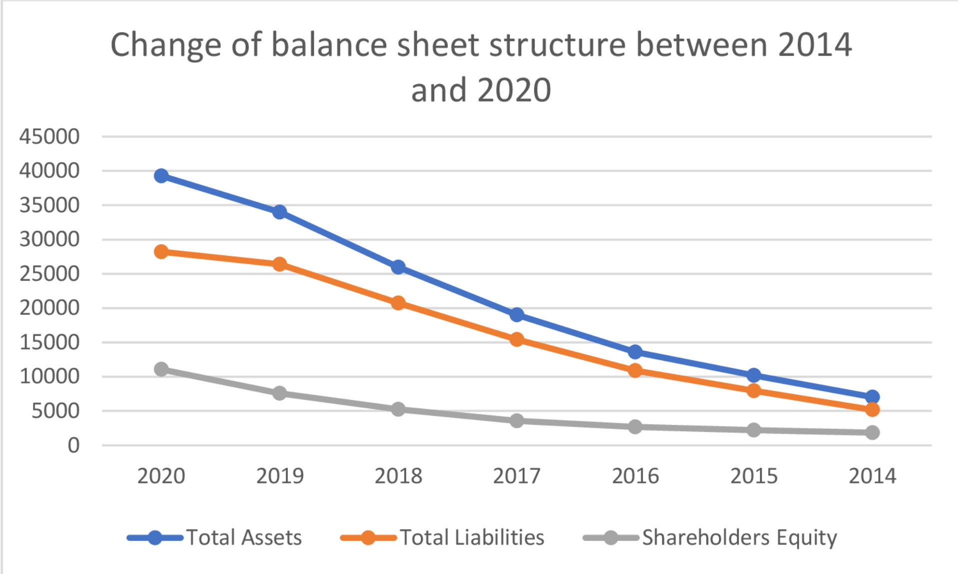
Figure 7: Change of liabilities structure for Netflix, 2014-2020



Source: Own creation of the author

In the table above the graph is showing how the company underwent significant changes in what concerns total current liabilities and long-term liabilities. There is a big gap between the two, showing how much actual long-term debt Netflix has but somehow the change being lower between 2019 and 2020 we could conclude that the company is paying its debts.

Figure 8: Change of Balance Sheet structure of Netflix, 2014-2020



Source: Own creation of the author

If we look at the graph above, we can visualize that all three main elements of the balance sheet are following almost the same pattern of increase. However, shareholder's equity had undergone a much bigger change between 2019 and 2020, of approximately 45.94% compared to that of total assets (15.61%) and total liabilities (6.90%) which could mean that the company doing great financially attracted more and more investors, which doesn't come out as a surprise since retained earnings are increasing majorly as well.

Table 4: Horizontal analysis of the Income Statement for Netflix, 2016-2020

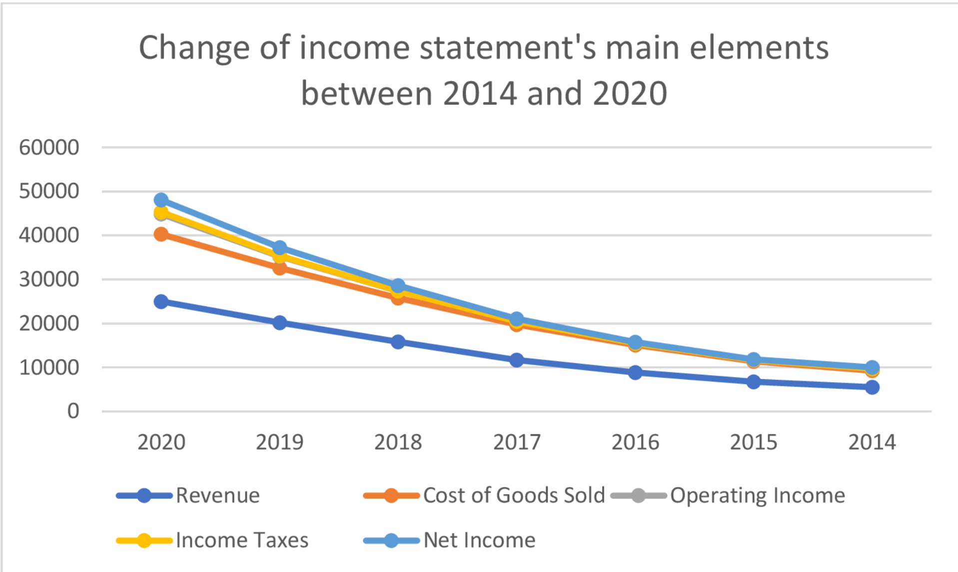
	Year	Changes	Year	Changes	Year	Changes	Year	Changes	Year	Change	Year	Change	Year
	44196	%	43830	%	43465	%	43100	%	42735	%	42369	%	42004
Revenue	24996.06	24.01%	20156.45	27.62%	15794.34	35.08%	11692.71	32.41%	8830.669	30.26%	6779.511	23.16%	5504.656
Cost of Goods Sold	15276.32	22.80%	12440.21	24.81%	9967.538	24.08%	8033	28.37%	6257.462	36.28%	4591.476	22.35%	3752.76
Gross Profit	9719.737	25.96%	7716.234	32.43%	5826.803	59.21%	3659.713	42.22%	2573.207	**17.60%**	2188.035	24.90%	1751.896
Research and Development Expenses	1829.6	18.41%	1545.149	26.46%	1221.814	28.11%	953.71	22.23%	780.232	19.89%	650.788	37.79%	472.321
SG&A Expenses	3304.848	-7.34%	3566.831	18.90%	2999.763	60.65%	1867.324	32.13%	1413.281	14.77%	1231.421	40.42%	876.927
Other Operating Income or Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	20410.77	16.49%	17522.19	23.49%	14189.11	30.73%	10854.03	28.44%	8450.876	30.54%	6473.685	26.89%	5102.008
Operating Income	4585.289	76.07%	2604.254	62.24%	1605.227	91.40%	838.679	120.83%	379.793	**24.19%**	305.826	-24.05%	402.648
Total Non-Operating Income/Expenses	-1385.94	155.70%	-542.023	43.10%	-378.768	7.19%	-353.358	196.23%	-119.286	**-27.24%**	-163.941	207.70%	-53.279
Pre-tax Income	3199.349	55.14%	2062.231	68.15%	1226.458	152.71%	485.321	86.30%	260.507	83.60%	141.885	-59.39%	349.369
Income Taxes	437.954	124.23%	195.315	1183.62%	15.216	-120.67%	-73.608	-199.70%	73.829	283.65%	19.244	-76.69%	82.57
Income After Taxes	2761.395	47.91%	1866.916	54.13%	1211.242	116.71%	558.929	199.41%	186.678	52.22%	122.641	-54.03%	266.799
Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-
Income from Continous Operations	2761.395	47.91%	1866.916	54.13%	1211.242	116.71%	558.929	199.41%	186.678	**52.22%**	122.641	-54.03%	266.799
Income from Discontinued Operations	-	-		-		-		-		-	-	-	-
Net Income	2761.395	47.91%	1866.916	54.13%	1211.242	116.71%	558.929	199.41%	186.678	52.22%	122.641	-54.03%	266.799
EBITDA	15507.91	30.06%	11924.08	29.32%	9220.472	29.71%	7108.407	34.00%	5304.771	37.68%	3852.871	20.99%	3184.446
EBIT	4585.289	76.07%	2604.254	62.24%	1605.227	91.40%	838.679	120.83%	379.793	24.19%	305.826	-24.05%	402.648
Basic Shares Outstanding	441	0.68%	438	0.69%	435	0.69%	432	0.70%	429	**0.70%**	426	1.19%	421
Shares Outstanding	454	0.44%	452	0.22%	451	0.89%	447	1.82%	439	**0.69%**	436	0.93%	432
Basic EPS	6.26	46.95%	4.26	53.24%	2.78	115.50%	1.29	193.18%	0.44	51.72%	0.29	-53.97%	0.63
EPS - Earnings Per Share	6.08	47.22%	4.13	54.10%	2.68	114.40%	1.25	190.70%	0.43	53.57%	0.28	-54.84%	0.62

Source: Own creation of the author

Firstly, with just one look at the situation of the income statement, we can easily see that the company is peaking in what concerns the net income in 2020. We can simply conclude that the company is on a positive slope and that we could supposedly call it a great financial performer. Nonetheless such conclusions are subjective, if compared to the other factors listed in the income statement. Most of the income source Netflix is collecting is coming from streaming services they are offering. The cost of goods sold is increasing varying between 22% and 28% from year to year but this does not come out as a surprise since the company enriched the number of movies it is streaming on their website constantly. In the research and development expenses department, the company continued to invest, but in 2020 the change is only of 18.41% compared to the other years. This is probably due to the fact that their previous investments are paying off and since the revenue and net income is growing, there is only so much innovation needed. In what concerns the SG&A expenses, which might include any legal expenses, corporate overhead expenses, marketing or any other expenses related to advertising and promotional materials takes an important part into the income statement, fluctuating throughout the years. The Selling General and Administrative expenses are decreasing only between 2019 and 2020 compared to the other years with a change of (-7.34%), backing up the argument previously mentioned that the popularity the company has gained due to the previous investments is showing results.

Netflix does not have any other operating income of expenses. Regarding the taxes in general, the pre-tax income is immensely changing between 2016 and 2018 which a peak between 2017 and 2018 of 152.72% growth, increase that is direct proportionally related to the decrease of income taxes from 2017 to 2018 of 120.67% and even with a decrease of 199.7% from 2016 to 2017. This discussion is tied down to the fact that Netflix was not paying income taxes for 2017 and 2018 mentioned before in the vertical analysis part. In 2019 and 2020, Netflix had an increase in income taxes of even 1183.62% meaning income taxes started to burden the company but still taking into account the increase of revenue the effect is not major on the company's overall financial performance. The net income is at its highest value in 2020, with the change decreasing from year to year but nonetheless proving the company continued to do well financially as seen in the graphs below.

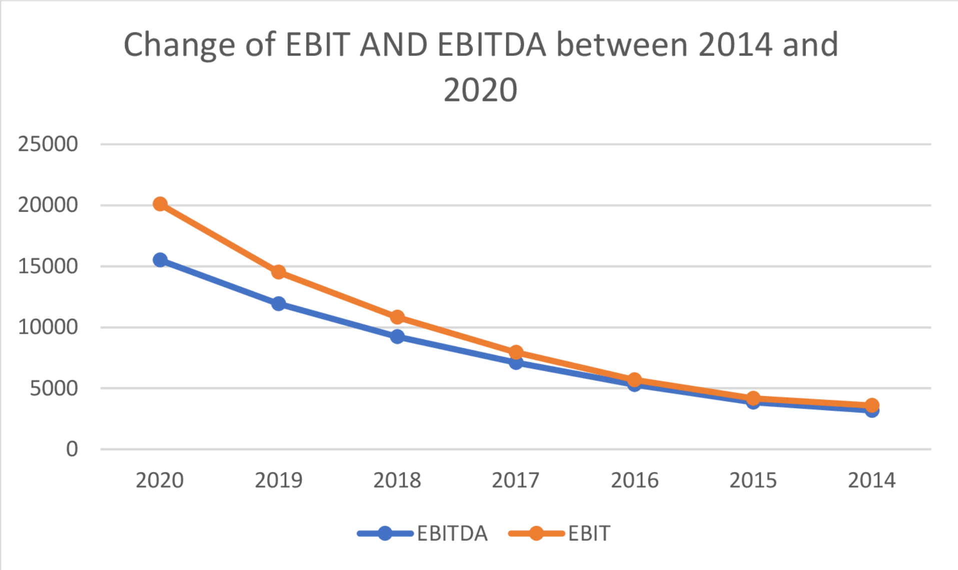
Figure 9: Change of income statement's main element for Netflix, 2014-2020



Source: Own creation of the author

In the table below, we can have a look at the changes that took place between 2014 and 2020 regarding EBITDA and EBIT. The main conclusions we can gather are that the numbers are signalizing great financial performance as the incremental slope of both factors is proving the company is earning much more and the taxes are not felt as heavily as in the previous years.

Figure 10: Change of EBIT and EBITDA for Netflix, 2014-2020



Source: Own creation of the author

In general, the conclusions we can take from this chapter and the previously mentioned information within the other chapters, are that the elements of the income statement have somehow increased proportionally during our chosen period of time. This doesn't come as a surprise due to the investments the company has made in time. The costs of goods sold is decreasing over the years if we compare it to the revenue value, showing that the company has started to rely more on own produced content and less of licensing. But for this, they needed to invest and there is no surprise the long-term debt has increased as well. However, the company seems to be doing fine when it comes to increasing both revenue and net income over the years, and that has been done with the help of either lower taxation at certain points in time or through a good growth in terms of market share. This led to an efficiency when it comes to paying back debt and having a positive net income.

4.2.3 Ratio analysis of Netflix

If the previous chapter focused on analysing our chosen company Netflix based on the items found in the balance sheet and the income statement, this chapter will have a focus more in dept of some of the items. The ratio analysis is used to assess the financial performance based on different sets of ratios. The ratios that will be used in the following chapter are;

- Activity ratios

- Liquidity ratios
- Profitability ratios
- Leverage ratios
- Market Value ratios

4.2.3.1 Activity ratios of Netflix

As we have previously mentioned in the literature review part, the activity ratios are used to measure the efficiency, more specifically how effectively a firm is managing its assets in order to produce sales. In order to get our results, we will proceed with the help of two ratios, asset turnover ratio and fixed assets turnover applied to Netflix. We will contextualize the utilization of these ratios when it comes to its competitors in the following chapter. As Netflix is offering services instead of actual tangible products, the other two ratios we've mentioned in literature review part, more specifically inventory turnover and days sales outstanding ratio, will not be applicable for our company.
In the table below there are listed the values of each ratio, between 2014 and 2020. We will start with the asset turnover ratio which will tell us how well the company uses its total assets to produce sales, and a more favourable value would be the higher one.

The Asset Turnover Ratio

The asset turnover ratio in the table below was calculated by dividing the total amount of sales by the total asset for each of the 7 years chosen for our analysis. Over the period from 2014 and 2020, the ratio decreased by 18% which could mean a negative outcome as the company is not using efficiently its assets to generate sales.

The Fixed Asset Turnover Ratio

The fixed asset turnover ratio will play a much more important role in our analysis since non-current assets represent a majority in the total assets structure. The ratio has decreased during our 7-year period with about 29.1%, which means that for every dollar in assets, Netflix generated only 26.0326$ in 2020 instead of 36.7283 like in 2014. Again, this is not a sign of efficiency, but we will contextualize it better in the following chapter when we will compare the ratio to those of the competitors.

Table 5: Activity ratios of Netflix, 2014-2020

Activity ratios							
	2020	2019	2018	2017	2016	2015	2014
Asset turnover ratio	0.6364	0.5933	0.6081	0.615	0.6500	0.6645	0.7816
Fixed asset turnover	26.0326	35.6612	37.7601	36.6079	35.2670	39.0948	36.7283

Source: Own creation of the author

4.2.3.2 Liquidity ratios of Netflix

The liquidity ratios will be able to tell us whether the company is capable of paying off its debts without the help of raising capital in the short-term. Moreover, it shows how the company is able to convert its current assets into cash in order to pay current liabilities. To undergo this evaluation, we will be focusing on the current ratio applied to Netflix and we will contextualize it in the following chapter by applying the ratio to its main competitors. The quick ratio will not be applicable in our analysis as Netflix doesn't have listed any type of inventories in the Balance Sheet.

Current ratio

As the formula is stating that total current assets are divided by total current liabilities. Reasonably the higher the ratio, the better, in terms of financial performance. For this ratio, if the values are less than 1, it means the company the company is probably facing a dangerous liquidity position. Again, just by looking at the ratio values, Netflix is reaching value over 1 for all years between 2014 and 2020, with only one exception in 2019 when the value is 0.9012. This means that in 2019, Netflix had a dangerous liquidity position since current liabilities are higher than the current assets, however in 2020, the value of the ratio is higher than 1, meaning the value of the current assets is 1.2506 times higher than the current liabilities.

Table 6: Liquidity ratios of Netflix, 2014-2020

Liquidity ratios							
	2020	2019	2018	2017	2016	2015	2014
Current Ratio	1.2506	0.9012	1.4943	1.4031	1.2472	1.5389	1.4746

Source: Own creation of the author

4.2.3.3 Profitability ratios of Netflix

Profitability ratios are used to measure a firm's ability to generate profit from sales and operations and, also bring shareholder value. For this type of ratios, we will focus on net profit margin, return on assets, return on equity, return on investment, basic earning power and operating margin. In the table below we can see the results obtained from both return ratios and margin ratios.

Net profit margin

We will start with the net profit margin ratio, which is meant to compare a company's profits to the actual amount of revenue it brings within. The general rule is that a ratio value of 10% is decent, but for example a value around 20% is marking a super performance. For a better understanding of this ratio, we can take an 10% ratio value whose interpretation would be that for each $1 in sales revenue, the company keeps $0.10 net profit margin.
The net profit margin has constantly improved over the 7 years period, reaching 11.05% in 2020. This represents a great overall performance at first, and it is linked to the fact that it had a great increase in revenue in time.

Operating margin

The operating profit margin ratio is able to tell us how much profit a company is making after paying all the expenses linked to operating activities. It is expressed as a percentage, by dividing the earnings before interest and tax by the total amount of sales. A higher ratio value indicates better financial performance. In the tables below we can see that during our 7 years period, Netflix has managed to significantly increase the ratio value by 11.02%, which means even if expenses have increased, the increase in sales has been sufficient to improve the general ratio value in time.

Basic Earning Power

The following ratio, basic earning power is meant to suggest how well the company is able to generate profits from its total assets, by dividing the operating income to the total amount of assets. Simply, the ratio can be used to quickly assess if a firm can improve the operating profit value from all that it owns. A higher ratio value represents a better financial performance. We will assess the contextualization with Netflix's competitors in the following chapter, but for now, we can see a great improvement in the ratio's value over the 7-year period. The increase in the value of the ratio is of about 51%.

Return on total assets

The return on assets ratio is used to pinpoint whether a firm is capable to generate profit from the total amount of sales. A higher value of the ratio signifies better financial performance. During the analysed period, the ratio value has constantly increased from 1.25% in 2014 to 7.03% in 2020. This improvement can be linked to the increase in the total amount of assets over the years, due to Netflix's investments.

Return on equity

When it comes to the return on equity, which the use of equity to generate profits, the numbers are also on an incremental basis. The only significant lower value is in 2015 when it is about only 5.86% as compared to the other years. This situation could be linked to the fact that Netflix's had a decrease in profit and an increase in shareholder's equity. This generated a lower value of the ratio.

Return on investment

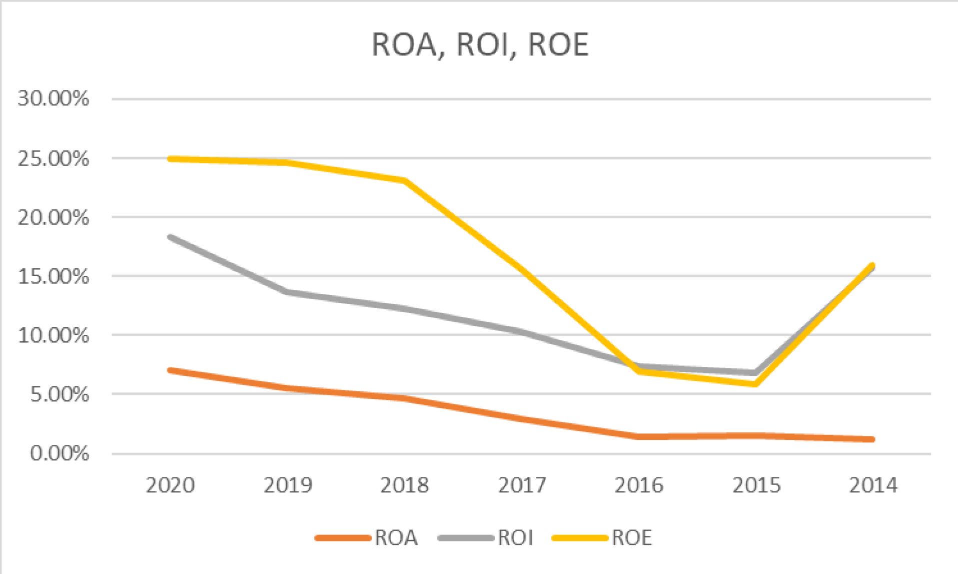
The following ratio is used to indicate how profitable a certain investment has been for a firm. In our case the ratio is increasing over our analysed period, with only one significant lower value in 2015, when again as in the case of the return on assets ratio, Netflix has experienced a decreased in profits in this particular year. The reasons connected to a lower value of the ratio could be that the company continued to invest and thus increase the cost of investment over our analysed period.

Table 7: Profitability ratios of Netflix, 2014-2020

Profitability ratios							
	2020	2019	2018	2017	2016	2015	2014
Net Profit Margin	11.05%	9.26%	7.67%	4.78%	2.11%	2.13%	1.80%
ROA	7.03%	5.49%	4.66%	2.94%	1.37%	1.54%	1.25%
ROI	18.35%	13.64%	12.27%	10.30%	7.42%	6.84%	15.72%
ROE	24.96%	24.62%	23.12%	15.60%	6.97%	5.86%	15.95%
Basic Earning Power	0.1167	0.07665	0.06180	0.04411	0.02795	0.02997	0.05717
Operating Margin	18.34%	12.92%	10.16%	7.17%	4.30%	4.51%	7.32%

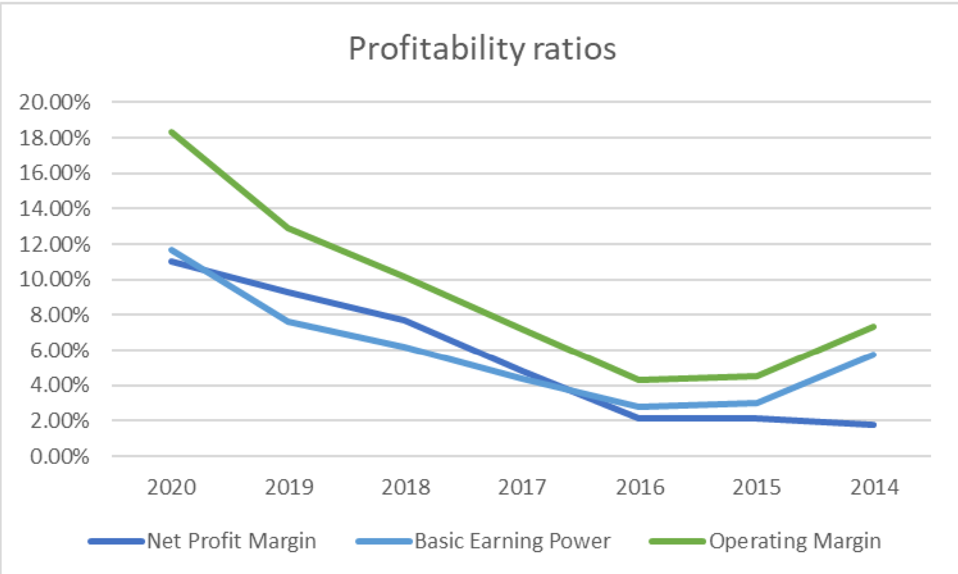
Source: Own creation of the author

Figure 11: ROA, ROI, ROE of Netflix, 2014-2020



Source: Own creation of the author

Figure 12: Profitability ratios of Netflix, 2014-2020



Source: Own creation of the author

4.2.3.4 Leverage ratios of Netflix

The use of these ratios is to assess the capital structure of the company, more specifically how a firm is financing its assets. An extensive amount of debt outsourced from outside could put the company at a high financial risk if the revenues generated afterwards are not high enough to cover their debts in time. It is very important for a firm to have a balance. In the table below, we can see the values of the four important leverage ratios for our financial analysis throughout our chosen period of time.

Table 8: Leverage ratios of Netflix, 2014-2020

Leverage ratios							
	2020	2019	2018	2017	2016	2015	2014
Long-Term Debt-to-Assets Ratio	0.5196	0.5751	0.5486	0.5241	0.4652	0.4361	0.3581
Times interest ratio	20.2057	19.0785	21.9274	29.8422	35.3416	29.0344	63.4352
Debt-to-Assets Ratio	0.7183	0.7768	0.7983	0.8116	0.8028	1.5389	1.4746
Debt-to-Equity Ratio	2.5499	3.4810	3.9581	4.3079	4.0700	3.5888	2.7910

Source: Own creation of the author

Long-term Debt to Assets Ratio

We will start with the long-term debt to assets ratio which is meant to show us how the debts are supposed to be paid in a longer period than one year, have financed the assets of the firm. We can see that between 2014 and 2019 the ratio has constantly increased, from 0.3581 to 0.5751. There is a decreased recorded in 2020, due an increase in the total assets this year, more than in the case of long-term liabilities. These value means that 51.96% of the assets in 2020 are being financed by debt.

Times Interest Ratio

The times interest ratio or also called the interest coverage ratio is supposed to assess how much of a burden debt is for the company, meaning the lower the ratio the more unable it is to pay its debts, leaving less capital to be used for other purposes. Usually, a ratio value less than 1.5 is putting the company in a questionable situation regarding debt payment. Looking at the table above, Netflix has had the highest value of times interest ration in 2014, followed by a decrease of more than 50% in 2015. The following years the ratio has decreased but by lower percentages. The conclusion we can gather here taking the general 1.5 risky value is that Netflix is capable of paying its interest expense on debt quite efficiently but nonetheless, the decrease in the ratio value is pinpointing the massive investment the company has undergone by increasing their long-term debt.

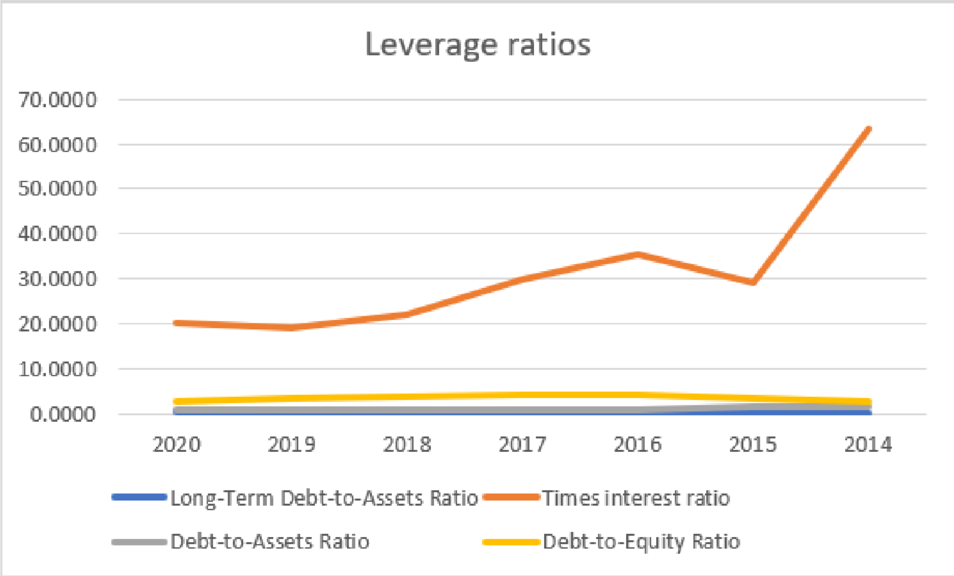
Debt to Assets Ratio

Now, considering the debt to assets ratio, the situation is slightly different. The recommended amount for this ratio would be between 0.3 and 0.6. In 2014 and 2015, the ratio was higher than 1, which means that the company was at a high potential financial risk but Netflix has recovered in the following year by decreasing the ratio results. As of 2020, the ratio is still higher than 0.6, which could mean the situation is not the most ideal.

Debt to Equity Ratio

In the case of the debt-to-equity ratio, the recommendations are a bit subjective to each industry, however, having a value under 2 would be ideal. The negative scenario applies to all the period of our analysis, peaking in 2016 and 2017 with values above 4. For this reason, we could conclude for now that the company is financing capital through debt mostly and not owner's equity. Nonetheless, to get a better overview, we will look at this more in dept in the following chapter, when we will contextualize the ratio with those of the competitors. In the table below, we can illustrate better how the ratio values varied during our seven years period of analysis:

Figure 13: Leverage ratios of Netflix, 2014-2020



Source: Own creation of the author

4.2.3.5 Market Value ratios

Simply, the ratios below are used by investors to determine whether a possible investment in the company would be profitable in time. Usually, when making assumptions of such kind, there are several years taking into account to determine the potential of growth.

Price to earnings ratio

This ratio is showing how much investors are willing to pay for one dollar of return of the investment. The highest amount is reached in 2015, when the investors were willing to pay 408.3$ per share for 1$ return on investment. There was a significant increase of 80.7% from 2014, however the price willingness to pay decreased in the upcoming years from the peak in 2015, by 78.2% in 2020.

Table 9: Market Value ratios of Netflix, 2014-2020

Market Value ratios							
	2020	2019	2018	2017	2016	2015	2014
Price to Earnings Ratio	88.79	78.35	99.87	153.57	294.76	408.3	78.71
Price to Book Ratio	21.64	18.73	22.31	23.23	19.87	13.23	11.11

Source: Own creation of the author

Price to Book Ratio

The following ratio (P/B ratio) is usually used by companies to compare a firm's market capitalization to its book value. The investors are looking at these values in order to assess a possible investment. It is difficult to determine what would be the 'ideal' value of this ratio, as it highly depends on the industry average. For this reason, we will look deeper into the topic in the following chapter when we will include the values of the ratios in the case of the competitors. For now, the ratio fluctuates throughout our chosen period of time, but we can notice the minimum value was reached in 2014 with 11.11 and the highest in 2017 with 23.23. As of 2020, the value of the ratio is not far from the peak value previously mentioned. In some cases, a lower value of the ratio could mean that the company is undervalued, thus considering the value in 2020 is close to the maximum one during the 7-year period of analysis, we could agree that it could represent a positive thing for the financial situation of Netflix.

4.3 Competitors analysis

As we've mentioned plenty of times in the previous chapter, this chapter will be dedicated to undergoing the financial analysis of Netflix by considering the financial analysis of some of its competitors. It is important to contextualize the information we've gathered so far to assess how well Netflix is positioned within its industry and whether the conclusions we've reached so far are valid or not. We will compare the ratios of Netflix with those of its competitors, but also, we will have a brief look at the balance sheet and income statements of each competitor.

Netflix is part of the media and entertainment industry, more specifically a subscription service provider for TV series and movies. In the present time, the most important three competitors, whom are very well known on the market are the following:

- Walt Disney Company
- AT&T
- Amazon

The reason behind focusing on these competitors is that even if as big groups they are providing several different services, they also own some of the most known and used T series and movies service providers in the world. Walt Disney takes part in this industry through Disney+, AT&T owns HBO Max and lastly Amazon is offering streaming services through Amazon Prime.

In the next part of the thesis, we will have a brief look at the financial situation of each of the three competitors during our 7-year period of analysis. All the information listed in the tables below can be found on macrotrends.com, a reliable source of financial information. The analysis will be brief and too detailed as these competitors are not the main part of our main subject of this thesis but play a role solely for contextualizing Netflix's financial situation within the industry.

Table 10: Financial overview of The Walt Disney Company between 2014 and 2020

Walt Disney Company	2020	2019	2018	2017	2016	2015	2014
Total Current Assets	34874	27776	17537	17274	16665	17768	17240
Total Assets	201888	200948	99941	97734	91576	90121	87035
Total Current Liabilities	26546	34797	17619	19875	19317	18796	16804
Total Liabilities	113160	106175	45548	50651	44399	41923	39242
Share Holder Equity	88728	94773	54393	47083	47177	48198	47793
Revenue	60760	75181	59386	55704	55172	54318	49895
Net Profit	-4954	10373	10963	10924	8990	9080	7843

Source: Own creation of the author

We will use the table above to have an overview of the financial situation of Walt Disney between 2014 and 2020. In what concerns the total current assets, the company had the most growth 2019 and 2020 by approximatively 51% as compared to the period before when the growth wasn't so significant. The total liabilities and share holder equity are following the same pattern. If we look at the total current liabilities, the growth is not so significant, thus, we can conclude that Walt Disney outsourced funding through long-term debt to increase their assets.

In terms of revenue, the values are increasing between 2014 and 2019, as well as the net profit. The exceptions of this incremental slope are in 2020 when the revenue decreased by 19% from the previous year and the profit to a negative value. This could mean that the company has been affected by the pandemic crisis and therefore, wasn't able to pay all its expenses.

Table 11: Financial overview of AT&T between 2014 and 2020

AT&T	2020	2019	2018	2017	2016	2015	2014
Total Current Assets	52008	54761	51427	79146	38369	35992	33606
Total Assets	525761	551669	531864	444097	403821	402672	296834
Total Current Liabilities	63438	68911	64420	81389	50576	47816	37282
Total Liabilities	346521	349735	337980	302090	279711	279032	206564
Share Holder Equity	179240	201934	193884	142007	124110	123640	90270
Revenue	1717760	181193	170756	160546	163786	146801	132447
Net Profit	-5369	13900	19370	29450	12976	13345	6442

Source: Own creation of the author

In what concerns the financial situation of AT&T, the company seems to increase all the items listed in the table relatively well, except in 2020. During this year, all the items in the balance sheet as well as the income statement seem to be affected, therefore decreasing. The average of growth between 2014 and 2019 for the items that are part of the balance sheet is between 7-8%. The company has constantly funded new assets through either long-term or short-term debts, but overall, steadily growth is a good sign.

In terms of revenue and net profits, the situation is a bit different. The revenue seems to have increased between 2014 and 2019, with a downfall in 2020, which is not very significant in terms of values. However, the situation is a bit different for the net profit which has been oscillating over the years, peaking in 2017 with a value of 29450 and reaching the lowest value in 2020 of -5369. We could conclude that AT&T has undergone some difficult financial times this year as well as Walt Disney.

Table 12: Financial overview of Amazon between 2014 and 2020

Amazon	2020	2019	2018	2017	2016	2015	2014
Total Current Assets	132733	96334	75101	60197	45781	35705	31327
Total Assets	321195	225248	162648	131310	83402	64747	54505
Total Current Liabilities	126385	87812	68391	57883	43816	33887	28089
Total Liabilities	227791	163188	119099	103601	64117	51363	43764
Share Holder Equity	93404	62060	43549	27709	19285	13384	10741
Revenue	386064	280522	232887	177866	135987	107006	88988
Net Profit	21331	11588	10073	3033	2371	596	-241

Source: Own creation of the author

In what concerns the items found in the balance sheet of Amazon, all of them seem to increase from one year to the other. The most significant growths can be linked to 2019 and 2020, when the average increase of total assets was 29.87%, and of total liabilities was 28.3%. The company has continued to invest over the years in their assets, and they handled well since the net income is constantly growing.

Contrary to the situation of the other companies chosen for our comparison, Amazon seems to not have been affected in 2020 by any major occurrences, on the contrary it has progressed well. The revenue increased by 27.3% in 2020 from 2019, precedented by a somehow proportional increase in the previous years. The net profit increased by 45% in 2020 from 2019, precedented by significant major increases as well in the previous years. The company is doing financially well, proving that it is relevant in terms of comparison with our chosen company, as both have positive values in terms of net profit in 2020.

4.3.1 Comparison of ratios between Netflix and its competitors

Table 13: Activity ratios comparison between 2014-2020

Activity ratios					
	Year	Walt Disney Company	Amazon	AT&T	Netflix
Asset Turnover Ratio	2020	0.08	1.20	0.33	0.64
	2019	0.10	1.25	0.33	0.59
	2018	0.15	1.43	0.32	0.61
	2017	0.16	1.35	0.36	0.62
	2016	0.16	1.63	0.41	0.65
	2015	0.17	1.65	0.36	0.66
	2014	0.15	1.63	0.45	0.78
Fixed Asset Turnover	2020	0.61	3.41	1.35	26.03
	2019	0.78	3.86	1.39	35.66
	2018	0.63	3.77	1.30	37.76
	2017	0.61	3.64	1.28	36.61
	2016	0.65	4.67	1.31	35.27
	2015	0.86	4.90	1.18	39.09
	2014	0.73	5.24	1.17	36.73

Source: Own creation of the author

To start, in the case of the asset turnover ratio we can easily see that Netflix reaches relatively constant values for this ratio during our chosen period of 7 years, with the highest value of 0.7816 in 2014. This would mean that over time Netflix is quite constant in how it manages its assets but nonetheless we need to look at how its competitors are doing in this case. From all 3 competitors, the highest values of asset turnover ratios are given by Amazon which vary between 1.6 and 1.2, in 2014 and 2020 respectively showing that there is also a less efficient way Amazon is managing its assets over time. But having these values, we could conclude that from this point of view, the biggest competitor in terms of efficiency of asset turnover for Netflix is Amazon. If we are to take into consideration a certain trend, all three companies have a lower value of ratios in 2020 compared to the previous 6 years, AT&T occupying the third place after Amazon and Netflix and, finally Walt Disney which has values that don't go higher than 0.16 in all the given years. Strictly compared to the best performer in this case – Amazon, Netflix reaches only around half of Amazon's ratios values but nonetheless this is not enough of a reason to think Netflix is underperforming taking into consideration its business model which differentiates from that of his competitors.

In what concerns the fixed asset turnover ratio, which is supposed to indicate how efficiently a company is at generating profit from its fixed assets, a higher value will mean a better performance in this given case. In the table above, it is visibly clear that our company Netflix is outperforming its competitors with extremely high values of fixed asset turnover. In this particular case, just by a simple comparison, we can conclude that Netflix is far ahead from its competitors, making it a challenge for them to beat this performance. If we are to strictly look at the competitors, again the first in line is Amazon with ratio values between 5.2 and 3.4, followed by AT&T with values that vary between 1.1 and 1.3, and lastly Walt Disney Company who only reaches values under 1, more specifically between 0.6 and 0.8. Taking into consideration that our competitor's industry may vary slightly, the comparison could not make sense for the general case, and the very high amount of ratio values for the competitors should be questioned further whether they are included in the standard interval of "good" fixed asset turnover performance, but what interests us is to find out Netflix's positioning against its competitors. Given this, Netflix is achieving great efficiency in this case and once again a possible threat would be Amazon.

Table 14: Liquidity ratios comparison between 2014-2020

Liquidity ratios					
	Year	Walt Disney Company	Amazon	AT&T	Netflix
Current Ratio	2020	1.31	1.05	0.82	1.25
	2019	0.80	1.10	0.80	0.90
	2018	1.00	1.10	0.80	1.49
	2017	0.87	1.04	0.97	1.40
	2016	0.86	1.04	0.76	1.25
	2015	0.95	1.05	0.75	1.54
	2014	1.03	1.12	0.90	1.47

Source: Own creation of the author

As the formula is stating that total current assets are divided by total current liabilities, reasonably the higher the ratio, the better, in terms of financial performance. From this point of view, comparing the four companies as listed in the table above, we will focus on whether the values are less or higher than 1. As mentioned in the previous chapter, if the values are less than 1, it means the company is probably facing a dangerous liquidity position. Again, just by looking at the ratio values, Netflix is reaching value over 1 for all years between 2014 and 2020, with only one exception in 2019 when the value is 0.9012, putting the company in a slightly dangerous position when it comes to paying its short-term debts. Amazon is the best performer in this scenario, having constantly values above 1, meaning the company is performing very well. When it comes to Walt Disney and AT&T, the situation is a bit different, the companies reaching values under 1 several times. In what concerns the positioning of the four companies, the first in Amazon, second Netflix, third Walt Disney and lastly AT&T.

Table 15: Profitability ratios comparison between 2014-2020

Profitability ratios					
	Year	Walt Disney Company	Amazon	AT&T	Netflix
Net Profit Margin	2020	-8.15%	5.53%	-3.13%	11.05%
	2019	13.80%	4.13%	7.67%	9.26%
	2018	18.46%	4.33%	11.34%	7.67%
	2017	19.61%	1.71%	18.34%	4.78%
	2016	16.29%	1.74%	7.92%	2.11%
	2015	16.72%	0.56%	9.09%	2.13%
	2014	15.72%	-0.27%	4.86%	1.80%
ROA	2020	-2.42%	6.64%	-0.73%	7.03%
	2019	5.07%	5.14%	2.71%	5.49%
	2018	11.09%	6.19%	3.75%	4.66%
	2017	11.56%	2.31%	6.72%	2.94%
	2016	9.86%	2.84%	3.30%	1.37%
	2015	10.34%	0.92%	3.40%	1.54%
	2014	9.30%	-0.44%	2.27%	1.25%
ROI	2020	-3.17%	17.03%	-1.15%	18.35%
	2019	7.35%	13.56%	4.24%	13.64%
	2018	20.88%	15.02%	5.54%	12.27%
	2017	21.28%	5.78%	11.14%	10.30%
	2016	22.18%	8.79%	5.61%	7.42%
	2015	22.45%	2.76%	5.65%	6.84%
	2014	19.87%	-1.27%	4.06%	15.72%
ROE	2020	-5.47%	22.84%	-2.13%	24.96%
	2019	10.66%	18.67%	7.42%	24.62%
	2018	21.29%	23.13%	10.29%	23.12%
	2017	23.57%	10.95%	21.02%	15.60%
	2016	18.86%	12.29%	10.74%	6.97%
	2015	18.43%	4.45%	11.07%	5.86%
	2014	16.32%	-2.24%	7.46%	15.95%
Basic Earning Power	2020	-0.0096	0.0712	0.0122	0.1167
	2019	0.0549	0.0645	0.0507	0.07665
	2018	0.1501	0.0763	0.0491	0.06180
	2017	0.1438	0.0312	0.0450	0.04411
	2016	0.1543	0.0501	0.0583	0.02795
	2015	0.1494	0.0344	0.0616	0.02997
	2014	0.1355	0.0032	0.0411	0.05717
Operating Margin	2020	-7.37%	5.93%	3.73%	18.34%
	2019	13.19%	5.18%	15.43%	12.92%
	2018	24.32%	5.33%	15.28%	10.16%
	2017	24.86%	2.31%	12.44%	7.17%
	2016	25.38%	3.08%	14.37%	4.30%
	2015	25.54%	2.09%	16.88%	4.51%
	2014	23.97%	0.20%	9.22%	7.32%

Source: Own creation of the author

We will start with the net profit margin ratio, which is meant to compare a company's profits to the actual amount of money it brings within. The general rule is that a ratio value of 10% is decent but for example a value around 20% is marking a super performance. For a better understanding of this ratio, we can take an 10% ratio value whose interpretation would be that for each $1 in sales revenue, the company keeps $0.10 net profit margin.
The best performer in this case is Walt Disney Company which reaches the highest values reported to the "good" average performance in general, tipping in 2017 with 19.61% net profit margin. However, the ratio value in 2020 is negative which does not come as a surprise since the company has been quite affected since the pandemic took place in early 2020. In what concerns our company, Netflix has exclusively been increasing its net profit margin since 2014 reaching a 11% margin in 2020, probably signifying that the pandemic affected the company for the better in this case, which is somehow expected since people had more time on their hand to spend on leisure activities such as streaming services. When it comes to Amazon the company is managing to get a decent profit ever since 2014 when its value was negative, and be a on a positive slope, peaking in 2020 with a net profit margin of 5.53%. Even is the value being under our "ideal" 10%, generating profit in 2020 was not an issue for Amazon, the reasoning behind this being a great performance is considered in this case since AT&T has a negative net profit margin in 2020 of -3.13%. Over time, between 2014 and 2020, AT&T had fluctuations in what concerns this ratio reaching even 18.34% in 2017 but started to underperform ever since. Concentrating solely on the last year, in 2020 Netflix is the leader when it comes to net profit generating.

In what concerns the operating margin, we will follow the rule that the higher the ratio, the better the financial performance. If in the previous chapter, we've seen that during our chosen period of time, Netflix has managed to increase the ratio by 11.02%. Taking into account our main rule for evaluation mentioned before, we can see that the best financial performer in our analysis is Walt Disney company with values over 20% almost each year. The sole major exception is in 2020, when the ratio is negative, and the company distinguishes from the other ones as in a situation of great financial risk. For this ratio, we can conclude that Netflix is performing better than all the other companies not only because it has constantly increased the ratio values during the 7-year period of time but also because the amounts by which the ratio values increase are much higher than in the case of its competitors.

Concerning the basic earning power ratio, we will focus on the higher values calculated since a higher value suggests better financial performance, more specifically in this case better capability of generating profits from the total assets. Focusing simply on the values of the ratio for each company, there are not big discrepancies. The averages between 2014 and 2020, for each firm are the following: Walt Disney Company with 0.11, Amazon with 0.04, AT&T with 0.04 and Netflix with 0.05. Walt Disney is in the best financial shape just taking into account the average, but this is not a solid argument at all in this case because between 2018 and 2020, the ratio value has continued to decrease, until reaching a negative value in 2020. If the other companies have a very similar average, by having a look at the incremental or decremental slope of the ratio in time, Netflix is outperforming all of its competitors. The argument behind this conclusion is that it is the only company that managed to constantly increase the ratio value by peaking 2020, whereas AT&T and Amazon have lower values.

The return on total assets ratio, can show us what a company can generate from the total amount of assets. From this perspective, the best performer in time was Walt Disney Company however the ratio value in 2020 is negative. Taking into account that AT&T is part of the same scenario, we can conclude that the best performers in time are both Netflix and Amazon. Both have similar values but looking deeper into this topic to reach a conclusion, the average ROA for Amazon is 3.37% while for Netflix is 3.47%. We can conclude that the best performer in this case is Netflix, winning by a small difference.

In the case of return to equity, all companies are performing well between 2016 and 2018 having values around 16%. Then our focus should switch to the last 2 years of our chosen period of time, 2019 and 2020. Since both Walt Disney Company and AT&T have negative values at the end of 2020, we can conclude that Netflix is outperforming its competitors as having the higher ratio value.

Following the patterns observed below, if Walt Disney Company was a great financial performer in the beginning of our chosen period of time, its situation has continued to worsen over time. We can conclude that as of 2020, Netflix was performing the best out of all four companies but since the values achieved by Walt Disney before are higher than those of Netflix's peak, we can say that our chosen company is doing well but there is room for improvement.

Table 16: Leverage ratios comparison between 2014-2020

Financing ratios					
	Year	Walt Disney Company	Amazon	AT&T	Netflix
Long-Term Debt-to-Aseets Ratio	2020	0.43	0.32	0.54	0.52
	2019	0.36	0.33	0.51	0.58
	2018	0.28	0.31	0.51	0.55
	2017	0.31	0.35	0.50	0.52
	2016	0.27	0.24	0.57	0.47
	2015	0.26	0.27	0.57	0.44
	2014	0.26	0.29	0.57	0.36
Time interest-earned ratio	2020	3.53	20.97	0.81	20.21
	2019	11.76	18.93	3.32	19.08
	2018	25.58	12.71	3.28	21.93
	2017	32.84	6.36	3.33	29.84
	2016	46.91	10.90	4.96	35.34
	2015	61.28	5.46	6.02	29.03
	2014	48.57	1.04	3.25	63.44
Debt-to-Assets Ratio	2020	0.56	0.71	0.66	0.72
	2019	0.53	0.72	0.63	0.78
	2018	0.46	0.73	0.64	0.80
	2017	0.52	0.79	0.68	0.81
	2016	0.48	0.77	0.69	0.80
	2015	0.47	0.79	0.69	1.54
	2014	0.45	0.80	0.70	1.47
Debt-to-Equity Ratio	2020	1.28	2.44	1.93	2.55
	2019	1.07	2.63	1.73	3.48
	2018	0.87	2.73	1.74	3.96
	2017	1.13	3.74	2.13	4.31
	2016	0.94	3.32	2.25	4.07
	2015	0.81	3.84	2.26	3.59
	2014	0.75	4.07	2.29	2.79

Source: Own creation of the author

In what concerns the long-term debt to assets ratio, we will proceed with the rule that the higher the ratio, the higher the financial risk. AT&T seems to have quite the same value of the ratio throughout our chosen period of analysis and its situation is similar to the one of Netflix. The other two companies, Walt Disney and Amazon are close in terms of values between them, but the values are lower than in the case of the first two companies mentioned. Overall, we can conclude that Amazon is the firm with the lowest level of financial risk by having an average of 0.3016 over the 7-year period, meaning only 30% of the total assets are funded by long-term debt.

Moving on to the times interest ratio, as we have mentioned in the previous chapter, the lower the ratio, the bigger the financial burden due to debt. At a first glance, the only worthy competitor for Netflix would be Walt Disney Company who seems to have relatively high values for the ratio as Netflix, whilst AT&T is at the back of our list having several times lower values than 1.5. In the recent years, Netflix seems to have kept a somehow constant variance of the ratio meaning there is a balance when it comes to handling their interest expense compared to the variations of its competitors. Overall, we can conclude that Netflix is standing out in terms of interest coverage ratio, meaning while there were heavy investments done, the financial risk is low.

For the debt to asset ratio, the recommended values must be between 0.3 and 0.6. As we have mentioned in the previous chapter, the situation for our company is not the most ideal. The table above helps validating this initial conclusion as the values show that Netflix is doing much worse than all its competitors. The best financial performing company in this case is Walt Disney, who has the lowest values of the ratio concerned here.

Concerning the debt-to-equity ratio, contextualizing is the only solution with the help of which we can correctly contextualize Netflix's situation. If the recommended values should be below 2, we could conclude that Netflix and Amazon are facing financial risk as they are financing capital through debt and not shareholder's equity. Walt Disney Company is the only company who constantly has values below 2.

Table 17: Market Value ratios comparison between 2014-2020

Market Value ratios					
	Year	Walt Disney Company	Amazon	AT&T	Netflix
Price to Earnings Ratio	2020	0.00	77.97	0.00	88.79
	2019	22.99	80.31	18.92	78.35
	2018	14.82	74.61	8.60	99.87
	2017	14.83	190.16	6.67	153.57
	2016	18.01	152.72	15.81	294.76
	2015	18.50	545.07	10.87	408.30
	2014	19.55	0.00	19.74	78.71
Price to Book Ratio	2020	3.64	17.54	1.27	21.64
	2019	2.72	14.83	1.29	18.73
	2018	2.99	18.10	0.93	22.31
	2017	3.33	20.43	1.37	23.23
	2016	3.38	18.55	1.63	19.87
	2015	3.50	23.79	1.26	13.23
	2014	3.12	13.44	1.35	11.11

Source: Own creation of the author

Concerning the price to earnings ratio, all companies are great performers in 2020, except AT&T who has the lowest value, lower by 90%. During our 7-year chosen period of time, investors were much more likely to invest in Amazon and Netflix than the other two companies. There is a need to mention that in 2014, the P/E ratio value for Amazon is 0 because the return on this investment was negative and thus, investors were not willing to pay for loss.

In the case of price to book ratio, as mentioned in the previous chapter it is extremely important to contextualize the ratio values within the values of the industry. For this part, Netflix is outperforming its competitors not only in terms of average over time but also the price to book ratio value listed in 2020, being the highest out of all its competitors. We can conclude that our initial assumption about a positive characteristic for Netflix, was correct.

5 Results and Discussion

The aim of this chapter is to assess the results we have gathered in the previous chapter, in order to evaluate the financial performance of our chosen company on the market. One of the main goals set at the beginning of the thesis was to propose certain measures for improvement, whatever the outcome of the financial analysis would be. To undertake this challenge, a questionnaire has been sent out to users of the streaming services that Netflix provides that will be then contextualized within a SWOT analysis of the company. This approach will give us information about the possible future financial outcomes for the company considering the current competition.

In the following part of the thesis, we will focus on a discussion of the results gathered so far, the interpretation of the questionnaire within the SWOT analysis and eventually on certain proposed measures for the company after the pandemic crisis.

5.1 Summary of the results from the financial analysis

The main objective of the thesis was to analyse the financial performance of Netflix and generate conclusions which then could serve as a basis for the proposition of certain recommendations. The obtained results could be identified as a source of valuable information regarding the financial situation in which the company finds itself within, but also an overall evaluation of the industry by taking into account the situation of the main competitors. The results obtained throughout the thesis could be summarized in the following manner:

- In what concerns the evaluation of assets, during our 7-year analysis the company has managed to increment the amount of total assets, especially the non-current ones, while the current ones were decreasing. The numbers are showing that the non-current assets reached an impressive value of 81.81% in 2019 followed by 75.15% in 2020 of out the total assets. Since they are dominant as compared to the current assets, this could put our company at risk since they could lose value in time.
- In terms of liabilities, the company has managed to decrease the amount of current liabilities during our chosen period but at the expense of increasing the non-current ones. For this reason, Netflix has taken the risk of heavily

outsourcing funds thorough long-term debts. The highest amount of non-current liabilities was reached in 2019 when they represented 57.51% out of the total liabilities.

- Moving on to shareholder's equity by considering the previously mentioned information about liabilities, the results show that liabilities have a much heavier place within the balance sheet than the shareholder's equity. However, they are listed in an incremental slope in the balance sheet, meaning funding sourced by shareholder's equity have increased, making the company more valuable on the market.
- In what concerns the activity ratios, Netflix proved to be a great financial performer in comparison to its competitors. Even given the high amount of non-current assets mentioned before, our company proves to obtain high values of fixed asset turnover ratio. We can certainly conclude that Netflix successfully manages to use efficiently use its assets.
- In terms of liquidity, considering the results of the liquidity ratios, our company managed to stand out with values over 1. However, it is not the best performer in the industry, as Amazon was a much greater financial performer in this case. However, our analysis proves that Netflix is at a good liquidity level and not in a risky financial situation.
- In what concerns the profitability ratios a possible correlation could be done with the liquidity ratios mentioned before to obtain valid arguments for the conclusions gathered. Since we have stated that Netflix had a reasonable level of liquidity, the results of the profitability ratios show the same scenario. If the competitors have witnessed financial problems in the recent times, more specifically in 2020. The sanitary crisis could be a reason for this situation, even if the argument is a bit generic, but nevertheless important. Netflix as well as Amazon have managed to stay above the floating line during our chosen period for the analysis by constantly improving their financial performance.
- When it comes to the profitability ratios, we have seen that Netflix has undergone heavy financial investments. Our aim was to assess to what extent the company was facing financial risk. Considering only the times-interest-ratio, we have concluded that the company was facing a low financial risk.

However, after analysis the rest of the profitability ratios such as debt to asset ratio and debt to equity ratio, Netflix has been doing much worse than its competitors. The conclusion we can gather here is that Netflix is not the best at handling its assets made through investment compared to the industry average, but nonetheless the existing financial risk remains low and proving its survival on the market.

- In what concerns the market ratios, our analysis proved that Netflix was a company that the investors were much more likely to invest. It has proven to stay relevant on the market and continue to be an option of investment in the eyes of the investors. According to Wit (2021), the company has dropped in terms of market share in 2021 by 31%, more specifically from 29% to 20% due to new entrants on the market. The number of subscribers has increased during the sanitary crisis in 2020 and even with the drop in market share mentioned before, Netflix is on top of the top five streaming services list as it follows: Netflix 20%, Amazon Prime 16%, Hulu 13%, HBO GO 12% and Disney Plus 11%.

5.2 Questionnaire results

The questionnaire used for the purpose of this thesis, involved questions that were supposed to get an overview of what users or non-users of Netflix are considering when subscribing as well as the company's positioning on the market as compared to its competitors. The aim of the questionnaire was to determine what are some of the issues faced by the respondents and what are their habits when using the streaming serviced offered by Netflix in order to generate possible measures of improvement. Simultaneously, the questionnaire will work as a tool to help answer our research questions and evaluate whether the financial conclusions gathered so far are relevant. In what concerns the limitations of our questionnaire, it is very important to mention that as of 2021, Netflix has 214 million paid subscribers. For this reason, the relevancy of our results might be limited in terms of accuracy. Taking this into consideration and also the latest information about Netflix's demographics according to Dixon, (2021), the age percentages are split in the following order according to Screen Media: 22% under the age of 17, 26% between the age of 18 and 34, 29% between the age of 35 and 54 and 23% above the age of 55. Having this information as a basis, the questionnaire was sent out to 50 respondents that were characterized by these percentages approximatively in terms of age. The aim of this approach was to increase the accuracy of our questionnaire results as the total amount of Netflix subscribers is impossible to be reached for the purpose of this questionnaire. The example of the questionnaire which was sent out is attached in the appendix part of this thesis.

Out of all 50 respondents, 10 (20%) were under the age of 18, 13 (26%) were between 20 and 30 years old, 15 (30%) were between 31 and 50 years old and 12 (24%) were older than 50 years old. The response rate was 100%.

The first question referred to whether the persons asked were currently using technology to stream TV shows or movies. Out of all the respondents, 95.2% responded yes, meaning 47 respondents. This means that the results of our questionnaire could be more relevant. For the non-users there has been included a questionnaire that would identify what would make them become a Netflix subscriber. We will investigate this later in this subchapter.

Out of all the 47 respondents mentioned before, 95.2% are subscribers of Netflix. Since this was a checklist type of question, they are not only subscribers of this specific platform but also of the other competitors' platforms mentioned in our questionnaire. In the top of the list is Netflix, followed by Amazon Prime with 57.1%, HBO GO with 23.8% and Hulu with 9.9%. 33.3% of respondents are using other platforms to stream TV shows or movies.

In what concerns the time spent on streaming services platforms, no respondents spend less than 1 hour per week, 42.9% spend between 1 and 4 hours, 33.3% spend between 5 and 8 hours whilst 23.8% spend more than 8 hours.

The fourth question was meant to separate the users of Netflix from the users of other platforms. 95.2% responded yes, and the rest of 4.8% was redirected to the 10th question.

The fifth question was referring to the longevity that characterized each Netflix subscriber, since he has joined the streaming service provider. 63.2% of the respondents have used the service for more than 3 years while the rest of 36.8% have subscribed less than 3 years ago.

The next question was related to assessing how many times per week subscribers are using the platform. 72.2% of respondents are using Netflix between 2 and 6 times per week, whilst only 9.5% use it more than 6 times and 14.3% less than 2 times.

Question number 7 was used to determine the level of addictiveness to the platform, by asking with the help of an open question, the reasoning behind the willingness to unsubscribe from the app overnight. 61% of the respondents are not willing to unsubscribe due to either the qualitative and interesting content it has listed on the platform or the relative addictiveness that the platform offers. The rest of the respondents would either unsubscribe for financial reasons or for finding more qualitative content elsewhere.

An important question that we considered asking is whether the sanitary crisis has impacted the subscribers' tendencies when it comes to watching Netflix shows or movies. The results show that 61.9% have increased the time spent on the platform since the pandemic started.

Question number 9 was meant to be focused on recommendations the respondents propose in terms of improvement of the platform, and it was developed as an open question in order to reduce the bias of each person. 24% of the respondents responded that they wouldn't recommended anything in terms of improvement due to their current high level of satisfaction. 14% responded that would improve the quality of the movies and TV shows streamed on the platform, 30% answered that they would prefer to have access to more iconic movies and blockbuster, 18% of the respondents said that they would like watch Netflix original TV shows or movies that are based on more interesting and original ideas. The rest of the of the 14% of respondents had diverse views on possible recommendations, however the one worth mentioning would be not increasing the price for subscription.

The last question was meant to be focused on those respondents that did not have a Netflix subscription, in order to assess possible incentives for them to join the platform. The question was built as a multiple choice to have structured answers that are categorized in terms of price, personal preference or socially related. 50% of the respondents said that they would subscribe to the streaming service if a certain show they like will become available on the platform, 36% answered that they would subscribe if the price was lower and the remaining 14% said that they would join if they would be pressured by friends or family.

5.3 SWOT Analysis

The purpose of this chapter is to incorporate the quantitative research done with the help of the survey in the previous chapter and to gather possible measures of improvement for future financial stability. The following matrix will illustrate the main internal factors generating the strengths and weaknesses of the company in the presence of the external factors namely threats and opportunities.

Table 18: SWOT matrix of Netflix

Strengths	**Weaknesses**
• Brand reputation • Exponential growth • Global presence • Adaptability • Netflix original content • Affordability • Adds free streaming • Binge watching	• Limited copyrights • Increasing debts • Lack of original content in certain countries • Replicable business model
Opportunities	**Threats**
• Product line expansion • Strategic partnerships • Expansion in newer markets • Different language content	• Government regulations • Content piracy • One account shared among several users • Increased competition • Covid-19 stopped production related

Source: Own creation of the author

Strengths

According to EdrawMax, the strengths of a company are a key factor to plan it's expansion. As one of the most known streaming services, Netflix benefits from it's high level of popularity, especially in the recent years due to its massive expansion. This represents one of the reasons for which exponential growth is one of the traits Neflix acquired and still benefits from in the present times. In my personal opinion, the global presence due to its expansion and the adaptability are two complementary strong points for the company, which led to creating Netflix original content that not only is affordable for the public but is also on high demand due to affordability, ads free streaming and binge watching.
Even if the affordability is one of the strenghts of Netflix, according to our quantitative research survey, 39% of the surveyed people would unsubscribe from Netflix due to financial reasons. This could signify that with all the affordability already given, the prices of Netflix are relatively at the upper limit. This statement is also proven by taking into account question 9 and 10. In the case of question 9 from the survey, 14% of the respondents mentioned that if there were any recommendations for the streaming services it would be to not increase the price in time. Question 10 also offers a valuable information about how Netflix could give more incentives for the non-subscribers to join the service and that would be offering lower prices.
Two other important strenghts of Netflix is the ads free content as well as binge watching. Considering the streaming services are payable, Netflix offers a large amount of content that can be watched without being disturbed with ads or any promotional content during watchtime, in a world where lots of platforms are either surviving or incresing their revenues with this approach. Binge watching has its importance as it offers the viewers the possibility to watch an entire season of their chosen serie in one go. This is attributed to customer retention.

Weaknesses

When it comes to the weaknesses, a disadvantage of the initial business model is the limitation when it comes to copyrights. Since Netflix started out as listing content from different creators, which offered great visibility at first, but not exclusivity, which is why its competitors can also have access to this content easily. However, having those copyrights it involves heavy investments and therefore financial burdens. This is one of the reasons the long-term liabilities have increased over the years.

The content listed on the platform is only available in different countries, which is why the lack of it in different countries represents a weakness for the company as the demand for the package offered by Netflix is low.

Lastly the business model of the company is easily replicable, and this is one of the reasons competition has severely increased over the years, which could put Netflix in a dangerous spot over the years if they won't have a strategy to stand out. This fact is also proven by the study done with the help of the questionnaire, when besides being subscribers of Netflix, the respondents were also subscribers to other platforms, more specifically to Amazon Prime with 57.1%, HBO GO with 23.8% and Hulu with 9.9%. 33.3% of respondents are using other platforms to stream TV shows or movies.

Opportunities

In what concerns the opportunities of Netflix, there are four main topics which could play an advantage for the company in case of adoption.

Considering that one of the competitors with a big impact is Disney Plus, we could consider it as a proper example of product line expansion. Since Netflix has created its own original content, the fan base has as well increased, meaning investing in a theme park would represent a great opportunity to increase revenues and attract a new customer base.

Another example of opportunity would represent creating strategic partnerships with different local markets in order to strengthen the customer base in different locations in the world.

An extension to new markets could also represent a great opportunity for Netflix due to its popularity and brand reputation. This is also complementary with creating content in different languages. Since creating its own content, Netflix has dared to have series or movies in certain languages, not necessarily heavily used around the world but it played an important role in bringing authenticity to the shared stories.

Threats

A first threat we can mention is correlated to one of the opportunities we mentioned before and that is the government regulations that are stopping Netflix from emerging in other markets given that it represents a great opportunity of growth for the company.

In a world where technology is taking over, Netflix is subject to content piracy. Since over the years it has become easier and easier to do so, many people prefer to watch pirated content rather than paying a fee. This represents a huge threat for the company as again, increasing the price would not represent a good strategic move.

The packages offered by Netflix are either a basic plan for one person, a standard plan for 2 people or a premium plan for 4 people using the platform at the same time. This represents a source of flexibility to use the streaming services in a family for example but represent a way to share the account with other people as well. By doing this, the people sharing the account can watch in rotation the content and therefore not pay for using someone else's account.

Like we have mentioned before, the business model is easily replicable, therefore the competition has increased over the years and is increasing in the present moment, making Netflix's competitors real challengers on the market, as we've seen as well in the financial analysis comparison before.

We can mention is that the pandemic crisis has had negative effects on the efficiency of content production as the production had to stop for several months. This slowed down the processes of content delivery, therefore has affected the financial statements details, but we will dig deeper into this topic in the following chapter.

5.4 The effects of the pandemic on Netflix

The pandemic crisis that emerged at the beginning of 2020 has played a major role in the financial performance of Netflix. Right at the beginning of the first quarter of 2020, the CEO and co-founder anticipated easily how the finances are going to be affected by the issued quarantine at the time. As many people had to stay home for several weeks or months, it was inevitable that the leisure time available will be longer. For this reason, at the start of the pandemic, the number of new Netflix subscribers has increased rapidly. Another occurred situation at the time was that several TV series or movie productions have been shut down, meaning the spending will be delayed as well improving the overall cash-flow for quarter one. One last prediction that the CEO mentioned was that due to the increase in value of the U.S. dollar the revenue values will be dragged, as in some countries the foreign exchange rates will affect the total expected revenue.

We can easily oversee now after doing our financial analysis and interpreting the results of the questionnaire, that the good financial performance of Netflix we have concluded before, is due to some extent to the sanitary crisis. This is also an argument that we can use in order to assess that the worse financial performance of its competitors is a repercussion of this situation as well.

This situation proved to be only temporary for our company, since there has been a decrease in the number of subscribers in the second quarter of 2020, followed by an increase again in quarter three, due to a new set of imposed social restrictions. As the revenue of Netflix depends on the subscribers' fees, the social restrictions and tendencies are affecting the quarterly results and therefore the pandemic is a huge factor of influence of the financial performance.

As of 2021, Netflix has regained its power, increasing the number of its subscribers. There is needed to be mentioned that in 2020, Netflix has not shut down production completely in Korea, and for this reason, in 2021 our company has managed achieve over 42 billion views for the show called "Squid Game". With this, it has only managed to increase the number of subscribers but also become a competent and valuable competitor for other video platforms such as TikTok or YouTube, proving it's worth on the market.

5.5 Discussion over research questions

This subchapter is supposed to undergo a discussion in what concerns our research questions after the study we have consolidated. When stating the objectives of this thesis we have compiled two main research questions, one regarding the limitations of the financial analysis and another one regarding the possibility of the misleading traces the sanitary crisis might have overshadowed the actual financial performance of the company. The research questions are somehow complementary because the sanitary crisis is one of the limitations of financial analysis.

To start with the first research question, "Can the limited and traditional tools used for our financial analysis fully assess the real performance of our chosen company taking into the account its competitors?", we will need to investigate one of the previous subchapters listed in the literature review part of the thesis. Brigham and Houston (2019) state a few of these financial limitations. Firstly, when doing a comparison between competitors, it is hard to compile accurate data as different companies could have divisions in different industries. This was the case for us, since all three chosen competitors for Netflix have started their business in a completely different industry than the streaming service one. For this reason, the financial data available is coming from different sources of income which are affecting the values listed in the financial statements, whilst Netflix is concentrating on solely one. It is nearly impossible to compile data only from one division of the business to achieve completely accurate data. During our research, we have tried to make an average of the industry but nonetheless this is a limitation to our financial results. O'Regan (2016) has shown that economies of scale and inflation are one of the limitations as well. In what concerns this point, it is a reality in our case since there have been fluctuations in both fields since our analysis is done through a somehow long period of time, and they have had an impact over the actual valuation of assets in the financial statements. Brigham and Houston (2019) also stated that seasonal factors are also limitations to the analysis and the best two examples would be the genesis of the pandemic crisis which affected the financial performance of companies in different manners and secondly that in the case of Walt Disney, which gains revenue also from its theme parks. For this last point, during peak holidays season the income is affected in a positive manner while as during the rest of the year is could have different values. The longevity on the market of each competitor brings also limitations to the interpretation of the financial data. As we have seen each company mentioned in this thesis has had a different start point in time. The argument enforcing this is also one of the strengths mentioned in the SWOT analysis, and that is the global brand recognition. Disney for example is benefiting from a high level of popularity since it has started early in time while Netflix has had to overcome many steps before having this huge popularity nowadays. In what concerns the term of "window dressing" by Brigham and Houston (2019), the information is quite limited to find out whether the companies are borrowing money and investing them with the aim to be more appealing to the investors. Seemingly, in the case of Netflix, borrowing have been done throughout the 7-year period, but nonetheless is has shown results in what concerns the returns on investment, but then again Ravinder (2013) mentioned corporate secrecy as one of the reasons for which financial data can be misinterpreted. Lastly, the actual interpretation of the ratios is difficult to be pinpointed to a very good level of accuracy or not.

One limitation I personally need to mention, is also the limitation of our questionnaire. As mentioned before, dealing with a company with a high number of customers, our access to diverse information from a large scale of Netflix subscribers is almost impossible.
All in all, we can conclude that we have been subject to all the limitations mentioned by different authors and studies made and that the accuracy of our thesis interpretation is limited to the availability of information we have as made public, the sole source of our analysis.
Regarding the second question of our research, and that is "Has the pandemic played a major role in the financial positioning of our company in 2020 leaving misleading traces concerning the actual financial performance?" the answer would be yes. In a normal state and environment, the companies would have had very different financial performance results. But since the sanitary crisis has had a major impact globally and the different competitors having divisions in different industries, this led to whole different scenario due to losses in certain domains or work. For this reason, the results of the analysis done throughout a 7-year period are highly alienated at the end of 2020 in what concerns the actual financial performance, due to only one year. We can conclude that the results at the end of 2020 are not showing the actual financial performance of the companies in normal circumstances.

5.6 Proposed measures

In this chapter we will investigate some of the recommendations we could give the company based on the findings we've concluded in our research. There are 4 main proposed measures that could keep the company afloat on the market in time and strengthen its weak areas.

Product line expansion

One of the opportunities we have mentioned before is product line expansion. If the previous comparison was with Disney Plus in terms of creating a theme park, we could develop the idea even further by bringing something more within their original content. As the preferences of people in terms of content is vast, by including anime, comics, small series or stand-up comedy pieces. This is also proven by the results of the last question of our survey in which 50% of the non-subscribers would subscribe if there was a specific content streamed on the platform based on their liking and 14% would join due to social pressure. By extending the product line within this variety, Netflix could cover much more of the market share.

Strategic Partnerships

Uniqueness of content is what made Netflix popular in the last years and therefore by making strategic alliances with different local markets would represent a great approach. Each Netflix original content differs from the others, however when the content brings a sense of identifiability to the public it can become appealing to customer retention.

Piracy

Since one of the biggest threats for the company is represented by content piracy, Netflix should take several strict measures for stopping this issue. This will require a heavy investment but in the long run it could save the company from much bigger losses.

Diversity in plans and pricing

As we have seen in repeated times over the course of our survey's results, pricing is one of the risky sides of Netflix's strategy, as it represents an advantage from one point of view by being affordable but also a risk if not handled well. Since the results of our survey are pointing out that increasing the prices would make the existing subscribers quit the platform this represents a clear sign that the prices are still relatively at the upper limit. Given all the investments Netflix has done in the recent years and the proposed measures we've listed before, it would imply that in order for those to be attainable, Netflix should invest even more. This could put the company at financial risk. What could be a solution in this case, is extending the narrow plans and pricing it currently offers to make sure that a high return on investments is achievable.

6 Conclusion

The purpose of this thesis was to bring a valuable internal financial evaluation in a comprehensive and well-structured manner in order to assess the financial performance of a chosen firm. For the redaction of the thesis, more specifically for accurately analysing the financial situation of Netflix there have been considered several factors, both internal and external.

The paper is divided into three main parts: literature review, practical part and the results and discussion part.

The theoretical part represented our point of reference in what concerns the theory behind the financial analysis, explaining different financial tools such as types of financial analysis and ratio analysis. The formulas listed in this part of the thesis were then applied to the specific conditions of our company, to create a framework of performance.

In what concerns the practical part, we have looked in to the three types of financial analysis – horizontal, vertical and ratio analysis. Each one of them has played an important role in our mission to assess the financial performance of our company. The framework we tried to compile is however limited is not contextualized within the industry average or with the help of competitors' analysis. We have chosen and looked into the financial performance of the three most important competitors on the market, and ratios averages have been also taken into account to assess the industry average. The results show that our company stands out in terms of performance as it has proven to constantly generate and improve the levels of revenue while also efficiently managing the assets and the debts levels.

In the results and discussion part we have looked into the main conclusions we could generate from the financial analysis done in the practical part and look into certain points of improvements that the current subscribers of Netflix would recommend. In order to obtain these recommendations, we used a questionnaire. Even if there are certain limitations when it comes to a firm of such a big scale and having access to a very small part of the subscribers of platform owned by the firm, we have tried to select respondents that are classified in the same age-demographic category as Netflix's subscribers. With the use of the results of the survey, we have managed to dive into the SWOT analysis of the company in which we integrated the results of the survey in order to generate a round of proposed measures for improvement for the company. Later, we had a look at how the financial performance of Netflix was affected by the sanitary crisis of 2020 and that certain values listed in the balance sheet and income statement are influenced by the repercussions our company had to implement. For this reason, in a “normal” context, without any sanitary crisis, we could probably obtain other results, as some of the competitors have been negatively affected by this circumstance while our company was positively affected.

All in all, the results have shown that Netflix is a leader in the streaming services industry, which has gotten to this point with the help of strategic investments and therefore good financial performance. The probability of it remaining in the top of the industry is high if it continues to innovate and work on the weak areas and threats.

7 References

Books and Articles

Barnes, Paul, 1987. *The analysis and use of financial ratios: A review article. Journal of Business Finance & Accounting*. Vol. 14, no. 4p. 449–461. DOI 10.1111/j.1468-5957.1987.tb00106.x.

Brigham, E., & Houston, J., 2019. *Fundamentals of Financial Management*. Cengage. ISBN: 978-1-337-39525-0

Bull, R., 2008. *Financial ratios: How to use financial ratios to maximize value and success for your business* (1st ed.). Kaplan Publishing.

Friedlob, G. Thomas and F., Schleifer Lydia L., 2003. *Essentials of financial analysis*. Hoboken (New Jersey) : John Wiley. ISBN 0-471-22830-3

Fridson, Martin S. and ALVAREZ, Fernando, 2011. *Financial statement analysis: A practitioner's guide*. Fourth. Hoboken, NJ : Wiley, 2011. ISBN 978-0-470-63560-5

Helfert, Erich A., 2001. *Financial analysis: Tools and techniques: A guide for managers*. New York : McGraw-Hill. DOI: 10.1036/0071395415

Kulikova, L.I., Garyntsev, A.G. and Gafieva, G.M., 2015. *The balance sheet as information model. Procedia Economics and Finance* [online]. Vol. 24, p. 339–343. [Accessed 13 November 2021]. DOI 10.1016/s2212-5671(15)00675-9. Available from: https://www.sciencedirect.com/science/article/pii/S2212567115006759

Lakada, M,.N., Lapian, S.L.H.V.J. and Tumiwa, J.R., 2017. *ANALYZING THE FINANCIAL STATEMENT USING HORIZONTAL – VERTICAL ANALYSIS TO EVALUATING THE COMPANY FINANCIAL PERFORMANCE PERIOD 2012-2016 (Case Study at PT. Unilever IndonesiaTbk)*. Vol. 5. ISSN 2303-1174

O'Regan, P., 2016. *Financial Information Analysis: The role of accounting information in modern society*. Routledge. ISBN: 978-0-415-69584-0

Ravinder, D. D., 2013. *Financial Analysis – A Study. IOSR Journal of Economics and Finance*, *2*(3), 10–22. https://doi.org/10.9790/5933-0231022

Mishra, S., 2015. *Financial statement analysis: Meaning, objectives and limitations: Firm*. Your Article Library. Retrieved November 20, 2021, from https://www.yourarticlelibrary.com/accounting/financial-statements/meaning-financial-statements/financial-statement-analysis-meaning-objectives-and-limitations-firm/66775.

Meaning, significance and objectives of financial analysis, 2020. *Toppr*. Retrieved November 20, 2021 from: https://www.toppr.com/guides/accountancy/analysis-of-financial-statements/meaning-significance-objectives-financial-analysis/

Whittington, G., 1980. *Some basic properties of accounting ratios. Journal of Business Finance & Accounting, 7*(2), 219–232. https://doi.org/10.1111/j.1468-5957.1980.tb00738.x

Websites

Annual Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act Of 1934, 2019. UNITED STATES SECURITIES AND EXCHANGE COMMISSION. Retrieved November 20, 2021 from https://www.sec.gov/Archives/edgar/data/0001065280/000106528019000043/form10k_q418.htm

AT&T Corporate profile, 2019. AT&T News, Wireless and Network Information. Retrieved November 20, 2021, from https://about.att.com/pages/corporate_profile.

Chen, James. Income statement. *Investopedia* [online]. Retrieved November 20, 2021, from: https://www.investopedia.com/terms/i/incomestatement.asp

Dixon, C., 2021. *User demographics for Netflix, Disney+, Tubi, and YouTube*. ScreenMedia. Retrieved November 20, 2021, from https://nscreenmedia.com/streaming-user-demographics-top-4-services/.

Fernando, J. *What is a balance sheet?* Investopedia. Retrieved November 20, 2021, from https://www.investopedia.com/terms/b/balancesheet.asp.

Gardner, Matthew, 2019. *Netflix posted biggest-ever profit in 2018 and paid $0 in taxes. ITEP*. Retrieved November 13, 2021, from: https://itep.org/netflix-posted-biggest-ever-profit-in-2018-and-paid-0-in-income-taxes/

Income statement, Corporate Finance Institute, 2020. Retrieved November 20, 2021, from https://corporatefinanceinstitute.com/resources/knowledge/accounting/income-statement/.

Marks, Gene, 2019. *How did netflix get away with not paying income tax in 2018? The Guardian*. Retrieved November 13, 2021, from: https://www.theguardian.com/media/2019/feb/10/netflix-income-tax-2018-didnt-pay

McFadden, C., 2021. *The rise and rise of amazon: A brief history of the everything store*. Interesting Engineering. Retrieved November 20, 2021, from https://interestingengineering.com/a-very-brief-history-of-amazon-the-everything-store.

Netflix SWOT ANALYSIS. Edrawsoft. Retrieved November 15, 2021. Available from: https://www.edrawmax.com/article/netflix-swot-analysis.html

Statement of cash flows., (2021). Corporate Finance Institute. Retrieved November 20, 2021 from: https://corporatefinanceinstitute.com/resources/knowledge/accounting/statement-of-cash-flows/

Stoll, J., 2021. *Global number of Disney+ subscribers 2021*. Statista. Retrieved November 20, 2021, from https://www.statista.com/statistics/1095372/disney-plus-number-of-subscribers-us/.

Stories move us, they make us feel more emotion, see New Perspectives, and bring us closer to each other. About Netflix. Retrieved November 20, 2021, from https://about.netflix.com/en.

Wit, Alex Dudok de., 2021. *Report: Netflix lost 31% of U.S. market share in past year. Cartoon Brew*. Retrieved November 20, 2021 from: https://www.cartoonbrew.com/business/report-netflix-lost-31-of-u-s-market-share-in-past-year-204170.html

8 Appendix

Balance sheet of Netflix from 2014 to 2020

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Cash on Hand	8205.55	5018.437	3794.483	2822.795	1733.782	2310.715	1608.496
Receivables	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Pre-paid Expenses	-	-	-	-	-	-	-
Other Current Assets	1556.03	1160.067	5899.652	4847.179	3986.509	3121.125	2318.557
Total Current Assets	9761.58	6178.504	9694.135	7669.974	5720.291	5431.84	3927.053
Property, Plant and Equipment	960.183	565.221	418.281	319.404	250.395	173.412	149.875
Long-Term Investments	-					-	-
Goodwill And Intangible Assets	-					-	-
Other Long-Term Assets	28558.6	27231.99	15861.98	11023.36	7615.924	4597.619	2965.572
Total Long-Term Assets	29518.78	27797.21	16280.27	11342.77	7866.319	4771.031	3115.447
Total Assets	39280.36	33975.71	25974.4	19012.74	13586.61	10202.87	7042.5
Total Current Liabilities	7805.785	6855.696	6487.32	5466.312	4586.657	3529.624	2663.154
Long-Term Debt	15809.09	14759.26	10360.06	6499.432	3364.311	2371.362	885.849
Other Non-Current Liabilities	4600.239	4778.599	3888.257	3465.042	2955.842	2078.459	1635.789
Total Long-Term Liabilities	20409.33	19537.86	14248.31	9964.475	6320.153	4449.821	2521.638
Total Liabilities	28215.12	26393.55	20735.63	15430.79	10906.81	7979.445	5184.792
Common Stock Net	3447.698	2793.929	2315.988	1871.396	1599.762	1324.809	1042.87
Retained Earnings (Accumulated Deficit)	7573.144	4811.749	2942.359	1731.117	1128.603	941.925	819.284
Comprehensive Income	44.398	-23.521	-19.582	-20.557	-48.565	-43.308	-4.446
Other Share Holders Equity	-	-	-	-	-	-	-
Shareholders Equity	11065.24	7582.157	5238.765	3581.956	2679.8	2223.426	1857.708
Total Liabilities and Shareholders Equity	39280.36	33975.71	25974.4	19012.74	13586.61	10202.87	7042.5

Income Statement of Netflix from 2014 to 2020

	12/31/2020	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Revenue	24996.06	20156.45	15794.34	11692.71	8830.669	6779.511	5504.656
Cost of Goods Sold	15276.32	12440.21	9967.538	8033	6257.462	4591.476	3752.76
Gross Profit	9719.737	7716.234	5826.803	3659.713	2573.207	2188.035	1751.896
Research and Development Expenses	1829.6	1545.149	1221.814	953.71	780.232	650.788	472.321
SG&A Expenses	3304.848	3566.831	2999.763	1867.324	1413.182	1231.421	876.927
Other Operating Income or Expenses	-	-	-	-	-	-	-
Operating Expenses	20410.77	17552.19	14189.11	10854.03	8450.876	6473.685	5102.008
Operating Income	4585.289	2604.254	1605.227	838.679	379.793	305.826	402.648
Total Non-Operating Income/Expenses	-1385.94	-542.023	-378.768	-353.358	-119.286	-163.941	-53.279
Pre-tax Income	3199.349	2062.231	1226.458	485.321	260.507	141.885	349.369
Income Taxes	437.954	195.315	15.216	-73.608	73.829	19.244	82.57
Income After Taxes	2761.395	1866.916	1211.242	558.929	186.678	122.641	266.799
Other Income	-	-	-	-	-	-	-
Income from Continous Operations	2761.395	1866.916	1211.242	558.929	186.678	122.641	266.799
Income from Discontinued Operations	-					-	-
Net Income	2761.395	1866.916	1211.242	558.929	186.678	122.641	266.799
EBITDA	15507.91	11924.08	9220.472	7108.407	5304.771	3852.871	3184.446
EBIT	4585.289	2604.254	1605.227	838.679	379.793	305.826	402.648
Basic Shares Outstanding	441	438	435	432	429	426	421
Shares Outstanding	454	452	451	447	439	436	432
Basic EPS	6.26	4.26	2.78	1.29	0.44	0.29	0.63
EPS - Earnings Per Share	6.08	4.13	2.68	1.25	0.43	0.28	0.62

Questionnaire form example

Dear respondents,

My name is Anca-Ioana Mos and I am a second year student of Economics and Management. I am turning to you in order to obtain information regarding the market position of Netflix streaming services. The questionnaire is anonymous and the information will be used purely on the evaluation of the company´s position.

Thank you for your time

Gender: Age:

male / female *18 or less / 20-30 / 31-50 / 51 or more*

1) **Do you use technology to stream tv shows/movies?**

Yes/No

2) **If yes, which products do you use to view TV shows/movies? Check all that apply.**

Hulu

Netflix

HBO GO

Amazon Prime

YouTube

Other (please specify)

…………………………………………………………………………………………

…………………………………………………………

3) **How many hours of tv shows/movies do you access per week through any of the above services?**

Less than 1 hour / Between 1 and 4 hours / between 5 and 8 hours/ more than 8 hours

4) **Are you currently a subscriber to Netflix's streaming services?**

Yes / No (move to question x)

5) **If yes, for how long have you been using Netflix's streaming services?**

Less than 3 years / More than 3 years

6) **How many times per week do you use Netflix's streaming services per week?**

Less than 2 times / between 2 and 5 times / everyday

7) **Would you be able to unsubscribe from Netflix overnight? Please explain your answer**

Yes / No

....

....

8) **Regarding the time you spend on Netflix has it increased since the pandemic started?**

Yes / No

9) **Is there something you would recommend as improvement regarding Netflix's quality of streaming services? Please specify.**

Yes / No

....

....

10) **If you are not an Netflix subscriber, what would represent an incentive for you to become one?**

Lower price / Streaming a certain tv show/movie that you like / Social pressure from friends/family