Czech University of Life Sciences Prague
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BACHELOR THESIS

Economic analysis of Netflix Inc.

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Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

Anton Kozlov

Economics and Management

Thesis title

Economic Analysis of Netflix Inc.

Objectives of thesis

Evaluate current position of Netflix in the worldwide media market. Forecast future evolution of Netflix and similar services. Compare Netflix with other providers. Also, provide recommendations for expansion of Netlifx. These are given based on conducted research and analysis.

Methodology

Thesis will consist of two parts: theoretical, where main aspects about video hosting and Netflix will be discussed, and practical, where Netflix will be analyzed.

Theoretical part will be created using synthesis, abstraction, induction and deduction from professional textbooks and internet sources in order to create strong theoretical background for practical part.

In practical part Netflix will be analyzed fundamental and technical analysis. Also, SWOT and Porter's five forces analysis will be discussed. In last part of practical part will be a competitive analysis.

The proposed extent of the thesis

40 – 60 pages

Keywords

multimedia, video hosting, broadcasting, IPTV, video on demand, traditional media, paper program, subscription, TV series, economic indicators, financial analysis, financial ratios

Recommended information sources

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Expected date of thesis defence

2017/18 SS – FEM

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Electronic approval: 6. 3. 2018

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Prague on 14. 03. 2018

Declaration

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

In Prague on 14 of March ___________________________

Acknowledgment

First of all, I would like to thank my supervisor Ing. Petr Procházka, MSc, Ph.D., for his priceless help and valuable advices during the whole thesis writing process.

Also, I would like to thank whole my family for supporting me during the hard times.

Economic Analysis of Netflix Inc.

Abstract: The main goal of the thesis "Economic analysis of Netflix Ltd." is to analyze current situation of largest American entertainment company Netflix, Inc. Another goal is to evaluate current position of Netflix in the worldwide media market. Alternative aim is to forecast future evolution of Netflix and similar services while comparing Netflix with other providers. Thesis will consist of two parts: theoretical, where main aspects about video hosting and Netflix will be discussed, and practical, where Netflix will be analyzed.

Theoretical part will be created using synthesis, abstraction, induction and deduction from professional textbooks and internet sources in order to create strong theoretical background for practical part of the thesis.

In practical part Netflix will be analyzed by fundamental, economic and technical analysis. Also, SWOT and Porter's five forces analysis will be discussed. Last part of practical part will consist of a competitive analysis.

Key words: multimedia, video hosting, broadcasting, IPTV, video on demand, traditional media, paper program, subscription, TV series, economic indicators, financial analysis, financial ratios

Ekonomická analýza společnosti Netflix

Souhrn: Hlavním cílem bakalařské práce "Ekonomická analýza společnosti Netflix" je zanalyzovat současnou situaci největší americké zábavní společnosti Netflix. Dalším cílem je zhodnotit současnou pozici společnosti Netflix na celosvětovém mediálním trhu. Alternativním cílem je prognóza budoucího vývoje služby Netflix a podobných služeb. Během této analýzy rovněž bude porovnán s konkurencí. Bakalařská práce se skláda ze dvou částí: teoretické, kde budou diskutovány hlavní aspekty týkající se Netflixu a video hostingu celkově, a praktické, kde Netflix budé analyzován.

Teoretická část bude tvořena syntézou, abstrakcí, indukcí a dedukcí z odborných knih a internetových zdrojů za učelem vytvoření silného teoretického zázemí pro praktickou část.

V praktické části bude společnost Netlfix analyzována economickou, fundamentální a technickou analýzou. Rovněž budou diskutovány SWOT a Porterová analýza pěti sil. Poslední část praktické části bude tvořena analýzou konkurence

Klíčová slova: multimedia, video hosting, vysílání, IPTV, filmy na žádost, tradiční média, papírový program, předplatné, televizní seriál, ekonomický ukazatel, finanční analýza, finanční ukazatelé

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1. INTRODUCTION

Netflix Inc. is an American international company, available in more than 190 years on more than 35 languages. Company's main specialization is internet TV, video-on-demand online and DVD rental by mail, which is available only in United States. Since 2013 Netflix Inc. started producing their own original content. So, after 2013 Netflix is well-known for their own produced films and TV series. Without a hesitation, Netflix Inc. could be called a global multinational company.

Behind the stability and success of every company stands years of hard work, billions of calculations and analyses. Therefore, the role of financial and economic analysis couldn't be underestimated. Those analyzes helps to evaluate company's performance in general and its smaller divisions. Also, economic analysis is used to examine factors that influence financial stability of the enterprise.

Economic analysis, all indicators and ratios are the most valuable source of financial information, that are used widely. Top managers, creditors, shareholders, banks, suppliers, competitors and investors are evaluating companies with those tools. Even thought, they use this data for their own different purposes, there is no better source for obtaining this information.

The relevance of the topic is massive. With technological progress internet is slight becoming a leading platform for obtaining different kinds of information. TV is starting to be on the background of the progress. Netflix Inc. is, without a doubt, a leader in terms of internet TV, so analyzing of financial health and stability may be crucial for investigating future prospect of this business area.

2. OBJECTIVES AND METHODOLOGY

2.1 Objectives

Main objectives of the bachelor thesis are following: to evaluate current position of Netflix in the worldwide media market and forecast future evolution of Netflix and similar services. During the economic analysis Netflix will be compared with other providers and competitors. Recommendations for expansion are given based on conducted research and analysis.

The main goal of the theoretical part is to make readers familiar with internet TV area and Netflix itself. Also, in this part basic information about financial and economic analysis will be provided.

The aim of the practical part of the bachelor thesis is to analyze company's current financial situation, compare it to past values and make comparison with main competitors.

2.2 Methodology

Thesis will consist of two parts: theoretical, where main aspects about video hosting and Netflix will be discussed, and practical, where Netflix will be analyzed.

Theoretical part will be created using synthesis, abstraction, induction and deduction from professional textbooks and internet sources in order to create strong theoretical background for practical part.

In the practical part author using financial statements and their analysis will describe company's financial situation. In the first part, company will be analyzed using SWOT analysis and Porter's Five Forces analysis. In the next part, financial analysis will be made using financial indicators and their data analysis using MS Excel. After that, competitive analysis will be conducted.

In conclusion author based on practical part and using his own knowledge will provide recommendations, that in his opinion will lead to improvement of financial situation.

3. THEORETICAL PART

3.1 The history and development of multimedia

Multimedia can be defined as the combination of graphics, text, audio, motion video and still images which provides different users with high levels of control and interaction.

In the narrow sense of this word, multimedia means "more than one medium." In other words, TV shows, movies, YouTube videos and even illustrated books are all examples of multimedia – they all use combinations of text, images, movement and sound.

In other words, multimedia is a sum of technologies, that allows computer to store, enter, process, transfer and display all types of data mentioned before (video, sound, text, animation etc.)

First mentions of multimedia may be referred to Joann Guttenberg who invented first printing press in 1455 in Germany. 20 years ago, the only multimedia device was a writing machine “Consul” which was not only typing, but also can make a snapping sound. Later, computers decreased drastically in size, which allowed young inventors to assemble them at their home or garages. Multimedia boom started in middle 80s when new and new terms start to develop. Blasters, CD-ROM, internet, WWW and other words have their roots here. Most commonly this time is called Informational revolution. And then we witness, how social needs have turned their sight to multimedia technologies.

Sharp push in multimedia development, that happened in last couple of years, thanks to evolution of technical and system resources. And goes hand to hand with development of PC: rapidly increased amount of storage memory, high-speed performance, graphical options characteristics of internal storage, a laser disk or CD-ROM. Also, an important role in this development played a new technology of fast compression and decompression of data.

Modern multimedia- PC is equipped with active stereophonic columns, microphone and a CD-ROM drive. Besides, inside of the computer is hidden a brand-new device- audio adapter, that allows to listen to clear stereophonic sound through acoustic columns with built-in amplifiers.

With mixture of signals main problem appears with video image. Different TV standards, that exist in our world (NTSC, PAL, SECAM), usage of different types of monitors and video controllers, dictates a variety of approaches in solving this problem. However, in any case synchronization of two images in needed, for this case there is a device called genlock. With its help, on a display of monitor may be combined an image generated by a computer (animation, text, titles) and a live video. If we add one more device called “encoder”, computer image may be converted to TV-signal and be recorded.

Systems of this kind are not allowing to process and edit analog image itself. In order for this to become possible, it has to be digitized and inserted to computer memory. To do this, so-called capture board and frame grabbers were created. Digitizing of analog signals creates a lot of data. Digitized frame can be changed or edited by classic graphical editor, details may be added or deleted, color and scale can be changed, special effects as inversion or patchwork may be added. Naturally, interactive screen edit is only possible within resolution of concrete video adapter. Edited frames might be recorded on a disk in any graphical format and then used as a stationary background for a computer animation. It is also possible to frame the original image frame-by-frame and output back to disk for creating a pseudorealistic cartoon.

Recording a sequence of frames in a digital form asks from computer a lot of external memory: frame rate on US TV-standard NTSC is 30 frames per second (PAL, SECAM- 25 per sec), so that for saving of 1 second of full-color and full-screen video 20-30 Mb are needed, but an optical disk with a memory of 600 Mb will fit in less than a half a minute video. But the sequence of frames should not only be stored, but it must be displayed in appropriate pace. In order to display the digitized image on the screen it is necessary to reduce the amount of data transferred, which in turn leads to a deterioration in image quality.

When using special video adapters (video blasters) multimedia of PC becomes the center of the household video system, which is competing with most developed TV.

3.2 Broadcasting

Basically, broadcasting is a way of sending information to an audience or a large group of people. The first ever broadcast using Morse code via radio waves was made by Guglielmo Marconi in 1895. It started the new trend in inventions: many inventors were trying to find a way how to transmit audio and video signals, and pictures. First experimental broadcasting of music has started in 1905 later in 1920s broadcasting became commercial.

3.2.1 Videohosting

Video hosting is a web service, that allows users to upload and watch different types of legal videos in web browser using special video player. With the Internet and its associated technological innovations increasingly impacting everyday life, a new genre of 'content distribution' – that of 'Video Hosting Services' – serves as a portal to different forms of entertainment, whether they are feature length drama, comedy, game shows, or music. Content may be a professionally-produced commercial product, but is increasingly 'amateur' user-generated.

The entertainment industry now often uses one of a number of different levels of Video Hosting Services, to release music and videos, as well as feature length movies and television shows, directly to the public. Since most potential users of video hosting services do not have access to their own servers, either as a paid service, or through an ISP offering, commercial providers of video hosting services, largely financed by advertising revenues, are becoming increasingly popular.

Today's smart phones and tablets all have the capability to take high quality photos and (usually lower quality) video clips. This technical availability has increased not only the number of photo hosting sites (Instagram, now owned by Facebook, is one prime example) and use of the 'cloud' (such as 'Dropbox' and Google Drive) for photo and other storage, but also has led to a surge in the supply of user-generated video for 'general' viewing.

Traditional methods of personal video distribution, such as making a DVD to show to friends at home, are unsuited to the short, low resolution phone generated clips – and their burgeoning number. On the other hand, the increases in speed of current broadband Internet connectivity are well suited to serving the quality of video shot on mobile phones, tablets and cameras.

Before Vimeo and subsequently YouTube changed the way, videos were hosted on the web, the first Internet video hosting site was www.shareyourworld.com (now closed). Just like the modern hosting services, it allowed users to upload clips, or full videos, in different file formats.

When discussing the history of video-sharing there is one market leader and hosting service provider that has dominated this digital landscape, almost from the outset – YouTube has become synonymous with online video sharing.

¬ YouTube is the third most visited website in the world

¬ Over 800 million viewers visit YouTube at least once every month

¬Over 4 billion hours of video are watched on YouTube every month

¬ 72 hours of new video are uploaded to YouTube every minute

¬ 70% of YouTube traffic originates from outside the US

¬ YouTube has locations in 43 countries and carries content in 60 languages

¬ In 2011, YouTube had more than 1 trillion views – or around 140 views for every person on Earth.

3.2.2 TV broadcasting

First TV broadcast started in 1920s. however, look of those televisions was very far from modern TV. They were more like radio receivers with a very small screen. The resolution of this screen was extremely low – only silhouettes could be distinguished. Massive improvement of quality of picture was made thanks to Scottish engineer John Bard in 1925. He created black and white picture but with much more recognizable details. In 1928 he demonstrated first ever color transmitter. For the next 10 years, there were a lot of inventions which led to first ever TV which was designed specifically for mass production. It was called RCS TT-5. Since that time, albeit irregularly, TV programs were broadcasted. Schedules did not yet exist.

Gradually, there was a decrease in radioelements and increase in the diagonal of the screens. Televisions started to look like modern ones only in 1905s. then this commodity becomes massive.

In mid 1960s Japanese engineers presented first ever semiconductor television. This gave a new impulse to consumption- mobile portable models appeared. The size of televisions was determined by the size of electron-beam tube itself. During those years first color TVs were presented. First LCD TVs appeared at the start of 21st century.

3.3 Video on demand

Video on demand(VoD)- system, that delivers movies, TV programs, TV series via cable, satellite or internet to each user individually. Movie can be ordered from the catalogue at any time. In this case, additional functions are provided: such as pause, rewind, bookmarks.

First commercial VoD service was launched in Hong Kong in 1990. However, CD disks were much less expensive and in addition, payments for television was a very rare thing in HongKong.

Hong Kong Telecom lost a lot of money and in 2000 sold this service to Pacific Century Cyberworks, which subsequently turned it off in the following year. At that time, the audience was not ready to spend money on digital rent or even purchase of video content.

There are different types of VoD: subscription models, catch-up TV, transactional, near video on demand, advertising video on demand, push video on demand.

Subscription models(SVOD)- subscribers pays a monthly or annual fee to get access to movies and TV shows. This is called subscription business model. This type of VoD is used my Netflix, Amazon Video, HBO Go and others.

Catch-up TV- this Type of TV allows viewers to watch their favorite TV show hours or even days after its live broadcast. So, basically users can watch it whenever they have free time. This type is becoming more and more popular. Studies shows, that lately less TV programs are being watched live (regular scheduled broadcast TV), and more programs are watched through “Catch-up TV”.

Transactional(TVOD)- is a method, when viewers pay for each TV show or a movie on demand content. TVOD has two categories: download to rent(DTR), by which viewers get access to content for a limited time; electronic sell-through(EST)-costumers get an unlimited access to content they bought. Examples of this type are Google’s Google Play and Apple’s iTunes.

Near video on demand(NVOD)is used by multi-channel broadcasters using high-bandwidth distribution such as cable television and satellite. Technique is called pay-per-view. Many copies of a TV program are being broadcasted in short time intervals (10-15 mins) so they viewer can tune in whenever he needs to. He might only wait a couple of minutes to hit the right moment. This type is getting less popular because of other, more modern and convenient types of VoD. Only the satellite companies DirecTV and Dish Network continue to provide this service.

Advertising video on demand(AVOD)- advertising-based revenue model. This model is interesting for both, costumers and for companies. Costumers are satisfied because they watch programs for free. Companies are advertising different things and getting money for that. So, AVOD type is a free of charge service filled with advertisements. Hulu and Yahoo View offers this type of service.

Push video on demand(PVOD)- is a service, when the provider downloads most popular movies and TV shows to viewers’ set-top box without the viewer having requested the content. Basically, provide is trying to predict viewer’s needs. Popular content is downloaded to set-top box and can be viewed in a good quality and without any buffering issues. Due to limited space on a PVR drive this content is deleted every week with new popular content being uploaded.

3.4 IPTV

IPTV-internet protocol television- digital packet data transmission, in our case- video data. It is necessary to note, that this technology differs from classical internet TV. Internet TV is an online TV, distributed over the internet, and of course needs an internet connection. This allows free access to the transmitted content from any place in the world, only internet connection is required.

IPTV is not broadcasting via the internet, for transmission, only the internet data transfer protocol is used. The technology is not dependent on the global network, but on the provider, which provides the service. IPTV could be transmitted through secured networks, supported by telecommunication companies.

This is the most modern and optimal option in terms of "quality and capability". Its arrives to your house by the same cable as internet. Potentially, there is no limit in channels, that could be uploaded, the quality of the picture is always high and also IPTV offers a large scale of additional services.

If we generalize, IPTV is a simultaneously broadband access and digital television, with real-time feedback and the ability to access the internet. Thanks to this feedback function this type of TV is called interactive. From user's point of view, interactivity distinguishes IPTV from cable, analog, satellite and other types of television. So, in real time, without connecting to operator, user can manage all available services, participate in polls and surveys, sing karaoke and even surf any social network.

Another huge advantage is an availability of detailed TV program and accompanying detailed information about the movie or a TV show. Practical advantage is that you don't need any special antenna and you don't even need a TV. You can watch IPTV on any gadget with screen.

Biggest advantage is, of course, that user is in charge. You can decide when and what to watch. You can record programs or rewind broadcast back, you won't be afraid to miss your favorite TV show. You can use pause button, during any program, when you need to answer on an important call or if you just simply need a cup of tea. So, the viewer actually becomes independent of the broadcast grip and is no longer obliged to watch content, that he is not interested in, in anticipation of the desired one.

The technical part of service allows you to compose TV channels and broadcasts on topics., so the navigation becomes more convenient and less time-consuming. You can also connect different types of packages, temporary or permanently. For example, sport packages are available during World Cup and Olympics. Parental control is also an important function in IPTV. In this case, child won’t be able to watch locked channels, without knowing right password.

3.5 Subscription

Any kind of IPTV requires subscription. Subscription is a right to receive video content in exchange for money. Payment might by annual or monthly. Prices are different and each person will find the one, that fits him best. Even in one company there are up to 5 different types of subscriptions, starting from cheapest basic and up to most expensive- gold or premium. Mostly, all companies provide 1 or 3 days’ trial of their services so the potential client can try their service.

3.6 TV series

TV series is a type of tele and radio programs, which consist of independent following each other episodes. Most famous format starting from 1930s on US radio channels is a foam opera.

The main goal of a TV series is to attract viewer to the screen for a long period of time and keep his interest in a product from episode to episode. Most of the TV series are using classical element of soap operas- recap at the start and a cliffhanger in the end of the episode. It is believed, that such formula is the most claimed by the viewer and allows following the plot without any troubles after missed episodes. Consecutive series mostly contrast with procedural dramas which are series with autonomous and plot unrelated episodes. Often, they are called “case-of-the-week”. Procedural dramas are becoming more and more popular because their episodes are not connected and viewer can start watching it from any episode he wants.

According to the popular website imbd.com which is aimed on movies and TV series 5 most popular series are:

1. Game of Thrones, 2011, HBO
2. Defenders, 2017, Netflix
3. Rick and Morty, 2013, Harmonius Claptrap
4. Ozark, 2017, Netflix
5. Suits, 2011, UCP

3.7 History of Netflix

3.7.1 1997-1999

Company was founded in 1997 by Reed Hastings and Mark Randolph. There is legend, that Reed got an idea to create this type of company when he was paying his fine for a late return of borrow CD. Although, this legend was never confirmed.

Entrepreneurs started business together, but Hastings played more significant role, not only because he was a good specialist, but also a good businessman. Both founders were not new to the IT industry. Before that, Reed found a company called Pure Software, which he sold for $700 mil. In 1997. Randolph was one of the best specialists there.

Once Reed and Mark noticed a free niche in the video rental market because existing salons and services were inconvenient. Thinking about it, future founders of Netflix began to create a more convenient way of lending movies and TV series. Model was built in a such way, that using their services costumer could rent a movie. In order to get a CD, you don't need to go to the shop or office- everything was easily handled through post office and bank payments. Price for 1 week was $4 plus $2 were posting fees. In order to stay safe from dishonest costumers, Netflix allowed to lend new disks only after returning the previous one.

Money earned from sale of Pure Software were ensuring financial part of their new company. Hastings invested about $2,4 mil to this project. The original audience of Netflix was USA.

It took almost a year to settle all the necessary formalities and hire staff. Netflix officially started working in august 1997. The initial staff of the company was 30 people and at the box office there were no more than 900 disks.

One of the advantages of Netflix was their website. they were constantly releasing reviews of the new movies, announcing upcoming premiers, in general, everything was done to attract customers. Another method of a growing audience was a release of the top-rated and most interesting videos. Thus, company managed to sell more than 10 thousand copies of evidence of Bill Clinton in case of Lewinski, that lead to attempt to impeach the president of USA in just one week.

In the future, ability to feel the trend will help Netflix a lot. At the beginning of the journey company encountered a several problems, that easily could have destroyed it. The first – safe and sound delivery of CD disks. The thing is that the mail is sorted by special machines, working with a huge number of letters, and it was hard to predict whether CD will endure this sorting. So, Netflix started to think how to protect their product. The development of the unique envelope began- more than 150 versions from various materials were created. They ended up with a think paper with a special protector for CD disk.

Besides, there were a couple of big competitors, Blockbusters with an annual revenue up to $5 billion was biggest of them. They wasn’t working online yet, but could have easily started- and, of course, erase a Netflix startup. Hastings understood, that they must act fast, in order to be successful. In first year, they raffled a trip to Los-Angeles, and for those, who rented more than 2 disks they provided a 30% discount.

In the same way, another first-year Netflix problem- low percentage of DVD users, was solved. In the end, companies went by their favorite way- bonuses for clients. They have signed a contract with Japanese company Toshiba: every buyer of its players in USA received free of charge rent of 3 disks. So, the company was not only increasing a number of DVD disks, but their own audience.

In 1999 Netflix, has grown to 110 people and more than 250 thousand disks. They have also changed the way of the service. Instead of weekly payments monthly fees were introduced, while the company continued to offer their clients various bonuses. Every wishing could have borrowed 4 DVD disks for a month for only $15,95. Thanks to right choice of content, there were more than a lot people willing to pay for it. In the first day Netflix received for than 100 thousand orders.

Besides, company managed to attract investment of more than a $30 mil form Arnault Group. Received funds were used to advertise the service. According to analysts, this step was very important for future growth and dominance in the industry.

3.7.2 2000-2002

At the start of 2000 Netflix presented a system of movies recommendation, called "Cinematch". System analyzes user preferences and recommends interesting movies for them. Also, contracts with Warner Home Video and Columbia Tristar were signed. According to the deal, Netflix received the first priority right to use company's products for a share of their profit.

Gradually, a new service option is gaining momentum- online subscription, developed in 1999. Initially, her price was $19,95 per month for 4 disks. For new clients, 6 days' trial was available, according to Hastings, it was enough time for client to assess all services and decide whether he needs it or not.

A fast-growing company wasn't stopped by events of September 11, 2001, but even benefited from them. Shocked American people preferred to stay home rather than going out, so number of subscribers increased a lot.

This time company started a serious battle with their biggest competitor- Blockbuster. In fact, Netflix success is connected with a fact, that they started to use the so-called "long tail" business model. Instead of giving the audience only popular products, service offers more wider content, so clients could find their favorite movies and show, no matter how popular they are.

In 2001 management of Netflix started to notice, that most of their subscribers are from San Francisco gulf. They were interested in this tendency and tried to understand the situation. They made a survey from which it became clear, that the main problem is time of delivery. As a result, Hastings announced a new course in order to increase the number of distribution points all over the USA.

Next year was important thanks to two important events: Mark Randolph left the company and Netflix on IPO. Randolph left company because of several disagreements with his business partner. After selling his share Mark began to develop a service for online rental of books.

Decision to release company shares came right after number of subscribers hit half a billion mark. It happened in February 2002. Thus, Netflix managed to get $82 million. Company strengthened its position by increasing the number of contracts with fil, distributors to 50, while each project was supposed to pay them about 20% of revenue.

The popularity of the company and the brave steps of its leadership led to the fact that the competitors of Netflix valued market prospects and realized that if nothing is done today, there might be no tomorrow. Blockbuster developed a large scale of sales for new costumers. Besides changes in online-rental market caused interest from Wal-Mart company, who launched similar service but with a lower price than Netflix. This did not stop Netflix from announcing record revenues exceeding $152 million.

3.7.3 2003-2006

In early 2003, the audience of the company reached one million mark. In the end of the year company reported the first profit of about $6,5 million. Things were clearly going well. By the end of summer Netflix had already more than 15 thousand disc names, which turned her to the biggest online-rental service in USA (Blockbuster had only 3 thousand names).

Following years growth of audience continues, reaching 4,2 million mark in 2005. Company set a record in distribution: they managed to handle about half a million responses per day. Press started to call Netflix one of the fastest growing companies in USA.

Due to hard competition with Blockbuster who lowered their price of service, Netflix stock prices started to drop. Soon the company also lowered their cost of services, coming up with a competitor, moreover, range of products has also increased. In return, Blockbuster introduced the system called “Total Access” in order to unite online-service and shops. Blockbuster client could choose disks free of charge, afterwards changing them on the post office for an additional fee.

Initially, it might seem that the plan worked and some Netflix customers went to a competitor, but in fact, the effect was only temporary. Too many retailers prevented

Blockbuster from accomplishing their plan. Not all of them agreed to participate in this service. Moreover, the company began to lose money because of the free disk distribution. Hopes of the giant were ended by claims of right holders.

As a result, Blockbuster backed out: they raised subscription price and have imposed limits for monthly exchanges. This made things worse and the audience began to move to Netflix. The giant destroyed himself. In the end, in 2010 Blockbuster declared itself bankrupt.

3.7.4 2007-2010

In 2007 Netflix began to distribute stream videos, which turned it into one of the largest companies in the world. Hastings understood that DVD is not the only way to distribute content and with invention of cloud storage, most of the information will be stored in the Internet. There was a new niche that his company could fill.

In the same year, new test model of a service, with about 1000 films and series has been offered to their clients. Many people reacted skeptically to this idea- primarily because payed TV hasn't been much attractive. Besides, simultaneously with Netflix Sony and Microsoft expressed their interest in this market. Dominance of pirated content on the internet was also a big issue. With all these factors in mind, Hastings idea seemed insane to many. But in the end, thanks to their own ability to work with audience and a large selection of content, Netflix managed to surprise the public again.

In 2013 family subscription service was introduced, when each family member (up to 4 people) can choose a different film to watch for $11.99. in 2014 price of subscription in European countries has raised from €8,99 to €9,99. At the same time, disk rental was company's biggest income.

The main concern associated with the introduction of a new option was an increased number of unique content in order to attract more new costumers. To do so, in 2009 company has signed a contract with Starz Entertainment studio, which provided Netflix with more than 2000 films and TV shows. It was their first step. In 2010 company reached an agreement with biggest film studios such as Paramount Pictures, Metro-Goldwyn-Mayer, Lionsgate, Disney, MGM, GBS and many others.

At the same time, number of platforms that can be used to watch Netflix has also increased. By 2009 Netflix was developed for Xbox, Play Station 3 and Blu-ray. Besides, they launched the sale of special gadget- Roku. At that time number of subscribers has reached a 3 million mark.

By 2010 there were much more devices, that could be used to watch Netflix. From this moment, all Apple users (including Apple TV) and Nintendo Wii users could connect to Netflix services. By the end of the year audience of Netflix was more than 10 million. In the same year, the press reported that these achievements indicated a flawless victory of online broadcasting over rental CDs.

In 2010 Netflix started their massive international integration. Their targets were Western Europe and Latin America, where they were able to take hold by 2014. In another year, Netflix became available in New Zealand, Australia and Japan.

3.7.5 2011 and further

In 2011 Netflix, has aimed on increasing unique content on a website, which would inevitably lead to a more rapid growth of the audience. The main source of such content became a production of their won serials: the shooting of the “House of Cards” series has begun. This serial debuted in 2013 and had a big success. By the end of the year, company’s revenue reached $3,2 billion mark.

In 2013 Netflix and Marvel Television reached an agreement about production of series about 4 superheroes: Daredevil, Luke Cage, Iron Fist and Jessica Jones. TV series about Marvel universe certainly should increase the audience of the service. Contract was signed for 5 years. Besides, Netflix reached an agreement with Disney to broadcast they famous cartoon series “Clone Wars”.

In the same year series “House of Cards” granted the company 9 “Emmy” nominees. However, they didn’t win. Netflix net profit has reached $112 million mark with an audience of about 33 million people.

Special mention must be made about service attitude to piracy. Reed Hastings has mentioned that despite the negative impact of illegal content, it can be very useful. With its help, Netflix is measuring users attitude to new genres and features on the market, that helps to understand the audience better. Therefore, before buying a new series or film, Netflix checks its popularity on torrents. In addition, only a few movies on pirated websites are in much lower quality than on Netflix. However, such a position does not cancel the fact that the company seeks to block links to download its own content.

In 2014 number of subscribers exceed 50 million mark and net profit was more than $250 million. In September, company has started the development of their own movie “Crouching Tiger, Hidden Dragon 2”. In same year, they started shooting a new biographical TV series about Pablo Escobar called “Narcos”. So, the company continued to develop the direction of independent production of unique content.

In 2015 growth rate of users has decreased: for third quarter, only 3,6 million users have subscribed. Total number of subscription has reached 66 million marks. Smaller growth dynamics did not affect the company’s position on the market, but caused a negative reaction from analysts who predicted more rapid growth. At the same time, Netflix continued their international expansion and willing to expand to Taiwan, Korea and Singapore. At the moment, level of capitalization of the service has exceeded $42 billion.

Netflix is a bright example of company with a flexible business model that managed to conquer the selected market. From the very beginning, despite the presence of strong competitors, company was able to find its niche and the advantages, ensuring its further development. This applies, for example, to a loyal system of changes, when any change, before entering the force, passes through a test of the audience. When there are more negative reviews, than positive, in most cases innovation is canceled. This type of approach from the very beginning has served company well and continues to be useful until now.

Another important feature of Netflix is the high-quality selection of content considering user’s preferences. Everything is being analyzed: starting from user preferences on Netflix ending with most popular movies on pirated sites. As a result, company understands its own audience very well and offers the most popular products.

Nowadays nothing prevents from global expansion of Netflix. Although the growth of the audience has decreased, the company will remain in the leading positions in many following years.

3.8 Financial and economic analysis

Financial analysis is conducted from the selection of appropriate data, evaluation and interpretation of results of financial analysis and other relevant information in order to measure the operating performance and the financial condition of the company. These two measurements are considered to be important. The operating performance represents the ability of the company to use its resources - its assets, both tangible and intangible, to produce a return on its investment. The financial condition is a measure of how well the company meets obligations, for example the payment of interest on its debt in regular manner. (Peterson Drake and Fabozzi, 2012)

3.8.1 Balance sheet

A balance sheet is a statement of company's financial position that includes assets, equity and liabilities.

Table 1. Basic structure of balance sheet

Assets(Property)	Liabilities and Equity
Fixed Assets	Equity
Current Assets	Long-Term liabilities
	Current liabilities

Source: ManagementMania.com. (2018)

Golden rule of balance sheet:

Assets=Liabilities + Equity

3.8.2 Cash flow statement

Cash flow statement helps to understand how a company's operations are running, where its money is coming from, and how it is being spent. Cash flow is determined by looking at three components by which cash enters and leaves a company: core operations, investing and financing.

Table 2. Basic structure of cash flow statement

Basic structure of a statement of cash flows	
Operating activities	• **Receipts** for sale of loans, debt, or equity • **Interest** received on loans • **Payments** to suppliers/employees • **Interest payments** (can also be reported under financing activities) • Purchase of **merchandise**
Investing activities	• Purchase or sale of an **asset** (includes land, building, equipment, marketable securities, etc.) • **Loans made** to suppliers or **received** from customers • Payments for **mergers/acquisitions**
Financing activities	• **Dividend** payment • **Stock or share** sale or repurchase • Net **borrowings** • Repayment of **debt principal**, including capital leases

Source: Business, S. and 230, C. (2018)

3.8.3 Price per earnings ratio

This ratio is used in financial analysis for measuring per share earnings and current share price of the company.

P/E Ratio = Price per Share / Earnings Per Share

3.8.4 Price to sales ratio

This ration indicates how much shareholders and investors are willing to pay for $1 of earnings per share. High value of this ratio means that shareholders and investors are awaiting a high growth of dividends in future for a little risk. On the other hand, lower is value, lower are dividends a risk is much higher.

Price-to-Sales Ratio = Price per Share / Annual Sales Per Share

3.8.5 Price to book value ratio

Utilization of this ration is simple. It is used to compare a company's assets available to to common shareholders relative to the sale price of its stock. The price to book value formula can be used by investors and companies to show how the market perceives the value of a particular stock to be. (Financeformulas.net. (2018).)

P/B Ratio = Price per Share / Book Value per Share

3.8.6 Return on assets

Return on assets also known as ROA is indicating the percentage of profit a company earns in relation to its overall resources. ROA answers the question: "What can be done with the assets that are available? "The higher is ROA, the better is management. (Inc.com. (2018).)

Return on Assets = Net Income / Average Total Assets

3.8.7 Return on equity

ROE or return on equity is the amount of net income returned as a percentage of shareholders equity. In other words, it shows how big was company's profit in comparation to the total amount of shareholders equity. Numbers used for calculation could be obtained in the balance sheet of the company. (Readyratios.com. (2018).)

Return on Equity = Net Income / Average Stockholder Equity

3.8.8 Profit margin

Profit margin indicates the profitability of the company's product or service. It is always expressed as a percentage, and as commonly known, higher margin is better. Profit margin is divided on two parts: *Net Profit Margin* and *Gross Profit Margin*. The only difference between them is that gross margin is used for a particular product or service, while net margin is focused on a whole business.

$$\boxed{\textbf{Profit Margin= Net income/ Net sales}}$$

3.8.9 Current ratio

The current ratio is both an efficiency and liquidity ration that measures a firm's ability to pay off its short-term liabilities with its current assets. Current assets like cash, cash equivalents, and marketable securities can be easily being converted into cash in the short term. (Course, M. (2018).)

$$\boxed{\textbf{Current Ratio= Current assets/ Current liabilities}}$$

3.8.10 Quick ratio

The quick ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are current assets which can be converted to cash within 90 days or as commonly known- in a short-term period. (Course, M. (2018).)

$$\boxed{\begin{array}{l}\textbf{Quick ratio= (Cash+ Cash equivalents+ Short-term investments}\\ \textbf{+ Current receivables)/ Current liabilities}\end{array}}$$

3.8.11 Cash ratio

The cash ratio is the ratio of a company's current liabilities to its total cash and cash equivalents. This ratio is generally a more conservative look at a company's ability to cover its liabilities than many other liquidity ratios because other assets, including accounts receivable, are left out of the equation. (Wohlner, R. (2018).)

$$\boxed{\textbf{Cash Ratio= (Cash+ Marketable securities)/ Current liabilities}}$$

3.8.12 Debt to equity ratio

The debt to equity ratio is both liquidity and financial ratio that compares a company's total equity to total debt. This ratio indicates the percentage of company financing that comes from investors and creditors. A higher is debt to equity ratio, higher is number of used bank loans than investor financing(shareholders).

Debt to Equity Ratio= Total Liabilities/ Total Equity

3.8.13 Interest coverage ratio

Interest coverage ratio also known as ICR is a measure of a company's ability to meet its interest payments. This ratio measures the number of times a company could make the interest payments on its debt with its EBIT. EBIT- earnings before interest and taxes. This ratio is sometimes called as debt service ratio or debt service coverage ratio.

Interest Coverage Ratio= EBIT/ Interest Expenses

4. PRACTICAL PART

4.1 Marketing analysis

Marketing analysis is used by most companies to analyze the dynamics of the market. In other words, marketing analysis is a business plan that illustrates the information regarding the market company is operating in. SWOT analysis and Porter's five forces analysis is the most widely known and used types of marketing analysis. Truly, those two analyses are most efficient in marketing terms. (ManagementMania.com. (2018).

4.1.1 SWOT Analysis

SWOT analysis is a very popular and useful technique in business world to understand your company's Strengths and Weaknesses and identifying Opportunities you might have and Threats that might put your company in risk.

Table 3. SWOT Analysis of Netflix

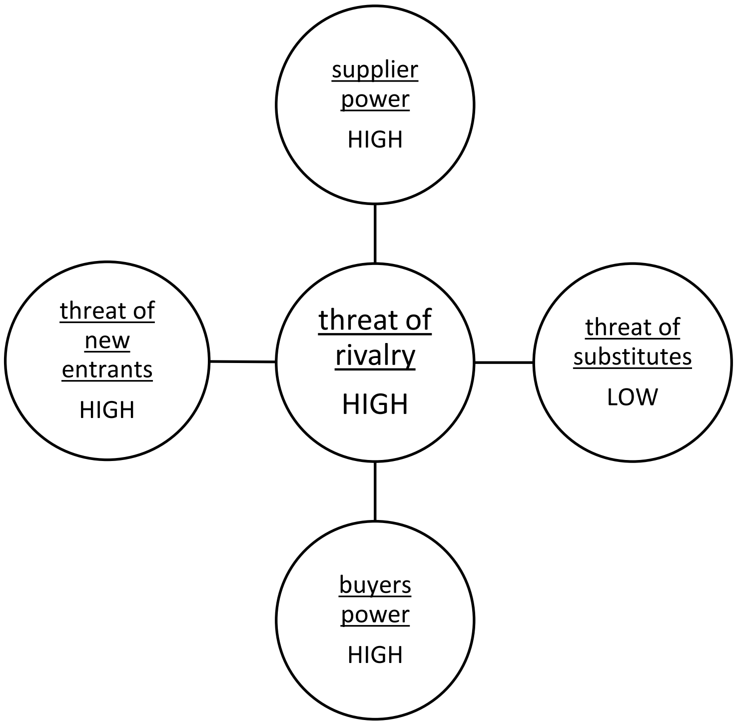
STRENGHTS	WEAKNESSES
1. Global market leader 2. Original TV series 3. Strong brand recognition 4. No commercials 5. Availability on various platforms 6. Affordable price	1. Dependency on internet connection 2. Lower profits due to expansions 3. Dependency on licensing costs 4. Dependency on censorship and other law regulations 5. No revenue from ad's (comparing to competitors)
OPPORTUNITIES	THERATS
1. Attracting new costumers 2. International expansion 3. Network upgrade 4. Increasing video content	1. Competition and price war 2. Unpredictability of stock price 3. Problems with non-English content 4. Radical changes in consumers preferences

Source: Author's own analysis

4.1.2 Porter's five forces analysis

Porter's Five Forces is a model that identifies and analyzes five competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths. Frequently used to identify an industry's structure to determine corporate strategy, Porter's model can be applied to any segment of the economy to search for profitability and attractiveness. (Staff, I. (2018). Porter's 5 Forces)

Table 4. Porter's five forces analysis



Source: Author's own analysis

Threat of rivalry is relatively high. Main competitors are: Amazon, Hulu, Blockbuster and WalMart.

The supplier power is high, although Netflix industry only consists of few suppliers. Example of high supplier's power would be a deal between Warner Brothers and Netflix. One of clauses of their contract was: Netflix must delay streaming of newly released movies for 28 days, causing impatient costumers to purchase from stores rather than waiting to stream the movie.

Buyer power is also high. Buyers have multiple options of watching movies and TV series and can easily switch. This means that costumers are loyal to content, not to the provider.

Threat of new entrants is extremely high. Already there are numerous websites that allow online video streaming. Also, big companies such as Apple and Windows have shown their interest in starting an online streaming service.

Threat of substitutes is relatively low. Any industry that does not including streaming can be considered as a substitute.

4.2 Financial analysis

Table 5. Income Statement

12 months ended; USD $ in thousands	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Revenues	11 692 713	8 830 669	6 779 511	5 504 656	4 374 562
Cost of revenues	-7 659 666	-6 029 901	-4 591 476	-3 752 760	-3 083 256
Gross profit	**4 033 047**	**2 800 768**	**2 188 035**	**1 751 896**	**1 291 306**
Marketing	-1 278 022	-991 078	-824 092	-607 186	-503 889
Technology and development	-1 052 778	-852 098	-650 788	-472 321	-378 769
General and administrative	-863 568	-577 799	-407 329	-269 741	-180 301
Operating income	**838 679**	**379 793**	**305 826**	**402 648**	**228 347**
Interest expense	-238 204	-150 114	-132 716	-50 219	-29 142
Interest and other income (expense)	-115 154	30 828	-31 225	-3 060	-3 002
Loss on extinguishment of debt	–	–	–	–	-25 129
Other income (expense)	**-353 358**	**-119 286**	**-163 941**	**-53 279**	**-57 273**
Income before income taxes	**485 321**	**260 507**	**141 885**	**349 369**	**171 074**
(Provision for) benefit from income taxes	73 608	-73 829	-19 244	-82 570	-58 671
Net income	**558 929**	**186 678**	**122 641**	**266 799**	**112 403**

Source: Netflix Inc. annual report

It's important to perform a company financial analysis in order to see how the company is performing compared to earlier periods of time and how the company's performance stands up against other competitors in its industry. Financial analysis is about selection, evaluation and interpretation of financial data and other pertinent information to assist in evaluating the operating performance and financial condition of a company or an industry. (Google Books. (2018). Analysis of Financial Statements)

Netflix was founded in 1997 in United States. Their headquarters are in Los Gatos, California. On NASDAQ stock exchange their ticker is called NFLX and price per stock is about 220 US $(for start of 2018).

4.2.1 Balance sheet

Table 6. Netflix Inc. balance sheet

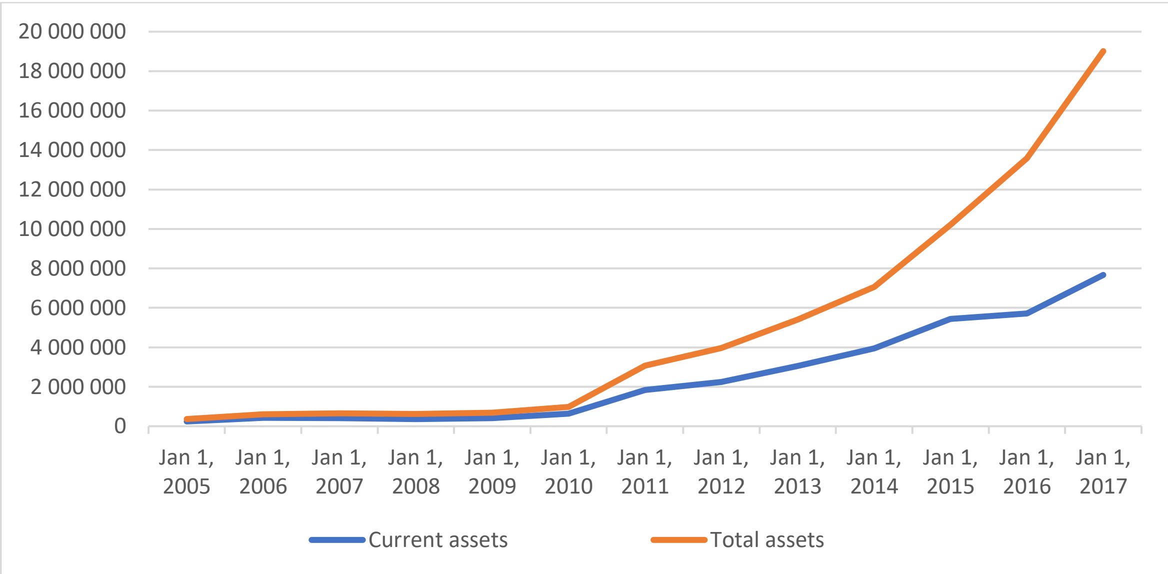
12 months ended; USD $ in thousands	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2013**
Cash and cash equivalents	2 822 795	1 467 576	1 809 330	1 113 608	604 965
Short-term investments	–	266 206	501 385	494 888	595 440
Accounts receivable	–	–	–	–	–
Current content assets, net	4 310 934	3 726 307	2 905 998	2 125 702	1 706 421
Other current assets	536 245	260 202	215 127	206 271	151 937
Current assets	**7 669 974**	**5 720 291**	**5 431 840**	**3 940 469**	**3 058 763**
Non-current content assets, net	10 371 055	7 274 501	4 312 817	2 773 326	2 091 071
Property and equipment, net	319 404	250 395	173 412	149 875	133 605
Other non-current assets	652 309	341 423	284 802	192 981	129 124
Non-current assets	**11 342 768**	**7 866 319**	**4 771 031**	**3 116 182**	**2 353 800**
Total assets	**19 012 742**	**13 586 610**	**10 202 871**	**7 056 651**	**5 412 563**
Current content liabilities	4 173 041	3 632 711	2 789 023	2 117 241	1 775 983
Accounts payable	359 555	312 842	253 491	201 581	108 435
Accrued expenses	315 094	197 632	140 389	69 746	54 018
Deferred revenue	618 622	443 472	346 721	274 586	215 767
Current liabilities	**5 466 312**	**4 586 657**	**3 529 624**	**2 663 154**	**2 154 203**
Non-current content liabilities	3 329 796	2 894 654	2 026 360	1 575 832	1 345 590
Long-term debt	6 499 432	3 364 311	2 371 362	900 000	500 000
Other non-current liabilities	135 246	61 188	52 099	59 957	79 209
Non-current liabilities	**9 964 474**	**6 320 153**	**4 449 821**	**2 535 789**	**1 924 799**
Total liabilities	**15 430 786**	**10 906 810**	**7 979 445**	**5 198 943**	**4 079 002**
Preferred stock, $0.001 par value;	–	–	–	–	–

no shares issued and outstanding					
Common stock, $0.001 par value	1 871 396	1 599 762	1 324 809	1 042 870	777 501
Accumulated other comprehensive income (loss)	-20 557	-48 565	-43 308	-4 446	3 575
Retained earnings	1 731 117	1 128 603	941 925	819 284	552 485
Stockholders' equity	**3 581 956**	**2 679 800**	**2 223 426**	**1 857 708**	**1 333 561**
Total liabilities and stockholders' equity	**19 012 742**	**13 586 610**	**10 202 871**	**7 056 651**	**5 412 563**

Source: Netflix Inc. annual report

Total assets are equal to liabilities and stockholders' equity. Total assets are items of economic value, which are expended over time to yield a benefit for a company. Total assets of the company are permanently increasing from year to year, which is a good sign for business.

Figure 1. Total and current assets trends

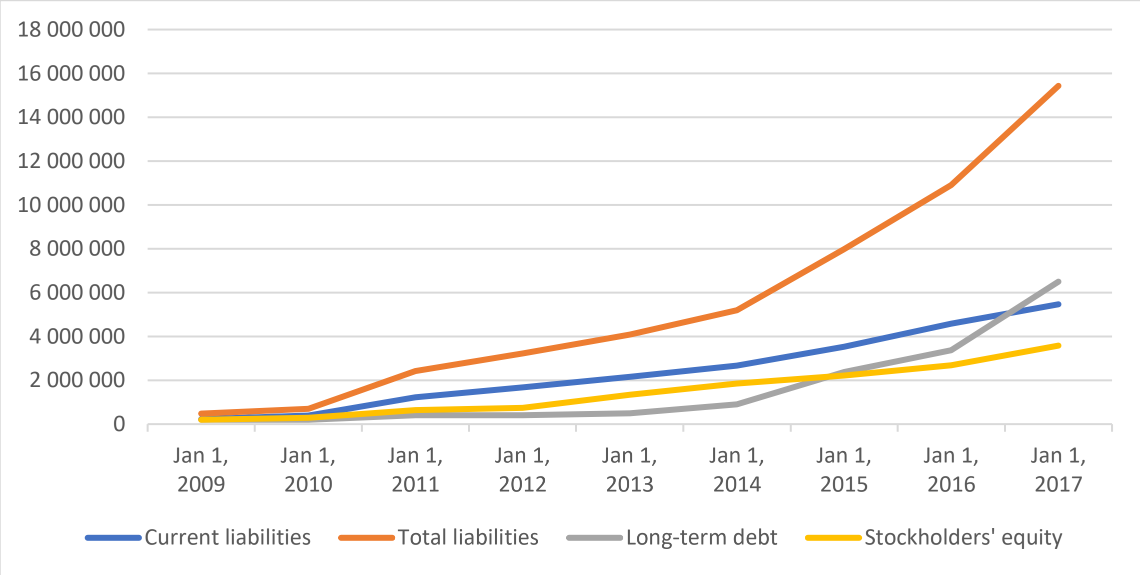


Source: own analysis based on Balance sheet

In the following graph reader can see how current and total assets are increasing from year to year which is a sign of successful and healthy company. Dramatic increase of both total and current assets in 2010 happened because of huge growth of subscribers during 2009. At the start of 2009 there was about 2.9 million subscribers, by the end of the year it grew up to 7.5 million subscribers. This growth happened due to Netflix international expansion campaign to Canada.

Liabilities are obligations of the company: they are amounts owed to others as of the balance sheet date. Stockholders’ equity is a residual of assets minus liabilities. Sometimes it is also called the “book value” of a company. (AccountingCoach.com. (2018). Accounting Basics - Liabilities and Stockholders' Equity | AccountingCoach.)

Figure 2. Long-terms trends of liabilities and stockholders’ equity



Source: own analysis based on Balance sheet

The graph above shows the readers how different kind of liabilities increased from 2009. Biggest increase was in total liabilities, which is a sign of security of a company. It was as high as $11 billion. Current liabilities haven’t increased much, only reaching $4,5 billion mark. Long-term debt started to raise only in 2013. Big change in debt occurs in between 2014 and 2015. Stability of a company can be seen after calculating debt to equity ratio which will happen in a next chapter. In general, we can say that total liabilities are increasing a lot from year to year.

4.3 Cash flow statement

Cash flow statement helps to understand how a company's operations are running, where its money is coming from, and how it is being spent. Cash flow is determined by looking at three components by which cash enters and leaves a company: core operations, investing and financing.

4.3.1 Core operations

Cash inflows and outflows that are generated from company's core operations: selling of company's products and services. Typically, changes made in cash, depreciation, account receivable, inventory and accounts payable are reflected in cash from operations.

4.3.2 Investing

Assets, changes in equipment, or investments are all considered as cash from investments. Mostly, cash changes from investing are a "cash-out" item, because cash is used to buy new buildings, equipment and short-term assets know as marketable securities.

4.3.3 Financing

Loans, dividends and changes in debt are assumed as cash from financing. When capital is raised it is often called a "cash-in". On the other hand, when dividends are payed it is known as "cash-out". So, we can that this number is very fluctuating, because issuing of bond is an income of cash, but payment of dividends for the same exact bond is an outflow.

Table 7. Netflix Inc. cash flow statement

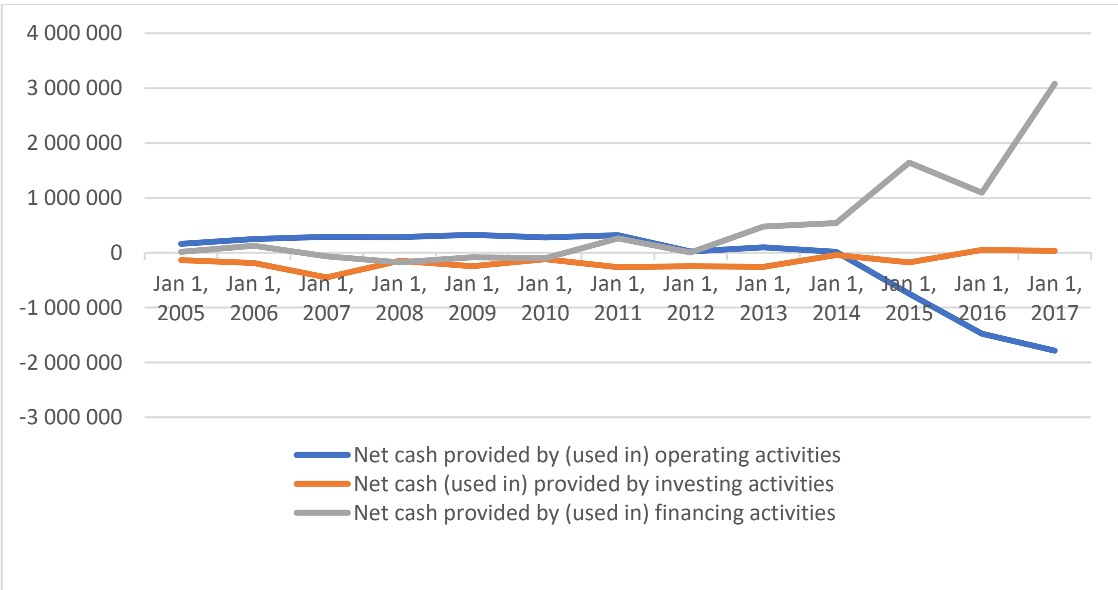
12 months ended; USD $ in thousands	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Net income	558 929	186 678	122 641	266 799	112 403
Additions to streaming content assets	-9 805 763	-8 653 286	-5 771 652	-3 773 459	-3 049 758
Change in streaming content liabilities	900 006	1 772 650	1 162 413	593 125	673 785
Amortization of streaming content assets	6 197 817	4 788 498	3 405 382	2 656 279	2 121 981
Amortization of DVD content assets	60 657	78 952	79 380	71 491	71 325
Depreciation and amortization of property, equipment and intangibles	71 911	57 528	62 283	54 028	48 374
Stock-based compensation expense	182 209	173 675	124 725	115 239	73 100

Excess tax benefits from stock-based compensation	–	-65 121	-80 471	-89 341	-81 663
Other non-cash items	57 207	40 909	31 628	15 282	5 332
Foreign currency remeasurement loss on long-term debt	140 790	–	–	–	–
Loss on extinguishment of debt	–	–	–	–	25 129
Deferred taxes	-208 688	-46 847	-58 655	-30 063	-22 044
Other current assets	-234 090	46 970	18 693	-8 758	62 234
Accounts payable	74 559	32 247	51 615	83 812	18 374
Accrued expenses	114 337	68 706	48 810	55 636	1 941
Deferred revenue	177 974	96 751	72 135	58 819	46 295
Other non-current assets and liabilities	-73 803	-52 294	-18 366	-52 406	-8 977
Changes in operating assets and liabilities	**58 977**	**192 380**	**172 887**	**137 103**	**119 867**
Adjustments to reconcile net income to net cash provided by (used in) operating activities	**-2 344 877**	**-1 660 662**	**-872 080**	**-250 316**	**-14 572**
Net cash provided by (used in) operating activities	**-1 785 948**	**-1 473 984**	**-749 439**	**16 483**	**97 831**
Acquisition of DVD content assets	-53 720	-77 177	-77 958	-74 790	-65 927
Purchases of property and equipment	-173 302	-107 653	-91 248	-69 726	-54 143
Other assets	-6 689	-941	-1 912	1 334	5 939
Purchases of short-term investments	-74 819	-187 193	-371 915	-426 934	-550 264
Proceeds from sale of short-term investments	320 154	282 484	259 079	385 300	347 502
Proceeds from maturities of short-term investments	22 705	140 245	104 762	141 950	60 925
Net cash (used in) provided by investing activities	**34 329**	**49 765**	**-179 192**	**-42 866**	**-255 968**
Proceeds from issuance of debt	3 020 510	1 000 000	1 500 000	400 000	500 000
Issuance costs	-32 153	-10 700	-17 629	-7 080	-9 414
Redemption of debt	–	–	–	–	-219 362

Proceeds from issuance of common stock	88 378	36 979	77 980	60 544	124 557
Excess tax benefits from stock-based compensation	–	65 121	80 471	89 341	81 663
Other financing activities	255	230	-545	-1 093	-1 180
Net cash provided by financing activities	**3 076 990**	**1 091 630**	**1 640 277**	**541 712**	**476 264**
Effect of exchange rate changes on cash and cash equivalents	29 848	-9 165	-15 924	-6 686	-3 453
Net increase (decrease) in cash and cash equivalents	**1 355 219**	**-341 754**	**695 722**	**508 643**	**314 674**
Cash and cash equivalents, beginning of year	1 467 576	1 809 330	1 113 608	604 965	290 291
Cash and cash equivalents, end of year	**2 822 795**	**1 467 576**	**1 809 330**	**1 113 608**	**604 965**

Source: Netflix Inc, Annual report

Figure 3. Trends of selected financial activities



Source: own calculation based on Annual report.

The illustrated graph gives the knowledge of financial activities trends, which can be found in a cash flow statement. It can be clearly seen from this graph, that cash from all kind of financial activities was always around $500 million. Some years it was negative, some years it was positive. Big changes came after 2014 when company started to grow larger. Their cash flow from financial activities reached a $1.6 billion mark by the end of 2014. After this years those numbers increase a lot. Overall, we can say that more profitable in terms of cash are operating activities. Financial and investing activities mostly remained negative.

4.4 Financial ratios

Financial ratios are mathematical comparisons of financial statement categories and accounts. This is the most popular tool which is used to analyze a company's current financial situation. It is also used to compare different indicators of various companies for performing a competitive analysis. Financial ratios are mostly divided into seven main categories: solvency, liquidity, efficiency, market prospect, profitability, coverage and investment leverage.

4.4.1 Price per earnings ratio

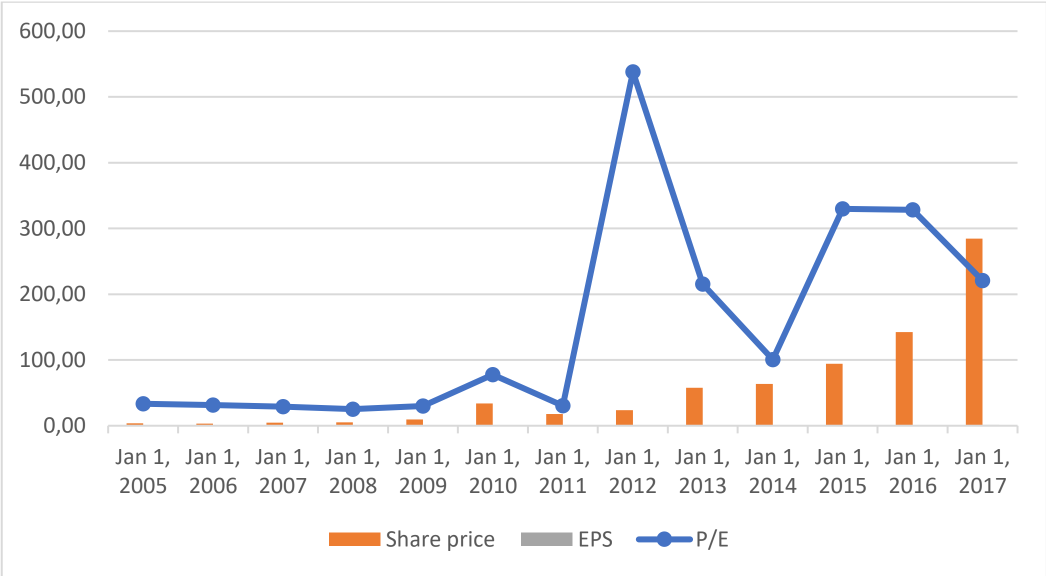
One of the most important ratios for measuring investment attraction for potential stockholders. It gives us the knowledge how much is investor willing to pay per dollar of earnings of the company. Formula for calculating this ratio is following:

P/E Ratio = Price per Share / Earnings Per Share

Current P/E Ratio= 222.56(NASDAQ)

Forecast P/E Ratio is predicted to be 174.

Figure 4. P/E Ratio, long-term trends



Source: own calculation based on data from Annual Report

After analyzing figure 4, author can clearly conclude a dramatic increase in ratio in 2012. This rapid increase happened due to expansion and huge capitalization of the company. In general, numbers are not very high, but one thing is without doubt. If you have invested in Netflix back in 2005, for today your profit will be more than 5000%. EPS (earnings per share) is not clearly visible on this graph because those numbers fluctuate around 1. When EPS is less than 1, P/E ratio is higher than a share price. This situation was until 2017, this year value of EPS was 1.29 so share price is higher than P/E as we can clearly see in the graph.

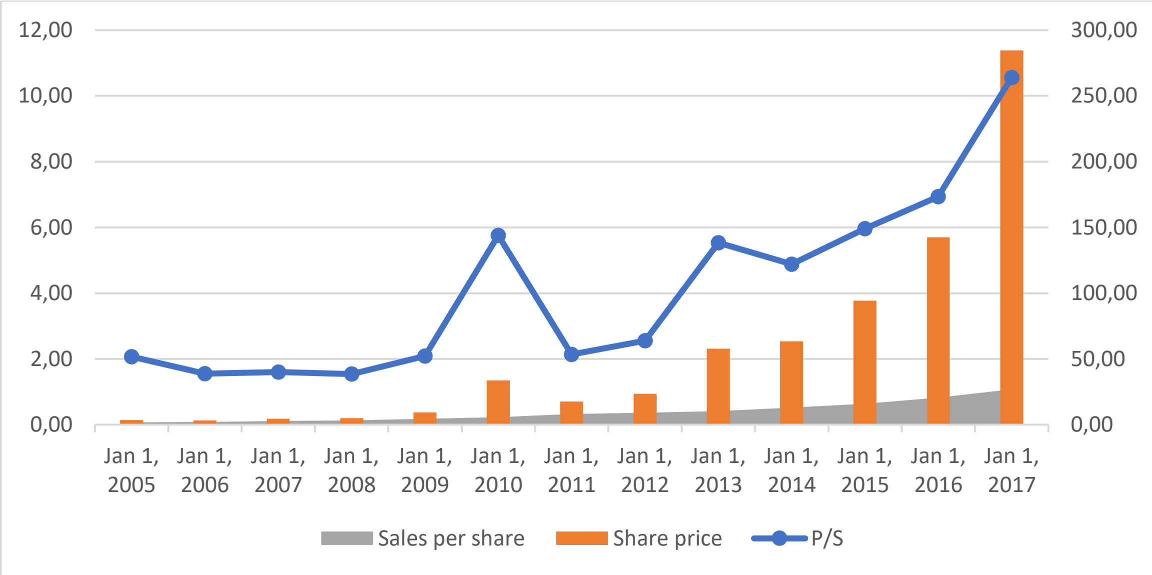
4.4.2 Price to sales Ratio

Price-to-Sales Ratio = Price per Share / Annual Sales Per Share

P/S Ratio= 142,45/ 20.52= 6,94 for 2016

In 2017 this ration increased up to 10.56

Figure 5. P/S ratio, long-term trades



Source: own calculation based on data from Annual Report

Share prices of Netflix started to increase rapidly from 2012. Each year growth was minimal 16%. Basically, lower is P/S ratio, higher is potential for investment. P/S ration of Netflix is relatively low, comparing to its share price. Even thought, share price is fluctuating around $300 this investment still has a potential because further increase in share price is expected.

4.4.3 Price to book value ratio

This ratio shows us the relationship between company's actual rate of return and required rate of return.

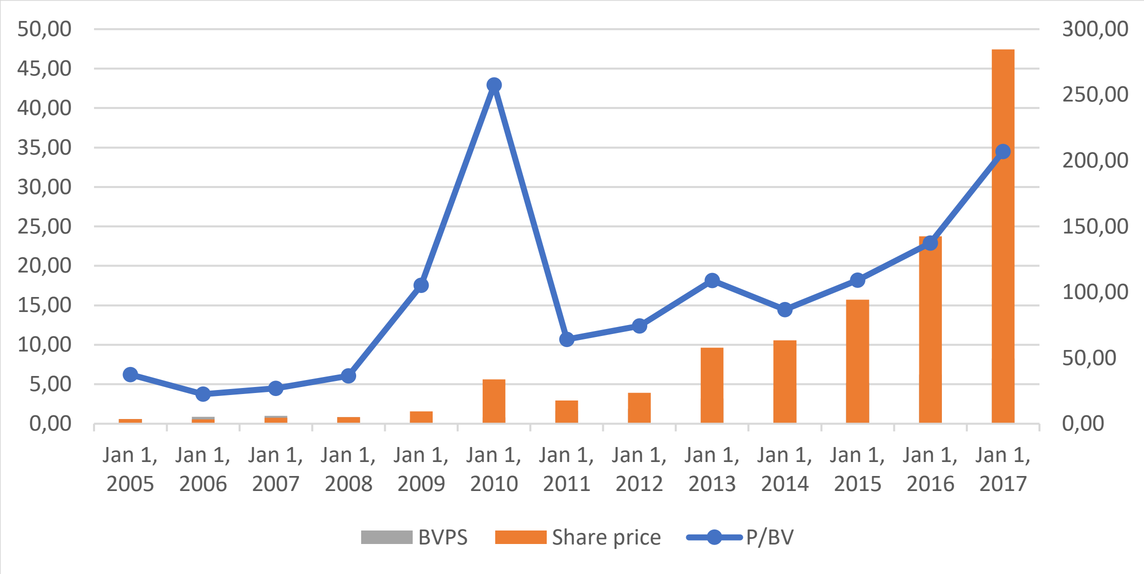
P/B Ratio = Price per Share / Book Value per Share

Book value per share= $6,19

Price per share= 220,4

P/B ratio=35.6

Figure 6. P/B value ratio, long-term trends.



Source: own calculation based on data from Annual Report

Graph above is illustrating Price to Book value ration trends in a long-term perspective. A dramatic increase in ratio happened is 2010 when it reached 43 point mark. It happened due to very low book value of Netflix Inc. share. Later on, company stabilized their book value of share and growth of P/B value ratio was relatively stable. When P/B value is under 3 it is commonly known that stocks are undervalued. But it is not a case of Netflix stocks. Their value is high, which means stocks are well examined by investors.

4.5 Profitability ratios

Profitability ratio is a special type of financial indicators that are used to evaluate a company's ability to create and generate earnings compared to its expenses. This is one of the most important types of ratios because every firm first concern is its profitability. Profitability ratios are divided into two types: margins and returns. Logically, return on assets(ROA) and return on equity(ROE) are the part of returns, while Profit margin is a part of margins.

4.5.1 Return on assets(ROA)

Company is always buying new assets (buildings, inventory etc.) in order to continue its business. ROA tells us how well company is using this new asset in their business to make more money. To calculate this, readers need to have a look into income statement and into a balance sheet. As it is well known, higher ROA is better.

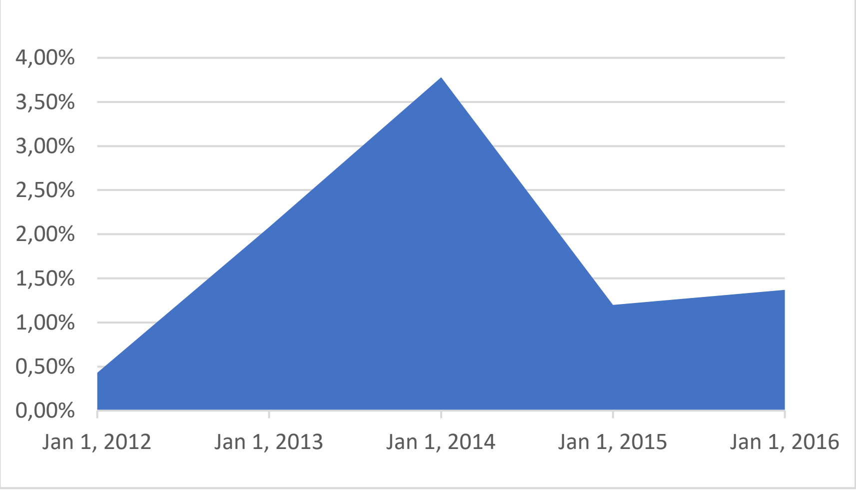
Return on Assets = Net Income / Average Total Assets

Net income=186 678

Total assets=13 586 610

ROA: 0,0138=1,38%

Figure 7. ROA in time



Source: own calculation based on data from Annual Report

In figure above ROA of Netflix is illustrated for the last couple of years. Those percentages are always above 0% so it can be concluded that Netflix are using their assets wisely.

4.5.2 Return on equity(ROE)

Return on equity shows reader the profitability of the company. In other words, it tells how well investors are rewarded for buying company's shares. For this calculation again, a balance sheet and an income statement are needed.

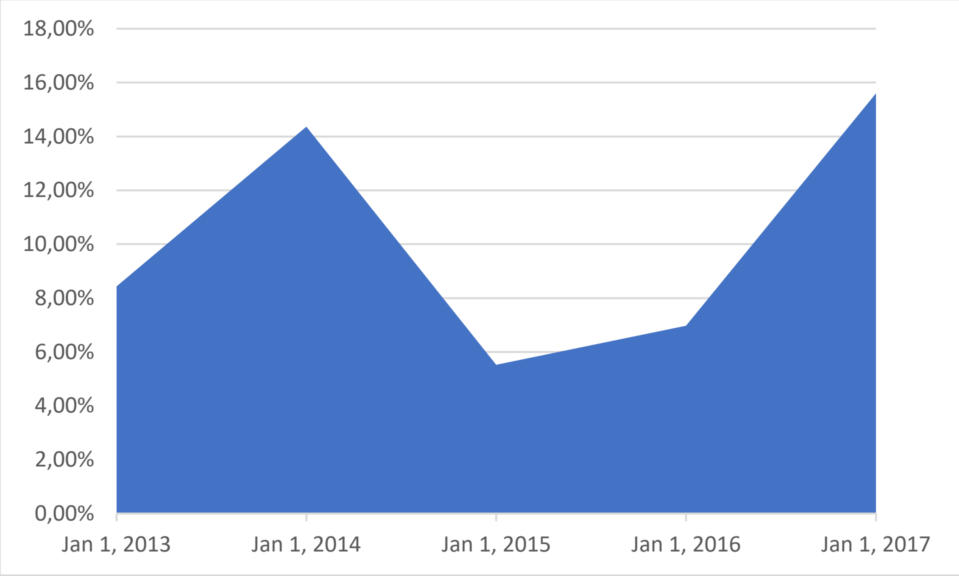
Return on Equity = Net Income / Average Stockholder Equity

Net income: 186 678

Average stockholder equity: 2 679 800

ROE= 6,97%

Figure 8. ROE in time



Source: own calculation based on data from Annual Report

ROE illustrates, how well Netflix is turning the cash put into business into growth for the company and also an increase for investors. It can be distinctly seen, that this indicator is always above 0 and relatively high. A small happened in 2015, but then, in a following years, value was even higher when it was before. Almost 16% is a huge value, which means, that Netflix is turning its cash into growth very successfully.

4.5.3 Profit margin

Profit margin measures how much out of every dollar of sales does the company keeps in earnings. This indicator is key in terms of profitability ratios and indicators. Profit margin is expressed as a percentage. Same as all previous profitability ratios data can be obtained in the balance sheet. The formula of calculating profit margin is following:

Profit Margin= Net income/ Net sales

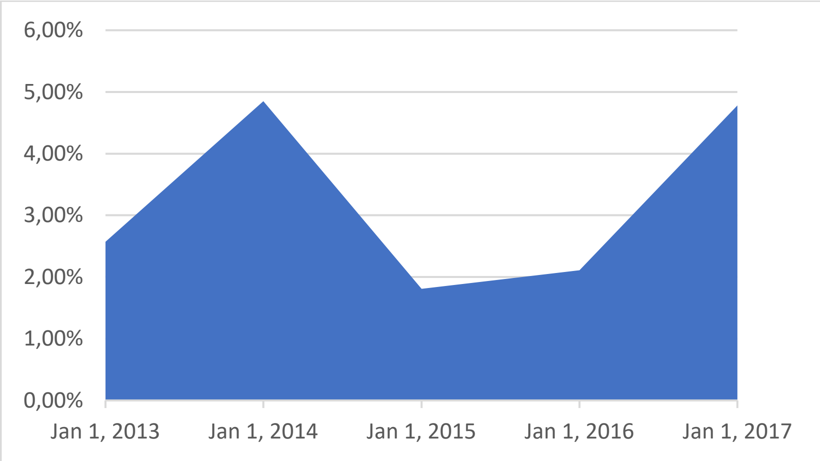
Instead of net sales there can be sometimes used revenues.

Net income in 2107: 558 929

Net sales or revenues for the same year: 11 692 713

Profit margin equals 4,78%

Figure 9. Profit margin during past years



Source: own calculation based on data from Annual Report

Main thing that is obvious from the graph above, is that company's profit margin is positive. This is also the most important thing. Netflix, as a company, is profitable which is a very good sign in terms of investments and market competitors. Although, he slight decrease in profit margin happened in 2015 when value was under 2% but company managed to get over it and showed bigger profit margin in the following year.

4.6 Liquidity ratios

Liquidity ratios measures company's ability to pay company's debt obligations and its margin of safety. It is done by calculating most useful of them: Quick ratio, current ratio and cash ratio. Mortgage originators and bankruptcy specialists use those ratios to evaluate current company's situation in term of debts and obligations. Also, those ratios are key for company, in order to get a new loan or a mortgage. Data can be acquired from balance sheet.

4.6.1 Current ratio

The current ratio measures the ability of a company to pay its bills in a short-term period. Since the ratio is a current assets divided by current liabilities, the ratio essentially implies that current liabilities can be liquidated to pay current assets. The best value of this ratio is approximately 2:1. When this value is lower it probably means a reduced ability to pay in a timely manner. Formula for calculating this ratio is following:

Current ratio = Current Assets / Current Liabilities

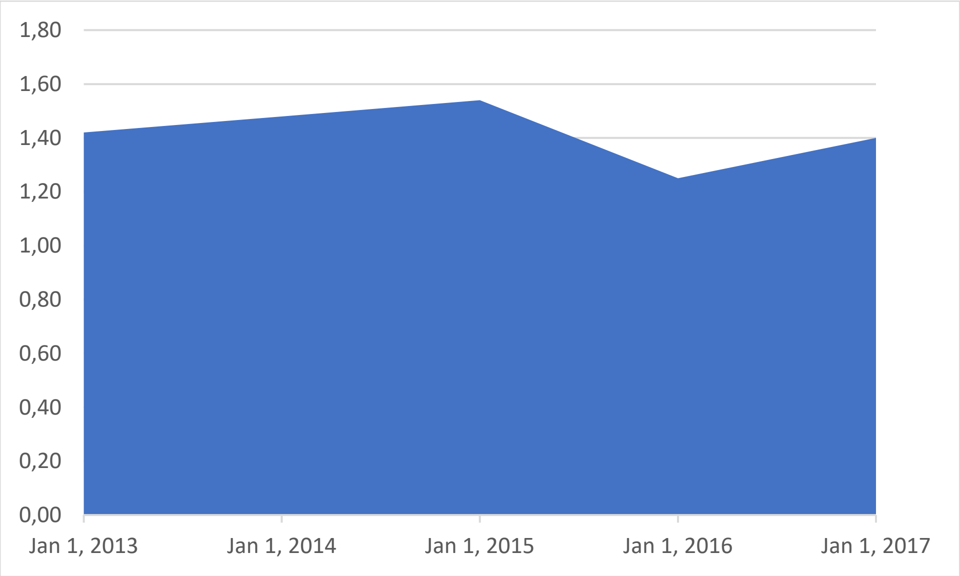
For the end of year 2017(in thousands):

Current assets= 7 669 974

Current liabilities= 5 466 312

Current Ratio= 1.40

Figure 10. Current Ratio is past years



Source: own calculation based on data from Annual Report

The graph above illustrates Netflix current ratio between years 2013 and 2017. Netflix's current ratio deteriorated from 2015 and 2016 but then improved from 2016 and 2017, although not reaching 2015 level.

4.6.2 Quick ratio

The quick ratio that is sometimes called an acid test ratio, is aimed for measuring the liquidity of a company. It calculates the proportion of a company's current assets to its current liabilities. In other words, it is used to determine the ability of the company to pay short-term obligations using liquid assets that can be easily converted to cash. Current assets include cash, cash equivalents, marketable securities and accounts receivables in a short-term period.

Quick ratio = (cash+ cash equivalents+ marketable securities+ accounts receivables) / Total Current Liabilities

For 2017 data are following (in thousands):

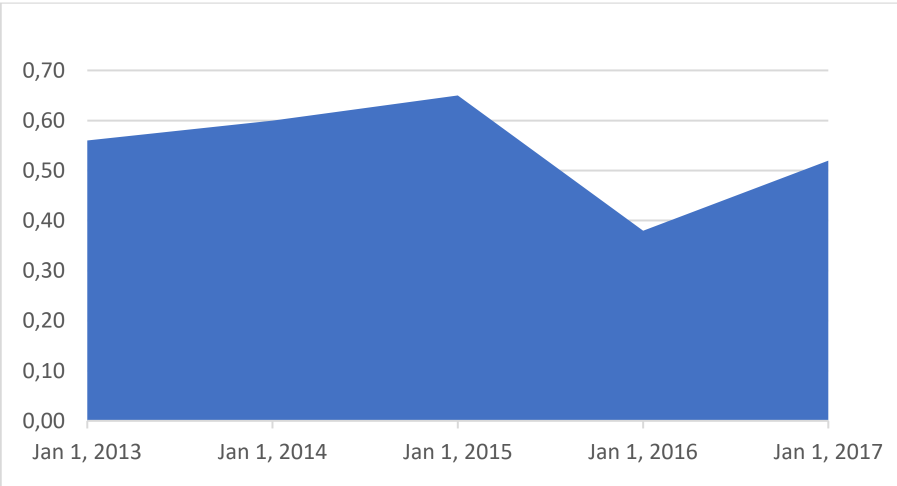
Cash+ cash equivalents= 2 822 795

Marketable securities+ accounts receivable= 0

Total current liabilities= 5 466 312

Quick ratio= 0.52

Figure 11. Quick ratio in past years



Source: own calculation based on data from Annual Report

In the graph illustrated above reader can see evolution of Netflix quick ration in the several past years. Its quick ratio deteriorated from 2015 to 2016 but then improved from 2016 to 2017 not reaching 2015 level. So, we it can be concluded that quick a current ratios evolution is obviously similar.

4.6.3 Cash ratio

Cash ratio or so-called cash asset ratio is the ratio of a company's cash and cash equivalent assets to its total liabilities. Comparing cash and quick ratios similarities can be seen. Cash ratio formula is exactly the same as quick ratios formula only without marketable securities and accounts receivable. Cash ratio is the most stringent and conservative of the liquidity ratios above. It only looks at the company's most liquid short-term assets- cash and cash equivalents- which can be most easily used to pay off current obligations. The formula is following:

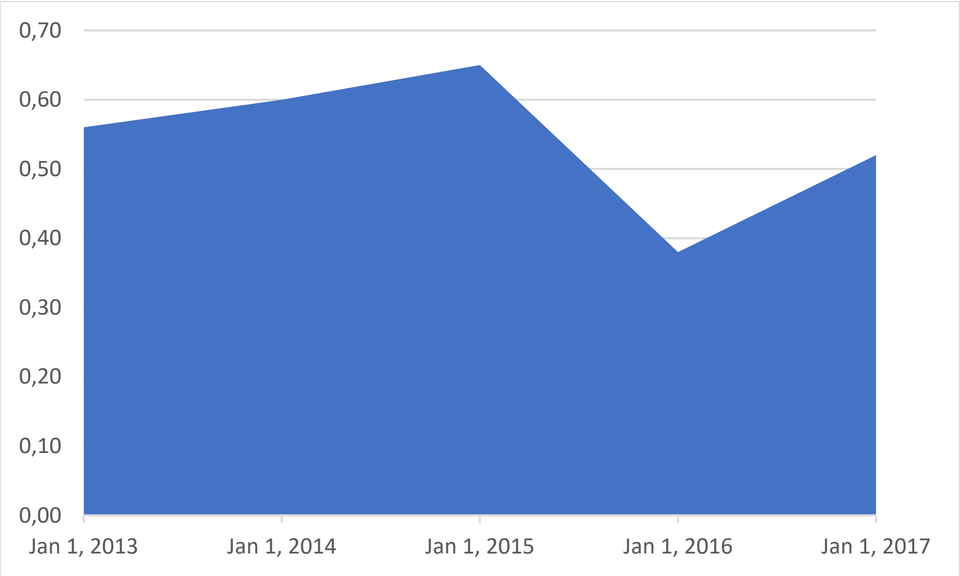
Cash ratio = (cash+ cash equivalents) / Total Current Liabilities

Cash+ cash equivalents= 2 822 795

Total current liabilities= 5 466 312

Cash ratio= 0.52(exactly the same as quick ratio)

Figure 12. Cash ratio in past years



Source: own calculation based on data from Annual Report

There is no need to analyze the graph above because it will be the same as quick ratio. It can be concluded that Netflix has same quick and cash ratio. The reason of this phenomena is that the company doesn't own marketable securities and accounts receivables.

4.7 Debt ratios

Debt ratios are determined to measure the extent to which a company use debt to fund its operations, as well as the ability of the entity to pay for the debt. On the first place, those ratios are important for shareholders and investors, whose equity investments in the company could be in risk when debt level is too high. On the second place, lenders are also quite interested in those values, in order to determine the extent to which loaned funds could be in risk. Most widely used are the following ratios: debt to equity ratio, interest coverage ratio, debt ratio and debt service coverage ratio. In the following chapter reader will have a chance to have a look on two most important of them: debt to equity ratio and interest coverage ratio. (Bragg, S. and Bragg, S. (2018).)

4.7.1 Debt to equity ratio

The debt to equity ratio is an important debt ratio that is used to compare company's total liabilities to its shareholders' equity. Lower value means that a company is using less leverage and has a stronger equity position. This ratio is often used to compare firms in the same industry. When this ratio is too high it might mean that company or firm is experiencing financial problems or even a default it hey can't meet their debt obligations. The formula for calculating this value is following:

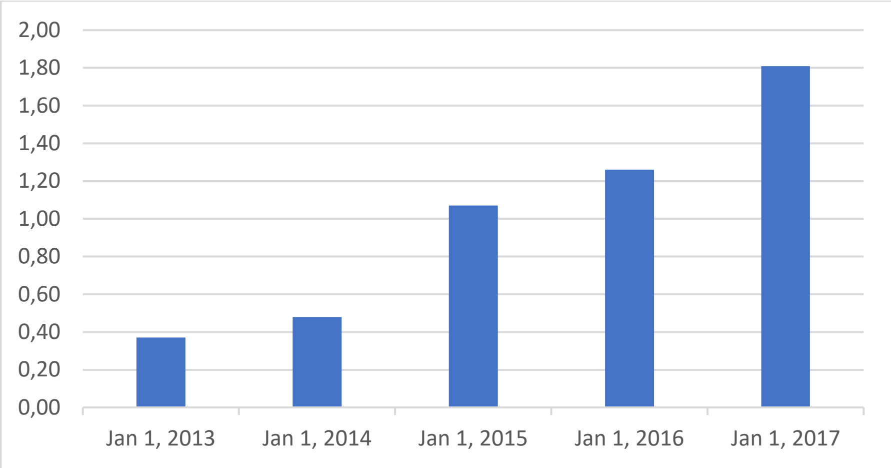
Debt to Equity Ratio= Total Liabilities/ Total Equity

Total liabilities (total debt in balance sheet statement) = 6 499 432(in thousands)

Total shareholders' equity= 3 581 956(in thousands)

Debt to equity ratio= 1.81

Figure 13. Debt to Equity Ratio of Netflix Ltd.



Source: own calculation based on data from Annual Report

The graph above illustrates company's debt to equity ratio from 2013 to 2017. Readers can observe, that the ratio deteriorated from 2015 to 2016 and from 2016 to 2017. This happened to due massive debt increase from year to year. For example, debt by the end of 2016 was about \$3.3 billion, but the following year it increased up to \$6.4 billion, which is almost double, that it was before. Still, the ratio is quite low so there are no big signs of financial problems in Netflix Ltd.

4.7.2 Interest coverage ratio

The interest coverage ratio or so-called times interest earned, and it determines how easily an enterprise can pay interest on its outstanding debts, loans and borrowings. Generally, a high an interest coverage ratio may tell the investigators, that a company is "too safe" and its neglecting opportunities to increase learnings through leverage. When the ratio is below 1, it means that the company can meet its interest obligations. When this situation appears, it usually leads to a default. To calculate this income statement of the company should be use.

Interest Coverage Ratio= EBIT/ Interest Expenses

Calculation for 2017 is following (all numbers are in thousands):

EBIT= Net income+ income expense tax+ interest expense

Net income= 558 929

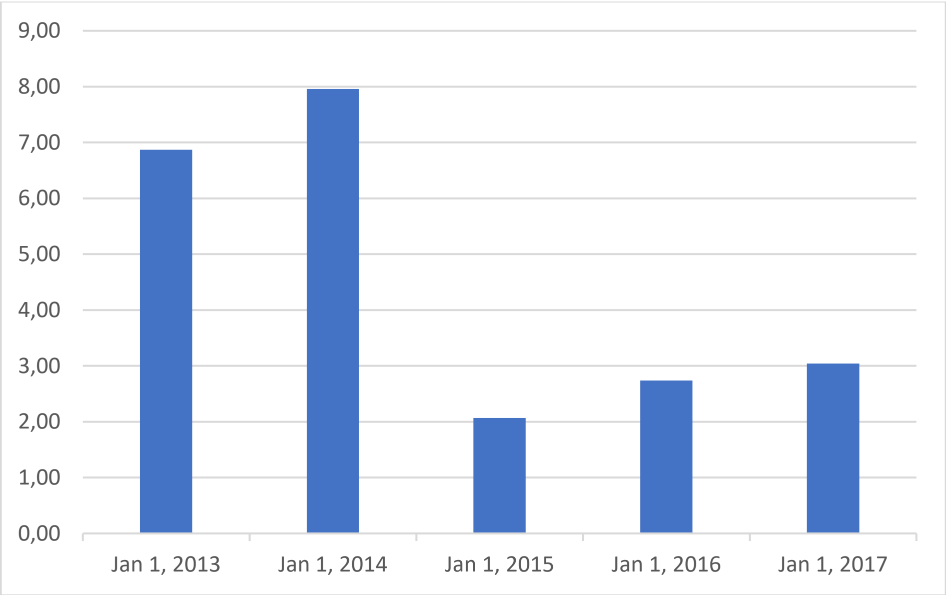
Income expense tax= -73 608

Interest expense= 238 204

So, EBIT= 723 525

EBIT/ interest expense= 3.04

Figure 14. Interest coverage Ratio of Netflix Ltd.



Source: own calculation based on data from Balance sheet

Graph indicates company's interest coverage ration from 2103 to 2017. During 2103 and 2014 it was above 6.5 which is a very high number. In 2015 it decreased a lot reaching only 2.05. in the following years it increased from 2015 to 2016 and from 2016 to 2017. In general, this Netflix has a relative good and stable interest coverage ratio so there are no worries about its financial situation.

4.8 Economic profit and revenues

Economic profit is a measure of corporate performance computed by taking the spread between the return on invested capital and the cost of capital, and multiplying by the invested capital.

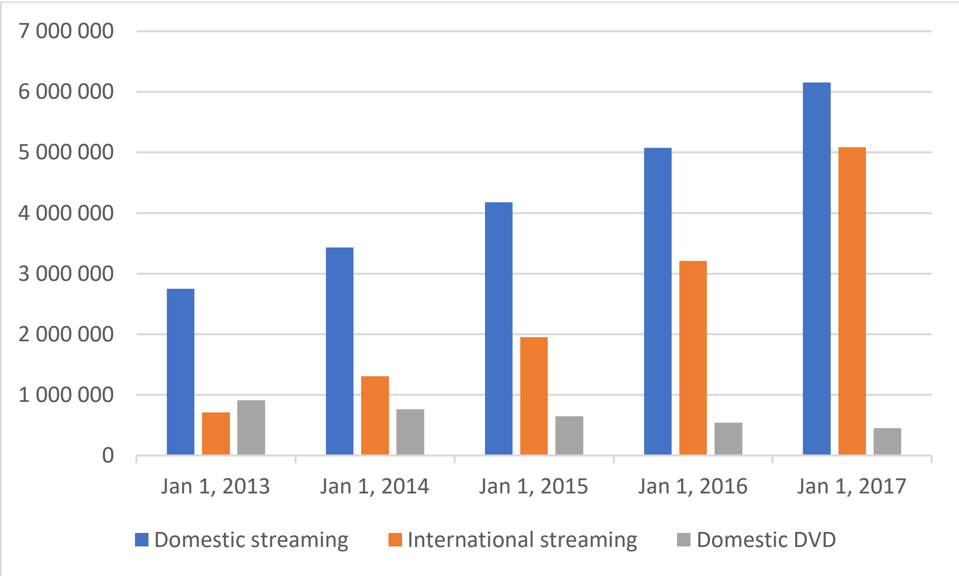
Table 8. Income statement, revenues

12 months ended	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Domestic streaming	6 153 025	5 077 307	4 180 339	3 431 434	2 751 375
International streaming	5 089 191	3 211 095	1 953 435	1 308 061	712 390
Domestic DVD	450 497	542 267	645 737	765 161	910 797
Revenues	**11 692 713**	**8 830 669**	**6 779 511**	**5 504 656**	**4 374 562**

Source: Netflix Ltd. Income statement.

Table above illustrates how Netflix revenues are divided. Netflix has 3 main sources of income: domestic streaming, international streaming and domestic DVD rental services.

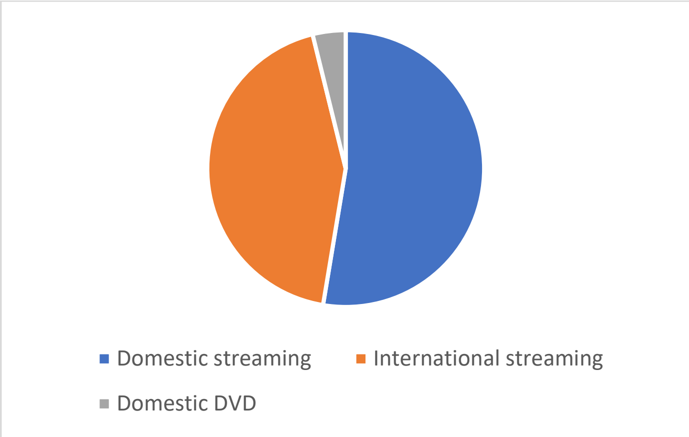
Figure 15. Netflix revenue



Source: own calculation based on data from Income Statement, revenues

Netflix Inc.'s economic profit declined from 2014 to 2015 and from 2015 to 2016. As we can see from figure above, sources of Netflix revenues have changed over time. In 2013 main source of income was domestic streaming with international streaming and DVD rental on a similar level. In the following years, international streaming revenue started to grow rapidly, while DVD was decreasing. Domestic streaming was also increasing. Situation for the last year is following:

Figure 16. Netflix revenue in 2017



Source: own calculation based on data from Income Statement, revenues

In conclusion, author would like to emphasize, that latest revenues are divided almost 50/50 with a very small revenue from DVD rental services.

4.9 Comparison of key indicators

In this chapter key economic indicators of Netflix Inc. will be compared and analyzed with their 2 main competitors: Amazon.com Inc. and Wal-Mart stores Inc.

Amazon.com Inc. is their main competitor in online video streaming. They are offering movies, tv series and other types of channels. Many famous movie production companies can be found in their content, such as HBO, Showtime and Starz.

Wal-Mart stores Inc. is their main competitor in terms of offline DVD rental and sales. As of January 31,2018, there are 11,718 stores in 28 countries.

4.9.1 Financial ratios comparison

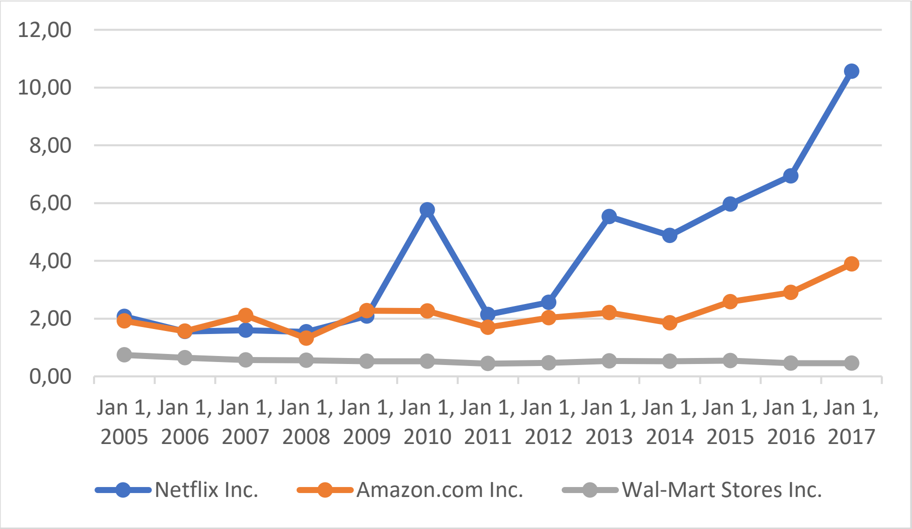
First financial ratio to be analyzed is *Price per Earnings ratio*. By this ratio we measure how attractive are stocks for investor. Higher is number, bigger attractiveness for investor. In the graph below we can observe this ratio from 2005 until 2017. First thing, that is worth mentioning is the stability of Wal-Mart stores Inc. Their P/E ratio moves between 15 and 20 last 15 years. This company is very old and traditional so its share price has already stabilized. This leads to stability in P/E ratio. Amazon.com and Netflix are much younger companies, so they are not so stable in terms of share prices. Big increase for Netflix happened in 2011, and in 2012 even higher jump occurred in P/E ratio of Amazon.com. After those years, fluctuating of P/E ratio of both Netflix and Amazon.com was very big, which means their stocks are not very secure to buy. In 2017 they reached almost the same level: Netflix was 220,95 and Amazon.com- 228, 67.

Figure 17. Netflix, Amazon and Wal-Mart P/E Ratio

Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart annual reports

Next financial ratio, that went to authors scope is a *Price to Sales Ratio*. This ratio is a way to compare the value of stocks. The lower is the ratio, the more attractive is the investment.

Figure 18. Netflix, Amazon and Wal-Mart P/S Ratio



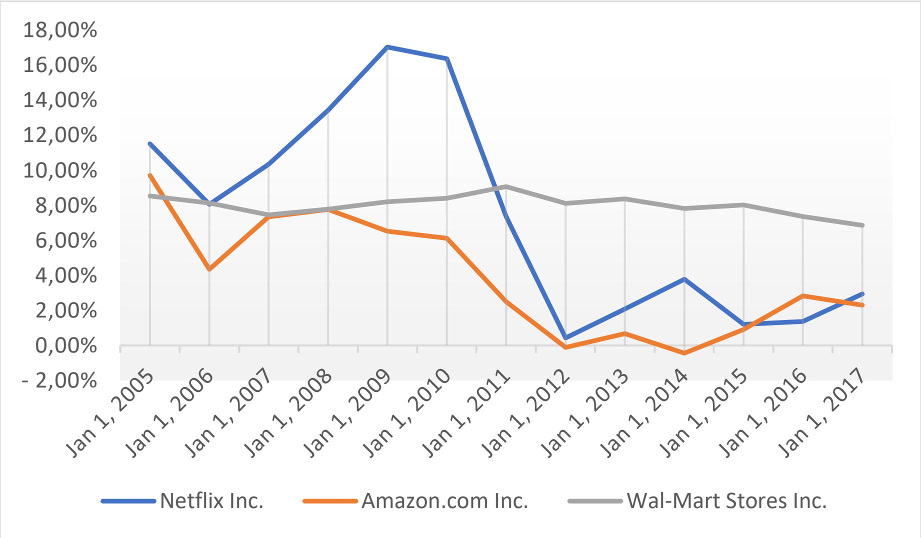
Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart annual reports

Same as the previous ratio, Wal-Mart stores Ltd. is out of bounds, due to its company traditions. Amazon.com and Netflix ratios were hand to hand until 2010, when P/S ratio jumped up to 5.94. In later years Netflix's ratio was much higher than Amazon.com. In conclusion, author would like to mention, that after analyzing financial ratios of those three companies Wal-Mart stores Inc. has best investment potential due to its low P/S ratio. Netflix is not considered as a good investment, because no big future increase in their stock prices is expected.

4.9.2 Profitability ratios comparison

Author started analysing profitability ratios of those companies analysing *Return on Assets(ROA).* This ratio indicates how well company's assets are used. Generally known, higher ROA percentage is a goal for a company.

Figure 19. Netflix, Amazon and Wal-Mart ROA



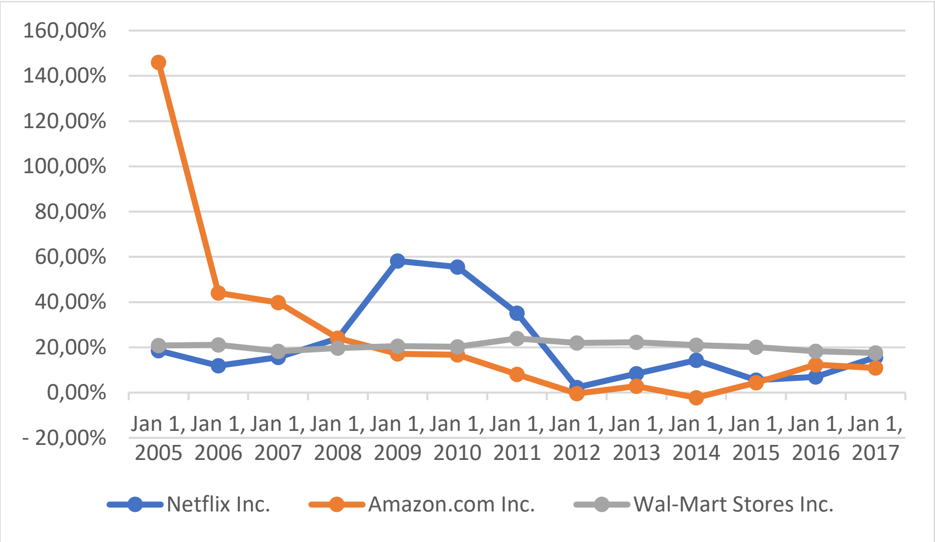
Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart annual reports

Netflix had a huge overwhelm in ROA until 2011, when their main source of the income change from DVD rental to Online services. Their ROA dramatically decreased from 17% to 1,5%. After that they remained on approximately same level. Amazon's situation is even worth, they went into negative values in 2012 and 2014, which is not a healthy sign of

ROA. Most stable is a Wal-Mart stores Inc. Their values fluctuating around 8%. So, in terms of using their assets, Wal-Mart is in the best position.

Next on, author compared *Return on Equity(ROE).* This ratio indicates how profitable company is. Or in the other words, how well are investors are rewarded for buying company's stocks and shares. This ratio is always expressed as a percentage and higher value is always better for the company.

Figure 20. Netflix, Amazon and Wal-Mart ROE

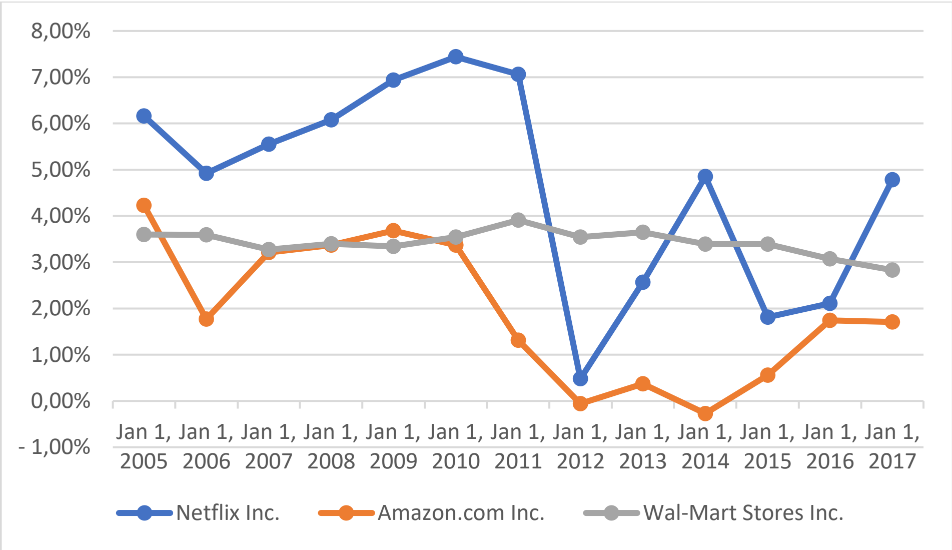


Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart annual reports

In graph above ROE of three companies is illustrated between the years 2005 and 2017. Reader can observe how stable Wal-Mart is. It is again due to their long-term traditions and stability. In 2005 Amazon.com has a value of ROE more than 140%. Next year it reduced to 40%. Netflix's Return on Equity was most of the time stable, increasing from 2009 to 2011. Amazon.com return on equity was negative twice: in 2012 and in 2014, same as the situation with ROA. To conclude this graph, author emphasizes that Wal-Mart Inc. is the most stable from them, but it is worth to mention that in 2017 they reached almost the same values, which means no one has a big advantage in aspect.

In last part of profitability ratios comparation author compared *Profit Margin* of those companies. This ratio is key in terms of profitability. It is impressed in percentages and used for analyzing the profitability of the company. Profit margin measures how much out of every dollar of sales does the company keeps in earnings.

Figure 21. Netflix, Amazon and Wal-Mart profit margin



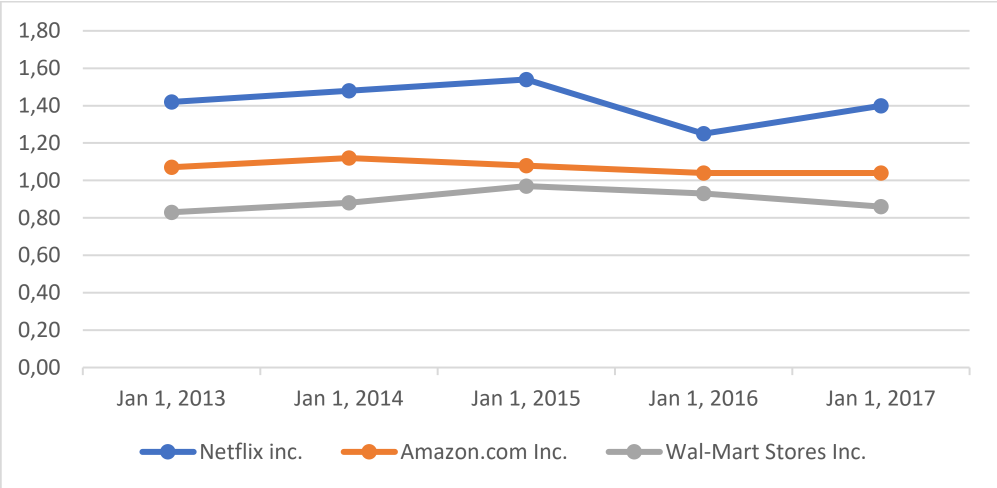
Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart annual reports

Netflix Inc. was the most profitable from those three companies from 2005 until 2011. Between 2011 and 2012 they suffered a massive pitfall getting almost 0% profit. Wal-Mart stores Inc. was and remained stable havening profit margin between 3% and 4%. Amazon.com is the least profitable from those 3 companies. Maximum profit margin, that they reached was 4,23% in 2005. In the further years their profit margin decreased even reaching negative net profit margin in 2012 and 2014. This means that Amazon.com has too high expenses that can't be covered by its revenues. Generally, Netflix has the highest profit margin between those three companies, which means they have the best difference between expenses and revenues.

4.9.3 Liquidity ratios comparison

Author starts his liquidity ratio analysis with the *Current ratio*. This liquidity measures the ability of a company to pay its bills in a short-term period. Since the ratio is a current assets divided by current liabilities, the ratio essentially implies that current liabilities can be liquidated to pay current assets. Generally known, that the best value of current ratio is 2.

Figure 22. Netflix, Amazon and Wal-Mart current ratio

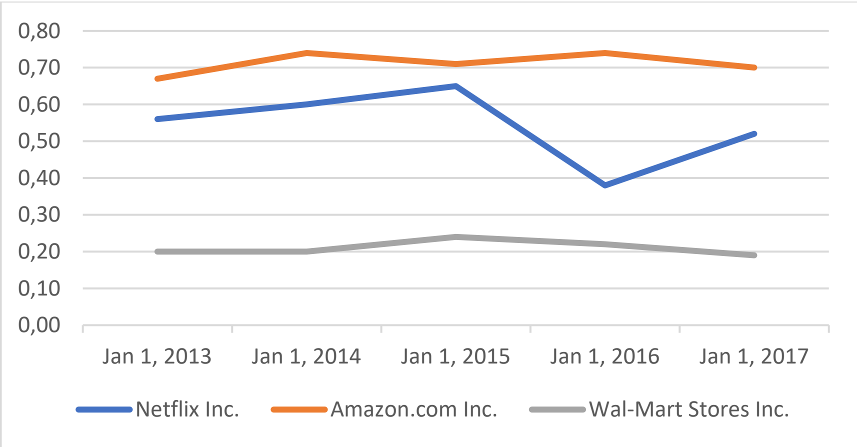


Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart annual reports

In the graph above readers can observe current ratios of the companies from 2013 until 2017. As it is known from the previous chapters, the perfect value for current ratio is considered to be 2. It is obvious form the graph, that Netflix Inc. has the highest values between this three companies. Even though, perfect value is considered 2, Netflix is the closest to them with values between 1,2 and 1,6. Amazon.com has the second highest values, they are between 1,0 and 1,2. Wal-Mart has the lowest value which are under 1. This means that this firm have some kind of difficulties to meet their current obligations.

Next on is the *Quick ratio*. This ratio helps to calculate the proportion of a company's current assets to its current liabilities. In other words, it is used to determine the ability of the company to pay short-term obligations using liquid assets that can be easily converted to cash. The higher is quick ratio, the better is the position of the company. Commonly accepted, that value 1 is a sign of a healthy company. Values below 1 are bad sign for shareholders and investors.

Figure 23. Netflix, Amazon an Wal-Mart quick ratio

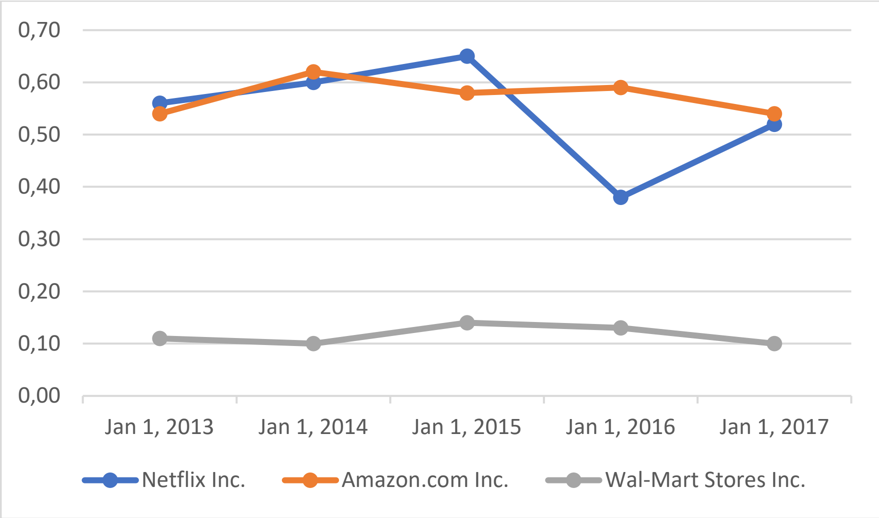


Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart Balance sheets

Quick ratios of the companies could be observed in the graph above. As it was stated above, healthy value is 1, which none of compared companies has. This means that those companies don't have very liquid assets that could be turned into cash in a short period of time. And it also means that those companies can't currently pay back its current liabilities. In general, Amazon.com has a slightly overwhelming position against Netflix in terms of quick ratio and liquidity.

Next liquidity ratio to be analysed is the *Cash ratio*. This is the ratio of a company's cash and cash equivalent assets compared to its total liabilities. Cash ratio is very similar to quick ratio, which is mentioned above. Potential creditors and investors use this ratio to investigate company's liquidity and how easily they can service debt and cover short-term liabilities. When the company has no cash or cash equivalents cash ration tends to be 0. In many countries cash ratio above 0,2 is acceptable. On the other hand, too high cash ratio means that the company is holding large amount of cash on a balance sheet, which is a sign of bad asset utilization.

Figure 24. Netflix, Amazon an Wal-Mart cash ratio



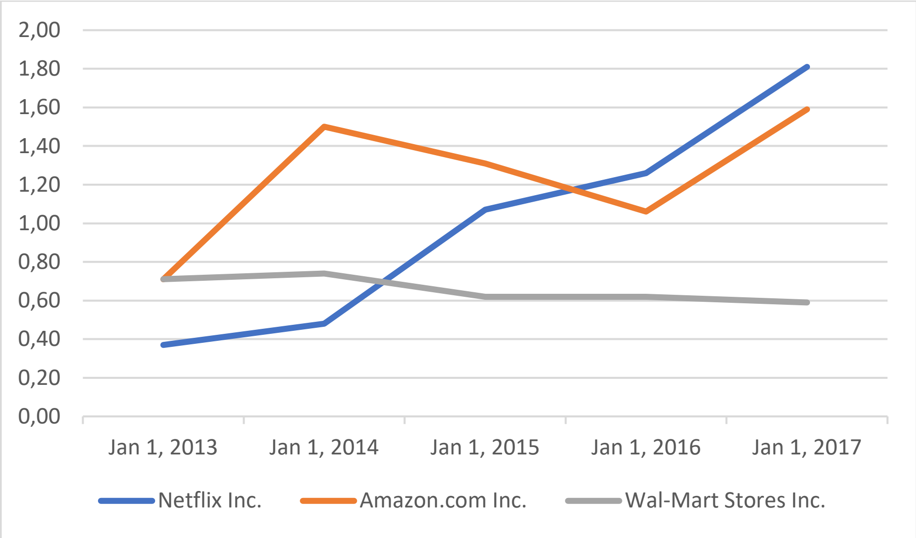
Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart Balance sheets

The graph above can be divided on two parts. First part is where Wal-Mart cash ratio is. It is constantly below 0,2 and slightly above or even equal 0,1. This numbers are considered to be normal, so in terms of liquidity this company is safe. Second part is Netflix and Amazon.com. their cash ratio value fluctuates between 0,4 and 0,7. This is relatively high value of this ratio. This might mean that the company have inefficient assets structure and might consider changes in assets. This companies keep a big amount of their assets in cash, while cash is the least productive asset on the balance sheet.

4.9.4 Debt ratios comparison

In this subchapter two debt ratios will be analysed: Debt to Equity ratio and Interest coverage ratio, because author considers those two ratios most useful and valuable for company's comparation. *Debt to Equity ratio* is an important debt ratio that is used to compare company's total liabilities to its shareholders' equity. Normal value is considered to be 1, but it depends on the size of the company and its industry. In our case, all three companies ae considered large and multinational, so the acceptable value is 1,5-2.

Figure 25. Netflix, Amazon an Wal-Mart D/E ratio

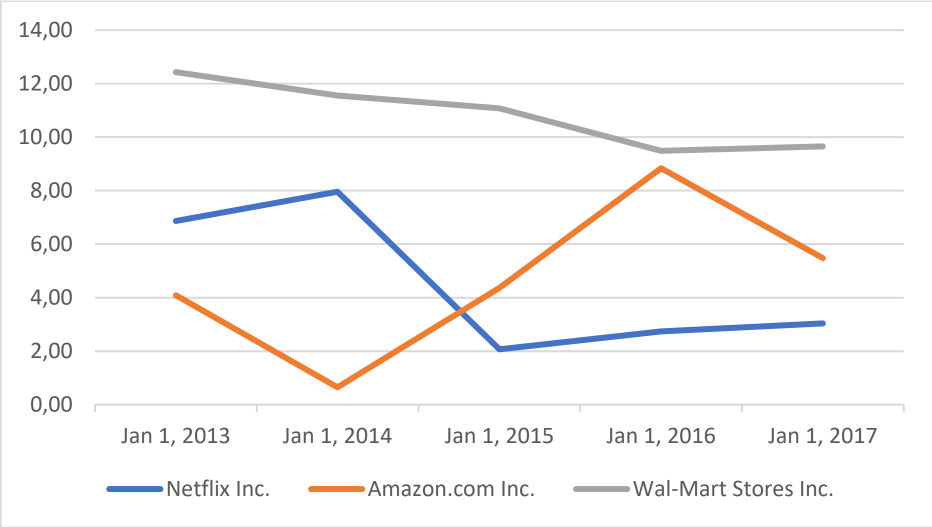


Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart Balance sheets

Stability of Wal-Mart is the first thing that comes to mind after having a look into the graph above. When the value of this ratio is exactly 1 it means that stockholders and creditors equally contribute to assets of the company. Their value fluctuates between 0,8 and 0,6, which is not a very good value for stockholders, because they like to get benefit on assets from creditors. So, in case of Wal-Mart, creditors are benefiting from stockholders' assets in this company. Netflix and Amazon.com has their values approximately similar in 2017, with Netflix a bit ahead with 1,81. Netflix's debt to equity increased from 0,4 to 1,8 in 4 years. So, they changed their contribution to assets from majority of stockholders to majority of creditors, when their value became more than 1. Generally, author cannot say which company is in better position, because each company has different goals and decisionmakers.

The last debt ratio to be analysed is an *Interest Coverage ratio*. It determines how easily an enterprise can pay interest on its outstanding debts, loans and borrowings. Or in other words, it's a measure of how many times over your company could theoretically pay off any liabilities using your available earnings at the time ratio is being calculated. Generally, a high an interest coverage ratio may tell the investigators, that a company is "too safe" and its neglecting opportunities to increase learnings through leverage.

Figure 26. Netflix, Amazon and Wal-Mart Interest coverage ratio



Source: own calculations based on Netflix Inc, Amazon.com Inc, Wal-Mart Balance sheets

The graph above illustrates interest coverage ratios of three listed companies. So lower interest coverage ratio, the greater the company's debt and possibility of bankruptcy. Therefore, as a rule of thumb, an interest ratio above 2 is considered the minimum acceptable value. However, some famous analysts are even looking for value 3 and above. On the other hand, too high interest coverage ratio might indicate, that a company is overlooking opportunities to magnify their earnings through leverage. Netflix interest coverage ratio decreased in 2015 and started slowly increasing from year to year reaching 3,03 values in 2017. This indicates that current financial situation is rather good and still improving. Amazon.com has even better situation, even though they marked a decrease from 2016 to 2017. Still their value of interest coverage ratio is 5,48. Wal-Mart interest ratio is stable, but too high. It means that a company is overlooking opportunities to increase earnings and might consider another strategy of using their leverage.

4.9.5 Final comparison

In this part of the work author is trying to conclude in a nutshell all ratios comparison. The table below illustrates all ratios and their values in 2017:

Table 9. Final ratios comparison

	NETFLIX INC.	AMAZON.COM INC.	WAL-MART INC.
P/E RATIO	220,95	**228,24**	16,02
P/S RATIO	**10,56**	3,89	0,45
ROA	2,94%	2,84%	**7,36%**
ROE	15,60%	10,95%	**17,54%**
PROFIT MARGIN	**4,78%**	1,71%	2,83%
CURRENT RATIO	**1,4**	1,04	0,86
QUICK RATIO	0,52	0,7	**0,19**
CASH RATIO	0,52	0,54	**0,10**
D/E RATIO	**1,81**	1,59	0,59
INTEREST COVERAGE	3,04	**5,48**	9,66

Source: author's own research

In the table above, yellow values indicate the best values of each ratio from this three companies. As readers can see, Netflix and Wal-Mart store both have four “winning” positions, Amazon.com has only two: interest coverage ratio and P/E ratio. Comparing Netflix and Wal-Mart we can conclude that, Wal-Mart has better liquidity which means more liquid assets. On the other hand, Netflix has bigger profit margin, which means bigger profits. Also, Netflix is more preferable for future investors and shareholders due to its financial ratios.

5. CONCLUSION

In last couple of years movie and especially TV series industry, in which Netflix is operating is changing rapidly. Preferences of subscribers and viewers and really hard to anticipate. Netflix has come up with a special program, that analyses Netflix subscriber's behavior. Depending on what movies viewer watch, at what time, on which device, what ranking he rate them, and even what people with similar preferences watch, Netflix gives their viewer recommendations for movies and tv services that viewer may watch in the future. Nowadays, about 80% of Netflix subscribers are using this personal recommendation system.

Monitoring viewers preferences not only allows Netflix to show, but also to make movies and Tv series. Since 2013, company has been actively investing in the production of their own content. In 2016 Netflix spent more than $5 billion for their original content production. If in 2013 Netflix showed only about ten programs of its own production, in 2016 it increased this number for more than a hundred.

Production of their own content allows Netflix to reduce dependency on agreements with other film making companies. Own films also serve as a good brand recognition and advertisement. Since 2015, number of subscribers increased for more than 2 times, reaching 120 million subscribers in first quarter on 2018. According to own company's investigation in 2016, it was reported, that almost 90% of users showed interest in its own products. Therefore, readers can notice how important is own content production in this industry.

"In the end of our global expansion we want the majority of our subscribers to be outside the US," says Joris Evers. "Look at YouTube, 90% of their users live in other countries" (Netflix.com 2016). This is the quotation of chief communication officer of Netflix from 2016. It is obvious, that global expansion, which started in 2011 is still their target number one. Currently Netflix is available in more than 190 countries and interface is translated on more than 35 languages. Even thought, revenues in 2017 are almost equally divided between US and international market, international market still has much higher potential in terms of revenues.

Dependency on subscribers is the main advantage and at the same time the main problem of Netflix. As it was told before, company constantly must increase investments into purchase and creation of their own content. Because of this investment, debt of the company for the of 2017 was more than $20 billion. But the management of company are not having concerns about those huge numbers because company and users base are still growing and are not going to stop in the near future.

At the same time, the marginality of the company is still very low, at a revenue of $11,7 billion, net income was only $558 million in 2017. On the international market Netflix is still unprofitable. By the end of 2017 Netflix recorded a loss worth $500 billion.

The company refers to this calmly- according to Reed Hasting, as the international expansion continues, the loss on the international market will increase. Hasting believe that the result is worth it, and continues to believe its intuition, as he did throughout the whole history of Netflix: “The internet has changed so many sectors of our lives. We are internet TV, this segment was very small for 15 years, but now it is already becoming significant. In 10 or 20 years, Internet TV will be all TV.”

Author’s recommendations for Netflix Inc. are following:

1) Company should keep applying same strategy of international expansion. This strategy helps them to increase number of users from year to year. Netflix should be available worldwide to become a global internet TV.
2) After having their service available worldwide, Netflix must accentuate their view on local content production. Their interface should be translated to more languages in order to attract more users. Creating national content with national actors and moviemakers should be number one priority. Even thought, Netflix has already released several national products, such as “The Crown” in Great Britain and “Marseille” staring Gerard Depardieu in France. This market segment has a huge potential and more national movie products should be produced. This will make Netflix unique.

Netflix is number one in internet TV services today. And author agrees with founder of Netflix Inc. that sooner or later all TV will be internet TV. So, in order to remain on top Netflix should improve a lot. In financial aspect, after completing international expansion and intensely increasing number of subscribers, net incomes of Netflix will increase dramatically. Also, their share price is likely to increase in the future. As there are no significant signs, that Netflix Inc. will start a stagnation or even a regression because this company with clever management and original content has not yet reached its maximum.

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