

Netflix Inc NFLX ★★ 22 Oct 2025 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
1,241.35 USD 21 Oct 2025	770.00 USD 22 Oct 2025 06:52, UTC	1.61	474.38 USD Bil 22 Oct 2025	 Narrow	 Large Growth	High	Exemplary	 3 Sep 2025 05:00, UTC

Sector

 Communication Services

Industry

Entertainment

moat.

Key stats: Netflix achieved record ad revenue in the third quarter and is set to double ad sales in 2025. We estimate this amounts to about \$3 billion, or 6%-7% of total sales.

- The firm doubled its upfront commitments for the 2025-26 TV season, outpaced that growth in programmatic sales, reached sufficient scale in all 12 of its ad markets, and seemingly hasn't suffered any detrimental mix shift to the lower-price ad-supported tier.
- Advertising success is critical, and the results bode well for meeting the rapid ad sales growth that we have projected.

Business Description

Netflix's relatively simple business model involves only one business, its streaming service. It has the biggest television entertainment subscriber base in both the United States and the collective international market, with more than 300 million subscribers globally. Netflix has exposure to nearly the entire global population outside of China. The firm has traditionally avoided a regular slate of live programming or sports content, instead focusing on on-demand access to episodic television, movies, and documentaries. The firm introduced ad-supported subscription plans in 2022, giving the firm exposure to the advertising market in addition to the subscription fees that have historically accounted for nearly all its revenue.

Business Strategy & Outlook Matthew Dolgin, CFA, Senior Equity Analyst, 27 Jun 2025

Netflix is the leading streaming television platform globally and enjoys the economic benefits of market-leading scale. We expect this position will persist.

Netflix has had a different strategy than its peers. It has avoided the temptation to bid for a regular slate of major live sports programming, which has been wise, considering our view that it would've had to overpay to attract major sports leagues. It has also chosen to grow organically from the ground up, building its business with no head start in terms of content ownership or foothold in the traditional media business. These decisions now give Netflix the advantage of not having to manage a declining legacy business, and it isn't burdened with expensive sports contracts or a subscriber base that is dependent on retaining sports rights.

Netflix does face threats. Notably, it faces a much more robust streaming market than it did when it was establishing its dominance while charging relatively low prices. With many subscription streaming platforms offering popular content, we don't believe consumers will have the financial willingness or ability to subscribe to all, meaning Netflix will need to continue offering a robust amount of attractive programming to maintain its position. This will require significant investment and careful consideration of pricing changes. Despite our view that Netflix will remain at the top, it will have to compete to a greater extent than it did historically.

We still expect an impressive growth trajectory. Assuming no huge misfires that result in a lack of attractive programming over an extended period, we expect Netflix's subscriber base to be sticky, and we think the cash it generates will allow it the capacity to produce many new series and movies each year, giving ample opportunity for customers to find something they like. We see further penetration opportunity in international markets, and we believe the introduction of an ad-supported subscription in the US will provide opportunities to reach new subscribers and a substantial source of revenue.

Bulls Say Matthew Dolgin, CFA, Senior Equity Analyst, 22 Oct 2025

- Netflix has already attracted a massive customer base and level of profitability. This advantage versus

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Competitors

	Netflix Inc NFLX	Comcast Corp Class A CMCSA	Warner Bros. D...ares - Class A WBD	The Walt Disney Co DIS
Economic Moat	Narrow	Narrow	None	Wide
Currency	USD	USD	USD	USD
Fair Value	770.00 22 Oct 2025 06:52, UTC	49.00 30 Jan 2025 20:53, UTC	20.00 10 Dec 2024 03:40, UTC	120.00 7 May 2025 21:41, UTC
1-Star Price	1,193.50	66.15	35.00	186.00
5-Star Price	462.00	34.30	10.00	72.00
Assessment	Overvalued 22 Oct 2025	Undervalued 22 Oct 2025	Fairly Valued 22 Oct 2025	Fairly Valued 22 Oct 2025
Morningstar Rating	★★ 22 Oct 2025 21:22, UTC	★★★★★ 22 Oct 2025 03:03, UTC	★★★ 22 Oct 2025 03:01, UTC	★★★ 22 Oct 2025 03:02, UTC
Analyst	Matthew Dolgin, Senior Equity Analyst	Michael Hodel, Director	Matthew Dolgin, Senior Equity Analyst	Matthew Dolgin, Senior Equity Analyst
Capital Allocation	Exemplary	Standard	Standard	Standard
Price/Fair Value	1.61	0.61	1.02	0.95
Price/Sales	12.47	0.92	1.31	2.19
Price/Book	20.32	1.14	1.40	1.88
Price/Earning	51.85	4.96	67.77	15.72
Dividend Yield	0.00%	4.34%	0.00%	0.87%
Market Cap	474.38 Bil	108.58 Bil	50.83 Bil	203.31 Bil
52-Week Range	744.26—1,341.15	29.15—45.31	7.25—21.22	80.10—124.69
Investment Style	Large Growth	Large Value	Mid Value	Large Value

competitors makes it more likely a virtuous cycle can continue, with Netflix securing more content that attracts and holds more subscribers.

- Advertising-supported subscriptions will open Netflix to a new base of subscribers and a major new source of revenue.
- Netflix has significant room to grow in international markets where it has already shown promise with local content.

Bears Say Matthew Dolgin, CFA, Senior Equity Analyst, 22 Oct 2025

- Netflix faces competition that it has not had to deal with in the past. As consumers have more options for quality streaming services, it's more likely that Netflix could get cut out of some consumer budgets.
- Netflix's US business is mature, with very high penetration of total households, meaning price increases may need to be a bigger component of future growth.
- Netflix will need to spend more on content—through sports rights and local international

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investment—to increase membership and prices at rates it has historically, when it worked from a lower base and with less competition.

Economic Moat Matthew Dolgin, CFA, Senior Equity Analyst, 22 Oct 2025

We assign Netflix a narrow moat rating based on intangible assets. Netflix has two advantages that set it apart from streaming-video peers. First, it has no legacy assets that are losing value as society transitions to new ways of consuming video entertainment at home, allowing it to put its full effort behind its core streaming offering. Second, it was the pioneer in its industry, providing it a big head start in accumulating subscribers and moving past the huge initial cash burn that we see as necessary to build a successful streaming service. This subscriber base was critical in creating a virtuous cycle for Netflix that we doubt can be attained by more than a small number of competitors, which is what we think would be necessary to dampen Netflix's ability to earn excess economic returns for the foreseeable future.

Ultimately, having a successful streaming service is all about offering customers a continuing depth of appealing content at a price point that they deem reasonable. The streaming industry is not necessarily a zero-sum game, as customers can always add incremental subscriptions, but consumer budgets are finite, so practically we expect only a handful of streaming services to consistently hold very large customer bases, which we think will be necessary to continue funding content investments.

Securing content requires either tens of billions of dollars of cash every year or, to a lesser extent, existing ownership of content that is enduring and can continue to attract subscribers. With access to enough cash, any enterprise could compete for the best content, but it takes a continuing stream of cash for a provider to have the best odds of having attractive content at any given time. We assume that any rational competitor will eventually require sufficient revenue streams from its operations to continue funding content creation at scale.

Netflix had the luxury of overcoming its cash burn—and achieving excess economic returns—during a time when few competitors kept it from expanding its subscriber base and achieving the scale that is critical for success. More recent and future competitors must attempt to reach scale while offering a compelling alternative to numerous other streaming choices. Before they're earning much revenue, they'll have to undertake the same or higher marketing and platform expenses Netflix had, but they'll also need premier, first-run content—which wasn't the case when Netflix began—requiring higher content spending. They'll also be doing this while competing with Netflix.

Netflix now has the biggest subscriber base, by a wide margin relative to any competitor in the US and internationally. The subscriber base that Netflix began accumulating before competitors entered is the firm's most important intangible asset, and we believe consumer habits and the data they continually provide through their viewing choices allow Netflix to feed them content that they're interested in,

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boosting engagement on Netflix and keeping customers loyal. Cash generated from loyal Netflix subscribers then gives the company the means to continually invest heavily in content. Programming choices have yielded many very popular hits, which have then drawn even more subscribers. The additional subscribers have further increased profits, allowing an additional portion to go toward incrementally more content spending, allowing Netflix to attract premier talent and take many shots at creating hits. This is the virtuous cycle.

In addition, the eyeballs Netflix has attracted and inertia and satisfaction among customers seemingly results in some shows becoming hits in large part because they're on the Netflix platform. We believe many consumers go to Netflix to determine what they want to watch rather than go to Netflix as the destination for what they're already looking to watch. A television show like *Suits*, which originally aired a decade ago on the USA Network with relatively modest success, became a huge hit in 2023 after Netflix began marketing it on its platform. Similarly, we suspect many sports documentaries, including *Formula 1: Drive to Survive*, that track sports that are less mainstream and don't have large existing fan bases, become hits largely because they're on Netflix. We believe this is another aspect of the Netflix platform that creates an advantage in both drawing talent and making customers reticent to cancel a Netflix. While any given movie or television show has the potential to be a bust, the ability for Netflix to continue funding a large menu of options makes us think this is unlikely the firm has an extended dry run without any attractive new options for subscribers.

Fair Value and Profit Drivers Matthew Dolgin, CFA, Senior Equity Analyst, 22 Oct 2025

Our fair value estimate for Netflix is \$770, implying a multiple of 25 times on our 2026 earnings per share forecast. After considering Netflix's opportunity to widen its member base, raise prices, and generate advertising revenue with subscribers who choose lower-priced ad-supported plans, we project about 10% average annual revenue growth over our five-year forecast, and we believe there's room for substantial margin expansion, as international markets mature and benefit from greater scale.

We expect member growth to come mostly from international markets over the long term. After a jump in household penetration that began in 2023, which we attribute mostly to the crackdown on password sharing and ad-supported subscription alternatives, we expect new member growth in the US and Canada to slow significantly in 2025. Over our forecast, we project U.S. member growth of only about 2% annually, only marginally exceeding the rate we expect for household formation. We project U.S. average revenue per member, or ARM, to rise at a mid-single-digit rate each year. We expect the firm to continue raising prices at least every two years, but we also expect a material bump from advertising revenue. Netflix began selling ad-supported subscriptions in 2022, but it has not yet reached its potential on selling ads within that service, leaving room for upside. However, the opportunity is mitigated by a mix shift in the subscriber base to lower-priced ad-supported plans. Considering all the puts and takes, we forecast a compound annual revenue growth rate in U.S. of 8.5% through 2030 and

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about 7% through 2034.

Penetration rates in Europe, the Middle East, and Africa, Latin America, and Asia-Pacific significantly trail those in the US, so we expect much more room for subscriber growth. As Netflix continues to create more country-specific content and find the right pricing strategy, we believe penetration can go higher, though we don't expect most countries to get close to the penetration rates in U.S. We believe subscriber growth in APAC can average a low-double-digit growth rate through 2030, driven by growth in India, while we project Latin America and EMEA subscriber bases to grow in the mid-single-digits annually. We don't expect ARM growth to be as strong, mostly due to a greater mix from countries that feature lower pricing, but we still project a low-single-digit annual rate as subscription prices rise and advertising revenue takes hold. We project average revenue growth in EMEA and Latin America of about 10% annually through 2030 and 8% through 2034, while we project APAC to be the fastest-growing region, averaging more than 17% through 2030 and 12% through 2034.

Netflix's biggest cost is content spending. We project \$18 billion in spending in 2025 and mid- to high-single-digit growth each year thereafter. Content amortization, which is the figure reflected in the income statement, should grow at a similar rate. However, we believe there will be operating leverage on this spending and other costs, resulting in operating margins rising from below 27% in 2024 to over 36% by 2030. With sales growing faster than content spending and other costs, we expect free cash flow to grow from \$7 billion in 2024 to \$19 billion by 2030.

Risk and Uncertainty Matthew Dolgin, CFA, Senior Equity Analyst, 27 Jun 2025

Our Morningstar Uncertainty Rating for Netflix is High. Our rating is largely based upon the evolving streaming media landscape and the additional competition Netflix now faces.

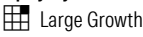
In our view, Netflix's tremendous success is due, in large part, to it being a first mover in the streaming industry and successfully adapting its business model to where the industry was going, while its media peers were largely still focusing on their legacy businesses.

The landscape has now changed, as nearly every major media company is promoting its own stand-alone streaming service. Also, Netflix is more focused on profitability and cash generation than it was in its infancy, meaning prices for consumers have risen substantially over the past several years.

Customers now have other choices for streaming subscriptions and the price they pay for Netflix is no longer an afterthought. As the streaming businesses of competitors mature, they may bundle their services together—with or without Netflix—or they may offer their services as add-ons for pay-TV subscribers who receive their linear channels, a foothold Netflix doesn't currently have. These factors make it possible that Netflix will have a tougher time growing its subscriber base or generating as much revenue per subscriber.

Other factors that bring greater uncertainty include the nascent ad-supported service, which will

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require the firm to successfully build an advertising business that makes up for the lower price these subscribers pay, and Netflix's flirtation with major live sports and the potential for more regular-season games, which may promote customer stickiness but typically come at a very high price.

From an ESG perspective, we believe potential social issues could carry the greatest risk. The entertainment industry in general has a history of bad behavior regarding issues like sexual assault and harassment and racial and gender discrimination.

Capital Allocation Matthew Dolgin, CFA, Senior Equity Analyst, 22 Oct 2025

We assign Netflix an Exemplary Morningstar Capital Allocation Rating. Our rating is based on our assessment of Netflix's ability to add value through investments in its business and takes into account how the company has managed its balance sheet and capital return policies.

Management had the foresight to see that the success it found in the DVD-by-mail subscription business would be fleeting, as technology and video consumption evolved, and it was willing to go all in to move to an entirely different business model. At a time when capital was cheap and equity investors were very willing to fund money-losing enterprises with hopes of a future payoff, Netflix management took advantage. With a prudent mixture of equity and low-interest-rate debt, Netflix transitioned its business, funding it through years of negative cash flow to build an industry-leading streaming customer base, expand to numerous international markets, and rev up its production capabilities for original content.

But even while cash losses were acceptable and the foremost priority was luring streaming subscribers, we commend management for the judicious decisions it made regarding where to best allocate capital. Notably, we think it has been smart to stay out of the race for major sports packages. Bidding obscene amounts for sports rights would have certainly cemented Netflix's place on the media map and drawn subscribers, but we think it would've damped potential profitability. Similarly, the firm has avoided any splashy acquisitions that could have accelerated its standing as a top media player but may have gotten the firm into businesses that will be less lucrative in the future than the past. Instead, Netflix built its streaming business gradually and organically while ultimately sunseting the DVD-by-mail business.

The choices Netflix made have paid off. Apart from having the most ubiquitous streaming platform, the firm is far ahead of peers in its ability to generate significant cash through the streaming business model. Management has now shifted to becoming more prudent regarding cash generation and spending while still striking a balance and allocating large amounts of capital to procuring new content each year.

We expect the maturing business to allow for improved financial footing from here, but Netflix already stands in good financial shape. At the end of September 2025, the firm had \$9 billion in cash versus \$14 billion in debt and was poised to continue generating more cash each year despite growing content

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costs. The firm should no longer need to raise additional capital as it deepens its subscriber base in international markets and continues creating and licensing content.

Wisely, Netflix has never paid a dividend, but with the firm now being a significant cash generator, it has had a share repurchase program in place since 2021. We believe management will regularly return capital to shareholders via the buyback as long as it doesn't see significant, compelling opportunities outside what has become its normal course of operations.

Analyst Notes Archive

Netflix Earnings: Stellar Results Had Areas of Softness; Currency Tailwinds Drive Guidance Raise

Matthew Dolgin, CFA, Senior Equity Analyst, 18 Jul 2025

Netflix again posted fantastic results, with second-quarter sales up 16% year over year and the operating margin increasing by 7 percentage points, to 34%. However, sales would have missed guidance if not for a currency tailwind, and lower content expenses, which won't persist, drove profits. Why it matters: Robust sales growth is virtually certain throughout 2025. Netflix raised prices in several major markets, including the US, early in the year, and the firm is fully realizing revenue from last year's boom in member growth, particularly in the back half. Durability is the question. Second-quarter sales in the US and Canada, or UCAN, grew 16% year over year, but considering the price increases, we think the number of members has been roughly flat at best through the first half. Subscription prices in UCAN rose 10%-16% in January, depending on the plan tier. If Netflix added no new UCAN members in the first half, average revenue per member would've been up 7% in the second quarter and slightly down in the first, plausible when factoring in plan mix and discounts. This portends poorly for 2026, after Netflix laps the price hikes. The bottom line: We keep our \$750 fair value estimate and narrow moat. We believe Netflix remains best-in-class, but we expect the rapid growth to decelerate substantially in 2026. As such, we think the stock is far too expensive, trading at 40 times FactSet consensus 2026 earnings. We see room for long-term margin expansion, but the level this quarter was deceiving. Second-quarter cash content spending, which largely flows to the income statement, was down 8% year over year. This was simply a timing issue. Spending would pick up significantly in the second half. Full-year operating margin guidance is now 30%, implying a 27% margin for the second half. The 1-percentage-point increase in full-year margin guidance was driven mostly by more favorable currency exchange rates, the same driver for an increase in full-year revenue guidance.

Netflix: A Deep Analysis Prompts FVE Boost to \$750 From \$720 but Hardens Our Belief of Overvaluation

Matthew Dolgin, CFA, Senior Equity Analyst, 27 Jun 2025

In light of The Wall Street Journal's report on Netflix's 2030 operating targets, which include a doubling of revenue, we took an in-depth look at each of Netflix's sales growth drivers and the potential contribution each could make over the next six years. Why it matters: We believe the stock's current

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levels assume that Netflix will reach its reported 2030 goals, but we still believe those targets will be very difficult to achieve and should not constitute a base-case forecast. Recent sales growth has been driven by strength in the US—mostly due to unprecedented net new-member additions—that will wane. The firm's crackdown on password sharing and introduction of an ad-supported plan were catalysts that no longer exist, and penetration rates are now high. International markets have room for strong member additions, but most carry low prices, blunting the benefit to the top line. We question how much prices can rise both domestically and internationally, and the lower prices on ad-supported plans will mitigate budding advertising sales. The bottom line: We raise our fair value estimate to \$750 from \$720 after building up our forecast by each revenue driver and the opportunity we believe it most reasonably provides. We think advertising can generate as much as \$12 billion by 2030 but add only about 3 points to annual growth. We forecast impressive growth, an average of 10% annually through 2030 on the top line, but this still leaves the firm \$9 billion short of its goal. We project the operating margin to rise nearly 10 percentage points by 2030, to over 36%, but still short of the targeted 12 points of expansion. We also built a bull case, where Netflix achieves its reported 2030 sales and profit targets and continues growing rapidly beyond 2030. In this scenario, we arrived at a \$1,225 fair value estimate, meaning the stock would still be overvalued.

Netflix Earnings: Blowaway Profits and Strong Sales, but a Mixed Bag Underneath Matthew Dolgin, CFA, Senior Equity Analyst, 21 Apr 2025

Netflix posted an incredible 32% operating margin—350 basis points ahead of guidance—and 25% earnings per share growth in the first quarter. It also exceeded its sales guidance. However, it only maintained its full-year outlook, including for operating margins, and US sales were soft. Why it matters: The stunning profit appears much more related to the timing of expenses rather than significant further improvement in operating performance. Netflix expects even better second-quarter margins. However, expenses will rise substantially in the second half, primarily due to the release of films and other programming and associated marketing costs. Content spending grew only 1% year over year, but we still expect a mid-single-digit increase for the full year. The firm maintained its 2025 guidance for \$8 billion in free cash flow after generating \$2.6 billion in the quarter. The bottom line: Our outlook is generally unchanged after these results. We maintain our narrow moat and raise our fair value estimate to \$720 per share from \$700 due to the time value of money. Our full-year estimate for earnings per share is rising, but this is largely due to share repurchases, which we don't think add value at the current stock price. We think management may now be conservative with 2025 margins, but we're not adjusting our longer-term projections. Between the lines: Sales growth in the US was disappointing, at only 9% year over year. Management downplayed the softness and said sales would reaccelerate in the second quarter after price hikes took effect midway through the first quarter, but we're not reassured. Netflix is no longer reporting member numbers, but 9% growth means either the firm lost US members or average revenue per member declined. We think it's likely both. Shifts to the ad-supported plan can

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weigh on ARM, and major broadcasts underpinned a surge of member additions last quarter. The firm could've lost over a million US members and still seen ARM decline.

Netflix: Management's Ambitious Targets Are Already in the Stock and Will Be Tough to Achieve

Matthew Dolgin, CFA, Senior Equity Analyst, 15 Apr 2025

The Wall Street Journal reported that Netflix management conveyed operating targets to senior staff that included a doubling of revenue and tripling of operating profit by 2030. The targets include 36% growth in global subscribers (members) and imply that advertising will make up 12% of total sales. Why it matters: The stock rose more than 5% after the report, but these disclosures seem consistent with management's previous, though less granular, commentary, and we believe the stock has already priced in this type of growth. If Netflix achieves these targets and maintains consistent interest and tax rates, the stock would still be trading at 17 times 2030 earnings. Netflix is currently trading at 40 times 2025 and 33 times 2026 FactSet consensus earnings, which include 22% earnings and 13% revenue growth each year. If Netflix can achieve these targets, which would result in compounded annual growth rates, or CAGRs, of 12% and 19% for revenue and operating profit, respectively, through 2030, we'd currently see the stock as fairly valued. The bottom line: We believe these targets look more like a stretch goal and will be difficult to achieve. We are maintaining our narrow moat rating and \$700 fair value estimate, which implies an earnings multiple of 24 times consensus 2026 earnings and 28 times 2026 free cash flow. Our forecast includes CAGRs of 10% and 15% for revenue and operating profit, respectively, and 18% for free cash flow. We project a similar member base as management does but see less room to grow revenue per member, or ARM, where we project CAGRs of 5% in the US and Canada and 3% globally. US and Canada is easily the highest-priced market, and we expect this will see the bulk of advertising revenue, leading to ARM growth. However, we expect member growth to slow substantially, and a greater mix shift toward ad-support plans, which we expect, would mitigate the boost from advertising.

Netflix Earnings: Member Additions Blow out and Sales and Profit Growth Stays High; FVE up by 27%

Matthew Dolgin, CFA, Senior Equity Analyst, 22 Jan 2025

Netflix posted record quarterly and annual net member additions, with 19 million in the fourth quarter and 41 million for the full year. Growth in sales (15% year over year) and operating profit (52%) maintained their recent rapid pace. The firm also announced price increases. Why it matters: The fourth-quarter member surge, combined with price increases in the US, Canada, Portugal, and Argentina, extends the runway for Netflix to maintain midteens sales growth through 2025. While growth will likely slow in 2025, we had expected a bigger slowdown, as we thought the firm had passed its biggest new member opportunity brought on by the crackdown on password sharing. We still think penetration opportunities in the US and Canada, and Europe, the Middle East, and Africa—the two highest-priced regions—are modest. Price increases and advertising revenue should be the bigger

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growth drivers, which should moderate. The bottom line: We're raising our fair value estimate to \$700 from \$550, based on higher sales projections over the next five years and slightly wider margin expansion. We assign the firm a narrow moat and think it is leaps and bounds ahead of competitors, but with the stock trading at 40 times our 2025 earnings projection and growth decelerating, we think shares are overvalued. Our fair value estimate implies a 2025 earnings multiple of 30. Key stats: Profitability remains impressive, but gains are slowing. Operating margin was 22% in the fourth quarter and 27% for the full year, both up about six percentage points. 2024 free cash flow was \$7 billion, the same as 2023. We expect Netflix to gain operating leverage on many of its costs, but the need for continually more content spending and marketing and production for major events will limit the magnitude. 2025 guidance is for a 29% margin, \$8 billion free cash flow, and about \$18 billion in 2025 content spending, up from \$16 billion. At that level, we think free cash flow can reach \$10 billion.

Netflix Earnings: Signs of Subscriber Growth Normalization, but Sales and Margins Remain Impressive

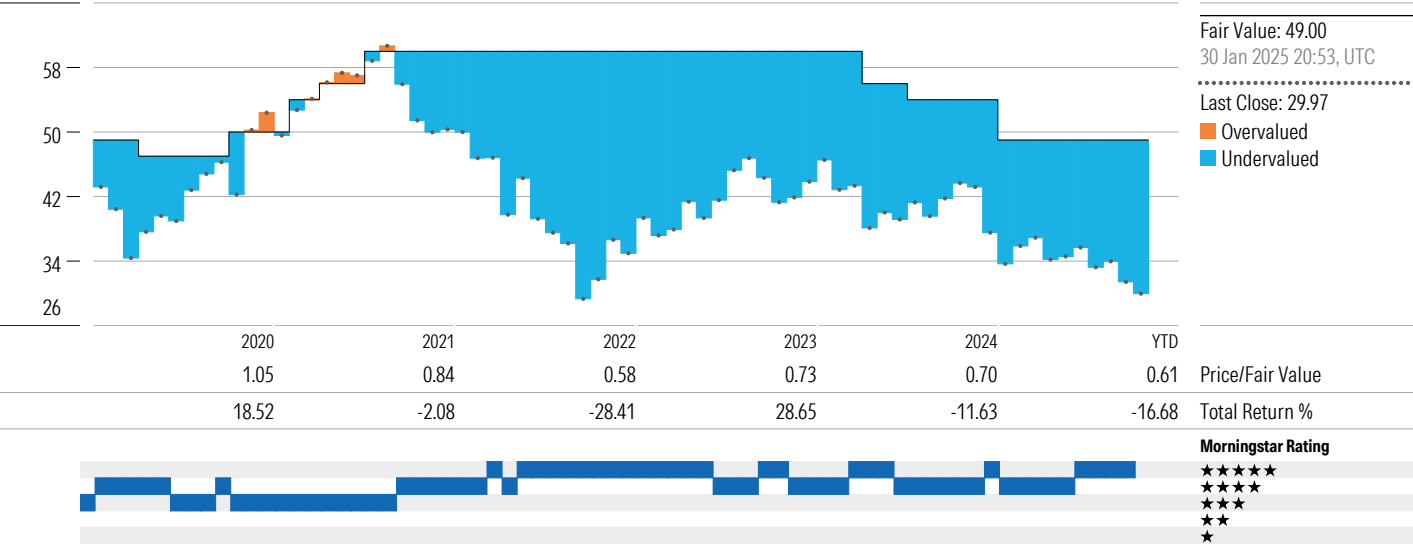
Matthew Dolgin, CFA, Senior Equity Analyst, 18 Oct 2024

Netflix's very strong third-quarter sales growth was largely assured, considering the huge increase in subscribers over the past few quarters. Still, we were impressed at how much further margins expanded beyond the huge rise already this year. Netflix also offered an initial sales and margin outlook for 2025 that portends less of a deceleration than we anticipated following a blockbuster 2024. The third quarter showed the slowdown in subscriber growth that we've been expecting, but Netflix has other areas of opportunity to continue boosting its financial performance. After adjusting our projections, we're raising our fair value estimate to \$550 from \$500. Still, while the firm's persistent near-term strength exceeds our expectations, and we expect Netflix to remain well ahead of competitors, we think the market is extrapolating recent amazing results too far into the future. We think some markets are approaching saturation, and although we see opportunities for Netflix to enhance revenue per subscriber, we don't think those are so big as to offset decelerating subscriber additions. We also expect much more moderate margin expansion than has occurred in 2024 because we expect Netflix will increase content spending at a similar rate as sales to help maintain its wide lead over competitors and strengthen its moat, which we rate as narrow today. Third-quarter sales grew 15% year over year, and the firm added another 5 million subscribers globally, including about 700,000 in the United States and Canada. While solid, both figures were the fewest since the first quarter of 2023, and we think they now put Netflix on more of a normalized pace after the firm added about 40 million global subscribers and 9 million U.S. subscribers over the prior four quarters. We expect greater advertising monetization and price increases to contribute more to growth over time, but in the third quarter, average revenue per subscriber was flat globally. ■■■

Netflix Inc NFLX ★★ 22 Oct 2025 21:22, UTC

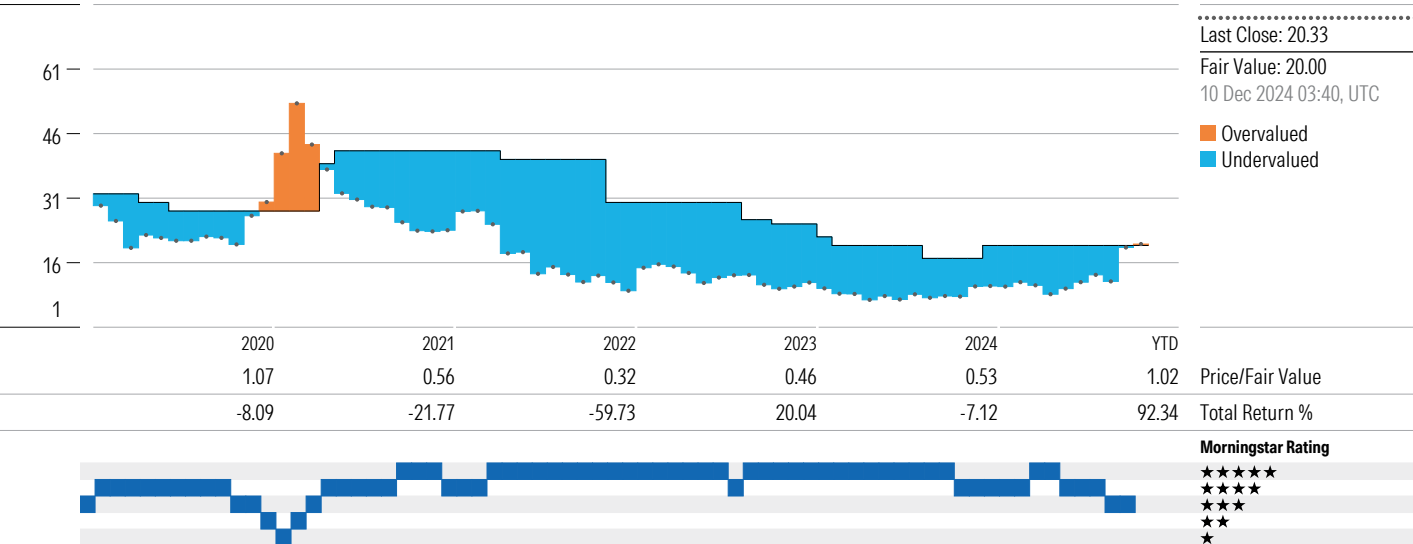
Competitors Price vs. Fair Value

Comcast Corp Class A CMCSA



Total Return % as of 21 Oct 2025. Last Close as of 21 Oct 2025. Fair Value as of 30 Jan 2025 20:53, UTC.

Warner Bros. Discovery Inc Ordinary Shares - Class A WBD

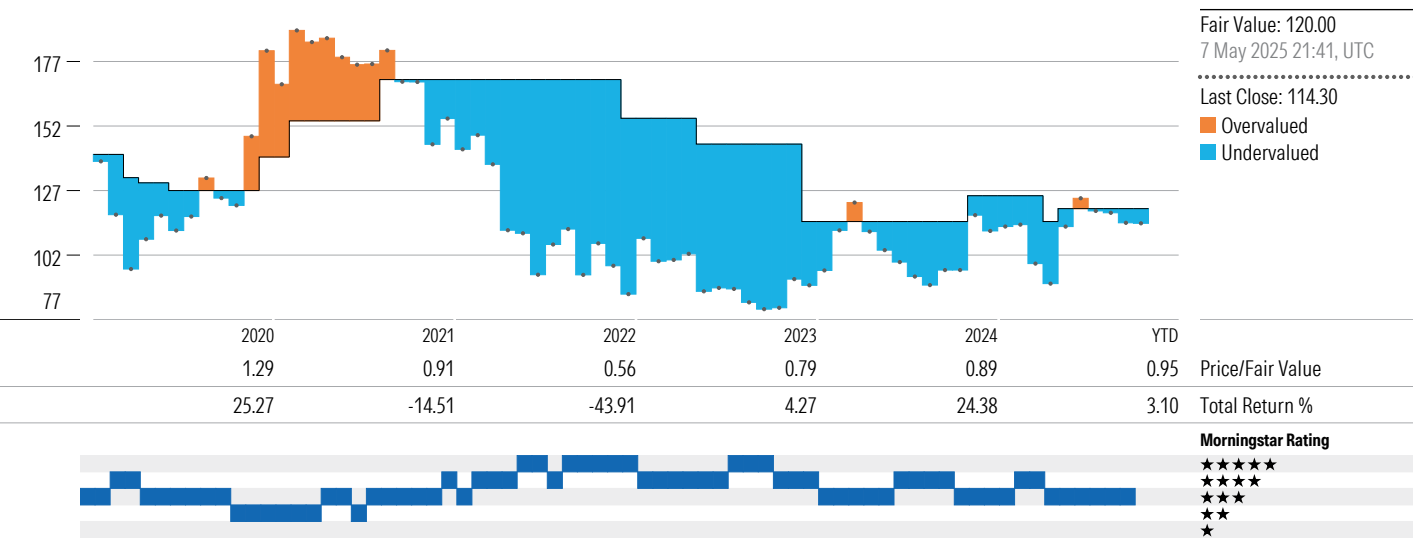


Total Return % as of 21 Oct 2025. Last Close as of 21 Oct 2025. Fair Value as of 10 Dec 2024 03:40, UTC.

Netflix IncNFLX★★22 Oct 2025 21:22, UTC

Competitors Price vs. Fair Value

The Walt Disney CoDIS



Total Return % as of 21 Oct 2025. Last Close as of 21 Oct 2025. Fair Value as of 7 May 2025 21:41, UTC.

Netflix Inc NFLX ★★ 22 Oct 2025 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
1,241.35 USD 21 Oct 2025	770.00 USD 22 Oct 2025 06:52, UTC	1.61	474.38 USD Bil 22 Oct 2025	Narrow	Large Growth	High	Exemplary	3 Sep 2025 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 21 Oct 2025

Fiscal Year, ends 31 Dec	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Revenue (USD Mil)	31,616	33,723	39,001	45,041	49,998	55,842	60,511	65,863
Operating Income (USD Mil)	5,633	6,954	10,418	13,228	16,028	18,788	20,780	23,274
EBITDA (USD Mil)	5,970	7,311	10,747	13,595	16,528	19,346	21,385	23,933
Adjusted EBITDA (USD Mil)	7,079	8,162	11,514	14,406	17,328	20,146	22,185	24,733
Net Income (USD Mil)	4,492	5,408	8,712	10,940	13,627	15,949	17,728	19,963
Adjusted Net Income (USD Mil)	4,492	5,408	8,712	10,940	13,627	15,949	17,728	19,963
Free Cash Flow To The Firm (USD Mil)	209	7,469	6,132	8,589	11,544	13,906	15,935	18,127
Weighted Average Diluted Shares Outstanding (Mil)	451	449	439	435	435	435	435	435
Earnings Per Share (Diluted) (USD)	9.95	12.03	19.83	25.14	31.33	36.66	40.75	45.89
Adjusted Earnings Per Share (Diluted) (USD)	9.95	12.03	19.83	25.14	31.33	36.66	40.75	45.89
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Margins & Returns as of 21 Oct 2025

	3 Year Avg	Actual			Forecast					5 Year Avg
		2022	2023	2024	2025	2026	2027	2028	2029	
Operating Margin %	21.7	17.8	20.6	26.7	29.4	32.1	33.6	34.3	35.3	33.0
EBITDA Margin %	—	18.9	21.7	27.6	30.2	33.1	34.6	35.3	36.3	—
Adjusted EBITDA Margin %	—	22.4	24.2	29.5	32.0	34.7	36.1	36.7	37.6	35.4
Net Margin %	17.5	14.2	16.0	22.3	24.3	27.3	28.6	29.3	30.3	28.0
Adjusted Net Margin %	17.5	14.2	16.0	22.3	24.3	27.3	28.6	29.3	30.3	27.9
Free Cash Flow To The Firm Margin %	12.8	0.7	22.2	15.7	19.1	23.1	24.9	26.3	27.5	24.2

Growth & Ratios as of 21 Oct 2025

	3 Year CAGR	Actual			Forecast					5 Year CAGR
		2022	2023	2024	2025	2026	2027	2028	2029	
Revenue Growth %	9.5	6.5	6.7	15.7	15.5	11.0	11.7	8.4	8.9	11.1
Operating Income Growth %	18.9	-9.1	23.5	49.8	27.0	21.2	17.2	10.6	12.0	17.4
EBITDA Growth %	20.9	-6.8	22.5	47.0	26.5	21.6	17.1	10.5	11.9	17.5
Adjusted EBITDA Growth %	17.0	-1.5	15.3	41.1	25.1	20.3	16.3	10.1	11.5	16.5
Earnings Per Share Growth %	20.8	-11.5	20.9	64.8	26.8	24.6	17.0	11.2	12.6	18.3
Adjusted Earnings Per Share Growth %	20.8	-11.4	20.9	64.8	26.7	24.6	17.0	11.2	12.6	18.3

Valuation as of 21 Oct 2025

	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
Price/Earning	29.6	40.5	44.9	44.4	35.6	30.5	27.4	24.3
Price/Sales	4.2	6.3	9.8	10.5	9.5	8.5	7.8	7.2
Price/Book	6.4	10.6	15.8	13.6	9.8	7.4	5.9	4.7
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	19.6	26.9	33.7	33.3	27.7	23.8	21.6	19.4
EV/EBIT	24.7	31.6	37.2	36.2	29.9	25.5	23.1	20.6
Dividend Yield %	—	—	—	—	—	—	—	—
Dividend Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 21 Oct 2025

Fiscal Year, ends 31 Dec	Actual			Forecast				
	2022	2023	2024	2025	2026	2027	2028	2029
ROA %	9.2	11.1	16.2	17.1	17.4	16.6	15.2	14.4
ROE %	21.6	26.3	35.2	30.7	27.6	24.4	21.4	19.4
ROIC %	16.4	17.2	23.2	26.7	29.0	31.1	31.6	32.8

Netflix Inc NFLX ★★ 22 Oct 2025 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
1,241.35 USD 21 Oct 2025	770.00 USD 22 Oct 2025 06:52, UTC	1.61	474.38 USD Bil 22 Oct 2025	Narrow	Large Growth	High	Exemplary	3 Sep 2025 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2022	2023	2024	2025	2026	2027	2028	2029
Debt/Capital %	9.9	6.4	3.9	4.2	4.1	4.1	4.4	4.4
Assets/Equity	2.3	2.4	2.2	1.8	1.6	1.5	1.4	1.3
Net Debt/EBITDA	1.4	1.0	0.6	-0.1	-0.8	-1.4	-2.0	-2.5
Total Debt/EBITDA	2.0	1.8	1.4	1.0	0.9	0.9	0.9	0.9
EBITDA/ Net Interest Expense	19.2	10.9	25.5	26.6	47.5	44.2	55.1	75.4

Forecast Revisions as of 22 Oct 2025	2025		2026		2027	
Prior data as of 17 Jul 2025	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	770.00	754.30	—	—	—	—
Revenue (USD Mil)	45,041	44,869	49,998	49,921	55,842	55,490
Operating Income (USD Mil)	13,228	13,438	16,028	16,161	18,788	18,982
EBITDA (USD Mil)	14,406	14,618	17,328	17,460	20,146	20,337
Net Income (USD Mil)	10,940	11,284	13,627	13,746	15,949	16,115
Earnings Per Share (Diluted) (USD)	25.14	25.90	31.33	31.60	36.66	37.05
Adjusted Earnings Per Share (Diluted) (USD)	25.14	25.90	31.33	31.60	36.66	37.05
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00

Key Valuation Drivers as of 21 Oct 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	8.1
Long-Run Tax Rate %	13.0
Stage II EBI Growth Rate %	8.0
Stage II Investment Rate %	10.0
Perpetuity Year	15

Additional estimates and scenarios available for download at <https://pitchbook.com/>.

Discounted Cash Flow Valuation as of 21 Oct 2025

	USD Mil
Present Value Stage I	111,904
Present Value Stage II	52,667
Present Value Stage III	155,464
Total Firm Value	320,035
Cash and Equivalents	9,584
Debt	15,583
Other Adjustments	0
Equity Value	314,036
Projected Diluted Shares	438
Fair Value per Share (USD)	770.00

Netflix Inc NFLX ★★ 22 Oct 2025 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
1,241.35 USD 21 Oct 2025	770.00 USD 22 Oct 2025 06:52, UTC	1.61	474.38 USD Bil 22 Oct 2025	Narrow	Large Growth	High	Exemplary	3 Sep 2025 05:00, UTC

ESG Risk Rating Breakdown

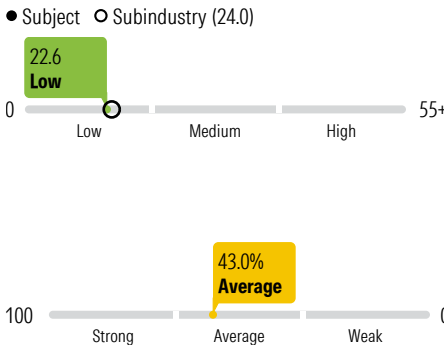
Exposure

Company Exposure¹	22.6
- Manageable Risk	21.5
Unmanageable Risk²	1.1

Management

Manageable Risk	21.5
- Managed Risk³	9.2
Management Gap⁴	12.2

Overall Unmanaged Risk 13.4



- ▶ Exposure represents a company's vulnerability to ESG risks driven by their business model
- ▶ Exposure is assessed at the Subindustry level and then specified at the company level
- ▶ Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure
- ▶ Management measures a company's ability to manage ESG risks through its commitments and actions
- ▶ Management assesses a company's efficiency on ESG programs, practices, and policies
- ▶ Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 43.0% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment⁵



ESG Risk Rating is of Sep 03, 2025. Highest Controversy Level is as of Oct 08, 2025. Sustainalytics Subindustry: Movies and Entertainment. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 03 Sep 2025

Company Name	Exposure	Management	ESG Risk Rating
Netflix Inc	22.6 Low 0 —●— 55+	43.0 Average 100 —●— 0	13.4 Low 0 —●— 40+
The Walt Disney Co	28.5 Low 0 —●— 55+	46.7 Average 100 —●— 0	16.0 Low 0 —●— 40+
Comcast Corp	43.0 Medium 0 —●— 55+	51.2 Strong 100 —●— 0	23.4 Medium 0 —●— 40+
Warner Bros. Discovery Inc	27.1 Low 0 —●— 55+	52.5 Strong 100 —●— 0	13.6 Low 0 —●— 40+
—	— — 0 —●— 55+	— — 100 —●— 0	— — 0 —●— 40+

Appendix

Historical Morningstar Rating

Netflix Inc NFLX 22 Oct 2025 11:54, UTC

Dec 2025 —	Nov 2025 —	Oct 2025 ★	Sep 2025 ★	Aug 2025 ★	Jul 2025 ★	Jun 2025 ★	May 2025 ★	Apr 2025 ★★	Mar 2025 ★★	Feb 2025 ★★	Jan 2025 ★★
Dec 2024 ★	Nov 2024 ★	Oct 2024 ★★	Sep 2024 ★★	Aug 2024 ★★	Jul 2024 ★★	Jun 2024 ★★	May 2024 ★★	Apr 2024 ★★	Mar 2024 ★★	Feb 2024 ★★	Jan 2024 ★★
Dec 2023 ★★	Nov 2023 ★★	Oct 2023 ★★★	Sep 2023 ★★★	Aug 2023 ★★	Jul 2023 ★★	Jun 2023 ★★	May 2023 ★★★	Apr 2023 ★★★	Mar 2023 ★★★	Feb 2023 ★★★	Jan 2023 ★★★
Dec 2022 ★★★	Nov 2022 ★★★	Oct 2022 ★★★	Sep 2022 ★★★	Aug 2022 ★★★	Jul 2022 ★★★★	Jun 2022 ★★★★	May 2022 ★★★★	Apr 2022 ★★★★	Mar 2022 ★★	Feb 2022 ★★	Jan 2022 ★★
Dec 2021 ★	Nov 2021 ★	Oct 2021 ★	Sep 2021 ★	Aug 2021 ★	Jul 2021 ★	Jun 2021 ★	May 2021 ★	Apr 2021 ★	Mar 2021 ★	Feb 2021 ★	Jan 2021 ★
Dec 2020 ★	Nov 2020 ★	Oct 2020 ★	Sep 2020 ★	Aug 2020 ★	Jul 2020 ★	Jun 2020 ★	May 2020 ★	Apr 2020 ★	Mar 2020 ★	Feb 2020 ★	Jan 2020 ★

Comcast Corp Class A CMCSA 22 Oct 2025 03:03, UTC

Dec 2025 —	Nov 2025 —	Oct 2025 ★★★★★	Sep 2025 ★★★★★	Aug 2025 ★★★★★	Jul 2025 ★★★★★	Jun 2025 ★★★★	May 2025 ★★★★	Apr 2025 ★★★★	Mar 2025 ★★★★	Feb 2025 ★★★★	Jan 2025 ★★★★★
Dec 2024 ★★★★	Nov 2024 ★★★★	Oct 2024 ★★★★	Sep 2024 ★★★★	Aug 2024 ★★★★	Jul 2024 ★★★★	Jun 2024 ★★★★★	May 2024 ★★★★★	Apr 2024 ★★★★★	Mar 2024 ★★★★	Feb 2024 ★★★★	Jan 2024 ★★★★
Dec 2023 ★★★★	Nov 2023 ★★★★★	Oct 2023 ★★★★★	Sep 2023 ★★★★	Aug 2023 ★★★★	Jul 2023 ★★★★	Jun 2023 ★★★★★	May 2023 ★★★★★	Apr 2023 ★★★★★	Mar 2023 ★★★★★	Feb 2023 ★★★★★	Jan 2023 ★★★★★
Dec 2022 ★★★★★	Nov 2022 ★★★★★	Oct 2022 ★★★★★	Sep 2022 ★★★★★	Aug 2022 ★★★★★	Jul 2022 ★★★★★	Jun 2022 ★★★★★	May 2022 ★★★★	Apr 2022 ★★★★★	Mar 2022 ★★★★	Feb 2022 ★★★★	Jan 2022 ★★★★
Dec 2021 ★★★★	Nov 2021 ★★★★	Oct 2021 ★★★★	Sep 2021 ★★★	Aug 2021 ★★★	Jul 2021 ★★★	Jun 2021 ★★★	May 2021 ★★★	Apr 2021 ★★★	Mar 2021 ★★★	Feb 2021 ★★★	Jan 2021 ★★★
Dec 2020 ★★★	Nov 2020 ★★★	Oct 2020 ★★★★	Sep 2020 ★★★	Aug 2020 ★★★	Jul 2020 ★★★	Jun 2020 ★★★★	May 2020 ★★★★	Apr 2020 ★★★★	Mar 2020 ★★★★	Feb 2020 ★★★★	Jan 2020 ★★★

Warner Bros. Discovery Inc Ordinary Shares - Class A WBD 22 Oct 2025 03:01, UTC

Dec 2025 —	Nov 2025 —	Oct 2025 ★★★	Sep 2025 ★★★	Aug 2025 ★★★★	Jul 2025 ★★★★	Jun 2025 ★★★★	May 2025 ★★★★★	Apr 2025 ★★★★★	Mar 2025 ★★★★	Feb 2025 ★★★★	Jan 2025 ★★★★
Dec 2024 ★★★★	Nov 2024 ★★★★	Oct 2024 ★★★★★	Sep 2024 ★★★★★	Aug 2024 ★★★★★	Jul 2024 ★★★★★	Jun 2024 ★★★★★	May 2024 ★★★★★	Apr 2024 ★★★★★	Mar 2024 ★★★★★	Feb 2024 ★★★★★	Jan 2024 ★★★★★
Dec 2023 ★★★★★	Nov 2023 ★★★★★	Oct 2023 ★★★★★	Sep 2023 ★★★★★	Aug 2023 ★★★★	Jul 2023 ★★★★★	Jun 2023 ★★★★★	May 2023 ★★★★★	Apr 2023 ★★★★★	Mar 2023 ★★★★★	Feb 2023 ★★★★★	Jan 2023 ★★★★★
Dec 2022 ★★★★★	Nov 2022 ★★★★★	Oct 2022 ★★★★★	Sep 2022 ★★★★★	Aug 2022 ★★★★★	Jul 2022 ★★★★★	Jun 2022 ★★★★★	May 2022 ★★★★★	Apr 2022 ★★★★★	Mar 2022 ★★★★	Feb 2022 ★★★★	Jan 2022 ★★★★
Dec 2021 ★★★★★	Nov 2021 ★★★★★	Oct 2021 ★★★★★	Sep 2021 ★★★★	Aug 2021 ★★★★	Jul 2021 ★★★★	Jun 2021 ★★★★	May 2021 ★★★★	Apr 2021 ★★★	Mar 2021 ★★	Feb 2021 ★	Jan 2021 ★★
Dec 2020 ★★★	Nov 2020 ★★★	Oct 2020 ★★★★	Sep 2020 ★★★★	Aug 2020 ★★★★	Jul 2020 ★★★★	Jun 2020 ★★★★	May 2020 ★★★★	Apr 2020 ★★★★	Mar 2020 ★★★★	Feb 2020 ★★★★	Jan 2020 ★★★

The Walt Disney Co DIS 22 Oct 2025 03:02, UTC

Dec 2025 —	Nov 2025 —	Oct 2025 ★★★	Sep 2025 ★★★	Aug 2025 ★★★	Jul 2025 ★★★	Jun 2025 ★★★	May 2025 ★★★	Apr 2025 ★★★★	Mar 2025 ★★★★	Feb 2025 ★★★	Jan 2025 ★★★
Dec 2024 ★★★	Nov 2024 ★★★	Oct 2024 ★★★★	Sep 2024 ★★★★	Aug 2024 ★★★★	Jul 2024 ★★★★	Jun 2024 ★★★	May 2024 ★★★	Apr 2024 ★★★	Mar 2024 ★★★	Feb 2024 ★★★	Jan 2024 ★★★★
Dec 2023 ★★★★	Nov 2023 ★★★★	Oct 2023 ★★★★★	Sep 2023 ★★★★★	Aug 2023 ★★★★★	Jul 2023 ★★★★	Jun 2023 ★★★★	May 2023 ★★★★	Apr 2023 ★★★★	Mar 2023 ★★★★	Feb 2023 ★★★★	Jan 2023 ★★★★★
Dec 2022 ★★★★★	Nov 2022 ★★★★★	Oct 2022 ★★★★★	Sep 2022 ★★★★★	Aug 2022 ★★★★	Jul 2022 ★★★★★	Jun 2022 ★★★★★	May 2022 ★★★★	Apr 2022 ★★★★	Mar 2022 ★★★★	Feb 2022 ★★★	Jan 2022 ★★★★
Dec 2021 ★★★	Nov 2021 ★★★	Oct 2021 ★★★	Sep 2021 ★★★	Aug 2021 ★★★	Jul 2021 ★★	Jun 2021 ★★★	May 2021 ★★★	Apr 2021 ★★	Mar 2021 ★★	Feb 2021 ★★	Jan 2021 ★★
Dec 2020 ★★	Nov 2020 ★★	Oct 2020 ★★★	Sep 2020 ★★★	Aug 2020 ★★★	Jul 2020 ★★★	Jun 2020 ★★★	May 2020 ★★★	Apr 2020 ★★★★	Mar 2020 ★★★★	Feb 2020 ★★★	Jan 2020 ★★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a

long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working capital accounts, and capital spending. Based on these projections, we calculate earnings before interest,

after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



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outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

Qualitative Analysis Uncertainty Ratings	Margin of Safety	
	★★★★★ Rating	★ Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

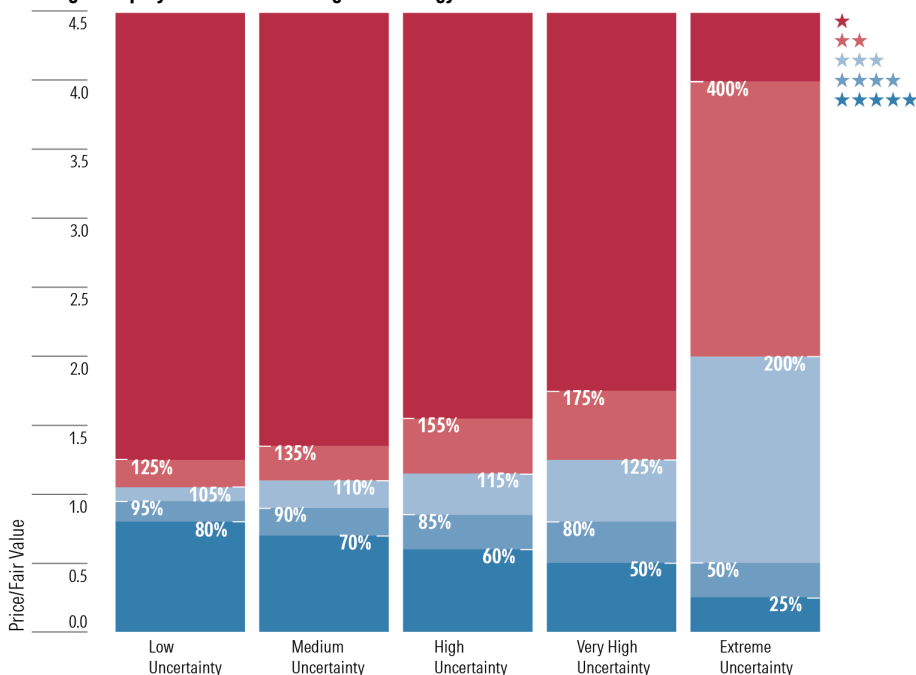
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to <https://shareholders.morningstar.com>

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multi-year time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

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and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score.

Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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