



NETFLIX

DISCLAIMER

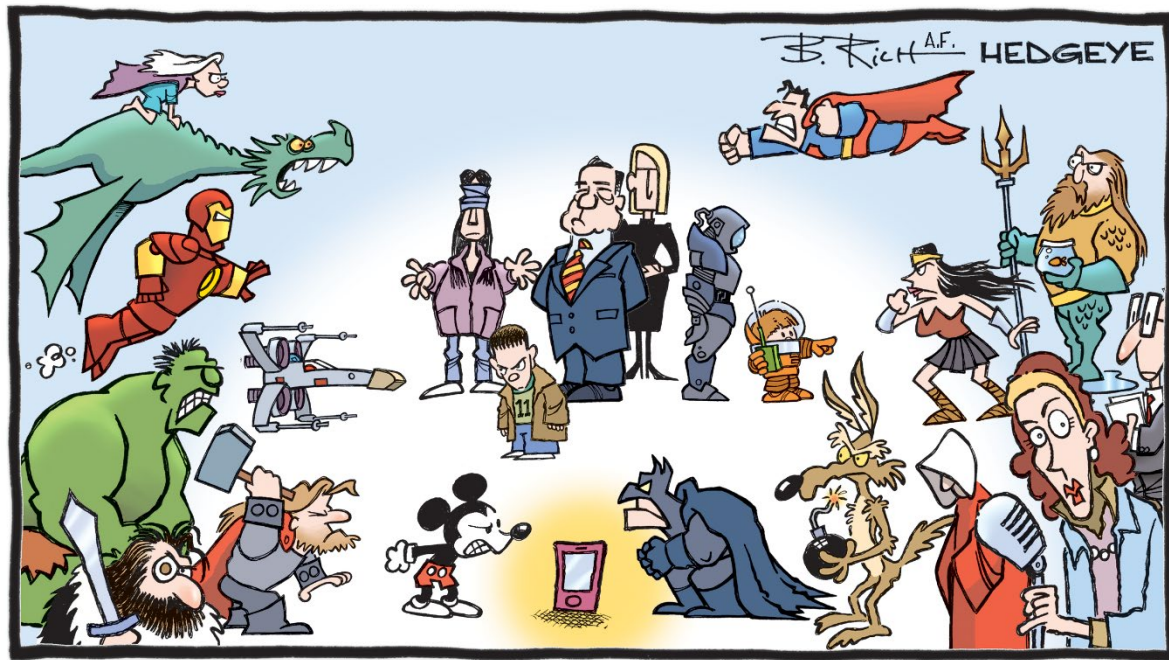
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RESEARCH PROCESS

COMMUNICATIONS RESEARCH PROCESS

Research Process

1. Idea Generation

- Thematic, macro and policy driven (...will take rifle shots too)
- Focus on second derivative inflections in trends
- Relative and absolute performance / Battleground stocks
- Counter consensus screening models (short interest, ANR, etc.)
- Primary market research (professional interviews and surveys)

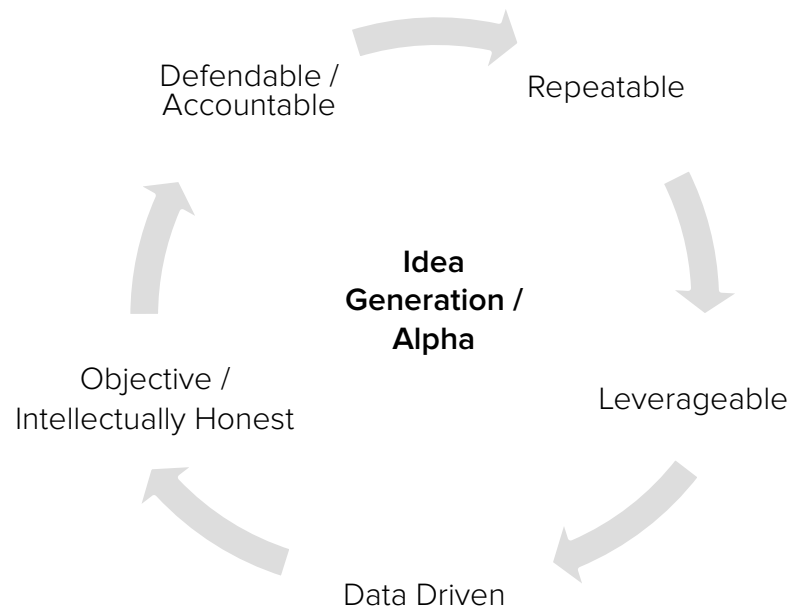
2. Fundamentals

- Build out three-statement financial models
- Model top-line growth, market share and end-market
- Operating leverage, ROIC/Cost of Capital and free cash flow
- Focus on balance sheet, capital structure and management
- Consider all relevant valuation metrics (DCF, multiple, factor, etc.)
- Assess catalyst calendar, understand event path and risk/reward

3. Data Driven

- Narrative supported by data
- Identify correlations, update and chart high frequency key drivers
- Leverage alternative, proprietary and third-party data sources
- Incorporate machine learning and data science to gain insights

Research Process Goals



DATA AND RESEARCH INFRASTRUCTURE

Research

Supported by team of engineers and data scientists...
and a cartoonist!

Third Party Data

Mobile App Data – Mobile app intelligence provider. Download and usage metrics for iOS and Android platforms world-wide.

comScore – Media metrix multi-platform (desktop, mobile and video). Digital reach and usage measurement. Demographic insights. API integration.

eMarketer – Media, advertising and consumer technology trends world-wide.

Variety Insights – Feature development and production pipeline across TV, film and digital. Talent and deal activity.

Consumer Panel – Access to proprietary panel with demographic information for surveys.

FCC Database – Asset level detail for cable, telecom providers and media networks.

Fundamental

Company Models – Monitor key drivers and metrics.

Industry Models – Aggregate company and industry data to track and forecast adoption trends.

Valuation/Sentiment – Track absolute and relative valuation trends. Sentiment monitored by performance, short interest and sell-side rating

Anecdotes – Interviews with industry professionals and published insights.

Policy

TMT Policy - Paul Glenchur serves as Senior Policy Analyst in Hedgeye's Potomac Research Group. Paul is ranked among leading telecommunications policy specialists, combining his legal background with industry experience.

Proprietary Data

Content Database – 400k+ movie titles and 70k+ TV shows world-wide with production company and other key metrics.

Title Tracker – Track content availability and content catalogue of major SVOD/AVOD services in the U.S. and select international markets.

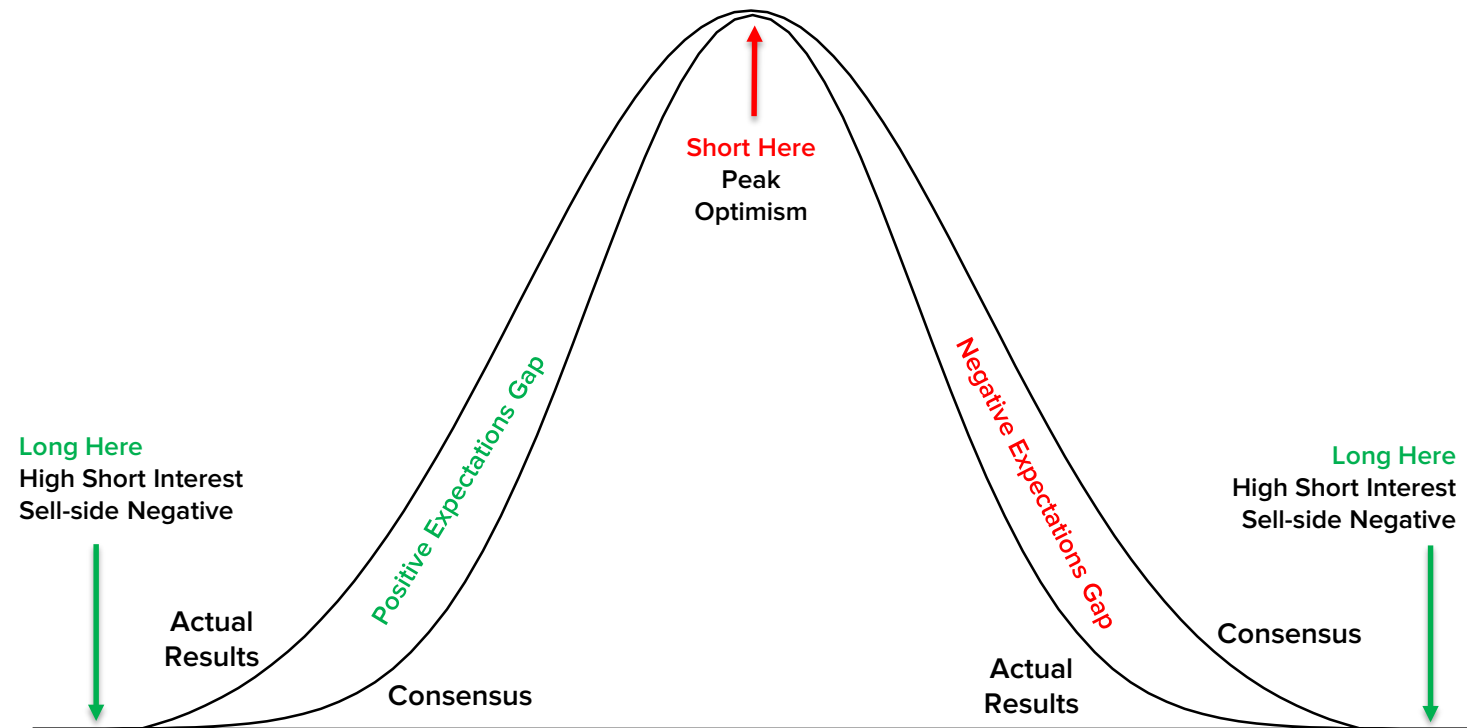
Popularity Ranking – Track content ratings and popularity trends on weekly basis.

Hedgeye Drivers Database – 100k+ macro series reported from BLS, BEA and other government sources. Tool to identify relationships across disparate datasets.

In Development – Box-office prediction algorithm, concert and ticket tracker, media company job tracker, eSports tracker, box-office database, video game database, twitch tracker, trailer view tracker, more...

FUNDAMENTAL IDEA GENERATION

IDENTIFYING GAPS IN EXPECTATIONS / INFLECTIONS IN GROWTH



Hunting for Longs:

(1-3 Year Duration)

- Organic growth / adoption
- Activist / turnaround
- Fallen angel growth stocks
- High short-interest / misunderstood long thesis
- Compounders

Hunting for Shorts:

(< 1 Year Duration)

- Frauds and fads
- Balance sheet shorts
- Angels before the fall (hardest to call timing on, but often most rewarding if right)
- Buggy whips
- Melting ice cubes

Process Shortcomings:

- Early is a less bad form of wrong
- Calling quarters is hard (not impossible)
- Correlations break down

COMMUNICATIONS POSITION MONITOR

Best Ideas - Longs		Sentiment Score*	Market Cap (bill)	Price	Trend	Tail	Best Ideas - Shorts		Sentiment Score*	Market Cap (bill)	Price	Trend	Tail
LONG							SHORT						
Active Longs							Active Shorts						
DIS	Walt Disney Company	100	\$ 239.7	\$ 140.2	✓	✓	NFLX	Netflix, Inc.	38	\$ 161.4	\$ 369.2	✗	✗
PINS	Pinterest, Inc. Class A	N/A	\$ 18.6	\$ 28.0	✓	✓							
Long Bias (Bench)							Short Bias (Bench)						
CHTR	Charter Communications, Inc. Clas	20	\$ 88.8	\$ 394.7	---	---	T	AT&T Inc.	92	\$ 236.8	\$ 32.5	---	---
DISCA	Discovery, Inc. Class A	32	\$ 16.1	\$ 30.7	---	---	VZ	Verizon Communications Inc.	88	\$ 238.9	\$ 57.8	---	---
ATUS	Altice USA, Inc. Class A	40	\$ 15.9	\$ 23.4	---	---	CMCSA	Comcast Corporation Class A	80	\$ 197.7	\$ 43.6	---	---
LYV	Live Nation Entertainment, Inc.	56	\$ 14.1	\$ 66.7	---	---	CBS	CBS Corporation Class B	76	\$ 18.9	\$ 50.5	---	---
GOOGL	Alphabet Inc. Class A	69	\$ 781.3	\$ 1,125.4	---	---	DISH	DISH Network Corporation Class	50	\$ 18.3	\$ 39.0	---	---
ROKU	Roku, Inc. Class A	76	\$ 11.7	\$ 102.6	---	---	AMCX	AMC Networks Inc. Class A	8	\$ 3.2	\$ 56.0	---	---
TMUS	T-Mobile US, Inc.	96	\$ 64.7	\$ 75.7	---	---							
FB	Facebook, Inc. Class A	100	\$ 545.6	\$ 191.1	---	---							

Sentiment score as of 6/22/2019, market cap and price information as of 6/22/2019, short interest data as of 6/14/2019

Active Long or Short = Idea that has gone through our research process, and have conviction in timing and fundamentals.

Bench Long or Short = Idea that is still going through our research process, but have long/short bias based on initial thematic, policy or fundamental work.

*Hedgeye Communications Sentiment Score is a stock's relative percentile rank within its own sub-sector, calculated by factoring the stock's short interest, sell-side ranking, relative forward earnings multiple to the S&P 500 over a rolling 12-mo basis and relative performance to S&P 500 over a 90-day period. A Sentiment Score of 1 represents high short interest, negative sell side rating, relative underperformance and multiple compression. A Sentiment Score of 100 represents low short interest, positive sell side rating, relative outperformance and multiple expansion.

"Trend" is a duration of 3 months or more / "Tail" is a duration of 3 years or less

Hedgeye's "bench" represents Hedgeye's outlook on companies currently under Hedgeye's review, or for which timing is not right for greater coverage. Hedgeye may or may not provide further commentary on any or all companies represented on the bench and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company

HEDGEYE COMMUNICATIONS BLACK BOOK REPORTS

Communications Themes and Process Black Book



[CLICK HERE TO ACCESS](#) (Unlocked)

Short Netflix (NFLX) Black Book



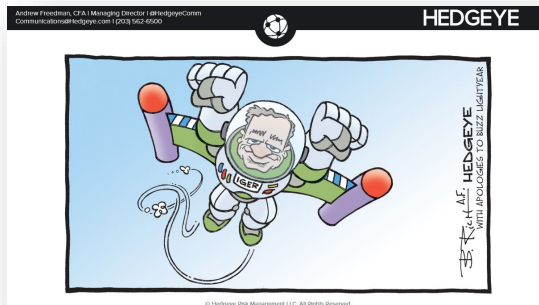
[CLICK HERE TO ACCESS](#) (Subs Only)

Long Pinterest (PINS) Black Book



[CLICK HERE TO ACCESS](#) (Subs Only)

Long The Walt Disney Company (DIS) Black Book



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COMMUNICATIONS RESEARCH HISTORY

Date	Title	Type
3/15/2019	Communications Launch	Black Book
3/22/2019	Short NFLX House of Cards	Black Book
3/26/2019	NFLX The Cost of Price Cuts in India	Note
4/1/2019	NFLX, DISCA, #BBC Filling a Content Hole	Note
4/10/2019	Long SNE Activists are in and so should you	Black Book
4/12/2019	Long PINS A Unicorn Worth Buying	Black book
4/16/2019	NFLX Thoughts Into the Print 1Q19	Note
4/18/2019	NFLX Earnings + PINS IPO	Flash Call
4/19/2019	NFLX Cracks Emerging More Confident in the Short	Note
4/22/2019	OTT/Cable Tracker 1Q19	Tracker/Note
4/24/2019	Media Consumption Across Generations w/Neil Howe	Speaker
5/8/2019	ROKU Tracking Active Accounts	Tracker/Note
5/14/2019	PINS Thoughts Into The Print 1Q19	Note
5/15/2019	Field Notes (NFLX, DIS, AMZN) Netflix's Content Strategy is Not Sustainable	Field Note
5/17/2019	PINS Staying Long but on a short leash	Note
5/28/2019	Preparing for #Quad 4 NFLX, PINS, ROKU, DIS, T, FB, GOOG	Note
6/3/2019	NFLX-Tracker Growth rolling over Risk to 2H19 subscriber estimates	Tracker/Note
6/5/2019	QCOM Qualcomm's FTC Fight: QCOM can win this	Speaker

HEDGEYE MACRO RISK MANAGEMENT OVERLAY

#Quad1

- Maximum gross exposure, tight net exposure. Growth investing bias.
- **Asset Class Overweight(s):**
Equities and Credit
- **Asset Class Underweight(s):**
Fixed Income
- **Equity Sector Overweight(s):**
Tech, Consumer Discretionary and Industrials
- **Equity Sector Underweight(s):**
Utilities, Consumer Staples and Energy
- **Equity Style Factor Overweight(s):** Momentum, Growth and High Beta
- **Equity Style Factor Underweight(s):**
Low Beta/Minimum Vol., High Dividend Yield and Value
- **Fixed Income Overweight(s):**
Convertibles, HY Credit, HY Munis and Leveraged Loans
- **Fixed Income Underweight(s):**
Short Duration Treasuries, TIPS and MBS

#Quad2

- Maximum gross exposure, wide net exposure. Inflation-hedging bias.
- **Asset Class Overweight(s):**
Equities and Credit
- **Asset Class Underweight(s):**
Fixed Income
- **Equity Sector Overweight(s):**
Tech, Industrials and Consumer Discretionary
- **Equity Sector Underweight(s):**
Utilities, REITS and Consumer Staples
- **Equity Style Factor Overweight(s):** Momentum, Growth and High Beta
- **Equity Style Factor Underweight(s):**
Low Beta/Minimum Vol., High Dividend Yield and Value
- **Fixed Income Overweight(s):**
Convertibles, Leveraged Loans, TIPS, HY Credit and IG Credit
- **Fixed Income Underweight(s):**
Long Duration Treasuries and Munis

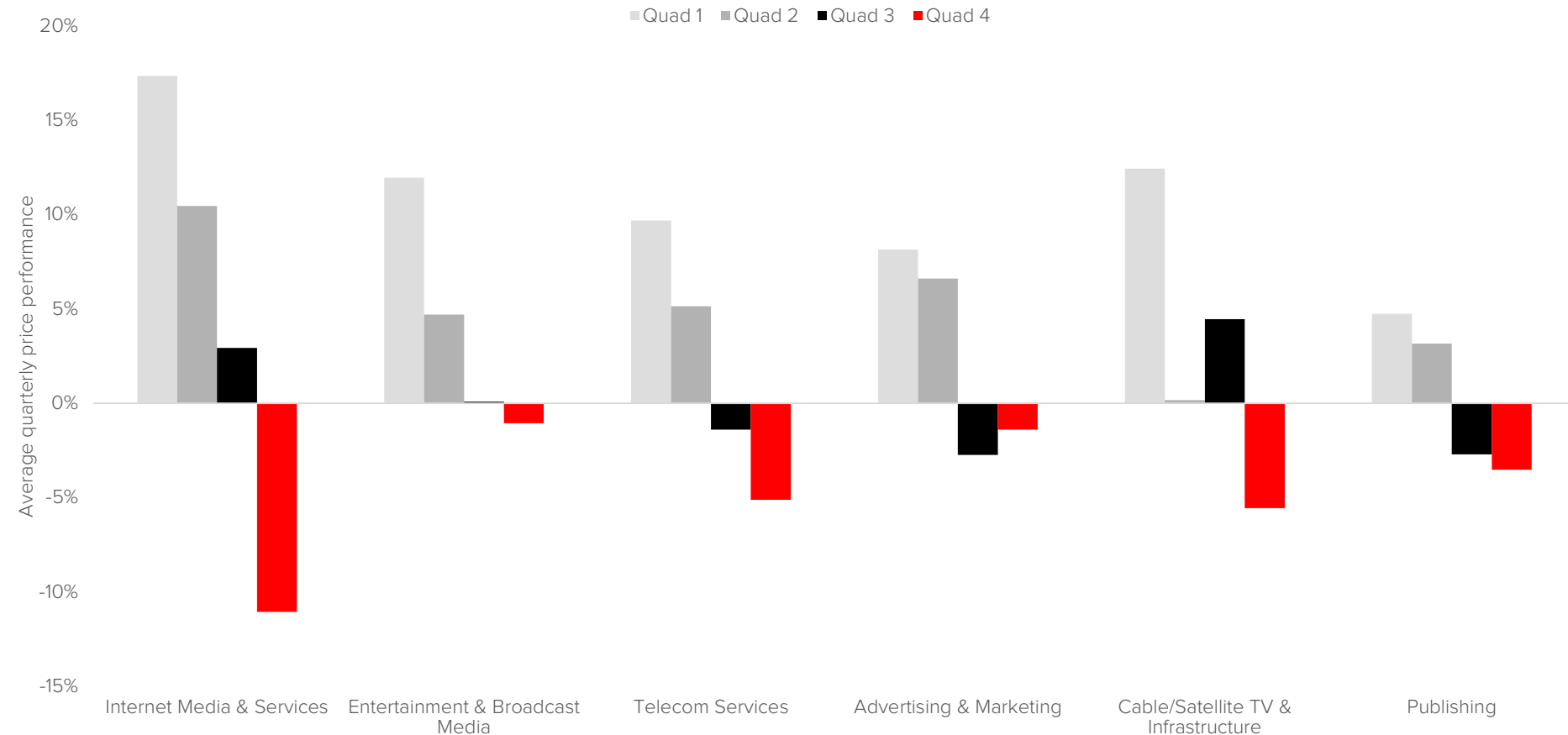
#Quad3

- Low gross exposures, tight net exposure. Defensive, yield-chasing bias.
- **Asset Class Overweight(s):**
Fixed Income
- **Asset Class Underweight(s):**
Equities and Credit
- **Equity Sector Overweight(s):**
Utilities, REITS and Energy
- **Equity Sector Underweight(s):**
Financials, Materials and Consumer Staples
- **Equity Style Factor Overweight(s):**
Low Beta/Minimum Vol., Growth and Quality
- **Equity Style Factor Underweight(s):**
Value, High Dividend Yield and Small Caps
- **Fixed Income Overweight(s):**
Long Duration Treasuries, Taxable Munis and TIPS
- **Fixed Income Underweight(s):**
HY Credit, Leveraged Loans, IG Credit and Convertibles

#Quad4

- Minimum gross exposure, net short exposure. Deflation-hedging bias.
- **Asset Class Overweight(s):**
Fixed Income
- **Asset Class Underweight(s):**
Equities and Credit
- **Equity Sector Overweight(s):**
Healthcare, Consumer Staples and REITS
- **Equity Sector Underweight(s):**
Tech, Energy and Industrials
- **Equity Style Factor Overweight(s):**
High Dividend Yield, Low Beta/Minimum Vol. and Quality
- **Equity Style Factor Underweight(s):**
Momentum, High Beta and Growth
- **Fixed Income Overweight(s):**
Long Duration Treasuries, MBS, IG Credit and Taxable Munis
- **Fixed Income Underweight(s):**
TIPS, HY Credit, Convertibles and Leveraged Loans

COMMUNICATIONS PERFORMANCE BACKTEST BY QUAD



COMMUNICATIONS SENTIMENT MONITOR

Hedgeye Internet & Communications Sentiment Monitor

Internet Media & Services				
Ticker	Score	Mkt Cap	Average Daily Volume Shares #	\$ Millions
STMP	1	714	1,344	82
YELP	4	2,536	1,752	61
SSTK	7	1,409	215	9
TRUE	10	559	1,904	12
CRCM	14	457	448	7
ANGI	17	7,395	1,003	16
CARS	21	1,428	1,058	23
GLUU	24	1,078	2,481	24
CARG	28	4,329	933	35
TWTR	31	26,917	15,415	561
SFLY	35	1,729	956	43
NFLX	38	161,426	6,728	2,425
MTCH	41	18,776	1,593	102
ETSY	45	7,906	2,626	173
BCOR	48	1,487	267	9
GDDY	52	12,668	1,567	119
Z	55	9,296	3,451	134
JCOM	59	4,323	388	34
SNAP	62	19,551	26,536	316
EBAY	66	34,905	9,962	372
GOOGL	69	781,282	1,619	1,890
VRSN	73	25,118	573	111
ROKU	76	11,678	13,045	1,012
ZG	79	9,151	1,071	41
SPOT	83	26,343	1,544	212
IAC	86	18,448	724	161
ZNGA	90	5,658	16,516	96
LPSN	93	1,825	704	20
CSGP	97	20,483	232	117
FB	100	545,606	17,415	3,141

Publishing				
Ticker	Score	Mkt Cap	Average Daily Volume Shares #	\$ Millions
GCI	1	947	1,267	12
MDP	17	2,437	366	21
SCHL	33	1,176	139	5
TPCO	50	303	102	1
JW.A	73	2,639	346	16
NWSA	100	7,917	3,017	37
NYT	100	5,604	1,794	60

Entertainment & Broadcast Media				
Ticker	Score	Mkt Cap	Average Daily Volume Shares #	\$ Millions
WWE	1	5,971	1,096	91
AMCX	8	3,183	655	37
EROS	8	146	709	5
SIRI	12	25,801	27,865	159
MSGN	16	1,595	556	12
LG.F.A	20	2,599	920	14
AMC	24	1,101	1,834	25
SSP	28	1,209	454	9
DISCA	32	16,110	4,102	118
TRCO	36	4,094	810	37
CNK	40	4,311	1,131	45
ETM	44	857	1,459	9
EA	52	28,280	4,898	469
ATVI	52	35,167	9,381	431
LYV	56	14,114	1,268	81
VIAB	60	12,415	4,422	128
HMTV	64	506	27	0
MCS	68	926	204	8
CBS	76	18,917	2,646	130
FWONA	76	8,432	99	4
NXST	80	4,688	516	56
GTN	84	1,676	1,077	22
TTWO	88	12,677	2,121	215
TGNA	92	3,211	2,750	42
SBGI	96	4,936	1,342	66
DIS	100	252,372	12,438	1,612

Advertising & Marketing				
Ticker	Score	Mkt Cap	Average Daily Volume Shares #	\$ Millions
NCMI	1	519	304	2
CCO	9	1,817	642	3
SCOR	18	469	286	3
OMC	27	17,919	1,891	148
GRPN	36	1,960	4,840	17
NLSN	46	8,322	3,827	94
IPG	55	8,689	3,925	87
RAMP	64	3,529	710	39
QUOT	73	988	501	5
QNST	82	812	628	9
TTD	91	10,750	1,740	368
BOMN	100	674	31	1

Telecommunication Services				
Ticker	Score	Mkt Cap	Average Daily Volume Shares #	\$ Millions
CNSL	1	355	1,635	11
CBB	4	260	413	3
GOGO	8	382	1,446	7
CTL	12	12,364	15,208	173
WOW	16	604	278	2
ZAYO	20	7,784	5,651	178
VSAT	24	5,062	493	43
GTT	28	1,276	384	12
NIHD	32	191	1,365	3
USM	36	4,173	252	12
WIFI	40	867	635	14
SHEN	44	1,998	164	7
GSAT	48	805	2,164	1
ORBC	52	574	703	5
S	56	28,104	20,929	131
VOD	60	43,132	4,589	80
IRDM	64	2,638	1,063	27
CCOI	68	2,775	264	15
I	72	2,760	2,872	54
TDS	76	3,695	776	24
GLIB	80	6,518	388	23
ATNI	84	947	56	3
VZ	88	238,920	13,697	792
T	92	236,820	28,504	901
TMUS	96	64,671	3,549	263
PDVW	100	693	86	4

Cable/Satellite TV & Infrastructure				
Ticker	Score	Mkt Cap	Average Daily Volume Shares #	\$ Millions
FTR	1	146	4,124	9
LILAK	10	3,427	399	8
CHTR	20	88,794	1,102	409
CCI	30	56,449	1,788	229
ATUS	40	15,873	4,860	114
DISH	50	18,302	2,693	94
LORL	60	1,076	41	1
CABO	70	6,583	60	65
CMCSA	80	197,710	17,899	750
LBRDA	90	18,629	108	11
AMT	100	95,115	1,746	349

Sentiment Score:

- Short Interest
- Sell-Side Rank/ANR
- Relative Value
- Relative Performance

1 = Contrarian Buy

- High short-interest
- Low sell-side rank
- Relative earnings multiple to S&P 500 lower than one-year prior
- Underperformed S&P 500 on rolling 90-day basis

100 = Contrarian Sell

- Low short-interest
- High sell-side rank
- Relative earnings to S&P 500 greater than one-year prior
- Outperformed S&P 500 on rolling 90-day basis

Data updated as of 6/22/19
(incorporates short interest data
updated as of 6/14/19)

MULTI-YEAR THEMES

1

CORD CUTTING / VIDEO DEFLATION

2

STREAMING AND CONTENT WARS

3

5G: BOOM OR BUST?

4

SOCIAL MEDIA REGULATORY RISK

KEY THEMATIC TAKEAWAYS

1

DIGITAL VIDEO AND OTT ADOPTION NEARING SATURATION

Digital video viewership in the U.S. has doubled over the last decade to 230 million or 80% of total TV viewers, while OTT penetration is 66%. Netflix (NFLX) has been the horse to ride during this phase of rapid growth, but new entrants will begin to take wallet and mind share away from first movers.

2

MORE OTT ENTRANTS WILL ACCELERATE PAY-TV'S DECLINE

Cable/satellite television has the worst value proposition and lowest net promotor score (NPS) of all video services. With wallet share on entertainment expense fixed, growth in lower cost SVOD and vMVPD options will come at the expense of Pay-TV subscriptions.

3

VIDEO ARPU DEFLATING ACROSS THE INDUSTRY

The number of revenue generating units (RGUs) is growing significantly faster than the addressable market in dollars. We are forecasting a ~10% per year decline in video ARPU industry-wide, which will weigh further on expensive Pay-TV subscriptions and begin to challenge premium SVOD services ability to raise price.

4

OTT WILL TAKE ACCELERATING SHARE OF TV AD SPEND

Companies spend ~\$70 billion per year on TV advertising in the U.S. The trend has been remarkably durable in the face of rating declines and viewership shift to OTT services. As the Pay-TV ecosystem crumbles, we believe AVOD services will begin to take share of TV ad spend at an accelerating rate. While legacy media will be able to recapture a portion of this lost share via their own OTT offerings, a significant portion will accrue to the Roku, Amazon and Googles of the world.

5

ENTERING AN ERA OF CONTENT PROTECTIONISM

After years of speculation, we have finally entered the era of content protectionism. Enabled by innovation in video distribution, supported by the billions of dollars spent for vertical and horizontal M&A and led by Disney, legacy media is on a path to convert billions in licensing revenue to recurring, subscription revenue via direct-to-consumer (DTC).

THEME EXPOSURE MATRIX

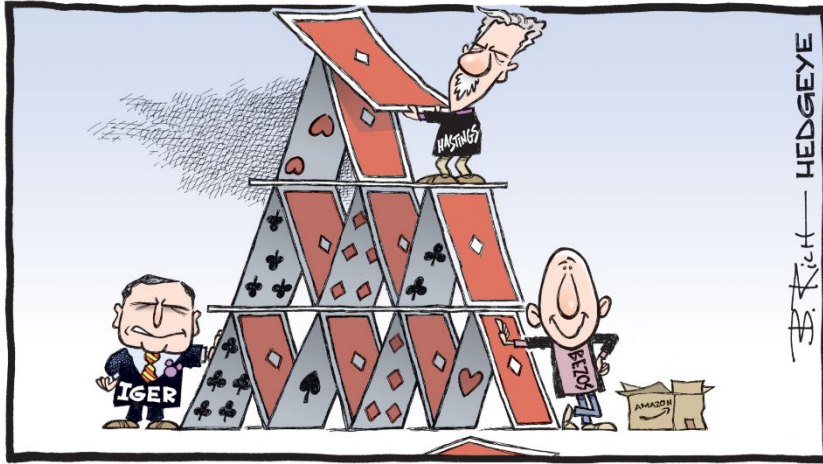
Long ✓
Short ✕

Position
Monitor

Ticker	Broadband	OTT	AVOD	Audience Fragmentation	OTT Competition	vMVPD	Content	Linear TV	MVPD/DBS	Long/ Short
CHTR	✓	✕	✕	✕	-	✓	-	✓	✓	Long
ATUS	✓	✕	✕	✕	-	✕	-	✓	✓	Long
ROKU	-	✓	✓	✓	-	✓	-	✕	✕	Long
GOOGL	-	✓	✓	✓	-	✓	✓	✕	✕	Long
FB	-	✓	✓	✓	✕	-	✓	-	-	Long
DIS	-	✓	✓	-	✓	✓	✓	✓	-	Long
DISCA	-	-	-	✕	-	✕	✓	✓	-	Long
NFLX	-	✕	✓	✓	✓	✓	✕	✓	-	Short
AMCX	-	-	-	✓	-	-	✕	✕	-	Short
CBS	-	✓	-	✓	✓	-	✕	✕	-	Short
CMCSA	✓	✕	-	✓	✓	-	✕	✕	✕	Short
T	✓	✕	-	✓	✕	✕	✕	✕	✕	Short
DISH	✕	✓	-	✓	✓	✕	✓	✕	✕	Short

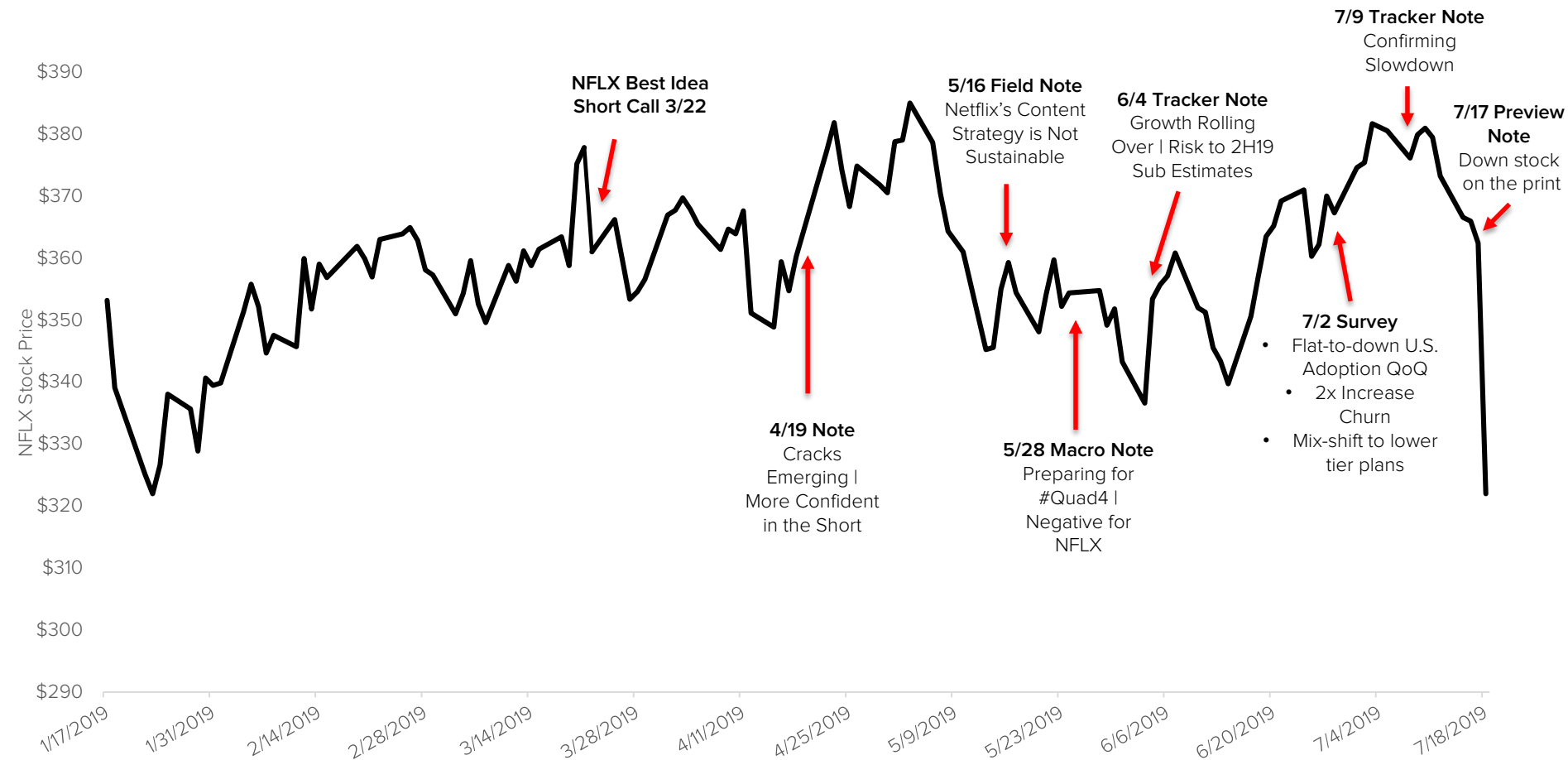
MANY DIFFERENT WAYS TO EXPRESS THESE THEMES LONG/SHORT

We want to be long diversified portfolios of proprietary content, broadband, audience fragmentation and OTT competition (i.e., short NFLX). We want to be short linear TV and traditional video distribution (MVPD). While consolidation has made gaining direct exposure to these factors difficult, some companies are more uniquely exposed than others.



NETFLIX (NFLX)

HEDGEYE – NETFLIX HISTORY (SO FAR...)



KEY THESIS POINTS

1 COMPETITION WILL IMPAIR NETFLIX'S RELATIVE VALUE

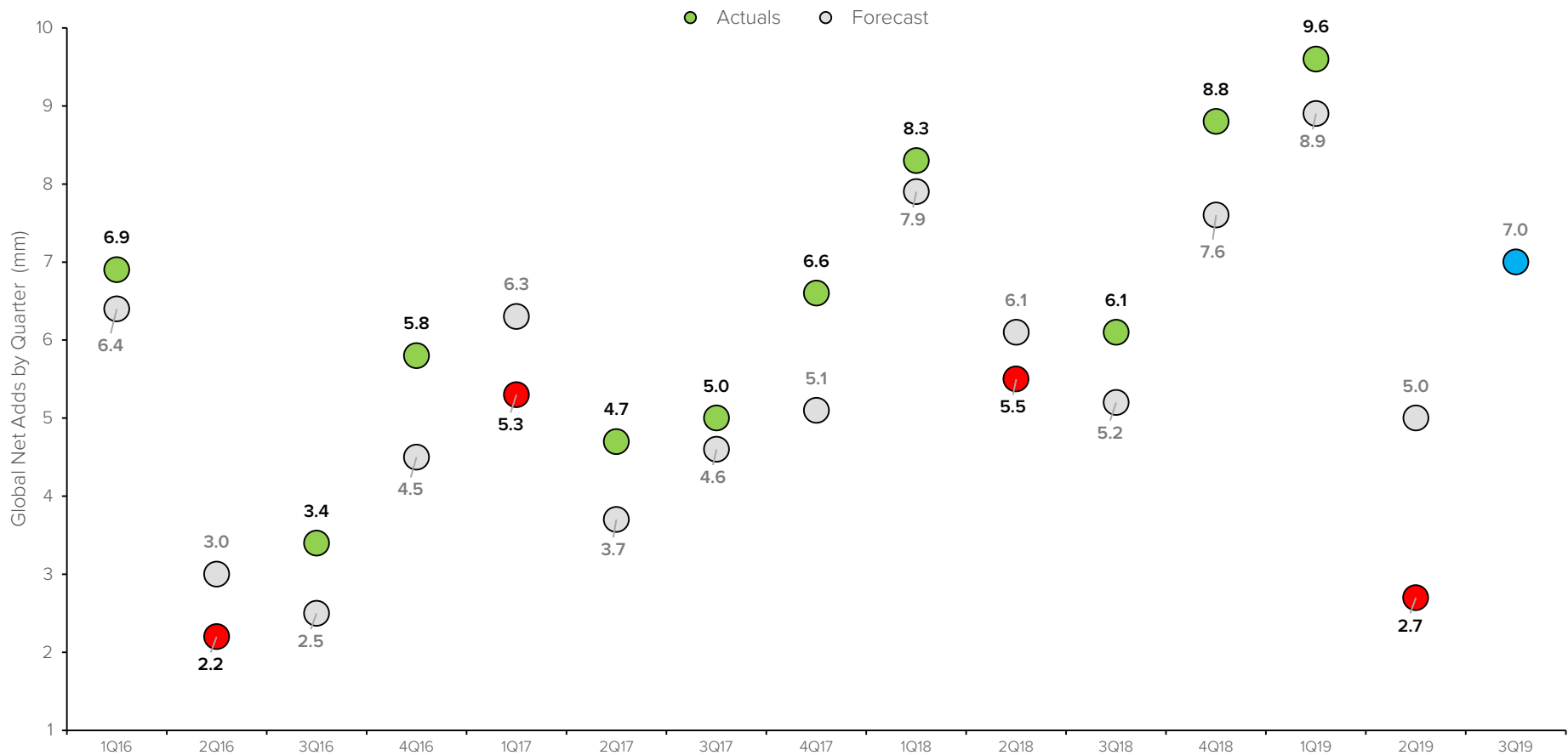
2 DOMESTIC GROWTH WILL SLOW FASTER THAN EXPECTED

3 NEARING THE END OF A POSITIVE INTL REVISION CYCLE

4 CURRENT CONTENT STRATEGY NOT SUSTAINABLE

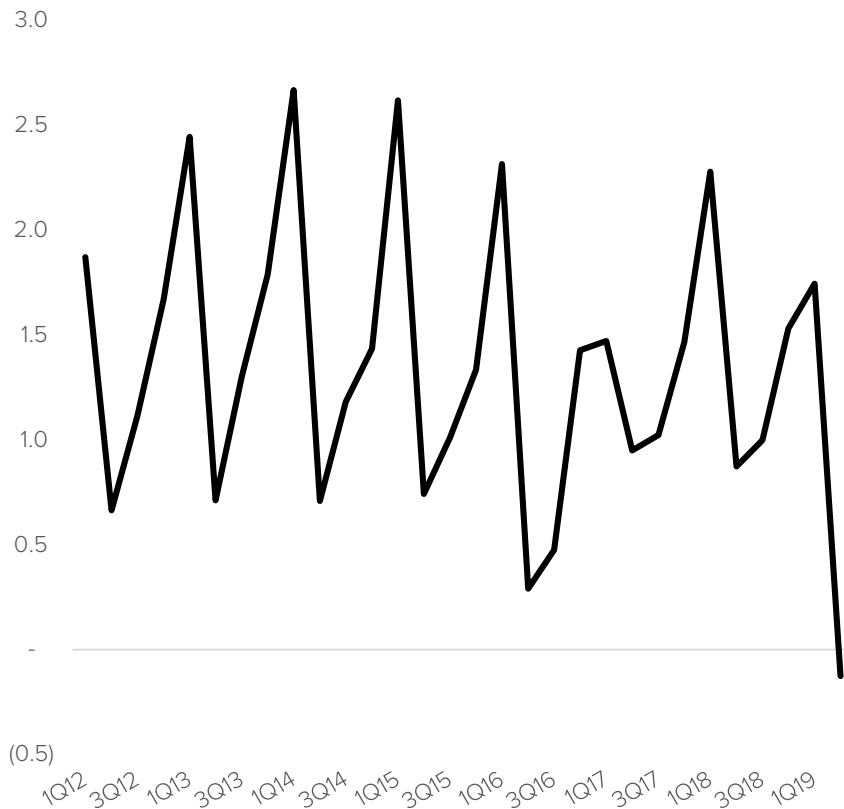
5 MULTIPLE WILL RE-RATE LOWER FOR SLOWING GROWTH

LARGEST PAID SUBSCRIBER MISS EVER

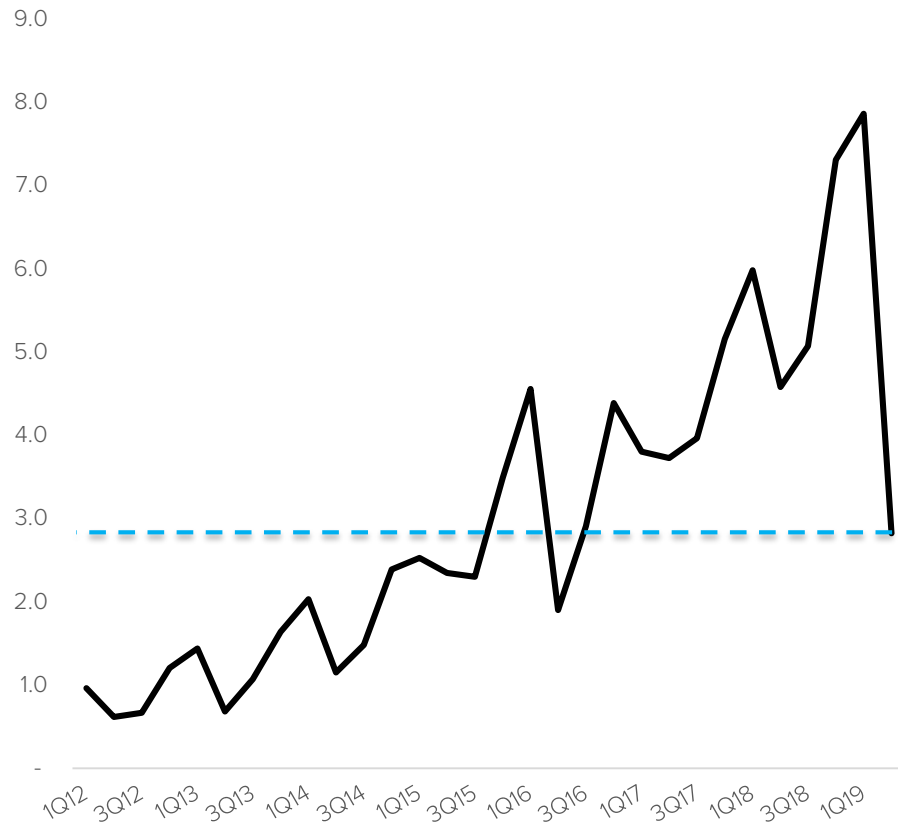


SIGNIFICANT DECELERATION IN GLOBAL PAID ADDITIONS

U.S. Paid Sub Base Decline First Time Long Time

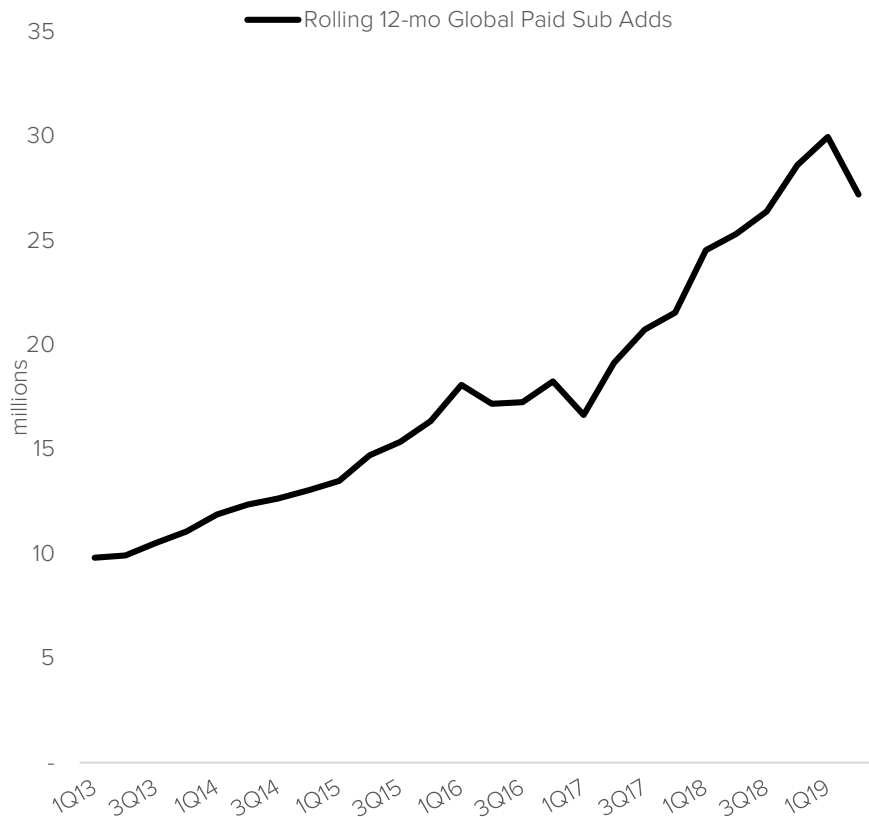


International Sub Growth Hit a Wall in 2Q19

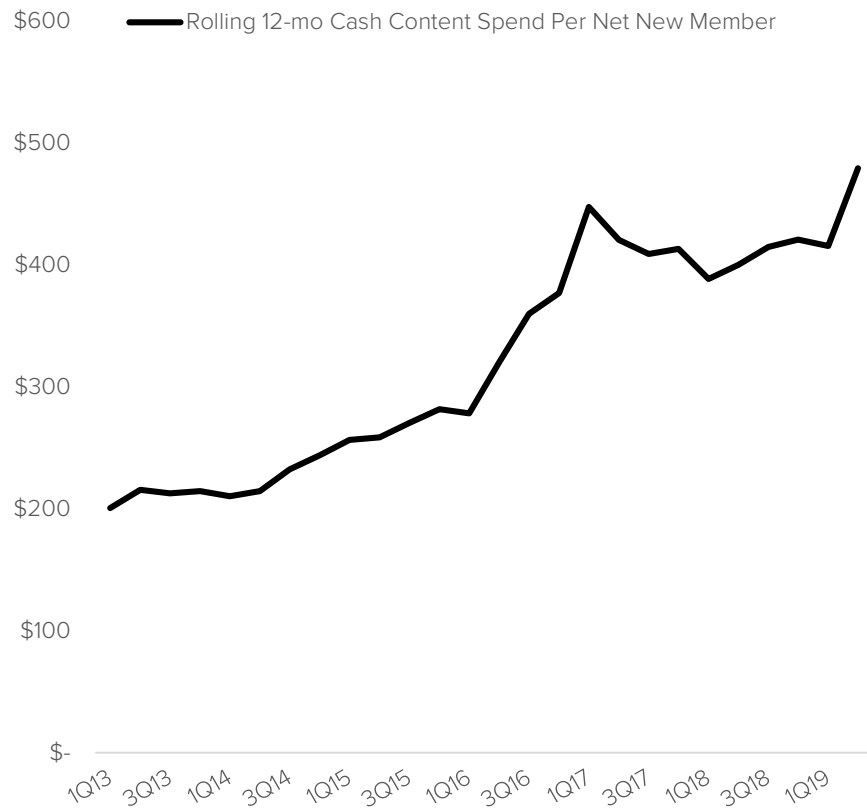


CONTENT-SUB FLYWHEEL SHOWING SIGNS OF STRESS

Rolling 12-Mo Global Paid Net New Subs Decline

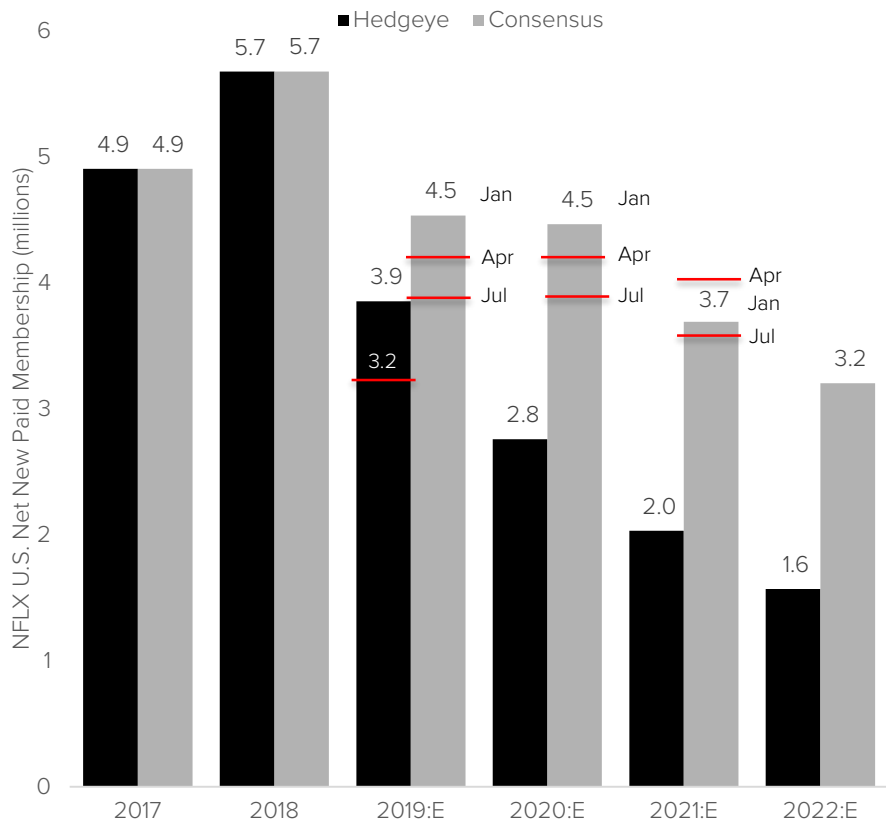


Customer Acquisition Cost Rising

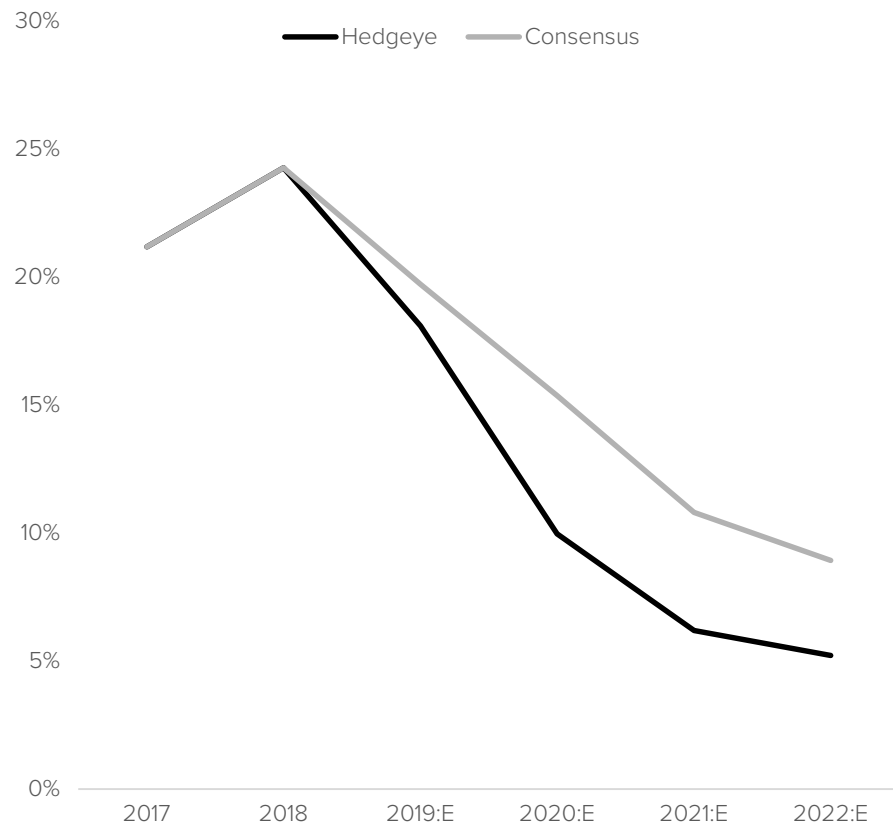


BELOW CONSENSUS U.S. STREAMING

Consensus Revisions Lower, But Still Too High



U.S. Streaming Revenue Growth Estimates



U.S. ADDRESSABLE MARKET

Addressable Market (000s)							3-yr		5-yr		7-yr		CAGR %
	2015	2016	2017	2018	2019:E	2020:E	2021:E	2022:E	2023:E	2024:E	2025:E	'18 - '25	
United States Population¹	319,929	322,180	324,459	326,767	329,093	331,432	333,783	336,150	338,524	340,895	343,256		0.7%
# Households ²	124,587	125,819	126,224	127,586	128,494	129,407	130,326	131,250	132,177	133,103	134,024		
Average household size	2.57	2.56	2.57	2.56	2.56	2.56	2.56	2.56	2.56	2.56	2.56		
Individuals using the internet³	238,507	242,376	244,091	249,323	256,195	259,847	263,450	267,011	270,529	274,001	277,424		1.5%
# Households	92,880	94,654	94,958	97,348	100,031	101,457	102,864	104,254	105,628	106,984	108,320		
% U.S. population	74.6%	75.2%	75.2%	76.3%	77.8%	78.4%	78.9%	79.4%	79.9%	80.4%	80.8%		
Subscription OTT video viewers⁴	122,595	138,755	153,039	170,074	181,499	188,349	193,178	197,680	201,637	205,595	209,550		3.0%
# Households	47,741	54,187	59,537	66,405	70,866	73,541	75,426	77,184	78,729	80,275	81,819		
% individuals using the internet	51.4%	57.2%	62.7%	68.2%	70.8%	72.5%	73.3%	74.0%	74.5%	75.0%	75.5%		
Smartphone users⁵	190,528	205,977	218,409	227,029	233,964	239,686	244,438	247,924	251,592	254,821	258,004		1.8%
# Households	74,196	80,439	84,968	88,643	91,351	93,586	95,441	96,802	98,234	99,495	100,738		
% of individuals using the internet	79.9%	85.0%	89.5%	91.1%	91.3%	92.2%	92.8%	92.9%	93.0%	93.0%	93.0%		
U.S. Television Households⁶	119,214	119,631	120,109	121,310	122,523	123,749	124,986	126,236	127,154	128,045	128,931		0.9%
% U.S. Households	95.7%	95.1%	95.2%	95.1%	95.4%	95.6%	95.9%	96.2%	96.2%	96.2%	96.2%		
Traditional Pay-TV households	98,447	96,475	95,212	91,412	87,374	84,464	79,136	74,922	71,652	68,313	66,207		-4.5%
% U.S. Television Households	82.6%	80.6%	79.3%	75.4%	71.3%	68.3%	63.3%	59.4%	56.4%	53.4%	51.4%		
NFLX: U.S. Paid Membership⁷	43,401	47,905	52,810	58,486	61,778	64,537	66,569	68,138	69,325	70,187	70,835		2.8%
% of OTT Households	90.9%	88.4%	88.7%	88.1%	87.2%	87.8%	88.3%	88.3%	88.1%	87.4%	86.6%		
Hulu: U.S. Subscribers⁸	11,000	12,624	17,000	25,000	33,500	39,750	45,550	51,300	56,800	61,050	63,300		14.2%
% of OTT Households	23.0%	23.3%	28.6%	37.6%	47.3%	54.1%	60.4%	66.5%	72.1%	76.1%	77.4%		
Disney+: U.S. Subscribers¹⁰	-	-	-	-	4,000	23,000	32,000	38,200	43,200	47,200	49,950		16.8%
% of OTT Households					5.6%	31.3%	42.4%	49.5%	54.9%	58.8%	61.0%		
ESPN+: U.S. Subscribers⁹	-	-	-	1,500	2,900	4,100	5,300	6,500	7,700	8,900	10,100		31.3%
% of OTT Households					3.2%	4.4%	5.6%	6.7%	7.8%	8.9%	10.0%		

Sources

¹ United Nations / U.S. Census

² U.S. Census / Hedgeye estimate

³ ITU/ U.S. Census / Hedgeye estimate

⁴ eMarketer / Hedgeye estimate

⁵ eMarketer / ITU/ Hedgeye estimate

⁶ eMarketer / SNL Kagan / Bloomberg / U.S. Census / Company filings / Hedgeye estimate

⁷ Company filings and Hedgeye estimate

⁸ Company website, media sources and Hedgeye estimate, includes vMVPD

⁹ Company website, media sources and Hedgeye estimate

¹⁰ Hedgeye estimate / CAGR is 2020 - 2025

Subscription OTT household adoption in the U.S. is approaching peak adoption.

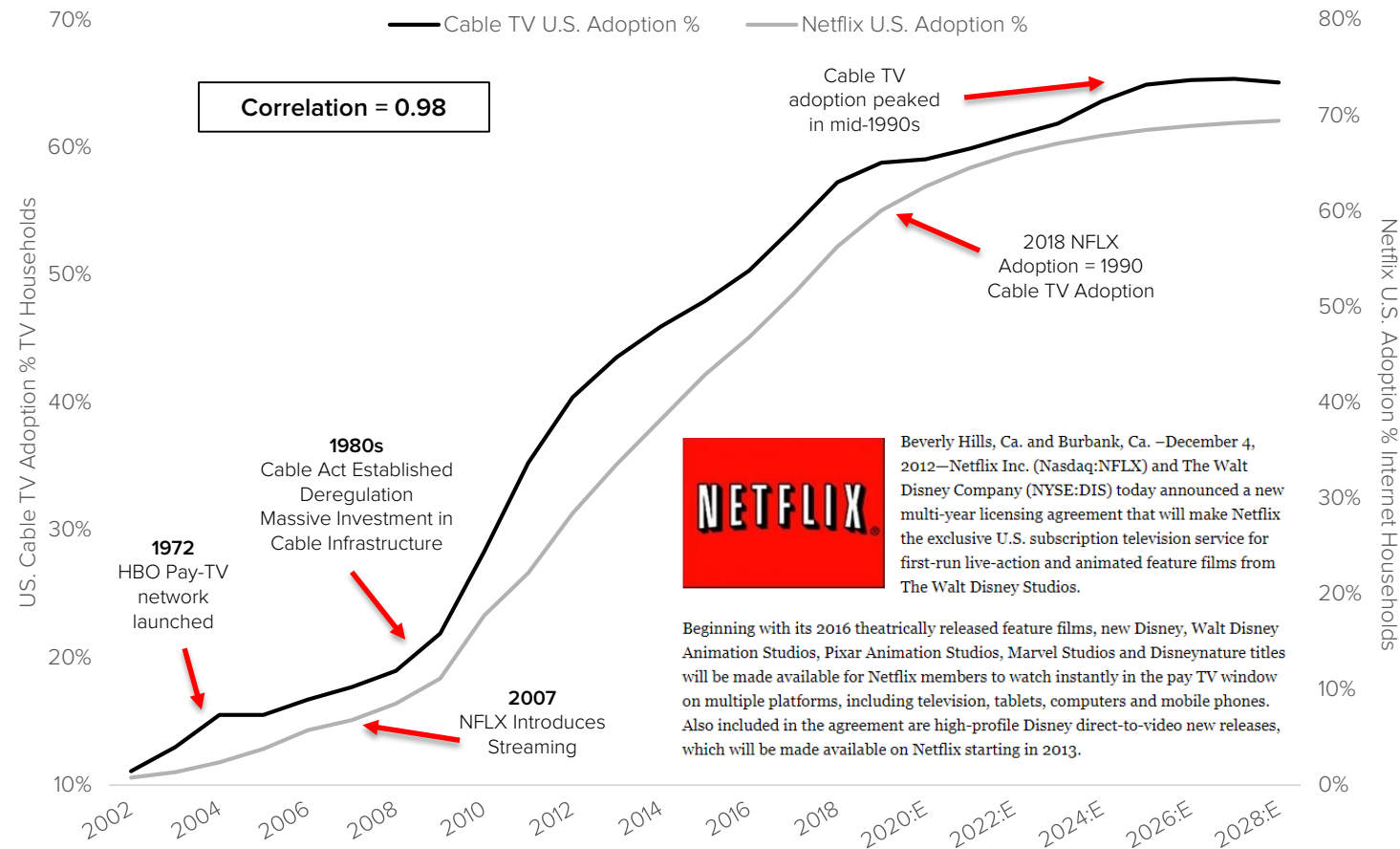
108 million internet households* in the United States by 2025

Individuals using the internet: Persons of any age who use the internet from any location via any device at least once per month

Subscription OTT video viewers: individuals of any age who watch video via any app or website that provides streaming video content over the internet and bypasses traditional distribution; examples include Hulu, Netflix and YouTube

Smartphone users: persons of any age who own at least one smartphone and use the smartphone(s) at least once per month. Smartphones are any voice handset with an advanced operating system (e.g., Android, BlackBerry, iOS, Windows Phone).

NFLX ADOPTION FOLLOWING A FAMILIAR PATH



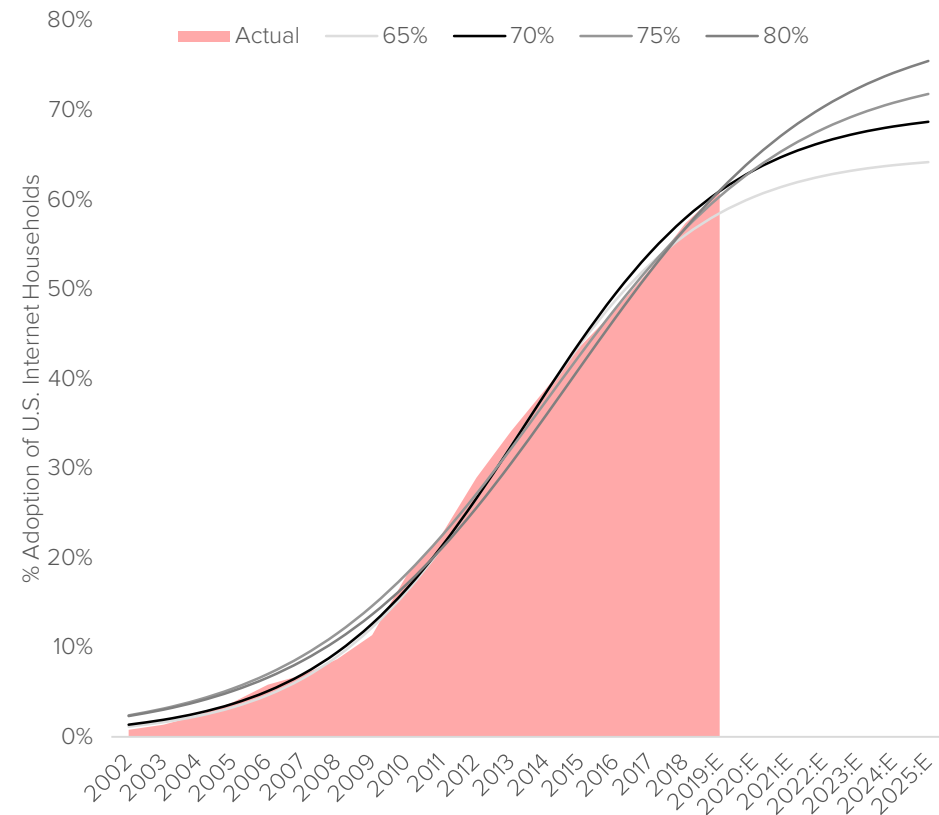
Cable TV adoption accelerated following the launch of HBO and the 1984 Cable Act that stimulated investment in cable plant and programming.

Cable TV adoption peaked in the mid-1990s at ~65% of TV households.

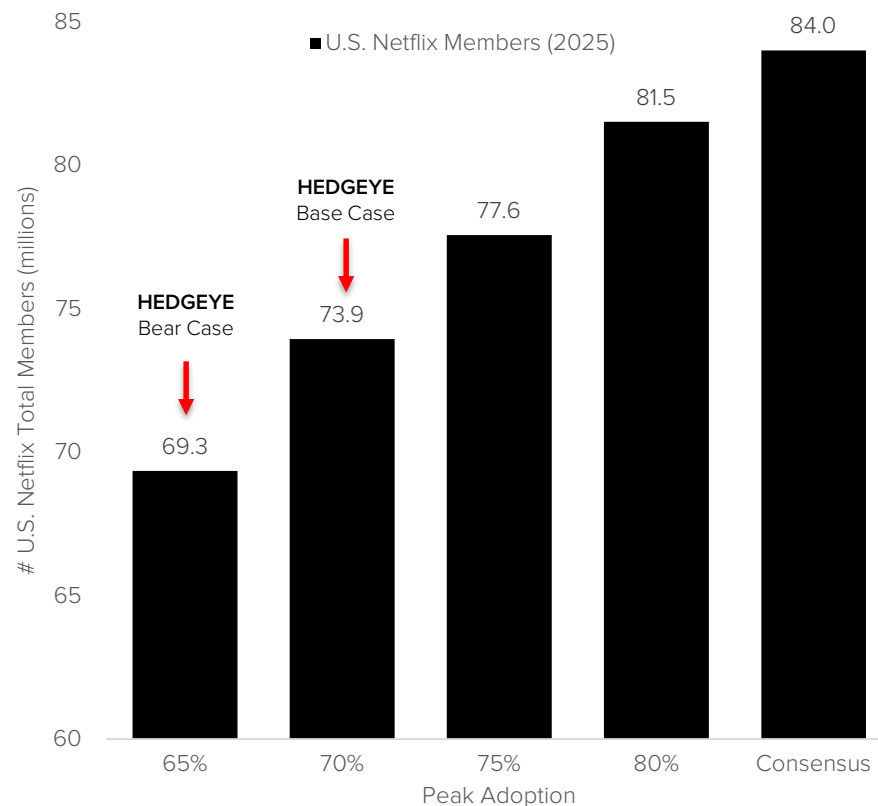
NFLX adoption curve accelerated with the launch of their streaming service in 2007.

MODELING U.S. SUBSCRIBER ADOPTION

U.S. Subscriber Adoption Curves

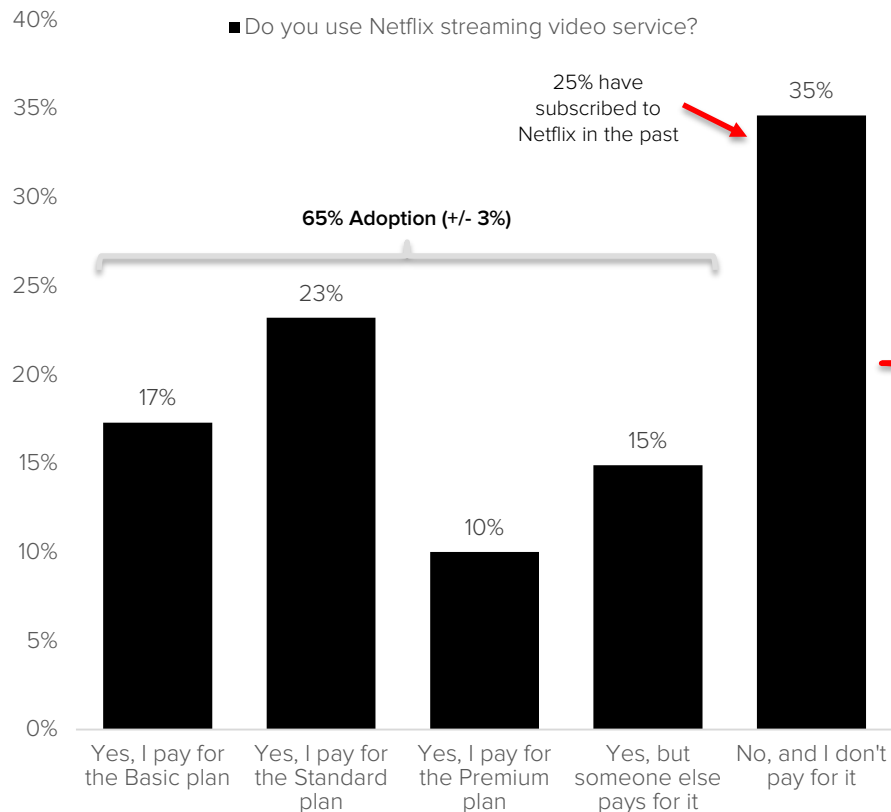


Base Case Scenario – 74M Subs by 2025

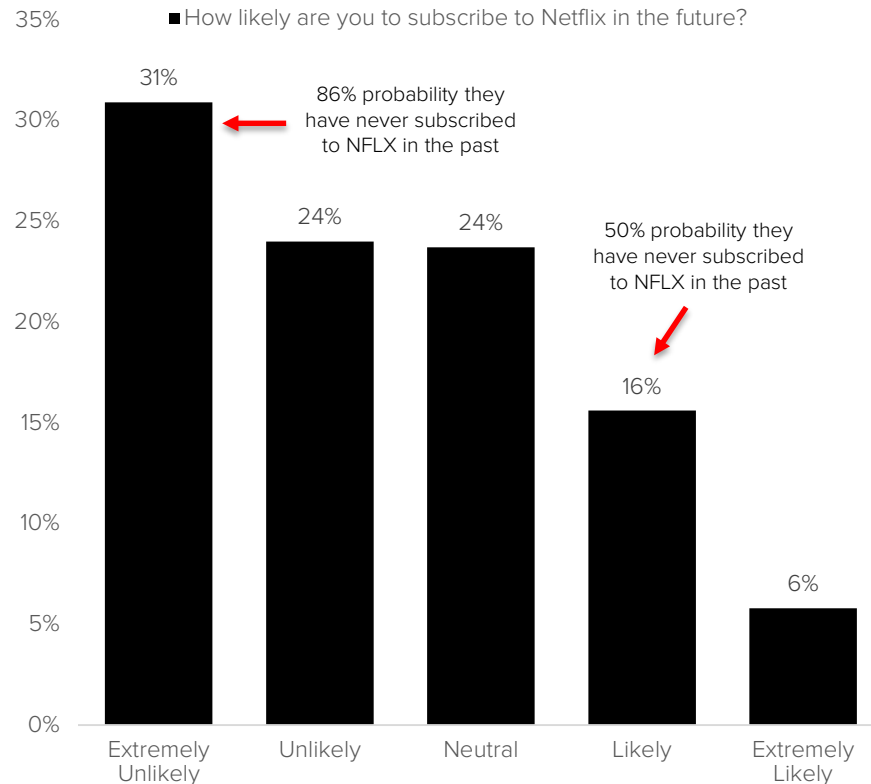


NETFLIX ADOPTION SURVEY – JANUARY 2019

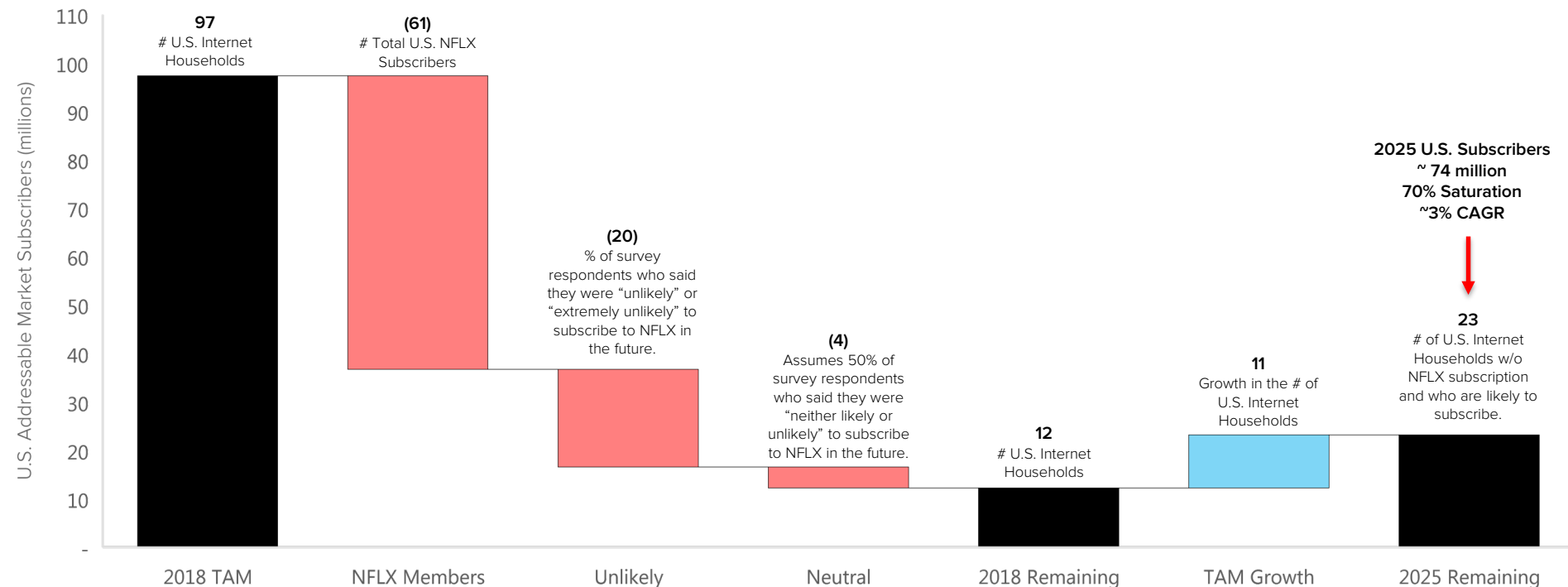
65% of Respondents Use Netflix Today



55% Unlikely to Subscribe to NFLX



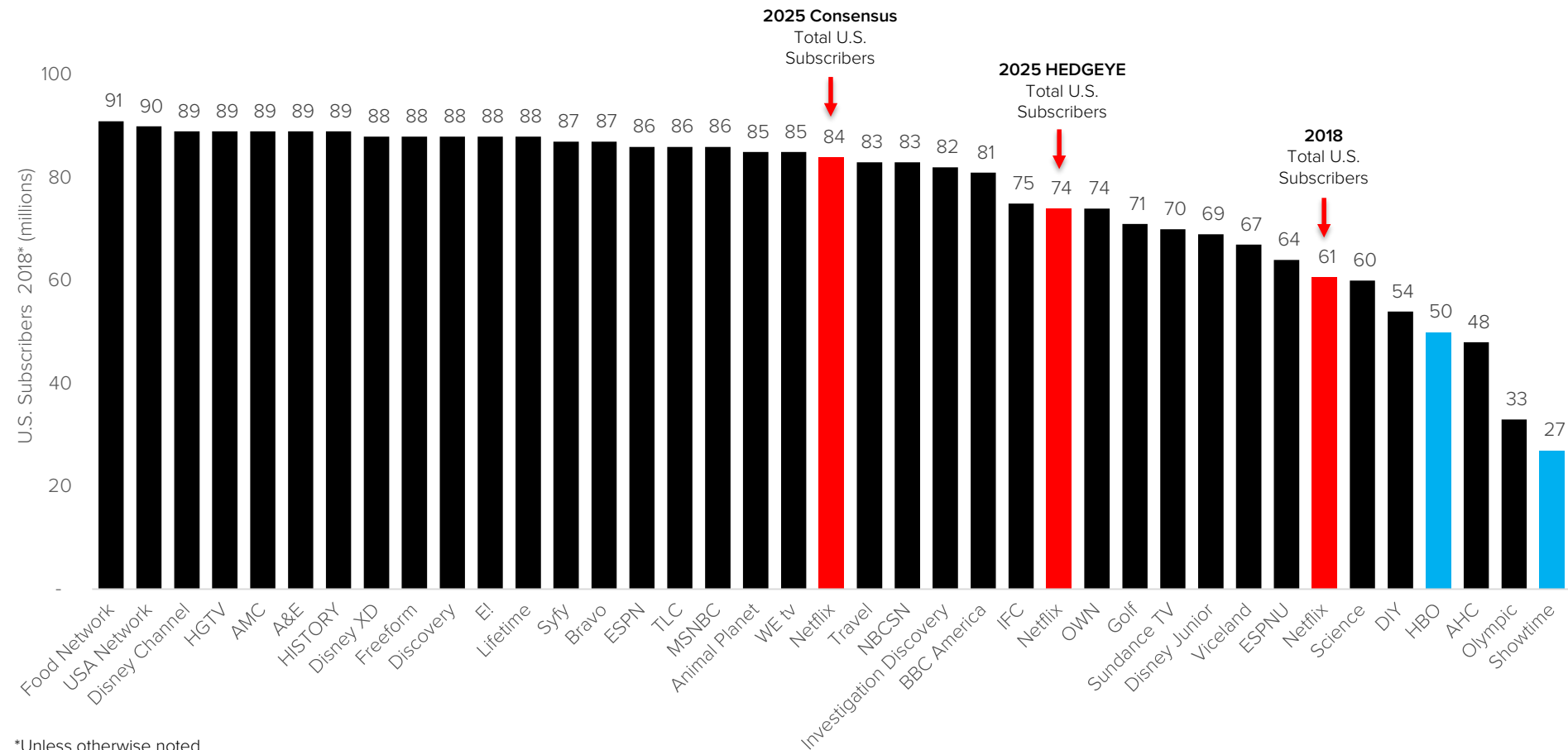
BREAKING DOWN WHAT'S LEFT OF THE U.S. TAM



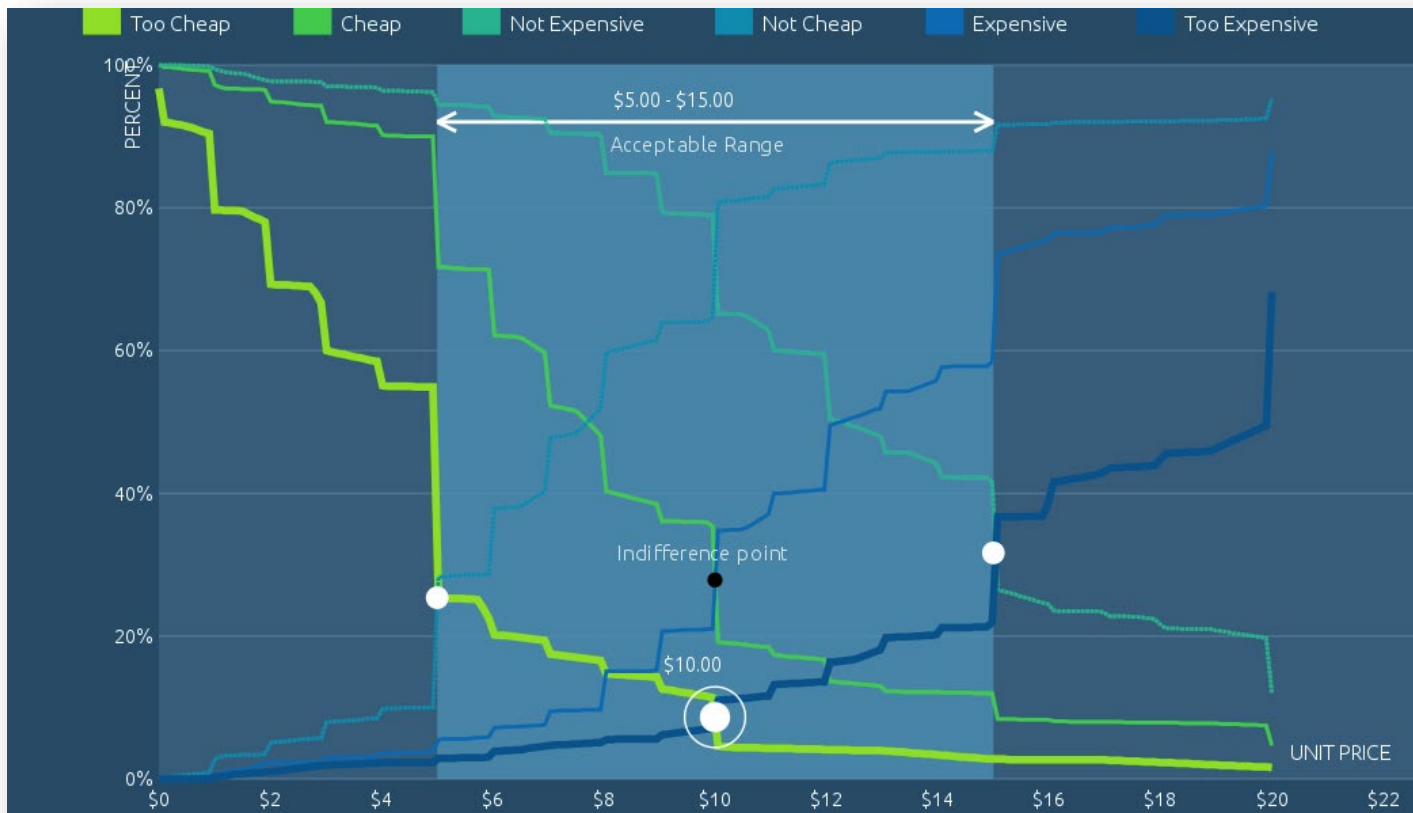
12M SUB OPPORTUNITY IN 2018 / 23M BY 2025

While many have seen this day coming, we believe we are finally at the point where subscriber growth in the U.S. will see negative effects of market saturation. Net U.S. sub-additions of 4-5 million per year will decline to 1-3 million a year faster than what consensus is expecting. Recent and likely future price increases, and increased competition will accelerate this slowing trend. Additionally, we believe our estimate of end-market growth in the number of U.S. internet households may prove optimistic. We assume NFLX captures ~56% of remaining market by 2025.

TOP NETWORKS HAVE 80-90 MILLION SUBSCRIBERS



NETFLIX PRICED ABOVE THE POINT OF INDIFFERENCE



We conducted a pricing study for streaming subscription video services in the United States.

Acceptable price range is between \$5 - \$15, with \$10 being the indifference point.

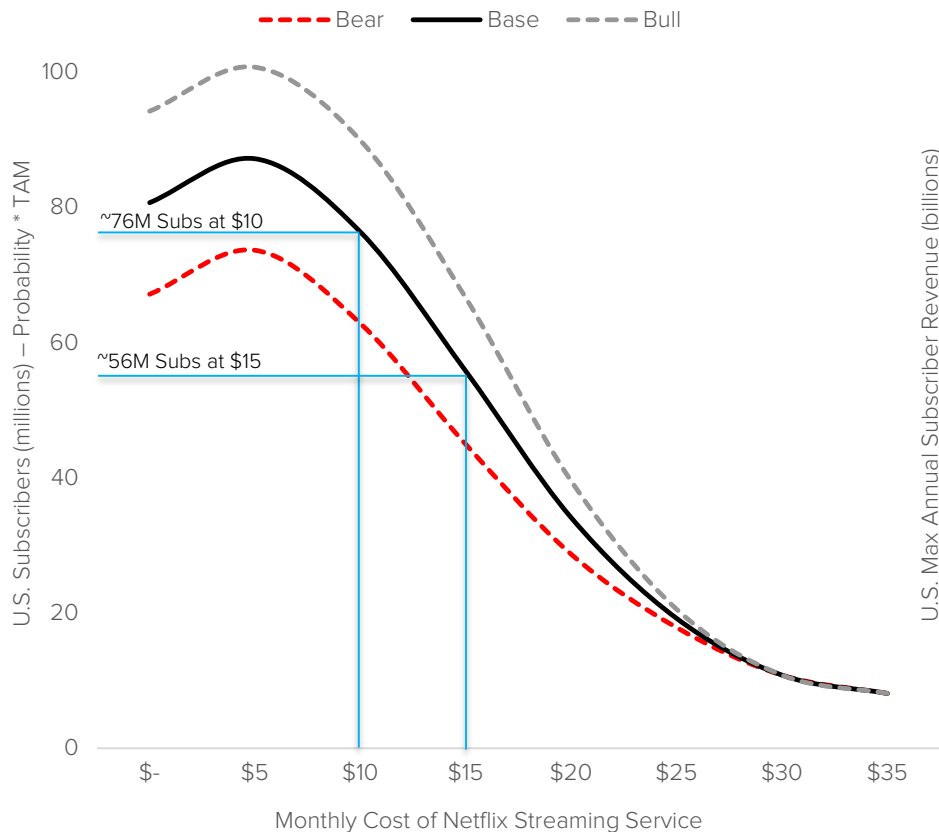
Responses were collected from 1,000 consumers, balanced by age and household income in the United States.

95% confidence interval with +/- 3% margin of error.

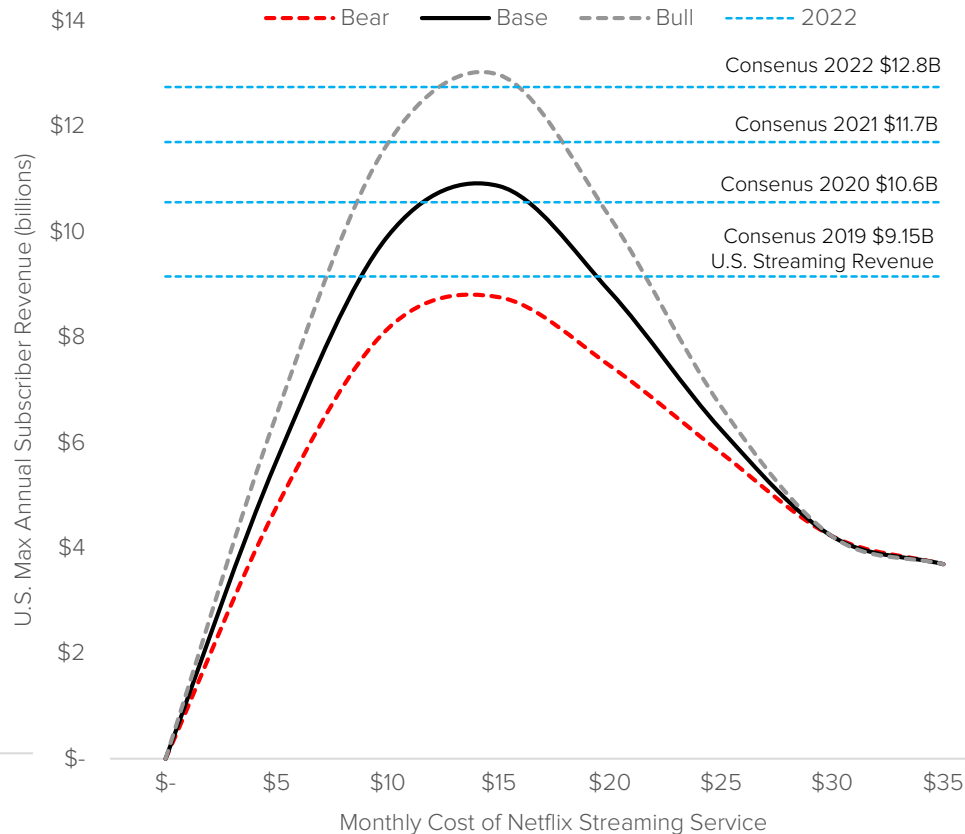
Outliers were eliminated from the pricing study results and represented less than 1% of responses.

MODELING ELASTICITY OF DEMAND AND MAX REVENUE

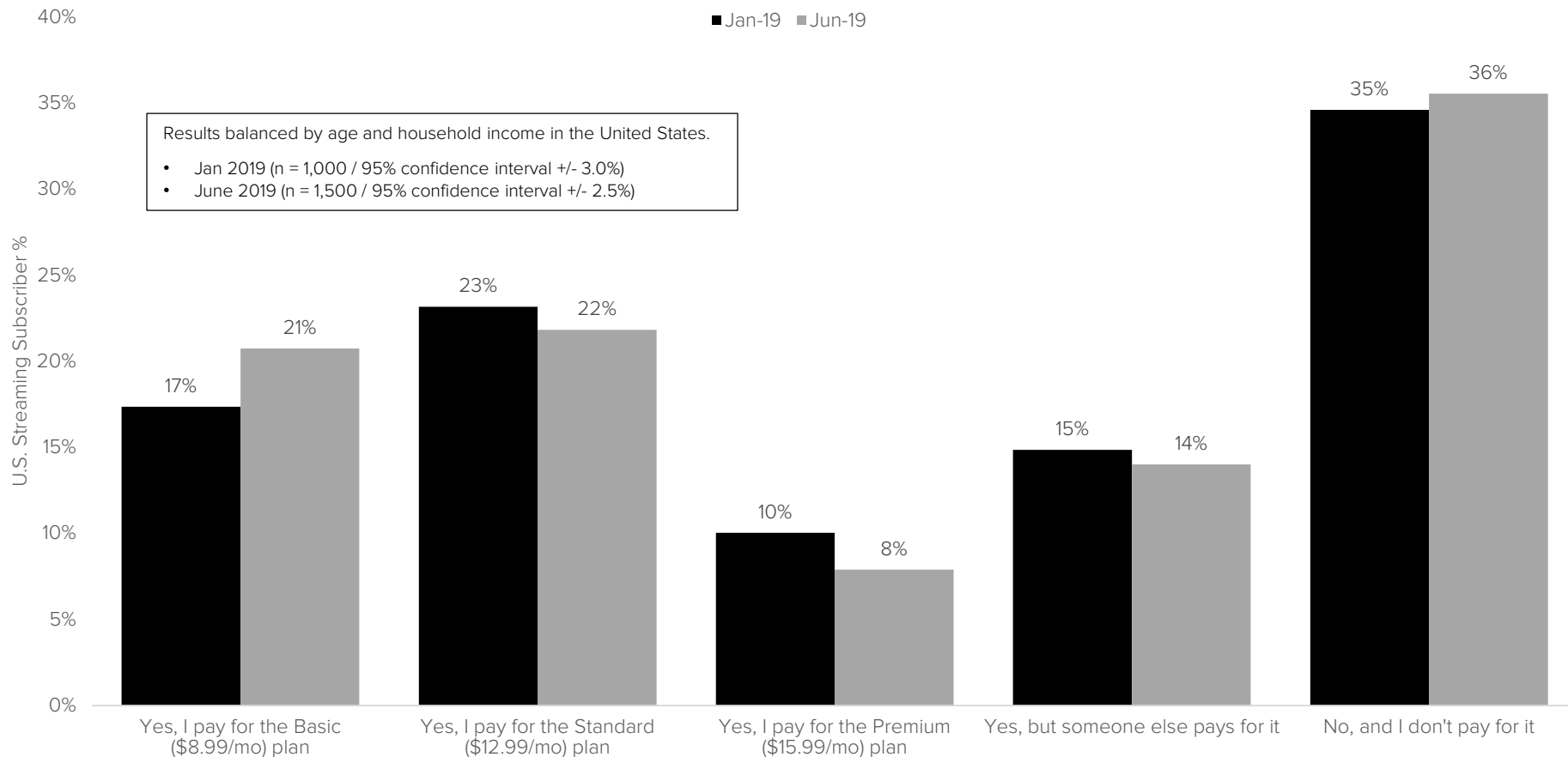
Max U.S. Subscribers at \$5/month



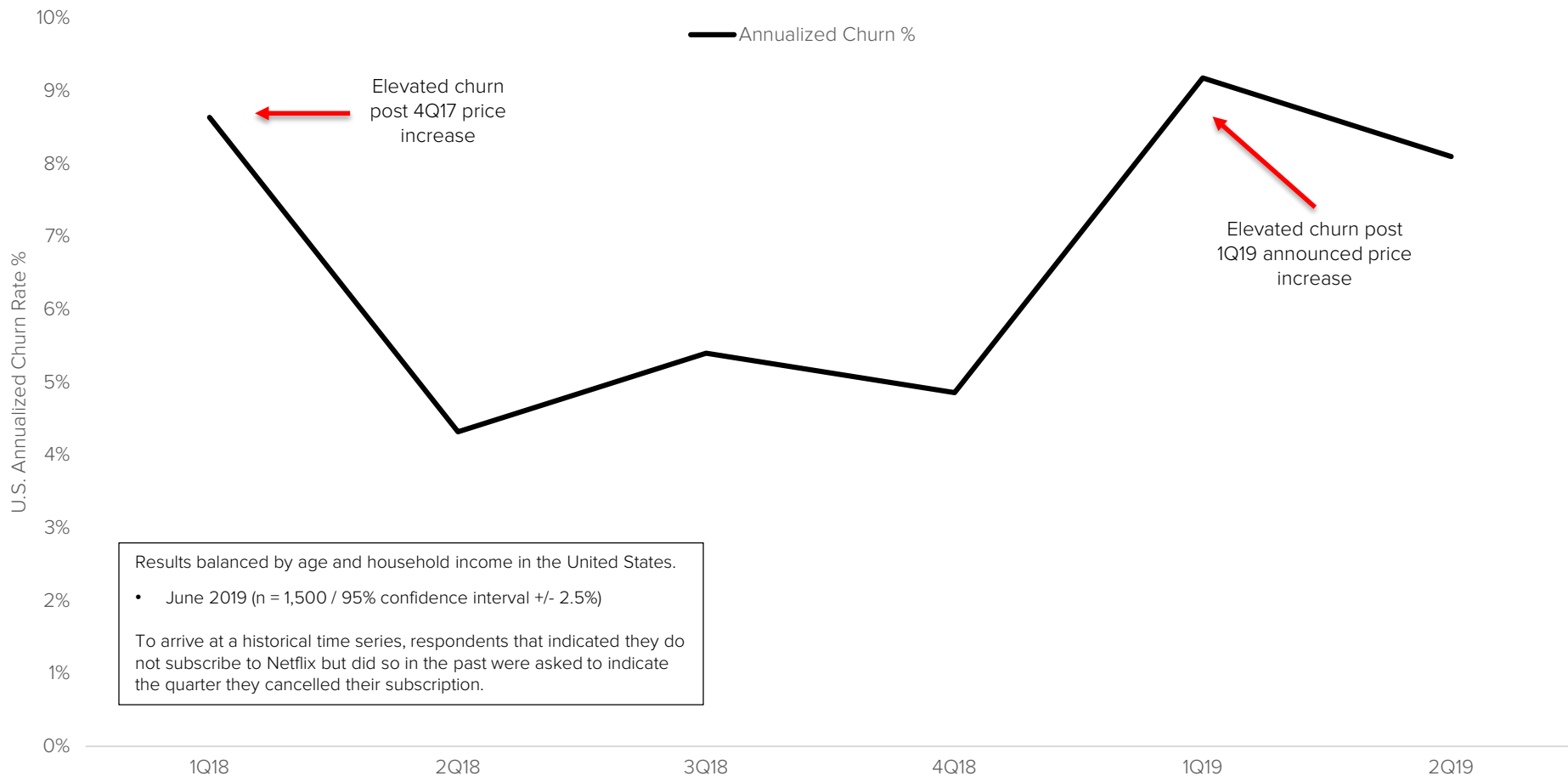
Max U.S. Revenue at \$15/month



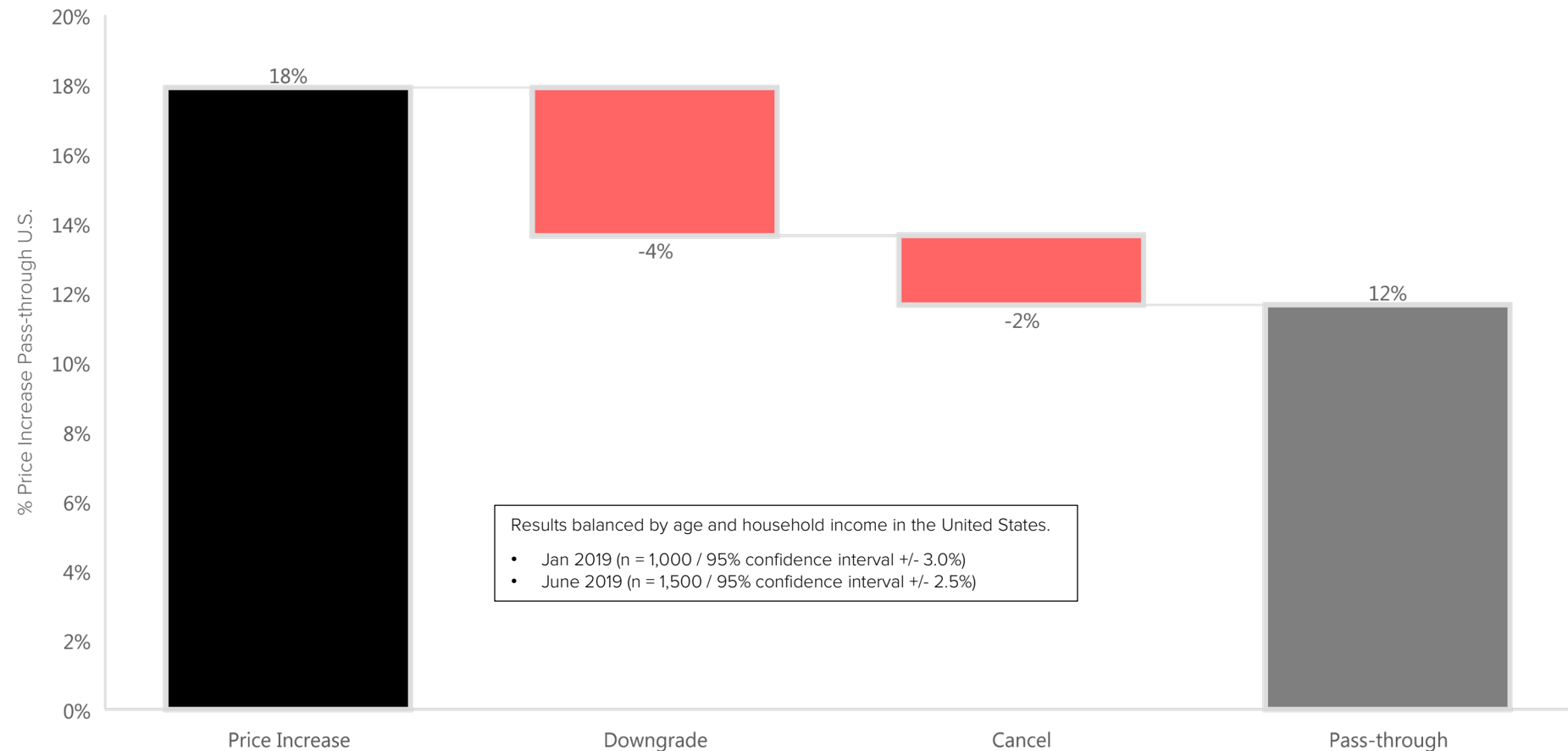
NFLX | MIX-SHIFT TO LOWER COST PLANS



NFLX | 2X INCREASE IN CHURN POST PRICE INCREASE

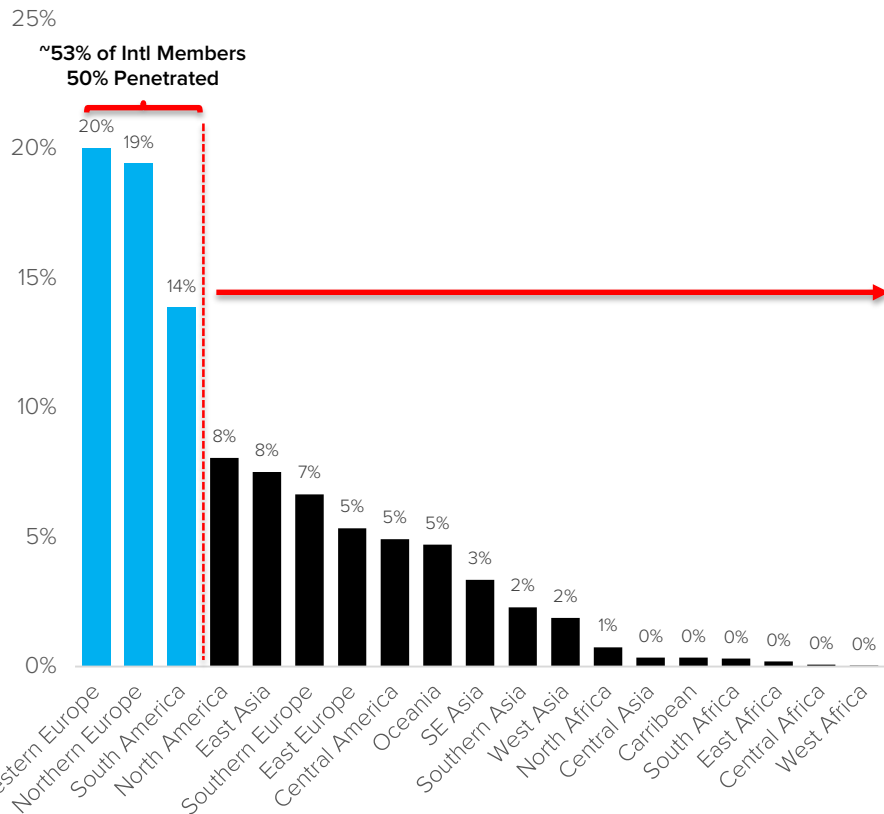


NFLX | 65% OF RECENT PRICE INCREASE PASSED THROUGH

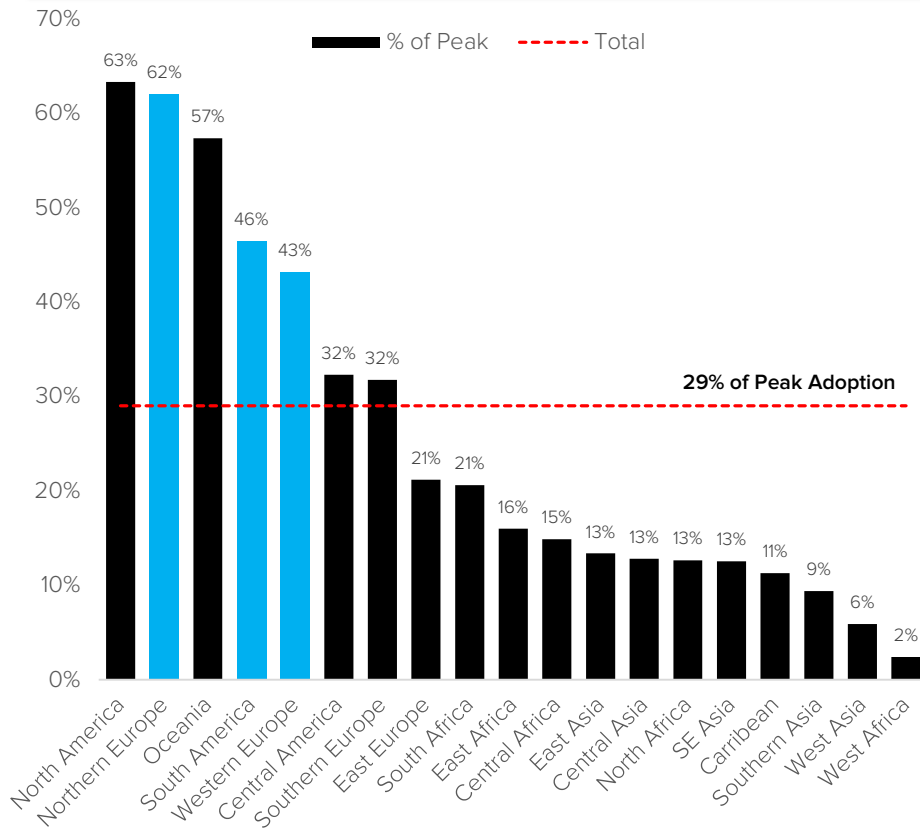


OVER 50% PENETRATED IN KEY INTERNATIONAL MARKETS

Top 3 Regions ~53% of NFLX Intl Membership

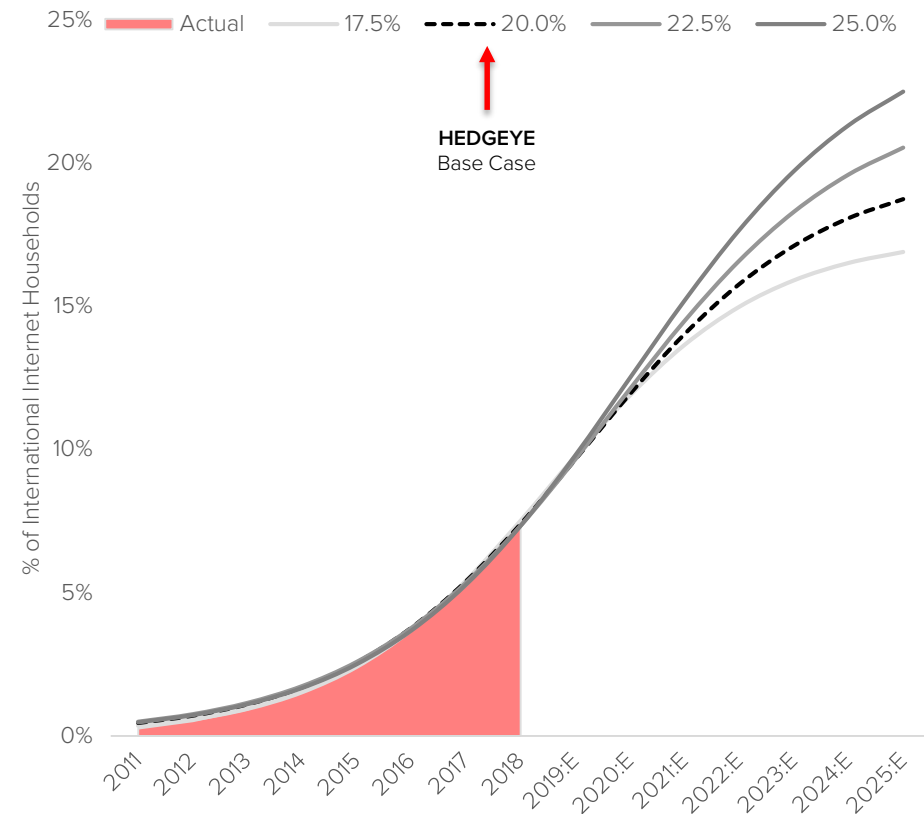


29% Penetrated into 300M Addressable Subs

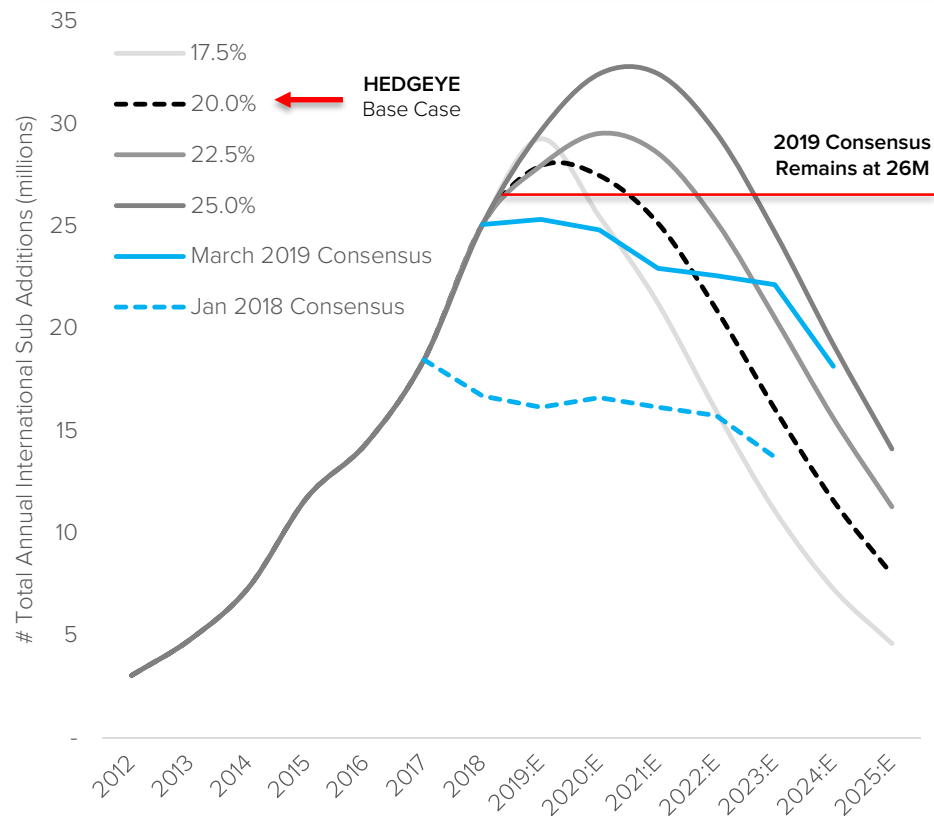


MODELING INTERNATIONAL SUBSCRIBER ADOPTION

International Subscriber Adoption Curves



Base Case Scenario – 225M Subs by 2025



MOBILE DISTRIBUTION KEY TO NFLX SUB GROWTH IN INDIA

Airtel Offers 3-month Free Netflix in Aug 2018

Airtel offers 3-month Netflix subscription: Check details here

Post-three months, these users will be able to pay for their Netflix subscription seamlessly, using their Airtel postpaid or home broadband bills.

By Kalyan Parbat, ET Bureau | Updated: Aug 28, 2018, 11:19 AM IST



Agencies



Airtel looks forward to working closely with Netflix to leverage this huge potential with some amazing offering.

Bharti Airtel NSE -0.82 % has broadened its strategic pact with Netflix to offer select postpaid and V-Fiber home broadband users a three-month gift subscription of the US internet entertainment company's video streaming services in a clear bid to differentiate its video content and retain premium data customers even as Jio revs up to commercially launch its fast wired broadband services bundled with internet TV.

The Sunil Mittal-led telco will announce details of "eligible postpaid mobile and home

broadband plans over the coming weeks that will qualify for the Netflix gift subscription," the company said in an official statement Monday.

Vodafone Strikes 1-Yr Promo w/Netflix in June 2018

Vodafone offers 1 year free Netflix subscription with RED plans to take on Airtel, Jio

At the time when Airtel is going with Amazon Prime and Jio has its own Jio TV, Vodafone has gone one step ahead by offering free Netflix subscription to its postpaid users.

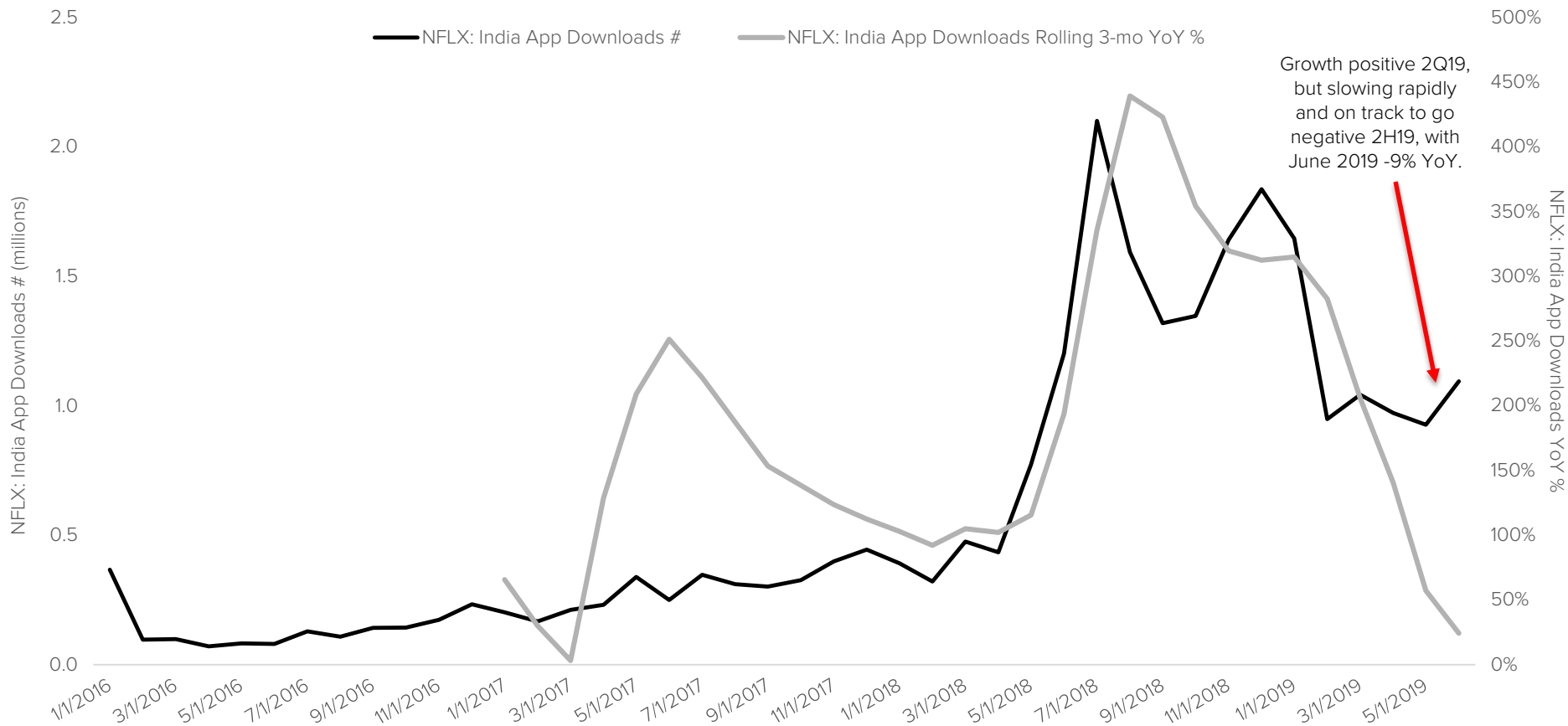
It is nice to see how telecom companies are joining hands with video streaming service companies to attract customers. At the time when Airtel is going with Amazon Prime and Jio has its own Jio TV, Vodafone has gone one step ahead by offering free Netflix subscription to its postpaid users.

The telecom company has revamped its RED postpaid plans to offer extra data along with free Netflix and Amazon Prime subscription. The Netflix subscription is obviously available for the higher priced plans. Vodafone has listed the revamped plans on its website.

Vodafone RED plans were introduced last year by the company. These plans start at Rs 399 per month and are available only for Vodafone's postpaid users.

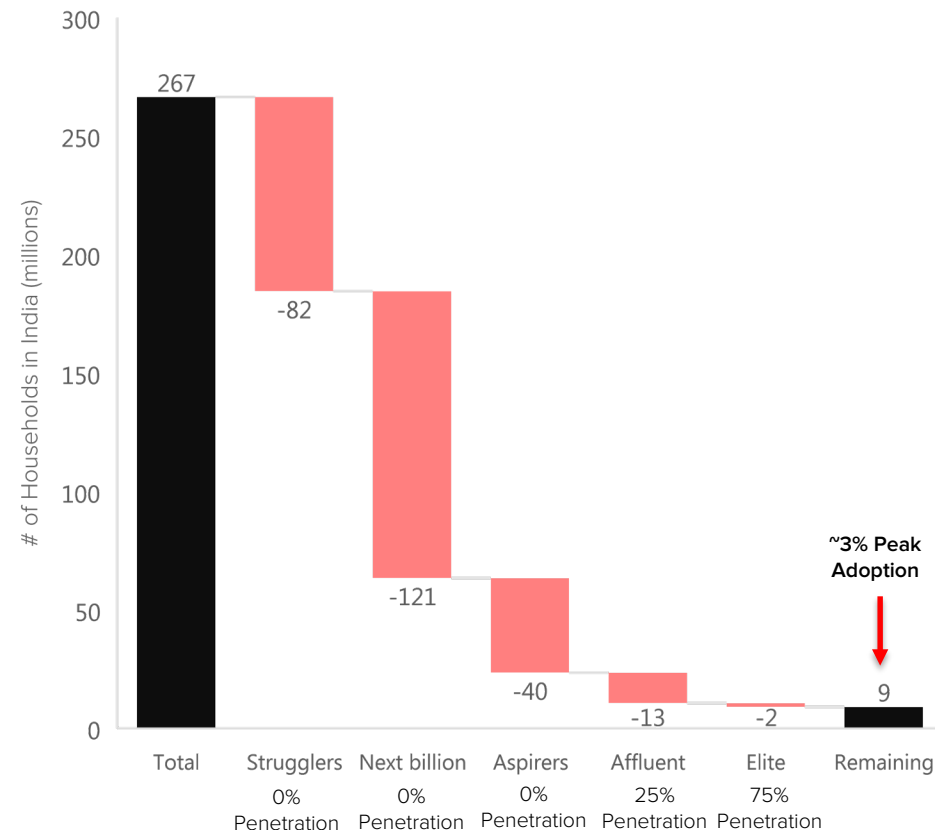
NFLX-TRACKER | INDIA MOBILE APP DOWNLOADS

NEUTRAL

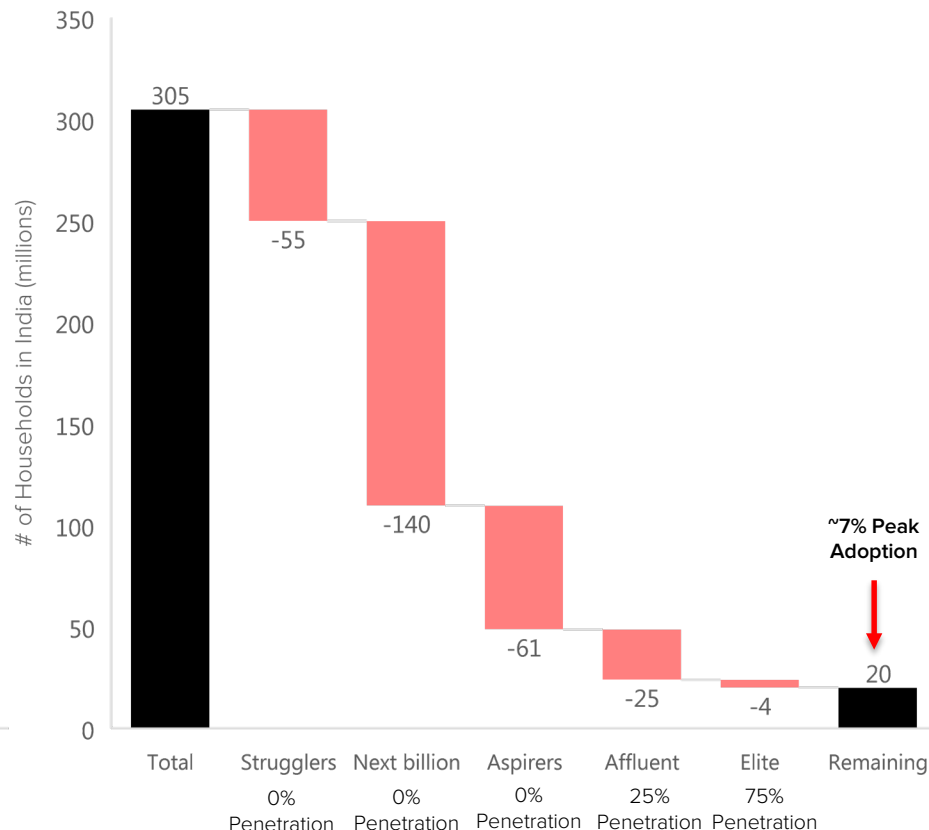


BREAKING DOWN THE INDIA TAM

2016 India – 9M Addressable Households



2025 India – 20M Addressable Households



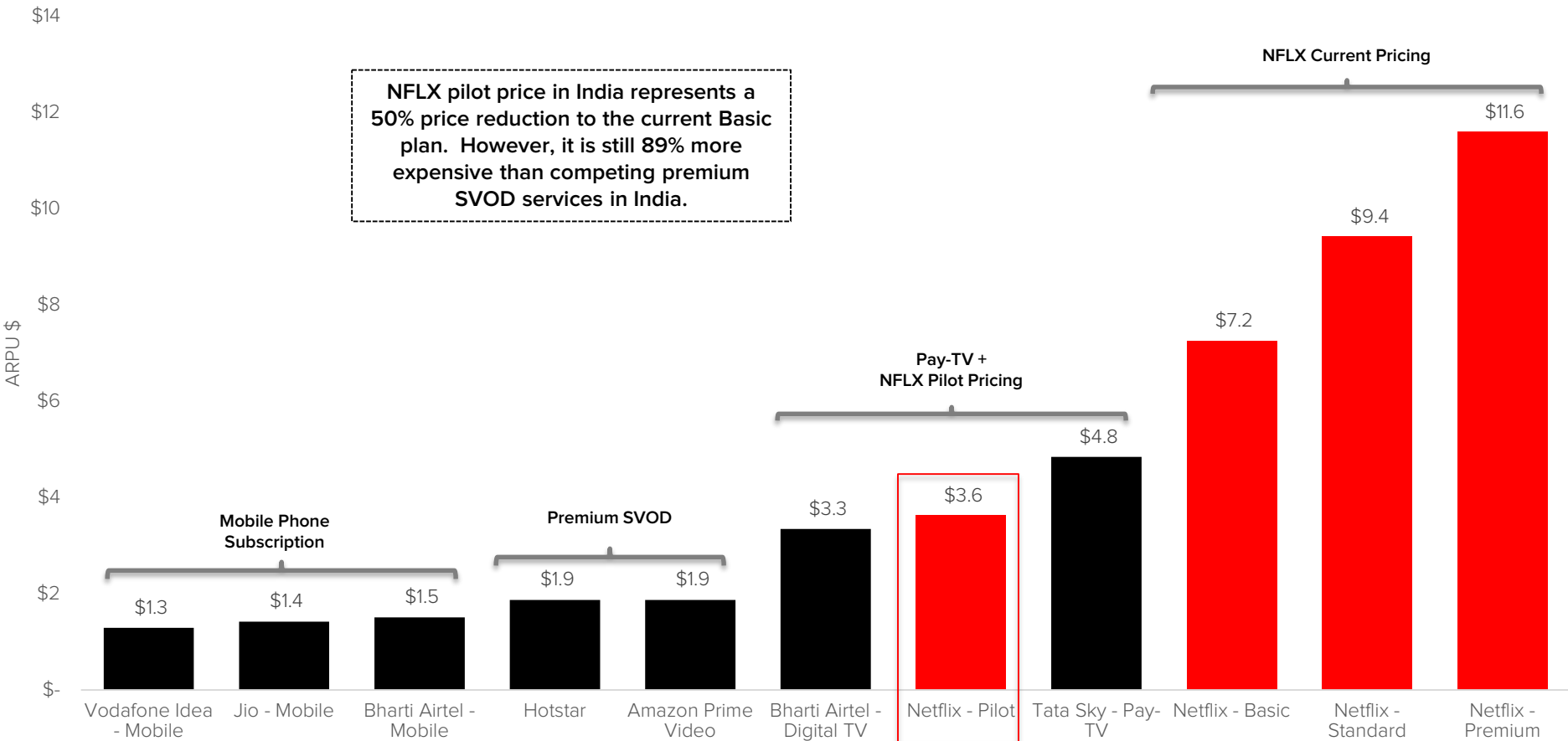
COMPETING AGAINST FREE IS TOUGH IN INDIA

OVER 30 STREAMING SOLUTIONS; AVOD MOST POPULAR

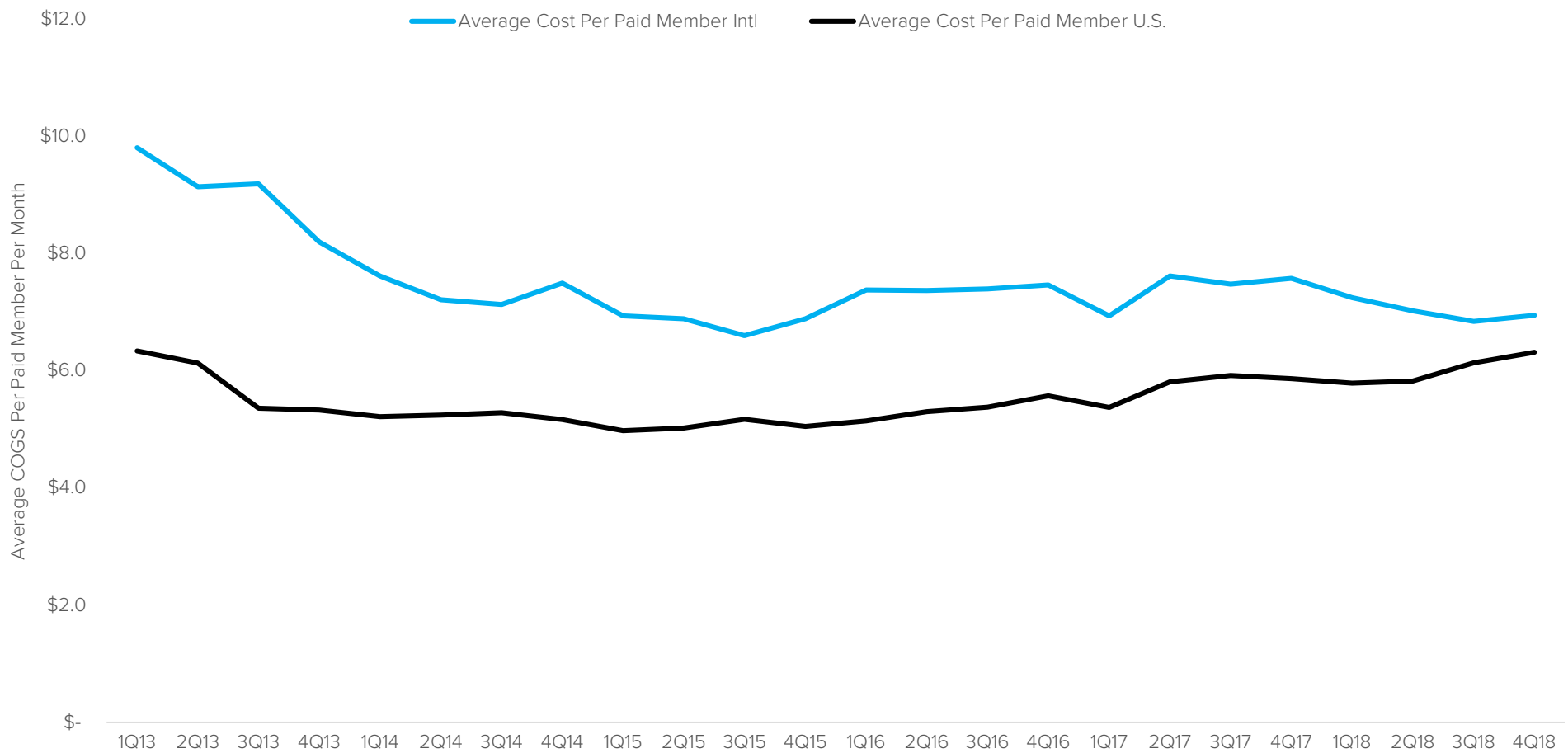
	YouTube	Hotstar	HOOQ	Amazon Prime	Netflix	JIO TV	VOOT	Sony LIV	Eros Now
Owner	Google	Star India (subsidiary of DIS)	Sony Pictures Television, WarnerMedia and Singtel	1Q19	Netflix	Reliance Industries	Viacom18	Sony Pictures Network	2Q20
Service Type	AVOD	AVOD / SVOD	AVOD / SVOD	SVOD	SVOD	AVOD	AVOD	AVOD / SVOD	SVOD
Service Local Cost	Free	Rs. 999/year Rs. 129/month	Rs. 89/3-mo	Rs. 1,000/year Rs. 129/month	Rs. 500/month Rs. 650/month Rs. 800/month	Free	Free	Rs. 99/month Rs. 149/3-mo Rs. 499/year	Rs. 49-99/mo Rs. 470-950/yr
Service USD Cost	---	\$14.5/year \$1.87/month	\$1.29/month	\$14.5/year \$1.87/month	\$7.25/month \$9.42/month \$11.59/month	--	--	\$1.43/month \$2.16/3-month \$7.23/year	\$0.7-1.43/mo \$6.8-13.8/yr
Content	User generated content	Live Cricket IPL , HBO, FOX, Disney, HBO / Bollywood and Hollywood Films / Regional and Hindi content	Premium Hollywood and English content / Content partnership with Hotstar	Bollywood and Hollywood movies / regional content / India originals	Ramping up production of original India content	Content aggregator / 600+ TV channels / Eros Now	Original and kid contents / TV Shows / 45k hours of content	Sony TV and Ten sports content / Small portfolio of Bollywood and Hollywood movies	Local language movies and music
Distributors / Promotions	---	Airtel / Vodafone	Airtel / Vodafone	Airtel 1-year Prime / Vodafone	Airtel 3-mo Netflix / Vodafone 1- year	Jiu	---	Airtel	Airtel

NFLX Would Have to Cut Base Plan Price by ~75% to be Competitive

NFLX'S MOBILE PRICE IN INDIA STILL TOO EXPENSIVE

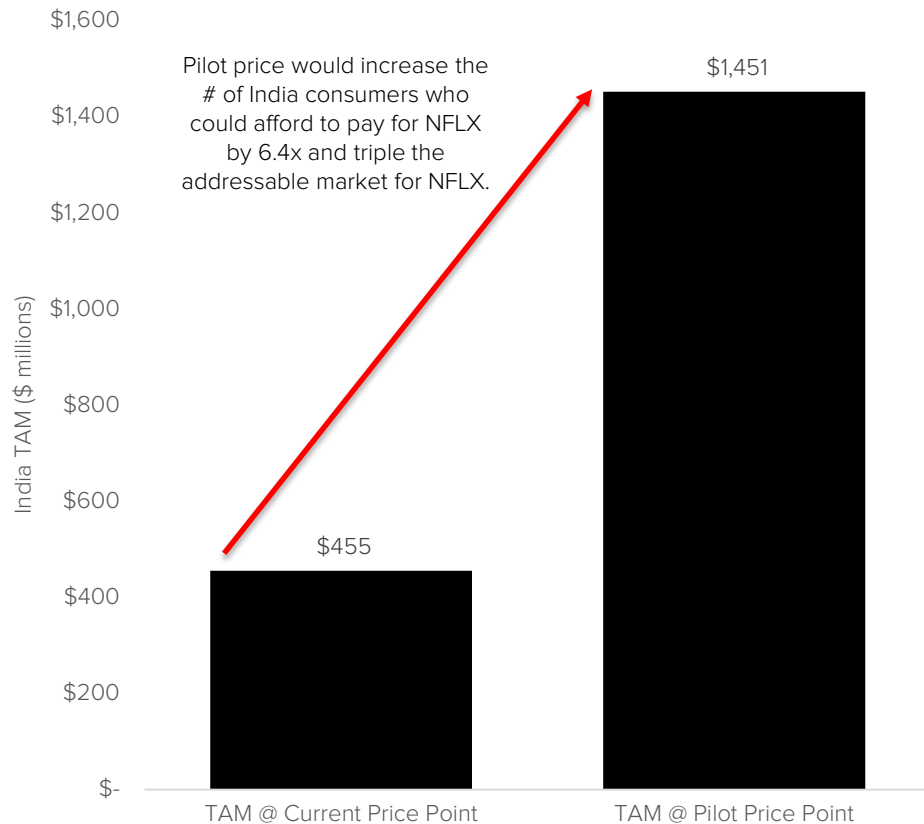


AVERAGE COGS PER NFLX MEMBER PER MONTH

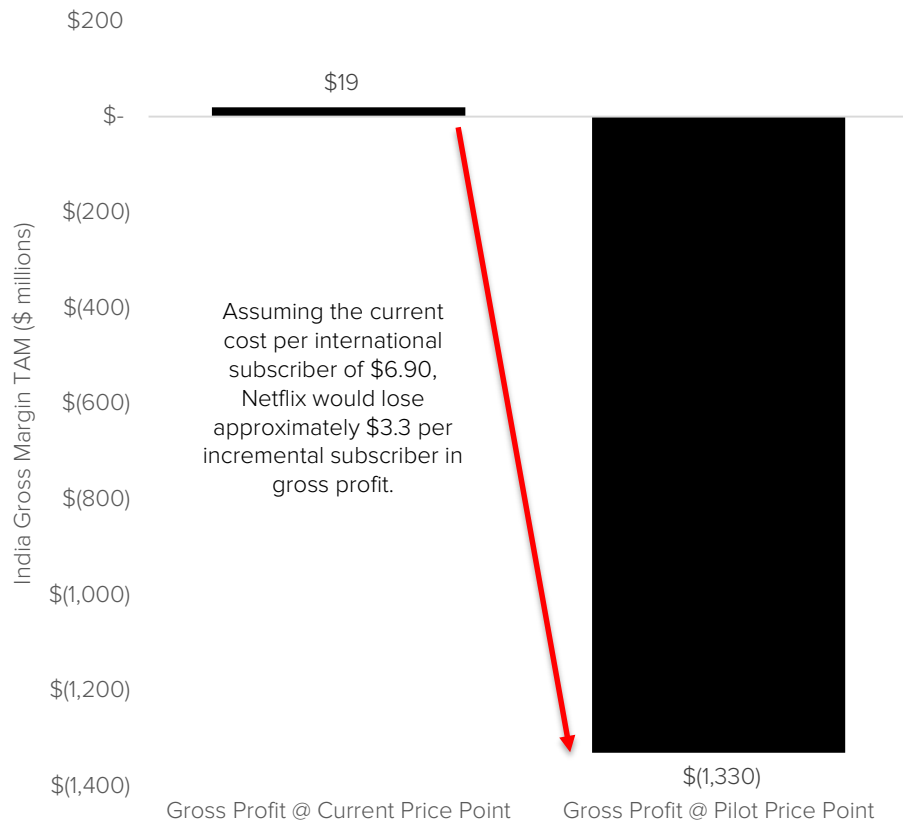


TAM INCREASE FROM PRICE CUT OFFSET BY LOSSES

50% Price Cut Increases TAM by 320%



50% Price Cut Increases Losses by \$1.35 Billion



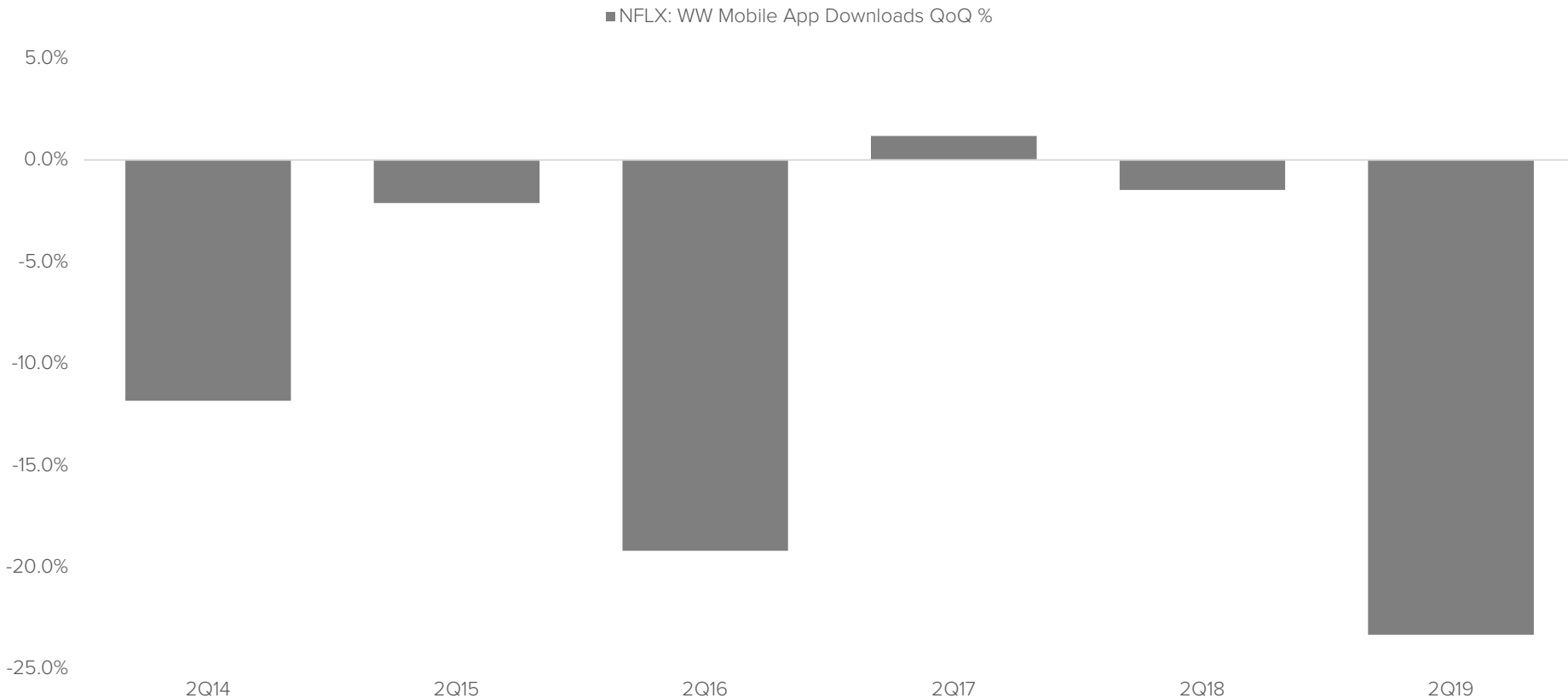
NFLX-TRACKER | WW MOBILE APP DOWNLOADS

BEARISH



NFLX-TRACKER | WW MOBILE APP DOWNLOADS

BEARISH



NFLX-TRACKER | COUNTRY AND REGION HEATMAP

NFLX: Mobile App Downloads Rolling

	1-mo	QTD	6-mo	12-mo	% Total*
United States	6.2%	-2.7%	3.3%	-0.5%	18.9%
Canada	-4.8%	-4.7%	4.9%	6.1%	1.6%
North America	6.0%	-2.6%	3.4%	0.1%	20.5%
United Kingdom	0.3%	-0.2%	10.7%	12.4%	3.2%
France	-1.7%	-3.3%	17.1%	27.5%	3.5%
Germany	-14.9%	-14.7%	-5.5%	7.6%	2.7%
Spain	2.9%	2.1%	19.6%	20.7%	2.0%
Italy	0.4%	-5.3%	21.4%	31.9%	1.8%
Greece	22.8%	34.1%	106.5%	180.8%	0.3%
Netherlands	-9.7%	-9.4%	-0.7%	-4.5%	0.8%
Sweden	-20.3%	-13.9%	-4.8%	1.1%	0.4%
Switzerland	-0.2%	0.2%	7.8%	10.1%	0.3%
Denmark	-25.1%	-20.4%	-15.8%	-10.6%	0.2%
Norway	-14.6%	-16.1%	-9.3%	-8.3%	0.2%
Finland	-22.7%	-17.2%	-12.1%	-7.8%	0.2%
Ireland	-1.4%	-5.1%	13.2%	12.8%	0.2%
Europe	-4.6%	-5.2%	10.5%	17.0%	15.7%

NFLX: Mobile App Downloads Rolling

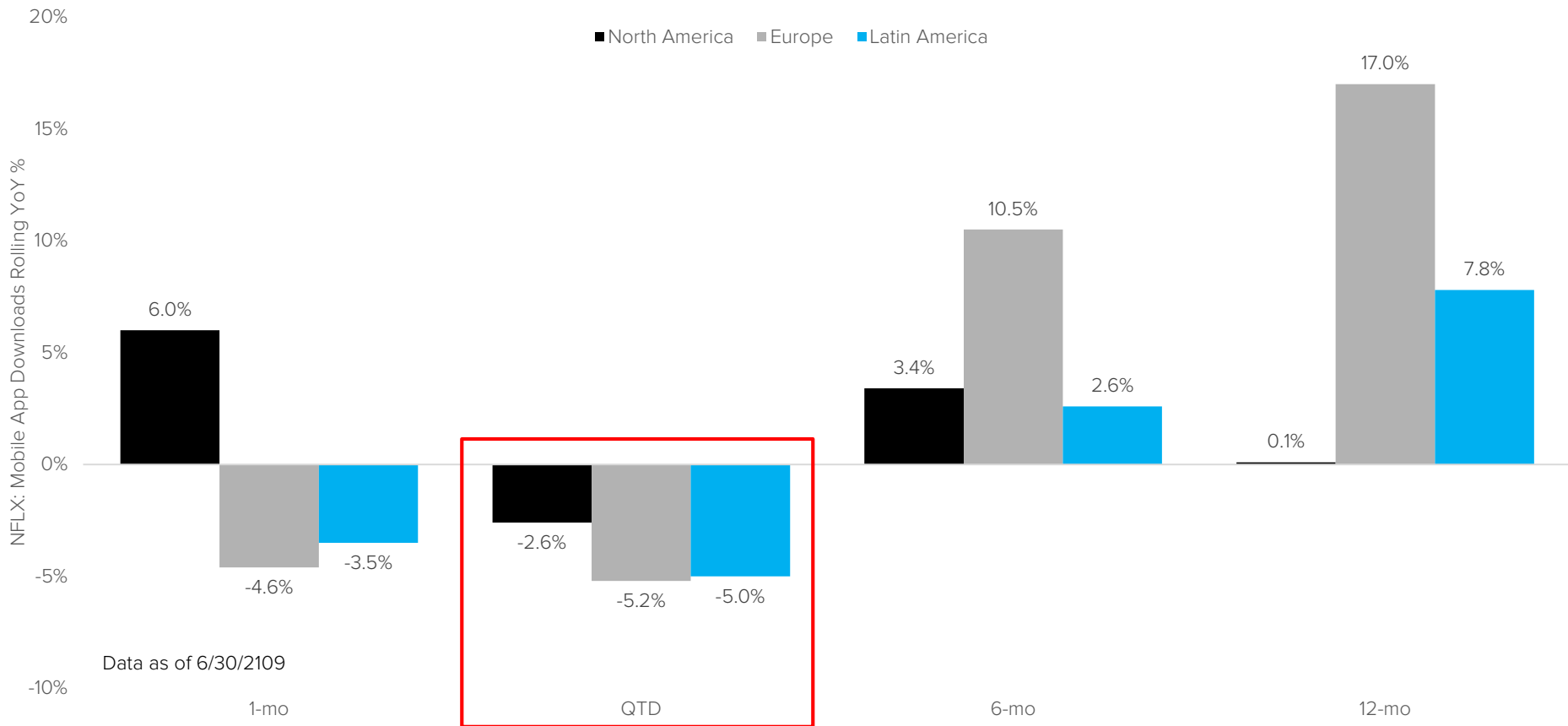
	1-mo	QTD	6-mo	12-mo	% Total*
Brazil	-2.1%	-2.3%	2.3%	4.0%	12.4%
Mexico	-7.1%	-4.4%	7.0%	10.9%	6.0%
Argentina	-1.2%	-11.2%	-9.6%	3.3%	2.4%
Colombia	-2.4%	-12.4%	0.4%	24.7%	2.0%
Chile	-5.1%	-8.3%	15.9%	20.5%	1.3%
Costa Rica	-6.0%	-5.6%	3.6%	13.6%	0.3%
Latin America	-3.5%	-5.0%	2.6%	7.8%	24.3%
India	-8.9%	24.2%	84.3%	187.6%	6.1%
Philippines	4.9%	9.3%	59.2%	62.9%	2.4%
Turkey	200.8%	202.6%	263.7%	235.9%	2.6%
Indonesia	31.9%	32.4%	62.8%	113.8%	1.2%
Thailand	-8.6%	-12.8%	28.9%	56.0%	1.0%
Malaysia	16.7%	17.8%	34.4%	79.7%	0.8%
Taiwan	3.0%	39.0%	54.9%	76.8%	0.4%
Hong Kong	47.0%	68.8%	87.8%	96.5%	0.3%
New Zealand	-15.9%	-9.6%	10.9%	13.9%	0.4%
Australia	-8.1%	-8.8%	8.7%	7.5%	1.5%
Japan	54.3%	55.3%	59.0%	71.9%	1.6%
Asia-Pacific	12.3%	28.1%	70.2%	103.9%	18.3%

Data as of 6/30/2019

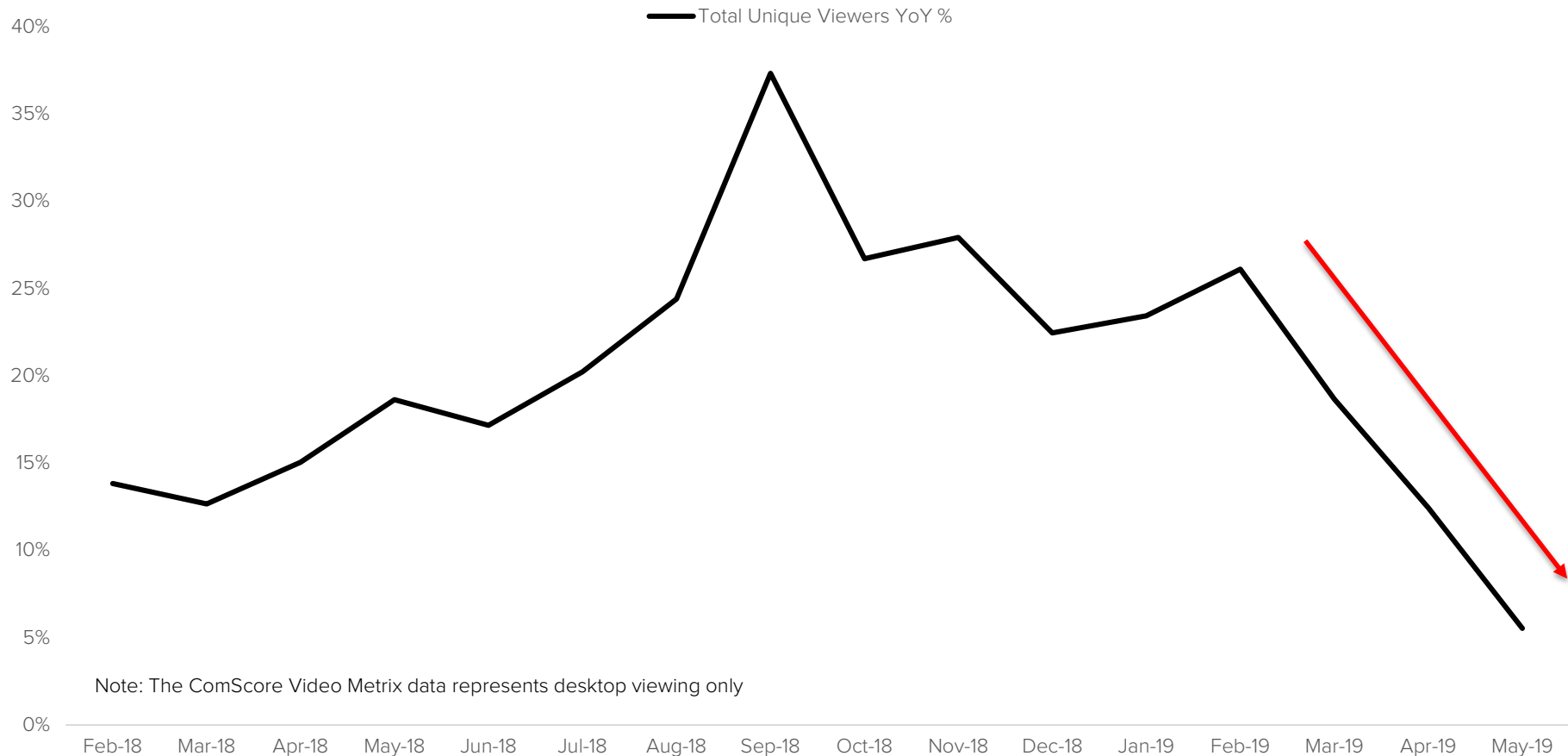
*% of total worldwide downloads. Not all countries broken out separately, but are included in regional summation.

NFLX-TRACKER | GROWTH SLOWING ACROSS KEY MARKETS

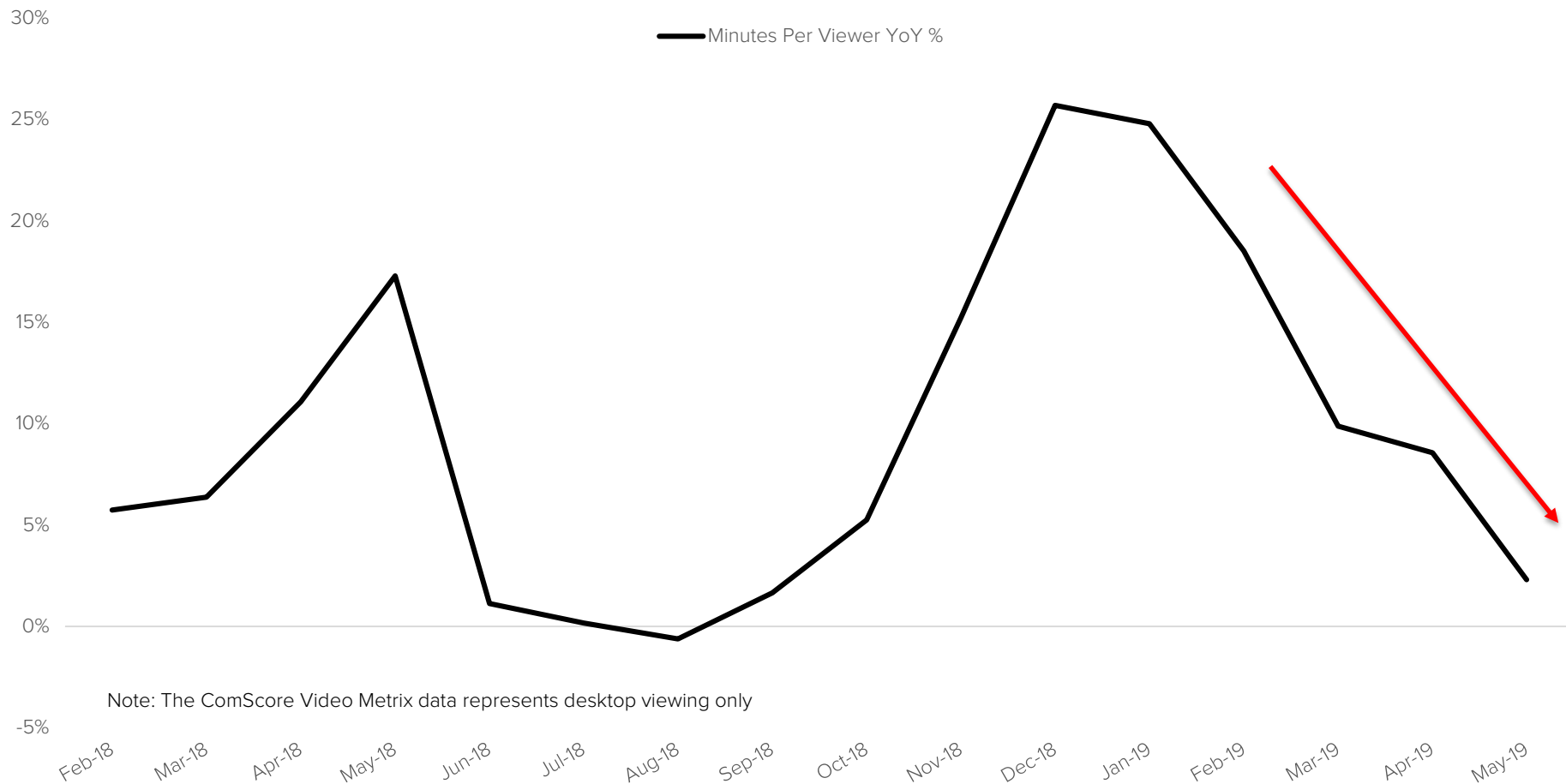
BELOW MARKETS REPRESENT ~65% OF QUARTERLY APP DOWNLOADS



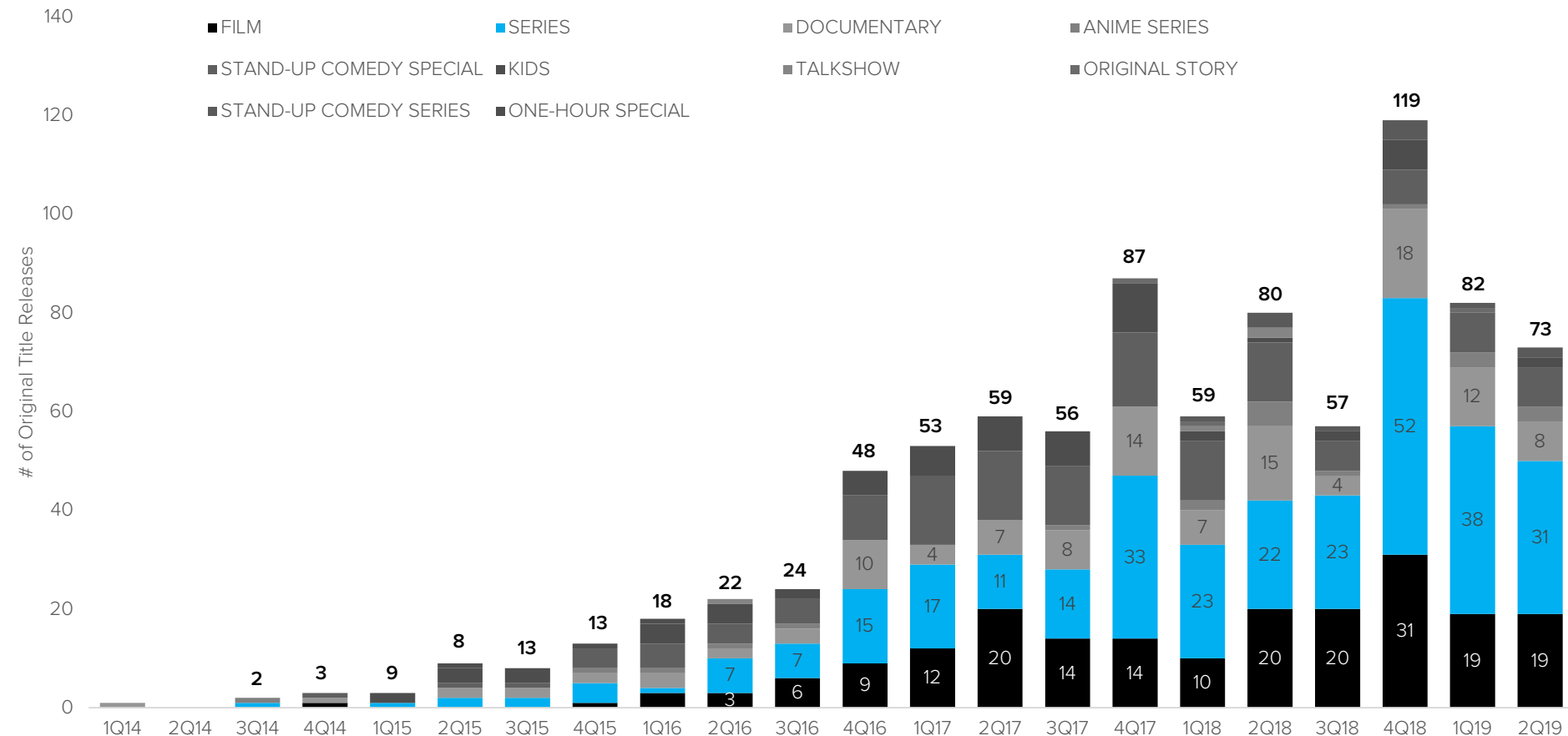
NFLX-TRACKER | U.S. UNIQUE DESKTOP VIEWERS



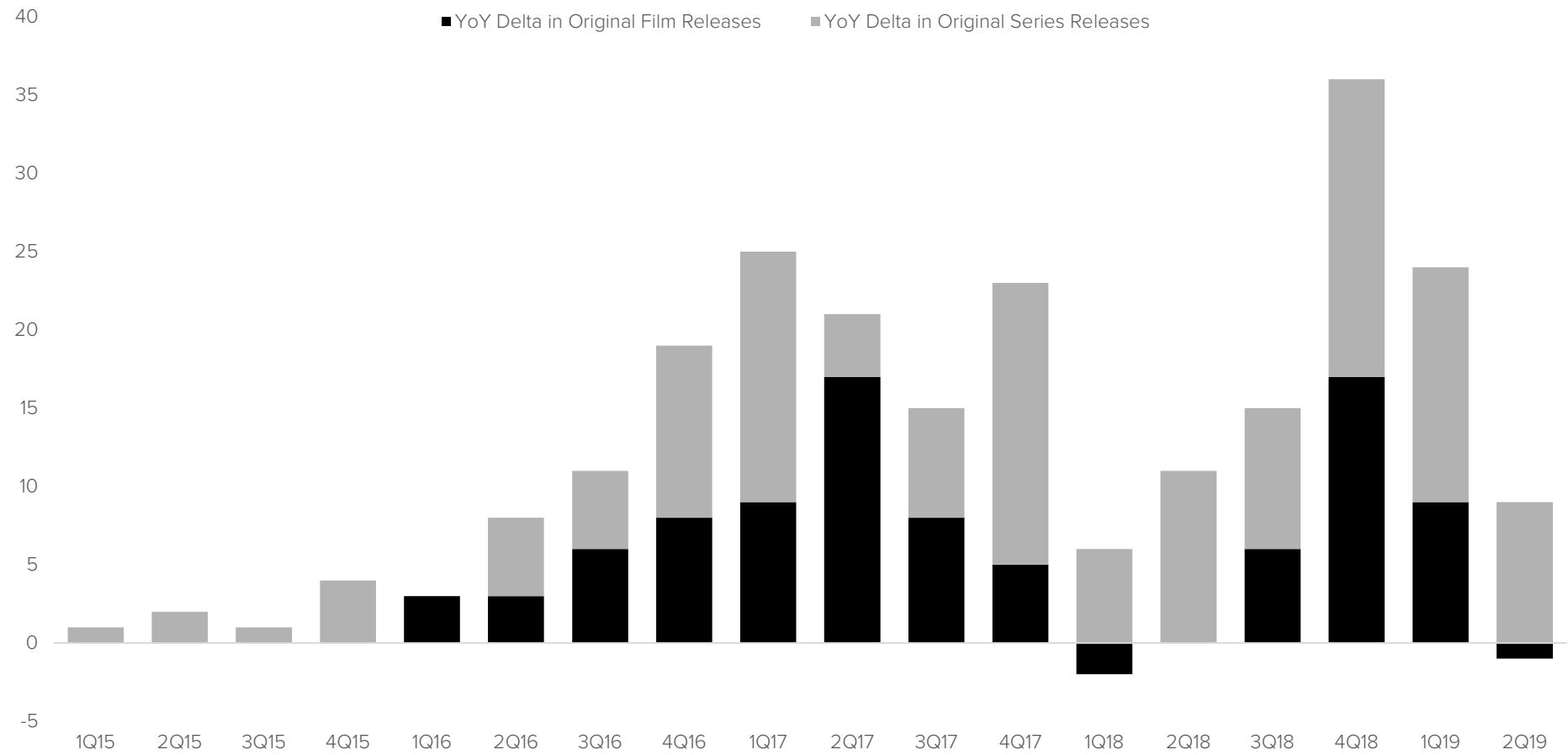
NFLX-TRACKER | TIME SPENT PER U.S. DESKTOP VIEWER



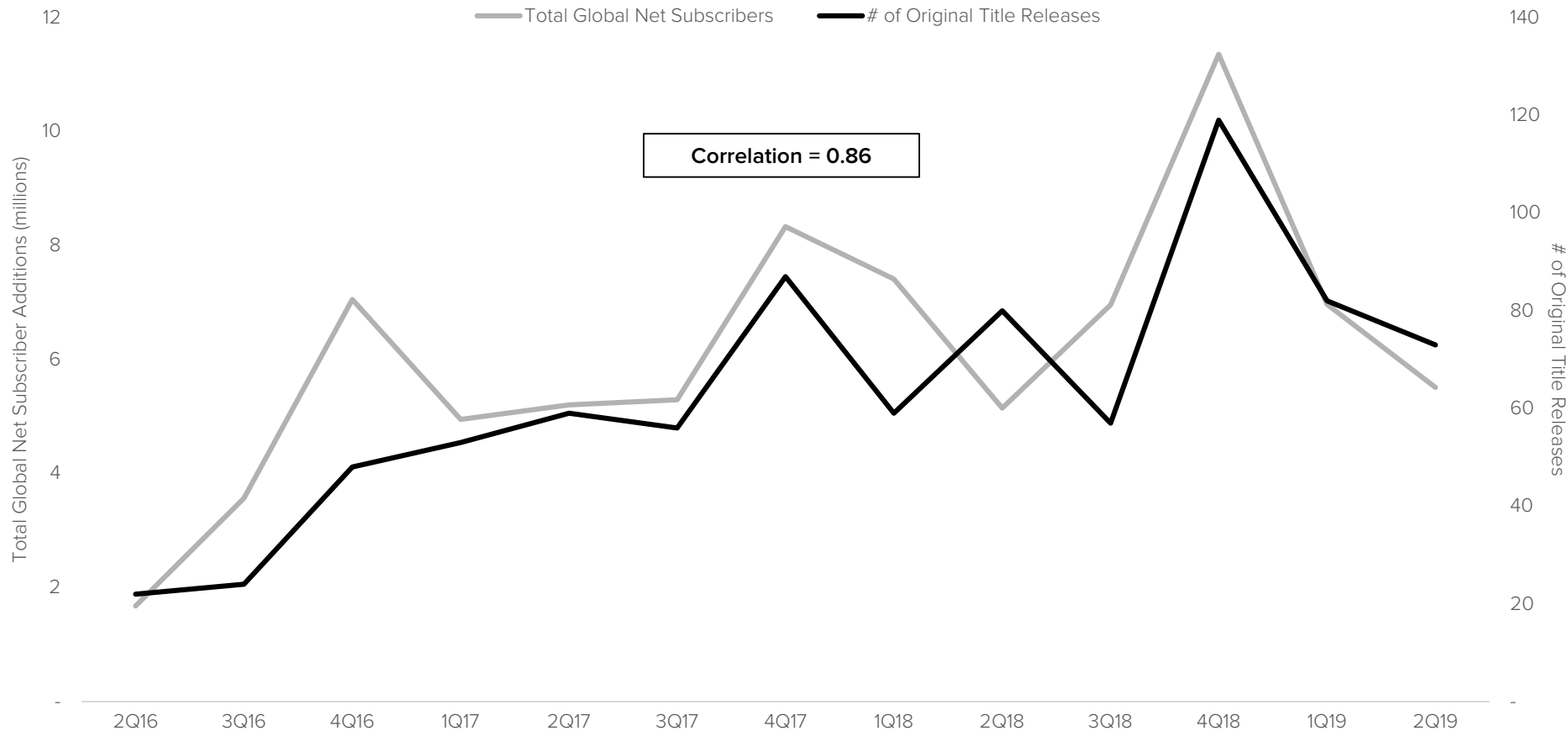
NFLX ORIGINAL TITLE RELEASES BY QUARTER



GROWTH IN NFLX ORIGINAL FILM + SERIES RELEASES

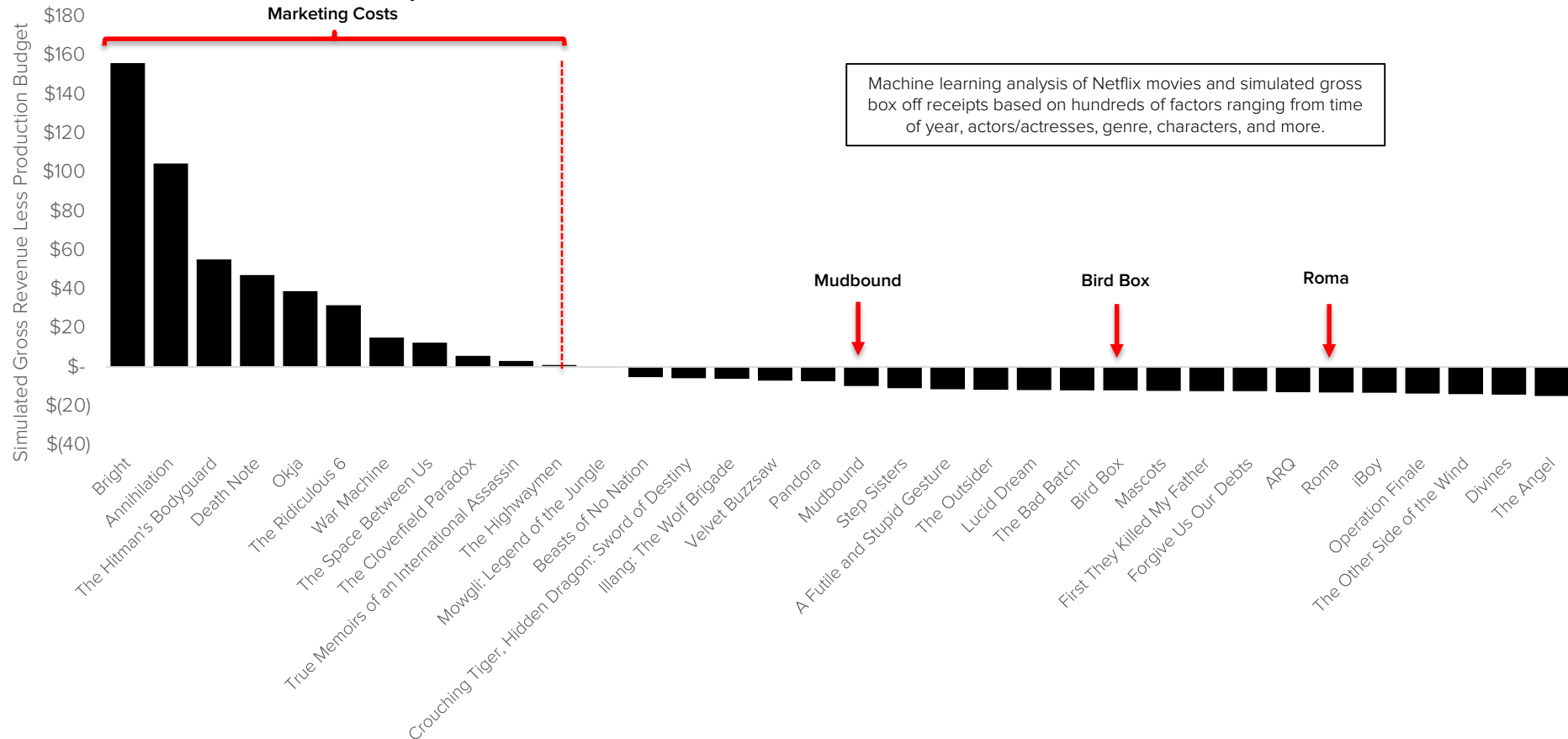


NFLX ORIGINAL TITLE RELEASES VS SUB ADDITIONS

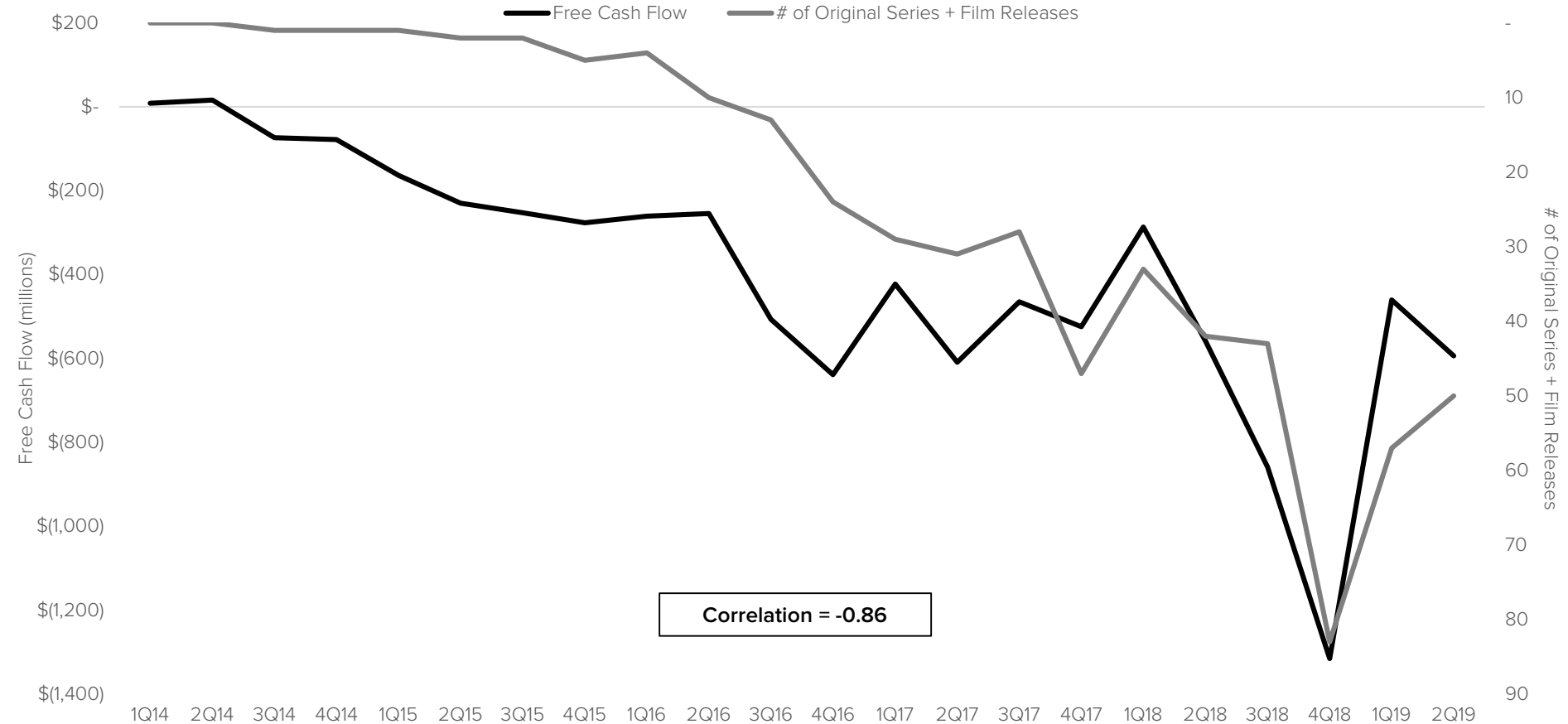


MANY OF NFLX TOP MOVIES WOULD HAVE BEEN BOMBS

11 of 34 Movies Made Money Before Marketing Costs

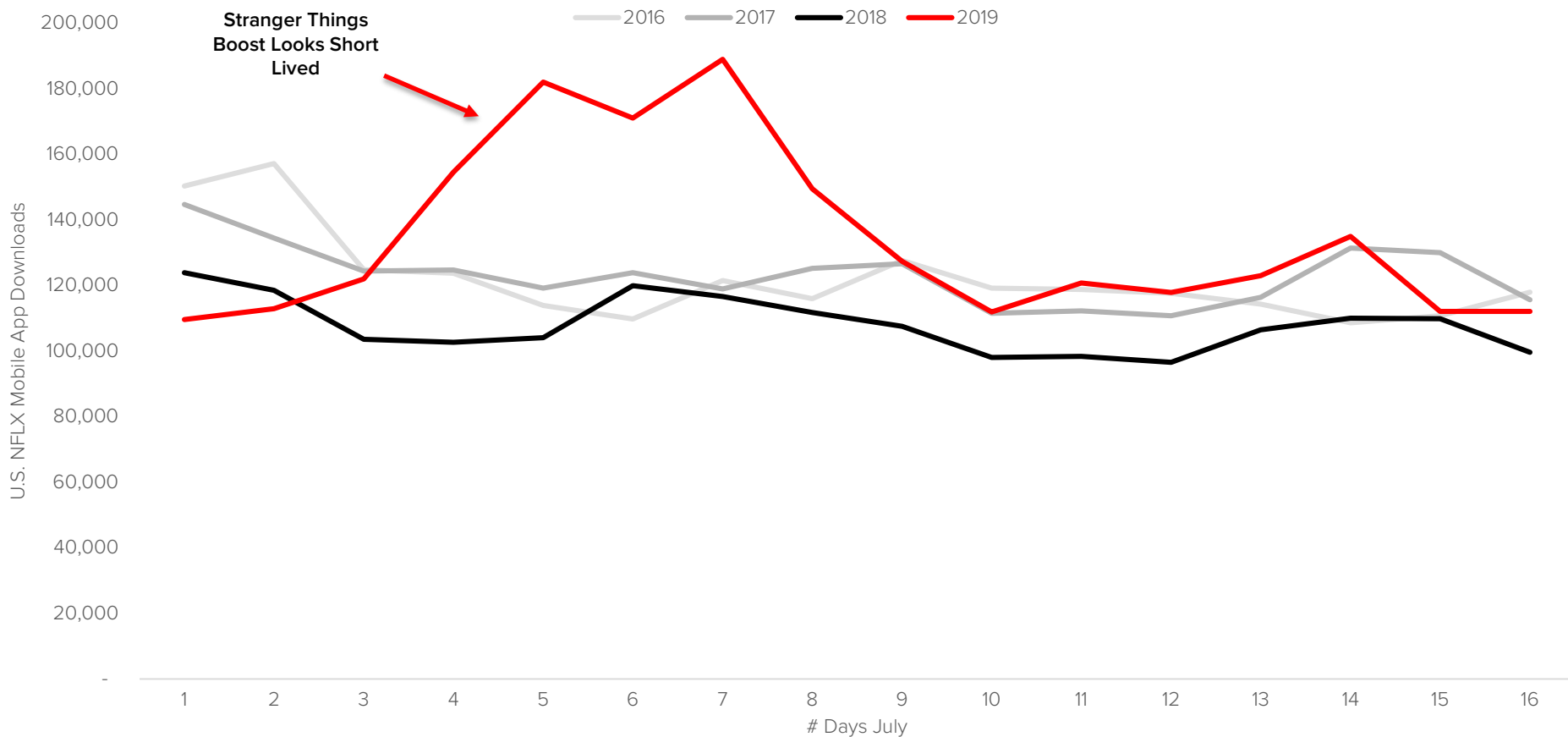


NFLX ORIGINAL TITLE RELEASES VS FREE CASH FLOW



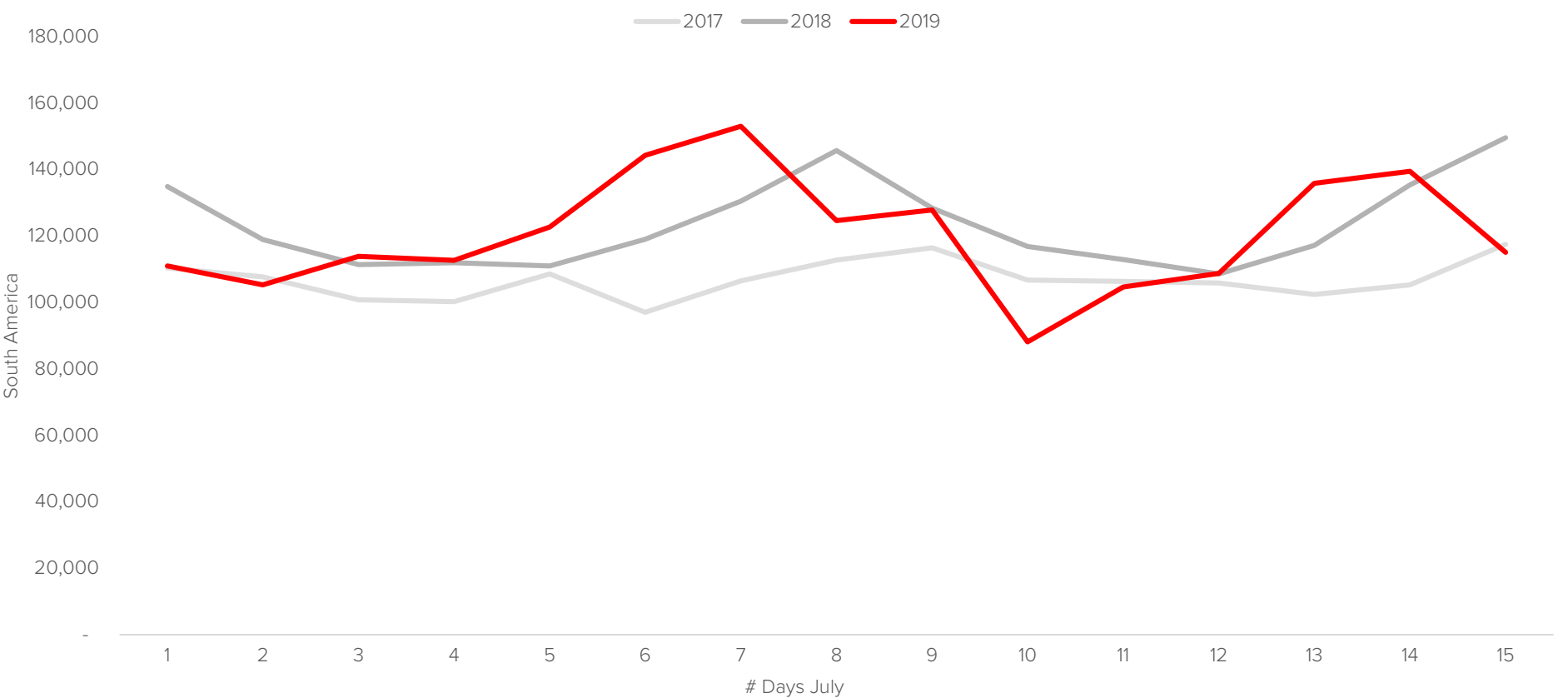
Correlation = -0.86

UNITED STATES NFLX MOBILE APP DOWNLOADS QTD



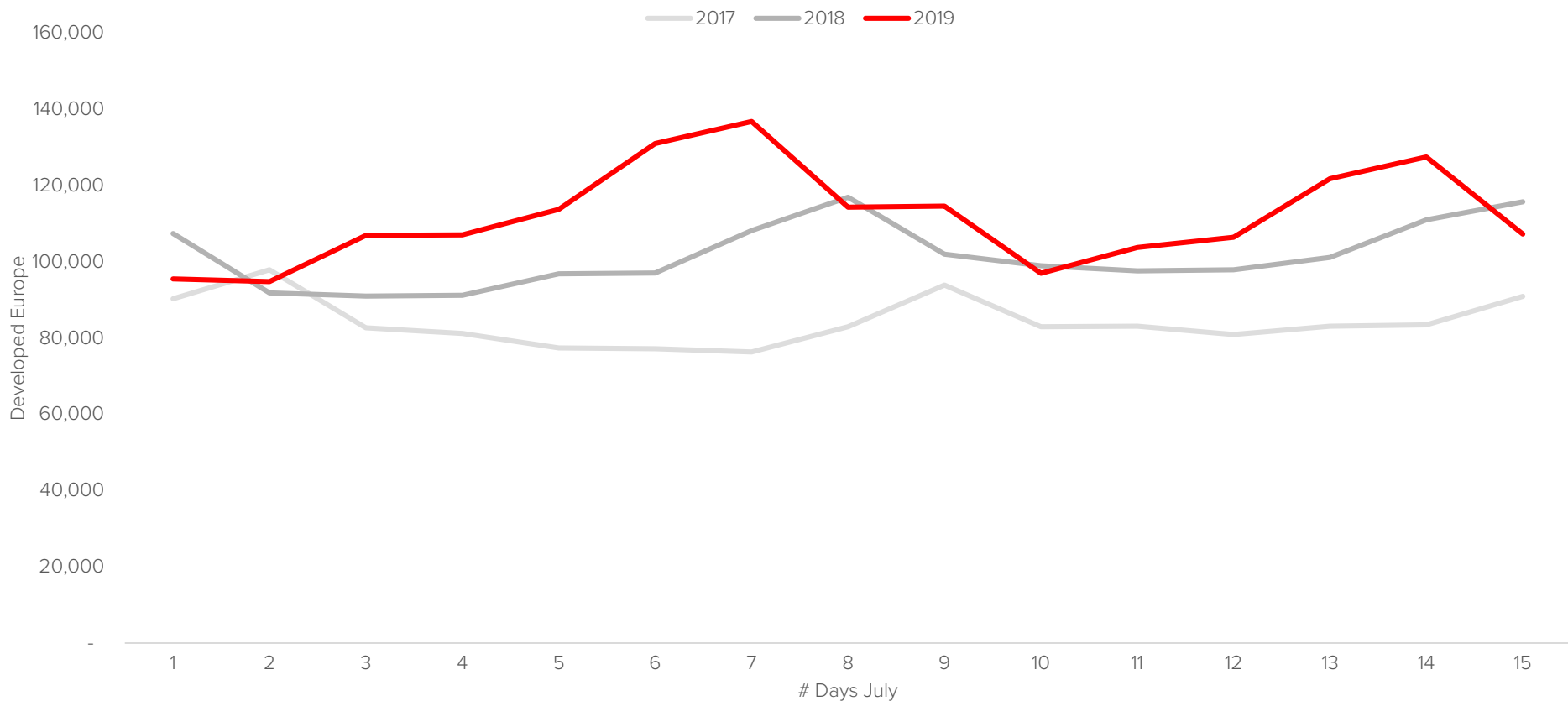
SOUTH AMERICA NFLX MOBILE APP DOWNLOADS QTD

TRENDING -2.5% QTD



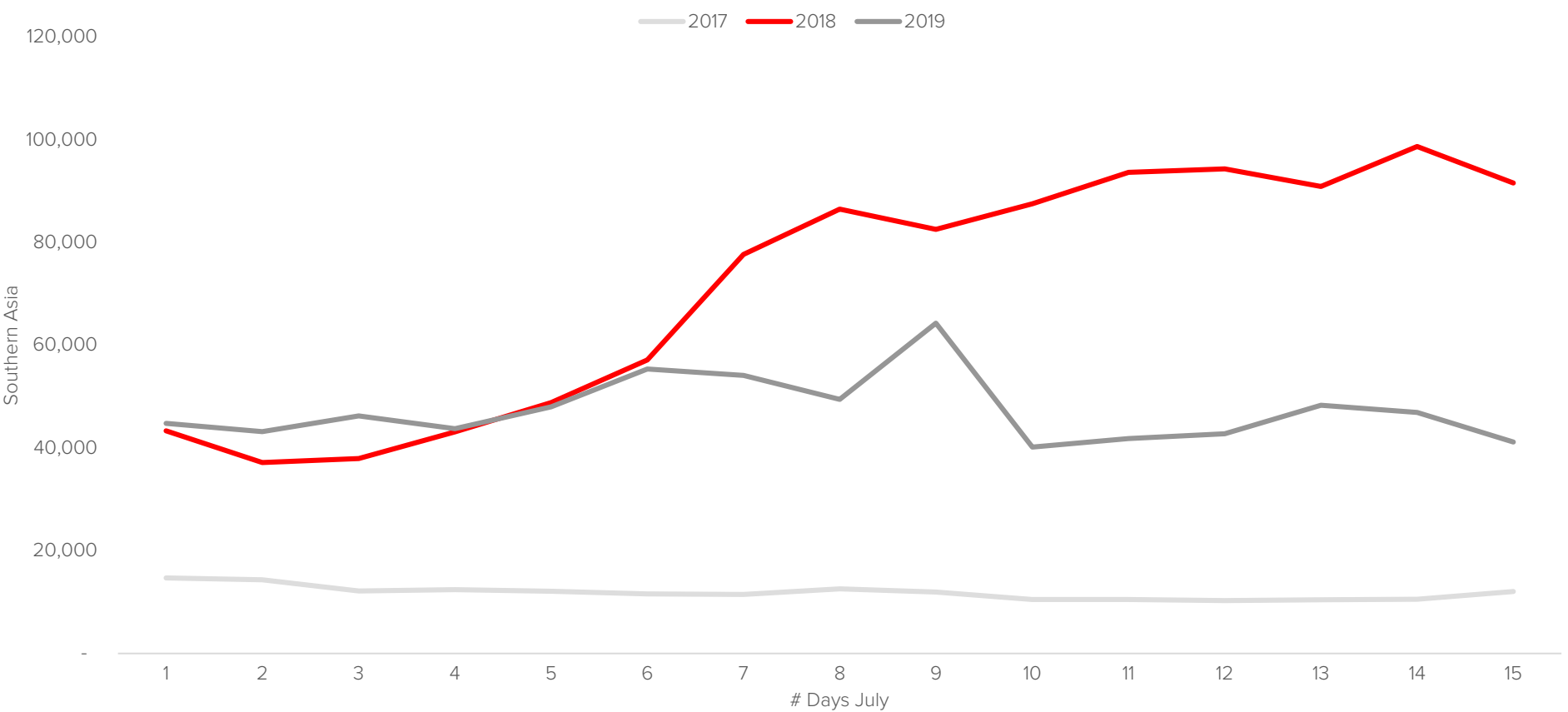
DEVELOPED EUROPE NFLX MOBILE APP DOWNLOADS QTD

TRENDING +10% QTD

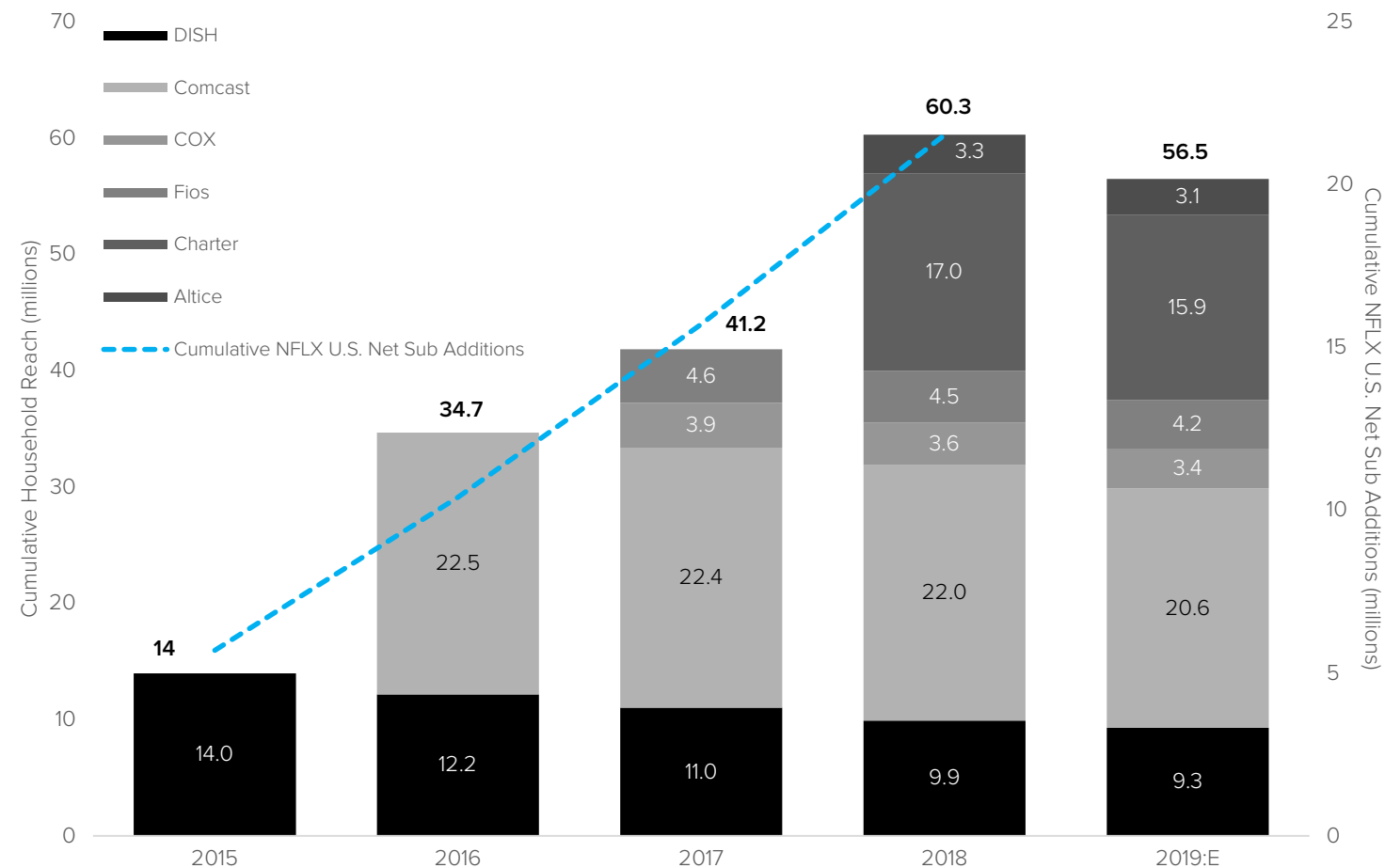


SOUTHERN ASIA NFLX MOBILE APP DOWNLOADS QTD

TRENDING -34% QTD



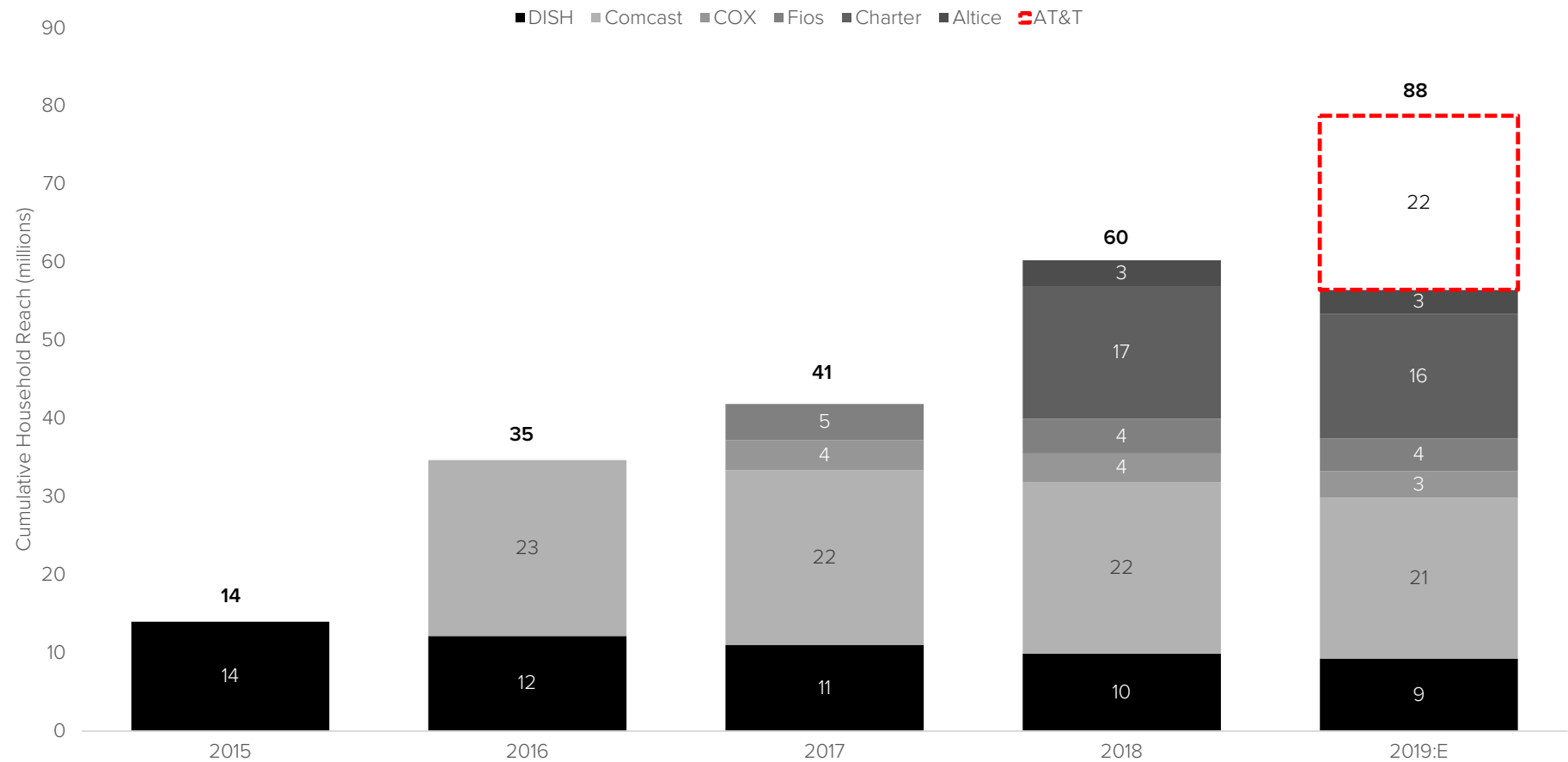
NO NEW MVPD DISTRIBUTION PARTNERSHIPS BEFORE Q2



~63% CAGR in household reach 2015 – 2018 through distribution agreements with major MVPDs.

Netflix (NFLX) has agreements with 6 of the 7 largest MVPDs in the U.S. representing ~60 million video households.

ATT&T PARTNERSHIP INCREASES DISTRO BY ~45%

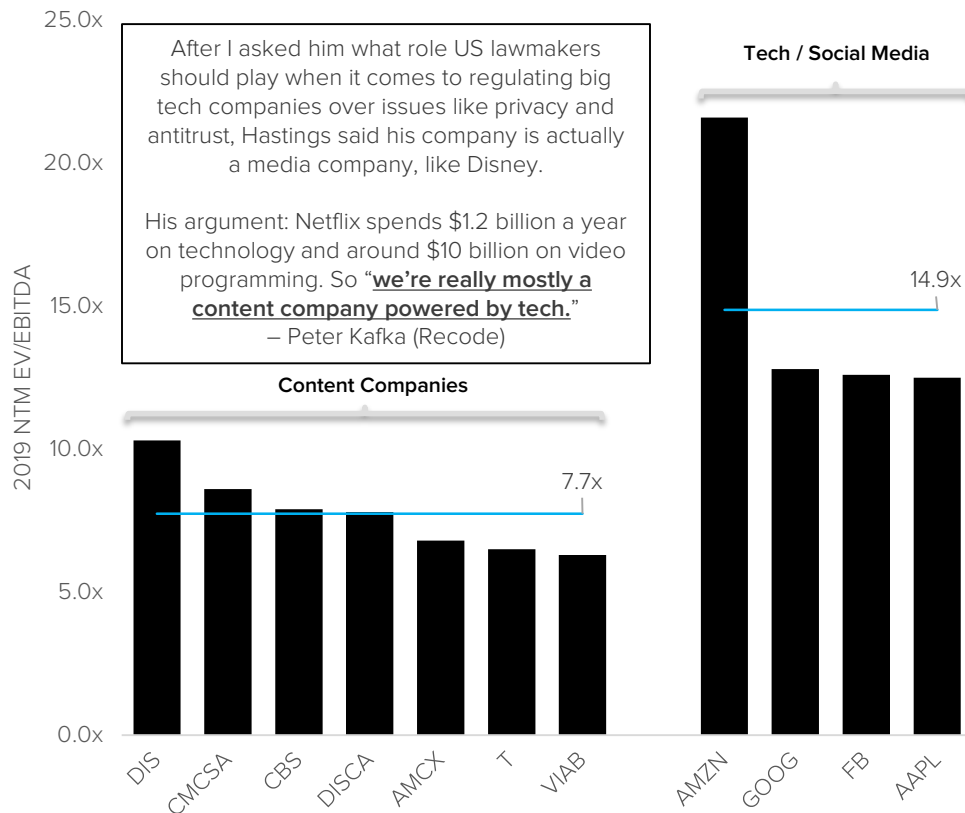


28% OF NFLX SUBSCRIBERS POTENTIALLY AT-RISK

HR3	<i>If the TV show 'The Office' was removed from Netflix would you cancel your subscription? (N=1,085)</i>		
	Yes	147	14%
	No	875	81%
	Don't know / No opinion	64	6%
HR4	<i>If the TV show 'Friends' was removed from Netflix would you cancel your subscription? (N=1,085)</i>		
	Yes	114	11%
	No	918	85%
	Don't know / No opinion	53	5%
HR5	<i>If all Marvel superhero movies, such as 'Black Panther,' were removed from Netflix, would you cancel your subscription? (N=1,085)</i>		
	Yes	242	22%
	No	713	66%
	Don't know / No opinion	131	12%
HR8	<i>If the TV show 'The Office' and all Marvel superhero movies, such as 'Black Panther,' were removed from Netflix would you cancel your subscription? (N=1,085)</i>		
	Yes	300	28%
	No	673	62%
	Don't know / No opinion	112	10%

COMPARABLE VALUATION

Comparable NTM EV/EBITDA



30-60% Downside

Undiscounted	2023 EV/EBITDA Multiple					
	8.0x	9.0x	10.0x	11.0x	12.0x	13.0x
2023 EBITDA (millions)	7,500	\$ 120	\$ 137	\$ 153	\$ 170	\$ 203
	8,500	\$ 138	\$ 157	\$ 175	\$ 194	\$ 232
	9,500	\$ 155	\$ 177	\$ 198	\$ 219	\$ 261
	10,500	\$ 173	\$ 197	\$ 220	\$ 243	\$ 290
	11,500	\$ 191	\$ 216	\$ 242	\$ 267	\$ 318
	12,500	\$ 209	\$ 236	\$ 264	\$ 292	\$ 347
	13,500	\$ 226	\$ 256	\$ 286	\$ 316	\$ 376

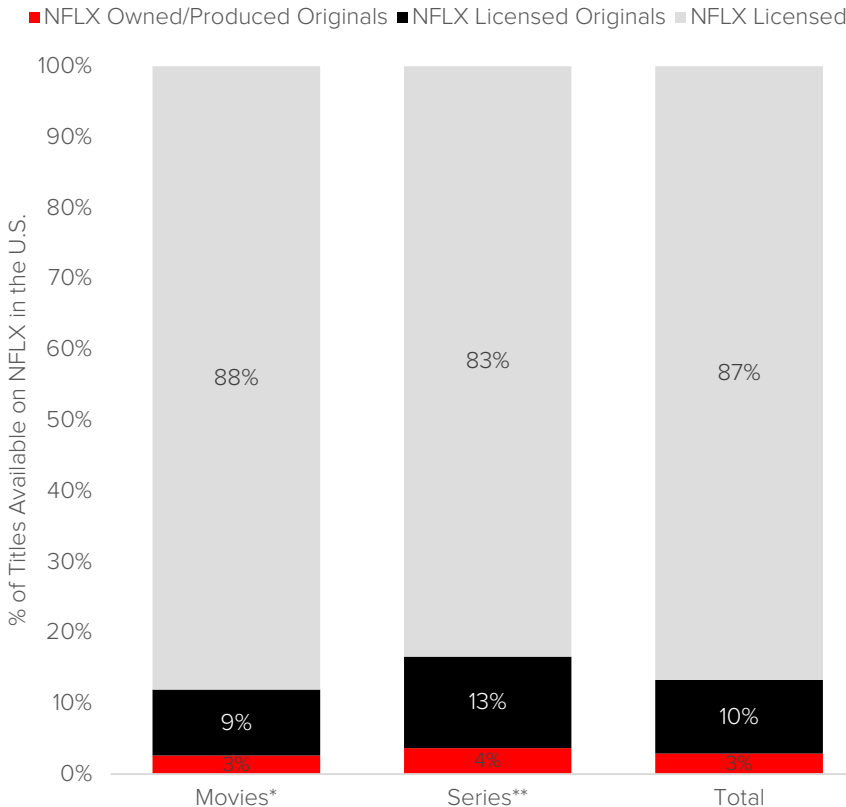
Bear	Base	Bull
\$120	\$231	\$376
-67.7%	-37.7%	1.3%

Discounted 10%	2023 EV/EBITDA Multiple					
	8.0x	9.0x	10.0x	11.0x	12.0x	13.0x
2023 EBITDA (millions)	7,500	\$ 82	\$ 93	\$ 105	\$ 116	\$ 139
	8,500	\$ 94	\$ 107	\$ 120	\$ 133	\$ 158
	9,500	\$ 106	\$ 121	\$ 135	\$ 149	\$ 178
	10,500	\$ 118	\$ 134	\$ 150	\$ 166	\$ 198
	11,500	\$ 130	\$ 148	\$ 165	\$ 183	\$ 217
	12,500	\$ 143	\$ 161	\$ 180	\$ 199	\$ 237
	13,500	\$ 155	\$ 175	\$ 196	\$ 216	\$ 257

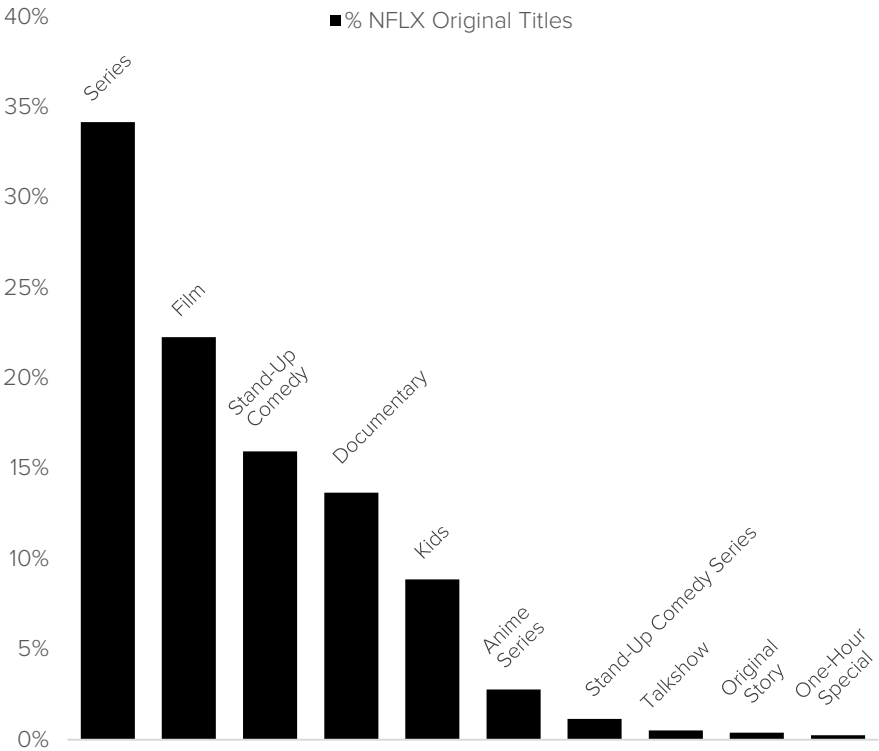
Bear	Base	Bull
\$82	\$158	\$257
-77.9%	-57.4%	-30.7%

CONTENT COMPANY THAT DOESN'T OWN MUCH CONTENT

Mix of Titles by Original Status and Ownership



Mix of NFLX Original Titles by Type



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