Seeking Alpha$^{\alpha}$

Netflix: Priced For (And Beyond?) Perfection

Feb. 3, 2018 3:35 AM ET257 comments
by: Seven Corners Capital Management

Summary

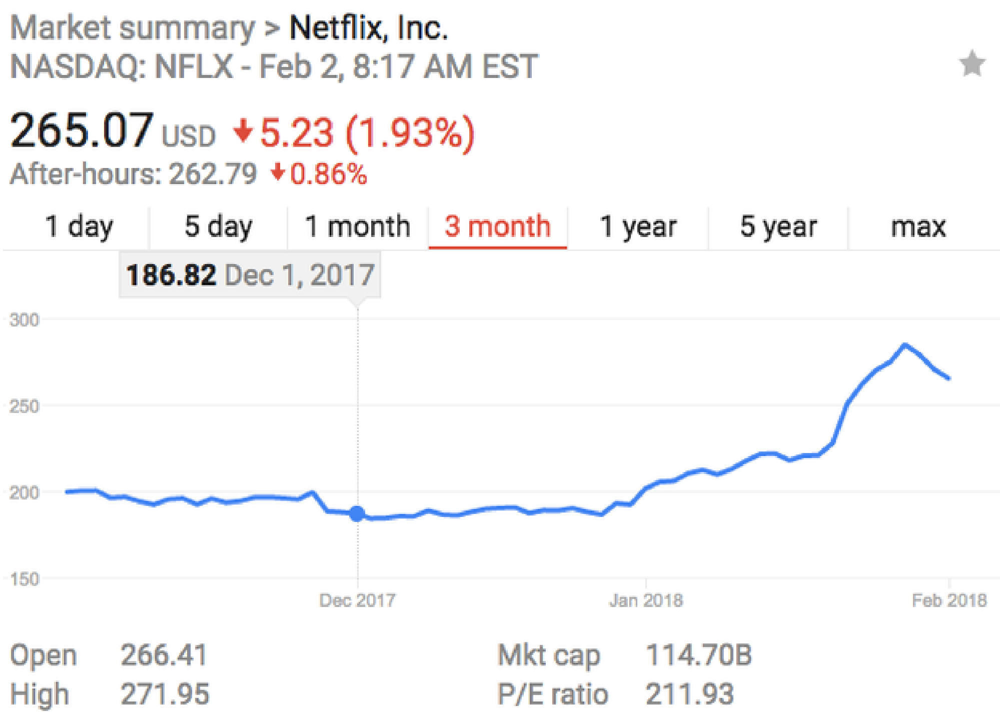
- Netflix has added $35,000,000,000 in market capitalization over the past two months.
- In order to underwrite even a 15% CAGR for the shares over the next five years, earnings and cash flow will need to increase at a massive clip.
- We believe that most (if not all) of Netflix's future success is now baked into the company's $118 billion fully-diluted market capitalization.

> "Blue skies
>
> Smiling at me
>
> Nothing but blue skies
>
> Do I see"
>
> *- Irving Berlin, "Blue Skies" (1926)*

Netflix's (NFLX) stock has lately gone parabolic, increasing from the $187 level just two months ago to $265 as of close of trading on February 1, or up a massive 42% in just the past 60 days. The rapid rise in the stock price naturally begs the question, "Too much too soon?" We believe the answer is a resounding "yes," based on the analysis set forth below.

Market Reaction To Q4 2017 Results

First, take the actual dollar amount of the increase in NFLX's valuation over the past two months, leading up to and immediately following the release of Q4 2017 results on January 22 (see earnings PR here). With a $78 rise in the share price and 447 million diluted shares outstanding (per the company's 2017 10-K filing), simple math tells us that approximately $35,000,000,000 has been added to the diluted market capitalization in the past 60 days, or almost $600,000,000 per day during that period. Note below the parabolic move in the stock during this period:



Now $35 billion is a seriously big number, with lots of zeros (nine, in fact). Something must have fundamentally changed with the company to account for such a massive increase in capitalization, correct? Did NFLX just introduce a revolutionary new product? Nope, it has the same products it had two months (streaming Internet TV and DVDs by mail). Did NFLX announce expansion into a huge number of new territories? No, it still operates in the same ~190 countries that it operated in as of a year ago. Did NFLX add a gazillion new customers unexpectedly when it reported Q4 2017 results? Not really. In fact, according to Credit Suisse, domestic paying customer count at 52.8 million was just 700,000 higher than expected and international paying customer count at 57.8 million was also 700,000 higher than expected. So NFLX exited 2017 with 1.4 million customers, or about 1.27%, more paying customers than expected.

Should a 1.27% "beat" in terms of paying subs really translate into an extra $35 billion added to the market cap (note that this equates to $25,000 in additional market cap per "unexpectedly added" customer)? No, this surely cannot account for the stock price explosion, as no customer has a net present value to NFLX of anything remotely close to $25,000. What about total sub adds during the quarter? According to a Seeking Alpha news summary, "Total streamings adds were 8.33M for the quarter vs. 6.34M consensus." Yet this number includes free subscriptions, which logically should be less valuable than the 1.4 million extra paying additions (versus expectations) referenced above. Again, can one really believe that two million unanticipated incremental customers in Q4 justifies $35 billion in market cap (or $17,500 per customer)?

Perhaps Q4 2017 financial results were massively more impressive than expected, however. Did NFLX record a huge EPS beat in Q4? Negative; at $0.41/share, NFLX actually just met consensus (source here). What about revenues? Again, no. While clearly impressive at up 33% year-over-year, NFLX's $3.29 billion in revenue only beat expectations by a mere $10 million (at three-tenths of 1%, a rounding error). Did free cash flow numbers overly impress? Once again, highly unlikely. In Q4, NFLX had negative free cash flow of $524 million, which was actually in line with the average negative free cash flow of the four immediate preceding quarters, so there was no marked improvement in this metric.

Apparently, the recent bullishness of NFLX longs boils down to rampant optimistic speculation regarding "the future". Management's guidance for Q1 2018 net additions of 6.35 million subscribers and revenues of $3.69 billion lit the fuse that resulted in a stock price explosion up to a recent high of $286.81/share. Longs have apparently decided to focus solely on subscriber counts and pay no heed to the fact that free cash flow for 2018 is now expected to sink to a negative $3 to $4 billion (far worse than 2017's negative $2 billion), based on increased content spending. Nor do they seem the least bit concerned with very real risks regarding their investment, such as increased streaming video competition from the likes of behemoths Amazon (AMZN) (see here), Apple (AAPL) (see here) and Disney (DIS) (see here), and the recent repeal of the net neutrality rules by the FTC (see here). Right now NFLX longs see "nothing but blue skies."

Can We Otherwise Justify Netflix Investors' Bullishness?

For the sake of argument, however, let us assume that none of the known risks (or, rather, "known (but ignored)" risks) actually materialize over the short to medium term (say, the next five years through the end of 2022). Let us further assume there are no "known unknown" risks to fret about either during this period (even though these always lurk). In other words, let's just be blindly bullish for the moment. Can we justify NFLX's $118,455,000,000 market valuation, and if so, how? First, we start with the proposition that a company is properly valued today if it trades at a stable earnings yield of 3.85% (which is the inverse of the S&P 500's current 26X P/E ratio - see source here). This means that NFLX would be properly valued at its current market cap if it had produced $4.56 billion in earnings in 2017 ($118.455 billion divided by 26). Obviously, we know that this did not happen, as NFLX only registered $558 million in income last year. But what really matters is free cash flow, because at the end of the day only cold, hard cash can be returned to shareholders. Yet, free cash flow in 2017 was negative $2 billion, far worse than net income. So no help there either.

There is a ray of hope for longs, though. If one desires a 10% return on one's investment, the Rule of 72 tells us that such person's investment must double every 7.2 years; if one desires a 20% return, it must double every 3.6 years, etc. Given the inherent uncertainty in NFLX's business model and the massive stock gains NFLX longs have enjoyed recently, assume for the sake of argument that a NFLX long asks for a meager 15% return annually going forward on his or her investment. NFLX's current market valuation could then be justified if we could conclude that the company trades at a 13X multiple based on earnings and cash flow 4.8 years from now (72/15 = 4.8), or by the end of 2022. In other words, if we believe that at $265/share we are today buying NFLX at 13X its 2022 earnings/cash flow, we can expect a 15% CAGR between now and then, since the market cap should double by YE 2022. So if we could somehow determine that in 2022 earnings and cash flow will reach twice the $4.56 billion amount referenced above (or $9.12 billion), then NFLX's current stock price could make sense from an ROI perspective.

How likely is this? First consider GAAP net income. Analysts currently expect 2018 earnings of $2.69/share, or $1.283 billion based on 477 million diluted shares outstanding (source here). Thus, to get to $9.12 billion in 4.8 years, earnings would need to increase at a 50% clip over that period (assuming no net issuance of shares, which is highly unlikely). However, we must keep in mind that analysts are an extremely optimistic lot and 2018 earnings estimates will probably come down as the year progresses, in which case the required CAGR will be higher than 50% (perhaps substantially higher). Moreover, NFLX is now capitalizing huge amounts of content costs, most of which will be amortized over the next five years. Even if earnings somehow double in 2018, increased content amortization should put a serious drag on earnings growth thereafter (put another way, current GAAP earnings are being flattered by the fact that NFLX has been capitalizing more and more of its recent spending, but the effect of this should reverse as these costs begin to flow through the P&L statement). Maybe NFLX bulls feel comfortable penciling in well over 50% earnings growth for each of the next five years with no further questions asked, but this seems quite optimistic given the foreboding competitive landscape ahead (NFLX bulls should perhaps recall Jeff Bezos's famous dictum, "Your margin is my opportunity"), as well as the amortization dynamic we have just described.

Next let's look at cash flow. Per the Q4 earnings conference call (link here), we already know from management that free cash flow should be in the negative $3 to $4 billion range in 2018. Taking the midpoint of negative $3.5 billion, NFLX will need to either cut spending or increase revenues (or a combination thereof) by an aggregate amount equal to $12.62 billion by YE 2022 ($9.12 billion plus $3.5 billion) in order to justify a reasonable return for NFLX investors over the next five years from today's stock price. Is this achievable? Looking at costs, it seems pretty unlikely given anticipated continued inflation in content costs (demand for streaming content should exceed supply for the foreseeable future, considering all of the deep pockets moving heavily into the streaming game). As far as revenues are concerned, management has previously targeted a mid-single-digit CAGR subscriber pricing increases, as per the following exchange from the Q2 2017 earnings call (source here):

> **Doug Mitchelson**
>
> So for ASPs, I think in the past you have said that mid-single digit growth longer term is the right way for investors to think about Netflix's pricing potential.
>
> **David Wells**
>
> That's correct. So if you're just looking for clarity there, yes. That's an easy answer.

Therefore, assuming we trust management's prediction, we can expect that 2017's $11.7 billion in revenues attributable to NFLX's current subscriber base to go up about 5% per year. This supplies $3.1 billion of additional revenue in 2022 ((1.05^4.8)-1 X $11.7 billion), which could go a long way towards closing the current year's $3 to $4 billion negative cash flow run-rate. Then there are, of course, net new subscribers. Assuming NFLX can add an average of 15 million new paying customers per year going forward, this would generate a total of 75 million additional paying subs by YE 2022, most of which should be foreign based. If we further assume that each of these new subs pays the equivalent of $12/month in 2022 (up 27% from the $9.43/month average for all subs and up 39% from the $8.66/month average for all foreign subs in 2017), then the incremental sub base should generate $10.8 billion in revenue for NFLX (75 million X $12 X 12). Even assuming that 50% of this new sub revenue falls straight to the bottom line, this $5.4 billion plus the additional $3.1 billion from pricing increases on existing subs still falls over $4 billion short of our $12.6 billion incremental cash bogey described above. If we bump the 15 million annual sub growth figure up to 20 million, we still fall $2.3 billion short of our $12.6 billion target. And the foregoing further ignores the fact that content costs should continue to rise if NFLX adds another 100 million paying subs.

Thus, the NFLX long, even if using our optimistic assumptions and blindly ignoring clear known and "known unknown" risks, cannot find remotely enough incremental cash flow between now and the end of 2022 to support a 15% CAGR for NFLX shares going forward, boding ill for further share price appreciation in the medium term. Moreover, all of the foregoing assumes that the S&P's historically high 26X multiple does not contract over the next five years due to higher interest rates (yet another risk factor for the long case).

Conclusion

Reed Hastings and his team at NFLX have done an admirable job growing the company's streaming business over the past 10 years and will likely enjoy continued momentum for the foreseeable future. However, most (if not all) of this success is now baked into the company's $118 billion fully-diluted market capitalization. Indeed, according to our calculations and despite using extremely optimistic assumptions (little competition ahead, moderate content cost increases, large continued sub growth, no contraction in general market multiples, no further shareholder dilution despite massively negative near-term cash flow, etc.) we still cannot find enough growth in earnings or cash flow over the next five years to justify underwriting even a 15% CAGR on NFLX shares through the end of 2022. Clearly the easy money has already been banked for NFLX shareholders.

Disclosure: I am/we are short NFLX.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

Comments (257)

User 41177265
Don't hurt yourself while coming up short. Fried rich has already figured out what you haven't. Also you completely leave out the aspect that perhaps the market itself has somehow actually undervalued NFLX just prior to its recent ascent and also a year's worth of gain just happened to most high flyers. Don't try to fit it all under one category when it does not. And if you can't figure it out, maybe it is because you can't?!

03 Feb 2018, 03:49 AM

staux
Friedrich's NFLX analysis was evidentially full of flaws and mistakes. He didn't deduct NFLX' content spending in his FCF calculations, which is a fundamental and grotesque error.

03 Feb 2018, 09:49 AM

Alpha Gainer
Put options = can't hurt yourself.

06 Feb 2018, 04:30 AM

Chinalover
Hey User 4117726, can you explain to simple people like me what you mean to say above?

03 Feb 2018, 05:38 AM

User 41177265
Sent you a PM. Let me know what you think.

05 Feb 2018, 11:39 AM

User 41177265
No response from Chinalover. Some get it, some don't. Longs get it.

11 Feb 2018, 03:28 AM

Carl Clarke
Articles like that this are great and useful for value investors but talk a different language than that spoken by Netflix longs. It's obvious to some that the current Netflix valuation makes not one iota of sense using any classical valuation method. But that's not how it's been valued. Its current market cap is just another symptom of the bid-anything-for-growt... This week we saw a small taster of what might happen when someone turns the music off. Once that happens in earnest people will be wondering how they could have fallen for the same old trick and they'll be scouting articles like this looking for the floor prices of the bubble stocks. Hopefully it doesn't do too much damage to Netflix itself. I love the product.

03 Feb 2018, 06:03 AM

Aceinmysleeve
Incorrect. The market is using reasonable and easy to make predictions that fall out of very long running consistent, and even accelerating, growth rates in subscribers and increasing margins. It's just that apparently nobody on this website can do basic math or modelling so they prefer to talk about how the market is crazy.

03 Feb 2018, 08:27 AM

Seven Corners Capital Management, Contributor
Author's reply » "Articles like that this are great and useful for value investors but talk a different language than that spoken by Netflix longs"

The are different groups of longs in the market for any stock. Some are buy-and-hold forever types, some are short-term traders, some are value investors, etc. People are constantly entering and exiting positions. If NFLX stock was only held by "true believers", of course it would never stop rising. However, it's not - logically, most short-term stock moves are caused by short-term traders (they pile in when things look good and they pile out when things don't). Right now there's a mania for "growth" among short-term oriented traders, but these things inevitably pass and the reverse dynamic takes hold - in other words, bubbles inevitably pop.

03 Feb 2018, 08:55 AM

Carl Clarke
Would be great to see your workings Aceinmysleeve.

03 Feb 2018, 09:24 AM

Seven Corners Capital Management, Contributor
Author’s reply » Don't hold your breath!

03 Feb 2018, 09:56 AM

Adam Stich, Contributor
Ditto. I would like to see the model Aceinmysleeve is referring to. Cheers.

Another point worth mentioning about Netflix is that total membership growth rate is slowing down, down from 30% in 2015 to 18% in 2017. Netflix has 17% of the US total population as subscribers (325 million US population/54.7 million domestic subscribers), so I wonder how much more domestic growth is left. I agree with the author: Priced to perfection. I'm short the June 2019 PUT at strike 225, with a breakeven price around $202. Considering the price was $200 only a month ago, the risk/reward is worth checking out.

03 Feb 2018, 11:59 AM

Aceinmysleeve
> total membership growth rate is slowing down, down from 30% in 2015 to 18% in 2017

Correction:

Subscriber growth:
30.27% in 2015.
25.36% in 2017. << not 18%
12.76% in 2018. << author's strange conclusion

Streaming revenue growth:
28.13% in 2015 Q4 Y/Y.
35.28% in 2017 Q4 Y/Y. << declining sub growth is in a regime of significant price increases

Sub growth is actually stabilizing closer to its current 25% because international growing at 40% is now the majority of subscribers so has increasing influence on the fairly stable 10% growth domestic.

Consider that Netflix has existed in the US for 20 years now yet grew subs 10.76% last year. Most of international has had Netflix less than 3 years. The author thinks the overall sub base will grow 12.76% this year and declining from there as a base case. Even his higher growth curve is below any basic regression on the actual numbers. He spends a lot of time talking about how offbase bulls are. Shaking my head..

People should notice that if you can't perform reasonable math, it's easy to be far wrong on modelling growth stocks.

03 Feb 2018, 02:42 PM

Seven Corners Capital Management, Contributor
Author’s reply » "12.76% in 2018. << author's strange conclusion"
"author thinks the overall sub base will grow 12.76% this year and declining from there as a base case"

Totally false assertion - never made any prediction about 2018 sub growth. Did give a hypothetical scenario of an AVERAGE of 15MM sub adds per year for the next 5 years (which is, of course, completely different--never said it was a "base case" either). [NOTE: Also gave hypothetical scenario for an AVERAGE of 20MM over next 5 years. But Ace doesn't want to mention this particular fact - guess it doesn't suit the narrative.]

See how they do it? Just make up straw man arguments to knock down. Intellectually dishonest, but hey...

03 Feb 2018, 02:48 PM

yellowpage
Ace likely earned 10M+ on NFLX. He doesn't care a few pennies paid by SA, why would he share his model?

03 Feb 2018, 02:58 PM

Aceinmysleeve

> which is, of course, completely different

No it's not. Your model is absurdly discontinuous. International growth ALONE was 18.5M subs last year, and it has a 40% Y/Y growth rate. Your 15M, or even 20M gets behind very quickly.

You can try to nitpick how instructive my exact way of showing you how you were wrong, but the real point here is that you are obviously wrong. Deal with the real point.

> NOTE: Also gave hypothetical scenario for an AVERAGE of 20MM over next 5 years. But Ace doesn't want to mention this particular fact

Read my comment again. I specifically did mention it.

03 Feb 2018, 04:32 PM

Seven Corners Capital Management, Contributor
Author's reply » 75MM aggregate additional sub hypo: 2018: +25MM, 2019: +20MM; 2020: +15MM; 2021: +10MM; 2022: +5MM.

Not that hard to imagine, as saturation and competition will both be an increasing drag on sub growth as time goes by.

03 Feb 2018, 07:56 PM

SWinCA
Ace, the author also owes you an apology for the "don't hold your breath" wisecrack

03 Feb 2018, 07:58 PM

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yellowpage
Finally. This is all good. We should know who's wrong 12 months from now.

03 Feb 2018, 10:35 PM

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alphajima
"Not that hard to imagine, as saturation and competition will both be an increasing drag on sub growth as time goes by."

Except, reality shows a different story than this imagination. Growth is accelerating, which is evidence the number of to-acquire subs is larger than the ones you got.

If you do some basic algebra you will discover that the midpoint has not even be reached.

04 Feb 2018, 07:05 AM

Seven Corners Capital Management, Contributor
Author's reply » "Growth is accelerating, which is evidence the number of to-acquire subs is larger than the ones you got"

But so is content spending, far faster than revenues. So what if they can't keep ramping up spending using OPM? Guess what happens to your accelerating growth numbers? That's the whole issue - the only way they get these "accelerating" numbers that Wall Street cheers so loudly about, apparently, is by spending ever increasing amounts of money that they can't generate organically (so they have to borrow).

04 Feb 2018, 05:30 PM

Seven Corners Capital Management, Contributor
Author's reply » In essence, this is the key issue. Wall Street cheers when sub numbers go up faster than expected, but completely ignores the fact that spending also goes up faster than previously expected. How many bulls 6 months ago thought that 2018 FCF would be negative $3 to $4 billion? Probably zero - yet here we are.

So why does it makes sense to cheer future higher revenues yet totally disregard even higher future expenses? It doesn't. That's why the continuous stock price rise is irrational.

04 Feb 2018, 05:32 PM

Seven Corners Capital Management, Contributor

Author's reply » Note that this is pretty much the same irrationality that exists with TSLA longs - the higher the cash burn, the more they seem to like it. Totally the opposite of what an investor should wish for, perhaps a clue that we are near the end of a bull market.

04 Feb 2018, 05:37 PM

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yellowpage

Content growth is at 30% 2017-2018, while revenue growth is at 40%. What's more, they set content budget in reaction to the revenue/sub growth, not the other way around.

Reed said, the cash burning speed is an indicator of their success, meaning they are growing faster than they expected. No, we didn't expect 3-4B cash burn, because we didn't expect they'd grow this fast.

04 Feb 2018, 06:27 PM

Seven Corners Capital Management, Contributor

Author's reply » Wait until 2022 - their cash burn might be up to $10 billion then - yay!!!

04 Feb 2018, 06:32 PM

Aceinmysleeve

If cash burn is at 10B$ that will be awesome because at that time, just like now, it will make perfect sense for those that can do simple math. Cash flow literally is not a measure of business performance in the short-term, that's why GAAP earnings exists in the first place to attempt to compensate for the poorly indicative but simple to calculate FCF. This is basic stuff really.

04 Feb 2018, 09:23 PM

User 41177265

LOL. This has been said for a number of years now . . . NO WAIT, THIS TIME FOR SURE!!!

06 Feb 2018, 03:12 AM

Aceinmysleeve

Yep, doesn't really matter how long it's said for. There's always a long queue of people entering into the comment section that don't really know how to think about investing in stocks (and don't know they don't know).

06 Feb 2018, 04:13 AM

User 41177265

Some small differences that you have obviously missed in your continued gaffe: execution. Musk flounders at it, Hastings excels. TSLA is not actually growing, NFLX is. TSLA can not become profitable, NFLX can; NFLX chooses growth over profitability, TSLA has neither. Other than that, I should really thank you for being on the other side of this holding or else everyone would own it.

11 Feb 2018, 04:44 AM

Aceinmysleeve

I certainly agree with the comment on execution. Netflix is downright astounding in how well they get everything done, frame a message about their business goals and nail it. Elon hasn't mastered it. We'll see if in another 10 years or so, when he gets to Reeds' age, he gets better.

I find it interesting how many of the Netflix bulls here are skeptical of Tesla. Shrug. These are my top two holdings. I'd kill to get Reed on the board at Tesla. I'd also love if Tesla hired Patty McCord who basically established Netflix's corporate culture before she fired herself according to her own principles (or was fired -- not sure). I get the impression Tesla could use some more rockster upper management.

11 Feb 2018, 05:53 AM

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bscott1369

Wow!

Nice job!

Ill take the gains without the explanations. It does defies explanations. But it is what it is!

03 Feb 2018, 06:06 AM

Basman
Great Article BTW.

http://bit.ly/2GHQVX8

03 Feb 2018, 06:36 AM

Seven Corners Capital Management, Contributor
Author’s reply » The largest acquisition Apple has ever done in its entire history was for Beats a few years ago - it paid $3 billion. Apple doesn't do large M&A, never has and probably never will. But now you want people to believe it will pay ~$150 billion (current market cap + control premium) for NFLX???? Nuts.

(And BTW what Apple WILL do with their overseas cash is pays dividends and repurchase shares--which is exactly what they should do with it)

03 Feb 2018, 09:06 AM

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gigaomhere
Apple does not fit with Netflix. its like trying to fit a rectangle into a traingle. We all know what dollywood likes - gossip and rumors and masala

03 Feb 2018, 02:32 PM

Basman
Amazon or Alphabet or AT&T or Verizon will buy Netflix-if Apple does not- if the next recession hit. All these players are not just cash and profit kings but are not afraid to use stock as currency (looking at Verizon).

04 Feb 2018, 09:01 AM

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yellowpage
Why would Netflix want to be acquired? It's doing great and it can easily tap bond market for a few billions a year until it sees diminishing return on increasing content budget.

04 Feb 2018, 12:43 PM

Aceinmysleeve
Being acquired has been my nightmare scenario from 3.5B$ to 125B$ market cap. And of course at this point it is almost certainly not going to happen.

04 Feb 2018, 09:46 PM

Profit Street
Author, I had made similar sorts of calculations when NFLX was hovering around $165 and thankfully covered my short position before it hit $190. Yes, I incurred a loss but I learned my lesson - "Never short a stock just because you think the stock is overvalued" (more so when there is a strong buying momentum). Perhaps, a market wide downturn might aide you, but shorting NFLX might turn out to be unwise at this juncture. From what I understand, all folks who believe in NFLX growth story look at

1. TAM for the global streaming market and project potential revenues from subs growth - very simple back of the napkin calculation at 20% of global audience (assuming an average family size of 4) will lead to potential 380 MM subs. Now NFLX is at 118 MM subs. You decide.
2. Leveling of content spend at some scale (I am not sure what that number is) thereby contributing to margins and earnings
3. Potential revenue sources from amusement parks, comics, merchandise etc
4. Potential merger/acquisition

I did some potential calculations based on the above and decided it would be wise to close my short at the time as I became convinced that NFLX SP will continue to rise. So far I have been proven correct. Thankfully, I closed my short position otherwise I would have been in a world of pain. Just sharing my experience. There may come a day when NFLX can be shorted but I am convinced it is not NOW.

Finally, I am happy for NFLX longs, they projected this right and I was wrong. I stayed on the sidelines although I wished I did not as I have been watching NFLX when SP was hovering around $75 and started commenting on NFLX when SP was in $130s. I should have gone long and reaped some gains in the process. I guess I will continue to stay on sidelines as I share some of your concerns so I am not the best judge of this company.

03 Feb 2018, 07:39 AM

Seven Corners Capital Management, Contributor
Author’s reply » "Never short a stock just because you think the stock is overvalued"

Actually, that is pretty bad advice. Overvaluation is like gravity - a stock can only defy it for so long (assuming there is a liquid market in its shares).

"Potential revenue sources from amusement parks, comics, merchandise etc"

Seriously? Amusement parks and comics??? C'mon man.

"Potential merger/acquisition"

They are now too big (in market cap terms) to be acquired. Of course, they could acquire a content company, but they've never done much M&A. Seems like they prefer to develop content in-house.

03 Feb 2018, 09:01 AM

Joshua Pickett
Thanks for being so open and honest. Im glad to know there are others out there making similar decisions to me and Im not alone. I try to learn from others mistakes as well as my own in order to be more successful in the long term. Thanks again for sharing.

03 Feb 2018, 09:20 AM

Profit Street
I respectfully disagree. I do not think it's a bad advice at all. My thesis is that over valuation alone is an insufficient reason to short. I still stand by it. There is a reason for existence of the quote "The market can remain irrational longer than you can remain solvent."

03 Feb 2018, 09:22 AM

Seven Corners Capital Management, Contributor
Author’s reply » Shorting is inherently dangerous. But if you do short stocks, you should probably select either overvalued stocks, incompetent management teams or frauds to short (frauds are much harder to find, though). You also have to size them correctly. Is NFLX the best short in the market? Of course not - but it looks like a decent hedge for the medium term.

It's virtually impossible to make money shorting stocks in the long term - it should only be done as short to medium-term insurance when the market overall is richly valued.

03 Feb 2018, 09:27 AM

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yellowpage
The market can stay irrational longer than you can stay solvent. I'd never do a short and hold unless it's for hedge purpose. And definitely not going to do it on the best performing SP500 stock in the last decade.

03 Feb 2018, 03:05 PM

Aceinmysleeve
> Apparently, the recent bullishness of NFLX longs boils down to rampant optimistic speculation regarding "the future"

It's always about the future. Why don't you ask physicists about those "laws of gravity".

> Assuming NFLX can add an average of 15 million new paying customers per year going forward

Lol. Clueless.

03 Feb 2018, 08:27 AM

hmcashan13@gmail.com
@Aceinmysleeve Nah your clueless. Rising yields will help you wake up and realize the mistake your making. Why not just buy BA, T, or APPL? The market should be starting to favor value oriented stocks soon, but they are certainly aren't right now so until then you'll be right and making money but for how much longer? Good luck :)

04 Feb 2018, 03:18 AM

Basman
lol.

04 Feb 2018, 11:09 AM

Aceinmysleeve
That's a strange response given it doesn't really relate at all to my comment which had two rather obvious and clearly true parts.

04 Feb 2018, 09:22 PM

User 41177265
stopped reading at "Nah your". Pretty sure there were more typos, errors and gaffs, not only grammatical, but logical ones.

@ Basman and Ace: to think this is the other side of the market. Yeesh!

06 Feb 2018, 03:19 AM

User 41177265
Lol. The typo bug is contagious. "Gaffes"

06 Feb 2018, 03:20 AM

Seven Corners Capital Management, Contributor
Author’s reply » Sorry, bad link was included in the article for the Q4 Earnings PR - here is the correct link: http://bit.ly/2FGQefF

03 Feb 2018, 09:09 AM

Bill in Austin
I've said this before, but it's worth repeating. The reason NFLX has done so well of late is that the fourth quarter was the first that answered a long-standing question: Does NFLX have pricing power? For many years a leading bear argument was "NFLX as a service may be good, but as an investment it's terribly overvalued because they can't raise their prices without subscribers fleeing since subscribers only hang on because subscriptions are cheap".

So what happened? NFLX demonstrated that they can play the same game that Cable TV did out the outset: Offer a useful service for a modest price, get lots of subscribers, and then start ratcheting up the subscription fees. This quarter was the first that new rates kicked in, and yet not only did they grow subscribers worldwide, but the rate of growth is itself moving along at a healthy clip.

If they can continue to grow subscribers even as they raise subscription fees, well then the spreadsheets have to be redone. Do that and you come to the conclusion that streaming will eat everything and that while NFLX certainly won't be the only surviving player in the end, it will be one of, if not the largest winner in this transition. It's also the only "pure play" on this transition.

So how big is the global media landscape? Here's an interesting analysis: http://bit.ly/2FGSwLG If this is true that the global media market will be $2.2 trillion per year (and growing) by 2021, and if streaming will be taking over that market, and if NFLX will be one of the leading, of not dominant, players as we move into the 2020s. Well, then, that changes perceptions somewhat.

03 Feb 2018, 09:29 AM

Seven Corners Capital Management, Contributor

Author’s reply » Streaming won't "eat everything" - that's delusional / magical thinking. Radio didn't replace movies, broadcast TV didn't replace radio, cable TV didn't replace broadcast TV, DVDs didn't replace cable TV, etc. Streaming will be a niche add-on to regular, linear TV - although regular TV will increasingly be delivered through Internet connections (a la YouTube TV).

03 Feb 2018, 10:00 AM

Seven Corners Capital Management, Contributor
Author’s reply » As for pricing power, mid single digits increases on average is certainly good, but can they sustain this level of pricing permanently? Depends on the competitive landscape. How will DIS's streaming package affect them? How will the worldwide rollout of Amazon Prime affect them? What's clear is that if they can't keep increasing pricing, they will be in trouble given how much their content costs are currently skyrocketing.

03 Feb 2018, 10:03 AM

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hankm123
There is also the notion of NFLX content, and how it impacts pricing power in the future. People fail to understand that consumers are fickle and will gravitate to the service that at a given time is providing the best experience. This will impact all players, and perhaps the model will change by necessity from subscription to on-demand. Whatever the case, the notion NFLX has pricing power doesn't hold water, unless its content is "produced to perfection". Another blue sky assumption.

03 Feb 2018, 11:43 AM

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nerd_rage
Streaming is going to divert a lot of the audience for existing media. How could it be any different? There is only so much time people have for radio/movies/TV/social media/streaming.

Radio used to be a major entertainment source. People would gather around their radio in the evenings to hear the latest serial drama. Movies used to be a weekly thing for crowds of kids to see the latest action adventure or Western. None of these things replaced each other entirely but they sure did change the business.

Streaming is going to be far more than a niche. Look at the demographics. Broadcast TV and cable are losing the younger demographic. The older demo will keep them going for a while - with ad-supported broadcast being far more vulnerable since advertisers don't want older viewers. But the writing is definitely on the wall.

YouTube and Facebook will also dominate, but that's a different business. Netflix/ Disney/ Apple/ Amazon will deliver high-quality TV and movies, ad free/paid while YouTube and Facebook take over the advertising business and chase Millennials and younger with stupid, short, cheap, viral content.

And once again, this is all global. Don't think of America at all when thinking of this stuff. Think about some kid with a smart phone in Indonesia who wants to see the latest big show or movie everyone is talking about. That's how you get Stranger Things and Bright as big hits.

03 Feb 2018, 03:45 PM

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nerd_rage
NFLX definitely provides the best experience if you mean, will stream on bad connections (relevant in much of the world) and has a very nicely intuitive interface. Try Amazon, Hulu, CBS All Access or HBO Now if you want to see how not to do it in myriad ways.

As for content, when DIS launches a live-action big-budget Star Wars series and AMZN launches their Lord of the Rings show, maybe NFLX should start sweating. But I haven't seen that yet so it's still only a theoretical threat.

Instead, I see NFLX launching so much attractive content that I've given up trying to keep up and I just add things to my queue faster than I watch them. So be it. I can just get ever more picky about what I watch. I'd love AMZN to get to the point where they are the same but they've still only made two original shows that I think are worth watching (although they do seem to be trying to turn it around.)

03 Feb 2018, 03:52 PM

Aceinmysleeve

For every 1$ in service price increase, Netflix delivers more content than any other service on the planet because of their status as largest subscriber base and their vertical integration. The only thing that keeps them from acquiring the entire market is that it's difficult to price the service at 80$ for people that would pay that, and 10$ for the people that would pay that. Therefore, those that want even more content have to go elsewhere. I've been waiting to see how Netflix unlocks this problem, but I think so far they are happy with how things are going.

03 Feb 2018, 04:45 PM

Seven Corners Capital Management, Contributor
Author's reply » "Streaming is going to divert a lot of the audience for existing media"

That's a lot different than saying that streaming will take over all media (which is basically what bulls argue). Divert = niche. Yes, very true. That's why HBO prospered alongside cable - they found a good niche. HBO didn't put traditional media out of business and neither will NFLX.

03 Feb 2018, 05:34 PM

Bill in Austin
Ok, it will "divert" 80% of the market over the next decade. Let's look at the media landscape. Theaters: In secular decline. Network TV: In secular decline. Radio: Something you have on while driving, otherwise irrelevant. Magazines: Dead. Newspapers: Walking Dead. Books: Niche category. Music: Already dominated by downloads/streaming. Internet: Growing strongly. Did I miss anything?

So all media ultimately gets funneled through the Internet. That's why e-Books have outstripped physical books, and increasingly Theatrical movies are streamed to theaters rather than hauling film cans around.

Media consumption is increasingly mobile and at home. For mobile, streaming is already dominant while it's starting to dominate the home segment too as "cord cutting" accelerates. That's why ad-supported Network/Cable TV is in a death spiral.

The real talent behind scripted productions has already decamped for the streamers leaving traditional broadcasters with 2nd-string talent and increasing reliance on "reality TV", infotainment, and other cheap throw-away content. This is not a sustainable business model since as audience sizes continue to shrink and viewer demographics become less desirable ad rates will continue to decline.

The result is the real money is all flowing into streaming and there's no question that a decade from now today's media "giants" will be shadows of their former selves (think Kodak as an example in another industry) while a new generation of streamers will be the Goliaths. Some in the "old media" world (e.g., Disney) may successfully make the transition, but most will not. That's the secular bull argument in a nutshell.

04 Feb 2018, 10:22 AM

Seven Corners Capital Management, Contributor
Author's reply » "there's no question that a decade from now today's media "giants" will be shadows of their former selves"

Or they will simply transition to delivering their current content to people via the Internet. Is the NY Times irrelevant and a shadow of its former self today? Yes, GOOG and FB have taken a massive share of ad spending, yet their stock has more than doubled since the Internet was invented.

04 Feb 2018, 10:45 AM

Basman
HBO NOW now has 5 million subscribers in just two years. Sevens I think if Disney can destroy Wanda in China then Netflix is no threat to traditional media in near future.

04 Feb 2018, 10:56 AM

Basman
Bill: Reed said he will subscriber to Disney service plus there is room for many services. Amazon Prime video is also their biggest threat

04 Feb 2018, 10:59 AM

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yellowpage

Yes, you miss something. Self-driving car is in the horizon. Why Radio when you can stream? Commute TV time will pick up dramatically in 5 years. And 5G drives the price down too.

04 Feb 2018, 12:50 PM

Bill in Austin

You ask, "Is the NY Times irrelevant and a shadow of its former self today?". You bet.

The "Grey Lady" has been on life support for some time. NYT stock hit its peak valuation in 2002 and has been on a long-term downtrend since, now worth under $4 billion. It and the Bezos vanity press formerly known as the Washington Post are no longer in the journalism business but rather have been reduced to being mouthpieces of their billionaire owners, with most stories being thinly-disguised editorials. The days when "Newspaper reporter" was a promising career option are long gone. A search for "NY Times layoffs" tells the true state of "health" of the "Newspaper of Record".

Yes, ad dollars have moved online, but in this case ad spending really is a zero-sum game because people have only so much tolerance for it and there aren't an unlimited number of "ad impression opportunities" in a day. More bad news for Network TV.

04 Feb 2018, 02:10 PM

Bill in Austin

Basman: I never said there wouldn't be other successful streamers, but rather that streaming would take over other forms of media. Of the traditional media companies, DIS is probably best positioned to make the transition and be among the survivors, but this new era will be dominated by newcomers like NFLX, AMZN, and perhaps AAPL. The key issue is that most people will only subscribe to 2 or 3 subscription services, so if you're not in the "top three" you're one of the also-rans and will be chasing after scraps.

04 Feb 2018, 02:15 PM

Basman

Bill: Time Warner will also be in a best position with or without AT&T. And there is also Comcast and many others outside the US.

04 Feb 2018, 02:21 PM

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yellowpage

Spot on. Bill. Journalism is dead for NYT and WaPo.

04 Feb 2018, 03:09 PM

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yellowpage

Bill. The power users may have 2-3. Most users will only have one. Think about it. Average users may have 2 hours of free time for TV. And Netflix can give you that already. Once a while you may subscribe another service for a show talked too much at water tank. But then you drop it after the season is over. I am doing that to HBO, many of my colleagues are doing the same.

04 Feb 2018, 03:12 PM

Seven Corners Capital Management, Contributor

Author’s reply » Yes, if you don't care at all about live events (sports, news, etc.), perhaps you can live solely with YouTube, HBO Go, Amazon Prime Video or Netflix. However, if you are among the 90%+ of people who do, then you will still need traditional linear TV. So, no, neither the networks nor cable are going to disappear [although they will increasingly deliver their content via the Internet]. But NFLX could lose out to another streamer, as people only really need 1 streaming service at most (and a lot of people don't need any).

04 Feb 2018, 05:23 PM

WMX0102

That 90 percentage is way off. Try again.

04 Feb 2018, 05:35 PM

Seven Corners Capital Management, Contributor

Author's reply » OK - 95% then. :)

04 Feb 2018, 05:38 PM

WMX0102
Wrong. Try again. Also, look at millennials and younger generation xers. More and more people are cord nevers.

04 Feb 2018, 05:59 PM

Seven Corners Capital Management, Contributor
Author's reply » Young people (i.e., college age or right out of college) don't have regular incomes, so of course they will be less likely to be cable subscribers versus NFLX subs. It's a money saving strategy. This obviously changes when they get in the workforce. Most people who have jobs also pay for linear TV b/c ~$80 to ~$100/month (or ~$150 for a cable & Internet package) is not that material of a cost if you make $70K or $80K (or higher).

04 Feb 2018, 06:03 PM

Aceinmysleeve
> Yes, if you don't care at all about live events ..

You seem more interested in arguing smallish points than figuring out the big picture, which you are missing completely.

04 Feb 2018, 09:53 PM

WMX0102
1) Habits die hard. The majority will be so comfortable with streaming only, they won't ever sign up for cable. 2) Most people do not make that much money, especially under 40.

05 Feb 2018, 01:02 AM

Bill in Austin
Correct. Like smoking, if you don't "start young" you'll probably never take up the habit. Plus once you make the switch to ad-free streaming you can't go back. Those addicted to the mind-numbing effects of Network TV are like smokers who've entirely lost their sense of smell and don't realize that they've become walking ashtrays. Stay away from ads for a month or two and you'll be amazed at how irritating any attempt to return can be.

That's why ads continuously skew towards older demographics. Younger consumers will never grow up to be Cable TV subscribers. Like Newspapers, where the average subscriber is 60+, they're in a demographic dead-end.

05 Feb 2018, 07:33 AM

Andrew McKeown
How old are you?

05 Feb 2018, 01:03 PM

User 41177265
@hank:
This "notion" has been at it for 2 decades, have consumers JUST become fickle? Why would the model change? NFLX just demonstrated what you feel is hearsay. Maybe you try something more tangible. See if long time NFLX longs attest that the profits they are making translate into cold hard equity. Better yet, go long and then you can have some yourself. But somehow you figured it out though other "people fail to understand. Laughable!

06 Feb 2018, 03:28 AM

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hankm123
Just took another pass at reviewing this board and saw your post. Delivering DVD's based on customer preference ("on demand") has nothing to do with streaming services and delivery of content. So what do you think is remotely similar to this 2 decade-old model to the one

we are debating today? And once again, I hear the bulls stating, with their chests stuck out, they have been right so how possibly can they be wrong now?

At 110 billion market cap, NFLX is incomprehensibly overvalued. This is far different than being ridiculously overvalued. I only short when we get to the the incomprehensibly overvalued stage. I know I have a big winner.

Note that I am not impugning the accomplishments of longs. NFLX is a great company, and hats off to all of you that have made boatloads of money. But NFLX is no FB, GOOG, AMZN, or AAPL. It has no technological advantage. There are players far beyond DIS getting into this business in stealth mode, and they pay for content with petty cash versus issuing junk debt. You ain't seen nothing yet.

BTW- notice the Chief Content Officer cashed in ~85% of his options (made a cool 25 million net of exercise price). What's that all about? Not an especially strong vote of confidence.

NFLX is a 10-50 billion dollar company. From there, we shall see.

11 Feb 2018, 03:20 AM

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yellowpage
Nobody can buy large amount of content with stealth. And NFLX's tech advantage is so huge that it can stop innovating for 5 years and Disney has no chance to catch up. You don't know anything about tech.

12 Feb 2018, 08:37 PM

Mitch Zeitz
Excellent analysis, imo. Look at TWX for a comp on a mature company that actually has cash profits and is still growing. NFLX is a blue sky story if there ever was one and the valuation is way ahead of itself.

03 Feb 2018, 09:51 AM

Basman
TWX has a brilliant future with or without AT&T (any other merger partners)

04 Feb 2018, 02:22 PM

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kharcoff
Great analysis, however what I never see in any article is the description of big players play and how this affects the current stock price. Netflix is been played by a very simple play where they pump ridiculous amount of money to raise prices artificially (check from ER day) in hopes to create trend and put stock in new price levels to them start selling and collecting profits. What is really disgusting is that they aim at retail (poor > rich) wealth transfer and people in the industry are complicit by not disclosing publicly who is doing the play even thought they could very easily be identified and informed to retail so we could decide to go in the play or against it. Right now there’s a play master and his followers holding big part of that extra 35 billions added with no buyers as he overextended the capacity of retail to buy into Netflix and they are losing opportunities in other trades as they are locked into Netflix till they decide to lower the price considerably and start cutting their position down. What we need to know is what is the real target price will be after this play is over. My guess 226+3-5%, but I’m just a dumb retail investor, so who knows.

03 Feb 2018, 10:26 AM

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hankm123
Completely agree. I have just recently taken a short position, and in reviewing the trading activity, it sure seems strange for a large cap stock with 470MM in float. It seems to have the feel of a smaller cap stock. I think it is due to the fact that many institutions bought NFLX a long time ago and sat on it. They have made a fortune, but now they are sitting with positions where it would be impossible to get out at this price given the average volume. They are sort of a victim of their own success.

So "active float" is a lot smaller than what is indicated. But at some point, one-by-one, these tutes are going to enter the market and sell NFLX. The trigger will be the realization the run is over and the price must come down. This could get interesting. I agree the retail investor has been getting screwed, and forget what they have done to shorts.

03 Feb 2018, 11:40 AM

Seven Corners Capital Management, Contributor

Author’s reply » The analysts are complicit - as soon as earnings are released the go into massive pump mode, all simultaneously raising their price targets, stressing sub growth (but barely mentioning cash burn) as if this is the holy grail forever, etc. Why do they do this (i.e., why do they completely fail to objectively and rationally analyze the company's results)?

B/c they want to underwrite NFLX's future equity & debt issuances. Same thing happened during the tech bubble - when the bubble pops and people that followed their terrible advice lose money, the same analysts will simply disappear (they don't care about investor losses, they and their employers will already have gotten paid handsomely).

03 Feb 2018, 12:44 PM

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hankm123
I am in 100% agreement. I contend that NFLX's insatiable appetite to issue debt (which is junk quality) is the core kernel that explains everything. How much debt do the other FAANGS have? I believe ZERO. But NFLX's future success is entirely dependent on debt. WS underwrites it, cheers NFLX on, and the bubble grows.

More the more things change.......

03 Feb 2018, 02:14 PM

Basman
Imagine NFLX becoming $200 Billion market cap with revenues smaller than the Facebook, Amazon, Alphabet, Apple, Microsoft. Now that will be bubble waiting to burst in the next global recession.

04 Feb 2018, 09:05 AM

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kharcoff
I also suggest the author to write an article about to educate investors on how big hedge funds do their pump and dump plays. Good examples Eiinhorn and Icahn comes to mind. Education is key.

03 Feb 2018, 10:28 AM

Seven Corners Capital Management, Contributor
Author’s reply » Icahn sold his NFLX stake around the $100/share range! He owned 38.8 million shares (split adjusted) as of mid-2013, sold them off by 2015. Would be worth over $10 billion today - so he'd be over $6 billion richer today if he had held. Guess he botched that pump.

http://read.bi/2FIuRdL

03 Feb 2018, 01:02 PM

Aceinmysleeve
Icahn got in exactly when I did. But it wasn't his idea, it was his son's, and everytime Icahn was interviewed about the subject it was clear he had no idea what he was talking about. He wanted out so bad, and his son wanted to stay so bad they created some variety of specific financial arrangement within the fund to allow for it. Icahn also was a complete disaster in his effort to save Blockbuster. And of course, Einhorn, Chanos, Ackman have all been fairly useless these days.

04 Feb 2018, 09:53 PM

Seven Corners Capital Management, Contributor
Author’s reply » Yes, he screwed his son over by not renewing his contract. Poor Brett - but he made about $250MM or something, so...

04 Feb 2018, 10:49 PM

WMX0102
Brett will survive.

05 Feb 2018, 01:21 AM

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hankm123

Completely agree with his analysis. And I now understand why NFLX traded in the green until AH yesterday while the market tanked. It appears to have been due to this crazy notion that Apple would spend its hard-earned cash on NFLX. No way would they do this. Some time back, Cramer even said that he was sad about NFLX's market cap because it had grown far too high for anyone to buy. He agrees that NFLX would be a perfect fit and would create the "content king" of FAANGs, but it would have to make economic sense and doesn't due to valuation.

Anyway, there has been a long standing battle between longs ans shorts on the subject of valuation. Longs have cleaned shorts' clocks, but that was during an unparalleled stock market expansion where valuations have moved into thin air. Friday's plunge in the market is IMO the start of a correction. For NFLX longs and shorts, I suspect the next few weeks will be the ultimate "gunfight at the OK corral". It will be very interesting. I am on the short side, but only until the price reflects a reasonable valuation, which is in the $180-$200 area. Then NFLX gets bought. It is a great company.

03 Feb 2018, 10:54 AM

Guraaf, Contributor

Apple and Disney will make no dent to international subscribers and even in the US I think most people will pay for all services. They will not cancel Netflix to sign up for Apple or Disney. Netflix will have the largest content library so that will stay. You will add other services if you have money and desire.

Netflix can raise the prices per month by $2 and nobody will cancel subscription. That will be all free cash flow.

03 Feb 2018, 11:13 AM

Seven Corners Capital Management, Contributor

Author's reply » "Netflix will have the largest content library"

They don't own the vast majority of their content. They are simply a middle man (just like the cable companies!) That's why they are in hyper-spend mode, to try to build a content library before the owners of the content currently on NFLX yank it off their platform. For example, DIS (and FOX, if DIS/FOX deal goes thru) content will soon be leaving NFLX. The real question going forward is whether NFLX has the core competency of consistently producing great content on their own - maybe yes but maybe no.

03 Feb 2018, 12:50 PM

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nerd_rage

NFLX and DIS can coexist comfortably, even with AMZN in the wings. Households will subscribe to 2-3 services as long as they are so cheap, add them all up and they still don't touch cable's extortionate rates. AAPL remains to be seen.

03 Feb 2018, 03:54 PM

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nerd_rage

Have you seen the latest broadcast TV season shaping up? They've entirely given up now. It's all a bunch of boring reboots because they've lost so much audience, they are desperately trying to hang onto whoever is left via nostalgia. That's a sign of a business that is going down the tubes.

NFLX won't have to worry about licensing content too much longer because the content sources are going to dry up or be diverted to some other streaming services (Fox/ABC/Disney/Hulu, all folded into one for instance). We're headed towards a world where a handful of giant global streaming services make almost all the worthwhile content exclusive for their own use, and licensing becomes an afterthought.

To date, NFLX has demonstrated a strong ability to make compelling content, especially compared with the boring wasteland that broadcast has become. They're also tapping into a licensing source that domestic broadcast and cable hasn't made good use of: foreign productions, not reboots of foreign productions. That market will probably get hit by streaming competition eventually just like domestic is getting hit, but it will be good for several years more before the axe falls. Even then, if NFLX wants, say, Berlin Babylon from Germany, they could hire the people who make shows like that to work directly for them.

03 Feb 2018, 03:58 PM

WMX0102

That's not completely true. Reed said on the most recent earnings call that the marvel shows on Netflix are exclusive to Netflix.

04 Feb 2018, 06:41 AM

Basman
Iger will push Apple to buy a stake or all of Netflix.

04 Feb 2018, 09:06 AM

WMX0102
No, he wont.

05 Feb 2018, 07:20 AM

Wez
Agreed, short NFLX.

03 Feb 2018, 11:40 AM

kharcoff
One flip of a switch and Netflix stop working on any apple device, do you have any idea of what will happen to Netflix then? Just the cancelling of auto play in Safari and YouTube already made a huge dent on Google. Understand ecosystem in the tech space to see who really holds power.

03 Feb 2018, 11:53 AM

Seven Corners Capital Management, Contributor
Author’s reply » All of NFLX runs on AMZN's AWS too - AMZN could do serious damage to NFLX if they wanted to.

03 Feb 2018, 12:47 PM

Basman
nice one guys lol.

04 Feb 2018, 11:16 AM

yellowpage
You have no clue. AWS alone is worth more than NFLX. Why would Amazon kills AWS reputation to help prime video? Such a move will cut Amazon stock price in half.

04 Feb 2018, 12:56 PM

alphajima
Not all runs at AWS. The whole networking stack over which content is delivered is not. Netflix has thousands of pops worldwide, and every major ISP houses lots of Netflix equipment to get their content to end users as efficiently as possible.

04 Feb 2018, 02:32 PM

WMX0102
It wouldn’t.

04 Feb 2018, 05:35 PM

User 11363561
While the analysis is correct from a pure streaming perspective, it forgets to mention why NFLX is in the red, and what they are doing with the money. NFLX is transitioning to a content company, and it is outspending AMZN and HBO on content production by ~2x to 4x.

The right (and right to) content combined with owning one of the world's best international streaming distribution platforms puts them in a position to grow both subs and increase ARPU more effective than anyone else.

And on a subjective point (as a moderate/picky AMZN, HBO and NFLX video consumer), I have seen a massive jump in both quality and quantity of their original content in the last 24 months and think their investment strategy in high quality content will pay off. They will be able to raise prices, introduce new higher priced tiers of services and continue to grow subs, as well as even more becoming an attractive acquisition target for the "big guys". Just to compare: HBO $15/month vs NFLX $11/month, NFLX is much more value for money already today.

Content has been, is and will remain king. Just take a look at the telco's and cable companies and their recent moves.

03 Feb 2018, 01:40 PM

Seven Corners Capital Management, Contributor
Author’s reply » "think their investment strategy in high quality content will pay off"

You are betting that a bunch of SF-based tech guys will know how to better produce content than DIS, FOX, etc., who have been successfully doing this for decades. Hastings is a computer coder by trade - does he know how to consistently produce hit shows & movies? Can he identify those that do better than people like Iger? Just throwing gobs of money at something doesn't guarantee future success.

And even if he is successful, it's already largely baked into NFLX's stock price. So where is the huge upside? Seems like either modest upside or large downside remains, at least for the next 3-5 years.

03 Feb 2018, 02:20 PM

Seven Corners Capital Management, Contributor
Author’s reply » CMCSA market cap is $192B.
DIS market cap is $164B.
FOXA market cap is $68B.
NFLX market cap is $118B.

Again, where is the massive upside? How is a massive cash-burning machine that owns very little of its own content (aka NFLX) magically supposed to be worth more than DIS or CMCSA?

B/c it is growing subs quickly? The reason NFLX is so popular is b/c it gives away its product for less than the cost to produce it. If you open a convenience store and charge people 90% of your product cost (so you have negative gross margins), you will obtain a lot of very happy customers very quickly. However, if you charge an appropriate price for the product or service you provide, your customer growth will be much tamer.

03 Feb 2018, 02:29 PM

Seven Corners Capital Management, Contributor
Author’s reply » FYI - HMNY is trying to execute a similar "Sub growth is the only thing that matters" narrative right now. Founded by a NFLX co-founder. Very similar narrative - burn money today (and tomorrow), figure out to make money via scale many years from now. No doubt all the analysts will be cheering them on too.

03 Feb 2018, 02:36 PM

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nerd_rage
The SF-based (actually Los Gatos based) tech guys are doing a fine job. Who says that LA is the only source for knowing what the world wants to consume? And NFLX opened an LA office, so they can tap into that expertise if needed. They already are tapping into the production expertise. Their big hits are all pretty much Hollywood fodder. It's just that NFLX rather than some studio is writing the check. The only different is the name on the bank account and the logo at the start.

03 Feb 2018, 04:05 PM

Seven Corners Capital Management, Contributor
Author’s reply » "It's just that NFLX rather than some studio is writing the check. The only different is the name on the bank account and the logo at the start."

Thanks - you just agreed that NFLX has no competitive advantage producing their own content vis-a-vis DIS, FOX, etc. Glad you bulls occasionally are wiling to admit the obvious!

03 Feb 2018, 04:54 PM

yellowpage
They pay the same price for the same content. But their superior data makes hits rate much higher. Remember Stranger things were shopped to 20 Networks before Netflix? One man's trash can be another man's gold, finding the right niche audience is hard. Most don't even have the tech background to try. See HBO.

That's a huge advantage. Competitions need to pay twice, three times to get the same number of hits.

03 Feb 2018, 05:10 PM

Seven Corners Capital Management, Contributor
Author's reply » What constitutes a "hit" on a service where they force feed you stuff? Of course people will be much more likely to watch whatever NFLX management decides to push to the front of people's queues.

03 Feb 2018, 05:23 PM

Aceinmysleeve
> The reason NFLX is so popular is b/c it gives away its product for less than the cost to produce it.

This isn't remotely a defendable position. I'm not nitpicking here. This is a basic and fundamental failure.

03 Feb 2018, 05:33 PM

User 11363561
All valid points. Here's my view on why I think the content investment strategy is very likely going to paying off in creating even more value:

1. They have superior and real-time insights in what their customers want to watch (more than anyone in the industry today, including DIS, FOXA, and even CMCSA has an USA-only view). As you said they are a bunch of coders, so analytics and intelligent software is a piece of cake for them.

2. The initial "try-outs" of creating content are a success so far, especially when considering the lack of experience they have in this area. Betting big on this success is probably the next best step for them in my opinion.

3. The investment strategy of $7B-$8B in creating new original content enables them, as pointed out by others, to easily sign up the best creative minds in the industry.

The combination of running international streaming distribution platform plus deep insights in their customer desires plus ability to invest with/in creative people on new original content gives them a strong "unfair" advantage vs T, VZ, CMCSA, DIS, FOXA etc.

Put in another way: I think it'll be easier for NFLX to develop new popular content vs DIS building a new similar streaming distribution and analytics platform.

Jacking up the monthly subscriptions yet not suffering so far from churn is a great additional proof point on how well they understand their customers using their insights. I am sure that was not a decision they took lightly.

Good luck on your short position, it'll be interesting to see how things go from here!

03 Feb 2018, 05:33 PM

Aceinmysleeve
I don't think Netflix has the ability necessarily to improve the odds of picking which script is more likely to end up with a good show or not. I feel like most of their stuff is solid B, few A-'s, almost no A+'s. That seems to be a very hard to quantify 'artistic' effort, although Sarandos seems to have good judgement, and Netflix is consistently poaching all of the top talent from their dying competitors, including Disney's own Shonda Rimes, but also most of Fox's top players (and getting sued for it out of desperation which will fail in California). They also benefit from being known to pay far more than average for productions (typically buying out all back royalties though, but guarantees profits up front for producers), and also to bring more viewership to a piece of content than anyone else because of their superior reach which helps generate reputation for those making it (I feel bad for the people that made decent shows for Amazon which get tiny numbers of viewers). Of course, Netflix is now #2 in most award circuit totals after only 6 or so years of effort with a major upward momentum.

The real advantage for Netflix is the context they put content into. The large global reach and superior recommendation mechanism for merchandising the right content to the right people wherever they are on the planet. Nothing like this exists anywhere else, and anyone with sense notices these advantages and makes money from intangibles like this rather than obsessing over the sheer size of competitors stuck with old and dying business models.

03 Feb 2018, 05:34 PM

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yellowpage
Why don't you open your eyes and check IMDB and Google trends. If you can't even tell what's a hit, you are in the wrong business.

03 Feb 2018, 05:34 PM

Seven Corners Capital Management, Contributor
Author's reply » Already have, yp. Go look up "Bright" on Google trends - it was such a "hit" that interest in it completely collapsed two weeks after it was released. Some "hit" - nobody cares about it today.

03 Feb 2018, 05:40 PM

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yellowpage
@Ace, you underestimate the power of tech. For pitches, they'd get at least a script. They can let AI parse the script and use deep learning to estimate the size of audience, even recommend the directors and leading actors. There can be misses, but it's quite accurate overall with the number of shows they are commissioning. And it gets even more accurate overtime.

03 Feb 2018, 05:52 PM

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yellowpage
http://bit.ly/2FHDtRK

This show your ignorance, see how last jedi is? When Bright is 90% as big as a movie of the Last Jedi. You know it's game over for Disney.

03 Feb 2018, 05:58 PM

Seven Corners Capital Management, Contributor
Author's reply » "When Bright is 90% as big as a movie of the Last Jedi"

You didn't search for the right "bright", yp - talk about ignorance...
http://bit.ly/2FJKCBk

03 Feb 2018, 06:02 PM

Seven Corners Capital Management, Contributor
Author's reply » ...or try this one - http://bit.ly/2GGXadQ

No comparison - Star Wars had about 5X the interest as Bright.

03 Feb 2018, 06:03 PM

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yellowpage
Well, you are right there on the search term. But again you are totally wrong on "in it completely collapsed two weeks after it was released." Last jedi does too.

03 Feb 2018, 06:11 PM

Seven Corners Capital Management, Contributor
Author's reply » yp - Star Wars was released first yet currently has 8X the interest as Bright. Bottom line - Bright was a dud - people watched it mainly for the novelty effect of seeing a NFLX original movie for the first time. Let's see if they make a sequel - Star Wars is on its 8th installment and still has massive interest.

03 Feb 2018, 06:15 PM

yellowpage
It's the same curve, the interest drops in the same pattern. So this is simply normal for blockbuster movies, and not just Bright.

You showed the ignorance of not knowing how to use a control group.

03 Feb 2018, 06:18 PM

Aceinmysleeve
Google searches always 'collapse' a couple weeks after something is released. Your qualitative statement means nothing.

Bright has 1/3rd the ratings on imdb as Star Wars: Lest Jedi which cleared 600M$ globally despite Star Wars being a better movie and probably the biggest movie franchise on the planet. All of Netflix's content reaches huge audiences. Hulu's breakout award winner Handmaid's Tale has about the same ratings on imdb as a middle of the road German language series called 'Dark' on Netflix.

What exactly are you trying to accomplish here?

03 Feb 2018, 06:31 PM

bcpietsch
wow- this s tiresome kind of banter that turns seeming reasonable author into his own troll (still liked main premise which is a p/e of 300 or so seems bubbly .. a few great inputs from side contributions show why seeking alpha is worth reading commenter section but officially at tiresome and can’t keep up w crazy.. shorting oberon is easy money at times but i dislike it fundamentally as it’s easier to trash something than to build new thing and NFLX is overcompensated as world has only a few new exciting cos. and while FAANG is media creation that’s no service to anyone except it defined who are disrupting tech and media cos. it’s a nice side benefit that NFLX, AMZN, COSTCO, AAPL, GOOG (‘mostly) have improved lives of avg person in power and knowledge if not sized more ADD (FB i m not sure think net negative despite disruptive tech)

Too many analysts now have read the forward of every book and not one whole book lol..
. fwiw - i think it’s worth 190-200 (I got this far down the thread but the commenters gave me enough pause to agree that shorting isn’t a wise move here - land yes / i dislike shorting as it’s easy to tear down smart good cos. NFLX socially is making a difference by its programming emphasizing mostly positive, socially liberal.content, so it’s doing more than making money - it’s changing minds to a far more int’l and I think empathetic humanity —as do other cos I admire - tho some still employ sweat shops to build HW that I abhor - not fooling myself thinking plutocracy is a good thing but least helps when company innovates and uses its clout to reach lots of minds n int’l vision is impressive thing here..

05 Feb 2018, 12:45 PM

Cyril R.
Pretty much all bulls and bears understand that the stock is now overbought. The two most likely scenario's are a correction down, and a pauze.

The bulls can claim that the stock will recover after the correction or pauze.

The bears can claim that this is a classic case of "the top blowing off" providing the prelude to a prolonged bear movement.

Bulls can sell now, take profit, and buy back later at a lower price. Or, if it is a pauze, they can buy back at the same price, while avoiding the correction risk.

Bears can stay away or short.

My issue is with the hogs, who claim to be bulls but don't appear to understand stock technicals very well.

03 Feb 2018, 02:32 PM

hankm123
You want to seeTA that will blow your mind? See below

https://invst.ly/6g812

03 Feb 2018, 02:42 PM

Cyril R.
Hi Hank,

That looks like what the Bitcoin chart looked like - a couple months ago...

03 Feb 2018, 02:49 PM

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yellowpage
Well, for bulls like me. The tax is bigger than a correction can lead and nobody can predict the exact top and bottom. I am not gonna sell unless the story changes, which is not happening in the next 5 years.

03 Feb 2018, 03:19 PM

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hankm123
They call that a "parabolic curve sell signal". One of the least-triggered sell signals, yet one of the most reliable. Note downside=$204 area.

03 Feb 2018, 04:32 PM

Seven Corners Capital Management, Contributor
Author’s reply » "the story changes"

It's all about "the story", isn't it? As long as everyone "sticks to the story", it's all good. Exact same thinking as with TSLA bulls - nevermind the immense cash burn (see no evil, hear no evil).

03 Feb 2018, 05:21 PM

Aceinmysleeve
> Exact same thinking as with TSLA bulls

That's a weak rhetorical tactic and even factually untrue. I think I'm the only bull here that actually likes TSLA too, most of the others have specifically said they don't. But even I would say that Tesla requires more story-telling. Netflix is really a simple math problem that people such as yourself struggle with anyway.

03 Feb 2018, 05:34 PM

Seven Corners Capital Management, Contributor
Author’s reply » "simple math problem"

Where's your model Ace? We are all waiting...patiently.

03 Feb 2018, 05:41 PM

Cyril R.
Yes, this is very astute - it IS all about the story. If you believe that subs growth will continue on an exponential pattern for the forseeable future, then NFLX is a bargain. If you think it will saturate, or if any other part of the story - net margins, competition, content dev. cost, take your pick - is not true or at least unlikely, then NFLX becomes a risky stock at best. It could just run out of money.

I think this has bifurcated the camp between hogs that see no risks and clear sky growth, and very negative bears who see all sorts of risk. There don't seem to be a lot of neutrals or bulls with a more nuanced viewpoint.

The hogs have so far won. The question is where does it go from now. Results from the past are no guarantee for the future. Near term you'd be mad to buy, on stock technicals alone if nothing else. Longer term it is all about that story...

03 Feb 2018, 06:40 PM

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yellowpage
Sure, it's a story stock. I agree. That's why I question what caused the story to change, OP put 20M/y max and that's definitely saying NFLX growth peaking here.

But he doesn't tell us why or how? Then what's the point of this article?

03 Feb 2018, 06:47 PM

Seven Corners Capital Management, Contributor
Author's reply » "what caused the story to change"

The market cap is up 3X in the past 1.5 years - that's like $75,000,000,000 worth - based on the same "story". It's price versus value.

03 Feb 2018, 07:27 PM

Aceinmysleeve
> There don't seem to be a lot of neutrals or bulls with a more nuanced viewpoint.

This is not remotely correct. I can formulate more sophisticated bearish arguments than the bears here. Look at my comments given with numbers about how the author's +20M is a bad estimate (i.e. in Q1 2018 international by itself will add 20M subscribers Y/Y, which wouldn't even be including domestic growth, and which would therefore mean that it just happens to be the case that Netflix is going to suddenly depart from all trends and head sharply downward just at the moment they are raising content and marketing spend and most of their largest expansion markets are under 3 years old). Grapple with that nuance. It is you failing to dig in and accept nuance and wanting to retreat to some safer ground of 'agree to disagree' nature. And if you can't figure out that a wrong subscriber projection leads to a bad model, then you haven't done the work.

04 Feb 2018, 03:16 AM

Aceinmysleeve
> Where's your model Ace? We are all waiting...patiently.

When I can't get you to argue honestly about the most important single factor (subscriber growth rate), there is no purpose for me elaborating on other details. If I gave more details, you would have more surface area to get distracted on irrelevancies and being that you appear interested in debating unfaithfully, I suspect you would. One step at a time.

I've argued convincingly elsewhere in this thread, and you haven't dealt directly with it, that your +20M model is not valid.

04 Feb 2018, 03:16 AM

yellowpage
That's what I've been saying Ace. I don't know if his calculation is correct. But his projection on sub number is certainly absurd. Given all the information we know.

04 Feb 2018, 01:02 PM

Jay Ara
NFLX has defied gravity before and naysayed the analysts at large. That being said, with contracts with Comcast, TMobile, etc and the added potential for a buyout in the future. NFLX is a keeper! Remember that 7-1 stock split. :)

03 Feb 2018, 02:43 PM

yellowpage
OP shorted before ER and is down at 30%+ on NFLX. This self-soothing piece is laughable. When you read Netflix will average 15M new sub for next 5 years, you know OP is manipulating numbers to make his theory plausible.

I wonder why a company that had 17M, 19M, 24M new subs for last 3 years, and is investing more on both and content and marketing, will only get 15M/y for next 5 years? This is utter garbage.

03 Feb 2018, 02:54 PM

hankm123
He also plugged in 20MM into his model - you must have missed that

03 Feb 2018, 04:33 PM

Aceinmysleeve
I think one of the main problems here is that it does actually take some sophistication to create a model and validate it's assumptions. Without that ability, the average retail investor can't much make heads or tails of a stock that can only be justified by future predictions. And then instead of admitting that they lack the skills, they prefer to jump to the incredibly weak position that it's the market itself which is crazy, that analysts are complicit, that longs are dreamers, and so on. Somebody should start a variation of SeekingAlpha that teaches how to actually reason about investments correctly, rather than upvote-infused race to the bottom. It's basically Facebook style echo chamber behavior around here.

03 Feb 2018, 04:46 PM

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yellowpage
Then I question why 20MM? It's at 24MM and shooting up, why not 30MM? If you tweak these numbers, you'll find OP's target is met and exceeded easily.

I am willing to bet NFLX will average 25M/y+ for next 5 years. NFLX has a long track record of beating the most optimistic street forecast . It's likely they'll get 7M in Q1, 4 record quarters in a row and best Q1 ever. Never underestimate a global leader with secular tailwind.

03 Feb 2018, 04:56 PM

Seven Corners Capital Management, Contributor
Author’s reply » Hank - These guys don't understand the dynamics of same stores sales (SSS). When a retailer opens a new store in a new territory, there is ALWAYS a huge uptick in traffic to the store. Why? B/c they are starting from scratch in that territory - it takes time for the customers to discover the store (during which time traffic increases). This is EXACTLY why retailers EXCLUDE stores open for less than 12 months from their SSS metrics - b/c including them would skew the metric artificially higher (in other words, including them would not give you a true "organic" growth rate).

Now take NFLX. In 2016 they launched service worldwide (literally 100+ new territories). Of course they will get massive amounts of early adopters to try out the new hyped service. These get included in the sub growth #s we are currently seeing. But once they start lapping prior year #s in these new territories, sub growth is likely to slow dramatically. It's the same dynamic as the SSS numbers for retailers.

Thus, 75MM to 100MM additional paying subs over the next 5 years (which is the range included in the article) is actually a pretty reasonable assumption.

03 Feb 2018, 05:00 PM

Seven Corners Capital Management, Contributor
Author’s reply » Notice how Ace talks a lot about modeling yet never produces a model for scrutiny. Very telling.

03 Feb 2018, 05:03 PM

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yellowpage
Management is hinting Asia is growing like Latin America a few years ago. Except Asia ex-China is 4 times bigger than Latin America. When it hurts, it will hurt very badly for your positions.

03 Feb 2018, 05:25 PM

Aceinmysleeve
20M is also hard to justify. International alone was 18.5M and continues to increase, why would 20M combined make sense? Here is the trailing net add growth for international the last few quarters:

12,797, (Q2 2016)
13,259
14,341,
13,357,
15,983,
17,230,
18,467,
19,840 (Estimate Q1 2018)

Domestic has been consistently adding a stable ~5M. Does 20M look like a good guess to you for the combined expectation next 5 years, or do you not really care about getting the right answers?

03 Feb 2018, 05:32 PM

Seven Corners Capital Management, Contributor
Author's reply » Ace - see comment re same store sales in retail.

03 Feb 2018, 05:43 PM

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yellowpage
Hollywood films regularly got 2/3 to 3/4 box office abroad. Youtube has 80-90% of their users outside of US and it doesn't operate in China either. Is it so hard to imagine Netflix can get 80% of their user base overseas one day too? And if 75M is the middle point of Hastings' prediction, 400M total worldwide is just a ball park guess. And that's with the world population still growing, fixed broadband growing and 5G is coming.

03 Feb 2018, 05:45 PM

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hankm123
It doesn't take a great deal of sophistication to develop DCF and other models to assess valuation. As for developing a model to "validate its assumptions", I find that statement incredibly amusing. Validating assumptions huh? LOL

I happen to agree with Seven Corners that the assumptions being made by the bulls are based on overly-rosy forecasts. And yes, I also believe an eight year central bank-driven liquidity infusion has created an extremely overvalued market, and this run is coming to an end soon. The best of the best (Renaissance) was rebalancing weeks ago based on this assumption. Friday might have been the beginning.

So chill out and try not to be so angry. You are long and I am sure have been highly successful with NFLX - congrats. Great company, but big uncertainties remain. At a 118 billion market cap, there is little room for error.

03 Feb 2018, 05:50 PM

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yellowpage
We are not angry. Nobody should be angry with millions of profits. We are laughing our ass off.

03 Feb 2018, 06:00 PM

Cyril R.
yb1001, I understand you've made a lot so far, we can all read charts. I congratulate you on your gains. (all unrealized gains?).

My question for you is, if you had put no money in NFLX, would you consider putting all or most of your money in it today, at today's price?

03 Feb 2018, 06:29 PM

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hankm123
Good for you yp1001. So stop telling people to shut up

03 Feb 2018, 06:33 PM

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yellowpage
If I plan to hold 3+ years, yes! BTW, I'd have gained much more if I didn't have to buy a house. With that and some emergency fund in hand, I have nothing to fear.

03 Feb 2018, 06:35 PM

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yellowpage
I ask people to shut up when they can't defend their fundamental flaw in their model, and instead trying to spin and win an argument for argument's sake.

I have yet to see a theory why NFLX will only average 20M/y max for next 5 years. That's obviously a change of story but OP simply didn't say how.

03 Feb 2018, 06:44 PM

Seven Corners Capital Management, Contributor
Author's reply » "I have yet to see a theory why NFLX will only average 20M/y max for next 5 years."

Already told you above - see discussion of SSS. See also theory of S-curve adoption [link below]. The theory is there, which clearly explains why sub growth will inevitably slow - maybe you simply don't want to acknowledge it (see no evil, hear no evil).

http://bit.ly/2krTeDB

03 Feb 2018, 07:31 PM

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yellowpage
It will inevitably slow down, true. But the number of last few quarters prove NFLX is still at lower half of curve. 12 months from now it's easy to see who's totally wrong.

03 Feb 2018, 10:39 PM

Aceinmysleeve
Cyril, hankm123, how come neither of you want to actually grapple with what matters, like the numbers I gave earlier on this thread? Stop being so 'offended', yp and I have track records of success. Have you given up on the idea of actually being good investors? How reasonable are the authors' estimates given the actual growth numbers put up by international?

04 Feb 2018, 03:16 AM

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staux
"As for developing a model to "validate its assumptions", I find that statement incredibly amusing. Validating assumptions huh? LOL"

Yes, the thing about models is that you can feed them with anything you want.
While they may show a possible future, it is certainly not an apt method to "validate" or "verify" an assumption while the model itself was fed with these very assumptions.
Even scientists sometimes take this line of argumentation by self-validating assumptions. It only proves that they are charlatans.

04 Feb 2018, 09:14 AM

Aceinmysleeve
staux, your comment is generic parables and not a specific argument. I have a model with projections, and justifications for those projections. I endeavour to find and understand all potential information and how it relates to this model. My time is well spent because it's now affecting millions of dollars. Most people here (like the author) haven't done the amount of work on both Netflix specifically and in the theory of how to do predictive modelling (I'd like to see him or you even attempt to explain why regression techniques are valid). I think most people on this site including yourself don't really understand prediction and reasoning under uncertainty, which is why the heavy focus around here on things like trailing P/E.

04 Feb 2018, 10:05 PM

Seven Corners Capital Management, Contributor
Author's reply » Never once mentioned trailing P/E wrt NFLX - another straw man.

04 Feb 2018, 10:51 PM

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staux
Obviously, you didn't get the whole point.
As a sidenote, that should not mean that modelling and projections/extrapolation are worthless. I've done extensive modelling in science and comparatively a DCF is a rather mundane thing. But one has to bear in mind that a projection is only a projection, not a fact, and that it cannot "validate" an assumption or provide evidence.

Anyway, Ace, since you are the self-declared grandmaster of prediction and modelling, enlighten us, when do your models show that NFLX is becoming cashflow-positive?(which is crucial, not virtual paper profits).
I, myself, have run a model with for Netflix favourable assumptions.

05 Feb 2018, 07:40 AM

Aceinmysleeve
I don't have a model for FCF offhand since it's not a very important variable. However, if you build it you can basically work from the idea that FCF and profit eventually converge, and FCF content spend is a fairly consistent ratio against P&L content spend. So if you have a P&L model you can get somewhat there pretty easy. However, I think that ratio itself is not exactly fixed but really a function of growth rate, and the rate of switchover from licensing to production, so you'd want to tease that apart in more detail. Of course, I wouldn't put it past Netflix to find more ideas to turn billions of cash into other incredibly high ROI projects. That is, after all, what you want out of investing as you know I'm sure.

06 Feb 2018, 04:26 AM

hankm123
Seven corners arguments are far too accurate. The truth is a powerful thing.

This is the most compelling short out there. Biq question is timing. The downturn on Friday has increased the odds the timing is now. Actually, it started on Tuesday (already down ~20+ points), but given Friday's action, I suspect it will be pushed down rather dramatically now. Of course, analyst pumping and other nefarious actions could make this a rather bumpy ride.

03 Feb 2018, 04:29 PM

yellowpage
He's so accurate he's already down 30%+. LOL.

03 Feb 2018, 04:59 PM

Seven Corners Capital Management, Contributor
Author's reply » "This is the most compelling short out there. Biq question is timing."

With respect to any "greater fool" stock, it will keep going up until the supply of greater fools runs dry. Analysts will relentlessly pump to try to convince more greater fools to jump in, but eventually even their efforts will peter out, at which point reality sets in and the "greater fool" stock starts falling. At that point everyone realizes that it was a "greater fool" stock all along and they move on to the next pump (which causes the stock to fall even more, convincing even more people to sell, etc.) Basically it is the inverse of what happens on the way up. That is why the tech bubble burst despite the tech analysts' best efforts to keep blowing it larger and larger - reality / gravity finally overcomes the upwards momentum of the pump.

Now there is a surefire way for NFLX to avoid falling into the greater fool stock category permanently - namely, by producing huge amounts of free cashflow for shareholders [the required level of which is described in the article]. Only time will tell if they can do this, but recently their FCF numbers are moving in the wrong direction (and are expected to get far worse in 2018 than 2017).

03 Feb 2018, 05:16 PM

Seven Corners Capital Management, Contributor
Author's reply » yp - we were down quite a bit on our AGN short several months after publishing the short thesis in early 2017. Now where is AGN? Conversely, last summer we shorted TSLA at $370 and a couple months later it went down to $300 (and recently it has rebounded back to $345). You can't judge anything over a two-month period - stocks can go literally anywhere in the short term. Let's see where NFLX is a year or two from now and then we'll see who can declare victory.

03 Feb 2018, 05:26 PM

yellowpage
Then why don't you shut up and come back when you are proven correct on NFLX? Insisting market is wrong is annoying at best and suiciding at worst.

03 Feb 2018, 05:31 PM

Aceinmysleeve
Not only is he inaccurate, he is obviously so, and if he honestly dealt with the counterarguments we'd all be better off. He's playing a fake game of competence against people that have longer records of paying attention to Netflix, more nuanced positions, and better track records. The only thing keeping him afloat is the fact that on this site 90% of the participants prefer to take contrarian positions against growth, so they enjoy the confirmation bias presented here, and leave a lot of supportive (yet poor) comments for him.

03 Feb 2018, 05:34 PM

Seven Corners Capital Management, Contributor
Author's reply » yp - what are you so afraid of? Open discussion? Or are you afraid that your seemingly endless supply of greater fools will finally run dry?

03 Feb 2018, 05:44 PM

Seven Corners Capital Management, Contributor
Author's reply » Ace - if you are correct, you have literally nothing to worry about. You can continue to laugh all the way to the bank. If you are not correct, you should be listening to the other side of the argument (b/c it will potentially save you from losses). The real question is why are you so upset about having an open and free discussion on this topic?

03 Feb 2018, 05:47 PM

Seven Corners Capital Management, Contributor
Author's reply » ...and just for the record nobody is "Insisting [the] market is wrong". Clearly we could be wrong - it has happened before and no doubt will happen again - and if we are wrong we will very likely lose money. Such is life - nothing is 100% guaranteed. But perhaps you (and the market) might be wrong too. Only time will tell - take care.

03 Feb 2018, 05:50 PM

yellowpage
I am not afraid of anything. I am annoyed you assume 15M-20M/y that's simply laughable and wouldn't acknowledged it's flawed.

There's nothing to argue about when the ridiculous number you come out with doesn't fit any normal growth curve.

03 Feb 2018, 06:04 PM

Seven Corners Capital Management, Contributor
Author's reply » "There's nothing to argue about"

Yet here you are...arguing about it. Again, if it's so obvious that you are correct, you have literally nothing to worry about - except how to spend all of your future NFLX profits. So you should sleep easy.

03 Feb 2018, 06:06 PM

yellowpage
See. It's always simple things like these you can't argue about, you can put up a thousand number for a bogus article and it wouldn't matter when you failed for the most important number. Why would 17M, 19M, 24M and without any sign of peaking ends up in 15M-20M range in next 5 years? We are looking at 4 record quarters in a row for God's sake.

It's something that you need to give a long, elaborate presentation
to convince us and you simply drop the ball there.

03 Feb 2018, 06:15 PM

Seven Corners Capital Management, Contributor
Author's reply » http://bit.ly/2krTeDB

03 Feb 2018, 07:31 PM

Aceinmysleeve
> you should be listening to the other side of the argument

I have been listening. I've been here for years pushing the bull story against an overwhelming number of bears. Your mistakes aren't much different than the ones I've listened to for years.

04 Feb 2018, 03:16 AM

Aceinmysleeve
> With respect to any "greater fool" stock, it will keep going up until the supply of greater fools runs dry.

Begging the question, and a typical retailer fallacy. Your entire investment foundations are weak and full of bad retail investor memes.

> Only time will tell if they can do this, but recently their FCF numbers are moving in the wrong direction (and are expected to get far worse in 2018 than 2017).

The FCF increase is completely discretionary. Netflix chooses to spend more now, to produce more content 1-2 years in the future, because they anticipate the subscriber base and service price 1-2 years in the future to be much higher than today. This is all basic mathematics and reason about revenue vs cost timing, and explained perfectly by management, understood by people here that have good track records of prediction, understood by the market which rewarded it, and only misunderstood by yourself and other people of similar competence who have generally been consistently incorrect.

03 Feb 2018, 05:40 PM

Seven Corners Capital Management, Contributor
Author’s reply » "Netflix chooses to spend more now"

Or perhaps NFLX has no choice but to spend more now in order to keep sub growth at a level that satisfies Wall Street. Maybe management is a bit too concerned about pleasing the gamblers that inhabit Wall Street and who control the stock price. Have you considered that option?

03 Feb 2018, 05:54 PM

yellowpage
It's all about ROI, it's pretty clearly the return of these investments is great. If I have good return on my rental properties and I can tap the market, why wouldn't I build more?

03 Feb 2018, 06:07 PM

Seven Corners Capital Management, Contributor
Author’s reply » "it's pretty clearly the return of these investments is great"

It's impossible to know beforehand what the ROI will be for an investment. All you can do is make your best guess. No doubt homebuilders in 2005 thought their current land spend would yield a phenomenal ROI - didn't work out too well, to say the least. Can only judge these things after the fact.

03 Feb 2018, 06:10 PM

yellowpage
Again, market disagrees with you. Nobody could amortize their content over 300M paid users, NFLX is on that trajectory. If you don't understand why the sudden spike in the price, it's a sign that market is convinced.

03 Feb 2018, 06:22 PM

Seven Corners Capital Management, Contributor
Author’s reply » "market disagrees with you"

And? Whether other people agree or disagree with you is irrelevant. What's relevant is whether your facts and your reasoning are correct.

03 Feb 2018, 07:33 PM

john.blockchain (aka Fairplay)
By definition, however, if the market disagrees with you, all your reasoning and facts are meaningless. This isn’t some academic exercise.

03 Feb 2018, 09:03 PM

SWinCA
Exactly! Reasoning works both ways. Facts can be interpreted differently and predictions are NOT facts. One can make an argument, bull or bear, on any stock. This is what makes markets.

In debate class, we had to do just that. Argue a position, then argue the opposite.

And like winning in debate class, the market is your fellow students who, for whatever reason, vote in your favor more than not.

Except money is in play in the market.

I believe every author that is short needs to disclose the price they went short AND when/if they cover and close their position they need to add an addendum to the archives or write a new article.

If I was king of SA, that would be a requirement for authorship

03 Feb 2018, 09:40 PM

Aceinmysleeve
> It's impossible to know beforehand what the ROI will be for an investment.

This is a common retreat to black and white thinking (who can predict anything?). Netflix has been consistently increasing the proportion of their original content, and their revenue growth has been accelerating. That's a pretty good argument that original content is working.

> Can only judge these things after the fact.

Good luck with that, but it has nothing to do with investing.

04 Feb 2018, 03:15 AM

yellowpage
Management sees many more metrics than we do. I am sure viewing hours is something they'll monitor closely. If the median viewing hours is increasing every quarter, they certainly know saturation isn't there yet and increasing content spend can further improve the quality of service, giving it more subs and pricing power.

04 Feb 2018, 01:09 PM

yellowpage
So we should see who's losing the pants 12 months from now. OP provides nothing but wishful thinkings below.

Author’s reply » 75MM aggregate additional sub hypo: 2018: +25MM, 2019: +20MM; 2020: +15MM; 2021: +10MM; 2022: +5MM.

03 Feb 2018, 10:44 PM

djmk1168
I'm a little perplexed, see if anyone out there can help me out.Where do they get the 2Billion every QUARTER FOR CONTENT FROM, If it was gotten from the market in the form of a debt offering, ie: Bonds ,some one thinks they'll do o.k. otherwise they would not be able to borrow the $,If it was from subscriptions, then it's F.C.F. And as stated before, a new business should spend all it can to improve it self, case in point,AMAZON,which is still 'burning through cash', getting into every nook and cranny of everything.Dose anyone out there really think a company can diversify into everything, there is? I don't see how this is a plausible do. NFLX dose one thing and one thing only,CONTENT,so according to other Cos.blueprint they are worth a lot more than they're trading at.I might be wrong.I still Can't for the life of me understand or figure out how a Co. can spend more, year after year and still be in business. Can I get some help from the negative PUNDiNTS out there.Inquiring minds want to know!

04 Feb 2018, 03:18 AM

WMX0102
It's going higher, bub. I first bought under 500 pre split.

04 Feb 2018, 06:40 AM

BVI
The Bears have been marshaling the same arguments since I put on a decent-sized position about 3 years and 300% ago. I'm glad I wasn't discouraged, in fact I have been grateful for the sense-check, which is a very valuable aspect of SA, despite the polemic and occasional passionate exchange of opinion. Both the Bear and the Bull arguments have remained the same over time, with the big difference that, so far, the Bull case has been vindicated by the operational progress of the company, which is all that actually matters. In essence the 4 main Bear Case arguments have been: 1. negative FCF, 2. competition, 3. high valuation, notably on a p/e basis, and 4. the fragility of the international expansion plan due to relative poverty outside the US and cultural difference. The response to these arguments remains the same, namely 1. temporary - build a model, 2. relevant, but NFLX has a huge head-start and structural advantage, 3. irrelevant valuation metrics are the consistent bear-traps here, notably p/e - build a model and 4. just plain wrong and the result of natural US investor domestic bias / naivety. I see no reason to subscribe to any of those bearish arguments yet. I do agree a technical pullback is probable but I also believe NFLX will double in price again over the next 2-3 years. Game on...

04 Feb 2018, 07:47 AM

Seven Corners Capital Management, Contributor
Author's reply » "1. negative FCF: temporary - build a model"

How do you know it's temporary? It has gotten progressively worse over the past few years and now negative FCF could double from 2017's level. What if it keeps getting worse and worse? It's amazing that bulls want to extrapolate every positive metric (like subscriber growth) far into the future, yet when it comes to the increasingly negative FCF trend they dismiss it out of hand as "temporary" (yet putting forth no proof that it is in fact temporary) and nothing to worry about.

04 Feb 2018, 09:34 AM

BVI
Seven - Because I've built a model and I was lucky enough to be taught the concept of operating leverage as a first year analyst at a large IB many years ago. I think my first encounter with the notion was a financing plan for a paper mill, but the concept is universal. NFLX is an extreme example of where operating leverage is likely to be the investor's friend. The mistake you make, as well as many other Bears, is to assume a somewhat linear relationship between revenues, cost and therefore FCF at NFLX. That relationship is not linear, it is extremely non-linear, verging on parabolic. That is the entire essence of the investment thesis on NFLX and it is seemingly missed by many commentators on SA. Lastly, I will admit I don't "know" anything. "Knowing" things is for scientists and investors in the government bond markets. In equities you take a view... Would put the "proof" you seek in the same category. There is no "proof" in a world where 20-30% IRRs are remotely possible...

04 Feb 2018, 09:50 AM

Seven Corners Capital Management, Contributor
Author's reply » "That relationship is not linear, it is extremely non-linear"

Is it, though? It's been extremely linear over the past few years and that linearity will continue in 2018. Seems like you are blindly assuming (with no actual evidence) that it will dramatically reverse soon.

04 Feb 2018, 10:25 AM

Seven Corners Capital Management, Contributor
Author's reply » ...look at the domestic streaming contribution profit recently - where is the explosive operating leverage? Isn't the U.S. a relatively mature market where operating leverage should be evidencing itself? Yet it's nowhere to be found.

Q4 '16: $536MM

Q1 '17: $606MM

Q2 '17: $560MM

Q3 '17: $554MM

Q4 '17: $561MM

04 Feb 2018, 10:29 AM

BVI
"Seems like you are blindly assuming (with no actual evidence) that it will dramatically reverse soon."

Again the need for "proof" or "evidence." Those are terms suited to the courtroom, or the laboratory, not the trading floor. Are you perhaps a lawyer by training? In my opinion you are making the classic mistake of trying to fill a comprehension gap with "facts." You won't be able to and therefore you are doomed to continue falling back on a lack of demonstrable cause and effect to comfort you in your persistent failure to grasp what's going on.

The evidence, for want of a better word, is a simple piece of common sense. It costs less to acquire and retain customer number 150 million than it does to acquire and retain customer number 15 million. At a certain point, gross margin will not be entirely absorbed by content costs and other overheads. Fixed costs, including content, are somewhat finite, the capacity to increase gross margin is closer to infinite. That's your evidence, such as it is. Above a certain number (rapidly approaching) of subscribers, NFLX will start to throw off huge slugs of cash. The realisation of that, and the associated investor faith in "escape velocity" having been attained, has been the driver of price action YTD, notwithstanding short-term technical gyrations which, to me at least, are of no consequence. It is the same reason the bond market is bid for NFLX paper, despite the company currently being a consumer of cash... If the credit market can take a view on the future then equity investors sure as heck should be able to.

04 Feb 2018, 11:50 AM

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yellowpage
When the management observes that median viewing hour is not increasing proportionally to increasing content budget. They'll slow down. I suspect this may come as early as 2019, at least domestically. Since they've been producing one binge-worthy show every 2 weeks. And I can't keep up if they get to one good show per week. I can only be more picky.

04 Feb 2018, 01:16 PM

Seven Corners Capital Management, Contributor
Author’s reply » "Above a certain number (rapidly approaching) of subscribers, NFLX will start to throw off huge slugs of cash."

You dodge the question, which was previously asked: Why isn't this already happening in the U.S. (which is a mature market for NFLX)? Contribution margin in the U.S. is NOT exploding upwards - why?

Also, you completely contradict what the company says in its own SEC filings about future cashflows (hint: it's not "fast approaching").

"associated investor faith in "escape velocity" having been attained"

There's no such thing as "escape velocity" in business - that's a physics concept that has no relevance when discussing business enterprises. No company in the history of capitalism has ever reached "escape velocity". People who use this term are simply substituting buzzwords for actual thought.

04 Feb 2018, 01:45 PM

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yellowpage
Why do you call it a mature market when they are increasing the users by 10% and price by 10% every year?

04 Feb 2018, 03:16 PM

Cyril R.
"they are increasing the users by 10% and price by 10% every year?"

That growth rate won't do at all; the stock price is appreciating at much more than 10% a year.

04 Feb 2018, 03:59 PM

BVI
"There's no such thing as "escape velocity" in business - that's a physics concept that has no relevance when discussing business enterprises. No company in the history of capitalism has ever reached "escape velocity". People who use this term are simply substituting buzzwords for actual thought."

That form of literal-minded pedantry is the actual preserve of the actual thoughtless, to actually coin a phrase. Or of those on the wrong side of a trade, or maybe those who run out of interesting points and so resort to onanistic quibbling. Buzzwords by contrast are meaningless biz-speak like "granular" instead of "detailed" or indeed "business enterprises" instead of "companies."

The term "escape velocity" is quite different in that it is an analogy. Analogies can be helpful because they allow for the simple expression of complex themes. Escape velocity is a useful analogy here, as NFLX does need to grow in order to support both its valuation and its capital structure. If it doesn't fly fast enough it will crash to Earth like a failed satellite, and both equity and bonds will burn up on re-entry. To a crisp. For the avoidance of doubt, I don't actually mean that NFLX is like a satellite with antennas and tin foil and stuff - this is an analogy you see. There will be no re-entry and no burning to a crisp, at least not literally.

I also like the analogy of a shark that needs to keep swimming in order not to drown. No doubt your literal mind with struggle with that image too, but others may find it helpful.

As for why FCF isn't yet improving in the US, the key word is yet. I haven't ducked the question as I have been quite clear that I haven't the faintest idea. I can make a somewhat informed guess, as many others here have done. But I'm willing to bet you won't agree with my guess. Relying on "show me" to guide your investment philosophy won't get you very far with NFLX - by the time you have ascertained the "facts," it will be in the price...

04 Feb 2018, 04:03 PM

yellowpage
Yes, but the stock price should incorporate international growth too, shouldn't it?

04 Feb 2018, 04:09 PM

BVI
Indeed yp1001 and of course content costs can be amortized over a substantial proportion of that growing international subscriber base.

04 Feb 2018, 04:18 PM

BVI
Cyril - the relationship is not linear. Please at least reflect on that and either understand it or reject it before saying the same thing again. And again. And again...

04 Feb 2018, 04:21 PM

Seven Corners Capital Management, Contributor
Author's reply » "Escape velocity" is a false analogy, that's the whole point. The idea that if you somehow grow to a certain size then you have "escaped" the gravitational pull of competition is simply false. It MIGHT apply to a company that obtains a monopoly in a certain sector of the economy (i.e, Standard Oil in the early 1900s), however NFLX does not have anything remotely close to a monopoly on anything.

As for the U.S., you admit you "haven't the faintest idea" why FCF isn't conforming to your thesis. Perhaps it's because your thesis that NFLX can "flip a switch" and become immensely profitable is simply a flawed thesis. If the facts on the ground don't fit the theory, shouldn't you reconsider the theory?

04 Feb 2018, 05:01 PM

Seven Corners Capital Management, Contributor
Author's reply » They've been streaming in the US for 10 years - that's called a mature market. Yet after 10 years of growth and only modest competition so far, there's no profit gusher from the domestic streaming biz. WHY NOT???

04 Feb 2018, 05:09 PM

WMX0102
Nice post; I'm a lawyer.

04 Feb 2018, 05:56 PM

WMX0102
Tell the entire story. It's only been in the original content game for 6 years.

04 Feb 2018, 05:57 PM

BVI
The operating leverage inherent to NFLX's model doesn't require anything close to a monopoly. If you read my comments above you will see that I acknowledge NFLX operates in a competitive market. Feel free to continue howling at the moon on this one, and thanks for giving me some additional comfort that the shorts don't have a serious arguments to muster here...

04 Feb 2018, 06:11 PM

Seven Corners Capital Management, Contributor
Author's reply » "operating leverage inherent to NFLX's model doesn't require anything close to a monopoly"

So where is the leverage? Somewhere in "the future"? 2022? 2028? 2050? Do you have any clue when investors will actually see it?

04 Feb 2018, 06:35 PM

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yellowpage
LOL. So you have totally no clue. See how many Hollywood originals they are producing. Even if they don't get more US users, increasingly those shows are consumed by international users in percentage.
i.e. It's totally legit to amortize less on US. The content cost in US goes down and profit goes up. This is a scale game.

04 Feb 2018, 08:42 PM

BVI
I have a clue, yes. By your own admission however you do not. My best guess is about 3 years. But it's a guess. It involves risk. I could be wrong. On balance though, I think that by the time you have the "evidence" or the "proof" you crave, I will have sold my 6-8 bagger and moved on to the next opportunity. With a bit of luck NFLX will be a 5-10% annual total return equity trade by the time you finally get long. I fear though, that having lost multiples of that whilst you delay closing your short, NFLX will by then be a name you are trying to forget.
Lastly, being short the equity is a dopey trade. It is just as risky if not more risky than being long, and the return profile is asymmetrically skewed against you. If you really don't like NFLX, short the bonds. Almost no downside and the same upside as the equity short. If NFLX fails, it's all going up in smoke, not just the stock...

05 Feb 2018, 06:10 AM

Basman
Excellent Article Sevens. I think since the start of the year- January 1- and going even before they hit $100 Billion market cap, Netflix already became a target for an acquisition. I am a fan but any acquisition from Apple, Alphabet (a fan), AT&T (a fan), Verizon is so inevitable.

04 Feb 2018, 09:09 AM

Basman
And Amazon 😀😎

04 Feb 2018, 09:10 AM

Basman
also a fan.

04 Feb 2018, 09:10 AM

WMX0102
Wrong per usual, basman. Apple could have bought Netflix 50 billion dollars ago. Didn’t then. Why would it spend 50 billion more now? It wouldn’t.

04 Feb 2018, 05:57 PM

Basman
They can still if their video effort is not working out, same with Amazon.

04 Feb 2018, 06:00 PM

WMX0102
But, it WON'T happen. Want to bet on it?

05 Feb 2018, 01:21 AM

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vorinski
What is so hard to copy in Netflix case, i mean it is streaming service. They do not have unique technology.
Why somebody need to buy NFLX when can easily copy?
User base are easy come and go. It is much easier to go away from streaming service like NFLX then cable operater.

05 Feb 2018, 06:36 AM

Basman
WMX: Haha no need for that.

vorinski: Totally agree.

05 Feb 2018, 06:40 AM

WMX0102
Wrong, vorinksi. If it were so easy to merely copy Netflix, guess what, bub?? It would have happened already. I remember when a bunch of people said pre-IPO that Facebook would be easily copied. It didn't happen either.

05 Feb 2018, 08:41 AM

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vorinski
This is how all that look to me
1. Content producers made deal with NFLX about content distribution, NFLX is on market long enough, market is stable and they do not see future problems with cord cutting
2. Cord cutting happen. Content producers see mistake, most money are from cable and they loosing money because streaming killing not only cable but killing theater too.
3.Content producers say ok, now we will stream content, we do not need cable providers or theater for that (that is how i understand Disney last move). Content producers cant do that easily in one day because all their revenue is from cable and theater, they cant kill industry in one day, they need time. That is because Disney wait for 2019.
4. In meantime content producers will stop doing business with NFLX and because of that NFLX will start to produce content.

It is clear that we have war and all changing roles, streamers goes in content production and content producers go in streaming (comcast, AT, DIS, NFLX).

I think value is on side of companies like DIS because they know how to produce content, time will show.

05 Feb 2018, 10:16 AM

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vorinski
Facebook and Netflix are not the same, Facebook user will not change platform easily because new platform will hardly give him something better.

If, for example, DIS and Fox and maybe Comcast or TWX, make streaming service with exclusive content which you cant see on NFLX or even cable, what do you think, where will subscribers go? How long need NFLX to became content giant like DIS?

05 Feb 2018, 01:10 PM

yellowpage
NFLX already has bigger content budget than DIS on TV, not counting sports. In fact, only ESPN has bigger content budget today.

05 Feb 2018, 01:57 PM

Basman
NFLX: $300 Billion -bubble market- $45 Billion- next recession-

04 Feb 2018, 10:37 AM

Basman
if none of the giants with insane cash does not buy them then SoftBank and Tencent will slowly buy them out via open market (buying stake slowly).

04 Feb 2018, 10:40 AM

Basman
even if Netflix becomes a subsidiary (so inevitable) at the end of the day they really have a big legacy.

04 Feb 2018, 10:41 AM

BVI
NFLX is recession-proof.

05 Feb 2018, 06:26 AM

Basman
tell that to all the online stocks back in the last recession (Amazon included).

05 Feb 2018, 06:30 AM

Basman
the only FANG stock that will be recession-proof the next one will be Amazon.

05 Feb 2018, 06:35 AM

WMX0102
That's actually not true. Amazon will go down too during a recession, just not as much as Netflix likely would percentage wise.

05 Feb 2018, 07:19 AM

WMX0102
It'll obviously take a hit during the recession. But, it definitely won't be going back to 45 billion, which would be an over 50 percent drop. Plus, your reference to the first tech bubble is erroneous since unlike many of those companies, Netflix gets a lot of revenue each year. Plus, subscriber growth continues to go up every year.

05 Feb 2018, 07:20 AM

BVI
Take a look at Sky TV's subscriber numbers through every recession since it launched in 1983. People will give up almost everything before they downgrade their TV experience.

05 Feb 2018, 01:11 PM

Basman
This article make me feel bad saying it not a bubble market. Long Live Disney 😂😎

04 Feb 2018, 10:45 AM

Cyril R.
New SA article lays out a pretty strong bull case for AMZN and NFLX:

https://seekingalpha.c...

Look at the forward PE ratio. By that measure, NFLX looks "cheap" now!

05 Feb 2018, 10:48 AM

Mikie713
I don't care what critics say - they've been outfoxed again by Netflix. A genius marketing ploy to spot a surprise offering of the cult Sci-Fi franchise "Cloverfield" during the Super Bowl - and then drop it right after the game to a world wide audience of their 120 million subs. Not a great film by any stretch but certainly better than "Bright" ... I expect double the numbers "Bright" got on what could have been (and what insiders already believed would be) a box office dud. If you're focused on the quality of the film, which stars are not in it or what critics have said about it, you've already missed the point. The goal is to sell it. Sold it was. Brilliant in its execution and what the future holds for those who can see it.

05 Feb 2018, 11:43 AM

Aceinmysleeve
oof 6.1 on imdb is clocking in worse than Bright. Apparently paramount and it's unbelievably bad year shopped this around. Netflix prolly got it cheap. I love the idea though. BAM! Here's a movie out of nowhere with a pretty good built in franchise awareness and you get it free right now. Assuming you have a subscription, and who on this couch at this Superbowl party STILL doesn't have Netflix?

I even like how it just rolls the trailer when I went to the app on the television. Kudos guys. No one else is anywhere close to what they are doing.

06 Feb 2018, 02:36 AM

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yellowpage
NFLX dominated the twitter conversation last night. Do you hear people talk about mission impossible? No. People will remember Netflix is awesome by doing something like this and before they figure out the quality of the movie, they've already watched it.

06 Feb 2018, 03:03 AM

Mikie713
Exactly, YP. Netflix neutralizes the critics, pro and non-pro, once again. And they've got more surprises coming. Paramount did have a bad year - I told you I had to pay for parking at their year end industry screening event while Netflix paid for our parking at similar industry event. And when someone picks up your parking tab in LA, you can't help but like 'em.

06 Feb 2018, 03:17 AM

Aceinmysleeve
Even 'Han Solo' and 'Avengers' had fewer Google Searches. Not even close actually. In fact, I didn't find a single term that searched better.

06 Feb 2018, 08:01 AM

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hankm123
So here we go. At 8:55EST I see the bloodbath continuing. With respect to NFLX, it has been hit just about as hard as the other FAANG stocks. As we move forward, I expect NFLX to be hit much harder as its financials and business model are comic book territory versus the FANGs. Mind, you, it's a great company, but perhaps its biggest problem was when someone decided it belonged in the FAANGS.

It looks like all stocks have been and will be decimated. NFLX is going to have its clock cleaned unlike no other FAANG. In the end, it will cut AT LEAST 50% off of its market cap. Then, it should be in a good position to build its business.

05 Feb 2018, 09:30 PM

yellowpage
Keep your fingers crossed. NFLX hasn't even hit the ER gap. There's no panic.

05 Feb 2018, 09:41 PM

Cyril R.
I doubt it will cut 50% of it's market cap. It looks like simple correction to me, as I mentioned would happen but no one listens. Stuck runs up 46% in one month. That's crazy and it virtually always is followed by a correction. 50% of that 46% gain I can see happening, but not much more. This has happened before with this stock, same result, stock gets ahead of itself, then is called back. Very simple technicals. Can't imagine people not seeing this.

05 Feb 2018, 09:42 PM

Aceinmysleeve
NFLX stock is down because the market is down. Notice the number of people that think the proper inference is their analysis of Netflix was correct. Don't be one of those people.

06 Feb 2018, 02:01 AM

Cyril R.
It's a combination of the down market and the stock's technicals (each time it runs up this fast this much it winds down, losing around 50% of the gain and then stabilizes). That's just charting of course.

I'd expect it to wind down (with some waves) and stabilize around the $230-240 level.

If that happens I'll consider starting a long position.

13 Feb 2018, 12:09 PM

john.blockchain (aka Fairplay)
How'd this prediction of disaster work out, hank?

26 Feb 2018, 02:12 PM

hankm123
30, 40, 50 - it will be a big number. It will surprise many, but at the end of the downside, NFLX will be in a better position because the company's currency (stock) will yield better opportunities to acquire or be acquired..

05 Feb 2018, 10:53 PM

hankm123
I can say that I have made and lost huge sums of money today. And I thank the market gods for the wisdom imparted.

The market is now in hyper-maniacal mode. You think you are right one second, and the market corrects you. When you think you've been had, the market is nice to you.

So where does it bring us for tomorrow?

This will carry out for a while, but we are in the market equivalent of the five stages of grief. We hit stage 2 today; how long it will take to get from 2 to 5 is anyone's guess. But time to be oh so short. Notice TVIX was up 30% after the close? These things happen for a reason.

06 Feb 2018, 09:42 PM

yellowpage
LOL on this burned bear. I said this is a bull flag, stock may trace back 50% on gains and continue making new high. It's a classic technical pattern. Next stop $335. You'll never break even and you lose the best opportunity to cover. More nonsense bearish articles won't help.

26 Feb 2018, 09:44 AM

Cyril R.
So you think this is a good moment to buy in? I was hoping for a bit more of a dip from the previous high but it quickly recovered back to the previous high. Could be a double peak though.

Just something in me that dislikes buying any stock after it has gone nearly vertically up (and this has not happened before with this stock, at least not this magnitude). But perhaps NFLX is an exception given the improved outlook (ie reduced forward PE).

Similarity between NFLX and AMZN is remarkable, in terms of the recent price movement and forward outlook.

26 Feb 2018, 09:51 AM

yellowpage
If your timeframe is 5 years, it's always a good time to buy. Will 285 never be seen again? I don't know. But <$200 requires a broad bear market IMHO.

26 Feb 2018, 09:59 AM

Cyril R.
Agree $200 isn't in the cards, but was hoping for a chance at getting in at the $240-250 range. Missed out on the recent dip where this happened - was way too fast and more due to the shake-out than due to NFLX. But now it seems we are in overbought territory again in the general tech market, judging by Mr. Jones and Ms. QQQ. So now seems like a bad buying time for most tech stocks, at least to me. Thin I'll sit down patiently for the moment.

26 Feb 2018, 10:30 AM