

Netflix (NFLX)

Highly Attractive

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## Oscar Nominations Another “Feather in the Cap” for the Netflix Content Machine; Long Runway Ahead

With tonight’s red carpet ceremonies about to kick off with the Oscars, we view this as a “seminal night” for the Netflix platform with the flagship streaming service nabbing eight Academy Award nominations; four of them for the highly acclaimed drama *Mudbound* and four more across various foreign film and documentary categories. Netflix’s ability to attract original content, talent, artists, writers, and producers to its platform is a key ingredient in its long term recipe for success to grow its streaming service globally and tonight’s nominations is a major credibility step for these efforts in our opinion. To this point, Netflix is quickly establishing itself within Hollywood as a highly credible platform with broad distribution, unlimited resources (planning to spend ~\$8 billion on content in 2018), and capabilities that can get movies/documentaries recognized by the Academy and other major award circles globally, which has been a hurdle over the past few years as high level A+ Hollywood talent was worried in some cases about this dynamic and shunned Netflix for other traditional studios. To this point, Netflix has a number of growth levers which should fuel the company’s next phase of strategic penetration among both US and especially international consumers with content the main fuel in the growth engine for this 120 million subs and rapidly growing global consumer streaming service. While the landscape for original content has become increasingly competitive with new entrants entering the market by the day (Disney/Fox remains a clear competitive worry) we believe Netflix remains in a unique position of strength to grow its content and distribution tentacles over the next 12 to 18 months and thus further build out its massive content and streaming footprint. The underlying growth and franchise model at Netflix all revolves around original content build out fueling consumer engagement and subscriber growth. With the appetite for content among media companies reaching a feverish pitch, Netflix will be spending up to \$8 billion on content in 2018, up roughly \$1 billion from its spending trajectory for 2017. We estimate roughly 30% to 35% of its content spending to be allocated towards original content in 2018 with a long-term target of 50% by 2020. With more consumer dollars shifting away from traditional cable with cord cutting and towards streaming delivery, we believe Netflix has a

long runway of growth and opportunity ahead of itself and clear first mover advantage despite intense competition from larger media players (Disney), pure play competitors, and new potential entrants (e.g. Apple). To this point, on the content front the recent Ryan Murphy deal was the first “shot across the bow” in our opinion as Netflix is looking to aggressively purchase content and talent with the Disney/Fox ecosystem now in major target range. Our bullish thesis on Netflix is based on our belief that the company’s competitive moat, franchise appeal, ability to increase international streaming customers through 2020, and original content build out will translate into robust profitability and growth as the next phase of this story plays out over the coming year with tonight’s nominations and potential wins at the Oscars another feather in the cap for the “Netflix content machine”. **We maintain our Highly Attractive rating and \$310 price target on Netflix.**