Netflix 2022 Earnings Report Analysis

Netflix, the streaming service that took the digital world by storm in 2007, has remained one of the most-used streaming services for entertainment-seekers worldwide. Every year, publicly traded companies are required to release annual earnings reports, concluding their quarterly earnings. Netflix is no exception. Netflix's most recent annual report is that of 2022. In 2022, their total revenue was $31.6 billion with a net income of $4.49 billion. These figures are both different from what I originally expected, having previously expected a lower total revenue and a higher net income for the year. Having no prior knowledge of streaming service revenues, I guessed that the revenue would be in the lower billions, but to my surprise, Netflix brought in over $30 billion. Additionally, I predicted that the net income would be higher as I was unaware of the amount of expenses that companies must take care of to finally calculate their net income. However, to further comprehend the revenue specifically, I looked into Netflix's main source of revenue– subscribers. At the end of the 2022 period, Netflix had a total of 230 million subscribers, meaning that their average monthly revenue per paying membership was $11.76. Quantifying their revenue to match the number of subscribers allowed me to grasp what such a high revenue means for a streaming service like Netflix. Comparing this financial data to that of 2021, I was able to recognize the areas in which Netflix developed or did not. Their revenue in 2021 was $29.6 billion, which resulted in a 6% increase in 2022 revenue. Their 2022 net income, however, decreased by 12%, declining from $5.1 billion to $4.49 billion. If I was a financial stakeholder in Netflix, I think I would be happy to see that the company is generating higher revenue year by year. From 2019 to 2022, the revenue has continued to increase, with an 11% increase from 2021 to 2022. The downside of this yearly difference is the decrease of their net income in 2022, causing the earnings per share to decrease from $11.55 to $10.10. The primary cause of Netflix's decreased net income in 2022 was an increase in revenue costs, by Netflix's explanation, "a $1,796 million increase in content amortization relating to our existing and new content, including more exclusive and original programming." (Netflix, 2023) With the financial data and the explanations provided by Netflix, I would see this as promising if I were a financial stakeholder in Netflix, being that their revenue is continuing to increase and their costs are higher due to the ever-developing need for exclusive content in the streaming service world.

Using the price-per-earnings ratio to decide whether I would invest in Netflix or not is a task that requires ample background information. Two factors I used to decide were the historical P/E ratios of Netflix and a comparison of P/E ratios across companies in the same industry. First, I calculated the ratio by dividing the current stock price (as of September 15, 2023) of $396.94 by the reported EPS for 2022, $10.10. This resulted in a P/E ratio of $39.30, meaning that as an investor, I would be willing to pay $39.30 in order to receive $1 of Netflix's earnings. This ratio could represent the possibility that investors assume Netflix will grow in the coming years, making the streaming service one with high growth potential. However, when compared to one of its top competitors, Disney, Netflix's P/E ratio fell $29.72 short. Disney's ratio for 2022 was $69.02, however, their stock price at the end of 2022 was around $86, more than three times lower than Netflix's stock price at that point. This is an important fact to note when comparing P/E ratios as stock price directly affects the result. Using this information and the data that shows Netflix's continual P/E ratio increase year by year, I would choose to invest in this stock. Netflix shows P/E growth each year, remains comparable to one of their biggest competitors on the stock market, and presents high growth potential moving into the future.

After releasing its 2022 annual financial report, Netflix provided a brief news release linking to quarterly financial earnings interviews led by the company's Co-CEOs, CFO, Executive Chairman, and VP of Finance. The release did not contain any quotes, instead, it provided access to exclusive C-Suite interviews. In the interview recordings, executives are asked a series of appropriate questions regarding their quarterly earnings. Although the specifically linked interview does not cover their overall 2022 earnings report, their Q4 2022 earnings interview mentions various topics related to their overall 2022 performance and goals moving into 2023. Additionally, I viewed Netflix's proxy statement, a statement released by a company to notify shareholders of when and where the next shareholders' meeting will take place, and detail topics that will be discussed and voted upon during the meeting. I wanted to observe a broader degree of Netflix C-Suite executives' sentiments regarding their 2022 earnings, as well as their predictions moving into the next fiscal year. In their proxy statement, executives acknowledged the unpredictability of the start to their 2022 financial year but celebrated the great finish they experienced to end the year, relating this successful conclusion to an increase in global paid memberships and the continual release of widely-enjoyed films, series, and games. Their quarterly review interviews, however, proved to be a more detailed explanation of their financial performance and sentiments moving forward. Due to the lack of CEO quotes provided in the company news release, watching their videos served as my opportunity to assess Netflix's response to their financial performance. During the Q4 2022 earnings interview posted on Netflix Investor Relations' YouTube, co-CEO Ted Sarandos touched on Netflix's ability to "continue to grow in different market segments that our consumers really care about" through the team's ability to continue developing content "month in and month out, quarter in and quarter out." (Netflix Investor Relations 31:33-32:05) During his response, Sarandos emphasized the importance of Netflix continuing to release original and exclusive content to drive the "paid-share initiative and advertising launch" and overall revenue growth. Overall, the sentiment of both CEOs is that the two previously mentioned initiatives will prove to be successful and have revenue-positive effects moving into 2023. Conversely, there was not much negative discussion regarding either the Q4 or annual report. The bulk of the conversation detailed the various implementations and choices that allowed Netflix to have a successful year. In my opinion, it would have been beneficial to hear the areas in which they believe they fell short or in which their predictions differed from the outcome. However, these conversation topics were not covered in either of the sources I found, the earnings report interview or the 2022 proxy statement. All in all, the information provided was not very difficult to understand. Having the annual report on my computer as they mentioned specific figures made the interview much easier to follow as I was visually reading the topics that they discussed. Despite my experience with the interview, I believe having a CEO's quote within a press release would prove to be beneficial for the company, specifically to address differences in the company's financial results year-to-year.

In relation to the information released by news outlets, the most popular insights highlighted throughout the news stories related to Netflix's earnings report were the missed EPS estimate of Q4 2022 and both decreased net income and profit margin. These specific topics were not mentioned in either the earnings report interview with executives or their 2023 proxy statement, most likely due to the fact that this information leans toward the negative results of the 2022 financial data. Still, business journalists from CNBC, Zack.com, and SimplyWallSt.com and investment managers from Bireme Capital all mentioned Netflix's impressive growth in subscribers, gaining over 7 million subscribers in 2022. Mentioning both initiatives, ad-supported memberships, and paid share regulations, Bireme Capital agrees with Netflix executives in predicting they will generate increased revenue, resulting in higher earnings per share for investors. Overall, the information provided in the interview and statement tended to be predominantly positive, while financial journalists listed facts in the financial statements that both benefited Netflix and strayed from their original predictions. Moving forward, I have deemed it necessary to receive information from the source itself, in this case Netflix, but also outside sources that can provide an unbiased perspective on companies' financial reporting.