

Netflix: The Re-rating Is About Growth, Not Profitability

- Clean quarter, brutal reaction — market already pricing structural deceleration.
- Headline FCF flattered by one-off; disclosure narrows just as growth slows.
- Downgrade to HOLD, TP cut to THB2.52 on repricing to compounder.

A Clean Print, A Brutal Verdict

Netflix's Q2 wasn't a bad quarter — revenue and EPS were roughly in line, operating margin beat guide, and the company executed a record THB-equivalent buyback. Shares still fell ~7% after hours to a 52-week low, down nearly 40% from the 2025 high. We think the market did the work before we did: weighed the same positives and negatives we lay out below, and decided the negatives now win. The reaction itself is the most important data point in this note — everything that follows is our attempt to explain why investors judged the negatives to outweigh the positives.

The One Clean Number Wasn't Clean

Q3 revenue guidance of \$12.86b (+11.7% y-y) came in below Street, and the FY26 range was narrowed rather than raised — a tell that deceleration is structural, not a one-quarter air pocket. The headline free cash flow figure looked like the quarter's best number, +34% y-y. It wasn't. Roughly \$2.25b of that growth is a one-off termination fee; strip it out and core FCF actually fell y-y. The single metric that looked unambiguously good this quarter turns out to be the most misleading one — which is exactly the kind of detail a headline table won't show you.

What Netflix Stopped Telling You

Subscriber deceleration showed up in third-party data before Netflix quietly reduced disclosure cadence. Viewing hours — the metric management pivoted attention toward instead — are now doing the same thing one step behind: three straight half-year periods stuck at 1–2% y-y growth, followed by a move to annual (from semi-annual) reporting starting in 2027. We think this is a pattern, not a coincidence, and once you see it in the subscriber data, it's hard to unsee in the hours data. We walk through both series side by side in the full note.

Growth That's Priced, Not Earned

If subscribers are decelerating and hours are stuck near flat, the ~13% revenue growth has to come from somewhere else — and it does: price and ads, not volume. U.S. Standard pricing rose a cumulative ~29% in 14 months; ad revenue is on track to roughly double to a ~\$3b run-rate. Even the AI catalyst that was supposed to help Netflix's own cost structure is instead supercharging short-form competitors eating its viewing hours, at a scale Netflix's model can't match. We think this changes what kind of stock Netflix is — and what multiple it deserves.

Downgrade to HOLD; TP THB2.52 (NFLX \$75 at USD/THB 33.6)

We downgrade NFLX80 to HOLD from BUY, with TP cut to THB2.52 (\$75 at USD/THB 33.6) from THB3.90, as we think the market is repricing Netflix from a grower to a maturing compounder — not a broken business, but one whose multiple now belongs closer to Meta and Microsoft than to its old growth-stock premium. Margin and capital return remain intact; what's missing is proof the deceleration has actually stopped, rather than just been priced. We lay out the specific triggers — on both sides — that would change our mind before the Q3 print.

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The Re-rating Is About Growth, Not Profitability

The Reaction Is the Data Point

Shares fell roughly 7% after hours to a 52-week low near \$69, extending a decline of almost 40% from the 2025 high. The quarter itself did not justify that move: revenue and EPS were broadly in line, while operating margin exceeded guidance. The important signal is the gap between a respectable quarter and a sharp sell-off. Investors appear to be looking through the reported results to the forward growth path, weighing margin, buybacks and advertising against softer guidance, slower engagement and a tougher competitive backdrop. The de-rating was already underway before the release; this quarter appears to have reinforced it.

Exhibit 1: NFLX's Q26 Income Statement

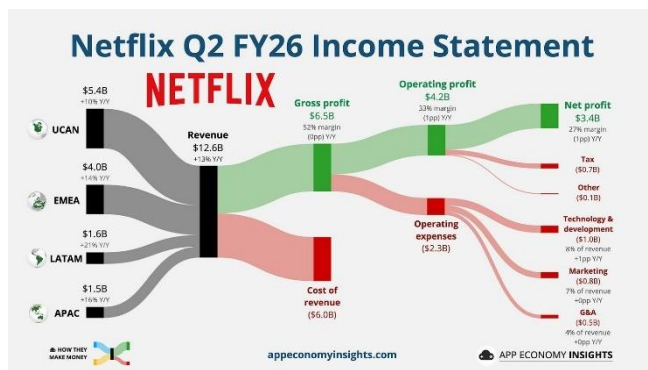
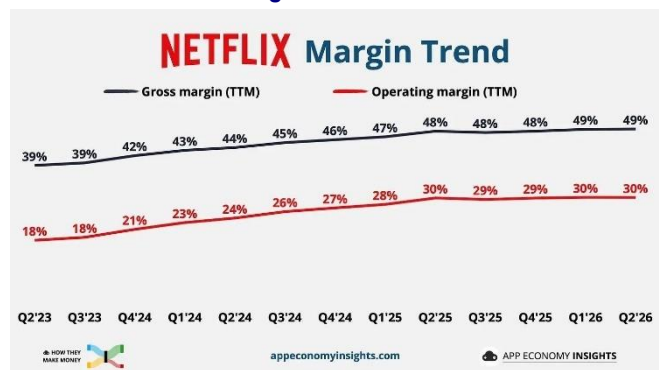


Exhibit 2: NFLX's Margin Trend



Sources: App Economy Insights

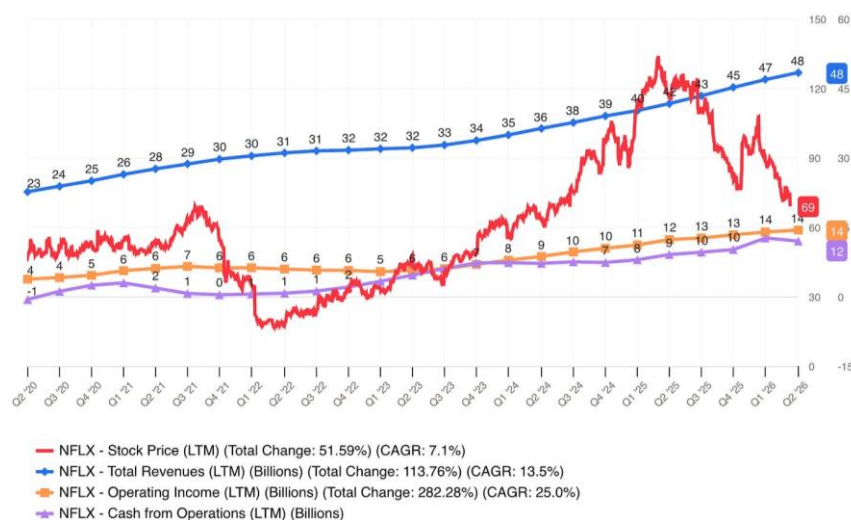
Sources: App Economy Insights

A Clean Quarter That Didn't Matter

On the numbers alone, Q2 was unremarkable in the best sense. Revenue of \$12.56b grew 13.4% y-y, a touch light of the ~\$12.59b Street estimate; EPS of \$0.80 beat the \$0.79 consensus; and operating margin of 33.4% came in ahead of the company's own guide. If the release had stopped at the headline table, this would read as a non-event. It's precisely because the quarter was fine that the guidance section carries so much weight — the market didn't sell the past, it sold the forecast.

Q3 revenue guidance of \$12.86b implies 11.7% y-y growth, a step down from Q2's 13.4% and below the ~\$13.0b the Street had modeled. The FY26 range was narrowed to \$51.0–\$51.4b from \$50.7–\$51.7b — a tighter band with a flat midpoint, not a raise. For a stock still priced on some expectation of durable double-digit-plus growth, "narrowed, not raised" reads as confirmation that deceleration is structural rather than a one-quarter blip, which is exactly why the multiple, not just the earnings estimate, is being repriced.

Exhibit 3: Netflix Stock Price vs Fundamentals



APP ECONOMY INSIGHTS

Powered by Fiscal.ai

Sources: App Economy Insights; Fiscal.ai

Free Cash Flow and Disclosure: Reading Between the Lines

The headline H1 FCF figure of \$6.6b looks like +34% y-y growth, but roughly \$2.25b of that is the after-tax benefit of the \$2.8b Warner Bros. Discovery termination fee Netflix collected after stepping away from that deal. Strip it out and core H1 FCF is closer to -11% y-y, with Q2 content cash spend up 28.5% y-y doing some of the work on the other side. None of this is a solvency concern — it's a data-quality one: the one number that looked unambiguously good this quarter turns out to be flattered by a non-recurring item.

That matters more than usual because Netflix is simultaneously narrowing what it discloses. The "What We Watched" viewing report moves from a semi-annual to an annual release starting in 2027. Quarterly subscriber counts have already stopped; the company only announces totals at milestones (325 million as of the January 2026 letter). Management frames both moves as keeping investor attention on revenue and profit. We'd frame it differently: when a company reduces the granularity of the metrics that would reveal whether its user base and engagement are actually decelerating, that's information too, and it should be priced as such, not waved through.

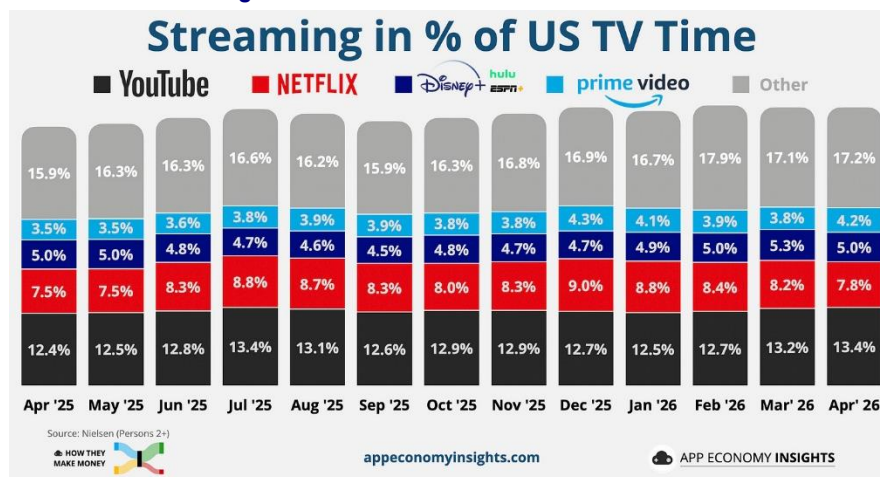
Viewing Hours: The Same Playbook, One Layer Down

That disclosure pattern isn't hypothetical — it already happened once, with subscribers, and the data shows why the company had an incentive to pull back. Third-party tracking from Antenna shows average monthly gross subscriber additions moderating to 1.3 million in the first five months of 2025, a 25.7% y-y decline from 1.8 million in the same period of 2024, and Netflix's own shareholder letter described full-year 2025 net adds as "notably lower" than the roughly 41 million added in 2024. Subscriber deceleration was real, it showed up in the data before Netflix stopped reporting it in detail, and disclosure narrowed shortly after.

Viewing hours — the metric management has pivoted disclosure toward instead — is following a similar arc, just one step behind. 1H25 hours grew 1% y-y; 2H25 grew 2% y-y (96 billion hours); 1H26 came in at +2% y-y. Three consecutive half-year periods bumping along at 1–2% is not a story of "engagement is fine while subscriber growth cools" — it's the same deceleration, expressed in the next metric down the disclosure chain.

And Netflix is now doing to hours what it did to subscribers: cutting the reporting cadence just as the number itself has stopped being flattering. Our answer to the question of whether viewing hours will slow the way subscribers did: they already have, and the disclosure response is already following the same pattern.

Exhibit 4: Streaming in % of US TV Time



Sources: App Economy Insights; Nielsen

Where's the Growth Actually Coming From?

If subscriber growth is decelerating and hours are stuck near 1–2%, the ~13% revenue growth has to be manufactured somewhere else. Two levers are doing that work. Advertising is on track to roughly double from ~\$1.5b in 2025 to a guided ~\$3b in 2026 — about \$1.5b of the total ~\$6b y-y revenue increase (FY25 actual \$45.2b to the FY26 guide midpoint of ~\$51.2b), or roughly a quarter of it. Price is the other lever: the U.S. Standard plan alone rose a cumulative ~29% across two hikes between January 2025 and March 2026, with Standard now at \$19.99 and Premium at \$26.99.

On our estimates, the remaining revenue increase is disproportionately a pricing and mix story rather than a volume story. Essentially all net subscriber additions in 2025 appear to have come from the lower-ARM ad-supported tier, while ad-free subscribers declined. Netflix is therefore monetizing a flat-to-shrinking premium base and a growing, but structurally lower-ARM, ad-supported base.

That's a legitimate lever, and it's working — but it has a shelf life. You can't re-rate price ~29% every 14 months indefinitely without eventually testing churn elasticity, and ad revenue growth mathematically slows once the ad-tier base and CPMs mature. This is the core of why we don't think Netflix's story is a profitability question at all: it's entirely a question of how much longer monetization-per-user can substitute for the volume growth that's no longer there.

Why Growth Drives the Multiple

AWS is an illustrative, not directly comparable, example of how a business can be re-rated on growth even when margins remain healthy. AWS decelerated from 37% y-y growth in 2021 to an ~11–12% trough by mid-2023 while profitability remained resilient; its valuation recovered as growth reaccelerated. The relevant takeaway for Netflix is that growth trajectory can determine the multiple when the margin story is already well understood.

We apply the same lens to Netflix. Margin expansion (33.4% in Q2; FY guide of 31.5% vs. 29.5% the prior year) and the record buyback indicate that profitability and capital return remain intact.

The key question is **whether Netflix can identify a genuine reacceleration lever** or whether growth settles in the low-teens-to-single-digits. In the latter case, a valuation nearer the mature-platform range of Meta and Microsoft (~20–22x forward earnings) is more appropriate than a return to Netflix's former growth-stock premium. Netflix's forward P/E has already compressed to roughly 20–21x; the remaining debate is whether its growth profile can stabilize at a level that supports that range.

Exhibit 5: Forward P/E Comparison

Company	Fwd P/E	Latest Q revenue growth (y-y)	Quarter
NVDA	~21–24x	+85%	FQ1 2027 (Apr 2026)
META	~20x	+33%	Q1 2026
GOOGL	~22–28x	+22%	Q1 2026
MSFT	~20–22x	+18%	FQ3 2026 (Mar 2026)
AMZN	~28–32x	+17%	Q1 2026
AAPL	~34x	+17%	FQ2 2026 (Mar 2026)
TSLA	~175–195x	+16%	Q1 2026
NFLX	~20–21x	+13.4%	Q2 2026

Sources: Globlex Research

Netflix now has the slowest revenue growth of the entire group, but not the lowest multiple — it's bunched with Microsoft and Meta, both of which are growing meaningfully faster. If the market were mechanically re-rating Netflix to match its growth rank, it would trade at a discount to both, not in line with them. That it doesn't yet suggests one of two things: either the re-rating isn't finished and there's still room for the multiple to fall if growth doesn't stabilize, or Netflix is still getting some benefit of the doubt on margin quality and capital return that's temporarily cushioning the multiple.

We lean toward the view that Netflix needs clearer evidence of growth stabilization. Contrast that with Tesla and Apple, which sit at the rich end on growth rates similar to or lower than Netflix's — a reminder that this cohort's multiples aren't purely a function of growth either; Tesla's is almost entirely optionality (autonomy, robotics) rather than core auto growth, and Apple's carries a services/buyback/brand premium. Netflix doesn't have an equivalent story to lean on right now, which is exactly why we think its multiple is the one in this group with the least support underneath it.

The Record Buyback: Conviction or Autopilot?

None of this is a case that Netflix is broken. The company bought back \$4.7b of stock in Q2 — the largest quarterly repurchase in its history — on top of an additional \$25b authorization approved in April. We'd read that scale and timing as a signal in its own right: the buying happened through April–June, while the stock was already trading well below its 2025 high and before the guidance-driven leg down that followed this print.

Management buying at a record pace into an already-depressed valuation suggests real conviction that the shares were too cheap, not just a capital-return policy running on autopilot — though buybacks are an imperfect signal alone, since they can also reflect offsetting stock-comp dilution rather than a fresh view on price. The more telling test is whether the pace holds into Q3, now that the stock has fallen further still.

Operating margin keeps expanding, and management reiterated the ~\$3b 2026 ad revenue target with the U.S. upfront in late-stage negotiation. Capital discipline held: Sarandos again described Netflix as **"a builder, not a buyer"** and the company passed on Lionsgate. Management also cited AI-assisted production cutting VFX cost and time in half on select work — a real, if narrow, efficiency gain.

The AI Catalyst, Revisited

That last point deserves more scrutiny than it usually gets, because we think the AI-as-Netflix-catalyst thesis has underdelivered relative to where expectations sat a year ago — and the company's own numbers show why. Netflix's 2026 content budget is \$20b, up 10% y-y from ~\$18b in 2025.

That's the aggregate figure moving in the opposite direction from what a genuine cost-deflation story would produce. A scripted Netflix show still averages roughly \$9m per episode, a number driven overwhelmingly by talent fees, marketing, and physical production, categories AI hasn't meaningfully touched. The VFX example management cited is real, but it's a narrow slice of a cost structure that remains, by design, a "full house production" model: bespoke, talent-driven, marketing-intensive. Whatever savings exist are being reinvested into more content, not banked, so there's no visible net cost benefit flowing through the P&L yet.

Compare that to what AI is doing on the other side of the ledger. In China's micro-drama industry, companies are now allocating roughly 30% of production budgets to AI workflows, cutting total production time from three months to one and reducing costs to about a fifth of a traditional shoot — an 80% reduction.

Exhibit 6: 'Strange Mirror of Mountains and Seas', AI-generated 'microdramas with over 50m views



Sources: New Straits Times

Exhibit 7: Chinese Micro Drama



Sources: LinkedIn

Other examples point in the same direction: Vigloo reportedly completed an AI-generated title in six weeks at a 90% cost reduction, while Douyin added tens of thousands of AI-native micro-drama titles in a single month. These figures require careful source verification, but they illustrate the different economics of short-form content, where speed and volume may matter more than premium production value.

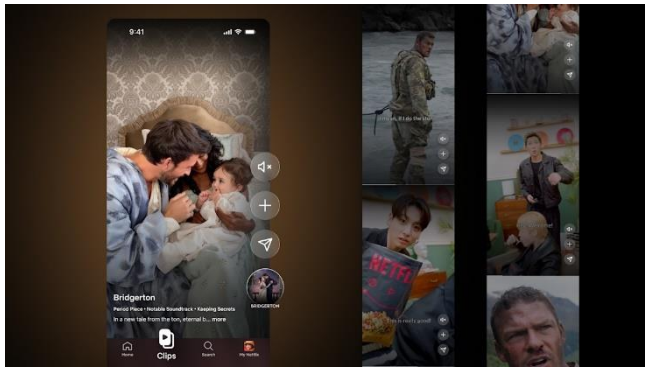
Taken together, these examples suggest that AI currently offers a larger production advantage to short-form competitors than to Netflix's premium, talent-driven model. Netflix may still benefit from AI-assisted production, but the evidence so far does not show a material net reduction in its overall content cost base. AI may therefore intensify competition for viewing time before it becomes a major Netflix margin catalyst.

The Short-Form Pivot: Defense, Not Offense

This is the backdrop against which Netflix's own product moves this quarter should be read. Starting 3 August 2026, Netflix begins carrying licensed short-form content from Variety, BuzzFeed, Condé Nast, Penske Media and People Inc. as

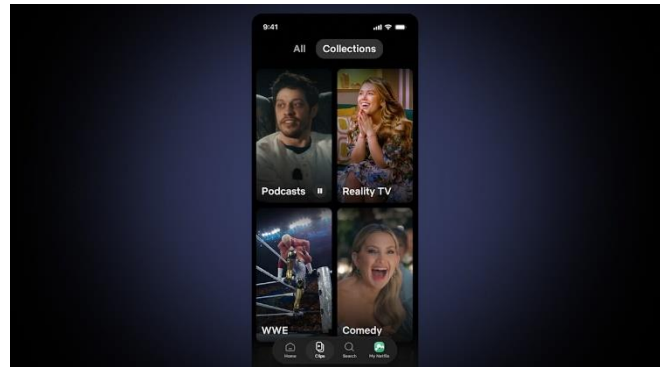
standalone in-app viewing across the US, Canada, UK, Ireland, Australia and New Zealand — a step beyond the existing "Moments"/"Clips" feature, which only ever funneled viewers back to full Netflix titles. This content doesn't sell a Netflix show at all. The timing follows a Bloomberg report flagging weak season-to-season retention on Netflix's own hits, and it's a reversal of sorts: Netflix's CTO said as recently as late 2025 the company wasn't trying to "copy or chase" TikTok.

Exhibit 8: Netflix's new "Clips"



Sources: Netflix

Exhibit 9: Netflix's "Clips" Collections



Sources: Netflix

Our View: Monetization Is Not Reacceleration

We don't think Netflix is a broken business, and we wouldn't bet against its margin discipline or capital returns. But we think the market is in the process of repricing Netflix from a grower to a maturing compounder, and every thread in this quarter's release points the same direction: guidance narrowed rather than raised, the one clean-looking number (FCF) turns out to be flattered by a one-off, disclosure is narrowing on both subscribers and engagement in the same pattern, the growth that is showing up is disproportionately priced rather than earned through volume, and the AI tools that were supposed to be Netflix's own catalyst appear to be doing more for the competitors eating its viewing hours than for Netflix itself.

None of that is fatal. It does mean the multiple probably belongs closer to the maturing-platform band (Meta, Microsoft) than to Netflix's old growth-stock premium, unless management can show a genuine reacceleration lever rather than a monetization one.

Our framework: valuation has clearly reset to reflect a slower-growth Netflix; that's necessary for a bottom but not sufficient. What's still missing is evidence that the deceleration has *stopped*, as opposed to merely being priced. That distinction is what the following catalysts would actually resolve — not the passage of time on its own.

Downside catalysts:

- A Q3 print that confirms or extends the deceleration (growth below 11.7%, or a second guide cut rather than a reaffirm)
- Signs of price-hike fatigue — churn ticking up now that cumulative U.S. increases have reached ~29% since January 2025
- Ad-tier disclosure staying opaque, or upfront terms landing below the ~\$3b run-rate implied by management's target
- Content spending continuing to grow faster than revenue, which would limit operating leverage as growth decelerates.

Re-rating catalysts:

- *Fundamental:* a Q3 or Q4 beat against the lowered guide; a U.S. ad upfront at or above the implied \$3 billion run-rate with evidence of demand; or viewing hours reaccelerating materially above the 1–2% range on a broad-based basis.
- *Strategic:* live sports and events becoming repeatable volume drivers; international penetration accelerating into disclosed volume growth; or measurable retention improvement from the short-form initiative.

Recommendation

We downgrade NFLX80 to HOLD from BUY, with TP cut to THB2.52 (\$75 at USD/THB 33.6) from THB3.90. Our thesis no longer rests on durable compounding alone — pricing power, ad scaling, and the buyback remain intact, but growth deceleration in subscribers and viewing hours looks structural rather than a one-quarter air pocket, and management's own disclosure is narrowing in step with it. We see limited near-term catalysts before the Q3 print and closed US ad upfront in October, and would revisit BUY on confirmation that engagement has stabilized, not merely that it's been priced.

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Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

BUY: Expected return of 10% or more over the next 12 months.
HOLD: Expected return between -10% and 10% over the next 12 months.
REDUCE: Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Sector Recommendations

Overweight: The industry is expected to outperform the relevant primary market index over the next 12 months.
Neutral: The industry is expected to perform in line with the relevant primary market index over the next 12 months.
Underweight: The industry is expected to underperform the relevant primary market index over the next 12 months.

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Overweight: Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

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