MOODY'S

Rating_Action: Moody's upgrades Netflix's senior unsecured notes to Baa3 from Ba1; the outlook is positive

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New York, March 29, 2023 -- Moody's Investors Service (Moody's) upgraded Netflix, Inc.'s (Netflix) senior unsecured notes ratings to Baa3 from Ba1. As the company is now investment grade, Moody's has withdrawn Netflix's Ba1 Corporate Family Rating (CFR), Ba1-PD probability of default rating (PDR), and SGL-1 speculative grade liquidity (SGL) rating. The outlook is positive.

Upgrades:

..Issuer: Netflix, Inc.

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 from Ba1 (LGD4)

Withdrawals:

..Issuer: Netflix, Inc.

.... Corporate Family Rating, Withdrawn, previously rated Ba1

.... Probability of Default Rating, Withdrawn, previously rated Ba1-PD

.... Speculative Grade Liquidity Rating, Withdrawn, previously rated SGL-1

Outlook Actions:

..Issuer: Netflix, Inc.

....Outlook, Remains Positive

RATINGS RATIONALE

The upgrade to Netflix's senior unsecured notes ratings to investment grade reflects Moody's expectation that Netflix will remain the leading direct-to-consumer subscription-video-on-demand (SVOD) single Tier-1 platform in the world, execute effectively despite an increasingly competitive landscape, and continue to improve its fundamental and financial credit profile. Fundamental improvement is expected from revenue and membership growth and operating margin expansion. Governance considerations, specifically the company's implementation of a target debt range of $10 to $15 billion which they are now squarely in, demonstrates their commitment to sustaining investment grade credit metrics.

Moody's anticipates that growth in subscribers from the recently launched ad supported service will be gradual but steady and provide a strong long-term opportunity for revenue growth given the mass audience potential and shrinking ad avails in the linear television ecosystem. Moody's also anticipates that the only near-term price increase will be related to the password sharing initiative, which could cause short term subscriber discontent and disruption, but presents the company with a material revenue growth and margin expansion opportunity. There is some risk that aggressive rate hikes over the long term along with greater SVOD competitive options will raise churn as consumers learn to lower or cap their spending by rotating in and out of SVOD platforms since all Tier 1 and tier 2 platforms are presently spending record amounts on content and new production to attract subscribers. However, Moody's believes that Netflix's consistent considerable spending on content will likely mean that it will be a leader in retaining subscribers. Moody's is confident that Netflix's leading levels of spending on content, increasingly on owned originals, will not only increase the asset value of its library, but will result in many successful global and regional series and film hits capturing the zeitgeist of our time, as evidenced by the plethora of awards Netflix has earned so far.

"We believe Netflix will continue to be a leader in streaming despite the increasing competition, and we forecast the subscriber base to grow to around 250 million globally and revenues to reach at least $38 billion by the end of 2025" stated Begley.

Moody's expects gross debt-to-EBITDA with Moody's adjustments to drop to around 2.5x by year end 2023, which positions the company strongly for the Baa3 rating. Moody's believes that static debt levels coupled with continuing revenue growth and margin improvement would result in continuing strengthening of credit metrics over the medium-term and leverage could drop to under 2.0x by FYE 2025.

Netflix's positive free cash flow going forward, coupled with the company's plan to keep cash on hand consistent with at least two month's revenue, and $1 billion unused revolving credit facility, all bolster the company's excellent liquidity profile. There are no debt maturities in 2023, only $400 million in 2024 and approximately $1.8 billion in 2025. Moody's anticipates that excess cash beyond investment in the business, will be used to repurchase shares and to opportunistically make tuck in acquisitions.

Netflix's ESG Credit Impact Score is Neutral-to-Low (CIS-2). Netflix is benefiting from its leading position in the social trend surrounding the consumer transition to proprietary direct-to-consumer television streaming video platforms. The company is very transparent, has sustained strong cash liquidity, and management has a financial policy targeting investment credit metrics.

The positive outlook reflects Moody's expectation for growth in revenues and EBITDA combined with the company's implementation of a target debt range of $10 to $15 billion to result in declining financial leverage and sustainably improving free cash flow generation.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's would consider upgrading Netflix's ratings if management continues to remain committed to investment grade metrics; the company is or will sustain debt-to-EBITDA leverage below 2.5x (including Moody's adjustments); free cash flow to debt is at least 20% and liquidity remains strong; and revenue, subscribers and margins continue to expand. Moody's would consider a downgrade of Netflix's ratings if management's financial policies are no longer consistent with investment grade ratings; the company is or will sustain debt-to-EBITDA leverage above 3.0x (including Moody's adjustments); free cash flow to debt is expected to be sustained below 10%; revenue, subscriber and margin trends turn negative leading to sustained contraction; or liquidity materially narrows.

Netflix, Inc., with its headquarters in Los Gatos, California, is the world's leading SVOD streaming television platform, with total streaming subscribers reaching over 230 million as of December 31, 2022. Consolidated revenues for FY 2022 were over $31.6 billion.

The principal methodology used in these ratings was Business and Consumer Services published in November 2021 and available at https://ratings.moodys.com/api/rmc-documents/356424. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Neil Begley
Senior Vice President
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Lenny J. Ajzenman
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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