

# Netflix Inc. Upgraded To 'A' From 'BBB+' On Performance, Revised Financial Policy; Outlook Stable

- U.S.-based Netflix Inc. has outperformed our forecast over the past several quarters and is generating mid-teens percent revenue growth and material margin expansion that has reduced leverage to 1.1x from 1.6x at the end of 2022.
- Netflix updated its financial policy after announcing its first-quarter results, supporting our view that S&P Global Ratings-adjusted leverage will remain below 2x on a sustained basis.
- As a result, we raised our ratings on Netflix, including the issuer credit rating to 'A' from 'BBB+'.
- The stable outlook reflects our expectation that Netflix will maintain its global leadership position in streaming video and generate 10%-15% revenue growth over the next two years due to its higher subscriber base and increased user monetization from price increases and advertising leading to modest margin expansion. We expect leverage to remain about 1x absent meaningful acquisitions.

CHICAGO (S&P Global Ratings) July 22, 2024--S&P Global Ratings today took the rating actions listed above. The upgrade reflects Netflix's accelerating growth, strong margin expansion, and strengthened credit metrics and cash flow. Netflix continues to report operating results that exceed expectations through the first half of 2024. S&P Global Ratings-adjusted leverage decreased to 1x as of June 30, 2024, and has remained under 1.5x over the past six quarters due to strong earnings and cash flow growth. Netflix's initiative to limit password sharing rolled out in mid-2023 has been the key factor to reaccelerating revenue growth that we now expect at 14%-15% in 2024 and about 10% in 2025. In the past four quarters, the company added over 39 million subscribers and now has 278 million globally.

The company's leadership position and significant investments in content and marketing have resulted in a globally recognizable brand, strong customer retention, and pricing power that we expect to sustain strong revenue growth, operating leverage, and robust cash flow. Despite planning to increase content spending up to \$17 billion in 2024, up from the \$13 billion in 2023 depressed by the Hollywood strikes, we expect Netflix to generate a robust \$6 billion of free operating cash flow (FOCF) due to EBITDA growth of 33%.

We expect Netflix will maintain a financial policy, including possible acquisitions, below our 2x leverage downgrade trigger. After reporting first-quarter results, Netflix updated its financial policy that we view as supportive of our upgrade to 'A'. As part of the update, the company now targets a "solid investment-grade rating" as opposed to just an "investment-grade rating". While Netflix removed its former target of \$10 billion-\$15 billion gross debt, we do not view this as a negative. We now forecast EBITDA will be over \$10 billion, which provides about a \$10 billion cushion to maintaining leverage below our 2x downgrade threshold, or significantly more than \$10 billion if it pursued a sizeable acquisition due to its significant cash flow generation. We view an acquisition of that magnitude as unlikely given Netflix's history of not pursuing large-scale acquisitions, which is supportive of the upgrade.

Additionally, Netflix explicitly has said that it does not currently have any plans to pursue a leveraged share buyback and will use FOCF to repurchase shares, which will hold leverage steady in the absence of major acquisitions. We expect strong and improving FOCF along with a conservative financial policy, allowing ample headroom to maintain leverage below 2x and significant flexibility to pursue any strategic large-scale acquisitions.

In our view, evolving dynamics in the media ecosystem enhance Netflix's competitive position. Its position as the global leader in streaming remains strong and, in our view, has increased as the streaming landscape has shifted. Competitors are focused on generating sustainable profitability as opposed to subscriber growth. These dynamics have rationalized spending on content while several participants consistently raise prices. Both factors benefit Netflix because they ease competition to acquire content and allow for industry average revenue per user (ARPU) growth.

Netflix's successful execution of its password sharing initiative and ongoing investment in its already strong technology platform maintain its strong competitive advantage and contribute to the strong reacceleration of growth that we view as sustainable over the next 2-3 years. We also view the ongoing shift of advertising toward digital as an additional opportunity for growth. Netflix has been expanding its ad-supported subscriber base and ad-tech capabilities. Advertising could be a meaningful contributor to growth by 2026 if Netflix executes its strategy.

The stable outlook on Netflix reflects our expectation that it will maintain its global leadership position in streaming video. We expect the company to generate 10%-15% revenue growth over the next two years due to its higher subscriber base and increased user monetization from price increases and advertising leading to modest margin expansion. We expect leverage to remain about 1x absent meaningful acquisitions.

We could lower our rating on Netflix if:

- Revenue declines and margin contracts due to an increasingly competitive landscape such that leverage increases above 2x; or
- It adopts a more aggressive financial policy with respect to acquisitions and shareholder returns such that leverage increases and remains above 2x.

While unlikely over the next 12-24 months, we could raise our rating on Netflix if it:

- Maintains leverage of less than 1x on a sustained basis; and
- Successfully builds out a scaled advertising platform that contributes to revenue growth greater than 10% and operating margin approaching 30% over the next 2-3 years.

## Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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