Rating Action

Moody's Ratings upgrades Netflix's senior unsecured notes to Baa1; outlook stable

New York, July 22, 2024 -- Moody's Ratings (Moody's) upgraded Netflix, Inc.'s (Netflix) senior unsecured ratings to Baa1 from Baa2. The outlook was changed to stable from positive.

The upgrade reflects Netflix's strong operating performance, leading market position, and our expectation for sustained strong free cash flow generation and credit metrics. At year-end December 31, 2024, we project total debt-to-EBITDA will be around 1.9x (including Moody's adjustments) and free cash flow to debt to be around 40%.

"Over the past several years, Netflix has consistently delivered strong revenue growth, improved profitability, and maintained a disciplined approach towards balance sheet management and liquidity. Since 2016, Netflix has methodically reduced leverage from a peak of 8.0x to slightly less than 1.9x at March 31, 2024." said Emile El Nems, a Moody's Ratings VP-Senior Credit Officer. "Going forward, we expect Netflix will maintain the same discipline towards sustaining a healthy balance sheet and keeping ample liquidity by delivering strong operating results, maintaining moderate leverage of 2.5x or less (inclusive of Moody's adjustments), and balancing the interests of creditors with the interest of shareholders."

RATINGS RATIONALE

Netflix's Baa1 unsecured rating reflects the company's scale, well entrenched competitive position, strong credit metrics, and excellent execution. With around 278 million subscribers, Netflix is the largest content streaming service provider in the world. Netflix's proven formula of consistently delivering high quality content across many genres and geographies continues to cement the company's value proposition. Over the years, this has led to an increasing subscriber base which along with price increases has resulted in growing revenues, operating margins and free cash flow. This has provided the company with increased flexibility to further reinvest in high quality and local content which will continue to strengthen its position relative to its competition.

At the same time, our rating takes into consideration the intense competitive environment the company operates in and elevated content spend. Netflix competes against other large well established subscription video-on demand (SVOD) platforms, such as Disney+/Hulu, Amazon Prime Video, Peacock, Paramount+, and Max, which also have significant content libraries and production capabilities. For 2024, we project Netflix's cash content spend will be around $17 billion.

Netflix's ESG Credit Impact Score (CIS-2) indicates that ESG considerations are not material to the rating. As the world's leading streaming service, Netflix benefits from secular trends surrounding the consumer transition to proprietary direct-to-consumer television streaming video platforms. The CIS score also reflects the balanced financial policies that have resulted in strong credit metrics, robust liquidity and our expectation for Netflix to maintain modest leverage of 2.5x or less (inclusive of Moody's adjustments).

Netflix enjoys strong liquidity. This is supported by (i) around $6.7 billion of cash and short term investments (at June 30, 2024), (ii) full availability under the company's $3 billion unsecured revolving credit facility expiring in 2029, and (iii) our projection of around $6.2 billion in free cash flow in 2024 and more than $7.2 billion in 2025. We anticipate that excess cash beyond investment in the business will be used to repurchase shares.

The stable outlook reflects our expectation that Netflix will continue to grow subscribers, increase revenue and operating profits, generate material free cash flow and maintain strong credit metrics.

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

The rating could be upgraded if subscriber levels, revenue and profitability continue to grow and the company remains committed to conservative financial policies such that debt-to-EBITDA (inclusive of Moody's adjustments) is maintained at around 2.5x or less (including Moody's adjustments); free cash flow-to-debt is at least 30%; and the company's liquidity remains strong.

The rating could be downgraded if debt-to-EBITDA (inclusive of Moody's adjustments) is sustained above 3.0x; free cash flow to debt is less than 20%; subscribers and margin trends turn negative on a sustained basis; or the company's liquidity substantially weakens.

Headquartered in Los Gatos, California, Netflix, Inc., is one of the world's leading entertainment services, with total paid memberships reaching around 278 million as of June 30, 2024.

The principal methodology used in these ratings was Business and Consumer Services published in November 2021 and available at https://ratings.moodys.com/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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