APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Netflix Q1 2026 Results

Share Price	$96.28
Date	20 April 2026

RESULTS SUMMARY

Netflix released a solid set of Q1 2026 results, beating both management guidance and market expectations. Revenue increased 16.2% y-o-y, slightly head of the expected 15.5%, while operating income also exceeded forecasts, supported by continued margin expansion.

Earlier in the quarter, attention was centred on Netflix's proposed acquisition of Warner Brothers for over US$80bn. Following a higher competing bid from Paramount Skydance, Netflix decided to not increase its offer, noting that owning Warner Brothers' content would be beneficial, but only at the right price. As a result of the existing agreement, Netflix received a US$2.8bn payment from Warner Brothers.

Despite the strong quarter, the share price fell 10%. Management guided to 13% revenue growth for Q2 and an operating margin of 32.6%, both slightly below expectations, with content amortisation weighing on margins. They also reiterated full-year 2026 guidance. After a strong Q1 and recent US price increases, the market had expected an upgrade, however management clarified that these increases were already factored into their current guidance.

We do not view the softer near-term outlook as changing the long-term investment case. Following the share price pullback, valuation levels appear attractive relative to the company's long-term growth trajectory.

OUR LONG-TERM INVESTMENT VIEW

- Netflix remains the leading global subscription streaming platform, with over 325 million subscribers. As a first mover, it built a meaningful scale advantage that continues to differentiate it in an increasingly competitive market.
- Content is the primary driver of subscriber growth, and Netflix continues to lead on this front, with around 50 titles surpassing 100 million views.
- Content investment is also the company's largest cost, with amortisation accounting for roughly 40% of revenue. Encouragingly, this ratio has declined in recent years as revenue growth has outpaced content spend. This operating leverage has driven strong profit and cash flow growth, enabling Netflix to reinvest in production quality and increase its content slate. The result is a stronger offering, sustained subscriber growth and consistently low churn. We see this flywheel as a core pillar of the long-term investment case.
- While early subscriber growth was largely US-driven, future growth is expected to be increasingly global, supported by a deeper focus on local content.
- Advertising is the fastest-growing segment of the business, with an annual run rate of approximately US$3bn and over 4 000 clients, both of which have nearly doubled over the past year. While still a relatively small contributor (around 6% of revenue), we expect this to exceed 10% over time and become a meaningful driver of future revenue growth.

UNPACKING THE Q1 2026 RESULTS

High-level numbers

- **Revenue** increased 16.2% y-o-y to US$12.5bn on membership growth, higher

- **Live Events** had a solid quarter with more than 70 events being broadcast. Most pricing and a significant increase in advertising revenue.

- **Operating income** increased 18.2% with operating margin improving 60bps to 32.3% as content amortisation (40% of revenue) increased at a more muted rate than revenue.
- **EPS** for the quarter was US$1.23 compared to US$0.66 in the prior year. Organic growth was strong, but the increase is mainly due to the US$2.8bn that Netflix received form Warner Brothers when they terminated the acquisition deal.
- **Free cash flow** for the quarter was US$5bn, up from US$2.8bn in the prior year. While this was largely due to the termination fee, Netflix continues to improve its free cash flow generation with revenue growth outpacing content spend growth.
- **Share repurchases** were restarted after a brief pause due to the potential acquisition. US$1.3bn worth of shares were repurchased during the period, US$6.8bn remains on the current authorised program.
- **Balance sheet** remains solid. As at the end of the quarter, Netflix had US$12.3bn in cash and cash equivalents with debt of US$14.4bn and a net debt to EBITDA of 0.14x.

Focus areas

- **Core content** had a strong quarter with the release of several successful titles. Original titles *War Machine* and *The RIP* both saw viewership of over 100 million. The new season of a top series *Bridgerton* was released with 94 million views, this was followed up with the second season of *One Piece* which has had 40 million views since release. Management indicated in the call that while investment in other areas of growth will continue, development of original movies and shows will dominate content spend.

notably was the World Baseball Classic that was exclusively for subscribers in Japan. The event had 31.4m viewers, the most watch programme ever on the platform in Japan and led to the largest day of sign-ups in the country.

- **Advertising** growth continued with US$3bn now expected for the full year 2026, double the amount from 2025. This would represent roughly 6% of total revenue. Netflix sees this as a significant growth driver in the near term and is investing in its advertising capabilities to grow its client base, which now sits at over 4000, up 70% compared to the prior year.
- All **Regions** saw double-digit revenue growth during the period. APAC was the leader at 20%.

Looking ahead

Management guided to 13% revenue growth for Q2 2026 and an operating margin of 32.6%, both slightly below market expectations.

For the full year, they reiterated their 2026 guidance, indicating that operating margin expansion is expected to be weighted toward the second half due to the timing of content amortisation.

Much of Q1 sentiment was driven by the proposed acquisition of Warner Brothers. Following Netflix's decision to step away from the deal, the share price rally set a high bar for results. The softer near-term guidance has since reset expectations, bringing the valuation back below long-term averages.

At current levels, we believe the risk-reward looks attractive, supported by the company's long-term growth trajectory.

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