Financial Statement Analysis of Netflix: Evaluating Profitability, Scribe Growth and Debt Management

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Abstract. The entertainment industry, as one of the important industries in the United States, has made contributions in both economic and cultural exports. After entering the digital age, the film and entertainment industry, especially the streaming media service industry, has gradually occupied an important position in the entire industry. However, after the pandemic, the social media industry has developed at an extremely fast pace, posing a threat to the film and entertainment industry. As a leader in streaming media services, Netflix has also inevitably been impacted by the social media industry. Therefore, the purpose of this article is to provide suggestions for Netflix to enable it to maintain its leading position in the highly competitive entertainment industry. This article focuses on analyzing Netflix financial statements by using three indicators which are profitability, subscriber growth and liquidity. According to the evaluation, Netflix is recommended increase its subscriber growth rate especially in Latin American area and Asia-Pacific area by creating more diversity content. Besides, it is recommended that Netflix should change its financial structure, reducing debt-to-equity ratio to reduce its financial risk.

Keywords: Entertainment Industry, Streaming Service, Operating Margin, Subscriber Growth, Debt to Equity.

1 Introduction

The entertainment industry is essential for the United States, contributing majorly to its GDP, employment and influencing the culture world widely. Overall, the entertainment industry had a higher average annual growth rate than the United States GDP growth rate by 0.3% from 2019 to 2023, and its revenue is expected to grow another 5% annually in the next five years [1]. In the aspect of employment, overall employment of this industry showed growth in recent years, and over 2.1million industry jobs will be provided by the end of 2025 according to the forecast [1]. Culturally, the entertainment industry implants American values into cultural carriers such as TV shows and movies, including individualistic hero movies like Hollywood content, to influence young people around the world through cultural export.

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The filmed entertainment sector leads the media and entertainment industry in profits, with $73.7 billion, including SVOD like Netflix. Meanwhile, Netflix faces competition from traditional TV, other streamers, video games, and increasingly dominant social media platforms.

In the past few years, Netflix has developed rapidly but faced some problems. In the streaming industry, Netflix is regarded as the industry leader. However, Netflix is at a tipping point where it needs to reevaluate its existing position in the market because it has been losing US customers since 2019 [2]. This research aims to analyze the company's situation through its financial statements and provide corresponding suggestions.

2 Company Profile

Reed Hastings and Marc Randolph established Netflix.com, which is the first DVD rental and sales site, in 1997, and they provided subscription service to members two years later. Until 2007, Netflix introduced streaming service and became the pioneer in the SVOD sector [3]. In the years that followed, Netflix started to partner with consumer electronics brands like Xbox 360, internet connected TVs and mobile devices. Netflix launched its first original series programming in 2013 and began live streaming in 2023 [4]. Netflix has become one of the top providers of entertainment services, having over 300 million paid memberships in more than 190 countries. Netflix is the first SVOD platform and has the largest number of subscribers than other SVOD platforms like Amazon prime video and Disney [5].

Netflix defines itself as a technology company, however its strategy shifts from a technology firm to an entertainment corporation after entering original programming [6]. Streaming companies must invest largely in the production of original content which could attract and retain their customers [4]. As a content provider, although cultural and regulatory realities have hindered Netflix from standardizing its products globally. Netflix must establish its own brand image [7]. Compared with other services based in the United States, Netflix's content varies significantly on a global scale, and the content it provides is produced in lots of countries [8]. Netflix localizes its content to match the tastes and preferences of the audience in the region. Adopting localization is the key to its success in different markets and the key to establishing its position among the world's leading streaming platforms [9].

3 Financial Statement Analysis

3.1 Profitability and Efficiency

Profitability is a key indicator of financial health and long-term sustainability of a company, which measures how effectively a company uses its resources to create value. Operating margin is one of the profitability ratios and a critical ratio in an industry with high content costs like Netflix, and this ratio will be used to analyze if Netflix's operation is profitable and efficient.

Firstly, it is necessary to understand the company's profit sources and overall profit situation. Netflix 2024 annual report states that its revenues are derived from two parts which are streaming revenues and DVD revenues. However, Netflix stopped offering DVD-by-mail service on December 31, 2023. As shown in Table 1, DVD revenues accounted for merely 0.25% and 0.46% of the total revenues in 2023 and 2022 respectively. Therefore, Netflix operations and financial outcomes were not significantly impacted by the closure of their DVD business. Streaming revenues include monthly membership fees and revenue from advertising, but the latter were not a material component of streaming revenue. Based on the above analysis, it is concluded that the core business of Netflix is streaming services which provides streaming content to members and gain monthly membership fees.

Overall, streaming revenues for the year ended December 31, 2024, increased 16% as compared to the year ended December 31, 2023, primarily due to the growth in average paying memberships and price increases. Although Netflix operates as one operating segment, it is necessary to analyze revenues from different regions. As shown in Table 2, United States and Canada area provides almost half streaming revenues, while Latin America and Asia-Pacific still have large growth potential.

Secondly, the operating margin is analysed to show how efficiently Netflix can generate profit through its core operations. Netflix is confronted with the continuous rise in content production and procurement costs, and its operating profit margin can reflect its ability to control costs. This indicator can illustrate whether Netflix can achieve profitability while maintaining the competitiveness of its content.

As shown in Table 1, the operating margin has been increasing year by year from 2021 to 2023. Due to the faster growth of revenue than that of expenses, the operating profit margin for the year ended December 31, 2024, increased by 6 percent compared with the previous period [10]. Therefore, Netflix has become more efficient in making profits during the past years.

Table 1. Revenue of Netflix

Dollars in thousands, except percentage			
Year ended December 31,	2024	2023	2022
Streaming revenues	39,000,966	33,640,458	31,469,852
DVD revenues	0	82,839	145,698
Total Revenues	39,000,966	33,723,297	31,615,550
Operating income	10,417,614	6.954,003	5,632,831
Operating margin	27%	21%	18%

Table 2. Streaming revenue of Netflix in four regions

Dollars in thousands			
Streaming revenues	2024	2023	2022
Total	39,000,966	33,640,458	31,469,852
United States and Canada (UCAN)	17,359,369	14,873,783	14,084,643
Europe, Middle East, and Africa (EMEA)	12,387,035	10,556,487	9,745,015
Latin America (LATAM)	4,839,816	4,446,461	4,069,973
Asia-Pacific (APAC)	4,414,746	3,763,727	3,570,221

3.2 Subscriber Growth

Since Netflix's revenue is primarily from subscriptions, users' growth is a direct driver of financial performance of Netflix. Total subscription fees are influenced by the number of subscribers and average price of monthly subscription, so the analysis will be conducted from these two aspects.

As shown in Table 3, the EMEA region has the largest number of paid memberships, accounting for approximately 33.5% of the total. The UCAN region ranks second, accounting for nearly 29.7% of the total. The contribution amounts of the LATAM region, and the APAC region are almost the same, at 17.7% and 16.7% respectively. In terms of growth rate, the overall growth rate has been increasing from 2022 to 2024, rising from 3.9% in 2022 to 13.7% in 2024. The growth rate in the UCAN region increased from negative growth to 10.6% during this period, and that in the EMEA region increased from 3.5% to 12.2%. Although the LATAM region and the APAC region lag in total volume, they have the highest growth rate. The growth rate of the LATAM region increased from 4.2% to 13.7%, while the APAC region maintained a relatively high growth rate, rising from 14.2% to 21.2%. It is worth mentioning that the Asia-Pacific region has the largest population in the world. According to the current growth rate, the Asia-Pacific region could have a huge improvement in paid memberships in the future.

The Netflix 2024 annual report states that the growth of members is mainly influenced by three aspects. First, its growth has seasonal characteristics. The fourth quarter has the fastest growth probably because it has the longest and the most important holiday during the year. The second reason is the influence of the content release plan. Thirdly, it is affected by changes in prices and plans. If Netflix wants to increase its growth rate, it can start from these three aspects.

Table 4 represents the average monthly revenue per membership paid in these four regions. The UCAN regions have the highest monthly revenue per paying membership and the number is increasing during the years. However, the Asia-Pacific region has the lowest number with a downward trend.

Table 3. Paid membership at end of period

			(in thousands)
Paid memberships at end of period	2024	2023	2022
Total	301,626	260,276	230,747
United States and Canada (UCAN)	89,625	80,128	74,296
Europe, Middle East, and Africa (EMEA)	101,133	88,813	76,729
Latin America (LATAM)	53,327	45,997	41,699
Asia-Pacific (APAC)	50,466	41,033	35,019

Table 4. Average monthly revenue per paying membership

Average monthly revenue per paying membership	2024	2023	2022
Total	$11.70	11.64	11.76
United States and Canada (UCAN)	17.20	16.28	15.86
Europe, Middle East, and Africa (EMEA)	10.96	10.87	10.99
Latin America (LATAM)	8.24	8.66	8.48
Asia-Pacific (APAC)	7.29	7.64	8.50

3.3 Liquidity and Solvency

Netflix used debt to finance its content creation in the past several years. Two ratios which are related to debt are chosen to analyze Netflix financial leverage level and risk.

The first ratio is the current ratio. The current ratio is one of the liquidity ratios which measure the company's short-term liquidity, and it could show whether Netflix could cover its short-term debts over the next 12 months.

As shown in Table 5, the current ratios from 2022 to 2024 are above 1. Relatively better in 2024 compared to 2023. This indicates that Netflix has had a qualified level of liquidity in recent years.

Table 5. Current ratio of Netflix

			(in thousands)
	2024	2023	2022
Total current assets	13,100,379	9,918,133	9,266,473
Total current liabilities	10,755,400	8,860,655	7,930,974
Current ratio	1.22	1.12	1.17

The second ratio is debt-to-equity ratio, which indicates the entity's policy on debt and equity financing. As shown in Table 6, Netflix has a debt-to equity ratio of 1.17 and 1.37 respectively in 2024 and 2023. However, tech and services companies usually have low debt-to-equity ratios. This could reflect its history of borrowing heavily to fund content creation. If subscriber growth slows or free cash flow turns negative, it may struggle to service that debt.

Table 6. Debt-to-equity ratio of Netflix

			(in thousands)
	2024	2023	2022
Total liabilities	28,886,807	28,143,679	27,817,367
Total equity	24,743,567	20,588,313	20,777,401
Debt-to-equity ratio	1.17	1.37	1.34

A ratio greater than 1 indicates assets are financed primarily with debt. Slight decrease in the reliance on debt from 2024 to 2023.

The debt-to-equity ratio of Netflix during the years is greater than 1, it means Netflix is financing more of its operations with debt than with shareholders' equity. It does raise some potential risks like higher financial risk and less financial flexibility. If earnings drop, Netflix might struggle to make debt payments, causing higher interest. This increases the risk of bankruptcy, especially during the downturn. Additionally, High debt levels limit a company's ability to borrow more in the future. It may face higher interest rates from lenders.

4 Recommendation

Netflix's core business is streaming services, and its revenue is mainly from subscriptions. Therefore, the top priority of Netflix is to increase paid memberships through both subscriptions grow rate and monthly subscriptions fees. For UCAN and EMEA region, Netflix should find a way to increase the subscriptions grow rate. For Latin America and Asia-Pacific areas, Netflix should maintain a relatively high growth rate while increasing the monthly fee. Netflix could produce more content which is suitable for these two regions which are non-English locales.

Second, Netflix's high debt-to-equity ratio calls for a change in its financial structure. Netflix can take several steps to either raise shareholder equity or reduce its overall debt. Reducing liabilities directly by allocating a larger percentage of cash flow to the repayment of current long-term debt is one efficient strategy. Additionally, the debt-to-equity ratio would be improved by selling off non-core assets or underperforming business sectors and using the revenues to pay down debt. Finally, increasing operational efficiency can boost profitability and create the financial flexibility required to support debt repayment or equity development. This can be achieved through cost optimization and data-driven content investment.

5 Conclusion

The entertainment sector is one of the key sectors in the United States which has contributed to both economy and cultural exports. Netflix is a pioneer in this industry; however, it faces challenges from social media nowadays. Therefore, this article tries to help Netflix to hold its dominant position in the fiercely competitive entertainment sector. This article uses three indicators to analyse Netflix's financial statement and provides suggestions for Netflix to improve profitability and the ability to withstand risks.

This article still has many deficiencies. In terms of analyzing the company's profitability and liquidity, only two ratios were selected for each, making the analysis not comprehensive and reliable enough. Additionally, the suggestions put forward are not in-depth enough.

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