Netflix's Growth Story Hits a Speed Bump

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SUMMARY

Helena Wang maintains a buy rating on Netflix, highlighting the company's healthy membership trends and strong ad revenue growth despite facing increased competition and a less compelling content slate compared to previous years. Netflix is exploring new avenues such as AI, live content, and mobile features to enhance engagement and capture more screen time.

- *Netflix's quarterly results align with expectations, showing healthy membership growth and successful price increases in key markets.*
- *Ad revenue is projected to double this year, contributing positively to monetization and margins.*
- *The company faces competition from short video platforms like TikTok and YouTube, impacting viewer engagement.*
- *Netflix is focusing on AI to improve products, reduce costs, and expand margins, though investor sentiment is cautious due to softer revenue guidance.*
- *The current content slate is considered less exciting than last year's hits, which included major franchises like "Stranger Things" and "Squid Game."*
- *Viewer retention remains a challenge, but engagement metrics show improvement compared to 2025.*
- *Despite concerns, Wang sees the recent stock pullback as an opportunity for investors to build positions in Netflix.*

Joining us now is Helena Wang. She has a buy rating on Netflix. They're looking for a story beyond subscriber growth. Right? It was so interesting to go through how they'll use AI, advertising, live content. We'll go over all three. But for you, Helena, what was the main takeaway from this Netflix print and what what was said on the call? Well, I guess if you just look at the quarter results itself, I would say it's still overall broadly in line. So membership trends has been really healthy. They recently increased their price again earlier this year in the markets like The US, Mexico, and Spain. It continues to be well accepted. Their ad revenue continues to spend. It's on track to double its revenue this year, so that helps us the monetization. So margins are holding up fairly well as well. So I would say the results is actually pretty healthy.

Yeah. You know, how long did Netflix say judge us by traditional financial metrics? And you look at those metrics pretty good. They're talking about how Netflix will be different as well. Right? The platform, I mean. More live content, live sports in particular, video podcasts, creators, cloud gaming. I'm looking at that and saying, I watch Netflix in the evening, sit down, stream a show of film. What about the rest of the day? To me, it seems like Netflix is thinking about how do we get into that addressable market for people's eyeballs morning through evening. Is that what you see?

Yeah. I think another challenge that they're seeing is they're facing a lot of competition that is not just from the traditional streaming platform. So they are competing a lot of the screen time with short video subscribers to services like YouTube shorts and TikTok videos, because consumer behavior is now changing. So now every time you go home, you're not just owning a TV. You're spending a lot of time on your phone as well. So they're definitely competing with this limited screen time that people have. So for them, they are also trying. They're trying to strengthen their engagement. They're trying to do a lot of the live events, a lot of the podcast, and a lot of the mobile features, but it's definitely going to be a long term challenge for them.

They're talking about using AI in three different ways, improving the product, lowering costs, and expanding margins. You talked about the margins point earlier. For the stock, what what what's most meaningful for Netflix to communicate on the on their use of AI? I think the use of AI is inevitable because it's now just, expanding to all aspect of, of the industry. But I think the reason that the market is reacting very negatively is mainly still because that they are giving a relatively softer guidance for their third quarter revenue. And I would say it's still considered pretty healthy growth. It just compared to the growth that we have been seeing earlier, it is considered slightly softer. So Netflix is a business where everything is going right. So naturally, the investors' expectation for it is just relatively high. So they're really not tolerating any of the minor, disappointment that comes with it. I think another reason that it's not doing well is because the content slate is not as compelling compared to last year. So this year, they have some exciting Sorry to interrupt you, Helena. I'm I'm so glad you went to the content slate. Right?

I get you have to model, on certain metrics, the growth of this business. But, like, what are you watching right now? The the the it still comes down to content is king. How's Netflix doing on that front? Yes. I would say their content slate is definitely not exciting when you compare to last year. So this year, they do have some exciting coming up, like seventy two hours with Kevin Hart, and they have some NFL games lining up. But compared to last year, they had Wednesday. They had stranger things. They had, all those exciting content. They had squid game.

So that was all these are very popular, franchise with a lot of hardcore fans. So they actually managed to bring a lot of subscribers onto the platform because of that. So this year compared to that, it is just not very exciting. And for Netflix, it's a company that has a lot of, high expectations. So investors are constantly looking for signs that there's gonna be reacceleration in the business. So for this sector, we're not really seeing that.

Helena, we just showed Lucas Shaw who leads our coverage of of screen time, the entertainment industry's column prior to earnings, and he was writing about how Netflix can't get its, audience to stick with the show. So they start and then they don't stick with it. Why does that matter? Well, it does matter because at the end of the day, it really comes down to your ability to, to persuade your customer to stay on your platform. But I will say right now, I don't see very clear evidence that their engagement is deteriorating. Actually, their engagement is still improving compared to 2025 according to their engagement report. So I assume right now, there's no clear sign that they're losing on that, and there's still very strong pricing power.

So overall, I would still say we're very we're very positive on Netflix, especially with the recent price correction.

So, previously, the premium valuation largely limit upside that we have in our views. So right now, with the stock pullback, we do think it is a good opportunity to actually start building a position.