



THE DISRUPTIVE DUO: AMAZON AND NETFLIX

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Aswath Damodaran

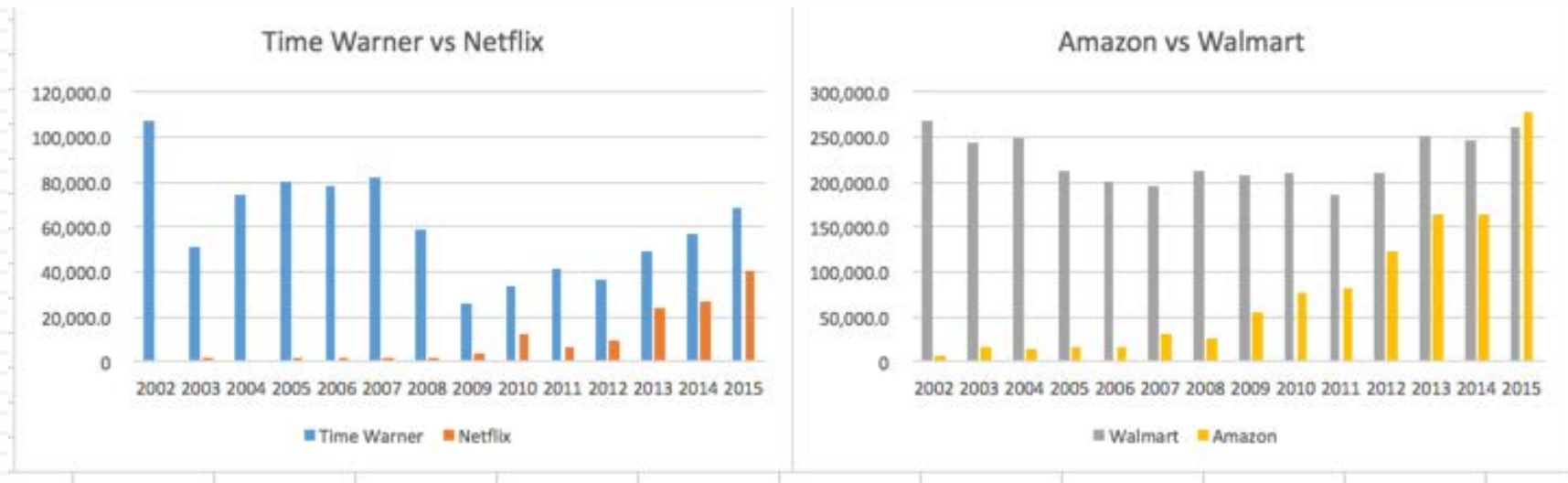
Amazon and Netflix: The Pricing Prize

2



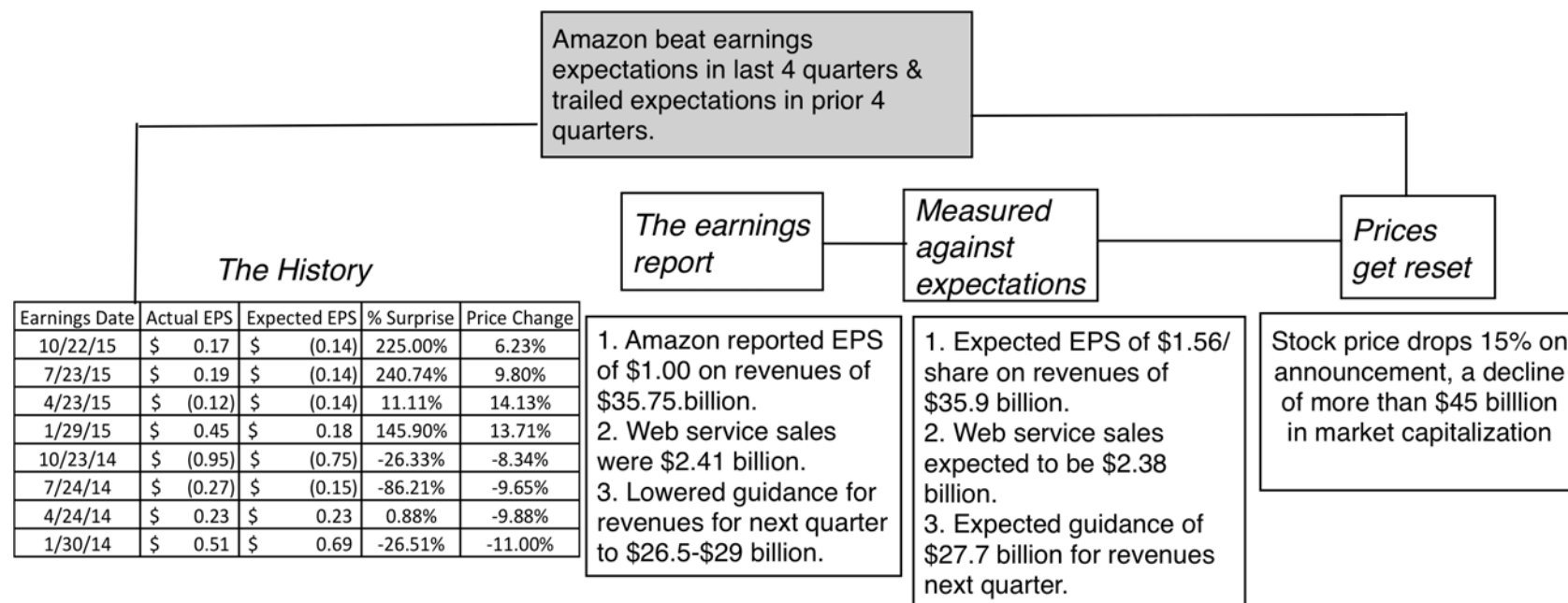
The Disruption

3



Amazon's Earnings Report (1/28/16): The Pricing Effect

4



Amazon's Earnings Report (2/2/16): The Story Effect

5

Pre-report Narrative

Amazon is a "Field of Dreams" company, growing revenues by selling products & services at cost or below, with the intent of using that market power to extract profits in the future.

Amazon's Earnings Report on January 28, 2016

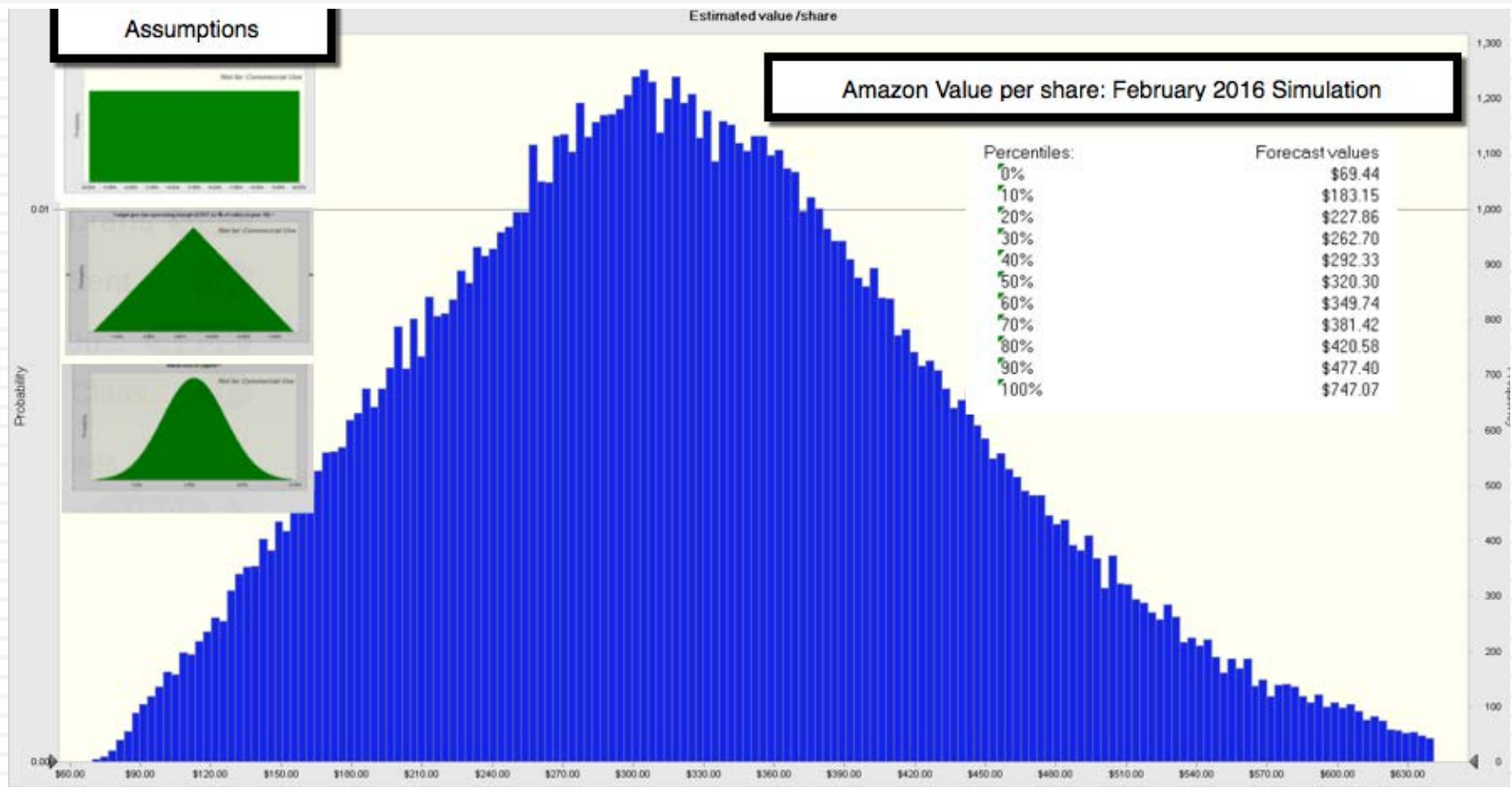
1. Revenue growth for most recent twelve months was 20.25%, an astonishing number, given that the revenues last year were \$88 billion.
2. Amazon posted its third profitable quarter in a row, a departure from its past history of reporting losses.
3. The company's guidance suggests that growth will continue to be in the low single digits next year.
4. The Web services business (Cloud) is growing fastest, with revenues increasing 69% over the prior year to reach \$2.38 billion with an operating margin of 28.5%.

Post-report Narrative

Amazon continues on its path of revenue growth, but it is starting on its pathway to profitability, at least in its media and cloud businesses, perhaps setting up trade offs between revenue growth and profits.

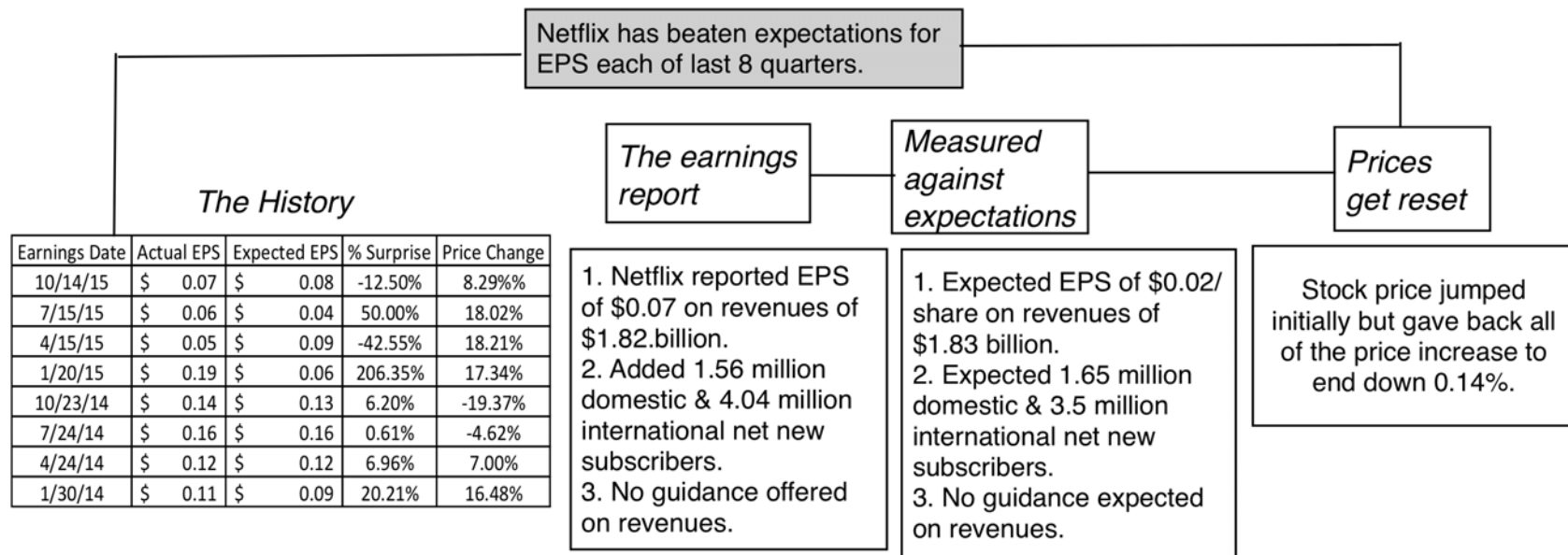
Amazon: The Post-Earnings Valuation

6



Netflix's Earnings Report (1/19/16): The Pricing Effect

7



Netflix's Earnings Report (2/16): The Story Effect

8

Pre-report Narrative

Netflix is a subscription-based business, whose strength comes from its library of mostly acquired content and a potential network advantage from exclusive use of that content.

Netflix's Earnings Report on January 19, 2016

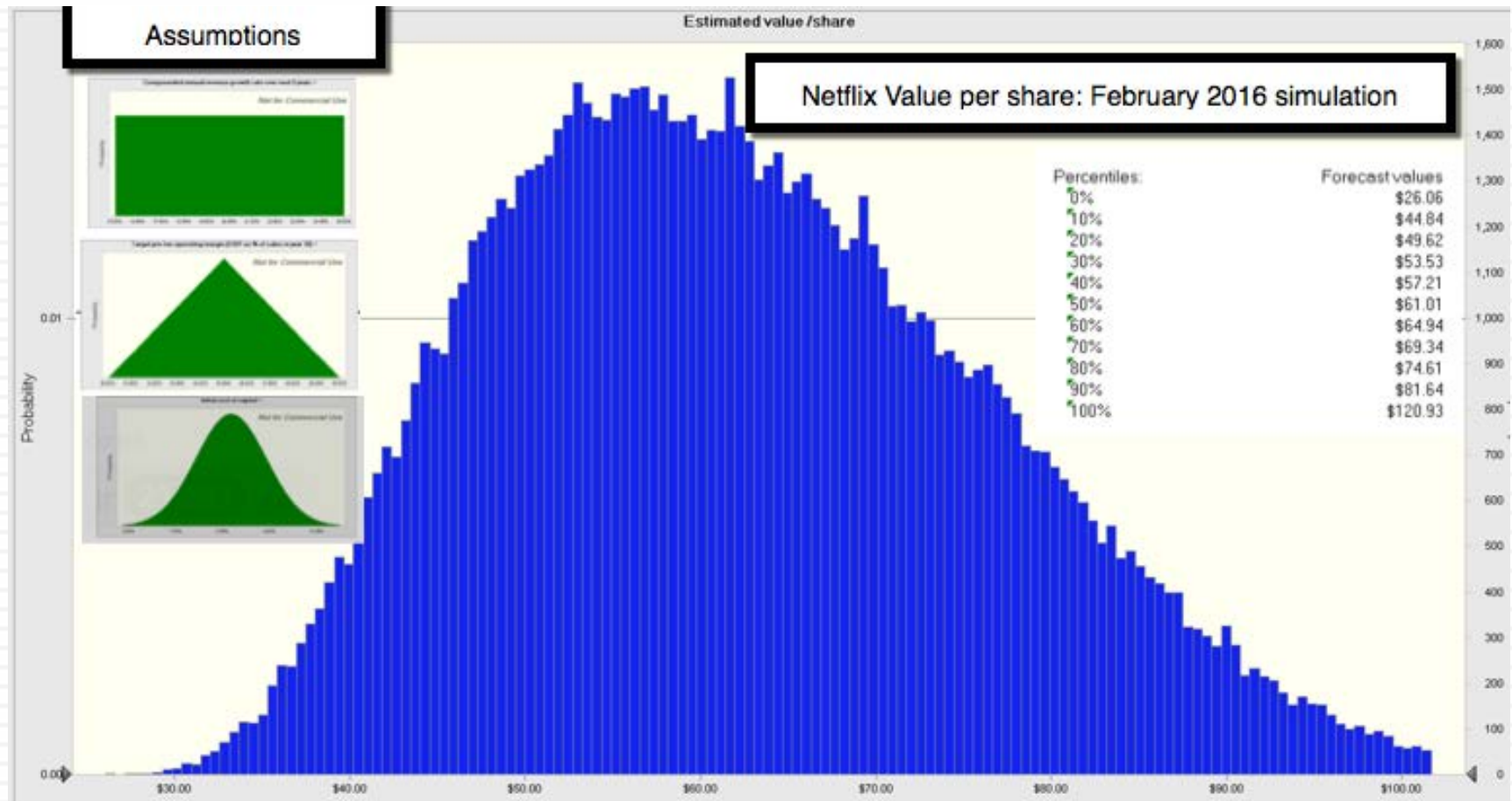
1. Earnings were slightly higher than expected. While the company still has slim conventional accounting margins, its biggest expense is acquiring or making content for its library.
2. Subscriber growth lagged expectations domestically but beat expectations outside the US.
3. Company increased spending on original programming.

Post-report Narrative

Netflix will continue to be subscription based, but will shift towards more original content and global growth, using its library as its calling card.

Netflix: The Post-Earnings Valuation

9



Are you a trader or an investor? The Amazon-Netflix test

10

- If you are an investor, you should be focused on value. There should be no feedback loop from the market price, i.e., where you observe what the price does and then adjust your value accordingly.
- Amazon and Netflix would have tested your faith as an investor over the last few years, especially if you, like many others, concluded that it was over valued. In effect, each month the market pushed up the stock price and asked you whether you still believed in your own valuation.