NETFLIX

EQUITY INTELLIGENCE / DEEP DIVE

NFLX

The margin story delivered. The growth story got cut.

Q3 revenue of $12.87B landed on the forecast and operating margin hit 34.6%, well past the 33.2% guide. Then management trimmed the 2026 ads forecast to about $2.7B, guided Q4 below the Street, and the stock closed the week at a new 52-week low. The machine works. The fight is now over what the growth option attached to it is worth.

WATCH · BUY ZONE $62-66

THE CALL	CLOSE	3-MONTH	INVALIDATION
WATCH	**$65.85**	**$74-82**	**$60**
No chasing a falling tape. The $62 to $66 shelf has to prove itself before size goes on.	23 Oct 2026 -6.6% on the print week	Scenario target 50-day to 200-day band	Sustained close below opens the 2024 range

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KEY TAKEAWAYS

Five things to know before you read further.

01

The quarter itself beat.

Revenue of $12.87B matched the company forecast and the Street. Operating income of $4.46B and a 34.6% margin cleared the 33.2% guided margin, and diluted EPS of $0.87 beat the $0.82 guide and consensus. Management credits expense timing and a slight revenue upside. Against the clean year-ago comparison (Q3 2025 margin was 33.6% ex the Brazil tax charge, computed), operating income grew about 15%, not the headline 37%.

02

The guide is what sold.

Q4 is guided to $13.44B of revenue and $0.67 of EPS, below the $0.73 the Street carried (Reuters). Full-year revenue was set at $51.1B, the low end of the prior range, and free cash flow guidance was cut to about $12.0B from $12.5B, a cut the company ties to a Q4 real estate transaction, not to operations. The profit promise survived: the 31.5% full-year margin target was held.

03

The swing factor missed.

Advertising was the pre-print swing factor, and it went the wrong way: 2026 ad revenue is now expected at about $2.7B, down from about $3B, on a slower rollout of ad product capabilities. Subscription revenue outperformed in its place. The Street answered with at least five target cuts and one downgrade inside 48 hours.

04

The buyback is the bid.

Netflix repurchased $4.8B of stock in Q3, its largest quarter ever, at an average of about $75 a share, and holds $22.3B of remaining authorization, about 8.2% of the current market value. The diluted share count is down 3.3% year over year. The single largest buyer of this stock is the company itself.

05

The tape broke, then held the shelf.

The stock fell 5.3% on October 21 on triple its normal volume, printing a $64.10 intraday low and a $65.04 close, both new 52-week lows. It closed the week at $65.85, under the 20, 50, and 200-day averages, with RSI at 37.1. That is the fourth straight earnings print the stock has sold off, and the week is a test of the floor, not a verdict on it.

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01 / THE DECISION

A proven cash machine, a cut growth option, a stock at the lows.

At $65.85 the stock trades at 19.0x trailing earnings, or 22.5x with the one-time Warner Bros. fee stripped out (computed). The margin machine the pre-print edition described is real and now proven at 34.6%. What is no longer proven is the ads ramp, and the chart just made new lows. Both facts belong in the stance.

3-MONTH BASE CASE

$74-82

The 50-day average at $74.27 up to the 200-day at $82.27. Requires the shelf to hold, the guide to stop slipping, and the January print to deliver the Q4 the company just promised.

6-MONTH SCENARIO

$90

The top of the post-print Street target range (Bank of America and MoffettNathanson, both cut to $90 on October 21). Needs ads evidence in the January print, not just promises.

THESIS WRONG BELOW

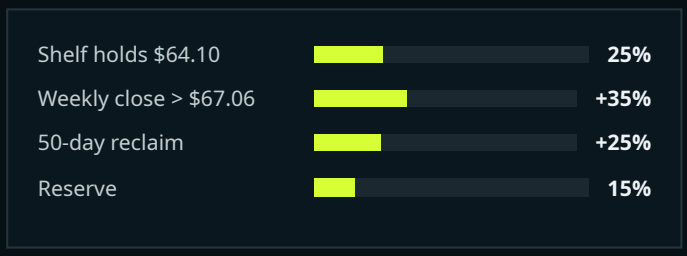
$60

A sustained close below $60 leaves the 2025-26 range entirely. The stock has not closed under $60 since August 2024; Wells Fargo's $57 target sits in that territory.

WHY IT EARNS A WATCH

- **The margin promise held:** 31.5% guided for 2026 even after absorbing the headcount-reduction costs, up from 29.5% in 2025.
- **The multiple already reset:** about 51x trailing earnings at the October 2025 high close (computed) became 19.0x reported, 22.5x ex-fee.
- **The buyback is real size:** $4.8B in one quarter, $22.3B of authorization left, share count down 3.3% year over year.
- **Retention is not the problem:** churn improved year over year, globally and in the US, and beat the company's own forecast.
- **The balance sheet is light:** $8.2B of cash against $15.1B of total debt, net debt of $6.9B on a $272B market value.

HOW THE DESK STAGES IT



Illustrative staging only. Every tranche is earned by the tape, in order. None is owed to the story.

> The bet has changed since the pre-print edition. It is no longer that the guide is the floor. It is that the margin and the buyback are real, the ads option got cheaper, and cheap options still require a tape that has stopped falling.

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02 / THE COMPANY

The world's default streaming subscription, with an ads business that just got smaller on paper.

01 · SUBSCRIPTION ENGINE

$51.1B

Revenue guided for 2026, up about 13%, with subscription revenue outperforming the plan in Q3 (letter). Churn improved year over year, globally and in the US, and ran better than the company's forecast. Pricing, plan mix, and paid sharing carry the growth now that raw membership additions are no longer reported.

02 · ADVERTISING

~$2.7B

The 2026 ads expectation, cut from about $3B on a slower rollout of some ad product capabilities (letter). That is roughly 5% of guided revenue. The ad tier expands to 15 new countries in 2027, with the first tranche in March. The asset is real; the timetable slipped.

03 · ENGAGEMENT

The open question

Management says members are watching more TV series and films, and acknowledges investor concern about view-hours growth, which it "seeks to accelerate." Churn does not confirm the worry. India is the proof point offered: view hours up 24% year over year and the largest paid net-add quarter in India's history.

04 · THE WAR IT LOST

Banked

Netflix walked away from the Warner Bros. Discovery deal in February 2026 rather than chase Paramount Skydance, and banked the $2.8B termination fee that sits in Q1's results. Paramount Skydance closed its WBD acquisition on October 6, 2026 and now carries a projected debt load above $80B (press reports). Netflix kept the clean balance sheet.

WHAT THE MOAT HAS TO PROVE FROM HERE

ADS, ROUND TWO

2027

The $2.7B year has to become a re-acceleration story: 15 new ad-tier countries from March 2027 and product capabilities that ship on time.

ENGAGEMENT

Hours

View hours must stop being the question in every shareholder letter. Live events (NFL Thanksgiving Eve and a Christmas Day doubleheader) are the swing content.

MARGIN DISCIPLINE

31.5%

The 2026 margin target held through this guide revision, with content amortization growing just 5.8%. Discipline is the part of the story that has not blinked.

Strategic read: the print split the company in two. The subscription machine is compounding at guided rates with better retention than planned. The growth option, advertising, was marked down by management itself. A fair price now depends on how much of the option you are willing to pay for after the markdown.

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03 / THE NUMBERS

The print: a beat on profit, a trim everywhere else.

Q3 2026 VS THE BAR	THE BAR	ACTUAL	GRADE
Revenue	Guide $12.86B · Street $12.87B	$12.87B (+11.8% YoY)	IN LINE
Operating income	Guided margin implies ~$4.3B	$4.46B (+37% YoY)	BEAT
Operating margin	Guided 33.2%	34.6%	BEAT
Diluted EPS	Guide / Street $0.82	$0.87	BEAT
Net income	Not guided for the quarter	$3.66B (+43.9% YoY)	BEAT
Free cash flow	Not guided for the quarter	$2.88B (vs $2.66B a year ago)	UP YoY

Bars: company Q3 forecast and desk-locked pre-print consensus (EPS $0.82, revenue $12.87B; Zacks, MarketBeat, TipRanks). The margin beat came "primarily from the timing of expenses and the slight upside in revenue" (letter). On the clean comparison, Q3 2025 operating income excluding the ~$619M Brazil non-income tax charge was $3.87B, so underlying operating income growth is about 15% (computed).

WHAT CHANGED IN THE GUIDE

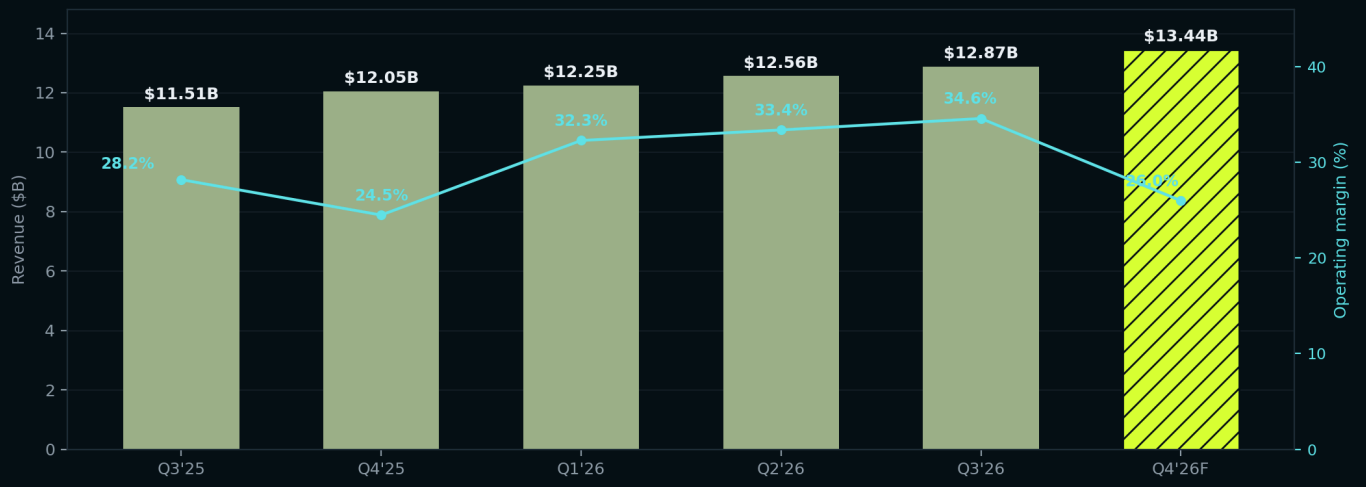
ITEM	WAS	NOW
Q4 revenue guide	Street ~$13.5B	$13.44B guided
Q4 EPS guide	Street $0.73 (Reuters)	$0.67 guided
Q4 margin guide	24.5% in Q4 2025	26.0% guided, incl. ~120bps of headcount costs
FY26 revenue	$51.0B to $51.4B range	$51.1B, the low end
FY26 ad revenue	~$3.0B expected	~$2.7B expected
FY26 operating margin	31.5%	31.5%, held
FY26 free cash flow	~$12.5B	~$12.0B, on a Q4 real estate closing

The pattern matters more than any single line: every cut sits in growth or in a one-time item. Ads slipped, Q4 was guided soft, and the FCF cut is a property transaction. The profitability promise, a 31.5% full-year margin implying 20%+ operating income growth, survived the revision untouched.

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03 / THE NUMBERS

The engine underneath: revenue compounding, margin expanding.



Q4'26F is the company forecast (shareholder letter, Oct 20, 2026) and includes about 120bps of headcount-reduction costs. Q3'25 margin includes a ~$619M Brazil non-income tax charge; ex-item margin ~33.6% (computed).

Q3 2026 (LETTER)		
Revenue		**$12.87B**
Cost of revenues	Fell year over year	**$6.08B**
Operating income	Margin 34.6%	**$4.46B**
Net income	+43.9% YoY	**$3.66B**
Diluted EPS	vs $0.59 a year ago	**$0.87**
Operating cash flow		**$3.16B**
Free cash flow	vs $2.66B a year ago	**$2.88B**
Diluted share count	-3.3% YoY	**4,195M**

THE BUYBACK

$4.8B

Repurchased in Q3 alone, 63.9M shares, the largest quarter in company history. $22.3B of authorization remains, about 8.2% of the $272B market value at the October 23 close (computed).

BALANCE SHEET, SEP 30 2026

$6.9B

Net debt: $8.2B of cash against $15.1B of total debt. Content assets of $34.6B net and $25.2B of streaming content obligations sit behind the income statement.

Valuation at the $65.85 close (computed): trailing revenue of $49.74B puts the stock at 5.5x sales. Trailing diluted EPS is $3.46 reported, or $2.93 excluding the after-tax Warner Bros. fee, so 19.0x or 22.5x. The 2026 guide implies EPS of about $3.57 reported, an 18.4x multiple. The cut $12.0B FCF guide is a 4.4% yield. Sources: Netflix Q3 2026 shareholder letter (8-K Ex-99.1, Oct 20, 2026); Nasdaq closes.

04 / THE CHART

A year of lower highs ended at new lows. The shelf is the story now.



Daily closes only, split-adjusted, Nasdaq official data, October 16, 2025 to October 23, 2026. The stock is down 46.9% from the $124.14 high close inside this window (October 21, 2025, close basis), and 50.8% from the all-time high close of $133.91 on June 30, 2025.

$124.14	$82.27	$65.04	$64.10
WINDOW HIGH CLOSE · OCT 21, 2025	200-DAY AVERAGE	PRINT-DAY CLOSE · OCT 21, 2026	INTRADAY LOW · NEW 52-WK LOW

TREND

At the lows

Close of $65.85 sits below the 20-day ($69.15), 50-day ($74.27), and 200-day ($82.27) averages, all of them falling. Every average is resistance until reclaimed.

MOMENTUM

37.1

RSI (14) at the October 23 close. Approaching oversold, not there. Oversold is a condition, not a signal; the shelf has to hold first.

VOLUME

3.0x

October 21 volume of 101.4M shares was triple the prior 50-session average (computed). Capitulation volume or distribution is decided by what the next two weeks do with $64.10.

BULL CONFIRMATION

- A weekly close above $67.06, the October 2 low close the print gapped through.
- A daily close back above the 20-day at $69.15, then the 50-day at $74.27.
- The January print delivering the guided Q4 in full, with no second guide trim.

BEAR CONFIRMATION

- A sustained close below the $64.10 print-week low, then below $60.
- Ads tracking below the new $2.7B path into the January print.
- Any further cut to the 31.5% margin promise, the one line that has not moved.

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04 / THE CHART

The print week: five sessions that repriced the option.

SESSION	WHAT HAPPENED	CLOSE
Fri Oct 16	Last close before print week. The desk's staging level.	$70.53
Mon Oct 19	Drift lower into the print; no positioning tell.	$69.85
Tue Oct 20	Print after the close. Revenue in line, EPS beat, guide trimmed. Stock fell about 5% after hours (press reports).	$68.69
Wed Oct 21	The verdict session: opened $64.15, low $64.10, closed $65.04, all new 52-week lows, on 101.4M shares.	$65.04
Thu Oct 22	First bounce test: +3.1% to $67.05, still under the $67.06 prior low close it needed to reclaim.	$67.05
Fri Oct 23	Bounce faded into the close: $65.85, a -6.6% week, pinned just above the shelf.	$65.85

THE PATTERN

4 straight

Earnings prints the stock has now sold off in 2026: the January, April, and July prints (per the October 18 edition) and this one at -5.3%. The market has stopped paying for the story on print day, whatever the P&L says.

THE READ

Test, not verdict

A 3.0x volume flush to new lows that did not extend by Friday is how bottoms start, and also how breakdowns pause. The difference is decided above $67.06 and below $64.10, not by opinion.

WHY THE SHELF MATTERS

Below the $64.10 low there is almost no recent price memory: the stock has not closed under $60 since August 2024, and 2025's lowest close was $82.84. The 2024 range is the next reference, with Wells Fargo's $57 target (set September 18, before the print) as the Street's marker inside it. That is why the invalidation in this report is a sustained close below $60, not a wick through the print-week low: the shelf gets room to be tested, and the thesis does not survive losing it.

> The pre-print edition said the stock was "staging, not broken." The print broke the staging. What replaces it is narrower and more honest: a shelf, a reclaim level, and an exit.

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05 / THE DEBATE

Four questions decide the next twelve months.

QUESTION 01

Guide trust

Bull: Q3 delivered to the dollar and the margin promise held at 31.5%; the cuts were ads timing and a property deal.
Bear: the FY revenue guide still moved to its low end and Q4 was guided under the Street. The January print is now an exam the company set for itself: $13.44B, 26.0%, $0.67.

QUESTION 02

Ads, for real?

Bull: even cut, the guide implies roughly 80% ad revenue growth in 2026 (Bernstein), and 15 new ad-tier countries open from March 2027.
Bear: the $3B target was the reason to pay up, and management just marked it to $2.7B on product delays. Options that slip once can slip twice.

QUESTION 03

Engagement

Bull: churn improved and beat forecast; India hours grew 24%; live events stack the Q4 slate.
Bear: management itself now talks about needing to "accelerate" view hours. YouTube took about 14.2% of US TV time in July (Nielsen) against Netflix's 7.8%. Attention is the input everything else prices off.

QUESTION 04

The bid below

Bull: the company bought $4.8B of its own stock in Q3 at a $75.07 average and has $22.3B left. At $65 the same dollars retire about 14% more shares.
Bear: buybacks did not stop a 47% drawdown, and a newly merged rival with a debt load to service will compete for the same attention hours.

Desk framing: questions 1 and 2 are now the whole debate. The margin machine (the pre-print edition's thesis) graded out. What the stock lost this week was the benefit of the doubt on growth, and benefit of the doubt is only re-earned in prints, not in letters.

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05 / CATALYSTS

What can move it, and what the Street did with the print.

FEB 2026
The walk-away that funded the year
Netflix declines to chase Paramount Skydance for WBD and banks the $2.8B termination fee booked in Q1 results.

OCT 6, 2026
The rival closes
Paramount Skydance completes its WBD acquisition. The combined rival now integrates under a heavy debt load.

OCT 14-15, 2026
The layoff signal
About 1,000 roles, roughly 6% of staff, cut weeks before the print (Reuters). Q4 guidance now carries ~120bps of the cost.

OCT 20, 2026
The print
Q3 beats on profit, trims on growth: ads to ~$2.7B, Q4 guided under the Street, FCF guide cut on a real estate closing.

OCT 21, 2026
New lows, new targets
The stock prints $64.10 intraday. At least five firms cut targets within 48 hours; one downgrade to Hold.

NOV 25 + DEC 25, 2026
The NFL slate
The inaugural Thanksgiving Eve game (U2 at halftime) and a Christmas Day doubleheader headline the Q4 content slate (letter).

JAN 19, 2027
The exam
Q4 earnings (Zacks calendar). The company must deliver its own guided $13.44B / 26.0% / $0.67 and frame 2027 ads.

MAR 2027
Ads, round two
First tranche of the ad tier's 15-country expansion. The re-acceleration story becomes testable.

THE STREET AFTER THE PRINT (OCT 21-22, WIRE REPORTS)

Bank of America: $105 to $90, Buy kept. MoffettNathanson: cut to $90. JPMorgan: $85 to $81, Overweight. Bernstein: $95 to $80, Outperform. Morgan Stanley: $80 to $77, Overweight. Rosenblatt: $75 to $71, Neutral. Needham: downgraded to Hold. Targets were cut, ratings mostly held: the Street marked the option down, it did not abandon the machine.

WHAT CAN BREAK IT FROM HERE

A second consecutive guide trim in January. Ads tracking under the $2.7B path. A sustained close below $60. Any one of the three ends the watch and the thesis with it.

06 / COMPOUNDING VIEW

A decade of 20.7% annual compounding, with years that cut the stock in half.

Ten years of split-adjusted daily closes, October 17, 2016 to October 23, 2026. The endpoint is now a post-print low, not a high: the same machine, priced at half its peak.

START
$9.98
17 Oct 2016 close
Split-adjusted

END
$65.85
23 Oct 2026 close
Total return +559.8%

GEOMETRIC CAGR
20.7%
10.02 years
Full daily close path

BEST FULL YEAR
+83.1%
2024

WORST FULL YEAR
-51.1%
2022: the last time this stock was priced as broken.

FULL CALENDAR YEAR RETURNS, SPLIT-ADJUSTED CLOSES

2017 +55.1% · 2018 +39.4% · 2019 +20.9%	
2020 +67.1% · 2021 +11.4% · 2022 -51.1%	
2023 +65.1% · 2024 +83.1% · 2025 +5.2%	**Sample SD 41.4 pts**

MECHANICAL PROJECTIONS FROM THE $65.85 CLOSE OF OCTOBER 23, 2026

5-year mid path	**$169**	5-year one-SD band	**$21 to $737**
10-year mid path	**$433**	10-year one-SD band	**$7 to $8,240**

Reality check: ten more years at 20.7% implies roughly $1.8 trillion of market value at a constant share count, against a guided $51.1B revenue base for 2026. The buyback (share count down 3.3% year over year) does some of that work per share, but the honest read is unchanged: the historical CAGR is evidence about the machine's past earning power, not a forecast. The band, floored at zero, is the point. Price return only; Netflix pays no dividend.

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07 / VERDICT

Watch. Let the shelf and the January print earn the position.

POSITION

WATCH

Buy zone $62 to $66, the breakdown shelf. Staged: a starter only while $64.10 holds on a weekly close, adds on a weekly close above $67.06 and on the 50-day reclaim at $74.27, reserve held for the January 19 print.

INVALIDATION

$60

A sustained close below $60 ends the thesis. Below it sit the 2024 range and the Street's $57 marker, with no 2025-26 price memory in between.

WHAT HAS TO GO RIGHT

- The shelf holds: no weekly close under $64.10, then a reclaim of $67.06.
- January delivers the guided Q4 in full: $13.44B, 26.0% margin, $0.67 EPS.
- Ads frame 2027 as re-acceleration: the March country tranche ships on time.
- The buyback keeps absorbing supply at these levels, as it did at $75.

WHAT KILLS IT

- A sustained close below $60.
- A second straight guide trim in January, on any line that matters.
- The 31.5% margin promise moving. It is the load-bearing wall.
- Engagement concern turning into churn, the one metric currently clean.

Method note for options expressions: defined risk only, and respect the pattern: four straight prints have gapped this stock down, and the next one lands January 19. Anyone expressing this view in options is underwriting event risk first and the thesis second. No naked premium into the print.

> Netflix still compounds cash at a rate almost no media company has ever matched. What changed on Tuesday is that the market stopped paying in advance for the ads business. From $65.85, the stock has to earn its multiple the slow way, and the first evidence arrives in January.

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08 / SOURCE MAP

Primary sources first. Everything else is labeled.

Netflix Q3 2026 shareholder letter, Exhibit 99.1 to Form 8-K (filed Oct 20, 2026; SEC accession 0001065280-26-000290)

sec.gov/Archives/edgar/data/1065280/000106528026000290/ex991_q326.htm

The print itself: revenue, operating income, margin, EPS, cash flow, buyback, balance sheet detail, the Q4 2026 forecast, and the updated FY2026 guide (revenue $51.1B, margin 31.5%, ad revenue about $2.7B, FCF about $12.0B).

Netflix Form 10-Q for Q3 2026 (filed Oct 21, 2026; accession 0001065280-26-000291); Q2 2026 letter and 10-Q; Q1 2026 10-Q; FY2025 Form 10-K

sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001065280

Statement detail, content obligations, the $2.8B Warner Bros. termination fee in Q1 other income, and the 2025 actuals behind every trailing figure.

Guide bars and consensus

Company Q3 forecast (letter); pre-print consensus locked Oct 18, 2026 (Zacks, MarketBeat, TipRanks); Reuters, Oct 20, 2026

EPS $0.82 and revenue $12.87B are the graded bars. Reuters carried the Q4 consensus the guide missed (EPS $0.73, net income $3.07B) and the Oct 14-15 headcount reporting. Street target actions of Oct 21-22 are as reported by Benzinga, StreetInsider, Yahoo Finance, and Markets Insider. The Jan 19, 2027 print date is Zacks' calendar.

Market data: Nasdaq official daily bars

api.nasdaq.com/api/quote/NFLX/historical and /info

2,519 split-adjusted daily closes, Oct 17, 2016 to Oct 23, 2026, fresh-pulled Oct 24, 2026 and overlap-checked against the desk's Oct 18 series: 2,509 shared dates, zero mismatches. All closes, averages, RSI, volume ratios, and drawdowns in this report are computed from that series.

LIMITATIONS THE READER SHOULD KNOW

- Netflix reports a single segment and no membership count, ARM, or ad revenue breakout. Ad figures here are management's annual expectations, not reported actuals.
- Post-print consensus medians were not available in a single verifiable source at build time; this report prints the named analyst actions instead.
- No options flow or positioning figures are used. The desk holds no verified snapshot for this print.

Method: ex-fee EPS strips the $2.8B Warner Bros. fee at Q1 2026's 19.3% effective tax rate (Q1 10-Q). Compounding uses geometric CAGR on split-adjusted closes; dispersion is the sample standard deviation of full calendar-year returns, 2017 to 2025 only. Netflix wordmark: official brand asset, via Wikimedia Commons.

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