

■ **Key Facts**

Business address: **Los Gatos, California, United States**
 Industry: **Video Tape and Disc Rental** (NAICS 532230)
 SEC filer status: **Large Accelerated Filer** as of Sep 2019
 Index member: **S&P 500, Russell 1000**
 Market Cap: **\$141b** as of Dec 5, 2019
 Annual revenue: **\$15.8b** as of Dec 31, 2018

■ **Corporate Governance**

CEO: **Reed Hastings** since 1998
 CFO: **Spencer Neumann** since 2019 1st level

Board Chairman: **Reed Hastings** since 1997
 Audit Committee Chair: **Ann Mather** 2nd level

Auditor: **Ernst & Young LLP** since 2012
 Outside Counsel (most recent): **Wilson Sonsini Goodrich & Rosati** 3rd level

SEC Reviewer: **(unknown)** 4th level

Watchdog Research, Inc., offers both individual and group subscriptions, data feeds and/or custom company reports to our subscribers. Subscribe: We have delivered 300,000 public company reports to over 27,000 individuals, from over 9,000 investment firms and to 4,000+ public company corporate board members.



How to analyze this company's Watchdog Report? [Skip to the last page](#)

Information in this report is effective Dec 6, 2019 and is taken from the company's public financial and regulatory filings. Latest filing 10-Q filed 10/18/2019. Over 75 accounting and data analysts scrutinize and review crucial information, footnotes, disclosures, etc., from these filings. Material facts are captured and processed using our proprietary methods which identify key risk factors our readers need to know. Each Watchdog Report represents 30 or more hours of analysis and processing.

Accounting and financial disclosure data from [Audit Analytics](#).
 Executive compensation data from [Shore Group and Intrinio](#).
 Data from [Sharadar](#).
[Data from Barchart via Quandl](#).
[Data from Exchange Data International via Quandl](#).

Dec 6, 2019 Jan 1, 2018 Jan 1, 2014

RECENT PERIOD HISTORICAL PERIOD

10-Q filed on Oct 18, 2019 for period ending Sep 2019

Reporting Irregularities

RECENT		HISTORICAL
✓	Financial Restatements	✓
✓	Revisions	✓
✓	Out of Period Adjustments	✓
✓	Late Filings	✓
✓	Impairments	✓
✓	Changes in Accounting Estimates	!
✓	Disclosure Controls	✓
✓	Internal Controls	✓
—	Critical / Key Audit Matters	—

Anomalies in the Numbers

RECENT		HISTORICAL
✓	Benford's Law	!
—	Beneish M-Score	—
✓	Accounting Disclosure Complexity	!

Securities & Exchange Commission Concerns

RECENT		HISTORICAL
!	SEC Letters to Management	!
!	Revenue Recognition	✓
✓	Non-GAAP Measures	✓

Lawsuits

RECENT		HISTORICAL
!	Significant Litigation	!
!	Class Actions	!
!	Securities Law	!

External Pressures

RECENT		HISTORICAL
✓	Shareholder Activism	✓
✓	Cybersecurity	!

Management Review

RECENT		HISTORICAL
✓	CEO Changes	✓
!	CFO Changes	✓
✓	Insider Sales	✓

Auditor Assessment

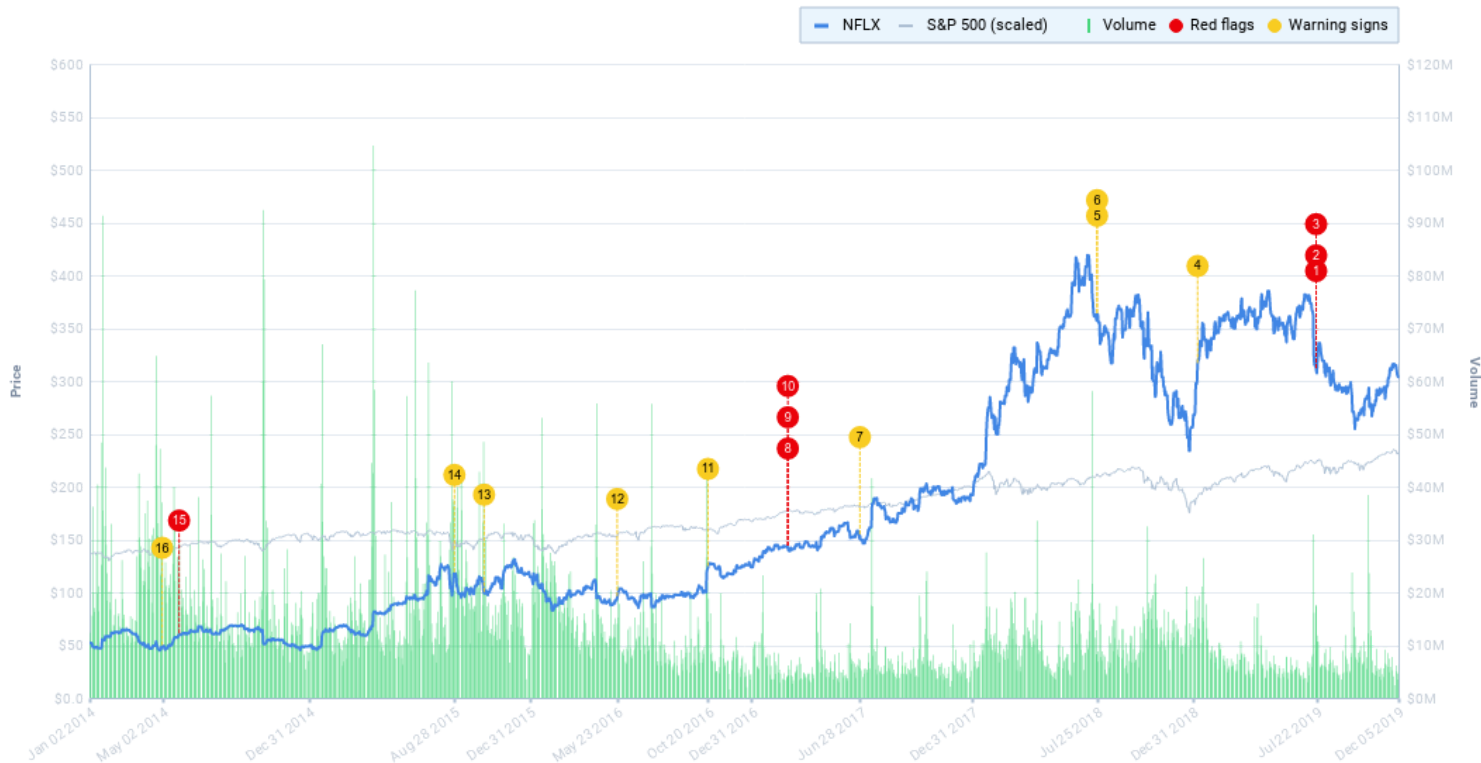
RECENT		HISTORICAL
✓	Auditor Experience	✓
✓	Auditor Tenure	✓
✓	Audit Fees	!
!	Non-Audit Fees	!



Overview

Price and Volume History

This graph shows the price and trading history for Netflix. Warning signs and red flags are marked on the graph according to their disclosure dates.



- 1 Jul 22, 2019 - Lawsuit: Wallerstein v. Netflix Inc et al
- 2 Jul 22, 2019 - Class Actions Lawsuit: Wallerstein v. Netflix Inc et al
- 3 Jul 22, 2019 - Securities Law Lawsuit: Wallerstein v. Netflix Inc et al
- 4 Jan 7, 2019 - Change in CFO
- 5 Jul 25, 2018 - SEC letters to management
- 6 Jul 25, 2018 - Revenue Recognition
- 7 Jun 28, 2017 - SEC letters to management
- 8 Mar 1, 2017 - Lawsuit: Ziolkowski v. Netflix Inc et al
- 9 Mar 1, 2017 - Class Actions Lawsuit: Ziolkowski v. Netflix Inc et al
- 10 Mar 1, 2017 - Securities Law Lawsuit: Ziolkowski v. Netflix Inc et al
- 11 Oct 20, 2016 - Change in Accounting Estimates
- 12 May 23, 2016 - SEC letters to management
- 13 Oct 16, 2015 - Change in Accounting Estimates
- 14 Aug 28, 2015 - Cybersecurity
- 15 May 30, 2014 - Lawsuit: State of Delaware et al v. Card Compliant LLC et al
- 16 May 2, 2014 - Lawsuit: Straight Path IP Group Inc v. Netflix Inc

Notifications

Important notifications related to the company are listed here. Notifications may come from the SEC, exchanges such as the NYSE or NASDAQ, or Watchdog Research. Examples of notifications include announcements of bankruptcy proceedings, company name changes, and noncompliance with SEC regulations or exchange rules.

There are no notifications for Netflix at least since 2014.



Peer Group

Peer groups are used by companies to benchmark executive compensation and performance. Each company identifies its own peer group. Peer groups vary from company to company.

Peer Group

Company	Ticker	Market Cap
Adobe Inc.	ADBE	\$147b
Netflix Inc.	NFLX	\$141b
Salesforce Com Inc.	CRM	\$140b
Paypal Holdings, Inc.	PYPL	\$120b
Booking Holdings Inc. (Priceline)	BKNG	\$79.7b
Activision Blizzard, Inc.	ATVI	\$42.2b
Workday, Inc.	WDAY	\$37b
Sirius XM Holdings Inc.	SIRI	\$31.6b
Electronic Arts Inc.	EA	\$29.7b
eBay Inc.	EBAY	\$28.1b

Companies Who Named Netflix as a Peer

Company	Ticker	Market Cap
Facebook Inc.	FB	\$558b
Intel Corp.	INTC	\$226b
Adobe Inc.	ADBE	\$147b
Netflix Inc.	NFLX	\$141b
Salesforce Com Inc.	CRM	\$140b
Paypal Holdings, Inc.	PYPL	\$120b
Qualcomm Inc.	QCOM	\$94.3b
Booking Holdings Inc. (Priceline)	BKNG	\$79.7b
Intuit Inc.	INTU	\$66.1b
Schlumberger Limited	SLB	\$48.9b



Peer Flag Comparison

The return to a company's stock is not the only measure of executive performance. Ethics matter, and growth can quickly reverse and gains evaporate if a company's accounting and financial reporting processes are not fundamentally sound and trustworthy. How does Netflix's accounting quality compare to its peer group?

	NFLX	PEERGROUP FLAGS		
Reporting Irregularities				
Financial Restatements	✓	9		
Revisions	✓	7	2	
Out of Period Adjustments	✓	8	1	
Impairments	✓	3	6	
Changes in Accounting Estimates	!	8	1	
Disclosure Controls	✓	1	7	1
Internal Controls	✓	8		1
Critical / Key Audit Matters	⊖			
Anomalies in the Numbers				
Benford's Law	!	5		4
Beneish M-Score	⊖	6	2	
Accounting Disclosure Complexity	!	1	8	
Securities & Exchange Commission Concerns				
SEC Letters to Management	!		7	2
Revenue Recognition	!	1	8	
Non-GAAP Measures	✓	9		

	NFLX	PEERGROUP FLAGS		
Lawsuits				
Significant Litigation	!	1		8
Class Actions	!	1		8
Securities Law	!	2		7
External Pressures				
Shareholder Activism	✓	8	1	
Cybersecurity	!	1	8	
Management Review				
CEO Changes	✓	6	3	
CFO Changes	!	1	5	3
Insider Sales	✓		1	8
Auditor Assessment				
Auditor Experience	✓	9		
Auditor Tenure	✓	7	2	
Audit Fees	!	3	6	
Non-Audit Fees	!	7	2	



About Watchdog Research, Inc.

Watchdog Research, Inc. is an independent research provider and publisher of Watchdog Reports. Watchdog Reports identify red flags, issues, and other anomalies in financial reporting. Our reports contain warning signs, red flags, material disclosures, and peer analysis for use in valuation, risk analysis, due diligence research, and idea generation.

Watchdog Reports are designed to assist investment professionals fulfill their fiduciary or suitability obligations and to help investors, executives, board members, regulators and educators learn what they need to know about publicly traded companies.

The company is headquartered in Naples, FL. Watchdog Research, Inc. utilizes over 75 specialists and analysts to provide accurate and timely information to our readers.

Our management team is:

CEO: Brian Lawe. Brian has been part of the corporate staff at The New York Times Company and IBM. He has created and operated several technology companies including MyStoreCredit, OnPage Ideas and HelloCampus. He holds an MBA from Harvard Business School and a BBA from Texas Christian University. He and his wife have four children and live in the Naples, FL area.

CTO: Radu Cugut. Radu has led the award-winning technology team that developed the Watchdog Report and services. He, his wife and son split their time between his home in Naples, FL and his home in Timisoara, Romania where he oversees five talented development professionals. Radu has a bachelors in Computer Science and a masters in Banking and Financial Information Systems, both from the West University of Timisoara.

Chief Content Officer: Joseph Burke, Ph.D. is responsible for the content development, analysis, and quality control for the Watchdog Report. Joseph worked previously as a professor of economics at Ave Maria University. He received his Ph.D. from the University of Wisconsin-Madison and resides with his family in the Naples area.

Director of Research: John Cheffers. John is responsible for writing our blogs and for our press relationships. He received his bachelors from Washington University in St. Louis, and has worked for Audit Analytics and Ave Maria University. He also currently attends Ave Maria University School of Law where his research has been selected for publication in the Law Review. He currently lives in the Naples area with his wife and two children.



Watchdog Research, Inc.

780 5th Ave S
Suite #200
Naples, FL 34102

info@cwdsresearch.com

(855) 820-6272

www.cwdsresearch.com



How to analyze a company's Watchdog Report

If you walk into a doctor's office complaining about a pain in your left shoulder, your doctor's training kicks-in and he will immediately begin assessing your age and physical appearance, checking your vital signs and asking you a very specific series of questions about your symptoms. After just a few brief moments of assessing you, the doctor will either begin life-saving intervention or simply hand you an ice pack for your sore arm after a workout.

Like that doctor, we assume you are reading our Watchdog Report because you want to quickly assess the health of the company you are analyzing. You want to know if the company is undergoing any major problems or is simply displaying minor issues. Here is how to get your answer:

BEFORE YOU START

Make sure you have a basic understanding of the company. Know its market cap, the size of its revenues, profits and assets and liabilities. Review any major news related to the financials of the company and its management team.

■ STEP 1 🕒 10 SEC

Scan down the right side of the first page of the company's report, paying attention to the 'RECENT' column to find the latest yellow and red flags.

■ STEP 2 🕒 2 SEC

When you see a red or yellow flag, click the title next to the flag and you will instantly jump to that section of the company's report.

■ STEP 3 🕒 60 SEC

Read that section's headline, the timeline and review the specific issue highlighted for the company's red or yellow flag.

■ STEP 4 🕒 3 MIN

Each section will usually have a link to the original filing or legal summary for the issue. Click that link. If it takes you to a SEC Edgar page, review the original filing. **HINT:** Use your browser's "find" button to search for a key word or number related to the issue as shown on the Watchdog Report.

■ STEP 5 🕒 15 SEC

Review the stock price movement chart on page two of the report. If you check the report online, you can adjust the timeline to a narrow time. The stock movement chart will overlay each of the red and yellow flags to stock price changes. Make note of those red and yellow flags around major stock price declines. These issues are worth reviewing in detail.

■ STEP 6 🕒 1 MIN

Before continuing, it is worth comparing the company to its peers. Go to the third page of the report and compare the red and yellow flags for the company (first column) to the number of companies with red and yellow flags from your company's peer group. Is the company an outlier with a red or yellow flag in an area that other peers have only green? If so, the outlying issues are also worth reviewing in detail.

■ STEP 7 🕒 5 MIN

Repeat steps 2-4 for each red or yellow flag. At the end of this process, you'll have a good idea of the core issues the company has reported.

■ STEP 8 🕒 5 MIN

Now comes the creative, but hard part. Like a doctor trying to understand what might be wrong with a patient, you must now use your judgment, past knowledge and the insights you gathered in the prior steps to develop your own view of how serious the issues are facing the company.

If you see a consistent pattern of delays, accounting irregularities, management turnover, legal troubles, the company is clearly in trouble. Use the peer group analysis step above to see why your company may be different than its peers. Think of the various issues as connected. It seems passé but a bad management team is going to be bad in multiple ways. The challenge is to find the thread that runs through all the issues to understand any management failures.

When you find a pattern of unusual accounting moves, it is almost always tied to management protecting their own interests over investors. You should also consider what particular forces in the industry are affecting the company more than its peers. If you can assess that, try to think about how a company's management might "adjust" the financial disclosures to mask the weakness. It helps to think like a detective here. Everyone is entitled to a presumption of innocence, but if management was trying to hide something, how might they go about doing so?

This step is where we leave you with our 6,000+ Watchdog Reports. Good luck with your analysis!

