

Durability Rather Than Acceleration, Stronger Than the Q4 Earnings Miss Suggests

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$12.87B	\$12.87B	0.0%
Operating income	\$4.46B	\$4.27B	+4.4%
Diluted EPS	\$0.87	\$0.82	+6.1%
REVENUE BY REGION			
US and Canada	\$5.63B	\$5.58B	+0.9%
EMEA	\$4.11B	\$4.13B	-0.5%
Latin America	\$1.60B	\$1.59B	+0.6%
APAC	\$1.54B	\$1.57B	-1.9%
Free cash flow	\$2.88B	\$3.22B	-10.6%

2 | GUIDANCE AND OUTLOOK

Full-year 2026 revenue guidance set at \$51.1B, inside the prior \$51.0B to \$51.4B range but below its midpoint. Advertising revenue expectations cut to approximately \$2.7B from approximately \$3.0B. Full-year operating margin guidance held at 31.5% despite restructuring charges. Free cash flow guidance lowered 4% to approximately \$12.0B, attributed primarily to a planned Q4 real estate transaction. Q4 guided to \$13.44B of revenue and \$3.50B of operating income at a 26.0% margin. No numerical 2027 guidance; management targets revenue growth of at least 10%, expanding margins, and rising free cash flow.

3 | EARNINGS ANALYSIS

IN LINE ON REVENUE, AHEAD ON TIMING. Revenue of \$12.87 billion matched consensus and rose approximately 12% year over year, but growth moderated from approximately 16% in Q1 and 13% in Q2 to approximately 11.8%, and Q4 guidance implies approximately 11.5%. Operating income beat consensus by 4.4%, with the outperformance attributed primarily to expense timing and only a smaller contribution from revenue, which limits how much of the beat capitalizes as a higher run rate.

THE PROFIT GROWTH OVERSTATES THE IMPROVEMENT. Reported operating income rose 37%, but the prior-year quarter absorbed an approximately \$619 million Brazilian non-income-tax charge. Adding it back lifts the prior-year margin from 28.2% to approximately 33.6%, against 34.6% this quarter, and cuts normalized operating-income growth to approximately 15%. On the same basis, underlying expense growth was approximately 10%, not the reported 1.8%, so revenue grew somewhat faster than the recurring cost base rather than with virtually no cost growth.

CASH FLOW LAGGED THE ACCOUNTING BEAT. Operating cash flow of \$3.16 billion missed the \$3.43 billion consensus and free cash flow of \$2.88 billion missed the \$3.22 billion estimate, a free-cash-flow margin of approximately 22.4%. Full-year free cash flow guidance fell to approximately \$12.0 billion, attributed primarily to a planned Q4 real estate transaction. The 2026 base also includes a \$2.8 billion gross termination fee from the abandoned Warner Bros. transaction, so reported cash generation is not a clean recurring base.

EXECUTION NOW DECIDES THE OUTLOOK. Advertising expectations were cut approximately 10% on product rollout and partner integration delays, not demand, and management concedes US content execution needs improvement; Peter Rice starts as Chief Content Officer on October 26. Q4 operating income guidance of \$3.50 billion sits approximately 5.9% below consensus, but roughly 73% of that shortfall is the restructuring charge. The quarter shows durability rather than acceleration, and January's 2027 guidance is the principal catalyst.

4 | KEY READ-THROUGHS

TF1: STREAMING AGGREGATION CAN BENEFIT A BROADCASTER
TF1 (TF1) | Positive | Moderate for digital advertising
Peters said testing indicates the TF1 engagement is incremental to the Netflix platform, with viewing rising monthly and TF1's brand preserved. TF1 reported a 16% rise in unique daily streamers in launch week, with monetization indicators comparable with TF1+. The mechanism is distribution reach without rebuilding acquisition infrastructure. Revenue sharing and cannibalization remain undisclosed.

IMAX IS THE MOST DIRECT BENEFICIARY OF RELEASE FLEXIBILITY
IMAX (IMAX), Cinemark (CNK), AMC (AMC) | Positive | Moderate significance
Sarandos confirmed an IMAX run for Cliff Booth of approximately 2 weeks, beginning approximately 4 weeks before the Netflix release, and approximately 45-day windows with wide releases for Narnia and Charlie versus the Chocolate Factory, including Cinemark and AMC. Premium programming monetizes the installed IMAX network, and wider releases lift exhibitor attendance and concessions across the footprint.

THE TRADE DESK FACES A MONETIZATION-TIMING RISK
The Trade Desk (TTD) | Negative near term | Moderate strategic relevance
Netflix cut its advertising outlook to approximately \$2.7B from approximately \$3.0B on rollout and partner integration delays, while stating that advertiser demand remains strong. Intermediary economics slip with the delay, although the \$300M shortfall is not a Trade Desk revenue figure. Expanded activation through The Trade Desk begins next month.

NETFLIX PRESSURES RIVAL STREAMERS' SCARCITY PREMIUM
Disney (DIS), Comcast (CMCSA) | Negative | Moderate longer-term importance
Peters described simultaneous growth in advertising-plan membership and inventory monetization, while ad-plan average revenue remains below the standard plan, leaving Netflix more inventory and an incentive to commercialize it. Better targeting, measurement, and buying access compete for premium connected-TV budgets, compressing the scarcity premium. Entry into 15 more countries in 2027 broadens that pressure.