Citron expects Netflix to dip back to $340 near term and warns investors about buying this dip…We think Bob Dylan would agree.

Citron $NFLX calls have been spot on.

On March 12, 2018 when NFLX was trading at $330, Citron suggested that the stock had gotten ahead of itself and you would soon be able to buy it under $300.

The pundits got angry, but sure enough within 2 weeks the stock was trading as low as $285.

Despite the cheerleading from Goldman Sachs, that we discuss later, this week has seen a change in the media industry that cannot be ignored by any long-term Netflix investor. The Justice Department approval of the AT&T Merger is the first step in traditional media's efforts to compete against NFLX in the new streaming world.

In the landmark ruling this week, Judge Richard Leon described the changing media landscape by quoting *Nobel Laureate* *Bob Dylan*

"You don't need a weatherman to know which way the wind blows"

The New Headwinds

Citron notes, you don't need to be a weatherman to know that each of these headwinds will affect NFLX's performance.

- A combined AT&T and Time Warner is a threat to Netflix (source)
- Disney, with a renewed focus on acquisition, streaming, and content protection
- Amazon with billions to lose and a captive prime membership
- Google focusing on premium content (source) (LOVE Cobra Kai)
- Apple, which has dedicated billions, is building out a team focused on original programming and is already hiring Netflix executives (source)
- ISPs who will renegotiate after change in Net Neutrality
- Comcast and its war chest looking to buy and buy
- Ongoing consolidation (AT&T and Time Warner merger is just the beginning), will continue to increase pressure

Reality check:

Citron is tired of hearing the analysts repeat like robots “No one can beat Netflix”.........They don't have to!!!

Any form of deceleration in the NFLX business or a reevaluation of the company as a media company and not a technology company would be devastating to a company that is the most vulnerable of the FANG stocks.

Netflix continues to be the most expensive FANG despite being the only one that does not either generate major cash flow (FB) or have an impenetrable moat (GOOG, AMZN)

Despite being the only FANG stock to generate negative cash flow, NFLX is now the most expensive stock on every valuation metric including EV/Sales. On 2019 EV/Sales, NFLX trades @ 8-9x vs. FB @ 7x vs. GOOGL @ 5x vs. AMZN @ 2-3x.

There’s No Business, Like Show Business

The irony of the NFLX biz model is that in addition to every traditional media company in the world looking to take market share from NFLX, every FANG company is getting in show biz as well. Yet, NFLX cannot exactly get into search, hardware, social, or ecommerce or generate consistent profitability that such companies can.

Goldman Sachs

The fact that Netflix hasn't created a series called "Goldman" just means that it must be have been killed in development.

Yesterday's note to offset the negative news of the merger, which was not even mentioned, was not only negligent; it actually lowered many Wall Street estimates. In order to achieve Goldman's new target the Goldman analyst simply raised the target 2019E EV/EBITDA multiple to 65x from 50x previously (i.e., 30% increase)

Netflix Estimates by Goldman Sachs			
	Report 17-Apr-2018	Report 13-Jun-2018	Change
	US$bn unless otherwise noted		
Sales 2018E	$16,265	$16,306	0.3%
Sales 2019E	$20,764	$21,028	1.3%
Sales 2020E	$25,766	$26,287	2.0%
EBITDA 2018E	$2,231	$2,238	0.3%
EBITDA 2019E	$3,652	$3,509	(3.9%)
EBITDA 2020E	$5,435	$5,435	0.0%
EPS 2018E ($)	$2.94	$2.85	(3.1%)
EPS 2019E ($)	$5.23	$4.83	(7.6%)
EPS 2020E ($)	$7.74	$7.42	(4.1%)

All of this Netflix talk reminds Citron of another famous Bob Dylan lyric:

"Yesterday's just a memory, tomorrow is never what it's supposed to be".

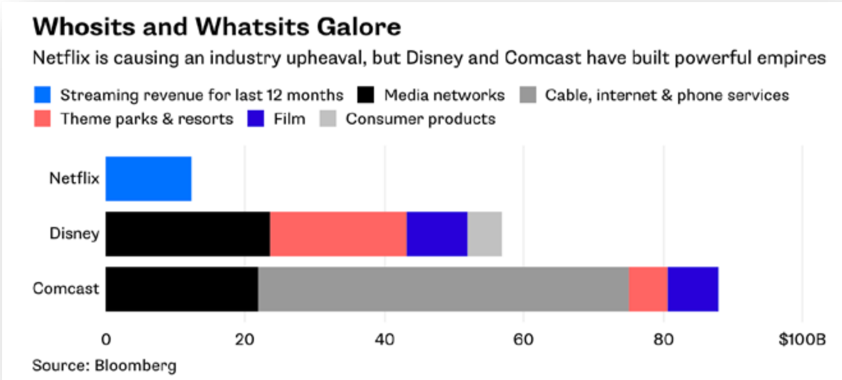
NFLX stock price is where it is based on a perception that has been built over the past 4 years of Netflix having a defensible business model against old media that is not vertically integrated or ready to take on the challenges the innovator has presented.

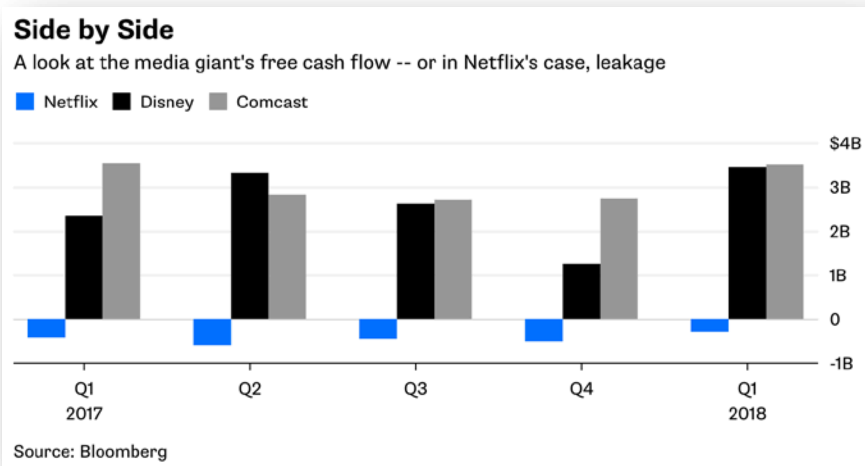
Can you say the same about tomorrow?

What if Wall Street starts thinking about Netflix as a media company?

CEO Reed Hastings has NFLX as a media company rather than a tech company. On NFLX's Q1'18 earnings call, Hastings noted: "We'll spend over $10 billion on content and marketing and $1.3 billion on tech… ***we're much more of a media company in that way than pure tech***."

For that analysis we pull a few of our favorite charts from a recent Bloomberg article:





If Wall Street decided to value NFLX like a media company, we don't want to predict the floor, but the cycle of losing more money and gaining more valuation takes us to another great Dylan line

"You can't do something forever"

Let's be clear…Citron enjoys the content of Netflix just like many of our readers do as well.   BUT…we are not willing to count out all of the minds and creative talent that exist in NY, LA, and Silicon Valley in their quest to compete with Netflix. Remember…they don't have to win….only compete to have NFLX stock price go lower. Now that the courts have allowed content companies to go vertical while NFLX stock is at $380…you buy at your own risk.

Cautious Investing to All