Netflix Inc. (NFLX)

$491.87 (As of 08/18/20)

Price Target (6-12 Months): **$517.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/11/18) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: B | Momentum: F	

Summary

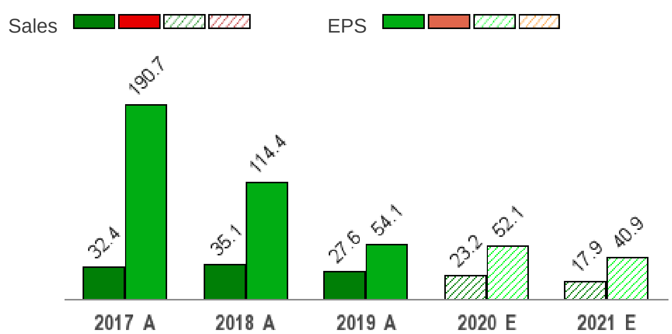
Netflix is dominating the streaming space, courtesy of its diversified content portfolio, which is attributable to heavy investments in the production and distribution of localized, foreign-language content. The launch of low-priced mobile plans in India, Indonesia, Malaysia, Philippines and Thailand is also expected to expand Netflix's subscriber base in the Asia Pacific. Notably, shares have outperformed the industry year to date. However, Netflix expects subscriber growth to decline in the second half of 2020 due to less demand. Absence of new seasons of popular shows like *Money Heist* and *Stranger Things* is likely to affect subscriber growth. Additionally, rising competition from Apple, Amazon, HBO Max, Disney+, TikTok is a headwind. Netflix's leveraged balance sheet and higher streaming obligation is a concern.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$575.37 - $252.28**
20 Day Average Volume (sh)	**5,509,284**
Market Cap	**$216.9 B**
YTD Price Change	**52.0%**
Beta	**0.94**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Broadcast Radio and Television**
Zacks Industry Rank	**Top 50% (125 out of 252)**
Last EPS Surprise	**-13.6%**
Last Sales Surprise	**1.1%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**10/21/2020**
Earnings ESP	**0.0%**
P/E TTM	**83.0**
P/E F1	**78.3**
PEG F1	**2.6**
P/S TTM	**9.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2021	6,830 E	6,984 E	7,183 E	7,423 E	29,288 E
2020	5,768 A	6,148 A	6,372 E	6,557 E	24,834 E
2019	4,521 A	4,923 A	5,245 A	5,467 A	20,156 A

EPS Estimates

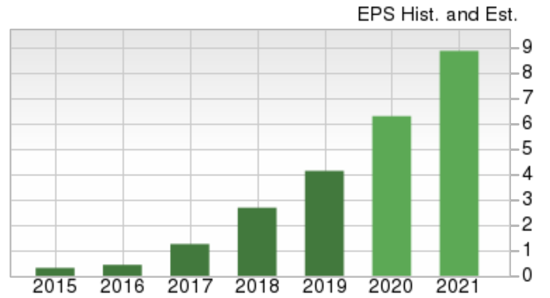
	Q1	Q2	Q3	Q4	Annual*
2021	$2.12 E	$2.26 E	$2.42 E	$1.61 E	$8.85 E
2020	$1.57 A	$1.59 A	$2.12 E	$1.00 E	$6.28 E
2019	$0.76 A	$0.60 A	$1.47 A	$1.30 A	$4.13 A

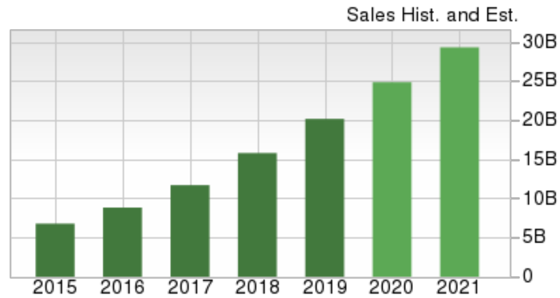
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/18/2020. The reports text is as of 08/19/2020.

Overview

Netflix is considered a pioneer in the streaming space. The company evolved from a small DVD-rental provider to a dominant streaming service provider, courtesy of its wide-ranging content portfolio and a fortified international footprint. At the end of first-quarter 2020, the company had 182.86 million paid subscribers globally.





Netflix has been spending aggressively on building its original show portfolio. This is helping it sustain its leading position despite the launch of new services like Disney+ and Apple TV+ as well as the existing services like Amazon prime video.

Netflix streams movies, television shows and documentaries across a wide variety of genres and languages. Subscribers, both domestic and international, can watch them on a host of internet-connected devices, including television sets, computers and mobile devices.

The Los Gatos, CA-based company reported revenues of $20.16 billion in 2019.

Beginning fourth-quarter 2019, Netflix started disclosing revenues and membership data by regions — the Asia Pacific (APAC); Europe, Middle East & Africa (EMEA); Latin America (LATAM); and the United States and Canada (UCAN).

UCAN accounted for 48.9% of total revenues in 2019. At the end of first-quarter 2020, the company had 69.97 million paid subscribers.

EMEA accounted for 28.6% of total revenues in 2019. At the end of first-quarter 2020, the company had 58.73 million paid subscribers.

LATAM contributed 13.6% of total revenues in 2019. The company had 34.32 million paid subscribers in the region at the end of the first-quarter 2020.

APAC accounted for 7.6% of total revenues in 2019. The company had 19.84 million paid subscribers in the region at the end of the first-quarter 2020.

In the Domestic DVD segment, Netflix delivers DVDs through the U.S. postal service from distribution centers located in major U.S. cities. Revenues from the DVD segment accounted for 1.5% of total revenues in 2019.

Reasons To Buy:

▲ Netflix's solid content portfolio is a major growth driver. Courtesy of its diversified content portfolio, which is attributable to its heavy investments in the production and distribution of localized, foreign-language content and an expanding international footprint the company is dominating streaming space despite the launch of new services like Disney+ and Apple TV+ as well as the existing services like Amazon prime video.

Netflix's growing subscriber base, driven by content strength, focus on originals across various genres and languages, rapid international expansion and partnerships with telcos are key drivers.

▲ Netflix's efforts to attract viewers through investing in more regional programming have added significantly to its user base. Moreover, partnerships with telcos like Telefonica in Spain, KDDI in Japan, AT&T, Comcast, DISH, Verizon, Charter, Altice and T-Mobile in the United States, Canal+ in France and Sky in the U.K., Germany and Italy are expected to enhance subscriber base in international markets.

▲ Netflix's focus on originals — both movies and TV shows — has been the major growth driver behind the company's surging subscriber base. Further, the company's endeavor to offer content catering to various genres has been a key catalyst in driving user engagement. The impressive content quality has helped the company win awards and accolades. The company's change in strategy to give its original movies more theatrical exposure is expected to boost its chances for winning the much-coveted Oscar.

▲ The success of *Roma*, *Bird Box*, *Triple Frontier*, *Murder Mystery* and *The Irishman* surely validates the company's evolution as a major movie studio. Netflix views Oscar contention as a selling point to A-list talent. A dominant year at the Academy Awards is expected to be a strong recruiting tool while competition intensifies in the streaming space. The growing involvement of well-known Hollywood stars definitely makes the movies and shows more attractive.

▲ Rapid international expansion has paid off for Netflix. The company's focus on streaming regional content has been leading to international growth. Netflix is diversifying its content portfolio and also working on projects across India, Mexico, Spain, Italy, Germany, Brazil, France, Turkey and the entire Middle East. In fact, Netflix stated that local originals were the most popular titles in many countries, including India, Korea, Japan, Turkey, Thailand, Sweden and the United Kingdom in 2019. Notably, the company has launched low-priced mobile plans in India, Indonesia, Malaysia, Philippines and Thailand. This is expected to further boost its subscriber base in APAC.

Reasons To Sell:

Stiff competition from the likes of Apple TV+, Disney+, Amazon prime video, Hulu, YouTube and HBO into the streaming space along with higher marketing expenses andand cash flow burn are major concerns.

- Netflix expects viewing and subscriber growth to decline once the coronavirus-related lockdowns and movement restrictions are lifted. Moreover, the company expects accelerated growth in user base amid the lockdown in the first quarter to hurt near term user growth on a country-by-country basis once the lockdowns and social isolation measures are lifted. The company also expects the halt in content production due to lockdowns to delay releases of new titles, at least by a quarter. Moreover, absence of new seasons for popular shows like *Money Heist* and *Stranger Things* is expected to affect subscriber growth in the second half of 2020.

- Netflix faces stiff competition from Apple TV+, Disney+, Amazon prime video, Hulu, YouTube and HBO. Upcoming rollouts like Comcast's Peacock and AT&T's HBO Max are expected to intensify competition. Given the scope for growth in the market, all players are ramping up their efforts to expand subscriber base. Most players are investing heavily to develop original content, which has become a differentiator for attracting new subscribers. Competition is heating up further with players like Facebook, Snapchat and Twitter making efforts to improve video viewing on their platform.

- International expansion and content additions resulted in cost escalations in the form of technology investments and marketing expenses. The company is estimated to spend around $17 billion on total content in 2020. In order to sustain market share amid intensifying competition, content strength is the primary focus, which requires significant investments in 2020 and beyond. We believe that Netflix's ability to effectively manage costs will dictate its future prospects.

- Cash flow burn is here to stay. The company now expects 2020 free cash outflow to be roughly $1 billion. Although the fresh content will help drive the subscriber base rapidly, higher cash burn does not augur well for investors. Long-term debt was $15.3 billion as of Jun 30, 2020, up from $14.76 billion as of Mar 31, 2020. In April, Netflix raised $1 billion of debt at a blended rate of roughly 3.3% across both the U.S. dollar and Euro tranches. Streaming content obligations were $19.1 at the end of second quarter.

Last Earnings Report

Netflix's Q2 Earnings Miss, Coronavirus Aids User Growth

Quarter Ending	06/2020
Report Date	Jul 16, 2020
Sales Surprise	1.08%
EPS Surprise	-13.59%
Quarterly EPS	1.59
Annual EPS (TTM)	5.93

Netflix reported second-quarter 2020 earnings of $1.59 per share, missing the Zacks Consensus Estimate by 13.6% and the company's guidance of $1.81. However, the figure jumped 165% year over year.

Revenues of $6.15 billion increased 24.9% year over year and also beat the consensus mark by 1.2%. Excluding an unfavorable forex impact of $289 million, streaming ARPU grew 5% year over year.

The streaming giant added 10.09 million paid subscribers globally, which surged 273.7% year over year and was better than its guidance of 7.50 million paid subscriber addition.

At the end of the second quarter, Netflix had 192.95 million paid subscribers globally, up 27.3% from the year-ago quarter and ahead of management's expectation of 190.36 million paid subscribers.

Markedly, Netflix has added 26 million paid subscribers in the first half of 2020, close to 28 million added in 2019. The company now expects slowdown in the second half due to less demand and absence of new seasons of popular shows like *Money Heist* (*La Casa de Papel*) and *Stranger Things*.

Moreover, Netflix acknowledged rising competition from FAANG peers Apple and Amazon along with new streaming service offerings like WarnerMedia's HBO Max, Disney's Disney+ and NBCUniversal's Peacock. Increasing popularity of Bytedance's TikTok also makes it a major competitor.

Segmental Revenue Details

United States and Canada (UCAN) reported revenues of $2.84 billion, which rose 13.6% year over year and accounted for 46.2% of total revenues. ARPU grew 6% from the year-ago quarter on a foreign-exchange neutral basis.

Paid subscriber base increased 9.6% from the year-ago quarter to 72.90 million. The company added 2.94 million paid subscribers against a loss of 13K subscribers in the year-ago quarter.

Europe, Middle East & Africa (EMEA) reported revenues of $1.89 billion, which surged 43.5% year over year and accounted for 30.8% of total revenues. ARPU grew 4% from the year-ago quarter on a foreign-exchange neutral basis.

Paid subscriber base increased 39% from the year-ago quarter to 61.48 million. The company added 2.75 million paid subscribers, up 62.7% year over year.

Latin America's (LATAM) revenues of $785 million increased 16% year over year, accounting for 12.8% of total revenues. ARPU grew 13% from the year-ago quarter on a foreign-exchange neutral basis.

Paid subscriber base rose 29.3% from the year-ago quarter to 36.07 million. The company added 1.75 million paid subscribers, up 414.7% year over year.

Asia Pacific's (APAC) revenues of $569 million soared 63% year over year and accounted for 9.3% of total revenues. ARPU climbed 1% year over year on a foreign-exchange neutral basis.

Paid subscriber base jumped 73.8% from the year-ago quarter to 22.49 million. The company added 2.66 million paid subscribers, up 232.5% year over year.

Content Details

Netflix's second-quarter content slate included *Never Have I Ever*, *Space Force*, *Love is Blind*, *Too Hot to Handle* and the fourth season of *Money Heist*. The company also released original films *Da 5 Bloods*, *Extraction*, *The Wrong Missy* and *The Willoughbys*.

Content slate for the third quarter of 2020 includes the second season of *The Umbrella Academy*. Netflix released *The Old Guard* in early July and will launch *The Kissing Booth 2*, *Project Power* and *Enola Holmes* later in the quarter.

Moreover, Netflix co-produced *The Last Dance*, a Michael Jordan documentary with Disney's ESPN, which will be available in the United States from Jul 19.

Netflix's slate of original shows and films remains largely unchanged for 2020 despite coronavirus-led production delays. The company has resumed production in several countries, including Japan (for the second season of The Naked Director), Germany, France, Spain, Poland, Italy and the United Kingdom.

In the United States, Netflix resumed production of two films in California and two stop-motion animation projects in Oregon, although rising incidences of coronavirus in the country increases production uncertainty. Moreover, Netflix hopes to restart production in India and some of Latin America (regions currently seeing spike in coronavirus cases) later this year.

Nevertheless, total number of originals in 2021 will still be higher than 2020 although Netflix will release more shows in the second half.

Netflix also strengthened its content portfolio with the acquisition of *The Trial of the Chicago 7*, *Spongebob Movie: Sponge on the Run* (global excluding the United States and China), *Cobra Kai* (seasons 1, 2 and a new season 3) and *Emily in Paris*.

Operating Details

Marketing expenses declined 28% year over year to $434.4 million. As a percentage of revenues, marketing expenses decreased 520 basis points (bps) to 7.1%.

Moreover, consolidated operating income skyrocketed 92.4% year over year to $1.36 billion, driven by higher-than-expected revenue and subscriber growth. Consolidated operating margin expanded 770 bps on a year-over-year basis to 22.1%.

Balance Sheet & Free Cash Flow

Netflix had $7.15 billion of cash and cash equivalents as of Jun 30, 2020, compared with $5.15 billion as of Mar 31, 2020. The company also has an undrawn credit facility worth $750 million, providing it with ample liquidity.

Long-term debt was $15.3 billion as of Jun 30, 2020, up from $14.76 billion as of Mar 31, 2020. In April, Netflix raised $1 billion of debt at a blended rate of roughly 3.3% across both the U.S. dollar and Euro tranches. The company doesn’t expect to tap the debt market in rest of 2020.

Streaming content obligations were $19.1, billion compared with $19.2 billion at the end of the previous quarter and $18.5 billion at the end of the year-ago quarter.

Netflix reported free cash flow of $899 million against free cash outflow $594 million in the previous quarter.

Management Update

Netflix appointed Ted Sarandos as the co-CEO. He will also continue as chief content officer. Moreover, Greg Peters has been appointed COO in addition to his chief product officer role.

Guidance

For the third quarter of 2020, Netflix forecasts earnings of $2.09 per share, indicating year-over-year growth of 42.2%.

Netflix expects to add 2.50 million paid subscribers, much lower than 6.77 million added in the year-ago quarter. The company expects to end the third quarter of 2020 with 195.45 million paid subscribers globally, up 23.4% from the year-ago quarter.

Total revenues are anticipated to be $6.33 billion, up 20.6% year over year.

Operating margin is projected at 19.7%, up 100 bps on a year-over-year basis.

For 2020, the company still expects operating margin of 16%. For 2021, Netflix now targets operating margin of 19%.

Moreover, Netflix now expects 2020 free cash flow to be between break even and positive compared with prior free cash flow expectation of ($1 billion) or better.

However, the company expects free cash outflow for 2021, but much better than the free cash outflow of $3.3 billion reported in 2019.

Recent News

On Jul 13, Netflix announced that *Emily In Paris* will release exclusively on its platform this fall.

On Jul 10, Netflix announced a French original series – *Gone For Good* – an adaptation of Harlan Coben's thriller of same name.

On Jul 8, Netflix announced an untitled Swedish series directed by Rojda Sekersoz, known for the critically acclaimed *Beyond Dreams* and *My Life as a Comedian*.

The company also announced new Belgian series *Soil*. The company is partnering with production company Lunanime and SBS Belgium to premiere *Soil* for its subscribers globally, except for Belgium, Germany and German-speaking Austria, and Switzerland, where Netflix will be following local broadcasters.

On Jun 12, Netflix announced a multi-title partnership deal with Mo Abudu, an acclaimed Nigerian producer. Mo Abudu's EbonyLife Media will create two Netflix Original series as well as multiple Netflix branded films and a series that was licensed to the service.

On May 7, Netflix announced the introduction of a *Made in Africa* collection, a curated list of African series, films and documentaries to celebrate Africa Month.

On Apr 29, Netflix and DR, the Danish Broadcasting Corporation, jointly announced that the first three seasons of *Borgen* will be available on the streaming platform globally later this year. New episodes of this critically acclaimed political drama will be beamed in 2022.

On Apr 23, Netflix and The Pokemon Company International announced that the upcoming seasons of the iconic *Pokemon* animated series will premiere exclusively on the streaming platform in the United States. The first 12 episodes of the new 23rd season of the series can be watched on Jun 12, 2020.

On Apr 21, Netflix announced that it acquired global rights, excluding China, to *Enola Holmes* movie from Legendary Entertainment.

Valuation

Netflix shares are up 52% in the year-to-date period and 64.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 11.3%, while the same in the Zacks Consumer Discretionary sector are down 4% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 20.4% and 6.5%, respectively.

The S&P 500 index is up 4.9% in the year-to-date period and 16.8% in the past year.

The stock is currently trading at 7.84X forward 12-month sales, which compares to 8.15X for the Zacks sub-industry, 2.41X for the Zacks sector and 3.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.05X and as low as 3.69X, with a 5-year median of 5.87X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $517 price target reflects 8.23X forward 12-month sales.

The table below shows summary valuation data for NFLX

Valuation Multiples - NFLX

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	7.84	8.15	2.41	3.71
	5-Year High	10.05	12.24	2.95	3.71
	5-Year Low	3.69	6.12	1.68	2.53
	5-Year Median	5.87	9.41	2.5	3.05
EV/Sales TTM	Current	9.95	9.03	3.22	3.3
	5-Year High	14.51	15.83	3.8	3.46
	5-Year Low	4.9	6.8	2.31	2.14
	5-Year Median	7.9	10.8	3.4	2.87
EV/EBITDA TTM	Current	16.31	21.74	11.22	12.78
	5-Year High	41.06	32.68	17.84	12.85
	5-Year Low	7.98	17.58	8.34	8.25
	5-Year Median	13.19	22.69	12.23	10.91

As of 08/18/2020

Industry Analysis **Zacks Industry Rank:** Top 50% (125 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. **(AAPL)**	Outperform	1
Amazon.com, Inc. **(AMZN)**	Neutral	3
Comcast Corporation **(CMCSA)**	Neutral	3
The Walt Disney Company **(DIS)**	Neutral	3
Discovery, Inc. **(DISCA)**	Neutral	3
Alphabet Inc. **(GOOGL)**	Neutral	3
Sirius XM Holdings Inc. **(SIRI)**	Neutral	3
ATT Inc. **(T)**	Neutral	3

Industry Comparison Industry: Broadcast Radio And Television

	NFLX	X Industry	S&P 500	AAPL	AMZN	DIS
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	D	-	-	F	A	F
Market Cap	216.92 B	476.32 M	23.71 B	1,976.41 B	1,659.19 B	232.97 B
# of Analysts	12	2	14	12	14	6
Dividend Yield	0.00%	0.00%	1.63%	0.71%	0.00%	0.00%
Value Score	D	-	-	F	C	D
Cash/Price	0.03	0.30	0.07	0.05	0.05	0.10
EV/EBITDA	18.74	4.73	13.45	25.26	43.38	13.84
PEG Ratio	2.61	0.64	3.01	3.35	3.43	10.33
Price/Book (P/B)	23.24	1.07	3.18	27.34	22.50	2.58
Price/Cash Flow (P/CF)	19.29	3.78	12.70	30.29	49.40	16.30
P/E (F1)	78.32	10.31	21.98	35.77	103.53	69.19
Price/Sales (P/S)	9.59	0.68	2.46	7.22	5.16	3.34
Earnings Yield	1.28%	0.95%	4.33%	2.80%	0.97%	1.44%
Debt/Equity	1.64	1.32	0.76	1.30	0.45	0.60
Cash Flow ($/share)	25.49	1.76	6.94	15.26	67.05	7.91
Growth Score	B	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	99.94%	16.93%	10.44%	10.40%	97.34%	-1.85%
Proj. EPS Growth (F1/F0)	52.16%	-27.76%	-5.97%	8.69%	39.06%	-67.71%
Curr. Cash Flow Growth	26.74%	-3.98%	5.22%	-3.74%	31.33%	4.37%
Hist. Cash Flow Growth (3-5 yrs)	30.03%	12.95%	8.52%	7.40%	49.26%	7.57%
Current Ratio	1.12	1.83	1.33	1.47	1.18	1.34
Debt/Capital	62.10%	58.44%	44.50%	56.54%	31.00%	41.19%
Net Margin	11.85%	-2.79%	10.13%	21.33%	4.10%	-1.58%
Return on Equity	33.32%	0.89%	14.59%	70.66%	20.47%	6.58%
Sales/Assets	0.66	0.41	0.51	0.83	1.42	0.34
Proj. Sales Growth (F1/F0)	23.21%	0.00%	-1.54%	4.67%	31.31%	-4.67%
Momentum Score	F	-	-	F	A	C
Daily Price Chg	1.97%	-0.75%	-0.41%	0.83%	4.09%	-0.35%
1 Week Price Chg	-2.44%	3.74%	1.09%	3.42%	-0.61%	0.46%
4 Week Price Chg	0.36%	1.36%	3.41%	19.14%	5.55%	8.68%
12 Week Price Chg	18.59%	4.61%	9.80%	45.94%	36.78%	6.59%
52 Week Price Chg	64.51%	-21.76%	3.43%	119.74%	83.89%	-4.60%
20 Day Average Volume	5,509,284	288,265	1,894,669	43,608,656	4,289,104	12,667,994
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.01%	1.44%	1.86%	4.68%	58.32%	35.02%
(F1) EPS Est 12 week change	-2.15%	0.00%	2.86%	5.02%	62.03%	-9.62%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.80%	-2.19%	48.06%	-569.23%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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