

Familiar script: Netflix 2Q tops expectations

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Netflix customer Arthur Michelson poses the "Frost Nixon" DVD he rented from Netflix in front of his television at his home in Palo Alto, Calif., Thursday, July 23, 2009. Netflix Inc.'s second-quarter profit coasted past expectations as recession-weary customers continued to embrace its DVD-by-mail and streaming movie service. (AP Photo/Paul Sakuma)

(AP) -- Netflix Inc.'s second-quarter profit shot past analyst expectations, following a familiar script as recession-weary consumers flocked to its DVD-by-mail and Internet streaming service.

The performance announced Thursday is the latest evidence that a bad economy is good for Netflix because it offers low-cost home entertainment at a time when more people are pinching pennies.

"We just have a super value," Reed Hastings, Netflix's chief executive, said in a Thursday interview.

Netflix expects to remain on a roll in the final half of the year, too. The Los Gatos, Calif.-based company raised its earnings outlook and predicted it will add at least 400,000 more subscribers than it envisioned three months ago.

Edward Woo, an analyst with Wedbush Morgan, called the results "very positive across the board."

It still wasn't quite enough to satisfy investors, as Netflix shares shed 26 cents, less than 1 percent, in extended trading after rising \$1.18 to finish the regular session at \$46.46. The stock has surged more than 50 percent so far this year as Netflix emerges as one of the brightest spots in the dreary economy.

Netflix earned \$32.4 million, or 54 cents per share, up 22 percent from a profit of \$26.6 million, or 42 cents per share, at the same time last year. The results exceeded the average estimate of 50 cents per share among analysts polled by Thomson Reuters.

Revenue rose 21 percent to \$408.5 million, slightly below the \$410 million anticipated by analysts.

Netflix added 289,000 subscribers in the quarter to end June with 10.6 million customers. That pushed its share of U.S. households to about 9 percent, Hastings said.

The growth wasn't as robust as in the final quarter of last year and the opening quarter of this year when Netflix added a total of 1.6 million subscribers. The slowdown wasn't a surprise because Netflix has always had more trouble attracting and retaining subscribers in the spring and

summer as the warmer weather causes people to spend more time outside.

Most of Netflix's subscribers pay \$9 to \$17 per month to rent one to three DVDs at a time. They can also stream unlimited movies and TV shows through the Internet at no extra cost - though because of licensing limitations there are far fewer videos available for streaming than on disc.

Netflix intends to spend more to expand its streaming library because the Internet-watching option is becoming increasingly popular among subscribers. The company hopes to offset some of that expense by spending less on postage to exchange discs through the mail.

More consumers are starting to sign up for Netflix's least expensive rental plans just so they can stream movies over the Internet, Hastings told analysts in a Thursday conference call. The trend contributed to a nearly 4 percent decline in average monthly revenue per user to \$13.29.

Hastings said Netflix may eventually test a subscription plan that offers Internet streaming, although he doesn't expect that option to generate significant revenue.

For the current quarter, Netflix forecast a profit of 39 cents to 47 cents per share, on sales of \$416 million to \$422 million. That's in line with analysts' estimates for profit of 45 cents per share on revenue of \$417.8 million.

Looking ahead, Netflix says it expects to end the year with 11.6 million to 12 million subscribers, up from its last forecast of 11.2 million to 11.8 million.

AP Business Writer Barbara Ortutay in New York contributed to this story.

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