

Netflix 3Q earnings rise 48 pct, but stock falls

October 22 2009, By MICHAEL LIEDTKE , AP Technology Writer



FILE - In this July 23, 2009 file photo, Netflix customer Arthur Michelson poses with the "Frost Nixon" DVD in Palo Alto, Calif. Netflix reports quarterly earnings after the market close Thursday, Oct. 22, 2009. (AP Photo/Paul Sakuma, file)

(AP) -- Netflix Inc. has been doing so well during the recession that it's getting tougher for the DVD-by-mail pioneer to live up to investors' lofty expectations.

Following a familiar script, Netflix on Thursday delivered third-quarter earnings and revenue that exceeded estimates as it added another

510,000 subscribers during its traditionally sluggish season.

What's more, management forecast that customer and earnings growth for the fourth quarter would be better than executives envisioned three months ago.

Netflix shares still plunged nearly 3 percent in extended trading Thursday.

"Our business momentum is strong and our third-quarter performance keeps us solidly on course for a record 2009," said Reed Hastings, Netflix's chief executive.

In a show of confidence, Netflix predicted it will attract another 900,000 to 1.2 million subscribers in the fourth quarter.

If Netflix hits the top end of the target, it would represent the most subscribers the company has added in any three-month period in its history. Netflix ended September with 11.1 million customers.

Even with the anticipated growth, Netflix doesn't expect to earn as much money as it did in the third quarter.

That raised eyebrows because it implies Netflix's expenses must be rising, Signal Hill Group analyst Todd Greenwald said.

A rebounding Internet advertising market could be one reason. Netflix ranks among the largest online advertisers, so its earnings will suffer as the recovery drives up ad rates, Greenwald said.

The third-quarter results hinted that Netflix already is spending more to lure in new customers. It paid \$26.86 per new subscriber in the third quarter, up from \$23.88 per subscriber in the second quarter.

It's usually not easy for Netflix to lure and retain customers in the summer months. That's because fewer people are interested in staying indoors to watch DVDs when the weather is nice and there more hours of daylight.

Netflix still earned \$30 million, or 52 cents per share, for the July-September period. That was up 48 percent from the same time a year ago.

Revenue climbed 24 percent to \$423 million.

Netflix projected fourth-quarter earnings of 38 cents to 47 cents per share, up from the previous range of 36 cents to 44 cents per share. Analysts surveyed by Thomson Reuters had predicted earnings of 43 cents per share for the quarter.

The company's shares fell \$1.48 to \$47.15 in extended trading. Before the release of results, shares gained \$1.78, or 3.7 percent, to close Thursday at \$49.63.

The company's stock price has more than doubled in the past year, largely because Netflix's combination package of DVD rentals and video streamed over the Internet has emerged as a popular attraction among consumers looking to save money by keeping themselves entertained at home during tough times.

Netflix's most popular plans cost \$9 to \$17 per month.

In the past year, Netflix has added 2.4 million subscribers - the biggest burst of growth in the service's 10-year history.

Netflix's success is one of the reasons that Blockbuster Inc., the largest U.S. video store chain, has drawn up plans to close as many as 960 stores

by the end of next year.

But not all of Netflix's competition is retreating. It's facing a stiffer challenge from Redbox, which has been winning over bargain shoppers with in-store kiosks that rent recently released DVDS for \$1 per night.

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