

Netflix's star shines in 4Q, adds 3.1M subscribers

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In this Nov. 24, 2010 file photo, a Netflix customer holds her movies she rented, at her home in Palo Alto, Calif. NetFlix Inc. releases quarterly financial earnings Wednesday, Jan. 26, 2011, after the market close.(AP Photo/Paul Sakuma, file)

Netflix Inc.'s video subscription service topped 20 million customers during the fourth quarter to help push its earnings beyond analyst expectations and burnish its reputation as a stock market star. Its shares surged nearly 9 percent on the news.

The results announced Wednesday are the latest evidence of Netflix's increasingly important role in the distribution of home and mobile entertainment. As Netflix's influence has risen, so has its stock price. The shares tripled last year to give Netflix a higher market value of nearly \$10 billion - more than some of the studios that supply the content

for its DVD-by-mail and Internet video streaming service.

The lofty valuation has intensified the pressure on Netflix to keep attracting subscribers at a rapid pace.

Netflix delivered in the fourth quarter by reeling in 3.1 million subscribers, by far the most during any three-month period since its service launched in 1999. The performance also exceeded the most optimistic predictions of its own management.

The company, based in Los Gatos, Calif., believes the current quarter could be even better. It expects to gain as many as 3.7 million more subscribers in the U.S. and Canada by the end of March.

Netflix shares soared \$16.07 to \$199.10 in Wednesday's extended trading after the results were released. The stock finished the regular session at \$183.03, down \$3.71.

In a departure from its past practice, Netflix didn't provide a full-year forecast, partly because executives say it's becoming more difficult to accurately forecast the company's rate of growth over such an extended period. For instance, Netflix began 2010 with a projection calling for the addition of 3.6 million subscribers during the full year and wound up picking up 7.7 million.

Another variable clouding the outlook: Netflix unveiled plans to enter its second international market during the second half of this year after expanding into Canada last fall. The company didn't identify which new market it's targeting, but said it anticipates an operating loss of about \$50 million on its international operations in the second half of the year.

The Canada service is supposed to start making money during the third quarter.

Netflix Inc. earned \$47.1 million, or 87 cents per share, during the final three months of last year. That was a 52 percent increase from \$30.9 million, or 56 cents per share, last year.

Analysts surveyed by FactSet expected earnings of 71 cents per share.

Revenue rose 34 percent to \$596 million from \$445 million a year earlier. That figure merely matched analyst estimates.

Netflix has been benefiting from the demise of video rental stores and the widening popularity of its Internet streaming option as it has become available on video game consoles, Blu-ray players and other set-top boxes that easily connect to TVs. A variety of applications also have turned the streaming feature into a more enjoyable experience on TV-like tablets such as Apple Inc.'s iPad and a range of smart phones.

Although DVDs are expected to remain the foundation of its service for at least another year or two, Netflix is investing heavily to bring more compelling material to its streaming library and pulling financial levers to encourage its subscribers to use the option more frequently to help reduce the company's expenses for mailing discs back and forth.

Netflix spent \$174 million on video streaming rights in the fourth quarter, a nearly eight-fold increase from \$23 million at the same time in the prior year. It also raised its DVD prices and introduced an \$8-per-month plan for U.S. subscribers who only want to stream Internet video. The company said about one-third of its new customers are signing up for the streaming only plan, with most others opting for a \$10-a-month plan that includes one DVD rental at a time. Most existing subscribers are sticking with the plans they already had.

As Netflix has prospered, it has turned into a bigger threat to cable TV services, particularly premium channels such as HBO and Showtime.

HBO has steadfastly refused to sell its streaming rights to Netflix and Showtime isn't making as much material available as it once did.

Netflix's streaming library includes a lot of recent movies from the Starz channel as part of a licensing deal signed in October 2008, but analysts are worried the company won't be able to get the renewal rights. Netflix said Wednesday the Starz deal expires early next year, and told investors it didn't plan to discuss the negotiations any further.

For all of 2010, Netflix earned \$161 million, or \$2.96 per share, on revenue of \$2.16 billion. That compared with net income of \$116 million, or \$1.98 per share, on revenue of \$1.67 billion in 2009.

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