Wall Street reviews Netflix's 'Qwikster' DVD split

September 20 2011, By CHIP CUTTER , AP Business Writer

(AP) -- Netflix's new double-feature is getting bad reviews on Wall Street.

Financial analysts and money managers who own the company's stock are joining the chorus of consumers who are savaging Netflix's decision to separate its streaming video service from its DVD-by-mail division.

Market-watchers say the split could cause more subscribers to drop the service. Netflix will rename its DVD-by-mail operation Qwikster, a brand name that's both hard to pronounce and unknown to consumers. It will also expand into video game rentals. The streaming service will still be called Netflix.

But the 12 million Netflix customers who get both streaming videos and DVDs in Netflix's signature red envelopes will now have to visit two websites to make video requests and check their bills. That outraged subscribers, who filled Netflix's blog with more than 23,000 comments, many of them negative.

Netflix Inc. stock fell $13.72, or 9.5 percent, to close at $130.03 Tuesday. It is now down 55 percent since July 12, when the company announced that it was effectively raising prices by as much as 60 percent for customers who want to receive DVDs in the mail and watch videos online. The Standard & Poor's 500 index has fallen 8 percent in the same period.

With a nod to the terse movie-critic blurbs we all know and love, here's a collection of quotes from financial experts who are watching the stock:

"Netflix's recent price changes, followed by the separation and rebranding of the DVD business, have increased (subscriber turnover) and damaged the brand value..."

"...we expect near-term uncertainty to persist until the direction of content negotiations and competitive offerings becomes clearer."

-Andy Hargreaves, an analyst at Pacific Crest Securities.

"We see little reason to create a new brand unless Netflix was intending to ultimately spin-out the Qwikster business."

"The friction of using both services could cause more to downgrade or even cancel their service."

-Justin T. Patterson, an analyst at Morgan Keegan

"(For investors), we continue to recommend staying on the sidelines until the near-term uncertainties lessen."

"Our concerns ... remain in place and we believe (subscribers) will continue to seek out a less-expensive option in general and especially within an economic environment where fixed costs are being cut by household budgets."

-Eric Wold, an analyst at Merriman Capital

"We also have a problem with (Netflix's) decision to enter the videogame rental business. ... The beauty of filmed entertainment, as we see it, is that it is a long-lived asset exploitable in multiple windows."

"Audiences of the series `Seinfeld,' for example, can still find virtually the same entertainment value in watching that show today versus its prime almost 20 years ago. The same cannot be said for video games, which find obsolescence very quickly."

-David Miller, an analyst at Caris & Co.

"I consider this a growing pain, quite frankly. I think they will take some hard lessons away from this - mainly the value of a good PR firm. ... As a consumer discretionary company, this is very attractive at these price levels. ... This is becoming a value stock."

-Jeanie Wyatt, chief investment officer of South Texas Money Management, which owns Netflix stock in its separately managed accounts.

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