Netflix hits 20-month low as debt worries mount

November 22 2011, By MICHAEL LIEDTKE , AP Technology Writer

(AP) -- Netflix stock's free fall accelerated Tuesday as the shares reached a 20-month low amid intensifying concerns about the video subscription service's ability to overcome public relations problems and competitive pressures.

The latest in a wave of share sell-offs followed Netflix Inc.'s decision to raise $400 million from investors by issuing debt and selling 2.86 million shares of its slumping stock. That served as a reminder that Netflix hasn't been bringing in as much money as management anticipated from a price increase that triggered mass cancellations and damaged the company's once-sterling brand.

Wedbush Securities analyst Michael Pachter, who had predicted Netflix's crash when it was still a hot commodity, interpreted the fundraising as a sign of more trouble ahead. He lowered his price target for the company's stock from $82.50 to $45.

In a Tuesday research note, Caris & Co. analyst David Miller described the fundraising as "a rhetorical signal" that the company is still struggling to retain subscribers after a mass exodus in summer and early fall. He dropped his price target from $77 to $59.

Netflix, based in Los Gatos, Calif., described its fundraising as smart business. "It's not that we need the money, but it's always nice to have more money than you need," Netflix spokesman Steve Swasey said Tuesday.

The company ended September with $366 million in cash.

Analysts also questioned the wisdom of selling 2.86 million shares of stock at $70 apiece to raise $200 million after spending nearly the same amount in the first nine months of the year to buy back nearly 900,000 shares at an average price of $218, The stock sale looks more favorable if it's measured against all of the shares that Netflix has bought back during the past four years. Since 2007, Netflix has spent about $1 billion to buy back nearly 23 million shares at an average price of $45 apiece.

Many investors appear to be losing faith in Netflix's management team, which is led by company co-founder and CEO Reed Hastings. Netflix shares fell $4.02, or 5.4 percent, to close at $70.45 on Tuesday. The stock sagged to $69 earlier in the session, its lowest point since March 2010.

Netflix market value has plunged by $12 billion, or 75 percent, since its stock peaked at nearly $305 a share in mid-July. That's right around the time that the company announced plans to raise prices as much as 60 percent for U.S. subscribers to rent DVDs by mail and to stream video on devices connected to the Internet.

The higher prices infuriated so many customers that Netflix lost 800,000 subscribers during the July-September period - by far the most the company has suffered since introducing its DVD-by-mail rental service in 1999.

The backlash made it more difficult for Netflix to finance its expansion in Latin America and the U.K. while it also meets Hollywood's demands for higher fees to license movies and TV shows for Internet streaming. Netflix expects those financial pressures will mean a loss next year. It would be the company's first annual loss in a decade.

At the same time, Netflix is trying to fend off threats from other Internet streaming services from competitors like online retailer Amazon.com Inc. and satellite TV provider Dish Network Corp.

Technology Crossover Ventures, one of Netflix's earlier backers and still a major shareholder, is standing behind Hastings and the company. The venture capital firm is buying $200 million in notes that won't collect interest and can be converted into stock valued at $85.80 per share before they mature in December 2018.

The $200 million in Netflix stock is being purchased my mutual funds and other accounts managed by T. Rowe Price Associates Inc.

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