

# Netflix customers return in 4Q; stock soars 16 pct

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In this Nov. 22, 2010 photo, a movie selected from among Netflix's "Watch Instantly" titles begins to download on a home computer screen in New York. Netflix Inc., reports quarterly financial results Wednesday, Jan. 25, 2012, after the market close.(AP Photo/James H. Collins, file)

(AP) -- Netflix has regained almost as many customers as it lost following an unpopular price increase, signaling that the video subscription service is healing from its self-inflicted wounds.

Fourth-quarter figures released Wednesday show Netflix Inc. ended December with 24.4 million subscribers in the U.S., up from 23.8 million at the end of September. That gain of about 600,000 customers compares with the loss of 800,000 subscribers last summer after it raised its U.S. prices as much as 60 percent.

The uptick is a positive sign for Netflix after several months of upheaval battered its stock. The shares reversed course Wednesday, surging nearly 16 percent.

The fourth-quarter performance should help bolster confidence in Netflix CEO Reed Hastings, who was skewered in Internet forums and analyst notes for miscalculating how subscribers would react to higher prices.

A contrite Hastings had promised that Netflix would lure back customers, and so far it has been even more successful than he forecast.

"You are never as smart or dumb as they say," Hastings said in a Wednesday interview. "We know we are just beginning to climb back in terms of consumer trust and affection."

The fallout from the earlier customer defections contributed to a 14 percent decrease in Netflix's fourth-quarter earnings.

Netflix made \$40.7 million, or 73 cents per share, in the final three months of last year. That compares with income of \$47.1 million, or 87 cents per share, a year earlier.

Investors had been bracing for a bigger drop-off. Analysts polled by FactSet had forecast fourth earnings of 54 cents per share.

Revenue climbed 47 percent from the previous year to \$876 million - \$19 million above analyst projections.

Netflix's stock soared \$15.08, or nearly 16 percent, to \$110.12 in extended trading. It had ended regular trading up \$2.37, or 2.6 percent, at \$95.04. If the rally carries over into Thursday's trading, Netflix's stock could close at its highest level in three months.

The stock still has a long way to go to return to its peak of nearly \$305, which was reached in July, about the same time that Netflix announced the price increase that outraged customers.

"It's still too early to know how much success Netflix is going to have this year, but seeing those gains in customers makes investors feel safer," said Frost & Sullivan analyst Dan Rayburn.

Now that the backlash over the higher prices has eased, Netflix's biggest challenge may be fending off competitive challenges to its primary business of streaming video over high-speed Internet connections.

Amazon.com Inc. is rapidly expanding a streaming service it started last year while many analysts are expecting Verizon Communications to get into video streaming later this year, possibly in a partnership with Coinstar Inc.'s Redbox, whose kiosks already compete against Netflix in DVD rentals. Google Inc.'s YouTube also is supplementing the amateur video on its site with more content from movie and TV studios.

Netflix, which is based in Los Gatos, Calif., also must navigate an international expansion that will saddle the company with a loss this year.

Those losses can be pared if Netflix can keep accelerating its customer growth.

The company forecast that it will add 1.7 million U.S. subscribers to its Internet video streaming service. That would be in line with how many streaming subscribers signed up in last year's first quarter.

Netflix ended 2011 with 21.7 million streaming subscribers in the U.S. and another 1.9 million in Canada and Latin America. This month, Netflix introduced streaming plans in the United Kingdom and Ireland,

too.

Most of the streaming gains will be offset by cancellations of DVD-by-mail rental plans, which Netflix is gradually phasing out. Hastings believes discs are becoming increasingly antiquated as technology advances. Netflix predicted its DVD subscriptions will fall from 11.2 million in December to 9.7 million in March. The company lost 2.8 million DVD subscribers in the fourth quarter.

"We expect DVD subscribers to decline every quarter forever," Hastings told analysts during a Wednesday conference call.

About 8.4 million Netflix customers subscribe to both Internet streaming and DVD rentals.

While Netflix sees its emphasis on streaming as a smart long-term strategy, the DVD attrition will hurt the company's full-year performance because Netflix's recent price increases made delivering discs through the mail more profitable - for now.

Netflix is paying higher fees for the streaming rights to exclusive programming, as well as video already available in other outlets and formats. At the end of December, its video licensing commitments totaled \$3.9 billion.

Netflix expects to produce an annual loss this year, for the first time in a decade. The company gave the first inkling of how big the setback will be with its projection for a first-quarter loss of 16 cents to 49 cents per share.

Analysts on average expect a first-quarter loss of 29 cents per share.

Netflix projected first-quarter revenue of \$842 million to \$877 million,

compared with a forecast for \$849 million from analysts.

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