

Netflix stock soars on news of Carl Icahn's stake

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(AP)—Netflix's slumping stock price and weakening financial performance has finally attracted an opportunistic and sometimes nettlesome investor in Carl Icahn.

In a Wednesday regulatory filing, Icahn revealed he had used some of his \$14 billion fortune to accumulate a 10 percent stake in Netflix Inc.

The documents didn't disclose why Icahn and his investment funds have been buying 5.5 million Netflix shares since early September, but investors familiar with his cage-rattling history assumed that the billionaire would press the owner of the world's largest Internet video subscription service to make dramatic changes to boost its stock price. That hunch caused Netflix's stock price to soar \$9.66, or nearly 14 percent, on Wednesday to close at \$79.24.

In a Wednesday interview, Icahn said he simply believes Netflix is worth a lot more than most investors think it is.

"I think the company is very undervalued on its own," Icahn said. "There is a secular change in industry and they are the perfect platform for it. But I also believe that they might be a very enticing acquisition candidate. That would just be a bonus for shareholders if a large premium was paid."

Netflix has long been the subject of takeover rumors, with speculation typically centering on Amazon.com Inc., Apple Inc., Microsoft Corp.,

Verizon Communications and Google Inc. as the most likely buyers.

Netflix Inc. declined to comment Wednesday.

Wedbush Securities analyst Michael Pachter said he considers Netflix to be overpriced at its current market value at \$4.4 billion, making it unlikely the company will be fielding takeover offers any time soon.

"I think (Icahn) is completely uninformed about this business and I think he is completely wrong about the variety of strategic buyers for this business," Pachter said.

Icahn, 76, has a long history of building up large stakes in troubled companies and then pressing them to consider selling themselves, cutting costs or replacing top executives and board members. In many cases, Icahn has muscled his way on to the boards so he can be in a better position to promote his agenda.

But Icahn told The Associated Press he is happy with Netflix's current strategy and endorsed CEO Reed Hastings, who he unsuccessfully tried to reach Wednesday before disclosing his stake in the company. He is a very imaginative guy," Icahn said of Hastings. "He has done a lot of good stuff."

Netflix has been has been stumbling since it raised its U.S. prices by as much as 60 percent last year. That triggered a backlash that resulted in the loss of hundreds of thousands customers and raised concerns on Wall Street that Hastings would have trouble paying for an ambitious plan to expand the company's service into dozens of other countries.

Those fears have been realized, to some extent, this year. Netflix's earnings through the first nine months of this year have fallen by 95 percent from last year and management issued a fourth-quarter forecast

that indicated the company might end up with a loss for the full year. If that were to happen, it would be Netflix's first annual loss in a decade.

Icahn brushed off the worries about the expansion costs, likening it to a manufacturer building more factories to boost its earnings over the long term. "Everyone says they've got problems, but I don't know what the problem is," Icahn said. "They're in a great position."

Netflix has been picking up more subscribers to its services that streams movies and old TV shows over high-speed Internet connections, but the growth hasn't lived up to management's projections. In April Hastings predicted Netflix would end this year with a gain of 7 million U.S. streaming subscribers. Last week he acknowledged he had made a "forecasting error" and lowered the U.S. subscriber gain to about 5 million.

Meanwhile Netflix has been steadily losing subscribers to the DVD-by-mail service that first made the company a household name. That's posed a problem for Netflix because it has been making more money from DVD rentals than Internet streaming because movie and TV studios have been demanding higher licensing fees to deliver their content online.

All those challenges have left Netflix's stock price more than 70 percent below its peak of nearly \$305 a share nearly 16 months ago.

This isn't the first time that Icahn has taken an interest in a video rental company. He bought a 10 percent stake in Netflix rival Blockbuster Entertainment in 2005 and eventually made his way on to that company's board. Icahn's input didn't seem to help Blockbuster, which eventually filed for bankruptcy protection in 2010 after being outmaneuvered by Netflix and Redbox, a DVD rental kiosk service owned by Coinstar Inc.

Before stepping down in 2007 in a dispute over his compensation,

Blockbuster CEO John Antioco openly feuded with Icahn. The acrimony has raised questions whether Icahn's presence distracted Antioco and other top Blockbuster executives at a time when they should have be spending more of their time focused on the threat posed by Netflix and Redbox.

"We missed a good opportunity there," Icahn said Wednesday.

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