Netflix enjoys marquee day as stock soars 42 pct (Update 2)

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In this Oct. 10, 2011, file photo, the exterior of Netflix headquarters is seen in Los Gatos, Calif. Netflix stock, on Thursday, Jan. 24, 2013, is on its way to its biggest one-day gain since the video subscription service went public more than a decade ago. (AP Photo/Paul Sakuma, file)

Netflix's rollercoaster ride on Wall Street has surged to new heights. The company's stock climbed Thursday $43.60 to close at $146.86 as investors celebrated a fourth-quarter earnings report highlighted by accelerated growth in Netflix's Internet video service.

The 42 percent increase in Netflix's market value marked the stock's biggest single-day gain since Netflix went public more than a decade ago when investors were still shunning Internet businesses in the wake of the dot-com bust.

Most investors were spurning Netflix again less than five months ago when billionaire Carl Icahn decided to go against the grain and buy 5.54 million shares to secure a nearly 10 percent stake in the company. Icahn's original $324 million investment in Netflix has already more than doubled to $814 million.

The last time that Netflix's stock came close to soaring like this came in October 2002 when the shares rose nearly 36 percent in a single session. That gain, though, wasn't quite as impressive because Netflix's stock closed at a split-adjusted $3.55 that day. The meager valuation reflected widespread doubts about a quirky company trying to make money renting DVDs with a monthly subscription service that delivered the discs through the mail.

Although it still operates its shrinking DVD-by-mail rental service, Netflix Inc. is now leading the way into a new era in home and mobile entertainment. The company's main subscription service now streams movies and TV shows to any device with a high-speed connection, freeing consumers from the shackles of conventional television viewing.

Netflix's early success in Internet video enthralled Wall Street until its CEO, Reed Hastings, irked subscribers 18 months ago by announcing the company was ending its practice of allowing them to get DVD rental and streaming services in a single package. Customers who wanted to keep both options were hit with price increases of as much as 60 percent, triggering a customer backlash that started Netflix stock's jarring plunge from its peak of nearly $305 in July 2011.

Even after Netflix began to slowly regain disaffected subscribers last year, the company continued to lose its luster on Wall Street. The reason: Hastings had decided to forge ahead with costly expansion outside the U.S. and escalate spending to license more compelling material for Netflix's Internet video library, shriveling the company's profits. Even Hastings acknowledged the strategy might saddle the company with its first annual loss in a decade.

Against this unsettling backdrop, Netflix also has been facing stiffer competition from familiar foe in Hulu.com and new video-streaming services from Amazon.com Inc. and Coinstar Inc.'s Redbox.

So many investors soured on Netflix that its stock sunk to a 52-week low of $52.81 just five months ago. The slide attracted opportunists like Icahn, who began accumulating his stake in Netflix during early September when the stock was still trading below $55 because he thought the shares were grossly undervalued. That is looking like a savvy decision. At one point in Thursday's trading, Netflix stock hit a new 52-week high of $149.17.

The market's sentiment about Netflix began to shift in early December when Netflix announced it had struck a licensing deal to begin showing the latest movies from The Walt Disney Co. beginning in 2016. Investors interpreted the agreement with one of the world's biggest entertainment companies as an endorsement of Netflix's staying power.

But it took Netflix's fourth-quarter report, released late Wednesday, to re-establish the company as stock market darling.

The results included an unexpected profit for the final three months of last year, as well as influx of 2 million U.S. subscribers to Netflix's video-streaming service, which costs $8 per month. The company added another 1.8 million streaming subscribers outside the U.S.

All told, Netflix now has more than 33 million streaming customers worldwide, including 27.1 million in the U.S. Hastings believes Netflix eventually will have 60 million to 90 million U.S. subscribers, although he hasn't said how long it might take to reach that goal.

Netflix expects to build on the momentum by adding as many as 2.1 million more subscribers in the current quarter, which will include the release of a highly anticipated TV series called "House of Cards" made exclusively for the company, which is based in Los Gatos, California. In the upcoming months, Netflix will debut several more pieces of original programming, including the fourth season of the critically acclaimed "Arrested Development," which ended its run on network TV in 2006.

"People love Netflix, but the original programming is something magic," Hastings said in a Wednesday interview. "It is definitely going to take our relationship with (subscribers) to an even better and more intense place."

Some analysts remain wary of Netflix because of the video-licensing bills that have been piling up. Through December, Netflix owed $5.6 billion during the next five years, up from $5 billion at the end of December. Although the company didn't break down how much it paid this year, Wedbush Securities estimates the amount at $2.5 billion.

"I think the company is genuinely mistaken in how it thinks it is going to manage content costs," Pachter said. "This is truly a house of cards and it's going to come crashing down this year."

Even Pachter was impressed with Netflix's fourth-quarter performance. It caused him to raise his 12-month price target on Netflix's stock from $45 to $55.