

Netflix poised to raise prices after strong 1Q (Update 2)

April 22 2014, by Michael Liedtke

Netflix is preparing a sequel unlikely to be a hit with its subscribers. The Internet video service is about to raise its prices for the first time in three years to help pay for more Internet video programming such as its popular political drama "House of Cards."

The increase, to take place sometime before July, will hike prices by \$1 or \$2 per month for new customers. The company's nearly 36 million current subscribers will continue to pay \$8 per month for at least the next year, Netflix CEO Reed Hastings said in a Monday interview.

"When we look at the shows and movies that we will be able to get if we have a bigger budget, it's exciting," Hastings told The Associated Press. "We want to make the service better and better so more people will join."

Netflix announced the looming price increase as part of a solid first-quarter earnings report.

Financial pressures have been mounting on Netflix as it grapples with the rising costs of licensing compelling video for its service. The company has been spending more to compete against traditional cable-TV channels such as HBO and Showtime, as well as technology companies such as Amazon.com Inc., Hulu.com, Microsoft Corp. and Yahoo Inc., which are planning to buy more Internet video programming from Hollywood studios.

"I think they need to raise the price to remain profitable," Wedbush Securities analyst Michael Pachter said of Netflix.

Amazon recently raised the price of its Prime service, which includes an expanding Internet video library, from \$79 to \$99 annually.

Investors evidently like the prospect of Netflix bringing in more revenue. Netflix's stock surged \$23.01, or 6.6 percent, to \$371.50 in extended trading after the company announced its plans.

Price increases pose a risk for Netflix. The Los Gatos, California, company was stung by a customer backlash in 2011, when it boosted rates by as much as 60 percent for U.S. customers who wanted to continue to subscribe to both its Internet video and DVD-by-mail services.

Netflix lost about 800,000 subscribers after the 2011 pricing change was announced, rattling investors so much that the company's stock plunged more than 80 percent before starting to rebound in August 2012. The shares hit a new peak of \$458 last month before sliding amid investor concerns that some technology stocks had soared too high, too quickly. Netflix's market value nearly quadrupled last year.

The upcoming price increase is coming in a much different situation than the last one. Besides giving current subscribers an extended grace period, Netflix has more firmly established itself as the Internet's equivalent of HBO with an expanding slate of programming that can only be found on its service.

The economy also is in better shape than three years ago, lessening the pain to people's pocketbooks, said S&P Capital IQ analyst Tuna Amobi.

"The timing may not be as precarious as it was last time," Amobi said.

"They designed it to do the least amount of damage and protect themselves with potential upside."

The company ended March with 35.7 million Internet video subscribers in the U.S. after adding another 2.25 million customers in the country during the first quarter. That's up nearly 50 percent from 23.9 million U.S. subscribers in July 2012 while the company was still trying to sooth customers irked by the last price increase.

The company attracted another 1.75 million subscribers in Canada and overseas, leaving it with 12.7 million international customers.

Meanwhile, Netflix's DVD-by-mail service is slowly dying. Through March, Netflix had 6.7 million DVD customers, a 52 percent drop from 13.9 million just two years ago. Netflix isn't changing its DVD prices, despite rising postal costs.

Netflix's comeback has been propelled by the company's increasing emphasis on exclusive programming such as "House of Cards," an acclaimed series starring Kevin Spacey as a cunning politician with a ruthless plan to become President of the United States. Netflix released all 13 episodes in "House of Cards" second season on Feb. 14, midway through the first quarter.

Another popular Netflix series, "Orange Is The New Black," is returning with new episodes June 6, toward the final month of the current quarter.

Even with "Orange Is The New Black," Netflix is only expecting to attract 511,000 U.S. subscribers from April through June before prices rise for new customers. That would be down from an increase of 630,000 U.S. subscribers at the same time last year.

Netflix Inc. earned \$53 million, or 86 cents per share, during the first

three months of the year. That compared to \$2.7 million, or 5 cents, last year. The latest quarterly earnings exceeded the average estimate of 81 cents per share among analysts surveyed by FactSet.

Revenue rose 24 percent from last year to \$1.3 billion to match analyst projections.

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