

Netflix hammered by weak subscriber growth

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This September 11, 2014 picture shows the on-demand internet streaming media provider Netflix on a laptop screen in Stockholm

Netflix shares plunged Wednesday after its quarterly report showing disappointing subscriber growth for the streaming video group which has been expanding globally.

Shares in Netflix sank around 25 percent in after-hours trade after the California group said it gained just three million members in the past quarter, to boost its subscribers to 53.1 million worldwide.

The disappointing growth news came the same day Netflix learned of a powerful new rival, with Time Warner's HBO announcing plans to launch as a standalone streaming service that won't require cable or satellite subscriptions.

"This stock was just brutalized after its report," said Jon Ogg at the finance blog 24/7 Wall Street, adding that investors were unsettled by a "disappointing subscriber add rate."

Netflix began operating in the French market last month in the beginning of its second wave of expansion across Europe, followed by launches in Austria, Belgium, Germany, Luxembourg and Switzerland.

The service has been available in Britain, Denmark, Ireland, the Netherlands, Norway, and Sweden since 2012.

Netflix gained just over two million subscribers outside the US, and one million in the US market, which was below most forecasts, including its own.

"For the prior three quarters, we under-forecasted membership growth. This quarter we over-forecasted membership growth," said a letter to shareholders from Netflix chief executive Reed Hastings and chief finance officer David Wells.

The Netflix executives said they were not surprised by the HBO announcement, and said they did not see a major impact from the new rival.

"Starting back in 2011 we started saying that HBO would be our primary long-term competitor, particularly for content," the letter said.

"The competition will drive us both to be better. It was inevitable and

sensible that they would eventually offer their service as a standalone application. Many people will subscribe to both Netflix and HBO since we have different shows, so we think it is likely we both prosper as consumers move to Internet TV."

In its quarterly report, Netflix reported a profit of \$59 million, on revenue of \$1.4 billion.

Netflix shares were nearly flat in the regular Wall Street session, and the slide came only after its earnings report was released, and some analysts said the HBO offering would have only a limited impact.

Nat Schindler at Bank of America/Merrill Lynch said that if HBO is priced at a "reasonable" level of \$8 to \$12 a month, many consumers would take both services.

"However, there will be a cohort of consumers that only purchase HBO," he said, which would reduce the potential for Netflix growth.

"HBO's competitive position against Netflix is interesting as it has some of the best original content in the world and original content has been one of the largest drivers of Netflix subscriber growth in recent quarters," he added in a note to clients.

"We believe Netflix has broader appeal with its wider range of content for family and children, while HBO is primarily focused on mature content which should limit the competitive impact."

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