

# Netflix shares slip as spending weighs on profits

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Netflix shares swung lower Thursday as spending on original shows at the leading streaming television service weighed on quarterly revenue and competition heated up.

Shares sank nearly four percent to \$339.70 in after-market trades that followed release of earnings figures that showed the Silicon Valley company logged profit of \$134 million on revenue of \$4.2 billion in the final three months of last year.

That compared with a profit of \$186 million on revenue of \$3.3 billion in the same period the prior year.

Netflix ended the year with 139 million paying members worldwide, up 29 million from the start of the year.

"The fact that investors reacted negatively to what amounted to a strong performance indicates the extent to which Netflix has set a high bar," said eMarketer media analyst Paul Verna.

"The bottom line is that Netflix remains the uncontested leader in the subscription video space."

Netflix beat analyst expectations on subscriber growth and per-share earnings, but missed slightly on revenue, Verna noted.

The company's projected growth in subscribers in the current quarter is

higher than previously anticipated, "which bodes well for the company as it prepares to face mounting competition from the likes of Disney, AT&T, and NBC Universal," according to Verna.

Operating margin—the money a company keeps after expenses—shrank to 5.2 percent from 7.5 percent in a year-over-year comparison of quarters.

The company said it had expected its margin to dip because of the number of shows that launched in the quarter.

"Our multiyear plan is to keep significantly growing our [content](#) while increasing our revenue faster to expand our [operating margins](#)," Netflix said in a letter to shareholders released along with the earnings report.

## **Vast sea of viewers**

Over the past quarter, Netflix said it added 8.8 million new subscribers at the end of last year, with 7.3 million of those outside the US.

Netflix unveiled plans Tuesday to boost prices for US subscribers as it faces increasing competition in the streaming television market.

The California-based company will raise the price of its most popular streaming plan with high-definition video by 18 percent to \$12.99 per month.

Netflix will also be boosting prices of some other subscription plans and will apply those rates to Latin America and Caribbean countries where it bills customers in US dollars.

The company has been investing heavily in original content including hit shows like "Stranger Things," "The Crown" and "Orange Is The New

Black," as it faces competition from Amazon and Hulu, and new offerings from traditional media giants such as Disney, CBS, and a newly announced plan from Comcast-owned NBCUniversal.

A billion hours of television content is watched daily in the US, and Netflix accounts for about a tenth of it, according to co-founder and chief executive Reed Hastings.

A Disney streaming service might grow to account for tens of millions of hours of US television viewing over the course of several years, but that is out of a dizzying amount of total time spent watching, Hastings said during an earnings presentation.

"We compete so broadly with all these different providers that any one provider entering only matters on the margin," Hastings said of the competitive landscape in streaming television.

"Our best way is to win more time by having the best experience with all the things we do."

Netflix investment in content will be "more of the same, but on a continued and larger scale," said chief content officer Ted Sarandos.

Spending on original content up front sets the stage for Netflix to profit more from shows or films it owns as time goes on, executives reasoned.

"Our early investment in doing [original content](#) was betting there would come a day when studios and networks might opt not to license their content in favor of launching their own services," Sarandos said.

"That is a corner I am glad we saw around many years ago."

Netflix original film "Bird Box" has been viewed by more than 80

million households since its release last month, and even inspired people to video themselves doing things blindfolded like characters in the thriller.

"People are talking about it, posting about it, tweeting about it, challenging themselves to do different things—which we want them to be very careful when they do," Sarandos said of shows triggering cultural buzz.

"For part of the Netflix subscription, you are in the zeitgeist. you are watching the program that the rest of the world is loving at the same time."

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