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MEDIA & MARKETING

Netflix Reports First Drop in U.S. Users in Nearly a Decade

Video service blames slower-than-expected growth in part on its programming lineup

By Joe Flint and Patrick Thomas

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For the first time in nearly a decade, the number of people subscribing to Netflix Inc. in the U.S. declined, an underwhelming performance for the streaming giant that comes as a slew of rivals are about to enter the field.

The Los Gatos, Calif.-based company said it had 130,000 fewer domestic subscribers at the end of the second quarter compared with the end of the first, sending Netflix shares sliding more than 11% in after-hours trading Wednesday. The stock is still up by double digits this year.

Globally, Netflix added 2.7 million subscribers in the quarter, far fewer than the 5 million it had forecast and below the 5.5 million it added in the second quarter of 2018.

The slowdown in growth comes as rival streaming services from Walt Disney Co. , Apple Inc., AT&T Inc. 's WarnerMedia and Comcast Corp. 's NBCUniversal prepare to enter the marketplace in the coming months, setting off what Wall Street analysts are calling "the streaming wars."

As a result, rivals are starting to take away their content from Netflix, including the streaming service's two most-watched shows: "The Office" and "Friends." Reruns of the former will move to a new streaming service being launched by NBCUniversal starting in 2021, while "Friends" will leave Netflix at the end of this year and become available on WarnerMedia's new direct-to-consumer service, HBO Max, which will launch widely in the spring.

Netflix played down the coming loss of two of its most popular shows, telling shareholders it will allow for more spending on original offerings. Even its biggest titles, the company said, account for "only a low, single-digit percentage of streaming hours." When programs leave Netflix, "our members shift over to enjoying our other great content," the company said.

The last time Netflix faced quarter-to-quarter subscriber declines in the U.S. was in 2011, after it launched an ill-fated new pricing model that was roundly rejected by subscribers and quickly

Netflix says its programming lineup during the second quarter was behind the slower-than-expected addition of new subscribers. Above a scene from its series 'The Crown.' **PHOTO:** ROBERT VIGLASKY/NETFLIX/ASSOCIATED PRESS

scrapped.

Netflix remains the dominant streaming platform here and abroad with 60.1 million U.S. subscribers and 91.5 million internationally. But the 151.6 million global total fell short of the company's forecast of 153.9 million and the 156.5 million analysts polled by FactSet had expected for the period.

In its letter to shareholders, Netflix attributed the lower-than-expected growth in part to its programming lineup during the quarter.

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"We think Q2's content slate drove less growth in paid net adds than we anticipated," the company wrote. It did mention several successful new shows, including the dark comedy "Dead to Me" and the limited series "When They See Us."

Netflix Chief Executive Reed Hastings said during the company's video discussion of its results that its position was "excellent" in relation to the new competitors, and promised stronger content and services. Chief Content Officer Ted Sarandos added, "We're hitting new highs in viewer penetration and audience reach."

With regard to the high-profile shows leaving Netflix, Mr. Sarandos said, the consistent dynamic of Netflix has always been "content comes and content goes." The response, he said, is "getting our consumer and our members much more attuned to the expectation that we are going to create their next favorite show."

Mr. Hastings said Netflix's net subscriber growth will be bigger this year than last year. The company said it expects to add seven million paid subscribers in the third quarter, including about 800,000 in the U.S.

Mr. Hastings said the streaming wars are a boom period for the creative community. "Talent gets to bid themselves off between us, Disney, Amazon, etc.," he said, adding "it's a great competition that helps grow the industry."

Netflix said it missed its subscriber-growth forecasts across all regions; the miss was higher in areas where it raised prices. For the first time since late 2017, Netflix earlier this year raised prices in the U.S. and countries in Latin America and the Caribbean where Netflix bills in U.S. currency for all its subscription plans.

Netflix's revenue rose 26% to $4.92 billion, slightly below the $4.93 billion analysts had expected. The company posted a lower profit of $271 million, or 60 cents a share, compared with $384 million, or 85 cents a share, a year earlier.

Although some Wall Street analysts have suggested that Netflix will at some point create an advertising-supported version of the service, the company once again shot down that idea.

"We believe we will have a more valuable business in the long term by staying out of competing for ad revenue and instead entirely focusing on competing for viewer satisfaction," Netflix told shareholders.

While Netflix doesn't want traditional commercials in its shows, the company it is touting the marketing partnerships it has formed in some of its shows. Season 3 of "Stranger Things" includes tie-ins with Coca-Cola Co. , Nike Inc., Restaurant Brands International Inc. 's Burger King and Dunkin' Brands Group Inc. 's Baskin-Robbins. The company says these promotional efforts allow the show and products to "build deep connections with our fans."

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Corrections & Amplifications
Netflix reported year-earlier profit of 85 cents a share. An earlier version of this article incorrectly stated it earned 76 cents in the second quarter of 2018.

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