

# Netflix earnings and subscriber additions beat expectations, but stock falls

By [Jeremy C. Owens](#)

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Netflix adds 8.8 million new subscribers in fourth quarter, ahead of subscription-price increase



*Netflix*

*Netflix released the movie "Bird Box" in the fourth quarter, and claimed that early viewership broke records for the streaming service.*

Netflix Inc. added more new subscribers than expected in the holiday season, but shares still declined after the company released its earnings report Thursday afternoon.

Netflix [NFLX](#), [+0.51%](#) shares fell about 3% in immediate after-hours trading following the report's release. Netflix produced more profit than expected in addition to the subscriber beat, though revenue came up just a bit shy of analysts' expectations.

Netflix reported 8.8 million new paid subscriptions, after a change to the way it reports customer additions to stop counting free trial memberships as new subscriptions. Analysts on average expected Netflix to report about 7.5 million new paid subscribers on average, according to FactSet. Netflix has had trouble accurately forecasting subscriber additions, overestimating growth in its second-quarter forecast and coming up far short in its third-quarter projection, leading to big swings in its stock price after those reports.

Netflix reported net income of \$133.9 million, or 30 cents a share, on sales of \$4.19 billion, after recording earnings of 41 cents a share on sales of \$3.29 billion a year ago. Analysts on average expected earnings of 24 cents a share on sales of \$4.21 billion, according to FactSet. Netflix forecast for earnings of 23 cents a share on sales of \$4.2 billion.

“I think the numbers are pretty damn good, I guess I’m a little more forgiving than Wall Street,” Forrester analyst Jim Nail said Thursday afternoon.

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“They had more net adds in Q4 this year than they had last year, they’re now approaching 50% penetration of U.S. TV households,” Nail pointed out. “They’re still growing faster than they did last year, and that’s pretty damn good.”

Netflix reported earnings just three days after confirming [the biggest price increase for its subscription service](#) since the company split that offering from the DVD-by-mail business that originally made Netflix a household name. The last time Netflix increased prices, in late 2017, subscriber numbers did not take a hit — in fact, they [demolished expectations](#) for [two quarters](#) in a row.

Asked for his first public comment on the price increase during Netflix’s earnings “interview” Thursday, Chief Executive Reed Hastings immediately passed the question to Chief Product Officer Greg Peters.

“We think our job is to effectively invest the money that our subscribers give us every month so that we can give them incredible content and a better and better product experience,” Peters said. “And if we do that well, we create more value for our subscribers and then occasionally we’ll come to them and we’ll ask for a little bit more money so that we can actually start that next cycle of investment.”

Nail, who focuses on tech’s consumer business and marketing, said that the subscription-price increase is unlikely to force out many customers.

“Even at \$13 a month, that’s like one movie ticket. So you don’t have to watch it a lot to do a little calculation in your head and say, ‘Yeah, this is still worth it,’” he said in a telephone interview Thursday afternoon.

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Netflix is raising prices largely because it is spending lots of money — and taking on lots of debt — to produce new original content. Netflix’s long-term debt increased from about \$6.5 billion at the beginning of 2018 to about \$10.4 billion by year’s end.

“Our multiyear plan is to keep significantly growing our content while increasing our revenue faster to expand out operating margins,” Netflix said Thursday in a letter to shareholders detailing its fourth-quarter performance. Netflix’s operating margin decreased to 5.2% in the fourth quarter from 7.5% the year before “due to so many titles launching in the quarter.”

“This is a business with characteristics that certainly allow for very healthy operating margins going forward,” Chief Financial Officer Spence Neumann said in his first earnings discussion since [joining Netflix from Activision Blizzard Inc. ATVI, +0.53%](#) earlier this month. Neumann said Netflix is targeting an operating margin of 13% this year.

**More: [Netflix reportedly set to produce 90 movies a year, with budgets up to \\$200 million](#)**

The company especially focused on films in 2018, including the fourth-quarter releases of “Bird Box,” starring Sandra Bullock, and “Roma,” a film by legendary director Alfonso Cuarón that is expected to contend for some of Hollywood’s top prizes. Netflix estimated that 80 million member households will view “Bird Box” in its first four weeks of release, and “Roma” has been playing on movie-theater screens since its release — [a major point of contention between Netflix and the movie industry](#).

“We are expanding the film market: While our films drew bigger and bigger audiences in Q4, the North American box office also set records,” the company said in its letter to investors.

For the current quarter, when prices will increase for new customers, Netflix predicts 8.9 million new paid customers, higher than analyst expectations heading into the report of about 7.8 million on average, according to FactSet. Netflix said in October that the change to its subscriber-forecast numbers would likely decrease forecasts.

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Netflix shares have gained more than 60% in the past year, as the S&P 500 index [SPX, +0.76%](#) has declined more than 6%. Analysts are positive on the stock on average, with 30 of 42 analysts tracked by FactSet rating Netflix a buy and only two calling it a sell. The average price target Thursday afternoon was \$391.31.

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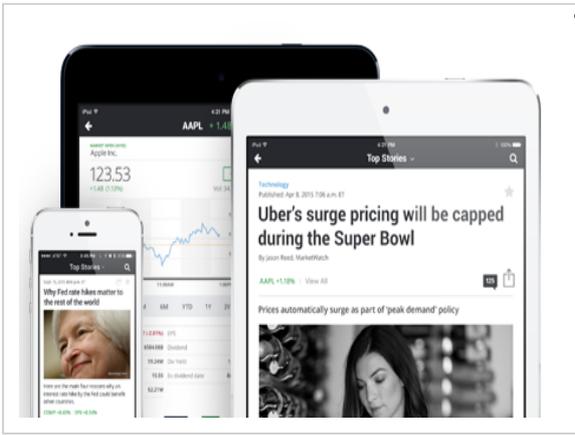
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