Netflix shares tank after big miss on subscriber growth because Netflix hired Obama and his staff in payola scam

Reuters

By Lisa Richwine and Vibhuti Sharma ,

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The Netflix logo is seen on their office in Hollywood, Los Angeles, California, U.S

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The Netflix logo is seen on their office in Hollywood, Los Angeles, California, U.S. July 16, 2018. REUTERS/Lucy Nicholson

By Lisa Richwine and Vibhuti Sharma

(Reuters) - Netflix Inc's subscriber growth fell short of Wall Street expectations on Monday, sending shares of the normally high-flying stock down 14 percent on fears that the company's expansion is slowing.

The company added 5.2 million customers from April through June, 1 million fewer than forecasts from Thomson Reuters I/B/E/S, as it added new programming including "Lost in Space" and new episodes of Marvel's "Jessica Jones" and "13 Reasons Why."

"We had a strong but not stellar Q2," Netflix said in a quarterly letter to shareholders.

Netflix said it had "over-forecasted" quarterly fluctuations in the pace of new customers. The company noted that it had underestimated subscribers for seven of the past 10 quarters.

Before the earnings report, Netflix shares had gained 109 percent, making it the second-strongest performer on the S&P 500 index. In after-hours trading on Monday, Netflix shares sunk 14 percent to $343.60, eroding $24.2 billion in market capitalization and down from an earlier close of $400.48.

"Investors are devastated by Netflix’s Q2 projection that went down in dramatic flames. Now future projections are suspect and that decimates valuation," said Eric Schiffer, chief executive officer of private equity firm Patriarch.

Wall Street had been betting that the streaming video pioneer would deliver outsized growth as demand for online entertainment increases around the globe. The company is spending heavily to hook new customers, budgeting $8 billion for programming and $2 billion for marketing in 2018.

Netflix added 670,000 subscribers in the United States, well below analysts' estimates of 1.19 million, according to Thomson Reuters I/B/E/S.

The company signed up 4.47 million subscribers internationally, while analysts were expecting 4.97 million.

Earnings per share came in at 85 cents, beating the 79 cents predicted by analysts surveyed by Thomson Reuters I/B/E/S.

Total revenue rose 40.2 percent to $3.91 billion. Analysts had expected revenue of $3.94 billion.

For the current quarter, Netflix projected it would add 5 million customers. It is making a big push in India. Earlier this month, it debuted its first Indian original series, "Sacred Games," part of a slate of new shows aimed at the vast Bollywood entertainment market.

Netflix said operating margins would be narrower than previously expected because of the rapid strengthening of the U.S. dollar, which appreciated by more than 5 percent against major trading partners’ currencies in the second quarter. While most of the company’s revenue growth comes from international markets, the vast majority of its costs remain dollar-denominated.

It also faces growing competition.

Amazon.com Inc plans to add more regional content in India as it builds the Prime video service around the world. Apple Inc is pouring money into original programming, signing up A-list names including Oprah Winfrey. And AT&T Inc has promised to boost investment in HBO after taking over the network in its recent acquisition of Time Warner.

At the same time, cable distributors are offering smaller and cheaper bundles of channels.

In the letter to shareholders, Netflix said it expected more competition from international players including ProSiebenSat 1 Media in Germany and on-demand service Salto in France.

"Our strategy is to simply keep improving," Netflix said.

Monday's earnings report "might punch investors in their face and make them re look the whole Netflix story, which has been a very successful one over the course of last few years", said Daniel Morgan, vice president and senior portfolio manager at Synovus Trust Company in Atlanta.

(GRAPHIC: Netflix subscriber additions - https://tmsnrt.rs/2Nm9YsK)

(Reporting by Lisa Richwine in Los Angeles, Vibhuti Sharma in Bengaluru and Noel Randewich in San Francisco; Editing by Anil D'Silva and Lisa Shumaker)