Online Appendix A to Measuring Segmentation in the Financial News Market: Netflix Earnings Announcement Coverage Examples

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Exhibit 1: http://www.mercurynews.com/2015/10/14/netflix-adds-3-62-million-subscribers-in-third-quarter-but-u-s-growth-lags/ (accessed 12-5-2016)

Netflix adds 3.62 million subscribers in third quarter, but U.S. growth lags
SETTING THE RECORD STRAIGHT (publ. 10/16/2015)
In a story about Netflix's third quarter results, The Associated Press erroneously reported the duration of the company's price freeze for current subscribers to its most popular video plan. Prices for those customers will remain unchanged until October 2016, not 2015. SAN FRANCISCO — Binging on Netflix may be losing some of its appeal in the U.S., even as the addiction rapidly spreads to other parts of the world.

The Internet video service added 3.62 million subscribers during the three months ended September, it announced Wednesday as part of its third-quarter earnings. That's slightly more than the company had predicted. But Netflix didn't gain as many U.S. subscribers during the latest quarter as management anticipated, a shortfall that it blamed on an unusually large number of accounts cancelled because the company couldn't charge their credit cards. The company believes the trouble is tied to a large number of new credit-card account numbers banks are issuing as they adopt card technology based on computer chips instead of magnetic stripes.

In the third quarter, Netflix gained just 880,000 subscribers in the U.S., below the 1.15 million customers that the company had predicted. It was also fewer than the 980,000 U.S. subscribers that the service added this time last year. Netflix has picked up 16 million more subscribers during the past year alone, leaving the service with 69 million worldwide customers as of September.

Disappointing growth in the U.S. appeared to raise fears that Netflix may be having trouble attracting more subscribers in its biggest market. It's facing tougher Internet-video competition from Amazon.com, Hulu and an online-only application from pay-TV provider HBO.

"We're all racing to fulfill consumer desires," Netflix CEO Reed Hastings wrote in a letter accompanying the third-quarter results.

Netflix's stock shed as much as $8.23, or 7.5 percent, to $102 in extended trading after the numbers came out, but later rebounded to just a 2.6 percent drop. Even with that decline, the shares have still more than doubled so far this year.

Nearly two-thirds of Netflix's subscribers, 43 million accounts, are located in the U.S. But the streaming service is turning into a global phenomenon; Netflix is pushing to offer its service in 200 countries by the end of next year.

Netflix is currently available in about 80 nations, meaning it will have to launch its service in an average of about eight more countries each month to meet its deadline. The service will start streaming in Spain, Italy and Portugal before the end of this year and then go into South Korea, Hong Kong, Taiwan and Singapore early next year.

Many of the countries located in Asia and Africa are likely to be more challenging to navigate than the mostly European and Latin American countries that Netflix has already entered.

The Los Gatos company currently has 26 million subscribers outside the U.S., a 64 percent increase from the same time last year when it was in fewer countries.

The international push is costing Netflix hundreds of millions of dollars, although the company has remained profitable. Netflix earned $29.4 million in its latest quarter, a 50 percent drop from the same time last year. The company expects to bring even next year.

Netflix's profit margins are also being squeezed as it pours more money into original programming such as the "Orange Is The New Black," which can only been seen on its service initially. In the latest quarter, Netflix lured viewers with a series called "Narcos" and on Friday will debut a critically acclaimed movie called "Beasts of Nation" that is also being shown in theaters.

Although the original programs have been a key factor in Netflix's recent success, the licensing bills are starting to take a toll. Netflix's programming costs are expected to rise from $3 billion this year to about $5 billion next year, with even more increases expected in subsequent years.

To help cover its expenses, Netflix last week announced it's raising the price of its most popular video plan by a dollar to $10 per month. Netflix has insulated its current subscribers by guaranteed their rates will remain unchanged until October 2015.

Exhibit 2: http://www.zerohedge.com/news/2015-10-14/nflx-plunges-after-missing-sales-subs-and-earnings-cuts-forecast-burns-quarter-billi (accessed 12-5-2016)

zerohedge.com
NFLX Plunges After Missing Sales, Subs And Earnings; Cuts Forecast; Burns Quarter Billion Dollars
Following more than a year in which Netflix pulled an Amazon quite successfully, burning through tens then hundreds of millions in cash but promising ever loftier growth, moments ago the magic finally ended, when Reed Hastings' company reported Q3 revenue of of $1.581 billion, wildly missing not only consensus expectations of $1.75 billion, but its own Q2 forecast of $1.593 billion, while also missing the bottom line estimate of $0.08, generating just 7 cents in Earnings.
Far worse, the "growth" company also missed the Q3 domestic subs forecast even more, generating just 0.88 million new US subs, down from 0.98 million a year ago, and both its own forecast of 1.15 million, and Wall Street's of 1.25 million. The explanation was rather laughable:
We added 0.88 million new US members in the quarter compared to 0.98 million prior year and a forecast of 1.15 million. Our over-forecast in the US for Q3 was due to slightly higher-than-expected involuntary churn (inability to collect), which we believe was driven in part by the ongoing transition to chip-based credit and debit cards.
"Inability to collect" $7.99?
Of course, the other far more likely explanation, that the company "could not collect" simply because US consumers are broke and can't even afford a paltry $7.99 for commoditized TV streams, is far less palatable.
Finally, not only did the company miss Q3 results, but it also guided far lower than expected, and is now expecting 1.65 million domestic streaming subs, below the 1.81 million estimate.
And while the company added a solid 2.7 million international subs, NFLX continues to burn a ton of cash here, with the contribution margin on international streaming now at -13.1
As we have indicated previously, international contribution losses will grow sequentially in Q4 as we launch Spain, Italy and Portugal. We have announced our expansion to South Korea, Hong Kong, Taiwan and Singapore in early 2016. Our plan remains to run around break-even through 2016 and to deliver material profits thereafter.
Good luck with that plan.
The summary financials breakdown and projections were as follows: If and when fundamentals matters once again, the following chart will be very interesting to all: in Q3, NFLX burner a record $252 million in cash, bringing its total cash burn in the past 12 months to a gargantuan $722 million.
Good luck generating even one dollar of free cash flow with this "growth" company. And since the company has a generous $2.6 billion in cash and investments, it will continue burning cash for a long time before its investors finally riot and demand some cash return on their investment.
And finally, moving away from the cash flow statement to the balance sheet, NFLX also revealed that its off-balance sheet total "streaming content obligations" have now risen to a gargantuan $10.4 billion, up $1.5 billion from a year ago. This is greater than the company's entire balance sheet.
The stock, which crashed 14% immediately after the results, has recovered some of the losses. Will the BTFDers reemerge and take NFLX into the green after what is a terrible quarter, or will gravity finally prevail?

Exhibit 3: http://www.techradar.com/news/home-cinema/mad-at-netflix-price-hike-here-s-why-it-could-be-good-1306790 (accessed 12-5-2016)

techradar.com
Mad at Netflix price hike? Here's why it could be good
By Farrha Khan October 14, 2015 Home cinema

In its third quarter earnings report, Netflix explained again why it increased the price of its most popular high-definition 2-screen plan by $1, and it could be because you asked for it.

According to a letter to shareholders, the price hike will "improve our ability to acquire and offer high quality content, which is the number one member request."

And it is continuously adding more content, including original exclusives, with its first feature length film Beasts of No Nation set to be released this Friday, while Adam Sandler's film, The Ridiculous Six, will be launching on Netflix this December.

And though the company ended its deal to carry movies from EPIX, which includes blockbusters The Hunger Games: Catching Fire, World War Z, and Transformers: Age of Extinction, it's deal with Disney comes into effect in 2016, and will bring movies from Lucas Arts, Pixar and Marvel to Netflix - which is no small thing.

Then there's also the Brad Pitt-led flick called War Machine and a Crouching Tiger, Hidden Dragon sequel to be released next year, while it's also added news series' How to Get Away with Murder, Colony, Zoo and Jane the Virgin.

Money, money, money

And because of all this "high quality content," Netflix reported a lower free cash flow total than the second quarter, saying it was due to the "intensity of our investment in originals."

"Investing in originals remains the right strategy for Netflix," the company said, which basically means we'll continue to see more originals on Netflix.

"Exclusive first-window 'only on Netflix' content differentiates our service, allows us to leverage our global platform, reduces our dependence on third parties, and adds positive brand halo."

Despite this investment, however, Netflix did report lower than expected subscription growth in the US this quarter.

Still, it's got nearly 70 million subscribers around the globe, and it'll continue to see more subscribers as it expands into Spain, Italy and Portugal next week, and then South Korea, Hong Kong, Taiwan and Singapore in early 2016.

Exhibit 4: 'https://www.zerohedge.com/news/2016-10-17/netflix-soars-20-subsribers-smash-expectations-cash-burn-explodes', (accessed 28-03-2018)

Netflix Soars 20% As Subscribers Smash Expectations But Cash Burn Explodes

There was some long overdue good news for Netflix longs, when moments ago NFLX reported that in Q3 revenue and EPS of $2.29 billion and $0.12 beat expectations of $2.28 billion and $0.06 respectively. But the reason why the stock is surging 20% after hours is because the growth appears to be back as a result of a surge in Q3 streaming subscribers, which jumped by370K domestically and 3.2million internationally, far above the 300K and 2.0 million expected.

For Q4 the company now expected 3.75 million net international streaming subs, a substantial jump from Q3 if modestly below the 4.04 million in Q4 2015, while NFLX expects 1.45 million domestic net adds, also fractionally below last year's 1.56 million. This is how NFLX explained the solid jump in subscribers: 'In Q3, we added 0.4 million members in the US vs. our forecast of 0.3 million and 3.2 million members internationally vs. our forecast of 2.0 million. Our over-performance against forecast (86.7m total streaming members vs. forecast of 85.5m) was driven primarily by stronger than expected acquisition due to excitement around Netflix original content.

As a reminder, the quarterly guidance we provide is our actual internal forecast at the time we report and we strive for accuracy. In Q3, we under forecasted member growth, while in Q2, it was the opposite. For the first nine months of 2016, we've added 12 million global members, the same as in the first nine months of 2015.

By the end of Q3'16, we had un-grandfathered 75% of the members that are being un-grandfathered this year and the impact has been consistent with our expectations. ASP grew over 10% year-over-year in both the US and international segments (excluding a $35 million F/X impact). With more revenue, we can reinvest to further improve Netflix to attract new members from around the world, while continuing to delight our existing customers.

Domestically, revenue rose 23% year over year, 480 basis points faster than Q2. US marketing expense rose as a percentage of revenue as we spent to build awareness for our expanding number of original titles. US contribution profit increased 38% year-over-year with contribution margin expanding to 36%, slightly ahead of our 35% forecast.

* * *

In the international segment, we exceeded our internal projection for net adds as the acquisition impact of our originals was greater than anticipated across many of our markets. F/X-neutral revenue rose 72% and international contribution loss was flat sequentially at $69 million as content costs came in under our forecast due partly to timing. We are investing in more content across multiple international markets in Q4 and, as a result, we project international contribution loss to grow moderately to $75 million.

In September, we localized Netflix in Poland and Turkey. We began accepting payment in local currency and added a local language user interface, subtitles and dubbing as well as some local content. We have seen nice gains in viewing and retention and we'll undertake other localization efforts in the coming months and years.

For Q4, we forecast 5.2 million global net adds, with 1.45 million net adds in the US and 3.75 million new members internationally. Our expectation for a moderate year-over-year decline in net adds reflects the completion of un-grandfathering. We are pleased with the results thus far as we expect ASP to grow 12% from Q1'16 to Q4'16. Internationally, the initial demand from our launch in Spain, Portugal and Italy in Q4'15 will also affect our year-over-year net adds comparison.'

Netflix did however warn that after Q4 it will "face a tough international net adds comparison in Q1'17 because of the initial membership surge in Q1'16 tied to the launch of 130 additional territories. As discussed, for the balance of 2016, we will continue to operate around break even, and then start generating material global profits in 2017 and beyond, by marching up operating margins steadily for many years."

It also warned on China, saying that "the regulatory environment for foreign digital content services in China has become challenging. We now plan to license content to existing online service providers in China rather than operate our own service in China in the near term. We expect revenue from this licensing will be modest. We still have a long term desire to serve the Chinese people directly, and hope to launch our service in China eventually.

But while the subscriber growth was admirable, the biggest problem facing NFLX, its cash burn just went into overdrive in Q3, with the company reporting that cash burn for the quarter doubled from $254 million to over half a billion, or $504 million, most of it the result of the spike in original produced content. This is how it explained the jump:

In Q3, free cash flow was -$506 million vs. -$254 million in Q2'16 and -$252 million in the year ago quarter. The increase in our free cash flow deficit reflects the growth of original content, which we are increasingly producing and owning (rather than licensing). Self-produced shows like Stranger Things require more cash upfront as we incur spending during the creation of each show prior to its completion and release. In comparison, we generally pay on delivery for licensed originals like Orange is the New Black and we pay over the term of the agreement for licensed non-originals (eg, Scandal).

Over the long run, we believe self-producing is less expensive (including cost of capital) than licensing a series or film, as we work directly with the creative community and eliminate additional overhead and fees. In addition, we own the underlying intellectual property, providing us with global rights and more business and creative control. Combined with the success of our portfolio of originals and the positive impact on our member and revenue growth, we believe this is a wise investment that creates long term value. Consequently, we plan on investing more, which will continue to weigh on free cash flow. We expect Q4'16 FCF to be similar to Q3'16 FCF. Over time, we will be able to fund more of our investment in programming through the growth in operating profit and margin already underway.

Streaming content obligations at quarter end were $14.4 billion, up $1 billion sequentially. The increase reflects the addition of both new original and non-original content to our library as well as expanded rights for our new territories.

We finished the quarter with $1.3 billion in cash and equivalents. As we have often done over the past few years, we plan to raise additional debt in the coming weeks. With a debt to total capitalization ratio of about 5%, we remain underleveraged compared both to similar firms and to our view of an efficient capital structure. Our 2025 bonds continue to trade well .

This is what NFLX's cash burn looks like as of Q3. As of Q3, the company had burned through $1.3 billion in cash which explains why, as the company admitted, "we plan to raise additional debt in the coming weeks"

But the cash burn in a simpler context, it cost NFLX $142 in cash to add one subscriber in the third quarter.

For now, however, the reason why the shorts are being massively squeezed is due to the return to a "growth" mode, one which cost the company over half a billion in cash in the quarter, and the immediate result is a 20% surge in the company stock after hours.

At some point the relentless cash burn will matter, but not right now.