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Netflix adds 5.9 million subscribers in Q2 thanks to password-sharing changes

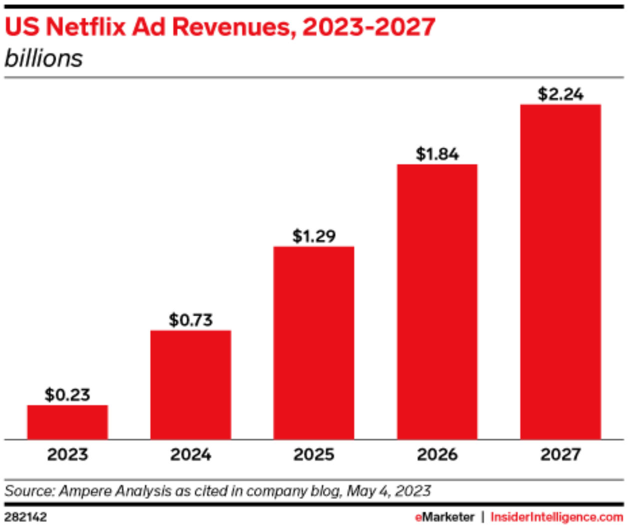
Article

The news: **Netflix** earnings showed the streaming company remaining strong through a quarter that saw dramatic changes to its business and a Hollywood strike that put a stop on its domestic content pipeline.

- Revenues totaled $8.2 billion, up 2.7% year over year, but below expectations of $8.3 billion. There was no word on how much revenues or subscriptions could be attributed to its new ad-supported tier.
- Netflix had one of its best quarters for new subscriptions with 5.9 million new paying members, a sign that its password-sharing crackdown (which Netflix calls “paid sharing”) was a success.
- Netflix’s stock fell more than 6% in after-hours trading. Still, it has risen about 62% this year, outperforming rivals **Comcast**, which is up 22% in 2023, and **Disney**, which is about flat.

The biggest news: Two bits of major Netflix news dropped just before the earnings. The first was the removal of **Netflix Basic**, the company’s cheapest ad-supported tier, in the US and UK. The second was that Netflix’s **ad-supported tier has hit 1.5 million subscribers**, according to The Information.

- The removal of Netflix Basic now looks like a move to soften the blow of worse-than-expected Q2 revenues. That appears to have done little good, but it will help Netflix increase average revenue per user in the long term.
- By cutting Basic, Netflix can funnel users into two subscription tiers that generate more revenues: the cheaper ad-supported tier that brings in lucrative ad revenues, or the more expensive premium tier for consumers who want to remain ad-free.
- Netflix’s ad-supported tier got off to a rough start, but the company has spent 2023 fleshing out the service with new advertising formats, like one that links ad spend to the company’s “Top 10” content ranking website. Netflix is reportedly also considering severing its partnership with **Microsoft** in order to take its advertising stack in-house.



Weathering the strike: The **Writers Guild of America** has been on strike since May, and the **Screen Actors Guild** joined them last week. The movement is no small obstacle for Netflix and other streaming services, but the company clearly feels that it's well-equipped to hold its ground if the strike rages on for months.

- Streamers have an advantage that TV networks didn't during the 2007 WGA strike: Enormous content libraries that are still available to watch.
- Earlier in the year, Netflix also cut spending on US originals significantly, instead opting to focus on Korea and other south Asian countries that have produced hits like "**Squid Game**." Now, Netflix can rely on countries without striking unions to produce popular content.

Our take: Netflix increased its third-quarter outlook, but concerns about the impact of the strike and softer-than-expected revenues mean there could still be trouble ahead. Still, revenues and users are both up significantly, showing that Netflix is reaping rewards from price hikes and ad-supported tiers after several quarters of decline and concern about market saturation.

- The password sharing boost could spill over into subsequent quarters, but it will still hit a limit eventually. Now that Netflix has solved a short-term problem, it's time to look forward to the next venture—something Netflix sometimes struggles with.