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Netflix adds 8 million subscribers in Q2, beats expectations

Article

The news: In the second quarter of 2024, **Netflix** added 8.05 million new subscribers, well past the expected 4.7 million.

- Quarterly sales increased by 17% year over year, with earnings per share (EPS) of $4.88 surpassing the $4.74 analysts expected.

- The crackdown on password sharing propelled new subscriptions and revenues.

Netflix shares fell 6% in after-hours trading due to a lower-than-expected revenue outlook but rebounded after the earnings call. The stock has surged over 30% since the beginning of the year.

The ad picture: Advertising has become a burgeoning revenue stream for Netflix, delivering 65% to 70% sequential growth each quarter recently.

- Q2's growth was fueled by the ad-supported tier, introduced in 2022, which saw a 34% increase in subscribers.
- **Over 45% of new subscribers opted for ad-supported viewing** in markets where it was available.
- In response to the competitive landscape, Netflix has begun phasing out its basic ad-free plan, encouraging users to switch to its ad-supported tier to boost ad revenues. On the earnings call, Co-CEO **Greg Peters** cited the success of this strategy in other markets.
- While Netflix's forte is streaming dramas, it's facing its own challenges behind the scenes. The company recently extended its partnership with **Microsoft** to manage connected TV ads despite initially plans to bring its ad tech in-house by 2025. And right before earnings dropped, the company announced its head of ad sales, **Peter Naylor,** would be departing.

Looking ahead: Netflix expects revenues to grow 14% in Q3, slightly below what analysts had predicted.

- Despite this, the company raised its full-year revenue growth projection to a range of 14% to 15% (up from 13% to 15%) and operating margin forecast to 26%.
- Starting next year, Netflix will no longer regularly report subscriber data; the focus will shift to viewing time, which is a more favorable metric given the slowdown in password-sharing gains and market saturation.

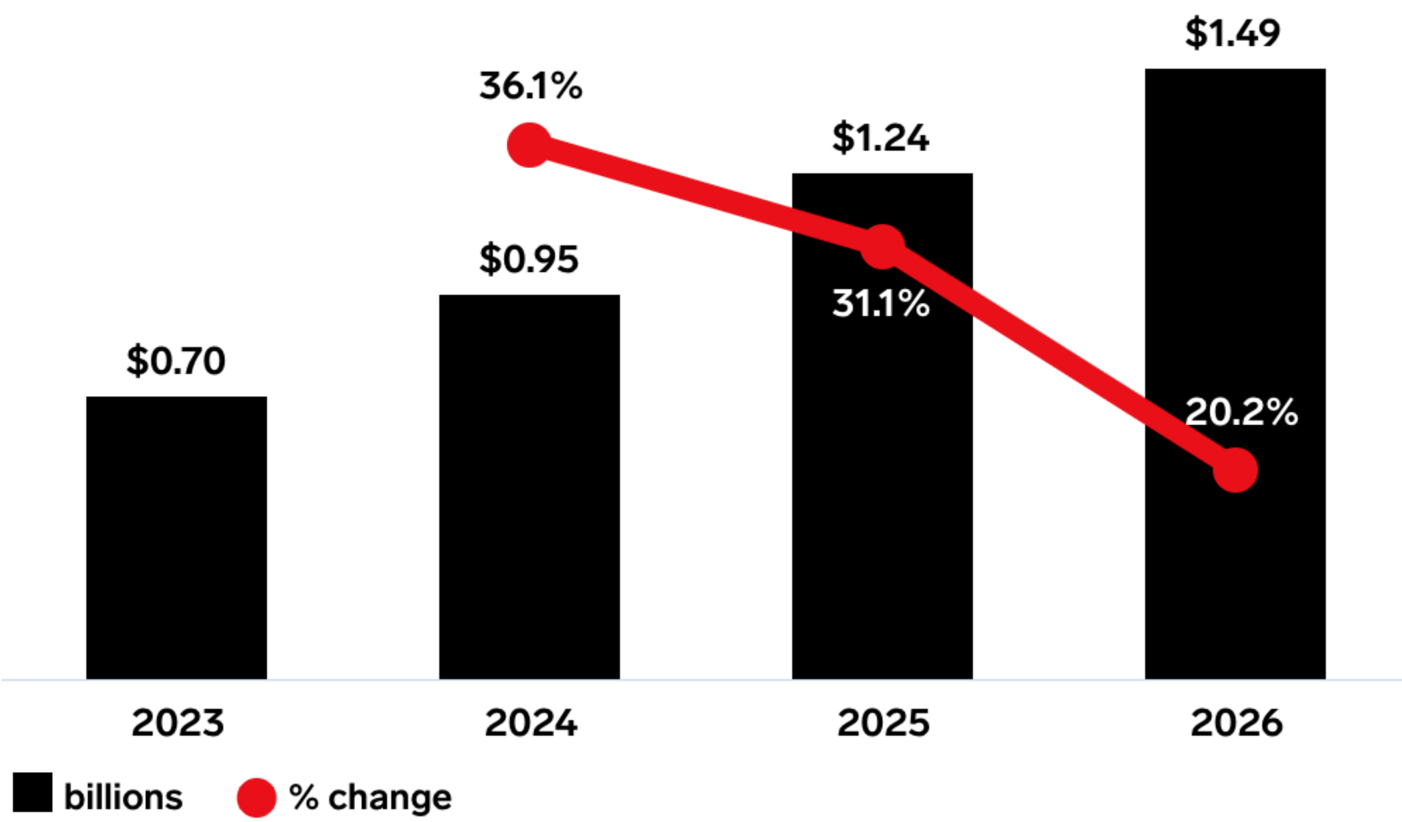
Our take: By strategically shifting its focus to viewing time, expanding its ad-supported tier, and phasing out less profitable plans, Netflix is poised to maintain its leadership in the streaming industry.

- The company's impressive subscriber growth and robust financial performance underscore its ability to innovate and drive engagement among its global audience.

- That said, while maintaining its reputation as the gold standard in streaming, Netflix faces stiff competition and the challenge of keeping its content strategy fresh and appealing.

Netflix Ad Revenues

US, 2023-2026



Note: includes in-stream video such as those appearing before, during, or after digital video content on a subscription-based OTT platform (pre-roll, mid-roll, or post-roll video ads) and video overlays; appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices for all formats mentioned

Source: EMARKETER Forecast, March 2024

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