APR 18

Jeremy Goldman

Netflix posts strong Q1 results thanks to advertising growth and password-sharing crackdown

Article

The news: **Netflix** (NFLX) delivered a strong fiscal Q1 2024 performance, surpassing Wall Street's expectations:

- Revenues: 14.8% year-over-year growth to **$9.37 billion**.
- Earnings per share (EPS): $5.28, beating estimates of $4.52.
- Net subscriber additions: 9.3 million, versus projected 4.8 million.
- Full-year 2024 operating margin guidance: 25%, slightly higher than its previous 24% projection, and up 21% from last year.

In other news, Netflix said it will **stop reporting quarterly subscriber numbers starting in 2025**, shifting focus to revenue and engagement metrics.

It's an ad business: The ad-supported subscription offering continued to gain traction, unlocking a new revenue stream.

- The tier had a 65% rise in quarter-over-quarter adoption; nearly 4 in 10 sign-ups in markets offering ads were for an ad-supported subscription.
- We forecast the company will see a 75.2% surge in viewership for its ad-supported tier this year
- That's far better than anticipated increases for most subscription video-on-demand (SVOD) providers, such as **Disney+** (45.0%), **Peacock** (25.3%), **Max** (13.3%), and **Paramount+** (10.3%).
- **Hulu** won't experience much growth in its ad tier due to its relative market maturity. **Amazon Prime Video**, having undergone a significant one-time transformation, will face limited room for ad viewer growth after 2024.

Credit the crackdown: Netflix's efforts to monetize account sharing paid off, contributing to higher average revenues per member (ARM).

- While Netflix's crackdown on password sharing has bolstered subscription metrics, it should continue to adversely affect overall viewership.
- As freeloaders lose access to shared accounts, viewership is expected to decline initially. However, the strategy aims to convert some of these viewers into paying subscribers, offsetting the viewership drop while not counterbalancing it entirely.

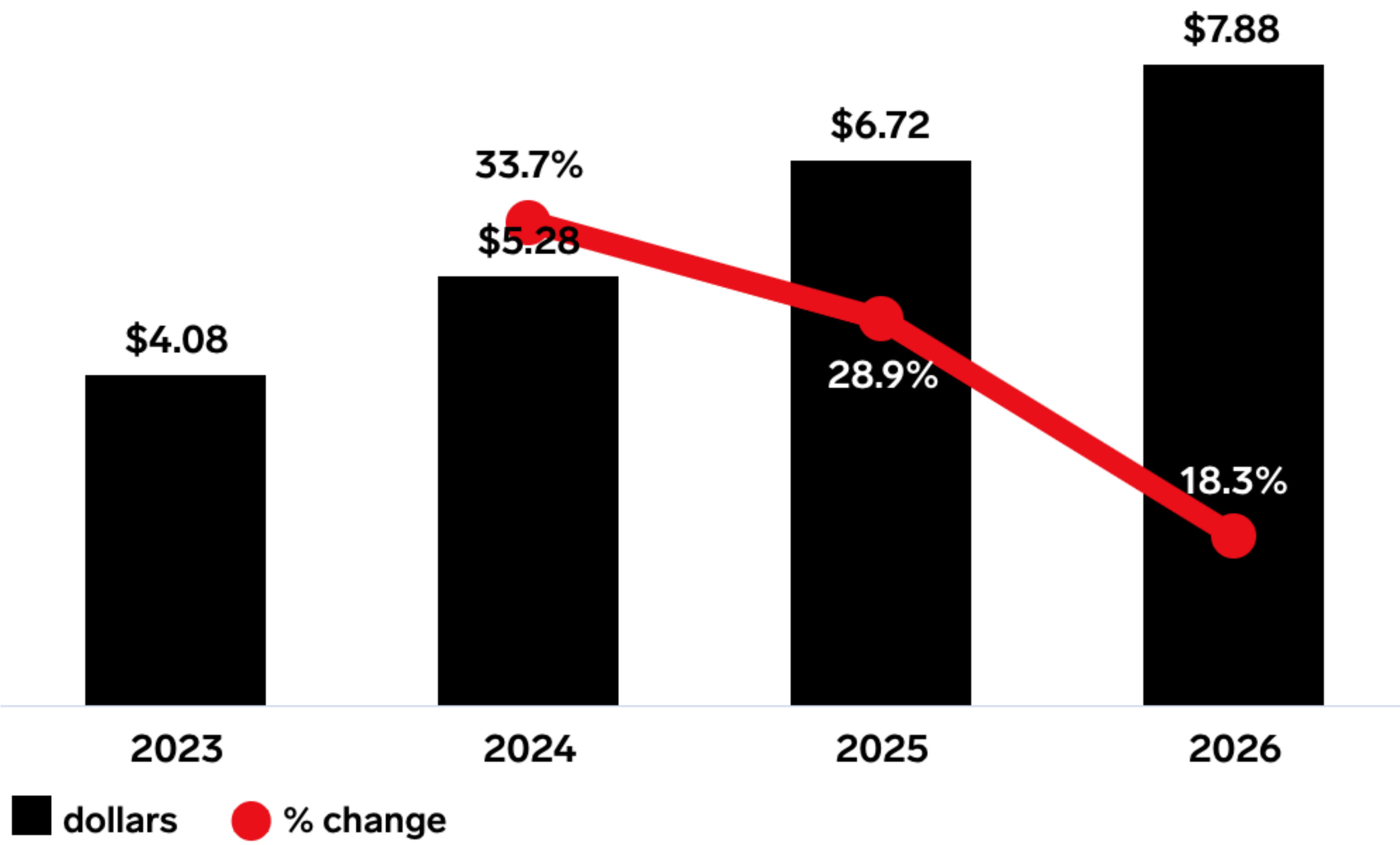
- Competitors Hulu and Disney+ are expected to experience viewer losses due to similar measures.

  Our take: Netflix continues to solidify its position as the dominant force in the SVOD landscape.

- Our forecast indicates that by 2024, Netflix will boast 180 million viewers, far outpacing its closest rivals, including Amazon Prime Video, Hulu, and Disney+, which are expected to have over 100 million viewers each.
- As Netflix continues to invest heavily in its content library and explore new revenue streams, its ability to execute its ambitious plans will be crucial in sustaining its momentum and premium valuation in the highly competitive streaming market.

Netflix Ad Revenues, per Netflix Viewer

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

EMARKETER