A (Online) Appendix: Netflix Earnings Announcement Coverage Examples

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://fortune.com/2015/10/15/company-reasons-excuses-bad-quarter/ (accessed 12-5-2016)

Here Are 5 Unusual Excuses For a Bad Quarter
by Jonathan Chew
Netflix missed subscriber growth projections in its latest quarterly earnings report, and has blamed the transition to chip-based credit and debit cards for its bad quarter.
That drew some sharp comments from analysts who thought the reason was, well, kinda stupid. “It’s just the dumbest thing I’ve heard,” Wedbush Securities analyst Michael Pachter told Reuters.
It wouldn’t, however, be the most head-scratching excuse for a bad quarter. Here are five explanations offered by companies for their poor earnings report that were even worse:

1. Tesla
Excuse: Vacations
Earlier this year, Tesla missed targets for vehicle deliveries, with a figure of 9,834 Model S vehicles falling short of the 11,200 mark. The electric automaker pointed to the severe winter weather and shipping issues, but one reason was also cited by the company: vacations taken by customers. “The stock is down because they missed on deliveries, revenue and earnings,” Theo O’Neill, an analyst with Ascendiant Capital Markets, told Bloomberg. “Blaming customers for taking [a] vacation seems like an odd thing to put in the press release.”

2. Travelers Companies
Excuse: The polar vortex
The weather offers companies a boatload of reasons for its poor financial performance. Winter, especially, gets a bad rap among companies, and in the second quarter of last year, 23 companies cited the “polar vortex” as a significant downer in their financial reports. Insurance company Travelers Companies saw a 21% drop in quarterly profits earlier this year, and went into a lengthy explanation in its earning call on the nature of the Boston winter, even offering a meteorologist quote that the Northeast wouldn’t be seeing such snowfall for “approximately 26,315 years.” “It was an extremely unusual event,” said COO Brian MacLean.

3. National Beverage
Excuse: We’re not sure, but holy cow, what a press release
In September 2013, Florida-based soft-drink maker National Beverage announced a slew of less-than-stellar results, including a 6% drop in revenues and 16% drop in net income for its first quarter of its fiscal year. The press release by CEO Nick Caporella, however, turned into a rambling stream of thought that offered no excuses, and at the same time, blamed “Big Cola” and “a whiplashed consumer” for its results. One example:
“Should we have the most credible reason for these results (and we could have), would it make a difference?” asked Nick A. Caporella, Chairman and Chief Executive Officer on a recent management call. “Does it make us feel less contrite relative to the credibility of the justification?” he queried. “There can be no allowable regrets in business or fumbles on the field (deck) of Endeavor – none . . . (no one even knows how to practice them),” quipped Caporella.
The killer Caporella quote? “Good soft drinks are to the human race what sunshine is to a picnic!”

4. Societe Generale
Excuse: Accounting
French bank Societe Generale third-quarter net profit dropped precipitously by 86% in 2012. When interviewed by CNBC in Paris, CEO Frederic Oudea offered his deep-dive analysis: it was those dumb accounting rules. “Exceptional items are related in particular to this stupid accounting thing which means that when you have a credit that is improving, your CDS is going down and you have to recognize negative revenues,” he told CNBC.

5. Oracle, IBM and TIBCO
Excuse: Crappy salespeople
The spring of 2013 saw a new trend offered by IT companies explaining their drop in profits: their own salesforce. One by one, Oracle, IBM and software company TIBCO said that poor execution in the training of their incoming sales team led to misses on quarterly projections. “Since we’ve been adding literally thousands of new sales reps around the world, the problem was largely sales execution, especially with the new reps,” said Oracle CFO Safra Catz after the company reported a 1% drop in sales. This didn’t escape the notice of analysts, with Berenberg investment analyst Daud Khan saying that poor sales execution “is fast becoming the favored scapegoat.”

Exhibit 4: 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.