Netflix beats earnings expectations despite password sharing crackdown, reports revenue growth

Netflix’s crackdown on password sharing appears to have had little impact, as the company exceeded third-quarter earnings forecasts, further cementing its status as the leader in the streaming market.

The company reported a 15 per cent year-on-year revenue growth to £7.5bn, with a net income of £1.7bn and earnings per share of £3.88, all outperforming analyst expectations, as reported by City AM.

Operating margins also saw an improvement, rising to 30 per cent from 22 per cent in the same period last year.

However, the results indicate a deceleration in subscriber growth, which can be attributed to the summer 2023 clampdown on password sharing that restricted merged accounts to individuals residing in the same household.

Netflix gained five million subscribers in the third quarter, slightly below the eight million it added in the second quarter and the 8.76 million from the third quarter of 2023, indicating a slowdown in new registrations.

The streaming giant had anticipated this decline in July, as the effects of the password model stabilised.

Netflix app on a mobile phone

While total subscribers increased by 14 per cent to 282 million, the growth rate was slower than previous quarters.

Analysts had predicted that Netflix’s shift from prioritising subscriber numbers to focusing on revenue growth would bear fruit, and the streaming behemoth did not disappoint.

Kathleen Brooks, research director at XTB, observed that “Netflix had a high chance of meeting third quarter expectations, but the market might have been disappointed by the slower subscriber growth”.

One significant omission was the anticipated global price hike, which analysts had predicted would rise from $15 (£11.49) to $17 (£13.02).

Netflix only increased its prices in Italy and Spain, leaving subscribers in the US and UK unaffected for now.

AJ Bell analyst, Dan Coatsworth, commented: “The company’s smart move of under-promising and over-delivering on earnings paid off”.

Russ Mould, investment director at AJ Bell, further noted that “cynics said there is no loyalty among streaming platforms and everyone who wants to use them has already signed up. Netflix’s latest results show that is not true. It continues to attract more people, keep existing customers happy, while also diversifying its income streams.”

“Making incremental changes to the cost of a monthly subscription is a big test for a company’s pricing power. Netflix’s platform is so ingrained in people’s lives that it should be able to push up prices without causing a rush of people cancelling their membership.”

“If people do think twice about a higher price, Netflix has a clever back-up plan as its cheaper advertising-led tier could be enough to make people stay. They might have to put up with regular marketing messages, but that is standard practice for all streaming platforms now.”

Mike Tyson
(Image: (Image: Getty))

Netflix’s varied content portfolio and its forthcoming inclusion of live sports and events, including the upcoming Mike Tyson vs. Jake Paul fight and NFL games, set the platform up for further revenue growth.

The firm experienced a 35 per cent surge in ad-supported memberships, with strategic plans underway to expand its ad tech platforms in Canada and additional markets by 2025.

In the wake of announcing its most profitable quarter yet, shares soared during after-hours trading, offering reassurance to investors.

Spencer Neumann, CFO of Netflix, forecasted a jump in revenues to $43-44bn (£32-33bn) by 2025, a significant increase from this year’s prediction of $38.8bn (£29.7bn).

Production delays due to Hollywood strikes, however, have tempered what could have been an even stronger enhancement of third-quarter figures.

Coatsworth remarked: “Netflix is still suffering from the hangover of the strikes, but consumer loyalty remains strong with an average of two hours a day spent on the platform”.

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