

## It Appears Netflix Subscribers Are Returning

### Description

**Netflix** ([NASDAQ: NFLX](#)) investors have been justifiably concerned in recent months, as the company's [second-quarter financial report](#) yielded far fewer paid memberships than many — including Netflix — had expected. In the second quarter, subscriber growth plummeted, and the company missed its internal forecast, but Netflix also posted a rare U.S. subscriber loss, something that hasn't happened since the streaming giant shed 800,000 viewers in the wake of the [Qwikster fiasco](#) in Q3 2011.

This weaker-than-anticipated growth sent some investors running for the exits, causing Netflix to plunge 10% on the day following its quarterly report. That downward trend has continued, as the stock is down nearly 20% since the company released its Q2 results.

But it appears things may be turning around, as recent data suggests that viewers are returning to the fold.

### A meaningful turnaround?

Netflix is “seeing significant reacceleration” in app downloads this quarter, according to analysts at Bank of America. In a note to clients on Monday, the investment bank credited a strong summer slate of programming for the rebound, suggesting that the slowing subscriber numbers could be a blip rather than the beginning of a troubling trend.

The analysts' assessment is based on information from marketing intelligence provider Sensor Tower. Netflix app downloads have climbed, growing 18% year over year and up 30% since the end of last quarter. International results led the way, up 34% sequentially, while U.S. downloads grew by 13%.

Bank of America attributed the higher demand to the popularity of Netflix content, saying the increase in downloads was “likely aided by the release of ‘*Stranger Things* Season 3’ in early July followed by other content,” the analysts wrote.

It's important to note that the increase in app downloads isn't a guarantee of accelerating subscriber growth, but it has been a positive indicator in the past.

### Content is driving this train

Netflix suggested that a slower programming release schedule in the second quarter contributed to the decline in member growth, saying, “We think Q2's content slate drove less growth in paid net adds than we anticipated.” The company remained bullish on the rest of the year and expects “to return to more typical growth in Q3.”

Management left little doubt about its expectations for the coming quarter, forecasting 7 million new

global subscriber additions, up 15% from the 6.07 million it generated in the prior-year quarter, which included 800,000 additional domestic and 6.2 million international members.

## There's precedent

This isn't the first time Netflix has whiffed on the forecast for its second quarter — historically its weakest period for member growth. Netflix guided for 6.2 million additional subscribers for the [2018 second quarter](#) but produced only 5.15 million, sending the stock down 10% in the wake of its report. The results made an abrupt about-face in following months, as the company added nearly 7 million members in [the third quarter](#), obliterating management's estimate of 5 million.

In its quarterly shareholder letter, Netflix management reminded investors that its estimates are just that. "As a reminder, the quarterly guidance we provide is our actual internal forecast at the time we report. We strive for accuracy (not conservatism), which means that in some quarters we will be high and other quarters low, relative to our guidance."

Netflix has been one of the most successful [growth stocks](#) of the past decade, increasing more than 4300% since late 2009. As the transition from broadcast television to streaming is ongoing, the company still has a long runway ahead. At this point, there's no evidence to suggest that Netflix's growth story is over, and if the spike in app downloads is any indicator, investors might be in for a pleasant surprise when the results come in next quarter.

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danny-vena

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