Ad recovery boosts revenue for broadcast, cable

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In this file photograph taken Sept. 2, 2005, Times Square is reflected in the Viacom logo on its headquarters in a New York. Viacom's second-quarter profit jumped almost 52 percent Thursday, Aug. 5, 2010, boosted by cost-cutting at its Paramount Pictures film studio and higher revenue from its cable channels. (AP Photo/Mark Lennihan, file)

(AP) -- Americans may be fond of the Web, but they are still in love with their TV sets - and so are the advertisers who want to reach them.

Big media companies are riding a rebound in TV ad spending. This week, Viacom Inc. and Time Warner Inc. both reported that their cable TV channels saw improvements in advertising revenue. CBS Corp. saw a similar rebound at its local television stations. News Corp. saw growth on both sides.

The companies' results this week offer one encouraging data point for economic prognosticators. It means businesses have the money to spend on commercial time again. And they are more confident that consumers will have the money to respond to their ads at shopping malls and car dealerships.

Media executives say the rebound can keep rolling into 2011.

That's in part because prices for a large chunk of commercial time this year had already been locked in more than a year ago during the so-called "upfront" period, when advertisers bid on commercial time for the upcoming television season. Rates were down sharply then because of the recession.

After September, higher rates from this year's upfronts should kick in and be reflected in company results.

"We completed a much stronger upfront than we experienced a year ago," Viacom CEO Philippe Dauman said Thursday. "This establishes a stronger base for our next fiscal year."

Still, ad spending is sensitive to the broader economy, which has been flashing mixed signals.

"We've seen a wave of spending come back into the marketplace," said Steve Farella, CEO of the independent media agency TargetCast tcm. But he added, "there's a lot of money and a lot of clients who are still cautiously optimistic about 2010. I'm not sure this recovery is on a solid footing yet."

For Viacom, which is controlled by 87-year-old billionaire Sumner Redstone, the increase in spending has led to a full year of rising profits. The company said second-quarter net income increased 52 percent to $420 million, or 69 cents per share, from $277 million, or 46 cents per share, a year ago.

The results out Thursday were tempered by weak DVD sales and weren't enough to lift the company's stock. Viacom shares slipped 32 cents, or nearly 1 percent, to close Thursday at $33.70.

Overall revenue was flat at $3.3 billion, slightly bellow the average forecast from analysts of $3.4 billion. The revenue shortfall came mainly from a 10 percent drop in film revenue, led by a 43 percent drop in home entertainment. DVD sales are suffering from still-sluggish consumer spending and the growing availability of television and movies on the Web.

Still, revenue climbed 6 percent to $2.09 billion at Viacom's cable channels, which include BET, MTV, Comedy Central and Nickelodeon. Operating income at the cable unit, which also includes the subscription HBO channels, climbed 14 percent to $789 million.

Viacom's U.S. ad revenue climbed 4 percent in the second quarter compared with last year after a 1 percent rise in the first three months of the year.

Those results came a day after Time Warner Inc., which owns CNN, TNT and other channels, posted a 14 percent jump in cable ad revenue.

Even broadcast TV, which has been losing overall market share to cable competitors for years, is showing some resilience. CBS Corp. said this week its local broadcast unit saw a 17 percent increase in ad sales.

Local Fox television stations owned by News Corp. saw a 29 percent jump in ad revenue, while its U.S. cable channels such as Fox News saw ad revenue grow 11 percent.

Last week, Comcast Corp. said revenue from local ads shown on its cable channels grew 23 percent during the quarter.

Still, even as the rising tide lifts overall TV ad spending, this week also came with reminders that advertising can be an unstable source of revenue in a downturn.

Along with ad revenue, Viacom's cable channels get a second stream of money from fees that it charges cable providers. That second leg - one that broadcasters haven't traditionally enjoyed - has helped soften the blow of the recession. While ad rates fluctuate, fees are locked in by multiyear contracts.

The superiority of that business model is reflected in Viacom's share price, which has outperformed CBS since Viacom split with the broadcast giant in January 2006.

Viacom shares have lost more than 18 percent of their value since then, thanks in part to the stock market turmoil of the past few years. CBS shares, meanwhile, have lost more than 40 percent.

Looking to sure up their business models, CBS and other broadcasters have been pushing to tap fees from cable and satellite TV providers over the past few years as well. CBS Chief Les Moonves has been leading the charge on that front, and the company announced a 10-year deal this week to lock in fees from Comcast, the biggest U.S. cable provider.