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Third-quarter results at big U.S. media companies are pointing to an ominous trend: The television ad market is on shaky ground—especially in cable—as marketers pull back amid economic uncertainty and shift dollars to digital outlets. Time Warner Inc. on Wednesday said domestic advertising revenue at its Turner Broadcasting cable networks, including CNN, TBS and TNT, was flat. Discovery Communications Inc. on Tuesday said advertising revenue at its domestic cable networks grew a smaller-than-expected 1%, one reason the company cut its revenue guidance for the year. And last month, Comcast Corp.'s NBCUniversal's cable-TV unit reported a 4.6% decline in ad revenue.

Ever since the weak advance selling season in the spring, known as the "upfront"—when cable ad commitments for the 2014-2015 TV season slipped about 6%—media executives have been telling Wall Street to be patient, arguing that advertisers would open their wallets later in the year. But with each passing month, evidence is mounting of a more structural slowdown. Marketers including Allstate Corp. and Mondelez International Inc. have begun speaking openly about shifting TV ad dollars to digital platforms.

Analysts are now dialing back their growth expectations for the full year. Michael Nathanson, an analyst at MoffettNathanson, said he is "less optimistic" that all the money marketers held back at the upfront will come back in the remainder of the year through the "scatter" market, where ads are purchased close to air date. MoffettNathanson is now predicting that overall cable network ad dollars will grow only 3% this year versus its earlier forecast of 6%. It also ratcheted down its forecast for ad spending at the broadcast networks this year, now predicting a 3.9% increase versus the 5% projected back in May. The poor ad market trends feed into broader concerns about the health of the TV business. If the advertising market stays soft, TV networks will face more pressure to raise the subscription fees for their channels. Pay-TV operators fear those rising costs could encourage consumers to "cut the cord," quitting their subscriptions, and damaging the entire TV ecosystem.

Not every cable channel or media company is feeling equal pain. One outlier among major media companies thus far has been 21st Century Fox, where domestic ad revenue grew 10% at its cable channels in the latest quarter. But Fox's broadcast-TV ad revenue fell 5%. (21st Century Fox and Wall Street Journal owner News Corp were part of the same company until mid-2013.) Media and ad industry executives disagree on the underlying cause of the slowdown. Cable ratings have been particularly bad lately, down 8% in the third quarter among adults 18 to 49, according to a MoffettNathanson analysis of Nielsen data. As eyeballs move to digital channels such as online video and social media, are some advertisers targeting them with ad dollars previously earmarked for TV? Or are brands simply waiting to spend their TV budgets later in the year? "We believe that online and digital advertising is beginning to take some share from the largest ad bucket—national TV," Mr. Nathanson said.

Media company executives have stuck to a message that the ad slowdown is mostly due to advertisers wanting flexibility to buy spots at the 11th hour. "There is clearly a shift to digital," NBCUniversal CEO Steve Burke said on a call with analysts last month. Still, he said "tentativeness on the part of advertisers" was the cause for the weak upfront. "There is no question that advertisers are holding their wallets closer, even on the movie side, and coming in in late bursts," said Discovery Communications CEO David Zaslav. "Our sense is it's a little more cautiousness about how to deploy capital."

Chase Carey, 21st Century Fox's chief operating officer, said the television ad market's weakness "is primarily the economy," which is "leading businesses to buy short-term or

Philadelphia Inquirer
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Pittsburgh Post-Gazette
Editorial: Corbett's undoing – A term of disappointment begets a historic ending

Allentown Morning Call
U.S. Sen. Pat Toomey outlines agenda for Republican-controlled Senate

keep the money in their pocket." Ad buyers acknowledge there is a bigger pullback in spending in some key categories such as automotive, consumer products and electronics, but they are quicker to highlight the shift of dollars to digital as a real trend. "Money is definitely moving to digital channels," said Andy Donchin, chief investment officer of Amplifi, a media buying arm Dentsu.

Insurer Allstate said from 2013 to 2015 it will have shifted about 20% of its TV ad dollars to digital advertising. Food conglomerate Mondelez said it shifted some dollars to online video to find younger consumers that are watching less TV. Ad giant Omnicom Group said last month that it is advising its clients to shift 10% to 25% of their TV ad dollars to digital, although it said a "significant" portion of those dollars are returning to traditional media companies that put their premium video content online. Some ad buyers say that cable networks seem more vulnerable to the digital shift than broadcast, partly because many cable companies are dedicated to reaching a particular niche audience segment and that can be done more efficiently online.

Broadcasters, they say, are somewhat less affected because they still can provide the biggest reach when advertisers are looking to increase brand awareness quickly. "Cable is all about segmentation, finding the right audience, at the right time. Digital is that on steroids," said an ad-buying chief. CBS Corp. on Wednesday said content-licensing and subscription fees helped the entertainment unit that includes the CBS network increase revenue 1.4% to $1.91 billion, but the broadcaster noted that was partially offset by softness in the ad market. CEO Les Moonves said advertising "is growing again" in the fourth quarter and that broadcasters have a leg up. "Basic cable is not doing as well," he said. "Any share shift to digital is coming from basic cable and print." CBS also announced plans to offer a standalone streaming service for pay channel Showtime next year.

Jason Kanefsky, executive vice president of strategic investments at media buyer Havas Media, said advertisers still need to buy time on high-rated cable programs, but can cut down on lesser-watched programs and cable networks. "I can take that same money and put it into retargeting online ads or social media, where you can target people when they are closer to purchase," he said. Over the past year, online video outlets such as YouTube and AOL have targeted some of the ad dollars that normally flow to cable channels, ad buyers said, by making ratings comparisons between their audiences and those of cable TV networks. Digital companies also elected to sell ad inventory using TV-like measurements, which ad buyers says has helped to woo TV dollars. Some media executives are still holding out hope that the holiday season will bring a last-minute surge in advertising spending to at least partly offset the year's weakness. But others see a sustained decline in ratings—a new normal. "I think the fact of the matter is the next 5 to 10 years in basic entertainment cable, as it relates to ratings, are going to be much more difficult than the last 5 to 10 years," Mr. Burke said. – ***Wall Street Journal***

Speaking to analysts on the company's third quarter earnings call, CBS Chief Executive Leslie Moonves said "fairly definitively" Showtime will have such an "over-the-top" Web offering in 2015. CBS has already launched such a service for its broadcast network and on Thursday it will debut a streaming news service called CBSN. Programmers such as CBS and Time Warner Inc.'s HBO are aggressively looking for new ways to reach viewers that may be eschewing traditional cable and satellite television. CBS also said it had reached an agreement to have its content streamed on a new over-the-top video service being launched by Sony Corp.

In its traditional TV business, CBS's growth in the third quarter came primarily from content-licensing and the subscription fees paid by pay TV operators. That was partially offset by a soft advertising market. The entertainment segment—which includes the television network, CBS Television studios and CBS Films—reported revenue grew

1.4% to $1.91 billion. The cable networks unit reported revenue rose 4.7% to $624 million, mostly on revenue from the licensing of Showtime original series, as well as increases in affiliate revenue at Showtime Networks, CBS Sports Network and Smithsonian Networks.

Over all, CBS reported a profit of $1.64 billion, or $3.03 a share, which included a $1.56 billion gain related to its spinoff of the outdoor advertising company CBS Outdoor Americas Inc. A year ago, the company had earnings of $494 million, or 80 cents a share. Excluding restructuring-related charges, write-downs related to a radio station swap and other items, earnings from continuing operations were 74 cents a share. Revenue increased 2% to $3.37 billion. Content licensing and distribution revenue grew 4.3% to $1.4 billion, thanks to increased international and domestic licensing of television programming.

CBS is anticipating a battle with satellite operator Dish Network Corp. as the companies renegotiate their carriage contract, which expires at the end of this month. Dish Chairman Charlie Ergen said Tuesday that the CBS broadcast network's new online service "makes that product less interesting" for pay-TV operators because "customers have a choice to get it somewhere else." CBS's Mr. Moonves, noting that the network's ratings are up this season, sounded confident about the Dish situation. "We're determined to get paid fair value for our programming. We know how to get this done and rest assured we will," he said. Mr. Moonves also touted new affiliation deals with LIN Media, Tribune Broadcasting, Media General and Gray Television that have the company on track to take in $2 billion in revenues by 2020 for carriage of its programming. – ***Wall Street Journal***

DirecTV said its third-quarter earnings fell 13% as higher revenue in both the U.S. and Latin America was offset by unfavorable foreign-exchange rates. AT&T Inc. agreed in May to acquire DirecTV, a deal that would make it a major player in pay television and increase its clout with media companies at a time when video consumption is moving online. The agreement came just months after Comcast Corp.'s $45 billion agreement to buy Time Warner Cable Inc. The deals show how the biggest companies in television and telecommunications are trying to bulk up to face a changing media landscape.

The companies' chief executives told Congress earlier this year that the $49 billion deal is the only way the two companies can stay competitive in the highly consolidated broadband and pay-TV industries. In September, DirecTV's shareholders approved the acquisition. The company has said it expects the deal, which still requires U.S. regulatory approval, to close in the first half of next year. For the quarter ended Sept. 30, net subscriber disconnections in DirecTV's U.S. business totaled 28,000, compared with 139,000 net additions a year earlier. The total subscriber base was about 20.2 million at the end of the quarter.

Revenue in the U.S. rose 5.4% to $6.5 billion, while average monthly revenue per subscriber improved to $107.27 from $102.37 a year earlier. In Latin America, the company lost 119,000 net subscribers, compared with additions of 260,000 a year earlier. The company had a total of 12.4 million subscribers in the region and revenue rose 9.5% to $1.82 billion. Overall, DirecTV reported a profit of $611 million, or $1.21 a share, versus $699 million, or $1.28 a share, a year before. Earnings included a pretax charge of $62 million related to the revaluation of assets in Venezuela. Excluding items, earnings were $1.33 a share. Revenue increased 6.3% to $8.37 billion. – ***Wall Street Journal***

Scripps Networks Interactive Inc. said its third-quarter revenue edged up 4.5%, driven by gains in advertising and affiliate fees and lower administrative expenses. The company's lifestyle media segment includes television and Internet brands HGTV, DIY Network, Food Network and Cooking Channel, among others, and collectively reaches

more than 170 million consumers each month in the U.S. and across Asia, Europe, the Middle East and Africa. Earlier this year, the company's programming was dropped from Amazon's Prime online-video service. For the most recent quarter, lifestyle media revenue grew 4.2% to $618 million, driven by advertising and affiliate fee growth. Corporate and other revenue, which are primarily international operations, increased 8.5% to $27.1 million.

Overall, Scripps Networks posted a profit of $131 million, or 93 a share, compared with a year-earlier profit of $129 million, or 87 cents a share. Revenue climbed to $644.4 million from $616 million a year earlier. Analysts polled by Thomson Reuters forecast earnings of 84 cents a share on revenue of $651 million. Advertising revenue rose 5.4% to $432 million, while revenue from affiliate fees grew 3.8% to $198 million. – ***Wall Street Journal***

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