TVNewsCheck
THE BUSINESS OF BROADCASTING

TVNewsCheck Focus on business

Finance Execs Face Full Plate Of Challenges

By Janet Stilson
TVNewsCheck, May 10, 2011 11:00 PM EDT

There are plenty of concerns to keep TV station financial executives up at night. Start with the uncertain economy and choppy revenue growth. Add to it the advertising aftershocks in the wake of the Japanese disasters, weaker credit terms with ad agencies and the iffy merger-and-acquisition market.

Top it all off with network demands for a share of retransmission consent revenue — and how the FCC's proposed spectrum reclamation plan could shave off some value from broadcast station assets.

Little wonder, then, that the Media Finance Focus 2011 conference is expecting a lot more attendees than it has in years. The annual conference of the Media Financial Management Association and the Broadcast Cable Credit Association, it opens a three-day run at Atlanta's Westin Peachtree Plaza this Sunday, May 15.

"Pre-registration is up slightly more than 30% over 2010," says Mary Collins, president of the association. "Compared to 2009, we are up more than 100%."

Mark Limbach, VP of strategy and group controller at McGraw-Hill Broadcasting, says his big concern is the affiliates' relationship with their networks.

"Is it truly a partnership now, or are we headed in another direction?" he asks, referring to reported demands by some networks, like Fox, for station groups to cough up a per-subscriber fee that may be well in excess of what a given station may garner from multichannel distributors.

"A lot of stations in smaller markets are having difficulty with profit margins, so when you throw this in on top of that it can be very problematic," Limbach says. For larger market stations, "it will be a significant erosion of their margins, but it won't put them in the red."

The network-affiliate tension is a "big issue," adds Neil Johnston, EVP and CFO of Cox Media Group. "Local TV stations have tremendous value with their local newscasts. They bring audience to the networks, and I think they play a critical role in the whole TV landscape. It's important that networks realize the value that local TV is creating for them."

Another issue is the "whole spectrum grab," says Marcy Etienne, CFO and VP of finance and administration at Post-Newsweek Stations, speaking of the FCC's proposal to shift 40% of TV spectrum to wireless broadband.

She questions whether participation will be truly voluntary for broadcasters as the FCC claims. "We've got stations that are using spectrum for mobile and stations that have digital [multicast] channels, and it's of concern when the government comes in and talks about potentially taking some of that spectrum back."

"Any attempt to diminish, degrade, disrupt what is really the essence of our business is something that we don't take lightly," says Steve Gibson, SVP and CFO of Allbritton Communications.

Because the FCC wants to make sure broadcasters are using their spectrum to the best advantage, he adds, "it's incumbent on us as an industry, and we as a company, to make sure we're putting that spectrum to good use."

That's one reason why Gibson expects sessions tied to developing the mobile DTV business model will be a "highlight" of the MFM conference.

Dalton Lee, VP of finance for Meredith Broadcasting's local media group, notes that another concern hovering in the background is the U.S. economy — "whether or not the economic uptick and associated revenue that we have all enjoyed will be sustained, or whether we'll see another dip."

The industry is "seeing very volatile, choppy economic recovery," says Sam Bush, CFO of Saga Communications. The volatility will continue to depress the station trading market, he says. "[I]t certainly puts a question mark in owners' minds about: 'What can I afford to pay to continue consolidating the industry?' And, of course, in sellers' minds, if they're not forced to sell right now, why take a lower price?"

Bush notes that lenders are looking for some stability before they pour money into the business as they did before the recession.

Others say that lenders and would-be acquirers are also somewhat gun-shy because nontraditional operations like multicast channels and mobile have yet to prove their value.

"But as the business model evolves and the cash flow becomes more certain, I would expect that the merger-and-acquisition market for media properties would loosen up and become more available," says Tim Mulvaney, Media General controller.

Some financial executives also express concerns about how companies that manufacture products in Japan will fare in the coming year, and how that will affect advertising — not only automotive companies, but also those that supply electronics.

Mulvaney also wonders how much revenue stations can expect from political advertising in the fourth quarter and whether it will be in addition to what's expected in 2012, or whether it will take away from that expected windfall.

Beyond that, financial managers say they need to figure out a way to deal with the relaxed credit terms that were extended to advertisers as a means of bolstering revenue during the lean years. According to Lee, an increasing number of ad agencies have demanded sequential liability terms, and the broadcasters had little choice but to accept them.

The sequential policy asserts that agencies are liable for payment of media invoices only when the agency has been paid for those invoices by the advertiser. And prior to that time, the advertiser is liable.

Most media companies try to impose a joint liability policy, which holds all parties — including the advertiser, agency and any buying service they might use — liable until payment is received.

"From the perspective of the large agencies, that horse is now out of the barn. And I don't know if it will ever go back," says Lee, speaking of sequential liability.

He says that MFM has been charged "with trying to create a framework that would put our members and the industry as a whole in a better position to deal with the circumstances that we've found ourselves in."
