



How Is BCE Inc. Reacting to the Changing Media Industry?

Description

Change is hard. In the past week, **BCE Inc.'s** ([TSX: BCE](#))([NYSE: BCE](#)) subsidiary Bell Media hired Kevin O'Leary as a contributor to its suite of programming assets while cutting back its flagship news magazine show "W5", which has been running since 1966.

What do investors need to know?

Advertising is down

Based on the latest Q2 results, Bell Media's revenue totaled \$761 million, up from \$559 million a year prior. Its growth was primarily driven by the \$3.4 billion acquisition of Astral Media. Excluding the Astral deal, Bell Media's advertising revenue would have decreased in the second quarter as well as during the first six months of 2014.

At the same time, its adjusted EBITDA margin increased 60 basis points from 23.7% a year prior to 24.3% for the first half of the year. Management attributed this increase to higher operating revenue driven by Astral. Excluding the acquisition, operating margin would likely have been flat or slightly down, driven by higher content costs.

TV advertising remains soft

There has been a tremendous shift in viewing habits from traditional television to mobile platforms, especially for those under 35. The youth mobile market remains the most attractive for advertisers, as was seen recently when Barry Diller, a U.S. media billionaire, purchased the social networking site Ask.fm through his company **IAC/InterActiveCorp**.

As long as advertisers are chasing the mobile market, TV advertising dollars will remain difficult to come by.

It's about engagement

The biggest challenge for media companies is how to attract and retain big advertising dollars.

Technology continues to transform the media industry, especially in content distribution and viewership. Over-the-top content providers such as **Netflix** continue to grow while traditional networks try to engage their customers through a “TV everywhere” strategy that allows customers to stream TV anytime and anywhere as long they have an account with their provider.

Kevin O’Leary’s hire may give Bell Media what it needs in terms of an engaging personality who viewers and listeners alike will tune in to. On the other hand, while “W5” has provided unique and interesting programs on current affairs, it was most likely continuing to lose viewership. Not that the show is uninteresting; rather, it is more about changing times and viewing habits.

Ultimately, as TV advertising remains soft, media companies are continuing to shift their programming mix in order to engage and capture new audiences. At the end of the day, it is the number of advertising dollars that can be raised that matters the most to public media companies.

CATEGORY

1. Investing

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1. NYSE:BCE (BCE Inc.)
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