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## TOPICS

# Business Conditions for Major Domestic and Overseas Broadcasters and Media Companies (Fiscal Year 2001 to Fiscal Year 2007)

### Introduction

In the last issue for this newsletter, we covered trends in status (business conditions) for both domestic and overseas telecommunications business operators between fiscal year 2001 and fiscal year 2007. We combined publicly released information (business results) and the like from each company with our own investigations and analysis to present these, stating at the time that business conditions for broadcasters and media companies as well as information and communications equipment manufacturers would be provided at another time. This document provides a clear outline of these business conditions at broadcasters and media companies.

Business conditions as addressed in this paper refer to interannual shifts in sales, operating profits and the like between fiscal year 2001 and fiscal year 2007 as in the case of telecommunications business operators, and in addition to Japan, the survey includes major business operators in the United States, Europe and Asia. In terms of what is meant by "major operators," in Japan, these are the

top six companies in terms of annual sales, and for overseas, they are companies with sales of over \$10 billion a year (where group companies are concerned, consolidated results were considered as a single company performance). As a result, the domestic companies included in the research are Fuji Television, Nippon Television, Tokyo Broadcasting System (TBS), TV Asahi, TV Tokyo and SKY Perfect JSAT. The American companies are Time Warner, Walt Disney, News Corporation, Viacom, CBS, Comcast and DirecTV. The European companies are Vivendi of France, Bertelsmann of Germany. Since, aside from Japan, there are no companies in broadcasting and media in Asia that are worth over \$10 billion in annual sales, this is in fact business conditions in Japan, the United States and Europe.

In terms of what constitutes a "fiscal year," this can be different from operator to operator who use different accounting periods, with Japanese companies having March year ends, Walt Disney having a September year end, and News Corporation having a June year end, whereas all other companies have December year

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ends. Consequently, in terms of the actual time period for the most recent fiscal year 2007, this can be either January 2007 to December 2007, April 2007 to March 2008, October 2006 to September 2007 (Walt Disney) or July 2007 to June 2008 (New Corporation) and so, the effects of the financial instability and resulting economic crisis that emanated from the United States recently (fiscal year 2008) will not be reflected in these survey results. Please know, superfluous as it may be to state, that any opinions reflected in the text are strictly those of the writer.

**Overview of the business conditions of broadcasters and media companies**

**(1) Japan**

Sales figures had been following a flat trend for some time, but there

was a large-scale drop in operating profits in fiscal year 2007, with the main reason being a poor broadcasting business environment due to the drop in advertising revenue due to the market environment.

**(2) The United States**

Even though operating figures were heavily in the red temporarily in fiscal year 2002, against a background of poor performance at Time Warner (related to the poor performance of the AOL division, which will be addressed later), overall trends show increases in sales and profits against a background of strong performance in the broadcasting business for many operators.

**(3) Europe**

Europe saw a major temporary

drop in profits in fiscal year 2003 due to the restructuring of Vivendi's operations, but in recent years, it has seen an upward trend for both sales and profits against a background of strong performance in its broadcasting business (Figures 1, 2 and 3).

Furthermore, the various graphs showing trends in sales and operating profits display figures that use fiscal year 2006 at an index value of 100. Also, with regard to sales, these are presented based on yen for Japan, dollars for the United States, and euros for Europe, while taking the exchange rate of the time into consideration.

**Figure 1: Trends in sales by region (index)**

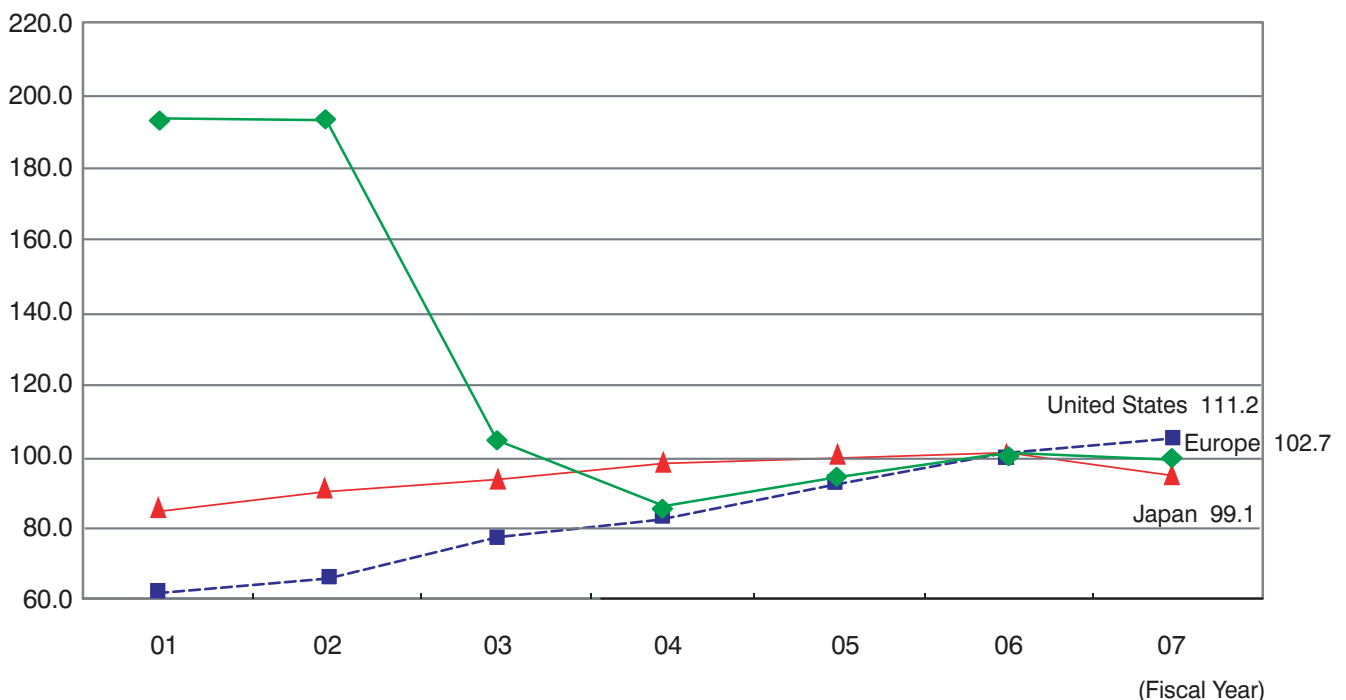


Figure 2: Trends in operating profits by region (index)

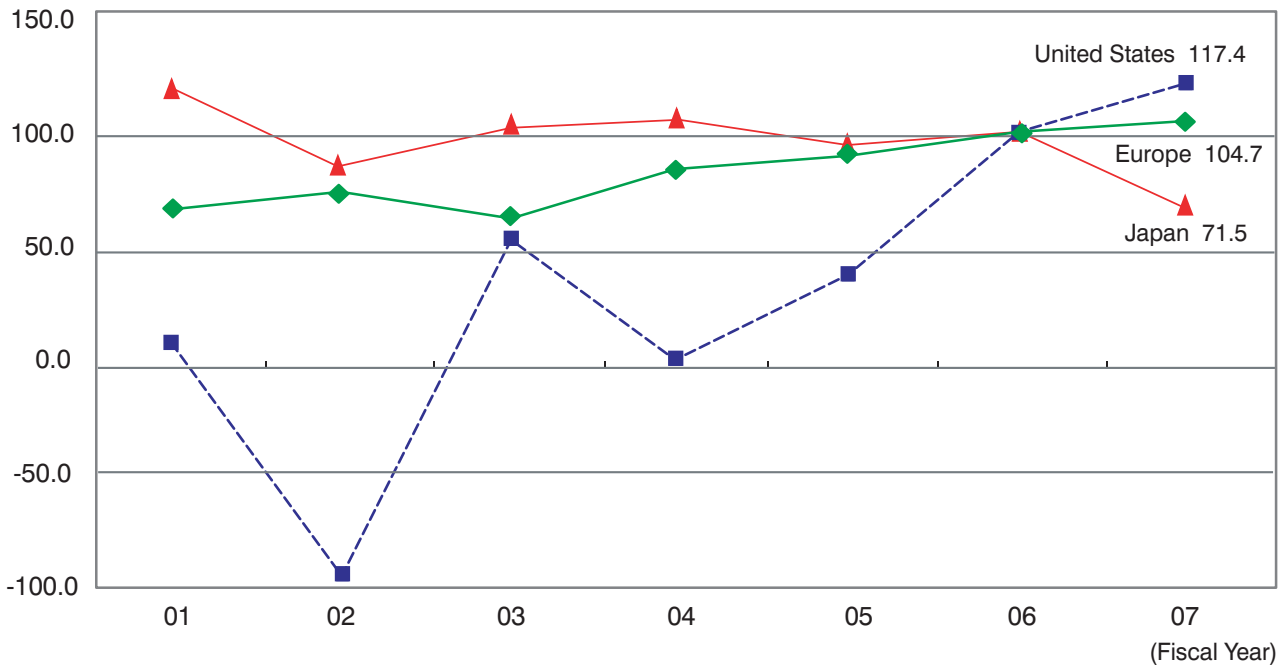
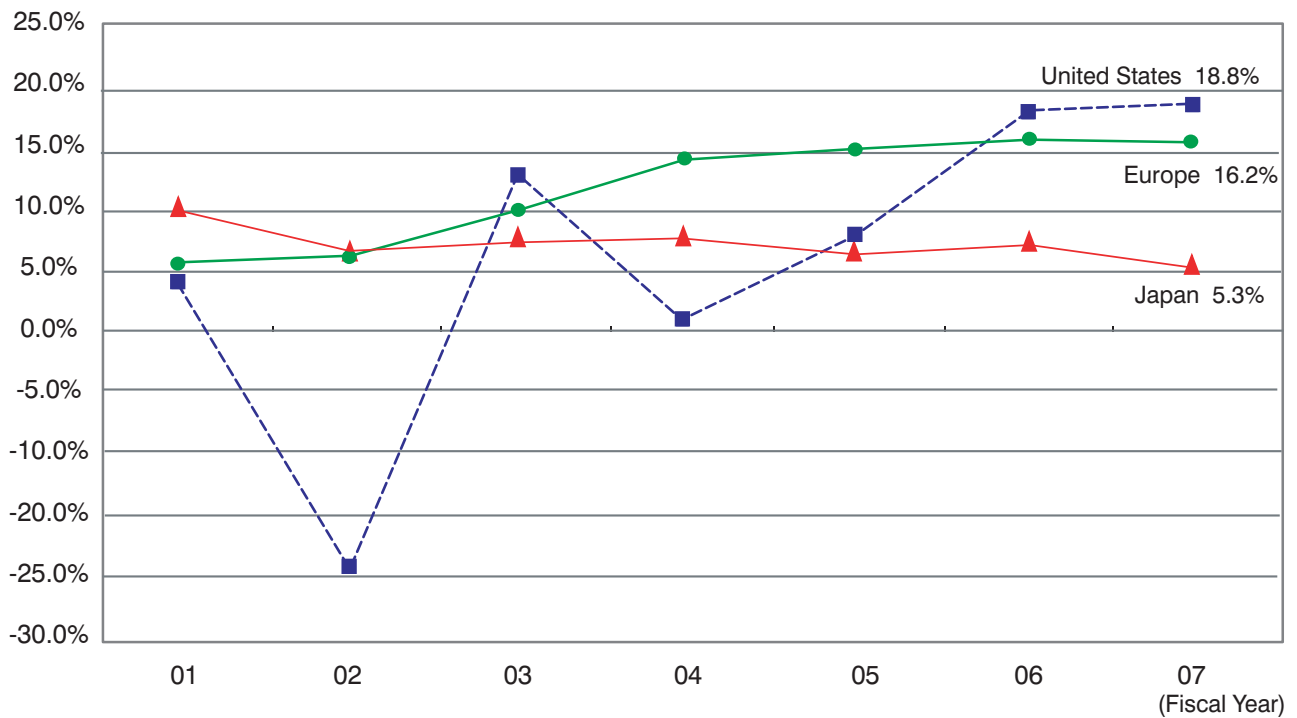


Figure 3: Trends in operating profit margins by region



### Business conditions for broadcasters and media companies in Japan

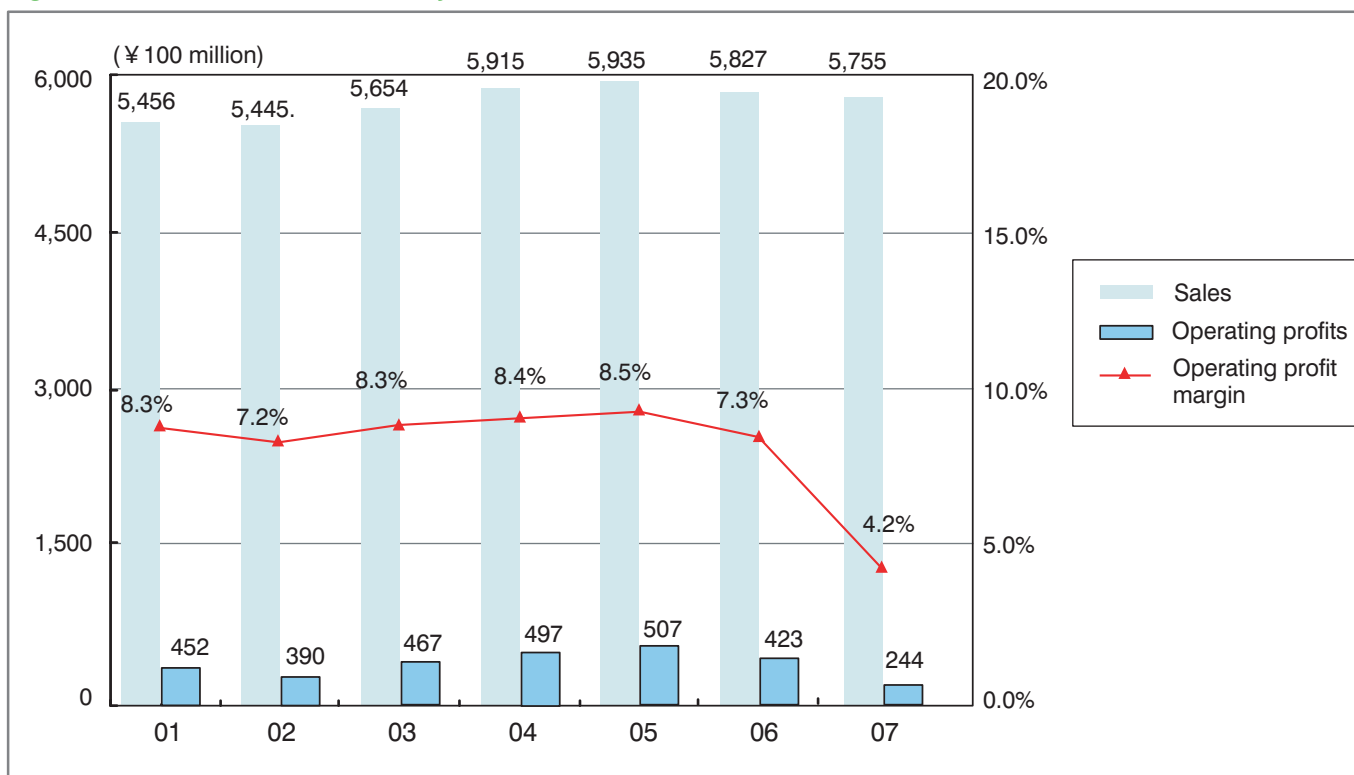
Against a background of poor broadcasting business conditions due to elements such as the drop in advertising revenue, the Japanese companies covered in this survey all showed reductions in operating profits in fiscal year 2007, with the particularity that operating profit margins also deteriorated.

Fuji Television had been showing a continuing trend towards increased sales but saw reduction in sales in both fiscal

year 2006 and fiscal year 2007. In fiscal year 2007 in particular, the start of operations at its new studios led to an increase in depreciation costs and operating expenses, resulting in an increase in sales for the broadcasting division but a drop in profits. In addition, poor performance in the movie and music divisions and mail-order business led to a noticeable drop in profits. In terms of overall financial structure, the company continues to be able to make up for poor conditions in its broadcasting division, springing

from issues such as the reduction in income from spot commercials, with non-broadcasting business such as the events division. Furthermore, in October 2008, the company shifted its group structure to that of a certified broadcast holding company. It should be noted that while using this opportunity to develop new businesses through Internet advertising, the company is developing strategies to expand its non-broadcasting business (Figure 4).

Figure 4: Business conditions at Fuji Television

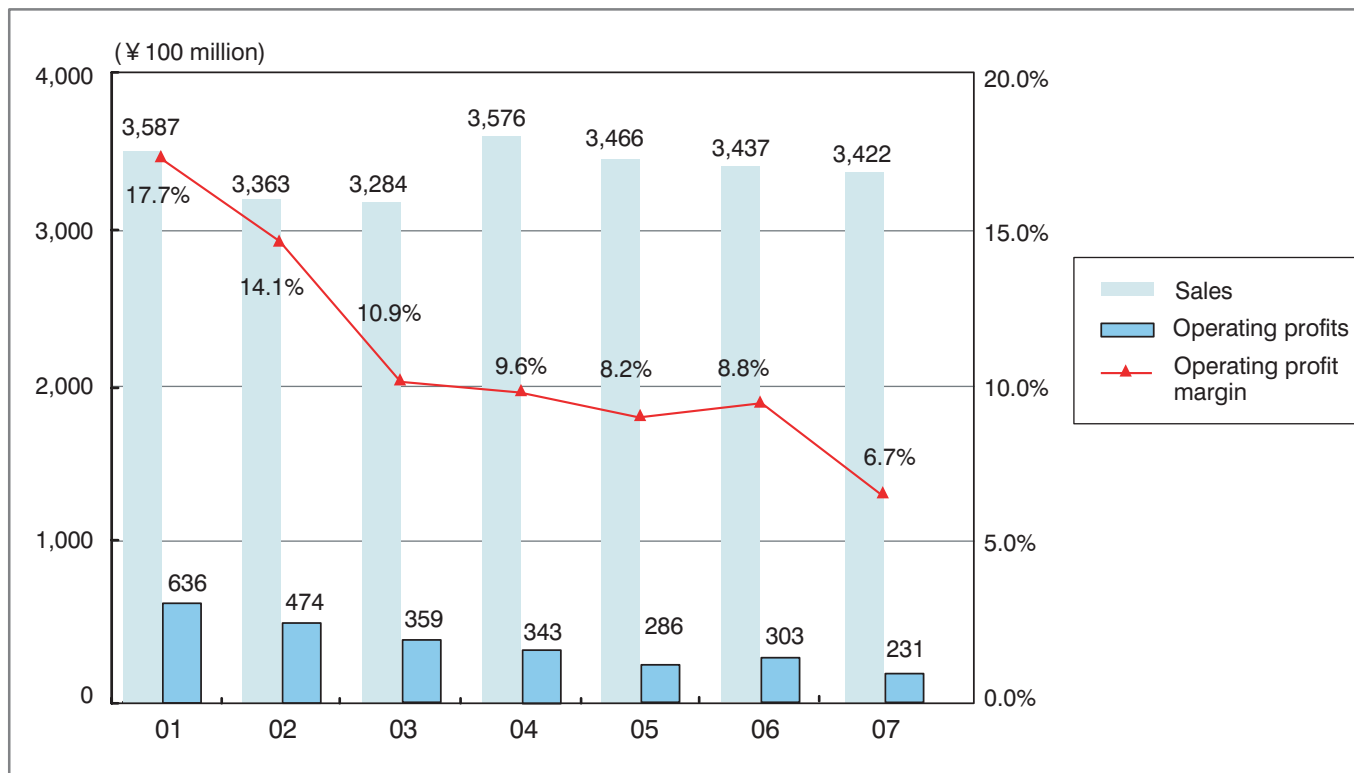


With regard to Nippon Television, sales in recent years have been on a slight downward trend, with operating profits also on a downward trend. It would appear that this is due to a drop in advertising revenue related to

market conditions. With regard to fiscal year 2007, both the scale of decline in operating profits and the operating profit margin widened in comparison to the previous year for reasons including increases in program production fees.

Furthermore, the company's business divisions other than the broadcasting division and the cultural division saw increases in sales and profits due to an increase in rental revenue from tenants (Figure 5).

Figure 5: Business conditions at Nippon Television

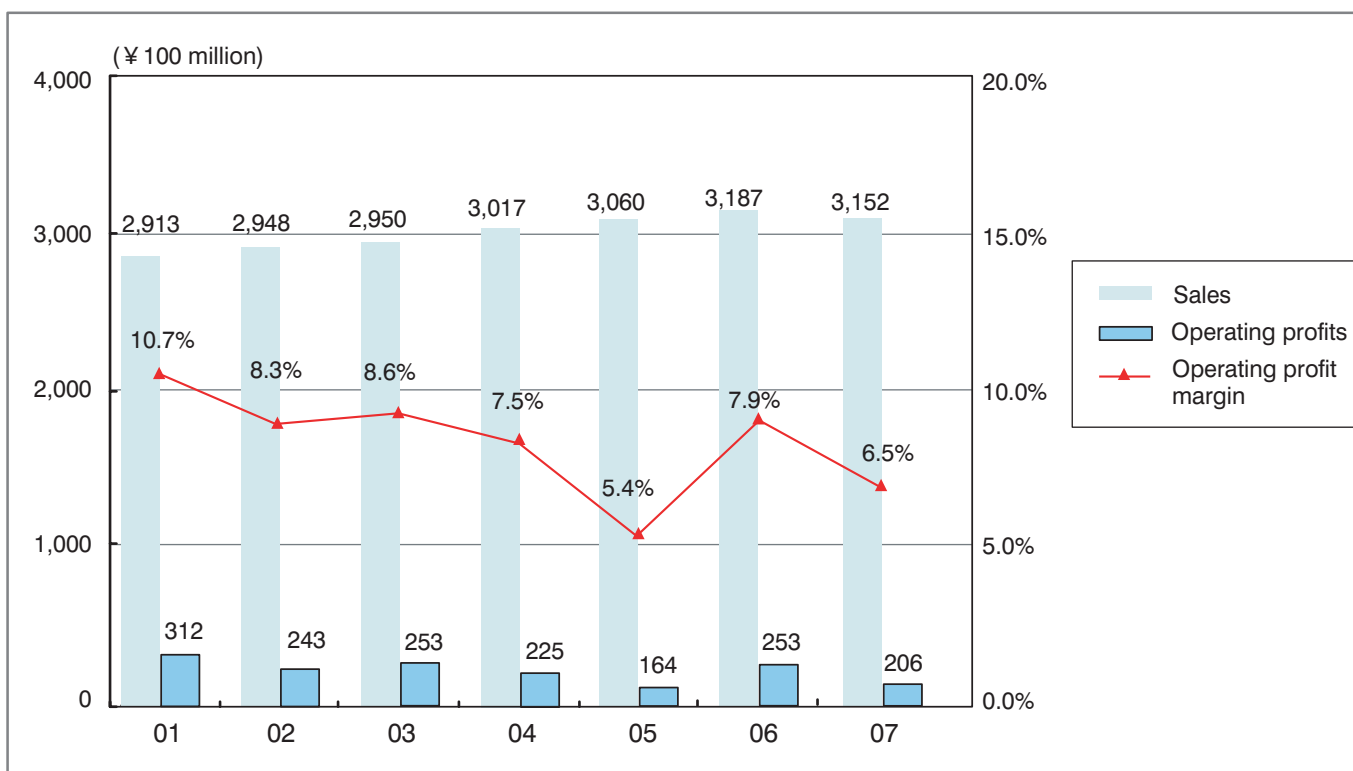


With regard to Tokyo Broadcasting System (TBS), the company had seen a continuing upward trend in sales but this shifted to a decline in sales in fiscal year 2007, along with a drop in operating profit margin. Looking at the most recent characteristics, there was a

decrease in profits in fiscal 2005 due to increased programming production costs, operating expenses, and depreciation, but the company shifted to increased profits in fiscal year 2006 due to non-broadcasting revenues, such as from movies, with an

improvement also in operating profit margins. However, profits once again declined in fiscal year 2007 due to the overall poor performance of the broadcasting division against a background of poor demand for advertising (Figure 6).

Figure 6: Business conditions at Tokyo Broadcasting System (TBS)

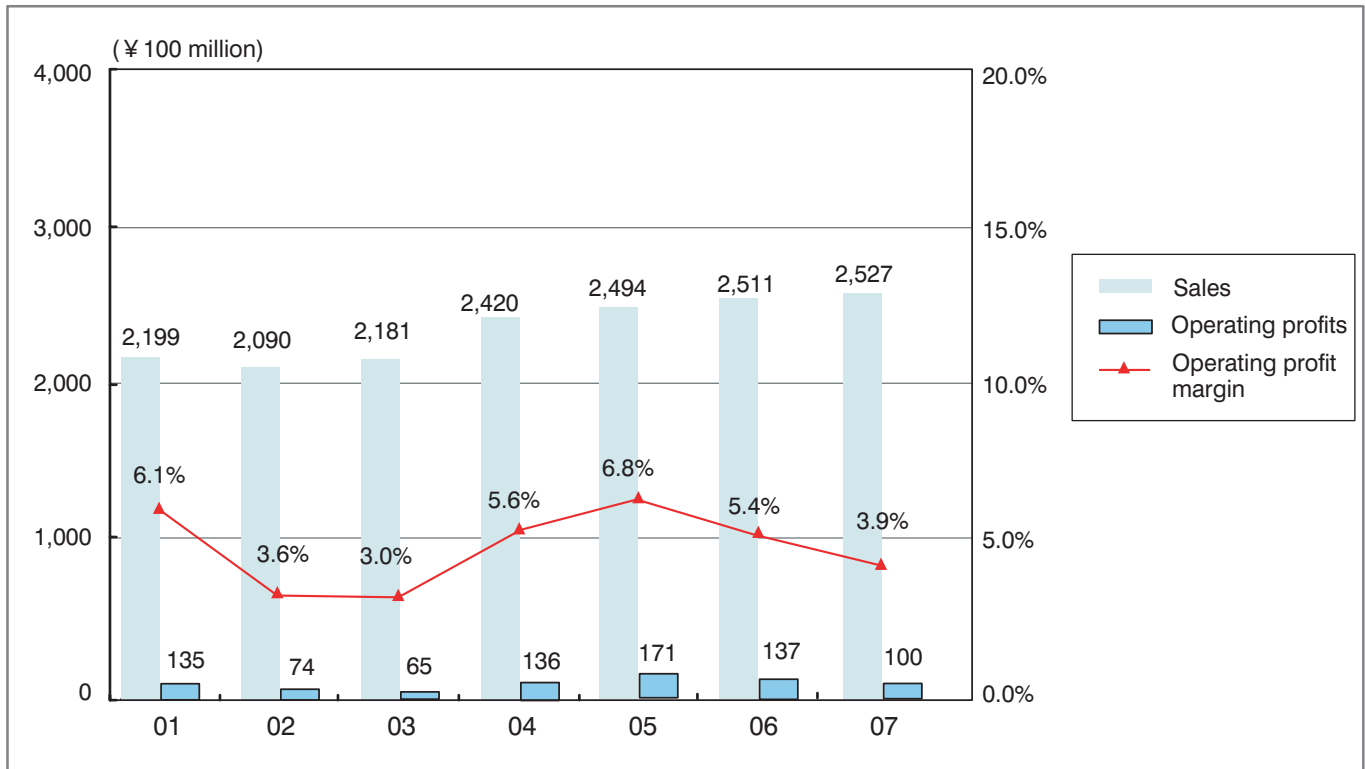


With regard to TV Asahi, the company has been seeing a continuing trend to sales growth but the poor performance of the broadcasting division led to a drop in operating profits in both fiscal year 2006 and fiscal year 2007. Since fiscal year 2003, the

company has hit home with its strategy emphasizing soccer and, and saw an increase in sales as a result of an increase in advertising revenue in fiscal year 2005 and fiscal year 2006, related to the World Cup, but in fiscal year 2007, even though there was good

performance in the events business, the video and DVD business, and the CS business, the decrease in sales and profits in the broadcasting business dragged down the operating profit margin in a big way (Figure 7).

Figure 7: Business conditions at TV Asahi

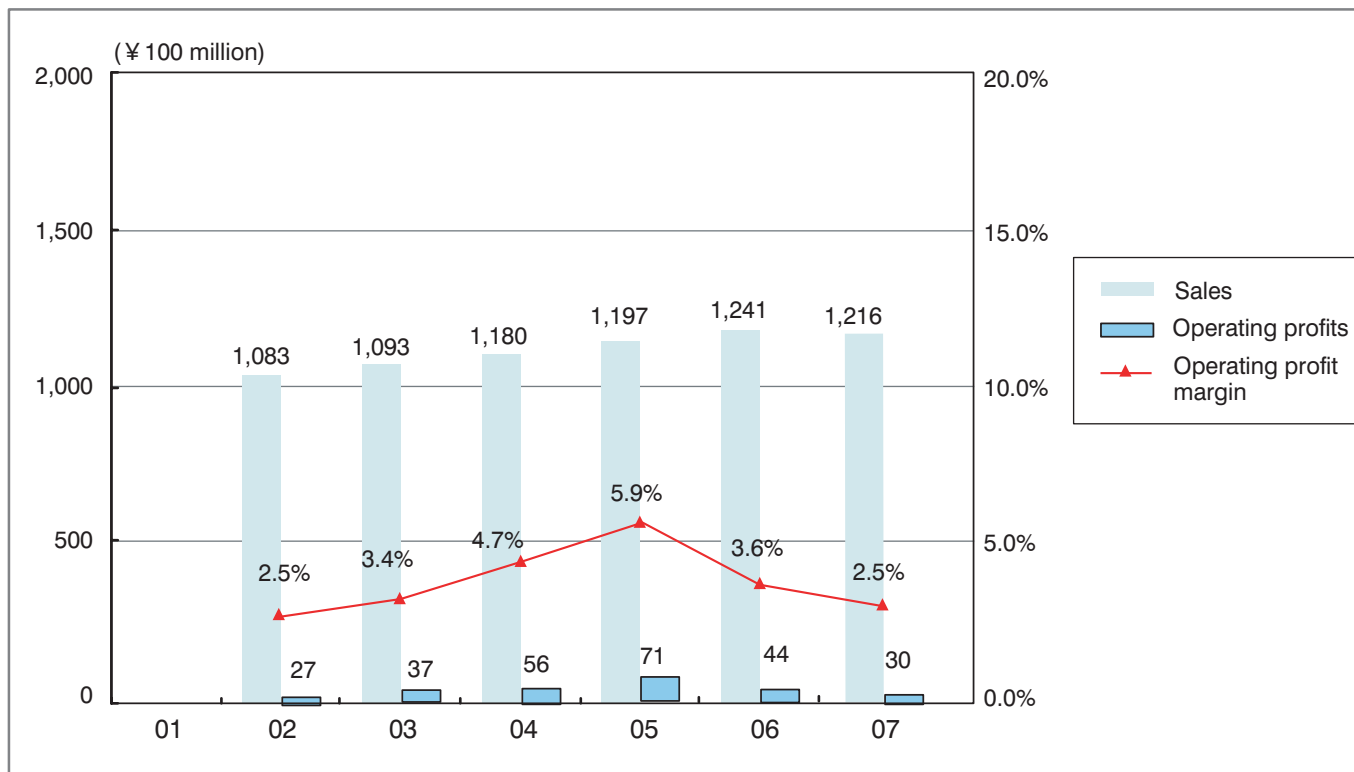


With regard to TV Tokyo, the company had been seeing continued increases in sales and profits due to good performance of its rights business (reception of license fees based on giving various manufacturers product merchandising rights), which include animation. In fiscal year 2006, however, operating profits shifted into a decline due to factors

such as an increase in programming production costs, and in fiscal year 2007, sales also decreased with the poor performance in the broadcasting business as a whole (the rights business registered increases in both sales and profits in fiscal year 2007). The most important thing to keep in mind is that, recently (fiscal year 2008), the company has been

working to cut production costs for its programs, and this holds true for other operators as well. Furthermore, the company listed its shares in August 2004, so that it did not calculate and release consolidated figures prior to fiscal year 2001 (in Figures 1 to 3 above, the index for Japan was calculated without including TV Tokyo) (Figure 8).

Figure 8: Business conditions at TV Tokyo

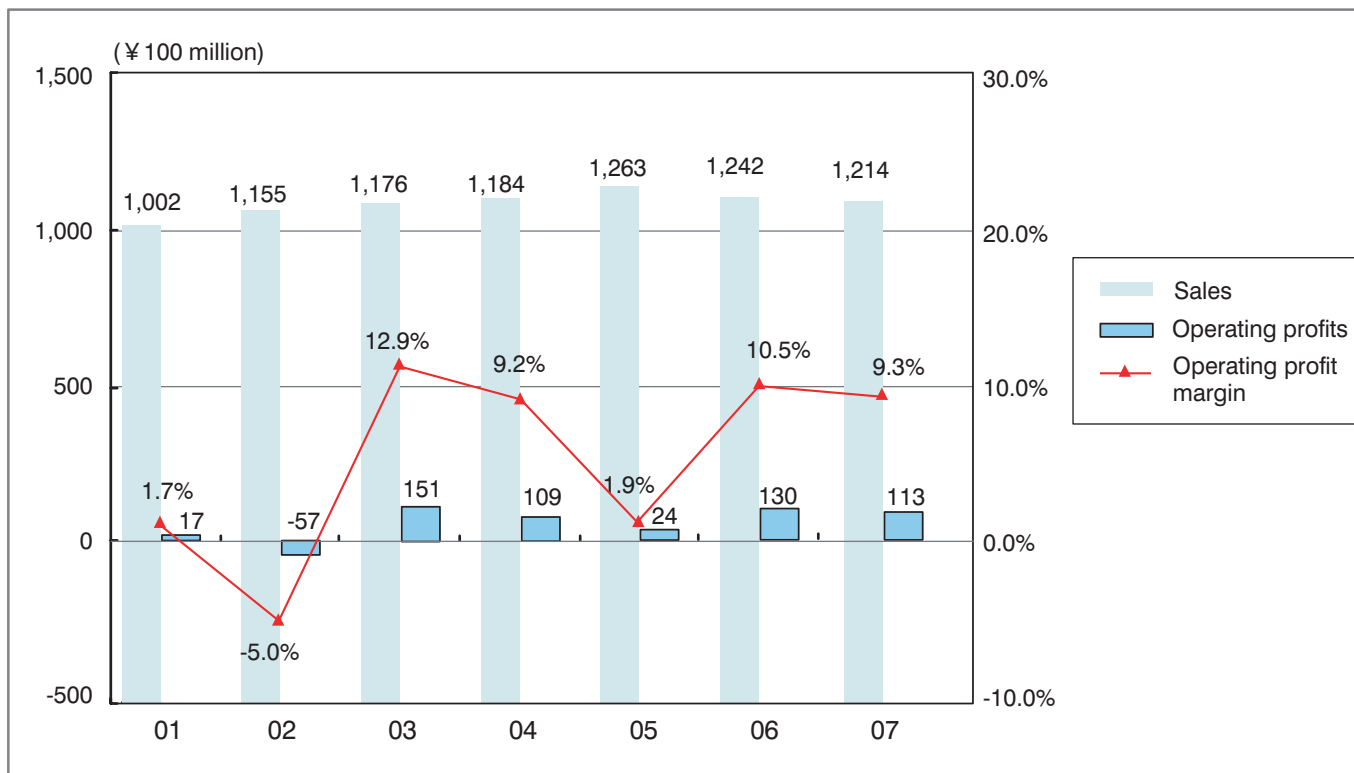


With regard to SKY Perfect JSAT, even though the operating profit margin has been on a recovery trend since fiscal year 2006, sales are on a downward trend. The company was in the red at the operating level in fiscal year 2002, which was mostly caused by operating losses stemming from increases in depreciation of programming rights for the old SKY Perfect Communications and programming production costs,

which were eliminated in fiscal year 2003. However, since there was an increase in costs due to the poor performance at the old JSAT and the posting of the depreciation fees (posting of supplemental depreciation costs associated with a change in the service life of communications satellites), the trend once again shifted to a decrease in profits until fiscal year 2005. But operating profits have made a recovery since fiscal year

2006 thanks to actions to reduce costs. Furthermore, in Figure 9, the performance for SKY Perfect JSAT between fiscal year 2001 and fiscal year 2006 are the totals for the old SKY Perfect Communications and the old JSAT (Sky Perfect JSAT was established as a holding company in April 2007 with the old SKY Perfect Communications and the old JSAT being wholly owned subsidiaries) (Figure 9).

Figure 9: Business conditions at SKY Perfect JSAT



**Business conditions for broadcasters and media companies in the United States**

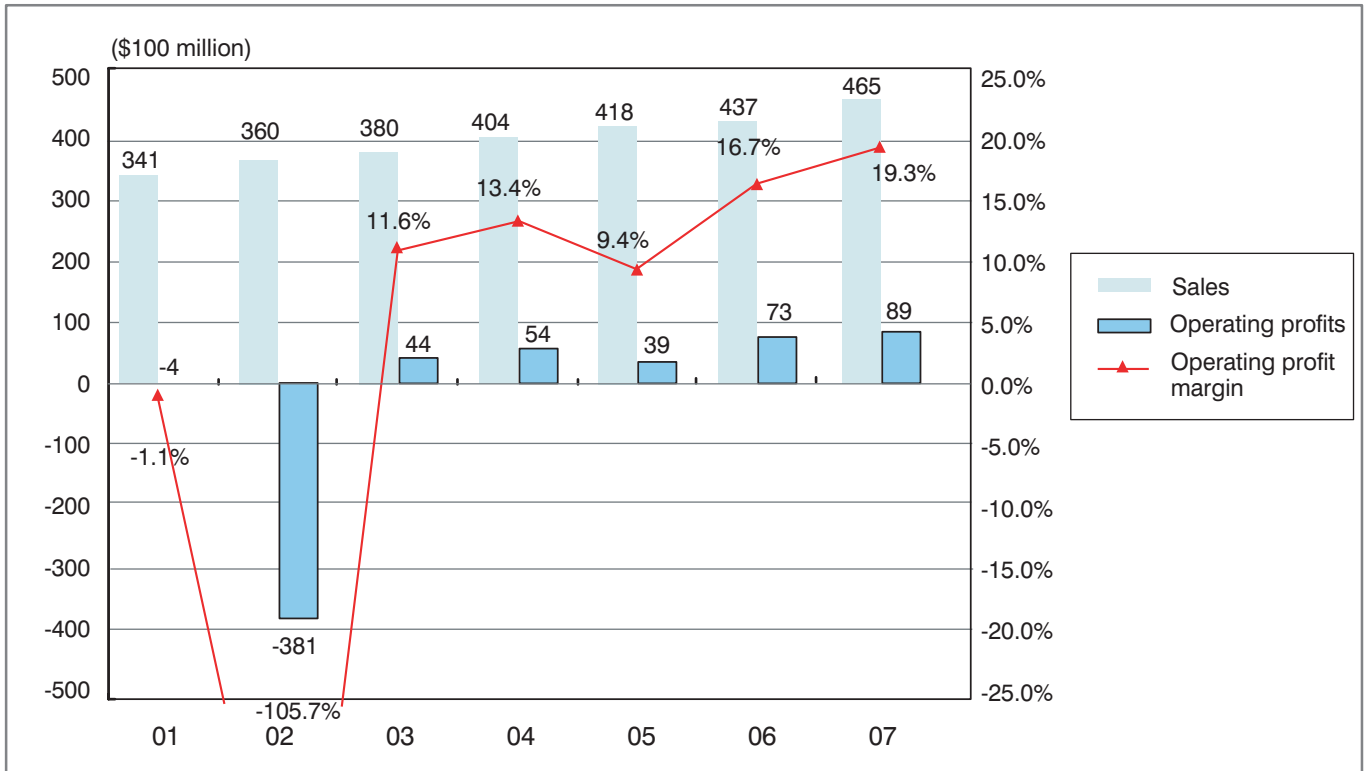
Against a background of relatively good performance by broadcasting companies, the particularity of fiscal year 2007 was that, with some exceptions, the companies covered by this survey mostly saw increases in sales and profits.

With regard to Time Warner, which boasts the largest sales worldwide among broadcasters

and media companies, fiscal year 2002 saw it achieve the largest operating losses in US corporate history, against the background of poor performance from AOL's ISP business and the losses sustained from the AOL M&A in fiscal year 2001. From fiscal year 2003, the company worked on restructuring and improving its management and both returned to profitability at the operating level and was able to achieve considerable improvement in operating profit margins (AOL

acquired Time Warner in 2001 and changed its corporate name to AOL Time Warner, but the corporate name was changed back to Time Warner in 2002. (In this survey, business results from the AOL division are included in the Time Warner business results). Business performance for AOL's business remains poor but the structure is still one of the good performance of the TV broadcasting business making up for it (Figure 10).

Figure 10: Business conditions at Time Warner

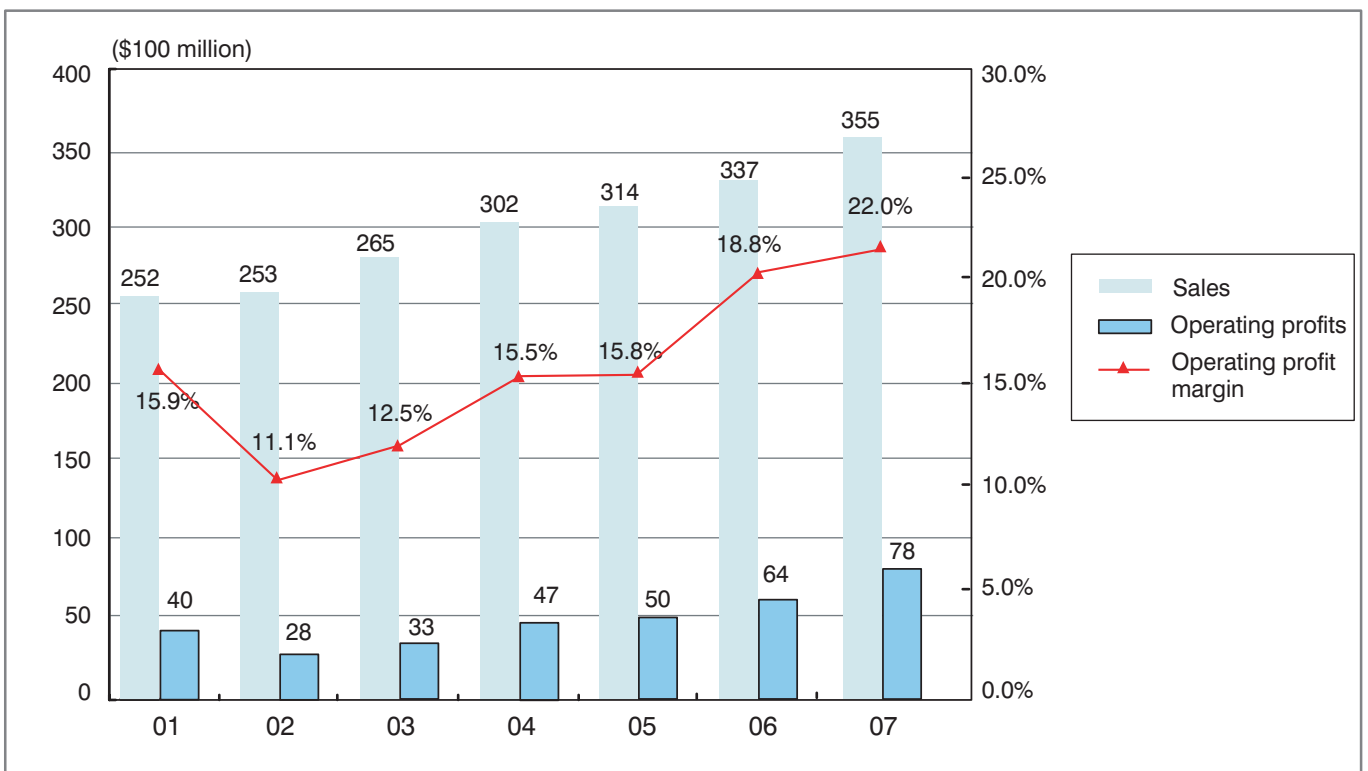


With regard to Walt Disney which controls ABC Inc. (ABC), one of America's four largest broadcasting networks, the recent trend has been for increases in sales and

profits, with stable management. Strong performance was seen in fiscal year 2004 for the parks division and the music and movie divisions, and since fiscal year 2005

for the TV broadcasting division and the parks division, with performance on a solid trend (Figure 11).

Figure 11: Business conditions at Walt Disney

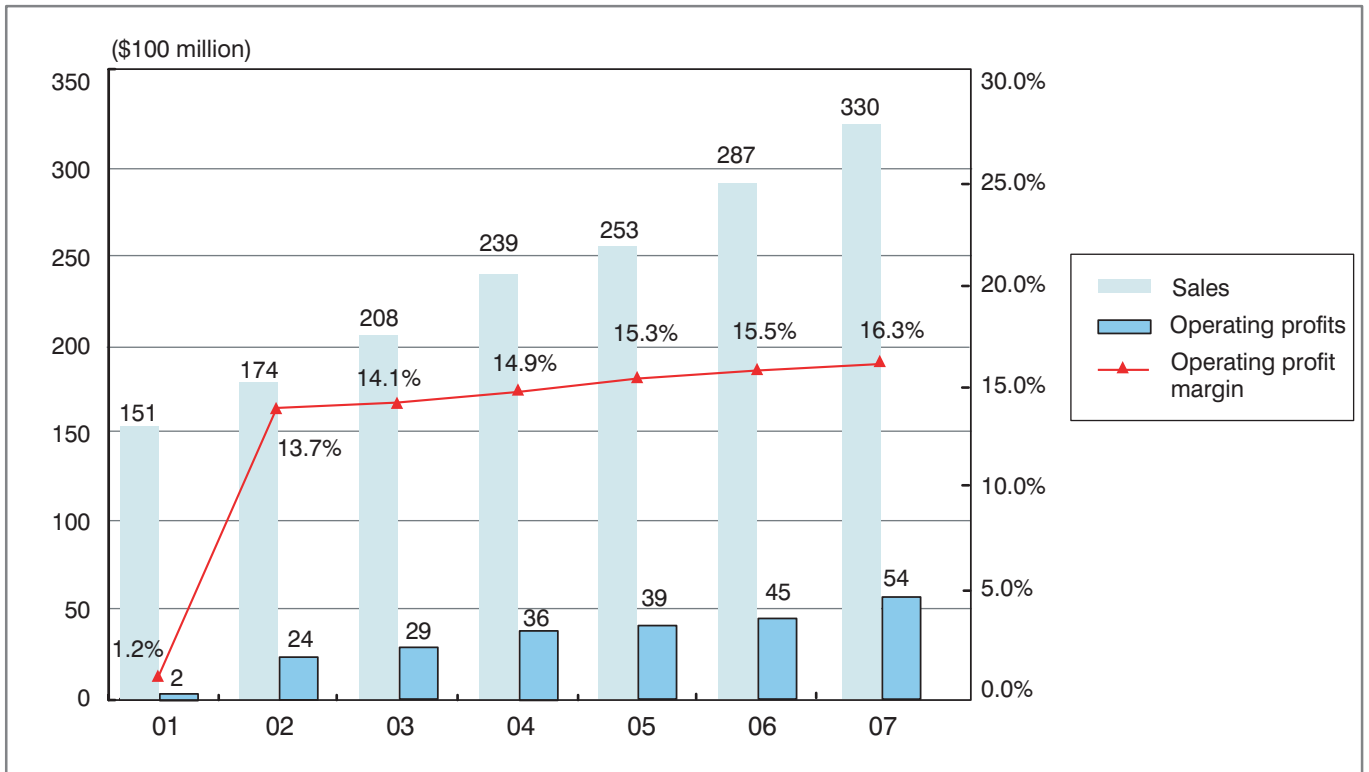


With regard to News Corporation which controls Fox Broadcasting Company (Fox), one of America's four largest broadcasting networks, there was a major temporary downturn in operating profit margins in fiscal year 2001 due to goodwill amortization, but it has

been on a solid upward trend since then, with sales also showing steady growth. The main reasons for this are the strong performances of the TV broadcasting and movie businesses in fiscal year 2005 and fiscal year 2006, and the fact that even though the TV broadcasting

(terrestrial) business and movie business were slow in fiscal year 2007, there was strong performance in the CATV business and increased sales from the acquisition of Dow Jones (Figure 12).

Figure 12: Business conditions at News Corporation

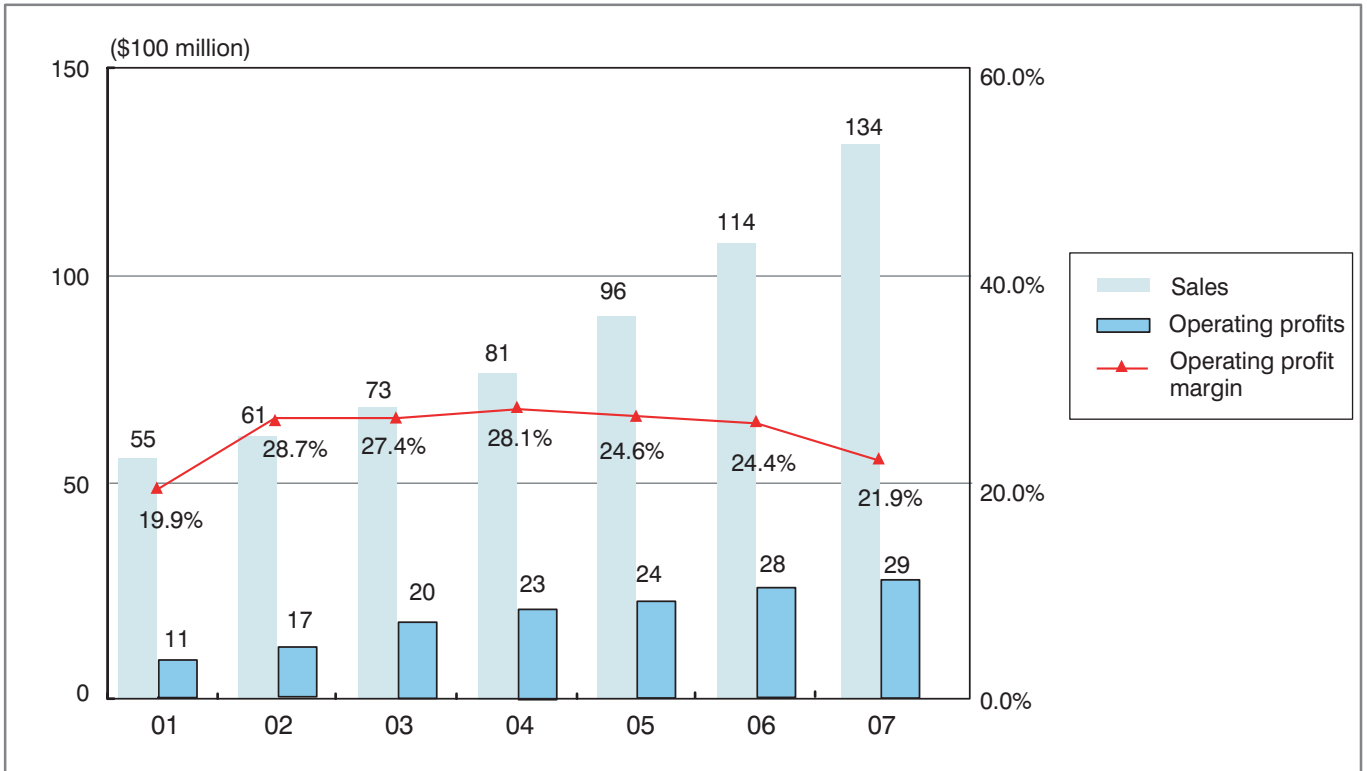


With regard to Viacom which has, under its umbrella, CATV companies such as MTV, the trend remains for increased sales and profits. In fiscal year 2005, the company spun off its terrestrial TV

broadcasting business and its publishing business in order to concentrate its management resources on movies and the CATV business, and movie hits with "War of the Worlds" in fiscal year 2005,

as well as strong performance in the CATV business in fiscal year 2006, and movie hits such as "Transformers" in fiscal year 2007, have resulted in a strong business performance (Figure 13).

Figure 13: Business conditions at Viacom

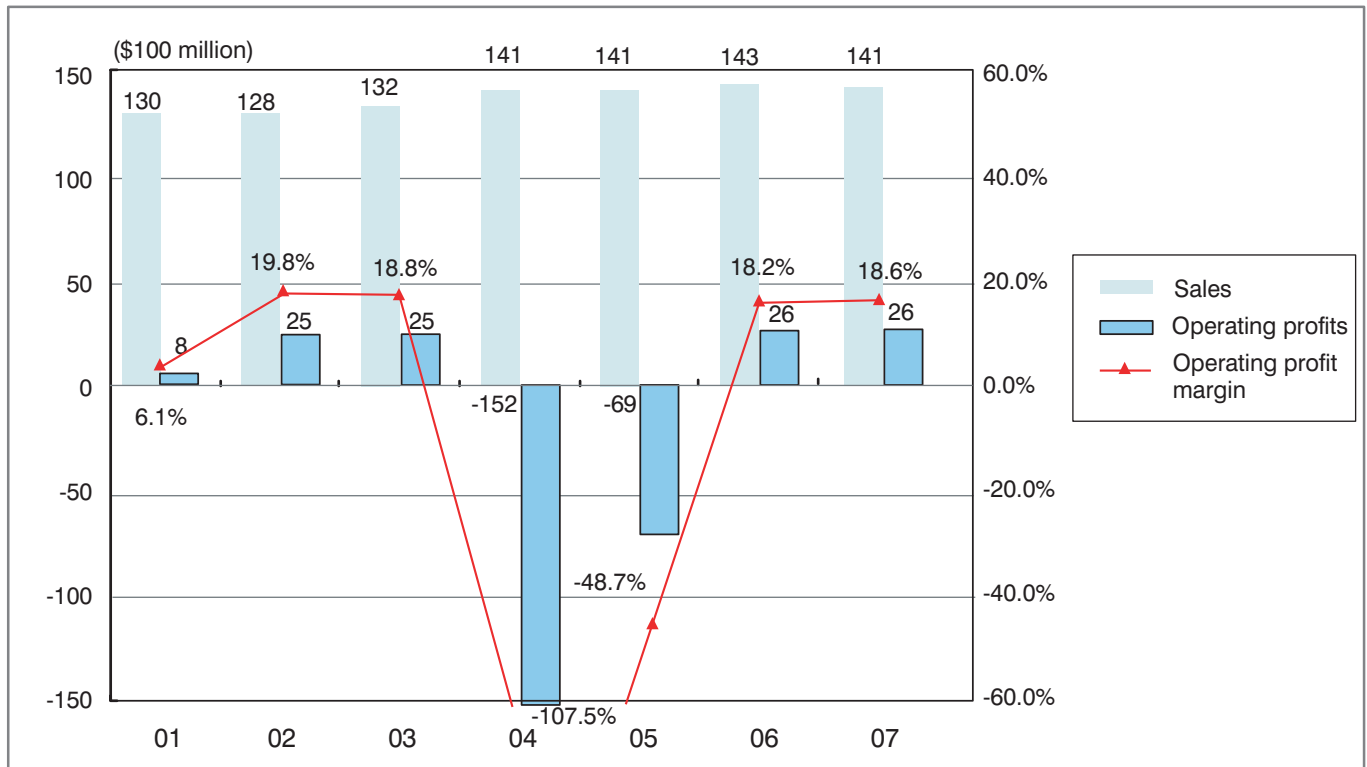


With regard to CBS which controls CBS Television Network (CBS), one of America's four largest broadcasting networks, the company was in the red on a large-scale at the operating level in fiscal year 2004 and fiscal year 2005, due to amortization of intangible assets

in the form of goodwill related to its TV and radio broadcasting business, and its outdoor business. In fiscal year 2006, the TV broadcasting business and outdoor business made up for the poor performance in the radio broadcasting business and the

company's profits recovered to fiscal year 2003 levels. In fiscal year 2007 also, even though there was a considerable drop in sales due to lack of growth in the TV broadcasting business, the company's operating profits remained flat (Figure 14).

Figure 14: Business conditions at CBS

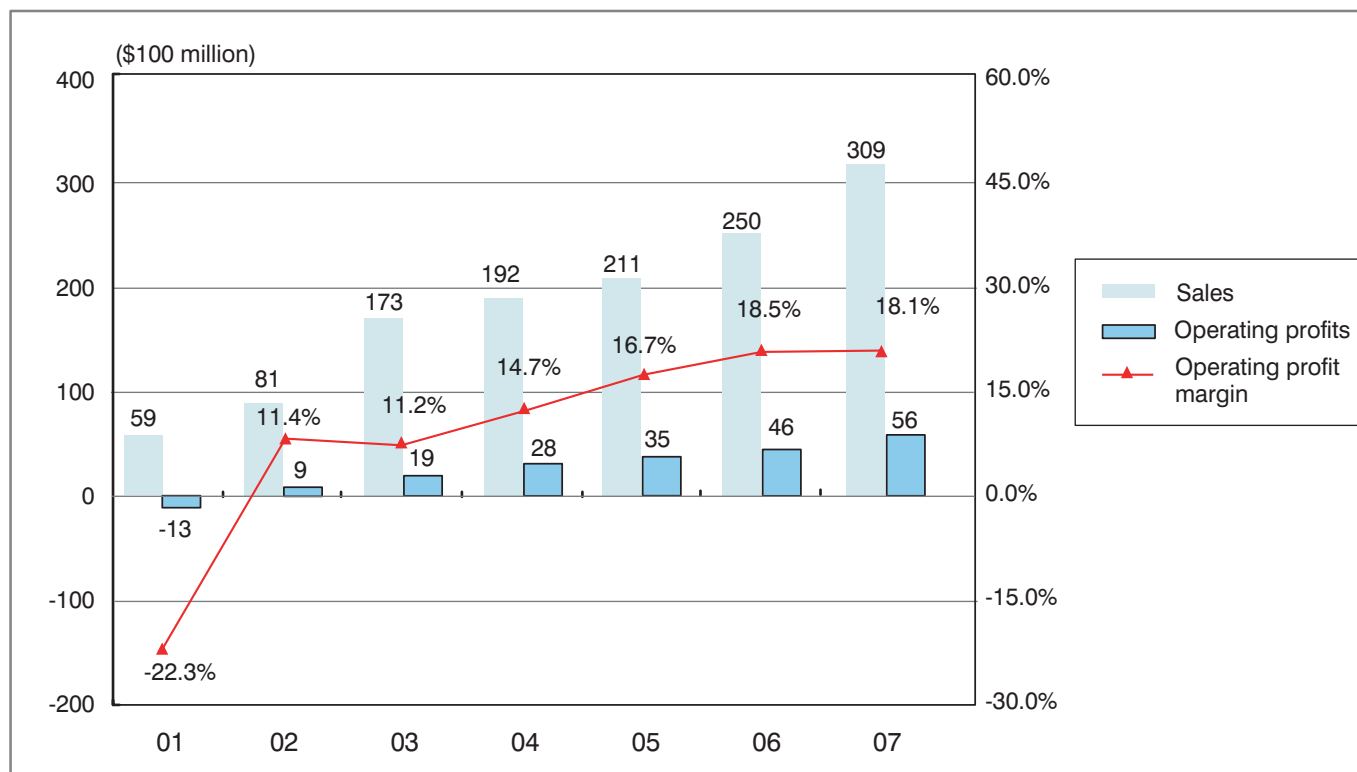


With regard to Comcast which is a major player in the American cable business, the company has recently achieved growth in both sales and profits. In particular, since fiscal year 2006, there has been strong performance in all divisions, including video services

using CATV (this includes video on demand in addition to regular CATV services), and the broadband services business, leading to a trend in stronger sales growth. In addition, the fixed line telephone business performed poorly in fiscal year 2005, but since fiscal year

2006, this has been made up for by VoIP (Voice over Internet Protocol) services, leading to rapid growth. Furthermore, the company started in July 2006 to offer a "triple play" service for \$99 a month which bundles CATV, telephone and Internet connection (Figure 15).

Figure 15: Business conditions at Comcast

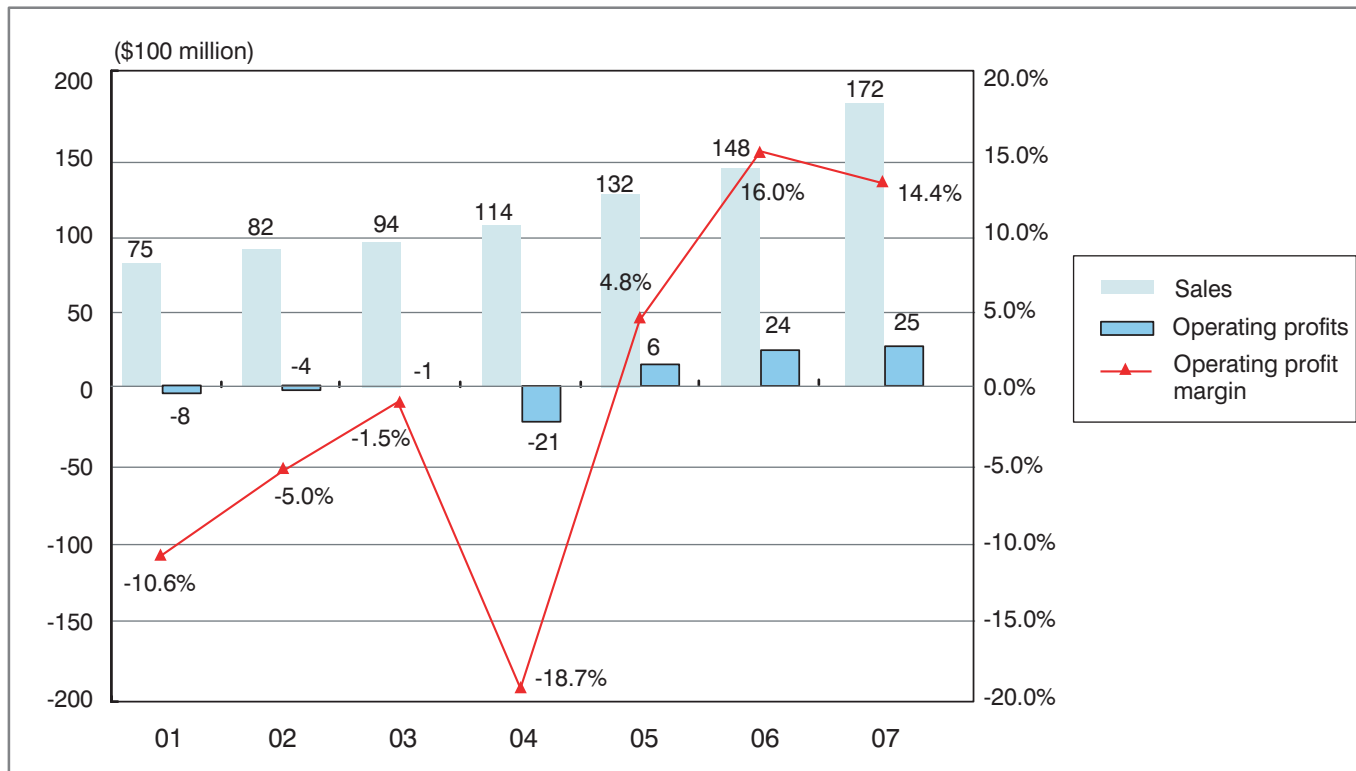


With regard to DirecTV which is a satellite broadcasting operator, even though the company was in the red on a large-scale in fiscal year 2004 in conjunction with the

impairment of assets, its business has performed well since fiscal year 2005 in both the United states and various Central and South-American countries (most sales are

in Brazil, Venezuela and Argentina), leading to increases in both sales and profits (Figure 16).

Figure 16: Business conditions at DirecTV



**Business conditions for broadcasters and media companies in Europe**

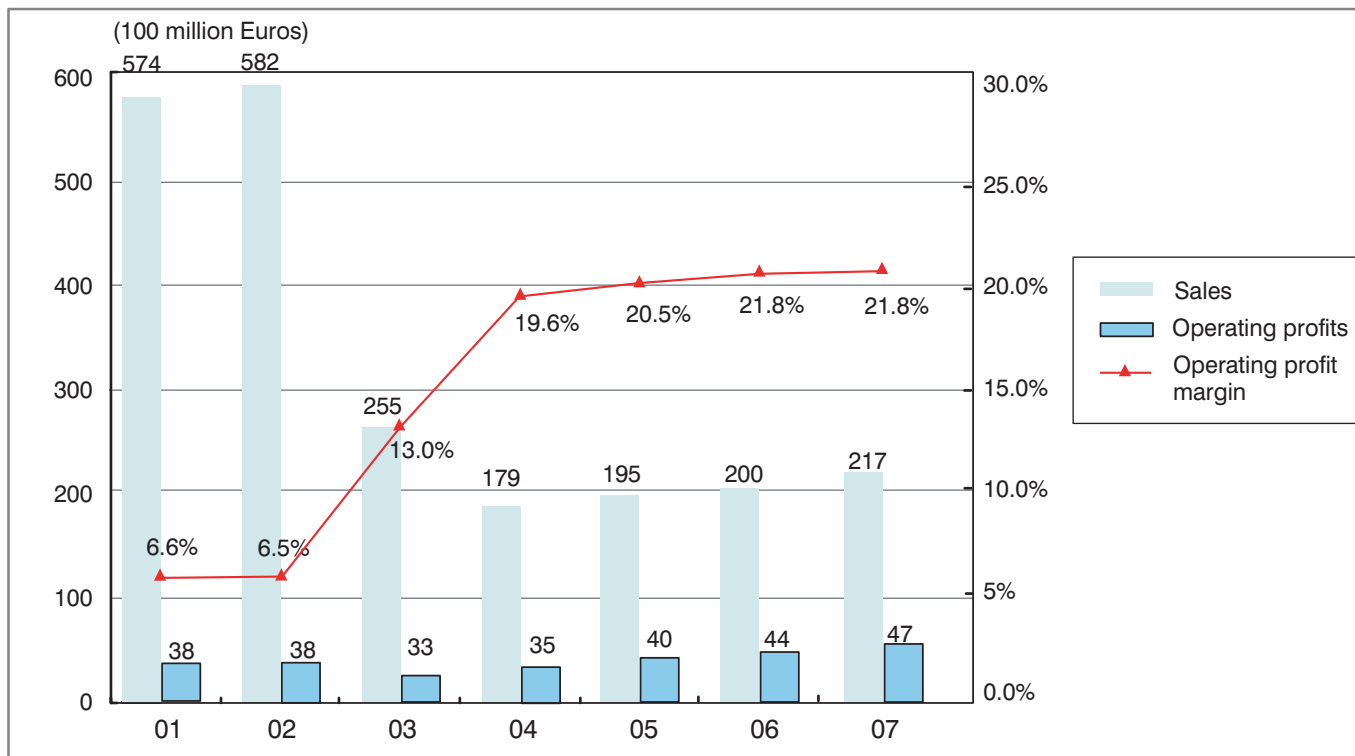
There were only two companies in Europe that were included in this survey, and they both share the characteristic that, in recent years, their operating profit margins have been mostly on a flat trend, with uncertainty about the individual performance of various business divisions.

Vivendi which mainly operates France's domestic paid

broadcasting (Canal Plus France), has seen a trend of slight increases in sales and profits in recent years. After recording large losses in fiscal year 2001 and fiscal year 2002, the company implemented business restructuring. In fiscal year 2003, it spun off its water and environmental business as well as its publishing business, and then went on to spin off its movie division in fiscal year 2004, leading to a large-scale drop in sales, but efforts to reduce costs led to an

improvement in operating profit margins. Since fiscal year 2004, the music business and the pay-TV broadcasting business have been on a flat trend but, ongoing growth in the communications business and the game business, as well as good performance in the pay-TV broadcasting business in fiscal year 2007, have sustained increases in both sales and operating profits (Figure 17).

Figure 17: Business conditions at Vivendi

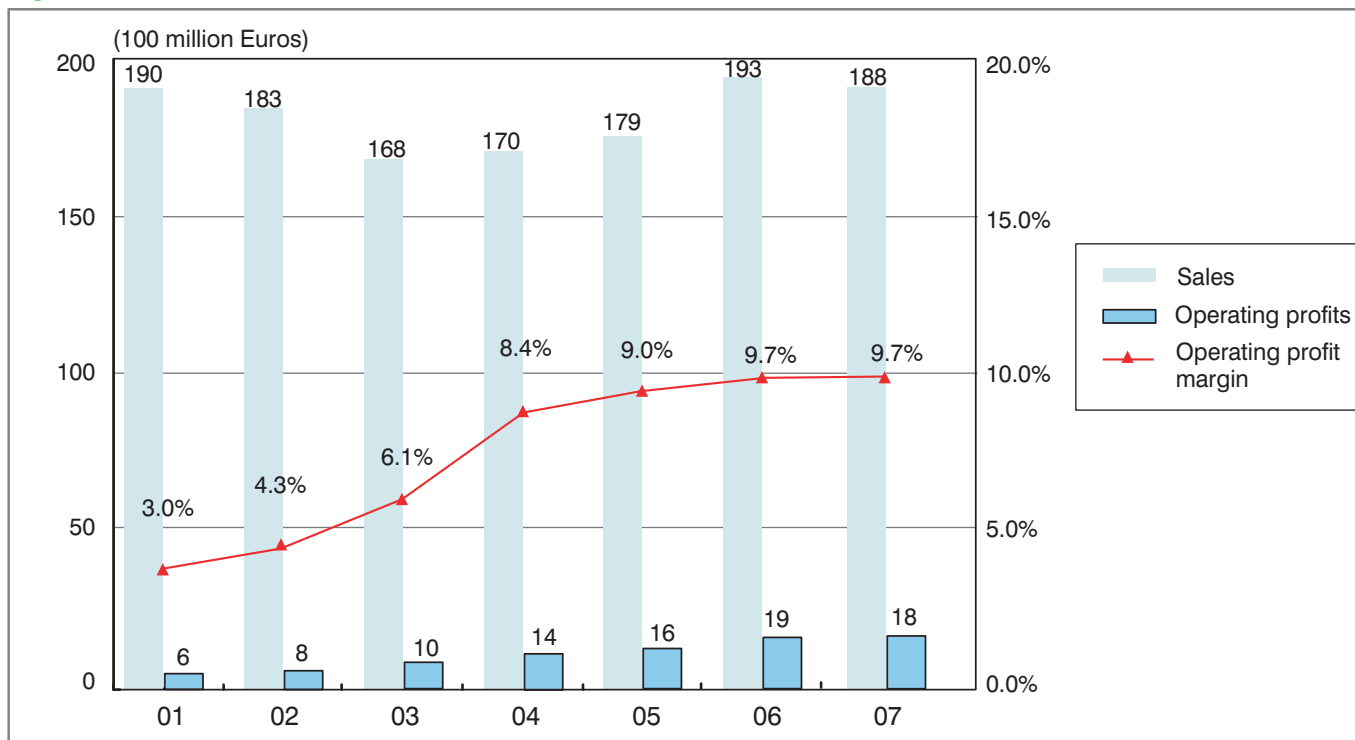


With regard to Bertelsmann which controls the RTL Group that operates in television and radio broadcasting across Europe, the company had seen a slight upward trend in sales and profits since fiscal year 2004, but both sales and profits declined in fiscal year 2007. In fiscal year 2003, the company was hit by the weak dollar in its

book and media software (music, videos, etc.) sales business, and its magazine publishing business, leading to a decline in sales, but from fiscal year 2004, strong performance in the TV broadcasting business and media services business (printing, call centers, etc.) made up for poor performance in the music business,

leading to growth in sales. However, in fiscal year 2007, in addition to the music business, the book publishing business, and book and media software sales performed badly, leading once again to a drop in both sales and operating profits (Figure 18).

Figure 18: Business conditions at Bertelsmann



## Conclusion

In analyzing trends in business condition for major broadcasters and media companies in recent years, it is clear that trends differ according to region (country). In the case of Japanese companies, the particularity is that, while performance by broadcasters has taken a blow as a result of a downturn in high-income producing spot commercials, this has been in part made up for in an ongoing fashion by revenues from non-broadcasting business such as the real estate business, the retail business and the events business. One can imagine that the necessity for capital investments associated

with the shift to terrestrial digital broadcasting is driving this kind of "business diversification." There are quite a few companies that have recently been actively engaging in cost cutting in areas such as programming production costs in an effort to recover from the slowdown in the broadcasting business.

As opposed to this situation, American companies have continued to engage in a varied business development strategy that includes a variety of channels such as terrestrial and cable. Terrestrial broadcasters such as Time Warner and Walt Disney, and CATV broadcasters such as News

Corporation and Comcast have the characteristic of generally good performance in their core broadcasting business. In addition, European companies have seen a general steady trend in performance in broadcasting business in the midst of operating highly diversified businesses.

In all cases, the various broadcasters and media operators need to make use of the factors contributing to business performance in other sectors in Japan and overseas and carry out detailed market analyses, as they work to improve further their business conditions.