

**CMPA**

Canadian Media  
Production Association



*Screen-based entrepreneurs*

# Strengthening the Business: Capitalizing Canada's Content Business

9story  
MEDIA GROUP

e  
one  
entertainmentone

EPITOME  
PICTURES INC

FORCE FOUR  
Entertainment  
an entertainment one company

THUNDERBIRD

Shaftesbury  
Entertainment

zone 3

MUSE  
ENTERTAINMENT  
ENTERPRISES INC



PAPERNY  
ENTERTAINMENT  
an entertainment one company

ELEVATION  
PICTURES

TRICON  
FILMS & TELEVISION

frantic  
films

marblemedia

TEMPLE STREET PRODUCTIONS

BIG  
COAT

# Strengthening the Business: Capitalizing Canada's Content Industry

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#### Note:

This paper has been prepared with the input of many entertainment and finance industry leaders, listed in Appendix A. The authors thank these individuals for their contribution to this study. And a special thanks to Michael A Paterson, Partner at PWC, who provided detailed notes on the lexicon of key financial terminology.

Funding for this study was provided by Ontario Media Development Corporation and the Canada Media Fund. Any opinions, findings, conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of Ontario Media Development Corporation, Canada Media Fund, the Government of Ontario or the Government of Canada. The funders, the Governments of Ontario and Canada and their agencies are in no way bound by the recommendations contained in this document.

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Support for this study provided by



# 1. Introduction: Scope of the Study

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The underlying nature of the content business is a project-to-project effort. Each property or title is an individual undertaking – from concept to development, from development through financing to production and delivery to audience. For most producers, business strategy is determined by project financing – very few successfully move beyond this model to building out corporate growth strategies. Mirroring this structural challenge is the perception amongst potential financiers that the content business lacks stability and scalability; that content is inherently unpredictable, and is therefore a risky and generally unattractive investment.

And yet, we live in an era where ‘content is king’ has never rung so true!

The purpose of this study is to help content producers who are interested in growing their businesses better equip themselves to do so. For earlier stage companies, we have provided a primer in financial terminology and basic guidelines for accessing third party financing. For more mature companies, we have attempted to provide useful information on developing corporate strategy including the preparation of business plans, financial statements, and requirements of third-party financiers.

In addition, we have attempted to describe the current investment climate for media deals in Canada and the US. The focus of interest of most VC’s (venture capital companies) and other investors remains on technology-based media opportunities – even if they are content plays. This presents greater challenges for Canadian producers seeking to tell their ‘story’ to potential financiers who may be looking for high growth and scalable opportunities.

Canada’s burgeoning technology sector has a limited venture capital community as compared to the US and an even more limited capital pool available to its traditional entertainment and content industries. The fact that the founders of Vice hail from Canada but the company’s outstanding success was financed out of the US is not lost on our independent content industry.

Finally, despite the challenges inherent in the content business, Canada’s content industry has witnessed several recent success stories – DHX Media and eOne Entertainment – both internationally recognized public companies. In the midsize range, companies such as Shaftesbury Entertainment, Temple Street, and 9 Story Entertainment have also grown considerably and attracted third party investment and others such as Epitome Pictures, Paperny Entertainment or Force Four have been subject to the consolidation trend and sold to larger entities. Players such as Thunderbird and Elevation Pictures are promising new entrants. From their example, we hope to provide guidance and direction for other Canadian production companies seeking to grow their businesses and flourish in this time of enormous opportunity as well as challenge for the content sector.

In addition to secondary literature review, the methodology for this study was primarily through telephone interviews conducted in the latter half of 2015.

## 2. M&A Trends in the Content Industry

*“I believe the future of ...the media industry ... will only get brighter as the number of people with Internet-connected smartphones grows, and the Internet solidifies its place as the central communication medium of our time.”- Chris Dixon: Partner, Andreessen Horowitz*

Over the past 10 years, the future of the content industry has been the subject of much debate – from pundits hailing its demise due to the disruptive forces of technology to others saluting a new golden age of abundance. Whereas the focus of this study is on the primary interests of the CMPA member – the content entrepreneur – it is important to first situate this inquiry within the context of larger trends in M&A in the broader content business.

The past year has seen a dramatic increase in venture capital investing in content companies in the US. Digital news and media companies raised roughly 2.5 times more capital in 2014 than in the prior year: US\$813M versus US\$331M in 2013. It is worth underlining that most of these content deals are ‘digital’ opportunities and not necessarily traditional content plays.

The trends driving this growth include: continued expansion in connectivity, particularly on smartphones; fast-growing worldwide markets for digital content; and the emergence of reliable digital and increasingly mobile monetization strategies.

**a. Connectivity.** At the dawn of the Internet age, roughly 20 years ago, nearly all the action was in North America. This has changed dramatically as new markets, particularly China and India, have surged. Though explosive growth is starting to slow as markets begin to mature, worldwide Internet traffic increased 21% in 2014, while mobile data consumption surged 69% in the same period. According to comScore, Canadians continue to lead the world (and the US) in digital video consumption, both in average time spent and overall penetration. Canadians have doubled the time they spend online, to an average of 39 hours a month browsing the Web with a desktop or

laptop. This number jumps to 75 hours per month, or 2.5 hours per day, when watching Internet video and using mobile devices are added to the equation.

Investors are naturally pleased with this growth. The money, as always, follows the eyeballs. In 1995, the total market capitalization of the top 15 Internet companies (13 in the USA, 1 in Canada, 1 in Germany) was just under US\$17B. In 2015, the top 15 (11 in the USA, 4 in China) are collectively worth \$2.4 trillion. It is worth noting that three of the current Top 15 — Amazon, Netflix and Yahoo — have substantial original content businesses.

*“Web content and web advertising have been engaged in this race to the bottom. You had crappy, cheap content that was gaming search engines or gaming Facebook. And now there’s a race to the top.”*

- Jim Bankoff, CEO, Vox Media

**b. Monetization.** Monetization strategies are also solidifying and, as a result, driving deal flow. Average revenue-per-user is increasing steadily on key platforms like Facebook and Twitter as well as global ‘niche’ content services such as Vice, Upworthy or BuzzFeed. These services have achieved sufficient scale – and audience - over the past 3 to 5 years to now focus on ‘buy’ options for consumers, expanded branded entertainment solutions, and more creative advertising solutions to keep consumers engaged. Furthermore, there is ample room for growth in digital media, as ad spending remains disproportionately weighted toward traditional media. The compelling opportunities in the digital media space are where disruptive content services have demonstrated scale through audience numbers and engagement.

Sources:

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[comScore 2015 Canada Digital Future in Focus\\_Mar2015.pdf](http://comscore.com/press-releases/2015/03/comScore%202015%20Canada%20Digital%20Future%20in%20Focus%20Mar2015.pdf)  
<http://recode.net/2015/05/27/mary-meekeers-2015-internet-trends-slides/>

## 2. M&A Trends in the Content Industry

### As of December, 1995

	Company	Home Country	Market Cap. (\$MM)
1	Netscape	USA	\$5,415
2	Apple	USA	3,918
3	Axel Springer	Germany	2,317
4	RentPath	USA	1,555
5	Web.com	USA	982
6	PSINet	USA	742
7	Netcom On-Line	USA	399
8	IAC / Interactive	USA	326
9	Copart	USA	325
10	Wavo Corporation	USA	203
11	iStar Internet	Canada	174
12	Firefox Communications	USA	158
13	Storage Computer Corp.	USA	95
14	Live Microsystems	USA	86
15	iLive	USA	57

**Total Market Cap of Top 15**                      **\$16,752**

### As of May, 2015

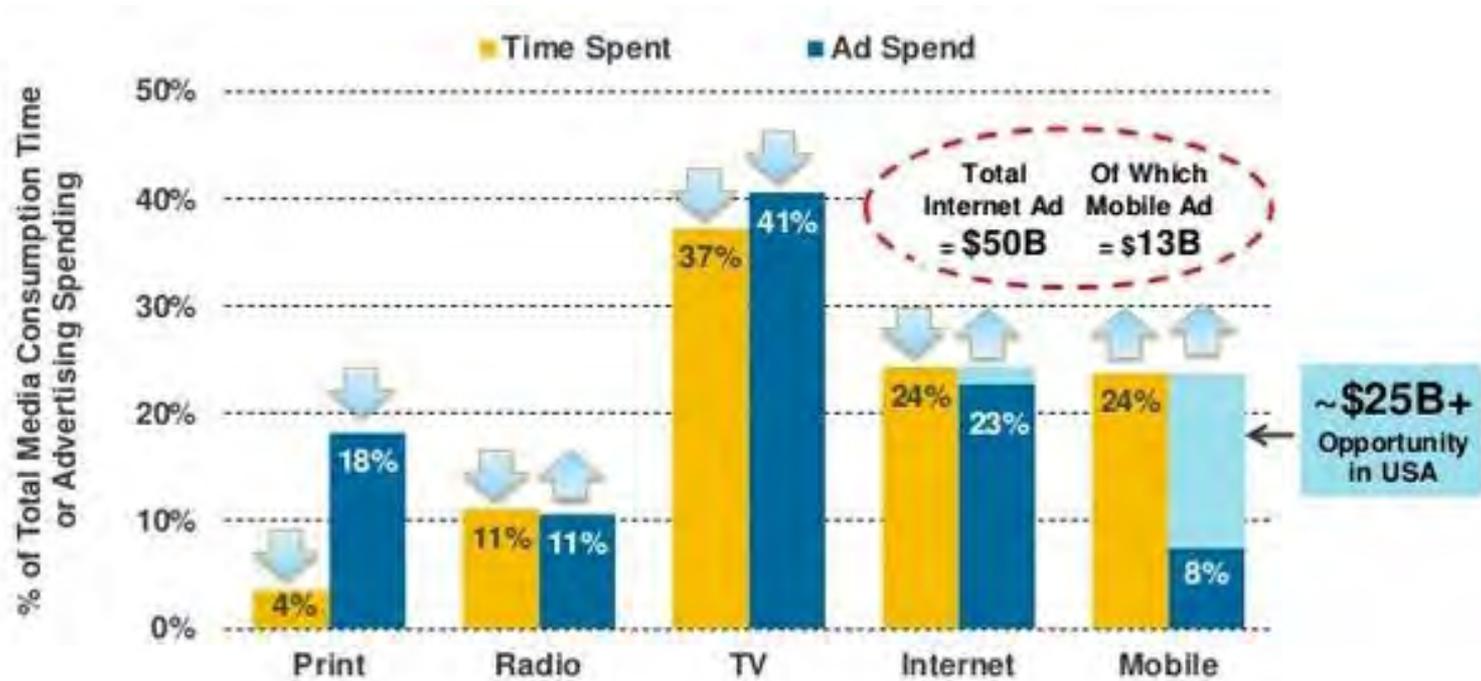
	Company	Home Country	Market Cap. (\$MM)
1	Apple	USA	\$763,567
2	Google	USA	373,437
3	Alibaba	China	232,755
4	Facebook	USA	226,009
5	Amazon.com	USA	199,139
6	Tencent	China	190,110
7	eBay	USA	72,549
8	Baidu	China	71,581
9	Priceline.com	USA	62,645
10	Salesforce.com	USA	49,173
11	JD.com	China	47,711
12	Yahoo!	USA	40,808
13	Netflix	USA	37,700
14	LinkedIn	USA	24,718
15	Twitter	USA	23,965

**Total Market Cap of Top 15**                      **\$2,415,867**

Source: <http://recode.net/2015/05/27/mary-meekers-2015-internet-trends-slides>

## 2. M&A Trends in the Content Industry

% of Time Spent in Media vs. % of Advertising Spending, USA, 2014



Source: <http://recode.net/2015/05/27/mary-meekers-2015-internet-trends-slides>

## 2. M&A Trends in the Content Industry

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*“Vice getting valued at \$1 billion was a turning point...No one had seen anything like that in the content space. And they’re trying to speak to a very specific audience that’s hard to reach in a deeply authentic way. It’s certainly not something you’re phoning in. It’s not a pre-written press release. It’s not a listicle.” - Sarah Lacy, founder, PandoDaily*

In 2014, Vice made several headlines, first with its US\$570m deal with A+E Networks and Technology Crossover Ventures, which valued the company at more than US\$2.5 billion; and then with its \$100m joint venture with Rogers in Canada, which aims to create both a multimedia production studio and national TV network.

In other digital content deals, 2015 got off to a particularly fast start. According to the deal-tracking firm CB Insights:

- Business Insider landed a new \$25m Series F financing at a \$200m valuation from Bezos Expeditions and Axel Springer.
- Mashable brought in a \$17m Series B led by Time Warner Investments.
- Refinery29, a New York-based media startup focused on the fashion & lifestyle vertical, is raising new funding at a \$240m valuation from investors including Hearst Corp.

Multi Channel Networks (MCN’s) were also very busy:

- European media conglomerate RTL bought StyleHaul for \$107m
- Canadian BroadbandTV, owned by RTL, acquired YoBoHo which runs the HooplaKidz children’s channel on YouTube with a library of 8000 videos and annual views in the 3 billion range
- Chernin Group’s Otter Media acquired a majority stake in Fullscreen for a reported \$200m

- Hearst bought a 25% stake in AwesomenessTV (with a value of \$81.25m)
- In Canada, Corus led a Series C financing round in female-focused MCN KIN, and;
- Blue Ant Media purchased a minority stake in Omnia Media, whose MCN’s, as of mid-2014, serve 40m subscribers with about 550m global video views per month.

The top US venture firms investing in media often focus more on hybrid technology-content opportunities – with a clear path to global scalability - than on pure-play content.

Source:

<https://www.cbinsights.com/blog/venture-capital-media-news/>  
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## 2. M&A Trends in the Content Industry

### c. Globalization.

*“Canadian content company opportunities are contracting – unless you have tentacles into international. A good strategy for smaller producers is to align themselves with more mature companies with distribution reach.”*

-- Margaret O'Brien, EVP, Corporate Development, eOne Entertainment

The media and entertainment business has never been more global – both for digital and traditional content businesses. M&A activity naturally follows growth areas. For example, PwC reports spending on filmed entertainment in China growing 15% annually in the next 5 years. Not surprisingly one of the industry's biggest acquisitions to date is in this sector: Zhejiang Huace Film & TV will buy a smaller studio, Croton Media, for 1.65 billion yuan, (US\$270m.)

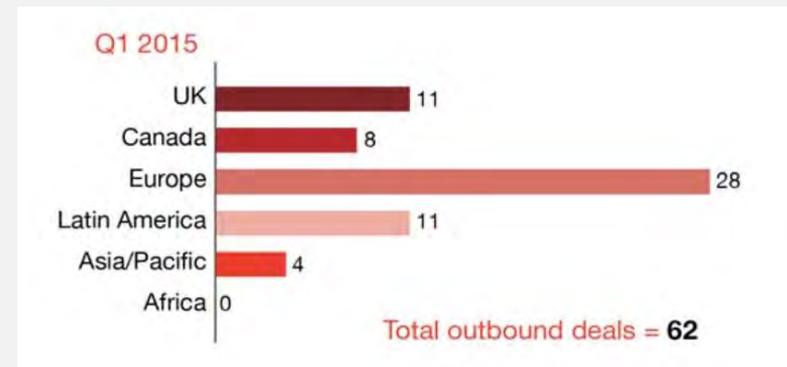
Closer to home, PwC reported US\$3.6b of deals in the Film/Content sector in 2014, versus only \$0.5b in 2013. Many deals in the overall Media/Entertainment/Communications segment were “outbound” acquisitions by US companies of international targets.

Within the traditional media sector, 2014 and 2015 witnessed an indie production company ‘buying spree’ – very often, US and Canadian content companies seeking growth through acquisitions in other production financing territories like the US, UK or in Europe. Some examples here in Canada include DHX Media's acquisitions in 2013 of Ragdoll Worldwide – and the valuable global franchise *Teletubbies* - in the UK; eOne Entertainment's acquisition of The Mark Gordon Company in the US; and 9 Story Entertainment's recent acquisition of Irish producer of animated kids' series, Brown Bag Films.

Sources:

<http://recode.net/2015/05/27/mary-meekers-2015-internet-trends-slides/>  
<http://www.forbes.com/sites/russellflannery/2013/08/19/its-showtime-for-ma-in-chinas-film-tv-production-industry/>  
<http://www.pwc.com/us/en/industry/entertainment-media/publications/emc-deal-insights.ihtml>

### EMC Cross-border deals by US acquirers



### d. Alternative financing structures.

Increased investor activity in the digital media arena has arguably resulted in increased interest in pure content plays. New OTT and SVOD platforms combined with binge viewing has increased demand for content – along with M&A (mergers and acquisitions) deals with solid content offerings. But, there are always non-traditional funders in every generation of media, from off-balance-sheet slate financing to insurance-backed funds. They move in and out of favour, but deals do get done. For example, Hollywood veterans Jeff Sagansky and Harry Sloan are launching their third Special Purpose Acquisition Company (SPAC), Double Eagle Acquisition Corp, backed by a \$500m initial public offering. In Canada too, there is currently interest in such SPAC financings, though their past performance has many detractors.

## 2. M&A Trends in the Content Industry

*“Investors are just more comfortable with content, and have seen content become successful.” – Alex Blumberg, Co-founder, Gimlet Media*

### e. Importance of IP.

*“Recent CRTC decisions, the growth of digital on demand services and dropping ad revenues are going to result in broadcasters commissioning less Canadian content. That said, the demand for high quality content is increasing; production companies that innovate and find ways to maintain high quality while reducing the cost to traditional broadcasters will in turn thrive and find the support they need to grow their businesses.” – John Ritchie, Chief Creative Officer, Force Four Entertainment*

For years, VC’s and private equity firms were leery of content startups, in large part because of a slim track record in the sector – but also because of the unpredictability of cashflow and difficulty in scaling project-based content businesses.

That has changed with the advent of digital content companies – which bring audience and content together. Investors have begun to appreciate the value of professional-level production, where their prior efforts may have focused on highly-automated aggregation of user-generated content. BuzzFeed CEO Jonah Peretti explains, “The difference now is people are seeing there is a clear path to build a big, enduring media company that invests in things like long form and investigative journalism, and you can do that while you’re growing.”

For traditional media companies where decline in ad revenue and cord-cutting have slowed growth, the focus is also on creating and owning content either organically or through acquisitions.

Broadcaster STARZ and independent studio Lionsgate were rumoured most recently, to be in merger discussions – similarly

Hasbro and Dreamworks Animation were courting. Traditional media companies need deal flow to ramp up growth as traditional revenue streams flatten. Avenues worthy of exploration include acquisition of similar businesses in different jurisdictions to facilitate global expansion as well as joint ventures with different complementary businesses such as gaming or digital franchises in order to expand IP.

For smaller, profitable content entrepreneurs, this environment may be an exciting opportunity to find a buyer or joint venture partner for business expansion.

For traditional production companies, the path to financing is more often through partnerships, mergers or acquisitions, rather than venture capital.

2015 has seen a variety of M&A transactions driven by high quality content franchises and series. For example:

- UK mega-indie All3Media, backed by new owners Discovery and Liberty Media, is embarking on an acquisition push. Most recently, All3Media announced the acquisition of Neal Street Productions, producers of quality television dramas such as *Call the Midwife*, and co-ventures with US and UK broadcasters *Penny Dreadful* and *The Hollow Crown*.
- Also in the UK, ITV recently completed two large acquisitions: buying the 75% of *Poldark* producer Mammoth Screen it did not already own; and 100% of Talpa, producer of *The Voice*. ITV paid £1m in 2008 for its initial share of Mammoth, and £355m earlier this year for Talpa.

Sources: <http://www.newyorker.com/magazine/2015/05/18/tomorrows-advance-man>  
<http://blogs.wsj.com/venturecapital/2014/11/11/this-american-life-producer-raises-1-5-million-for-podcast-startup-gimlet/>  
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<http://www.cbinsights.com/blog/venture-capital-media-news/>

## 2. M&A Trends in the Content Industry

- Fremantle Media acquired a 62.5% stake in Italian producer Wildside, creator of high-end series like the upcoming Sky-HBO-Canal+ co-production *The Young Pope*, starring Jude Law. FremantleMedia CEO Cecile Frot-Coutaz explained the deal was driven by its need to “strengthen our prime-time scripted presence.”
- Closer to home, eOne acquired a 70% stake in *Peppa Pig* producer Astley Baker Davies worth \$212 million. The deal included an order for 52 new episodes.

The Canadian producers surveyed for this report echo the larger trend. Few are looking toward VC-style IPO’s (initial public offering.) Most are focused on financing internal growth via bank debt, through closely-held equity offerings, or through M&A.

### f. Importance of digital.

*“Media giants, like most, are new to the millennial-driven, mobile-first new world order of video. That expertise is not in their DNA and they have smartly decided that they would rather buy than build in order to gain immediate expertise and scale.” - Peter Csathy, CEO, Manatt Digital Media.*

While franchises and big series will certainly attract buyers, the “get a hit” strategy is not easy to execute. Consequently, buyers are also on the lookout for other business elements that add value to content — like a distribution platform or a built-in monetizable audience.

Across the traditional content eco-system, companies are making forays into digital.

- In February, Lionsgate made “a significant investment” in Telltale Games, developer of “narrative-driven episodic games” based on hit series like *The Walking Dead* and *Game of Thrones*. Lionsgate CEO Jon Feltheimer positioned the deal as part of a continuing effort to develop “new avenues of storytelling to next-generation audiences across a broad range of platforms.”
- Similarly, Germany’s ProSieben recently acquired a 75% stake in YouTube Multi Channel Network Collective Digital Studio for US\$83m. CDS manages a stable of around 900 YouTube Channels and is best known for titles such as *Annoying Orange*, *Epic Meal Time*, *Video Game High School* and *Fred*.
- This continues a trend Disney started with its roughly \$500m acquisition of Maker Studios in 2014.

In Canada, for example, eOne took a stake in interactive producer Secret Location; Shaftesbury has built out its Smokesbomb digital division; and Temple Street has launched Boat Rocker Studios - a new 20,000 square foot digital video creation studio that produces original video, social media strategies and online monetization opportunities for YouTube and other online video platforms.

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## 2. M&A Trends in the Content Industry

**g. Canada vs the US.** In Canada, institutional investors have been generally less interested in the entertainment and media sector compared to their US counterparts, given the dominance of the natural resource sector in the Canadian capital markets. Furthermore, venture capital in Canada has been slower to seek out pure-play digital media startups when compared to information technology opportunities.

That said, the appetite for risk seems to be increasing according to an Industry Canada report where VC investment was up to \$2.36b in 2014, significantly higher than \$1.98b in 2013. Where most American VC's avoid smaller deals (with their smaller fees), the average Canadian deal size was CDN\$4.3m, with the majority of deals at under \$1m.

Canadian VC's seem to prefer later-stage investing, with most of the money over the past several years flowing to companies that have moved well past the start-up phase. In the first half of 2015, however, the Canadian Venture Capital and Private Equity Association reports that \$549m out of \$939M (58%) in new deals were aimed at seed or early stage investments. This corresponds with overall growth in Canadian VC investment as a share of the total economy — a key indicator of innovation. Canadian VC investment has surged in recent years, from 0.07% of GDP in 2009 to 0.12% in 2014. "Information Technology" is by far the leading investment sector, far outstripping its nearest competitors, "Life Sciences" and "Clean Technology".

In the traditional entertainment and media sector in Canada, consolidation continues apace. After 5 years of M&A activity in the broadcasting, cable and telecom sector, where vertical integration has largely taken hold, attention seems to have also shifted to content opportunities.

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[http://www.ic.gc.ca/eic/site/061.nsf/eng/h\\_02940.html#point1](http://www.ic.gc.ca/eic/site/061.nsf/eng/h_02940.html#point1)  
[http://www.cvca.ca/wp-content/uploads/2015/07/CVCA\\_2015\\_H1\\_Activity\\_VC\\_FINAL.pdf](http://www.cvca.ca/wp-content/uploads/2015/07/CVCA_2015_H1_Activity_VC_FINAL.pdf)

2012-2014 Canadian VC deal size



As Stifel media analyst, Ben Mogil, describes, "The opportunities are on the demand side as SVOD and international markets continue to increase demand for content. .... Challenges are going to be the reduced mandatory spend from the Canadian broadcasters, the lack of strong international relationships and the lack of innovative thinking."

### 3. Ingredients for Successful Financing

While content may be king, capital continues to elude most traditional content companies. Content companies seeking outside investment need to understand the basic “rules of the road” and be prepared to manage accordingly. In this section, we present guidelines from the VC and private equity literature, and most importantly, from interviews conducted with financiers interested in the media/content sector as well as content companies which have successfully attracted capital.

*Monthly recurring revenue? Founder with experience? Good sales pipeline? X per cent of month-over-month growth?*

#### 1. Get the basics right.

According to Jordan Cooper, a New York entrepreneur and VC, the above “checklist” items are critical to most VCs’ assessment of a company, no matter the industry. Unfortunately for content companies as underlined by all the respondents to this study, the attainment of steady, predictable cashflow is the single greatest impediment to attracting third part capital.

*While content is still the most important piece of the value chain, growth needs to be part of the equation.* – Vince Commisso, President & CEO, 9 Story Media Group

According to many of the content company executives interviewed, the first step to building their businesses was achieving scale and a plan that can deliver growth. For some this means picking a niche or unique content proposition and focusing – for example kids’ programming or high-budget drama series or a digital advantage. In all cases, the message is clear – first, identify and articulate what is distinctive about your content and then introduce a plan for growth.

For companies that are struggling to scale, it may be worthwhile forming strategic partnerships with larger entities that can accelerate growth.



Source: <http://www.newyorker.com/magazine/2015/05/18/tomorrows-advance-man>  
<http://qz.com/186492/why-venture-capitalists-are-suddenly-investing-in-news/>

### 3. Ingredients for Successful Financing

*"The old adage that content is king is more relevant today than ever with changing leverage in distribution channels. However, the uncertainty has changed that adage to 'Good Content is King'." – Noah Segal, Co-President, Elevation Pictures*

#### 2. Demonstrate global reach.

In a connected world, it is no longer sufficient to serve a domestic marketplace alone. Whereas the power of traditional broadcasting has always been 'local' (news, sports, comedy, etc.), the exciting investment stories today in the media sector are unfolding globally (think Netflix, Maker Studios, Vice, and Facebook.)

For potential investors, strong global sales are a critical piece of the value proposition as distribution revenues can mitigate the perceived 'lumpiness' in revenues (i.e. seasonality or unpredictability) of the production business and provide better margins, especially for evergreen content.

For most content companies, the path to global reach begins with a hit series or franchise which may be self-distributed or distributed through a third party. While controlling distribution rights increases the valuation of a content company, building in-house distribution capability can be an expensive undertaking. Smaller companies may opt for forming strategic relationships with larger distribution entities to gain immediate access to the global marketplace.

Perhaps the single greatest change in the content business thanks to technology is the ability for producers of content to reach audiences directly – and to bypass the intermediary of broadcasters and distributors. As such, content companies with IP that resonates with digital natives are leveraging YouTube channels as a way to reach and monetize global audiences directly.

**Content Is King**  
By Bill Gates (Originally Published - 1/3/96)

Content is where I expect much of the real money will be made on the Internet, just as it was in broadcasting.

The television revolution that includes the manufacturing of a new medium to deliver information and entertainment.

When it comes to an interactive network such as the Internet, the definition of "content" becomes very wide. For example, computer games are an important one, and the one that for Microsoft is the most important.

But the broad opportunities for most companies are in the area of entertainment. No company is too small to participate.

Anyone with a PC and a modem can publish on the Internet. The Internet is the multimedia equivalent of the telephone. It has a very low cost, no matter the size of the audience.

The Internet also allows information to be distributed worldwide at basically zero marginal cost to the publisher. Opportunities are remarkable, and many companies are laying plans to create content for the Internet.

For example, a small publisher can reach a global audience.

Four key quotes are highlighted in red boxes with blue arrows pointing to them:

- "Content is where I expect much of the real money will be made on the Internet."
- "...the definition of content becomes very wide."
- "No company is too small to participate."
- "The Internet allows information to be distributed worldwide at basically ... zero cost"

Source:  
<http://www.newyorker.com/magazine/2015/05/18/tomorrows-advance-man>  
<http://qz.com/186492/why-venture-capitalists-are-suddenly-investing-in-news/>

### 3. Ingredients for Successful Financing

*"We believe that there's a ton of new platforms that need native content. So if you look at Instagram or Snapchat or WhatsApp or social mobile, all of these platforms are opportunities for people to consume more content, and those opportunities allow for new brands."* - Eric Hippeau, Managing Director, Lerer Hippeau Ventures, former CEO, Huffington Post

**3. Be technologically fluent.** While there are still traditional content and library deals in the marketplace (as in Dreamworks Animation's 2012 acquisition of Classic Media or more recently in Canada, Fairfax Financial's investment in Temple Street,) most investors in content companies are also looking for a strong technology component to the opportunity. Eric Hippeau who has invested in a number of online news providers (Buzzfeed, PandoDaily) describes his portfolio as "all technology companies first", run by tech savvy people who understand how people utilize technology as well as how to present and create content.

At a minimum, content companies operating in the traditional production sector should consider how to access digital expertise through joint ventures or alliances. But clearly, technological fluency can no longer be treated as an add-on or sideline activity for content companies.

*"We don't think of digital as a separate line of business, it is core to any IP we are developing and we constantly ask ourselves how does digital play into this property?"* -- Mark Bishop, partner, MarbleMedia

In fact, most of Canada's successful content companies have invested significantly in digital initiatives – from YouTube channels to producing branded entertainment for digital platforms.

**4. It helps to have a niche.** The extraordinary success of Vice certainly contributed to a resurgence of investor interest in the media space. An industry observer from Verizon commented, "Vice reflects the seismic shift in storytelling, audience, immediacy and platforms."

For any company, and for production companies in particular, focus and a unique content proposition are critical. Respondents to this study observed that diversification in production genres is a harder sell to investors than a pureplay strategy.



Source:  
<http://streamdaily.tv/2015/07/14/verizon-and-vice-partner-on-video-production-distribution/>

### 3. Ingredients for Successful Financing

#### 5. Get your financial house in order.

*"If you cannot produce financial statements – you cannot attract institutional investors."* -- Brent Layton, Director, Investment Banking, Canaccord Genuity

On the financial institution side, the content business is often perceived as volatile and risky. And, in Canada, the legacy of regulation and government subsidy increases risk (as both tamper with market forces) and subsequently, reduces institutional investor interest in the content industry. Add to this the fact that most content companies are run by creators – not finance professionals. No wonder VCs and investors chase software businesses which disrupt a value chain with models that leverage multi-million dollar revenue opportunities rather than project-driven content companies which yield 20% margins at best.

*"We have been running our company as if it were a public company – with consolidated financials and a Board of Directors – for over 10 years. This approach introduced discipline and helped strategic thinking."* -- Christina Jennings, CEO, Shaftesbury Entertainment

The production business is hard to scale because of its inherent complexity, its cyclical nature, and an unpredictable regulatory environment. However, according to financiers interviewed in this study, producers interested in capitalizing their companies would be advised to professionalize their operations. This can mean a combination of engaging more qualified financial expertise in-house, introducing financial controls and systems, the preparation of corporate and consolidated financials, and seeking outside advice through a Board of Directors or other experts.



*"If content is king, why doesn't anybody want to pay for it?"*

Source: Interviews conducted with financiers in media/entertainment sector; see Appendix

### 3. Ingredients for Successful Financing

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#### 6. Understand the risks.

*“Many private equity funds have a short horizon for exiting the company they have invested in. The pressure to sustain annual growth over 20%, deliver a satisfactory return, and an IPO or sale within 5 years can be like ‘a gun at your head’.”* – [Production company survey respondent]

None of the content companies interviewed in this study expressed regret having raised third-party financing to grow their businesses. However, most of them indicated that there are risks involved and new demands that come with the territory. Oftentimes, the investment partner has a different timeframe for growth and exit than the company founders. And, certainly, a premature IPO when a company has not achieved sufficient scale can result in significant costs as well as long periods of languishing share price and disappointment to all stakeholders. Similarly, impatient private equity investors can lead company CEO’s to shift focus from creative deals and organic growth to hasty M&A transactions to respond to pressure for growth and liquidity.

Some industry observers have stated that media companies are simply not suited to the venture capital model. Early-stage venture capital firms typically want returns on their investments within seven to 12 years, and late-stage firms even faster. Yet, media companies may not move as quickly as a disruptive software company. “Because with media there is a lot of brand building, the middle-growth phase is much slower than other kinds of startups. Some VCs don’t understand that,” said Rafat Ali, CEO of travel business site, Skift. Building a big business for a media company requires ramping up content output – often for multiple platforms - and expanding audience rapidly – all of which demand significant investment in human capital, infrastructure and ultimately overhead.

For smaller, founder-led content companies, the creative and financial skillset required to build sufficient scale in the business proper while attracting third party capital are rarely present. Most of the company CEO’s interviewed were candid about their own strategies to bring on

board professional management in order to grow their businesses. It is rare that small creative companies will have those talents resident on the team.

Smaller company CEOs contemplating a growth strategy may want to seek guidance or to educate themselves through investor events such as *Companies & Capital* and the *Canadian Innovation Exchange*, events run by Achilles Media. Furthermore, such industry events can facilitate the development of a network of advisors or even provide access to potential investors.

Sources: <http://digiday.com/publishers/the-case-against-the-vc-craze-for-content/>

## 4. Survey Results & Resources for Content Companies

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*“What we see in the production business, time and time again, are great creative producers with limited business skills...A good business plan is critical to a vision for any company.”* [Financial institution survey respondent]

### a. Preparing for third party financing.

We interviewed over 20 content companies – large and small – focused and diversified – to gain insight into their strategies for raising third party financing.

Most content companies begin with a banking relationship to provide interim financing for productions and then progress to an operating facility for corporate development purposes. Often the requirements for the latter will surprise producers who have been banking productions with an institution for several years. However, the risk profile is different and does require a higher degree of reporting and accountability. Only half of the content companies interviewed have sought and successfully secured third party investment (two of them listed on public exchanges) and all of these agreed that moving from banking financing for production to private equity investment demands a much higher degree of business and financial rigor, both in terms of cost, infrastructure and reporting.

There is general consensus among producers – and financiers and financial advisors – on the most important factors in preparing for any third-party financing. And, luckily, the top four factors correspond to the financiers’ responses as well. In order of importance they are:

1. Management team
2. Track record of the company
3. Business plan
4. Size and scale of the business

*“Canadian producers are TV oriented rather than film oriented which is a good thing. But many companies are unable to walk through the basic economics of the business – here are the costs and here is the upside...”* – [Financial institution survey respondent]

### i. Management team.

When we point to the importance of Management, many owner-operators shrug this off as obvious.

However, investors clarify that what they are looking for in a Management Team is a variety of skills and competencies. Strong management does not just mean entrepreneurial qualities and vision from the leadership team. Investors will look for bench strength in terms of key business units (international sales, production, new business development) as well as financial competency. In fact, a consistent comment from the financial survey respondents was that content companies are characterized by leaders who are creator/producers and not sufficiently equipped or staffed with financial expertise.

And, as one respondent commented, “Companies at different stages in their business evolution require different levels of management expertise. This will sometimes require adding to, or switching out, the founder group.”

The most successful content companies in Canada have been quick to build business and financial skills where needed to complement core creative competency.

Note: unattributed quotes in this section are from ‘off the record’ interviews conducted for this study.

## 4. Survey Results & Resources for Content Companies

**Most Important Factors in Securing Third Party Financing (may include more than one factor)**  
**Producer Responses**



**Most Important Factors in Securing Third Party Financing (may include more than one factor)**  
**Financial Institution Responses**



Other factors raised as important in securing third party financing for content companies included:

- an uncluttered shareholder ownership structure; little or no debt; ‘proper’ accounting firm preparing company’s books;
- proven, predictable cashflow; decent visibility going forward; distribution rights and library value

## 4. Survey Results & Resources for Content Companies

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### ii. Financial literacy.

*“Providing good quality financial statements is a challenge amongst smaller production companies.”* -- Margaret O'Brien, EVP Corporate Development eOne Entertainment

A recurring theme in the interviews conducted amongst investors and financial advisors to the content industry in Canada is the lack of high level financial and accounting expertise within these companies – and the absence of good quality financial statements. All of the companies which have successfully raised capital point to the following basic requirements that they developed or brought in-house when they were expanding their corporate plans:

- Ability to present projections
- Ability to provide consolidated financial statements
- Ability to present a strategic vision for growth with a business plan to back it up

*“How you dress up your company is secondary as to whether you can demonstrate sustained profitability over more than 3 years...”* -- Richard Warburton, Kay & Warburton

The question as to when the timing is right for a company to invest in the preparation of consolidated financials (even unaudited) is a point of discussion among advisors in the sector. Clearly, if a company is operating on a project-to-project basis, preparation of consolidated financials is probably an unwise allocation of resources. However, as several of the midsize company CEOs pointed out, moving to consolidated statements and to the discipline of quarterly reporting introduced helpful discipline to business planning and helped with executing on strategy. And, for companies seeking to be acquired by a larger publicly-traded entity, for example, the better the financial statements, the easier the transaction.

### iii. Advisory boards.

*“Quarterly reporting to our Board of Directors has introduced a level of discipline that has been very important to our growth.”* – Christina Jennings, CEO, Shaftesbury Entertainment

Several of the midsize content companies interviewed pointed to the valuable contribution of an informal Advisory Board or more formal Board of Directors. The reasons cited for assembling a Board varied:

- We needed help thinking ‘out of the box’ or thinking bigger;
- We were stuck in the day-to-day of production and couldn’t grow our business beyond that;
- We appreciated the discipline of reporting on a quarterly basis to a group of highly regarded professionals;
- It helped us ‘raise our game’;
- Our advisors brought depth and expertise in areas where we were lacking;
- The involvement of experienced Directors provide an ‘endorsement’ of Management and the business to third parties

In addition to the above, if a company is planning on adding third party financing to the mix, the experience of reporting to a Board may be helpful as new shareholders will likely expect a seat on a Board of the company as part of their investment.

## 4. Survey Results & Resources for Content Companies

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Again, there is limited benefit to the added costs (both in fees, staff resources, and Management time) of a Board of Directors if the company is not on a growth trajectory (topline revenue growth as well as profitability) – nor committed to a vision for growth.

### iv. Track record, size & scale.

The consensus amongst all respondents to our survey is that without size and track record, no company can raise financing. The question for CMPA members is what the thresholds for investment might be. In the case of one US investor, their interest in companies begins with EBITDA levels in the \$20m range. For smaller deals, sustained EBITDA growth – say from \$1m to \$5m over a three year period – may be a very compelling story for an investor. The key words are ‘sustained growth’ and ‘profitability’. Without demonstrated growth in profitability, producers cannot expect to attract third party investment.

In addition to financial performance, most investors are looking for a vision and executionable plan for future opportunities and upside that could deliver a ‘lift’ to steady growth and margins. This upside could be a hit series with merchandising and international sales potential or a digital play with scalability.

### v. Business strategy & resource allocation.

“Producers usually have a vision – I rarely see a well formulated growth plan, and never see an execution plan.” – Anne Marie Maduri, President, Maduri & Associates

Assuming a content company has successfully built its business and demonstrated sufficient size to attract third party investment, how does it articulate its unique opportunity or value proposition?

Most of the respondents interviewed indicated that a lack of clear vision for growth is a serious impediment to investor interest. Producing great shows with reasonable margins is simply not enough – especially for investors who may not be familiar with the entertainment and media sector.

Companies need to focus on building a strategy with a clear path to executing on business objectives. These might include:

- Expansion into additional markets (US & global)
- Diversification of revenue streams (new business units)
- Vertical integration (through M&A)
- Entry into new lines of business (organically or through acquisition)

*“Smaller content companies are not as profitable as they should be given the Canadian benefits and advantages. Perhaps resource allocation should be directed to global markets and SVOD?”* – Ben Mogil, Stifel

## 4. Survey Results & Resources for Content Companies

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*“The challenge is that the leaders of small companies are often wearing multiple hats and focus can be compromised.”* – Robin Cass, Co-President, Strada Films

Any one of these initiatives may be costly and highly competitive, but without a growth strategy and clear path to execution, companies cannot expect investor enthusiasm. As one respondent pointed out, it can be a chicken and egg situation for many companies, without working capital it is hard to break out of the project-to-project cycle – but at the same time, capital is only attracted to companies with demonstrated sustained profitability. Those companies who have built ‘war chests’ through organic growth are more likely to attract outside financing if they have a big growth initiative to implement.

A general recommendation from those businesses with a track record of success in raising capital is that the CEO’s of smaller companies need to focus on the bigger picture opportunities.

*“A long-term strategy should include diversifying revenue streams (ie accessing foreign markets), and maintaining a commitment to growing the company by not stripping retained earnings from the balance sheet.”*  
– Jane Stephens, Senior Manager, BDC

Some of the steps identified in this process included:

- Take the time to develop a business plan (and if you do not have the in-house resources, hire someone outside the company)
- Think carefully about the weaknesses in your team and how to address them and build bench strength;
- If you do not have the resources today to invest in infrastructure and growth plans – lay out a plan for next year or three years from now;
- Look to the people in the industry that you admire and see how they built their businesses – perhaps they would serve on your Advisory Board?

With respect to the preparation of business plans, there are several online resources available listed in Appendix C. In Canada, the BDC also provides a number of free advisory services for entrepreneurs at <http://www.bdc.ca/EN/articles-tools/entrepreneur-toolkit/templates-business-guides/Pages/business-plan-template.aspx>

### b. Opportunities & impediments

*“The risk profile in this sector makes arranging debt (other than bridge against tax credits) very difficult. Private equity is also scarce as the potential exits are limited and the success factors are unpredictable given the current disruption in the marketplace.”* – George Fowle, Managing Director, GRF Capital Advisors

Without a doubt the explosion of OTT and SVOD services has breathed life into the perceived value of content in the marketplace. While there is excitement in the digital media side of the business, traditional content producers face increasing challenges in the pureplay TV and film sides of the business. A number of respondents pointed to ‘roll up’ or consolidation opportunities for smaller content companies that the current more challenging Canadian broadcast environment has created. We have already witnessed consolidation of independent production companies across the country by the larger publicly traded entertainment companies.

Clearly, many of the obstacles to investing in the content sector are outside of the control of most small business operators. ‘Perceived instability in the content industry’ and ‘Lack of predictable cashflow’ are a result of choppy performance of other content businesses which may have disappointed investors over the past two or three decades. Certainly in Canada, investors are generally less familiar with the content business – and, as a result, more wary. That said, with the success of companies like DHX Media and eOne Entertainment – companies can point to rising tides for globally focused content companies.

## 4. Survey Results & Resources for Content Companies

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*“Producers have to be more entrepreneurial than ever. We are now competing in a worldwide market and our competition is experienced, sophisticated and aggressive. Productions that are not hits will not return any revenue – and producers will have to absorb more and more of this risk.”* – Cal Schumiatcher, EVP, Paperny Entertainment

Interestingly, in our survey results the only ‘disconnect’ between content companies and financiers regarding impediments to raising capital was the emphasis on ‘Lack of Appropriate Business Skills in Management’ – which the financial institutions consistently picked as a top obstacle in corporate development in the content industry.

The majority of the production companies interviewed in this study which have raised capital successfully made commitments early on in their corporate development to one if not more of the following:

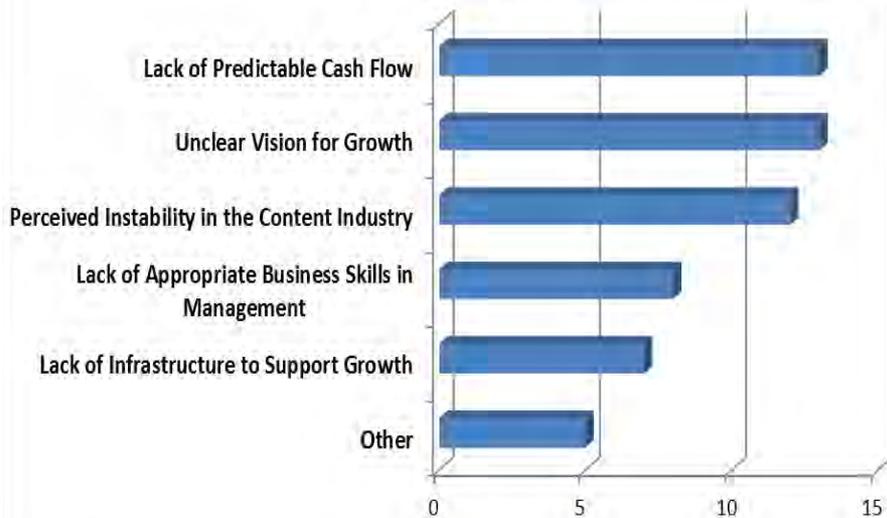
- Adding financial and business skills to Management either through hires or bringing on a new partner
- Seeking the advice and guidance of neutral third parties (either through advisory boards or consultants)
- Getting financial house in order (combination of stepping up in-house accounting competency, preparing consolidated financials, engaging higher level advisory services of an accounting firm)
- Working with third parties (such as the BDC or financial advisors) in the preparation of corporate strategy document and business plan

For companies seeking to develop deeper relationships in the financial community or to gain access to potential investors are advised to make this a primary focus for someone on the management team. As one producer commented, “Corporate development cannot be an afterthought to production, if a company wants to grow.”

## 4. Survey Results & Resources for Content Companies

### Major Challenges Faced by Production Companies in Securing Capital (may include more than one challenge)

#### Producer Responses



### Major Challenges Faced by Production Companies in Securing Capital (may include more than one challenge)

#### Financial Institution Responses



Other major challenges faced by production companies included:

- ability to scale business for an IPO or other exit; absence of financial acumen and business plan; lack of international customer base;
- proven, predictable cashflow; decent visibility going forward; distribution rights and library value;
- lender sophistication; investor understanding of content industry and its many moving parts.

## 5. RECOMMENDATIONS

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*“This is an excellent time for content producers given sector rotation – that is, little interest in resource sectors. Risk tolerant investors are seeking emerging investment sectors and investments that have the potential to generate above average returns.” –Anne Marie Maduri, Maduri & Associates*

In our interviews with both production companies and financiers, we asked for their recommendations to content entrepreneurs. Below is a summary of the top 8 themes that emerged:

### 1. BE HONEST ABOUT YOUR COMPANY’S STRENGTHS & WEAKNESSES

- if you are missing skills to grow the business, go out and get them
- if you operate your business on a cash basis without adequate financial reporting – how can you be strategic? how can you assess risk?

### 2. DO NOT LOSE FOCUS ON THE UNIQUE CONTENT VALUE PROPOSITION OF YOUR COMPANY

- great content franchises which travel are the key to success – evermore so in the new world of content abundance

### 3. PURSUE STRATEGIC ALLIANCES

- if you cannot build it organically, can you partner with someone who can?
- pick your investment partner carefully and ensure your goals are aligned
- seek advice and knowledge from trusted advisors or Board Directors

### 4. BUILD CONFIDENCE

- start with building banker confidence on project financing
- move to corporate financing only when the operating goals and actual business performance are in place
- how is your company addressing volatility inherent in production business?
- how good are your margins?

### 5. GROWTH HAS TO BE PART OF THE EQUATION

- no point to putting financials and infrastructure in place if you have limited growth
- be strategic and take risks to grow your business
- pick a plan that achieves growth & focus on it
- invest more in development; ‘double down on yourself’

### 6. THINK GLOBALLY

- Canadian system alone can no longer support the industry

### 7. THINK DIGITAL – BE INNOVATIVE

- digital natives are the new audience; does your content reach them?
- develop your content with your audience from the outset – content alone no longer works – content + audience engagement is the new normal
- become your own distributor – understand the digital platforms available for reaching your audience directly
- digital may be the only way to provide big upside to investors – investors who are looking for margins better than 20%

### 8. PERSEVERE & BE PATIENT

## Appendix A: Survey Respondents

Company	Country	Type of Company	Name	Title
<b>CONTENT COMPANIES</b>				
9 Story Media Group	Canada	Production Company	Vince Commisso	President and CEO
Big Coat Productions	Canada	Production Company	Maria Armstrong	CEO
Broadway Near You	USA	Production Company	Lee DeBoer	CEO
Cinedigm	USA	Distribution Company	Susan Margolin	President, Docurama
DHX Media Ltd.	Canada	Broadcaster/Distribution/Production	Dana Landry & Keith Abriel	CEO & CFO
Elevation Pictures	Canada	Production Company	Noah Segal	Co-President
eOne Entertainment	Canada	Distribution/Production	Margaret O'Brien	EVP, Corporate Development
Force Four Entertainment	Canada	Production Company	John Ritchie	Chief Creative Officer
Frantic Films	Canada	Production Company	Jamie Brown	CEO
Halfire Entertainment	USA	Production Company	Noreen Halpern	President
Marblemedia	Canada	Production Company	Mark Bishop	Co-CEO
Muse Entertainment	Canada	Production Company	Michael Prupas	CEO
Paperny Entertainment	Canada	Production Company	Cal Shumiatcher	EVP
Pier 21 Films	Canada	Production Company	Laszlo Barna	President
Shaftesbury Entertainment	Canada	Production Company	Christina Jennings	CEO
Strada Films	Canada	Production Company	Robin Cass	Co-President
Temple Street Productions	Canada	Production Company	John Young	Managing Director
Thunderbird	Canada	Production Company	Ivan Fecan	Chairman
TRICON	Canada	Distribution/Production	Andrea Gorfolova	CEO

# Survey Respondents

Company	Country	Type of Company	Name	Title
<b>FINANCIAL INSTITUTIONS</b>				
Business Development Bank of Canada	Canada	Government Bank	Jane Stephens	Senior Manager
Canaccord Genuity	Canada	Investment Bank	Brent Layton	Director, Investment Banking
Courage Capital Corporation	Canada	Investment Bank	Bob Shoniker	CEO
Daneri Holdings	Canada	Advisor	Barrie Laver	President
GRF Capital Advisors Inc.	Canada	Strategic Planning and Financial Advisors	George Fowlie	Managing Director
Kay & Warburton Chartered Accountants	Canada	Accounting Firm	Richard Warburton	Partner
Maduri + Associates Inc.	Canada	Investment Banking & Advisory services	Anne Marie Maduri	President
PwC	Canada	Accounting & Professional Services	Michael Paterson	Partner
RBC	Canada	Bank	Alex Farrell	Director, Media/Entertainment
Stifel Financial Corp	Canada	Investment Bank	Ben Mogil	Managing Director, Equity Research
TD Securities	Canada	Investment Bank	Jeremy M.C. Walker	Executive Managing Director, Investment Banking Global Head, Communications, Media and Technology
TEAM Finance Group	Canada	Production Financing & Advisory Services	John Vandervelde	Managing Director, TEAM Finance Group
Telesystem	Canada	Holding Investment Company	Francois-Charles Sirois	President
Zelnick Media Capital	USA	Private Equity Firm	Jordan Turkewitz	Partner

## Appendix B: Select Investors with Media/Digital Media Interests

Company	Contact Info	Select Media Investments
<b>CANADA-BASED</b>		
Business Development Bank of Canada	121 King Street West, Suite 1200 Toronto, Ontario M5H 3T9 T: 888.463.6232 F: 416.954.5009 www.bdc.ca	Battlefy, iRok2
InnovaCorp	1400-1801 Hollis Street Halifax, Nova Scotia B3J 3N4 T: 902.424.8670 F: 902.424.4679 info@innovacorp.ca innovacorp.ca	Karma Gaming
iNovia Capital Inc.	2000 McGill College Ave. Ste 2210 Montreal, Quebec H3A 3H3 T: 514. 982.2251 info@inovia.vc www.inovia.vc	Babble, Domino, Gamerizon, Spanfeller Media Group, Wooworld
Real Ventures	Maison Notman House 51 Sherbrooke Street West Montreal, Quebec H2X 1X2 hello@realventures.com realventures.com	Execution Labs, Massive Damage, Wavo
Relay Ventures	Bay Adelaide Center 333 Bay Street, Ste 600 Toronto, Ontario M5H 2R2 T: 416.367.2440 F: 416.367.4604 toronto@relayvetures.com relayventures.com	B5 Media, Blue Ant Media, theScore

# Investors

Company	Contact Info	Select Media Investments
<b>US-BASED</b>		
ABRY Partners	111 Huntington Avenue 29th Floor Boston, MA 02199 T: 617.859.2959 F: 617.859.8797 information@abry.com www.abry.com	Media Rights Capital, Prospect Park and Legendary, Melrose Investors II (with Paramount)
Accel Partners	428 University Avenue Palo Alto, CA 94301 T: 650.614.4800 www.accel.com	Facebook, Spotify, Vox Media, Legendary
CAA Ventures	2000 Avenue of the Stars Los Angeles, CA 90067 contact@caaventures.com www.caaventures.com	thatgamecompany, Vulcun
Clarity Partners	100 North Crescent Drive Beverly Hills, CA 90210 T: 310.432.0100 F: 310.432.5000 www.claritypartners.net	BASE, Crescent, ImpreMedia, Liberation, Oxygen, Vue
Columbia Capital	204 South Union Street Alexandria, Virginia 22314 T: 703.519.2000 F: 703.519.5870 www.colcap.com	Legendary Pictures, Tennis Channel, Vubiquity, XM Satellite Radio

# Investors

Company	Contact Info	Select Media Investments
<b>US-BASED cont'd</b>		
Comcast Ventures	480 Cowper Street Suite 200 Palo Alto, CA 94301 www.comcastventures.com	SnagFilms, TiVo, Vox Media, VHX
DCM Ventures	2420 Sand Hill Road Suite 200 Menlo Park, CA 94025 T: 650.233.1400 F: 650.854.9159 www.dcm.com	About.com, BitTorrent, FubuTV, Sling Media
Falcon Investment Advisors	21 Custom House Street 10th Floor Boston, MA 02110 T: 617.412.2723 www.falconinvestments.com	EuropaCorp, Relativity Media, Village Roadshow, Digital Domain, Legendary Pictures.
Institutional Venture Partners	Silicon Valley 3000 Sand Hill Road Building 2, Suite 250 Menlo Park CA 94025 T: 650.854.0132 F: 650.854.2009 www.ivp.com	handsonmobile, Netflix, ngmoco, Popsugar, Zynga, Vessel
Kleiner Perkins Caufield	2750 Sand Hill Road Menlo Park, CA 94025 T: 650.233.2750 F: 650.233.0300 plans@kpcb.com www.kpcb.com	Flipboard, Shazam, Spotify, Electronic Arts, Amazon

# Investors

Company	Contact Info	Select Media Investments
<b>US-BASED cont'd</b>		
Greycroft Partners	292 Madison Avenue 20th Floor New York, NY 10017 T: 212.756.3508 F: 212.832.0117 greycroft.com	AwesomenexxTV, Huffpo, Maker Studios, Wochit
Lerer Hippeau Ventures	560 Broadway New York, NY 10012 T: 646.237.4837 contact@lererhippeau.com lererhippeau.com	Fuisz, BuzzFeed, NewsCred, Spanfeller Media
M/C Venture Partners	75 State Street Suite 2500 Boston, MA 02109 T: 617.345.7200 F: 617.345.7201 mcp@mcpartners.com mcpartners.com	Legendary Pictures, SpinMedia
Providence Equities	50 Kennedy Plaza 18th Floor Providence, RI 02903 T: 401.751.1700 F: 401.751.1790 www.provequity.com	Hulu, Kabel Deutschland, ProSieben, Univision, TVB, UFO Moviez India, Kerasotes Theatres and ZeniMax Media Inc.

# Investors

Company	Contact Info	Select Media Investments
<b>US-BASED cont'd</b>		
Sequoia Capital	2800 Sand Hill Road Suite 101 Menlo Park, CA 94025 T: 650.854.3927 F: 650.854.2977 www.sequoiacap.com	Funny or Die, Electronic Arts
Union Square Ventures	915 Broadway 19th Floor New York, NY 10010 T: 212.994.7880 F: 212.994.7399 www.usv.com	SoundCloud, VHX, YouNow, Zynga
Zelnick Media Capital	19 West 44th Street 18th Floor New York, NY 10036 T: 212.223.1383 F: 212.223.1384 zmclp.com	9 Story Media Group, Alloy/Defy, Cannella Response Television, ITN Networks, Take Two Interactive

## Appendix C: Online Resources for Business Plans

Organization	Web Site	Description
<b>Bplans</b>	<a href="http://www.bplans.com">www.bplans.com</a>	Although it charges for some of its products, there are over 500 free sample business plans and a business plan template. Membership to access some features is required.
<b>Business Development Bank of Canada</b>	<a href="http://www.BDC.ca">www.BDC.ca</a>	The only bank dedicated to entrepreneurs. Besides providing loans and other financing, it offers consulting and tools to start and grow a business, including a business plan guide.
<b>My Own Business, Inc.</b>	<a href="http://www.myownbusiness.org">www.myownbusiness.org</a>	The organization exists to nurture entrepreneurship and help individuals build their own business. The site offers a free online course on writing a business plan, with business plan templates and samples.
<b>Score</b>	<a href="http://www.score.org">www.score.org</a>	A non-profit dedicated to helping small businesses start and grow. Free online workshops and business plan templates.
<b>Sequoia Capital</b>	<a href="http://www.sequoiacap.com/article/writing-a-business-plan">www.sequoiacap.com/article/writing-a-business-plan</a>	Founded in 1972, it is one of the top venture capital companies in the US. It offers a concise framework of what it looks for in a business plan.

## Appendix D: Lexicon of Financial Terminology

Term	Definition
<b>Accelerated payment</b>	When the borrower or lender reduces a loan <u>amortization period</u> by increasing the amount of each payment or frequency of payments to pay the loan off earlier.
<b>Accounting Standards for Private Enterprises (ASPE)</b>	A set of accounting standards applicable to Canadian private enterprises.
<b>Accounts payable</b>	Money owed by a company to its suppliers or other third parties for services or goods that were acquired or used such as inventory, utilities, professional services, etc. These are <u>current liabilities</u> on the <u>balance sheet</u> .
<b>Accounts receivable</b>	Money owed to a company by its customers for services or goods that the company has performed/delivered. These are <u>current assets</u> on the <u>balance sheet</u> .
<b>Accrual Accounting</b>	A fundamental principle of GAAP accounting. It recognizes assets and liabilities (and related expense or revenue) as the activity that gives rise to them occurs rather than when cash changes hands. When to recognize (or accrue) the expense or sale is set out by accounting principles (see GAAP, ASPE). See Cash Accounting
<b>Acid test ratio</b>	See <u>cash ratio</u> .
<b>Administrative Expenses</b>	See General & Administrative Expenses (G&A)
<b>Amortization</b>	Means either (1) the repayment of a debt in regular installments over a period of time (2) the spreading out the cost of a capital asset (cost involved in purchasing video or editing equipment for example) over the period that those assets are used.
<b>Amortization period</b>	Total length of time that it takes to pay a debt in full. Under accounting principles, the amortization period usually refers to the useful economic life of an intangible asset. See also depreciation and depreciation expense.
<b>Angel investor</b>	An individual or group of investors who invests in companies typically in the early stages of development.
<b>Asset</b>	These include any tangible (e.g. inventory, machinery, building, etc.) or intangible (e.g. intellectual property, goodwill, etc.) resource that is owned that can be deployed to derive economic benefit.
<b>Asset-backed securities (ABS)</b>	Financial securities (tradable assets) that are backed by loans, leases or receivables against assets, such as vehicles and equipment.
<b>Asset-based financing</b>	Lending for working capital or term loans that is backed (secured) by the <u>assets</u> in the business such as accounts receivable, inventory, machinery, equipment, real estate etc. For example, the lender will "advance" monies to allow a business to continue operating and in turn the company assigns the accounts receivable to the lender. Once the company has repaid the lender, the lender will deduct fees and interest from the asset (such as a/r) and return the balance of the asset back to the company.
<b>Average collection period</b>	A financial indicator that measures the average number of days it takes for a company to get payment from its customers. See also Average days sales outstanding
<b>Average days payable</b>	A financial indicator that measures the average number of days it takes for a company to pay its suppliers.
<b>Average days sales outstanding</b>	see Average days payable

# Lexicon of Financial Terminology

Term	Definition
<b>Balance sheet</b>	Also called <i>Statement of Financial Position</i> . A summary of a business's financial situation at a given date. It lists the company's assets (intangible assets, equipment, buildings, inventory, cash, etc.), its liabilities (what it owes), and the amount invested by its shareholders (shareholder's equity) and accumulated profits (or losses). The total assets must equal the total liabilities plus the shareholder's equity (or deficit).
<b>Balloon loan</b>	A loan that is not fully <u>amortized</u> over its term (where the total payments over the loan period fully pay for the loan) and instead requires a <u>balloon payment</u> at the end of the loan in order to be fully paid.
<b>Balloon payment</b>	A large payment due at the end of the term of a loan. The name comes from the fact that the loan becomes inflated like a balloon because it hasn't been fully amortized over the life of the loan.
<b>Blended payment</b>	A loan repayment method where the loan is repaid in equal instalments, incorporating both principal and interest.
<b>Book Value</b>	Value of an asset as shown on the Balance Sheet. Also referred to as carrying value. Book Value is the original cost less depreciation and is often different from Market Value
<b>Bottom line</b>	See <u>net profit</u> .
<b>Breakeven analysis</b>	Financial analysis that determines when a company's (or project's) cumulative revenues will equal all the cumulative costs associated with those revenues.
<b>Breakeven point</b>	The point in time when a company's (or project's) revenues equal the costs associated with those revenues and start to generate positive cashflows or net income. See also breakeven analysis.
<b>Bridge capital</b>	Also called <i>bridge funding, bridge financing, gap financing, interim financing or swing loan</i> . Temporary funding (usually less than a year) to cover a period of time until either permanent capital can be secured or a current obligation is paid off. Bridge capital usually entails high interest rates and collateral.
<b>Bridge financing</b>	See <u>bridge capital</u> .
<b>Bridge funding</b>	See <u>bridge capital</u> .
<b>Budget</b>	Estimated revenues and expenses over a specific future period of time. Budgets can be done on an accounting accrual basis or cash flow basis
<b>Business accelerators</b>	Programs that support and accelerate the growth of early stage or established companies through mentorship and advice, access to investors, networking opportunities, office services and space. Accelerators usually last three to four months. They generally focus on the high-tech or high growth sector with company poised for national or global growth. Accelerators are generally more hands on than incubators and
<b>Business incubators</b>	Programs that support the growth of <u>start-up</u> companies with mentorship/advice, access to investors, networking, office services and space. They generally focus on the high-tech sector. Companies can spend from several months to a year or two in a business incubator.
<b>Business net worth</b>	See <u>shareholder's equity</u> . Represents the Company's assets less liabilities.
<b>Business plan</b>	A written document detailing a business's goals and the steps that it will take to achieve those goals. It includes a description of the company's products or services, its market potential and competitors (see SWOT Analysis and Competitive Advantage), as well as a detailed description of its current and planned financial status, and its strategy to support the future financial plans (e.g. its marketing, production and HR strategies).

# Lexicon of Financial Terminology

Term	Definition
<b>Buy in management buyout (BIMBO)</b>	A form of acquisition whereby an external group of investors joins forces with the existing management team to buy into a business. See also leveraged management buyout (LMBO), management buyout (MBO) and employee buyout.
<b>Capital</b>	Capital can refer to many different things. Generally it means financial resources available for use. The other most frequent meaning refers to equipment or other tangible asset owned by a company and used in production (as in capital investment)
<b>Capital Asset Pricing Model (CAPM)</b>	Calculates a reasonable cost of equity. It takes into account systemic (market) risk and individual (of a particular business or project) risk. There are more recent models, but CAPM continues to be used because of its simplicity.
<b>Cash Accounting</b>	Recognizes accounting entries (revenue and expense) when cash changes hands. See Accrual Accounting which in contrast focuses on recording entries when activities that give rise to revenue and expenses occur.
<b>Cash flow</b>	The net change in cash position during a period. It is calculated as the difference between the amount of cash injected into or generated by the business and the cash extracted from or used by the business on operations, making investments or financing activities.
<b>Cash flow statement</b>	Document presenting the company's <u>cash flow</u> over a period of time. For each time period, it shows the amount of cash injected into or generated by the business compared to the cash extracted from or used by the business.
<b>Cash ratio</b>	Also called <i>quick ratio</i> or <i>acid test ratio</i> . A financial ratio indicating a company's ability to pay immediate creditor demands, using its most liquid assets (cash or assets that are easily converted into cash), also called quick assets. It's similar to the working capital ratio, except that it does not include inventory and prepaid items for which cash cannot be obtained immediately.
<b>Closing Inventory</b>	Value (or amount in units) of Inventory at the end of an accounting period.
<b>Collateral</b>	The security provided by a borrower which the lender would keep in the event a debtor defaults on its loan.
<b>Competitive Advantage</b>	Competitive Advantages are characteristics or aspects of a business or project that allow the business or project to outperform against competitors. One theory of competitive advantage formulated by Michael Porter says that competitive advantage is achieved through cost (making a product service cheaper than competitors or differentiation (offering a product or service competitors can't). Examples include: unique intellectual property, location, personnel. The more difficult it is for a competitor to imitate a competitive advantage the more sustainable the benefit is for the business or project.
<b>Corporate Finance</b>	This term can have several meanings but generally it refers to: the sources of funding for a project or company, the capital structure (equity, debt) of a company and the models and processes for evaluating the risk, value and potential of a business or project investment. In some countries, this term also refers to "investment banking" which is a category of banking that among other activities underwrites debt or equity securities and/or acts as an agent in accessing debt or equity.
<b>Cost of Debt</b>	the rate that lenders of a business actually expect as a return for the risk in providing capital to a business or project.

# Lexicon of Financial Terminology

Term	Definition
<b>Cost of Equity</b>	the rate that owners of a business theoretically expect as a return for the risk in providing capital to a business or project. Since, the cost of equity is generally theoretical, models, like the Capital Asset Pricing Model (CAPM) have been developed to more accurately calculate a reasonable cost of equity.
<b>Costs of goods sold (COGS)</b>	Costs that are a direct result of producing the product or providing a service, such as materials, direct labour, utilities, etc. See also gross profit.
<b>Current assets</b>	<u>Assets</u> that can be converted into cash or used in the production of revenues within the next 12 months or operating cycle, such as cash, inventory and <u>accounts receivable</u> . The value of current assets is used to calculate the <u>working capital ratio</u> . See also quick assets.
<b>Current liabilities</b>	A company's financial obligations that are due over the next 12 months or operating cycle, such as short-term debt, current income tax, current portion of long-term debt and <u>accounts payable</u> . The value of current liabilities is used to calculate the working capital ratio.
<b>Current ratio</b>	See <u>working capital ratio</u> .
<b>Debt</b>	the amount of money a company has borrowed from another party.
<b>Debt-service coverage ratio</b>	A <u>financial ratio</u> measuring a business's capacity to generate adequate earning to repay its debt. It is typically calculated by dividing the business's operating profit before interest and depreciation by the annual principal and interest payments on its debt.
<b>Debt-to-asset ratio</b>	A <u>financial ratio</u> showing the percentage of a company's <u>assets</u> financed by creditors. A high ratio indicates a substantial dependence on debt and could be a sign of financial weakness.
<b>Debt-to-equity ratio</b>	A <u>financial ratio</u> measuring how much debt a business is carrying as compared to the amount invested by its owners. This indicator is closely watched by bankers as a measure of a business's capacity to repay its debts.
<b>Default</b>	Failure to repay a loan when term is due or failure to respect other conditions in the Loan Agreement that are defined as "incidents of default."
<b>Depreciation</b>	A decrease in value of an asset. Depreciation indicates how much of a <u>tangible asset's</u> value has been used up, whereas Amortization is used for intangible assets
<b>Depreciation expense</b>	This is when you allocate the cost of an <u>asset</u> over a period of time, usually over its useful life. For instance, a computer costing \$1,000 that has a useful life of 5 years would have a depreciation expense of \$200 each year. See also amortization period.
<b>Depreciation period</b>	Estimated period of time for expensing the cost of an asset over its useful life.
<b>Dilution</b>	Also called <i>equity dilution</i> . When the percentage of a business owned by current investors, founders and employees is reduced by the issuance of new shares to new investors. Dilution can also occur when holders of stock options or other similar securities exercise their options.
<b>Discount Rate</b>	Discount rate is used to calculate NPV which is in turn used to calculate the profitability of an investment. The appropriate Discount Rate for a given business or project is the Weighted Average Cost of Capital (WACC)
<b>Dividends</b>	A portion of the accumulated <u>net profit or previously invested capital</u> that is distributed by a company to its shareholders.

# Lexicon of Financial Terminology

Term	Definition
<b>Early-stage company</b>	A company that is already formed (when it first starts is referred to as the <u>seed stage</u> ) but is not yet generating revenues. Typically, a company in early stage will have a core management team and a proven concept or product, and a negative <u>cash flow</u> .
<b>Earnings Before Interest and Taxes (EBIT)</b>	See <u>net operating profit</u> .
<b>Earnings Before Taxes (EBT)</b>	See <u>operating profit</u> .
<b>EBITDA</b>	Acronym for Earnings Before Interest, Taxes, <u>Depreciation</u> and <u>Amortization</u> . It's a fairly standard indicator of a company's general financial performance.
<b>Employee buyout</b>	A form of acquisition whereby employees acquire all or part of the company they work at. See also leveraged management buyout (LMBO), management buyout (MBO) and buy in management buyout (BIMBO).
<b>Enterprise Multiple (EBITDA) multiple</b>	Enterprise Multiple is a financial indicator that is used to determine a company's value (by lenders, potential buyers and investors). It is calculated by divided a company's enterprise value by its EBITDA. It is more useful than other multiples such as the P/E because it ignores individual countries' taxation policies and takes into account the company's debt which an acquirer will have to assume or a lender/investor will have to consider vis a vis risk. A company with a low enterprise multiple can be viewed as a good takeover candidate. Enterprise multiples vary from industry to industry, so for accuracy a multiple from one company to another company in the same industry. High growth industries have higher enterprise multiples than low growth industries.
<b>Enterprise Value (EV)</b>	Enterprise value = market capitalization + value of debt, minority interest, and preferred shares - value of cash and cash equivalents
<b>Equity</b>	Equity has a number of different meanings, but in the context of this primer, it means the stock or other instrument representing ownership or it means the line of the balance sheet that represents the amount of capital the shareholders have invested plus any retained earnings or losses.
<b>Equity dilution</b>	See <u>dilution</u> .
<b>Equity financing</b>	Raising money to finance a company's activities by selling stock or stock options to a new investor.
<b>Exit</b>	When the investors (owner or outside investors) in a company sell part or all of their ownership stake in order to "cash out" or have a return on their investment. Typical exit strategies include merging with another company, selling to another company or going public (an <u>initial public offering</u> (IPO)).
<b>Financial ratios</b>	The number that is calculated by dividing one financial statement (or account) line item by another to analyze a company's financial condition. Financial ratios evaluate the performance of a company by comparing them to the same ratios for the company in a different period or by comparing the ratios to industry standards. Comparisons can highlight potential problems and effectiveness of previously implemented changes.
<b>Financial statements</b>	Financial information about past transactions and events. The primary statements are: the income statement, balance sheet, statements of retained earnings, cash flow and are supplemented by related note disclosures. Financial statements often form part of other documents such as a funding proposal.
<b>Fixed assets</b>	<u>Tangible assets</u> such as land, buildings, and equipment that the company owns or uses (and does not intend to sell to in the regular course of business) as part of its operations to generate revenues. Also known as Capital Assets.

# Lexicon of Financial Terminology

Term	Definition
<b>Fixed costs</b>	Costs that generally do not change with volume of production, such as overhead expenses like office expenses, rent, etc. See also gross profit.
<b>Fixed-rate loan</b>	A loan for which the interest rate is fixed for a specified period of time.
<b>Floating interest loan</b>	See <u>variable-rate loan</u> .
<b>Forecast</b>	Estimation of future sales, expenses, profits etc. Includes assumptions about future transactions and events.
<b>General &amp; Administrative Expenses</b>	These include expenses required for the day-to-day running/operating of the business such as salaries, rent, phone, utilities, office supplies. This is in contrast to COGS (for example) which are expenses incurred in the providing of the company's good or service.
<b>General Partner (GP)</b>	A term commonly used in the <u>venture capital</u> industry. Typically, a <u>venture capital fund</u> is structured as a <u>limited partnership</u> , with the venture capital firm that manages (invests or divests in companies) the fund called the general partner (GP). Limited partners (LPs) are investors that provide most of the capital in the partnership. The GP manages the fund on behalf of the LPs and retains liability for the actions of the partnership.
<b>Generally Accepted Accounting Principles (GAAP)</b>	A common set of accounting standards consisting of both prescribed policies and generally accepted methods for recording accounts and reporting results. GAAP offers a minimum level of confidence in and consistency across financial statements for investment analysis. Common GAAP frameworks are IFRS and ASPE.
<b>Gross margin</b>	See <u>gross profit</u> .
<b>Gross profit</b>	The difference between a company's revenues and COGS. It does not include amortization, taxes or interest. Gross Profit is one evaluative tool for sales efficiency and effectiveness. See also operating expenses, net profit, gross margin and gross profit margin.
<b>Gross profit margin</b>	See <u>gross profit</u> .
<b>Hedging</b>	A risk management technique that is used to fix financial results from a potential market, interest rate or foreign currency exchange risk (exposure)
<b>Illiquid assets</b>	<u>Assets</u> that cannot be easily converted into cash.
<b>Income statement</b>	A financial statement that summarizes a business's operating results over a set period and includes all revenues and expenses, including taxes, resulting in a <u>net income</u> or net loss.
<b>Initial public offering (IPO)</b>	The first offering of stock by a company to the public. An IPO is one way for a successful company to obtain additional capital for further growth. Early investors may take this opportunity to sell their investments in the company.
<b>Intangible assets</b>	Assets that are not physical. They cannot be used to pay of debts. Intangible assets include goodwill, patent, trademark, incorporations costs. They are listed under assets because they can in some cases generate income and can be sold.
<b>Interest Coverage Ratio</b>	A Financial Ratio is calculated as Income (before Interest and taxes) divided by interest expense. It shows the number of times that income will cover the interest expense and is a safety control for a business.
<b>International Financial Reporting Standards (IFRS)</b>	A set of international accounting standards aiming to provide common guidelines for the way public companies prepare their <u>financial statements</u> .

# Lexicon of Financial Terminology

Term	Definition
<b>Inventory</b>	The monetary value of all physical stock that a company owns (including items that can be used to create finished goods).
<b>Inventory turnover</b>	A ratio indicating how often a company has sold and replaced its inventory over an accounting period. It is a common operational efficiency ratio and shows how well inventory (or a certain product) is selling.
<b>Joint venture</b>	A legal business entity created by two or more companies that agree to pool their resources and work together on a specific business project and share profits or losses.
<b>Late-stage company</b>	Term usually used in <u>venture capital</u> . When a company has a product or service in the market and has achieved some commercial success, usually with significant revenue growth. However, it is not necessarily profitable. Late-stage companies backed by venture capital may be 12-to-24 months away from an exit event, such as an initial public offering or an acquisition.
<b>Letter of credit</b>	Also called <i>letter of guarantee</i> . Document issued by a financial institution guaranteeing payment to a seller if certain conditions are met. The letter of credit serves as a payment guarantee for the seller regardless of whether the buyer ultimately pays or not.
<b>Letter of guarantee</b>	See <u>letter of credit</u> .
<b>Leveraged management buyout (LMBO)</b>	A form of acquisition whereby the management team pools its resources to acquire all or part of the business they manage, using the company's assets as collateral to secure financing. Also see employee buyout, management buyout (MBO) and Buy-In-Management-Buyout (BIMBO).
<b>Liabilities</b>	The amount owed by a company to its creditors, including for example loans, <u>accounts payable</u> and mortgages.
<b>Limited partner (LP)</b>	In the case of <u>venture capital</u> , a Limited Partner is an investor (it can be an institutional or private investment firm) that will provide funds for investment in companies by a <u>general partner</u> (GP). The GP is liable for the actions of the partnership while the limited partners are generally protected from legal actions and any losses beyond their original investment.
<b>Limited partnership</b>	See <u>limited partner</u> and <u>general partner</u> .
<b>Line of credit</b>	See <u>operating loan</u> .
<b>Liquidity</b>	The ability of a company to pay <u>current liabilities</u> , using cash or <u>assets</u> that are easily converted into cash.
<b>Loan acceptance</b>	When a company has agreed to the authorized financing terms and conditions offered by the financial institution. Loan acceptance follows <u>loan authorization</u> .
<b>Loan authorization</b>	When the financial institution has completed its due diligence and approved the financing request. Authorization precedes <u>loan acceptance</u> .
<b>Loan maturity date</b>	The date on which the loan ends and the last payment is due.
<b>Loan syndication</b>	A type of loan in which several banks provide a portion of the financing and share in the risk. Typically, one bank ("the agent") administers the loan on behalf of the other banks ("the participants"). Loan syndication is typically used for large loans to large companies.
<b>Long-term assets</b>	<u>Assets</u> that are not intended to be turned into cash or be used within the next 12 months or operating cycle, such as property and equipment.
<b>Long-term liabilities</b>	Debts that are not due within the next 12 months or operating cycle. Total liabilities minus Current Liabilities

# Lexicon of Financial Terminology

Term	Definition
<b>Love money</b>	Money loaned by family or friends. Bankers consider this “patient capital”—that is money that will be repaid as the company’s profits increase.
<b>Management buyout (MBO)</b>	A form of acquisition whereby the management team pools its resources to acquire all or part of the business they manage. Also see employee buyout, leveraged management buyout (LMBO) and Buy-In-Management-Buyout (BIMBO).
<b>Market capitalization</b>	The value of a publicly traded company which is calculated by multiplying the number of outstanding shares by the current price per share.
<b>Market Value</b>	The amount someone is willing to pay for an asset (as opposed to its book value or its intrinsic value).
<b>Mergers &amp; Acquisitions (M&amp;A)</b>	The financial strategy and process involved in buying, selling and combining companies.
<b>Mezzanine financing</b>	Mezzanine financing is a combination of debt and equity. Initially a loan is provided to the borrower, but if that debt is not repaid on time or in full then the lender will take an ownership (equity) position in the borrower’s company. Generally, mezzanine debt is subordinate to that of other (senior) lenders like VC’s and banks. A borrower must prove experience and a successful track record in its industry, but because mezzanine financing can usually be provided quickly with little due diligence on the part of the lender, the interest rates are significantly higher than other debts options (in the 20% to 30% range).
<b>Multiples Valuation</b>	This is a valuation method that uses ratios that measure the financial well-being of a company and compares them to industry or competitors to determine the relative investment potential of a given company.
<b>Net earnings</b>	See <a href="#">net profit</a> .
<b>Net income</b>	See <a href="#">net profit</a> .
<b>Net operating income</b>	See <a href="#">net operating profit</a> .
<b>Net operating profit</b>	Also called <i>net operating income</i> or <i>Earnings Before Interest and Taxes (EBIT)</i> . A company’s operating profit minus the operating expenses, but before income taxes and interest are deducted.
<b>Net Present Value (NPV)</b>	The present value of future cash flows. NPV accounts for the different (lower) value of today’s dollar in the future (also known as the time value of money). It is one way to evaluate corporate investment. NPV is calculated by adding all future cash flows together and dividing them by $(1 + r)^t$ where $r$ is the discount rate and $t$ is the number of periods. the initial investment is subtracted from the result of this calculation. A positive NPV indicates a good investment and a larger NPV is a better investment than a lower NPV.
<b>Net profit</b>	Also called <i>bottom line</i> , <i>net income</i> or <i>net earnings</i> . A company’s total income minus all the expenses, including taxes, interest, depreciation and amortization, or operating expenses for a determined period of time.
<b>Net profit margin ratio</b>	A financial ratio showing the net profit generated by each dollar of sales. It shows the percentage of revenue retained by a company after subtracting operating expenses, interest and taxes. Also called return on sales ratio.
<b>Operating expenses</b>	Expenses associated with a company’s day-to-day business operations, including administrative (overhead) costs, <a href="#">depreciation</a> and <a href="#">amortization</a> , and all costs associated with producing and selling products or services. It excludes any costs that are not associated with the core of the business, such as one-time costs related to a lawsuit or a business reorganization, or currency exchange costs.

# Lexicon of Financial Terminology

Term	Definition
<b>Operating loan</b>	Also called <i>line of credit</i> . Short-term, flexible loan that a company uses as required—borrowing as much as it needs up to a determined amount. It is usually secured by inventory and accounts receivable and the bank can require full repayment at any time.
<b>Operating profit</b>	Also called <i>Earnings Before Taxes (EBT)</i> . The difference between gross profit and operating expenses.
<b>Pari-passu</b>	A way of structuring a <u>loan security</u> (the <u>assets/collateral</u> that would be taken over by creditors if the borrower defaulted on the loan) where each creditor is paid at the same time as the any other creditor. Pari Passu is often combined with the term Pro-Rata which dictates that the creditors be paid out proportional to each creditor's individual loan divided by all debt.
<b>Partnership</b>	A business ownership structure in which two or more individuals or entities provide equity capital for the partnership and share in both the profits and the losses.
<b>Patient capital</b>	See <u>love money</u> .
<b>Personal loan</b>	Money loaned to a person, not to a business, and secured by the borrower's personal <u>assets</u> . Many banks offer this type of loan to <u>start-up</u> businesses or to those with few <u>fixed assets</u> (land, building or equipment).
<b>Preferred Stock</b>	A class of company ownership that is different from common stock. The characteristics of preferred stock for a given company are particular to that company; however, preferred stock generally has a couple of distinctive characteristics: (1) no voting rights; (2) a combination of equity (in terms of potential appreciation) and debt characteristics (in terms of preferred dividends - paid before dividends paid prior to common shareholder dividends).
<b>Prepaid Expenses</b>	Are expenses that are paid in advance for the services or goods that can be used by the company in the future. Prepaid expenses are assets on the Balance Sheet.
<b>Quick assets</b>	Highly liquid assets that can be rapidly turned into cash. They include the available cash in the business and <u>accounts receivable</u> . Inventory and prepaid items for which cash cannot be obtained immediately are excluded. Used when calculating the cash ratio. See also current assets.
<b>Quick ratio</b>	See <u>cash ratio</u> .
<b>Regular payment</b>	See <u>straight-line payment</u> .
<b>Retained earnings</b>	The portion of a company's <u>net income</u> that is reinvested in the business instead of distributed to shareholders as <u>dividends</u> .
<b>Return on investment</b>	See <u>return on total assets ratio</u> .
<b>Return on sales ratio</b>	See <u>net profit margin ratio</u> .
<b>Return on shareholder's equity ratio</b>	A <u>financial ratio</u> indicating the amount of after-tax profit generated for each dollar of equity. It measures the rate of return the shareholders receive on their investment.
<b>Return on total assets ratio</b>	Also called <i>return on investment</i> . A financial ratio measuring how profitable a company is relative to its total assets, i.e. how much profit (excluding income taxes and financing charges) is generated compared to how much a company has invested to generate those profits.

# Lexicon of Financial Terminology

Term	Definition
Seasonal payment	A loan payment schedule that is adapted to the company's <u>cash flow</u> availability. For example, a business in the tourism industry will have lower payments during its off-season months and higher payments during high-season period.
Secured loan	Financing where <u>assets</u> such as machinery or property are pledged as <u>collateral</u> in the event the borrower <u>defaults</u> on the loan; if this were to happen, the financial institution takes possession of the assets used as <u>collateral</u> . See also unsecured loan.
Securitization	A specialized form of financing for independent finance and leasing companies. They bring together some of their financial <u>assets</u> (e.g. leases and loans) and negotiate a selling price to investors. By doing this, they can access funding on potentially better financial terms than those of more typical commercial lending. The finance and leasing companies can then pass these terms on to their customers – usually small and medium-sized enterprises that buy vehicles and equipment.
Seed capital	The initial capital used to start a business. The money often is provided by <u>angel investors</u> , friends and family members.
Senior debt	Debt that gives its holder a priority right over other debts.
Shareholders' equity	Also called <i>business net worth</i> . The difference between what a company owns (assets) and what it owes (liabilities) at a certain point in time. Used to calculate the return on shareholder's equity ratio.
Sole proprietorship	A business that is owned and operated by one individual. The owner of the sole proprietorship is responsible for all business <u>liabilities</u> and his personal <u>assets</u> can be used to pay for these liabilities.
Start-up	A business that is being established for the first time. Existing companies that have not yet had 12 consecutive months of sales are also included in this category.
Statement of Financial Position	See <u>balance sheet</u> .
Stepped payment	Type of payment in which lower payments are allowed for the first few years, followed by increased or "stepped up" payments later in the life of the loan.
Straight-line payment	Also called <i>regular payment</i> . It's the simplest type of amortization, whereby the principal payments are spread out equally over the life of the loan.
Subordinate financing	A blend of debt and <u>equity financing</u> used to finance the growth of existing companies. It is financing that is subordinate in priority of payment to secured debt, and senior to common stock or equity.
SWOT (Strengths, Weaknesses, Opportunities, Threats) Analysis	A SWOT analysis is a business planning analysis structure that breaks down a business or project into an evaluation of its strengths, weaknesses, opportunities and threats where strengths are characteristics of the business or project that give it an advantage over competitors, weaknesses are characteristics that place a business or project at a disadvantage to competitors, opportunities are elements or developments in the market, technology, industry etc that the business or project could exploit (particular given its unique strengths) to its advantage and threats are industry, market, technology etc. elements or developments that could lead the business or project to fail.
Syndicated loan	See <u>loan syndication</u> .

# Lexicon of Financial Terminology

Term	Definition
<b>Tangible assets</b>	<u>Assets</u> that have a physical form such as real estate, equipment, vehicles, furniture or inventory. Tangible assets are usually required as <u>collateral</u> by conventional lenders when considering a loan request. See also fixed assets.
<b>Term loan</b>	A loan that is intended to be fully disbursed and then repaid in regular installments (usually monthly) over a set period of time. Term loans are most often used to finance <u>fixed assets</u> such as equipment and buildings.
<b>Unsecured loan</b>	A loan for which the lender does not have any <u>tangible assets</u> (equipment, real estate, cash) as <u>collateral</u> . The lender relies solely on the financial capacity and creditworthiness of the borrower to repay the loan.
<b>Valuation Multiple</b>	
<b>Variable Costs</b>	Expenses that vary directly with a change in the volume of sales or production.
<b>Variable-rate loan</b>	Also called <i>floating interest loan</i> . A loan where the interest fluctuates depending on market interest rate changes.
<b>Venture capital (VC)</b>	Financing capital provided to businesses with high-growth potential in exchange for equity (shares) in the business. The advantage of Venture Capital is that it is accessible to company's with limited operating histories or without access to capital markets. A disadvantage of Venture Capital is that the VC firms generally are given some control in company decision making (including board positions).
<b>Venture capital fund</b>	An investment fund that manages money from investors providing capital to early stage, high-potential growth companies. See also general partner (GP).
<b>Weighted Average Cost of Capital</b>	Also called the cost of capital. It is the rate that lenders (cost of debt) and owners (cost of equity) on average expect to receive in compensation for providing capital. The WACC reflects the riskiness of a project, business and/or industry.
<b>Working Capital</b>	A financial ratio that is calculated by subtracting current liabilities from current assets. It is the amount of cash the company must generate itself (rather than capital invested in fixed assets). A high ratio indicates that a company can convert some assets into cash, get cash easily to meet its current liabilities and shows the relative safety for a lender providing a loan to the company.
<b>Working capital loan</b>	Financing to finance everyday operations in a company, such as marketing, developing or launching new products, etc.
<b>Working capital ratio</b>	Also called <i>current ratio</i> . It's the difference between current assets and current liabilities. This financial ratio indicates whether a business has sufficient cash on hand to meet short-term obligations, take advantage of opportunities and attract favourable credit terms.

## **Catherine Tait: Project Leader**

Catherine Tait is a founding partner of Duopoly, an independent entertainment company that has provided business development services to the media industries in Canada and the United States for the past 15 years. Catherine has been engaged by a range of organizations including the Canadian Film Centre, Tribeca Film Institute, Telefilm, the Canada Media Fund and the NFB, to develop strategic plans for digital and multiplatform transformation. In 2006, she founded iThentic, named Digital Company of the Year by Playback in 2012, which produces and distributes digital properties. She is also active in the production of feature films, television and multiplatform properties, most recently with GUIDESTONES, an interactive thriller which won an International Digital Emmy and the Rockie Award for Best Digital Series twice; and SPACE RIDERS, a comedy starring Mark Little, winner of the 2015 Canadian Screen Award for Best Digital Series. Both are currently streaming on Hulu and CTV.ca.

Catherine has over 25 years of experience in the public and private sector media business, in a variety of senior executive roles on both sides of the border. She was a director of the Board of Aliant, Atlantic Canada's telco; a director of CHUM Ltd; a director of eOne's Canadian Board; and currently, serves as a director and co-founder of a broadcasting venture, Hollywood Suite and as a director of DHX Media.

## **Al Cattabiani: US Industry Expert**

Al was President/CEO of Wellspring Media, a company he co-founded in 1993 and sold in 2004. Wellspring was a leading independent distributor – worldwide, in all media – of arthouse cinema and programming promoting holistic living. Its library of over 700 titles included many Oscar, Emmy and Grammy winners. Wellspring investors enjoyed excellent returns on two separate buyouts. Before starting Wellspring, Al served as President and Chief

Operating Officer of Los Angeles-based Pacific Arts Corporation, where he helped create the PBS Home Video label. He serves on the board of the Global Film Initiative, a non-profit foundation to assist filmmakers in developing countries.

Al co-founded iThentic with Catherine in 2006. He also served on the board of Acorn Media Group, until its recent \$100m+ acquisition by RLJ Entertainment.

## **Tanya Brunner: Research Manager**

Tanya is a consultant focusing on the development and execution of profitable, multi-platform business plans for media companies. She provides competitive analysis, business development, operational assessment and project implementation services. Before starting her own business, Tanya was an executive with Genius Products (The Weinstein Co.), and its predecessor, Wellspring Media, where she led the company's digital initiatives. Her career has spanned all the major facets of the media business, including packaged goods and digital media distribution, operations, strategy, international & television sales, business development, contract negotiation, rights management and finance.

Tanya has an MBA in Finance and Marketing with a concentration in Entertainment, Media & Technology from NYU's Stern School of Business and a BA in Anthropology from UC San Diego.

The Duopoly team has collaborated on several digital media research studies for the CMPA including:

- [February 2015 – Content Everywhere \(2\): Securing Canada's Place in the Digital Future](#)
- [April 2014 - Branded Entertainment: A New Production Financing Paradigm – 3 white papers:](#)
- [February 2013 - Discoverability: Strategies for Canadian Content Producers in a Global Online Marketplace](#)
- [February 2012 - Content Everywhere: Mapping the Digital Future for the Canadian Production Industry](#)
- [June 2010 - Towards a Framework for Digital Rights](#)