CAFDE/CFTPA

Study of Canadian Feature Film Sales to Canadian TV Broadcasters

Final Report

January, 2011

ADVISORY SERVICES

PricewaterhouseCoopers

Overview

Purpose

PricewaterhouseCoopers (PwC) was engaged by the Canadian Association of Film Distributors and Exporters (CAFDE) and the Canadian Film and Television Production Association (CFTPA), with the involvement of Telefilm Canada and Ontario Media Development Corporation (OMDC), to compile data on the sales of Canadian feature films by Canadian distributors to Canadian TV broadcasters.

Scope

The assessment includes a representative sample of contracts between Canadian distributors and Canadian broadcasters executed in the timeframe between 2000 and 2009 inclusive. Only theatrically-released feature films were included within the scope of the study. Due to the sensitive nature of the information collected, all data and findings included in the report are consolidated across all distributors and reported in aggregate to maintain the confidentiality of the individual distributor's information. The results of this study will be used by other organizations to conduct further trend analysis.

Overview

Approach and Methodology

Two phases of activities were performed in completion of this study:

Phase 1

Planning and Preparation

- PwC developed an overall project schedule and timeline mapping out the activities required for data collection, based on the list of distributors provided.
- An audit program was developed by PwC to be used with each distributor to assess the completeness and accuracy of the data provided. The program consisted of establishing the sample set of contracts to be checked and then referencing various tests to compare the information provided to the actual contracts and information pulled from the distributor's information systems.
- PwC prepared a standard data request, which was communicated to all participating distributors to reaffirm their participation and confirm the objective and scope of the review. The data request outlined the specific data requirements and format for providing broadcaster contract information to PwC. Each distributor confirmed that they understood the data request and communicated preliminary timelines for compiling the requisite information.

Data Receipt and Confirmation

- Each distributor provided PwC with the specific information as outlined in the data request.
- PwC reviewed the data submitted and conducted tests to confirm whether the data appeared to be complete. These tests included checking the data ranges and broadcaster types and conducting a comparison of the film titles against an expected list of titles.

Approach and Methodology - continued

Phase 2

Confirm Data Accuracy

- PwC worked with each distributor separately to confirm the accuracy of the data. This was achieved by comparing the data provided to manually extracted key information for a sample of contracts. This supported further validation of the accuracy of the data and ensured that the data provided was appropriately interpreted.

Perform Data Analysis

- For each individual distributor, the data collected was summarized according to the type and language of the broadcaster and by the year that the sale occurred. The final data set was confirmed with each distributor.

Consolidated Reporting

- PwC consolidated the results from each distributor into a single data set. The overall results were summarized according to the type and language of the distributor and by the year the contract was sold. The specific trends in each category were identified. All of the data presented in this report has been provided at the consolidated level in order to protect the confidentiality of each individual distributor.

Important Notice

This report is issued by PwC for the exclusive use of the persons to whom it is addressed in connection with the findings from the study to compile data on the sales of Canadian feature films by Canadian distributors to Canadian TV broadcasters. Although this report is available for distribution to interested parties, PwC does not accept any responsibility to any other party to whom it may be shown or into whose hands it may come.

Limitations to Analysis

Our work did not constitute an audit, conducted in accordance with generally accepted auditing standards, or other attestation or review services in accordance with standards established by the Canadian Institute of Chartered Accountants ("CICA").

Our assessment is reliant on the completeness and accuracy of the data supplied by the distributors. However, the data collected was subject to a confirmation process as outlined in the Approach and Methodology section.

Summary of Data Collection

Sample Population

- Six distributors participated in the study. These included:
  - E1 Films (Including Seville and Maximum)
  - Alliance Films (including Vivafilms)
  - Mongrel Media
  - Maple Pictures
  - Kinosmith
  - Filmswelike

- Additional distributors were contacted to participate in this study. Equinox and Christal are currently in transition and were not able to provide data in a timely manner. TVA and K Films declined to participate.
- The distributors included in this study represent over 70% of the Canadian box office revenues based on Canadian box office data from the Motion Picture Theatre Associations of Canada (MPTAC) provided by Telefilm Canada for 2001 to 2009. These distributors represent respectively 78% of the English language films and 66% of the French language films based on Canadian box office revenues.

Sample Size

- Between 2000 and 2009 inclusive, these distributors provided a total of 1,753 contracts for 538 Canadian theatrically-released feature film titles.

Summary of Data Collection

Definitions

The data was accumulated based on the key categories listed below. The full list of channels in each category is included in Appendices A and B.

- **Pay TV**: Broadcast category for subscription-based premium channels offered by cable and satellite companies.
  - This category consists of Super Channel, Movie Central, Encore Avenue, Moviepix (MPix), SuperEcran, and Cinepop.

- **Specialty TV**: Broadcast category for specialty channels typically included in basic/premium services offered by cable and satellite companies.
  - Examples of these types of channels include Showcase, IFC, Documentary channel, Knowledge network, ARTV, Canal D and Canal Vie.

- **Private Conventional TV**: Broadcast category for privately-owned conventional channels.
  - This category consists of Global, CTV, CityTV, Access, Regional channels (e.g., CHCH), TVA and TQS.

- **Public Conventional TV**: Broadcast category for publicly-owned conventional channels.
  - This category consists of CBC, TVO, Radio Canada (SRC), and Tele-Quebec.

Summary of Data Collection

Data Assumptions

A number of assumptions were made to complete, consolidate and categorize the data provided by each distributor. These assumptions are listed below.

- For contracts with broadcast networks that control a number of channels that may cross different broadcast categories and where the specific category was not defined, some assumptions have been made to categorize these contracts. The contract information was reviewed and the following assumptions were made:
  - Revenues from contracts with Corus have been allocated 2/3 to the Pay TV category and 1/3 to the specialty TV category.
  - Rights sold to CTV (or after 2007, to Rogers Communications) are assumed to be private conventional TV, whereas rights sold to CHUM or CTVglobemedia have been allocated 1/3 to the specialty TV category and 2/3 to the private conventional TV category.
- The execution date is the date that the contract was effective. This was captured as either the date written on the contract, if one was provided, or the date that the contract was officially signed.
- Where no execution date was provided, an approximate date was assigned. These estimations were made based on two data sources:
  - If available, the execution date of other contracts for the same title and the same broadcast window; or
  - A calculation of the average timeframe between the execution date and the broadcast window start date for the same broadcast category. This was calculated to be 1 year.
- Where the film was sold as part of a bundled package with a single price for broadcast rights to a set of film titles, the fair market value assigned by the distributor was used.
- Based on the confirmation checking and the representative percentage of film titles involved in the study, PwC maintains that the data collected is an accurate reflection of the revenues from broadcast sales for Canadian feature films over the time period from 2000 to 2009.

Summary of Data Collection

Data Collection

The following table provides a summary by broadcast category of the consolidated revenues generated through sales to Canadian broadcasters for the rights to air Canadian feature films from 2000 to 2009.

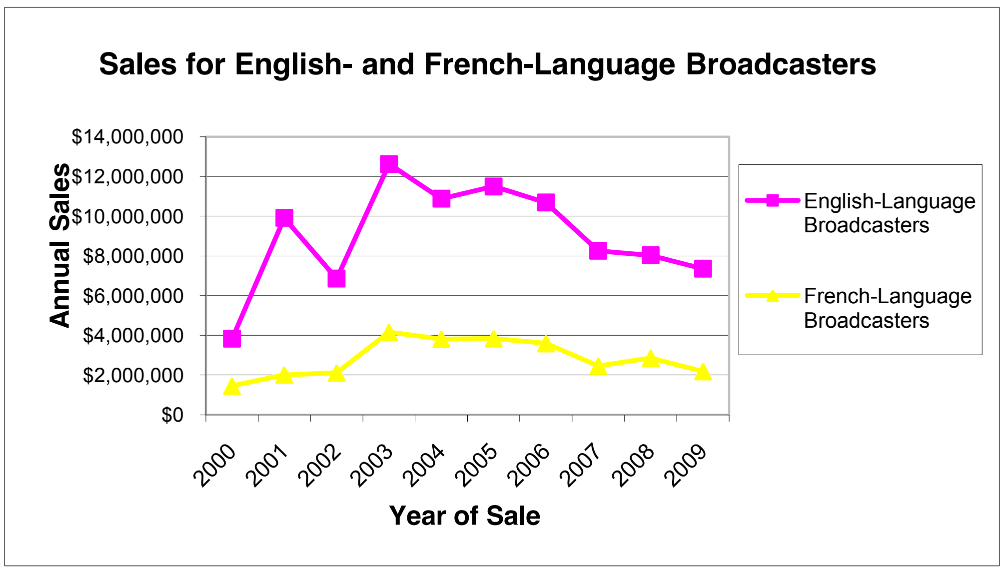
	Revenue Breakdown by Broadcaster Type										Total Revenues
	English Broadcasters					French Broadcasters					
Year	Pay TV	Specialty TV	Private Conventional TV	Public Conventional TV	All English Broadcasters	Pay TV	Specialty TV	Private Conventional TV	Public Conventional TV	All French Broadcasters	All Broadcasters
2000	$2,028,300	$634,200	$1,065,833	$97,000	$3,825,333	$615,000	$202,200	$0	$635,000	$1,452,200	**$5,277,533**
2001	$7,590,600	$559,500	$441,000	$1,320,000	$9,911,100	$1,025,200	$11,100	$481,000	$495,000	$2,012,300	**$11,923,400**
2002	$4,664,800	$1,628,200	$321,200	$239,800	$6,854,000	$1,297,300	$127,800	$308,000	$379,000	$2,112,100	**$8,966,100**
2003	$6,369,400	$3,635,700	$923,300	$1,695,000	$12,623,400	$2,817,900	$76,500	$420,500	$845,000	$4,159,900	**$16,783,300**
2004	$5,843,400	$2,128,200	$1,486,300	$1,416,000	$10,873,900	$1,990,700	$133,500	$264,700	$1,425,000	$3,813,900	**$14,687,800**
2005	$5,129,700	$1,599,800	$3,222,667	$1,545,800	$11,497,967	$2,059,600	$163,700	$323,100	$1,289,000	$3,835,400	**$15,333,367**
2006	$7,018,200	$845,200	$333,300	$2,485,000	$10,681,700	$1,726,700	$50,000	$207,900	$1,609,000	$3,593,600	**$14,275,300**
2007	$6,739,500	$1,463,100	$0	$53,000	$8,255,600	$1,703,600	$166,400	$96,000	$487,000	$2,453,000	**$10,708,600**
2008	$6,978,400	$523,000	$220,000	$304,500	$8,025,900	$2,254,200	$169,500	$110,000	$318,200	$2,851,900	**$10,877,800**
2009	$5,634,200	$602,300	$669,000	$442,900	$7,348,400	$1,962,500	$94,500	$73,000	$55,000	$2,185,000	**$9,533,400**
Total	**$57,996,500**	**$13,619,200**	**$8,682,600**	**$9,599,000**	**$89,897,300**	**$17,452,700**	**$1,195,200**	**$2,284,200**	**$7,537,200**	**$28,469,300**	**$118,366,600**

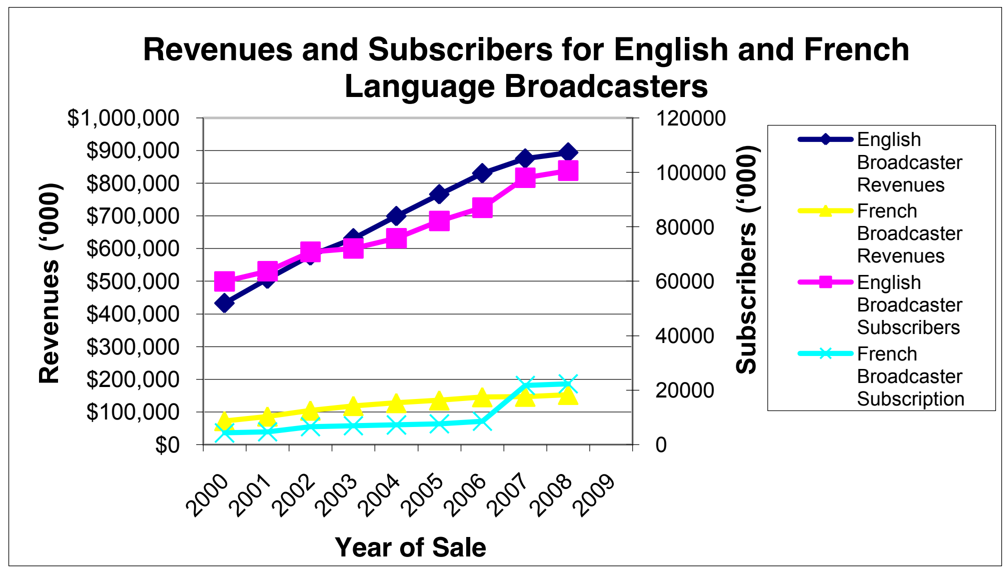
Overall Sales Trends

The first graph below provides a graphical representation of the total annual sales to English and French language broadcasters over the period from 2000-2009 inclusive. The second graph provides the revenues and subscribers for English and French language Specialty and Pay TV channels over the period.

Observations

- The overall sales to French-language and English-language broadcasters followed similar trends over the ten-year period.
- Sales steadily increased through the first half of the decade with the most significant increase between 2002 and 2003.
- Overall sales peaked in 2003 and were followed by a period of decline. Sales were relatively steady between 2004 and 2006 and then declined steadily through the remainder of the period.
- The timeline provided in Appendix C shows the significant Canadian broadcaster ownership transactions, which may have influenced the trend in sales to Canadian TV broadcasters.
- Revenues and subscribers for both English and French-language Specialty and Pay TV have steadily increased over the period.





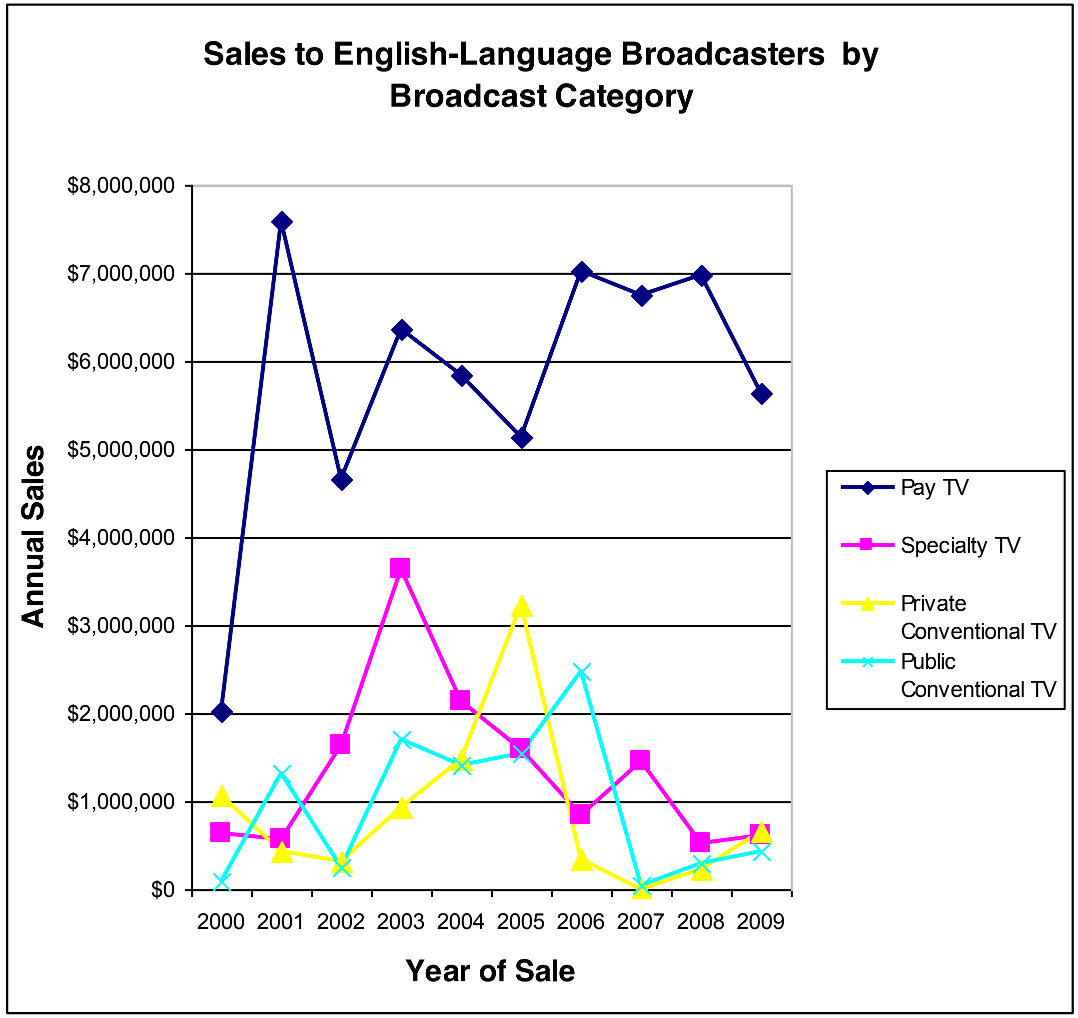
*Revenues and Subscribers data based on information published by CRTC for the Pay and Specialty channels in Appendices A & B.

Sales Trends for English-language Broadcasters

The graph below provides a breakdown of the annual sales by broadcast category to English-language broadcasters over the period.

Observations

- A peak in sales for Pay TV contracts occurred in 2001. This peak followed through to specialty contracts and then private and public conventional TV over the next five years.
- The sales for Pay TV contracts to English-language broadcasters has remained steady within a band of approximately $5M to $7M over the latter part of the decade.
- Sales for specialty TV contracts have slowly declined since the peak in 2003 and have reached the lowest sales point in the past decade. The slight increase in 2007 did not reserve the overall decline, which continued in subsequent years.
- Private and public conventional TV sales peaked in 2005 and 2006 respectively. Following these peaks the sales for these contracts remained at a consistently lower value for the remainder of the decade.

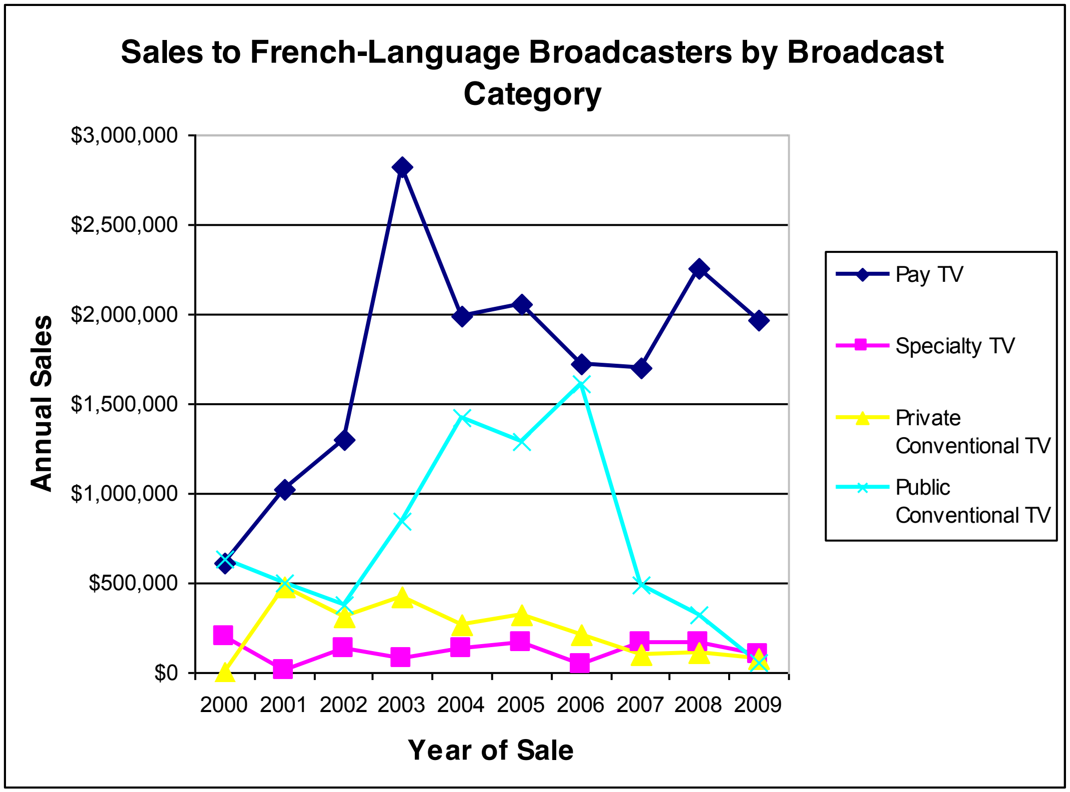


Sales Trends for French-language Broadcasters

The graph below provides a breakdown of annual sales by broadcast category to French-language broadcasters over the period.

Observations

- A peak in Pay TV contract sales for French-language broadcasters was seen in 2003 at approximately $2.8 M. After this point, annual sales have fluctuated around $2.0 M.
- Sales for specialty TV remained fairly constant throughout the decade.
- The sales for Public conventional TV contracts rose steadily through the first half of the period. Sales leveled out between 2004 and 2006 at approximately $1.5 M and then sharply declined through the remainder of the period.
- Private conventional TV sales have consistently declined throughout the period to the lowest levels since 2000.



Sales Trends for Pay TV

The tables below show the average licence fees per contract each year for English and French language Pay TV broadcasters and the percentage increase in fees year over year. The tables also show the Pay TV revenues and the number of Pay TV subscribers over the period and the percentage increase in Pay TV revenues year over year.

Observations

- Over the period, the percentage increase in revenues for both English and French language Pay TV broadcasters is approximately twice the percentage increase in average license fees paid by English and French language Pay TV broadcasters.

	English				
Year	Average License Fees	% Increase in Fees	Broadcasters Subscribers ('000)	Broadcasters Revenues ('000)	% Increase in Revenues
2000	88,187		6,246	141,620	
2001	79,901	-9%	7,280	180,493	27%
2002	106,019	33%	7,351	206,894	15%
2003	148,127	40%	7,553	218,014	5%
2004	135,893	-8%	8,089	238,761	10%
2005	125,115	-8%	8,380	249,410	4%
2006	137,612	10%	8,997	270,305	8%
2007	114,228	-17%	11,460	290,275	7%
2008	101,136	-11%	11,774	297,643	3%
2009	137,418	36%	Not available	Not available	Not available
Total Period*		**56%**			**110%**

	French				
Year	Average License Fees	% Increase in Fees	Broadcasters Subscribers ('000)	Broadcasters Revenues ('000)	% Increase in Revenues
2000	47,308		308	29,750	
2001	73,230	55%	357	35,617	20%
2002	61,778	-16%	409	39,245	10%
2003	100,638	63%	453	45,558	16%
2004	94,797	-6%	458	48,017	5%
2005	108,399	14%	479	47,423	-1%
2006	40,157	-63%	702	51,844	9%
2007	58,746	46%	870	57,334	11%
2008	66,299	13%	949	60,387	5%
2009	70,088	6%	Not available	Not available	Not available
Total Period*		**48%**			**103%**

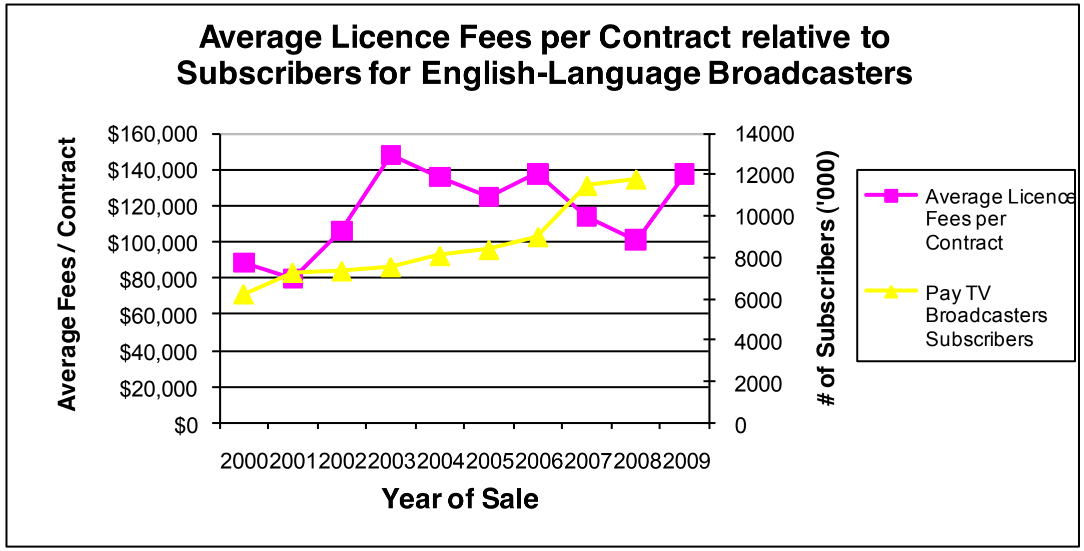
* The total period considered is based on the available data. The % increase in fees is based on the 2000-2009 period . The % increase in revenues is calculated based on the 2000 to 2008 period, since 2009 revenues have not been released.

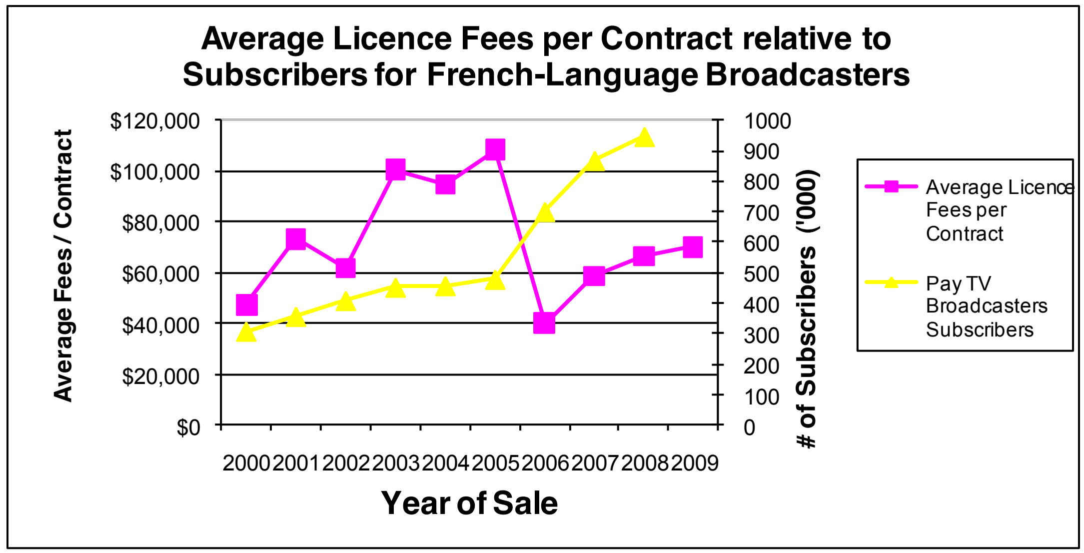
Sales Trends for Pay TV

The graphs below provide graphical representations of the average licence fees per contract each year for English and French language Pay TV broadcasters. The graphs also show the number of Pay TV subscribers over the period.

Observations

- The license fees per contract averaged across each year fluctuated over the period, showing no specific trends.
- English and French-language Pay TV subscribers increased steadily over the period.
- The average contract value does not appear to be impacted by the number of subscribers.





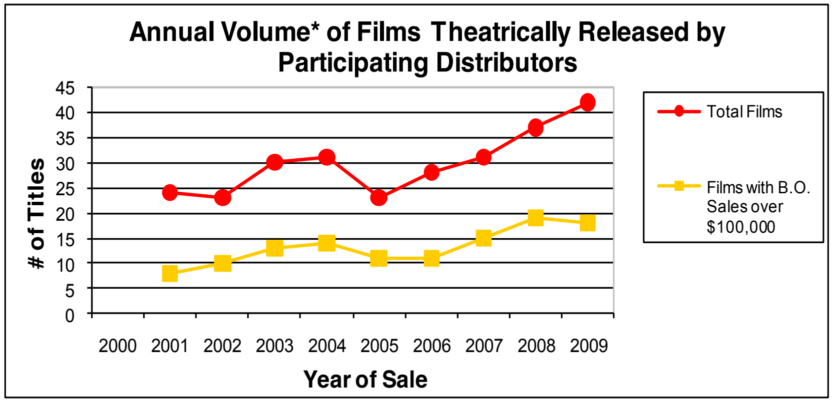
*Statistics for Broadcasters' Revenues are based on the revenues posted by CRTC for each Pay TV channel identified in Appendix.

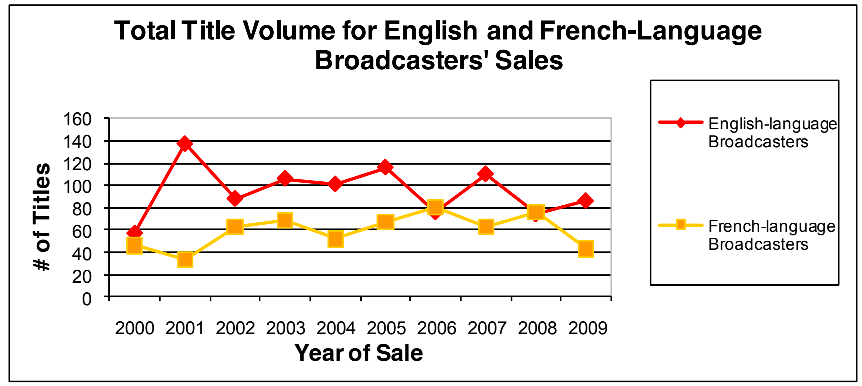
Title Volume Trends

The graphs below provide graphical representations of the total volume of new titles released each year and the number of titles sold through contract to English and French-language TV broadcasters each year during the ten year period.

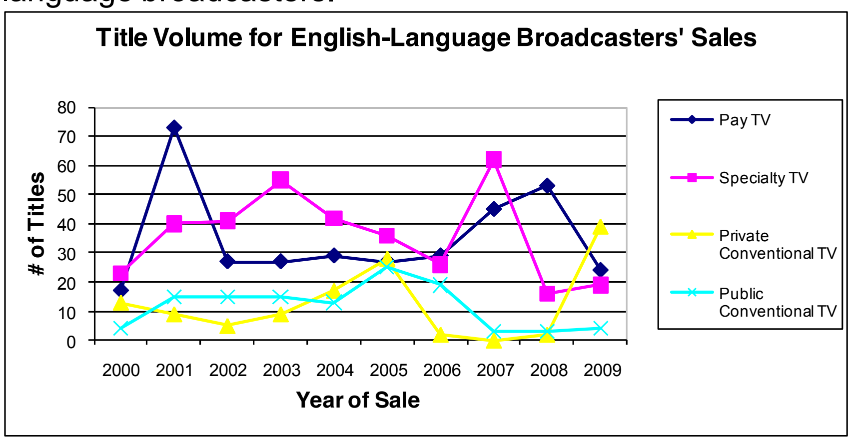
Observations

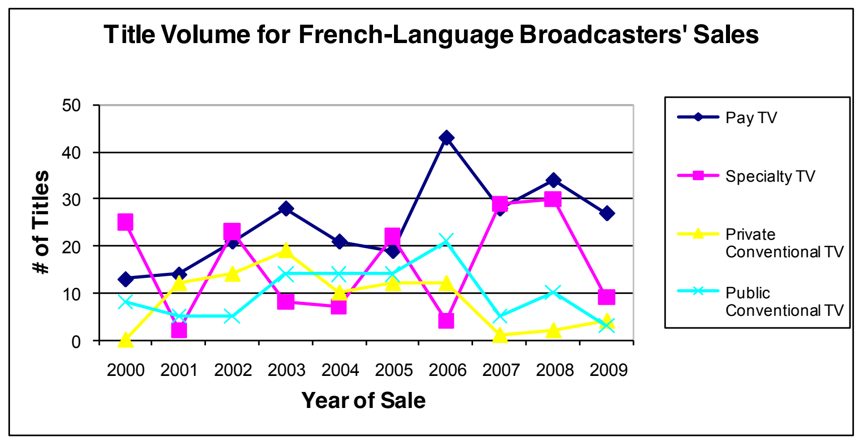
- The number of titles sold in contracts to broadcasters each year would be expected to be a multiple of the number of titles released. This is due to the fact that the same title may be sold in different broadcast categories and in multiple years, and because some contracts relate to older titles.





The graphs below provide a further breakdown by broadcast category of the volume of titles sold each year to English and French language broadcasters.





*Volume statistics based on box office data from MPTAC provided by Telefilm Canada.

Conclusions

Overall Trends

- Overall sales to both English- and French-language TV broadcasters increased through the first few years of the period. However, sales leveled off between 2003 and 2006 and have declined since 2007.
- A significant spike in sales to English-language Pay TV broadcasters occurred in 2001. This peak carried through to the other broadcaster categories in subsequent years and may help to explain the growth in sales seen in the first half of the decade. However, this growth was not sustained and overall sales in contracts with English-language broadcasters declined over the second half of the decade.
- The total annual sales do not appear to fluctuate with the volume of contracts sold in a year. Instead, the annual sales are dependent on the specific license fees associated with a few individual contracts.
- Revenues and subscribers for Pay TV and Specialty TV broadcasters rose steadily through the period.

Pay TV Trends

- Sales to both English- and French-language Pay TV broadcasters rose sharply in 2001 and 2003 respectively and have remained fairly stable throughout the remainder of the decade.
- Sales to Pay TV broadcasters do not correlate to the number of subscribers to Pay TV broadcasters. Sales to Pay TV broadcasters have been relatively stable, while subscriber numbers have steadily increased.

Specialty TV Trends

- Sales to English-language Specialty TV broadcasters reached a peak in 2003 and then steadily declined throughout the remainder of the period.
- Sales to French-language Specialty TV broadcasters were consistently low throughout the entire decade.

Conclusions - continued

Private Conventional TV Trends

- Sales to English-language Private Conventional TV broadcasters increased between 2003 and 2006, but were followed by a decline in sales to lower levels than pre-2003.
- Sales to French-language Private Conventional TV broadcasters remained more consistent but slowly declined from 2001 through the rest of the decade.

Public Conventional TV Trends

- Sales to both English- and French-language public conventional TV broadcasters fluctuated significantly throughout the ten-year period. Sales peaked in 2006 and then dropped sharply in 2007. Between 2007 and 2009, sales were at the lowest levels of any point during the period of the study.

Appendix A: English-Language Broadcasters by Category

The following table provides the list of English-language Canadian broadcasters included in this study across each broadcast category.

English-language Broadcasters			
Pay TV	**Specialty TV**	**Private Conventional TV**	**Public Conventional TV**
Allarco (Super Channel)	Alliance Atlantis/Can West channels (History TV, BBC, CW, Showcase, Mentv)	CTV/Rogers (CityTV, Access)	CBC
Astral (TMN, Moviepix, The Family Channel)	Corus channels (Scream/Dusk, W Network, TELETOON, TLN, YTV, VIVA)	CHCH	TVO
Corus (Movie Central, Encore Avenue)	CHUM / CTVglobemedia channels (Bravo, The Documentary Channel, Drive-in Classics, MuchMusic, SPACE)	Global	
	APTN		
	Country Canada (CBC)		
	GameTV		
	iChannel (Stornoway communications)		
	Independent Film Channel		
	PrideVision/OUTtv		
	Saskatchewan Communication Network		
	The Accessible Channel		
	The Knowledge Network		
	VisionTV		
	WIC Television Ltd		

Appendix B: French-Language Broadcasters by Category

The following table provides the list of French-language Canadian broadcasters included in this study across each broadcast category.

French-language Broadcasters			
Pay TV	**Specialty TV**	**Private Conventional TV**	**Public Conventional TV**
Astral (Super Ecran, cinepop)	ARTV	TVA	SRC (Societe Radio-Canada)
	Canal D (Astral)	TQS	Tele-Quebec
	Canal Vie		
	Canal Z		
	TFO		

Appendix C: Significant Broadcaster Ownership Transactions

The following timeline provides the timing of key broadcaster ownership transactions between 2000 and 2009.