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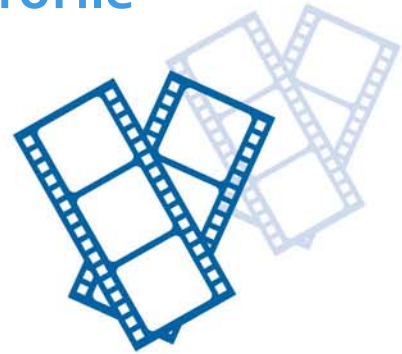
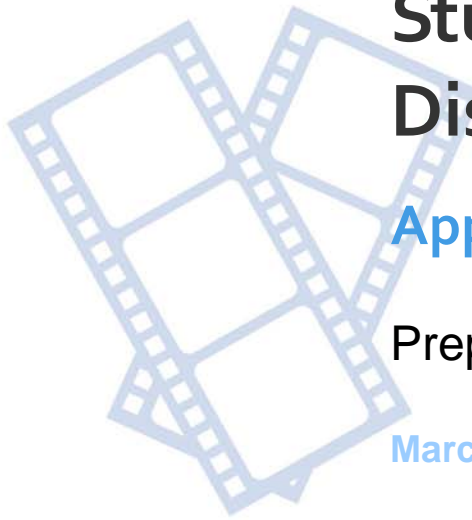


# Study of the Audiovisual Distribution Sector in Canada

## Appendix A: Economic Profile

Prepared by: Nordicity

March 31, 2011



Note: Certain characteristics of the audiovisual industry, as presented in this study, may have changed between the time of completion and publication of this document.

The content of this study represents the opinions of the authors and does not necessarily represent the policies or the views of the Department of Canadian Heritage or of the Government of Canada.

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## Table of Contents

1.	Economic Profile of the AV Distribution Sector: Introduction	6
2.	AV Distribution Sector Revenues	9
2.1	Distributor Revenue for 2009 and Current Prognosis	10
2.1.1	Breakdown of Historical AV Distributor Revenue	11
2.1.2	Total Revenues by Origin of Content	13
2.1.3	Total Revenues by Geographic Market	15
2.1.4	Revenues by Origin of Content – Domestic and Foreign	18
2.1.5	Revenues by Geographic Market – Canadian and Foreign Productions	20
2.1.6	Revenues by Country of Control	22
2.1.7	Revenues of All Productions by Category of License, Québec	25
2.1.8	Revenues by Platform	26
2.1.9	Total Sector	31
2.1.10	Canadian-controlled Companies	33
2.1.11	Foreign-controlled Companies	34
2.2	Employment	35
2.3	Number of Distribution Companies	36
3.	Economic Profile of Feature Film Distribution in Canada	38
3.1	Distributor Revenues from Theatrical Release and Television	38
3.1.1	Total Domestic Revenues of Distributors in the Theatrical Exhibition Segment	38
3.2	Distributor “Reinvestment” in Canadian Feature Film Production	42
3.2.1	Distribution Revenues of Canadian (CFFF-supported) Feature Films	43
3.3	Marketing Expenditures	50
3.3.1	Theatrical Box Office in Canada	54
3.4	Film Distribution Revenues from Canadian Television	55

## Table of Figures

Figure 1 Sample revenue breakdown, 2009 .....	10
Figure 2 Total revenues of AV distribution industry in Canada nominal vs. real dollars (distribution and wholesaling, 2003-2009 .....	12
Figure 3 Distribution revenues in Canada, 2003 to 2009.....	13
Figure 4 Total revenues by origin of content, 2009 .....	13
Figure 5 Total revenues of AV distribution sector in Canada by origin of content, 2005-2009 .....	14
Figure 6 Revenue breakdown by geographic market, 2009 .....	16
Figure 7 Total distribution revenues by geographic market (all productions), 2003-2009 .....	18
Figure 8 Revenue breakdown by origin of content and geographic market, 2009 .....	19
Figure 9 Revenue breakdown by geographic market and origin of content, 2009 .....	20
Figure 10 AV Distribution revenues by geographic market, Canadian productions 2005-2009 .....	21
Figure 11 Revenue breakdown by country of control, 2009.....	22
Figure 12 Total AV distribution revenues by country of control 2006 to 2009 .....	23
Figure 13 Distribution revenues by category of license in Québec, 2003-2009 .....	25
Figure 14 Revenues by platform, all productions, 2003-2009 .....	27
Figure 15 Share of total revenues by platform, all productions, 2003-2009 .....	28
Figure 16 Share of total revenues by platform, Canadian productions, 2005-2009.....	29
Figure 17 Share of total revenues by platform, foreign productions, 2005-2009.....	30
Figure 18 Operating profit margin, Canadian-controlled vs. foreign-controlled companies, 2006-2009..	32
Figure 19 Marketing expenditure share of total operating revenues, Canadian-controlled companies vs. foreign-controlled companies, 2006-2009.....	33
Figure 20 Comparison of trends in revenues and total number of employees, 2005-2009 (index, 2005 = 100).....	36
Figure 21 Total domestic theatrical distribution revenues, 2003-2009 .....	39
Figure 22 Theatrical distribution revenues in Canada (real 2009 dollars).....	39
Figure 23 Share of total theatrical distribution revenues in Canada, by origin of content .....	40
Figure 24 Box office revenues vs. distribution revenues, foreign productions, 2003-2009 .....	41
Figure 25 Box office revenues vs. distribution revenues, Canadian productions, 2003-2009.....	42
Figure 26 Marketing expenditures as a share of Canadian production budgets*, 2001-2009 .....	51
Figure 27 Average marketing expenditures per film *, 2001-2009 .....	52
Figure 28 Distribution of marketing budgets by size, 2001-2009 (CFFF English-language productions) ..	52
Figure 29 Distribution of marketing budgets by size, 2001-2009 (CFFF-French-language productions) ...	53
Figure 30 Distribution of projects by marketing budget ratio – English-language .....	54
Figure 31 Distribution of projects by marketing budget ratio – French-language .....	54
Figure 32 Feature film distribution revenue, Canadian broadcast rights, 2000-2009 .....	56

## Table of Tables

Table 1 Distribution revenues in Canada, 2003-2009 .....	12
Table 2 Distribution revenues by origin of content, 2005-2009.....	14
Table 3 Total distribution revenues by geographic market (all productions), 2003-2009 .....	18
Table 4 Domestic distribution revenues by origin of content, 2005-2009.....	19
Table 5 Foreign distribution revenues by geographic market, by origin of content, 2005-2009.....	20
Table 6 Distribution revenues by geographic market, Canadian productions, 2005 to 2009.....	21
Table 7 Distribution revenues by geographic market, foreign productions 2005 to 2009 .....	22
Table 8 Total AV distribution revenues by country of control, 2006 to 2009 .....	23
Table 9 Total AV distribution revenues, Canadian-controlled companies, 2006-2009.....	24
Table 10 Total distribution revenues, foreign-controlled companies, 2006-2009 .....	24
Table 11 Gross revenues of distributors by license class in Québec, 2003-2009.....	26
Table 12 Total domestic revenues by platform, all productions, 2003-2009 .....	28

Table 13 Domestic revenues by platform, Canadian productions, 2005-2009 .....	30
<b>Table 14 Domestic revenues by platform, foreign productions, 2005-2009 .....</b>	<b>31</b>
Table 15 Operating revenues, expenses and profits, total distributor sector, 2005-2009.....	32
Table 16 Operating revenues, expenses and profits, Canadian-controlled companies, 2005-2009.....	34
Table 17 Operating revenues, expenses and profits, foreign-controlled companies, 2006-2009 .....	35
Table 18 Employment, 2005-2009.....	36
Table 19 Number of film and video distribution and wholesaling establishments by country of financial control, 2006-2008.....	37
Table 20 Theatrical platform distribution revenue, by origin of content, 2003-2009 .....	40
Table 21 Canadian distributors' reinvestment in Canadian feature film production.....	43
Table 22 Distribution revenues of CFFF-supported feature films, by language of original production, 2007-2009 .....	44
Table 23 AV Distribution revenues of CFFF-supported feature films, all languages by geographic market, 2007-2009.....	45
Table 24 Domestic AV distribution revenues by release platform, CFFF-supported feature films, all languages, 2007-2009 .....	45
Table 25 Domestic home-video distribution revenues for CFFF-supported feature films, all languages, 2007-2009.....	46
Table 26 Domestic television distribution revenues for CFFF-supported feature films, all languages, 2007-2009.....	46
Table 27 Distribution revenues of CFFF-supported feature films, French-language production by geographic market 2007-2009 .....	47
Table 28 Domestic distribution revenues by release platform, CFFF-supported feature films, French-language production, 2007-2009.....	47
Table 29 Domestic home-video distribution revenues for CFFF-supported feature films, French-language production, 2007-2009 .....	48
Table 30 Domestic television distribution revenues for CFFF-supported feature films, French-language production, 2007-2009.....	48
Table 31 Distribution revenues of CFFF-supported feature films, English-language production, 2007-2009 .....	49
Table 32 Domestic distribution revenues by release platform, CFFF-supported feature films, English-language production, 2007-2009.....	49
Table 33 Domestic home-video distribution revenues for CFFF-supported feature films, English-language production, 2007-2009.....	50
Table 34 Domestic television distribution revenues for CFFF-supported feature films, English-language production, 2007-2009.....	50
Table 35 Feature film marketing expenditures and associated production budgets*, 2001-2009.....	51
Table 36 No. of Canadian Content Productions by Language and Control, 2002-2010.....	55
Table 37 Total feature film distribution revenue, Canadian broadcast rights, 2000-2009 .....	56
Table 38 Feature film distribution revenues, Canadian broadcast rights (English-language broadcasters), 2000-2009.....	56
Table 39 Feature film distribution revenue, Canadian broadcast rights (French-language broadcasters), 2000-2009.....	57

## 1. Economic Profile of the AV Distribution Sector: Introduction

This Appendix incorporates the material gleaned from interviews conducted for this project and from other secondary sources. This profile focuses primarily on the years 2003 to 2009.

- In Section 2 of this Appendix, we examine the audiovisual (AV) distribution industry's total economic activity; that is, the economic activity generated by the distribution of feature films, television and digital media content across all platforms.
- In Section 3 of this Appendix, we examine the economics of feature film distribution, including box office revenue, television revenue, marketing expenditures and market share in Canada.

### 1.1 Data Sources

- This Appendix presents sets of economic data on the AV distribution sector in Canada. Most of these data are sourced from Statistics Canada, Telefilm Canada, the Motion Picture Theatre Associations of Canada (MPTAC), the Canadian Audio-visual Certification Office (CAVCO) and l'Institut de la Statistique du Québec. We have also sourced certain data from surveys conducted by Nordicity, PricewaterhouseCoopers (PwC), the Canadian Film and Television Production Association (now the Canadian Media Production Association but referred to as the CFTPA in this report) and the Canadian Association of Film Distributors and Exporters (CAFDE).

### 1.2 Statistics Canada Data

- As stated above, most of the statistics presented in this report are from Statistics Canada. While Statistics Canada has published statistics for Canada's AV distribution sector for more than two decades, it made significant changes to its AV distribution sector survey methodology beginning with the 2005 reporting year; these changes make it impossible to compare the post-2004 data to the pre-2005 data published by Statistics Canada.<sup>1</sup>
- According to Statistics Canada, the notable post-2005 program modifications include:
  - Adopting Statistics Canada's business register as the survey frame and defining industry coverage based on the North American Industrial Classification System (NAICS);
  - The implementation of statistical sampling;
  - The incorporation of data from administrative sources for the compilation of industry estimates.

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<sup>1</sup> For an additional description of the change in survey methodology, see Statistics Canada, *Service bulletin: Film, Video and Audio-visual Distribution: Data Tables 2005*, catalogue no. 87F0010X.

- For further information on all survey changes and collection and processing methodologies, see “The new culture of the Culture Statistics Program” at catalogue no. 87-004-XIE.2 Since it is impossible to go behind these methodological changes, there is no feasible way to explain the discrepancies throughout. These data report between the pre and post 2005 periods. Taking Statistics Canada’s explanations into account, we have concentrated on the more recent period in making observations in the text of this report.
- For certain statistical series, Statistics Canada has generated backcasted data for 2003 and 2004. Where backcasted data are available, we report them and indicate as such. Statistics Canada calls the backcasted data, its “best estimates”, and explains they should be used “with caution.”
- In addition to the change in methodology described above, in or around 2007 it was discovered that there was a major gap in the sample and, for unknown reasons, a major Canadian-controlled AV distributor was excluded. Information from this distributor was subsequently requested for 2007-2009 and backcasted two years to 2005. We believe this may also account for the significant discrepancy in data between 2004 and 2005. This factor, in addition to the change in methodology, makes it very difficult to analyze trends across the 2004/2005 divide.
- Finally, Statistics Canada provides summary statistics for the film and video distribution industry, as well as more detailed financial breakdowns of revenues and expenses by platform and type. The summary revenue data is based on the surveyed portion, as well as administrative data for establishments that were too small to be eligible for sampling. The more detailed financial information, on which this report is based, is collected only for surveyed establishments. As surveyed establishments must meet certain criteria thresholds, details from the establishments which do not reach the required threshold are estimated using administrative data. As a result, the summary total revenue figure is greater than the revenue figure which is based on only the surveyed establishments. In 2009, for example, the summary operating revenue figure is \$1.975 billion as compared to the surveyed total operating figure of \$1.953 billion. In order to maintain consistency, this report defers to the lower, surveyed amount, as it corresponds to the subsequent revenue and expense breakdowns.<sup>3</sup>

### 1.3 Definitions

- In its survey, Statistics Canada targets establishments classified as the film and video distribution industry (NAICS 512120). This industry comprises establishments primarily engaged in acquiring distribution rights and distributing film and video productions to motion picture theatres, television networks and

<sup>2</sup> *The new culture of the Culture Statistics Program* available at <http://www.statcan.gc.ca/bsolc/olc-cel/olc-cel?lang=eng&catno=87-004-X20030039213>

<sup>3</sup> Statistics Canada, ‘Data sources, definitions and methodology’ Section, “Sampling” available at <http://www.statcan.gc.ca/pub/87f0010x/2010001/part-partie3-eng.htm>

stations, and other exhibitors.<sup>4</sup> Wholesaling revenues earned by companies primarily engaged in wholesale activities (NAICS 41455) are excluded.

- We also report the number of distribution establishments operating in Canada, a shift from pre-2005 when we would have reported the number of firms in operation. Statistics Canada defines an active statistical establishment as “one production entity or the smallest grouping of production entities which produces as homogeneous a set of goods and/or services as possible; which does not cross provincial boundaries; and for which records provide data on the value of output together with the cost of principal intermediate inputs used and cost and quantity of labour resources used to produce the output.”<sup>5</sup> As a result, distributors with offices in more than one province (e.g. Alliance) will count as more than one ‘establishment’.

#### 1.4 Data-reporting Periods

- The statistics presented in this report have been collected under different reporting periods. Statistics Canada data (pre-2005) was collected on a calendar-year basis. Statistics Canada data (post-2004) was collected on the basis of the respondent’s fiscal year. Where data were not available from respondents on a calendar-year basis, respondents reported fiscal year data. So the statistics for 2004-05 correspond with data from the 2004 calendar year or fiscal years ending between April 1, 2004, and March 31, 2005.
- The statistics reported for 2007 correspond with fiscal-year data from respondents with fiscal years ending between April 1, 2007, and March 31, 2008.
- Statistics from Telefilm Canada and CAVCO are reported on the basis of the government fiscal year, April 1 to March 31.
- Statistics from MPTAC are reported on a calendar-year basis.
- To simplify and harmonize the data labelling in this report, we use single-year periods throughout. That is, we report data as the earliest year represented e.g. 2004-05 is “2004”.

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<sup>4</sup> Statistics Canada, ‘Data sources, definitions and methodology’ available at <http://www.statcan.gc.ca/pub/87fo010x/2010001/part-partie3-eng.htm>

<sup>5</sup> *Ibid.*



## 2. AV Distribution Sector Revenues

In this section, the current state of the AV distribution sector is examined through the lens of economic data, and insight from key stakeholders in the industry.

These data capture both feature film and TV programming content, but only where that content has flowed through an AV distributor in Canada. It is logical, for example, that the theatrical platform is composed entirely of feature film content revenues, while home video is predominantly, but not exclusively, features as well. AV distributor revenues from TV programming will be reflected mainly in the broadcasting platforms: specialty, pay-TV and conventional TV – while TV revenue is also important for feature films and is compiled within the figures for distributors.

Interviews with Canadian distributors, in the French- and English-language markets, support financial data gathered from Statistics Canada and elsewhere. In many cases, the interviews and previous studies shed light on the underlying issues and trends at hand. In interviews, distributors were willing to disclose certain financial information, including their average annual revenue over the last three years. Throughout the report, we group distributors as either:

- **Small:** Those with revenues under \$5 million;
- **Medium:** Revenues ranging from \$5-50 million; and
- **Large:** Distributors with revenues of \$50 million or more.

The main filters we adopt throughout the report are:

- **Origin of content:** Whether the distribution revenue relates to a production that is Canadian or foreign (note: Canadian may include official coproductions).
- **Geographic market:** Whether the revenues are derived from domestic or foreign distribution activity.
- **Country-of-control:** Whether the revenues are recorded for Canadian-controlled distributors or foreign-controlled distributors based in Canada.
- **Linguistic market:** The language of theatrical exhibition provides some distinctions in the economic performance of French- and English-language feature films.

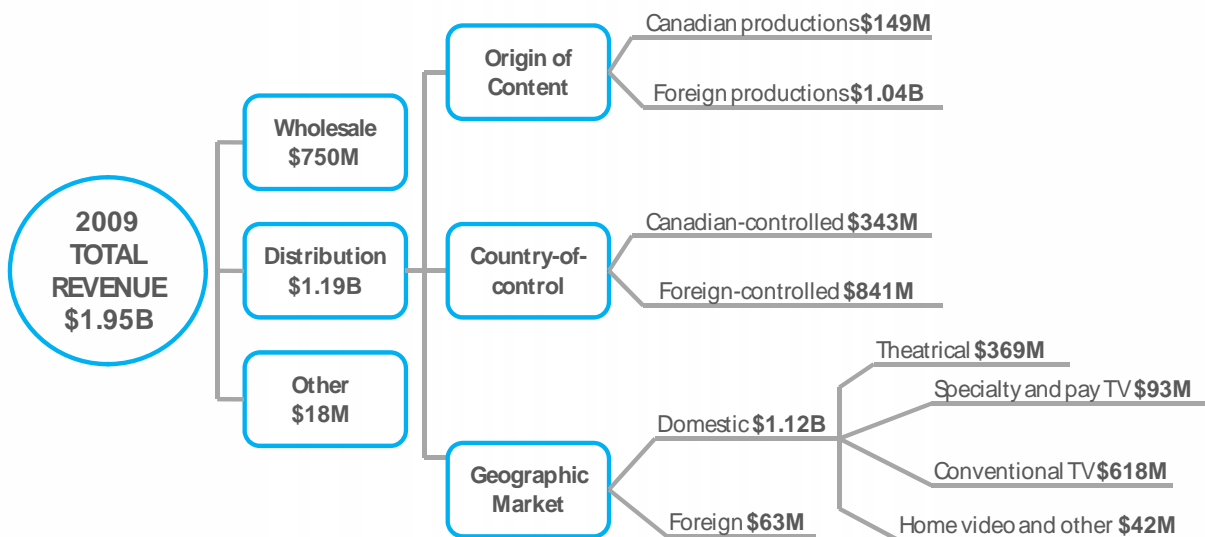
The data and interviews suggest that the AV distribution sector as a whole is not a growth sector with regards to total revenue, number of companies and employment. It is a sector mainly composed of a small number of large, consolidated, highly-leveraged distributors, and a large number of small, niche distributors catering to specific needs in the marketplace. The current business model continues to be viable but as new platforms emerge, distributors will face more competition from the vertically integrated media companies that, in many ways, control the digital environment in Canada.

## 2.1 Distributor Revenue for 2009 and Current Prognosis

According to Statistics Canada, the AV distribution sector in Canada earned revenues of \$1.95 billion in 2009. These revenues includes both film and television content for all types of distribution where either one flows through an AV distributor. As a result, it is likely that the vast majority of the revenues are driven by feature film distribution, as the role for distributors in television content has diminished since the 1990s.

The total revenues of \$1.95 billion included: \$1.19 billion earned from the distribution of films, television programs and other video content; \$750 million from the wholesaling of pre-recorded videos; and \$18 million from other sources. The following figure depicts the 2009 breakdown of these figures for the categories enumerated above.

Figure 1 Sample revenue breakdown, 2009



Source: Statistics Canada  
Numbers may not tally due to rounding.

According to interviews, Canadian-based distributors have yet to feel the impact of the economic downturn of the last three years. It is perhaps only in the 2009 data that we can see a hint of the impact – in reduced marketing and promotion spending, for example. On the feature film side, the common wisdom suggests that cinema tickets remain a relatively stable purchase by consumers as movie going is a comparatively inexpensive activity, even in challenging economic times, and that the theatrical platform continues to be the major driver of downstream revenues. The weak North American box office of the summer of 2008 was followed by eighteen solid months and standout performances in 3-D films.

For both film and television programming, some distributors are preparing to face more economic pressure in 2011, particularly in home entertainment revenue losses, explaining that in “typical Canadian fashion” financial effects are felt in Canada two years after the US. Looking ahead, the decline in accessible financing for feature film production in the US may translate into fewer films in production, and eventually fewer foreign films in the pipeline for distribution in Canada.

One medium-sized distributor saw the economic downturn as having its biggest impact on broadcasters' and media companies' finances, as their advertising and subscription revenues began to decline. Distributors have nonetheless faced a challenged Canadian marketplace in the last few years; revenues between 2003 and 2009 display almost static or no growth.

### **2.1.1 Breakdown of Historical AV Distributor Revenue**

Canada's AV distribution sector exhibited gradual – although very slow – growth in revenues between 2003 and 2009. Over that six-year period, the sector's total revenues increased by an annual average rate of 2.5% (Table 1). This rate of growth was in line with the average annual rate of consumer price index (CPI) inflation of 1.8% during that period. As such, the AV distribution sector experienced no real increase in its revenues between 2003 and 2009 (Figure 2). Indeed, on a real-dollar basis, the AV distribution sector's revenues from the distribution of films and television programs actually increased by an annual average of just 0.7% between 2003 and 2009 (Figure 2).

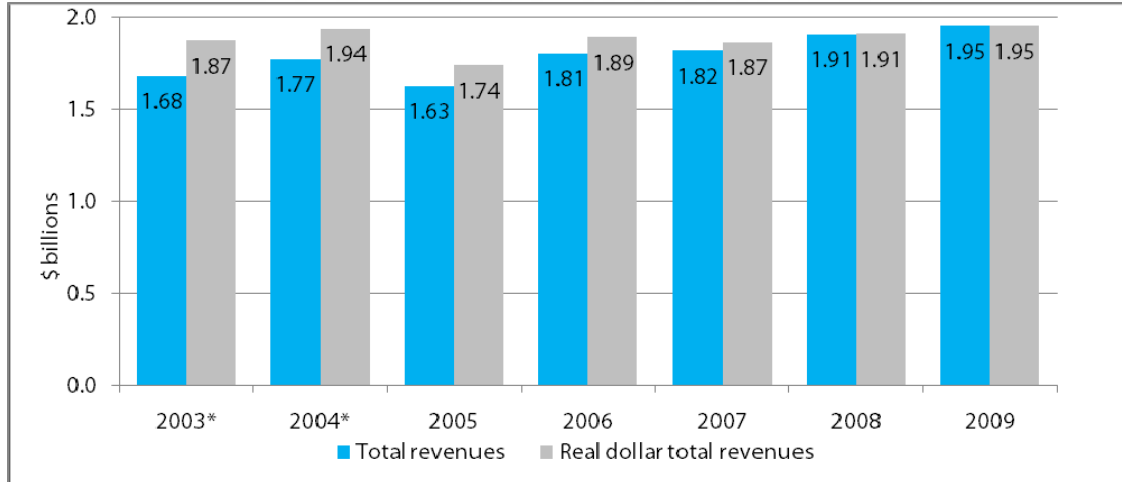
The sector's top-line revenue growth was entirely due to an annual average growth rate of 9.1% in the wholesaling segment (Table 1). However, this annual average growth was largely due to a one-time jump in 2006 in the sector's revenues from the wholesaling of pre-recorded videos. Prior to 2006, revenues from the wholesaling of pre-recorded videos hovered just below \$500 million annually; beginning in 2006, Statistics Canada data indicate that revenues in this segment rose to above \$800 million. As explained below, however, this jump is likely to have been caused mainly by a move by distributors to sell directly to large retailers like Walmart, rather than going through wholesalers.

- The wholesaling revenues in Table 1 (and depicted graphically on Figure 3) represent the revenues earned by companies primarily engaged in motion picture and video distribution (NAICS6 512120) from the wholesaling of pre-recorded videos, and exclude wholesaling revenues earned by companies primarily engaged in wholesale activities (NAICS 41455). We are unaware of any structural change in the pre-recorded video market in 2006 that may have led to a 63% jump in revenues. We also note that wholesaling revenues fell by 10.9% between 2007 and 2009.
- A significant factor behind the fluctuations with respect to wholesaling may be the classification of the revenue streams. For example, if a distributor licenses a title to a wholesaler, such as Video One, the revenue would be recorded in the "Distribution of film and video content" stream. If the distributor acts as a wholesaler, however, selling directly to Wal-Mart or other retailers, the revenue will be recorded in the "Wholesaling of pre-recorded videos" stream. At the end of either chain, DVDs arrive in retail outlets, but the revenue reporting for AV distributors is markedly different. This issue will resurface throughout the report with regard to wholesaling and home video figures.

<sup>6</sup> NAICS – North American Industry Classification System

- Finally, the fluctuations may also be due, in part, to the reporting discrepancy described in the introduction to this Appendix.

Figure 2 Total revenues of AV distribution industry in Canada nominal vs. real dollars (distribution and wholesaling, 2003-2009)



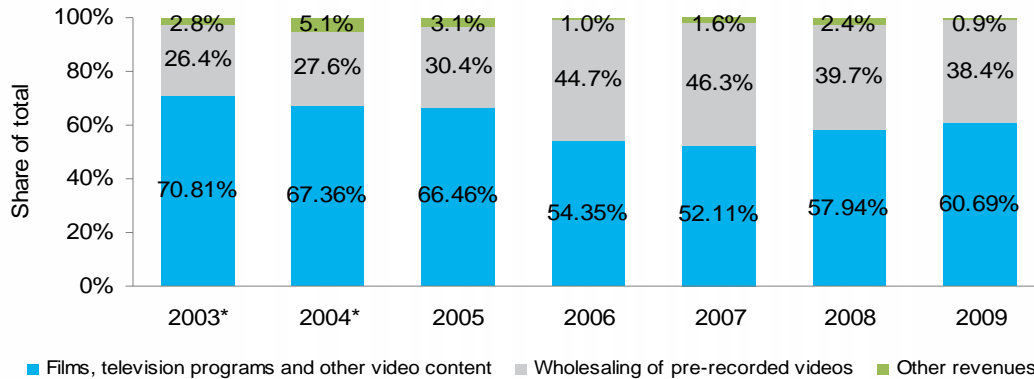
Source: Statistics Canada  
\*Backcasted

Table 1 Distribution revenues in Canada, 2003-2009

	2003*	2004*	2005	2006	2007	2008	2009	CAGR † 2003-
	(\$ 000s unless indicated otherwise)							
Distribution of films, television program and other video content	1,191,673	1,194,974	1,081,726	981,189	947,962	1,101,024	1,185,103	-0.1%
Wholesaling of pre-recorded videos	444,568	489,478	495,015	806,844	841,648	761,204	750,169	9.1%
Other revenues	46,625	89,622	51,012	17,429	29,612	43,823	17,575	-15%
<b>Total revenues</b>	<b>1,682,866</b>	<b>1,774,014</b>	<b>1,627,753</b>	<b>1,805,462</b>	<b>1,819,231</b>	<b>1,906,051</b>	<b>1,952,847</b>	<b>2.5%</b>

Source: Statistics Canada; \*Backcasted; † CAGR – Compound annual growth rate

Figure 3 Distribution revenues in Canada, 2003 to 2009

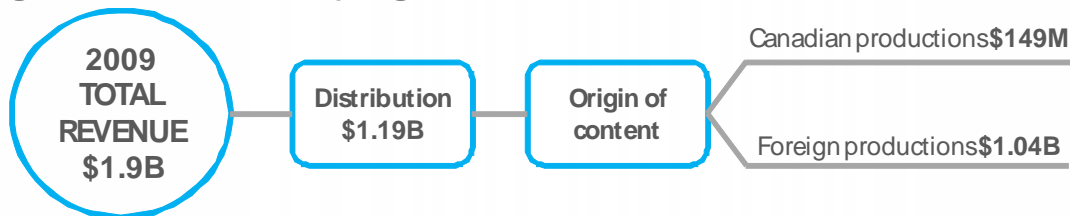


Source: Statistics Canada; \*Backcasted

### 2.1.2 Total Revenues by Origin of Content

The statistics in this section present the AV distribution revenues by origin of content. That is, distribution revenues for feature films and television content by whether they are Canadian- or foreign-produced productions.

Figure 4 Total revenues by origin of content, 2009



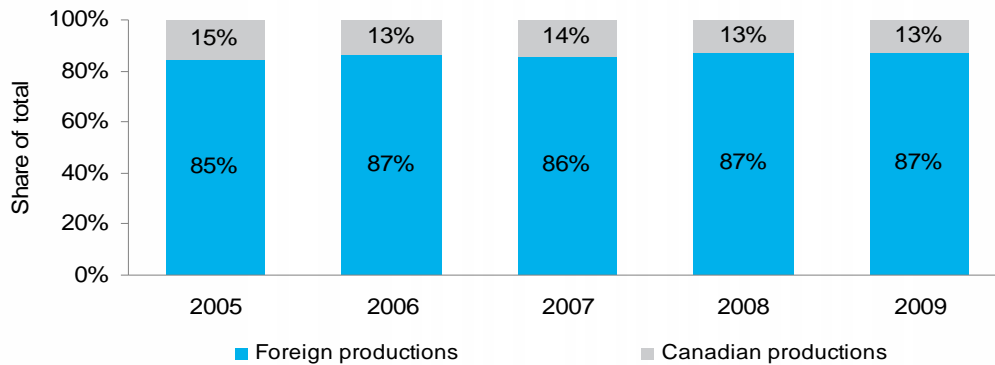
Source: Statistics Canada  
Numbers may not tally due to rounding

Though the Canadian Film Distribution Policy acts as a barrier to entry for foreign competitors in AV distribution, the Policy does not require Canadian-controlled distributors to purchase and distribute Canadian content of any kind. On the television side, expenditure and scheduling regulations, as well as conditions of license, drive demand for Canadian content, but no buying obligations exist for feature film distributors – or theatrical exhibitors (which, as businesses, fall under provincial jurisdiction) for that matter.

- In 2009, foreign productions accounted for 87% of total AV distribution revenues – that is including revenues from theatrical, TV and home video. Canadian productions, therefore, accounted for 13% of total revenues in the same year.
- Canadian productions' share of total industry revenues declined between 2005 and 2009 – from 15% to 13% – as their total annual revenues dropped from \$166

million to \$149 million (Table 2). Meanwhile, total revenues of foreign productions grew from \$916 million to \$1.0 billion – a 3.1% annual increase.

**Figure 5 Total revenues of AV distribution sector in Canada by origin of content, 2005-2009**



Source: Statistics Canada

**Table 2 Distribution revenues by origin of content, 2005-2009**

	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s unless indicated otherwise)					
Canadian productions	165,834	130,550	133,759	142,973	148,709	-2.7%
Foreign productions	915,892	850,638	814,203	958,051	1,036,394	3.1%
Total distribution revenues	1,081,726	981,188	947,962	1,101,024	1,185,103	2.3%

Source: Statistics Canada; † CAGR – Compound annual growth rate

Canadian productions comprise of a small, and shrinking, slice of the total distribution marketplace. Between 2005 and 2009, revenues from Canadian productions declined by a compound annual growth rate of -2.7% (Table 2), higher than the total market decline of 0.1%.

Distributors exhibit varying commitment levels to Canadian productions. For feature films, the range varies from very low to fairly high:

- 1) Low: 1% of films distributed in a year are Canadian productions (out of about 100 films);
- 2) Medium: between 10-15% of films in a year are Canadian (out of 40-60 films);
- 3) High: 60% of productions are Canadian (out of 45 films).

One domestic distributor of television content described its annual distribution slate (including specials, coproductions and movies of the week) as 95% Canadian, while another estimated this figure as closer to 50%. Regardless of their size, almost all

distributors explained that Canadian productions are higher risk engagements than their equivalent foreign counterparts.

On a percentage basis, for example, Canadian films cost more to market than foreign ones. They do not get to benefit from the spill-over effect from a substantial American marketing and publicity campaign (consider stars' appearances on popular talk shows, magazine covers, blog coverage and more). As well, for Canadian productions, the distributor must also produce all the necessary marketing material, such as trailers, from scratch rather than simply re-purpose what is already designed by the American distributors. This additional time, effort and budget is often not recovered. One large distributor explained, for example, that while 15% of its slate is English-Canadian, those films generate just 5-7% of total revenues. Admittedly, the 10% of its slate devoted to French-language productions generates roughly an equivalent proportion of sales, but as box office records show the Québec films capture a much larger market share than English-language films in English-language markets. Generally for English-language Canadian films, distributors believe they are less likely to recoup their investment.

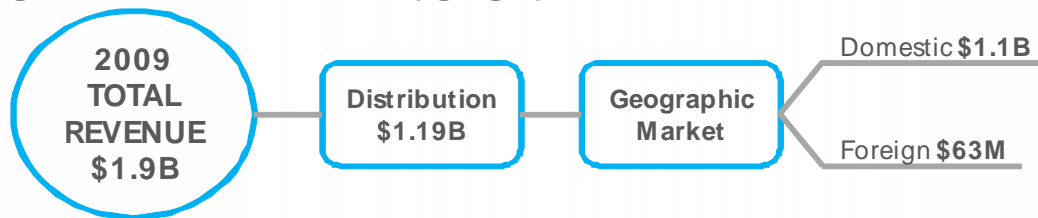
Telefilm funding is one federal instrument that encourages distributors to acquire Canadian films in spite of the poorer chance of return (in English Canada). In 2003/2004, however, amendments to the Canada Feature Film Fund (CFFF) shifted its focus from a line-of-credit that covered a portion of the minimum guarantees (MG), to a grant covering 75% of marketing and promotion expenditures (see CFFF Summary in Appendix D). The grant portion was lowered to 50%, then 35% in 2004/2005 and eliminated altogether in 2006/2007. According to distributors, this shift has exerted more pressure on already thin margins. Indeed one medium-sized distributor explained that, in some occasions the absence of the MG support has led the firm to pass on the smaller Canadian films it might otherwise have distributed.

One key stakeholder interviewed posited that the heightened risk for distributors has resulted in production investments that only equal guaranteed future revenue (such as the pay-TV or all rights broadcast platform sale). One association leader pointed out that this is not how the model is intended to work, particularly as it is an area of government support. The lowered investment from distributors creates a vicious cycle, whereby production budgets are lower and quality suffers, ultimately leading to a poorer Canadian product for the marketplace.

### **2.1.3 Total Revenues by Geographic Market**

The geographic-market statistics in this section compare the revenues earned by AV distribution companies in Canada from distribution in Canada ("domestic distribution") to distributor revenues earned outside of Canada ("foreign distribution"), and includes both Canadian and foreign productions. First, we present total distribution revenues by geographic market (Table 3, Figure 6).

Figure 6 Revenue breakdown by geographic market, 2009



Source: Statistics Canada  
Numbers may not tally due to rounding.

As previously stated, \$1.9 billion refers to the total revenues, including wholesale and “other” activities. \$1.19 billion reflects distributor revenue from distribution activity. Distribution revenue from distribution to foreign clients declined steadily between 2003 and 2009, at a compound annual growth rate of -17.5%. Over the last decade or so, it appears that the majority of **feature film** distributors in Canada have shuttered their international sales divisions. One international sales expert explains that it is extremely expensive to exploit the international sales market properly and efficiently. It requires a regular presence abroad, booths at the major festivals including Cannes, Venice and Berlin to build relationships, and top notch marketing material to further support efforts.

The majority of Canadian-controlled distributors are focused entirely on the Canadian market – that is, acquiring 100% of available Canadian rights for exploitation on a given production. For sales to foreign markets, Canadian distributors have begun to work through local distributors in the foreign market (e.g. Wild Bunch and Celluloid Dreams, both based in France), rather than through the international sales agents from Canadian distribution companies. E1, and to a lesser extent Alliance, and the Toronto-based Cinemavault, may be among the few exceptions and Cinemavault deals primarily with small, niche and art films.

On the other hand, as domestic revenues plateau, some Canadian distributors are taking a close look at the opportunities foreign markets may hold. One large distributor, for example, currently focused entirely on domestic distribution, explained that if more Canadian films with a global appeal were produced, the distributor would want to exploit that appeal in the foreign market – particularly as the domestic market is often too small to make a sufficient return on Canadian films. That the domestic market is not adequate for a return on investment on Canadian (likely English-language) films probably deters Canadian distributors with no foreign market access from acquiring many Canadian productions.

For **television** productions, the foreign market scenario is vastly different from feature film, and indeed from itself twenty years ago. One television sales director explained that over time, the domestic television distribution market has been “killed”, as it has become normal practice for producers to sell television series directly to broadcasters. Previously, a multitude of buyers (stations, affiliates, distinct regions) gave rise to a distributor function to negotiate sales with multiple buyers. Today, however, the



buying market has consolidated and a single buyer (often the broadcaster) will take all rights, leaving nothing leftover that a distributor could exploit.

Producers have also declined, to a certain extent, to require the services of a Canadian distributor, for foreign market television content sales. Often, producers will attend international fairs with the aim to sell all foreign rights directly to international entertainment companies, such as Endemol or FremantleMedia – large, foreign producer-distributors. These foreign firms pay a sum to the producers for foreign rights, and then control the foreign exploitation of the Canadian production. Canadian-based firms, such as Phase4, Breakthrough Entertainment, distribution360 and BuzzTaxi, however, continue to exploit foreign markets.

One prominent television sales director at a large distributor suggests that as many producers relinquish control over their product over and over again, they forfeit a chance to build the capacity of Canada's television industry. Producers have been forced to prioritize a sale over building expertise, visibility and relationships in foreign markets and maintaining control of their output.

### **Key observations arising from the 2003-2009 economic data on geographic market**

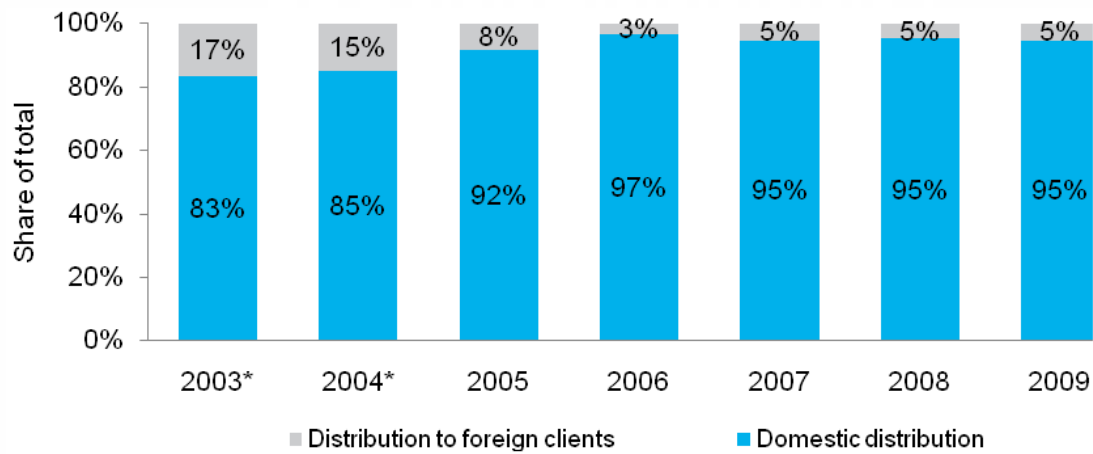
Canada's AV distribution sector today is almost entirely domestic facing. In 2009, the sector earned \$1.12 billion in revenues from domestic distribution and \$63 million in revenues from foreign distribution (Table 3). Domestic distribution, therefore, accounted for 95% of total revenues (Figure 7).

Prior to 2006, foreign revenues accounted for a higher share of total industry revenues – 15% in 2004 and as high as 17% in 2003. This share was due to significantly higher foreign revenues, as domestic revenues were largely stable during the 2003-to-2009 period. While foreign distribution revenues in 2009 were well below the levels in 2003 and 2004, there was high growth between 2006 and 2009. Foreign distribution revenues increased by 91.4% over that three-year period; albeit, the increase was from a small base (Figure 7).

While domestic distribution revenues were relatively steady between 2003 and 2009, foreign distribution revenues fell dramatically. Domestic distribution revenues increased at an annual average rate of only 2.1%, as foreign distribution revenues dropped from just under \$200 million in 2003 to \$63 million in 2009 – an annual average decrease of 17.5% (Table 3).

- Potential causes of the overall decline in foreign distribution include: a challenging marketplace with fewer foreign buyers (and smaller budgets); the growing trend of using foreign-based distributors as, for the most part, established Canadian distributors cease to operate internationally. Recent growth, however, may point to new potential for foreign market sales or reflect the success of the relatively few distributors engaged in foreign distribution for feature films.

Figure 7 Total distribution revenues by geographic market (all productions), 2003-2009



Source: Statistics Canada; \*Backcasted

Table 3 Total distribution revenues by geographic market (all productions), 2003-2009

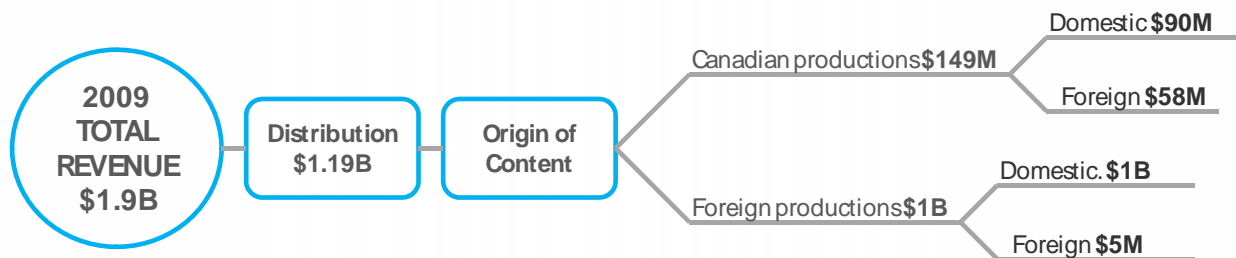
	2003*	2004*	2005	2006	2007	2008	2009	CAGR † 2003- 09
	(\$ 000s unless indicated otherwise)							
Domestic distribution	992,623	1,014,004	991,482	948,356	898,065	1,046,684	1,122,256	2.1%
Distribution to foreign clients	199,050	180,970	90,244	32,832	49,897	54,340	62,847	-17.5%
Total revenues	1,191,673	1,194,974	1,081,726	981,188	947,962	1,101,024	1,185,103	-0.1%

Source: Statistics Canada; \*Backcasted; † CAGR – Compound annual growth rate

#### 2.1.4 Revenues by Origin of Content – Domestic and Foreign

Distribution revenues can be disaggregated by origin of content, as well as by geographic market. As depicted in the figure below, the breakdowns by origin of content are simply foreign and Canadian. For each of these two categories, the next breakdown is by domestic or foreign markets. The figure below depicts the disaggregation of the revenues by origin of content and in foreign or domestic markets.

Figure 8 Revenue breakdown by origin of content and geographic market, 2009



Source: Statistics Canada  
Numbers may not tally due to rounding.

### Domestic distribution revenues by origin of content

Foreign productions accounted for the vast majority of domestic distribution revenues between 2005 and 2009. In 2009, foreign productions accounted for 92% of the total domestic distribution revenues, or \$1.03 billion; Canadian productions accounted for just over \$90 million, or 8.1% (Table 4).

Table 4 Domestic distribution revenues by origin of content, 2005-2009

	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-08
	(\$ 000s unless indicated otherwise)					
Canadian productions	86,330	102,905	90,478	105,983	90,416	1.2%
<i>Share of total</i>	8.7%	10.9%	10.1%	10.1%	8.1%	--
Foreign productions	905,152	845,451	807,587	940,051	1,031,840	3.3%
<i>Share of total</i>	91.3%	89.1%	89.9%	89.9%	91.9%	--
Total domestic distribution revenues	991,482	948,356	898,065	958,051	1,122,256	3.1%

Source: Statistics Canada; † CAGR – Compound annual growth rate

### Foreign distribution revenues by origin of content

- Canadian productions account for the vast majority of distribution revenues from foreign markets. In 2009, Canadian productions accounted for 93% of total foreign distribution revenues, or \$58 million. The foreign distribution of foreign productions generated \$5 million in revenues in 2009, or 7% of total foreign distribution revenues for Canadian-based distributors (Table 5).
- Though the 2003-2009 compounded annual growth rate for foreign distribution revenues shows a 17.5% decline (Table 3), the more recent cut shows negative growth of just 8.6%. 2009's \$63 million in revenues is inching closer to pre-2006 levels (Table 5). Direct foreign sales by Canadian producers to foreign sales agents, particularly in TV content, may also be reflected in this decline, as those revenues may not all be captured in these survey results.
- Though the distributors themselves conduct less foreign business (or fewer distributors conduct less foreign business), it does not necessarily follow that the

performance of Canadian content outside Canada has declined. Local distributors in foreign markets may be stronger at exploiting those foreign markets, leading to a strong performance for Canadian content. Indeed, one recommendation of the 2005 “Summative Evaluation of the Canadian Feature Film Policy” is to further develop a strategy to measure audiences for Canadian films abroad.

**Table 5 Foreign distribution revenues by geographic market, by origin of content, 2005-2009**

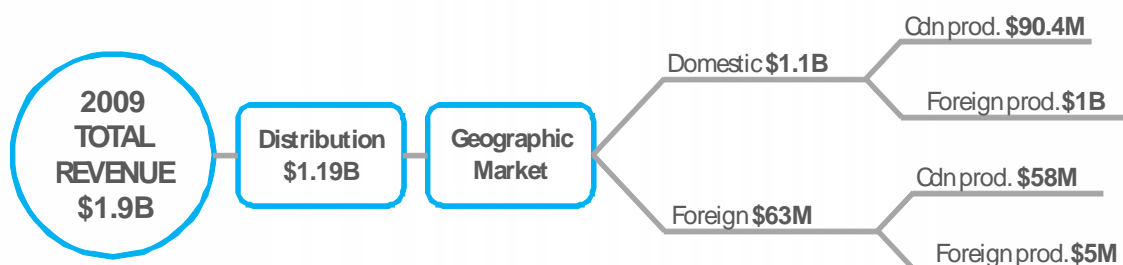
	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s unless indicated otherwise)					
Canadian productions	79,504	27,645	43,281	36,990	58,293	-7.5%
<i>Share of total</i>	88%	84%	87%	68%	93%	--
Foreign productions	10,740	5,187	6,616	17,350	4,554	-19.3%
<i>Share of total</i>	12%	16%	13%	32%	7%	--
Total foreign distribution revenues	90,244	32,832	49,897	54,340	62,847	-8.6%

Source: Statistics Canada; † CAGR – Compound annual growth rate

### 2.1.5 Revenues by Geographic Market – Canadian and Foreign Productions

Another way to view the distributor revenue figures on a time series is by foreign or Canadian productions – for domestic and foreign markets. Figure 9 shows the breakdown for 2009.

**Figure 9 Revenue breakdown by geographic market and origin of content, 2009**



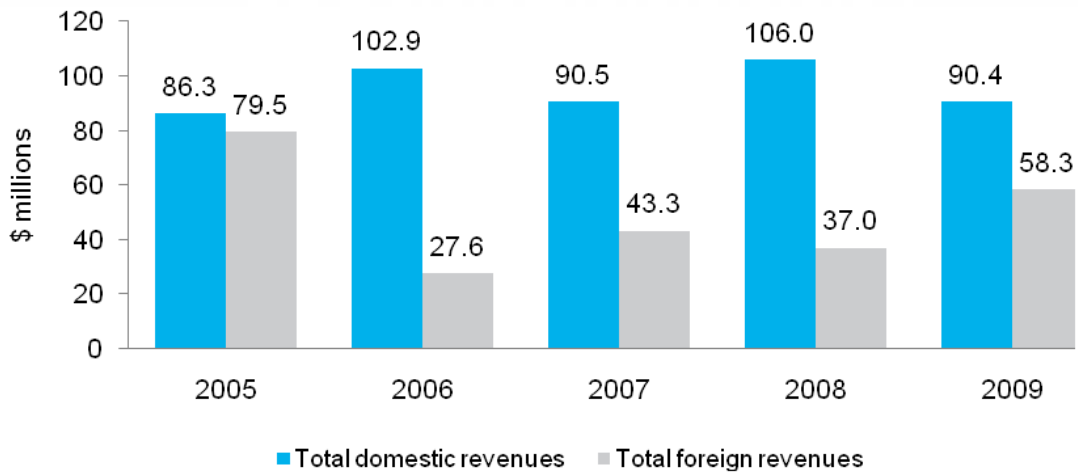
Source: Statistics Canada

### Revenues of Canadian productions by geographic market

- Between 2005 and 2009, AV distributors earned the majority of their revenues on Canadian productions from domestic sources. In 2009, domestic sources accounted for \$90 million or 61% of total revenues attributable to Canadian productions (Table 6 and Figure 10). Foreign revenues earned by Canadian productions accounted for \$58 million, or 39% of total revenues. From 2005 to 2009, domestic distribution revenues for Canadian productions achieved a 1.2% average annual growth rate.

- In Table 6 and Figure 10, the 7.5% average annual decline in foreign distribution revenues for Canadian productions is again evident. Between 2005 and 2009, however, foreign distribution still constitutes, on average, 61% of total distribution revenues for Canadian productions. As noted above, this drop may simply mean that producers more frequently go directly to foreign sales agents or distributors in other markets – or that distribution revenues derived from Canadian films have actually plummeted in the way indicated over this time frame.

**Figure 10 AV Distribution revenues by geographic market, Canadian productions 2005-2009**



Source: Statistics Canada

**Table 6 Distribution revenues by geographic market, Canadian productions, 2005 to 2009**

	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s unless indicated otherwise)					
Domestic distribution	86,330	102,905	90,478	105,983	90,416	1.2%
<i>Share of total</i>	52%	79%	68%	74%	61%	--
Distribution to foreign clients	79,504	27,645	43,281	36,990	58,293	-7.5%
<i>Share of total</i>	48%	21%	32%	26%	39%	--
Total revenues	165,834	130,550	133,759	142,973	148,709	-2.7%

Source: Statistics Canada; † CAGR – Compound annual growth rate

### Revenues of foreign productions by geographic market

- Between 2005 and 2009, virtually all of the Canadian distributors' revenues on foreign productions were earned domestically. In 2009, for example, domestic distribution accounted for \$1 billion, or 99.6% of total revenues earned by foreign productions distributed by distribution companies in Canada (Table 7). Few Canadian distributors are actively acquiring the foreign rights to foreign productions (whether American or other international territories), as less than 1%

of foreign production distribution revenues are driven through sales to foreign clients. The period between 2005 and 2009 shows some volatility in its fluctuations from year to year. High volatility of returns may be one reason for Canadian film distributors shying away from the foreign market.

**Table 7 Distribution revenues by geographic market, foreign productions 2005 to 2009**

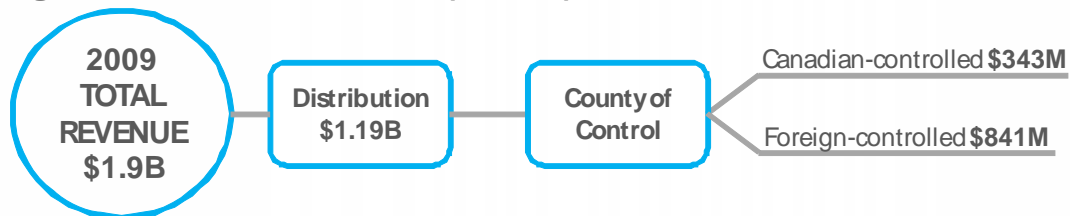
	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s unless indicated otherwise)					
Domestic distribution	905,152	845,451	807,587	940,701	1,031,840	3.3%
<i>Share</i>	99%	99%	99%	98%	99.6%	--
Distribution to foreign clients	10,740	5,187	6,616	17,350	4,554	-19.3%
<i>Share</i>	1%	1%	1%	2%	0.4%	--
Total revenues	915,892	850,638	814,203	958,051	1,036,394	3.1%

Source: Statistics Canada; † CAGR – Compound annual growth rate

### 2.1.6 Revenues by Country of Control

In this section, we examine AV distributors' operating revenues by country of control; that is, Canadian-controlled vs. foreign-controlled companies. The visual below represents solely revenues from film and video distribution, while Figure 12 and Table 13 include wholesale and other revenues.

**Figure 11 Revenue breakdown by country of control, 2009**



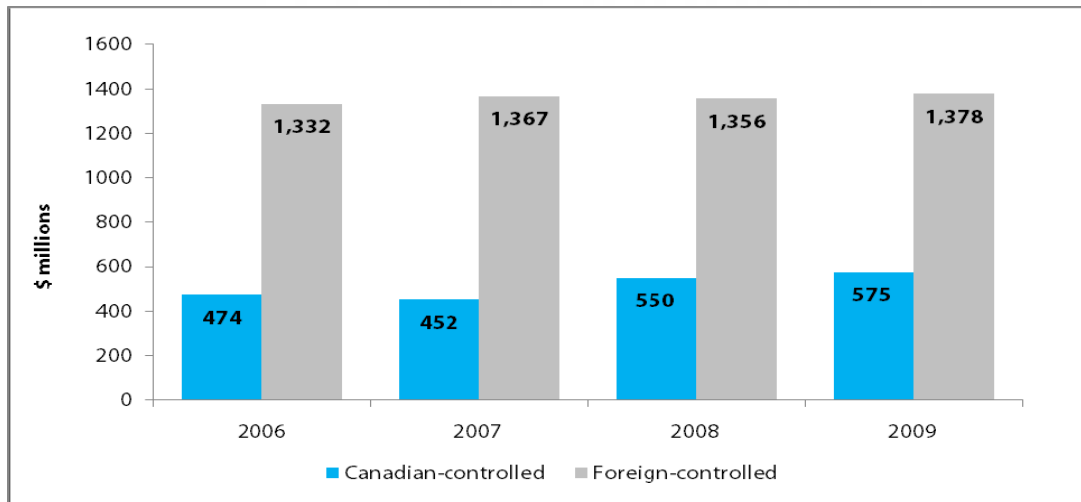
Source: Statistics Canada  
Numbers may not tally due to rounding.

There are approximately 60 Canadian-controlled distributors in operation. CAFDE members include: Alliance/VivaFilms, E1 Entertainment, TVA, Maple Pictures, Métropole, Mongrel Media, Kinosmith and VSC (Video Service Corp.<sup>7</sup>). Foreign-controlled revenues are driven largely by the CMPDA members – already in Canada at the time the Film Distribution Policy was introduced – Walt Disney Studios Motion Pictures, Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios, and Warner Bros. Entertainment.

<sup>7</sup> <http://www.videoservicecorp.com/>

Between 2006 and 2009, the total market grew at an average annual rate of 2.7%. At 6.7%, the compound annual growth rate of Canadian-controlled distributors greatly outpaced the growth rate of foreign-controlled distributors which sat at 1.1% (Table 8). The ratio of distribution revenues for Canadian-controlled distributors to foreign-controlled distributors was relatively steady between 2006 and 2009, with Canadian-controlled distributors commanding approximately 25-30% of the total market revenues each year.

**Figure 12 Total AV distribution revenues by country of control 2006 to 2009**



Source: Statistics Canada

**Table 8 Total AV distribution revenues by country of control, 2006 to 2009**

	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s unless indicated otherwise)				
Canadian-controlled	473,516	452,369	550,476	575,104	6.7%
<i>Share of total</i>	26.2%	24.9%	28.9%	29.4%	--
Foreign-controlled	1,331,946	1,366,863	1,355,575	1,377,744	1.1%
<i>Share of total</i>	73.8%	75.1%	71.1%	70.6%	--
Total revenues	1,805,462	1,819,231	1,906,051	1,952,847	2.7%

Source: Statistics Canada; † CAGR – Compound annual growth rate

### Canadian-controlled companies

- Within the Canadian-controlled company revenue growth between 2006 and 2009, film and video distribution achieved 13.9% compound annual growth rate. The “other” revenue line also grew enormously (albeit from a small base); according to Statistics Canada, “All other operating revenue” includes sales from

production of film and video titles, grants and subsidies and other revenue<sup>8</sup> (Table 9).

**Table 9 Total AV distribution revenues, Canadian-controlled companies, 2006-2009**

	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s unless indicated otherwise)				
Film and video distribution	x	264,781	323,248	343,711	13.9%
<i>Share of Cdn total</i>	--	58.5%	58.7%	59.8%	--
Wholesaling	x	161,263	188,667	x	17.0%
<i>Share of Cdn total</i>	--	35.6%	34.3%	--	--
Other	x	26,325	38,562	x	46.5%
<i>Share of Cdn total</i>	--	5.8%	7.0%	--	--
<b>Total Canadian-controlled</b>	<b>473,516</b>	<b>452,369</b>	<b>550,476</b>	<b>575,104</b>	6.7%
<i>Share of total market</i>	26.20%	24.90%	28.88%	29.45%	--
<b>Total Market</b>	<b>1,805,462</b>	<b>1,819,231</b>	<b>1,906,051</b>	<b>1,952,847</b>	2.7%

Source: Statistics Canada; x – data suppressed due to confidentiality, † CAGR – Compound annual growth rate

#### Foreign-controlled companies

- Between 2006 and 2009, foreign-controlled distributors saw strong growth in film and video distribution revenues – 11.0%– though not as strong the compound annual growth rate for Canadian-controlled distributors at 13.9% (Table 10, Table 9). Based on two years of data, foreign-controlled distributors experienced a 15.9% drop in wholesale revenues between 2007 and 2008 (Table 10).

**Table 10 Total distribution revenues, foreign-controlled companies, 2006-2009**

	2006	2007	2008	2009	CAGR <sup>†</sup> 2006-09
	(\$ 000s unless indicated otherwise)				
Film and video distribution	x	683,181	777,776	841,392	11.0%
<i>Share of foreign total</i>	--	50.0%	57.4%	61.1%	--
Wholesaling	x	680,395	572,537	x	-15.9%
<i>Share of foreign total</i>	--	49.8%	42.2%	--	--
Other	x	3,286	5,261	x	60.1%
<i>Share of foreign total</i>	--	0.2%	0.4%	--	--
<b>Total foreign-controlled</b>	<b>1,331,946</b>	<b>1,366,863</b>	<b>1,355,575</b>	<b>1,377,744</b>	1.1%
<i>Share of total market</i>	73.8%	75.1%	73.2%	70.6%	--
<b>Total market</b>	<b>1,805,462</b>	<b>1,819,231</b>	<b>1,851,236</b>	<b>1,952,847</b>	2.7%

Source: Statistics Canada; x – data suppressed due to confidentiality; † CAGR – Compound annual growth rate

<sup>8</sup> Statistics Canada: Profile of the Canadian-controlled and foreign-controlled film and video distribution and wholesaling of pre-recorded videos industry, Canada, 2006 to 2009.

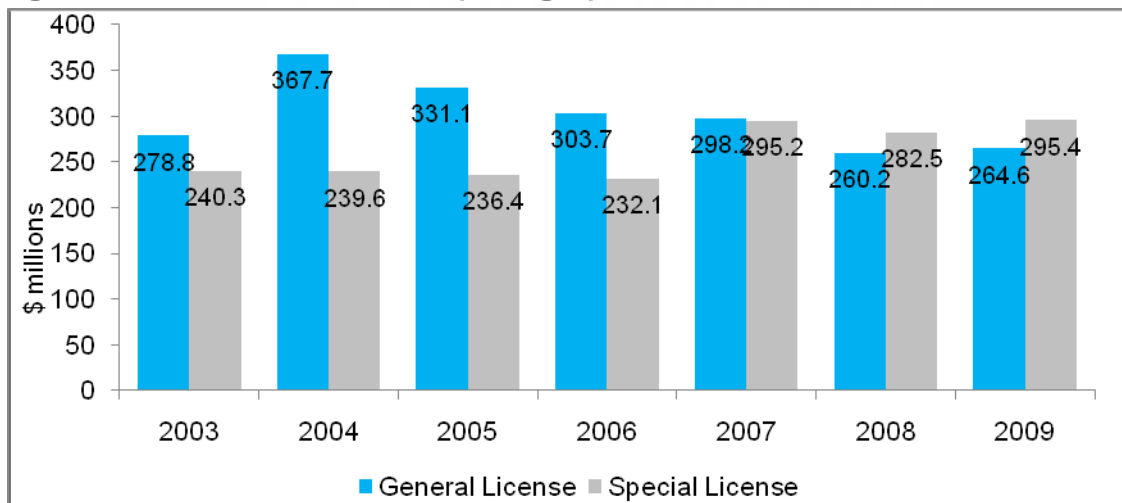


### 2.1.7 Revenues of All Productions by Category of License, Québec

In 1983, Québec's *Cinema Act* introduced two classes of license: 1) general distribution licenses for Québec-based distributors ("having its principal establishment in Québec"); and 2) special license for only "the producer of the film or holder of the world rights to the film and who, on 17 December 1982, held a license issued under section 30 of the *Licenses Act*."

- Between 2003 and 2009, total AV distribution revenues in Québec declined by a compound annual growth rate of -1.6%, to \$560 million in 2009. Over the same period, general license holder revenues increased by 4.3%, meaning that the majority of the decline can be attributed to general license holders (in other words, Québec-based distributors) (Table 11).
- Within the total Québec AV revenues, the general license share of the total ranges from a high of 60.5% in 2004 to 47.3% in 2009 (Figure 13).
- When compared to the total Canadian AV distribution market, the Québec market consistently generates around 30% of revenues (Table 11).

Figure 13 Distribution revenues by category of license in Québec, 2003-2009



Source: L'Institut de la statistique du Québec

**Table 11 Gross revenues of distributors by license class in Québec, 2003-2009**

	2003	2004	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2003-09
	(\$ 000s unless indicated otherwise)							
General license, QC	278,800	367,700	331,100	303,700	298,200	260,200	264,600	-0.9%
<i>Share of total, QC</i>	53.7%	60.5%	58.3%	56.7%	50.3%	47.9%	47.3%	--
Special license, QC	240,000	239,600	236,400	232,100	295,200	282,500	295,400	4.3%
<i>Share of total, QC</i>	46.3%	39.5%	41.7%	43.3%	49.7%	46.3%	52.8%	--
Total, QC	519,100	607,300	567,500	535,800	593,400	542,700	560,000	-1.6%
<i>Share of total, Canada</i>	30.8%	34.2%	34.9%	29.7%	32.6%	28.5%	28.7%	--
<b>Total revenues</b>	<b>1,682,866</b>	<b>1,774,014</b>	<b>1,627,753</b>	<b>1,805,462</b>	<b>1,819,231</b>	<b>1,906,051</b>	<b>1,952,847</b>	<b>1.9%</b>

Source: L'Institut de la statistique du Québec and Statistics Canada; † CAGR – Compound annual growth rate

### 2.1.8 Revenues by Platform

The following sub-section presents domestic revenues for AV distribution from all forms of content by platform of distribution, namely:

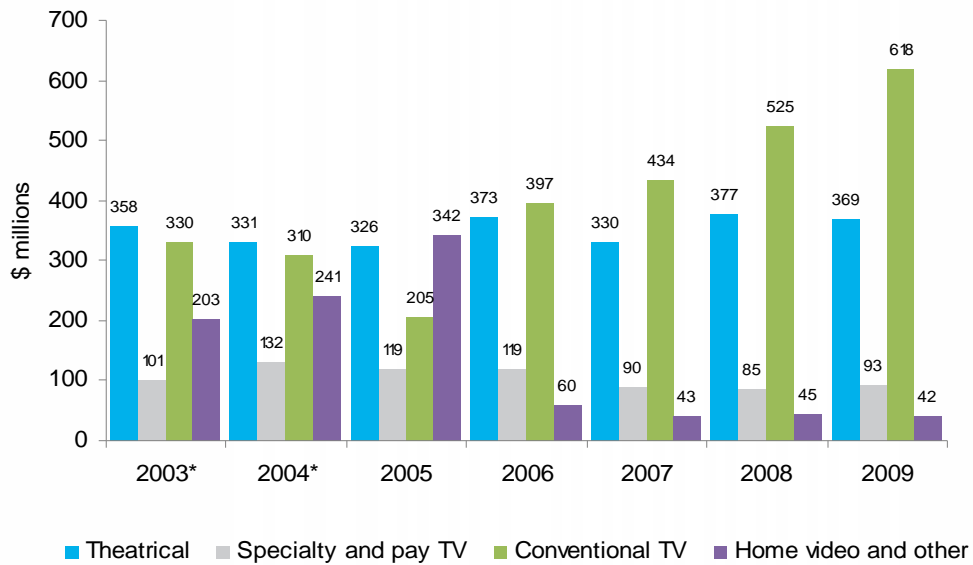
- Theatrical: e.g., through exhibitors such as Cineplex, AMC and Cinema Guzzo.
- Specialty TV (numerous channels) and pay TV services: e.g., SuperÉcran, Movie Central and Super Channel.
- Conventional TV: e.g., through broadcasters such as the CBC, CTV, Global TV, TVA and SRC.
- Home video and other: e.g., bricks and mortar retailers, airlines, hotels, and online sell-through platforms.

### Revenues from all productions – Canadian and foreign

- From 2003 to 2009, total distribution revenues and theatrical distribution revenues were relatively flat, growing at a compound annual rate of only 0.5% and 0.3%, respectively (Figure 14, Table 12).
- From 2004 to 2009, the home video and other platform revenues plummeted. This precipitous drop may, however, have been the result of the classification and data issues explained in the introduction to this Appendix. For example, as Canadian-based distributors became their own wholesalers in dealing with large-scale retailers, the revenue was not recorded by platform (“Home video”), but by business line (“Wholesaling”). The drop from 2006 was coincident with the sharp rise in the 2006 wholesaling revenue line shown in Table 1.

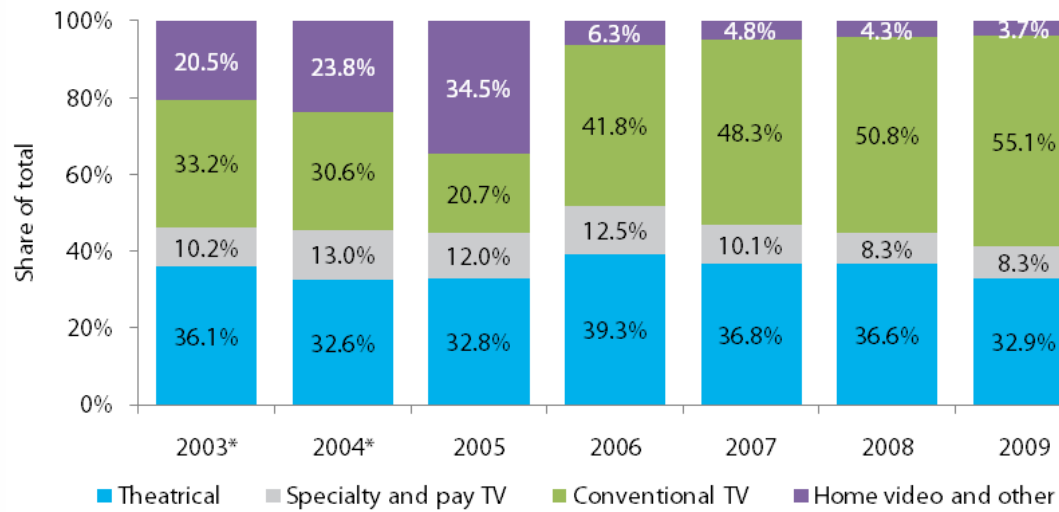
- By 2009, conventional television accounted for 55.1% of total AV distribution revenues, up from 20.7% in 2005 (Figure 15). This growth was driven largely by foreign production revenues, which grew 32.3% over the six-year period (Table 14). This significant increase in the conventional television distribution revenues earned by foreign programming may be attributable to the increase in programming payments made by Canadian broadcasters to US studios. Between 2003 and 2009, Canadian private conventional broadcasters' expenditures on foreign programming increased by 53%, from \$542 million to \$830 million

Figure 14 Revenues by platform, all productions, 2003-2009



Source: Statistics Canada  
 \* backcasted

Figure 15 Share of total revenues by platform, all productions, 2003-2009



Source: Statistics Canada  
\* backcasted

Table 12 Total domestic revenues by platform, all productions, 2003-2009

	2003*	2004*	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2003-09
	(\$ 000s)							
Theatrical	358,457	330,654	325,524	373,140	330,485	377,459	369,000	0.5%
Specialty TV and pay TV	101,151	132,039	119,097	118,881	90,438	85,302**	93,410	-1.3%
Conventional TV	329,668	310,387	204,829	396,678	434,017	524,794	618,256	11.0%
Home video and other	203,347	240,924	342,032	59,657	43,125	44,841	41,590	-23.2%
<b>Total</b>	<b>992,623</b>	<b>1,014,004</b>	<b>991,482</b>	<b>948,356</b>	<b>898,065</b>	<b>1,032,396</b>	<b>1,122,256</b>	<b>2.1%</b>

Source: Statistics Canada; \*backcasted; \*\*data based on previously reported results; † CAGR – Compound annual growth rate

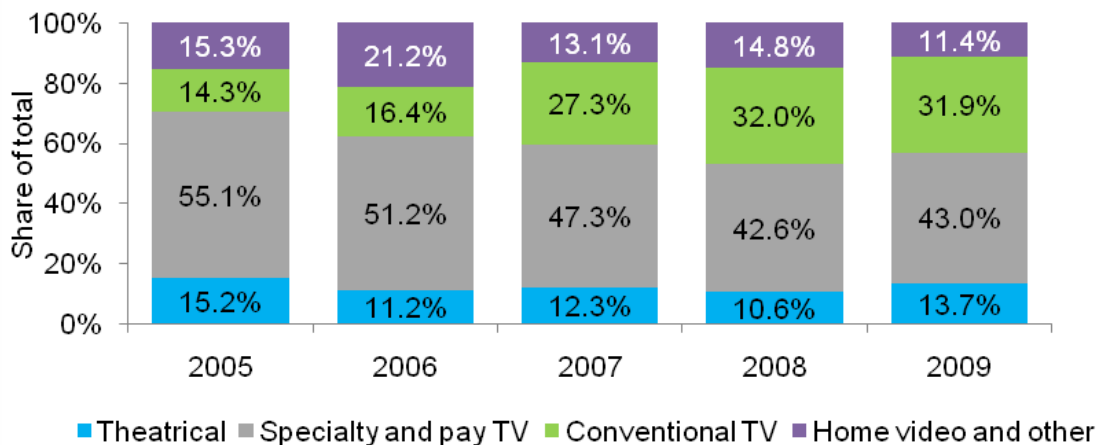
### Canadian productions

- From 2005 to 2009, the specialty TV and pay TV platforms' share of the total AV distribution pie in Canada declined from a high of 13% in 2004 to 8.3% in 2009. Specialty TV and pay TV, however, accounted for the majority of revenue for Canadian productions: 43% in 2009 and as high as 55% in 2005 (Figure 17).
- For Canadian productions, the 5% compound annual negative growth rate is startling when one considers the Canadian programming expenditures required of specialty and pay TV services in Canada. That said, distribution revenues on foreign productions from specialty and pay TV services declined by 6.5% negative

compound growth over the same period. This decline may in fact reflect the specialty and pay TV's growing appetite for television content that is not necessarily sold through a distributor, particularly as Canadian programming expenditures (CPE) on pay and specialty channels are up from \$735 million in 2005 to \$1.1 billion in 2009 according to the CRTC.

- The growth of the conventional TV market for distributors marks a bit of a contradiction – especially since the total revenues from conventional TV broadcasters are 2-3 times more than theatrical and have been growing at more than 20% per annum during this period. Again, the sale to conventional TV broadcasters comprises TV as well as feature films, i.e. a much larger pool. As a percentage of the total Canadian programming expenditures, this amount is relatively small. In 2009, for example, expenditures on Canadian productions by private broadcasters were \$176 million<sup>9</sup>, more than six times the distributor revenues from conventional television in the same year.
- Distributors are nonetheless frustrated by the decline in specialty and pay TV revenues (though they believe it extends to conventional television as well). They also believe that in the last ten years, what were once predominantly film channels now regularly buy TV productions (consider AMC and Mad Men, HBO and True Blood), thereby slowing demand for feature films.
- Conventional TV exhibited a 23.6% compound annual revenue growth rate for Canadian productions, counter to distributor expectations as revealed in interviews (Table 13).
- The swings in the “home video and other” revenue may once again reflect the practice of distributors acting as wholesalers, or may be based on the distributor reporting discrepancy described in the introduction to this Appendix. Home video is a platform to be monitored closely, as distributors rely heavily on its traditionally high margins.

Figure 16 Share of total revenues by platform, Canadian productions, 2005-2009



Source: Statistics Canada

<sup>9</sup> Profile 2010, “Expenditures on Canadian independent production by private Canadian broadcasters”, p.48.

**Table 13 Domestic revenues by platform, Canadian productions, 2005-2009**

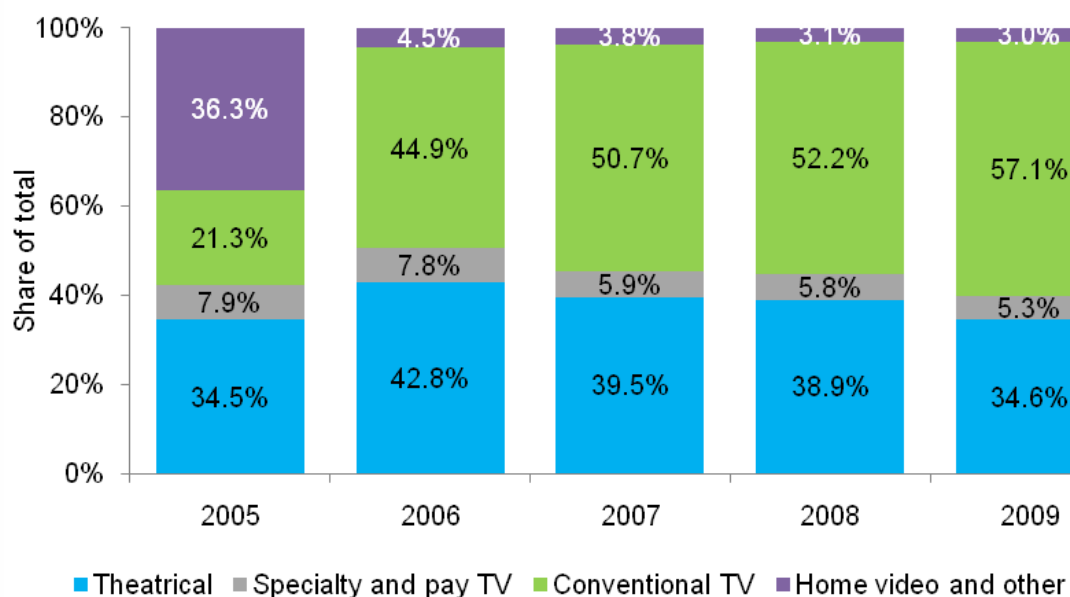
	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s)					
Theatrical market	13,147	11,558	11,160	11,228	12,414	-1.4%
Specialty and pay TV market	47,607	52,702	42,839	45,181	38,838	-5.0%
Conventional TV market	12,335	16,829	24,662	33,883	28,814	23.6%
Home video and other	13,241	21,816	11,817	15,691	10,350	-6%
Total	86,330	102,905	90,478	105,983	90,416	1.2%

Source: Statistics Canada; † CAGR – Compound annual growth rate

### Foreign productions

- As with Canadian productions, from 2005 to 2009 conventional TV has been a major growth area for AV distribution revenue from foreign productions – achieving a compound annual growth rate of 32.3% (Table 14).
- The sharp fall in home video licensing, again, may have been the result of Canadian-based distributors (both Canadian-controlled and foreign-controlled) acting as wholesalers, dealing directly with retailers or, as mentioned previously, inconsistencies in distributor reporting as raised by Statistics Canada. Nonetheless, if we exclude the 2005 data, the trend still demonstrates a steady decline in home entertainment for foreign productions, though the negative annual growth rate climbs to -6.2% from -44.5% (Figure 17, Table 14).

**Figure 17 Share of total revenues by platform, foreign productions, 2005-2009**



Source: Statistics Canada

**Table 14 Domestic revenues by platform, foreign productions, 2005-2009**

	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
	(\$ 000s)					
Theatrical market	312,377	361,582	319,325	366,231	356,586	3.4%
Specialty and pay TV market	71,490	66,108	48,049	54,409*	54,572	-6.5%
Conventional TV market	192,495	379,849	409,355	490,911	589,443	32.3%
Home video and other	328,790	37,912	30,858	29,150*	31,239	-44.5%
Total	905,152	845,451	807,587	940,701	1,031,840	3.3%

Source: Statistics Canada; \*estimated; † CAGR – Compound annual growth

## Operating Expenses and Profitability

### 2.1.9 Total Sector

The following sub-section presents statistics on the financial performance of distribution companies in Canada. The statistics in this section aggregate the results of the distribution of video content, the wholesale of pre-recorded videos, and any other lines of business operated by AV distribution companies in Canada. We present statistics for the financial performance of the overall sector followed by statistics for Canadian-controlled companies, and foreign-controlled companies.

More detail on advertising, marketing and promotion spending is available in the main report, but what distributors made clear is that while the marketing mix may be changing, overall budgets are on the rise. In addition, anticipated savings from the digital transformation have yet to be reflected in savings in marketing and other expenditures, suggesting it will be some time before the AV distribution sector is able to reap any cost-saving rewards from digital.

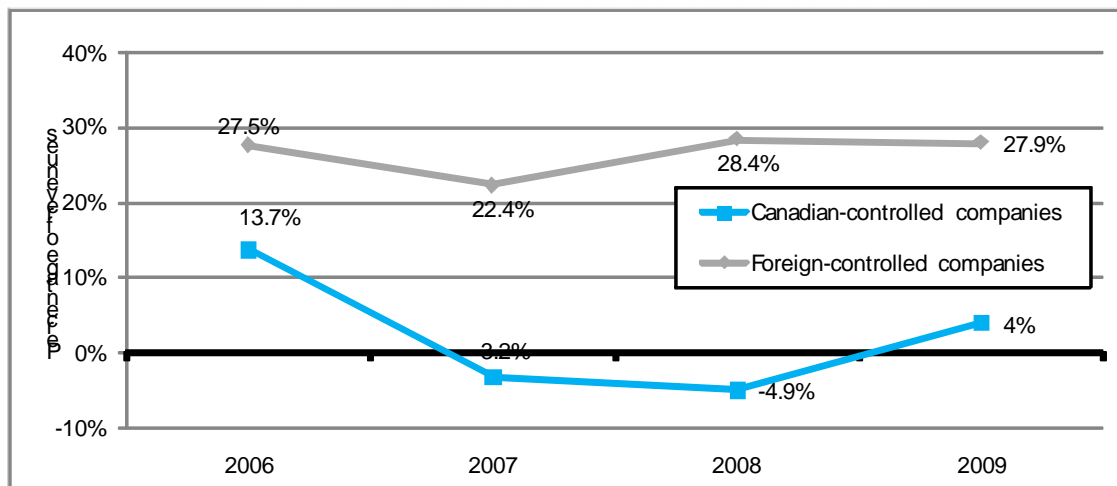
While the sector as a whole saw its operating profit margin remain relatively stable between 2005 and 2009 (Table 15), if we examine operating profit margin by country-of-control, we see the gap between the profitability of Canadian-controlled distributors and foreign-controlled distributors widened considerably in 2008 before narrowing in 2009 (Figure 18). Foreign-controlled distributors enjoyed a relatively steady profit margin while over the same period Canadian distributors' revenues fluctuated and so their profit margin dropped from a high of 13.7% to -4.9% in 2008 before rebounding to 4.0% in 2009 (Figure 18).

Table 15 Operating revenues, expenses and profits, total distributor sector, 2005-2009

	2005	2006	2007	2008	2009	Percent of total revenues (2009)
(\$ 000s unless indicated otherwise)						
<b>Total operating revenues</b>	<b>1,627,753</b>	<b>1,805,462</b>	<b>1,819,231</b>	<b>1,906,051</b>	<b>1,952,847</b>	<b>100.0%</b>
Salaries, wages and benefits	71,494	63,638	93,335	91,228	79,703	4.1%
Licensing costs (rights, royalties and other fees)	238,402	368,309	459,808	506,976	581,857	30.0%
Cost of goods sold	590,271	578,009	552,047	555,803	541,592	27.7%
Advertising, marketing and promotions	167,350	133,336	243,372	252,982	191,989	9.8%
Other operating expenses	249,649	230,817	179,526	141,337	151,177	7.7%
<b>Total operating expenses</b>	<b>1,317,166</b>	<b>1,374,109</b>	<b>1,528,088</b>	<b>1,548,326</b>	<b>1,546,319</b>	<b>79.2.6%</b>
<b>Operating profit</b>	<b>310,587</b>	<b>431,353</b>	<b>291,143</b>	<b>357,725</b>	<b>406,528</b>	<b>20.8%</b>
Operating profit margin	18.9%	23.9%	16.0%	18.8%	20.8%	--

Source: Statistics Canada

Figure 18 Operating profit margin, Canadian-controlled vs. foreign-controlled companies, 2006-2009



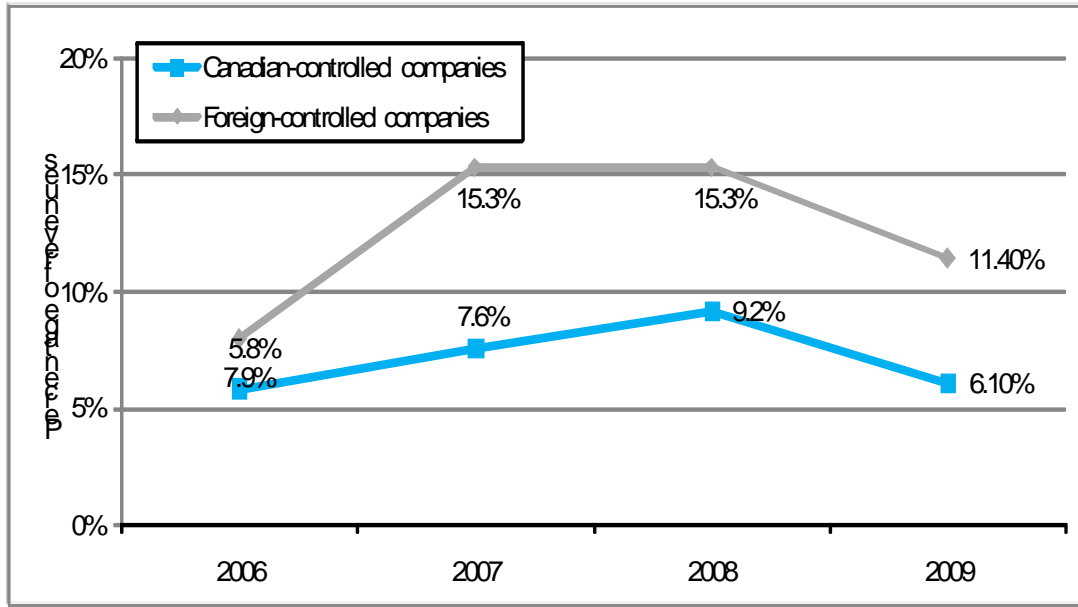
Source: Statistics Canada

- For Canadian-controlled establishments, advertising, marketing and promotion spending grew steadily from 2006 to 2008, before dropping in 2009 to 6.1% of overall operating expenses (Table 16). Foreign-controlled establishments' spending on advertising, marketing and promotion, however, nearly doubled between 2006 and 2007, and grew again between 2007 and 2008 – to 15.3% in 2008 before also dropping in 2009, to 11.4% of overall operating expenses (Figure 19, Table 17).



- In terms of actual dollars, the difference is also significant. In 2009, for example, Canadian-controlled companies spent just \$35 million on advertising, marketing and promotions, while their foreign-controlled counterparts send over \$156 million (Table 16, Table 17).

Figure 19 Marketing expenditure share of total operating revenues, Canadian-controlled companies vs. foreign-controlled companies, 2006-2009



Source: Statistics Canada

### 2.1.10 Canadian-controlled Companies

Canadian-controlled companies' profitability deteriorated between 2006 and 2008, as the operating profit margin decreased from 13.7% to -4.9% before rebounding to 3.95% in 2009 (Table 16). To a certain extent, the source of the reduced profitability can be traced to the increase in cost of goods sold (COGS), which rose from 45% of total revenues to 52.6% and to a one-time jump "salaries, wages and benefits" between 2007 and 2008. COGS is defined by Statistics Canada as "purchases plus opening inventory minus closing inventory"<sup>10</sup>, but it is not clear what component of this increased. In 2009 COGS rose again as did licensing fees, however distributors controlled expenditures on salaries and lowered marketing expenditures from 8.2% of total revenues in 2008 to 6.1% in 2009.

<sup>10</sup> Statistics Canada, 2007 Survey of Service Industries: Film and Video Distribution, p3. E7.

Table 16 Operating revenues, expenses and profits, Canadian-controlled companies, 2005-2009

	2006	2007	2008	2009	Percent of total revenues (2009)
	(\$ 000s unless indicated otherwise)				
<b>Total revenues</b>	<b>473,516</b>	<b>452,369</b>	<b>550,476</b>	<b>575,104</b>	<b>100.00%</b>
Salaries, wages and benefits	32,587	50,325	50,702	50,112	8.71%
Licensing costs (rights, royalties and other fees)	x	74,707	74,516	83,898	14.59%
Cost of goods sold	213,201	239,317	289,694*	319,675	55.59%
Advertising, marketing and promotions	27,677	34,173	45,492*	35,199	6.12%
Other operating expenses	x	68,540	65,249	63,498	11.04%
<b>Total operating expenses</b>	<b>408,410</b>	<b>467,061</b>	<b>577,268</b>	<b>552,382</b>	<b>96.05%</b>
<b>Operating profit</b>	<b>65,106</b>	<b>-14,693</b>	<b>-26,792</b>	<b>22,722</b>	<b>3.95%</b>
Operating profit margin	13.7%	-3.2%	-4.9%	4.0%	--

Source: Statistics Canada

\* - estimated;

x – data not available due to confidentiality

#### 2.1.11 Foreign-controlled Companies

- Unlike Canadian-controlled companies, COGS expenditures for foreign-controlled companies exhibited a negative compound annual growth rate of -15.3% between 2006 and 2009 (Table 17).
- In 2009, advertising, marketing and promotion accounted for 11.4% of foreign-controlled companies' revenues (Table 17), compared to 6.1% for Canadian-controlled companies (Table 16).
- Licensing expenditures as a percentage of revenues grew from 28.2% in 2008 to 36.1% in 2009 for foreign-controlled companies (Table 17). Licensing fee expenditures are higher for foreign-controlled companies than their Canadian-controlled counterparts - 36.1% of total 2009 revenues for foreign-controlled companies, compared to Canadian-controlled distributors who attributed 14.6% of revenues to licensing expenditures.
- Salaries and wages, on the other hand, are a much smaller percentage of the total revenues for foreign-controlled companies than for Canadian-controlled companies – 2.1% vs. 8.7% in 2009. This may reflect the fact that the Canadian headquarters of foreign-controlled companies are leaner operations than their Canadian-controlled counterparts, with the highest salary costs for the most senior staff being based in the foreign studio headquarters. (Table 16, Table 17).

Table 17 Operating revenues, expenses and profits, foreign-controlled companies, 2006-2009

	2006	2007	2008	2009	Percent of total revenues (2009)
	(\$ 000s unless indicated otherwise)				
<b>Total revenues</b>	<b>1,331,946</b>	<b>1,366,863</b>	<b>1,355,575</b>	<b>1,377,744</b>	<b>100.0%</b>
Salaries, wages and benefits	31,051	43,010	40,527	29,591	2.1%
Licensing costs (rights, royalties and other fees)	x	385,101	432,459	497,959	36.1%
Cost of goods sold	364,808	312,730	214,577	221,917	16.1%
Advertising, marketing and promotions	105,659	209,199	207,406	156,790	11.4%
Other operating expenses	x	110,987	76,088	87,680	6.4%
<b>Total operating expenses</b>	<b>965,699</b>	<b>1,061,027</b>	<b>971,057</b>	<b>993,937</b>	<b>72.1%</b>
<b>Operating profit</b>	<b>366,247</b>	<b>305,836</b>	<b>384,518</b>	<b>383,807</b>	<b>27.9%</b>
Operating profit margin (%)	27.5%	22.4%	28.4%	27.9	--

Source: Statistics Canada; x – data not available due to confidentiality

## 2.2 Employment

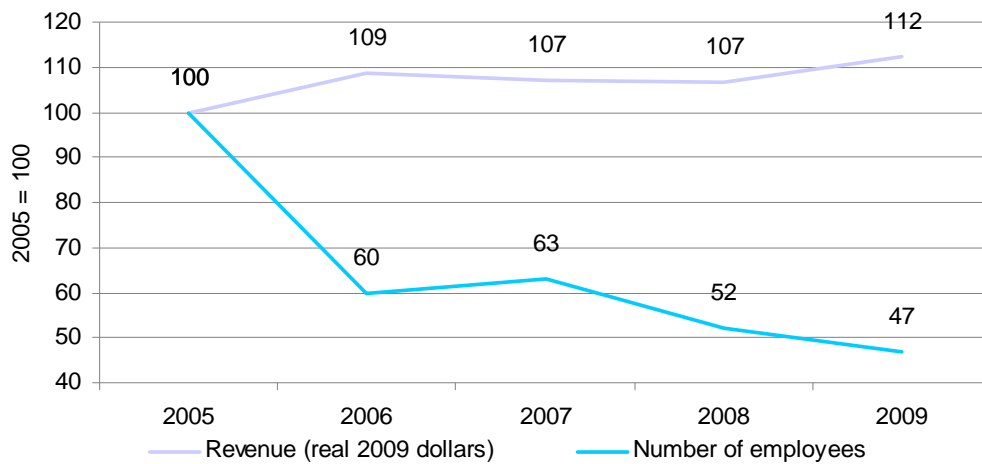
- Statistics Canada's data for the post-2004 period do not provide a complete picture of sector employment because the total number of contract workers – until 2009 - has been suppressed due to confidentiality provisions. However, the suppression of these data implies that three or fewer companies engage contract workers. Since the AV distribution sector has not traditionally relied on contract workers, the publicly available employee statistics likely provide a suitable proxy for employment trends.
- The statistics for the 2005-to-2009 period indicate that the number of employees working for companies in the AV distribution and wholesaling sector has dropped significantly in recent years (Table 18). Between 2005 and 2009, the total number of employees decreased by 17.3%, from 1,777 to 831. However, virtually all of this decrease was concentrated in 2006, in which the total dropped from 1,777 to 1,063.
- 2009 reporting demonstrates a potential shift towards contract employment in the sector. Between 2005 and 2009 we see that non-contractual employment dropped, even while revenues (in real dollars) stayed relatively constant.

**Table 18 Employment, 2005-2009**

	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2005-09
Full-time	1,259	953	941	820	797	-10.8%
Part-time	518	110	177	109	34	-49.4%
Total employees	1,777	1,063	1,118	929	831	-17.3%
Contract workers	x	x	x	x	134	x
Total industry employment	x	x	x	x	965	x

Source: Statistics Canada; x – data not available due to confidentiality provisions; † CAGR – Compound annual growth rate

**Figure 20 Comparison of trends in revenues and total number of employees, 2005-2009 (index, 2005 = 100)**



Source: Statistics Canada

### 2.3 Number of Distribution Companies

- The following section provides statistics related to the number of companies operating in Canada’s AV distribution sector between 2006 and 2008. Statistics Canada’s current methodology does not provide statistics for the number of AV distribution companies in operation in Canada. Instead, its methodology only provides statistics on the number of “establishments” operating in the sector. In the past, the organizational make-up of the AV distribution sector has undergone many changes, from consolidation and global expansion to new and aggressive start-ups and bankruptcies. In this way, the total number of distribution companies is not necessarily the most revealing measure of the state of the industry.

- According to Statistics Canada, “an active statistical establishment is one production entity or the smallest grouping of production entities which produces as homogeneous a set of goods and/or services as possible; which does not cross provincial boundaries; and for which records provide data on the value of output together with the cost of principal intermediate inputs used and cost and quantity of labour resources used to produce the output.”
- In general, an establishment is the smallest corporate unit for which a company maintains accounting records in sufficient detail to compose an estimate of the gross value of production.<sup>11</sup> That being the case, it is likely that the number of establishments would exceed the number of companies, per se, since a company is likely to maintain separate accounting records for its subsidiary companies or divisions.
- Other indicators that provide a context to the Statistics Canada data include: the membership of the Canadian Association of Film Distributors and Exporters (CAFDE) (which purportedly account for most of the distribution revenues for Canadian-controlled distributors); the 6 foreign-owned members of the Canadian Motion Picture Distributors Association (CMPDA); and, the Canadian Film and Television Production Association (CFTPA) 2009-2010 handbook that lists over 60 distributors (both Canadian- and foreign-controlled).

**Table 19 Number of film and video distribution and wholesaling establishments by country of financial control, 2006-2008**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Canadian-controlled	n.a.	48	59	68
Foreign-controlled	n.a.	18	21	20
Total	n.a.	66	80	88

Source: Statistics Canada; n.a. – data not available

- It is unclear how the number of establishments in the AV distribution sector is related to the number of companies operating. The definition of an establishment would suggest that the number of establishments is greater than the number of companies. Indeed, the fact that the number of foreign-controlled establishments in 2008 (Table 20) is greater than the actual number of American and other foreign distributors established before the 1988 Investment Canada Policy on Foreign Investment in the Canadian Film Distribution Sector, further suggests that the number of establishments is substantially greater than the number of companies (Table 19).
- Statistics Canada data indicate that the number of AV distribution and wholesaling establishments in Canada under Canadian control increased between

<sup>11</sup> <http://www.statcan.gc.ca/concepts/definitions/estab-etabl-eng.htm>

2006 and 2008, while the number of foreign-controlled establishments remained static, by virtue of government policy. The increase in the number of establishments signals that either more companies are entering the AV distribution and wholesaling sector, or existing companies are opening new subsidiaries or divisions (Table 19).

### 3. Economic Profile of Feature Film Distribution in Canada

In this section, we take a closer look at distributor revenues in terms of theatrical box office and television markets, and a closer look at the profile of feature films supported by Telefilm. We also examine marketing expenditures in detail.

#### 3.1 Distributor Revenues from Theatrical Release and Television

This sub-section presents statistics for revenues earned by distribution companies in Canada from the theatrical distribution of Canadian and foreign film productions.<sup>12</sup> First, total film revenues in the theatrical exhibition, followed by distributor “re-investments” in Canadian film, an in-depth look at CFFF-supported films, based on Telefilm data and finally, Canadian film production revenues from television platform distribution.

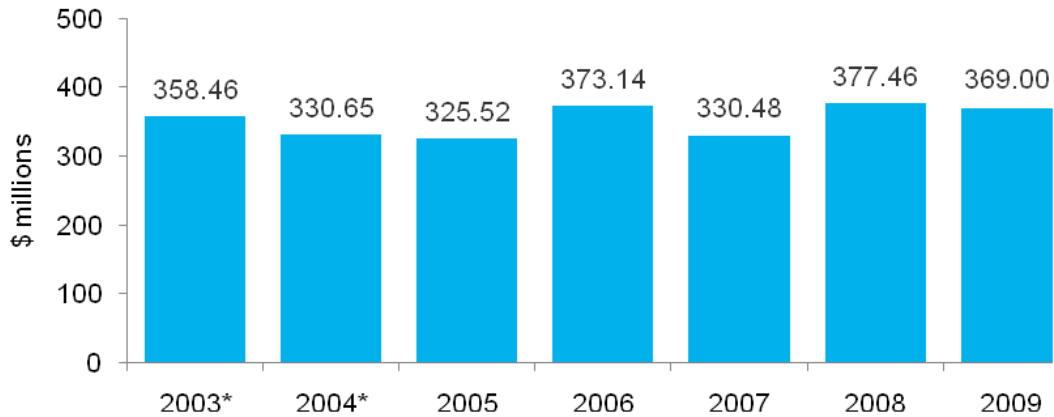
##### 3.1.1 Total Domestic Revenues of Distributors in the Theatrical Exhibition Segment

- The theatrical distribution segment in Canada generated total revenues of \$369 million in 2009. Virtually all of these revenues, 97%, were attributable to foreign productions (Figure 23). Foreign productions generated \$353.3 million in distribution revenues in 2009; Canadian productions generated \$10.1 million (Table 20).
- Distribution revenues in the theatrical segment were largely flat between 2003 and 2009. The annual average growth rate was only 0.3% during this six-year period (Table 20). As a result, the real value of theatrical distribution platform revenues actually fell by 8%, from \$398.9 million to \$369 million (Figure 22).
- Cineplex reported a 10.2% increase in its 2009 attendance – up by approximately 70 million patrons.<sup>13</sup> Canada’s small and medium distributors, however, who focus on niche independent and high-end or art-house productions, explain that those attendance increases may be concentrated on a limited number of blockbuster films. This pool includes 3-D and IMAX films that command a higher ticket price at the box office but do not necessarily improve or impact theatrical revenues for small and medium distributors.

<sup>12</sup> The vast majority of productions distributed in the theatrical segment are feature films.

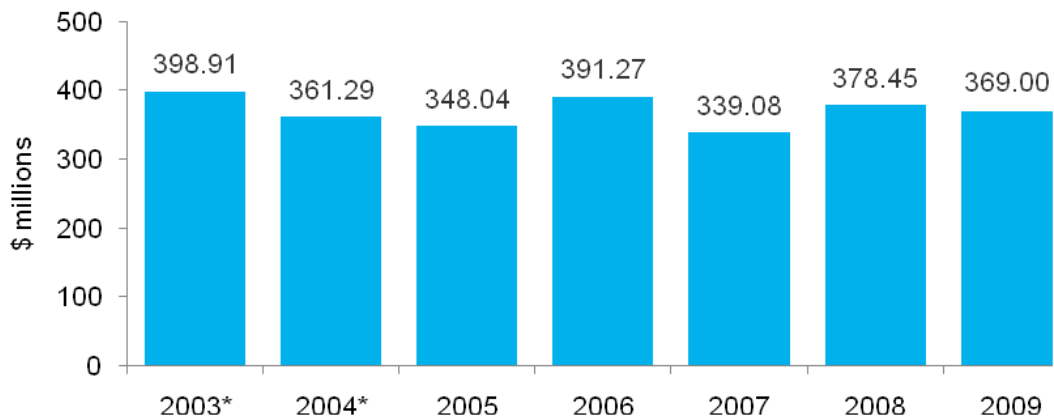
<sup>13</sup> Cineplex Galaxy Income Fund, Management’s Discussion and Analysis, 2009 p. 3

Figure 21 Total domestic theatrical distribution revenues, 2003-2009



Source: Statistics Canada; \*Backcasted

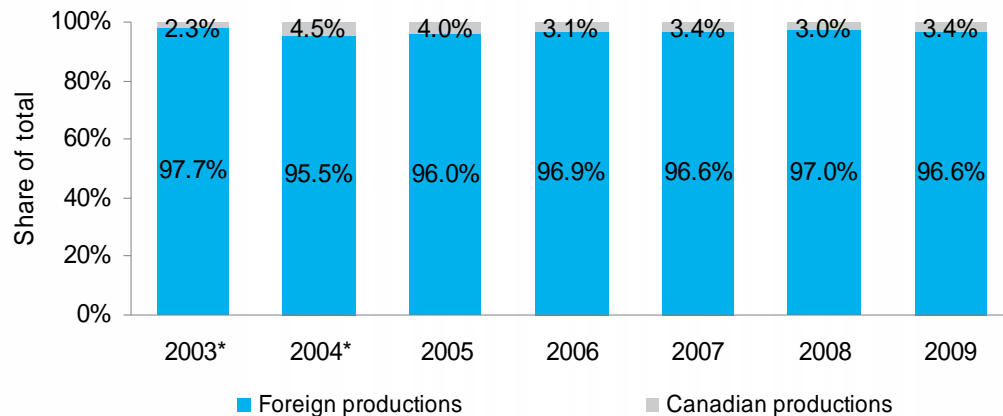
Figure 22 Theatrical distribution revenues in Canada (real 2009 dollars)



Source: Statistics Canada; \*Backcasted

- Distribution revenues from Canadian productions in the theatrical segment displayed an annual average growth of 4.1% between 2003 and 2009 (Table 20). However, this average growth rate was largely due to an increase in revenues from a six-year low of \$8.2 million in 2003. Indeed, Canadian productions' distribution revenues reached a six-year peak of \$13.1 million in 2005, before dropping below \$12 million in 2006, 2007 and 2008. In 2009, theatrical revenue for Canadian productions rose to \$12.4 million. Canadian productions' distribution revenues in 2009 were 17% below their six-year peak in 2004 (Table 20).

Figure 23 Share of total theatrical distribution revenues in Canada, by origin of content



Source: Statistics Canada

\*Backcasted

Table 20 Theatrical platform distribution revenue, by origin of content, 2003-2009

	2003*	2004*	2005	2006	2007	2008	2009	CAGR <sup>†</sup> 2003-09
	(\$ 000s unless indicated otherwise)							
Canadian productions	8,246	14,953	13,147	11,558	11,160	11,228	12,414	4.1%
<i>Share of total</i>	2.3%	4.5%	4.0%	3.1%	3.4%	3.0%	3.4%	--
Foreign productions	350,212	315,700	312,377	361,582	319,325	366,231	356,586	0.2%
<i>Share of total</i>	97.7%	95.5%	96.0%	96.9%	96.6%	97.0%	96.6%	--
Total	358,457	330,654	325,524	373,140	330,485	377,459	369,000	0.3%

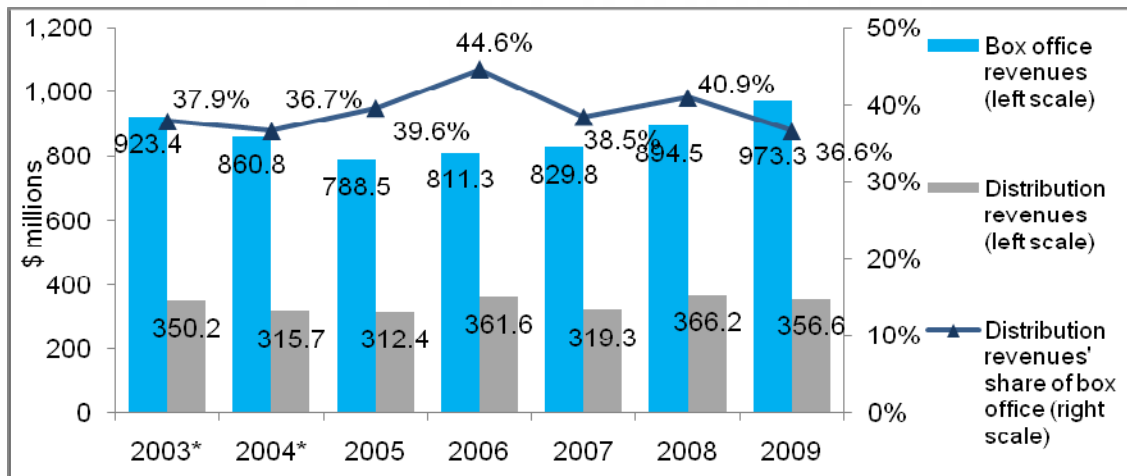
Source: Statistics Canada; \*Backcasted; † CAGR – Compound annual growth rate

- Figure 24 and Figure 25 below compare box office revenues (based on MPTAC data) and distributor theatrical revenues (based on Statistics Canada data), and so displays the share of box office revenues earned by distributors on foreign and Canadian productions.
- Distributor interviews reveal that the terms of these agreements vary a great deal depending on: a) the type of theatre; b) the individual film; and c) the eventual box office performance. Distributors can, for example, negotiate stronger terms for stronger box office performances, but will lose share for poorer runs. As Canada's English-language theatrical market is still largely dominated by a single chain, Cineplex, many distributors are not usually in a position of power in these negotiations. Foreign-owned distributors can exert more power, however, as they can leverage the major releases they have in the pipeline. Theoretically, output deals with the American classics distributors (and formerly the mini-majors), aid Canadian distributors in the same way.



- According to one large distributor, its average theatrical deal structure settles around 46-48% of the box office, though this can drop to 43% for a poor performing film.
- Theatrical distribution revenues in Canada for foreign productions were consistently around 40% of the total cinema box office earned by foreign films in Canada. In 2009, the total box office in Canada for foreign productions was \$973.3 million; distribution revenues for foreign productions were \$356 million, or 36.6% of the box office (Figure 24). In earlier years, the ratio of box office revenues and distribution revenues was fairly similar, with the exception of 2006, when the distribution revenues share of foreign productions rose to 44.6% of box office revenues.

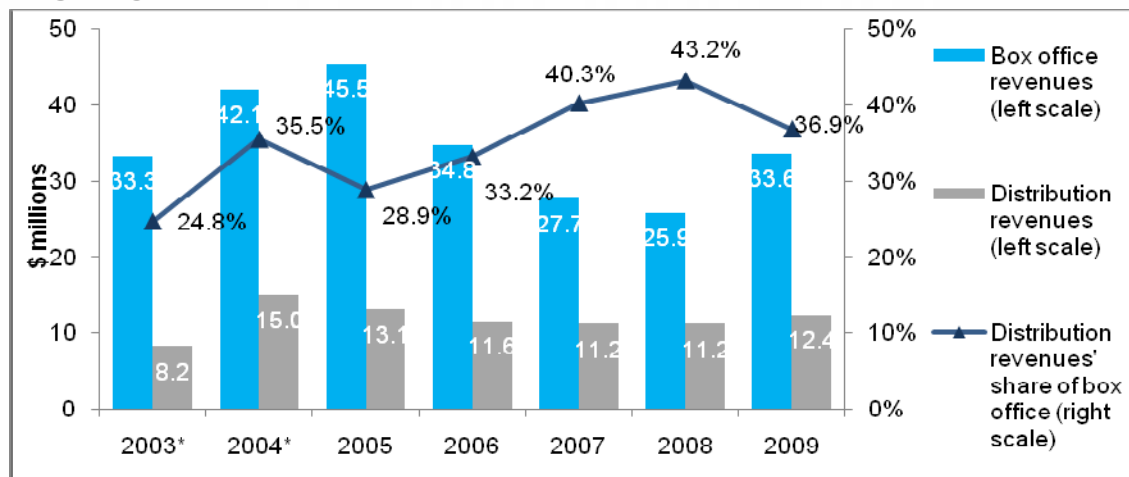
Figure 24 Box office revenues vs. distribution revenues, foreign productions, 2003-2009



Source: Statistics Canada and MPTAC; \*Distribution revenues are backcasted

- The Canadian productions' theatrical market displayed a relationship between box office and distribution revenues that was similar to that in the foreign-production market; although between 2003 and 2006, distribution revenues' share of the box office was lower. In 2009, the box office in Canada from Canadian productions was \$33.6 million; while distribution revenues on Canadian productions were \$12.4 million, or 36.9% (Table 20, Figure 25).
- In 2005, when the Canadian films' box office in Canada reached \$45.5 million, distribution revenues were \$13.1 million, or 28.9%. In 2003, distribution revenues accounted for 24.8% of box office revenues – the lowest share during the 2003-to-2009 period (Figure 25).
- There appears to be more volatility in the relationship between box office and distribution revenues for Canadian productions than for foreign productions (Figure 24, Figure 25).

Figure 25 Box office revenues vs. distribution revenues, Canadian productions, 2003-2009



Source: Statistics Canada and MPTAC; \*Distribution revenues are backcasted

- The “break-even at best” principle for the theatrical window translates into more and more distributors across Canada, but also specifically in Québec, considering the advantages for some films of going directly to DVD. A roundtable discussion with members of the APFTQ confirmed that producers understand that just 15-20% of films are successful theatrically, and are open to looking at other release and distribution strategies.
- While the French-language market enjoys some advantages in distribution over the English-language market, and is possibly less enamoured with studio blockbusters, the theatrical market is still intensely competitive in either language.

### 3.2 Distributor “Reinvestment” in Canadian Feature Film Production

To gauge Canadian-distributors’ rate of reinvestment in Canadian feature film production, we compared the sum of Canadian distributors’ advances for Canadian features films to the total revenues earned by Canadian-controlled distributors within and outside Canada from the distribution of Canadian and foreign feature films and television programs.

- The Statistics Canada data does not permit us to isolate Canadian-controlled distributors’ revenues within Canada, nor does it permit us to isolate Canadian-controlled distributors’ revenues from the distribution of feature films as opposed to television programs. As such, the denominator in our calculation of the reinvestment rate is somewhat overstated; and therefore, the estimated reinvestment rate is understated. That being said (as already noted), we understand that feature film distribution accounts for the vast majority of Canadian-controlled distributors’ revenues; and so, our calculation of the reinvestment rate can be considered a reasonable estimate of the actual reinvestment rate.

- In 2007, Canadian distributors made advances totaling an estimated \$44.2 million to the production of Canadian feature films. This total represented 16.7% of the total worldwide distribution revenues of \$264.8 million. In other words, Canadian distributors reinvested 16.7% of their distribution revenues in Canadian feature films in 2007. In 2008, the value of Canadian distributors' advances for Canadian feature films dropped to \$30.7 million; their rate of reinvestment in Canadian feature films also dropped to 9.5%. In 2009, the reinvestment rate rose to 10.4% (Table 21).

**Table 21 Canadian distributors' reinvestment in Canadian feature film production**

	2002	2003	2004	2005	2006	2007	2008	2009
	(\$ millions unless indicated otherwise)							
Canadian distributors' advances for Canadian features films	39.2	27.3	21.7	32.8	35.4	44.2	30.7	35.7
Canadian-controlled distributors' total revenues from AV distribution*	--	--	--	--	x	264.8	323.2	343.7
<i>Reinvestment rate</i>	--	--	--	--	--	16.7%	9.5%	10.4%

Source: Nordicity tabulations based on data from CAVCO and Statistics Canada.

\* Includes revenues earned from the distribution of Canadian and foreign feature films and television programs within and outside Canada; excludes wholesaling and other revenues.

X – data suppressed due to data confidentiality

### 3.2.1 Distribution Revenues of Canadian (CFFF-supported) Feature Films

The following sub-section presents statistics for the distribution revenues earned between 2007 and 2009 by Canadian feature films that received support through Telefilm's Canada Feature Film Fund (CFFF).<sup>14</sup>

Telefilm Canada maintains a database of distribution revenues earned by feature films that received financial support from the CFFF or its antecedent programs. This database does include instances of feature films with contract years as far back as 1985-86; however, it does not appear to contain all Telefilm-supported feature films with contract years back to 1985-86. This database does not report the year in which the distribution revenues have been earned. As such, the database only contains the data for the aggregate amount of distribution revenues earned to date.

In order to convert the database revenue data into annualized amounts, Telefilm Canada developed and implemented a database query that effectively took a snapshot (in time) of the database on June 30 in 2007, 2008, 2009 and 2010. Telefilm Canada selected the date of June 30 because it represents a date by which the distribution reports for the previous year would have been entered into the database. In other words, by June 30, 2007, the distribution revenues earned in 2006 would have been entered into the database. With these four database snapshots, Nordicity was able to derive the estimates of the annual distribution revenues earned by CFFF-supported

<sup>14</sup> This section constitutes a new cut at the data. We suspect 2008 may be a little under-reported and 2009 a little over-reported, though we cannot confirm this.

feature films for three annual periods, 2007, 2008, and 2009, by calculating the difference in amounts between each June 30th snapshot.

The statistics below are organized by language market, where the language market is defined by the language of the original production. In contrast, in Section 3.3.1<sup>15</sup> the box office revenue in is presented by language of presentation.

### All languages

- Between 2007 and 2009, the distribution revenues earned by CFFF-supported feature films ranged grew from \$52.5 million in 2007 to \$77.1 million in 2009 (Table 22).
- During this period, feature films produced in English have earned the majority share of the total distribution revenues earned by all CFFF-supported feature films. For example, English-language films accounted for 69.7% of total distribution revenues in 2009 (Table 22). French-language films accounted for the balance of distribution revenues, or 28.5% to 36%. Between 2007 and 2009, the distribution revenues of CFFF-supported French-language films ranged from \$18.2 million (2008) to \$23.3 million (2009).

**Table 22 Distribution revenues of CFFF-supported feature films, by language of original production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
English	33.6	45.6	53.8
<i>Share</i>	64.0%	71.5%	69.7%
French	18.9	18.2	23.3
<i>Share</i>	36.0%	28.5%	30.3%
Total	52.5	63.8	77.1
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

- Historically, Canada has been the source of the majority of distribution revenues for CFFF-supported feature films. However in 2008 and 2009, CFFF-supported features earned more than 55% of their distribution revenues outside of Canada (Table 23).

<sup>15</sup> Page 56.

**Table 23 AV Distribution revenues of CFFF-supported feature films, all languages by geographic market, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Canada	40.5	28.1	27.4
<i>Share</i>	77.3%	44.1%	35.5%
R.O.W.	11.9	35.6	49.7
<i>Share</i>	22.7%	55.9%	64.5%
Total	52.5	64.0	77.1
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

### By platform

- Between 2008 and 2009, revenue streams from television platforms and theatrical exhibition jockeyed for largest share of total revenues for CFFF-supported films. In 2008, theatrical revenues overtook television and home video to capture 49.9% share of the total. In 2009, theatrical maintained the largest share of revenues with 45.4% of the total.
- Home video revenues for CFFF-supported films declined sharply between 2007 to 2008, dropping from \$19.3 million or a 47.5% share (the largest share that year) to \$4.7 million or just 16.0% share in 2009 (Table 24).

**Table 24 Domestic AV distribution revenues by release platform, CFFF-supported feature films, all languages, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Theatrical	10.2	14.2	13.4
<i>Share</i>	25.1%	49.9%	45.4%
Television	10.5	8.9	8.9
<i>Share</i>	33.5%	31.5%	30.2%
Home Video	19.3	4.6	4.7
<i>Share</i>	47.5%	16.1%	16.0%
Other*	0.6	0.5	0.4
<i>Share</i>	1.4%	1.6%	1.2%
Total	40.5	28.4	29.5
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

\*includes airlines and miscellaneous revenues

- Within the home video market total revenues for CFFF-supported feature films plummeted from \$19.7 million in 2007 to \$4.7 million in 2009. Within the total,

sell through revenue dropped from \$16.8 million in 2007 to \$3.5 million in 2008. Nonetheless, sell-through still retained a significantly higher share of the total revenues, over rental (Table 25).

## Home Video

**Table 25 Domestic home-video distribution revenues for CFFF-supported feature films, all languages, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Rental	2.5	1.4	1.2
<i>Share</i>	12.7%	30.2%	26.1%
Sell-through	16.8	3.2	3.5
<i>Share</i>	87.3%	69.8%	73.9%
Total	19.7	4.6	4.7
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

-- Data unavailable.

## Television

- In 2007 and 2008, pay-TV accounted for the largest share of Canadian television distribution revenues for CFFF-supported feature films. In 2009, revenues from conventional and specialty TV captured the largest share of revenues with 45.3% or \$4.0 million. The balance of television platform distribution revenues (between 10% and 14.2%) came from the pay-per-view segment. Total television revenues are generally flat, sitting at \$8.9 million in 2008 and 2009 (Table 26).

**Table 26 Domestic television distribution revenues for CFFF-supported feature films, all languages, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Pay-TV	4.6	4.4	4.0
<i>Share</i>	44.0%	49.0%	44.6%
Conventional and specialty TV	4.4	3.5	4.0
<i>Share</i>	41.8%	39.1%	45.3%
Pay-per-view	1.5	1.1	0.9
<i>Share</i>	14.2%	12.0%	10.0%
Total	10.5	8.9	8.9
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

Conventional and specialty TV incl. cable, syndicated, network

## French-language

- The vast majority of distribution revenues earned by CFFF-supported French-language feature films have been from Canada. Between 2007 and 2009 domestic distribution accounted for at least 63.7% (2008), and to as high as 97.4% (2007), of revenues (Table 27). This reality is echoed throughout interviews with distributors who suggest that Québec films typically have their main success inside the province, and its films can struggle beyond its borders.
- On the other hand, 2008 and 2009 were strong years for foreign sales for French-language CFFF-supported films, as they generated \$6.6 million and \$5.6 million in foreign revenues respectively (Table 27).

**Table 27 Distribution revenues of CFFF-supported feature films, French-language production by geographic market 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Canada	18.4	11.6	17.7
<i>Share</i>	97.4%	63.7%	75.9%
R.O.W.	0.5	6.6	5.6
<i>Share</i>	2.6%	36.3%	24.1%
Total	18.9	18.2	23.3
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

- From 2007 to 2009, the theatrical platform grew from for approximately one third to just over 60% of total distribution revenues; during this period home video revenues declined from a 39.0% share and \$7.2 million to a 16.0% share and \$2.8 million. Television revenues were stable in 2008 and 2009, its share dropped from 29% to 19.6% of total revenues (Table 28).

**Table 28 Domestic distribution revenues by release platform, CFFF-supported feature films, French-language production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Theatrical	6.7	5.8	11.2
<i>Share</i>	36.8%	50.5%	63.4%
Television	4.3	3.4	3.5
<i>Share</i>	24.4%	29.0%	19.6%
Home Video	7.2	4.2	2.8
<i>Share</i>	39.0%	19.5%	16.0%
Other*	0.2	0.1	0.2
<i>Share</i>	0.9%	1.0%	1.0%
Total	18.4	11.6	17.7
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada; \*includes airlines

- Within the home video market, sell-through accounted for the vast majority of French-language CFFF-supported feature films' distribution revenues in 2007 and 2009 with 81.4% and 74.1% share of revenues respectively (Table 29). Total revenues from home entertainment faced a steep decline from \$7.2 million in 2007 to \$2.8 million in 2009. The decline was evident in both rental and sell-through revenues, though sell-through did grow from \$1.1 million to \$2.1 million between 2008 and 2009.

**Table 29 Domestic home-video distribution revenues for CFFF-supported feature films, French-language production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Rental	1.3	1.2	0.7
<i>Share</i>	18.6%	52.7%	25.9%
Sell-through	5.8	1.1	2.1
<i>Share</i>	81.4%	47.3%	74.1%
Total	7.2	4.2	2.8
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

- In 2007 and 2009, Conventional and specialty TV commanded the highest share of revenues for CFFF-supported French-language film productions. In 2009, Pay-TV revenues overtook Conventional with \$1.5 million dollars of revenue. Pay-per-view accounted for a fairly steady share of revenues, dropped from 17.1% in 2007 to 16.1% in 2009 (Table 30).

**Table 30 Domestic television distribution revenues for CFFF-supported feature films, French-language production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Pay-TV	1.6	1.2	1.5
<i>Share</i>	37.7%	35.5%	44.0%
Conventional and specialty TV	1.9	1.6	1.4
<i>Share</i>	45.2%	48.3%	39.9%
Pay-per-view	0.7	0.6	0.6
<i>Share</i>	17.1%	16.3%	16.1%
Total	4.3	3.4	3.5
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

\*\*Conventional and specialty TV incl. cable, syndicated, network

### English language

- Between 2007 and 2009, domestic revenue for CFFF-supported English-language films declined severely from \$22.2 million in 2007 to \$9.7 million in 2009. In 2008



and 2009 sources outside of Canada accounted for 63.1% and 82.1% of revenues respectively, pointing to the importance of the foreign market for CFFF-supported English-language feature film productions. This strong international performance, however, was preceded by a year in which domestic revenues were the source of 66.0% of revenues for English-language, CFFF-supported feature films (Table 31).

**Table 31 Distribution revenues of CFFF-supported feature films, English-language production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Canada	22.2	16.6	9.7
<i>Share</i>	66.0%	36.3%	17.9%
R.O.W.	11.4	29.1	44.1
<i>Share</i>	34.0%	63.7%	82.1%
Total	33.6	45.6	53.8
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

- Between 2007 and 2009, no single platform dominated the share of revenues for English-language, CFFF-supported feature films and all platforms declined. Home video, which accounted for the highest share in 2007, dropped to 19.3% share and 1.9 million revenues by 2009. Televisions share grew from 28.1% in 2007 to 56.4% in 2009, though in actual dollars it declined from \$6.2 million to \$5.4 million over the same period. Home video revenues plummeted from \$12.1 million in 2007 to \$1.9 million in 2009 (Table 32).

**Table 32 Domestic distribution revenues by release platform, CFFF-supported feature films, English-language production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Theatrical	3.4	8.3	2.2
<i>Share</i>	15.4%	50.3%	22.4%
Television	6.2	5.6	5.4
<i>Share</i>	28.1%	33.7%	56.4%
Home Video	12.1	2.3	1.9
<i>Share</i>	54.6%	14.0%	19.3%
Other*	0.4	0.3	0.2
<i>Share</i>	1.9%	2.0%	1.8%
Total	22.2	16.5	9.7
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

\*includes airlines

- In 2007 and 2008 the home video market revenues for CFFF-supported, English-language feature films dropped from \$12.1 million to just under \$2 million. Within

the total revenues, the sell-through share dropped most drastically from \$11 million to \$1.4 million (Table 1).

**Table 33 Domestic home-video distribution revenues for CFFF-supported feature films, English-language production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Rental	1.1	0.2	0.5
<i>Share</i>	9.3%	8.2%	26.3%
Sell-through	11.0	2.1	1.4
<i>Share</i>	90.7%	91.8%	73.7%
Total	12.1	2.3	1.9
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

- Between 2007 and 2008, pay-TV made the largest contribution to the distribution revenues earned in the Canadian television market by CFFF-supported English-language films – with 48.3% and 57.1% share of revenues. However, revenues in conventional and specialty TV grew, to \$2.7 million in 2009 for a 48.8% share – the highest in that year. Across all years, as with French-language CFFF-supported films, pay-per-view has contributed the least to English-language films' distribution revenues (Table 34).

**Table 34 Domestic television distribution revenues for CFFF-supported feature films, English-language production, 2007-2009**

	2007	2008	2009
	(\$ millions unless specified otherwise)		
Pay-TV	3.0	3.2	2.5
<i>Share</i>	48.3%	57.1%	45.0%
Conventional and specialty TV	2.5	1.9	2.7
<i>Share</i>	39.5%	33.5%	48.8%
Pay-per-view	0.8	0.5	0.3
<i>Share</i>	12.3%	9.4%	6.2%
Total	6.2	5.8	5.4
<i>Share</i>	100.0%	100.0%	100.0%

Source: Telefilm Canada

### 3.3 Marketing Expenditures

In this section, we present statistics derived from the CFFF Marketing Program, administered by Telefilm Canada, to examine the intensity of marketing expenditures for Canadian feature films. The CFFF Marketing Program provides advances to Canadian distributors' costs of marketing Canadian feature films. The statistics from the CFFF Marketing Program provide an indication of marketing expenditures for the

sample of films for which distributors applied for financial support. However, the statistics are by no means comprehensive for all Canadian feature films, since not all Canadian features – and not all films that received production funding from the CFFF – received support through the CFFF Marketing Program.

**Table 35 Feature film marketing expenditures and associated production budgets\*, 2001-2009**

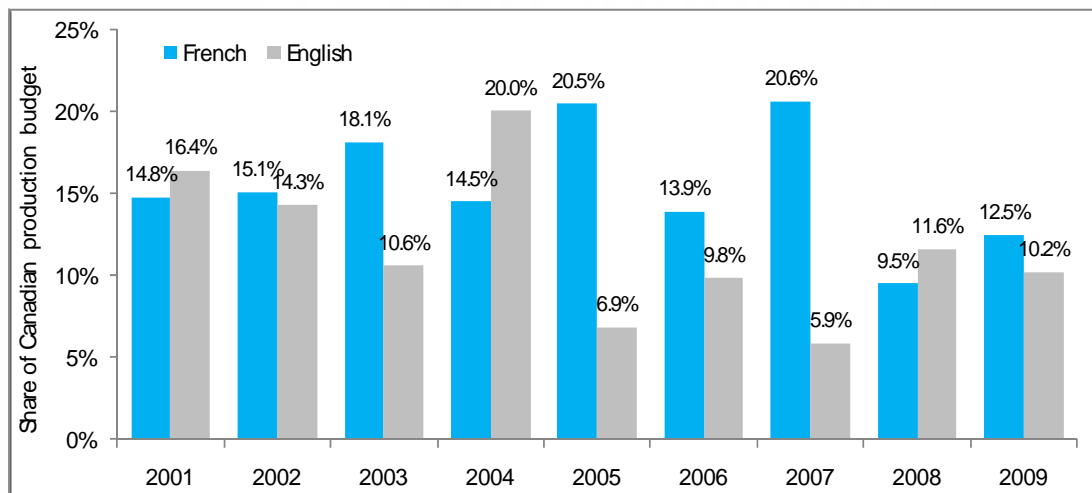
	2001	2002	2003	2004	2005	2006	2007	2008	2009
	(\$ millions)								
<b>French-language productions</b>									
Marketing budgets	4.9	6.6	9.5	9.6	11.9	10.3	8.9	6.4	8.2
Canadian production budgets	33.2	43.9	52.7	66.5	58.2	73.8	43.3	67.3	65.8
<b>English-language productions</b>									
Marketing budgets	5.9	10.6	11.0	11.3	8.5	8.7	7.1	9.1	7.2
Canadian production budgets	36.2	73.8	103.9	56.3	123.2	88.0	121.1	78.4	70.9

Source: Nordicity tabulations based on data from Telefilm Canada

\* Data include the marketing expenditures reported by distributors for Canadian feature films for which distributors received financial assistance through the CFFF Marketing Program (and antecedent programs). The marketing expenditures are based on the marketing budgets estimated by distributors. Where final marketing expenditures amounts are reported, these are substituted for the estimated budgets. For international treaty coproductions, Canadian budgets refer to expenditures within Canada.

- There was a wide variation in marketing expenditures as a percentage of total Canadian budgets between 2001 and 2009. At the higher end of the variation, marketing expenditures were equal to 20% of total Canadian budgets. At the lower end of the variation, marketing expenditures for English-language films were just under 6% (Table 35, Figure 26).

**Figure 26 Marketing expenditures as a share of Canadian production budgets\*, 2001-2009**

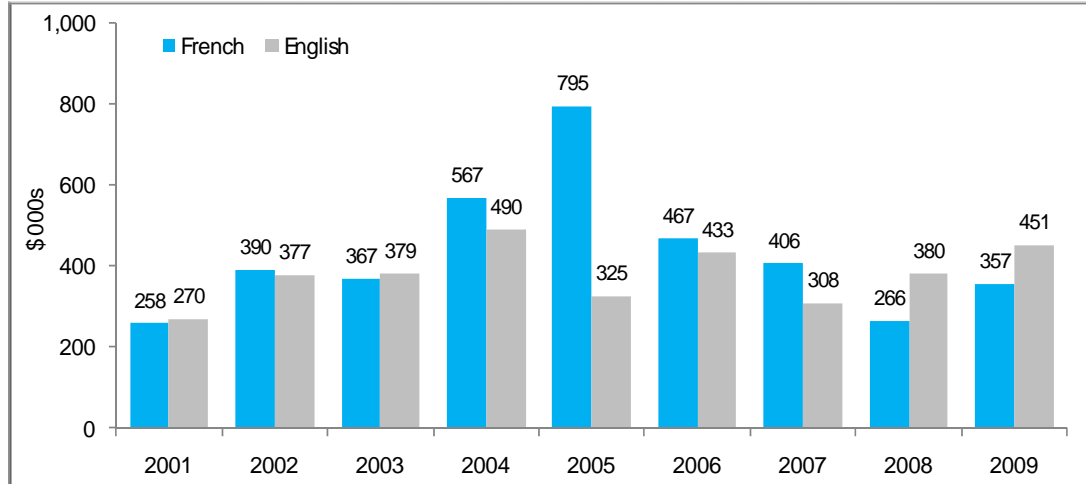


Source: Nordicity tabulations based on data from Telefilm Canada

\* Data include the marketing expenditures reported by distributors for Canadian feature films for which distributors received financial assistance through the CFFF Marketing Program (and antecedent programs). The marketing expenditures are based on the marketing budgets estimated by distributors. Where final marketing expenditures amounts are reported, these are substituted for the estimated budgets. For international treaty coproductions, percentages are calculated on the basis of the Canadian budgets; i.e., expenditures within Canada.

- Average per-film marketing expenditures between 2001 and 2009 ranged from \$258,000 to \$795,000. In most years, the average was between \$300,000 and \$400,000 (Figure 27).

Figure 27 Average marketing expenditures per film \*, 2001-2009

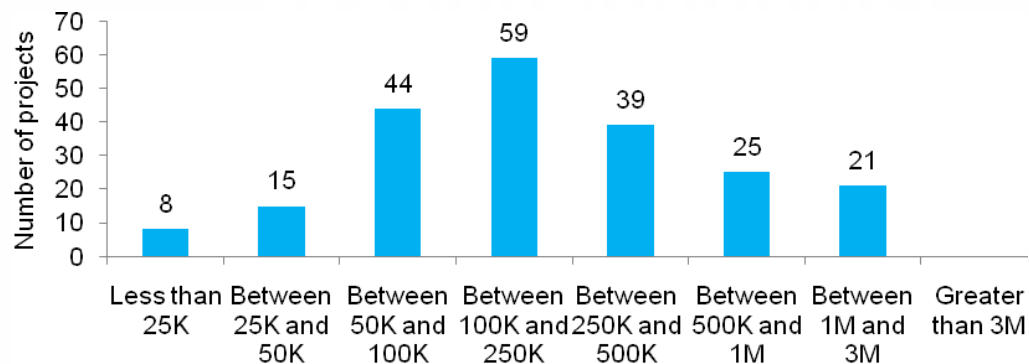


Source: Nordicity tabulations based on data from Telefilm Canada

\* Data include the marketing expenditures reported by distributors for Canadian feature films for which distributors received financial assistance through the CFFF Marketing Program (and antecedent programs). The marketing expenditures are based on the marketing budgets estimated by distributors. Where final marketing expenditures amounts are reported, these are substituted for the estimated budgets.

- The following charts offer a little more resolution on the same data by looking at the number of films that fall under a certain range of marketing spending, for all CFFF titles between 2001 and 2009.

Figure 28 Distribution of marketing budgets by size, 2001-2009 (CFFF English-language productions)

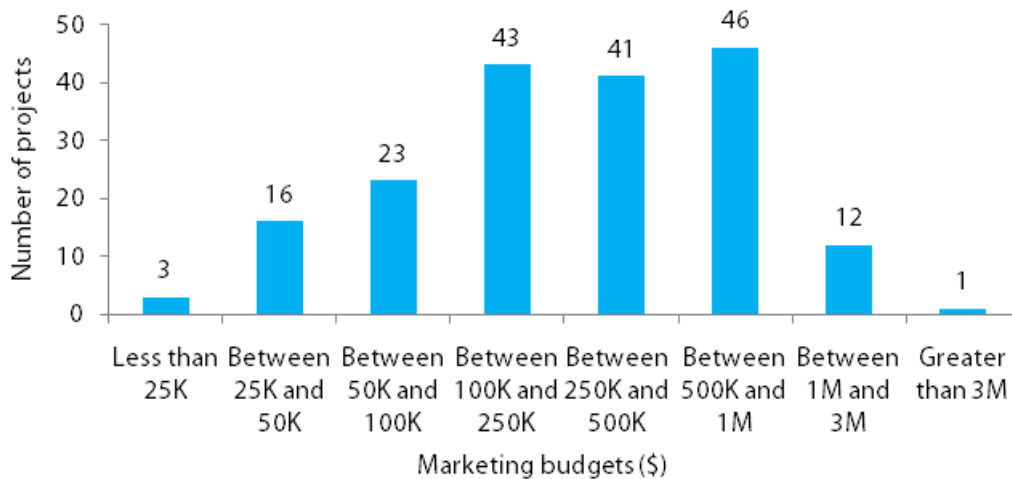


Marketing budgets (\$)

Source: Nordicity tabulations based on data from Telefilm Canada

- A higher proportion of the French-language films (31%) receive a marketing spend of over \$500K and up to \$3 million as compared to 22% of English productions in that range (Figure 28, Figure 29). 46% of English-language productions are matched with a marketing and promotion budget of \$100-500K (Figure 28, Figure 29).

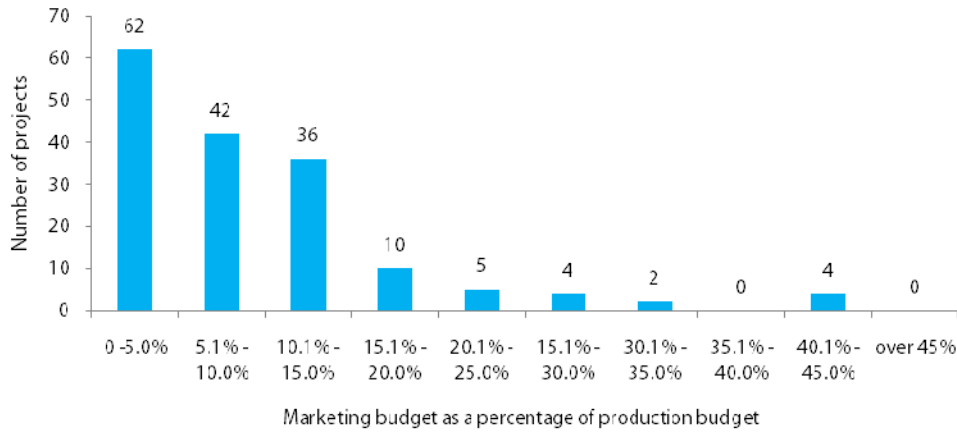
Figure 29 Distribution of marketing budgets by size, 2001-2009 (CFFF-French-language productions)



Source: Nordicity tabulations based on data from Telefilm Canada

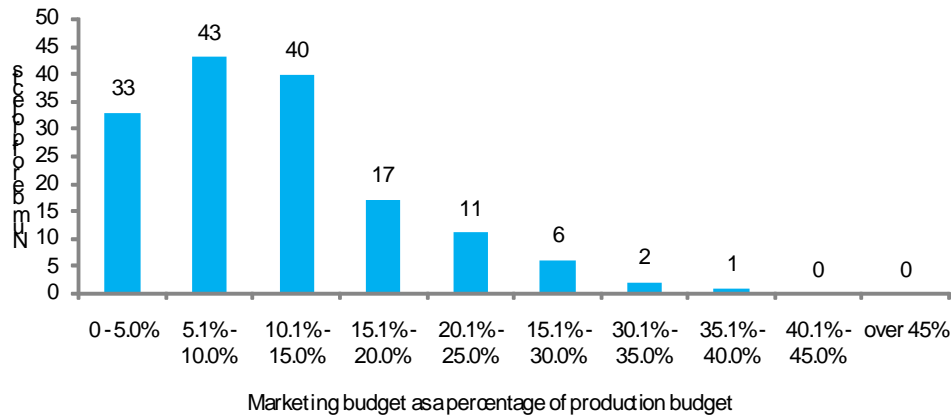
- Small, medium and large distributors each describe different ranges of marketing spend ranging, at the low end from \$15-30,000 per film up to \$3 million for a major release. Each production is examined individually and some films will receive more support and others less. The marketing spend decision is the same for Canadian and foreign productions in terms of the fact that the budget is based on the expectations of the film's performance and Canadian films are judged alongside foreign films. One medium-sized distributor, as explained previously, comments that the costs are higher when marketing Canadian films because the material must be produced from scratch, rather than inherited from the foreign producer or distributor.
- Figure 30 and Figure 31 show projects by the ratio of marketing to production budgets. Marketing budgets, as a percentage of production budgets, are higher for French-language films than for English-language productions.

Figure 30 Distribution of projects by marketing budget ratio – English-language



Source: Nordicity tabulations based on data from Telefilm Canada

Figure 31 Distribution of projects by marketing budget ratio – French-language



Source: Nordicity tabulations based on data from Telefilm Canada

- Distributors explained that the production budget is only one variable factored into decisions regarding levels of marketing spend – release schedule, competition, expectations and targets all form part of the strategy. Nonetheless, the 0-15% of production budget range contains the most number of titles, for both French- and English-language marketing spend ratios.

### 3.3.1 Theatrical Box Office in Canada

- Table 36 shows the ratio of foreign to Canadian films by language and control from 2002 to 2010. In every year, the French-language theatrical market, as measured by number of films playing in Canada, is smaller than the English-language market. In every year, Canadian French-language films command a higher proportion of the total French-language market than Canadian English-language films command of the total English-language market. Nonetheless, the

ratio of foreign to Canadian English-language films playing in Canadian theatres has declined since 2006, to the smallest amount since 2004.

**Table 36 No. of Canadian Content Productions by Language and Control, 2002-2010**

	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>French-language market</b>									
(Number of films playing in theatres in Canada)									
Canadian films	52	68	86	80	79	84	79	78	75
Foreign films	262	289	298	302	344	328	293	316	292
All films	314	357	384	382	423	412	372	394	367
Ratio of foreign to Canadian films	5.0	4.3	3.5	3.8	4.4	3.9	3.7	4.1	3.9
<b>English-language market</b>									
(Number of films playing in theatres in Canada)									
Canadian films	60	56	67	62	57	63	72	71	71
Foreign films	395	362	377	388	413	438	436	422	405
All films	455	418	444	450	470	501	508	493	476
Ratio of foreign to Canadian films	6.6	6.5	5.6	6.3	7.2	7.0	6.1	5.9	5.7

Source: MPTAC

### 3.4 Film Distribution Revenues from Canadian Television

The following tables are taken from a CAFDE and CFTP study that surveyed six distributors' broadcast sales revenues for Canadian feature films. These distributors represent over 70% of the box office revenues for Canadian films based on MPTAC data.<sup>16</sup>

- While the compound annual growth rate over the entire period from 2000 to 2009 demonstrates positive growth in each language market, revenues level off between 2003 and 2006 after which they decline.
- Overall, since the latter half of the decade, English- and French-language broadcasters alike have steadily reduced spending on Canadian feature films (Table 37, Table 38, Table 39).
- For English-language broadcasters, the decline is evident across all platforms, but particularly in the specialty TV and private conventional TV revenue streams (Table 38). Distribution revenues from French-language broadcasters are also in flux, although the decline is most evident in public and private conventional TV revenues (Table 39).

<sup>16</sup> These data represent a sample of the entire market as some distributors declined or were unable to participate in the study. As a result, revenues may be significantly under-represented.

Figure 32 Feature film distribution revenue, Canadian broadcast rights, 2000-2009

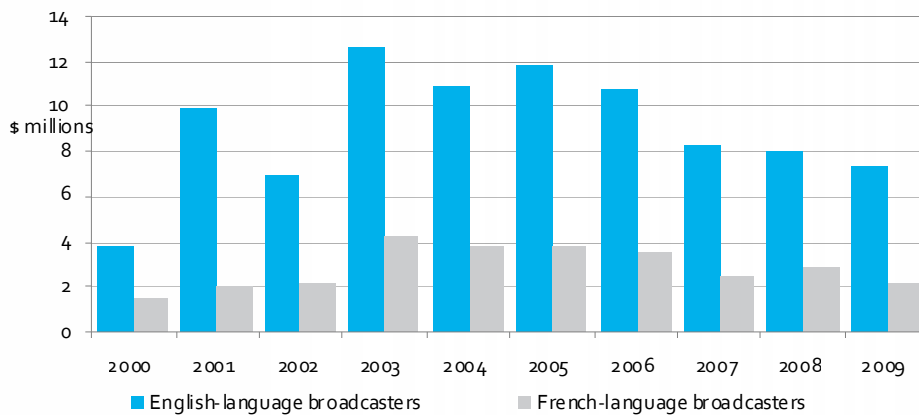


Table 37 Total feature film distribution revenue, Canadian broadcast rights, 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR † 2000- 09
	(\$ 000s)										
Eng. lang. Broadcasters	3,825	9,911	6,854	12,623	10,874	11,826	10,682	8,256	8,026	7,348	6.7%
Fr. lang. Broadcasters	1,452	2,012	2,112	4,160	3,814	3,835	3,594	2,453	2,852	2,185	4.2%
Total Revs.	5,278	11,923	8,966	16,783	14,689	15,661	14,275	10,709	10,878	9,533	6.1%

Source: CAFDE/CFTPA: Canadian Feature Film Study Report

Table 38 Feature film distribution revenues, Canadian broadcast rights (English-language broadcasters), 2000-2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR † 2000- 09
	(\$ 000s)										
Pay TV	2,028	7,591	4,665	6,369	5,843	5,130	7,018	6,740	6,979	5,634	10.8%
Specialty TV	634	560	1,628	3,636	2,128	1,600	845	1,463	523	602	-0.5%
Private Conventional TV	1,066	441	321	923	1,486	3,551	333	0	220	669	-4.6%
Public Conventional TV	97	1,320	240	1,695	1,416	1,546	2,485	53	305	443	16.4%
Total	3,825	9,911	6,854	12,623	10,874	11,826	10,682	8,256	8,026	7,348	6.7%

Source: CAFDE/CFTPA: Canadian Feature Film Study Report



**Table 39 Feature film distribution revenue, Canadian broadcast rights (French-language broadcasters), 2000-2009**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR ‡ 2000- 09
	(\$ 000s)										
Pay TV	615	1,025	1,297	2,818	1,991	2,060	1,727	1,704	2,254	1,963	12.3%
Specialty TV	202	11	128	77	134	164	50	166	170	95	-7.3%
Private conventional TV	0	481	308	421	265	323	208	96	110	73	-18.9%
Public conventional TV	635	495	379	845	1,425	1,289	1,609	487	318	55	-21.7%
Total	1,452	2,012	2,112	4,160	3,814	3,835	3,594	2,453	2,852	2,185	4.2%

Source: CAFDE/CFTPA: Canadian Feature Film Study Report