Digital Media at the Crossroads - 2019

THE DIGITAL MEDIA UNIVERSE IN CANADA: Measuring the Revenues, the Audiences, and the Future Prospects

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Disclaimer

1. The Set-up
2. Digital Advertising
3. Broadcasting and Television Content
4. Newspaper Publishing and Journalism
5. Digital Music
6. Video Games

1. The Set-up

1.1 Study Mandate and Objective

Mandate:

- To **gather, analyze, and present publicly available data and information**
- To provide a **refreshed update from last year, spiced with this year's issues.**

Focus on the demand side

- advertising, subscription revenue, and consumption metrics.

This year's **Canadian Digital Media Universe** will:

- Show to what degree these **trends have continued or changed** course.
- **Introduce new factors** that became more apparent this past year.

1.2 Last Year's Findings

- Digital advertising **dominated by Google and Facebook**, which have little business rationale to re-invest in content.
- Principles of traditional journalism are no longer dominant, and are **disrupted by social media** and quest for clicks.
- Disruptive **impact of OTT** on private conventional TV services, but offer more financing opportunities for Canadian producers.
- The big challenge is how to improve **discoverability**, especially for music.

This year's **Canadian Digital Media Universe** will show to what degree these trends have continued or changed course. It will also introduce new factors that became more apparent this past year, and affect how Canadian media and content responds these challenges.

2. Digital Advertising

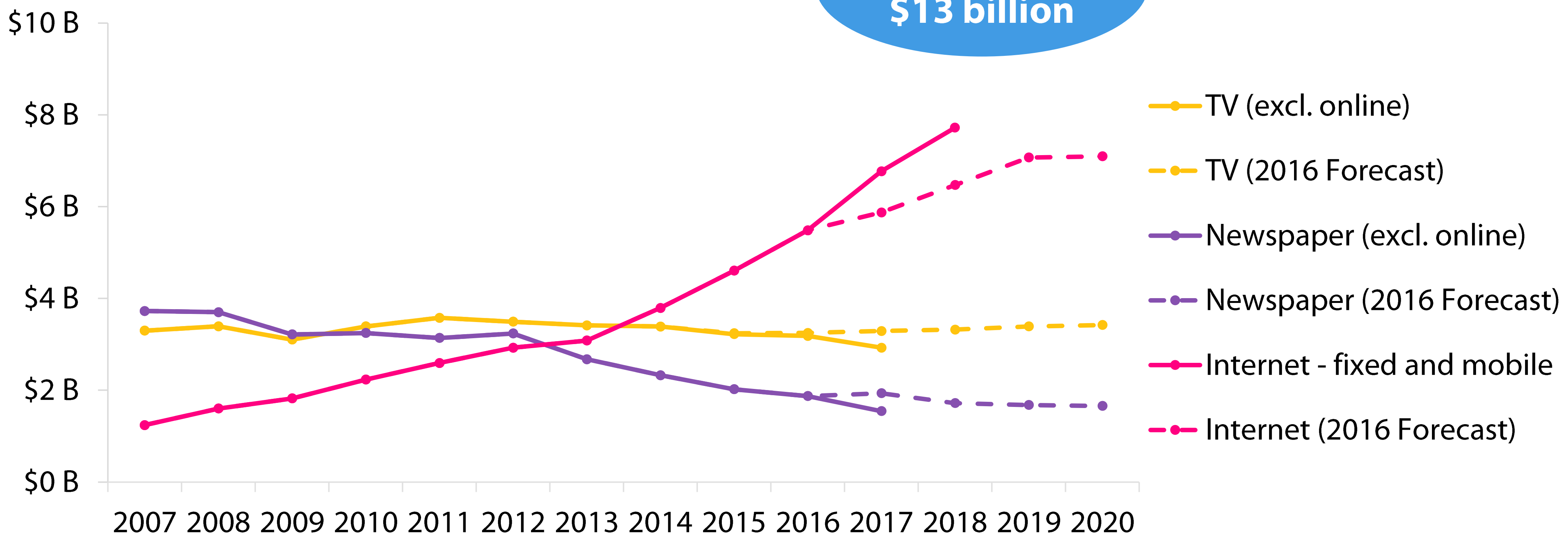
2.1 Digital Advertising – Key Questions

- **Is digital advertising still growing as forecasted?**
- **How fast is the mobile component growing and what does it mean?**
- **What is the impact on traditional media and their support of Canadian content?**

2.2 Advertising Revenue - Online Forecasts Were Too Cautious

Net advertising volume ($M, reported actuals and forecasts)

2017 Total: $13 billion

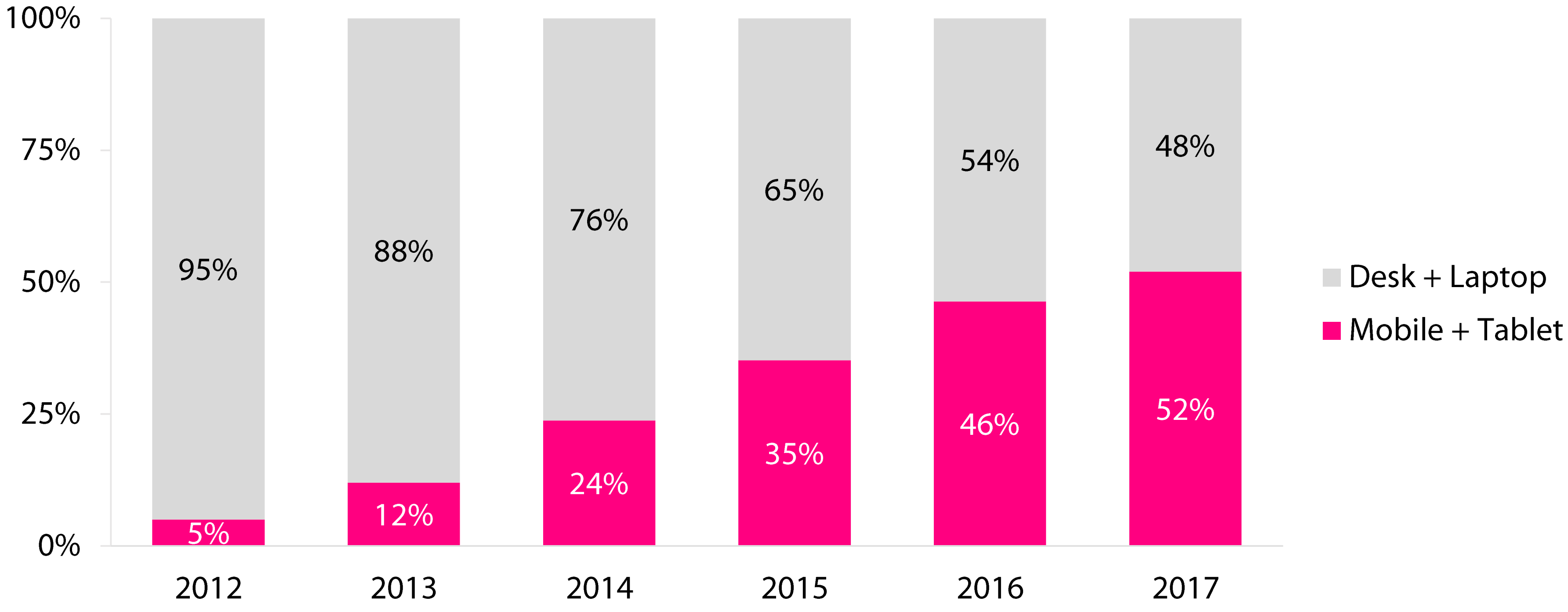


Outlook remains grim for traditional media ad revenue in its traditional formats

Source: CMCRP, *The Growth of the Network Media Economy in Canada 1984-2017*; IAB Canada *2017 Actual + 2018 Estimates Canadian Internet Advertising revenue survey*; CRTC estimates ; *eMarketer Worldwide Ad Spending, Estimates and Forecast for 2015-2020*; Note: Mobile not tracked by IAB Canada before 2013, hence the change in trend for Internet advertising.

2.3 Digital Advertising Revenue - Mobile more than half in 2017

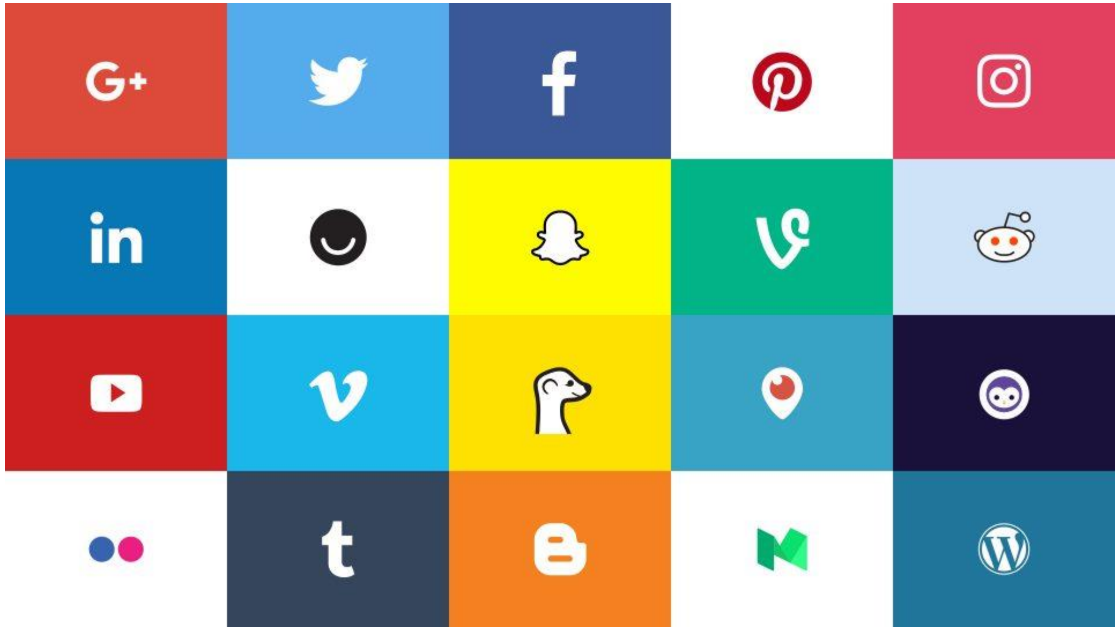
Distribution of Internet advertising volume, by platform



This trend will only grow stronger with 5G and increased bandwidth capacity

Source: IAB Canada

2.4 Internet and Mobile Consumption - Canadians spend almost 3 hours a day on mobile



Viewer tolerance of mobile advertising will drive up value of mobile for content

Source: eMarketer, March 2018

2.5 Apps and Games Compete for Time as well as Advertising

- Yes, streaming services present massive competition to conventional content platforms. But content services like Netflix, Crave, etc. view **anything that consumes customer screen time as competition.**
  - In fact, in the US, since 2015 time spent in mobile apps has exceeded time spent watching television (although this behaviour includes watching TV and using the smartphone).

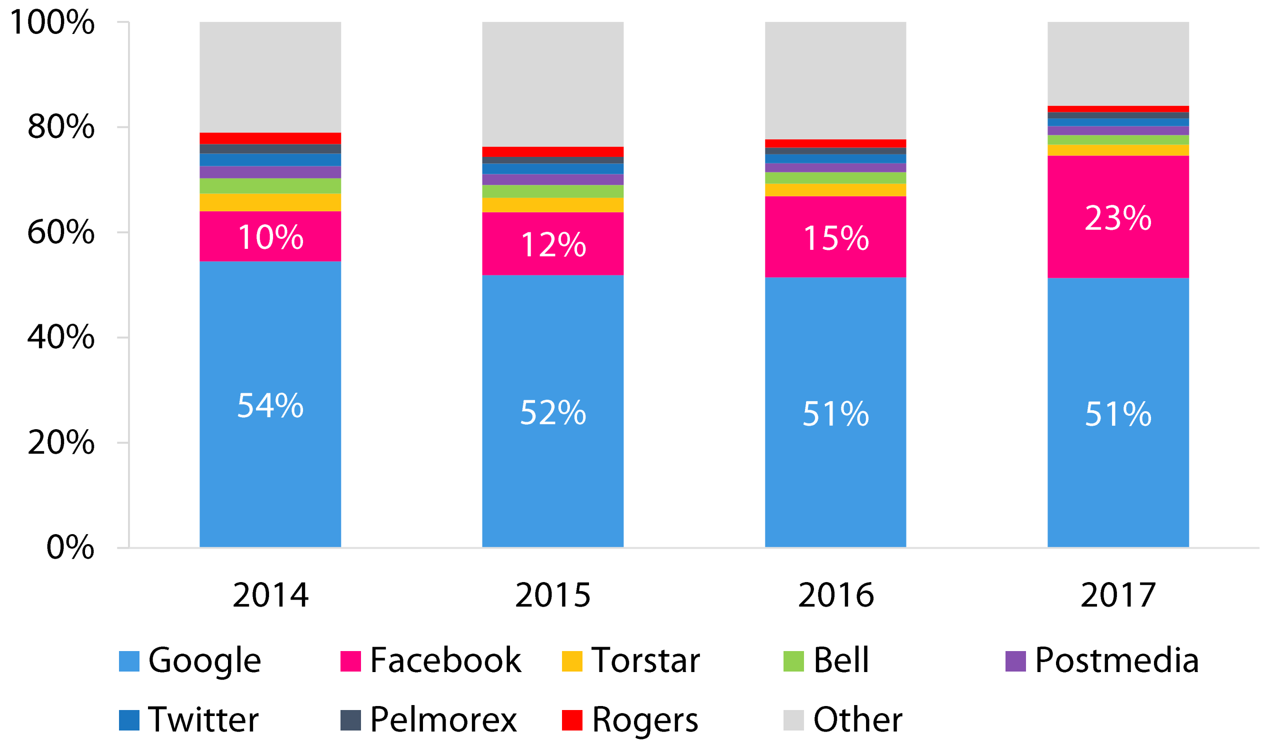
- **Mobile multiplayer games** like *Fortnite* or *PUBG* have capitalized on new consumer interest. *Fortnite* (more than 200 million players) "has become a place where you don't just go to play — but rather "hang out." For kids and young adults, **the game has replaced the mall**" (Owen Williams - Charged).

Thus, the impact of smartphones is more than a drain of advertising dollars – it competes with traditional viewing contexts

2.6 Google-Facebook – Social Media Growth Greater than Search

- Google and Facebook represent **49%** of the global digital ad revenue (vs. **58%** in the US).
- Google and FB represent **75%** of Canadian digital ad revenue – FB up **70%** in 2017.
- Google's growth is flat, but still **50%** share in Canada.
- Amazon forecast to be #3 in US with **4%** in 2018 and up to **7%** by 2020. Watch out Canada!

Internet ad revenue shares, Canada



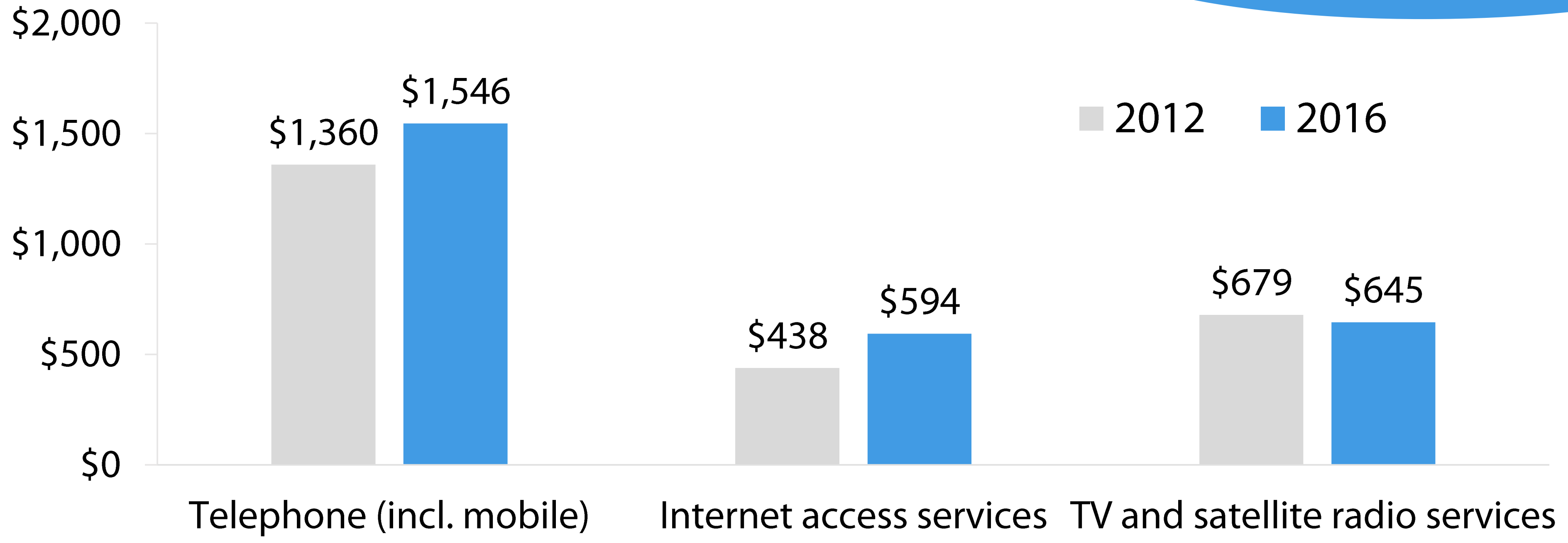
While Google growth may stall, social media is still growing – there will not likely be much if any repatriation of ad dollars by traditional media

Source: CMCRP, *The Growth of the Network Media Economy in Canada 1984-2017*

2.7 Spending – Mobile/broadband access costs rising, very slight decline for broadcast access

2016 Avg: $223/month per household

Average annual spending per household, 2012-2016



What is the impact of mobile access costs on digital divide?

Source: Statistics Canada *Table 11-10-0222-01*

2.8 Conclusions

- Growth of **digital advertising surpasses projections**, and decline of print newspapers is steeper than forecast (TV ad revenue shows some resilience)
- **Smartphone advertising** is taking ever bigger chunks of digital advertising – and in fact **diverting people's time** away from content.
- The growth of mobile has not so positive side effects for content.
  - Inescapability of the influence of **social media**;
  - Continued impact on revenue base of **traditional media**;
  - Rapid growth of **mobile games** that consume viewers' time
- **But mobile is a powerful tool** to help content suppliers and purveyors connect with their audiences.

3. Broadcasting and Television Content

3.1 Broadcasting and Television Content – Key questions

- What is moving up or down in TV and content revenues in Canada?
- Who is doing the viewing and to what media?
- What are trends in the OTT landscape?
- What are the policy issues as a result?

3.2 Snapshot of Canada's Broadcasting and Production Sector

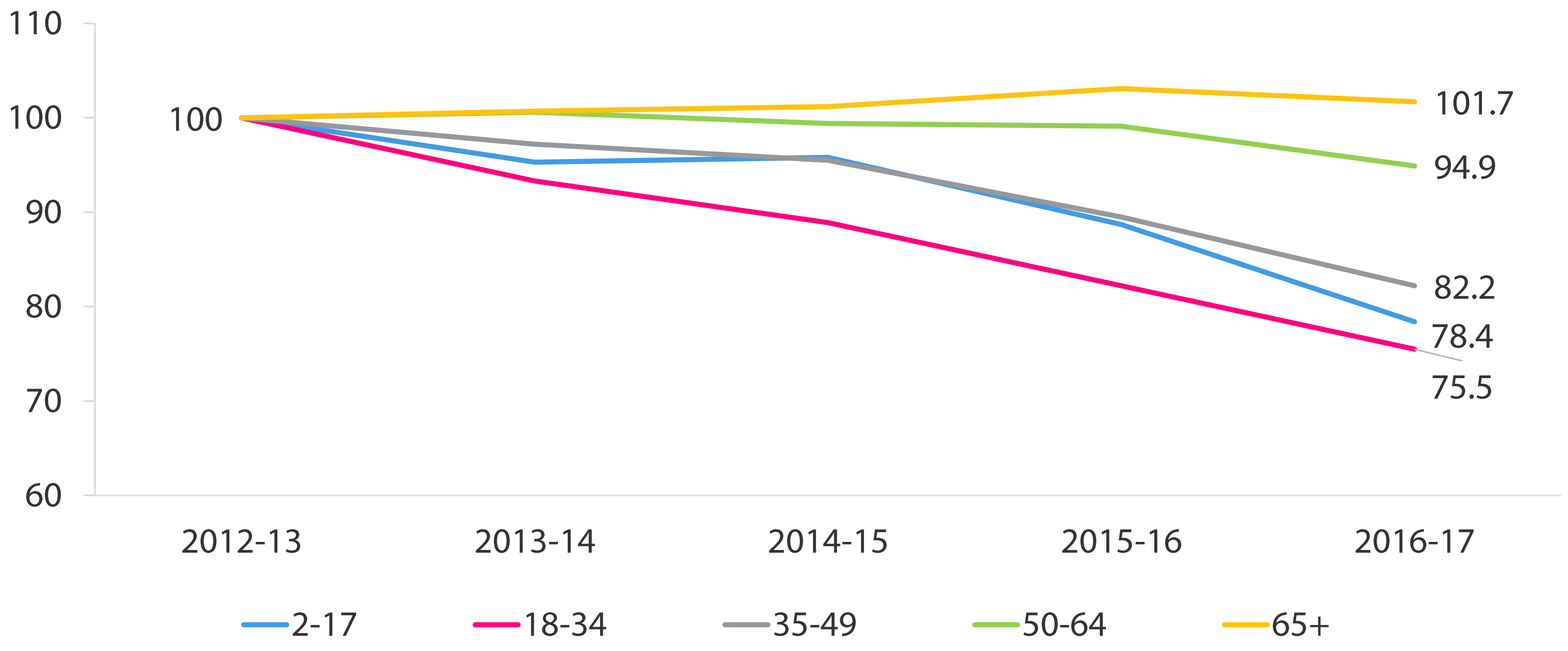
	2015	2016	2017
Total film and television production volume	$7.06 billion	$6.74 billion	$8.38 billion
Private Conventional TV revenue	$1.76 billion	$1.68 billion	$1.61 billion
Discretionary and On-Demand TV revenue	$4.29 billion	$4.42 billion	$4.37 billion
SVOD estimated revenue	$0.91 billion	$1.08 billion	$1.25 billion*
AVOD estimated revenue	$0.38 billion	$0.48 billion	$0.55 billion*
TVOD estimated revenue	$0.37 billion	$0.39 billion	$0.45 billion*

Total OTT revenue has already overtaken total private conventional TV ad revenue

Source: Film and TV Production Volume: CMPA *Profile 2017,* Estimates based on data collected from the Canadian Audio-Visual Certification Office (CAVCO), the Canadian Radio-television and Telecommunications Commission (CRTC), CBC/Radio-Canada and the Association of Provincial Funding Agencies.
Private Conventional TV, Discretionary and On-Demand TV Revenue: CRTC, *2017 Broadcasting Financial Summaries Highlights*
SVOD – AVOD – TVOD: CRTC, *Communication Monitoring Report 2017*. *2017 revenue estimates from CMCRP, *The Growth of the Network Media Economy in Canada 1984-2017* and are based on the CRTC CMR figures, assuming a 15% growth in from 2016.

3.3 Consumer Demos Trends in Traditional TV Viewing

Index of traditional TV viewing by age category



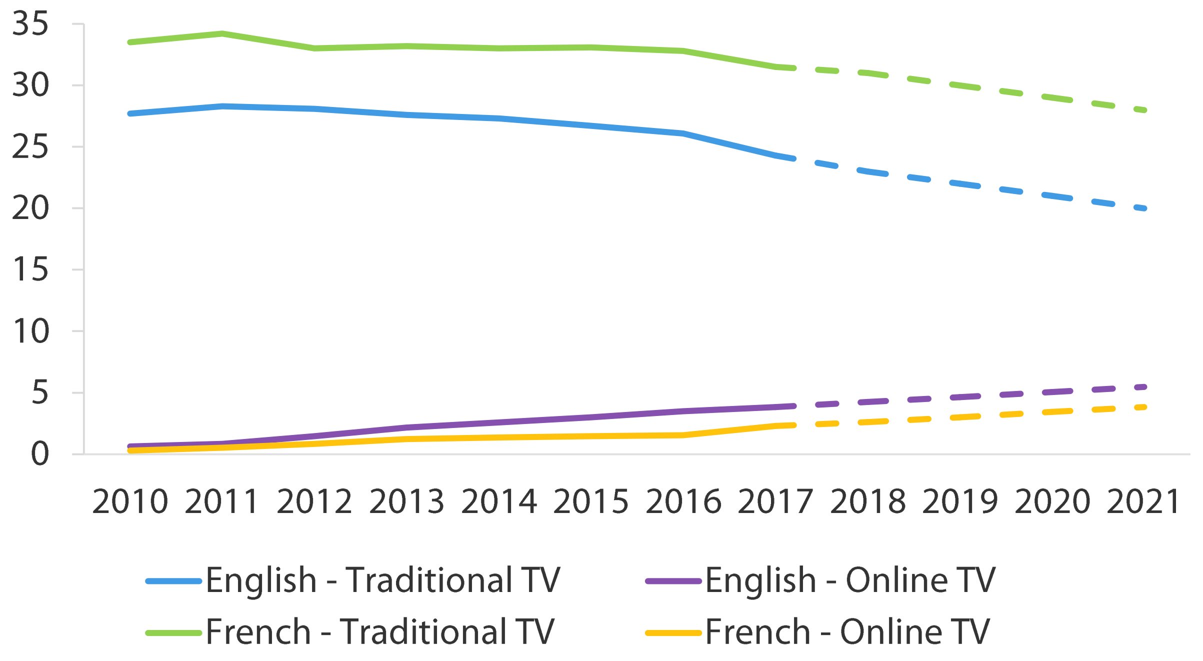
There is a steady downward glide for anyone under 50 for traditional TV

Source: OVUM – CRTC, *Harnessing Change: The Future of Programming Distribution in Canada*

3.4 Consumer Trends – By Language and Traditional vs. Online

- Looks like all those channels on **traditional TV**, while dropping in audience, are **still drawing many more hours t**han OTT.
- But online TV usage for consumers who watch Internet TV every week is higher than the national average usage (6h versus 3h).

Average weekly hours of traditional TV and online TV watched, by language market, actual and forecast



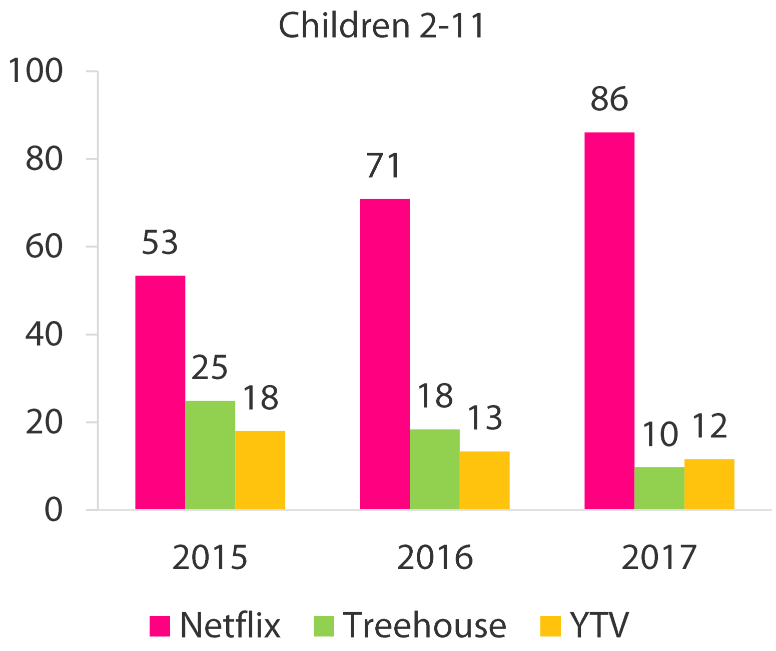
Decline is faster in Anglophone market – thus far

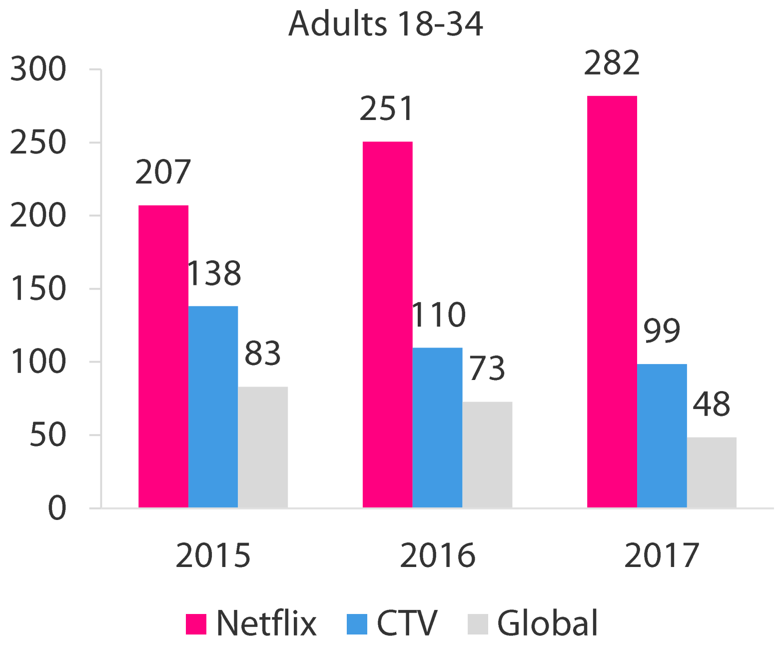
Source: Numeris – MTM – CRTC, *Harnessing Change: The Future of Programming Distribution in Canada, Consultation on the future of program distribution in Canada*
Online TV is defined as watching or streaming television programs or clips available over the Internet. Projections based on 2015 to 2017 figures.

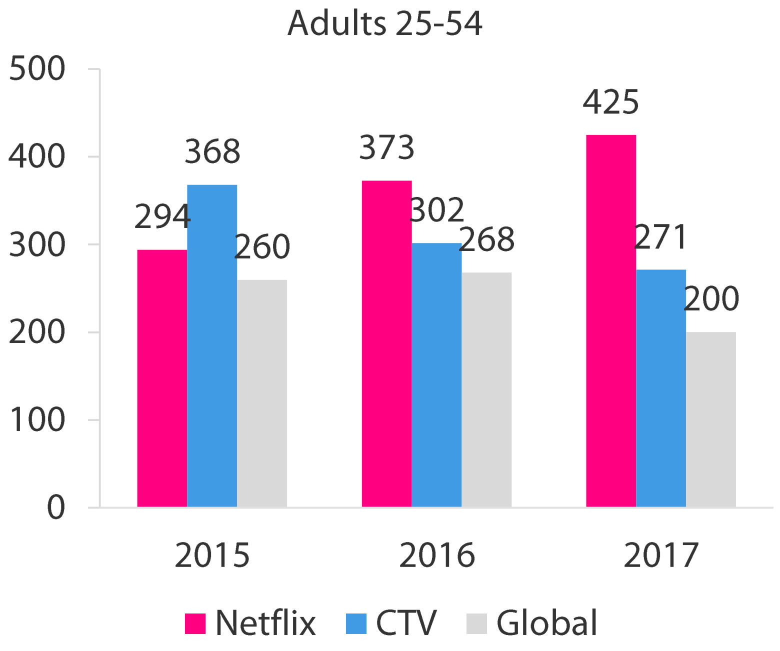
3.5 Consumer Trends – Netflix on the move across all age groups

- If Netflix were equivalent to a single traditional network, it would dominate the competition among younger viewers, and is ahead of tv for older adults.

Viewing for the top 3 'stations', English-language market (Average Quarter Hour – '000s)





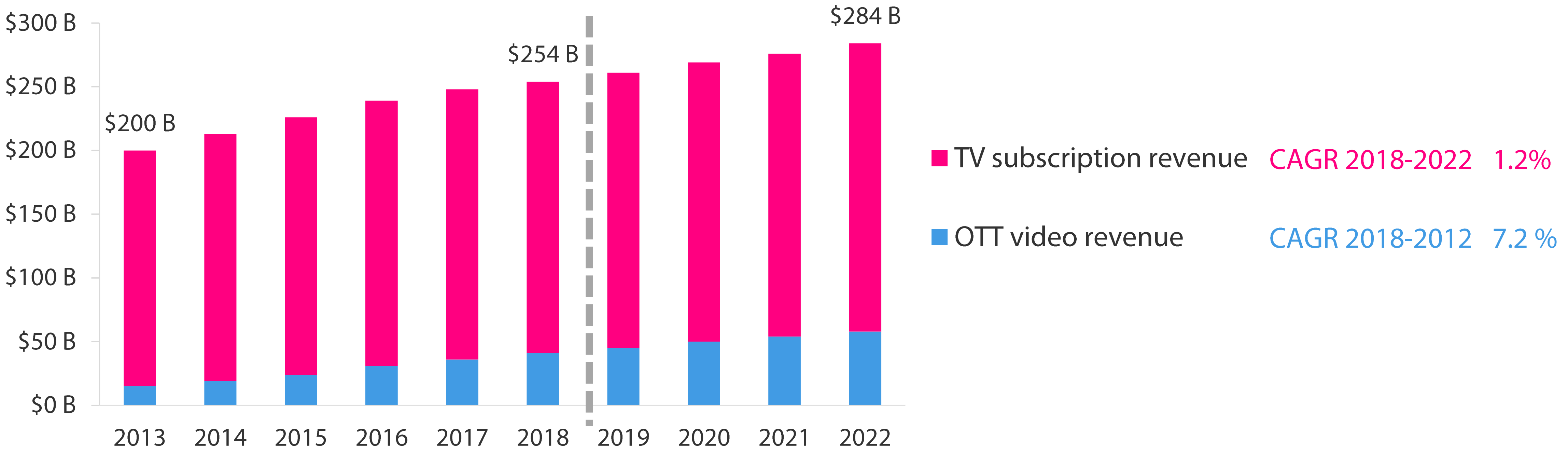


Netflix has become the top "channel" for primetime viewing

Source: Numeris Diary Data, Primetime (7 p.m. to 11 p.m.) – CRTC, *Harnessing Change: The Future of Programming Distribution in Canada*

3.6 Global Consumer Trends – OTT on a much faster growth path

Global revenue for video OTT and TV subscription, historical and forecast (US$bn)



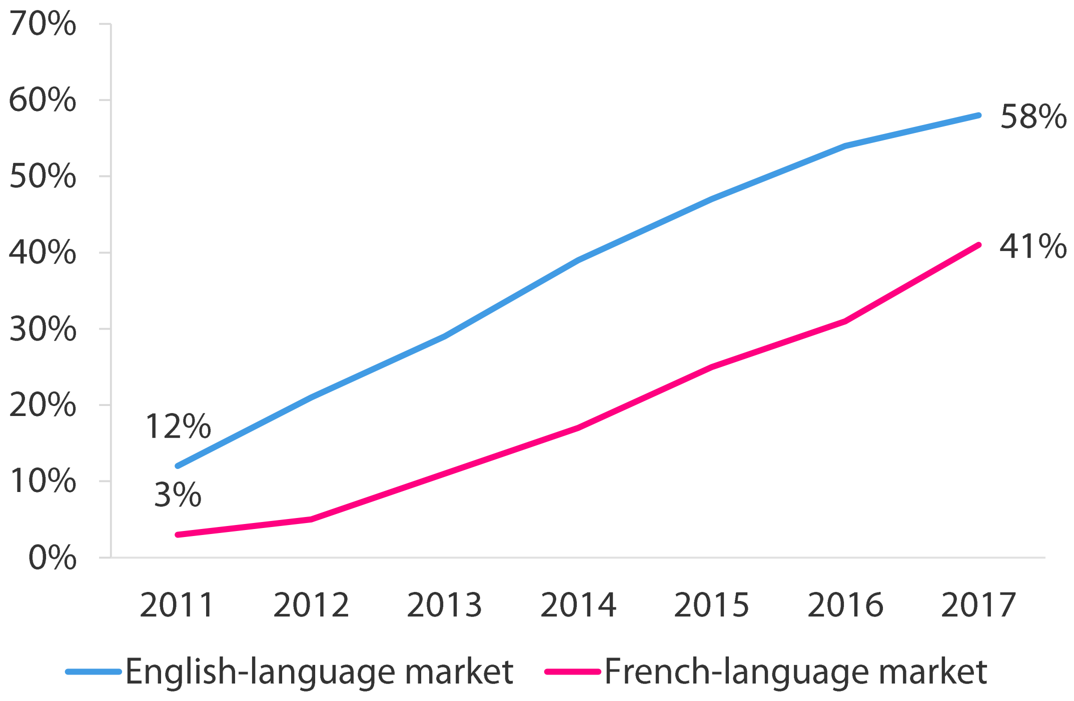
But there is no real tipping point foreseen, although OTT advance is inexorable

Source: PwC Ovum, *PwC Global Entertainment & Media Outlook 2018-2022*

3.7 Consumer Trends - OTT growth pushed by service plethora

- More niche services and more big time competitors on the way (cf. **Disney+**).

Penetration of OTT video services, by market



Source: MTM – CRTC, *Harnessing Change: The Future of Programming Distribution in Canada*

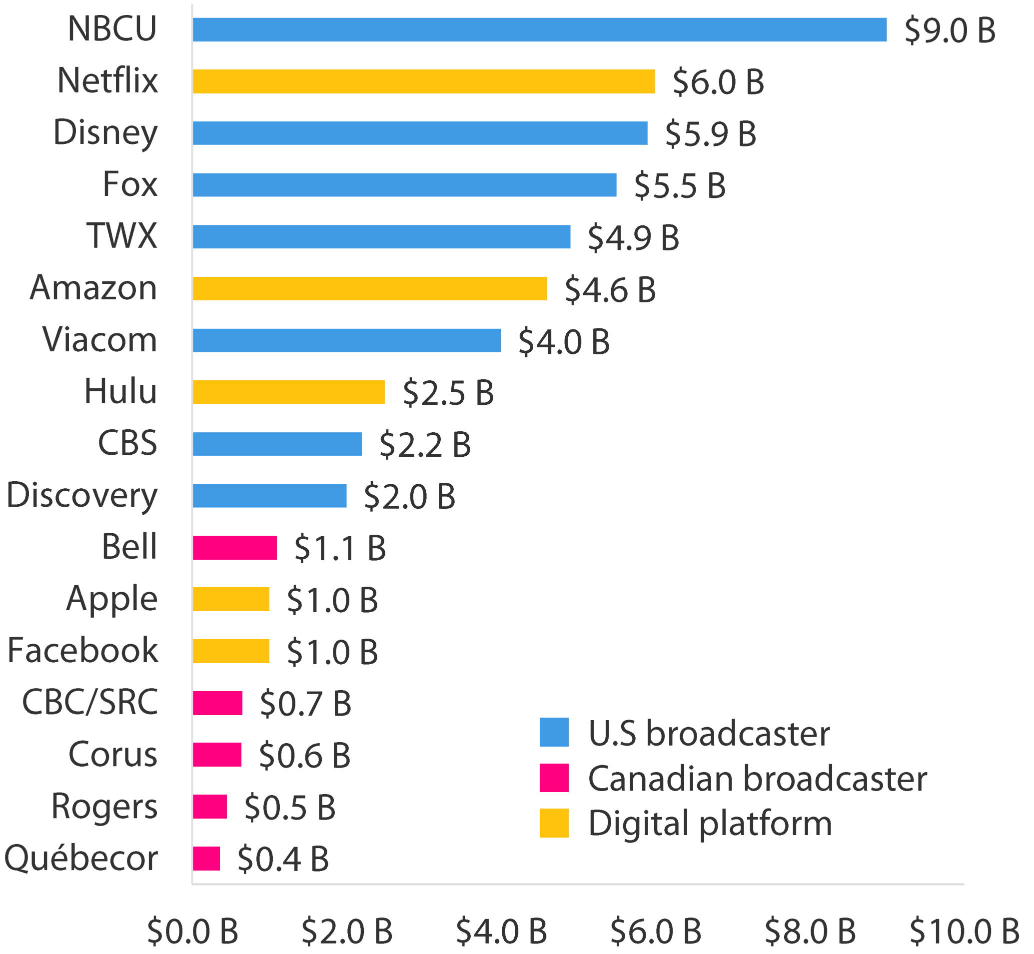
Examples of video streaming services available in Canada

Netflix	Leading streaming service (*Stranger Things, Narcos)*
CraveTV	Bell's service, incl. HBO and Showtime programming
Amazon Prime Video	Amazon 's SVOD service (*Mrs. Maisel, American Gods*)
YouTube Premium	Ad-free version of YouTube and YouTube Originals
Illico	Videotron's streaming service
CBC Premium	Ad-free streaming and access to exclusive series
CTV Digital Hub	Stream CTV properties – upcoming launch
FX NOW/Citytv NOW	Rogers's streaming services - upcoming launch
AcornTV	British TV shows
Shudder	Thriller, horror and suspense
CBS All Access	On-demand access to CBS shows (*NCIS, Survivor*)
MUBI	Classic, indie and award-winning movies
Sundance Now	Independent films curated by industry leaders

3.8 OTT - Content budgets growing for platforms

- Digital platforms spent **$15 billion** on programming in 2017.
  - Major **US conventional broadcasters** have **big programming spend** and are entering the fray.
  - **Facebook** entering the race: **$1 B** on content in 2018-2019 (MLB games, exclusive news programs).
  - **YouTube** (premium) spent hundreds of millions on its original series
- **Canadian broadcasters**? See at bottom.

Spending on TV programming by networks and digital services, 2017 estimates, US$ billion



Source: CRTC estimates (CRTC data collection; Ovum; MTM consumer data) - CRTC *Financial Summaries*

3.9 OTT – Quality of original programming is up to snuff

- For the first time, Netflix tied with HBO at the 2018 Emmy Awards, with 23 wins each, breaking a 16 straight year record.
- Netflix won its first Academy Award last February for the documentary *Icarus*.
- *ROMA*, a Netflix original movie directed by Alfonso Cuarón won the Golden Lion at the Venice Film Festival.

70th Primetime Emmy Awards

Most Nominations	
Netflix	37
HBO	29
FX	25
NBC	19
Hulu	12
Showtime	8
Amazon	6
CBS	6

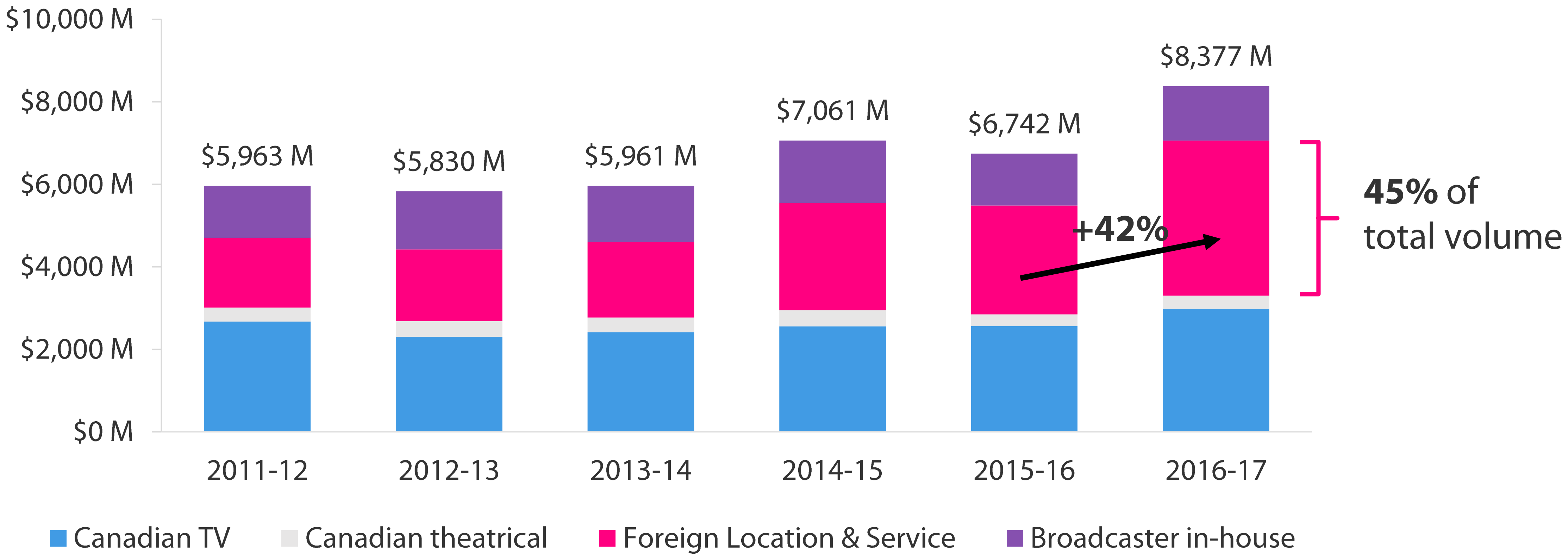
Most Major Wins	
Netflix	7
HBO	6
FX	5
Amazon	5

The critical acclaim for OTT-commissioned shows is no longer a shocker.

Source: The Academy of Television Ars and Science
"Major" constitutes the Program, Acting, Directing, and Writing categories

3.10 Canadian Film and TV Production Volume

Total volume of film and TV production in Canada



OTT services create huge new demand for production which is behind the FLS growth

Source: Nordicity estimates based on data collected from CAVCO, CRTC, CBC/Radio-Canada and the Association of Provincial Funding Agencies. ; CMPA, Profile

3.11 Opportunities for Canadian Producers

- Production is booming, though Canadian market is flat or declining :
  - **Good for larger, integrated Canadian production** companies.
    - **The growing number of streaming aggregators** = more ports of call for Canadian producers – but OTT services can still apply stringent terms of trade.
  - **Canadian producers do benefit from the demand in the Canadian market**
    - **Good for Cancon, but also** for producers to develop skills, engage in "R&D" which can be applied to global market.
  - Canadian content producers – as a sector - have **adapted to the challenges of developing and producing shows for the international marketplace** – but not all of them have done so, and not necessarily to the benefit of Canadian content.

Are the current market dynamics disruptive to Canadian producers and Cancon?

Source: CBC News, Quebec gets its first Netflix original film amid tax, cultural content concerns

3.12 Foreign OTT services - What is the policy response?

- **2017 route chosen** – "no Netflix tax!" So, make a deal with Netflix
- **European route** – make them contribute to domestic production:
  - European Union proposed - 5%.
  - France - 2% levy on OTT services, paid to the national film board, redistributed to French digital creators (web series, digital shorts and documentaries).
- **Possible Canadian solution –** imposing a **levy** as a condition to exempt foreign platforms - But how?
  - Reframe policy argument as being **fair** to Canadian equivalent services – levy and HST?
  - Is there a **fast track option** by changing the digital media exemption order?

The federal government-appointed wise person panel will sort it out – but soon enough?

Source: The Globe and Mail, *Netflix 'on track to exceed' its $500-million commitment for productions in Canada*, Sep 19, 2018
Variety, *Netflix, YouTube to pay tax on turnover in France under new law*, Sep 21, 2017.

3.13 Conclusion

- **January 2016 – “light grim”**
- **January 2018 – “scary global”**
- **January 2019 – “intervention imperative”?**

- Global Demand for content is growing, although it will level off *some day;* eventually Netflix et al shareholders’ demand for profitability will stunt spending spree on content.
- Canadian demand for content - not growing – need to ensure it survives as a major force in content creation; can we scale up through content creation and distribution, or is broadcasting/content production integration required?
- So, how do we extract and deploy funding from inbound OTT platforms?

We need to start implementing new tools in this digital world

4. Newspaper Publishing and Journalism

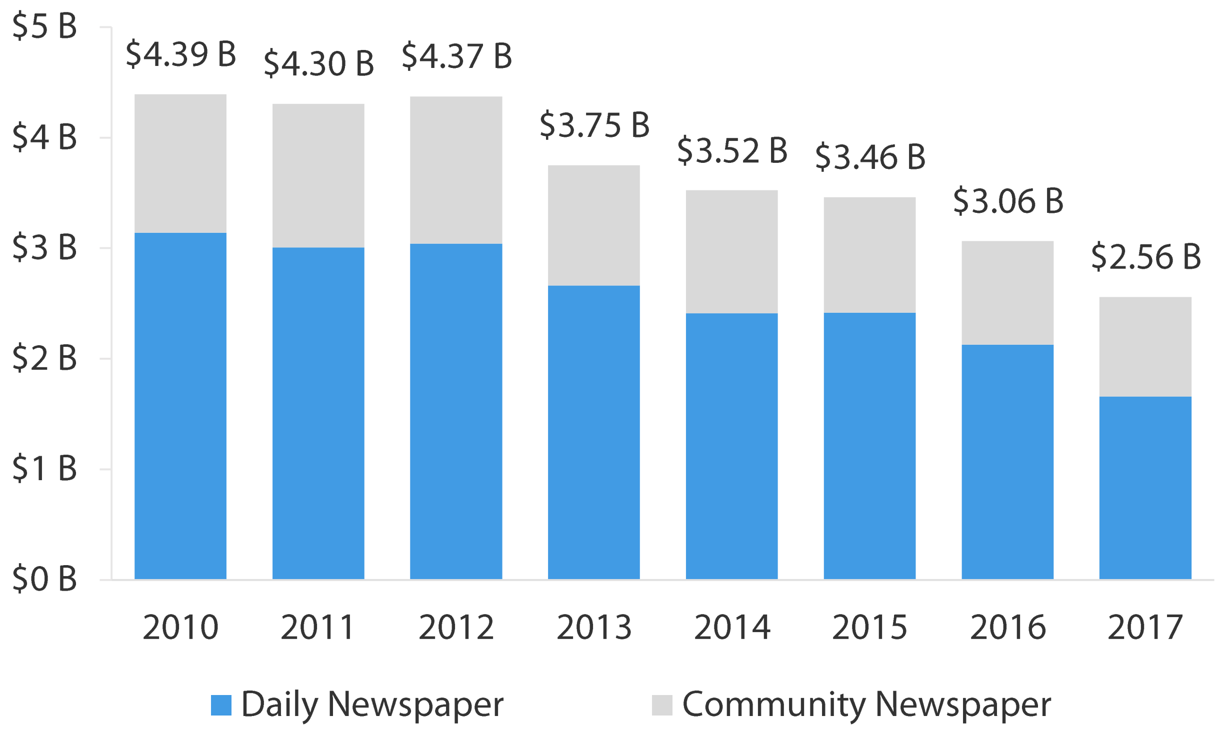
4.1 Newspaper Publishing and Journalism - Key Questions

- What is the state of the business model? How much of loss of print can be made up by digital e.g., paywalls/online subscriptions and digital advertising?
- What are the policy reasons for public intervention in news media?
- Are the recently announced federal measures good, effective public policy?

4.2 Revenue Trends – Dailies fall harder but weeklies fall too

- Total revenue was **$5.3B** in 2000.
- A **42%** decrease in total revenue since 2010:
  - Daily newspaper revenue fell from $3.1B to $1.7B.
  - Community newspaper revenue fell from $1.2B to $0.9B.
- Impact in the newsroom:
  - Postmedia's headcount fell from 4,800 to 3,300 between 2016 and 2018.

Newspaper total revenue (millions, current $)



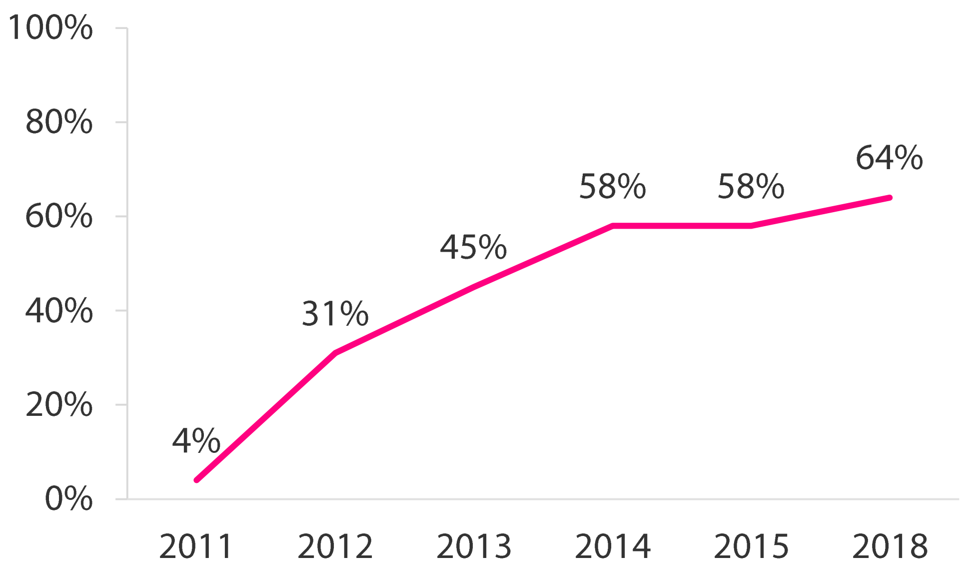
Newspaper revenue decreased 42% since 2010, 16% in 2017

Source: The Globe And *Mail Postmedia to close more local newspapers, cut staff by 10 per cent*, June 26, 2018 ; CMCRP, *The Growth of the Network Media Economy in Canada 1984-2017*

4.3 Paywall Trends – Climbing, but hitting their own wall

- Three main models:
  - **Metered paywall**: 5-10 free articles, then subscription required for more.
  - **Hard-paywall**: subscription only.
  - **Premium-content model**: in-depth features reserved to subscribers.
- Internet offers a limitless list of vendors and sources: it's easy to work around the wall, but it can be inconvenient

% of total daily circulation behind paywall

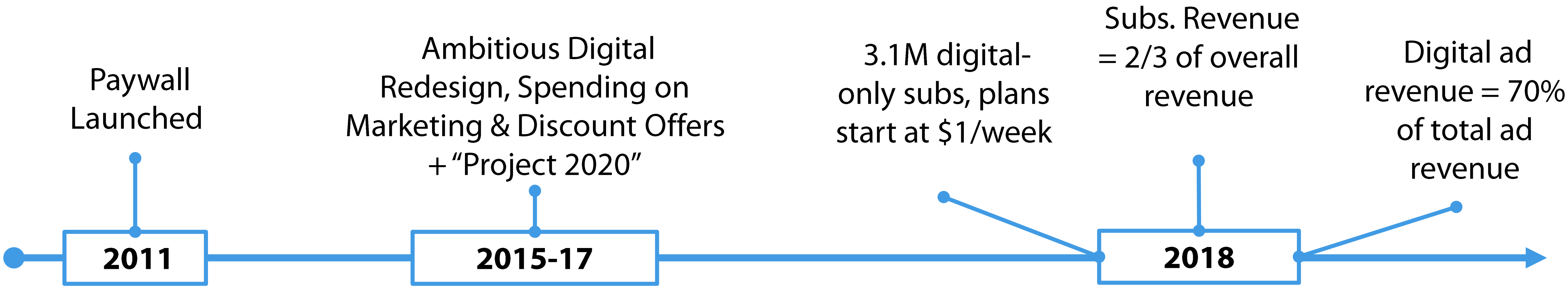


65% of Canadian daily circulation is behind a paywall – but financial pay-off is modest

Source: CMCRP, *The Growth of the Network Media Economy in Canada 1984-2017*

4.4 Digital Transformation – many efforts have failed

- Digital transformation is expensive and difficult to pull off even with substantial investment.
- *The New York Times:*



- Major attempts in Canada have not successfully replaced lost ad and print subscription revenue – including La Presse, the Star, or the Globe & Mail.

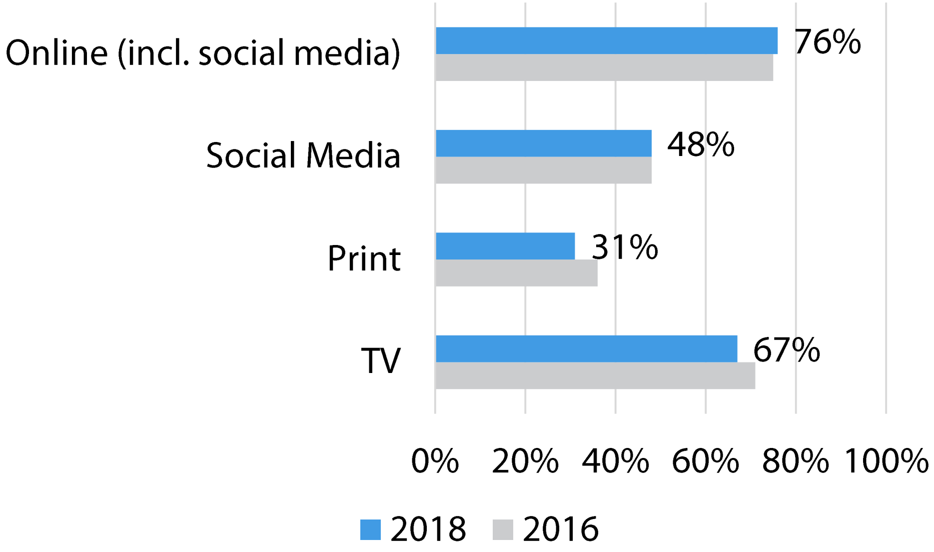
Large legacy papers face daunting task to prosper as hybrids

Source: The New York Times, *New York Times Tops 4 M mark in Total Subscribers*, Nov 1, 2018

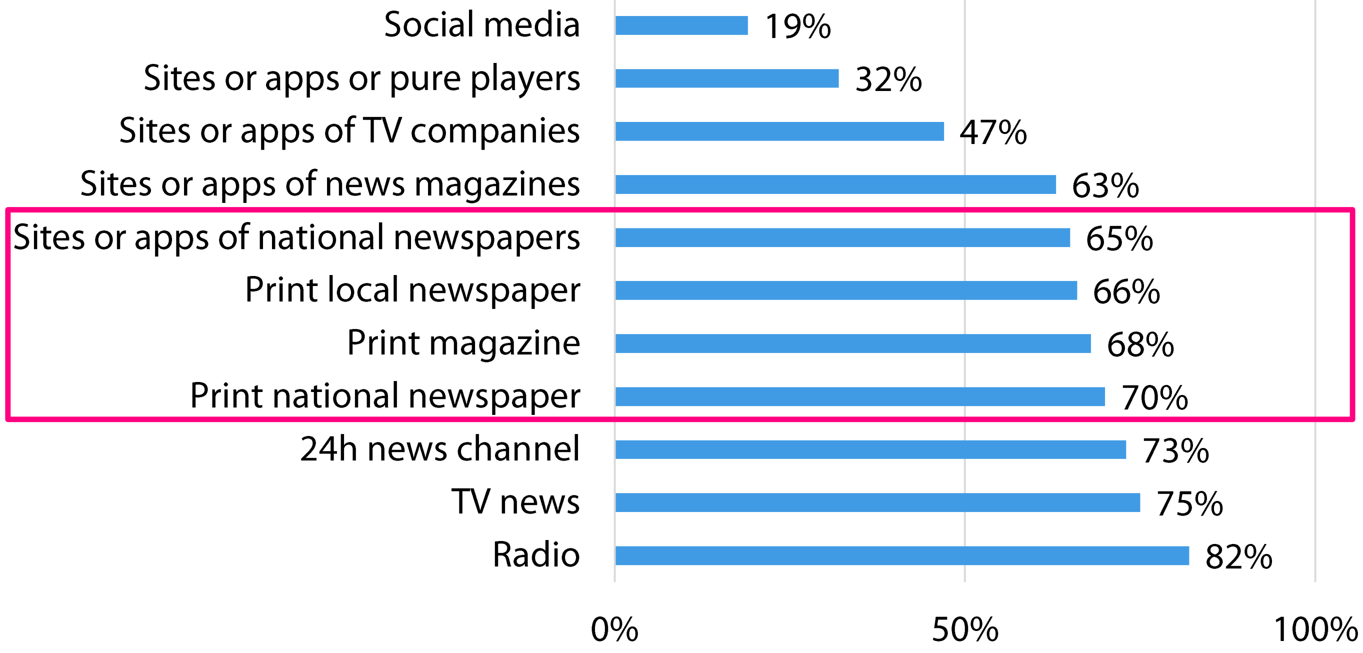
4.5 Paradox Source/Trust

- More Canadians get some/much of their news online, knowing that online sources are not always trustworthy.

Sources of News, Canadians



Trust in news source, Canada, 2018



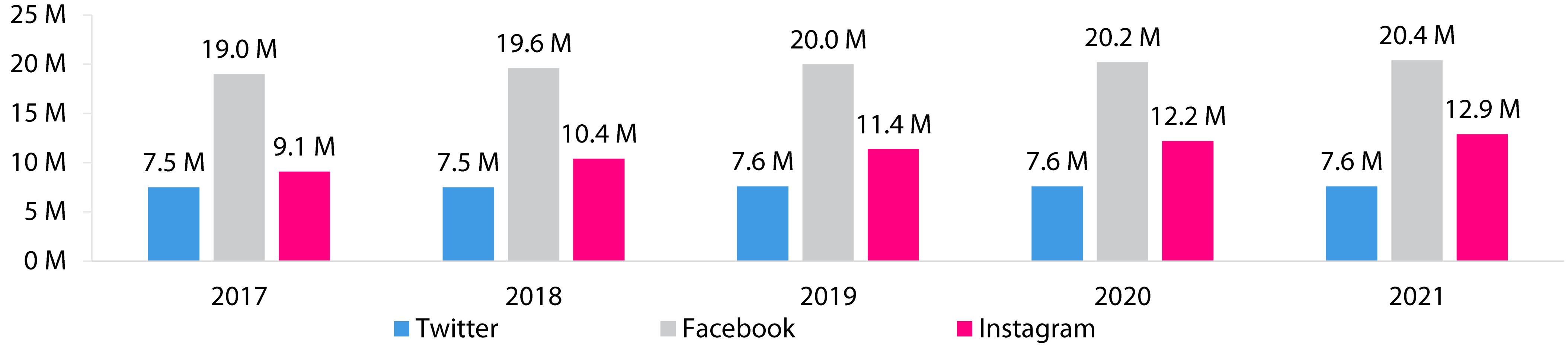
Social is perceived to be the least trustworthy news source

Source: Vividata – Kantar 2018 ; Reuters Digital News Report 2018

4.6 Social Media - Rising Concerns

- By their use of social media, two thirds of the Canadian population are exposed to bot-generated content, fake news and political polarization.
  - Who is accountable? What policy framework?
  - What is the solution? Manual screening is slow/painstaking, costly and sanity-testing.

Canadian users on social media, forecast



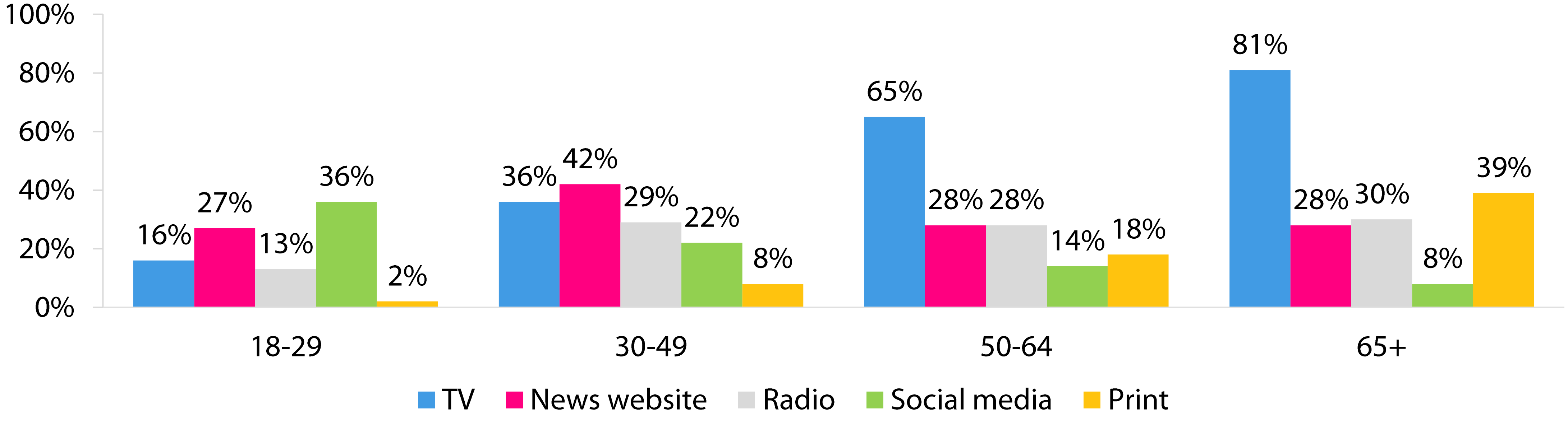
Social vulnerability due to lack of control, transparency and accountability – what form of government intervention will be adopted?

Source: eMarketer

4.7 Younger online, even for news

- Younger age groups get more of their news on social media, abandoning traditional sources.

% of each age group who often get news on each platform, US adults, 2018



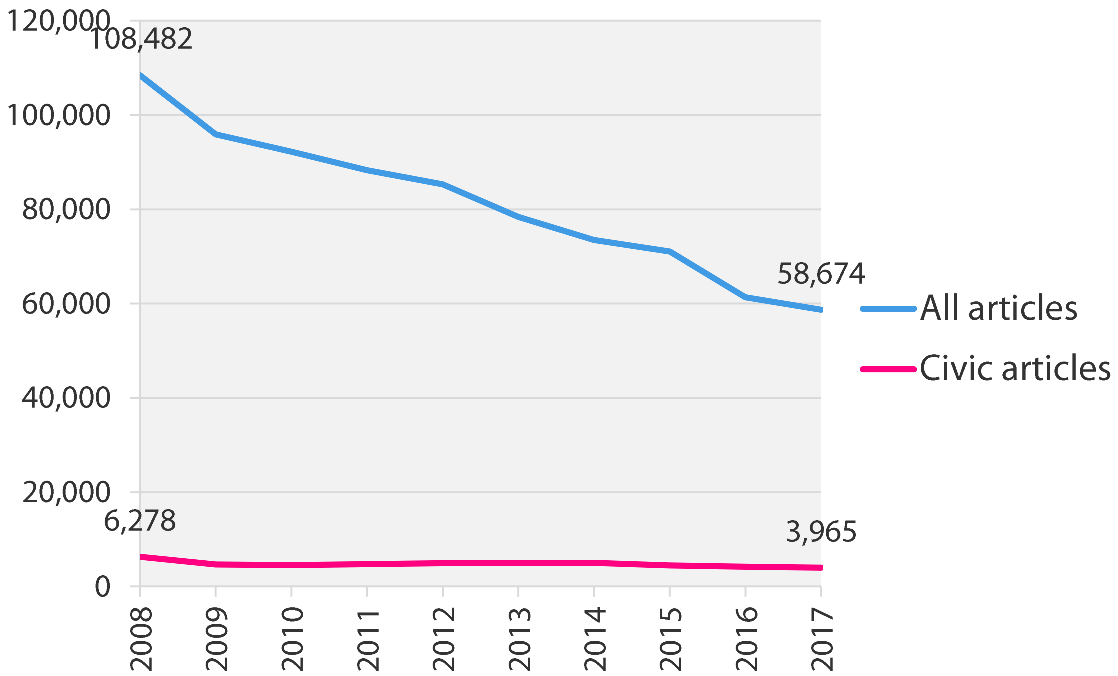
Social media has become the first source of news for millennials.

Source: Pew Research Center, *Social media outpaces print newspapers in the U.S. as news source*, July-August 2018

4.8 Decline of news coverage – a concrete demonstration

- Newspaper folding or put under financial pressure leave communities bereft of local news:
  - From 2008-17, the annual number of English-language print news articles **declined 46%** and Civic affair articles **dropped 36%** in S/M sized communities.
  - Fake news and politics of division have expertly leveraged social media.
- Some newspapers move toward **not-for-profit and charitable models**
  - Montreal's *La Presse* adopting a not-for profit status: "social trust".

Total number of articles and articles covering civic affairs in 20 small and medium sized Canadian communities



If for-profit model is not sustainable, what aspects of democracy are at risk?

Source: Nordicity - Public Policy Forum, *Mind the Gap*, September 2018
Note: Civic affairs include legislature, city halls and the courts.

4.9 Intervention Policy – Tremendous Reluctance

- The policy case for supporting journalism is focused on the **preservation/strengthening of democracy, not the production/exhibition of Canadian content.**
- New government policy measures make government and news media alike uneasy.
  - Ideal is that democracy is better served when journalism has an economic base.
- Recent policy measures do not establish eligibility criteria for expenditures on journalism to receive refundable tax credits?


Canada's new subsidies for news will warp the market and hurt innovation — unless they're done right

"Necessity breeds innovation, and the government's intervention removes t
necessity for Canadian journalism."

By **DAVID SKOK** @dskok Nov. 28, 2018, 11:53 a.m.

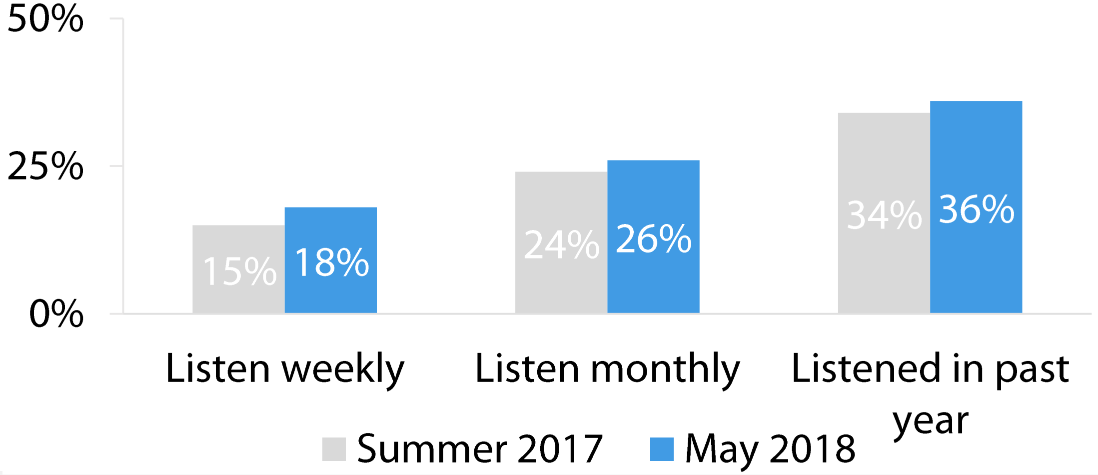
NiemanLab

$565m over 5 years, but few details on implementation

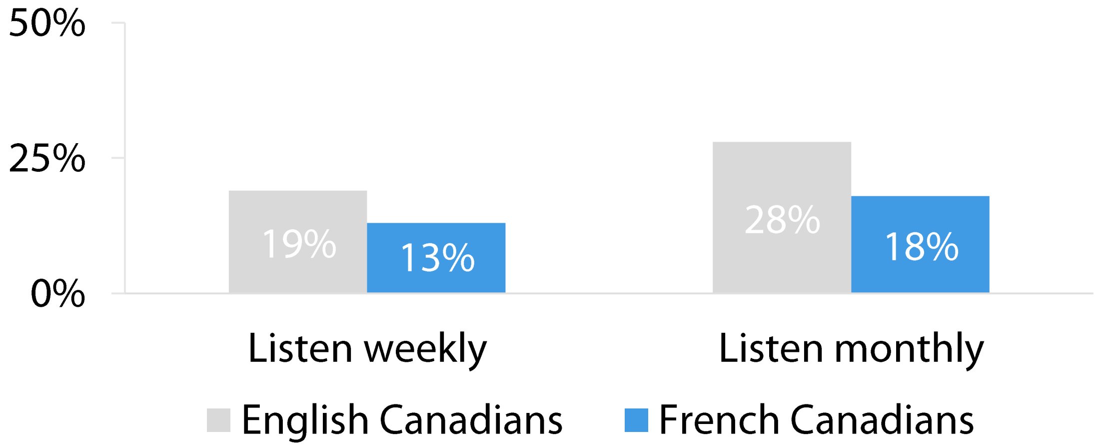
4.10 Trend: Podcasting

- Growing audience:
  - Flexible format, less expensive to produce than radio.
  - Diversity of subjects possible, and there is an appetite for Canadian content.
  - Top categories: society and culture, comedy, business, news and music.
- Still looking for sustainable business models:
  - iTunes made podcast analytics available in 2017: now publishers and advertisers have a better view of metrics about listening habits.

% of Canadians listening to podcasts, 2017-2018



% of Canadians listening to podcasts, by market (2018)



Digital audio no longer just music– but business models still early stages

Source: 2017 Audience Insights Inc. & Ulster Media

4.11 Conclusions

- The **traditional business model is broken**, as only a rare few able to right-size within digital revenue realities.
- It is in the interest of all Canadians in small as well as large communities to re-assert **the value of trustworthy news**.
- The rationale for policy intervention in Canada is that, if executed soundly, it would help **protect journalism and thereby democracy**.

5. Digital Music

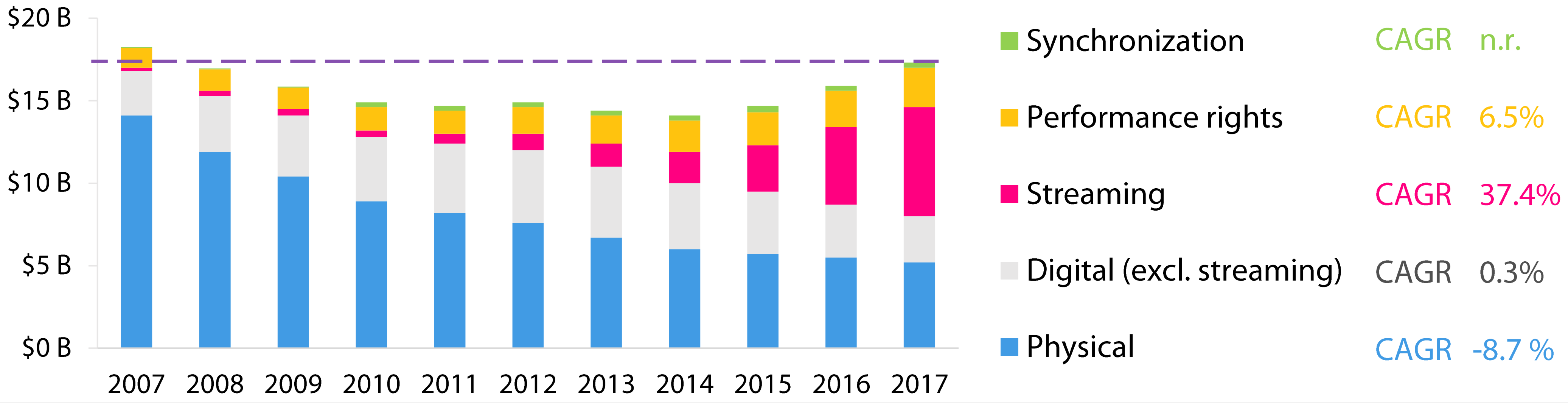
5.1 Music – Key questions

- **Is streaming still the dominant form of music consumption?**
  - Streaming has rapidly outpaced downloads
  - Strong growth in subscription based streaming services
  - Measuring streams using sales metrics an increasingly poor fit
- **How can most revenue be captured for artists?**
  - Continued Value Gap/Transfer of Value
  - Harnessing of data
  - Necessity of a collective industry voice
  - Three significant efforts this past year, in USA, Canada and Europe
- **Who has the power now?**
  - Dominance of labels
  - Data and the power of the playlist

5.2 Global Industry Revenue

- Global revenue reached **US$17.3 B** in 2017 with **38%** from streaming.
- It is the first **three consecutive years** of growth following 15 years of decline.
- Canada is the 7th largest music market globally.

Global recorded music industry revenue (US$ billion) and compound annual growth rate, 2007-2017



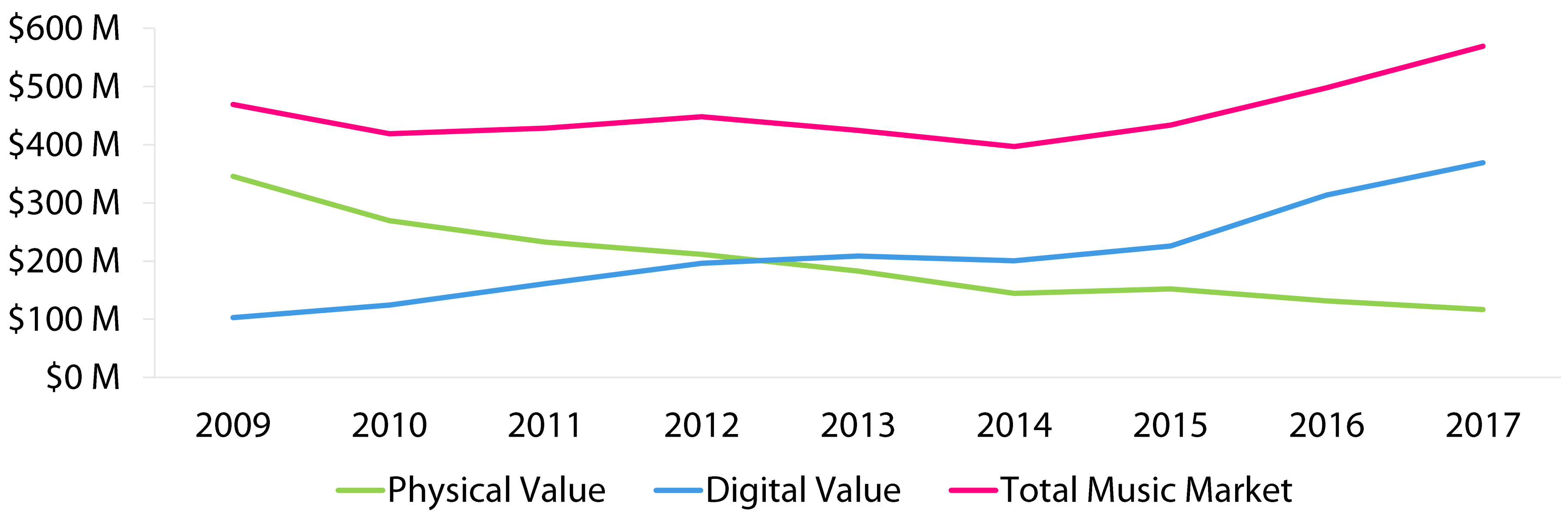
Industry revenue almost back to its 2007 level

Source: IFPI

5.3 Digital Cements its Position

- In 2017:
  - Total Canadian music market (physical + digital + performance + sync): **$569 M**.
  - Digital **+18%**, Physical **-11%.**

Canadian music industry trade value ($ million)



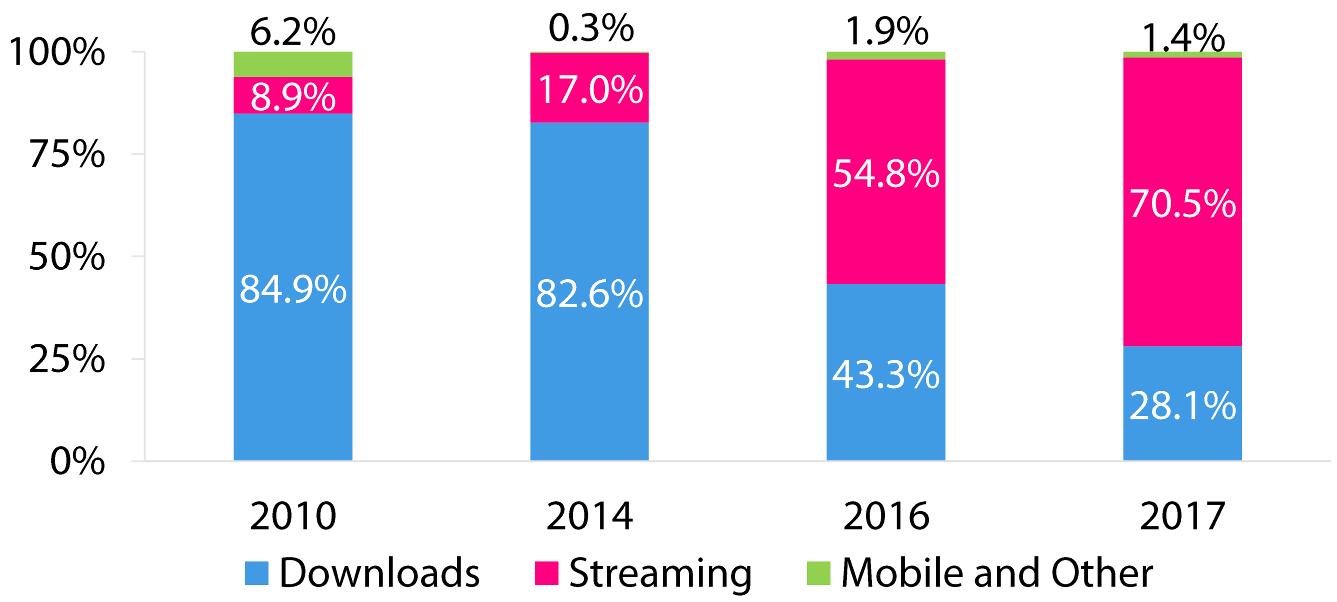
Digital makes up 65% of total Canadian Music Market

Source: Music Canada Statistics

5.4 The Dominance of Streaming Music

- **Streaming** (all types) **grew by more than 50%** in 2017, reaching $260 million.

Sources of Canadian music industry digital trade value



Streaming services available in Canada

Spotify
Apple Music
Tidal
Google Play Music
YouTube Music
Soundcloud
Amazon Music Unlimited
Deezer
CBC Music Streams

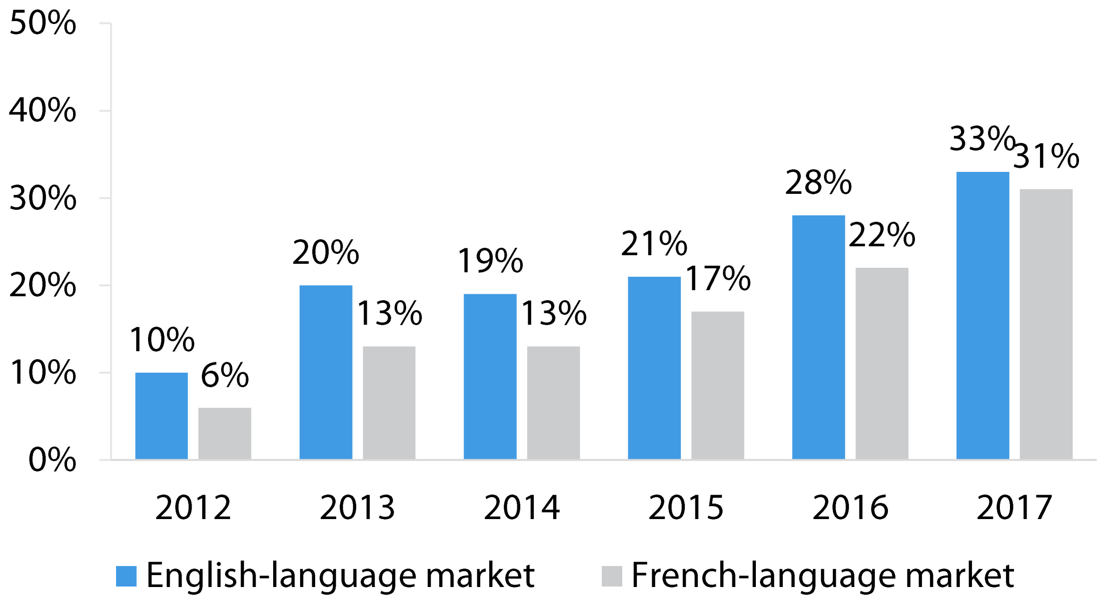
Digital value in Canada comes increasingly from streaming (over 70%)

Source: Music Canada Statistics

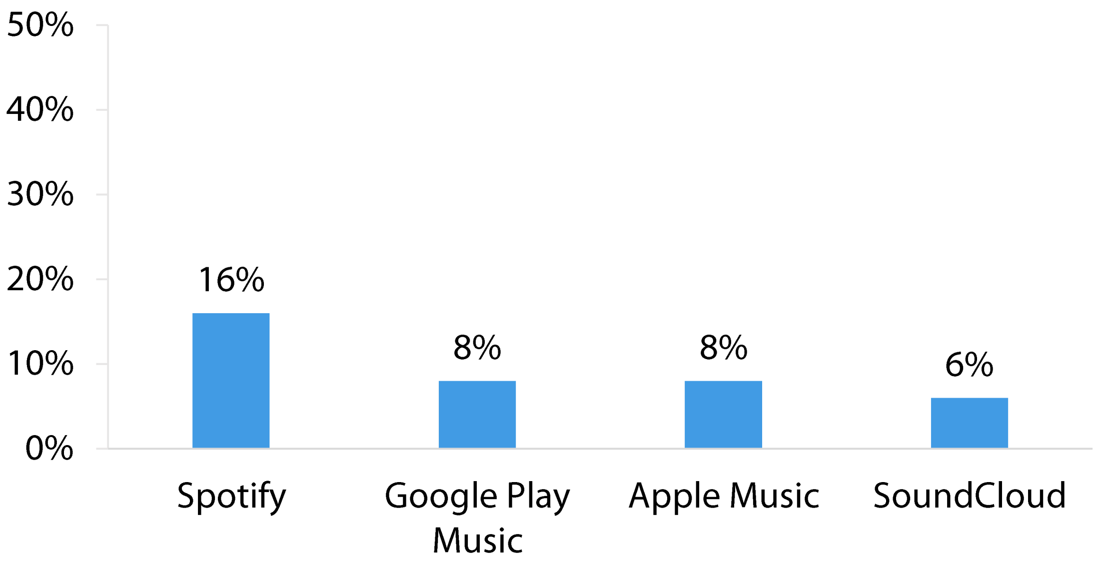
5.5 Streaming Platforms Speeding up the Tempo

- Penetration of streaming services has **tripled** in last five years in English Canada – and Spotify leads the way.

Penetration of music streaming services, by market



Penetration of music streaming services, by service (all Canada)



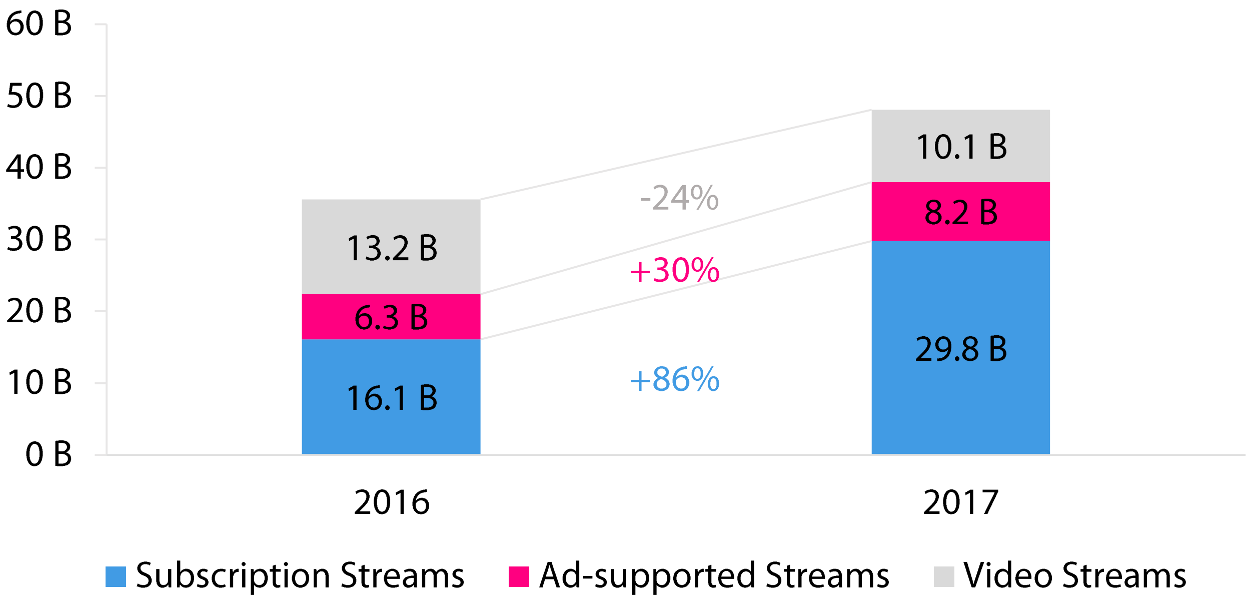
Francophone market catching up rapidly

Source: MTM Spring 2017

5.6 Closer look at Consumption

- Increase in overall music consumption, **3.2%** over 2016.
- Method of consumption is shifting.
  - Both album sales (-25%) and song sales (-19%) continue to decline.
- **Total on-demand streams** increased **35%** from 2016.
- **Playlists** are very popular: **84%** of music streamers (98% of teen streamers) engage.

Total on-demand music consumption, Canada, 2017



Increases in on-demand music consumption largely due to subscription streams

Source: BuzzAngle Music, *2017 Canada Report* ; Nielsen *2018 Music 360 Canada Report*

5.7 The Value Gap/Transfer of Value

- The Value Gap/Transfer of Value is a **perceived mismatch** between the value that some digital platforms extract from music content and the revenue actually returned to the rightsholders and creators.
- With many of the digital platforms are not yet turning a profit, it could also be argued that the **music consumer** is paying less to get more, and is no longer forced to buy a complete album with some selections in which they are not interested.
- ISPs are also using "**safe harbor provisions**" – a legislative mechanism designed to help Internet Service Providers (ISPs) avoid being responsible for copyright infringement.

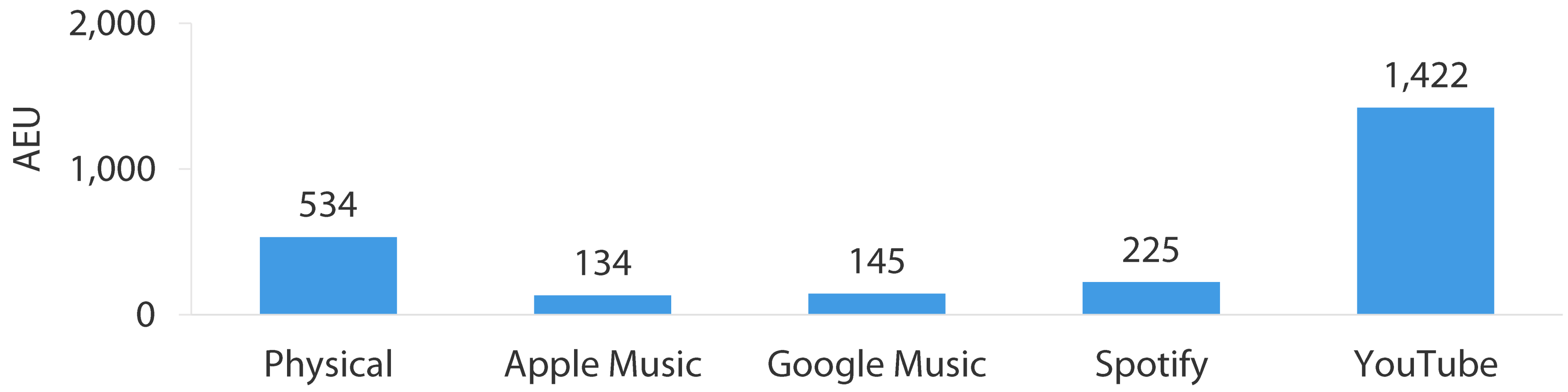
The outcome - creators and rightsholders make less than before

Source: IFPI , Global Music Report 2018 *; CISAC,* Economic Analysis of Safe Harbor Provisions

5.8 The Value Gap/Transfer of Value – Creators' Perspective

- In the US, in 2017, **12% of the music business revenue went to artists**.
  - It's the highest share in 30 years. Lowest was in 2000 (7%).
  - But, pay out royalties appear out of step with the massive level of music consumption they facilitate.
  - Concerts and streaming platforms are the first sources of revenue.

Album equivalent units (AEU) needed every month for a signed artist to earn the US monthly minimum wage (US$1,472), 2017*

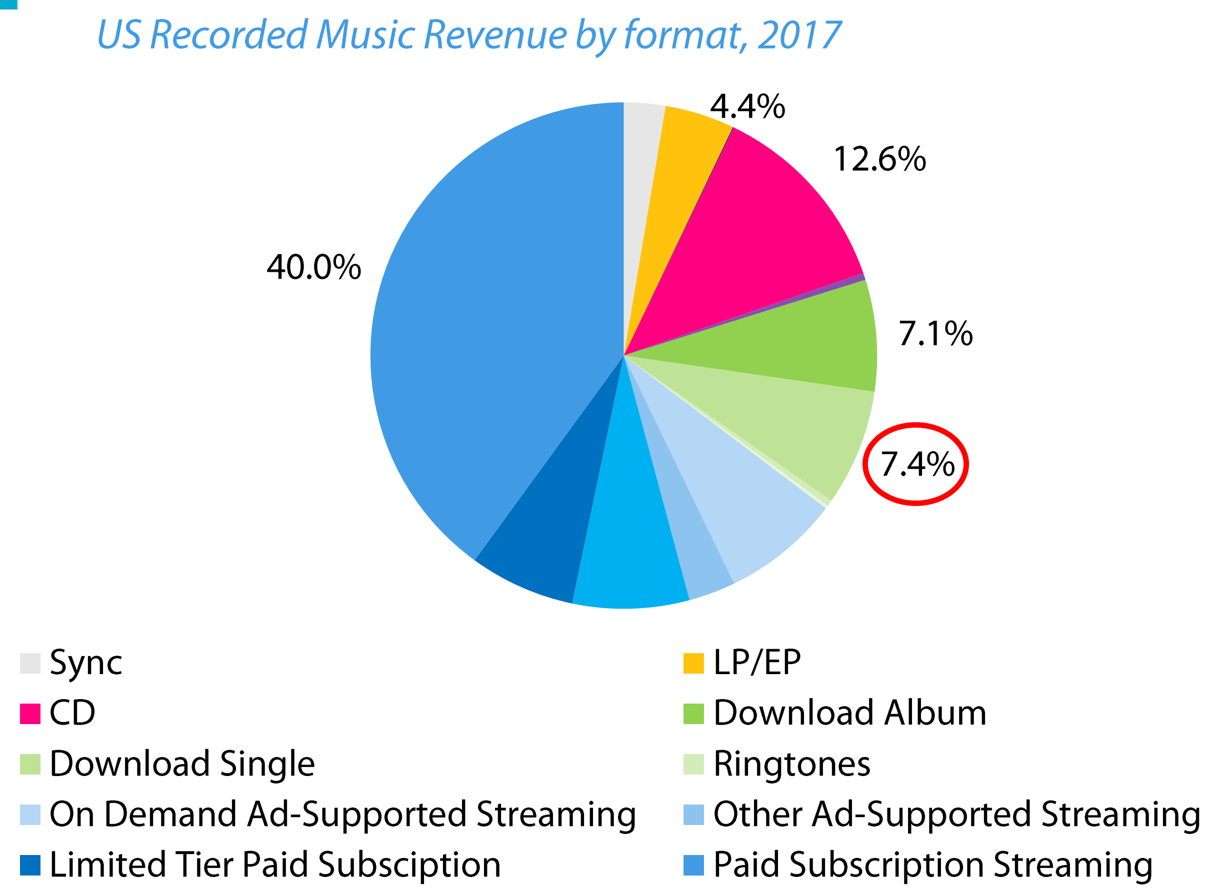


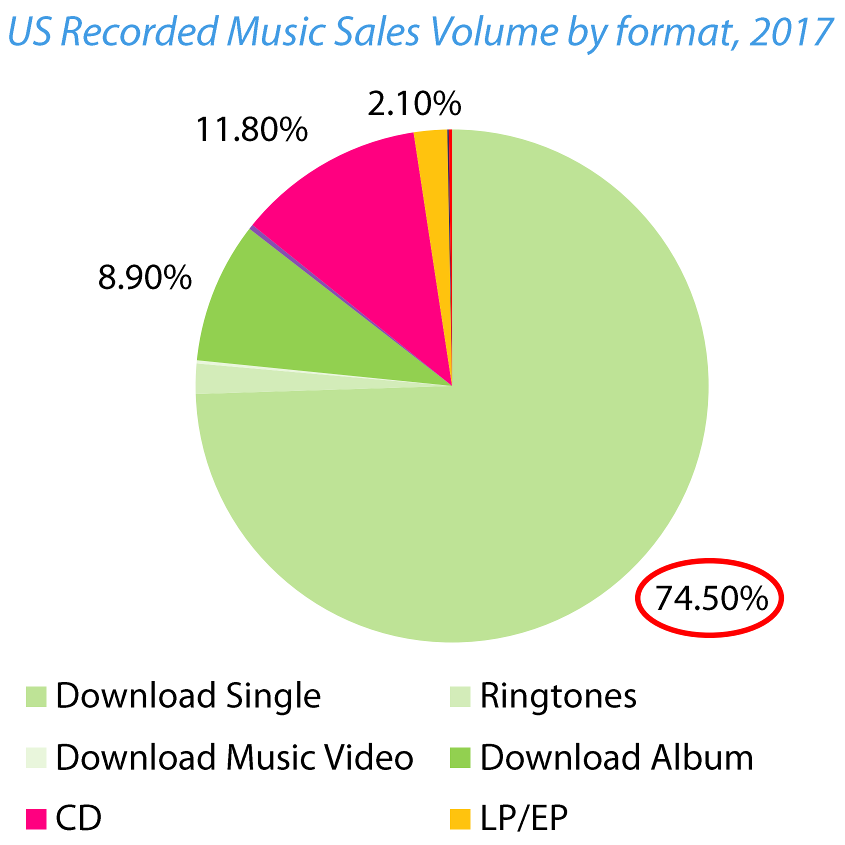
Album Equivalent Units:
1 album sale
= 1,500 streams
= 10 song downloads

More than 2 million streams needed on YouTube to earn minimum wage

Source: Citi GPS, *Putting the Band Back Together* ; Information is Beautiful, *Money Too Tight to Mention?*

5.9 Revenue vs. Volume





Single downloads generate less revenue, despite being largest percentage by volume

Source: RIAA *US Sales Database*. See website for complete definitions.

5.10 The Value Gap/Transfer of Value – Platforms' Perspective

Free platforms → Competition on streaming services → Streaming services lower their price or ad intensity → Lower payments to artists

Spotify

180 M active users (46% paid)

Loss per user: **$2.68**

Estimated annual revenue returned to rightsholders per user: **$20**

YouTube

1.3 B active users (50M Premium users)

Loss per user: **$0.17**

Estimated annual revenue returned to rightsholders per user: **<$1**

User uploaded platforms keep subscription payments low in order to compete

Source: Citi GPS, *Putting the Band Back Together* ; Spotify ; Information is Beautiful, *Money to tight to mention?*

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5.11 On the Positive Side

- The platforms' perspective:
  - **Piracy down by 50%** in the US since 2013 (however, 38% of consumers globally still steal music, and 32% steal digital music using stream ripping).
  - A competitive market means **more choices for the consumer** (e.g. price offers, libraries)
  - Showcasing a **diversity of voices-** 6 of the top 10 YouTube music videos were Spanish-language in 2017.
  - **Bigger audiences and opportunities** for creators (i.e. artist pages, more transparency, promotion tools)

Efforts being made to close/address the value gap:

- **YouTube** launched its own streaming service (YouTube Music)
- **Policy Initiatives** in USA, Europe and Canada
- **Collection Societies** leading efforts to find technological solutions

More choice for consumers, and increased diversity and exposure for creators

Source: Citi GPS, *Putting the Band Back Together* ; DiMA, *Streaming Forward* ; IFPI *2018 Music Consumer Insight Report*

5.12 Policy Initiatives

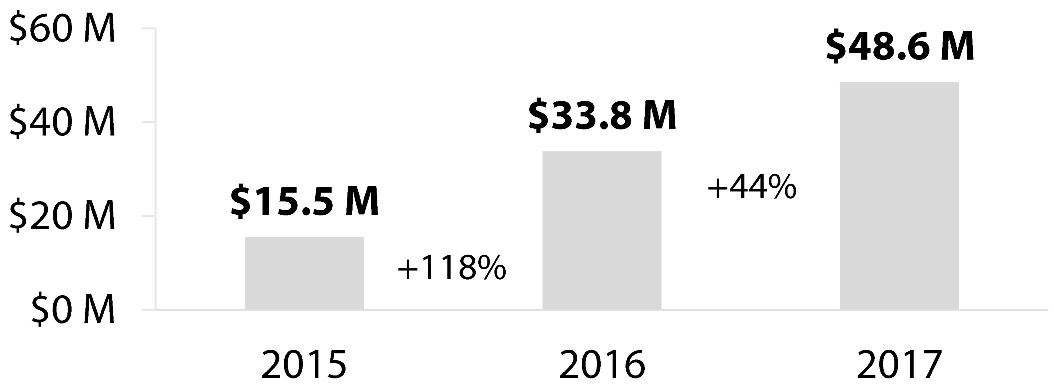
- **USA: Music Modernization Act**
  - Efficiencies in music licensing process - easier for rights holders to get paid from streaming.
  - Guarantees artists and labels who recorded music before 1972 royalties from digital radio.
  - Improves royalty payouts for producers and engineers when their recordings are used on satellite and online radio- first time producers have ever been mentioned in copyright law.
- **Europe: European Copyright Directive**
  - Two controversial Articles:
    - Article 11- allows publishers/papers to demand paid licenses when companies like Google link to their stories.
    - Article 13- requires certain platforms like YouTube and Facebook to stop users sharing unlicensed copyrighted material.
- **Canada: Review of the Copyright Act**
  - Three phase review, currently on-going to be completed by early 2019

It is not clear whether these copyright initiatives will close value gap

5.13 Collections Societies

- New focus on **technological innovation**:
  - Music is used in so many places: how to track this use?
  - Recognition and tracking software development and acquisition.
- **CISAC** in 2017:
  - $14 B in global collections (+28% from 2013).
  - Digital represented 13% of collections.
  - Fifth consecutive year of growth.
- **SOCAN**, in 2017:
  - $352 M in record collections (+27% from 2013).
  - $76 M from international revenue for Canadian-created music.
  - $295 M distributed to music creators.

SOCAN revenue from Internet



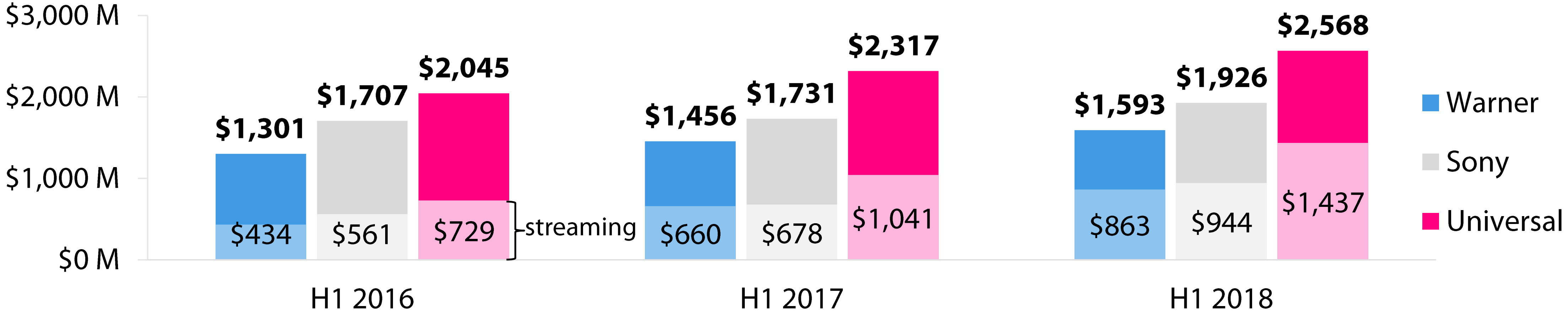
Collections Societies leading the way in sector-driven innovation

Source: International Confederation of Societies of Authors and Composers (CISAC) *Global Collections Report 2018*; SOCAN *Annual Report 2017*

5.14 Power Dynamics: Labels, Platforms and Data

- Universal, Sony and Warner's labels represent **80% of the music business**.
  - **Streaming made up over 50% of their revenue**, contributing US$3.24 B in the period (up 36% from H1 2017).
- Streaming revenues can be increased significantly for other/smaller labels with data and analytics – if it can be accessed and harnessed.

Major label total recorded music revenue and music streaming revenue



Symbiotic relationship between major labels and platforms

Source: The New York Times, *A New Spotify Initiative Makes the Big Record Labels Nervous* – Music Business Worldwide

5.15 The Power of Data in Music

- Streaming revenues can be increased significantly by taking initiatives suggested by data and analytics – if it can be accessed and harnessed.
- Data helps larger music labels generate higher return on streaming services:
  - Data often collected by purchasing a music technology firm dedicated to analyzing consumers' streaming habits.
  - Allows these companies to better place music that's appealing to the respective fan bases of their artists (and thus to generate more streaming revenue).
- Large labels also helped by the **brand recognition** of their artists (e.g. placing a new artist after an established one on a playlist, the new artist will enjoy more streams, and thus generate more revenue), and their **negotiating leverage (**in an advantageous bargaining position when setting the per stream royalty payments from the digital streaming platforms).

Indie labels are at increasing disadvantage without same access to data

5.16 Conclusions

- Living with digital, and especially with **streaming**.
- Value Gap/Transfer of Value still a problem, but **increasing efforts around understanding and navigating it.**
- Popularity of **playlists** - revenues are dependent on success in influencing the playlist
- **Data** is very powerful tool but measuring consumption and value is increasingly complicated (e.g. measuring streams using sales metrics).
- **Indie labels** at serious **disadvantage** – and would need to band together to negotiate more effectively for access to data.

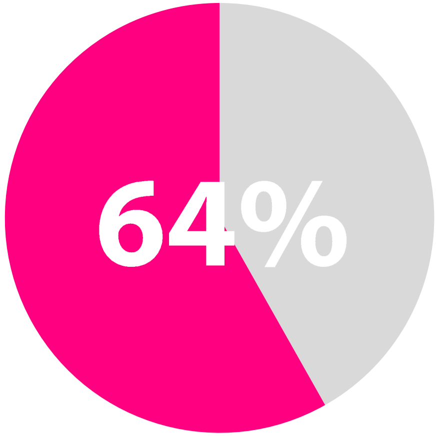
6. Video Games

6.1 Video Games – Key Questions

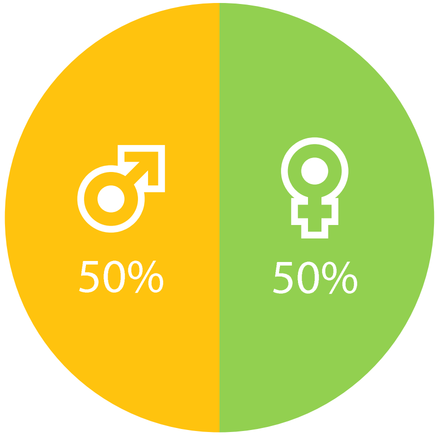
- **Who plays what in Canada?**
  - Expectations vs. reality
- **How does the video game industry compare to other creative industries?**
  - How big is the Canadian video game industry?
- **What are the business models of video games?**
  - How do video games make money in a world of free games?
- **What are the trends to watch?**
  - VR, AR, XR, e-sport: what is their potential?

6.2 Who Is the Canadian Gamer?

- 64% of Canadians played a video game in the past 4 weeks.
- The Canadian audience is split evenly between male and female gamers.
- The average Canadian gamer is 39 years old.



(+12% from 2016)



(55% male in the US)

(34 years in the US)

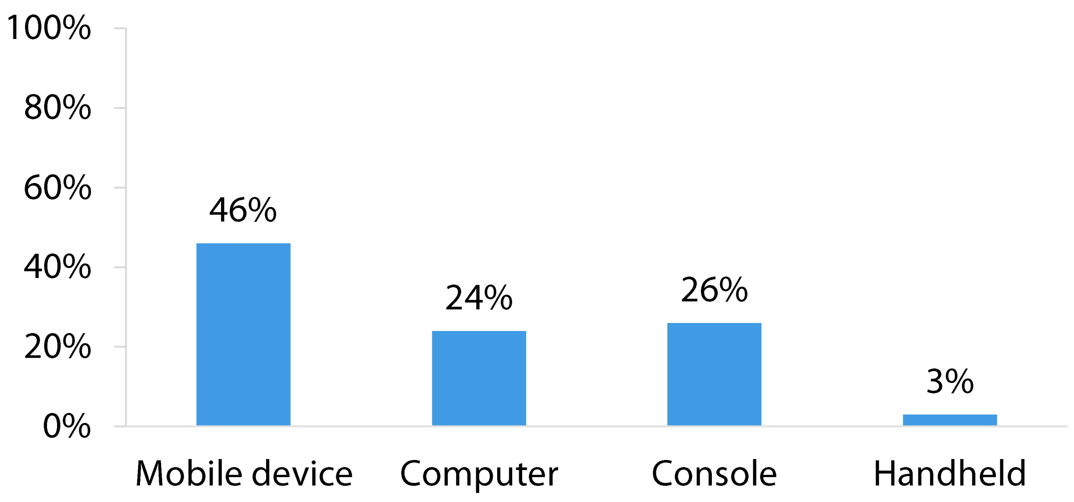
The audience profile challenges the preconceived idea of a "teenage boy gamer"

Source: ESAC *Essential Facts 2018*

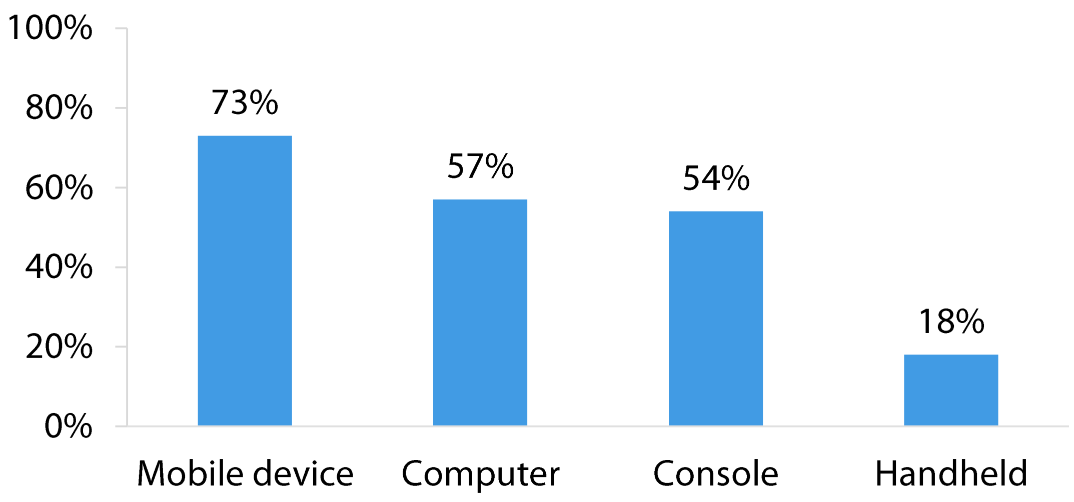
6.3 What Does Canada Play On?

- Canadian gamers spend an average **10 hours per week** on video game.
- **46%** of Canadians most often play games on a mobile device (phones and tablets).

% of Canadians who most often play on the following platforms



% of Canadians who have played a game on the platforms in the past 4 weeks



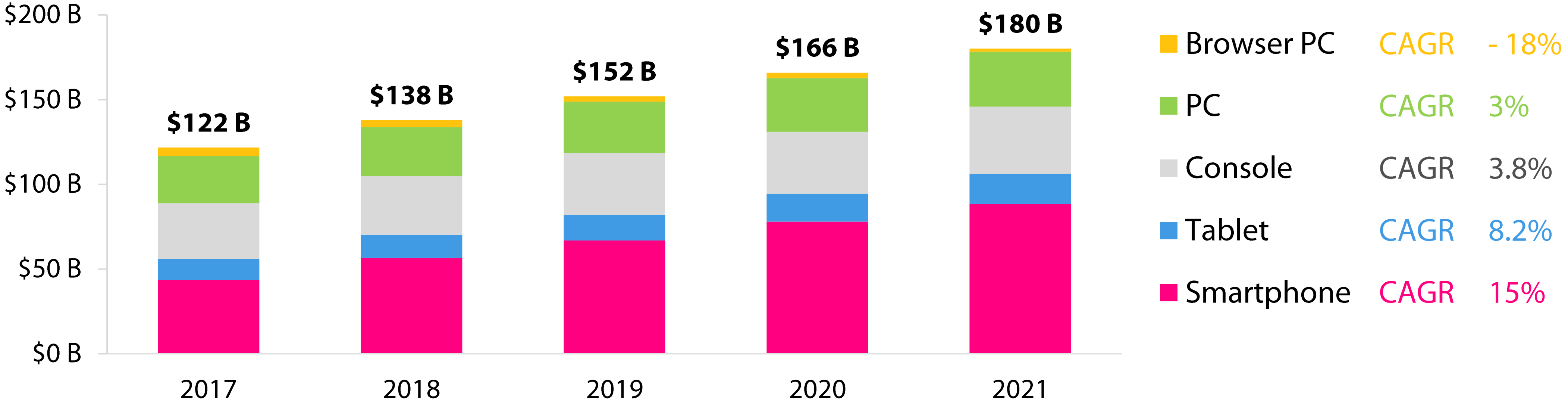
Mobile devices are the preferred platforms to play video games for Canadians

Source: ESAC *Essential Facts 2018*

6.4 Global Market Driven by Mobile Gaming

- Mobile device games (tablet and smartphone) are the most promising markets.
- PC and console will experience moderate revenue growth.

Global video game revenue, forecast and compound annual growth rate, 2017-2021 ($US billion)



Smartphone will make up to 50% of global games revenue by 2021

Source: Newzoo *2018 Global Games Market report*

6.5 The Business of Video Games – Premium Vs Free-to-Play

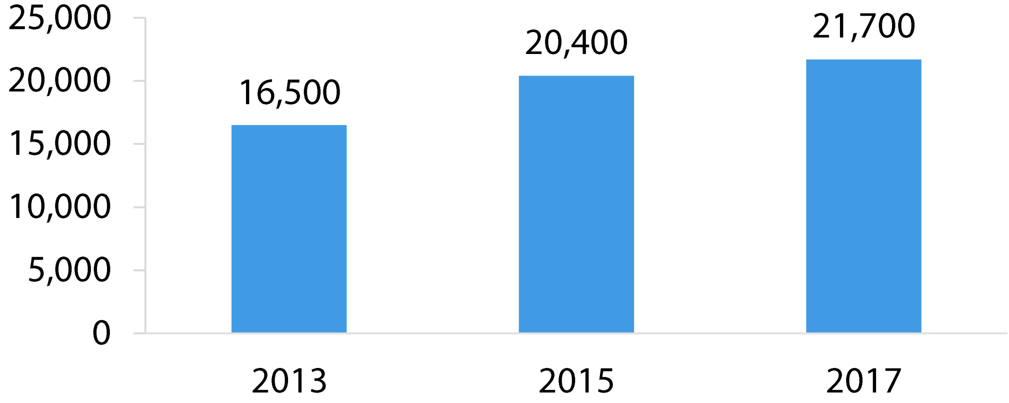
- Free-to-play - ad-supported content
  - Banners / Game sessions interspersed with video ads.
- "Freemium" - micro-transactions
  - Enhanced experience through small in-app purchases: extra lives, customization items, bonuses, ad-free versions.
  - **9%** of Canadian gamers have purchased in-game cosmetic content (last 6 months).
- Premium
  - Physical sales and full-game download.
  - **30%** of Canadian gamers have purchased a digital download of a full game.
  - Subscription model: limited to a few games (World of Warcraft), and services (online features, cloud gaming platforms).
  - Transactions for additional playable (levels, extended storylines) and cosmetic content.

Micro-transactions is becoming the dominant model, despite controversies (e.g. loot boxes, pay-to-win)

6.6 Canada's Thriving Video Game Industry

- Canada's video game industry was responsible for **21,700 direct FTEs** in 2017.
- The average annual salary (**$77,300**) is comparatively higher than those of other creative industries.
- The industry injects **over $3 B** into the Canadian economy each year.
- Canada is the largest producer of video games per capita.
- Post-secondary institutions, skills and talent pools recognized internationally.

Direct FTEs created by the Canadian video game industry



- Film and TV (2017):
  - 67,500 direct FTEs
  - $62,043 average salary
- English-Language Book Publishing (2016):
  - 2,670 direct FTEs
  - $48,500 average salary

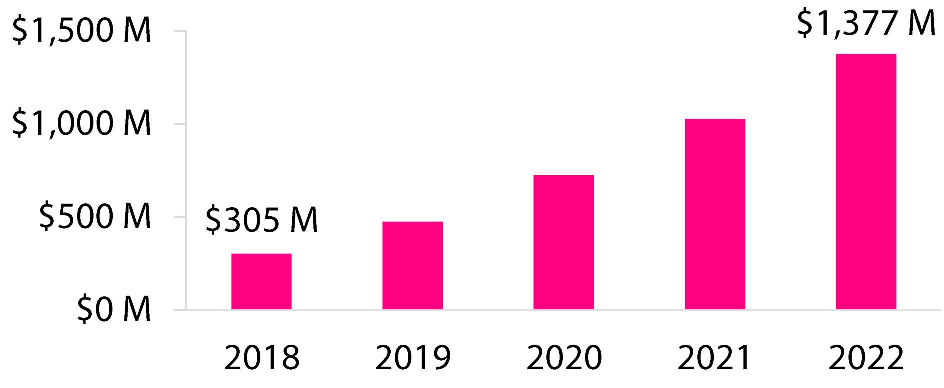
Canada's video game industry shows many positive results.

Source: ESAC *Essential Facts 2018*; CMPA *Profile*, ; Nordicity analysis, Canada Book Fund, *The 2018 Canadian Book Publishing Industry Profile Survey*

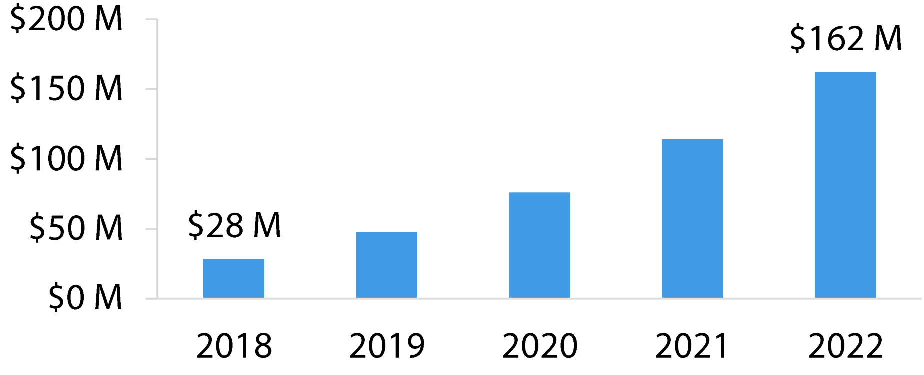
6.7 Trend: Digital Realities (VR/AR/XR)

- Attracting (slowly) more Canadians:
  - **5%** have played on a VR system in the last month.
  - **8%** own a VR system.
- Location Based Entertainment (VR arcades):
  - **One of the fastest growing** sectors of the VR industry.
  - **Entry point** for consumer who can't afford expensive equipment (VR-ready computers and headsets).
- Video gaming is **only one dimension** of the Digital Reality sector:
  - The real potential of VR/AR/XR lies in enterprise and commercial use-cases (e.g., healthcare, education, productivity).

Total VR industry revenue forecast, Canada



Location Based Entertainment revenue forecast, Canada



Although the majority of VR applications are games today, VR/AR/XR present even more opportunities as an non-entertainment content industry.

Source: Greenlight Insights, *2018 Virtual Reality Industry Forecast* ; ESAC *Essential Facts 2018*

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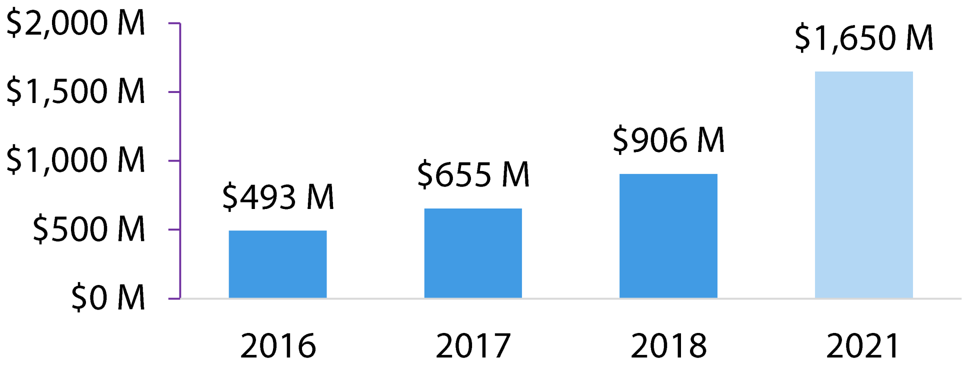
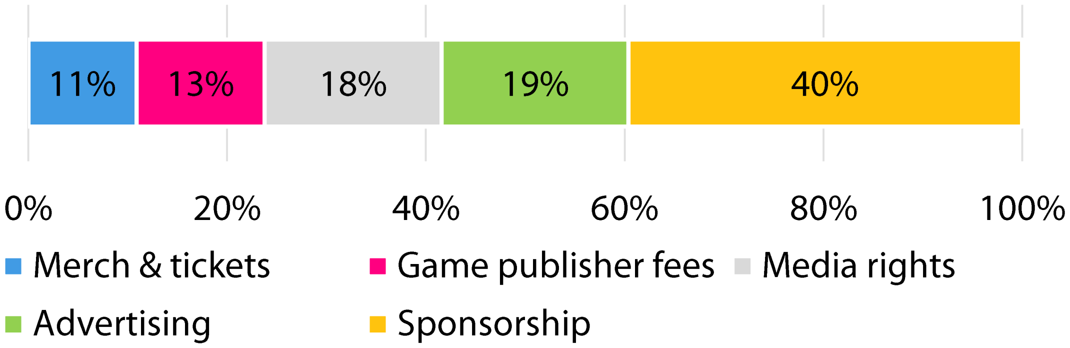
6.8 Trend: E-Sport

- A booming sector, more and more comparable to traditional sport:
  - More of a broadcasting issue than a video game issue?
- Now reaching a **global audience of 380 M:**
  - 127 M viewers tuned to the 2018 MSI Grand Final (*League of Legends* championship).
  - By comparison the Superbowl attracts a global audience of roughly 150 M each year.
  - 15 million daily active users on Twitch.
- In Canada:
  - E-sport arena in construction in Richmond, BC
  - MLSE created two e-sport franchises
  - Ginx TV, Canada's 24-hour eSports channel
  - *Dota 2* championship last August in Vancouver: $33 M prize pool, 6 days sold out at the Rogers Arena.

Global e-sport revenue $US million



E-sport revenue streams



The global E-sport revenue is set to reach $1.6 B by 2021.

Source: Newzoo *2018 Global E-sport Market Report*

6.9 Conclusions

- It is an industry that is **too big for government economic development policy to neglect:**
  - Now too big to be missed: wider, older audience that challenge expectations.
  - Actually there are two industries - mobile and console/PC – with slightly different audiences and business models.
  - Successful Canadian industry, showing signs of healthy growth and praised internationally.
- Policy – the industry perspective, focus on **jobs and economic impact**
  - Provincial support (Interactive Digital Media Fund in ON, tax credit in BC, AB and QC).
  - Federal support through the CMF.
- **Increasing diversity in content gaining wider interest as it becomes the base material for other media:**
  - Movies and shows: *Assassin's Creed, Angry Birds, Tomb Raider, Detective Pikachu*, *The Witcher.*
  - Other convergent media and derivatives: novels and comics, conventions, competitions, etc.

Methodology

Methodology

- This report was prepared based on publicly available data.
- When possible Nordicity verified and cross-check the data from various sources.
- Main sources of this report are:
  - CRTC – *Harnessing Change: The Future of Programming Distribution in Canada*
  - CRTC – *Consultation on the Future of Program Distribution in Canada, Reference Document*
  - CRTC – *Communication Monitoring Report 2017*
  - Citi GPS - *Putting the Band Back Together*
  - CMCRP - *The Growth of the Network Media Economy in Canada 1984-2017*
  - CMPA – *Profile 2017*
  - ESAC – *Essential Facts About The Canadian Video Game Industry 2018*
  - IAB Canada - *2017 Actual + 2018 Estimates Canadian Internet Advertising Revenue Survey*
  - IFPI – *Music Consumer Insight Report*
  - IFPI – *Global Music Report 2018*
  - PPF – *The Shattered Mirror Series*
  - SOCAN – *Annual Report 2017*