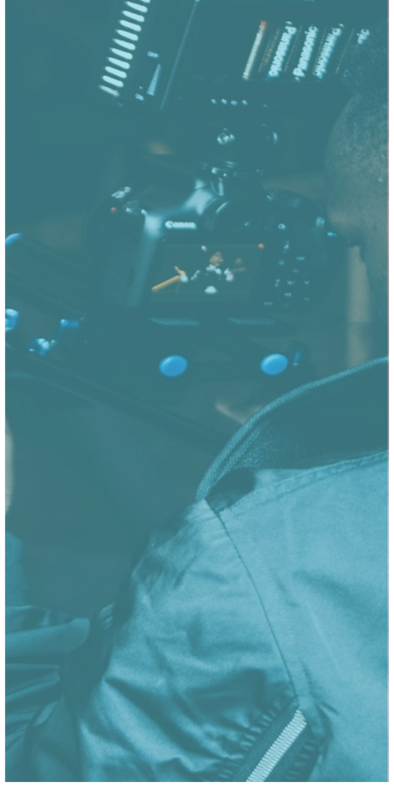


DM@X

The Digital Media Universe

Measuring the Revenues, the Audiences, and the Future Prospects

January 2024

Nordicity

Funding for this study was provided the **Directors Guild of Canada** (DGC) and **SOCAN**. Review comments were provided by the Digital Media at the Crossroads (DM@X) Steering Committee.

Introduction

Presented by: Peter Lyman

Order of Presentation Topics

1. Introduction
2. Audiovisual Content Production
3. Music
4. Observations & Conclusions
5. Q&A

1.1
Study Mandate & Objectives

MANDATE

- To **gather and present data and information on key trends** in film/television and music.
- To **analyze the potential impact of these trends** on two Canadian creative sectors.

OBJECTIVES

- To set the stage for lively DM@X discussions on policy.
- To do a refresh of the January 2023 DM@X report—thus engendering reporting continuity.
- To stimulate further discussion on policy, strategy, and economics in other venues.

1.2

This Year's Main Themes

WHERE ARE WE IN 2024?

Labour turmoil and AI

Labour strife focuses on rights while creative workforce sees AI as an existential threat

C-11 amid shifting sands of global markets

The CRTC tackles wicked problems implementing the Online Streaming Act, as streamers tighten ship and rethink their business model

Inclusion and climate change awareness progress

While directions seem positive the impact on actual practice has not yet been documented

Audiovisual Content Production

Presented by: Nicole Matiation

Audiovisual Production | **Key questions**

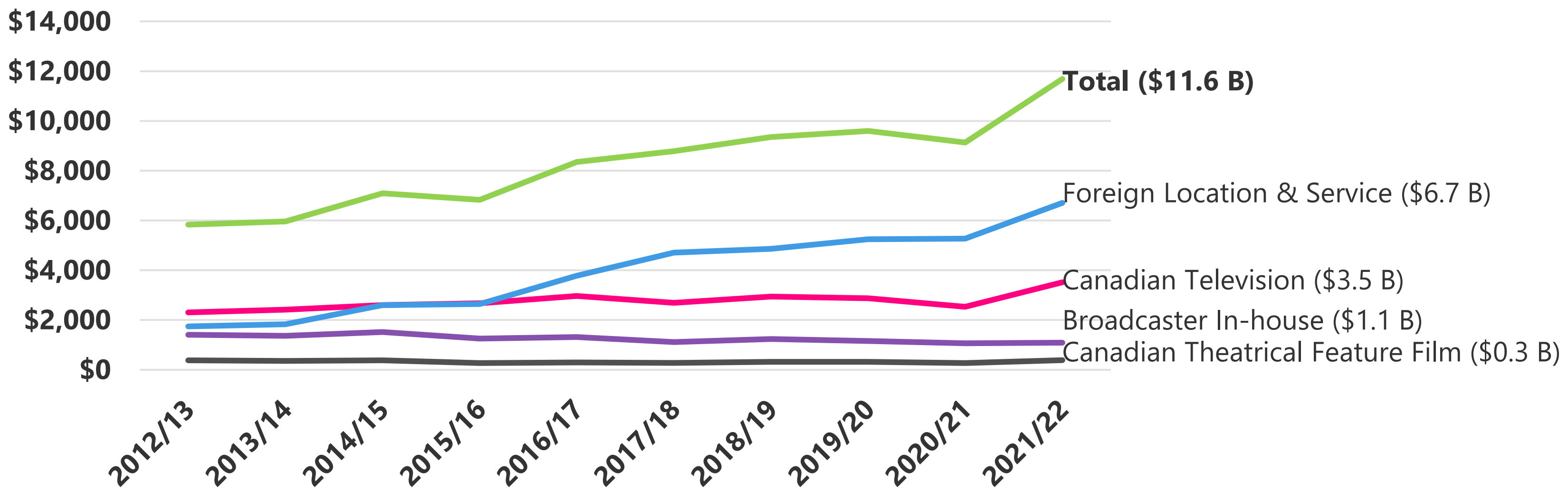
1. What signals are there from recent data on Canadian production?
2. Are the changing business models of streamers going to be less hospitable for Canadian producers?
3. Are we counting too much on what the Online Streaming Act will deliver to Canadian content?
4. Have we seen much reshaping of the production sector from attention to equity and environmental concerns?

2.1
Industry Overview: Production in Canada

In the rearview mirror, production volume looks positive; however, figures may deceive as they still account for COVID catch-up and are pre-strikes in the US.

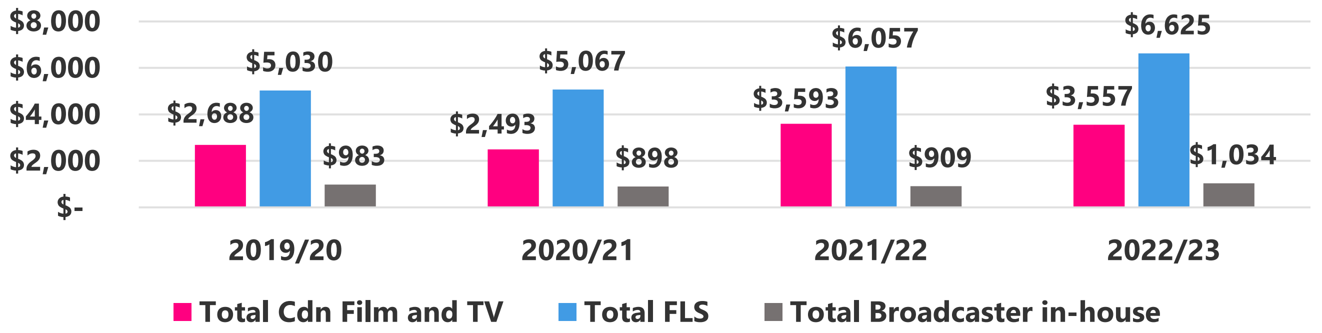
Source: *CMPA*, Profile 2022

TOTAL PRODUCTION VOLUME IN CANADA 2022 (CAD $M)



Preview of 2023 figures...

AGGREGATED PRODUCTION VOLUME IN ONTARIO, QUEBEC, AND BC (CAD $M)



2.2
Labour Turmoil

US labour turmoil heavily impacted FLS production. Canadian unions raise the same issues as US counterparts regarding AI and fair pay.

Source: CMPA, *Profile 2022;* Toronto Film Office, *Toronto's Film Industry: Protecting a Valuable Asset;* ACTRA, *A.I. Survey Results*

- WGA and SAG-AFTRA simultaneously went on strike with the AMPTP marking **historic labour disruption**.
  - Stagnated base pay/reduced share of residuals
  - Proposal for increased uses of A.I. in writing and onscreen
  - After 7 months, the **AMPTP conceded to many of the guilds' needs.**
- **Toronto Film Office reported:**

80% drop in # of active productions in TO.

71% drop in working DGC Ontario members.

89% drop in IATSE 873 gross wages.

- **Canadian unions/guilds in their own negotiations** and labour disputes, share the same concerns as their American counterparts:

ACTRA

ACTRA AI Survey

93% concerned AI will replace human actors in certain roles

98% concerned over misuse of their name, image and likeness rights

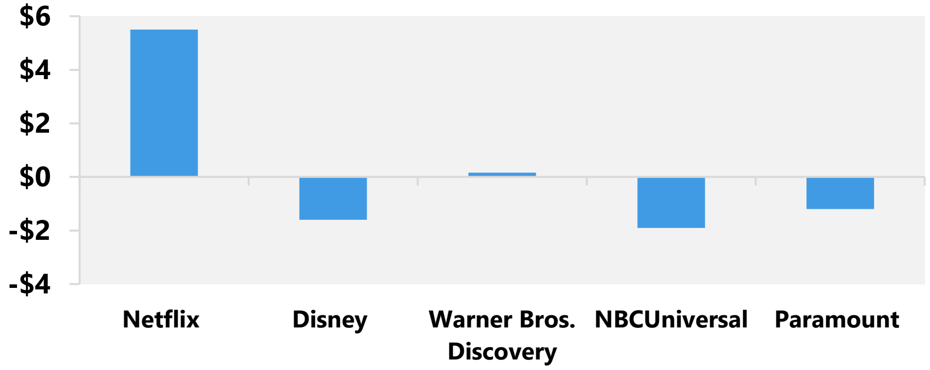
2.3
Streaming Wars

Streaming reigns, but aside from Netflix still generally unprofitable especially among legacy media companies – only a few may survive inevitable consolidation.

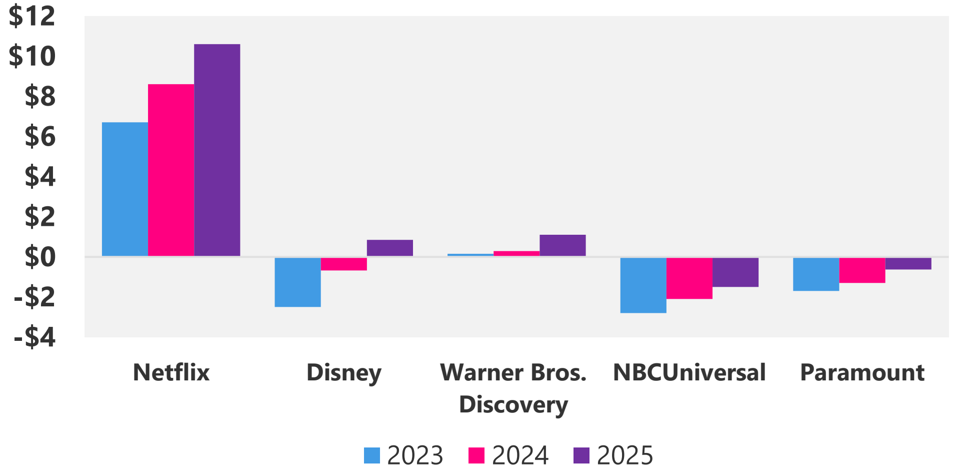
Source: *Variety Intelligence Platform Analysis; Company Data, Morgan Stanley, Visible Alpha*

- Netflix "wins" streaming wars (for now).
- Streamers "lost" in labour disputes
- Apple and Amazon are too big (with diverse revenue streams) to fail
- YouTube continues to build its one-stop-shop to access streaming services

2023 DIRECT-TO-CONSUMER SEGMENT EARNINGS IN BILLIONS (USD $B)



DIRECT-TO-CONSUMER OPERATING INCOME FORECAST (USD $B)



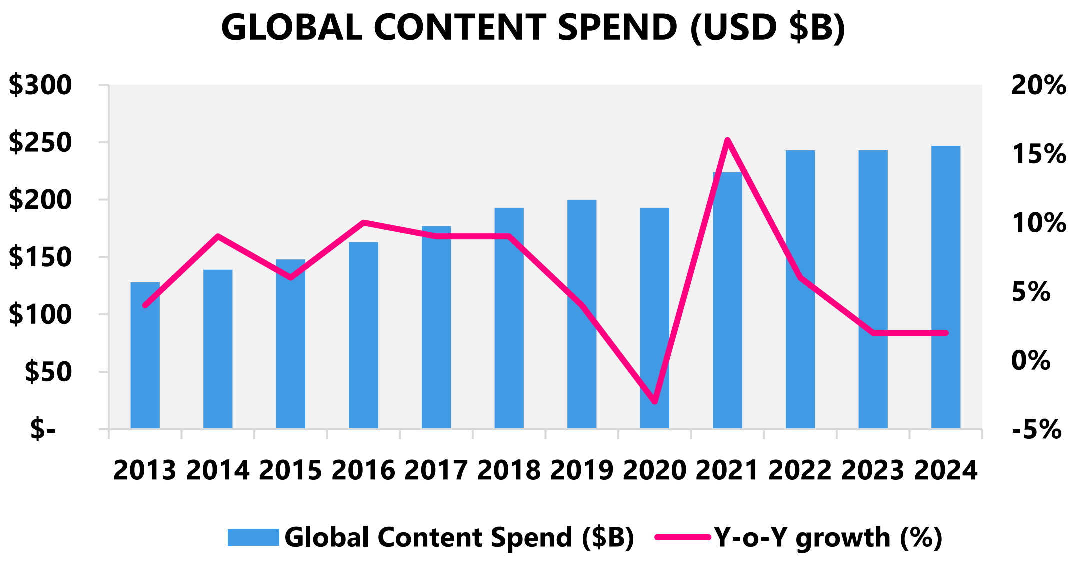
2.4

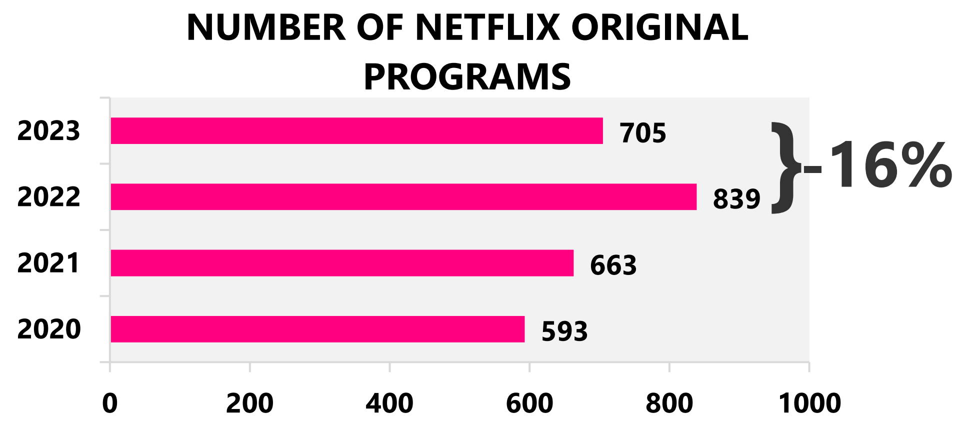
Production Plateau (1/2)

Leaner streamers will impact Canadian FLS; positioning as an attractive jurisdiction for AV is imperative to maintaining industry growth.

Source: *Ampere Analysis, What's on Netflix*

- Peak TV has *finally* peaked (or so it seems).
- Content spending has plateaued.
- Mass content cuts and cancellations
- Even Netflix reducing its content slate, opting for quality over quantity strategy.
- Strike concessions re-enforce content cuts, as streamers will need to pay more for labour.





2.5

Production Plateau (2/2)

Netflix may be the clear winner, but what could happen under more consolidation? Will it become more difficult for Canadian producers to sell to the consolidators with market power?

- Streamers altering business models toward **profitability,** including both a walled garden strategy and licensing titles to other streamers.
- **Scale seems to have paid off.** According to private sources gross margin per hour viewed is the highest for Netflix.
- If there are fewer buyers, the **prices imposed on suppliers will be lower and license terms harsher**.
- Can the international community apply some terms of trade requirements on streamers?

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2.6

State of Traditional Media

Falling revenues for traditional media means less for the CMF and independent producers, sparking even more urgency to secure contributions from streaming giants

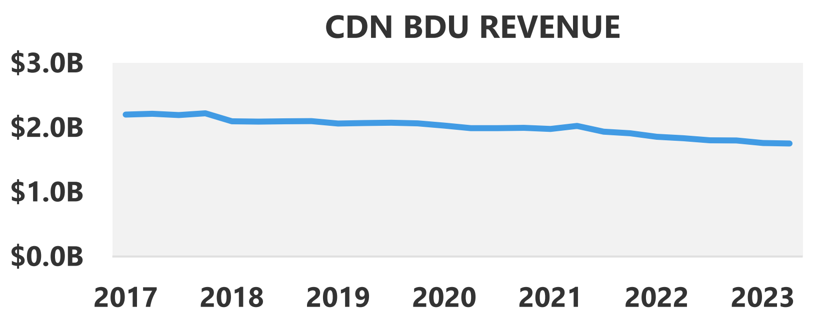
Source: CRTC Market Report

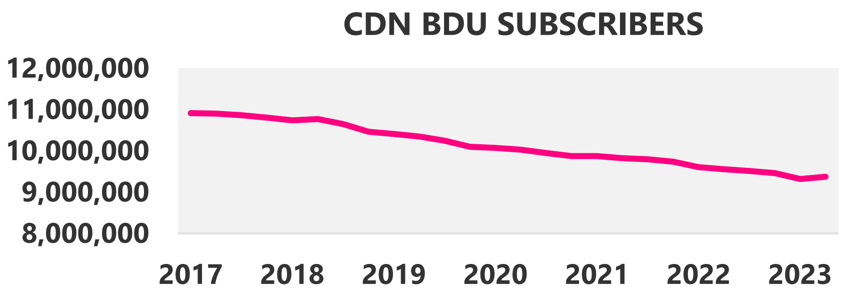
More nails in linear's coffin…

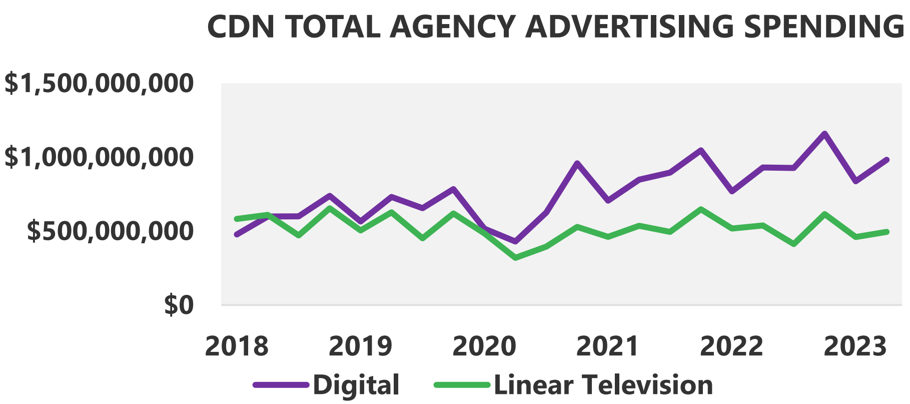
- Streamers continue to introduce ad-tiers (e.g., Prime Video making ad-tier default as of Jan. 29).
- Sports leagues/channels continue to lay the groundwork for the post-linear era with more exclusive content on platforms.

- In crisis, need relief as revenues fall and continue to carry regulator burden.
- Impose streamer contributions and reduce broadcaster obligations.

CANADIAN BROADCASTERS AT ONLINE STREAMING ACT HEARING







2.7

Streaming Levies: C-11 Precedents

- Many countries are seeing declines in revenue in their local media landscapes.
- In Europe, the Audiovisual Media Services Directive (AVMSD) has provided policy and direction for countries to implement **levies** on streaming services.
- How the levy revenue will be deployed oscillates between a **fund** and **direct investment.**

Given the European rates, it is possible that a Canadian levy on streaming services will be within the global range.

Source: Nordicity and Saffery Research

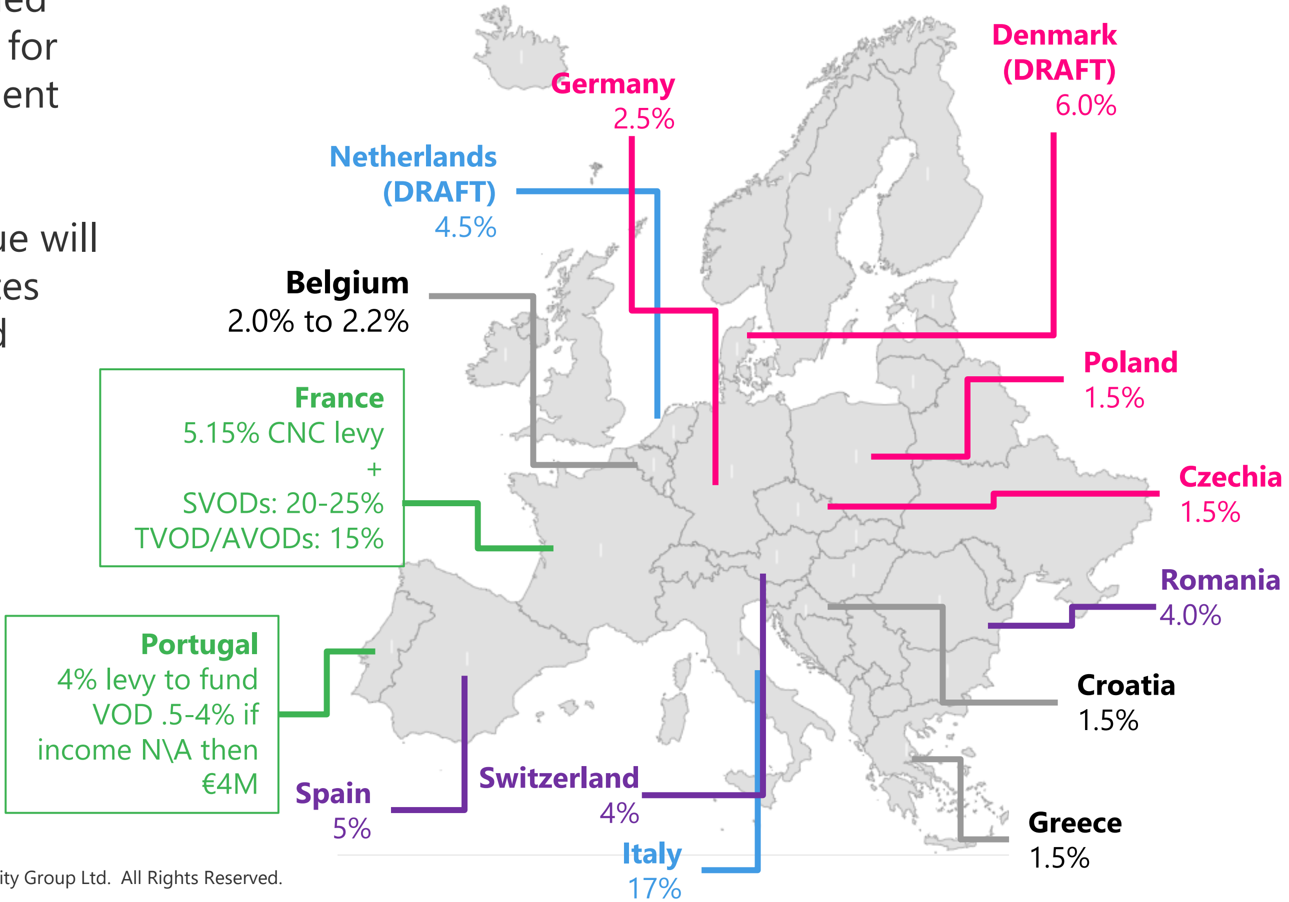
Direct production investment obligations

Levy payable to an arm's length fund

Choice between direct investment or levy

Direct investment and levy obligations

Variable



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2.8
Equity and Inclusion

Public agencies bear down on programs to develop a more diverse workforce.

- Telefilm: Equity. Diversity and Inclusion Action Plan + self-identification system.
- CMF: Equity & Inclusion Strategy, targeted programs + Persona ID
- Training and market readiness programs

REMC
RACIAL EQUITY MEDIA COLLECTIVE

need for a **unified and streamlined national** system to collect data on industry demographics.

IDEA awareness, programs, targets, and requirements continue to emerge; however, evidence of progress is lacking – and some "steps backwards" may be on the horizon.

Source: *Women in View* On Screen Report 2023; *REMC* A National Data System & Benchmarking for Racial Equity

DSO
Disability Screen Office

Potential Setbacks to progress…

- Reduced investment in content / fewer program orders.
- "Great DEI Resignation"
- Online Streaming Act ≠ a lifeline for all?
- Targets and quotas are uneven.
- Still short on data: Who watches? Who owns? Who makes the content?

2.9

Environmental Sustainability

Industry environmental impact is large, but impact data is nascent. However, a greener industry may be a competitive advantage as major buyers aim for net zero emissions.

Source: *CBC*, Preliminary Industry Report on Production Carbon Emissions; *Ontario Green Screen/Ontario Creates* Report on Advancing Waste Management Practices; *Telefilm* 2023 Eco-Awareness Survey

- **CBC** requires **carbon calculator** use of all in-house programming and CBC supported original programs. The first set of insights released, establishing a baseline:

64 CBC productions produced…

9,508 Tonnes of CO_2e

=

2,227 homes’ energy use for 1 year

- **Ontario Green Screen/Ontario Creates Report on Advancing Waste Management Practices** found major challenges to reuse materials and waste diversion:

Limited Services/ Vendors

Limited Budget

Crew Behaviour /Attitude

- **Telefilm 2023 Eco-Awareness Survey** found that Canadian audio-visual production workers’ awareness/attitudes around environmental concerns are growing:

94% believe it important to incorporate green practices.

44% have/will develop stories that incorporate climate themes.

30% use carbon calculators, a jump from 18% in 2022.

Film & TV Production | **Observations**

1. Netflix emerges as the only profit-making streamer. It has scale and may become the consolidator – unless Apple and Amazon invest massively.
2. Audience shift from conventional to streamers as their primary source for AV content continues. which reinforces their role as buyers of content – yet streamers are entrenching and now going for profits, not market share.
3. Labour turmoil in the other jurisdictions previews points of contention for Canadian unions/guilds in negotiations (e.g., AI).
4. The regulatory framework created by the Online Streaming Act is still unknown, but the CRTC could be mindful of the emerging European levy schemes
5. Targeted programs and initiatives supporting IDEA and sustainability are driving awareness, but no national systems have been created to collect, store, and report on pertinent data.

Music

Presented by: Brian Christensen

Music | **Key questions**

1. How is the music industry revenue share shifting in terms of:
   a) who is benefitting the most (major acts vs. musician ‘middle class’)?
   b) what segments of the industry are growing or shrinking?
2. How are technological trends impacting creation and consumption?
3. What is the character of the “funflation” live music boom? What impact is it having on musicians, music workers and broader society, in Canada and abroad?
4. How might the Online Streaming Act (Bill C-11) impact the Canadian music sector?
5. What initiatives and trends are emerging in terms of equity and environmental sustainability? Are we gaining ground?

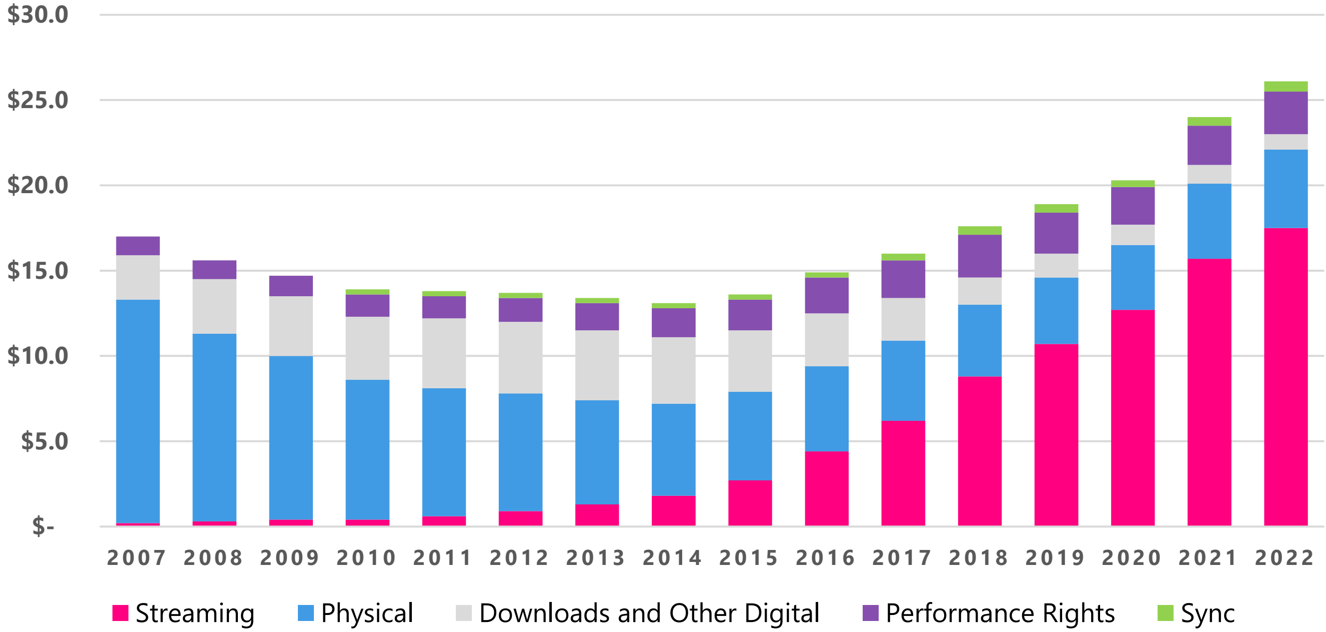
3.1

Snapshot of the Global Recorded Industry

Nearly all industry segments have grown year-over-year, including overall revenue.

Source: IFPI, *Global Music Report (2023)*

GLOBAL RECORDED MUSIC INDUSTRY REVENUE (US$ BILLIONS)



$26.1B total revenue

67% of total

% change from 2021 to 2022

+11.5% Streaming

+4.0% Physical

-11.7% Digital downloads

+8.6% Performance rights

+22.3% Sync

3.2

Artificial Intelligence in Music

AI is reshaping the music industry. As new technologies present new opportunities, so too do they introduce disruptions and risks to the industry.

Sources: New York Times; New York Times; Billboard; Forbes; The Conversation;

OPPORTUNITIES	RISKS
Vocal Emulation	Unlicensed Use of Likeness
Stem Separation	Illegal Sampling Using Stems
Creative Partner	Derivative Outputs
Royalty-Free Music and New Production Tools	Harm Already-Fragile Musician Economy

Three key legal questions to be resolved:

1. What is owed to the creators of original content that trains AI to create **derivative works**?
2. Who owns the **output** of generative AI?
3. When, if ever, does **"fair use"** apply?

3.3

Recorded Music Trends

While platforms like TikTok continue to greatly influence how music is made and marketed, consumers are also embracing older music and listening formats

Source: Business Insider; Billboard; Billboard; Variety; Daily Mail; Luminate Year-End Music Report 2023.

Second straight year of **physical media sales growth**; primarily vinyl (72% share), but also CDs and cassettes.

In 2023 physical formats reached **highest US sales since 2013**. Led by **Gen Z**, then Millennials.

Impacts of TikTok: music discovery; label involvement; unpredictable hitmaking; shorter/simpler songs; rise of remixes, mashups, "sped-up" songs.

Streaming **catalogue music** (72.8% share) continues to outpace current (27.2% share).

2020/2021 **boom of mega catalogue deals slows** due to rising cost of loans (e.g. 2021 Springsteen $500M deal with Sony Music)

3.4

Live Music: Tale of Two Industries

There is an increasing cleavage between major stars and 'middle class' musicians; the current concert boom is not being felt evenly across the industry

Source: Pollstar; Wall Street Journal; New York Times; Time; CBC; Global News; U of T/Wavelength Music; CLMA;

MAJOR CONCERT ACTS

- Huge **"funflation"** concert boom for top end artists and bands.
- Increasing discourse around broader **economic impact** of live music.

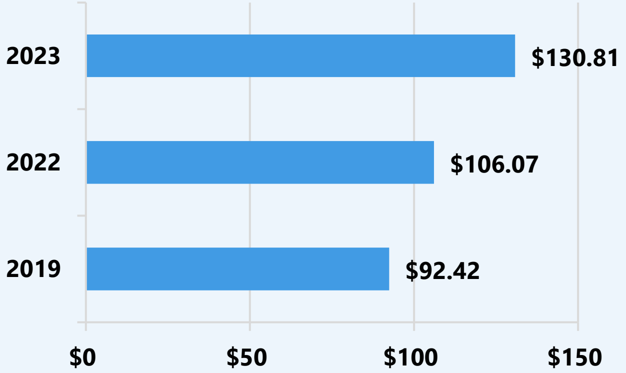
+23.33%
Average ticket price increase (2022-2023)

+46.02%
Total gross increase (2022-2023)

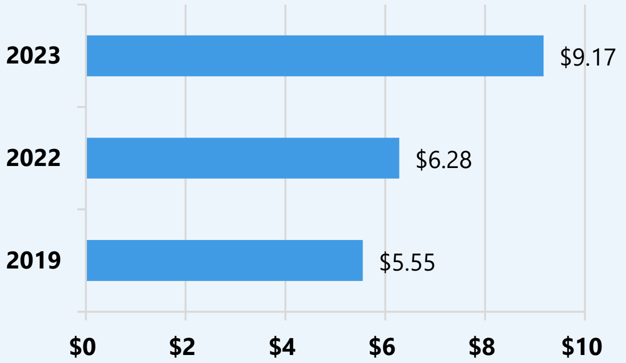
SMALL-MEDIUM SIZED ACTS

- Post-pandemic bounce back not being felt as strongly in local grassroots music scenes.
- Toronto permanently **lost 13% of all venues** during pandemic; **losing development opportunities** for emerging local artists.
- Persistent **shortage of non-artist labour**.
- Live shows remain **primary source of revenue** for artists.

WORLDWIDE TOP 100 TOURS: AVERAGE TICKET PRICE (US$)



WORLDWIDE TOP 100 TOURS: TOTAL GROSS (US$ BILLIONS)



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3.5

Pulse Check on Music in Canada

Canadian recording revenues are recovering post-pandemic. Live music still facing recovery challenges in smaller settings, with major developments in large concert tours.

Source: IFPI, *Global Music Report (2023)*, Music Canada; [Live Nation;]

STATE OF RECORDED MUSIC

$815.8M revenues (CAD)

⬆ 10.1% streaming

⬆ 6.5% physical sales

STATE OF LIVE MUSIC

- Increasing cleavage between major acts and musician 'middle class': **rising costs**, **small-medium sized venue closures**, **skilled labour shortages**, **shifting audience behaviour "funflation" predominantly benefitting major acts and entities.**
- Amid these challenges, some signs for cautious optimism:

LIVE NATION

Q3 2023 was largest quarter ever; 17% growth in ticket sales year-over-year

UNIVERSITY OF TORONTO | SCHOOL OF CITIES

WAVELENGTH MUSIC

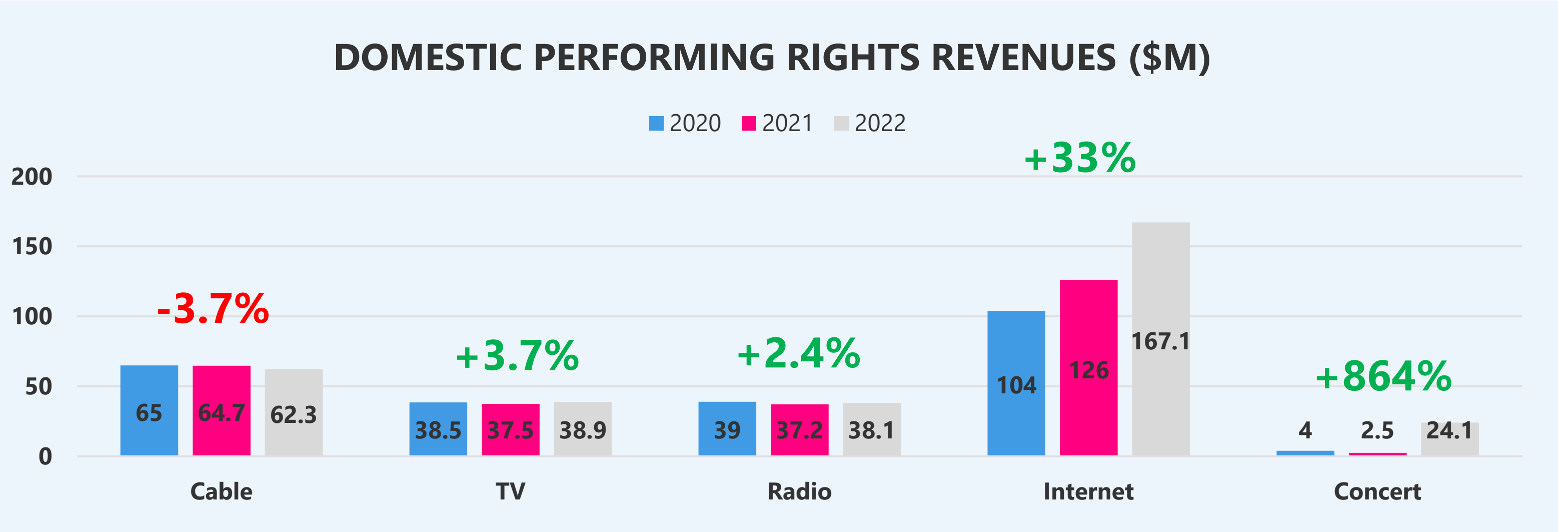
New research reimagining small-medium venues in Toronto

3.6

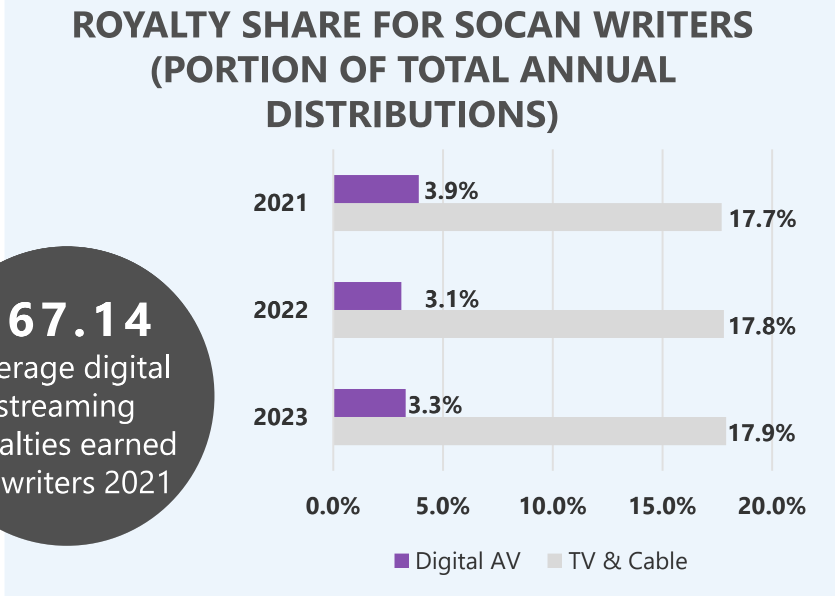
The State of Music Rights

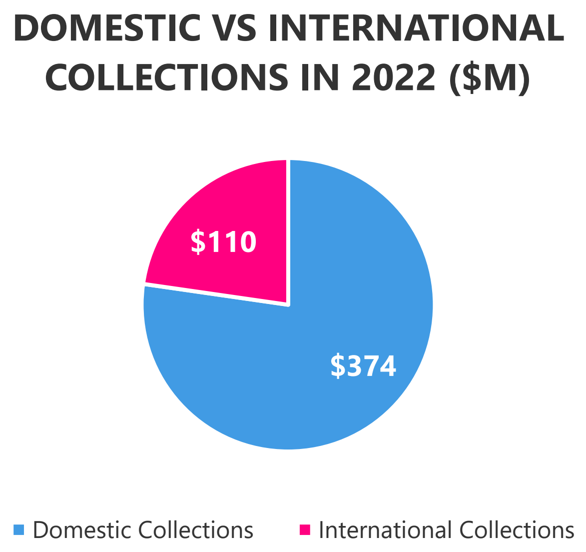
Royalties from conventional sources remain important revenue streams for songwriters despite rising internet revenues and recovery of concert revenues

Source: SOCAN



$67.14
Average digital streaming royalties earned by writers 2021





3.7

Bill C-11: Passed

Spotify
YouTube Music
Music
amazon music

Consumers and industry wait as CRTC consults with major streamers and industry stakeholders on new regulatory framework.

Sources: The Globe and Mail, *Major music labels ask for light touch on Bill C-11*; Billboard; CRTC; SOCAN; Government of Canada.

Bill C-11
The Online Streaming Act
Key Questions

What will be the base rate of contribution for CanCon Development? (4%?)

Where do contributions go? (streamer choice vs. established funds)

What (if any) impact will regulations have on streaming algorithms in Canada?

How will regulations impact streamers' willingness to invest in Canada?

3.8
Equity and Diversity

- Pervasive reporting of **racial, gender-based, disability-based, age-based, sexual orientation-based, Indigenous discrimination**.
- Equity-deserving groups more likely to be **considering leaving music industry**
- Concrete recommendations to **integrate IDEA principles**

$273.5 M
"Missing" GDP contribution of IBPOC workers

$11,700
Wage gap between white and IBPOC workers

Detailed industry research is bringing to light the equity gaps in music. National bodies will need to regularly measure progress to understand the efficacy of current IDEA initiatives.

Source: CBC; Toronto Metropolitan University: *Enablers and Barriers to Success in Canada's Music Industry;* CLMA: *Closing The Gap.*

Indigenous Music Office

ADVANCE
CANADA'S BLACK MUSIC BUSINESS COLLECTIVE

KEYCHANGE

Nordicity DM@X

3.9

Sustainability: Challenges & Opportunities

As emission intensive practices continue, eco-consciousness is leading to greater commitment and advocacy among artists and other industry players.

Source: The Globe and Mail; CBC; CBC; The Crimson White; The New York Times; The New Statesman.

Growing acknowledgement of impact of touring; proliferation of sustainable touring practices.

Environmental impact of streaming is increasing (energy consumption); consumers habits have yet to change accordingly.

Many festivals and companies are **committing to new sustainability practices**.

SUSTAINABILITY INITIATIVES:

MUSIC DECLARES EMERGENCY

UN environment programme

AGF A GREENER FUTURE

REVERB

Julie's Bicycle CREATIVE • CLIMATE • ACTION

EARTH / PERCENT

Music | **Observations**

1. The "funflation" live music boom is not being felt evenly; top artists are bringing in record revenues while local music scenes struggle to recover post-pandemic.
2. Despite some growth in alternate artist revenue sources, the shift to streaming continues to lead the recorded music industry, playing a large role in discovery.
3. Artificial intelligence is already disrupting the industry, driving a wedge between creative applications and their associated legal complexities.
4. While this may be a decisive year for the Online Streaming Act (Bill C-11) as it moves through the regulatory process, its financial impact on Canadian artists may be more limited than many hope.
5. Emergent research into equity and sustainability issues is driving awareness and tangible recommendations for the industry; ongoing measurement will be essential to driving change.

Overall Observations & Conclusions

Presented by: Peter Lyman

4.1 Overarching Observations

- We are indeed consumed by the Online Streaming Act and its implementation; while very major in many ways, it is not clear that its implementation will be a game changer economically.
- There are forces at play in technology and markets that could both wreak havoc and create niche opportunities. International collaboration on curbing the worst effects of market power deserve more of our attention.
- Economic and technological trends appear to not favour the domestic producer/creator in the AV and music worlds - unless they are large, have great international relationships, or offer something very unique.
- That said, all policy tools will need to be sharp, nimble, and fairly implemented to give Canadian creators – in their diversity – a fair shot.

4.2

In Summary

In a phrase, what can we conclude about what we face in 2024?

DM@X 2016 – “Light grim”

DM@X 2018 – “Scary global”

DM@X 2019 – “Intervention imperative”

DM@X 2020 - “Be bold, adapt or starve?”

DM@X 2022 – “Riding the wave or just hanging on”

DM@X 2023 – “Adapt. Repeat”

DM@X 2024 – ”Not much light at the end of the tunnel?"

Questions?

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