

CANADA MEDIA FUND
Experimental Stream Working Group
Date: October 22, 2018

Introduction

The topics for the 2018-2019 Experimental Stream Working Group are as follows:

- 1. Further Distinguishing the Innovation Program and Commercial Projects Pilot Program**
- 2. Revised Method of Funding – “Funnel Approach”**
- 3. Web Series Program**
- 4. Recoupment**
- 5. A2P Summary**

1. Further Distinguishing the Innovation Program and Commercial Projects Pilot Program

When the CMF was created, the policy directive in the Contribution Agreement between the CMF and DCH required a high focus on innovation for all types of digital content and enabling technologies. The CMF responded to this directive by designing a single program in which innovative games, rich interactive media (including VR and AR), software and enabling technologies, to name a few, competed in a selective process for the same pool of funds.

In 2016-2017, in order to allow for more flexibility and reconcile the imbalance between the competing objectives of innovation and commercialization in the Experimental Stream (i.e., Recommendation 4 in the 2015 Department of Canadian Heritage’s CMF Program Evaluation Report), in 2016-2017, the CMF introduced a new branch of the Experimental Stream which places an increased emphasis on commercially-driven projects.

While Eligible Projects in the C3P could only initially apply for Production support, this was extended to Marketing support in 2018-2019. Projects in C3P are assessed through a selective process and must comply with a separate Recoupment Policy. Successful applicants receive funding in the form of a recoupable investment for Production support and a recoupable advance for Marketing support.

While the C3P is a more commercially-focused Experimental Stream Program (with a more aggressive recoupment policy and lower contribution amounts), there is still a requirement that projects in the Program exhibit some form of innovation.

Additionally, in order to allow for the financing of linear content such as web series, in 2016-2017, the CMF also introduced its Web Series Pilot Program.

Eligible Projects in the Web Series Pilot Program are linear projects (in their second or subsequent seasons) in the genres of Drama, Children's and Youth and Documentary. Projects in the Web Series Pilot Program are assessed through a selective process and must comply with a separate Recoupment Policy. Successful applicants receive funding in the form of a recoupable investment.

While the Web Series Pilot Program addressed a gap in the marketplace and carved out its own niche in the Experimental Stream, the Innovation Program and C3P have been continuously revised in the past two years in order to make each Program as distinct as possible and exist as complementary resources in the marketplace.

For context, the goal of splitting the Experimental Stream was to permit producers to continue to develop their successful projects even if "innovation" was not at the forefront of the project, while also allowing other producers to continue to explore riskier new technologies and storytelling approaches by experimenting with their innovative and leading-edge ideas. The more commercial projects, which would likely have more favourable ROI, could help finance the more innovative projects, while the more experimental projects would help bring innovation back into the mainstream, recognizing, however, that an innovative project could also be commercially successful and lucrative.

In reality, however, despite the CMF's recalibration, there is a stipulation that commercially-minded projects in the C3P still exhibit some form of innovation, and that innovative projects in the Innovation Program still demonstrate financial viability and are strategically positioned for the marketplace.

Additionally, despite the emphasis for potential commercial success in the C3P, there are no distinctions between the eligible content-types for both Programs. While the CMF believed that more commercially-minded types of projects (e.g., Games) would find a natural home in the C3P, the numbers tell a different story.

As noted in the Appendix, Figure 1, although Games have increased to three-quarters of applications submitted to the C3P program, they have also increased to almost two-thirds of applications submitted to the Innovation Production program.

In the years since the introduction of the C3P, despite ongoing calibration to ensure the Programs remained distinct, both the demand and the scores given to projects through the C3P have not kept pace with those in the Innovation Program.

As noted in the Appendix, Figure 2, demand is low compared to the Innovation Program and dropped from 2017-2018 to 2018-2019. In Figure 3, scores for the C3P applications are notably lower.

While one of the initial distinctions between the two Programs was that the Innovation Program provided Prototyping, Production, and Marketing & Promotion support and the C3P only supported projects in Production, as of 2018-2019, the C3P now provides Marketing & Promotion-stage funding. While the goal of allowing this new funding access was to provide commercial projects with further resources to promote their projects in the marketplace, find an audience, and

hopefully, increase the CMF's ROI, a peripheral effect of this policy is that the lines between the two Programs have blurred further.

An additional factor that may compound and magnify the similarities between the Programs is if the CMF adopts the proposal raised in section 2 and opens up a wider intake to the CMF for projects at the Prototyping-stage, including those suitable for the C3P.

In short, both Programs continue to fund all the same types of content, support almost the exact same funding activities and, while attempting to resolve the competing tension inherent in the Experimental Stream, a new tension has been created where one Program is clearly favoured by producers over another. The CMF also notes the fact that the Innovation Program's CMF contribution and Recoupment Policy is more advantageous than the C3P's also factors into this Program's preferred status and increased demand.

While the CMF will continue to adjust the evaluation criteria for each Program in order to differentiate them as much as possible, the CMF seeks stakeholders' input on additional strategies the CMF could adopt to ensure both Programs serve the dynamic and distinct needs of the digital media industry.

2. Revised Method of Financing – Funnel Approach

In the Experimental Stream, the CMF divides the financing of a project between the Prototyping, Production and Marketing stages (with an evaluation process at each stage).

While this approach offers flexibility and allows applicants at different stages in their project's lifecycle to apply for specific activities, stakeholders have raised the limitations of such an approach.

For example, administratively, applying for each different activity has become overly complex and onerous for applicants over the years. Due to the high oversubscription to the Stream for each of the separate funding activities, the CMF has requested and is expecting more and more detailed documents in order to assess the projects and select the best ones in such a competitive environment. While the CMF has responsibilities to ensure it manages its exposure to risk and accomplishes this through the requirement of scrutinizing relevant documentation from the applicant, the CMF is always looking at new ways to potentially simplify its policies and processes.

Second, some stakeholders hold that current application infrastructure takes too long to go through and is not sufficiently nimble to adjust to the constantly changing marketplace. For example, a project that applies through the Experimental Stream's Innovative Program for Prototyping support may be viewed at that point in time as innovative and leading edge, but by the time the project is applying for Production, and then Marketing and Promotion support, the level of innovation is no longer seen as advanced.

Finally, the current application infrastructure does not provide a predictable path to funding for the applicant. By mandating that applicants apply for each type of funding activity, there is always a risk that a project that was successful in Prototyping, no longer receives further support in Production, or a project that was successful in Production is left without CMF support at the Marketing and Promotion stage.

For context, 24% of all Innovation projects (funded in the previous five years) received more than one stage of funding.¹

Based on all of the above, the CMF seeks stakeholder input on a potential redesign of the CMF's current approach to funding in the Experimental Stream.

Revised Approach to Financing

The CMF proposes to gradually move away from its current model and towards a “funnel approach” which would enable the CMF to support a much larger number of projects at the conceptual/prototyping stage and to obtain a critical mass of prototypes to choose from to continue receiving CMF financing for their production stage.

At this “new” prototyping stage, less documentation would be required from applicants, opening up the CMF to a wider pool of applicants, in particular smaller companies that may not have the staff, time and money to develop extensive proposals. It could also allow the CMF to exercise some experimentation and take more risks with a lower contribution on projects that would otherwise not be competitive within the current approach.

A lower CMF contribution per project would be offered for this stage, and only prototypes that would have demonstrated a potential to advance to the production stage would be invited to submit their project for evaluation and selection (a similar approach would then be applied for the marketing stage).

The CMF's objective is that through the funnel approach, the CMF will open up the Experimental Stream to a wider pool of applicants at the outset, alleviate some administrative stresses on applicants.

Since it will take a certain number of years to get to a point where we would have enough prototypes to choose from, this new model would be implemented gradually. As such, for the next few years, producers that have decided to develop their prototypes without the CMF support will be able to apply directly to production. But over a few years, the CMF would examine whether only projects that have received prototyping support from the CMF would be able to apply to the programs.

Additionally, in order to diversify the types of projects that are supported, some stakeholders have suggested that the CMF examine the possibility of an Experimental Stream Program dedicated exclusively for Games and one exclusively dedicated for Rich Interactive Media. By separating eligible content-types into distinct Programs, the CMF could both ensure that projects competed against like projects and one content type did not overly dominate all Experimental Stream Programs (see the Appendix, Figure 4, for shares of funding by content type over the previous five years).

Finally, some stakeholders have proposed that the CMF explore options to open up eligibility in the Experimental Stream to types of television and film-related projects that were previously only eligible in the CMF's Convergent Stream. Provided these television and film-related projects could still demonstrate a level of innovation and/or commercial potential, they would be able to compete with other interactive projects. For example, a game or VR project related to a Television project

¹ Development to Production or Marketing, or Production to Marketing

would be able to obtain CMF Experimental Stream funding without the requirement of a 10% minimum financing commitment from a CRTC-licensed broadcaster.

While the CMF's current Program architecture is based around a delineation between the Convergent and Experimental Streams, the CMF's ultimate goal is a "content-centric/platform agnostic" model of funding. While the CMF has begun to soften its convergence requirement in its Convergent Stream in recent years, online platforms owned and operated by broadcasters and broadcasting distribution undertakings ("BDUs") will be soon allowed to trigger funding in its Convergent Stream. The CMF views this move towards platform agnosticism in an area traditionally dominated by conventional television as a symbolic next step in the way it supports its Programs.

3. Web Series Program

In addition to the creation of the C3P, in 2016-2017, the CMF also created the Web Series Pilot Program which allowed funding for linear content originally created for the web.

As noted in the Appendix, Figure 5, since its introduction, the CMF has doubled the size of the envelope for the Program -which resulted in larger production budgets - and added Documentary projects to the eligibility criteria.

Based on the demand in the Program to date, the CMF seeks stakeholder input on whether the CMF should further tighten or loosen any other eligibility criteria, including but not limited to, only allowing projects with a minimum threshold budget and opening up eligibility to projects in their first season, or to carve-out money to support projects at the development stage.

In the longer term, the CMF is evaluating whether the Web Series Pilot Program should be offered through the Experimental Stream or whether it now has a more suitable home in the CMF's Convergent Stream.

While the Program was initially made available through the Experimental Stream due to the requirement that projects in the Convergent Stream required a licence from a CRTC-licensed broadcaster, the DCH recently announced there would be areas of further latitude in certain key areas in its current Programs.

The new allowance of certain online platforms to trigger funding is a symbolic first step in the way the CMF supports its Programs and its content-centric/platform-agnostic approach (the percentage of projects made available through broadcaster-related web platforms is shown in Figure 6).

While the immediate restriction on platforms will be those owned and operated by broadcasters and BDUs, the CMF believes that the future home of the Web Series Pilot Program may be better aligned with other Programs that fund linear content.

4. Recoupment

The CMF's Experimental Recoupment Policy was originally introduced to frame and reduce negotiations of recoupment on a case-by-case basis and to provide predictability for producers and publishers/distributors in negotiating agreements on CMF equity projects.

In 2016-2017, with the introduction of the C3P to support digital media projects with an increased focus on potential commercial success, the CMF applied distinct funding parameters and a more aggressive recoupment policy to this new, commercially-focused program.

While the Recoupment Policy has been revised a number of times over the years to keep pace with changes in the industry; to reflect the specific objectives of the different Experimental Stream Programs; and to ensure that both continue to be aligned with the CMF's corporate strategic objectives, the current one-size-fits-all approach described in each of the programs is increasingly challenging to apply, and negotiations on a case-by-case basis has now become the norm, which is not beneficial for the applicants nor the CMF.

Whether it is due to the industry's lack of understanding of the policy, or the different types of projects that are supported under this Stream, the current approach, as outlined below, may need to be revisited with a simpler methodology.

Currently, in all of its Experimental Stream Programs, there are a number of factors to take into account in all Programs' respective Recoupment Policies.

For reference, in the Innovation Program, the Recoupment Policy holds that after the deduction of applicable fees & expenses (discussed below), the CMF recoups its investment *pro rata* and *pari passu* with other equity investors in the project, subject to a maximum of 50% (despite the fact that the CMF may fund up to 75% of a project's Eligible Costs) and until the earlier of full recoupment in the CMF's investment or 7 years.

Once the CMF has fully recouped its investment, the CMF will participate in profits on the same terms that it recouped, but the CMF will forego either 25% of its profit participation for the benefit of the applicant, or 50% if the CMF recouped its investment within 2 years.

Prior to the CMF's recoupment, the applicant is allowed to deduct commissions, fees, expenses and enhancement costs up to a maximum of 75% of gross revenues in the project's 1st year of exploitation and up to 50% in all subsequent years.

In the C3P, the Recoupment Policy is similar to the Innovation Program except there is no 50% cap on recoupment, the CMF will not forego any percentage in profits and the fees if it recoups in a designated period, and expenses, fees and enhancement costs are limited to up to 75% in Year 1, 50% in Year 2 and in Year 3 (and beyond), enhancement costs are no longer deductible and fees & expenses continue to be capped at 50%.

Finally, in the Web Series Pilot Program, after the deduction of applicable fees & expenses, the CMF recoups on a *pro rata* basis until the earlier of full recoupment in the CMF's investment or 7 years. Once the CMF has recouped its investment, it will participate in profits on the same terms as it recouped.

Prior to CMF recoupment, the applicant is allowed to deduct from the project's gross revenues up to 10% distribution expenses and 15% distribution fees for "Related Party" distributors and 30% distributors fees for third-party distributors.

With regards to the various content types funded in the Experimental Stream, as illustrated by Figure 7 in the Appendix, Games are by far the largest generator of recoupment revenue for CMF at 75%.

Finally, in addition to possible recoupment revenues, the CMF can also be "bought out" of its right(s) of recoupment and/or profit participation when a CMF-funded company is purchased.

The issue of buying out the CMF's rights to recoupment has been a primary concern for many stakeholders from the outset of the Experimental Stream. Some argued that only a set, pre-approved formula could provide comfort and predictability to potential buyers in the event of a transaction involving a CMF-funded project.

The CMF declined to proceed in this manner, arguing that due to the variety of projects (and associated business models) eligible in the Stream, doing so prior to gaining some measure of market experience, could result in setting a formula that was detrimental to funded producers or to the CMF.

Finally, the current process is administratively onerous for the CMF and the CMFPA to track and verify all the various bespoke processes for each separate project.

In light of all of the above, the CMF proposes that the CMF Experimental Recoupment Policy should be simplified and streamlined so applicants and potential buyers have a clearer picture of the CMF's involvement and the CMF gets a uniform and automatic share of all project revenue (and profit). The proposed formula could be, for example, that the CMF access a certain percentage (to be determined) of the producer net revenues, including profits (i.e., after deduction of the fees retained by publishers or other similar entities, e.g. 30%), but before any deductible expenses-enhancements. For reference, Figure 8 shows the amount of recoupment received by CMF compared to gross revenues reported by producers on a year-over-year basis.

5. Accelerator Partnership Program - Summary

The Accelerator Partnership Pilot Program ("**A3P**") was created in 2013-2014 with the objectives of providing digital media projects with better access to mentorship, markets and capital.

In this program, the CMF seeks to connect domestic and international business accelerators with previous recipients of production and/or marketing-stage funding from the CMF's Experimental Stream.

Once an accelerator has selected an eligible recipient (pursuant to the CMF Guidelines), the CMF provides up to \$30K in acceleration program funding for the recipient's CMF-funded project in the form of a non-recoupable contribution. The recipient and accelerator's relationship is framed by an agreement which outlines the provision of business acceleration services, training and mentorship.

Among A2P recipient companies that have reported so far, four in five (79%) report having met their business development objectives through the program. 67% have progressed in the market

(acquisition of partners, clients or financing), 64% have strengthened their business capabilities through mentoring and training, and 40% have developed internationally (US, South America, Europe, Asia) as a direct result of the program.

A2P recipients have secured strategic partnerships with major industry players including Sony, Microsoft, Nickelodeon, Sanrio and Nintendo, to name a few. Although acquisition of financing and revenue remains a weaker point (44% reported confirmed or potential sales, 29% secured new capital or financing), some A2P recipients have had remarkable success, achieving direct-to-consumer sales in excess of \$1M or securing venture capital investments nearing \$5M for their company.

A2P clients currently have access to a network of 34 partner accelerators in five Canadian provinces (BC, MB, ON, QC and PE) and five foreign jurisdictions (US, UK, France, Estonia and India). Through the CMF's partnership with the Canadian Digital Media Network (CDMN), A2P recipients can also access funding and support from the CDMN's Soft Landing Program to further engage in international market development. Moving forward, the CMF will strive to maintain a diverse portfolio of partners to ensure that A2P clients have access to the support they need in their region, but will put greater emphasis on Canadian and international partners that proactively scout and engage with CMF clients. For that reason, in April 2018 the CMF ended its partnerships with six accelerators that had not on-boarded A2P recipients in the previous three years.

As noted in the Appendix, Figure 9, demand in the Program has declined in 2017-2018 from previous years, although it is too soon to identify a trend.

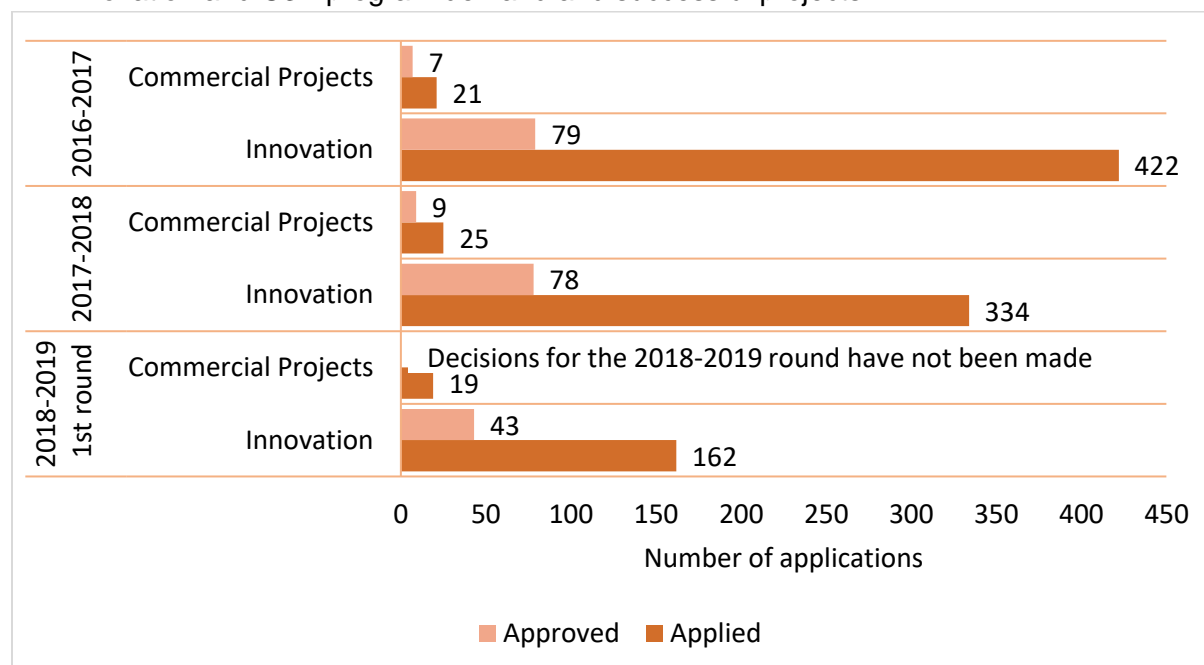
Moving forward, the CMF will continue to encourage more education about the Program in the digital media community, develop stronger partnerships and more strategic alliances with eligible foreign accelerators to open additional new markets and opportunities for CMF-funded projects and review the eligibility criteria for accelerators to ensure the right mix populate the Program in furtherance of the CMF's goals and objectives.

Appendix

1. % of applications to Innovation Production and C3P that are games

<i>% of applications submitted</i>	<i>2015-2016</i>	<i>2016-2017</i>	<i>2017-2018</i>	<i>2018-2019</i>
Innovation Production	58%	59%	65%	64%
C3P	N/A	48%	72%	74%

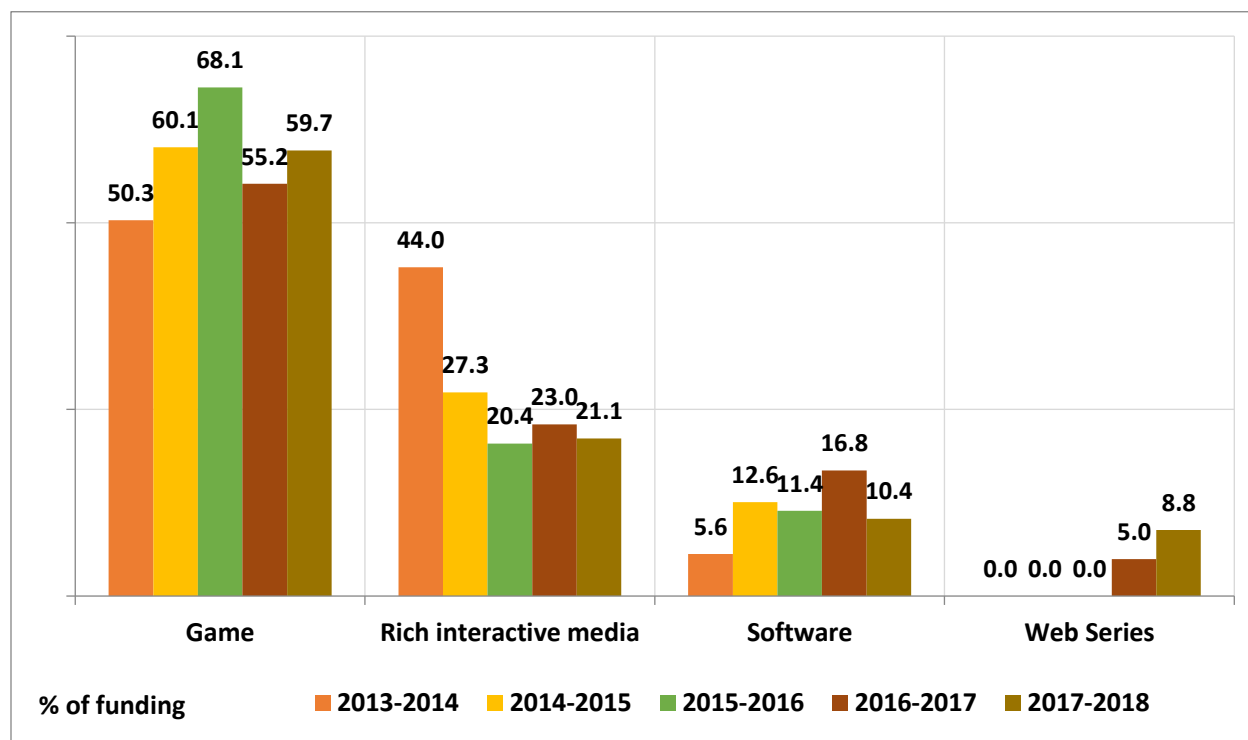
2. Innovation and C3P program demand and successful projects



3. Evaluation criteria cut-off scores for Innovation Production and C3P

<i>Out of 100</i>	<i>2016-2017 Round 1</i>	<i>2016-2017 Round 2</i>	<i>2017-2018 Round 1</i>	<i>2017-2018 Round 2</i>
Innovation Production	78.8	73.0	73.0	74.0
C3P	66.9	N/A	66.1	N/A

4. Types of content funded in the Experimental Stream (all activities/programs)



5. Web Series statistics

<i>per project</i>	2016-2017	2017-2018
Average budget \$K	428	474
Average contribution \$K	200	221
Average contribution % of budget	47%	47%

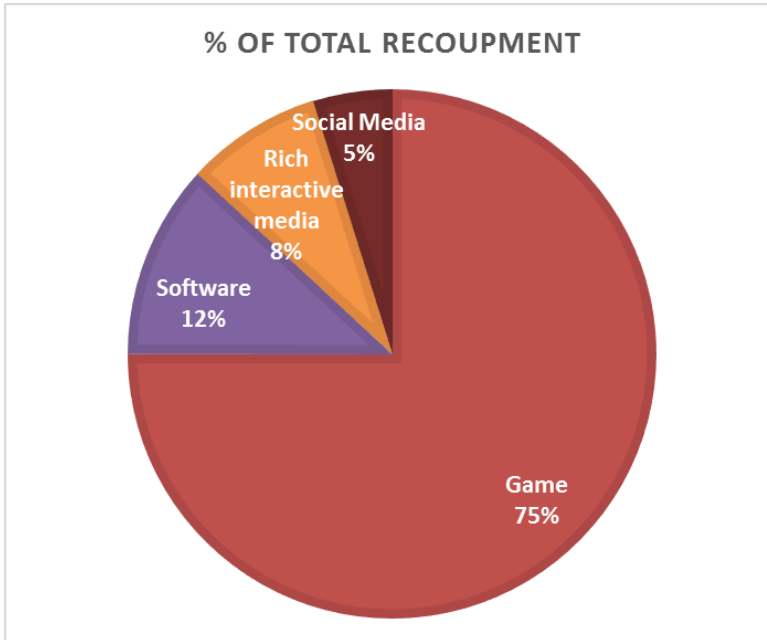
	<i>Applied</i>	<i>Approved</i>	<i>Acceptance Rate</i>
2016-2017	52	10	19%
2017-2018	30	16	53%

<i>Commitments by genre \$ K</i>	2016-2017	2017-2018	2017-2018 %
Drama	2,000	2,561	72%
Children's & Youth	-	691	20%
Documentary	-	290	8%
Total	2,000	3,542	100%

6. Web Series webcasters – number of funded projects

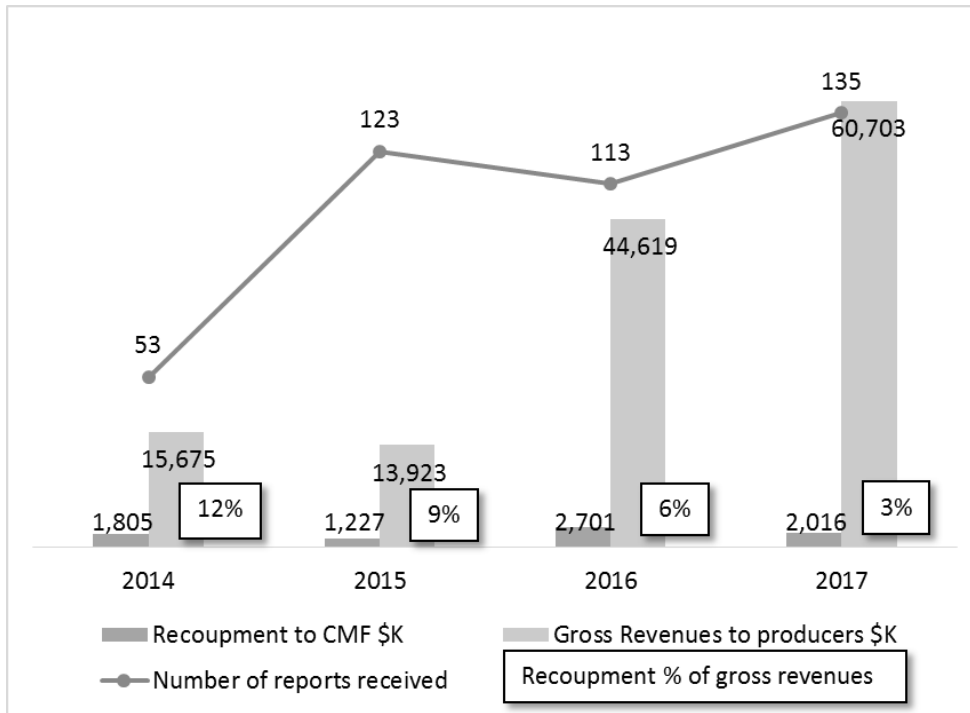
Canadian Broadcaster channels	18	69%
Other channels	8	31%
Total	26	100%

7. Experimental recoupment revenue shares by content type – 2012 to 2017



Due to the recent introduction of the C3P and Web Series Programs, the results presented are only for the Experimental Stream's Innovation Program.

8. Recoupment received compared to gross revenues reported



9. Demand in the A2P Program

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019 to date
Commitments \$K	360	360	480	630	450	180
Budget \$K	360	360	480	750	600	600
# of projects funded	12	12	16	21	15	6

1 additional application has been received to date. The closing date for the program is December 4, 2018.