



SHAW ROCKET REPORT 2006

**On the Canadian Children's and Family
Television Production Industry**

Produced by the Shaw Rocket Fund.
Prepared with J.M. Johnston & Associates Inc. December 2006

SHAW ROCKET REPORT 2006

- The Shaw Rocket Fund was launched in 1998 to provide financial support for the Canadian children's and family production industry and to champion the best in children's television programming.
- In 2006 the Shaw Rocket Fund contributed over \$10 million in support of this goal. Since 1994, the Shaw family of funds has contributed \$80 million. We are Canada's largest private investor in children's and family programming.
- Three years ago we established The Shaw Rocket Prize. It honours the best in Canadian children's programming and provides insight into what Canadian children want to see and what international buyers want to buy.
- The Shaw Rocket Fund knows this sector, both its strengths and challenges.
- Canadian children's programming delivers the most dedicated audience, based on the highest television ratings.
- Canadian children's and family production industry has long been a leader in breaking new ground in format and content.
- The children's and family production industry, despite its many achievements, is being underserved in Canadian public funding and regulatory support.

ALERT

An Opportunity to Win...or Lose

The world is at a turning point in redefining how audiences, particularly youth audiences, view and use media. The race for innovation has intensified. For the Canadian children's and family industry, the greatest threat is lost opportunity.

The Shaw Rocket Fund is well positioned to help create new and greater opportunities for this sector. To do this we need regulatory change that allows the Fund:

- 1. Access to additional resources towards children's and family programming.**
- 2. Greater flexibility to support content for new and multiple platforms.**

This report provides an overview of the state of the children's and family production industry and makes the case for the Shaw Rocket Fund to evolve in order to help the industry grow.





Our Mission

The Shaw Rocket Fund is dedicated to the ongoing financial support of the Canadian children's production industry. Our broader mission is to champion the best in children's programming.

Our Commitment

***To Children:** We will work from the premise that success comes from delivering to our audience the highest quality, the most innovative efforts from Canadian children's producers.*

***To Producers:** We will continue to focus on our core business, financing children's television production, as we create opportunities for innovation, to explore new approaches, to build leadership in programming for children.*

***To Regulators:** We will be a lead champion of the Canadian children's programming industry to its key stakeholders.*

***To the Industry:** We will celebrate and promote Canadian children's programming within and beyond our borders.*

***To Contributors:** We will invest the funds its Contributors have entrusted to us wisely, to deliver results that meet their commitment to Canadian children's programming.*

MAKING WAY FOR DYNAMIC CHANGE

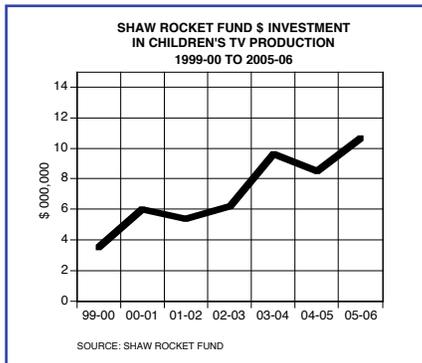
Who we are and why we care

The Shaw family of funds was inspired by a profound belief in the importance of quality programming for Canadian children. In 1992 JR Shaw recommended to the CRTC that a benefits package be allocated specifically to support children's programming. Subsequently he initiated the concept of focused private funds in which a portion of regulated Broadcast Distribution Undertaking (BDU) contributions could be used to support under-represented program genres.

With this new framework in place, the Shaw Rocket Fund was established in 1998 as an equity investor in children's and family programming. Since then other contributors have joined, sharing the belief in the value of this genre and the logic of focused funds.



Since 2004, the Shaw Rocket Fund has become the largest equity investor, public or private, for this genre in Canada. In 2006 the Shaw Rocket Fund committed over \$10M to children's and family programming.



We care about the future of Canadian children's and family programming because it develops the audiences and citizens of tomorrow. At the Fund we're excited about the opportunities that lay ahead.

The view from the Rocket Fund

Our position is informed by our long involvement in the industry, from the critical standpoint of an equity investor, by current research and, more recently, by the insights that the Shaw Rocket Prize has given us. In this third edition of the Rocket Report we explore the state of Canada's children's and family programming industry and find that it:

- ♦ is strong creatively,
- ♦ makes a product that is watched by its Canadian audience more than any other single genre,
- ♦ is primed for international leadership in conventional programming and new content.

Canadian children's and family production provides great opportunity for the television and film production industry as a whole. At the Shaw Rocket Fund we've watched this sector grow in size and mature in ability. The projects we see coming through the door, serving all developmental levels, are increasing in excellence.

We are a major Funder but we believe that the financial consideration is only one of the essential pillars of the industry.

If the industry is to progress, it will do so as the result of a focus on innovation and creativity. It will capture the opportunity presented by the massive change taking place in how people, particularly youth, view and use media.

This report describes what's happening in children's and family programming in Canada and internationally. It examines what's next on a global basis, and how it all looks from inside the Fund. We also share our vision for how the Shaw Rocket Fund will participate in the future of children's and family programming.

What's Happening in Canada

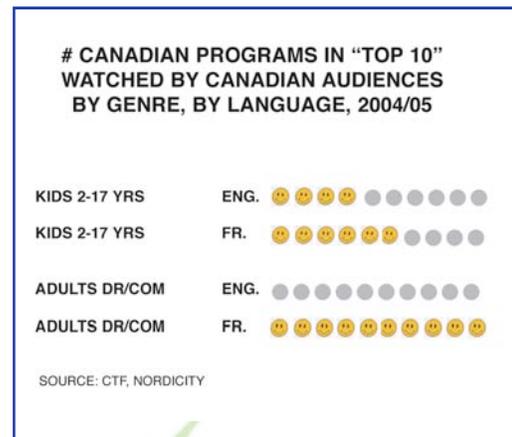
- Canadian producers continue to form a body of quality, award-winning programming.
- Canadian children are dedicated viewers of Canadian produced programs.
- Canadian producers have receptive markets, both domestically and internationally.
- Canadian producers of youth programming are actively pursuing new media.

But...

- Since the implementation of the 1999 Broadcast Policy there has been a 37% drop in production of children's and family programming.
- Conventional English language broadcasters schedule minimal hours for children.
- The Canadian Television Fund (CTF) provides less support to children's programming than to adult drama or documentary.
- Producers of children and family programming are faced with inadequate support hampered by regulatory constraints.

The Audience is watching

The Canadian children's audience watches more Canadian produced programs than does any other demographic. In 2004/05, CTF-funded programs in English for children aged two to five years captured 38% of that audience; for children six to eleven the figure was 20%. This is in contrast to adult English programming, which reached only 9% of its audience.



Canadian producers of children's and family programming know their audience and deliver what kids want to see. They are achieving the audience goals to which other television sectors aspire.

Top quality, innovative programs: a magnet for audiences

(Canadian producers) have a great way of communicating to children through comedy, animation and drama...you get innovation in the children's industry there that you don't always see in other parts of the world.

(Deirdre Brennan, ABC Australia)

Feedback from young audiences and international buyers indicate that the reason for high ratings is excellence, variety, and innovation. Children are astute consumers of media. They expect high quality and are open to new ideas. The bar is continually being raised. Spurred on by this demand, creators of children's programming have become leaders of the Canadian production community in exploring new approaches. Examples of innovation abound:

- ◆ The broadcast launch of *This is Emily Yeung*, (the *Daniel Cook* franchise) was preceded by a launch on VOD, mobile and online. This was the largest multi-platform launch for a

pre-school property in Canadian history. *Emily Yeung* interstitials evolved into short form, mobisodes, to play on cell phones and other non-traditional platforms.

- ◆ *Atomic Betty* has released a mobile broadcast game in 22 countries and has now extended its presence through web-only vignettes on the Girl Guides' official web site.
- ◆ This year *Degrassi Minis* were launched in U.S. markets as an original weekly online series to high ratings and rave reviews.

As young Canadian audiences increasingly migrate toward emerging platforms, time is of the essence for program producers to keep in step. It is no longer adequate to simply re-purpose programming created for television. To stay competitive, producers must generate new, interactive original material. This move demands financing outside of traditional television budgets.

The incredible shrinking schedules!

Canadian children have seen their access to children's and family television programming significantly eroded in recent years. Twenty percent of the English Canadian audience receives only conventional, over the air (OTA) programming. Kids are losing out as the CBC, CTV, and Global Television have reduced the slots available for children's programming. SRC is the sole conventional broadcaster required, as a condition of license, to air original Canadian children's programming. This is despite the Broadcasting Act that gives children equal standing with adults:

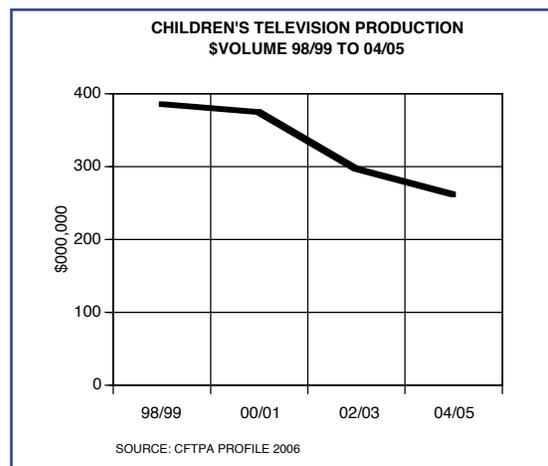
"The programming provided by the Canadian broadcasting system should be varied and comprehensive providing a balance of information, enlightenment and entertainment for men, women and children of all ages, interests and tastes."

Specialty channels, those that have a mandate to program for children, can't make up the difference for the shortcomings of the OTA channels when their services don't reach all Canadian children.

Reduced time slots for children's programming is also reflected in dollars spent. In 2006 the Canadian Broadcast Corporation allocated only 10% of its CTF envelope to children's programming. This is significant since 37% of total CTF funds are portioned off to the CBC. Children's programming is marginalized despite being a proven winner in audience numbers.

Production levels are down

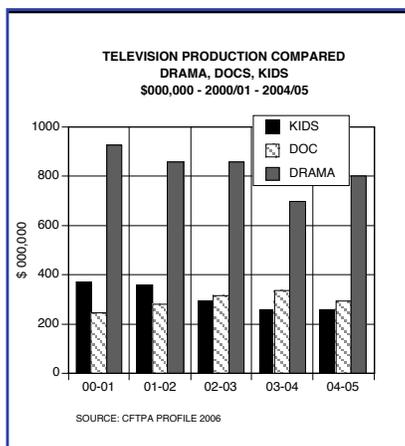
Reduced time slots and limited resources contribute to a decline in production levels for children's television, down 37% since 1999. That year, changes in the 1999 CRTC Television Policy allowed broadcasters to reduce the hours allocated to children. The adverse results are clear.



Production in 1999 stood at \$408M. In the three year period from 99/00 to 01/02 average annual production dropped to \$380M. In the three year period, 02/03 to 04/05, it fell again to \$271M, a -29% drop. In 2003/04 CAVCO recorded a further decline to \$260M.

The CTF is focused elsewhere

In 2003 the Canadian Television Fund (CTF) changed to a system of broadcasters envelopes. At that time it shifted its focus to adults and away from children, consistently allocating less than 20% of its television funding budget to children. The other 80%-plus supports programming for adults.

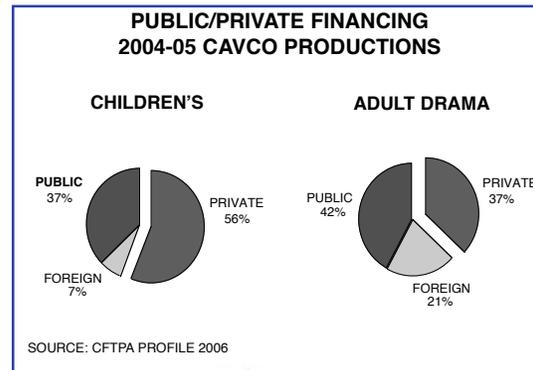


The Canadian audience with the highest rating is the least supported by the CTF.

Public financing for children lags behind other genres

Children & youth programming has the least overall public support of any genre. Only 37% of funding is public.

The children's industry has proven capabilities, a record of innovation, and international success. It warrants more public support.



The Shaw Rocket Fund is proud to be a supporter of Children's television but, if the equal standing that it is promised in the Broadcast Act is to be realized, all stakeholders must be on board for the journey.

What's Happening In the International Market

"We program for the world market. We want to be seen as making shows for the world." (Rocket Prize finalist, 2006)

- Canadian programs are attractive to international audiences
- The children and family sector has been built on international markets
- The international market has weakened over the past several years but now seems to be leveling

Canada's children & youth programming is the most successful genre internationally. Competing in the world market has kept our industry vibrant, current and attractive to its audience.

What international buyers say about Canadian kids programming

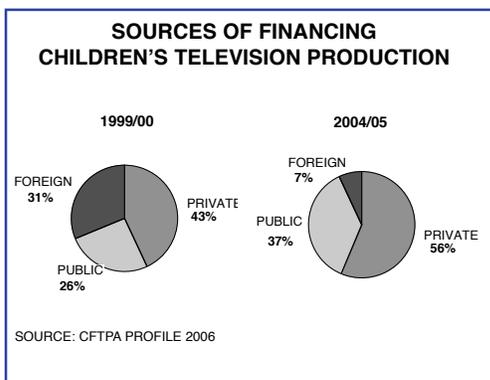
In short, they are fans. The international jury for the Shaw Rocket Prize, made up of professional buyers of children's programming from Europe, the U.S., the U.K. and Australia, provide us with fresh perspective. The most frequently mentioned comments related to the breadth of programming, the quality, and its connection to children.

An amazing variety of factual, educational, live action drama, animation. (Theresa Plummer Andrews, Plum Tree - formerly BBC Kids)

It's one of the rare countries in the world where you have such a high quality standard and a variety of shows to select from. (Frank Dietz, SuperRTL, Germany)

The fluctuating market & how it impacts Canada

Eighteen months ago, the international Shaw Rocket Prize jury of buyers forecast continuing challenges on a global basis for children's independent television production. Unfortunately they were right. Increased in-house production by foreign broadcasters and a drop in co-productions beset the industry.



In 2000, foreign sales accounted for an all time high of 31% of revenues to Canadian production. Shortly thereafter a shift occurred. The EU developed policies that encouraged Europeans to air homegrown programming. At the same time, a glut of children's programming filled schedules around the world. By 2005 foreign revenues had plummeted to 7%. Treaty co-productions for children & youth are estimated to have declined by almost 75% from \$303M in 2000 to \$79M by 2005.

This year the international buyers were conditionally positive.

"The children's industry internationally is strong....it goes through (cycles) a bit like a roller coaster...there is very much a sense of energy at the moment which is really exciting." "It is recovering".

The Shaw Rocket Fund's own data also suggests that the situation is improving.

International co-production projects supported by the Shaw Rocket Fund remained consistent at about 16% over the past eight years. However, in 2005 they dropped to an unusually low 5% of projects. By 2006 the figure had risen to 25%. These two years represent the high and the low of the decade and show the increasing instability of international markets.

Although the future looks hopeful, it is anticipated that the percentage of international revenues may never return to the record highs of the late 1990s and 2000. The experience of the past few years reinforces the need for reliable domestic funding streams that can evolve with the changing financial and creative landscape.

Tomorrow's market

What are the opportunities and challenges on the horizon? Our international family of Rocket Prize jurors has observed the following:

- ◆ Majors such as Nickelodeon, Warner Brothers and Disney are investing in product development and looking for new creative partners.
- ◆ There are indications of greater segmentation and niche programming
- ◆ Digital developments are creating new opportunity.
- ◆ There is an increasing demand for live action.
- ◆ Financing challenges continue. *"It's tough out there."*

To take advantage of new opportunities Canadian producers of children's programming will have to continue to be innovative, responsive, and vigilant.

What Next?

...CHANGE

The communications industry is undergoing fundamental change. Producers and creators of youth programming are leading the domestic industry in understanding the creative application of new technologies and in delivering mobile content.

Technology is driving change

Global consumers of media increasingly access content through multiple platforms. This advancement in technology is driven by increased memory capacity and improved graphics interface in computers and mobile devices. Options are constantly increasing, resulting in continually expanding market fragmentation.

Youth is leading change

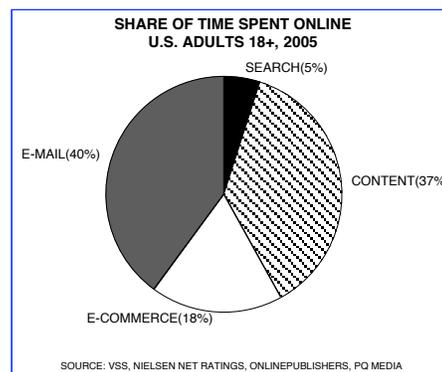
In its 2006 Communications Industry Forecast, Verhonis Suhler Stevenson (VSS), a leading New York based media research firm, states that while television will dominate media over the foreseeable future, its demographics are aging. It reports mobile is the fastest growing segment of the market and ascribes the trend to *"a youth market careening towards a cavalcade of new media."*

	TOTAL HOURS BY AGE			
	8-10 YRS	11-14 YRS	15-18 YRS	ADULTS 18+
TV	3:17	3:16	2:36	4:32
MUSIC	:59	1:42	2:24	
ON-LINE	:37	1:02	1:22	
VIDEO GAMES	1:05	:52	:33	

SOURCE: VERONIS SUHLER STEVENSON, POMEDIA, KAISER FOUNDATION, TEENAGE RESEARCH UNLIMITED

Currently there are constraints relating to the quality of video feeds and infrastructure issues but mobile is expanding dramatically even as these matters are being resolved.

Content opportunities are exploding



The parameters of creative content for mobile and other emerging platforms are being invented now. Early predictions of what would be popular

on mobile (news and games) are not necessarily turning out to be accurate. One thing is certain. Young audiences are turning to mobile devices in droves.

While Canadian data is limited, the direction is consistent with what is occurring globally. In a speech to the CFTPA in June of this year, Charles Dalfen referred to an estimate that forecast approximately sixteen million video-enabled cell phones in Canada in the next two to three years. He also noted that:

"...young people between the ages of 12 and 24 are a key segment of the online viewing audience. They want content that they can interact with and share with others."

Canadian children's & family producers are in the race

They are positioning their brands in the mobile content world and with the right kind of support, Canadian producers of youth programming can lead in the production of content for all platforms.

- ◆ On February 3, 2006, nighttime teen network The N launched *Degrassi Minis*, an original online series based on the hit teen drama *Degrassi: The Next Generation*. Created exclusively for broadband, the series is available on www.the-n.com. Tom Ascheim, the executive VP and general manager of The N, said:

"For our teen audience, primetime is as much about the web as it is about television, so we are very excited to present The N's first original narrative content made exclusively for The.N.com,"

"Diehard Degrassi fans can now get more of what they crave wherever and whenever they want it."
(From WorldScreen.com)

What we see at the Rocket Fund

From within the Shaw Rocket Fund we see a broad array of children's programming as it is nurtured from production through to marketing and distribution. The projects we receive provide us with a unique view of children's and family production in Canada. Here is what we see:

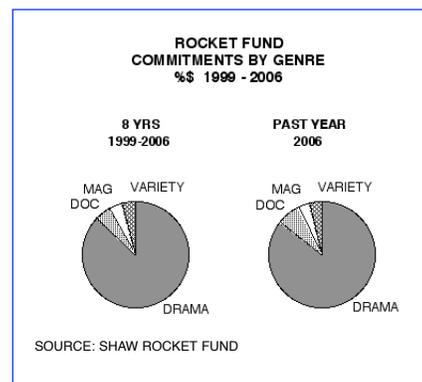
- Successful Canadian drama for children and families.
- Creativity and innovation.
- A mature industry with a capacity to do more.
- A worldwide reputation and a worldwide focus.
- Lead explorers in new media, new approaches, new ideas.

We also see:

- Inadvertent consequences of public policy.
- Public policy lagging behind industry change.
- Producers lacking the capital needed to invest in the future

Successful drama is alive in children's & family programming

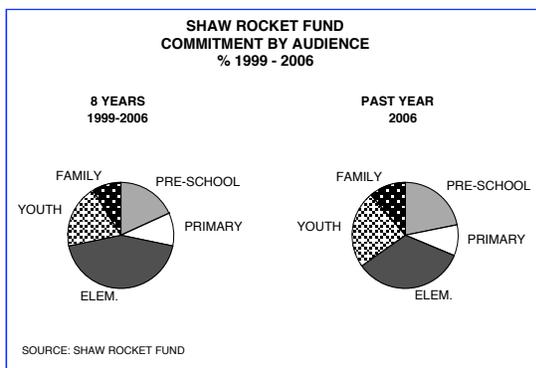
While the Shaw Rocket Fund supports all types of children's and family programming, we receive more submissions and invest in drama more than any other genre.



Since its inception, 87% of Rocket Fund investments have been in Canadian drama. Canadian drama in the children's and family sector is an international success, a creative success, a success with audiences and has strong potential as a commercial success.

The audience is shifting

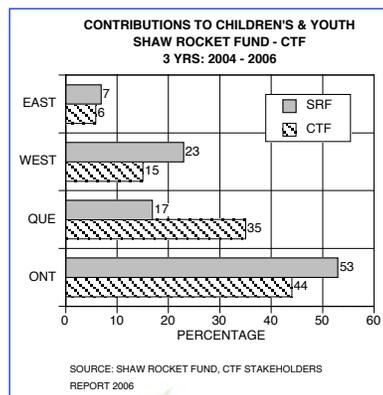
Over the past eight years, we've seen shifts of targeted age groups in projects supported. Elementary still dominates but when we compare 2006 to the past eight years, we see that elementary has dropped by almost a quarter to 34% of Fund investments. Youth programming is the fastest growing, now accounting for 24%.



Canadian producers continually rise to the challenge of the changing demands and needs of the marketplace.

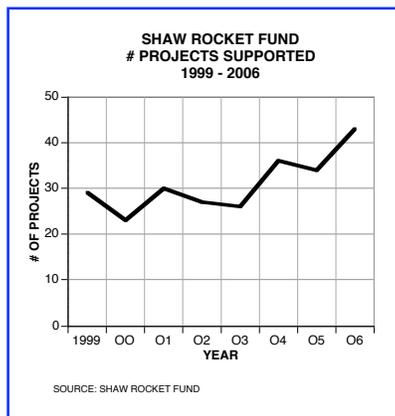
We cover the nation

We support all regions of the country and the distribution of that support has been remarkably consistent. It also balances public support available in different regions.



The wealth of creativity is booming

The number of projects supported by the Fund has risen dramatically over the past five years. In 2002 we supported 29 projects. In 2006 the figure had increased by 48% to 43 projects. At the same time, the number of high quality submissions is greater. Our criteria – quality, innovation, the business case – has not changed. There is more high quality children & youth programming in need of financing than ever before.



Opportunities for growth are being limited

- Canadian independent producers have the capacity to produce more. We have seen the evidence in the increasing number of high quality, innovative proposals arriving at the Shaw Rocket Fund. Producers need access to funds that are not as dependent on the shifting tides of international co-production. At the Shaw Rocket Fund we want to help fill the gap.
- We see a very real opportunity for our producers to play a greater leadership role in emerging media content both in Canada and internationally. This step requires a fresh approach to funding.
- Existing regulations for BDU contributions made sense when they were created but now restrict our ability to support innovation and audience demand for programming in emerging media. Currently, the Fund is only able to invest in projects supported by a broadcast license.

Growing is part of the solution

The Shaw Rocket Fund continues to be driven by the creativity and innovation of projects brought to it by the children's and family production sector. The success of this model is evident in the 1750 hours of programming in which we've invested. We are committed to building on the strengths of this model and opening new roads to even greater accomplishment for the industry.

Champions of the Industry

As a stakeholder dedicated to supporting children and youth programming and as an investor that has committed heavily to the industry, we believe that we have a shared responsibility in helping this sector succeed.

We meet regularly with producers, policy makers, regulators, funding agencies, BDU contributors, other Funds and similar organizations to ensure that the value and potential of children's programming is not lost.

The Fund appeared before the CRTC on November 30, 2006 to champion children's & family programming in the review of television policy.

Enriching the Fund

The Shaw Rocket Fund is committed to increasing the resources available for the production of children's and family content. Over the past several years the Fund has grown as a result of Shaw Communication's increased revenues and through contributions by cable companies from across Canada.

There are, however, a limited number of cable companies in this country and most have already allocated their discretionary funds as permitted by the CRTC. Despite the best efforts by the Shaw Rocket Fund to enrich the Fund there are limitations within the regulatory framework. The proportion of BDU funds that can be directed toward a focused fund has not changed since 1997 when the CRTC implemented this contribution policy (Public Notice CRTC 1997-98).

The Fund is faced with restrictions but the need for resources continues to grow.

Celebrate and Promote The Best

Providing public acknowledgment of a job well done and programs well produced is one of our most enjoyable roles and brings added value to the programs, production companies, and the sector.



The Shaw Rocket Prize is the primary tool that we use to celebrate and promote Canadian programming. This \$50K winner-take-all prize is awarded to the best Canadian children's or youth program each year. The process involves approximately three hundred fifty Canadian children who critically assess and vote on projects that have been short-listed by an international jury. Highly visible promotion and publicity surrounds the Prize throughout the year.

In May of 2006, the Board of the Shaw Rocket Fund commissioned a study to measure results, which indicates that the value of the Prize goes far beyond the \$50K.

- To Canadian producers, it provides validation and recognition that children's production is a business of international importance.

"(The Prize) says children's TV is a substantial business, you're doing something worthwhile."

- It provides producers with extensive domestic and international marketing and promotion support throughout the process and gives all entries exposure to international buyers.

"You could not buy the marketing, promotion, access to major buyers, for many multiples of this amount."...

"The caliber of the Jury...The announcement at KidScreen"..."created international awareness and a higher profile within Canada"..."heard from buyers that they knew the show and how good it was".

- It stimulates sales.

"I'm 99% certain (being nominated) cemented a third season." "Without a doubt this influenced getting season two."...

"The Prize was...an enabler...letting (the company) create another deal in short order and doing something innovative."

- And the jurors report that, in bringing the full range of Canadian children's television production to international attention, the Prize provides an opportunity to view shows they might otherwise miss.

The next Shaw Rocket Prize will be awarded in May 2007.

The Fund has nine years of experience in this sector and operates with the effectiveness and efficiencies of a small, dedicated fund.

It is well positioned to provide greater support and is motivated to do more.

Alert! The Future Demands Attention Today

Change is happening at an almost incomprehensible speed. The Canadian children's and family television industry has proven capabilities as a leader both in Canada and internationally but it is being tested by regulatory restrictions and the huge demands of the rapidly evolving media world.

At the Shaw Rocket Fund we believe that two fundamental changes are necessary to enable us to contribute to the essential growth of the Canadian children's & family production industry:

- 1. Access to additional resources to direct toward children's and family programming through the Fund.**
- 2. Greater flexibility to support content for new and multiple platforms.**

The Board and the President of the Shaw Rocket Fund are seeking regulatory change to allow us to keep pace and continue to be an efficient and effective champion of the industry.



Annabel Slaight



Ken Stein



Gigi Boyd



Agnes Augustin

For information regarding Shaw Rocket Report 2006 or the Shaw Rocket Fund, go to www.rocketfund.ca or call Agnes Augustin, President, Shaw Rocket Fund, 403.750.4517.