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November 25, 2016

The Honourable Minister Mélanie Joly
Department of Canadian Heritage
15 Eddy Street
Gatineau, Quebec
K1A 0M5

Dear Minister Joly:

Re: Canadian Content in a Digital World

DHX Media Ltd. supports and is encouraged by your Department's active consultation on how to strengthen the creation, discovery and export of Canadian content in a digital world.

Introduction and Executive Summary

At DHX Media we are fully committed to creating Canadian children's content. We are committed to this content because of the business and personal opportunities it presents, because it's fun and hugely satisfying to create, because kids watch it, because it competes with the world's best, because it employs Canadian artists and because of our fundamental belief that it is important.

We also know that by creating content that is relevant to kids and reflects their lifestyles and surroundings, kids are more likely to feel a connection with it, leading to increased engagement with homegrown programs as they grow older. The impact on the young creators and artists engaged in making these shows is also significant. Notable talent such as Drake, Megan Follows, Sarah Polley and Jay Baruchel all got their start on Canadian series created for kids and families. Their achievements contribute to our cultural identity and instill a sense of national pride in viewers.

It's for these reasons that DHX Media strongly believes that investment made in creating kids' content carries more weight than just the cost of a series and the international sales it can generate but also establishes a prolonged interest in Canadian produced programming. Additionally, we also strongly believe in the value of children's content as a tool to meet policy objectives for Canadian content in a digital future.

The following is a brief overview of our submission in this important consultation:

- DHX is a world leader in the creation and distribution of children's content. DHX's success reflects the success Canadian kids shows have domestically and in international markets.

- Canadian kids content is among the most watched Canadian content, and television is still highly viewed by Canadian kids. As a result, the kids sector is an important source of economic activity and employment. In addition, domestic success has created a "critical mass" of talent and activity in Canada that has translated directly into international sales. Kids content is also future-oriented in terms of how it relies on kids' perspectives and talent, and even how kids access it.

- It makes sense for Canada to build on the success we have achieved in this area through measures such as an increased allocation of CMF funds to the children's genre, awarding points for international sales success and increased flexibility to qualify children's productions.

- Canada's international success depends to a great extent on a strong and healthy domestic market. The broadcasting system and, more precisely, the private broadcaster licence fee, remains the single largest private, "at risk" source for the financing of Canadian content of the kind that the Department wishes to stimulate.

- Digital distribution networks are disrupting the domestic market but the market is adapting and traditional television content is still driving viewership on all platforms.

- Changes in the distribution sector are destabilizing revenue sources for broadcasting services – and the content they finance. DHX firmly believes that independent Canadian services, with a demonstrated commitment to Canadian content and the creation of Canadian brands, should be included in broadly distributed Television package so they are accessible and affordable for families.

- In addition to these overriding concerns, we have proposed specific initiatives in a number of areas in response to the questions set out in the Department's consultation paper.

About DHX Media

DHX Media (www.dhxmedia.com) is the world's leading independent, pure-play children's content company. The company is recognized globally for such brands as *Teletubbies, Yo Gabba Gabba!, Caillou, In the Night Garden, Inspector Gadget, Make It Pop, Slugterra* and the multiple award-winning *Degrassi* franchise. Headquartered in Canada, DHX has offices in 15 cities globally, and is listed on the Toronto Stock Exchange (DHX.A and DHX.B) and the NASDAQ Global Select Market (DHXM).

As a content producer and owner of intellectual property, DHX creates and delivers shows that children love, licensing its content to major broadcasters and streaming services worldwide. DHX owns four Canadian television channels focused exclusively on kids content: Family, Family Jr., Family CHARGD, and Télémagino. Through its subsidiary, WildBrain (www.wildbrain.com), DHX also operates one of the largest networks of children's content on YouTube. The company's robust consumer products program generates royalties from merchandise based on its much-loved children's brands.

We have provided additional information about DHX and its lines of business as an appendix to this submission.

Building on the Existing Strength of Kids and Family Content

DHX's success as a company is due to the overall success that Canadians have experienced in producing and distributing children's content domestically and around the world. Canada has a long and rich history of making kids shows that are built on Canadian creative excellence, are popular with Canadian audiences, and also export very well. To a large extent, the current success of Canadian children's content owes a great deal to the efforts of our leading cultural institutions, such as the National Film Board, which have supported and helped to develop the Canadian animation industry from its earliest days. This early emphasis on animation programs created Canadian expertise in a genre to which kids respond with enthusiasm, and has spilled over to live-action kids programming.

Success at Home and Abroad

Some of the world's leading kids brands are Canadian, including *Caillou*, *Franklin*, *The Next Step*, *Johnny Test*, *Max and Ruby*, and the continuing *Degrassi* franchise. *The Next Step*, which is commissioned by Family, is a recent addition to Canada's international success. It has a worldwide fan base and is now distributed in over 120 countries.

Importantly, the success of Canadian kids content internationally is based on domestic accomplishment. Canadian kids programming is among the most-watched Canadian content.

According to research conducted by the Canada Media Fund, among the four categories of content supported by CMF (and related tax credits), children's and youth programming was second only to documentary in terms of Canadian hours watched in the English market. In other words, between approximately 40% and 50% of the time, when Canadian children and youth watch television programming, it is Canadian made. This compares to only between 15% and 17% of viewing to general dramatic programming, and to 28% for all categories of CMF-supported programs.

Broadcast year	2006	2007	2008	2009	2010	2011	2012	2013	2014
Drama (fiction)	15%	13%	12%	13%	16%	15%	16%	17%	17%
Documentary	55%	48%	49%	49%	35%	35%	50%	52%	54%
Children's and youth	52%	30%	43%	45%	46%	44%	40%	39%	41%
Variety and performing arts	32%	25%	31%	29%	20%	19%	26%	19%	22%
All CMF-supported genres	34%	29%	31%	34%	22%	22%	26%	26%	28%

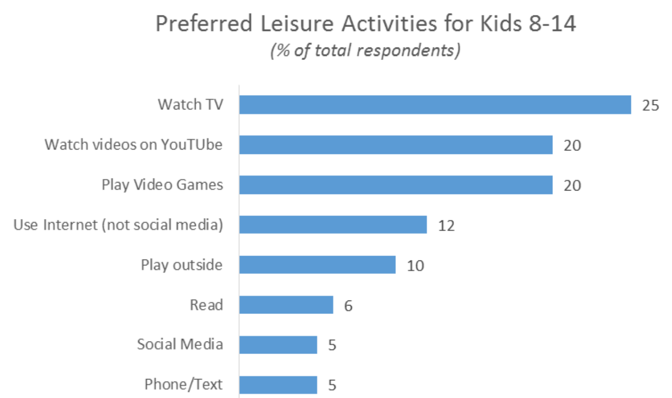
Source: CMF Research (Numeris), 2015.

Table is excerpted from Profile 2015: Economic Report on the Screen-based Media Production Industry in Canada [at page 76].

These results are significant – maybe even remarkable – given the strong presence of well known and widely promoted U.S. brands and "superstar" content in the Canadian English-language marketplace.

The fact that Canadian shows compete effectively with the likes of Disney's *Jessie* and Nickelodeon's *SpongeBob Squarepants* and other U.S. blockbusters validates the strength of our kids content. (The proportion of viewership to children's content in French-language markets was similar, although viewership to other programming genres was higher than in the English market.)

The results also demonstrate another important element of kids programming: although kids are early adopters of technology and use the Internet and social media frequently, traditional television remains the most important window for kids to access quality content. Indeed, kids between age 8 and 14 rank watching television ahead of other activities, including social media, surfing the Internet and watching video on YouTube, in terms of their preferred leisure activities.



Source: Charlton Strategic Research 2016

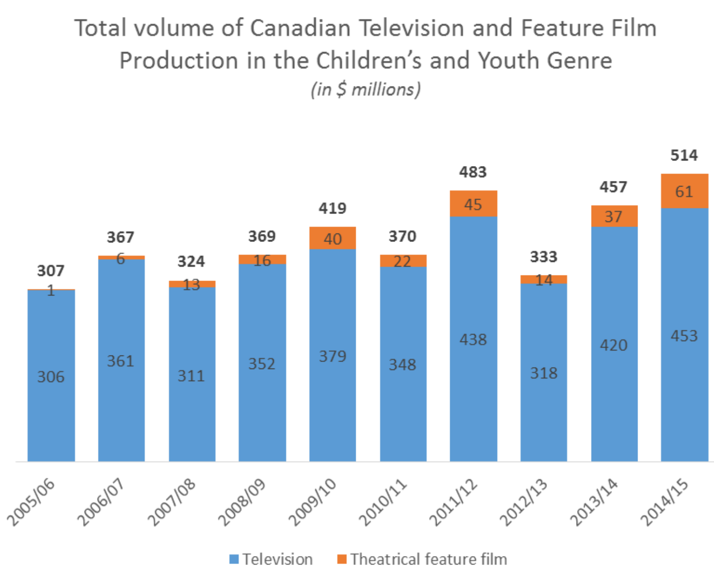
We would also note that when kids turn to platforms other than TV to consume content, it is frequently programs produced for television that capture their attention. DHX's experience with WildBrain and other online properties illustrates that content that was originally produced for TV is among the most-watched content for kids on all manner of platforms.

Canadian programs are also important to empower kids, especially as programming becomes more responsive and interactive through social media tools. Family Channel’s original series *The Next Step*, for example, has engaged kids across Canada both on- and off-screen with live stage events that bring audiences into direct contact with the stars of the program (in 22 cities across Canada in 2016). This past year, *The Next Step Wild Rhythm Tour* expanded internationally, performing at sold out shows in eight countries (Canada, UK, Australia, New Zealand, Spain, Portugal, Italy and Ireland) and exposing global fans to the live dance experience performed exclusively by Canadian talent.

Kids can identify with the show and the performers because it is Canadian and is connected to their own cities and towns. DHX is intent on helping to build up a Canadian star system featuring and celebrating young Canadian screen talent. There is a direct link between kids seeing and recognizing star Canadian performers – not much older than themselves – and believing that they too could realize their own dreams and aspirations. Examples like the cast of *The Next Step* and the success DHX has seen with *Backstage* stars who have gone on to release music globally through Family Channel’s joint partnership of Cardinal Point Music reiterates this platform. Hollywood shows and stars simply do not carry the same cultural, empowering message for Canadian youth. A star system is not merely good business: it is part of a country's cultural fabric.

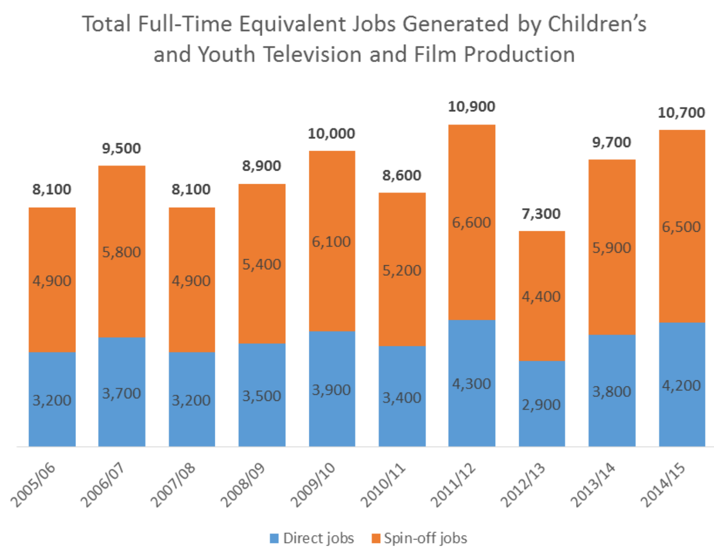
Material Economic Benefits

The domestic success of Canadian kids programming translates directly into economic activity at home, and opportunities for export to international markets. The size of the children's production sector in Canada is substantial, with total production activity in Canada now exceeding $500 million annually, growing consistently over the last 10 years.



Source: Nordicity estimates based on data collected from CAVCO.

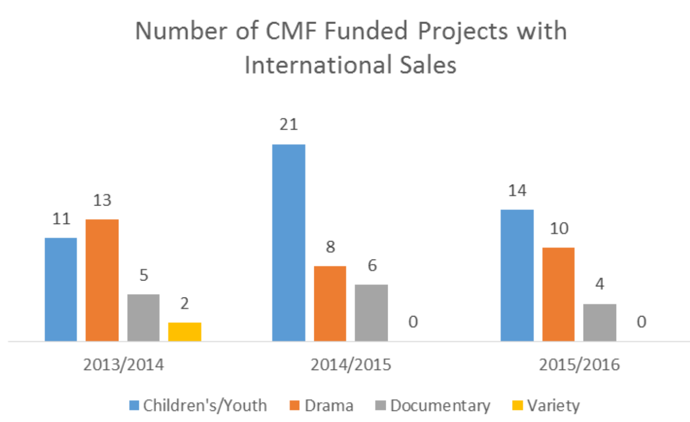
It is a strong employer of Canadian creative talent and Canadians working in the many supporting sectors that help sustain production activities. It is estimated that there are easily more than 10,000 direct and indirect jobs associated with children's and youth content production in Canada:



Source: Nordicity estimates based on data collected from CAVCO, Statistics Canada and Conference Board of Canada

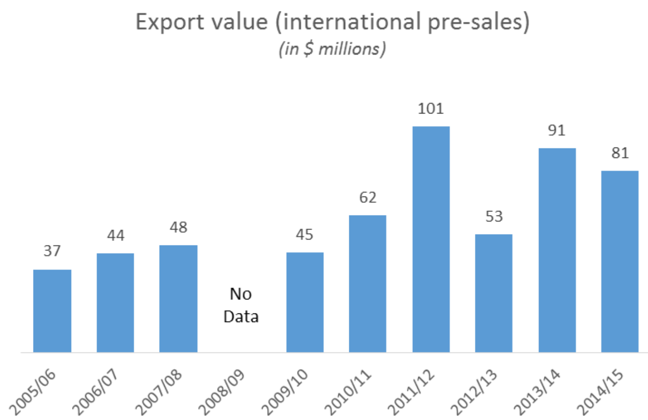
Due to this domestic activity, Canadian kids' production has achieved "critical mass" and global recognition. DHX is the leading independent distributor of children's content in this competitive environment.

According to information compiled by the Canada Media Fund, Canadian children's and youth programming achieved the greatest number of international sales – on a program by program basis in the last two years.



Source: CMF Annual Report 2016 - *These reported sales reflect only sales of CMF-supported productions*

In export value terms, children's and youth television programming have generated as much $101 million in annual international pre-sales over the last six years ($72 million annually on average).



Source: Nordicity estimates based on data from CAVCO and CMF.

In summary, Canada already has a substantial kids production sector that is successful domestically, and has a meaningful impact on the world stage. The kids sector is well positioned to grow and succeed in digital markets worldwide, leveraging a strong domestic market.

Positioned for a Digital Future

The inherent characteristics of kids programming also bode well for the digital future:

- First, kids are early adopters of digital technologies and open to new platforms. To the extent that Canadian programs can access these platforms, kids are a natural worldwide audience.

- Second, kids programming has a much longer shelf life than other types of content – and is sometimes referred to as "evergreen". This is an attractive quality for distributors and investors alike.

- Third, the kids production industry is itself youth-centric. It is manifestly open to youth: frequently as leading performers and just as frequently as the creative and innovative force behind show ideas and production technologies. Kids programming relies on a youthful production industry to remain relevant and to harness technological innovation.

For these reasons, DHX believes that kids programming is an area where Canadians have already positioned themselves well for domestic and international success. It makes sense for policy makers to focus on this area, and other similar areas of success, in considering how to achieve a greater cultural and economic presence for Canadian creators and innovators.

The Need for Ongoing Support

Among other considerations, DHX believes that programming funding from various sources, including the CMF, should reflect the promotion of children's programming as a Canadian priority and go beyond historic levels of support. This means that the proportion of funding to the children's genre allocated in the CMF's envelope system should be increased. In addition, to encourage more international sales and marketing by Canadian content creators, funding programs, such as the CMF's success-based funding allocations should include an international success component.

To enhance the potential competitiveness of Canadian children's programming, it is less important, DHX believes, to maintain particular levels of Canadian "points" for productions, than it is for Canadians to make the best and most marketable programs possible for Canada and export markets. In DHX's view, less emphasis should be placed on counting production points, and more on ensuring substantial resources are available to make productions in Canada.

In our view, this approach is more likely to ensure the longer-term sustainability for our industry – and employment opportunities for creators.

Support a Dynamic and Healthy Domestic Market

The Domestic Market Underpins Global Success

Our success in kids programming has developed over many years within the regulated structure of the broadcasting system. This system has ensured that the economic value generated in Canada by audio-visual content supports and is reinvested into the Canadian economy, and not merely paid out as rent for American productions.

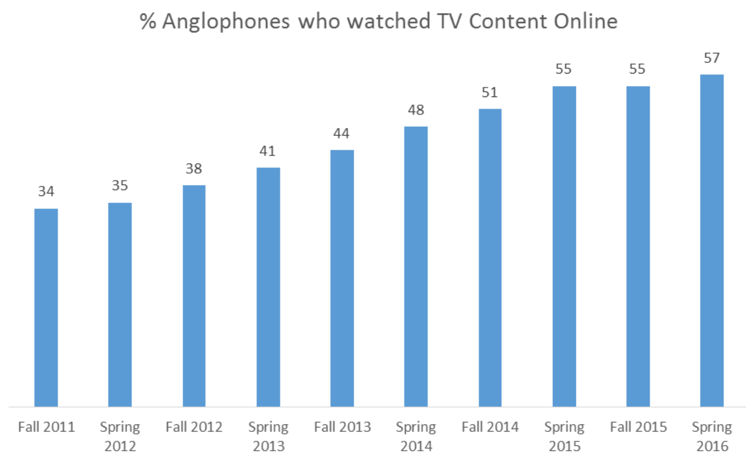
In its consultation paper, the Department states that Canada has reason to be proud of our successes: exceptional artists, successful businesses, strong national cultural institutions and engaged Canadians. DHX agrees – and our existing broadcasting system, with its interrelated regulatory, tax and funding for quality Canadian content, lies at the very heart of this success. Our careful nurturing of our own domestic market – making sure we are strong at home – is the reason we have a thriving audio-visual cultural industry today.

The Market is Evolving

At this time our broadcasting system is undergoing a period of disruption. One readily apparent source of disruption is the borderless, ubiquitous and ever growing presence of open and evolving digital networks, and the subscription-based content services they offer. Most importantly, however, while the means of distributing and accessing audio-visual media is changing – this change is itself supported and even driven by our existing, and still strong, domestic media market.

There are three important facts that support this conclusion. Two of these factors relate to what content Canadians watch and how they watch it, and the third relates to where the private, at risk financing comes from to support this content.

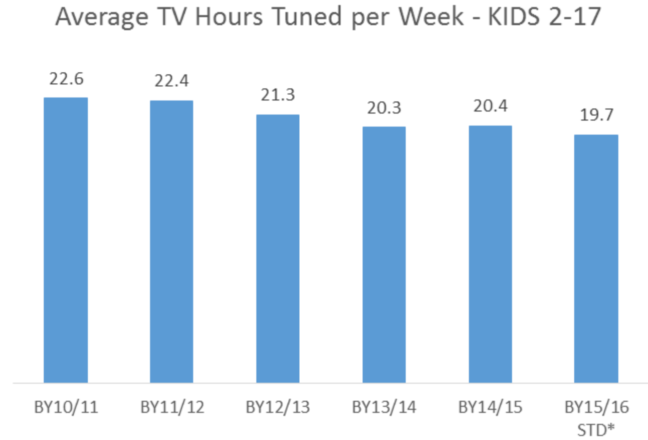
More specifically, we are finding that the content delivered to Canadians and watched most often has been produced as traditional television content.



Source: Media Technology Monitor Spring 2016 Analysis of the English-language Market

These findings reflect that Canadians want to watch high-quality programming on multiple platforms. Broadcasters and other programming distributors are already making content available on these platforms – and seeking to monetize it by all available means. DHX itself has capitalized on these trends and has been a world leader in making its content available on these new platforms.

Just as important, even while digital networks are growing, true "traditional TV" is still, by a large margin, the most important window for Canadians to engage with audio-visual content. Canadian kids still watch TV in in their leisure time, and the numbers have remained remarkably steady even with the rise in other sources of content and viewing platforms.



Source: Numeris, AMA(000), BY10/11 to BY15/16 STD Total Canada

We would note that these viewership numbers do not reflect viewership to more recent unmeasured platforms such as VOD, SVOD and authenticated viewership to television apps, all of which are extensions of traditional TV. When viewership to these other newer is factored in, it is highly likely that viewership to traditional TV content has at the very least remained the same, if not even increased.

Canadian Television's Contribution to Private Investment

Given the continued strong viewership to television, Canadian domestic TV is the largest single source of private at risk investment for Canadian programming. The following table, which sets out the financing structure for independent television production in Canada over the last five years, illustrates this point:

	2010/11		2011/12		2012/13		2013/14		2014/15	
	$ millions	%	$ millions	%	$ millions	%	$ millions	%	$ millions	%
Private broadcaster licence fees	491	23	569	21	491	21	439	18	485	19
Public broadcaster licence fees	179	8	220	8	223	10	260	11	252	10
Federal tax credit	215	10	275	10	240	10	251	11	278	11
Provincial tax Credit	367	17	486	18	417	18	447	19	482	18
Canadian distributors	193	9	333	12	255	11	250	11	325	12
Foreign	155	7	201	8	176	8	234	10	266	10
CMF	282	13	303	11	300	13	282	12	286	11
Other public*	32	2	30	1	5	<1	11	<1	13	<1
Other private**	197	9	253	9	198	9	202	9	220	8
Total	2,111	100	2,671	100	2,305	100	2,376	100	2,608	100

Source: Profile CMPA 2015 at page 59.
Estimates based on data obtained from CAVCO and CMF.
Note: Some totals may not sum due to rounding.
** Other public includes financing from provincial governments, and other government departments and agencies.*
*** Other private includes financing from production companies (excluding the tax credit contribution), independent production funds, broadcaster equity and other Canadian private investors.*

Most private money supporting production comes from three sources: private broadcasting licence fees, foreign sales and Canadian distributors. Private broadcasting licence fees are the largest single source of private investment, representing approximately 20% of financing overall, and at least 50%, if not more, of all private domestic financing each year over the last five years. (It should be noted that the independent production funds included within the "other private" line on the above table, are CRTC-mandated funding pools.)

Private broadcasters remain fundamentally important for viewers and for the business of creating Canadian programming. They are the most watched platform for high-value content, and the single largest source of at risk private investment in Canadian content.

This is precisely the type of private investment that the Department wishes to stimulate. Fortunately, as indicated by the high levels of viewership to television content on different platforms, television is already adapting quickly to new distribution models. A key challenge, however, will be to transition revenues from traditional distribution to the newer platforms to ensure continued stable, or even increased, private investment.

Ensure Fair Packaging and Distribution of Children's Television Services

The Distribution Environment is Evolving

The second source of disruption to our existing broadcasting system is the profound structural change now taking place in the broadcasting distribution sector. There are two aspects to this change. First, consumers are being presented with greater choice on all platforms, and this the movement to greater choice has been accelerated by the CRTC's mandated changes to the retail market for broadcasting services. Second, ownership of programming services and broadcasting distribution is becoming heavily concentrated and characterized by high levels of vertical integration. Canada has among the most highly concentrated and vertically integrated communications industries in the world.[1]

DHX supports enhanced consumer choice in the broadcasting system. If the broadcasting system fails to respond to consumers' expectations, then they will increasingly turn outside the system for content.

The New Environment Creates Potential Risk

However, the combination of disruption in the retail environment with the ownership structure of the broadcasting system presents exceptionally high risk to ongoing innovation and growth in the creation and delivery of high-quality Canadian programming. This is because distributors – the largest of which are affiliated with their own programming

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[1] *Media and Internet Concentration in Canada Report, 1984 - 2015*. Canadian Media Concentration Research Project. http://www.cmcrp.org/wp-content/uploads/2016/11/Media_Internet_Concentration_in_Canada_Report_2015.pdf

services – faced with a requirement to provide more choice for consumers at the retail level, are naturally motivated to maintain retail market share for their own programming services.

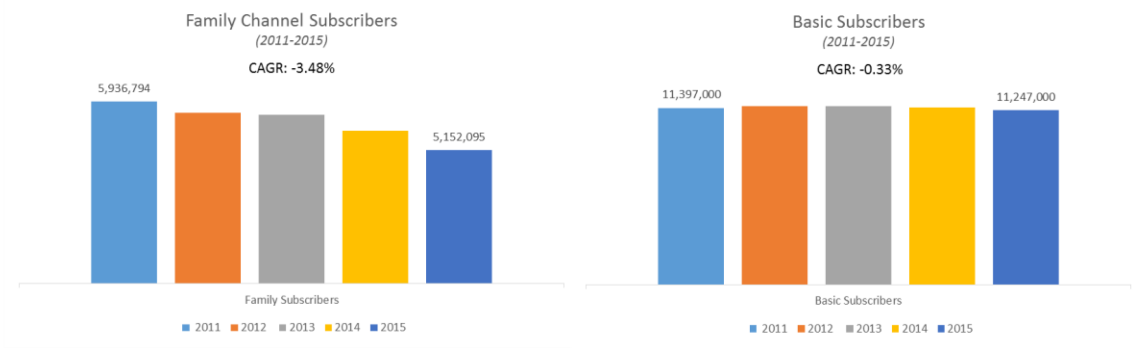
The Talk TV decision coupled with market forces has led to an environment where distributors are offering significantly more choice and consumers have more options to customize their TV services. However, value tiers continue to be the most common method for consumers to purchase television services since it provides optimal value per channel. Therefore, the value tiers they are packaged in largely affect the subscription levels of TV services.

Large distributors typically offer, among other options, pre-assembled "Entry", "Mid Level" and "Large" value packages (over and above the CRTC mandated “skinny basic” package), at different price points. As noted, value packages remain the most common way in which consumers access content. Amongst the English-language vertically integrated BDUs, the low-cost Entry level package most often contains only two children’s services, both of which are affiliated with one of Canada’s largest VI Broadcast entity. Independent children’s channels, such as Family Channel by contrast, are often found in the more expensive and larger value packages.

The result is that children’s channels in Canada can be prohibitively expensive for families to access. While Entry level packages are priced from $40-50, the manner in which children’s channels are packaged forces families to spend anywhere from $75-93 a month to access most children’s content. Distributors are often leveraging the popularity of children’s services such as Family Channel to drive higher value subscriptions.

Limiting access to children's channels limits discoverability, viewership, revenues and ultimately the channel’s ability to contribute to the creation of strong, exportable Canadian content. In addition to the inherent financial barrier to customer acquisition that comes with being in the more expensive value packages, these are particularly susceptible to the current trends toward cord shaving, making it even more difficult for independent children's services to sustain revenues and spending on Canadian production.

The impact can be seen clearly in the subscriber base for Family, which has typically enjoyed among the widest distribution of independent children's services:



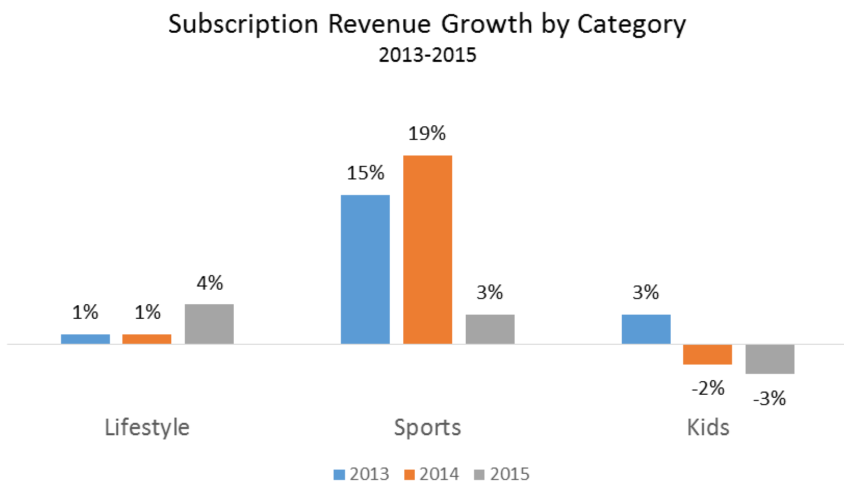
Source: CRTC Financial Summaries, Broadcasting Sector 2011-2015

Since 2011, Family's subscriber base has declined by close to 800,000 individual subscribers (or 13%) while the total subscriber universe declined by only 1.3% over this period of time.

This decline happened over a period in which Family was typically the #1 children’s service and was one of the most-watched specialty channels in Canada, despite being as low as 32nd in terms of household distribution.

Family's subscriber loss is not therefore correlated to declining numbers of cable and satellite subscribers or the quality of the service itself, it is rather due to packaging.

At the same time, programming packages that feature content in which the vertically integrated distributors are most heavily invested – sports and lifestyle programming – have experienced increases over the last three years (especially the most expensive sports content). Children's programming has experienced an overall decline.



Source: CRTC Financial Summaries, Broadcasting Sector 2011-2015

Given the importance of private broadcasters to contribute private, at-risk investment that triggers production, poor packaging of kids content will lead inevitably to declines in the sector. In addition, since the best-packaged services are those related to a major cable and satellite distributor, independent children's services will be disproportionately harmed – resulting in a weakening of the competitive environment and a compounded loss of innovation.

It is critical, therefore, for the future of Canadian children's programming to ensure that children's services that are committed to Canadian content and that are engaged in building Canadian owned brands be included in widely distributed highly penetrated and affordable packages.

DHX also believes that access rights for leading Canadian services, such as Family Channel are critical. The loss of those rights (a feature of the CRTC's Lets Talk TV decision) may seriously impair DHX's ability to secure fair carriage arrangements.

In summary, Canadian kids watch television content on a variety of devices. "Traditional" TV platforms continue to be the most popular. This environment enables broadcast partners to play a leading role in putting up private, at risk investment that is necessary to create and export Canadian programs.

It is important, we believe, for the Department to be aware of these dynamics as it considers its policy options to encourage innovation and help grow Canada's digital cultural economy. The importance of a healthy and dynamic domestic market – which encourages new entrants and innovation by independent players, as well as network operators – cannot be overstated.

In making these comments, DHX does not wish to minimize the importance of emerging content platforms. To the contrary, public support should take an increasingly platform neutral approach to funded content. If productions can attract support from digital platforms that are comparable to the level of support currently provided by broadcasting licence fees, then it would make sense to allow those new platforms to act as triggers.

Conclusion

DHX appreciates this opportunity to participate in the Departments consultation on Canadian content in digital media. We have focused our comments on the areas of greatest concern to us, and of course the area where we have the greatest experience: kids content.

DHX believes that a policy framework for digital content would do well to pursue the principles we have outlined here:

- Building on areas in which Canada has proven to be successful: kids and family content is one such area; and

- Supporting a healthy and dynamic domestic market: this is a key Canadian advantage; if we take our eyes off our own backyard, we are doing ourselves a great disservice.

We have also outlined specific measures that we believe could be taken to help fulfill these principles and to provide additional support to kids content. These include:

- Increasing the proportionate allocation of funding to kids content by CMF;

- Including an international success component in funding allocations;

- Focusing on the use of Canadian resources to make best content possible, rather than on a points-driven system for Canadian content, or Canadian ownership;

- Enhancing tax credits that support forms of digital production that do not rely on a broadcast licence without detracting from the existing tax credits, and that support – at a corporate or portfolio level - marketing of Canadian content abroad;

- Directing international marketing support and tools to Canadian players with appropriate experience, who can assist and mentor others to also gain experience; and

- Ensuring that children's services are distributed and packaged fairly, and accessible to Canadian families at an affordable price.

We are very much looking forward to engaging further with the Department on these matters. We have attached to this submission our responses to certain of the specific questions set out in the Department's consultation document.

Yours truly,

Mark Gosine
Executive Vice President, Legal Affairs,
General Counsel and Corporate Secretary

Answers to Specific Questions

DHX is pleased to offer the following responses to the specific questions set out in the Government's consultation document that are the most relevant to DHX and children's programming:

Q. How can we reflect the expectations of citizens and enable Canadians to choose the content they want to see, hear and experience?

In DHX's view, technological innovation and the expanding power of digital networks are already empowering Canadians to select and view content of their choosing, with more options and tools at their disposal than has ever been the case before.

In the "traditional" broadcast distribution market, the CRTC has implemented far-reaching changes that will require greater consumer choice in that market. DHX supports these changes, which are responding to the demands of consumers to exercise greater control over their entertainment options.

Broadcast television remains highly relevant for Canadians – if not the most relevant – since it still represents the single most important method Canadians use to access content (as discussed above). With increased digital capabilities on these platforms (such as on demand, "lookback" and other networked recording features, and the promotion of content through authenticated OTT platforms), and with the ability to offer popular, curated programming on an affordable basis in value bundles, television distribution by BDUs will remain the key form of digital content distribution for Canadians in the near term.

The first, and greatest, area of risk to unlocking the expanding potential of digital networks – both "open" networks and closed distribution networks – is the presence of market forces that reduce or limit content creation, or that stifle innovation by independent content providers that do not own their own digital network.

In the traditional broadcasting distribution environment, consumer choice is based on the fair packaging and marketing of existing services and must be enforced with vigilance and strong regulatory intervention to counteract competitive abuse. In the case of kids' services, it is apparent that independent kids services are disadvantaged on the largest distribution networks and this requires regulatory attention.

The industry is embracing "pick-and-pay" for individual programming services, but value bundles will continue to be the most important programming options for consumers – and it is imperative that these bundles treat related and unrelated, and independent and vertically integrated services fairly. Otherwise, network ownership, and not programming quality and content innovation, will determine what Canadians are able to choose.

As a matter of policy, fair packaging and the wide distribution of independent services will ensure vigorous competition and investment in the sector, and affordable access for families to a healthy diversity of kids content. Independent children's services that are committed to Canadian content and to building Canadian brands should be widely distributed and offered in highly penetrated and affordable packages.

Even more fundamentally, to be packaged fairly, an independent service must first be distributed by a BDU. The CRTC's intended removal of access rights for independent services, such as Family, that currently make the greatest contribution to Canadian content could imperil the ability of independent services even to secure distribution. The consequences of this regulatory change could be detrimental to independent services, and substantially undermine Canadians' ability to choose them. Simply put, a service cannot be selected by a subscriber if it is not distributed.

These concerns are not yet as pressing for new digital networks, accessed through ISPs and mobile carriers. The CRTC has prevented preferential pricing for related programming services on mobile networks and is currently reviewing other discriminatory pricing practices. For new digital networks, it is important to ensure that content providers have open access to those networks on a "net neutral" basis.

A second area of risk for the expanding potential of digital networks is the ability of these networks to generate sufficient revenue for content creators to support high quality content. For Canadians, choice will be illusory if Canadian programming options – of all kinds – are no longer present in the digital ecosystem.

In DHX's view, this is a longer-term issue that will depend on the development of business models that support the production of different types of programming. In the nearer term, however, it is apparent that digital services depend heavily on content that is produced for the traditional television and theatrical platforms. This is why, DHX believes, it is of the utmost importance that the existing domestic television broadcasting system continue to be viewed as an engine for the production of high-quality Canadian programming.

Q. How can we fairly support creators in the creation and production of content that stands out? What partnerships will be needed to achieve this? How can we help creators have successful and viable careers in a digital world?

We have approached this question from our point of view as cultural entrepreneurs. DHX employs or contracts with more than 1,100 Canadians each year – almost all of whom are connected to the creative cultural sector. Employment opportunities, in Canada, are by far the most important support that can be provided to Canadian creators in our sector.

From this point of view, the existing tax credit system in Canada is critical to the vitality of the Canadian industry. The Canadian domestic market, as important as it is, is not large enough to produce substantial amounts of high cost and high value Canadian programming on its own. Foreign markets are increasingly relevant, but there remains a material gap between revenue available in foreign markets, and the cost of producing high value content.

Moreover, there is a significant gap between the time when a program is produced, and the time needed to recoup production costs through foreign sales.

Canada's tax credit system allows us to leverage our domestic market in a way that would simply not be possible otherwise. These tax credits, which are focused on labour costs and therefore support employment, are highly important and should be maintained or enhanced.

DHX would support enhancing tax credits so that they support other forms of digital production that do not rely primarily on a broadcast licence. Any such enhanced credit should not however, detract from the financing support provided to Canadian broadcasting licensees. Canadian broadcasting licensees make direct, obligatory contributions to the production and exhibition of Canadian programming. Digital media platforms have no such obligations.

In addition, as presented above, Canadian broadcast platforms remain highly relevant to viewers and are still where Canadians view the most content – or linked to digital platforms that repurpose television content. It would be premature and counterproductive to provide additional support to "non-broadcast" digital media platforms at the expense of support to broadcast platforms. Subject to this concern, the support for content should be platform neutral. Engaging and relevant content will be consumed and available across a number platforms and appliances. The consumer will make the ultimate choice of how content is consumed.

In addition, if the tax credit regime were to be expanded to encompass digital networks, there is no reason why it should not also be expanded to encompass broadcaster-owned or affiliated productions in eligible programming categories. The distinction between the programming producer, on the one hand, and programming "transmitter" (whether by broadcast or digital media) is increasingly blurred.

Q. With so much online content available today and given Canada's diverse and multicultural makeup, does the concept of "Canadian content" resonate with you? What does "Canadian" mean to you? Do we need to be more flexible in how we support the production of content by Canadians? In an ultra-competitive, global market, how can the private sector support the production of content made by Canadians? What is the role of Canada's national cultural institutions, such as CBC/Radio-Canada and the National Film Board?

We will focus on the highlighted portion of this question.

The existing tax credit system is an essential part of the Canadian production environment. Without a doubt, tax credits draw private investment to the production of Canadian content, even in situations where productions do not draw funding from other public sources, such as the CMF and other independent production funds. This type of non-publicly-funded productions actually represents a higher risk category of production for private participants.

Enhancements to the tax credit system could be used, therefore to attract substantial additional private investment. Tax credits are especially efficient because they are typically designed to support desired activities (e.g. employment in Canada) and because investments in production costs through tax credits are returned to the Treasury by way of taxes on income and on other spin off revenues arising from production activities.

An enhanced tax credit focused specifically at the corporate level on supporting marketing activities abroad would have an immediate impact on the promotion of Canadian programming overseas. Applying this credit at the corporate rather than specific production level would reflect the reality of international distribution, in which content is marketed on a portfolio basis and allocating specific marketing costs to individual productions is impractical.

DHX supports additional flexibility in defining which productions are eligible as "Canadian". The primary focus should be to ensure that the production makes substantial use of Canadian resources. This will ensure that Canadian productions provide meaningful opportunities for Canadian creators, and that revenues arising from the exploitation of these productions return to Canada. Whatever criteria do apply to qualify productions for support, they should apply similarly to all platforms and productions that are comparable in nature.

Increasingly, the question of the ultimate ownership of content is becoming less relevant to what is "Canadian". If it is a policy objective to substantially increase foreign investment in the sector, then the question of the level of foreign ownership of the resulting content may be less important than the economic activity generated from that investment.

Q. Canadians make great content; how can we build our exceptional cultural industries and support the growth of new creative enterprises as part of Canada’s innovation agenda? What tools do the government and the private sector already have at their disposal? What new tools could we consider?

How do we incent more risk-taking from creators and cultural entrepreneurs?

In terms of risk-taking, the proposition is straightforward: where there is a reasonable prospect for reward, good entrepreneurs will take measured risks to achieve that reward.

DHX's experience is in children's and family programming. Through careful acquisitions and a consciously international strategy, DHX has become the largest independent library for kids content worldwide while maintaining our strong position as one of Canada's leading production houses. More recently, DHX took advantage of the opportunity to expand into broadcasting – recognizing the fundamentally important role that that broadcasting sector plays as the primary source for private investment in Canadian productions.

DHX supports strategies that will promote investment in dynamic Canadian companies that can nurture and finance Canadian creative innovation, from the earliest stages of the development of an idea, all the way through production to domestic and international distribution.

DHX is pursuing a strategy of integrating revenues from the Canadian domestic market to support an international strategy. This is done most effectively when there are no geographic or other market barriers limiting the acquisition and marketing of content. Broadcasters, content producers and companies engaged in monetizing international and other rights (i.e. distributors) should be free to negotiate for rights in a flexible manner that best reflects the strengths of each partner and rewards the investment and risks taken on by each party

Canada Media Fund creates different funding envelopes and allocates funds to different genres of programming within those envelopes. In order to makes kids programming a priority, funding to the kids genre should be increased. Kids programming is among the most watched genres of Canadian content – clearly succeeding with its target audience – and the allocation of funds to kids programs should better reflect this success.

Last, to better support the policy of encouraging international exploitation of Canadian content, it would be appropriate to include measures of international success within applicable funding models, including the CMF. This will create incentives for broadcasters and program distributors to support international marketing efforts – and to follow-up on those efforts to measure and repeat success.

Q. What is needed to best equip Canadian creators and cultural industries to thrive in a global market and exploit the country's competitive advantages? In a global market, what conditions need to be in place to encourage foreign investment in Canada's cultural industries? How can we better brand Canadian content internationally?

One of the answers to this question is reflected in a major theme of our submission: the importance of maintaining and building on our dynamic and healthy domestic content market.

International capital does not need to invest in Canadian content for its own sake. The question is always: what advantage does Canada bring in terms of greater rewards, or offset risks?

Canada's domestic market is essential to providing key revenue that gets productions green-lit and this revenue offsets the risks of international distribution. Part of the revenue that supports Canadian production is money from public sources. The other element, the private money, comes largely from the domestic broadcasting system. It is this part that is essential to attracting foreign investment. The only alternative to this domestic private investment to trigger foreign investment would be greatly enhanced government funding.

Maintaining a healthy Canadian broadcasting ecosystem is, therefore, fundamental to the international success of Canadian content.

There are also other specific measures that would support Canadian companies abroad. DHX has great experience in the sales process in international markets. DHX is on the ground, regularly, in dozens of countries around the world particularly in the UK, Western Europe and the US, but also Latin America. The sale of content is really no different than the sale of most other products: you have to be close to your customer and understand their needs. This means travelling to the markets and having representation on the ground that understand the local markets.

In addition to seeking out different territories, DHX has also developed relationships with emerging digital platforms including Netflix, Amazon, Hulu, Alibaba, YouTube and others. We are active and aggressive in pursuing markets and platforms of all kinds.

In our experience, Canadian export initiatives such as the Trade Routes program and Team Canada trips have been helpful in reaching into new markets. DHX has benefited from the services of the trade commissioners and a number of Canadian Embassies and Consulates, particularly in Asia and more specifically in Tokyo, Shanghai, Beijing and Hong Kong. We have also benefited from trade missions in Los Angeles and New York.

Looking forward, if new measures are to be introduced focused specifically on supporting cultural exports, then DHX believes that these measures should be directed principally to assist players in the industry with appropriate existing experience in international sales. New entrants would be better served if they were paired through mentorship programs with established companies, rather than left to their own devices in new markets.

In addition, support would be best focused in geographic areas, such as Asia, that do not have as highly developed (and integrated) content marketplaces as others. Western Europe, for example, is a well-known and developed territory and is already populated with sophisticated buyers and sellers of content for all platforms. Canada would do well to target its resources on those markets that are the most open to development in step with Canada's export potential.

Appendix

DHX Media's Mission

As a kids' and family content company, our mission is to create and leverage children's content that inspires, entertains and connects the global on-demand generation.

We are guided by three key strategic imperatives to drive our business forward and help us fulfil this mission:

- We produce engaging, high-quality content for kids and families.

- We distribute our content worldwide to pursue growth across all media and platforms.

- We leverage our content to develop global brands with significant consumer product upside.

DHX Media was established in 2006 with the merger of two leading studios: Decode Entertainment and Halifax Film Company. DHX is a highly entrepreneurial company, which has accessed private capital as a publicly traded company (on the TSX and NASDAQ Select Market). DHX is Canadian based, but a majority of our sales (approximately 60%) comes from non-Canadian markets.

DHX has grown since its establishment through a series of strategic acquisitions. These acquisitions have allowed the company to expand its content library and to capitalize on the growth of OTT players around the world. DHX now licenses content to dozens of different international platforms and DHX's subsidiary, WildBrain, is now the one of the largest networks of children's content available on YouTube. DHX was an early adopter of digital platforms, and those platforms have played a key part in DHX's international success.

Our WildBrain Business

WildBrain connects the owners of children's content with online advertisers, primarily via YouTube in today's market. WildBrain directly monetizes our large catalogue of kids content by making it available on our branded channels and has become a clear leader in the children's AVOD or "Advertising-supported Video on Demand" space. There is tremendous room for growth of our WildBrain business unit worldwide.

We are executing a three-pronged approach to do this:

- First, we continue to produce new original "made-for-YouTube type" children's content, such as animated and live-action shorts; toy-play and unboxing videos; book readings; preschool counting and alphabet videos; and nursery rhymes.

- Second, we are partnering with third-party brands and content owners to manage their children's channels and leverage the network-effect of being part of our larger WildBrain platform to grow our online audiences.

- Third, we are pursuing the acquisition of third-party, independent channels that feature children's content to add to our WildBrain universe that can accelerate our market expansion.

Our WildBrain team has developed considerable expertise and we believe there is huge opportunity to secure more market share as the AVOD market is still in its emerging growth phase.

DHX Media's Proprietary Content

DHX produces original entertainment content at its Vancouver, Halifax and Toronto studios domestically, as well as with top international producers globally. Over the last year, DHX Media produced 161 half-hours of Canadian children's and family programs including many programs that are widely recognized around the world, such as Inspector Gadget, Kate and Mim-Mim, Slugterra, Make It Pop! and Degrassi.

DHX is a key provider of children's content to the global market, with a library of over 11,800 half hours of children's and family content (one of the largest independent libraries of such content worldwide). This content is licensed for distribution on all manner of platforms and in multiple languages. DHX's team includes sales executives in Toronto, Los Angeles, Paris and Beijing, dedicated to providing the best in client services, digital services and library services.

DHX creates, builds and manages high-profile global entertainment brands within the children's and young-adult markets. DHX's world-class portfolio includes *Teletubbies*, *Twirlywoos*, *In the Night Garden*, *Yo Gabba Gabba!*, *Caillou*, *Make It Pop!*, *Slugterra* and *Degrassi*. The ability to unlock the inherent value of programming brands is key to the overall financial success of programs – and is also a critical part of making content discoverable within the vast and cluttered digital environment. Brands that have a presence *outside* the digital environment are more easily recognized and found in that environment.

DHX Television

Lastly, DHX owns and operates (through its subsidiary DHX Television) Family Channel, Family Jr., Family CHRGD and Télémagino. DHX delivers best-in-class programming directly to Canadians, via traditional broadcast distribution platforms (cable and satellite), and increasingly through its own branded over-the-top Internet platforms and channels

(*Family.ca* and *Family Channel App*, for example) and through YouTube and other well-known social content platforms. DHX Television is home to world-renowned series including *The Next Step*, *Degrassi: Next Class* and *Teletubbies*. *The Next Step*, for example, is a Canadian teen docu-drama produced by Boat Rocker Media, and licensed to Family Channel. The series had the #1 network debut in the channel's history and remains the top-performing program on Family Channel, as well as on Family.ca and The Family Channel App.

DHX's acquisition of Family Channel and its related services in 2014 was a significant opportunity for the company. At the time that Bell Media acquired Astral, it was required by the CRTC and Competition Bureau to divest of these channels, together with certain others, for competitive reasons. Without DHX, the future of the channels was in doubt, and potential purchasers were limited, especially given the uncertainty at that time surrounding the renewal of Family Channel's output deal with Disney. (Disney subsequently licensed its content to a different broadcaster for distribution under its own brand in Canada). Only a company like DHX, with the ability to rely on its own content library, production expertise and to leverage productions internationally, could accommodate the risk of acquiring and operating these services.

The acquisition of Family and the related channels has been an unqualified success for DHX and for the Canadian kids production sector. First, DHX's acquisition of Family ensured the continued presence of an independent broadcast window with the resources required to commission new Canadian children's productions. Family relies heavily on new Canadian productions, and at least 60% of spending on these productions is earmarked to non-related independent Canadian producers.

Second, for DHX, the integration of an important domestic broadcast window has allowed the company to better leverage our investments in Canadian content to support our global strategy. DHX's direct investment in Canadian programs for broadcast on the Family group of channels leads to the production of new content, which DHX is then able to monetize directly in Canada, as well as internationally through our distribution and branding activities.

This integration strategy is working. DHX is focused on programming production and distribution around the world. At the same time, we are now directly accessing revenues generated from Canadian audiences by our broadcast windows – revenues that had previously been outside our purview as a program producer. This additional revenue stream is now available to grow our overall business and to offset the inherent risk in content production.