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Consolidation Sweeps Canadian Media Sector

Over the past two years, the Canadian media sector has experienced an unprecedented wave of consolidation. New business combinations, involving broadcast, radio, film production, film distribution and new media, have significantly altered the media landscape and created a select group of bulkier and more powerful Canadian media “players”.

First, in the summer of 2006, CTVglobemedia (which controls Canada’s largest television network, CTV, as well as *The Globe and Mail* national newspaper) acquired CHUM Limited and its 21 specialty television channels, including MuchMusic and Bravo, its iconic headquarters on trendy downtown Queen Street in Toronto (where CTV has since moved much of its corporate staff) and its significant radio assets for C\$1.7 billion. When CTVglobemedia applied to the Canadian Radio – Television and Telecommunications Commission (CRTC) for regulatory approval of the transaction in June 2007 the CRTC gave its approval provided that CTVglobemedia divested CHUM Limited’s five over-the-air City TV stations located in Vancouver, Calgary, Edmonton, Winnipeg and Toronto.

Second, as a result of the CRTC decision, CTVglobemedia then sold the five City TV stations to Rogers Media Inc., which is a division of Rogers Communications for C\$375 million, thereby effectively establishing Rogers as the fourth television network in Canada after CTV, CanWest Global and the publicly owned Canadian Broadcasting Corporation. Rogers, in addition to owning City TV, also controls both Rogers Publishing (which publishes and distributes numerous magazines across Canada) as well as Rogers Broadcasting (whose properties include the multicultural

television broadcaster, Rogers Omni Television, The Shopping Channel, the cable sports service, Rogers Sportsnet and 51 AM and FM radio stations across Canada). Rogers also owns the Toronto Blue Jays Major League Baseball Club as well as the Rogers Centre sports facility and all of its media properties are integrated with Rogers’ various websites.

Third, not to be outdone by CTVglobemedia and Rogers, in the summer of 2007 CanWest Global teamed up with US investment bank Goldman Sachs to acquire Alliance Atlantis Communications Corp. for approximately C\$2.3 billion. Alliance Atlantis was a leading Canadian specialty TV broadcaster whose assets consisted of a number of leading Canadian specialty cable channels valued at C\$1.5 billion (e.g. Slice Network, Home and Garden Television, Food Network, History Television) as well as a 50 per cent interest in the extremely lucrative CSI TV franchise (valued at approximately \$1 billion) and the largest Canadian-controlled film distributor, Alliance Atlantis Films.

The Alliance Atlantis acquisition involved a novel ownership structure pursuant to which the acquisition vehicle was controlled both in law and in fact by CanWest Global, notwithstanding the fact that Goldman Sachs had a much larger equity interest in the vehicle than CanWest Global. Furthermore, as part of the arrangement with Goldman Sachs, CanWest agreed that in 2011 it would fold its existing conventional Canadian TV networks, Global and E!, into the new acquisition vehicle to form a single jointly owned company. The Alliance Atlantis acquisition received CRTC regulatory approval in the fall of 2007.

As CanWest Global was only interested in the television broadcasting assets, Goldman Sachs acquired the 50 per cent interest in the CSI franchise on its own and, together with a Canadian partner (as required under the *Investment Canada Act*), acquired control of the former

Alliance Atlantis film distribution business. The Alliance Atlantis film distribution business, since renamed Alliance Films, was initially acquired by Goldman Sachs in conjunction with Edgestone Capital Partners Inc., a Canadian private equity firm, in order to meet the *Investment Canada Act* requirement that it remain Canadian-controlled. However, in early 2008, Edgestone sold its controlling stake in Alliance Films to an investment arm of the Québec government, the Société Generale de Financement du Québec and the head office of Alliance Films was moved to Montréal.

More recently, CanWest has been rumored to be exploring a potential sale of all or part of its 56 per cent interest in Network Ten, an Australian publicly-traded broadcaster. Thus far it has confounded the financial pundits and continued to retain its ownership interest in Network Ten, notwithstanding the speculation that a sale would be desirable to reduce its debt and prepare for the full merger with Alliance Atlantis in 2011.

Fourth, the chief Canadian distribution rival of Alliance Films, Entertainment One, a Canadian-controlled distributor and producer whose shares trade on the London Alternative Investment Market, make a series of acquisitions to bolster its competitive position. In 2007, Entertainment One acquired Montréal-based feature film distributor Seville Entertainment as well as Contender Entertainment Group in the United Kingdom and RCV Entertainment, a film distributor in the Netherlands and Belgium. More recently, in the summer of 2008, Entertainment One acquired the Canadian television distributor Oasis International, the Canadian film distribution company Maximum Films (controlled by Robert Lantos) and the leading Canadian television producers Blueprint Entertainment and Barna-Alper Productions for an aggregate purchase price in excess of C\$50 million. Then, in

the fall of 2008, Entertainment One capped its year-long buying spree by agreeing to a reverse takeover of DHX Media Ltd., thereby securing a back-door listing on the Toronto Stock Exchange in the process.

DHX Media originally went public in 2006 in a C\$20 million offering and its shares are listed on both the London AIM and the Toronto Stock Exchange. Its Halifax Film entertainment division develops and produces original Canadian television programming, such as *This Hour Has 22 Minutes*, while its Decode Entertainment division is a leading producer of children's entertainment programming. In late 2007, DHX Media acquired Studio B Productions, a Vancouver based producer of children's programs for C\$8 million and in 2008 it acquired imX Communications, the Halifax based film company, and its library of film and television programming for C\$755,000. The proposed combination of Entertainment One and DHX will give Entertainment One one of the largest libraries of children's programming outside of the major Hollywood studios and DHX will acquire an integrated distribution network for its productions.

In addition to the foregoing major transactions, other recent media consolidation transactions of note in Canada include the following:

a) Astral Media, which operates Canada's largest English and French pay television service and is a major Canadian radio broadcaster, acquired Standard Broadcasting and its 52 privately held AM and FM radio stations in 2007 for approximately C\$1 billion. The transaction also included Sound Source Network, Standard's ad sales unit, Integrated Media Sales and two conventional TV stations in northern British Columbia. In addition to greatly increasing its radio assets, Astral is now also the sole owner of MusiquePlus, after acquiring the other

50 per cent of the jointly owned television service from CHUM and parent CTVglobemedia;

b) Temple Street Productions Inc., a leading producer of Canadian television programs such as *Canada's Next Top Model* and *Billable Hours*, announced at the 2008 Banff International Television Festival the sale of a substantial minority interest to BBC Worldwide Limited, the commercial arm and a wholly-owned subsidiary of the BBC. Pursuant to the transaction, BBCW will acquire a minority equity interest in Temple Street and the parties will enter into various commercial arrangements to co-finance and distribute productions. As part of the transaction, Temple Street also secured certain rights to produce domestic Canadian productions based upon BBCW controlled formats, such as the successful production of *How Do You Solve A Problem Like Maria?*, which was produced by Temple Street, based on a format controlled by BBCW and broadcast by the CBC in Canada;

c) Peace Arch Entertainment, another publicly traded Canadian entertainment company, in 2006, acquired Castle Hill Productions Inc. and Dream LLC in cash and stock transactions valued at \$9.5 million, giving it one of the largest libraries of independent movies in Canada. In 2007, Peace Arch acquired Dufferin Gate Productions, a leading provider of production services and facilities for C\$6 million;

d) Corus Entertainment Inc. in 2008 acquired CLT (Canadian Learning Television) from CTV for C\$73 million. The transaction, which will be accretive to Corus in fiscal 2009, illustrates Corus' desire to expand its existing cable channel portfolio and highlights the continuing M&A activity in the broadcasting sector; and

e) Other Canadian-based film companies which are rumored to be seeking potential outside investments

include Cookie Jar, Shaftesbury and Breakthrough, among others.

The breathtaking array of corporate acquisitions and mergers described above has resulted in a substantially revamped Canadian media landscape dominated by fewer, larger and more powerful players. In the Canadian broadcasting market, both CTVglobemedia (with the CHUM acquisition) and CanWest Global (with the Alliance Atlantis acquisition) have greatly increased their respective spheres of influence. Rogers Media (with the acquisition of the five City TV stations from CTVglobemedia) has become a significant new player in addition to such incumbents as Astral, Corus and the CBC.

In the Canadian film distribution sector, Alliance Films (now with the financial backing of Goldman Sachs) remains the leading Canadian-controlled film and television distributor by market shares with Entertainment One, with its recent spate of acquisitions, closing in fast. As well, Maple Pictures, the Canadian-controlled distributor of all Lionsgate films within Canada, is also another major distribution player having recently secured the exclusive right to distribute Miramax productions in Canada.

On the exhibition front, Cineplex Galaxy continues to be the dominant exhibition chain in Canada. It is controlled by Cineplex Galaxy Income Fund, an income trust which trades publicly on the Toronto Stock Exchange. Canadian box office revenues have been largely flat during 2008, although, as in many other jurisdictions, the latest Batman tentpole production, *Dark Knight* was a huge revenue generator at both conventional theaters and on Imax screens (Cineplex has the vast majority of Imax screens in Canada). Canadian theater advertising revenues have also been relatively stable during 2008. More recently, AMC and certain other foreign controlled competitors have increased their presence in Canada, however, Cineplex Galaxy

remains the chief exhibitor in the country.

The impact of the recent wave of media consolidation on the Canadian market remains to be seen. While Canadian independent producers have gained a new prospective licensee in the case of Rogers with its new conventional television network, both CHUM and Alliance Atlantis have now been absorbed into other existing Canadian broadcasters, namely CTV and CanWest respectively, resulting in fewer broadcast outlets. With

the blessing of the CRTC, the organization which represents independent Canadian producers in Canada, the Canadian Film and Television Production Association, is currently negotiating terms of trade agreements with each of the major Canadian broadcasters which Canadian producers hope will mitigate some of the imbalances in negotiating power which have been created by recent broadcaster consolidation. Unfortunately, the negotiations started off rather badly this year when

CTVglobemedia, CanWest Global and Rogers Broadcasting each refused to negotiate with the CFTPA on a broadcaster-by-broadcaster basis and insisted on a group negotiation with all three broadcast groups at the negotiating table which the CFTPA declined to participate in. We await, with interest, the next chapter in the ongoing Canadian media consolidation saga. ■



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