

Chambre de commerce du Montréal métropolitain_Speech

Thursday, January 22, 2009

Check Against Delivery

Bonjour, merci d'être ici. Good morning ladies and gentlemen. In the interest of time, I shall do my remarks in English, but the PowerPoint presentation will be in French.

First of all, let me thank you for honouring Corus Entertainment with your presence this morning and thank you to the Chambre de commerce du Montréal métropolitain for the kind invitation to address you.

With its involvement in projects such as the Bonaventure Expressway, The Chamber is doing excellent work on behalf of business in Quebec.

Organizations such as yours that encourage networking are of huge value, particularly in challenging times such as these.

This morning we would like to give you an overview of our company with a particular focus on our Quebec assets, share with you some sense of the importance of our industry to Canada and Quebec, make a few comments as to how the industry is faring and close with a brief public policy framework that we are encouraging governments in Canada to adopt to ensure a vibrant industry and some degree of protection for our cultural sovereignty and recognition of Quebec's unique differences, in a world where the borderless global flow of information and entertainment is becoming our reality.

Corus was founded in September 1999. Radio and TV assets valued at \$767 Million were spun out of Calgary-based Shaw Communications to create additional shareholder value and to overcome a regulatory impediment at that time which generally precluded the ownership of content by content distributors.

Since that time, through a series of acquisitions, the company has assets today of over \$2 Billion and is traded on the New York and Toronto exchanges.

Our strategic focus is on specialty television and radio, two dynamic growth segments within the Canadian media industry. We are a leader in women's television with brands including W Network and Cosmopolitan TV, and pay television where we are the Super Écran of western Canada.

Through our Canadian television brands, YTV, Treehouse, Teletoon, Teletoon Retro and Discovery Kids, we cover the waterfront of child and youth audiences in Canada. Many parents watch with their kids as well.

We also offer the Nickelodeon content in Canada for broadcast and broadband platforms.

To support our children's television properties, we are also involved in the creation of Canadian children's animation content. This is an area of our business where we compete globally.

The children's content we create is through our wholly owned subsidiary company, Nelvana which has a library of over 3,300 episodes of children's programming. Nelvana licenses this programming in over 25 languages to over 150 countries.

Our content with brands like *Babar*, *Benjamin* or *Franklin* and *The Backyardigans* establish the opportunity to participate in equity positions in developing networks: Qubo in the United States and KidsCo International throughout Europe and Asia. KidsCo is now available in over 50 countries in 11 languages.

Qubo is available in 11 million homes in the United States and we program the weekend children's blocks for the NBC and Telemundo networks. In volumetric terms, we are the most prolific exporter of program content in Canada.

Here in Quebec we have invested capital of approximately \$200M. We control a globally successful leader in animation software called Toon Boom Animation Inc., led by its President, Joan Voegesang, who is here today.

Toon Boom sells its software in over 20 countries to leading content creators such as Disney, Film Roman, Nelvana and a host of others. We employ approximately 70 people here in Montreal at our Laurier Avenue East location.

The Toon Boom software has been deployed in a number of recent movies including *SpongeBob SquarePants*, *The Simpson's* and Disney's up-coming feature, "*The Frog Princess*".

We are obviously very proud of the fact that Toon Boom won an Emmy Award for Engineering. A big congratulations Joan, to you and your team for these achievements.

We thought we would take a moment to show a video that showcases some of our television and content brands, including some of the great work being done by our Toon Boom team here in Quebec.

We have 14 radio stations throughout Quebec under the leadership of Mario Cecchini.

Here in Montreal you would know us from 98.5 our leading news talk station featuring Paul Arcand and Premiere Charest's weekly address as well as the leaders of all 3 parties represented in our Quebec Assembly.

CKOI, is a leading, popular music station with the strongest signal in Quebec that is capable of reaching over 60% of the population.

CKAC, the first French speaking radio station to go on the air in the world, is now the popular CKAC Sports featuring well known Quebec sport personalities such as Michel Villeneuve and Ron Fournier. We also have a market leading English FM station, Q92.

We are continuing to invest in Quebec. In the past 24 months we acquired a second station in Sherbrooke and are constructing new transmission facilities there for both of our stations.

We also invested in a conversion from the AM frequency to FM in Gatineau, Saguenay, Trois-Rivières and Sherbrooke. Each of these involved new transmission capital investments.

We built a new facility next door at 800 rue de la Gauchetière and we will be hosting a cocktail reception - L'apéro Montréalais - for la Chambre de commerce on March 10th. We hope you are able to attend.

This is the largest radio broadcast facility in North America with six radio stations originating from here and news being assembled for the regional stations.

While we continue to invest, we are not without some challenges in Quebec. With margins that are much lower compared to our competitors in Quebec, we continue to work to find the right cost structure for our brands.

The recent Portable People Meter results are encouraging and despite the economy, we expect improvements based on our rating success of our main brands, 98.5, CKOI, CKAC and CFOM in Quebec City.

Our philosophy as a radio operator is to focus on serving our local communities with local talent and topics of local interest.

We are also active in our communities from a philanthropic point of view. Across the country our radio stations gave over \$19 Million to local charities in cash, airtime and other in-kind services.

In Quebec, we raised and offered in airtime more than \$5 Million last year and the main highlight was a radiothon where seven of our stations broadcast from Ste-Justine's Hospital lobby for one extraordinary day. In recent years we have raised over \$2 Million on their behalf.

Before we offer some remarks on our industry and the economy, we would like to give you an opportunity to listen to some of the world-class content of our Quebec radio stations.

The media industry is being impacted by the economy in the same way I suspect many of you in this room are.

Analysts are projecting that total advertising expenditures will decline in 2009 for only the fourth time since 1963. Accentuating the softness is the emergence of the web as a viable advertising choice.

The newspaper business is being particularly hard hit with the Chicago Tribune and LA Times declaring bankruptcy.

Newspaper lineage in Canada is down double-digits. Sirius Satellite radio is in extreme difficulty and in Canada we are concerned about the fate of CanWest who communicated last week that they may have difficulties staying within some of their bank covenants.

According to a recent TD report during calendar 2008 the media stock index in the U.S. was off 38% and the TSX Media component fell 34% in comparison to the overall indices which declined 39% and 35% respectively. Meanwhile, CanWest was down 89% and Canadian Satellite Radio was off 88%.

For Corus, since our inception, our stock has outpaced the market. Last year however, Corus was off 40% despite record revenues and earnings with our multiple dropping by 3 turns in anticipation of a soft advertising economy in 2009.

But even in 2009 there will be winners in the media space. Web advertising, specialty TV, pay TV and likely radio will grow year over year.

Media companies will be focused on improving their ratings, working to justify the investments our clients make in our business through proprietary research and improved research techniques such as the Portable People Meters launched first here in Montreal during the last quarter.

Our food, entertainment, telecom and financial sector advertisers are all expected to be solid with their spending this year. Automotive and retail are the two soft spots.

In the case of automotive, the planned bailout and a lessening of the credit crunch are key to restoring health, and, with retail, it's about credit and consumer confidence.

Meanwhile, it is not surprising that the automotive after market sector is expected to remain strong as people stick with their existing vehicles longer. So there are some bright spots that we can continue to build on.

At Corus we are doing our part working with our advertising partners to let our listening audience know that the economy is not as bad as they may think and that our advertisers are open for business. Let's listen now to one of our Reality Check Clips.

Corus has a strong balance sheet and depends on advertising for less than 60% of its revenue. We feel confident that we are well positioned for an economic turnaround in the back half of calendar '09.

Finally, what can we do as a country to support Canadian broadcasting and more importantly, why bother?

We believe protecting our cultural sovereignty is important. The cultural industry was among the few to be excluded from NAFTA and FTA negotiations. The U.S. shares this objective.

Foreigners cannot buy U.S. terrestrial radio or TV stations. Broadcasting is also a major employer contributing over 23,000 jobs in Canada.

We have proposed that the Canadian government and its regulator, the CRTC, adopt the following approach to media in Canada.

One, embrace the merits of fostering a Canadian-owned but globally competitive industry. The Canadian system now competes with the world even here at home.

We must recognize this and allow us to build upon strategies that acknowledge our new market realities. We must have a Canadian-owned system that is globally competitive.

Two, increase the probability of success of the Canadian media industry by encouraging the creation of larger and stronger enterprises. Canadian companies require scale to make the investments in content and rights management that will be required to meet domestic and global market demands.

In the interest of “diversity” small players are being licensed without the staying power to compete and a need to employ market disruptive tactics to survive.

In many cases they need to be revived by the well-funded incumbents who were denied the license in the first place.

Three, develop a Canadian industrial strategy that supports the creation of high quality Canadian content from all Canadian producers including producers that are affiliated with Canadian broadcasters. We need to rethink the independent producer policy as it has not succeeded in developing a viable production industry.

Canadian media companies need to be encouraged to invest in content. Corus is the rare exception in Canada today.

Four, recognize that successful private media enterprises are what will lead to a stronger cultural system, not the current system of progressive fees, conditions and tariffs. This can only occur if we take an externally focussed approach rather than an internal incremental perspective.

Areas like copyright have to be examined against global benchmarks not the current incremental approach.

The New Media exemption should be maintained and no attempt should be made to regulate the new media activities of Canadian broadcasters as this will inhibit rather than enhance our potential in the digital realm.

Government should re-examine the system of escalating licence conditions that were established to meet the policy goals of the analog system.

Broadcast groups should be able to make strategic use of programming funds rather than allocating them by non-market factors such as licence or program type.

Investments in digital rights management technologies should be eligible for qualifying Canadian content expenditures as sourcing and tracking this content is as important as the content itself.

Five, recognize that our small market requires that government continue its support of research and development in intellectual property.

It is inescapable that the Canadian system will continue to require direct funding and policies such as tax incentives to support the creation of the content that will tell Canadian stories to domestic and international audiences.

Six, we need the ability to experiment. For example, it will be difficult to develop the consumer value proposition for digital radio if we are constrained by the rules that currently apply to analog signals.

In conclusion, we are in the midst of some very interesting times:

- the transition from analog to digital;
- the emergence of the web as a viable disseminator of content and advertising; and,
- the difficult economic climate.

We need our governments to find ways to support Canadian media companies, which are small on global measures, to ensure our on-going ability to hear and see the stories that are important to us all.

Thank you. It has been a pleasure to spend this time with you.