

**ALLIANCE
ATLANTIS**

Notes for Remarks

by

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Madam Minister, honoured guests, ladies and gentlemen, good afternoon and welcome.

I'm very pleased to have such a public forum to talk about Alliance Atlantis.

As the papers were quick to report, the negotiations of our merger had been a clandestine affair, complete with code names: I was Venus, Robert Lantos was Pluto, our companies were Sun and Moon. I must say it was fairly bizarre to find myself checking into Toronto hotels in mid day through this past winter and spring, to have secret rendezvous with the man with whom I had competed head on for twenty years.

However, surreal though it may have been, Robert Lantos and I knew that for both of us this was the opportunity of a lifetime.

Our merger came in a year filled with mergers – banks, telcos, newspapers and many more.

One couldn't help but wonder – was the Alliance Atlantis merger simply a “me too” response to the merger mania sweeping across North American board rooms, was this just another product of those agile minds with not enough to do in the M & A departments on Bay Street?

No. Not at all. There is much more to it than that. Let me give you some background.

For many years Atlantis competed directly with Alliance in producing and distributing television programs worldwide and in launching specialty channels in Canada. Alliance was a world leader in television and feature film production and distribution responsible for television hits such as *E.N.G.* and *Due South* and for motion picture successes such as *The Sweet Hereafter*. Atlantis had also earned a leadership position on the international stage producing popular series such as *Traders*, *Cold Squad* and *The Outer Limits*. In addition, both companies had succeeded in the specialty channel business launching four channels: Showcase, Life Network, HGTV Canada and History Television.

The companies were similar in many respects. I had co-founded Atlantis in 1978 with, amongst others, my university friend and classmate Seaton McLean who sits with me at the head table today. Robert Lantos had founded Alliance and its predecessor companies with college friend Victor Loewy in the early 1970's. I am pleased that Victor is also at the head table today.

Both of our companies were entrepreneurial to the core, quite willing to take risks.

Early on we understood the need to be international and aggressively expand outside our home base. We established permanent offices in Europe and Los Angeles. Likewise, we understood the need to diversify into the specialty channel arena; launching our first channels – Showcase and Life Network – on the same day in 1995, and our second channels – History Television and HGTV Canada – on the same day in 1997.

Over the years, while we were growing our companies, the industry around the world was changing. And by the spring of 1998 it was very clear that we both needed to do something.

Our competitors had become huge entertainment titans – the likes of NewsCorp, Disney and Time Warner. They straddled the globe, they were fully vertically integrated and they flexed their muscles aggressively at every turn.

These giants had expanded into retailing, theme parks, merchandising, music, new media and publishing – all manner of methods to secure their grip on the hearts and minds and pocketbooks of consumers around the globe.

Indeed, these entertainment giants were also experiencing success in convincing governments to help them further their global conquest. Here in Canada, our Ontario, B.C. and federal governments all, amazingly, acquiesced to Hollywood lobbying pressure, so that in 1997 these governments established new grant programs to give tax credits to these foreign studios making non-Canadian content films and television shows here.

It was very clear to us that if we wanted to grow in this industry we too needed to gain the leverage and the international muscle that was simply essential in order to compete.

Now merged, the new Alliance Atlantis is far better positioned to compete in Canada and the US and around the world. Our pro forma annual revenues are now about \$700 million. Over half of that, about \$360 million, comes from international sales. Indeed on the television side of our business, our focus on international sales is particularly evident. Of the licence fee revenues which we receive (licence fees are the money that broadcasters pay us to rent our programs) we earn fully 89% of these licence fees from broadcasters outside of Canada and 11% from broadcasters in Canada. We are clearly an export driven company.

We are the largest motion picture producer, distributor in Canada representing hit motion pictures such as *The English Patient*, *Shine* and *Good Will Hunting*.

Subject to CRTC approval, the company will have four specialty channels under our control. We have over 500 employees in our offices in Toronto, Vancouver, Montreal, Los Angeles, London, Paris, Amsterdam, Shannon and Sydney.

However, even with all of this, we are still remarkably small by world standards. We are still barely a rounding error on Time Warner's balance sheet.

While our merger does mean that we have eliminated duplicated functions and jobs, we certainly did not embark on the merger with cost or job reductions as our purpose. Rather, we merged because we regarded a larger, consolidated company as the platform for further growth.

Our growth opportunities will expand partly because of the two primary agents of change which have provoked the remarkable international growth of our industry over the past 20 years. These agents of change are: new technology and the political shift towards privatization and deregulation.

VCRs, expanded cable penetration and, more recently, satellite dishes have meant new ways of delivering filmed entertainment to viewers. This in turn spawned an enormous increase in the number of television channels available to viewers around the globe.

The 1980s and 1990s have been marked by a shift in economic thinking throughout much of the world towards privatization and deregulation. This meant that private television channels were permitted in many countries for the first time, and that regulations governing broadcasting were liberalized elsewhere. This meant more channels.

More channels means more demand for our product. We believe that the methods of delivering entertainment and information will continue to diversify and evolve, especially with digital television, thus increasing the demand for the programs we supply.

New channels and new media applications will be enthusiastically embraced by viewers because people like to have choice.

This is very evident in the viewing statistics from this past year. For the 1997/98 broadcast season fully 30% of the total television viewing in both Canada and the US was the viewing of specialty channels. This is up markedly from the 10 to 15% levels of only a few years ago.

New channels have, for sure, increased the demand for our programs, but the new channels' impact is not so simple.

In fact, it was the advent of broad channel choice that sowed the seeds for our need to merge. Audience fragmentation changed the economics of television, and it's the reverberations from that which has driven and will continue to drive structural change throughout our industry. Now that's a pretty exotic claim, but let me tell you how I see the pieces connecting.

A key impact of this new broad choice of channels is that by definition fewer people are watching any particular channel. This is the necessary mathematical result of audience fragmentation. And that of course means that the economic value of any particular telecast or use of any program is less – less than it would have been in an era where there were only a handful of channels and where each telecast had a wide audience. Thus, it now takes longer to squeeze the juice – to extract the full economic value from a program. The value is being extended over more uses and more years. This means that owners of content need deeper pockets in order to be able to afford the wait as a program's economic returns are strung out in a sequential series of uses.

This is a significant matter, because the cost of producing competitive dramatic television is wildly high. It costs between \$1 and \$2 million to produce each and every hour of dramatic television.

Therefore, to recoup this high cost and make a profit requires multiple sales, far and wide, in many countries.

In light of this, it's become more urgent and necessary for content owners to make sure that they have international clout to ensure that they can reliably place their programming with the few major general interest broadcasters (the few who can afford meaningful licence fees) in each market, up front, in order to reduce their financial exposure and to shorten the time line and increase the certainty of a proper financial return.

This has led to a major battle for access to shelf space around the world. Senior television executives stay up late at night worrying about how they will gain structural assurances that they will have access to critical shelf space in main broadcast markets. There are many expressions of this effort to gain assured access.

That's why Disney bought ABC; that's why NewsCorp launched Fox Network. That's why earlier this year at Alliance Atlantis we struck a deal with a major European company Endemol where we can put to them, blind, three televisions series this year, four series next year and five series in the year 2000 all at pre-agreed upon prices.

Today a program needs to be creatively acceptable in most of the world. And the program maker needs secure access to shelf space – either by being a shareholder, having an overall “deal” with broadcasters or exerting other, special market muscle.

The first goal of our merger was to give us that market muscle.

So in this changing world, our merger wasn't the product of the over zealous M & A brains on Bay Street; rather, it was driven by the economic fallout of new technologies and deregulation.

All this talk about exporting and international alliances sounds very exciting but it's important that we keep in mind that television programs have more than a simple economic impact; they are cultural products.

Our business, which is really an art, and certainly not a science, is essentially about storytelling. The characters and stories and situations which we create are designed to attract and hold viewers' attention, to leave a lasting impression, to create memorable characters that stay alive in viewer's minds long after the television set is turned off. Television is an exceptionally powerful medium, in its ability to deliver a sense of excitement and immediacy to its viewers. So compelling in fact that North Americans spend over 20 hours a week on average watching television. By the time the average Canadian or American child turns 18 he or she has spent more time in front of the TV set than they have in a classroom.

My point in raising this here is that I very much hope that in our drive to be a successful leader in this exciting international industry that we are not actually creating a homogenized television landscape. I hope that in this race for success (success economically defined as something creatively acceptable in most countries) we are not in effect creating a world mono-culture which really means Hollywood culture for consumption everywhere.

Because, after all, the old adage is true – he who pays the piper calls the tune. To the extent we are overtly making television shows for other markets, to the extent we have pre-existing contractual obligations to make programs that are acceptable in those markets, only the very naïve would imagine that these programs would not experience creative compromises in order to satisfy a range of international buyers.

We know very well that in our increasingly borderless world it is popular culture and popular communications that articulate a people or a country.

Any modern country, including Canada, exists first and foremost in the hearts and minds of its citizens.

I believe that it is important to ensure that Canadians actually have a choice, and that our television menu includes Canadian selections from which to choose, and not merely those programs modified, adapted, or homogenized so as to be suitable to viewers from San Francisco to Frankfurt to Taipei. All Canadians, especially Canadian children, ought to be able to choose to watch television that reflects or connects with their world, as opposed to the reality of someplace else.

To ensure this choice is available to a population as small as ours, it has required, and will continue to require in the future, specific intervention as a matter of public policy.

Over the years, here in Canada we have done this through a remarkably effective system of incentives and rules, including the CRTC, the CBC and Telefilm Canada.

Just a glance at the strong ratings achieved by series like *Due South*, *This Hour Has 22 Minutes*, *Traders* or *Air Farce* shows the success of this approach. At the same time, we have not been parochial.

When it comes to television Canada is the most open nation on earth. Canadian viewers have a range of choice of foreign television channels and foreign television programs on our own domestic channels which far exceeds the foreign choice available in any other country.

Our Canadian industry has done well over the years and wisely; Canada has balanced being the most open country in the world on one hand with a strategy of investing in and supporting Canadian television on the other hand.

Contrary to the predications of nay sayers both past and present, this industry has indeed made enormous progress. Ratings successes, critical acclaim and growing broadcaster profits all attest to the effectiveness of this balanced approach.

At a recent CRTC hearing, the Canadian Association of Broadcasters pointed out that 15 years ago Canadians spent 32% of their television time watching Canadian programs. In 1997/98, that same 32% share was maintained. I believe this is an enormous achievement if one considers that in those intervening 15 years there was a major increase in the number of American channels (ranging from Fox Network to A & E to CNN) that were introduced to Canadian viewers, as well as new Canadian channels which were launched, most of which contained a significant quantity of American programs. It's very impressive that even though there are now many more books in the library so to speak, many more television choices from which to select, that even with this huge increase of programs available (mainly foreign), that Canadians still choose to watch Canadian programs 32% of the time. Obviously the quality, variety and value of the Canadian program choices has continued to grow.

Most other countries have local support mechanisms (such as the CBC or Telefilm) or similar regulatory bodies (such as the CRTC) even though they don't need them as much as we do because they don't share a geography and a language with the US. Even the US has rules designed to support its own indigenous television industry. In the US it's illegal for foreigners to own broadcast stations or networks.

Other countries don't apologise for their initiatives to support their own sense of identity. They just do it.

They know full well that television is a vital factor in a modern nation's healthy sense of self and they take the necessary steps to support it. They know that they want their citizens to be able to see themselves reflected on television. And they know that this means having the intestinal fortitude to acknowledge that natural "market forces" cannot be the be all and end all.

Here in Canada we need to retain our resolve that mass culture is an essential currency of national identity and is worth supporting, and for which we have no need to apologise.

For our part at Alliance Atlantis we look to the future with enormous excitement.

We expect to launch interactive, on-line versions of our current and future television networks including HGTV and History Television. We plan to launch a video-on-demand service that will let Canadians have their instant pick of thousands of motion picture and television titles at the flick of a switch. We are launching an art-house cinema chain under the Alliance Atlantis banner to enable our motion pictures to have even better access to Canadian cinema goers. We plan to launch and/or acquire more specialty channels and to turn Alliance Atlantis into a major broadcasting enterprise.

I do not doubt our ability to create growth and jobs – to deliver value to our customers, to create opportunities for our employees and to generate wealth for our shareholders but I certainly hope that as we do this we will be able to ensure that part of what we do reflects our Canadian roots and lets Canadians see themselves.

That is why I believe there is an ongoing, vital role for the CRTC, the CBC, Telefilm Canada and the other component parts of our Canadian Broadcasting System.

We should not listen to the nay sayers – those self-loathing cynics and defeatists who say that only Americans can make entertaining television and motion pictures and that we Canadians should just be content to sit back and watch. We should not listen to the nay sayers whose free market worship is so dogmatic that it fails to notice that there are some things in this world that are not the natural result of market forces.

Indeed, our country, Canada, is one. Canada is a construct of will; it is certainly not the inevitable evolution of the marketplace.

Do not for a moment confuse the success of Alliance Atlantis or the Canadian industry's growth on the international scene with the ongoing need and ongoing value of nurturing and strengthening our own Canadian broadcasting system.

At the end of the day, it will be Canadians' ability and freedom to tell our own stories, Canadians ability to share our own hopes, dreams and memories with each other, and our opportunity to see ourselves through our own eyes that will count. That will be what really, really matters.