CCAU Backgrounder

Advertising revenues of conventional broadcasters

Advertising revenues for conventional TV broadcasters in Canada will grow significantly over the next five years.

The Canadian Coalition of Audio-Visual Unions (CCAU) commissioned a report to study the forecasted advertising revenues of Canada's conventional broadcasters. This was in response to the Canadian Association of Broadcasters' (CAB) claim that the amount of money they can spend on original dramatic programming is severely limited because they face a downturn in advertising revenues.

Our report found that the English-language private conventional broadcasters will gain more than $200 million in additional advertising earnings from 2004-2008 – so they will be in a sound financial position to support increased expenditures on Canadian drama.

For the report, Nordicity Group Ltd. prepared five-year projections of private conventional broadcaster's advertising revenues, using estimates provided by PricewaterhouseCoopers in its *Global Entertainment & Media Outlook, 2004-2008* and incorporating data from the CRTC, Statistics Canada, and the Department of Finance.

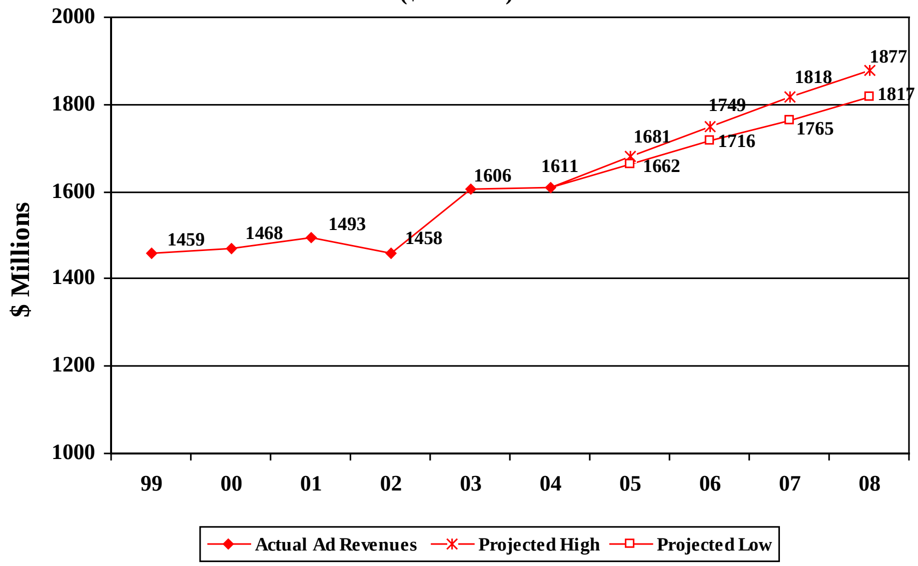
The Nordicity Group projections show that the English-language private conventional broadcasters' advertising revenues will increase by $210 million to $270 million between 2004 and 2008, rising from $1.61 billion in 2003-04 to $1.82-$1.88 billion in 2007-08. (The range reflects 'high' and 'low' scenarios based on different potential growth rates for the Canadian economy overall.)

Conventional broadcasters will benefit from a strong Canadian advertising market.

While the advertising revenues of pay and specialty channel advertising revenues are projected to grow more quickly, the private conventional broadcasters will continue to maintain healthy growth levels, thanks to a strong Canadian advertising market.

According to Nordicity projections, the Canadian advertising market will expand at a very healthy 5.3%annually. The private conventional broadcasters' advertising revenues are forecast to grow by 3.9%, while the pay and specialty segment is projected to grow more quickly, at 10.8% annually.

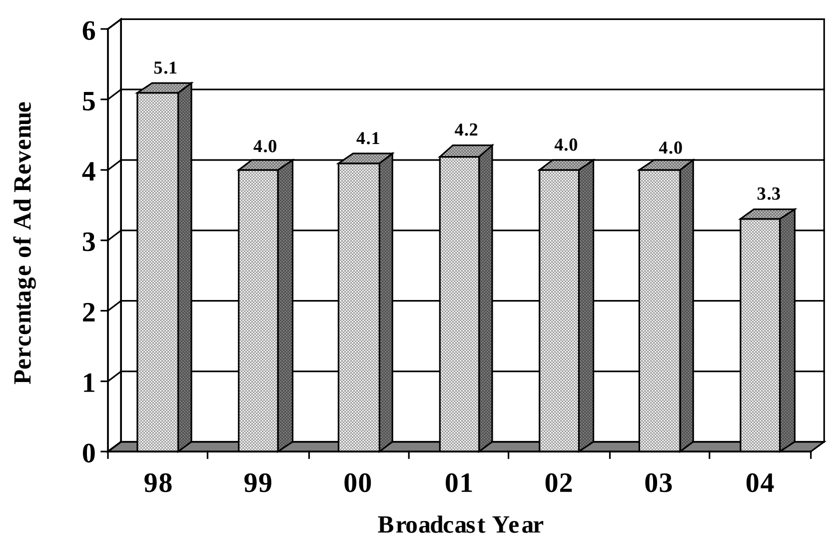
Chart 10
Actual and Projected Ad Revenues of Private English TV Stations in Canada ($ Millions)



Source: CRTC Statistics, Nordicity, PricewaterhouseCoopers

For more information, see section D of the full CCAU Report, *The Need for a Regulatory Safety Net*. The methodology used in the Nordicity Group Ltd. projections is outlined in Appendix 3 of the report.

Chart 3
Ratio of Expenditures on Canadian Drama of Private English TV Broadcasters to Total Advertising Revenue



Source: CRTC Statistics

For more information, see section C-1 of the full CCAU Report, *The Need for a Regulatory Safety Net*.

Fragmentation of audiences will not lead to a decline in advertising revenues for conventional broadcasters.

Despite the entry of numerous specialty and pay television channels since 1999, the audience share attracted by Canadian conventional broadcasters has stabilized at around 40% over the last four years (see Chart 9, p. 40). They will continue to be able to bring advertisers a sizeable general audience.

In addition, most specialty channels are owned by the conventional broadcasters, so the money is going into the same pot. For example, CTV owns The Comedy Network, CHUM owns Bravo, and Global owns Prime.

New "borderless" technologies such as satellites and the Internet are not leading to a decline in ad revenues for conventional television.

Neither the advent of direct broadcast satellites nor the introduction of high-speed Internet access has eroded the strength of the Canadian broadcast sector. New technologies such as webcasting are having only a marginal affect on viewing habits, even though Canada has high Internet and broadband penetration rates by household. Despite the introduction of satellites and the Internet over the past decade, the audience share attracted by conventional, pay and specialty television broadcasters has increased rather than decreased. The number of households with grey or black market U.S. DTH satellite services is actually decreasing.

For more details, see the CCAU Report *The Need for a Regulatory Safety Net*, June 13, 2005