



New Directions for the Financing of Interactive Digital Media in Canada

Prepared for

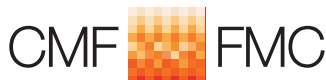


canadian interactive alliance
alliance interactive canadienne
www.ciaic.ca

Submitted by

Maria De Rosa
Marilyn Burgess
Communications MDR
www.communicationsmdr.com

Produced with the assistance of



Canada



Canadian
Heritage

Patrimoine
canadien



Acknowledgements

The consultants wish to thank the Ontario Media Development Corporation, the Canada Media Fund, the Bell Broadcast and New Media Fund, the Department of Canadian Heritage, the Canadian Media Producers Association and the National Film Board of Canada for their financial participation in this study.

In addition to our funders, we also wish to thank the representatives of the interactive digital media and financial industries for so generously taking the time to share their valuable insights with us. Their perspectives have greatly enriched this report.

Funding for this study was provided in part by Ontario Media Development Corporation. Any opinions, findings, conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of Ontario Media Development Corporation or the Government of Ontario. The Government of Ontario and its agencies are in no way bound by the recommendations contained in this document.

Table of Contents

ACKNOWLEDGEMENTS	2
TABLE OF CONTENTS	3
EXECUTIVE SUMMARY	4
GLOSSARY OF TERMS.....	7
INTRODUCTION	10
I. OVERVIEW OF CURRENT FINANCING IN CANADA AND IN SELECTED INTERNATIONAL JURISDICTIONS FOR INTERACTIVE DIGITAL MEDIA.....	13
II. PERSPECTIVES ON FINANCING NEEDS AND CHALLENGES	27
III. PROFILES OF BUSINESS AND FINANCING STRATEGIES OF SELECTED CANADIAN COMPANIES.....	40
IV. KEY SUMMARY FINDINGS	46
ANNEX 1: BIBLIOGRAPHY	50
ANNEX 2: LIST OF STAKEHOLDERS INTERVIEWED AND INTERVIEW GUIDES.....	55
ANNEX 3: FINANCING OF INTERACTIVE DIGITAL MEDIA IN SELECTED COUNTRIES ...	58
ANNEX 4: PROFILES OF BUSINESS AND FINANCING STRATEGIES OF TEN CANADIAN INTERACTIVE DIGITAL MEDIA COMPANIES.....	68
ANNEX 5: BUSINESS AND REVENUE MODELS.....	79
ANNEX 6: OVERVIEW OF FINANCING SUPPORT FOR INTERACTIVE DIGITAL MEDIA COMPANIES IN CANADA	83
ANNEX 7: ABOUT THE CONSULTANTS	84

Executive Summary

In recent years, a number of studies have pointed out that Canadian companies excel in creative and technological development but have been hampered by an inability to capitalize. Firms that create digital media products and services have been challenged to get access to the financial tools they require to grow. Within this context, a study to examine the state of financing of the Canadian interactive digital media sector was identified as being particularly timely.

The findings reported in this study are based on a review of Canadian and international literature on the financing challenges facing interactive digital media companies and 36 in-depth interviews with a range of stakeholders, which included Canadian companies, private equity investors, banks, agents, publishers and government funders and industry.

The goals of this study were:

- to undertake a review of the state of financing of the Canadian interactive digital media in Canada with a particular focus on Ontario;
- to assess the effectiveness of financial mechanisms supporting the sector particularly private sector mechanisms; and
- to identify potential new financial vehicles of interest to the Ontario Media Development Corporation (OMDC), the Canada Media Fund (CMF) and other funders of interactive digital media.

Findings

The common factors in business strategies adopted by successful businesses profiled in this study are: a strong business focus, experience and relationships; the exploitation of their own IP; highly innovative productions that garner critical recognition; an orientation towards international markets and the development of multiple revenue streams.

In spite of these sound business principles, access to financing is identified as a challenge for the interactive digital media sector. This challenge has been identified in a number of reports published by industry and government and through the interviews conducted for this study, in particular with respect to accessing venture capital for seed and early stage growth. With few hard assets and few Canadian banks actively lending to the interactive digital media sector, companies also face challenges in securing loans for operating cash flow. These findings are significant in that the dominance of small-and-medium sized companies in this sector, achieving revenues of less than \$1 million annually, points to a generalised need for early stage investment capital and financing of operating cash flows.

Public financial support is being offered through an array of national and provincial measures, which have encouraged the development of industry clusters in four provinces: British Columbia, Manitoba, Ontario and Quebec. Public support extends to project financing, tax credits and loan guarantees and in some provinces, investments in venture capital firms.

There are challenges with the turn-around times on provincial tax credits, affecting cash flows and with accessing banks loans, as loan guarantees are available primarily to com-

panies with high export potential. Venture capital (VC) investments are contributing to the creation of large VC funds with a focus on interactive digital media companies. Overall, however, few VCs invest in this sector and the financing available through VCs is significantly less than was available a decade ago.

Public financing measures available to Canadian interactive digital media companies compare favourably with other jurisdictions, and reportedly provide a competitive advantage to Canadian companies seeking additional financing in the international market. The competitive advantage afforded by Canada's federal and provincial tax credits may be eroded as new tax credits are introduced in foreign markets seeking to lure inward investment. As well, Canada could learn from European initiatives to extend debt financing to small companies through a system of "micro credits," small loans of up to €25,000 (\$32,400 CAD) in the cultural sector, which are considered to be effective.

European and the United Kingdom governments are playing an increasing role in creating an attractive environment for venture and angel investment. Public investments in venture capital are showing a trend towards third-party managed funds to better align with the market, while tax credit schemes are aimed at encouraging investment by individual investors. Investment readiness programs designed to empower companies to effectively pitch their ideas to VCs and angels are being encouraged by governments and the private sector. In this regard, Canadian governments will need to increasingly recognize the important role of private equity in helping finance and provide direction to young interactive digital media companies to keep pace with other international jurisdictions.

Canada has a demonstrated value proposition for investors in the interactive digital media due to its highly skilled and talented workforce, its attractive tax credits and lower overhead costs as compared to many other countries. These factors have helped to attract large multinationals to the country and provided a global showcase for our impressive pool of talent. The future growth and economic contribution that the sector can make in Canada relies on a supportive business environment assuring access to the right forms of financing at the different stages of corporate growth.

It is clear that the federal government and provincial governments have put in place financial instruments that are seen to be effective by Canadian companies in this sector, particularly tax incentives. At the same time, our study finds potential gaps in the financing landscape for the growth and development of interactive digital media sectors.

Our interviews as well as a review of the literature revealed a number of common themes as to the gaps in the current financing landscape. Currently lacking in the landscape is early stage financing for companies, and capital overall. While the Canadian companies interviewed express the viewpoint that investor expertise as is available in the United States would also benefit Canada, private equity investors note that what is missing is a virtuous circle of investment in Canada and investor readiness on the part of companies.

A virtuous circle is a self-perpetuating system of creative companies, experienced investors with managerial skills and strong local, national and international networks that expand the opportunities available to companies, and provide follow-on investment capital for the best companies. VCs and angel investors are crucial players in the virtuous circle of capital financing, sharing wealth and talent with new start-up companies. VC-backed companies are reported to grow more quickly than the overall economy and provide additional benefits: generating wealth and talent, which are reinvested in the next generation of start-ups; creating serial entrepreneurs; and allowing investments by business angels, who provide a source of experienced management talent.

Financial investors interviewed for this study referred to the need for Canadian policy makers to consider potential gaps in the virtuous circle of private investment. Our study finds that federal and provincial governments consider a review of the instruments in place to foster a stronger investment environment. For example, one of the gaps identified in this report by Canadian companies is the need for greater support for early stage financing. In addition, our review of the literature and interviews with stakeholders indicates a need for greater investment from the Canadian VC sector in interactive digital media companies.

In Canada, the angel investor community is reportedly becoming more structured and organized. Angel investor networks exist across the country today. These developments are positive for Canadian companies. However, there is an opportunity for associations representing the interactive digital media sector to encourage greater awareness of the industry and investment.

It is clear from our study that Canada has a large community of talented people working in the interactive digital media sector. One of the challenges identified from the perspective of investors is the need to increase the investor readiness of companies. Companies themselves expressed this need by pointing out that they could benefit from access to investor expertise.

Our study also finds that there is a need to foster the exploration of new business models by public support programs aimed at convergent media. Canadian companies working in the convergent media space are not able to seize new business opportunities because of the current funding criteria of the CMF (*Convergent Stream*) and the Bell Broadcast and New Media Fund (Bell Fund). In particular, broadcasters are a required trigger for access to both programs. Opportunities for new sources of revenues online have emerged and will continue as content moves from a product model to a services model, which cannot be exploited under some existing policies.

One of the ways that new business models could be encouraged is for the CMF and the Bell Fund to consider broadening the potential eligible market triggers for their respective programs. The CMF and the Bell Fund could also explore ways to encourage greater marketing and online exploitation support for companies.¹ Finally, the CMF may also consider reviewing its current criteria for innovation in its analysis of projects in the *Experimental Stream* with a view to aligning the objectives of the Fund to foster greater private investment.

¹ Since the time of writing this report, the CMF has introduced measures to offset the costs incurred by producers in the live exploitation of digital projects, through its *Experimental Stream* of funding.

Glossary of Terms

Acquisition: The establishment of control in one business entity by another, often with the assistance of private equity. Third party acquisition is a common Exit Mechanism for private equity funds.

Angel Investor: A wealthy individual who invests in companies in early stages of development. Angels invest personal, after-tax assets in exchange for equity in a start-up company (pre-revenue or in the early stages of revenue generation).

Co-investment: Two or more investors in a given transaction. Also known as syndication. The average rate of co-investment is the total number of investments made in the total number of deals in a given period.

Debt Financing: Can be loans provided by banks for working capital or major purchases and loan guarantees, which may refer to programs through which governments assume a private debt obligation if the borrower defaults. Most loan guarantee programs are established to correct perceived market failures by which small borrowers, regardless of creditworthiness, lack access to the credit resources available to large borrowers.

Dilution: The reduction in the ownership percentage of current investors, founders and employees caused by the issuance of new shares to new investors.

Early Stage Financing: Capital provided to a young or emerging company to facilitate its growth and development, as illustrated in Seed Financing and Start-up Financing.

Exit: The means by which owners and investors generate profits from their investments in a business. Typically, the options to “exit” from a VC investment are to merge the company with another company, have it acquired or make an initial public offering (IPO).

Expansion Financing: Capital provided to a company to facilitate its growth and development objectives.

Financings and Investments: Each transaction involving a private equity fund or funds in a given portfolio company represents one round of financing. Each financing is made up of one or more investments, depending on the presence of co-investors. Financings are also known as deals.

Follow-on Financing: A supplementary round of financing in an existing Portfolio Company that builds on its original financing, generally in line with business growth and development. Venture-backed firms are often engaged in multiple follow-on deals.

Fund: The pool of capital established for the purposes of private equity activity. Often a Management Company will be responsible for several funds that may vary according to mandate or investment period.

Fundraising: The activity whereby a private equity fund seeks to raise new Capital Commitments from external sources of supply. In Canada, the most active fundraisers are Labour-Sponsored Venture Capital Corporation (SVCCs) and Private-Independent Funds.

Government Fund: A government-owned private equity fund, usually organized through a federal or provincial agency or crown corporation.

Initial Public Offering (IPO): The sale or distribution of the privately held stock of a Portfolio Company on public markets for the first time. This is a common Exit Mechanism for private equity funds, especially venture capital funds.

Investor Types: The key players in the private equity industry, based on particular fund structures and sources of capital supply. In the United States, private equity is dominated by Private-Independent Funds, while Canadian activity is diversified across several major groups. They include the following:

- Corporate funds: Subsidiaries of financial or industrial corporations;
- Government funds: Agencies or crown corporations owned by government;
- Institutional investors: Funds managed inside certain large institutions;
- Retail Funds: Funds (e.g., LSVCCs, PVCCs) established with benefit of government tax credits to individuals;
- Private-Independent Funds: Funds structured on Limited Partnerships and related vehicles;
- Foreign investors: Non-resident private equity funds or corporations active in Canada;
- Other investors: Investors with an interest in specific private equity deals, but without a permanent market presence.

Labour-Sponsored Venture Capital Corporation (LSVCC): A professionally managed private equity fund that raises capital on a retail basis from individual Canadians, with the assistance of federal and provincial government tax credits. LSVCCs operate according to some legislative specifications in most Canadian jurisdictions.

Seed capital: Money provided by angel investors, friends and family to the founders of a start-up at its initial stage of development.

Mezzanine Capital: A specialized form of private equity, characterized chiefly by use of subordinated debt, or preferred stock with an equity kicker, to invest largely in the same realm of companies and deals as buyout funds

Private Equity: The generic term for the private market reflecting all forms of equity or quasi-equity investment. In a mature private equity universe, there are generally three distinct market segments: Buyout Capital, Mezzanine Capital and Venture Capital.

Seed Financing: Capital provided to facilitate commercialization of new product concepts, often from laboratories, research centres or entrepreneurs. If successful, a seed financing may result in a start-up.

Size of Financings: Transactions defined according to their respective sizes. In the venture capital realm, there are four categories of deal sizes.

- Very small deals: Less than \$500,000;
- Small deals: Less than \$1 million;
- Mid-sized deals: Between \$1 million and \$5 million;

- Large deals: Greater than \$5 million.

Specialized Fund: A private equity fund strategy whereby the focus is on specific investment targets (e.g., sectors, stages of development), as distinct from a Balanced Fund, whereby a wide range of investment targets is pursued.

Stages of Development: Critical points on the growth continuum for firms assisted by venture capital and other types of private equity. Typically, a venture-backed company receives cumulative rounds of financing to facilitate its progression from one stage of development to the next.

Early Stages of Development:

- Seed stage: A developing business entity that has not yet established commercial operations and needs financing for research and product development.
- Start-up: A business in the earliest phase of established operations and needs capital for product development, initial marketing and other goals.
- Other early stage: A firm that has begun initial marketing and related development and needs financing to achieve full commercial production and sales.

Late Stages of Development:

- Expansion: An established or near-established company that needs capital to expand its productive capacity, marketing and sales.
- Acquisition/Buyout: An established or near-established firm that needs financing to acquire all or a portion of another business entity for growth purposes, such as an acquisition for expansion financing.

Venture Capital: A specialized form of private equity, characterized chiefly by high-risk investment in new or young companies following a growth path in technology and other value-added sectors.

Sources:

Canadian Venture Capital and Private Equity Association website:
<http://www.cvca.ca/resources/glossary.aspx>;

National Angel Capital Organization website:
http://www.angelinvestor.ca/Our_Community.asp

Riding, Alan L. "On the Care and Nurture of Loan Guarantee Programs." Financing Growth in Canada. Paul J. N. Halpern, ed. University of Calgary Press, 1997, cited in Wikipedia:
http://en.wikipedia.org/wiki/Loan_guarantee

Venture Capital Industry Review, Business Development Bank of Canada, February 2011

"We must recognize that digital media, and especially interactive digital media, depends on the unique synthesis of Innovation, Creativity and Enterprise (ICE). We must be cognizant of the silos that have been created around the creative, technological and business skill sets, and seeks to create new opportunities to explore the value that can be created at their convergence."

- Canadian Interactive Alliance, Submission to the Consultation on the National Digital Strategy, 2010

Introduction

1. Preamble

According to the most recent profile of the interactive digital media sector in 2008, there were 2,960 digital media companies in Canada employing approximately 52,000 people and generating \$3.8 billion in revenues.² Canada is increasingly being recognized for its award-winning and fast growing companies and for being home to the world's largest video game studios. One sub-sector of the interactive digital media sector, the game sub-sector, is ranked third behind the U.S. and Japan with nearly \$2 billion in economic activity.³

For the purposes of this study, the consultants were guided by a definition of interactive digital media as found in the *2008 Canadian Interactive Industry Profile* which defines companies as the entities creating the end-user experience (creators) and those designing the applications allowing for the creation or distribution of the content and environments to the user (enablers).⁴ This definition includes companies in the areas of game design and development, cross-platform entertainment, interactive training, social media and mobile products and services.

In recent years, a number of studies have pointed out that Canadian companies excel in creative and technological development but have been hampered by an inability to capitalize. Firms that create digital media products and services have been challenged to get access to the financial tools they require to grow.

Within this context, a study to examine the state of financing of the Canadian Interactive digital media sector was identified as being particularly timely by the Canadian Interactive Alliance/Alliance Interactive Canadienne (CIAIC). With funding support by the OMDC, the CMF, the Department of Canadian Heritage (DCH), the Bell Fund, the National Film Board (NFB) and the Canadian Media Production Association (CMPA), the CIAIC engaged Communications MDR to undertake a study on the financing of interactive digital media.

The following report presents the results of the study.

² *2008 Canadian Interactive Industry Profile*, Canadian Interactive Alliance, February 2009, page 8.

³ *Canada's Entertainment Software Industry in 2011*, Entertainment Software Association of Canada, May 30, 2011, page 12.

⁴ *2008 Canadian Interactive Industry Profile*, Op. Cit, page 6.

2. Goals of this Study

The objectives of the study are threefold:

- to undertake a review of the state of financing of the Canadian interactive digital media in Canada with a particular focus on Ontario;
- to assess the effectiveness of financial mechanisms supporting the sector particularly private sector mechanisms; and
- to identify potential new financial vehicles of interest to the OMDC, the CMF and other funders of interactive digital media.

3. Approach and Methodology

The approach and methodology adopted was three-pronged:

1) A literature review of Canadian and international sources.

The consultants reviewed literature on the financing challenges facing interactive digital media companies. This review allowed the consultants to develop a portrait of the state of financing of interactive digital media in Canada and examine associated issues and challenges. This was complemented by a literature review on a selected number of jurisdictions that could provide a point of comparison with Canada and for which information was available. Jurisdictions included the United Kingdom, France, Scandinavian countries (Norway, Sweden, Denmark and Finland), Australia, South Korea and Singapore. These jurisdictions are identified in the literature as having developed policies to support the interactive digital media sector and where research exists on the state of financing. Annex 1 contains a selected bibliography and Annex 3 contains an overview of the international review.

2) Informant Interviews with a Range of Stakeholders

Primary research was conducted through in-depth interviews with 36 stakeholders (both Canadian and foreign) involved in the financing of interactive digital media. These included Canadian companies, private equity investors, banks, agents, publishers and government funders and industry. Annex 2 contains a list of those interviewed.

3) Profiles of Canadian Companies

In order to understand the breadth of business models being employed by companies in Canada, the consultants profiled the business models, use of financial instruments and the strategies for growth of ten Canadian companies. The lessons learned are offered for the benefit of financiers, funders and other Canadian companies. The companies selected represent the various sectors active in the digital media space including console and digital games, social and mobile content developers, convergent media and technology platform developers. Six of the ten companies profiled are based in Ontario, and two are French-language companies.

4. Report Structure

This report is divided into four sections:

- Section I describes the financing support measures available to the interactive digital media sector in Canada including general observations about financing in international jurisdictions;
- Section II describes the financing environment from the perspectives of the companies that are accessing financing and the stakeholders involved in the financing of the sector;
- Section III profiles ten Canadian companies in the interactive digital media sector describing their business models, access to financing tools and their general business strategies with the goal of identifying lessons learned for the benefit of the sector; and
- Section IV summarizes the key findings of the study for consideration by funders in Canada.

“Private equity investment, at its core, is all about good business.”

- The British Private Equity Venture and Capital Association, *Evolving Views of Sustainability in Private Equity and Venture Capital*, London

I. Overview of Current Financing in Canada and in Selected International Jurisdictions for Interactive Digital Media

1. Preamble

In this section, we provide an overview of the current financing in Canada for interactive digital media beginning with the financing challenges identified in the literature and then moving to an overview of the financing tools that are presently available in different degrees to Canadian companies. When Canada is generally compared to selected international jurisdictions, we note some similarities and some differences in terms of the availability and effectiveness of financial measures.

We conclude this section with a summary analysis on the financing available for interactive digital media in Canada. Detailed information on the national and provincial public support measures discussed in this section can be found in Annex 6.

This section sets the stage for the following sections, in which we provide an analysis of the effectiveness of financing instruments for the interactive digital media industry as seen from the perspective of the stakeholders interviewed and an examination of the literature.

2. Overview of Financing in Canada for Interactive Digital Media

2.1 Financing Challenges of Canadian Companies in the Interactive Digital Media Sector

The funding needs of Canadian companies in the interactive digital media sector depend on a series of parameters including: the unique characteristics of the sector; the development stage reached by the company, the business strategy adopted by the company; and the location of the company as the availability of financing differs from one province to another.

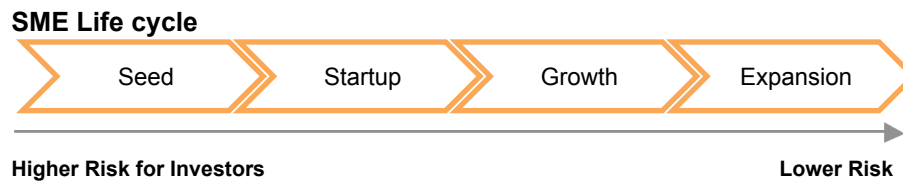
Approximately three-quarters of the 2,960 digital media companies in Canada are identified as small and medium-sized. Twenty percent of these companies are large and 3% are very large.⁵ Of the more than 50% of companies that are small, they report annual revenues of less than \$250,000 and an average of four full-time equivalent employees. Slightly less than one-third of companies are medium-sized generating revenues of between \$250,000 and \$1 million and employing an average of 11 full-time equivalents.⁶

The dominance of small-and-medium sized companies in this sector point to very specific financing needs. As shown in Figure 1 below, generally the lifecycle of small- and medium-sized companies moves from a need for seed financing to start-up financing, growth and full expansion.

⁵ *Canadian Interactive Industry Profile*, Canadian Interactive Alliance, February 2009, page 8.

⁶ *Canadian Interactive Industry Profile*, Op. Cit., page 25.

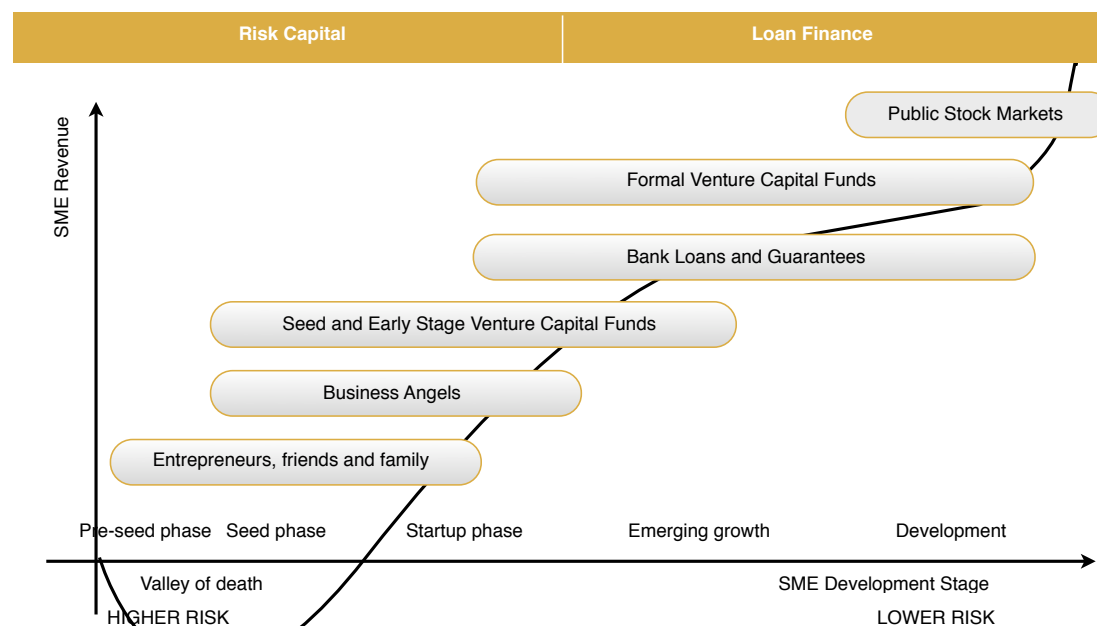
Figure 1: SME Life Cycle



Each stage in the life cycle of a business presents different risks and opportunities and requires specific and adequate funding sources. At an early development stage, businesses (mainly start-ups) traditionally suffer from a lack of financial support. They generally require cash flow to finance the development of the initial concept and the human resources required. Typically, at this stage, self-finance (personal savings or family resources) is usually the only resource available to an entrepreneur. Formal sources of seed and early-stage financing or even business angels willing to invest in high-risk and potentially highly profitable projects may also fill the financial gap.

When a company enters an expansion stage and becomes medium-sized or a larger firm, other sources of finance such as VC or bank loans may become available. This could help develop new infrastructure, or the acquisition of new skills. The more the company is able to assess its potential risks and results, the more likely it is to benefit from external funding sources, for instance provided by formal investment capital. Generally, banks lend money more readily to established businesses able to offer tangible guarantees.

Figure 2 below illustrates the various instruments that companies access depending on their financing needs at different stages of growth.

Figure 2: Progression of financing needs of growing companies⁷

⁷ Source: *Enterprise and Industry*, European Commission, http://ec.europa.eu/enterprise/policies/finance/financing-environment/index_en.htm.

In the context of the Canadian interactive digital sector, a number of reports have identified the challenges with respect to access to financing. In the CIAIC's submission to the federal government's National Digital Economy Strategy, it was noted that "firms that create digital media products and services are not able to access the financial tools they require to grow, often resulting in a premature relocation to clusters where the appropriate form of capital is more available. Silicon Valley and the San Francisco Bay Area have continued to grow on the virtuous cycle of access to start-up capital, and new educated investors are created with each successful exit of the owners and senior managers of those ventures."⁸

The federal government has recognized the importance of access to venture capital for information communication technologies (ICT): "Venture capital is crucial to the ability of promising ICT companies to innovate, commercialize technologies and fulfill their growth potential." However, from a peak of \$3.7 billion in 2000 when the dot-com bubble burst, VC investment volumes in Canada declined to just \$1.1 billion in 2010, hovering at this level for three years. Canadian VC investments tend to cluster at earlier stages, that is small start-ups, with \$250,000 to \$500,000 investments – and exit much earlier in the cycle.⁹

These early stage VC pools have in the past been perceived as being too small, with early stage firms undercapitalized with respect to their competitors.¹⁰ Furthermore, a recent study conducted for the Entertainment Software Association of Canada pointed out that venture capital has by and large refrained from investing significantly in Canadian interactive digital media companies.¹¹

The interactive digital media sector also faces a challenge in that "banks are generally risk-averse, and game companies by their nature have relatively few hard assets to pledge as collateral for project loans (computers depreciate rapidly, and most of a firm's other assets are its people)."¹²

Against this general backdrop, what follows is a discussion of the types of financing instruments that are in different measures available to Canadian interactive digital media companies.

2.2 A Wide Range of Sources of Finance for the Interactive Digital Media Sector

Figure 3 below presents a picture of the types of funding available for the interactive digital media sector. As the Figure illustrates, there are a range of financing instruments available from both public and private sources.

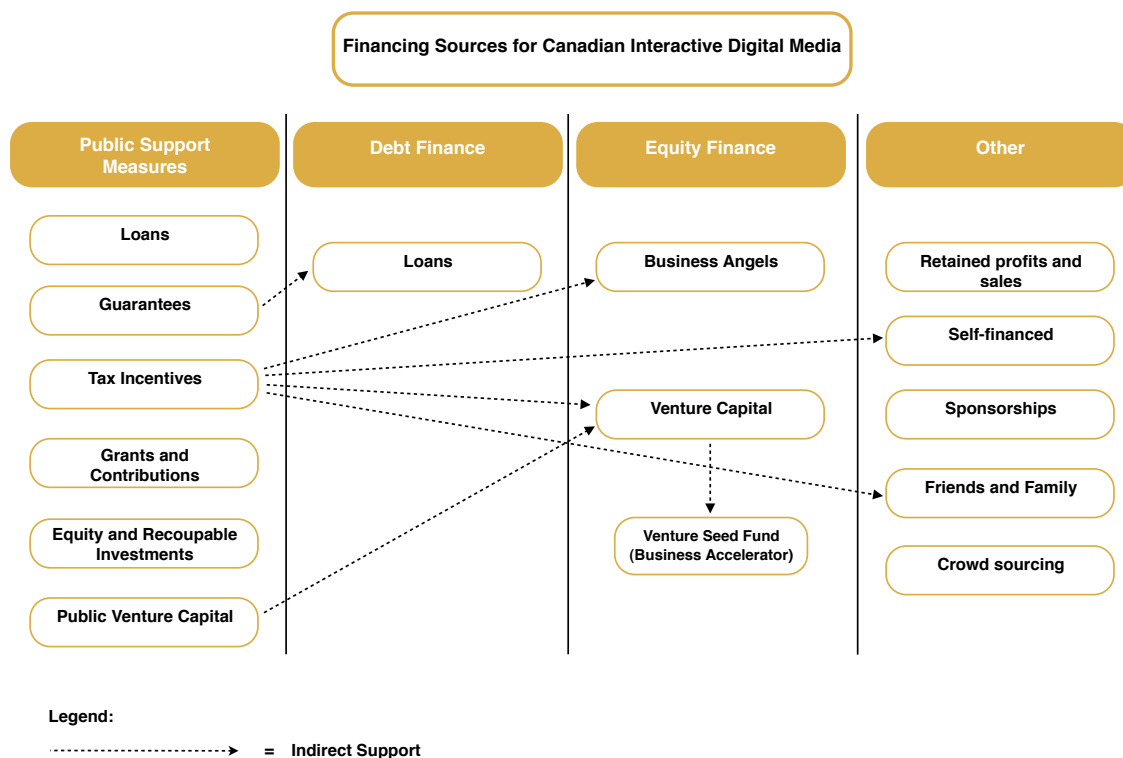
⁸ *Canada's Digital Future*, Submission to the Canadian Digital Economy Consultation by the Canadian Interactive Alliance, July 13, 2010, page 7.

⁹ Gilles Duruflé, *The Drivers of Canadian Private Equity Performance*, CVCA Annual Conference, 2007.

¹⁰ *Growing the Businesses of Tomorrow: Challenges and Prospects of Early-Stage Venture Capital Investment in Canada*, MacDonald & Associates Limited, 2005.

¹¹ *Canada's Entertainment Software Industry in 2011*, Op. Cit, page 26.

¹² Ibid

Figure 3: Financing Sources for Digital Media Companies¹³

The full range of public support measures from national and provincial sources includes loans, guarantees, tax incentives, grants and contributions, equity and recoupable investments and public venture capital.

Private sources of financing include debt financing in the form of loans, equity financing from business angels, and venture capital funds including seed funds. Other sources of financing include investments made internally by companies and their owners, friends and family, sponsorship and the public at large through crowd sourcing vehicles on line.

As shown in Figure 3, public support measures provide indirect support in the following ways:

- Guarantees, for example as provided by the Export Development Bank of Canada (EDC), facilitate loans to companies by commercial banks;
- Tax incentives (available in some provinces) aimed at individual investors, which are being used by business angels and friends and family;
- Corporate tax incentives also exist and are being used by digital media companies as well as investors such as venture capitalists;

In terms of venture capital firms, they have created business accelerator programs that provide seed funding to very early stage companies. Annex 6 contains a more detailed description of the current public financing support available to digital media companies in Canada.

¹³ Adapted from KEA European Affairs, 2010.

2.3 Overview of Public Sources of Financing

2.3.1 National Public Support Measures

At the national level, financial support is being provided via direct grants, tax credits and loan guarantees.

There is significant support for digital media that is associated with an existing media property (namely television). Currently, the CMF (through its *Convergent Stream*), the Bell Fund, the Fonds Quebecor, and the Shaw Rocket Fund provide support for this component. Project financing is being provided in the form of grants, repayable contributions and equity investments.

Through its *Experimental Stream*, the CMF also provides financing to innovative interactive digital media content and software applications. These projects cannot be associated with television broadcasting. Financing through this component includes repayable advances, recoupable investments and repayable investments. The assistance provided through these programs is enabling companies to develop innovative new products and in some cases is providing early stage financing.

The *Industrial Research Assistance Program (IRAP)* provides support in the form of repayable contributions to digital media projects to develop underlying technologies. Similarly, the *Atlantic Innovation Fund* supports research and development linked to the development and commercialization of technology based products and services by companies based in Atlantic Canada.

The *Scientific Research and Experimental Development (SR&ED)* program provides tax credits on research and development expenses to eligible interactive digital media companies. On October 17, 2011, a government task force mandated to review the SR&ED delivered its report to the government. The report, *Innovation Canada: A Call to Action* makes recommendations on improvements to the financing of innovation.¹⁴

In addition to project support and tax credits, Export Development Canada provides credit assistance to help Canadian companies expand into international markets, in partnership with private financial institutions. Support is being provided in the form of loan guarantees to companies with high export potential.

2.3.2 Provincial Public Support Measures

Canada's ten provinces and three territories provide a wide range of financing options to Canadian interactive digital media companies. The types of financing support by province and territory is shown in Figure 4 on the following page.

Direct grants offered by the provincial and territorial governments include grants for product development, market development and commercialisation. Ontario has the most developed system of granting programs for all aspects of production and market development. British Columbia, Alberta and Manitoba offer targeted project grants directed at the production of interactive digital media products, while New Brunswick and Nova Scotia provide grants to allow companies to acquire advanced technical equipment. In Canada's north, the Yukon,

¹⁴ *Innovation Canada: A Call to Action, Review of Federal Support to Research and Development – Expert Panel Report*, Government of Canada, 2011.

Northwest Territories and Nunavut offer support to companies to develop markets. Ontario and the Northwest Territories offer support to sector-building initiatives. The value of project grants varies greatly. These support development, marketing and market development.

All ten provinces and the Yukon offer tax credits. Seven provinces provide tax credits specifically related to interactive digital media production. Research and development is supported in all Canadian provinces as well as the Yukon through refundable tax credits aligned to the federal *SR&ED* program. Alberta provides vouchers to SME companies for technology development activities. British Columbia, Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, and Yukon Territory provide tax incentives to individuals investing in Canadian companies. One study notes the strong impact such a tax credit has had on attracting greater involvement of tech-savvy business angels into the British Columbia financing environment.¹⁵ British Columbia introduced tax credits for interactive digital media companies in 2010.

Figure 4: Financing Available by Province and Territories

	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL	NU	NT	YT
Loans and loan guarantees						•							
Digital media tax incentives	•			•	•	•	•	•	•				
R&D tax incentives	•	•	•	•	•	•	•	•	•				•
Investor tax incentives	•	•		•			•			•			•
Equity and re-coupable investments (inward investment)										•			
Grants and contributions (projects)	•	•		•	•		•	•			•	•	•
Grants and contributions (industry development)					•							•	
Public venture capital		•			•	•							
Investments in 3 rd party managed VC fund	•	•			•	•							

Quebec has lured large multinational game studios with attractive tax incentives to provide jobs for its highly creative workforce. A study commissioned by the National Endowment for Science and Technology (NESTA) in the United Kingdom notes the significant effect that Quebec's massive injection of funding through tax credits has had on the growth of the local

¹⁵ *Government Involvement in the Venture Capital Industry – International Comparisons*, Canadian Venture Capital Association, May 2010, page 16.

industry.¹⁶ The study states that these tax credits have not addressed the challenge of generating original games owned by Canadian companies.

Exceptionally, the Province of Quebec provides loans and loan guarantees to Quebec-based interactive digital media companies, and provides loans to interim finance research and development (R&D) tax credits. For its part, the Province of Newfoundland and Labrador provides financing options for business ventures and infrastructure for the purpose of attracting business to the province.

The combination of these tools and the unique environment in each province has contributed to the growth of the interactive digital media industry. Ontario is known internationally as one of the hottest indie developer scenes, aided by tax credits and an array of project financing enabling companies to seize emerging market opportunities in digital and mobile games. The province has also provided strategic support to its home grown triple A console game studios and business incubators to encourage the development of regional clusters.

A new cluster is emerging in Manitoba, which experienced 850% growth between 2007 and 2010, aided by tax incentives and project financing through the Interactive Digital Media Fund, which ran from 2007 to 2010. Western Economic Diversification is now providing major funding to the province's industry to support the development of a digital strategy. It is also hoped that the new \$30 million sector agnostic Commercialisation Support for Business program will continue to sustain growth of the interactive digital media sector.

Four provincial governments are making VC investments in interactive digital media companies, either directly or through third-party managed funds. Two provinces have created venture capital funds with a mandate to invest in digital media companies. These are the Fonds d'investissements de la culture et des communications in Quebec, and the Ontario Emerging Technologies Fund, which aims to match investments by business angels and venture capital firms in Ontario-based digital media companies. A third VC firm, AVAC Ltd., created by the Government of Alberta with the federal government, is an innovation investor with investments in at least one digital media company.

Alberta, Ontario, Quebec and British Columbia hold large investments in third-party managed VC funds that are in turn investing in interactive digital media. Through its BC Renaissance Fund, British Columbia is invested in VanEdge Capital. Alberta is invested in iNovia Capital through the provincial VC fund, Alberta Enterprise. The Ontario Venture Capital Fund is invested in the BlackBerry Partners Fund, while Investissement Quebec is invested in Teralys, a technology-oriented VC, which in turn is invested in iNovia Capital. VanEdge Capital, iNovia Capital and the BlackBerry Partners Fund are specialist VCs with mandates to invest in strategic sectors including digital media and information communication technology.

2.4 Private Sources of Financing

Private sources of financing include debt financing in the form of loans and equity financing, which include venture capital for companies with high-growth potential and investments by business angels. At the seed stage, companies are drawing on friends, family and personal savings to bootstrap new ventures, and re-inject corporate profits to sustain operations. Some projects are experimenting with crowd funding strategies, while others are attracting sponsorships, particularly in the convergent media space.

¹⁶ *Raise the Game: The competitiveness of the UK's games development sector and the impact of governmental support in other countries*, NESTA, December 2008, pp. 34-35

Banks provide secured loans in exchange for low rates of return. As low-risk lenders, banks typically require some form of collateral or guarantee to secure their loans.

The Royal Bank of Canada (RBC) and the National Bank have developed expertise in interactive digital media and are active in lending to some interactive digital media Canadian companies. Loans are often being guaranteed through arrangements with the Export Development Canada (EDC, though in some cases, companies have been able to secure loans without resorting to expensive subordinated debt arrangements.

The Canadian VC sector has in recent years seen the emergence of specialist VCs in the life sciences, clean technology and IT/digital media sectors. As noted above, VanEdge Capital, iNovia Capital and the BlackBerry Partners Fund are specialist VCs with mandates to invest in strategic sectors including digital media and information communication technology.

VanEdge Capital closed initially with \$100 million to invest in companies creating compelling interactive consumer digital experiences.¹⁷ While not restricted with regard to stage of corporate development, the Fund does not typically make seed level investments.

For its part, iNovia Capital invests in seed and early stage companies in Internet, digital media and communications companies through its Real Ventures Fund and its business accelerator program, FounderFuel. The Fund recently closed a \$110 million round of fundraising for its third fund, iNovia III.¹⁸

The BlackBerry Partners Fund is the only Canadian VC focused exclusively on mobile computing. Launched in 2008 with \$150 million, the Fund recently announced the launch of a second \$150 million fund.¹⁹ It has invested in Grow Lab, a technology accelerator operating a program split between Vancouver and Silicon Valley. Other VCs of varying sizes are making limited investments in interactive digital media companies within a broader investment strategy, such as Growth Works, Extreme Venture Partners, Covington Capital Corporation, Brightspark Ventures and Celtic House Venture Partners.

3. Canada Compared

A general review of the financing in selected international jurisdictions for interactive digital media shows that there are similarities and differences to the financing of interactive digital media in Canada.

3.1 The Attractive Economics of Tax Credits

Tax credits are recognized as an important contributor to the competitiveness of a country's interactive digital media sector. One study in the United Kingdom points to Quebec's massive injection of tax credits into its interactive digital media sector as resulting in the largest

¹⁷ "VanEdge Capital announces its first closing of \$100 million - The largest pool of capital available for digital media investment in Canada," *CNW Telbec*, May 27, 2010, <http://www.newswire.ca/fr/story/635679/vanedge-capital-announces-its-first-closing-of-100-million-the-largest-pool-of-capital-available-for-digital-media-investment-in-canada>.

¹⁸ Source: iNovia website: <http://inoviacapital.com/2011/12/inovia-capital-completes-first-close-of-110-million-for-its-third-venture-capital-fund/>.

¹⁹ Hugo Miller, "BlackBerry Fund Raises \$150 Million to Invest in App Startups," *Bloomberg.com*, Mar 21 2012. <http://www.bloomberg.com/news/2012-03-21/blackberry-fund-raises-150-million-to-invest-in-app-startups.html>.

and fastest growing studios in the world.²⁰ Several jurisdictions look to Canada's federal and provincial tax credits as a potential model to stimulate growth in their own national interactive digital industries.

On March 21, 2012, the UK government announced that it would introduce corporation tax breaks for the video game industry beginning in April 2013 in the amount of £15 million in 2013-14, and £35 million in 2014-15.²¹

For a number of years, the Independent Gamers Association (TIGA), the association representing the game industry in the United Kingdom, has advocated for the introduction of a tax-based incentive in the UK similar to what is found in many provinces in Canada. TIGA is of the view that without such tax breaks, the UK would not be able to compete on a level playing field with other countries offering similar support around the world. Tax breaks are seen to affect the investment decisions of global publishing companies.

TIGA is calling on the Government to reform their R&D tax credit system to make it easier for video game and interactive entertainment businesses to benefit. Their view is that the creation of video games and interactive entertainment involves intensive research activity.²² The rationale is that these businesses entail the development of valuable business innovations. The current scheme makes it difficult for the industry to fully maximize potential benefit from it including, for example, the eligibility criteria which presently excludes companies that do not own the IP generated by an R&D project or that tax relief is only available to those spending at least £10,000 a year on qualifying R&D costs.²³

The OECD's Frascati Manual provides an appropriate definition in this regard: "The term R&D covers three activities: basic research, applied research and experimental development...basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundation of phenomena and observable facts, without any particular application or use in view...applied research is also original investigation undertaken in order to acquire new knowledge. It is, however, directed primarily towards a specific practical aim or objective. Experimental development is systematic work, drawing on existing knowledge gained from research and/or practical experience, which is directed to producing new materials, products or devices, to installing new processes, systems and services, or to improving substantially those already produced or installed."²⁴

Technological innovation is seen to be a key feature of the industry and the technological advances that come about as a result of video game and interactive entertainment R&D investment can be transferred to businesses in other sectors in the form of spill over effects. Technologies initially developed by video games companies are being applied in areas as diverse as training, visualisation and simulation. And of course R&D plays a major part in the development of original IP, which is seen as a priority by the industry.

²⁰ Raise the Game, page 34.

²¹ Matt Martin, UK Chancellor Confirms Tax Relief for Games, Games Industry International, March 21, 2012.

²² *UKIE Policy Paper: Access to Finance*, The Association for UK Interactive Entertainment, March, 2011.

²³ Another form of tax credit being used in the UK and in some EU countries is a patent box which provides preferential tax treatment for a company's streams of revenue arising from the application of IP generated in the home country (i.e., in production and commercialization in addition to the research phase).

²⁴ Frascati Manual: Proposed Standard Practice for Surveys on Research and Experimental Development, OECD, 2002, page 30.

France has had a 20% development tax credit for video game production since 2008, the only one of its magnitude in Europe. In January 2012, the European Union removed the exemption because the credit is seen to represent government aid in the context of those countries that do not have such tax credit measures.

France also benefits from a 30% R&D tax credit, and a 30% prototyping fund (FAEM) of up to USD \$19,000. In France, companies are described as small, undercapitalized with a high rate of company turnover.

Currently being proposed by Screen Australia to its government is the introduction of a tax credit for interactive entertainment products for traditional console games and for lower cost downloadable titles that are emerging across consoles, smartphones, tablets and personal computers. Screen Australia is proposing a 30% tax credit on eligible expenditure for games (with a minimum expenditure threshold of \$500,000), and a 20% tax credit on (again) eligible expenditure (with a minimum expenditure of \$200,000).

Also being proposed is the extension of the current tax credits to the film and television companies that partner with an interactive digital media company. The goal is to extend the brand or narrative of a documentary or drama project.²⁵ The Interactive Entertainment (Games) tax credit being suggested would expand the existing film producer credit and would not require an additional application or eligibility test.

It is important to note that as more jurisdictions introduce tax credit programs, Canada's current competitive advantage in this area may require addressing. A report commissioned by the federal government, *Innovation Canada: A Call to Action* recommends streamlining the federal SR&ED tax credit program.

3.2. Prototype Funds are a Priority

Prototype funding is seen as particularly effective by a number of jurisdictions to develop products to a stage where other financiers may be willing to step in.

In the case of the gaming industry, as it is becoming an increasingly IP-driven industry, countries are interested in having prototype funding broadened to cover IP creation. In addition to being financially able to keep their IP, game studios need access to financing to help them exploit it.

A number of jurisdictions including the United Kingdom, the European Commission and Australia believe that the government should play a role in providing financing to support prototyping.

TIGA is advocating for the establishment of a Creative Content Fund to provide match funding up to a maximum of £100,000 in order to improve access to finance for small studios.

The Media Plus Initiative introduced by the European Commission provides prototyping grants of between EUR 10,000 and 60,000. Console and handheld developers can apply for a larger grant, of up to EUR 100,000, providing they make up half the funding. As such, the scheme is aimed at existing firms rather than start-ups, designed to provide prototyping funds to studios that have had at least one successfully published product since 2005.

²⁵ *Playing for Keeps 2011: Enhancing Sustainability in Australia's Interactive Entertainment Industry*, Screen Australia, 2011.

This is seen to be an important step by European developers as there have not been subsidies and tax incentives in support of development studios. It has been pointed out that Europe has, until recently, failed to acknowledge any value in the video game industry. The Media Plus scheme is a first step towards acceptance at an EU level.²⁶

3.3. Enhancing the Role of Banks in Financing

The European Commission is examining ways to enhance the role of banks in providing financing to the interactive digital media sector. Banks are generally perceived to be lacking the competence to invest in game industry. In a number of studies conducted on the European game industry, one characteristic is described as impeding access to finance: the dependency of game companies on intangible assets such as soft innovation, and creativity is a challenge as banks do not recognize the economic value of these assets. To address this situation, it is being recommended that greater exchange be encouraged between the sector and financial institutions.²⁷

The European Commission, for example, supports public funding measures such as loan guarantees and “micro credits” (loans of up to EUR 25,000 to small companies) to the cultural industries generally and would like to extend this measure to the video games sector. These tools are considered an effective way of using public money.²⁸

In the United Kingdom, banks are not keen to fund the lengthy R&D periods that are needed in order to produce a game, and once again there are no guarantees of sales or even a finished product. The games sector is a very competitive market, with consumers demanding ever more challenging and complex games, and increasingly game publishers and banks are withdrawing, leaving companies to fund their own development.

3.4 Creating an Attractive Environment for Venture Capital

In the UK and Europe, there is an increasing recognition that the Government has a role to play in creating an attractive environment for venture capital.

In several studies conducted on the availability of financing tools, venture capital is seen as an important source of financing for potential high-growth ventures that require capital for development, growth and potential. The Europe 2020 Strategy recognizes their benefit for start-up companies and for innovative companies.

One recent study notes that there are few VC funds in Europe as compared to the United States. According to a recent study, European venture is an attractive investment segment, but in spite of that, there's now a danger of it being starved of funds.²⁹ A similar situation exists in Canada where the availability of capital in Canada has steadily decreased over the past decade.³⁰ Calls to shore up the availability of investment capital are aimed at helping entrepreneurs grow vibrant innovative companies.

²⁶ Phil Elliot, “Fund Games: North America,” *Gamesindustry.biz*, January 16, 2008.

²⁷ *The Entrepreneurial Dimension of the Cultural and Creative Industries*, prepared by Utrecht School of the Arts with K2M Limited and Eurokleis, for Education and Culture DG of the European Commission, 2010, page 115.

²⁸ *Minutes: Game Development and Digital Growth*, European Game Developers Federation, May 25, 2011.

²⁹ *Global Trends in Venture Capital 2009 Global Report*, Deloitte, 2009.

³⁰ Richard Remillard.

When it comes to government investments in venture capital funds, there is a clear trend towards third-party management: from direct investment into companies to indirect investment, where investments in companies are managed by private independent funds; and from in-house government funds to arm's length managed funds. Examples of this include the UK with its Capital for Enterprise Ltd. or independently managed public/private funds such as the UK Innovation Investment Fund and France Investissements in France.

The rationale behind this trend is for government to work more closely with the market and leverage existing mechanisms to attract private sector investment. Independently managed funds triggered by a government allocation appear increasingly as one of the best ways to attract private sector investment and to support a more diversified ecosystem which is not dominated by one government funded source of capital. There is now a growing consensus that government schemes should work with the market, and that investment objectives which come with a government investment program should be designed accordingly.

3.5 Increased Recognition of the Important Role of Business Angels

There is increasing recognition, supported by studies in the United States and the United Kingdom, that business angels play a very important role in the ecosystem as they not only provide funding but also access to experience, credibility, and contacts that improve the flow of high-quality firms available to the VC sector.³¹

This has translated already in some jurisdictions in measures to support business angels' investments: tax credits (a number of Canadian provinces and territories, US, France), co-investment funds (New Zealand, Scotland), and investments in business angel funds (Enterprise Capital funds in the UK, Technology Company Seed Funds in Quebec).

It is important to consider that the key factors which business angels take into account when evaluating an investment opportunity are the management team, growth potential of the market and uniqueness of the product or service. According to a study conducted on the UK's angel investment community, "Business angels reject the vast majority of the investment opportunities that they consider: United Kingdom business angels invest in an average of just 8 per cent of the opportunities that they seriously consider (i.e. that get past the initial screening stage). The most common reasons why business angels reject investment proposals are associated with perceived weaknesses in the entrepreneur/management team, limited growth prospects for the firm and limited market for the firm's product/service. A flawed or incomplete marketing strategy and unrealistic or incomplete financial projections are also significant 'deal killers'."³²

3.6 Investment Readiness is a Priority

During the last decade, several observers have pointed out that government policies and industry representations usually focus on the supply side (lack of capital, "equity gap") but underestimate the importance of the demand side: "investment readiness." Investment readiness has been defined by the European Commission as referring "to the capacity of an entrepreneur – who is looking for external finance – to understand the specific needs of an investor and to be able to respond to these needs by providing an appropriate structure and

³¹ "From funding gaps to thin markets – UK Government support for early-stage venture capital", NESTA, September, 2009.

³² Colin Mason, Hunter Centre for Entrepreneurship, University of Strathclyde, Glasgow, Scotland and Richard T Harrison, Ulster Business School, University of Ulster, Jordanstown, Antrim, Ireland, *Informal Venture Capital and the Financing of Small and Medium-sized Enterprises*, 1996.

relevant information, by being credible and by creating trust to increase the probability of an investor to invest in the project.³³

Several countries have developed programs that address one or several aspects of the investment readiness issue: Commercialization Australia, Note's Escalator Program and France Investissement's "Les Services du Club."

Some have recommended that entrepreneurs mentor other entrepreneurs. This is why a new trend sees an important role to be played in this area by tech-savvy business angels. The trend is toward the creation of incentives or support to business angels' investment and to business angels' networks because they will bring not only capital to companies but also skills, credibility and connections.

4. Summary Analysis

While a range of financing instruments exists from both public and private sources, access to financing has been identified as a challenge for the interactive digital media sector in a number of reports published by industry and government, in particular as concerns accessing venture capital for seed and early stage growth. As low-risk investors, banks are also typically unwilling to lend money to unproven companies without hard assets to pledge as collateral.

The dominance of small- and medium-sized companies in this sector with revenues of \$1 million or less, points to very specific financing needs for the sector. Start-ups traditionally suffer from a lack of cash flow at this stage and rely on friends, family and small angel investments. SMEs looking to expand rely on more significant investments, typically from VCs and business angels.

Public support measures include project financing, tax credits and loan guarantees and in some provinces, investments in VC firms. Project financing supports the development of products, market development and commercialization. Tax credits and loan guarantees provide some measure of cash flow to companies. However, turn-around times on provincial tax credits are reportedly lengthy and in the province of Quebec, tax credits are said to have primarily benefitted the largest game studios. Loan guarantees are available primarily to companies with high export potential. Venture capital investments are contributing to the creation of large VC funds with a focus on interactive digital media companies. Overall, however, few VCs invest in this sector and the financing available through VCs is significantly less than was available a decade ago.

Public funding has encouraged the development of industry clusters in four provinces: British Columbia, Manitoba, Ontario and Quebec.

When compared to other jurisdictions internationally, we note that Canada's competitive advantage afforded by its federal and provincial tax credits may be eroded as new tax credits are introduced in foreign markets to lure inward investment. Canada could learn from European initiatives to extend debt financing to small companies through a system of "micro credits," small loans in the cultural sector considered to be an effective use of public money.

³³ *Investment Readiness: Discussion Paper for the Workshop*, European Commission, Brussels, 28 November 26, 2006.

Project funding in Canada appears to be more generous than in the jurisdictions examined and reportedly provides a competitive advantage to Canadian companies seeking additional financing in the international market. This is particularly true for convergent media companies.

European and UK governments are playing an increasing role in creating an attractive environment for venture and angel investment, and several studies point to its importance for high-growth companies. Governments recognize the need to work with the market while several countries are working to develop more investor-ready companies. Public investment in venture capital is showing a trend towards third-party managed funds to better align with the market, while tax credit schemes are aimed at encouraging investment by individuals. Investment readiness programs designed to empower companies to effectively pitch their ideas to VCs and angels are being encouraged by governments and the private sector. In this regard, Canadian governments will need to increasingly recognize the important role of private equity in helping finance and provide direction to young interactive digital media companies to keep pace with other international jurisdictions.

"The world of venture capital is ultimately about the power of new ideas. Ideas, however, require investment if they are to realize their potential."

- Richard Anton and Simon Clark, Hot Talent 2010-2011, A Handbook of UK Venture Capital Innovation, British Venture Capital Association

II. Perspectives on Financing Needs and Challenges

1. Preamble

The current financing environment for interactive digital media companies can be described from several perspectives – the companies that are accessing financing and those involved in making financing decisions including private equity investors, financial institutions, government agencies, publishers and agents. In this section, we present the various perspectives on the sector's financing needs and challenges.

2. The Perspective of Interactive Digital Media Companies

2.1 The Need for Early Stage Financing

Developers interviewed pointed out a gap in early stage financing in terms of the financing tools available. In the early stages of their companies, they relied on their own resources, friends, family and investments by angel investors.

Business angels are seen as crucial players in pre-seed, seed and start-up activity of companies and especially valued are angels with entrepreneurial backgrounds in technology sectors. The increasingly important role being played by angel investors in the financing ecosystem was noted in one study, as in addition to funds, angels provide experience and business networks to help companies grow to the next stage.³⁴

In this regard, tax credits to encourage angel investments such as are provided by a number of Canadian provinces and territories are seen as a positive development. Similarly, the Ontario Emerging Technologies Fund, which co-invests alongside VCs and angels, and seed funding programs such as that created by the Quebec Technology Seed Fund, which co-invested with Montreal-based Real Ventures VC to create the Founder Fuel seed funding accelerator program, are also seen as positive initiatives to encourage greater investment.

However, there is also a sense that angel networks are underdeveloped as compared to those in the US, and that many deserving entrepreneurs are not accessing this form of early stage financing, nor are they benefitting from angels' mentoring.³⁵

2.2. Lack of Investment Capital and Expertise in Canada

Some companies expressed the perspective that there is generally a lack of investment capital in Canada. It was pointed out that it is difficult to access risk capital even for experienced entrepreneurs. Canadian angels and VCs are perceived to be very conservative investors.

³⁴ *Government Involvement in the Venture Capital Industry – International Comparisons*, Op. Cit., page 17; *Growing the Businesses of Tomorrow: Challenges and Prospects of Early-Stage Venture Capital Investment in Canada*, Industry Canada, 2005.

³⁵ *Venture Capital Industry Review*, Business Development Bank of Canada, February 2011.

Investors in Canada are described by some stakeholders as “bargain hunters”, looking for low valuations to gain a larger share of the company. It was noted that there is interest from investors at a standard valuation of about \$1.5 million, and that some incubators are seen to be lining up companies so investors can take a third share of the company for \$500,000 or less. In some cases, the more experienced companies are seen to be too expensive for angel investors. Given this scenario, many Canadian companies are choosing to go to the US for investment capital.

Even companies financed in Canada at the early stage through private investment look to the US to finance their growth as demand for capital intensifies.³⁶ Canadian companies consulted for this study are no exception, with many reporting that they either have financed their growth in the US or intend to. While companies are aware of potential investors, a number discussed the critical importance to them of gaining access to investor networks in the US. The factors identified as particularly important for seeking capital in the US are relationships and contacts.

Some Canadian companies expressed the view that an element lacking in Canada is access to a pool of investors with sector expertise. Silicon Valley is noted for its unique class of investors, with direct experience in growing highly successful companies in the digital media sector. There is a lack of similar expertise available to Canadian companies from Canadian investors.

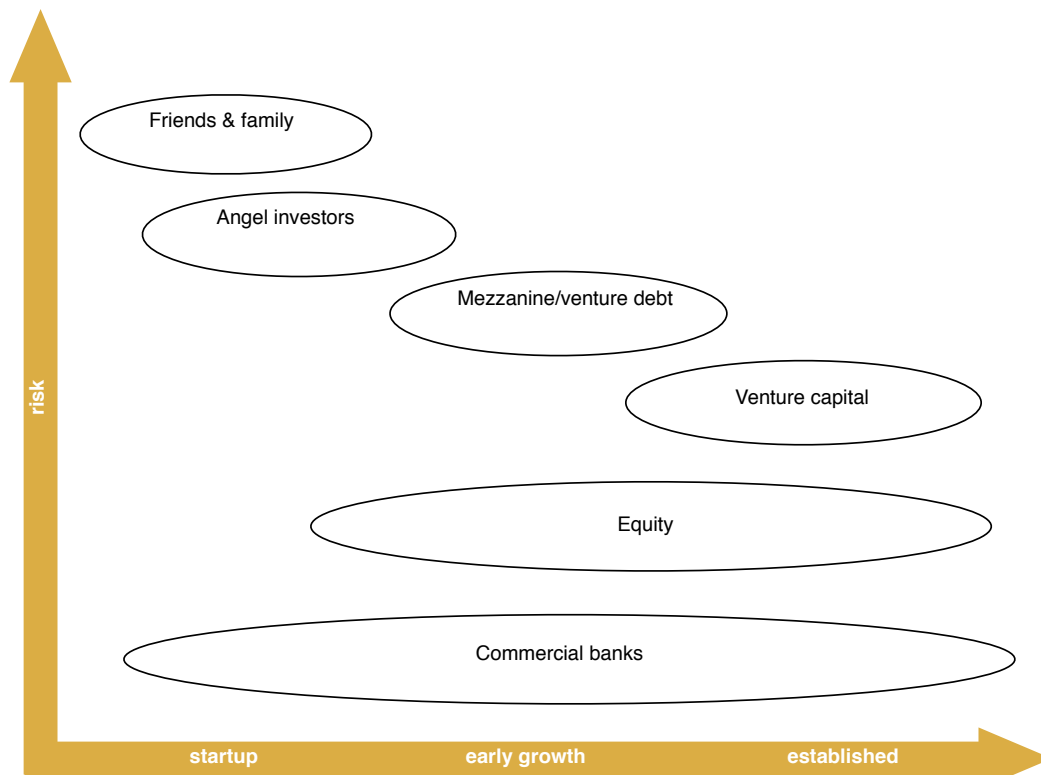
Companies with US experience note that Silicon Valley companies either succeed or fail fast. There is not much public support to sustain failing companies. In Canada, failure seems like something to be avoided. While tax credits are valued by companies and all companies interviewed use them or intend to use them, there is also a perception among some companies that tax credits may be sustaining companies that may not be viable.

One study conducted on behalf of the Canadian Venture Capital Association (CVCA) identified investing early in emerging new sectors as a factor for venture capital success, however Canada has not been strong in this area. The study notes that while this model works well in Silicon Valley, it may not be achievable in Canada due to a lack of factors associated with a virtuous circle: industry experience and networks to identify emerging sectors, as well as a sufficient number of investment opportunities (only available in very large technology communities and to well known VC firms).³⁷

It is important to note that the needs of companies in terms of financing varies as they become more mature. As can be seen in Figure 5 below, access to financing instruments vary with the stage of the company ranging from start-up, to growth and to being established.

³⁶ *Drivers of Performance in the Canadian Venture Capital Industry*, Canadian Venture Capital Association, 2007; Interview with Richard Remillard, Executive Director of the CVCA.

³⁷ *Drivers of Performance in the Canadian Venture Capital Industry*, Op. Cit.

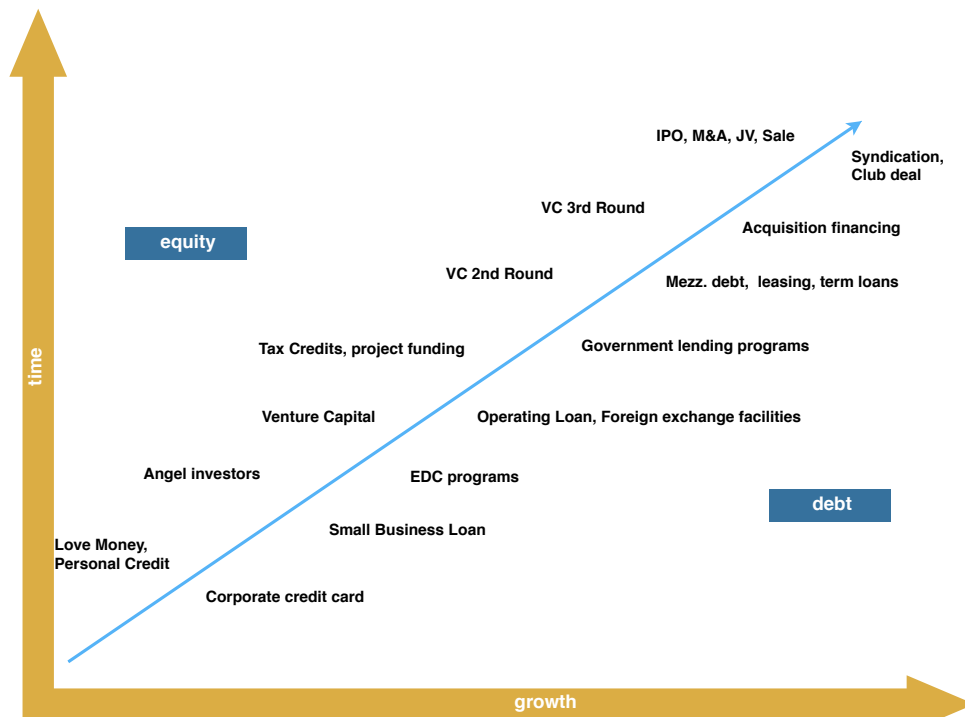
Figure 5: Type of Financing and Stage of Company³⁸

Typically, seed stage equity financing comes from the entrepreneur, family or friends. However, there are many situations in which seed stage financing requirements are well beyond the means of an entrepreneur and his network. In these situations, the most likely option for equity investment comes from angels or other individual investors, which may include past business acquaintances, friends of friends, and others.

During the start-up stage of a company, for most entrepreneurs, securing equity financing is still quite difficult. The company has not yet earned a profit. It is a very risky time for a new venture. Similar to the seed stage of growth, angels and other private individuals will be targets for investment funding. However, another group of investors, venture capitalists, are typically considered.

As can be seen in Figure 6, companies that are seeking expansion are in need of several rounds of VCs investments. The first expansion may occur due to the company's rapid growth in which an entrepreneur may need additional working capital and/or capital investment to address growing sales of the company. Generally, average investments range from \$3 to \$5 million. If the entrepreneur can prove positive earnings and an established customer base, the chances for angel and venture capital equity investment will be increased dramatically.

³⁸ Source: Andrew Giosa, Senior Account Manager, Royal Bank of Canada.

Figure 6: Role of Investor by Company Type³⁹

A second expansion usually involves a company growing at an extremely rapid pace with growing market potential. Although not always the case, the entrepreneur may envision transforming the business from a small company to a large corporation. Additional funds are required to develop new products or to enter new international markets. Second expansion investments typically range from \$5 to \$20 million. With a successful history and high potential for the future, equity financing options will begin to increase. Banks and corporate investors will also become targets for additional funds.

A successful SME (although it may no longer be an SME) can finance its growth by acquiring funds from the public through an IPO. The size of the investment may range from \$5 million to well over \$100 million. However, many companies never reach this stage of growth by choice.

Without access to growth financing, a company's business decisions may be determined by the need to secure short-term revenues which one company described as being "in survival mode." For serious growth, companies must be able to raise significant capital, though accessing it can be a challenge.

2.3 Lack of Access to Debt Financing

Companies stated that there is a lack of availability of debt financing in the sector. With the exception of two institutions, stakeholders explained that most Canadian banks are not active in lending money to interactive digital media companies. Companies indicated that a small number of interactive digital media companies have succeeded in accessing loans from the Royal Bank of Canada and the National Bank. Loans are being secured using guarantees provided by EDC. In some cases, companies in Quebec are reportedly accessing

³⁹ Source: Andrew Giosa, Senior Account Manager, Royal Bank of Canada.

bank loans without resorting to expensive sub-debt financing. One company mentioned securing its loan with personal assets of the business owner. Some companies expressed the view that banks are generally more familiar with the film sector than the interactive digital media sector.

Representatives of financial institutions explained their role in providing financing support to the interactive digital media sector as secured lenders and not investors who take risks. From their perspective, the banks offer debt financing to low risk companies in exchange for low returns.

One of the more pressing areas for companies is bridge financing for provincial tax credits.

2.4 Tax Credits are an Important Source of Financing

Many companies cited tax credits as one of the most important sources of financing for their companies describing it as predictable financing. In some cases, companies would not have survived without this assistance noting that tax credit refunds are reinvested in development, extending their development cycle by as much as 50%, and allowing them to release more attractive products to the marketplace.

The federal SR&ED program was recently streamlined and companies value the quick turn around on decisions currently through the program. This was mentioned in sharp contrast to some provincial tax credits, which reportedly can take well over a year to materialize, due to lengthy turnaround times on processing their applications. In Quebec, some companies referenced the impact of funding rules which “grind down” the value of the provincial tax credit when productions are also accessing other forms of public support.

A number of companies recommended that the federal government introduce a federal tax credit for interactive digital media production.

The application process for tax credits is also identified as a barrier to accessing funds. There is high agreement among companies that the work required to submit grant or tax credit applications are timely, costly and may deter potential companies, particularly start-ups.

While tax credits are seen to be vital for companies, as they come after the production is completed, tax credits are insufficient to help build a company. As mentioned above, building companies requires significant injections of capital and steady flows of cash.

2.5 Project Funding is Important

Many companies stated that the project grants available through the CMF and the Bell Fund are great programs at seed stage. These investments are like a “down payment” towards future success for companies and are described as important sources of financing to support the development of individual products.

At the same time, companies noted a number of challenges with respect to accessing the two programs. In terms of the support provided through the Bell Fund and the CMF for convergent production, companies are of the view that because a broadcaster is required, control of the projects rests in the hands of the broadcasters. This situation drives down the value of the investment the broadcasters make which is currently a minimum of 10% with the CMF funding 50% of the budget and leaving a 40% gap in financing, which according to the companies interviewed is becoming increasingly difficult to close. Some companies would like to have more support to access financing from the international marketplace.

As applications are costly to prepare, companies would like to have a greater sense of which projects will attract funding. Some companies are not clear about the intent of the CMF's Experimental Fund because it is too broad in scope. Some companies are not clear as to what development proposals will be successful at the CMF. They recommend that the Fund use a jury system with video game industry expertise for development as the CMF does for production. Some companies commented on the need for the CMF to clarify the innovation criterion used to evaluate projects, pointing out that there is too much focus on it at the expense of ensuring that marketable products are supported. One company explained that the focus on innovation is related to the overall objective of the CMF to establish a Canadian industry.

Other companies called for the Fund to act more like an investor and be prepared to take greater risk, be more flexible and allow companies to produce and exploit product according to the market. For example, the CMF requires projects to respect generally their original proposal in order to ensure the fairness of the selective process. One company suggested that the CMF offer more than financing, for instance, facilitating networking, and taking a more active interest in the success of a business and its portfolio of projects.

One company pointed out that the Fund's requirement to have a market channel partner is out of step with how the industry works and leaves a gap in early stage funding as channel partners want to at least see a prototype before committing to a project. The early stage of development (before a partner is attached) that is not being financed for a company requires an investment of approximately \$350,000 per project.

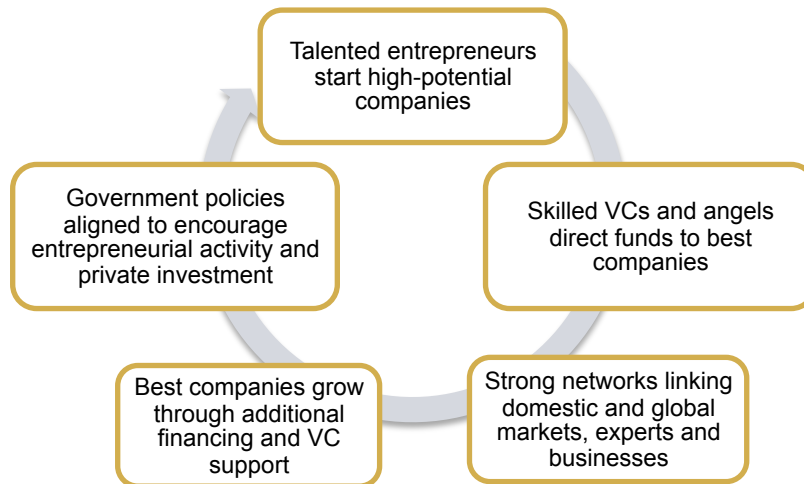
3. The Perspective of Private Equity Investors, Banks and Agents

3.1 Lack of a Virtuous Circle

One of the challenges cited by a number of financial agents and VCs was the lack of a virtuous circle of investment in Canada, similar to what exists in the US, particularly Silicon Valley. As can be seen in Figure 7 on the following page, a virtuous circle of investment is a self-perpetuating system of creative companies, experienced investors with managerial skills and strong local, national and international networks that expand the opportunities available to companies, follow-on investment capital for the best companies and a supportive policy environment.

VCs and angel investors are crucial players in the virtuous circle of capital financing, sharing wealth and talent with new start-up companies. Venture capital plays a unique role in transforming product ideas into major corporations through a unique combination of financing and professional development. A vibrant VC market can – despite its relatively small size – achieve superior, risk-adjusted returns for its investors, and simultaneously have a disproportionately large impact on a nation's economic growth, employment and productivity levels. A study prepared for the CVCA found that venture-backed companies grew five times more quickly than the overall economy. Further, the study reports additional major benefits: "Successful venture capital-backed companies generate wealth and talent, which are reinvested in the next generation of start-ups; they create serial entrepreneurs; they allow investments by business angels, and they provide a source of experienced management talent."⁴⁰

⁴⁰ *Why Venture Capital is Essential to the Canadian Economy: The Impact of Venture Capital on the Canadian Economy*, Canadian Venture Capital & Private Equity Association, January 2009

Figure 7: Virtuous Circle of Capital Financing⁴¹

VC investment takes place in a dynamic and always evolving ecosystem. One part of this ecosystem feeds demand – e.g. researchers working on inventions in laboratories, post-secondary institutions and centres for research, technology transfer and commercialization, and entrepreneurs working independently or in business to design new technologies or new applications of existing products.

The other part of this ecosystem handles supply – e.g. angel investors, managers of VC funds, and diverse market agents that provide not just money, but also mentoring and other value-added services to activity emerging on the demand side.⁴²

A VC market's success in generating value and economic wealth depends on how its ecosystem develops over time. In the United States, VC's birthplace, several decades of activity have created a sophisticated, entrepreneurial environment matched by an investor community with deep pockets and refined practices. Without these investors, fewer companies would succeed. It is therefore useful to consider recent trends in the VC industry, which have an impact on the role the industry plays in the current financing environment.

3.2 Lack of Capital Overall

VCs and financial agents interviewed pointed out that early stage VC pools are too small in Canada and too few VC funds are focused on early stage interactive digital media companies. While there are recent funding successes with VanEdge and iNovia, which both recently raised \$100 million or more, for most VCs, access to capital is much lower. In some cases, lack of capital has led to syndicate deals involving multiple VC's.⁴³ Typical syndicate deals involve three or four VCs in which average funding can be \$2 million to \$3 million compared to VC funds in the US, which tend to be much larger, typically \$10 million to \$12 million.

⁴¹ Adapted from *Venture Capital Industry Review*, Business Development Bank of Canada, February 2011.

⁴² *Growing the Businesses of Tomorrow: Challenges and Prospects of Early Stage Capital Investment in Canada*, Macdonald and Associates Limited, March 2005.

⁴³ *Venture Capital Industry Review*, Op. Cit.

A number of studies have identified the positive effects of public financing programs such as tax credits, co-investment funds and third-party management of public VC to support the VC industry and “start the wheel” of the virtuous circle.⁴⁴ Venture capital has strong positive effects on innovation, wealth creation, economic growth and employment. The building of a sustainable technology start-up ecosystem is said to be the result of a virtuous circle with cumulative effects (positive returns).

A number of VCs have established accelerator programs targeting interactive digital media start-ups. For example, Extreme Venture Partners (Toronto- and Palo Alto-based early stage venture firm) recently announced improvements to its accelerator program, Extreme University, for start-ups targeting the social, mobile and local spaces. In Montreal, early-stage VC Real Ventures, which invests in web, mobile and digital media - runs the Founder Fuel mentoring program intended for small start-ups.

3.3 The Role of the Publisher in the Creation Cycle is Changing

Publishers interviewed explained that their role in the financing of games has changed dramatically in the last few years because of the impact of digital distribution.

The Internet has played a crucial part in enabling developers to get their products into their customers’ hands without the need for traditional publishers. That has allowed small, independent developers to compete with the big firms who might spend tens of millions of dollars on developing a single title and as much again on marketing. As a result the industry is becoming increasingly fragmented as its markets become more differentiated. Distribution is now provided through a variety of platforms and networks, implying a more diminished role for the publisher and a greater one for the distributor.

With development timelines of triple-A console games of up to three years and requiring teams of up to 60 people and no guarantees of success, financing games is even a more high-risk and complex endeavour. Publishers are still developing high-budget games and buying up developers to increase their in-house development capacity. To offset the risk associated with the high cost of financing triple-A games, some publishers are providing services to developers in distribution and marketing and acquiring fully funded content for distribution.

3.4 Banks are not Investors

Representatives of financial institutions explained that their role is often misunderstood. Secured lenders typically come in when there is some history of profitability. One of the determining factors is the extent to which the company is viable and has a clear path of repayment.

The challenge for Canadian companies is that they generally do not have collateral to borrow against. Banks play an important role in providing interim financing for tax credits, which are considered a predictable asset for the company. The role of EDC was described as being important for financial institutions in that they enhance credit structure by providing a guarantee.

In making a decision to lend money, the financial institutions interviewed pointed out that an important test for them is whether the company creates and owns its IP and whether it understands the business and know how to grow it. The lenders are interested in viable com-

⁴⁴ Gilles Duruflé, *Government Involvement in the Venture Capital Industry: International Comparison*, Op. Cit, page 14.

panies with a clear re-payment path. In this regard, it was also noted that it is easier to finance a platform development than content. Lenders also see future growth potential in transmedia products driven by activity on the television side.

3.5 An Increasingly Important Role for Angel Investors

One trend in the US is the collectivization of angel investors, such as the Band of Angels and Tech Coast Angels in California. By banding together, these angels can pool their resources for investment.

In Canada, the angel investor community is reportedly becoming more structured and organized. Angel investor networks exist across the country today. Among them, the National Angel Capital Organization has recently been actively involved in encouraging greater investment in digital media, partnering with Interactive Ontario's GameOn Finance conference and hosting investor forums in Toronto.⁴⁵

In the United Kingdom, one company has taken on a role as a mini-angel investor providing seed capital to very early stage companies. They are investing time and money in a technology, a platform or a type of game in which one can build a community or audience to sell services. Communities are described as having substantial value. Their goal is to mentor young companies to help build their businesses. The company is of the view that Canadian companies will benefit from mentoring to strengthen their business focus.

3.6 Greater Investment Readiness Needed

There is a view expressed from investors (venture capital, angel, financial agents) that one of their greatest challenges is the lack of investment readiness of Canadian companies. This perspective is supported in the literature which calls for the need for a greater "investment readiness" on the part of entrepreneurs.⁴⁶

They expressed the perspective that there is a lot of misunderstanding about the role of VCs. VCs are interested in increasing shareholder value. Generally, video game companies do not have structures that increase shareholder value. Many companies are small and not financially viable. Technology companies are different in that they can sell or license the products they develop.

The more a company is able to assess its potential risks and results, the more it is likely to benefit from external funding sources such as that provided by venture capital. As noted above, banks also lend money more readily to established businesses. The more a company has developed its value proposition, the better its chances of attracting capital. Many Canadian companies are perceived as not viable companies as they "live off" tax credits.

One business angel interviewed noted that they are looking for a longer cycle, investing and holding for eight to ten years. The investor's challenge is getting dollars out through an IPO, merger, acquisition or other event that converts their investment to a liquid asset. For Canadian companies to be successful, they must build more predictability and exit strategies.

The goal should be on how to grow companies with a solid management team to hit a quantum leap in size and scale with investments between \$10 to \$20 million but as it was pointed out, this takes time. According to VCs, this also requires investing in the right team who will

⁴⁵ See the National Angel Capital Organization for information on recent activities relating to digital media. <http://www.angelinvestor.ca/>.

⁴⁶ Gilles Duruflé, *Drivers of Performance in the Canadian Venture Capital Industry*, Op. Cit.

work to find profitability. VCs and angels are interested in coaching entrepreneurs, to enable them to be successful.

3.7 Canada Lacks a True Culture of Entrepreneurship

A culture of entrepreneurship that accepts early failure as part of the innovation process is lacking in Canada as compared to the US, though it could help create the conditions for entrepreneurs to eventually succeed. One study that compared the investment cultures of the US and Israel to that of Canada found that Canadian entrepreneurs who fail experience a diminished social status and may be personally considered failures, whereas this is not the case in the two other countries considered.⁴⁷

Canadian companies may be reluctant to fold and amongst those interviewed for the present study, there is a perception that to the extent that tax credit programs reward expenditures, they may inadvertently be playing a role in sustaining unprofitable companies. As noted above, some companies are of the view that public funding should place a greater emphasis on business criteria. By contrast, US start-ups are advised to “fail early and fail fast”⁴⁸ so that concepts may be modified or abandoned early on.

3.8 Canada is Attractive to Some Foreign Investors

Canada is attractive to some foreign investors, for example, because of tax incentives that provide a competitive advantage to companies and a source of cash flow, even though the process can be complicated and turn-around times are long. One investor noted that the pre-financing required on tax credits is expensive, running at 20% to 22% interest rates on short term cash flow, and this makes them less attractive as a source of capital. Nevertheless, they remain an important differentiator for foreign investors.

Some investors are implementing new financing models involving Canadian developers in co-financing and co-producing arrangements. For example, one investor described their role as a producer, licensing or buying television- and film-related IP, which is being developed into an interactive property by a Canadian developer hired for the contract. The new properties are being co-financed, published and marketed by the interactive divisions of Los Angeles-based film companies.

Public support programs that provide project funding presently require that the company owns the IP. Foreign investors see this as a potential problem since most developers are poor at generating their own deals. Foreign investors point out that companies lack expertise in how to structure their deals and where to access capital. Developers are generally perceived to be very enthusiastic about games, but not knowledgeable about deal making and fund-raising. The business model has changed significantly in that there are fewer large publishers and it is very difficult to get the kind of deals they did in the past.

One foreign company interviewed chooses to invest in small teams that are passionate, skilled and knowledgeable because innovative games are made by these teams.

⁴⁷ *Drivers of Performance in the Canadian Venture Capital Industry*, Op. Cit.

⁴⁸ Esther Surden, “Angel Investor Tamarelli Tells Startups: Fail Early and Fail Fast,” *New Jersey Tech Weekly*, January 12, 2012.

3.9 Metrics are Important for Investors

A number of firms provide the games industry with metrics that help potential investors, retailers and publishers understand the economic value and profit potential of their investments.

While the console games market is more stable, more investment is currently going to social and mobile games although these segments are very risky, supported by detailed metrics. Online game developers use real-time analytics to understand how users are using their products, enhance user experience and profitability. Investment professionals interviewed note that the social gaming market is maturing and investment is decreasing.

One company active in metrics data notes that successful IP results from a combination of science and art. While investing in games is admittedly “a crapshoot,” metrics help identify success factors, such as marketing to drive sales and awareness. In today’s online games market, success depends on achieving a tipping point of awareness and going viral. The company notes that in Canada, more could be done to use metrics to help attract investors.

3.10 Project Funding does not Help Companies Grow

Some Canadian VCs point out that the public funding that is currently available for projects is not a net benefit for the industry. While on the surface, this funding makes Canada attractive to investors, the financing is project-based, deadline-driven, and with too many restrictions (i.e. requirement for the company to own IP). Investors describe project funding as not aimed at helping companies grow because profits go to scaling up and down, not for consistent growth. It was noted that public funders should review the criteria used by VCs and deploy the current resources in a similar fashion.

One investor stated that it is not innovative content that is needed in Canada but a critical mass of companies. In the technology sector, growth is driven by innovation, but in the content sector, focus should be on growing specialized companies. The focus of public support should be on building larger companies to assure that Canadian talent stays in the country.

4. *The Perspective of Government and Industry Associations*

4.1 A Range of Business Models Being Supported through Public Project Funding

Canadian public funders are supporting a range of business models for interactive digital media, including digital and console games to mobile applications, websites, software, convergent media projects either hosted by broadcasters or on proprietary URLs, and increasingly, projects spanning cultural industry sectors. As media continue to converge, new business models are finding their way to the marketplace, with implications for public policy and programs.

4.2 Challenges in Convergent Media

The Canadian regulatory environment for television has given rise to a number of funding programs that support multi-platform extensions of Canadian television productions and are intended to facilitate the transition of the Canadian broadcasting system to the digital media environment.

There is a perception that while the design of these programs is well-intentioned, the fast pace at which convergent media continue to evolve poses a challenge for funders and developers. For example, as convergent media production funds in Canada are largely being triggered by broadcaster involvement, business opportunities emerging from new players in

online content aggregation may be missed. Major content aggregators in the US market such as YouTube, Yahoo and others are turning to professionally produced content and providing audiovisual producers with production opportunities through which to connect with audiences online.⁴⁹ There is a concern that the current system of funding for convergent media in the television environment is maladapted to these new opportunities and may be slowing the emergence of new markets for audiovisual content online. Some have put forward the recommendation that the criteria for triggering convergent media funding be expanded to other players as well as broadcasters.

One challenge is the present lack of incentives for broadcasters to invest in interactive digital media in that the Internet is not regulated by the CRTC and as such potential investments made by broadcasters are not considered part of their Canadian content requirements.

Opportunities for new sources of revenues online have also emerged, based on ongoing engagement with consumers and repeat sales of products and services. However, these new revenue models occasion new, ongoing expenses not easily financed by producers. More flexible approaches to funding may be required to support ongoing marketing and exploitation of properties as revenue streams are incrementally built over longer periods of time.⁵⁰

At the same time, valuable business opportunities for sales and financing in international markets are not being sufficiently exploited. There is a need for greater awareness and understanding of the business practices by funders to support longer-term international exploitation of interactive convergent content online.

A system of audience measurement for convergent online properties that could attract sponsors and other financing is also seen to be lacking.

4.3 Need for Start-up Financing and Smaller Companies

Government representatives and associations interviewed for this report identified a great need for financing in start-up companies. Project funds are a great help for established companies as they often trigger access to other funds. However, for start-up companies, the competition for project funds is intensifying. The current system of tax credits and bank financing are seen as less helpful to small start-ups, who may lack the resources or assets needed to access these forms of financing.

Young companies with high growth potential need access to greater investment opportunities. In the convergent media space, there is a need to incentivize greater demand in order to attract investment.⁵¹

⁴⁹ *Content Everywhere: Mapping the Digital Future for the Canadian Production Industry*, Canadian Media Producers Association, February 2012.

⁵⁰ As previously noted in footnote 1 above, the CMF recently introduced measures to offset the costs incurred by producers in the live exploitation of digital projects, through its *Experimental Stream* of funding.

⁵¹ According to a report by Industry Canada, the definition of high-Growth SMEs (HGSMEs), are commercial firms with a cumulative sales increase of more than 50 percent over three years. High growth may also be defined by job creation or other financial variables; however, there appears to be no consensus among researchers on a standard definition of high growth and the adherence to a specific definition is mainly determined based upon the data available and the objectives pursued. Source: Patrick Huot and Christine Carrington, *Small Business Financing Profiles*, Industry Canada, May 2006, page 1.

5. Concluding Summary

The financing needs and challenges of the interactive digital media sector are best described by both the companies accessing financing and those making the decisions about financing for this sector. Our interviews as well as a review of the literature show that a number of common themes emerge regarding the gaps in the current financing landscape.

As can be seen in Figure 8 below, despite the differences in perspective of the various stakeholders, all are of the view that currently lacking is early stage financing for companies and capital overall. While the Canadian companies interviewed expressed the viewpoint that investor expertise as is available in the US would also benefit Canada, private equity investors note that what is missing is a virtuous circle in Canada and investor readiness on the part of companies.

Figure 8: Summary of Perspectives of Stakeholders in the Financing Environment

Type of Financing	Canadian Companies	Investors/Banks/ Publishers/ Agents	Government Agencies and Associations
Private investment	Canada lacks investment capital and relevant expertise	Canada lacks a virtuous circle of investment. There is insufficient capital overall.	There is a need to encourage demand for convergent productions to stimulate private sector interest
Early stage financing	Need for early stage financing	There is a lack of early stage financing Business angels play an important role. Greater investment readiness is needed.	There is a need for early stage financing
Debt financing	Lack of access to debt financing	Banks are not investors	Did not comment
Project funding	Project funding is important	Project funding does not help companies grow	Project funding supports a range of business models
Tax incentives	Tax credits are important	Tax credits keep companies alive that are otherwise not viable.	Did not comment

“At its heart, venture capital and private equity is about value creation: working with business managers to increase the value of a company over a finite horizon, and then selling it on to realize the gains made.”

- The British Private Equity Venture and Capital Association, *Evolving Views of Sustainability in Private Equity and Venture Capital*, London

III. Profiles of Business and Financing Strategies of Selected Canadian Companies

1. Preamble

This section profiles the business and financing strategies adopted by ten Canadian interactive digital media companies, as well as their strategies for future growth. These profiles allow us to identify lessons learned for the benefit of financiers, funders and other Canadian companies. Annex 4 contains detailed information on each profile.

We begin with a general overview of the impact that the changing environment is having on business models for interactive digital games and convergent media. This assists in helping to situate in a general way the business and revenue models that Canadian companies may adopt for the future.

2. Evolving Value Chains

2.1.1 Changing Value Chain for Interactive Digital Games

In the current environment, the value chains for interactive digital games and convergent media are evolving.

There used to be three typical models for financing the development of a game. These could be developed internally by a publisher, developed by an independent studio with advance financing from a publisher, or developed by an independent developer using their own funds, for which the company would seek a publishing deal to distribute the game.

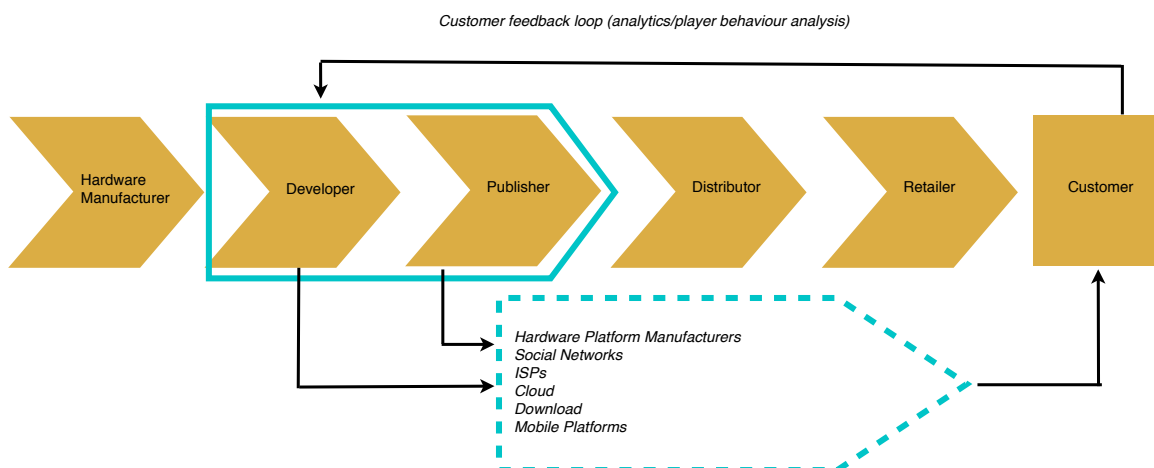
These models remain, but several trends have emerged that have led to the creation of new models. First, with the advancements of technology in the industry, the demand for higher quality and more complex games has risen. This increase in sophistication has caused development costs to increase. As a result, there has been a shift towards horizontal integration in which large publishers are acquiring development studios and placing them under their labels.

While the large publishers are increasing their internal production capacity, the number of independent developers able to finance a big budget development project on their own is very small.

Second, the value capture by wholesale retailers and distributors is expected to decline. Digital distribution allows video game publishers to sell directly to the customer through platforms and aggregators – such as Facebook, AddictingGames, and RealNetworks. Digital distribution is attractive because it reduces business overhead costs and allows for immediate connection with the customer. The traditional model of distribution will exist in the market, but only digital distribution is likely to mature in emerging markets.

In Figure 9 below, we observe a shift from a model where producers use a wholesaler to reach a retailer who then reaches the consumer, to digital distribution, which immediately connects the producer with the consumer.

Figure 9: The Value Chain for Digital Games⁵²



The value chain for the game sector has evolved to include new players and new modes of distribution. With the evolution of the industry, PC games – the original platform for the games – which peaked in 2000, has virtually died over the last decade. New players include mobile, interactive and cloud based digital gaming platforms.

The rise of the mobile and online gaming markets has allowed significant numbers of new players to enter the market because of low costs to entry. It is expected that these markets will continue to grow and impact on the value chain of the industry helping shape new business and revenue models.

2.1.2 Changing Value Chain of Convergent Media

The value chain for convergent media is also evolving as the platforms and market channel partners for these products proliferate. Producers are also building new relationships with non-traditional content aggregators online, bypassing traditional broadcasters and finding their audiences via new new channel partners online and on mobile platforms.

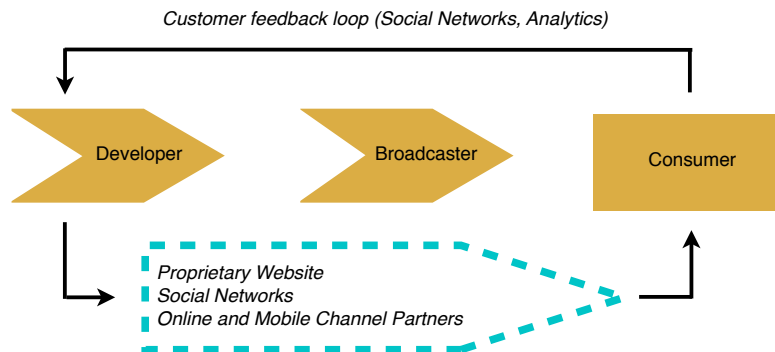
New video on demand platforms are also changing the environment for convergent media. A recent study notes that technology in this space is ahead of business models and that in particular, ad-supported content has not realized the same efficiencies as online retail models.⁵³

Figure 10 provides an illustration of the changing value chain of convergent media developers. While convergent media productions continue to be primarily associated with television productions, increasingly, developers are finding additional ways to monetize their content by distributing it via their own websites or through other channel partners distributing content online and on mobile platforms.

⁵² Source: *The Games Sector in Ireland: An Action Plan for Growth*, Forfas, October 2011.

⁵³ *Towards a Framework for Digital Rights*, Prepared by Duopoly for the CFTPA, June 2010.

Figure 10: Value Chain for Convergent Media



2.2 Changing Business Models

New business models and revenue streams have emerged to take advantage of increased opportunities to connect with consumers that have an impact on both convergent digital media and the game industry.

In addition to retail sales, digital distribution is increasingly popular with console game developers, allowing for much lower budgets and the possibility of bypassing publishers. In-game advertising, around-game advertising and games that are advertising, or “advert games” are also creating new revenue streams for companies. Increasingly popular are subscription business models and in-game micro-transactions within free-to-play games. One recent study suggests the micro-transaction free-to-play model as the most likely to gain ground, followed by digital game downloads.⁵⁴

Figure 11 shows the number of business and revenue models associated with different game platforms.

Figure 11: Business Models and Revenue Streams by Game Platform⁵⁵

Consoles	PC Games	Game Portals	MMOs	Mobile devices
<ul style="list-style-type: none"> Physical Shop Online Shop Second-hand Trade Digital Distribution 	<ul style="list-style-type: none"> Physical Shop Online Shop Second-hand Trade Digital Distribution 	<ul style="list-style-type: none"> Subscriptions Premium downloads Virtual currency Direct micro-transactions Skill gaming/ play for prizes 	<ul style="list-style-type: none"> Monthly subscriptions Annual subscriptions Virtual currency Direct micro-transactions Client download/box 	<ul style="list-style-type: none"> Revenues are all game download revenues and not split up

⁵⁴ *Working in Australia's Digital Games Industry – Consolidation Report*, Australian Research Council Centre of Excellence for Creative Industries and Innovation (CCI) and Queensland University of Technology in partnership with the Games Developers' Association of Australia, May 2011.

⁵⁵ Source: *Working in Australia's Digital Games Industry – Consolidation Report*, Op. Cit.

A comprehensive list of business and revenue models for games is included in Annex 5.

These impacts are also being felt in the convergent media environment as producers develop new business models and new relationships with the interactive digital media sector to develop multi-platform and cross-platform content, for which revenues may be derived from subscriptions and online sales, sponsorships and other advertising.

The developments discussed here have an impact on the current business models used by Canadian companies in the interactive digital media sector. They have become the catalyst for consolidations for scale and the emergence of new distribution methods. In the section that follows, we discuss the business models of ten Canadian companies.

3. Profiles of Ten Canadian Companies

Profiles of the business models of Canadian companies show that there is a great diversity in the use of business strategies, financing and growth orientations due to the location of the company in Canada, and the size of the companies. Companies are seeking different forms of financing at seed, start-up and expansion stages.

Of the ten companies profiled, four are game companies developing console games, downloadable console games, mobile games and social games, respectively. Our profiles also extend to four convergent media developers, three active in the broadcasting space and one in the literary publishing space. Two companies profiled are technological platform developers. Of all the companies, the oldest has been in operation almost 20 years, and the youngest only one year. Three of the companies profiled are small, with between seven and 16 employees, and one is very a large company with over 100 employees. Six companies are based in Ontario, followed by two in British Columbia and Quebec, respectively.

3.1 Business Strategies

As can be seen in Figure 12, there are five common factors that help explain the success of the companies profiled.

Figure 12: Summary of Common Factors in Business Strategies Adopted by Interactive Digital Media Companies

Business Strategies of Interactive Digital Media Companies

- ✓ Strong Business Focus, Experience and Relationships
- ✓ Exploitation of IP
- ✓ Highly Innovative Productions that Garner Critical Recognition
- ✓ Orientation to International Markets
- ✓ Multiple Revenue Streams

Generally, the companies profiled show a strong business focus with a sophisticated understanding of the financing options available to them. They have a strong orientation to business and financing planning. They are led by executives with direct, relevant experience in previous ventures or in major publishing studios. The companies profiled have established business relationships with suppliers, clients, channel partners and potential investors. Most companies have established international relationships. One BC firm maintains its Silicon Valley investor network.

With the exception of one console game developer, the companies profiled are developing and exploiting their own IP, and implementing brand strategies.

Games and convergent productions by these companies are highly innovative and garnering critical attention and awards. In some cases, the critical recognition of game designers at an early stage in their careers gave them the credibility and track record to attract investor interest. They use metrics to track their success.

Companies have a deep understanding of international market opportunities and are producing for the global market. They are also active in international business development. These companies are agile and able to adapt their businesses as the market evolves. In many cases, they have been early entrants to their current market.

All the companies profiled developed business strategies that allowed them to access multiple revenue streams. Among the earned revenue models are online subscriptions and sales, game development services, licensing of content, provision of distribution services, and pre-sales and sales to broadcasters.

It is interesting to note that a number of the factors common to the Canadian companies profiled in this report are found in two recent studies. A recent study in Canada found that one of the country's success factors in the games industry is its favorable geographic positioning between Asia, the US and Europe, facilitating the development of international business opportunities. A study conducted in the UK identified a number of success factors similar to those found here, namely that a motivation for profit, business and financial planning, management experience, relationships and business networks, and a focus on IP and innovation were key factors for success for companies in the creative industries.⁵⁶

3.2 Effectiveness of Financing Instruments

The Canadian companies profiled have accessed an array of financing instruments for the growth of their businesses.

Equity financing has benefited technology companies, publishers and mobile and social games companies in their early stage development. Technology companies and publishers are more likely to have attracted venture capital investments, while start-up game companies in the mobile and social space have successfully attracted angel investors through the investor networks of business accelerator programs in which they've participated.

Most companies also have access to credit.

Tax credits are very important to companies and all are accessing them or intend to access them. Tax incentive programs are said to provide assistance with cash flow.

⁵⁶ Burrows, Helen and Kitty Ussher, *Risky Business*, DEMOS, 2011.

Project funding is particularly important to companies developing convergent content for the television sector. These companies are highly dependent on project financing, and companies are increasingly looking to the international market to complete their financing as sources within Canada, particularly broadcaster license fees, are diminishing.

Project-based funds are also an important source of financing for young companies. However, project-based funds have a limited role in growing companies to the next level due to their lack of predictability, and their limited use in providing operating capital and cash flow at needed moments.

3.3 Commonalities in Strategies for Future Growth

The two console game developers profiled hope to access debt financing to support their ongoing activities.

Young developers in the relatively low cost sectors of mobile, social and PC-based applications hope to access equity financing to rapidly take the growth of their companies to the next level. Angel investors are attractive to these companies for the expertise and contacts that they can bring in addition to financing.

Technology developers profiled are financing growth through non-diluted sources of capital that allow more of the IP to stay in the company. Both companies are also keeping their options open with respect to VC investment and maintain their relationships with potential investors.

Companies in the convergent television space are interested in developing greater opportunities for business and financing in the international marketplace.

In terms of future investment needs, the companies profiled consider the United States to have more opportunities to attract investment to their companies. There is a general perception that there is more money, greater relevant expertise and more willingness to invest and take on risk in the US.

“Angels often take considerable set up and development risks in establishing an early stage business, prior to venture capital funding. Angels may therefore be seen as providing a vital kick-start to innovating businesses both in terms of investment and business-building skills.”

- Robert E. Wiltbank, *Siding with the Angels – Business angel investing – promising outcomes and effective strategies*, NESTA, May 2009

IV. Key Summary Findings

Our study finds that there are gaps in the financing landscape for the growth and development of the interactive digital media sector in Canada as represented by the literature and from the results of interviews conducted with stakeholders.

It is clear that the federal government and provincial governments have put financial instruments in place that are seen to be effective by Canadian companies in this sector, particularly tax incentives. At the same time, the lessons learned from our profile of successful Canadian companies show that they also benefited from private investment, particularly angel investments and venture capital.

Financial investors interviewed for this study referred to the need for Canadian policy makers to consider potential gaps in the virtuous circle of private investment. Consideration could be given to whether elements of a “vicious” circle of private investment exists, characterized by significant areas of underperformance.⁵⁷ The questions to be asked could include the following: Is there a sufficient mass of skilled entrepreneurs, and skilled management with global networks in Canada? Are angel networks well-developed? Is investment sufficient at all stages of corporate development?

Canada has a demonstrated value proposition for investors in the interactive digital media sector due to its highly skilled and talented workforce, its attractive tax credits and lower overhead costs as compared to many other countries. These factors have helped to attract large multinationals to the country and provided a global showcase for our impressive pool of talent. The future growth and economic contribution that the sector can make in Canada relies on a supportive business environment assuring access to the right forms of financing at the different stages of corporate growth.

Our study finds that federal and provincial governments could consider whether they have all the instruments in place to foster a stronger investment environment.

Finding 1: Early Stage Financing is Needed

One of the gaps identified in this report by Canadian companies is the need for greater support to early stage financing.

There is a great need for financing in start-up companies. Project funds are a great help to companies as they often trigger access to other funds. However, for start-up companies, the competition for project funds is intensifying. The current system of tax credits and bank financing are seen as less helpful to small start-ups, who may lack the resources or assets needed to access these forms of financing. Repeatedly, stakeholders explained that young companies with high-growth potential need greater access to investment opportunities.

⁵⁷ *Venture Capital Industry Review*, Business Development Bank, February 2011, page 11.

Domestic VCs and angel investors are crucial players in the virtuous circle of capital financing, as has been pointed out in interviews conducted with stakeholders. Equity financing has benefited technology companies, publishers and mobile and social games companies in their early stage development. Technology companies and publishers have attracted VC investments, while start-up game companies in the mobile and social space have successfully attracted angel investors through the investor networks of business accelerator programs in which they participated.

There are some programs that exist that may guide Canadian policy-makers in considering ways to address a potential gap in start-up financing. For example:

- Enterprise Ireland's *Competitive Start Fund*⁵⁸ is a fund that provides equity financing to start-up companies to develop "their product-market fit with real customer validation and to develop and launch their product for global trial."⁵⁹
- Investissement Quebec and the *Ontario Emerging Technologies Fund* are two other examples of targeted public sector VCs with the needed expertise to help Canadian companies seize opportunities in the interactive digital media sector.
- A government funding program being offered to entrepreneurs across the United Kingdom is *Fund 4 Games*, providing project funding to the developers of games or publishers to enable them to have the working capital to develop a game. This Fund is an atypical funder in that it provides project funding rather than seeking to take equity, and takes royalties from sales.

A number of VCs in Canada have established accelerator programs targeting interactive digital media start-ups. These provide valuable mentoring to entrepreneurs, access to investor networks, and small seed grants to help companies access seed financing to test their concepts and identify companies with high-growth potential. The *Quebec Technology Company Seed Funds* recently financed the Founder Fuel accelerator program run by the VC firm Real Networks, through a competitive process that selected three accelerator programs in three different industry sectors. This is an interesting example of the public sector working with the private sector to assure greater access to early stage capital for promising companies.

Business accelerators in the US that provide access to American investment networks are also highly regarded and could help Canadian companies access more significant sums of start-up capital. Canadian public assistance could provide Canadian entrepreneurs with opportunities to be mentored in the US by experienced Silicon Valley entrepreneurs.

It is worth noting that the changing value chain for the game sector has led to lower start-up, production, distribution, and other costs for the video game marketplace. There are more opportunities for new players and new modes of distribution compared to five years ago. New players include mobile, interactive and cloud-based digital gaming platforms. It is expected that these markets will continue to grow and have an impact on the value chain of the industry helping shape new business and revenue models.

Finding 2: Risk Capital is Needed for the Sector Overall

Our review of the literature and interviews of stakeholders indicates that there is a need for greater investment from the Canadian VC sector in interactive digital media companies.

⁵⁸ *The Games Sector in Ireland: An Action Plan for Growth*, Forfas, Ireland, October 2011, page xxii.

⁵⁹ *The Games Sector in Ireland: An Action Plan for Growth*, Op. Cit., page 29.

The Canadian VC sector has in recent years seen the emergence of specialist VCs in the life sciences, clean technology and IT/digital media sectors. However, the total amount of capital available through VC firms in Canada has declined significantly from a decade ago. VCs fundraising rounds tend to be smaller and investments insufficient on their own to sufficiently capitalize companies, even at the start-up phase. The exceptions to these are the recent financing rounds of VanEdge Capital and iNovia, both of which benefitted from government investment.

A number of studies have identified the positive effects of having the government intervene to support the VC industry. There is a clear trend internationally towards government investments in private independent funds. The rationale behind this trend is a greater ability to attract the right management skills and to attract private sector co-investors.

Governments may wish to consider increasing their investments in VC funds with a mandate to invest in the interactive digital media sector.

Finding 3: Greater Investment by Angel Investors Could be Encouraged

As noted in this report, greater structure and organization is being brought to the Angel investor community across the country, including some interaction with the digital media industry. These developments are positive for Canadian companies. However, there is an opportunity for associations representing the interactive digital media sector to encourage greater awareness of the industry and investment.

Young developers in the relatively low cost sectors of mobile, social and PC-based applications hope to access equity financing to rapidly take the growth of their companies to the next level. Angel investors are attractive to these companies for the expertise and contacts that they can bring in addition to financing.

The annual Canadian Financing Forum is an interesting model that brings together IT and clean tech entrepreneurs to pitch their companies to North American corporate and VC investors.

C100 is a group of Canadians based primarily in Silicon Valley, including executives of leading technology companies, experienced start-up entrepreneurs and VC investors. They are passionate about leveraging their collective experience, expertise and relationships to help mentor and grow a new generation of successful Canadian-led technology companies.

Associations representing the interactive digital media sector could consider organizing initiatives to increase access by the sector to the angel investor community with the goal of creating opportunities for interactive digital media companies to pitch their concepts to them.

Finding 4: Investment Readiness is a Priority

It is clear from our study that Canada has a large community of talented people working in the interactive digital media sector. One of the challenges identified however from the perspective of investors is the need to increase the investor readiness of companies. Companies themselves expressed this need by pointing out that they could benefit from access to investor expertise.

Greater harmony should be encouraged between developers and financiers as there is a perception that there is “a mismatch between those communities.”⁶⁰ NESTA in the UK has in recent years implemented a series of investor readiness initiatives to promote innovation through mentorship, knowledge transfer and skills development. Canadian VC iNovia runs a series of investment workshops with young entrepreneurs that exposes them to the concerns that investors have when making investment decisions. C100 is another example of the initiatives that can help Canadians entrepreneurs become investment-ready.

Among the priority areas identified by stakeholders that can help companies increase their readiness for investment are the following:

- Encourage greater exchange between the sector and banks, VC funds and angel investors;
- Help companies build strong networks to global markets, experts and businesses;
- Mentor entrepreneurs to better understand the priorities and investment criteria used by potential investors.

Finding 5: Foster the Exploration of New Business Models by Convergent Media Programs

Our study finds that Canadian companies working in the convergent media space are not able to seize new business opportunities because of the current funding criteria of the CMF's *Convergent Stream* and the Bell Fund.⁶¹ In particular, broadcasters are a required trigger for access to both programs. Opportunities for new sources of revenues online that have emerged cannot be exploited under the current policies.

One of the ways that new business models could be encouraged is for the CMF and the Bell Fund to consider broadening the potential eligible market triggers for their respective programs.

The CMF and the Bell Fund could also explore ways to provide greater marketing and online exploitation support to companies.

Finally, the CMF may also consider reviewing its current criteria for innovation in its analysis of projects in the *Experimental Fund* with a view to aligning the objectives of the Fund to foster greater private investment.

⁶⁰ Alex Meer, Vaizey: "Mismatch" between game dev and finance communities,” *GamesIndustry.biz*, December 5, 2012.

⁶¹ As noted above, the CMF has introduced measures to offset the costs incurred by producers in the live exploitation of digital projects, through its *Experimental Stream* of funding.

Annex 1: Bibliography

Afan, Emily Claire, *Money games: EDC, RBC talk digital financing in T.O.*, Playback On-line.ca, June 29, 2011

Alex Meer, Vaizey: "Mismatch" between game dev and finance communities, *GamesIndustry.biz*, December 5, 2012

Allchorne, Tom, *Britain's Hot Talent 2010/2011*, The British Private Equity and Venture Capital Association, 2011

An Action Plan to Improve Access to Finance for SMEs, European Commission, December 7, 2011

Appendix 2: Access to Finance for Creative Industry Businesses: Qualitative Survey, report prepared for the Department of Business, Innovation and Skills (BIS) and Department of Culture, Media and Sport, May 2011

Baillet, Francis, Vice-President, Human Resources, Ubisoft, "Investir en nos créatifs : enjeux, défis et pratiques," paper presented at *Le financement de la créativité, Nouveau enjeux and nouvelle approches*, Conference organized by MosaiC in partnership with Banque Nationale, HEC Montréal, October, 2011

Behrmann, Dr Malte, *Game Development and Digital Growth*, European Games Developer Federation, Finland, 2011

Born Digital /Grown Digital: Assessing the Future Competitiveness of the EU Video Games Software Industry, J R Scientific and Technical Reports, 2010

Burrows, Helen and Kitty Ussher, *Risky Business*, DEMOS, 2011

Canada's Digital Future, A Submission by the Canadian Interactive Alliance, Submission to the Government of Canada's Consultation on a National Digital Economy, Canadian Interactive Alliance, July 13, 2010

Canada's Entertainment Software Industry in 2011, prepared by SECOR Consulting for the Entertainment Software Association, May 31, 2011

Canadian Interactive Industry Profile, Canadian Interactive Alliance, February 2009

Canadian Interactive Industry Profile, Canadian Interactive Alliance, 2006

Cecil, Charles and Chris Wright, *Playing the Game: Insider Views on Video Game Development*, for NESTA, February, 2010

Charne, Jim, *Toward an Alternative to the Advances, Recoupment, & Royalty Model for Developers*, International Game Developers Association, 2002

Consultations on Future EU 2020 Strategy, European Union, Brussels, 2009.

Content Everywhere: Mapping the Digital Future for the Canadian Production Industry, Canadian Media Producers Association, February 2012

Convergence 2011: Australian Content State of Play Informing Debate, Screen Australia, August, 2011

Cross, Tim “All the World’s a Game”, *The Economist*, December 10, 2011

Deforges, Jacques, Vice-President, Sales and Service, Entreprises pour le Québec, “Le point de vue de la Banque Nationale,” paper presented at *Le financement de la créativité, Nouveaux enjeux and nouvelle approches*, Conference organized by MosaiC in partnership with Banque Nationale, HEC Montréal, October, 2011

Deloitte Canada Submission, Submission by Deloitte Canada to the Government of Canada's Consultation on a National Digital Economy, July 8, 2010

De Prato, G., C. Feijóo, D. Nepelski, M. Bogdanowicz, and J.P. Simon, *Born Digital / Grown Digital: Assessing the Future Competitiveness of the EU Video Games Software Industry*, European Commission, 2010

Digital Broadband Content: Public Sector Information and Content, OECD, March 30, 2006

Digital Marketplace for Global Media and Entertainment, Report by the iN2015 Digital Media and Entertainment Sub-Committee, Singapore, June, 2006

Directions in New Financing for the Cultural Media Industry, prepared by Nordicity with Pricewaterhousecoopers for the OMDC, January 2010

Don, Sallie, “In need of a game changer,” *The Australian*, October 11, 2011

Drive the Future. Be a Player. Go Infocomm, Report by the iN2015 Infocomm Competency Council, Singapore, June, 2006

Drivers of Performance in the Canadian Venture Capital Industry, Canadian Venture Capital Association, 2007;

Economic Study for the Film, Television and Digital Media Sector, prepared by Pricewaterhousecoopers for the OMDC, October 4, 2006

Empowering Learners and Engaging Minds, Through Infocomm, Report by the iN2015 Education and Learning Sub-Committee, Singapore, June, 2006

Enhancing Service, Enriching Experience, Differentiating Singapore, Report by the iN2015 Tourism, Hospitality and Retail Sub-Committee, Singapore, June, 2006

Esther Surden, “Angel Investor Tamarelli Tells Startups: Fail Early and Fail Fast,” *New Jersey Tech Weekly*, January 12, 2012

Étude comparative des systèmes d’incitation fiscale, prepared by Hamac Conseils et Mazars, for the Centre national du cinéma et de l’image animée, September, 2011

Europe 2020: A Strategy for smart, sustainable and inclusive growth, European Commission, March 3, 2010

European Interactive Games: The 2005 State of the Industry Report, Games Investor Consulting Limited, 2005

Evolving Views of Sustainability in Private Equity and Venture Capital, The Private British Equity and Venture Capital Association, 2011

Fraser, Dr Stewart, *Access to Finance for Creative Businesses*, Department for Culture, Media and Sport, UK, May 2011

From funding gaps to thin markets – UK Government support for early-stage venture capital, NESTA, September 2009

Fulfilling the Promise of Venture-Backed High Potential Companies, European Private Equity and Venture Capital Association, October 2005

Game Development and Digital Growth, European Games Developer Federation, 2011

Game On, Canada! Playing to Win in the Digital Economy, Entertainment Software Association, April, 2010

Gibson, Rick and Nick Gibson, *Raise the Game: The Competitiveness of the UK's Games Development Sector and the Impact of Governmental Support in Other Countries*, Prepared by Games Investor Consulting Limited for NESTA, December 2008

Gilles Duruflé, *Government Involvement in the Venture Capital Industry*, Canada Venture's Capital and Private Equity Association, May 2010

Gilles Duruflé, *The Drivers of Canadian Private Equity*, Canada Venture's Capital and Private Equity Association, CVCA Annual Conference, May 2010

Global Trends in Venture Capital 2009 Global Report, Deloitte, 2009

Green Paper: Unlocking the Potential of Cultural and Creative Industries, European Commission, Brussels, 2010.

Growing the Businesses of Tomorrow: Challenges and Prospects of Early Stage Capital Investment in Canada, Macdonald and Associates Limited, March 2005

Growing to Go Global. Report by the iN2015 Enterprise Development for Singapore-based Infocomm Companies Sub-Committee Innovation, Integration, Internationalisation, Singapore, June, 2006

Le marché de jeu vidéo, Centre national du cinéma et de l'image animée, November, 2010

Lerner, Josh, Yannis Pierrakis, Liam Collins and Albert Bravo Biosca, *Atlantic Drift: Venture Capital Performance in the UK and the US*, prepared for NESTA, June 2011

Linthwaite, Peter, speech at the UK Trade & Investment Seminar, Dusseldorf, UK Trade & Investment Seminar, February 27, 2007

Livingstone, Ian and Alex Hope, *Next Gen: Transforming the UK into the World's Leading Hub for the Video Games and Visual Effects Industries*, NESTA, February 2011

Macchiarella, Pietro, *Social Gaming: Market Updates*, for Parks Associates, 2011

Miquel, Arnaud, "Reforms for the Australian video game industry," INA Global, November 23, 2011, <http://www.inaglobal.fr/en/video-games/article/reforms-australian-video-game-industry>

Minutes: Game Development and Digital Growth, European Game Developers Federation, May 25, 2011

Mumford, Kenneth, *Digital Funding: Funding Opportunities for a Growing Digital Media Business*, MBM Commercial LLP, United Kingdom, September 28, 2011

National Broadband Plan: Connecting America, Federal Communications Commission, United States, 2010

New Media Business Model Exploration Study, Final Report, Manitoba Interactive Digital Media Association, June 28, 2007

New Media Manitoba's Submission to the Government of Canada on the Digital Economy Strategy Consultation Paper, Prepared for the Government of Canada Consultation on a National Digital Economy Strategy, New Media Manitoba, July 14, 2010

New Media Sector: Opportunities for Investment, Talent and Enterprise, prepared by Price-WaterhouseCoopers for British Columbia Ministry of Economic Development.

Ontario 2012: Stimulating Growth in Ontario's Digital Game Industry, prepared by SECOR Consulting for the OMDC, 2010

"Paying for Pixels", *The Economist*, December 10, 2011.

Paul Hyman, "The Next Wave of Free-to-Play: Licensing," *Gamasutra*, 2010

Pierrakis, Yannis, *Venture Capital: Now and After the Dotcom Crash*, NESTA, July 2010

Pierrakis, Yannis and Colin Mason, *Shifting Sands, The changing nature of the early stage venture capital market in the UK*, NESTA, September, 2008

Phil Elliot, "Fund Games: North America," *Gamesindustry.biz*, January 16, 2008

Playing for Keeps 2011: Enhancing Sustainability in Australia's Interactive Entertainment Industry, Screen Australia, 2011

Playing for Keeps: Challenges to Sustaining a World-Class UK Games Sector, report prepared by Game Investor Consulting for UK Trade and Investment, October 2007

Promoting Investment in the Cultural and Creative Sector: Financing Needs, Trends and Opportunities, prepared by KEA European Affairs for ECCE Innovation - Nantes Métropole, June 2010

Recommendations for Improving Canada's Role in a Digital World, Submission to the Government of Canada's Consultation on a National Digital Economy, Battle Goat Studios, July 14, 2010

Response to Reflections Paper on Creative Content in a European Digital Single Market, Interactive Software Federation of Europe, Belgium, January 2010

Rob Fahey, "Fund Games: Europe Part 2, Creativity battles government apathy and high costs in the Old World," *Gamesindustry.biz*, January 23, 2008

Saskatchewan Interactive Media Association Sector Study Final Report, report prepared by Kisqueard for the Saskatchewan Interactive Media Association, October 5, 2010

Scottish Investment Bank 2010/2011 Annual Review, prepared by Scottish Enterprise, October 12, 2011

Supporting Start-ups in the UK Games Development Sector, TIGA, 2011

Tabourin, Patrick, Vice-President, Product Management and R&D, Radio IP Software Inc. and ex-director general of Réseau Anges Québec, "Le point de vue du capital risque," paper presented at *Le financement de la créativité, Nouveau enjeux and nouvelle approches*, Conference organized by MosaiC in partnership with Banque Nationale, HEC Montréal, October, 2011

Tax-Advantaged Venture Capital Schemes: A Consultation, HM Treasury, UK, July, 2011

Tax Credits and Other Incentives for Digital Media in Canada, Broadcasting and Digital Communications Branch, Department of Canadian Heritage, January 2011

The Entrepreneurial Dimension of the Cultural and Creative Industries, report prepared by Utrecht School of the Arts with K2M Limited and Eurokleis for Education and Culture DG of the European Commission, 2010

The Games Sector in Ireland: An Action Plan for Growth, Forfas, Ireland, October 2011

The Money Game, Project finance and video games development in the UK, NESTA, February 2010

The Opportunities and Challenges of a Growing Industry, The Entertainment Software Association of Canada, March 2009.

Time to Play, prepared by Games Investor Consulting Limited for NESTA, 2009

UKIE Policy Paper: Access to Finance, The Association for UK Interactive Entertainment, March 2011

Unlocking the Potential of the Cultural and Creative Industries, European Commission, 2010

Venture Capital Industry Review, Business Development Bank of Canada, February 2011

Weidemann, Teut, *Videogames and Market Dynamics*, Wings Simulations, 2003

Wiltbank, Robert E., *Siding with the Angels: Business Angel Investing – Promising Outcomes and Effective Strategies*, NESTA and British Business Angels Association, May 2009

Why Venture Capital is Essential to the Canadian Economy: The Impact of Venture Capital on the Canadian Economy, Canadian Venture Capital & Private Equity Association, January 2009

Working in Australia's Digital Games Industry, Consolidation Report, prepared for Australian Research Council Centre of Excellence for Creative Industries and Innovation (CCI) and Queensland University of Technology in partnership with the Games Developers Association of Australia, May 2011.

Annex 2: List of Stakeholders Interviewed and Interview Guides

Guillaume	Aniorte	Tribal Nova
Chris	Arsenault	iNovia Capital
Jean-Francois	Arseneau	ODD1
Deirdre	Ayre	Other Ocean
Mark	Bishop	marblemedia
Catalina	Briceno	Canada Media Fund
Robert	Caouette	Export Development Canada
Dominique	Champagne	National Bank
Wilkins	Chung	A thinking ape
Nathalie	Clermont	Canada Media Fund
David	De Weerd	Sceneverse
Jesse	Divnich	EEDAR
Trevor	Doerksen	Mobovivo
Howard	Donaldson	DIGIBC
Jonas	Eneroth	ProCloud Media
Michael	Fergusson	Ayogo.com
Andrew	Fisher	Wesley Clover
Joanne	Gordon	RBC
Vikas	Gupta	TransGaming Technologies
Daniel	Hawes	March Entertainment
Ray Sharma	Irving Ho	XMG Studio
Mark	Jackson	Seahorn Capital
Jim	Laird	Laird Maduri
Reynolds	Mastin	Canadian Media Production Association
Jonathan	Newth	Tenshi Ventures
Jean-Philippe	Normandeau	Banque d'affaires SODEC
Pierre	Proulx	Alliance Numeriq
Maurice	Prudhomme	Fonds d'investissement de la culture et des communications
Richard	Remillard	Canadian Venture Capital Association
Andra	Scheffar	Bell Broadcast and New Media Fund
Michael	Schmaltz	Digital Extremes
Marc	Seguin	Canadian Media Production Association
Ken	Seto	Massive Damage
John	Sutyak	Digital Development Management
Susanne	Vaas	Canadian Media Production Association
Nathan	Vella	Capybara Games
Jon	Walsh	Fuse Powered
Calvin	Wang	Loud Crow
Careen	Yapp	Konami

*Interview Guide for Experts and Funders***Current State of Financing for Interactive Digital Media**

1. In your view, does Canada have a comprehensive range of financing tools that are meeting the needs of the interactive digital media sector? For example, does it have the right mix of public support measures such as guarantees, tax credits and grants; equity financing (venture and angel); debt financing (loans)?
2. What challenges you have seen working with Canadian companies in getting your deal done. What are we doing well? What do we need to improve? For example, did you have to spend a lot of time undoing contracts or working around unnecessary roadblocks?
3. If you were to characterize the greatest financial need for Canadian companies, what would it be? Seed money? Start-up? Finance investment in new products and services driven by the need for experimentation, research and development? Investment in growth in order to reach a critical size?

Financing Instruments

4. What are the innovative business and revenue models being used?
5. What are the financing features of the success stories?
6. Do we need to keep financing projects or do we need to recalibrate our approach to invest in companies first and let them invest in their project?

Future Directions

7. What financing instruments should be made more available to companies that are not currently?

*Interview Guide intended for Companies***Background: Profile of the Company**

1. Description of the company
2. Description of the successful project(s), characteristics of your business model and revenue model.

Success Factors

3. What was the most important source of financing that helps explain the success of your project/company?
4. Of all the financing sources available to your company (and Canadian companies in general), which are seen to be the most effective? Less effective?
5. Of all the financing instruments available to your company, which ones have been most effective: public support measures such as guarantees, tax credits and grants; equity financing (venture and angel); debt financing (loans)?
6. In terms of financing your project(s), what challenges, if any, have you had in getting your deal(s) done? For example, did you have to undo contracts to work around unnecessary roadblocks? Was IP retention a factor in the type of financing that you sought out? How did it fit in to your business model?
7. Did the international market play a role in the success of your project?
8. In your opinion, are companies focused more on project financing because this is the financing that is available from the government? Should corporate financing be a priority?

Future Directions

9. What financing instruments will your company need to grow in the future?
10. What will be your company's most important financial need?
11. What needs to be modified to the financing landscape to meet your needs?

Annex 3: Financing of Interactive Digital Media in Selected Countries

1. The United Kingdom

Measures

England has direct and indirect government support accessible by the video game industry. There is a R&D tax credit and the Technology Strategy Board grants. There are also games industry training programs accredited by Skillset. In some cases, companies can utilize the Enterprise Investment Scheme and the Venture Capital Trusts to raise private equity funding. The National Endowment for Science and Technology (NESTA) also has a series of initiatives to promote innovation through mentorship, knowledge transfer and skills development.

A government funding program being offered to entrepreneurs across the United Kingdom is *Fund 4 Games*, project funding offered to the developers of games or publishers to enable them to have the working capital so they can develop a game. To be eligible, the developers have to be UK-based although publishers may be based elsewhere. Games should also be programmed for a standard console. The overall budget for the game needs to be £0.5 million up to £3 million. Funding also has to be for the development of a particular game, rather than general funding.

This program is typical in that it provides project funding rather than seeking to take equity, and takes royalties from sales. This model is described as being similar to that of a book publisher giving an advance to an author. However, the funds provided are relatively small, and its success is mainly due to the specialist knowledge of those who run the program.

It is felt that greater harmony should be encouraged between developers and financiers as there is a perception that there is “a mismatch between those communities.”⁶² When compared to Silicon Valley, one of the challenges is that American success is tied to a culture of investment and risk which it is believed needs to be replicated in the United Kingdom.

In Wales, a sector-specific scheme has been developed by the local government through Finance Wales. Established in 2005, the Wales Creative IP Fund invests private and public funds (including EU funds) for the benefit of creative businesses based in Wales through loans and equity capital at all stages of their development. Wales Creative IP invests mainly in film, TV, new media and music production and has a budget of £11 million. It provides capital (of between £55,000 and £780,000) alongside money already raised by the business (which needs to raise a minimum of 60%).

In Ireland, Enterprise Ireland Competitive Start Fund⁶³ provides equity financing of £50,000 to ten internet- and game-related businesses. The Fund helps eligible companies (start-up companies with less than 100,000 pounds a year in turnover) to develop “their product-market fit with real customer validation and to develop and launch their product for global trial.”⁶⁴ More recently, the Irish government has published a report that recommends the introduction of government tax-based incentives, R&D and project grants. A recent report recommends reducing income tax for video game professionals; extending and specifying the existing R&D tax break to include video game development; and significantly extending

⁶² Alex Meer, Vaizey: “Mismatch” between game dev and finance communities,” Op. Cit.

⁶³ *The Games Sector in Ireland: An Action Plan for Growth*, Op. Cit., page xxii.

⁶⁴ *The Games Sector in Ireland: An Action Plan for Growth*, Op. Cit., page 29.

the existing games investment fund to essentially compensate for the lack of local venture capital investment.⁶⁵

In Scotland, the Digital Media IP Fund is jointly financed by Scottish Enterprise and the Creative Scotland Innovation Fund. Investment from the Digital Media IP Fund aims to stimulate the development and production of innovative, non-broadcast interactive content that encourages co-investment from the private sector and is capable of generating revenue for Scottish based companies. Funding is available for original digital interactive media content and the technological development of associated delivery platforms, including: a) computer-aided social networks; b) peer-to-peer technologies; c) mobile media; d) collaborative knowledge networks; e) user-generated content; f) global online content; g) imagined/alternative life networks; and h) interactive learning and interactive leisure.

Challenges with Financing

A number of reports in recent years have identified a lack of access to both public and private finance as a key factor in the lack of growth of the industry in the United Kingdom. A report commissioned by the Independent Gamers Association (TIGA) in 2011 found that 216 new studios had opened their doors between 2008 and 2011, but 197 has also been shut down. The study found that the UK's share of global investment in the games industry had declined from 10% to just 3.5%.⁶⁶ Despite an almost record number of start-up studios, the industry's potential is being held back by limited access to both private and public finance. Poor access to finance has contributed to a high incidence of business closures in the game sector.

Raising finance is a critical issue for the UK industry. Too many games businesses struggle to find funds to grow after the earliest, prototype phase. It is hard to raise debt, bond and equity finance because of the high levels of uncertainty about consumer demand and the intangible nature of video game IP. At the same time, game businesses generally have difficulty accessing the few public finance schemes that exist. Poor access to finance is holding back the growth of many games businesses and contributing to the failure of others.

VCs and business angels lack familiarity with the video games industry as it is a relatively new sector, although they are beginning to look at it now, as rewards are potentially big. Banks are not keen to fund the lengthy R&D periods that are needed in order to produce a game, and once again there are no guarantees of sales or even a finished product. It is a very competitive market, with consumers demanding ever more challenging and complex games, and increasingly games publishers and banks are withdrawing, leaving SMEs to fund their own development.

The Association for UK Interactive Entertainment (UKIE) has identified access to finance as a key barrier to growing the interactive entertainment industry in the UK. In addition to supporting the introduction of tax breaks, UKIE is examining how to change the perception that interactive entertainment businesses are risky investments; how else the UK's tax regime can be improved; and how the government can best measure the size and potential of the industry and therefore devote the necessary resources to it. The Association is also working to ensure that companies take full advantage of any current funding and benefits that are available. They have partnered with R&D tax specialists Jumpstart, the current R&D tax credit scheme which offers interactive entertainment businesses potentially big returns on their overall spend. The Association's partnership with Jumpstart means that members can get discounted access to their expertise and advice.

⁶⁵ *The Games Sector in Ireland: An Action Plan for Growth*, Op. Cit.

⁶⁶ *Supporting Start-ups in the UK Games Development Sector*, TIGA, 2011.

The Association has had a goal to introduce Games Tax Relief, improve the existing R&D Tax Credits and introduce a Creative Content Fund.

VC funding has a role to play in financing some game development, but it is very difficult to access such funding. VC funding by itself will not solve the wider problems of access to finance facing the sector. The government has committed to creating an attractive environment for VC and other sources of funding, and this is an area that the video games and interactive entertainment industry would like to take advantage of this area.

Yet, unnecessary barriers exist, prohibiting interactive entertainment firms from accessing venture capital. Venture Capital Trusts (VCTs) are intended as a vehicle for investments in businesses, not projects. However, the video games and interactive entertainment industry requires funding on a per project basis, e.g. for the development of a new game. Similar issues affect the interactive entertainment industry's use of the Enterprise Investment Scheme (EIS), which uses a slate (portfolio) model, and does not allow investment on a per project basis. This makes it difficult to offset losses on individual projects based on later successes and therefore makes investment more risky. Any additional risk combined with bureaucracy and an inappropriate vehicle for private project investment, makes it difficult for the industry to attract venture capital.

UKIE calls on the government to re-examine the rules relating to VCTs and the EIS, enabling the video games and interactive entertainment industry to compete for private finance on an equal footing. This is in line with the government's commitment to supporting finance for SMEs and promoting alternative sources of business finance.

TIGA has also been lobbying for some time for the introduction of a targeted tax break for game production. It would be aimed at improving the availability of finance for the sector and enable the sector to compete on a level playing field with our overseas competitors. The rationale has been that the introduction of tax relief in the UK would increase both private and public investment in the sector. On March 21, 2012, the UK government announced that it would introduce corporation tax breaks for the video games industry beginning in April 2013 in the amount of £15 million in 2013-14, and £35 million in 2014-15.⁶⁷

However, UK developers are missing out on investment from global publishers and from global venture capital. This is partly because the UK, unlike many key competitors, has lacked a tax break for games production, which effectively reduces the cost of games development. Access to debt, bonds and equity finance is difficult because of the high levels of uncertainty about consumer demand and the intangible nature of IP in the games sector. In contrast to the film industry, which benefits both from a tax credit and from lottery funding, there is negligible public financial support available for video game development.

The Association has made the case that the introduction of a well-targeted tax break for games production would also provide a higher level of tax relief for small studios, in order to reduce the cost of game development and enable the industry to compete on a level playing field. TIGA is also pushing for the establishment of a Creative Content Fund to provide match funding on a pound-for-pound basis up to a maximum of £100,000 in order to improve access to finance for small studios.

Finally, TIGA is also campaigning for an extension in the scope of the Small Firms Research & Development Tax Credits to help more indie developers and digital publishers. It is lobby-

⁶⁷ Matt Martin, UK Chancellor Confirms Tax Relief for Games, Games Industry International, March 21, 2012.

ing for tax relief on training, to enable small studios to offset expenditure on training against corporate taxes. These measures will provide developers and digital publishers with more money to build and to grow their businesses.

It is felt that the UK game industry is a success story, but some studios are not sustainable. These measures are aimed at making the UK game industry successful, sustainable and realize its potential.

2. Europe

Challenges with Financing

The European Games Developer Federation (which represents some 600 studios based in Austria, Denmark, Finland, France, Germany, Italy, Norway, Spain and the United Kingdom) is of the view that a diversity of financing instruments is the best approach to meeting the needs of the game industry.

Prototype funding that would support IP creation is described as very important for the industry. The Federation describes public funding tools such as tax credits, loan guarantees and micro credits as an effective way of using public monies but acknowledges that these tools would be more effective for the larger companies.

The European industry is well-positioned to take advantage of the growth of the games sector as it shifts to online and to gain independence from international media groups. At the same time, the industry remains both on and offline a very risky venture with high technological, artistic and business risks in a rapid, ever-changing environment. There is very little private capital available to fund new ventures or projects. A true hits driven business, only about 5% of initiated video games become profitable in the traditional retail driven market. Reducing development risks has thereby become critical for studios. As a result, outsourcing to emerging countries that offer tax breaks has become an important trend in recent years.

Access to finance is a priority for companies and their needs vary according to the company's stage of development, its value chain and the nature of activity that needs financing. There is no one-size-fits-all financing model.⁶⁸ There seems to be a focus on project financing to the detriment of company financing. Greater attention needs to be paid to corporate finance if businesses are to succeed in attracting a wide range of investment (equity financing). Such a difficulty in attracting investment is often due to investors' problems in assessing risks and valuing intangible properties.

Public intervention is perceived to be justified in order to trigger more private investment in the sector. Public policy is increasingly advocating for a greater and better use of private money to match public resources with a view to stimulating the sector's innovation and economic dimensions. The trend seems to be moving towards the direction of public-private models where venture capital, tax deductions, direct public subsidies or bank guarantees can support creative activity to generate wealth, economic activity and create employment.⁶⁹

⁶⁸ *Promoting Investment in the Cultural and Creative Sector: Financing Needs, Trends and Opportunities*, European Affairs, June 2010, page 21.

⁶⁹ *Promoting Investment in the Cultural and Creative Sector: Financing Needs, Trends and Opportunities*, Op. Cit., page 27.

The European Investment Bank announced that it is examining ways to make support more effective to the digital media sector, to facilitate access to venture capital.⁷⁰ The European Game Developers Federation is advocating that the European Commission:

- Recognize games officially as a form of cultural expression, and make them eligible in all member states for public funding with no restriction, as is the case in a growing number of non-European countries;
- Make video games a pillar of the MEDIA program, or create a video game-specific program;
- Balance European funding schemes for SMEs between loan guarantees and project prototype development / IP creation funding;
- Simplify the paperwork associated with funding programs for SMEs, and promote such programs more effectively.⁷¹

Venture Capital⁷²

Insufficient access to appropriate sources of risk capital, in particular at the early stage, continues to be one of the most significant constraints to the creation and development of growth-oriented firms. This is particularly true for young, R&D intensive and innovative firms. In 2000, €22 billion of venture capital (VC) were raised in Europe. In 2010, the amount raised fell to only €3 billion.

The average VC fund size fell considerably and initial public offerings have also dropped, creating additional difficulties for venture capital to exit their investments.

The EU venture capital market is underdeveloped, especially compared to the United States. This is also true for the business angel market. It is estimated that there are 75,000 business angels in Europe, who invest annually an estimated total of €4 billion (\$5.2 billion USD), compared to about 260,000 business angels in the US, investing annually about \$20 billion USD.⁷³

Long-term VC investments in the EU have been at the level of a quarter of that of the US. Innovative growth-oriented enterprises need a stable funding base to flourish. This requires the European VC market to reach a critical mass, economies of scale, increased cross-border flows, improved efficiency as well specialization and diversification of funds' portfolios. The most commonly cited weaknesses of the European VC industry are difficulties in raising capital from institutional investors, the quality of the investment opportunities available and the fragmentation of the market along national lines, which prevents the achievement of economies of scale in terms of both fundraising and investment.

⁷⁰ *Born Digital /Grown Digital: Assessing the Future Competitiveness of the EU Video Games Software Industry*, J R Scientific and Technical Reports, 2010.

⁷¹ *Game Development and Digital Growth*, European Games Developer Federation, 2011, page 3.

⁷² *An Action Plan to Improve Access to Finance for SMEs*, European Commission, 2011.

⁷³ *An action plan to improve access to finance for SMEs, Commission Staff Working Paper Accompanying the document, Communication from the Commission to the Council, The European Parliament, the Committee of the Regions and the European and Social Committee*, European Commission, Brussels, 2011.

Media Plus

The *Media Plus* initiative is a Europe-wide funding mechanism for the video game market. Only EUR 1.5 million (USD 2.15 million) is available in funding each year across the entire union, divided up into prototyping grants of between EUR 10,000 and 60,000. Console and handheld developers can apply for a larger grant, of up to EUR 100,000, providing that they make up half the funding. As such, the whole scheme is aimed at existing firms rather than start-ups; in fact, it's explicitly designed to provide prototyping funds to studios, which have had at least one successfully published product since 2005. However, it's an important step forward for European developers - not financially, perhaps, but in terms of recognition.

While territories like Canada and Singapore have been offering huge tax breaks and subsidies to development studios, Europe has, until recently, failed to acknowledge any value in the video game industry. The *Media Plus* scheme is a first step towards acceptance at an EU level - but at a national level, European states have vastly different approaches to the game sector.⁷⁴

France

For several years France has offered game companies a wide range of assistance from games-specific federal programs, including prototype funds, R&D grants and IP funds. The generic tax credits and a tax credit to stimulate start-ups are also useful vehicles for French games companies.

France has had a 20% development tax credit for video games production, the only one of its magnitude in Europe since 2008. In January 2012, the European Union removed the exemption because the credit is seen to represent government aid in the context of those countries that do not have such tax credit measures.

France also benefits from a 30% R&D tax credit, a 30% prototyping fund: *Fonds d'Aide pour l'Edition Multimédia (FAEM)* of up to USD \$19,000 and offers training grants of up to USD \$5,000. In France, companies are described as small and undercapitalized with the production cycle itself contributing to a high rate of turnover.

There are two major clusters of Paris and Lyon, which benefit from a range of national funds disbursed through regional funding bodies. The main program to support games in Paris is the Cap Digital, which has targeted tens of millions of Euros of support for game companies over the last decade. Lyon's more modest Imaginnove program has not generated as much financial support.

In its national economy strategy, France has targeted the digital media sector for support. Europe has a Digital Agenda initiative, which has examined various funding mechanisms to support small- and medium-sized companies aimed at increasing innovation and competitiveness (venture capital and guarantees).⁷⁵

France has measures (tax credits) to support business angels' investments and investments in business angel funds. The government has also invested in independently managed public/private funds through France Investissements.⁷⁶

⁷⁴ Phil Elliot, "Fund Games: North America," Op. Cit.

⁷⁵ *Unlocking the Potential of the Cultural and Creative Industries*, European Commission, 2010, page 11.

⁷⁶ Gilles Duruflé, *Government Involvement in the Venture Capital Industry*, Op. Cit.

3. Scandinavia (Norway, Sweden, Denmark and Finland)

Measures

Perhaps the most progressive of all the European regions regarding video game development is Scandinavia, the states of Norway, Sweden, Denmark and Finland. Launched in 2006 and recently renewed, *Nordic Game* is a commitment from governments in the Nordic region to support the gaming industry. In 2007, the *Nordic Game* program allocated DKK 5 million (€671,000) in two rounds of funding to a large variety of developers, mostly in the form of small grants. The program was hugely over-subscribed, with funding applications totaling over €3 million.

The program was renewed in 2011 for a total budget of DKK 26 million for four years. Starting with DKK 9 million in 2012, the budget will decrease each year, concluding with 4 million in 2015. Thus, and according to the plan, the years of the Nordic Game Program 2 will be a transition period, where increased financing and broadened support from the industry itself is to form the foundation for enduring Nordic cooperation within computer games from 2016 and onwards.

With a limited budget compared to 2006-2011, the *Nordic Game Program 2* will focus on its core activities. The development support program, which directly supports new Nordic game projects, will continue with a budget of DKK 5 million for 2012. The Norwegian support program is funded by the Ministry of Culture (Film Institute).

The Ministry of Commerce (Innovation Norway/Research Council) provides various forms of support such as establisher funds, tax refunds on R&D, and risk loans.

The focus on video game development in Scandinavia is, to a large extent, a continuation of the region's focus on the high-tech and communications industries - much like Canada's tax breaks for development are the offshoot of the nation's former efforts to attract film and TV production firms. Scandinavian nations have been world leaders in the rollout of consumer IT and high-speed broadband, and tiny Finland is unlikely home of one of the world's largest high-tech firms, Nokia. It's probably no coincidence that Finland also invests about EUR 6 million each year in game development, through its Tekes technical industry funding agency - a large percentage of the €21 million invested by every EU government combined.

Innovation Norway provides tax refunds on R&D and risk loans.

Challenge with Financing

Only a few games can recoup their investments solely from Nordic sales; the individual national markets in the Nordic region are fairly small and each country has its own language. The road from game developer to consumer is long; a game goes through many evaluation and confirmation stages, and most often it is a publisher with an international focus who decides which projects are funded and produced.

Rising development costs make it increasingly difficult to attract funding for game projects perceived as risky. These include games with new, creative concepts and game play, games that lack US or Japanese brand or licensing tie-ins, and projects with origins and production outside the US and Japan. International publishers have historically acquired the most suc-

successful independent Nordic development teams (those whom have surmounted the obstacles described above) thus moving decision-making out of the region.

4. Australia

Australia

In Australia, interactive entertainment products are financed primarily by publishers. Due to the high level of risk, large budgets and long development frameworks, local console game developers have generally been unable to access private finance. Government support does however make the industry a more attractive proposition to private investors. While there are direct funding programs currently available to the interactive digital media industry, they are generally directed at titles for digital distribution which are less expensive to produce and do not benefit large-budget interactive entertainment. Enhanced government support would be a catalyst for foreign investment as well as provide an opportunity to better foster the creation of interactive entertainment that is culturally relevant for Australian audiences.

Screen Australia has proposed to the Australian government the introduction of a tax credit for the interactive entertainment industry. The credit would apply to interactive entertainment products including console and downloadable games and would be scaled to expenditures. Projects with a minimum expenditure of \$500,000 would have access to a 30% tax credit on eligible expenditures, while those with a minimum expenditure of \$200,000 would have access to a 20% tax credit on eligible expenditures.

Also being proposed is the extension of current tax credits to those film and television companies that partner with an interactive digital media company. The goal is to extend the brand or narrative of a documentary or drama project.⁷⁷ The Interactive Entertainment (Games) Offset being proposed would expand the existing film 'Producer Offset' and would not require an additional application or eligibility test. (Current levels within film are at 40% for features and 20% for other projects under various thresholds.)

There would also be the introduction of *Online Production Fund* to focus on narrative, but with unique media including browser-based and other less obvious methods of telling stories.

The Australian government provides some direct support to the game industry through organizations like Screen Australia and the new Creative Industries Innovation Centre. The Victorian and Queensland governments are the main state governments that directly support game companies operating in these States. Overall, the level of government investment in the game industry is not sufficient to stimulate growth or help address the skills issues.⁷⁸

The intangible nature of the product (games software and graphics) means that the usual financial institutions may not wish to finance development. The structure of the industry means game publishers and game portals may wish to have partly or fully developed products before signing contracts with developers, which places the financial burden on small firms with only one or a few products and a short track record.

These challenges are even more acute for firms attempting to enter international markets. NESTA (2008) identified similar barriers to the OECD, referred to as structural weaknesses, which are also applicable to Australia's games industry. These weaknesses are unsustain-

⁷⁷ *Playing for Keeps 2011: Enhancing Sustainability in Australia's Interactive Entertainment Industry*, Screen Australia, 2011.

⁷⁸ *Working in Australia's Digital Games Industry, Consolidation Report*, Op. Cit.

able business models and barriers to finances; limited knowledge transfer with other creative sub-sectors; and lack of generous public support for games development, diverting resources and talent away to countries that provide industry with support e.g. France, Singapore, some US states.⁷⁹

The Australian government's Innovation Investment Follow-on Fund (IIFF) is a venture capital fund targeted to address the lack of capital available to the most promising innovative companies. The \$64 million of funding is shared by 11 fund managers from Rounds 1 and 2 of the Innovation Investment Fund, the Pre-Seed Fund and the ICT Incubators program. Through the IIFF, fund managers are able to provide follow-on investments to early stage companies that have already received investment capital under these programs.

The Innovation Investment Fund provides fund managers with \$20 million, which they must match with private sector capital to establish new funds to invest in promising early-stage Australian companies commercializing Australian research. The Pre-Seed Fund has over \$100 million in capital, of which the Australian government is providing \$72.7 million. Private sector investors, universities and public sector research agencies will provide the balance. Pre-Seed investments can be made into projects or companies that have been established to commercialize Australian research.⁸⁰

5. Asia: South Korea and Singapore

Korea

While Korea does not offer any game-specific tax relief, it does offer broad incentives to technology companies including (but not limited to):

- 5% of a high-tech firm's income treated as a loss;
- 50% rebate for first four years covering R&D and employee development schemes – compared to the 35% *SR&ED* credit in Canada; and
- Tax breaks to selected foreign and domestic high technology companies. These represent 100% in the first seven years and 50% in years 8-10 which is similar to the scheme offered in Quebec.

While Korea offers broadly focused tax incentives, Canada has targeted, effective tax incentives directed to the needs of game development firms. In 2006, the government intervened in this sector with the Game Industry Promotion Act and agencies such as Korea Creative Content Agency (KOCCA) and the Game Industry Total Information Service System (GITISS) were set up to enable development.⁸¹

Singapore

The Singapore government has funded over 300 projects in the Interactive Digital Media space since 2007 in order to stimulate its growth. There are 4 initiatives: *i.JAM* for start-ups, *iROCK* that funds research centers, *Interactive Digital Media in Education* for education related developments and *Futurescape* which co funds R&D efforts of commercial companies.

⁷⁹ Ibid.

⁸⁰ Gilles Duruflé, *Government Involvement in the Venture Capital Industry*, Op. Cit.

⁸¹ *Born Digital /Grown Digital: Assessing the Future Competitiveness of the EU Video Games Software Industry*, Op. Cit.

i.JAM Supports Innovative Interactive Digital Media Ideas in Singapore

The *i.JAM* (Initial Jumpstart And Mentoring) is one of the four funding initiatives of MDA's Interactive Digital Media Program Office (IDMPO) that funds start-ups with innovative ideas that can develop commercial products. The program also offers many matchmaking platforms for startups to pitch their ideas and attract private funding from a network of 40 potential investors and venture capitalists.

Annex 4: Profiles of Business and Financing Strategies of Ten Canadian Interactive Digital Media Companies

1. Console Game Studio

Company Overview

Number of employees: Over 100
 Number of years in business: 19
 Location: Ontario
 Sub-sector: AAA Console games

Access to financing

Publisher co-financing
 Invests own revenues
 Project funding through the OMDC Interactive Digital Media Program
 Provincial tax credits
 Bank loans

Summary

This company develops high-budget boxed games for console platforms, in partnership with publishers.

By lowering development costs, its proprietary game engines are enabling the company to compete effectively in the high-budget game console space.

The company's co-financing deals with publishers provide it with development financing, game development services such as quality assurance, and marketing and distribution of packaged goods. The company also retains certain passive exploitation rights on its titles.

The studio supports its relationship-building by providing game development services to other companies, through which it also generates consulting fees.

Business Strategy

This company develops triple-A games for Xbox 360, PlayStation3 and PC consoles, and deals primarily with publishers to co-finance and distribute its games. Publishers are seen as crucial to the company's business strategy, as it is publishers who have the expertise to market and distribute the company's games effectively. By co-financing the development of its games' development, publishers are incentivized to fully exploit the game in the market-place.

Deals with its publishers provide the company with development financing, game development services such as quality assurance, and marketing and distribution of packaged goods. The company also retains certain passive exploitation rights on its titles.

Financing

The main source of financing for the company is its publishers. The company leveraged its early successes to negotiate more advantageous partnerships with its publishers at a time when the industry was still relatively undeveloped in Canada and investors had little knowledge of the sector. The company notes that today, there are more sources of available financing, though publishers remain the most important to it.

Tax credits have been helpful in offsetting the costs to the company occasioned by the rising value of the Canadian dollar over the past decade. They can be used as a source of cash flow, but the fees associated with accessing the tax credits coupled with high interest rates on loan guarantees necessary to access interim financing limit their overall value as a source of financing.

The company has accessed some project financing to develop its own games, but notes the difficulty of building market value in proprietary IP unless “you hit it out of the park.”

Future Growth

The company intends to continue developing triple-A games in partnership with the major publishers. As the triple-A console game industry evolves, the company is adapting. With a trend towards either very big budget games or much smaller budget content, the company aims to be competitive in the high-budget game market. Its proprietary game engine enables it to develop its games more efficiently and compete more effectively by lowering development costs.

The studio also derives revenues by providing specialized game development services to other developers, thereby also supporting its relationship-building. The company will soon be releasing a new title financed by an international project investor together with the publisher.

2. Console Game Studio

Company Overview

Number of years in business: 6
 Number of employees: Between 30 and 50
 Location: Ontario
 Sub-sector: Downloadable console games

Access to Financing

Invests own revenues
 Public project funding
 Provincial tax credits
 SR&ED tax credits
 Bank loans
 Loan guarantees

Business strategy

This company develops its own wholly owned games for digital download. The company's initial vision was to create and exploit its own wholly owned games.

The company chooses to work directly with console platform holders, bypassing publishers. A successful in-house marketing and promotion strategy has led to success with its titles.

The company's strategy is to make the best quality game and build its brand, taking its IP out to other platforms for multiple revenue streams. 85% of the company's market is in the US and the company has a good understanding of how to position and market its own games.

Targeting a well-developed American promotional network, the company commits its own resources and time to effectively promote its games. It produces its own promotional material using in-house talent, while senior management travels to industry events to put their games in front of the right journalists. The company also aggressively promotes its games online.

Financing

Typical development financing structures include public project funding, bank loans and loan guarantees, the company's own revenues, and a minimum guarantee from the console platform holder. Tax credits are held outside the financing structure and re-invested in the company.

Initially building up revenues through work-for-hire, the company launched its first IP game three years ago, largely financed through corporate revenues, topped with government project funding. With effective positioning and promotion, the company has enjoyed a string of critically acclaimed hits. Recently, the company was awarded a large project grant to develop a new game. Today the company finances its projects using its own revenues, complemented by interim debt financing from bank on minimum guarantees obtained from its platform holder. The company is one of a few interactive digital media companies accessing debt financing through a major Canadian bank. The company also leverages R&D tax credits.

Future Growth

The company would like to double in size, and says requirements for growth in the downloadable games space are small. The company would like to benefit more from debt financing, for example to access an SME line of credit. However, it is difficult to approach banks. The company cites the EDC as working diligently to educate itself about their sector.

For now the company is confident, however they note that the console game industry is hits-driven and volatile.

3. Social Game Developer

Company Overview

Number of years in business: 4
 Number of employees: Between 30 and 50
 Location: British Columbia
 Sub-sector: Social games

Access to Financing

Business Accelerator Program Seed Funding
 Angels
 Invests own revenues
 Provincial tax credits

Business Strategy

This is a fast-growing company targeting a global market for its social games. It hired its first 40 employees in the past year. The company's strategy has combined low initial capital investment with quick, metrics-driven iterations. The company's proprietary technology platform allows it to iterate quickly.

This company originally launched with a plan to develop a new social media platform, however after a year and a half of development and seeing a better business opportunity, it pivoted to developing social games using its technology platform. Targeting a global market, the company set up its Canadian subsidiary in 2010.

The company's strategy has combined low initial capital investment with quick, metrics-driven iterations of its social media game. The company's proprietary technology allows it to iterate quickly. The company is currently experimenting with executing additional projects in parallel.

The company would consider accessing more private equity capital from either VCs or angels, to fulfil a number of potential needs: to finance additional hiring; to acquire other companies (if these could be integrated efficiently) and to enable it to develop more products.

Financing

This company was launched in Silicon Valley by two Canadian expatriates working in the US interactive industry, who had the idea to develop a social media platform. The two seized the opportunity to attend an accelerator camp for start-ups, where they hoped to start their new company and later expand it into Canada to take advantage of the great talent pool here.

Beginning with a seed grant of \$15,000, the two reached out to the accelerator's investor network, successfully raising \$400,000 in start-up financing from business angels. The company sought investors with relevant know-how who could help them. The company's investors in Silicon Valley trusted them to iterate quickly and move fast with the market.

Future Growth

To date, all growth has been financed from revenues. In terms of accessing future growth capital, the company maintains its connections in Silicon Valley, where it notes, circles are very tightly knit. It has also been approached by a number of VC firms. An important factor in accessing other private equity capital would be what investors could bring in additional to money, such as business advisors or contacts.

4. Mobile Game Developer

Company Overview

Number of years in business: 1
Number of employees: Less than 20
Location: Ontario
Sub-sector: Mobile games

Access to Financing

Business accelerator program seed funding
Angel investors

Business Strategy

This company has been highly successful with its recently released location-based game for mobile platforms. It is the second company founded by the two lead executives in just a few years. With their previous venture, the founders gained experience in running a company and competing on the iTunes App Store. The company was profitable only weeks after launching its first game.

The company's proprietary game engine enables rapid development and deployment of new location-based mobile games. The company aims to continue developing the platform to create a suite of location and social gaming API services that can be leveraged across a variety of games.

Financing

The most significant form of seed financing came from an early stage accelerator for start-ups run by a team of business angels while the two founders were still running their first company. The company was one of three in the program to attract follow on funding from business angels, raising \$375,000 in addition to its seed funding of \$50,000.

The company intends to access R&D tax credits and is interested in public project funding. However, the company notes that the paperwork involved in accessing tax credits and project financing is not well-suited to a lean start-up company, and that funding opportunities such as project financing or loan guarantees are not well known.

Future Growth

The company is now profitable and wishes to expand their brand and create a second game using their platform. It will need to hire a senior manager to help manage their growth and their team, which they hope to double by year's end.

Using profits to speed up growth is too slow and while tax credits are helpful, they are not useful in building the company as they are accessed after the development process. For this company, equity capital has been more appropriate to realizing its goal to grow quickly.

5. Technology Developer

Company Overview

Number of years in business: 7
 Number of employees: Less than 20
 Location: Ontario
 Sub-sector: Platform Developer

Access to Financing

Venture Capital
 IRAP funding
 Friends and family
 Angels
 Invests own revenues
 Public project funding
 Provincial tax credits

Business Strategy

This company provides enabling technology to media companies to bring their programming to multiple platforms, across the entire product lifecycle. The release of the iPad and other audiovisual tablets, with real-time analytics on their market penetration, has created interest in the media industry for the company's products and the company now has a sales channel partner in Burbank, California as well as a direct sales force in Canada.

Being a technology innovator, the company must sell to a large enough market with innovative, leading-edge customers. Presently, the company has targeted the US market, where most of its sales are taking place. It is considering expansion to the UK in the coming year.

Financing

This company was successful in attracting seed capital from a provincial VC firm in 2008, in the midst of a difficult equity market. The company sought needed additional investments from friends and family, and smaller angel investments, and secured innovation funding through IRAP.

Today, the company is being approached by VC firms, and is interested to see what it can bring to the company in addition to capital, such as relevant experience and innovative ideas.

Future Growth

Meeting with potential investors is allowing the company to be aware of all its opportunities should it need to expand rapidly. Its priority will be on non-diluted sources of financing. Equity financing has as many strings attached and it comes with advice, which works best when there are gaps in leadership.

The company sees a need for support programs that are flexible, which allow companies to employ Canadians without too many strings attached.

6. Technology Developer

Company Overview

Number of years in business: 12
Number of employees: Between 30 and 50
Location: Ontario
Sub-sector: Platform developer

Access to Financing

Venture Capital
Angel investors
SR&ED Tax Credit
Provincial Tax Credits
Loans and Loan Guarantees

Business Strategy

This company develops technology and is a distributor of interactive entertainment for multiple platforms, and develops its own content. The company licenses its enabling technologies to other platform-holders, develops proprietary content and distributes interactive entertainment through its distribution properties.

Working with some of the largest global game publishers and technology providers, the company distributes some of the world's biggest game franchises, primarily in the US, followed by Europe and Asia.

Financing

The company accessed seed stage financing through friends, family and angels, and received its first material investment of \$250,000 in seed stage capital through a VC syndication deal. Over a number of years the company survived through revenues and small injections of capital.

The company is also accessing project and R&D tax credits, though because of its public status, the benefits of these credits are limited. A more flexible tax credit program that could take into account the company's special circumstances would be of greater value.

The company has not been able to access government loan guarantees. To finance a recent acquisition, the company obtained sub-debt financing from non-government channels, which is more costly and adds to its risk.

Future Growth

The company's recent acquisition will help speed its growth. The company could also consider additional rounds of VC financing, either in the US or in the international market. The company finds VCs in Silicon Valley approachable, with significant investment capital and relevant expertise. The company could also try to fuel its growth through increasing its stock price, or reverting to private status with the help of a significant new investor.

7. Integrated Cross-Platform Media Producer

Company Overview

Number of years in business: 11
 Number of employees: Between 30 and 50
 Location: Ontario
 Sub-sector: Cross-platform and convergent media

Access to Financing

Public project funding
 International co-production financing
 International broadcaster pre-sales
 Broadcaster license fees
 Provincial tax credits
 Bank loans
 Invests own revenues

Business Strategy

With its beginnings as an interactive digital media company producing for the Web, today this company develops convergent media properties in an integrated way, exploiting its content on multiple platforms. The Terms of Trade recently adopted for the television industry provide the company with greater opportunities to sell its Web properties independently of associated television productions in multiple territories internationally.

Financing

Public project funding is very important to the financing of convergent media properties, as the market place for convergent media is not as well-developed. The company sees this evolving as demand from television audiences for multi-platform content continues to grow.

Together with minimum broadcaster license fees and project tax credits, Canadian project funding from sources such as the Bell Fund or CMF represents up to 60% of project financing. The company is working internationally to close the financing gap, noting that the international marketplace is an increasingly important component in financing projects. The company's access to project funds provides it with important leverage and positioning when seeking financing in international markets.

Future Growth

This company is business-focused and sees a number of necessary steps to reach the next level of growth: to have greater control over triggering public project financing, to have flexible financing instruments that would allow it to plan for and develop slates of projects, and more private sector investment.

The company would like to see government financing vehicles that could encourage private sector investment in the industry. In the meantime, the company is considering going abroad to attract a private equity investor.

8. Convergent Media Developer

Company Overview

Number of years in business: 5
 Number of employees: Between 30 and 45
 Location: Quebec
 Sub-sector: convergent media and browser-based games

Access to Financing

Public project funding
 Provincial tax credits
 Bank loans
 Provincial loan guarantees

Business Strategy

This company provides fee-for-service game development for convergent television properties targeting youth audiences. The company works with producers in the television industry and has been growing steadily since its inception and expects to triple in size over the next two years.

Financing

Project funds were a big percentage of the company's revenues at seed and startup, but they are seen as a more distant option going forward. The costs of accessing project funds are high and the company finds accessing project funds today to be more complicated. There is a perception that funders are looking for innovation, which is not fully defined, and may be at odds with the market requirement for programming that is widely accessible. To meet its financing needs, the company is doing more and more coproductions.

A separate challenge with respect to project financing is the lack of flexibility on the part of funders to allow the company to adapt its project to take advantage of market opportunities. The greatest challenge for this company is managing cash flow, and it must depend on interim financing, backed by Investissement Quebec, and traditional loans from its banking partner. Interim debt financing from banks covers only a portion of tax credits and the company is under enormous pressure to come up with the balance.

Future Growth

The company has positioned itself for growth through two avenues. It anticipates developing new markets for its convergent media development services in the US and Europe. The company would like to access financing for marketing the products it develops in the US market and sees this as a need in the financing environment. Secondly, the company has launched a start-up subsidiary with the goal of leveraging current opportunities in the multi-player browser-based game market. After 18 months, the subsidiary is in start-up mode and is being financed through project financing. Its business model is focused on free-to-play games combined with the sale of services and other virtual goods and targets the European market. It is currently seeking institutional partners to co-finance development and marketing and to share in the revenues. One challenge arises due to the profit sharing arrangements of the CMF, which are out of alignment with shares being taken by private equity investors. The company also accesses R&D tax credits, though the process for tax credit accreditation is lengthy, and has taken over a year.

The company finds it difficult to access seed funding and sees a need for greater availability of capital at this stage of development. Finding an angel investor to help develop a larger catalogue of titles would greatly enhance its long-term prospects.

9. Web-Based Publisher

Company Overview

Number of years in business: 6
 Number of employees: Between 30 and 50
 Location: Quebec
 Sub-sector: Convergent media

Access to Financing

Public project funding
 Provincial tax credits
 Venture Capital

Business Strategy

This company publishes convergent media content in secure proprietary online environments for kids. Its clients are major media companies in Canada, the US and France. The company attracts online subscription and sales revenues, and sells educational apps.

Financing

Convergent media funds are helping to leverage international distribution. The company is unique in that it secured investment from a VC firm early on, which it bought back later to be free to pursue different business lines. Instead, the company sought a strategic investor also active in the field of convergent media. It also retained an ownership stake in a corporate spin-off.

Tax credits work because they are automatic and most helpful are tax credits based on total corporate compensation, rather than project spending. Tax credits that grind down due to other credits and support are of limited use.

Tax credits are interim financed through the banks, though banks appear to be better adapted to the film business. There are times when the level of effort to secure bank financing is too difficult and the company makes do without them.

Future Growth

The company sees a great need for funds to support non-convergent interactive digital media content. Financing assistance is also needed to support online product exploitation and sustain growth.

In the convergent media space, there are few tools available in Canada to support corporate growth. The company needs to develop and commercialize its product internationally and sees a need for strategies to support international business development.

10. Mobile Applications Developer

Company Overview

Number of years in business: 18 months
 Number of employees: Less than 20
 Location: British Columbia
 Sub-sector: Mobile apps

Access to Financing

Bootstrapped
 Publisher licensing deals
 Reinvests own revenues

Business Strategy

Founded by two former executives of a major publishing studio in Canada, this company designs highly innovative and critically acclaimed applications for interactive reading experiences on tablets, based on licensing agreements with major literary publishers of children's books. Seizing the opportunities afforded by the lower barriers to entry in the applications market, this young company's strategy to date has been to bootstrap its initial operations and develop its technology platform, proving its concept. In its four months, it brought its first app to market. On the strength of that production the company has attracted interest and licensing arrangements from major US literary publishers.

The underlying platform built by the company allows it to create its products efficiently and scale its operations. The company also intends to build analytics into its applications understand how readers use them. For now, the company is tapping into the metrics available from channel partners.

The company has strong relationships with its channel partners in the tablet applications market. Having the channel partner promote the products is a tremendous help to the challenge of discoverability in the crowded app market. The company is currently in discussions with some of its partners to create more prominent launches.

Financing

The mobile market allows companies to build new applications quickly with smaller teams and to date this company has bootstrapped its operations and counts four shareholders. Its first product was created using content from the public domain.

Future Growth

The company notes that in some ways it is easier at the beginning as a company is focused primarily on developing its products with limited resources. The company is now moving rapidly from start-up to SME, becoming more efficient and better structured, with revenues and staff with specialized functions. The company needs to ramp up quickly to meet growing demand and requires an injection of capital to take it to the next level. Growing organically through sales alone would be too incremental and slow.

The company has been approached by private equity investors and must weigh the benefits of large rounds of VC investment against its desire to maintain creative and operational control over the company. One of its competitors is also interested in taking an equity position. The company may have greater flexibility if it can attract a business angel with a smaller investment and the right expertise and global connections. The company is currently evaluating its capital requirements.

Annex 5: Business and Revenue Models

The following list of 29 business and revenue models was prepared by David Perry, game developer and consultant. These were originally published on the Lightspeed Venture Capital online blog.⁸²

- *Retail (bricks & mortar)*: Selling boxed product at places like Beams, GameStop or Virgin Megastore. This also includes mom & pop stores, hardcore specialist gamer shops, and online retailers like Amazon.com that ship the product to your door. The gap in this market is “same day” physical delivery of games too big to download or first party titles (basically combining online and bricks & mortar in one solution.) The future of this space is pre-paid cards as consoles will go online only, distributing everything directly to the consumer, so retail (to make it worth selling the hardware) will need a cut of the software sales. Hence The GameStop tactic of re-selling used games to avoid paying for new product will finally be over. To drive users to retail, the making of special “enhanced” versions just for their retail chain is a common practice.
- *Digital Distribution*: Direct download, direct-to-consumer (Steam from Valve Software, the PlayStation Network or Xbox Live Arcade from Microsoft). This also technically includes “unlocking” access to a game already on a service, like the faux install process on Facebook, however the player would have to pay for this unlock.
- *In-Game Advertising*: Either obvious billboards or branded items in the game world, or subtle product placement (certain clothing, sunglasses or vehicles like Gaia Online), or built into story elements (e.g. the hero’s girlfriend works for Neutrogena). Companies like IGA, Massive, Game Jacket, Mochi Media, Google, VideoEgg, etc.
- *Around-Game Advertising*: Making money from banner and skyscraper adverts that circle the gameplay window. This is common in Flash game aggregator sites, which use services like Google, Commission Junction, personal affiliate deals, etc. The revenue comes from CPM (cost per thousand views), CPC (cost per click), CPA (cost per acquisition of a player), CPP (cost for a “real” player who really plays for a certain time, or to a certain level).
- *Pay Finder’s Fee from First Dollar*: This allows you to pay much higher finder’s fees with no risk, e.g offering the first \$25 that comes in from any player they find. You balance the fee to a sensible percentage of the average income you get from players. Acclaim gets around \$70 per paying player.
- *Advertgames*: The whole experience is an advert, common on movie websites, can also be big like America’s Army or the Burger King games on Xbox 360. The advertiser helps fund the game and depending on the deal, that determines who earns cash out of the revenue. Your reputation will impact this equation.
- *“Try Before you Buy”/Trialware/Shareware/Demoware/Timedware*: Giving players crippled, shortened, or restricted time versions of a game for free, while trying to up-sell the full version. This is a real balancing act as too much in the demo can kill any hope of future sales. Xbox Live has been experimenting with this concept, and seem to have hit the sweet spot by giving one playable level and then a big reveal (e.g. a giant boss mon-

⁸² <http://lsvp.wordpress.com/2008/07/02/29-business-models-for-games/>. The list was recently re-published in *Working in Australia’s Digital Games Industry* – Consolidation Report, Op. cit., pages 79-80.

ster around the corner) then say “Buy the full version to continue!” That’s basically the “cliff-hanger” trick, and just like TV it works.

- *Episodic Entertainment*: Borrowing from the TV model, consumers either buy the episodes in a serial fashion as they become available, pay for all episodes unlocked for a period of time, or they are sold as expansion packs.
- *Skill-Based Progressive Jackpots*: Players buy a ticket to enter into a tournament. This generates a progressive jackpot and winner who reaches a certain (winner) status wins the jackpot. You keep a percentage of the jackpots. The game must be skill-based.
- *Velvet Rope or Member’s Club*: Users pay for VIP access. They get special privileges and access to special areas on the site or in-game. They sometimes get special access to new product before anyone else. Basically the more interesting perks available, the more likely people will want them.
- *Subscription Model*: Like *World of Warcraft* or *Conan*, paid monthly, usually by credit card or automatic debit payment. It’s sometimes coupled with a retail purchase to get the install files/manual. Commonly players set up the credit card payments and don’t stop them, as they want to keep the game “available” or keep their characters alive that they’ve worked so hard to create. It’s pretty great to get a subscription from people who don’t even play, so expect more people to design games where they will clearly kill your characters if you stop paying. Not good for players, but it’s on the list as it’s a monetization method.
- *Microtransactions*: Small, impulse driven up-selling, for vanity, saving time, better communications, leveling up faster, etc. These are generally paid for using virtual points earned in the game or the points bought by the player for real money. A new trend is using friends to buy these items, where the item cost is inviting a friend to the game, or an amazing item costs you inviting all your friends to the game. Another trend is to sell consumable items like selling the bullets you fire, or buying gas for the car you race, however this really greys the “free-to-play” line.
- *Sponsored Games/Donationware*: Serious games, games for good, charity games. These are the games that are somehow helping society, so could be paid for by a philanthropist, or by a charity or non-profit, or by player donations. www.onebiggame.org is an example.
- *Pay per play/Pay as you go/Pay for Time*: Like the old arcade machine or pinball system, you only pay for what you need, for a pre-set number of lives, or as long as you can last. Also used in Internet cafes and game parlours. This model could be used for game time online as well.
- *Player to Player trading of Virtual Items*: Letting players trade land, property, characters, items, also by auctions. You keep a cut of all the money exchanged. You also keep the transactions safe for the player (they don’t have to go to the gold farmers or risk the black market for characters). Some games let the players cash this money out of the game, so it can become a full-time job, but is also a major fraud generator (they use fake credit cards, buy things, trade things, sell for cash, cash out).
- *Foreign Distribution Deals*: Similar to the movie industry, where you need funding, so you pre-sell your foreign distribution rights in advance, then use that money to fund the project in the countries you care about the most. www.gameinvestors.com will be helping people do this.

- *Sell Access to your Players:* Like lead generation, special offers, etc., this is where you monetize your user database by inserting special offers, or personal profile questions into the registration loop. Like when you register, you're asked to fill out a profile in return for virtual points. This is then paid for by an external agency that collects the data live. Value is equal to how exclusive the data is, how detailed (revealing), and how fresh. The agency would generally give you the questions and the capture code.
- *Freeware:* Get lots of users. It's not a plan to make money, but then again, if you make something that's very compelling you can expect offers to acquire your software, company or technology.
- *Loss Leader:* Focus on your real goal, meaning you sell the game far too cheap. There's clearly too much value for money, like the PS3 hardware strategy. You use the passionate following to your free game to help sell something else, like a toy, TV or movie deal, and that's where the real money is that you were focused on.
- *Peripheral Enticement:* The game cannot function without a piece of equipment, so it's a way to make money on the hardware. Gym equipment is a good example, (virtual bike or rowing games), tease with software into a very expensive purchase.
- *Player-to-Player Wagering:* They place wagers before they go head-to-head. The winner keeps the pot and you keep a percentage of every pot. The games they play must be skill-based games. Gambling virtual items is another technique, where they buy/earn/trade virtual items, then bet them on maybe a one-on-one-basketball game, the winner keeps the items. You made your money selling the items to them in the first place.
- *User-Generated Content:* Letting users make endless new content. They can sell it to each other, sell access to it, or get people to pay for time spent playing it for points to turn into cash (like IMVU), and you keep a cut of all sales.
- *Pay for Storage Space:* On a server to save progress, stats, game data, etc. As an example, this can be used for karaoke games where you pay to store your library of songs. Or at least you think you do, even though you are technically just making virtual storage space for your songs.
- *Pay for Private Game Server:* Where your friends come to play, like renting multi-player servers or giving your friends a maximum quality experience. This is more for the hard-core first-person shooter multi-player crowd.
- *Rental:* Stores like Blockbuster or online like *Gamefly*. The old rental paradigm meant trying to design the game so it couldn't be played through within one rental period. These days with the Netflix/Gamefly Model, it doesn't matter anymore.
- *Licensing Access:* Like signing a deal with a chain of cyber cafes to unlock your game for their users. Or using your game as a part of a TV show. Or letting a corporation use your brand in their advertising such as McDonald's *Line Rider* commercial.
- *Selling Branded Items from your site:* Using a service like Cafepress where you need to work hard on your identity to make this interesting for people to wear. For example, see *Gamer Vixens*.
- *Pre-Sell the Game to the Players:* This model lets fans actually fund the development of the title. For example, they pre-pay \$5 in advance for a \$50 game. They also get to see it get developed and get to provide feedback. When the game is launched, they get it for

free as they already paid the \$5 advance. Clearly, you have to either have a reputation or a very hot idea to generate enough interest in advance, but once you get on a roll, this can work.

- *Buy Something, get the game for Free*: This is the Trialpay model, where players buy something they want like a subscription to *Gamefly*. Then Gamefly gives Trialpay a nice fat fee. From that fee, you get paid and Trialpay gets paid. By signing up to Gamefly, they get their service and they also get your game (technically) for free.

List © 2008 David Perry. www.dperry.com

Annex 6: Overview of Financing Support for Interactive Digital Media Companies in Canada

Financing of Interactive Digital Media – National Public Measures

Organization	Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing				
Canada Media Fund Total value: \$350 million annual contributions	<ul style="list-style-type: none"> Digital media projects 	<ul style="list-style-type: none"> Repayable advances Recoupable investments Interest free loans 	<ul style="list-style-type: none"> <u>Development:</u> Repayable advance of up to 75% of the project's eligible costs in development or \$500,000, whichever is less. <u>Production:</u> Recoupable investment of up to 75% of the project's eligible production costs or \$1 million, whichever is less. <u>Marketing:</u> Non-interest bearing loan of up to 75% of the project's eligible marketing and promotion costs or \$500,000, whichever is less. 	<ul style="list-style-type: none"> The Experimental Stream supports the creation of innovative Canadian interactive digital media content and application software.
Canada Media Fund (continued)	<ul style="list-style-type: none"> Convergent productions 	<ul style="list-style-type: none"> Non-repayable contributions Repayable contributions 	<ul style="list-style-type: none"> <u>Development:</u> Repayable or partially repayable contribution of 50% of eligible costs to a maximum of \$50,000 for digital media component of project. <u>Production:</u> Non-repayable contributions of up to 50% of eligible costs of each digital media component, to a maximum of: <ul style="list-style-type: none"> \$500,000 for productions financed through Broadcaster performance envelopes; \$200,000 for Francophone minority language projects., Aboriginal projects and English language POV projects; \$100,000 for diverse languages projects. <u>Convergent Digital Media Incentive Program:</u> An additional non-repayable contribution to a maximum of 50% of eligible costs of eligible digital media component projects from all CMF funding programs combined, to a maximum of \$500,000 per project. <u>Versioning Program:</u> Non-repayable contribution up to an amount equal to eligible costs of project minus the broadcast license fee or financing from any other sources. 	<ul style="list-style-type: none"> The Convergent Stream supports multi-platform Canadian projects, which provide content on at least two distribution platforms, one of which is television.

Financing of Interactive Digital Media – National Public Measures

Organization	Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing (cont'd)				
Bell Broadcast and New Media Fund Total value: \$13 million contributed annually by Bell TV.	<ul style="list-style-type: none"> Convergent productions 	<ul style="list-style-type: none"> Grants 	<ul style="list-style-type: none"> Grants up to 75% of eligible costs, to a maximum of: <ul style="list-style-type: none"> - \$250,000 per production; - \$75,000 for low budget productions (of \$100,000 or less); - \$50,000 per development project A <i>bonus</i> grant matching broadcaster(s) cash production contribution to a maximum of \$100,000 (does not apply to low budget productions). 	<ul style="list-style-type: none"> Eligible productions must have both a broadcast component with a guaranteed broadcast licence from a Canadian broadcaster as well as a new media component. There must be an association between the two components.
TELUS Innovation Fund TELUS is in the midst of restructuring its funding allocations to replace the TELUS Innovation fund.	<ul style="list-style-type: none"> Digital media productions Cross platform productions 	<ul style="list-style-type: none"> Recoupable contributions 	<ul style="list-style-type: none"> Recoupable contribution of up to \$100,000 towards eligible costs of production. 	<ul style="list-style-type: none"> The TELUS Innovation Fund invests in new forms of high-quality, original Canadian content that explore new ways of approaching entertainment and storytelling and provides financing towards the production of innovative film, television, new media, or cross-platform content projects.
Atlantic Canada Opportunities Agency - Atlantic Innovation Fund	<ul style="list-style-type: none"> R&D projects explicitly linked to the development and commercialization of technology-based products, processes or services 	<ul style="list-style-type: none"> Conditionally repayable contributions 	<ul style="list-style-type: none"> The AIF can provide assistance of up to 80% of total eligible costs for non-commercial projects and up to 75% of total eligible costs for commercial, private sector projects. Eligible costs could include wages, salaries, capital costs and other operating expenses directly related to the research project. 	<ul style="list-style-type: none"> The Atlantic Innovation Fund (AIF) is an initiative through which the Government of Canada is making strategic investments aimed at increasing Atlantic Canada's innovation capacity.

Financing of Interactive Digital Media – National Public Measures

Organization	Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing (cont'd)				
Shaw Rocket Fund – Digital Media Stream Total value: \$2 million annually	<ul style="list-style-type: none"> Convergent productions 	<ul style="list-style-type: none"> Equity investment 	<ul style="list-style-type: none"> The Fund may invest up to a maximum of 75% of the total digital content budget. No maximum investment has been established, however the Rocket Fund expects to invest up to \$50,000 per digital content application. 	<ul style="list-style-type: none"> The Shaw Rocket Fund Digital Funding Stream provides equity financing for digital content related to Canadian television programs that the Rocket Fund has invested in to enhance the viewing experience for the audience and support the exploitation of the programs.
Fonds Quebecor Total value: Annual contribution of \$7.2 million by Videotron	<ul style="list-style-type: none"> Convergent productions 	<ul style="list-style-type: none"> Non-repayable contribution Repayable contribution 	<ul style="list-style-type: none"> <u>Television Program:</u> Non-repayable contribution to a maximum of \$500,000 not to exceed 35% of the total budget. Supplement to Internet broadcasting rights and the rights paid by a Canadian Programming Undertaking in order to broadcast the production. <u>Event/Film Program:</u> Repayable contribution to a maximum of \$200,000 not to exceed 10% of the production budget. Payable to distributor as supplement to minimum guarantee. Additional repayable contribution of up to \$40,000 equivalent to distributor contribution for interactive marketing strategy. 	<ul style="list-style-type: none"> Objective is to support creation of Canadian content and at the same time promote the use of new broadcasting models. Support is available for the production of Canadian television involving interactive multimedia components using platforms such as interactive television, VOD and/or mobile terminals and, mandatorily, high-speed Internet. Support is also provided for the distribution of French-language events or films involving a French-language Canadian broadcast and that have an interactive marketing plan.
National Research Council - Industrial Research Assistance Program	<ul style="list-style-type: none"> Project-related technology R&D costs of SME enterprises 	<ul style="list-style-type: none"> Repayable contributions 	<ul style="list-style-type: none"> <u>Industrial Research Assistance Program</u> Repayable contribution towards a portion of salary and contractor costs associated with the research and development project. 	<ul style="list-style-type: none"> The National Research Council of Canada Industrial Research Assistance Program (NRC-IRAP) provides financial support to qualified small and medium-sized enterprises in Canada to help them develop technologies for competitive advantage.

Financing of Interactive Digital Media – National Public Measures

Organization	Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Corporate Financing				
Economic Development Canada – Export Guarantee Program	<ul style="list-style-type: none"> Corporate financing towards international sales 	<ul style="list-style-type: none"> Loan guarantee 	<ul style="list-style-type: none"> The export guarantee coverage is typically 75% of the amount of the loan provided by the company's financial institution, however higher coverage is possible for small loans or investments outside of Canada. Costs are based on the associated risks, the duration of the guarantee and the amount of financing required. 	<ul style="list-style-type: none"> Export Development Canada (EDC) is a federal export credit agency, offering financial and risk management solutions to help Canadian businesses expand into the international market. Any Canadian company with export-related activities or foreign investments can inquire about this program. To qualify, the company's financial institution must be willing to establish a credit arrangement with it and participate in the financing.
Financial Incentive Programs – Projects				
Scientific Research and Experimental Development (SR&ED) Tax Incentive Program	<ul style="list-style-type: none"> R&D costs by Canadian businesses 	<ul style="list-style-type: none"> Tax credits 	<ul style="list-style-type: none"> Canadian-controlled private corporations can earn an investment tax credit of 35% up to the first \$3 million of qualified expenditures for SR&ED carried out in Canada, and 20% on any excess amount. Other Canadian corporations, proprietorships, partnerships, and trusts can earn an investment tax credit of 20% of qualified expenditures for SR&ED carried out in Canada. 	<ul style="list-style-type: none"> The SR&ED program is a federal tax incentive program, administered by the Canada Revenue Agency (CRA), which encourages Canadian businesses of all sizes, and in all sectors to conduct research and development (R&D) in Canada. It is the largest single source of federal government support for industrial R&D.

Financing of Interactive Digital Media – Public Measures – Alberta

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
Alberta Multimedia Development Fund	<ul style="list-style-type: none"> Non-recoupable grant 	<ul style="list-style-type: none"> 25% (no Alberta ownership is required) to 30% of eligible Alberta production costs. Maximum: \$5 million per project. 	<ul style="list-style-type: none"> The Alberta Multimedia Development Fund (AMDF) assists in conventional production practices and encourage new business models and alternative distribution or broadcast delivery options for screen-based audio-visual content creators. Grants are available for production, project/script development, export market development and training and mentorships.
Alberta Ingenuity Fund	<ul style="list-style-type: none"> Voucher 	<p>Innovation Vouchers are available in two denominations:</p> <ul style="list-style-type: none"> A Voucher for a maximum value of \$15,000 for an Opportunity Assessment Report or for specialized services related to business development and mentoring. A Voucher for a maximum value of \$50,000 for more substantial technology development activities such as product prototyping, lab verification, field testing, intellectual property protection, etc. 	<ul style="list-style-type: none"> The Alberta Innovation Voucher Program helps small technology and knowledge-driven businesses in Alberta get their ideas and products to market faster and is designed to enhance the ability of small businesses to be successful in the global marketplace. The Voucher program aims to assist small businesses to move more rapidly from concepts and ideas to commercial products or services, thereby gaining a competitive advantage in domestic and export markets. The program assists Alberta companies that are in the concept and formation stages of their business and helps to facilitate their movement into the growth stage.
Financing Incentive Programs – Projects			
Alberta Scientific Research and Experimental Development (SR&ED) Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> The credit is worth 10% of a company's eligible expenditures up to \$4 million, for a maximum credit of \$400,000. 	<ul style="list-style-type: none"> The Alberta Scientific Research and Experimental Development (SR&ED) tax credit benefits businesses of all sizes and in all sectors that conduct research and development that will lead to new, improved or technologically advanced products or processes. The credit is for all expenditures that are also eligible for the federal Scientific Research and Experimental Development Credit. The Alberta SR&ED tax credit is over and above the federal SR&ED credit.

Financing of Interactive Digital Media – Public Measures – British Columbia

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
British Columbia Film + Media – Digital Media Development Envelope	<ul style="list-style-type: none"> Non-recoupable advance 	<ul style="list-style-type: none"> Up to \$25,000 and does not require matching funding or market support to trigger eligibility. 	<ul style="list-style-type: none"> The Digital Media Development Envelope is a partnership between BC Film + Media and the BC Arts Council. The program is intended to provide film or television based entertainment companies with an envelope of money to support a range of eligible interactive digital media activities.
British Columbia Film + Media – Interactive Fund	<ul style="list-style-type: none"> Non-recoupable advance 	<ul style="list-style-type: none"> Up to \$50,000 and does not require matching funding or market support to trigger eligibility. 	<ul style="list-style-type: none"> The Interactive Fund is a program created in partnership between BC Film + Media and the BC Arts Council. The program is intended to support the production of high-quality, original, interactive digital media content owned and controlled by BC companies or individuals.
Financial Incentive Programs – Projects			
British Columbia Interactive Digital Media Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> 17.5% tax credit on eligible salary and wages incurred by eligible corporations to develop interactive digital media products. 	<ul style="list-style-type: none"> Taxable Canadian corporation with a permanent establishment in BC whose principal business is to develop interactive digital media products. Wages and salaries must be paid to BC residents. Companies that claim the BC SR&ED tax credit or register as an eligible business corporation are not eligible.

Financing of Interactive Digital Media – Public Measures – British Columbia

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Financial Incentive Programs – Projects			
BC SR&ED Tax Credit Program	<ul style="list-style-type: none"> ▪ Refundable tax credit ▪ Non-refundable tax credit 	<ul style="list-style-type: none"> ▪ Up to 10% of eligible expenses, to a maximum expense of \$3 million/year. Credits can be carried forward ten years or back three years. 	<ul style="list-style-type: none"> ▪ Designed to encourage research and development in British Columbia that will lead to new, improved, or technologically advanced products or processes. ▪ The program provides tax credits to companies that carry on SR&ED in British Columbia. ▪ Cannot be combined with the BC Interactive Digital Media Tax Credit.
Financial Incentive Programs – Private Investors			
BC Venture Capital Program	<ul style="list-style-type: none"> ▪ Non-refundable tax credit ▪ Refundable tax credit 	<ul style="list-style-type: none"> ▪ Corporations: 30% non-refundable tax credit of investment in an eligible business corporation (EBC) (no annual limit on tax credit). ▪ Individuals: the same but refundable and max \$60,000 tax credit / taxation year. 	<ul style="list-style-type: none"> ▪ An eligible business corporation must have no more than 100 employees; pay at least 75% wages to BC residents, and have equity of at least \$25,000. ▪ Investments can be made: 1) through a venture capital corporation (VCC) or 2) directly from investors if small business is registered as an eligible business.

Financing of Interactive Digital Media – Public Measures – Manitoba

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
Commercialization Support for Business Program	<ul style="list-style-type: none"> Conditionally repayable contribution 	<p>Commercialization Support for Business is industry-agnostic and includes:</p> <ul style="list-style-type: none"> Concept Development (max up to \$25,000); Product Development (max \$40,000); Product Commercialization (max \$200,000); Market Development (max \$30,000); Certification Assistance (max \$15,000); Intellectual Property (max \$25,000). 	<ul style="list-style-type: none"> Commercialization Support for Business Program aims to help entrepreneurs and businesses with every stage in the business lifecycle. Entrepreneurs can get support to create new ideas, products, services, processes, markets and jobs in all sectors and regions of the province. The Program targets Manitoba entrepreneurs and businesses seeking to develop and commercialize innovative products, processes, and expanding into new markets. Products must be disruptive to the marketplace by replacing imports (CSB supported products are not currently manufactured by competitors in Manitoba). The Program provides financial assistance to cost share eligible arms-length third party expenses on a 50/50 basis. The Government of Manitoba's total contribution to funded projects will not exceed 50% of eligible/approved costs. Total government support from all levels of government (federal, provincial, municipal), including tax rebates, cannot exceed 75% of total project costs.
Financial Incentive Programs - Projects			
Manitoba Interactive Digital Media Tax Credit	<ul style="list-style-type: none"> Refundable Corporate Income Tax Credit 	<ul style="list-style-type: none"> Equal to 40% of Manitoba labour costs of prototyping and product development of eligible interactive digital media projects. The maximum tax credit on an eligible project is \$500,000. Wages and salaries cannot be claimed for both this credit and the Manitoba Film and Video Production Tax Credit. 	<ul style="list-style-type: none"> A qualifying company must be a taxable Canadian corporation with a permanent establishment in Manitoba. Minimum of 25% of total wages and salaries must be paid to employees who were Manitoba residents in the project period.

Financing of Interactive Digital Media – Public Measures – Manitoba

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Financial Incentive Programs - Projects			
Manitoba R&D Tax Credit	<ul style="list-style-type: none"> Non-refundable tax credit 	<ul style="list-style-type: none"> Provides a 20% non-refundable tax credit applied against Manitoba corporate income tax payable. 	<ul style="list-style-type: none"> To encourage research and development in Manitoba. Eligible corporations must incur qualifying scientific research and development expenditures (as defined for federal income tax purposes) in Manitoba.
Financial Incentive Programs – Private Investors			
Small Business Venture Capital Tax Credit Program	<ul style="list-style-type: none"> Non-refundable tax credit 	<ul style="list-style-type: none"> 30% non-refundable provincial tax credit up to an annual limit of \$135,000 in provincial tax credits. From the \$135,000 of earned provincial tax credits the investor can claim on its income tax return an annual limit of \$45,000 in provincial tax credits and carry forward unused credits for ten years. 	<ul style="list-style-type: none"> The SBVCTC will assist eligible small corporations to issue new equity to primarily new investors. The small corporation will be able to issue from \$100,000 up to a limit of \$5 million of new equity that will be eligible investments for the SBVCTC. The SBVCTC is not a tax benefit for the eligible corporation. The business must be a Canadian-controlled private corporation; all or substantially all of the carrying value of the assets must be used principally in an active business; the revenue of the business must principally be derived from one or more active businesses that are not ineligible activities; the small corporation has at least \$25,000 in stated capital; have either, (i) 50 or less full time equivalent employees, or (ii) less than \$15,000,000 in gross revenue; 25% of the employees are residents in Manitoba.

Financing of Interactive Digital Media – Public Measures – New Brunswick

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
Technical Adoption and Commercialization Program	<ul style="list-style-type: none"> Grant 	<ul style="list-style-type: none"> Up to 40% of eligible costs, to a maximum of \$15,000. Eligible costs include specialized software and communications costs directly associated with the project; software development cost associated with a project; licensing and joint venture research and negotiating costs; patent and intellectual property research and protection costs and others. 	<ul style="list-style-type: none"> The TAC program is financial assistance for manufacturers, processors and selected services firms in support of technological innovation and pre-commercial product development. The Program is intended to encourage the adoption of improved technologies and processes by offsetting some of the direct costs associated with identifying and securing such technologies and processes.
Trade Assistance Program	<ul style="list-style-type: none"> Grant 	<ul style="list-style-type: none"> A minimum contribution of \$500 per project; a maximum contribution of \$5,000 per project per fiscal year. Funding levels will be up to a maximum of 50% of eligible costs. Eligible costs include travel expenses, accommodation and meals expenses, fees incurred at trade shows, promotional material, etc. 	<ul style="list-style-type: none"> Activities funded under the TAP program must be strategic to the export development of the applicant and will be evaluated for eligibility based on that criteria. Companies must process, manufacture or produce a bona fide exportable product/service, technology or intellectual property.
Financial Incentive Programs - Projects			
In development	<ul style="list-style-type: none"> 	<ul style="list-style-type: none"> 	<ul style="list-style-type: none"> A new tax credit program is reportedly in development, but no announcement has yet been made.¹

¹ "Province Lagging in Video Game Industry," In Tech South East, September 8, 2011, http://techsoutheast.ca/News_Sept_08_Province_Lagging.php

Financing of Interactive Digital Media – Public Measures – New Brunswick

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Financial Incentive Programs – Projects			
New Brunswick SR&ED Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> 15% of eligible Scientific Research and Experimental Development (SR&ED) expenditures as defined by the federal Income Tax Act. 	<ul style="list-style-type: none"> Eligible current and capital SR&ED expenditures include wages & salaries, materials, equipment, overhead costs and other expenditures incurred as a result of SR&ED initiatives.
Financial Incentive Programs – Private Investors			
New Brunswick Small Business Investor Tax Credit	<ul style="list-style-type: none"> Non-refundable Personal Income Tax Credit 	<ul style="list-style-type: none"> 30% non-refundable personal income tax credit of up to \$75,000 per year (for investments of up to \$250,000 per investor) to eligible investors who invest in eligible small businesses in the province. In the event that an investor cannot use the entire Small Business Investor Tax Credit amount in a given year, the tax credit can be carried forward seven years or back three years. 	<ul style="list-style-type: none"> The program objectives are to provide an important source of capital by increasing access to equity financing for New Brunswick small businesses; and encourage investment by New Brunswick residents in New Brunswick small businesses. All business sectors in New Brunswick will be eligible to participate. Minimum amount of capital to be raised is \$10,000. Minimum amount to be invested by each investor is \$1,000.

Financing of Interactive Digital Media – Public Measures – Newfoundland and Labrador

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Financial Incentive Programs – Corporate and Private Investors			
Business Attraction Fund	<ul style="list-style-type: none"> ▪ Loans ▪ Equity Investments ▪ Repayable and non-repayable contributions 	<ul style="list-style-type: none"> ▪ The amount of funding allocated to any one project will vary based on the nature and scope of the project and the negotiated terms and conditions. All funding offers are subject to the availability of program funds. Allocations under the Fund must be used against costs of the Newfoundland and Labrador operations and any infrastructure developed through use of the funds must remain in the province. ▪ The Fund consists of a \$25 million allocation for loans, advances or investments as well as a \$4 million allocation for non-repayable contributions towards strategic investments in infrastructure support costs, human resource costs or other costs. 	<ul style="list-style-type: none"> ▪ The Business Attraction Fund provides for large-scale, strategic investments in business ventures and infrastructure for the purpose of attracting business to Newfoundland and Labrador. Through this fund, the Department of Business will be able to provide loans and equity investments to companies interested in establishing operations and conducting business in the province. ▪ For the purpose of this Fund, inward investment includes investments in start up or expansion activities by investors external to the province. The investment may be in the form of equity or loans. Inward investments require a direct contribution of funds by the inward investor in addition to any potential funding that may be sourced from the Government of Canada, commercial lending institutions and/or venture capital firms.

Financing of Interactive Digital Media – Public Measures – Newfoundland and Labrador

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Financial Incentive Programs – Corporate and Private Investors			
Direct Equity Tax Credit Program	<ul style="list-style-type: none"> Income tax credit Corporate tax credit 	<ul style="list-style-type: none"> Tax credit of 20% to 35% of the investment made directly in eligible businesses located in the province. Fundraising cap of \$3 million per eligible company. Maximum annual tax credit per investor is \$50,000, which may be carried forward for seven years or carried back three years. 	<ul style="list-style-type: none"> The tax credits are intended to finance the start up, modernization, expansion or growth of an eligible small business. Includes investments made by an arm's length corporation into an eligible business. Eligible investments must be made in Canadian controlled private corporations in strategic industries, including technology and cultural industries
Economic Diversification and Growth Enterprises (EDGE)	<ul style="list-style-type: none"> Tax holiday 	<ul style="list-style-type: none"> 10 to 15 year provincial tax holiday. 100% provincial tax holiday. Matching 50% federal tax holiday. Crown land available for lease at nominal fee. 	<ul style="list-style-type: none"> The EDGE program offers a 10 to 15 year tax holiday to qualifying companies from provincial corporate income tax and payroll tax, followed by a five-year phase-in of these taxes. The program also offers the lease of unserved crown land for a nominal fee and the services of a dedicated government facilitator to new or expanding businesses. To be designated as an EDGE corporation, the applicant must show the potential for a minimum capital investment of \$300,000, or incremental sales of \$500,000 annually. The applicant must have the potential to create and maintain at least ten permanent jobs in a business consistent with the principle of sustainable development.

Financing of Interactive Digital Media – Public Measures – Nova Scotia

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
Capital Investment Incentive (CII)	<ul style="list-style-type: none"> Contribution 	<ul style="list-style-type: none"> CII will contribute 20% toward the cost of technologically advanced machinery, equipment, clean technology, software and hardware with preference given to export-oriented corporations in qualified industries. The maximum contribution under the Productivity Investment Program for both the Workplace Innovation and Productivity Skills Incentive and Capital Investment Incentive combined is limited to \$1 million in any provincial fiscal year. 	<ul style="list-style-type: none"> CII gives preference to corporations that export outside of Nova Scotia. Consideration will be given to non-exporting corporations if a compelling case can be presented. <p>The CII is limited to corporations in the following industries:</p> <ul style="list-style-type: none"> Advanced manufacturing and processing Development of non-traditional sources of energy Life-sciences Aerospace and defence Information and communication technology (ICT) Professional, Scientific and Technical Services
Financial Incentive Programs – Projects			
Nova Scotia Digital Media Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<p>Tax credit amounts are equal to the lesser of:</p> <ul style="list-style-type: none"> 50% of eligible Nova Scotia labour expenditures; or 25% of total expenditures made in Nova Scotia; A 10% geographic area bonus on labour expenditures (5 percent bonus on total expenditures) is available for products developed outside the Halifax Regional Municipality. 	<ul style="list-style-type: none"> The Digital Media Tax Credit is a refundable tax credit for costs directly related to the development of interactive digital media products in Nova Scotia.
Nova Scotia SR&ED Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> A 15% rate is applicable to all corporations that incur SR&ED expenditures in Nova Scotia, regardless of size. 	<ul style="list-style-type: none"> This credit offers tax relief to Nova Scotia corporations that incur qualified scientific research and experimental development (SR&ED) expenditures made in Nova Scotia, as defined by the federal Income Tax Act.

Financing of Interactive Digital Media – Public Measures – Nunavut

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
Nunavut Film Corporation - Market Endowment Program	<ul style="list-style-type: none"> Contribution 	<ul style="list-style-type: none"> Up to \$5,000 annually to cover individual producer costs. 	<ul style="list-style-type: none"> The Market Endowment Program is an initiative that awards an individual producer of digital media projects financial assistance to attend international markets, co-production conferences or forums. This program has been founded to encourage and support the establishment of relationships and the marketing of indigenous film, television and digital media projects to buyers, commissioning editors and co-financing/co-production partners in Canada and abroad.

Financing of Interactive Digital Media – Public Measures – Northwest Territories

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project and Corporate Financing			
Support for Entrepreneurs and Economic Development (SEED)	<ul style="list-style-type: none"> Contributions 	<ul style="list-style-type: none"> Micro Business provides contributions for self-employment activities to a maximum amount of \$5,000 over a five-year period. Entrepreneur support: Up to \$15,000 for start-up funding, capital assistance, operational support, market and product development. Up to \$15,000 is available for asset acquisition. Community Economic Development: Up to \$25,000 for community-based business research or support for arts festivals/community economic projects. Must be driven by the community/band. 	<ul style="list-style-type: none"> The SEED Policy provides financial support for entrepreneurs looking to start a business or improve their capacity or skills as well as small communities seeking to expand their local economies.

Financing of Interactive Digital Media – Public Measures – Ontario

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
Ontario Media Development Corporation – Interactive Digital Media Fund	<ul style="list-style-type: none"> Non-refundable contribution 	<ul style="list-style-type: none"> Up to \$150,000 to a maximum of 50% of the project budget to create a market-ready interactive digital media content product. 	<ul style="list-style-type: none"> The OMDC Interactive Digital Media (IDM) Fund is designed to provide Ontario interactive digital media content companies with access to the final piece of funding required to move their content projects into production. Complete eligibility requirements are outlined in the OMDC IDM Fund Guidelines. <p>It is anticipated that the OMDC IDM Fund will support projects from a range of genres, delivery platforms and budgets.</p>
OMDC Export Fund – Interactive Digital Media	<ul style="list-style-type: none"> Non-refundable contribution 	<ul style="list-style-type: none"> Participating companies are eligible to receive up to \$12,000 capped at 50% of the total costs for all activities. 	<ul style="list-style-type: none"> The OMDC Export Fund – Interactive Digital Media has been developed to provide Ontario companies with funding to participate in export development activities that correspond to a strategy for company growth that produce measurable business development results. Primary activities supported are market event attendance and targeted sales trips that support the strategy. This program welcomes cross-sector opportunities and will support export development plans that include non-traditional markets outside of the applicant company's industry. For example: a music label attending an event for the video game industry in order to pursue licensing opportunities; a book publisher attending an event for the film industry in order to pursue rights sales.

Financing of Interactive Digital Media – Public Measures – Ontario

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Financial Incentive Programs - Projects			
Ontario Interactive Digital Media Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> The OIDMTC is calculated as 40% of eligible Ontario labour expenditures and eligible marketing and distribution expenses incurred after March 26, 2009 by qualifying corporations, regardless of size of corporation, to create "non-specified" interactive digital media products in Ontario. 35% tax rate on qualifying expenditures for products developed under a fee-for-service arrangement. 	<ul style="list-style-type: none"> A qualifying corporation is a Canadian corporation (that is Canadian or foreign-owned), that develops an eligible product at a permanent establishment in Ontario operated by it. Eligible labour expenditures include salaries and wages for employees and remuneration paid to arm's length persons who are not employees. There is no limit on the amount of eligible Ontario labour expenditures which may qualify and there are no per-project or annual corporate limits on the amount of the OIDMTC which may be claimed. Eligible marketing and distribution expenses are capped at \$100,000 per eligible non-specified product.
Ontario Innovation Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> The OITC is calculated as 10% of qualifying SR&ED expenses. Qualifying expenses are: <ul style="list-style-type: none"> - 100% of current expenses and - 40% of capital expenses The maximum annual credit is \$300,000. 	<ul style="list-style-type: none"> The Ontario Innovation Tax Credit (OITC) is a refundable tax credit. It is available to all corporations that perform scientific research and experimental development (SR&ED) in Ontario.

Financing of Interactive Digital Media – Public Measures – Ontario

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Corporate Financing			
Ontario Capital Growth Corporation - Ontario Emerging Technologies Fund Total value: \$50 million per year	<ul style="list-style-type: none"> Venture capital 	<ul style="list-style-type: none"> A \$250 million fund for five years (\$50 million per year) to co-invest. The OETF will co-invest alongside Qualified Investors on the same terms and at the same time. 	<ul style="list-style-type: none"> The Ontario Emerging Technologies Fund (OETF or the Fund) is a direct co-investment fund established by the Province of Ontario in 2009. The government has announced that the OETF will be a \$250 million fund to co-invest alongside Qualified Investors into innovative, high-growth, private Ontario companies. The Fund has been established to respond to the challenges that Ontario-based companies in the following sectors are facing in raising venture capital and other capital: <ul style="list-style-type: none"> - Clean technology; - Life sciences and advanced health technologies; - Digital media and information; and - Communications technology

Financing of Interactive Digital Media – Public Measures – Prince Edward Island

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Financial Incentive Programs - Projects			
PEI Innovation and Development Labour Rebate	<ul style="list-style-type: none"> ▪ Tax rebate 	<ul style="list-style-type: none"> ▪ 37.5% of eligible PEI labour. ▪ Only one year of eligible expenditures is claimable. 	<ul style="list-style-type: none"> ▪ Corporation with a permanent establishment in PEI that carries on business within a strategic industrial sector and undertakes to develop new products (i.e., information and communication technologies).
PEI Video Game Labour Rebate	<ul style="list-style-type: none"> ▪ Tax rebate 	<ul style="list-style-type: none"> ▪ 37.5% of eligible PEI labour (no maximum). 	<ul style="list-style-type: none"> ▪ Corporation with a permanent establishment in PEI whose primary business is to develop video games.

Financing of Interactive Digital Media – Public Measures – Quebec

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Tax Incentive Programs			
Quebec Production of Multimedia Titles Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> General component: <ul style="list-style-type: none"> Category 1 titles: 30% of qualified labour. + Premium for French: 7.5% of qualified labour if in French language version. Category 2 titles: 26.25% of qualified labour. Specialized corporations (credit is based on corporation's qualified labour, not production's qualified labour): <p>If certificate states that minimum 75% of eligible multimedia titles produced are Category 1 titles or minimum 75% of gross revenues came from Category 1 titles: 30% of corporation's qualified labour. + Premium for French: 7.5% of corporation's qualified labour. Other: 26.25% of corporation's qualified labour.</p> 	<ul style="list-style-type: none"> Taxable corporation with an establishment in Quebec that operates a multimedia title production business. <p>No content restrictions. No copyright restrictions.</p> <p>Category 1: Multimedia titles produced without receiving an order and intended for commercialization.</p> <p>Category 2: Other multimedia titles.</p> <p>Specialized corporation: 90% or more of business activities are to produce eligible multimedia titles. Can claim general component or specialized corporations.</p>
Quebec R&D Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<p>For R&D carried out in-house:</p> <ul style="list-style-type: none"> A fully refundable basic tax credit corresponding to 17.5% of R&D salaries paid in Québec; A fully refundable tax credit of 37.5% on the first \$3 million of R&D salaries per year for a Canadian-controlled SMB. Declining tax holiday on foreign researchers from 100% to 25% over five years. 	<ul style="list-style-type: none"> Tax incentive intended to stimulate company R&D activities. Foreign researchers employed by a company in Canada that does R&D in Québec benefit from a provincial tax holiday on their salary for five consecutive years.

Financing of Interactive Digital Media – Public Measures – Quebec

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Corporate Financing			
Investissement Québec – Interim Financing of Tax Credits	<ul style="list-style-type: none"> Loans 	<ul style="list-style-type: none"> Equivalent to 75% of tax credits receivable. 	<ul style="list-style-type: none"> Companies entitled to refundable tax credits for R&D can secure a loan from Investissement Québec.
SODEC – Corporate Financing Program	<ul style="list-style-type: none"> Loans Loan guarantees Equity investments (rare) 	<ul style="list-style-type: none"> Financing is typically offered at variable rates. However, at its discretion, the SODEC may offer fixed financing rates. Conventional operations: Preferential lending rate + prime, varying from 1% to 6% or a fixed rate, according to returns sought. Development: Preferential lending rate + 2% + performance fee or a fixed rate, according to returns sought. Recovery: Preferential lending rate + 2% + a risk fee or fixed rate. 	<ul style="list-style-type: none"> The SODEC offers its financial services to Quebec-based companies in the cultural and communications sectors. These services, comparable to those of other financial institutions, include loans and loan guarantees. Exceptionally, the SODEC invests in projects or provides equity. Its level of financing aims to respond to the totality of the company's financial needs, as a complement to other financial partners, in order to create long-lasting business relationships. Project investments are made on an exceptional basis only, on the authorization by a committee comprised of the president and two members of the board of directors. Equity financing is equally provided on an exceptional basis in major projects having a determining effect on the given cultural sector. This type of financing is subject to approval by the Council of Ministers and should be considered financing of last resort. The SODEC prefers to direct projects to the Financière des entreprises culturelles (FIDEC) and the Fonds d'investissement de la culture et des communications (FICC).

Financing of Interactive Digital Media – Public Measures – Quebec

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Corporate Financing			
Fonds d'investissement de la culture et des communications (FICC)	<ul style="list-style-type: none"> ■ Acquisition of capital (common or preferred shares) ■ Convertible or participating debentures (unsecured loans) ■ Project financing (<i>on request of la Financière des entreprises culturelles (FIDEC)</i>) 	<ul style="list-style-type: none"> ■ FICC can invest, by itself, up to \$2 million in a given company with a first investment limited to \$1.5 million. ■ When the amount required exceeds \$2 million, it is provided in partnership. ■ FICC's investments always include a buy-back formula with a five- to-seven-year term. FICC participation rarely exceeds 49% of a company's shares. ■ The FICC's aim is not to take control of the companies in which it invests, but rather to help maximize their capital base in support of their development, growth and profitability. 	<ul style="list-style-type: none"> ■ Le Fonds d'investissement de la culture et des communications (FICC) is a venture capital fund that acts as a financial partner for companies that create, produce, distribute and promote cultural products and services. These companies operate primarily in the performing arts, book, audiovisual, recording, radio, television, print media, multimedia and Web-based industries. ■ The FICC acquires a share interest in Québec's companies operating in the field of culture and communication. The FICC provides support to profit-minded companies that have a place of business in Québec and that create, produce and distribute cultural content. ■ On occasion, the FICC invites other financial partners to join in the financial structure of a company. The reason for this approach is that cultural companies often have difficulties selling their projects to traditional financiers. The FICC feels that inviting these financiers into joint ventures is an effective way to eliminate the prejudices surrounding the cultural ■ The FICC also supports companies that provide technical or technological support for cultural businesses.

Financing of Interactive Digital Media – Public Measures – Saskatchewan

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Tax Incentive Programs			
Saskatchewan Research and Development (R&D) Tax Credit	<ul style="list-style-type: none"> Refundable tax credit 	<ul style="list-style-type: none"> 15% refundable tax credit to Saskatchewan companies for R&D expenses incurred in Saskatchewan. No limit on provincial R&D tax credit. Can be combined with the Federal Investment Tax Credit. 	<ul style="list-style-type: none"> The Saskatchewan Research and Development (R&D) Tax Credit is designed to encourage private-sector R&D investment in Saskatchewan. The Saskatchewan Research and Development (R&D) Tax Credit works in conjunction with the Federal Investment Tax Credit (ITC).

Financing of Interactive Digital Media – Public Measures – Yukon

Object of Financing	Type of Financing	Amount of Financing Available	Description of Programs or Policy
Project Financing			
Enterprise Trade Fund	<ul style="list-style-type: none"> Contribution 	<ul style="list-style-type: none"> 75% of eligible costs for marketing and business development activities to a maximum of \$50,000. 50% of eligible costs for business plans and 75% of business skills training projects to a maximum of \$10,000. For-profit organizations must contribute at least 25% of the total project costs and this financial contribution must be in the form of cash. 	<ul style="list-style-type: none"> The Enterprise Trade Fund (ETF) is available to all Yukon businesses, and both for-profit and not-for-profit business-related organizations and industry associations for marketing and business development. A separate ETF program exists for Film and Sound.
Tax Incentive Programs			
Research and Development Tax Credit Program	<ul style="list-style-type: none"> Refundable corporate and personal tax credit 	<ul style="list-style-type: none"> 15% to 20% credit on eligible expenses incurred by a corporation or by an individual. 	<ul style="list-style-type: none"> Individuals and corporations are eligible. Scientific research can take the form of basic or applied research undertaken "for the advancement of scientific knowledge" or experimental development "for the purpose of creating new or improving existing materials, devices, products, and processes".
Yukon Small Business Investment Tax Credit	<ul style="list-style-type: none"> Non-refundable personal income tax credit 	<ul style="list-style-type: none"> Individuals may claim 25% of their investment in an eligible Yukon company to a maximum of \$25,000 each year. Unused credits may be carried forward for seven years, or back three years. 	<ul style="list-style-type: none"> Investments must be made in Yukon-based private corporations. The Minister of Economic Development can issue a total of \$1 million in credits per year. Credits will be issued on a first-come first-served basis until such time as the program is fully subscribed, after which it will be unavailable to additional investors until the new calendar year. With \$1 million in credits available per year the YSBITC holds the potential to raise \$4 million of financing for Yukon companies annually.

Annex 7: About the Consultants

Maria De Rosa is President of Communications MDR, a boutique consulting company specializing in mandates for both private and public-sector clients in the broadcast, cultural, arts and digital media sectors.

A graduate of Carleton University's Mass Communication Program, throughout her career, Maria has played a key role in the development of policies and programs for the industry and government. She has helped shape policies for the industry's key funding programs for the former Canadian Television Fund, the Canada Feature Film Fund, the Canada New Media Fund, the Music Entrepreneur Program (MEP) and more recently the Canada Media Fund. She has contributed to noteworthy government reports including: *Canadian Content in the 21st Century: A Matter of National Identity*; and *Fading Away; Strategic Options to Ensure the Protection of and Access to our Audio-Visual Memory* as well as having been a special policy advisor to a government led task force examining convergence, *Convergence: Competition and Cooperation*.

Her years of experience as a senior Director of Corporate Affairs and Communications at Telefilm Canada, as a policy advisor in the Department of Communications in Ottawa, her mandates at CBC Radio and the National Film Board bring considerable public policy analysis and strategic positioning to her consulting practice.

She has designed groundbreaking programs such as the *Aboriginal Filmmaking Program* which helped spur on Aboriginal filmmaking in Canada. She has pursued screenwriting and creative writing endeavours and has to her credit a television documentary and numerous publications. She has been involved in specialty service applications for children and youth, Asian television and Aboriginal broadcasting.

Marilyn Burgess is a digital media specialist with over twenty years' experience having held senior management, policy advisor and teaching positions relating to digital media and culture in the public and educational sector. Currently the president of Burgess Consultants, Dr. Burgess holds a PhD in Communications Studies from Concordia University and is a former professor of Film at the School for Studies in Art and Culture at Carleton University. She has published extensively on Canadian communications and culture.

Dr. Burgess has published extensively on Canadian communications and culture. She has contributed to the development of governmental digital media strategies, most recently working with the SODEC and the CALQ to support the development of the provincial digital media strategy for the cultural sector. She was instrumental in the design of the *Canada New Media Fund* for Telefilm Canada and is the architect of the *New Media Initiative*, a partnership between the Natural Sciences and Engineering Research Council and the Canada Council for the Arts.

She has worked with Canadian universities to develop public-private partnerships involving the cultural and ICT sectors in the context of multi-million dollar research funding applications that aim to enhance and encourage greater intersections of creative and ICT research for the digital media sector.