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# ATLANTIC BUSINESS

ATLANTIC CANADA'S LEADING BUSINESS MAGAZINE



All Purpose

**CLEANER**

Premier Robert Ghiz

has a plan to fix PEI's troubled economy.

Is his solution strong  
enough for the job?

## FAR FROM HOME

Brain drain? It's a good thing,  
claims new networking group

## WATER WOES

The devils you don't know may be worse  
than the polluting devils you do – *here's why*

## Special Report: Mining

- Etruscan's golden rule
- Q&A with Major Drilling's Francis McGuire
- Harvest time for New Brunswick potash
- Exploring the Central Labrador Mineral Belt



## Lights, Camera, Investment

Picture this: A business model with an almost limitless ability to make money off inventory. Though rental property may come to mind, in this model there are few carrying costs and no maintenance expenses. This is the model that underlies the production and distribution of television programs. And this is the model of DHX Media Limited.

This Halifax-based company focuses on shows for children and families, which tend to have the longest shelf life in the industry. Consider how many generations grew up watching the same TV programs. Sure, children's shows are influenced by trends, fads and new technologies on television but not as much as the ones for adults. A longer shelf life means more international sales and longer-term cash flow.

One of DHX Media's three production companies, Halifax Film, is currently producing a number of projects including a Computer Graphics animation pre-school series, *Animal Mechanicals*; a live-action children's puppet series, *The Mighty Jungle*; the comedy series *This Hour Has 22 Minutes, XV*; and *The Guard*, a primetime drama series co-produced with Brightlight Pictures for CanWest Global.

When it comes to the production of TV shows and films, being a Canadian company has advantages. Advantage one: financing. Although many U.S. states have jumped onto the tax-credit bandwagon, Canada still provides an enviable low-cost environment that includes both federal and provincial, labour-based tax-credit programs. The tax credit for filming in Halifax will soon be at 50 per cent, and it will hit 60 per cent for films shot in rural Nova Scotia.

Advantage two: we speak the most marketable dialect of English. As a result, Canada is the second-largest exporter of English-language audio-visual products in the world, after the United States.

DHX Media benefits from both advantages. The company ensures that at least 85 per cent of its direct production costs are covered by third-party financing before work proceeds. This level of financing is achieved through pre-sales, securing a Canadian broadcast commission, and using the tax credits mentioned earlier. The ability to leverage shareholder capital to this extent means that the company can undertake a greater number of productions, giving it a better chance for a 'hit' show.

The distribution arm of DHX Media, Decode Entertainment, rounds out the company's operations. Decode's international sales group, based in Toronto and


London, sells broadcast rights to existing series, program packages and pre-sells series in development. The company's client base consists of more than 300 broadcasters worldwide with whom the company has signed more than 1,000 deals, spreading Canadian content around the world on such far-flung networks as France 5, Australian Broadcasting Corporation and Al Jazeera. In-house distribution enables the company to capitalize even more on investment return. It also keeps everyone focused.

It's not very difficult for DHX chair and CEO Michael Donovan and Halifax Film president Charles Bishop to produce a well-focused success story. They were previously involved with Salter Street Films, a publicly listed TSX company sold to Atlantis Communications in 2001. They also produced the Academy Award-winning documentary *Bowling for Columbine* as well as many, many Gemini winning TV programs.

DHX's management believes in the value of the content. Since the company was founded in 2004, executives have been investing in content both organically and through acquisitions. Currently the company has a content library of more than 2,200 half-hours of programming consisting of more than 50 individual titles. Acquisitions also serve another strategic purpose: they increase the channels the company can use for productions.

One of these important channels is new media, including digital applications such as websites that support traditional series. This not only derives more return from the content library, it also supports marketing the productions. In addition, DHX has an interactive division which licenses the company's series-based websites, developed and produced in-house, to broadcasters worldwide. As well as the new media, the company enjoys merchandising business when a brand has achieved an appropriate level of development and market acceptance.

DHX has been in a growth spurt. As evident in its 2008 financials, the company has been reaping the benefits of rights exploitation of its content library, making it the largest production company in Canada, headquartered right here in Atlantic Canada. Indeed, the core value of DHX lies in its content library and its ability to achieve superior returns on this through the channels mentioned earlier.

So far, the company's growth is a model example of sound strategy executed by an experienced management team. 

Beste Alpargun, CFA, is VP-Equity Research and CFO for Citadel Securities Inc. in Halifax, Nova Scotia. The author has published research reports on DHX Media. Citadel Securities provided investment banking activities to the company in the last 12 months. A director of the company is a shareholder of Citadel Securities. For more detailed disclosures, please visit [www.citadelsecurities.ca](http://www.citadelsecurities.ca). Neither the author nor Atlantic Business Magazine are responsible for investment decisions made as a result of this article: Investors are responsible for conducting their own due diligence. Feedback: [dchafe@atlanticbusinessmagazine.com](mailto:dchafe@atlanticbusinessmagazine.com).

# Moved Away? Atlantic Canada Needs You!

Novel networking group sees brain drain as valuable resource to the folks and businesses back home

It's spring, early morning. Coffee in hand, I take a short cut through the park on my way to the first Atlantic Business Summit. As the sun peeps its way through the trees, the peacefulness of the trail is rudely and abruptly interrupted by the frenzied traffic of several thousand pedestrians and even more drivers rushing their way to work. Wait. This can't be anywhere in *Atlantic Canada*. So where was this first Atlantic Business Summit? In Toronto of all places.

Walking into the Rotman School of Management at the University of Toronto, the atrium is already buzzing with a couple hundred people fully engaged, including many familiar faces and companies. There's the Irvings, the McCains, the Reichmanns, the Hill & Knowltons, Heenan Blaikies, Grant Thorntons, superstar innovation scholar Richard Florida, ministers of government, members of academia, every bank under the sun, and of course, Atlantic Canada's favorite son, Frank McKenna.

Hosted by East Coast Connected (a volunteer group of Maritimers living in the "Big Smoke"), the Summit was organized around a revolutionary idea: to bring some of the biggest names from both regions together to talk about positive developments in Atlantic Canada. Attendees ranged from people living and doing business in Atlantic Canada, and former Maritimers living and doing business in Toronto, to others who just do business with the region.

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## Are you East Coast Connected?

The founders of East Coast Connected have turned the dreaded brain drain on its head, transforming it into an opportunity rather than a threat. They see Atlantic Canadians living away as a valuable source of capital, knowledge and creativity that can be used to either promote Eastern Canada to the business community in their host city, or to alert their fellow Easterners to opportunities outside the region. According to their website, ECC's mission is to "bring the best of Atlantic Canada to Toronto and bring the best of Toronto back to Atlantic Canada." (Though the group was founded in Toronto, ECC president Chris Crowell says they are planning to extend its scope to other cities such as Montreal and Calgary.) For more information about ECC activities, go to [eastcoastconnected.ca](http://eastcoastconnected.ca).



The Economic Transformation panel at the Atlantic Business Summit. Panelists (L-R): Jerry Byrne, president and CEO, D.F. Barnes Group; Gerry Pond, chairman, Mariner Partners; moderator Andrew Coyne, national editor, Maclean's; Dan MacDonald, president and CEO, InNovaCorp; and, Scott Montreuil, SVP, Operations, Citco Fund Services Canada.

"Myself, I'm a Maritimer. I just happen to live and work in Toronto," says Chris Crowell, founder of the group. "East Coast Connected is all about forging cross-regional relationships between Atlantic Canadians at home and away." The group plans to expand to other cities in the country starting with Ottawa, and then branching out west.

After more coffee and pastries, the 200-plus crowd finally settles down in Rotman's atrium to get started on what became the most heated topic of the day: making Atlantic Canada the work destination of choice for talented people. Steven Lund, president of Nova Scotia Business Inc., thinks quality of life is the region's most valuable asset, and that most people leave because they simply can't find the right job in that province. He also says one of the reasons why the region isn't as successful as others at attracting business is because of our name.

"I don't use the words Atlantic Canada because it's not a good brand in Canada, and it's not known to people outside of Canada" he says, "I sell myself as Nova Scotia in the same way someone from New Brunswick should sell themselves as New Brunswick." He says the region needs to build a more specialized economy that's globally competitive.

New York Times best-selling author and superstar scholar Richard Florida,

from the Rotman School, thinks Lund is on to something. "I think people know Halifax, if they're Americans or from around the world," he says, "but 'Atlantic Canada,' well, 'it must be near the ocean or something.'" Florida says keeping the Atlantic Canada brand requires a new definition with visual explanations that really hit people over the head. "Smaller regions around the world are becoming more and more niche-driven," he says, "you really need to be focused on attracting entrepreneurs, making sure your business and people climate really sings, and focus on a niche."

It's not long before debate gets started. First up: ex-pat New Brunswicker Scott McCain of Maple Leaf Foods has a lot to say about where he thinks the region is failing. "As an Atlantic Canadian, I don't see a vision in terms of creating stable large scale opportunities," he says from the audience, "I don't think Atlantic Canadians admire scale the way they should." McCain thinks the future of the region's job market needs to be manufacturing-based instead of more people "working out of their basements."

"I think you're going to move upstream," Florida retorts, "the scale of manufacturing you're talking about is not going to be built in North America. I don't see how you're going to do it."

If the region really wants to develop a globally competitive niche, like Montreal

has for music production, or Silicon Valley for IT, Florida says we've got to focus more on helping our young entrepreneurial people succeed. "There's an enormous number of young people who don't want to work in factories," he says, "they mostly want to work in their own companies." Florida's research shows that most young people who want to move to a big city will do it by the age of 24. "Toronto is an enormous spike in the Canadian economy, but I think your (regional) competitive leverage is much bigger," he says, "but every year people get older, the lesser the chance they'll move (home) again."

Frank McKenna resonates Florida's comments and offers a number of solutions, especially dropping all trade barriers between the Atlantic provinces. He also says we need to work together as one region if we want to develop a niche and compete globally. "The Atlantic Canada of today is much better off than it was 10 years ago, but we can't rest on our laurels," says McKenna. "The hollowing out of the manufacturing base in Ontario and Quebec is getting both provinces close to taking equalization payments." And with the center of gravity shifting more and more out west, in terms of population and wealth, he says Atlantic Canada needs to work more "on its own" as Ontario and Quebec are becoming less dependable when it comes to any eastern distribution of wealth.

"Sure, we can talk all we want about it, but there's not much difference between us and everywhere else in the world looking for business," he says passionately, "we've got to find some killer edge, something that's going to make a headline event that people remember you by."

Cue the applause.

The rest of the day sees crowded rooms of panels and audiences engaged in debate about the future of the energy sector, and developing new models for East Coast - Toronto partnerships. And from the engaged looks on people's faces as they trickle out and over to the lounges of the Intercontinental Hotel, it appears that a few of those partnerships have already started.

"It's spectacular," says McKenna about East Coast Connected, "I'm awed at all the material we're getting and the way we're kept informed, and having people here from the region and across the country is fabulous."



Zippping down Bay Street with Chris Crowell in the back of a cab, I finally have a chance to ask him if the Summit met his expectations. "I think it was very disruptive," he said, with the most positive of tones, "there's something about being physically away when it comes to shaking up your reality and generating new ideas." A refreshing insight if anything, as I contemplate how a similar event might have turned out back home, in a similar hotel...with the same faces...saying the same old things... and looking for the right opportunity to disappear so I can get home in time for dinner.

"As a volunteer group, we can't do this on our own," says Crowell, "and I'm really impressed with the level of support we've received from all the provinces, especially the New Brunswick Innovation Foundation which is bringing Richard Florida to New Brunswick to speak in Saint John in October."

It'll be interesting to hear how Florida, author of *The Rise of the Creative Class* and *Who's Your City?* gets his own thinking out of the mega-opolis. But one thing's for sure, any wooded trail he takes in New Brunswick will lead him out of, instead of into any form of traffic frenzy. In fact, he just might land, like he said about Atlantic Canada, "somewhere near the ocean".

**Dawn Says:** East Coast Connected's innovation comes from its ability to see the "other side" of contentious issues (like promoting the positives of outmigration). For more controversial ideas, turn to *The Devil's Advocate*, page 18.



(Top) The Talent Panel at the Atlantic Business Summit discussed how to attract talented people to Atlantic Canada. The panelists were (L-R): Bernd Christmas, consultant to First Nations on governance and economic development; Rose Patten, senior EVP, head of human resources and senior leadership advisor, BMO; Stephen Lund, president and CEO, Nova Scotia Business Inc.; and, Professor Richard Florida, author and director, Martin Prosperity Institute at the Rotman School of Management. (Above) Professor Roger Martin, dean, Rotman School of Management and Chris Crowell, president, East Coast Connected.