CASO Impact of COVID-19

Survey Results

April 23, 2020

Prepared for:

CASO

COMPUTER ANIMATION STUDIOS OF ONTARIO

Prepared by:

Nordicity

CASO is a non-partisan, not-for-profit industry association committed to the growth and international competitiveness of Ontario's animation and visual effects industry, through advocacy, professional development, and marketing initiatives.

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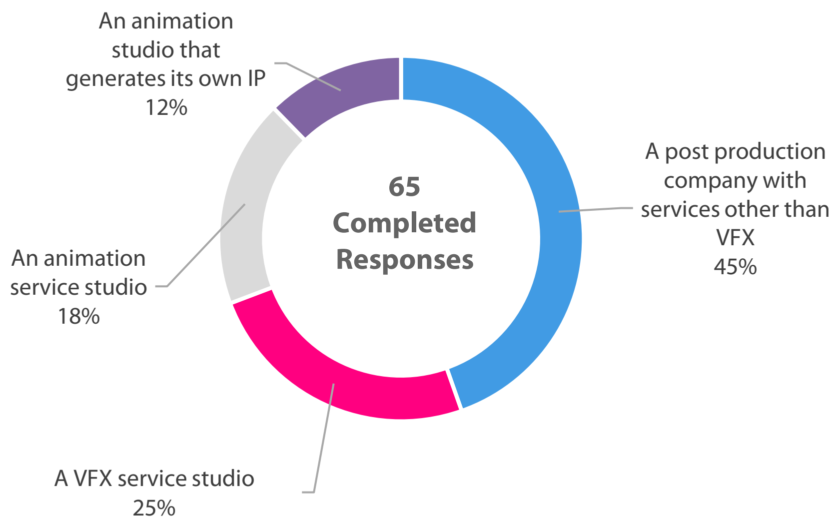
1. Response Rate

The survey was open between March 31, 2020 and April 6, 2020. Over that time, data was collected from **65 Ontario-based VFX, animation, and post-production companies**.

Figure 1: Responses by type of company



n = 65

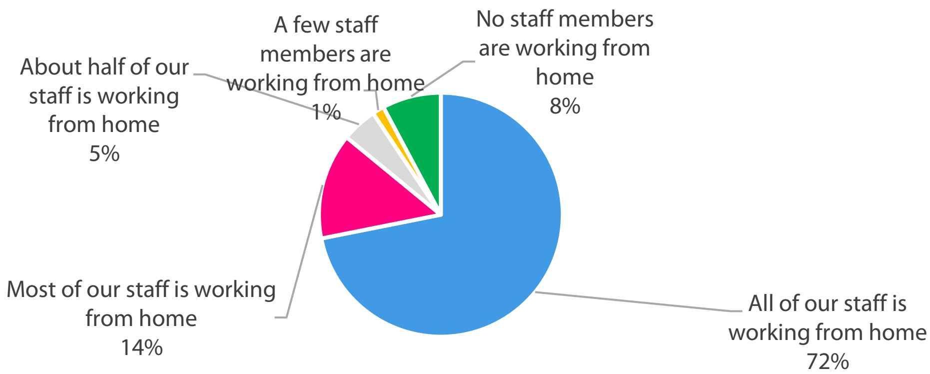
Nordicity estimates that the responses account for **61% of employment in Ontario's animation and VFX industries**. This figure was derived by starting with the number of direct employees reported in CASO's 2019 report entitled *Ontario's Computer Animation and Visual Effects Companies, 2018* (5,290 FTEs), which reported upon companies' 2017 fiscal year.[1] Nordicity then assumed that animation and VFX companies grew at the same pace as the wider screen-based sector in Ontario (36%) between 2017 and 2019. As such, the estimated total employment for March 2020 is assumed to be 7,185 FTEs. Survey respondents represented 4,378 employees. Accordingly, any gross results (e.g., jobs at risk) have been adjusted (by a factor of 1.64) to represent the industry as a whole.

[1] See Business Intelligence: Ontario's Computer Animation and Visual Effects Companies, 2018, (January 2019), pg 41.

2. Employment

Most (72%) of respondents indicated that all of their employees have transition to "work-from-home".

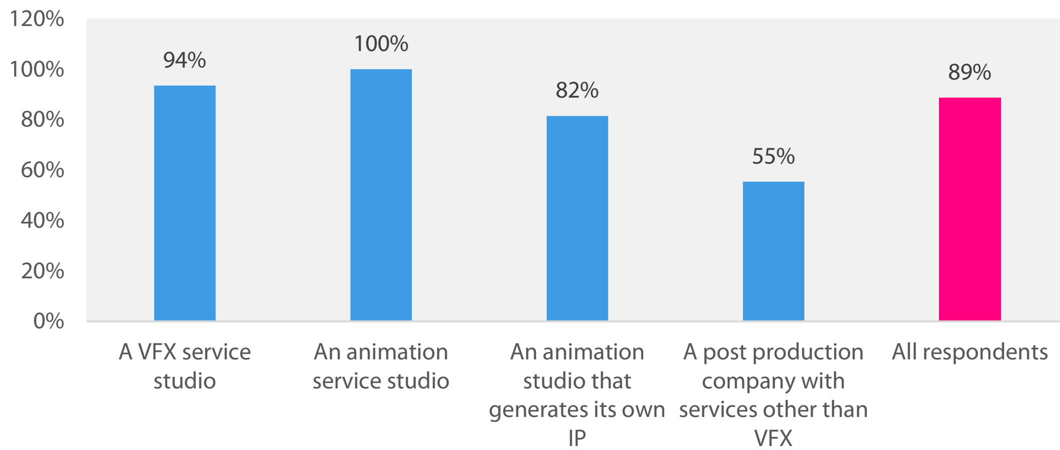
Figure 2: Working from home



n = 64

When weighted by size of firm, almost all employees are now at home, with post –production companies as the notable exception to the rule.

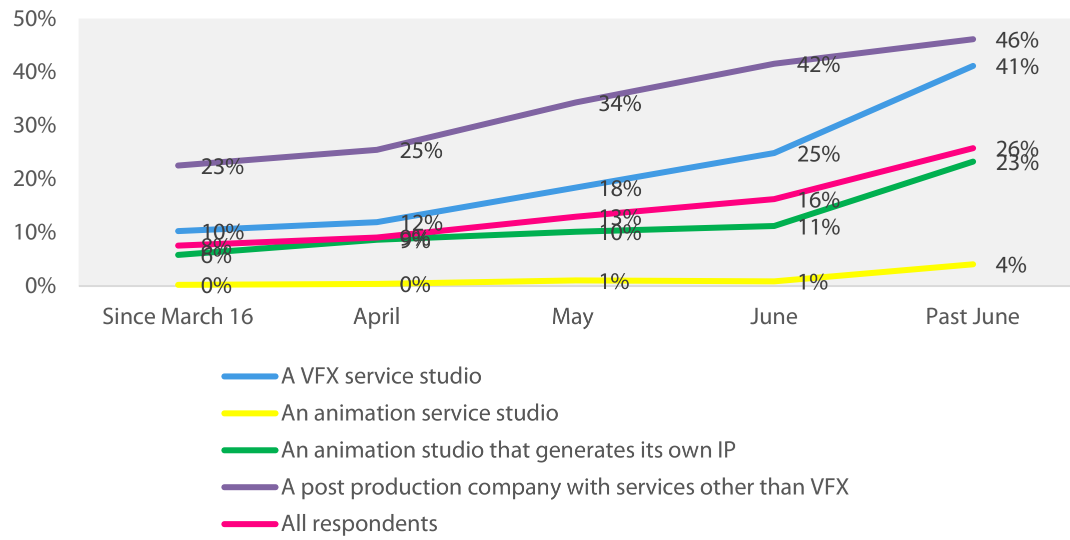
Figure 3: Working from home by type of company



n = 64

If physical distancing lasts beyond June up to 26% of the total industry employment is at risk of being laid off. The biggest impacts are being seen in post-production companies and VFX studios.

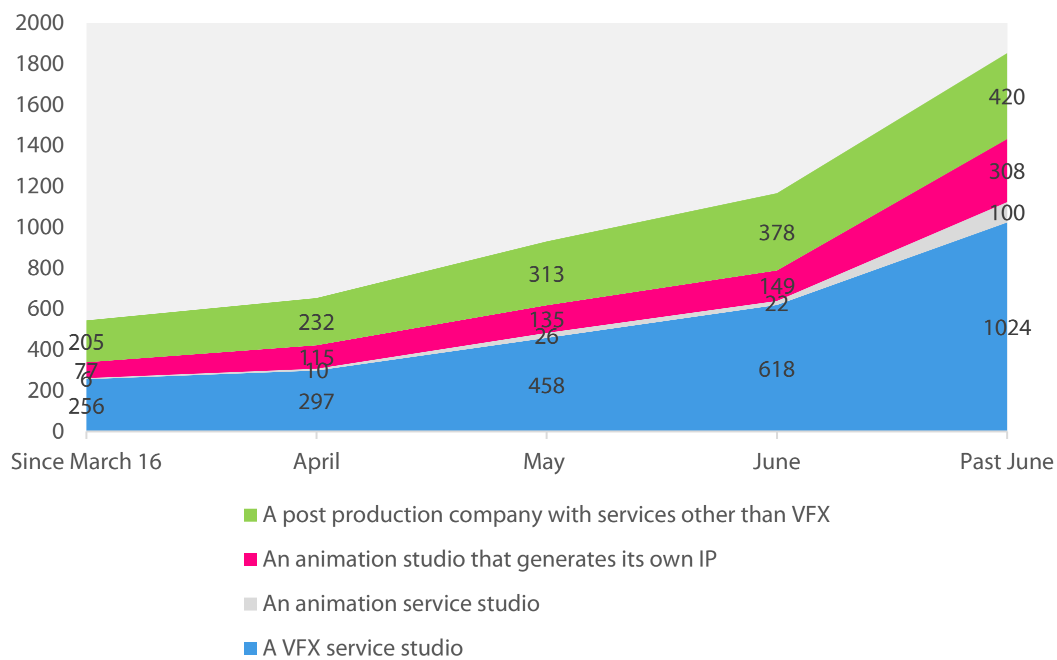
Figure 4: Percentage job losses over time by type of company



n = 64

When translated to actual jobs, most of the job losses would be from VFX studios.

Figure 5: Jobs at risk by type of company



n = 65

Should physical distancing last beyond June, **up to 1853 job are at risk.**

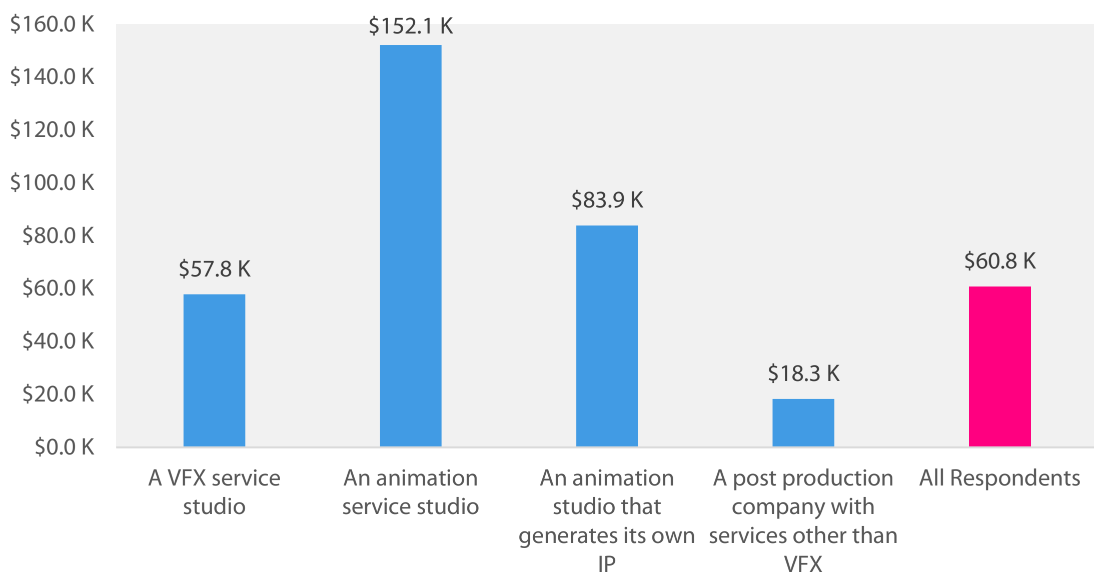
Table 1: Jobs at risk by type of company

Type of Company	Since March 16	April	May	June	Past June
A VFX service studio	256	297	458	618	1024
An animation service studio	6	10	26	22	100
An animation studio that generates its own IP	77	115	135	149	308
A post-production company with services other than VFX	205	232	313	378	420
All Companies	**544**	**654**	**931**	**1167**	**1853**

3. Costs to Companies

Ontario-based animation, VFX and post-production companies have spent roughly **$6.5 million so far on cost related to COVID-19**. Animation services studios have experienced the highest average costs.

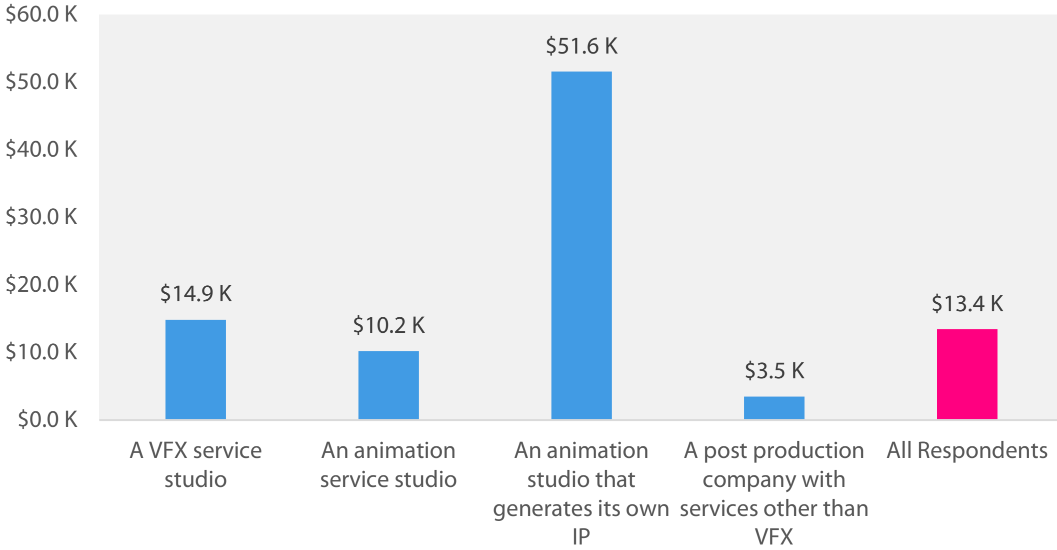
Figure 6: Average COVID-19 costs to date by type of company



n = 65

Each month, Ontario's animation and VFX industries will spend just over **$1.4 million on on-going COVID-19-related costs**. IP-generating animation studios report the highest average monthly costs.

Figure 7: Average COVID-19 monthly costs by type of company



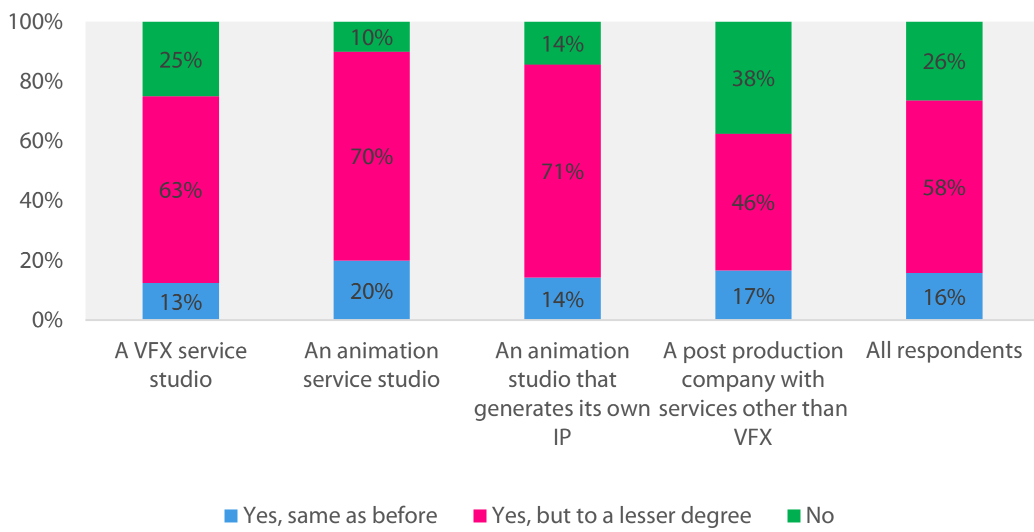
n = 65

Although too few companies provided insight into the factors driving these costs to identify a definite trend, **increased licensing and internet/bandwidth costs** were cited by almost all such respondents.

4. Business Challenges

COVID-19 is hampering the ability of some companies in their *attempts* to secure new business (whether successful for not). That said, most companies are still trying in some capacity.

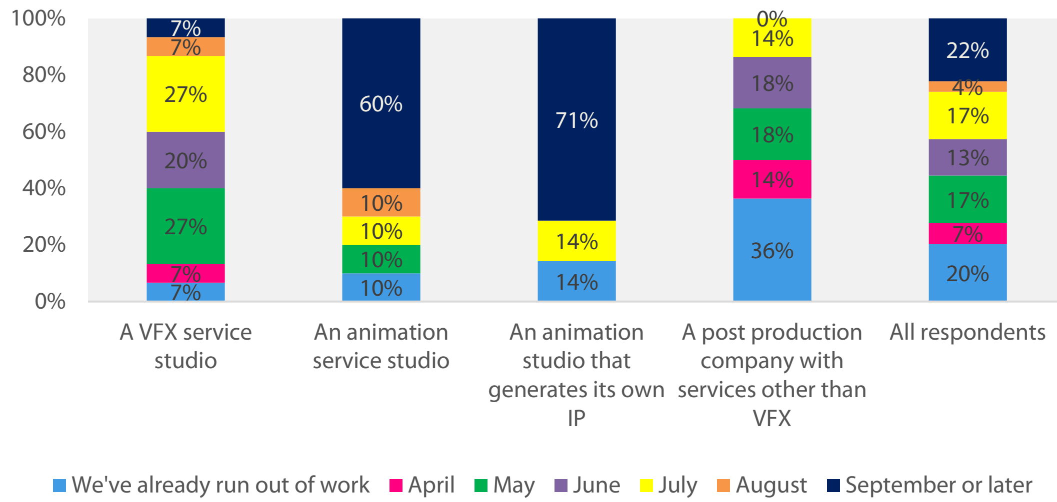
Figure 8: Ability to pitch new work by type of company



n = 57

At their current work rate, companies will run out of work at a variety of times, as there is not clear trend. That said, IP-generating animation and animation service studios seem to be most bullish about their workloads.

Figure 9: Month when work runs out by type of company

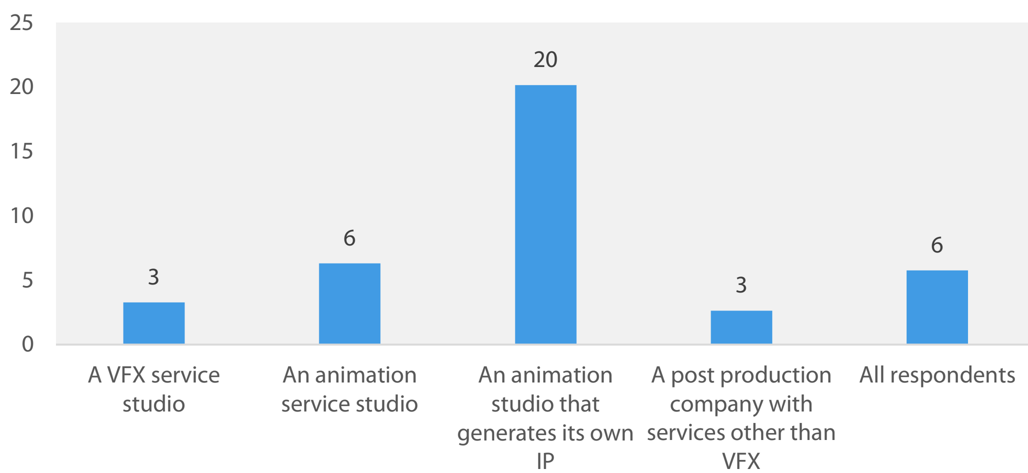


n = 54

Note: "We've already run out of work" reflects company realities during the survey period (March 31 to April 6).

Combining workload and expenses, companies report an average of **six months of "runway" before their reserves run out.** That said, the average runway is far shorter for VFX and post-production companies (at three months).

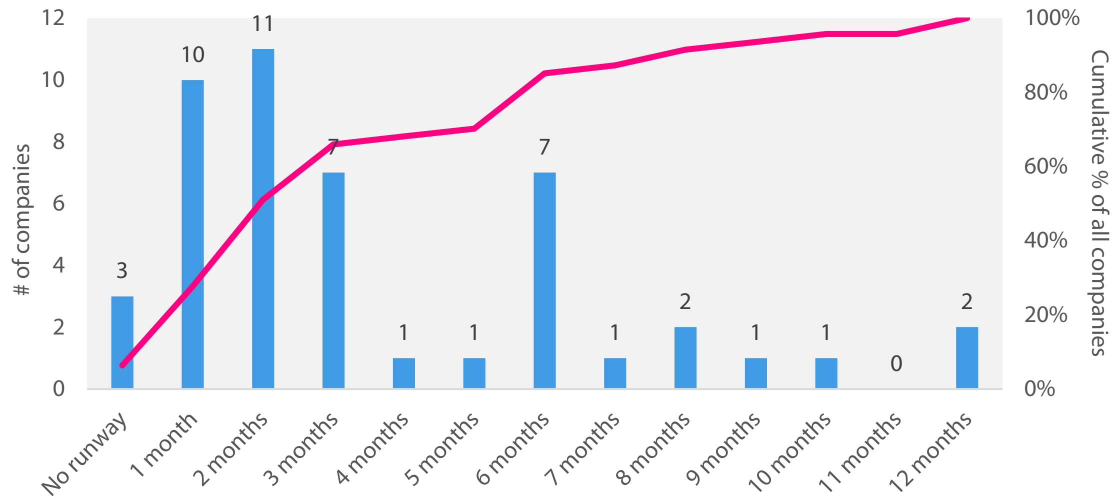
Figure 10: Months of runway by type of company



n = 54

When one excludes IP-generating animation companies (who may be able to continue collecting revenue from the exploitation of existing and new IP), **most (66%) of respondents will run out of runway in three months (i.e., after June).**

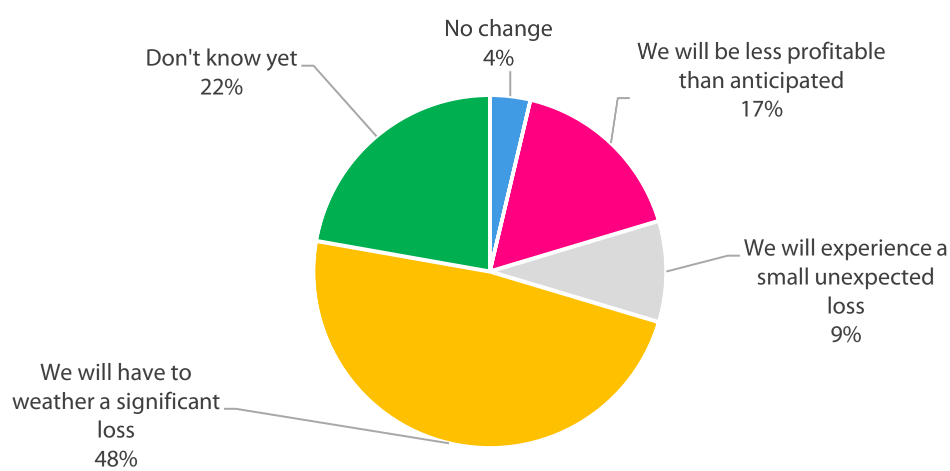
Figure 11: Months of runway and % of all companies (excluding animation studios that generate IP)



n = 47

As a result of the increased costs and reduced ability to secure new work, **most companies (74%) are anticipating less profitability and/or unexpected losses in their current fiscal years.**

Figure 12: Expected impact on profitability by type of company



n = 54

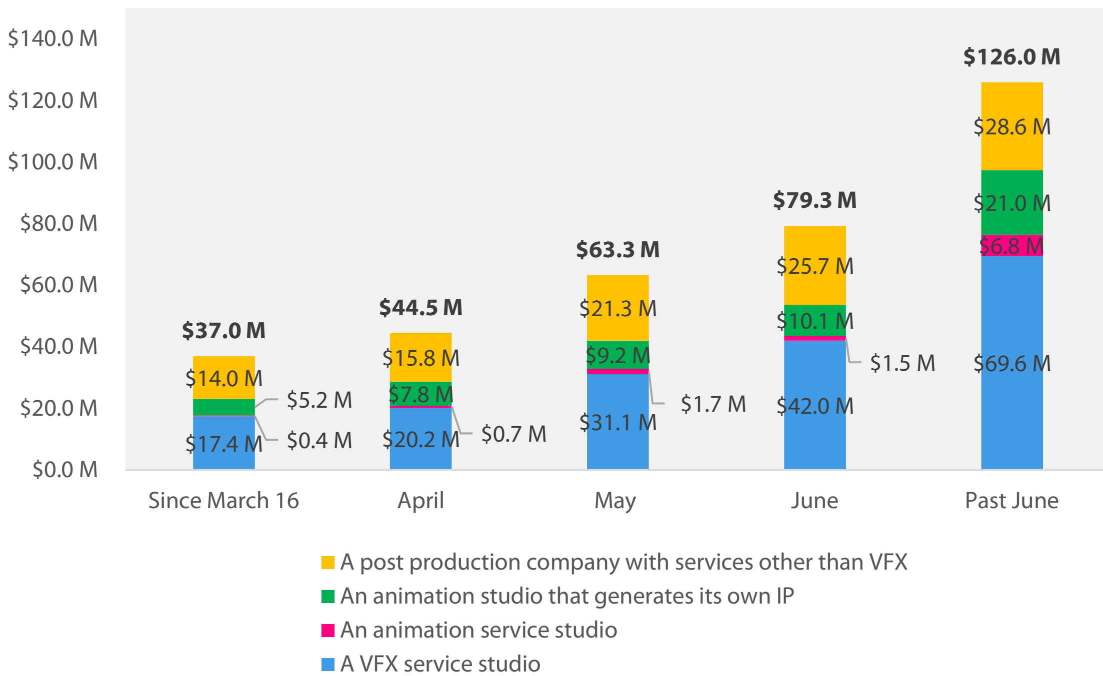
When asked to quantify that loss, companies reported at **total unexpected loss of corporate profits of $50.0 million in 2020** (combining reduced profits and absolute losses).

5. Economic Impact

There are two components of the "direct" economic impact: labour spending and corporate profitability.

Per Section 2, the **lost employment could have an impact of up to $126.0 million on Ontario's economy** (if physical distancing lasts beyond June).

Figure 13: Economic impact of lost labour spending by type of company



These figures were derived by multiplying the number of jobs lost by the full-time salary found in CASO's most recent industry report ($68,000/a).[2]

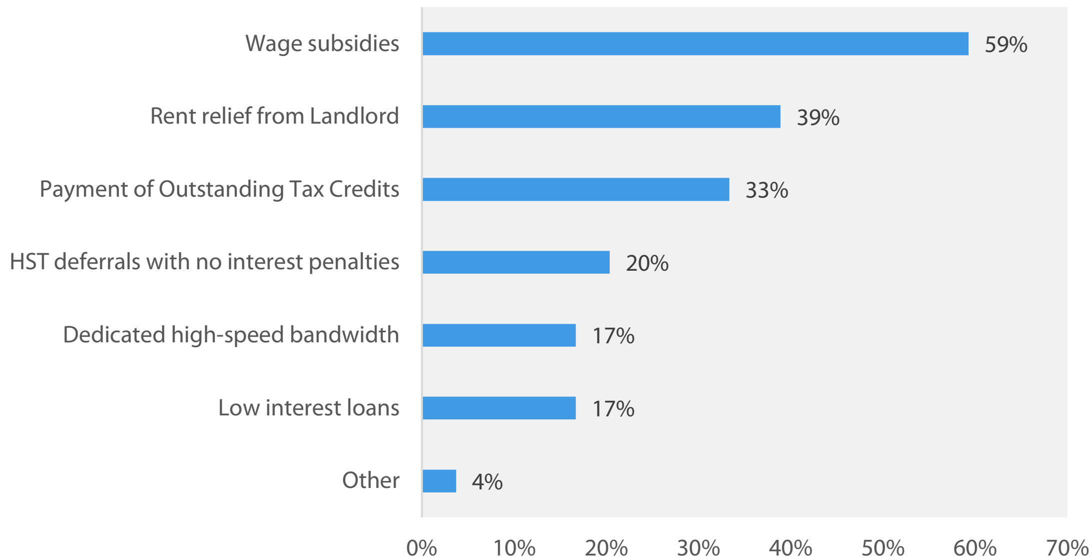
When one adds in the impact of the loss of profitability (per Section 4), **the total impact on Ontario's GDP could be up to $176 million** depending on how long physical distancing lasts.

[2] See Business Intelligence: Ontario's Computer Animation and Visual Effects Companies, 2018, (January 2019), pg 43.

6. Support Measures

When asked what support measures would be most effective in sustaining their businesses, responding companies were noticeably more in favour of wage subsidies than other forms of support.

Figure 14: Types of support by % of total respondents



n = 54

CASO

COMPUTER ANIMATION STUDIOS OF ONTARIO

Study on evidence related to COVID-19 Pandemic

The Computer Animation Studios of Ontario (CASO) represents Animation and Visual Effects studios produce content for the Film, Television and digital media markets in Canada and internationally.

Our sector creates 2D and 3D animation for feature films, TV series, YouTube and other digital platforms, commercials, etc. VFX studios create Visual Effects for feature films, TV series, and commercials and work primarily on fee-for-service contracts, although some do own the content they produce and clients range from traditional film and TV producers and broadcasters to SVOD services such as Netflix and Amazon.

We rely heavily on the creative and technical talent of our workforce, as well as a range of complicated software and hardware to create high-quality content and cinematic Visual Effects.

In 2017/2018, we contributed $308 million in direct provincial GDP and we were expecting to increase our contribution in 2019/2020 by approximately 30%.

ECONOMIC IMPACT OF COVID-19

The economic impact modelled by Nordicity based on a survey conducted shows how COVID-19 has devastated our industry.

At the beginning of March 2020, the Animation, VFX and Post Production studios employed the equivalent of over 7,000 full time workers. Now, CASO estimates that after July, 2020 more than 80% (Figure 9) of ALL studios collectively will be out of work, including 93% of VFX companies and all (100%) of Post companies. Combined with staff reductions at animation studios – and an overall reduction of profitability, the industry is looking at $126 million in lost labour and $50 million in studio losses due to increased COVID-19 related costs, thus potentially yielding up to $176 million loss to Ontario's GDP, depending on how long distancing lasts.

Direct Costs to set up Remote connectivity: (3 – 6 months) (Figure 1& 6)

Based on our analysis, as of April 6, Ontario based Animation, VFX and Post Production companies representing the equivalent of over 7,000 full time employees have spent roughly **$6.5 million related to COVID-19** with Animation service studios experiencing the highest average costs in some of the following areas:

a) Remote set up workers from home;
b) Increase Licensing and bandwidth to allow for professional connectivity;
c) Modify pipeline to accommodate remote set up and multiple connectivity;
d) Additional labour, equipment and software to meet deadlines and compensate for inefficiency of working remotely.

Ongoing costs to maintain this remote connectivity shows that Animation, Visual Effects and Post have an ongoing monthly cost of $1.4 million for the industry.

Business Challenges (Figure 8)

Animation studios creating IP seems to be doing well for work at the moment, but their monthly costs are the highest to remain operational.

However, despite valiant efforts by Visual Effects, Service Animation and Post studios to develop new business, only 16% can do so successfully, namely in Animation providing service work, thus they will run out of work respectively as follows (Figure 10,11, 12):

VFX and Post Production Companies – 3 Months

Animation Service studios – 6 months
Animation studios generating their own IP – 20 months

While these averages are useful, we also note (Figure 11) when we exclude those IP-generating animation studios that can sustain themselves from that IP, 66% of all companies will run out of runway after three months (i.e. after June).

Financial Impact and hard costs to Studios due to COVID-19
Thus, due to the increased remote access costs and the inability to generate new revenue, VFX, Animation and Post Production studios COVID-19-related losses in 2020 will amount to approximately $50 million dollars.

This economic impact is further exacerbated due to the losses of employment to Ontario's economy if physical distancing lasts beyond June 2020. Our analysis shows that this could amount to $126 Million in lost labour (Figure 13). If we include the profitability loss to these numbers, the total impact on Ontario's GDP could be up to $176 Million depending on how long physical distancing lasts.

The COVID-19 impact to our sector is reverse to all other industries. While most other industries are out of work, the VFX, Animation and Post Production studios have been able to continue to employ over 75% of their workforce due to their pipeline backlog and by working collaboratively and diligently to establish remote work set up. Our data currently indicates that work will run out at the end of June and July in some instances.

Workforce Impact
When physical production resumes and everyone goes back to work, VFX and Post Production studios will run out of work and be faced with layoffs of over 75% of their workforce.

Assuming physical productions will not resume at 100% unless there is a vaccine. If 60% production resumes in July, 2020, they will have to prep, shoot, edit and have a Director's Cut be available before VFX and Post Production can begin work, thus the earliest studios can resume work at 60% will be November, 2020. This situation is further exacerbated as worldwide competition is now vying for the same body of work and Producers will decide which studio to award the work to and only those with strong client relationships, quality of work, stability of pricing which includes stability of tax credit will prevail.

Should work resume at 100% in January 2021, there will be a glut of work in the marketplace and VFX and Post studios will be busy and not have enough workforce to service the increased demand especially if their workforce has had to look internationally to subsidize their income. They will either turn the work away or be forced to outsource the work internationally.

It is important to reinforce that prior to COVID-19, there was a thirty percent (30%) shortage of artists in the workforce, and with the uncertainty of studios not able to cover the gap in wages between August to December 2020, a huge percentage of the workforce will be forced to look elsewhere to feed their families.

Conclusion and Recommendation
Our data for 2018 shows that the VFX and Animation sector delivered annually $309 million in direct GDP impact, which is estimated to drop to $176 million directly related to COVID-19.

While we share many of the physical production challenges voiced by other film and television industries, there are specific and unique pain points and timelines for VFX, Animation and Post Production studios as noted above. We kindly urge you to extend the Canada Emergency Wage Subsidy (CEWS) to December, 2020 to help assist in our economic recovery so we can keep our workforce and be ready to take on the overwhelming demand for our services instead of having to struggle to create a workforce which will further impede our economic recovery.

We thank you for your continued support and the opportunity to present our industry dire concerns to you. We will be happy to clarify any questions you have.

Sincerely,

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