

BRIEF FOR THE STANDING COMMITTEE ON INDUSTRY, SCIENCE AND TECHNOLOGY STUDY OF THE CANADIAN RESPONSE TO THE COVID-19 PANDEMIC

BACKGROUND

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

Our sector develops and create content for Animation and Visual Effects feature film and television series. Our clients consist of traditional theatrical broadcasters and producers to streaming video on demand platforms such as Netflix and Amazon, and commercial production.

The majority of our work is labour based thus 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

However, COVID-19 has created a huge gap in production that is detrimental to our workforce. 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. We now estimate that after July, 2020 more than 80% of ALL studios collectively will be out of work which means 93% of VFX companies and all (100%) of Post companies. We will not be able to resume work until 4 months after Physical Production resumes.

Combined with staff reductions – 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.

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.

Financial Impact and hard costs to Studios due to COVID-19

Studios incurred increased costs due to COVID-19 and with their inability to generate new revenue, they are currently projecting related losses in 2020 to approximately \$50 million dollars.

Our analysis shows that this economic impact could be further exacerbated due to the losses of employment in Ontario's economy in the amount of \$126 Million in lost labour (Figure 13) and if we include the profitability losses to these numbers, the total impact on Ontario's GDP could be up to \$176 Million depending on how long it takes to generate new revenue.

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 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.

The majority of VFX work begins after productions have completed principal photography. 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 January, 2021. 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, be forced to outsource the work internationally or hire more international workers which leads to immigration delays and the first year of an artist remuneration is not tax creditable only after the second year. This will exacerbate the financial situation of all studios.

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

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.

When Production resumes due to health and safety measures that are necessary, the way we produce our films will change and there will be heavy reliance on visual effects to fill the gaps. We have to look at innovative ways of creating intimate scenes, crowds, dynamic discussions on screen, etc. coupled with all shows starting at the same time and posting at the same time, there will be a scarcity of labour that we will be unable to fill and will turn work away.

Prior to COVID-19, the VFX, Animation and Post Production industry had a 30% shortage of talented artists such as Supervisors, FX Artists, Creature Artists, Animators, Compositors, etc. the companies have always faced severe challenges in acquiring and retaining employees in the post-production process. A lack of technical skills and creative abilities does limit the potential candidates available to work with. Professionals with the required qualifications, work experience and skillsets all demand high salaries and 30% of the time you have to recruit globally.

The recruitment process is mostly dependent on online platforms and job openings are either published on their company websites, linked in or word of mouth especially

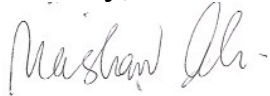
Recommendations

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 urge you to include in your considerations and respectfully submit the following recommendations in order of priority:

- 1) Continue the Wage (CEWS) and Rent Subsidy (CECRA) to December 2020 to accommodate our unique gap.
- 2) Include Remote work from home as approved ‘Designated workplace’ for Tax Credit purposes.
- 3) Payment of Outstanding Tax Credits as filed.
- 4) Allow COVID-19 related costs qualify for Tax Credits.
- 5) Allow remuneration paid to workers in Ontario be eligible for tax credits in the first year of residency.
- 6) Untethered OCASE from OPSTC to allow VFX, Animation and Post Production studios to allow for independent filing of OCASE Tax Credits and help to reduce backlog.
- 7) Stability of all Tax Credits

With your assistance, we expect to come back stronger than ever, to deliver even more value to Ontario’s jobs and investment recovery.

Sincerely,



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CASO Impact of COVID-19

Survey Results

April 23, 2020

Prepared for:



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.

Generously Supported by:

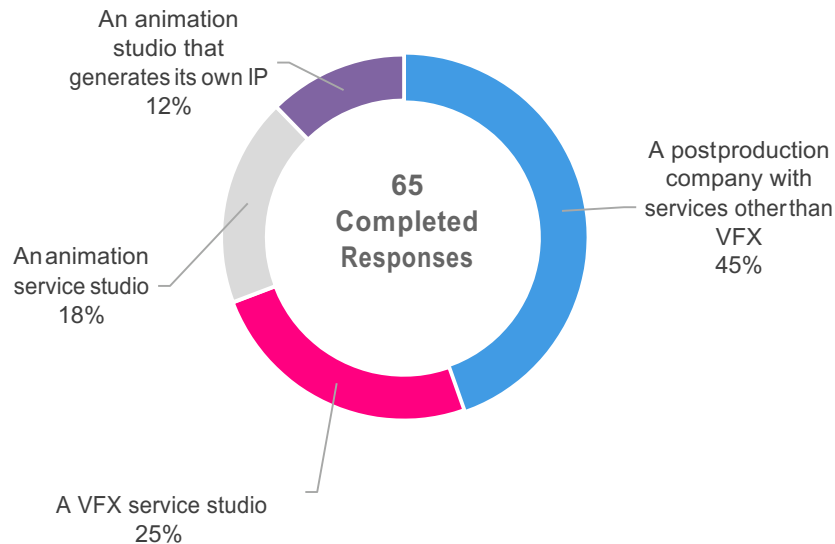


Disclaimer: Funding for this study was provided by Ontario Creates. Any opinions, findings, conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of Ontario Creates or the Government of Ontario. The Government of Ontario and its agencies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

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

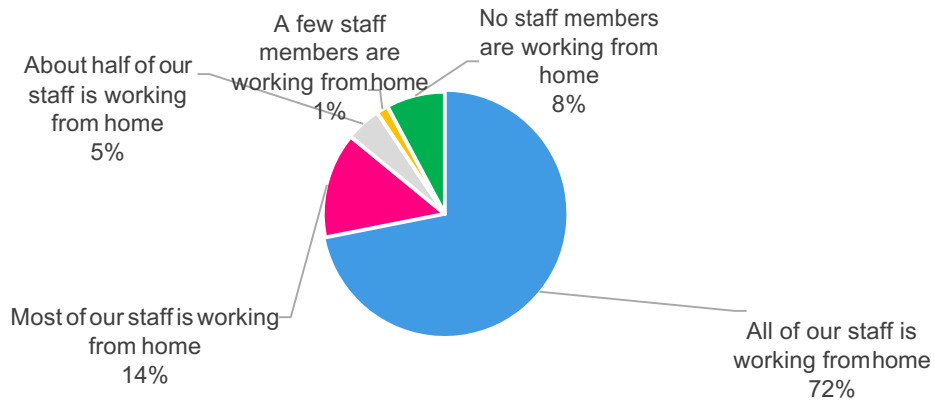
Nordicity estimates that the responses account for **61% of employment in Ontario's animation and VFX industries**. This figure was derived by starting with the number of direct employees reported in CASO's 2019 report entitled *Ontario's Computer Animation and Visual Effects Companies, 2018* (5,290 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”.

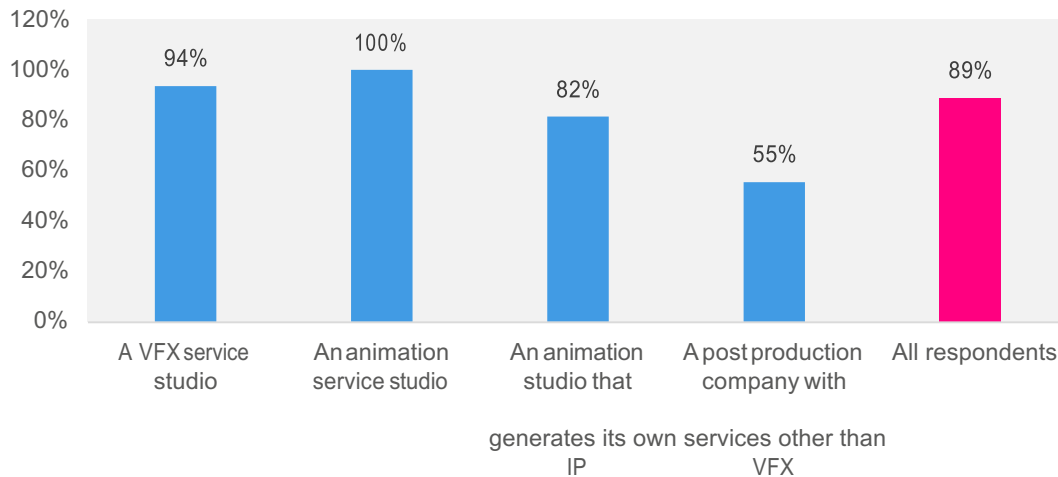
Figure 2: Working from home



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.

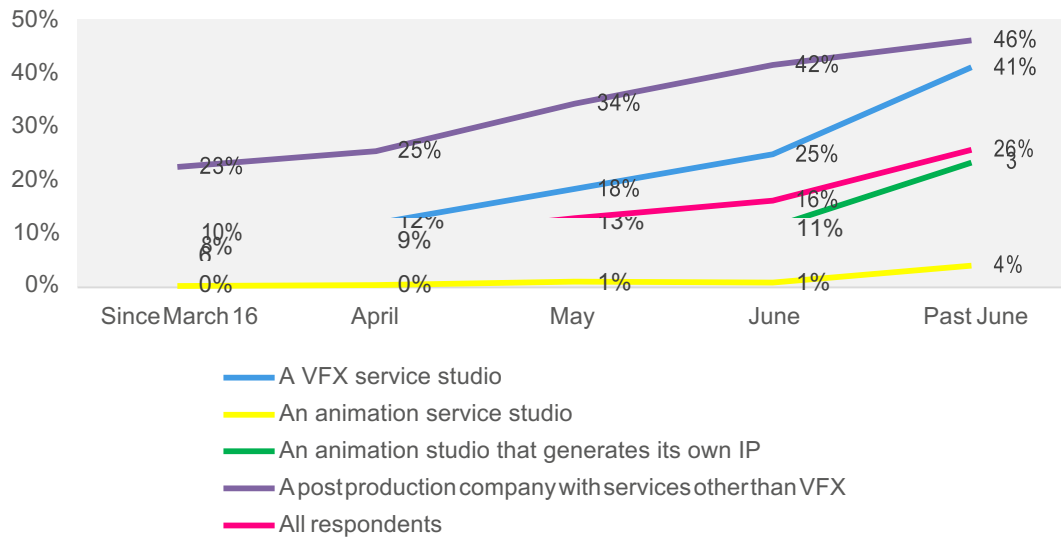
Figure 3: Working from home by type of company



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.

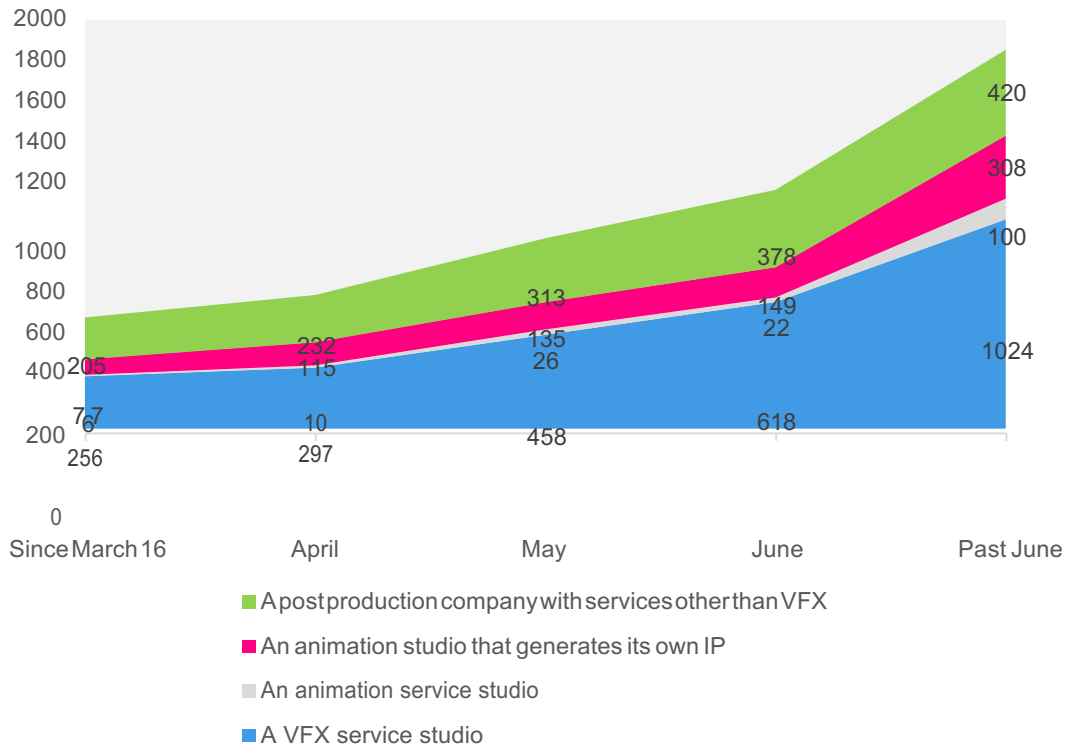
Figure 4: Percentage job losses over time by type of company



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 jobs are at risk.**

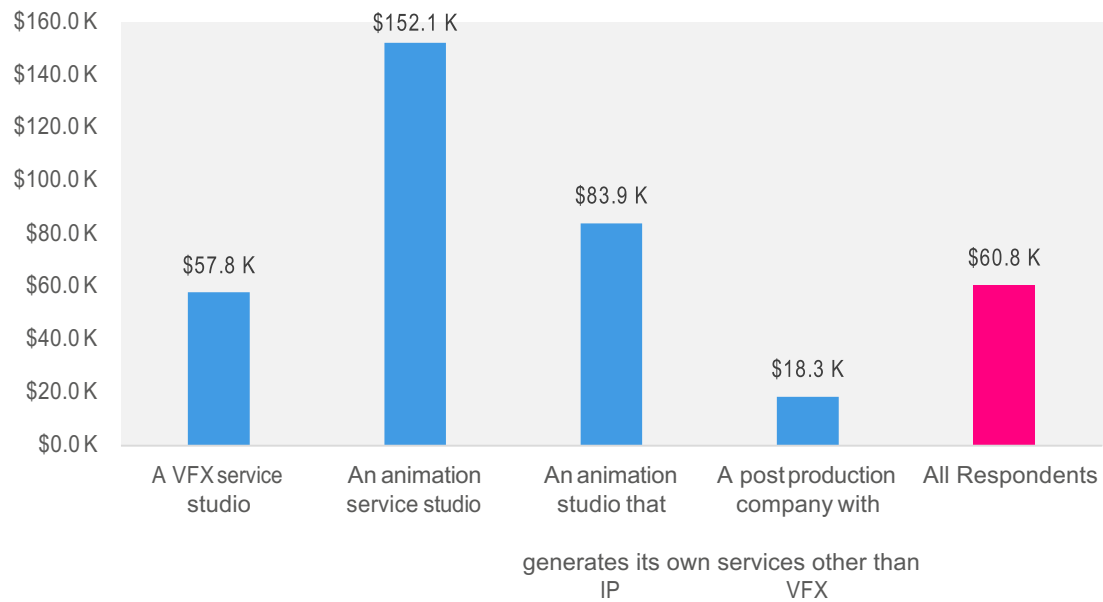
Table 1: Jobs at risk by type of company

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.

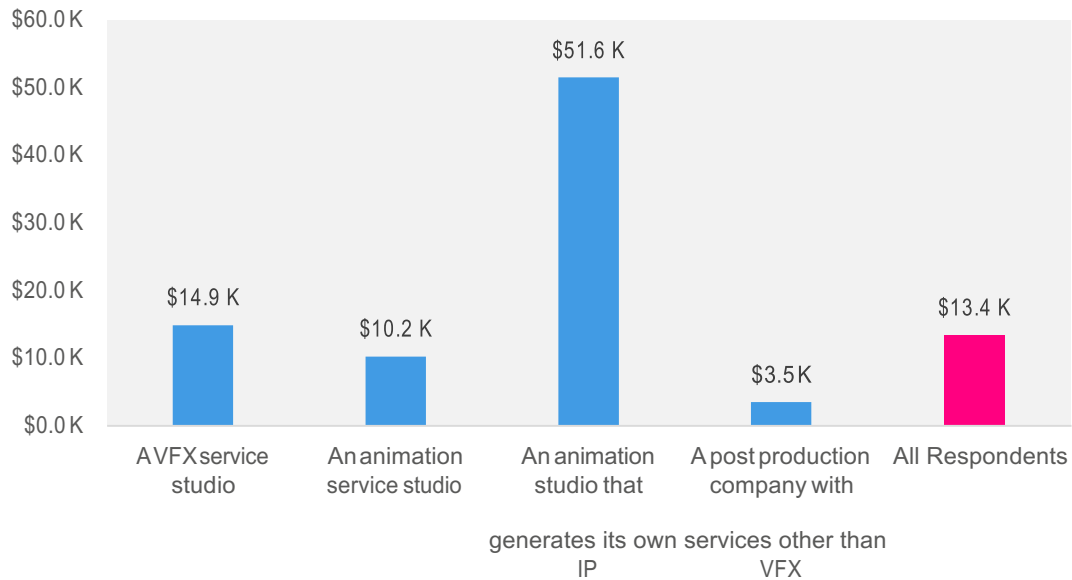
Figure 6: Average COVID-19 costs to date by type of company



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



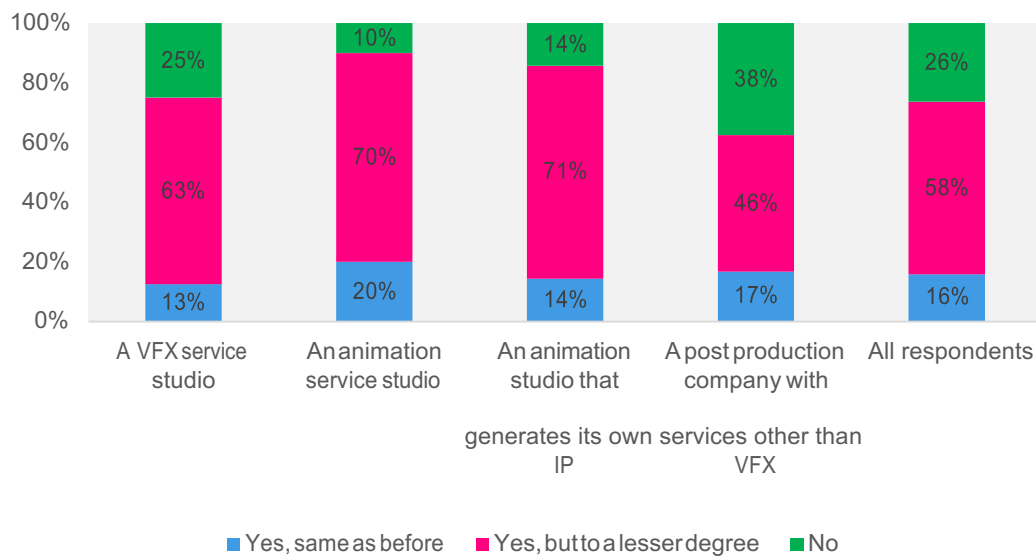
n = 65

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.

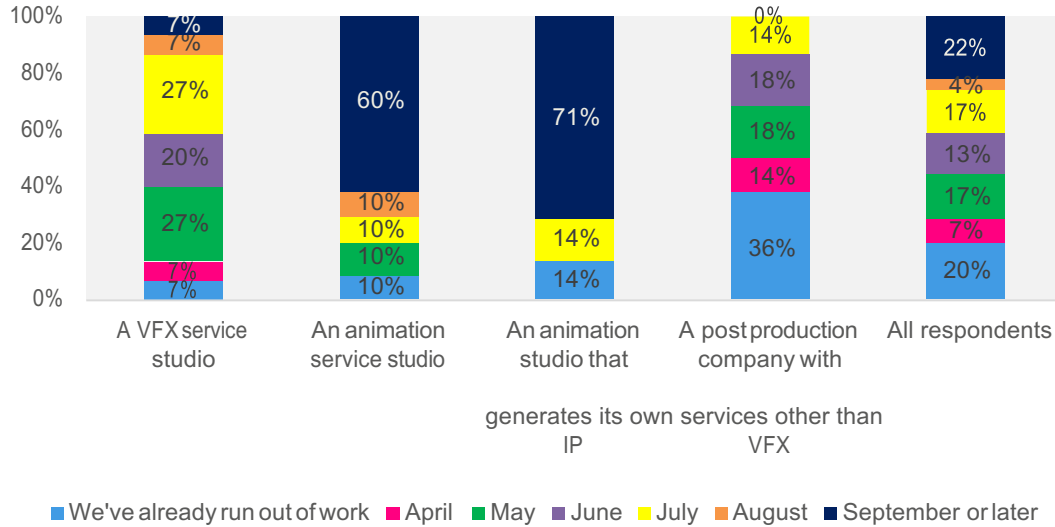
Figure 8: Ability to pitch new work by type of company



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

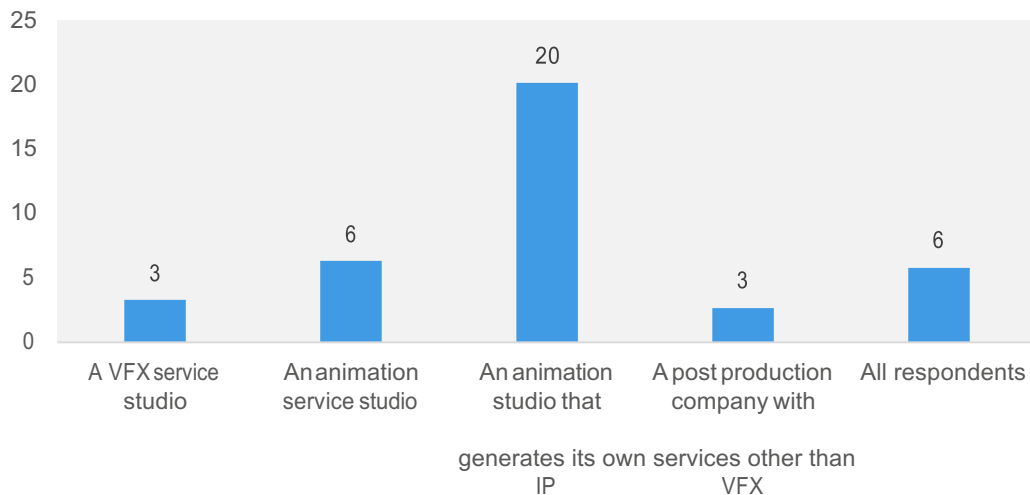


n = 54

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 threemonths).

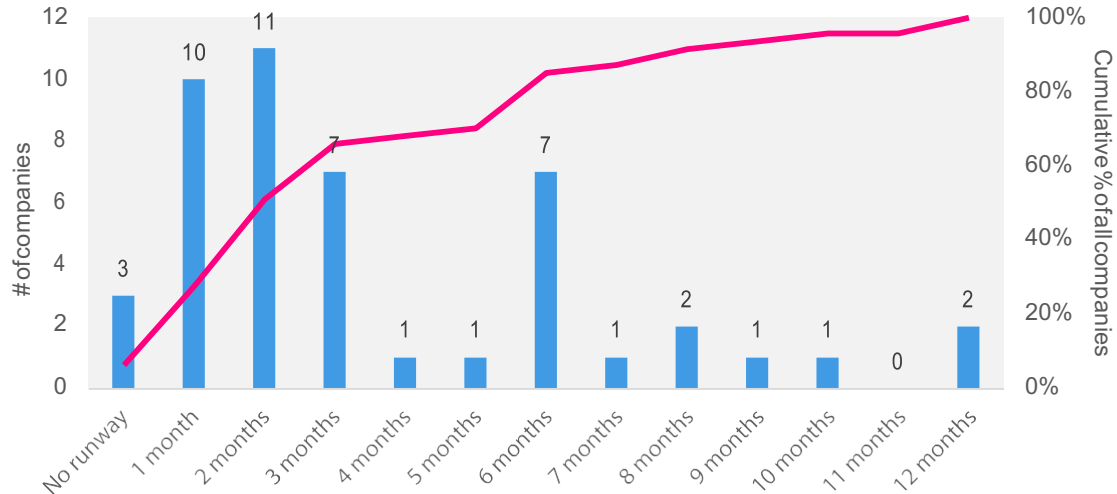
Figure 10: Months of runway by type of company



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).**

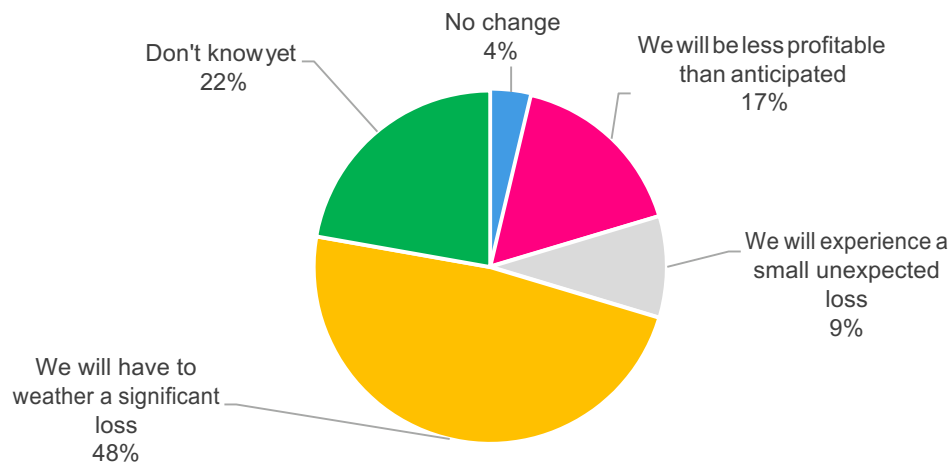
Figure 11: Months of runway and % of all companies (excluding animation studios that generate IP)



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

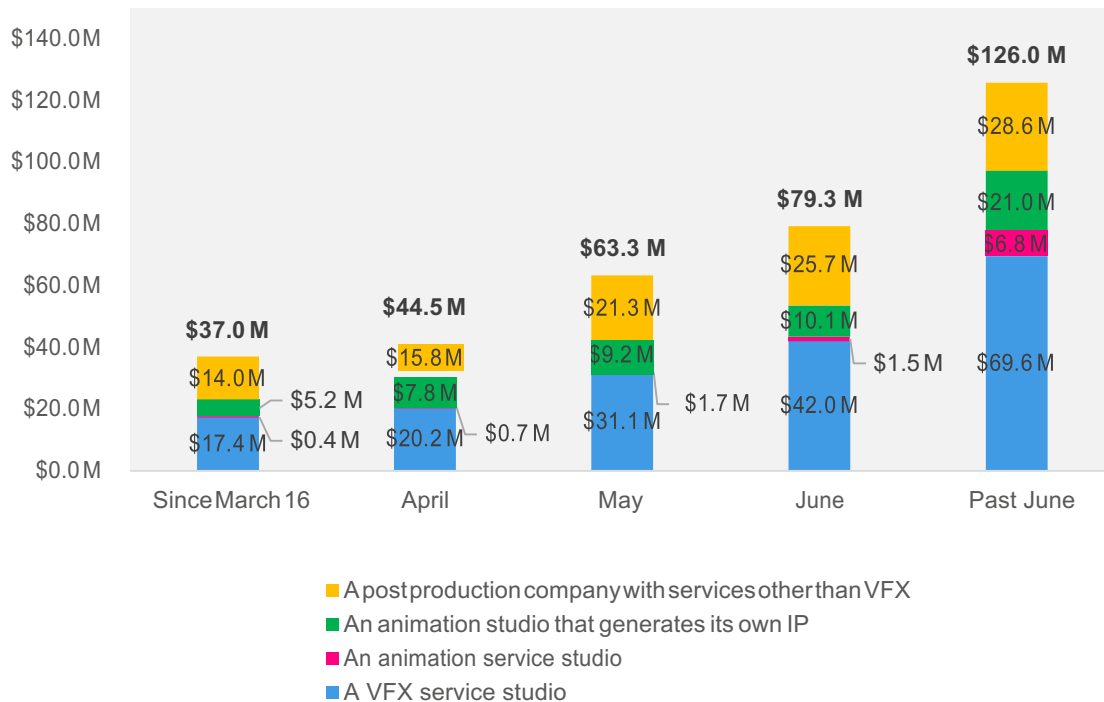
When asked to quantify that loss, companies reported at **total unexpected loss of corporate profits of \$50.0 million in 2020** (combining reduced profits and absolute losses).

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

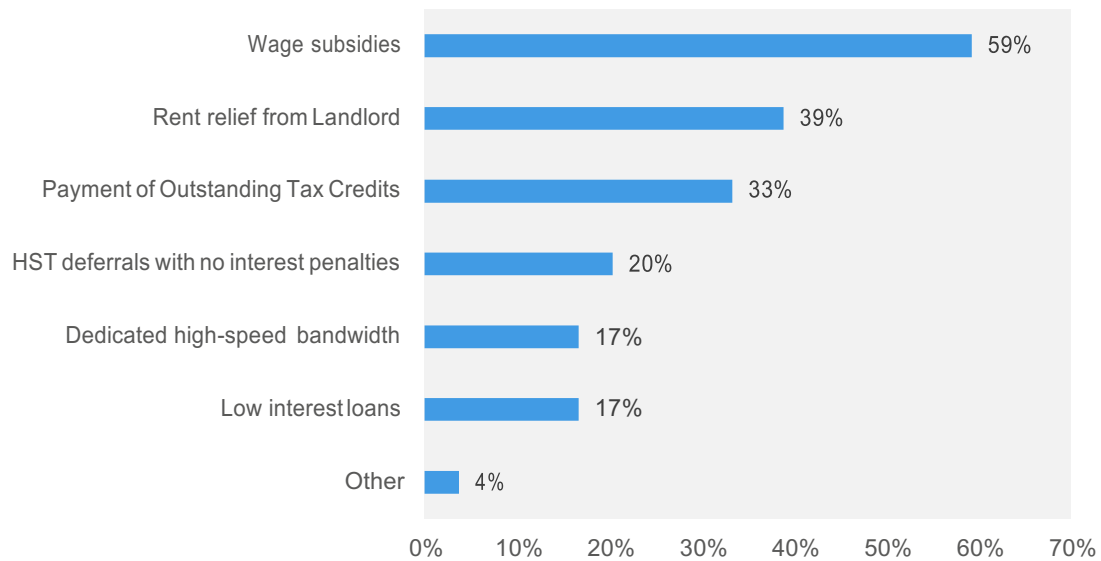
When one adds in the impact of the loss of profitability (per Section 4), **the total impact on Ontario’s GDP could be up to \$176 million** depending on how long physical distancing lasts.

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