

Michael Donovan's big bet at DHX

Cross Examined

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Michael Donovan, executive chairman of Halifax-based DHX Media Ltd., describes himself as a workaholic. “I have no vices; therefore, I have no choice but to work hard,” he says with his dry sense of humour. “I’ve played only one game of golf in my life.” Through his hard work, DHX has grown to be the largest owner and distributor of children’s animated video content outside of the Hollywood studios.

A one-year stint as a lawyer morphed into a film and television producing career for which Donovan has received more than 40 awards, including an Oscar. In 2016, he was named EY Entrepreneur of the Year for Canada, in recognition of his vision and determination as a company builder. This year, he was inducted into the Nova Scotia Business Hall of Fame.

But at 64, the Maritime entertainment mogul is not ready to rest on his laurels. He gave up his CEO title in favour of executive chairman in 2014 — “this has meant I work twice as hard for lower pay” — shifting to more of a strategic focus and less of an operational role. But the deal-making continues.

At the end of June, DHX closed a US\$345-million purchase of the rights to *Peanuts* and *Strawberry Shortcake*. “We do believe we should try to provide families and children with programs of value,” says Donovan. “*Peanuts* is perfectly aligned with that.” It was DHX’s largest acquisition — you can’t buy the rights to *Charlie Brown* for peanuts, after all — and the last one for the foreseeable future. “We are big enough, for the time being, in library size,” he says.

A month earlier, DHX announced a deal with iQIYI, one of China’s most popular video-streaming platforms, to launch the first two seasons of the new *Teletubbies* series in that country. Previously, DHX had licensed children’s programming to Chinese e-commerce giant Alibaba Group for its video-on-demand service. Donovan complains of rampant copyright violation in China, “seemingly with the encouragement and support of the government. But we are forming relations with partners that are in a position to reduce the thievery.”

Born in Antigonish, N.S., Donovan earned an LLB in 1977 from Dalhousie University in Halifax. He articulated with Dalhousie Legal Aid and then with the firm of Burchell McAdam LLP.

“They hired a few of the article clerks but not me, so I found myself unemployed. But various bits of work came to me, and I was soon running a quasi-sole practice out of my apartment.”

Then his older brother Paul, who worked in filmmaking in the U.K., moved back to Canada and asked Donovan to raise money for a film project. This became the priority in his legal practice and then his full-time career. The Donovan duo spent the late 1970s and early 1980s making B-movies, low-budget flicks that usually earned a profit if not necessarily artistic acclaim. They formally co-founded Salter Street Films in 1983. (Salter Street was the location of Donovan’s apartment in Halifax.)

“I formed the opinion that the world of law would be much better without me, and the evidence supports that,” Donovan quips. “I enjoyed law, but I don’t think law liked me. When I articulated at Dalhousie Legal Aid, I was in court every second day. I found that hugely interesting. The more normal practice was more boring. But the world of law decided I was better suited elsewhere, and I came to agree with that.”

In their film production business, Paul was the screenwriter and director, while Michael was the producer and travelled the world selling the movies. The company eventually switched to producing Canadian TV shows, focusing on comedy, says Donovan, “because comedy tends to be culturally specific.”

They started with the sketch comedy series *Codco*, performed by Newfoundlanders, then created *This Hour Has 22 Minutes*. This was to be “the same thing as *Codco*, but more immediate and ‘of the moment’ and would be more likely not to be arbitrarily [cancelled].” Their instincts were spot on: The show is now in its 25th season. It is currently produced by DHX for the CBC, and, says Donovan, “ratings are as high as, or higher than, ever.”

Salter Street’s revenues grew to \$30 million by 1997, and the next year, Donovan took the production company through an initial public offering on the Toronto Stock Exchange.

Salter Street was acquired in 2001 by Alliance Atlantis for \$84 million, but Donovan, rather than retire, decided to keep busy in the entertainment industry.

While at Salter, he had made forays into U.S. television, teaming with director Michael Moore to produce a political satire, *The Awful Truth*, that lasted two seasons. The connection with Moore continued, however, as Donovan produced his documentary film *Bowling for Columbine*, an exploration of the roots of America’s penchant for gun violence.

As *Bowling*’s producer, Donovan accepted the Academy Award in 2003 for the best documentary feature. He relishes the memory of the Oscar audience booing the film’s victory. “It was beyond satisfying because it meant that they were paying attention. We were having an impact.”

Donovan founded the Halifax Film Company in 2004, merging it two years later with Decode Entertainment to form DHX. In 2007, the company premiered *Shake Hands with the Devil*, a

feature film based on Lt.-Gen. Roméo Dallaire's autobiographical book about the 1994 Rwandan genocide. The film received 12 Genie nominations, including one for Donovan's screenplay.

But it is as a provider of children's content that DHX has flourished. Donovan leveraged the skills of the National Film Board's exceptional animators, the ongoing opportunity of selling the same programs to new generations of kids and the rise of the Internet to create video-on-demand services.

"I decided to focus DHX on one area only, and it could have been almost any area. But I decided on animation and children's programming," recalls Donovan, in part because Canadians are world leaders in that area. "I thought that was a genre in which we could create a company that had a world advantage. Unlike comedy, which is culturally specific, animation sells in every country."

DHX went public in 2006, raising \$20 million in an IPO on the TSX. Today, DHX has a market capitalization of approximately \$600 million, trading on both the TSX and the NASDAQ.

In addition to making new programs, Donovan also wanted to build up a back catalogue by buying the rights to existing cartoons. In 2012, through its acquisition of Cookie Jar Entertainment, DHX bulked up to more than 9,600 half-hour shows in its library (since expanded to 13,000 half-hours).

DHX's library includes *Inspector Gadget*, *Teletubbies*, *Arthur*, *Caillou*, *Franny's Feet*, *George of the Jungle* and *Yo Gabba Gabba!* Some 70 per cent of the firm's revenues are generated by its content library and 30 per cent by original production.

The library was acquired in advance of, or simultaneously with, the launch of digital delivery platforms. The timing was perfect. Subscription services such as Netflix were eager to license children's programs to feed into their offerings. Other digital streaming platforms and broadcasters that DHX supplies include Amazon, YouTube, Hulu, Nickelodeon and Cartoon Network.

DHX Media has 20 offices worldwide with 1,400 employees, including 313 in Halifax who create shows and *22 Minutes*.

"Advertising-supported streaming is a brave new world," says Donovan. When YouTube evolved into Advertising Video On Demand, DHX was able to upload the vast majority of its content library to the platform and turn a profit almost from the first day. "I put a lot of time into that, because I think it's the future," he says.

It's a future that Donovan plans to continue to help shape. "I intend to retire in about 30 years," he says.

Source: Canadian Lawyer <http://www.canadianlawyermag.com/article/michael-donovans-big-bet-at-dhx-13603/#>