



**ALIGN**  
RESEARCH

## Zinc Media Group

30<sup>th</sup> September 2019

**New transformation plan announced by highly experienced management team to grow revenues to £100m in the long-term**

Zinc Media is an AIM listed TV production and multimedia communications content business specializing in factual production. The company operates through the three divisions of television production, communications content and publishing.

### ■ 2019 financial year sees new heavyweight management team join

In October 2018 Will Sawyer joined as Chief Financial Officer and in April 2019 Mark Browning joined as CEO. Sawyer and Browning have a proven track record of transforming underperforming TV businesses into highly profitable companies, working together for many years at ITN Productions which they helped grow to one of the top 5 independent TV productions companies in the UK.

### ■ New strategic plan to create a sustainably profitable content creation company and scale to turnover of £100 million in the long-term

To transform the business in the long-term a new strategic plan will focus on four factors: improving the gross margins of television production, revenue growth and diversification, cultural & creative renewal and investment in operational excellence.

### ■ Potential for significant increase in value

At the current time we are not putting forecasts into the market for Zinc Media but expect to do so in due course once the finer elements of the strategic plan are finalized. Until then, we note that the track record of the new management team is highly impressive and if Mark Browning and Will Sawyer can repeat their success at ITN with Zinc then we believe the current market cap of just under £5 million could be many multiples of that in the coming years.

Table: Financial overview. Source: Company & Align Research

Year to end June	2016A	2017A	2018A	2019A
Revenues (£m)	22.62	19.76	21.68	24.63
Adj. EBITDA (£m)	(0.43)	0.44	0.49	0.13
EPS (p)	(0.91)	(0.01)	(0.17)	(0.20)

*This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.*

## UPDATE



### Key data

EPIC	ZIN
Share price	0.335p
52 week high/low	0.5p/0.235p
Listing	AIM
Shares in issue	1,419,113,435
Market Cap	£4.8m
Sector	Media

### 12 month share price chart



### Analyst details

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## Operations

Zinc Media Group (ZIN) is a TV and multimedia content producer and one of the UK's leading independent TV production companies, specialising in non-scripted factual programming. The group consists of three divisions, **TV Production**, **Zinc Communicate** (which are strategically housed together in the same London office) and **Publishing** which is based in Macclesfield.

### Television Production

The core of the business is the Television Production division, which made up 86% of total group revenues in the last financial year. It comprises a number of award winning and critically acclaimed television production companies, Blakeway, Brook Lapping, Films of Record, Reef Television and Tern Television, which produce television and radio programmes for the majority of broadcasters in the UK and a number of key international broadcasters.

#### Blakeway – Popular/Specialist Factual

The Blakeway branded businesses comprise three regional units focusing on popular and specialist factual content. Bought by the group in May 2004, Blakeway has over two decades' experience in making films for television, specializing in history, wildlife, arts and current affairs.

Blakeway North is the group's regional indie based in Manchester, specialising in popular factual programming. The unit has had particular success with long running series such as *Bargain Loving Brits in the Sun* for Channel 5. In the last financial year Blakeway opened in Bristol focusing on the company's growing reputation for blue chip nature and natural history programming. Other highlights from Blakeway's specialist factual unit include a 4-part series for Channel 4, *History of Britain*, and National Geographic's five-part series *Lost Cities* with Albert Lin.

#### Brook Lapping – Factual & Current Affairs

Brook Lapping is a London based current affairs and documentary producer well known for its series on international politics. Acquired by the group in November 2002, it has made definitive series on British political leaders, including Margaret Thatcher and Tony Blair, and has run *Question Time* for BBC1 and *A Week in Politics* for Channel 4.

Recently, Brook Lapping delivered two of the most impactful television programmes of the year with *Brexit: Behind closed doors*, and *Europe: Ten years of turmoil*, both of which were distributed widely in the UK and Europe. In May this year Brook Lapping won a BAFTA for best specialist factual programme for *Suffragettes With Lucy Worsley*, a documentary produced for BBC One which dramatised testimony of a group of working-class women campaigning for the right to vote.

#### Reef Television - Popular Factual & Formats

Acquired in July 2015, Reef Television is a popular factual production company with an in-house post production department which has made hundreds of hours of both peak time and daytime broadcast factual programmes for clients including the BBC, Channel 4, Discovery, ITV, Channel 5 and UKTV.

Founded in 2003 by former BBC and Talkback Productions producer Richard Farmbrough, the company has produced multiple landmark music films for BBC Two including the Emmy-nominated *Messiah at the Foundling Hospital* and *Leningrad and the Orchestra That Defied Hitler*. Recent productions include *Police Code Zero* for Channel 5 and *Critical Incident* for BBC Daytime in a co-production with Tern in Belfast.

### **Tern Television – Popular Factual**

Operating from three sites in Glasgow, Belfast and Aberdeen, regional producer Tern Television was acquired by Zinc Media in November 2017 for up to £5.45 million. Being based in Scotland and Northern Ireland, Zinc found Tern attractive as the company is currently benefitting from broadcasters such as the BBC and Channel 4 investing more in regional programming, as well as from their regional programming quotas set by regulator Ofcom.

Founded in 1988, Tern specialises in factual TV production across the areas of documentary, specialist factual and popular factual. The company typically produces over sixty hours of TV content annually for a range of UK broadcasters including the BBC, ITV and Channel 4. Some recent productions include: the *From Hell* strand for Channel 4 which comes from Tern Belfast and includes *Holidays from Hell* and *Roads from Hell* and *Emergency Helicopter Medics* for More4.

### **Zinc Communicate**

Zinc Communicate, the communications content division, specialises in designing, creating and executing communications strategies, corporate social responsibility communications and behaviour change programmes, campaigns and resources for blue-chip companies, charities and government departments. The aim is for these programmes to engage, educate and activate wider audiences, and to push clients' branded content and storytelling through digital communications and short-form film. The division made 6% of total group revenues in the last financial year. A selection of blue-chip clients in the division include the likes of AstraZeneca, National Grid, The BMW Group, Vodafone and Thames Water.

### **Publishing**

Finally, is Ten Alps Communications, based in Macclesfield and Manchester. Over the past five years the division has mainly published homeowner-planning guidelines for local authorities across the UK under a five year contract with the Local Authority Building Control (LABC) and sells trader advertising in those guidelines. Additional revenue streams include the production of short films for local authorities to use to raise awareness around building control and planning permission issues. The division made up 8% of group revenues in the last financial year.

# TV Production Market Opportunities

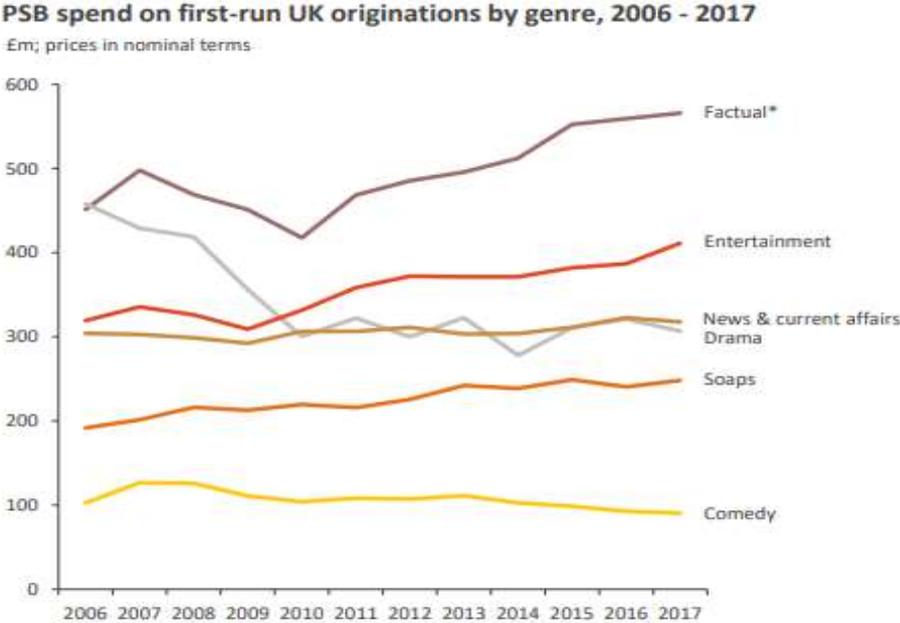
Zinc Media operates in a global TV market which according to PwC’s Global Entertainment & Media Outlook 2016–2020, is set to grow total revenues to \$325 billion by 2020, up from just under \$290 million in 2016. Although PwC expects the majority of revenues (\$288 billion) to come from traditional broadcast TV (“linear”) in 2020, the fastest growth is expected to come from areas including subscription video-on-demand (SVoD) services and interactive (also known as “non-linear”). These are forecast by PwC to grow by a CAGR of 11.5% up until 2020, compared with just 1.7% for traditional broadcast.

The high growth in demand for non-linear services has been driven over the past decade or so by changes in technology and viewing habits. TV consumers, particularly younger viewers, are moving away from watching live broadcast TV and towards on-demand services like the BBC iPlayer and SVoD services such as Netflix and Amazon Prime. The rapid growth in connected devices such as smartphones and tablets has been a key factor in this shift and helped to boost demand for high quality on-demand TV content from content producers.

The trends mentioned above are being replicated in Zinc’s core UK market, with Ofcom’s *Media Nation: UK 2019* report suggesting that viewing of SVoD by adults aged 16-34 increased by 22 minutes to an average of 52 minutes a day in 2018. Ofcom suggests that individuals watched a total of 4 hours 54 minutes of audio-visual content per day in 2018 across all devices but despite a rise in SVoD subscriptions, more than two-thirds of total viewing of video content was broadcast content.

**While the way video content is consumed is changing, the demand by broadcasters for quality content remains high.**

In the UK, Ofcom suggests that public service broadcasters (PSBs) spent just under £2.6 billion on UK made original content in 2018, providing a large and, while down by 5% compared to 2016, relatively stable market. Encouragingly for Zinc Media and its TV subsidiaries, spending on the factual programmes in which it specialises has grown much faster than other genres over the past decade to reach over £550 million in 2017 – see chart below.



Note: \*includes Specialist Factual, General Factual and Factual Entertainment  
 Source: Ofcom PSB report, Broadcasters, Oliver & Ohlbaum analysis

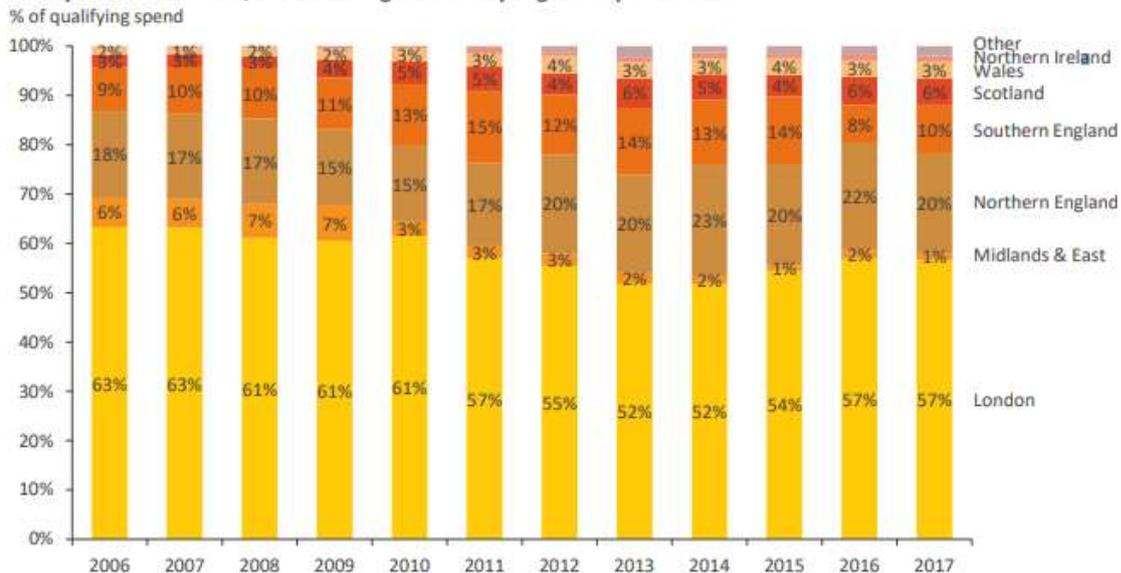
The PSB channels (those providing Channel 3 services, Channel 4, Channel 5, S4C and the BBC) generally account for at least two-thirds of total investment in UK production, providing a solid market for independent TV producers. However, driven by the factors above, multichannel groups, have been rapidly increasing their spend on UK content, with spend on all network TV multichannel content growing from £757 million in 2014 to £1.176 billion in 2017 excluding sport (Source: *Regionality trends within the UK production sector: Ofcom by Oliver & Ohlbaum Associates Ltd.*)

### UK regional opportunities

Also creating growth opportunities for Zinc is the burgeoning regional TV production market, with the company having a number of offices outside London in Manchester, Bristol, Belfast, Aberdeen and Glasgow. To help promote regional TV production, Ofcom has imposed quotas on the public service broadcasters to ensure that a suitable proportion of their network programmes are made in the UK outside of the M25, or “made outside London” (MoL).

The regulator’s 2018 report *Review of Regional TV Production and Programming Guidance* found that the production sector in the nations and regions has increased its share of PSB expenditure from 37% in 2006 to 43% in 2017, although the percentage share has pulled back in recent years from a high of 48% in 2013/14. Encouragingly for regional producers, in June this year Ofcom tightened its guidance over regional programming to ensure PSBs better deliver the policy intention. This move reflected criticism over some companies adhering to the letter of the law rather than the spirit. The new guidance will come into effect for programmes broadcast from January 2021.

**PSB spend on first-run, network originations by region of production**



Note: Qualifying spend excludes national news and sports rights (we estimate that total PSB qualifying spend has been relatively consistent at just under £2 billion, in nominal prices, over the past decade). Regions allocated based on Ofcom criteria  
 Source: Ofcom PSB Annual Compliance Report, Ofcom PSB Annual Report, Oliver & Ohlbaum analysis

## Full Year Results to June 2019

### Financials

#### P&L

Results for the year to 30<sup>th</sup> June 2019 reported on a year of both successes and challenges for Zinc Media as a whole. At the top line, total revenues increased by 14% to £24.63 million, with a good performance from the Television division being offset slightly by challenging trading conditions in Zinc Communicate and Publishing.

Nevertheless, the group as a whole remained profitable at the adjusted EBITDA level for the third year in a row, with profits of £0.13 million, down from £0.49 million in 2018. These were affected by a fall in the gross margin from 31% to 28%, partly caused by outsourcing some post production and production management services as in-house resources were at full capacity. Operating expenses of £6.78 million were up by 10% but remained at around 28% of revenues, in line with the previous year.

At the operating level Zinc posted a statutory loss of £2.53 million for the year, up from £1.56 million, largely to an increase in non-cash and exceptional charges. Following the loss of a key contract in the Communications division (see below) a £0.99 million impairment was made to take the carrying value of goodwill to zero. Other major items included depreciation and amortisation of £0.89 million and £0.3 million of reorganisation and restructuring costs. At the bottom line, the statutory net loss was £2.73 million, up from £1.86 million.

#### Balance sheet and cashflow

Cash at the period end stood at £3.21 million, down from £3.55 million 12 months previously. Net cash flow from operations were a positive £0.44 million for the period, with the net losses being offset by the adding back of £1.88 million of amortisation, depreciation and impairment charges. There was also a favourable £0.78 million movement in working capital. Amongst investing activities major items included the payment of deferred consideration due to Tern shareholders of £563,000 and £192,000 of equipment purchases.

Elsewhere on the balance sheet notable movements included a £2.5 million rise in trade and other payables. These mainly reflected an increase in accruals and contract liabilities, with a high level of accrued costs on two multi-million pound productions for National Geographic and an increase in deferred revenue relating to a Tern production for Channel 4 for which a significant amount was billed pre year-end prior to production commencing. Trade and other receivables increased by £1.64m to £6.86 million due to an increase in Television trade debtors and accrued income in respect of two specific productions.

Zinc retained long-term borrowings of £3.74 million at the period end, relating to unsecured loans from 33.66% shareholder Herald Investment Trust Plc and 4.6% shareholder John Booth and The John Booth Charitable Foundation. A bullet repayment on the borrowings is due on 31<sup>st</sup> December 2020. Current liabilities also include a £0.5 million payment relating to the second year earnout consideration payable for Tern which is due in November. A further £0.595 million of contingent consideration for Tern, due next year, is reflected in non-current liabilities.

## Divisional performance

**TV Production** was the strongest performing division in the year with revenues growing by 21% to £21.2 million and the adjusted EBITDA profit rising to £394,000, up from £26,000 in the previous year. This was driven by a strong performance from Tern Television, which enjoyed a number of returning series and a high volume of single programme commissions. Tern also made a full 12 month contribution to the results for the first time since its acquisition in November 2017. Other highlights included Tern driving made outside London revenues up 32% year on year, international commissions now making up 20% of TV revenues and the company's first Subscription Video on Demand commission with Love Nature via Blakeway.

The divisional performance was offset by a £2.9 million fall in revenues at Reef which saw many of its long-running Channel 4 series come to an end following a change in management at the broadcaster. With Reef highly dependent on Channel 4 as a customer this had a significant impact and the business had to develop new genres and customer relationships. In reaction, Reef underwent a significant restructuring to offset considerable losses in the year.

**Zinc Communicate** had a challenging year and saw revenues fall by 22% to £1.46 million, with a modest adjusted EBITDA loss of £48,000. The tough conditions were blamed on clients delaying spending on corporate social responsibility programmes amongst uncertain economic conditions. More importantly, the division's largest contract with Transport for London for road safety education programme The Children's Traffic Club, was not renewed due to budget constraints at TfL and has now ended. The lack of renewal means that there will be a significant negative impact on the commercial performance of the division in the current financial year. However, following a repositioning of the business, management is optimistic that Zinc Communicate will return to profitability in the medium-term.

The **Publishing** division also had a tough year, with revenues falling by 13% to £1.86 million and adjusted EBITDA down from £298,000 to £177,000. While it is encouraging that the division remained profitable it faces a challenging year ahead as key client the LABC (Local Authority Building Control) is forced to transition its business model away from a commercial relationship due to regulatory reasons and is unable to renew its contract which has lasted for over a decade. The division's other main contract is up for tender in the coming year, so Publishing faces a year of transition as it repositions into new markets, with new product offerings.

## **Management changes prompt new strategic direction**

During the 2019 financial year Zinc Media saw a number of new senior management appointments. In October 2018 Will Sawyer joined as Chief Financial Officer and in April 2019 Mark Browning joined as CEO. Sawyer and Browning have a proven track record of transforming underperforming TV businesses into highly profitable companies, working together for many years at ITN Productions, which they helped grow to one of the top 5 independent TV productions companies in the UK – see full biographies on page 12. Having joined the business they now see the opportunity for significant long-term growth at Zinc and the company as an attractive vehicle from which to build a scalable content creation company.

### **Strategy**

Zinc has outlined its new strategic plan, with the initial focus being on delivering long-term levels of profitability that should be expected in a business of Zinc's size and standing. The longer term ambition is to, *"create a sustainably profitable content creation company with turnover of £100m that's recognised as an outstanding organization to work for"*, according to CEO Mark Browning. The first phase of the transformation plan will focus on four key areas:

- **Improvement in the gross margins of television production**

As the results showed, gross margins were squeezed in 2019, partly due to the company needing to use external facilities for certain types of editing which isn't currently available in-house. In reaction, Zinc has begun to invest in the expansion of its in-house post production facilities in order to reduce costs associated with paying third-party providers. Management have identified that a £0.6 million capex investment on post production facilities, including in Manchester where there are currently none, will be able to realise £1.8 million of savings over three years. In total, 3 percentage points worth of gross margin improvements have already been identified by new management along with the potential for future overhead savings for 2019/20. Also, margin management discipline will be improved and employees incentivised to deliver improved margins.

- **Revenue growth and diversification**

The past few years have seen Zinc further diversify its broadcaster client base, both across the UK and overseas, and this is an area of focus set to continue. The company intends to invest further in business development resources to grow revenues in the medium-term, with employees being financially incentivised to reward margin and profit growth.

Further efforts are expected to be focused towards International expansion, particularly within the growing SVoD market, and with international multichannel networks such as National Geographic. While these commissions can take a long-time to produce they are generally higher value. The television businesses will focus on expanding into new, higher value genres and working for a wider client base in order to diversify its revenue mix. There will be continued focus on the UK market and increasing the number of returning series, further building on recent successes including seven returning series announced since May.

In the non-TV businesses, the focus will be on transforming the product propositions and the hiring of new business winners. New growth opportunities will be identified outside the corporate social responsibility market and may include sectors like brand-led content, digital marketing, and advertiser led content.

- **Cultural and creative renewal**

As mentioned above Zinc will introduce incentivisation and reward schemes for employees in order to drive revenue and profit growth. The intention is to create a more transparent, collaborative culture across the group companies. Management information will be improved to facilitate better decision making, with frequent financial reviews and management meetings based on more rigorous reporting and a culture of accountability.

- **Investment in operational excellence**

Finally, investment will be made in group functions in order to support and add value to the various divisional businesses. New pipeline and reporting tools will be invested in to facilitate the monitoring of newly introduced KPIs. Q1 2020 will also see Zinc move out of its London office on the lease expiry so the property portfolio will be reviewed ahead of a move to alternative premises in the city.

Overall, the plan has the objective of forming a cohesive group of creative content companies built on common DNA, benefiting from a central 'core' and delivering commercial value at scale. The above moves are expected to ready the business for further complementary acquisitions which will add value to the group.

## **Outlook**

### **Strong start to FY2020 with c.£13 million of new commissions announced since May**

Zinc enters the 2020 financial year with a strong slate of commissions across the television businesses having announced a number of new deals over the past few months. In May the company announced new commissions totalling £5.1 million, including two returning series and a new repeatable series. Blakeway North won two new series for Channel 5 and a new BBC commission, worth £1.4 million in total including a fifth series of *Bargain Loving Brits in the Sun* for Channel 5. Tern TV won commissions for a number of major UK broadcasters totalling £1.5 million, including a second series of *Great British Car Journeys* for More 4. Also, Brook Lapping has won £2.2 million of commissions including a feature documentary for the Smithsonian channel's Black History Month, and two documentaries for the BBC.

Adding to these, in late June the company announced a total of £2.8 million of commissions, driven by a number of fast turnaround productions. Highlights included Tern Television being in production for its third series of *Grand Tours of Scotland's Lochs* for BBC Two and BBC Scotland, as well as a number of high value single programmes including *Britain's Worst Weather: 2019* for Channel 4. Brook Lapping has won several fast turnaround commissions and one-off singles including *Panorama - The Race for Number 10* and *The Trans Women Athlete Dispute with Martina Navratilova*.

Post period end, in September, Zinc announced further new commissions amounting to £4.8 million. Reef TV put the difficult previous year behind it by securing repeat commissions of two big series. *Police Code Zero* for Channel 5 and *Critical Incident* for BBC One. Highlights elsewhere include; Tern TV gaining a repeat commission of *Emergency Helicopter Medics* for More 4 alongside a new ten hour trauma series commission; Brook Lapping is in production for a one-off and a returning series for BBC4, as well as a documentary production for ITV; Blakeway has secured a historical documentary series for Channel 5 and a second history programme as an international co-production in association with the BBC; and Blakeway North, has secured a commission for BBC3 and BBC Learning.

## **A year of transition**

Given the new strategic plan 2019/20 is expected to be one of transition for Zinc Media. Tern TV is said to have continued its excellent revenue and margin performance since the year end, with Reef showing signs of recovery given the two series renewals mentioned above, both of which are expected to deliver substantially better margins than their first series. Brook Lapping and Blakeway are said to be in a good position but are dependent on winning large second series recommissions from international productions. Blakeway North however has had a slower than anticipated start to the year.

As discussed in the results, the non-TV businesses are expected to face financial challenges in the current financial year and potentially offset margin improvement in the Television division. Action is being taken however, with both businesses being re-positioned into larger and more profitable markets by redefining the product proposition and investing in new business generating personnel. Management believes that in the medium-term they have the potential to deliver higher margin revenues than traditional TV.

## Management

### **Christopher Satterthwaite - Non-Executive Chairman**

Christopher has a wealth of experience in the media and communications space working with both private and listed businesses. Until 2017 Christopher was group CEO of Chime Communications, overseeing its sale to Providence Equity in 2015 for £374 million, having grown the business to a global sports entertainment and communications group employing over 2,500 people in 27 countries and delivered £250 million in shareholder value during his tenure. Christopher is currently chairman of AIM-quoted technology group Access Intelligence and Spacehive, a private technology start-up, and was a non-executive director of Centuar Media plc from 2007 to 2015.

### **Mark Browning - Chief Executive Officer**

Mark is a seasoned media executive and leader of creative and commercial teams. He joined Zinc earlier in 2019 from ITN Productions, where he was Group Managing Director, having developed a diverse and substantial international production company. Mark joined ITN nine years ago, at which point the business was a predominantly news focussed producer which was dependant on two news contracts with ITV and Channel 4. Under his leadership ITN Productions diversified into production, moved from loss to profit making and grew revenues from £10 million to £50 million (B), becoming one of the UK's leading factual, factual entertainment, sport, digital and commercial super-indies. Prior to joining ITN Mark was Programme Director at radio business, Heart 106.2, during its ownership by Chrysalis through to its sale to Global Radio for £170 million in 2007.

### **Will Sawyer – Chief Financial Officer**

Will Sawyer brings many years of experience in the TV production and media sectors. He joined Zinc from ITN Productions, where he has most recently acted as Finance Director, having joined in 2010. He helped grow it into one of the top independent production companies in the UK over a nine year period, and sold Diagonal View, a digital start-up, to Sky. Prior to ITN he was a corporate finance manager at the BBC and a senior finance manager at Ofcom. Will qualified as a Chartered Accountant at Deloitte, where he specialised in media businesses.

### **Harry Bell – Executive Director**

Harry Bell, Managing Director of Tern Television, has spent his entire career in the television industry, having started working at ITV as one of the station's youngest TV producers. Harry is a multi-award winning producer who is responsible for both the commercial and creative direction at Tern Television and has grown Tern into one of the UK's leading dual-nation independent TV companies in the UK.

### **Nicholas Taylor - Non-Executive Director**

Nicholas has extensive experience of working with growing organisations, principally in the TMT sector. He has worked as a consultant and in-house and has held senior positions in both private and public businesses and in the not for profit sector. His involvement in the media industry started over 20 years ago when he was Head of Finance at Brighter Pictures (now Remarkable Television, part of Endemol Shine) and encompasses film and television; production, post-production and special effects; factual and entertainment. Between 2011 and 2013 he was Managing Director of The Imaginarium Studios. He is also non-executive director of Maintel Holdings Plc and non-executive chairman of Focus 4 U Ltd.

## **Andrew Garard – Non-Executive Director**

Andrew was most recently Group Legal Director and Company Secretary for ITV plc, having spent over a decade with the company, where he was also a board member of ITV plc and chairman of ITN. While at ITV, Andrew was responsible for an international team overseeing global legal and business affairs, including rights management, insurance, health and safety, corporate responsibility and business continuity. He helped lead ITV's rapid expansion in the UK production market and ITV Studios' expansion into the USA, where he oversaw legal and business matters as part of ITV's acquisition strategy. During his time he also had management responsibility for ITV's Interactive Business. Prior to ITV, Andrew held a number of general counsel roles, including at Cable and Wireless plc and Reuters Asia, and positions at legal firms, including with Clifford Chance, Freshfields and partner in the corporate department at LeBoeuf, Lamb, Greene & MacRae. With effect from 16 September 2019 Andrew will also join Meggitt PLC, a leading international company specialising in high performance components and sub-systems for the aerospace, defence and selected energy markets, as group general counsel and director of corporate affairs.

## **Key Risks**

### **Reliance on key customers**

Zinc Media is one of many UK based TV producers which rely upon a relatively small number of customers / broadcasters to earn commissions and royalty income for their programming. According to the 2017 PACT Census, the four main terrestrial networks (BBC, ITV, Channel 4 and Channel 5 and subsidiaries) accounted for an estimated 82% of UK primary commission spend in 2016. As such, the company and the industry as a whole is exposed to budget cuts amongst these broadcasters. However, the number of customers has increased over the past few years, with notable growth being seen in international markets as discussed above. Zinc Media mitigates against the key customer risk by focusing on growing in international markets, with the company having identified a number of new clients it hopes to work with in the future.

### **Cyclical nature of the TV production industry**

On an annual basis, Zinc Media's TV operations are typically second half weighted (January to June). However, a more prominent cyclical risk is the TV production industry's exposure to wider economic trends, especially trends in the advertising industry upon which broadcasters rely for their income. Should the advertising industry go through a downturn broadcasters may reduce budgets, thus reducing the potential for new commissions. Zinc Media seeks to reduce this risk as above, by maintaining good relations with clients, with the increased focus on international markets reducing exposure to a downturn in the UK.

### **Changes in the popularity of factual content**

The TV industry sees different factual genres come in and out of favour with commissioners, as recently demonstrated by Reef seeing the end of certain daytime commissions with Channel 4. To mitigate this risk the company ensures that it has the creative capability to produce programmes across a diversified mix of factual genres across the group.

### **Creative and people risks**

The key driver of organic growth is the company's ability to attract and retain commercial and creative talent in order to generate business. To mitigate this risk key staff are incentivised through a mixture of sales commissions, profit related bonuses and participation in employee share incentive plans. However, should Zinc be unable to attract new employees or retain existing employees this could have a material adverse effect on its ability to grow or maintain its business.

## Conclusion

At the current time we are not putting forecasts into the market for Zinc Media but expect to do so in due course once the finer elements of the strategic plan are finalized. Nevertheless, we are impressed by the new strategy created by the management team, with some “easy win” investments in post-production facilities being complimented by sensible and highly achievable plans to increase business across the group. The track record of the new management team in the TV industry is highly impressive and if Mark Browning and Will Sawyer can repeat their success at ITN with Zinc then we believe the current market cap of just under £5 million could be many multiples of that in the coming years.

## DISCLAIMER & RISK WARNING

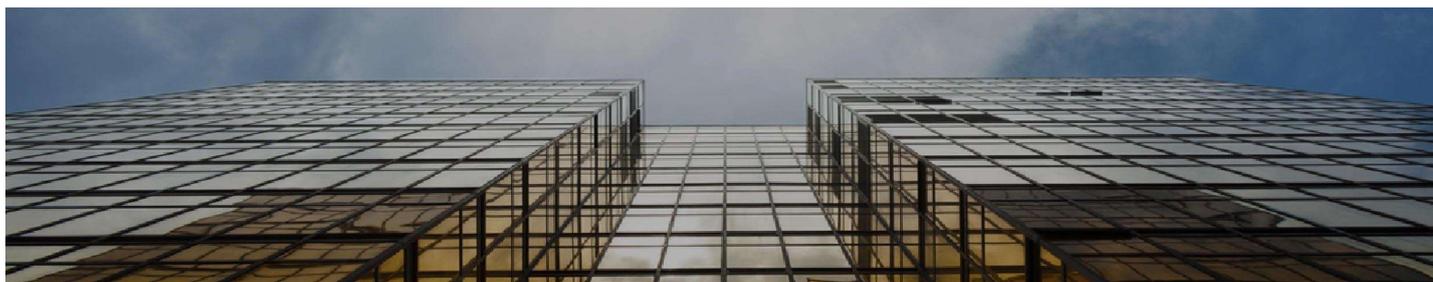
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