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Full EIS Report

The Goldfinch SEIS Fund

Kin Capital / Goldfinch Entertainment

The Goldfinch SEIS Fund is a discretionary portfolio service that will invest in a portfolio of companies set up to develop film, TV or video games.

	Positives	Issues
Why Invest?	**Strategy:** Exposure to portfolio of special purpose media companies.	**Portfolio Risk:** Each company is set up from scratch. While the process is well established, governance needs to be strong.
The Investment Advisor	**Team:** Goldfinch have a team with broad range of backgrounds and industry experience.	**Track record:** Although the track record is promising, it still lacks a little maturity.

Nuts & Bolts

- **Investing:** Closing dates as required, including at the financial year end.
- **Diversification**: Expect five to fifteen companies with a spread across film, TV and video games and, potentially, other sectors.
- **Valuation:** Unlikely to change before exit, though underlying revenues should have some transparency.

Specific Issues

- **Fees:** Mixture of direct and via company. The performance fee is subject to a threshold return of £1.25 across the fund.
- **Investment Process:** The return on media projects is inherently uncertain. Much depends on the judgement of the Goldfinch team.

Manager Information

Scheme assets	£0.4m
Scheme target	£3m
(S)EIS assets	£ND
Total FUM	£ND
Launch date	2015

Analyst

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Risks

- **Target return:** The target return is £1.25 for each £1 invested, which is appropriate for a low to medium risk product.
- **Risk mitigation:** Goldfinch emphasis capital preservation in their funding plans, with the flip side being a sharing of profits on the upside.

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Investment Process

Fund Aims

The Goldfinch SEIS Fund is a discretionary service that will invest into a portfolio of special purpose companies for media productions. The target return is £1.25 for each £1 invested. There is no income target. The aim is that investors will see their exit proceeds paid from mid-2020.

There are two parties involved in managing the Fund:

- **Kin Capital Partners**: Are the managers and promoter (through Kin Capital Ltd) of the Fund.
- **Goldfinch Entertainment**: Are the investment Consultant for the Fund, sourcing the investment opportunities.

Deeper dig into process

Since its formation in 2013, Goldfinch Entertainment has established itself as a leading UK funder of media projects, including films, TV programmes, video games and, to a lesser extent, theatre productions. It has a steady throughput of projects that, in addition to SEIS, may be funded through EIS, Private Equity, Business Investment Relief or GAP.

Individual investments use the normal industry structure of having separate companies for each project. Each company will be expected to have a limited lifespan, with most media projects naturally receiving the majority of their cash income within the minimum three year holding period that SEIS requires.

Goldfinch have a broad range of criteria that they use to assess projects. They are not looking for projects at too early a stage of development - for example, they wouldn't invest in a film / TV programme before a script is ready. They require a finance plan to be place. This includes some other financing to be lined up, a full budget and a recoupment plan. Where a cast is required there should be letters of interest from the key members too.

The qualitative aspects are inevitably more subjective, but they draw on the experience of their team as well as other industry opinions from within their network. There is a preference for projects that are, or have potential to be, part of a series of projects. This can include, for example, video games that are linked to TV series.

When considering financial projections Goldfinch looks for estimated sales that are at least 2.5 times the budget. They are very aware that most projections are too optimistic and will use their experience to revise estimates down, taking into account their knowledge of those making the estimates and how reliable they have been in the past. This is the key assessment as to whether the target return of 1.25 times the initial investment is achievable.

Investors should note that Goldfinch's emphasis is on capital preservation and making sure the target return is reached. The flip side of this is that there is usually profit share with other investors or involved parties once the target return is reached. Sometimes this is return of grant money, other times it may involve paying lower fixed fees in return for a profit share. Typically, investors get 20-50% pro rata net profit share, but it may be higher or lower.

Goldfinch's position on pre-existing revenue contracts varies from project to project. They like them, but don't see them as essential if the project is strong and sometimes projects are not suitable for being pre-sold. Tax credits are another part of the jigsaw that needs to be considered. For most projects these are usually used to boost the potential budget rather than being seen as a source of return.

It is worth noting that Goldfinch's assessment of potential returns is independent of tax relief and they are looking for projects that would be viable without that added benefit.

Sourcing Deals

Goldfinch source their potential projects from a wide variety of sources. Goldfinch is part of Nyman Libson Paul (NLP), who have been accountants within the entertainment industry for over 80 years. While some potential projects are referred from NLP, mostly they arise from other sources, in particular direct approaches.

Like many (S)EIS managers, their network plays an important role in this process. They are very aware of the track record that their contacts have, and their credibility plays a role in assessing the quality of potential investments.

This openness does seem to bring a lot of projects in, with Goldfinch estimating they receive 5 - 10 approaches per week. The vast majority of these are not taken very far, with an average of 2 -3 projects per month reaching the stage of receiving investment.

For the SEIS Fund, the target number of investments is between 5 and 15 projects. Although not all the projects Goldfinch invests in maybe suitable for SEIS investment, the flow of investments does seem to be more than adequate to achieve the fund's diversification targets.

The aim is to split the projects across different media, with targets of 30% in each of film, TV and video games with possibly one or two other such as theatre or apps. Last year the split was about 50% film, with the final determination being the available projects.

Decision Making

There are effectively three stages to moving through Goldfinch's approval process. The first step for any project is a call with a member of the Goldfinch team, which acts as an initial filter. This is then followed with a meeting with two of the Goldfinch team – Ruth Erskine and Tony Miller.

If a project passes both those steps then the whole team examines it in detail, following the criteria outlined above and drawing on trusted external industry opinions.

The choice of projects, both for Goldfinch generally and for the Fund, is dependent on timing. All media projects are somewhat unpredictable in their ultimate revenues and Goldfinch see all that come through their process as being equally commercial and having the same probability of making good returns. Goldfinch's choice of which projects to back may depend on the funds available and what other projects are available at the same time.

For the Fund there is a similar dependence on what is available at the time of investment. There is a preference for projects that can be funded within SEIS, as that reduces the possibilities of conflicts between investors with different objectives. Note that this does place some limitations on the types of projects as SEIS funding is limited to £150,000 per company (though tax credits and grants mean overall budgets can be a bit bigger). There may still be SEIS investment from outwith the fund. This will have the same valuation and profit participation terms.

The final decision is made by the fund manager, Kin Capital. This is more than just a rubber stamp process – one potential Fund investment was rejected by the manager as the potential investee company was not willing to grant rights and consents to the manager that are routinely put in place to protect investors interests.

Governance and Monitoring

All projects will receive Advance Assurance from HMRC prior to investment. In addition, each project will have its own Information Memorandum

Investors will receive reports every six months. As the investments will be unlisted investors should expect little valuation change before exit. The policy is to use the lower of cost or impairment value. For many projects the underlying revenues will be fairly transparent.

Goldfinch continues to support investee companies after investment. Much of this is done through a consultancy arrangement, for which Goldfinch receive a fee. For SEIS companies this will last around six months and helps to ensure that projects are set up properly. Goldfinch view this as an important part of their process, helping to turn things into more of a partnership than an investor/investee relationship.

The boards of the investee companies are usually drawn from the producers/developers etc. Goldfinch does not take board positions directly. Kin Capital continue to exercise oversight of significant decisions on an ongoing basis and requires companies to get authority before making certain decisions.

It is possible that investee companies may borrow money. This will normally be against future tax credits, which usually arrive later than the investment in the project requires. This is not uncommon in Goldfinch projects, but is less likely in the SEIS Fund. Any borrowings will require the approval of the Fund Manager.

For films and TV programmes the revenue cycle means that most of the performance payments will be received within three years. The residual rights have some value, usually dependent on how successful the initial production was. There is a well-established market for these. Exits will be generally be achieved by selling the rights and winding up the company or by the company buying back shares, with the residual company being sold on.

For video games the revenue cycle can be rather different. Sales may start earlier than for films, and the profile often does not follow the large payments for rights that TV programmes have. The possibilities of bolt-on packs (adding, for example, extra levels) or reboots mean that after three years there may still be significant numbers of players. There is a reasonably well developed secondary market, akin to that for residual rights for films, which allows an exit in the same way as a film/TV programme.

Track Record

Although Goldfinch has been arranging investments for less than three years, it already has an extensive list of projects. To date it has been involved in over 80 projects, almost 70 of which are SEIS qualifying. Of these 45 have had their SEIS investment and have raised a total of £4.6m, though some are still bringing in money from other sources.

Insufficient time has passed for any of these projects to exit, but Goldfinch is able to indicate how things are progressing. Of the 45, 13 (29%) are classified by Goldfinch as exceeding revenue expectations, with one below. The balance is classified as "inline", though several of those have only been recently funded and, consequently, have not had time to progress.

The SEIS Fund invested in six projects at the end of the last financial year. While these are still relatively recent projects, one is exceeding expectations with the others inline.

Although the Goldfinch track record has still to reach the stage of having exits, it shows distinct signs of promise.

Fees

All fees are charged in a combination of via the investee companies and directly. The former fees are tax efficient. VAT will be charged on all fees as applicable.

Initial Fees

The initial charge payable will be £500 per investor. This is payable directly and will not be eligible for tax relief.

Ongoing Fees

The annual management fee is 2% per annum of the amounts invested. In addition, there will be an annual administration fee of 0.5%. These are payable for four years up front and are charged via the investee companies. There will be no further annual charges should the Fund last longer than four years.

Exit Fees

There will be an exit fee of £30 per company per investor, capped at a maximum of £300 per investor. With an expected range of 5-15 companies this cap will have a good chance of being required.

A performance fee of 20% will be payable on returns over the target return of £1.25 per £1 of investment into the fund. The threshold is based on fund returns, not those of individual investments.

In addition to the fees Goldfinch usually supplies consultancy services to each company. Typically, these are for the first six months and help to make sure the company and its operations are set up properly. For SEIS companies the fee is usually around £500 per month, about £3,000 in total or 2% of a £150,000 investment.

Companies may also use Goldfinch's parent, NLP, for accounting. We understand there is no compulsion to do so and services are supplied on normal commercial terms.

Overall the fees are comparable with other media products, and lower than typical for SEIS products. The capping of annual fees at four years is also welcome, even if the expectation is that few investments will last beyond that time.

Fundraising targets

The aim is to raise a total £3m for the fund. Closings will take place as money is invested into the Fund, and will include one before the end of the tax year. The Fund has a life of seven years.

The minimum investment is £10,000. Investors can invest up to £100,000 into SEIS in any given tax year, including any carryback claim.

Risk Analysis/ Commentary

Note that there are generic risks from investing in SEIS or unquoted companies in addition to the specific ones commented on below. Comments on relative risk refer to other (S)EIS investments and not to wider investments.

For both Kuber clients, shares and client money are held by the custodian, Woodside Corporate Services Limited (FCA registered – number 467652). Cash is held in a separate client account. No interest is payable on funds held.

The target return of £1.25 for each £1 invested suggests a medium to low risk product. Goldfinch emphasises capital preservation in its investment process. There is some potential upside on individual projects, but the profit share and its uncertain nature means this should not be principle reason for investing in the fund.

With a target range of 5 – 15 investee companies the diversification benefits could be significant. This will depend to some extent on the ability of the fund to raise assets. We would expect each project to perform largely independently of the others. The spread across film, TV and computer projects may help diversification too, but only to a very limited extent.

All investments will be unquoted. The corporate structure used is standard in the industry. With natural cash generation and a ready market for the residual rights after 3 years, achieving exits in the desired timescale should be reasonably straightforward.

Goldfinch's track record still lacks maturity, but already has a large number of projects in progress. With a good number of these exceeding targets and only one so far falling short there are distinct signs of promise.

Kin Capital's input is more on the diligence and governance aspects of the fund. It is too early to say if this will make a significant difference to the fund relative to Goldfinch's other investments, but we'd suggest any difference is likely to be small.

Overall the Goldfinch approach seems well structured and it is no surprise that they have quickly established themselves as a leading player in the media finance market.

Investment Manager

Regulation

Kin Capital Partners

Kin Capital Partners LLP is a limited liability partnership incorporated in 2014. It is FCA Registered (number 656789) with appropriate permissions for a fund manager. The latest accounts are as of 30 September 2015 and are abbreviated under the small LLP provisions. Members' Capital at that date was £10,000 and their capital adequacy is very comfortable.

The partners are Thomas Hopkins and Richard Hoskins. The LLP is co-owned in equal shares.

Goldfinch Entertainment

Goldfinch Entertainment Limited is a limited company incorporated in 2014. It is an exempt firm on the FCA Register due its ownership by NLP. The latest accounts are as of 31 May 2015 and, as it is a small company, are abbreviated. Shareholders' funds at that date were £2.

Goldfinch Entertainment Limited is owned by PLR Nominees Limited, a firm controlled by Nyman Libson Paul.

People

Joel Newman – Director, Goldfinch Entertainment Limited
A Chartered Accountant with over 40 years in practice with Price Waterhouse, Levy Gee and, since 1991, Nyman Libson Paul. There he initially focused on their tax department and is now the Managing Partner of NLP.

Kirsty Bell – Director, Goldfinch Entertainment Limited
Has spent much of her career in top ten accountancy firms, culminating in being Strategic Tax Partner at Baker Tilley. Since 1996 has been involved in all aspects of film finance, leaving her own business to join NLP in 2013.

RIchard Hoskins – Partner, Kin Capital Partners LLP
Started as an officer in the Army, before getting involved in the tax enhanced industry at Noble Group. This was followed by a spell at Oxford Capital Partners and four years as a partner at RAM Capital and now has over 11 years experience of raising equity.

Tom Hopkins – Partner, Kin Capital Partners LLP
Started at PricewaterhouseCoopers where he advised financial services clients, before moving to Active Private Equity. After six years as a partner at MMC Ventures he co-founded Kin. Has experience across front, middle and back office.

The Goldfinch team also includes Tony Miller (Film & Media Consultant), Ruth Erskine (Film & Media Executive), Phil Mackenzie (Director of Marketing & Business Development), Stephanie Herriger (Head of Investor Relations) plus support staff.

Overall the Goldfinch team has some depth and seems to have a broad enough range of experience not to be overly dependent on one individual.

Notes

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