

BLAZING GRIFFIN POST PRODUCTION LIMITED

33(1)b

APPLICATION FOR REGIONAL SELECTIVE ASSISTANCE

1 INTRODUCTION & BACKGROUND

- 1.1 Blazing Griffin Post Production Limited (hereafter referred to as “BGPost”, “the applicant” or “the company”) was formed on 24 August 2016 (although has not traded to date) and is a member of an independent digital entertainment group which trades as “Blazing Griffin”. Founded in 2011 as a game development studio, it has grown to a group of 5 companies. The full group structure is set out at Annex 1 along with the shareholders.

33(1)b

33(1)b The applicant’s activity is the provision of post-production services to the film and television industry. Total group employees are 33(1)b FTE so the applicant can be classed as a small enterprise.

- 1.2 The applicant has until recently traded from leased premises extending to 33(1)b at Woodside Place, Glasgow however as of January 2017, it has relocated to leased premises extending to 33(1)b at Portman Street, Glasgow. There are a total of 33(1)b existing employees based at the project site. 33(1)b and it now seeks to expand the business to capitalise on significant growth opportunities. 33(1)b and up to 14 new eligible jobs will be created over the same period. The larger leasehold premises will provide ample space for the additional employees and for longer term growth. 33(1)b

2 PREVIOUS ASSISTANCE

- 2.1 The applicant has not applied for RSA previously nor has it received any other financial support from SE over the past 3 years. Related company Blazing Griffin Limited has received a total of £86k from SE over the past 3 years to assist with business improvement, innovation (R&D grant) and market development (domestic and international).

- 2.2 SIB invested £250,000 in February 2015 to related company Blazing Griffin Limited on a matched basis. A subsequent investment of £2m was agreed in December 2016 matching £2m from a high net worth investor called 38(1)b The investment is being made in the form of convertible loan notes and will be drawn in 2 tranches, 33(1)b

33(1)b

33(1)b,

33(1)b

33(1)b (b) 33(1)b to BGPost for the development of post-production facilities (this RSA project); and (c) 33(1)b

33(1)b

- 2.3 The applicant has been account managed by 33(1)b since October 2016. The related company Blazing Griffin Limited has been account managed by 33(1)b for 4 years. To date, SE support to the applicant has been non-financial 33(1)b

33(1)b

33(1)b The group has engaged well with SE to date and the account manager believes that the applicant has significant growth potential and is fully supportive of the RSA application.

3 PAST TRADING/CURRENT POSITION

- 3.1 The applicant is a start-up company however given the project concerns the continuation of the same business the unaudited trading results of 33(1)b or the 2 years to 31 March 2016 are summarised below:

33(1)b

3.2

33(1)b

Financial Position

3.3

33(1)b

Management Accounts

- 3.4 We have been provided with management accounts for the 11 months ended 28 February 2017 33(1)b

33(1)b

33(1)b

33(1)b

We

have not requested group financial information however can take comfort from the fact that SIB has undertaken full diligence on the group in connection with its recent funding agreement. We are satisfied that prior to the recent investment, the group did not possess material cash reserves.

4 PROJECT

Rationale

- 4.1 There is a perceived lack of capacity and capability in Scotland for post-production services for the TV and film industry (confirmed by SE sector team). 33(1)b

33(1)b

between both locations. Working on a project of this scale has provided a unique opportunity to see how large international productions operate and how client expectations can be met. 33(1)b

33(1)b

33(1)b The proposed expansion will allow the company to capitalise on its experience to date and widen its range of services so that as much as possible can be done in-house.

- 4.2 The applicant believes there is an opportunity to build working relationships with TV and film production companies in 33(1)b to help service large projects which are being shot in Scotland 33(1)b

33(1)b

based on its experience to date. Recent advances in technology and Cloud-based storage have allowed post-production services to be outsourced to facilities in different countries. 33(1)b

33(1)b

will allow the company to accelerate growth and create high value sustainable jobs. The he project

33(1)b

Capital Expenditure

- 4.3 The proposed capital expenditure for the project is summarised below;

Description

Post Production and IT Equipment 33(1)b

- 4.4 An extensive detailed list of the equipment has been provided and is on file. The purchase of the equipment will allow 33(1)b

33(1)b

Market

4.5 Post-production is many different processes grouped under one name. These typically include:

- Video editing the picture of a television program
- Writing, re-recording, and editing the soundtrack
- Adding visual special effects - mainly CGI (computer-generated imagery)
- Sound design, sound effects, dubbing and music, culminating in a process known as sound re-recording or mixing with professional audio equipment
- Transfer of colour motion picture film to video or DPX (Digital Picture Exchange)

4.6 The post-production phase usually takes longer than the actual shooting of the film and can take several months to complete. The applicant is currently offering services such as 33(1)b and has worked on well-know TV series such as 33(1)b . The applicant is seeking to 33(1)b
 33(1)b 33(1)b
 33(1)b will also expand with a focus on 33(1)b providing services in line with the expectations of large scale international productions.

4.7 33(1)b The demand for visual content has never been higher and is expected to continue growing with new players such as Netflix, Amazon and YouTube commissioning billions of dollars of content every year. In the UK, High End Television Tax Relief² which was introduced in 2015 has encouraged significant numbers of new projects coming to the UK for filming however as the domestic market lacks capacity and capability, crew has to be imported and much of the post-production activity is carried out overseas. Also, international productions are becoming increasingly complex with parties spread across different countries. 33(1)b

33(1)b

4.8 In terms of current studio provision in Scotland, Wardpark Studios at Cumbernauld already comprises 48,000 sq ft and is currently leased in its entirety to Sony for Outlander work. North Lanarkshire Council granted planning permission in May 2016 to significantly expand and enhance the existing facility with a view to attracting other tenants. Also, it was announced on 4th April 2017 that the Scottish Government has approved plans for Scotland’s first purpose-built film and TV studio in the Straiton area, outside Edinburgh. It is hoped that the Pentland Studios development on a site extending to c. 100 acres will help to attract more feature films and high-end television productions to Scotland. The backers believe that the studio can be operational by the end of 2018. There have been concerns that the lack of suitable studio space meant Scotland was losing out to other parts of the UK in the race to attract major productions. Although scenes for several major films and TV dramas have been shot in Scotland in recent years, the productions are based elsewhere with crews only travelling to Scotland for a few weeks for filming. 33(1)b

33(1)b

33(1)b

² For scripted television projects with a minimum core expenditure of £1 million per broadcast hour, the TV Production Company can claim a rebate of up to 25% of qualifying UK expenditure

CONFIDENTIAL – SCOTTISH ENTERPRISE

- 4.9 The performance of the Film, Video and TV Programme Post-Production industry in the UK is influenced by demand from key downstream markets, technological developments and the competitive position afforded to the industry by tax incentives. Large shifts in downstream demand from film production in the UK have shaped the way the industry has developed over the past 5 years. Revenue expanded rapidly in 2011-12 due to a record year for motion picture production in the UK. However, as downstream markets tend to be characterised by volatility, lower output volumes of UK films in 2013-14 contributed to weaker demand in that year. Nevertheless, demand for visual effects and the provision of tax credits by the government to the wider film industry has helped support performance. In 2016-17, growth is expected to be constrained as economic uncertainty following the EU referendum result is expected to reduce expenditure on large advertising campaigns. In turn this is expected to reduce demand for post-production services for video commercials which is a major source of revenue for industry operators. Industry revenue is expected to grow at a compound annual rate of 2.8% to reach £1.8 billion by 2021-22. Competitiveness looks set to increase following the renewal of the BBC's Royal Charter at the end of 2016 which is set to open up more of the BBC's output to independent producers and encourage new firms to enter the industry. However, towards the end of the period, growth is expected to slow as the withdrawal of Creative Europe funding upon the UK's exit from the EU is expected to negatively affect downstream industries³.
- 4.10 The applicant's main customers and their respective actual and forecast sales are shown below;

33(1)b

4.11

33(1)b

33(1)b

The political influence on the BBC to shoot more programmes in UK regions particularly Scotland is expected to result in new business and the availability of targeted funding from Creative Scotland encourages both UK and foreign companies to film in Scotland.

33(1)b

³ IBISWorld – “Film, Video & TV Programme Post-Production in the UK” – October 2016

4.12 The applicant considers its main competitors to be;

33(1)b

4.13

33(1)b

4.14 Given the lack of capacity within Scotland, the nature of the competition and the fact that the applicant is targeting a 33(1)b we have made no allowance for displacement when calculating the cost per job of the proposed grant offer however it is worth noting that displacement of up to 33(1)b could be accommodated without breaching the internal cost per job limit of 33(1)b

4.15 The application was shared with the Scottish Enterprise Creative Industries Team 38(1)b 38(1)b and they are supportive of the project. 38(1)b confirmed that there is a perceived lack of capacity and capability in Scotland for post-production services. As a result, a lot of work requires to be carried out elsewhere particularly in London. 38(1)b s convinced by the applicant's growth strategy and hopes that RSA can support its ambitions.

Management and Employment

4.16 The management team

33(1)b

33(1)b

Key people within the group include;

-

-

38(1)b

-

•

38(1)b

•

4.17 The company currently employs 33(1)b FTE. Total employment at the project location has not been higher than 33(1)b over the past 12 months and this will therefore be the base employment figure for grant purposes. As a result of the project, up to 14 new eligible jobs are expected to be created by 31 March 2019 as undernoted;

<u>Role</u>	<u>New</u>	<u>Salary</u>
-------------	------------	---------------

33(1)b

Totals	14	
--------	----	--

4.18 The TV and film industry is characterised by the frequent use of freelance/contract workers however the applicant is committed to the creation of permanent sustainable jobs.

33(1)b

33(1)b

The applicant has confirmed that

33(1)b

33(1)b The company expects that the project roles will be filled by a combination of 33(1)b and the applicant has confirmed its willingness to work with SE in relation to its Invest in Youth Policy. All project jobs will be paid in excess of the Scottish Living Wage of £8.45 per hour and all

33(1)b

5 TRADING AND CASHFLOW FORECASTS

Trading Forecast

5.1 The estimated trading results of the applicant for the 4 years to 31 March 2020 are summarised below. The actual figures for the year to 31 March 2016 are included for ease of comparison;

<u>Year to</u> 31 March	<u>Sales</u> £'000	<u>Gross Profit</u>		<u>Overhead*</u> <u>Expenses</u>		<u>Interest</u>		<u>Net Profit/(Loss)</u> <u>Before Taxation</u>		
		£'000	£'000	%	£'000	%	£'000	%	£'000	%
2016										
2017										
2018										
2019										
2020										

33(1)b

5.2 Management accounts for the 11 months to 28th February 2017 show turnover of 33(1)b gross profit 33(1)b On a pro rata basis, 33(1)b A full year net profit of 33(1)b is forecast and the applicant regards this as realistic given that work for 33(1)b will be billed during 33(1)b 33(1)b Turnover is forecast to increase by 33(1)b by a further 33(1)b 33(1)b

33(1)b

5.3 Gross margin is expected to 33(1)b over the forecast period following 33(1)b

33(1)b

Otherwise, assumptions have been provided for other overheads and all appear commensurate with the day to day operation of the enlarged business. 33(1)b

33(1)b

5.4 With regard to directors' remuneration, 33(1)b

33(1)b

33(1)b We are of the view that the forecasts have been prepared on a sufficiently detailed basis and appear well thought through 33(1)b

33(1)b

Cashflow Forecast

5.5 The cashflow forecast of the applicant for the 4 years to 31st March 2020 is set out at Annex 3. 33(1)b

33(1)b

33(1)b
assumed. 33(1)b Average trade debtor days of around 60 are 33(1)b

33(1)b

5.6 The applicant intends funding the project by 33(1)b

33(1)b

33(1)b Finally, as a relatively young company 33(1)b
33(1)b and 33(1)b
33(1)b obtaining bank funding is extremely challenging.

5.7 Assuming the applicant incurs losses/earns profits of the order forecast, 33(1)b

33(1)b

33(1)b The success of the cash flow
forecast is dependent upon the applicant achieving the forecast sales 33(1)b
33(1)b 33(1)b

33(1)b We are satisfied that
the cash flow forecasts have been prepared on a reasonable and consistent basis.

Forecast Financial Position

5.8 The projected balance sheets of the applicant are set out at Annex 2. Assuming the applicant achieves its forecast trading performance, 33(1)b

33(1)b

6 SE PRIORITIES - INVESTMENT, INNOVATION, INTERNATIONALISATION & INCLUSIVE GROWTH

6.1 Investment – the project that will result from the RSA intervention will involve eligible capital expenditure of 33(1)b which will directly contribute to the SE Business Plan Measure although grant is based on job creation and the related salaries

6.2 Innovation – the applicant's proposed investment in 33(1)b
33(1)b Using the latest technologies, it expects 33(1)b

6.3 Internationalisation – the applicant is 33(1)b and
as a result of the project will be 33(1)b

6.4 Inclusive Growth – the provision of RSA will support the creation of up to 14 new eligible skilled jobs in an area of higher than average unemployment and some of the jobs will be suitable for young people/graduates. The applicant has agreed to work with SE in terms of developing its Invest in Youth Policy. Related company Blazing Griffin

CONFIDENTIAL – SCOTTISH ENTERPRISE

Limited has already signed up to the Scottish Business Pledge. In terms of the applicant:

- *Living Wage* – 33(1)b
- *Zero Hours Contracts* – 33(1)b
- *Workforce Engagement* – 33(1)b
- *Youth* – 33(1)b
- *Gender Balance* – 33(1)b
- *Innovation* – 33(1)b
- *International* – 33(1)b
- *Community Role* – 33(1)b
- *Prompt Supplier Payment* – 33(1)b

7 SUSTAINABILITY

7.1 A carbon assessment has been completed for this case. In terms of project delivery, there is expected to be a minor impact given that the applicant will 33(1)b and the investment in 33(1)b. Also, the nature of the business and the fact that many post-production services can be performed remotely helps to eliminate travel requirements. Longer term, there is also expected to be a minor impact.

7.2 The applicant does have a specific environmental policy and a copy has been provided for the file. In summary

The company operates in compliance with all relevant environmental legislation and it strives to use pollution prevention and environmental best practice in all its activities.

8 CRITERIA

Viability

8.1 Viability has been assessed under the following criteria:

- Market conditions: the outlook for the TV and Film Post-Production industry is positive albeit there are likely to be some headwinds particularly following the EU referendum result which will eventually remove European funding. Nevertheless, there is a perceived lack of capacity in Scotland and the UK for post-production services and with the experience gained to date, 33(1)b
- Management expertise: whilst the applicant itself is relatively young, the group 33(1)b

33(1)b

Overall, we are satisfied with the team’s skills and abilities to ensure successful implementation of the project

- Risks in offering support: the proposed investment in staff and equipment in 33(1)b the proposed RSA grant helps to mitigate this risk. The grant is payable pro rata to capital expenditure, gross wages paid and job creation and we will obtain trading information at each

CONFIDENTIAL – SCOTTISH ENTERPRISE

claim stage to be satisfied on progress prior to payment of grant thus mitigating risk for SE

- Track record: the post-production business has been trading for c. 33(1)b

33(1)b

33(1)b and create long term sustainable jobs

- Balance of risk vs. rewards: 33(1)b grant will only be released upon achievement of set milestones. The outlook for the applicant's sector is positive and the target market appears significant. The project is also considered worthwhile in the context of creating up to 14 eligible permanent jobs in Glasgow which is an area of higher than average unemployment. The most recent statistics are;

	<u>Date</u>	<u>Scotland % of resident population</u>	<u>Glasgow City % of resident population</u>
Total unemployed	y/e 30/09/16	4.9	7.0
Total JSA claimants	Dec 2016	2.2	3.1
JSA Claimants aged 18-24	Dec 2016	3.3 (of 18-24 group)	3.9 (of 18-24 group)
Total out of work benefit claimants	May 2016	10.6	15.7

Based on the above commentary, viability is deemed to be satisfied.

Additionality

- 8.2 BGPPost is proposing to undertake a relatively significant project over the period to 33(1)b involving the creation of up to 14 eligible jobs from a current base of 33(1)b together with an investment of 33(1)b in new equipment. Such an investment carries commercial and financial risk as there will be a time lag between the proposed recruitment of new employees and the generation of additional revenue. 33(1)b

33(1)b

33(1)b On this basis, we are satisfied that there is no prior commitment to the project. As a young business 33(1)b obtaining commercial bank funding is extremely difficult. We are satisfied that the project cannot be fully funded from other sources.

8.3

33(1)b

- 8.4 In the absence of grant support, the project is 33(1)b This will restrict the applicant's ability to take full advantage of the growth opportunities available. 33(1)b

33(1)b

Overall, we are satisfied that RSA

33(1)b

CONFIDENTIAL – SCOTTISH ENTERPRISE

is necessary 33(1)b to proceed with the planned recruitment/investment as planned and regard the additionality criterion as met.

Level of assistance & grant option appraisal

8.5 The company has applied for grant of 33(1)b and the options considered were;

Do Nothing - The total salary cost of the new employees over 2 years is 33(1)b

33(1)b

Do Less - The maximum aid intensity of RSA projects is determined by location of the project and the size of the overall applicant company/group. In this case the maximum level of grant support available is 33(1)b

33(1)b

33(1)b a grant of £200k is proposed which is within limits with the maximum grant available for the 14 job project being 33(1)b (European State Aid Limit) and a gross cost per job of 33(1)b which is within our normal cost per job (value for money) internal limit of 33(1)b. The average salary of the project jobs is 33(1)b which is above the quality salary benchmark.

38(1)b

BLAZING KEEP LIMITED

ANNEX 1

GROUP STRUCTURE CHART

33(1)b

Shareholders of Blazing Keep Limited: _____ %

	38(1)b	
Scottish Enterprise		11.03
	38(1)b	
Total		100.00

38(1)b, 33(1)b

ANNEX 2

FINANCIAL POSITION

31/03/16
£'000 £'000

Fixed Assets

Tangible assets

Current Assets

Trade debtors

Owed by Blazing Keep Ltd

Sundry debtors

Cash at bank and in hand

Creditors: Amounts Due Within One Year

Owed to Blazing Griffin Ltd

Other creditors

Social security & other taxation

Corporation Tax

33(1)b

Net Current Assets/(Liabilities)**Total Assets Less Current Liabilities****Creditors: Due After More Than One Year**

Other Creditors

BLAZING GRIFFIN POST PRODUCTION LIMITED

ANNEX 3

CASHFLOW FORECAST

		<u>Year Ended</u> <u>31 MARCH</u>			
	<u>Total</u> £'000	<u>2017</u> £'000	<u>2018</u> £'000	<u>2019</u> £'000	<u>2020</u> £'000
REQUIREMENTS					
Project Capital Expenditure					
Non-Project Capital Expenditure Equipment					
Total Capital Expenditure					
Working Capital					
Corporation Tax				33(1)b	
RESOURCES					
Pre-Tax Profit for Year					
Add Back Depreciation					
Loan Finance					
	33(1)b				
Annual Surplus / (Deficit)				33(1)b	
Opening Cash / (Overdraft)					
Available Overdraft Facility					
Funding Surplus / (Deficit)					
	33(1)b	opening cash balance			

BLAZING GRIFFIN POST PRODUCTION LIMITED
**ANNEX
4**

Projected Balance Sheets	<u>Year</u> <u>Ended</u>	<u>31 March</u>			<u>£'000</u>
	2017	2018	2019	2020	
Fixed Assets					
Tangible assets					
Current Assets					
Trade debtors			33(1)b		
Prepayments & Other Debtors					
Cash at bank and in hand					
Creditors: Amounts Due Within One Year					
Bank overdraft					
Trade creditors					
33(1)b					
Corporation Tax					
VAT			33(1)b		
Net Current Assets/(Liabilities)					
Creditors: Amounts Due After One Year					
33(1)b					
Other Creditors					
Net Assets			33(1)b		
Capital and Reserves					
Called up Share Capital					
Profit and Loss Account					
Total Shareholders' Funds					

BLAZING GRIFFIN POST PRODUCTION LIMITED

ANNEX 5

AID FOR JOB CREATION CALCULATION

The project is intended to create 14.0 new jobs.

33(1)b

<u>Job Title</u>	<u>Salary</u>	<u>Employers' NI at 10%</u>	<u>Annual Gross Salary</u>	<u>Number of Employees</u>	<u>Total Cost over 2 years</u>
33(1)b					

Total Salary Cost over 2 years equals

33(1)b

Relevant aid intensity level

Therefore maximum aid available under the Aid for Job Creation guidelines

<u>Tolerance Level</u>	
(i) Level of tolerance (standard 10% but may be adjusted if appropriate)	10%
(ii) Total Salary cost over 2 years assuming shortfall per (i)	33(1)b
(iii) Maximum aid based on (ii)	33(1)b
(iv) Grant Offered	£200,000