



Economic and Financial Analysis of Zinkia Entertainment S.A.

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Abstract:

In this paper we will focus on the analysis of the company Zinkia Entertainment S.A. The company, which became well-known from 2007 to mid-2009, undertakes a journey in search of financing for its projects, both present and future. We will detail the movements made by the company, and through the study of its annual accounts we will analyze the company since mid-2009 up to now. In order to do this, we will use various financial ratios, which will allow us to analyze the accounts of the company and truly understand its situation and problems at all times. As a result, we will be able to draw some conclusions about the results of the company, and we will reflect on the role and influence organizations such as the Alternative Investment Market or the CNMV have.

Keywords: Zinkia Entertainment, financial analysis, MaB.

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1. Introduction

One of the critical aspects for the good progress of companies with growth potential and which are in their expansion phase is the ability to find funding sources. These companies usually have interesting products, with a already existing business model, although they need to obtain more external resources in order to explode and become larger companies. There comes a time when the contribution of the partners who run the company or the potential benefits the company has obtained in previous years are not enough to enable the company to take the next step in its natural path. In order to get this financing, the companies have several options in the world today, each with its pros and cons, which the companies themselves should take into account. In addition, it is especially important evolution in terms of results of the exercises the company develops. These results can mark out, of course, the path of society and its funding needs in coming years.

This situation is what we see in the company we will talk about in this document, Zinkia Entertainment S.A. A company with a thriving product in its field, which is beginning to gain international recognition and which needs an extra push to liberate all the potential of a newborn trend. We will see which decisions the company administration takes, how the company walked the first steps in the search for funding and what different path the company chose at any given time. We will reflect on why the company decided to carry out a change of strategy and we will think about the consequences those decisions will have in the coming years. We will also discuss the situation of the company before and after the decisions taken, and what is the company situation when the results turn out not to be the expected ones.

In this process for raising finance, external entities were involved, and we should also focus on them briefly. So, we will describe what additional options Zinkia has as a part of a stock market as the AIM. Also, we will detail which differences exist between this market and other better known markets, and if these differences may have been meaningful when explaining the situation the company undergoes nowadays. In addition, we will see what happens when a body such as the CNMV gives a negative judgment when a company in a difficult situation, as Zinkia, tries to capture funding. On the other hand, the importance of shareholder stability within a company trying to expand should also be remarked. This does not happen in Zinkia, and we shall describe briefly the struggle for power, which is still in force in society; a struggle, compounded by the decisions of a president who makes decisions with the sole

support of majority shareholder, against the opinion of other important at a particularly delicate moment in the life of Zinkia.

In order to analyze the path of Zinkia, we will structure information as follows. First, we will briefly describe the objectives of this document and the methodology to be followed. Then, we will divide the path of Zinkia into three sections. In the first section, we will narrate the situation of the company since 2008 until the end of 2010. It is at this time, at the end of 2010, when Zinkia changes course regarding its funding strategy. After this first block, we will analyze the situation of the company since late 2010 until the end of 2013. At this moment, the most critical time for the company occurs, which marks its evolution to the present. A failed attempt to get more funding requires the company to enter a pre-arrangement with creditors. In the third section, we will describe the situation of Zinkia since the pre-arrangement with creditors until today. Although we only have the annual accounts until 2014, we will see how the arrangement with creditors ends and what is the situation of the company today. Finally, we will dedicate a section to analyze the AIM, describe some of its differences concerning regulated markets and reflect on how these differences can foster cases like Zinkia's.

2. Objectives and methodology

The main objective of this work is to tell the story of Zinkia Entertainment S.A since 2008, when it begins to grow thanks to its brand Pocoyó, until today. We will mainly focus on the road that the company follows in its search for financing in order to try to solve its problems in the short term, and we will analyze the company results in the various financial years. To analyze these results, we will make use of various financial ratios. These tools provide us with evidence on the evolution of the company over the years. Also, we will relate the shareholder structure of the company, which has the instability and infighting as its most important features. Without trying to give an absolute answer, we will raise the data in order to help the reader be more familiar with the company and its figures. In addition, we will take a look on the Alternative Investment Market, with the aim of highlighting some of its features when reflecting on its role or responsibility in Zinkia's case.

3. From the beginning until the firsts Pocoyó bonds

Zinkia Entertainment S.A. (hereinafter Zinkia) is a Spanish company founded in 2001, which bases its activity on creating content of children's entertainment. The aim of Zinkia is to convert this content into universal entertainment brands.

In order to know how Zinkia set, we must go back to 2000, moment when two of Zinkia future partners, David Cantolla and Colman López founded a company called Junk & Belivsky (Panorama audiovisual.com 2009). Subsequently, they incorporated Jomaca, which was owned 80 % by José María Castillejo. Junk & Belivsky then became the company this study is about: Zinkia Entertainment; first as a limited company and then as a corporation.

Zinkia becomes more important in the Spanish panorama from the year 2006, year in which his animated series Pocoyó, created the previous year, begins to accumulate under his belt many industry awards, both nationally and internationally. These included an award at the I Festival of Annecy (the "Oscar of animation") and the Bafta prize, awarded by the British Academy.

3.1 Negative results and the AIM

Despite the strength the company got thanks to Pocoyó, Zinkia problems were not long in coming. The shareholder struggle and some disagreements between the partners have been, and remain, commonplace in the company. And these disagreements are expressed, for the first time in late 2007 and during 2008. During these months, both David Cantolla and Colman López, founding partners of Zinkia, sell to José Maria Castillejo and some people he trusted their holdings, thus demonstrating that they were breaking up with the majority shareholder and president of the organization. However, problems in Zinkia had only just begun. 2008 was the first year from which financial data are taken, and it marks the beginning of the first block of analysis of the situation of the company, which will take us until 2010.

It is already in 2008 when negative results show up. Despite the relevance of the company, which acquires Pocoyó internationally, this does not translate into good figures for the company. The income statement details a loss of almost 800,000 euros during the year under consideration, so Zinkia started looking for ways to finance its new projects and business activity with Pocoyó. In order to do this, the company made

the decision, in mid-2009, of using the stock market for funding. Specifically, Zinkia finds its place in the Alternative Investment Market (hereinafter AIM).

The AIM is a stock market oriented to small cap companies looking to expand, with tailored regulations, according to what its own website says today (MaB 2016). That is, it is a program to help smaller businesses access the Stock market. However, in 2009, Zinkia became the first SME in this market, which was born in 2005. In addition it reactivated company debuts in this market, since from July 2008, none were produced. The financial crisis which came in 2008 literally wiped this stock market.

So Zinkia intended to achieve a dual purpose with its entry into the AIM: to be financed through the stock market and to have, in the future, the ability to issue debt. This second case is possible because the CNMV regulates the AIM, and it gives, *a priori*, visibility and extra notoriety when trying to raise finance by issuing bonds. However, the appearance on the market, which became effective on July 15, was not easy.

The price for the Zinkia's stock debut was established in 1.92€ per share, below the indicative range of between 2.65€ and 4.09€ —which was initially fixed for the operation—, and what meant that the company was valued at between 55.09 and 85.03 million euros. Instead, with the price of 1.92€ per share, Zinkia was valued at 40 million euros. This new price had immediate effects on the market debut, since the initial public offering was suspended, affecting 3.66 million shares, which were held by members of the audiovisual producer. The operation was, therefore, limited to the capital increase, worth 7 million euros, equivalent to 3.66 million shares (Cotizalia 2009).

Despite the initial euphoria, the price on the opening day shot up to 2.45€ and Zinkia suffered a gradual decline in its price during the years 2009 and 2010 caused by the unstoppable decline in its income statement. The share price was below 1 euro per share, while all the economic indicators were relating the decline of the company.

3.2 Financial Analysis of the period 2008-2010

Table 1

	2010		2009		2008	
Shareholders equity	9.501.287,00 €	54 %	11.843.891,00 €	66 %	6.920.575,17 €	45 %
Share premium	9.570.913,00 €	54 %	9.570.913,00 €	53 %	2.896.485,30 €	19 %
Profit before tax	-3.046.695,00 €		- 1.795.182,00 €		-789.007,98 €	

Seeking funding for new projects was the guide that set the course of Zinkia during its lifetime. In this period, from 2008 to 2010, we can see that the first attempt failed. The company, as we have already mentioned, chose to first seek financing through equity, with the entry into the stock market. The sales on the market of more than 3 million shares, worth 7 million euros, had immediate effects on the financial structure of the audiovisual producer. As we can see in the table, the premium rose from nearly 3 million in 2008 to 9.5 million in 2009, which resulted from the trading operation carried out. It was a value that had no major importance due to the failed attempt the IPO made to launch the property; a value that would have increased by another 7 million euros if this IPO would come to fruition.

Equity in 2009 was about to reach 12 million euros, representing an increase of 70 % over the net assets of the previous year. At the same time, this figure was the largest relative weight of equity over liabilities in Zinkia's history, exceeding 65 %; a relative weight which started to fall due to losses in the income statement of Zinkia and the increased debt from the year 2011, as we will point out later. From this data, we can make a clear reflection: Zinkia exhausted during these years all its capacity to finance through capital inflows through equity. The failed attempt made by the IPO showed some doubts about the ability of the audiovisual producer to find enough funding to develop its business model. This first setback was accompanied by the sharp decline in the value of the share price of the company, which lost momentum as the months passed. These two events forced Zinkia to explore new avenues to continue funding its activity in a different way than they had done so far.

Moreover, as we can see in the table, the results of the company deteriorated considerably. The result in 2010 tripled, negatively, the result obtained at the beginning

of the period. Zinkia was, by then, incapable of transforming the input of funding into tangible results. The amount of the turnover, which in this period did not exceed 4 million euros, quickly diluted between staff costs and other operating expenses. This greatly aggravated the situation for the audiovisual producer, which in two years had exhausted its capacity to finance itself without having to resort to encumbrance and, on the other hand, was unable to be financed thanks to its own results.

To further analyze the situation of Zinkia in this three years period, we can use two of the indexes most used today to analyze companies, the ROA and ROE indicators.

Table 2

	2010	2009	2008
ROA	-15,7 %	-7,8 %	-2,8 %
ROE	-32,2 %	-15,2 %	-11,5 %

ROA measures the profit achieved by the company in a given period in relation to the total assets of the company. This way, we can measure the efficiency of these assets, regardless of how they were financed and what was the tax burden in the country. That is, the ability of company assets to generate income for themselves. ROA is calculated as follows:

$$\text{ROA} = \text{Earnings before interest and taxes} / \text{Total assets}.$$

We have already seen the negative trend that the benefit of the company accumulates throughout this period. Although the financial result sinks even further the company profit, the greater weight resides in the operating result, which, as it is negative, already indicates which sign the ROA will have. This indicates that the assets of the company are unable to generate a positive result. Therefore, analyzing what are the main items comprising Zinkia actives becomes interesting and very revealing.

Table 3

	2010		2009		2008	
Intangible assets	8.664.851	49 %	8.748.627	49 %	8.277.424	54 %
Deferred tax assets	3.929.006	22 %	3.167.605	18 %	2.453.474	16 %
Commercial debts and others bills to be paid	3.702.132	21 %	3.377.503	19 %	2.969.964	19 %

The three main items comprising the assets are intangible assets, deferred tax assets and trade receivables and other receivables. As we can see in the table, the three items keep, some points up or down, its relative weight regarding the total assets of the company. The three of them have, in the period 2008-2010, almost 90 % of the assets of the company. However, if we look at one to one these three, we can see why the set of assets of Zinkia shows problems when trying to get a better turnover.

The only item from what Zinkia can earn income is the intangible assets item. All brands and audiovisual products by Zinkia, including Pocoyó, are encompassed under this heading. The relative weight of it is 50 %, however, the reality is that the producer based 100 % of its business on the registered brands and products included within this intangible asset. The second most important item in 2010 was deferred tax assets, an item that, following the negative results of the company, continued its particular rise in amount and importance within the set of company assets. However, these assets did not help reverse the negative situation of the company, and were only able to help in the future if results were positive, what finally did not happen. The third most important assets are trade accounts payable and receivables: a further problem to add to the situation of Zinkia, because every year receivable debts increased, which meant that the company failed to reduce the average time of payment from customers, something that can also affect the financing of certain new projects.

Once the economic profitability of Zinkia in this period has been taken into account, we can briefly analyze the financial profitability of the company. To do this, we will use a second index: the ROE. ROE measures the returns earned by shareholders from the funds invested in the company; ie, the ability of the company to pay its shareholders. The formula is:

ROE = Net profit after tax / Capital sources

We understand the difference between capital and assets and current liabilities, ie, equity. We have previously analyzed the changes in equity during the period. A 70 % increase in 2009 over the previous year, due to the capital increase to debut into the AIM. However, the negative results of this period gradually diminished the net of the company. Meanwhile, net profit of Zinkia kept on having, throughout the years, a negative sign, with losses reaching 3 million by 2010. Hence the negative sign of ROE is clear: the audiovisual producer was unable to pay its shareholders, and even required them a greater contribution to finance its activities. Knowing that this was not possible, and that this pathway was exhausted, the company took the way of bond issues and financing through liabilities.

4. Looking for resources: Pocoyó Bonds

After seeing that the results of 2009 and the first three quarters were not the expected ones, that the financing on the capital increase in 2009 was not enough and that the net funding channel was exhausted, Zinkia decided, at the end of October 2010, to launch its first bond issue. The company sought to achieve, through the “Pocoyó bonds”, 11 million euros to finance its production. The bonds had a yield of 9.75 %, with an annual coupon and a maturity of three years’ time, so Zinkia became the first SME which emitted public debt. The risks Zinkia involved were clear, with a series of negative results accumulated in the last three years. Hence high yield offered for these bonds, which were intended for any investor, with a minimum of one thousand euros.

4.1 Analysing the results of the period 2011-2013

With the entry of new resources, the situation of the society relatively improved over 2011, because although it failed to end the tax year in positive figures, losses were substantially lower than those of 2010. While the year 2012 began with a record of employment regulation, which affected almost a third of the workforce of the entity, this was Zinkia’s best year by far throughout the historical series analyzed in this work. The difference consisted in the sales of the company in 2012.

Table 4

	2013	2012	2011
Profit before tax	-1.807.652	1.158.550	-693.544
Net amount of the turnover	5.290.982	8.239.438	4.520.767

The net turnover in 2012 increased by more than 80 % over the previous year, which allowed Zinkia have a positive sign in its income statement. As reported by the audiovisual producer itself, this increase in sales was due to the international expansion of the commercial exploitation of the animated series Pocoyó. This commercial exploitation in some countries was held by outside companies, and in 2012 the audiovisual producer recovered them, for respite from its accounts.

However, things turned to twist in 2013, as Zinkia could not consolidate its improvement and again returned to the starting position of the year 2011. Sales grew to

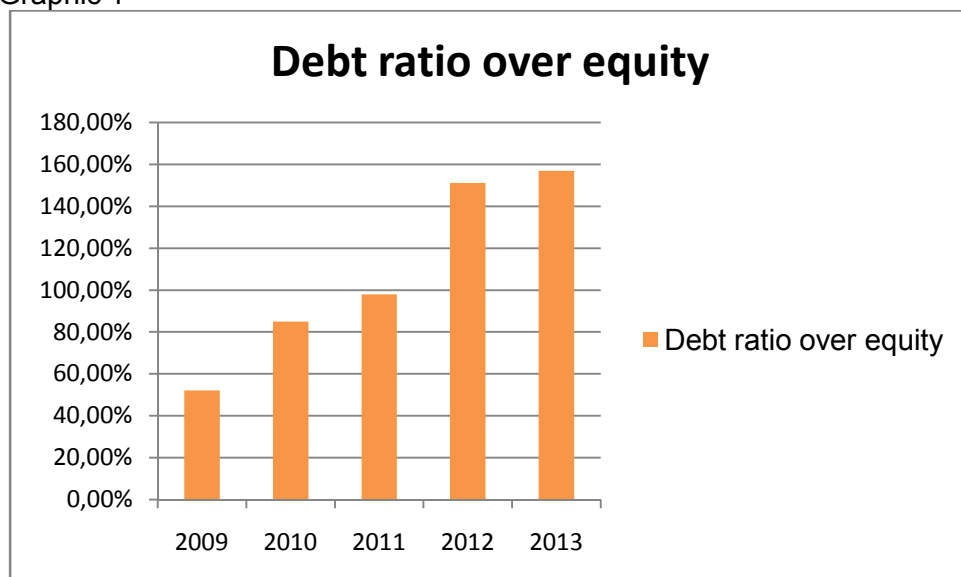
resent very noticeably, despite the fact that personnel costs also fell by 1 million euros compared to 2012; the operating result was already slightly negative. Moreover, the consequences of the issuance of the bonds in 2010 must be added to it, financial expenses that nearly reached the -1.5 million euros in 2013, sinking the overall result of Zinkia. This increase in financial expenses during this period of three years reveals the growing importance of debts in Zinkia.

4.2 The growing importance of liabilities in Zinkia

A very clear way to visualize the growing importance of liabilities over the net is to use the data that gives us the ratio of net debt or debt ratio. This ratio is calculated very easily, with the following formula:

$$\text{Debt ratio} = \text{Total liabilities} / \text{Equity}$$

Graphic 1



After the capital increase carried out in 2009, the debt meant little more than half the equity in the company. That is, Zinkia financed most of its activities with the contribution made by its partners and its shareholders. From this moment, and because of the financial problems we have already appointed, the company decided to finance its activity by debt, which led to a shift in the financial structure and in the ratio we are analyzing. The liability took importance over the years, and at the end of the period we are analyzing, in 2013, it accounted for 150 % of the equity of the company.

These data themselves need not necessarily be bad, because a company can fully finance by debt, without this being a serious problem or having excessive risk. What is theoretically established as “correct” when financing projects in the medium term is to try to structure debt mostly in the long run. This was what Zinkia made at the end of 2010: issuing three-year debentures, which helped the company obtain benefits of their products already established in the market, especially Pocoyó, and bringing to the market new audiovisual entertainment brands for children. However, the objectives were not met, and despite the calm the company lived in 2012, in 2013 Zinkia was unable to break with its negative results trend. These negative results, along with the increase of debts to third parties, posed a problem for the company, as did not obtain sufficient resources to repay the money it had borrowed, plus the important interests with a return of 9 % the company had promised, over three years.

While it is true that the primary responsibility for the change experimented by this ratio is the accumulated debt of Zinkia, both short and long term, we also have to take into account the behavior of the equity of the company. After reaching a peak in 2009, exceeding 11 million euros in equity —neither adjustments for changes in value nor grants, gifts or bequests are important in Zinkia—, equity did not cease to descend until 2013, with the only exception of year 2012. So in 2013 equity did not even reach 9 million euros, and its relative weight dropped to 39 %, while in 2009 the equity of the company was 65 % of the balance. The other side of the coin, which reflects how losses as the company over the years, are gradually consuming the resources of society. This situation is the one that tackles the audiovisual producer to seek resources outside, in an operation which, of course, led to a significant increase in company’s risk profile. As shown in the following table, debts took considerable importance in Zinkia.

Table 5

	2011	2012	2013
Long-term debts	4.867.597	6.827.306	6.807.339
Short-term debts	2.141.651	4.147.761	4.253.867
Trade creditors and other payables	1.551.434	2.993.628	2.527.583

From the end of 2010, and definitely in 2011, debt was the protagonist of the company. The issuance of “Pocoyó bonds” mortgaged the future of the audiovisual producer. The attempt to seek funding leaves us the data we have above: first, long-term debt that in

2012 added up to 7 million euros. Its relative weight in the balance grows fifteen percentage points since 2009, reaching 30 % in 2013. As we have pointed out, it can be a good option to finance medium-term projects with medium-term passive. However, the problems come when the medium-term financing goes on to become debt just one year ahead.

This is what happened in the last two years of this period. The short-term debt doubled in 2012, compared to the same debt in the previous year. The same applies to commercial debts. Zinkia weathered the storm in 2012, thanks to the good results of this exercise, and got more than one million euro profit. But in 2013 shortcomings came to light, and also at that time the audiovisual producer needed a new entry of liquid assets to meet its current liabilities. This carried a risk, because although Zinkia listed on the AIM, its ability to raise funds could not be likened to that of larger companies. The ratio of short-term debt, which is calculated by dividing current liabilities between the net assets of the company, is significant at this time. In the years 2012 and 2013, this ratio exceeds the always dangerous barrier of 50 %, reaching 80 % in 2013, what is a value that shows very clearly the level of risk that Zinkia had reached. It was easy to glimpse that the short-term debt would exceed the equity of the company. Besides, this debt did not come alone, but it was accompanied by a series of financial expenses such as interest obligations. The more issued debt, the greatest the interest—in this case annual coupons—that must be faced. As expected, these financial expenses reached its peak in 2013, after a period of steady rise. That year the interest payable rose almost to 1.5 million, while there was hardly any interest income that offset this value.

4.2 Analysing Zinkia's Assets

On the other side of the balance sheet, assets, we cannot see in the balance of Zinkia a clear effect of the funding obtained by the company by the issuance of the "Pocoyó bonds". The starting reference in the assets of Zinkia, intangible assets, maintained the same values as in 2008, and they even deteriorate slightly. With this data, we can understand that Zinkia was not able to increase the value of its brands over the years, neither to create new audiovisual products that had a strong impact on the company. With the increase in the total value of assets, which rose from 17 million in 2011 to 23 million in 2013, the virtually only productive asset of the audiovisual producer lost its relative weight in the accounts and assumed about 35 % of total assets in 2012 and 2013, compared with the 50 % inherent in previous years.

Among the items that assume that total increase in assets are the already named deferred tax assets, which overcome the barrier of 5 million euros and non-current trade payables. In this period, Zinkia aggravates their problems with time collection of sales. Commercial long-term debt, which was virtually zero in 2011, in 2013 slightly exceeded 4 million euros. The short-term commercial debt, however, reduced in this last year to half of its value in the historical series. This change in both games is an added problem for Zinkia, because what the company needed at that time were liquid resources to finance its projects and to cope with its growing long-term debt.

Once this untenable situation in the short term is assessed, the leaders of Zinkia turn back to a bond issue, trying to obtain the necessary liquidity to continue its activity and, above all, to address its imminent demands. The three-year issue that was launched in late 2010 came to an end, and it was time for the company to repay the money it had borrowed its creditors.

5. From the bankruptcy proceedings till today

5.1 Failure of Pocoyó Bonds

Taking into account the emergency situation that arose in late 2013 and early 2014 and that much of the debt issued in 2010 was already due, Zinkia sought a way to find resources to meet its obligations. The solution of choice by the company was, again, a second issue of "Pocoyó bonds". The characteristics of this second issuance were very similar to those of the first one: again, a maturity of three years and with annual coupons. The only difference was that the returns offered were even greater than the ones regarding the issue of 2010. If at that time offered Zinkia 9 %, in this case it came to 11 %. With this issue amounting to 7.78 million euros, the company aimed to address this short-term debt and to go on with its activity.

However, this issue soon found a major setback. Although the CNMV gave its approval to the issue, at the same time the organization issued a statement while questioning the returns offered by the audiovisual producer. The agency then headed by Elvira Rodríguez stressed that Zinkia had a negative working capital of 3 million euros, warning that the company had not enough short-term liquidity to cope with its debts. The CNMV did not rule in its statement that taking into account the losses Zinkia accumulated until the issue, the audiovisual producer "could incur in some of the possible foreseen cases in the bankruptcy laws" (Expansión.com 2013). In addition, it finally added that the compensation Zinkia offered on this issue would be less than the one it should offer to register properly if it was directed at a wholesale market. The CNMV scampered and doubted of the favorable report that an independent expert, who had been commissioned by Zinkia the development of the appraisal report which is required in the case of issuances intended for the retail market, had conducted.

This statement was a blow from which the company could no longer be lifted. The president of the producer, José María Castillejo, rejected any comparison with other known cases, such as Nueva Rumasa and Pescanova. Castillejo arguments were based on the transparency Zinkia shown compared with previous comparison. Zinkia had complied with the requirements imposed by the CNMV and had coped with its obligations so far. Furthermore, once cash tensions were recognized, the high growth potential of the business was defended, with a significantly higher sales forecast for the following years. However, all attempts to save the issuance were not enough. Days passed and the rate of placement of the issue was not moving, and less than twenty

days later the company was forced to withdraw due to the weak demand. At this very moment, the company welcomed the pre-bankruptcy.

At this point, the enormous importance that the statement was carried out by the CNMV should be noted. A statement that marked negatively the future of Zinkia, and that was collected in all specialized media due to its exceptionality. Particularly striking was the headline of the newspaper Cinco Días, which headlined: "Pocoyó launches bonds to 11 % to avoid going bankrupt" (Fernando Sanz 2013) And it was a very special case, especially because the CNMV ruled against the report of an independent expert. We cannot judge negatively the statement released by the CNMV, as the situation of Zinkia seemed untenable. However, we do find the paradox that the regulator allows the issuance itself, knowing that it offers a lower profitability than appropriate and that the company is very likely to enter bankruptcy in a few days' time. The organization intended to protect the investor with this negative assessment, although it still allowed the issuance. Because of that, the small investors may stumble on a product that, given the risk it entailed, could not be intended for them. The press reviews went both ways: some of them understood the statement published by the CNMV, while some others criticized how harsh the document was.

5.2 Zinkia in Bankruptcy proceedings

From this moment, while it was in pre-bankruptcy, the company sought the agreement with bondholders to delay payment of amortization of obligations, and this agreement was achieved in a short space of time. Although on 1st call the required quorum was not achieved, the result of the negotiations was positive, and on 2nd call they reached an agreement. It was agreed to delay for two more years, until the end of 2015, the payment of the redemption of the bonds. In return, the bondholders received in these two years coupons of 11 %, profitability higher than the original one of 9.75 %, and the company paid coupons immediately during 2013. However, not everything was solved: there was a loan with a bank totaling 2.5 million euros that could not be refinanced, so Zinkia had to apply for bankruptcy. This was approved by the Commercial Court in April 2014. At this time, the audiovisual producer was delisted in the AIM.

At that moment, new problems arose, such as a the struggle for Zinkia shareholder power. The company's president of the company, José María Castillejo, who owned Zinkia shares, Jomaca 98, had also declared bankruptcy. Still, Castillejo, continued to take decisions that the other shareholders did not support. One example was the approval with the votes of the president, and against the other shareholders' opinion, of

the authorization to the board of directors to launch a new bond issue. At the same time, minority shareholders, asked the authorities of the CNMV to control more closely the performance of Castillejo. Also at this time, the struggle for shareholder control of the audiovisual producer between Castillejo and the second largest shareholder in number of shares, Miguel Valladares, was initiated. The latter acquired a credit of Jomaca 98 to Bankia, in which, among other guarantees, appeared Castillejos' 33 % stake in Zinkia. If this credit was carried out, Valladares would become the majority shareholder of the company, with 40 % of shares, to the detriment of Castillejo.

Despite these internal tensions and bad results that occurred in 2014, the company managed to overcome the financial year. Zinkia creditors accepted the proposal of the company to refinance debt, delaying the repayment of debt for a period of 10 years for the privileged and ordinary debt, and of 20 years for subordinated debt; that is, delaying repayment until 2023 and 2033, respectively. In addition, a grace period of three years for coupons was approved, which would begin to be paid from 2017 on. This proposed ten-year refinancing, instead of the five-year one listed in the bankruptcy law, was accepted by the "international projection of the company's business, jobs that depend on it and the extent of the affected economic interests." Thus, in September 2015, the company came out of bankruptcy, almost two years after the failed attempt of the second bond issue and at the same time the audiovisual producer began to make payments under the proposed agreement. Finally, Zinkia shares returned to trading on the AIM, and although in a few days they went from 0.48 euros to 1.40 euros per share, this was not a mirage, as the price went back fastly to values between 0.60 to 0.70 euros per share.

At this point, it is interesting to reflect on how the CNMV can control a company listed on a stock exchange as the AIM. Zinkia could issue public debt thanks to access to this market that aimed at all types of investors, since the minimum investment was set at just 1,000 euros. At the time, the company issued the first issuance and some problems emerged, but until the second issuance the situation is Zinkia was not that difficult. While the regulator published a harsh statement against the company, the issuance became public, all of this in a time when production problems were far from being solved with the issuance. Days later, the company canceled the issuance and entered bankruptcy. This case has not been the only one striking in the AIM: The case of Gowex, a company that proved to be a fraud, which had made millions euros of profit in two capital increases, thus tricking minority shareholders, is also known. Therefore, we should reflect on the supervisory chain fails in these cases, and the

audit processes carried out. Surely we must highlight the importance of them to prevent new cases in which small investors may be scammed.

In the latter period, we only have at our disposal the annual accounts for 2014, following the trend set by the previous years. 2015 can be understood it as a transition year for Zinkia. Being within bankruptcy, the company reached the most important milestone in this year, which was reaching an agreement with creditors to get out of the contest and resuming the activity again, which gives the company some hope thanks to refinancing debt both to ten and to twenty years. Undoubtedly, it gives Zinkia room for manoeuvre, which until now it had not had.

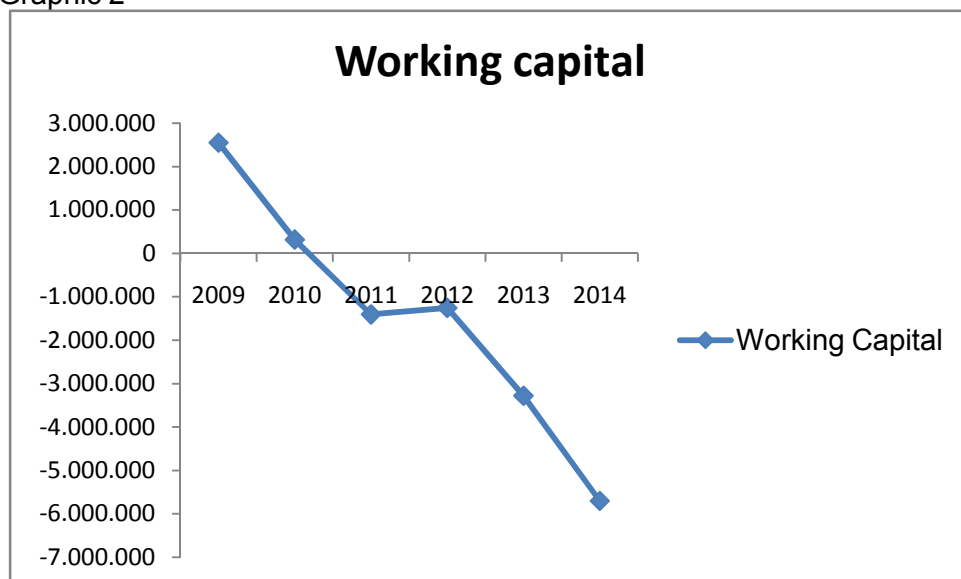
5.3 Financial Analysis of Zinkia in 2014

Table 6

	2014	
Shareholders equity	5.130.485	22,85 %
Profit before taxes	-4.612.928	
Current liabilities	11.973.940	53,34 %

If we analyze the data showing the annual accounts of the company, we can quickly get an idea of its difficult situation. The result for the year 2014 is the worst of all in the historical series discussed in this document, with losses of more than 4.6 million euros. It was certainly a blow, which resulted also of the competition situation in which the company was. If we review the income statement, we see that the item other operating expenses, in which primarily impairments and professional services are included, already exceeds sales reporting year. This steady drip of negative results is reflected in the balance of society in a very striking way. Equity decreases from 9 million in 2013, up just over 5 in 2014. This decrease, along with the increase of 3.5 million euros in short-term debt, implies that current liabilities take more importance than the equity of the company. If in the previous section we indicated that it was recommended that the short-term debt did not exceed half the value of the net assets of the company, now we realize the weight the debt problem acquires in Zinkia during this period.

Graphic 2



The main ratio in which the CNMV based to warn of the delicate situation of Zinkia in the statement attached to the 2013 bond issue was the working capital. The working capital is calculated by the following formula.

Working capital = Current assets – Current liabilities.

Using this ratio, we see very quickly if the company has sufficient liquid assets to meet debt falling due in the short term. As shown in the graph, working capital perfectly illustrates the evolution of Zinkia in the years analyzed. Based on a good result in 2009, working capital becomes negative in the years 2011 and 2012, and it chillingly falls in 2013 and 2014 due to the maturity of the bonds issued in 2010. This graph also shows the need Zinkia has during the years 2014 and 2015 to renegotiate its short-term debt with the creditors, as it is clearly unsustainable for the company. Current liabilities rise to 12 million euros in 2014, a debt too large for a company like Zinkia. This situation has improved with the favorable result of the agreement in the bankruptcy, because the debt has been refinanced to 10 and 20 years. However, the company still has a long way to go to the problem that has accompanied it since 2010.

Other ratios that reveal the difficult situation of Zinkia are ROE and ROA. The financial profitability ratio shows a value of -92.33% , while ROA is also shown in negative, with a value of -16.85% . The company solved as well as it could the problem of debt by refinancing it, but it must show from the current year that it deserves the confidence of creditors and that its business is strong enough so that the result of the financial year begins to be positive. With the sole exception of 2012, the results have been negative, so it seems obvious that an improvement in the management of the company is

necessary. Even in times when the company got funding, for example in 2009 and 2010, its results were negative. Despite the debt refinancing, Zinkia urgently needs to reverse its situation, because otherwise previous efforts would have been for nothing, both the company's and creditors'.

The current situation of the company has still a high degree of uncertainty due to the struggle for power in it. The current president, Jose María Castillejo, keeps trying, through judicial resources, to maintain its majority stake. The owner of Jomaca 98, a company which has its assets in auction, attempts to delay the execution of a loan guarantee, owned by Miguel Valladares, who nowadays owns 11 % of the company. At the time when Valladares executes these guarantees, among which 33 % of the shares of Zinkia are included, Castillejo will no longer be the largest shareholder of the producer, leaving his post to the Mexican entrepreneur. Despite these disputes, the company continues its course, and it has scheduled landing this year in the children's channel of state television of China (elEconomista 2016). It can be seen as a step in the right direction, of the many that the firm still has to carry out in order to reverse its current delicate situation. We should pay attention to how the situation evolves, as there are many interests at stake, especially those of small investors who have fallen into this delicate situation, and who certainly expect a favorable solution.

6. Criticisms towards the AIM from the perspective of Zinkia's experience

One of the interesting points in the history of Zinkia is, undoubtedly, its relationship with the AIM: why a relatively small company decides to access a stock market and why it chooses the AIM instead of other markets available; what advantages has the AIM compared to more traditional stock markets, and if those benefits obtained by the company are detrimental to investors.

Within the AIM, Zinkia joined, and released, a forum for recruitment for growing businesses (hereinafter AIM-EE), a segment within AIM which serves the general function of the stock markets, allowing more liquid possible exchange of the assets traded. What makes it special is that its structure and activity have adapted to the demands and possibilities of small capitalization companies. And for that, the AIM-EE had to be categorized as a multilateral trading facility (MTF), which, in the current legislation of the Securities Market Act (SMA), excludes it from the regulatory siege imposed to official secondary markets (Castilla 2009). The flexibility of the AIM-EE was reached by paying the price of not enjoying recognition of being a "regulated market" under Community Law. This flexibility and the exclusion of the regulatory fence, refers to various points on the standards that are met by the companies listed on official markets.

As it falls outside the laws of the Securities Market Act in several respects, it is the AIM itself that regulates itself in many ways, and it does it in a looser way. One of the most important ones is not having the obligation to develop the prospectus that marks the SMA in the event of a public offering of securities and trading. In return, companies in the AIM-EE should develop an "initial information document", which is much less demanding than the previous one, both regarding the quantity and quality of information and the production costs. Other striking features are that there is no need for sufficient distribution of shares, that a minimum capitalization of only 2 million euros—in front of 6 million euros in traditional stock markets—is needed, and that the companies do not need to have made profits in previous years. Certainly these are much more flexible requirements, which allow companies to reach them more easily.

Especially important are the differences in the information provided during their stay in the stock market. Companies in the AIM-EE do not need to provide quarterly information, nor are they required to prepare their accounts in full, i.e., they can be developed in an abbreviated form. They do not need to provide an annual report on corporate governance, or form a compulsory audit committee, among other issues.

This lack of reporting obligations can only have one individual wronged: the end investor, who is the one who usually demands this type of information to make his or her own investment decisions.

One aspect to think about regarding these markets, and in particular with regard to the present case, the AIM-EE, is the concept we have about them from an outside view. As they are open to the public stock market, we can think that it is a market regulated the same way than traditional markets do, when in reality it is not. This is indeed a problem, as many investors can access to this market believing that it meets some requirements that are not met in reality. It is, therefore, the CNMV work to carry out a good information job, in which the end investor knows the differences between regulated markets and this "unofficial" market. Thus, the investor will be able to evaluate all options and direct its resources to those places where they feel really comfortable. This way, they will possibly avoid controversial situations in which misinformation can lead to additional problems in cases of fraud.

The way in which the AIM-EE aims to strengthen its perception of being an organized and regulated market is through the figure of "registered counselor": an adviser which accompanies the company since it shows its first intention to join the market, advising it to meet the requirements of entry and stay. In addition, this adviser must inform the market if the company he or she advises does not meet the minimum requirements. However, this is not a figure without a great degree of uncertainty, since he or she accompanies the same entity throughout its life at the AIM-EE, and he or she must, at the same time, report the offences the aforementioned company could have committed. It is a situation that can sometimes be strange, and it is important that the market develops strong internal controls over advisers themselves. In particular, in Zinkia this problem was reflected in the second attempt to issue bonds. The CNMV, in the statement we have already mentioned, questioned the work carried out by the independent expert.

Certainly, it is a situation we should reflect about after we have got to know some cases of fraud, such as Gowex's, or some cases such as the one under study. We should wonder why an entity that has a couple of years with losses in its results can access a market like this, especially after carrying out a capital increase, and a year later it can issue public debt accessible to any type of investor, especially when the information provided by this market is not as demanding as in traditional markets and potential investors can ignore the "unofficial" features of this market. It seems positive that the CNMV carries out an informative work, where the differences between these

markets and the regulated ones are clear, and a greater control work, both on companies in the market and on registered accompanying advisors.

7. Conclusion

Throughout this document, we have been telling the story of Zinkia, with particular emphasis on analyzing its results and narrating its search for funding for new projects and, later, for solving its problems in the short term. Seeking funding to boost new projects is a good idea. However, Zinkia problems began to appear when the financing had to be directed, mainly, to solve the problems in the form of short-term debt. The company could not obtain all the resources required by the stock market debut, and from this moment the situation went from bad to worse. Certain projects are abandoned and the audiovisual producer has to resort to a second formula due to the poor performance of previous years. Undoubtedly, it is the beginning of a vicious circle, which will be exacerbated by the bad results that are still happening the remaining years.

As we have discussed in the last section, we must reflect on why the company came to this situation, and what responsibility has a market like AIM in this case. Undoubtedly, a market with laxer conditions, that is accessible to small and medium enterprises, is good news for the economy. However, these lax conditions should have a certain limit in order to try to avoid as far as possible a case like Zinkia's. We must bear in mind that these markets can be accessed by all types of investors, and perhaps some do not know what exactly a market like AIM is: a market that, under current legislation, is outside the "regulated markets". That is why it seems prudent that the CNMV provides better information for all investors. We should not forget that a company like Zinkia, which debuts in the AIM after a couple of periods in losses, is able to launch a capital increase on a stock exchange and, subsequently, issue debt aimed at all types of investors.

Beyond all these problems, the best news for Zinkia is that today it still exists. Few companies with debt levels as we have seen in this document have managed to survive a bankruptcy. Zinkia did it thanks to the projection of its flagship product, Pocoyó. There is still, however, a long way to go, because the debt is stretched today to 10 or 20 years ahead. The results of the company should improve a lot for it to survive to its debt. In order to do this, several positive aspects should converge, which so far has not happened. Among them, an improvement in the management of the company and stability within it is particularly important. Despite poor results in previous years, it seems that today the first scenario is more feasible than the second. We will take a look of the development of society in the coming months, since despite having

good news as the landing in China, today has more problems to solve than good news to give to all those creditors who hope that Zinkia finally finds the good path.

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