



Insights

AVP Investment thesis Zinc

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New York - London - Paris

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What is the opportunity behind the background check market?

In 2017, Citigroup and JPMorgan failed to conduct adequate background checks on employees and hired conducted criminals and were forced to pay \$1.3m fine for their wrongdoings ⁽¹⁾. Approximately two-thirds of resumes reportedly contain false information ⁽²⁾, which could potentially mislead employers into making incorrect decisions regarding the candidates' compensation and job roles. In the UK, employers are required by law to check their employee's right to work, preferably, assistance from technology should be utilized, as they would be subject to significant civil penalties in the event that the document is found to be fraudulent. To safeguard against any potential scandals, recruiters are increasingly relying on background check providers to ensure thorough screening processes. As a result, the global background check industry is experiencing significant growth, projected to reach \$6 billion by 2026 ⁽³⁾. This expansion is primarily driven by increasing regulatory requirements and the growing significance of remote work. Industries like financial services, healthcare, and education witness even higher volumes of background checks. Additionally, as risk management becomes more stringent, employees are subjected to annual or even more frequent rechecks. For instance, consultancies often conduct background checks on their staff at the onset of each project, further contributing to this trend.

As with many practices that originated in the US the market remains largely dominated by US-based and US-centric incumbents which are increasingly facing competition from technology focused newcomers. The US practice of background checks has expanded to the UK but the European market remains untapped due to the complexities of local regulations and varying cultural norms by country, discouraging US players from expanding to Europe. However, as we witnessed with Know Your Customer (KYC) checks in the past, background checks are likely to become the standard practice in Europe as well, and we started to observe a growing use of such checks in countries such as the Netherlands, France and Germany.

Traditional background checks service providers are currently facing huge challenges in competing with tech companies that offer fully automated and agile solutions, eliminating the need for manual processes. Today, these tech companies deliver best-in-class user experience, benefiting both candidates and recruiters, with quicker turnaround times and a seamless candidate journey.

Why are we excited about investing in Zinc?

Already successfully serving customers across various geographies (UK, US, France, Netherlands, Germany, etc.), we think Zinc is well-positioned to take a leadership position in Europe by capitalizing on its robust suite of background checks, its strong reputation for accuracy and efficiency and its ability to deal with cross-borders checks.

By staying at the forefront of technological advancements, Zinc is making significant strides to transform an otherwise archaic sector and maintain a competitive edge over traditional background check service providers by delivering faster and more accurate background checks. Since its inception, Zinc has consistently been introducing new features and products to meet evolving customer needs. Its latest feature, a "global right-to-work" check enabling companies to refine their talent acquisition strategies while ensuring conformity with global employment

regulations. This gives the Company a unique competitive advantage in the market. Today, Zinc supports 12+ checks (e.g. Right to work, Employment, ID, Financial, Criminal record checks) in 200+ countries and is seamlessly integrated with over 14 Applicant Tracking Systems (ATS), including the leading ones such as Workday, and Human Resources Information Systems (HRIS) ensuring a secure flow of data, without the need for manual checks or PDF downloads. As a result, Zinc ensures the best customer experience among its competition, which is evidenced by a 4.8/5 internal candidate feedback score.

Moreover, in an increasingly regulated environment, Zinc has demonstrated a strong commitment to compliance with local laws governing background checks. Today, Zinc can provide cross-border checks, being 100% compliant all over the world, making easy for its customers to quickly scale their hiring internationally while minimizing the complexity of constantly evolving local cultural norms and regulations related to background checks and data privacy. By demonstrating its unwavering commitment to data privacy and security, Zinc also leads the path towards reusable work identity, with a pioneering formula that could allow candidates to reuse their data for future checks, allowing them to maintain control over their information and streamline the verification process.

Zinc has been developing more and more partnerships with numerous high-profile clients including well-known companies in the technology and retail sectors such as Octopus Energy, Bolt, Improbable, HelloFresh, Marshmallow, etc. Since its inception, Zinc has strategically focused on the most regulated industries (such as banking, healthcare, energy, consulting, etc.) providing a solid foundation for recurring revenue growth and reducing dependency on any single industry. After having fostered trust among its existing customers and enhanced its reputation, Zinc possesses the ability to attract significant enterprise clients worldwide, thereby strengthening its growth potential. We truly believe Zinc will successfully leverage AVP's network among big corporates in Europe and the US to secure new blue-chip contracts.

Finally, we are deeply confident in the execution capabilities of the team. Luke and Charlotte, the two cofounders bring complementary skill sets to the stable, combining their respective strengths in marketing, tech and product development, strategic planning, and operational excellence to achieve a solid revenue growth and impressive financial performances since inception. Today the team is composed of 41 experienced employees, well-versed in talent, recruitment, and HR tech, with a shared mission: to change how people prove their work identity globally.

Investing in Zinc presented an excellent investment opportunity due to its strategic market position across Europe, robust technology platform, diversified customer base, and ultimate commitment on regulatory compliance. We are proud to partner with the team throughout this new chapter to revolutionize the world of automated background checks.

(1) Intelligo, June 2020 (<https://www.intelligo.ai/blog/these-corporate-giants-failed-to-perform-background-checks-on-their-employees-heres-what-happened/>)

(2) EveryCheck

(3) BusinessWire, Global Employment Screening Market Insights & Forecast Report 2022-2026, January 2023

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We support outstanding companies.



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