

The Marketing Group

Q3 results

Q3 update gives reassurance and upgrade

The Marketing Group's Q3 results show that it is now properly focused on growing the business, with group agencies worldwide taking on larger pieces of work in collaboration. EBITDA margin to net revenue has grown in each of the last three quarters and we have moved our full year, FY18 and FY19 earnings' forecasts ahead by c 10%. Net cash at the end of the quarter had increased to €1.7m from €0.9m at end June. This is facilitating investment in new initiatives, including the group's new blockchain-enabled global media agency, Truth. The rating should start to improve as confidence builds that management can deliver on its strategy.

Year end	Turnover (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	EV/EBITDA (x)	Yield (%)
12/16**	15.8	2.2	11.3	0.0	3.7	5.7	0.0
12/17e	26.8	1.7	4.1	0.0	10.2	6.9	0.0
12/18e	29.6	2.1	4.6	0.0	9.1	5.8	0.0
12/19e	32.5	2.5	5.3	0.0	7.9	4.8	0.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Not restated for disposals.

Progress on the ground

Turnover of €7.0m (Q2: €6.3m) contained a one-off element (of undisclosed scale) from media business over the course of the general election in New Zealand, where the National Party is a client. The theory of global teamwork is now being put into practice with collaborative pitches, with account management close to the client and the subsequent implementation work done in the group agency best placed to deliver on the brief, regardless of geographic location. This approach is facilitated by TMG's internally-developed inter-agency collaboration platform, Temba, launched in August 2017. It should help TMG achieve scalability without needing to replicate resource, driving margin alongside net revenue growth.

Cash for growth, innovation investment

Net cash at end Q317 was €1.7m and our model shows this increasing to €3.3m by the year-end (was €3.2m). This level of funding means that the working capital requirements of growth will be met from cash flow, with some flexibility for further complementary acquisitions. TMG has also launched a new agency, Truth, based out of London but also operating in the US, Singapore, New Zealand and Australia. It is a blockchain-based media planning and buying agency, providing validation all through the process, thereby addressing major concerns over media transparency. It will be led by Mary Keane-Dawson, who joined the group earlier in the year

Valuation: No credit yet for improved outlook

The current valuation has stabilised in a range of €0.40 to €0.50 over the last couple of months but this price does not yet reflect the enhanced growth prospects from the agencies working collaboratively and the associated margin expansion. Smaller marketing services groups currently trade on a current year P/E of 12.2x and on an EV/EBITDA of 8.5x. As TMG starts to build a record for delivering against market expectations, then we would expect the valuation discount to peers to close.

Media

15 November 2017

Price €0.42

Market cap €15m

Net cash (€m) as at 30 September 2017 1.7

Shares in issue 34.7m

Free float 58.4%

Code TMG

Primary exchange Nasdaq First North

Secondary exchange Frankfurt

Share price performance



% 1m 3m 12m

Abs (14.3) (49.5) (90.2)

Rel (local) (13.0) (51.1) (91.5)

52-week high/low €4.4 €0.4

Business description

The Marketing Group is building a global full-service marketing network. Each company within the group provides specialist marketing services brought together, within complementary communities of practice, to form an international network that can address a global market.

Next events

FY17 report 28 February 2018

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Quarter-on-quarter progress

As described in our [Initiation note](#) in September, TMG restated its Q117 numbers to reflect disposals (financial information from FY16 has not been restated and so is excluded from the table below and we have no given year-on-year comparisons). This shows the consecutive progress through the year to date. As with many agency groups, the gross profit (net revenue) line is the better indicator of growth, due to the impact of put through costs on the purchase of media.

We have moved our 2017 full year numbers ahead (see Exhibit 2) but have stayed relatively cautious on our Q4 assumptions, as Q3 had the one-off benefit in New Zealand and we are reluctant to extrapolate. Our estimates for FY18 and for FY19 are lifted by 10%, predicated on net revenue growing by 12% in FY18 and 11% the year after from the existing group network of agencies.

Exhibit 1: Quarterly performance and forecast

€m	Turnover	Net revenue	EBITDA	EBITDA/net revenue margin
Q117	7.190	4.832	0.125	2.6%
Q117 restated	6.217	4.094	0.298	7.3%
Q217	6.330	4.315	0.473	11.0%
H117	12.547	8.409	0.771	9.2%
Q317	7.043	4.260	0.679	15.9%
Q417e	7.210	4.231	0.450	10.6%
FY17e	26.800	16.900	1.900	11.2%
FY18e	29.600	18.944	2.280	12.0%
FY19e	32.500	20.963	2.721	13.0%

Source: Company accounts, Edison Investment Research

It is still very early days for the group and for the management team, who have only been fully in place from Q117. The growth plan which has been outlined, and which was described in more detail in our initiation note, should lead to gross profit moving ahead more strongly than the broader agency peer group. It should also allow for further margin expansion to (and possibly) beyond industry levels. We consider these industry margins to be running currently in the low-to-mid teens against gross revenue, high teens to low 20s against net revenue.

Exhibit 2: Revisions to forecasts

	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	3.76	4.13	+10	1.55	1.70	+10	1.75	1.90	+9
2018e	4.19	4.61	+10	1.86	2.05	+10	2.09	2.28	+9
2019e	4.85	5.34	+10	2.27	2.50	+10	2.49	2.72	+9

Source: Edison Investment Research

Exhibit 3: Financial summary

	€000s	2016	2017e	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Turnover		15,843	26,800	29,600	32,500
Cost of Sales		(5,986)	(9,900)	(10,656)	(11,538)
Net Revenue		9,857	16,900	18,944	20,963
EBITDA		2,316	1,900	2,280	2,721
Operating profit (before amort. and except.)		2,210	1,762	2,080	2,521
Amortisation of acquired intangibles		(1)	0	0	0
Exceptionals		0	(43,576)	0	0
Share-based payments		0	0	0	0
Reported operating profit		2,209	(41,814)	2,080	2,521
Net Interest		(56)	(62)	(30)	(21)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		2,154	1,700	2,050	2,500
Profit Before Tax (reported)		2,153	(41,876)	2,050	2,500
Reported tax		(164)	(209)	(430)	(650)
Profit After Tax (norm)		1,990	1,360	1,640	1,900
Profit After Tax (reported)		1,989	(42,085)	1,619	1,850
Minority interests		0	0	0	0
Discontinued operations		0	0	0	0
Net income (normalised)		1,990	1,360	1,640	1,900
Net income (reported)		1,989	(42,085)	1,619	1,850
Average Number of Shares Outstanding (m)		18	32	35	35
EPS - normalised (c)		11.27	4.21	4.69	5.44
EPS - normalised fully diluted (c)		11.27	4.13	4.61	5.34
EPS - basic reported (€)		11.26	(130.33)	4.63	5.29
Dividend (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	69.2	10.4	9.8
Gross Margin (%)		62.2	63.1	64.0	64.5
EBITDA/Gross Profit Margin (%)		23.5	11.2	12.0	13.0
Normalised Operating/Gross Profit Margin		22.4	10.4	11.0	12.0
BALANCE SHEET					
Fixed Assets		74,184	30,772	30,772	30,772
Intangible Assets		73,598	30,199	30,199	30,199
Tangible Assets		540	527	527	527
Investments & other		46	46	46	46
Current Assets		9,031	9,536	15,804	18,546
Stocks		379	379	379	379
Debtors		6,234	6,873	11,678	12,822
Cash & cash equivalents		2,418	2,284	3,747	5,345
Other		0	0	0	0
Current Liabilities		(11,447)	(7,993)	(10,939)	(11,831)
Creditors		(5,749)	(4,974)	(9,923)	(10,815)
Tax and social security		(773)	(773)	(773)	(773)
Short term borrowings		(843)	(543)	(243)	(243)
Other		(4,082)	(1,703)	0	0
Long Term Liabilities		(557)	(557)	(557)	(557)
Long term borrowings		(163)	(163)	(163)	(163)
Other long term liabilities		(394)	(394)	(394)	(394)
Net Assets		71,211	31,758	35,080	36,930
Minority interests		0	0	0	0
Shareholders' equity		71,211	31,758	35,080	36,930
CASH FLOW					
Operating Cash Flow		554	1,900	2,280	2,721
Working capital		(864)	(1,414)	144	(252)
Exceptional & other		0	0	0	0
Tax		162	(209)	(430)	(650)
Net operating cash flow		(148)	277	1,993	1,819
Capex		(136)	(125)	(200)	(200)
Acquisitions/disposals		2,410	(177)	0	0
Net interest		(56)	(62)	(30)	(21)
Equity financing		0	4	0	0
Dividends		0	0	0	0
Other		(354)	0	0	0
Net Cash Flow		1,716	(83)	1,763	1,598
Opening net debt/(cash)		0	(1,412)	(1,578)	(3,341)
FX		(306)	249	0	0
Other non-cash movements		2	0	0	0
Closing net debt/(cash)		(1,412)	(1,578)	(3,341)	(4,939)
Source: Company accounts, Edison Investment Research					

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