EDISON

The Mission Group

Full-year results

On message

Media

The Mission has reported FY19 results in line with levels indicated in the year-end update, with an 11% uplift in adjusted PBT and a 5% increase in diluted EPS. The new financial year started well, with a more coherent service offering and the agencies working effectively together to deliver new business on an individual and on a collaborative basis. COVID-19 is having a marked impact across the marketing sector as clients reschedule and adjust their spending plans, but it is too early to judge the financial impact that this will have on Mission's FY20 results at this stage.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	68.6	9.1	9.0	1.7	6.3	3.0
12/18	77.6	9.2	8.5	2.1	6.7	3.7
12/19	81.0	10.2	9.0	2.3	6.3	4.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Greater coherence

The Mission traded well across all its activities in FY19, with its largest segment, Advertising & Digital (80% of operating income), growing its revenues by 4.4%. All growth was organic. With the appointment of the group's first CEO, James Clifton, in April 2019, and further new group roles added in business development, there has been noticeable impetus in developing both a more coherent group presence to external parties and greater internal collaboration. Some group agencies have been merged and the simplified group structure is encouraging cross-referrals and joint pitches, some under a Mission branding. COVID-19 is affecting some areas of the Mission's activities more than others, but the speed of recovery in those areas may also be faster once the economy starts to recover. Much of the business is well suited to remote working. Property marketing and live events are most affected. We will initiate forecasts once the picture becomes clearer.

Facilities in place to handle hiatus

Year-end net debt of £4.9m (£11.1m including leases) was swelled by higher levels of working capital after a busy close to the year, which we expect to have corrected in the first couple of months of FY20. Outstanding acquisition obligations (£8.9m) are predominantly in cash, with £3.4m due in FY20 (£3.3m in cash). Mission has a committed £20m revolving credit facility (recently extended by £5m). This runs to September 2021, with a one-year extension option. It also has a £3m overdraft facility. Spending plans have been reined in and board salaries voluntarily reduced. A decision will be made on the final dividend closer to the June AGM.

Valuation: Price decline with sector

A combination of market volatility and withdrawn market forecasts compounds the difficulties in making prospective peer group comparisons for valuation. Historical multiples are in a wide range, with the more similar agency groups trading on a P/E of 6.7x, a premium of 22% to the Mission. UK agency sector share prices have fallen by an average of 45% year-to-date; the Mission's price is down 28%.

1 April 2020

Price	**57p**
Market cap	**£49m**
	$1.24/£
Net debt (£m) as at end December 2019 (non-IFRS 16)	4.9
Shares in issue	85.3m
Free float	57.5%
Code	TMG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(26.0)	(27.9)	(10.9)
Rel (local)	(12.5)	(2.6)	14.0
52-week high/low		108p	36p

Business description

The Mission Group is a marketing communications group employing 1,150 people in the UK, Europe, Asia and the US.

Next events

AGM	June 20

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The Mission Group is a research client of Edison Investment Research Limited

A good set of results

The accounts were signed off by the auditors before the COVID-19 pandemic was declared.

The Mission reported turnover growth of 7.0%, compared to the most recent AA/WARC industry assessment of 5.2% growth in total UK ad spend. However, turnover includes a substantial element of media put-through costs and management uses its operating income line to represent its revenues, being a more accurate representation of its progress. Reporting is by line of business, rather than being drawn agency by agency, with Advertising and Digital the largest segment by far, at 80% of group revenue. Revenue is mostly generated in the UK (89%), with the balance coming from the US (6%), 5% from Asia and less than 1% from the rest of Europe.

Growth came from a combination of new client wins and repeat and additional work from existing clients. The group has an impressive record of client retention. In FY19, around half of revenue came from clients that were also clients in the previous five years, and a third from those working with the group for more than a decade. The client roster covers a wide range of sectors and includes household names such as DFS, Petro-Canada, AstraZeneca, Aviva, Symantec and Bellway. The spread is such that only two group clients (names undisclosed) represented more than 3% of FY19 operating income.

The pattern of business is not static and under its new leadership, the ethos has changed from a loose confederation of marketing services businesses to a connected network supporting clients as a creative partner. CEO James Clifton was previously head of the group's bigdog agency, which has now been merged with krow. Other group agencies have also been merged during FY19, with a shared service platform now operational that provides finance, IT and HR. The culture has been adapting effectively to date, with the internal communications platform facilitating quick response times for new business enquiries that require the resources of multiple agencies within the group and enabling a unified pitch.

Improving margins

The Mission reports its profits on an adjusted basis, adding back exceptional items (none in either FY18 or FY19), acquisition adjustments (FY19: £1.32m vs FY18: £1.01m) and start-up costs (FY19: £0.43m vs FY18: £0.14m). The acquisition adjustments are a combination of movements in fair value of contingent consideration (net upwards in FY19 vs net downwards in FY18) and the amortisation of other intangibles recognised on acquisitions.

The group regularly has start-up costs, as new activities or new geographies are added and 'road-tested' before being adopted (or closed if they are not performing to target). For the year just reported, the start-up costs reflect the opening of new offices in China and Germany. The sports marketing offering, Mongoose, started three years ago, has been a notable success. Mission also runs a technology incubator, FUSE. Its most advanced project is an asset tracking business, Pathfindr, which increased its revenues to £0.9m from £0.5m in FY18.

The table below shows the split of turnover and revenue between segments and the operating margin progression. Management's own target is that the adjusted operating margin should continue to increase with a target of 14% by FY21. The margin expansion is predicated on management's targeted revenue growth of 5%+ per year. The current COVID-19 pandemic will doubtless make the progression towards this less smooth, but much depends on the length of the disruption in the short to medium term and the longer-term hit to the economy.

Exhibit 1: Segmental reporting and margins

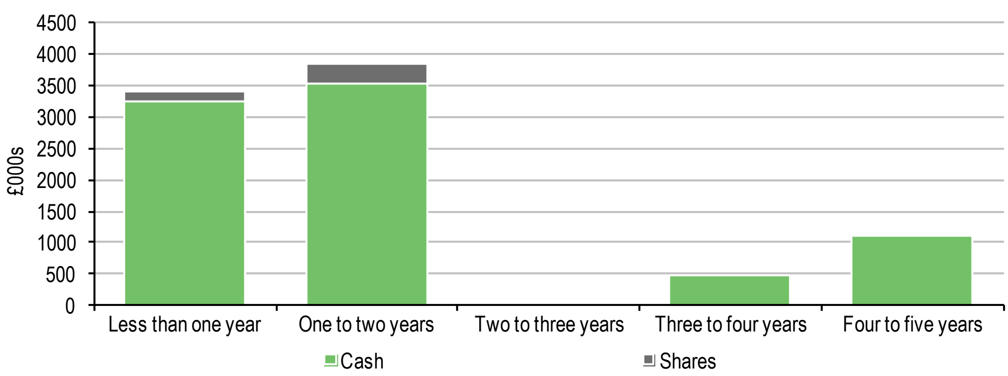
£000s	FY18	H119	H219	FY19
Turnover – Divisional split				
Advertising & Digital	96,615	49,746	59,675	109,421
Exhibitions & Learning	17,488	9,860	10,301	20,162
Media Buying	36,473	18,195	12,659	30,855
PR	9,340	4,499	6,154	10,653
Total	159,916	82,300	88,790	171,091
Turnover growth year-on-year				
Advertising & Digital	18.4%	15.1%	11.8%	13.3%
Exhibitions & Learning	45.1%	6.6%	25.0%	15.3%
Media Buying	-19.4%	-13.2%	-18.4%	-15.4%
PR	16.8%	-4.2%	32.5%	14.1%
Total	8.9%	5.4%	8.5%	7.0%
Operating income				
Advertising & Digital	61,805	31,560	32,950	64,510
Exhibitions & Learning	5,202	2,361	2,865	5,226
Media Buying	3,469	1,880	1,814	3,694
PR	7,109	3,359	4,183	7,542
Total operating income	**77,585**	**39,160**	**41,812**	**80,972**
Gross margin				
Advertising & Digital	64.0%	63.4%	55.2%	59.0%
Exhibitions & Learning	29.7%	23.9%	27.8%	25.9%
Media Buying	9.5%	10.3%	14.3%	12.0%
PR	76.1%	74.7%	68.0%	70.8%
Total	**48.5%**	**47.6%**	**47.1%**	**47.3%**
Central costs	69,127	35,545	36,535	72,080
Operating profit	8,458	2,616	5,278	8,893
Adjusting items	1,461	999	861	1,860
Adjusted operating profit	**9,919**	**3,615**	**6,139**	**10,753**
Adjusted operating margin to turnover	6.2%	4.4%	6.9%	6.3%
Adjusted operating margin to revenue	**12.8%**	**9.2%**	**14.7%**	**13.3%**

Source: The Mission Group accounts

Banking facilities in place

As indicated in February's trading update, a busy close to FY19 sucked in more working capital around the balance sheet date. The group paid out additional contingent acquisition costs of £2.7m in FY19, from £1.7m in FY18. It has outstanding obligations totalling £8.9m, to be met by a combination of cash and shares, falling as shown below. However, we note that these sums are dependent on post-acquisition profit performance mostly for FY20, which may be difficult to meet given the circumstances.

Exhibit 2: Acquisition obligations



Source: The Mission Group accounts

Year-end net debt of £4.9m (non-IFRS 16) consisted of cash of £5.0m and a bank loan of £10.0m (the balance being unamortised arrangement fees), with the loan running to September 2021. The total facility (revolving credit) is for £20.0m, recently extended by £5.0m, with an option to roll-out for a further year. The interest rate is based on Libor plus 1.25–2.00%, depending on group leverage. Management targets leverage of less than 1.5x adjusted EBITDA (non-IFRS 16) and the figure for FY19 was comfortably below this at 0.4x. Including earnouts, this limit is 2.0x, well above the 1.1x figure for the group for FY19. These management targets are below those set by the banks, giving plenty of headroom.

Exhibit 3: Financial summary

£'000s	2016	2017	2018	2019
Year end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Turnover	144,096	146,912	159,916	171,091
Cost of Sales	(78,198)	(78,321)	(82,331)	(90,118)
Gross Profit	65,898	68,591	77,585	80,972
EBITDA	9,677	10,873	11,334	12,225
Operating Profit (before amort. and except.)	8,202	9,597	9,919	10,753
Intangible Amortisation	(645)	(944)	(1,286)	(1,980)
Headline Adjustments	0	(1,889)	(546)	(990)
Other	0	(11)	(1)	69
Operating Profit	7,557	6,753	8,086	7,852
Net Interest	(487)	(473)	(735)	(668)
Profit Before Tax (norm)	7,715	9,113	9,183	10,154
Profit Before Tax (FRS 3)	7,715	7,224	7,722	8,294
Tax	(1,619)	(1,704)	(1,710)	(1,868)
Profit After Tax (norm)	6,097	7,409	7,473	8,286
Profit After Tax (FRS 3)	6,097	5,520	6,012	6,426
Average Number of Shares Outstanding (m)	82.7	82.9	83.3	84.1
EPS - normalised (p)	7.8	9.2	8.7	9.5
EPS - normalised and fully diluted (p)	7.5	9.0	8.5	9.0
EPS - (IFRS) (p)	7.3	6.5	7.1	7.5
Dividend per share (p)	1.5	1.7	2.1	2.3
Gross Margin (%)	45.7	46.7	48.5	47.3
EBITDA Margin (%)	6.7	7.4	7.1	7.1
Operating Margin (before GW and except.) (%)	5.7	6.5	6.2	6.3
BALANCE SHEET				
Fixed Assets	86,975	91,777	107,002	107,416
Intangible Assets	83,075	87,951	96,121	95,859
Tangible Assets	3,576	3,513	10,858	11,360
Investments/ other	324	313	23	197
Current Assets	34,098	41,357	46,476	47,117
Stocks	485	668	850	1,091
Debtors	32,611	34,829	39,727	40,998
Cash	1,002	5,860	5,899	5,028
Other	0	0	0	0
Current Liabilities	(30,616)	(36,691)	(40,986)	(40,352)
Creditors	(28,366)	(34,191)	(40,986)	(40,352)
Short term borrowings	(2,250)	(2,500)	0	0
Long Term Liabilities	(13,529)	(16,289)	(24,896)	(21,946)
Long term borrowings	(10,315)	(10,708)	(9,886)	(9,927)
Other long term liabilities	(3,214)	(5,581)	(15,010)	(12,019)
Net Assets	76,928	80,154	87,596	92,235
CASH FLOW				
Operating Cash Flow	8,492	11,975	11,684	10,454
Net Interest	(422)	(425)	(826)	(626)
Tax	(1,869)	(1,299)	(1,906)	(1,805)
Capex	(1,658)	(1,521)	(1,361)	(2,169)
Acquisitions/disposals	(3,580)	(2,921)	(670)	(2,839)
Financing	(169)	(65)	(1,938)	(2,096)
Dividends	(1,276)	(1,333)	(1,695)	(1,831)
Net Cash Flow	(482)	4,411	3,288	(912)
Opening net debt/(cash)	11,224	11,563	7,348	3,987
HP finance leases initiated	(90)	(84)	0	0
Other	233	(112)	73	0
Closing net debt/(cash)	11,563	7,348	3,987	4,899

Source: Company accounts

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