

# The MISSION Group

Interim results

## Shaping up for resuming growth

The MISSION's H120 results were as indicated at the trading update, with headline pre-tax loss of £2.2m. H220 looks stronger, with new clients and new business and the continuing benefit of a broad agency portfolio across verticals. It is adding central resource to service group agencies efficiently, setting up a digital production studio and using recently acquired Innovationbubble for behavioural consultancy. Careful cash management reduced net debt to £0.9m at end June, with annualised cost savings of £0.7m targeted. Our unchanged PBT and EPS forecasts leave the shares trading below peers.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/18	77.6	9.2	8.5	2.1	7.4	3.3
12/19	81.0	10.2	9.0	0.8	7.0	1.3
12/20e	62.7	0.5	0.7	0.0	90.0	N/A
12/21e	76.1	9.0	7.7	1.8	8.2	2.9

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Portfolio benefits

Property and events have obviously been areas most affected by the pandemic, with revenues down 80% at the nadir, but the technology and healthcare segments are performing well, up year-on-year in H120. Longstanding client relationships and the group's partnership approach have been instrumental in protecting revenues. New assignments and new clients have also been won, with Bray Leino adding two significant client wins: INEOS; and a digital programme in China for Croda Trading. Revenues at April Six, a specialist technology and mobility agency, were +8% over H119, with work for the European Space Agency, Scania Europe and Rimini Street. Healthcare agency, RJW, posted a particularly strong performance, with revenues up 20%. Pathfindr, the group's asset tracking business, has hit a rich vein with its Safe Distancing Assistant product, attracting over 200 customers to date.

## Careful financial management pays

Cash conservation measures, including use of furlough for parts of the business most affected by COVID-19, a shortened working week and voluntary pay reductions all contributed to containing the H1 loss. The balance sheet also benefited from a pause on non-essential capex, use of the Time to Pay scheme (tax and VAT), deferral of the dividend and the delaying of vendor payments. In H120 £1.6m was paid on acquisitions, with a further £0.6m scheduled for H220. A reappraisal of office space will lead to £0.7m of annualised savings. Net debt at the half year was just £0.9m as a result of these measures, but we would expect an unwinding of this in H220. Our year-end projection is for net debt of £8.2m (was £8.3m).

## Valuation: Still trading below peers

A degree of visibility is now creeping back into consensus forecasts (albeit highly subjective to assumptions on speed and scale of the recovery). MISSION's shares trade at a discount to peers on EV/EBIT and P/E averaged over FY19, FY20e and FY21e. Parity indicates a share price of 78.25p, 23% above the current level.

Media

23 September 2020

Price **63p**  
Market cap **£54m**

Net debt (£m) at 30 June 2020	0.9
Shares in issue	85.3m
Free float	52.7%
Code	TMG
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	5.0	(11.3)	(25.0)
Rel (local)	8.3	(5.5)	(6.7)
52-week high/low		108p	36p

## Business description

The MISSION Group is a collective of creative integrated and specialist agencies, employing 1,150 people in the UK, Europe, Asia and the US.

## Next events

Trading update January 2021

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## H120: Differing experiences by agency

The broad spread of the agency verticals covers a range of experiences of the commercial consequences of the coronavirus pandemic, which get somewhat lost within the segmental reporting that discloses performance by activity. Detailed descriptions of the underlying business are available in our [July initiation report](#). Agencies such as ThinkBDW, which is a specialist marketer for the property sector, were heavily affected through the Q2 lockdowns, whereas specialist healthcare agency, RJW, was well placed to benefit.

As shown below, overall group operating income (revenue), was 25.7% lower than H119. A 13.2% reduction in operating expenses, through the measures taken as described above, restricted the level of group operating loss to £1.8m, from a profit of £2.6m in the comparative period.

### Exhibit 1: Summary H120 income statement

£'000s	H119	H219	FY19	H120	Y-o-y change
Advertising & Digital	31,560	32,950	64,510	22,933	-27.3%
Exhibitions & Learning	2,361	2,865	5,226	1,839	-22.1%
Media Buying	1,880	1,814	3,694	1,475	-21.5%
PR	3,359	4,183	7,542	2,833	-15.7%
<b>Total operating income</b>	<b>39,160</b>	<b>41,812</b>	<b>80,972</b>	<b>29,080</b>	<b>-25.7%</b>
Headline operating expenses	(35,545)	(34,674)	(70,219)	(30,862)	-13.2%
Acquisition adjustments	(925)	(395)	(1,320)	166	
Start-up costs	(74)	(357)	(431)	(212)	
Loss on investments	0	(109)	(109)	0	
<b>Operating (loss) / profit</b>	<b>2,616</b>	<b>6,277</b>	<b>8,893</b>	<b>(1,828)</b>	
PBT	2,396	5,898	8,294	(2,270)	
<b>Headline, diluted EPS (p)</b>	<b>3.12</b>	<b>5.88</b>	<b>9.00</b>	<b>(1.92)</b>	

Source: Company accounts

## Positioning to catch the upside

In the interview below, CEO James Clifton, shares what he thinks the coronavirus pandemic has revealed about the group and its clients, as well as the moves the management team has made to protect the business. He also gives more detail on recent initiatives, such as the MISSION Made digital studio resource and what the Innovationbubble acquisition adds. James then looks at whether the industry will be fundamentally changed by these last few months' experience.

### Exhibit 2: Interview with James Clifton, CEO



Source: Edison Investment Research

**Exhibit 3: Financial summary**

	£'000s	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Turnover		159,916	171,091	128,107	159,535
Cost of Sales		(82,331)	(90,118)	(65,448)	(83,425)
Revenue		77,585	80,972	62,659	76,110
EBITDA		11,334	12,225	2,636	10,707
Operating Profit (before amort. and except.)		9,919	10,753	1,386	9,557
Intangible Amortisation		(1,286)	(1,980)	(1,004)	(1,004)
Headline Adjustments		(546)	(990)	(450)	(500)
Other		(1)	69	85	90
Operating Profit		8,086	7,852	701	8,817
Net Interest		(735)	(668)	(922)	(599)
Profit Before Tax (norm)		9,183	10,154	549	9,048
Profit Before Tax (FRS 3)		7,722	8,294	99	7,633
Tax		(1,710)	(1,868)	32	(1,994)
Profit After Tax (norm)		7,473	8,286	581	7,054
Profit After Tax (FRS 3)		6,012	6,426	131	5,639
Average Number of Shares Outstanding (m)		83.3	84.1	88.2	91.1
EPS - normalised (p)		8.7	9.5	0.7	7.8
EPS - normalised fully diluted (p)		8.5	9.0	0.7	7.7
EPS - (IFRS) (p)		7.1	7.5	0.0	6.1
Dividend per share (p)		2.1	0.8	0.0	1.8
Gross Margin (%)		48.5	47.3	48.9	47.7
EBITDA Margin (%)		7.1	7.1	2.1	6.7
Operating Margin (before GW and except.) (%)		6.2	6.3	1.1	6.0
<b>BALANCE SHEET</b>					
Fixed Assets		107,002	107,396	109,241	111,175
Intangible Assets		96,121	95,859	98,304	100,388
Tangible Assets		10,858	11,360	10,760	10,610
Investments/ other		23	177	177	177
Current Assets		46,476	47,117	34,772	41,567
Stocks		850	1,091	792	1,010
Debtors		39,727	40,998	32,290	38,026
Cash		5,899	5,028	1,690	2,531
Other		0	0	0	0
Current Liabilities		(40,986)	(40,181)	(34,108)	(39,564)
Creditors		(40,986)	(40,181)	(34,108)	(39,564)
Short term borrowings		0	0	0	0
Long Term Liabilities		(24,896)	(22,031)	(19,936)	(16,873)
Long term borrowings		(9,886)	(9,927)	(9,927)	(9,927)
Other long-term liabilities		(15,010)	(12,104)	(10,009)	(6,946)
Net Assets		87,596	92,301	89,969	96,305
<b>CASH FLOW</b>					
Operating Cash Flow		11,684	10,454	2,411	8,699
Net Interest		(826)	(626)	(922)	(599)
Tax		(1,906)	(1,805)	32	(1,994)
Capex		(1,361)	(2,169)	(900)	(1,350)
Acquisitions/disposals		(670)	(2,839)	(3,424)	(3,063)
Financing/other		(1,938)	(2,096)	(536)	(319)
Dividends		(1,695)	(1,831)	0	(532)
Net Cash Flow		3,288	(912)	(3,338)	841
Opening net debt/(cash)		7,348	3,987	4,899	8,237
HP finance leases initiated		0	0	0	0
Other		73	0	0	0
Closing net debt/(cash)		3,987	4,899	8,237	7,396

Source: Company accounts, Edison Investment Research

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