

The MISSION Group

FY21 mission update

Looking out to FY21

With an improving outlook for advertising spend, The MISSION should see a good bounce in revenues in FY21. Initiatives such as MISSION Made, launched in October, should help drive efficiency, with increasing use of shared central resources and a careful eye on costs also set to lead a rebound in margin. The financial outcome will partially be determined by revenue mix, with the group exposed to high-performing segments, such as tech and pharma, as well as areas with greater COVID-19 related issues, such as property and events. There are no changes to our forecasts at this stage. The group's valuation remains well below that of 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	7.2	3.4
12/19	81.0	10.2	9.0	0.8	6.8	1.3
12/20e	62.7	0.5	0.7	0.0	N/A	N/A
12/21e	76.1	9.0	7.7	1.8	7.9	3.0

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

Mix gives resilience

Group agencies have continued to win business and run notable campaigns through H220. Since September's interims, Story UK has worked on campaigns for NHS Scotland and NHS NorthEast, AprilSix has won new business from IQGeo to promote their geospatial data capabilities, and krow has run high-profile campaigns for UNISON and for DFS. Understandably, the events segment remains disrupted, although even here, Bray Leino Events has been working on the UK pavilion for Expo 2020 Dubai, which was pushed out to October 2021. We would expect there to have been some improvement in trading conditions in the mobility vertical, but for the property segment to have stayed subdued, given the limited stock availability.

Market outlook improving but timing uncertain

The consensus is for a good rebound in UK advertising spend in FY21, with the Advertising Association/WARC predicting a rise of 16.6%, assuming that the vaccine roll-out proceeds as planned and a degree of normality is established. This is post a 15.6% fall in spend in the current year, meaning that 2019 levels of spend would not be reached before 2022. However, there are large variations in these growth rates by sector, with out-of-home and cinema showing the strongest forecast rebound. Q121 year-on-year growth will be more difficult, given the stronger comparatives, with recovery much more marked in Q221. We would expect that there would be similar disparity in rates of growth between sector verticals, so the mix will be a crucial factor in MISSION's financial outcome.

Valuation: Discount to peers persists

As is the case for MISSION, forecasts for peers remain highly subjective to assumptions on the speed and scale of the recovery, so we have looked at an average over FY19, FY20e and FY21e. MISSION's shares trade at a discount to peers on EV/EBIT (8.1x2021) and P/E on this basis. Parity indicates a share price of 76.9p (from 78.25p in September, reflecting changes in share prices), 26% above the current level.

Media

10 December 2020

Price 61p
Market cap £56m

Net debt (£m) at 30 June 2020	0.9
Shares in issue	91.0m
Free float	52.7%
Code	TMG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	8	(4.7)	(12.2)
Rel (local)	1.8	(13.4)	(4.6)
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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Making the most of the expected recovery

With the interim results, management set out a number of objectives to help the group to optimise its longer-term positioning and financial returns. These are discussed below.

- Realise benefits of office portfolio review

Following acquisitions over the years, the group has had four agency offices within the M25. The pandemic has accelerated a review of this portfolio (some agencies had already co-located) and the number is being reduced to two. We would expect to hear an update on this at the January trading update. Management anticipates that this will release an annualised cost saving of around £0.7m. Our model already builds this into our FY21 forecasts. Other group office requirements have been revisited by management and no further moves are currently anticipated.

- Realise benefits of MISSION Made

This initiative was outlined at the interims and described in [this interview with CEO James Clifton](#). Briefly, it is a 24/7 centralised production, product and innovation studio to supply the group agencies with digital and motion graphics capability. By concentrating expertise and resource – and using group agencies in different time zones – MISSION should be able to supply and support its agencies through from pitch to delivery at lower cost and at higher speed, without the duplication inherent in a distributed group structure. By pooling in this way, it should reduce the need for freelancers across the group. It will also be more efficient to develop and resource new skillsets and capabilities to support clients. The initial phase began on 1 October with four agencies involved (krow, Chapter, Mongoose and Solaris).

- Continue to re-build revenue from loyal client base

MISSION has an enviable record of client longevity, with 50% of group revenue from clients of at least five years' standing and 20% of group revenue from those working with group agencies for more than 20 years. There is therefore a good level of trust and communication that we believe should see the group benefit as and when confidence increases.

- Leverage diverse and complete group skill set

There has already been good progress in building the levels of co-operation between group agencies, which should be accelerated by the MISSION Made initiative. Collaboration moved up a level with the win of My Online Therapy, quickly followed by an executed campaign by four group agencies: krow, Bray Leino, Speed and Story.

- Return to pre-pandemic profit levels

As shown in our financial summary below, we are expecting a good recovery in profitability in FY21, although our modelling suggests that FY19 levels will not be recouped until FY22e (as with the UK advertising spend market assumptions). However, this is all down to the mix and the picture will not clarify on that for some months.

- Look for growth through acquisition

The MISSION has been built through a combination of acquisition and start-ups, with acquisitions often referred in by existing group agency management teams that may have worked with them as third parties. Vendors tend to stay with their agencies, leveraging group resource and funds to grow, taking equity in part or in whole. This is obviously less easy at the current rating. The rationale for acquisition would generally be to add a capability (krow, the last substantial purchase, made in April 2018, bolstered the group's creative credentials), to add sector or geographic exposure.

Exhibit 1: Financial summary

	£'000s	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
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
BALANCE SHEET					
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
CASH FLOW					
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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