EDISON

QuickView

The Mission Marketing Group

Media

23 March 2017

Mission on track

The mission has again posted good growth in revenue and earnings, with both increasing by 8%, well ahead of FY16 ad spend at 4.4% (WARC). FY17 forecasts are unchanged. Start-ups and acquisitions are adding to the mission's reach and breadth, increasing opportunities for cross-selling to the loyal client base (20% of revenues are from 20-year+ relationships). Margins should improve as recent start-ups move into profit and investment in technology and software products translate into sales and profit. The shares trade on an overly large discount.

Invest and grow

Continuing to add disciplines and capabilities through start-ups, new product development and acquisitions increases opportunities to take a larger share of client spend, helped by the agencies working more closely together. A central team, Fuse, has been set up to promote the IP and technology products developed within group agencies to broader markets. Net bank debt at year end was £11.3m (FY15: £10.9m), despite deferred consideration payments of £3.2m and capex of £1.7m (including £0.8m on software). With lower acquisition obligations for FY17e at £1.6m and strong underlying cash conversion, there is plenty of fire power to keep investment levels up. The priorities are to back growth in existing agencies and increase exposure to faster growing areas such as data and healthcare.

New KPIs and option targets indicate ambition

The group's newly published KPIs are for revenue growth of at least 5% and an improvement in operating margins from the current 11.5% to 14% within three years. This would support the PBT CAGR target of 10%, as built into new FY18 forecasts. Over the last five years, revenues have grown at a 12% CAGR, with a faster rise at the pre-tax level as the debt has fallen. The debt KPI is for net bank debt/EBITDA to remain under 2.0x (FY16:1.3x) and total debt to EBITDA below 2.5x (FY16: 1.7x). A new management retention and incentive scheme will only trigger when the share price exceeds 75p/share over 15 consecutive dealing days.

Valuation: Overstated discount

The mission continues to trade in a range of 38-47p, representing a substantial discount to other quoted marketing/comms businesses. The current price puts it on an FY17e EV/EBITDA of 4.4x, compared to the sector at 7.8x, a 44% discount. The size of this discount is difficult to justify given the earnings and dividend growth and the substantial improvement in the state of the balance sheet.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/15	61.0	6.5	5.9	1.2	7.1	2.9
12/16	65.9	7.0	6.4	1.5	6.6	3.6
12/17e	69.2	7.7	7.1	1.7	5.9	4.0
12/18e	72.7	8.5	8.0	1.8	5.3	4.3

Source: Company accounts, Bloomberg

Price	42p
Market cap	£35m

Share price graph

Share details

Code	TMMG
Listing	AIM
Shares in issue	84.12m

Business description

The mission is a network of entrepreneurial marketing communications agencies predominantly in the UK, and also Asia and San Francisco. The group provides general, sector vertical, functional and geographic specialisms to national and international clients.

Bull

- Organic growth well ahead of market.
- Strengthening balance sheet.
- Progressive dividend.

Bear

- Geopolitical uncertainty.
- Client pressure on pricing/procurement.
- Bias to H2 limits visibility.

Analysts

Fiona Orford-Williams +44 (0)20 3077 5739

Bridie Barrett +44 (0)20 3077 5757

media@edisongroup.com

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

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
245 Park Avenue, 39th Floor
10167, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia