

# Mirriad Advertising

**Media**
**13 May 2021**

## Gaining strong momentum

Mirriad Advertising's FY20 revenues grew strongly by 91%, in line with forecasts. The EBITDA loss of £8.6m, a 25% reduction, was notably better than consensus forecast loss of £10.2m. This reflects careful husbandry of resource during the pandemic, after restructuring in FY19. FY20 has been well used in building recognition for Mirriad's technology among platforms, brands and agencies, culminating in the framework agreement signed with a tier 1 entertainment group in Q420. In Q221, the group added a major global food and beverage brand and is working with all the major agency groups. December's placing, raising £24.8m net, puts Mirriad in a strong position to continue to develop its technology and position its in-content advertising inventory centrally within the ecosystem.

## Market disruption increases opportunity

With Apple and Google's changes on privacy and targeting and the surge of ad-free and ad-light streaming, the advertising market is in upheaval, while the content industry needs monetisation solutions acceptable to audiences. Mirriad's in-content proposition opens a new potential revenue stream for content owners, with the added attraction of being able to target audiences by context. The group now has 20 broadcast and digital distribution partners under contract. While the retained element of the Tencent agreement expired in March, campaign delays have meant some revenues deferred into FY21, and a new contract is being negotiated. The US, the largest global advertising market, remains the key growth focus. The music industry also looks to be very promising for FY21, with artists looking to recoup lost income from their inability to tour. The Mirriad Music Alliance has been set up to develop this opportunity with major labels and with brands secured and looking for new channels to reach their audiences.

## Operating loss reduced by 25%

Employee costs were the largest line item at 67% of total operating costs in FY20, with FY19's restructuring contributing to a 7% year-on-year reduction. £2.43m of R&D was expensed, as previously, up 5% on prior year. The focus for spend now is on scalability and integration into the agency tech stacks, which eases a resistance point to wider adoption. The cash burn is currently around £0.7m a month, with net cash of £35.4m (£34.8m if lease liabilities are included) providing a good runway.

## Valuation: Consensus shows FY21 acceleration

The FY21 revenue consensus estimate of £6.0m represents further acceleration as adoption broadens and more campaigns are run. The operating loss should narrow, but break-even is likely to be some way off. The recent upgrade of the US listing to OTC QX could generate much more interest in the equity story, as would further announcements of brand and platform partnerships, such as that with PepsiCo.

### Consensus estimates

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)
12/19	1.1	(11.5)	(12.2)	(8.1)	0.0	N/A
12/20	2.2	(8.6)	(9.1)	(4.2)	0.0	N/A
12/21e	6.0	(7.5)	(8.0)	(3.7)	0.0	N/A
12/22e	11.0	(4.3)	(4.8)	(2.2)	0.0	N/A

Source: Mirriad Advertising accounts, Refinitiv. Note: \*Normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

**Price** **50p**  
**Market cap** **£139m**

### Share price graph



### Share details

Code	MIRI
Listing	AIM, OTCQX
Shares in issue	278.6m
Net cash (£m) at end December 2020 (excluding leases)	35.4

### Business description

Mirriad Advertising generates new revenue for content producers and distributors by creating new advertising inventory in content. Its patented, AI and computer vision technology dynamically inserts products and innovative signage formats after content is produced. Its market-first solution seamlessly integrates with existing subscription and advertising models, and dramatically improves the viewer experience by limiting commercial interruptions.

### Bull

- Tier 1 platform agreements coming into place.
- Growing relationships with brands, agencies.
- Patent protection.

### Bear

- Sales cycles currently long.
- Fully functioning platform integration not yet in place.
- Profitability not yet on forecast horizon.

### Analyst

Fiona Orford-Williams +44 (0)20 3077 5739  
[media@edisongroup.com](mailto:media@edisongroup.com)  
[Edison profile page](#)

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## Focus on the US

The revenues from China and Singapore currently dominate the group, as shown below, accounting for 81% of total group revenue in the year. A new deal is being negotiated with Tencent that would remove the fixed cap of £2m in the earlier agreement. After two successful years providing proof of concept, the new arrangement (subject to contract confirmation) should allow Mirriad to scale more widely across Tencent's video assets.

The US revenue base is building, growing from 7% of group in H120 to 20% in H220.

The geographic revenue split shown below is by origin, with the UK figure also including sales to customers in other territories, such as France and Turkey, where the number of campaigns is also stepping up.

<b>Exhibit 1: Summary results by half year</b>						
<b>£'000s</b>	<b>H120</b>	<b>% change</b>	<b>H220</b>	<b>% change</b>	<b>FY20</b>	<b>% change</b>
UK	71	2%	29	-58%	101	-28%
US	62	125%	252	90%	314	96%
China and Singapore	764	185%	1,002	97%	1,766	127%
Total revenue	897	109%	1,283	81%	2,180	109%
EBITDA	(4,658)		(3,968)		(8,626)	
Operating Loss	(4,891)		(4,201)		(9,092)	

Source: Mirriad accounts

Staff costs were down 7% year-on-year, with other general and administrative costs down by 22%, contributing to the reduction in the operating loss from £12.2m for FY19 to £9.1m for FY20.

Cash consumption for the year was £8.1m, with December's oversubscribed placing raising £26.2m gross (£24.8m net) and transforming the balance sheet. Net cash at the year end was £35.4m (£34.8m when leases are taken into consideration).

The H121 appointments of a new chief technology officer and the creation of a new role of chief revenue officer would indicate that overheads will be higher in FY21, but this is necessary as the group grows and needs to deliver an efficient and professional service to high-profile and influential clients. We would expect the spend on technology and R&D to step up a degree as the group focuses on integration with existing industry practices. The range of possible financial outcomes for the year remains wide.

## Driving the US opportunity

The significant effort being put into growing in the US market is starting to be reflected in revenues, and the major framework agreements already announced are yet to kick in to any meaningful extent. The timing of revenues will be difficult to predict, but we would expect that the number of campaigns run will increase notably as the year progresses. For the advertising industry as well as a whole, Q221 is expected to be particularly strong due to the weak comparatives over the early months of the pandemic when ad spend was most curtailed. Q321 should also be a positive backdrop, with like-for-likes starting to get more onerous in the final weeks of the year. Mirriad's growth dynamics, though, are far more related to its own efforts than market improvement. What is clear, though, is that the amount of available inventory for those ad dollars to buy is increasingly constrained as film and TV consumption continues to migrate away from ad-funded platforms.

**Exhibit 2: Financial summary**

Year end 31 December, IFRS	£m	2017	2018	2019	2020
<b>INCOME STATEMENT</b>					
Revenue		0.874	0.416	1.140	2.180
Cost of Sales		(0.181)	(0.144)	(0.178)	(0.244)
Gross Profit		0.694	0.272	0.961	1.936
EBITDA		(10.359)	(11.931)	(11.505)	(8.626)
Normalised operating profit		(11.272)	(14.429)	(12.174)	(9.092)
Amortisation of acquired intangibles		0.000	0.000	0.000	0.000
Exceptionals		0.000	0.000	0.000	0.000
Share-based payments		(1.675)	(0.176)	(0.360)	(0.360)
Reported operating profit		(12.947)	(14.605)	(12.534)	(9.452)
Net Interest		0.001	0.058	0.023	0.004
Joint ventures & associates (post tax)		0.000	0.000	0.000	0.000
Exceptionals		0.000	0.000	0.000	0.000
Profit Before Tax (norm)		(11.271)	(14.371)	(12.151)	(9.089)
Reported tax		0.209	0.042	0.056	0.032
Profit After Tax (norm)		(11.089)	(14.329)	(12.095)	(9.056)
Minority interests		0.000	0.000	0.000	0.000
Discontinued operations		0.000	0.000	0.000	0.000
Net income (normalised)		(11.089)	(14.329)	(12.095)	(9.056)
Basic average number of shares outstanding (m)		58.0	104.1	150.2	215.7
EPS - basic normalised (p)		(19.1)	(13.8)	(8.1)	(4.2)
EPS - diluted normalised (p)		(19.1)	(13.8)	(8.1)	(4.2)
EPS - basic reported (p)		(22.0)	(13.9)	(8.3)	(4.4)
Dividend (p)		0.0	0.0	0.0	0.0
Revenue growth (%)		-	(52.4)	174.0	91.3
Gross Margin (%)		79.3	65.5	84.4	88.8
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Normalised Operating Margin		N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>					
Fixed Assets		2.280	0.770	1.125	0.823
Intangible Assets		1.641	0.170	0.000	0.000
Tangible Assets		0.426	0.414	0.913	0.637
Trade & other receivables		0.213	0.186	0.212	0.186
Current Assets		27.667	16.466	20.193	36.970
Stocks		0.000	0.000	0.000	0.000
Debtors		1.074	0.974	1.025	1.476
Cash & cash equivalents		26.384	15.204	19.092	35.421
Other		0.209	0.288	0.077	0.073
Current Liabilities		(2.055)	(1.659)	(1.696)	(2.317)
Creditors		(2.055)	(1.622)	(1.298)	(1.914)
Tax and social security		0.000	(0.037)	(0.025)	(0.013)
Short term borrowings		0.000	0.000	0.000	0.000
Lease liabilities		0.000	0.000	(0.373)	(0.390)
Long Term Liabilities		0.000	0.000	(0.423)	(0.204)
Long term borrowings		0.000	0.000	0.000	0.000
Long term lease liabilities		0.000	0.000	(0.423)	(0.204)
Net Assets		27.892	15.577	19.200	35.271
Minority interests		0.000	0.000	0.000	0.000
Shareholders' equity		27.892	15.577	19.200	35.271
<b>CASH FLOW</b>					
Op Cash Flow before WC and tax		(10.359)	(11.931)	(11.505)	(8.626)
Working capital		0.980	(0.332)	(0.237)	0.165
Exceptional & other		0.000	0.000	0.000	0.000
Tax		0.184	(0.007)	0.248	0.082
Net operating cash flow		(9.195)	(12.269)	(11.494)	(8.379)
Capex		(1.309)	(1.016)	(0.062)	(0.025)
Acquisitions/disposals		0.003	0.000	0.000	0.000
Net interest		0.001	0.058	0.023	0.004
Equity financing		25.069	1.926	15.290	24.779
Dividends		0.000	0.000	0.000	0.000
Other		(0.202)	(0.169)	(0.389)	(0.333)
Net Cash Flow		14.367	(11.470)	3.367	16.046
Opening net debt/(cash)		(12.017)	(26.384)	(15.204)	(19.092)
FX		0.000	0.000	0.000	0.000
Other non-cash movements		0.000	0.290	0.520	0.315
Closing net debt/(cash)		(26.384)	(15.204)	(19.092)	(35.421)

Source: Company data

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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  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia