

The Marketing Group

Focused on delivery

Q1 update

The Marketing Group's (TMG) Q118 update shows the group delivering sales broadly in line and EBITDA a little ahead of expectations through good cost control. This discipline should stand TMG in good stead as it builds its business both within the existing agencies and in potential further acquisitions. Our forecasts are unchanged on this update. With the TRUTH blockchain-enabled media agency continuing to garner high levels of industry interest, the scale of the discount of the rating to the peer group is looking increasingly anomalous.

Year end	Turnover (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	EV/EBITDA (x)
12/16**	8.6	1.5	7.8	0.0	2.8	4.0
12/17	22.9	1.2	3.4	0.0	6.4	4.3
12/18e	24.8	1.3	2.7	0.0	8.0	4.3
12/19e	26.6	1.9	4.4	0.0	5.0	3.0

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **FY16 restated.

Making fit for purpose

Q118 net revenue of €3.7m was 10% below the restated Q117 figure, but operating EBITDA (after central costs) was ahead by 35% at €0.4m. This gives a margin of 10.9% on net revenue, against 7.3% in the prior year. There is a clear focus on making sure that the overheads are sensibly aligned with business levels but also that they allow for the investment needed to build out TRUTH (both the platform and in winning commercial client business) and in laying the groundwork for scaling the business. This is most likely to be through further acquisitions, with North America and Europe being the priority areas. Management is also working on cementing collaboration through unified branding and building the recurring and repeatable revenue base, as well as looking into an AIM listing.

Shifting sectoral sands

The current disorder and limited organic growth in the large holding companies is highlighting how the power balance is shifting between brand owners and marcomms suppliers. Smaller agencies that can focus on finding practical and creative solutions to the issues that the client wants to address, rather than present their agencies' capabilities, are increasingly in a position to make the roster and work in a more integrated manner.

Valuation: Persistent discount

The share price has continued to drift over the last six months; we believe it reflects the group's rather turbulent history (and low liquidity) rather than its prospects. TRUTH's potential value alone might be equivalent to the group's current market capitalisation. Small/mid-cap marketing stocks are once again trading at discount to the holding companies (10% on FY18e EV/EBITDA) and are valued at 7.3x EV/EBITDA for FY19e. This would back out to a share price for TMG of €0.49, more than double the current level.

Media

3 May 2018

Price €0.22

Market cap €8m

Net cash (€m) at end December 2017 1.8

Shares in issue 35.1m

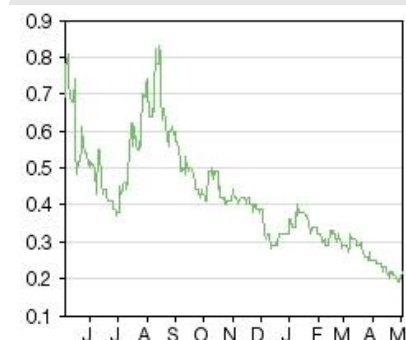
Free float 57.2%

Code TMG

Primary exchange Nasdaq First North

Secondary exchange Frankfurt

Share price performance



% 1m 3m 12m

Abs (13.2) (32.2) (71.5)

Rel (local) (16.7) (33.2) (71.2)

52-week high/low €0.8 €0.2

Business description

The Marketing Group is building a global full-service marketing network. Each company within the group provides specialist marketing services brought together, in complementary communities of practice, to form an international network that can address a global market.

Next events

Half-year results 15 August 2018

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research client of Edison
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Exhibit 1: Financial summary

	€000s	2016	2017	2018e	2019e
31-December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		8,592	22,860	24,825	26,581
Cost of Sales		(2,854)	(8,074)	(8,937)	(9,436)
Net Revenue		5,738	14,786	15,888	17,145
EBITDA		1,566	1,471	1,455	2,138
Operating profit (before amort. and except).		1,509	1,328	1,305	1,938
Amortisation of acquired intangibles		0	0	0	0
Exceptionals		(3,800)	(11,920)	0	0
Share-based payments		0	0	0	0
Reported operating profit		(2,291)	(10,592)	1,305	1,938
Net Interest		(41)	(101)	(30)	(21)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		1,468	1,227	1,275	1,916
Profit Before Tax (reported)		(2,332)	(10,693)	1,275	1,916
Reported tax		(88)	(142)	(319)	(381)
Profit After Tax (norm)		1,380	1,085	956	1,535
Profit After Tax (reported)		(2,420)	(10,835)	956	1,535
Minority interests		0	0	0	0
Discontinued operations		610	(34,657)	0	0
Net income (normalised)		1,380	1,085	956	1,535
Net income (reported)		(1,810)	(45,492)	956	1,535
Average Number of Shares Outstanding (m)		18	32	35	35
EPS - normalised (c)		7.81	3.43	2.74	4.39
EPS - basic reported (€)		(13.71)	(143.65)	2.74	4.39
Dividend per share (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	166.1	8.6	7.1
Gross Margin (%)		66.8	64.7	64.0	64.5
EBITDA/Gross Profit Margin (%)		27.3	9.9	9.2	12.5
Normalised Operating/Gross Profit Margin		26.3	9.0	8.2	11.3
BALANCE SHEET					
Fixed Assets		74,184	33,766	32,816	32,716
Intangible Assets		73,598	32,927	32,027	32,027
Tangible Assets		540	363	313	213
Investments & other		46	476	476	476
Current Assets		9,031	7,321	7,331	9,106
Stocks		379	0	0	0
Debtors		6,234	5,176	5,508	5,718
Cash & cash equivalents		2,418	2,145	1,822	3,389
Other		0	0	0	0
Current Liabilities		(11,447)	(6,421)	(6,324)	(6,565)
Creditors		(5,749)	(5,491)	(5,394)	(5,635)
Tax and social security		(773)	(253)	(253)	(253)
Short term borrowings		(843)	(277)	(277)	(277)
Other		(4,082)	(400)	(400)	(400)
Long Term Liabilities		(557)	(2,097)	(397)	(397)
Long term borrowings		(163)	(117)	(117)	(117)
Other long term liabilities		(394)	(1,980)	(280)	(280)
Net Assets		71,211	32,569	33,425	34,860
Minority interests		0	0	0	0
Shareholders' equity		71,211	32,569	33,425	34,860
CASH FLOW					
*Operating Cash Flow		1,566	1,471	1,455	2,138
Working capital		(864)	72	(429)	32
Exceptional & other		(540)	0	0	0
Tax		162	(687)	(319)	(381)
Operating Cash Flow		324	856	707	1,788
Capex		(136)	(445)	(1,000)	(200)
Acquisitions/disposals		2,410	(372)	0	0
Net interest		(56)	(101)	(30)	(21)
Equity financing		0	0	0	0
Dividends		0	0	0	0
Other		(410)	(112)	0	0
Net Cash Flow		2,132	(174)	(323)	1,567
Opening net debt/(cash)		434	(1,412)	(1,751)	(1,428)
FX		(306)	0	0	0
Other non-cash movements		20	513	0	0
Closing net debt/(cash)		(1,412)	(1,751)	(1,428)	(2,995)

Source: Company accounts, Edison Investment Research

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