

# The Mission Marketing Group plc TMMG

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by	andreas947		
		2018	2019
Price:	0.51	EPS	0 0
Shares Out. (in M):	85	P/E	0 0
Market Cap (in \$M):	42	P/FCF	10 9
Net Debt (in \$M):	14	EBIT	0 0
TEV (\$):	56	TEV/EBIT	0 0

## Description

### The Mission Marketing Group plc (TMMG)

#### Summary

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We focus on smaller companies with Ft. Knox balance sheets and large & sustainable free cash flow yields and we are typically seeking a double-digit FCF yield or higher on an unleveraged basis. The objective is for the sustainable FCF to eventually drive up the share price to a more reasonable valuation, through share buybacks, debt reductions, dividends, or accretive acquisitions. Obviously, it is important we have a management team that cares about shareholder value. We focus on small-cap stocks because there is a much better chance to find an attractive investment opportunity which is under-followed or undiscovered.

The Mission Marketing Group plc (TMMG) provides marketing and advertising related services in the United Kingdom, Asia, and the United States. The U.K. represented over 90% of total revenues in 2017 so the Company is primarily specialized in the U.K market. The Company operates through several segments, including Branding; Advertising & Digital; Media; Events and Learning; Public Relations; and Central. It offers marketing communications services for the technology and medical sector; advertising, media buying, digital marketing, events, and training services; and public relations services in the areas of science, engineering, and technology. The Company also provides brand development and creative direct communications services; and operates as a property marketing agency providing advertising, media, brochures, signage exhibitions, CGI, animation, intranet, and photography services. The Company has 15 Agencies in 24 offices in the U.K., Asia, and the U.S with about 1,000 employees. The modern marketing world is complex and changing and the Company's mission is to grow itself into the U.K.'s leading and most respected agency group – with a wealth of specialties and talents – to help clients grow and succeed

TMMG was built up starting in 2006 through the acquisition of several different Agency brands and became over-leveraged and struggled with debt service in the Great Recession of 2008-9. In April 2010, to reduce leverage, the Company completed a series of restructuring transactions. The Company raised equity and converted seller obligations into equity shares and David Morgan, who had sold his Agency business to TMMG, became the largest shareholder in the Company with about 6.1m shares or about 7% of fully diluted shares outstanding. Morgan became CEO as part of the restructuring. He implemented a more focused operational strategy and posted several operating executives in senior management and Board positions to move the business closer to its customers. The strategic initiatives under Morgan were: (1) keep the focus on the core business but look for new talent and strategic fill-ins; (2) increase profit by revenue growth and cost reduction; and (3) pay down debt by strong cash management and preserving cash. These simple initiatives have been successful so far as net debt including seller obligations was close to 20m GBP at year end 2010 and has been reduced to about 13m GBP at year end 2017, while adjusted EBITDA was about 6m GBP in 2010 and about 10m GBP in 2017. Net debt including acquisition obligations to adjusted EBITDA improved from about 3.5x at year-end 2010 to under 1.5x at year-end 2017. The Company has also significantly diversified its sales, profit and customer base, both through organic growth investments and targeted acquisitions with strong payback characteristics. Acquisitions have typically included modest cash payments upfront with significant back end profit payments based on performance. Since the restructure in April 2010, the Company has almost doubled revenues and profits, reduced bank debt by nearly two thirds, introduced an increasing dividend policy, increased global footprint, embraced technology, and introduced a host of innovative services. Headline EPS from continuing operations has increased from 3.00 pence in 2010 to 7.34 pence in 2017.

LTM adjusted EBITDA is about 10m GBP. Revenues have increased from 36m GBP in 2010 to 70m GBP in 2017. Adjusted EBITDA has increased from 6m GBP in 2010 to 10m GBP in 2017. TMMG has about 85m shares outstanding trading at about 0.53 GBP per share for a market cap of about 42m GBP. TMMG has net debt of about 13m GBP including acquisition obligations for an enterprise value (EV) of about 55m GBP. We believe TMMG can generate adjusted EBITDA of 10m-12m GBP in 2018 and 2019, so TMMG is trading at about 5x our adjusted EBITDA estimates. We believe a substantial portion of adjusted EBITDA can convert into free cash flow given limited capital expenditure and working capital needs. We believe TMMG could generate 5m-6m GBP of FCF per year in 2018 and 2019 for about a 10% FCF yield unleveraged.

We believe as TMMG grows its existing advertising Agency brands organically and adds accretive Agency acquisitions with new geographies, services, and customers, the Company can increase adjusted EBITDA to 13m-15m GBP by 2020. Assuming TMMG achieves adjusted EBITDA of 13m GBP by 2020 and trades for 8x adjusted EBITDA with a net debt position including acquisition obligations of about 10m GBP by year-end 2020. This would result in a market cap of about 94m GBP or, based on 85m diluted shares outstanding, a share price of about 1.10 GBP per share or 100% more than 0.53 GBP per share today.

#### Strategic Initiatives

The strategic objectives were set in April 2010, when David Morgan assumed his current role as CEO, and after the refinancing of the Company. The refinancing in April 2010 was to reduce the Company's net debt position and improve its liquidity. Roughly 9.8m new shares were placed at 13 pence per share to settle certain vendor loan notes. Vendor loan notes outstanding of approximately 2.7m GBP were settled by issuing 20.7m new shares at an issue price of 13 pence per share. Also, certain deferred consideration due in 2010 was settled by issue of 2.4m new

shares at 10 pence per share. The result of these transactions was to basically eliminate outstanding cash acquisition obligations and strengthen TMMG's capital structure. David Morgan's share ownership increased to make him the largest shareholder of TMMG.

The strategic initiatives under Morgan were: (1) keep the focus on the core business but look for new talent and strategic fill-ins; (2) increase profit by revenue growth and cost reduction; and (3) pay down debt by strong cash management and preserving cash. These initiatives have been successful since April 2010, as the Company has strengthened the core business with a broader, more diverse product line and customer base, has grown revenues and profits significantly, and improved its balance sheet strength, as net debt including acquisition obligations to adjusted EBITDA has declined from about 3.5x in 2010 to less than 1.5x in 2017.

We have enjoyed reading David Morgan's shareholder letters over the past several years. He strikes us as conservative and we love conservative management teams! His penchant for using obscure words has at least expanded our limited vocabulary. Here is a paragraph from his 2012 shareholder letter:

"2012 was a tough old year but we did what we said we would do. So I guess we did well and it's fair to say we are seeing some positive signs. Green shoots maybe, but who knows what this mad economic world has in store for us? That is why we will continue to build cautiously and maintain a reduced risk position. We remain acquisitive but in a measured manner, call us quakebuttocks if you will, but our focus will remain on debt management, expertise enhancement, and concinnity."

(You gotta like a guy who can use "quakebuttocks" and "concinnity" in the same paragraph. Ok, maybe he is no Elon Musk, but neither are we....)

The Agencies under the Company's umbrella work independently but TMMG has focused on cross selling between Agencies and shared back office resources to improve financial results. In 2017, the Company had 957 clients across its entire operations. The Company believes it has high visibility of future revenue due to well-established client relationships. 56% of client revenue is from clients that have been with the Company for 5 years or more. 35% of revenue is from clients that have been with the Company for 10 years or more. 18% of revenues is from clients that have been with the Company 20 years or longer. No client is more than 10% of total revenues.

The Company's long-term targets for KPI's are:

- Revenue growth of 5% per year or greater;
- Headline operating profit (EBIT) margins of 14% by 2020 (versus about 12% for 2017);
- Headline profit before tax growth of at least 10% per year; and
- Net bank debt to adjusted EBITDA of 2.0x or less and total debt to adjusted EBITDA of 2.5x or less.

## **Background**

The Company's agencies include the following:

- Aprilsix – a technology marketing Agency delivering strategic marketing services for some of the world's most respected technology brands from offices in the U.K., the U.S., and Asia;
- Aprilsixproof – a technology and science PR agency which delivers influencer strategies for major clients at leading edge of innovation;
- Bigdog – a multi-award-winning creative Agency producing media-neutral ideas that you can't ignore;
- Bray Leino – a pioneer of integrated brand building this top-20 Agency works with clients through every channel across the business spectrum;
- Chapter – delivering the award-winning high standards and expertise of a large creative Agency with the cost base and agility of a small one;
- Ethology – a forward thinking user experience consultancy, growing customer engagement and conversion through a deep understanding of audience and brand interaction;
- Mongoose – an integrated marketing Agency specializing in sports and fitness communications, utilizing the power of commercial partnerships and promotional techniques to create actionable insight and changes in behavior;
- RJW & Partners – an industry-leading provider of pricing and market access advice to pharmaceutical and medical device companies, operating from a European base, working across all major global markets, and many emerging markets;
- RLA – an Agency with unrivaled expertise in international channel marketing programs in the automotive and retail and allied sectors;
- Robson Brown – regarded as one of the North of England's major advertising brands with proven skills in integrated communications;
- Solaris Health – a specialist medical communications agency that thrives in the areas of unmet need or when innovative targeted technologies can make an impact;
- Speed – an ambitious, creative and commercially minded PR Agency specializing in driving businesses and brands forward, with expertise covering consumer, business and corporate

and food and hospitality;

- Splash – headquartered in Singapore with offices in Shanghai, Hong Kong, Malaysia, and Vietnam, a full service digital Agency helping multi-national brands build websites and market their product across all digital channels;
- Krow Communications – an award-winning creative Agency;
- Story – based in Edinburgh, Story is an award-winning integrated Agency working with leading consumer brands and services

The Company works with many well-known brands, helping them access the U.K. marketplace. These have recently included Barclays, Bellway, M&S Bank, Cirque Du Soleil, Fiat, Aviva, Halfords, SkyBet, Diageo, FreeDerm, GSK, Velux, BP, and Symantec. New brands recently added have included Lenovo, EFF, TNT, Mars, and The Royal Mint.

A very large portion of the Company's cost structure are staff costs, which totaled about 44m GBP in 2016 and 47m GBP in 2017.

#### Seasonality

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The Company's seasonality is shown in the chart below, which shows semi-annual revenues, operating income, and adjusted EBITDA and indicates that H2 is generally the strongest half for TMMG.

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#### Strong Cash Generative Business Model and Attractive FCF yield

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TMMG has a cash-generative business model which requires modest capex and working capital investments. The Company typically converts a fairly large percentage of adjusted EBITDA into FCF. Cumulative cash from operations since 2010 is about 37m GBP or about 65% of the current enterprise value (EV). We believe TMMG can generate 5m-6m GBP of FCF per year in 2018 and 2019. Based on a current EV of about 55m GBP, this would imply TMMG is trading at close to a 10% unleveraged FCF yield. We believe this is an attractive valuation for a cash-generative advertising and marketing company focused primarily on the United Kingdom which has a strong market position and well-entrenched business relationships with a diversified group of impressive customers.

#### Strong Track Record Since 2010 Executing the Strategic Plan Under CEO David Morgan

David Morgan took over as CEO in April 2010 as part of the debt restructuring plan. Morgan elevated several key Agency operating executives to directorship positions and leadership roles in the Company to improve operations and profitability and get closer to clients as the Company moved from an acquisition-focused strategy to an operationally-focused strategy. The strategic plan under Morgan was to: (1) keep the focus on the core business but look for new talent and strategic fill-ins; (2) increase profit by revenue growth and cost reduction; and (3) pay down debt by strong cash management and preserving cash.

The strategic plan has worked well as revenues have grown from 36m GBP in 2010 to 70m GBP in 2017 (about 10% per annum) and adjusted EBITDA has grown from 6m GBP in 2010 to 10m GBP in 2017 (about 7% per annum). Additionally, net debt including acquisition obligations has been reduced from 19m GBP in 2010 to 13m GBP in 2017 and net debt to adjusted EBITDA has been reduced from 3.5x to 1.3x over the same period. The Company has become bigger and stronger and more profitable and less leveraged than in 2010 with the business model and revenue generation more diversified across more brands and customers than in prior years.

We believe continued focus on an operator-led approach and the strategic plan will enable the Company to continue to grow revenues, adjusted EBITDA, and net income over the next few years. We believe TMMG can grow adjusted EBITDA to 13m GBP or more by 2020, with continued strong cash generation enabling organic growth and accretive acquisitions.

#### Improved H1 2018 Results Indicate Strategic Plan Continues to Work

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On July 23, 2018, the Company issued a trading update for six months ended 6/30/18. It noted the Company had an excellent start to the year. It noted good levels of organic growth, new business wins, and progress with its shared services project. It noted that the Company again expected to report strong double-digit growth in headline profit before tax for the first half of 2018 and a continued increase in profit margins. Recent acquisition Krow Communications has settled in well and is generating referral opportunities for other agencies. It also noted that its balance sheet remained strong and that after making acquisition payments of 4.5m GBP in total for six months ended June 2018, net bank debt was 8.4m GBP and the Company's net bank debt to adjusted EBITDA ratio was below 1.0x at June 30, 2018. The update noted that, as usual, the results for full year 2018 would have a significant bias towards the second half of the year.

#### Revenue Visibility

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The Company believes it has a strong degree of revenue visibility based on its long-term relationships with clients that lead to recurring and repeat business. It estimates that over 80% of revenues recur year over year. 56% of client revenue is from clients that have been with the Company for five years or more, 35% is from clients that have been with the Company 10 years or more, and 18% from clients that have been with the Company 20 years or more. We believe there is important shareholder value in these long-term relationships the Company has with its clients. Obviously, in a repeat of the Great Recession of 2008-9, we would expect the Company's revenues to decline, notwithstanding these relationships, but would eventually expect a rebound due to the long-term relationships.

#### **Potential for Accretive Agency Acquisitions**

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We believe the strategic plan for the Company started in April 2010 is working and creating shareholder value. In deploying capital, the Company seeks to support existing managements with demonstrated ability to grow their businesses and achieve consistently high margins. The Company targets high growth market sectors along with service or technology opportunities which meet strict return on investment criteria. We believe the Agency acquisitions since the strategic plan have generally been successful and helped create shareholder value. We are focused, like the Company, on acquisitions which earn attractive cash-on-cash returns and which have rapid payback periods. We are focused on acquisitions which enable the Company to grow adjusted EBITDA and cash from operations and free cash flow over time. Since 2010, the Company has been able to grow revenues, adjusted EBITDA, and cash from operations while reducing its net debt position. For us, this indicates the Company is building shareholder value. We believe the Company can grow shareholder value through accretive Agency acquisitions as long as it continues to adhere to this disciplined and focused approach.

#### **Risk of Misallocation of Capital into Poor Acquisitions**

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There is clearly a risk of misallocation of capital into poor acquisitions with TMMG. The Company is consistently making small acquisitions of other Agencies to add revenues, profits, customers, and new services or technologies or geographies. It is important that these acquisitions "pay out" or pay back attractive cash-on-cash returns on these total investments. It is also important that existing Agencies under the TMMG umbrella show consolidated organic growth. Otherwise, in our view, the Agency acquisitions become maintenance capital expenditures and the business does not really generate any true free cash flow. We will be looking for the Company to grow revenues and adjusted EBITDA and free cash flow while improving its balance sheet, and not increasing leverage. So far, it appears the acquisitions made under David Morgan's leadership have met these standards but we will be watching closely on recent and new acquisitions that these stringent criteria are met. The Company needs to earn attractive returns on its investments in Agency acquisition – these need to drive growth in adjusted EBITDA and cash from operations – we invested in and wrote up on VIC another U.K. based advertising and marketing business, Creston plc, and this was an issue with them.

#### **Diversified Base of Impressive Customers**

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The Company has no customers that are more than 10% of total revenues. Customers are diversified across many industries. Close to 60% of revenues are from customers who have been with the Company for five years or more and nearly 20% of revenue is from clients who have been with the Company 20 years or more. Consequently, TMMG has a recurring base of business based on these longer-term relationships. The Company works with many well-known brands, helping them access the U.K. marketplace. These have recently included Barclays, Bellway, M&S Bank, Cirque Du Soleil, Fiat, Aviva, Halfords, SkyBet, Diageo, FreeDerm, GSK, Velux, BP, and Symantec. New brands recently added have included Lenovo, EFF, TNT, Mars, and The Royal Mint.

#### **Motivated Shareholder Base Driven to Create Shareholder Value**

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The Company's shares are significantly owned by several key operating executives at the Agencies or marketing firms owned by TMMG. Several of these executives own significant amounts of stock in the Company from when the contingent obligations were converted into equity as part of the restructuring transactions. Several of these executives joined the Board of TMMG. The CEO is the largest shareholder and was the founder of the Company's largest operating unit. Since the restructuring in April 2010 when the new management team took over, the Company has been more focused on operations and execution than acquisitions, and revenues and adjusted EBITDA have grown significantly as a result. We believe these owner-operators are highly motivated to drive shareholder value through organic investments, strong cost controls, and conservatively structured and accretive acquisitions. We also believe they are focused on maintaining a strong balance sheet to provide maximum flexibility in various operating environments for the Company.

#### **Attractive Upside Potential**

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We believe TMMG could achieve adjusted EBITDA of 13m GBP by 2020 with net debt of about 10m GBP by year-end 2020. As its cash-generative advertising agency business model becomes clearer to investors and organic sales growth continues, we believe TMMG could trade for 8x adjusted EBITDA and have a market value of about 94m GBP. Based on 85m fully diluted common shares outstanding, the Company would have a share price of about 1.10 GBP per share (or almost 100% higher than current prices).

**"Ft. Knox" Balance Sheet Provides Downside Protection**

TMMG has a strong balance sheet, after deleveraging the business over the past five years, with a reasonable net debt position, including acquisition obligations, of about 13m GBP or less than 1.5x adjusted EBITDA. Net bank debt is even lower at about 8.5m GBP at mid-year 2018. TMMG has contingent debt obligations which are tied to future performance, and we evaluate these obligations based on current levels of profitability. We believe given the capital-light business model, that TMMG could generate 5m-6m GBP of FCF per year in 2018 and 2019. We believe TMMG could end 2020 with net debt of about 10m GBP, excluding organic capital investments and dividends or share repurchases. We believe this balance sheet position will enable management to make carefully selected strategic investments to improve organic growth and acquire new services, customers, and geographies for the Company.

**Conclusion and Target Price**

Based on 8x our estimate of adjusted EBITDA of 13m GBP for 2020 with about 10m GBP net debt at year end 2020 and about 85m diluted shares outstanding, we believe TMMG could have a market cap close to 94m GBP or 1.10 GBP per share or more versus 0.51 GBP per share today (+100%). If TMMG continues to execute with organic growth, accretive niche acquisitions, and strong expense controls and cash generation, as we expect, we think our target price can be achieved.

<b>Major shareholders</b>		
Morgan, David	6,144	7.3%
Herald Investment	5,778	6.9%
WH Ireland Group	5,678	6.7%
Lazard Ltd	5,330	6.3%
Day, Robert	5,153	6.1%
Business Growth	4,713	5.6%
Polar Capital Partners	4,495	5.3%

<b>Avg Daily Volume</b>			
Price per share	0.51		25,000
Shares outstanding	85m		
Market value	43m		
52-week range	0.38	0.53	

<b>Income statements (GBP)</b>								
<b>FYE 12/31</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Turnover	90	116	117	124	126	132	144	147
Sales	36	41	48	52	55	61	77	70
Adjusted EBITDA	6	7	7	7	8	9	10	10
Adjusted EBIT	5	6	6	5	6	7	8	8
Net income	1	3	3	2	4	4	5	5
EPS - continuing ops (pence)	3.00	4.20	4.54	4.45	5.13	5.91	6.41	7.12
<b>Cash flow statements (GBP)</b>								
<b>FYE 12/31</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Operating profit	5	5	6	4	6	6	6	6
Dep & Amort.			1	2	2	2	2	2
Non-cash adjust			(2)	(2)	(2)	(2)	(2)	(3)
Working capital changes			(2)	1	(1)	(3)	0	3
<b>Cash from operations</b>	<b>2</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>6</b>	<b>10</b>
Capital expenditures	(1)	(2)	(1)	(1)	(2)	(1)	(2)	(2)



**Seasonality**

(in GBP)	H1	H2
2017 – Total revenues	33.8	36.2
2017 – Headline operating profit	3.1	5.1
2017 – Adjusted EBITDA	3.9	5.9
2016- Total revenues	32.4	33.6
2016 – Headline operating profit	2.8	4.8
2016 – Adjusted EBITDA	3.5	5.5
2015 – Total revenues	29.5	31.5
2015-Income from operations	2.4	4.5
2015 – Adjusted EBITDA	3.2	5.3

**Segment Earnings:**

	2011	2012	2013	2014	2015	2016	2017
Revenues							
Advertising and Digital		36.9	41.5	44.0	47.7	51.7	56.1
Media Buying		4.6	4.4	4.0	4.2	4.1	3.7
Exhibitions & Learning		3.6	3.1	4.1	2.8	3.3	3.6
Public Relations		2.5	2.6	2.8	6.3	6.8	6.7
Total		47.5	51.6	55.0	61.0	65.9	70.0
Segment Operating Profit							
Advertising and Digital		5.8	5.7	6.0	6.2	7.3	7.9
Media Buying		1.1	1.1	1.0	1.3	1.1	0.9
Exhibitions & Learning		0.1	0.0	0.6	0.3	0.3	0.3
Public Relations		0.0	0.1	0.1	0.8	0.5	1.0
Total		7.1	7.0	7.7	8.5	9.3	10.0

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Quarterly Balance Sheets

	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14	Jun 15	Dec 15	Jun 16	Dec 16	Jun 17	Dec 17	
Current Assets:												
Cash and equivalents	1		1	2	2	3	2	4	1	5	6	\$27
Accounts Receivable	24		21	27	26	31	31	36	33	37	35	\$13
Other current assets												\$23
Total current assets	26		22	29	28	34	34	40	34	43	41	\$72
Property and equipment, net	3		4	4	4	5	5	4	4	3	3	\$572
Intangible assets	71		73	72	77	77	82	82	83	88	88	\$5
Other assets												\$23
Total Assets	101		98	106	110	115	121	127	121	134	132	\$672
Current Liability												
Accounts payable	14		11	15	13	16	14	32	15	34	18	\$34
Accrued expenses	8		7	12	9	11	11		11		14	
Banks loans	2		2	2	11	2	2	2	2	3	3	
Acquisition Obligations	1		1	1	1	2	2	3	2	2	2	
Total current liabilities	26		12	31	35	34	31	37	31	39	37	\$120
Bank loans	11		10	7	0	9	11	11	10	12	11	\$96
Acquisition obligations	1		3	1	4	2	5	5	3	5	5	\$49
Other liabilities					0		1	1				\$20
Total Stockholder's equity	63		65	67	70	72	73	75	77	78	80	\$306

Semi-Annual Income Statements

(in GBP)	Dec 12	Jun 13	Dec 13	Jun 14	Dec 14	Jun 15	Dec 15	Jun 16	Dec 16	Jun 17	Dec 17
Turnover		67.6	56.5	62.8	62.7	66.6	69.9	74.2	69.9	71.2	75.8
Revenue											

Headline operating expenses	25.4	26.2	26.2	29.7	29.7	33.6	29.3	33.6	33.9	36.2
Headline operating profit	2.0	3.4	2.1	4.0	2.4	4.8	2.8	4.8	3.1	5.1
Exceptional items	0.0	1.5	0.4	(0.4)	0.4	0.3	0.7	0.3	1.0	1.0
Profit before interest and taxation	2.0	1.9	2.5	3.6	2.0	4.2	2.2	4.2	2.0	4.3
Net finance costs	0.4	0.3	0.3	0.4	0.2	0.3	0.2	0.3	0.2	0.3
Profit before taxation	1.7	1.5	2.2	3.2	1.7	3.9	2.0	3.9	1.8	4.0
Taxation	1.6	(0.8)	0.5	0.8	0.4	0.9	0.5	0.9	0.5	0.8
Profit for the year	0.1	2.3	1.7	2.5	1.4	3.0	1.5	3.0	1.3	3.2
Headline diluted EPS	1.50	2.95	1.68	3.45	1.88	4.08	2.33	4.08	2.58	4.54
Adjusted EBITDA	2.9	4.3	2.8	4.7	3.2	5.3	3.5	5.5	3.9	5.9

### Annual Income

### Statements

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Turnover	104.2	86.0	90.4	116.0	117.0	124.1	125.5	132.2	144.1	146.9
Revenue	42.7	36.1	36.1	41.5	47.5	51.6	55.0	61.0	66.0	70.0
Headline operating expenses	33.6	30.6	31.2	35.6	41.7	46.2	48.9	54.1	58.3	61.8
Headline operating profit	9.0	5.6	4.9	5.8	5.8	5.4	6.1	6.9	7.6	8.2
Exceptional items	0.0	4.7	1.2	0.1	0.0	1.5	0.0	1.2	1.0	2.0
Profit before interest and taxation	9.0	0.9	3.7	5.8	5.8	3.9	6.1	5.6	6.4	6.3
Net finance costs	1.9	1.8	2.1	1.6	1.1	0.7	0.7	0.5	0.5	0.5
Profit before taxation	7.3	(0.8)	1.6	4.1	4.7	3.2	5.4	5.1	5.9	5.8
Taxation	2.0	1.1	0.7	1.0	1.3	0.8	1.2	1.0	1.4	1.3
Profit for the year	5.2	(2.0)	0.9	3.1	3.8	2.4	4.2	4.1	4.5	4.5
Headline diluted EPS	16.39	7.84	3.00	4.20	4.54	4.45	5.13	5.91	6.41	7.12
Adjusted EBITDA	9.8	6.2	5.6	6.7	6.9	7.3	7.5	8.5	9.0	9.9

<b>The Mission Marketing Group plc (TMMG)</b>	<b>Omnicon Group Inc. (OMC)</b>	<b>WPP plc (WPP)</b>	<b>Interpublic Group (IPG)</b>
The Mission Marketing Group plc provides marketing and advertising related services in the United Kingdom, Asia, and the United States. The Company operates through Branding, Advertising &	Provides advertising, marketing and corporate communications services. The Company's agencies operate in major markets around the world and provide a comprehensive	Operates a communications services group. The Company's operations encompass advertising, media investment management, consultancy, public relations, healthcare, and	Organization of advertising agencies and marketing service companies. Operates globally in the sectors of advertising, independent media buying, direct marketing.

	Digital, Media, Events & Learning, and Public Relations.	range of services including traditional media advertising, CRM management, public relations, and specialty communications.	specialist communications, and branding and identity services.	healthcare communications, marketing research, public relations, and sports marketing	-
Cash	5m GBP	\$1.9b	\$2.4b	\$0.5b	-
LTD	21m GBP	\$5.3b	\$7.3b	\$2.2b	
Price	0.51 GBP	\$67.50	\$1,177	\$22.02	
Shares	85m				
Market Cap	42m GBP	\$15.1b	\$14.9b	\$8.5b	
Enter. Value (EV)	56m GBP	\$18.6b	\$19.8b	\$10.2b	
Rev - LTM	70m GBP	\$15.4b	\$15.3b	\$8.4b	
Adj. EBITDA – LTM	10m GBP	\$2.4b	\$2.3b	\$1.2b	
Adj. EBITDA margin	14%	15.5%	15.0%	14.2%	
EV to Adj. EBITDA	5.0x	7.8x	8.6x	8.5x	
EV to LTM Revenues	0.8x	1.2x	1.3x	1.3x	
LTM Capital Expenditures	0.3m GBP	\$0.2b	\$0.3m	\$0.15b	
Cap Ex to Revenues	0.4%	1.2%	1.9%	1.2%	
LTM Cash from Operations	10m GBP	\$1.8b	\$1.4b	\$0.5b	
EV to LTM Cash from Ops	5.0x	10.3x	14.1x	20.1x	
LTM Free Cash Flow	7m GBP	\$1.6b	\$1.1b	\$0.33b	
FCF to EV	12%	8.6%	5.6%	3.2%	

#### Catalysts

1. Modest valuation with 10%+ unleveraged FCF yield and 5x adjusted EBITDA for a business which is growing and has high returns on invested capital.
2. Projected adjusted EBITDA of 13m GBP by 2020.
3. Potential FCF of \$5m-\$6m per year in 2018-9 due to capital light business model.
4. Continued organic growth of low to mid-single digits range.
5. Strong balance sheet, with net debt of about 13m GBP including acquisition obligations, or less than 1.5x adjusted EBITDA.
6. Owner-operator shareholder base highly motivated to create shareholder value.
7. Execution of growth strategy through improved revenues and strong cost controls and solid free cash flow.
8. Recognition of strong and diversified base of customers.
9. Potential sale of TMMG to financial or strategic purchaser.

#### Risks

- The U.K. economy and/or global economy declines which impacts TMMG's advertising agency and marketing business model.
- New technologies and/or competitors impact the Company's business model more than we expect. The advertising business is brutally competitive.
- Brexit end-game ends badly and hurts U.K. economy which would impact TMMG's advertising and marketing driven business model.
- Loss of several major customers and/or key employees impacts TMMG.
- TMMG is unable to generate solid organic growth and achieve a stronger trading multiple.

- Misallocation of capital into poor acquisition(s). The Company needs to earn attractive returns on its investments in niche acquisition of Agencies – these need to drive growth in adjusted EBITDA and cash from operations – we invested in and wrote up on VIC another U.K. based advertising and marketing business, Creston plc, and this was an issue with them.
- We are defining FCF as cash from operations less maintenance capital expenditures and including non-cash stock comp and some other add-backs which some investors would not want to include.

**Disclaimer**

Disclaimer: We own shares of TMMG. We may buy or sell these shares at any time without notice. The information in the write-up is believed to be correct as of the date written but investors should do their own verification of this information and analysis of this potential investment. We undertake no obligation to update this write-up if new information arises at a future date.

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I do not hold a position with the issuer such as employment, directorship, or consultancy.  
I and/or others I advise do not hold a material investment in the issuer's securities.

**Catalyst**

See above

## Messages

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**Subject** Author Exit Recommendation  
**Entry** 06/27/2019 04:25 PM  
**Member** andreas947  
The author has recommended exiting the position