Company Note

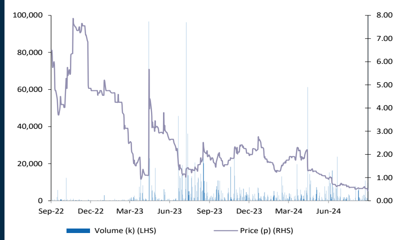
Interims

23 September 2024

Corporate

Current price	**0.4p**
Sector	**TMT**
Code	**MIRI.L**
Listing	**AIM**

Share Performance



% Change	1m	3m	12m
— MIRI.L	-30.4	-57.4	-79.5

Source: Thomson Reuters, Allenby Capital

Share Data		
Market Cap (£m)		**4.1**
Shares in issue (m)		**1,033**
52 weeks (p)	High	Low
	2.75	**0.40**
Financial year end		**31 December**

Source: Company Data, Allenby Capital

Key Shareholders	
Investec Wealth	19.1%
M&G plc	11.4%
IP Group plc	3.3%
Threadneedle Asset Man.	3.1%
Chelverton Asset Man.	1.9%

Source: Company Data, Allenby Capital

David Johnson

0203 394 2977

d.johnson@allenbycapital.com

www.allenbycapital.com

Equity Research

Mirriad Advertising plc (MIRI.L)

Transition to partner-driven sales ongoing

Interims from Mirriad Advertising plc (MIRI.L), a leading global provider of in-content advertising and virtual product placement (VPP) technology and services, partly reflects the planned shift to partner-driven sales but also multiple delays to agreed advertising campaigns. As previously flagged, H1 revenue fell 34% to £0.4m but operating loss also reduced 32% to £5.0m following FY23's substantial cost reduction programme. Costs were reduced further during H1 and there is scope for more. Following May's £6.8m (gross) raise, H1 cash was £8.3m (FY23: £9.8m). Although management expects H2 revenue will be substantially greater, the uptake of VPP in the recent US Network Upfronts was lower than expected and the launch of programmatic functionality has slipped further, hence we reduce our FY24 revenue growth assumptions and this flows into reduced FY25 forecasts. The greater cost control means that there is a much smaller impact on profit and cash forecasts and there remains a runway to cash flow break even.

- **Financial update:** H1 revenue was £0.4m (-34%), reflecting the planned shift to partner-driven sales and fewer campaigns in H1. Total costs fell 32% to £5.4m following FY23's substantial operating cost base restructuring and further reductions in H1. Additional annualised savings of £0.25m have already been made in H2 with scope for more. Operating loss fell 32% to £5.0m and operating cash outflow reduced 43% to £4.0m and, following May's £6.8m fundraising, H1 net cash was £8.3m (FY23: £9.8m).

- **Operational update:** In H1, MIRI signed a programmatic partnership with TripleLift, a major US-based supply-side platform (SSP); was awarded Gold Shield status by the Trusted Partner Network for content security; and signed a two-year master service agreement (MSA) with a leading US media and entertainment conglomerate. There was a delay to the roll out of its programmatic platform, however, principally due to a change in TripleLift's priorities that delayed necessary development work. MIRI has now added an alternative SSP, and parallel development of the programmatic platform is ongoing. This will integrate VPP into the existing media buying marketplace and facilitate VPP adoption.

- **Outlook:** Management had anticipated a significant uplift in H2 revenue partly from its first time inclusion in the US Network Upfronts for advertising purchasing for ad space in Q3 and Q4. The Upfronts are now largely complete and indications are that contractual allocations will not be as expected following delays in content clearance by MIRI's large media partners. MIRI will still have access to the so-called 'scatter market', content clusters packaged around seasonal events and is working with large agency groups. Revenue from this is difficult to predict at this point, however. Whilst there will be growth in H2, revenue booked to date and 'near to close' pipeline deals suggest US FY24 revenue $1.5m to $3.0m plus c. £0.4m from EMEA. We reduce our forecasts accordingly.

Year End:					
(£'000)	**2023**	**2024E Old**	**2024E New**	**2025E Old**	**2025E New**
REVENUE	1,803	4,000	2,500	10,750	7,895
ADJ. EBITDA	(9,830)	(7,586)	(7,870)	(3,198)	(3,871)
ADJ. PBT	(10,036)	(7,686)	(7,780)	(3,348)	(4,021)
ADJ. EPS (p)	(2.0)	(1.3)	(0.7)	(0.5)	(0.4)
NET CASH	6,109	6,432	5,970	2,825	1,506
EV/REVENUE (x)	(0.4)		(0.7)		0.3
EV/EBITDA (x)	NEG		NEG		NEG

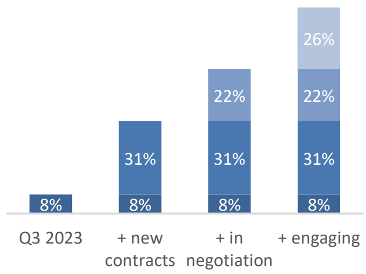
Source: Company; Allenby Capital. Allenby Capital acts as Nomad & Broker to Mirriad Advertising plc (MIRI).

Please refer to the last page of this communication for all required disclosures and risk warnings.

Interims

H1 FY24 represented a transitional period for Mirriad Advertising plc, the leading global provider of in-content advertising and virtual product placement (VPP) technology and services, as it shifts to a partner-driven model from direct sales. H1 was disappointing, however, as advertising spend in the US, the largest and most dynamic advertising market, remained depressed and Mirriad suffered delays to multiple agreed campaigns.

Exhibit 1: Mirriad's addressable US market



Source: Company

H1 revenue fell 34% to £0.4m, as flagged at July's AGM statement. In terms of KPIs, the number of supply side partners represented increased 25% to 85 and Mirriad signed a two-year master services agreement with a leading US media and entertainment conglomerate with a diverse range of movie studios and productions, television channels and streaming platforms. Mirriad has agreements with major entertainment companies that account for c. 40% of the US TV advertising market to provide access to some of the most popular and monetisable content for VPP and is in active discussions with others representing more than a further 45%. On the demand side, delays to campaigns resulted in the number of advertisers that ran campaigns fell 19% to 25 in H1.

As previously noted, a growing list of high-profile advertisers (e.g. Amazon, Procter & Gamble, Pepsi, L'Oreal, Lexus, Walmart, and AT&T) are buying in-content advertising, and advertisers spanning a wide range of sectors (consumer packaged goods, travel, food, alcohol, financial services and technology) are evaluating the new ad format. All six major advertising agency groups (WPP, Publicis, Omnicom, Dentsu, Havas and IPG) have been activated.

Upfronts – indications impacted by content delays

Management had expected significant H2 contributions from its inclusion for the first time in the US Network Upfronts, the long-established window of buying and selling advertising against content scheduled to be aired later in the year. The Upfronts are now largely concluded at the top media and agency level and indications are that the contractual allocations for VPP will not be at the level previously expected with the large media partners - a function of delays in content clearance.

'Scatter market' potential

These partners are now planning actively to engage in the 'scatter market' with Mirriad-driven content. Mirriad is engaging with global agency groups to work on partnerships whereby their clients are given access to VPP content clusters packaged around seasonal events and specific contextual parameters. The upcoming Holiday season represents an immediate target and the company is also discussing medium and long-term business.

FY24 revenue very heavily Q4 weighted

Given these ongoing partnership discussions, and initial contributions from initiatives started earlier in the year (e.g. the Diverse Media Marketplace), FY24 revenue will be very heavily Q4 weighted. Excluding revenue from these partnerships, revenue booked to date plus the 'near to close' pipeline indicates US revenue of $1.5m to $3m, with the upper end dependent on a number of prospective contracts with existing customers and similarly with new customers. The EMEA business continues to perform well with good growth in Germany in H1 (+17%) and should contribute c. £0.4m. This is reflected in our revised forecasts.

Programmatic, expected in H1, delayed

In terms of the platform, Mirriad continues to invest in its propriety technology. The launch of programmatic, expected in H1, was delayed by a change in the priorities at TripleLift that impacted the necessary development work. As a result, Mirriad is working in parallel with an additional SSP towards a programmatic launch. Programmatic selling is expected to open up increased volumes, shorter lead times, automated transaction and scale.

Costs reduced and further reductions identified

On costs, Mirriad has already initiated the vast majority of the annualised cost reductions set out in May. In addition, it has implemented c. £250k out of the £750k of potential annualised operating cost savings that had been identified. Management expects to make further savings in H2, with some of this offset by selected recruitment, in particular to maintain Mirriad's Trusted Partner Network Gold status – an important content security accreditation – and to scale programmatic activation and sales.

R&D tax credit claim received

H1 total costs fell 32% to £5.4m with R&D spend down 25% to £1.9m (£1.5m staff costs and £0.4m of IT and software costs) and the operating loss fell 32% to £5.0m. Operating cash outflow reduced 43% to £4.0m and, following May's £6.8m fundraising, H1 net cash was £8.3m (FY23: £9.8m). On top of this, £457k was received as a cash payment in September in full settlement of Mirriad's FY23 R&D tax credit claim.

Although we have reduced revenue growth assumptions for FY24 and FY25, the cost reductions, undertaken and planned, means that our profit forecasts are little changed. The Q4 weighting is likely to have a negative impact on working capital, however, but the current resources should be sufficient to take the company through to cash flow breakeven during H2 FY25.

Industry dynamics

The industry dynamics remain supportive of Mirriad's technology proposition and the investment case, as evidenced by the success in signing up content 'majors' and 'supermajors', advertisers and agencies. Viewing habits have evolved with the rise in ad-free or ad-light video services and viewers now react negatively to the perceived overload of advertising on linear TV. Many viewers are migrating from traditional TV to streaming services ('cord-cutting' or 'cord-shaving'), have never subscribed to traditional cable ('cord-never'), and/or are taking actions to skip ads. These changes are impacting all types of content - even live sports, a stalwart and traditionally the most lucrative content on linear TV.

Lower advertising load on streaming

Advertisers are looking to follow their audiences in brand-safe environments, and broadcasters and entertainment companies need to monetise their content but the potential advertising load on streaming is lower and hence there is less inventory ('slots') available. Meanwhile the revenue available from streaming subscriptions is much lower than with traditional cable and satellite bundles and advertising needs to play a part in streaming services.

In-content advertising and virtual product placement, such as that offered by Mirriad, has been proved to be an effective and non-intrusive alternative to traditional advertising. By moving advertising into the actual program, the content becomes a source of new inventory.

Action to avoid traditional TV ads

Research by Mirriad and Kantar Media, a leading provider of audience and media market research, found that 86% of viewers are taking action to avoid traditional TV ads across broadcast and network TV, streaming, and online video. A further 51% will take action against companies with repeating ads (e.g. switching purchasing decisions away from advertisers).

The rise of ad free subscription-based video on demand streaming services (SVOD) has contributed to this reduced viewer tolerance to ads – streaming viewers prefer lighter ad loads (<6 mins per hour) and ads that do not interrupt the content flow (i.e. split screen, interactive, QR codes). The newer ad-supported streaming services (AVOD) are not fully covering the advertising revenue shortfall, as the tolerance levels of traditional advertising formats are proving to be lower and the uptake of advertising supported tiers of streaming services has been relatively low.

VPP significantly more attractive to viewers

Mirriad's VPP has been found to be significantly more attractive to viewers – 7x compared with traditional advertising (Source: Kantar). Ad awareness was also enhanced (+26 percentage points) and 83% of viewers agreed with the premise that Mirriad's integrations are natural to the content and can be deployed in both ad-supported and ad-free models.

More recent research found that brand affinity was up by 96% and purchase intent by 54%. Viewers felt much more positive about in-content advertising and took no steps to avoid this integrated ad format.

Benefits of in-content advertising:

- Viewers – non-disruptive, fits naturally with content and preferred to traditional advertising forms,
- Content providers – new source of advertising inventory and therefore revenue across any distribution model,
- Advertisers – cost-effective route to reaching audiences with a non-skippable and brand-safe format. With the shift to streaming, advertising inventory is more limited and audiences more fragmented.

Exhibit 2: Top 10 US Suppliers

Top Vendors	Market Share (%)
NBCU	22
Paramount	16
Fox Corp	16
Walt Disney	10
Discovery	7
Warner Media	7
Univision	3
A+E	3
Crown Media	2
AMC Network	1

Source: Magna

Mirriad is focusing its sales and marketing efforts on the US, the largest and most developed ad market, and the largest advertisers. The company has substantially increased its addressable US TV advertising market. Since starting to work on the US in 2020, it had market access of c. 8% by Q3 2023 and this increased to c. 40% during 2024 and Mirriad is in discussions with companies that account for a further >45% of TV advertising spend. It also works with nine of the top twenty US advertisers that spend >$10bn per annum on advertising.

Top three US entertainment network

In March, Mirriad announced a two-year agreement with a leading US media and entertainment conglomerate, with a diverse portfolio of movie studios and productions, television channels and streaming platforms. The partner has 95m direct-to-consumer video streaming subscribers alone, and a further >20 networks in the US that average >100m total views each week. It is also home to the majority of the top ten rated US TV networks. As a result, Mirriad will have access to new substantial high value inventory.

As part of the agreement, the partner has committed significant resources – including its sales and marketing teams – to take new in-content inventory to market, beginning in March with one its highest rated programmes distributed across TV and digital. Programmatic integration with the partner’s streaming platforms is in active discussion.

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Allenby Capital, 5 St Helen's Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com