

27 January 2009

## Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/07	59.3	5.6	7.0	1.5	3.7	5.8
07/08	63.1	6.6	8.5	1.7	3.1	6.5
07/09e	68.0	5.2	6.6	1.8	3.9	6.9
07/10e	72.0	7.5	9.5	2.0	2.7	7.7

Note: \*PBT and diluted EPS are normalised. IFRS: 2007-2010

### Investment summary: +ve trading, -ve hedging

In today's AGM statement, Next Fifteen reported that the group has made a good start to the year. Interim results to 31 January 2009, before significant costs of FX hedging, are expected to be ahead of the comparative period last year. However, management is not expecting to be immune to the uncertain economic climate and has responded to a number of clients reducing their 2009 PR budgets by lowering operating costs. The balance sheet remains strong with net cash after final payments in respect of the Lexis and OutCast acquisitions.

#### Good start to FY09

The group has made a good start to the year, with revenue growth driven by client wins and the strength of both the US dollar and the euro. Interim results to 31 January 2009, before significant costs of FX hedging, are expected to be ahead of the comparative period last year.

#### Battening down the hatches

Management is not expecting to be immune to the uncertain economic climate and has responded to a number of clients reducing PR budgets for 2009 by lowering operating costs. The workforce has been reduced by around 9% and both the Seattle and Dublin offices have been closed.

#### Adverse FX hedging impact

The in-place hedging of FX risk at the start of FY09 is likely to have a significant impact on the group's profitability for the year. At current levels of sterling versus the US dollar and euro, the impact for FY09 is likely to crystallise around £2.6m as most of the contracts expire at the end of this fiscal year.

#### Valuation: Look to FY10's P/E 2.7x and yield of 7.7%

Investors should look beyond the high FX hedging cost likely to be incurred in FY09 as we expect profits to rebound handsomely in FY10 provided US dollar and euro exchange rates remain similar to current levels and minimal FX hedging is put in place. On this basis, we are initiating an FY10 EPS estimate of 9.5p. At the current share price, the group is trading on an FY10 P/E of just 2.7x based on this estimate, with a well covered dividend yield of 7.7%, and at a discount to NAV.

Price 26p  
Market Cap £14m

#### Share price graph



#### Share details

Code NFC  
Listing AIM  
Sector Media  
Shares in issue 54.1m

#### Price

52 week High 62p Low 26p

#### Balance Sheet as at 31 July 2008

Debt/Equity (%) N/A  
NAV per share (p) 37  
Net cash (£m) 3.4

#### Business

Next Fifteen Communications is a global public and press relations consultancy group with world leading and autonomous PR, media research and marketing subsidiaries, predominantly servicing clients in the technology sector.

#### Valuation

	2008	2009e	2010e
P/E relative	22%	51%	31%
P/CF	1.5	1.8	1.5
EV/Sales	0.2	0.2	0.2
ROE	23%	16%	20%

#### Revenues on geography (FY08)

	Europe	US	Other
UK	30%	43%	11%

#### Analyst

Martin Lister 020 3077 5700  
mlister@edisoninvestmentresearch.co.uk

**Exhibit 1: Financials**

Year-ending 31 July	£'000s	2006	2007	2008	2009e	2010e
Accounting basis		UK GAAP	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
<b>Billings</b>		<b>63,278</b>	<b>69,422</b>	<b>73,916</b>	<b>80,500</b>	<b>85,000</b>
<b>Revenues</b>		<b>56,007</b>	<b>59,268</b>	<b>63,107</b>	<b>68,000</b>	<b>72,000</b>
<b>EBITDA</b>		<b>5,970</b>	<b>7,302</b>	<b>8,022</b>	<b>6,750</b>	<b>9,100</b>
<b>Operating Profit (before GW and except.)</b>		<b>4,521</b>	<b>5,837</b>	<b>6,706</b>	<b>5,300</b>	<b>7,500</b>
Goodwill Amortisation		(727)	0	0	0	0
Exceptionals		(700)	(458)	(1,066)	(350)	0
Other		174	56	117	200	200
<b>Operating Profit</b>		<b>3,268</b>	<b>5,435</b>	<b>5,757</b>	<b>5,150</b>	<b>7,700</b>
Net Interest		(265)	(313)	(241)	(300)	(200)
<b>Profit Before Tax (norm)</b>		<b>4,430</b>	<b>5,580</b>	<b>6,582</b>	<b>5,200</b>	<b>7,500</b>
<b>Profit Before Tax (FRS 3)</b>		<b>3,003</b>	<b>5,122</b>	<b>5,516</b>	<b>4,850</b>	<b>7,500</b>
Tax		(1,494)	(1,781)	(1,655)	(1,440)	(2,250)
<b>Profit After Tax (norm)</b>		<b>2,649</b>	<b>3,713</b>	<b>4,657</b>	<b>3,635</b>	<b>5,250</b>
<b>Profit After Tax (FRS 3)</b>		<b>1,509</b>	<b>3,341</b>	<b>3,861</b>	<b>3,410</b>	<b>5,250</b>
Average Number of Shares Outstanding (m)		46.5	49.0	51.7	52.2	52.6
EPS - normalised (p)		5.3	7.1	8.6	6.8	10.0
EPS - normalised fully diluted (p)		5.1	7.0	8.5	6.6	9.5
EPS - FRS 3 (p)		2.9	6.3	7.1	6.3	10.0
Dividend per share (p)		1.4	1.5	1.7	1.8	2.0
EBITDA Margin		9%	11%	11%	8%	11%
Operating Margin (before GW and except.)		8%	10%	11%	8%	10%
<b>BALANCE SHEET</b>						
<b>Non-current assets</b>		<b>14,343</b>	<b>18,442</b>	<b>20,206</b>	<b>20,456</b>	<b>20,556</b>
Intangible Assets		11,188	13,507	15,462	15,662	15,862
Tangible Assets		3,063	2,162	2,435	2,285	1,985
Other non-current assets		92	2,773	2,309	2,509	2,709
<b>Current Assets</b>		<b>19,787</b>	<b>20,894</b>	<b>25,947</b>	<b>25,886</b>	<b>31,261</b>
Stocks		0	0	0	0	0
Debtors		15,769	15,060	16,422	17,500	18,500
Cash		4,018	5,834	9,525	8,386	12,761
<b>Current Liabilities</b>		<b>(12,554)</b>	<b>(14,344)</b>	<b>(21,029)</b>	<b>(18,522)</b>	<b>(19,372)</b>
Creditors		(11,739)	(13,632)	(20,232)	(17,725)	(18,575)
Short term borrowings		(815)	(712)	(797)	(797)	(797)
<b>Long Term Liabilities</b>		<b>(6,834)</b>	<b>(9,414)</b>	<b>(5,486)</b>	<b>(5,347)</b>	<b>(5,347)</b>
Long term borrowings		(4,642)	(5,190)	(5,315)	(5,315)	(5,315)
Other long term liabilities		(2,192)	(4,224)	(171)	(32)	(32)
<b>Net Assets</b>		<b>14,742</b>	<b>15,578</b>	<b>19,638</b>	<b>22,473</b>	<b>27,098</b>
<b>CASH FLOW</b>						
<b>Operating Cash Flow</b>		<b>4,948</b>	<b>7,203</b>	<b>9,540</b>	<b>7,743</b>	<b>9,400</b>
Net Interest		(325)	(311)	(175)	(300)	(200)
Tax		(2,430)	(1,992)	(1,090)	(1,750)	(2,400)
Capex		(1,203)	(1,246)	(2,153)	(1,500)	(1,500)
Acquisitions/disposals		(2,354)	(1,959)	(867)	(4,507)	0
Equity financing		232	953	(994)	0	0
Dividends		(590)	(691)	(808)	(825)	(925)
Other		0	0	0	0	0
Net Cash Flow		(1,722)	1,957	3,453	(1,139)	4,375
<b>Opening net debt/(cash)</b>		<b>(2,449)</b>	<b>1,439</b>	<b>68</b>	<b>(3,413)</b>	<b>(2,274)</b>
Finance leases		(20)	(299)	(217)	0	0
Other		(2,146)	(287)	245	0	0
<b>Closing net debt/(cash)</b>		<b>1,439</b>	<b>68</b>	<b>(3,413)</b>	<b>(2,274)</b>	<b>(6,649)</b>

Source: Company accounts, Edison Investment Research

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Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk  
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