

17 August 2011

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/09	65.4	5.2	6.5	1.70	12.2	2.1
07/10	72.3	6.6	7.5	1.85	10.6	2.3
07/11e	83.7	8.1	8.4	2.00	9.5	2.5
07/12e	89.0	9.3	9.2	2.15	8.6	2.7

Note: *PBT and EPS (diluted) are normalised, ex intangible amortisation and exceptionals.

Investment summary: The (only) way is digital

Today, 17 August, Next Fifteen provided its FY11 year-end trading update, in which management expects results to be in line with market expectations. Further progress is expected in FY12, though we are cautiously trimming our normalised pre-tax profit and EPS estimates to £9.3m (v £9.55m) and 9.2p (v 9.4p) primarily because of the increased level of economic uncertainty currently unfolding. The group has recently bolstered its digital positioning with the May acquisition of Bourne and new board representation. FY11 results are expected to be announced on 18 October.

Board appointments bring further digital insight

The new Chairman (Richard Eyre, appointed May) and two new non-exec directors (Alicja Lesniak, July; Margit Wennmachers, August) bring considerable additional digital insight, a US perspective and international agency experience. These appointments strengthen the group's continuing expansion into the digital arena as the transition from traditional media channels to online channels accelerates.

Digital agency, Bourne, added in May

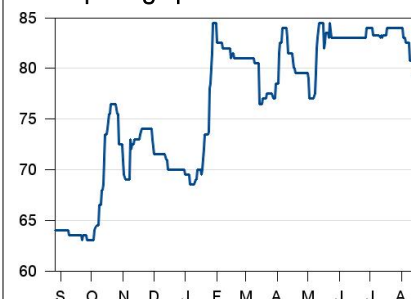
In May, Next Fifteen acquired Bourne, a global digital agency with offices in Glasgow, London and New York, for initial £1.95m cash, with earn-out consideration over the period to 31 July 2014. Bourne provides high value, strategic planning services across all digital channels and its clients include Dell, Ricoh, Lumesse and Symantec. Next Fifteen has initially taken an 80% stake, with options to acquire the outstanding 20%. In 2010, Bourne had £2.5m revenues and £0.75m pre-interest and tax profit.

Valuation: Global digital advantage premium

Over the past six months, Next Fifteen's share price has traded in a narrow range and has held up well in recent weeks. While Next Fifteen's FY12 8.6x P/E is not particularly demanding, this does represent a premium to similar sized peers (Chime, Creston and Huntsworth), though more in line with larger media peers (Omnicom and WPP). This premium is somewhat justified by the group's predominate exposure to the relatively strong technology sector, its growing digital expertise and its global offering for clients as well as having no direct exposure to government spending.

Price 79.5p
Market Cap £44m

Share price graph



Share details

Code NFC
Listing AIM
Sector Media
Shares in issue * 55.5m

*excluding 1.1m shares in treasury

Price

52 week High 84.5p Low 62.5p

Balance Sheet as at 31 January 2011

Debt/Equity (%) 10
NAV per share (p) 50
Net debt (£m) 2.7

Business

Next Fifteen Communications is a global public relations consultancy group, predominately serving clients in the technology and consumer sectors, with world leading and autonomous PR, research, digital, investor relations and policy communications subsidiaries.

Valuation

	2010	2011e	2012e
P/E relative	99%	89%	93%
P/CF	6.6	5.1	3.9
EV/Sales	0.5	0.5	0.4
ROE	17%	17%	17%

Geography based on revenues (H1 FY11)

UK	Europe	US	Other
20%	12%	53%	15%

Analysts

Martin Lister +44 (0)20 3077 5700
Jane Anscombe +44 (0)20 3077 5740
consumer@edisoninvestmentresearch.co.uk

Exhibit 1: Financials

Year-ending 31 July	£'000s	2007	2008	2009	2010	2011e	2012e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Billings		69,422	73,916	77,287	91,175	102,700	107,000
Revenues		59,268	63,107	65,394	72,328	83,700	89,000
EBITDA		7,302	8,022	7,272	8,930	10,900	12,100
Operating Profit (before GW and except.)		5,837	6,706	5,591	6,992	8,700	9,800
Goodwill Amortisation		0	0	0	0	0	0
Exceptionals		(458)	(1,066)	(2,091)	(1,308)	(1,350)	0
Other		56	117	0	0	0	0
Operating Profit		5,435	5,757	3,500	5,684	7,350	9,800
Net Interest		(313)	(241)	(342)	(380)	(560)	(500)
Profit Before Tax (norm)		5,580	6,582	5,249	6,612	8,140	9,300
Profit Before Tax (FRS 3)		5,122	5,516	3,158	5,304	6,790	9,300
Tax		(1,781)	(1,655)	(884)	(1,591)	(2,050)	(2,800)
Profit After Tax (norm)		3,713	4,657	3,750	4,638	5,690	6,500
Profit After Tax (FRS 3)		3,341	3,861	2,274	3,713	4,740	6,500
Average Number of Shares Outstanding (m)		49.0	51.7	52.6	54.4	55.3	55.3
EPS - normalised (p)		7.1	8.6	6.5	8.4	9.6	10.9
EPS - normalised fully diluted (p)		7.0	8.5	6.5	7.5	8.4	9.2
EPS - FRS 3 (p)		6.3	7.1	3.7	6.7	7.9	10.9
Dividend per share (p)		1.50	1.70	1.70	1.85	2.00	2.15
EBITDA Margin		11%	11%	9%	10%	11%	11%
Operating Margin (before GW and except.)		10%	11%	9%	10%	10%	11%
BALANCE SHEET							
Non-current assets		18,442	20,206	22,618	31,919	39,094	38,344
Intangible Assets		13,507	15,462	18,441	27,111	34,311	33,561
Tangible Assets		2,162	2,435	1,949	2,269	2,244	2,244
Other non-current assets		2,773	2,309	2,228	2,539	2,539	2,539
Current Assets		20,894	25,946	22,840	29,470	31,387	36,397
Debtors		15,060	16,421	15,710	22,174	25,982	28,300
Cash		5,834	9,525	7,130	7,296	5,405	8,097
Current Liabilities		(15,670)	(20,643)	(15,237)	(25,248)	(24,448)	(26,188)
Creditors		(14,958)	(20,228)	(14,887)	(20,009)	(24,209)	(25,949)
Short term borrowings		(712)	(415)	(350)	(5,239)	(239)	(239)
Long Term Liabilities		(8,684)	(5,871)	(5,319)	(8,562)	(14,012)	(10,512)
Long term borrowings		(5,190)	(5,700)	(4,995)	(2,908)	(7,908)	(7,908)
Other long term liabilities		(3,494)	(171)	(324)	(5,654)	(6,104)	(2,604)
Net Assets		14,982	19,638	24,902	27,579	32,021	38,041
CASH FLOW							
Operating Cash Flow		7,203	9,599	6,261	6,572	9,292	12,122
Net Interest		(311)	(240)	(342)	(380)	(560)	(500)
Tax		(1,992)	(1,090)	(1,476)	(1,465)	(2,050)	(2,800)
Capex		(1,246)	(2,153)	(307)	(1,936)	(1,375)	(1,550)
Acquisitions/disposals		(1,959)	(829)	(4,549)	(4,251)	(6,300)	(3,500)
Financing		953	(994)	(1,941)	2,263	102	0
Dividends		(691)	(807)	(900)	(932)	(1,000)	(1,080)
Other		0	0	0	0	0	0
Net Cash Flow		1,957	3,486	(3,254)	(129)	(1,891)	2,692
Opening net debt/(cash)		1,439	68	(3,410)	(1,785)	851	2,742
Finance leases		(299)	(217)	(225)	(150)	0	0
Other		(287)	209	1,854	(2,357)	0	0
Closing net debt/(cash)		68	(3,410)	(1,785)	851	2,742	50

Source: Edison Investment Research, company accounts

EDISON INVESTMENT RESEARCH LIMITED

Edison Investment Research is a leading investment research company. It has won industry recognition, with awards in the UK and internationally. The team of more than 75 includes over 40 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 350 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London and Sydney and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2011 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Next Fifteen Communications and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).