

18 August 2010

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/08	63.1	6.6	8.5	1.7	7.3	2.7
07/09	65.4	5.2	6.5	1.7	9.6	2.7
07/10e	70.0	6.6	7.8	1.8	8.0	2.9
07/11e	74.0	7.1	8.4	1.9	7.4	3.0

Note: *PBT and diluted EPS (fully diluted) are normalised, excluding exceptional items.

Investment summary: Momentum improving

Today, Next Fifteen released its year-end trading update, which indicates that FY10 results are expected to be in line with expectations following a good performance in the second half. Though there remains continuing global economic uncertainty, this momentum is improving into the current fiscal year. The group made significant acquisitions over the past year and it is encouraging that management has moved the Upstream Asia acquisition into profitability in quick order. The balance sheet remains solid, providing the ability to make further selective acquisitions.

FY10 to be in line

Management expects FY10 results to be in line with expectations, despite the acquisition of the Upstream Asia, which had been loss-making, and investment in its new start-up digital communications agency. Further news on the development of this digital agency, which has already secured a number of clients, is foreshadowed for September. FY10 results are due to be announced on 19 October 2010.

Acquisition strength

During FY10, Next Fifteen added a number of important and strategic acquisitions. In August 2009, the group bought New York-based consumer agency M Booth, which has since been working with the group's Lexis business to create a global consumer PR agency. In Asia-Pacific, the Upstream Asia PR assets, purchased last October, have been fully integrated within the group's Bite subsidiary and are now profitable. The group also raised its stake in 463 Communications to 76% (from 40%).

Further progress in FY11

With management seeing improving momentum, we expect further progress in FY11 especially as the group is not directly exposed to cutbacks in UK government spending. The group has a solid balance sheet and has the capability to make further selective acquisitions to strengthen its current agencies and possibly into new areas.

Valuation: Undemanding rating for well managed group

Based on our estimate, Next Fifteen is trading on a 7.4x FY11 P/E. Though this is marginally higher than similar-sized peers (and much lower than the large caps), we believe that this is an undemanding rating for a well managed group with good organic growth prospects, coupled with proven accretive acquisition skills.

Price 62.5p
Market Cap £34m

Share price graph



Share details

Code NFC
Listing AIM
Sector Media
Shares in issue 54.9m

Price

52 week High 71p Low 48p

Balance Sheet as at 31 January 2010

Debt/Equity (%) 5
NAV per share (p) 48
Net borrowings (£m) 1.4

Business

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

Valuation

	2009	2010e	2011e
P/E relative	115%	91%	99%
P/CF	7.8	5.3	4.6
EV/Sales	0.6	0.5	0.5
ROE	14%	16%	15%

Revenues on geography (H110)

	UK	Europe	US	Other
	21%	14%	51%	14%

Analyst

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

Next Fifteen Communications is a research client of Edison Investment Research Limited

Exhibit 1: Financials

Year-ending 31 July	£'000s	2006	2007	2008	2009	2010e	2011e
Accounting basis		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Billings		63,278	69,422	73,916	77,287	85,000	90,000
Revenues		56,007	59,268	63,107	65,394	70,000	74,000
EBITDA		5,970	7,302	8,022	7,272	8,990	9,600
Operating Profit (before GW and except.)		4,521	5,837	6,706	5,591	6,990	7,450
Goodwill Amortisation		(727)	0	0	0	0	0
Exceptionals		(700)	(458)	(1,066)	(2,091)	(221)	0
Other		174	56	117	0	0	0
Operating Profit		3,268	5,435	5,757	3,500	6,769	7,450
Net Interest		(265)	(313)	(241)	(342)	(355)	(350)
Profit Before Tax (norm)		4,430	5,580	6,582	5,249	6,635	7,100
Profit Before Tax (FRS 3)		3,003	5,122	5,516	3,158	6,414	7,100
Tax		(1,494)	(1,781)	(1,655)	(884)	(1,925)	(2,125)
Profit After Tax (norm)		2,649	3,713	4,657	3,750	4,649	4,975
Profit After Tax (FRS 3)		1,509	3,341	3,861	2,274	4,489	4,975
Average Number of Shares Outstanding (m)		46.5	49.0	51.7	52.6	53.7	53.9
EPS - normalised (p)		5.3	7.1	8.6	6.5	8.4	9.0
EPS - normalised fully diluted (p)		5.1	7.0	8.5	6.5	7.8	8.4
EPS - FRS 3 (p)		2.9	6.3	7.1	3.7	8.1	9.0
Dividend per share (p)		1.4	1.5	1.7	1.7	1.8	1.9
EBITDA Margin		9%	11%	11%	9%	11%	11%
Operating Margin (before GW and except.)		8%	10%	11%	9%	10%	10%
BALANCE SHEET							
Non-current assets		14,343	18,442	20,206	22,618	31,268	30,393
Intangible Assets		11,188	13,507	15,462	18,441	27,191	26,391
Tangible Assets		3,063	2,162	2,435	1,949	1,849	1,774
Other non-current assets		92	2,773	2,309	2,228	2,228	2,228
Current Assets		19,787	20,894	25,946	22,840	31,943	33,343
Debtors		15,769	15,060	16,421	15,710	23,512	24,682
Cash		4,018	5,834	9,525	7,130	8,431	8,661
Current Liabilities		(12,554)	(15,670)	(20,643)	(15,237)	(21,881)	(22,681)
Creditors		(11,739)	(14,958)	(20,228)	(14,887)	(21,531)	(22,331)
Short term borrowings		(815)	(712)	(415)	(350)	(350)	(350)
Long Term Liabilities		(6,834)	(8,684)	(5,871)	(5,319)	(12,319)	(7,919)
Long term borrowings		(4,642)	(5,190)	(5,700)	(4,995)	(6,995)	(4,595)
Other long term liabilities		(2,192)	(3,494)	(171)	(324)	(5,324)	(3,324)
Net Assets		14,742	14,982	19,638	24,902	29,011	33,136
CASH FLOW							
Operating Cash Flow		4,948	7,203	9,599	6,261	8,211	9,430
Net Interest		(325)	(311)	(240)	(342)	(355)	(350)
Tax		(2,430)	(1,992)	(1,090)	(1,476)	(1,925)	(2,125)
Capex		(1,203)	(1,246)	(2,153)	(307)	(1,100)	(1,275)
Acquisitions/disposals		(2,354)	(1,959)	(829)	(4,549)	(4,550)	(2,000)
Financing		232	953	(994)	(1,941)	2,020	(2,400)
Dividends		(590)	(691)	(807)	(900)	(1,000)	(1,050)
Other		0	0	0	0	0	0
Net Cash Flow		(1,722)	1,957	3,486	(3,254)	1,301	230
Opening net debt/(cash)		(2,449)	1,439	68	(3,410)	(1,785)	(1,086)
Finance leases		(20)	(299)	(217)	(225)		
Other		(2,146)	(287)	209	1,854	(2,000)	2,400
Closing net debt/(cash)		1,439	68	(3,410)	(1,785)	(1,086)	(3,716)

Source: Next Fifteen Communications 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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