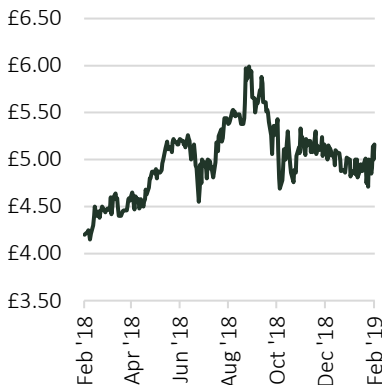




# Next Fifteen Communications Group PLC

NFC | AIM | Media | 516p | £431m

## 1 Year Chart



Next Fifteen Communications Group PLC is a research client of Radnor Capital Partners Ltd.

**MiFID II – this research is deemed to be a minor, non-monetary benefit.**

11 February 2019

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## Trading update and Acquisition of Planning-inc

*In what has felt a febrile market, the recent pre-close trading update was reassuringly brief and solid. Life continues largely as normal for Next Fifteen. Acquisitions made over the last few years are delivering strong growth; providing management with a good opportunity to actively manage the North American portfolio; where the Text100 and Bite agencies are being merged. The acquisition of Planning-inc continues the well-established pattern of NFC paying attractive initial multiples for fast growing and profitable digital marketing assets, often with highly specific and niche applications. NFC's track record here speaks volumes to the focus and rigour of management's approach. The NFC forward PE has come down a notch or two (alongside the peer group) and currently stands at 13.8x on a Calendar 2019 basis. We believe this reflects a moderation of market risk appetite rather than a specific judgement on NFC.*

- Planning-inc:** NFC announced this acquisition on 11<sup>th</sup> January 2019 for an initial consideration of c.£6.3m (£5.3m in cash). Planning-inc is a UK data science agency specialising in building data platforms and predictive customer analytics for a range of customer facing brands such as M&S, Argos, Sony and Halfords. In line with previous deals, Planning-inc has been acquired at a single digit EBIT multiple with a multi-year earn out linked to future EBIT performance.
- Trading commentary.** Reassuringly in-line is perhaps the best summary of what was a brief trading update. The broad shape of the UK outperforming the US is likely to remain in place. All eyes will be on the progress made in merging the Text100 and Bite agencies in the US, which could have a materially positive effect on the group.
- Forecast revisions.** We keep our FY19 estimates unchanged, reflecting the in-line trading update. Planning-inc is expected to earnings accretive in FY20E and we adjust our estimates accordingly, with a 2% upgrade to adj. PBT and 1% for fully diluted adj. EPS. Our balance sheet estimates adjust for the acquisition consideration, with FY20E net cash now expected to be £15.5m (prior £22.9m).
- Valuation:** On our revised estimates, NFC trades on a Calendar 2019 PE of 13.8x, falling to 12.5x for Calendar 2020, representing a PEG of 0.9x. The Next Fifteen PE multiple has retraced somewhat (in-line with other small cap Media peers) as the market digests an uncertain near-term outlook. It is worth pointing out here that NFC will be a net beneficiary of any Sterling weakness relative to the dollar.

YE - January	Sales, £m	PBT adj, £m	EPS (p)	Div (p)	Net Cash, £m	Fiscal PER x	Yield %
FY 2017A	171.0	24.2	23.4	5.3	-11.4	22.0	1.0
FY 2018A	196.8	29.3	27.8	6.3	-11.6	18.6	1.2
FY 2019E	226.7	36.0	32.9	7.6	-4.9	15.7	1.5
FY 2020E	251.6	43.3	37.7	8.7	15.5	13.7	1.7
FY 2021E	267.0	47.6	41.5	10.0	35.9	12.4	1.9

Source: Radnor Capital Partners

## Estimate Changes

NFC has released a pre-close trading update. Key headlines were:

- Results for the year ended 31<sup>st</sup> January 2019 expected to be line with Board expectations;
- Continued organic revenue growth in the second half of the year, with a positive initial contribution from Activate (acquired in November 2018);
- The merger of the Text100 and Bite agencies is currently under-way and the group has also confirmed that its strongly performing UK centric data businesses, which currently sit under the MIG umbrella, are going to be reorganised and co-branded, tightening further the customer offering.
- The company has also confirmed a year end net debt expectation of c.£5m which implies an in-line cash conversion performance prior to payment of the Planning-inc initial acquisition consideration.

We have updated our estimates for the Planning-inc acquisition, leading to small upgrades to our UK numbers. At this stage we have left our broader estimates unchanged. We will revisit at the final results, when visibility will improve heading in towards Q2.

**Figure 1: Radnor Estimate Changes for Next Fifteen Communications**

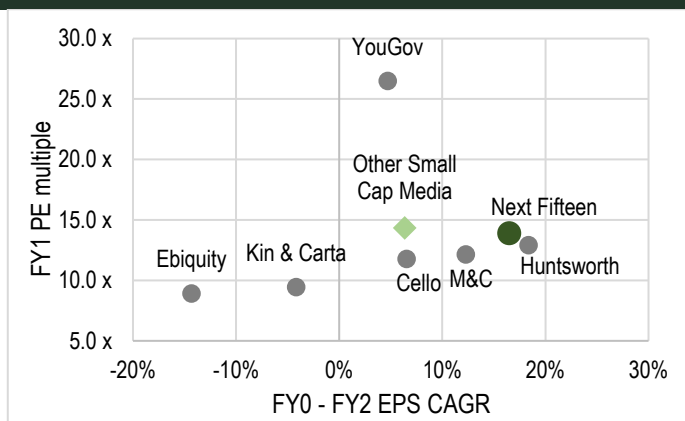
	Previous 2019E	Revised 2019E	Δ, % 2019E	Previous 2020E	Revised 2020E	Δ, % 2020E
UK	84.0	84.0	-	92.4	96.2	4%
North America	119.8	118.8	-1%	135.7	131.7	-3%
EMEA	8.4	8.4	-	8.7	8.7	-
Asia Pacific	14.5	14.5	-	15.0	15.0	-
<b>Revenue</b>	<b>226.7</b>	<b>225.7</b>	<b>-</b>	<b>251.7</b>	<b>251.6</b>	<b>-</b>
UK	19.9	19.9	-	22.2	23.3	5%
North America	23.6	23.6	-	27.8	27.7	-1%
EMEA	1.3	1.3	-	1.5	1.5	-
Asia Pacific	1.7	1.7	-	2.4	2.4	-
Central Overhead	-9.9	-9.9	-	-11.1	-11.1	-
<b>EBITA</b>	<b>36.7</b>	<b>36.8</b>	<b>-</b>	<b>42.8</b>	<b>43.7</b>	<b>2%</b>
- margin %	16.2%	16.3%		17.0%	17.4%	
<b>Adj. PBT</b>	<b>35.9</b>	<b>36.0</b>	<b>-</b>	<b>42.5</b>	<b>43.3</b>	<b>2%</b>
<b>Adj. EPS (p)</b>	<b>32.8</b>	<b>32.9</b>	<b>-</b>	<b>37.3</b>	<b>37.7</b>	<b>1%</b>
Dividend (p)	7.6	7.6	-	8.7	8.7	0%
<b>Net Cash (Debt)</b>	<b>1.6</b>	<b>-4.9</b>		<b>22.9</b>	<b>15.5</b>	

Source: Radnor Capital Partners

## Valuation

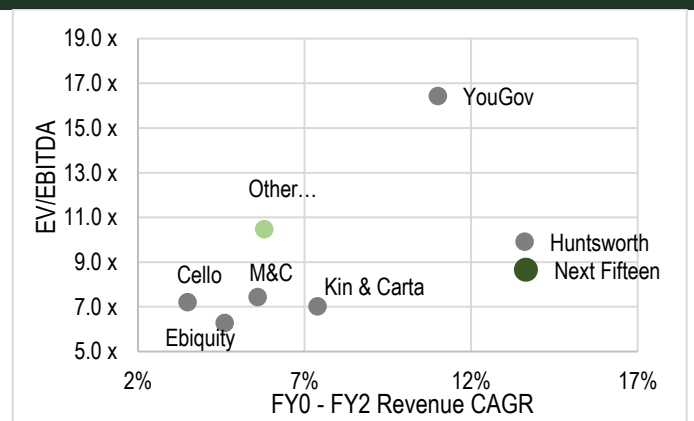
- NFC's valuation currently stands broadly in-line with the immediate peer group range on both a Calendar 2019 basis (**13.8x** vs Small Cap Agency average **13.5x**) and Calendar 2019 EV/EBITDA (**8.6x** vs Small Cap Agency average **9.0x**);
- However, NFC's expected growth is materially higher looking at both revenue and EPS (NFC revenue/EPS growth CAGR of **12%/16%** respectively vs **7%/6%** respectively for the Small Cap Agency average);
- We also show the rolling FY1 PE multiple for NFC compared to the Agency peer group and the broader Smaller Cap Media peer group over the last two years. We can see that although the NFC forward PE has come off from a higher peak, the direction of travel has been consistent across the broader sector.

Cal 2019 PE multiple vs forward EPS growth CAGR



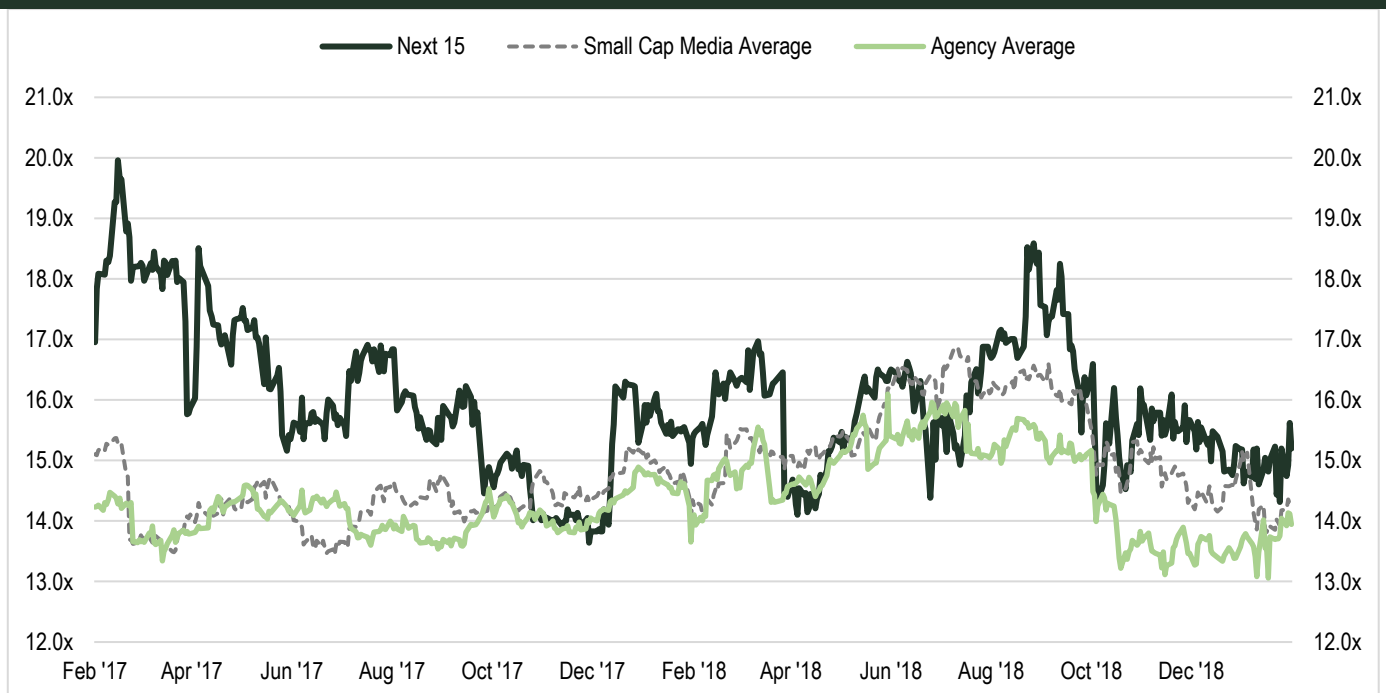
Source: FactSet, Radnor

Cal 2019 EV/EBITDA vs forward Revenue growth CAGR



Source: FactSet, Radnor

Rolling FY1 PE multiple – Next 15 vs Agency peer group vs Small Cap Media



Source: FactSet, Radnor

## Next Fifteen Communications PLC

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Price (p): 516 p  
Market Cap: 431 m  
EV: 443 m

## PROFIT &amp; LOSS

Year to 31 January, £m	2016	2017	FY18	FY19e	FY20e	FY21e
UK	27.9	42.6	58.3	84.0	96.2	103.1
North America	83.5	107.0	115.9	118.8	131.7	139.6
EMEA	6.4	7.2	7.9	8.4	8.7	8.9
Asia Pacific	12.0	14.2	14.7	14.5	15.0	15.4
<b>Group Net Revenue</b>	<b>129.8</b>	<b>171.0</b>	<b>196.8</b>	<b>225.7</b>	<b>251.6</b>	<b>267.0</b>
UK	3.8	8.0	13.0	19.9	23.3	24.9
North America	17.5	22.3	23.2	23.6	27.7	30.2
EMEA	0.5	0.6	0.8	1.3	1.5	1.6
Asia Pacific	1.4	2.2	2.0	1.7	2.4	2.5
Head Office	(6.6)	(8.2)	(8.9)	(9.8)	(11.1)	(11.6)
<b>EBITA - Adjusted</b>	<b>16.5</b>	<b>25.0</b>	<b>30.0</b>	<b>36.8</b>	<b>43.7</b>	<b>47.6</b>
Associates & JV's	(0.0)	(0.3)	0.0	0.0	-	-
Net Bank Interest	(0.4)	(0.5)	(0.7)	(0.9)	(0.5)	0.1
<b>PBT - Adjusted</b>	<b>16.1</b>	<b>24.2</b>	<b>29.3</b>	<b>36.0</b>	<b>43.3</b>	<b>47.6</b>
Non Operating Items	(8.1)	(17.1)	(12.8)	(11.8)	(10.0)	(10.6)
Other Financial Items	(2.4)	(4.2)	(3.2)	(1.5)	(2.5)	(2.5)
<b>PBT - IFRS</b>	<b>5.6</b>	<b>2.9</b>	<b>13.3</b>	<b>22.7</b>	<b>30.7</b>	<b>34.6</b>
Tax	(1.1)	(1.2)	(4.0)	(4.5)	(6.1)	(6.9)
Tax - Adjusted	(3.5)	(5.3)	(5.9)	(7.2)	(8.7)	(9.5)
Tax rate - Adjusted	22.0%	22.0%	20.0%	20.0%	20.0%	20.0%
Minority interests	0.5	0.5	0.7	0.8	1.1	1.2
No. shares m	66.3	72.3	74.3	79.1	82.4	82.4
No. shares m, diluted	71.6	78.3	82.1	85.1	88.9	88.9
IFRS EPS (p)	6.0	1.6	11.6	21.9	28.5	32.1
<b>Adj EPS (p), diluted</b>	<b>16.9</b>	<b>23.4</b>	<b>27.8</b>	<b>32.9</b>	<b>37.7</b>	<b>41.5</b>
Total DPS (p)	4.2	5.3	6.3	7.6	8.7	10.0

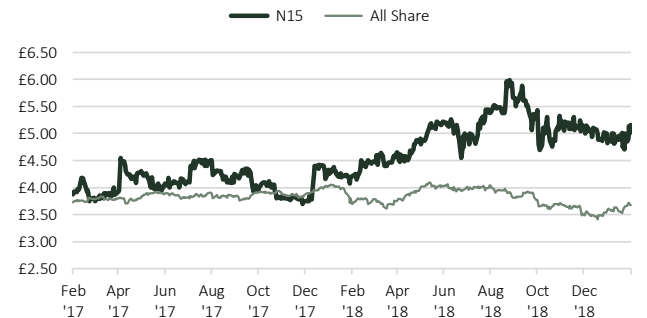
## CASH FLOW

Year to 31 January, £m	2016	2017	FY18	FY19e	FY20e	FY21e
Net Profit: (add back)	4.5	1.7	9.3	18.1	24.6	27.6
Depreciation & Amortisation	6.1	9.5	11.4	11.7	13.3	14.2
Net Finance costs	2.8	4.7	4.0	2.4	3.0	2.4
Tax	1.1	1.2	4.0	4.5	6.1	6.9
Working Capital	0.2	6.3	(4.2)	(2.6)	(1.2)	(1.8)
Other	1.6	9.4	4.4	2.3	2.0	2.0
<b>Cash from Ops</b>	<b>16.3</b>	<b>32.8</b>	<b>28.9</b>	<b>36.4</b>	<b>47.7</b>	<b>51.4</b>
Cash Tax	(3.0)	(2.0)	(4.3)	(5.5)	(6.1)	(6.9)
Tangible Capex	(6.4)	(8.3)	(3.0)	(6.6)	(4.0)	(4.0)
Intangible Capex	(0.6)	(0.6)	(1.2)	(1.8)	(1.0)	(1.0)
<b>Free Cashflow</b>	<b>6.4</b>	<b>22.0</b>	<b>20.4</b>	<b>22.5</b>	<b>36.6</b>	<b>39.4</b>
Dividends	(3.0)	(4.3)	(5.7)	(6.9)	(7.9)	(8.8)
Acquisitions & Inv.	(13.4)	(21.9)	(15.4)	(28.8)	(7.5)	(10.0)
Financing	14.6	11.1	3.8	18.5	(0.8)	(0.2)
<b>Net Cashflow</b>	<b>4.6</b>	<b>6.8</b>	<b>3.1</b>	<b>5.3</b>	<b>20.4</b>	<b>20.4</b>
Net Cash (Debt)	(6.6)	(11.4)	(11.6)	(4.9)	15.5	35.9

## BALANCE SHEET

Year to 31 January, £m	2016	2017	FY18	FY19e	FY20e	FY21e
Intangibles	53.6	80.0	94.8	105.9	105.6	107.2
P,P+E	10.0	15.8	13.6	17.9	17.6	17.0
Tax Asset & Other	7.9	11.7	11.7	11.7	11.7	11.7
<b>Total Fixed Assets</b>	<b>71.4</b>	<b>107.4</b>	<b>120.1</b>	<b>135.5</b>	<b>134.9</b>	<b>135.9</b>
Net Working Capital	(12.0)	(27.5)	(32.2)	(27.7)	(32.5)	(30.7)
<b>Capital Employed</b>	<b>59.4</b>	<b>79.9</b>	<b>87.9</b>	<b>107.7</b>	<b>102.4</b>	<b>105.2</b>
Net Funds	(6.6)	(11.4)	(11.6)	(4.9)	15.5	35.9
<b>Net Assets</b>	<b>52.8</b>	<b>68.5</b>	<b>76.3</b>	<b>102.9</b>	<b>117.9</b>	<b>141.2</b>

## PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



## SHAREHOLDERS

	% of ord. Share capital
Liontrust	12.9%
Octopus Investments	11.3%
Aviva Investors	9.8%
Aberdeen Stan Life	8.1%
Directors	7.1%
Herald Inv Mgmt	5.0%
BlackRock	4.9%
Hargreave Hale	4.5%
	<b>63.5%</b>

## Announcements

Date	Event
11th January 2019	Acquisition of Planning-inc for £6.3m initial
1st November 2018	Acquisition Activate for \$9.9m initial
13th July 2018	Acquisition of Technical Associates for £2.2m
7th February 2018	Acquisition of Brandwidth for max £10.3m
26th Sep 2017	Interim results (y/e Jan 2018)
26th Sep 2017	Acquisition of Charterhouse Research for £2.75m
15th Sep 2017	Acquisition of Elvis Communications for £5.5m

## RATIOS

	2017	FY18	FY19e	FY20e	FY21e
RoE	26.8%	29.9%	27.2%	28.4%	26.1%
RoCE	30.9%	34.2%	34.2%	42.7%	45.2%
Asset Turnover (x)	0.6x	0.6x	0.6x	0.5x	0.5x
NWC % Revenue	16.1%	16.3%	12.3%	12.9%	11.5%
Op Cash % EBITA	131.5%	96.1%	98.9%	109.1%	108.0%
Net Debt / EBITDA	0.4x	0.3x	0.1x	-	-

## VALUATION

Fiscal	2017	FY18	FY19e	FY20e	FY21e
P/E	22.0x	18.6x	15.7x	13.7x	12.4x
EV/EBITDA	15.3x	13.1x	10.8x	9.1x	9.3x
Div Yield	1.0%	1.2%	1.5%	1.7%	1.9%
FCF Yield	5.0%	4.6%	5.1%	8.3%	8.9%
EPS growth	38.9%	18.6%	18.4%	14.7%	10.0%
DPS growth	25.0%	20.0%	20.0%	15.0%	15.0%

## REGULATORY DISCLOSURES

*Radnor Capital Partners Ltd is authorised and regulated by the Financial Conduct Authority.*

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