2 April 2019

# Next Fifteen Communications Group plc

## Results for the year ended 31 January 2019

Next Fifteen Communications Group plc ("Next 15" or the "Group"), the digital communications group, today announces its results for the year ended 31 January 2019.

### Financial results for the year to 31 January 2019

| | Year ended 31 January 2019 £m | Year ended 31 January 2018 £m | Growth in results |
|---|---|---|---|
| **Adjusted results** | | | |
| Net revenue | **224.1** | 196.8 | **14%** |
| EBITDA | **41.7** | 34.4 | **21%** |
| Operating profit | **37.0** | 30.0 | **23%** |
| Operating profit margin | **16.5%** | 15.3% | |
| Profit before tax | **36.0** | 29.3 | **23%** |
| Diluted EPS (p) | **33.1p** | 27.8p | **19%** |
| Net cash generated from operations | **38.4** | 28.9 | **33%** |
| **Statutory results** | | | |
| Revenue | **272.4** | 233.9 | **16%** |
| Operating profit | **20.7** | 17.2 | **20%** |
| Profit before tax | **18.8** | 13.3 | **41%** |
| Diluted EPS (p) | **16.3p** | 10.5p | **55%** |

In order to assist shareholders' understanding of the underlying performance of the business, adjusted results have been presented. Adjusted results are reconciled to statutory results within notes 2 and 3.

### Highlights

- Group net revenue growth of 14%, with organic net revenue growth of 6.4% (on a constant currency basis)
- Adjusted operating profit margin increased to 16.5% from 15.3%
- Adjusted profit before tax up 23% to £36.0m
- Adjusted diluted earnings per share increased by 19% to 33.1p
- Strong balance sheet with net debt of £5.2m (2018: £11.6m)
- Significant client wins including Beiersdorf, Capital One and Pearson
- Final dividend of 5.4p per share, resulting in a total dividend for the year of 7.56p per share, representing an increase of 20%

### Commenting on the results, Chairman of Next 15, Richard Eyre said:

We are making great progress as the results demonstrate. Next 15 has evolved from a pure PR group into a data and technology-driven marketing group. There is more change to come as the industry continues to evolve and as our customers wrestle with the impact technology is having on their own business models. We are excited about our future as we believe we have the right foundational platform of businesses, products, talent and customers to tackle the next stage in our evolution. Evolution that we see delivering further strong growth in the years ahead.

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**Notes:**

*Net revenue*
Net revenue is calculated as revenue less direct costs as shown on the Consolidated Income Statement

*Organic net revenue growth*
Organic net revenue growth is defined as the net revenue growth at constant currency excluding the impact of acquisitions, and the impact of the disposal of our Story business in the prior period.

*Adjusted operating profit margin*
Adjusted operating profit margin is calculated based on the adjusted operating profit as a percentage of net revenue.

This announcement contains inside information as defined in Article 7 of the Market Abuse Regulation.

## Chairman and Chief Executive's Statement

Next 15, the digital communications group, is pleased to report its results for the year ended 31 January 2019.

## Review of Adjusted Results to 31 January 2019

| ADJUSTED RESULTS | **Year Ended 31 January 2019 £'000** | Year Ended 31 January 2018 £'000 |
|---|---|---|
| Net revenue | **224,093** | 196,811 |
| EBITDA | **41,733** | 34,388 |
| Operating profit | **36,956** | 30,026 |
| Operating profit margin | **16.5%** | 15.3% |
| Net finance expense | **(1,017)** | (714) |
| Share of profits from associate | **65** | 26 |
| Profit before income tax | **36,004** | 29,338 |
| Tax rate on adjusted profit | **20%** | 20% |
| Diluted adjusted earnings per share | **33.1p** | 27.8p |

The last 12 months have been a period of significant progress and change across the Group. We have grown our total group net revenues by almost 14% and by 6.4% on an organic and constant currency basis, whilst increasing the operating profit margin to a record 16.5%. Our Twogether, Savanta, M Booth and Publitek agencies have been stand out performers, whilst we have achieved solid performances across most of our portfolio.

In addition, we have implemented a number of operational improvements including the merger of our Text and Bite agencies and their re-launch under the Archetype brand and consolidating our market research agencies under the Savanta brand. This has had the benefit of simplifying the group's operating structure as well as increasing our underlying operating margin.

For the year to 31 January 2019, the Group delivered net revenue of £224.1m (2018: £196.8m), adjusted operating profit of £37.0m (2018: £30.0m), adjusted profit before income tax of £36.0m (2018: £29.3m) and adjusted diluted earnings per share of 33.1p (2018: 27.8p). Statutory revenue rose 16.5% to £272.4m (2018: £233.9m) and statutory operating profit rose 20.3% to £20.7m (2018: £17.2m).

The Group adjusted operating margin increased to 16.5% from 15.3% in the prior year.

### Regional adjusted performance

| | **UK £'000** | **Europe & Africa £'000** | **US £'000** | **Asia Pacific £'000** | **Head Office £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| **Year ended 31 January 2019** | | | | | | |
| **Revenue** | **109,161** | **10,267** | **136,290** | **16,695** | **–** | **272,413** |
| **Net revenue** | **83,528** | **8,735** | **117,911** | **13,919** | **–** | **224,093** |
| **Operating profit** | **20,482** | **1,504** | **22,047** | **2,207** | **(9,284)** | **36,956** |
| **Operating profit margin** | **24.5%** | **17.2%** | **18.7%** | **15.9%** | **–** | **16.5%** |
| ***Organic revenue growth*** | ***15.5%*** | ***7.3%*** | ***2.8%*** | ***(2.1%)*** | **–** | ***6.4%*** |
| Year ended 31 January 2018 | | | | | | |
| Revenue | 77,378 | 8,951 | 131,045 | 16,548 | – | 233,922 |
| Net revenue | 58,329 | 7,851 | 115,941 | 14,690 | – | 196,811 |
| Operating profit | 12,984 | 752 | 23,181 | 2,002 | (8,893) | 30,026 |
| Operating profit margin | 22.3% | 9.6% | 20.0% | 13.6% | – | 15.3% |
| *Organic revenue growth* | 7.6% | 3.4% | 5.1% | (0.7%) | – | 5.2% |

Our US businesses have continued to perform steadily led by our M Booth and former Bite brands, with Activate our most recent acquisition performing very well. In the year to 31 January 2019, total US net revenues grew by 1.7% to £117.9m from £115.9m which equated to an organic growth rate of 2.8%, taking account of movements in exchange rates. Organic growth has been impacted in the short-term by the merger of Text and Bite. We incurred £2.2m in exceptional restructuring costs pursuant to the merger of Text and Bite and a further £0.9m of restructuring costs in the US generally. The adjusted operating profit from our US businesses was £22.0m compared with £23.2m in 2018.

The UK businesses have delivered a very strong performance, with net revenue increasing by 43.2% to £83.5m from £58.3m in the prior period. This growth was partly due to the acquisitions made in the year, but also from the strong organic net revenue growth in the UK of 15.5% with exceptionally strong performances from our Twogether and Savanta agencies. The adjusted operating profit increased to £20.5m (2018: £13.0m) with the adjusted operating margin increasing to 24.5% (2018: 22.3%).

In July 2018 we acquired Technical, a B2B content marketing agency with a focus on technology clients which has been merged with Publitek, and in January 2019 we acquired Planning-inc, a data science business focused on the consumer sector.

We have delivered a solid trading performance in EMEA as we have continued to focus our efforts on markets of potential scale. Net revenue increased by 11.3% to £8.7m (2018: £7.9m) and adjusted operating profit increased to £1.5m at an improved adjusted operating margin of 17.2%.

In the APAC region net revenue decreased by 5.2% to £13.9m (2018: £14.7m), however the operating margin increased to 15.9% from 13.6% in the prior period and the operating profit increased to £2.2m (2018: £2.0m).

## Segment adjusted performance

In order to provide clarity on the key growth drivers of the Group, we have enhanced the disclosure of the Group's performance to include an analysis of the results by operational segment. We have prepared the analysis by three operational segments, namely Brand Marketing, Data and Analytics and Creative Technology.

| | **Brand Marketing £'000** | **Data and Analytics £'000** | **Creative Technology £'000** | **Head Office £'000** | **Total £'000** |
|---|---|---|---|---|---|
| **Year ended 31 January 2019** | | | | | |
| **Revenue** | **158,316** | **33,757** | **80,340** | **–** | **272,413** |
| **Net revenue** | **133,163** | **23,209** | **67,721** | **–** | **224,093** |
| **Operating profit** | **29,580** | **7,171** | **9,489** | **(9,284)** | **36,956** |
| **Operating profit margin** | **22.2%** | **30.9%** | **14.0%** | **–** | **16.5%** |
| ***Organic revenue growth*** | ***0.1%*** | ***30.6%*** | ***17.0%*** | **–** | ***6.4%*** |
| Year ended 31 January 2018 | | | | | |
| Revenue | 155,995 | 21,140 | 56,787 | – | 233,922 |
| Net revenue | 134,678 | 13,869 | 48,264 | – | 196,811 |
| Operating profit | 27,465 | 3,509 | 7,945 | (8,893) | 30,026 |
| Operating profit margin | 20.4% | 25.3% | 16.5% | – | 15.3% |
| *Organic revenue growth* | 1.0% | 48.5% | 12.2% | – | 5.2% |

**Brand marketing** includes our Archetype, OutCast, M Booth, Blueshirt and Publitek agencies. During the year we merged our former Text and Bite agencies and then relaunched them in February 2019 under the Archetype brand. We also merged the former Connections Media agency into OutCast. In July 2018 we acquired Technical and merged it into Publitek. The segment produced resilient earnings, despite these planned restructuring actions, led by our M Booth and Publitek agencies. Total net revenue reduced by 1.1% to £133.2m with organic growth of 0.1% but adjusted operating profit increased by 7.7% to £29.6m at an improved operating margin of 22.2%.

The **Data and analytics** segment includes Savanta, Encore and our recently acquired Activate and Planning-inc agencies. During the year we merged all of our market research brands and relaunched them in January 2019 under the Savanta brand. In November 2018 we acquired the US based lead generation agency, Activate, and in January 2019 we acquired the data science agency Planning-inc. The segment produced an outstanding performance with net revenue growing by 67.3% to £23.2m with organic growth of 30.6% and delivered operating profit of £7.2m at an operating margin of 30.9%.

The **Creative technology** segment includes our ODD, Elvis, Brandwidth, Beyond, Twogether, Agent3 and Velocity agencies. Brandwidth was acquired in February 2018. The segment delivered a strong performance with Twogether and Beyond UK excelling. Overall the segment delivered net revenue growth of 40.3% to £67.7m with organic net revenue growth of 17.0%. The adjusted operating profit increased by 19.4% to £9.5m at an operating profit margin of 14.0%.

## Balance Sheet and Net Debt

The Group's balance sheet remains strong with net debt as at 31 January 2019 of £5.2m (2018: £11.6m), equating to 0.1x adjusted EBITDA. The net cash inflow from operating activities for the year to 31 January 2019 increased to £37.2m from £33.1m in the prior period. Our management of working capital remained good with a small inflow reflecting the growth in the Group. This resulted in our net cash generated from operations before tax being £38.4m (2018: £28.9m).

Over the period we invested £29.6m in acquisition related payments of which £14.0m fell in the second half, and £8.0m in capital expenditure.

| **Cash flow KPIs** | **Year to 31 January 2019 £m** | Year to 31 January 2018 £m |
|---|---|---|
| Net cash inflow from operating activities before changes in working capital | **37.2** | 33.1 |
| Working capital movement | **1.2** | (4.2) |
| Net cash generated from operations | **38.4** | 28.9 |
| Income tax paid | **(6.2)** | (4.3) |
| Investing activities | **(37.2)** | (19.4) |
| Dividend paid to shareholders | **(5.2)** | (4.1) |
| Proceeds from share placing | **19.5** | - |

The Group operates a £60m revolving credit facility ("RCF") with HSBC available until July 2022 having extended it in February 2018 to include a £20m term loan. The £40m facility is primarily used for acquisitions and is due to be repaid from the trading cash flows of the Group. The facility is available in a combination of sterling, US dollar and euro at an interest margin dependent upon the level of gearing in the business. The term loan of £20m has been fully drawn down and is repayable in equal annual instalments; the last repayment is due in December 2021. The Group also has a US facility of $7m (2018: $6m) which is available for property rental guarantees and US-based working capital needs.

As part of the facilities agreement, Next 15 must comply with a number of covenants, including maintaining the multiple of net bank debt before earn-out obligations to adjusted EBITDA below 1.75x and the level of net bank debt including earn-out obligations to adjusted EBITDA below 2.5x. Next 15 has ensured that it has complied with all of its covenant obligations with significant headroom.

## Current Trading and Outlook

Looking ahead, the Group continues to focus on building its data, analytics and technology capabilities and ensuring these are embedded throughout the Group. The investments we are making to restructure our brand marketing segment, in particular the launch of Archetype, are progressing well and we expect to start to see the benefit of this action in the latter part of the financial year. Current trading is in line with management's expectations and the Group is confident of another significant increase in profitability.

The Board is recommending the payment of a final dividend for the year ended 31 January 2019 of 5.4p per share, which would represent a total dividend of 7.56p for the year and represents an increase of 20% on the dividend in the prior year.

**NEXT FIFTEEN COMMUNICATIONS GROUP PLC**

**CONSOLIDATED INCOME STATEMENT**

**FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018**

| | Note | Year ended 31 January 2019 | Year ended 31 January 2018 *Restated |
|---|---|---|---|
| | | £'000 | £'000 |
| **Billings** | | 291,037 | 243,485 |
| Revenue | | 272,413 | 233,922 |
| Direct costs | | (48,320) | (37,111) |
| **Net revenue** | 2 | **224,093** | **196,811** |
| Staff costs | | 153,247 | 136,346 |
| Depreciation | | 4,199 | 3,985 |
| Amortisation | | 9,624 | 7,413 |
| Other operating charges | | 36,346 | 31,842 |
| Total operating charges | | (203,416) | (179,586) |
| **Operating profit** | 2 | **20,677** | **17,225** |
| Finance expense | 6 | (6,584) | (5,833) |
| Finance income | 7 | 4,667 | 1,878 |
| Share of profit from associate | | 65 | 26 |
| **Profit before income tax** | 3 | **18,825** | **13,296** |
| Income tax expense | 4 | (4,299) | (4,000) |
| **Profit for the period** | | **14,526** | **9,296** |
| Attributable to: | | | |
| Owners of the parent | | 13,887 | 8,632 |
| Non-controlling interests | | 639 | 664 |
| | | **14,526** | **9,296** |
| **Earnings per share** | | | |
| Basic (pence) | 8 | 17.5 | 11.6 |
| Diluted (pence) | 8 | 16.3 | 10.5 |

** See note 12 for details regarding the restatement following the adoption of IFRS 15*

**NEXT FIFTEEN COMMUNICATIONS GROUP PLC**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018**

| | Year ended 31 January 2019 | Year ended 31 January 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Profit for the period** | **14,526** | **9,296** |
| **Other comprehensive income / (expense):** | | |
| *Items that may be reclassified into profit or loss:* | | |
| Exchange differences on translating foreign operations | 2,886 | (5,427) |
| Net investment hedge | (700) | 1,190 |
| | 2,186 | (4,237) |
| *Items that will not be reclassified subsequently to profit or loss* | | |
| Revaluation of investments | (682) | - |
| Total other comprehensive income / (expense) for the period | 1,504 | (4,237) |
| **Total comprehensive income for the period** | **16,030** | **5,059** |
| Attributable to: | | |
| Owners of the parent | 15,391 | 4,395 |
| Non-controlling interests | 639 | 664 |
| | **16,030** | **5,059** |

## NEXT FIFTEEN COMMUNICATIONS GROUP PLC

## ADJUSTED RESULTS: KEY PERFORMANCE INDICATORS

| | Year ended 31 January 2019 £'000 | Year ended 31 January 2018 £'000 |
|---|---|---|
| **Net revenue** | **224,093** | **196,811** |
| Total operating charges | (182,360) | (162,423) |
| **EBITDA** | **41,733** | **34,388** |
| Depreciation and Amortisation | (4,777) | (4,362) |
| **Operating profit** | **36,956** | **30,026** |
| *Operating profit margin* | *16.5%* | *15.3%* |
| Net finance expense | (1,017) | (714) |
| Share of profits of associate | 65 | 26 |
| **Profit before income tax** | **36,004** | **29,338** |
| Tax | (7,200) | (5,870) |
| **Retained profit** | **28,804** | **23,468** |

| | | |
|---|---|---|
| Weighted average number of ordinary shares | 79,225,075 | 74,344,883 |
| Diluted weighted average number of ordinary shares | 85,016,204 | 82,078,212 |

| | | |
|---|---|---|
| Adjusted earnings per share | 35.6p | 30.7p |
| Diluted adjusted earnings per share | 33.1p | 27.8p |

| | | |
|---|---|---|
| Cash inflow from operating activities before working capital changes | 37,212 | 33,054 |
| Cash outflow on acquisition related payments | (29,554) | (15,350) |
| Net debt | 5,177 | 11,593 |
| | | |
| Dividend (per share) | 7.56p | 6.30p |

## NEXT FIFTEEN COMMUNICATIONS GROUP PLC

## CONSOLIDATED BALANCE SHEET AS AT 31 JANUARY 2019 AND 2018

| | Note | 31 January 2019 £'000 | 31 January 2018 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | | 15,870 | 13,567 |
| Intangible assets | | 126,149 | 94,843 |
| Investment in equity accounted associate | | 98 | 132 |
| Investments in financial assets | | 1,587 | 1,211 |
| Deferred tax asset | | 10,521 | 9,794 |
| Other receivables | | 803 | 535 |
| **Total non-current assets** | | 155,028 | 120,082 |
| | | | |
| Trade and other receivables | | 66,123 | 49,538 |
| Cash and cash equivalents | 9 | 20,501 | 24,283 |
| Corporation tax asset | | 799 | 784 |
| **Total current assets** | | 87,423 | 74,605 |
| | | | |
| **Total assets** | | **242,451** | **194,687** |
| | | | |
| **Liabilities** | | | |
| Loans and borrowings | 9 | 20,678 | 34,465 |
| Deferred tax liabilities | | 4,503 | 3,869 |
| Other payables | | 4,622 | 4,290 |
| Provisions | | 1,825 | 141 |
| Deferred consideration | 10 | 2,464 | 1,784 |
| Contingent consideration | 10 | 20,147 | 13,271 |
| Share purchase obligation | 10 | 128 | 955 |
| **Total non-current liabilities** | | 54,367 | 58,775 |
| | | | |
| Loans and borrowings | 9 | 5,000 | 1,406 |
| Trade and other payables | | 60,173 | 45,003 |
| Provisions | | 1,118 | 1,405 |
| Corporation tax liability | | 1,985 | 2,154 |
| Deferred consideration | 10 | 2,182 | 4,255 |
| Contingent consideration | 10 | 4,565 | 5,368 |
| Share purchase obligation | 10 | 1,608 | - |
| **Total current liabilities** | | 76,631 | 59,591 |
| | | | |
| **Total liabilities** | | **130,998** | **118,366** |
| | | | |
| **TOTAL NET ASSETS** | | **111,453** | **76,321** |
| | | | |
| **Equity** | | | |
| Share capital | | 2,089 | 1,892 |
| Share premium reserve | | 62,993 | 28,611 |
| Share purchase reserve | | (2,673) | (2,673) |
| Foreign currency translation reserve | | 7,697 | 4,811 |
| Other reserves | | 1,019 | 1,719 |
| Retained earnings | | 41,404 | 42,604 |
| **Total equity attributable to owners of the parent** | | **112,529** | **76,964** |
| Non-controlling interests | | (1,076) | (643) |
| **TOTAL EQUITY** | | **111,453** | **76,321** |

**NEXT FIFTEEN COMMUNICATIONS GROUP PLC**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018**

| | Share capital | Share premium reserve | Share purchase reserve | Foreign currency translation reserve | Other reserves[1] | Retained earnings | Equity attributable to owners of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **At 31 January 2017** | **1,834** | **25,681** | **(2,673)** | **10,238** | **529** | **31,962** | **67,571** | **926** | **68,497** |
| Profit for the year | - | - | - | - | - | 8,632 | 8,632 | 664 | 9,296 |
| Other comprehensive (expense) / income for the year | - | - | - | (5,427) | 1,190 | - | (4,237) | - | (4,237) |
| Total comprehensive (expense) / income for the year | - | - | - | (5,427) | 1,190 | 8,632 | 4,395 | 664 | 5,059 |
| Shares issued on satisfaction of vested performance shares | 40 | - | - | - | - | (77) | (37) | - | (37) |
| Shares issued on acquisitions | 18 | 2,930 | - | - | - | - | 2,948 | - | 2,948 |
| Movement in relation to share-based payments | - | - | - | - | - | 4,284 | 4,284 | - | 4,284 |
| Tax on share-based payments | - | - | - | - | - | 1,240 | 1,240 | - | 1,240 |
| Dividends to owners of the parent | - | - | - | - | - | (4,121) | (4,121) | - | (4,121) |
| Movement due to ESOP share purchases | - | - | - | - | (39) | - | (39) | - | (39) |
| Movement due to ESOP share option exercises | - | - | - | - | 39 | - | 39 | - | 39 |
| Movement on reserves for non-controlling interests | - | - | - | - | - | 684 | 684 | (684) | - |
| Non-controlling interest dividend | - | - | - | - | - | - | - | (1,549) | (1,549) |
| **At 31 January 2018 as previously stated** | **1,892** | **28,611** | **(2,673)** | **4,811** | **1,719** | **42,604** | **76,964** | **(643)** | **76,321** |
| Change in accounting policy (IFRS 9)[2] | - | - | - | - | - | 48 | 48 | - | 48 |
| **At 1 February 2018 as restated** | **1,892** | **28,611** | **(2,673)** | **4,811** | **1,719** | **42,652** | **77,012** | **(643)** | **76,369** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **13,887** | **13,887** | **639** | **14,526** |
| Other comprehensive income / (expense) for the year | **-** | **-** | **-** | **2,886** | **(700)** | **(682)** | **1,504** | **-** | **1,504** |
| Total comprehensive income / (expense) for the year | **-** | **-** | **-** | **2,886** | **(700)** | **13,205** | **15,391** | **639** | **16,030** |
| Shares issued on satisfaction of vested performance shares | **68** | **10,593** | **-** | **-** | **-** | **(10,697)** | **(36)** | **-** | **(36)** |
| Shares issued on acquisitions | **24** | **4,433** | **-** | **-** | **-** | **-** | **4,457** | **-** | **4,457** |
| Shares issues on placing | **105** | **19,356** | **-** | **-** | **-** | **-** | **19,461** | **-** | **19,461** |
| Obligation to purchase non-controlling interest | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(515)** | **(515)** |
| Movement in relation to share-based payments | **-** | **-** | **-** | **-** | **-** | **2,510** | **2,510** | **-** | **2,510** |
| Tax on share-based payments | **-** | **-** | **-** | **-** | **-** | **203** | **203** | **-** | **203** |
| Dividends to owners of the parent | **-** | **-** | **-** | **-** | **-** | **(5,243)** | **(5,243)** | **-** | **(5,243)** |
| Movement due to ESOP share purchases | **-** | **-** | **-** | **-** | **(12)** | **-** | **(12)** | **-** | **(12)** |
| Movement due to ESOP share option exercises | **-** | **-** | **-** | **-** | **12** | **-** | **12** | **-** | **12** |
| Movement on reserves for non-controlling interests | **-** | **-** | **-** | **-** | **-** | **(1,226)** | **(1,226)** | **1,226** | **-** |
| Non-controlling interest purchased in the period | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(383)** | **(383)** |
| Non-controlling dividend | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,400)** | **(1,400)** |
| **At 31 January 2019** | **2,089** | **62,993** | **(2,673)** | **7,697** | **1,019** | **41,404** | **112,529** | **(1,076)** | **111,453** |

[1] Other reserves include ESOP reserve, the treasury reserve, the merger reserve and the hedging reserve.
[2] Refer to note 12 for the restatement required following adoption of IFRS 9.

**NEXT FIFTEEN COMMUNICATIONS GROUP PLC**

**CONSOLIDATED STATEMENT OF CASH FLOW**

**FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018**

| | Year ended 31 January 2019 | Year ended 31 January 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Cash flows from operating activities** | | |
| Profit for the period | 14,526 | 9,296 |
| Adjustments for: | | |
| Depreciation | 4,199 | 3,985 |
| Amortisation | 9,624 | 7,413 |
| Finance expense | 6,584 | 5,833 |
| Finance income | (4,667) | (1,878) |
| Share of profit from equity accounted associate | (65) | (26) |
| Loss on sale of property, plant and equipment | 202 | 147 |
| Income tax expense | 4,299 | 4,000 |
| Share-based payment charge | 2,510 | 4,284 |
| **Net cash inflow from operating activities before changes in working capital** | **37,212** | **33,054** |
| Change in trade and other receivables | (8,013) | (5,860) |
| Change in trade and other payables | 7,629 | 2,143 |
| Change in other liabilities | 1,554 | (472) |
| | 1,170 | (4,189) |
| **Net cash generated from operations before tax outflows** | **38,382** | **28,865** |
| Income taxes paid | (6,237) | (4,284) |
| **Net cash inflow from operating activities** | **32,145** | **24,581** |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiaries and trade and assets, net of cash acquired | (19,281) | (9,824) |
| Payment of contingent and deferred consideration | (9,265) | (5,062) |
| Purchase of equity investments designated at FVTOCI | (1,008) | (464) |
| Acquisition of property, plant and equipment | (5,648) | (2,974) |
| Proceeds on disposal of property, plant and equipment | 71 | 7 |
| Acquisition of intangible assets | (2,384) | (1,193) |
| Net movement in long-term cash deposits | 132 | (6) |
| Interest received | 229 | 117 |
| **Net cash outflow from investing activities** | **(37,154)** | **(19,399)** |

**NEXT FIFTEEN COMMUNICATIONS GROUP PLC**

**CONSOLIDATED STATEMENT OF CASH FLOW *(Continued)***

**FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018**

| | Year ended 31 January 2019 | Year ended 31 January 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Cash flows from financing activities** | | |
| Proceeds on issue of share capital | 20,000 | - |
| Issue costs on issue of ordinary shares | (539) | - |
| Capital element of finance lease rental repayment | (5) | (17) |
| Increase in bank borrowings and overdrafts | 39,096 | 8,000 |
| Repayment of bank borrowings and overdrafts | (50,018) | (3,516) |
| Interest paid | (1,246) | (831) |
| Dividend and profit share paid to non-controlling interest partners | (1,400) | (1,549) |
| Dividends paid to shareholders of the parent | (5,243) | (4,121) |
| **Net cash inflow / (outflow) from financing activities** | **645** | **(2,034)** |
| **Net (decrease) / increase in cash and cash equivalents** | **(4,364)** | **3,148** |
| Cash and cash equivalents at beginning of the period | 24,283 | 22,072 |
| Exchange gains / (losses) on cash held | 582 | (937) |
| **Cash and cash equivalents at end of the period** | **20,501** | **24,283** |

## NOTES TO THE YEAR END RESULTS

## FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018

### 1) BASIS OF PREPARATION

The financial information in these results has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The principal accounting policies used in preparing the results are those the Group has applied in its financial statements for the year ended 31 January 2018 except for the adoption of the following accounting standards effective for the Group from 1 February 2018:

- IFRS 15 *Revenue from contracts with customers*
- IFRS 9 *Financial instruments*

Refer to note 12 for further details on the impact on the Group's results and the adjustments made to prior periods.

The comparative financial information for the year ended 31 January 2018 has been derived from the audited statutory financial statements for that year. A copy of those statutory financial statements has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

### 2) SEGMENT INFORMATION

*Measurement of operating segment profit*

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted operating profit before intercompany recharges, which reflects the internal reporting measure used by the Board of Directors. This measurement basis excludes the effects of certain fair value accounting charges, amortisation of acquired intangibles, brand equity incentive scheme charges and other exceptional one-off costs. Other information provided to them is measured in a manner consistent with that in the financial statements. Head office costs relate to group costs before allocation of intercompany charges to the operating segments. Intersegment transactions have not been separately disclosed as they are not material. The Board of Directors does not review the assets and liabilities of the Group on a segmental basis and therefore this is not separately disclosed.

| | UK | EMEA | US | Asia Pacific | Head Office | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Year ended 31 January 2019** | | | | | | |
| **Revenue** | **109,161** | **10,267** | **136,290** | **16,695** | **–** | **272,413** |
| **Net revenue** | **83,528** | **8,735** | **117,911** | **13,919** | **–** | **224,093** |
| **Adjusted operating profit / (loss)** | **20,482** | **1,504** | **22,047** | **2,207** | **(9,284)** | **36,956** |
| **Adjusted operating profit margin** | **24.5%** | **17.2%** | **18.7%** | **15.9%** | **–** | **16.5%** |
| **Organic net revenue growth** | **15.5%** | **7.3%** | **2.8%** | **(2.1%)** | **–** | **6.4%** |
| Year ended 31 January 2018 | | | | | | |
| Revenue | 77,378 | 8,951 | 131,045 | 16,548 | – | 233,922 |
| Net revenue | 58,329 | 7,851 | 115,941 | 14,690 | – | 196,811 |
| Adjusted operating profit / (loss) | 12,984 | 752 | 23,181 | 2,002 | (8,893) | 30,026 |
| Adjusted operating profit margin | 22.3% | 9.6% | 20.0% | 13.6% | – | 15.3% |
| Organic net revenue growth | 7.6% | 3.4% | 5.1% | (0.7%) | – | 5.2% |

## NOTES TO THE YEAR END RESULTS *(Continued)*

## FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018

During the year, the Board of Directors also received information on the performance of the Group by operating segment in additional to regional performance.

| | Brand marketing £'000 | Data and analytics £'000 | Creative technology £'000 | Head Office £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Year ended 31 January 2019** | | | | | |
| **Revenue** | **158,316** | **33,757** | **80,340** | **–** | **272,413** |
| **Net revenue** | **133,163** | **23,209** | **67,721** | **–** | **224,093** |
| **Adjusted operating profit / (loss)** | **29,580** | **7,171** | **9,489** | **(9,284)** | **36,956** |
| **Adjusted operating profit margin** | **22.2%** | **30.9%** | **14.0%** | **–** | **16.5%** |
| **Organic net revenue growth** | **0.1%** | **30.6%** | **17.0%** | **–** | **6.4%** |
| Year ended 31 January 2018 | | | | | |
| Revenue | 155,995 | 21,140 | 56,787 | – | 233,922 |
| Net revenue | 134,678 | 13,869 | 48,264 | – | 196,811 |
| Adjusted operating profit / (loss) | 27,465 | 3,509 | 7,945 | (8,893) | 30,026 |
| Adjusted operating profit margin | 20.4% | 25.3% | 16.5% | – | 15.3% |
| Organic net revenue growth | 1.0% | 48.5% | 12.2% | – | 5.2% |

A reconciliation of segment adjusted operating profit to statutory operating profit is provided as follows:

| | Year ended 31 January 2019 £'000 | Year ended 31 January 2018 £'000 |
|---|---|---|
| **Segment adjusted operating profit** | **36,956** | **30,026** |
| Amortisation of acquired intangibles | (9,046) | (7,036) |
| Share based payment charge and charges associated with equity transactions accounted for as share-based payments (note 3) | (2,132) | (3,050) |
| Charge associated with office moves (note 3) | (173) | (525) |
| Current period restructure (note 3) | (4,353) | (1,700) |
| Deal costs (note 3) | (575) | (490) |
| **Total operating profit** | **20,677** | **17,225** |

## NOTES TO THE YEAR END RESULTS *(Continued)*

## FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018

### 3) RECONCILIATION OF ADJUSTED RESULTS

| | Year ended 31 January 2019 £'000 | Year ended 31 January 2018 £'000 |
|---|---|---|
| **Profit before income tax** | **18,825** | **13,296** |
| Unwinding of discount on deferred and contingent consideration and share purchase obligation payable[1] | 2,806 | 2,510 |
| Change in estimate of future contingent consideration and share purchase obligation payable[1] | (1,906) | 731 |
| Share based payment charge and charges associated with equity transactions accounted for as share-based payments [2] | 2,132 | 3,050 |
| Charge associated with current period restructure[3] | 4,353 | 1,700 |
| Charge associated with office moves[4] | 173 | 525 |
| Deal costs[5] | 575 | 490 |
| Amortisation of acquired intangibles[6] | 9,046 | 7,036 |
| **Adjusted profit before income tax** | **36,004** | **29,338** |
| | | |
| **Operating profit** | **20,677** | **17,225** |
| Depreciation of property, plant and equipment | 4,199 | 3,985 |
| Amortisation of intangible assets | 9,624 | 7,413 |
| **EBITDA** | **34,500** | **28,623** |
| Share based payment charge and charges associated with equity transactions accounted for as share-based payments [2] | 2,132 | 3,050 |
| Charge associated with office moves[4] | 173 | 525 |
| Charge associated with current period restructure[3] | 4,353 | 1,700 |
| Deal costs[5] | 575 | 490 |
| **Adjusted EBITDA** | **41,733** | **34,388** |

[1] The Group adjusts for the remeasurement of the acquisition-related liabilities in order to aid comparability of the Group's results year on year as the charge/credit can vary significantly depending on the underlying brand's performance.

[2] £1.3m of this charge relates to transactions whereby a restricted grant of brand equity was given to key management in M Booth & Associates LLC, Encore Digital Media Limited, Twogether Creative Limited, Savanta Group Limited and ODD London Limited. (2018: Text 100 LLC, Encore Digital Media Limited, Bite Communications LLC and The OutCast Agency LLC) at nil cost which holds value in the form of access to future profit distributions as well as any future sale value under the performance-related mechanism set out in the share sale agreement. This value is recognised as a one-off share-based payment in the income statement in the year of grant as the agreements do not include service requirements. It also includes charges associated with equity transactions accounted for as share-based payments. £0.8m of the charge relates to employment related acquisition payments.

[3] In the current period the Group has incurred redundancy costs in relation to the restructuring and merger of the Text 100 and Bite businesses and their re-launch under the Archetype brand in the UK and US. The Group has also incurred restructuring costs in the merging and rebranding of its data businesses under the Savanta brand. These costs relate to these specific transformational events; they do not relate to underlying trading and therefore have been added back to aid comparability of performance year on year.

[4] In the current year the Group has recognised an onerous lease provision for excess property space within the portfolio following the merger of Bite and Text 100. The Group has adjusted for the cost of the onerous property leases as the additional rent cost does not relate to the underlying trading of the business.

[5] This charge relates to third party professional fees incurred during acquisitions and restructures, note 11.

[6] The Group determines that amortisation of acquired intangibles is not reflective of underlying performance. Judgement is applied in the allocation of the purchase price between intangibles and goodwill, and in determining the useful economic lives of the acquired intangibles. The judgements made by the Group are inevitably different to those made by our peers and as such amortisation of acquired intangibles been added back to aid comparability.

Adjusted profit before income tax and adjusted EBITDA have been presented to provide additional information which may be useful to the reader. Adjusted profit before income tax is a measure of performance used in the calculation of the adjusted earnings per share. This measure is considered to best represent the underlying performance of the business and so it is used for the vesting of employee performance shares.

## NOTES TO THE YEAR END RESULTS *(Continued)*

## FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018

### 4) TAXATION

The tax charge on adjusted profit for the year ended 31 January 2019 is £7,200,000, equating to an adjusted effective tax rate of 20%, compared to 20% in the prior year. The statutory effective tax rate is 23% compared to 30% in the prior year. The Group's corporation tax rate is expected to remain higher than the standard UK rate for the foreseeable future due to the higher rate of tax the Group suffers on its overseas profits.

### 5) DIVIDENDS

A final dividend of 5.4p (2018: 4.5p) per ordinary share will be paid on 26 July 2019 to shareholders listed on the register of members on 14 June 2019. Shares will go ex-dividend on 13 June 2019.

### 6) FINANCE EXPENSE

| | Year ended 31 January 2019 £'000 | Year ended 31 January 2018 £'000 |
|---|---|---|
| **Financial liabilities at amortised cost** | | |
| Bank interest payable | 1,235 | 831 |
| **Financial liabilities at fair value through profit and loss** | | |
| Unwinding of discount on deferred and contingent consideration and share purchase obligation payable[1] | 2,806 | 2,510 |
| Change in estimate of future contingent consideration and share purchase obligation payable[1] | 2,532 | 2,492 |
| **Other** | | |
| Other interest payable | 11 | - |
| **Finance expense** | **6,584** | **5,833** |

[1]These items are adjusted for in calculating the adjusted net finance expense.

### 7) FINANCE INCOME

| | Year ended 31 January 2019 £'000 | Year ended 31 January 2018 £'000 |
|---|---|---|
| **Financial assets at amortised cost** | | |
| Bank interest receivable | 82 | 98 |
| **Financial liabilities at fair value through profit and loss** | | |
| Change in estimate of future contingent consideration and share purchase obligation payable[1] | 4,438 | 1,761 |
| Other interest receivable | 147 | 19 |
| **Finance income** | **4,667** | **1,878** |

[1]These items are adjusted for in calculating the adjusted net finance expense.

## NOTES TO THE YEAR END RESULTS *(Continued)*

## FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018

### 8) EARNINGS PER SHARE

| | Year ended 31 January 2019 | Year ended 31 January 2018 |
|---|---|---|
| | £'000 | £'000 |
| Earnings attributable to ordinary shareholders | 13,887 | 8,632 |
| Unwinding of discount on future deferred and contingent consideration and share purchase obligation payable after tax | 2,698 | 2,445 |
| Change in estimate of future contingent consideration and share purchase obligation payable after tax | (1,959) | 822 |
| Share based payment charge | 2,042 | 2,498 |
| Costs associated with current period restructure | 3,501 | 1,241 |
| Costs associated with office moves | 136 | 354 |
| Amortisation of acquired intangibles | 7,300 | 5,506 |
| US rate change | - | 817 |
| Deal costs | 560 | 489 |
| Adjusted earnings attributable to ordinary shareholders | 28,165 | 22,804 |
| | **Number** | **Number** |
| Weighted average number of ordinary shares | 79,225,075 | 74,344,883 |
| Dilutive LTIP shares | 1,193,361 | 1,297,444 |
| Dilutive growth deal shares | 3,733,183 | 5,336,533 |
| Other potentially issuable shares | 864,585 | 1,099,352 |
| Diluted weighted average number of ordinary shares | 85,016,204 | 82,078,212 |
| Basic earnings per share | 17.5p | 11.6p |
| Diluted earnings per share | 16.3p | 10.5p |
| Adjusted earnings per share | 35.6p | 30.7p |
| Diluted adjusted earnings per share | 33.1p | 27.8p |

Adjusted and diluted adjusted earnings per share have been presented to provide additional useful information. The adjusted earnings per share is the performance measure used for the vesting of employee performance shares. The only difference between the adjusting items in this note and the figures in note 3 is the tax effect of those adjusting items.

## NOTES TO THE YEAR END RESULTS *(Continued)*

## FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018

### 9) NET DEBT

The HSBC Bank revolving credit facility expires in 2022 and therefore the outstanding balance has been classified in non-current borrowings with the exception of £5m of the term loan which is due for repayment within one year.

| | 31 January 2019 | 31 January 2018 |
|---|---|---|
| | £'000 | £'000 |
| Total loans and borrowings | 25,678 | 35,871 |
| Obligations under finance leases | - | 5 |
| Less: cash and cash equivalents | (20,501) | (24,283) |
| **Net debt** | **5,177** | **11,593** |
| Share purchase obligation | 1,736 | 955 |
| Contingent consideration | 24,712 | 18,639 |
| Deferred consideration | 4,646 | 6,039 |
| **Net debt and acquisition related liabilities** | **36,271** | **37,226** |

### 10) OTHER FINANCIAL LIABILITIES

| | Deferred consideration | Contingent consideration | Share purchase obligation |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 31 January 2017 | **-** | 14,905 | 3,433 |
| Arising during the year | 500 | 8,286 | - |
| Exchange differences | - | (105) | (127) |
| Utilised | (360) | (3,719) | (400) |
| Written off | - | (21) | - |
| Unwinding of discount | 313 | 1,942 | 255 |
| Change in estimate | - | 1,140 | (409) |
| Reclassification | 5,586 | (3,789) | (1,797) |
| At 31 January 2018 | 6,039 | 18,639 | 955 |
| Arising during the year | - | 15,516 | 765 |
| Exchange differences | - | (312) | 78 |
| Utilised | (5,066) | (6,171) | (249) |
| Unwinding of discount | 601 | 2,078 | 127 |
| Change in estimate | - | (1,966) | 60 |
| Reclassification | 3,072 | (3,072) | - |
| **At 31 January 2019** | **4,646** | **24,712** | **1,736** |
| **Current** | **2,182** | **4,565** | **1,608** |
| **Non-current** | **2,464** | **20,147** | **128** |

### 11) ACQUISITIONS AND OTHER SIGNIFICANT TRANSACTIONS

*Brandwidth*

On 6th February 2018 the Group purchased the entire share capital of Brandwidth Group Limited and its subsidiaries ('Brandwidth'), a UK-based innovation agency bringing significant digital skills to the Group, for initial consideration of £6.2m. Further consideration is payable based on performance for the year to 30 June 2018.

*Technical*

On 12 July 2018, Next 15 purchased Technical Associates Group ('TAG') through the entire share capital of Technical Publicity Limited ('Technical'), a specialist technical content and digital marketing business focused on the industrial engineering sector for initial consideration of £2.2m. Further deferred consideration of £591,000 is payable in April 2020. Contingent consideration based on the combined EBIT performance of TAG and Publitek, and existing Next 15 business, is also payable in April 2020.

*Activate*

On 1 November 2018, Next 15 purchased the entire share capital of Activate Marketing Holdings LLC ('Activate'), a B2B demand generation company providing marketing services to technology companies based in San Francisco and New York for initial consideration of $9.0m. Deferred top-up contingent consideration is payable in 2019 based on performance targets for Activate for the nine months ending 31 July 2019. Further contingent consideration is payable over the next five years dependent on Activate's profitability and a multiple driven by margin and revenue growth post the acquisition.

*Planning-inc*

On 10 January 2019, Next 15 purchased the entire share capital of Planning-Inc Limited ('Planning-inc'), a UK-based predictive analytics and data marketing business for initial consideration of £6.3m. Further deferred contingent consideration may be payable around April 2019 with a top-up payment based on the EBITDA performance of Planning-inc for the year ended 31 December 2018, and around April 2021 and April 2023 based on the EBIT performance of Planning-inc in the two-year periods ending 31 January 2021 and 31 January 2023 respectively.

In total the Group spent £29.6m on acquisitions, investments in financial assets and earn-out related payments in the year as shown in the cash-flow as £19.3m, £1.0m and £9.3m respectively.

### 12) CHANGE IN ACCOUNTING POLICY

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS *15 Revenue from Contracts with Customers* on the group's financial statements and also discloses the new accounting policies that have been applied from 1 February 2018, where they are different to those applied in prior periods.

**IFRS 9**

IFRS 9 has been adopted without restating comparative information. The adjustments arising from the impact of IFRS 9 are not reflected in the balance sheet at 31 January 2018 however they are recognised in the opening balance sheet on 1 February 2018.

The adoption of IFRS 9 from 1 February 2018 resulted in the following changes for the Group.

## NOTES TO THE YEAR END RESULTS (*Continued)*

## FOR THE YEARS ENDED 31 JANUARY 2019 AND 31 JANUARY 2018

The Group's financial assets that are subject to IFRS 9's expected credit loss model are its trade and other receivables and cash balances. The Group has revised its impairment methodology as a result. The impact of the change in impairment methodology on the Group's brought forward retained earnings is immaterial.

The Group has opted to continue to account for its net investment hedges under IAS 39 rather than transition to IFRS 9.

The Group has opted to designate its investment in equity instruments at fair value through other comprehensive income ("FVTOCI") as allowed under IFRS 9 as they are not held for trading. An adjustment has been made to opening retained earnings to reflect the adjustment to fair value for these unquoted investments at 1 February 2018:

| | As previously stated at 31 January 2018 | Adjustment required under IFRS 9 | As restated at 1 February 2018 |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Trade investments | 1,211 | 48 | 1,259 |

**IFRS 15**

The group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 February 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted IFRS 15 retrospectively and has restated comparatives for the 2018 financial year. In summary, the following adjustments were made to the reported financial performance.

| | Year ended 31 January 2018 |
|---|---|
| Impact on profit for the year | £'000 |
| Revenue | |
| *Increase due to principal versus agent considerations (i)* | 37,111 |
| Direct costs | |
| *Increase due to principal versus agent considerations (i)* | 37,111 |
| **Impact on net revenue** | - |

(i) Under IFRS 15 the group is considered principal for certain third-party costs which are billed onto clients, where the Group previously accounted for these costs as agent. An adjustment to increase revenue has therefore been made to reflect this change, with a corresponding increase in direct costs. As a result, there has been no impact to net revenue or profit for the prior periods.

The Group also assessed whether the adoption of IFRS 15 had any impact on the timing of revenue recognition. Under IAS 18 the Group recognised revenue based on stage of completion whereas under IFRS 15 the recognition should be when a customer obtains control of the goods or service. Following assessment of the contracts held by the Group, it was determined that the impact of aligning the Group's revenue recognition with performance obligations to the customer did not have a material impact on the revenue in the prior periods. Therefore, no restatement has been made.