

24 January 2012

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/10	72.3	6.6	7.5	1.85	12.4	2.0
07/11	86.0	8.4	8.7	2.05	10.7	2.2
07/12e	93.0	9.5	9.5	2.25	9.8	2.4
07/13e	99.0	10.7	10.6	2.50	8.8	2.7

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

Investment summary: FY12 off to a solid start

Next Fifteen announced in its trading update, released ahead of the company's AGM, that it has made a solid start to the current financial year. Management expects FY12 interims, scheduled for release on 24 April, to show growth in both revenue and profits, boosted in particular by a strong performance from the group's digital businesses and a modest strengthening of the US dollar. While there is some volatility in markets affecting clients' businesses, we are maintaining our FY12 and FY13 estimates as the group appears to have a resilient business portfolio and is benefiting from its digital expertise.

Digital continues as a key driver

In FY11, the group consolidated its digital consultancy businesses with the acquisition of an 80% stake in Glasgow-based digital agency Bourne. The combined unit had a run rate of over £5m pa in Q411. Over 75% of new business in FY11 included digital initiatives as digital competence is a key pitch criterion – we expect this trend to continue as more communication moves to online and mobile distribution. Recent acquisition Trademark is now integrated into the group's subsidiary, Bite, and is helping to build a stronger presence in the digital market.

Moving towards management's 2013 targets

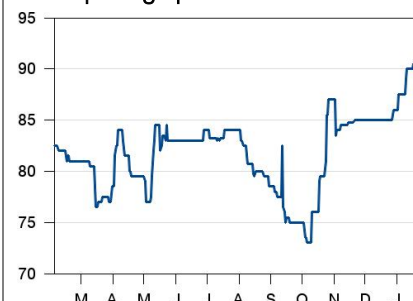
In October 2011, management provided an update on its October 2010 targets for 2013: revenues £110m (including acquisitions), and to reach 40% (vs 31% in FY11) of revenues from outside the technology sector and 20% (vs 15% in FY11) from APAC. It is also targeting operating margins before head office costs of 17.8% (vs 14.8% in FY11) – our FY13 estimate of 15.7% is a realistic step towards this target.

Valuation: Digital growth driver supports 8.8x P/E

A prospective 8.8x P/E for a solid 10% grower appears to be an undemanding rating. We continue to contend that the group's expertise in the digital arena, supported by its 30-year specialisation in the tech sector, adds some justification to the current premium P/E rating over similar-sized peers, especially as Next Fifteen has no direct exposure to government spending and potential cutbacks.

Price 93.0p
Market Cap £53m

Share price graph



Share details

Code NFC
Listing AIM
Sector Media
Shares in issue 57.4m

Price

52 week High 93.0p Low 72.0p

Balance Sheet as at 31 July 2011

Debt/Equity (%) 5
NAV per share (p) 58
Net borrowings (£m) 1.6

Business

Next Fifteen is a worldwide digital marketing communications and public relations 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

	2011	2012e	2013e
P/E relative	85%	79%	78%
P/CF	3.8	3.9	3.6
EV/Sales	0.4	0.4	0.4
ROE	17%	18%	17%

Geography based on revenues (FY11)

UK	Europe	US	Other
21%	11%	53%	15%

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Exhibit 1: Financials

Year-ending 31 July	£'000s	2007	2008	2009	2010	2011	2012e	2013e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Billings		69,422	73,916	77,287	91,175	105,163	112,000	119,000
Revenues		59,268	63,107	65,394	72,328	86,035	93,000	99,000
EBITDA		7,007	7,433	5,531	8,446	10,699	13,240	14,400
Operating Profit (before GW and except.)		5,837	6,706	5,591	6,992	8,823	10,040	11,050
Goodwill Amortisation		0	0	0	0	0	0	0
Exceptionals		(458)	(1,066)	(2,091)	(1,308)	(870)	0	0
Other		56	117	0	0	0	0	0
Operating Profit		5,435	5,757	3,500	5,684	7,953	10,040	11,050
Net Interest		(313)	(241)	(342)	(380)	(426)	(500)	(320)
Profit Before Tax (norm)		5,580	6,582	5,249	6,612	8,397	9,540	10,730
Profit Before Tax (FRS 3)		5,122	5,516	3,158	5,304	7,527	9,540	10,730
Tax		(1,781)	(1,655)	(884)	(1,591)	(2,260)	(2,850)	(3,130)
Profit After Tax (norm)		3,713	4,657	3,750	4,638	5,854	6,690	7,600
Profit After Tax (FRS 3)		3,341	3,861	2,274	3,713	5,267	6,690	7,600
Average Number of Shares Outstanding (m)		49.0	51.7	52.6	54.4	54.9	56.9	57.4
EPS - normalised (p)		7.1	8.6	6.5	8.4	10.2	10.9	12.3
EPS - normalised fully diluted (p)		7.0	8.5	6.5	7.5	8.7	9.5	10.6
EPS - FRS 3 (p)		6.3	7.1	3.7	6.7	9.1	10.9	12.3
Dividend per share (p)		1.50	1.70	1.70	1.85	2.05	2.25	2.50
EBITDA Margin		10%	10%	7%	9%	10%	12%	12%
Operating Margin (before GW and except.)		10%	11%	9%	10%	10%	11%	11%
BALANCE SHEET								
Non-current assets		18,442	20,206	22,618	31,919	44,336	44,086	43,986
Intangible Assets		13,507	15,462	18,441	27,111	37,926	37,676	37,476
Tangible Assets		2,162	2,435	1,949	2,269	3,067	3,067	3,167
Other non-current assets		2,773	2,309	2,228	2,539	3,343	3,343	3,343
Current Assets		20,894	25,946	22,840	29,470	34,769	37,398	43,128
Debtors		15,060	16,421	15,710	22,174	26,252	28,300	30,800
Cash		5,834	9,525	7,130	7,296	8,517	9,098	12,328
Current Liabilities		(15,670)	(20,643)	(15,237)	(25,248)	(26,095)	(26,984)	(27,184)
Creditors		(14,958)	(20,228)	(14,887)	(20,009)	(25,767)	(26,656)	(26,856)
Short term borrowings		(712)	(415)	(350)	(5,239)	(328)	(328)	(328)
Long Term Liabilities		(8,684)	(5,871)	(5,319)	(8,562)	(20,677)	(16,177)	(14,677)
Long term borrowings		(5,190)	(5,700)	(4,995)	(2,908)	(9,760)	(9,760)	(9,760)
Other long term liabilities		(3,494)	(171)	(324)	(5,654)	(10,917)	(6,417)	(4,917)
Net Assets		14,982	19,638	24,902	27,579	32,333	38,323	45,253
CASH FLOW								
Operating Cash Flow		7,203	9,599	6,261	6,572	11,906	12,331	13,700
Net Interest		(311)	(240)	(342)	(380)	(418)	(500)	(320)
Tax		(1,992)	(1,090)	(1,476)	(1,465)	(2,618)	(2,850)	(3,130)
Capex		(1,246)	(2,153)	(307)	(1,936)	(2,202)	(1,550)	(1,750)
Acquisitions/disposals		(1,959)	(829)	(4,549)	(4,251)	(6,078)	(5,700)	(4,000)
Financing		953	(994)	(1,941)	2,263	1,927	0	0
Dividends		(691)	(807)	(900)	(932)	(1,045)	(1,150)	(1,270)
Other		0	0	0	0	0	0	0
Net Cash Flow		1,957	3,486	(3,254)	(129)	1,472	581	3,230
Opening net debt/(cash)		1,439	68	(3,410)	(1,785)	851	1,571	990
Finance leases		(299)	(217)	(225)	(150)	(90)	0	0
Other		(287)	209	1,854	(2,357)	(2,102)	0	0
Closing net debt/(cash)		68	(3,410)	(1,785)	851	1,571	990	(2,240)

Source: Edison Investment Research, company accounts

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