

4 August 2009

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/07	59.3	5.6	7.0	1.5	6.9	3.1
07/08	63.1	6.6	8.5	1.7	5.6	3.5
07/09e	65.5	4.0	4.6	1.7	10.4	3.5
07/10e	65.5	6.0	7.3	1.8	7.2	3.7

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

Investment summary: Acquisition boost

Today, Next Fifteen (NFC) announced the acquisition of a leading New York based consumer PR agency, which we expect to be EPS accretive in its first year. The group also released its FY09 year end trading update, which indicated that client marketing budgets came under pressure in early 2009, though encouragingly signs of stabilisation are now evident. Coupled with the loss of the Sun Microsystems account following its takeover by Oracle, we have reduced our FY09 and FY10 estimates.

Positive New York acquisition

The acquisition of New York based M Booth & Associates, a leading consumer PR consultancy in North America with FY08 revenues of \$10m, is an important stepping stone in NFC's strategy to build a global consumer agency and should complement Lexis in the UK, now fully owned. The initial consideration is \$4m cash with deferred earn-out payments of up to a maximum \$13.25m. NFC has a good track record of earnings accretive acquisitions, a trend we anticipate should be the case with Booth.

Second half FY09 affected by lower marketing budgets

The poor economic environment affected many client marketing budgets, especially in the first quarter of calendar 2009 when major technology companies themselves saw sales under pressure. While these budgets may have stabilised, we are conservatively reducing our FY09 EPS estimate from 5.5p to 4.6p.

Good FY10 EPS rebound remains on the cards

While we continue to expect a good rebound in EPS for FY10, boosted now by the Booth acquisition, we have reduced our EPS estimate following the loss of one of NFC's larger clients, Sun Microsystems, which was recently taken over by Oracle.

Valuation: FY10 comparative rating more appealing

NFC's prospective P/E is higher than many of its peers because of the adverse effect of FX and interest rate hedges crystallising in FY09; however, the comparative valuation picture for FY10 is more appealing. The group's balance sheet should remain solid, with expected FY10 cash flow in excess of the initial cost of the Booth acquisition. Investors should note that NFC rebuffed two takeover approaches (from Chime and Huntsworth) earlier this year.

Price 48p
Market Cap £26m

Share price graph



Share details

Code	NFC
Listing	AIM
Sector	Media
Shares in issue	54.1m

Price

52 week	High	Low
	55.5p	25.5p

Balance Sheet as at 31 January 2009

Debt/Equity (%)	3
NAV per share (p)	48
Net borrowings (£m)	0.8

Business

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

Valuation

	2008	2009e	2010e
P/E relative	88%	140%	104%
P/CF	4.5	17.1	5.8
EV/Sales	0.6	0.8	0.6
ROE	23%	10%	15%

Revenues on geography (H109)

UK	Europe	US	Other
27%	15%	46%	12%

Analyst

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Exhibit 1: Financials

Year-ending 31 July	£'000s	2006	2007	2008	2009e	2010e
Accounting basis		UK GAAP	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Billings		63,278	69,422	73,916	75,000	75,000
Revenues		56,007	59,268	63,107	65,500	65,500
EBITDA		5,970	7,302	8,022	5,565	7,600
Operating Profit (before GW and except.)		4,521	5,837	6,706	4,365	6,400
Goodwill Amortisation		(727)	0	0	0	0
Exceptionals		(700)	(458)	(1,066)	(2,490)	(200)
Other		174	56	117	0	0
Operating Profit		3,268	5,435	5,757	1,875	6,200
Net Interest		(265)	(313)	(241)	(350)	(380)
Profit Before Tax (norm)		4,430	5,580	6,582	4,015	6,020
Profit Before Tax (FRS 3)		3,003	5,122	5,516	1,525	5,820
Tax		(1,494)	(1,781)	(1,655)	(450)	(1,740)
Profit After Tax (norm)		2,649	3,713	4,657	2,775	4,220
Profit After Tax (FRS 3)		1,509	3,341	3,861	1,075	4,080
Average Number of Shares Outstanding (m)		46.5	49.0	51.7	53.7	54.1
EPS - normalised (p)		5.3	7.1	8.6	4.7	7.3
EPS - normalised fully diluted (p)		5.1	7.0	8.5	4.6	7.3
EPS - FRS 3 (p)		2.9	6.3	7.1	1.5	7.1
Dividend per share (p)		1.4	1.5	1.7	1.7	1.8
EBITDA Margin		9%	11%	11%	7%	10%
Operating Margin (before GW and except.)		8%	10%	11%	7%	10%
BALANCE SHEET						
Non-current assets		14,343	18,442	20,206	24,160	25,560
Intangible Assets		11,188	13,507	15,462	19,294	20,894
Tangible Assets		3,063	2,162	2,435	1,985	1,785
Other non-current assets		92	2,773	2,309	2,881	2,881
Current Assets		19,787	20,894	25,946	23,416	27,396
Debtors		15,769	15,060	16,421	17,873	18,673
Cash		4,018	5,834	9,525	5,543	8,723
Current Liabilities		(12,554)	(15,670)	(20,643)	(15,965)	(16,265)
Creditors		(11,739)	(14,958)	(20,228)	(15,550)	(15,850)
Short term borrowings		(815)	(712)	(415)	(415)	(415)
Long Term Liabilities		(6,834)	(8,684)	(5,871)	(6,665)	(9,165)
Long term borrowings		(4,642)	(5,190)	(5,700)	(6,633)	(9,133)
Other long term liabilities		(2,192)	(3,494)	(171)	(32)	(32)
Net Assets		14,742	14,982	19,638	24,946	27,526
CASH FLOW						
Operating Cash Flow		4,948	7,203	9,599	3,294	7,850
Net Interest		(325)	(311)	(240)	(350)	(380)
Tax		(2,430)	(1,992)	(1,090)	(550)	(2,090)
Capex		(1,203)	(1,246)	(2,153)	(665)	(1,200)
Acquisitions/disposals		(2,354)	(1,959)	(829)	(4,500)	(2,500)
Financing		232	953	(994)	(311)	0
Dividends		(590)	(691)	(807)	(900)	(1,000)
Other		0	0	0	0	0
Net Cash Flow		(1,722)	1,957	3,486	(3,982)	680
Opening net debt/(cash)		(2,449)	1,439	68	(3,410)	1,505
Finance leases		(20)	(299)	(217)	(242)	0
Other		(2,146)	(287)	209	(691)	0
Closing net debt/(cash)		1,439	68	(3,410)	1,505	825

Source: Company accounts, Edison Investment Research

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