

Trading update & Contract non-renewal

1 Year Chart (close 5/9/24)



The Mach49 contract non-renewal is a blow for Next 15, given its scale and level of margin contribution. The early termination brings forward a natural moment of earnings risk that has been clear from the outset. The company has been prudent in guiding to no further contribution despite a good possibility of future work being undertaken.

Alongside the Mach49 news, the group has also confirmed that the H2 recovery that previous guidance assumed has not fully materialised. B2B tech spend continues to struggle and although Next 15 is still seeing strength in a number of consumer related areas (FMCG and retail in particular), this is not enough to hold prior expectations. We are reducing our estimates accordingly (see below for detail) with the largest impact expected in FY26E.

The extent of the share price fall today (-48% at the time of writing) reflects the surprise nature of the Mach49 news and extent of the earnings hit. Nonetheless, once the dust has settled, if the share price remains at current levels this implies a PE of 5.7x FY25E and 7.0x FY26E on our revised estimates. Despite today's news, this valuation is too low for a company of this quality and proven track record.

Next 15 will be releasing H1 results on 17th September, which will provide an opportunity for further detail.

Next 15 Group PLC is a research client of H2 Radnor Ltd.

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

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Iain Daly

idaly@h2radnor.com

+44 (0) 203 897 1832

- Contract non-renewal:** The Mach49 news is clearly unwelcome and has a material impact on FY26E in particular (c.£80m of revenue / c.£30m of contribution). The contract has ended two years earlier than previously anticipated, bringing forward the natural cliff edge always inherent in the contract. Next 15 is being prudent by guiding to no further contribution despite the potential for the client to remain engaged on an ongoing basis.
- Underlying business:** The AGM update made it clear that the revenue environment continued to be challenging and that meeting expectations would be predicated on an anticipated H2 recovery. This recovery has not fully materialised with continuing weakness in US tech B2B spend and election timing impacts for public sector facing parts of the business. However, weakness is not uniform across the group and we still expect the group to report an overall increase in revenue YoY for FY25.
- Changes to estimates:** We are reducing our FY25E revenue/EBIT estimates by 3%/10% and FY26E revenue/EBIT by 17%/35% respectively.

January, £m	Revenue	PBT adj	EPS (p)	Div (p)	Net Cash	PE x	Yield %
FY 2023A	563.8	112.5	80.4	14.6	26.1	10.0	1.8
FY 2024A	577.8	117.9	81.6	15.4	(1.4)	9.9	1.9
FY 2025E	585.3	111.6	75.6	14.0	(25.0)	5.7	3.3
FY 2026E	530.2	88.8	61.4	11.2	1.7	7.0	2.6
FY 2027E	558.6	105.7	73.3	13.3	40.1	5.9	3.1

Source: h2Radnor

Changes to h2Radnor estimates

In Figure 1 below, we detail our key estimate revisions.

Included within our revised forecasts is an assumption around a small reduction (c.£5m per annum) in the outstanding Mach49 earn out liability over the next couple of years. We have also taken into account the likely worsening of the working capital cycle for the group as FMCG clients (typically longer payers) become more prominent as part of the business mix as B2B tech clients remain under pressure. Our revised FY25E net debt estimate of £25m also factors the share buyback and a small amount of bolt on acquisition spend.

Figure 1: h2Radnor estimate revisions

	2024A	Previous		New		Change, %	
		2025E	2026E	2025E	2026E	2025E	2026E
Customer Engagement	263.1	271.0	284.6	265.8	265.8	- 2%	- 7%
Customer Delivery	107.7	118.4	126.7	109.8	115.3	- 7%	- 9%
Customer Insight	57.5	58.6	63.3	58.6	61.6	+ 0%	- 3%
Business Transformation	149.6	157.1	168.1	151.1	87.6	- 4%	- 48%
Revenue	577.8	605.1	642.7	585.3	530.2	- 3%	- 17%
Customer Engagement	53.2	56.9	61.2	54.5	51.8	- 4%	- 15%
Customer Delivery	29.1	33.4	37.4	29.6	30.0	- 11%	- 20%
Customer Insight	10.4	11.8	13.6	11.1	11.7	- 6%	- 14%
Business Transformation	48.3	47.1	50.4	42.0	21.0	- 11%	- 58%
Central Overhead	-19.8	-21.8	-23.8	-22.2	-23.9	+ 2%	+ 0%
EBITA	121.1	127.4	138.8	115.0	90.7	- 10%	- 35%
- margin %	21.0%	21.1%	21.6%	19.7%	17.1%		
Adj. PBT	117.9	124.1	136.9	111.6	88.8	- 10%	- 35%
Adj. EPS (p)	81.6	84.2	95.2	75.6	61.4	- 10%	- 36%
Dividend (p)	15.4	15.6	17.3	14.0	11.2	- 10%	- 36%
Net Cash (Debt)	-1.4	1.0	37.9	-25.0	1.7		

Source: h2Radnor

Next 15 Group PLC

Iain Daly
+44 203 897 1832
idaly@h2radnor.com

Price (p): 429 p
Market Cap: 432 m
EV: 457 m

PROFIT & LOSS

Year to 31 January, £m	FY22	FY23	FY24	FY25e	FY26e	FY27e
Customer Engagement	187.6	275.0	263.1	265.8	265.8	279.0
Customer Delivery	80.0	102.1	107.7	109.8	115.3	121.1
Customer Insight	42.1	52.0	57.5	58.6	61.6	66.5
Business Transformation	52.5	134.8	149.6	151.1	87.6	92.0
Group Net Revenue	362.1	563.8	577.8	585.3	530.2	558.6
Customer Engagement	40.4	55.4	53.2	54.5	51.8	58.6
Customer Delivery	28.5	30.2	29.1	29.6	30.0	32.7
Customer Insight	9.0	11.0	10.4	11.1	11.7	13.3
Business Transformation	15.2	43.9	48.3	42.0	21.0	24.8
Head Office	(13.8)	(26.4)	(19.8)	(22.2)	(23.9)	(22.9)
EBITA - Adjusted	79.3	114.2	121.1	115.0	90.7	106.5
Associates & JV's	0.2	-	-	-	-	-
Net Bank Interest	(0.3)	(1.6)	(3.1)	(3.4)	(1.9)	(0.8)
PBT - Adjusted	79.3	112.5	117.9	111.6	88.8	105.7
Non Operating Items	(40.4)	(48.3)	(45.1)	(35.0)	(30.0)	(30.0)
Other Financial Items	(119.0)	(54.1)	7.5	(29.5)	(29.5)	(29.5)
PBT - IFRS	(79.1)	10.1	80.3	46.0	28.2	45.1
Tax	14.5	(7.1)	(26.4)	(12.4)	(7.6)	(12.2)
Tax - Adjusted	(17.2)	(26.3)	(31.1)	(30.1)	(24.0)	(28.5)
Tax rate - Adjusted	21.6%	23.3%	26.3%	27.0%	27.0%	27.0%
Minority interests	3.6	1.4	1.0	2.1	1.9	2.1
No. shares m	92.4	97.6	99.2	99.0	99.0	99.0
No. shares m, diluted	98.1	105.7	105.2	104.9	102.5	102.5
IFRS EPS (p)	(73.8)	1.7	53.3	31.8	18.9	31.2
Adj EPS (p), diluted	59.7	80.4	81.6	75.6	61.4	73.3
Total DPS (p)	12.0	14.6	15.4	14.0	11.2	13.3

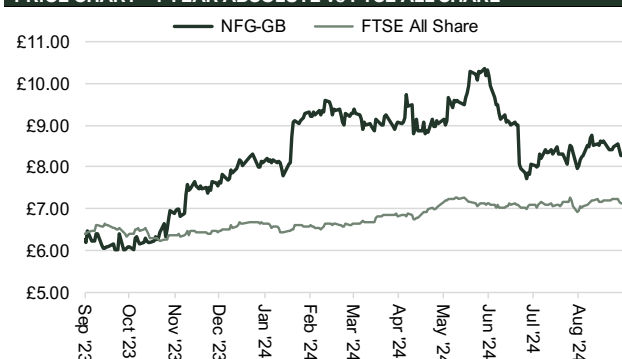
CASH FLOW

Year to 31 January, £m	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net Profit: (add back)	(64.6)	3.0	53.9	33.6	20.6	32.9
Depreciation & Amortisation	28.8	37.2	36.6	37.5	38.0	38.5
Net Finance costs	120.3	57.1	(3.2)	34.0	32.5	31.4
Tax	(14.5)	7.1	26.4	12.4	7.6	12.2
Working Capital	0.2	(24.4)	(10.7)	(18.4)	12.2	3.3
Other	19.6	15.1	2.0	(6.0)	(6.0)	(6.0)
Cash from Ops	89.8	95.2	105.0	93.1	104.8	112.3
Cash Tax	(14.1)	(20.3)	(25.4)	(12.4)	(7.6)	(12.2)
Tangible Capex	(3.1)	(3.5)	(3.7)	(4.0)	(4.0)	(4.0)
Intangible Capex	(2.7)	(3.5)	(3.4)	(3.5)	(3.5)	(3.5)
Free Cashflow	69.9	67.9	72.5	73.2	89.7	92.6
Dividends	(12.4)	(15.3)	(16.1)	(17.2)	(15.9)	(13.0)
Acquisitions & Inv.	(24.0)	(104.9)	(60.2)	(63.0)	(35.0)	(30.0)
Financing	(1.1)	38.6	1.1	(22.5)	(12.2)	(11.1)
Net Cashflow	32.4	(13.7)	(2.6)	(29.5)	26.7	38.5
Net Cash (Debt)	35.7	26.1	(1.4)	(25.0)	1.7	40.1

BALANCE SHEET

Year to 31 January, £m	FY22	FY23	FY24	FY25e	FY26e	FY27e
Intangibles	183.1	274.1	279.3	280.8	271.0	259.5
P,P+E	7.5	10.9	10.1	9.9	9.6	9.1
Tax Asset & Other	75.6	97.2	88.4	85.4	82.4	79.4
Total Fixed Assets	266.2	382.1	377.8	376.2	363.0	348.0
Net Working Capital	(51.6)	(76.8)	(49.5)	(41.9)	(79.9)	(83.2)
Capital Employed	214.5	305.3	328.4	334.3	283.1	264.8
Earn Out Liabilities	(188.8)	(217.0)	(170.8)	(111.3)	(98.6)	(93.6)
Net Funds	35.7	26.1	(1.4)	(25.0)	1.7	40.1
Net Assets	61.5	114.4	156.2	198.0	186.1	211.3

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet, closing price 5th September 2024

SHAREHOLDERS

	% of ord. Share capital
Octopus Investments	11.9%
Liontrust Investment Partners	10.0%
Aviva Investors	9.9%
Slater Investments	6.7%
Directors	5.5%
BlackRock	4.8%
JPMorgan AM	4.1%
abrdn	3.3%
Total	56.2%

Announcements

Date	Event
September 2024	Trading update
June 2024	AGM update
April 2024	Final results
January 2024	Trading update
September 2023	H1 results
April 2023	Final results
January 2023	Trading update
September 2022	H1 results

RATIOS

	FY23	FY24	FY25e	FY26e	FY27e
RoE	74.2%	54.9%	40.1%	33.8%	35.5%
RoCE	37.4%	36.9%	34.4%	32.0%	40.2%
Asset Turnover (x)	0.7x	0.7x	0.6x	0.7x	0.6x
NWC % Revenue	13.6%	8.6%	7.2%	15.1%	14.9%
Op Cash % EBITA	83.4%	86.8%	81.0%	115.6%	105.4%

VALUATION

Fiscal	FY23	FY24	FY25e	FY26e	FY27e
P/E	5.3x	5.3x	5.7x	7.0x	5.9x
EV/EBITDA	3.0x	2.9x	3.0x	3.6x	3.2x
Div Yield	3.4%	3.6%	3.3%	2.6%	3.1%
FCF Yield	14.9%	15.9%	16.0%	19.6%	20.3%
EPS growth	34.5%	1.5%	-7.3%	-18.9%	19.4%
DPS growth	21.7%	5.1%	-8.7%	-20.4%	19.4%

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H2 Radnor Ltd
68 King William Street
London
EC4N 7HR

www.h2radnor.com

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