Next 15 Group PLC

NFG | AIM | Media | 297p | £297m

FY26 H1 Results – Solid underlying trading; simplification theme accelerates

1 Year Chart

The H1 results mark the first results from the new management team and should be well received by the market. The trading environment remains tough, especially for Next 15's technology clients, but these now only represents 31% of group revenue. Good performances elsewhere have offset tech industry challenges and an overall revenue decline of 3.6% is a good outcome. Combined with a focus on cost efficiency and portfolio simplification, the Group delivered a good margin and cashflow outcome. The trading outlook continues to be stable, which is better than we have seen elsewhere in the peer group and underpins expectations for the full year.

More broadly, the new management team are accelerating the focus on simplification and have acted quickly to draw a line in the sand over a number of legacy issues, not least Mach49, which has now been discontinued. Clearly, there is further news to come, which will renew market attention on the value that is still clearly inherent within the group's portfolio. The group is also sharpening its focus on the growth opportunities within the portfolio and we expect more to come on this front over the coming months.

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30 September 2025

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- **Solid underlying trading:** In line with prior periods, Next 15 has seen both growth and declines across its portfolio. Tech clients continue to be a source of weakness (-15% in the period) but this is being increasingly offset by good growth across Retail Media, FMCG and Public Sector clients. This improving business mix resulted in a low single digit revenue decline across the group, which is in-line or better than many peers.
- **It is all in the margin:** Margins have been a source of comparative strength for Next 15 and this trend continues with the combination of improved business mix, operational efficiencies, reduced head office expenses and portfolio simplification delivering a small improvement in EBITA margins.
- **Steady outlook at this stage:** Against the context of the weak share price, the steady outlook commentary should come as welcome news. The picture is complicated by the Mach49 closure but guidance around an ex Mach49 EBITA of £66.5m has been maintained, suggesting a welcome degree of confidence in the near term trading outlook.
- **Estimates:** We have updated our model to reflect the Mach49 discontinuation and the disposals of Bynd and Palladium and the outlook commentary. We look for FY26E net revenue of £454.6m, EBITA of £66.4m and an improved net debt position of £50.5m.

January, £m *Mach49 excluded*	**Revenue**	**PBT adj**	**EPS (p)**	**Div (p)**	**Net Cash**	**PE x**	**Yield %**
FY 2024A	577.8	117.9	81.6	15.4	(1.4)	3.6	5.2
FY 2025A	479.2	68.0	47.8	15.4	(38.4)	6.2	5.2
FY 2026E	*454.6*	*63.1*	*43.9*	*15.4*	*(50.5)*	*6.8*	*5.2*
FY 2027E	*462.2*	*67.8*	*47.1*	*15.7*	*(19.7)*	*6.3*	*5.3*
FY 2028E	*487.9*	*73.7*	*51.3*	*17.1*	*25.3*	*5.8*	*5.8*

H1 Results – Y/E January 2026 – Key points

Next 15 Group has reported H1 results for the year ended January 2026. In line with the prior announcement of the closure of Mach49, these results have been presented with Mach49 classified as a discontinued operation, so the key headline results both for the current and comparative periods exclude Mach49. On this basis, the key headlines are as follows:

- Net revenue declined **-3.6%** to **£230.8m**, which breaks down into
  - → Organic revenue decline -£12.5m (-5.3%)
  - → Acquisition contribution +£8.6m (+3.8%)
  - → Disposals in the period -£0.8m (-0.3%)
  - → FX headwind -£3.9m (-1.7%)

- Adjusted EBITA down **-3.1%** to **£32.7m**, (H1 FY25 £33.7m) with a 10 basis point improvement in EBITA margins to 14.2% (H1 FY25 14.1%)

- Adjusted PBT down **-1.4%** to **£30.9m** (H1 FY25: £31.4m), largely driven by lower net debt benefiting net finance costs

- The excluded contribution from Mach49 was H1 FY26 revenue / EBITA of £8.1m / (£2.9m loss) respectively. For H1 FY25 Mach49 delivered revenue / EBITA of £47.4m / £14.4m. For FY25, Mach49 delivered revenue / EBITA of £90.5m / £33.4m

- There are a number of adjusting items bridging Adjusted PBT to statutory reported PBT. These include the £2.9m EBITA loss from Mach49; a £4.1m gain on disposals; a £4.4m charge for Mach49 legal and advisory costs; a £10.0m impairment charge for the outstanding Mach49 intangible value; £11.9m charge for the accounting treatment of acquisitions and £2.9m of costs relating to operational restructuring and transaction costs.

- Statutory reported PBT of £2.8m (H1 FY25: £33.4m).

- Fully diluted, adjusted EPS increased **+2.8%** to **21.4p**, driven by a combination of reduced minority interests and a small decrease in the number of potentially dilutive shares for future issue.

- H1 dividend unchanged at 4.75p, reflecting the solidity of both the balance sheet and the near term trading outlook and guidance.

- H1 net debt came in at £45.3m, with a very strong working capital performance (an inflow of £4.3m compared to an outflow of £31.9m in H1 FY25), helping to offset £26.2m of acquisition related payments.

- Looking beyond Mach49, the group earn out liabilities have reduced sharply. The primary outstanding liabilities relate to SMG and are expected to be £9.6m in the current financial year and £8.0m in FY27. The group position re Mach49 remains unchanged from previous announcements. The outstanding Mach49 earn out remains fully provided for in the balance sheet despite the ongoing investigations and arbitration. The group does not intend to pay the earn out and is seeking restitution for historic earn out payments.

These are the first set of results for the new CEO, Sam Knights and CFO, Mickey Kalifa. Our sense is that the new team have hit the ground running in terms of accelerating many of the actions that had been started by the previous management team and extending further in a number of areas.

- **Margins proving resilient**. The improvement in EBITA margins, although small (+10 basis points) in absolute terms is significant. Despite the revenue challenges and corporate issues that have faced both new (and old) management, the group has been able to protect margins better than most in the peer group.

  We believe this been driven by a combination of factors. Internal efficiencies and cost savings are clearly an important factor. We discuss the portfolio simplification strategy below, but from a cost perspective the reduction in the number of standalone business units in the portfolio provides the opportunity to secure structural cost savings, particularly from the group central overhead and also the eradication of duplicated costs. For H1 alone we can see a £2.6m reduction in head office costs to £7.5m, which now represent 3.2% of group revenue (4.2% in H1 FY25).

  The progress made in improving the efficiency of the group can also be seen in the margin performance across the various segments. Both the Engage and Insight segments saw revenue declines (-13.7% and -7.6% respectively) but both delivered higher margins (20.1% vs 19.8% for Engage and 12.1% vs 11.0% for Insight) as efficiencies and benefits from prior restructuring more than offset operational leverage in both of those segments.

  The improvement in margin within Business Transformation (12.0% vs 9.6%) reflects both the decision to discontinue Mach49 (loss making in H1) but perhaps more importantly, the significant growth in the Transform digital transformation business which had a very strong period and benefited from positive operational leverage.

  The one segment that saw margins decline was Customer Delivery (17.6% vs 21.8%), where the strongly performing SMG continued to re-invest double digit revenue growth into expanding its North American footprint. Other businesses in the segment, and Activate in particular, had more challenging periods with revenue declines negatively impacting margins.

- **Portfolio simplification and Future Strategy.** Although portfolio simplification is not a new theme, there is no doubt that the new management team have injected new impetus. The most obvious elements of this have been the difficult, but necessary decision to draw a line in the sand and discontinue the Mach49 business. We have also seen a number of small disposals (Bynd and Palladium) and would not be surprised to see further disposals of non-core or poorly performing, smaller assets through the course of the year.

  Although there is no "new" news, we are also mindful of the announcement earlier in the year that the group was in early stage discussions regarding the potential sale of a selected number of brands. Although we await any further news or clarity around the status and scale of any such transaction, the Strategy and Outlook section of the H1 results does give a clearer picture of what this direction of travel looks like.

The Strategy section of the results announcement is the first opportunity for the new management team to provide an outline of the course Next 15 will now be taking. One of the strongest facets of the group, albeit sometimes misunderstood by the broader market, has been the distinct niches that its subsidiary businesses have built leading positions in. This niche leadership would appear to be the cornerstone of the new strategic approach. What will be different from the past will be a tighter focus on the connecting threads of data (in particular proprietary data), technology (AI across a number of forms) and activation (direct client revenue effect). There are a number of businesses within Next 15 that display a mix of all of these characteristics (SMG being a good example) and it is clear that these businesses are most likely to form the core of Next 15 going forward.

Taken alongside the previous announcement about potential asset disposal discussions, we believe the historic segmentation of the group into Customer Engagement, Customer Delivery, Customer Insight and Business Transformation is likely to be become much less relevant. The company has already flagged that this segmentation is likely to change and be re-presented at the year end

- **Balance sheet strength.** The H1 net debt position of £45.3m, came in c.£7m higher than the FY25 figure of £38.3m but represented a material improvement on the £74.8m reported for H1 FY25. The key cashflow movements in H1 were a core operating cashflow of £26.4m and a positive working capital inflow of £4.3m offsetting a further £26.2m of acquisition relating payments.

  The working capital improvement builds on a positive H2 FY25 working capital rebound and reinforces our view that we are past the period of peak client stress. The payment environment remains tough, and payment cycles remain extended, but they have clearly stabilised which has allowed internal working capital efficiency initiatives to bear fruit.

  More broadly, the Next 15 balance sheet continues to look in good shape, and far better than implied by the share price. There has been a substantial reduction in the value of future earn out commitments, which now stands at £18.7m excluding Mach49 (with £9.6m payable in FY26E). This figure last year was £44.3m.

  Based on our current estimate of FY26E EBITDA of £79.4m and our FY26E net debt estimate of £50.5m (including £9.6m of earn out payments), this implies a headline Net Debt / EBITDA multiple of **0.6x**.

  - If we factor the non Mach49 earn outs payable beyond FY26E, this multiple increases to **0.8x**.

  - On a worst-case basis, which assumes the disputed Mach49 earn out is paid in full (£68.9m) in FY27E, then FY27E Net Debt / EBITDA we estimate would be **1.1x**.

The group £175m RCF is currently £72.8m drawn and runs to December 2027, with an option to extend by a further year. The current covenant Net Debt / EBITDA limit is 2.5x, so the group enjoys significant headroom even in a worse-case scenario.

It is also worth bearing in mind that this does not assume any material disposals. Given recent newsflow and the emphasis given to, and the progress already made with the portfolio simplification strategy, we would expect further disposals. Although the company has not provided any firm guidance on how it would deploy any disposal proceeds, paying down the RCF would be a logical step.

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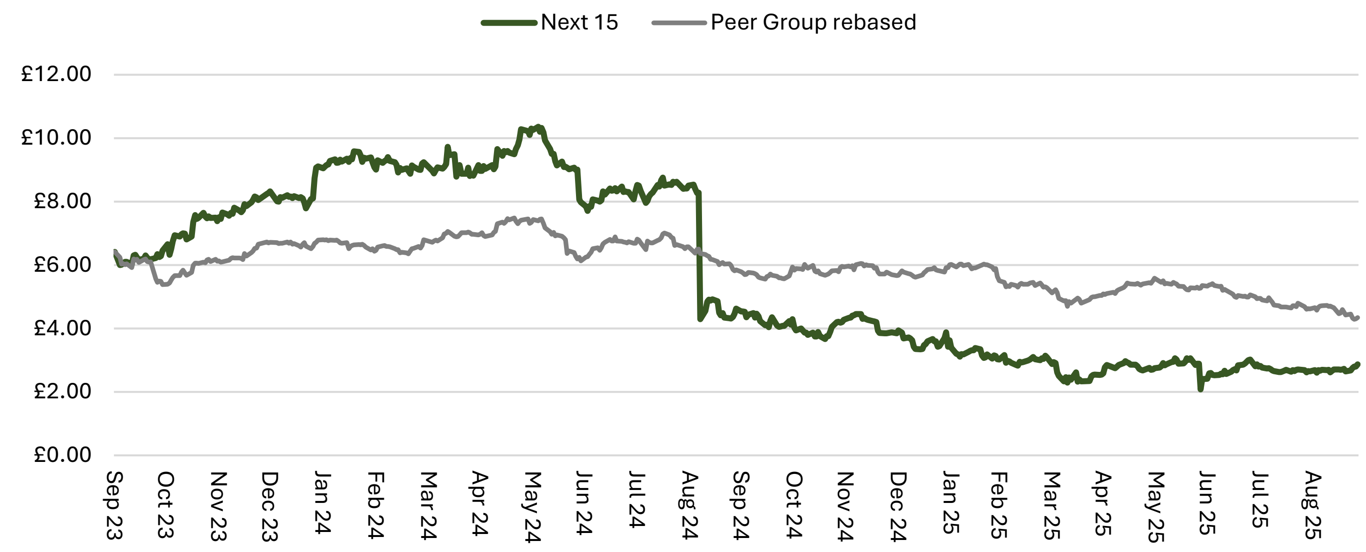
Next 15 valuation and relative performance

Next 15's share price has recovered from the June 2025 of 208p but still stands down 25% year to date. Based on our current estimates, Next 15 trades on a FY1 PE multiple of 6.8x and a dividend yield of 5.2%. Although the PE multiple has recovered from recent lows, the 6.8x still represents a significant discount to historic averages.

In Figure 2 below, we show the two year share price history with the UK agency peer group rebased against Next 15 for comparison.

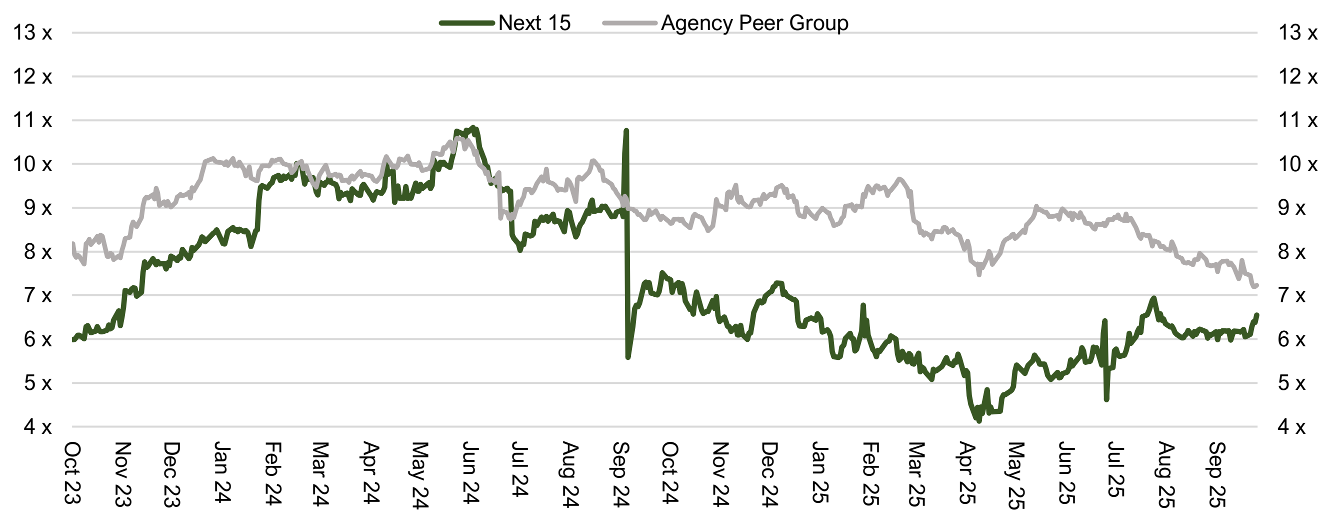
Figure 2: Next 15 two year price performance vs Agency Peers (rebased to Next 15)



Source: h2Radnor, FactSet

In Figure 3 below, we show the evolution of the Next 15 forward PE multiple over the last two years and compare this to the Agency peer group.

Figure 3: Next 15 Forward PE multiple vs Agency Peers



Source: h2Radnor, FactSet

We can see from Figure 3 above that Next 15 continues to trade at a discount to the UK Agency peer group, although this discount has narrowed substantially since the early part of the year. This is due to a combination of Next 15 price recovery coupled with a slew of negative trading commentary and downgrades across the peer group.

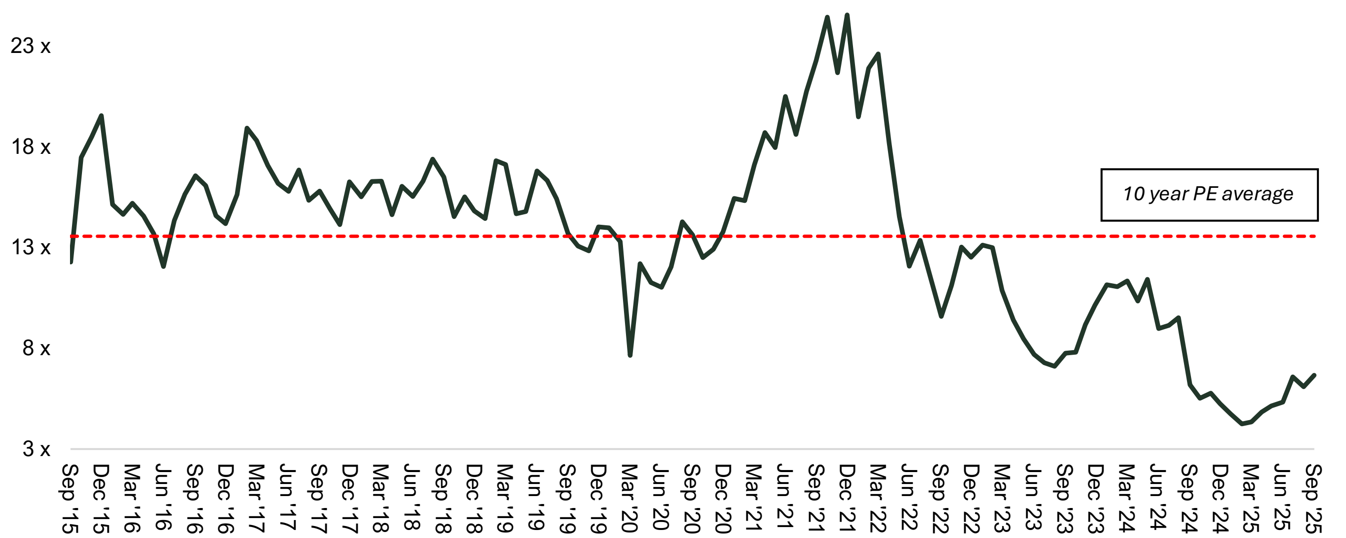
Notwithstanding the tricky trading environment and the newsflow around Mach49 and management changes, we viewed the Next 15 valuation from earlier in the year as anomalous in the extreme. A sub 5x PE and a free cashflow yield in excess of 20% was unsustainable. To a degree this has corrected, but we still see a significant opportunity in the current share price.

The challenge for Next 15 is around rebuilding credibility, which is doubly challenging in a trading environment that remains tough for the technology client base that still represents a third of group revenues. We continue to see a number of catalysts which, either individually or taken together, could see the Next 15 rating return to more normalised levels.

- The Next 15 earnings estimate trend needs to stabilise. The trading outlook at H1 continues to be broadly stable and this now marks the second period where Next 15 has been able to talk to an "in-line" outcome. We are by no means out of the trading "woods" but the resilience of the current client and business mix within Next 15 continues to impress.

- Corporate newsflow. It is clear that the portfolio simplification strategy has been accelerated. Any material further disposals that de-gear the balance sheet, or positive news-flow around the disputed Mach49 earn out, are likely to be well received by the market and could fundamentally alter the valuation picture for the group.

Figure 4: Long term evolution of Next 15's FY1 PE multiple



Source: FactSet, h2Radnor

Next 15 Group PLC

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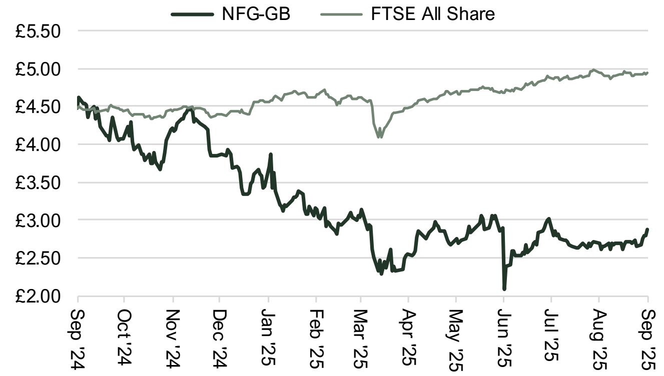
Price (p): **297 p**
Market Cap: 297 m
EV: 348 m

PROFIT & LOSS

Year to 31 January, £m	FY24	FY25	FY26e	FY27e	FY28e
Group Net Revenue	**577.8**	**479.2**	**454.6**	**462.2**	**487.9**
Segment Contribution	*140.9*	*91.3*	*80.9*	*84.5*	*91.2*
Head Office	*(19.8)*	*(17.3)*	*(14.5)*	*(14.8)*	*(15.6)*
EBITA - Adjusted	**121.1**	**74.0**	**66.4**	**69.7**	**75.6**
EBITA - Margin	*21.0%*	*15.4%*	*14.6%*	*15.1%*	*15.5%*
Associates & JV's	-	-	-	-	-
Net Bank Interest	(3.1)	(6.0)	(3.3)	(1.9)	(1.9)
PBT - Adjusted	**117.9**	**68.0**	**63.1**	**67.8**	**73.7**
Non Operating Items	(45.1)	(18.3)	(32.0)	(19.0)	(19.0)
Other Financial Items	7.5	12.7	(3.0)	(3.5)	(0.5)
PBT - IFRS	**80.3**	**62.5**	**27.4**	**44.7**	**53.7**
Tax	(26.4)	(21.5)	(7.4)	(12.1)	(14.5)
Tax - Adjusted	(31.1)	(17.7)	(16.4)	(17.6)	(19.2)
Tax rate - Adjusted	*26.3%*	*26.0%*	*26.0%*	*26.0%*	*26.0%*
Minority interests	1.0	1.5	0.8	0.8	0.8
Discontinued Revenue		90.5	10.0		
Discontinued EBITA		33.4	(6.0)		
Discontinued Net Income		22.4	(4.5)		
No. shares m	99.2	100.4	101.0	101.0	101.0
No. shares m, diluted	105.2	104.2	104.6	104.7	104.7
IFRS EPS (p)	53.3	39.3	14.5	31.5	38.0
Adj EPS (p), diluted	**81.6**	**47.8**	**43.9**	**47.1**	**51.3**
Total DPS (p)	15.4	15.4	15.4	15.7	17.1

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Octopus Investments	11.0%
Aviva Investors	10.6%
Liontrust Investment Partners	10.2%
Slater Investments	6.3%
Directors	5.5%
Janus Henderson	5.1%
abrdn	3.8%
JPMorgan AM	3.4%
	55.9%

CASH FLOW

Year to 31 January, £m	FY24	FY25	FY26e	FY27e	FY28e
Net Profit: (add back)	53.9	40.9	15.5	32.6	39.2
Depreciation & Amortisation	*36.6*	*34.6*	*39.0*	*29.0*	*29.0*
Net Finance costs	*4.2*	*6.9*	*4.0*	*2.5*	*2.4*
Tax	*26.4*	*21.5*	*7.4*	*12.1*	*14.5*
Working Capital	(10.7)	(7.0)	(1.2)	(0.4)	(1.4)
Other	(5.5)	(0.8)	(19.5)	8.0	8.0
Cash from Ops	**105.0**	**96.1**	**45.2**	**83.8**	**91.7**
Cash Tax	(25.4)	(20.7)	(13.9)	(14.2)	(15.5)
Tangible Capex	(3.7)	(2.2)	(2.0)	(3.0)	(3.0)
Intangible Capex	(3.4)	(5.0)	(6.0)	(4.5)	(4.5)
Free Cashflow	**72.5**	**68.2**	**23.4**	**62.0**	**68.7**
Dividends	(16.1)	(16.4)	(15.4)	(15.5)	(15.9)
Acquisitions & Inv.	(60.2)	(67.3)	(9.6)	(8.0)	(1.1)
Financing	1.1	0.2	(10.5)	(7.7)	(6.7)
Net Cashflow	**(2.6)**	**(15.3)**	**(12.2)**	**30.8**	**45.1**
Net Cash (Debt)	(1.4)	(38.4)	(50.5)	(19.7)	25.3

Announcements

Date	Event
September 2025	H1 results
June 2025	AGM update & Mach49 investigation
April 2025	Final results
January 2025	Trading update
September 2024	Trading update
June 2024	AGM update
April 2024	Final results
January 2024	Trading update

RATIOS

	FY23	FY24	FY25	FY26e	FY27e
RoE	74.2%	54.9%	26.9%	17.9%	17.3%
RoCE	37.4%	36.9%	24.2%	20.3%	22.1%
Asset Turnover (x)	0.7x	0.7x	0.7x	0.7x	0.7x
NWC % Revenue	13.6%	8.6%	8.8%	2.4%	2.3%
Op Cash % EBITA	83.4%	86.8%	129.9%	68.1%	120.2%

BALANCE SHEET

Year to 31 January, £m	FY24	FY25	FY26e	FY27e	FY28e
Intangibles	279.3	270.5	261.7	250.9	237.7
P,P+E	10.1	7.6	5.9	5.3	4.6
Tax Asset & Other	88.4	70.3	70.3	70.3	70.3
Total Fixed Assets	**377.8**	**348.4**	**337.9**	**326.4**	**312.6**
Net Working Capital	(49.5)	(42.2)	(10.9)	(10.5)	(9.0)
Capital Employed	**328.4**	**306.2**	**327.1**	**316.0**	**303.6**
Earn Out Liabilities	(170.8)	(86.6)	(20.2)	(10.6)	(2.6)
Net Funds	(1.4)	(38.4)	(50.5)	(19.7)	25.3
Net Assets	**156.2**	**181.2**	**256.3**	**285.7**	**326.3**

VALUATION

Fiscal	FY23	FY24	FY25	FY26e	FY27e
P/E	3.7x	3.6x	6.2x	6.8x	6.3x
EV/EBITDA	2.7x	2.5x	2.8x	4.4x	4.2x
Div Yield	4.9%	5.2%	5.2%	5.2%	5.3%
FCF Yield	19.5%	20.9%	19.6%	6.7%	17.9%
EPS growth	34.5%	1.5%	-41.5%	-8.2%	7.5%
DPS growth	21.7%	5.1%	0.0%	0.3%	2.1%

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