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Final Results 2013

5th November, 2013

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Agenda

Part 1

- Results summary
- Markets and Strategy

Part 2

- The financials
- Outlook

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Executive summary

Results

- Revenue up 5% to £96.1m, 2% organic following strong H2
- Organic growth in US of 10% for full year 2013
- Adjusted pre tax profits down to £7.7m
- Diluted adjusted earnings down to 6.65p (2012: 10.07p)
- Dividend increased by 11% to 2.55p
- Net debt down to £1.8m (2012: £2.6m)

Operations

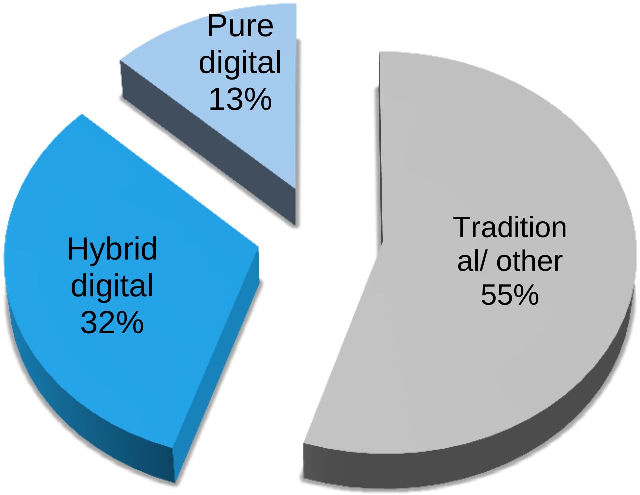
- Difficult year at Bite, £1.6m audit adjustment in H2
- David Dewhurst, FD, stepping down. Search for replacement underway and led by NED Alicja Lesniak
- Key client gains: BlackBerry, Virgin, Samsung, Anheuser Busch, Instagram, Hasbro
- Two-year digital transition plan on track
- Made good start to FY 2014

Digital progress, specialist division up 15%

Group brands

	Integrated div	Specialist div
Agencies	*Bite, Lexis, M Booth, OutCast,Text 100,*	*463, beyond, Blueshirt, Connections Media (3), Redshift*
Revenue sum	84%	16%
Growth in period	3%	15%

Group services (2)



Notes: (1) Hybrid digital describes a group service that includes digital communications (2) % of group revenues 2013 (3) not consolidated until H2 2013

Pure and hybrid digital now 45% of revenues (was 36% in 2012)

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Bite issues 2013

	Integrated div
Agenci s	***Bite***, *Lexis, M Booth, OutCast, Tex 100,*
Revenue sum	86%

- Fraud in US, further impact in H1 2013
- Audit adjustments and provisions in Europe in H2 of £1.6m
- Failure of financial controls prompted management action

- ✓ Expansion of internal audit function
- ✓ No clients lost in Bite US as a result of fraud or subsequent investigation
- ✓ Bite US now back in profit and showing growth Q1 vs Q4
- ✓ On going investigation in Germany and new management team

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Strong brand performances ex Bite

- Strong growth in North America, 17% in H2
- Record performance from OutCast, M Booth, Blueshirt and Text 100
- Extending relationships with key clients (American Express, Google)
- Added Connections Media in Washington – specialist PA digital agency – good contribution in H2
- Invested in Agent 3 in UK, a data driven marketing agency

- Growing pains slowed momentum at Beyond but quality customer base prevails: Facebook; Google; Apple; and now Virgin

New business update

Region	Wins	Losses
US	BlackBerry, Broadcom, Anheuser Busch, Google, Instagram, Samsung	Yahoo, USVI, Nokia
UK	Hasbro, Sage, Sainsbury's, Virgin	Axa, Microsoft, Unilever
APAC	AirBnB, Vodafone	HTC
EMEA	Harmon Kardon	eBay, HTC, Nokia

- Strong pipeline in all markets for hybrid and digital work
- Top 10 clients now account for 23% of revenues versus 24% last year

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BlackBerry win

Key terms

- Won as collaboration between Text 100 and US independent APCO
- Key territories: global
- Timescale: ongoing
- Text 100 role: product comms
- Revenue scale suggests top 10 client

Update

- Commenced work in June 2013
- Current activity impacted by ownership issues in Q3 (Sept/Nov)
- Fairfax investment of $1bn
- Moderated budget expectations

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Organic growth building through the year

Growth measure	Interim 2012	FY 2012	Interim 2013	FY 2013
Total (1)	11%	6%	3%	5%
Organic (2)	4%	1%	1%	2%

Notes: (1) net revenue growth, (2) adjusted to exclude the impact of currency and acquisitions

- Organic growth gains on first half and 2012
- H2 2013 organic growth was an impressive 5%
- US was up 10% on an organic basis (5% at half year) – now 55% of group revenues
- Tougher markets in UK (-10%), EMEA (-2%). APAC flat but improving at 1%
- Ex Bite growth rate 3% organic

Markets & Strategy

Emerging media climate since financial crisis

Item	2008	2013
Internet use of global pop	22%	36%
Smartphones use of global pop	1.5%	20%
Social network use of global pop	8.3%	25%
% of US adults online uploading video	<14%	31%
Facebook use of global pop	3.1%	15%
Total linkedin users globally	20m	225m
Total global adspend index	100	107
Digital adspend as % total	12%	22%

- Global internet is more mobile and social
- Social networking includes high growth professional element (over 2m Linkedin groups)
- Total global adspend is back to 2008 levels but its structure is different
- Digital adspend is starting to catch up with growth of the internet
- Non digital advertising has fallen 5.5% in 5 years to 2013

Sources: Global Media Intelligence Report, eMarketer Sept 2013, Pew Internet and American Life Project Oct 2013, LinkedIn,

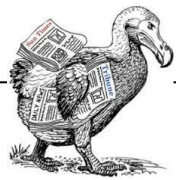
…..creates both opportunity and downside risk for comms agencies

- Redefine and extend areas of influence (digital creative, mobile, social networking)
- Higher client revenue yield
- Higher margin, higher ROI services
- More client leverage : PRO to CMO
- Software as a marketing service
- Data, data, data

Adapt and grow

Remain fixed and stagnate

- Marginalised to old media relations/ the press office
- Commoditised pricing environment
- Traditional client-side contacts overtaken in new marketing department re jigs
- Resource management: too many inflexible seniors, too few inspired juniors and….
- …can't attract people with new services



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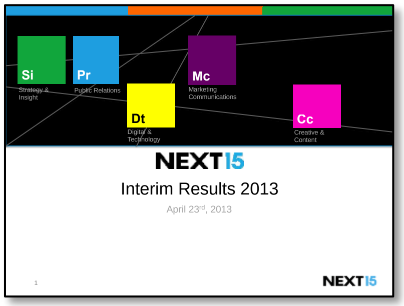
The digital transition plan



Terms

- Announced at the interims 2013
- Two-year plan, approximately £2m spend (FY 13/14)
- Half of spend will fall in FY 2013

- Spend to cover -
- ✓ Staff **restructuring**,
- ✓ **Investment** in new brands and
- ✓ Product **development**

- Investment part of up to £1m will cover start up losses and the acquisition of digital resources (equal to sum of last 4 years investment).

Executing the plan

	H2 2013 update
Restructure	Adding digital talent across group (Bite, head of social at Lexis)
Invest	Agent3 UK, bDA (US)
Develop	New client software for Google (dashboard) and Virgin (kinetic engine)
Total	£1m

- Winning new digital clients
- Growing with existing clients of scale
- New software services underpinned by founder client and built for resale
- Total investment in line
- Plan for next year (bDA US)

Early client impact

Winning new business

- Project to re launch Virgin.com website
- Significant new client for beyond against stiff competition
- New kinetic engine software was key to client win
- Built a real-time content aggregator which can tailor material to individual user
- Follow on sales opportunities

Growing with existing clients

- American Express now our largest client, served by 2 group brands
- 30% annual increase in revenues 2013/12 driven by take up of new digital services
- Key campaign: 'Small Business Saturday" by M Booth had strong social media element
- Campaign won Grand Prix award at Cannes Lions

Progress against m/term objectives

Improve organic growth after FY 2014

- Key client wins linked to plan (software/ capability, new launch)
- Helping to grow revenues/ relationships with existing clients

Improve group margins after FY 2014

- Non essential property update
- Pricing and utilisation issues

Increase pure and hybrid digital % revenues

- Current rate 45% vs 36% in 2012

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Part 2

- The financials
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Income statement

£m	FY 2013	FY 2012	Growth %
Billings	113.4	108.5	
Revenue	**96.1**	**91.6**	**5%**
Adj EBITDA	8.6	11.2	
Adjusted PBT	**7.7**	**9.6**	
PBT	2.1	6.0	
Tax	(1.4)	(1.7)	
Retained profit	0.3	3.9	
Basic EPS	0.56	6.85	
Diluted adj EPS	**6.65**	**10.07**	
Dividend	2.55	2.30	11%

- Adjusted PBT of £7.7m excludes £2.0m impairment of goodwill in Bite Germany
- Dividend growth is measure of management confidence and impact of the digital transition over medium term

Adjustments to pre tax profits FY 2013

Item	£m
Adjusted pre tax profits	**7.7**
Amortisation of intangibles	(1.4)
Share based payments	(0.5)
Financing	(0.4)
Goodwill impairment in Bite Germany	(2.0)
Fraud in Bite US	(0.5)
Digital transition	(0.8)
Reported profit before tax	**2.1**

- Bite fraud figure is improvement on interim report
- Bite Germany goodwill now fully written off
- Digital transition costs in line with expectations

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Total digital investments 2013

£m	Operating profits	Profit before tax	Balance sheet	Total
Nature of digital investment	*Restructuring of staff*	*Losses in new associates*	*Investment in new software products*	
Digital investments	**(0.8)**	**(0.1)**	**(0.1)**	**(1.0)**
Total	3.0	2.1	38.2	

- Digital investment sums to £1.0m
- Expect similar investment in 2014

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Cash flow

£m	FY 2013	FY 2012
Inflow from op activities	9.2	9.8
Working capital	2.0	0.3
Net inflow from operations	**11.2**	**10.1**
Tax	(2.7)	(2.5)
Net capex	(1.8)	(0.9)
Acquisitions	(3.0)	(5.7)
Own shares	(0.1)	(0.1)
Interest	(0.4)	(0.5)
Dividends	(1.4)	(1.2)
Minorities	(0.5)	(0.3)
Financing	(1.8)	0.9
Decrease in cash	**(0.5)**	**-**
Net debt	1.8	2.6

- Better year end cash management in working capital
- Net inflow from operations up 12%
- Acquisitions in the period was half earnout commitments and half new purchases
- £4.3m of earnout obligations in 2014
- Net debt down to £1.8m

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Balance sheet

£m	FY 2013		FY 2012
Intangible assets	41.4		41.0
Non-current assets	8.1		7.2
Current assets	37.6		33.3
Non-current liabilities	(18.5)		(20.1)
Current liabilities	(30.4)		(24.2)
Net assets	**38.2**		**37.2**
Share capital	1.5		1.5
Reserves	34.5		33.6
Minorities	2.2		2.1
Total equity	**38.2**		**37.2**
Net debt	1.8		2.6

Includes present value of estimated future earn out commitments (equity and cash) of £11m compares with undiscounted total of £13m

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5 year growth track record

Growth %	2008	2009	2010	2011	2012	2013
NFC organic	7	4	8	11	1	2
Actual Revs	63.1	65.4	72.3	86.0	91.6	96.1
Rev per share (1)	122	124	133	157	161	163

Notes: (1) Revenue per share is a measure of £ revenue generated per weighted average shares in issue during the year

- Organic growth has remained positive during financial recession
- 2013 showing expansion after low point in FY 2012, led by US
- Net debt in 2013 is less than 2008 (£1.8m cf £3.4m)
- Revenue per share shows positive trend
- This and net debt position shows that growth overall has been funded by cashflow

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Trading outlook

- Trading patterns are good across the group
- Healthy new business climate, early wins include: Swiftkey, Google Enterprise, Sainsbury’s, HBO, Starwood
- Taking cautious view on BBY and Bite Germany
- Bite US back in profit and showing growth in Q1 vs Q4
- On-going investments in new operations, products and re-skilling of agencies
- Balance sheet to remain strong
- Selective M&A opportunities
- Continued organic growth

Summary

- Business model is fundamentally strong
  - Organic growth and strong performance from most agencies
  - One agency had a very bad year and failed to implement adequate controls despite fraud
  - Board has acted to resolve management and process concerns

- Current trading in line with management expectations

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Appendix

Contingent consideration and minority interests

Prospective cash commitments: 2014 - 2017

Cash commitments	£m
FY 2014	4.3
FY 2015	3.2
FY 2016 and later	4.5

- These figures show undiscounted estimates, assuming that shares are issued in those acquisitions where they form part of the consideration
- Cash can be substituted for share consideration at Next 15’s discretion. This could add a further £1.3m cash consideration over the next five years
- Total cash commitments of £12m 2014 – 2017 and total commitments of £13m.