EDISON

Next Fifteen Communications

Second interims

Strong results with encouraging outlook

Media

Next Fifteen's second interim results for the year to 31 July 2014 show a 6% revenue increase. Organic revenue growth of 5% was largely driven by continued strong trading in the group's North American operations, which grew 12% organically. Adjusted PBT rose 36% while diluted adjusted EPS came in at 10.0p, 0.5p higher than our estimate primarily due to lower than expected minorities. Management says that current trading remains encouraging, with a good performance expected from the UK and US businesses for the rest of the group's new financial year to January 2015. Supported by this, we again raise our PBT and EPS estimates for the year to July 2015. Following the 18-month results expected by the end of April 2015, we will formulate our estimates in line with the new year-end.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/12	91.6	9.6	10.1	2.30	11.8	1.9
07/13	96.1	7.7	6.6	2.55	18.1	2.1
07/14	101.5	10.5	10.0	3.00	11.9	2.5
07/15e	113.3	12.2	11.0	3.25	10.9	2.7

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items. Year-end is changing to January in 2015.

Strong US and improving UK

North America, the group's largest geographical operations at c 57% of revenue, performed strongly with 12% organic growth, though reported revenue of £57.3m (up 9%) was held back by sterling strength. Trading in the UK improved in the latest six months with 4% like for like revenue growth. While trading in Europe and Asia Pacific has been challenging, current integration of the group'sText100 and Bite businesses in these markets should provide greater scale and efficiency, resulting in improved profitability. Though head office expenses rose 8% as the group expanded its financial and management systems, the group's adjusted operating margin rose to 10.6% from 8.6% in FY13.

Digital transition continues

The group continues its transition from traditional communications services towards social and digital. This is shown by assignments now being undertaken for clients such as American Express and Google, as well as investments made in both existing agencies and new acquisitions. The most recent of these acquisitions is Story Worldwide, a US-based global content advertising agency, which the group has agreed to acquire this month for US$6.6m cash.

Valuation: Historical premium rating can be regained

The group is well placed to take advantage within the radically changing marketing sector as it transitions its business model to increased focus on the fast-growing digital marketing services space (eMarketer expects 14.7% growth in digital ad spend in 2015). Now the group has demonstrated it is back on the growth tack, we believe the group's historical premium rating to similar-sized peers can be regained over the coming year.

7 October 2014

Price	**119.5p**
Market cap	**£73m**
Net debt (£m) at 31 July 2014	1.4
Shares in issue	60.9m
Free float	86%
Code	NFC
Primary exchange	AIM

Share price performance

%	1m	3m	12m
Abs	(6.7)	3.5	27.1
Rel (local)	(2.6)	8.3	24.7
52-week high/low		131.0p	71.5p

Business description

Next Fifteen Communications is a digital marketing communications and public relations group. Predominately serving clients in the technology and consumer sectors, it has world-leading and autonomous PR, research, digital, investor relations and policy communications subsidiaries and associates.

Next events

Preliminary results (18 months)	April 2015
AGM	June 2015
Interim results	October 2015

Analysts

Martin Lister +44 (0)20 3077 5700

Fiona Orford-Williams +44 (0)20 3077 5739

media@edisongroup.com

Edison profile page

Investment summary: Encouraging outlook

Company description: Global digital and PR consultancy group

Founded in 1981, Next Fifteen Communications is a worldwide digital marketing communications and public relations group, predominately serving clients in the technology, consumer, digital/research consultancy and corporate communications sectors, with world-leading and autonomous PR, research, digital, investor relations and policy communications subsidiaries. Over the past decade, a series of acquisitions has been successfully integrated into the group, which now has 48 offices across 18 countries. Since late 2009, Next Fifteen has been transitioning its business model to increased focus on digital marketing services, driving this by organic expansion and targeted acquisitions, and via a two-year 'Digital Transition Plan' initiated in H113.

The group owns five independent communications brands: two specialising in the technology sector (Text100 and The OutCast Agency), two in the consumer space (Lexis and M Booth) and a marketing services agency (Bite). The group also owns four agencies with a focus on digital (Beyond, Agent3, Connections Media and Republic Publishing), a market research company (Redshift Research), a communications firm (463 Communications) and an investor relations consultancy (The Blueshirt Group). In addition, the group agreed to acquire Story Worldwide, a US-based global content advertising agency in October 2014.

Valuation: Historical premium rating can be re-gained

Next Fifteen's current prospective P/E is in line with and at a sizeable discount on EV/EBITDA and EV/revenue metrics to our selected similar-sized peers bar one. We contend that the group's expertise in the digital arena, supported by its 30-year specialisation in the tech sector, provides some encouragement that its historical premium P/E rating to similar-sized peers can be regained over the coming year now the group has demonstrated it is back on the growth tack.

Financials: Solidly financed

At 31 July 2014, the group had net debt of £1.4m (31 July 2013: £1.8m), made up of £10.9m cash and borrowings of £12.3m, equating to 4.4% net debt to equity. While deferred and contingent consideration of £9.8m and capex of £3.4m is likely over the coming year, the balance sheet should remain solidly financed. Based on these payments and on continuing strong annual operating cash flow of £13.0m, we estimate net debt to rise to £6.2m at 31 July 2015, which would increase net debt to equity to a manageable 17.3%. The group has recently signed a new global £20m banking facility with HSBC at a lower interest rate margin than under the group's previous arrangements with Barclays.

Sensitivities

Our base-case scenario makes five key assumptions. A material change in any of these has the potential to surprise either on the upside or downside:

- major clients are retained;
- the dollar does not weaken or strengthen significantly;
- the technology market continues to grow slightly better than global GDP, and the consumer sector grows in line with global GDP;
- key employees are retained; and
- the 'Digital Transition Plan' (initiated in H113) is successfully implemented.

Second interim results for year to 31 July 2014

Next Fifteen's second interim results for the year to 31 July 2014 show 6% revenue increase. Twelve-month organic revenue growth of 5% was largely driven by continued strong trading in the group's North American operations, which grew 12% organically. Adjusted PBT rose 36% while adjusted diluted EPS came in at 10.0p, 0.5p higher than our estimate primarily due to lower than expected minorities. This is an increase of 49% compared with FY13, which was affected by accounting issues at Bite. It should be noted that the carrying value of goodwill attributed to the group's UK businesses was reduced by a £7m write-down to reflect a period of historic underperformance – this amount has been treated as an exceptional item, as were £1.4m of restructuring costs incurred in the UK and Europe.

Reflecting the strong underlying performance, the group has announced an increase in the second interim dividend of 2.3p, which brings the total to 3.0p for the year to 31 July 2014, up 17.6% on 2.55p paid for FY13.

Management says current trading remains encouraging, with a good performance expected from the UK and US businesses for the rest of the group's new financial year to January 2015. Supported by this, we again raise our PBT and EPS estimates for the year to July 2015. Following the 18-month results expected by the end of April 2015, we will formulate our estimates in line with the new year-end.

Higher organic revenue growth for the last four half years

Growth organic revenue growth to six months to July 2014 of 7% continued the trend of increases in each successive six-month period since the end of FY12 (previous half years: 4%; 3% and1%). Reported revenue rose 6% to £101.5m (FY13: £96.1m) for the year to 31 July 2014. North America remains the group's largest geographical operations at c 57% of revenue, which we estimate to rise to 61% in FY15 following the Story Worldwide acquisition in October 2014.

While the group's US business saw 12% organic growth, the strength of sterling against the US dollar held back reported revenue growth to 9% to £57.3m for the region. In the UK, like-for-like revenue grew 4% with reported revenue rising 15% to £21.9m, befitting from the Republic Publishing and Continuous Insight acquisitions in January and February 2014 respectively. Revenue declined in the group's other geographic areas: Europe was down 9% to £9.6m, reflecting a difficult trading environment; and Asia Pacific declined 10% to £12.6m, partly due to sterling strength and the closure of the group's office in Japan.

Exhibit 1: Analysis of revenue by geography

Year-end 31 July	FY13	H114	H214	FY14	FY15e
US & Canada					
Revenue £000s	52468	28392	28943	57335	69125
Group revenue %	54.6	57.6	55.5	56.5	61.0
UK					
Revenue £000s	19119	9706	12195	21901	22775
Group revenue %	19.9	19.7	23.4	21.6	20.1
Asia Pacific					
Revenue £000s	13978	6395	6240	12635	12000
Group revenue %	14.5	13.0	12.0	12.5	10.6
Europe & Africa					
Revenue £000s	10504	4808	4772	9580	9400
Group revenue %	10.9	9.8	9.2	9.4	8.3
Group net revenues	96069	49301	52150	101451	113300

Source: Company data, Edison Investment Research. Note: FY is year to 31 July. Year-end is changing to 31 January in 2015.

Annual adjusted operating margins up in each geography

Adjusted operating margins for the year to 31 July 2014 increased in each reported geography, with North America rising to 23.7% from 22.5% in FY13. During the six months to 31 July 2014, adjusted operating margins improved significantly in the more challenging European and Asia Pacific markets from depressed levels in the previous six months and FY13, with management saying that the previously announced alignment of the Text100 and Bite operations in Europe has already led to a much improved profit performance.

The group has expanded finance, treasury, internal audit and management information system resources following the accounting issues and fraud at Bite in the previous two years. This has increased the ongoing impact of head office expenses, which rose 8.4% in FY14. Despite this additional overhead, the group's adjusted operating margin rose to 10.6% from 8.6% in FY13.

For the 12 months to 31 July 2015, we anticipate a modest margin increase for the UK, while both Asia Pacific and Europe have the capability to increase from their lower levels as the Text100 and Bite integration in these markets provide greater scale and efficiency. As the October 2014 acquisition of Story Worldwide has just a high single digit operating margin, the overall operating margin for North America is estimated to decline to 22.4%.

Exhibit 2: Analysis of adjusted operating profit by geography

Year-end 31 July	FY13	H114	H214	FY14	FY15e
US & Canada					
Adjusted operating profit £000s *	11,804	6,942	6,651	13,593	15,500
Adjusted operating profit margin % *	22.5	24.5	23.0	23.7	22.4
UK					
Adjusted operating profit £000s *	1,146	773	756	1,529	1,615
Adjusted operating profit margin % *	6.0	8.0	6.2	7.0	7.1
Asia Pacific					
Adjusted operating profit £000s *	265	210	372	582	600
Adjusted operating profit margin % *	1.9	3.3	6.0	4.6	5.0
Europe & Africa					
Adjusted operating profit £000s *	-217	-238	486	248	400
Adjusted operating profit margin % *	-2.1	-5.0	10.2	2.6	4.3
Head office costs £000s	4,778	2,454	2,726	5,180	5,440
Group					
Adjusted operating profit £000s	8,220	5,233	5,539	10,772	12,675
Adjusted operating profit margin %	8.6	10.6	10.6	10.6	11.2

Source: Company data, Edison Investment Research. Note: FY is year to 31 July. Year-end is changing to 31 January in 2015. *Before head office expenses, intangible amortisation, exceptional items and acquisitional share based payments

Estimates for year to July 2015 upped

Management says current trading remains encouraging, with a good performance expected from the UK and US businesses for the rest of the group's new financial year to January 2015. Supported by this and the benefit of the Story Worldwide acquisition for nine months, we raise our estimates for revenue by £7.8m to £113.3m (using 5% organic growth on FY14) and EPS by 1.0p to 11.0p (10% up on FY14) for the year to July 2015, based on our geographical revenue and operating margin estimates for FY15 (see Exhibits 1 and 2 above). Following the 18-month results expected by the end of April 2015, we will formulate our estimates in line with the new year-end.

Investors should be aware that some exceptional costs will affect the six-month period to 31 January 2015, the group's new financial year end: US$0.9m non-cash expense relating to the relocation of all of the group's offices in San Francisco into a single premises; and c £0.75m restructuring charge for merging the group's Bite and Text100 operations in Asia Pacific. We have accordingly included these amounts in our estimates, although excluded for normalised P&L data.

Company description: Global communications group

Next Fifteen has built a multiple-agency offering, each of which is run autonomously under a holding-company umbrella. This enables the group to work with existing clients and win new clients in the same industry segment, as within the technology sector there are many sub-sectors that are dominated by five or fewer businesses. The group's strategy is to improve its margins while generating organic growth from existing digital marketing communications and PR brands, including cross-selling its network to its existing client base, and to supplement this with targeted acquisitions that offer growth potential and complement the group's existing businesses. Since late 2009, Next Fifteen has been moving its business model towards an increased focus on digital marketing services and continues to explore ways to expand its digital capabilities through a mix of organic investment, through the implementation of a 'Digital Transition Plan' begun in H113, and targeted acquisitions.

The group owns five independent communications brands: two specialising in the technology sector (Text100 and The OutCast Agency), two in the consumer space (Lexis and M Booth) and a marketing services agency (Bite). The group also owns four agencies with a focus on digital (Beyond, Agent3, Connections Media and Republic Publishing), a market research company (Redshift Research), communications firm (463 Communications) and investor relations consultancy (The Blueshirt Group). In addition the group agreed to acquire Story Worldwide, a US-based global content advertising agency in October 2014.

Technology brands

Text100 **www.text100.com**

Text100 is a top 20 global communications agency serving companies that use technology for competitive advantage. Built organically from the ground up, Text100 uniquely offers the dedication of local agencies and the power and reach of a global firm. This enables the creation of global integrated campaigns that are able to deliver value to clients.

With award-winning practices covering all public relations disciplines, Text100 represents leading brands with 45 offices worldwide. To facilitate global coverage, these include a number of licensed and affiliate partners in three Latin American locations in partnership with the Jeffrey Group, Central and Eastern Europe, the Middle East, and, through the ASEAN Network, South-East Asia. In August 2014, the group decided to integrate the Asia Pacific activities and align the European operations of Bite Communications into Text100.

The OutCast Agency **www.theoutcastagency.com**

OutCast was founded in San Francisco in 1997 and was acquired by Next Fifteen in June 2005. It operates as a separate business under its own brand, with its founders co-presidents of the business, and has offices in San Francisco and New York. In August 2012, 15% of the group's OutCast 100% holding was reclassified as a new restricted class of shares and allotted for nil consideration to certain members of Outcast's senior management team under a long-term incentive plan.

Marketing services

Bite Communications **www.bitecommunications.com**

Bite provides a range of services from media, analyst and influencer relations to online strategy and social media communications. The Bite and Text100 operations in Asia Pacific are being merged under the Text100 brand and management expect this process will be complete by the end of January 2015. The group has also aligned Bite's European operations with those of Text100. Following these changes, Bite will have offices in San Francisco, New York and London. During FY13, Bite merged its operations with Bourne, which Next Fifteen acquired in May 2011 (an 80%

stake) and in April 2012 (the remaining 20%). Bourne, now rebranded as BiteDA, added high value, strategic services across all digital channels, embedding strategy, customer insight and imaginative business processes at the heart of large-scale online marketing programs.

Consumer brands

Lexis Public Relations **www.lexispr.com**

Next Fifteen took an initial 25% stake in August 2005 and became a fully owned subsidiary in October 2008. Lexis operates as a separate business under its own brand and has offices in London and New York. It is a full service agency with consumer, corporate/B2B, healthcare, sport and youth divisions providing in-depth expertise, supported by dedicated planning, creative, digital marketing, sponsorship and design specialists. In September 2010 Lexis acquired the UK-based Glasshouse Partnership, a corporate communications and marketing agency and in May 2012 acquired 71.8% of Paratus, a UK PR agency with digital expertise.

M Booth & Associates **www.mbooth.com**

M Booth was acquired by Next Fifteen in August 2009. Headquartered in New York, it is a leading PR consultancy in North America, and Next Fifteen's aim is to integrate M Booth and Lexis and for these two businesses to work together on further international expansion. Specialising in building strong and powerful brands, M Booth represents some of the world's best-known corporations and products across several industries – consumer goods, consumer health, beauty, fashion and retailing, travel and lifestyle, food and beverage, wine and spirits, online brands, corporate communications and technology.

Pure digital consultancies

Beyond **www.bynd.com**

Beyond was launched in September 2010 by integrating Context Analytics, Text 100's research and analytics business, and Type3, a digital creative agency acquired in August 2010. Next Fifteen owns 51% of Beyond, while the rest is owned by three employee shareholders. The latter has the option to sell part of its shareholding to the group at certain dates in 2013 to 2015. By October 2015, the group expects to increase its holding in Beyond to 75%. In August 2012, Beyond acquired Content and Motion, a small social marketing agency based in the UK, for a 6.5% stake in Beyond - Next Fifteen has a share purchase obligation for this holding. Beyond's mission is to rethink the traditional digital agency approach and use a combination of earned, owned and paid media to maximise relevant traffic to brand properties and experiences. Beyond's offices are in London, Brighton, New York and San Francisco.

Agent3 **www.agent3.com**

During FY13, the group invested in the start-up of Agent3, a digital marketing agency, which sells technology platforms and data-based marketing services that help companies connect their CRM systems to their marketing activities. The three founders of this agency were previously senior members of staff at Bite. Following Agent3's acquisition of B2B insight business Continuous Insight in February 2014, the group now owns 54% of Agent3.

Republic Publishing **www.republicpublishing.co.uk**

In January 2014, the group acquired a 51% stake in London-based Republic Publishing, a content marketing specialist. Republic helps generate inbound traffic to client websites through judicious use of contents in all its forms including video, social and editorial. The initial consideration was £0.7m cash and a working capital payment of £0.4m. A top-up payment is due in February 2015 based on performance for the 12 months since acquisition. In addition, a mechanism is in place to purchase the remaining 49% of the business over the next two to six years – the NPV of this share purchase obligation was £1.7m at 31 July 2014.

Story Worldwide **www.storyworldwide.com**

In October 2014, Next Fifteen agreed to acquire the trade and assets of Story Worldwide, a global content advertising agency with offices in New York and Seattle, for US$6.6m. The acquisition is expected to complete at the end of October 2014. Story's annualised revenues are c US$15m with historic operating margins in high single digits. Launched in 2007, Story is a next-generation content advertising agency that connects brands to customers by telling engaging and entertaining stories that audiences actually want to hear.

Corporate communications

The Blueshirt Group **www.blueshirtgroup.com**

In November 2010, Next Fifteen acquired an 85% stake in US corporate and financial PR agency, The Blueshirt Group. The initial consideration was $3m with a further expected $8m based on performance over four years. Blueshirt provides strategic investor relations to both public and private companies, as well as venture capital firms, to help them effectively communicate with Wall Street, investors and the media.

463 Communications **www.463.com**

Founded in 2004, 463 is a strategic communications firm that provides senior level communications advice to navigate the intersection between technology, public policy and government. 463 has offices in Washington DC and San Francisco, California. It specialises in helping technology companies with their policy, regulatory and public sector opportunities at state, federal and international levels. The group has an obligation to purchase the outstanding minority over seven years.

Connections Media **www.connectionsmedia.com**

Founded in 2004, Connections Media is a full service digital agency specialising in politics and public affairs. It provides complete digital campaign services including: strategy, design, advertising, social media, and customised technology development to select political, advocacy and corporate public affairs clients. Connections Media has offices in Washington DC and New York City. In April 2013, Next Fifteen acquired an 80% stake for an initial consideration of $1.85m cash. Deferred consideration may be payable (in cash or up to 25% in Next Fifteen shares at the option of Next Fifteen) over five years subject to the achievement of certain revenue and profit performance targets.

Market research

Redshift Research **www.redshiftresearch.co.uk**

Redshift Research was established in May 2007 as a subsidiary of the group. It is a full-service market research consultancy that conducts both business to business and consumer research. It has a strong track record in the consumer technology and IT sectors, particularly in support of PR research. Through its office in the UK and a presence in the US, Redshift offers a wide range of research services, including: opinion surveys, website evaluations, customer satisfaction, branding research, market segmentation and new product development.

Sensitivities

Our base-case scenario makes five key assumptions: 1) major clients are retained; 2) the dollar does not weaken or strengthen significantly; 3) the technology market continues to grow slightly better than global GDP, and the consumer sector grows marginally less than global GDP; 4) the 'Digital Transition Plan' is successfully implemented; and 5) key employees are retained. A material change in any of the above has the potential to surprise either on the upside or downside.

Major client retention

We understand the group's largest 10 clients represent around a quarter of net revenue, with no one client larger than 5%. While these levels have been reducing significantly over the past few years, the loss of any one of these largest clients could affect the profit and loss account. However, Next Fifteen has a good record in retaining clients over long periods of time – eg Microsoft has been a client of the group for more than 20 years and IBM has been one of the group's largest clients for over 10 years.

Foreign currency exposure

The group does have significant exposure to foreign currency movements, primarily the US dollar and, to a lesser extent, the euro and the Australian dollar. During FY14, over three-quarters of net revenue was generated outside the UK. If expansion continues in North America and other international locations, this risk could increase.

Sector focus

The group is primarily exposed to the technology market and, to a lesser extent, to the consumer sector. Corporate PR budgets are closely correlated with turnover, with a lag of only a few months. Next Fifteen is one of the world's leading providers of communication services to the technology industry, with an estimated market share of c 10%. We expect the group will remain primarily focused on the tech sector and can grow revenues at a faster pace than the overall sector due to its expertise in the faster growing digital arena.

The 'Digital Transition Plan' is successfully implemented

In response to the rapidly changing client requirements, Next Fifteen initiated in H113 a 'Digital Transition Plan' to accelerate the group's transition towards more pure and hybrid digital services. Since then, expenditure of £0.8m in FY13 and nil in the year to July 2014 has been treated as non-recurring restructure costs and as such are excluded in the adjusted P&L data. In addition, the group has invested in number of new companies specialising in digital communications, including Agent3 and Republic Publishing. The plan's success is likely to depend on that of such companies.

Key employee retention: Employee incentives and share options

Next Fifteen has a Long-Term Incentive Plan (LTIP), which allows for up to 20% of the group's share capital to be issued under this plan or previous share option schemes. There are very demanding performance conditions for shares to be issued under the LTIP, based on the compound growth in earnings per share exceeding the growth in RPI by at least 10% pa over three out of four consecutive financial years after the award of performance shares. At 31 July 2014, the group has outstanding options and performance shares totalling 6.6m shares (11% of the group's outstanding share capital) that could be potentially issued under existing plans.

Valuation: Historical premium rating can be regained

The group would appear to be well placed to take advantage within the radically changing marketing sector as it transitions its business model to increased focus on digital marketing services. With its high exposure to the US market, the group should benefit from the growth in the US digital advertising market, which grew 14.9% in 2013. eMarketer is expecting further high growth of 16.9% in 2014 and 14.7% in 2015.

Based on data at the close on 2 October 2014, Next Fifteen's prospective P/E of 10.9x for the year to 31 July 2015 compares with consensus P/Es of 11.2x for Chime, 10.8x for Huntsworth and 8.9x for Creston. The lower rating for Creston primarily reflects its current earnings plateau. Mega advertising group comparators Omnicom (which recently terminated its proposed 'merger of equals' with Publicis) and WPP trade at higher prospective P/Es of 15.1x and 13.5x. In addition, Next Fifteen's historic EV/EBITDA and EV/revenue are both significantly lower than all but Creston of the companies in our comparison table (Exhibit 3).

We contend that the group's expertise in the digital arena, supported by its 30-year specialisation in the tech sector, provides some encouragement that its historical premium P/E rating to similar-sized peers can be regained over the coming year now that it has demonstrated that it is back on the growth tack.

Exhibit 3: Proxy comparison table

	Ticker	Price	Mkt Cap	Hist	Hist	Hist	P/E	P/E	Yield
		p/$	£m/$m	YE	EV/Rev	EV/EBITDA	Jul-15*	Year2	Jul-15*
Chime	CHW	293.0	290	Dec-13	1.9	11.0	11.2	11.2	2.9
Creston	CRE	110.3	65	Mar-14	0.8	5.1	8.9	8.7	3.8
Huntsworth	HNT	49.8	162	Dec-13	1.1	7.2	10.8	10.2	7.0
Omnicom (US)	OMC	67.1	16,860	Dec-13	1.2	8.6	15.1	14.5	3.2
WPP	WPP	1,182.0	15,561	Dec-13	1.6	6.8	13.5	13.0	3.3
				Average	1.3	7.7	11.9	11.5	4.1
Next Fifteen	NFC	119.5	73	Jul-14	0.7	6.7	10.9	n/a	2.7

Source: Thomson Reuters, Edison Investment Research. Note: Prices as at close on 2 October 2014.
* Straight line adjustment to year ending 31 July 2015.

Investors may note that five years ago in 2009, Next Fifteen's management rebuffed takeover approaches from both Chime and Huntsworth.

Financials

The group is consolidating its global banking arrangements with HSBC, which was already the group's corporate banker in the US, and has recently signed a new four-year £20m banking facility with HSBC at a lower interest rate margin than under the group's previous arrangements with Barclays. This should adequately cover current prospective acquisition payments.

Prospective acquisition related payments: £9.8m in FY15e

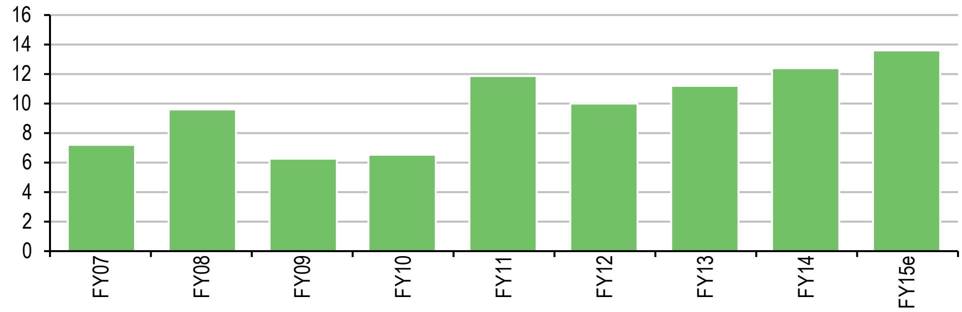
After over 20 years of primarily organic growth, the group began its strategy of boosting growth through acquisition. During the past 10 years, a series of acquisitions has been integrated successfully into the group. Most of these acquisitions included performance-related payments stretching over a number of years and, for some deals, the group has also made an undertaking to acquire outstanding minorities. These payments have been structured as part cash and part shares, generally at the option of the group. These M&A liabilities are included in the balance sheet under deferred/contingent consideration and share purchase obligations.

At 31 July 2014, the group had a contingent consideration of £1.0m and share purchase obligations of £4.3m in non-current liabilities, and deferred consideration of £1.7m, contingent consideration of £3.9m and share purchase obligations of £0.7m in current liabilities. These amounts have been calculated based on the group's discounted estimates of the most likely outcome for the profitability of each of the acquired businesses. The quantum of these obligations is dependent on estimations of forecast profitability of the individual acquired businesses. In addition, it should be noted that settlement dates are variable and range from 2014 and 2021. We have included cash payments of £9.8m in our FY15 cash flow estimate – this includes c £4m for the Story Worldwide purchase in October 2014.

Solid cash flow from operations

Exhibit 4 charts the trend in cash flow from operations over the past eight years and our estimate for the year to July 2015.

Exhibit 4: Cash flow from operations (£m)



Source: Company data, Edison Investment Research. Note: FY is year to 31 July

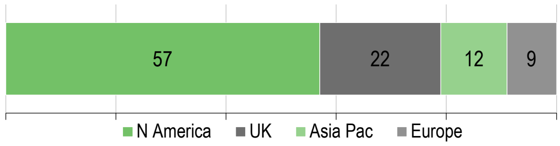
Net debt to rise by July 2015; still modest net debt to equity

In addition to £9.8m of acquisition-related payments in the year to July 2015, we anticipate an increase in capital expenditure to £3.4m (FY14 £2.1m). This relates to the consolidation of the group's San Francisco offices into one premises, which is to undergo a four-month fit-out. Based on these payments and on continuing strong annual operating cash flow of £13.0m, we estimate net debt to rise to £6.2m at 31 July 2015, which increases net debt to equity to a manageable17.3%.

Exhibit 5: Financial summary

Year-ending 31 July	£'000s	2011	2012	2013	2014	2015e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Billings		105,163	108,453	113,360	119,983	127,000
Revenues		86,035	91,583	96,069	101,451	113,300
EBITDA		10,699	11,677	9,970	12,561	14,555
Operating Profit (before GW and except.)		8,823	10,047	8,219	10,772	12,675
Goodwill Amortisation		0	0	0	0	0
Exceptionals		(871)	(3,630)	(5,620)	(11,450)	(2,800)
Other		0	14	(79)	197	0
Operating Profit		7,952	6,431	2,520	(481)	9,875
Net Interest		(425)	(472)	(435)	(472)	(500)
Profit Before Tax (norm)		8,398	9,589	7,705	10,497	12,175
Profit Before Tax (FRS 3)		7,527	5,959	2,085	(953)	9,375
Tax		(2,260)	(1,652)	(1,364)	(1,977)	(2,950)
Profit After Tax (norm)		5,854	6,914	4,820	7,420	8,525
Profit After Tax (FRS 3)		5,267	4,307	721	(2,930)	6,425
Minorities		(270)	(401)	(393)	(709)	(900)
Net income (normalised)		5,584	6,513	4,427	6,711	7,625
Net income (FRS3)		4,997	3,906	328	(3,639)	5,525
Average Number of Shares Outstanding (m)		54.9	57.0	59.1	60.3	60.9
EPS - normalised (p)		10.2	11.4	7.5	11.1	12.5
EPS - normalised fully diluted (p)		8.7	10.1	6.6	10.0	11.0
EPS - FRS 3 (p)		9.1	6.8	0.6	(6.0)	9.1
Dividend per share (p)		2.05	2.30	2.55	3.00	3.25
EBITDA Margin		10%	11%	9%	10%	11%
Operating Margin (before GW and except.)		10%	11%	9%	11%	11%
BALANCE SHEET						
Non-current assets		44,336	48,227	49,457	43,333	47,753
Intangible Assets		37,926	41,019	41,369	34,828	37,848
Tangible Assets		3,067	2,721	3,165	3,534	4,934
Other non-current assets		3,343	4,487	4,923	4,971	4,971
Current Assets		34,769	33,337	37,593	43,045	39,808
Debtors		26,252	24,901	29,529	32,192	33,800
Cash		8,517	8,436	8,064	10,853	6,008
Current Liabilities		(26,095)	(24,230)	(30,390)	(47,350)	(43,913)
Creditors		(25,767)	(23,946)	(29,674)	(35,227)	(31,790)
Short term borrowings		(328)	(284)	(716)	(12,123)	(12,123)
Long Term Liabilities		(20,677)	(20,106)	(18,467)	(7,966)	(7,666)
Long term borrowings		(9,760)	(10,756)	(9,157)	(100)	(100)
Other long term liabilities		(10,917)	(9,350)	(9,310)	(7,866)	(7,566)
Net Assets		32,333	37,228	38,193	31,062	35,982
CASH FLOW						
Operating Cash Flow		11,905	10,052	11,187	12,402	13,630
Net Interest		(417)	(470)	(435)	(468)	(500)
Tax		(2,618)	(2,520)	(2,686)	(2,043)	(2,950)
Capex		(2,202)	(957)	(2,113)	(2,136)	(3,400)
Acquisitions/disposals		(6,078)	(5,664)	(3,019)	(4,380)	(9,800)
Financing		(66)	(264)	(693)	(501)	0
Dividends		(1,045)	(1,208)	(1,409)	(1,585)	(1,825)
Other		0	0	0	0	0
Net Cash Flow		(521)	(1,031)	832	1,289	(4,845)
Opening net debt/(cash)		851	1,571	2,604	1,809	1,370
Finance leases		(90)	(72)	(59)	(83)	0
Other		(109)	70	22	(767)	0
Closing net debt/(cash)		1,571	2,604	1,809	1,370	6,215

Source: Next Fifteen Communications, Edison Investment Research. Note: Year-end is changing to 31 January in 2015.

Contact details	Revenue by geography
The Triangle, Level 5 5-17 Hammersmith Grove London W6 0LG, United Kingdom +44 (0)20 8846 0770 www.next15.com	

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 2011-15e	5.9%	ROCE 14	25.3%	Gearing 14	4.5%	Litigation/regulatory	○
EPS 2013-15e	28.6%	Avg ROCE 2011-15e	23.9%	Interest cover 14	22.8x	Pensions	○
EBITDA 2011-15e	8.0%	ROE 14	22.3%	CA/CL 14	0.9	Currency	●
EBITDA 2013-15e	20.8%	Gross margin 14	N/A	Stock days 14	N/A	Stock overhang	○
Sales 2011-15e	7.1%	Operating margin 14	9.0%	Debtor days 14	97.9	Interest rates	◖
Sales 2013-15e	8.6%	Gr mgn / Op mgn 14	N/A	Creditor days 14	98.3	Oil/commodity prices	○

Management team

CEO: Tim Dyson

Tim Dyson joined the group in 1984 and became CEO in 1992. He was one of the early pioneers of tech PR, working on major corporate and product campaigns with such companies as Cisco, Microsoft, IBM, Sun and Intel. He moved from London to set up the group's first US business in 1995 and is now based in Palo Alto. He is also on the advisory boards of a number of emerging tech companies.

CFO: Peter Harris

Peter Harris joined the group as CFO in November 2013. His financial experience spans 30 years and he has extensive media experience, having spent the last 20 years in finance roles in the media sector. He is also currently a non-executive director of Communisis plc.

Non executive chairman: Richard Eyre CBE

Richard Eyre was appointed non executive chairman in May 2011.He is also chairman of the Internet Advertising Bureau and the Eden Project. He has 35 years' experience across media and marketing industries including chairman of RDF Media plc and GCap plc as well as CEO of ITV Network.

Principal shareholders	(%)
Liontrust Investment Partners	19.1
Octopus Investments	9.7
Herald Investment Management	8.7
Tim Dyson (CEO)	8.3
Hargreave Hale	6.3
Fidelity Investments	5.1
River and Mercantile Asset Management	4.7
Tom Lewis (Co-founder and former director)	4.7
JO Hambros Capital Management	3.1

Companies named in this report

American Express (AXP.N), Chime (CHW.L), Creston (CRE.L), Google (GOOG.O), HSBC (HSBA.L), Huntsworth (HNW.L), IBM (IBM.N), Microsoft (MSFT.O), Omnicom (OMC.N), Publicis (PUB.PA), WPP (WPP.L)

Frankfurt +49 (0)69 78 8076 960	London +44 (0)20 3077 5700	New York +1 646 653 7026	Sydney +61 (0)2 9258 1161	Wellington +64 (0)48 948 555
Schumannstrasse 34b	280 High Holborn	245 Park Avenue, 39th Floor	Level 25, Aurora Place	Level 15, 171 Featherston St
60325 Frankfurt	London, WC1V 7EE	10167, New York	88 Phillip St, Sydney	Wellington 6011
Germany	United Kingdom	US	NSW 2000, Australia	New Zealand