27 April 2010

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/08	63.1	6.6	8.5	1.7	7.9	2.5
07/09	65.4	5.2	6.5	1.7	10.4	2.5
07/10e	70.0	6.6	7.8	1.8	8.7	2.7
07/11e	74.0	7.1	8.4	1.9	8.0	2.8

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

Investment summary: Momentum building

Today, Next Fifteen reported its FY10 interim results. Revenues rose 2% over the prior H1 to £34.2m, and 7% over the second half of FY09. We have increased our FY10 revenue estimate to management guidance of £70m, and maintain our 7.8p normalised diluted EPS. Management says that momentum is building, with revenues steadily increasing in all regions. The interim dividend is being increased by 5.6%. Following the £4.3m acquisition payments, the group had £1.4m net debt at the half year-end. We expect positive cash flow in the second half, and that the group will end FY10 with net cash of £1.1m.

Positive interims

Revenues rose 2% over the prior H1 to £34.2m, but importantly grew 7% over H2 of FY09. We have increased our FY10 revenue estimate to management guidance of £70m, though we maintain our 7.8p normalised diluted EPS as dilutive shares are likely to be higher following the recent restructure of the group's long-term incentive plan. We have similarly increased our FY11 revenue estimate by £4m to £74m and maintained EPS at 8.4p, again because of a likely increase in dilutive shares.

Improving trading conditions

Management says that revenues are steadily increasing in all regions, with the US showing strong overall recovery. The new business pipeline is also reverting to normal, and the group has added a number of notable new clients. Margins are also recovering towards pre-economic downturn levels.

Broader client list post acquisitions

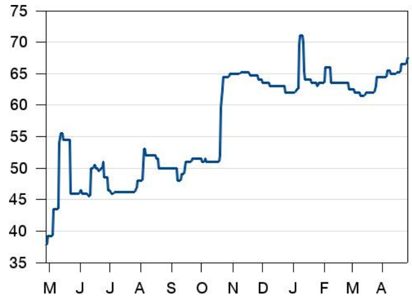
Following the recent acquisitions, which include M Booth and Upstream Asia, the group's largest 10 clients represent 31% of revenues, down from 36% in FY09. While eight of the top 10 are technology clients, the other two are non-tech clients.

Valuation: Rating undemanding

Next Fifteen is trading on an FY11 P/E of 8.0x, an undemanding rating for a company with good organic growth prospects. Next Fifteen's rating is in line with its similar-sized peers in our comparison table, while both WPP and Omnicom trade at considerably higher P/E levels.

Price	67.5p
Market Cap	£37m

Share price graph



Share details

Code	NFC
Listing	AIM
Sector	Media
Shares in issue	54.9m

Price

	High	Low
52 week	71.0p	37.8p

Balance Sheet as at 31 January 2010

Debt/Equity (%)	5
NAV per share (p)	48
Net borrowings (£m)	1.4

Business

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

Valuation

	2009	2010e	2011e
P/E relative	76%	88%	99%
P/CF	7.8	5.3	4.6
EV/Sales	0.6	0.5	0.5
ROE	14%	16%	15%

Revenues on geography (H110)

UK	Europe	US	Other
21%	14%	51%	14%

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Next Fifteen Communications is a research client of Edison Investment Research Limited

Investment summary: Momentum building

Company description: Tech PR specialist expertise

Founded in 1981, 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. Over the past seven years, a series of accretive acquisitions, including Outcast and Lexis PR, has been successfully integrated into the group. In August 2009, the group acquired M Booth & Associates, a leading New York-based consumer and B2B agency. In October, the group purchased the Asian marketing communications trading subsidiaries of AIM-listed Upstream Marketing and Communications – these businesses have been integrated into the group's Bite subsidiary. Next Fifteen also owns 70% of 463 Communications, a US-based policy consultancy, after increasing its stake last year from 40%.

Next Fifteen has three principal technology PR subsidiaries – Text 100, Bite and OutCast – that address the technology industry, with over half of the world's top 25 technology businesses being clients, including Cisco, IBM, Microsoft and Hewlett Packard. The group's expertise in technology enables it to exploit the expansion in social media, such as blogs and social networking sites, and launched a specialist digital agency, Project Metal, last autumn. On the non-technology front and primarily addressing the consumer sector, Next Fifteen owns Lexis PR, which operates in the UK, and recently acquired New York-based M Booth.

Valuation: Rating undemanding

Our estimates for FY10 and FY11 show good growth, putting Next Fifteen on an FY11 P/E of 8.0x. Notwithstanding the 30% rise in its share price over the past six months, this is not a demanding rating for a company with good organic growth prospects. Versus its peers, Next Fifteen's rating is in line with its similar sized peers in our comparison table. Investors should note that both WPP and Omnicom trade at considerably higher P/E levels (see Exhibit 1).

Sensitivities

Our base case scenario makes four key assumptions:

- Major clients are retained,
- The US dollar and euro do not weaken or strengthen significantly,
- The technology industry's rekindled growth continues, and
- Key employees are retained.

A material change in any of these could surprise either on the upside or on the downside.

Financials: Back to net cash by FY10 year-end

Next Fifteen has a good record of positive cash flow from operations, a trend we expect to continue. In the current fiscal year, we are estimating operating cash flow of £8.2m and £4.9m after interest, tax and dividends. After £1.1m of capital expenditure and £4.6m cash cost of acquisitions, we are estimating £1.1m net cash by FY10 year-end, a decline of just £0.7m from FY09 year-end.

We estimate that net cash will increase to £3.7m by FY11 year-end, after further phased acquisitions payments of £2.0m.

Interim results for the six months to 31 January 2010

The global recession did not really affect the group's business until January 2009, so there was little impact on the comparative period last year. It is therefore encouraging that revenues rose 2% over the prior H1 to £34.2m, but importantly grew 7% over the second half of FY09. We have accordingly increased our FY10 revenue estimate to management guidance of £70m and our adjusted pre-tax to £6.6m from £6.4m, though we maintain our 7.8p normalised diluted EPS as dilutive shares are likely to be higher following the recent restructure of the group's long-term incentive plan. With management suggesting that a full recovery is expected by 2011, we have similarly increased our FY11 estimates for revenue by £4m to £74m and adjusted pre-tax by £0.2m to £7.1m, while maintaining EPS at 8.4p, again because of a likely increase in dilutive shares.

Improving trading conditions

The group's businesses appear to have recovered to pre-recession levels. Management says that revenues are steadily increasing in all regions, with the US showing strong overall recovery. The new business pipeline is also reverting to normal, and the group has added notable new clients including Bloom Energy, British Airways, Harmon Int., Hewlett Packard (as a global client), Netflix and Schneider Electric. Margins are also recovering towards pre-economic downturn levels.

Broader client list post acquisitions

Following the recent acquisitions, which include M Booth and Upstream Asia, the group's largest 10 clients represent 31% of revenues, down from 36% in FY09. While eight of the top 10 are technology clients (IBM, Microsoft, Hewlett Packard, AMD, Cisco, Xerox and Lenovo), the other two in the top 10 are non-tech clients (Boots and American Express). The latter is a client of newly acquired M Booth, while Boots is a client of Lexis.

Peer comparison

Exhibit 1: Peer comparison table

Note: Prices as at UK close on 23 April 2010. * Normalised.

		2009			2010e			2011e		
Company (year end)	Mkt Cap (£m)	Sales (£m)	PBT * (£m)	EPS * (p)	Sales (£m)	PBT * (£m)	EPS * (p)	Sales (£m)	PBT * (£m)	EPS * (p)
WPP (Dec)	9,273	8,684	812.0	44.4	8,800	924.0	48.9	9,250	1,022	56.1
Chime (Dec)	151	123	18.6	21.1	150	23.9	23.1	165	22.5	25.8
Creston (Mar)	60	84	14.2	18.6	80	13.4	16.7	85	13.6	15.8
Huntsworth (Dec)	170	156	23.4	8.0	185	27.2	8.5	200	30.1	9.3
Next Fifteen (Jul)	**37**	**65**	**5.3**	**6.5**	**70**	**6.6**	**7.8**	**74**	**7.1**	**8.4**
US Quoted	$m	$m	$m	$	$m	$m	$	$m	$m	$
Omnicom (Dec)	13,389	11,720	1,305	2.5	12,500	1,370	2.7	12,250	1,450	3.0

Company	Price (p)	P/E (x)	Yield (%)	EV/ Sales (x)	P/E (x)	Yield (%)	EV/ Sales (x)	P/E (x)	Yield (%)	EV/ Sales (x)
WPP (Dec)	740	16.7	2.1	1.4	15.1	2.2	1.4	13.2	2.4	1.3
Chime (Dec)	206	9.7	2.5	1.2	8.9	2.6	1.0	8.0	2.8	0.9
Creston (Mar)	99	5.3	0.7	1.0	5.9	0.8	1.1	6.2	1.8	1.0
Huntsworth (Dec)	74	9.3	3.9	1.4	8.7	4.1	1.2	8.0	4.4	1.1
Next Fifteen (Jul)	**67**	**10.2**	**2.6**	**0.6**	**8.5**	**2.7**	**0.5**	**7.9**	**2.9**	**0.5**
US Quoted	$									
Omnicom (Dec)	43	17.0	1.4	1.3	16.0	1.9	1.2	14.3	2.0	1.2

Source: Thomson Datastream

Exhibit 2: Financials

Year-ending 31 July	£'000s	2006	2007	2008	2009	2010e	2011e
Accounting basis		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Billings		63,278	69,422	73,916	77,287	85,000	90,000
Revenues		56,007	59,268	63,107	65,394	70,000	74,000
EBITDA		5,970	7,302	8,022	7,272	8,990	9,600
Operating Profit (before GW and except.)		4,521	5,837	6,706	5,591	6,990	7,450
Goodwill Amortisation		(727)	0	0	0	0	0
Exceptionals		(700)	(458)	(1,066)	(2,091)	(221)	0
Other		174	56	117	0	0	0
Operating Profit		3,268	5,435	5,757	3,500	6,769	7,450
Net Interest		(265)	(313)	(241)	(342)	(355)	(350)
Profit Before Tax (norm)		4,430	5,580	6,582	5,249	6,635	7,100
Profit Before Tax (FRS 3)		3,003	5,122	5,516	3,158	6,414	7,100
Tax		(1,494)	(1,781)	(1,655)	(884)	(1,925)	(2,125)
Profit After Tax (norm)		2,649	3,713	4,657	3,750	4,649	4,975
Profit After Tax (FRS 3)		1,509	3,341	3,861	2,274	4,489	4,975
Average Number of Shares Outstanding (m)		46.5	49.0	51.7	52.6	53.7	53.9
EPS - normalised (p)		5.3	7.1	8.6	6.5	8.4	9.0
EPS - normalised fully diluted (p)		5.1	7.0	8.5	6.5	7.8	8.4
EPS - FRS 3 (p)		2.9	6.3	7.1	3.7	8.1	9.0
Dividend per share (p)		1.4	1.5	1.7	1.7	1.8	1.9
EBITDA Margin		9%	11%	11%	9%	11%	11%
Operating Margin (before GW and except.)		8%	10%	11%	9%	10%	10%
BALANCE SHEET							
Non-current assets		14,343	18,442	20,206	22,618	31,268	30,393
Intangible Assets		11,188	13,507	15,462	18,441	27,191	26,391
Tangible Assets		3,063	2,162	2,435	1,949	1,849	1,774
Other non-current assets		92	2,773	2,309	2,228	2,228	2,228
Current Assets		19,787	20,894	25,946	22,840	31,943	33,343
Debtors		15,769	15,060	16,421	15,710	23,512	24,682
Cash		4,018	5,834	9,525	7,130	8,431	8,661
Current Liabilities		(12,554)	(15,670)	(20,643)	(15,237)	(21,881)	(22,681)
Creditors		(11,739)	(14,958)	(20,228)	(14,887)	(21,531)	(22,331)
Short term borrowings		(815)	(712)	(415)	(350)	(350)	(350)
Long Term Liabilities		(6,834)	(8,684)	(5,871)	(5,319)	(12,319)	(7,919)
Long term borrowings		(4,642)	(5,190)	(5,700)	(4,995)	(6,995)	(4,595)
Other long term liabilities		(2,192)	(3,494)	(171)	(324)	(5,324)	(3,324)
Net Assets		14,742	14,982	19,638	24,902	29,011	33,136
CASH FLOW							
Operating Cash Flow		4,948	7,203	9,599	6,261	8,211	9,430
Net Interest		(325)	(311)	(240)	(342)	(355)	(350)
Tax		(2,430)	(1,992)	(1,090)	(1,476)	(1,925)	(2,125)
Capex		(1,203)	(1,246)	(2,153)	(307)	(1,100)	(1,275)
Acquisitions/disposals		(2,354)	(1,959)	(829)	(4,549)	(4,550)	(2,000)
Financing		232	953	(994)	(1,941)	2,020	(2,400)
Dividends		(590)	(691)	(807)	(900)	(1,000)	(1,050)
Other		0	0	0	0	0	0
Net Cash Flow		(1,722)	1,957	3,486	(3,254)	1,301	230
Opening net debt/(cash)		(2,449)	1,439	68	(3,410)	(1,785)	(1,086)
Finance leases		(20)	(299)	(217)	(225)		
Other		(2,146)	(287)	209	1,854	(2,000)	2,400
Closing net debt/(cash)		1,439	68	(3,410)	(1,785)	(1,086)	(3,716)

Source: Next Fifteen Communications accounts, Edison Investment Research