Edison investment research

18 October 2011

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/10	72.3	6.6	7.5	1.85	10.1	2.4
07/11	86.0	8.4	8.4	2.05	9.0	2.7
07/12e	93.0	9.5	9.5	2.25	8.0	3.0
07/13e	99.0	10.7	10.6	2.50	7.2	3.3

Note: *PBT and EPS (diluted) are normalised, ex intangible amortisation and exceptionals.

Investment summary: Digital driving force

Next Fifteen's FY11 preliminary results showed revenue, adjusted pre-tax profit and EPS were ahead of our estimates. The group also ended the year with net debt of £1.6m, a level considerably lower than the £2.7m we had expected. Despite the uncertain global economic outlook, we believe that Next Fifteen should benefit from its expertise in the digital media market. Based on modest organic growth coupled with the benefit of the contribution from recent acquisitions, we are increasing by 0.3p our FY12 EPS estimate to 9.5p and initiate a 10.6p FY13 EPS estimate.

FY11 prelims ahead of our estimate

Revenues of £86m, up 19%, were 2.8% ahead of our £84m estimate, helped by 11% organic growth and the impact of recent acquisitions. Aided by a further rise in operating margin to 10.3%, adjusted pre-tax of £8.4m was 3.1% ahead of our £8.1m estimate, while adjusted EPS was up 16% on FY10 at 8.7, up on our 8.4p estimate.

Estimating 10% pa EPS growth over next two years

We are estimating 10% pa EPS growth over the next two years. While our FY12 estimate is based on 8% revenue growth (4% organic, 4% from existing deals), our initiated FY13 estimate assumes that a modestly better economic backdrop can lead to improved organic growth of c 6% plus 0.5% from current acquisitions.

Digital expertise should hold the group in good stead

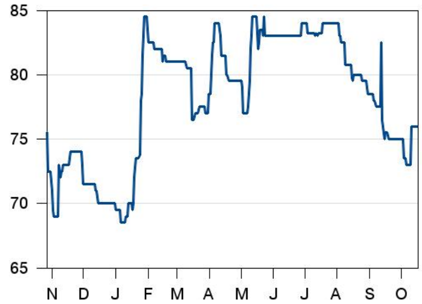
The group, through its internal and acquired expertise, is positioned well to capitalise on the change from analogue persuasion to digital influence. Over 75% of new business in FY11 included digital initiatives and we expect this trend to continue as more and more communication moves to online and mobile distribution.

Valuation: Prospective 8.0x P/E for solid 10% grower

A prospective 8.0x P/E for a solid 10% grower would appear to be an undemanding rating, especially when coupled with lower EV/revenue and EV/EBITDA ratios versus our selected peer comparators. We contend that the group's expertise in the digital arena, supported by the group's 30-year specialisation in the tech sector, adds some justification to the current premium P/E rating to similar-sized peers.

Price	76p
Market Cap	£42m

Share price graph



Share details

Code	NFC
Listing	AIM
Sector	Media
Shares in issue *	55.7m

excluding 1.0m shares in treasury

Price

	High	Low
52 week	84.5p	68.5p

Balance Sheet as at 31 July 2011

Debt/Equity (%)	5
NAV per share (p)	50
Net borrowings (£m)	1.6

Business

Next Fifteen is a worldwide digital marketing communications and public relations group, predominately serving clients in the technology and consumer sectors, with world leading and autonomous PR, research, digital, investor relations and policy communications subsidiaries.

Valuation

	2011	2012e	2013e
P/E relative	85%	90%	93%
P/CF	3.8	3.9	3.5
EV/Sales	0.4	0.4	0.4
ROE	19%	18%	17%

Net revenues by geography (FY11)

UK	Europe	US	Other
21%	11%	53%	15%

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

Investment summary: Digital driving force

Company description: Global digital marketing communications

Founded in 1981, Next Fifteen Communications is a worldwide digital marketing communications and public relations group, predominately serving clients in the technology (FY11: 69.0%), consumer (18.7%) and digital/research consultancy (6.5%) and corporate (5.8%) sectors, with world leading and autonomous PR, research, digital, investor relations and policy communications subsidiaries. Over the past seven years, a series of acquisitions has been successfully integrated into the group. The group has 48 offices across 18 countries and employs over 900 staff. Top 10 clients represented around 30% of revenues in FY11 (32% in FY10).

Addressing the technology industry, Next Fifteen has three principal PR subsidiaries, Text 100, Bite and OutCast, and on 1 November 2010, the group purchased an 85% stake in The Blueshirt Group, an investor relations company that services the technology market. On 5 October 2011, the group, via Bite, acquired 80% of German PR and consulting firm Trademark. On the non-technology front, Next Fifteen owns Lexis, which primarily addresses the consumer sector, mostly in the UK, and M Booth, a leading New York-based consumer and B2B agency. In September 2010, Next Fifteen set up a 51% owned digital agency, Beyond, which combined the group's existing digital start-up and its Context Analytics businesses with Type 3, a digital agency acquired that month. In May 2011, the group acquired an 80% stake in Bourne, a global digital agency.

Valuation: Prospective 8.0x P/E for solid 10% grower

A prospective 8.0x P/E for a solid 10% grower would appear to be an undemanding rating, especially when coupled with lower EV/revenue and EV/EBITDA ratios versus our selected peer comparators. We contend that the group's internal and acquired expertise in the digital arena adds some justification to the current premium P/E rating to similar-sized peers. In the current sovereign debt and deficit environment, Next Fifteen has an additional advantage that it is unlikely to be distracted as it does not have direct exposure to government spending.

Sensitivities

Our base case scenario makes four key assumptions:

- major clients are retained,
- the US dollar does not weaken or strengthen significantly,
- the technology sector performs better than global GDP, and the consumer sector grows less than global GDP growth, and,
- key employees are retained.

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

Financials: Future acquisitions obligations covered by cash flow

The group ended FY11 with net debt of £1.6m, a level considerably lower than the £2.7m we had expected. At 31 July 2011, the group's balance sheet shows contingent consideration of £4.6m in current liabilities, and contingent consideration of £6.3m and share purchase obligations of £4.3m in non-current liabilities. We have included M&A cash payments of £4.7m and £5m in our FY12 and FY13 estimates. These amounts are well covered by our FY12 and FY13 cash flow estimates and we anticipate that the group should return to a net cash position by FY13 year-end, absent any future acquisitions. Our estimate of the maximum consideration beyond FY13 is a further c £10m.

Preliminary results for the year to 31 July 2011

Revenues of £86m, up 19%, were nicely ahead of our £84m estimate, helped by 11% organic growth and the impact of recent acquisitions. Over 75% of new business in FY11 included digital initiatives and we expect this trend to continue as more and more communication moves to online and mobile distribution. Adjusted pre-tax profit of £8.4m was also ahead of our £8.1m estimate, while adjusted EPS was up 16% on FY10 at 8.7p, versus our 8.4p estimate.

Revenues up 19%: organic growth 11%, acquisitions 8%

Next Fifteen achieved credible organic 11% revenue growth in FY11. Coupled with revenues from acquisitions in FY10 and FY11, total revenues grew 19%. Exhibit 1 summarises the revenue segmentation by sector and geography over the past four half-year periods. Of note is the trend towards the group's 2013 objective of reaching 40% of revenues from non-tech sectors – currently approaching 35%. Investors should note that nearly 80% of revenues are derived outside the UK.

Exhibit 1: Revenue segmentation by sector and geography (%)

	% by Sector					% by Geography			
	H1 FY10	H2 FY10	H1 FY11	H2 FY11		H1 FY10	H2 FY10	H1 FY11	H2 FY11
Technology	74.7	75.2	73.1	65.4	US & Canada	51.4	51.6	52.7	52.3
Consumer	19.9	20.0	19.1	18.3	UK	21.1	20.7	20.4	21.3
Digital/Research	2.0	2.5	5.2	7.6	Asia Pacific	13.5	14.7	15.3	15.3
Corporate	3.4	2.3	2.6	8.7	Europe & Africa	14.0	13.0	11.6	11.1

Source: Company FY11 preliminary results

Adjusted operating margins: continuing upwards

Overall in FY11, the group's adjusted operating profit margin rose from FY10's 9.7% to 10.3%, and is fast approaching the group's previous record 10.6% in FY08. Exhibit 2 shows the adjusted operating profit margin for each of the group's sector and geographic contributors, which emphasises the continuing importance of its high exposure to the tech sector and the improvement in its nascent and fast growing digital/research segment.

Exhibit 2: Adjusted operating profit margins by sector and geography

	% by Sector			% by Geography	
	FY10	FY11		FY10	FY11
Technology	14.9	13.5	US & Canada	19.7	19.3
Consumer	16.6	17.9	UK	15.8	16.4
Digital/Research	7.3	12.0	Asia Pacific	1.5	1.8
Corporate	25.7	22.8	Europe & Africa	12.7	8.8
Head Office	-5.7	-4.5	Head Office	-5.7	-4.5
Adj operating profit	9.7	10.3	Adj operating profit		10.3

Source: Company FY11 preliminary results

Initiating FY13 estimate: Revenue up 6.5%, EPS up 11% on FY12

We estimate that the group should achieve 10% pa EPS growth over the next two years. Our FY12 estimate is based on 8% revenue growth – split 4% organic and 4% from acquisitions – with the group's tech and digital segments contributing c 6% growth and consumer somewhat flat. Cautiously, we have reduced our operating margin from 11% to 10.8%. For FY13, we assume a modestly better economic backdrop can lead to improved organic revenue growth of c 6% plus 0.5% from announced acquisitions. We anticipate that the group has the capability to again increase its adjusted operating profit margin to 11.2% from our estimated 10.8% for FY12, versus 10.3% in FY11 and 9.7% in FY10.

Company description: Digital marketing communications

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 supplement this with targeted acquisitions that offer growth potential and complement the group's existing PR businesses. Over the next few years, the group is looking to build in the corporate communications and healthcare arenas, which should further diversify its client base.

Next Fifteen has three broad technology PR brands: Text 100, Bite, and Outcast. Over half of the world's top 25 technology businesses are 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

In recent years, the group has expanded its non-technology offering, with the acquisitions of Lexis PR, which focuses primarily on the consumer sector in the UK, and M Booth & Associates, a leading consumer PR consultancy based in New York. With the acquisition of the latter in August 2009, the group achieved its medium-term target of generating 25% of revenues from non-tech sectors. This target has been raised to 40% by 2013.

In late 2009, Next Fifteen set up a digital communications agency, known as Project Metal, with two Bite executives leading this start up. In September 2010 the group launched Beyond, a digital agency with offices in London, New York and San Francisco. This was created by combining the existing digital start-up and the group's Context Analytics businesses together with Type 3, a digital agency acquired in August 2010. In May 2011, the group acquired an 80% stake in Bourne, a global digital agency. In November 2010, Next Fifteen entered the investor relations arena, acquiring an 85% stake in US corporate and financial PR agency, The Blueshirt Group. In addition, the group owns 76% of 463 Communications, a US policy communications agency.

The technology brands (69.0% of FY11 net revenues)

Text 100 www.text100.com

Text 100 is a global PR agency serving companies that use technology for competitive advantage. Built organically from the ground up, Text 100 uniquely offers the dedication of local agencies and the power and reach of a global firm and is a top 20 global agency.

With award-winning practices covering all public relations disciplines, Text 100 represents leading brands in 28 offices (plus three licensed partners, four Latin American locations in partnership with the Jeffrey Group and three partners in Central and Eastern Europe) around the world, including the first PR agency to set up business as a wholly-owned foreign subsidiary in China. Global clients of the company include Adobe, AMD, British Airways, Cisco, CNN, Kayak, MTV, NOKIA, Philips, SanDisk, and Xerox. Text 100 and Cisco were awarded the Holmes Report SABRE Awards 2011 Blogger Outreach Campaign in Singapore for "Flip Your Profile, Cisco Consumer Products with Text 100 Singapore."

Bite Communications www.bitecommunications.com

Founded in 1995, Bite provides a range of services from media, analyst and influencer relations to online strategy and social media communications It is a global consultancy with more than 200 people and offices in 14 cities across North America, Europe and Asia Pacific. Bite's client list includes 4Music, AMD, Getty Images, HP, Logica, Microsoft, Nokia and Sony. Bite won the Global SABRE for Outstanding Technology Consultancy of the year in October 2011.

In October 2009, the acquisition of Upstream's marketing communications trading subsidiaries in Asia was completed and these businesses have been integrated into Bite. Bite owns 55% of Upstream Asia with an option to acquire the balance over a five-year period based on the profitability of the acquired businesses. On 1 September 2010, Bite acquired the trade and assets of Hong Kong digital marketing firm OneXeno, which has been integrated into Bite's existing Asia Pacific operation. On 5 October 2011, Next Fifteen acquired for Bite an 80% holding in German agencies, Trademark PR and Trademark Consulting. Trademark is based in Munich and has a portfolio of clients across the consumer electronics, technology and telecoms, entertainment and lifestyle, and beverage sectors. Trademark's clients include HP, Harmon Consumer, Creative, Amazon Web Services and BRIO. For calendar 2010, Trademark had €2.11m revenues and adjusted profit before interest and tax (PBIT) of €0.57m. The initial consideration for the 80% stake was €1.38m cash with further payments, at multiples of PBIT ranging between five and six, over the next five years, with a maximum consideration payable of €4.5m.

The OutCast Agency www.theoutcastagency.com

OutCast was founded in San Francisco in 1997 and was acquired by Next Fifteen in June 2005. In FY10, the final deferred consideration of £0.2m was paid in cash. It operates as a separate business under its own brand, with its founders being co-presidents of the business. With offices in San Francisco and New York, OutCast's clients include major technology businesses such as Amazon.com, Autodesk, bump, General Electric, Netflix, Nike, Path, RockMelt and Yahoo!, as well as many emerging technology companies. Outcast was awarded PR Week's Corporate Branding Campaign award for 2011 for its work for Bloom Energy.

The consumer brands (18.7% of FY11 net revenues)

Lexis Public Relations www.lexispr.com

Lexis was founded in London in 1992 and underwent a management buy-out from a team of Lexis staff in 2002. Next Fifteen took an initial 25% stake in August 2005, and following a series of phased purchases Lexis 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. Lexis delivers award-winning work for some of the UK's best-known brands including Allied Bakeries, Barclays, Coca-Cola, Dove, Harley-Davison and Reckitt Benckiser.

In September 2010, Lexis acquired the UK-based Glasshouse Partnership, a corporate communications and marketing agency. The initial consideration was £0.08m cash, with uncapped additional consideration contingent on the achievement of certain performance targets over the next two years.

M Booth & Associates www.mbooth.com

M Booth was acquired by Next Fifteen in August 2009. It was founded in 1985 by Margi Booth and Brad Rodney, both of whom remain with the business in their ongoing roles. Based in New York, it is a leading PR consultancy in North America, and Next Fifteen's aim is to integrate M Booth and Lexis over time 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. Clients include Dyson, Evenflo, Getty Images, Hershey's, Michelin, Myrtle Beach, MGM Grand, JC Penney, Unilever and US Virgin Islands.

Research and digital consultancies (6.5% of FY11 net revenues)

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 newly established 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. Recent clients include AMD, Autodesk, Aviva, American Express, Canon, Endemol, Hitachi, Intel, Logica, Morgan Ashurst, the Open University, Oracle, Toshiba, Toyota, Wolters Kluwer and the World Cancer Research Fund.

Beyond (51% owned) 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 remainder is owned by three employee shareholders. The latter have the option to sell half of their shareholding to the group at certain dates in 2013 to 2015. By October 2015, the group expects to have increased its holding in Beyond to 75%.

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. It combines the capabilities of a traditional digital agency, but with an emphasis on the disciplines of listening and influence more often associated with PR agencies. Beyond uses conversation analytics to help understand what people are talking about online, where they are and who influences them; search experts to establish what content people are looking for online; and creative insight to develop engaging content on traditional and mobile brand properties such as YouTube, LinkedIn and Facebook. Beyond has offices in London, New York and San Francisco. The business works for blue-chip brands such as Google, Cisco, Hilton, HP, IBM, Pepsi, Santander, Sony Ericsson, Virgin America and YouTube.

Bourne (80% owned) www.wearebourne.com

In May 2011, Next Fifteen acquired an 80% shareholding in Bourne, a global, full-service digital agency headquartered in Glasgow, with additional offices in London and New York. Bourne provides high value, strategic planning services across all digital channels. As a creative digital marketing agency, it embeds strategy, customer insight and imaginative business processes at the heart of large-scale online marketing programmes. Clients include Dell, Intel, Lumenesse, McAfee, Next, Ricoh and Symantec. In the post-acquisition period of two and a half months in FY11, Bourne contributed £0.5m revenues and £0.1m loss to the pre-tax line. In calendar 2010, revenues were £2.5m and adjusted profits before interest and tax (PBIT) of £0.75m.

The initial consideration for the 80% stake was £1.95m cash with further payments, at multiples of PBIT ranging between 5 and 7, dependent on the PBIT and margin levels achieved by Bourne over the period to 31 July 2014. An interim cash payment is scheduled to be made in October 2012 and a final payment in October 2014, satisfied by a mixture of cash and shares at Next Fifteen's discretion. The remaining 20% holding in Bourne is the subject of put and call options and it is anticipated that these shares will be acquired by October 2018.

Corporate Communications (5.8% of FY11 net revenues)

The Blueshirt Group (85% owned) 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. Founded in 1999, Blueshirt is based in San Francisco with an additional office in New York City. Clients include Analogic tech, BigBand networks, Demand Media, local.com, Mitel, MRV, Geeknet and Openwave. In the post-acquisition period of nine months in FY11, Blueshirt contributed £3.3m revenues and £0.8m to pre-tax profits.

463 Communications (76% owned) 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. The company 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. Clients include Cisco, the Consumer Electronics Association, the National Cyber Security Alliance, Skype, and TechNet.

During FY10, Next Fifteen increased its stake from 40% to 76% for £1.44m, of which £0.99m was paid in cash and the remainder in shares. The group has an obligation to purchase the outstanding minority over a seven-year period.

Sensitivities

Our base case scenario makes four 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, and 4) key employees are retained. A material change in any of the above has the potential to surprise either on the upside or the downside.

Major client retention

The group's largest 10 clients represent around 30% 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 impact 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. IBM has been one of the group's largest clients for over nine years.

Foreign currency exposure

The group does have significant exposure to foreign currency movements, primarily the dollar and, to a lesser extent, the euro. If expansion continues in North America and other international locations, this risk could increase. In the past, derivative financial instruments have been used by the group to mitigate the effect of foreign exchange movements, primarily on dollar profitability, and interest rate changes, although these incurred significant losses in FY09. The group has reassessed its policy on placing forward cover. The result is that cover periods have shortened and cover is now based on the expected surplus cash receipts returned to the UK within the current financial year only. As a result of this policy change, there should be much reduced volatility in the accounting charges arising from the requirement to fair value these contracts.

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 PR services to the technology industry, with an estimated market share of c 10%. We expect that 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. Nevertheless, management has recently intimated a new target for the percentage of revenues from the non-tech sector to 40% by 2013.

Key employee retention: Employee incentives and share options

A Long-Term Incentive Plan (LTIP) 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 following the award of performance shares. The group holds 0.1m shares in the ESOP (employee share option plan) and almost 1.0m shares in treasury, leaving around 5.8m new shares that could be issued to satisfy the current 6.9m shares that could be potentially issued under this and previous plans.

Valuation: Prospective 8.0x P/E for solid 10% grower

We believe that Next Fifteen has proved itself to be a well-managed group. The group has solid organic growth prospects and over the past seven years has demonstrated that its management can successfully integrate acquisitions.

Next Fifteen's prospective 8.0x P/E for the year to 31 July 2012 compares with consensus P/Es of 7.3x, 7.0x and 5.1x for peer comparators Chime, Huntsworth and Creston. Mega advertising group comparators, Omnicom and WPP trade at higher prospective P/Es of 11.8 and 9.7x. Interestingly, Next Fifteen's historic EV to revenues ratio of just 0.6x is significantly lower than all of the peers in our comparative table (Exhibit 3). In addition, Next Fifteen's historic EV to EBITDA ratio of 4.2x is also significantly lower than all of these peers apart from Creston.

A prospective 8.0x P/E for a solid 10% grower would appear to be an undemanding rating, especially when coupled with lower EV/revenue and EV/EBITDA ratios versus our selected peer comparators. We contend that the group's expertise in the digital arena, supported by the group's 30-year specialisation in the tech sector, adds some justification to the current premium P/E rating to similar-sized peers. In the current sovereign debt and deficit environment, Next Fifteen has an additional advantage that it is unlikely to be distracted as it does not have direct exposure to government spending.

Investors should note that during the summer of 2009, Next Fifteen's management rebuffed takeover approaches from both Chime and Huntsworth.

Exhibit 3: Peer comparison table

Note: Prices at UK close on 17 October 2011. P/Es based on normalised and fully diluted EPS.
* Straight line adjustment to July 2012 year-end.

	Ticker	Price p/$	Mkt Cap £m/$m	Hist YE	Hist EV/Rev	Hist EV/EBITDA	P/E Year1	P/E Jul-12*	P/E Year2	Yield Jul-12
Chime	CHW	205	165	Dec-10	1.1	5.6	7.6	7.3	7.0	3.5
Creston	CRE	84	52	Mar-11	0.8	4.3	5.2	5.1	4.9	4.2
Huntsworth	HNT	60	147	Dec-10	1.1	6.2	7.8	7.0	6.4	6.6
Omnicom (US)	OMC (US)	42	11,682	Dec-10	1.1	8.1	12.6	11.8	11.1	2.5
WPP	WPP	640	8,065	Dec-10	1.1	7.2	10.2	9.7	9.4	3.6
				Average	1.0	6.3	8.7	8.2	7.8	4.1
Next Fifteen	NFC	76	42	Jul-11	0.6	4.2	8.0	8.0	7.2	3.0

Source: Thomson Reuters, Edison Investment Research

Financials: c £20m payments over the next five years

Following over 20 years of primarily organic growth, the group began its strategy of boosting growth through acquisition. During the past seven years, a series of acquisitions has been successfully integrated into the group. Most of these acquisitions included performance related payments stretching over a number of years, and, in a number of cases, 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 contingent consideration and share purchase obligations. At 31 July 2011, the group had contingent consideration of £4.6m in current liabilities, and contingent consideration of £6.3m and share purchase obligations of £4.3m in non-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. We have included cash payments of £4.7m and £5m in our FY12 and FY13 estimates. Our estimate of the maximum cash consideration beyond FY13 is a further c £10m.

Summarised terms of acquisitions with future payments:

Booth — acquired August 2009

Deferred consideration is due over four years subject to the achievement of certain targets of up to a maximum of $13.25m, satisfied by cash or up to 25% in shares, at NFC's option.

Upstream Asia — October 2009

NFC has option to acquire the 45% balance over a five-year period based on the profitability of the acquired businesses.

463 Communications — October 2009

The group has an obligation to purchase the outstanding 24% minority over a seven-year period.

Beyond — September 2010

Three employee shareholders have the option to sell half of their shareholding to the group between 2013 and 2015. By October 2015, the group expects to increase its holding to 75.5%.

Glasshouse — September 2010

Uncapped consideration contingent on certain performance targets over two years.

Blueshirt — November 2010

Payments are expected to be c $8m based on performance over four years.

Bourne — May 2011

Payments are due at multiples of PBIT ranging between five and seven, dependent on the PBIT and margin levels achieved over the period to 31 July 2014. An interim cash payment is scheduled to be made in October 2012 and a final payment in October 2014, satisfied by a mixture of cash and shares at NFC's discretion. The remaining 20% holding in Bourne is the subject of put and call options and it is anticipated that these shares will be acquired by October 2018.

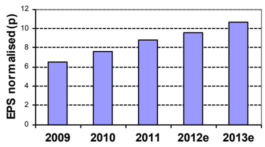
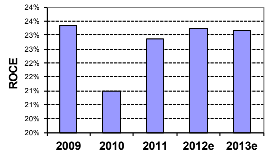
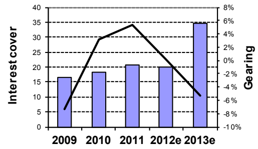
Trademark — October 2011

Payments are due, at multiples of PBIT ranging between five and six, over the next five years, with a maximum consideration payable of €4.5m.

Exhibit 4: Financials

Year-ending 31 July	£'000s	2007	2008	2009	2010	2011	2012e	2013e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Billings		69,422	73,916	77,287	91,175	105,163	112,000	119,000
Revenues		59,268	63,107	65,394	72,328	86,035	93,000	99,000
EBITDA		7,007	7,433	5,531	8,446	10,698	13,240	14,400
Operating Profit (before GW and except.)		5,837	6,706	5,591	6,992	8,822	10,040	11,050
Goodwill Amortisation		0	0	0	0	0	0	0
Exceptionals		(458)	(1,066)	(2,091)	(1,308)	(870)	0	0
Other		56	117	0	0	0	0	0
Operating Profit		5,435	5,757	3,500	5,684	7,952	10,040	11,050
Net Interest		(313)	(241)	(342)	(380)	(425)	(500)	(320)
Profit Before Tax (norm)		5,580	6,582	5,249	6,612	8,397	9,540	10,730
Profit Before Tax (FRS 3)		5,122	5,516	3,158	5,304	7,527	9,540	10,730
Tax		(1,781)	(1,655)	(884)	(1,591)	(2,260)	(2,850)	(3,130)
Profit After Tax (norm)		3,713	4,657	3,750	4,638	5,854	6,690	7,600
Profit After Tax (FRS 3)		3,341	3,861	2,274	3,713	5,267	6,690	7,600
Average Number of Shares Outstanding (m)		49.0	51.7	52.6	54.4	54.9	55.6	55.6
EPS - normalised (p)		7.1	8.6	6.5	8.4	10.2	11.1	12.6
EPS - normalised fully diluted (p)		7.0	8.5	6.5	7.5	8.7	9.5	10.6
EPS - FRS 3 (p)		6.3	7.1	3.7	6.7	9.1	11.1	12.6
Dividend per share (p)		1.50	1.70	1.70	1.85	2.05	2.25	2.50
EBITDA Margin		10%	10%	7%	9%	10%	12%	12%
Operating Margin (before GW and except.)		10%	11%	9%	10%	10%	11%	11%
BALANCE SHEET								
Non-current assets		18,442	20,206	22,618	31,919	44,367	44,117	44,017
Intangible Assets		13,507	15,462	18,441	27,111	37,957	37,707	37,507
Tangible Assets		2,162	2,435	1,949	2,269	3,067	3,067	3,167
Other non-current assets		2,773	2,309	2,228	2,539	3,343	3,343	3,343
Current Assets		20,894	25,946	22,840	29,470	34,769	38,343	43,073
Debtors		15,060	16,421	15,710	22,174	26,252	28,300	30,800
Cash		5,834	9,525	7,130	7,296	8,517	10,043	12,273
Current Liabilities		(15,670)	(20,643)	(15,237)	(25,248)	(26,094)	(26,928)	(27,128)
Creditors		(14,958)	(20,228)	(14,887)	(20,009)	(25,784)	(26,618)	(26,818)
Short term borrowings		(712)	(415)	(350)	(5,239)	(310)	(310)	(310)
Long Term Liabilities		(8,684)	(5,871)	(5,319)	(8,562)	(20,677)	(17,177)	(14,677)
Long term borrowings		(5,190)	(5,700)	(4,995)	(2,908)	(9,772)	(9,772)	(9,772)
Other long term liabilities		(3,494)	(171)	(324)	(5,654)	(10,905)	(7,405)	(4,905)
Net Assets		14,982	19,638	24,902	27,579	32,365	38,355	45,285
CASH FLOW								
Operating Cash Flow		7,203	9,599	6,261	6,572	11,905	12,276	13,700
Net Interest		(311)	(240)	(342)	(380)	(417)	(500)	(320)
Tax		(1,992)	(1,090)	(1,476)	(1,465)	(2,618)	(2,850)	(3,130)
Capex		(1,246)	(2,153)	(307)	(1,936)	(2,202)	(1,550)	(1,750)
Acquisitions/disposals		(1,959)	(829)	(4,549)	(4,251)	(6,078)	(4,700)	(5,000)
Financing		953	(994)	(1,941)	2,263	1,927	0	0
Dividends		(691)	(807)	(900)	(932)	(1,045)	(1,150)	(1,270)
Other		0	0	0	0	0	0	0
Net Cash Flow		1,957	3,486	(3,254)	(129)	1,472	1,526	2,230
Opening net debt/(cash)		1,439	68	(3,410)	(1,785)	851	1,565	39
Finance leases		(299)	(217)	(225)	(150)	(90)	0	0
Other		(287)	209	1,854	(2,357)	(2,096)	0	0
Closing net debt/(cash)		68	(3,410)	(1,785)	851	1,565	39	(2,191)

Source: Company accounts, Edison Investment Research

Growth	Profitability	Balance sheet strength
		

Sensitivities evaluation	
Litigation/regulatory	○
Pensions	○
Currency	◖
Stock overhang	○
Interest rates	◖
Oil/commodity prices	○

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 09-13e	13.3	ROCE 12e	23.2	Gearing 12e	0.1	Address:	
EPS CAGR 11-13e	10.4	Avg ROCE 09-13e	22.7	Interest cover 12e	20.1	The Triangle, Level 5 5-17 Hammersmith Grove London W6 0LG	
EBITDA CAGR 09-13e	27.0	ROE 12e	17.9	CA/CL 12e	1.4		
EBITDA CAGR 11-13e	16.0	Gross margin 12e	N/A	Stock turn 12e	N/A	Phone	020 8846 0770
Sales CAGR 09-13e	11.4	Operating margin 12e	9.0	Debtor days 12e	92.2	Fax	020 7160 5322
Sales CAGR 11-13e	6.4	Gr mgn / Op mgn 12e	N/A	Creditor days 12e	77.3	www.next15.com	

Principal shareholders	%
Liontrust Asset Management	20.1
Tim Dyson (CEO)	10.4
Herald Investment Management	9.4
BlackRock Investment Management (UK)	6.6
Tom Lewis (Co-founder and former director)	5.6
Octopus Investments	4.9
River and Mercantile Asset Management	4.9
Matt Ravden (Ex-employee of NFC)	3.1
Other NFC directors	0.5

Forthcoming announcements/catalysts	Date *
AGM	24 January 2012
Interim results	April 2012 *
*Note: * = estimated*	

Management team
CEO: Tim Dyson
Tim joined the company in 1984 and became global CEO in 1992. He was one of the early pioneers of technology PR, having worked on major corporate and product campaigns with such companies as Microsoft, IBM, Sun and Intel. Tim relocated to Seattle in 1995 to set up the group's first US business and is now based in Palo Alto. He is also on the advisory boards of a number of emerging tech companies.
CFO: David Dewhurst
David joined the board as CFO in 1999. After qualifying in 1987 as a chartered accountant with KPMG, he worked as a corporate accountant and business analyst for Hillsdown Holdings plc between 1988 and 1990 and was then group accountant for Premier Brands Ltd, one of Hillsdown's subsidiaries. Between 1992 and 1999, he was group finance director for Strong & Fisher and The Media Business Group.
Non-executive Chairman: Richard Eyre
Richard Eyre joined the board in May 2011 as non-executive chairman of the group. He is also chairman of the Internet Advertising Bureau and the Eden Project. Richard has 35 years' experience across the media and marketing industries, including time as chairman of RDF Media, GCap, mobile games publisher Digital Bridges, mobile tech company, and Rapid Mobile as well as CEO of ITV Network. He was also a director of the Guardian Media Group plc.

Companies (excluding Next Fifteen's clients) named in this report
Chime Communications (CHW), Creston (CRE), Huntsworth (HNT), Omnicom (NYSE: OMC), WPP (WPP)