

# Next Fifteen Communications

Trading update

## FY13 revenues in line, but modest profit decline

Next Fifteen announced its FY13 year-end trading update. Revenues are expected to be in line with our estimate, although adjusted profit has been affected by the continued restructuring in its Bite subsidiary and the increased investment in the group's digital capabilities. Management anticipates that FY13 profit will be modestly below FY12, and consequently we are reducing our FY13 estimate to reflect this. While the group is seeing good progress in the current fiscal year, we are similarly reducing our adjusted FY14 pre-tax profit and diluted EPS estimates. Management believes the group's focus and investment in digital can create scalable products to enable the business to resume growth in the next few years.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/11	86.0	8.4	8.7	2.05	10.6	2.2
07/12	91.6	9.6	10.1	2.30	9.1	2.5
07/13e	96.5	9.3	8.8	2.55	10.5	2.8
07/14e	103.0	10.5	9.7	2.85	9.5	3.1

Note: \*Adjusted PBT and diluted EPS exclude intangible amortisation and exceptionals.

## FY13/14e: revenue growth, though profit/EPS lowered

While the group continues to record strong performances from its North American agencies, its Bite subsidiary continues to experience operational challenges, which has reduced profitability. While investors were alerted to this at the FY13 interims, it would appear that Bite's transition to a global marketing agency is proving to be more drawn out than previously thought. Our FY13e and FY14e revenue estimates remain unchanged as the group continues to win new major clients, including Blackberry and Virgin Management Group. Reflecting management's FY13 year-end trading update, we are reducing our pre-tax FY13e and FY14e by £0.7m to £9.3m and £10.5m and adjusted diluted EPS for FY13e to 8.8p (from 9.3p) and FY14e to 9.7p (from 10.3p).

## Digital still the way forward, but at short-term cost

Next Fifteen's quest to expand its digital capabilities continues by adding digital talent and skills to many of its agencies. In addition, it has invested in the launch of Agent 3, a data-driven digital marketing agency, and added US-based Connections Media, a digital public affairs agency. The group's pure digital agency, Beyond, has invested heavily in the development of software platforms, although this is a contributor to depressing profitability in the short term.

## Valuation: A tad undervalued, awaiting digital returns

The relative share price underperformance since the FY13 interims announcement in April reflects the softness in short-term profitability growth identified at that time. Versus our selected small-cap peer comparators, the shares now look a tad undervalued on a P/E basis, awaiting a return to earnings growth, assuming the Bite restructuring is successfully completed in FY14, and the investment in digital capabilities reaps reward.

Media

3 September 2013

**Price** **92.0p**  
**Market cap** **£55m**

Net debt (£m) at 31 January 2013	5.2
Shares in issue	59.8m
Free float	86%
Code	NFC
Primary exchange	AIM

### Share price performance



%	1m	3m	12m
Abs	4.6	8.9	(8.9)
Rel (local)	6.7	8.3	(21.1)
52-week high/low	115.00p		79.50p

### 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.

### Next events

Preliminary results	5 November 2013
AGM	January 2014
Interim results	April 2014

### Analysts

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## Peer comparison table

Exhibit 1: Peer comparison									
	Ticker	Price	Mkt Cap	Hist	Hist	Hist	P/E	P/E	Yield
		p/\$	£m/\$m	Year end	EV/Rev	EV/EBITDA	July 2014*	Year 2	July 2014*
Chime	CHW	308.5	266	Dec-12	1.6	11.9	12.6	11.4	2.5
Creston	CRE	103.0	63	Mar-13	0.7	4.4	8.3	8.0	3.9
Huntsworth	HNT	61.5	158	Dec-12	1.3	7.7	10.7	10.5	5.7
Omnicom (US)	OMC (US)	60.7	15,599	Dec-12	1.2	8.3	14.7	14.0	2.8
WPP	WPP	1,334.8	16,871	Dec-12	1.9	11.3	15.8	15.3	2.7
				Average	1.3	8.7	12.4	11.8	3.5
Next Fifteen	NFC	92.0	55	Jul-12	0.6	4.5	9.5	9.5	3.1

Source: Thomson Reuters, Edison Investment Research. Note: \*Straight line adjustment to 31 July 2014 year-end. Prices as at close on 30 August 2013.

**Exhibit 2: Financial summary**

Year-ending 31 July	£'000s	2009	2010	2011	2012	2013e	2014e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Billings		77,287	91,175	105,163	108,453	113,000	120,600
Revenues		65,394	72,328	86,035	91,583	96,500	103,000
EBITDA		7,272	8,930	11,518	12,858	12,800	13,980
Operating Profit (before GW and except.)		5,591	6,992	8,823	10,047	9,800	10,830
Goodwill Amortisation		0	0	0	0	0	0
Exceptionals		(2,091)	(1,308)	(871)	(3,630)	(3,395)	(2,320)
Other		0	0	0	14	0	0
Operating Profit		3,500	5,684	7,952	6,431	6,405	8,510
Net Interest		(342)	(380)	(425)	(472)	(500)	(330)
Profit Before Tax (norm)		5,249	6,612	8,398	9,589	9,300	10,500
Profit Before Tax (FRS 3)		3,158	5,304	7,527	5,959	5,905	8,180
Tax		(884)	(1,591)	(2,260)	(1,652)	(1,600)	(2,150)
Profit After Tax (norm)		3,750	4,638	5,854	6,914	6,405	7,230
Profit After Tax (FRS 3)		2,274	3,713	5,267	4,307	4,305	6,030
Average Number of Shares Outstanding (m)		52.6	54.4	54.9	57.0	59.4	59.8
EPS - normalised (p)		6.5	8.4	10.2	11.4	9.7	10.8
EPS - normalised fully diluted (p)		6.5	7.5	8.7	10.1	8.8	9.7
EPS - FRS 3 (p)		3.7	6.7	9.1	6.8	6.2	8.8
Dividend per share (p)		1.70	1.85	2.05	2.30	2.55	2.85
EBITDA Margin		9%	10%	11%	12%	11%	12%
Operating Margin (before GW and except.)		9%	10%	10%	11%	10%	11%
<b>BALANCE SHEET</b>							
Non-current assets		22,618	31,919	44,336	48,227	49,027	49,577
Intangible Assets		18,441	27,111	37,926	41,019	41,819	42,669
Tangible Assets		1,949	2,269	3,067	2,721	2,721	2,421
Other non-current assets		2,228	2,539	3,343	4,487	4,487	4,487
Current Assets		22,840	29,470	34,769	33,337	35,211	39,111
Debtors		15,710	22,174	26,252	24,901	27,650	29,150
Cash		7,130	7,296	8,517	8,436	7,561	9,961
Current Liabilities		(15,237)	(25,248)	(26,095)	(24,230)	(24,199)	(24,349)
Creditors		(14,887)	(20,009)	(25,767)	(23,946)	(23,915)	(24,065)
Short term borrowings		(350)	(5,239)	(328)	(284)	(284)	(284)
Long Term Liabilities		(5,319)	(8,562)	(20,677)	(20,106)	(19,106)	(18,606)
Long term borrowings		(4,995)	(2,908)	(9,760)	(10,756)	(10,756)	(10,756)
Other long term liabilities		(324)	(5,654)	(10,917)	(9,350)	(8,350)	(7,850)
Net Assets		24,902	27,579	32,333	37,228	40,933	45,733
<b>CASH FLOW</b>							
Operating Cash Flow		6,261	6,572	11,905	10,052	8,425	11,630
Net Interest		(342)	(380)	(417)	(470)	(500)	(330)
Tax		(1,476)	(1,465)	(2,618)	(2,520)	(1,600)	(2,150)
Capex		(307)	(1,936)	(2,202)	(957)	(1,800)	(1,700)
Acquisitions/disposals *		(4,549)	(4,251)	(6,078)	(5,664)	(4,000)	(3,500)
Financing		(1,941)	2,263	1,927	719	0	0
Dividends		(900)	(932)	(1,045)	(1,208)	(1,400)	(1,550)
Other		0	0	0	0	0	0
Net Cash Flow		(3,254)	(129)	1,472	(48)	(875)	2,400
Opening net debt/(cash)		(3,410)	(1,785)	851	1,571	2,604	3,479
Finance leases		(225)	(150)	(90)	(72)	0	0
Other		1,854	(2,357)	(2,101)	(913)	0	0
Closing net debt/(cash)		(1,785)	851	1,570	2,604	3,479	1,079

Source: Next Fifteen Communications, Edison Investment Research

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