

Next Fifteen Communications

Trading update & placing

Strong overall trading, plus £4.3m share placing

Next Fifteen released a positive trading update saying that it continues to see strong overall trading. With the group changing its year end to January, management says that the results for the 12 months to January 2015 are anticipated to be above the top end of expectations. Its US businesses, which contribute over half of the group's revenues, are again delivering double-digit revenue growth. We have realigned our estimates to the January year end for FY15 and FY16 – these reflect the trading update and incorporate the benefit of the relative recent strength of the US dollar. In addition, the group is placing 3.09m shares at 145p, raising a net £4.3m, to add to the group's resources – management expects to complete a number of identified infill acquisitions in H116.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/13	96.1	7.7	6.6	2.55	22.4	1.7
01/14	98.7	8.3	7.5	2.63	19.8	1.8
01/15e	108.4	12.0	11.0	3.25	13.5	2.2
01/16e	125.0	14.8	12.6	3.60	11.8	2.4

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

New January year-end FY15e and FY16e initiated

In addition to the strong growth in the group's US businesses, management says simplification of operations in Asia and mainland Europe are progressing ahead of plan and are already delivering improved returns, plus the UK has seen improved profit margins due to both management action and infill acquisitions. The group is due to report in April its results for the 18 months to January 2015 as it changes to its new fiscal year end. Our now initiated FYJan15e and FYJan16e reflect strong overall trading and the benefit of the c 8% strength in the US dollar since early October 2014. These estimates equate to an upgrade to group operating profit of c 2% for FYJan15e and growth, including acquisitions, of 24% for our new FYJan16e (EPS growth 14.5% after increased minorities and the placing), though excluding any benefit from further accretive acquisitions in FY16.

Share placing raises £4.3m for acquisition firepower

The group is placing with existing and new institutions 3.09m shares at 145p, raising £4.3m net. Continuing the group's strategy of infill acquisitions, the group has identified a strong pipeline of potential further infill acquisitions and investments in pursuit of its digital expansion strategy in the UK and the US, including three which management expects to complete in the next six months.

Valuation: Fairly valued on strong performance

Next Fifteen's share price has performed strongly over the past three months and has re-established its historic premium rating, now that the group is demonstrating that it is back on the growth track. This outperformance also reflects the group's increased focus on the fast-growing digital marketing services space together with revenue and profitability benefiting from the relative strength of the US dollar against sterling in recent months.

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

Media

29 January 2015

Price 148.25p

Market cap £96m

Net debt (£m) at July 2014 1.4

Shares in issue * 64.9m

**including 3.1m share placing January 2015*

Free float 86%

Code NFC

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(0.5)	23.0	60.3
Rel (local)	(3.4)	15.2	54.4

52-week high/low 151.0p 92.0p

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 April 2015

AGM June 2015

Interim results October 2015

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Exhibit 1: Financial summary

Period ending	£'000s	2012	2013	2014	2015	2014	2015e	2016e
		Year	Year	Year	18 months	Year	Year	Year
		31-Jul	31-Jul	31-Jul	31-Jan	31-Jan	31-Jan	31-Jan
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		91,583	96,069	101,451	157,700	98,749	108,399	125,000
EBITDA		11,677	9,970	12,561	20,971	10,550	14,165	17,300
Operating Profit (before GW and except.)		10,047	8,219	10,772	18,271	8,749	12,351	15,330
Goodwill Amortisation		0	0	0	0	0	0	0
Exceptionals		(3,630)	(5,620)	(11,450)	(12,200)	(4,986)	(9,703)	(1,500)
Other		14	(79)	197	197	(10)	131	0
Operating Profit		6,431	2,520	(481)	6,268	3,753	2,779	13,830
Net Interest		(472)	(435)	(472)	(702)	(440)	(482)	(490)
Profit Before Tax (norm)		9,589	7,705	10,497	17,766	8,299	12,000	14,840
Profit Before Tax (FRS 3)		5,959	2,085	(953)	5,566	3,313	2,297	13,340
Tax		(1,652)	(1,364)	(1,977)	(4,447)	(1,802)	(3,477)	(4,200)
Profit After Tax (norm)		6,914	4,820	7,420	11,471	5,474	8,523	10,640
Profit After Tax (FRS 3)		4,307	721	(2,930)	1,119	1,511	(1,180)	9,140
Minorities		(401)	(393)	(709)	(1,439)	(475)	(1,000)	(1,400)
Net income (normalised)		6,513	4,427	6,711	10,032	4,999	7,523	9,240
Net income (FRS3)		3,906	328	(3,639)	(320)	1,036	(2,180)	7,740
Average Number of Shares Outstanding (m)		57.0	59.1	60.3	60.6	59.6	60.9	64.9
EPS - normalised (p)		11.4	7.5	11.1	16.5	8.4	12.4	14.2
EPS - normalised fully diluted (p)		10.1	6.6	10.0	14.8	7.5	11.0	12.6
EPS - FRS 3 (p)		6.8	0.6	(6.0)	(.5)	1.7	(3.6)	11.9
Dividend per share (p)		2.30	2.55	3.00	5.25	2.63	3.25	3.60
EBITDA Margin		13%	10%	12%	13%	11%	13%	14%
Operating Margin (before GW and except.)		11%	9%	11%	12%	9%	11%	12%
BALANCE SHEET								
Non-current assets		48,227	49,457	43,333	47,236	49,868	47,236	54,566
Intangible Assets		41,019	41,369	34,828	38,404	42,488	38,404	44,674
Tangible Assets		2,721	3,165	3,534	3,861	2,710	3,861	4,921
Other non-current assets		4,487	4,923	4,971	4,971	4,670	4,971	4,971
Current Assets		33,337	37,593	43,045	36,756	36,490	36,756	45,416
Debtors		24,901	29,529	32,192	33,550	30,273	33,550	34,600
Cash		8,436	8,064	10,853	3,206	6,217	3,206	10,816
Current Liabilities		(24,230)	(30,390)	(47,350)	(43,913)	(38,410)	(43,913)	(45,313)
Creditors		(23,946)	(29,674)	(35,227)	(31,790)	(27,102)	(31,790)	(33,190)
Short term borrowings		(284)	(716)	(12,123)	(12,123)	(11,308)	(12,123)	(12,123)
Long Term Liabilities		(20,106)	(18,467)	(7,966)	(5,266)	(8,048)	(5,266)	(9,766)
Long term borrowings		(10,756)	(9,157)	(100)	(100)	(276)	(100)	(100)
Other long term liabilities		(9,350)	(9,310)	(7,866)	(5,166)	(7,772)	(5,166)	(9,666)
Net Assets		37,228	38,193	31,062	34,813	39,900	34,813	44,903
CASH FLOW								
Operating Cash Flow		10,052	11,187	12,402	18,030	8,976	16,783	18,100
Net Interest		(470)	(435)	(468)	(702)	(367)	(555)	(490)
Tax		(2,520)	(2,686)	(2,043)	(4,447)	(1,461)	(3,732)	(4,200)
Capex		(957)	(2,113)	(2,136)	(3,332)	(1,267)	(3,020)	(3,100)
Acquisitions/disposals		(5,664)	(3,019)	(4,380)	(12,400)	(3,361)	(9,567)	(5,000)
Financing		(264)	(693)	(501)	(501)	(688)	(308)	4,300
Dividends		(1,208)	(1,409)	(1,585)	(3,006)	(1,409)	(3,006)	(2,000)
Other		0	0	0	0	0	0	0
Net Cash Flow		(1,031)	832	1,289	(6,358)	423	(3,405)	7,610
Opening net debt/(cash)		1,571	2,604	1,809	1,809	5,200	5,367	9,017
Finance leases		(72)	(59)	(83)	(83)	(125)	(6)	0
Other		70	22	(767)	(767)	(465)	(239)	0
Closing net debt/(cash)		2,604	1,809	1,370	9,017	5,367	9,017	1,407

Source: Company data, Edison Investment Research

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