

Good start to FY13

Next Fifteen announced in a brief trading update, released ahead of the company's AGM, that it has made a good start to the new financial year as it continues to evolve its business away from a collection of traditional PR agencies to a group focused on social and digital marketing services. This provides comfort to our FY13 and FY14 estimates – our projected 6% pa EPS growth rate reflects expected continuing low global economic growth prospects, although these estimates do not include any future acquisitions that the group has the resources to complete. Subsidiaries Bite and Bourne have been merged to move the transition forward to focus on global marketing services. FY13 interim results are due to be released on 23 April 2013.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/11	86.0	8.4	8.7	2.05	11.7	2.0
07/12	91.6	9.6	10.1	2.30	10.0	2.3
07/13e	97.0	10.5	10.6	2.55	9.6	2.5
07/14e	103.5	11.6	11.3	2.85	9.0	2.8

*PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Bourne and Bite merged to form new marketing group

Bourne, the full-service digital agency acquired by Next Fifteen in 2011, has recently been integrated into long-established subsidiary, Bite Communications, to accelerate Bite's global transformation from strategic communications consultancy to a marketing services agency. Andy Cunningham is now CEO of the combined group, while former CEO, Clive Armitage, is in charge of building a new 40%-owned venture, which is to offer social and behavioural marketing consultancy services.

Maintaining FY13 and FY14 estimates

The good start to FY13 reported by management adds comfort to our underlying FY13 and FY14 estimates. The group is seeing strong growth in its social and digital services as clients move their marketing spend toward this area, while traditional PR services are declining as a proportion of group revenue. Investigation into the fraud that was reported at the time of the FY12 results has now been concluded. The c £0.3m cost of the investigation is to be treated as an exceptional item in FY13, while we already allowed for the ongoing cost of additional resources added to the financial team in formulating our FY13 and FY14 estimates last November.

Valuation: Fairly undemanding rating

Our projected 6% pa EPS growth rate for FY13 and FY14 reflects expected continuing low global economic growth prospects, although these estimates do not include any future acquisitions that the group has the resources to complete. A P/E below 10x would seem to be a fairly undemanding rating for a leading player in transition to addressing the fast-growing digital communications market. Versus our selected peer comparators, Next Fifteen's prospective P/E is trading at a c 10% discount to Chime and at a larger discount to mega advertising groups, Omnicom and WPP, but at a higher P/E afforded to both Creston and Huntsworth.

Media

29 January 2013

Price 101.5p

Market cap £61m

Shares in issue 59.7m

Free float 86%

Code NFC

Net debt (£m) at July 2012 2.6

Primary exchange AIM

Share price performance



% 1m 3m 12m

Abs 2.6 (5.6) 11.1

Rel (local) (1.6) (10.5) 1.2

52-week high/low 108.50p 89.50p

Business description

Next Fifteen Communications is a worldwide digital marketing communications and public relations group. Predominantly 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

Interim results 23 April 2013

Preliminary results November 2013

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Exhibit 1: Financial summary

Year-ending 31 July	£'000s	2009	2010	2011	2012	2013e	2014e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Billings		77,287	91,175	105,163	108,453	115,000	122,000
Revenues		65,394	72,328	86,035	91,583	97,000	103,500
EBITDA		5,531	8,446	10,712	12,858	12,480	13,630
Operating Profit (before GW and except.)		5,591	6,992	8,823	10,047	11,000	11,880
Goodwill Amortisation		0	0	0	0	0	0
Exceptionals		(2,091)	(1,308)	(871)	(3,630)	(1,400)	(1,250)
Other		0	0	0	14	0	0
Operating Profit		3,500	5,684	7,952	6,431	9,600	10,630
Net Interest		(342)	(380)	(425)	(472)	(500)	(280)
Profit Before Tax (norm)		5,249	6,612	8,398	9,589	10,500	11,600
Profit Before Tax (FRS 3)		3,158	5,304	7,527	5,959	9,100	10,350
Tax		(884)	(1,591)	(2,260)	(1,652)	(2,500)	(2,800)
Profit After Tax (norm)		3,750	4,638	5,854	6,914	7,550	8,390
Profit After Tax (FRS 3)		2,274	3,713	5,267	4,307	6,600	7,550
Average Number of Shares Outstanding (m)		52.6	54.4	54.9	57.0	59.2	59.8
EPS - normalised (p)		6.5	8.4	10.2	11.4	11.7	12.8
EPS - normalised fully diluted (p)		6.5	7.5	8.7	10.1	10.6	11.3
EPS - FRS 3 (p)		3.7	6.7	9.1	6.8	10.1	11.4
Dividend per share (p)		1.70	1.85	2.05	2.30	2.55	2.85
EBITDA Margin		7%	9%	10%	12%	11%	11%
Operating Margin (before GW and except.)		9%	10%	10%	11%	11%	11%
BALANCE SHEET							
Non-current assets		22,618	31,919	44,336	48,227	48,247	48,947
Intangible Assets		18,441	27,111	37,926	41,019	41,319	42,169
Tangible Assets		1,949	2,269	3,067	2,721	2,441	2,291
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	38,556	44,126
Debtors		15,710	22,174	26,252	24,901	27,700	30,380
Cash		7,130	7,296	8,517	8,436	10,856	13,746
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)	(19,856)	(19,656)
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)	(9,100)	(8,900)
Net Assets		24,902	27,579	32,333	37,228	42,748	49,068
CASH FLOW							
Operating Cash Flow		6,261	6,572	11,905	10,052	10,970	12,420
Net Interest		(342)	(380)	(417)	(470)	(500)	(280)
Tax		(1,476)	(1,465)	(2,618)	(2,520)	(2,500)	(2,800)
Capex		(307)	(1,936)	(2,202)	(957)	(1,400)	(1,700)
Acquisitions/disposals*		(4,549)	(4,251)	(6,078)	(5,664)	(2,750)	(3,200)
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)	2,420	2,890
Opening net debt/(cash)		(3,410)	(1,785)	851	1,571	2,604	184
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	184	(2,706)

Source: Company accounts, Edison Investment Research. Note: *Anticipated acquisition earn-outs payments in FY13 and FY14.

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