

25 January 2011

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/09	65.4	5.2	6.5	1.70	11.3	2.3
07/10	72.3	6.6	7.5	1.85	9.8	2.5
07/11e	80.6	8.0	8.4	2.00	8.8	2.7
07/12e	86.0	8.9	9.3	2.15	7.9	2.9

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

Investment summary: FY11 off to a good start

Next Fifteen announced in its trading update, released ahead of the company's AGM today, that it has made a good start to FY11, and appears well placed to meet our revenue and profit estimates. Managements expect FY11 interim results to show good organic growth and improved profitability, boosted by a strong performance from its US technology and consumer PR businesses. Since the start of FY11, the group has made two acquisitions, including its first foray into investor relations. Following these investments, the company retains a strong balance sheet with only a modest level of debt. We are initiating an FY12 normalised EPS estimate of 9.3p.

Good start to FY11

The positive trading update gives us added confidence in our FY11 normalised 8.4p EPS estimate, up 12% on FY10. A number of significant new clients have been added, including Dyson, Logica, Nike, Playfish and Zynga. In addition, the group should benefit from the recent acquisitions of Type 3, a digital marketing agency, and of 85% in Blueshirt, a technology-based investor relations agency with offices in San Francisco and New York. The group's FY11 interims are expected on 5 April.

Initiating FY12 estimate – 11% EPS growth

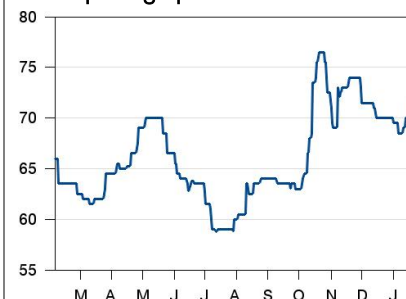
We are initiating an FY12 estimate, which conservatively calls for a 7% revenue increase. However, we expect the adjusted operating margin to improve to 10.8% (FY11e 10.6%; FY10 9.7%) as the group continues to reap economies of scale. After a slightly higher tax charge due to higher US exposure, our FY12 estimate is 11% up on our FY11 estimate. We anticipate that the group should continue to achieve strong operating cash flow, and, after expected phased acquisition payments, we expect the group to return to a net cash position (c £1.9m) by FY12 year-end.

Valuation: Room for upside – 8.8x P/E, 11% growth rate

Based on our estimates, Next Fifteen is trading on an FY11 8.8x P/E, a level marginally lower than both Chime and Huntsworth and considerably lower than larger sector peer comparators of WPP and Omnicom. We believe that Next Fifteen is a well-managed group with good organic growth prospects, coupled with proven accretive acquisition skills. With a third year of c 11% pa EPS growth estimated for FY12, the market is currently affording the group an undemanding rating.

Price 73.75p
Market Cap £41m

Share price graph



Share details

Code NFC
Listing AIM
Sector Media
Shares in issue 55.5m

Price

52 week High 76.5p Low 58.8p

Balance Sheet as at 31 July 2010

Debt/Equity (%) 3
NAV per share (p) 50
Net borrowings (£m) 0.9

Business

Next Fifteen is a global public relations consultancy group, predominately serving clients in the technology (c 75%), consumer (c 23%), and digital consultancy (c 2%) sectors, with world leading and autonomous PR, research, marketing, digital, investor relations and policy communications subsidiaries.

Valuation

	2010	2011e	2012e
P/E relative	99%	90%	90%
P/CF	6.6	5.0	4.0
EV/Sales	0.5	0.5	0.4
ROE	17%	17%	16%

PR revenues * by geography (FY10)

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

*98% of total.

Analyst

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Exhibit 1: Financials

Year-ending 31 July	£'000s	2007	2008	2009	2010	2011e	2012e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Billings		69,422	73,916	77,287	91,175	98,000	104,000
Revenues		59,268	63,107	65,394	72,328	80,600	86,000
EBITDA		7,302	8,022	7,272	8,930	10,720	11,550
Operating Profit (before GW and except.)		5,837	6,706	5,591	6,992	8,520	9,250
Goodwill Amortisation		0	0	0	0	0	0
Exceptionals		(458)	(1,066)	(2,091)	(1,308)	(1,350)	0
Other		56	117	0	0	0	0
Operating Profit		5,435	5,757	3,500	5,684	7,170	9,250
Net Interest		(313)	(241)	(342)	(380)	(520)	(370)
Profit Before Tax (norm)		5,580	6,582	5,249	6,612	8,000	8,880
Profit Before Tax (FRS 3)		5,122	5,516	3,158	5,304	6,650	8,880
Tax		(1,781)	(1,655)	(884)	(1,591)	(2,080)	(2,750)
Profit After Tax (norm)		3,713	4,657	3,750	4,638	5,520	6,130
Profit After Tax (FRS 3)		3,341	3,861	2,274	3,713	4,570	6,130
Average Number of Shares Outstanding (m)		49.0	51.7	52.6	54.4	54.4	54.4
EPS - normalised (p)		7.1	8.6	6.5	8.4	9.6	10.7
EPS - normalised fully diluted (p)		7.0	8.5	6.5	7.5	8.4	9.3
EPS - FRS 3 (p)		6.3	7.1	3.7	6.7	7.9	10.7
Dividend per share (p)		1.50	1.70	1.70	1.85	2.00	2.15
EBITDA Margin		11%	11%	9%	10%	11%	11%
Operating Margin (before GW and except.)		10%	11%	9%	10%	11%	11%
BALANCE SHEET							
Non-current assets		18,442	20,206	22,618	31,919	36,094	35,344
Intangible Assets		13,507	15,462	18,441	27,111	31,311	30,561
Tangible Assets		2,162	2,435	1,949	2,269	2,244	2,244
Other non-current assets		2,773	2,309	2,228	2,539	2,539	2,539
Current Assets		20,894	25,946	22,840	29,470	32,965	37,555
Debtors		15,060	16,421	15,710	22,174	25,382	27,500
Cash		5,834	9,525	7,130	7,296	7,583	10,055
Current Liabilities		(15,670)	(20,643)	(15,237)	(25,248)	(28,998)	(30,388)
Creditors		(14,958)	(20,228)	(14,887)	(20,009)	(23,759)	(25,149)
Short term borrowings		(712)	(415)	(350)	(5,239)	(5,239)	(5,239)
Long Term Liabilities		(8,684)	(5,871)	(5,319)	(8,562)	(8,312)	(5,112)
Long term borrowings		(5,190)	(5,700)	(4,995)	(2,908)	(2,908)	(2,908)
Other long term liabilities		(3,494)	(171)	(324)	(5,654)	(5,404)	(2,204)
Net Assets		14,982	19,638	24,902	27,579	31,749	37,399
CASH FLOW							
Operating Cash Flow		7,203	9,599	6,261	6,572	9,262	11,422
Net Interest		(311)	(240)	(342)	(380)	(520)	(370)
Tax		(1,992)	(1,090)	(1,476)	(1,465)	(2,080)	(2,750)
Capex		(1,246)	(2,153)	(307)	(1,936)	(1,375)	(1,550)
Acquisitions/disposals		(1,959)	(829)	(4,549)	(4,251)	(4,000)	(3,200)
Financing		953	(994)	(1,941)	2,263	0	0
Dividends		(691)	(807)	(900)	(932)	(1,000)	(1,080)
Other		0	0	0	0	0	0
Net Cash Flow		1,957	3,486	(3,254)	(129)	287	2,472
Opening net debt/(cash)		1,439	68	(3,410)	(1,785)	851	564
Finance leases		(299)	(217)	(225)	(150)	0	0
Other		(287)	209	1,854	(2,357)	0	0
Closing net debt/(cash)		68	(3,410)	(1,785)	851	564	(1,908)

Source: Edison Investment Research, company accounts

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