

26 January 2010

Next Fifteen Communications

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/08	63.1	6.6	8.5	1.7	7.4	2.7
07/09	65.4	5.2	6.5	1.7	9.7	2.7
07/10e	66.5	6.4	7.8	1.8	8.1	2.9
07/11e	70.0	6.9	8.4	1.9	7.5	3.0

Note: *PBT and diluted EPS are normalised, excluding exceptional items.

Investment summary: 2010 and all is well

Today's trading update released ahead of the company's AGM suggests all is well in the tech and consumer PR world. The last year's acquisitions are settling in well. We continue to expect FY10 operating cash flow to outstrip the cost of these acquisitions and end the year with £1.0m plus net cash. We are initiating an FY11 estimate, which shows further growth in revenues, pre-tax and diluted EPS.

Trading climate continues to improve

It is encouraging that some existing clients are extending their relationships into new geographic areas. The new business climate is also steadily improving with new clients being won over the past six months, including Bloom Energy, EZ Shield, Harman International, Kellogg's, Polycom and Schneider Electric.

Acquisitions settling in well

The group made two new acquisitions in the early months of the current fiscal year: M Booth, a US consumer PR agency; and Upstream Marketing's Asian marketing communications trading businesses. These purchases are settling in well. The group has the resource to add further complementary businesses to its portfolio of agencies.

Project Metal – digital specialist launch

Public relations agencies are well placed to gain advantage from the increasing influence of digital media in promoting products and services, as well as enhancing and protecting brands. Next Fifteen already has built considerable expertise in this area and, to highlight this, the group has opened a pure digital agency, Project Metal, to provide more in-depth digital consultancy.

Valuation: Further upside in the offering

A prospective 8.1x P/E is not a demanding rating and is at the low end of our peer comparators' range. The group has a strong client retention record and has good medium-term growth prospects. Coupled with a well covered prospective 2.8% yield and a solid balance sheet, there is further upside in the offering.

Price 63p
Market Cap £35m

Share price graph



Share details

Code NFC
Listing AIM
Sector Media
Shares in issue 54.9m

Price

52 week High 71.0p Low 29.5p

Balance Sheet as at 31 July 2009

Debt/Equity (%) N/A
NAV per share (p) 45
Net cash (£m) 1.8

Business

Next Fifteen Communications is a global public relations consultancy group, predominately serving clients in the technology sector, with world leading and autonomous PR, research, marketing and policy communications subsidiaries.

Valuation

	2009	2010e	2011e
P/E relative	92%	66%	50%
P/CF	6.2	4.4	3.9
EV/Sales	0.5	0.5	0.4
ROE	14%	15%	15%

Revenues on geography

	UK	Europe	US	Other
	25%	15%	48%	12%

Analyst

Martin Lister 020 3077 5700
mlister@edisoninvestmentresearch.co.uk

Exhibit 1: Financials

Year-ending 31 July	£'000s	2006	2007	2008	2009	2010e	2011e
Accounting basis		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Billings		63,278	69,422	73,916	77,287	78,500	82,000
Revenues		56,007	59,268	63,107	65,394	66,500	70,000
EBITDA		5,970	7,302	8,022	6,759	8,000	8,500
Operating Profit (before GW and except.)		4,521	5,837	6,706	5,591	6,800	7,250
Goodwill Amortisation		(727)	0	0	0	0	0
Exceptionals		(700)	(458)	(1,066)	(2,091)	0	0
Other		174	56	117	0	0	0
Operating Profit		3,268	5,435	5,757	3,500	6,800	7,250
Net Interest		(265)	(313)	(241)	(342)	(400)	(350)
Profit Before Tax (norm)		4,430	5,580	6,582	5,249	6,400	6,900
Profit Before Tax (FRS 3)		3,003	5,122	5,516	3,158	6,400	6,900
Tax		(1,494)	(1,781)	(1,655)	(884)	(1,925)	(2,070)
Profit After Tax (norm)		2,649	3,713	4,667	3,750	4,475	4,830
Profit After Tax (FRS 3)		1,509	3,341	3,861	2,274	4,475	4,830
Average Number of Shares Outstanding (m)		46.5	49.0	51.7	52.6	53.7	53.9
EPS - normalised (p)		5.3	7.1	8.6	6.5	7.9	8.5
EPS - normalised fully diluted (p)		5.1	7.0	8.5	6.5	7.8	8.4
EPS - FRS 3 (p)		2.9	6.3	7.1	3.7	7.9	8.5
Dividend per share (p)		1.4	1.5	1.7	1.7	1.8	1.9
EBITDA Margin		9%	11%	11%	9%	10%	10%
Operating Margin (before GW and except.)		8%	10%	11%	9%	10%	10%
BALANCE SHEET							
Non-current assets		14,343	18,442	20,206	22,618	26,568	27,518
Intangible Assets		11,188	13,507	15,462	18,441	22,691	23,891
Tangible Assets		3,063	2,162	2,435	1,949	1,649	1,399
Other non-current assets		92	2,773	2,309	2,228	2,228	2,228
Current Assets		19,787	20,894	25,946	22,840	26,331	27,261
Debtors		15,769	15,060	16,421	15,710	17,500	18,200
Cash		4,018	5,834	9,525	7,130	8,831	9,061
Current Liabilities		(12,554)	(15,670)	(20,643)	(15,237)	(16,153)	(16,953)
Creditors		(11,739)	(14,958)	(20,228)	(14,887)	(15,803)	(16,603)
Short term borrowings		(815)	(712)	(415)	(350)	(350)	(350)
Long Term Liabilities		(6,834)	(8,684)	(5,871)	(5,319)	(7,719)	(5,319)
Long term borrowings		(4,642)	(5,190)	(5,700)	(4,995)	(7,395)	(4,995)
Other long term liabilities		(2,192)	(3,494)	(171)	(324)	(324)	(324)
Net Assets		14,742	14,982	19,638	24,902	29,027	32,507
CASH FLOW							
Operating Cash Flow		4,948	7,203	9,599	6,261	8,176	9,300
Net Interest		(325)	(311)	(240)	(342)	(400)	(350)
Tax		(2,430)	(1,992)	(1,090)	(1,476)	(2,275)	(2,070)
Capex		(1,203)	(1,246)	(2,153)	(307)	(1,100)	(1,200)
Acquisitions/disposals		(2,354)	(1,959)	(829)	(4,549)	(4,100)	(2,000)
Financing		232	953	(994)	(1,941)	2,400	(2,400)
Dividends		(590)	(691)	(807)	(900)	(1,000)	(1,050)
Other		0	0	0	0	0	0
Net Cash Flow		(1,722)	1,957	3,486	(3,254)	1,701	230
Opening net debt/(cash)		(2,449)	1,439	68	(3,410)	(1,785)	(1,086)
Finance leases		(20)	(299)	(217)	(225)		
Other		(2,146)	(287)	209	1,854	(2,400)	2,400
Closing net debt/(cash)		1,439	68	(3,410)	(1,785)	(1,086)	(3,716)

Source: Company accounts, Edison Investment Research

EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading independent investment research company. It has won industry recognition, with awards in both the UK and internationally. The team of more than 50 includes over 30 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 250 companies across every sector and works directly with corporates, investment banks, brokers and fund managers. Edison's research is read by every major institutional investor in the UK, as well as by the private client broker and international investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority.

DISCLAIMER

Copyright 2010 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Next Fifteen Communications and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.