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 offing

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 offing.

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	Low
	71.0p	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

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

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	4,657	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

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