

5 April 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	12.5	2.1
07/10	72.3	6.6	7.5	1.85	10.9	2.3
07/11e	83.0	8.0	8.4	2.00	9.7	2.5
07/12e	86.0	8.9	9.3	2.15	8.8	2.6

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

### Investment summary: Very solid first half

Today, Next Fifteen reported very solid interim results, with strong growth in the US. Revenues of £40.8m were up 19% on the first half of FY10 and 7% on an organic basis. Diluted adjusted EPS rose to 3.6p from 2.7p. The recent major acquisition, Blueshirt, is performing well and achieved a 20% pre-tax margin in the first three months of ownership. The group's strong focus on digital is reaping rewards. Net debt stood at £2.7m following £4.7m of acquisition-related payments.

### Very solid first half of FY11

Next Fifteen has made a very solid start to FY11. Versus the first half of FY10, revenues of £40.8m were up 19%, boosted by acquisitions, and 7% on an organic basis. The 36% rise in diluted adjusted EPS to 3.6p compares with the period when the group was in the early stages of recovery from the effects of the global recession. While we are raising our FY11 revenue estimate by £3m, we are conservatively maintaining our full year diluted adjusted 8.4p EPS estimate, awaiting news of a further acquisition.

### Blueshirt embedding well – acquisition trail to continue

Blueshirt, the US-based investor relations company acquired last November, contributed £1.0m in revenues and £0.2m in pre-tax profit over three months, and is benefiting from the uptick in tech IPO activity in the US. Next Fifteen has a good track record of accretive acquisitions and expects to complete at least one further deal within the next few months.

### Group benefiting from market transition to digital

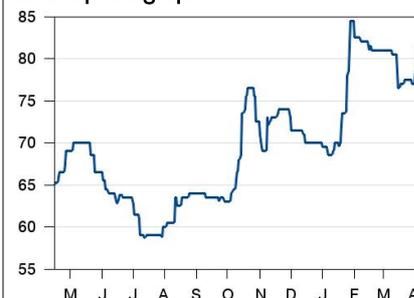
The accelerating usage of digital and social media is changing the communication landscape and is having a bigger impact than the advent of the internet. The traditional PR model is rapidly moving to a dynamic marketing model where brand value is the size and strength of its network. Next Fifteen's revenues from its digital/research segment grew to £2.1m in H111, 26% higher than all of FY10.

### Valuation: Further upside possible

Taking into account its July year-end, Next Fifteen's prospective 9.7x P/E is in line with similar sized peers. With a third year of c 11% pa EPS growth estimated for FY12, we believe that further upside is possible.

Price 81.5p  
Market Cap £46m

#### Share price graph



#### Share details

Code NFC  
Listing AIM  
Sector Media  
Shares in issue \* 55.5m

\*excluding 1.1m shares in treasury

#### Price

52 week High 84.5p  
Low 58.75p

#### Balance Sheet as at 31 January 2011

Debt/Equity (%) 10  
NAV per share (p) 50  
Net debt (£m) 2.7

#### Business

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

#### Valuation

	2010	2011e	2012e
P/E relative	99%	91%	90%
P/CF	6.6	5.1	4.1
EV/Sales	0.5	0.5	0.4
ROE	17%	17%	16%

#### Geography based on revenues (H1 FY11)

	UK	Europe	US	Other
20%	12%	53%	15%	

#### Analyst

Martin Lister +44 (0)20 3077 5700  
mlister@edisoninvestmentresearch.co.uk

## Investment summary: Very solid first half

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### Company description: Global PR consultancy group

Founded in 1981, Next Fifteen Communications is a global public relations consultancy group, predominately serving clients in the technology (73%), consumer (19%) and digital/research consultancy (5%) and corporate (3%) sectors (see Exhibit 1), with world leading and autonomous PR, research, digital, investor relations and policy communications subsidiaries. Over the past seven years, a series of accretive acquisitions has been successfully integrated into the group. The group has 48 offices across 19 countries and employs over 900 staff. Top 10 clients represented around 32% of revenues in FY10 (36% in FY09).

Addressing the technology industry, Next Fifteen has three principal PR subsidiaries, Text 100, Bite and OutCast, and on 1 November 2010, the group purchased an 85% stake in The Blueshirt Group, an investor relations company that services the technology market. On the non-technology front, Next Fifteen owns Lexis, which operates in the UK and primarily addresses the consumer sector, and M Booth, a leading New York-based consumer and B2B agency. In August 2010, Next Fifteen set up a 51% owned digital agency, Beyond, which combined the group's existing digital start-up and its Context Analytics businesses with Type 3, a digital agency acquired that month.

### Valuation: Further upside possible

Taking into account its July year-end, Next Fifteen's prospective 9.7x P/E is in line with similar sized peers and considerably lower than the larger sector peer comparators WPP and Omnicom (see Exhibit 2). With a third year of c 11% pa EPS growth estimated for FY12, we believe that there is room for further upside.

### Sensitivities

Our base case scenario makes four key assumptions:

- major clients are retained;
- the US dollar does not weaken or strengthen significantly;
- technology industry rekindled growth continues; and
- key employees are retained.

A material change in any of these could surprise either on the upside or on the downside.

### Financials: Modest gearing/additional facilities to fund deals

Next Fifteen has a long record of positive cash flow from operations. During FY10 this amounted to £6.6m and in the first half of FY11 a total of £5.2m was generated. For H2, we are currently estimating £4.0m cash inflow from operations.

After £4.7m acquisition related payments during H111, net debt rose from £0.9m to £2.7m at 31 January 2011, though we estimate that net debt should fall to £0.7m at FY11 year-end. This number excludes potential cash payments in respect of at least one acquisition that management expects to complete within the next few months. The group is in the process of renewing its banking facilities to provide additional funding though to the end of 2014 and this should provide ample scope to remain on the trail of accretive acquisitions.

## Interims: Strong revenue growth in US

Versus H110, revenue growth of 19% reflects both organic growth of 7% and the impact of acquisitions. Upstream Asia was acquired on 27 October 2009 (thus contributing a full six months in the first half of FY11 versus just over three months in the prior period) and Blueshirt contributed revenue of £1m over its first three months of ownership. The strong organic growth arose largely from operations in the US, which delivered 11% organic growth – this growth arose from the rebounding of the US economy and the transition to digital.

Exhibit 1 shows how revenue contribution by sector and geography is moving towards the group's 2013 revenue targets to derive 20% from Asia-Pacific and 40% outside the group's traditional tech PR base.

**Exhibit 1: Revenue segmentation by sector and geography (%)**

	% by Sector				% by Geography		
	H1 FY10	H2 FY10	H1 FY11		H1 FY10	H2 FY10	H1 FY11
<b>Technology</b>	74.7	75.2	73.1	<b>US &amp; Canada</b>	51.4	51.6	52.7
<b>Consumer</b>	19.9	20.0	19.1	<b>UK</b>	21.1	20.7	20.4
<b>Digital/Research</b>	2.0	2.5	5.2	<b>Asia Pacific</b>	13.5	14.7	15.3
<b>Corporate</b>	3.4	2.3	2.6	<b>Europe &amp; Africa</b>	14.0	13.0	11.6

Source: Company interim report FY11

## Peer comparison

Taking into account its July year-end, Next Fifteen's prospective 9.7x P/E is in line with similar sized peers and considerably lower than the larger sector peer comparators WPP and Omnicom (see Exhibit 2). We believe that Next Fifteen is a well-managed group with good organic prospects, coupled with proven accretive acquisition skills. In addition, the group has no direct exposure to government spending and should be largely unaffected by public sector cutbacks. With a third year of c 11% pa EPS growth estimated for FY12, we believe that there is room for further upside.

**Exhibit 2: Peer comparison table**

Note: Prices as at close on 1 April 2011. \* Normalised PBT and fully diluted EPS.

Company (year end)	Mkt Cap (£m)	2010				2011e			2012e		
		Sales (£m)	PBT * (£m)	EPS * (p)		Sales (£m)	PBT * (£m)	EPS * (p)	Sales (£m)	PBT * (£m)	EPS * (p)
WPP (Dec)	9,953	9,331	1,034.0	56.7	10,200	1,153.0	62.4	11,000	1,279.0	69.4	
Chime (Dec)	195	149	21.2	25.0	165	29.2	26.6	175	32.6	29.8	
Creston (Mar)	58	8.1	13.8	17.7	67	11.4	14.0	75	14.1	16.6	
Huntsworth (Dec)	174	174	26.7	8.4	185	28.9	9.0	200	32.5	10.0	
<b>Next Fifteen (Jul)</b>	<b>44</b>	<b>72</b>	<b>6.6</b>	<b>7.5</b>	<b>83</b>	<b>8.0</b>	<b>8.4</b>	<b>86</b>	<b>8.9</b>	<b>9.3</b>	
<i>US Quoted</i>	\$m	\$m	\$m	\$	\$m	\$m	\$	\$m	\$m	\$	
Omnicom (Dec)	13,963	12,542	1,350	2.7	13,400	1,500	3.2	13,400	1,500	3.2	
	Price (p)	P/E (x)	Yield (%)	EV/ Sales (x)	P/E (x)	Yield (%)	EV/ Sales (x)	P/E (x)	Yield (%)	EV/ Sales (x)	
WPP (Dec)	788	13.9	2.3	1.3	12.6	2.6	1.2	11.4	3.1	1.1	
Chime (Dec)	265	10.6	2.3	1.3	9.9	2.5	1.1	8.9	2.7	1.1	
Creston (Mar)	95	5.4	1.1	0.8	6.8	2.1	1.0	5.7	2.7	0.9	
Huntsworth (Dec)	71	8.5	4.9	1.3	8.0	5.0	1.2	7.2	5.4	1.1	
<b>Next Fifteen (Jul)</b>	<b>79</b>	<b>10.5</b>	<b>2.4</b>	<b>0.6</b>	<b>9.3</b>	<b>2.5</b>	<b>0.6</b>	<b>8.4</b>	<b>2.7</b>	<b>0.5</b>	
<i>US Quoted</i>	\$										
Omnicom (Dec)	49	18.2	1.6	1.2	15.5	2.0	1.1	15.5	2.2	1.1	

Source: Thomson Reuters, Edison Investment Research

**Exhibit 3: Financials**

Year-ending 31 July	£'000s	2007	2008	2009	2010	2011e	2012e
Accounting basis		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
<b>Billings</b>		<b>69,422</b>	<b>73,916</b>	<b>77,287</b>	<b>91,175</b>	<b>102,000</b>	<b>104,000</b>
<b>Revenues</b>		<b>59,268</b>	<b>63,107</b>	<b>65,394</b>	<b>72,328</b>	<b>83,000</b>	<b>86,000</b>
<b>EBITDA</b>		<b>7,302</b>	<b>8,022</b>	<b>7,272</b>	<b>8,930</b>	<b>10,720</b>	<b>11,550</b>
<b>Operating Profit (before GW and except.)</b>		<b>5,837</b>	<b>6,706</b>	<b>5,591</b>	<b>6,992</b>	<b>8,520</b>	<b>9,250</b>
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
<b>Operating Profit</b>		<b>5,435</b>	<b>5,757</b>	<b>3,500</b>	<b>5,684</b>	<b>7,170</b>	<b>9,250</b>
Net Interest		(313)	(241)	(342)	(380)	(520)	(370)
<b>Profit Before Tax (norm)</b>		<b>5,580</b>	<b>6,582</b>	<b>5,249</b>	<b>6,612</b>	<b>8,000</b>	<b>8,880</b>
<b>Profit Before Tax (FRS 3)</b>		<b>5,122</b>	<b>5,516</b>	<b>3,158</b>	<b>5,304</b>	<b>6,650</b>	<b>8,880</b>
Tax		(1,781)	(1,655)	(884)	(1,591)	(2,000)	(2,665)
<b>Profit After Tax (norm)</b>		<b>3,713</b>	<b>4,657</b>	<b>3,750</b>	<b>4,638</b>	<b>5,600</b>	<b>6,215</b>
<b>Profit After Tax (FRS 3)</b>		<b>3,341</b>	<b>3,861</b>	<b>2,274</b>	<b>3,713</b>	<b>4,650</b>	<b>6,215</b>
Average Number of Shares Outstanding (m)		49.0	51.7	52.6	54.4	55.3	55.3
EPS - normalised (p)		7.1	8.6	6.5	8.4	9.5	10.5
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	7.7	10.5
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%	10%	11%
<b>BALANCE SHEET</b>							
<b>Non-current assets</b>		<b>18,442</b>	<b>20,206</b>	<b>22,618</b>	<b>31,919</b>	<b>36,094</b>	<b>35,344</b>
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
<b>Current Assets</b>		<b>20,894</b>	<b>25,946</b>	<b>22,840</b>	<b>29,470</b>	<b>32,827</b>	<b>37,252</b>
Debtors		15,060	16,421	15,710	22,174	25,382	27,500
Cash		5,834	9,525	7,130	7,296	7,445	9,752
<b>Current Liabilities</b>		<b>(15,670)</b>	<b>(20,643)</b>	<b>(15,237)</b>	<b>(25,248)</b>	<b>(28,948)</b>	<b>(30,388)</b>
Creditors		(14,958)	(20,228)	(14,887)	(20,009)	(23,709)	(25,149)
Short term borrowings		(712)	(415)	(350)	(5,239)	(5,239)	(5,239)
<b>Long Term Liabilities</b>		<b>(8,684)</b>	<b>(5,871)</b>	<b>(5,319)</b>	<b>(8,562)</b>	<b>(8,042)</b>	<b>(4,542)</b>
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)	(5,134)	(1,634)
<b>Net Assets</b>		<b>14,982</b>	<b>19,638</b>	<b>24,902</b>	<b>27,579</b>	<b>31,931</b>	<b>37,666</b>
<b>CASH FLOW</b>							
<b>Operating Cash Flow</b>		<b>7,203</b>	<b>9,599</b>	<b>6,261</b>	<b>6,572</b>	<b>9,212</b>	<b>11,472</b>
Net Interest		(311)	(240)	(342)	(380)	(520)	(370)
Tax		(1,992)	(1,090)	(1,476)	(1,465)	(2,000)	(2,665)
Capex		(1,246)	(2,153)	(307)	(1,936)	(1,375)	(1,550)
Acquisitions/disposals		(1,959)	(829)	(4,549)	(4,251)	(4,270)	(3,500)
Financing		953	(994)	(1,941)	2,263	102	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)	149	2,307
<b>Opening net debt/(cash)</b>		<b>1,439</b>	<b>68</b>	<b>(3,410)</b>	<b>(1,785)</b>	<b>851</b>	<b>702</b>
Finance leases		(299)	(217)	(225)	(150)	0	0
Other		(287)	209	1,854	(2,357)	0	0
<b>Closing net debt/(cash)</b>		<b>68</b>	<b>(3,410)</b>	<b>(1,785)</b>	<b>851</b>	<b>702</b>	<b>(1,605)</b>

Source: Edison Investment Research, company accounts

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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](http://www.edisoninvestmentresearch.co.uk)  
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