

## 1 Year Chart



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Next Fifteen Communications Group PLC is a research client of Radnor Capital Partners Ltd.

**MIFID II – this research is deemed to be a minor, non-monetary benefit.**

*In line with the positive Q3 trading update, Next Fifteen have delivered a better than expected performance in Q4 and therefore for FY22 as a whole. We are upgrading our estimates for the fifth time this year, lifting revenue / PBT estimates by 1% / 6% respectively.*

*Momentum has been accelerating for Next Fifteen across the year. The broader context is a buoyant marketing backdrop as corporates respond aggressively to the pandemic recovery. However, this explains only part of Next Fifteen's outperformance. The positioning of the portfolio towards digital platforms and client outcomes; the technology bias to the global customer base and the more recent focus on business transformation and digitally enable customer lead generation have arguably been the more profound drivers of growth.*

*Our upgraded FY22 PBT estimate now stands 50% ahead of where we started 2021. The forward PE multiple has also re-rated significantly (14x to 21x). Despite this upward re-rating, Next Fifteen is still relatively unexpensive compared to a UK agency peer group that is not delivering equivalent revenue growth nor margins.*

- **Strong finish to the year, ahead of expectations:** Q4 revenue momentum was broadly in line with the exceptional Q3; +34% YoY on a headline basis and +24% organic. This now means that the full year performance will match Q4, with growth accelerating during the second half. The new financial year (NFC has a January year end) has started in a similar vein.
- **All divisions delivering +15% organic growth:** NFC has a diverse portfolio across and critically, every segment has exceeded +15% organic growth. The two areas of the group most impacted by the pandemic (Customer Insight and Customer Engagement) have rebounded strongly though the course of FY22. Customer Delivery and Business Transformation (the focus of recent M&A) continue to be the strongest performing segments in the group..
- **Tough comparatives will come into play:** The flip side to the stellar performance delivered in FY22 is that comparatives will become increasingly challenging. The group has also flagged accelerating investment in both productisation opportunities and headcount as the group lays the foundation for the medium term. The final results will provide more colour here
- **Estimate upgrades:** We upgrade our PBT estimates for FY22 / FY23 by +6% / +2% respectively. We have factored comments around internal investment into our margin expectations for FY23E (down marginally on FY22) although this is as much due to accelerated nature of margin gains in FY22. The balance sheet continues to be a source of considerable strength and optionality.

Y/E January, £m	Sales	PBT adj	EPS (p)	Div (p)	Net Cash	Fiscal PER x	Yield %
FY 2020A	248.5	40.2	34.8	2.5	-9.4	35.4	0.2
FY 2021A	266.9	49.1	40.7	7.0	14.0	30.2	0.6
FY 2022E	357.0	75.0	55.9	11.6	33.2	22.0	0.9
FY 2023E	390.0	79.8	58.0	12.9	64.0	21.2	1.0
FY 2024E	417.4	86.2	62.5	13.9	111.0	19.7	1.1

Source: Radnor Capital Partners

## Estimate Revisions: PBT +6% for FY 2022, +2% for FY 2023

We have revisited our forecast model and have made the following changes:

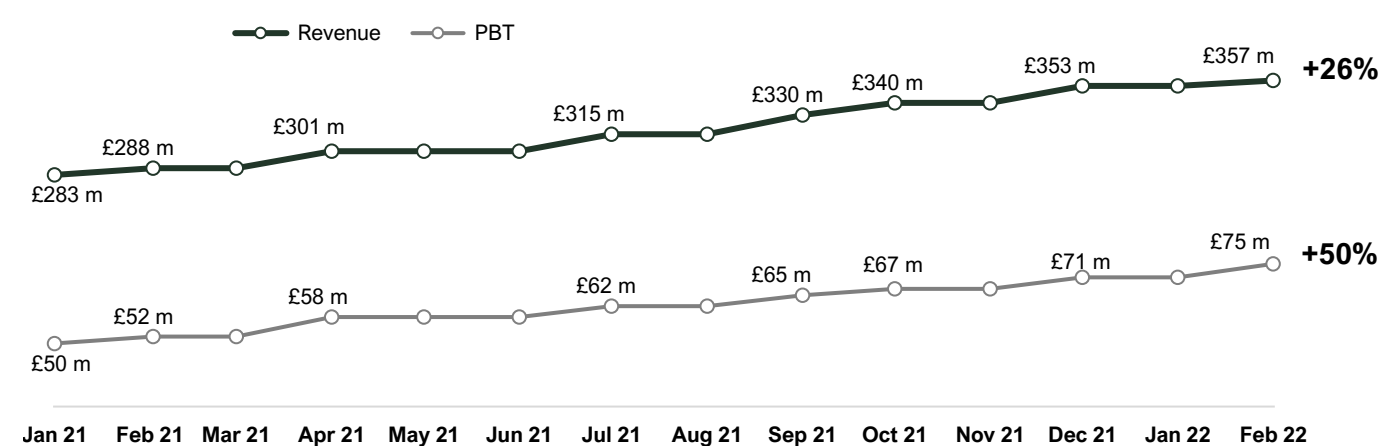
**Figure 1: Radnor estimate revisions**

£m	FY21A	Previous		New		Revision, %	
		2022E	2023E	2022E	2023E	2022E	2023E
Customer Engagement	166.5	196.5	208.3	196.5	212.2	+ 0%	+ 2%
Customer Delivery	49.6	76.8	84.5	79.3	87.2	+ 3%	+ 3%
Customer Insight	33.1	40.3	43.6	41.3	44.6	+ 3%	+ 2%
Business Transformation	17.7	39.0	42.9	39.9	45.9	+ 2%	+ 7%
<b>Revenue</b>	<b>266.9</b>	<b>352.6</b>	<b>379.3</b>	<b>357.0</b>	<b>390.0</b>	<b>+ 1%</b>	<b>+ 3%</b>
Customer Engagement	36.9	43.8	47.9	46.2	49.9	+ 5%	+ 4%
Customer Delivery	15.2	26.9	29.8	27.8	30.8	+ 3%	+ 3%
Customer Insight	4.9	7.3	8.1	7.9	8.7	+ 8%	+ 7%
Business Transformation	3.9	9.0	9.9	9.6	10.5	+ 6%	+ 7%
Central Overhead	-11.4	-15.9	-17.1	-16.1	-19.5	+ 1%	+ 14%
<b>EBITA</b>	<b>49.5</b>	<b>71.1</b>	<b>78.6</b>	<b>75.3</b>	<b>80.4</b>	<b>+ 6%</b>	<b>+ 2%</b>
- margin %	18.5%	20.2%	20.7%	21.1%	20.6%		
<b>Adj. PBT</b>	<b>49.1</b>	<b>70.7</b>	<b>78.0</b>	<b>75.0</b>	<b>79.8</b>	<b>+ 6%</b>	<b>+ 2%</b>
<b>Adj. EPS (p)</b>	<b>40.7</b>	<b>52.8</b>	<b>56.7</b>	<b>55.9</b>	<b>58.0</b>	<b>+ 6%</b>	<b>+ 2%</b>
Dividend (p)	7.0	11.0	12.6	11.6	12.9	+ 6%	+ 2%
<b>Net Cash (Debt)</b>	<b>14.0</b>	<b>28.9</b>	<b>60.9</b>	<b>33.2</b>	<b>64.0</b>		

Source: Radnor

In Figure 2 below, we show the evolution of the Radnor FY22E revenue and PBT estimate since the start of 2021. We can see that, in total, we have upgraded revenue expectations by +26% and PBT by +50% over the period. These upgrades have been consistent throughout the year.

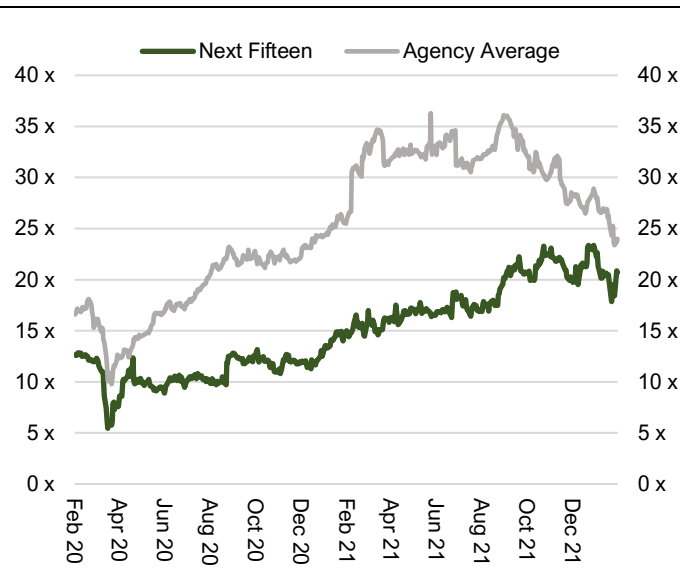
**Figure 2: Evolution of Radnor FY22 Revenue and PBT estimate**



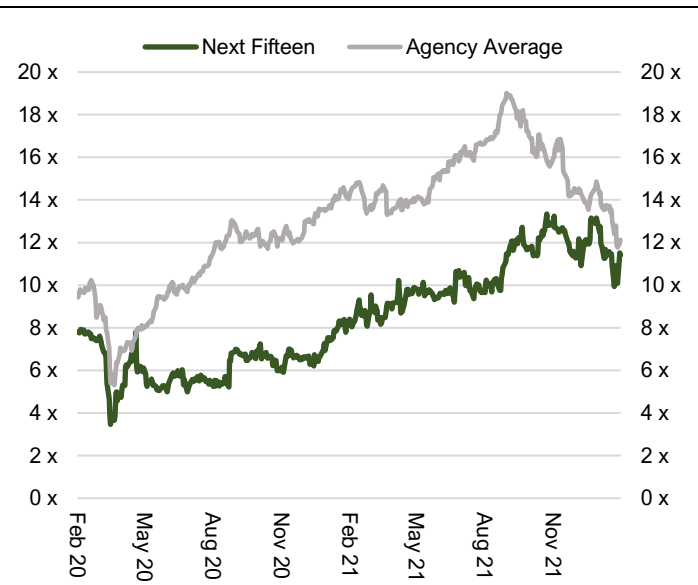
Source: FactSet, Radnor

## Valuation

**Figure 3: Next Fifteen FY2 PE**



**Figure 4: Next Fifteen FY2 EV/EBITDA**

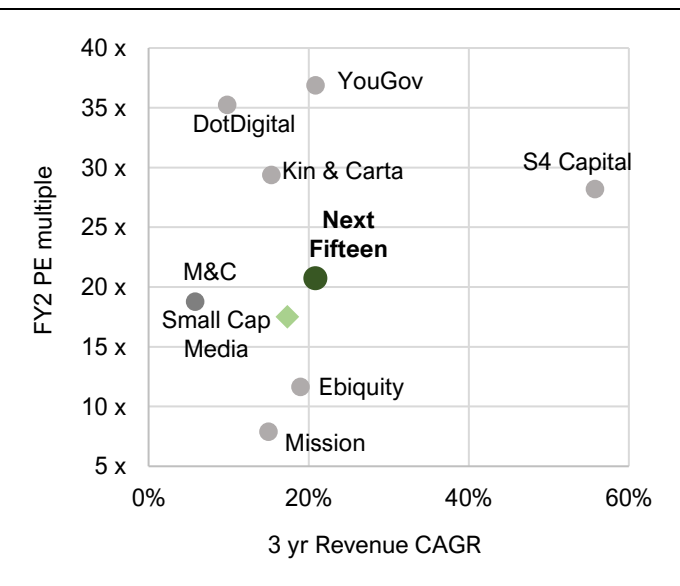


Source: FactSet, Radnor

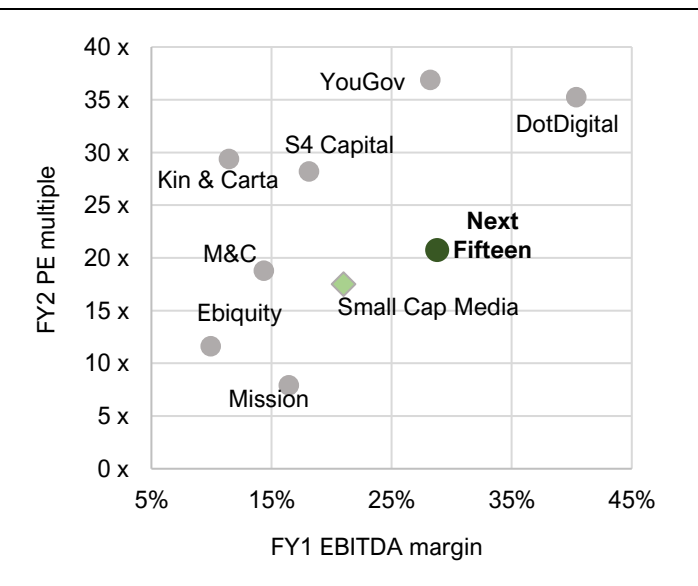
In Figures 3 & 4 above, we show the evolution of the Next Fifteen FY2 PE and EV/EBITDA multiple over the last two years, compared to the UK Agency average.

In Figures 4 and 5 below, we compare Next Fifteen to the peer group and Small Cap Media in terms of PE vs Revenue Growth and PE vs EBITDA margins. On both measures, Next Fifteen sits well ahead of the peer group averages in terms of both growth and margin, yet does not command the premium multiples shown by a number of peers.

**Figure 4: Next Fifteen FY2 PE vs Growth**



**Figure 5: Next Fifteen FY2 PE vs Margin**



Source: FactSet, Radnor

## Next Fifteen Communications PLC

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Price (p): 1230 p  
Market Cap: 1,142 m  
EV: 1,128 m

## PROFIT &amp; LOSS

Year to 31 January, £m	FY19	FY20	FY21	FY22e	FY23e	FY24e
Customer Engagement			166.5	196.5	212.2	222.8
Customer Delivery			49.6	79.3	87.2	95.9
Customer Insight			33.1	41.3	44.6	48.2
Business Transformation			17.7	39.9	45.9	50.4
<b>Group Net Revenue</b>	<b>224.1</b>	<b>248.5</b>	<b>266.9</b>	<b>357.0</b>	<b>390.0</b>	<b>417.4</b>
Customer Engagement			36.9	46.2	49.9	52.4
Customer Delivery			15.2	27.8	30.8	34.1
Customer Insight			4.9	7.9	8.7	9.6
Business Transformation			3.9	9.6	10.5	11.6
Head Office	(9.3)	(9.5)	(11.4)	(16.1)	(19.5)	(20.9)
<b>EBITA - Adjusted</b>	<b>37.0</b>	<b>40.9</b>	<b>49.5</b>	<b>75.3</b>	<b>80.4</b>	<b>86.8</b>
Associates & JV's	0.1	0.2	0.4	0.2	-	-
Net Bank Interest	(1.0)	(0.8)	(0.8)	(0.5)	(0.6)	(0.6)
<b>PBT - Adjusted</b>	<b>36.0</b>	<b>40.2</b>	<b>49.1</b>	<b>75.0</b>	<b>79.8</b>	<b>86.2</b>
Non Operating Items	(16.3)	(23.0)	(37.2)	(29.6)	(26.0)	(22.8)
Other Financial Items	(0.9)	(11.6)	(13.2)	(16.5)	(10.0)	(10.0)
<b>PBT - IFRS</b>	<b>18.8</b>	<b>5.6</b>	<b>(1.3)</b>	<b>27.8</b>	<b>42.8</b>	<b>52.3</b>
Tax	(4.3)	(2.7)	(2.6)	(5.7)	(10.7)	(13.1)
Tax - Adjusted	(7.2)	(8.0)	(9.9)	(17.6)	(19.2)	(20.7)
Tax rate - Adjusted	20.0%	20.0%	20.2%	23.5%	24.0%	24.0%
Minority interests	0.6	0.6	1.0	3.4	4.8	5.2
No. shares m	79.2	85.3	89.4	92.0	92.0	92.0
No. shares m, diluted	85.0	90.9	93.8	96.4	96.4	96.4
IFRS EPS (p)	17.5	2.7	(5.5)	20.3	29.7	37.0
<b>Adj EPS (p), diluted</b>	<b>33.1</b>	<b>34.8</b>	<b>40.7</b>	<b>55.9</b>	<b>58.0</b>	<b>62.5</b>
Total DPS (p)	7.6	2.5	7.0	11.6	12.9	13.9

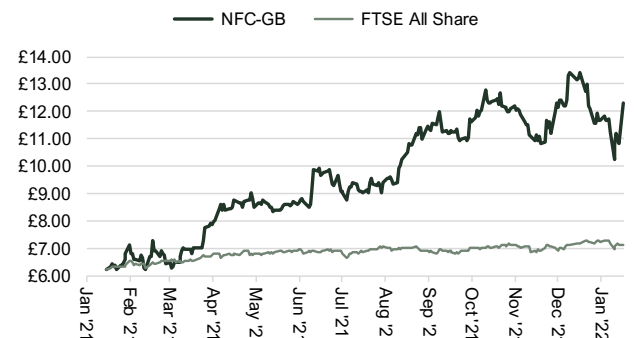
## CASH FLOW

Year to 31 January, £m	FY19	FY20	FY21	FY22e	FY23e	FY24e
Net Profit: (add back)	14.5	2.8	(3.9)	22.1	32.1	39.2
Depreciation & Amortisation	13.8	26.4	28.0	27.6	27.8	28.3
Net Finance costs	1.9	14.1	15.4	18.1	11.7	11.7
Tax	4.3	2.7	2.6	5.7	10.7	13.1
Working Capital	1.2	(3.3)	6.6	(6.3)	(4.5)	(0.8)
Other	2.6	6.8	24.3	8.8	9.0	9.0
<b>Cash from Ops</b>	<b>38.4</b>	<b>49.5</b>	<b>72.9</b>	<b>76.0</b>	<b>86.8</b>	<b>100.6</b>
Cash Tax	(6.2)	(6.0)	(8.4)	(10.0)	(10.7)	(13.1)
Tangible Capex	(5.6)	(3.5)	(2.0)	(3.0)	(5.0)	(5.0)
Intangible Capex	(2.4)	(1.8)	(2.1)	(2.0)	(2.0)	(2.0)
<b>Free Cashflow</b>	<b>24.1</b>	<b>38.2</b>	<b>60.4</b>	<b>61.0</b>	<b>69.1</b>	<b>80.5</b>
Dividends	(6.6)	(7.5)	(0.7)	(7.3)	(11.7)	(12.8)
Acquisitions & Inv.	(29.6)	(24.2)	(23.6)	(25.0)	(17.0)	(11.0)
Financing	7.7	1.8	(37.7)	(9.6)	(9.7)	(9.7)
<b>Net Cashflow</b>	<b>(4.4)</b>	<b>8.3</b>	<b>(1.6)</b>	<b>19.2</b>	<b>30.8</b>	<b>47.1</b>
Net Cash (Debt)	(5.2)	(9.4)	14.0	33.2	64.0	111.0

## BALANCE SHEET

Year to 31 January, £m	FY19	FY20	FY21	FY22e	FY23e	FY24e
Intangibles	126.1	155.4	163.8	175.8	179.8	177.8
P,P+E	15.9	14.2	8.9	12.3	12.4	12.1
Tax Asset & Other	13.0	54.7	43.4	35.4	27.4	19.4
<b>Total Fixed Assets</b>	<b>155.0</b>	<b>224.4</b>	<b>216.1</b>	<b>223.4</b>	<b>219.6</b>	<b>209.3</b>
Net Working Capital	(38.4)	(102.3)	(113.2)	(112.5)	(89.6)	(88.9)
<b>Capital Employed</b>	<b>116.6</b>	<b>122.1</b>	<b>102.9</b>	<b>110.9</b>	<b>130.0</b>	<b>120.4</b>
Net Funds	(5.2)	(9.4)	14.0	33.2	64.0	111.0
<b>Net Assets</b>	<b>111.5</b>	<b>112.7</b>	<b>116.9</b>	<b>144.1</b>	<b>193.9</b>	<b>231.4</b>

## PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



## SHAREHOLDERS

	% of ord. Share capital
Liontrust Investment Partners	14.1%
Octopus Investments	14.1%
Aviva Investors	11.8%
Aberdeen Stan Life	7.9%
Tim Dyson (CEO)	5.9%
BlackRock	5.1%
Canaccord Wealth	5.0%
Herald Inv Mgmt	4.4%
<b>Total</b>	<b>68.3%</b>

## Announcements

Date	Event
September 2021	H1 results
August 2021	Trading update
April 2021	Final results (y/e Jan 2021)
April 2021	Acquisition of Shopper Media for £15m
January 2021	Trading update
September 2020	Trading update
September 2020	Acquisition of Mach49 for \$2.7m

## RATIOS

	FY20	FY21	FY22e	FY23e	FY24e
RoE	28.1%	32.7%	37.4%	28.8%	26.1%
RoCE	33.6%	48.5%	68.1%	61.9%	72.1%
Asset Turnover (x)	0.9x	0.8x	0.6x	0.6x	0.5x
NWC % Revenue	41.2%	42.4%	31.5%	23.0%	21.3%
Op Cash % EBITA	121.2%	147.4%	101.0%	107.9%	115.9%
Net Debt / EBITDA	0.1x	-	-	-	-

## VALUATION

Fiscal	FY20	FY21	FY22e	FY23e	FY24e
P/E	35.4x	30.2x	22.0x	21.2x	19.7x
EV/EBITDA	16.5x	14.6x	15.0x	14.0x	13.0x
Div Yield	0.2%	0.6%	0.9%	1.0%	1.1%
FCF Yield	3.4%	5.4%	5.4%	6.1%	7.1%
EPS growth	4.9%	17.1%	37.3%	3.6%	7.9%
DPS growth	-66.9%	180.0%	66.4%	10.6%	7.9%

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