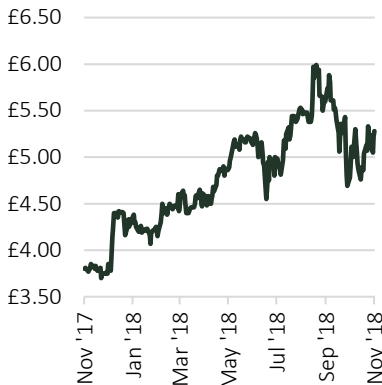




Next Fifteen Communications Group PLC

NFC | AIM | Media | 512p | £429m

1 Year Chart



Acquisition and Placing

The acquisition of Activate Marketing Services for an initial \$9m (rising to a max \$48m) is notable for a number of reasons. Activate is the first North American acquisition since FY15 and marks the first step into the B2B lead generation space. The acquisition is also consistent with well-established NFC M&A themes; 6.1x EBIT is undemanding; vendor management are remaining with the business; the client base is predominantly technology based. NFC has also raised £20m through a non pre-emptive placing at 475p to fund both the Activate acquisition and ensure NFC can capitalise on a well populated acquisition pipeline. We have updated forecasts for Activate and the placing, resulting in a small uptick to FY19E and a more material upgrade for FY20E. On our revised estimates, NFC shares trade on a Jan '19 PE of 15.6x, falling to 13.7x for Jan '20. Following a period of share price volatility across the market, we also update our peer group valuation comparatives. We also note the brief trading statement which re-iterated confidence in meeting expectations for the current financial year.

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

19 November 2018

Iain Daly

id@radnorcp.com

+44 (0) 203 897 1832

- Activate Marketing Services:** Activate has grown quickly since inception in 2013; revenue of \$13.7m and EBIT of \$4.1m expected in the current year. Activate is a lead generation business; identifying potential customers; targeting them with customised content and then qualifying those leads for Activate's predominantly technology-based enterprise clients (IBM, Dell, VMWare etc). Since 2015, Activate's revenue has growth at a CAGR of 29%.
- Trading commentary.** Within the Activate acquisition announcement, NFC also confirmed Board confidence in the group meeting expectations for the full year. Given the risk-off feel to markets over recent weeks, this statement should help to settle any investor nerves over the near-term outlook.
- Forecast revisions.** We have updated for the acquisition; placing and trading commentary. The dilutive impact of the placing will mostly offset the initial Activate contribution in the current financial year (+1% EPS). However, we anticipate a more material impact in FY20E and have upgrade PBT/EPS by +8%/+3% respectively.
- Valuation:** On our revised estimates, NFC trades on a Jan 2019E PE of 15.6x, falling to 13.7x for Jan 2020E, and a yield of 1.5%. Recent price volatility across both the media sector and broader small cap indices suggests a lower risk appetite has taken hold, which should place a premium on consistent delivery.

YE - January	Sales, £m	PBT adj, £m	EPS (p)	Div (p)	Net Cash, £m	PER x	Yield %
FY 2017A	171.0	24.2	23.4	5.3	-11.4	21.8	1.0%
FY 2018A	196.8	29.3	27.8	6.3	-11.6	18.4	1.2%
FY 2019E	226.7	35.9	32.8	7.6	1.6	15.6	1.5%
FY 2020E	251.7	42.5	37.3	8.7	22.9	13.7	1.7%
FY 2021E	268.5	46.9	41.2	10.0	43.8	12.4	2.0%

Source: Radnor Capital Partners

Activate Marketing Services

The 6.1x acquisition multiple is in line with other NFC acquisitions ...

The key financial headlines are:

- Initial consideration of \$9m with deferred top-up consideration of \$2.25m payable in H2 FY20E based on performance to July 2019;
- The initial acquisition multiple (including deferred top-up) is 6.1x normalised 2018 EBIT;
- Further consideration is payable through FY25E based on revenue and margin growth;
- Total consideration (including initial) is capped at \$48m;
- For the current calendar year, Activate is expected to generate revenue of \$13.7m and normalised EBIT of \$4.1m;
- Activate is growing quickly and, we estimate, generated revenue of c.\$10m of revenue in calendar 2017 and EBIT of \$2.4m
- Since 2015, the Activate revenue CAGR of 29% with consistent 20% plus EBIT margins

Activate identifies and qualifies sales opportunities for clients ...

Founded in 2013 and based in San Francisco and New York, Activate is a B2B lead generation agency. Servicing a 60+, predominantly North American technology-based business. At its core, Activate identifies; profiles and qualifies potential buying leads on behalf of its clients. Whilst lead generation agencies are well-established within the marketing eco-system, especially in the deeper North American market, Activate represents a newer take. Activate curates and tailors client content output to best fit the identified leads and sharpen the process of a client engaging with a potential buyers.

Like other NFC agencies, Activate has a technology based client list ...

Activate has also been able to leverage a specialist knowledge of the enterprise technology market, where the majority of their 60+ clients are based. Key clients include IBM, Dell, VMWare, Hortonworks, Adobe, Box and Micro Focus.

How does this acquisition play into the overall NFC group and M&A strategy?

- Perhaps most notably, Activate marks the first North American acquisition for over three years. A recurring theme for NFC has been the acquisition of fast-growing, digitally enabled UK businesses where NFC can accelerate and de-risk the potential for North American expansion. We do not believe the Activate acquisition marks the end of this theme and we would be surprised if the remainder of the acquisition pipeline strayed too far from the UK centric theme.
- One of the reasons why NFC's M&A focus has been UK centric has been the inflated acquisition multiple environment in the US. The Activate acquisition multiple is consistent with the UK acquisitions made over the last three years and reflects the unwillingness of NFC management to overpay (a habitual sin elsewhere in the sector). We have believed for a long time that NFC's M&A price discipline is a key plank of the investment case; and one that is often overlooked by investors.
- Although Activate is likely to stand alone within Next Fifteen (this is the first pure play lead generation business in the group); it does sit naturally alongside established Next Fifteen content marketing agencies such as Velocity, Publitek and Agent3.

- Alongside the merger of the Bite and Text100 agencies; the acquisition of Activate suggests that re-energising the North American footprint is high up the strategic agenda at Next Fifteen. Organic revenue growth in North America has been solid single digit for the last three years but has lagged the UK, where the acquisition of structurally higher growth and high margin businesses has transformed the outlook.

Estimate Changes

- We assume a two month contribution from Activate in the current financial year;
- In-line with the trading commentary, our estimates outside of North America are unchanged;
- We have factored the £20m placing into the average share count for both FY19E and FY20E, and the net debt / cash position;
- Given the near-term acquisition pipeline; we would expect the net cash to move back into the red as further deals are secured. Historically, NCF has seen 1x net debt/EBITDA as a natural leverage ceiling and the successful placing ensures the group retain significant firepower (c.£40m) moving forward.

Figure 1: Radnor Estimate Changes for Next Fifteen Communications

	Previous 2019E	Revised 2019E	Δ, % 2019E	Previous 2020E	Revised 2020E	Δ, % 2020E
UK	84.0	84.0	-	92.4	92.4	-
North America	117.1	119.8	+2%	123.0	135.7	+10%
EMEA	8.4	8.4	-	8.7	8.7	-
Asia Pacific	14.5	14.5	-	15.0	15.0	-
Revenue	224.0	226.7	+1%	239.0	251.7	+5%
UK	19.9	19.9	-	22.2	22.2	-
North America	22.8	23.6	+3%	24.6	27.8	+13%
EMEA	1.3	1.3	-	1.5	1.5	-
Asia Pacific	1.7	1.7	-	2.4	2.4	-
Central Overhead	-9.9	-9.9	-	-10.8	-11.1	+3%
EBITA	36.0	36.7	+2%	39.9	42.9	+7%
- margin %	16.1%	16.2%		16.7%	17.0%	
Adj. PBT	35.4	35.9	+1%	39.3	42.5	+8%
Adj. EPS (p)	32.7	32.8	-	36.3	37.3	+3%
Dividend (p)	7.6	7.6	-	8.7	8.7	-
Net Cash (Debt)	-9.9	1.6		10.9	22.9	

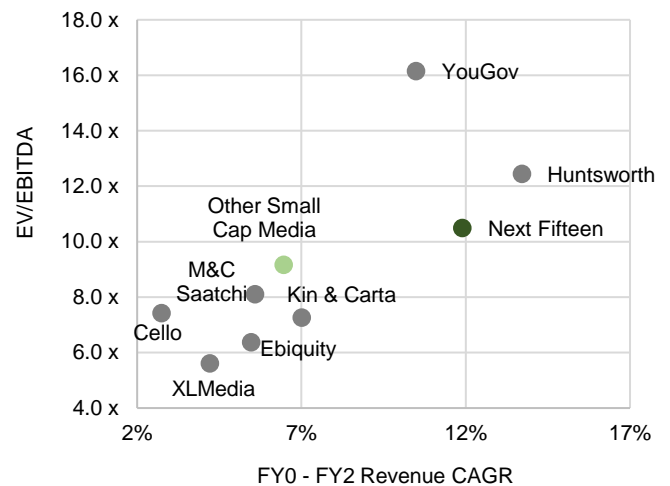
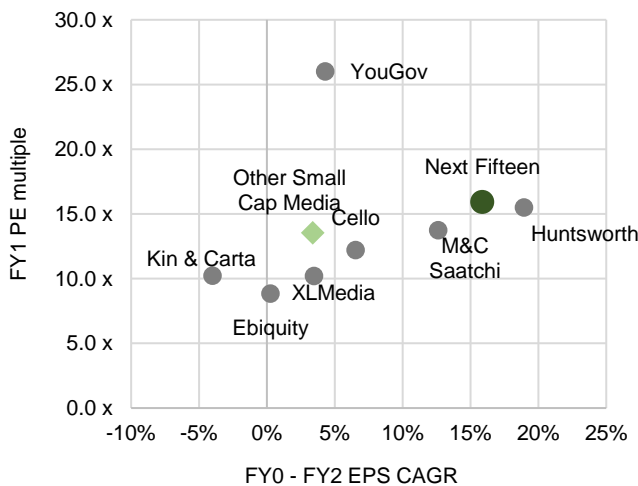
Source: Radnor Capital Partners

Valuation

In the charts below, we highlight the current valuation state of play for Next Fifteen vs the immediate Small Cap Agency peer group and the broader Small and Mid Cap Media sector. We would highlight:

- NFC's valuation stands towards the top end of the immediate peer group range on both a FY1 PE basis (**15.4x** vs Small Cap Agency average **14.0x**) and FY1 EV/EBITDA (**10.9x** vs Small Cap Agency average **9.2x**);
- However, NFC's expected growth is materially higher looking at both revenue and EPS (NFC revenue/EPS growth CAGR of **12%/16%** respectively vs **7%/6%** respectively for the Small Cap Agency average);
- The notable comparable in both charts is YouGov, which overlaps NFC in terms of digital market research and North American exposure. YouGov remains the valuation multiple leader (by some distance) in the peer group despite a materially lower growth profile looking forward.
- We would argue that NFC's consistency and quality of operational delivery over the last four years has been second to none in the peer group, which allied to a conservative approach to balance sheet risk, marks it out as one of, if not the premium play in the sector.

FY1 PE multiple vs forward EPS growth CAGR FY1 EV/EBITDA vs forward Revenue growth CAGR



Source: FactSet, Radnor

Source: FactSet, Radnor

Next Fifteen Communications PLC

Iain Daly
+44 203 897 1832
id@radnorcp.com

Price (p): 512 p
Market Cap: 429 m
EV: 441 m

PROFIT & LOSS

Year to 31 January, £m	2016	2017	FY18	FY19e	FY20e	FY21e
UK	27.9	42.6	58.3	84.0	92.4	99.8
North America	83.5	107.0	115.9	119.8	135.7	144.4
EMEA	6.4	7.2	7.9	8.4	8.7	8.9
Asia Pacific	12.0	14.2	14.7	14.5	15.0	15.4
Group Net Revenue	129.8	171.0	196.8	226.7	251.7	268.5
UK	3.8	8.0	13.0	19.9	22.2	23.9
North America	17.5	22.3	23.2	23.6	27.8	30.3
EMEA	0.5	0.6	0.8	1.3	1.5	1.6
Asia Pacific	1.4	2.2	2.0	1.7	2.4	2.5
Head Office	(6.6)	(8.2)	(8.9)	(9.9)	(11.1)	(11.7)
EBITA - Adjusted	16.5	25.0	30.0	36.7	42.8	46.7
Associates & JV's	(0.0)	(0.3)	0.0	0.0	-	-
Net Bank Interest	(0.4)	(0.5)	(0.7)	(0.9)	(0.3)	0.3
PBT - Adjusted	16.1	24.2	29.3	35.9	42.5	46.9
Non Operating Items	(8.1)	(17.1)	(12.8)	(11.8)	(10.0)	(10.4)
Other Financial Items	(2.4)	(4.2)	(3.2)	(1.5)	(2.5)	(2.5)
PBT - IFRS	5.6	2.9	13.3	22.6	29.9	34.0
Tax	(1.1)	(1.2)	(4.0)	(4.5)	(6.0)	(6.8)
Tax - Adjusted	(3.5)	(5.3)	(5.9)	(7.2)	(8.5)	(9.4)
Tax rate - Adjusted	22.0%	22.0%	20.0%	20.0%	20.0%	20.0%
Minority interests	0.5	0.5	0.7	0.8	1.0	1.2
No. shares m	66.3	72.3	74.3	79.1	82.2	82.2
No. shares m, diluted	71.6	78.3	82.1	85.1	88.2	88.2
IFRS EPS (p)	6.0	1.6	11.6	21.9	27.9	31.6
Adj EPS (p), diluted	16.9	23.4	27.8	32.8	37.3	41.2
Total DPS (p)	4.2	5.3	6.3	7.6	8.7	10.0

CASH FLOW

Year to 31 January, £m	2016	2017	FY18	FY19e	FY20e	FY21e
Net Profit: (add back)	4.5	1.7	9.3	18.1	23.9	27.2
Depreciation & Amortisation	6.1	9.5	11.4	11.7	13.2	14.0
Net Finance costs	2.8	4.7	4.0	2.4	2.8	2.2
Tax	1.1	1.2	4.0	4.5	6.0	6.8
Working Capital	0.2	6.3	(4.2)	(2.0)	(1.7)	(1.8)
Other	1.6	9.4	4.4	2.3	2.0	2.0
Cash from Ops	16.3	32.8	28.9	36.9	46.2	50.4
Cash Tax	(3.0)	(2.0)	(4.3)	(5.5)	(6.0)	(6.8)
Tangible Capex	(6.4)	(8.3)	(3.0)	(6.0)	(4.0)	(4.0)
Intangible Capex	(0.6)	(0.6)	(1.2)	(1.8)	(1.0)	(1.0)
Free Cashflow	6.4	22.0	20.4	23.6	35.3	38.6
Dividends	(3.0)	(4.3)	(5.7)	(6.9)	(7.9)	(8.8)
Acquisitions & Inv.	(13.4)	(21.9)	(15.4)	(23.4)	(5.5)	(8.9)
Financing	14.6	11.1	3.8	18.5	(0.6)	(0.0)
Net Cashflow	4.6	6.8	3.1	11.8	21.3	20.9
Net Cash (Debt)	(6.6)	(11.4)	(11.6)	1.6	22.9	43.8

BALANCE SHEET

Year to 31 January, £m	2016	2017	FY18	FY19e	FY20e	FY21e
Intangibles	53.6	80.0	94.8	105.9	103.6	104.3
P,P+E	10.0	15.8	13.6	17.3	17.1	16.5
Tax Asset & Other	7.9	11.7	11.7	11.7	11.7	11.7
Total Fixed Assets	71.4	107.4	120.1	134.9	132.4	132.5
Net Working Capital	(12.0)	(27.5)	(32.2)	(28.3)	(32.6)	(30.8)
Capital Employed	59.4	79.9	87.9	106.6	99.8	101.7
Net Funds	(6.6)	(11.4)	(11.6)	1.6	22.9	43.8
Net Assets	52.8	68.5	76.3	108.2	122.7	145.5

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



SHAREHOLDERS

	% of ord. Share capital
Liontrust	12.9%
Octopus Investments	11.3%
Aviva Investors	9.8%
Aberdeen Stan Life	8.1%
Directors	7.1%
Herald Inv Mgmt	5.0%
BlackRock	4.9%
Hargreave Hale	4.5%
Total	63.5%

Announcements

Date	Event
1st November 2018	Acquisition Activate for \$9.9m initial
13th July 2018	Acquisition of Technical Associates for £2.2m
7th February 2018	Acquisition of Brandwidth for max £10.3m
26th Sep 2017	Interim results (y/e Jan 2018)
26th Sep 2017	Acquisition of Charterhouse Research for £2.75m
15th Sep 2017	Acquisition of Elvis Communications for £5.5m
12th July 2017	Acquisition of Circle Research for a net £3.0m

RATIOS

	2017	FY18	FY19e	FY20e	FY21e
RoE	26.8%	29.9%	25.8%	26.8%	25.0%
RoCE	30.9%	34.2%	34.5%	42.9%	45.9%
Asset Turnover (x)	0.6x	0.6x	0.6x	0.5x	0.5x
NWC % Revenue	16.1%	16.3%	12.5%	13.0%	11.5%
Op Cash % EBITA	131.5%	96.1%	100.5%	108.1%	108.0%
Net Debt / EBITDA	0.4x	0.3x	-	-	-

VALUATION

Fiscal	2017	FY18	FY19e	FY20e	FY21e
P/E	21.8x	18.4x	15.6x	13.7x	12.4x
EV/EBITDA	15.5x	13.0x	10.9x	10.3x	9.4x
Div Yield	1.0%	1.2%	1.5%	1.7%	2.0%
FCF Yield	5.0%	4.6%	5.4%	8.0%	8.8%
EPS growth	38.9%	18.6%	18.1%	13.8%	10.4%
DPS growth	25.0%	20.0%	20.0%	15.0%	15.0%

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Radnor Capital Partners Ltd
27 Clements Lane
London
EC4N 7AE

www.radnorcp.com

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