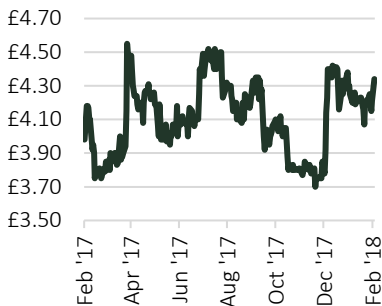




Next Fifteen Communications Group PLC

NFC | AIM | Media | 431p | £320m

1 Year Chart



Trading update – UK momentum; dollar headwinds; estimate upgrades

NFC has provided a full year trading update with FY18E expected to be in line with expectations. Beneath the surface this breaks down into a better than expected UK performance; a return to healthy 5% plus organic growth in the US; but softened by the recent strength of Sterling relative to the dollar. Group net debt is expected to be lower than £12m at the year end, £2m better than our original expectation of £14.3m. We are taking this opportunity to revise our forecasts to factor the recent Brandwidth acquisition; UK strength and dollar weakness. The net result is a 2% upgrade to our FY19E EPS estimate. NFC currently trades on a FY19E PER of 13.5x, EV/EBITDA of 8.3x and a dividend yield of 1.7%. The PER discount to the Small Cap Agency peer group has widened to 13%.

- Improvement in US organic growth:** Given the relatively low headline organic growth reported for H1 FY18E (+2%), H2 has seen a strong pick up at c.7% compared to H2 FY17. Overall, we expect FY19E full year US organic growth to be c.5%. The impact of recent Sterling strength (current \$1.40 vs \$1.32 average for FY18) will be most keenly felt in FY19E, which we are now factoring into our estimates.
- UK momentum accelerating:** Despite the solid US performance, the real story of FY18E is likely to be the strength of the UK businesses. Here the group is benefiting from healthy organic growth; good performances from acquisitions made in the last two years, and not least, the remedial work undertaken on the weaker UK businesses. It now looks likely that the UK will surpass the US in margin terms.
- Forecast revisions:** We are upgrading our estimates (FY19E EPS +2%) to reflect the acquisition of Brandwidth and the better than expected UK performance. We have softened our US expectations to reflect the likely FX impact. We now look for FY19E net debt of £3.3m, reflecting M&A spend and a better than expected cashflow performance in FY18E.
- Valuation:** Based on our new estimates, NFC trades on a FY19E PE of 13.5x, a 13% discount to the Small Cap Agency peer group, and a yield of 1.7%. This discount is even more marked on an EV/EBITDA basis (NFC 6.9x vs 11.1x for the peer group). Our sense is that the US organic recovery and the strength of the UK business momentum will have been better than many observers had been expecting.

20th February 2018

Iain Daly

id@radnorcp.com

+44 (0) 203 897 1832

Year End January	Revenue, £m	PBT adj, £m	EPS (p)	Div (p)	Net Cash, £m	PER x	Yield %
FY 2016A	129.8	16.1	16.9	4.2	-6.6	25.6	1.0%
FY 2017A	171.0	24.2	23.4	5.3	-11.4	18.4	1.2%
FY 2018E	196.2	29.5	27.6	6.4	-11.6	15.6	1.5%
FY 2019E	225.4	35.2	32.5	7.5	-3.3	13.5	1.7%
FY 2020E	236.7	38.5	35.0	8.1	10.4	12.6	1.9%

Source: Radnor Capital Partners

Estimate Upgrades

- Bandwidth acquisition:** This UK digital agency was acquired for £6.2m of initial consideration (£4.9m cash) and a potential £4.1m of deferred consideration. The entire business has been valued at 5.5x EBIT (in line with previous acquisition) and is expected to be earnings enhancing in the first full year of ownership.
- UK momentum:** This has been strong and driven primarily by new client wins (Samsung being a notable new win for Beyond). The new business momentum is being experienced by a number of the UK businesses. The full impact will be felt in FY19E, where we have upgraded our UK revenue / EBIT expectations by 22%/24% respectively.
- US good organic growth tempered by FX:** Compared to H1 FY18E, headline organic growth has shown an improvement and the H2 exit rate feels closer to historic norms. Our base expectation for FY19E is high single digit organic growth. However, NFC is exposed to GBP:USD fluctuations and the dollar has weakened relative to the pound in recent months. At current rates this represents a 7% headwind to the FY18E ave rate of \$1.32 and we have rebased our FY19E estimates accordingly. We now look for US headline revenue/EBIT growth of 2%/4% respectively in FY19E.
- Further down the P&L:** We expect a small decrease in the effective tax rate to be offset by a small increase in diluted shares outstanding. We use diluted shares as the base for our headline EPS as this captures the impact of deferred consideration payments.

Figure 1: Radnor Estimates Changes for Next Fifteen Communications

	Previous		Revised		Change, %		Change, £m	
	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
UK	54.6	66.6	55.0	81.3	1%	22%	0.4	14.7
North America	118.8	128.3	118.8	121.2	0%	-6%	0.0	-7.1
EMEA	7.6	7.8	7.5	7.8	-1%	0%	-0.1	0.0
Asia Pacific	15.3	15.8	14.9	15.4	-3%	-3%	-0.4	-0.4
Revenue	196.3	218.5	196.2	225.5	1%	2%	-0.1	7.2
UK	11.7	14.5	12.2	18.0	4%	24%	0.5	3.5
North America	24.3	26.9	24.1	25.0	-1%	-7%	-0.2	-1.9
EMEA	0.8	0.8	0.8	0.8	0%	0%	0.0	0.0
Asia Pacific	2.3	2.5	2.2	2.5	-4%	0%	-0.1	0.0
Central Overhead	-9.0	-10.1	-9.0	-10.4	0%	-3%	0.0	-0.3
EBITA	30.1	34.8	30.2	35.9	-1%	3%	0.2	1.3
- margin %	15.3%	15.9%	15.4%	15.9%				
Adj. PBT	29.7	34.3	29.5	35.2	-1%	3%	-0.2	0.9
Adj. EPS (p)	27.2	31.2	27.4	31.8	1%	2%		
Dividend (p)	6.3	7.3	6.4	7.5	2%	4%		
Net Cash (Debt)	-14.3	6.1	-11.6	-3.3				

Source: Radnor Capital Partners, Company

Next Fifteen Communications PLC

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

Price (p): **431 p**
Market Cap: 320 m
EV: 332 m

PROFIT & LOSS

Year to 31 January, £m	2015	2016	2017	FY18e	FY19e	FY20e
UK	23.8	27.9	42.6	55.0	81.3	86.9
North America	64.0	83.5	107.0	118.8	121.2	126.0
EMEA	9.0	6.4	7.2	7.5	7.8	8.0
Asia Pacific	12.5	12.0	14.2	14.9	15.4	15.8
Group Net Revenue	109.2	129.8	171.0	196.2	225.5	236.7
UK	2.5	3.8	8.0	12.2	18.0	19.4
North America	14.1	17.5	22.3	24.1	25.0	26.8
EMEA	0.8	0.5	0.6	0.8	0.8	0.9
Asia Pacific	1.0	1.4	2.2	2.2	2.5	2.5
Head Office	(5.7)	(6.6)	(8.2)	(9.0)	(10.4)	(10.9)
EBITA - Adjusted	12.7	16.5	25.0	30.2	35.9	38.7
Associates & JV's	0.3	(0.0)	(0.3)	0.1	0.2	0.2
Net Bank Interest	(0.5)	(0.4)	(0.5)	(0.8)	(0.8)	(0.6)
PBT - Adjusted	12.5	16.1	24.2	29.5	35.2	38.4
Non Operating Items	(13.3)	(8.1)	(17.1)	(9.8)	(10.1)	(10.6)
Other Financial Items	(2.1)	(2.4)	(4.2)	(2.5)	(2.5)	(2.5)
PBT - IFRS	(2.9)	5.6	2.9	17.1	22.5	25.1
Tax	1.5	(1.1)	(1.2)	(3.4)	(4.5)	(5.0)
Tax - Adjusted	(3.0)	(3.5)	(5.3)	(5.9)	(7.0)	(7.7)
Tax rate - Adjusted	23.9%	22.0%	22.0%	20.0%	20.0%	20.0%
Minority interests	0.6	0.5	0.5	0.9	1.1	1.3
No. shares m	60.9	66.3	72.3	73.8	74.8	75.8
No. shares m, diluted	67.6	71.6	78.3	83.0	85.0	86.0
IFRS EPS (p)	(3.2)	6.0	1.6	17.4	22.6	24.8
Adj EPS (p), diluted	13.2	16.9	23.4	27.4	31.8	34.2
Total DPS (p)	3.5	4.2	5.3	6.4	7.5	8.1

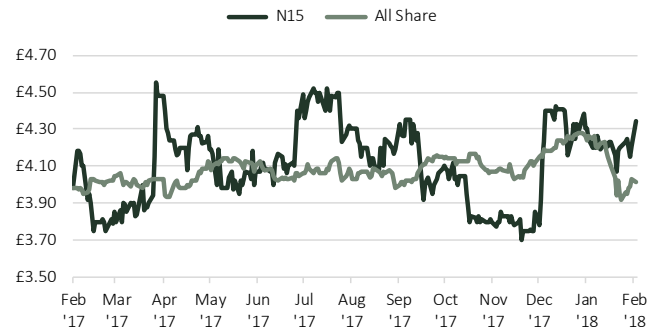
CASH FLOW

Year to 31 January, £m	2015	2016	2017	FY18e	FY19e	FY20e
Net Profit: (add back)	(1.4)	4.5	1.7	13.7	18.0	20.1
Depreciation & Amortisation	10.6	6.1	9.5	9.9	11.0	11.6
Net Finance costs	2.1	2.8	4.7	3.3	3.3	3.1
Tax	(1.5)	1.1	1.2	3.4	4.5	5.0
Working Capital	5.6	0.2	6.3	(5.3)	1.3	(0.3)
Other	2.6	1.6	9.4	2.7	0.9	0.8
Cash from Ops	18.0	16.3	32.8	27.7	38.9	40.2
Cash Tax	(2.3)	(3.0)	(2.0)	(5.1)	(5.5)	(5.0)
Tangible Capex	(3.9)	(6.4)	(8.3)	(4.0)	(4.0)	(4.0)
Intangible Capex	(0.7)	(0.6)	(0.6)	(0.8)	(0.8)	(0.8)
Free Cashflow	11.1	6.4	22.0	17.8	28.6	30.4
Dividends	(3.7)	(3.0)	(4.3)	(5.8)	(6.6)	(7.0)
Acquisitions & Inv.	(5.5)	(13.4)	(21.9)	(12.8)	(12.9)	(9.0)
Financing	1.0	14.6	11.1	(0.9)	(0.9)	(0.7)
Net Cashflow	2.9	4.6	6.8	(1.8)	8.2	13.7
Net Cash (Debt)	(8.6)	(6.6)	(11.4)	(11.6)	(3.3)	10.4

BALANCE SHEET

Year to 31 January, £m	2015	2016	2017	FY18e	FY19e	FY20e
Intangibles	44.9	53.6	80.0	89.8	91.7	94.1
P,P+E	5.5	10.0	15.8	16.1	16.1	16.1
Tax Asset & Other	7.1	7.9	11.7	11.2	11.2	11.2
Total Fixed Assets	57.5	71.4	107.4	117.0	119.0	121.4
Net Working Capital	(11.7)	(12.0)	(27.5)	(23.9)	(29.2)	(36.2)
Capital Employed	45.8	59.4	79.9	93.1	89.9	85.2
Net Funds	(8.6)	(6.6)	(11.4)	(11.6)	(3.3)	10.4
Net Assets	37.2	52.8	68.5	81.6	86.5	95.6

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

SHAREHOLDERS

	% of ord. Share capital
Liontrust	13.5%
Octopus Investments	11.3%
Aviva Investors	9.6%
Aberdeen Stan Life	8.5%
Directors	7.1%
Herald Inv Mgmt	5.5%
BlackRock	4.9%
Hargreave Hale	4.5%
Total	64.9%

Announcements

Date	Event
7th February 2018	Acquisition of Bandwidth 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
11th July 2017	Acquisition of Velocity Partners for £5.9m
4th April 2017	Final results (y/e Jan 2017)

RATIOS

	2016	2017	FY18e	FY19e	FY20e
RoE	22.9%	26.8%	27.9%	31.3%	30.8%
RoCE	27.8%	30.9%	32.6%	40.1%	45.7%
Asset Turnover (x)	0.6x	0.6x	0.6x	0.5x	0.5x
NWC % Revenue	9.3%	16.1%	12.2%	12.9%	15.3%
Op Cash % EBITA	98.6%	131.5%	91.6%	108.5%	103.9%
Net Debt / EBITDA	0.4x	0.4x	0.3x	0.1x	-

VALUATION

Fiscal	2016	2017	FY18e	FY19e	FY20e
P/E	25.6x	18.4x	15.7x	13.5x	12.6x
EV/EBITDA	17.6x	11.7x	9.8x	8.3x	8.6x
Div Yield	1.0%	1.2%	1.5%	1.7%	1.9%
FCF Yield	1.9%	6.6%	5.4%	8.6%	9.2%
EPS growth	27.5%	38.9%	17.1%	16.1%	7.5%
DPS growth	20.0%	25.0%	22.4%	17.3%	7.3%

REGULATORY DISCLOSURES

Radnor Capital Partners Ltd is authorised and regulated by the Financial Conduct Authority.

Radnor Capital Partners Ltd
27 Clements Lane
London
EC4N 7AE

www.radnorcp.com

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