

FY23e full year trading update – In-line with expectations

1 Year Chart



Next Fifteen (NFC) has published its scheduled full year trading update for the twelve months ended January 2023. The key headline is that, despite choppy macro waters, trading performance has remained **in-line** with expectations. In response we are leaving our current year P&L estimates broadly unchanged. M&A related payments and working capital have resulted in year-end net cash of £20m and we rebase our cash-flow and balance sheet estimates accordingly.

This reassuring commentary around H2 trading underscores just how well spread and resilient the NFC portfolio has become. Following a year that was dominated by the unsuccessful M&C Saatchi bid; the acquisition of Engine UK and the Mach49 contract win, this is a welcome opportunity to revisit the core strengths of the NFC proposition. It also serves to remind investors of how disconnected NFC has become from the broader advertising cycle, which legged down sharply through the second half of 2022.

The shares have staged something of recovery following the M&C bid outcome, yet the rating remains at a stubborn and, in our view, unwarranted discount to the UK peer group. Headline revenue growth of +55% and organic revenue growth of +12% for FY23 translates into adj PBT growth of +39% and adjusted EPS growth +27%, all for a twelve month forward PE of 11.9x.

26th January 2023

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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.

- Full year outcome in-line with expectations:** Our FY23e estimates (in-line with broader market consensus) had always factored a slower H2 following a very strong H1. This was partly driven by NFC lapping very tough comparatives but also some degree of steam coming out of a broader client backdrop that had been running hot since the pandemic. This picture has been confirmed by the full year trading update. NFC is still generating good organic growth in H2 (+12% YoY in H2) albeit at a reduced level from H1 (+31% YoY).
- Outlook remains solid:** Forward looking commentary is brief but reassuring in tone. With all four key segments delivering 8% plus organic growth in the year and the Engine acquisition still yet to contribute a full year performance, the outlook for FY24e remains solid. The FX environment is likely to be less of a tailwind than FY23e and we reflect this in our estimates, where we have trimmed our FY24e revenue estimates but are ticking up margin expectations. Net net our PBT and EPS expectations remain broadly unchanged.
- Historically attractive valuation:** NFC trades on a 12 month forward PE of 11.9x (13.6x FY23e, 11.8x FY24e) and a 12 months forward EV/EBITDA of 7.8x; both standing at a material discount to the peer group. Given the resilience of current trading and the growth track record delivered over the last five years, we continue to see the current valuation as an opportunity.

Y/E January, £m	Sales	PBT adj	EPS (p)	Div (p)	Net Cash	Fiscal PER x	Yield %
FY 2021A	266.9	49.1	40.7	7.0	14.0	25.2	0.7
FY 2022A	362.1	79.3	59.7	12.0	35.7	17.2	1.2
FY 2023E	554.9	110.4	75.6	15.1	21.1	13.6	1.5
FY 2024E	631.0	128.1	87.2	17.4	62.1	11.8	1.7
FY 2025E	685.7	139.1	94.5	18.9	87.4	10.9	1.8

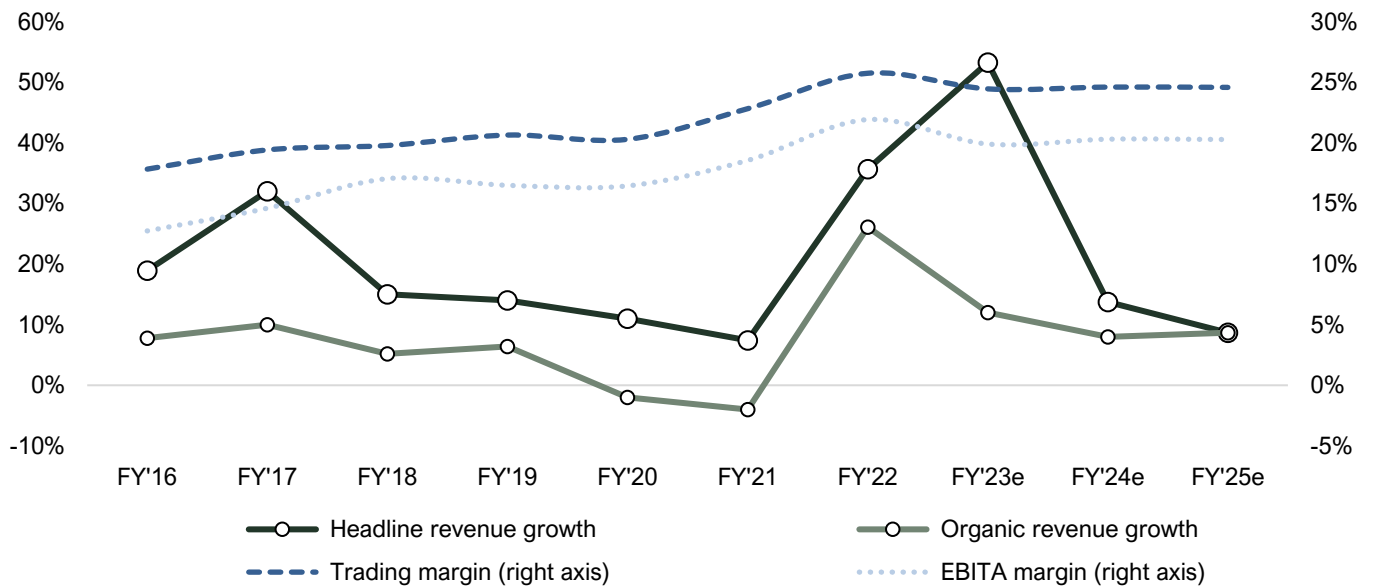
Source: Radnor Capital Partners

Track record since 2016:

In Figure 1 below we show the NFC revenue growth and margin track record since FY16.

We can see that, unsurprisingly, FY21 (encompassing 11 months of 2020 and the worst of the pandemic impact) was the weakest year for NFC, and even here the group delivered headline revenue growth +7% YoY and an organic revenue decline of -4%.

Figure 1: NFC FY2 PBT estimate vs peer group rebased to NFC



Source: FactSet, Radnor

We can also see a consistent margin improvement trend through this period as the group has seen the benefits of a combination of increasing scale; improved business mix driven by M&A and post Covid property cost rationalisation.

We see these margin improvements as being structural rather than transactional.

The key point here is the extent to which NFC has benefited from a strong organic growth and the benefits of well timed M&A. The M&C outcome notwithstanding, there are few UK listed media companies that can point to such a consistent and positive track record at both an organic and a combined level. Although past performance is not a guarantee of future performance, the NFC “organic plus” blueprint is tried and tested over a long period of time and against a range of different market backgrounds. We see nothing in the current environment that should see this model deviate.

Valuation Opportunity

In our last note in June 2022 (*Historically Attractive Valuation Point*, see note [here](#)), we outlined how attractive the NFC valuation was looking against a historic context. Without wishing to repeat unnecessarily, this valuation picture is now even starker.

In Figures 2 & 3 below we show the 2 year forward PE multiple for both Next Fifteen and the Agency peer group. In Figure 4 we show the 10 year history for NFC's **2 year forward** PE multiple, which shows

Figure 2: Next Fifteen FY2 PE

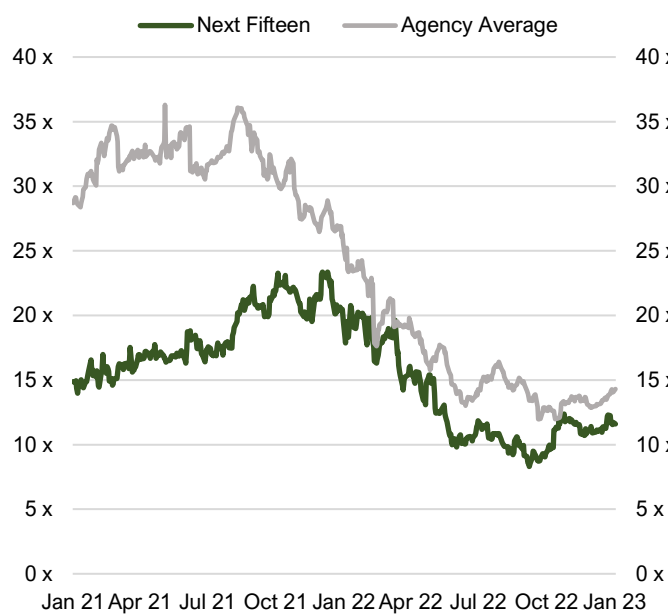
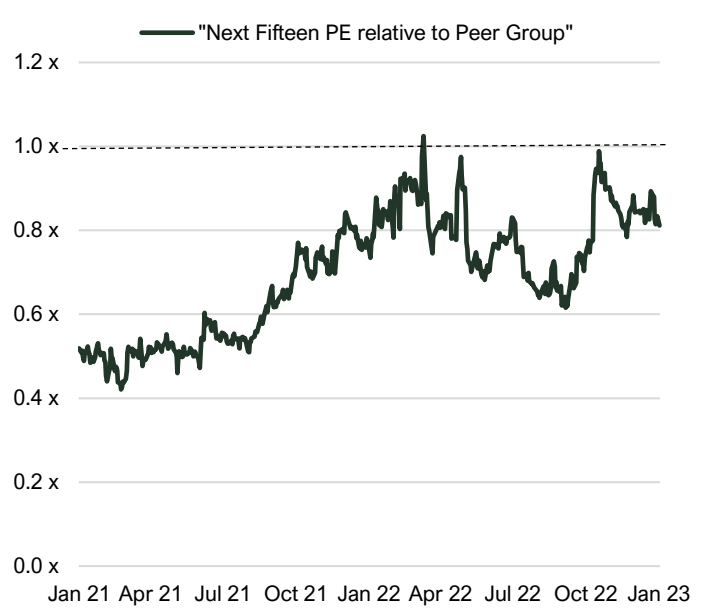
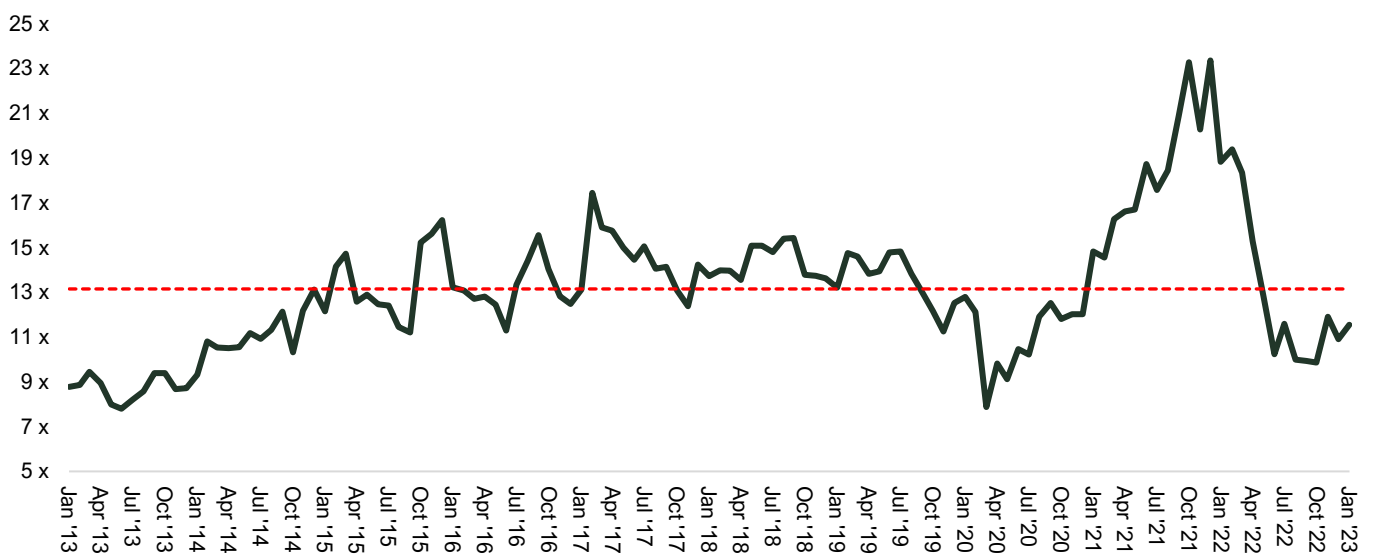


Figure 3: Next Fifteen FY2 PE relative to Peer Group



Source: FactSet, Radnor

Figure 3: Next Fifteen FY2 PE over the last 10 years



Source: FactSet, Radnor

In Figure 4 above we show the 2 year prospective PE multiple for Next Fifteen over the last 10 years. We can see that the current level (disregarding the short-lived pandemic shock in March 2020) was last seen back in 2013.

Since FY14, Next Fifteen's 2 year prospective PE has ranged typically between 11x and 17x, although peaked as high as 23x at the end of 2021. The average PE multiple through this 10 year period has been **13.1x**.

Now that we have a firmer picture over the FY23e outcome, it is worth considering what has been delivered by the company since 2014 that has underpinned this average multiple.

- Revenue growth +462% (£99m → £554m) – CAGR of **+19%**
- Adjusted PBT growth +1,234% (£8m - → £110m) – CAGR of **+33%**
- Adjusted EPS growth +923% (7.4p → 75.6p) – CAGR of **+29%**

Next Fifteen Communications PLC

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Price (p): 1026 p
Market Cap: 994 m
EV: 973 m

PROFIT & LOSS

Year to 31 January, £m	FY20	FY21	FY22	FY23e	FY24e	FY25e
Customer Engagement	166.5	187.6	271.8	292.0	311.1	
Customer Delivery	49.6	80.0	99.9	109.9	120.9	
Customer Insight	33.1	42.1	52.6	56.8	60.8	
Business Transformation	17.7	52.5	135.9	172.1	192.7	
Group Net Revenue	248.5	266.9	362.1	560.3	630.8	685.5
Customer Engagement	36.9	40.4	61.6	67.4	71.5	
Customer Delivery	15.2	28.5	31.0	34.2	37.7	
Customer Insight	4.9	9.0	11.1	12.2	13.1	
Business Transformation	3.9	15.2	32.2	41.4	46.2	
Head Office	(9.5)	(11.4)	(13.8)	(25.5)	(27.1)	(29.5)
EBITA - Adjusted	40.9	49.5	79.3	110.3	128.1	139.0
Associates & JV's	0.2	0.4	0.2	0.2	0.2	0.2
Net Bank Interest	(0.8)	(0.8)	(0.3)	(0.3)	(0.2)	(0.1)
PBT - Adjusted	40.2	49.1	79.3	110.3	128.1	139.1
Non Operating Items	(23.0)	(37.2)	(40.4)	(32.0)	(29.0)	(29.0)
Other Financial Items	(11.6)	(13.2)	(119.0)	(10.0)	(10.0)	(10.0)
PBT - IFRS	5.6	(1.3)	(80.1)	67.3	88.1	99.1
Tax	(2.7)	(2.6)	14.5	(16.8)	(22.0)	(24.8)
Tax - Adjusted	(8.0)	(9.9)	(17.2)	(27.6)	(32.0)	(34.8)
Tax rate - Adjusted	20.0%	20.2%	21.6%	25.0%	25.0%	25.0%
Minority interests	0.6	1.0	3.6	5.2	6.7	7.4
No. shares m	85.3	89.4	92.4	96.9	96.9	96.9
No. shares m, diluted	90.9	93.8	98.1	102.6	102.6	102.6
IFRS EPS (p)	2.7	(5.5)	(74.9)	46.7	61.3	69.0
Adj EPS (p), diluted	34.8	40.7	59.7	75.6	87.2	94.5
Total DPS (p)	2.5	7.0	12.0	15.1	17.4	18.9

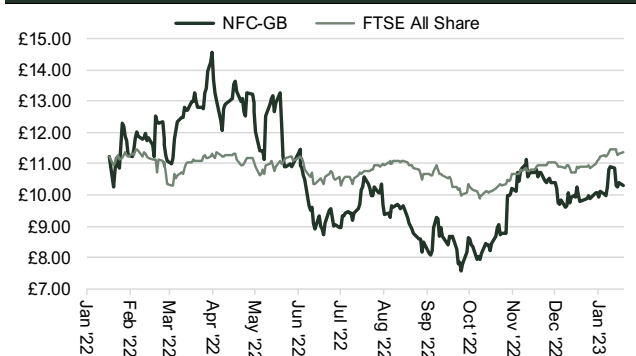
CASH FLOW

Year to 31 January, £m	FY20	FY21	FY22	FY23e	FY24e	FY25e
Net Profit: (add back)	2.8	(3.9)	(65.6)	50.4	66.1	74.3
Depreciation & Amortisation	26.4	28.0	28.8	33.0	32.0	32.0
Net Finance costs	14.1	15.4	120.3	11.3	11.2	11.1
Tax	2.7	2.6	(14.5)	16.8	22.0	24.8
Working Capital	(3.3)	6.6	0.2	(17.5)	(0.4)	(1.5)
Other	6.8	24.3	23.7	16.0	16.0	16.0
Cash from Ops	49.5	72.9	92.9	110.0	146.9	156.7
Cash Tax	(6.0)	(8.4)	(14.1)	(16.8)	(22.0)	(24.8)
Tangible Capex	(3.5)	(2.0)	(3.1)	(6.0)	(6.0)	(6.0)
Intangible Capex	(1.8)	(2.1)	(2.7)	(4.0)	(4.0)	(4.0)
Free Cashflow	38.2	60.4	73.0	83.2	114.8	121.9
Dividends	(7.5)	(0.7)	(12.4)	(14.1)	(18.1)	(20.9)
Acquisitions & Inv.	(24.2)	(23.6)	(28.1)	(122.0)	(47.2)	(67.3)
Financing	1.8	(37.7)	(1.1)	38.2	(8.4)	(8.4)
Net Cashflow	8.3	(1.6)	31.4	(14.8)	41.1	25.4
Net Cash (Debt)	(9.4)	14.0	35.7	20.9	62.1	87.4

BALANCE SHEET

Year to 31 January, £m	FY20	FY21	FY22	FY23e	FY24e	FY25e
Intangibles	155.4	163.8	183.1	244.1	224.1	204.1
P,P+E	14.2	8.9	7.5	14.5	12.5	13.9
Tax Asset & Other	54.7	43.4	75.6	67.6	64.6	61.6
Total Fixed Assets	224.4	216.1	266.2	326.2	301.2	279.6
Net Working Capital	(42.8)	(48.6)	(51.6)	(32.7)	(32.3)	(30.8)
Capital Employed	181.5	167.5	214.5	293.5	268.9	248.8
Earn Out Liabilities	(59.5)	(64.6)	(188.8)	(152.2)	(152.2)	(152.2)
Net Funds	(9.4)	14.0	35.7	20.9	62.1	87.4
Net Assets	112.7	116.9	61.5	162.2	178.7	184.0

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



SHAREHOLDERS

	% of ord. Share capital
Octopus Investments	12.5%
Liontrust Investment Partners	11.7%
Aviva Investors	8.5%
Slater Investments	6.7%
JPMorgan AM	6.2%
abrdn	6.0%
Directors	5.6%
BlackRock	5.1%
	62.3%

Announcements

Date	Event
January 2023	Trading update
September 2022	H1 results
May 2022	Recommend Offer for M&C Saatchi
March 2022	Engine acquisition & £50m placing
February 2022	Mach49 \$400m contract win
September 2021	H1 results
August 2021	Trading update

RATIOS

	FY21	FY22	FY23e	FY24e	FY25e
RoE	32.7%	95.3%	47.8%	50.0%	52.7%
RoCE	29.8%	37.1%	37.7%	47.7%	56.0%
Asset Turnover (x)	0.8x	0.7x	0.6x	0.5x	0.4x
NWC % Revenue	18.2%	14.3%	5.8%	5.1%	4.5%
Op Cash % EBITA	147.4%	117.0%	99.7%	114.7%	112.7%
Net Debt / EBITDA	0.1x	-	-	-	-

VALUATION

Fiscal	FY21	FY22	FY23e	FY24e	FY25e
P/E	25.2x	17.2x	13.6x	11.8x	10.9x
EV/EBITDA	11.8x	12.3x	8.8x	7.6x	7.0x
Div Yield	0.7%	1.2%	1.5%	1.7%	1.8%
FCF Yield	6.2%	7.5%	8.5%	11.8%	12.5%
EPS growth	17.1%	46.6%	26.5%	15.4%	8.3%
DPS growth	180.0%	71.4%	25.9%	15.4%	8.3%

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