

## FY25 AGM update: In-line with expectations

### 1 Year Chart



Next 15 Group PLC is a research client of H2 Radnor Ltd.

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

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**Iain Daly**

idaly@h2radnor.com

+44 (0) 203 897 1832

Despite a trading environment that continues to be challenging and which has clearly remained tougher for longer than originally expected, Next Fifteen continues to show a remarkable degree of resilience compared to its more immediate peers. It is difficult not to draw the comparison between this “in-line” commentary and the recent, material downgrade at YouGov and a prolonged period of downgrades for S4 Capital.

In our view, the Next Fifteen group structure; a de-centralised portfolio of specialist, niche agencies, each offering specific solutions to specific problems, offers resilience in terms of client positioning and internal P&L accountability.

Notwithstanding the structural advantages that Next Fifteen brings into play, there is no doubt that this is a tough trading environment and much will depend on a better H2. Next Fifteen has seen forward estimates decline over the last year, albeit at a materially lower rate than peers, and the risks remain on the downside.

We trim our full year revenue and PBT estimates by -2% and -3% respectively in response. The shares have now given back some of their recent strong performance and the valuation looks even more attractive than before, especially for a growth company with Next Fifteen’s quality and track record.

- **AGM update in line with management expectations:** The update referenced a trading environment that remains challenging; not helped by a continuing weakness in technology client spending and challenges around election impacts. Nonetheless, there remains a clear path to meeting full year expectations but this will require a degree of H2 pick up.
- **Headline and organic growth:** The Customer Delivery segment (driven by the strongly performing Shopper Media Group), was the only group segment to deliver positive organic revenue growth in the first four months of the year. Notwithstanding the tough trading environment facing the other segments, we still expect the group to deliver c.5% headline revenue growth as the group continues to benefit from prior M&A.
- **Changes to estimates:** Despite the in-line commentary, we are taking a cautious view, with the balance of risks now beginning to shift to the downside as we look into H2. We are trimming our FY25E revenue by -2% to £605.1m and FY25E PBT by -3% to £124.1m.

January, £m	Revenue	PBT adj	EPS (p)	Div (p)	Net Cash	PE x	Yield %
FY 2023A	563.8	112.5	80.4	14.6	26.1	10.0	1.8
FY 2024A	577.8	117.9	81.6	15.4	(1.4)	9.9	1.9
FY 2025E	605.1	127.5	84.2	15.6	1.0	9.5	1.9
FY 2026E	642.7	138.8	95.2	17.3	37.9	8.4	2.2
FY 2027E	682.6	150.5	104.1	18.9	85.7	7.7	2.4

Source: h2Radnor

## Changes to h2Radnor estimates

Despite the overall, in-line commentary, we are taking this opportunity to further trim our near-term expectations. Our FY25E revenue and PBT estimates are reducing by -2% and -3% respectively.

The recovery in technology client spend that had been expected as we move through the year has yet to fully materialise, especially within North America. Like all portfolio based businesses, this has had a negative impact for some of the Next 15 components but is by no means uniform across the group. The more North America / B2B focused agencies (Activate and Mach49, ex the large contract) have been most exposed; whilst others such as SMG and M Booth have continued to trade well.

Whilst our revenue expectations for FY25E have reduced by -4% in total since the start of the year, our FY25E EBIT expectation has only reduced by -5%, reflecting Next 15's ability to protect margins even in a challenging revenue environment. From a margin defensiveness standpoint, Next 15 stands head and shoulders above its peers.

We still look for FY25E EBIT margins of 21.1%, a small improvement on the 21.0% reported for FY24. Clearly, the company still envisages a degree of recovery in H2 and should this recovery come through more strongly than anticipated then margins could well see further upside.

In Figure 1 below, we detail our key estimate revisions.

**Figure 1:** h2Radnor estimate revisions

	2024A	Previous		New		Change, %	
		2025E	2026E	2025E	2026E	2025E	2026E
Customer Engagement	263.1	275.0	288.7	271.0	284.6	- 1%	- 1%
Customer Delivery	107.7	118.4	126.7	118.4	126.7	+ 0%	+ 0%
Customer Insight	57.5	63.2	68.3	58.6	63.3	- 7%	- 7%
Business Transformation	149.6	163.1	174.5	157.1	168.1	- 4%	- 4%
<b>Revenue</b>	<b>577.8</b>	<b>619.7</b>	<b>658.2</b>	<b>605.1</b>	<b>642.7</b>	<b>- 2%</b>	<b>- 2%</b>
Customer Engagement	53.2	58.3	62.1	56.9	61.2	- 2%	- 1%
Customer Delivery	29.1	33.7	37.4	33.4	37.4	- 1%	- 0%
Customer Insight	10.4	13.0	14.7	11.8	13.6	- 9%	- 7%
Business Transformation	48.3	48.9	52.3	47.1	50.4	- 4%	- 4%
Central Overhead	-19.8	-22.3	-24.4	-21.8	-23.8	- 2%	- 3%
<b>EBITA</b>	<b>121.1</b>	<b>131.6</b>	<b>142.1</b>	<b>127.5</b>	<b>138.8</b>	<b>- 3%</b>	<b>- 2%</b>
- margin %	21.0%	21.2%	21.6%	21.1%	21.6%		
<b>Adj. PBT</b>	<b>117.9</b>	<b>128.4</b>	<b>140.4</b>	<b>124.1</b>	<b>136.9</b>	<b>- 3%</b>	<b>- 2%</b>
<b>Adj. EPS (p)</b>	<b>81.6</b>	<b>87.2</b>	<b>97.6</b>	<b>84.2</b>	<b>95.2</b>	<b>- 3%</b>	<b>- 2%</b>
Dividend (p)	15.4	16.1	17.8	15.6	17.3	- 3%	- 3%
<b>Net Cash (Debt)</b>	<b>-1.4</b>	<b>8.4</b>	<b>47.3</b>	<b>1.0</b>	<b>37.9</b>		

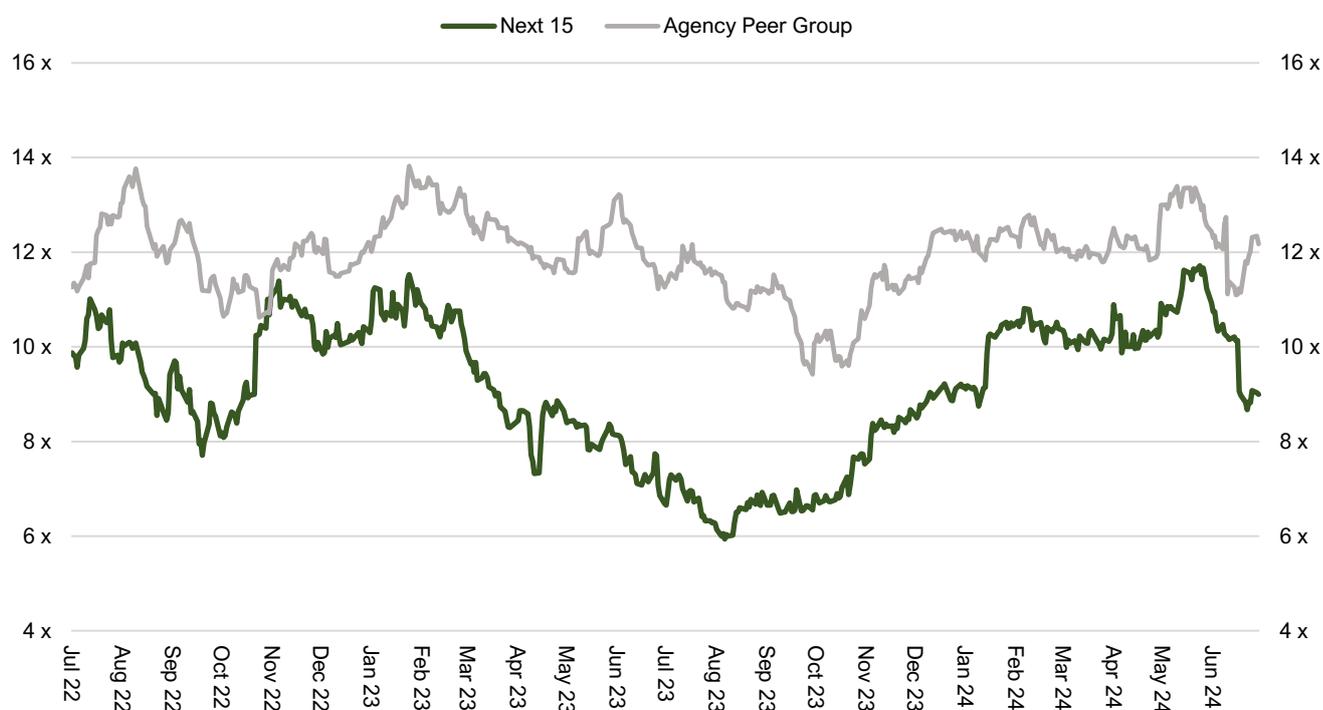
Source: h2Radnor

## Next 15 valuation and relative performance

Next 15's share price reacted negatively to the AGM trading update and has now given up all the gains that had been made this year. From their recent June peak of £10.36, the shares have fallen 21%. Although the trading update re-affirmed an in-line with expectations commentary; the tone of the statement was cautious and came relatively soon after a surprise and very material (-22% EBIT downgrade) profit warning from YouGov.

In Figure 2 below, we show the evolution of the Next 15 forward PE multiple over the last two years. We can see that Next 15 has seen its forward multiple recover back towards its longer term trend average (c.12-13x) through Q3 23 and Q2 24. In line with the peer group, this has now stepped back down.

**Figure 2:** Next 15 Forward PE multiple vs Agency Peers



Source: h2Radnor, FactSet

A notable feature of Next 15's valuation relative to its peers has been the disconnect between the discount that Next 15 trades on (currently standing at 26%) and the strength of its outperformance on the trading front.

Figures 3 & 4 below show the evolution of Next 15's FY1 consensus revenue and PBT estimate since July 2022. We can see that from a both a revenue and PBT perspective, Next 15 has materially outperformed its peers where we have seen a number of very material revenue and profit downgrades.

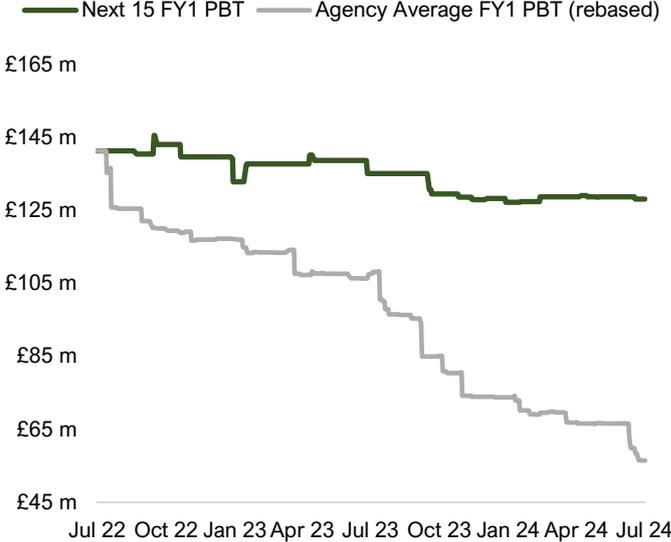
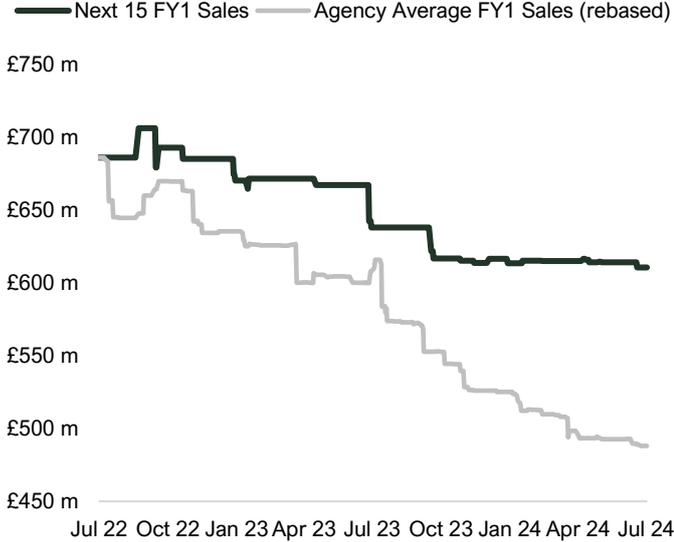
We can also see the extent to which market consensus has captured the margin strength inherent within the Next 15 operating model. From its peak in September 2022, FY1 consensus revenue expectations for Next 15 have reduced by 14%, whilst

PBT expectations have reduced by only 12%. This compares to a 29% consensus revenue downgrade for the peer group translating into a 60% PBT downgrade.

It is against this context that a 26% PE multiple discount for Next 15 relative to its peers feels anomalous.

**Figure 3: Next 15 vs Peers – Consensus Revenue**

**Figure 4: Next 15 vs Peers – Consensus PBT**



Source: h2Radnor, FactSet

## Next 15 Group PLC

Iain Daly  
+44 203 897 1832  
idaly@h2radnor.com

Price (p): 804 p  
Market Cap: 809 m  
EV: 808 m

### PROFIT & LOSS

Year to 31 January, £m	FY22	FY23	FY24	FY25e	FY26e	FY27e
Customer Engagement	187.6	275.0	263.1	271.0	284.6	298.8
Customer Delivery	80.0	102.1	107.7	118.4	126.7	135.6
Customer Insight	42.1	52.0	57.5	58.6	63.3	68.4
Business Transformation	52.5	134.8	149.6	157.1	168.1	179.8
<b>Group Net Revenue</b>	<b>362.1</b>	<b>563.8</b>	<b>577.8</b>	<b>605.1</b>	<b>642.7</b>	<b>682.6</b>
Customer Engagement	40.4	55.4	53.2	56.9	61.2	65.7
Customer Delivery	28.5	30.2	29.1	33.4	37.4	42.0
Customer Insight	9.0	11.0	10.4	11.8	13.6	14.7
Business Transformation	15.2	43.9	48.3	47.1	50.4	53.9
Head Office	(13.8)	(26.4)	(19.8)	(21.8)	(23.8)	(25.9)
<b>EBITA - Adjusted</b>	<b>79.3</b>	<b>114.2</b>	<b>121.1</b>	<b>127.5</b>	<b>138.8</b>	<b>150.5</b>
Associates & JV's	0.2	-	-	-	-	-
Net Bank Interest	(0.3)	(1.6)	(3.1)	(3.4)	(1.9)	(0.8)
<b>PBT - Adjusted</b>	<b>79.3</b>	<b>112.5</b>	<b>117.9</b>	<b>124.1</b>	<b>136.9</b>	<b>149.7</b>
Non Operating Items	(40.4)	(48.3)	(45.1)	(30.0)	(30.0)	(30.0)
Other Financial Items	(119.0)	(54.1)	7.5	(29.5)	(29.5)	(29.5)
<b>PBT - IFRS</b>	<b>(79.1)</b>	<b>10.1</b>	<b>80.3</b>	<b>63.5</b>	<b>76.3</b>	<b>89.1</b>
Tax	14.5	(7.1)	(26.4)	(17.1)	(20.6)	(24.0)
Tax - Adjusted	(17.2)	(26.3)	(31.1)	(33.5)	(37.0)	(40.4)
Tax rate - Adjusted	21.6%	23.3%	26.3%	27.0%	27.0%	27.0%
Minority interests	3.6	1.4	1.0	2.2	2.4	2.5
No. shares m	92.4	97.6	99.2	99.0	99.0	99.0
No. shares m, diluted	98.1	105.7	105.2	104.9	102.5	102.5
IFRS EPS (p)	(73.8)	1.7	53.3	44.5	53.9	63.2
<b>Adj EPS (p), diluted</b>	<b>59.7</b>	<b>80.4</b>	<b>81.6</b>	<b>84.2</b>	<b>95.2</b>	<b>104.1</b>
Total DPS (p)	12.0	14.6	15.4	15.6	17.3	18.9

### CASH FLOW

Year to 31 January, £m	FY22	FY23	FY24	FY25e	FY26e	FY27e
Net Profit: (add back)	(64.6)	3.0	53.9	46.3	55.7	65.0
Depreciation & Amortisation	28.8	37.2	36.6	37.5	38.0	38.5
Net Finance costs	120.3	57.1	(3.2)	34.0	32.5	31.4
Tax	(14.5)	7.1	26.4	17.1	20.6	24.0
Working Capital	0.2	(24.4)	(10.7)	(14.7)	(2.1)	(2.2)
Other	19.6	15.1	2.0	(3.7)	(3.7)	(3.7)
<b>Cash from Ops</b>	<b>89.8</b>	<b>95.2</b>	<b>105.0</b>	<b>116.6</b>	<b>141.1</b>	<b>153.1</b>
Cash Tax	(14.1)	(20.3)	(25.4)	(17.1)	(20.6)	(24.0)
Tangible Capex	(3.1)	(3.5)	(3.7)	(4.0)	(4.0)	(4.0)
Intangible Capex	(2.7)	(3.5)	(3.4)	(3.5)	(3.5)	(3.5)
<b>Free Cashflow</b>	<b>69.9</b>	<b>67.9</b>	<b>72.5</b>	<b>92.0</b>	<b>112.9</b>	<b>121.5</b>
Dividends	(12.4)	(15.3)	(16.1)	(17.2)	(17.4)	(19.1)
Acquisitions & Inv.	(24.0)	(104.9)	(60.2)	(58.7)	(46.4)	(43.6)
Financing	(1.1)	38.6	1.1	(19.5)	(12.2)	(11.1)
<b>Net Cashflow</b>	<b>32.4</b>	<b>(13.7)</b>	<b>(2.6)</b>	<b>(3.5)</b>	<b>36.9</b>	<b>47.7</b>
Net Cash (Debt)	35.7	26.1	(1.4)	1.0	37.9	85.7

### BALANCE SHEET

Year to 31 January, £m	FY22	FY23	FY24	FY25e	FY26e	FY27e
Intangibles	183.1	274.1	279.3	277.4	271.4	264.4
P,P+E	7.5	10.9	10.1	9.9	9.6	9.1
Tax Asset & Other	75.6	97.2	88.4	85.4	82.4	79.4
<b>Total Fixed Assets</b>	<b>266.2</b>	<b>382.1</b>	<b>377.8</b>	<b>372.7</b>	<b>363.4</b>	<b>352.9</b>
Net Working Capital	(51.6)	(76.8)	(49.5)	(45.6)	(69.4)	(67.2)
<b>Capital Employed</b>	<b>214.5</b>	<b>305.3</b>	<b>328.4</b>	<b>327.1</b>	<b>294.0</b>	<b>285.7</b>
Earn Out Liabilities	(188.8)	(217.0)	(170.8)	(111.3)	(110.0)	(107.2)
Net Funds	35.7	26.1	(1.4)	1.0	37.9	85.7
<b>Net Assets</b>	<b>61.5</b>	<b>114.4</b>	<b>156.2</b>	<b>216.9</b>	<b>221.9</b>	<b>264.1</b>

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



Source: FactSet

### SHAREHOLDERS

	% of ord. Share capital
Octopus Investments	11.9%
Liontrust Investment Partners	10.0%
Aviva Investors	9.9%
Slater Investments	6.7%
Directors	5.5%
BlackRock	4.8%
JPMorgan AM	4.1%
abrdn	3.3%
<b>Total</b>	<b>56.2%</b>

### Announcements

Date	Event
June 2024	AGM update
April 2024	Final results
January 2024	Trading update
September 2023	H1 results
April 2023	Final results
January 2023	Trading update
September 2022	H1 results
May 2022	Bid for M&C Saatchi

### RATIOS

	FY23	FY24	FY25e	FY26e	FY27e
RoE	74.2%	54.9%	40.7%	44.0%	40.4%
RoCE	37.4%	36.9%	39.0%	47.2%	52.7%
Asset Turnover (x)	0.7x	0.7x	0.6x	0.6x	0.5x
NWC % Revenue	13.6%	8.6%	7.5%	10.8%	9.8%
Op Cash % EBITA	83.4%	86.8%	91.5%	101.6%	101.7%

### VALUATION

Fiscal	FY23	FY24	FY25e	FY26e	FY27e
P/E	10.0x	9.9x	9.5x	8.4x	7.7x
EV/EBITDA	5.3x	5.1x	4.9x	4.6x	4.3x
Div Yield	1.8%	1.9%	1.9%	2.2%	2.4%
FCF Yield	8.4%	9.0%	11.4%	14.0%	15.0%
EPS growth	34.5%	1.5%	3.2%	13.0%	9.4%
DPS growth	21.7%	5.1%	1.6%	11.0%	9.4%

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H2 Radnor Ltd  
68 King William Street  
London  
EC4N 7HR

[www.h2radnor.com](http://www.h2radnor.com)

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