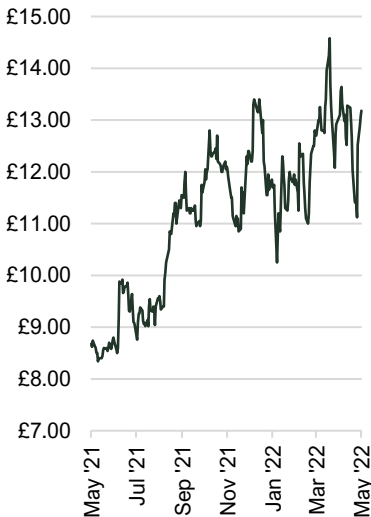


Recommended Offer for M&C Saatchi – Trading update + further upgrades

1 Year Chart



Next Fifteen has announced a Recommended Offer to acquire M&C Saatchi PLC. The Offer comprises 40p in cash and 207.2p in Next Fifteen equity and values M&C at an aggregate c.£310m. Based on current consensus estimates for M&C and guidance previously issued by M&C, we estimate the FY22 and FY23 exit PE multiples for M&C to be c.19x and 14x respectively pre post acquisition synergies. If we adjust for the cash component of the consideration, the acquisition, if completed, looks to be materially earnings enhancing for Next Fifteen. M&C shareholders will represent c.17% of the enlarged share register.

Despite their different points of origin (M&C in marketing creative and Next Fifteen in technology communications) both businesses have transformed substantially over the last decade. The resulting group portfolios are highly complementary, both geographically and in areas of client focus, with relatively little direct overlap. Given the respective strengths of the two businesses; post deal synergies (top and bottom line) look compelling.

Next Fifteen has also announced a Q1 trading update, which speaks to continued organic growth momentum (+37% YoY), positive FX and acquisition contributions. We are upgrading our FY23 expectations by +9% in response.

20th May 2022

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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.

- **Recommended Offer:** Since 6th January 2022, M&C has been subject to a takeover approach from AdvancedAdvT in conjunction with Vin Murria. This approach has been consistently rejected by the M&C Board. The AdvT offer has now gone hostile and based on the current AdvT share price, equates to 207.5p, some 16% below the Next Fifteen offer, which has been formally recommended by the M&C Board. Given the strength of the Next Fifteen business (both in trading momentum and balance sheet terms) and the fit between the two portfolios, the Next Fifteen equity component, in our view, looks less risky and significantly more attractive to M&C shareholders.
- **Rationale:** Although M&C is most known for its storied, historic core advertising creative agency, M&C now generates c.50% of revenue from areas such as performance marketing, crisis management and sports and talent marketing. These areas of strength do not overlap materially with Next Fifteen and will create significant top and bottom line synergy opportunities.
- **Trading update & Estimate upgrades:** Next Fifteen has also announced a trading update for the first three months of FY23. The combination of strong organic growth (+37%); FX tailwinds and acquisition contribution have led to a better than expected Q1. Notwithstanding background macro risks, the extent of this outperformance leaves our full year estimates looking too cautious. We upgrade our FY23 revenue / PBT estimates by +9% to £560.4m / £110.4m.

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	31.3	0.5
FY 2022A	362.1	79.3	59.7	12.0	35.7	21.3	0.9
FY 2023E	560.4	110.4	75.6	15.1	49.6	16.9	1.2
FY 2024E	650.2	128.3	87.3	17.5	107.1	14.6	1.4
FY 2025E	706.2	140.5	95.4	19.1	156.3	13.4	1.5

Source: Radnor Capital Partners

Recommended Offer for M&C Saatchi PLC

Next Fifteen has announced a Recommended Offer for M&C Saatchi PLC. The key terms and highlights of the Offer are below:

- **Headline Offer price of 245p per M&C share; comprising 40p in cash and 205p in new Next Fifteen shares**
- **The exchange ratio has been set at 0.1637 new Next Fifteen share for each M&C Saatchi share**
- **The Next Fifteen Offer values M&C at £310m on a fully diluted basis**
- **The Next Fifteen Offer represents a 19% premium to the 207.5p hostile offer currently on the table from AdvancedAdvT.**
- **The Offer, should it complete, will result in the issue of c.20m new Next Fifteen shares, with M&C shareholders owning c.17% of the enlarged group.**
- **The Next Fifteen Offer has been unanimously recommended by the Independent M&C Board**
- **The cash component of the Next Fifteen Offer (amounting to c.£50m in total) will be financed from Next Fifteen's own cash resources. Next Fifteen recently reported net cash of £35.7m for the year ended January 2022 and has also announced the extension of its existing bank facilities from £70m to £150m.**

Below, we show the FY21 revenue breakdown for M&C Saatchi by both client specialism and geography.

Figure 1: M&C Saatchi FY21 revenue by specialism

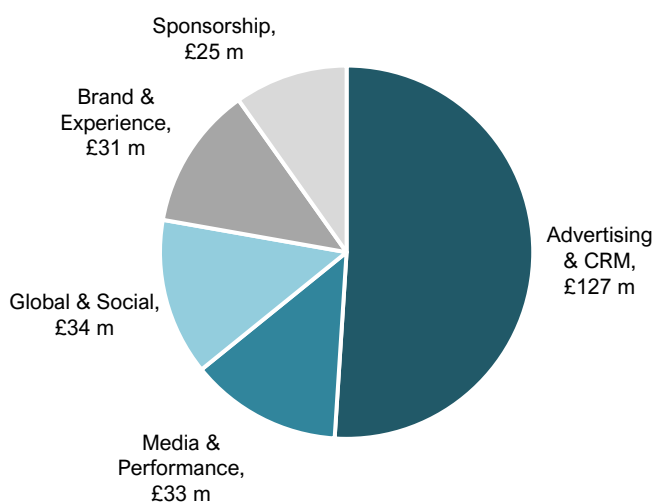
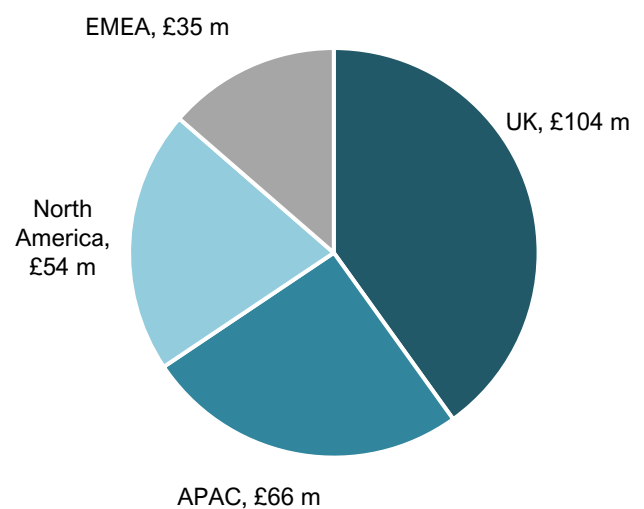


Figure 2: M&C Saatchi FY21 revenue by geography



Source: FactSet, Radnor

FY21 was a strong year for M&C Saatchi, who reported 15% like for like revenue growth and a material recovery in margins from 5.4% in FY20 to 12.5% in FY21.

The Advertising & CRM segment (representing 50% of M&C Saatchi revenue) delivered 6% organic revenue growth in FY21 at a 12% contribution margin (pre central costs).

The four other client specialisms (together accounting for 50% of group revenue) delivered organic revenue growth ranging from 17% for Brand & Experience to 39% for Media & Performance. Collectively these four specialisms delivered a contribution margin of 26%.

To a degree, we see a similar shape for Next Fifteen, where the fastest organic revenue growth rates and highest margins over the last five years have been driven by Delivery, Insight and Business Transformation segments. The historic core of Next Fifteen, the Engage segment has still delivered healthy organic growth but in the mid to high single digit percentage range and a contribution margin range of 15% - 22%.

We also see an interesting geographical fit with Next Fifteen, where North America represents 55% of group revenue (vs 21% for M&C) and Asia Pacific which represents only 4% of Next Fifteen revenue (vs 26% for M&C).

At their recent FY21 final results, M&C Saatchi provided forward guidance for profit expectations in FY22 and FY23:

- FY22 Headline PBT forecast to be **£31.0m** (vs £27.3m in FY21, **+14%** YoY)
- FY23 Headline PBT forecast to be **£41.0m** (**+32%** YoY)

Based on consensus estimates for revenue growth on FY22 (+9% YoY) and FY23 (+6% YoY), we can see that M&C Saatchi margins are expected to continue to increase sharply; partly driven by growth in the higher margin Media & Performance and Brand & Experience segments but also through natural operating leverage.

Below we show a very rough, pro forma combination of both Next Fifteen and M&C Saatchi based on our existing Next Fifteen estimates for FY23 and the published M&C Saatchi profit forecast for FY22. This pro-forma analysis has not been guided by either Next Fifteen, nor M&C Saatchi

This pro forma analysis **does not** adjust for the one month difference in year end, **nor** do we make any assumption as to potential cost or revenue synergies, both of which could prove material. We assume a 25% tax rate for the enlarged group, in-line with our current estimate for Next Fifteen. We note the underlying tax rate for M&C Saatchi in FY21 was 26%. We also assume the issue of 20m new Next Fifteen shares and fully annualise.

Figure 3: Pro Forma enlarged group – Radnor estimate

	Next Fifteen FY23	M&C Saatchi FY22	Radnor Pro Forma
Revenue	£560 m	£272 m	£832 m
PBT	£110 m	£31 m	£141 m
Net Income	£78 m	£23 m	£101 m
Shares	103 m		123 m
	75.6 p		82.2 p

Source: Radnor

We can see from the above, this rough pro forma analysis suggests a potential **+9%** earnings enhancement for Next Fifteen based on the current Recommended Offer terms.

M&C reported net cash for FY21 of £34.4m, broadly equivalent to the £35.7m of net cash reported by Next Fifteen for FY22.

M&C has made significant progress in resolving its legacy put option exposure. At the FY21 final results further colour was provided here. The critical point was the confirmation that all future put option liabilities would be settled in cash and the range of potential liabilities over the next six years (depending on an M&C share price range of 190p – 250p) was estimated at £46m to £57m).

We await further detail relating to the specific terms of the Recommended Offer but we would anticipate this potential liability to be fully agreed and capped prior to any subsequent acquisition completion.

Estimate Revisions: PBT / EPS +9% for FY 2023

Following the Q1 trading update released today as part of the Recommended Offer announcement we are making the following revisions to our forward estimates.

Figure 3: Radnor estimate revisions

£m	FY22A	Previous		New		Revision, %	
		2023E	2024E	2023E	2024E	2023E	2024E
Customer Engagement	187.6	257.9	293.4	282.3	311.7	+ 9%	+ 6%
Customer Delivery	80.0	87.9	101.1	99.9	111.9	+ 14%	+ 11%
Customer Insight	42.1	45.5	50.9	52.6	57.4	+ 16%	+ 13%
Business Transformation	52.5	123.0	169.2	125.6	169.2	+ 2%	+ 0%
Revenue	362.1	514.2	614.7	560.4	650.2	+ 9%	+ 6%
Customer Engagement	40.4	59.0	67.1	64.3	70.6	+ 9%	+ 5%
Customer Delivery	28.5	31.0	35.9	35.3	39.7	+ 14%	+ 11%
Customer Insight	9.0	9.6	10.7	11.1	12.0	+ 16%	+ 13%
Business Transformation	15.2	24.4	34.5	25.0	34.5	+ 2%	+ 0%
Central Overhead	-13.8	-22.6	-26.4	-25.2	-28.6	+ 11%	+ 8%
EBITA	79.3	101.3	121.7	110.4	128.3	+ 9%	+ 5%
- margin %	21.9%	19.7%	19.8%	19.7%	19.7%		
Adj. PBT	79.3	101.2	121.6	110.3	128.2	+ 9%	+ 5%
Adj. EPS (p)	59.7	69.6	82.9	75.6	87.3	+ 9%	+ 5%
Dividend (p)	12.0	13.9	16.6	15.1	17.5	+ 9%	+ 5%
Net Cash (Debt)	35.7	42.7	96.5	49.6	107.1		

Source: Radnor

- Q1 FY23 revenue of £130m (+68% YoY on a headline basis and +37% organic YoY). Traditionally, Q1 is the quietest quarter for the group. In FY22, H1 represented 46% of the full year revenue.
- Strong organic growth momentum has been maintained through the year end and into the new year. All the key segments of the group saw organic growth in excess of 15%.
- In terms of geography; North America has led the way driven by a combination of organic revenue growth, the Mach49 contract and US dollar strength.

Next Fifteen Communications PLC

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Price (p): 1274 p
Market Cap: 1,240 m
EV: 1,190 m

PROFIT & LOSS

Year to 31 January, £m	FY20	FY21	FY22	FY23e	FY24e	FY25e
Customer Engagement	166.5	187.6	282.3	311.7	332.1	
Customer Delivery	49.6	80.0	99.9	111.9	123.1	
Customer Insight	33.1	42.1	52.6	57.4	61.4	
Business Transformation		17.7	52.5	125.6	169.2	189.5
Group Net Revenue	248.5	266.9	362.1	560.4	650.2	706.2
Customer Engagement	36.9	40.4	64.3	70.6	75.8	
Customer Delivery	15.2	28.5	35.3	39.7	43.7	
Customer Insight	4.9	9.0	11.1	12.0	12.9	
Business Transformation	3.9	15.2	25.0	34.5	38.5	
Head Office	(9.5)	(11.4)	(13.8)	(25.2)	(28.6)	(30.4)
EBITA - Adjusted	40.9	49.5	79.3	110.4	128.3	140.5
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)	(0.3)	(0.3)
PBT - Adjusted	40.2	49.1	79.3	110.3	128.2	140.4
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	88.2	100.4
Tax	(2.7)	(2.6)	14.5	(16.8)	(22.0)	(25.1)
Tax - Adjusted	(8.0)	(9.9)	(17.2)	(27.6)	(32.1)	(35.1)
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	7.5
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	61.4	69.9
Adj EPS (p), diluted	34.8	40.7	59.7	75.6	87.3	95.4
Total DPS (p)	2.5	7.0	12.0	15.1	17.5	19.1

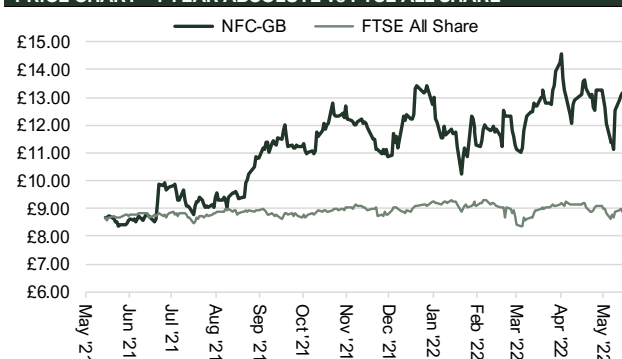
CASH FLOW

Year to 31 January, £m	FY20	FY21	FY22	FY23e	FY24e	FY25e
Net Profit: (add back)	2.8	(3.9)	(65.6)	50.5	66.1	75.3
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	11.3	11.3
Tax	2.7	2.6	(14.5)	16.8	22.0	25.1
Working Capital	(3.3)	6.6	0.2	(6.0)	(0.4)	(0.4)
Other	6.8	24.3	23.7	16.0	16.0	16.0
Cash from Ops	49.5	72.9	92.9	121.6	147.1	159.3
Cash Tax	(6.0)	(8.4)	(14.1)	(16.8)	(22.0)	(25.1)
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	94.8	115.1	124.2
Dividends	(7.5)	(0.7)	(12.4)	(14.1)	(18.1)	(20.9)
Acquisitions & Inv.	(24.2)	(23.6)	(28.1)	(107.0)	(31.0)	(45.8)
Financing	1.8	(37.7)	(1.1)	40.2	(8.4)	(8.4)
Net Cashflow	8.3	(1.6)	31.4	13.8	57.6	49.1
Net Cash (Debt)	(9.4)	14.0	35.7	49.6	107.1	156.3

BALANCE SHEET

Year to 31 January, £m	FY20	FY21	FY22	FY23e	FY24e	FY25e
Intangibles	155.4	163.8	183.1	234.1	214.1	194.1
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	316.2	291.2	269.6
Net Working Capital	(42.8)	(48.6)	(51.6)	(44.2)	(43.9)	(43.5)
Capital Employed	181.5	167.5	214.5	271.9	247.3	226.1
Earn Out Liabilities	(59.5)	(64.6)	(188.8)	(152.2)	(152.2)	(152.2)
Net Funds	(9.4)	14.0	35.7	49.6	107.1	156.3
Net Assets	112.7	116.9	61.5	169.2	202.2	230.1

PRICE CHART - 1 YEAR ABSOLUTE vs FTSE ALL SHARE



Source: FactSet

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%
	68.3%

Announcements

Date	Event
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
April 2021	Final results (y/e Jan 2021)
April 2021	Acquisition of Shopper Media for £15m

RATIOS

	FY21	FY22	FY23e	FY24e	FY25e
RoE	32.7%	95.3%	45.8%	44.3%	42.5%
RoCE	29.8%	37.1%	40.7%	52.0%	62.2%
Asset Turnover (x)	0.8x	0.7x	0.6x	0.4x	0.4x
NWC % Revenue	18.2%	14.3%	7.9%	6.7%	6.2%
Op Cash % EBITA	147.4%	117.0%	110.1%	114.6%	113.4%
Net Debt / EBITDA	0.1x	-	-	-	-

VALUATION

Fiscal	FY21	FY22	FY23e	FY24e	FY25e
P/E	31.3x	21.3x	16.9x	14.6x	13.4x
EV/EBITDA	14.4x	15.0x	10.8x	9.3x	8.5x
Div Yield	0.5%	0.9%	1.2%	1.4%	1.5%
FCF Yield	5.1%	6.1%	8.0%	9.7%	10.4%
EPS growth	17.1%	46.6%	26.6%	15.4%	9.3%
DPS growth	180.0%	71.4%	26.0%	15.4%	9.3%

REGULATORY DISCLOSURES

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