

Desk Note

NFC has announced the acquisition of Bandwidth Group, a UK based digital agency. The terms of the acquisition; **£6.2m** of initial consideration (£4.9m cash) and **£4.1m** of deferred consideration (ending in 2020) are in-line with previous acquisitions. The entire business has been valued at **5.5x** EBIT (revenue £7.3m / EBIT of £1.9m in the year ended June 2017). The cash element will be funded from NFC 's existing debt facilities. Prior to the acquisition, we were forecasting FY18e net debt to EBITDA of only 0.4x and net cash of £6m for FY19e.

We expect NFC to update the market as to FY18 trading over the coming weeks. We are not making any formal estimate changes until we see that update. However, all other things being equal, today's acquisition implies a 3% - 4% uptick to FY19E EBITA. On current estimates, NFC trades on a FY19e PE of 13.2x.

The acquisition fits all the NFC criteria:

- Digital first business, bringing new skills and clients (Toyota, Royal Carribean, Citroen, Kia, Vodafone) into the group.
- Bandwidth is active across a number of disciplines;
 - branding,
 - digital content and design,
 - customer experience
 - social media
 - moving image
 - voice – *this is a growing area of marketing interest with voice activated devices becoming increasingly mainstream*
- Growth opportunities in the US where Bandwidth is in the early stages of establishing a presence and where NFC can accelerate
- Management are staying with business
- Acquisition multiple less than 6.5x – deal is expected to be earnings enhancing in FY19, the first full year of ownership.

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