

Financial review

THE GROUP HAS CONTINUED TO TRADE VERY STRONGLY OVER THE LAST 12 MONTHS DESPITE THE MACROECONOMIC HEADWINDS, WITH ALL PARTS OF THE BUSINESS MAKING A POSITIVE CONTRIBUTION.



Peter Harris
Chief Financial Officer

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A year of strong trading

The Group has continued to trade very strongly over the last 12 months despite the macro-economic headwinds with all parts of the business making a positive contribution to the Group's performance. We had a particularly encouraging performance in the first half of the year following the acquisition of Engine and the significant contract win for Mach49. This continued into the second half albeit at not quite the rate of the first half, as we were modestly impacted by the global tech slowdown. Profitability was also positively enhanced in the first half of the year to 31 January 2023 by the nature of the Mach49 contract win whereby we accounted for the contracted revenue equally across the year, but the costs were phased in the second half as we geared up for a significant increase in the revenue and deliverables in our new financial year. This had the

impact of increasing the Group's underlying profit in our first half by approximately £5m which reduced to a normalised profit in the second half.

The trading performance was strongest in our Customer Delivery and Business Transformation segments as clients focused on maximising their revenue growth and adapting their business models to a digital-first environment, whilst our Customer Insights and Customer Engage segments also saw encouraging revenue growth.

The Group's strategy is to acquire and then enhance entrepreneurially led businesses, where management teams are incentivised to deliver growth over the medium term. This often results in the Group acquiring companies in the early stages of their development where their future performance is uncertain, leading to significant

	Year to 31 January 2023 £m	Year to 31 January 2022 £m	Growth %
Adjusted results*			
Net revenue	563.8	362.1	56%
Adjusted operating profit after interest on finance lease liabilities	114.2	79.3	44%
Adjusted operating profit margin	20.2%	21.9%	
Adjusted profit before income tax	112.5	79.3	42%
Adjusted diluted earnings per share	80.4p	59.7p	35%
Statutory results			
Revenue	720.5	470.1	53%
Operating profit	67.2	40.0	68%
Loss before income tax	10.1	(80.1)	
Net cash generated from operations	95.2	88.8	7%
Diluted earnings/(loss) per share	1.5p	(74.9)p	

♦ Alternative performance measures. Measures with this symbol are defined and reconciled in the Glossary section on page 199.

A year of strong trading continued

changes in the estimates used for future earn-out payments. We continue to examine the impact of these material changes in estimates on the statutory results and have an additional glossary to the Annual Report to separately show the alternative performance measures used. The glossary section set out at the end of the report and accounts provides reconciliations between the statutory and the adjusted results in order to help the readers of the accounts to interpret the results.

In order to assist shareholders' understanding of the performance of the business, the narrative below is focused on the adjusted performance of the business for the 12 months to 31 January 2023, compared with the 12 months to 31 January 2022, in particular the net revenue performance, adjusted operating profit and adjusted diluted earnings per share.

The Directors consider these adjusted measures to be highly relevant as they reflect the trading performance of the business and align with how shareholders value the business. They also give shareholders more information to allow understandable like-for-like, year-on-year comparisons and more closely correlate with the cash and working capital position of the Group. The Group also presents net revenue which is calculated as statutory revenue less direct costs as shown on the Consolidated Income Statement and is more closely aligned to the fees the Group earns for their product and services.

In line with industry peers, the adjusted profit measures take account of items which are not related to underlying trading in the year

Reconciliation of adjusted operating profit to statutory operating profit

	Year to 31 January 2023 £m	Year to 31 January 2022 £m
Statutory operating profit	67.2	40.0
Interest on lease liabilities	(1.4)	(1.1)
One-off charges for employee incentive schemes	0.6	5.9
Employment-related acquisition payments	12.0	15.2
Deal costs	5.5	0.5
Costs associated with Engine restructuring	2.3	—
Gains on investment activities	—	(0.5)
Property impairment	4.8	0.2
UK Furlough	—	1.4
Amortisation of acquired intangibles	23.2	17.7
Adjusted operating profit after interest on finance lease liabilities	114.2	79.3

including property-related impairments, brand equity incentive schemes, costs associated with restructuring and certain other items. In order to provide comparability with industry peers, amortisation of acquired intangibles is also adjusted for.

In February 2022 we announced that our wholly owned subsidiary Mach49, the growth incubator for global businesses, had entered into a five-year strategic alliance with a global technology and digital company. Over the initial term of the contract, total fees including third-party expenses are expected to be in excess of US\$400m. Revenues in the first year were approximately US\$65m. This materially increased our estimate of the earn-out payable to Mach49's equity holders, which was reflected in last year's financial results and resulted in a significant statutory loss before tax. Mach49 has continued to trade very well across

its business and therefore we have further increased our estimate of the earn-out to the maximum cap of US\$300m, and accordingly, a discounted increase in the potential liability has been included in our current year statutory profit and loss account as a finance expense.

While adjusted operating profit increased by 44% to £114.2m (2022: £79.3m), reflecting the very strong trading of the Group, we made a statutory profit before tax of only £10.1m (statutory loss in 2022: £80.1m). The low statutory profit before tax was mostly caused by the increase in the Mach49 earn-out as well as acquisition-related accounting, including the amortisation of acquired intangibles. The statutory operating profit increased by 68% to £67.2m (2022: £40.0m). Diluted earnings per share was 1.5p, compared with a diluted loss per share of 74.9p in the previous year.

Financial review continued

Review of adjusted results to 31 January 2023

Group profit and loss account

Total Group net revenues increased by 56% to £563.8m, of which Engine contributed £80m, and grew by 20.7% on an organic basis including the benefit of foreign currency translation. Our adjusted operating profit after interest on finance lease liabilities increased by 44% to a record £114.2m, whilst the operating profit margin remained at above 20% despite the acquisition of Engine in March 2022, which was operating at a lower margin when we acquired it, but saw significant improvement in performance as the year progressed. Each of our four segments saw strong revenue and profit growth last year with the standout performances being from Activate, M Booth Health, Brandwidth and Mach49, which each grew their revenue above 30% and showed good margin progression. Our B2B agencies performed very strongly whilst our B2C agencies including Savanta continued to recover from the impact of the pandemic in the prior year.

As shown in the previous table, we incurred £0.6m of one-off charges for employee incentive schemes on new growth shares for elvis and Publitek, and £12.0m in relation to employment-related acquisition payments. We incurred £5.5m of deal costs in relation to acquisitions, mostly our acquisition of Engine and our unsuccessful offer for M&C Saatchi. Amortisation of acquired intangibles was £23.2m in the year. We incurred an overall charge of £4.8m in relation to the reorganisation of our property space, principally in relation to the property consolidation in London following the acquisition of Engine. The significant reduction in our property footprint post the pandemic has directly led to a permanent improvement of 3% in the Group's operating margin.

Taxation

The adjusted effective tax rate on the Group's adjusted profit for the year to 31 January 2023 was at a rate of 23.3% (2022: 21.6%), compared to the UK enacted statutory rate of 19% (refer to note 8). The adjusted effective tax rate was higher than the rate achieved in the prior year largely due to a strong performance from our US based agencies, where the rate of corporation tax is typically higher than in the UK. The impact of differing overseas tax rates and withholding taxes is captured in note 8.

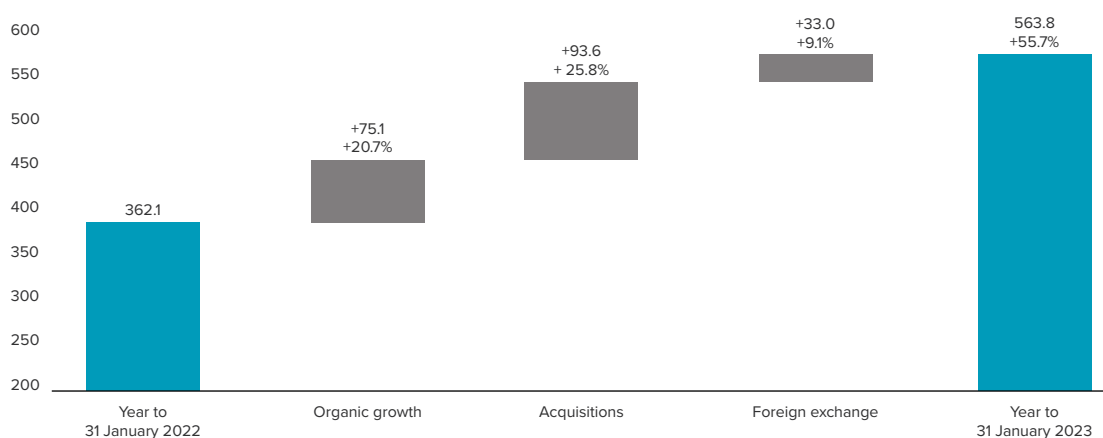
The Group notes that the UK tax rate is increasing to 25% from April 2023 and that governments around the world are likely to increase their rates of corporation tax materially over the next few years to help pay for the cost of economic support in

light of the pandemic. Therefore it is likely that the Group's adjusted effective rate of tax will increase over the next few years reflecting these increases. We inherited a complicated corporate structure with the acquisition of Engine and we are progressing a number of outstanding tax queries, which we believe we have adequately provided for. The Board takes a low risk attitude to tax compliance and endeavours to pay the appropriate level of tax in all markets the Group operates in.

Earnings

Adjusted diluted earnings per share has increased by 35% to 80.4p for the year to 31 January 2023 compared with 59.7p achieved in the prior year, as a result of the improved profitability on an adjusted basis.

Net revenue bridge (£m)



Segmental review

In order to assist shareholders' understanding of the key growth drivers of the Group, we have included an analysis of the results by the operational segments we used to monitor the performance of the business for the year ended 31 January 2023. The four operational segments were Customer Insight, Customer Engagement, Customer Delivery and Business Transformation.

Customer Insight

This segment includes Savanta and Planning-inc. Savanta performed well as its predominantly B2C client base continued to recover from the pandemic. Their UK business was strengthened by the acquisition of Motif, which expanded their client offering in the financial services and healthcare markets, whilst Savanta US grew by over 38% year on year helped by the acquisition of Infosurv, which focuses on employee engagement research. Planning-inc continued to grow their retail client base and developed a suite of products which should facilitate further growth over the next couple of years. Total net revenue increased by 23.5% to £52.0m with organic growth of 10.2%, whilst the adjusted operating profit increased by 22.5% to £11.0m at an adjusted operating margin of 21.3%.

Customer Engagement

This segment includes M Booth, M Booth Health, Outcast, Archetype, Bandwidth, Nectar, BYND, elvis, Publitek plus MHP and House 337, which were both acquired as part of the acquisition of Engine in March 2022. M Booth Health, MHP and Bandwidth were the stand-out performers as they expanded their relationships with a broad cross-section of clients including P&G, Google, Astra Zeneca and Dow Chemicals. The segment produced a very positive performance overall with net revenue growing by 46.6% to £275.0m, with organic revenue growth of 9.3%, and delivered an adjusted operating profit of £55.4m at an adjusted operating margin of 20.2%.

Customer Delivery

This segment includes our Activate, Agent3, Twogether and SMG agencies. This segment is focused on solving short-term revenue challenges for its clients usually through digital products. The Covid-19 pandemic brought an exceptional performance as online growth was often the only route to market for our clients. Growth has moderated somewhat as more traditional routes to market have resumed, but the segment still delivered net revenue growth of 27.7% to £102.1m with organic revenue growth of 12.0%. The adjusted operating profit increased to £30.2m at an adjusted operating profit margin of 29.6%.

	Customer Engage £'000	Customer Delivery £'000	Customer Insights £'000	Business Transformation £'000	Head Office £'000	Total £'000
Year ended 31 January 2023						
Net revenue*	274,951	102,096	51,985	134,767	—	563,799
Organic net revenue growth*	9.3%	12.0%	10.2%	83.3%	—	20.7%
Adjusted operating profit/(loss) after interest on finance lease liabilities*	55,432	30,191	11,049	43,855	(26,358)	114,169
Adjusted operating profit margin*	20.2%	29.6%	21.3%	32.5%	—	20.2%
Year ended 31 January 2022						
Net revenue	187,566	79,951	42,109	52,477	—	362,103
Organic net revenue (decline)/growth	15.7%	40.0%	18.6%	99.9%	—	26.1%
Adjusted operating profit/(loss) after interest on finance lease liabilities	40,434	28,501	9,023	15,221	(13,832)	79,347
Adjusted operating profit margin	21.6%	35.6%	21.4%	29.0%	—	21.9%

♦ Alternative performance measures. Measures with this symbol are defined in the Glossary section on page 199.

Financial review continued

Segmental review continued

Business Transformation

This segment includes Mach49, Blueshirt, Palladium, plus Transform, which was acquired as part of the Engine acquisition. We saw a very strong performance from this segment as the significant contract win for Mach49, which we announced in February 2022, contributed significant revenue and profit growth during the year. Transform made an encouraging start and their operating margin has improved materially during the period. Overall, the segment delivered net revenue growth of 156.8% to £134.8m with organic revenue growth of 83.3%. The adjusted operating profit increased by 188.1% to £43.9m at an adjusted operating profit margin of 32.5%.

Geographical review

US

Our US businesses have continued to perform extremely well. In the year to 31 January 2023, total US net revenues grew by 47.1% to £293.2m from £199.3m which included organic growth of 28.2%.

In February 2022, Mach49 announced a significant new contract win which added approximately US\$65m of revenue during the year. The rest of their business also showed very strong growth.

Our lead generation agency, Activate, had an exceptionally strong performance throughout the year, whilst our B2C agency M Booth and its sister agency M Booth Health grew their revenues predominantly by winning new business from existing clients.

We also benefitted from a property consolidation which was prompted by the 'working from home' imperative which arose during the pandemic. This has reduced our establishment costs by 3% of revenues as our real estate footprint has materially reduced, despite our growth in scale. The adjusted operating profit from our US businesses increased by 60.2% to £93.5m compared with £58.4m in the previous 12 months to 31 January 2022, with the operating margin increasing to 31.9% from 29.3% in the prior year.

UK

The UK businesses have delivered an impressive performance over the last 12 months, with net revenue increasing by 75.3% to £241.0m from £137.5m in the prior period. This growth was helped by the Group's acquisition of Engine in March 2022. Our UK businesses achieved organic revenue growth of 11.3%. The adjusted operating profit increased to £42.5m from £30.9m in the prior year with the adjusted operating margin decreasing to 17.6% from 22.5% in the prior year due to the acquisition of Engine, which was operating at a lower margin on acquisition. Operational improvements will result in a much improved operating profit and margin in the new financial year.

EMEA

The EMEA business continued to perform very well with net revenue increasing by 15.8% to £11.6m (2022: £10.0m) and adjusted operating profit increasing to £2.8m at an impressive adjusted operating margin of 24.3%.

	UK £'000	Europe and Africa £'000	US £'000	Asia Pacific £'000	Office £'000	Total £'000
Year ended 31 January 2023						
Net revenue*	240,971	11,626	293,177	18,025	—	563,799
Organic net revenue growth*	11.3%	16.3%	28.2%	11.0%	—	20.7%
Adjusted operating profit/(loss) after interest on finance lease liabilities*	42,460	2,826	93,463	1,778	(26,358)	114,169
Adjusted operating profit margin*	17.6%	24.3%	31.9%	9.9%	—	20.2%
Year ended 31 January 2022						
Net revenue	137,491	10,041	199,348	15,223	—	362,103
Organic net revenue decline	18.3%	21.3%	33.2%	11.9%	—	26.1%
Adjusted operating profit/(loss) after interest on finance lease liabilities	30,910	2,504	58,355	1,410	(13,832)	79,347
Adjusted operating profit margin	22.5%	24.9%	29.3%	9.3%	—	21.9%

◆ Alternative performance measures. Measures with this symbol are defined in the Glossary section on page 199.

Geographical review continued

APAC

In the APAC region net revenue increased by 18.4% to £18.0m (2022: £15.2m). The operating profit increased to £1.8m at an improved operating margin of 9.9%.

Cash flow

The net cash inflow from operating activities before changes in working capital for the year to 31 January 2023 increased to £119.6m from £88.6m in the prior year. Our management of working capital continues to be a focus despite the difficult macro-economic backdrop. We had a net outflow from working capital of £24.4m due to the unwinding of the Covid impacts as well as the Engine acquisition and our very strong revenue performance increasing trade receivables. This resulted in our net cash generated from operations being £95.2m (2022: £88.8m). Income taxes paid increased to £20.3m from £14.1m.

Cash flow KPIs

	Year to 31 January 2023 £m	Year to 31 January 2022 £m
Net cash inflow from operating activities before changes in working capital	119.6	88.6
Changes in working capital	(24.4)	0.2
Net cash generated from operations	95.2	88.8
Income taxes paid	(20.3)	(14.1)
Investing activities	(67.5)	(18.5)
Dividend paid to shareholders	(12.7)	(9.8)
Net cash	26.1	35.7
Net (decrease)/increase in bank borrowings	(1.5)	9.6

Dividends paid to Next 15 shareholders during the year was £12.7m (2022: £9.8m), reflecting an increased return to shareholders in line with the strong financial performance and our future confidence in the business. Net interest paid to the Group's banks increased to approximately £1.7m (2022: £0.3m) as we partially funded the acquisition of Engine out of debt facilities and we were also impacted by central banks increasing interest rates to combat rising inflation.

Balance sheet

The Group's balance sheet remains in a strong position with net cash excluding lease liabilities as at 31 January 2023 of £26.1m (2022: £35.7m) and net assets of £114.4m (2022: £61.5m). Since the previous year end, intangible assets have significantly increased primarily due to £47.3m of goodwill and £50.4m of acquired intangible assets recognised as a result of the acquisition of Engine.

Treasury and funding

The Group agreed new banking facilities in September 2021 and now operates a £100m revolving credit facility ('RCF') with HSBC and Bank of Ireland available until September 2024 with an option to extend for a further two years. The £100m facility is primarily used for acquisitions and is due to be repaid from the trading cash flows of the Group. The facility is available in a combination of sterling, US dollar and euro at an interest margin dependent upon the level of gearing in the business. The Group also has a US facility of US\$7.0m (2022: US\$7.0m) which is available for property rental guarantees and US-based working capital needs.

As part of the facilities agreement, Next 15 has to comply with a number of covenants, including maintaining the multiple of net bank debt before earn-out obligations to adjusted EBITDA below 1.75x and the level of net bank debt including earn-out obligations to adjusted EBITDA below 2.5x. Next 15 has ensured that it has complied with all of its covenant obligations with significant headroom.



Peter Harris
Chief Financial Officer
24 April 2023