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Next Fifteen Communications Group PLC

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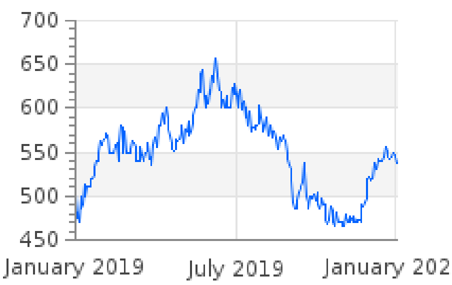
AIM's 'buy and build' stars draw comparison with main market mid-caps

Price: 538

Market Cap: £465.65 m

1 Year Share Price Graph



Share Information

Code:		NFC
Listing:		LSE
52 week	**High**	**Low**
	668	**433**
Sector:		**Media**
Website:		**www.next15.com**

Company Synopsis:
Next 15 is a communications business which employs over 1,350 people across 32 offices in 14 countries. The Group incorporates 17 subsidiary agencies, spanning digital content, marketing, PR, consumer, technology, marketing software, market research, public affairs and policy communications.

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On Tuesday morning, AIM 100 digital marketing firm Next Fifteen Communications Group PLC (LON:NFC) became the latest 'buy and build' star on the junior market to add another brand to its burgeoning portfolio.

The acquisition of consultancy and communications firm Health Unlimited brings the total number of brands under Next's umbrella to around 20 as it looks to boost growth through a buy and build strategy of acquiring smaller (sometimes referred to as 'bolt-on') companies to boost its earnings and corporate footprint.

READ: Next Fifteen acquires US consultancy Health Unlimited
The strategy, which has seen Next Fifteen purchase around 17 companies since October 2014, has brought significant success, with the share price rising nearly 315% in the same period to 490p and giving the group a market cap just shy of £415mln.

If the firm decided to switch from AIM to the main market, its valuation would put it within striking distance of one of the FTSE 250's smallest constituents, oil and gas investor Riverstone Energy Limited (LON:RSE), which carries a market cap of £428.3mln.

Success stories
The success of buy and build for Next Fifteen has been mirrored among other prominent firms in the junior market

Video game services group Keywords Studios PLC (LON:KWS), which provides language translation and dubbing, has seen its share price rocket nearly 713% to 1,159p over five years on the back of around 38 acquisitions in the same period.

Similarly, digital education firm Learning Technologies Group PLC (LON:LTG) has climbed 532% to 110.6p since October 2014 as the company 'bolted on' six smaller firms.

Much like Next Fifteen, Keywords and Learning Tech, both with market caps of around £750mln, would be prime candidates for the FTSE 250, surpassing well-known firms such as Irn-Bru maker AG Barr PLC (LON:BAG) at £636mln and the owner of Wagamama, The Restaurant Group PLC (LON:RTN), at £687mln.

Main market-listed media house S4 Capital PLC (LON:SFOR) is looking to follow a similar trajectory, having already agreed two mergers under the stewardship of its founder, ex-boss of WPP PLC (LON:WPP), Martin Sorrell, since it appeared on the market through a reverse takeover in Autumn last year.

Sorrell has a long experience with buy and build, having constructed WPP using similar methods since its foundation in the mid-1980s until his departure in 2018.

Potential for instant benefits
According to James Lockyer, an analyst at Peel Hunt, one of the key advantages of a buy and build strategy over organic growth is that it can be done quicker, with a company able to rapidly acquire intellectual property rather than having to "build" it from scratch.

He also says the strategy offers an element of choice between options in the market, allowing a company to acquire the "better outcome" in terms of teams and expertise.

'Buy and build' can also allow a company to enter "adjacent markets", Lockyer adds, expanding geographic and industry presence.

However, not every business can adopt a buy and build strategy and expect to pay off, with **a 2018 report** by PwC highlighting that buying up smaller companies in succession operates more effectively in "highly fragmented" markets with no clear dominant player, which are instead occupied by small, owner-managed businesses.

The consultancy highlighted that industries that could benefit from new technologies, such as video games and digital learning, are also ripe targets as economies of scale make it easier to pull off technological investment profitably.

Possible risks
While it offers a growth advantage over organic expansion, buy and build has its fair share of risks, the most obvious of which is overpaying for acquired companies.

Hiring staff within a company comes at a cost, said Lockyer, however acquiring them by buying a company will always be at a "premium" based on its valuation at purchase, alongside a risk that they do not perform as expected.

He also cites "cultural issues" between acquirer and acquirees as another potential hurdle, particularly if the buyer is trying to integrate the new business into an existing structure, as opposed to a holding company, such as WPP, which is more likely to let an acquired entity to operate in relative isolation.

More broadly, as a buy and build strategy relies heavily on relatively stable cash flow from the core business to fund acquisitions, certain sectors can quickly upset the pace of expansion as fluctuations in demand cause a firm's cash balance to ebb and flow.

Bain & Company highlighted oil & gas, with its reliance on global commodity prices, as a sector epitomising this risk in **a report in February**.

The firm also cautioned against using the strategy in sectors vulnerable to technological disruption such as the magazine industry.

The industry had initially been an "excellent" location to perform buy and build, Bain said, however, its coffers had quickly been "plundered" by the advent of the internet.

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