EDISON

YouGov

All about the data

Full year results

Media

YouGov has a strong growth record and its investment in building its data-driven products and services is steadily improving its earnings' quality. This is also helped by the shift in its custom business to more tracking studies and a greater use of data already held in the Cube, the group's proprietary multi-dimensional database. The strong balance sheet (net cash of £23m at end FY17) is funding continuing investment in panel and new applications, as well as allowing for an increased dividend payout. The rating reflects the growth record and continued good prospects.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/16	88.2	13.3	8.5	1.4	37.2	0.4
07/17	107.0	16.4	10.5	2.0	30.1	0.6
07/18e	115.1	18.3	12.4	2.3	25.5	0.7
07/19e	125.1	20.9	13.2	2.5	23.9	0.8

Note: *PBT and EPS are normalised, excluding amortisation of intangibles, exceptional items and share-based payments.

Rich reserves of data in the YouGov Cube

YouGov's data serves client needs such as planning and evaluating campaigns, products and policies and understanding consumer and public attitudes. The group's five million panellists globally provide a rich reserve to draw on, stored in a multi-variate database known as the YouGov Cube. BrandIndex, the flagship product, is a brand intelligence and perception tracker, with over 500 subscribers worldwide. YouGov Profiles, a more recent addition, has been clearly validated by recently being chosen by Dentsu Aegis Network for audience understanding, strategy and activation (supplanting WPP's TGI product). Omnibus remains the market leader in its segment, with geographical expansion attracting clients outside the UK as well as supporting multi-territory projects. YouGov continues to invest in data applications that can be fully integrated into marketers' workflow, improving the quality of earnings. The successful prediction of a hung parliament at the UK general election, using the new MRP technique, has boosted YouGov's reputation and can be used to describe micro audiences in great detail.

Board changes keep focus

The imminent board changes will see CFO Alan Newman retiring, replaced by Alex McIntosh. Alex began his career as an accountant and is currently chief strategy officer, having joined YouGov in 2007. COO Sundip Chahal, who joined in 2005, will move up to the main board. Doug Rivers, chief scientist, is stepping down from the board but will remain with the group. The transition at board level is therefore to managers who know and understand YouGov's business and its dynamics well.

Valuation: Premium rating

YouGov's rating remains towards the top of the ranking of global peers. Much of the traditional market research sector still struggles with legacy infrastructures. YouGov continues to refine and productise its offerings, driving a higher earnings CAGR than the sector and funding a progressive dividend stream. The group's clear and consistent strategy is translating into profits and, at least as importantly, into cash.

11 December 2017

Price	**316.0p**
Market cap	**£333m**
	£/$1.32
Net cash (£m) at end July 2017	23.2
Shares in issue	105.1m
Free float	91.4%
Code	YOU
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(1.6)	18.1	31.1
Rel (local)	0.2	17.5	21.4
52-week high/low		325p	215p

Business description

YouGov is an international market research and data and analytics group offering a data-led suite of products and services including YouGov BrandIndex, YouGov Profiles, YouGov Omnibus and custom research.

Next events

AGM	6 December 2017
Interim results	26 March 2018

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Edison profile page

YouGov is a research client of Edison Investment Research Limited

Investment summary

Company description: Data and analytics

YouGov has expanded from being an online market research company to one with a broad range of data products and services, with underlying data sourced from its own panel of around five million people across 38 countries. This is a clear distinction from much of the industry and enables the group to work with connected data that provide far richer and more complex outputs. The panel is highly engaged, constantly feeding opinions, observations, enthusiasms and objections into a multi-variate database known as the YouGov Cube. The relationship with the panel also fits well with the tightening data privacy regimes globally, which may compromise other business models. The growth strategy centres on growing the data products and services and orienting the custom research business to use more own-panel data and increase the proportion of long-term tracking business in the mix. The members of the management team are highly experienced, with the incoming CFO having been with the business since 2007.

Valuation: Reflecting growth and financial strength

The share price has performed strongly both recently and over the last five years. This has reflected the improving quality of earnings and the lengthened record of management delivering against market expectations. The current rating is at a premium to the peer average but remains within the peer group range. A DCF shows that the current share price is underpinned, assuming operating margins cap out at FY19 forecast levels and top line growth in FY20-25 moderates to 7%. Any improvement on these assumptions would imply further possible uplift.

Financials: Generating cash

- We updated our forecasts post the preliminary results in October and make no further changes at this point.
- YouGov has built a long-term record of top-line and margin growth, which our model shows continuing through the forecast period.
- The growth of data products and services, and of custom trackers, in the revenue mix is improving the quality of the earnings.
- The group has considerable reserves of net cash (£23m at the year-end), allowing it to continue to invest in building its panel and in developing its product and service suite (both of which costs are capitalised and amortised over three years)

Sensitivities: Market changes

The market research industry has changed substantially over recent years while YouGov has an advantage in having started as an online business and therefore had no need for a digital transition. The introduction of tighter data protection regulation may also bring changes and disruption to the industry while providing an opportunity to businesses such as YouGov, whose data is obtained on a "permissioned" basis from its panellists. Data governance will remain an important factor and technological robustness is a prerequisite. With an increase in geographic diversity, there are currency sensitivities as well as geopolitical risk. YouGov's recent strong growth has principally been driven by BrandIndex and Omnibus, as planned. The timing of investment in further data applications and of their gaining traction in their target markets will influence medium-term growth and margin progression.

Company description: Connecting the data

YouGov is an online market research and data analytics business, with clients and operations around the globe. It has grown through a combination of organic development and acquisition, with organic growth dominating in recent reporting periods. It now has one of the top 10 global market research networks, with 31 offices in 21 countries and a panel of around five million respondents worldwide. These individual panellists generate data roughly equally from surveys and from information volunteered: likes, dislikes, habits and behaviours, either directly or through their interactions with websites and on social media. This data set is at the heart of YouGov's offer, and is all attributable to identifiable individuals by YouGov in its data sets but is obviously aggregated and anonymised in the data supplied to clients. This is the key differentiator, as the data are connected in ways not achievable through conventional survey methodology. Rich data from a sizeable sample of the five million panellists, now covers more than 200k variables, have been compiled into a proprietary multidimensional database, or 'connected data library', known as the YouGov Cube. As all data are actively volunteered by panellists who give their explicit permission, the impending introduction of the General Data Protection Regulation (GDPR) in Europe, and other data protection and data privacy issues, do not pose a meaningful business risk and, indeed, may create new opportunities for YouGov.

Started in the UK in 2000, the group has grown well beyond its domestic market and broadened out considerably from its initial best-known political polling activities. The largest proportion of revenue is now generated in the US, the world's largest market for MR (see Exhibit 1 below for full geographic breakdown). From inception, YouGov had an online-driven business model and an innovative culture that looks to exploit the value and actionable information inherent in the data it collects and supplies to clients. This has been recognised by the group's inclusion in the respected GreenBook (GRIT) Report, in which clients rank and rate suppliers for their innovation. This is itself a reflection of YouGov's development of a series of products and services that have helped to build its client base and its penetration of major corporate accounts.

YouGov has over 2,000 clients across a wide variety of verticals, including FMCG, financials, technology and marketing services. It has developed a set of tools and services aimed at these brand owners and marketing agencies that help inform their planning and implementation decisions through the data gleaned from its panellists around the globe. The five-year corporate plan centres on growing the suite of syndicated products and integrating custom research and syndicated data. These products and services are then being rolled out geographically. YouGov reports its financial results in three components: Data Products (centred on BrandIndex), Data Services (centred on Omnibus) and Custom Research. It also discloses segmental profits by geography, clearly showing the importance of the US operations in driving the financial performance.

Organic revenue growth from data products and services

YouGov's growth strategy is unaltered: to develop as a global data and analytics business. This is predicated on meeting client needs through the delivery of connected data. The group is currently three years through its five-year plan, over the course of which it aims to achieve substantial growth – as demonstrated by the stretch targets incorporated in its 2014 Long Term Incentive Plan (LTIP) described on page 10. Over recent reporting periods there has been a deliberate reduction in the group's complexity in line with the plan to become bigger but simpler. The key element of the growth strategy is to increase the proportion of revenue from the data products and services such that it matches and may exceed that from custom research. Our model shows the parity milestone being reached in the current financial year. There is also an objective to cut away the lower margin and more volatile elements of the custom business. The business plan outlines five further strategic objectives:

- Growing the syndicated products suite. The group has an impressive record of developing tools that are useful to its clients in house within its Data Intelligence Unit, with incremental products based on the connected data in the YouGov Cube and extending the share of client spend. Acquisitions to bring in appropriate products or technologies might be relevant, but only if they can be found at sensible prices and provided they will fit comfortably in the YouGov culture.
- Integrating the CR with the syndicated data, adding value and differentiating the client proposition.
- Enhancing the user experience, broadening out the relationship beyond that of questioner and respondent. The YouGov Online model that invites panellists to volunteer their views is presented in an almost game-like format, supplemented now with the daily short surveys delivered via YouGov's mobile app. These contain a strong social element in the sharing of opinions that increases engagement and dwell time on the website, while feeding the data pooled into the Cube, boosting the public profile, particularly through media partnerships.
- Boosting the public profile. This is driven through press partnerships and the regular flow of content that can be generated by YouGov Online and the mobile app surveys. Political polling also delivers a high public profile, with the credibility enhanced by the innovative MRP (multi-level regression and post-stratification) model used to great effect in the US presidential elections and the 2017 UK general election, where the aggregated constituency results correctly anticipated the actual outcome of a hung parliament.
- Continuing to expand the geographic footprint. While some has been done through acquisition (the basis of the Asia Pacific expansion), most has been achieved organically, with Italy, Spain, Poland and India the current focus of international growth.

Experienced management team

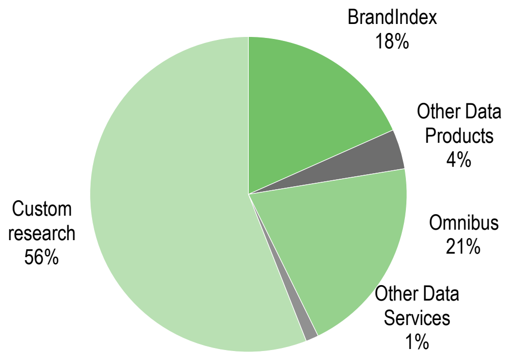
Stephan Shakespeare is a co-founder of YouGov and returned to the role of CEO in 2010, after a period as Chief Innovation Officer. Stephan has a clear understanding of the product base and its commercial potential. He refocused corporate strategy back onto exploiting the group's core research and delivery strengths. Alan Newman was appointed Group CFO in August 2008 and has extensive experience in media and communications businesses, both in operational and consultancy capacities. He put in place improved financial controls and harmonised the group's reporting and key business processes. Alan will be retiring at the end of December 2017 and is to be succeeded by the current Chief Strategy Officer, Alex McIntosh. Alex has been at YouGov since 2007 and was initially corporate finance manager before taking a leading role in strategic planning and innovations, working alongside Stephan. He led the development of YouGov Profiles, the media planning and audience segmentation tool launched in 2014. Doug Rivers, chief scientist, will also be standing down from the board with effect from the AGM. Doug will remain with the group with an expanded remit, managing its global technology development teams.

YouGov created a new role of Chief Operating Officer in August 2014 with the appointment of Sundip Chahal, to drive the implementation of the group's procedural harmonisation and manage day-to-day operations. As of the upcoming AGM, this will now be an executive main board role. Sundip has been with the group since 2005, when he joined YouGov's UK Data Products & Services business, having previously worked for Ipsos and Research International in the UK. In 2007, Sunny became UK Head of BrandIndex and Omnibus, and in 2010 was appointed CEO of YouGov's Middle East and North Africa region, overseeing the development of the Asia Pacific business after its acquisition in January 2014.

Growing Data Products and Services

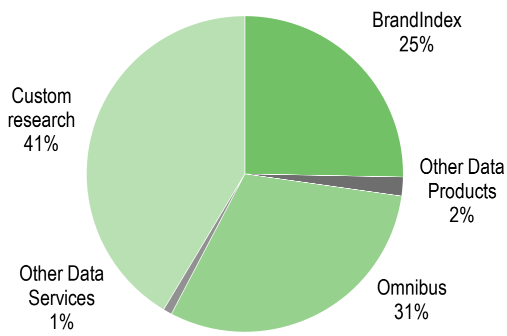
While the custom research (CR) business accounted for 56% of FY17 revenues, this is on a deliberately reducing trend (FY16: 61%; FY15: 68%). The nature of the CR work undertaken is also changing away from one-off, complex projects towards data-oriented tracking and in-depth studies building on YouGov's data products. The more attractive opportunities are those that help to build embedded client relationships through realising the value of panel-generated data, improving the quality of the group's earnings. The more rapid growth of this data products and services (DP&S) segment (in particular in BrandIndex and YouGov Profiles in Data Products and Omnibus in Data Services) should drive the mix to revenue parity over time. DP&S already generates 59% of adjusted operating profits, up from 52% in the prior year. With the increasing incorporation of its own gathered rich data, YouGov now sees itself as a 'true internet company', with its activities designed to take full advantage of the strengths of a web-based model.

Exhibit 1: FY17 Revenue by activity



Source: Company accounts

Exhibit 2: FY17 operating profit by activity



Source: Company accounts

YouGov's growth engine is the Data Products and Services. Activity in **Data Products** is dominated by key product, **BrandIndex**, as is shown clearly in Exhibit 2, above. BrandIndex continues its very strong progress, with revenues ahead by 36% year-on-year in FY17 (FY16: +39%, FY15:+ 30%), and subscriber numbers increasing by 150 to 650 in 32 markets (from 27 in FY16). Italy, Spain, the Philippines, Taiwan and Vietnam were added in the year.

BrandIndex is targeted at brand curators in corporate clients, media planners and buyers within media agencies. It appraises sentiment towards brands in their peer space, including 'buzz', purchase history and likelihood to recommend, all in real time. The product is syndicated, with YouGov deciding on the sectors and brands to be covered. Some of these brands are global and so are tracked in all markets; some are national and limited to relevant country versions. Subscribers automatically see the data for all the brands covered in the market version that they buy. The additional brand owners included in the analysis who are not (yet) subscribers can then be targeted, with a clear picture already built up of the competitive landscape and their position in it. Being very sensitive to changes in opinion, BrandIndex is also a valuable tool for reputation and crisis management, when reactions can be tracked against events and in comparison to other brands' reputations post similar events.

YouGov **Profiles** is also gaining ground rapidly. It was launched in November 2014 and achieved £3.7m of revenues in FY17, with annualised sales running at £7.0m as at the year end. Profiles is aimed at the corporate market/brand curators and at agencies, and is effectively the 'front end' of the data Cube. A sophisticated planning tool, it allows marketers to put in place very detailed segmentation of their target audience, far beyond the demographic and location data traditionally available. Profiles' primary application is in media campaign planning, where it facilitates appropriate targeting by identifying typical characteristics of brand adherents versus the norm. It is being sold on a subscription basis, accessible via an interactive portal and has grown to 125 subscribers worldwide (from 75 last year), many of whom also subscribe to BrandIndex. Bundling these two products together gives a particularly rich resource for agencies and brand owners, and sales of this package have been made to major industry names. Profiles has now been rolled out to eight territories, with France tabled for FY18. The investment in this multi-country availability has been validated by the recent high-profile win at Dentsu Aegis Network business, which selected Profiles as its main tool for its audience understanding, media planning and strategy (in place of WPP's TGI).

Additional connected data applications are being launched in both data products and services. These tools should allow marketers to allocate their budgets more effectively, with the capability to evaluate campaign effectiveness or test putative campaigns with seed audiences. With the ability to link into BrandIndex, the impact of television or digital campaigns can be tested, while the reach of campaigns can be tested through assessing who has been exposed – an important validation when media transparency is so much of an industry issue. The Data Intelligence Unit has also developed methodologies to incorporate dynamic segmentation and plug directly into programmatic media. There are also new data applications enabling re-contact studies via Omnibus (see below).

Together, BrandIndex and YouGov Profiles account for 97% of Data Products. The division grew by 29% at constant currency in FY17. With the main investment phase for Profiles now passed, the operating margin moved up from 27.1% in FY16 to 29.1% in FY17.

Data Services is also dominated by one offer, **Omnibus**, which accounts for 94% of segmental revenues, which were up by 30% in FY17 (the same high level of increase as the prior year). Omnibus is the clear market leader in the UK, where it has been available for a number of years and continues to grow at least in line with the overall MR market at +7%. YouGov's ability to facilitate multi-country projects is bringing in larger, multinational clients and helped overall Omnibus revenues to grow by 23% in FY17. The operation of Omnibus is highly efficient and it is straightforward to incorporate additional business given the degree of automation. YouGov now has more than 1,000 clients for its Omnibus service globally and continues to add both new clients and new territories (often across multiple territories), with Acer, Bertlesmann, E.ON and Allianz Insurance among those joining the roster in the year just reported.

Again, the group is not sitting back on its success. YouGov has been extending the range of services that it is offering, in particular adding value through segmentation, increasing the degree of automation in the submission of questions into surveys and by giving more flexibility in the way that output is delivered back to the clients. A new self-service survey tool, Collaborative Insights, has been developed to allow quicker survey build both within Omnibus and as distinct custom projects, as well as having the capability to bring both together within a single dashboard.

It is also planned to deliver Omnibus survey results through the **Crunch** analytics software. Crunch facilitates the configuration of the output according to client requirements. It allows very large data sets to be searched, examined and analysed extremely quickly (measured in milliseconds), with the output available in flexible formats, including visualisation, dashboards and automated reporting. It also allows clients to combine and analyse data from other sources as well as that flowing from YouGov's data products. This ability is enabling YouGov to differentiate its offer through incorporating elements of its other activities – such as adding market positioning/reputational data from BrandIndex or by accessing specialised niche samples derived from data from the existing panel, such as key corporate influencers. These additional elements are also allowing the group to pitch for more substantial pieces of business. Notable larger clients include ITV, Google, HSBC, Ford, Sun Products and Microsoft, with Bausch + Lomb, Mastercard, M&C Saatchi, Sony, SEE and Virgin Money added during FY17.

Custom research still represents the majority of revenues, but was overtaken by the operating profits generated from Data Products and Services in FY16. However, the focus of the custom research business has been changing towards projects and product-level trackers that utilise the group's existing panel data and the YouGov Cube resource. This is already improving the quality of the achieved earnings and moving it away from the most commoditised and therefore competitive parts of the market. There is a shift from the generally ad hoc studies, building out the multi-client or syndicated studies and/or full research programmes. The latter are particularly attractive for tracking studies and research under multi-year contracts in an industry dominated by relatively small and one-off contracts. The sales effort is now focused on increasing the share of clients' spend, for example by increasing the number of geographies covered. The move to focus custom research on the core panel-based services led to flat revenues (at constant currency) in FY17, with underlying growth in the US (+7%), the UK (+4%) and Asia Pacific (+28%, but obviously off a lower base) and reductions most notable in Germany (-37%). However, there was a good improvement in operating margins, from 12.6% in FY16 up to 14.8% in FY17. Our model anticipates further progress through FY18 and FY19, albeit at a less spectacular pace.

Market segment

MR market in stronger growth. Esomar's annual Global Market Research Report estimates that global turnover of the traditional market research sector was $44.5bn in 2016. This was up 2.3% (inflation-adjusted), which is the highest pace of growth since 2010. Adding in newer research methodologies, such as data analytics, the estimated market size globally for research in 2016 was $71.5bn. The US remains the largest market by a substantial margin (44%) with revenues of $19.5bn, followed by the UK (15%) on $6.6bn and Germany (6%) on $2.8bn. Africa grew the fastest in that year, ahead by 22.7%, while Asia Pacific grew by 7.8%. Japan overtook China to become the largest market in the region. Growth was slower in the biggest markets of the US and UK.

There is a relatively small cohort of large players globally, with the 10 largest companies taking a 47% market share. These include Nielsen, Kantar (WPP), Quintiles IMS (focused on healthcare), Ipsos and GfK. In terms of client segments, the US market's largest sector was media and entertainment (25%), followed by pharmaceuticals/healthcare at 21% and consumer non-durables at 13%. This latter is the largest client segment in the UK market at 30%, followed by government and non-profit (14%) and telecommunications and ICT (10%).

Growth of big data. One of the significant changes in market research over recent periods has been the growth in big data analytics, broadening the market well beyond its traditional remit. Big data has been defined by Gartner as "…high-volume, high-velocity and high-variety information assets that demand cost-effective, innovative forms of information processing for enhanced insight and decision making". The use and gradual commoditisation of these methodologies has undermined the economics of the large-scale, non-digital survey and prompted considerable change in the industry. Some of the largest traditional suppliers have struggled to realign their business models (and their overheads) to a market that increasingly expects both low-cost and rapid project turnaround. The MR industry used to operate very much in a supplier/provider mindset. While garnering feedback and insight from the market was an onerous and time-consuming task, this worked reasonably well. With the huge growth in the availability of big data and in social media analytics, the ground has shifted and the collaborative model, where the MR company works alongside the client to bring them closer to their customers, has gained traction.

Changes to regulatory environment. The GDPR comes into effect on 25 May 2018 and will bring extensive changes to the working practices of the marketing services sector. The new data protection legislation alters how the system of consumer consent works, requiring permissions to be opt-in with clear and distinct affirmative action. The GDPR also contains prohibitions on processing customers' data unless explicit permission has been obtained. In contrast, YouGov has a permissioned model in which panellists are already told and give explicit consent to how their data will be used. This provides a competitive advantage, including over the tech companies such as Facebook and Google.

Sensitivities

As well as the changes in the market backdrop outlined above, the following factors may also come into play:

- Economic conditions and GDP growth are crucial to spend on MR. For brand owners, MR generally forms part of the overall marketing budget. Public sector research operates in a different set of constraints, with commissioning by media organisations and the third sector subject to other influences. The growth of procurement puts constant pressure on pricing, increasing the attraction of offering more complex and bundled output.
- The group's long-term plan involves continuing investment in products, platforms and people to take full advantage of opportunities that may only be open temporarily. The phasing of that investment against the continuing battle to push the revenue streams ahead is a key determinant of margins.
- As an international business, currency management and harnessing diverse cultures and opportunities are perennial sensitivities. The currency exposure is mostly translational, with the US dollar, euro, UAE dirham and the Danish krone all important.
- Product development and enhancement are an integral part of the business development strategy. Not all elements of the product suite may perform according to expectations. Credibility is crucial and so far management has been successful in building this into the brand identity. The success of the MRP on its predicted outcomes for the 2017 UK general election will have enhanced this further.
- Competition comes from both large, established players and from younger, innovative firms giving research commissioners new tools to derive richer qualitative data. The need to be faster, more accurate and cheaper is a powerful business driver. Delivering on time, on budget and adding value are the key requirements and will help to ensure client retention in what will continue to be a highly competitive market. YouGov's ability to allow its clients to revisit previous respondents and to cut existing data across multivariates is a clear differentiator, improved further with the more extensive use of the Crunch tool.

Valuation

Peer comparison

We have looked at YouGov's valuation in the context of a range of global peers. The shares have performed well over the year to date and continue to hit all-time highs. The share price has climbed from 74p five years ago, a CAGR of 44%. The rating is clearly at a premium to peer average, but remains within the range, with the US stocks tending to trade at higher valuations than those quoted elsewhere.

Exhibit 3: Peer valuation

	Ytd performance (%)	Price	Market cap (m)	EV/Sales 1FY (x)	EV/EBITDA (x)			P/E (x)			Div yield last (%)	EBITDA margin last (%)
					Last	1FY	2FY	Last	1FY	2FY		
YouGov (£)	**26**	**316**	**333**	**2.7**	**20.4**	**17.3**	**14.7**	**30.2**	**25.5**	**23.9**	**0.6**	**14.2**
Cello Group (£)	22	126	132	0.5	242.2	10.1	9.6	15.2	15.6	14.8	2.7	0.3
System1 (£)	(26)	393	49	1.9		11.2	9.0		21.3	17.0		
Next Fifteen Communications (£)	22	378	286	1.3		8.7	7.7	70.8	13.9	12.3	1.4	10.2
Ipsos (€)	1	30.19	1,342	0.9	9.2	9.1	8.6	12.8	11.6	10.7	2.8	11.3
Forrester Research (US$)	7	46.05	828	1.3	17.6	16.5	14.5	44.5	38.5	34.1	1.6	12.1
IQVIA (US$)	36	102.59	21,580	1.7	20.2	15.2	13.9	46.4	22.2	19.3	0.0	23.2
Natl Research Corp (US$)	87	35.60	934	8.2	25.4							32.4
Nielsen Holdings (US$)	(14)	36.23	12,904	3.9	12.0	10.3	10.1	22.4	14.2	14.4	3.3	27.7
Average (excl. YouGov)	**17**			**2.5**	**16.9**	**11.6**	**10.5**	**35.3**	**19.6**	**17.5**	**2.0**	**16.7**

Source: Bloomberg. Note: *Omitted from average. Prices as at 1 December 2017.

DCF backs current levels

We have also looked at the share price on a reverse DCF basis, varying the medium-term growth assumptions and the EBITDA margin, fixing the WACC at 7.0% and using a terminal growth rate of 3%. As can be seen from the table below, the current share price of 321p indicates that if the EBITDA margin were not to advance over FY20-25 ahead of the 16% that we are forecasting for FY19 and onwards, then FY20-25 top-line growth would be running at 7.2%, which would be lower than we anticipate. Revenue growth over the last five years was at a CAGR of 14.4%.

Exhibit 4: DCF

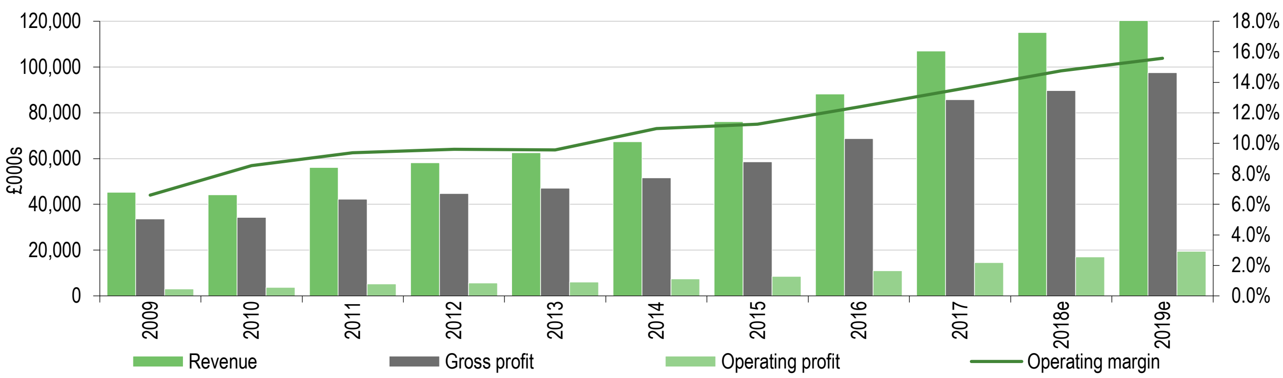
		FY20-25 revenue growth rate					
		0.00%	2.00%	4.00%	6.00%	8.00%	10.00%
EBITDA margin	12.00%	168.2	183.3	199.8	217.9	237.8	257.3
	13.00%	184.3	201.2	219.7	240.0	262.3	284.2
	14.00%	200.3	219.0	239.6	262.1	286.8	311.1
	15.00%	216.4	236.9	259.5	284.2	311.3	338.0
	16.00%	232.5	254.8	279.4	306.3	335.8	364.9
	17.00%	248.5	272.7	299.3	328.4	360.3	391.7
	18.00%	264.6	290.6	319.2	350.5	384.8	418.6
	19.00%	280.7	308.5	339.1	372.6	409.3	445.5

Source: Edison Investment Research

Financials

Enviable long-term growth record

Exhibit 5: Long-term earnings record



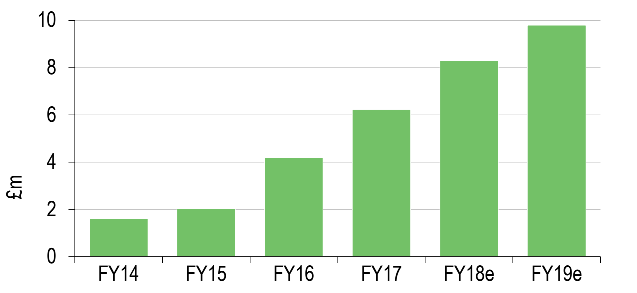
Source: Company accounts, Edison Investment Research

We updated our financial model on the publication of the FY17 results in October and there are no further changes at this juncture.

From 2009 to the end of our forecast period, revenue will have grown at a CAGR of 11%. Over the years FY15-17, that growth rate speeded up to 19% as the strategy to invest behind the data products and services gained traction in its target markets. Our forecasts assume that the pace of growth for BrandIndex and Omnibus eases back a little from the last couple of years (see Exhibits 6-9 below), with YouGov Profiles and the new data applications starting to move the dial, but with the reorientation of custom research towards own-panel and more profitable work dampening the overall top line progress slightly.

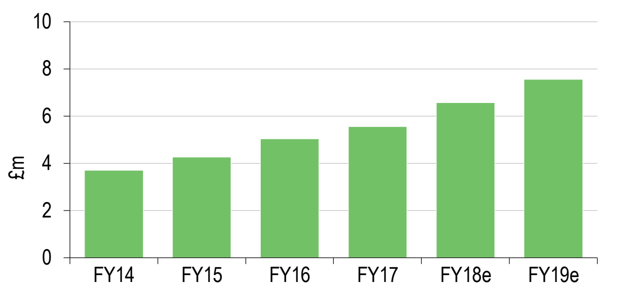
This change in the mix has been lifting operating margins, as shown in Exhibit 5, above, and should continue to do so. With a much higher proportion of productised offer (and 24/7 data processing and analytics resource based in Romania), the business model is inherently more scalable. The incremental costs on additional sales of data products and services are relatively insignificant. Staffing has been reoriented with fewer ‘traditional’ researchers and more sales people and data analysts.

Exhibit 6: BrandIndex revenue



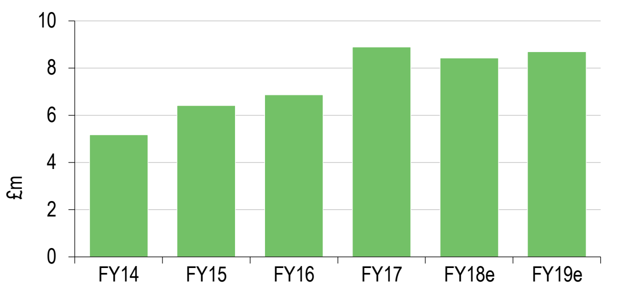
Source: Company accounts, Edison Investment Research

Exhibit 7: Omnibus revenue



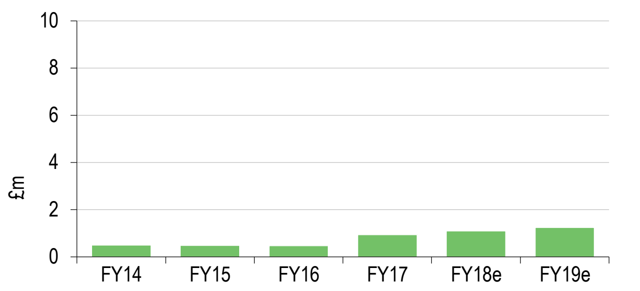
Source: Company accounts, Edison Investment Research

Exhibit 8: Custom research revenue



Source: Company accounts, Edison Investment Research

Exhibit 9: Other revenue (including Profiles)



Source: Company accounts, Edison Investment Research

We show adjusted earnings consistent with the company’s methodology. The group capitalises and amortises over three years the costs of investment in panel and in software development. This amortisation is added back in addition to any amortisation on acquired intangibles.

YouGov has an LTIP scheme set up in 2014 designed to incentivise the executive directors and a small group of key senior managers. It is based on achieving demanding earnings per share growth targets (CAGR of 25%) over the five-year period ending 31 July 2019 as well as an average operating profit margin of 12% over that period. Participants are conditionally awarded nil cost options in three equal tranches over FY16 to FY18, dependent on reaching personal targets set in each previous financial year. At EPS growth of under 10%, there is to be no grant; full payout requires 25% EPS CAGR. Although the awards are high in terms of salary multiples and number of shares (particularly for the CEO), the triggering thresholds are particularly demanding, with no grant if compound EPS growth is below 10% or if operating margin is below the 12% average threshold.

This plan has led to higher share-based payments, but this is stripped out of our definition of normalised operating profits. Compound growth in adjusted earnings per share was 21% for FY14-17. Our model currently shows a CAGR from FY14 through FY19e of 19% and operating margin running at an average of 13.5% (improving in each year).

Strong cash conversion

In FY17, YouGov had operating cash conversion of 130% (FY16: 130%), giving it a five-year average cash conversion of 122%. The growing level of subscription-based income is also increasing the deferred element of those annual subscriptions, benefiting the working capital position. The group continues to invest in its software and in its panel. Both of these investments stepped up in FY17, with £3.4m spent on internally generated software (FY16: £2.6m) and £3.5m spent on panel recruitment (FY16: £2.0m). Ensuring that the panel is appropriate in size and in its constituents is crucial to be able to deliver the timely and robust data in each territory, so there will be a need for higher levels of spend, particularly when moving into new geographies. The largest increase in panel in FY17, though, was in the UK, so as to ensure that the spread was sufficient to run the MRP referred to above to model the outcome of the general election on a constituency-by-constituency basis. Our model anticipates capital spend running at £7.0m in both FY18 and FY19.

With the strong financial position, the level of dividend cover has been reviewed and reduced from 6.3x to 5.4x (on adjusted earnings), giving an increase from 1.4p to 2.0p. With the forecast growth in earnings, the dividend should also increase in both our forecast years.

Cash-rich balance sheet

Goodwill accounts for £43.6m, the largest single element of which relates to the US. Other intangible assets include £5.6m of internally developed software and software development and a value of £4.2m for the consumer panel. Trade payables of £29.4m include £10.7m of deferred income, up from £9.4m in the prior year.

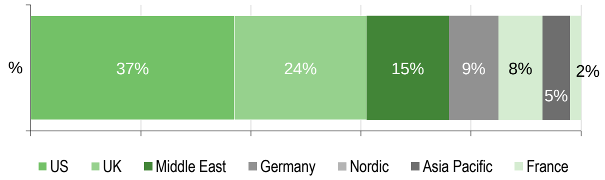
Net cash at the year-end was £23.2m, up from £15.6m at the end of FY16. The group's only debt was a small bank overdraft of £0.3m. With the strong cash flow described above, we would expect this balance to increase, with our modelling resulting in net cash balances of £28.4m at end FY18 rising to £36.3m by end FY19.

Exhibit 10: Financial summary

	£'000s	2016	2017	2018e	2019e
Year end 31 July		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		88,202	107,048	115,064	125,075
Cost of Sales		(19,476)	(21,339)	(25,314)	(27,517)
Gross Profit		68,726	85,709	89,750	97,559
EBITDA		11,736	15,231	17,687	20,193
Operating Profit (before amort. and except).		10,917	14,528	16,984	19,490
Intangible Amortisation		(5,478)	(6,483)	(6,500)	(6,500)
Share based payments		(1,138)	(1,508)	(1,200)	(1,200)
Exceptionals		(1,108)	(488)	0	0
Other		(4)	116	0	0
Operating Profit		3,189	6,165	9,284	11,790
Net Interest		1,199	254	162	169
Profit Before Tax (norm)		13,254	16,406	18,346	20,859
Profit Before Tax (FRS 3)		4,388	6,419	9,446	11,959
Tax		(2,111)	(4,915)	(4,678)	(6,258)
Profit After Tax (norm)		11,139	13,117	13,667	14,914
Profit After Tax (FRS 3)		3,415	4,651	5,765	7,214
Average Number of Shares Outstanding (m)		103.9	105.5	105.5	105.5
EPS - normalised (p)		8.5	10.5	12.4	13.2
EPS - FRS 3 (p)		3.3	4.4	5.4	6.8
Dividend per share (p)		1.4	2.0	2.3	2.5
Gross Margin (%)		77.9	80.1	78.0	78.0
EBITDA Margin (%)		13.3	14.2	15.4	16.1
Operating Margin (before GW and except & share-based payments) (%)		11.1	12.2	13.7	14.6
BALANCE SHEET					
Fixed Assets		62,366	64,637	64,534	64,534
Intangible Assets		53,140	54,960	54,960	54,960
Tangible Assets		8,984	9,332	9,332	9,332
Investments		242	345	242	242
Current Assets		45,339	54,918	61,476	72,164
Stocks		0	0	0	0
Debtors		28,643	30,699	32,338	35,151
Cash		15,553	23,481	28,400	36,275
Current Liabilities		(27,823)	(34,177)	(36,989)	(40,207)
Creditors		(27,823)	(33,915)	(36,989)	(40,207)
Short term borrowings		0	(262)	0	0
Long Term Liabilities		(5,793)	(4,905)	(4,728)	(5,678)
Long term borrowings		0	0	0	0
Other long term liabilities		(5,793)	(4,905)	(4,728)	(5,678)
Net Assets		74,089	80,473	84,293	90,814
CASH FLOW					
Operating Cash Flow		14,139	18,914	19,077	22,166
Net Interest		11	4	162	169
Tax		(2,365)	(2,487)	(4,855)	(4,995)
Capex		(6,076)	(7,661)	(7,000)	(7,000)
Acquisitions/disposals		(171)	0	0	0
Financing		16	175	0	0
Dividends		(1,028)	(1,470)	(2,202)	(2,465)
Net Cash Flow		4,526	7,475	5,181	7,875
Opening net debt/(cash)		(10,017)	(15,553)	(23,219)	(28,400)
HP finance leases initiated		0	0	0	0
Other		1,010	191	0	0
Closing net debt/(cash)		(15,553)	(23,219)	(28,400)	(36,275)

Source: Company accounts, Edison Investment Research

EDISON

Contact details	Revenue by geography
50 Featherstone Street London, EC1Y 8RT +44 (0) 20 7012 6000 www.yougov.co.uk	

Management team

CEO: Stephan Shakespeare	CFO: Alan Newman
Stephan co-founded YouGov in 2000. An internet research pioneer, he has driven YouGov's innovation-led strategy. He also founded ConservativeHome.com, PoliticsHome.com and, more recently, Opigram. He is a trustee of the National Portrait Gallery and chair of the Data Strategy Board for the Department for Business Innovation & Skills.	CFO of YouGov since 2008, Alan was previously a partner with Ernst & Young and KPMG, where he led the TMT sector financial management consulting practice. Previous roles include international FD of Longman and group development manager of MAI (now United Business Media). He is a trustee of the Freud Museum London and a director of the QCA.
Chairman: Roger Parry	**COO: Sundip Chahal**
Roger is also chairman of Mobile Streams, MSQ Partners and Shakespeare's Globe Trust. He was previously a journalist with the BBC and ITV and a consultant with McKinsey & Co. He was CEO of More Group, chairman and CEO of Clear Channel International and chairman of Media Square, Johnston Press and Future.	Appointed to this new role in August 2014, Sundip was CEO of YouGov's MENA region from 2010 and also oversaw development of the Asia Pacific business since its acquisition in January 2014. He joined YouGov's UK DP&S business in 2005, becoming MD in 2007, and previously worked for Ipsos and Research International in the UK.

Principal shareholders	(%)
LionTrust	14.70
Blackrock	10.96
Standard Life	9.76
Balshore Investments	7.63
Kabouter Management	7.42
T Rowe Price	7.13
Stephan Shakespeare (CEO)	7.04
Investec	5.46
Octopus Asset Management	5.00
Charles Stanley	3.63

Companies named in this report

System1 (SYS1), Cello (CLL), Nielsen (NLSN), GfK (GFK), Ipsos (IPS), ComScore (SCOR), Forrester (FORR), Quintiles IMS (IMS)