

YouGov

High-profile profiles

YouGov continues to deliver growth well ahead of the market as investment in its scalable Data Products and Services pays back in profits and in cash. Organic top-line progress of 8% was boosted to 14% by currency movements, while operating margins ticked up 1% point to 11%. Profiles is gaining traction both standalone and in combination with BrandIndex and is being launched across more geographies. We have edged our FY17e and FY18e figures ahead 2-3% and there may be more scope in FY18e if current momentum is maintained. This underpins the premium on which YouGov trades to other quoted market research stocks.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/15	76.1	9.1	6.7	1.0	39.6	0.4
07/16	88.2	13.3	8.5	1.4	31.2	0.5
07/17e	104.5	14.9	10.5	1.6	25.2	0.6
07/18e	115.2	16.8	11.5	1.8	23.0	0.7

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

Margin expansion

Gross margins in H117 moved ahead from 76% to 79%, reflecting the strong performance of BrandIndex, Profiles and Omnibus, but also Custom Research using more own-panel data and discarding legacy low-margin business. There was some offset at the operating expense level due to the strong performance in the higher-cost US market. Operating margins nevertheless increased from 10% to 11%. With more higher earnings' quality business in the mix, we expect operating margins to continue to expand up to and beyond our forecast period. The target for management's LTIP to vest requires operating margins to average more than 12% over the five years to July 2019, as well as EPS growth of over 25% CAGR.

Scalable, connected data

Data products and services accounted for 43% of H117 revenue, progressing towards the 50% target, increasing the proportion of recurring and repeatable revenues. YouGov's clients are both agencies and brand owners. With marketing increasingly complex, targeting is at the core of driving higher advertiser ROIs and there is a need for data that can be systematically integrated. YouGov's connected data resource, the Cube, is collected from its own panellists worldwide who give explicit permission for its use, thus complying with tightening privacy regulation. Client data needs can be fulfilled without the need to commission specific research.

Valuation: Underpinned by momentum

It is unsurprising that YouGov's rating is towards the top of the ranking of global peers. Much of the traditional market research sector still struggles with legacy infrastructures, while YouGov continues to refine and productise its offerings. This is generating a higher CAGR in earnings 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.

Interim results

Media

30 March 2017

Price **265.00p**

Market cap **£279m**

\$1.25/£

Net cash (£m) at end January 2017 15

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 3.9 7.1 93.4

Rel (local) 2.4 3.1 61.9

52-week high/low 270p 137p

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

Prelims 9 October 2017

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**YouGov is a research client of
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Data products and services again gain share

Exhibit 1: H117 results summary

	Revenue (£m)	Revenue growth (%)	Operating profit (£m)	Operating margin (%)
BrandIndex	9.2	36% (17% CC)		
Profiles	1.4	176% (150% CC)		
Other Data Products	0.4			
Total Data Products	11.0	43% (24% CC)	2.8	25%
Omnibus	10.2	38% (24% CC)		
Other Data Services	0.8			
Total Data Services	11.0	36% (23% CC)	2.5	22%
Total Data Products & Services	22.0	39% (23% CC)	5.3	24%
Custom Research	29.6	15% (0% CC)	3.5	12%
Eliminations/central costs	(0.2)		(3.1)	
Group	51.4	24% (8% CC)	5.7	11%

Source: YouGov. Note: CC = constant currency.

Building the syndicated product suite

YouGov BrandIndex continues to make up the bulk of Data Products revenues, but YouGov Profiles is already becoming significant. BrandIndex continues to expand geographically, with the five new territories added in the period taking the total to 32 and with the US remaining its largest market. It encompasses consumer data on over 4,000 brands. Profiles, meanwhile, was available in six markets in the reporting period and has since launched in Denmark and Sweden. It now has more than 100 subscribers. These products are complementary and there are obviously benefits of selling them as a package for both YouGov and the client.

Omnibus continues to grow its footprint

Omnibus comprises 93% of the Data Services segment. It benefits from the depth and breadth of the YouGov panel, which enables clients to obtain data from narrowly defined segments such as shoppers, small and medium enterprises, car drivers or pet owners. The geographic rollout is also enabling more multi-country projects for multi-national clients. H117 growth was primarily fuelled by international demand: Germany, Nordics, the US and Asia-Pacific. In the UK, where the business is longer established, growth was still 3%. The investment in new markets, particularly building up in Asia, is cited as the reason for the dip in segmental operating margin from 25% to 23%.

Custom research layering into syndicated data

In constant currency terms, custom revenues were flat, but this reflects a deliberate move away from carrying out projects that are not scalable, particularly in Germany. An improvement in gross margin from 73% to 77% resulted from increasing proportion of projects conducted on YouGov's own panel. The most attractive commercial proposition is where the custom research adds to the syndicated data products and services.

Cash flows

The increasing extent of recurring revenues across the group means that the end January balance sheet incorporated £8.5m of deferred subscription income, up from £5.3m at end H116 and £7.2m at the July year-end. Cash conversion for H117 was 81% of adjusted operating profit (pre-amortisation/exceptionals), a figure that should be higher for the full year. The group continues to invest in developing its technology and in building panel – the engines of medium- and longer-term growth. £3.3m was invested in H117, broadly in line with the prior year. Cash balances at end

January 2017 were £15.0m, £4.9m ahead of H116 and £0.6m below the previous year-end. Our model shows this building to £18.8m by end FY17 and to £24.6m by the end of the following year.

The focus remains clearly on organic growth, however acquisitions are not ruled out, provided that they would to bring in;

- specific technologies to add to the existing skillset; or
- add data sets; or
- add a specific sectoral focus.

Further geographic expansion is more likely to be organic, with the January 2014 Decision Fuel purchase having provided the necessary bridgehead into South-East Asian markets.

Forecasts edged up, valuation underpinned

We had edged up our forecasts on January's trading update, but left the implied H217 figures intact. The confidence expressed with these figures has encouraged us to add another 2-3% to FY17e and FY18e profits and earnings. Given the momentum described in the syndicated products, there may be scope for further upward revisions to the FY18e numbers as the year progresses. This serves to underpin the valuation, which remains at a premium to other global quoted market research companies, several of which continue to struggle to reorientate their business models to the meet the increasing demand for real-time, connected data. YouGov has shown itself to have a clear and consistent path to increasing operating margins and good momentum behind its top-line growth.

Exhibit 2: Financial summary

	£000s	2014	2015	2016	2017e	2018e
Year end 31 July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		67,375	76,110	88,202	104,500	115,225
Cost of Sales		(15,812)	(17,472)	(19,476)	(22,990)	(25,349)
Gross Profit		51,564	58,638	68,726	81,510	89,875
EBITDA		8,020	9,273	11,620	14,253	16,203
Operating Profit (before GW, except and share-based payments)		7,936	9,239	12,055	14,750	16,600
Intangible Amortisation		(3,965)	(4,633)	(5,478)	(5,000)	(5,000)
Share based payments		(547)	(669)	(1,138)	(1,200)	(1,100)
Exceptionals		(2,385)	(1,072)	(1,108)	(103)	0
Other		(14)	41	(4)	0	0
Operating Profit		1,025	2,906	4,327	8,447	10,500
Net Interest		(292)	(220)	1,199	100	151
Profit Before Tax (norm)		7,630	9,060	13,250	14,850	16,750
Profit Before Tax (FRS 3)		733	2,686	5,526	8,547	10,650
Tax		(316)	580	(2,111)	(3,638)	(4,439)
Profit After Tax (norm)		7,314	9,640	11,139	11,239	12,314
Profit After Tax (FRS 3)		417	3,266	3,415	4,908	6,009
Average Number of Shares Outstanding (m)		98.0	101.0	103.9	104.6	104.6
EPS - normalised (p)		5.8	6.7	8.5	10.5	11.5
EPS - FRS 3 (p)		0.4	3.2	3.3	4.7	5.7
Dividend per share (p)		0.8	1.0	1.4	1.6	1.8
Gross Margin (%)		76.5	77.0	77.9	78.0	78.0
EBITDA Margin (%)		11.9	12.2	13.2	13.6	14.1
Operating Margin (before GW and except & share-based payments) (%)		11.0	11.3	12.4	13.0	13.5
BALANCE SHEET						
Fixed Assets		52,259	53,726	62,366	62,366	62,366
Intangible Assets		46,650	46,145	53,140	53,140	53,140
Tangible Assets		5,609	7,377	8,984	8,984	8,984
Investments		0	204	242	242	242
Current Assets		29,873	33,329	45,339	54,245	63,561
Stocks		0	0	0	0	0
Debtors		21,687	22,507	28,643	34,275	37,793
Cash		7,429	10,017	15,553	18,827	24,625
Current Liabilities		(21,480)	(22,983)	(27,823)	(32,639)	(35,989)
Creditors		(21,296)	(22,983)	(27,823)	(32,639)	(35,989)
Short term borrowings		(184)	0	0	0	0
Long Term Liabilities		(2,700)	(2,449)	(5,793)	(3,000)	(3,000)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(2,700)	(2,449)	(5,793)	(3,000)	(3,000)
Net Assets		57,952	61,623	74,089	80,972	86,938
CASH FLOW						
Operating Cash Flow		8,600	10,091	14,139	14,500	17,000
Net Interest		(295)	(233)	11	100	151
Tax		(287)	(730)	(2,365)	(3,984)	(3,838)
Capex		(5,759)	(5,754)	(6,076)	(5,750)	(5,750)
Acquisitions/disposals		(1,003)	(470)	(171)	(36)	0
Financing		(101)	454	16	0	0
Dividends		(566)	(773)	(1,028)	(1,556)	(1,765)
Net Cash Flow		589	2,585	4,526	3,274	5,798
Opening net debt/(cash)		(6,656)	(7,245)	(10,017)	(15,553)	(18,827)
HP finance leases initiated		0	0	0	0	0
Other		0	187	1,010	(0)	0
Closing net debt/(cash)		(7,245)	(10,017)	(15,553)	(18,827)	(24,625)

Source: YouGov accounts, Edison Investment Research

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