

YouGov

Strategy reaping rewards

Interim results

Media

28 March 2018

Price **381p**

Market cap **£402m**

£/\$1.39

Net cash (£m) as at 31 January 2018 21.3

Shares in issue 105.5m

Free float 91.4%

Code YOU

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 11.2 20.4 43.8

Rel (local) 15.4 30.4 47.7

52-week high/low 381.0p 246.0p

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

Trading update Early August 2018

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YouGov's strategy to focus on its scalable products and services is paying back handsomely in revenue growth and margin improvement. Margin is being further boosted by the reorientation of custom business to greater use of data already held in the Cube, the group's multi-dimensional database. We have edged our FY18 and FY19 earnings forecasts up 4-7% to reflect the strong H1. The £21m of net cash (end January) is being used to fund continuing investment in panel, applications and new markets. It also supports a progressive dividend and allows for bolt-on acquisitions. The premium rating reflects the growth record and positive outlook.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)	EV/EBITDA (x)
07/16	88.2	13.3	8.5	1.4	44.7	0.4	32.5
07/17	107.0	16.4	10.5	2.0	36.3	0.5	24.1
07/18e	116.5	19.4	13.1	2.3	29.0	0.6	20.0
07/19e	126.0	21.8	14.1	2.5	27.0	0.7	17.4

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

UK and US strongest markets

Despite already being large and relatively long-established, the US and UK operations continue to grow very fast, with H118 revenues up 25% y-o-y (at constant currency, CC) and 15% respectively. Between them, they accounted for 65% of H118 revenues. Adjusted operating margins in these regions also made substantial gains, with the US up from 25.8% to 33.9% and the UK from 24.6% to 40.4%, reflecting the prevalence particularly of BrandIndex/Profiles data products and Omnibus data service in the mix. Results from other markets were more varied, with Germany and the Middle East down by 18% and 16% (CC) respectively as they restructured, with the latter improving its operating margin as it moves away from bespoke custom projects. New operations are being launched in Italy and Spain and the Asia-Pacific region has moved into profit. A small bolt-on acquisition in Australia in December 2017 should help accelerate regional growth.

Panel data compliant and at the heart

YouGov's products and services are informed by the data supplied by its panellists (and stored in its connected data library, the Cube), rather than harvested from the public unknowingly. To take the offering through to the next stage in the advertising ecosystem, as the group intends with its digital advertising platform, YouGov Direct, will require an additional level of consent. The partnership approach that the group has with its panellists may prove of considerable commercial value as public sensitivity towards privacy issues increases, and as the GDPR approaches.

Valuation: Premium rating

YouGov's rating remains at the top of the ranking of global peers, with much of the traditional market research sector still struggling with legacy infrastructure. 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.

Revenue and margin growth

The H118 figures were in the trajectory that we had anticipated, but better, despite a currency headwind that knocked £0.5m off the adjusted operating profit level. It is clear from Exhibit 1 below that the driving force for the revenues was the connected data-driven products and services, in line with the group strategy.

Data products. BrandIndex has expanded its reach to 32 markets globally and continues to build traction in its more established markets. UK data products revenues were up by 43%, reflecting a good sales performance in H217, with momentum carrying through to the reported period. US revenues were up 20% (CC) and there were good reported growth figures in other territories, off lower bases. BrandIndex and Profiles are increasingly being sold together as a 'Plan & Track' solution for advertisers, now functional in 13 markets, with eight further markets planned to come on stream in H218/H119.

Exhibit 1: H118 results summary

	Revenue H118 (£m)	Revenue H117 (£m)	Revenue growth (%)	Operating profit H118 (£m)	Operating profit H117 (£m)	Operating margin H118 (%)	Operating margin H117 (%)
BrandIndex	11.4	9.2	24% (27% CC)				
Profiles	2.9	1.4	100% (104% CC)				
Other data products	0.1	0.4					
Total data products	14.4	11.0	31% (34% CC)	4.8	2.8	33%	25%
Omnibus	12.7	10.2	24% (24% CC)				
Other data services	0.7	0.8					
Total data services	13.4	11.0	22% (23% CC)	3.5	2.5	41%	22%
Total data products & services	27.8	22.0	27% (29% CC)	8.3	5.3	30%	24%
Custom research[^]	29.1	29.6	-2% (+1% CC)	6.9	4.3	24%	12%
Eliminations/central costs [^]	(0.6)	(0.2)		(6.4)	(3.9)		
Group	56.3	51.4	10% (12% CC)	8.8	5.7	16%	11%

Source: YouGov. Note: CC = constant currency; [^]historics restated for changes to reporting.

Data services. This is dominated by Omnibus. In its most mature market, the UK, revenue growth was 10%, still a very respectable rate of progress. The US grew revenues 85% (CC), with other smaller markets showing impressive progress but off a smaller base. A self-service tool has been added to the market offering to cater for clients with that requirement, but with the results still being delivered through YouGov's proprietary data analytics and visualisation tool, Crunch.

Custom research. This is the area of the group that has been going through the greatest degree of change, as it shifts away from carrying out one-off, bespoke projects and building up the scalable and repeatable parts of the offering. The increased use of existing Cube data is also driving operating margins, as is the greater propensity to cross-sell and upsell to other group offerings. The cessation of low margin but reasonably substantial business in Germany and the Middle East affected revenues in both those reporting regions, with operating margins still well below where they should be in Germany at 3.6% but starting to recover in the Middle East, building from 15.7% to 22.3%. Restructuring costs of £230k and £204k were taken on Germany and Middle East respectively, the bulk of the £661k separately reported items in the period.

There has been a change to the reporting of the Custom Research segment. Previously the chief scientist (US-based Doug Rivers) and the operational support for the Crunch data analytics and visualisation tool were allocated to segmental overhead at a combined cost of £790k. Since Crunch is increasingly being used to deliver other group products such as Profiles, the associated overhead has now been (more reasonably) categorised as central costs and the comparative figures restated.

Central costs are also bearing an increased long-term incentive (LTIP) plan charge of £1.3m with respect to the five-year LTIP 2014 (see our last [Outlook note](#)), which looks increasingly likely to pay out in full in November 2019. Share-based payments are stripped out of our definition of normalised earnings.

Forecasts edged ahead despite currency

The strength of the H118 performance implied an inherent sharp slowdown in H218 if our previous forecasts were maintained. While there is now a definite currency headwind (which knocked £0.5m off operating profits to £8.8m in H118), we have nevertheless put in small increases to our full year estimate and our projections into FY19.

Exhibit 2: Revised summary estimates

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018e	12.4	13.1	+6	18.3	19.4	+6	17.7	18.7	+6
2019e	13.2	14.1	+7	20.9	21.8	+4	20.2	21.1	+4

Source: Company accounts, Edison Investment Research

Still generating generous cash

Investment in the first half amounted to £3.7m, of which £1.7m was spent on the continuing development of the technology platform. In total, £1.4m was spent on driving panel growth, up 8% on January 2017 to just over six million worldwide, including in India, Italy, Spain, Taiwan and Australia as a precursor to rolling out BrandIndex and Profiles.

Currency movements also knocked £0.8m off period end net cash to leave it at £21.3m. Our forecast for the end of the financial year 2018 is for a net cash balance of just over £27m, compared with £23.2m at end FY17.

Exhibit 3: Financial summary

	£'000s	2016	2017	2018e	2019e
Year end 31 July		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		88,202	107,048	116,500	126,000
Cost of Sales		(19,476)	(21,339)	(42,056)	(44,730)
Gross Profit		68,726	85,709	74,443	81,270
EBITDA		11,736	15,702	18,700	21,075
Operating Profit (before amort. and except).		10,921	14,528	17,500	19,850
Intangible Amortisation		(5,478)	(6,483)	(7,150)	(7,150)
Share based payments		(1,138)	(1,508)	(1,802)	(1,802)
Exceptionals		(1,108)	(488)	0	0
Other		(4)	116	0	0
Operating Profit		3,193	6,165	8,548	10,898
Net Interest		1,199	254	121	142
Profit Before Tax (norm)		13,254	16,406	19,423	21,793
Profit Before Tax (FRS 3)		4,392	6,419	8,669	11,039
Tax		(2,111)	(4,915)	(4,953)	(6,211)
Profit After Tax (norm)		11,139	13,117	14,470	15,582
Profit After Tax (FRS 3)		3,415	4,651	5,316	6,630
Average Number of Shares Outstanding (m)		103.9	105.5	105.5	105.5
EPS - normalised and fully diluted (p)		8.5	10.5	13.1	14.1
EPS - FRS 3 (p)		3.3	4.4	5.0	6.3
Dividend per share (p)		1.4	2.0	2.3	2.5
Gross Margin (%)		77.9	80.1	63.9	64.5
EBITDA Margin (%)		13.3	14.7	16.1	16.7
Operating Margin (before GW and except & share-based payments) (%)		11.1	12.2	13.5	14.3
BALANCE SHEET					
Fixed Assets		62,366	64,637	64,637	64,637
Intangible Assets		53,140	54,960	54,960	54,960
Tangible Assets		8,984	9,332	9,332	9,332
Investments		242	345	345	345
Current Assets		45,339	54,918	61,277	71,492
Stocks		0	0	0	0
Debtors		28,643	30,699	32,741	35,411
Cash		15,553	23,481	27,015	34,560
Current Liabilities		(27,823)	(34,177)	(35,106)	(37,969)
Creditors		(27,823)	(33,915)	(35,106)	(37,969)
Short term borrowings		0	(262)	0	0
Long Term Liabilities		(5,793)	(4,905)	(4,905)	(4,905)
Long term borrowings		0	0	0	0
Other long term liabilities		(5,793)	(4,905)	(4,905)	(4,905)
Net Assets		74,089	80,473	85,903	93,255
CASH FLOW					
Operating Cash Flow		14,139	18,914	17,806	22,138
Net Interest		11	4	121	142
Tax		(2,365)	(2,487)	(4,924)	(5,267)
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)	(2,205)	(2,469)
Net Cash Flow		4,526	7,475	3,798	7,544
Opening net debt/(cash)		(10,017)	(15,553)	(23,219)	(27,015)
HP finance leases initiated		0	0	0	0
Other		1,010	191	(2)	0
Closing net debt/(cash)		(15,553)	(23,219)	(27,015)	(34,559)
Source: Company accounts, Edison Investment Research					

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