

YouGov

Positive branding

YouGov is continuing to deliver on its growth strategy, with FY17 revenues up 21% y-o-y (9% in constant currency). Data products and services now represent 44% of group revenues. This concentration on its core strengths, using its own proprietary panel, is increasing group margins and giving better visibility to earnings through subscription income. Cash conversion remains strong, allowing continued investment in data analytics, geographic expansion and panel recruitment. The dividend has been stepped up 43%, reflecting the greater maturity of the business model and the cash-rich balance sheet. These strengths are reflected in the continuing valuation premium to peers.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
07/16	88.2	13.3	8.5	1.4	38.1	0.4
07/17	107.0	16.4	10.5	2.0	30.9	0.6
07/18e	115.1	18.3	12.4	2.3	26.1	0.7
07/19e	125.1	20.9	13.2	2.5	24.5	0.8

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

Step up in margins

YouGov's organic (constant currency) revenue growth of 9% is made up of 29% growth in data products and 19% growth in data services, well ahead of the market, offset by flat revenues from custom research. Within data products and services, BrandIndex grew 20% (constant currency) to £20m, while YouGov Profiles is proving its value to marketing professionals, more than doubling its revenues to £4m. Custom research revenues were flat as it focused on projects that utilised its own panel resource and pared back work in Germany and the Middle East that no longer fit with the model. The change in mix, and the focus on custom research projects that utilise own-panel resource, drove group gross margin up from 78% to 80%, while operating margins climbed from 12.4% to 13.6%. CFO Alan Newman retires at the end of December and the search for a successor is underway.

FY19e forecasts initiated

Our first estimates for FY19 show a continuation of the pattern of growth from data products and services. We are showing 9% revenue growth and an improvement in adjusted operating margin to 14.6% from 13.7% in FY18e. Normalised earnings per share in our model grow 6%, (+18% in FY18e), with a progressive dividend policy.

Valuation: Premium growth reflected in 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.

Preliminary results

Media

16 October 2017

Price **324p**

Market cap **£341m**

£1:\$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 23.9 20.0 40.6

Rel (local) 21.1 17.5 28.8

52-week high/low 324.0p 215.2p

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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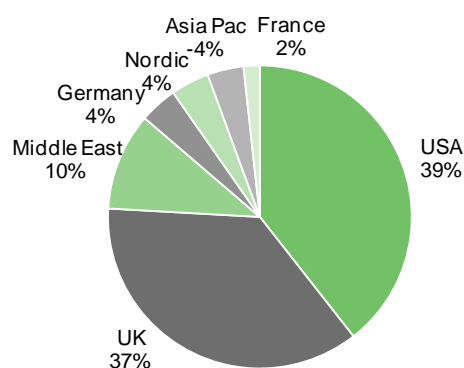
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Key points from FY17

The key features of the FY17 results are as follows:

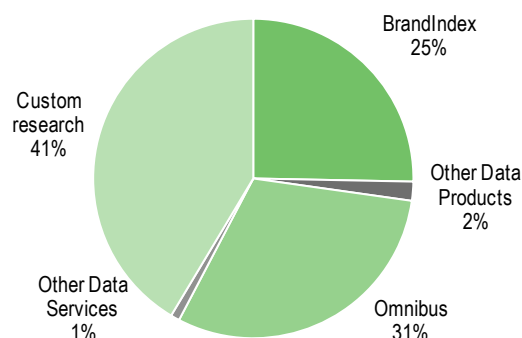
- top-line growth of 21% (9% in constant currency)
- adjusted operating profit up 33%; 24% growth in adjusted EPS
- growing subscription revenue base
- BrandIndex now 18% of group revenue, up 20% in constant currency
- Profiles significant in its own right, with £4m of revenues; also increasingly sold in combination with BrandIndex
- Omnibus also growing well (up 23% in constant currency) increasing its multi-country studies, especially Asia Pacific.
- Custom research flat in constant-currency terms as the business is reoriented; operating margin increased from 12.6% to 14.8%
- legacy and non-core custom research business in Germany and Middle East is wound down or disposed
- the conspicuous success of the new methodology used for the 2017 UK General Election, which built up from a micro level by constituency and correctly predicted a hung parliament – this approach has potentially significant commercial applications
- dividend up 43%, with cover now just over 5 times
- net cash of £23.2m from £15.6 at end-July 2016, £15m at end-January 2017

Exhibit 1: FY17 operating profit by geography



Source: Company accounts, Edison

Exhibit 2: FY17 operating profit by segment



Source: Company accounts, Edison

Cash gives options

The group's inherently strong cash conversion inevitably prompts questions on capital allocation priorities. Acquisitions have not been a focus over recent periods, especially given the potential for premium growth from developing the internally generated business opportunities and by rolling them out internationally. With the increased scale of the business, the lower dividend cover is appropriate and does not compromise the ability to invest. With the current rapid pace of innovation in data science and analytics, YouGov has the firepower to ensure that it can invest organically in order to keep the group at the forefront of developments and to make incremental acquisitions, if necessary.

Exhibit 3: Financial summary

	£000s	2015	2016	2017	2018e	2019e
Year end 31 July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		76,110	88,202	107,048	115,064	125,075
Cost of Sales		(17,472)	(19,476)	(21,339)	(25,314)	(27,517)
Gross Profit		58,638	68,726	85,709	89,750	97,559
EBITDA		9,273	11,736	15,218	17,687	20,193
Operating Profit (before amort. and except).		8,529	10,921	14,515	16,984	19,490
Intangible Amortisation		(4,633)	(5,478)	(6,483)	(6,500)	(6,500)
Share based payments		(669)	(1,138)	(1,508)	(1,200)	(1,200)
Exceptionals		(1,072)	(1,108)	(488)	0	0
Other		41	(4)	116	0	0
Operating Profit		2,196	3,193	6,152	9,284	11,790
Net Interest		(220)	1,199	254	162	169
Profit Before Tax (norm)		9,019	13,254	16,393	18,346	20,859
Profit Before Tax (FRS 3)		1,976	4,392	6,406	9,446	11,959
Tax		580	(2,111)	(4,912)	(4,678)	(6,258)
Profit After Tax (norm)		9,640	11,139	13,107	13,667	14,914
Profit After Tax (FRS 3)		3,266	3,415	4,641	5,765	7,214
Average Number of Shares Outstanding (m)		101.0	103.9	105.5	105.5	105.5
EPS - normalised & fully diluted (p)		6.7	8.5	10.5	12.4	13.2
EPS - FRS 3 (p)		3.2	3.3	4.4	5.4	6.8
Dividend per share (p)		1.0	1.4	2.0	2.3	2.5
Gross Margin (%)		77.0	77.9	80.1	78.0	78.0
EBITDA Margin (%)		12.2	13.3	14.2	15.4	16.1
Operating Margin (before GW and except & share-based payments) (%)		10.3	11.1	12.2	13.7	14.6
BALANCE SHEET						
Fixed Assets		53,726	62,366	64,637	64,534	64,534
Intangible Assets		46,145	53,140	54,969	54,969	54,969
Tangible Assets		7,377	8,984	9,323	9,323	9,323
Investments		204	242	345	242	242
Current Assets		33,329	45,339	54,918	61,476	72,164
Stocks		0	0	0	0	0
Debtors		22,507	28,643	30,699	32,338	35,151
Cash		10,017	15,553	23,481	28,400	36,275
Current Liabilities		(22,983)	(27,823)	(34,177)	(36,989)	(40,207)
Creditors		(22,983)	(27,823)	(33,915)	(36,989)	(40,207)
Short term borrowings		0	0	(262)	0	0
Long Term Liabilities		(2,449)	(5,793)	(4,905)	(4,905)	(4,905)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(2,449)	(5,793)	(4,905)	(4,905)	(4,905)
Net Assets		61,623	74,089	80,473	84,116	91,586
CASH FLOW						
Operating Cash Flow		10,091	14,139	18,914	19,064	22,156
Net Interest		(233)	11	4	162	169
Tax		(730)	(2,365)	(2,487)	(4,854)	(4,995)
Capex		(5,754)	(6,076)	(7,661)	(7,000)	(7,000)
Acquisitions/disposals		(470)	(171)	0	0	0
Financing		454	16	175	0	0
Dividends		(773)	(1,028)	(1,470)	(2,202)	(2,465)
Net Cash Flow		2,585	4,526	7,475	5,170	7,865
Opening net debt/(cash)		(7,245)	(10,017)	(15,553)	(23,219)	(28,400)
HP finance leases initiated		0	0	0	0	0
Other		187	1,010	191	11	0
Closing net debt/(cash)		(10,017)	(15,553)	(23,219)	(28,400)	(36,265)

Source: Company accounts, Edison Investment Research

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