EDISON

YouGov

Outlook

Finger on the pulse

Media

YouGov's online business model and direct panel relationships give it a clear advantage through lockdown. Both state and commercial interests have an increased need to gauge and track shifts in consumer attitudes, which YouGov is well placed to monitor through its growing suite of products and services. The group has a strong, cash-positive balance sheet and a major asset in its connected data library, termed the YouGov Cube, which now contains over 15 years of data. YouGov's share price has recovered from the mark-down at the earlier stage of the pandemic, with the rating reflecting its premium growth and strong market positioning.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
07/18**	116.6	16.3	10.8	3.0	38.4	73.1	0.4
07/19	136.5	20.4	13.8	4.0	24.1	57.2	0.5
07/20e	147.0	23.1	15.4	4.0	25.2	51.3	0.5
07/21e	159.0	26.9	17.2	5.0	22.1	45.9	0.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **FY18 restated for the change in treatment of amortisation and share-based payments.

US remains key territory

In a US presidential election year, there are plenty of opportunities to build the group's profile and reputation further, which in turn drives additional commercial opportunities. Operating profit rose by 20% in the US in H120, accounting for 47% of group operating profit before central costs. The group's data products continue to evolve. Recent innovations include YouGov Recommend+, a new brand net promoter score tracker, and YouGov Direct, where consumers control the use of their own data and are rewarded through a blockchain. The group's data are increasingly incorporated directly into clients' workflows, with opportunities for cross- and up-selling helped by investment in global key account management.

COVID-19 uncertainties

At the time of the interims, management had seen no material impact from the pandemic. The transition to remote working did not present any especial problems, given that this is an online business model with a limited supply chain. There have been opportunities to collate commercially valuable data specific to the situation, but the group has also provided data for the public good, in line with its principles. It is likely that it will have been more complex to convert new business opportunities. There will also have been some delays and cancellations of marketing programmes that would otherwise have benefited. Our provisional FY21 forecasts are therefore predicated on a relatively modest 8% top line growth, well below the group's 10-year rate of 12% and the 19% required to hit management's five-year plan target.

Valuation: Premium price for strong positioning

The share price has recovered the initial losses as the COVID-19 situation developed and the stock is one of only two of the global peers to have shown a positive performance over the year. YouGov's valuation multiples are at the top end of this peer set, reflecting the group's strong market positioning and balance sheet.

21 July 2020

Price	**790p**
Market cap	**£851m**
	$1.26:£1
Net cash (£m) at end January 2020 (IFRS basis)	27.2
Shares in issue	107.7m
Free float	61.8%
Code	YOU
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	0.6	33.9	46.3
Rel (local)	1.4	23.8	73.2
52-week high/low		800p	400p

Business description

YouGov is a global research data and analytics group, with over 9.5 million online panellists across 42 countries. It offers a complementary data-led suite of products and services including YouGov BrandIndex, YouGov Profiles, YouGov Omnibus, YouGov Direct and custom research.

Next events

Year-end trading update	July 2020
FY20 results	6 October 2020

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Investment case

YouGov's business model should be reasonably **resilient to the impact of COVID-19**. The demand for intelligence on consumer attitudes and opinions is likely to have remained firm. The online business model made it comparatively straightforward to transition to remote working. The direct access to the proprietary panel should also have given an advantage over more traditional market research organisations that will have had to make more dramatic adaptations. There may be a greater impact on working capital through extended trading terms, but this will be clearer with the publication of the full year trading update.

- YouGov has a strong research **brand**, leveraged off its reputation in polling, which helps it to recruit and retain panel members and to grow its commercial business. As YouGov was originally set up as an online operator, it has none of the legacy organisational infrastructure that handicapped larger, more established incumbent players as clients became more focused on speed and price.
- Unlike most other peers, YouGov adopted and maintains a **retained panel model**, now spread out across the globe, that gives it flexibility and speed and – importantly – also allows for longitudinal data collection and for additional information to be sought from particular panellists. The panel is engaged (high response, low churn), motivated financially but also by the wish to contribute to publicly distributed studies. GDPR compliance is clear, with specific permissions sought from panellists, who fill in surveys and proffer views independently through web, mobile or passive collection.
- YouGov has structured and engineered the data that it collects into one multidimensional, connected data library, the **YouGov Cube**, which now contains 15 years of historic, single-source data. This facilitates automation (which AI can drive further, faster) and productisation, making the commercial offering properly scalable. YouGov has also developed a sophisticated analytics tool for research data, termed **Crunch**.
- The group's **client base is diverse and international**, with a growing cohort of multinational clients that carry out studies in multiple territories. The approach is increasingly skewed towards servicing marketing activities through media owners, media agencies and brand owners. YouGov's ability to track brand health and the impact of campaigns makes it a valuable partner and the developing ability to activate campaigns adds more value.
- YouGov has an **experienced management** team, headed by CEO Stephan Shakespeare, co-founder of the group in 2000. CFO Alex McIntosh joined in 2007; COO Sundip Chahal in 2005.
- The group has inherently **strong cash generation characteristics** (five-year average cash conversion of 150%) and a strong balance sheet, with our model indicating cash of £33.9m forecast for end FY20 (July). Capex requirements have been relatively modest, typically running between 6% and 8% of revenues, although in FY19 it was higher at 8.9% as investment in new offices and panel recruitment was stepped up. We assume that this ratio lifts further to 10.2% of revenue for FY20e and 10.4% for FY21e as the group invests to grow post the COVID-19 pandemic, on our forecast modelled tempered top-line growth.
- **Acquisitions** have tended to be relatively modest and strategic to supplement and enhance the group offering. They fall into the categories; technologies; geographies; and specialisms (including specialist panel) that leverage and extend existing products and services.

In April 2019, the group set out its **new five-year growth plan.** The key performance indicators (KPIs) outlined form the basis of the long-term incentive plan (LTIP) targets to incentivise senior management through to FY23. These are to:

- double group revenue;
- double group adjusted operating profit margin; and
- achieve an adjusted EPS CAGR of over 30%.

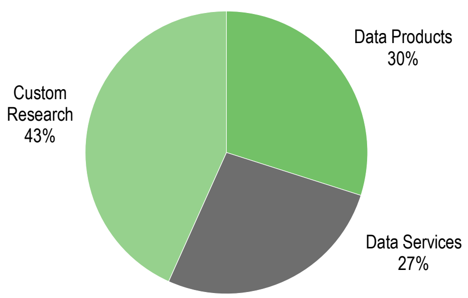
These are self-evidently demanding (as were those for the previous five-year plan) and our forecasting basis is more circumspect than this.

Products and Services all underpinned by data

YouGov is an online market research and data analytics business, with clients and operations around the globe. Its current five-year plan, which runs through to FY23, articulates a vision to create a universal, integrated platform for the ethical and safe sharing of opinions and personal data. This approach clearly demonstrates management's respect for data privacy and acknowledges that the proprietary panel is central to the ability of the group to conduct its business. The ambition is for the group to become the world's leading provider of high-quality market and opinion data and insights.

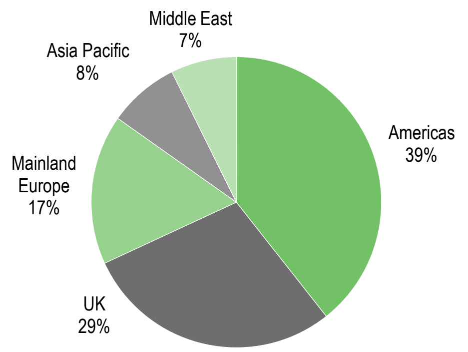
YouGov has grown through a combination of organic development and acquisition, with organic growth dominating in recent reporting periods. It now has one of the top 10 global market research networks, with 31 offices in 22 countries and a panel of over 9.5 million respondents in 42 countries around the world. 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. While it is all attributable to identifiable individuals by YouGov within its data sets, it is 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, where responses are held discretely and recontact studies are more cumbersome. Rich data from this sizeable sample of panellists now covers more than 200k variables. These are held in a proprietary multidimensional database, or 'connected data library', known as the **YouGov Cube**. All data are actively volunteered by panellists who give their explicit permission, giving very clear compliance with the General Data Protection Regulation (GDPR) in Europe, and conforming with other data protection and data privacy issues.

Exhibit 1: FY19 revenue split by activity



Source: YouGov accounts

Exhibit 2: FY19 revenue split by geography



Source: YouGov accounts

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 current client base is diverse in terms of verticals and geographies, but mostly falls within three categories: media owners, media agencies and brand owners. The largest proportion of revenue is now generated in the US, the world's largest market for market research (see Exhibit 2 above for a full geographic breakdown).

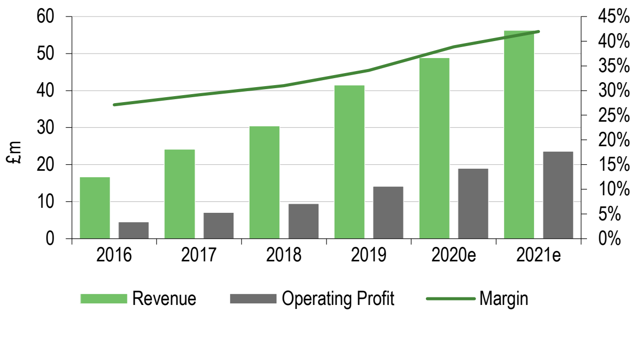
From inception, YouGov had an online-driven business model and an innovative culture that looks to exploit the value and actionable information inherent in the data it collects and supplies to clients.

All driven off the data

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. YouGov reports its financial results in three components: Data Products (centred on BrandIndex and Profiles), 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, accounting for 39% of group revenues and 42% of adjusted operating profit before central costs.

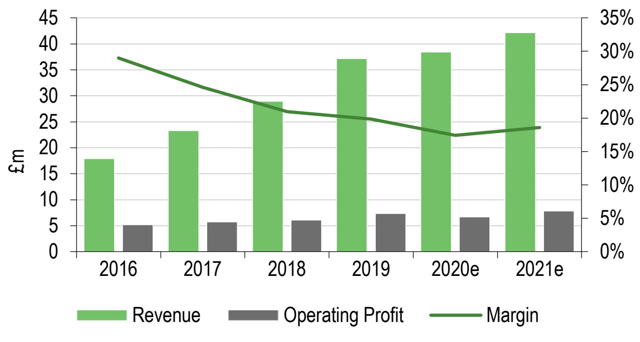
YouGov has also developed an analytics platform, **Crunch**. This has been designed to be easy to use and flexible and, importantly, also allows clients to import third-party datasets.

Exhibit 3: Data Products financial performance



Source: Company accounts, Edison Investment Research

Exhibit 4: Data Services financial performance



Source: Company accounts, Edison Investment Research

YouGov Data Products

YouGov offers a growing range of syndicated data products (syndicated as in 'create once, use many times'). **BrandIndex** is the group's flagship service daily brand health tracking product, now available in 42 countries. It enables clients to benchmark against their competitors and across categories and assess the impact of unforeseen events and now covers more than 13k brands globally across 40 different sectors, segmented by vertical (eg alcoholic beverages, automotive etc). Clients can access their data through a dashboard and download through an API feed if required.

Profiles was launched in FY15. It is an audience planning and segmentation tool, now running in 24 countries. Profiles enables clients to identify specific audiences and target groups and understand their lifestyles, opinions, and preferences, with the objective of planning media campaigns to have the greatest impact. Profiles accesses over 300k variables within the Cube data and is delivered via the Crunch platform.

These two products are increasingly being delivered together in a combination known as **Plan & Track** as a syndicated subscription, now available in 19 countries. Campaigns can therefore be planned, activated through integration with client/agency platforms, then tracked, making it a powerful proposition. The US is the most important market for Data Products and it continues to demonstrate high levels of growth (24% underlying at the half year), with the UK, France and Asia Pacific regions all also performing strongly.

Plan & Track accounted for 89% of segmental revenues in H120, with an increase of 21% over the comparative period. The balance of segmental revenues comes from the new Sports Index and add-on solutions for subscribers such as YouGov Audience Data. Overall segmental growth at the half year of 27% implies that these areas have been growing particularly fast.

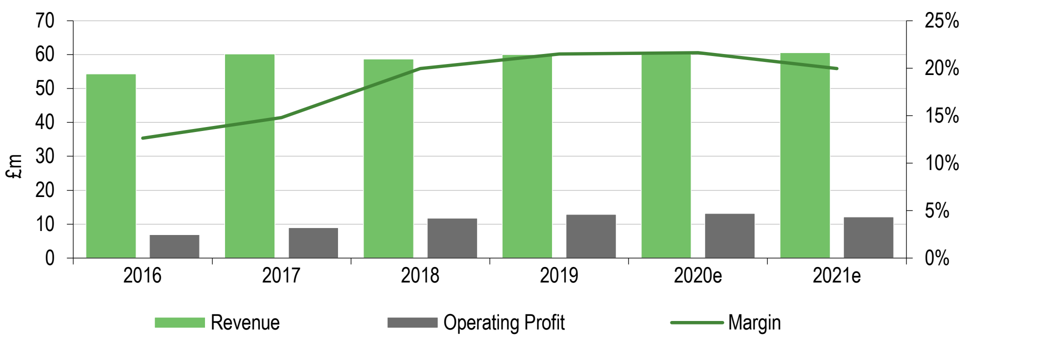
YouGov Data Services

YouGov Data Services primarily comprises **Omnibus**, the group's online, fast-turnaround survey service. Data Services has grown its revenues from £10.7m in FY14 to £37.2m in FY19. Its historical performance and our forecasts are shown in Exhibit 4, above, with the slowdown in growth for FY20e reflecting H120 restructuring in the Nordics, non-recurring election work in Asia-Pacific and subdued performance in Germany. Omnibus operates in over 40 markets and is market leader in the UK, carrying out over five million surveys per year. Its international panel and capability is increasingly attracting multinational clients, looking for multi-country, high-quality studies. Named clients include Dentsu Aegis, eBay, Lidl, Sony and Vodafone.

YouGov Custom Research

Over the last two to three years, the nature of the custom business has been realigned to integrate it with the syndicated data already available within the group and to have the outputs delivered in Crunch. This has meant some blurring of the boundaries over what is custom research and what is a data service (£1.6m of revenue was reallocated from custom research to Omnibus in H119).

Exhibit 5: Custom Research financial performance



Source: Company accounts, Edison Investment Research

Custom Research has often been characterised as the cumbersome, commodity/lower-margin, lower-growth part of the business (and the industry). The scope of the work carried out varies greatly, from one-off studies, through heavy-duty, large-scale tracking studies for individual clients to syndicated studies for multiple clients. YouGov has been increasing the differentiation of its offering through using the connected data that it already has access to within the YouGov Cube and delivering the output through Crunch. This increasing integration with the syndicated data is leading to a more heavily engineered solution and a marked step-up in operating margin. In FY14, custom business generated a margin of 14%. By FY19 this had increased to 22%, further pushing out to 24% in H120.

Strategic acquisitions to enhance offering

The bulk of YouGov's historical growth has been through organic means, which has suited the model, based around own-panellists' data. Over recent periods, there have been more opportunities to supplement this through modestly sized acquisitions. There are three key areas – new technologies, geographies and specialisms (including specialist panel) – that leverage and extend the existing product and service set. The following completed deals all clearly fit within this remit:

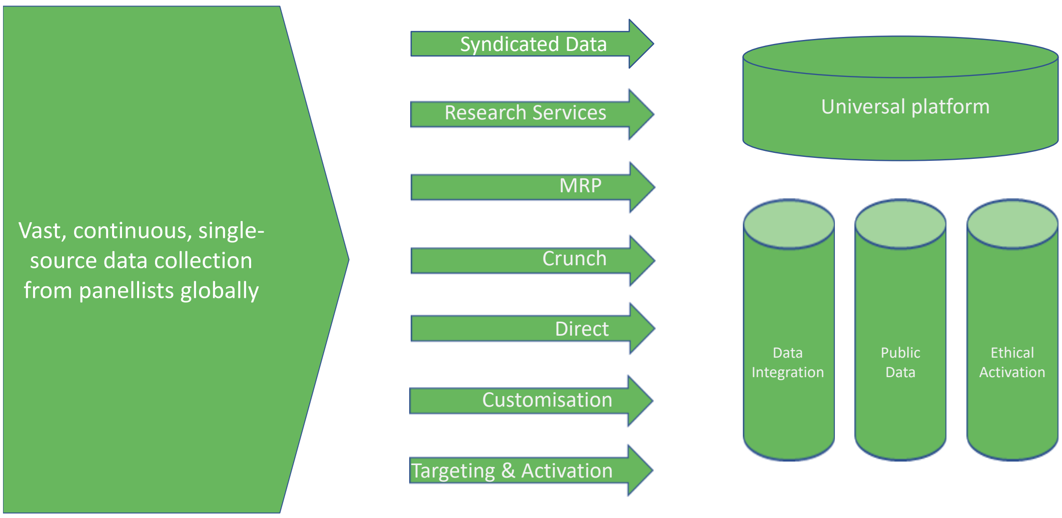
- Galaxy Research (December 2017) gave a step-up for operations in Australia. YouGov paid £699k in December 2017 plus £185k in April 2018, with a balance payment of contingent consideration of £1.7m paid in February 2020.
- SMG Insight (May 2018 – went from 20% to 100%), now rebranded YouGov Sport and the larger part of the Data Products segment excluding Plan & Track. This operation specialises in sports media measurement and sponsorship evaluation and has significantly outperformed original expectations, leading to YouGov choosing to complete the acquisition in full ahead of schedule. The deferred consideration of £13.2m is being paid in two equal tranches. The first payment was made in January 2020 (so was included in the H120 report) and the second is due in May 2021, with aggregate consideration of £18m.
- InConversation Media (August 2018) is a platform for brands to interact with their audiences at scale using chatbots, which has potential applications across the group. A nominal sum was paid on completion, with £4m payable in September 2021 contingent on revenue targets and the number of active panellists at that date.
- Crunch.io (September 2018) is the data tool at the heart of the YouGov platform and this purchase consolidated its ownership within the group. £2.1m was paid on completion.
- Portent.io (November 2018), now rebranded as YouGov Signal, added intelligence about audiences for the film and entertainment sector. An initial payment of £227k was paid on completion with an additional payment, payable in three annual instalments in December 2019 to 2021, contingent on EBITDA in the period from completion to 31 October 2021. Management forecast the total additional payment at £6.5m.

Performance of YouGov Sport and YouGov Signal may have suffered more from the COVID-19 situation during H220 than other parts of the business. The suspension of live sport for an extended period will doubtless have had an impact on the former, which may now be easing. With the theatrical release of major movies postponed or moved online, and with disruption to the production schedule of new content, the impact on YouGov Signal may last somewhat longer.

Strategy builds on strengths

Management has identified 'three strategic pillars' that underpin its five-year plan. These are **Data Integration**, **Public Data** and **Ethical Activation**.

Exhibit 6: YouGov platform



Source: YouGov, Edison Investment Research

Integration relates, as described above, to fully integrating custom research and client service with the existing data products and tools, with a heavy emphasis on tracking studies. Further, it also encompasses connecting the uses of YouGov's data – creating new value from existing data and customisation for clients, opening up new revenue streams and making the YouGov element more central to the clients' internal processes. This may involve a new product, YouGov Recommend+, which enables marketing professionals to evaluate a range of factors such as brand image, brand values, emotion and consumer personality to track Net Promoter Scores.

The Public Data element addresses the question: what is in all this for the panellists? Panellists participate partly for financial gain (although rewards are relatively modest), and partly to feel 'heard' when the results of surveys that they have participated in appear and generate coverage in the public domain. YouGov's brand strength, reputation and media relations ensure that media mentions are well ahead of UK competitors and are growing strongly in the US, which helps recruit and engage panellists. Management's objective is to become 'the Wikipedia of opinion', using all Cube data. As a good example of this approach in practice, YouGov has established a partnership with Imperial College in London during H220, providing public opinion and behavioural data relating to COVID-19 to public health researchers for free. The underlying data is made available on GitHub.

Activation involves taking data and using it to drive advertising campaigns, creating targetable audiences for advertisers – a process that has traditionally been separate from research used to understand markets and plan campaigns. YouGov has developed a solution that allows advertisers to buy scaled 'lookalike' audiences based on the characteristics of its panellists. The next stage allows advertisers to interrogate panellists' opinions and data directly through YouGov Direct. This is only possible because these panellists will have permissioned each specific use, via their own dashboards, with accountability enabled through the YouGov blockchain encryption process, hence the description of this being 'ethical' activation. YouGov Direct is already available to clients in the US and the UK and is being rolled out to other geographies.

Investment to drive growth

There are several different aspects to the investment programme:

- Technical investment. The group continues to hone its customer-facing aspect, investing in websites, apps and dashboards to make it easier for clients and the public to interact with the data. It also continues to invest in developing its proprietary technology, including Crunch, and is developing its self-service 'YouGov Screen' platform planned for release by the end of calendar year and in beta-testing.
- Panel investment. An engaged panel is YouGov's raw material and without it actively contributing there would be nothing to sell. At the H120 results, the group had 9.6 million registered panellists worldwide (including 3.7m in the US) and continued investment is needed to keep that number growing across territories. At that point, the emphasis was on growing existing panels in Australia, India, Italy, Mexico, Poland, Spain and Taiwan, with new panels in Austria, Brazil, Switzerland and Turkey next on the agenda.
- Global infrastructure. The group has been building greater scalability into its business model through developing Centres for Excellence. This is helping drive down costs, with the spend on data operations reducing from 4% to 1.4% of global revenue over the last five years, with over £1m of overhead taken out during the year to end January 2020. YouGov now has data processing hubs in Bucharest, Mumbai, and Bangalore and Technology development hubs in Warsaw and Bangalore. This approach has also helped the group cope with the practical challenges presented by lockdowns during the COVID-19 pandemic.
- Client support. As the group has grown, so have its client relationships and it has now put into place a global key account management programme. In the first phase, 25 of the group's largest US-based, multinational accounts have been targeted and it is hoped that this will accelerate conversion of cross- and up-selling opportunities.

Five-year performance plan

The five-year growth plan put in place last year set out management's ambition to become the world's leading supplier of proprietary panel data, with the largest (and most engaged) panel. It aims to be used by every public-facing company and organisation as well as being used as a resource by the general public as a 'Wikipedia of opinion'.

The targets through to FY23 are to:

- **Double group revenue**. FY19 revenue was £136.5m, so building to over £273m in FY23e implies a CAGR of 19%. Our modelled growth assumptions are more cautious and would require growth to step up to a CAGR of 31% from FY21–23e to achieve this.
- **Double group adjusted operating profit margin**. The company's definition of adjusted operating profit was changed with the publication of the FY19 figures to include amortisation of intangible assets charged to operating expenses and share-based payments where relevant. On this basis, the FY19 operating margin was 13.5%. Doubling this by FY23e would therefore imply an adjusted operating profit in that year of over £73m, based on the doubling of the top line over the same period. Our model assumes that the adjusted operating margin has grown to 16.0% for FY21e, making progress towards the target level of 27.0%.
- Achieving an adjusted EPS CAGR of over 30%.

It is not specified that these targets should be achieved by organic growth, so acquisitions may form an element of the top-line growth, but with any dilution tempered by the inclusion of an EPS target.

Management's new LTIP is tied to the achievement of the new five-year plan goals. Nil-cost options will be granted in October 2020, 2021 and 2022, subject to meeting personal targets. The key performance metric is adjusted earnings per share, using FY19 as the base year, on the following basis:

Exhibit 7: Vesting criteria

Four-year adjusted EPS CAGR (%)	% award vesting
<10%	Nil
10–15%	Pro rata between 10% and 25%
15–35%	Pro rata between 25% and 100%
>35%	100%

Source: Company accounts

This is underpinned by the requirement for the operating margin to be at least 15%.

Experienced management team

Stephan Shakespeare is a co-founder of YouGov and has been CEO since 2010. He has a clear understanding of the product base and its commercial potential, refocusing corporate strategy back on exploiting the group's core research and delivery strengths. Alex McIntosh took over as group CFO in December 2017, having previously been chief strategy officer. He 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. The executive team is completed with Sundip Chahal, chief operating officer. He 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.

There are six non-executive directors, with well-known media figure, Roger Parry, in the chair.

US leads large market

The market research industry is estimated to have been worth $47.4bn in 2018 (source: Statista), up 3.1% on the prior year and with a 10-year CAGR of 3.8%. It should be noted however, that this figure does not include the broader data analytics and insight market, which could be worth as much again. The US remains the largest market, at around 44% of the total, with Europe accounting for 35%. The UK remains the second largest market, but this partly reflects the amount of multi-market studies that emanate from this territory. The top 10 market research companies accounted for over half of total industry spend in 2018, with Nielsen the largest by some way, with published revenues of $6.5bn (FY19 revenues were down 0.3% on the prior year). Medical research specialist IQVIA was the second largest, with $3.9bn of relevant revenues.

At the bottom end of the market, commoditisation has continued as more market research has migrated online and as tools and resources have become increasingly available. With automation also helping to drive down pricing for basic product, the focus for driving industry profits has increasingly moved towards adding value by making the outputs as relevant and usable as possible for those commissioning them.

YouGov's most significant peers – although business models are differentiated – would be US companies such as Gartner, ComScore, Forrester and Nielsen and European groups, including Ipsos and Kantar (WPP). YouGov's business is increasingly focused on marketing activities and increasingly built into its clients' workflows, giving it a greater degree of differentiation and resilience. Long-term tracking studies are particularly 'sticky', due to the history that is built up, and can be impossible to replicate. The group's connected dataset and panel resource also give it flexibility and an advantage in the time taken to commission more traditional research studies.

Sensitivities

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

- The impact of **the coronavirus pandemic** has not yet been fully determined. There are likely to have been both positive and negative repercussions. On the former, the need for quick and reliable gauging of public mood and attitudes will have stimulated some demand. However, some commercial clients may have rescheduled, reconfigured or postponed work as they reappraised the scale and timing of their marketing spend. New business may have been more difficult to procure and payment terms may have extended.
- **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 panellist-based approach enables its clients to revisit previous respondents and cut existing data across multivariates. This is a clear differentiator, improved further with the more extensive use of Crunch.
- **IT systems/security** and data security are crucially important to the operation of YouGov's business and its reputation with its clients and its panellists. Compliance with the GDPR is built into the relationship that YouGov has with its panellists in terms of explicit permissions for data use and there is a cross-functional team in place to oversee compliance. ISO 27001 certification was achieved during FY19 in respect of the information management system for client confidential information.

- 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.
- **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.
- **Acquisitional risk** has increased with the enhanced appetite to bring in-house additional capabilities.
- **Economic conditions** and GDP growth are crucial to spend on market research (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 undermining of trust within the advertising value chain presents the group with further opportunities.
- 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.

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 119p five years ago, a CAGR of 34%; +25% over 10 years. Only GlobalData of the global peer set and Cello Health have also had positive share price performances over the year-to-date, with Cello having received a cash bid of 161p on 1 July, 44% ahead of the then price. The average peer share price is 19% lower than it started the year. YouGov's rating is clearly at a premium to the peer average but remains just within the range on EV/sales and EV/EBITDA multiples, surpassed only (again) by GlobalData. On a P/E basis, YouGov is priced higher than the peer set. We note that YouGov's last reported EBITDA margin is visibly above the peer group average and its long-term growth record and high levels of cash conversion are clearly attractive.

Exhibit 8: Peer group valuations

Name	Ytd performance (%)	Price – reporting currency	Quoted currency	Market cap (m)	EV/ sales 1FY (x)	EV/ EBITDA last (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)	Div yield last (%)	EBITDA margin last (%)
Cello Health	21	163	GBp	173	1.1	9.1	10.4	9.5	16.3	17.3	16.4	2.5	11.7
System1	(39)	127.5	GBp	16	0.6	7.8	3.1	3.4		6.1	8.2	0.0	8.2
Next Fifteen	(29)	380	GBp	342	1.6	7.1	8.0	6.9	10.9	11.8	10.0	0.7	22.9
ComScore	(35)	3.22	US$	228	1.1	62.7	12.6	9.8				0.0	1.6
Ipsos	(21)	22.75	€	1010	0.9	7.1	8.5	7.0	7.9	11.0	8.1	3.9	12.6
Forrester	(18)	34.06	US$	639	1.6	11.0	14.7	11.5	20.6	34.2	20.6		13.4
Gartner	(18)	126.74	US$	11,302	3.5	19.4	21.0	18.9	32.5	41.7	35.8	0.0	16.1
Nielsen	(23)	15.61	US$	5,565	2.2	7.5	7.8	7.6	8.7	10.4	9.6	7.1	28.5
GlobalData	11	1425	GBp	1,679	9.6	40.0	35.2	32.0	49.4	46.9	42.7	1.1	25.0
WPP	(43)	610	GBp	7,460	1.1	5.5	7.9	6.8	6.6	11.2	8.6	9.8	16.1
Average	**(19)**				**2.3**	**17.7**	**12.9**	**11.3**	**19.1**	**21.2**	**17.8**	**2.8**	**15.6**
YouGov	23	790	GBp	849	5.5	24.1	25.3	22.8	57.2	51.2	45.8	0.5	16.8

Source: Refinitiv, Edison Investment Research. Note: Prices as at 16 July 2020.

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Five-year growth target context for DCF

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 2%. The current share price of 790p indicates that if the EBITDA margin were not to advance over FY22–27e ahead of the 23% that we are forecasting for FY21 and onwards, then FY22–27e top-line growth would be need to be running at a CAGR of 25%. Revenue growth over the five years to our forecast FY21e was at a CAGR of 12.5%.

It is worth bearing in mind that the revenue target CAGR under the five-year plan is 19%. If that revenue CAGR were to be achieved, the current share price would suggest that the market anticipates that the EBITDA margin would improve to 26.3% over the medium term.

Exhibit 9: Reverse DCF showing implied valuation in p/share

		Medium-term growth rate FY22–27e				
		0%	5%	10%	15%	20%
EBITDA margin (%)	21%	344	400	463	535	617
	22%	363	422	489	567	654
	23%	381	444	516	598	691
	24%	400	466	542	629	727
	25%	418	488	569	660	764
	26%	437	510	595	691	801
	27%	455	533	621	723	837
	28%	474	555	648	754	874
Implied margin		45%	39%	33%	29%	26%

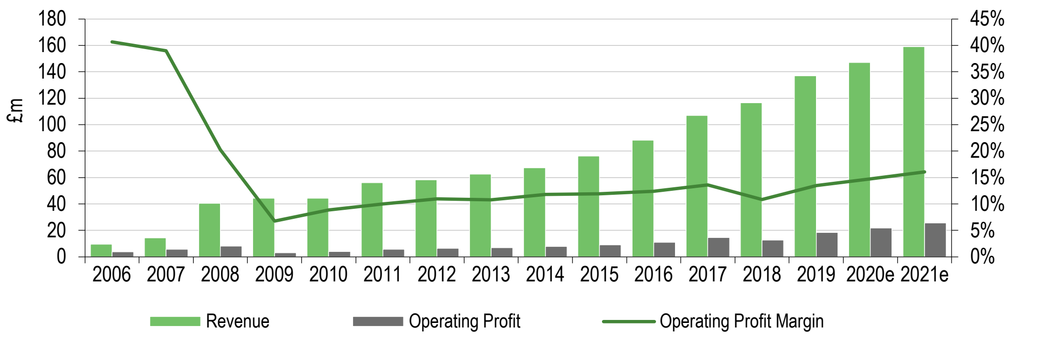
Source: Edison Investment Research

Financials

Our March update note went through the H120 results, which were provisionally released as a trading update, before formal publication in April due to the disruption to markets as the COVID-19 lockdowns came into force. These showed a robust set of figures, with sales of the group's data products well ahead: 27% on an underlying basis. The results from Data Services, principally Omnibus, were less impressive, with revenue up 3% (7% underlying). This period included difficult trading in the Nordics business, a tougher comparison in Asia-Pacific (there was an election benefit in the prior period) and a more difficult German market.

Continued growth in the proportion of higher-margin project work in Custom Research helped propel adjusted operating profit to £8.0m, representing an operating margin of 23.6% in H120 from 22.0% in the comparative period.

Exhibit 10: Long-term growth record and forecasts



Source: YouGov accounts, Edison Investment Research

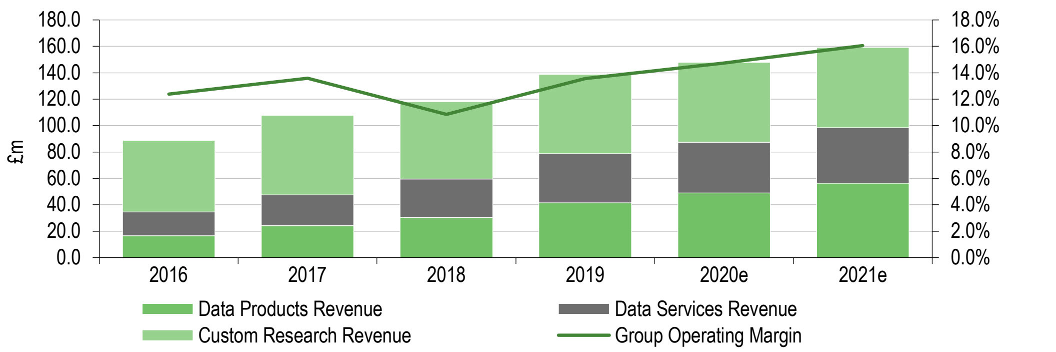
The group continued to expand in the US (47% of H1 operating profit before central costs), where interest in the presidential elections should build over H220 and H121.

At the time of the publication in March, we applied a 10% revenue reduction for the remainder of the forecast year. The only further adjustments we have made at this point are to reflect the implementation of IFRS 16, which we omitted to do at the time and which boosts EBITDA but makes little difference lower down the income statement.

YouGov has an enviable long-term record of revenue and EBITDA growth, which has been predominantly achieved through organic means. From FY10–FY19, revenue has more than trebled (a CAGR of 13.4%) and operating profit margin increased from 8.9% to 13.5% as the business has scaled up, investing in product and improving operational efficiency. For H120, the operating margin was 14.8% from 12.6% in H119.

With multi-year syndicated Plan & Track subscriptions, dashboards incorporated into client workflows and a growing proportion of Custom Research being in large-scale tracking studies, the level of recurring and repeatable business continues to build (although this is not a proportion disclosed as such). At the half-year results, management referred to a newly-signed strategic multi-year contract with a major German-based financial institution – obviously significant enough to warrant a specific mention.

Exhibit 11: Revenue progression



Source: Company accounts, Edison Investment Research

In the short term, margin growth is constrained by the need to invest in technology and panel but also in sales and marketing. The new five-year plan, though, includes a target to double adjusted operating margin. There are several keys to driving the operating margins forward, but at the core, it is all about engineering the data and integrating and delivering it through the universal platform outlined above. This is particularly true of the custom business, increasingly using the syndicated data already available within the YouGov Cube. Having one analytics system, Crunch, also greatly increases the efficiency in the system. The emphasis now is on managing the client relationships more effectively, with global key account management.

Restated for IFRS16

We have now restated our FY18 and FY19 numbers for the implementation of IFRS 16, which adds £3.1m to EBITDA. The adjustment to normalised PBT is just £0.1m.

FY20e, FY21e estimates contingent on the impact of COVID-19

The only change to our FY20 numbers at this stage reflects the IFRS 16 application. We made a cautionary 10% reduction to our H220 revenue estimate on publication of the interim results. We have now published our provisional FY21e estimates, which assume a relatively cautious 8% top-line progression. We have built in further improvement in adjusted operating profit margin from 13.9% to 16.0% in FY21e as the benefits of the Centres of Excellence and the increased added value within Custom Research take effect.

As indicated within the sensitivities section above, we can see that the pandemic is likely to have been both positive and negative repercussions. On the plus side, the need for quick and reliable gauging of public mood and attitudes will have stimulated some demand. However, some commercial clients may have rescheduled, reconfigured or postponed work as they reappraised the scale and timing of their marketing spend. New business may have been more difficult to procure and payment terms may have extended.

Strong cash conversion

YouGov has a particularly strong record of cash conversion. The group quotes its cash conversion against adjusted EBITDA, so using the figures restated for IFRS 16 implementation for FY19 and FY18, this gives a conversion rate of 111% and 113% respectively. At the half year, the figure was 93%, up from 69% in H119.

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. FY19 was a higher year for capital expenditure, with £12.2m spent mostly on software and panel. £7.7m was spent in H120, split £4.2m on panel investment and £3.5m on software. For the full year, we have pencilled in a spend of £15.0m, with £16.5m for FY21e. Ensuring the panel is an appropriate size and appropriate in its constituents is crucial to be able to deliver the timely and robust data in each territory, so there is a need for higher levels of spend when moving into new geographies, or ahead of specific events, such as the US presidential elections.

Strategic acquisitions have also been on the agenda. To date, these have incurred modest upfront costs. SMG Insight, now YouGov Sport, had performed so well that management accelerated the completion. £7.4m of deferred consideration was paid in H120. There is now an expected total of £13.2m of deferred consideration payable in respect of future earn-outs attached to acquisitions. We have £8.6m identified for payments in our FY21e cash flow.

In normal years, the group pays only a final dividend, in December. A decision on a payment for FY20 is therefore still some way off and the world may look very different by then. Given the strength of the balance sheet, we are assuming that there will be a dividend, but that it will be at the same level as FY19 (4.0p), rising to 5.0p in FY21e.

Cash-rich balance sheet

As at the half year, the balance sheet had £27.2m of cash (there is no debt), down from £37.9m at the year end. During those six months, the group spent £7.4m on deferred consideration for acquisitions, the £3.5m of software and £4.2m on building panel referred to above.

Under IFRS 16, the group's lease liabilities are now shown on the face of the balance sheet. These totalled £9.8m at end January, of which £2.5m were short term and £7.3m were longer term. Even if these are considered as debt, the net cash position remained very healthy at £17.4m

Our modelling indicates a cash balance of around £33.9m at end FY20e (a net £24.1m on an IFRS 16 basis), and around £30.9m for the following year post the acquisition spend of £8.6m and £16.5m of capex that we have pencilled in. We do emphasise, though, that there is a far higher degree of uncertainty over our projections than normal.

Exhibit 12: Financial summary

£'000s	2018	2019	2020e	2021e
Year end 31 July	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	116,559	136,487	147,000	159,000
Cost of Sales	(21,495)	(24,206)	(24,748)	(27,098)
Gross Profit	95,064	112,281	122,251	131,903
EBITDA	20,907	31,698	32,041	36,120
Operating Profit (before amort. and except.)	12,650	18,492	21,657	25,511
Intangible Amortisation	(7,026)	(8,809)	(8,809)	(8,809)
Share based payments	(3,571)	(2,401)	(1,250)	(1,250)
Exceptionals	(892)	1,529	0	0
Other	66	200	0	0
Operating Profit	11,824	20,221	21,657	25,511
Net Interest	(51)	(665)	154	137
Profit Before Tax (norm)	16,302	20,428	23,062	26,898
Profit Before Tax (FRS 3)	11,773	19,356	21,812	25,648
Tax	(3,615)	(5,086)	(5,638)	(6,657)
Profit After Tax (norm)	12,687	15,342	17,424	20,241
Profit After Tax (FRS 3)	8,158	14,270	14,924	17,741
Average Number of Shares Outstanding (m)	105.4	105.4	107.1	108.4
EPS - normalised (p)	10.8	13.8	15.4	17.2
EPS - FRS 3 (p)	7.7	14.1	13.9	16.4
Dividend per share (p)	3.0	4.0	4.0	5.0
Gross Margin (%)	81.6	82.3	83.2	83.0
EBITDA Margin (%)	17.9	23.2	21.8	22.7
Operating Margin (before GW and except) (%)	10.9	13.5	14.7	16.0
BALANCE SHEET				
Fixed Assets	78,019	108,534	121,683	120,380
Intangible Assets	65,357	82,374	90,013	90,204
Tangible Assets	12,471	26,160	31,670	30,176
Investments	191	0	0	0
Current Assets	66,735	72,581	71,121	71,123
Stocks	0	0	0	0
Debtors	34,672	33,726	36,324	39,289
Cash	30,621	37,925	33,867	30,904
Current Liabilities	(41,445)	(48,504)	(48,797)	(52,318)
Creditors	(41,445)	(48,504)	(48,797)	(52,318)
Short term borrowings	0	0	0	0
Long Term Liabilities	(11,238)	(14,060)	(14,060)	(14,060)
Long term borrowings	0	0	0	0
Other long term liabilities	(11,238)	(14,060)	(14,060)	(14,060)
Net Assets	92,071	118,551	129,947	125,125
CASH FLOW				
Operating Cash Flow	23,617	35,230	27,890	32,019
Net Interest	22	183	154	137
Tax	(5,501)	(4,520)	(3,651)	(4,936)
Capex	(8,181)	(12,166)	(15,000)	(16,500)
Acquisitions/disposals	(885)	(6,583)	(7,448)	(8,600)
Financing	259	(3,652)	(1,500)	0
Dividends	(2,106)	(3,327)	(4,504)	(5,084)
Net Cash Flow	7,225	5,165	(4,058)	(2,964)
Opening net debt/(cash)	(23,219)	(30,621)	(37,925)	(33,867)
HP finance leases initiated	0	0	0	0
Other	177	2,138	0	0
Closing net debt/(cash)	(30,621)	(37,925)	(33,867)	(30,903)

Source: Company accounts, Edison Investment Research. Note: FY19 restated for IFRS16, FY18 and FY19 restated for change in treatment of amortisation and share-based payments.

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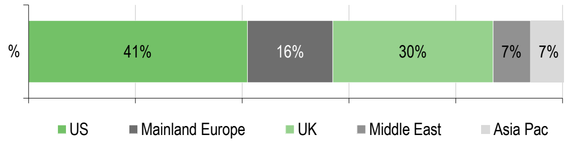
Revenue by geography



Management team

Chairman: Roger Parry

Appointed as chair of YouGov in 2007, Roger is chair of Oxford Metrics and an NED of Uber UK. He was previously chair of Future Publishing, Johnston Press and Shakespeare's Globe Trust, a consultant with McKinsey, CEO of More Group and CEO of Clear Channel Intl. Roger is a Visiting Fellow of Oxford University.

CEO: Stephan Shakespeare

Stephan co-founded YouGov in 2000. One of the pioneers of internet research, he has been the driving force behind YouGov's innovation-led strategy. He was chair of the Data Strategy Board for the Department for Business, Innovation and Skills 2012–13 and led the Shakespeare Review of Public Sector Information. He is a commissioner for the Social Metrics Commission, and an Affiliated Researcher at the Bennett Institute for Public Policy, Cambridge University, where his work is focused on the public dimensions of globalisation and tracking attitudes to public policy.

CFO: Alex McIntosh

Alex has been with YouGov since 2007, initially as corporate finance manager within the finance team, focusing on planning, budgeting and corporate development. He became chief strategy officer in 2011 and played a leading role in the development of YouGov's strategic plans and data product developments. Alex also held the role of CEO of YouGov's UK business from 2015 to 2016. He previously worked in corporate finance advising a wide range of companies and first worked with YouGov in 2005 while at Grant Thornton, assisting with the group's IPO on AIM.

COO: Sundip Chahal

Sunny has been with YouGov since 2005, becoming COO in 2014. He initially joined YouGov's UK business as BrandIndex Sales Director, becoming MD of Data Products in 2008. In 2009 he was appointed as COO of MENA, relocating to Dubai to oversee the expansion of YouGov's core online services across the Middle East, North Africa and Asia. In 2010 he was promoted to CEO of YouGov MENA. Sunny previously worked at Ipsos and Research International.

Principal shareholders	(%)
LionTrust Asset Managers	14.95
BlackRock	9.87
Aberdeen Standard	8.49
Octopus Inv	7.98
T Rowe Price Global Investors	7.13
Stephan & Rosamunde Shakespeare	6.89
Kabouter Management	5.14
Investec Wealth & Inv	4.95
Charles Stanley	4.36
Baillie Gifford	3.69

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