

Trading at top end of five-year plan

YouGov has delivered strong results that demonstrate the success of its shift in its business model towards a real-time data analytics business with a growing subscription revenue base. It continues to innovate, developing new products and services and augmenting the existing offering and is further expanding its geographic reach, with the investment supported by the cash-rich balance sheet. A new five-year plan is expected to be set out in Spring 2019 and we anticipate that this will also have ambitious targets for growth and earnings that will support the premium rating.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
07/16	88.2	14.4	8.5	1.4	36.9	55.4	0.3
07/17	107.0	17.9	10.5	2.0	27.3	44.9	0.4
07/18	116.6	26.9	15.6	3.0	19.0	30.3	0.6
07/19e	132.0	27.5	17.2	3.5	18.5	27.5	0.8
07/20e	141.0	29.5	18.3	4.0	17.1	25.8	0.9

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

Revenues and margins ahead

FY18 revenues were up 9% on prior year, 12% on a constant currency (CC) basis, despite the shift in the Custom Research business away from one-off projects holding that segment's revenue performance flat. Data Products and Services continue to build at an impressive rate, up 30% and 26% respectively (CC). A shift in the allocation of cost from Custom Research to the centre (a more accurate reflection) flattered the improvement in operating margin, but stripping this back, the segmental margin still grew from 18.9% to 24.1%. At group level, the operating margin rose to 16.9% (FY17: 13.6%). The increasing sophistication of the tools and analysis, all based on the group's proprietary data derived from its own panel, is enabling it to become more deeply embedded in its clients' work flows and underpins the growing subscription base, as well as supporting margins.

Cash to invest and grow

The US remains the most important territory (47% FY18 revenue), with the group now operating in 50 national markets. Management is focused on building YouGov as a global partner in research data and analytics, requiring investment both on innovation and on building geographic reach. The group's cash resource (£30.6m at the end of July) comfortably covers both objectives. Small bolt-on acquisitions are now also part of the armoury (Australian firm Galaxy was bought in December 2017 for A\$1.25m; sports specialist SMG in May 2018 for £1m, with a structured earn-out). Our updated model indicates end FY19e cash of £30.1m.

Valuation: Premium sustained

YouGov is growing its top line well ahead of the market research sector (+3.3% in 2017: ESOMAR), while also improving the quality of its earnings as it builds its recurring revenue base. The current share price puts it on a rating well ahead of sectoral peers (see page 3), but considerably below the listed SaaS subscription businesses with which it has increasing commonality.

Media

9 October 2018

Price **472p**
Market cap **£498m**

£1:US\$1.34

Net cash at end July 2018 (£m) 30.6

Shares in issue 105.5m

Free float 73.7%

Code YOU

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5.0) (5.0) 61.4

Rel (local) (4.0) (0.1) 67.4

52-week high/low 500p 300p

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

New 5-yr plan Spring 2019

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Delivery of strong FY18, good prospects FY19e

The salient points of the FY18 results are as follows:

- A 9% increase in group revenues (12% at CC)
- 2% of revenue growth attributable to acquisitions
- Adjusted operating profits up 35% (figures quoted here are after share-based payments)
- Improved operating margins in all three segments and across all geographic segments
- Asia-Pacific moved into operating profit, with strongest revenue growth ion group at 62%.
- Near-doubling of Central costs reflects inclusion of £2.5m previously attributed to Custom Research and £1.8m of additional costs relating to the LTIP; ex-these, increase was 37%.
- Investment in technology: £4.4m (of which £3.9m was software); Investment in panel: £2.8m; other capex on PPE £1.0m
- New offices Spain, Italy, India
- Dividend increased by 50% to 3.0p

Exhibit 1: Summary results by segment

	H118 (£m)	Gth	h218 (£m)	Gth	FY18 (£m)	Gth / prior year	Constant currency gth (%)
Revenue							
Data Products - Brand Index	11.40	18%	12.30	22%	23.700	20%	
Data Products - Other	2.98	129%	3.76	25%	6.746	56%	
Data Products - Total	14.38	31%	16.06	12%	30.445	26%	30%
Data Services - Omnibus	12.70	24%	14.52	25%	27.219	24%	
Data Services - Other	0.74	1%	1.00	51%	1.737	24%	
Data Services - Total	13.44	22%	15.52	26%	28.956	24%	26%
Custom Research	29.135	-2%	29.5	-3%	58.657	-3%	0%
Eliminations	-0.64	134%	-0.859		-1.499	50%	
GROUP TOTAL	56.96		61.10		116.560	9%	12%
Operating Profit							
Data Products - Total	4.785	73%	6.9	61%	11.659	66%	
Data Services - Total	3.511	41%	4.5	39%	8.002	40%	
Custom Research	6.863	60%	7.3	57%	14.121	59%	
GROUP TOTAL	15.16	59%	18.62	54%	33.782	56%	
Operating Margin							
Data Products - Total	33.3%		42.8%		38.3%	29.2%^	
Data Services - Total	26.1%		28.9%		27.6%	24.6%^	
Custom Research	23.6%		24.6%		24%	14.8% ^{***}	
OPERATING MARGIN (pre-Central Costs)	26.6%		30.5%		29.0%	13.6%^{***}	
Central Costs	-6.329		-7.779		-14.108	98% ^{**}	
Operating Profit	8.830		10.84		19.674	35%	
GROUP OPERATING MARGIN	15.5%		17.7%		16.9%	13.6%^	

Source: Company accounts Note: ^Prior year; ** change in allocation

The operating profit referred to here is as per the company's definition, including share-based payments, and hence is a lower figure than that shown in our model excerpt in Exhibit 5, below.

Management believes that the current financial year has started well and it "remains confident of future growth potential".

The statement contains detailed descriptions of the data products and services and the enhancements that are currently being assessed and launched. These all underline the group's

move further away from being a traditional project-led, consultancy-style business model of market research into a partner providing real-time data and analytics based on rich, connected data provided by the group's in-house panel and sold on a subscription basis. The growth in the Data Products (BrandIndex, increasing coupled with Profiles, which accounts for the bulk of 'other' in the Data Products segment) and in Data Services (94% of which is Omnibus) clearly demonstrated this progress, which is reinforced by the change in the type of custom work being undertaken.

Exhibit 2: Adjustments to forecasts

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018	14.3	15.6	+9	23.0	26.9	+17	22.3	24.6	+10
2019e	15.8	17.2	+10	26.2	27.5	+5	25.5	26.5	+4
2020e	-	18.3	N/A	-	29.5	N/A	-	28.7	N/A

Source: Company accounts, Edison

The FY18 figures were around 10% better than our previous forecasts, partly reflecting the small acquisitions that we had not built into the numbers, with a small additional benefit from currency, but mostly from good trading. The larger discrepancy in the adjusted PBT number shown in the table above is due to Edison's policy on adding back the share-based payments to the adjusted figures. In this instance, the share-based payments were considerably higher than we had anticipated – double at £3.646m, reflecting the increased likelihood of a full payment – see below. Stripping these out, the difference between the FY18 adjusted PBT and our prior forecast is also 10%.

We have adjusted our FY19e forecasts, lifting our EBITDA number by 4% (to give 8% year-on-year growth), which may prove to be conservative if the trading momentum continues at the current rate. Forecast EPS is lifted by a greater amount, as we have altered our anticipated blended tax rate down from 25% to 23% to reflect the lower corporation tax now prevalent in the US.

New LTIP to overlap

The LTIP put in place in 2014 was based on five-year CAGR in earnings per share, with full payout requiring 25% growth in adjusted EPS. Other targets, such as an average operating margin of over 12% (which would happen even if the group was only to breakeven at the operating profit level in FY19e), and the trebling of share price needed to trigger a further payment to the CEO if the other targets are met in full, look very likely to have been achieved. 25% CAGR in EPS would be FY19e EPS of 17.9p on our basis, against our current forecast of 17.2p.

The new scheme that is being drawn up currently will overlap with the 2014 scheme for one year in order not to drive any short-termism that might be engendered by this target.

Valuation – premium maintained

Exhibit 3: Peer valuation

Name	ytd performance (%)	price - reporting currency	Quoted Currency	Market cap (m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA last (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	PE last (x)	PE 1FY (x)	PE 2FY (x)
Nielsen Holdings	(25)	27	USD	9,715	2.8	2.8	9.7	9.8	9.5	15.9	15.6	14.1
IPSOS	(15)	26	EUR	1,155	0.9	0.9	8.7	8.1	7.5	8.2	9.5	8.7
Ebiquity	(63)	0	GBp	29	0.7	0.6	6.5	6.5	6.2	5.9	4.8	4.1
System1 Group	(42)	2	GBp	27	0.8	0.7	8.9	5.2	4.0	16.6	11.9	9.0
Next Fifteen Communications	27	6	GBp	440	2.0	1.9	15.8	10.7	9.9	31.6	17.4	16.0
Forrester Research Inc	6	47	USD	849	2.0	1.9	20.2	16.3	13.5	50.3	34.3	30.3
Average					1.5	1.5	11.6	9.4	8.4	21.4	15.6	13.7
YouGov	22	4.65	GBp	524	3.6	3.4	18.7	18.1	16.8	29.8	27.1	25.4

Source: Bloomberg Note: Prices as at 4 October 2018

YouGov retains its premium rating over quoted market research firms, although it has far less in common with the traditional operators than previously. As it continues to transition its business model to become more subscription based, it has more commonality with the SaaS providers in the CRM and marketing spaces, which are predominantly listed in the US. These trade on a current year EV/Sales of 7.3x (Source: SEG), double YouGov's current rating. EV/EBITDA multiples are unreliable due to suppressed earnings for companies still in investment phase, whilst YouGov is self-evidently highly profitable.

Exhibit 4: Financial summary

	£'000s	2016	2017	2018	2019e	2020e
Year end 31 July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		88,202	107,048	116,560	132,000	141,000
Cost of Sales		(19,476)	(21,339)	(21,496)	(25,969)	(26,173)
Gross Profit		68,726	85,709	95,064	106,031	114,827
EBITDA		12,874	17,210	24,551	26,457	28,730
Operating Profit (before amort., except. & SBP)*		12,059	16,036	23,320	25,232	27,480
Intangible Amortisation		(5,478)	(6,483)	(7,026)	(7,150)	(7,150)
Share based payments		(1,138)	(1,508)	(3,646)	(2,100)	(1,800)
Exceptionals		(1,108)	(488)	(826)	(800)	0
Other		(4)	103	2	0	0
Operating Profit		4,331	7,660	11,824	15,182	18,530
Net Interest		1,199	254	(51)	140	176
Profit Before Tax (norm)		14,392	17,901	26,917	27,472	29,456
Profit Before Tax (FRS 3)		5,530	7,914	11,773	15,322	18,706
Tax		(2,111)	(3,273)	(3,615)	(5,962)	(6,499)
Profit After Tax (norm)		11,139	13,120	19,858	19,410	21,157
Profit After Tax (FRS 3)		3,415	4,641	8,158	9,360	12,005
Average Number of Shares Outstanding (m)		103.9	104.8	105.4	110.0	112.4
EPS - normalised & fully diluted (p)		8.5	10.5	15.6	17.2	18.3
EPS - FRS 3 (p)		3.3	4.5	7.7	8.5	10.7
Dividend per share (p)		1.4	2.0	3.0	3.5	4.0
Gross Margin (%)		77.9	80.1	81.6	80.3	81.4
EBITDA Margin (%)		14.6	16.1	21.1	20.0	20.4
Operating Margin (before GW and except & share-based payments) (%)		12.4	13.6	16.9	17.5	18.2
BALANCE SHEET						
Fixed Assets		62,366	64,637	78,019	77,768	77,517
Intangible Assets		53,140	54,960	65,357	65,331	65,305
Tangible Assets		8,984	9,332	12,471	12,246	12,021
Investments		242	345	191	191	191
Current Assets		45,339	54,918	66,735	70,801	82,326
Stocks		0	0	0	0	0
Debtors		28,643	30,699	34,672	39,265	41,942
Cash		15,553	23,481	30,621	30,094	38,942
Current Liabilities		(27,823)	(34,177)	(41,445)	(44,672)	(47,375)
Creditors		(27,823)	(33,915)	(41,445)	(44,672)	(47,375)
Short term borrowings		0	(262)	0	0	0
Long Term Liabilities		(5,793)	(4,905)	(11,238)	(11,238)	(11,238)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(5,793)	(4,905)	(11,238)	(11,238)	(11,238)
Net Assets		74,089	80,473	92,071	92,659	101,231
CASH FLOW						
Operating Cash Flow		14,139	18,914	23,617	24,100	28,700
Net Interest		11	4	22	140	176
Tax		(2,365)	(2,487)	(5,501)	(5,934)	(6,097)
Capex		(6,076)	(7,661)	(8,181)	(10,000)	(8,500)
Acquisitions/disposals		(171)	0	(885)	(5,090)	(1,500)
Financing		16	175	259	0	0
Dividends		(1,028)	(1,470)	(2,106)	(3,744)	(3,931)
Net Cash Flow		4,526	7,475	7,225	(528)	8,848
Opening net debt/(cash)		(10,017)	(15,553)	(23,219)	(30,621)	(30,092)
HP finance leases initiated		0	0	0	0	0
Other		1,010	191	177	0	0
Closing net debt/(cash)		(15,553)	(23,219)	(30,621)	(30,093)	(38,940)

Source: Company accounts, Edison Investment Research

*Note: Co's definition of operating profit includes SBP

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