

Revenue momentum remains strong

YouGov's FY22 results (July year-end) show 20% underlying revenue growth, boosted to 31% by currency. Progress was good in all three segments, with a particularly encouraging performance in Custom Research, which is increasingly about connected data rather than one-off projects. FY23 is the last year of YouGov's FYP3 strategic plan, with some elements of the ambitious built-in targets easier to achieve than others. A new FY24–26 plan is being drawn up, overseen by CEO Stephan Shakespeare, who transitions to the role of chair at end FY23. The share price performance has been affected by the market rotation out of high growth tech stocks.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)
07/21	169.0	31.1	21.1	6.0	17.4	37.7
07/22	221.1	34.6	23.2	7.0	13.0	34.3
07/23e	255.0	51.4	33.0	10.0	10.9	24.1
07/24e	290.0	60.0	38.9	11.0	9.7	20.5

Note: *PBT and EPS are normalised and diluted, excluding amortisation of acquired intangibles and exceptional items.

All segments ahead

Data Products (34% FY22 revenues) contributed nearly half of group adjusted operating profits pre-central costs, with a further uplift in margin from 33% to 36%, on revenues ahead by 23% underlying. This includes a build-up in multi-year subscription products, which improve earnings' visibility, with around one-third of targeted FY23 group earnings already secured. Data Services (FY22: 23%) had a better H222 after a more difficult start to the year, boosted by a good performance in Asia-Pacific, although operating margins here were affected by additional spend on panel and technology. Custom Research posted underlying revenue gains of 21%, with the inclusion of LINK (bought in December 2021 for £22m cash) lifting revenue by 46%. The shift from labour-intensive, large one-off projects to ongoing multi-territory tracking studies based on the connected data supplied by panellists underpins the increase in segmental adjusted operating margin from 21% to 22%.

Succession planning and new incentive plan

Roger Parry joined YouGov as non-executive chair in 2007 and retires at the end of this financial year. The new chair is to be Shakespeare, co-founder and CEO, which should lead to continuity of strategy into the next management plan, SP3. This runs from FY24–26, with details likely to be finalised by the planned capital markets day (CMD) in Spring 2023, at which point a new CEO should have been identified and who should start in the role in August. A further non-executive is also being sought.

Valuation: High growth out of fashion

YouGov's share price has fallen 50% over the year to date, while its global peer set's share prices have declined 34% as the market's appetite for high growth and tech stocks has evaporated. The confirmation that Shakespeare has no intention of selling his 7.9% shareholding, despite his upcoming move to take the chair, should provide comfort that there is no associated overhang.

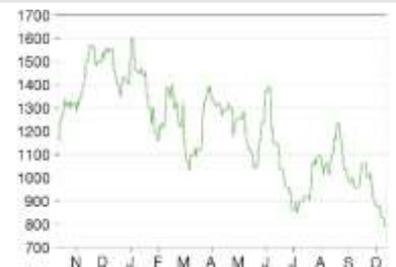
Media

13 October 2022

Price 795p
Market cap £886m

Net cash (£m) at 31 July 2022	37.4
Shares in issue	111.5m
Free float	89.4%
Code	YOU
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(17.2)	(11.5)	(31.5)
Rel (local)	(8.4)	(5.5)	(25.1)
52-week high/low		1,600p	790p

Business description

YouGov is an international online research data and analytics group. Its data-led offering supports and improves a wide spectrum of marketing activities of a customer base including media owners, brands and media agencies. It works with some of the world's most recognised brands.

Next events

AGM 8 December 2022

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Revenue and adjusted operating profit in line

The group revenue and adjusted operating profit for the year to end-July are broadly in line with expectations. We were forecasting group revenue of £215m and an adjusted operating profit of £36.5m, so slightly more cautious on revenue and slightly overestimating the margin, due to assumptions about the mix of business.

Exhibit 1: Summary segmental performance

	FY22 Revenue (£m)	u/l growth	Adj Op Profit (£m)	Adj FY22 Op Margin	Adj FY21 Op Margin
Data Products	74.1	+23%	27.0	36%	33%
Data Services	50.7	+11%	7.7	15%	19%
Custom Research	95.6	+21%	21.0	22%	21%
Intra-group & central revenues/central costs	0.7		(19.4)		
Group Total	221.1	+20%	36.3	16%	15%

Source: YouGov

The Custom Research business did particularly well in H222 as the LINK business settled in, but also as it gained ground in the core US market where the ability to connect data and re-target panellists proved a strong selling point with new clients across the technology and gaming sectors.

It is also worth highlighting the improving quality of earnings in the Data Products segment, where multi-year subscription deals are increasing in the mix.

Further down the income statement, there is greater divergence from our, and market, estimates. The group generates considerable amounts of cash in the US (Americas accounts for 43% of group revenue and 57% of adjusted operating profit) and utilises intercompany loans, particularly between the US and the UK, from where panel acquisition and capex are mostly funded. The combination of an accelerated payback of the revolving credit facility (£20.0m drawn down in H122 and paid back in H222) and rapidly moving forex led to a net finance charge of £4.6m, despite the abundance of cash on the balance sheet.

Continued investment in technology and panel

Adjusted EBITDA converted to cash at 113% in the year, boosted by a working capital inflow of £6.6m. £8.0m was spent on panel acquisition in FY22, down from a high figure of £10.5m in FY21 when the group was seeking to scale up in new territories. This earlier expansion in Europe and Latin America has paid off, with the group winning several new substantial custom brand tracking clients that wanted to be consistent in their approach across territories. The panel now numbers 22m registered members globally, up 27% on the prior year.

Spend of software development was also down on the prior year, at £8.0m from £9.4m, with the bulk spent on continued improvements to the group's own technology platform.

This includes the building out of the YouGov Platform (launched today), which now offers a public-facing dashboard that should democratise the ability to conduct (standardised) self-service research and data analytics of high quality, due to the immediacy of the panel and the extent of the data available from it. The aim is to make it as frictionless as possible and widen the pool of clients without the need for resource-hungry marketing drives.

Healthy cash balance to fund continued investment and pursue select bolt-on acquisitions

Net cash at the year-end was £37.4m (no bank debt, lease liabilities only), post capex of £17.5m and spend of £25.4m in FY22 on the acquisitions of LINK Marketing in Switzerland and Rezonence,

which boosts the group's ability to collect large amounts of data through publisher partnerships.

M&A priorities include:

- building YouGov's exposure to the healthcare sector (though not in the pharmaceutical/clinical trial arena, rather, more to build on the type of work carried out during the height of the COVID-19 pandemic on individual behaviour for the World Health Organization);
- accelerating the pace of growth in the US; and
- adding technology and people with applicable skillsets.

Our modelling indicates that, without further acquisitions, net cash would build to £62.3m. Dividend payout is around 30% of post-tax income.

Outlook remains positive but circumspect

The momentum remains positive, with plenty of new initiatives and iterative improvements on existing elements in the offering. That said, the economic mood has obviously darkened and there is significant upward pressure on operating costs through labour cost inflation, with data specialists, in particular, in short supply. To some extent this is mitigated by the investment that the group has made in its CenX (centres of excellence), the latest of which is opening in Mexico, with the ability to meet servicing requirements in multiple time zones and multiple languages.

Management confirms that the current year has started well and that it expects to meet current market expectations for FY23 and our revenue and adjusted operating profit forecasts are unchanged, as they are for FY24e.

The targets for FYP2, which runs from FY19–23, are to:

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

Of these targets, the one that will be hardest to achieve is that for adjusted operating margin, particularly given current cost pressures.

Rather than meet a cliff edge at the end of this period, a new strategic plan (SP3) is being drawn up, which will cover FY24–26 and which, like FYP2, will have an associated long-term incentive plan to incentivise senior management.

More detail on this will be set out at the proposed CMD in the Spring, but with these results, management has outlined an overarching plan whereby standardised and scalable client interaction will be conducted via the YouGov Platform on what will effectively be a 'hands free' basis. This will operate alongside a custom research practice, which will handle more complex assignments. This would mean that the group could scale more effectively – and more quickly – while driving margins further. In the CEO's words, 'We're not even halfway there yet.'

Retreat from highest premium rating

With the asset rotation away from tech and high growth stocks, particularly those that had previously performed very strongly, YouGov's share price has fallen away steeply over the year to date, declining 50%. Peer share prices have retreated on average by 30%, but this figure is moderated by the Nielsen share price as it is taken back into private equity ownership at \$28. Excluding Nielsen, the average fall is 38%.

It is now no longer rated right at the top of the range of peers, being closer to the average rating of this global group.

Exhibit 2: Peer price metrics

	ytd performance (%)	Price - reporting currency	Quoted Ccy	Market cap (m)	EV/ Sales 1FY (x)	EV/ EBITD A last (x)	EV/ EBITD A 1FY (x)	EV/ EBITD A 2FY (x)	EV/ EBITD A 3FY (x)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)	P/E 3FY (x)	Div yield last (%)	EBITDA margin last (%)
NEXT FIFTEEN	(41)	820	GBp	782	1.5	12.3	6.4	5.5	5.3	12.8	10.4	8.8	8.1	1.0	19.8
COMSCORE	(58)	1.47	USD	134	0.8	34.5	8.9	6.5	5.1					0.0	3.9
IPSOS	13	47.10	EUR	2,080	1.0	6.4	6.3	6.0	5.5	10.2	9.9	9.3	8.5	2.8	15.6
QUALTRICS	(72)	10.49	USD	6,150	3.8		61.3	37.0	23.4			560.8	81.6	0.0	
FORRESTER	(35)	37.91	USD	719	1.2	16.7	8.7	7.4		45.8	16.4	14.2		0.0	12.9
GARTNER	(13)	294.40	USD	22,930	4.7	25.8	19.9	19.8	17.9	36.3	32.1	31.6	27.8	0.0	24.0
NIELSEN	36	27.96	USD	10,070	4.3	8.6	9.9	9.5	9.0	13.4	14.8	14.1	13.0	1.2	42.9
GLOBALDAT A	(27)	1,035	GBp	1,220	6.9	24.4	17.6	14.9	13.2	70.4	26.5	22.5	19.5	2.0	34.0
WPP	(32)	751	GBp	8,240	1.1	8.5	6.6	6.5	6.1	21.3	8.0	7.4	6.8	2.8	15.1
S4 CAPITAL	(74)	168	GBp	934	1.1	36.5	9.3	6.8	5.2	14.9	13.8	10.4	8.0	0.0	14.3
Median	(34)				1.4	16.7	9.1	7.1	6.1	18.1	14.3	14.1	10.7	0.5	15.6
Average	(30)				2.6	19.3	15.5	12.0	10.1	28.1	16.5	75.5	21.7	1.0	20.3
YOUGOV	(49)	825	GBp	905	3.7	18.0	13.4	11.3	10.0	38.8	35.4	24.9	21.1	0.7	27.2

Source: Refinitiv. Note: Prices at 10 October 2022.

Exhibit 3: Financial summary

	£'000s	2020	2021	2022	2023e	2024e
Year end 31 July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		152,441	169,000	221,100	255,000	290,000
Cost of Sales		(23,375)	(26,200)	(33,700)	(39,796)	(45,190)
Gross Profit		129,067	142,800	187,400	215,204	244,810
EBITDA		39,215	45,900	61,600	73,200	82,400
Operating Profit (before amort. and excepts.)		21,830	26,100	36,400	48,500	57,100
Intangible Amortisation		(12,885)	(15,300)	(20,400)	(20,000)	(20,000)
Share based payments		(2,900)	(5,100)	(2,900)	(3,000)	(3,000)
Exceptionals		(6,630)	(6,500)	(6,300)	(2,500)	(2,500)
Other		0	0	0	0	0
Operating Profit		15,200	19,600	30,100	46,000	54,600
Net Interest		7	(100)	(4,700)	(125)	(125)
Profit Before Tax (norm)		24,737	31,100	34,600	51,375	59,975
Profit Before Tax (IFRS16)		15,207	19,500	25,400	45,875	54,475
Tax		(5,812)	(6,400)	(7,800)	(12,845)	(15,253)
Profit After Tax (norm)		18,925	24,700	26,800	38,530	44,722
Profit After Tax (IFRS16)		9,395	12,500	17,500	33,030	39,222
Average Number of Shares Outstanding (m)		106.7	109.7	109.9	111.5	111.5
EPS - normalised (p)		15.7	21.1	23.2	33.0	38.8
EPS - IFRS 16 (p)		9.0	11.5	15.7	29.6	35.2
Dividend per share (p)		5.0	6.0	7.0	10.0	11.0
Gross Margin (%)		84.7	84.5	84.8	84.4	84.4
EBITDA Margin (%)		25.7	27.2	27.9	28.7	28.4
Operating Margin (before GW and except) (%)		14.3	15.4	16.5	19.0	19.7
BALANCE SHEET						
Fixed Assets		108,122	116,091	145,200	152,900	155,167
Intangible Assets		84,611	89,611	118,355	125,755	127,755
Tangible Assets		23,511	26,413	26,791	27,091	27,358
Investments		0	67	54	54	54
Current Assets		70,255	82,409	95,200	126,251	167,148
Stocks		0	0	0	0	0
Debtors		34,239	40,700	53,700	59,861	68,872
Cash		35,309	35,509	37,400	62,290	94,175
Current Liabilities		(52,813)	(67,200)	(90,500)	(94,642)	(105,216)
Creditors		(52,813)	(67,200)	(90,500)	(94,642)	(105,216)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(16,226)	(19,300)	(24,900)	(24,900)	(24,900)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(16,226)	(19,300)	(24,900)	(24,900)	(24,900)
Net Assets		109,338	112,000	125,000	159,609	192,198
CASH FLOW						
Operating Cash Flow		38,411	45,100	68,800	77,226	84,910
Net Interest		(7)	(500)	(900)	125	125
Tax		(3,184)	(7,100)	(6,900)	(12,845)	(15,253)
Capex		(18,559)	(21,100)	(17,500)	(23,300)	(24,500)
Acquisitions/disposals		(7,451)	(2,800)	(25,400)	(6,100)	0
Financing		(4,739)	(2,200)	(9,900)	(2,000)	(2,000)
Dividends		(4,298)	(5,500)	(6,679)	(7,802)	(11,146)
Net Cash Flow		173	5,900	1,521	25,304	32,136
Opening net debt/(cash)		(37,925)	(35,309)	(35,509)	(37,400)	(62,290)
HP finance leases initiated		0	0	0	0	0
Other		(2,789)	(5,900)	370	(415)	(250)
Closing net debt/(cash)		(35,309)	(35,309)	(37,400)	(62,290)	(94,175)

Source: Company accounts, Edison Investment Research

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