

YouGov

Activated data

As indicated at January's trading update, YouGov had a strong H119. 18% revenue growth (10% underlying) blends +34% from Products & Services with +4% from Custom. More notable, though, is the step up in adjusted operating margin from 16% in H118 to 19% as the syndicated data model starts to show its value. Management has outlined ambitious new, five-year targets; looking to double group revenue and operating margin and achieve a CAGR of over 30% for EPS. With the continuing investment requirement, we expect stronger progress towards these targets in the second half of the period. Nevertheless, they underpin the valuation.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
07/17	107.0	17.9	10.5	2.0	27.7	45.4	0.4
07/18	116.6	26.9	15.6	3.0	19.3	30.6	0.6
07/19e	137.0	27.2	16.2	3.5	19.5	29.4	0.7
07/20e	150.0	30.5	18.7	4.0	16.8	25.6	0.8

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

Operating margin to build over five-year plan

Our revenue forecasts for FY19e and FY20e are pushed ahead by 5–6% on the back of these results, with our current year EBITDA number broadly unchanged and that for FY20e edged up 5%. The rise in the H119 adjusted group operating margin came from improvements both in Data Products, buoyed by growth in YouGov Profiles and reduced use of third-party data collection, and in Custom Research, as the strategy of reducing one-off projects and the benefits of earlier restructuring started to flow through. The newly stated target to double the operating margin by the end of five years would partly be achieved through the change in mix from faster growth of Data Products and Services and partly through operational leverage against a proportion of fixed central costs. However, it will also require further investment in platforms and tools to make the most of the connected data resource for the advantage of clients.

Adjustments to reporting measures flagged

Management has indicated that as of reporting the FY19 results in November, it will alter its definition of adjusted profits and earnings to include the amortisation of intangible assets charged to operating expenses and share-based charges where appropriate. FY18 will be presented in the new format to facilitate comparison.

Valuation: Not yet reflecting full growth potential

The share price has performed well year-to-date (+22%) as the strength of the group's positioning as a data partner to businesses, and in particular to media owners, agencies and brands, has been recognised. This has put YouGov on a rating well ahead of sector peers, but still considerably below the listed SaaS subscription businesses with which it has increasing commonality. On a DCF basis (on a WACC of 6.5% and terminal growth of 2%), the current price is reflecting no margin expansion on mid-term revenue growth of 10%.

Interim results

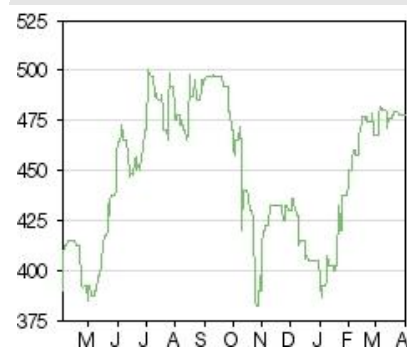
Media

2 April 2019

Price 477.5p
Market cap £504m

Net cash (£m) as at 31 January 2019	25
Shares in issue	105.5m
Free float	83.3%
Code	YOU
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	0.6	18.6	30.8
Rel (local)	1.1	10.4	27.8
52-week high/low		500p	380p

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 event

Prelims	8 October 2019
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Good H119 progress

The divisional results are set out below:

Exhibit 1: Half-year results								
£m	H118	y-o-y change	H218	y-o-y change	FY18	y-o-y change	H119	y-o-y change
Revenue								
Data Products	14.382	31%	16.1	12%	30.445	26%	19.402	35%
Data Services	13.439	22%	15.5	26%	28.956	24%	17.819	33%
Custom Research	29.135	-2%	29.5	-3%	58.657	-3%	30.358	4%
Eliminations	(0.64)		(0.859)		(1.499)	50%	(1.04)	62%
Total	56.96	10%	61.10	8%	116.560	9%	66.54	17%
Operating profit								
Data Products	4.785	73%	6.9	61%	11.659	66%	7.338	53%
Data Services	3.511	41%	4.5	39%	8.002	40%	4.402	25%
Custom Research	6.863	60%	7.3	57%	14.121	59%	7.863	15%
Total	15.16	59%	18.62	54%	33.782	56%	19.60	29%
Central costs	(6.329)		(7.779)		(14.108)		(7.124)	
Divisional operating margin								
Data Products	33.3%		42.8%		38.3%		37.8%	
Data Services	26.1%		28.9%		27.6%		24.7%	
Custom Research	23.6%		24.6%		24.1%		25.9%	
Group operating margin	15.5%		17.7%		16.9%		18.8%	
Source: Company data								

The improvement in operating margin for Data Products from 33.3% in H118 to 37.8% in H119 is particularly noteworthy as it shows the first benefits of integrating the established BrandIndex product with the newer YouGov Profiles to provide a powerful planning and tracking tool for media campaigns. This is now available in 19 of BrandIndex's 38 territories. The US market produced 28% underlying growth in Data Products revenue in the period, up 39% with acquisitions included. The UK grew 29%, albeit that this was a slower pace than the prior year and shows no signs of maturity as yet.

In Data Services, revenues were ahead by 33%, but some of this was business reallocated from the Custom business, which diluted the published operating margin. Underlying revenue growth from Omnibus (which makes up 96% of the segment) was 10%.

The quality of the Custom Research book continues to improve as it focuses more on multi-country, multi-wave studies and makes increasing use of Cube data. Its financial performance was also boosted by last year's restructuring of the Custom business in Germany and the Middle East.

Modest changes to forecasts

The new five-year growth targets would seem to imply that there needs to be a faster ramp up in performance than is indicated by our forecasts, but we would expect the faster growth to be back-end loaded, as it was with the previous five-year plan, which matures with the end of the financial year in September.

To achieve this degree of progress, YouGov needs to continue to invest in its technology platform, its people, its toolset and its panel. There is also some cost to be borne in respect of developing the Public Data offering, which will give greater utility to the participating panellists and to others wishing to use the data, as well as providing content for media owners and supporting the YouGov brand.

Exhibit 2: Revisions to estimates

	EPS (p)			PBT (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
FY18	15.6	15.6	N/A	26.9	26.9	N/A	24.6	24.6	N/A
FY19e	17.2	16.2	-6	27.5	27.2	-7	26.5	26.2	-1
FY20e	18.3	18.7	+2	29.5	30.5	+3	28.7	30.2	+5

Source: Company accounts, Edison Investment Research

Doubling revenue to £230m by FY23e equates to a CAGR of just below 15%, which in the context of the group's recent financial history, seems a slightly less aggressive target than the doubling of operating margin to 30%. More challenging than either, though, will be the EPS CAGR target of over 30%. It should be borne in mind that these are intended to be targets, not budgets.

Plenty of cash resource

As at the half year, the balance sheet had £25.0m of net cash (there is no debt), down from £30.6m at the year end. In the six months, though, the group spent £2.3m on acquisitions, a similar amount on continuing development of the technology platform, £2.2m on panel recruitment and £2.2m on property, plant and equipment. The total deferred consideration payable on future earnouts now stands at £16.0m which is clearly very comfortably covered by operating cash flow.

Our modelling indicates a cash balance of around £31m at end FY19e, rising to £33.5m by the close of the following year despite acquisition spend of £4.5m followed by £7.0m and share buybacks of £3.2m in FY19e followed by £1.5m in FY20e.

Divergent peer valuations favour data

Exhibit 3: Peer set valuations

		% ytd	Market	EV/Sales	P/E			EV/EBITDA			FCF yield
		performance	cap (m)	FY1 (x)	Last (x)	FY1 (x)	FY2 (x)	Last (x)	FY1 (x)	FY2 (x)	FY1 (%)
Nielsen Holdings	US\$23.67	1.46	US\$8,413m	2.54	24.66	13.95	12.66	9.05	8.92	8.48	7.48
Ipsos	€22.32	8.67	€992m	0.81	N/A	N/A	N/A	7.41	6.89	6.60	10.86
Ebiquity	42.5p	-34.62	£31.9m	0.78	9.86	10.37	8.60	4.41	7.65	6.85	4.07
System1 Group	195p	-9.30	£24.5m	0.78	20.53	10.07	7.70	8.92	5.23	4.01	N/A
Next Fifteen Communications Group	562p	14.93	£470.0m	2.18	20.22	17.10	15.09	14.30	11.65	10.06	4.21
GlobalData	595p	1.28	£703.4m	4.35	30.23	25.84	22.62	28.88	18.48	16.49	4.55
Forrester Research	US\$48.35	8.17	US\$890m	1.62	35.55	29.97	24.01	21.23	15.88	11.43	1.19
Average				1.87	23.51	17.88	15.11	13.46	10.67	9.13	5.39
YouGov	477.5p	21.66	£503.6m	3.74	30.61	28.72	25.75	19.25	18.32	16.48	2.84
Premium				101%	30%	61%	70%	43%	72%	80%	-47%

Source: Refinitiv, Edison Investment Research. Note: Prices as at 1 April 2019.

There is a clear divergence on valuation amongst the peers, with those whose business model is predicated on data modelling being significantly more highly rated by the market, helped also by their greater scale. In this context, YouGov's rating looks more appropriate.

Exhibit 4: Financial summary

	£'000s	2017	2018	2019e	2020e
Year end 31 July		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		107,048	116,560	137,000	150,000
Cost of Sales		(21,339)	(21,496)	(26,780)	(27,650)
Gross Profit		85,709	95,064	110,220	122,350
EBITDA		17,210	24,551	26,194	30,176
Operating Profit (before amort. and except.)		16,036	23,320	24,694	28,601
Intangible Amortisation		(6,483)	(7,026)	(8,000)	(8,000)
Share based payments		(1,508)	(3,646)	(2,500)	(1,800)
Exceptionals		(488)	(826)	(800)	0
Other		103	2	0	0
Operating Profit		7,660	11,824	13,394	18,801
Net Interest		254	(51)	25	137
Profit Before Tax (norm)		17,901	26,917	27,219	30,538
Profit Before Tax (FRS 3)		7,914	11,773	13,419	18,938
Tax		(3,273)	(3,615)	(5,036)	(6,108)
Profit After Tax (norm)		13,120	19,858	19,683	22,631
Profit After Tax (FRS 3)		4,641	8,158	8,383	12,629
Average Number of Shares Outstanding (m)		104.8	105.4	113.4	113.4
EPS - normalised and fully diluted (p)		10.5	15.6	16.2	18.7
EPS - FRS 3 (p)		4.5	7.7	7.4	11.1
Dividend per share (p)		2.0	3.0	3.5	4.0
Gross Margin (%)		80.1	81.6	80.5	81.6
EBITDA Margin (%)		16.1	21.1	19.1	20.1
Operating Margin (before GW and except & share-based payments) (%)		13.6	16.9	16.2	17.9
BALANCE SHEET					
Fixed Assets		64,637	78,019	77,768	77,517
Intangible Assets		54,960	65,357	65,331	65,305
Tangible Assets		9,332	12,471	12,246	12,021
Investments		345	191	191	191
Current Assets		54,918	66,735	71,743	79,590
Stocks		0	0	0	0
Debtors		30,699	34,672	39,122	44,619
Cash		23,481	30,621	31,179	33,529
Current Liabilities		(34,177)	(41,445)	(47,613)	(51,653)
Creditors		(33,915)	(41,445)	(47,613)	(51,653)
Short term borrowings		(262)	0	0	0
Long Term Liabilities		(4,905)	(11,238)	(11,238)	(11,238)
Long term borrowings		0	0	0	0
Other long term liabilities		(4,905)	(11,238)	(11,238)	(11,238)
Net Assets		80,473	92,071	90,660	94,216
CASH FLOW					
Operating Cash Flow		18,914	23,617	27,100	28,700
Net Interest		4	22	25	137
Tax		(2,487)	(5,501)	(5,703)	(5,304)
Capex		(7,661)	(8,181)	(10,000)	(8,750)
Acquisitions/disposals		0	(885)	(4,500)	(7,000)
Financing		175	259	(3,200)	(1,500)
Dividends		(1,470)	(2,106)	(3,166)	(3,934)
Net Cash Flow		7,475	7,225	557	2,350
Opening net debt/(cash)		(15,553)	(23,219)	(30,621)	(31,177)
HP finance leases initiated		0	0	0	0
Other		191	177	0	0
Closing net debt/(cash)		(23,219)	(30,621)	(31,177)	(33,527)

Source: Company accounts, Edison Investment Research

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