YouGov

Full-year results

Stretch targets exceeded

Media

YouGov's final results to end July showed strong revenue growth (+10% underlying) and a 200bp increase in operating margins. The continuing drive is on growing Data Products and Services and focusing Custom Research on more profitable business. The ambitious targets to improve profitability set in the original five-year plan have been met. The new five-year plan to FY23 targets doubling both revenue and adjusted operating profit margin, as well as achieving a 30% CAGR in EPS (25% EPS CAGR in the earlier plan). In this context, the valuation premium to slower-growing peers looks well underpinned.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
07/18**	116.6	16.4	10.8	3.0	25.6	49.7	0.6
07/19	136.5	20.5	13.9	4.0	17.7	38.6	0.7
07/20e	152.1	26.5	17.8	5.0	14.7	30.2	0.9
07/21e	163.7	33.6	22.1	6.3	11.9	24.3	1.2

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

Data Products lead the way

Like-for-like revenue growth in Data Products and Services of 18% was diluted by 1% growth in Custom Research, but the latter was deliberately constrained by cutting less profitable business from the mix. Data Products (30% group revenue) was up by 25% underlying, with adjusted operating margin climbing from 31% to 34%. YouGov Plan & Track, which integrates BrandIndex and Profiles, is gaining good traction with agencies and brand owners. Data Services like-for-like revenue (27% group) grew 11%, with the US building fast. Margins were diluted from 21% to 20% by including some custom research business re-categorised from the Nordics. The Custom Research segment lifted adjusted operating margin from 20% to 22%.

Five-year growth plan: More of the same but better

The growth plan is predominantly predicated on organic progress, adding new products, enhancing the technologies, adding new countries and new verticals, and improving the sales and marketing function. YouGov is looking to break down internal silos, adding key account management teams, to grow the client base and to cross- and up-sell additional business lines into existing clients. Smaller acquisitions that can accelerate progress on any of these fronts are likely, given the group's net cash (£37.9m at end July and high levels of operating cash conversation – 124% of adjusted EBITDA in the year just reported). We have updated our FY20 forecasts on these results and introduced FY21 numbers.

Valuation: Reflects ambitious objectives

YouGov's share price has performed strongly, up by 37% since the start of the year (although 10% off its August peak), giving a 10-year CAGR of 27%. Earnings multiples are at the top end of the range of global peers, although it can be argued that none are directly comparable. On a reverse DCF basis, at our FY21e projected EBITDA margin of 26% (which should prove conservative given the ambitions in the five-year plan), the current share price implies top-line growth of 5.6% in FY22–27, well below the level needed to meet the new growth target.

21 October 2019

Price	**536p**
Market cap	**£566m**
	£1:$1.23
Net cash (£m) at 31 July 2019	37.9
Shares in issue	105.6m
Free float	62.3%
Code	YOU
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(1.7)	(0.7)	23.2
Rel (local)	0.0	2.6	20.4
52-week high/low		596.0p	382.5p

Business description

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

Next events

Pre-close update	January 20

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Edison profile page

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Clarifying financials

Presentational adjustments

The group has changed the presentation of its financials, as indicated earlier. The changes to adjusted measures mean they now include amortisation of intangible assets charged to operating expenses. This principally relates to the amortisation of panel acquisition costs and internally developed software and software development. Company-adjusted measures are also presented after charging share-based payments. We have altered our presentation to match that of the company to ease comparison. In Exhibit 1, below, 'Old' refers to our previously published estimates adjusting for amortisation and share-based payments.

Exhibit 1: Changes to forecasts

	Adj EPS (p)			Adj PBT (£m)			EBITDA (£m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2019	16.2	13.9	-14	27.2	20.5	-25	26.2	28.6	+9
2020e	18.6	17.8	-4	30.5	26.5	-13	30.1	35.4	+18
2021e	-	22.1	N/A	-	33.6	N/A	-	42.5	N/A

Source: Company accounts, Edison Investment Research

FY19 EBITDA came in 9% ahead of our earlier forecast, with revenue broadly in line. The company's pre-close trading update indicated the results were to be 'comfortably ahead' of then current market forecasts but we did not move our projections at that stage. At the adjusted PBT level, our forecasts now exclude amortisation of £8.8m.

Our FY20 forecasts are based against this higher comparative and we now publish our FY21 estimates, which show continuing top-line growth and margin expansion.

Vesting conditions of new long-term incentive plan

The conditions for the new long-term incentive plan are based on the FY19 base, so over four years, whereas the new corporate five-year growth plan (ending FY23) is based on the FY18 reported figures. The level of awards that can be made ratchet according to growth in adjusted EPS (excluding exceptional and non-recurring items). The threshold for any to be granted is a 10% CAGR over the four years, at which point 10% vest. Over 15% CAGR, this moves up to 25%, with full vesting only occurring if the CAGR over the period exceeds 35%.

Our modelling for FY20e and FY21e is for adjusted EPS CAGR of 26%.

Powering the next stage

Improving coherence

Our last report, published in June, went through the business model and expansion strategy in some depth.

The results presentation focused on delivering a more coherent programme to drive the group towards its aim of being 'the world's leading provider of marketing and opinion data'. This does not involve any major adjustments to the overarching strategy, rather a case of doing the same but more and better.

A key part of this is to bring the elements of the group's commercial and public offerings together on a universal platform that can combine the various websites, apps, interfaces and dashboards. As well as providing greater clarity for the users, there are practical benefits on the back end, allowing greater integration of the data and opening up potential new revenue streams. The proprietary data storage and analytics system, Crunch, is under continual development, currently focused on delivering 3D capability, ie as a time series.

The group is also bringing greater coherence to its sales and marketing efforts, establishing key account management teams. Overall the group has around 3,000 clients but has historically been better at selling them specific products or services than partnering with them to solve problems that could involve a range of solutions. Changes to the internal structures away from P&Ls within teams and segments should help to make better use of cross- and up-selling opportunities.

Big game trackers

The number of multi-year and multi-territory subscription studies is steadily building (partly visible in the 16% increase in the deferred income figure of £14.5m in FY19 from £12.5m the prior year). Winning global tracker studies is a key aim. Developments in upgrading Crunch will be instrumental in driving success here and attracting global companies away from traditional providers such as Nielsen, GFK and Kantar. Having key account managers, as described above, will also make the group look and feel more like global provider from the perspective of the potential clients.

YouGov Direct a possible game-changer

GDPR has challenged the marketing industry in a lot of its assumptions and methodologies and the full impact is not yet being felt. One of YouGov's key differentiators is its extensive and engaged panel, which, amongst the other benefits of cost and timeliness, allows for far more efficient re-contact studies. As part of the sign-up process, panellists give explicit consent for the way their data can be used.

YouGov Direct takes this one step further, with panellists making their opinion and behavioural data available for research in a marketing context (extending as far as monitoring bank account activity for those happy to do this). Permissioning is accounted for through an encrypted blockchain. Brand owners and agencies can message panellists directly, with initial trials (with the likes of an ad platform, a newspaper brand, an agency and a TV broadcaster) proving 'highly successful'.

There is considerable potential for this approach to be incorporated within a digital advertising environment; improving targeting and therefore the ROI of marketing spend.

Cash to invest

The proposed dividend of 4p is up one-third on prior year. Conversion of adjusted EBITDA to cash of 124% continues a long-established trend, allowing plenty of scope for investment and acquisitions. The group ended the year with net cash of £37.9m and has no debt. Outstanding contingent consideration is in the balance sheet at £10m (£2.8m short term), with the absolute maximum payable being £41.2m.

We would expect to see continuing growth in the dividend and have assumed capex of £10m in each of our forecast years, a little down from the £12.2m spent in FY19. Factoring this in, we project a year-end net cash figure of £46.6m for July 2020, rising to £58.5m the following year. Acquisitions are likely to be bolt-on rather than substantial.

Exhibit 2: Financial summary

£'000s	2017	2018	2019	2020e	2021e
Year end 31 July	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	107,048	116,559	136,487	152,076	163,678
Cost of Sales	(21,339)	(21,495)	(24,206)	(26,461)	(27,692)
Gross Profit	85,709	95,064	112,281	125,615	135,986
EBITDA	15,702	20,907	28,578	35,405	42,505
Operating Profit (before amort., except.)	14,528	12,650	18,288	25,021	32,121
Intangible Amortisation	(6,483)	(7,026)	(8,809)	(8,809)	(8,809)
Share based payments	(1,508)	(3,571)	(2,401)	(1,250)	(1,250)
Exceptionals	(488)	(826)	1,529	0	0
Other	103	204	200	0	0
Operating Profit	6,152	12,028	20,017	25,021	32,121
Net Interest	254	(51)	(361)	186	238
Profit Before Tax (adj)	16,393	16,374	20,528	26,457	33,609
Profit Before Tax (FRS 3)	6,406	11,773	19,456	25,207	32,359
Tax	(3,273)	(3,615)	(5,085)	(6,530)	(8,358)
Profit After Tax (norm)	13,120	12,759	15,443	19,927	25,251
Profit After Tax (FRS 3)	3,133	8,158	14,371	17,427	22,751
Average Number of Shares Outstanding (m)	104.8	105.4	105.4	105.6	105.6
EPS - normalised, fully diluted (p)	7.8	10.8	13.9	17.8	22.1
EPS - FRS 3 (p)	3.0	7.7	14.2	16.5	21.5
Dividend per share (p)	2.0	3.0	4.0	5.0	6.3
Gross Margin (%)	80.1	81.6	82.3	82.6	83.1
EBITDA Margin (%)	14.7	17.9	20.9	23.3	26.0
Operating Margin (before GW and except & share-based payments) (%)	12.2	7.8	11.6	15.6	18.9
BALANCE SHEET					
Fixed Assets	64,637	78,019	98,006	98,197	98,388
Intangible Assets	54,960	65,357	82,374	82,565	82,756
Tangible Assets	9,332	12,471	15,632	15,632	15,632
Investments	345	191	0	0	0
Current Assets	54,918	66,735	72,581	92,810	108,098
Stocks	0	0	0	0	0
Debtors	30,699	34,672	33,726	45,237	48,688
Cash	23,481	30,621	37,925	46,643	58,480
Current Liabilities	(34,177)	(41,445)	(48,503)	(50,285)	(53,689)
Creditors	(33,915)	(41,445)	(48,503)	(50,285)	(53,689)
Short term borrowings	(262)	0	0	0	0
Long Term Liabilities	(4,905)	(11,238)	(11,238)	(11,238)	(11,238)
Long term borrowings	0	0	0	0	0
Other long term liabilities	(4,905)	(11,238)	(11,238)	(11,238)	(11,238)
Net Assets	80,473	92,071	110,846	129,484	141,559
CASH FLOW					
Operating Cash Flow	18,914	23,617	35,230	35,405	42,256
Net Interest	4	22	183	186	238
Tax	(2,487)	(5,501)	(4,520)	(3,873)	(5,871)
Capex	(7,661)	(8,181)	(12,166)	(10,000)	(10,000)
Acquisitions/disposals	0	(885)	(6,583)	(7,000)	(8,600)
Financing	175	259	(3,652)	(1,500)	0
Dividends	(1,470)	(2,106)	(3,327)	(4,499)	(6,204)
Net Cash Flow	7,475	7,225	5,165	8,719	11,820
Opening net debt/(cash)	(15,553)	(23,219)	(30,621)	(37,925)	(46,644)
HP finance leases initiated	0	0	0	0	0
Other	191	177	2,138	0	0
Closing net debt/(cash)	(23,219)	(30,621)	(37,925)	(46,644)	(58,464)

Source: YouGov, Edison Investment Research

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