

Data: the connecting currency

YouGov continues to develop its data, platform and tools to address significant opportunities to embed in clients' workflows, particularly within the marketing segment. Its new five-year growth plan to FY23 targets building out its panel, data and client base globally, doubling group revenue and operating margin and achieving a CAGR of over 30% for EPS. Given the investment required to achieve this, we expect progress towards these targets to be weighted to the latter part of the period. Strong share price performance puts the rating (on unchanged estimates) at the top of the global peer range and reflects the scale of management's ambitions.

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	30.8	50.1	0.4
07/18	116.6	26.8	15.5	3.0	21.6	33.9	0.6
07/19e	137.0	27.2	16.2	3.5	20.2	32.5	0.7
07/20e	150.0	30.5	18.6	4.0	17.6	28.3	0.8

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

Vision clarifying

YouGov's management has now fully articulated its ambition: to be the world's foremost provider of single-source systematic marketing data, with the largest and most engaged research panel. In a world where data privacy is increasingly valued, having access to permissioned data (fully GDPR-compliant) is a key differentiator, allowing for faster responses and increased automation and efficiency. This in turn enables outputs to be more embedded in clients' workflows, increasing the visibility and quality of earnings. The increasing integration of the group's syndicated data into its custom research offering is improving the quality of this business and helping drive the operating margin. The new five-year plan targets doubling group adjusted operating margin, on doubled revenues, with a 30% CAGR for EPS.

Cash generation covers investment and acquisitions

YouGov has a good record on cash conversion, averaging 123% over the last five years. This has funded a growing dividend, investment in technology, geographic expansion and growing the panel that underlies the connected data collection. The group has recently stepped up its acquisition programme, having grown organically for most of its development. This is within a tight remit that each asset should bring into the group new technologies, geographies and specialisms (including specialist panel) that work to leverage and extend existing products and services.

Valuation: Reflecting ambitious objectives

YouGov's shares have performed strongly, up by 34% since the start of the year. Over 10 years, the shares have increased at a CAGR of 25%. They are now trading on earnings multiples 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 FY20e projected margin of 20% (which should prove conservative given the ambitions in the five-year plan), the current share price implies top-line growth of 15%, roughly the level needed to meet the growth target.

Media

11 June 2019

Price 526p
Market cap £555m

Net cash (£m) as at 31 January 2019	25
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	14.9	9.6	13.0
Rel (local)	12.7	6.0	18.7
52-week high/low		527.0p	382.5p

Business description

YouGov is a global research data and analytics group, with over seven 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	End July 2019
Final results	8 October 2019

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Investment case

YouGov's interims for H119 showed strong revenue growth of 18% (+10% underlying), with an improvement in adjusted operating margin from 16% in H118 to 19% as the group's syndicated data model started to demonstrate its value. Cash at the period end was £25m (there is no debt), with deferred earnout consideration assessed at £16m, which we model at £7m for FY20. Our estimates are unchanged at this juncture.

- YouGov has built a strong **brand** in the research space, leveraged off its reputation in polling, which helps it to recruit and retain panel and to grow its commercial business. As the business was originally set up as an online operator, it has none of the legacy organisational infrastructure that has handicapped the larger, more established incumbent players as the industry has become 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 data library, the **YouGov Cube**. This facilitates automation (which AI can drive further, faster) and productisation, making the commercial offering properly scalable. YouGov has also developed a sophisticated analytics system, **Crunch**.
- The group's **client base is diverse and international**, with a growing cohort of multinational clients who 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** (it a five-year average cash conversion of 123%) and a strong balance sheet, with net cash of £31.2m forecast for end FY19 (end July). Capex has stepped up in the current year to put in the technology investment and panel recruitment needed to drive the next phase of growth.
- **Acquisitions** have tended to be relatively modestly sized and are strategic to supplement and enhance the group offering. They fall into the categories of new technologies, geographies and specialisms (including specialist panel) that work to leverage and extend existing products and services.

With the interims in April, the group set out its **new five-year growth plan**. The previous five-year plan (described on page 7, below) draws to a close in July 2019 and the two plans overlap to avoid any 'cliff-edge' in performance. The KPIs outlined will 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%.

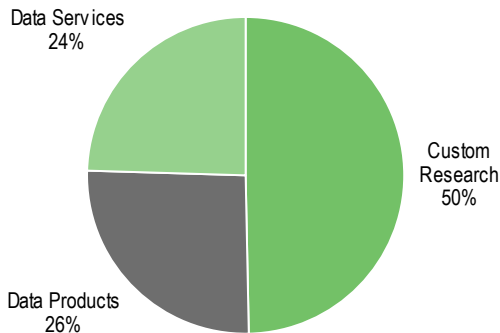
These are self-evidently demanding (as were those for the prior plan) and our forecasting basis is more circumspect.

Company description: ‘The best data, the best tools’

YouGov is an online market research and data analytics business, with clients and operations around the globe. It 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 seven 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, and is all attributable to identifiable individuals by YouGov in its data sets but is obviously 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. Rich data from this sizeable sample of panellists now covers more than 200k variables. These have been compiled into 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.

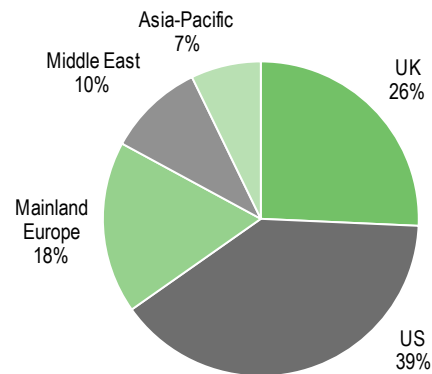
Started in the UK in 2000, the group has grown well beyond its domestic market and broadened out considerably from its initial best-known political polling activities. The current client base is diverse in terms of verticals and geographies, but mostly falls within three categories: media owners, media 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 below 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.

Exhibit 1: FY18 revenue split by activity



Source: YouGov accounts

Exhibit 2: FY18 revenue split by geography



Source: YouGov accounts

All driven off data

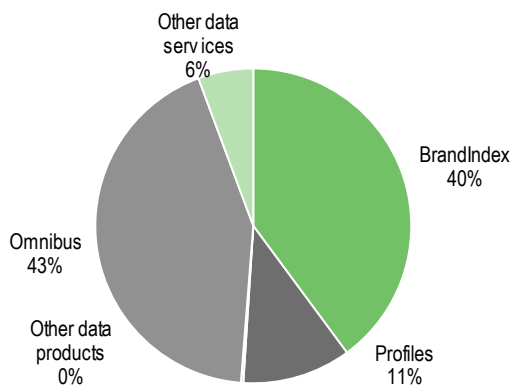
YouGov has over 2,000 clients across a wide variety of verticals, including FMCG, financials, technology and marketing services. It has developed a set of tools and services aimed at these brand owners and marketing agencies that help inform their planning and implementation decisions through the data gleaned from its panellists around the globe. YouGov reports its financial results in three components: Data Products (centred on BrandIndex), 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.

YouGov’s products and services are driven off the panellists’ data, which is broad and deep, with constant review of what other elements can be added and is drawn from their interaction with online surveys, online on the YouGov website/app and through passive tracking from those panellists who

have opted in. This is single-source, connected data, covering aspects such as demographics, attitudes, lifestyle, brand use and perception, issues and interests and personality. It is collated and stored within a multidimensional data library, the YouGov Cube.

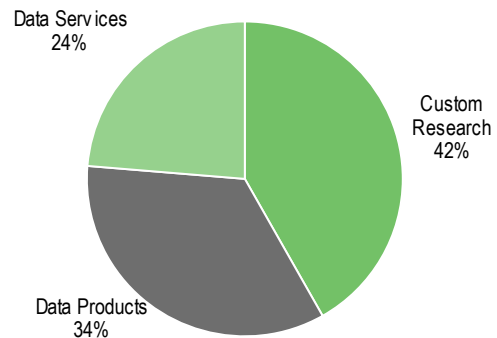
YouGov has also developed an analytics platform (now wholly owned), which it terms **Crunch**. It has been designed to be easy to use and flexible and, importantly, also allows clients to import third-party datasets.

Exhibit 3: Data products and services by offering



Source: YouGov accounts

Exhibit 4: Group operating profit by segment



Source: YouGov accounts

YouGov Data Products/Syndicated data

The segment is currently reported as Data Products, but management has indicated that future reporting will be under the banner Syndicated data, which should be a clearer description (being created once, used many times).

BrandIndex is the group's flagship service daily brand health tracking product. From £8m of revenues in FY14, it delivered £23.7m in FY18 and grew a further 23% in H119. The US is its largest market and customers range from Amazon to Bank of America and Viacom. It enables clients to benchmark against their competitors and across categories and assess the impact of unforeseen events. It now covers more than 13k brands globally. **Profiles** was launched more recently, achieving its first revenues in H215. It is an audience planning and segmentation tool, now running in 19 countries, with three more planned this financial year. It delivered revenues of £6.6m in FY18 and £4.9m in H119, up 66% on the comparative period. 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. Clients have now all been migrated to the Crunch platform to allow for increased integration.

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 balance of segmental revenues comes from the new Sports Index and add-on solutions for subscribers such as YouGov Audience Data.

YouGov Data Services

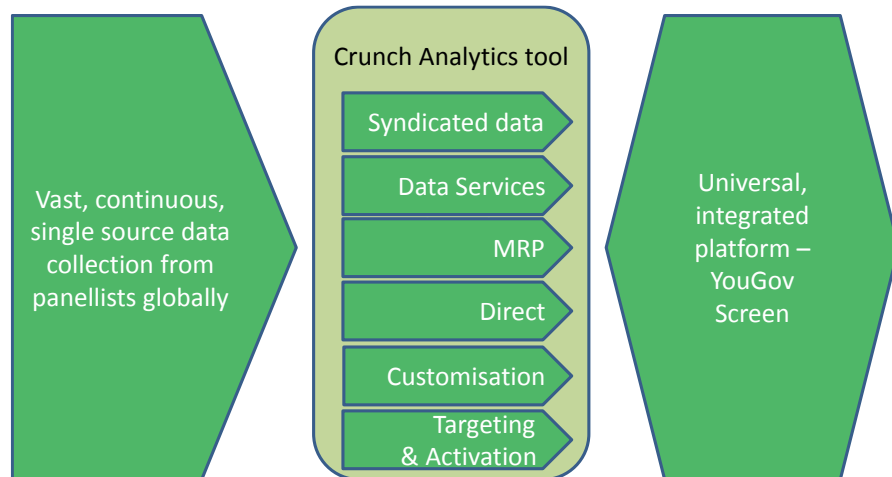
Data Services will be the other reporting segment, combining the existing data services and the custom research business. Over the last two to three years, the nature of the custom business has been realigned to integrate it with the syndicated data already available within the group and to have the 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).

Omnibus is the group’s online, fast-turnaround survey service. It has grown its revenues from £10.7m in FY14 to £25.6m in FY18 and delivered particularly strong growth of 35% in H119, boosted by the additional revenue referred to above plus that from acquisitions. It has over 1k customers globally and is market leader in the UK. 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.

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 moving to differentiate its offering through using the connected data that it already has access to within the Cube data resource and delivering the output through Crunch. 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 FY18 this had increased to 24%.

Exhibit 5: YouGov platform



Source: YouGov, Edison Investment Research

Strategy builds on strengths

Management has identified ‘three strategic pillars’ that will underpin the new five-year plan described below. These are **Integration**, **Public Data** and **Activation**.

Integration relates, as described above, to fully integrating the custom research offering with the proprietary data and toolkit, with a heavy emphasis on tracking studies. Further, it also encompasses technological integration and client service, so making the YouGov element more central to the clients’ internal processes.

Activation involves taking data and using it to drive advertising campaigns. It creates 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. It is now moving to the next stage, giving advertisers the ability 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. YouGov Direct has undergone successful pilots with encouraging feedback (click-through rates were four times the average for equivalent campaigns, with high

conversion rates) and outputs in H119, with a second trial having commenced in February 2019 with six major advertisers participating. Full launch is expected in H219.

The Public Data element addresses the question: what is in all this for the panellists? Panellists will 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 aims to increase the utility of group data in the public sphere by making the website a destination in its own right to determine public opinion.

<https://yougov.co.uk/ratings/overview/popularity> is the starting point for this exercise, with the objective of becoming 'the Wikipedia of opinion', using all Cube data.

New five-year plan

The new five-year growth plan sets 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 for the new LTIP through to FY23 are to:

- **Double group revenue.** FY18 revenue was £117m, so building to over £233m in FY23e implies a CAGR of 19%.
- **Double group adjusted operating profit margin.** The published adjusted operating profit margin for FY18 was 16.9%, so doubling would likely require further divisional increases plus the benefits of scale on the central costs. It is also worth noting here that the CFO has indicated that from the reporting of FY19 numbers, the definition of adjusted operating profit will be changed to include amortisation of intangible assets charged to operating expenses and share-based payments where relevant. With an amortisation charge of £7.0m in FY18, this would restate the adjusted operating margin on the new basis to 10.9%. Doubling this by FY23e would therefore imply an adjusted operating profit in that year of over £50m, based on the doubling of the top line over the same period.
- 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. These are to be the targets tied to the LTIP for incentivising senior management, the details of which are currently being settled, but which will also include detail on personal objectives for the executive directors in addition to the corporate targets.

The earlier LTIP (2014), now approaching the end of its term, was both generous and demanding, requiring 25% five-year CAGR in adjusted EPS to pay out in full (ratcheted at lower levels of growth), subject to five-year average operating margin having been over 12%.

We would anticipate that the conditions for vesting for the new proposed scheme will also be challenging.

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 areas identified – new technologies, geographies and specialisms (including specialist panel) – that would work to 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. Paid £699k in December 2017 plus £185k in April 2018. Balance of contingent consideration is £1.6m.
- SMG Insight (May 2018 – went from 20% to 100%) specialises in sports media measurement and sponsorship evaluation. £1m paid on completion, plus £1m in May 2019, with total contingent consideration of £13.4m.
- 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 consolidates its ownership within the group. £2.1m was paid on completion.
- Portent.io (November 2018), now rebranded as YouGov Signal, adds 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 forecasts the total additional payment at £6.5m.

Prior year acquisitions added £5m of revenue and £0.1m of operating profit for the six months to 31 January 2019.

As the business continues to scale globally, the cost of investment in technology and panel – as well as overheads and sales resource – will decrease as a percentage of the whole. The group has put in place group 'centres of excellence' for technology (in Warsaw) and for panel and data operations (Bucharest and Mumbai) that have allowed for standardisation as efficiency improves. Data operations overheads reduced from 5% of group revenues in FY13 to under 2% in FY19. The next stage is set to involve:

- finance: improving functional management;
- data design: ensuring consistency in data collection globally;
- research: enhancements to the platform; and
- customer service: key account management, as referred to above, and 24/7 customer service capability.

Experienced management team

Stephan Shakespeare is a co-founder of YouGov and returned to the role of CEO in 2010, after a period as chief innovation officer. He has a clear understanding of the product base and its commercial potential. He refocused corporate strategy back on exploiting the group's core research and delivery strengths. Alex McIntosh is group CFO, replacing Alan Newman who retired in December 2017, having previously been chief strategy officer. Alex 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 \$45.8bn in 2007 (source: Statista), the latest year for which figures are available. The US remains the largest market, at around 45% of the total, with Europe accounting for 35%. The top dozen market research companies accounted for over half of total industry spend in that year, with Nielsen the largest by some way, with published revenues of \$6.6m.

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.

The largest competitors – 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:

- **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 the Crunch tool.
- **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. The group is targeting achieving ISO 27001 (the international information security standard) accreditation by the start of FY20.
- 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. There has been a wide range of share price performance across this peer set, reflecting their varying business models and differing spheres of operation. YouGov's rating is clearly at a premium to the peer average but remains just within the range on EV/EBITDA multiples. We note that YouGov's last reported EBITDA margin is visibly above the peer group average.

Exhibit 6: 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	134	GBP	141	0.8	12.4	10.4	10.0	15.2	14.7	14.1	2.7	8.6
System1	10	239	GBP	30	1.0		6.2	5.0		11.5	9.4	3.2	16.0
Next Fifteen	12	580	GBP	468	1.9	13.7	9.6	9.0	16.6	14.5	13.5	1.2	10.2
ComScore	(38)	8.97	US\$	543	1.7	41.5	41.5	18.8				0.0	3.9
Ipsos	16	23.90	€	1,062	0.9	8.5	7.3	7.0	8.5	8.2	7.8	3.7	11.8
Forrester	2	45.62	US\$	841	2.0	33.8	21.3	14.4	92.7	28.3	22.7	1.3	10.6
Gartner	25	159.46	US\$	14,366	4.1	29.1	23.5	21.0	43.6	40.4	34.9	0.0	18.5
IQVIA	14	132.95	US\$	26,223	3.4	19.0	15.6	14.3	44.8	21.0	18.4	0.0	21.4
Nielsen	(2)	22.89	US\$	8,137	2.6	8.7	9.2	8.8	13.5	13.5	12.8	6.1	28.4
GlobalData	11	654.05	GBP	774	4.8	44.3	20.2	18.0	284.78*	28.5	24.9	1.7	20.5
WPP	15	970.00	GBP	12,243	1.1	8.5	7.4	7.4	9.6	9.8	9.5	6.2	14.8
Average					2.2	21.9	15.6	12.2	30.6	19.0	16.8	2.4	15.0
YouGov	33	522	GBP	551	4.1	21.3	21.5	18.6	33.7	32.3	28.1	0.6	21.0

Source: Refinitiv, Edison Investment Research. Note: *Excluded from average. Prices as at 4 June 2019.

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 526p indicates that if the EBITDA margin were not to advance over FY21–26e ahead of the 19% that we are forecasting for FY19 and onwards, then FY21–26e top-

line growth would be running at 16.6%. Revenue growth over the five years to our forecast FY19e was at a CAGR of 15.8%.

It is worth bearing in mind that the revenue target CAGR under the new five-year plan is 19% and the objective is to double adjusted operating margin; that medium-term CAGR would imply an EBITDA margin of 18%, the level that we are modelling for FY20 and implying no further expansion. If the EBITDA margin were to increase to 25% in the medium term, the implied valuation would increase substantially, to over £8.

Exhibit 7: Reverse DCF showing implied valuation in p/share

		Medium-term growth rate FY21–26e				
		0%	5%	10%	15%	20%
EBITDA margin	19%	255.8	316.3	392.0	486.0	601.9
	20%	272.7	338.2	420.2	522.1	647.6
	21%	289.6	360.1	448.4	558.2	693.3
	22%	306.5	382.0	476.7	594.2	739.1
	23%	323.4	403.9	504.9	630.3	784.8
	24%	340.2	425.8	533.1	666.3	830.5
	25%	357.1	447.8	561.3	702.4	876.2
	26%	374.0	469.7	589.6	738.5	921.9
Implied margin		34.7%	28.4%	23.6%	20.0%	17.2%

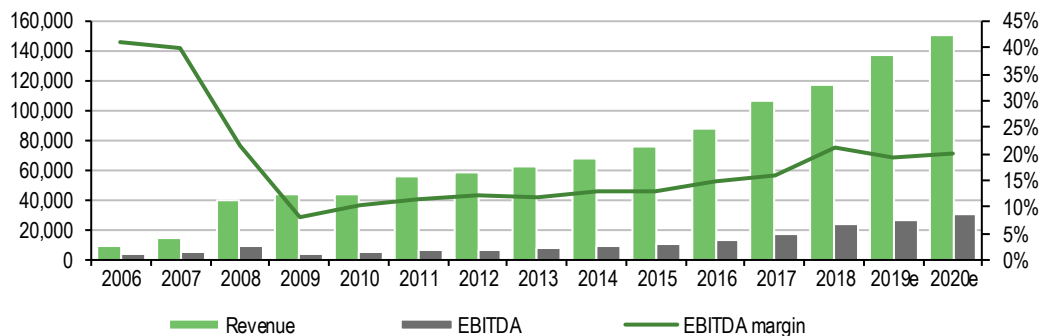
Source: Edison Investment Research

Financials

Our [April update note](#) commented on the H119 results, which showed a strong trading period, with 18% revenue growth (10% underlying). This is a blend of +34% from Products & Services with +4% from Custom. More notable, though, was the step-up in adjusted operating margin from 16% in H118 to 19% as the syndicated data model starts to show its value. We made minor adjustments to our numbers at the time and there is no further change at this juncture.

YouGov has an enviable long-term record of revenue and EBITDA growth, which has been predominantly achieved through organic means. Since FY10, revenue has increased 164% (a CAGR of 12.9%) and EBITDA margin increased from 10.3% to 21.0% as the business has scaled up, investing in product and improving operational efficiency.

Exhibit 8: Long-term growth record and forecasts



Source: YouGov accounts, Edison Investment Research

We currently model on a divisional basis, between Data Products, Data Services and Custom Research in the manner that the group has presented itself over recent years. As the boundaries become more blurred, with increasing integration of other tools into the more traditional Custom business, the group is planning to change the disclosure to segment between Syndicated Data and Data Services. YouGov Plan & Track (ie BrandIndex and Profiles in combination) will be the main

element of the former; Omnibus and Custom Research will be presented together as Data Services. On this basis, the FY19e revenues would split roughly 30:70 Syndicated Data: Data Services, while operating profit splits nearer 40:60, with segmental margins of 38% and 25% (before central costs) respectively.

Exhibit 9: Divisional earnings progression						
	FY18	growth	FY19e	growth	FY20e	growth
Revenue	£m		£m		£m	
Data Products						
Brand Index	23.700	20%	29.6	25%	34.7	17%
DP Other	6.746	56%	9.4	25%	10.8	15%
	30.445	26%	39.1	28%	45.5	
Data Services						
Omnibus	27.219	24%	34.7	28%	40.3	16%
DS Other	1.737	24%	2.0	15%	2.3	15%
	28.956	24%	36.7	27%	42.6	
Custom Research	58.657	-3%	61.2	1%	61.9	1%
Eliminations	-1.499	50%		45%		41%
TOTAL	116.559	9%	137.000	18%	150.000	9%
Operating Profit						
Data Products						
Brand Index	9.298		11.5		13.5	
DP Other	2.361		3.3		3.8	
	11.659	66%	14.8	27%	17.3	17%
Data Services						
Omnibus	7.828		8.9		12.1	
DS Other	0.174		0.2		0.2	
	8.002	40%	9.1	14%	12.3	36%
Custom Research	14.121	59%	15.3	8%	15.3	0%
TOTAL	33.782	56%	39.2	16%	45.0	15%
Operating Margin						
Data Products	38.3%		37.9%		38.1%	
Data Services	27.6%		24.8%		28.9%	
Custom Research	24.1%		25%		25%	
Group margin	29.0%		28.6%		30.0%	
Central Costs	-14.108		-17.0		-18.2	
Group operating profit	19.674		22.2		26.8	
Group operating margin	16.9%		16.2%		17.9%	

Source: YouGov accounts, Edison Investment Research

With multi-year syndicated BrandIndex/ Plan & Track subscriptions, dashboards incorporated into client workflow 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). Deferred (subscription) income at end FY18 was £12.5m, up from £10.7m at the close of the prior year.

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, 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 Cube. Having one analytics system, Crunch, also greatly increases the efficiency in the system. With the elements of the Cube and Crunch now in place, management is placing greater emphasis on its clients, putting in place global key account management, some of whom are already employed within the group to grow its larger, global accounts.

Changes to definitions for adjustments

To date, management has excluded amortisation of intangible assets charged to operating expenses and separately reported items from its adjusted operating profits. From the reporting of FY19, this will be changed to include amortisation of intangible assets charged to operating expenses and share-based payment charges where relevant. This is an appropriate change and should answer some previous external criticism and make it easier to reconcile the published numbers with market forecasts.

Strong cash conversion

In FY18, YouGov generated cash flow from operations of 119% of adjusted operating profit (FY16: 130%, FY17:130%), giving it a five-year average cash conversion of 123%. 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. Our forecast for the current year is for capital expenditure of £10m, up from £8.2m in FY18, with a slightly lower level of £8.8m anticipated for FY20e. Investment on internally generated software was £2.3m in H119 (FY18: £3.9m, FY17: £3.4m, FY16: £2.6m). The other major component of capex is panel recruitment, at £2.2m in H119 (FY18: £2.8m, FY17: £3.5m). Ensuring the panel is an appropriate size and in its constituents is crucial to be able to deliver the timely and robust data in each territory, so there will be a need for higher levels of spend, particularly when moving into new geographies, or ahead of specific events, such as the US mid-term elections.

Strategic acquisitions are also on the agenda. To date, these have incurred modest upfront costs but are already making a notable contribution to revenue, lifting the first-half organic growth from 10% to a group-level advance of 18%.

In FY18 £0.9m was spent and a further £0.2m in H119, with short-term contingent consideration of £6.2m and longer-term contingent consideration of £9.8m shown on the half-year balance sheet. We are forecasting spend on acquisitions of £4.5m in FY19, with £7.0m earmarked for FY20, reflecting the timing of payments.

With the strong financial position, the level of dividend cover has been reviewed by management and reduced from 6.3x to 5.4x (on adjusted earnings), giving an increase from 1.4p to 2.0p. With the forecast growth in earnings, the dividend should also increase in both our forecast years.

Cash-rich balance sheet

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.

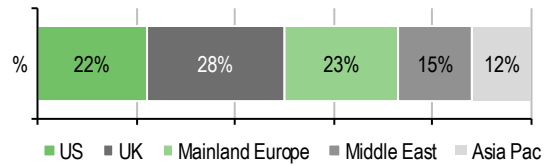
Exhibit 10: Financial summary

	£000s	2017	2018	2019e	2020e
Year end 31 July		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		107,048	116,559	137,031	150,021
Cost of Sales		(21,339)	(21,495)	(26,784)	(27,653)
Gross Profit		85,709	95,064	110,247	122,368
EBITDA		17,210	24,478	26,174	30,148
Operating Profit (before amort., except.)		16,036	23,247	24,674	28,573
Intangible Amortisation		(6,483)	(7,026)	(8,000)	(8,000)
Share based payments		(1,508)	(3,571)	(2,500)	(1,800)
Exceptionals		(488)	(826)	(800)	0
Other		103	2	0	0
Operating Profit		7,660	11,826	13,374	18,773
Net Interest		254	(51)	25	137
Profit Before Tax (norm)		17,901	26,769	27,199	30,509
Profit Before Tax (FRS 3)		7,914	11,775	13,399	18,909
Tax		(3,273)	(3,615)	(5,032)	(6,102)
Profit After Tax (norm)		13,120	19,785	19,667	22,608
Profit After Tax (FRS 3)		4,641	8,158	8,367	12,606
Average Number of Shares Outstanding (m)		104.8	105.4	113.4	113.4
EPS - normalised (p)		10.5	15.5	16.2	18.6
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	21.0	19.1	20.1
Operating Margin (before GW and except & share-based payments) (%)		13.6	16.9	16.2	17.8
BALANCE SHEET					
Fixed Assets		64,637	78,019	79,019	80,019
Intangible Assets		54,960	65,357	66,357	67,357
Tangible Assets		9,332	12,471	12,471	12,471
Investments		345	191	191	191
Current Assets		54,918	66,735	71,752	79,597
Stocks		0	0	0	0
Debtors		30,699	34,672	39,131	44,626
Cash		23,481	30,621	31,179	33,529
Current Liabilities		(34,177)	(41,445)	(47,623)	(51,660)
Creditors		(33,915)	(41,445)	(47,623)	(51,660)
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	91,910	96,718
CASH FLOW					
Operating Cash Flow		18,914	23,617	27,100	28,700
Net Interest		4	22	25	137
Tax		(2,487)	(5,501)	(5,702)	(5,299)
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)	(3,168)	(3,937)
Net Cash Flow		7,475	7,225	555	2,351
Opening net debt/(cash)		(15,553)	(23,219)	(30,621)	(31,176)
HP finance leases initiated		0	0	0	0
Other		191	177	0	0
Closing net debt/(cash)		(23,219)	(30,621)	(31,176)	(33,527)

Source: Company accounts, Edison Investment Research

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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 Management	16.37
BlackRock	11.98
Octopus Inv	9.11
Aberdeen Standard	8.62
Directors/PMDRs	8.38
T Rowe Price Global	7.67
Investec Wealth & Mgmt	6.24
Kabouter Mgmt	6.22
Charles Stanley	4.42
Baillie Gifford	4.23

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