

27 November 2020

Price **938p**
Market cap **£1,018m**

\$1.30:£1

Net cash (£m) at end July 2020 35.3

Shares in issue 108.5m

Free float 91.3%

Code YOU

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (10.9) 0.9 58.3

Rel (local) (18.8) (5.1) 80.5

52-week high/low 1,043p 400p

Business description

YouGov is an international 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

H1 trading update 29 January 2021

H121 Results 23 March 2021

FY trading update 30 July 2021

FY21 Results 5 October 2021

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YouGov's capital markets event cast the spotlight on the next generation of its client offering, focusing on YouGov Direct, YouGov Chat and YouGov Safe. All of these are already being rolled out commercially. They clearly show the direction of travel to enable the group to scale more effectively and efficiently. All are predicated on the YouGov member being the data owner and granting explicit permission for how that data is used. No new financial information was disclosed, and our forecasts are unchanged.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/18	136.5	20.4	13.8	4.0	28.8	67.9	0.4
12/19	152.4	24.7	15.7	5.0	24.4	59.8	0.5
12/20e	163.0	28.5	17.4	5.5	23.6	54.1	0.6
12/21e	175.0	34.2	21.2	6.5	20.3	44.2	0.7

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

Ethical activation ambition

The introduction of General Data Protection Regulation and equivalent regulation in other jurisdictions has given YouGov an opportunity to differentiate further from its peers through rebalancing the value relationship between the data provider and the data user. Historically, market research has treated the data provider (panel) as a commodity to be bought. YouGov had from inception adopted a different approach, in regarding its panellists as a resource of intrinsic value, wishing to retain them and keep them engaged. This has not just been through payment, but by returning utility and a degree of entertainment. Direct takes this a step further, by handing to members control of who uses their data, how and for what purpose. It is an end-to-end self-service platform, facilitated using a blockchain to keep track of interactions. A walk-through demonstration showed its intuitive interfaces, and it was clear that this could be a valuable tool in the armoury, enabling fast turnaround for insights and ad and concept testing. YouGov Chat extends the potential member base and YouGov Safe extends the type and volume of data available for use.

Real value is in the integration

Although YouGov Direct, YouGov Chat and YouGov Safe members (described below) are set apart from the main YouGov panel, there would clearly be a longer-term advantage to integration, albeit that the data has varying permissions attached. Different offerings should attract different demographics, which in turn make the data interrogation of greater potential value. The cost per acquisition through Chat is very attractive for YouGov, at 20p – 75p per member.

Valuation: Premium price for strong positioning

The share price recovered the initial losses as the COVID-19 situation developed, and the stock remains one of only two of the global peers to have shown a positive performance over the year. YouGov's valuation multiples are at the top end of this peer set, reflecting the group's strong market positioning, attractive cash generation (104% conversion of adjusted EBITDA in FY20) and cash-positive balance sheet.

YouGov Direct

During FY20, this offering has been launched in the UK, the US and Canada, with Singapore and Australia following on in FY21. Trials have been carried out with around 100 clients and with over 40k members supplying data to date. The principle is that the client can set up quick surveys, composing their own questions or showing their own media or product concepts, then chose the target market to interrogate. Depending on the type of survey, the turnaround time could be as little as one hour, with no need for any intermediation from editors or data analysts.

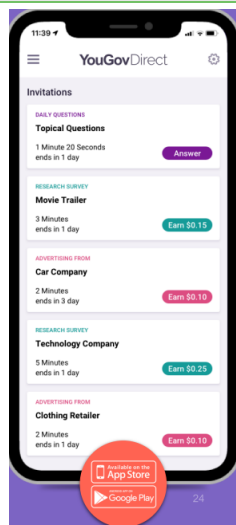
While there are other products available, such as SurveyMonkey or Google Surveys, which may be cheaper, the advantages of YouGov Direct include the ability to incorporate a call to action (an example might be a button linking to the client website) and the possibility of recontacting respondents. Response fraud, a recognised industry issue, is effectively negated by the requirement for members to have registered their banking details in order to receive payment. Projects carried out to date have been as small as \$100-200, up to the largest which entailed a commitment of over \$50k. Pricing is determined from a combination of:

- Number of questions asked
- Number of targeting variables (so how restricted the target sample is)
- Type of content, such as video
- Number of contacts targeted

Clients are restricted to internal usage of the data obtained, which should avoid misleading marketing statements purporting to come from survey data.

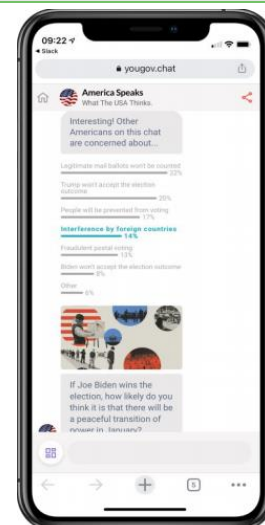
YouGov Direct members may be recruited from existing panel or from visitors to the group's websites and apps. From their perspective, their user interface will allow them to see which organisations are approaching them and for what purpose, so that it is an active decision to participate, so side-stepping privacy issues. The interaction is logged in a blockchain, which records the type of data transferred rather than the data itself. There is therefore a high degree of transparency on both sides. Within the development period, 76% of members who were active a year ago round the launch period still are involved and 88% of those retargeted will respond within 24 hours, demonstrating a high degree of continuing engagement.

Exhibit 1: YouGov Direct app



Source: Company

Exhibit 2: YouGov Chat app



Source: Company

Cannibalistic?

There is an obvious question as to whether this offering is cannibalistic to the existing YouGov offering. We conclude that this likely to be true only at the margin. More likely that it extends the potential client market and provides a lower cost entry point, from which the more sophisticated products and services can be sold.

Next stages

The obvious extension of this service is for ad testing. Although this is a very small part of overall advertising budgets, it provides the potential for clients to avoid expensive mistakes and to improve the ROI on campaigns that go ahead. This capability on the YouGov Direct platform is under development.

While Direct as a standalone proposition has value, the step change in the intrinsic value would be integration with other elements, particularly the YouGov Profiles offering, which ties characteristics and preferences with brands. Direct will continue to attract different individuals as contributors who may not be interested in participating in the more traditional panel activities. Brand owners and other clients would be best served by having access to both.

YouGov Chat

YouGov Chat aims to attract a much wider demographic that will then agree to share their opinions and data. It is effectively a private chat service, built around a range of 'passion points' used to engage an audience, which might be based on sports allegiances, politics, music, fashion, health etc. There are currently around ten of these channels operational, with over 300k members and 2.2m active conversations.

The chat itself is curated by professional content editors, with chatbots continuing the engagement and able to drive the content agenda from submitted comments. With no peer-to-peer interaction, this concept allows people to express opinions without trolling or abuse prevalent on platforms such as Twitter. However, with aggregated content, it allows a user to see how they are positioned vis-à-vis others in the themed chat, allowing for some sense of community.

Unlike other data harvesting within the group this is unpaid to the participant. They are primarily being recruited on social channels, when interacting with YouGov content on particular topics. As, with YouGov's main panellists, the sense that that individual's opinion is of value to the debate is a key driver to participate. Financial incentives to participate are rarely paramount.

This approach has been particularly successful to date in attracting a younger demographic.

Where is the value?

Unlike YouGov Direct, Chat is not currently a direct revenue earner. Its true value is as a recruitment tool into YouGov Direct, with which it was integrated in September. CPA (cost per user acquisition) has been between 20p and 75p, depending on the topic and the user type that is being targeted. For comparative purposes, at a group level, spend on panel recruitment in FY20 was £8.9m and an aggregate increase for the year was 3.09m panellists, giving a rough net CPA of £2.88. Panel retention in FY20 was 69%, which is good in industry terms, with panellists kept engaged, at least in part, through seeing press coverage of surveys in which they have participated.

Where next?

The current position is that there is an internal team running large, core chat channels. Possible future developments include allowing third parties to use the platform to run their own chat to better

engage with their own audiences and facilitating a wider network of bloggers on niche topics. Obviously, there will need to be infrastructure to police the content and avoid potential reputational issues.

The ultimate audience is being thought of in terms of tens of millions of users.

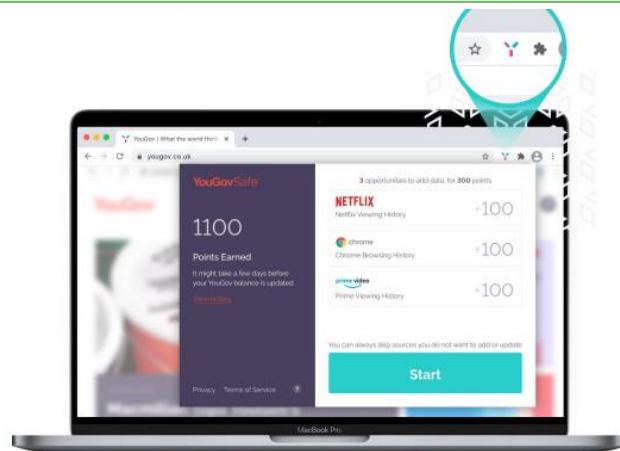
YouGov Safe

This is a more recently launched concept. Again, it harks back to the notion of individuals as the owners of their own data, who should be able to determine how it is used and derive value from that. For this element, the relevant data is the large data sets held by organisations on the individual, be that streaming platforms, retailers, financial institutions, health providers etc.

In an increasing number of jurisdictions, individuals can request the data that those organisations hold on them. YouGov Safe should allow those individuals to monetise their data through uploading onto the Safe platform, through a browser extension or, in due course, by web and mobile apps. The user then grants the relevant permissions for aggregated information to be able to be accessed by third parties. Only closed data sets would be aggregated, on an encrypted and anonymized basis. Members can obtain insights about themselves and their online behaviour, including how it might change over time, possibly over time interwoven with recommendations based on history.

The clients will pay for aggregated data. There would be a possibility of individuals being targeted to see if they wished to participate in ad-testing or surveys within Direct, based on the information that has been provided within Safe.

Exhibit 3: YouGov Safe



Source: Company

Why?

YouGov Safe is a mechanism for ingesting large quantities of anonymous third-party data which will enhance the YouGov Direct model's utility to its clients. Again, the significant commercial uplift would be in the integration, particularly the marriage of this data with the information held within YouGov Profiles, the group's media planning and segmentation tool.

Exhibit 4: Financial summary

	£'000s	2018	2019	2020	2021e	2022e
Year end 31 July		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		116,559	136,487	152,441	163,000	175,000
Cost of Sales		(21,495)	(24,206)	(23,375)	(24,604)	(26,103)
Gross Profit		95,064	112,281	129,067	138,396	148,897
EBITDA		20,907	31,698	39,215	41,322	47,697
Operating Profit (before amort. and except.)		12,650	18,492	21,830	25,740	31,415
Intangible Amortisation		(7,026)	(8,809)	(12,885)	(10,782)	(11,782)
Share based payments		(3,571)	(2,401)	(2,900)	(2,900)	(2,900)
Exceptionals		(892)	1,529	(6,630)	0	0
Other		66	200	0	0	0
Operating Profit		11,824	20,221	15,200	25,740	31,415
Net Interest		(51)	(665)	7	(175)	(150)
Profit Before Tax (norm)		16,302	20,428	24,737	28,465	34,165
Profit Before Tax (IFRS16)		11,773	19,356	15,207	25,565	31,265
Tax		(3,615)	(5,086)	(5,812)	(9,771)	(11,949)
Profit After Tax (norm)		12,687	15,342	18,925	18,694	22,216
Profit After Tax (IFRS16)		8,158	14,270	9,395	15,794	19,316
Average Number of Shares Outstanding (m)		105.4	105.4	106.7	108.4	108.4
EPS - normalised (p)		10.8	13.8	15.7	17.4	21.2
EPS - IFRS 16 (p)		7.7	14.1	9.0	14.6	17.8
Dividend per share (p)		3.0	4.0	5.0	5.5	6.5
Gross Margin (%)		81.6	82.3	84.7	84.9	85.1
EBITDA Margin (%)		17.9	23.2	25.7	25.4	27.3
Operating Margin (before GW and except) (%)		10.9	13.5	14.3	15.8	18.0
BALANCE SHEET						
Fixed Assets		78,019	108,534	108,122	106,068	105,286
Intangible Assets		65,357	82,374	84,611	83,829	83,047
Tangible Assets		12,471	26,160	23,511	22,239	22,239
Investments		191	0	0	0	0
Current Assets		66,735	72,581	70,255	77,891	89,536
Stocks		0	0	0	0	0
Debtors		34,672	33,726	34,239	36,611	39,306
Cash		30,621	37,925	35,309	40,574	49,524
Current Liabilities		(41,445)	(51,395)	(52,813)	(55,070)	(55,080)
Creditors		(41,445)	(51,395)	(52,813)	(55,070)	(55,080)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		(11,238)	(22,277)	(16,226)	(13,206)	(13,206)
Long term borrowings		0	0	0	0	0
Other long term liabilities		(11,238)	(22,277)	(16,226)	(13,206)	(13,206)
Net Assets		92,071	107,443	109,338	115,683	126,537
CASH FLOW						
Operating Cash Flow		23,617	38,115	38,411	41,615	48,031
Net Interest		22	183	(7)	175	150
Tax		(5,501)	(4,520)	(3,184)	(7,328)	(11,949)
Capex		(8,181)	(12,166)	(18,559)	(18,000)	(16,000)
Acquisitions/disposals		(885)	(6,583)	(7,451)	(3,428)	(3,020)
Financing		259	(3,652)	(4,739)	(2,000)	(2,000)
Dividends		(2,106)	(3,327)	(4,298)	(5,420)	(5,962)
Net Cash Flow		7,225	8,050	173	5,615	9,250
Opening net debt/(cash)		(23,219)	(30,621)	(37,925)	(35,309)	(40,574)
HP finance leases initiated		0	0	0	0	0
Other		177	(747)	(2,789)	(350)	(300)
Closing net debt/(cash)		(30,621)	(37,925)	(35,309)	(40,574)	(49,524)

Source: Company accounts, Edison Investment Research

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