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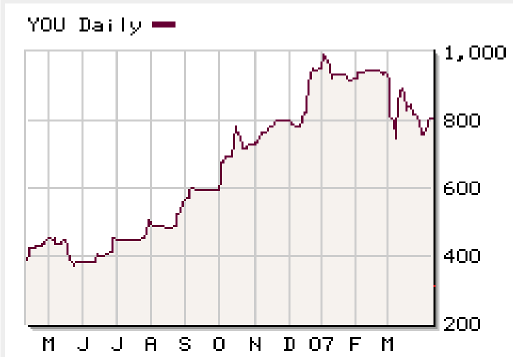
YouGov

Good Interims - Upgrade

822.5p *10.4.2007 8.30am*



Interim results from YouGov show Turnover up 61% and pre-tax profit up 64%, hitting precisely 50% of our forecast numbers for the full twelve months. As this company is on a very strong growth trajectory and has no seasonal bias, *we are modestly increasing our forecast.*

Key points are:

- The Middle East joint venture now produces 46% of group revenues and 48% of group operating profit.
- Both key markets, UK and the Middle East, continue to grow rapidly, by 68% and 53% respectively.
- In the UK, increasing emphasis is being placed on specialist syndicated products, with the healthcare market being the first of many such products.
- BrandIndex in the UK represents 10% of UK revenues so is clearly making progress. It is doing well enough for management to want to roll out the concept in the US within 8 weeks and the Middle East this calendar year.
- There is still no dividend. Even so, YouGov is clearly generating all the cash it needs as it grows, with £4.3m of net cash, pre-tax margins of 35% (vs. 36%) and debtors lower than at the year-end in spite of the impressive growth

The company says that ‘momentum has continued to build in the second half’, and ‘all businesses continue to perform well’. We on our part continue to be hugely enthusiastic about this company. *A fuller research note will be published shortly.*

Share Price: 822.5p

12m High: 1005p

12m Low: 365p

Market Cap: £110m

Shares in Issue: 13.43m

NAV/Share: 70p inc. goodwill

43p ex goodwill

Gearing: £4.3m net cash

Interest Cover: n/a

EPIC Code: YOU

ISIN: GBA00B0771P53

Sector: Media & Entertainment

Market: London AIM

PR: Financial Dynamics

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Website: www.yougov.com

Previous Research Note: ‘A Further Meeting of Minds’ 14 March 2007, 861p

Analysts: Rae Ellingham/Roger Hardman

Y/E July	Sales £m	EBIT £m	Adjusted Profit £m	Adjusted Dil Eps p.	P/e ratio	Divi p.	Yield %
2005A	2.9	0.9	0.9	5.6	147.0	-	-
2006A	9.6	3.9	4.1	21.1	39.0	-	-
2007E	14.0	4.9	5.2	26.6	30.9	-	-
2008E	15.9	5.5	6.1	31.4	26.2	-	-

The UK

68% turnover growth, 80% pre-tax profit gain and operating margins of 36% show a continuation of the strong growth trend that has been in evidence ever since YouGov floated on AIM. The basic UK panel has been increased from 115,000 to 146,000. The churn rate remains low, and the response rate high.

BrandIndex is clearly making progress, with half year turnover of approximately £0.3m and new clients signed up. Medium term, we feel that this part of the business has major potential and should scale up at limited additional cost.

At the moment, management also appears to be focussing on specialist areas and to some extent this follows the BrandIndex business model. YouGov has launched PatientsOnline and NHSOpinions in the health services area, which are more syndicated products, and has formed an organisational consulting division for research and consulting specifically to CEOs and HR Directors.

An 'Innovations Department' has been created. Its work could include products such as a 'YouGov TV'. We should learn more over the course of H2.

The Middle East

These figures include a full six months of the Siraj acquisition, so the 53% sales and 41% profits growth shown slightly flatter the company.

YouGov gives its usual warning about the lumpiness and unpredictability of Middle East business. The average contract size is very much larger in the Middle East than in the UK, and investors should treat this caution seriously. However, there is no sign of any hole in the order book at present – the reverse in fact – and the bigger the Middle East business becomes the less vulnerable it will be to the timing of large orders.

An opening is planned in Saudi Arabia. Local offices may provide a great deal of expansion from this region in future. Also Saudi is the biggest financial market in the region so presence there is essential.

The USA

The USA does not yet merit its own line in the Revenue or Pre-tax Operating Profit breakdown. This is because it is accounted for as an associate, which drops in under operating profit. There is a big thrust of resources into the US business, however, with a 'BrandIndex Mk2' launch likely to prove a key business driver. There is an argument for saying that Polimetrix, the initial US investment, is at the same stage now as YouGov UK was in 2001.

Tax and Minorities

The half year tax charge is down a bit, at 10% vs. 13%. A lot of this is down to the Middle East. We expect the tax charge to rise in y/e 7/2008, and possibly also in H2 of the current year.

As it expands internationally by partnering and acquisition, minority charges will become increasingly important. They account for £0.32m (£0.19m) of after tax profit in these interims, and investors should be aware that they will tend to soften the growth rate at the eps level.

Balance Sheet

Debtor days are still high, largely because of the importance of the Middle East, but are considerably down on the year-end. All costs of any significance appear to be expensed, including the set-up of the Innovations Department, and we cannot find any capitalised items that could arguably belong on the revenue line.

The Strategy

The reorganisation of the board, and the arrival of Roger Parry (ex McKinsey, BBC, Clear Channel) confirm what we have been feeling for two years, that the UK version of YouGov was just the prototype of a brand with huge international roll-out potential, and that this is a 'cookie cutter' business. Retiring chairman Peter Kellner can be immensely proud of what he has achieved.

Conclusion

We are delighted with YouGov's progress.

A fuller research note will follow after more detailed consideration of these results.