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YouGov H1 results prompt 68% profit upgrade 320p

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YouGov highlighted the strength of trading in the Middle East at the time of the company's AGM in December. This has been maintained into the current trading period. Even more encouraging is the UK business where demand for the companies bespoke and omnibus polling services has surged. It is this surge in UK activity which is the primary factor behind our latest upgrade. In respect of BrandIndex, which was launched in October last year, YouGov will only say that licence sales (each licence costs £25,000 per annum) are "in double figures".

Going forward we are taking a conservative view on BrandIndex sales and progress in the Middle East. In the latter market YouGov has very little visibility beyond July this year when a number of large contracts expire. Though there is a strong possibility these will be renewed this is far from certain. In respect of the UK we expect the strong growth at the company's traditional polling activities to be maintained (this is the primary factor behind the upgrade) and are looking for steady growth in BrandIndex licence sales.

Cash continues to pile up on YouGov's balance sheet despite negative working capital movements in the first half due to later debtor payments in the Middle East. Given YouGov's formidable cash generation abilities it seems sensible that company says "the board may consider payment of a dividend at year end." On x21 calendarised 2006E earnings based on our upgraded forecasts YouGov trades at a steep discount to Harris Interactive in the US (x32 2006E CY earnings). Harris is a far more mature and slower growing company, but probably the best comparative. We will be issuing a more detailed note on YouGov – including a full dcf valuation – shortly.

Share Price: 320p

12m High: 356p

12m Low: 136p

Market Cap: £42.9m

Shares in issue: 13.3m

NAV/Share: 28p

Gearing: Net cash

Interest Cover: n/a

EV/EBITDA: x13 2005/6E

EPIC Code: YOU

ISIN: GB00B0771P53

Sector: Media & Entertainment

Market: London AIM

PR: Financial Dynamics

Website: www.yougov.com

Broker: Noble & Co

Previous Research Note: "Upgrade on AGM statement" 12.12.05

Analysts: James Chapman & Roger Hardman

Y/E	Sales	Ebitda	Pre-tax	EPS	P/e ratio	Divi p.	Yield
31 July	£m	£m	Profit £m	p.			%
2004A	1.99	0.68	0.68	-		-	-
2005A	2.94	0.98	0.99	5.76	56	-	-
2006E	8.50	2.84	2.99	16.0	20	-	-
2007E	10.7	3.55	3.83	20.2	16	-	-

<i>Year End 31 July £'000</i>	<i>2001/2A</i>	<i>2002/3A</i>	<i>2003/4A</i>	<i>2004/5A</i>	<i>2005/6E</i>	<i>2006/7E</i>
Turnover	737,578	1,887,446	1,992,309	2,942,000	8,500,000	10,725,200
Gross profit	676,025	1,823,694	1,770,766	2,466,000	6,545,000	8,258,404
Gross margin	92%	97%	89%	84%	77%	77%
SGA	(608,627)	(769,446)	(1,089,467)	(1,488,000)	(3,701,000)	(4,704,730)
Depreciation	(411)	(418)	(11,144)	(17,000)	(21,000)	(25,000)
EBIT (operating profit)	66,987	1,053,830	670,155	961,000	2,823,000	3,528,674
EBIT margin	9%	56%	34%	33%	33%	33%
Interest In/(Out)	(217)	(9,151)	7,601	35,000	174,000	305,000
Pre-tax profit	66,770	1,044,679	677,756	996,000	2,997,000	3,833,674
Tax Charge %	0%	4%	30%	31%	16%	28%
Tax Charge	(5)	(41,500)	(204,000)	(305,000)	(471,556)	(1,073,429)
After tax profit	66,765	1,003,179	473,756	691,000	2,525,444	2,760,245
Minorities					(388,000)	(62,700)
Dividends		(65,000)	(128,837)	(436,058)		
Retained Earnings	66,765	938,179	344,919	254,942	2,137,444	2,697,545
Shares in issue				11,998,561	13,338,207	13,338,207
Basic EPS (P)				5.76	16.02	20.22
Diluted EPS (p)				5.60	15.25	19.25

<i>Year End 31 July £'000</i>	<i>2001/2A</i>	<i>2002/3A</i>	<i>2003/4A</i>	<i>2004/5A</i>	<i>2005/6E</i>	<i>2006/7E</i>
Cashflow						
Operating profit	66,987	1,053,830	670,155	961,000	2,823,000	3,528,674
Amortisation	17,793					
Depreciation	411	418	11,144	17,000	21,000	25,000
Working Capital	(113,196)	(682,876)	85,000	171,000	(1,601,844)	1,263,834
Other (Provisions etc)			86,000			
Operating cash flow	(28,005)	371,372	852,299	1,149,000	1,242,156	4,817,508
Interest	(217)	(9,151)	7,601	35,000	174,000	305,000
Tax		(5)	(44,000)	(202,000)	(305,000)	(471,556)
Net Capex	(11,916)	0	(60,000)	(28,000)	(30,000)	(35,000)
Free cash flow	(40,138)	362,216	755,900	954,000	1,081,156	4,615,952
Acquisitions and disposals						
Dividends			(194,000)	(436,058)		
Other			7,083	(167,000)		
Share issue			35,000	2,732,000		
Increase/decrease in net debt	(40,138)	362,216	603,983	3,082,942	1,081,156	4,615,952
Opening net cash (net debt)		(253,199)	109,017	713,000	3,795,942	4,877,098
Closing net cash (net debt)	(253,199)	109,017	713,000	3,795,942	4,877,098	9,493,050

Year End 31 July £'000	2001/2A	2002/3A	2003/4A	2004/5A	2005/6E	2006/7E
Balance Sheet						
Fixed Assets						
Intangible Assets	160,137	87,165				
Tangible Assets	1,673	1,255	51,244	63,000	72,000	82,000
Investments		1,700	1,700			
Current Assets						
Trade Debtors	217,743	636,792	465,093	495,000	2,545,220	1,518,740
Other Debtors	6,412		40,907	204,703	31,873	31,873
Cash	10,801	380,600	977,000	3,795,942	4,877,098	9,493,050
Others (prepayments, accrued income)	21,393	4,362		69,297	19,000	24,625
Total assets less current liabilities	969,232	1,409,739	1,877,944	5,508,942	8,753,034	12,589,860
Liabilities						
Trade creditors	(215,657)	(26,549)	(9,859)	(84,497)	(208,977)	(380,903)
Other creditors (taxes, accruals)	(77,728)	(4,113)	(329,141)	(785,503)	(986,866)	(1,046,669)
Provisions	(257,688)	(267,203)	(3,000)	(11,000)	(12,000)	(12,000)
ST debt		(264,000)	(264,000)			
LT creditors						
LT debt	(264,000)					
Minority					(470,000)	(532,700)
Shareholders' Funds	(396,914)	550,009	929,944	3,746,942	5,867,348	9,178,016

Year End 31 July £'000	2001/2A	2002/3A	2003/4A	2004/5A	2005/6E	2006/7E
Debtor days	108	123	85	61	109	52
Creditor days	1279	152	16	65	39	56
Working capital/sales	-41.4%	18.2%	8.2%	-3.8%	16.3%	1.3%
COGS	61,553	63,752	221,543	476,000	1,955,000	2,466,796
Gearing	na	net cash	net cash	net cash	net cash	net cash
ROCE	6.9%	74.8%	35.7%	17.4%	32.3%	28.0%
ROE	na	182.4%	50.9%	18.4%	43.0%	30.1%
ROIC	6.9%	74.8%	33.3%	13.8%	28.8%	24.3%
Cash conversion	-42%	35%	127%	120%	44%	137%
Market Cap. (share price 323p)				43,082,409	43,082,409	43,082,409
P/E				55.6	20.0	15.8
EV				39,286,467	38,205,311	33,589,358
EV/Sales				13.35	4.49	3.13
EV/Ebitda				40	13	9
Free cash flow yield				2.21%	2.51%	10.71%

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