27-June-2006

YOUGOV Trading update / Forecasts upgraded - Buy (455p) - Target price 598p

(*Last different recommendation: N/A)*

YouGov has issued a trading update stating that results for the year to July 2006 will be ahead of market expectations.

We believe the group's UK organic growth prospects remain strong as the benefits of cheaper and faster online market research continue to attract new clients and increased spend from existing clients. Moreover, we believe product innovations such as BrandIndex, a daily measure of the public perception of over 1,100 consumer brands, will complement the group's research services.

Similarly, the Middle East continues to provide attractive growth opportunities. YouGov initially followed a client lead from HSBC into this market and has rapidly built a fast growing and profitable business in the region. By the first half of 2005/6 Middle East revenue had reached 50% of group revenue.

We expect further international expansion to be facilitated through the scalability of online research methodology, while risks will be minimised through a customer led approach.

YouGov has reiterated its commitment to acquisition growth and is particularly focused on businesses with a specific sector expertise where it can add value through its online methodology.

Margin progression remains a key investment consideration, with YouGov's reported margin of 33% in 2004/5 comparing to a broad range of between 5% to 30% for the industry. YouGov believes that its high profile brand and reputation for quality and accuracy will raise barriers to entry and limit margin pressure relative to many other online research providers.

In light of this trading update we are upgrading our 2006 PBT/EPS estimate from £3.5m/19.0p to £3.85m/21p (+10% EPS upgrade). Our DCF derived target price is increased from 570p to 598p and is based on a cost of capital of 9.5% and a terminal growth rate of 4.0%.

The shares are trading on an annualised 2006 PE of 20x falling to 17x in 2007. We believe this rating is easily justified by the group's growth prospects reflecting the online shift in market research spend and our recommendation remains Buy.

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**Numis Securities acts as broker and adviser*