

# Hardman & Co

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## YouGov Upgrade on AGM Statement 303p 12.12.2005



We are upgrading our current year profits and eps estimates by 33% following the very positive trading statement at this morning's AGM. We have also upgraded our forecasts for the two following years.

YouGov stated that the current year had 'started well', and that it expected the group to perform 'materially ahead of market expectations'. This is a notable change of tone to the Preliminary Results Statement in October, which talked only of a 'sound start' to the year.

The key trading improvement has come from the new Middle East operation, which we understand has had a spectacular start to business life, winning some key contracts with the media, blue chip corporates and also for some public sector organisations in the region. Some of this work is on a one-off rather than a continuing basis, but even so we feel comfortable expecting turnover in seven figures from the Middle East operation this year; our previous estimate included nothing for possibilities here.

As the Middle East is a start-up operation, we expect Gross Margins to be slightly lower than for the UK, but the extra volume on the same head office cost base should mean that Operating Margins will be very similar to the 33% that we had previously been expecting and which was earned in 2004/5.

The AGM Statement also said that BrandIndex, the new consumer perception tracking product that was launched in the UK in the Autumn, has had an 'encouraging response' from major blue chip companies. Our estimates do not yet include a contribution from BrandIndex.



**Share Price:** 303p  
**12m High:** 303p  
**12m Low:** 135p  
**Market Cap:** £41m  
**Shares in Issue:** 13.3m  
**NAV/Share:** 28p  
**Gearing:** Nil – Net Cash  
**Interest Cover:** n/a  
**EV/EBITDA:** 22X 2005/6E  
**EPIC Code:** YOU  
**Sector:** Media & Entertainment  
**Market:** London AIM  
**Broker:** Noble & Co  
**PR:** Financial Dynamics  
**Website:** www.yougov.com  
**Previous Research Note:**  
20 Oct 2005, 'Robust Maiden Results' 194p  
  
**Analyst:** James Chapman

Y/E	Sales	Declared	Adjusted	Diluted Adjusted	P/e ratio	Divi p.	Yield
July	£m	Profit £m	Profit £m	Eps p.			%
2003/4A	1.99	0.67	0.67	n.a.	n.a.	0	-
2004/5A	2.94	0.96	0.96	5.60	54.1	0	-
2005/6E	5.20	1.78	1.78	8.79	34.4	0	-
2006/7E	6.50	2.20	2.20	10.86	27.9	0	-

# Middle East – The Implications

There are two key implications here for YouGov going forward.

First, debtor days are likely to be pushed out and cash flow will probably lag the p & l improvement. Invoice payment terms in the Middle East are somewhat longer than they are in the UK, and YouGov ME will have to invest more in its working capital.

We believe that net cash will probably still increase this year, leaving YouGov a great deal of flexibility for further expansion or acquisitions.

The second point is a rather more important one. If the YouGov business concept of conducting opinion polls by internet rather than telephone and face to face interviews works successfully in the Middle East as well as the UK, it can probably be rolled out successfully to other regions, and other countries as well. YouGov is still a tiny company, but it has indicated that its business model may be applicable on a global scale.

The internet polling process has proved itself yet again in recent months, with accurate predications both for the Conservative leadership election and in the Middle East. We shall be watching progress closely over the coming months.

Year End 31 July £'000	2001/2A	2002/3A	2003/4A	2004/5A	2005/6E	2006/7E
<b>Turnover</b>	<b>737,578</b>	<b>1,887,446</b>	<b>1,992,309</b>	<b>2,942,000</b>	<b>5,200,000</b>	<b>6,500,000</b>
<b>Gross profit</b>	<b>676,025</b>	<b>1,823,694</b>	<b>1,770,766</b>	<b>2,466,000</b>	<b>4,150,000</b>	<b>5,130,000</b>
Gross margin	92%	97%	89%	84%	80%	79%
SGA	(608,627)	(769,446)	(1,089,467)	(1,488,000)	(2,450,000)	(3,000,000)
Depreciation	(411)	(418)	(11,144)	(17,000)	(19,000)	(25,000)
<b>EBIT (operating profit)</b>	<b>66,987</b>	<b>1,053,830</b>	<b>670,155</b>	<b>961,000</b>	<b>1,681,000</b>	<b>2,105,000</b>
EBIT margin	9%	56%	34%	33%	32%	32%
Interest In/(Out)	(217)	(9,151)	7,601	35,000	100,000	100,000
<b>Pre-tax profit</b>	<b>66,770</b>	<b>1,044,679</b>	<b>677,756</b>	<b>996,000</b>	<b>1,781,000</b>	<b>2,205,000</b>
Tax Charge %	0%	4%	30%	31%	31%	31%
Tax Charge	(5)	(41,500)	(204,000)	(305,000)	(550,000)	(685,000)
<b>After tax profit</b>	<b>66,765</b>	<b>1,003,179</b>	<b>473,756</b>	<b>691,000</b>	<b>1,231,000</b>	<b>1,520,000</b>
Dividends		(65,000)	(128,837)	(436,058)		
Retained Earnings	66,765	938,179	344,919	254,942	1,231,000	1,520,000
<b>Shares in issue</b>				<b>11,998,561</b>	<b>13,338,207</b>	<b>13,338,207</b>
<b>Basic EPS (P)</b>				<b>5.76</b>	<b>9.23</b>	<b>11.40</b>
<b>Diluted EPS (p)</b>				<b>5.60</b>	<b>8.79</b>	<b>10.86</b>

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