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YouGov

Full Year Results
Firing On All Cylinders

750p *12 October 2006*

Online polling and market research company, YouGov, has produced a stellar set of full year results for the financial year ended 31 July 2006.

Sales have more than tripled from £2.9m to £9.6m while operating profits have quadrupled from £1.0m to £4.1m. Operating cashflow for the year was £2.9m and the company ended the financial year with £5.5m in the bank.

Around half of the company's revenues have been earned from the Middle East where the company set up operations early in the financial year. By our estimates 60% of YouGov's net profits were derived from this region – where the company has no tax liability. On 30 July YouGov further bolstered its presence in the region through the acquisition of Siraj Marketing Research and Consultancy, now rebranded as YouGovSiraj.

This company which is actively looking at ways in which it can grow its business has opportunities available from several avenues – higher than forecast growth in the UK – new one-off contracts in the Middle East – and new business via international expansion.

Our current valuation for YouGov is 745p per share and it is difficult to see much in the way of downside risk from current prices.

Share Price: 750p

12m High: 750p

12m Low: 196p

Market Cap: £99.8m

Shares in issue: 13.3m

NAV/Share: 70p

Gearing: Net cash

Interest Cover: n/a

EPIC Code: YOU

ISIN: GB00B0771P53

Sector: Media & Entertainment

Market: London AIM

PR: Financial Dynamics

Website: www.yougov.com

Broker: Numis Securities Limited

Previous Research Note: "H1 results prompt 68% profit upgrade" 3 April 2006

Analyst: Rae Ellingham

Y/E 31 July	Sales £m	Ebit £m	Pre-tax Profit £m	EPS Diluted p.	P/e ratio	Divi p.	Yield %
2005A	2.9	0.9	0.9	5.6	133.9	-	-
2006A	9.6	3.9	4.1	21.1	35.5	-	-
2007E	12.3	4.6	4.9	25.7	29.2	-	-
2008E	14.2	5.1	5.7	29.4	25.5	-	-

Firing On All Cylinders

£000	2005A	2006A	% Change
Sales	2,942	9,567	+225%
Gross Profit	2,466	7,319	+197%
Gross Margin	*84%*	*77%*	
EBIT	961	3,853	+300%
EBIT Margin	*33%*	*40%*	
PBT	996	4,053	+307%
Net Income	691	3,511	+408%
Operating Cashflow	1,149	2,896	+152%
Net Cash	3,796	5,546	+46%

Online polling and market research company, YouGov, has released its full year results for the period ended 31 July 2006. With sales more than tripling over the prior year - from £2.9m to £9.6m - and profits quadrupling from £1.0m to £4.1m – company management have reason to be pleased with themselves.

Earnings per share for the full year of 22.4p exceeded consensus market expectations of 19.5p per share by 15% and our own expectations by 9%. Core revenues were derived 51% from the UK and 49% from the Middle East with a small additional contribution also being made from YouGov's joint venture operations YGX.

UK revenues at £4.8m were an impressive 65% up on revenues earned in the 2005 financial year. This compares to an average market growth rate of circa 35%. Revenues of £4.6 earned in the Middle East were likewise impressive given that this is the first year of YouGov's operations in the region.

At the operating level YouGov's operating margin improved from 33% to 41% reflecting 1) a lower salary bill with wages paid in the Middle East being typically lower than those paid in the UK and 2) the general scalability of YouGov's market research model.

The company's tax bill at £542,000 was a mere 13% of total net profits. Working backwards this suggests that the company generated close to 60% of its net profits out of the Middle East where no tax is payable. As a result of this the amount payable to YouGov's minority partner in the Middle East was higher than we had expected at £521,000.

Of note on YouGov's balance sheet – apart from the £5.5m in cash – was the £3.5m of trade debtors which represents 37% of total revenues or 135 days outstanding sales. This compares to 17% and 61 days in the prior year. We understand that this large increase in the debtors position reflects the lengthier payment terms expected by YouGov's Middle Eastern customer base. Despite this increase in the debtors position YouGov generated £2.6m in free cashflow during the financial year.

YouGovSiraj

On 30 July YouGov completed its acquisition of Siraj Marketing Research and Consultancy. Siraj, which had annualised revenues of £670,000 in the year to 31 July 2006 and annualised profits of £130,000, was acquired for a total consideration of £1.3m. Of this £365,000 is deferred until the 2009 financial year.

Dubai based Siraj has historically offered both traditional qualitative and quantitative market research to some 31 clients and the acquisition brings YouGov's total client base to 242. By introducing its own technology into Siraj's operations YouGov should almost immediately be able to improve Siraj's current profits which at just under 20% are almost half that of YouGov itself. More importantly the acquisition of Siraj cements YouGov's position as the fasted growing market research agency in the Middle East and adds to YouGov's growing Middle Eastern client base.

YGX

YGX, YouGov's 50/50 joint venture operation with brokers Evolution Limited, performed strongly during the year and is now contributing to YouGov's bottom line. The joint venture which was set up to poll consumers directly on their perceptions of brands which are listed on the stock market has led to 19 out of 20 correct buy, sell or hold trading decisions being made.

BrandIndex

BrandIndex, launched in late 2005 and successfully established in the UK, is now being piloted in the Middle East. The service which involves tracking key consumer preferences now accounts for around 2% of YouGov's revenues.

Outlook and Forecasts

With YouGov well positioned to capture its share of the growth in the online market research sector in the UK (currently around 35%) we have assumed that the company will continue to grow its top line UK sales at around this level.

We have assumed moderate growth from YouGov's existing customer base in the Middle East and our revenue split for the 2007 financial year is 54%/46% UK/Middle East. Our forecasts do not make any allowance for potential one-off wins that may eventuate in the Middle East.

We have reduced our gross margin assumption for the 2007 financial year from our previous assumption of 77% to 73%. This reflects both an additional allowance for the total incentive payment to be paid to include panel members in the Middle East and an allowance for payments to panel members in Germany, the US and Canada where YouGov has experimental panels in place. Panel members are paid 50p per survey completed with total payments accruing to a maximum of £50 per panel member. YouGov now has 107,000 panel members in the UK and 35,000 panel members in the Middle East.

As YouGov is not a "bricks and mortar" company its capex spend has historically been relatively light. Our slightly higher than normal capex spend of £250,000 in the 2007 financial year reflects our belief that YouGov is currently capacity constrained. As the business expands it is likely that new leasehold premises will be sought and additional expenditure on improvements, fixtures and fittings and computer equipment be required.

We have allowed for some improvement in YouGov's debtors position, reducing the number of days outstanding to 117. This reflects our underlying assumptions in terms of revenue growth – that the revenue proportion derived from YouGov's slower paying Middle Eastern customer base will be lower than that in the current year.

Given the scalability of YouGov's business operations we anticipate the company continuing to be highly cash generative – under our current forecasts YouGov's free cashflow is expected to increase to £5.0m in the 2007 financial year – up 90% on the current position.

YouGov views itself as a growth company and as such does not pay dividends. Therefore without any specific acquisitions having been identified to date we have allowed for an accumulation of cash on YouGov's balance sheet. We do not, however, expect that with the opportunities available to it YouGov will continue to hold this high cash balance – forecast to reach £10.6m by the end of July 2007.

YouGov is actively looking at ways in which it can grow its business and is looking at acquisitions which meet its strict financial and strategic criteria. We would expect that acquisitions might be made where the company has already set up experimental panels, ie Germany, Canada and North America. The company is also looking at setting up an office in Saudi Arabia.

Valuation

In order to place a value on YouGov's shares we have examined the share price and earnings performance of several companies whom we consider to be in the same space – Research Now, Greenfield On-line, Harris Interactive and ToLuna. The average forward price to earnings ratio across this group is 27.7x. Of these companies the first three are all expected to grow earnings by a minimum of 25% in the upcoming year. ToLuna is expected to grow its earnings by 50%, however this is off a small base. Our own estimates for YouGov suggest growth of circa 22%. After removing ToLuna from our set of comparators and adjusting our sample set to reflect YouGov's lack of liquidity we have derived a price to earnings ratio for YouGov of 29.0x earnings. Applying this ratio to our forecast 2007 earnings of 25.7p per share yields a valuation for YouGov of 745p per share – close to where the company's shares are now trading.

With additional potential upside available to YouGov from several avenues – higher than forecast growth in the UK potentially through a consolidating market – new contracts in the Middle East where revenues are very contract dependent – the potential for new business in the US, Canada and Europe where YouGov already has experimental panels in place – an attractive cashflow stream and strong balance sheet it is difficult to see much in the way of downside risk from current prices – only upside.

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Profit & Loss Yr End 31 July £'000	*2002/3A*	*2003/4A*	*2004/5A*	*2005/6A*	*2006/7E*	*2007/08E*
	1,887,446	**1,992,309**	**2,942,000**	**9,567,000**	**12,303,300**	**14,227,695**
Gross profit	**1,823,694**	**1,770,766**	**2,466,000**	**7,319,000**	**8,979,926**	**10,524,029**
Gross margin	97%	89%	84%	77%	74%	75%
SGA	(769,446)	(1,089,467)	(1,488,000)	(3,428,000)	(4,294,748)	(5,309,463)
Depreciation	(418)	(11,144)	(17,000)	(38,000)	(54,667)	(68,333)
EBIT (operating profit)	**1,053,830**	**670,155**	**961,000**	**3,853,000**	**4,630,511**	**5,146,233**
EBIT margin	56%	34%	33%	40%	38%	36%
Share of jv				9,000	17,955	18,853
Interest In/(Out)	(9,151)	7,601	35,000	191,000	300,000	520,000
Pre-tax profit	**1,044,679**	**677,756**	**996,000**	**4,053,000**	**4,948,466**	**5,685,086**
Tax Charge	(41,500)	(204,000)	(305,000)	(542,000)	(682,830)	(859,182)
After tax profit	**1,003,179**	**473,756**	**691,000**	**3,511,000**	**4,265,636**	**4,825,904**
Minorities				**(521,000)**	**(625,756)**	**(654,747)**
Shares in issue			**11,998,561**	**13,358,157**	**13,358,157**	**13,358,157**
Basic EPS (P)			**5.76**	**22.38**	**27.25**	**31.23**
Diluted no of shares				**14,166,143**	**14,166,143**	**14,166,143**
Diluted EPS (p)			**5.60**	**21.11**	**25.69**	**29.44**

Cashflow Yr End 31 July £'000	*2002/3A*	*2003/4A*	*2004/5A*	*2005/6E*	*2006/7E*	*2007/8E*
Operating profit	**1,053,830**	**670,155**	**961,000**	**3,853,000**	**4,630,511**	**5,146,233**
Depreciation	418	11,144	17,000	38,000	54,667	68,333
Working Capital	(682,876)	85,000	171,000	(1,004,000)	693,312	134,029
Other		86,000		9,000	17,955	18,853
Operating cash flow	**371,372**	**852,299**	**1,149,000**	**2,896,000**	**5,396,445**	**5,367,448**
Interest	(9,151)	7,601	35,000	180,000	282,000	488,800
Tax	(5)	(44,000)	(202,000)	(318,000)	(409,698)	(515,509)
Net Capex	0	(60,000)	(28,000)	(133,000)	(250,000)	(150,000)
Free cash flow	**362,216**	**755,900**	**954,000**	**2,625,000**	**5,018,747**	**5,190,739**
Acquisitions and disposals				(806,000)		
Dividends		(194,000)	(436,000)			
Other		7,083	(167,000)	(100,000)		
Share issue		35,000	2,732,000	31,000		
Increase/decrease in net debt	362,216	603,983	3,083,000	1,750,000	5,018,747	5,190,739
Opening net cash (net debt)	**(253,199)**	**109,017**	**713,000**	**3,796,000**	**5,546,000**	**10,564,747**
Closing net cash (net debt)	**109,017**	**713,000**	**3,796,000**	**5,546,000**	**10,564,747**	**15,755,486**

Balance Sheet Yr End 31 July £'000	*2002/3A*	*2003/4A*	*2004/5A*	*2005/6E*	*2006/7E*	*2007/8E*
Fixed Assets						
Intangible Assets	87,165			1,171,000	1,171,000	1,171,000
Tangible Assets	1,255	51,244	63,000	158,000	353,333	435,000
Investments	1,700	1,700		110,000	110,000	110,000
Current Assets						
Trade Debtors	636,792	465,093	495,000	3,547,000	3,937,056	4,410,585
Other Debtors		40,907	204,703	40,000	40,000	40,000
Cash	380,600	977,000	3,796,000	5,546,000	10,564,747	15,755,486
Others (prepayments, accrued income)	4,362		69,297	112,000	147,640	170,732
Total assets less current liabilities	**1,409,739**	**1,877,944**	**5,509,000**	**13,492,000**	**20,179,505**	**26,532,999**
Liabilities						
Trade creditors	(26,549)	(9,859)	(84,497)	(122,000)	(398,805)	(444,440)
Other creditors (taxes, accruals)	(4,113)	(329,141)	(785,503)	(2,674,000)	(3,444,924)	(3,983,755)
Provisions	(267,203)	(3,000)	(11,000)	(12,000)	(12,000)	(12,000)
Deferred consideration				(365,000)	(365,000)	(365,000)
ST debt	(264,000)	(264,000)				
Minorities				(743,000)	(1,368,756)	(2,023,502)
Shareholders' Funds	**550,009**	**929,944**	**3,747,000**	**6,768,000**	**10,734,292**	**15,264,107**