

GB Group

Upgrading on strong H122 performance

H122 trading update

GB Group (GBG) confirmed that its Identity business continued to benefit from a number of exceptional volume drivers in H122, resulting in 12.4% y-o-y organic constant currency revenue growth and a 25.2% operating margin for the group. With management expectations for H222 unchanged, we upgrade our forecasts to incorporate these windfall revenues and slightly better growth in the Fraud and Location divisions.

Year end	Revenue (£m)	Adj. operating profit* (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/20	199.1	47.9	45.7	17.9	0.0	51.3
03/21	217.7	57.9	56.7	21.7	6.4	42.3
03/22e	218.6	51.4	50.8	19.3	3.5	47.5
03/23e	238.1	53.9	53.3	20.1	3.6	45.6
03/24e	261.6	60.3	59.7	21.7	3.7	42.2

Note: *Adjusted operating profit, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

12% organic revenue growth in H122

GBG expects to report H122 revenue of £109m, up 5.3% y-o-y and up 12.4% on an organic constant currency basis after adjusting for the two businesses sold in H221. GBG confirmed that in H122 each of its three business units grew on a reported and organic constant currency basis. The Identity business saw the one-off project supporting the US financial stimulus continue for longer than expected, generating incremental revenue of £3m compared to £11m in H121. In addition, high volumes of cryptocurrency trading in April/May generated £4m in revenue over and above the normal run rate. The Location business continued to see good demand as consumers do more online. After a weak H121, the Fraud business saw a good recovery in demand from renewals, new contracts and the resumption of on-premise deployments. GBG expects to report adjusted operating profit of c £27.5m, equating to a margin of 25.2%, which is ahead of the more usual 22–23% range.

Upgrading estimates on better-than-expected H1

The board confirmed that the outlook for H222 is in line with its expectations. We have revised our forecasts to take account of the one-off boosts to Identity revenue in H1 and our expectation of slightly higher growth rates in Fraud and Location. We expect the operating margin to normalise from H222, through a combination of previously flagged new hires and the lack of one-off revenues in H222. We lift our normalised EPS forecasts by 9.3% in FY22, 2.3% in FY23 and 1.2% in FY24.

Valuation: Premium rating reflects growth potential

GBG trades at a premium to the UK software and IT services sectors and its global ID management peer group on a P/E basis, reflecting its strong growth outlook, high recurring revenues and strong balance sheet. Our reverse DCF analysis estimates that the share price is factoring in operating margins of 23.5% and revenue growth of c 11% pa from FY25, slightly ahead of our FY23/24 forecasts. Outside of faster than expected COVID-19 recovery, triggers for upside could include successful cross-selling, adoption of combined solutions and accretive acquisitions.

Software & comp services

21 October 2021

Price **917.5p**
Market cap **£1,807m**

Net cash (£m) at end H122	39.5
Shares in issue	197.0m
Free float	98%
Code	GBG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(0.6)	(13.5)	4.9
Rel (local)	(3.8)	8.4	(15.6)
52-week high/low		954p	798p

Business description

GB Group is a specialist in identity data intelligence. Its products and services enable its customers to better understand and verify their customers and employees and are used across a range of fraud, risk management, compliance and customer on-boarding services. With headquarters in the UK, GB operates across 16 countries, has customers in more than 70 countries and generates more than 64% of revenues internationally.

Next events

H122 results	30 November 2021
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Changes to forecasts

Exhibit 1: Changes to forecasts

£m	FY22e				FY23e				FY24e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	209.6	218.6	4.3%	0.4%	233.0	238.1	2.2%	8.9%	259.1	261.6	1.0%	9.9%
Gross profit	151	157	4.3%	3.2%	167.8	171.4	2.2%	8.9%	186.5	188.3	1.0%	9.9%
Gross margin	72.0%	72.0%	0.0%	1.9%	72.0%	72.0%	0.0%	0.0%	72.0%	72.0%	0.0%	0.0%
EBITDA	50.8	55.1	8.5%	(10.3%)	56.6	57.8	2.1%	4.8%	63.6	64.3	1.1%	11.3%
EBITDA margin	24.2%	25.2%	1.0%	(3.0%)	24.3%	24.3%	(0.0%)	(0.9%)	24.5%	24.6%	0.0%	0.3%
EBITA	47.1	51.4	9.2%	(11.2%)	52.7	53.9	2.3%	4.8%	59.5	60.3	1.2%	11.8%
EBITA margin	22.5%	23.5%	1.1%	(3.1%)	22.6%	22.6%	0.0%	(0.9%)	23.0%	23.0%	0.1%	0.4%
PBT	46.5	50.8	9.3%	(10.3%)	52.1	53.3	2.3%	4.9%	58.9	59.7	1.2%	11.9%
EPS - normalised, diluted (p)	17.7	19.3	9.3%	(11.0%)	19.6	20.1	2.3%	4.1%	21.5	21.7	1.2%	8.2%
EPS - reported (p)	8.9	10.6	19.4%	(23.0%)	10.8	11.3	4.4%	6.4%	13.2	13.4	2.2%	19.2%
DPS (p)	3.5	3.5	0.0%	(45.3%)	3.6	3.6	0.0%	2.9%	3.7	3.7	0.0%	2.8%
Net debt/(cash)	(51.7)	(52.1)	0.8%	146.6%	(85.8)	(87.5)	2.0%	67.9%	(123.8)	(125.3)	1.2%	43.2%
<u>Divisional forecasts</u>												
<u>Revenue</u>												
Identity	114.8	116.5	1.5%	-9.0%	127.6	128.2	0.4%	10.0%	141.9	141.4	(0.4%)	10.3%
Location	66.2	72.2	9.0%	21.0%	74.2	78.0	5.1%	8.0%	83.1	85.8	3.2%	10.0%
Fraud	28.6	29.9	4.6%	12.9%	31.2	31.9	2.4%	6.8%	34.1	34.5	1.2%	8.0%
Group	209.6	218.6	4.3%	0.4%	233.0	238.1	2.2%	8.9%	259.1	261.6	1.0%	9.9%
<u>Adjusted operating profit</u>												
Identity	35.0	37.3	6.5%	-21.9%	38.9	38.8	(0.3%)	4.2%	43.3	43.1	(0.4%)	11.0%
Location	19.9	21.7	9.0%	11.2%	22.3	23.4	5.1%	8.0%	24.9	25.7	3.2%	10.0%
Fraud	6.0	6.3	4.6%	17.8%	7.0	7.2	2.4%	14.4%	7.8	7.9	1.2%	10.4%
Group	47.1	51.4	9.2%	-11.2%	52.7	53.9	2.3%	4.8%	59.5	60.3	1.2%	11.8%
<u>Adjusted operating margin</u>												
Identity	30.5%	32.0%			30.5%	30.3%			30.5%	30.5%		
Location	30.0%	30.0%			30.0%	30.0%			30.0%	30.0%		
Fraud	21.0%	21.0%			22.5%	22.5%			23.0%	23.0%		
Group	22.5%	23.5%			22.6%	22.6%			23.0%	23.0%		

Source: GB Group, Edison Investment Research

Exhibit 2: Financial summary

	£'000s	2017	2018	2019	2020	2021	2022e	2023e	2024e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		87,468	119,702	143,504	199,101	217,659	218,618	238,067	261,592
Cost of Sales		(20,302)	(27,092)	(36,060)	(54,914)	(65,096)	(61,213)	(66,659)	(73,246)
Gross Profit		67,166	92,610	107,444	144,187	152,563	157,405	171,408	188,346
EBITDA		18,734	28,741	34,080	51,739	61,410	55,109	57,767	64,308
Operating Profit (before amort. and except.)		17,006	26,311	32,031	47,945	57,896	51,425	53,910	60,272
Acquired intangible amortisation		(4,022)	(7,885)	(10,316)	(19,008)	(17,671)	(18,500)	(18,500)	(18,500)
Exceptionals		(1,410)	(2,143)	(4,003)	(1,552)	448	0	0	0
Share of associate		0	0	0	0	0	0	0	0
Share based payments		(994)	(2,375)	(2,287)	(4,541)	(5,170)	(5,687)	(6,256)	(6,881)
Operating Profit		10,580	13,908	15,425	22,844	35,503	27,238	29,155	34,890
Net Interest		(498)	(508)	(689)	(2,218)	(1,240)	(600)	(600)	(600)
Profit Before Tax (norm)		16,508	25,803	31,342	45,727	56,656	50,825	53,310	59,672
Profit Before Tax (FRS 3)		10,082	13,400	14,736	20,626	34,263	26,638	28,555	34,290
Tax		668	(2,746)	(2,583)	(3,562)	(7,385)	(5,741)	(6,155)	(7,391)
Profit After Tax (norm)		13,206	20,642	24,760	35,210	43,059	38,627	40,516	44,157
Profit After Tax (FRS 3)		10,750	10,654	12,153	17,064	26,878	20,896	22,400	26,900
Ave. Number of Shares Outstanding (m)		131.6	150.6	158.1	193.6	195.2	197.1	198.6	200.1
EPS - normalised (p)		10.0	13.7	15.7	18.2	22.1	19.6	20.4	22.1
EPS - normalised and fully diluted (p)		9.9	13.5	15.4	17.9	21.7	19.3	20.1	21.7
EPS - (IFRS) (p)		8.2	7.1	7.7	8.8	13.8	10.6	11.3	13.4
Dividend per share (p)		2.4	2.7	3.0	0.0	6.4	3.5	3.6	3.7
Gross Margin (%)		76.8	77.4	74.9	72.4	70.1	72.0	72.0	72.0
EBITDA Margin (%)		21.4	24.0	23.7	26.0	28.2	25.2	24.3	24.6
Operating Margin (before GW and except.) (%)		19.4	22.0	22.3	24.1	26.6	23.5	22.6	23.0
BALANCE SHEET									
Fixed Assets		105,653	170,284	438,683	430,219	394,564	377,731	360,877	343,993
Intangible Assets		98,753	161,372	425,646	414,505	377,663	359,113	340,613	322,163
Tangible Assets		2,856	4,700	4,815	9,420	6,937	8,654	10,300	11,866
Other fixed assets		4,044	4,212	8,222	6,294	9,964	9,964	9,964	9,964
Current Assets		48,914	61,121	76,522	95,984	85,653	119,233	160,079	204,447
Debtors		30,569	37,969	54,992	66,554	58,617	61,213	66,659	73,246
Cash		17,618	22,753	21,189	27,499	21,135	52,119	87,519	125,300
Other		727	399	341	1,931	5,901	5,901	5,901	5,901
Current Liabilities		(44,444)	(56,942)	(77,030)	(86,459)	(90,000)	(93,295)	(102,194)	(111,195)
Creditors		(36,436)	(56,100)	(70,302)	(80,280)	(86,338)	(89,633)	(98,532)	(107,533)
Contingent consideration		(7,122)	(45)	(5,287)	(6,179)	(3,662)	(3,662)	(3,662)	(3,662)
Short term borrowings		(886)	(797)	(1,441)	0	0	0	0	0
Long Term Liabilities		(15,940)	(16,711)	(116,707)	(94,810)	(25,961)	(19,505)	(12,865)	(4,741)
Long term borrowings		(11,499)	(8,451)	(85,447)	(62,139)	0	0	0	0
Contingent consideration		0	0	0	0	0	0	0	0
Other long-term liabilities		(4,441)	(8,260)	(31,260)	(32,671)	(25,961)	(19,505)	(12,865)	(4,741)
Net Assets		94,183	157,752	321,468	344,934	364,256	384,165	405,897	432,503
CASH FLOW									
Operating Cash Flow		16,305	31,620	27,779	48,498	72,631	55,808	61,220	66,722
Net Interest		(498)	(545)	(689)	(1,768)	(1,211)	(600)	(600)	(600)
Tax		(2,193)	(3,247)	(2,930)	(6,386)	(14,205)	(12,198)	(12,794)	(15,515)
Capex		(2,227)	(2,018)	(1,625)	(1,339)	(738)	(3,100)	(3,250)	(3,400)
Acquisitions/disposals		(36,840)	(70,363)	(255,101)	(81)	2,545	0	0	0
Financing		24,755	56,668	157,339	(1,553)	3,476	(2,252)	(2,252)	(2,252)
Dividends		(2,775)	(3,582)	(4,049)	(5,761)	(5,883)	(6,674)	(6,923)	(7,175)
Net Cash Flow		(3,473)	8,533	(79,276)	31,610	56,615	30,984	35,401	37,781
Opening net debt/(cash)		(8,673)	(5,233)	(13,505)	65,699	34,640	(21,135)	(52,119)	(87,519)
HP finance leases initiated		0	0	0	0	0	0	0	0
Other		33	(261)	72	(551)	(840)	0	0	0
Closing net debt/(cash)		(5,233)	(13,505)	65,699	34,640	(21,135)	(52,119)	(87,519)	(125,300)

Source: Company accounts, Edison Investment Research

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