

GB Group

H122 results

Strong organic growth in H122

GB Group (GBG) reported a strong performance in H122, with organic constant currency revenue growth of 12.6% y-o-y and an adjusted operating margin of 25.5%. The Acuant acquisition completed on 29 November and the group's immediate focus is on combining the two companies and pushing forward with growth plans. Our forecasts are substantially unchanged.

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	43.0
03/21	217.7	57.9	56.7	22.4	6.4	34.4
03/22e	234.0	55.1	53.5	19.4	3.5	39.6
03/23e	295.7	70.8	67.6	20.1	3.6	38.3
03/24e	332.0	79.5	76.9	22.4	3.7	34.3

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

Strong underlying organic growth in H122

In H122, GBG reported revenue growth of 5.4% y-o-y or 12.6% on an organic constant currency basis, with all divisions growing at a double-digit rate. Adjusting for exceptional revenue benefits from cryptocurrency trading and the US stimulus programme, GBG generated underlying revenue growth of 17.6%. The adjusted operating margin of 25.5% was ahead of the pre-Acuant target of 22–23% but is expected to decline to more normal levels in H222 as hiring accelerates and one-off revenues do not repeat. The company closed H122 with net cash of £39.5m. Our forecasts are substantially unchanged.

Focus shifts to integration of Acuant

The outlook for H222 is in line with board expectations and the focus now shifts to integrating the recently completed Acuant acquisition. The deal strengthens the group's presence in the US, the largest identity verification market globally, and broadens GBG's product range. The combined group is now in a better position to meet customer requirements for end-to-end solutions, providing a point of differentiation from high-profile, privately owned point solution providers.

Valuation: Not fully capturing growth potential

The stock has regained some ground since the 19 November placing at 725p. On our revised estimates, including Acuant from 1 December, GBG is trading at a premium to identity management (IDM) peers but at a discount to higher-growth, lower-profitability identity access management (IAM) and cybersecurity (CS) peers. However, our reverse DCF calculates that the share price is factoring in revenue growth of only 8.5% from FY25, well below the double-digit growth rate previously factored in by the market. Considering that Acuant is expected to grow faster than the original GBG, this appears overly conservative. Using a 12% growth rate (the lower end of new management guidance) from FY25 would imply a per share value of 950p.

Software & comp services

1 December 2021

Price **770p**
Market cap **£1,933m**

\$1.33:£1

Net cash (£m) at end H122 39.5

Shares in issue 251.1m

Free float 94%

Code GBG

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (13.1) (14.4) (8.9)

Rel (local) (10.9) (12.6) (19.8)

52-week high/low 954p 748p

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 18 countries, has customers in more than 70 countries and generates more than 64% of revenues internationally.

Next events

Trading update January 2022

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Review of H122 results

Exhibit 1: GB Group H122 results highlights

£m	H122	H121	y-o-y
Revenues	109.2	103.5	5.4%
Gross profit	76.9	72.6	5.9%
Gross margin	70.5%	70.2%	0.3%
Adjusted operating profit	27.8	26.8	3.5%
Adjusted operating margin	25.5%	25.9%	-0.5%
Reported operating profit	14.8	15.7	-5.2%
Reported operating margin	13.6%	15.1%	-1.5%
Adjusted diluted EPS (p)	10.9	10.4	4.8%
Reported basic EPS (p)	5.7	6.1	-6.6%
Net cash/(debt)	39.5	-2.7	N/A

Source: GB Group

GBG reported H122 results substantially in line with its 21 October trading update. Revenue was 5.4% higher y-o-y. Adjusting for the businesses sold in FY21 and currency, GBG revenue grew 12.6% y-o-y on an organic, constant currency basis in H122. Adjusted operating profit grew at a slower pace, reflecting the resumption of spending on items such as travel and marketing and the start of an increase in headcount. The company has changed how it reports adjusted EPS to a method consistent with our normalised EPS calculations. Previously it reported adjusted EPS using adjusted PBT less reported tax, but now adjusts the tax charge to reflect the exclusion of items such as share-based payments and exceptionals, resulting in an effective tax rate of 19.4% for H122. The company repaid its remaining debt in H221 and closed H122 with gross/net cash of £39.5m. In H122, the company converted 112.6% of EBITDA to cash, compared to an artificially high 154.9% in H121 (benefiting from delayed cash payments during the pandemic).

Organic growth across all divisions

Exhibit 2: Divisional performance

£m	H122	H121	y-o-y	Constant currency organic growth
Revenues				
Fraud	15.5	12.9	19.7%	17.0%
Identity	63.7	63.1	1.0%	10.4%
Location	29.9	26.6	12.3%	15.4%
Other	0.0	0.9	(96%)	N/A
Total revenues	109.2	103.5	5.4%	12.6%
Adjusted operating profit				
Fraud	4.9	2.2	119.8%	
Identity	28.1	23.3	20.6%	
Location	10.7	7.8	37.1%	
Other + central overheads	-15.9	-6.5	145.1%	
Total adjusted operating profit	27.8	26.8	3.5%	
Adjusted operating margin				
Fraud	31.5%	17.2%	14.4%	
Identity	44.2%	37.0%	7.2%	
Location	35.7%	29.2%	6.4%	
Other + central overheads	N/A	N/A	N/A	
Total adjusted operating margin	25.5%	25.9%	-0.5%	

Source: GB Group

The table above shows that each division reported double-digit organic constant currency revenue growth in H122. Fraud was the highest, at 17.0%, partially reflecting weaker demand in H121 due to pandemic restrictions. Location saw strong growth of 15.4%, after 9% growth in H121, helped by the shift to e-commerce. Identity, which included the Employ & Comply business that was sold in H221, saw 10.4% growth on an organic constant currency basis. In H121 the Identity business

benefited from c £10m in revenue from the US stimulus programme. In H122, this contributed a further £3m and GBG also benefited from exceptionally high cryptocurrency trading volumes, which added an extra £4m. Stripping out the effect of acquisitions (£0.5m), disposals (£3.3m), currency (£3.7m) and one-off revenue benefits, the company calculates that underlying revenue growth was 17.6% (ie H122 clean revenue £101.7m versus H121 clean revenue £86.5m).

We note that GBG has revised how it reports central overheads. Previously, an element of central cost was allocated to each division. Now any resource that is used across the group is included in central overheads, leaving only those costs controlled by the divisions within their reporting structure. This split is not yet available for any prior periods so margins for H122 are not comparable with H121 at a divisional level. At a group level, the adjusted operating margin declined 0.5pp, but at 25.5% was still materially above the company's pre-Acuant target range of 22–23%. Having put the brakes on spending during H121 as an initial reaction to managing through the pandemic, the company resumed investment in the business from H221.

Providing more transparency on revenue composition

GBG previously reported divisional revenue split into three revenue categories: licence, transactional and services. It has amended this to give more clarity on the types of licence and the proportion of revenue contracted on a consumption (or transactional) basis. The table below shows the new reporting by revenue type including comparatives for H121 and FY21.

Exhibit 3: Revenue by type and by division (£000s)					
Group revenues by type	H121	H221	FY21	H122	y-o-y growth
Consumption-based	16,010	16,740	32,750	15,448	-4%
Term-based	27,634	34,610	62,244	32,428	17%
Subscription revenues	43,644	51,350	94,994	47,876	10%
Consumption	54,654	56,611	111,265	57,123	5%
Other	5,247	6,153	11,400	4,155	-21%
Total revenue	103,545	114,114	217,659	109,154	5%
Location					
Consumption-based	8,978	9,406	18,384	8,423	-6%
Term-based	15,616	21,783	37,399	19,095	22%
Subscription revenues	24,594	31,189	55,783	27,518	12%
Consumption	1,669	1,301	2,970	1,982	19%
Other	357	559	916	405	13%
Total revenue	26,620	33,049	59,669	29,905	12%
Identity					
Consumption-based	6,743	6,975	13,718	6,586	-2%
Term-based	2,830	2,108	4,938	1,563	-45%
Subscription revenues	9,573	9,083	18,656	8,149	-15%
Consumption	52,482	54,691	107,173	54,471	4%
Other	1,059	1,197	2,256	1,108	5%
Total revenue	63,114	64,971	128,085	63,728	1%
Fraud					
Consumption-based	289	359	648	439	52%
Term-based	9,188	10,719	19,907	11,770	28%
Subscription revenues	9,477	11,078	20,555	12,209	29%
Consumption	503	619	1,122	670	33%
Other	2,952	3,815	6,767	2,604	-12%
Total revenue	12,932	15,512	28,444	15,483	20%
Other					
Consumption-based	-	-	-	-	N/A
Term-based	-	-	-	-	N/A
Subscription revenues	-	-	-	-	N/A
Consumption	-	-	-	-	N/A
Other	879	582	1,461	38	-96%
Total revenue	879	582	1,461	38	-96%

Source: GB Group

To clarify, a consumption-based subscription licence is one where the customer pays in advance for a set number of transactions in a given period of time. If the customer does not use all the transactions paid for in the period, they are forfeited. Conversely, a consumption contract is one where the customer pays in arrears based on the number of transactions undertaken in a period. More than 85% of the Identity business is contracted on a consumption basis, ie customers pay per verification. Conversely, nearly 80% of Fraud revenue is contracted on a subscription licence basis, with most licences for a multi-year term and only a small proportion on a consumption basis. The Location business has more than 90% of revenue from subscription licences, with more than two-thirds of these on a consumption basis. At a group level, this results in 44% of revenue generated from subscription licences (32% consumption-based, 68% term-based), 52% from consumption-based contracts and 4% from Other (mainly services).

Acuant acquisition completed

The company completed the acquisition of Acuant on 29 November (see [Accelerating growth with Acuant acquisition](#)). As a reminder, the company believes that this business can grow revenue by 25% pa in the medium term, having grown 22% in the 12 months to 30 September 2021. Management has put in place 100-day and 200-day plans for the combined group and will initially focus on low-hanging fruit such as plugging GBG's data into Acuant's products and using GBG's salesforce in EMEA and APAC to sell Acuant solutions. Acuant's channel network will also be useful to help sell GBG's products and to help GBG gain access to new verticals such as automotive, healthcare and government.

Outlook and changes to forecasts

The outlook for H222 and FY22 is in line with board expectations. At a group level, we make minimal changes to our forecasts, which were updated last week for the Acuant acquisition. At a divisional level, we have revised our margin forecasts to reflect the new way of allocating central costs.

Exhibit 4: 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	233.6	234.0	0.2%	7.5%	295.1	295.7	0.2%	26.4%	332.0	332.0	(0.0%)	12.3%
Gross profit	168	168	0.2%	10.4%	212.4	212.9	0.2%	26.4%	239.1	239.0	(0.0%)	12.3%
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	58.8	58.8	(0.0%)	(4.2%)	74.7	74.7	0.0%	27.0%	83.6	83.6	0.0%	11.9%
EBITDA margin	25.2%	25.1%	(0.0%)	(3.1%)	25.3%	25.3%	(0.0%)	0.1%	25.2%	25.2%	0.0%	(0.1%)
EBITA	55.1	55.1	(0.0%)	(4.8%)	70.8	70.8	0.0%	28.5%	79.5	79.5	0.0%	12.3%
EBITA margin	23.6%	23.6%	(0.0%)	(3.0%)	24.0%	24.0%	(0.0%)	0.4%	24.0%	24.0%	0.0%	0.0%
PBT	53.5	53.5	(0.0%)	(5.6%)	67.6	67.6	0.0%	26.4%	76.9	76.9	0.0%	13.7%
EPS - normalised, diluted (p)	18.6	19.4	4.4%	(13.2%)	20.1	20.1	0.0%	3.4%	22.4	22.4	0.0%	11.5%
EPS - reported (p)	8.9	8.9	(0.0%)	(35.7%)	13.3	13.3	0.0%	50.3%	15.9	15.9	0.0%	19.4%
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)	109.3	106.6	(2.5%)	N/A	61.8	59.0	(4.6%)	(44.6%)	10.9	8.2	(24.7%)	(86.1%)
Net debt/EBITDA (x)	1.9	1.8			0.8	0.8			0.1	0.1		
Divisional forecasts												
Revenue												
Identity	131.5	135.6	3.1%	5.9%	185.2	189.8	2.5%	40.0%	211.8	216.9	2.4%	14.3%
Location	72.2	66.2	(8.3%)	11.0%	78.0	71.5	(8.3%)	8.0%	85.8	78.0	(9.1%)	9.0%
Fraud	29.9	32.1	7.5%	13.0%	31.9	34.3	7.6%	6.8%	34.5	37.1	7.7%	8.1%
Group	233.6	234.0	0.2%	7.5%	295.1	295.7	0.2%	26.3%	332.0	332.0	(0.0%)	12.3%
Adjusted operating profit												
Identity	41.0	53.8	31.2%	12.6%	55.2	68.9	24.7%	28.1%	62.4	78.1	25.2%	13.4%
Location	21.7	23.2	7.0%	19.0%	23.4	24.3	4.0%	4.9%	25.7	25.7	(0.0%)	5.8%
Fraud	6.3	9.6	53.6%	80.9%	7.2	10.3	43.5%	6.8%	7.9	10.4	31.2%	0.9%
Other	(13.8)	(31.5)	128.1%		(15.0)	(32.7)	118.0%		(16.5)	(34.7)	110.3%	
Group	55.1	55.1	(0.0%)	-4.8%	70.8	70.8	0.0%	28.5%	79.5	79.5	0.0%	12.3%
Adjusted operating margin												
Identity	31.2%	39.7%			29.8%	36.3%			29.4%	36.0%		
Location	30.0%	35.0%			30.0%	34.0%			30.0%	33.0%		
Fraud	21.0%	30.0%			22.5%	30.0%			23.0%	28.0%		
Group	23.6%	23.6%			24.0%	24.0%			24.0%	24.0%		

Source: Edison Investment Research

Exhibit 5: 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	233,965	295,654	331,964
Cost of Sales		(20,302)	(27,092)	(36,060)	(54,914)	(65,096)	(65,510)	(82,783)	(92,950)
Gross Profit		67,166	92,610	107,444	144,187	152,563	168,455	212,871	239,014
EBITDA		18,734	28,741	34,080	51,739	61,410	58,805	74,712	83,613
Operating Profit (before amort. and except.)		17,006	26,311	32,031	47,945	57,896	55,121	70,821	79,540
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	(5,000)	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	25,934	46,065	54,159
Net Interest		(498)	(508)	(689)	(2,218)	(1,240)	(1,648)	(3,205)	(2,666)
Profit Before Tax (norm)		16,508	25,803	31,342	45,727	56,656	53,473	67,616	76,874
Profit Before Tax (FRS 3)		10,082	13,400	14,736	20,626	34,263	24,286	42,860	51,493
Tax		668	(2,746)	(2,583)	(3,562)	(7,385)	(5,235)	(9,238)	(11,099)
Profit After Tax (norm)		13,206	20,642	24,760	35,210	44,481	42,778	51,388	57,655
Profit After Tax (FRS 3)		10,750	10,654	12,153	17,064	26,878	19,051	33,622	40,394
Ave. Number of Shares Outstanding (m)		131.6	150.6	158.1	193.6	195.2	215.1	252.6	254.1
EPS - normalised (p)		10.0	13.7	15.7	18.2	22.8	19.9	20.3	22.7
EPS - normalised and fully diluted (p)		9.9	13.5	15.4	17.9	22.4	19.4	20.1	22.4
EPS - (IFRS) (p)		8.2	7.1	7.7	8.8	13.8	8.9	13.3	15.9
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	25.1	25.3	25.2
Operating Margin (before GW and except.) (%)		19.4	22.0	22.3	24.1	26.6	23.6	24.0	24.0
BALANCE SHEET									
Fixed Assets		105,653	170,284	438,683	430,219	394,564	924,994	908,486	892,071
Intangible Assets		98,753	161,372	425,646	414,505	377,663	906,163	887,713	869,313
Tangible Assets		2,856	4,700	4,815	9,420	6,937	8,867	10,809	12,794
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	139,846	174,691	205,667
Debtors		30,569	37,969	54,992	66,554	58,617	65,510	82,783	92,950
Cash		17,618	22,753	21,189	27,499	21,135	68,435	86,007	106,816
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)	(99,560)	(123,824)	(138,351)
Creditors		(36,436)	(56,100)	(70,302)	(80,280)	(86,338)	(95,808)	(120,072)	(134,599)
Contingent consideration		(7,122)	(45)	(5,287)	(6,179)	(3,662)	(3,752)	(3,752)	(3,752)
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)	(195,501)	(158,511)	(120,391)
Long term borrowings		(11,499)	(8,451)	(85,447)	(62,139)	0	(175,000)	(145,000)	(115,000)
Contingent consideration		0	0	0	0	0	0	0	0
Other long-term liabilities		(4,441)	(8,260)	(31,260)	(32,671)	(25,961)	(20,501)	(13,511)	(5,391)
Net Assets		94,183	157,752	321,468	344,934	364,256	769,779	800,841	838,995
CASH FLOW									
Operating Cash Flow		16,305	31,620	27,779	48,498	72,631	56,605	81,704	87,973
Net Interest		(498)	(545)	(689)	(1,768)	(1,211)	(1,641)	(3,205)	(2,666)
Tax		(2,193)	(3,247)	(2,930)	(6,386)	(14,205)	(10,695)	(16,228)	(19,218)
Capex		(2,227)	(2,018)	(1,625)	(1,339)	(738)	(3,250)	(3,400)	(3,550)
Acquisitions/disposals		(36,840)	(70,363)	(255,101)	(81)	2,545	(460,000)	0	0
Financing		24,755	56,668	157,339	(1,553)	3,476	297,635	(2,483)	(2,607)
Dividends		(2,775)	(3,582)	(4,049)	(5,761)	(5,883)	(6,677)	(8,816)	(9,122)
Net Cash Flow		(3,473)	8,533	(79,276)	31,610	56,615	(128,022)	47,572	50,810
Opening net debt/(cash)		(8,673)	(5,233)	(13,505)	65,699	34,640	(21,135)	106,565	58,993
HP finance leases initiated		0	0	0	0	0	0	0	0
Other		33	(261)	72	(551)	(840)	322	0	0
Closing net debt/(cash)		(5,233)	(13,505)	65,699	34,640	(21,135)	106,565	58,993	8,184

Source: GB Group, Edison Investment Research

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