

GB Group

Expanding eIDV in the US

GB Group (GBG) has acquired IDology, a US identity verification business, for an enterprise value of \$300m/£231m. It has placed 39m shares at 410p per share to fund £160m of the purchase price, with the remainder coming from a new credit facility. We estimate that the deal offers significant cross-selling potential and will boost GBG's international revenues to close to 50%.

Year end	Revenue (£m)	EBIT (£m)	PBT* (£m)	Dil. EPS* (p)	DPS (p)	P/E (x)
03/17	87.5	17.0	16.5	9.9	2.4	42.6
03/18	119.7	26.3	25.8	13.5	2.7	31.2
03/19e	137.7	27.5	26.6	13.1	3.0	32.1
03/20e	192.8	44.1	40.3	16.1	3.3	26.1

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

Gaining a major presence in the US

The acquisition of IDology adds domestic US data sets and more than 500 customers. We estimate it will boost FY20 revenues by 19%, and eIDV divisional revenues by 52%. In H119, 36% of group revenues came from outside the UK – we estimate that this deal will push international revenues closer to 50%. IDology is significantly more profitable than GBG (EBITDA margin 42% vs GBG at 22%), and we expect this to continue to be the case even after GBG invests in additional sales capacity to maintain IDology's mid-teens revenue growth rate. GBG expects the deal to be earnings enhancing in FY20 – we forecast 3% diluted EPS accretion.

Good strategic and cultural fit

GBG and IDology have partnered for a number of years and know each other well. The current CEO of IDology has committed to run the business for at least the next year, which should smooth the integration of the business. GBG sees good opportunities for cross-selling, in particular providing IDology's customers with access to its non-US datasets and to Loqate, its location intelligence service.

Valuation: Premium reflects growth opportunity

At 29.2x FY19e and 18.8x FY20e EBITDA, the stock trades at a premium to the UK software sector on an EV/EBITDA and P/E basis. Looking at more directly relevant sub-sectors, including global peers, the stock trades more in line with cyber-security peers, with similar levels of forecast profitability and growth. We believe this premium rating is warranted, considering the group's historic track record of profitable growth and strong cash generation, combined with the opportunity from structural growth in identity data intelligence services and the potential for accretive acquisitions.

Acquisition and fund raise

Software & comp services

13 February 2019

Price **420p**

Market cap **£810m**

\$1.285:£1

Net cash (£m) at end H119 18.6

Shares in issue (includes 39m placing shares to be issued on 14 February) 192.3m

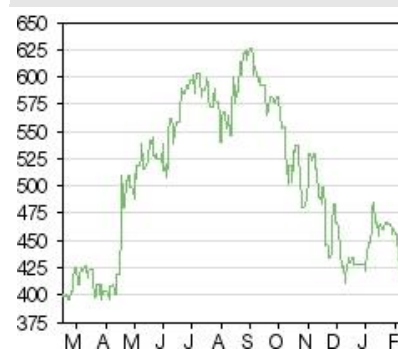
Free float 98%

Code GBG

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (9.4) (17.9) 9.2

Rel (local) (11.8) (17.9) 9.2

52-week high/low 626p 389p

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, it operates across 24 countries and generates more than one-third of revenues internationally.

Next events

FY19 trading update April 2019

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Acquisition of IDology

Terms of the deal

GBG has acquired IDology, a US provider of identity verification and fraud detection services for an enterprise value of \$300m/£231m. GBG will also pay \$1m for \$1m cash on the IDology balance sheet. The deal is being funded through a combination of debt and equity.

- **Debt:** the company has arranged a new revolving credit facility worth £110m with a £30m accordion. It expects to use c £84m of this facility to partly fund the acquisition.
- **Fund raising:** the company has placed shares worth £160m – 39.024m shares at 410p per share, a 3% discount to last night's closing price. The placing shares represent 25.5% of the existing 153.1m shares outstanding.

The company expects the shares to be issued on AIM on 14 February. Around \$7.5m of the consideration will be held in escrow as security for various buyer protection items.

Background on IDology

IDology (www.idology.com) is privately owned, with CEO John Dancu owning more than 50% of the shares. The company is based in Atlanta, Georgia with 70 employees. It has 500 customers and generates more than 70% of revenues from the financial services sector (in H119 GBG generated 28% of revenues from this sector). Its platform provides services in three main areas:

- onboarding;
- verification and set-up; and
- authentication

All customers are also signed up to IDology's fraud consortium, which shares information on fraudulent activity across its members.

Revenues are generated on a per-transaction basis, with agreed minimums. GBG and IDology have partnered in recent years, each recommending the other to multi-national customers for data sets in their respective regions. The companies have worked together with customers such as Ebay and Etsy.

Financial performance: Strong growth and margins

Exhibit 1: IDology historic financial performance			
\$m (US GAAP)	CY16	CY17	CY18
Revenues	28.4	33.3	38.2
Gross profit	18.4	21.8	25.3
Opex	(7.2)	(8.0)	(9.0)
EBITDA	11.2	13.8	16.3
PBT	11.1	13.7	16.2
Revenue growth		17%	15%
Gross margin	64.8%	65.5%	66.2%
EBITDA margin	39.4%	41.4%	42.7%

Source: GB Group

Based on an EV of \$300m, this values IDology at 7.9x trailing sales and 18.4x trailing EBITDA. Based on our initial forecasts for the business below, this reduces to 6.6x and 17.3x respectively for FY20. This compares to GBG EV multiples of 4.0x FY20e sales and 19.3x FY20e EBITDA based on a share price of 423p before the deal being announced.

Post-acquisition plans

According to management, IDology has not invested heavily in its domestic salesforce, instead generating the impressive level of revenue growth from a high level of upselling to the existing customer base. GBG is keen to maintain the business's strong growth rate and intends to strengthen the US sales team to accelerate new customer wins.

The CEO, John Dancu, has committed to run the acquired business for at least one year, and the rest of the senior management team will be incentivised to stay for at least two years.

GBG does not intend to combine the two platforms, instead it plans to link the two so that a customer can access data from either platform in one place.

The company sees scope for significant cross-selling from two sources:

- providing international data sets to IDology's US multi-national customer base.
- adding Loqate to the front-end of the IDology platform.

The acquisition will materially increase revenues generated in the US compared to the 9% reported in FY18.

Earnings accretive in FY20

Management expects the deal to be earnings enhancing in the first full year after acquisition (FY20). We assume all IDology revenues will be included in the eIDV business line. Based on GBG management's plans to increase sales headcount, we factor in sales growth being maintained at 15% per year but a declining EBITDA margin.

Exhibit 2: IDology forecasts			
\$m		FY20e	FY21e
Revenues		45.5	52.2
Gross profit		31.1	36.0
Opex		(13.7)	(17.1)
EBITDA		17.4	18.9
PBT			
Rev growth		15%	15%
Gross margin		69%	69%
EBITDA margin		38.4%	36.2%

Source: Edison Investment Research

The table below contains our revised estimates and we introduce forecasts for FY21. While the net debt/EBITDA ratio at the end of FY19 looks high, this only includes 1.5 months' EBITDA contribution from IDology. The combination of a full year EBITDA contribution and cash generation reduces the metric to 1.0x by the end of FY20.

Exhibit 3: Changes to forecasts							
£m	FY19e			FY20e			FY21e
	previous	new	change	previous	new	change	new
Revenues	136,350	137,650	1.0%	161,676	192,757	19.2%	214,322
Gross profit	102,440	104,105	1.6%	121,724	140,486	15.4%	158,436
EBITDA	29,675	30,175	1.7%	33,689	46,918	39.3%	51,429
EBITDA margin	21.8%	21.9%	0.2%	20.8%	24.3%	3.5%	24.0%
EBITA	27,000	27,500	1.9%	30,932	44,062	42.4%	48,481
EBITA margin	19.8%	20.0%	0.2%	19.1%	22.9%	3.7%	22.6%
PBT	26,431	26,638	0.8%	30,352	40,282	32.7%	45,001
EPS - normalised, diluted (p)	13.8	13.1	-5.0%	15.6	16.1	3.0%	17.9
EPS - reported (p)	5.7	3.1	-45.3%	9.5	12.2	29.4%	14.4
Net (cash)/debt	(5,697)	71,565	Nm	(23,249)	47,889	Nm	22,383
Net debt/EBITDA	N/A	2.4		N/A	1.0		0.4

Source: Edison Investment Research

Valuation

The table below shows GBG trades compared to ID management companies, identity access management software companies and more general cyber-security companies, as well as UK software peers.

Exhibit 4: Financial and valuation metrics

	Rev growth (%)		EBITDA margin (%)		EBIT margin (%)		EV/Sales (x)		EV/EBITDA (x)		P/E (x)	
	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2
GBG	15.0	40.0	21.9	24.3	20.0	22.9	6.4	4.6	29.2	18.8	32.1	26.1
ID Management	6.8	9.2	18.7	25.7	13.5	20.6	4.0	4.0	32.3	16.9	20.5	19.0
Identity Access Management	26.4	23.9	-16.6	-3.1	-19.7	-7.0	9.3	7.4	23.0	18.2	28.1	23.2
Cyber Security	14.4	12.6	23.1	24.6	19.1	20.5	6.0	5.3	54.6	31.7	50.5	43.5
UK Software	23.8	24.3	8.5	19.6	0.2	14.2	4.6	3.2	13.4	11.3	20.8	18.9

Source: Edison Investment Research, Thomson Eikon. Note: Prices at 11 February.

Based on the new share count and current share price of 420p, GBG is trading at a premium to the UK software sector on all metrics, reflecting its superior profitability. Looking at more directly relevant sub-sectors, including global peers, the stock trades on multiples more akin to cyber-security peers, with similar levels of profitability and growth. We believe this premium rating is warranted, considering the group's historic track record of profitable growth and strong cash generation combined with the opportunity from structural growth in identity data intelligence services. Using a reverse DCF, we estimate that the current share price is factoring in low-double digit revenue growth and EBIT margins of 22%, in line with management's targets for organic growth of 10%+ and AOP margins of 20%+. We expect management to continue to make accretive acquisitions to boost growth, which should provide further support to the share price.

Exhibit 5: Financial summary

	£'000s	2015	2016	2017	2018	2019e	2020e	2021e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		57,283	73,401	87,468	119,702	137,650	192,757	214,322
Cost of Sales		(16,448)	(17,606)	(20,302)	(27,092)	(33,545)	(52,271)	(55,886)
Gross Profit		40,835	55,795	67,166	92,610	104,105	140,486	158,436
EBITDA		11,844	14,772	18,734	28,741	30,175	46,918	51,429
Operating Profit (before amort. and except.)		10,790	13,428	17,006	26,311	27,500	44,062	48,481
Acquired intangible amortisation		(1,986)	(2,501)	(4,022)	(7,885)	(8,100)	(7,300)	(6,100)
Exceptionals		(1,629)	(94)	(1,410)	(2,143)	(9,830)	0	0
Share of associate		(10)	0	0	0	0	0	0
Share based payments		(971)	(1,245)	(994)	(2,375)	(2,500)	(2,750)	(3,025)
Operating Profit		6,194	9,588	10,580	13,908	7,070	34,012	39,356
Net Interest		(266)	(270)	(498)	(508)	(863)	(3,780)	(3,480)
Profit Before Tax (norm)		10,524	13,158	16,508	25,803	26,638	40,282	45,001
Profit Before Tax (FRS 3)		5,928	9,318	10,082	13,400	6,208	30,232	35,876
Tax		(1,127)	(178)	668	(2,746)	(1,291)	(6,590)	(7,893)
Profit After Tax (norm)		8,314	10,395	13,206	20,642	21,097	31,500	35,101
Profit After Tax (FRS 3)		4,801	9,140	10,750	10,654	4,916	23,641	27,983
Average Number of Shares Outstanding (m)		119.1	122.7	131.6	150.6	157.8	193.1	193.8
EPS - normalised (p)		7.0	8.5	10.0	13.7	13.4	16.3	18.1
EPS - normalised and fully diluted (p)		6.7	8.2	9.9	13.5	13.1	16.1	17.9
EPS - (IFRS) (p)		4.0	7.4	8.2	7.1	3.1	12.2	14.4
Dividend per share (p)		1.9	2.1	2.4	2.7	3.0	3.3	3.8
Gross Margin (%)		71.3	76.0	76.8	77.4	75.6	72.9	73.9
EBITDA Margin (%)		20.7	20.1	21.4	24.0	21.9	24.3	24.0
Operating Margin (before GW and except.) (%)		18.8	18.3	19.4	22.0	20.0	22.9	22.6
BALANCE SHEET								
Fixed Assets		51,238	59,364	105,653	170,284	416,823	409,416	403,218
Intangible Assets		45,296	54,113	98,753	161,372	406,955	398,675	391,595
Tangible Assets		2,829	2,234	2,856	4,700	5,656	6,529	7,411
Other fixed assets		3,113	3,017	4,044	4,212	4,212	4,212	4,212
Current Assets		33,186	36,189	48,914	61,121	77,744	111,141	139,737
Debtors		17,408	23,774	30,569	37,969	49,662	63,382	70,473
Cash		15,778	12,415	17,618	22,753	27,683	47,359	68,865
Other		0	0	727	399	399	399	399
Current Liabilities		(30,784)	(32,559)	(44,444)	(56,942)	(66,290)	(75,610)	(77,460)
Creditors		(24,305)	(30,927)	(36,436)	(56,100)	(65,493)	(74,813)	(76,663)
Contingent consideration		(5,733)	(1,050)	(7,122)	(45)	0	0	0
Short term borrowings		(746)	(582)	(886)	(797)	(797)	(797)	(797)
Long Term Liabilities		(7,506)	(6,593)	(15,940)	(16,711)	(106,711)	(102,711)	(98,711)
Long term borrowings		(3,643)	(3,160)	(11,499)	(8,451)	(98,451)	(94,451)	(90,451)
Contingent consideration		(895)	0	0	0	0	0	0
Other long term liabilities		(2,968)	(3,433)	(4,441)	(8,260)	(8,260)	(8,260)	(8,260)
Net Assets		46,134	56,401	94,183	157,752	321,565	342,235	366,784
CASH FLOW								
Operating Cash Flow		11,684	13,397	16,305	31,620	18,045	42,518	46,188
Net Interest		(266)	(282)	(498)	(545)	(863)	(3,780)	(3,480)
Tax		(337)	(248)	(2,193)	(3,247)	(1,291)	(6,590)	(7,893)
Capex		(2,011)	(1,762)	(2,227)	(2,018)	(2,650)	(2,750)	(2,850)
Acquisitions/disposals		(18,672)	(12,263)	(36,840)	(70,363)	(254,708)	0	0
Financing		10,954	790	24,755	56,668	160,446	0	0
Dividends		(1,955)	(2,277)	(2,775)	(3,582)	(4,049)	(5,721)	(6,459)
Net Cash Flow		(603)	(2,645)	(3,473)	8,533	(85,070)	23,677	25,506
Opening net debt/(cash)		(11,846)	(11,389)	(8,673)	(5,233)	(13,505)	71,565	47,889
HP finance leases initiated		0	0	0	0	0	0	0
Other		146	(71)	33	(261)	0	0	0
Closing net debt/(cash)		(11,389)	(8,673)	(5,233)	(13,505)	71,565	47,889	22,383

Source: GB Group, Edison Investment Research

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