

GB Group

FY19 growth on track

Trading update

Software & comp services

25 October 2018

Price 510p
Market cap £781m

Net cash (£m) at end H119 18.6
Shares in issue 153.1m
Free float 98%
Code GBG
Primary exchange AIM
Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(10.7)	(12.1)	19.2
Rel (local)	(3.8)	(2.4)	28.9
52-week high/low		626p	380p

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 approximately one-third of revenues internationally.

Next events

H119 results 27 November

Analysts

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GB Group's H119 update confirmed that the business is trading in line with expectations, with underlying organic revenue growth of 11% and underlying operating profit growth of 7% compared to H118. While our underlying forecasts are unchanged, we have upgraded our estimates to reflect the recent Vix Verify Global acquisition, which results in a 2.7% increase in our normalised FY20 EPS forecast.

Year end	Revenue (£m)	EBIT (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)
03/17	87.5	17.0	16.5	9.9	2.4	51.8
03/18	119.7	26.3	25.8	13.5	2.7	37.9
03/19e	136.4	27.0	26.4	13.8	3.0	37.0
03/20e	161.7	30.9	30.4	15.6	3.3	32.6

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

H1 trading update in line with expectations

GBG's trading update confirmed revenues of £57.2m for H119, up 9% on a reported basis but up 11% on an underlying organic basis after adjusting for the £3.5m one-off perpetual licence signed in H118. Expected adjusted operating profit of £8.7m was 16% lower than a year ago, but after adjusting for the perpetual licence in H118, was 7% higher on an underlying organic basis. Planned investments in technology and marketing are expected to have a disproportionate effect on profitability in H119 versus H219. Net cash at the end of H119 stood at £18.6m, up from the £13.5m at the end of FY18 and £4.1m at the end of H118. The company expects to meet consensus FY19 forecasts for revenue and profit.

Incorporating accretive Australian acquisition

We have incorporated the recent Vix Verify Global acquisition into our forecasts. This has minimal impact on FY19 forecasts; in FY20 it results in a 9.5% increase in our revenue forecast, a 3.3% increase in our EBITA forecast and a 2.7% increase in our normalised EPS forecast. Our end FY19 net cash forecast reduces from £28.4m to £7.2m.

Valuation: Premium reflects growth opportunity

GBG's FY19e 26.8x EV/EBITDA and 37.0x P/E ratings are within the mix of other global companies in the identity access management and cyber security segments. While this is a considerable premium to the UK software sector, we believe it is supported by the good earnings quality and cash conversion, strong organic growth outlook and an active acquisition pipeline.

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Incorporating Vix Verify Global

As described in our recent note ([Scaling up down under](#)), GBG has acquired Vix Verify Global (VVG) for \$38.3m/£21.2m in cash. We make no changes to our underlying forecasts for GBG, solely upgrading forecasts on the incorporation of VVG into our estimates. FY20 is the first year to include a full 12 months of VVG – we estimate this adds c 10% to our revenue forecast. The company noted that it expected to achieve synergies during the first 12 months of ownership – we have assumed the benefit of cost synergies is not evident until H120, hence the zero impact on EBITDA in FY19. We understand that the acquired business will initially be lower margin than the group average, hence the only 3.3% increase in our FY20 EBITA forecast. We have assumed the company used a mixture of cash and debt to acquire the business and have factored in higher net finance costs. The overall effect is a 2.7% increase in our FY20 normalised EPS forecast.

Exhibit 1: Changes to estimates

£m	FY19e			FY20e		
	previous	new	% change	previous	new	% change
Revenues	133,350	136,350	2.2%	147,733	161,733	9.5%
EBITA	27,000	27,000	0.0%	29,962	30,942	3.3%
EBITA margin (%)	20.2%	19.8%		20.3%	19.1%	
PBT	26,500	26,431	-0.3%	29,562	30,362	2.7%
EPS - normalised, diluted (p)	13.8	13.8	-0.3%	15.2	15.6	2.7%
EPS - reported (p)	6.9	6.9	-0.6%	9.1	9.5	4.7%
Net (cash)/debt	(28,440)	(7,185)	-74.7%	(45,356)	(24,746)	-45.4%

Source: Edison Investment Research

Exhibit 2: Financial summary

	£'000s	2015	2016	2017	2018	2019e	2020e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		57,283	73,401	87,468	119,702	136,350	161,733
Cost of Sales		(16,448)	(17,606)	(20,302)	(27,092)	(33,910)	(39,966)
Gross Profit		40,835	55,795	67,166	92,610	102,440	121,767
EBITDA		11,844	14,772	18,734	28,741	29,675	33,699
Operating Profit (before amort. and except.)		10,790	13,428	17,006	26,311	27,000	30,942
Acquired intangible amortisation		(1,986)	(2,501)	(4,022)	(7,885)	(8,100)	(7,300)
Exceptionals		(1,629)	(94)	(1,410)	(2,143)	0	0
Share of associate		(10)	0	0	0	0	0
Share based payments		(971)	(1,245)	(994)	(2,375)	(2,500)	(2,750)
Operating Profit		6,194	9,588	10,580	13,908	16,400	20,892
Net Interest		(266)	(270)	(498)	(508)	(569)	(580)
Profit Before Tax (norm)		10,524	13,158	16,508	25,803	26,431	30,362
Profit Before Tax (FRS 3)		5,928	9,318	10,082	13,400	15,831	20,312
Tax		(1,127)	(178)	668	(2,746)	(5,286)	(5,769)
Profit After Tax (norm)		8,314	10,395	13,206	20,642	21,541	24,593
Profit After Tax (FRS 3)		4,801	9,140	10,750	10,654	10,545	14,543
Average Number of Shares Outstanding (m)		119.1	122.7	131.6	150.6	152.9	153.5
EPS - normalised (p)		7.0	8.5	10.0	13.7	14.1	16.0
EPS - normalised and fully diluted (p)		6.7	8.2	9.9	13.5	13.8	15.6
EPS - (IFRS) (p)		4.0	7.4	8.2	7.1	6.9	9.5
Dividend per share (p)		1.9	2.1	2.4	2.7	3.0	3.3
Gross Margin (%)		71.3	76.0	76.8	77.4	75.1	75.3
EBITDA Margin (%)		20.7	20.1	21.4	24.0	21.8	20.8
Operating Margin (before GW and except.) (%)		18.8	18.3	19.4	22.0	19.8	19.1
BALANCE SHEET							
Fixed Assets		51,238	59,364	105,653	170,284	183,360	176,053
Intangible Assets		45,296	54,113	98,753	161,372	173,492	165,212
Tangible Assets		2,829	2,234	2,856	4,700	5,656	6,629
Other fixed assets		3,113	3,017	4,044	4,212	4,212	4,212
Current Assets		33,186	36,189	48,187	60,722	62,780	85,061
Debtors		17,408	23,774	30,569	37,969	44,347	53,067
Cash		15,778	12,415	17,618	22,753	18,433	31,994
Other		0	0	0	0	0	0
Current Liabilities		(30,784)	(32,559)	(44,444)	(56,942)	(61,020)	(67,240)
Creditors		(24,305)	(30,927)	(36,436)	(56,100)	(60,178)	(66,398)
Contingent consideration		(5,733)	(1,050)	(7,122)	(45)	(45)	(45)
Short term borrowings		(746)	(582)	(886)	(797)	(797)	(797)
Long Term Liabilities		(7,506)	(6,593)	(15,940)	(16,711)	(18,711)	(14,711)
Long term borrowings		(3,643)	(3,160)	(11,499)	(8,451)	(10,451)	(6,451)
Contingent consideration		(895)	0	0	0	0	0
Other long term liabilities		(2,968)	(3,433)	(4,441)	(8,260)	(8,260)	(8,260)
Net Assets		46,134	56,401	93,456	157,353	166,408	179,163
CASH FLOW							
Operating Cash Flow		11,684	13,397	16,305	31,620	27,375	31,199
Net Interest		(266)	(282)	(498)	(545)	(569)	(580)
Tax		(337)	(248)	(2,193)	(3,247)	(5,286)	(5,769)
Capex		(2,011)	(1,762)	(2,227)	(2,018)	(2,650)	(2,750)
Acquisitions/disposals		(18,672)	(12,263)	(36,840)	(70,363)	(21,200)	0
Financing		10,954	790	24,755	56,668	0	0
Dividends		(1,955)	(2,277)	(2,775)	(3,582)	(3,990)	(4,539)
Net Cash Flow		(603)	(2,645)	(3,473)	8,533	(6,320)	17,562
Opening net debt/(cash)		(11,846)	(11,389)	(8,673)	(5,233)	(13,505)	(7,185)
HP finance leases initiated		0	0	0	0	0	0
Other		146	(71)	33	(261)	0	0
Closing net debt/(cash)		(11,389)	(8,673)	(5,233)	(13,505)	(7,185)	(24,746)

Source: GB Group, Edison Investment Research

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