

GB Group

Location, location, location

Capital markets day

GB Group's Loqate division was the focus of yesterday's capital markets day. Presenters highlighted the need for accurate address data as a prerequisite for many business processes, including e-commerce, insurance and invoicing. Loqate's ability to provide the "golden record" in a simple, fast and consistent way gives it a competitive edge and supports the division's international growth ambitions.

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	44.0
03/18	119.7	26.3	25.8	13.5	2.7	32.2
03/19e	136.4	27.0	26.4	13.8	3.0	31.5
03/20e	161.7	30.9	30.4	15.6	3.3	27.7

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

"Where are you?" - Loqate provides the answer

At its capital markets day, GBG presented a deep dive into its Loqate division (34% of H119 revenues). The division provides location data in 240 countries/territories, in 130 address formats and eight character sets. Customers (Moo, Oracle) highlighted their reasons for using Loqate, including data quality, ongoing data maintenance and Loqate's relationship management. As well as helping e-commerce retailers to reduce the rate of delivery failures (c 20% of deliveries fail due to inaccurate address details), Oracle highlighted that accurate address data are vital in software used for sales management, billing, and tax purposes.

Enriching location data; expanding internationally

With an estimated market opportunity of \$1bn, and a c 25% UK market share, Loqate has the potential to gain a larger share of this market, particularly from international customers. It is focused on customers in the UK, the US, Germany, Canada and Australia/NZ, and currently generates c 20% of divisional revenues from outside the UK. Sales takes a three-pronged approach: self-service (11% of revenues), direct customers (66%) and channel partners (23%). The business sees scope to grow revenues through a combination of new customer wins and selling more data types (eg email and phone number verification, additional data on properties such as flood risk or number of bedrooms) to existing customers.

Valuation: Premium reflects growth opportunity

At 22.5x FY19e and 19.8x FY20e EBITDA, the stock trades at a premium to the UK software sector on an EV/EBITDA basis; on a P/E basis it trades at a discount in FY19 but a premium for FY20. Looking at more directly relevant sub-sectors, including global peers, the stock trades more in line with 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 good cash generation, combined with the opportunity from structural growth in identity data intelligence services and the potential for accretive acquisitions.

Software & comp services

14 December 2018

Price 433.5p
Market cap £664m

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	(11.4)	(26.8)	4.7
Rel (local)	(8.5)	(21.5)	14.7
52-week high/low	626p	387.5p	

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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Exhibit 1: 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	161,676
Cost of Sales		(16,448)	(17,606)	(20,302)	(27,092)	(33,910)	(39,952)
Gross Profit		40,835	55,795	67,166	92,610	102,440	121,724
EBITDA		11,844	14,772	18,734	28,741	29,675	33,689
Operating Profit (before amort. and except.)		10,790	13,428	17,006	26,311	27,000	30,932
Acquired intangible amortisation		(1,986)	(2,501)	(4,022)	(7,885)	(8,100)	(7,300)
Exceptionals		(1,629)	(94)	(1,410)	(2,143)	(1,830)	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	14,570	20,882
Net Interest		(266)	(270)	(498)	(508)	(569)	(580)
Profit Before Tax (norm)		10,524	13,158	16,508	25,803	26,431	30,352
Profit Before Tax (FRS 3)		5,928	9,318	10,082	13,400	14,001	20,302
Tax		(1,127)	(178)	668	(2,746)	(5,286)	(5,767)
Profit After Tax (norm)		8,314	10,395	13,206	20,642	21,541	24,585
Profit After Tax (FRS 3)		4,801	9,140	10,750	10,654	8,715	14,535
Average Number of Shares Outstanding (m)		119.1	122.7	131.6	150.6	153.0	153.6
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	5.7	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	48,914	61,121	66,606	87,941
Debtors		17,408	23,774	30,569	37,969	45,262	53,045
Cash		15,778	12,415	17,618	22,753	20,945	34,497
Other		0	0	727	399	399	399
Current Liabilities		(30,784)	(32,559)	(44,444)	(56,942)	(61,890)	(67,173)
Creditors		(24,305)	(30,927)	(36,436)	(56,100)	(61,093)	(66,376)
Contingent consideration		(5,733)	(1,050)	(7,122)	(45)	0	0
Short term borrowings		(746)	(582)	(886)	(797)	(797)	(797)
Long Term Liabilities		(7,506)	(6,593)	(15,940)	(16,711)	(22,711)	(18,711)
Long term borrowings		(3,643)	(3,160)	(11,499)	(8,451)	(14,451)	(10,451)
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	94,183	157,752	165,364	178,109
CASH FLOW							
Operating Cash Flow		11,684	13,397	16,305	31,620	25,545	31,189
Net Interest		(266)	(282)	(498)	(545)	(569)	(580)
Tax		(337)	(248)	(2,193)	(3,247)	(5,286)	(5,767)
Capex		(2,011)	(1,762)	(2,227)	(2,018)	(2,650)	(2,750)
Acquisitions/disposals		(18,672)	(12,263)	(36,840)	(70,363)	(21,245)	0
Financing		10,954	790	24,755	56,668	446	0
Dividends		(1,955)	(2,277)	(2,775)	(3,582)	(4,049)	(4,540)
Net Cash Flow		(603)	(2,645)	(3,473)	8,533	(7,809)	17,552
Opening net debt/(cash)		(11,846)	(11,389)	(8,673)	(5,233)	(13,505)	(5,697)
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)	(5,697)	(23,249)

Source: Company data, Edison Investment Research

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