

# GB Group

## International expansion drives strong H2

FY19 trading update

Software & comp services

**GB Group expects to report FY19 revenues, adjusted operating profit and net debt ahead of consensus expectations. The recent acquisitions have integrated and performed well, providing much of the upside to forecasts. We have upgraded our FY19 earnings forecasts to reflect the better trading performance in H2 and lower net debt in FY20 and FY21.**

Year end	Revenue (£m)	EBIT* (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/17	87.5	17.0	16.5	9.9	2.4	55.7
03/18	119.7	26.3	25.8	13.5	2.7	40.8
03/19e	143.3	31.7	30.8	15.1	3.0	36.2
03/20e	192.8	44.1	40.3	16.1	3.3	34.1

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

## FY19 ahead of expectations

GB Group's year-end trading update confirmed that the business saw strong trading in H219 to finish the year ahead of our and consensus expectations for revenue and adjusted operating profit. Revenues grew 19.7% y-o-y to £143.3m, 4.1% ahead of our £137.7m forecast. Adjusting revenues to reflect the perpetual licence signed in FY18 and for constant currency, underlying organic revenue growth was 11.3%. Adjusted operating profit of £31.7m (22.1% margin) is 15% ahead of our £27.5m forecast (20.0% margin). Net debt was also better than forecast, closing the year at £66.3m versus our £71.6m estimate.

## Upgrading FY19e EPS by 15.8%

Based on the underlying organic growth rate disclosed by GBG, we estimate that the bulk of the revenue upside came from acquisitions. We had been conservative with our H219 estimates, reflecting potential integration risk. We have revised our forecasts to reflect better than expected contributions from Vix Verify and IDology resulting in a better overall operating margin. We leave our FY20 and FY21 EPS forecasts unchanged at this point as we have already factored in growth in acquisition-based revenues and organic growth similar to FY19. We reduce our FY20 and FY21 net debt forecasts to reflect the better position at the end of FY19.

## Valuation: Factoring in strong growth

On an FY20e EV/EBITDA multiple of 24.0x and P/E multiple of 34.1x, the stock trades at a premium to the UK software sector. 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 historical 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.

17 April 2019

**Price** **549p**

**Market cap** **£1,059m**

\$1.31/£

Net debt (£m) at end FY19 66.3

Shares in issue 192.9m

Free float 98%

Code GBG

Primary exchange AIM

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 13.0 18.1 31.0

Rel (local) 9.6 8.8 27.1

52-week high/low 626.0p 410.5p

### 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 results 4 June

### Analysts

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## Changes to forecasts

**Exhibit 1: Changes to estimates**

£m	FY19e			FY20e			FY21e		
	old	new	change	old	new	change	old	new	change
Revenues	137.7	143.3	4.1%	192.8	192.8	0.0%	214.3	214.4	0.0%
Gross profit	104.1	109.2	4.9%	140.5	140.6	0.0%	158.4	158.5	0.1%
EBITDA	30.2	34.4	13.9%	46.9	46.9	0.0%	51.4	51.4	0.0%
EBITDA margin	21.9%	24.0%	2.1%	24.3%	24.3%	0.0%	24.0%	24.0%	0.0%
EBITA	27.5	31.7	15.3%	44.1	44.1	0.0%	48.5	48.5	0.0%
EBITA margin	20.0%	22.1%	2.1%	22.9%	22.9%	0.0%	22.6%	22.6%	0.0%
PBT	26.6	30.8	15.8%	40.3	40.3	0.0%	45.0	45.0	0.0%
EPS – normalised, diluted (p)	13.1	15.1	15.8%	16.1	16.1	0.0%	17.9	17.9	0.0%
EPS – reported (p)	3.1	5.2	67.7%	12.2	12.2	0.0%	14.4	14.4	0.0%
Net debt	71.6	66.3	-7.3%	47.9	42.7	-10.9%	22.4	16.9	-24.3%
Net debt/EBITDA (x)	2.4	1.9		1.0	0.9		0.4	0.3	

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	£000s	2015	2016	2017	2018	2019e	2020e	2021e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue		57,283	73,401	87,468	119,702	143,300	192,754	214,354
Cost of Sales		(16,448)	(17,606)	(20,302)	(27,092)	(34,057)	(52,200)	(55,824)
Gross Profit		40,835	55,795	67,166	92,610	109,243	140,554	158,530
EBITDA		11,844	14,772	18,734	28,741	34,375	46,919	51,429
Operating Profit (before amort. and except.)		10,790	13,428	17,006	26,311	31,700	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	11,270	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	30,838	40,282	45,001
Profit Before Tax (FRS 3)		5,928	9,318	10,082	13,400	10,408	30,232	35,876
Tax		(1,127)	(178)	668	(2,746)	(2,165)	(6,591)	(7,893)
Profit After Tax (norm)		8,314	10,395	13,206	20,642	24,423	31,501	35,101
Profit After Tax (FRS 3)		4,801	9,140	10,750	10,654	8,243	23,641	27,984
Average Number of Shares Outstanding (m)		119.1	122.7	131.6	150.6	157.8	193.2	193.9
EPS - normalised (p)		7.0	8.5	10.0	13.7	15.5	16.3	18.1
EPS - normalised and fully diluted (p)		6.7	8.2	9.9	13.5	15.1	16.1	17.9
EPS - (IFRS) (p)		4.0	7.4	8.2	7.1	5.2	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	76.2	72.9	74.0
EBITDA Margin (%)		20.7	20.1	21.4	24.0	24.0	24.3	24.0
Operating Margin (before GW and except.) (%)		18.8	18.3	19.4	22.0	22.1	22.9	22.6
<b>BALANCE SHEET</b>								
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	81,795	114,463	143,073
Debtors		17,408	23,774	30,569	37,969	48,487	61,481	68,370
Cash		15,778	12,415	17,618	22,753	32,909	52,584	74,304
Other		0	0	727	399	399	399	399
Current Liabilities		(30,784)	(32,559)	(44,444)	(56,942)	(67,015)	(75,609)	(77,474)
Creditors		(24,305)	(30,927)	(36,436)	(56,100)	(66,218)	(74,812)	(76,677)
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	324,892	345,559	370,106
<b>CASH FLOW</b>								
Operating Cash Flow		11,684	13,397	16,305	31,620	24,145	42,519	46,405
Net Interest		(266)	(282)	(498)	(545)	(863)	(3,780)	(3,480)
Tax		(337)	(248)	(2,193)	(3,247)	(2,165)	(6,591)	(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)	(5,724)	(6,462)
Net Cash Flow		(603)	(2,645)	(3,473)	8,533	(79,844)	23,674	25,720
Opening net debt/(cash)		(11,846)	(11,389)	(8,673)	(5,233)	(13,505)	66,339	42,664
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)	66,339	42,664	16,944

Source: GB Group, Edison Investment Research

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