

# GB Group

H120 results

## International expansion paying off

**Strong organic revenue growth in H120 was boosted by several multi-year fraud licences and the contribution from the VIX Verify and IDology acquisitions. During H1, GB Group (GBG) made good progress with its strategy to expand internationally and enhance its product functionality and datasets. Management is confident of meeting consensus expectations for FY20; while our forecasts are unchanged at the operating profit level, a higher effective tax rate reduces our normalised EPS forecasts by c 3% in FY20–22e.**

Year end	Revenue (£m)	EBIT* (£m)	PBT* (p)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/18	119.7	26.3	25.8	13.5	2.7	52.0
03/19	143.5	32.0	31.3	15.4	3.0	45.5
03/20e	192.6	44.0	40.8	16.0	3.4	43.8
03/21e	213.9	48.4	45.5	17.8	3.8	39.3

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

## Strong organic growth from all divisions

GBG generated 17% organic constant currency revenue growth in H120, before the £25.9m contribution from the VIX Verify and IDology acquisitions. The Fraud division was particularly strong, benefiting from the signing of several multi-year licences. On an organic constant currency basis, the Identity business grew 15% and the Location business 14%. Adjusted operating profit was 119% higher y-o-y driving a margin of 22.8%, up from 16.9% a year ago.

## Small upward revisions to forecasts

We assume that business in the Fraud division will moderate after a strong H1 and factor in a weaker pound in H2. Our forecasts are unchanged at the revenue and operating profit level. After factoring in higher tax rates to reflect the higher proportion of business in the US and Australia, as well as the UK rate no longer falling to 17% in FY21, normalised EPS declines by 2.9% in FY20e and 3.0% in FY21e and FY22e. With the target of converting 90–95% of EBITDA to cash and limited capex requirements, we expect GBG to rapidly reduce debt and continue to forecast a return to a net cash position in FY22e. The company continues to seek out bolt-on acquisitions and we estimate it could fund a deal worth c £55m from existing debt facilities.

## Valuation: Premium rating reflects earnings quality

GBG trades at a premium to the UK software sector and at the upper end of its ID management peer group on a P/E basis, reflecting its strong growth outlook and high recurring revenues. Our reverse DCF analysis estimates the current share price is factoring in operating margins of 24% and revenue growth of c 15% per year from FY23, at the upper end of the group's revenue and margin targets. Triggers for upside from the current level could include accretive acquisitions, successful cross-selling from recent acquisitions and adoption of GBG's combined identity/location solution.

## Software & comp services

28 November 2019

**Price** 700p  
**Market cap** £1,357m

Net debt (£m) at end H120	53.8
Shares in issue	193.9m
Free float	98.7%
Code	GBG
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



## 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 16 countries, has customers in 72 countries and generates more than 57% of revenues internationally.

## Next events

FY20 trading update April 2020

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## Review of H120 results

### Exhibit 1: H120 results highlights

£m	H120	H119	y-o-y
Revenues	94.3	58.3	61.7%
Gross profit	68.3	44.4	53.9%
Gross margin	72.4%	76.1%	-3.7%
Adjusted* operating profit	21.5	9.8	118.6%
Adjusted operating margin	22.8%	16.9%	5.9%
Reported operating profit	9.8	3.8	161.5%
Reported operating margin	10.4%	6.4%	4.0%
Normalised dil. EPS (p)	8.2	4.9	67.5%
Reported basic EPS (p)	3.0	1.9	57.9%
Net debt**	53.8	18.6	189.2%

Source: GB Group, Edison Investment Research. Note: \*Adjusted operating profit excludes share-based payments, amortisation of acquired intangibles and exceptional items. \*\*Excludes lease liabilities of £6.4m and unamortised loan arrangement fees of £0.5m.

GBG reported revenue growth of 62% y-o-y in H120. H119 revenues have been restated from £57.3m to £58.3m to reflect the application of IFRS 15. FY19 revenues are unchanged (as they already reflected IFRS 15) but the H1/H2 split has been revised to reflect the phasing of revenue recognition.

On a constant currency organic basis, H120 revenues were 17% higher y-o-y, before a £25.9m contribution to revenues from the VIX Verify and IDology acquisitions. Excluding several multi-year fraud licences signed in H120, growth would have been nearer 13%.

Adjusted operating profit of £21.5m was 119% higher than in H119 (which has been restated from £8.8m to £9.8m as a result of the IFRS15 adjustment to revenues). This resulted in an adjusted operating margin of 22.8% for H120 up from 16.9% a year ago.

The company applied IFRS 16 for the first time in H120, with minimal impact on PBT. Rent expenses of £1.066m were replaced with a depreciation charge of £935k on right of use assets and a £155k finance charge, with a net negative £22k impact on PBT. At the end of H120, the company reported right of use assets with a net book value of £5.5m and £6.4m in lease liabilities relating to these assets.

GBG finished H120 with a net debt position of £53.8m (or £53.3m net of unamortised loan arrangement fees), down from £66.3m at the end of FY19.

### New divisional structure reflects business focus

The company disclosed revenue and adjusted operating profit (AOP) performance in a new format, with three core business lines and an unallocated category. Compared to previous disclosure:

- **Fraud:** includes CAFS and Trace & Investigate.
- **Identity:** includes eIDV and Employ & Comply.
- **Location:** includes the Loqate business.
- **Unallocated:** includes Engage revenues and operating costs as well as group operating costs. Management has gone through an exercise of splitting out costs so only those that are controlled by a business unit are included in that division's AOP calculation, and those costs controlled at a group level (eg group finance, compliance, legal) are included within unallocated. For example, for H119 the company previously reported unallocated costs of £1.1m and we were forecasting costs of £2.0m for FY20. It is now reporting that group operating costs were £4.9m in H119 and £5.6m in H120.

**Exhibit 2: New divisional performance**

Revenues (£m)	H120	H119	y-o-y	Organic constant currency
Fraud	16.82	12.61	33.5%	34%
Identity	51.19	21.88	133.9%	15%
Location	22.21	19.25	15.4%	14%
Unallocated (Engage)	4.11	4.59	(10.5%)	(11%)
<b>Total revenues</b>	<b>94.34</b>	<b>58.33</b>	<b>61.7%</b>	<b>17%</b>
<b>Adjusted operating profit (£m)</b>				
Fraud	5.40	2.44	121.2%	
Identity	15.78	5.53	185.1%	
Location	6.54	5.89	11.0%	
Unallocated	-6.23	-4.04	54.3%	
<b>Total AOP</b>	<b>21.50</b>	<b>9.83</b>	<b>118.6%</b>	
<b>Adjusted operating margin</b>				
Fraud	32.1%	19.4%	12.7%	
Identity	30.8%	25.3%	5.5%	
Location	29.4%	30.6%	(1.2%)	
Unallocated	(151.5%)	(87.9%)	(63.6%)	
<b>Total adjusted operating margin</b>	<b>22.8%</b>	<b>16.9%</b>	<b>5.9%</b>	

Source: GB Group

The **Fraud** business saw strong organic growth of 34%, benefiting from signing several multi-year licences worth £2.1m during H120. Management does not expect a repeat of such deals in H2. This helped lift the adjusted operating margin to 32.1% from 19.4% a year ago and 30.7% for FY19. The business saw existing customers using GBG in new geographies (eg AmBank in Malaysia and Citi in Taiwan and Indonesia) as well as signing up new customers in Europe (BnP/Arval, Standard Life).

The **Identity** business included £25.9m of revenues from acquisitions; on an organic constant currency basis, the business grew 15% y-o-y. The adjusted operating margin expanded from 25.3% in H119 and 26.1% in FY19 to 30.8% in H120, helped by a full six months of the higher margin IDology business. New customer wins in H1 included William Hill, KPMG and Totesport.

The **Location** business grew 14% y-o-y on an organic constant currency basis, with an adjusted operating margin slightly lower than a year ago. New customer wins include John Lewis (already a Trace & Investigate customer), Nike, GNC in North America, China Minsheng Bank (already a Fraud customer) and Bank of Beijing in Asia Pacific.

The **Unallocated** division saw a revenue decline, mainly due to the failure of Thomas Cook. Management expects a further decline in H2 as the full impact of losing Thomas Cook works its way through. Aside from the costs of the Engage business, management aims to keep group operating costs at roughly 6% of group sales.

## Business update

The company has previously outlined its strategic priorities to deliver on its vision of becoming the global leader in identity data intelligence. Its four areas of focus are to:

- maximise international growth from the Identity, Location and Fraud businesses;
- optimise growth in specialist UK businesses, in particular, using them to differentiate the Identity, Location and Fraud services in the UK;
- join up GBG with the customer at the centre; and
- use M&A to enhance reach and capability.

Via this strategy, GBG aims to grow revenues at an organic rate of 10–12% and generate adjusted operating margins of at least 20% per year. Clearly, the business exceeded both these targets in

H120, but management is cautious in its approach to H220 performance and is still pointing to these targets for the current year.

### **International revenues now the majority**

The company noted that revenues from outside the UK made up 57% of group revenues, up from 45% in FY19 and 35% in H119. This implies growth in international revenues of 163% y-o-y, or 36% if the acquisitions of VIX Verify and IDology are excluded. We estimate that UK revenues grew 7% over the same period.

### **Integration of acquisitions ongoing**

Through H120, the company has focused on integrating the VIX Verify and IDology acquisitions. It has completed the integration of Loqate's data into IDology's ExpertID solution, resulting in the ability to offer a combined location/ID verification solution. GBG is working on adding GBG global datasets to the IDology platform and integrating IDology datasets into the international platform. It is also working on integrating IDscan into GreenID, VIX Verify's ID verification solution.

As indicated when it was acquired, the company has added 17 new sales heads to the IDology business.

Both acquisitions have grown the level of business with existing customers and signed up new customers (VIX Verify: Victoria University, KC securities; IDology: NextGate), working with GBG to win combined deals.

### **Further M&A likely**

The company reiterated its plans to supplement organic growth with bolt-on acquisitions. During H120, net debt was reduced by £12.4m and should reduce further in H220. Net debt/EBITDA stood at 1.05x at the end of H120 – management confirmed that 2x EBITDA was the maximum it would be comfortable with. Using our FY20 EBITDA forecast, we estimate that net debt could go as high as £96m. Based on our net debt forecast of £41m at the end of FY20 (excluding lease liabilities), this would imply a deal size of c £55m could be funded without fundraising. The company has £86m in borrowing capacity.

### **Adding datasets, combining services**

During H120, the company added datasets including UK educational information and Indian driving licence data, and signed an exclusive deal with NavInfo for address data in mainland China.

The company is looking to evolve to linked platforms so customers can take combined solutions, and in the UK, a combined Identity/Location service is already available.

### **Outlook and changes to forecasts**

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The company noted that trading in H220 has begun in line with its expectations and management remains confident in the company's ability to meet full-year consensus expectations (FY20 revenues £195.5m, AOP £45.1m). We have revised our forecasts to reflect the application of IFRS 16 and the new divisional structure. We have also increased our effective tax rate assumption from 21% to 23% reflecting the higher contribution from the US and Australia, as well as the UK rate no longer declining to 17% in FY21.

**Exhibit 3: Changes to forecasts**

£m	FY20e				FY21e				FY22e			
	old	new	change	y-o-y	old	new	change	y-o-y	old	new	change	y-o-y
<b>Revenues</b>	<b>192.6</b>	<b>192.6</b>	<b>(0.0%)</b>	<b>34.2%</b>	<b>213.9</b>	<b>213.9</b>	<b>(0.0%)</b>	<b>11.1%</b>	<b>237.3</b>	<b>237.5</b>	<b>0.1%</b>	<b>11.0%</b>
Gross profit	140.5	139.6	(0.6%)	29.9%	158.2	155.5	(1.7%)	11.4%	175.6	173.4	(1.3%)	11.5%
Gross margin	72.9%	72.5%	(0.4%)	(2.4%)	74.0%	72.7%	(1.3%)	0.2%	74.0%	73.0%	(1.0%)	0.3%
EBITDA	46.2	47.9	3.6%	40.5%	50.7	52.4	3.5%	9.5%	55.4	57.2	3.4%	9.1%
EBITDA margin	24.0%	24.9%	0.9%	1.1%	23.7%	24.5%	0.8%	(0.3%)	23.3%	24.1%	0.8%	(0.4%)
<b>EBITA</b>	<b>44.0</b>	<b>44.0</b>	<b>0.0%</b>	<b>37.5%</b>	<b>48.4</b>	<b>48.4</b>	<b>0.1%</b>	<b>9.9%</b>	<b>53.0</b>	<b>53.0</b>	<b>0.1%</b>	<b>9.5%</b>
EBITA margin	22.9%	22.9%	0.0%	0.5%	22.6%	22.6%	0.0%	(0.2%)	22.3%	22.3%	0.0%	(0.3%)
PBT	40.7	40.8	0.0%	30.0%	45.5	45.5	0.1%	11.7%	50.4	50.4	0.1%	10.7%
<b>EPS - normalised, diluted (p)</b>	<b>16.4</b>	<b>16.0</b>	<b>(2.9%)</b>	<b>3.7%</b>	<b>18.4</b>	<b>17.8</b>	<b>(3.0%)</b>	<b>11.6%</b>	<b>20.3</b>	<b>19.7</b>	<b>(3.0%)</b>	<b>10.5%</b>
EPS - reported (p)	7.7	7.4	(4.4%)	(3.7%)	10.5	10.2	(2.9%)	37.2%	12.6	12.2	(3.0%)	20.0%
Net debt/(cash)	37.7	47.5	26.1%	(28.4%)	7.0	20.2	187.2%	(57.4%)	(26.8)	(10.3)	(61.5%)	(151%)
Net debt/(cash) excl. lease liabilities	37.7	41.0			7.0	13.8			(26.8)	(16.7)		

Source: Edison Investment Research

## Valuation

**Exhibit 4: Valuation metrics**

	EV/Sales (x)			EV/EBITDA (x)			EV/EBIT (x)			P/E (x)			Div yield (x)		
	Yr1	Yr2	Yr3	Yr1	Yr2	Yr3	Yr1	Yr2	Yr3	Yr1	Yr2	Yr3	Yr1	Yr2	Yr3
<b>GBG</b>	<b>7.4</b>	<b>6.7</b>	<b>6.0</b>	<b>29.7</b>	<b>27.1</b>	<b>24.9</b>	<b>32.3</b>	<b>29.4</b>	<b>26.8</b>	<b>43.8</b>	<b>39.3</b>	<b>35.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>
Ave ID Management	5.0	5.1	5.2	22.4	16.8	15.2	12.9	30.2	18.8	31.0	25.0	23.0	0.8	1.0	1.0
Ave UK Software	3.8	3.3	3.5	17.9	12.5	13.5	41.8	12.6	11.7	37.2	22.6	10.5	1.0	1.0	1.3

Source: Edison Investment Research, Refinitiv (at 25 November)

GBG trades at a premium to the UK software sector and at the upper end of its ID management peer group on a P/E basis, reflecting its strong growth outlook and high recurring revenues. Our reverse DCF analysis estimates the current share price is factoring in operating margins of 24% and revenue growth of c 15% per year from FY23, at the upper end of the group's revenue and margin targets. Triggers for upside from the current level could include accretive acquisitions, successful cross-selling from recent acquisitions and adoption of GBG's combined identity/location solution.

**Exhibit 5: Financial summary**

	£'000s	2015	2016	2017	2018	2019	2020e	2021e	2022e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>									
Revenue		57,283	73,401	87,468	119,702	143,504	192,567	213,852	237,468
Cost of Sales		(16,448)	(17,606)	(20,302)	(27,092)	(36,060)	(52,956)	(58,382)	(64,116)
Gross Profit		40,835	55,795	67,166	92,610	107,444	139,611	155,471	173,352
EBITDA		11,844	14,772	18,734	28,741	34,080	47,883	52,442	57,223
Operating Profit (before amort. and except.)		10,790	13,428	17,006	26,311	32,031	44,035	48,412	53,001
Acquired intangible amortisation		(1,986)	(2,501)	(4,022)	(7,885)	(10,316)	(19,300)	(17,100)	(16,500)
Exceptionals		(1,629)	(94)	(1,410)	(2,143)	(4,003)	(301)	0	0
Share of associate		(10)	0	0	0	0	0	0	0
Share based payments		(971)	(1,245)	(994)	(2,375)	(2,287)	(2,516)	(2,767)	(3,044)
Operating Profit		6,194	9,588	10,580	13,908	15,425	21,918	28,545	33,457
Net Interest		(266)	(270)	(498)	(508)	(689)	(3,280)	(2,880)	(2,580)
Profit Before Tax (norm)		10,524	13,158	16,508	25,803	31,342	40,755	45,532	50,421
Profit Before Tax (FRS 3)		5,928	9,318	10,082	13,400	14,736	18,638	25,665	30,877
Tax		(1,127)	(178)	668	(2,746)	(2,583)	(4,287)	(5,903)	(7,102)
Profit After Tax (norm)		8,314	10,395	13,206	20,642	24,760	31,381	35,060	38,824
Profit After Tax (FRS 3)		4,801	9,140	10,750	10,654	12,153	14,351	19,762	23,775
Average Number of Shares Outstanding (m)		119.1	122.7	131.6	150.6	158.1	193.9	194.6	195.1
EPS - normalised (p)		7.0	8.5	10.0	13.7	15.7	16.2	18.0	19.9
EPS - normalised and fully diluted (p)		6.7	8.2	9.9	13.5	15.4	16.0	17.8	19.7
EPS - (IFRS) (p)		4.0	7.4	8.2	7.1	7.7	7.4	10.2	12.2
Dividend per share (p)		1.9	2.1	2.4	2.7	3.0	3.4	3.8	4.3
Gross Margin (%)		71.3	76.0	76.8	77.4	74.9	72.5	72.7	73.0
EBITDA Margin (%)		20.7	20.1	21.4	24.0	23.7	24.9	24.5	24.1
Operating Margin (before GW and except.) (%)		18.8	18.3	19.4	22.0	22.3	22.9	22.6	22.3
<b>BALANCE SHEET</b>									
Fixed Assets		51,238	59,364	105,653	170,284	433,585	428,113	409,883	392,161
Intangible Assets		45,296	54,113	98,753	161,372	420,137	411,363	394,163	377,563
Tangible Assets		2,829	2,234	2,856	4,700	4,815	10,296	9,266	8,144
Other fixed assets		3,113	3,017	4,044	4,212	8,633	6,454	6,454	6,454
Current Assets		33,186	36,189	48,914	61,121	76,404	105,969	137,285	172,806
Debtors		17,408	23,774	30,569	37,969	54,874	73,176	81,264	90,238
Cash		15,778	12,415	17,618	22,753	21,189	32,453	55,680	82,227
Other		0	0	727	399	341	341	341	341
Current Liabilities		(30,784)	(32,559)	(44,444)	(56,942)	(71,822)	(86,963)	(92,629)	(99,477)
Creditors		(24,305)	(30,927)	(36,436)	(56,100)	(70,302)	(83,917)	(89,583)	(96,431)
Contingent consideration		(5,733)	(1,050)	(7,122)	(45)	(79)	0	0	0
Short term borrowings		(746)	(582)	(886)	(797)	(1,441)	(3,046)	(3,046)	(3,046)
Long Term Liabilities		(7,506)	(6,593)	(15,940)	(16,711)	(116,707)	(103,358)	(94,789)	(86,294)
Long term borrowings		(3,643)	(3,160)	(11,499)	(8,451)	(85,447)	(76,880)	(72,880)	(68,880)
Contingent consideration		(895)	0	0	0	0	0	0	0
Other long term liabilities		(2,968)	(3,433)	(4,441)	(8,260)	(31,260)	(26,478)	(21,909)	(17,414)
Net Assets		46,134	56,401	94,183	157,752	321,460	343,761	359,751	379,196
<b>CASH FLOW</b>									
Operating Cash Flow		11,684	13,397	16,305	31,620	27,779	44,495	50,019	55,098
Net Interest		(266)	(282)	(498)	(545)	(689)	(3,256)	(2,880)	(2,580)
Tax		(337)	(248)	(2,193)	(3,247)	(2,930)	(9,374)	(10,472)	(11,597)
Capex		(2,011)	(1,762)	(2,227)	(2,018)	(1,625)	(2,800)	(2,900)	(3,000)
Acquisitions/disposals		(18,672)	(12,263)	(36,840)	(70,363)	(255,101)	(82)	0	0
Financing		10,954	790	24,755	56,668	157,339	327	0	0
Dividends		(1,955)	(2,277)	(2,775)	(3,582)	(4,049)	(5,782)	(6,539)	(7,374)
Net Cash Flow		(603)	(2,645)	(3,473)	8,533	(79,276)	23,529	27,228	30,546
Opening net debt/(cash)		(11,846)	(11,389)	(8,673)	(5,233)	(13,505)	65,699	47,473	20,246
HP finance leases initiated		0	0	0	0	0	(6,425)	0	0
Other		146	(71)	33	(261)	72	1,122	0	0
Closing net debt/(cash)		(11,389)	(8,673)	(5,233)	(13,505)	65,699	47,473	20,246	(10,301)

Source: GB Group, Edison Investment Research

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