

# GB Group

## Resilient H1 performance drives upgrades

H121 trading update

Software & comp services

GB Group (GBG) expects to report underlying revenue growth of 10% y-o-y for H121, with a one-off contract in the US making a material contribution to revenues. Combined with strict cost control this resulted in adjusted operating profit growth of 26% y-o-y and a £32m h-o-h reduction in net debt. With management guidance for revenue well ahead of our and consensus forecasts for FY21, we have upgraded our revenue and EPS forecasts for FY21–23. Despite COVID-19 related pressure on new business in the short-term, we view GBG as well placed to benefit from the accelerated shift in the digitalisation of business processes.

Year end	Revenue (£m)	EBITA* (£m)	PBT* (p)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/19	143.5	32.0	31.3	15.4	3.0	56.6
03/20	199.1	47.9	45.7	17.9	0.0	48.7
03/21e	199.2	44.4	42.2	16.3	6.0	53.5
03/22e	213.2	46.9	45.2	17.3	3.3	50.3
03/23e	234.7	51.7	50.1	19.1	3.6	45.7

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

## H121 trading better than expected

GBG expects to report H121 revenue of £103m, up 9% y-o-y and up 10% on an organic constant currency basis. The company benefited from a one-off contract in the US Identity business, which is not expected to contribute materially in H221. Adjusted operating profit for H121 is expected to be c £27m, up 26% y-o-y. The adjusted operating margin of c 26% is ahead of the 24.1% FY20 margin. Net debt reduced from £35.0m at the end of FY20 to £2.7m at the end of H121. GBG intends to declare a 3p interim dividend when it reports H121 results and will pay out director bonuses that were accrued in FY20 but deferred to preserve cash.

## Positive guidance; estimates upgraded

Management expects full year revenue to be flat to marginally ahead of FY20, which is ahead of consensus (£178.6m per GBG website). We have upgraded our forecasts to reflect the strong performance in H1, which results in normalised EPS upgrades of 47% in FY21e, 21% in FY22e and 12% in FY23e. Although GBG usually only pays one dividend a year, we have assumed it also pays a final dividend this year to compensate for the lack of dividend in FY20.

## Valuation: Premium rating reflects growth potential

GBG trades at a premium to the UK software and IT services sectors and at the upper end of its ID management peer group on a P/E basis, reflecting its strong growth outlook (post COVID-19), high recurring revenues and strong balance sheet. Our reverse DCF analysis estimates the current share price is factoring in operating margins of 23.7% and revenue growth of c 16% per year from FY24, at the upper end of the group's revenue and margin targets. Outside of COVID-19 recovery, triggers for upside could include successful cross-selling from recent acquisitions, adoption of GBG's combined identity/location solution and, in the medium term, accretive acquisitions.

22 October 2020

**Price** 871p  
**Market cap** £1,700m

Net debt (£m) at end H120	2.7
Shares in issue	195.2m
Free float	98%
Code	GBG
Primary exchange	AIM
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	21.3	28.3	61.3
Rel (local)	20.5	36.5	96.1
52-week high/low		875p	474p

### 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 56% of revenues internationally.

### Next events

H121 results 8 December

### Analyst

Katherine Thompson +44 (0)20 3077 5730

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

**GB Group is a research client  
of Edison Investment  
Research Limited**

## Changes to forecasts

**Exhibit 1: Changes to forecasts**

£m	FY21e				FY22e				FY23e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	176.5	199.2	12.8%	0.0%	189.3	213.2	12.7%	7.1%	208.2	234.7	12.8%	10.1%
Gross profit	128.3	144.8	12.8%	0.4%	138.2	153.5	11.1%	6.0%	152.0	169.0	11.2%	10.1%
Gross margin	72.7%	72.7%	0.0%	0.3%	73.0%	72.0%	(1.0%)	(0.7%)	73.0%	72.0%	(1.0%)	0.0%
EBITDA	34.8	48.4	38.9%	(6.5%)	43.0	51.1	19.0%	5.7%	50.5	56.1	11.0%	9.8%
EBITDA margin	19.7%	24.3%	4.6%	(1.7%)	22.7%	24.0%	1.3%	(0.3%)	24.3%	23.9%	(0.4%)	(0.1%)
EBITA	30.8	44.4	44.0%	(7.4%)	38.8	46.9	21.1%	5.7%	46.2	51.7	12.1%	10.2%
EBITA margin	17.5%	22.3%	4.8%	(1.8%)	20.5%	22.0%	1.5%	(0.3%)	22.2%	22.0%	(0.1%)	0.0%
PBT, normalised	28.7	42.2	47.3%	(7.6%)	37.0	45.2	22.1%	7.0%	44.5	50.1	12.5%	10.8%
EPS - normalised, diluted (p)	11.1	16.3	46.9%	(9.0%)	14.3	17.3	21.4%	6.4%	17.1	19.1	11.6%	10.1%
EPS - reported (p)	1.9	7.1	282.4%	(18.9%)	4.9	8.1	63.7%	12.8%	8.0	10.1	26.1%	24.8%
DPS (p)	2.0	6.0	200.0%	N/A	2.6	3.3	26.9%	(45.0%)	3.2	3.6	12.5%	9.1%
						213.2	12.7%	7.1%				
Net debt/(cash)	13.2	12.0	(8.8%)	(65.2%)	(8.1)	(16.6)	104.9%	(238.0%)	(35.4)	(48.6)	37.2%	192.1%
Net debt/EBITDA	0.4	0.2			N/A	N/A			N/A	N/A		
<b>Divisional forecasts</b>												
<b>Revenue</b>												
Identity	91.9	113.3	23.2%	7.5%	99.8	122.3	22.6%	7.9%	110.5	135.5	22.6%	10.8%
Location	43.8	45.8	4.5%	-8.0%	47.3	49.5	4.5%	8.0%	53.0	55.4	4.5%	12.0%
Fraud	34.4	33.8	(1.9%)	-4.8%	37.2	36.5	(1.9%)	7.9%	40.6	39.8	(2.0%)	9.2%
Group	176.5	199.2	12.8%	0.0%	189.3	213.2	12.7%	7.1%	208.2	234.7	12.8%	10.1%
<b>Adjusted operating profit</b>												
Identity	22.1	35.9	62.5%	6.6%	27.4	37.0	35.0%	3.3%	32.1	41.0	28.1%	10.8%
Location	11.2	11.2	0.3%	-23.0%	13.7	13.9	0.9%	23.7%	15.9	15.5	(2.4%)	12.0%
Fraud	9.3	8.9	(3.8%)	-33.5%	10.8	10.2	(5.3%)	14.2%	12.2	11.1	(8.5%)	9.2%
Group	30.8	44.4	44.0%	-7.4%	38.8	46.9	21.1%	5.7%	46.2	51.7	12.1%	10.2%
<b>Adjusted operating margin</b>												
Identity	24.0%	31.7%			27.5%	30.3%			29.0%	30.3%		
Location	25.5%	24.5%			29.0%	28.0%			30.0%	28.0%		
Fraud	27.0%	26.5%			29.0%	28.0%			30.0%	28.0%		
Group	17.5%	22.3%			20.5%	22.0%			22.2%	22.0%		

Source: Edison Investment Research

**Exhibit 2: Financial summary**

	£'000s	2017	2018	2019	2020	2021e	2022e	2023e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>								
Revenue		87,468	119,702	143,504	199,101	199,158	213,242	234,719
Cost of Sales		(20,302)	(27,092)	(36,060)	(54,914)	(54,370)	(59,708)	(65,721)
Gross Profit		67,166	92,610	107,444	144,187	144,788	153,535	168,998
EBITDA		18,734	28,741	34,080	51,739	48,385	51,127	56,118
Operating Profit (before amort. and except.)		17,006	26,311	32,031	47,945	44,395	46,947	51,739
Acquired intangible amortisation		(4,022)	(7,885)	(10,316)	(19,008)	(18,900)	(18,900)	(17,900)
Exceptionals		(1,410)	(2,143)	(4,003)	(1,552)	0	0	0
Share of associate		0	0	0	0	0	0	0
Share based payments		(994)	(2,375)	(2,287)	(4,541)	(4,995)	(5,495)	(6,044)
Operating Profit		10,580	13,908	15,425	22,844	20,500	22,552	27,795
Net Interest		(498)	(508)	(689)	(2,218)	(2,155)	(1,730)	(1,630)
Profit Before Tax (norm)		16,508	25,803	31,342	45,727	42,240	45,217	50,109
Profit Before Tax (FRS 3)		10,082	13,400	14,736	20,626	18,345	20,822	26,165
Tax		668	(2,746)	(2,583)	(3,562)	(4,403)	(4,997)	(6,280)
Profit After Tax (norm)		13,206	20,642	24,760	35,210	32,102	34,365	38,083
Profit After Tax (FRS 3)		10,750	10,654	12,153	17,064	13,942	15,825	19,885
Ave. Number of Shares Outstanding (m)		131.6	150.6	158.1	193.6	195.1	196.4	197.7
EPS - normalised (p)		10.0	13.7	15.7	18.2	16.5	17.5	19.3
EPS - normalised and fully diluted (p)		9.9	13.5	15.4	17.9	16.3	17.3	19.1
EPS - (IFRS) (p)		8.2	7.1	7.7	8.8	7.1	8.1	10.1
Dividend per share (p)		2.4	2.7	3.0	0.0	6.0	3.3	3.6
Gross Margin (%)		76.8	77.4	74.9	72.4	72.7	72.0	72.0
EBITDA Margin (%)		21.4	24.0	23.7	26.0	24.3	24.0	23.9
Operating Margin (before GW and except.) (%)		19.4	22.0	22.3	24.1	22.3	22.0	22.0
<b>BALANCE SHEET</b>								
Fixed Assets		105,653	170,284	438,683	430,219	412,229	394,148	376,969
Intangible Assets		98,753	161,372	425,646	414,505	395,505	376,505	358,505
Tangible Assets		2,856	4,700	4,815	9,420	10,430	11,349	12,170
Other fixed assets		4,044	4,212	8,222	6,294	6,294	6,294	6,294
Current Assets		48,914	61,121	76,522	95,984	113,717	143,467	179,139
Debtors		30,569	37,969	54,992	66,554	71,697	76,767	84,499
Cash		17,618	22,753	21,189	27,499	40,089	64,769	92,710
Other		727	399	341	1,931	1,931	1,931	1,931
Current Liabilities		(44,444)	(56,942)	(77,030)	(86,459)	(88,854)	(94,923)	(103,743)
Creditors		(36,436)	(56,100)	(70,302)	(80,280)	(82,675)	(88,744)	(97,564)
Contingent consideration		(7,122)	(45)	(5,287)	(6,179)	(6,179)	(6,179)	(6,179)
Short term borrowings		(886)	(797)	(1,441)	0	0	0	0
Long Term Liabilities		(15,940)	(16,711)	(116,707)	(94,810)	(79,075)	(69,220)	(59,474)
Long term borrowings		(11,499)	(8,451)	(85,447)	(62,139)	(52,139)	(48,139)	(44,139)
Contingent consideration		0	0	0	0	0	0	0
Other long term liabilities		(4,441)	(8,260)	(31,260)	(32,671)	(26,936)	(21,081)	(15,335)
Net Assets		94,183	157,752	321,468	344,934	358,016	373,472	392,892
<b>CASH FLOW</b>								
Operating Cash Flow		16,305	31,620	27,779	48,498	45,638	52,125	57,206
Net Interest		(498)	(545)	(689)	(1,768)	(2,155)	(1,730)	(1,630)
Tax		(2,193)	(3,247)	(2,930)	(6,386)	(10,138)	(10,852)	(12,026)
Capex		(2,227)	(2,018)	(1,625)	(1,339)	(2,900)	(3,000)	(3,100)
Acquisitions/disposals		(36,840)	(70,363)	(255,101)	(81)	0	0	0
Financing		24,755	56,668	157,339	(1,553)	(2,000)	(2,000)	(2,000)
Dividends		(2,775)	(3,582)	(4,049)	(5,761)	(5,855)	(5,864)	(6,509)
Net Cash Flow		(3,473)	8,533	(79,276)	31,610	22,590	28,679	31,941
Opening net debt/(cash)		(8,673)	(5,233)	(13,505)	65,699	34,640	12,050	(16,630)
HP finance leases initiated		0	0	0	0	0	0	0
Other		33	(261)	72	(551)	0	0	0
Closing net debt/(cash)		(5,233)	(13,505)	65,699	34,640	12,050	(16,630)	(48,571)

Source: GB Group, Edison Investment Research

---

## General disclaimer and copyright

This report has been commissioned by GB Group and prepared and issued by Edison, in consideration of a fee payable by GB Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia