

GB Group

Reflecting recent M&A activity

GB Group (GBG) has sold its marketing services business to HH Global Group for an undisclosed amount. This was not an area of focus for GBG and has been in managed decline for several years. Just before Christmas, GBG boosted its Fraud business with the acquisition of fraud investigation automation software from HooYu for £4m in equity. We have revised our forecasts to reflect the disposal and acquisition, leading to small upgrades to our EPS forecasts. Both deals emphasise the company's strategy to focus on Identity, Location and Fraud.

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	54.5
03/20	199.1	47.9	45.7	17.9	0.0	46.9
03/21e	198.7	45.0	43.4	16.7	6.0	50.2
03/22e	212.5	47.9	46.8	17.9	3.3	46.9
03/23e	235.4	53.7	52.8	20.0	3.6	41.9

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

Selling non-core marketing services business

GBG has sold its marketing services business to HH Global Group Limited for an undisclosed amount (we estimate minimal proceeds). GBG reported this business within Unallocated revenues – in H121 revenues were £1.5m (1.5% of group revenue) and the operating loss was £0.5m. We were factoring in a decline in revenues with a similarly declining cost base, resulting in an operating loss forecast for FY21–23 for the business. We have stripped these out of our forecasts.

Recent acquisition of fraud business

On 14 December, GBG announced that it had acquired the Investigate 2020 subsidiary of HooYu in exchange for 447k GBG shares worth £4m. The business is being integrated into the Fraud division and will be marketed as GBG Investigate. Assuming this is a start-up business, we have reflected this in the Fraud division's cost base. Overall, we increase our normalised diluted EPS forecasts by 1.4% in FY21, 0.5% in FY22 and 0.9% in FY23.

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 22.6% and revenue growth of c 16% per year from FY24, at the upper end of the group's revenue and margin targets. Outside of faster than expected 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.

Disposal of business

Software & comp services

19 January 2021

Price 839p

Market cap £1,646m

Net debt (£m) at end-H121 2.7

Shares in issue 196.2m

Free float 98%

Code GBG

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.7) 2.3 16.0

Rel (local) (10.3) (10.4) 30.1

52-week high/low 954p 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 more than 70 countries and generates more than 56% of revenues internationally.

Next events

FY21 trading update April 2021

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

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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	199.2	198.7	(0.2%)	(0.2%)	215.0	212.5	(1.1%)	6.9%	237.4	235.4	(0.8%)	10.8%
Gross profit	143.4	143.1	(0.2%)	(0.8%)	154.8	153.0	(1.1%)	6.9%	170.9	169.5	(0.8%)	10.8%
Gross margin	72.0%	72.0%	0.0%	(0.4%)	72.0%	72.0%	0.0%	0.0%	72.0%	72.0%	0.0%	0.0%
EBITDA	48.3	49.0	1.4%	(5.3%)	51.7	52.1	0.8%	6.3%	57.3	58.0	1.2%	11.4%
EBITDA margin	24.3%	24.7%	0.4%	(1.3%)	24.1%	24.5%	0.5%	(0.1%)	24.2%	24.6%	0.5%	0.1%
EBITA	44.3	45.0	1.5%	(6.1%)	47.5	47.9	0.8%	6.5%	53.0	53.7	1.3%	11.9%
EBITA margin	22.3%	22.7%	0.4%	(1.4%)	22.1%	22.6%	0.4%	(0.1%)	22.3%	22.8%	0.5%	0.2%
PBT	42.7	43.4	1.6%	(5.1%)	46.4	46.8	0.9%	8.0%	52.1	52.8	1.3%	12.8%
EPS - normalised, diluted (p)	16.5	16.7	1.4%	(6.7%)	17.8	17.9	0.5%	7.1%	19.8	20.0	0.9%	12.0%
EPS - reported (p)	7.3	7.5	3.5%	(14.4%)	8.5	8.7	1.4%	14.8%	10.8	11.1	2.0%	27.8%
DPS (p)	6.0	6.0	0.0%	N/A	3.3	3.3	0.0%	(45.0%)	3.6	3.6	0.0%	9.1%
Net debt/(cash)	15.5	15.4	(0.5%)	(55.5%)	(14.0)	(14.2)	1.1%	(192%)	(47.3)	(47.9)	1.2%	237.4%
Net debt/EBITDA	0.3	0.3			N/A	N/A			N/A	N/A		
Divisional forecasts												
Revenue												
Identity	115.8	115.8	0.0%	9.8%	125.8	125.8	0.0%	8.7%	139.4	139.4	0.0%	10.8%
Location	50.2	50.2	0.0%	-2.5%	54.2	54.2	0.0%	8.0%	60.7	60.7	0.0%	12.0%
Fraud	30.1	30.1	0.0%	-15.1%	32.5	32.5	0.0%	7.7%	35.3	35.3	0.0%	8.8%
Group	199.2*	198.7*	(0.2%)	-0.2%	215.0	212.5	(1.1%)	6.9%	237.4	235.4	(0.8%)	10.8%
Adjusted operating profit												
Identity	37.2	37.2	0.0%	10.5%	38.1	38.1	0.0%	2.6%	42.2	42.2	0.0%	10.8%
Location	14.3	14.3	0.0%	-4.5%	15.2	15.2	0.0%	6.3%	17.0	17.0	0.0%	12.0%
Fraud	6.9	6.7	(2.6%)	-50.2%	9.1	8.4	(7.1%)	26.2%	9.9	9.5	(3.6%)	13.0%
Group	44.3	45.0	1.5%	-6.1%	47.5	47.9	0.8%	6.5%	53.0	53.7	1.3%	11.9%
Adjusted operating margin												
Identity	32.1%	32.1%			30.3%	30.3%			30.3%	30.3%		
Location	28.4%	28.4%			28.0%	28.0%			28.0%	28.0%		
Fraud	22.8%	22.2%			28.0%	26.0%			28.0%	27.0%		
Group	22.3%	22.7%			22.1%	22.6%			22.3%	22.8%		

Source: Edison Investment Research. Note: *Includes minor contributions from unallocated revenues.

Exhibit 2: Financial summary

	£'000s	2017	2018	2019	2020	2021e	2022e	2023e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		87,468	119,702	143,504	199,101	198,750	212,503	235,421
Cost of Sales		(20,302)	(27,092)	(36,060)	(54,914)	(55,650)	(59,501)	(65,918)
Gross Profit		67,166	92,610	107,444	144,187	143,100	153,002	169,503
EBITDA		18,734	28,741	34,080	51,739	49,005	52,100	58,020
Operating Profit (before amort. and except.)		17,006	26,311	32,031	47,945	45,037	47,946	53,671
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)	(93)	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	21,049	23,551	29,727
Net Interest		(498)	(508)	(689)	(2,218)	(1,655)	(1,105)	(855)
Profit Before Tax (norm)		16,508	25,803	31,342	45,727	43,382	46,841	52,816
Profit Before Tax (FRS 3)		10,082	13,400	14,736	20,626	19,394	22,446	28,872
Tax		668	(2,746)	(2,583)	(3,562)	(4,655)	(5,387)	(6,929)
Profit After Tax (norm)		13,206	20,642	24,760	35,210	32,970	35,599	40,140
Profit After Tax (FRS 3)		10,750	10,654	12,153	17,064	14,739	17,059	21,942
Ave. Number of Shares Outstanding (m)		131.6	150.6	158.1	193.6	195.4	197.1	198.4
EPS - normalised (p)		10.0	13.7	15.7	18.2	16.9	18.1	20.2
EPS - normalised and fully diluted (p)		9.9	13.5	15.4	17.9	16.7	17.9	20.0
EPS - (IFRS) (p)		8.2	7.1	7.7	8.8	7.5	8.7	11.1
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	72.0	72.0	72.0
EBITDA Margin (%)		21.4	24.0	23.7	26.0	24.7	24.5	24.6
Operating Margin (before GW and except.) (%)		19.4	22.0	22.3	24.1	22.7	22.6	22.8
BALANCE SHEET								
Fixed Assets		105,653	170,284	438,683	430,219	411,001	392,947	375,798
Intangible Assets		98,753	161,372	425,646	414,505	390,981	371,931	353,881
Tangible Assets		2,856	4,700	4,815	9,420	10,502	11,497	12,398
Other fixed assets		4,044	4,212	8,222	6,294	9,519	9,519	9,519
Current Assets		48,914	61,121	76,522	95,984	81,460	112,198	150,148
Debtors		30,569	37,969	54,992	66,554	71,550	76,501	84,752
Cash		17,618	22,753	21,189	27,499	4,411	30,198	59,897
Other		727	399	341	1,931	5,499	5,499	5,499
Current Liabilities		(44,444)	(56,942)	(77,030)	(86,459)	(86,292)	(91,994)	(101,089)
Creditors		(36,436)	(56,100)	(70,302)	(80,280)	(82,089)	(87,791)	(96,886)
Contingent consideration		(7,122)	(45)	(5,287)	(6,179)	(4,203)	(4,203)	(4,203)
Short term borrowings		(886)	(797)	(1,441)	0	0	0	0
Long Term Liabilities		(15,940)	(16,711)	(116,707)	(94,810)	(46,413)	(36,727)	(26,981)
Long term borrowings		(11,499)	(8,451)	(85,447)	(62,139)	(19,833)	(16,002)	(12,002)
Contingent consideration		0	0	0	0	(458)	(458)	(458)
Other long term liabilities		(4,441)	(8,260)	(31,260)	(32,671)	(26,122)	(20,267)	(14,521)
Net Assets		94,183	157,752	321,468	344,934	359,756	376,424	397,877
CASH FLOW								
Operating Cash Flow		16,305	31,620	27,779	48,498	42,844	52,851	58,864
Net Interest		(498)	(545)	(689)	(1,768)	(1,454)	(936)	(855)
Tax		(2,193)	(3,247)	(2,930)	(6,386)	(10,412)	(11,242)	(12,676)
Capex		(2,227)	(2,018)	(1,625)	(1,339)	(2,900)	(3,000)	(3,100)
Acquisitions/disposals		(36,840)	(70,363)	(255,101)	(81)	(2,089)	0	0
Financing		24,755	56,668	157,339	(1,553)	(1,037)	(2,000)	(2,000)
Dividends		(2,775)	(3,582)	(4,049)	(5,761)	(5,855)	(5,886)	(6,534)
Net Cash Flow		(3,473)	8,533	(79,276)	31,610	19,097	29,787	33,699
Opening net debt/(cash)		(8,673)	(5,233)	(13,505)	65,699	34,640	15,422	(14,196)
HP finance leases initiated		0	0	0	0	0	0	0
Other		33	(261)	72	(551)	121	(169)	0
Closing net debt/(cash)		(5,233)	(13,505)	65,699	34,640	15,422	(14,196)	(47,895)

Source: GB Group, Edison Investment Research

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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