GB Group

Trading update

Upgrading FY21 forecasts

Software & comp services

GB Group (GBG) has confirmed that trading since it last reported in December has been stronger than expected. Continued benefits from the US stimulus packages and higher volumes of bitcoin and retail share trading have boosted Identity volumes. We have upgraded our FY21 forecasts to reflect new company guidance, with FY22 and FY23 estimates substantially unchanged.

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	53.6
03/20	199.1	47.9	45.7	17.9	0.0	46.2
03/21e	213.1	53.2	51.5	19.8	6.0	41.6
03/22e	212.5	48.0	46.9	17.9	3.3	46.2
03/23e	235.5	53.7	52.8	20.0	3.6	41.2

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

Identity performance remains buoyant

In H121, the company reported that its Identity business had benefited from high volumes of applications for US government COVID-19-related financial support, and high levels of demand have continued so far in H221. In January and early February, GBG also benefited from higher volumes of bitcoin and retail share trading in both the US and Europe. Consequently, for FY21 management expects to report revenue of at least £213m and adjusted operating profit of at least £53m.

Upgrading forecasts for FY21

We have assumed that most of this strong performance is specific to the pandemic and will not carry through into FY22 and FY23. We have raised our FY21 revenue forecast by 7%, which translates to a normalised EPS uplift of 19%. We leave our FY22 and FY23 forecasts substantially unchanged, as potential revenue upside from the improving fortunes of travel and leisure customers is likely to be offset by the effect of the strength of sterling versus the US dollar. The company expects to provide a further trading update for FY21 in the week starting 19 April.

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 Identity 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 15.6% 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.

25 February 2021

Price	**826p**
Market cap	**£1,621m**
	$1.41:£1
Net debt (£m) at end H121	2.7
Shares in issue	196.3m
Free float	98%
Code	GBG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(5.7)	(1.9)	22.7
Rel (local)	(5.9)	(6.1)	29.3
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

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Changes to forecasts

Exhibit 1: Financial summary

£m	FY21e old	FY21e new	change	y-o-y	FY22e old	FY22e new	change	y-o-y	FY23e old	FY23e new	change	y-o-y
Revenues	**198.7**	**213.1**	**7.2%**	**7.0%**	**212.5**	**212.5**	**0.0%**	**(0.3%)**	**235.4**	**235.5**	**0.0%**	**10.8%**
Gross profit	143.1	153.5	7.2%	6.4%	153	153	0.0%	(0.3%)	169.5	169.6	0.0%	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	49.0	57.2	16.6%	10.5%	52.1	52.1	0.0%	(8.8%)	58.0	58.1	0.1%	11.4%
EBITDA margin	24.7%	26.8%	2.2%	0.8%	24.5%	24.5%	0.0%	(2.3%)	24.6%	24.7%	0.0%	0.1%
EBITA	**45.0**	**53.2**	**18.1%**	**10.9%**	**47.9**	**48.0**	**0.0%**	**(9.8%)**	**53.7**	**53.7**	**0.1%**	**12.0%**
EBITA margin	22.7%	25.0%	2.3%	0.9%	22.6%	22.6%	0.0%	(2.4%)	22.8%	22.8%	0.0%	0.2%
PBT	43.4	51.5	18.8%	12.7%	46.8	46.9	0.0%	(9.1%)	52.8	52.8	0.1%	12.8%
EPS - normalised, diluted (p)	**16.7**	**19.8**	**18.8%**	**10.9%**	**17.9**	**17.9**	**0.0%**	**(9.8%)**	**20.0**	**20.0**	**0.1%**	**12.0%**
EPS - reported (p)	7.5	10.7	42.0%	21.5%	8.7	8.7	0.1%	(19.1%)	11.1	11.1	0.1%	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)	15.4	11.1	(28.2%)	(68.0%)	(14.2)	(20.4)	43.7%	(284.2%)	(47.9)	(54.1)	13.0%	165.4%
Net debt/EBITDA (x)	0.3	0.2			N/A	N/A			N/A	N/A		
Divisional forecasts												
Revenue												
Identity	115.8	130.2	12.4%	23.5%	125.8	126.2	0.3%	-3.0%	139.4	139.9	0.3%	10.8%
Location	50.2	50.2	0.0%	-2.5%	54.2	53.9	(0.6%)	7.3%	60.7	60.3	(0.6%)	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	198.7	213.1	7.2%	-0.2%	212.5	212.5	0.0%	-0.3%	235.4	235.5	0.0%	10.8%
Adjusted operating profit												
Identity	37.2	45.3	21.9%	34.7%	38.1	38.2	0.3%	-15.6%	42.2	42.4	0.3%	10.8%
Location	14.3	14.3	0.0%	-4.5%	15.2	15.1	(0.6%)	5.6%	17.0	16.9	(0.6%)	12.0%
Fraud	6.7	6.7	0.0%	-50.2%	8.4	8.4	0.0%	26.2%	9.5	9.5	(0.0%)	13.0%
Group	45.0	53.2	18.1%	10.9%	47.9	48.0	0.0%	-9.8%	53.7	53.7	0.1%	12.0%
Adjusted operating margin												
Identity	32.1%	34.8%			30.3%	30.3%			30.3%	30.3%		
Location	28.4%	28.4%			28.0%	28.0%			28.0%	28.0%		
Fraud	22.2%	22.2%			26.0%	26.0%			27.0%	27.0%		
Group	22.7%	25.0%			22.6%	22.6%			22.8%	22.8%		

Source: Edison Investment Research

Exhibit 2: Financial summary

£'000s	2017	2018	2019	2020	2021e	2022e	2023e
March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	87,468	119,702	143,504	199,101	213,131	212,520	235,497
Cost of Sales	(20,302)	(27,092)	(36,060)	(54,914)	(59,677)	(59,506)	(65,939)
Gross Profit	67,166	92,610	107,444	144,187	153,455	153,014	169,558
EBITDA	18,734	28,741	34,080	51,739	57,154	52,113	58,053
Operating Profit (before amort. and except.)	17,006	26,311	32,031	47,945	53,186	47,959	53,703
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	29,198	23,564	29,759
Net Interest	(498)	(508)	(689)	(2,218)	(1,655)	(1,105)	(855)
Profit Before Tax (norm)	16,508	25,803	31,342	45,727	51,531	46,854	52,848
Profit Before Tax (FRS 3)	10,082	13,400	14,736	20,626	27,543	22,459	28,904
Tax	668	(2,746)	(2,583)	(3,562)	(6,610)	(5,390)	(6,937)
Profit After Tax (norm)	13,206	20,642	24,760	35,210	39,163	35,609	40,165
Profit After Tax (FRS 3)	10,750	10,654	12,153	17,064	20,932	17,069	21,967
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	20.0	18.1	20.2
EPS - normalised and fully diluted (p)	9.9	13.5	15.4	17.9	19.8	17.9	20.0
EPS - (IFRS) (p)	8.2	7.1	7.7	8.8	10.7	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	26.8	24.5	24.7
Operating Margin (before GW and except.) (%)	19.4	22.0	22.3	24.1	25.0	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	90,988	118,403	156,399
Debtors	30,569	37,969	54,992	66,554	76,727	76,507	84,779
Cash	17,618	22,753	21,189	27,499	8,761	36,397	66,121
Other	727	399	341	1,931	5,499	5,499	5,499
Current Liabilities	(44,444)	(56,942)	(77,030)	(86,459)	(89,627)	(91,996)	(101,112)
Creditors	(36,436)	(56,100)	(70,302)	(80,280)	(85,424)	(87,793)	(96,909)
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	365,949	382,627	404,104
CASH FLOW							
Operating Cash Flow	16,305	31,620	27,779	48,498	49,150	54,703	58,896
Net Interest	(498)	(545)	(689)	(1,768)	(1,454)	(936)	(855)
Tax	(2,193)	(3,247)	(2,930)	(6,386)	(12,367)	(11,245)	(12,684)
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	23,447	31,636	33,724
Opening net debt/(cash)	(8,673)	(5,233)	(13,505)	65,699	34,640	11,072	(20,395)
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	11,072	(20,395)	(54,119)

Source: GB Group, Edison Investment Research

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