

GB Group

FY19 results

Growth and profits on track

GB Group (GBG) reported FY19 results in line with recently upgraded estimates. It continues to deliver on its strategy to grow organic revenues at double-digit rates while delivering operating margins in excess of 20%. Recent acquisitions are performing well and helped drive the 56% growth in international revenues over the year. We make minor changes to our forecasts, resulting in small upgrades to normalised EPS estimates.

Year end	Revenue (£m)	EBIT* (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/18	119.7	26.3	25.8	13.5	2.7	43.4
03/19	143.5	32.0	31.3	15.4	3.0	38.0
03/20e	192.6	44.0	40.7	16.4	3.4	35.6
03/21e	213.9	48.4	45.5	18.4	3.8	31.8

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

FY19 results meet GBG's growth targets

GBG reported revenue growth of 19.9% for FY19, or 11.5% on an organic constant currency basis, at the upper end of GBG's 10–12% target organic growth range. Adjusted operating profit of £32.0m grew 22% y-o-y, with a margin of 22.3%, and normalised EPS grew 15% y-o-y. The three focus businesses grew organic revenues at rates in the mid- to high-teens and provide the engine for future growth. The company has started to pay down some of the debt put in place when IDology was acquired and finished the year with a net debt position of £66.3m. We make no material changes to our revenue or EBITA forecasts; reductions in interest expense and tax result in EPS upgrades of 2.2% in FY20 and 2.6% in FY21.

Organic growth the immediate priority

GBG's immediate focus is on integrating recent acquisitions and capitalising on its increased presence in the US and Asia Pacific, with investment in sales and customer support. It is also investing in technology to enable the group to scale up securely and develop integrated solutions across the different product areas, with a combined Identity/Location solution the first to be launched later this year. With c £54m headroom from current debt facilities and strong cash generation leading us to forecast a net cash position by the end of FY22, the group has adequate funding to pursue additional acquisitions in the medium term.

Valuation: Profitable growth warrants premium rating

At a P/E of 35.6x FY20e and 31.8x FY21e, 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 profitability and growth. We believe this premium rating is warranted, considering the group's historic 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.

Software & comp services

6 June 2019

Price **585p**
Market cap **£1,128m**

Net debt (£m) at end FY19 66.3

Shares in issue 192.9m

Free float 99%

Code GBG

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.0) 19.9 15.2

Rel (local) 0.3 19.7 23.3

52-week high/low 631.0p 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, GB operates across 16 countries, has customers in 72 countries and generates more than 45% of revenues internationally.

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Capital markets day 11 July

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Review of FY19 results

We recently upgraded our forecasts on the back of the April trading update, factoring in better performance than originally forecast for the two recently acquired businesses (VIX Verify and IDology). Consequently, FY19 results are marginally ahead of our forecasts for revenue, adjusted operating profit (EBITA) and normalised EPS.

Group revenues increased 20% on a reported basis, 8.7% an organic reported basis and 11.5% on an adjusted organic, constant currency basis.¹ Adjusted operating profit increased 22% and normalised EPS 15% over the same period. The company continues to expense R&D as incurred and highlighted an additional £5m investment during FY19 related to improving the fraud platform, moving to hosted solutions, and developing joint solutions.

Reported EPS was ahead of our forecast due to lower than expected exceptional costs. The company incurred costs of £3.75m relating to acquisitions and a further £0.26m in reorganisation costs. This compares to our forecast for exceptional costs of £9.8m which included the costs of the fundraising – costs of £3.3m were set off against the proceeds raised.

EBITDA to operating cash conversion (pre-exceptionals) was 92.7% for the year and the company expects this to be 90–95% in the future.

The company announced a dividend of 2.99p for FY19, +12.8% y-o-y.

Exhibit 1: FY19 results highlights

£m	FY18a	FY19e	FY19a	diff	y-o-y
Revenues	119.7	143.3	143.5	0.1%	19.9%
Gross profit	92.6	109.2	107.4	-1.6%	16.0%
Gross margin	77.4%	76.2%	74.9%	-1.4%	-2.5%
EBITDA	28.7	34.4	34.1	-0.9%	18.6%
EBITDA margin	24.0%	24.0%	23.7%	-0.2%	-0.3%
EBITA	26.3	31.7	32.0	1.0%	21.7%
EBITA margin	22.0%	22.1%	22.3%	0.2%	0.3%
PBT	25.8	30.8	31.3	1.6%	21.5%
EPS - normalised, diluted (p)	13.5	15.1	15.4	1.6%	14.3%
EPS - reported (p)	7.1	5.2	7.7	47.2%	8.7%
Net debt/(cash)	(13.5)	66.3	66.3*	0.0%	N/A
Net debt/EBITDA (x)	N/A	1.9	1.9		

Source: GB Group, Edison Investment Research. Note: *Includes £0.5m of unamortised arrangement fees.

Divisional revenue performance substantially in line

The group saw strong growth in its three main focus areas of Identity, Location and Fraud, which combined made up 79% of group revenues in FY19. Customer numbers grew from more than 17,000 to over 19,000 during the year, of which c 900 would have come from the acquisitions (assuming no customers in common); the remaining 1,100 were new customers to the group.

The largest business line, **Identity**, grew 37% on a reported basis and 13% on an organic, constant currency (cc) basis, after adjusting for the perpetual licence signed in FY18. Acquisitions contributed revenue of £12.0m (VIX Verify's contribution and a month and half contribution from IDology). New customer wins include fintechs (Revolut, Coinbase) and on-demand businesses (Deliveroo) that are expanding at pace but need support with KYC processes as they sign up new

¹ As we have previously written, this adjusts for the £3.5m perpetual licence signed in H118, recognising only one-third in FY18 to reflect the typical three-year term of licences.

customers. This is particularly true of Revolut, which has been in the press as a result of problems with its compliance procedures.

The **Location** business grew 17% on a reported basis, with 14% organic cc growth and a £1.4m contribution from acquisitions (the full year effect of PCA, which was acquired in May 2017). New customers in the year included Kohls, eBay, Sephora, N26 and HelloFresh.

The **Fraud** business (which includes Trace & Investigate) grew 14% on a reported and organic basis, with 17% organic cc growth. This business is more focused on Asia Pacific, but it also signed Discover Financial Services, its first US customer, during the year.

The two other businesses are UK focused and saw similar performance to the prior year: Employ & Comply grew 3% in FY19 after similar growth in FY18. Engage continued to decline, down 8% after a decline of 3% in FY18 and 16% in FY17.

The **Fraud, Risk & Compliance** division reported adjusted operating profit of £20.4m (+28% y-o-y) and a margin of 23.3%, 30bp higher than in FY18 but slightly lower than we forecast. The **Location & Customer Intelligence** division reported adjusted operating profit of £12.6m (+10% y-o-y) and a margin of 22.6%, ahead of our forecast and 40bp lower than in FY18. All of the VIX revenue was reported in the Identity business, whereas we had assumed a split between Identity and Location. As the VIX operating margin was lower than the group average, this explains the difference in divisional profitability compared to our forecasts. Combined, group adjusted operating profit was marginally ahead of our forecast.

Exhibit 2: Divisional revenue and adjusted operating profit (£m)

	FY18a	FY19e	FY19a	diff	y-o-y reported	y-o-y organic	y-o-y organic cc
Revenues							
Identity	37.8	51.7	51.9	0.4%	37%	13%	13%
Fraud	13.5	16.2	16.0	-1.2%	19%	19%	25%
Trace & Investigate	12.4	13.3	13.4	1.0%	8%	8%	8%
Employ & Comply	6.1	6.4	6.3	-1.6%	3%	3%	3%
Fraud, Risk & Compliance	69.8	87.6	87.6	0.1%	26%	12%	13%
Location	39.4	46.3	46.3	0.0%	17%	14%	14%
Engage	10.5	9.5	9.6	1.6%	-8%	-8%	-8%
Location & Customer Intelligence	49.9	55.8	55.9	0.3%	12%	9%	9%
Total revenues	119.7	143.3	143.5	0.1%	20%	11%	12%
Adjusted operating profit							
Fraud, Risk & Compliance	16.0	21.6	20.4	-5.6%	28%		
Location & Customer Intelligence	11.5	11.7	12.6	7.7%	10%		
Unallocated costs	-1.2	-1.6	-1.0	-37.5%	-17%		
Group adjusted operating profit	26.3	31.7	32.0	0.9%	22%		
Adjusted operating margin							
Fraud, Risk & Compliance	23%	25%	23%	-1%	0%		
Location & Customer Intelligence	23%	21%	23%	2%	-1%		
Group adj. operating profit	22%	22%	22%	0%	0%		

Source: GB Group, Edison Investment Research

Acquisition progress

The company is pleased with the performance of both acquisitions made in FY19.

- **VIX Verify:** since being acquired on 23 October 2018, VIX has contributed revenues of £7.67m and operating profit of £1.33m, equating to a margin of 17.4%. This compares to a margin of 3.6% for the year to 30 June 2018, highlighting that the company has managed to achieve cost synergies sooner than expected.
- **IDology:** since being acquired on 13 February 2019, IDology has contributed revenues of £4.28m and operating profit of £1.89m, equating to an operating margin of 44.1%. This compares to an EBITDA margin of 42.7% for CY18. The integration is performing in line with management's expectations – the integration between GBG's location and identity solutions is

going well, and proposals and customer visits are being undertaken on a joint basis where relevant.

When it acquired IDology, GBG arranged a £110m credit facility with a £30m accordion and interest payable at LIBOR plus 1.5%. By the end of FY19 it had used £85.4m of this facility, with £54m still available for future acquisitions.

Making good progress with growth strategy

The company targets double-digit organic revenue growth and adjusted operating margins of at least 20%. It achieved this in FY19 and continues to work towards these targets for FY20 and beyond. GBG needs to achieve organic growth in excess of 10% for the three focus areas to compensate for lower growth in the UK-centric businesses, such that the 10%+ organic growth rate is maintained for the group.

Key areas of strategic focus to drive this growth include:

- **Maximise growth internationally from the three focus areas:** 45% of revenues were generated outside of the UK in FY19, up from 34% in FY18, with growth of 56% y-o-y compared to 1% growth in the UK. A full year of revenues from the IDology acquisition should take international revenues above 50% in FY20.
- **Optimise growth in specialist UK businesses:** we expect Engage revenues to gradually decline and the other two businesses to show mid-single-digit percentage growth.
- **Join up GBG with customers at the centre:** staff have been recruited across the group to strengthen customer support and accelerate product innovation. The goal is to provide a seamless experience no matter which products customers are using. The company will soon be launching a combined Identity/Location solution.
- **Use M&A to enhance capability and reach:** acquisitions are considered if they add technology, geographic coverage, additional datasets and/or new customers. This was the case for the recent VIX and IDology deals, which have given GBG access to multi-national customers in North America and Asia Pacific as well as new datasets and new technology. While short term, the company is focused on integrating recent deals and we expect M&A activity to resume in the medium term.

Outlook and changes to forecasts

Trading year-to-date has been in line with management's expectations. We make minimal changes to our revenue and adjusted operating profit forecasts. We have reduced our net interest cost forecast to reflect the reduction in debt prior to year-end and reduced our tax rate assumption from 22% to 21%.

Exhibit 3: Changes to forecasts

£m	FY20e	FY20e			FY21e	FY21e			FY22e	
	previous	new	change	y-o-y	old	new	change	y-o-y	new	y-o-y
Revenues	192.8	192.6	-0.1%	34.2%	214.4	213.9	-0.2%	11.0%	237.3	11.0%
Gross profit	140.6	140.5	-0.1%	30.7%	158.5	158.2	-0.2%	12.6%	175.6	11.0%
Gross margin	72.9%	72.9%	0.0%	-2.0%	74.0%	74.0%	0.0%	1.0%	74.0%	0.0%
EBITDA	46.9	46.2	-1.4%	35.7%	51.4	50.7	(1.5%)	9.6%	55.4	9.3%
EBITDA margin	24.3%	24.0%	-0.3%	0.3%	24.0%	23.7%	(0.3%)	-0.3%	23.3%	(0.4%)
EBITA	44.1	44.0	-0.1%	37.4%	48.5	48.4	(0.3%)	9.8%	53.0	9.5%
EBITA margin	22.9%	22.9%	0.0%	0.5%	22.6%	22.6%	0.0%	-0.2%	22.3%	-0.3%
PBT	40.3	40.7	1.1%	30.0%	45.0	45.5	1.1%	11.6%	50.4	10.8%
EPS - normalised, diluted (p)	16.1	16.4	2.2%	6.8%	17.9	18.4	2.6%	11.7%	20.3	10.5%
EPS - reported (p)	12.2	7.7	(36.7%)	0.7%	14.4	10.5	-27.6%	35.0%	12.6	20.1%
Net debt/(cash)	42.7	37.7	-11.7%	-43.2%	16.9	7.0	-58.4%	-81.3%	(26.8)	-479.9%
Net debt/EBITDA (x)	0.9	0.8			0.3	0.1			N/A	

Source: Edison Investment Research

Valuation

We compare GBG's financial performance and valuation metrics to the median of four peer groups (averages not used as peers include many loss-making companies). GBG's revenue growth is at the top end of the group and its operating profitability is also towards the upper end of peers. On EV and P/E multiples, GBG trades more in line with cyber security peers. We believe this premium rating is warranted, considering the group's historic track record of profitable growth and cash generation and its high level of recurring revenues, combined with the opportunity from structural growth in identity data intelligence services.

Exhibit 4: Peer group financial and valuation metrics

	Rev growth (%)		EBITDA margin (%)		EBIT margin (%)		EV/Sales (x)		EV/EBITDA (x)		P/E (x)	
	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2
GBG	34.2	11.0	24.0	23.7	22.9	22.6	6.2	5.6	25.8	23.6	35.6	31.8
ID Management	7.3	8.0	30.5	33.3	21.2	26.7	5.0	4.9	17.1	15.2	21.4	22.6
Identity Access Management	20.7	17.4	8.8	12.3	7.4	10.5	4.3	3.5	14.0	10.8	23.5	23.9
Cyber Security	12.5	11.2	21.5	22.0	16.9	18.1	5.6	4.8	24.3	20.5	35.5	36.0
UK Software	13.3	11.0	18.7	20.4	14.2	17.1	3.2	2.7	12.1	10.8	19.0	18.7

Source: Edison Investment Research, Refinitiv. Note: Prices at 3 June.

We also perform a reverse DCF to estimate what growth rates and margins are factored into the share price. Using our explicit forecasts to FY22, a WACC of 8.4% and long-term growth of 3%, we estimate that revenue growth of 13.8% pa from FY23 to FY28 and EBITDA margins of 24% (in line with FY19) are required to support the current share price. We expect management to continue to make accretive acquisitions to boost growth, which should provide further support to the share price.

Exhibit 5: Financial summary

	£'000s	2015	2016	2017	2018	2019	2020e	2021e	2022e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		57,283	73,401	87,468	119,702	143,504	192,626	213,889	237,321
Cost of Sales		(16,448)	(17,606)	(20,302)	(27,092)	(36,060)	(52,164)	(55,707)	(61,765)
Gross Profit		40,835	55,795	67,166	92,610	107,444	140,462	158,182	175,556
EBITDA		11,844	14,772	18,734	28,741	34,080	46,241	50,662	55,352
Operating Profit (before amort. and except.)		10,790	13,428	17,006	26,311	32,031	44,020	48,355	52,955
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)	0	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	22,204	28,487	33,411
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	40,740	45,475	50,375
Profit Before Tax (FRS 3)		5,928	9,318	10,082	13,400	14,736	18,924	25,607	30,831
Tax		(1,127)	(178)	668	(2,746)	(2,583)	(3,974)	(5,378)	(6,474)
Profit After Tax (norm)		8,314	10,395	13,206	20,642	24,760	32,184	35,925	39,796
Profit After Tax (FRS 3)		4,801	9,140	10,750	10,654	12,153	14,950	20,230	24,356
Average Number of Shares Outstanding (m)		119.1	122.7	131.6	150.6	158.1	193.1	193.5	194.0
EPS - normalised (p)		7.0	8.5	10.0	13.7	15.7	16.7	18.6	20.5
EPS - normalised and fully diluted (p)		6.7	8.2	9.9	13.5	15.4	16.4	18.4	20.3
EPS - (IFRS) (p)		4.0	7.4	8.2	7.1	7.7	7.7	10.5	12.6
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	72.9	74.0	74.0
EBITDA Margin (%)		20.7	20.1	21.4	24.0	23.7	24.0	23.7	23.3
Operating Margin (before GW and except.) (%)		18.8	18.3	19.4	22.0	22.3	22.9	22.6	22.3
BALANCE SHEET									
Fixed Assets		51,238	59,364	105,653	170,284	435,195	416,474	399,967	384,069
Intangible Assets		45,296	54,113	98,753	161,372	421,747	402,047	384,547	367,647
Tangible Assets		2,829	2,234	2,856	4,700	4,815	5,794	6,787	7,789
Other fixed assets		3,113	3,017	4,044	4,212	8,633	8,633	8,633	8,633
Current Assets		33,186	36,189	48,914	61,121	76,404	112,767	147,458	186,187
Debtors		17,408	23,774	30,569	37,969	54,874	73,198	81,278	90,182
Cash		15,778	12,415	17,618	22,753	21,189	39,228	65,839	95,664
Other		0	0	727	399	341	341	341	341
Current Liabilities		(30,784)	(32,559)	(44,444)	(56,942)	(73,432)	(89,375)	(95,062)	(101,824)
Creditors		(24,305)	(30,927)	(36,436)	(56,100)	(71,912)	(87,855)	(93,542)	(100,304)
Contingent consideration		(5,733)	(1,050)	(7,122)	(45)	(79)	(79)	(79)	(79)
Short term borrowings		(746)	(582)	(886)	(797)	(1,441)	(1,441)	(1,441)	(1,441)
Long Term Liabilities		(7,506)	(6,593)	(15,940)	(16,711)	(114,995)	(104,995)	(100,995)	(96,995)
Long term borrowings		(3,643)	(3,160)	(11,499)	(8,451)	(85,447)	(75,447)	(71,447)	(67,447)
Contingent consideration		(895)	0	0	0	0	0	0	0
Other long term liabilities		(2,968)	(3,433)	(4,441)	(8,260)	(29,548)	(29,548)	(29,548)	(29,548)
Net Assets		46,134	56,401	94,183	157,752	323,172	334,871	351,367	371,437
CASH FLOW									
Operating Cash Flow		11,684	13,397	16,305	31,620	27,779	43,859	48,269	53,211
Net Interest		(266)	(282)	(498)	(545)	(720)	(3,280)	(2,880)	(2,580)
Tax		(337)	(248)	(2,193)	(3,247)	(2,930)	(3,974)	(5,378)	(6,474)
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)	0	0	0
Financing		10,954	790	24,755	56,668	157,339	0	0	0
Dividends		(1,955)	(2,277)	(2,775)	(3,582)	(4,049)	(5,766)	(6,501)	(7,331)
Net Cash Flow		(603)	(2,645)	(3,473)	8,533	(79,307)	28,039	30,611	33,825
Opening net debt/(cash)		(11,846)	(11,389)	(8,673)	(5,233)	(13,505)	65,699	37,660	7,049
HP finance leases initiated		0	0	0	0	0	0	0	0
Other		146	(71)	33	(261)	103	0	0	0
Closing net debt/(cash)		(11,389)	(8,673)	(5,233)	(13,505)	65,699	37,660	7,049	(26,776)

Source: GB Group, Edison Investment Research

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