

GB Group

Trading update

Pickup in H2 organic growth as expected

Headline revenue growth of 19% reflects a full half contribution of ID Scan and a pickup in organic growth to 12% across the year driven by the excellent performance from the higher margin international services. The mix effects of this growth resulted in EBIT of £17m, 4% ahead of our forecasts, and a 1.1pp improvement in the operating margin.

Year end	Revenue (£m)	EBIT* (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	73.4	13.4	13.2	8.2	2.1	38.4	0.7
03/17e	89.0 (87.5**)	16.6 (17.0**)	15.9	9.4	2.2	33.5	0.7
03/18e	105.0	19.6	19.0	10.6	2.5	29.7	0.8
03/19e	118.1	22.9	22.3	12.1	2.8	26.0	0.9

Note: *EBIT, PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Reported or implied by trading statement.

FY17 operating profits ahead

GBG's trading update indicates revenue grew by 19% in FY17 with underlying organic growth for the period of 12% (adjusted for revenue in FY16 related to the recovery of start-up costs from Gov.uk/verify), which implies a slight pick-up in organic growth in the second half (11% organic growth reported in H117). While the revenue growth rate was slightly behind our forecast (21%), operating profits of £17m were ahead of our £16.6m forecast. The operating margin was up 1.1pp y-o-y to 19.4%, which is ahead of our forecast of 18.6% and despite the £2m investment into Gov.uk/verify services, due to an excellent performance of the higher margin international services.

Strong growth from international operations

The strong growth in international markets was driven in particular by the ID verification and fraud management services (+26%) as well as the address intelligence services (Loqate, 41% growth) and ID Scan, acquired in July 2016, which is performing in line with expectations. However, as in H117, the ID engagement solutions continue to underperform and the group has launched a review of this service.

Valuation: Premium P/E justified by performance

We will review our revenue-margin mix following publication of the full year results on 6 June; we do not expect to make any material changes at the operating level for FY18e. GBG is in a strong position; it reported net cash of £5.2m at the year end and has access to a £50m credit facility, the market for data and capabilities remains fragmented internationally and GBG has a good track record in making earnings accretive acquisitions. On an FY18 (March) P/E of 30x, dropping to 26x in FY19, the group's strong growth prospects are already being reflected to a degree. However, the rating is in line with the wider cyber security peer set and we believe it is justified by the consistently strong organic performance, while the prospect of further earnings enhancing acquisitions could drive further upside.

Software & comp services

20 April 2017

Price 315.00p
Market cap £424m

Net cash (£m) as at 31 March 2017	5.2
Shares in issue	134.7m
Free float	96%
Code	GBG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	5.0	6.6	15.4
Rel (local)	8.3	6.5	3.3
52-week high/low	349.0p		215.0p

Business description

GB Group (GBG) has complementary identity data intelligence offerings of verification, capture, maintenance and analysis, enabling companies to identify and understand their customers.

Next events

FY17 results	6 June 2017
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Exhibit 1: Financial summary

	£000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		41,835	57,283	73,401	89,000	105,000	118,125
Cost of Sales		(14,473)	(16,448)	(17,606)	(20,888)	(17,246)	(18,553)
Gross Profit		27,362	40,835	55,795	68,112	87,754	99,572
EBITDA		7,849	11,844	14,772	18,774	22,300	25,975
Operating Profit (before amort. and except.)		7,164	10,790	13,428	16,574	19,600	22,900
Acquired intangible amortisation		(1,110)	(1,986)	(2,501)	(2,540)	(2,540)	(2,540)
Exceptionals		(1,080)	(1,629)	(94)	(1,200)	0	0
Share of associate		(159)	(10)	0	0	0	0
Share based payments		(747)	(971)	(1,245)	(1,600)	(1,700)	(1,699)
Operating Profit		4,068	6,194	9,588	11,234	15,360	18,661
Net Interest		(79)	(266)	(270)	(657)	(592)	(592)
Profit Before Tax (norm)		7,085	10,524	13,158	15,917	19,008	22,308
Profit Before Tax (FRS 3)		3,989	5,928	9,318	10,577	14,768	18,069
Tax		(474)	(1,127)	(178)	(3,502)	(4,182)	(4,908)
Profit After Tax (norm)		5,597	8,314	10,395	12,416	14,636	16,954
Profit After Tax (FRS 3)		3,515	4,801	9,140	7,076	10,586	13,161
Average Number of Shares Outstanding (m)		109.6	119.1	122.7	127.8	133.0	133.6
EPS - normalised (p)		5.1	7.0	8.5	9.7	11.0	12.7
EPS - normalised and fully diluted (p)		4.8	6.7	8.2	9.4	10.6	12.1
EPS - (IFRS) (p)		3.2	4.0	7.4	5.5	8.0	9.9
Dividend per share (p)		1.7	1.9	2.1	2.2	2.5	2.8
Gross Margin (%)		65.4	71.3	76.0	76.5	83.6	84.3
EBITDA Margin (%)		18.8	20.7	20.1	21.1	21.2	22.0
Operating Margin (before GW and except.) (%)		17.1	18.8	18.3	18.6	18.7	19.4
BALANCE SHEET							
Fixed Assets		26,985	51,238	59,364	94,424	99,484	96,319
Intangible Assets		23,329	45,296	54,113	88,573	93,883	91,193
Tangible Assets		1,519	2,829	2,234	2,834	2,584	2,109
Other fixed assets		2,137	3,113	3,017	3,017	3,017	3,017
Current Assets		23,775	33,186	36,189	52,471	59,200	78,879
Debtors		11,929	17,408	23,774	35,536	43,251	50,663
Cash		11,846	15,778	12,415	16,935	15,949	28,216
Other		0	0	0	0	0	0
Current Liabilities		(17,861)	(30,784)	(32,559)	(41,621)	(46,836)	(51,748)
Creditors		(17,861)	(24,305)	(30,927)	(39,989)	(45,204)	(50,116)
Contingent consideration		0	(5,733)	(1,050)	(1,050)	(1,050)	(1,050)
Short term borrowings		0	(746)	(582)	(582)	(582)	(582)
Long Term Liabilities		(2,066)	(7,506)	(6,593)	(17,751)	(14,851)	(14,851)
Long term borrowings		0	(3,643)	(3,160)	(14,318)	(11,418)	(11,418)
Contingent consideration		0	(895)	0	0	0	0
Other long term liabilities		(2,066)	(2,968)	(3,433)	(3,433)	(3,433)	(3,433)
Net Assets		30,833	46,134	56,401	87,523	96,997	108,599
CASH FLOW							
Operating Cash Flow		9,355	11,684	13,397	14,874	19,800	23,475
Net Interest		(79)	(266)	(282)	(657)	(592)	(592)
Tax		65	(337)	(248)	(3,502)	(4,182)	(4,908)
Capex		(1,144)	(2,011)	(1,762)	(2,700)	(2,300)	(2,450)
Acquisitions/disposals		(1,443)	(18,672)	(12,263)	(37,100)	(8,000)	0
Financing		416	10,954	790	25,000	0	0
Dividends		(1,632)	(1,955)	(2,277)	(2,553)	(2,812)	(3,258)
Net Cash Flow		5,538	(603)	(2,645)	(6,638)	1,914	12,267
Opening net debt/(cash)		(6,308)	(11,846)	(11,389)	(8,673)	(2,035)	(3,949)
HP finance leases initiated		0	0	0	0	0	0
Other		0	146	(71)	0	0	0
Closing net debt/(cash)		(11,846)	(11,389)	(8,673)	(2,035)	(3,949)	(16,216)

Source: GB Group (historics), Edison Investment Research (forecasts)

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