

GB Group

FY20 outlook confirmed

GB Group (GBG) expects to report strong revenue and profit growth for H120, with exceptional organic growth boosted by recent acquisitions. Constant currency organic growth of 18% is ahead of the company's double-digit target, boosted to a large extent by the signing of contracts in the Fraud division that had been expected in H2. Management expects to meet FY20 consensus estimates, implying a stronger weighting to H1 revenues and profits than in previous years. We maintain our forecasts.

Year end	Revenue (£m)	EBIT* (£m)	PBT* (p)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/18	119.7	26.3	25.8	13.5	2.7	44.7
03/19	143.5	32.0	31.3	15.4	3.0	39.1
03/20e	192.6	44.0	40.7	16.4	3.4	36.6
03/21e	213.9	48.4	45.5	18.4	3.8	32.8

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

Impressive revenue and profit growth in H120

GBG expects to report H120 revenues of £93.7m, equating to year-on-year growth of 64%. Stripping out the impact of currency and the Vix Verify (October 2018) and IDology (February 2019) acquisitions, organic revenues were 18% higher. Management noted that GBG achieved organic growth in each of its three core products and across all target geographies. Expected adjusted operating profit of £20.9m is 138% higher y-o-y with a margin of 22.3% (FY20e 22.9%). The company reduced net debt from £65.7m at the end of FY19 to £53.8m at the end of H120.

Full-year expectations maintained

Management expects to achieve consensus expectations for FY20 revenues (£195.5m) and profit (£45.0m), noting that H1 benefited from contracts in the Fraud division that were pulled forward from H2 to H1. H120 revenues make up 48.7% of our FY20e forecast, compared to 40%/44%/43% contributions to full year revenues in H119/18/17 respectively, reflecting the accelerated signing of these contracts.

Valuation: Factoring in strong, profitable growth

The stock responded strongly to this update (+14% on the day), returning to the level it was trading at after the Identity capital markets day in July. The stock trades at a premium to the UK software sector and towards the top end of its ID management peer group on a P/E basis, reflecting its strong growth outlook and high recurring revenues. Our reverse DCF analysis estimates the current share price is factoring in operating margins of c 24.5% and revenue growth of c 13% pa from FY23, slightly ahead of the group's revenue and margin targets. Triggers for upside from the current share price could include accretive acquisitions, successful cross-selling from recent acquisitions and adoption of GBG's combined identity/location solution.

H120 trading update

Software & comp services

25 October 2019

Price 602p
Market cap £1,167m

Net debt (£m) at end H120	53.8
Shares in issue	193.8m
Free float	98.7%
Code	GBG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	8.1	3.1	18.0
Rel (local)	7.4	4.8	11.7
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.

Next events

H120 results	26 November
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Exhibit 1: Financial summary

	£'000s	2015	2016	2017	2018	2019	2020e	2021e	2022e
Year end 31 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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