

GB Group

H123 results

H123 performance masks strategic progress

GB Group (GBG) reported a mixed performance in H123: strong growth in its Fraud and Location businesses was offset by weaker performance in the Identity business resulting in pro forma constant currency revenue growth of 3.4% y-o-y. Cryptocurrency headwinds and slowing economic growth drive downgrades to our Identity revenues and normalised EPS forecasts. Integration of Acuant is now complete and GBG is showing early signs of leveraging Acuant's products and technology across the group.

Year end	Revenue (£m)	Adj. op. profit* (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/21	217.7	57.9	56.7	22.4	6.4	14.5
03/22	242.5	58.8	57.1	20.2	3.8	16.1
03/23e	292.9	67.3	60.6	18.0	4.0	18.0
03/24e	320.3	74.6	68.6	19.9	4.3	16.3
03/25e	352.8	82.3	77.7	22.4	4.6	14.5

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

Mixed performance in H123

For the Identity business, cryptocurrency and internet economy customer weakness weighed on H123 pro forma constant currency revenue growth, whereas Location and Fraud generated double-digit constant currency growth. Adjusted operating profitability was held back by higher operating cost growth due to wage inflation, H222 investments, currency translation and the addition of Acuant and Cloudcheck cost bases. Acuant integration was completed during H123 and the company is now looking to drive growth back up to the levels originally targeted when it was acquired. Initial positive indications include cross-selling into EMEA and APAC and the use of Acuant's orchestration technology in GBG GO.

Estimates revised down

Management expects mid-single digit pro forma constant currency revenue growth and a higher operating margin in H223. We have revised our forecasts to reflect H123 divisional performance, the weakening of the US dollar since the end of H123, and higher interest and tax rates. We have also taken a more conservative approach to growth in FY24 and FY25 due to current macroeconomic uncertainty, reducing our normalised EPS forecasts by 10.2% in FY23, 11.6% in FY24 and 12.5% in FY25.

Valuation: Long-term growth the driver

On our revised forecasts, GBG is trading on a P/E of 18.0x FY23e and 16.3x FY24e, the lowest level for more than five years. As GBG trades through H223 and gets better visibility over underlying growth and Acuant revenue synergies, it should be able to provide confidence that FY23 estimates are achievable and that Acuant is delivering on its promise. Our reverse discounted cash flow (DCF) implies that the share price is discounting revenue growth of c 4.3% from FY26, well below the double-digit growth rate GBG consistently achieved up to FY22.

Software and comp services

1 December 2022

Price **324.2p**
Market cap **£817m**

\$1.20:£1

Net debt (£m) at 30 September 2022 132.6

Shares in issue 252.0m

Free float 94%

Code GBG

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (14.7) (27.5) (57.9)

Rel (local) (20.2) (29.8) (59.1)

52-week high/low 749.5p 324.2p

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 are used across a range of fraud, risk management, compliance and customer onboarding services. With headquarters in the UK, GB operates across 17 countries, has customers in more than 70 countries and generates more than 64% of revenues internationally.

Next events

Capital Markets event 19 January 2023

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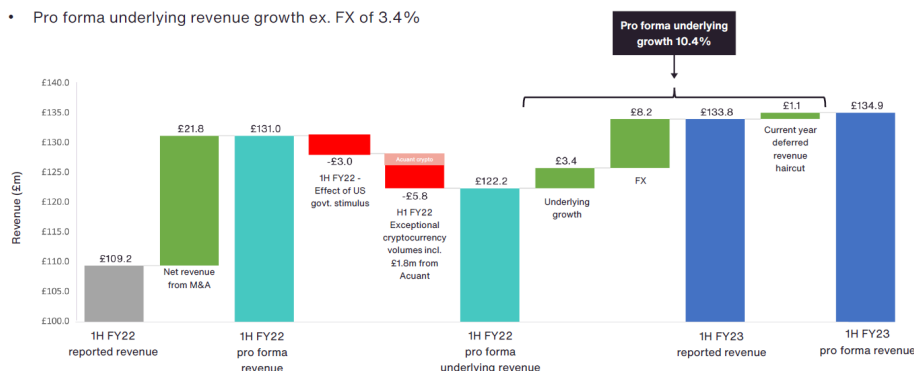
Review of H123 results

GB Group reported H123 revenue and adjusted operating profit in line with its October trading update. Revenue growth of 22.6% benefited from the Acuant and Cloudcheck acquisitions and favourable currency translation from US dollar to sterling. Pro forma underlying revenue growth was 10.4% y-o-y (treating acquisitions made in FY22 as if they were owned for the full year and excluding several one-off sources of revenues last year) and pro forma underlying constant currency revenue growth was 3.4%. Exhibit 1 shows how these growth measures have been calculated.

Exhibit 1: Revenue bridge H122 to H123

Group revenue bridge for 1H FY22 – 1H FY23

- Reported revenue growth of 22.6%
- Pro forma underlying revenue growth of 10.4%
- Pro forma underlying revenue growth ex. FX of 3.4%



Source: GB Group

Gross margin benefited from a favourable product mix. Adjusted operating profit increased only 1% y-o-y: operating expenses were 52% higher y-o-y because of acquisitions (+28%), wage increases (c 6.5%), the impact of translating dollar-based expenses to sterling (+8%) and the effect of investments made in H222. Headcount was flat at end-H123 versus end-FY22. Reported operating profit included amortisation of acquired intangibles (£21.3m), share-based payments (£2.7m) and exceptional costs relating to acquisitions and restructuring (£1.5m). Net finance costs increased due to the loan taken out to acquire Acuant a year ago. The effective tax rate of 26.4% was higher than the FY23 guided range of 23–24% due to US tax charges related to R&D investments. End-H123 net debt (including unamortised loan arrangement fees) of £132.6m increased from £107.0m at the end of FY22, with £22.3m of the difference due to translation of US dollar-denominated debt to sterling (rate end-FY22: \$1.31:£1, rate end-H123: \$1.12:£1).

Exhibit 2: H1 results highlights

£m	H123	H122	y-o-y
Revenues	133.8	109.2	22.6%
Gross profit	95.1	76.9	23.6%
Gross margin	71.1%	70.5%	0.6%
Adjusted operating profit	28.1	27.8	1.0%
Adjusted operating margin	21.0%	25.5%	-4.5%
Reported operating profit	2.5	14.8	-83.0%
Reported operating margin	1.9%	13.6%	-11.7%
Normalised dil. EPS (p)	7.3	10.9	-33.0%
Reported basic EPS (p)	(0.3)	5.7	-105.3%
Net cash/(debt)	(132.6)*	39.5	-435.7%

Source: GB Group. Note: *Includes £857k of unamortised loan arrangement fees.

Exhibit 3: Divisional H1 performance

£m	H123	H122	y-o-y	Constant currency pro forma growth
<u>Revenues</u>				
Fraud	18.3	15.5	17.9%	14.4%
Identity	81.2	63.7	27.4%	-1.4%
Location	34.4	29.9	14.9%	10.4%
Total revenues	133.8	109.1	22.6%	3.4%
<u>Adjusted operating profit</u>				
Fraud	4.1	4.9	(15.1%)	
Identity	23.3	28.1	(17.1%)	
Location	12.0	10.7	12.4%	
Unallocated	-11.4	-15.9	(28.3%)	
Total adjusted operating profit	28.1	27.8	1.0%	
<u>Adjusted operating margin</u>				
Fraud	22.7%	31.5%	-8.8%	
Identity	28.7%	44.2%	-15.4%	
Location	34.9%	35.7%	-0.8%	
Total adjusted operating margin	21.0%	25.5%	-4.5%	

Source: GB Group

- **Location:** reported revenue growth of 14.9% y-o-y or 10.4% in constant currency. The adjusted operating margin was marginally lower than a year ago at 34.9%. While some e-commerce customers generated lower volumes than last year, this was compensated for by successful upselling and selective price increases (with more to come in H223 as customers renew their contracts). New customer wins during H123 included Klarna and Wise (both already Identity customers), Sonos, Pepsi, New Balance and Shoplazza. The company noted that the latest version of its location intelligence product uses an artificial intelligence parsing engine that can improve match rates by up to 20%. In a recent competitive tender for a buy now, pay later company, GBG beat the incumbent with 23% better match rates.
- **Fraud:** reported revenue growth of 17.9% or 14.4% in constant currency. Adjusted operating margin declined 8.8% to 22.7%. The division saw new customer wins (Union Bank of the Philippines, PNB Malaysia, Banque Marocaine and the UK Department for Work and Pensions) and important renewals with financial services customers in APAC and EMEA. The business developed a fraud data sharing consortium in APAC, using experience from the Americas bureau.
- **Identity:** reported revenue growth of 27.4% and a pro forma constant currency revenue decline of 1.4%. Adjusted operating margin declined 15.4pp y-o-y reflecting the addition of Acuant as well as cost inflation. Cryptocurrency and internet economy customers, who are predominantly in the United States, were affected by the macroeconomic slowdown and cryptocurrency volumes normalised at lower levels than expected. Management expects cryptocurrency volumes to remain at this lower level. Despite this, GBG saw good customer retention. IDology's performance was weaker than Acuant's, which has broader sector diversification. Excluding cryptocurrency, Acuant's underlying subscription revenue was up 20.8% y-o-y. Identity's EMEA and APAC regions grew 6.2% pro forma constant currency. New customer wins in the Americas included Makes Cents and Bally's Canada; in the UK, Broadway Gaming and Slater & Gordon Lawyers; and in Australia, Spirit Super.

Cryptocurrency headwinds

In recent years, GBG's Identity business has benefited from increasing volumes of transactions from cryptocurrency customers. Cryptocurrency-related revenues increased from 1.7% of group revenue in FY18 to 3.7% by FY21. In FY22 GBG saw an even bigger increase to 5.8% of revenue (excluding Acuant) and management estimates that roughly a third of FY22 revenue was exceptional and unlikely to be repeated. As the sector has had its well-publicised issues and the main cryptocurrencies have declined in value since the end of 2021, the contribution has declined.

Including Acuant, in H123, cryptocurrency generated £3.6m of revenue, down from £10.3m in H122 and £10.0m in H222, and the company estimates it will decline further to more like £2.0m in H223. This would be c 2% of FY23e revenue and would represent a c 3% headwind to pro forma growth in FY23.

Acuant integration completed

The company completed the integration of the Acuant acquisition during H123, with the sales teams combined in September. They now have the ability and incentive to cross-sell the entire GBG product suite. The company has made good progress combining GBG and Acuant's document and biometric capabilities, with document-powered identity solutions up 30.4% y-o-y. Cost synergies of £3m have already been achieved and revenue synergies are now being sought to reach the total of £5m in targeted synergies. There are already 30 IDology customers who are now also using Acuant solutions and GBG's EMEA and APAC teams have made the first cross-sells of Acuant services.

Product development accelerated

As hoped for when Acuant was acquired, GBG has accelerated product development. This includes the launch of GBG GO (based on Acuant's orchestration technology), a low code/no code solution that supports customers who want to build their own consumer journey incorporating identity and fraud services on one platform. In EMEA, Mobile Fraud intelligence and Multi Credit Bureau services have been launched and are already generating revenue. The ExpectID platform in the US launched the latest version of Flex API, which makes it easier for customers to consume its services, as well as launching a 'Know your business' service and enhanced its fraud consortium.

Outlook and changes to forecasts

The start of trading in H223 has been in line with company expectations. Management expects to deliver mid-single digit pro forma constant currency revenue growth in H223, in line with expectations. In H1, currency translation provided a 7% benefit to reported revenue. Since the end of H123, the dollar has weakened against sterling (from \$1.12 to \$1.20), so at prevailing rates, the company expects currency translation will provide a c 6% benefit to H223 growth. Management expects the adjusted operating margin to improve in H223 due to H2-weighted revenues and cost control. With interest rates higher than when SONIA-linked debt was originally taken out, the company expects a net interest expense of £6.5–7m for FY23. Since the end of H123, the company has paid down \$6m of debt and expects to pay down more by year-end.

Taking into account H123 divisional performance and the moves in the US dollar versus sterling since the October trading update (when £1 bought US\$1.12), we have revised our revenue forecasts for FY23. For FY24 and FY25 we are taking a more cautious approach to growth, particularly in the Identity business, due to the current macroeconomic uncertainty.

While our Fraud and Location revenues are higher in all years, we have cut our Identity forecasts to reflect lower growth (a combination of lower underlying growth and a weaker translation effect). As group revenue is lower than previously forecast, we have also trimmed our operating margin assumptions. Lower operating profits combined with higher net interest expenses and slightly higher tax rates result in cuts to our normalised EPS estimates.

Exhibit 4: Changes to forecasts

£m	FY23e	FY23e			FY24e	FY24e			FY25e	FY25e		
	old	new	change	y-o-y	old	new	change	y-o-y	old	new	change	y-o-y
Revenues	298.1	292.9	(1.7%)	20.8%	334.4	320.3	(4.2%)	9.3%	375.3	352.8	(6.0%)	10.1%
Gross profit	211.7	208.0	(1.7%)	21.0%	237.5	227.4	(4.2%)	9.3%	266.4	250.5	(6.0%)	10.1%
Gross margin	71.0%	71.0%	0.0%	0.1%	71.0%	71.0%	0.0%	0.0%	71.0%	71.0%	0.0%	0.0%
EBITDA	74.6	70.9	(5.0%)	14.0%	84.6	78.3	(7.4%)	10.4%	95.1	86.2	(9.3%)	10.1%
EBITDA margin	25.0%	24.2%	(0.8%)	(1.4%)	25.3%	24.5%	(0.8%)	0.2%	25.3%	24.4%	(0.9%)	(0.0%)
EBITA	71.1	67.3	(5.2%)	14.5%	80.8	74.6	(7.7%)	10.8%	91.2	82.3	(9.7%)	10.3%
EBITA margin	23.8%	23.0%	(0.8%)	(1.3%)	24.2%	23.3%	(0.9%)	0.3%	24.3%	23.3%	(1.0%)	0.0%
PBT	66.5	60.6	(9.0%)	6.1%	77.1	68.6	(11.1%)	13.3%	88.3	77.7	(12.0%)	13.3%
EPS - normalised, diluted (p)	20.0	18.0	(10.2%)	(10.8%)	22.5	19.9	(11.6%)	10.5%	25.6	22.4	(12.5%)	12.6%
EPS - reported (p)	10.7	2.9	(72.8%)	(58.8%)	13.6	5.4	(60.0%)	87.2%	16.7	7.9	(52.9%)	44.3%
DPS (p)	4.0	4.0	0.0%	5.0%	4.3	4.3	0.0%	7.5%	4.6	4.6	0.0%	7.0%
Net debt/(cash)	89.5	102.2	14.3%	(3.5%)	41.0	60.5	47.5%	(40.8%)	(15.8)	12.7	(181%)	(79.0%)
Net debt/EBITDA	1.2	1.4			0.5	0.8			N/A	0.1		
Divisional forecasts												
<u>Revenue</u>												
Identity	190.6	180.6	(5.2%)	26.5%	216.7	198.0	(8.6%)	9.6%	246.3	219.6	(10.8%)	10.9%
Location	72.0	75.0	4.1%	13.0%	79.2	81.7	3.2%	9.0%	87.1	89.1	2.3%	9.0%
Fraud	35.6	37.4	5.1%	12.2%	38.6	40.6	5.2%	8.6%	41.9	44.1	5.2%	8.6%
Group	298.1	292.9	(1.7%)	20.8%	334.4	320.3	(4.2%)	9.3%	375.3	352.8	(6.0%)	10.1%
<u>Adjusted operating profit</u>												
Identity	69.0	63.8	(7.6%)	11.9%	78.0	70.3	(9.8%)	10.3%	87.7	77.6	(11.5%)	10.3%
Location	25.9	27.0	4.1%	9.7%	28.5	29.4	3.2%	9.0%	31.3	32.1	2.3%	9.0%
Fraud	8.5	9.0	5.1%	11.8%	9.3	9.7	5.2%	8.6%	10.1	10.6	5.2%	8.6%
Central costs	-32.4	-32.4	0.0%		-34.9	-34.9	0.0%		-37.9	-37.9	0.0%	
Group	71.1	67.3	(5.2%)	14.5%	80.8	74.6	(7.7%)	10.8%	91.2	82.3	(9.7%)	10.3%
<u>Adjusted operating margin</u>												
Identity	36.2%	35.3%	-0.90%		36.0%	35.5%	-0.46%		35.6%	35.3%	-0.28%	
Location	36.0%	36.0%	0.00%		36.0%	36.0%	0.00%		36.0%	36.0%	0.00%	
Fraud	24.0%	24.0%	0.00%		24.0%	24.0%	0.00%		24.0%	24.0%	0.00%	
Group	23.8%	23.0%	-0.85%		24.2%	23.3%	-0.88%		24.3%	23.3%	-0.96%	

Source: Edison Investment Research

Valuation

The table below shows GBG's valuation versus three peer groups: identity management, UK software and UK IT services.

Exhibit 5: Peer financial and valuation metrics

	Rev growth (%)		EBIT margin (%)		EV/Sales (x)		EV/EBIT (x)		P/E (x)		Div yield (%)	
	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2	Yr1	Yr2
GBG	20.8	9.3	23.0	23.3	3.2	3.0	14.1	12.7	18.0	16.3	1.2	1.3
Ave ID Management	13.4	7.7	32.6	30.7	6.2	5.7	18.7	18.4	22.5	20.9	1.3	1.4
Median ID Management	12.3	7.4	29.3	26.5	5.7	5.4	20.2	18.4	24.7	22.5	0.8	0.8
Ave UK Software	24.8	18.7	(6.1)	7.2	3.5	2.8	44.3	43.1	31.9	34.5	0.9	0.9
Median UK Software	13.9	11.8	7.3	11.4	2.4	2.1	16.9	17.3	16.8	22.7	0.0	0.0
Ave UK IT Services	16.1	12.8	14.8	16.2	2.6	2.4	17.0	16.3	22.2	20.6	1.8	2.0
Median UK IT Services	14.7	11.4	14.6	14.8	2.1	2.0	15.1	13.9	21.0	18.9	1.5	1.7

Source: Edison Investment Research, Refinitiv (as at 28 November)

After a period of trading at a premium to all three groups, the stock is now trading at a discount on a P/E basis for FY23 and FY24. In our view, the rate of sustainable revenue growth is the key determinant for valuation. As Acuant has not yet shown the rates of growth anticipated at the time of acquisition, and the economy in general has slowed over the last year, double-digit underlying revenue growth is looking less achievable in the shorter-term. In the current economic environment, the next 12 months are likely to be a period of softer growth but we would expect growth to



accelerate after this as the economy improves and the company leverages Acuant's products and technology across the group.

We performed a reverse DCF using a WACC of 9%, long-term growth of 3% and using explicit forecasts to FY25. We estimate that the share price is factoring in revenue growth of only 4.3% from FY26–32 at an EBIT margin of 23.4%, which in our view appears conservative.

Exhibit 6: Financial summary

	£'000s	2020	2021	2022	2023e	2024e	2025e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		199,101	217,659	242,480	292,932	320,276	352,771
Cost of Sales		(54,914)	(65,096)	(70,549)	(84,950)	(92,880)	(102,304)
Gross Profit		144,187	152,563	171,931	207,981	227,396	250,468
EBITDA		51,739	61,410	62,196	70,904	78,311	86,201
Operating Profit (before amort. and except.)		47,945	57,896	58,839	67,342	74,584	82,300
Acquired intangible amortisation		(19,008)	(17,671)	(24,735)	(42,592)	(42,592)	(42,592)
Exceptionals		(1,552)	448	(4,526)	(1,513)	0	0
Share of associate		0	0	0	0	0	0
Share based payments		(4,541)	(5,170)	(6,171)	(6,788)	(7,467)	(8,214)
Operating Profit		22,844	35,503	23,407	16,449	24,525	31,494
Net Interest		(2,218)	(1,240)	(1,754)	(6,786)	(5,982)	(4,578)
Profit Before Tax (norm)		45,727	56,656	57,085	60,556	68,602	77,722
Profit Before Tax (FRS 3)		20,626	34,263	21,653	9,663	18,543	26,916
Tax		(3,562)	(7,385)	(6,390)	(2,319)	(4,729)	(6,864)
Profit After Tax (norm)		35,210	44,481	44,498	46,023	51,109	57,903
Profit After Tax (FRS 3)		17,064	26,878	15,263	7,344	13,815	20,053
Ave. Number of Shares Outstanding (m)		193.6	195.2	216.2	252.7	253.9	255.4
EPS - normalised (p)		18.2	22.8	20.6	18.2	20.1	22.7
EPS - normalised and fully diluted (p)		17.9	22.4	20.2	18.0	19.9	22.4
EPS - (IFRS) (p)		8.8	13.8	7.1	2.9	5.4	7.9
Dividend per share (p)		0.0	6.4	3.8	4.0	4.3	4.6
Gross Margin (%)		72.4	70.1	70.9	71.0	71.0	71.0
EBITDA Margin (%)		26.0	28.2	25.6	24.2	24.5	24.4
Operating Margin (before GW and except.) (%)		24.1	26.6	24.3	23.0	23.3	23.3
BALANCE SHEET							
Fixed Assets		430,219	394,564	1,001,222	960,536	919,938	889,424
Intangible Assets		414,505	377,663	969,693	927,151	884,659	842,217
Tangible Assets		9,420	6,937	7,343	9,199	11,093	13,021
Other fixed assets		6,294	9,964	24,186	24,186	24,186	34,186
Current Assets		95,984	85,653	100,928	114,779	134,833	163,363
Debtors		66,554	58,617	69,626	87,880	96,083	105,831
Cash		27,499	21,135	22,302	16,900	27,750	45,532
Other		1,931	5,901	9,000	10,000	11,000	12,000
Current Liabilities		(86,459)	(90,000)	(115,838)	(132,430)	(143,495)	(157,152)
Creditors		(80,280)	(86,338)	(109,982)	(126,574)	(137,639)	(151,296)
Contingent consideration		(6,179)	(3,662)	(5,856)	(5,856)	(5,856)	(5,856)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(94,810)	(25,961)	(199,185)	(176,971)	(134,206)	(101,250)
Long term borrowings		(62,139)	0	(128,226)	(118,226)	(88,226)	(58,226)
Contingent consideration		0	0	(1,920)	(1,920)	(1,920)	(1,920)
Other long term liabilities		(32,671)	(25,961)	(69,039)	(56,825)	(44,060)	(41,104)
Net Assets		344,934	364,256	787,127	765,914	777,070	794,386
CASH FLOW							
Operating Cash Flow		48,498	72,631	56,256	62,021	80,173	89,108
Net Interest		(1,768)	(1,211)	(1,373)	(6,758)	(5,982)	(4,578)
Tax		(6,386)	(14,205)	(11,610)	(14,534)	(17,494)	(19,819)
Capex		(1,339)	(738)	(1,731)	(3,400)	(3,550)	(3,700)
Acquisitions/disposals		(81)	2,545	(460,484)	0	0	0
Financing		(1,553)	3,476	298,219	(4,032)	(2,171)	(2,279)
Dividends		(5,761)	(5,883)	(6,677)	(9,596)	(10,126)	(10,950)
Net Cash Flow		31,610	56,615	(127,400)	23,701	40,850	47,782
Opening net debt/(cash)		65,699	34,640	(21,135)	105,924	101,326	60,476
HP finance leases initiated		0	0	0	0	0	0
Other		(551)	(840)	341	(20,000)	0	0
Closing net debt/(cash)		34,640	(21,135)	105,924	102,223	60,476	12,694

Source: GB Group, Edison Investment Research

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