

GB Group

FY23 outlook maintained

H123 trading update

GB Group's (GBG's) H123 trading update confirmed strong growth in its Fraud and Location businesses, offset by weaker growth in the Identity business. Pro forma revenue growth of 10% included a 6.5% currency benefit. While the board maintains its expectations for FY23, we have trimmed our forecast to reflect the weighting of growth across divisions, reducing our normalised EPS forecast by 1.7% in FY22, 1.2% in FY23 and 1.3% in FY24.

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	19.2
03/22	242.5	58.8	57.1	20.2	3.8	21.3
03/23e	298.1	71.1	66.5	20.0	4.0	21.5
03/24e	334.4	80.8	77.1	22.5	4.3	19.1
03/25e	375.3	91.2	88.3	25.6	4.6	16.8

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

H123: 10% pro forma revenue growth

GBG expects to report H123 revenue of £133.8m, +22.5% year-on-year. It had previously flagged that H122 included unusually high and non-repeating transaction volumes driven by the US stimulus programme and cryptocurrency trading (c £8.8m revenue) – excluding that but including pre-acquisition revenue (£21.8m), the company estimates that pro forma revenue growth was c 10% y-o-y or c 4% in constant currency. The Fraud and Location divisions both generated double-digit constant currency revenue growth. The Identity business, both organic and acquired, was affected by the reduction in cryptocurrency and 'gig economy' fintech customers in the Americas, with cryptocurrency revenues normalising at a lower level than expected and the impact expected to continue into H2.

Strong H2 needed to meet FY23 outlook

The board's expectations for FY23 are unchanged, with weaker growth in Identity compensated for by the strong dollar versus sterling. GBG expects to report an H123 operating margin of c 21%; to meet our FY23 forecast of 24%, this implies a step-up in the H2 margin to c 26% (we have seen a similar weighting in non-COVID years). We have trimmed our forecasts, reflecting better growth in Fraud and Location but weaker growth in Identity.

Valuation: Lacking confidence in growth targets

The share price is down 42% year to date and is trading on a P/E of 21.5x FY23e and 19.1x FY24e, the lowest level since autumn 2019, bar the dip in March 2020. As GBG trades through H223 and gets better visibility over underlying growth and Acuant revenue synergies, it should be able to provide the market with confidence that FY23 estimates are achievable and that Acuant is delivering on its promise. Our reverse DCF implies that the share price is discounting revenue growth of c 4% from FY26, well below the double-digit growth rate GBG has consistently achieved. Using a 12% growth rate (the lower end of management guidance) from FY26 would imply a value per share of 659p.

Software and comp services

20 October 2022

Price **430.8p**

Market cap **£1,087m**

\$1.12:£1

Net debt (£m) at end H123 132.6

Shares in issue 252.3m

Free float 94%

Code GBG

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (27.0) (2.3) (53.4)

Rel (local) (23.1) 4.0 (49.2)

52-week high/low 921p 386p

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

H123 results 29 November 2022

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Changes to forecasts

Exhibit 1: Changes to forecasts												
£m	FY23e				FY24e				FY25e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	300.8	298.1	(0.9%)	22.9%	337.0	334.4	(0.8%)	12.2%	379.5	375.3	(1.1%)	12.2%
Gross profit	213.5	211.7	(0.9%)	23.1%	239.3	237.5	(0.8%)	12.2%	269.5	266.4	(1.1%)	12.2%
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	75.8	74.6	(1.5%)	20.0%	85.5	84.6	(1.1%)	13.3%	96.2	95.1	(1.2%)	12.4%
EBITDA margin	25.2%	25.0%	(0.2%)	(0.6%)	25.4%	25.3%	(0.1%)	0.3%	25.3%	25.3%	(0.0%)	0.0%
EBITA	72.2	71.1	(1.6%)	20.8%	81.7	80.8	(1.1%)	13.8%	92.3	91.2	(1.2%)	12.8%
EBITA margin	24.0%	23.8%	(0.2%)	(0.4%)	24.3%	24.2%	(0.1%)	0.3%	24.3%	24.3%	(0.0%)	0.1%
PBT	67.7	66.5	(1.7%)	16.6%	78.0	77.1	(1.2%)	15.9%	89.4	88.3	(1.3%)	14.4%
EPS - normalised, diluted (p)	20.4	20.0	(1.7%)	(0.7%)	22.8	22.5	(1.2%)	12.3%	25.9	25.6	(1.3%)	13.8%
EPS - reported (p)	11.0	10.7	(3.2%)	51.1%	13.9	13.6	(2.0%)	27.6%	17.0	16.7	(2.0%)	22.4%
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)	68.5	89.5	30.5%	(15.5%)	19.3	41.0	112.7%	(54.2%)	(38.6)	(15.8)	(59.2%)	N/A
Net debt/EBITDA	0.9	1.2			0.2	0.5			N/A	N/A		
<u>Divisional forecasts</u>												
<u>Revenue</u>												
Identity	195.1	190.6	(2.3%)	33.5%	221.3	216.7	(2.1%)	13.7%	252.7	246.3	(2.6%)	13.7%
Location	71.0	72.0	1.4%	8.5%	78.1	79.2	1.4%	10.0%	85.9	87.1	1.4%	10.0%
Fraud	34.7	35.6	2.4%	6.7%	37.7	38.6	2.4%	8.5%	40.9	41.9	2.5%	8.6%
Group	300.8	298.1	(0.9%)	22.9%	337.0	334.4	(0.8%)	12.2%	379.5	375.3	(1.1%)	12.2%
<u>Adjusted operating profit</u>												
Identity	70.7	69.0	(2.4%)	21.0%	79.5	78.0	(1.9%)	13.0%	89.5	87.7	(2.0%)	12.4%
Location	25.5	25.9	1.4%	5.3%	28.1	28.5	1.4%	10.0%	30.9	31.3	1.4%	10.0%
Fraud	8.3	8.5	2.4%	6.3%	9.0	9.3	2.4%	8.5%	9.8	10.1	2.5%	8.6%
Central costs	-32.4	-32.4	0.0%		-34.9	-34.9	0.0%		-37.9	-37.9	0.0%	
Group	72.2	71.1	(1.6%)	20.8%	81.7	80.8	(1.1%)	13.8%	92.3	91.2	(1.2%)	12.8%
<u>Adjusted operating margin</u>												
Identity	36.3%	36.2%	-0.04pp		35.9%	36.0%	0.06pp		35.4%	35.6%	0.19pp	
Location	36.0%	36.0%	0.00pp		36.0%	36.0%	0.00pp		36.0%	36.0%	0.00pp	
Fraud	24.0%	24.0%	0.00pp		24.0%	24.0%	0.00pp		24.0%	24.0%	0.00pp	
Group	24.0%	23.8%	-0.17pp		24.3%	24.2%	-0.08pp		24.3%	24.3%	-0.03pp	

Source: Edison Investment Research

Exhibit 2: 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	298,101	334,445	375,265
Cost of Sales		(54,914)	(65,096)	(70,549)	(86,449)	(96,989)	(108,827)
Gross Profit		144,187	152,563	171,931	211,652	237,456	266,438
EBITDA		51,739	61,410	62,196	74,624	84,568	95,068
Operating Profit (before amort. and except.)		47,945	57,896	58,839	71,063	80,841	91,167
Acquired intangible amortisation		(19,008)	(17,671)	(24,735)	(24,735)	(24,735)	(24,735)
Exceptionals		(1,552)	448	(4,526)	0	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	39,540	48,639	58,219
Net Interest		(2,218)	(1,240)	(1,754)	(4,515)	(3,705)	(2,895)
Profit Before Tax (norm)		45,727	56,656	57,085	66,548	77,136	88,272
Profit Before Tax (FRS 3)		20,626	34,263	21,653	35,025	44,934	55,324
Tax		(3,562)	(7,385)	(6,390)	(8,056)	(10,335)	(12,724)
Profit After Tax (norm)		35,210	44,481	44,498	51,242	57,852	66,204
Profit After Tax (FRS 3)		17,064	26,878	15,263	26,969	34,599	42,599
Ave. Number of Shares Outstanding (m)		193.6	195.2	216.2	252.7	254.1	255.6
EPS - normalised (p)		18.2	22.8	20.6	20.3	22.8	25.9
EPS - normalised and fully diluted (p)		17.9	22.4	20.2	20.0	22.5	25.6
EPS - (IFRS) (p)		8.8	13.8	7.1	10.7	13.6	16.7
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	25.0	25.3	25.3
Operating Margin (before GW and except.) (%)		24.1	26.6	24.3	23.8	24.2	24.3
BALANCE SHEET							
Fixed Assets		430,219	394,564	1,001,090	978,261	955,520	942,863
Intangible Assets		414,505	377,663	969,561	944,876	920,241	895,656
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	101,017	128,196	158,572	198,566
Debtors		66,554	58,617	69,715	89,430	100,334	112,580
Cash		27,499	21,135	22,302	28,766	47,238	73,986
Other		1,931	5,901	9,000	10,000	11,000	12,000
Current Liabilities		(86,459)	(90,000)	(115,795)	(133,235)	(147,887)	(164,714)
Creditors		(80,280)	(86,338)	(109,939)	(127,379)	(142,031)	(158,858)
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)	(181,935)	(142,986)	(113,642)
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)	(61,789)	(52,840)	(53,496)
Net Assets		344,934	364,256	787,127	791,288	823,219	863,073
CASH FLOW							
Operating Cash Flow		48,498	72,631	56,256	71,349	87,317	98,650
Net Interest		(1,768)	(1,211)	(1,373)	(4,515)	(3,705)	(2,895)
Tax		(6,386)	(14,205)	(11,610)	(15,306)	(19,284)	(22,068)
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	(2,067)	(2,171)	(2,279)
Dividends		(5,761)	(5,883)	(6,677)	(9,596)	(10,135)	(10,959)
Net Cash Flow		31,610	56,615	(127,400)	36,464	48,472	56,748
Opening net debt/(cash)		65,699	34,640	(21,135)	105,924	89,460	40,988
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	89,460	40,988	(15,760)

Source: GB Group, Edison Investment Research

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