

GB Group

Trading update

Robust H1, short-term boost from licensing

GB Group's trading has remained robust in H1. Backing out a £3.5m perpetual licence, underlying organic growth was 12%, consistent with our FY estimates and last year. We leave our estimates unchanged, although the perpetual licence will mean that the year will be less significantly H2 weighted than usual. A strong recurring revenue profile (c 70% in FY17), robust organic growth prospects and an accretive acquisition strategy all justify a premium rating.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	73.4	13.2	8.2	2.1	48.3	0.5
03/17	87.5	16.5	9.9	2.4	40.0	0.6
03/18e	117.1	22.6	12.0	2.5	33.0	0.6
03/19e	133.4	26.4	13.6	2.8	29.1	0.7

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

Robust H1 performance

GB Group's trading update flags that trading has remained robust in H1. Revenues of £52.6m are up 40% y-o-y, which factors in the contribution from PCA (acquired on 9 May 2017), a full six-month contribution from ID Scan (acquired on 9 June 2016) and a £3.5m licensing deal. Stripping out the acquisitions, the underlying organic growth rate was 17%. If we were to treat the perpetual licence as a three-year term, spreading payments across the years, the underlying growth rate would be c 12%, in line with last year and our estimates. All acquisitions – GBG DecTec, GBG Loqate, ID Scan and PCA Predict – are reported to have had strong first halves. Adjusted H1 operating profit is expected to be in excess of £10m, substantially ahead of last year's £5.2m, leaving our FY estimates of £23.3m well supported.

Licence boosts H1, focus remains on recurring

We understand that the licensing deal was from a leading European bank, which had previously bought the product from ID Scan (pre its acquisition by GB Group) on a perpetual licence basis. Management would have preferred to sign this deal on a term basis, but the client had allocated the spend to capex and was not prepared to reverse this. Hence the full £3.5m revenue and cash will be received in H1. The company's focus and incentive structures remain strongly weighted towards recurring revenues, which accounted for c 70% of revenues in FY17.

No estimate changes, premium valuation deserved

We are not changing our estimates. The perpetual licence underpins confidence in this year, while we believe the company has ample headroom to make up the difference in FY19. The group's rating of 34x FY19e earnings is at a premium to other identity management groups (c 26x), but a discount to the wider internet security peer set (c 45x). We believe that the company's recurring revenue profile, robust organic growth prospects and M&A track record all justify a healthy rating and leave room for further growth-driven share price upside.

Software & comp services

24 October 2017

Price **395.75p**
Market cap **£604m**

Net cash (£m) at 31 March 2017	5.2
Shares in issue	152.4m
Free float	97%
Code	GBG
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	13.6	12.8	60.4
Rel (local)	10.3	11.4	48.1
52-week high/low		406p	215p

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

H1 results	28 November 2017
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Exhibit 1: Financial summary

	£'000s	2014	2015	2016	2017	2018e	2019e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
March							
PROFIT & LOSS							
Revenue		41,835	57,283	73,401	87,468	117,093	133,352
Cost of Sales		(14,473)	(16,448)	(17,606)	(20,302)	(28,822)	(32,797)
Gross Profit		27,362	40,835	55,795	67,166	88,271	100,554
EBITDA		7,849	11,844	14,772	18,734	26,200	30,305
Operating Profit (before amort. and except.)		7,164	10,790	13,428	17,006	23,300	27,000
Acquired intangible amortisation		(1,110)	(1,986)	(2,501)	(4,022)	(3,500)	(3,000)
Exceptionals		(1,080)	(1,629)	(94)	(1,410)	(2,200)	0
Share of associate		(159)	(10)	0	0	0	0
Share based payments		(747)	(971)	(1,245)	(994)	(1,750)	(1,699)
Operating Profit		4,068	6,194	9,588	10,580	15,850	22,301
Net Interest		(79)	(266)	(270)	(498)	(750)	(600)
Profit Before Tax (norm)		7,085	10,524	13,158	16,508	22,550	26,400
Profit Before Tax (FRS 3)		3,989	5,928	9,318	10,082	15,100	21,701
Tax		(474)	(1,127)	(178)	668	(4,510)	(5,280)
Profit After Tax (norm)		5,597	8,314	10,395	13,206	18,040	21,120
Profit After Tax (FRS 3)		3,515	4,801	9,140	10,750	10,590	16,421
Average Number of Shares Outstanding (m)		109.6	119.1	122.7	131.6	147.6	152.5
EPS - normalised (p)		5.1	7.0	8.5	10.0	12.2	13.8
EPS - normalised and fully diluted (p)		4.8	6.7	8.2	9.9	12.0	13.6
EPS - (IFRS) (p)		3.2	4.0	7.4	8.2	7.2	10.8
Dividend per share (p)		1.7	1.9	2.1	2.4	2.5	2.8
Gross Margin (%)		65.4	71.3	76.0	76.8	75.4	75.4
EBITDA Margin (%)		18.8	20.7	20.1	21.4	22.4	22.7
Operating Margin (before GW and except.) (%)		17.1	18.8	18.3	19.4	19.9	20.2
BALANCE SHEET							
Fixed Assets		26,985	51,238	59,364	105,653	175,953	172,298
Intangible Assets		23,329	45,296	54,113	98,753	169,153	166,003
Tangible Assets		1,519	2,829	2,234	2,856	2,756	2,251
Other fixed assets		2,137	3,113	3,017	4,044	4,044	4,044
Current Assets		23,775	33,186	36,189	48,187	66,455	85,443
Debtors		11,929	17,408	23,774	30,569	47,290	54,493
Cash		11,846	15,778	12,415	17,618	19,165	30,949
Other		0	0	0	0	0	0
Current Liabilities		(17,861)	(30,784)	(32,559)	(44,444)	(58,665)	(63,568)
Creditors		(17,861)	(24,305)	(30,927)	(36,436)	(50,657)	(55,560)
Contingent consideration		0	(5,733)	(1,050)	(7,122)	(7,122)	(7,122)
Short term borrowings		0	(746)	(582)	(886)	(886)	(886)
Long Term Liabilities		(2,066)	(7,506)	(6,593)	(15,940)	(23,040)	(19,040)
Long term borrowings		0	(3,643)	(3,160)	(11,499)	(18,599)	(14,599)
Contingent consideration		0	(895)	0	0	0	0
Other long term liabilities		(2,066)	(2,968)	(3,433)	(4,441)	(4,441)	(4,441)
Net Assets		30,833	46,134	56,401	93,456	160,703	175,132
CASH FLOW							
Operating Cash Flow		9,355	11,684	13,397	16,305	21,500	28,005
Net Interest		(79)	(266)	(282)	(517)	(750)	(600)
Tax		65	(337)	(248)	(2,193)	(4,510)	(5,280)
Capex		(1,144)	(2,011)	(1,762)	(2,227)	(2,700)	(2,650)
Acquisitions/disposals		(1,443)	(18,672)	(12,263)	(36,840)	(74,000)	0
Financing		416	10,954	790	24,755	58,000	0
Dividends		(1,632)	(1,955)	(2,277)	(2,775)	(3,093)	(3,691)
Net Cash Flow		5,538	(603)	(2,645)	(3,492)	(5,553)	15,784
Opening net debt/(cash)		(6,308)	(11,846)	(11,389)	(8,673)	(5,233)	320
HP finance leases initiated		0	0	0	0	0	0
Other		0	146	(71)	52	0	0
Closing net debt/(cash)		(11,846)	(11,389)	(8,673)	(5,233)	320	(15,464)

Source: Company data, Edison Investment Research

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