

# GB Group

FY21 results

Benefiting from the shift to online transactions

GB Group (GBG) reported FY21 results substantially in line with our recently upgraded forecasts. In a difficult year, GBG managed to grow revenue by 9% (12% on an organic basis) and EPS by 21% while repaying all debt. Management has returned to a growth footing, investing in product development and sales capacity while continuing to seek acquisitions that could expand product or market coverage. We have upgraded our normalised diluted EPS forecasts by 3.1% for FY22 and 2.0% for FY23 and introduce a forecast for EPS growth of 9.3% in FY24.

Year end	Revenue (£m)	Adj. operating profit* (£m)	PBT* (£m)	Diluted EPS* (p)	DPS (p)	P/E (x)
03/20	199.1	47.9	45.7	17.9	0.0	51.7
03/21	217.7	57.9	56.7	21.7	6.4	42.7
03/22e	209.6	47.1	46.5	17.7	3.5	52.4
03/23e	233.0	52.7	52.1	19.6	3.6	47.1
03/24e	259.1	59.5	58.9	21.5	3.7	43.1

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

## Growing through the pandemic

GBG took early action to prepare the business to cope with COVID-19 disruption, cutting costs and not paying a dividend for FY20. While certain customers and end markets saw lower demand, the acceleration in transactions moving online created stronger demand in other markets such as online retail and food distribution. The Identity business won a contract to support the rollout of emergency funds in the US, which contributed materially to revenue growth and profitability during FY21. GBG repaid the remaining £62.5m of debt and ended FY21 with a net cash position of £21.1m. The company announced a final dividend of 3.4p, taking the full year dividend to 6.4p.

## Forecasts reflect recent disposals; EPS upgraded

In H221, GBG sold two businesses that no longer fit its longer-term growth strategy. We forecast a small revenue decline of 3.7% in FY22, reflecting the non-recurrence of the US stimulus programme in FY22 and the effect of the disposals, before a return to revenue growth of 11.1% in FY23. We upgrade our normalised EPS forecasts by 3.1% in FY22 and 2.0% in FY23.

## Valuation: Premium rating reflects growth potential

GBG trades at a premium to the UK software and IT services sectors and its global ID management peer group on a P/E basis, reflecting its strong growth outlook (post COVID-19), high recurring revenues and strong balance sheet. Our reverse DCF analysis estimates the share price is factoring in operating margins of 23.5% and revenue growth of c 11% per year from FY25, similar to our FY23/24 forecasts. Outside of faster than expected COVID-19 recovery, triggers for upside could include successful cross-selling, adoption of GBG's combined solutions and, in the medium term, accretive acquisitions.

## Software & comp services

15 June 2021

**Price** **925.5p**

**Market cap** **£1,817m**

Net cash (£m) at 31 March 2021 21.1

Shares in issue 196.3m

Free float 98%

Code GBG

Primary exchange AIM

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	5.6	12.9	40.9
Rel (local)	4.0	6.7	16.9
52-week high/low	954p	645p	

## 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 more than 70 countries and generates more than 64% of revenues internationally.

## Next events

AGM 29 July 2021

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## Review of FY21 results

### Exhibit 1: FY21 results highlights

£m	FY21e	FY21a	Diff	y-o-y
Revenues	217.2	217.7	0.2%	9.3%
Gross profit	156.3	152.6	(2.4%)	5.8%
Gross margin	72.0%	70.1%	(1.9%)	(2.3%)
EBITDA	61.9	61.4	(0.8%)	18.7%
EBITDA margin	28.5%	28.2%	(0.3%)	2.2%
Adjusted operating profit	57.9	57.9	(0.1%)	20.8%
Adjusted operating margin	26.7%	26.6%	(0.1%)	2.5%
PBT	56.3	56.7	0.6%	23.9%
EPS - normalised, diluted (p)	21.7	21.7	0.1%	21.2%
EPS - reported (p)	12.6	13.8	9.6%	56.2%
DPS (p)	6.0	6.4	6.7%	N/A
Net debt/(cash)	(20.8)	(21.1)	2.4%	(161.5%)
<b>Divisional performance</b>				
<u>Revenue</u>				
Identity	130.3	128.1	(1.7%)	21.5%
Location	54.1	59.7	10.4%	15.9%
Fraud	30.1	26.5	(12.1%)	-25.4%
Group	217.2	217.7	0.2%	9.3%
<u>Adjusted operating profit</u>				
Identity	47.3	47.7	0.9%	42.0%
Location	16.8	19.5	16.0%	30.3%
Fraud	6.9	5.3	(22.4%)	-60.3%
Group	57.9	57.9	(0.1%)	20.8%
<u>Adjusted operating margin</u>				
Identity	36.3%	37.3%		
Location	31.0%	32.6%		
Fraud	22.8%	20.1%		
Group	26.7%	26.6%		

Source: GB Group, Edison Investment Research

We upgraded our forecasts when GBG issued its year-end trading update in April. FY21 results were in line with these revised forecasts. Reported revenue grew 9.3% y-o-y. Excluding the two businesses sold in FY21 (Marketing Services and Employ & Comply) and the acquisition of HooYuu (which contributed revenue of £245k), the group saw organic constant currency revenue growth of 12.1%. In early H121, the company put in place measures to protect the business from the risk of the pandemic, including pay freezes and the deferral of non-essential recruitment. Combined with the strong revenue growth, operating profit increased 20.8% y-o-y and the margin expanded by 2.5pp to 26.6%. Net finance costs were lower than forecast, benefiting from the repayment of debt in the year. On a reported basis, the company incurred a tax rate of 21.6%. Overall, this resulted in a 21.2% y-o-y increase in normalised diluted EPS.

The final dividend for the year of 3.4p was ahead of our 3.0p forecast (GBG paid an interim dividend of 3.0p to compensate for not paying a dividend for FY20). The company reported gross and net cash of £21.1m at year-end, having repaid all outstanding debt. In January the company extended its £110m revolving credit facility (RCF) by a year; the facility now expires in February 2023.

## Divisional analysis

While the pandemic had a negative effect on certain of GBG's customers (hospitality, travel, leisure) the group also saw stronger trading for other customers who benefited from the accelerated shift to transacting online.

As we have [previously written](#), the US Identity business benefited from a one-off contract to support the stimulus programme – this contributed a significant proportion of the Identity division's growth and we do not expect it to recur in FY22. Even without the benefit of this contract, management noted that underlying growth for the group was ahead of its expectations at the start of the year, when uncertainty about the pandemic was at its peak.

GBG also noted it had changed three aspects of reporting in FY21 and had not restated FY20 results.

- VIX Verify: since acquisition, this has been wholly included in the Identity division. It provides some location services and in FY21 these were recorded in the Location division. The company estimates this would have equated to a c £2.7m transfer of revenue from Identity to Location in FY20.
- Location revenues by type: certain revenues have been reclassified from services to licences and transactions (c £1m effect in FY20).
- Fraud: certain licences are deemed to include an element of services revenue. If FY20 had been reported in a similar way, this would have shifted c £5.4m of revenue from licences to services.

The table below shows how this would have affected divisional revenues in FY20.

<b>Exhibit 2: Restated divisional performance (Edison adjustments)</b>			
<b>Revenue (£m)</b>	<b>FY20a</b>	<b>FY21a</b>	<b>y-o-y</b>
<b>Identity</b>			
Licence	5.435	4.653	-14.4%
Transaction	94.514	121.130	28.2%
Services	2.759	2.302	-16.6%
<b>Total</b>	<b>102.708</b>	<b>128.085</b>	<b>24.7%</b>
<b>Location</b>			
Licence	33.135	37.088	11.9%
Transaction	17.950	20.015	11.5%
Services	3.095	2.567	-17.1%
<b>Total</b>	<b>54.180</b>	<b>59.670</b>	<b>10.1%</b>
<b>Fraud</b>			
Licence	28.163	19.609	-30.4%
Transaction	0.000	0.133	N/A
Services	7.343	6.749	-8.1%
<b>Total</b>	<b>35.506</b>	<b>26.491</b>	<b>-25.4%</b>
Source: GB Group, Edison Investment Research			

After making these adjustments, Identity revenue growth was 24.7% for FY21, with growth in transactions helped by the US stimulus programme. The Location business grew 10.1% y-o-y, with strong growth in both licences and transactions, whereas service revenue declined. The Fraud business saw a 30.4% decline in licence revenue and a smaller 8.1% decline in services revenue.

<b>Exhibit 3: Geographic revenue split</b>			
<b>£m</b>	<b>FY20</b>	<b>FY21</b>	<b>y-o-y</b>
US	52.4	79.0	51%
UK	87.8	77.3	-12%
EU	20.8	25.0	20%
ANZ	21.5	23.6	10%
APAC	11.9	8.1	-32%
Other	4.7	4.7	0%
Source: GB Group			

International revenue has increased from 56% of group revenue in FY20 to 64% in FY21. In the US, the Identity business grew revenues in financial services and online gaming and won customers in insurance and healthcare. Revenue in the UK declined 12% y-o-y; this region has a higher proportion of customers in the COVID-19-challenged category (which made up 14% of pre-COVID-19 revenue). The EU saw strong demand from online retail and food distribution in the

Location business. In APAC, revenue declined 32% y-o-y. Despite difficulty in selling new fraud licences (as these tend to need on-site installation services), the region saw new business and upsells, including a major project in the Philippines and new sales in China.

## **Strategy update**

GBG recently refreshed its vision and purpose to take advantage of the opportunity presented by the acceleration of digital business.

- New purpose: to help build trust in a digital world.
- New vision: create a world where everyone can transact online with confidence.

Management is focused on growing the business on an organic and inorganic basis to drive product and market expansion. GBG has to balance broadening its data assets while ensuring data are processed securely and consumer privacy is respected. Management expects to see increasing convergence of products and services across its three divisions as innovative new services are developed for customers.

Having repaid all debt, the group now has a cash position of £21m, and we forecast cash generation of at least £30m per year for the next three years. Combined with access to a £110m RCF, GBG has more than adequate funding for further acquisitions.

## **Outlook and changes to forecasts**

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GBG confirmed trading is off to a good start this year and was in line with board expectations, with strong transaction volumes in the Identity business partly due to elevated levels of cryptocurrency trading.

We have revised our forecasts to reflect FY21 results and introduce forecasts for FY24, resulting in small upgrades to our FY22 and FY23 normalised diluted EPS forecasts.

**Exhibit 4: Changes to forecasts**

£m	FY22e	FY22e			FY23e	FY23e			FY24e	
	old	new	change	y-o-y	old	new	change	y-o-y	new	y-o-y
Revenues	206.3	209.6	1.6%	(3.7%)	229.1	233.0	1.7%	11.1%	259.1	11.2%
Gross profit	149	151	1.6%	(1.1%)	165.0	167.8	1.7%	11.1%	186.5	11.2%
Gross margin	72.0%	72.0%	0.0%	1.9%	72.0%	72.0%	0.0%	0.0%	72.0%	0.0%
EBITDA	50.1	50.8	1.3%	(17.3%)	56.0	56.6	1.0%	11.4%	63.6	12.4%
EBITDA margin	24.3%	24.2%	(0.1%)	(4.0%)	24.4%	24.3%	(0.2%)	0.1%	24.5%	0.3%
Adjusted operating profit	46.0	47.1	2.4%	(18.7%)	51.7	52.7	2.0%	11.9%	59.5	13.0%
Adjusted operating margin	22.3%	22.5%	0.2%	(4.1%)	22.5%	22.6%	0.1%	0.2%	23.0%	0.4%
PBT	44.9	46.5	3.6%	(17.9%)	50.8	52.1	2.6%	12.1%	58.9	13.1%
EPS - normalised, diluted (p)	17.1	17.7	3.1%	(18.6%)	19.3	19.6	2.0%	11.2%	21.5	9.3%
EPS - reported (p)	7.9	8.9	12.4%	(35.5%)	10.3	10.8	5.1%	21.7%	13.2	21.8%
DPS (p)	3.3	3.5	6.1%	(45.3%)	3.6	3.6	0.0%	2.9%	3.7	2.8%
Net debt/(cash)	(52.1)	(51.7)	(0.8%)	144.5%	(86.9)	(85.8)	(1.2%)	66.0%	(123.8)	44.2%
<b>Divisional forecasts</b>										
<b>Revenue</b>										
Identity	115.9	114.8	(0.9%)	-10.4%	128.8	127.6	(0.9%)	11.2%	141.9	11.2%
Location	58.0	66.2	14.2%	11.0%	65.0	74.2	14.2%	12.0%	83.1	12.0%
Fraud	32.5	28.6	(12.0%)	7.9%	35.3	31.2	(11.7%)	9.1%	34.1	9.2%
Group	206.3	209.6	1.6%	-3.7%	229.1	233.0	1.7%	11.1%	259.1	11.2%
<b>Adjusted operating profit</b>										
Identity	35.1	35.0	(0.3%)	-26.6%	39.0	38.9	(0.3%)	11.2%	43.3	11.2%
Location	16.2	19.9	22.4%	2.0%	18.2	22.3	22.4%	12.0%	24.9	12.0%
Fraud	8.4	6.0	(28.9%)	12.6%	9.5	7.0	(26.4%)	16.9%	7.8	11.6%
Group	46.0	47.1	2.4%	-18.7%	51.7	52.7	2.0%	11.9%	59.5	13.0%
<b>Adjusted operating margin</b>										
Identity	30.3%	30.5%			30.3%	30.5%			30.5%	
Location	28.0%	30.0%			28.0%	30.0%			30.0%	
Fraud	26.0%	21.0%			27.0%	22.5%			23.0%	
Group	22.3%	22.5%			22.5%	22.6%			23.0%	

Source: Edison Investment Research

## Valuation

The table below shows how GBG is trading versus three peer groups: identity management global peers, UK software and UK IT services companies. GBG trades at a premium to all three groups on all metrics, reflecting its track record of double-digit revenue growth and operating margins consistently above 20%.

**Exhibit 5: Peer group valuation metrics**

	Rev growth (%)		EBIT margin (%)		EV/Sales		EV/EBIT		P/E		Div. yield (%)	
	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
GBG	-3.7	11.1	22.5	22.6	8.6	7.7	38.1	34.1	52.4	47.1	0.4	0.4
Ave ID management	8.8	9.1	27.1	28.3	7.1	6.5	26.8	23.0	32.8	27.5	0.8	0.9
Median ID management	9.5	7.8	28.2	27.2	6.6	6.1	26.4	23.5	32.4	27.5	0.5	0.6
Ave UK software	26.0	16.4	2.9	9.5	5.6	4.8	13.9	16.2	N/A	N/A	0.6	0.7
Median UK Software	9.5	12.7	13.1	14.6	4.5	3.8	18.9	19.9	21.5	25.6	0.0	0.0
Ave UK IT Services	15.1	12.3	6.4	10.2	4.0	3.5	32.3	22.7	30.0	37.0	1.0	1.1
Median UK IT Services	9.0	9.5	12.2	15.0	3.5	3.2	28.1	26.2	33.7	30.5	0.8	0.9

Source: Edison Investment Research, Refinitiv. Note: Priced at 14 June.

Our reverse DCF analysis, which uses a WACC of 6.5%, long-term growth of 3% and our forecasts to FY24, estimates the current share price is factoring in operating margins of 23.5% and revenue growth of c 11% per year from FY25, not dissimilar to our forecasts for FY23/24. Triggers for upside from the current level, apart from faster than expected recovery as COVID-19 restrictions are reduced, could include accretive acquisitions, successful cross-selling and adoption of converged solutions.

**Exhibit 6: Financial summary**

	£'000s	2017	2018	2019	2020	2021	2022e	2023e	2024e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>									
Revenue		87,468	119,702	143,504	199,101	217,659	209,638	233,011	259,051
Cost of Sales		(20,302)	(27,092)	(36,060)	(54,914)	(65,096)	(58,699)	(65,243)	(72,534)
Gross Profit		67,166	92,610	107,444	144,187	152,563	150,940	167,768	186,517
EBITDA		18,734	28,741	34,080	51,739	61,410	50,778	56,559	63,578
Operating Profit (before amort. and except.)		17,006	26,311	32,031	47,945	57,896	47,094	52,703	59,541
Acquired intangible amortisation		(4,022)	(7,885)	(10,316)	(19,008)	(17,671)	(18,500)	(18,500)	(18,500)
Exceptionals		(1,410)	(2,143)	(4,003)	(1,552)	448	0	0	0
Share of associate		0	0	0	0	0	0	0	0
Share based payments		(994)	(2,375)	(2,287)	(4,541)	(5,170)	(5,687)	(6,256)	(6,881)
Operating Profit		10,580	13,908	15,425	22,844	35,503	22,907	27,947	34,160
Net Interest		(498)	(508)	(689)	(2,218)	(1,240)	(600)	(600)	(600)
Profit Before Tax (norm)		16,508	25,803	31,342	45,727	56,656	46,494	52,103	58,941
Profit Before Tax (FRS 3)		10,082	13,400	14,736	20,626	34,263	22,307	27,347	33,560
Tax		668	(2,746)	(2,583)	(3,562)	(7,385)	(4,808)	(5,894)	(7,233)
Profit After Tax (norm)		13,206	20,642	24,760	35,210	43,059	35,335	39,598	43,616
Profit After Tax (FRS 3)		10,750	10,654	12,153	17,064	26,878	17,499	21,453	26,326
Ave. Number of Shares Outstanding (m)		131.6	150.6	158.1	193.6	195.2	197.1	198.6	200.1
EPS - normalised (p)		10.0	13.7	15.7	18.2	22.1	17.9	19.9	21.8
EPS - normalised and fully diluted (p)		9.9	13.5	15.4	17.9	21.7	17.7	19.6	21.5
EPS - (IFRS) (p)		8.2	7.1	7.7	8.8	13.8	8.9	10.8	13.2
Dividend per share (p)		2.4	2.7	3.0	0.0	6.4	3.5	3.6	3.7
Gross Margin (%)		76.8	77.4	74.9	72.4	70.1	72.0	72.0	72.0
EBITDA Margin (%)		21.4	24.0	23.7	26.0	28.2	24.2	24.3	24.5
Operating Margin (before GW and except.) (%)		19.4	22.0	22.3	24.1	26.6	22.5	22.6	23.0
<b>BALANCE SHEET</b>									
Fixed Assets		105,653	170,284	438,683	430,219	394,564	377,731	360,877	343,993
Intangible Assets		98,753	161,372	425,646	414,505	377,663	359,113	340,613	322,163
Tangible Assets		2,856	4,700	4,815	9,420	6,937	8,654	10,300	11,866
Other fixed assets		4,044	4,212	8,222	6,294	9,964	9,964	9,964	9,964
Current Assets		48,914	61,121	76,522	95,984	85,653	114,040	154,455	199,430
Debtors		30,569	37,969	54,992	66,554	58,617	56,457	62,751	69,764
Cash		17,618	22,753	21,189	27,499	21,135	51,682	85,802	123,765
Other		727	399	341	1,931	5,901	5,901	5,901	5,901
Current Liabilities		(44,444)	(56,942)	(77,030)	(86,459)	(90,000)	(91,393)	(100,779)	(110,928)
Creditors		(36,436)	(56,100)	(70,302)	(80,280)	(86,338)	(87,731)	(97,117)	(107,266)
Contingent consideration		(7,122)	(45)	(5,287)	(6,179)	(3,662)	(3,662)	(3,662)	(3,662)
Short term borrowings		(886)	(797)	(1,441)	0	0	0	0	0
Long Term Liabilities		(15,940)	(16,711)	(116,707)	(94,810)	(25,961)	(19,610)	(13,000)	(4,909)
Long term borrowings		(11,499)	(8,451)	(85,447)	(62,139)	0	0	0	0
Contingent consideration		0	0	0	0	0	0	0	0
Other long term liabilities		(4,441)	(8,260)	(31,260)	(32,671)	(25,961)	(19,610)	(13,000)	(4,909)
Net Assets		94,183	157,752	321,468	344,934	364,256	380,767	401,553	427,586
<b>CASH FLOW</b>									
Operating Cash Flow		16,305	31,620	27,779	48,498	72,631	54,331	59,651	66,714
Net Interest		(498)	(545)	(689)	(1,768)	(1,211)	(600)	(600)	(600)
Tax		(2,193)	(3,247)	(2,930)	(6,386)	(14,205)	(11,158)	(12,505)	(15,325)
Capex		(2,227)	(2,018)	(1,625)	(1,339)	(738)	(3,100)	(3,250)	(3,400)
Acquisitions/disposals		(36,840)	(70,363)	(255,101)	(81)	2,545	0	0	0
Financing		24,755	56,668	157,339	(1,553)	3,476	(2,252)	(2,252)	(2,252)
Dividends		(2,775)	(3,582)	(4,049)	(5,761)	(5,883)	(6,674)	(6,923)	(7,175)
Net Cash Flow		(3,473)	8,533	(79,276)	31,610	56,615	30,547	34,121	37,962
Opening net debt/(cash)		(8,673)	(5,233)	(13,505)	65,699	34,640	(21,135)	(51,682)	(85,802)
HP finance leases initiated		0	0	0	0	0	0	0	0
Other		33	(261)	72	(551)	(840)	0	(0)	(0)
Closing net debt/(cash)		(5,233)	(13,505)	65,699	34,640	(21,135)	(51,682)	(85,802)	(123,765)

Source: GB Group, Edison Investment Research

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