

Key Statistics

Code	: GBG
Listing	: AIM
Sector	: Technology
Market Cap	: £314.83m
Share in issue	: 123.07m
Current Price	: 252.50p
12 month High/Low:	: 253.00p/136.50p

Stock Performance



Source: InvestEgate

Financials

£'m	2015	2014	2013	2012
Revenue	57.28	41.84	39.42	31.83
PBT	5.93	3.99	3.51	2.51
Profit	4.80	3.52	4.34	3.60

Source: GB Group Annual Results

Company description

GB Group's (GBG) principal activity is the provision of identity intelligence services. GBG helps organisations recognise and verify all elements of an individual's identity at key interactions in their business processes. Through the application of our proprietary technology, it enables organisations to connect, communicate and transact with people safely, responsibly and profitably.

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GB Group: Growth Building

Warren Buffett once observed that "Risk comes from not knowing what you're doing." The inference being that "Risk" goes if you do know what you are doing; or if you hire a team who know what they are doing. GB Group (GBG) leads the way in managing risks for their customers. Risks that pretty much any modern business needs to manage when handling data and payments and all the identity validation and security issues that that entails.

- **Huge potential market size**
- **Strong organic growth**
- **Proven acquisition strategy**
- **Customer verified Business Model**
- **Top Management Team**

GBG's overall profile has changed quite a bit of late, through acquisitions concluded during both this year and in recent years. The combined businesses delivered very strong performances in the full year to 31 March 2015. But it was not just about the new businesses bringing new revenues. The Company recorded a very solid organic revenue growth of 15% for the full year, which has increased to 18% at the September 2015 interim Pre-Close Trading Update. Below the Gross Profit line there are also many positives, though the acquisitions have necessitated many 'adjustments' which need to be taken into account, and the picture is inevitably confused by that. But, there is nothing negative in the numbers, simply that year on year comparisons are not helpful without explanation. Perhaps more tangibly, and quickly we can note that gross profits grew to £40.8m (£27.2m 2014) giving a gross margin of 71% (vs. 65% 2014) and that group cash conversion was strong with net cash generated from operating activities of £11.3m (2014: £9.4m), and the dividend was increased.

For disclosures, refer to the Disclosure Section

Business

GBG is in the business of collecting and analysing data for clients and their end-users in an efficient and compliant manner. Specifically their services are provided for:

- **ID Verification** – which provides the ability to verify consumers' identities remotely, without the physical presentation of documentation, in order to combat ID fraud, money laundering and restrict access to under-age content, purchases and gambling. (Revs £14.9m/ Example Customers: TD Waterhouse, Ebay (EBAY:NASDAQ))
- **ID Registration** – which includes software and services for quick and accurate customer registration and validation of records. (Revs £13.5m / Example Customers: Nectar, Sainsbury)
- **ID Engagement** – which provides database services so its clients can better understand, target and retain their customers and offers accurate and up-to-date identity information for their contact strategies. (Revs £10.1m / Example Customers: Thomas Cook, Ikano)
- **ID Trace & Investigate** – which provides the largest and most accurate picture of the UK's population and properties in order to locate and contact the right individual, first time. (Revs £8.6m / Example Customers: TfL, HMRC)
- **ID Employ & Comply Services** – which provides background checks through online verification and authentication of individuals enabling organisations to safeguard, recruit and engage with confidence. (Revs £4.3m / Example Customers: Bupa, Stagecoach (SGC:LSE))
- **ID Fraud & Risk Management Solutions** – which provides fraud detection, risk management and customer on-boarding solutions. (Revs £5.9m / Example Customers: Barclays (BARC:LSE), GE capital)

Top six customer sectors = 81% of revenue

- Financial services 38%
- Government 12%
- Travel & Leisure 9%
- Gaming 9%
- Retail 8%
- Utilities 5%

New clients added by IDS during the year included: Waitrose, John Lewis, CRIF, and **Worldpay (WPG:LSE)**.

GBG is competing against the likes of; **Experian (EXPN:LSE)**, **Equifax (EFX:NYSE)**, CallCredit (Un-Listed) LexisNexis (Un-listed), and **Fair Isaac Corp (FICO:NYSE)**.

Acquisitions

Acquisitions are a key component of GBG's strategy and growth. Cash expenditure on acquisitions during the last year to March 2015 was £18.7m.

There have been eight successful acquisitions in four years, which has sharply refined the integration process allowing the Company to grow well organically despite the distractions of further integrations such as those announced post balance sheet.

Since the year end, the Group has acquired the remaining 74.5% of the shares of Loqate Inc., the San Francisco-based provider of specialist location-based software and data, which it did not already own. The consideration consisted of cash on completion of US\$13.4m, with a further maximum US\$2.0m payable contingent on a revenue growth target for the 12 month period ending 31 December 2015.

Operational Costs

GB Group's P&L is not an easy thing to get a handle on so it is probably worth spending a bit of time on it. The adjusted EBITDA is defined as, "operating profit before depreciation, amortisation; fair value adjustments; share of associate investment result; share-based payments and exceptional items." This is not intuitively easy to get one's mind around. Getting into the 'adjusted'

figures, we can see that the 'exceptional items' for the full year to March 2015 totalled £1.629m and broke down as follows:

- Fair value adjustments to contingent consideration liabilities £403k (2014:£37k)
- Acquisition related costs £452k (2014:£752k)
- Costs associated with staff reorganisations £331k (2014:£115k)
- Provision for dilapidation obligations on the relocation of the Group head office £138k (2014:£250k)
- Costs associated with the relocation of the Group head office £305k (2014:£nil).

The 'adjusted' operating profits exclude those 'exceptionals' and also excluded a further £2.967m broken down as follows:

- Amortisation of acquired intangibles £1.986m (2014:£1.11m)
- ShareBased payments charge £971k (2014:£747k)
- Share of associate investment result £10k (2014:£159k)

Thus OP before the exceptional costs and associated investment result was £6.194m which compares to the adjusted OP number reported which was £10.79m. In the pre Interim Close update, GBG reported the adjusted OP was £4.5m, up 21% (H1 2014:£3.7m) for the same period last year. Basic EPS was up 25% to 4.0p compared the adjusted EPS which rose 35% to 8.8p. Whichever way you want to cut it this Company is growing fast.

The share based payments charge of £971k relates to executive options, share matching and share savings schemes for employees. Whilst this is a variable cost it is likely to be there in some form or other, year after year and even though it is positively correlated to share price performance, so likely to continue.

The Group has an Australian Dollar three year term loan of AUS\$10m. The debt bears an interest rate of +1.90% above the Australian Dollar bank bill interest swap rate ('BBSW'). The Group has an undrawn three year revolving credit facility agreement which is subject to a limit of £7.0m. The facility bears an initial interest rate of LIBOR +1.95%.

Outlook

Notable client wins for last year include disruptive banking and payments providers Stripe and Holvi; retailers Waitrose and John Lewis; and the UK's Serious Fraud Office. So we can assume some fresh revenue streams will flow from those and also the new GOV.UK Verify service.

Successful acquisition and integration of DecTech and CDMS Limited (t/a Transactis) into the Group during the year will also bring new clients, lines and cross and up-selling opportunities.

Over the course of the year, deferred revenue in the balance sheet (in respect of amounts invoiced under annual contracts, which will be recognised in future periods) also increased by £3.2m to £9.9m, representing significant future value for the Group and improving visibility.

The Company continues to be highly cash generative and acquisitive and its cash balance at 31 March 2015 was £15.8m (2014: £11.8m), with net cash balance of £11.4m (2014: £11.8m) so we can guess at more acquisitions.

Management

Richard Law - Chief Executive

Appointed to the Board in June 1995 as Finance Director and was appointed as Chief Executive in December 2001. Before joining GB Group plc he was a Corporate Financier with Ernst & Young.

Dave Wilson - Group Finance & Operations Director

Appointed to the Board in October 2009. He previously held international and operational board level positions with companies including: Eazyfone (brand envirofone.com), Codemasters, Fujitsu and Technology plc.

David Anthony Rasche - Chairman

Appointed to the Board in September 2010. He was founder and now Senior Non-Executive Director of SSP Holdings Ltd, one of the largest specialist insurance software houses in the world. He has 40 years IT industry experience with over 30 years at board level in the software and services sectors. David is also Non-Executive Chairman of Onyx Group.

Richard Martin Linford - Non-Executive Director

Appointed to the Board in November 2006. Previously he was Chief Financial Officer at News International, a post which he held for 11 years. Prior to this he was Director of Finance at BSkyB. He is a Fellow of the Chartered Institute of Management accountants and holds a Masters Degree in Business Administration from Boston University.

Charmaine Eggberry - Non-Executive Director

Appointed to the Board in January 2014. She previously held senior international and marketing board level positions with Research in Motion as Managing Director and Chief Marketing Officer from 2002-2008 and Nokia as Global Senior Vice President from 2010-2012. She is currently a non executive director of Avanti PLC, Chairperson of Buzzmove and an investor and developer of digital start-up businesses. In 2010, she founded and continues to be a Board member and Trustee of The Marketing Academy, a not for profit organisation promoting UK talent in marketing and advertising.

John Lord - Managing Director

Appointed Managing Director of the Identity Proofing business in June 2009. Prior to arriving at GB Group, he worked for one of the world's largest credit rating agencies where he led global sales before heading up the UK business. Most recently he had a period in a PE backed venture leading

a major data analytics, outsourcing and contact centre business serving both B2B & B2C customer engagement strategies.

Nick Brown - Managing Director

Appointed Managing Director for the Identity Solutions businesses in 2007, following General Management roles with Sage Group, Microsoft and Fujitsu Services.

Valuation

The Board recommended a 12% increase to the dividend to 1.85 pence (2014: 1.65 pence), continuing the progressive dividend growth though the yield is still below 1%, but nice to have.

Historical P/EBITDA is 22x which is reasonable when compared with AIM quoted peers like SafeCharge (SCH) on 28x and Eckoh (ECK) on 27x. Given GBG's prodigious growth, it also seems very reasonable value compared to the larger comparable companies with single digit sales growth. Companies such as; **Experian (EXPN)** on 10x; **Fair Isaacs (FICO:NYSE)** on 14x; and **Equifax (EFX:NYSE)** on 15x.

Conclusion

This is a profitable company but one which is nevertheless growing very rapidly in a market that is almost limitless in size. The management have proved they their model works and that they can grow the business both organically and through acquisition. The next challenge will be to avoid being taken over themselves, before the full potential is sighted let alone reached.

Consolidated Statement of Comprehensive Income Year Ended 31 March 2015

	2015	2014
	£'000	£'000
Revenue	57,283	41,835
Cost of sales	-16,448	-14,473
Gross profit	40,835	27,362
Operating expenses before amortisation of acquired intangibles, share-based payments and exceptional items	-30,079	-20,243
Other operating income	34	45
Operating profit before amortisation of acquired intangibles, share-based payments, exceptional items and share of associate investment result (adjusted operating profit)	10,790	7,164
Amortisation of acquired intangibles	-1,986	-1,110
Share-based payments charge	-971	-747
Exceptional items	-1,629	-1,080
Share of associate investment result	-10	-159
Group operating profit	6,194	4,068
Finance revenue	25	6
Finance costs	-291	-85
Profit before tax	5,928	3,989
Income tax expense	-1,127	-474
Profit for the year attributable to equity holders of the parent	4,801	3,515
Other comprehensive income:		
Exchange differences on retranslation of foreign operations (net of tax)*	-684	-
Total comprehensive income for the year attributable to equity holders of the parent	4,117	3,515
Earnings per share		
- adjusted basic earnings per share for the year	8.8p	6.5p
- basic earnings per share for the year	4.0p	3.2p
- diluted earnings per share for the year	3.9p	3.0p

Sources: GB Group Annual Results

Consolidated Balance Sheet As at 31 March 2015

	2015	2014
	£'000	£'000
ASSETS		
<i>Non-current assets</i>		
Plant and equipment	2,829	1,519
Intangible assets	45,296	23,329
Investments accounted for using the equity method	-	10
Deferred tax asset	3,113	2,127
	51,238	26,985
<i>Current assets</i>		
Trade and other receivables	17,408	11,929
Cash and short-term deposits	15,778	11,846
	33,186	23,775
TOTAL ASSETS	84,424	50,760
EQUITY AND LIABILITIES		
<i>Capital and reserves</i>		
Equity share capital	26,418	14,964
Merger reserve	6,575	6,575
Capital redemption reserve	3	3
Foreign currency translation reserve	-684	-
Retained earnings	13,822	9,291
<i>Total equity attributable to equity holders of the parent</i>	46,134	30,833
<i>Non-current liabilities</i>		
Loans	3,643	-
Provisions	-	65
Contingent consideration	895	750
Deferred tax liability	2,968	1,251
	7,506	2,066
<i>Current liabilities</i>		
Loans	746	-
Trade and other payables	23,984	17,551
Contingent consideration	5,733	-
Provisions	48	250
Current tax	273	60
	30,784	17,861
TOTAL LIABILITIES	38,290	19,927
TOTAL EQUITY AND LIABILITIES	84,424	50,760

Sources: GB Group Annual Results

Consolidated Cash Flow Statement Year Ended 31 March 2015

	2015	2014
	£'000	£'000
Group profit before tax	5,928	3,989
<i>Adjustments to reconcile Group profit before tax to net cash flows</i>		
Share of associate investment result	10	159
Finance revenue	-25	-6
Finance costs	291	85
Depreciation of plant and equipment	873	594
Amortisation of intangible assets	2,167	1,200
Loss/(profit) on disposal of plant and equipment	55	-3
Fair value adjustment on contingent consideration	403	-
Share-based payments	971	747
(Decrease)/increase in provisions	-267	290
Increase in trade and other receivables	-2,852	-1,103
Increase in trade and other payables	4,130	3,403
Cash generated from operations	11,684	9,355
Income tax (paid)/received	-337	65
Net cash generated from operating activities	11,347	9,420
<i>Cash flows used in investing activities</i>		
Acquisition of subsidiaries, net of cash acquired	-18,672	-1,428
Investment in associates	-	-15
Purchase of plant and equipment	-1,961	-916
Proceeds from disposal of plant and equipment	13	11
Expenditure on product development	-63	-239
Interest received	25	6
Net cash flows used in investing activities	-	-2,581
	20,658	
<i>Cash flows from/(used in) financing activities</i>		
Finance costs paid	-291	-85
Proceeds from issue of shares	11,284	416
Share issue costs	-330	
Proceeds from new borrowings	5,487	-
Repayment of borrowings	-781	-
Dividends paid to equity shareholders	-1,955	-1,632
Net cash flows from/(used in) financing activities	13,414	-1,301
Net increase in cash and cash equivalents	4,103	5,538
Effect of exchange rates on cash and cash equivalents	-171	-
Cash and cash equivalents at the beginning of the period	11,846	6,308
Cash and cash equivalents at the end of the period	15,778	11,846

Sources: GB Group Annual Results

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