

GB Group PLC – Half Year Results

29 November 2022



Transcript

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Chris Clark:

Good morning and a very warm welcome from myself, Chris Clark, CEO of GBG, and David Ward, CFO of GBG, and thank you for taking time out to join our half-year results presentation.

In terms of agenda, I will spend some time looking at the strategic and operational progress we've made in the first half of the year. I'll then hand to David, who will talk about the financial results in a lot more detail, and then I'll close by looking at outlook, before opening up to any questions you might all have.

So in summary, it's been a mixed first half. We've made strong strategic and operational progress, but our financial results have been impacted by two specific end-market challenges, those being crypto and internet economy. In the half, we've continued to win excellent new business, have maintained strong retention rates, and are seeing growing momentum in cross-sell and upsell right across the business.

We're delighted that we've seen an acceleration of product innovation, in part due to the Acuant acquisition, and on that note, we're delighted that the integration is now fully complete, and we're focused on realising the benefits for our customers and potential customers, and we're confident of delivering the £5 million worth of synergies. And last but not least, we are proud that we maintain exceptionally high both people and customer engagement scores.

In terms of financial summary, clearly David will go into this in a lot more detail. I guess the first point to say is nothing's materially changed from our trading update of October the 20th. We've delivered revenue of £133.8 million, a 22.6% total growth and a proforma revenue growth of 10.4%, but constant currency of 3.4. We delivered an operating profit of 28.1 million, a 21% margin and we're confident that we're going to see a revenue acceleration in the second half and margin improvement, which we'll come back to.

Looking in a little more detail about the strategic and operational progress we've made in the period, I'll do that by looking through the three solution areas of Location, Identity and Fraud.

Starting with Location, Location accounts for just over 25% of the group, and grew at a strong 10 and a half percent constant currency proforma rate. Excellent new

wins, cross sell, upsell and pricing drove that growth, also offsetting some decline in eCommerce volumes. We continue to win new business across a diverse customer sector base as well as geographic. To give you a few examples, gaming is a key sector for GBG, and has strong structural tailwinds, but not only for Identity but also Location and an example of a win in the period that I hope demonstrates that was for Caesars in North America.

In addition, we continue to expand geographically both in North America, continental Europe and Asia and we were delighted that we won Shoplazza, one of Asia's largest eCommerce platforms. On a global basis, we're seeing growing momentum on cross-sell and upsell, and Wise, who have been a longstanding Identity customer here in the UK, now are using our Location services. And we continue to witness the trend of manufacturers going direct to consumers, with customers like New Balance now joining GBG as a key customer.

From a product-development perspective, our latest release of our capture products with additional AI capabilities is offering real benefit to our customers, and in fact, we believe, adds about a 20% further improvement on match rates to our customers. And I believe this is best evidenced by a win we've made in the period on a global basis for a large buy-now-pay-later customer, who I'll come back to, who we won competitively and beat the incumbent globally by an improvement of 23% match rates. So we believe we have the best products, and therefore, we are taking share globally in Location.

Turning to Identity, Identity accounts for 61% of the group and includes the former Acuant business. And before I talk about Identity, I think it is important to say that as we execute on our ambition of driving a world-beating end-to-end Identity and Fraud capability, the blurring of Identity and Fraud becomes increasingly complex. But when we look at Identity as a standalone solution, we did see a decline of 1.4% on a constant currency proforma basis.

This decline was driven by two exceptional end-market issues: crypto and internet economy. David will talk a lot more about the financial impact of crypto, but just by internet economy, what do we mean by that? We mean basically the technology firms who have been in the media of recent weeks announcing some very significant layoffs. These are the companies that saw accelerated growth during the pandemic,

and that growth is starting to normalise. Most of these are customers of ours, and we have had a transactional impact. The key point for both crypto and internet-economy customers is it isn't the case of us losing customers; it is a case of transactional volume decline.

We saw the biggest impact in North America. This is largely down to the facts of our relative sector exposure, where we are most exposed in North America to those two segments. I guess that's best evidenced by, if you look at our Identity outside the United States, we actually grew at 6%, taking account of the crypto decline. I don't think it's a surprise that we're largely exposed in the US to those sectors, because that's where a lot of these customers are based.

Having said all of that, we're actually pleased with the momentum we've got in Identity. We've continued to win new business across multiple geographies and sectors, and we're making excellent progress on product innovation. A few examples: I've touched on gaming being a key sector for us with structural tailwinds, particularly around the liberalisation of sports betting in North America, both the United States and Canada, and as an example, we were delighted to add Bally's Canada to our customer roster as a direct consequence of our relationship here in the UK with Gamesys, who of course have now merged with Bally's.

We've also won share in the UK, for example in gaming with Broadway Gaming, and we continue to do well as well across most of financial services, particularly traditional banking and areas like wealth, life and pensions right around the world, but one great example is Spirit Super Pension Fund in Australia. So significant new business, and growing momentum on cross-sell and upsell.

And turning to that, we're delighted that we now have over 30 customers in the US using both the former Acuant and the former IDology services at a revenue run rate of approximately \$200,000 a month. We're also delighted that, in the period, we've now secured cross-sell in both Asia and EMEA, and right across the world, we are seeing a growing pipeline of cross-sell opportunities, as well as new business opportunities, as a direct result of our enhanced capabilities.

I've already touched on the fact that we've made significant progress in the acceleration of our product development, in part due to the Acuant acquisition. Let's give you a few examples. We've now delivered multi-bureau services in both the

United Kingdom and Australia, which is unique. We've added mobile data so that we can help our customers better detect origination fraud. In Australia, we released fraud alerts specifically to help consumers and businesses deal with the recent significant breaches in Australia.

We've launched a know-your-business service in the United States, and most recently, we launched GBG GO, firstly in the United States. GBG GO is a no-code orchestration platform that allows our customers and potential customers to access a number of the features from across our product portfolio in a simple, easy-to-use platform.

Turning to Fraud, I know I've already said it, but the first thing I want to say again is it's increasingly difficult to distinguish between Identity and Fraud. But for the services we do consider fraud in how we report, which is really our UK investigations and our banking software, that accounts for 30 and a half percent of the group and grew at a good 14.4% organic proforma constant currency. That growth was driven by the new business, renewals and upsell across two very resilient customer sectors: traditional banking and public sector, and that growth came from continued geographic diversification and upsell and cross-sell.

A couple of examples: here in the UK, we extended our fraud relationship with the UK government, with the Department for Work and Pensions using the service that we already offer HMRC for helping prevent benefit fraud. We've had a longstanding relationship with BNP, and we're now delighted to have deployed our services for Bank of Morocco, part of BNP, and we continue to make excellent progress across Southeast Asia, with continued winds in Malaysia, Indonesia, and additional business now in the Philippines with Union Bank of Philippines. And the investments we've made in next-generation fraud capability, we are delighted are working and working well, and now empowering a new fraud consortium in the Philippines, leveraging our lessons and learnings from the United States.

So in summary, it's been a mixed first half. We've made excellent strategic and operational progress, but our financial results have been impacted by two specific end market customer issues, those being crypto and internet economy, whilst the rest of the business has performed well. And to give you a little bit more insight on those details, I'm delighted to hand over to David.

David Ward:

Thanks, Chris, and hello and good morning, everyone. I will now take you through, as Chris said, a more detailed review of the financial results.

Firstly, I think it's important to say, as Chris did, that these results we've announced today are wholly in line with the most recent trading update we provided on the 20th of October, but hopefully some of the extra detail I have for you this morning will keep it interesting.

As Chris has said, the first half of this year has been a more challenging period for us to navigate. The macroeconomic backdrop really began to change just as our financial year was just beginning, and we have seen this impact our customers to varying degrees. At the extreme end of that spectrum, we saw our activity volumes with customers involved in cryptocurrency trading decline much more significantly and more abruptly than we had anticipated, and this has had a negative impact on our growth rate, as Chris has said. I have a slide coming up where I will share some more details on that subsector.

That said, we did still achieve forward momentum, and our reported revenue increased by 22.6% to 133.8 million. On a proforma basis, revenue was 134.9 million, and that includes a small adjustment for the deferred revenue haircut arising on the acquisition of Acuant. Growth in proforma revenue was 10.4%, with 7% of that driven by more favorable FX rates for the translation of our non-UK revenue.

Adjusted operating profit was £28.1 million, which represented a 1% increase over last year and a margin of 21%. As the chart on the right-hand side of this slide shows, we do usually have a higher weighting of revenue in the second half of any financial year, and through this and a degree of growth acceleration, we are expecting a stronger margin in H2.

We continue to see a high proportion of our revenue from repeatable revenue streams and had a total of 93.3% of revenue from the combination of subscription and consumption models. I have some more detail on that later too for you.

Despite our debt repayments being largely on track since the Acuant acquisition, our debt balance actually peaked at the end of September at £132.6 million as a result of an adverse currency movement that caused a 22.2 million retranslation impact. That has begun to unwind since the 30th September, as the pound has

strengthened from the rates that we saw at the end of the half year. You'll remember that at that point, it was particularly low against the dollar, and was feeling the effects of the UK government's mini-budget.

So now let's take a look at the income statement in a bit more detail. As I've said, reported revenue increased 22.6%, but there are a number of moving parts to that revenue trend, so I'll cover that in a bit more detail, using a different slide, in a moment or two.

Our gross margin improved slightly to 71.1%, and that was a function of the change in revenue mix between our businesses. We had an increase in operating expenses year over year of 51.6%, so let give you a breakdown of that. 28% of that came from the effect of the two acquisitions we made last year. A further 8% arose from the retranslation of our non-GB expenses and less favorable FX rates than last year.

On average, as we said before, the impact of our pay review for the team caused an increase of approximately six and half percent, and there was a small increase due to the return to a small amount of business travel and in-person marketing conferences, and the remaining increase was due to the investments in the business that we made in the prior year and particularly in the half of last year. The majority of those were into our technology and regional go-to market teams.

Bringing that all together, that led to an adjusted operating profit of £28.1 million, which represents an operating margin of 21% versus the prior year of 25.5. As I said a moment ago, we do expect margin improvement as our second half revenues are traditionally stronger, and that is further supported by a healthy pipeline of sales opportunities and our continuing focus on disciplined cost-control.

Moving below adjusted operating profit, the charge for amortisation of acquired intangibles increased to £21.3 million. That was due to the two acquisitions we completed last year. The exceptional items charged in the half year of 1.5 million are predominantly related to M&A and integration costs. Our finance costs increased over the prior year as a result of the new debt facility we put in place and which we utilised just a year ago to part-fund the acquisition of Acuant.

We have obviously seen the impact of rising interest rates, and in the second half we expect that we will have the competing effects of interest rates increasing further,

but also more material debt repayments. Overall, for the full year, we now expect the net finance costs to be approximately £6.5 to £7 million based on the latest forecast of interest rates and FX rates.

And on tax, our charge for the six month period was just 0.7 million pounds. On an adjusted basis, the effective rate was 26.4%, which was a little higher than our expectations are for the full year. Those remain at approximately 24% for the full year as previously guided.

So now onto the balance sheet and here I have compared the half year balance sheet with the last full year end, so March '22. There is a reasonable proportion of the intangible assets that are on the balance sheet that are held as US dollar denominated assets. And so the value of those has increased as a result of foreign currency rate movements. Our receivables remain healthy and the quality and aging is strong. The balance was lower than at the last year end, just due to the higher level of annual renewal invoices that we always raise in March. Deferred revenue is 58.2 million at the end of the half year and therefore very similar to the balance at the last year end, which means that we continue to have a reasonable degree of visibility for future revenue to be recognised. And probably the most interesting movement for you all will be what's happened with net debt.

As you know, the vast majority of our drawings on the revolving credit facility are USD denominated and sadly the pound to USD exchange rate movement we have seen since the end of March has increased the reported value of the debt that is outstanding. The impact of that FX movement was 22.3 million pounds. That was the main driver that caused the overall increase in net debt to 132.6 million pounds. Our repayments against the debt were always going to be lower in H1 than in H2, as in the first half we have the payment of our dividend, that was 9.6 million pounds. And we also paid out our team bonuses related to the strong business performance in the prior year. Plus, we made our first purchases of GBG shares in the market for our newly formed employee benefit trust. That was a cash outlay of 2.5 million pounds.

Overall, we generated operating cash flow of 16 million pounds, which represented a rolling 12-month cash conversion of 70%. This was lower than our usual expectation for more like 95% and this was due to some of the reasons I've just

mentioned, but also due to us settling a liability that was within the acquisition balance sheet for Acuant, that was for 2.3 million pounds. On an adjusted basis. Our cash conversion for the last 12 months has been 85%, so still lower than our guide for 95 and that's really to the timing of the payments and bonus accruals.

And finally, just to bring you up to date with changes since the end of September and up today, our net debt balance has reduced now to approximately 118 million. So quite a sizeable reduction since the end of the half year. Some of that to do with FX, some of it to do with extra repayments on the debt. And also earlier this month we agreed with our club of five lending banks an additional 12 months of turn for our withholding credit facility. So that now doesn't expire until July, 2026 and we are grateful to each of the banks for their continued to swap to GBG.

On this next slide, I focus again on our business and revenue model. As you know, GBG generates most of our revenue from either subscriptions, and those represent upfront commitments and these can either be time limited or volume limited. Or from transactions or consumption arrangements, where customers pay monthly in arrears on usage. The total of these two models accounted for 93% of total revenue in the six months. The chart on this slide has been presented on the pro forma basis for FY22, so includes the revenue from our two most recently acquired businesses and excludes the non-repeating revenue from crypto and US stimulus. With the continuing strength of growth in our Location and Fraud segments, as Chris described, we've been able to deliver good growth in our subscription revenues. These increased 19.5% over last year and in the period under review represented an increased 54.9% of total revenue.

This proportion of our total revenue that arises from subscriptions has been helped substantially by the addition of Acuant. In the first half of year and on a reported not pro forma basis, our subscription revenues were 11 percentage points lower at 44%. Of course, the challenges of the crypto markets impacted Acuant too, but excluding crypto, Acuant subscription revenue grew by 20.8% and this offers us encouragement that the expected growth rates for Acuant at the time of the acquisition remain realistic for a time when the macro isn't as challenged as it has been during this period. Also, while I'm on the topic of Acuant performance, it is worth me noting that it was a stronger underlying performance than ideology, mostly

as a result of the broader sector diversification and therefore lower exposure to internet economy customers, which I think Chris described earlier.

On this slide you'll hopefully recognise the format now, we've provided more detail on the various moving parts within our revenue growth. I am optimistic that next year we are likely to have fewer complications to understanding these trends and so hopefully that will be gets a bit easier, but hopefully for now this analysis continues to be helpful for you all. Firstly, I'm working left to right, the main difference between our reported growth and the underlying growth was the impact of the M&A we completed last year, that was 21.8 million pounds.

And then to try and help you all understand the underlying growth trends, we also need to deduct the revenue from the last half year that we have consistently called out as exceptional or non-repeating. Those being the first, the US stimulus project that was three million in H1 of last year. And then the exceptional cryptocurrency volumes, as I said, I've got more detail on that sub sector on a later slide. That gives us the proforma revenue of the prior half year of 122.2 million pounds. And versus that starting point in H1 of the current year, we have achieved a total of 10.4% of growth. 7% from the benefit of a more favorable FX translation rate for our non UK businesses and particularly versus the US dollar. And an underlying constant currency growth rate of 3.4%. You will note that there is a small impact still of 1.1 million pounds from the deferred revenue haircut adjustment and we expect the materiality of that adjustment will decline even more from this point forward.

Next slide please. Thank you. We continue to be well diversified with our business spanning multiple geographic markets as well as a varied mix of end market sectors. You will see that in a change from our previous categorisation, we have split out crypto revenues from the rest of financial services. While the crypto sub sector was severely challenged compared to the prior year volumes and as a result declined from 6% of total revenue last year to just 3% in the current period, the remainder of financial services and particularly the more traditional elements of banking, pensions and insurance was much more robust and grew both as a proportion of total revenue and in absolute terms.

Somewhat counterintuitive to the macro trends, we saw revenue from retail also grow, both in absolute terms and as a proportion of our total. As Chris said earlier,

this was very much down to strong operational execution as we counteracted lower retailer volumes with upsells to more of our solutions, winning new logos, and also the impact of our price increase strategy in the Location business. Technology, gaming and professional services were other sectors that were much more resilient to the macro environment.

Through a geographic lens, it will be no surprise given our comments so far this morning that in reported terms, the US customer revenues decreased as a percentage of the total from 41% last year to 38% of total. And that is despite some currency translation benefits. But outside of this region where we are less materially exposed to the internet economy, customers that Chris mentioned, we saw a much more resilient picture in the UK and Europe and very pleasingly absolute relative growth in the significance to the group of our revenue from APAC. Overall, and as we've always said, our diversification is a real strength of GBG and an indicator of our resilience. It is just disappointing that the decline in cryptocurrency that we've seen has been much more abrupt and significant than we had expected, and in scale was more than we were able to compensate for through these other areas of the business where there were strength.

So that takes me nicely onto my final slide where I wanted to remind you of the picture with respect to cryptocurrency. As you've already heard from both Chris and myself, the effect of the decline in revenue from cryptocurrency exchange customers has been material to the half year results, and therefore our expectations for the full year. Firstly, let me explain our business with these customers in brief. We've provided Identity verification most typically at account opening, and we've charged these customers mostly on a transaction or consumption basis. So as interest in cryptocurrency investments has increased over the last five years, we've seen a decent level of growth in revenue. And as you can see from the chart, this sub sector has been a steady grower, until last year when volumes ballooned. And this caused us to call out some of that revenue as being unlikely to repeat.

I should say that the chart on the left side of this slide is GBG prior to Acuant, as that is where we have the best data over this longer time horizon. But you should see this as representative of the trends of the larger group too. And I've also included a table here of the proforma view. So this time including Acuant for just last year versus the current year. The GBG revenue from this sub sector peaks last year at

14 million pounds, or 6% of group revenue and 10% of our Identity revenues. Acuant had a similar level of exposure to crypto as GBG, that was approximately six million pounds. Therefore 20 million pounds in total. We felt that four million of that plus 1.8 million from Acuant of that was attributable to an exceptional peak in volumes in Q1 of that financial year. And we did not expect those to be repeatable.

So as we came into this current financial year, our estimate of our recurring revenues from crypto was the 20 million proforma from last year that you can see that on the table, less the total of 5.8 million of revenues that were exceptional and expected to not repeat, so about 14 million. It is definitely true that the volume declines we have seen have been more significant and more abrupt than we envisaged. As we said at the time of the trading update, and we have provided more color on here, we now expect a 60% decline this year and including a contribution of just two million pounds of revenue in H2, which is in line with the more stable volumes we have seen in the last few months.

That would mean that the contribution to group revenue this financial year will be more like 2% and the decline has resulted in a headwind to our proforma group growth rate of around 3%. So if we achieve as we expect to, a mid-single digit constant currency proforma growth rate in H2, this would represent a high single digit without the crypto headwind. With that, I would now like to hand back to Chris.

Chris Clark:

Thank you David. So in summary, it has been a mixed first half. We've made strong strategic progress with an acceleration of our product innovation. We believe increasing our differentiation, as we're bringing the capabilities across the group together for our customers. However, two specific end market challenges have impacted our financial results, and I hope the depth that particularly David has given clarifies that picture. But the rest of the business has performed well and that's what gives us a view of our outlook, as David has articulated.

GBG is a well-diversified business by customer sector, solution and geography. I hope we've demonstrated in what we've covered today already, the team have done a fantastic job on seizing the opportunities and trying to minimise the risk areas. We've done it before during the pandemic and we're confident we can do it again. That means that we do expect proforma currency revenue growth to accelerate into the second half of the year, as David's touched on, and that we'll deliver a mid single

digit discrete growth rate in H2 whilst taking account of the 3% drag effect from crypto. This will be driven by the natural H2 weighting in the business, revenue acceleration from wins, new wins, cross sell and upsell through the first half, as well as executing on a strong pipeline of opportunities that we have right across the group. And when we turn to margin, we do expect an improvement in margin from H1 to H2 for three reasons. Firstly, the natural weighting of the business from H1 to H2. Secondly, the acceleration of revenue and thirdly, tight cost control.

We look forward to talking more about the strong strategic progress we've made and how that is creating and will continue to create significant differentiation in a competitive marketplace, at our capital market state on January the 19th. The board remains very confident about the long term opportunities for GBG and we hope we demonstrated that to a degree today and we'll do more so on the 19th of January. On that note, let me hand over to George to see if we have any questions.

Call Operator:

Thank you much sir. Ladies and gentlemen, if you would like to ask an audio question and you've dialed in by phone, please press star one on your telephone keypad. Please also ensure your mute function is not activated We'll give everybody a chance to settle for a question. One moment please.

This first question is coming from Tintin Stormont, calling from Numis Please go ahead, your line is open.

Tintin Stormont:

Morning guys, three questions because I suspect it's not going to come back to me again. First one on subscription revenue, you saw 19% growth there. Some of that you said driven by strong operational execution on the Location side, good growth in Acuant outside of crypto. How should we think of your opportunity here going forward in terms of, for example, like the price increase strategy? Is there more of that coming through in terms of renewals in the second half? If you could give a bit more of a picture there. Secondly on Acuant, the growth outside of crypto, can you flag particular sectors that performed well? And then the third one actually this is for Chris, you talked about some of the opportunities and Locations with some of the gaming customers. Can you just maybe expand on that, is there a particular reason why there's demand coming through on that side from that particular sector for that particular solution?

Chris Clark:

Thanks Tintin. David, why don't I take the second and third question and you take the first, if that's all right. And given I've got the microphone, I'll start with your second question regarding where we saw good momentum with Acuant. I'd start by saying we're really pleased with the momentum, particularly around cross sell and up sell, primarily in the United States, but increasing momentum out of the US sectors that we saw good traction. Probably doesn't really come as a surprise, it's very aligned to what I hope David and I described in our presentation sectors, such as broader financial services, traditional banking. We saw good growth public sector in the United States, we saw some good momentum as well as the travel sectors, so really I think what we would consider resilient and [inaudible] sectors is where we saw the growth from Acuant. Turning to your third question, Tintin, around gaming, I mean just stepping back, gaming does offer strong structural tailwinds, particularly around the liberalisation of sports betting in North America, both with various individual states in the US but also now in Canada.

The example I gave was actually Ontario. And really the reason that the requirement isn't just for verification services but also Location services is because the operators are fighting for share in a digital world, and the Location capabilities help them acquire customers quicker and more efficiently. That's the rationale for why they need Location type services. We saw the same trend a number of years ago actually here in the UK, where a number of our biggest gaming customers take both Identity and Location services. David, I'll now turn to you on the subscription question.

David Ward:

Yeah, thank you Chris. Thanks for taking two of the three as well. So Tintin, thanks for asking about subscription revenue because hopefully you've picked up that I think there are some highlights in there. I think it's very encouraging now that we've now got a proportion of our revenue taken up by subscriptions of nearly 55%. It was one of the things that actually was particularly attractive about the Acuant model was that they do have a greater level of subscription than GBG has traditionally had and we are seeing that coming through.

You mentioned also the growth that's come from particularly Location of fraud, where those businesses have continued to be strong. I think the price increase in Location, we would expect to continue to have an impact for the second half of the year. Obviously, in Location we have a cycle of renewals, so we still have some

more Location customers where their annual renewals will be in the second half. So we've still got more to do on price increase to make sure that the increase we're looking for gets embedded in the second half renewal process. But overall, we're very pleased with that increase in subscription, driven by the operational execution but also the shift in mix that really Acuant has given a bit of a boost to.

Tintin Stormont: Great, thanks guys.

Chris Clark: Thanks Tintin.

Call Operator: We'll now move to Kai Korschelt calling from Canaccord. Please go ahead, your line is open.

Kai Korschelt: Great. Good morning, gentlemen. Thanks for taking my question. I also had three, if that's okay. The first one was I just wanted to drill down a bit into action, and at the time of acquisition I think you were guiding to 20, 25% revenue growth, and you haven't spit it out but it looks like the business is probably flattish. You mentioned crypto but it doesn't look like that accounts for all these slowdowns, so I'm just curious you could give a bit more color on what else been growing slower than expected 12 months ago when you bought the business, please. That was the first question.

The second one was around the subscription revenues and it's more a clarification. I just wanted to double check that you call subscription revenues, that those are completely fixed and there is no volume dependency, prepaid type activities in there, and these are proper, fully recurring revenues. That was the second and the third one was just on interest cost. I'm just wondering if you could perhaps give us a bit of a sphere on what that would be in fiscal '24 and whether the 7 million for this year now is right by to interest rate expectations in the US, which I think still expects some further increase over the next few months, just looking at forward rates and stuff. Thank you.

Chris Clark: Thank you, Kai. Good morning to you too. David, this time round perhaps I'll start with the first question, and then hand to you to perhaps add to that, and then answer Kai's questions two and three. So with regard to Acuant, you're absolutely right, Kai. We talked about at the time of acquisition over 12 months ago that we expected a 20 to 25% growth rate, and we are really pleased that business is fully

integrated, and actually counting revenue separately is almost impossible now as the teams are all joined up, and increasingly we got momentum on cross selling upsell, as I discussed. But really to answer your question about why is the growth rate not quite what we expected, it really does come down to two things, crypto, which I hope we've explained fully today, and hardware. There's been a slight softening on hardware which we're not overly concerned about. Hopefully that answers the question, and now, David, I'll hand to you perhaps to add more color to that one, and also Kai's questions on interest rates and subscription.

David Ward:

Yep, thank you, Chris, and thank you, Kai, for the questions. Yeah, just to finish off Chris's comments there on Acuant, and particularly on hardware, we actually saw a decline in hardware revenue of around one million in the first half. On this chart where we show the breakdown of our revenue by types, that's included in the other, so it's not a large proportion of our group and there are other things in there, there's professional services in there as well. But as I say, hardware did decline by about one million and a half, and that was another headwind for Acuant on a purely standalone basis. As Chris has said, we don't see that as indicative of a trend. Hardware orders can be a bit lumpy and so that might even reverse in the second half or over time.

Moving on to your questions two and three, so subscription revenue first, your question was really what are those, I think, and so let me just explain. So what we categorise as subscriptions are upfront commitments, they would include anywhere where a customer is either making a commitment upfront for a particular time period or for a volume commitment. And those volume commitments would be use or lose, otherwise we wouldn't include them in subscription revenues, so they are committed and give us forward visibility. On interest costs, you heard me say earlier in the presentation that we now expect that our interest costs for the current year to be between six and a half and seven million.

There are some key assumptions within there, interest rate being one of them, but because the debt is denominated in US dollars, FX rates is the other key consideration as well. We're not issuing any formal guidance at this stage for FY24, but I would expect that particularly on interest, our interest costs for next year is more likely to be around two thirds of the cost that we'll probably see this year. And really the two things that are driving that are we expect to be able to make further

repayments against the debt, that will obviously bring down gross value, but also most forecasts have interest rates perhaps reducing at some point during the course of our next financial year.

Kai Korschelt: Thank you very much. Very helpful.

Call Operator: Thank you sir. Next question is coming from Bridie Barrett calling from Stifel. Please go ahead.

Bridie Barrett: Hi, morning everyone. Two questions, firstly just, I guess following on from Tintin's question earlier, you've talked about some additional capabilities that have been introduced as a result of the acquisition. So you mentioned the improvements to end tampering in the fraud business and the orchestration layer. Can you talk about how you're positioning yourself with those enhancements? Are they being used more as a tool to improve your competitive position, or do they come with a new and higher pricing point? That's the first question and my second one is just on FX. Maybe I'll come back to that.

Chris Clark: Well, thank you, Bridie, and good morning. And I'll take that question and I'll perhaps save the FX for David. I guess the easiest way to think about it is the compelling strategic logic of the acquisition of Acuant over 12 months ago was around if you looked at the data, the products, the technology, and the team of Acuant comparing that to GBG, it was the fact that when one looked at our aspiration about having the most complete Location Identity fraud solutions globally, Acuant pre-acquisition had done quite a lot of work, and we'd done a lot of work, and that was highly complimentary. Which means when we talk about cross sell, up sell, or enhancement, it isn't really a case of Acuant product A powering GBG solution B, it's a combination of components, and GBG GO is a good example of that.

So that's how to think about it, then to your point about how does that commercially play out, at the simplest level, I would think about it or we'd think about it in two ways. Firstly, it offers upsell opportunity with additional capability. So if you think about growing with our existing customer base in a world where that's perhaps not driven entirely through transactional volume, actually being able to offer additional capability and pricing that as an additional capability helps, and we've seen a bit of that in the first half. So that's one area is additional capability which we can charge for, and then the second area is actually be in a position to improve conversion rates

and improve pipeline by going after opportunities we wouldn't have been able to do ourselves.

Bridie Barrett: Okay, thank you. That's helpful. So just on FX, I mean you've called out the benefit that you saw in revenues, I'm just trying to understand the impact on margins as well. Does the 52% growth in OPEX include an FX benefit? And if so, what was it? And I see also that you highlighted £6 million FX gain below that line, but it's included in adjusted operating profit. Is that the translation impact on the intercompany loans you mention? And if so, what would you anticipate in the second half?

David Ward: Bridie, I'll take that one. I'm sure Chris will be relieved. You're right, we had a 7% FX benefit to revenue, an 8% adverse impact on operating expenses. As you said, on the face of the income statement, we have called out an FX gain on intercompany loans. As I said earlier, when I talked about external net debt, we had obviously, hopefully, what will be seen to be an exceptionally low pound to dollar exchange rate at the end of September. And just as it impacted our external debt, it also impacted the reevaluation of those intercompany loans, so that did drive a higher FX gain there than we would expect for the full year.

As you know, exchange rates have already started to somewhat normalize since then, and so some of that gain has already started to unwind. Obviously, it's largely outside of our control where it would be, but we would expect some of that to unwind in the second half, but not all of it. And when we think about margins for the full year, we've obviously factored in some of that. As Chris and I have talked about, we think that with our current run rate of costs and our processes that we have in place, operation processes we have in place to make sure we keep tight discipline on our costs, but we're pretty confident in where our operating costs and margin should land for the full year. Really, the question is over where the revenue will land and then the margin should be much less dependent.

Bridie Barrett: Okay, so I've not done the maths around this, but if we think with exchange rates potentially reversing in the second half, that headwind to OPEX becomes a tailwind, but the tailwind company loans becomes a headwind, so it nets out.

David Ward: Yeah, correct. Obviously depends on the assumptions you're making about FX rates, but certainly based on the sensitivities we've run, we're not concerned about that.

Bridie Barrett: Okay, thank you.

Chris Clark: Thanks, Bridie.

Call Operator: Thanks, Bridie. We'll now go to Mr. Andrew Ripper calling from Liberum. Please go ahead, your line is open, sir.

Andrew Ripper: Yeah, good morning everybody. A couple of questions from me. Firstly, just in terms of the guidance for revenue growth for the second half of the year, just wondering what visibility you have behind that mid single digit guidance. And then I think I know the answer, but can you just re-clarify the basis on which that guidance has been made? Is it equivalent to the 3.4% that you reported proforma growth for the first half or is it excluding the drag from crypto?

That's the first question and then the second question was, we've talked around this a little bit, but I just wonder, it's quite tough for us externally to get a hand on how your peers are doing, either because they're part of much larger groups or because they're private companies. I just wonder where you feel you sit relative to peer performance YTD, whether you're neutral, winning, or losing share, if you've got a perspective on that. And then just thinking about the medium to long-term perspective, appreciate you probably don't want to get drawn on when you may or may not go back to double digit growth, but do you feel, other than the cycle and the froth dropping out of the market, whether anything else has structurally changed?

Chris Clark: Thank you, Andrew. Why don't I pick up your second question then hand to David for your first? So thank you and good morning, Andrew. You're right on your second point, it is very difficult, for all of us actually, given the competitive marketplace, to pick out what's really going on in the market. But our assessment, from what we can pick out, and what we hear from customers, and chatter in the market, is a couple of things I'd call out. Firstly, cryptos hurt us, we acknowledge that, we reflect that, and it's impacted our results, as we've talked about at length today and in the past. But actually in reality for a lot of our competitors, it's hurt them more. And I think we

were exposed to crypto up to 6% at the end of last year, we know for a fact that for a lot of our competitors, particularly the privately held ones, they had much higher exposure. So I guess that's one point to call out. The other is we-

So I guess that's one point to call out. The other is, we do actually believe we're taking share across the business. Hopefully we alluded to that in our comments. Increasingly, we are winning customers off competitors. So we do believe we're taking share but completely acknowledge, Andrew, the point you made and we share your frustration to some degree. It's very difficult to be clear on that either with publicly held competitors because it's a small part of what they do or the private guys because they come up with lots of different numbers.

Then in terms of long term, just before handing to David on the guidance piece. In terms of the long term, we absolutely believe the structural tailwinds and our position in the marketplace are actually intact. And in fact, we would argue with the progress we've made with the integration, we're positioned stronger today than we were 12 months ago. You're absolutely right, we're not going to comment on when we can get back to our guided range because we're living in a fairly volatile world. But we are confident that we can and we're in a stronger position today than we were 12 months ago.

David Ward:

And then specifically on H2, Andrew, good question and worth clarifying. So just deal with the numbers first. So it is on the same basis as 3.4% that we're talking about for the first half. And that's why Chris and I both talked about an acceleration. So that is proforma, it's not stripping out all crypto. And that's why I think Chris and I both said that achieving mid-single digit growth for the second half despite, for the full year at least, a 3% headwind from crypto, we think shows some resilience in these more challenged times and therefore brings us closer to what we would see as our medium-term growth potential. So that's it there.

In terms of visibility, again good question, and we never really quantify this and I'm not about to I'm afraid. But I think there are a number of things that give us good visibility. Firstly, if we build it up in terms of from the bottom up, we've got deferred revenue, we've got the renewals that we know that we've got in our pipeline. We've got volumes from recurring customers, and we've obviously got our pipeline of new business. Some of which, when we think about new business, we think about it in

two respects. We think about the deals that have already signed and closed but perhaps haven't it activated or are still to fully get up to activation. And then we have completely new business with new prospects winning new logos.

So through all of that, actually we feel we've got good visibility. Clearly there's always some variability and there's work for us to do in the second half. And really that really will dictate where we land within our range of likely outcomes. There are also some outside events that will drive some of the outcomes. So for example, volumes as we run it up to Christmas and through the holiday seasons. Maybe even how much sports betting there is on the World Cup. Some of these things, relatively small impacts, but I think the fact I'm flagging those sorts of things to you will probably give you some comfort that aside from that and some renewals, we've got reasonable visibility. As I say, it's really around the execution of some of that new business and getting those things executed and in interplay in the second half so that they can make a contribution to revenue.

Andrew Ripper: And just the bottom end of that range, if I take mid-single as being four to six or possibly three to seven if you want to widen it, does the bottom end of that range allow for if things don't go your way in terms of renewals and external events?

David Ward: You're trying to draw me, Andrew. I think you'd be amazed if I agreed that the bottom end of the range was within that mid-single digit. Clearly, there's more risk in the second half than that. But I still think we're in a pretty tight range which gives us confidence over that. But clearly, if we did absolutely nothing, we would be outside of mid-single digit.

Andrew Ripper: Okay.

David Ward: We've got a lot to do to keep focused on that.

Andrew Ripper: Right. Thanks for your answers.

Chris Clark: Thanks, Andrew.

Call Operator: Thank you much, sir. Thank you. And we'll now go to Mr. James Zaremba, calling from Barclays. Please go ahead.

James Zaremba: Good morning. Three questions please. One, a follow up on Friday around product development. Looks like a lot was achieved in the first half including several product launches. Just wondering if you could help us understand what incremental contribution to revenue some of those products might make in the next couple of years or so? And a second one on inflation and pricing, can you provide an update on the pricing dynamics in Identity and whether the tougher funding environment and inflation is helping the ability to maybe increase pricing here? And then the last one, just on cost discipline and how we should think about the relationship between headcounts, investments, and longer-term organic growth? Thanks.

Chris Clark: Thanks James and good morning to you. David, why don't I take the first and half the second, and then you can pick up from there. So with regards to product development and contribution of revenue over time, it's actually, James, a surprisingly difficult question to answer. Because it isn't as simple as a fundamentally different product, as I hope I explained in Bridie's question. It's lots of different components and therefore it can monetise itself either through incremental charging for a particular customer because we add a feature, or it could be a fundamental new customer using a new solution. So it's quite difficult to unpick.

That said, we absolutely believe as we fulfill our ambition of creating the leading end-to-end capability set, the contribution of new enhancements will increase relative. And I think that also ties to the point that we feel confident about the medium to long term because, whatever the world throws at us, and we've played this out during the pandemic and we're playing it out again, we have the breadth of capability to grow by adding more features.

So the net-net is it's very difficult to be very precise because it's often component parts, but we do expect additional services to add more to our growth than historically. Partly because of the macros but partly because of our strategic positioning.

Starting on your second question, sorry James. I hope that was helpful. Just starting on your second question before I hand to David. We said this before and we haven't seen any material change, we've definitely got pricing leverage in Location, and you can see that. We've got some in our fraud software services. But in Identity, we don't believe we have a lot of leverage for lots of different reasons. And I guess we wish

we saw an opportunity but it's not there today, albeit we talk about every cloud has silver linings, we do think there'll be fallout in the space related to actually some of Andrew's questions around some of our privately health competitors, and that might create an opportunity. But our real focus is to actually differentiate our capabilities by delivering on the product roadmaps, and that allows us to actually price in a slightly different way. David, if you take it?

James Zaremba: Thank you.

David Ward: Yeah and I'll pick up. James, thanks for the questions. On inflation generally, I mentioned as we went through the presentation how wage inflation impact this year has been approximately 6.5%. I think our inflation outside of staff costs, which obviously the majority of our costs are staff-related, but our inflation outside of that is has certainly been no more than 6.5. It's average probably a little bit less than that.

We are still forming our view frankly on next year for that. So I think it's something that we'll have to come back to you on. But probably will come as no surprise because I think a lot of businesses are still assessing what next year is going to look like and what sort of salary changes are going to be required. Clearly for us, we remain in a competitive space, particularly for top talent. So it'll be one for us to watch and I'm sure we'll comment on that as the next few months unfold.

On cost discipline, I think if I understood your question there were probably two sides to it. I think firstly, just to reiterate, Chris and I personally are heavily involved in making sure that we've got a firm hand on any investments or new roles that are going into the business. And we've really done that since the start of the year because I think we sensed quite early on that it was going to be a more challenging environment. So we are not predicting, some of our customers for example have had to do quite big team corrections. We're certainly not predicting that. We think that actually we've been more cautious through this year, which has put us in a slightly better spot.

But I think the second part of your question is, is that therefore having an impact on growth potential? And certainly we don't think so. We think actually, you'd have heard Chris say lots of times actually, that one of the hardest parts of our job is prioritisation. There are lots of opportunities and actually we are being very, very strict with prioritisation. And I think actually there's a lot of opportunity there and

perhaps even some benefit in focusing on some of the areas where we see the biggest benefit and closing other projects down quicker.

So overall, I don't think we certainly are not concerned that that cost discipline is going to impact medium term growth.

James Zaremba: Very clear. Thank you, thanks.

Chris Clark: Thanks, James.

Call Operator: Thank you much, sir. I now have a question or questions coming from Bharath Nagaraj, calling from Berenberg. Please go ahead.

Bharath Nagaraj: Thank you. Good morning. There's two questions from me. Are you expecting any further bad debt given what's happened in the crypto world with BlockFi filing for bankruptcy as well this morning? And secondly, with regards to your cash conversion, which was lowered to the explanations you provided, one of them to do with higher bonus payouts with regards to year's performance. Please could you help us understand why that's a one-off and what levels you expect cash conversion to be in the future? Thanks.

Chris Clark: Thanks for that. Go on David, that's all you.

David Ward: Thank you Chris, yeah. So bad debt first. I think specifically on those customers, that they're not customers of ours, not in any significant way. So no bad debt concern on crypto. And generally on debt, as I tried to convey the presentation actually, clearly it's an area we're watching very closely given the environment. But actually, overall, the strength of our ledger and the health of our ledger is just as strong as it was at year end. So we've got no concerns in that respect, but clearly something we're keeping a very close eye on.

Cash conversion, you're right to say that the first half was lower than we would expect. We've always said that the long run average for our cash conversion should be around 95%. We're not changing that view, but clearly in the current year it has stepped back. There are some complicating matters which I tried my best to explain in the presentation. You've picked up on one specifically, which was the timing of bonuses. So it really is just the timing of the accounting.

So obviously last year we accrued the bonuses in respect of last year, which based on the performance we had last year were healthy bonuses for the team. And we paid those this year, so you end up with a mismatch in timing where you've had the charge go through last year but the higher cash outflow go through the current year. And then in the current year, based on the current level of performance, we are not assuming a level of bonus payout at the same levels as last year. So you end up with that timing difference. Hopefully that helps, Bharath?

Bharath Nagaraj: Sure, thank you.

Chris Clark: Thank you.

Call Operator: Thank you much, sir. We do not appear to have any further questions at this time. I'm going to call back over to the immediate organisers for the additional closing remarks. Thank you.

Chris Clark: Many thanks, George. And conscious we have slightly overrun. So thank you all for the questions and apologies for overrunning. So look, thank you very much for joining David and I today for our half year results presentation. We look forward to catch up with you soon. And for those who we don't catch up this side of Christmas, may I wish you and all your families a merry Christmas and prosperous '23. Thanks very much and we look forward to catching up soon.