GBG

Half Year Results

30th November 2021

Transcript

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Operator: Good day, and welcome to the GB Group PLC half-year results 2021 conference call. At this time, I would like to turn the conference over to Chris Clark. Please go ahead.

Chris Clark: Thank you, Sergei, and a very good morning to you all and a warm welcome from myself, Chris, and from David. Delighted also to be joined on the bridge today by our new investor relations manager, Richard Foster, who joined us just a few weeks ago. So, in terms of agenda, firstly, David and I will spend a little bit of time going through the highlights, both strategic and financial, of the first half, and then we'll turn our attention to the news that broke more recently of on the acquisition of Acuant, and I'm delighted to report that as of yesterday, we closed the transaction.

Chris Clark: So overall we're very pleased with the progress and performance in the first half of the year. We showed good growth to 12.6% constant currency organic growth across the group, with all three segments showing double-digit growth. Equally, delighted that we achieved record people and customer engagement scores. In fact, 94% of the GBG team would recommend that GBG is a great place to work in our most recent engagement survey, and we've achieved record customer net promoter scores of over 50, which is world-class. At the same time, we continue to deliver innovative new solutions for our customers right across the world, whilst post-half-year, we're delighted that the Acuant team have joined the GBG family.

Chris Clark: The markets that we serve continues to grow and grow strongly, driven by a number of factors: ever-increasing online transactions, ever-increasing risk of fraud, increased compliance requirements, and that's underpinned by consumers demanding a frictionless experience when they transact with a business online, but also to be protected. So, our market is growing well, and that creates significant opportunity for us.

Chris Clark: Looking a little bit closer at both strategic progress and results, as I've already said, overall, we saw good, robust growth right across the business at 12.6%.

Interestingly, two thirds of the growth came from existing customers and a third from new, and that's more in line with what we saw pre-pandemic. And a number of you were on the call during the pandemic; that was shifted a little bit more to 80% from existing and 20% from new. And I think that does show an indication that the business has returned to some pre-COVID normal trends, albeit that one never quite knows what's going to happen tomorrow.

Chris Clark: Looking at location, which is 27% of the group, we showed strong growth of 15% driven by good growth across all geographies and all sectors, wins that we secured in the second half of last year starting to transact significantly, such as Just Eat, as well as some recovery in what we called COVID-troubled sectors and a slight softening in some of the sectors that saw exaggerated growth at the height of lockdowns around the world. We continue to win new business, whether that's GoPro, garments, Spotify, [Jaws 00:03:41], Harper Collins, and we saw strong renewal rates. In the first half, we were also delighted to launch the next-generation address-capture service, extending our competitive advantage.

Chris Clark: Turning to identity, which is 58% of growth, we're really that we posted double-digit growth of 10%, because, as a number of you know, we were up against very strong comparables, particularly the US stimulus work. Overall, we saw good growth from our existing customers. We saw good growth from new business that we secured, and we were helped by firstly, £3 million from the US stimulus that we didn't expect to continue, and that compares to £10 million in the first half last year, and very strong crypto volumes, particularly at the beginning of the period, April and May, which accounted for about £4 million.

Chris Clark: We won a number of new customers, such as Welcome Technology or QNB Mutual in the US, or Zilch Technologies, a new UK startup, buy-now-pay-later, and that is gaining good momentum. And we continue to innovate with the launch of our no-code, low-touch ID verification solution in the UK called Rapid ID and continue to enhance our services in the US with Flex API offering, which means that our customers can access different elements of the service along the customer life-cycle.

Chris Clark: And then last but not least, our fraud division, which is 14% of the growth, grew at 17%, albeit against a weak comparative last first half, and really a number of factors at play. Firstly, as a reminder, there's two core elements to our fraud offerings. There's our UK Investigate service, which is about half that 14% of group. You'll recall that exactly a year ago we acquired HooYu, and we're delighted to report we're ahead of plan on the integration, and that's playing through both in terms of wins and upsell. For example, we won EON in the first half, and we saw good upsell with John Lewis. And then our compliance and fraud solutions that we traditionally sell across Asia-Pacific, we saw good recovery, with some significant renewals with some of the world's largest financial institutions and some good wins in our target geographies, such as Vietnam and Indonesia.

Chris Clark: So overall, really strong performance, and we're very pleased with the progress we've made. And now to talk to you in a little bit more detail, I'll hand to David.

David Ward: Thanks, Chris, and good morning, everyone. As Chris said, I'll now take you through the financial review in a little more detail. So as Chris has said, it was a six-month period in which GBG delivered a very strong financial performance. Our revenue for the half year was £109.2 million, which represents 5.4% increase over last year, and this translates into an increase of 12.6% in organic constant currency terms. We delivered adjusted operating profit of £27.8 million, up 3.5% on last year, and adjusted earnings per share of 10.9 pence, which was 4.8% higher than last year. And we did this while maintaining our strong cash generation. At the end of September, we had a cash balance of £39.5 million, and we converted our adjusted EBITDA to cash flows at a conversion rate of 130%.

David Ward: So now let's take a look at the income statement in a bit more detail. As I said, revenue increased 5.4% in reported terms and 12.6 in organic constant currency terms, but there are a number of moving parts to the revenue trends, and we had benefit, as Chris has already mentioned, of approximately £7 million of one-off revenue items in the first half, and so I'll cover that in a bit more detail in a moment or two.

David Ward: But sticking with the income statement, our gross margin held steady at 70%. We had an increase in operating expenses year over year of 7.3%. This increase reflects the fact that the prior year comparative was a period of significant uncertainty due to COVID, and as a result, we curbed our spend in that period quite successfully. So, in the current H1 period, we have seen some return of that spend, in particular areas, such as marketing, and we have also had some limited travel cost return.

David Ward: The increase also obviously reflects our annual salary review, where on average, the increase across the group was around 4.5% plus slightly higher bonus accruals given the relatively strong first half performance. Bringing that all together, that led to an adjusted operating profit of £27.8 million, which represents an increase of 3.5% over the last year and an operating profit margin of 25.5%. This operating margin is slightly higher than our target range of 22-23% due to the one-off revenue items of £7 million that we've already mentioned, plus we got off to a slightly slower than expected start to our planned investment hires this year, but I'm pleased to say that in that respect, we're now back on track, and so our margin for H2 as a discrete period is expected to be more closely in line with the target range.

David Ward: We had exceptional and normalised expense items totalling £12.9 million, with exceptional items making up only a very small part of that at £490,000. The majority of this is the amortisation of acquired intangibles at £8.6 million and share-based payment charge of £3.9 million. The share-based payment charge increased by approximately £1.8 million period over period because of an increase in the share awards made to team members.

David Ward: Our finance costs were lower than last year, after we fully repaid the previous RCF in the prior year. And on tax, our charge for the six months was £3.2 million, and this represented an effective rate of 22.2%, and on an adjusted basis, this was 19.4%, so slightly lower than our guidance due to the revenue mix in the period and also some catchups on R&D-related incentives.

David Ward: Adjusted diluted EPS for the six-month period was 10.9 pence, and this represented an increase of 3.8% over the prior year. I should point out at this point that, having listened to feedback from analysts particularly, we have amended the way we calculate adjusted earnings per share to bring this more closely in line with how other companies calculate it. We had previously used the statutory tax charge in this calculation, but from now on, we will use a tax charge that has been adjusted for the exceptional and normalised items, for symmetry with the determination of adjusted operating profit. We've restated the comparative for this improvement.

David Ward: Okay. So next, as promised, I wanted to provide more detail on the various moving parts within our revenue growth trend. Firstly, the main differences between our reported growth rate and the organic constant currency rate of 12.6%: this comes from two factors, the impact of the businesses we divested last year and the foreign currency translation effect, particularly for our revenues that come from the US.

David Ward: And then to try and help you all understand the underlying growth trends from the first six months, we need to work through the one-off revenue impacts, of which there are just two. Firstly, there was the significant revenue from a customer project last year to assist the US government with the distribution of COVID support payments. This was worth £10 million last year in constant currency terms, and we were slightly surprised by the level of revenue we continued to see from this in the current period, in that this was much less but still worth £3 million.

David Ward: And then the other unusual item we thought we should call out is the exceptional cryptocurrency customer volumes that we saw in Q4 of last year and that continued into April and May of '22, as Chris has already mentioned. In general, we have seen an increase from these customers over the last couple of years, but even that said, the consumption volumes in these particular months were extraordinarily high, and we got a boost from this of approximately £4 million in H1. So, underlying all of these moving parts, we had a growth rate of more like 17.6% in H1.

David Ward: Okay, and then on this next slide, I've provided a breakdown of our revenue and growth by revenue models. This really underlines why our business model drives very high cash generation and cash conversion. The majority of GBG's revenue comes from either subscriptions representing upfront commitments, and these can either be time-limited or volume-limited, or transaction or consumption arrangements where customers pay more likely monthly in arrears based on their usage.

David Ward: The strong growth seen in term-based subscriptions year over year was fuelled by the somewhat recovered performance of our fraud segment from the very COVID-affected position of last year, and the 11.5% growth in transactions or consumption-based billing has been particularly strong given this growth rate includes the net £3 million headwind from the identity segment one-off revenue impacts I described just a moment ago. In total, 96% of our revenue comes from either subscriptions or consumption-based revenue models.

David Ward: In terms of the markets in which we operate, we didn't really see any significant changes in the six months. Growth remained strong in retail and technology sectors, and this was fuelled by the structural drivers Chris has already mentioned, and obviously increasing digital adoption in all sectors. Our revenue from gaming recovered somewhat, having been impacted last year by COVID and the suspension of live sport for several months. Through a geographic lens, in reported terms, the US revenue decreased as a percentage of the total, but this were really just reflects the reduced revenue from the one-off project, as well as currency translation effects. On an underlying basis, our US identity business continued its strong run with growth of 30% plus.

David Ward: And then lastly from me in this section, here is a review of the balance sheet. There weren't really any significant changes up to the 30th of September. Intangible assets were affected by amortisation and foreign currency translation, and as I've already mentioned, our cash performance was strong, and net cash increased by £18.4 million to £39.5 million at the end of the period, and that was after the payment of our final dividend in respect of last year of £6.7 million Obviously, our net debt position has changed since the end of September as a result of the acquisition, and I'll talk more about that later in the presentation. With that, I'll now hand back to Chris.

Chris Clark: Thank you, David. And now, turning our attention to the acquisition of Acuant Our growth strategy has been consistent for a number of years and I think is well known to a number of you. But in summary, it's about expanding our capabilities internationally, continuing to increase the customer numbers in key geographies over time, across sectors, continuing to increase our competitive advantage from a data product and technology perspective, and underpinned by having a great team.

Chris Clark: M&A has been a core part of our strategy for a number of years and in fact, this is our 14th acquisition in the last 10 years. The reason we are so excited that yesterday we completed the acquisition and that the Acuant team of 210 very skilled team members joined the GBG family is Acuant is entirely complementary, not only to our growth strategy, but also to our data product technology and people.

Chris Clark: In summary, because of that complimentary nature, we believe that the acquisition will accelerate our organic growth strategy by approximately two years and will be enhancing to our growth by approximately two percentage points. So, what we mean by that is where historically we've guided to low double digit organic growth of 10 to 12%, we're now saying we expect to grow in the region of 12 to 14%, and enhanced margins as David will describe. That really is down to the fact that it is complementary in terms of international expansion drives us into new sectors, accelerates our data products and technology roadmaps, and brings, as I said, 210 highly skilled team members to the GBG family.

Chris Clark: Just touching on Acuant, Acuant is a business that GBG has known very well and worked with for a number of years, and in fact has been in our acquisition pipeline for a number of years. We are both pioneers in the identity verification market. Acuant was founded out of Los Angeles in 1999, and very much originally focused its technology and capability on document-led verification and went to market through an indirect means working with partners.

Chris Clark: Fast forward to today, and like ourselves, Acuant have done a couple of big things, both organically and inorganically. They've expanded their service offering and they've, more recently, created direct sales capabilities, particularly in North America. They are still a predominantly US business with 83% of the revenues in the US and the majority of the team, but also R&D centres in Tel Aviv and here in Manchester. But at heart, they are a technology organisation with 130 of the 210 team members being technologists and I think also exemplified by the fact that they have 30 plus patents.

Chris Clark: The market to which we of both GBG and Acuant is the core ID verification market; a market estimated to be worth 15.8 billion USD by 2025 and growing up mid-teens. What we are really excited about, however, is this accelerates our bringing together of identity and fraud to address the adjacent market of identity fraud - one of the fastest growing sub-sectors of the broader fraud market. That market is estimated to be worth 9.6 billion us growing at 15.8%.

Chris Clark: So, turning into a little bit more detail about the strategic rationale. Firstly, geographic expansion: there's three core benefits from a GBG perspective of this acquisition geographically. Firstly, it gives us a greater exposure to the world's largest identity and fraud market, the United States. The US accounts for 40% of the global IDV and identity fraud market. We've had a great deal of success since we first entered the US ID and fraud market through the acquisition of IDology nearly three years ago. With the complementary nature of IDology and Acuant, we believe that having a greater exposure to the world's largest market is a good thing to do.

Chris Clark: Secondly, because of the global technologies that Acuant has created and our go to market capabilities in Europe and Asia Pacific, specifically Southeast Asia and Australasia, we believe we can accelerate GBGs growth in those geographies, but also negate the need for Acuant to create direct capability in those markets because we can use our own capability set. And last, but not least, I've already mentioned that Acuant, historically, was an indirect operated and indirect go to market model, and about 40% of their business today is indirect. We believe that GBG can use those indirect partners to provide greater services, but also accelerate our further international expansion over time.

Chris Clark: Looking at a customer perspective, GBG has over 20,000 customers around the world in over 70 countries, and Acuant has over 1,000 direct customers, predominantly in north America. The good news is there is very little customer overlap, probably about 10%. So therefore, there's a media cross-sell and upsell opportunity, particularly in the United States to start with. The other really positive is sector diversification has been a core part of our growth strategy for a number of years and Acuant's history means that they are exposed... significant exposure to what we believe are core strategic sectors for our marketplace; that being healthcare, automotive and government.

Chris Clark: And then looking at data products and technology, I already mentioned that we believe this deal accelerates us by a couple of years, but just perhaps giving a little bit more colour to that. One of GBG's greatest strengths is our access to global data. And like we have on a number of acquisitions historically, we can use our data and plug that into the global technology that Acuant have created accelerating, not only GBGs organic plans, but Acuant's plans as well.

Chris Clark: Secondly, Acuant themselves do have unique data capabilities with the world's largest document library with access to over 6,000 document types in over 200 countries, which can benefit our GBG customers. And then, from a product perspective, we have highly complementary roadmaps, which means that by joining up our future roadmaps, we can not only accelerate our development timescales, but also, we believe enhance our competitive advantage, and I'll use one example of that.

Chris Clark: I've just mentioned briefly that in the first half in the United Kingdom, we launched a no code like touch ID verification solution targeting the small enterprise. Actually, Acuant themselves, did something similar six months ago in the United States called Acuant®GO. And unsurprisingly, when one looks through due diligence at the relative strengths and weaknesses of both offerings, we believe that we can share learning and accelerate that competitive differentiation.

Chris Clark: And then last, but not least, from a technology roadmap perspective, I've already mentioned that Acuant, at heart, are a technology organisation, and they've built some very strong global technology capabilities such as what a product called eDNA, which is a global data graph that will allow us to... with our data, allow us to accelerate some of our AI and machine learning initiatives, providing greater insight to our customer base. Another example would be some of the work that Acuant have done over the last couple of years in SAS, enabling some of their capabilities, which is highly complementary to our own development roadmaps.

Chris Clark: So overall, we couldn't be more excited about how these two things come together. And bringing that all together, what this really means is that we can better serve customers requirements from customer onboarding right through to in life fraud detection. It is the coming together of identity verification and for prevention from a customer perspective and, given the complementary nature of our capabilities, we believe extends our competitive advantage. So, on that note, I will pause again and hand to David.

David Ward: Thanks, Chris. So first, for me, a summary of the acquisition financing itself. As Chris has already said, we have acquired Acuant for an enterprise value of $736 million, which has been satisfied through a mix of equity issued to the sellers, and cash, which was sourced from a combination of on our balance sheets, a new revolving credit facility, and the proceeds of an equity placing.

David Ward: The relative split of these sources are illustrated by the left-hand bar on this slide. As I said earlier, we have agreed a new, larger revolving credit facility that has replaced our previous facility. This new one is for £175 million. It's a multi-currency facility and we have an initial term of 44 months with two one-year extension options. We're really pleased to have been able to secure this facility, which we feel will be valuable to GBG for many years. For me, it was great to see the banking support that GBG has and the faith in our strategy.

David Ward: I would also like to point out that in determining the financing strategy for this deal, we have been mindful to maintain GBGs prudent and conservative capital allocation policy with the debt draw-down required for this acquisition taking us to a net debt leverage of two times. And due to both of the combining businesses being highly cash generative, we have significant opportunity to deliver from that position really quite rapidly.

David Ward: Moving to the next slide. Next, I wanted to provide an overview of Acuant's standalone financial profile, which as Chris has said, is attractive to us and has some similarities with GBG's own profile. However, Acuant is growing faster and therefore will be additive to the GBG growth rate. Revenue in the last 12 months to September was 58.1 million, which represents a year on year growth rate of 22% for the calendar year '21, we expect revenues of approximately $60 million. It's important to note that even more important than the fast and impressive growth is the subscription and transaction revenue growth, and they've been growing a CAGR of more like 35% across the last three-and-a-half years.

David Ward: As you heard from Chris, the business today derives 84% of its revenues from the US, and so we're really excited about the opportunity to double down on this geography that's been growing for us over the last two years, as well as the opportunity to leverage Acuant's solutions internationally, which we feel have not yet been fully exploited. In terms of margin and profitability, Acuant has operating margins somewhat similar to GBG.

David Ward: In 2020 and 2021, Acuant had adjusted operating margins of approximately 20% and this is despite the strong investments that have been made in R&D and go-to-market functions. So, we know that the business has been well invested in and also that there are good opportunities for operating leverage in the medium term. Acuant is also highly cash generative and has strong cash conversion just like GBG and this is due to the business model, which is now predominantly subscription revenue streams, and whereby revenue and profits are converted to cash quickly.

David Ward: Turning to my next slide, so now how do think about the combination and the integration? My first comment here is that, as Chris said, we do know the Acuant team very well. It's through our relationships of many years that we have confidence that these businesses will be a great fit together. There is a common sense of culture and a shared technology vision and, of course, we will be appropriately incentivising the team to retain and motivate the team for future growth. That's obviously helped by the fact that a number of the management team are rolling their stock over into GBG stock. Of course, the GBG team is experienced in the integrations with most of our senior team having been involved in our previous deals and I, myself, was very heavily involved in my previous role at Aviva in planning and overseeing the integration of Aviva's very large acquisitions.

David Ward: We have a clear line by line plan of key integration steps with responsibility clearly assigned. Our integration plan has been designed to ensure that we don't lose any momentum in either the Acuant or GBG teams and so that we make the most of the immediate cross-sell opportunities while also balancing that with extracting the medium term technology benefits. We've committed to £5 million of synergy benefits at the operating profit level from a combination of cost and revenue initiatives. And therefore, we expect the acquisition will be no worse than earnings neutral in FY23, our first full year of ownership, and accretive thereafter.

David Ward: This acquisition will also be enhancing to GBGs growth rate, which we expect to be two percentage points higher as a result of the acquisition, and also enhancing to our operating margin by one point benefits of the combination are fully realised. So, with that, I'd like to hand back to Chris for a few closing comments.

Chris Clark: Thank you, David. And in summary, looking back at the first half of the year, we are really pleased with the progress we've made and the results we've delivered. I think once again, the standout is the performance of our talented team around the world, who showed immense creativity and resilience, which given the latest news, could well be required again. In terms of looking forward with the acquisition of Acuant and the way the core business is performing, we're excited about the opportunities, both for the rest of the year and into the future. The board is confident that we will deliver in line with expectations, and we believe that we are well set to enjoy a number of strong years ahead. I'd now like to thank my dogs for welcoming the delivery driver, but more seriously, hand back to Sergei for any questions that we might have.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. Please make sure the function on your phone and switched on to allow your signal to reach our equipment. Again, it is star one to ask a question. And I take our first question from Tintin Stormont from Numis. Please go ahead.

Tintin Stormont: Morning guys. A couple of questions for me. In terms of pricing of new deals in identity and location, if you compare that against pricing of new deals in previous years, are you seeing any discernible trends, any pricing pressure you're seeing with new players that have come on board? And then secondly, on Acuant's strength and document verification, you mentioned obviously 6,000 documents covering 200 countries. Are there specific new geographies that have caught your eye where you think you can really leverage their strength there and speed up your market entry?

Chris Clark: Thank you, Tintin. So, taking those questions in turn, in terms of price across location identity, and I'd add fraud as well, I think it is safe to say that over the last couple of years we have seen pricing pressure. I think that's down to a number of factors. I think it is less to do with competition and more to do with the fact that our service is becoming even more mission critical or for our customers. So, if you think that the amount that we're transacting with customers or the relationship we have is gone up in orders of magnitude, and the way that we think about that, people are expecting to get more volume discounts. So, we've definitely seen that as a trend, of people use more services, it becomes a bigger part of spend, and people expect to get something back.

Chris Clark: And I guess we deal with that, because the way that we think about that is firstly, not a problem, but also expanding the services we offer to customers in terms of upsell. And sort of then looking at it competitively, in some markets, yes, we do see people leading on price, because frankly they don't have the offering that we do. And I think we just think about that as part and parcel of doing business in a growth market and our salespeople being well versed and being able to sell the benefits of a premium offering. Turning to Acuant, I think the way I sort of personally reflect on that question, Tintin, is I think the biggest challenge we'll have in our integration plans is one of prioritisation, because the opportunities are significant.

Chris Clark: And whether it's new geography, enhanced offer, new sector, I think one of our biggest challenges will be to prioritise. As an example, here, do we try and suddenly do something in Latin America because of the document capability? So yes, we are excited about the opportunity that Acuant provides for expansion into new geographies, but I think the way we're thinking about that is as a benefit that we'll look to exploit over time, as opposed to initially focus on, given focusing on other areas that have perhaps lower hanging fruit.

Tintin Stormont: Great. Thanks guys.

Chris Clark: Thanks, Tintin.

Operator: We'll take our next question from Kai Korschelt from Canaccord. Please go ahead.

Kai Korschelt: Yeah, good morning, Chris and David. Two quick questions, really. The first one was on the Acuant acquisition. So particularly the end markets for automated biometric and document verification. My understanding is there's three, and I think you've put on your slides there are three pretty large and well funded startup type companies in there. And obviously COVID has probably accelerated the sort of greenfield opportunity, in terms of sort of new companies onboarding, et cetera. So, I'm just wondering, how do you think about the greenfield opportunity in that market, and how much more growth is there on a sort of three to five year basis? That's my first question. And the second question was I think one for David. In terms of the organic growth that is baked into your second half expectations, could you just shed a bit more light on that number, because you obviously had a fantastic first half on an underlying basis. So just curious what level of organic growth you're baking in for the second half. Thank you.

Chris Clark: Thank you, Kai. I hope you're well. I think I understood your first question correctly, which is sort of ... you talk about end markets. I think you meant sectors, but if I've misinterpreted, please do shout, but I think the way we think about this is pre Acuant, we've talked as GBG about having a number of growth vectors, be that geography sector and product enhancement. And we always ... and I think over the last couple of years you've seen us focus on not only FS and some of the subsets within FS as a growth pillar, but also expanding our capability sets across technology, retail. What we saw in the pandemic was a number of sectors, healthcare, I think is perhaps a really good example, and automotive, who we always felt were going to be an opportunity down track, but because the pandemic forced companies to digitise their capabilities, that sector opportunity moved further forward, which is why we're excited by the sector presence that Acuant offers us.

Chris Clark: So what does that mean? I think it accelerates some of the growth opportunities, or perhaps to put another way, is we wouldn't be able to get all of those organically. And there's definitely going to be a first mover advantage in some of these green fields. So we think that it's a great foothold in some key sectors that we wouldn't have been able to get to ourselves. And we think that that plays out over numerous years, as more and more sectors need the type of services that we offer. And I hope that that does answer the question, Kai. And on that note, I'll hand it to David to answer the second half.

David Ward: Yeah, thanks Chris. And thanks, Kai, for the question. So, I think the way we think about growth really for the full year as we can came into the year was we faced a couple of known headwinds. We had the US stimulus work that we've talked about in the presentation today. That had a larger impact on the first half but had a smaller impact on the second half. So, we knew we were coming in with that headwind. We are also somewhat expecting a continuing headwind from currency translation in the second half, but stripping away the more unusual effects, on an underlying basis, we would still expect our growth to be in line with our guidance.

David Ward: So on a standalone GBG basis, still in that 10-12% range, but there are still these moving parts as we came in, as we faced these headwinds. And as we've also talked about, at the end of last year, particularly in Q4, we had some strong impacts from cryptocurrency that, in this year at least so far, we've seen more in the first half. So yeah, a few moving parts, but overall, we do expect to be to come in on a full-year basis with that 10-12% growth rate.

Kai Korschelt: Okay, great. Thank you.

Chris Clark: Thanks Kai.

Operator: Our next question comes from Julian Yates from Investec. Please go ahead.

Julian Yates: Yeah, thanks very much. So just a couple of questions from me. Firstly, on the deal, could you tell us sort on the ground practically the customers, were they are asking you for the capability of document verification, as well as your traditional data verification? I'm trying to understand how much of this is coming from customers asking or you feel that you need to do this deal to acquire that technology and to remain differentiated, or is it a sort of just an attractive sort of growth asset in its own right that is a nice compliment to your current underlying organic growth, sort of helping on the overall business?

Julian Yates: And on that, are there any other areas of the GBG portfolio that you feel that is lacking that could again sort of help with additional sort of M&A from a capability point of view? So that's the first one. A couple of ones in there, I guess. And the second one is very much bigger picture, looking three to five years out. Imagine your sort of potential aspirations for the business. Does this change your thought process in any way? I see you're smiling. There is my perennial question of can this business scale beyond the 25% margin towards 30% on a long-term view, assuming your revenue growth sort of tracks now towards sort of mid-teens growth rate? Clearly just aspirations and ideas as opposed to guidance.

Chris Clark: Thanks, Julian. And maybe I'll take them both, and then David can talk a little bit more about margin. Firstly, are customers specifically asking for document verification? I think the answer to that, Julian, is very straightforward. What customers ... being a little bit generic when we're talking about 21,000 customers across the world across multiple sectors, but if you forgive me for being rather generic, what customers are absolutely asking for is capabilities that serve the end to end life cycle, from onboarding right through to in life management. And ideally through orchestration, that they want to use as few suppliers as possible, because that reduces their own risk, cost.

Chris Clark: So, I think it's less about specific document versus data, because that part of the industry has been sort of merging over a number of years, based on the principle I've talked about previously, which is ultimately one isn't better than the other because they all have strengths and they all have weaknesses. And in a world where so many credentials are available on the dark web, then the more validation one can do, whether it's document or data is a good thing. But what customers are absolutely saying is this problem that we are facing, which is how do we offer a frictionless customer journey but protect our consumers, we need to look at this end to end, is something that customers are absolutely saying. So that's kind of how we think about that part. I think on the margin piece, sort of as I said, I'll cover it and then hand it to David to give it a little bit more colour.

Chris Clark: I mean, I think we've been very consistent, and I don't think the acquisition of Acuant really changes the message, which is we believe we can drive margins up if required. And I think the evidence of last year shows that, where we were cautious in the first half of FY21, as we were in the eye of the pandemic, and pushing ... I think margins were up to 27% for the last full year. So we know we can do that, but ultimately, we're not guiding or saying that we think that's the right thing to do, because we do believe that investing in this business is the right thing for all of our stakeholder groups, predominantly because the problem we're trying to solve, which is to stop bad guys, and if we don't keep investing, then the problem for our customers gets bigger.

Chris Clark: And I think that ties into your capability question, Julian, which is we do believe with the coming together GBG and Acuant, we have significant assets at our disposal to meet the customers' requirements. What we can't predict though, is what bad guys are going to do in the next six, 12 months, and therefore, what other technologies might be necessary. But right now, we feel confident that we have the capabilities in our shop, but what we can't predict is what we may need in 12 months' time.

Operator: Shall we move to the next question?

Chris Clark: Yes, please.

Operator: James Zaremba from Barclays, please go ahead.

James Zaremba: Hi. Good morning. I had a couple of questions, please. One, just following up on Tintin's one about the kind of competitor environment, clearly a lot of funding continues to go into the space. So, I was just wondering if you could talk from the technology and talent perspective how you see that evolving. Has there been a high level of attrition to private peers over the period, or has that been consistent over the last few years? And then I guess in terms of margin, to your point around volume discounts, what... Obviously Acuant will change the gross margin, but beyond that, how should we expect gross margin to evolve over the next few years? And then the last one, again on Acuant would be, in terms of share-based payments, what level should we expect for that in FY23 once it's fully been integrated? Thank you.

Chris Clark: Thanks, James. And David, welcome back. I'm not sure if you've got the two further questions, but I'll answer the first question and then perhaps pass to David for the second two. So firstly, from a competitive perspective on the impact on technology and talent, I think firstly we are operating in a fast and large market. So, it doesn't surprise us in the least that we are seeing right around the world, new competition. And it's reassuring in many respects that significant money is being ploughed into the space. Equally, we're certainly not complacent and we remain incredibly focused on our competitive differentiators. And I think that's just on that is one of the reasons that we're so pleased about the Acuant deal, because we think it does increase our differentiation on a number of categories, not least in the international space. In terms of technology, there's nothing that we're really seeing in the private world, which is new on the technology front.

Chris Clark: A lot of the spend, which I think perhaps James plays to the second part of that question is going into hiring and a lot into marketing. And are we seeing that impact our talent? It's very difficult in all honesty to tell how much attrition levels have been impacted by that point, versus the great resignation. Because we have seen a tick up in attrition in the last 12 months, but equally, I would say a lot of that's to do with broader points as opposed to competitive points but only time will tell. And I think we feel very good that although we've seen a tick up in attrition, firstly it's stabilising come down in the last couple of months.

Chris Clark: And secondly, it's still, we believe well below market averages, but certainly not anything we take complacently and why we have such a focus on making sure we have the best and most engaged. And we innovate with things like our Work, When and Where you want policy, which has been incredibly well received from existing talent, but also talent attraction. So, that's a rather long-winded way of answering that question, James. And on that point, I'll hand to David to talk about the gross margin and share based payments.

David Ward: Yeah, thanks Chris. And first of all, apologies, I dropped out there. No idea what the technical issue was, but I'm back. I did catch Chris's answer to Julian's question though, on margin expectations and full marks to Chris. I would've said the same, so

I didn't have anything to add. So, then James, on your question, first of all, on share-based payments, there's a degree of one off award that contributed to the slightly higher charge in the first half. That was something that we felt was appropriate to do an all employee share award. That's not to say we'd necessarily consistently do that, but it was the right thing to do at the time.

David Ward: But looking forward, I think the easiest way to be able to think about share base payments as we move forward is probably model that in line with how our head count might grow. I think that we would expect a similar balance to the share base payment charge as we move forward. Chris, was there a question or gross margin? Because apologies, I probably joined just as that bit was being asked then.

Chris Clark: Yeah, I think James might want to jump back in, but I think broadly David, the question was how do we think about gross margin trending with Acuant?

David Ward: Right. Okay. Yeah. So Acuant has a slightly different gross margin model to GBG. It has a higher gross margin. So, it's closer to 80% high seventies. It does somewhat depend on the revenue mix, but we would expect that to stick around 78%. So obviously, on a weighted average basis, we will see a slight improvement to the group GBG gross margin over time.

Chris Clark: Thank you, David. And James, questions.

James Zaremba: Yeah. Sorry. I could follow-up quickly, Chris, just one of the things I was impressed in this statement was about engagement going up to 94% from an already very high 90%, but higher attrition in the period. Is it just a case that you can't please anyone, when, I've seen more broadly companies talking about more working policies and et cetera? Again, one of the risks is people feel are less attached to each other and therefore maybe you do have a risk of losing more people because they have a great work life balance, but maybe they're not as friendly with their colleagues. Is that an ongoing risk? And how are you trying to manage that?

Chris Clark: So, James, this is a topic that as a number of people in our school know, I'm incredibly passionate about and can talk about for hours. So quite happy to pick it up offline. But I would humbly say that any business that isn't worried about cultures and dynamics in a post or whether post is the right word, but in a post pandemic world needs to have their head examined. I think it's a change that every workplace now faces, how do you meet the needs of an evolving and rapidly changing employee base? And I think our view of that is firstly, you can't please all the people all the time. Secondly, we don't have the answers. It's our teams who have the answers. And a lot of our people policies are built bottom up. And I think as much as we introduced our work when and where you want policy, as you say, James, that equally has a knock-on effect that perhaps some of the culture is dissipated.

Chris Clark: So, how do you make your workplace environment? How do you get people to engage, come together, change your spaces? It's a complex topic and I'd argue no one has the answers, but it's something that we feel that we're innovator in, but equally certainly, not complacent. And I also think that anyone is from understanding what the answer is. Because I think individuals' preferences are and will continue to change over the next couple of years.

James Zaremba: Thank you.

Chris Clark: Operator do we have any further next question?

Operator: Yep. We have Paul Kratz from Jefferies. Please go ahead.

Paul Kratz: Hi. Thanks everyone for letting me on. Just two questions in my end. You presented this term figure in the identity market; I think that showed the market was valued today something around $9 billion. With Acuant, how does that change your ability to address that? And maybe the other way to ask that is, if I were to take Acuant out, what was your term previously of that nine billion? Or what could you directly address? And then maybe the second question is, you talk about the identity fraud side of the business, that's closely interlinked with your application fraud business in the APAC region. Can you walk us through the motions of how you'd integrate those two businesses? Because my understanding is, the fraud business in the APAC region is primarily on prem, whereas Acuant, you're looking at largely a cloud-based business. So, I just would like to understand what are the investments you need to make to integrate those two products and to get that cross sell or to realise that cross sell opportunity in the first place? Thanks.

Chris Clark: Thanks, Paul. I'm going to have to keep this brief, because I think we're coming to the top of the hour, but the total adjustable markets that I quoted are in the slides are firstly, the core identity verification is according to markets. So, market that's valued at 15.8 billion US, growing at mid-teens. What does the acquisition do? I think your question, Paul, was what does the acquisition do in terms of increasing that? I think the way to think about it really simply is 40% of the market is in the US. So, what we've done is increased our exposure to more of the market, particularly the US. That's probably the way to simply answer that question. And then in terms of the adjacent sub-sector of fraud, identity fraud, again, we've talked, I think consistently about our vision being, bringing identity and fraud together, because in reality they aren't really separate, which starts to play some of your integration questions as well, Paul. and now, what's interesting is that we've got market analysis talking about and defining that market and defining it as identity fraud.

Chris Clark: And talk about that being a market growing at 15.8% and valued at 9.6 billion US dollars. What the acquisition of we believe of Acuant does is just put us in a stronger position to be a leader in the emerging identity fraud market, because it is really about the coming together. So, I think it cements our ambition, but we believe creates a real leader in that adjacent sub-sector. And then in terms of integration, I think Paul, the way to think about it is that all these things are components. So, there's components of the technology stack that Acuant have that we can plug into our offerings, the existing offerings. It's case of one product. It's more about technology build, because ultimately what we're trying to do is solve that end-to-end customer life cycle. So, there's components of the Acuant fraud suite that we can plug and play into our own offerings for our banks in Malaysia.

Chris Clark: And if you think about that from a customer perspective, what we see in our space and what everyone sees in our space, isn't particularly in sectors that have used variety of identity and fraud services, historically isn't a rip and replace. It's layering solutions. And we can do similar in terms of our offerings. So, we believe that as components of Acuant offering, we can offer to our customers in Asia pretty darn quick, and we're in detail planning as we speak and there's teams in the US this week going through some of that.

Paul Kratz: Okay. That's really clear. Thanks.

Operator: And our last question in the queue comes from Bharath Nagaraj from Berenberg. Please go ahead.

Bharath Nagaraj: Hi, good morning. Thank you. I'm just trying to understand how the Acuant acquisition helps bring about this common journey or the orchestration layer, as you said. Maybe the other way to ask the question is, what's your integration plan with regards to the technology on the front end and the back end? And the second question that I have is, do you think that the data driven solution can at all be cannibalised in the future by the document driven one? Because ultimately, they're trying to do the same thing, and maybe the data-driven solution is, I don't know, has more friction compared to the document driven-one. So just wanted to understand your thoughts on that. Thanks.

Chris Clark: Yeah. Thank you. I'll do the second question first. I think anyone in the industry, whether you're from a document world or a data world would very consistently say there's pros and cons of both, and that they are entirely complementary, not competitive. So, for a variety of reasons, most notably is that no one system is bulletproof. So, they're entirely complimentary and it is just why you see people making moves. In terms of the technology integration, I'm not sure I have time to do justice to the huge amounts of work we've done over the last number of months, given there's integration plans. But I'll come back to perhaps one of the answers I gave to the Tintin's question about geography. Our biggest challenge is prioritisation. And we are busy working through that now in terms of what is simple and very simple is how you plug data into technologies.

Chris Clark: We've done that time and time again in acquisitions over the last decade. And we know it gives immediate uplift to our customers. So, it starts with the data layer, and then from a technology perspective really, building on my response to Paul's question, it is more about components, and what we've got is a three-year technology integration roadmap in terms of using different components from single RESTful APIs, right through to some of the cloud-based services. And, as I said, I can't really do justice to the detail planning, but it starts with data and then the technology, it's from, how do you make it easy for customers consume, right through to how do you ensure that the products provide better insight to our customers, but more than happy to pick it up in more depth if required.

Bharath Nagaraj: Sure. Thank you.

Chris Clark: So, I'll assume that there’s no further questions. Conscious, we're right up on the hour. So, let me close by thanking everyone for their time, today. Sorry we've had to keep the Q&A relatively brief. Clearly, a lot to talk about today with the acquisition of Acuant, but clearly, if anyone wants further follow-up, David and I, and Richard would be more than happy to spend more time. Thanks all, very much, and stay safe.