In its twenty-fifth year
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"Relative strength is the only growth variable that consistently beats the market"

The Momentum Investor

STOCKMARKET NEWSLETTER

Authoritative Independent Monthly Share Selections using Technical & Fundamental Analysis

This Issue

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FTSE-100: 7692
FTSE-All Share: 4209
Small-Cap: 6337

Next issue on Saturday 20 April

Bloomsbury Publishing

Sector: Media	Share Price: 550p	Epic Code: BMY

Key Data

Address:	50 Bedford Square, London, WC1B 3DP
Telephone:	020 7631 5600
Shares in issue:	81.6m
Market Capitalisation:	£448.8
Next Results:	Finals: May

Over the month I met with Nigel Newton, founder and CEO of publisher Bloomsbury, and CFO Penny Scott-Bayfield. Readers may recall that Bloomsbury struck gold over 25 years ago by signing children's author JK Rowling and her *Harry Potter* fantasy series to a seven-book deal after 12 other publishing houses had turned her down. But Bloomsbury's bold decision to take the author was rewarded with a franchise that has since sold over 600 million copies worldwide, making it the best selling book series of all time.

The children's fantasy, about a boy who learns on his 11th birthday that he is the orphaned son of two powerful wizards and possesses unique magical powers of his own, opened up with *Harry Potter and the Philosopher's Stone*, which has sold in excess of 120 million copies, which is only bested by Charles Dickens' *A Tale of Two Cities* (over 200m) published in 1859 and *The Little Prince*, a fantasy children's book by French author Antoine de Saint Exupery published in 1943 (200m). The other six books in the Potter series each sold at least 65 million copies while there have been 11 films, numerous audio books and several spin-offs such as *Fantastic Beasts*. This success has thrown off plenty of cash for Bloomsbury, which Newton has reinvested into a high quality academic & professional division and it now boasts a backlist of over 70,000 titles, alongside annual output (front list) of over 2,000.

FY24 eps forecast almost doubled

This success has translated into three NASDAQ-style share price booms for Bloomsbury as the share price chart over the page shows; the first between 1998-2000 when the shares soared from 20p to 250p, again between 2001-2005 (140p-400p), and we are currently in the midst of a third winning streak.

Two years ago, Investec had forecast a pretax profit of £24m and eps of 22.5p in the year ended February 2023 rising to £25.5m (23.9p) in '24. In the event Bloomsbury achieved £31.1m and 30.6p in FY23, while in FY24 the broker now forecasts £48.1m and 46.4p.

Three catalysts

The origins of this momentum started early in the Pandemic when it became clear that Bloomsbury was benefiting from the renaissance in book reading as bored consumers turned to books to provide some solace and joy during lockdown.

A second catalyst was the success of academic & professional, which has benefited from the launch of Bloomsbury Digital Publishing, a digital library, which allowed Bloomsbury to sell its content countless times over and at a very high profit margin to universities, schools and other institutions.

Sarah J Maas rides BookTok phenomenon

The third and most recent driver for the upgrades has been the phenomenal success of author Sarah J Maas, whose novel *House of Flame and Shadow*, her 16th title and the third installment of her *Crescent City* series, about a mythical Princess on the planet Midgard, has reached number one both on Amazon and in seven countries including the UK and USA. This series has achieved cross-over status by melding together the fantasy and romance genres - Bloomsbury coined the term "romantasy" - but is also fortunate to have been adopted by BookTokers, a corner of TikTok devoted to reading, where users, predominantly young women, post short videos inspired by the books they love. By capturing their "visceral reaction" to a book, which doesn't come across in a written review, and sharing this in the form of a short (less than a minute) online video, these teen influencers have been pushing books up the charts.

For Bloomsbury, Maas' latest success has also led to renewed interest and sales in her older titles (backlist).

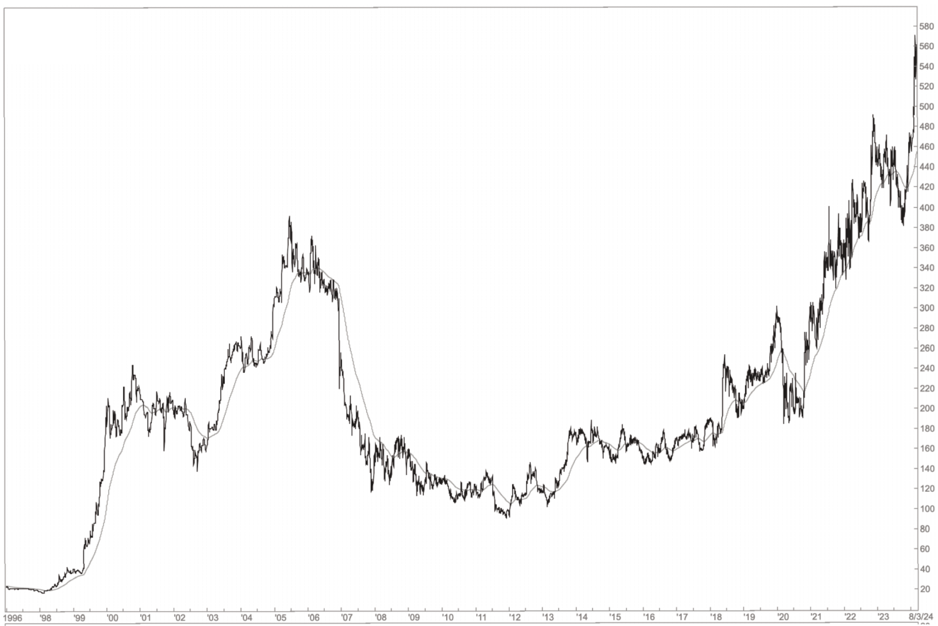
Fantasy and Sci-fi growing strongly

Traditionally the pool of readers might have been modest but BookToking has massively increased the opportunity with these online posts often attracting millions of viewers. Indeed, the Nielson Books and Consumer Survey stated that one in four book buyers used TikTok / BookTok in 2022 and these users accounted for nearly 90 million book purchases.

At the same time, market research suggests the Fantasy and Sci-Fi market has seen 91% growth in the USA and 41% in the UK since 2019 and Bloomsbury has, not surprisingly, strengthened its roster of authors in this space.

Publishing sector buzzing

Bloomsbury was founded by Nigel Newton in 1986, whose vision was to build a new independent, medium sized publisher of books of editorial excellence and originality. I first met Newton back in 2002 when Potter mania was in full flow and Bloomsbury's net cash had swelled to over £100m. As he recalls, the pressure to deploy the cash from institutional investors was immense but he didn't want to repeat the mistake former defence giant GEC / Marconi had just made by throwing it away into bad deals. Instead, over two decades he has made acquisitions (35 overall and 19 since 2008) predominantly on the academic & professional (A&P) side, his reasoning being that the sector enjoys higher PE ratios than consumer publishing, reflecting its greater predictability, lower returns of un-sold copies and upside from acquiring print content, typically on a multiple of 1x turnover and leveraging it onto a digital platform to grow incremental sales and drag margins higher. Clearly the aim is to emulate the success of its quoted rivals in A&P who've also digitized their content: Relx (product of a merger between Reed International and Elsevier) has risen from £5 in 1994 to almost £35 and trades on a rich forward PE of 28.5; US-listed J. Wiley has risen from US$4.50 to over US$33 and even the more volatile Informa (owner of Taylor & Francis) has moved up from 125p in 2003 to 812p.



Two divisions

At present, Bloomsbury operates across two divisions, which based on interim results for the six months ended 31 August '23 contributed as follows:

- Consumer: £89.4m
- Non-Consumer: £47.3m

Consumer Publishing

Operating from offices in London, Oxford, New York, New Delhi and Sydney, Consumer Publishing comprises Adult Trade and Children's Trade titles. In FY24 alone, Bloomsbury will publish 800 new titles in print, ebook and audio book formats.

When it comes to consumer publishing, in return for the rights to publish, the author receives a royalty based on the sales value generated by the book. Often the publisher will grant an advance, which guarantees a level of income to the author pre-publication, albeit subject to contractual conditions (such as actually writing the book!). The risk to the publisher is that sales will fall short of this advance and will be lost, but the latter reduces that risk by growing a large portfolio of authors and titles.

Children's Trade strong

Children's Trade (sales +22% to £61.7m in H1 24) has grown to dominate the division and even in 2024, some 27 years after the first title was launched, Harry Potter has proved to be a gift that keeps on giving. The Philosopher's Stone was the fourth bestselling children's title in Nielsen's BookScan in the latest period while spin-off, *Wizarding Almanac*, the only official companion to the Potter series, hit no.1 in the New York Times. The recent launch of premium illustrated editions has also gone well.

As Newton says, Bloomsbury doesn't compete in the crowded pure play romance space but is big in romantasy. Sarah J Maas was originally spotted by Bloomsbury after she self published several chapters of her debut novel, *Throne of Glass,* on hosting site

Babcock (BAB), 508p

They say "history never repeats itself but it often rhymes," which means details change, circumstances change, settings change and names change but similar events will eventually recycle. Former President Reagan was lampooned for his bad memory when Cold War fears of a nuclear holocaust were very real. Fast forward four decades and concerns of a nuclear conflagration from Ukraine have again bubbled to the surface with President "Sleepy Joe" Biden at the wheel and President Putin threatening "civilisation's destruction" on the "declining" West. With the isolationist Donald Trump poised for re-election and NATO countries scrambling to ramp up military spend, shares in *TMI* favourite Babcock (already in Trader Portfolio 2) have finally caught fire after a well-received Capital Markets Day presentation.

Under the leadership of David Lockwood (ex CEO of Laird and Cobham), Babcock has been cleaned up after its disastrous £1.4bn Avincis acquisition in 2014 nearly sunk the company and with debt down following a series of disposals, and EBIT margins targeted to rise to "at or above 8%" from last year's 6.3%, the future is bright.

Most of Babcock's work is in defence (70% sales) through two large divisions. Marine includes a collection of long life contracts mainly for the MoD, providing through-life engineering management and support for the Royal Navy from its bases in Clyde and Devonport. Babcock is commissioned to build new vessels (e.g. Type 31 frigate) but the CMD also highlights how a warship's typical 20-30 year life can be extended by many years through capability upgrades, which provides much repeat work. Similarly, its other division, Nuclear, which involves the operation and maintenance of the four Vanguard class submarines providing the UK's continuous at sea nuclear deterrent since 1969, also offers follow-on work. Babcock has announced a £560m contract to provide deep maintenance and life extension work for HMS Victorious, part of Vanguard, swelling its order book from £9.6bn versus annual sales of £2.2 bn.

As the incumbent, Babcock is well positioned to exploit: a £30-£50bn opportunity through to 2050 to increase the UK's submarine fleet from 11 to 16 boats; a £6-£8bn program for other major naval infrastructure at Devonport and Clyde and up to eight Australian new generation (SSN) nuclear subs through AUKUS worth up to £20 billion. Separately, Babcock's expertise in civil nuclear could unlock a £25-£30bn opportunity to deliver 24 GigaWatts of energy through a new fleet of large and modular reactors.

With eps forecast to jump from 32p in FY23 to 39.4p and then 44.2p in the year starting 1st April, the shares are still a buy.

ME Group (MEGP), 166.5p

ME Group (the new name for Photo-Me) provides great memories for *TMI*. I originally added it to the first Trader Portfolio at 23.5p in January '03 and the shares subsequently soared to a peak of 140p three years later. After taking profits near the highs I eventually sold them at 86p in 2005 with the reinvested cash helping TP1 on a journey that ended with a gain on cost of nearly 519%. Now two decades on, the shares have just surpassed those old peaks after its 2023 results beat expectations. The company has clearly shrugged off the disruption caused by the Pandemic with revenue, EBITDA and pretax profit increasing from £232m, £76.9m and £45m in the year ended October 2019 to £298m, £106m and £67.1m in FY23 - growth of 28%, 38% and 49%, respectively. Eps has grown from 8.9p to 13.4p while even after paying generous 22.4p dividends, its net cash pile has grown from £25m to £34m.

The company has evolved into two key divisions. It still operates its high street chain of photo booths (photo.ME) in busy footfall locations such as supermarkets, shopping malls, transport hubs and administration buildings (City Halls, Police etc.) and following last year's £5.5m acquisition of FUJIFILM's Japanese photobooths business, it is now the clear leader in Japan, as well as the UK and France (its three largest territories) while it operates in 18 countries overall. Its estate comprises 30,700 vending machines, having grown by 3,800 last year. The combination of Government requirements for digitalised photo ID and security to combat fraud, along with price increases and the introduction of higher yielding next generation photo booths boasting additional features (mobile to print, user personalisation services using AI and photo filters) means prospects remain excellent. This side grew EBITDA by 14% to £61.8m (58% group total) in FY23 and with 3,000 next gen photo booths expected in FY24, growing to 8,000 by FY25, this side should continue to grow nicely.

However, the main reason for my interest today is its rapidly emerging laundry services business (Wash.ME), which comprises coin operated machines branded "*Revolution,*" which are located on busy outdoor sites such as supermarket car parks and petrol station forecourts and allow customers to wash their duvets, bed sheets and towels. It's a great labour saving device and has short spin cycles (30 mins), high spin speeds to optimise the washing process and an energy saving tumble dryer, while at a cost of £6 for a 9kg load or £11 for 20 kg, it's materially cheaper than a visit to the launderette. With unit costs of just £9,000 per machine, payback on investment is just one year, while it's also extremely profitable with 48% operating margins. In FY23, sales grew 34% to £72.1m and EBITDA by 36% to £39.5m, driven by an additional 780 machines to take the total to 5,533. Wash.ME's contribution has grown to 37% of group EBITDA but will accelerate to a far greater chunk with the run rate of new machines accelerating from 65 per month to 80-90 per month.

Berenberg forecasts EBITDA growth to £117m in FY24 and £127m in '25 for eps of 13.9p and 15.1p, respectively. Even after the recent rise the valuation looks low on an EV/ EBITDA of just 5.1x. *I am a buyer.* TMI

fictionpress.com. Bloomsbury's slick marketing machine has been particularly helpful and alongside the usual 100 copies to literary editors, chat / radio shows, print interviews, outdoor advertising and of course social media, Scott-Bayfield says they even uploaded a 20 second film showing her latest book, *House of Flame and Shadow*, being printed at the printers, which garnered two million views! The great news is that Maas is contracted for a further six titles.

Other key authors in fantasy include Oxford graduate Samantha Shannon while Katherine Rundell's *Impossible Creatures* was the first children's book to win Waterstones' book of the year in 2023.

Adult Trade diversified

Adult Trade, which covers literary fiction, non-fiction (history, politics, culture), nature writing, poetry and cookery, enjoyed steady growth (sales +8% to £27.6m) with the *House of Doors* by Tan Twan Eng and *I Saw Death Coming* by Kilda E. Williams longlisted for the Booker Prize and US National Book awards, respectively. Newton says Bloomsbury has struck a rich vein in high end cookery including with Tom Kerridge, whose "*Lose Weight for Good*" single handedly carried Bloomsbury one year and Hugh Fearnley Whittingstall (*River Cottage*).

Non Consumer

In order to provide a predictable bulwark to the sometimes volatile consumer division Newton has separately built a thriving academic & professional business, which in H1 '24 contributed just over three quarters of non consumer revenues. The bulk of its acquisitions has come on this side starting in 2006 with Methuen Drama, adding a list in drama and performance titles. This was followed by Arden Shakespeare, highly regarded for editing and publishing Shakespeare's plays; Continuum (humanities and social sciences); Bristol Classical Press (classics and ancient history lists); Fairchild and Applied Visual Arts (visual arts lists); Family Law; IBT Tauris, (Middle East Studies, history, politics and international relations); and ABC-CLIO, an academic publisher of reference, nonfiction, online curriculum and professional development titles in digital formats for schools, academic and public libraries, primarily in the USA. The latter was the largest (US$22.8m) and not only added four imprints, 32 databases and more than 23,000 titles but also provided critical mass in the large US market; USA is 46% group sales, with UK 48%.

Helped by the above, Bloomsbury's verticals now comprise Drama & Performance; Fashion; Film, Music & Media; Theology & Religion; Art, Architecture and Design; Law & Tax; Video; History; Philosophy and Student Learning. Bloomsbury targets markets it can dominate - it has 58% of the academic text book market in the US, owning content that is essential to learning. For example, Bloomsbury has built a library of 3,500 plays, including a valuable Shakespeare video archive of performances at the National Theatre and the Globe so you can duke it out over whether John Gielgud, David Tennant, Jonathan Pryce or Mark Rylance made the best Hamlet.

Digital sales 28% of enlarged base

One reason I expect the shares to go far higher is that Bloomsbury has successfully leveraged its content online and digital sales have increased from 13% in 2018 to 28% of an enlarged base. Newton says they launched e-books in 2011 with the works of Winston Churchill and it has expanded from there. Bloomsbury has also added huge value to its acquisitions by uploading all the content onto Bloomsbury Digital Resources, an online library aimed squarely at academic customers (2,700) and schools (4,500) who pay a "mid four figures" subscription each year. The scale of the opportunity is huge with Bloomsbury noting there are 5,000 academic institutions and 27,000 schools in the USA.

Newton says the original target was to grow BDR sales to £15m and profits to £5m by FY'22 but in the event, these were smashed with Bloomsbury achieving £18.6m and £6.8m, respectively. With BDR sales growing another 41% to £26.2m in FY23, Bloomsbury has set a new target of £37m by FY28.

When you consider gross margins for BDR are over 70% and e-books are more than 85% versus just 50% for print, you can see the direction of travel for its profitability.

Valuable back list

The other factor supporting its margin gains is that Bloomsbury owns a valuable back catalogue of over 70,000 titles in multiple formats. Typically, when launching a new title (frontlist) Bloomsbury must incur costs such as editing, type setting, artwork and marketing but these are written off as incurred. So when, like with Sarah Maas, a new best seller triggers renewed interest in the older titles, those revenues will mostly fall straight to the bottom line. As an illustration of how these tail-winds are benefitting Bloomsbury, Investec now forecasts group operating margins to hit 14.7% for FY24, up from just 11.9% in '23.

£60m cash pile

Although eps is forecast to "normalise" to 32.2p in FY25, another best-seller in the form of another Sarah Maas launch (which could be brought forward into the current year) and / or the deployment of its c. £60m cash pile could quickly move the needle higher, while the prospect of greater digital revenues longer term could see it re-rate in the style of Relx. The dividend, which has grown every year bar one since 2005, is also an attraction. *I am a buyer on a 2-3 year view.* TMI

GB Group

Sector: AIM, S'ware & Computing Share Price: 263p Epic Code: GBG

Key Data

Address:	The Foundation, Herons Way, Chester Business Park, Chester, CH4 9GB
Telephone:	01244 657 333
Shares in issue:	252.6m
Market Capitalisation:	£664.3m
Next Results:	Finals: June

GB Group is focused on solutions for online transactions and enables businesses to reduce the amount of fraud that's potentially in their business. So this is all about online ID verification and fraud detection services for online transactions. For instance, if you apply for a loan or a credit card, GB Group's systems will allow the bank to check that you are who you say you are, and it is reducing fraud in this way. Their systems will be looking at a vast range of data to carry out that service.

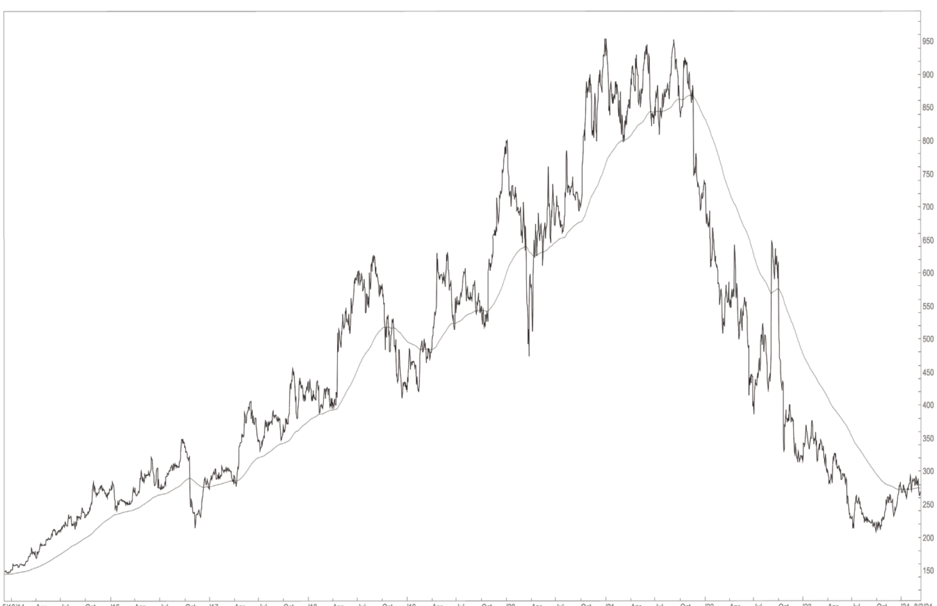
The business comes from humble origins, having made sales of just £7m and an operating profit of only £1m in 1999 (when it was known as PhoneLink). By 2010, that had subsequently improved to sales of £22.2m, pretax profit of £1.3m and eps of 1.8p. In FY22, these figures peaked at £242.5m, £57.1m and 20.2p, respectively. Although there has since been a short period of consolidation, GB seems to be returning to form; an in-line update on 30 January confirmed earlier progress at its interims last November (operating profit +8% to £23.9m adjusting for a large forex gain the previous year), and Investec forecasts eps of 14.6p for the year to March, rising to 17.6p in the year starting 1st April. The more bullish Stifel forecasts 15.5p and 18.8p, dropping the soon-to-be prospective PE to just 14.0, which is just one third of the peak rating of 43x it enjoyed when market conditions were stronger. Stifel's target is 550p, double today's price.

Shares bounce from lows

That the shares fell as low as 213p before the recent bounce had reflected fears that depressed macro conditions and continued high interest rates could hamper GB in the short-term as well as investor suspicion it overpaid for a large acquisition. Meanwhile, its record year of 2022 was boosted by one-off gains from the boom in crypto currency account verifications and the subsequent crypto crash hurt 2023 earnings. However, Bitcoin's recent recovery to US$66,000, alongside approval of the first crypto exchange traded fund which has seen over US$7.5bn flow into it, suggests this head-wind has now turned to a tail-wind.

Going cashless a boon for GB

But I think it's time to draw a line under that noise and look forward to the terrific structural growth drivers so helpful to GB, in particular the mass migration of cash transactions to digital / online. A recent report found that the number of UK consumers no longer using bank notes or coins has increased from just 2.9 million in 2016 to a massive 23.1 million in 2021.The pandemic has pushed at an already open door with businesses going card-only to avoid infection transmission while consumers have embraced the convenience of e-commerce. Banking trade association, UK Finance, forecasts that by 2031, notes and coins will only account for 6% of all UK payments down from 19% in 2022 while a similar story is playing out in the USA.



Huge and growing markets

Another related trend in GB's favour is that the e-commerce share of global retail sales has increased from 7.4% in 2015 to 21% in 2023. All this bodes well for GB because the spike in online transactions has also attracted widespread criminal activity, with the US Federal Trades Commission taking 5.8 million customer complaints related to identity theft or fraud in 2021 (+17.2% year-on-year). Governments have inevitably knee jerked by introducing a wave of new legislation and regulation and one study says the global fraud detection & prevention and identity verification markets are already worth US$35.7 billion and US$9.9 billion, respectively and each are forecast to grow at a 16.8% CAGR between 2022-2030. Separately, the anti-money laundering (AML) market is projected to grow from US$3.1 billion in 2023 to US$ 6.8 billion in 2028 and GB Group supplies products and services for all three markets.

History

Established in 1989 as GB Mailing Systems to exploit the market for postcode and address information, it was acquired by Phonelink, a then-listed UK telephone data services provider, a decade later and changed its name to Telme.com in 2000 to reflect the success of an online travel ticketing business.

However, the platform for today's success occurred first under the leadership of Richard Law (the original CFO) and then his successor Chris Clark, a former Experian executive appointed in 2017, the latter transforming it into a truly international business with a broader product range. By H1 24 the USA had become the largest region with 34% of an enlarged sales base, with APAC 19%, Europe 13% and the UK now 30%.

Acquisitions drive 11-fold eps gains

This transformation was mainly done through 15 acquisitions in the past 10 years funded by cash and heavy share issuance - shares in issue have tripled from 85.8 million in 2010 to 252 million. Important acquisitions included: Australian fraud detection firm DecTech in 2014 (£20.5m) to gain multiple bank customers; Loqate in 2015 (US$20m), which verifies customer address information and provides a Silicon Valley base; IDscan Biometrics in 2016 (£43.8m) offering biometrics solutions for rapid customer onboarding; and PCA in 2017 (£66m), a location intelligence data provider.

IDology and Acuant provide US scale

But on a far greater scale were US identity data specialists IDology for £237m in 2019 and Acuant (£554m) the following year. GBG paid 6.2x IDology's 2018 revenue and 14.5x EBITDA but Acuant cost 12.7x trailing revenues, over twice IDology's valuation, with the justification being added scale in the then US$1.5bn identity

Howden Joinery (HWDN), 872p

Howden Joinery, the market leading supplier of kitchen cabinets, worktops and other joinery products to local builders, boasts a track record few in its industry can match. After passing sales of £0.5bn in 2003, it smashed the £1bn barrier in 2013 and £1.5bn in 2018. As the Government threw money around like confetti during the pandemic, demand for its products soared as bored locked-down consumers spent lavishly on doing up their homes. With as much as 90% of its sales derived from the residential market and 95% from RMI (repair, maintenance and improvement), Howdens was clearly well-placed to rake it in with sales peaking at a massive £2.3bn and pretax profit hitting £405.8m in FY'22. Although last year's sales were flat and profit declined 18% to £340m, in part due to heavy investment in growth initiatives, the likelihood of several interest rate cuts in the second half of this year putting money back into home owners' pockets, makes the shares appealing. Howden's outlook statement even noted "revenue growth increasing in all the countries we operate" and the shares have jumped in response.

Howden was originally set up in 1995 as a division of the now defunct retailer MFI and went on to become the jewel in the latter's crown, regularly posting double digit sales growth as it expanded across the country. The sheer scale of its operations is shown by the fact that last year it sold 5 million kitchen cabinets, 1.3 million appliances and 3.3 million square meters of flooring. Its target market is local builders, who are employed because the customer is put off doing the work themselves due to the increased costs and complexity of kitchens, which can retail for well over £20,000 at the top end.

A sign of Howden's quality is that it enjoys superior levels of profitability with gross margin of 60.8% reflecting its vertically integrated model with one third of its kitchens manufactured from its own factories in Runcorn, Cheshire and Howden, Yorkshire. That also provides security of supply and control over product quality, while the rest is sourced overseas. Howden has long-term contracts for the supply of chip boards (its main raw material for kitchens) and its plants will cut it, drill it and machine it to turn it into big sheets, which are then laminated to form kitchen work tops. Its factories also make kitchen carcasses, which are ready assembled. Alongside kitchens, it also has its own brand of kitchen appliances called Lamona.

Last year it invested £53m on strategic investments including £25m on warehouse and transportation initiatives while the £15m acquisition of Sheridan Fabrications in 2022 brought in the largest supplier and manufacturer of luxury worktops. The group also opened another 33 depots in the UK taking the total to 840, as well as upgrading 89 existing ones. The plan is to get to 1,000 in the UK medium term while in 2019 it also launched overseas into France and Belgium where it now has 65, having opened 10 last year, as well as 11 in Republic of Ireland. This year, it plans to open another 30 in the UK and 10 overseas.

Howdens also added 23 new ranges last year with a bias towards entry level and mid price ranges and launched a new paint to order service for its best timber kitchen ranges. Excitingly, it has also expanded into a new market of fitted bedrooms in the UK, increasing its total addressable market by £1.2 billion to around £12 billion. That compares with Howden's existing sales of just £2.2 bn and a near 19% of its UK market. In France, which has far lower penetration rates of integrated kitchens but which Howdens believes will be receptive to its trade-only-in-stock model, the market is worth £3.4 bn versus Howden's international sales of just £70m.

Underpinned by net cash of almost £283m, Howden started a £50m share buy-back program last year while it also pays a 21p dividend. Based on consensus eps forecasts for 49.1p this year and 55p next, the shares trade on a prospective PE of 17.8 and then 15.9. *One to watch for early signs of recovery in the UK RMI market*.

market, complementary product and new datasets and cross-selling opportunities. Questions may rage on whether it overpaid but the M&A led strategy as a whole has been vindicated by the amazing 11-fold, 44-fold and 11-fold increases in sales, pretax profit and eps between FY 2010-2022, while, helped by a shift in mix towards SAAS transactions (and fewer one-off license revenues), EBIT margins have soared from 5.4% in 2010 to peak at 24.3% in '22 before pulling back to 21.5% last year.

Three divisions

The group reports across three divisions, which contributed as follows to H1 24 revenues:

- Identity verification: £76.6m (58%)
- Location intelligence: £36.6m (28%)
- Fraud prevention: £19.2m (14%)

Identity Verification

GB's largest division is identity verification, which operates in markets worth a massive US$17 billion and is forecast to grow at a near 27% CAGR through to 2030. This momentum comes from the fact that while online channels have transformed business growth prospects, they also burdened organisations with the need to speed up the know your customer (KYC) process, which in turn increased the risk of failing to comply with regulations such as anti-money laundering and selling age restricted goods such as gambling and video games. The financial services sector can be particularly treacherous with large penalties meted out for AML violations. At the same time, companies don't want to risk losing new business because that onboarding process takes too long.

Speeds up onboarding

As long term subscribers are likely aware, in the old days, opening a new share trading account was a slow and clunky affair, in which investors had to send their broker a copy of a utility bill and passport. However, GB's Identity Verification product suite makes that process quicker and seamless with ID3 Check, launched in 2006, allowing customers to fill in their details onto a web page with the system matching them for veracity against a range of external, third party databases to confirm the customer's identity is genuine.

Subsequent products, ID3 Global (providing overseas ID checks), which can verify the identity of more than four billion people in 60 countries and IDscan, which provides biometric and facial recognition technology, where you simply look into your computer's camera to be verified, have broadened out the portfolio.

Financial services is the largest market across all three divisions with 40% revenues, while Retail (11%), gaming (9%) and Tech (9%) are also significant.

US$36 billion fraud prevention market

GB's two smaller divisions, Location Intelligence and Fraud Prevention, also operate in large markets and are growing well with sales up 8.1% and 10.5%, respectively, in H1 24. Location Intelligence provides address look-up and verification, capturing and confirming addresses in online forms and checkouts as well as checking the accuracy in real time of e-mails, phones and bank details.

Meanwhile its Fraud Prevention side helps businesses know their customers and screen out fraudulent transactions, helping to prevent application fraud and detect / prevent money laundering, while minimising disruption for the customer.

It's a huge US$36bn market for GB and the scale of the opportunity is provided by PwC's Global Economic Crime and Fraud Survey 2022, which showed that 45-50% of organisations have reported an incident in the prior 24 months.

Value in datasets

There are four reasons why GB is a far more valuable business that the soon-to-be prospective PE rating of 14 suggests. First, over the years, it has built up access to hundreds of global data sets supplied by the credit reference agencies (CRA) such as Experian, Equifax, Callcredit, Mitex and Relx. GB has at least two suppliers in 65 countries while its reach extends to over 200 in all and it benefits from the "network" effect where the more data it has access to, the more customers it attracts and vice versa.

In the UK alone, GB has access to data sources, including government, credit, commercial and consumer, covering 90% of the population and it's catching up in the US following the IDology and Acuant deals. Analysts believe this provides a competitive advantage over its rivals, which include private US companies Jumio, Onfido and Trulioo and UK-based Onfido.

High repeat revenue

The second reason the shares are too cheap is that 56% of its revenues are from subscriptions while a further 38% are transaction / consumption based. Much of the latter is SAAS, for example these days we all are familiar with auto completing our address when we buy something and only need to enter our postcode to get our full address details loaded onto the screen: a business pays GB's Loquate service six pence every time and therefore can also be considered "sticky."

Third, GB is strongly cash generative with net debt falling from £132.6m to £104.8m year-on year in H1 24, while net debt / EBITDA is forecast to fall from the current 1.1x to just 0.4x in FY'25, leaving plenty of firepower for more acquisitions.

Fourth, the group's technology platform is both well invested and highly scalable and it won't take much in the form of incremental revenues to drive EBIT margins towards their former highs.

Bidders sniffing at 650p

GB's market cap is still only £664m and I can't help thinking it could be an attractive target either for a trade buyer or private equity. Interesting to note that it was subject to a bid approach from private equity firm GTCR back in September 2022 while Advent (which bought UK air-to-air refueller Cobham for £4 billion in 2020), Permira, Hg, KKR and Cinven were also said to be "preparing bids" according to Capital.com in the immediate aftermath. During that frenzied period the price spiked to 650p and if it doesn't re-rate soon, history could repeat itself. *There is huge scarcity value to this business; I am a buyer.*

TMI

Updates, upgrades and downgrades

Luceco (LUCE) 131.5p
Sector: Electronic & Electrical Equip.

It's been almost two years since its last acquisition (of Sync EV for £10m) but Luceco has finally broken the drought, announcing the purchase of D-Line, a supplier in cable management solutions, for an initial £8.6m, plus up to a further £3m subject to a transformational business win.

Tyne & Wear based D-Line designs and supplies a range of cable management solutions including decorative cable trunking and accessories, fire-rated cable supports, floor cable protectors and cable organisers. It supplies retail, wholesale and eCommerce customers mainly in the UK, Europe and North America.

D-Line generated revenue of £17m and underlying profit of £1.4m in the year ended November so the price paid is excellent at a modest 6.1x profit and "is expected to be earnings enhancing, achieving an operating margin consistent with that of the company in its first full year of ownership."

Liberum has upgraded its eps forecast by 3% and 6% to 12.1p in FY24 and 14.3p in FY25, respectively, dropping next year's PE to 9.2. With net debt / EBITDA to rise to just 0.8x post acquisition, there remains plenty of firepower for more deals. *Luceco's high operational gearing places it near the top of my list to benefit from a lowering of interest rates/rising consumer demand. I am a buyer.*

Energean (ENOG) 1035p
Sector: Fossil Fuels

Energean announced a reduction in guidance for 2024 to 155-175,000 barrels oil equivalent per day (boepd) due to delays in Israel phasing out its coal fired power stations, milder than normal weather and slower production ramp-up due to technical delays. However, the latter has since been resolved while a crucial landmark has been achieved with first gas flowing from *Karish North* (long awaited extension of its flagship *Karish* field).

Separately, a new gas sales agreement has been signed covering an initial 0.6 billion cubic metres / year rising to 1 bcm / yr from 2032.

A slight set-back then but overall Energean is on track to increase production to above 200,000 boepd some time in 2025. Peel Hunt forecasts EBIT profit almost doubling from US$492m to US$955m this year and then US$1,078m in '25 for eps of 223 cents (176p) and 257 cents (203p). The dividend is forecast to be 107 cents (85p) rising to 213 cents (168p), for a yield next year of 16%!

The shares have risen sharply following my latest "buy" rating at 897p last December during the height of Middle East war fears. Peel Hunt's target price is 1500p while the more bullish Stifel targets 1900p. Taking an 18 month view I'm leaning towards the latter. I am a buyer.

Lok 'n Store (Lok) 801p
Sector: AIM, Real Estate

In a positive update Lok n Store revealed that first half revenue (to end January) was +4.9%, supported by pricing +4% and trading in line with expectations. Early trading at the three newly opened stores continued as expected and a new managed store has also opened recently. Two further stores (one owned, one managed) will open later in 2024.

Financing terms have been improved with £10m out of the total £44m debt now fixed at 5.2% for five years, significantly below the 6.74% floating rate paid on the remainder. This reflects the strong balance sheet with net debt at July '23 standing at just £12.3m for loan to value of 3.7%.

As broker Cavendish notes, the opening pipeline will add 39% to owned space and a key attraction is that each new store typically doubles its cost once open and trading is proven.

Reflecting this, Cavendish forecasts NAV per share to increase from 986p in FY'23 to 1352p by FY'28. Eps is forecast to rise from 29.5p in '23 to 34.2p in '26 and the dividend from 19p to 22p. Its target price is 1352p. The shares trade at a discount to trailing NAV of 19% and a dividend yield of 2.4% is useful while awaiting better market conditions. *I am a buyer.*

OntheBeach (OTB) 146p
Sector: Travel

Low cost carrier Ryanair recently announced lower sales as a result of being thrown off the platforms of several online travel agents (OTA) after its motormouth CEO Michael O'Leary had accused them of using "screen scraping' to access Ryanair flights. But it's seemingly thrown in the towel by announcing a series of partnerships with several OTAs including On the Beach. This agreement "secures OTB free and fair access to Ryanair seat supply; facilitates a smoother customer journey when booking Ryanair flights as part of an OTB package; simplifies OTB operations; and enables the two parties to move on from the outstanding litigation and focus on building the partnership.

The shares rallied 20p to 160p at one point but remain very cheap on a forward PE of 6.4 once the £76m cash pile (or 46p a share) is factored in. Once "risk-on" returns, the shares could spring back like an elastic band; I am a buyer.

H&T (HAT) 338p
Sector: AIM, Financial Services

H&T has announced the acquisition of a single well-established store based in Ilford, Essex with a 40-year trading history from Maxcroft Securities. The store comes with a sizeable and growing pledge book of £6.1m and strengthens H&T's exposure to the self-employed and business customer segments - areas it's looking to grow - alongside a successful FX business. The underwriting terms and quality of pledge book are similar to H&T's although interestingly, the average loan size is larger at £4,023 (versus H&T's £423). The price paid of 1.85x its pledge book value is within H&T's normal range.

H&T has also announced an additional £25m of funding (c. 8.4% interest rate) from Pricoa Private Capital, taking the total to £85m, to provide additional headroom for pledge book growth. Shares are cheap on a prospective PE of 5.9 (eps: 57.4p) and 5.4 (63p) in FY'25. *I am a buyer.*

Updates, upgrades and downgrades

Gulf Marine Services (GMS) 18p
Sector: Fossil Fuels

The shares again challenged their highs after Gulf Marine announced another upward revision to its 2024 EBITDA guidance, which is now anticipated to be in the range of US$92m to US$100m, rather than the previous range of US$87m-US$95m. It also ended 2023 with net debt of just US$268m versus US$406m in 2020.

This has been driven by improved trading with Gulf Marine announcing a contract extension and new letter of award. As a result, its backlog has now reached US$373m or 2.45x revenues, offering improved visibility moving forward.

Zeus has upgraded EBITDA for FY24 by 5% to US$98.8m with eps raised 11% to 4.1 cents (3.2p), which drops the prospective PE to just 5.6. *Gain to date: 41%. I am holding for more.*

Dunelm (DNLM) 1152p
Sector: Retailers

Homewares and furniture retailer Dunelm has announced first half profits slightly ahead of forecast as well as a 35p special dividend. The company has a great track record of market gains and that trend has continued with its share inching up 0.5% in a tough market. Sales volumes were up 6% and active customers rose 4.2%. That translated into pretax profit rising 4.8% to £123m.

Dunelm opened four new stores in H1 and expects a similar number in the second half. Both normal (30,000 sq. ft.) and small store (15,000 sq. ft) formats are driving the active customer base with limited signs of cannibalisation.

Dunelm has increased its number of products again (to 80,000 SKUs) mainly delivered via drop-ship partners while competitive five-day lead times have helped to drive some furniture categories, such as sofas, with historically weaker categories such as cook & dine also growing well thanks to range and merchandise improvements.

Peel Hunt forecasts eps virtually flat year-on-year at 73.8p for the year ended June '24 and 77.7p in '25, although the latter factors in just 5% revenue growth in a likely interest rate cutting environment. Underpinned by a forecast dividend yield of c. 8% (including the special) the broker has a 1375p target price.

Highlighted most recently at 610p in April '17, the gain (including earlier special dividends) is now 89%. I am a buyer.

Reach (RCH) 74p
Sector: Media

The shares bounced following results slightly ahead of expectations, aided by an improving Q4 and a "robust" start to January and February. Revenues declined 5.4% with the EBIT impact minus 9%. In print, revenues fell 3.5% although advertising outperformed long-term declining trends.

Within Digital, Facebook's newsfeed switch off, google algorithm changes and hard macro conditions lowered revenues by 15% to £127.4m due to page views and lower open market yields both declining a quarter but that's the worst of it. Reach's investment in the data-driven segment has been rewarded with an increased contribution to 43% of divisional sales from 38% in FY'22. Crucially, Reach is squeezing far more from fewer eyeballs with revenue per thousand page views (RPM) up 11% year-on-year and data driven RPM + 23%.

The engine room is its customer value strategy designed to drive more data led sales (now yielding 10x more than programmatic), with registered customers (providing their address, email etc. in return for free content) having grown from 12.7 million to 14 million, increasing its valuable library of first party data. Of these, 4 million have been active in the past 28 days. These metrics will keep growing as the company already "reaches" 72% of the UK audience through its 120 regional and national brands and it's behind only Google, Facebook, Amazon, Microsoft and the BBC.

The more engaged they are the more advertisers will pay and Reach now has over 1.2 million customers registered for its 600 newsletters, as well as 1.5 million receiving content directly via Whatsapp while 600,000 footy fans have signed up for its You Tube Channel, *The Arsenal Way*. That first party data could prove a gold mine for Reach given that Google is switching off third party cookies that advertisers use to trawl for new customers online and which will no longer be available by the start of next year. CEO Jim Mullen has just signed a landmark data deal with Amazon and more will surely follow. A Reach case study shows the potential with a data tie-up with Iceland (half price Xmas turkey offer on the *Daily Express* front page), alongside other grocery and clothing partnerships, doubling digital food revenues.

Net debt was £10m (vs £120m bank facility to November '26) and is expected to increase this year to finance further cost reductions but the picture will then improve dramatically. Deferred consideration for the Daily Express / *Star* assets has completed and the phone hacking (£35m+costs since 2020) and pension payments (£234m + costs) will unwind in 2025 and 2028, respectively, the latter reducing from £60m to £20m. Mullen says the greater certainty will allow him to invest more in the data side.

An absolute bargain on a prospective PE of 3.3 (eps forecast: 22.3p) and yield of 9.9% (7.34p). When digital comparables get easier from Q2 onwards, investor interest should return. *Patient money should be rewarded with a multi-bagger; I am a buyer.*

CVS Group (CVSG) 1497p
Sector: AIM, Consumer Services

The acquisitive veterinary practice group's interim results showed double-digit top line growth with revenues up 11% (6% organic) and EBITDA increasing 9%. Below that, a range of headwinds - depreciation, interest and tax - dragged on pretax profit (+4% to £42.7m) and eps (-2% to 44.5p).

The main news is the more bullish noises on the company's deal pipeline; it's spent £54.4m on 15 practice sites in Australia in H1 and is expecting 10 more acquisitions down under in H2, plus one more in the UK. Net debt / EBITDA rose from 0.6x to 1.15x year on year in H1 but remains conservative.

Tempering things was a more cautious outlook statement, with macro-economic pressures weighing on consumer demand. EBITDA margins were 0.4% lower due to higher staffing and property related costs and the initially dilutive impact from four greenfield projects including a small animal practice in Derby and a state-of-the-art multi disciplinary referral hospital in Bristol.

With guidance remaining unchanged, eps forecasts from Berenberg are for 93.1p in the current year to June '24, rising to 98.9p and then 104.5p in FY'26. The recent de-rating reflects the overhanging Competition & Markets Authority investigation into the sector, leaving the prospective PE at 16.1. *Taking a 2-3 year view, that looks cheap given its excellent track record (EBITDA up from £5.1m to £121m between FY'07-'23), although I will await the CMA's findings before considering further buying.*

Judges Scientific (JDG) 11200p
Sector: AIM, Electronic & Electrical Equip.

The shares are on a tear, climbing to a new high of £112, helped by institutional buying in a thin market. On 1 February, Judges Scientific also made a small acquisition, its first in Switzerland, of Luciol Instruments, a manufacturer and seller of instruments to measure optic fibre properties using Optical Time-Domain Reflectometry (OTDR). Judges is paying CHF 2.0m (c. £1.8m), around 4x Luciol's average profit for the last four years.

Highlighted at 8330p in December '21, the shares have gained 34%. With the prospective PE now almost 30 (FY'24 eps forecast: 383.5p), I'm top-slicing a part profit.

At the time of going to press, the editorial team held the following shares mentioned in this issue: Luceco, Reach, GB, Bloomsbury, On the Beach

Trader Portfolio 2

The performance of a new portfolio can be volatile in the early days and I was reminded of this when reviewing the "journey" of TP1, which spent a year underwater when, rather like now, economic conditions and markets were soft. Sticking to the principles of momentum investing, I sold the few duds that came my way for modest losses - such as clothing retailer, French Connection - and ran the winners often with spectacular results including Photo Me, (gain-to-peak: 425%); Mayborn, the maker of Tommee Tippee feeding and hygiene baby products, which gained 558% after a take-over by private equity group, 3i in 2006; oil e&p Burren Energy (gain-to-peak: 344%); sterilisation services firm Synergy Healthcare - finally bought out for 2219p for a gain of 880% after a 12-year hold, and utilities re-seller Telecom Plus, which had increased 484% when TP1 was disbanded.

My excitement now is that I can see parallels with TP2 which, after barely registering any gains for three years after launch (not helped by Putin, Liz Truss and the cost of living), has jumped 10% since January with SigmaRoc (+42% ahead of results on 18th March), Babcock (+28% post CMD) and Hostelworld, which has risen +29% after twice raising forecasts, leading the way.

The past month has seen an eps-enhancing acquisition from Luceco, a rally from Playtech and a more positive tone from Reach, not only drawing a line under phone hacking and pension issues but also revealing pleasing outperformance from its data led advertising. Re-working the famous quote: "In the land of the blind the one-eyed man is king," one could say Reach's growing pile of first party data (from 14 million registered sign-ups) could open the eyes of advertisers to its rich content with Google's impending third party cookies switch-off effectively blinding traditional opportunities for customer acquisition.

This month I've led with Bloomsbury Publishing, which has used its massive windfall from Harry Potter to strengthen consumer publishing with best-sellers such as Sarah J Maas, while acquisitions have built valuable "evergreen" content within its academic & professional division. With 2023 eps estimates thrashed by over a third, Investec has almost doubled current year forecasts from 23.9p to 46.4p following a succession of upgrades. With c. £60m cash, more deals are to be expected.

My other write-up is GB, which provides online ID verification and fraud detection services and boasts a terrific growth record. The shares have retraced from highs of 950p due to tougher macro conditions and the decline of crypto activity tracking the decline of Bitcoin. But with the latter's remarkable resurgence to new highs after another "halving" as well as regulatory approval for Bitcoin ETFs, I see scope for a re-rating from its lowly prospective PE of 14.0 (18.8p). Director buying in the past 12 months (50,000 shares between 230p-333p) by the Chairman and CFO also lends confidence.

PERFORMANCE TABLE

	Current Value	Change on One Month	Change Since Start
TMI Trader Portfolio 2		+2.4%	+14.0%
FTSE-100	7692	+1.3%	+30.3%
FTSE-Small Cap	6337	+1.8%	+6.2%

TMI TRADER PORTFOLIO 1

Starting Capital (25.3.02):	£100,000
Termination Value (11.12.20):	£618,710
Portfolio gain:	+518.7%
FTSE-100 gain in period:	+24.7%
FTSE-All Share gain:	+44.6%

EPIC	Quantity	Description	Date Bought	Acquisition price (p)	Book Cost (£)	Current Price (p)	Current Value (£)	Change (%)
CAML	4,250	Central Asia Metals	21/12/20	224	9,565	166.5	7,076	-26
RCH	3,600	Reach	21/6/21	263	9,560	74	2,664	-72
ESNT	3,000	+ Essentra	22/11/21	284.2	8,571	175	5,250	-39
SRC	11,000	SigmaRoc	16/3/22	83	9,175	69	7,590	-17
BAB	2,800	Babcock	14/4/22	323	9,134	508	14,224	+56
HAT	2,600	H&T	7/7/22	361	9,431	338	8,788	-7
PTEC	2,400	Playtech	26/9/22	378	9,162	462	11,088	+21
MOON	6,500	Moonpig	23/5/23	135.5	8,897	170	10,050	+24
LUCE	7,500	Luceco	2/6/23	123	9,316	131.5	9,863	+6
HSW	7,250	Hostelworld	20/9/23	126	9,226	164	11,890	+29
HTG	3300	Hunting	11/1/24	277	9,232	298	9,834	+7

Stock value	£99,317
Cash	£14,661
Total fund value	£113,978

* Part profits taken + Acquisition price adjusted for special dividend

Starting capital £100,000 (December 2020)

Current holdings in the portfolio are valued at mid-prices and include dealing commission

The Momentum Investor is published 12 times a year. It reviews the market for companies whose earnings, sales or stock prices are rising. We place less emphasis on price earnings ratios and more on the search for relative strength and quality. The latter can include superior management, product or a key franchise. Our aim is to help you buy companies that deliver positive earnings surprises and see upward earnings estimate revisions, and sell those with negative surprises and downward revisions. Quite often a previous tip is again rated a buy. This normally arises where subsequent good news justifies buying at the higher price. Selling, though, is the essential second half of any successful investment deal. TMI's philosophy is not to sell a stock just because it is "expensive," but to only advise selling if the momentum breaks, or the fundamentals deteriorate. Where appropriate, we will suggest levels, to protect gains and minimise losses.

• *Unless otherwise stated, share prices quoted are correct as at 7/3/24*

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