EQS Group

Media

12 April 2019

Price	€73.50
Market cap	€105m

Compliant digital solutions

EQS's FY18 results were broadly as expected, with a strong uplift in the top line. The planned investment, designed to build a global regulatory tech platform business, affected profit as flagged. FY20e should be the year when the benefits start to flow more strongly as the group builds share (and SaaS revenues) in the increasingly digital governance, risk and compliance segment. With additional functionality being added to the cloud-based platform and growing recurring revenues (80% of total), both the quantum and the quality of earnings are increasing.

Faster growth from Compliance

The potential for growth from the Compliance segment outstrips that from corporate IR. In FY18, the difference in dynamic was exaggerated by weak media and advertising revenues within IR, which held revenues from the segment flat, while Compliance revenues grew strongly (+46%), albeit off a smaller base. Compliance contributed 51% of FY18 revenues. Reported financial income was boosted by a one-off put option reversal for ARIVA, which generated €2.1m. Regulatory changes should have a beneficial impact between FY19–FY21, driving the whistleblowing module and the volume of corporate announcements that need to be logged. EQS is now concentrating its efforts on European markets and has closed its operation in Dubai. Forecasts, based on guidance, indicate a recovery in FY19e IR growth to 15% and Compliance growth moderating to (a still strong) 16%.

COCKPIT platform growing in scope

Spend on platform development in FY18 was €6.1m (€2.3m capitalised), making it the peak year of the €9.3m investment programme. During FY19e, CRM and Policy Manager in the Corporate Compliance segment are set to be added to the COCKPIT integrated workflow platform and in IR, CRM and Investor Management will join. We anticipate that the benefit of these additions will be more obvious within the numbers in the second half of the year.

Valuation: Well underpinned

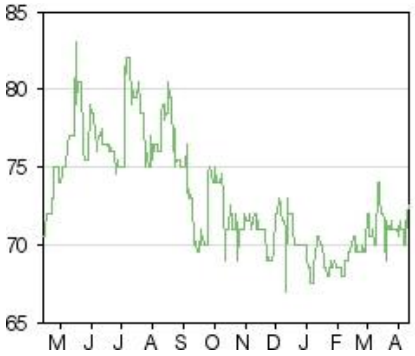
With profitability suppressed by the investment, traditional valuation multiples are not particularly helpful, barring EV/sales. Larger global financial platform peers are valued on 4.4x FY19e, against EQS on 2.7x, a 39% discount.

Consensus estimates

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)	Yield (%)
12/17	30.4	0.8	0.16	0.00	N/A	47.1	0.0
12/18	36.2	(1.4)	(0.19)	0.00	N/A	N/A	0.0
12/19e	42.1	(1.0)	(0.98)	0.00	N/A	161.5	0.0
12/20e	49.4	2.2	0.71	0.18	103.5	31.2	0.2

Source: Refinitiv

Share price graph



Share details

Code	EQS
Listing	Deutsche Börse Scale
Shares in issue	1.43m
Net debt (€m) as at 31 Dec 2018	9.1

Business description

EQS Group is a leading international technology provider for digital investor relations, corporate communications and compliance. It has over 8,000 client companies worldwide using its products and services to securely, efficiently and simultaneously fulfil complex national and international information obligations to the global investment community.

Bull

- Financial market regulation.
- Opportunities in governance and risk.
- High percentage of recurring and repeatable income.

Bear

- In investment phase.
- EBIT margin yet to trend up.
- Dividend payment on hold.

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Clear investment case

The narrative of the investment case is unchanged on these results. EQS offers a cloud-based platform to manage the digital workflow of IR, communications and compliance professionals. The reorientation needed to grow in the compliance market has/will cost in diminished profits from FY17 to FY19e but the longer-term goal is sufficiently attractive to justify the investment. The timing of front-end loading of the investment is necessary to establish a strong offering as the market shift to digital accelerates. European markets are on the radar of the large US providers, but lower in their priorities, with local incumbents better placed to navigate the complexities of corporate regulation. Regulation has been, and will continue to be, a key business driver.

EQS's cloud-based architecture is based on the COCKPIT platform, built with the flexibility to add and adapt modules. The main elements are:

- INVESTORS. This maps IR work processes against global investor data, increasingly important post the implementation of MiFID II. All German clients are scheduled to be transferred onto COCKPIT through FY19.
- CRM for independent use and in conjunction with other elements
- INSIDER MANAGER. A digital way to keep track of insiders under the EU Market Abuse Regulation
- POLICY MANAGER (scheduled to go live Q219). This will manage all a company's policies in one platform and create workflows to handle confirmations that the relevant individuals have accessed them to ensure compliance.
- INTEGRITY LINE. Originating in Germany, this whistleblowing module should benefit from the roll-out of EU regulation, likely to be from FY20 on. The indication that whistleblowers should be able to report through a channel of their own choice should stimulate corporate demand – they will want to be the first to know.
- LEI MANAGER. EQS has provided an efficient route for Legal Identity Identifiers to be issued, which has propelled it to being one of the largest issuers.

FY20e: The year returns start flowing

Unchanged company guidance shows FY19e revenues growing to between €41.5m and €43.5m. For EBITDA, guidance is for a broad range of €1m to €2m, as much depends on the timing of module launches and transition of clients to the COCKPIT platform. In view of this element of uncertainty, we would anticipate that EBITDA will be weighted to H2.

KPIs show progress

Exhibit 1: FY18 quarterly trends

Large-cap German clients	Q118	Q218	Q318	Q418
ARR (€000)	-	-	396	281
Recurring revenues	78%	86%	83%	86%
New customers	12	34	30	31
Total number of customers	1,081	1,115	1,143	1,166
Qly rev per customer (€)	3,300	3,100	2,850	3,075
Customer acquisition cost (€)	4,200	4,200	4,500	5,350
Ann Churn rate	-	0%	0.2%	0.7%

Source: Company accounts

The trends in large-cap German clients are a reasonable broad lead indicator for the rest of the business. For the business as a whole, recurring revenues were running at 80% for FY18. A new KPI will be disclosed in FY19e, ARR, being annual contracted recurring business volume. The published target for this is €4.0m, which would be mostly from new products. The group is also targeting winning business from 400 new large-cap clients.

Although prospects in the group's domestic market, Germany, are good, the strongest growth in FY19 is likely to be seen in France and Switzerland. A pick up in the number of IPOs is also a helpful trend.

As will be a common feature of FY19, EQS will start to report under IFRS 16 from Q119. This is likely to have the impact of increasing EBITDA, as property leases will be reflected on the balance sheet and be subject to depreciation. Q118 figures will be shown on the same basis to aid comparison.

Continuing external revenue drivers

The flow of regulation is unlikely to stop any time soon. Specifically:

- German regulations on increasing the transparency of bank nominee shareholdings will come in to enable publication within annual reports and accounts from FY19. This could lead to further opportunities for EQS, depending on how the banks and clearing houses decide to fulfil their obligations.
- Whistleblowing, as mentioned above. The EU Parliament is set to clarify its intentions, while laws in each EU country will need to be passed to facilitate whistleblowing arrangements.
- From FY20, companies will need to file their accounts (income statement, balance sheet, cash flow and reconciliation) in XBRL format, starting with the most regulated companies, typically larger, quoted, and then extending out more broadly. EQS already offers XML format, so using them for XBRL filing in addition is an easy option.

To gain the greatest leverage from these, EQS needs to continue to promote its brand and its offering, particularly as it is often dealing with different procurement departments and individuals within client organisations.

Valuation

Financial publishing and business service peers

We regard the quoted financial publishing and business services companies to be the most appropriate peers, given that the group is now effectively a platform business.

Exhibit 2: Quoted financial platform stocks

Name	ytd performance (%)	price - reporting currency	Market cap (m)	EV/Sales 1FY (x)	EV/EBITDA last (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	PE last (x)	PE 1FY (x)	PE 2FY (x)
EUROMONEY (£)	9	12.56	1,372	3.2	11.3	15.9	14.6	15.4	21.4	20.2
THOMSON REUTERS (C$)	22	59.02	29,598	5.4	21.6	21.4	16.1	72.3	53.1	31.8
ENVESTNET ($)	38	67.83	3,307	3.8	37.9	19.2	15.7		31.7	26.3
SWISSQUOTE (€)	(14)	38.70	594					12.8	12.8	11.1
GLOBALDATA (£)	1	5.93	700	4.3	40.4	18.4	16.5		25.8	22.5
MSCI ($)	46	215.00	18,200	12.9	25.7	23.7	21.2	40.8	35.4	30.7
S&P GLOBAL ($)	26	213.44	52,588	8.2	18.7	16.9	15.7	25.1	23.5	21.2
MARKETAXESS ($)	22	258.81	10,504		42.5	37.4	32.9	56.7	51.0	44.4
WILMINGTON (£)	19	2.12	186	1.9	14.0	9.3	8.8		11.8	10.9
Average				4.4	26.5	20.3	17.7	37.2	29.6	24.3

Source: Refinitiv, Edison Investment Research. Note: Prices at 11 April 2019, averages excluding outliers.

Given the earnings numbers are suppressed by the investment phase, the only remaining available traditional multiple is that of EV/sales. For FY1 EQS is trading at a 39% discount to the global peer set of quoted financial platform stocks. Due to the current low level of profitability, EQS trades at a substantial premium on earnings' multiples.

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