

EQS Group

FY19 results

Making progress

EQS Group delivered FY19 revenue and EBITDA in line with market expectations and is making good progress in its transformation to a cloud-based provider of corporate compliance and investor relations solutions. There are some effects of the COVID-19 pandemic that play to EQS's strengths, such as hosting webcasts and virtual AGMs. However, the current dearth of IPOs and longer-term likely increase in corporate insolvencies reduce the potential client pool. We currently maintain our revenue and profit forecasts for FY20 except for some small adjustments post FY19, mindful that we may need to review forecasts as the economic situation clarifies. The valuation remains well below peers and DCF.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/18	36.2	0.7	0.31	0.0	499.6	225.3	N/A
12/19	35.4	(0.3)	(0.31)	0.0	46.9	N/A	N/A
12/20e	37.2	(0.3)	(0.25)	0.0	34.1	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

11% underlying revenue growth

FY19 results were in line with management indications, as reset at the Q3 figures. Comparatives are against a full year of ownership of ARIVA (sold in July 2019, at a €2.2m net gain), and underlying revenue growth was 11%. This was despite a lacklustre year for IPOs and M&A activity, delays in new modules on the COCKPIT platform and a longer sales cycle than initially hoped. Nevertheless, underlying revenues from the Compliance segment were up 15% year-on-year, with Investor Relations activities 5% ahead. The COCKPIT platform forms the basis for management's medium-term growth projections to build to a revenue CAGR of over 20% to FY25. Our FY20 projections are maintained, although obviously depend on the impact of COVID-19 restrictions on the broader global economy.

Balance sheet set to strengthen

At the year-end, the group had net debt of €13.5m, below our projection of €15.4m. Excluding leases, net debt was €5.8m, against an equity base of €26.1m. Our model currently indicates net debt starting to decrease through FY20, ending the year at €12.2m. From FY20, we anticipate capex running at €1.25m (unchanged), with the bulk of the platform investment completed. This turns the group operational cash flow positive.

Valuation: Clear discount to peers

Having fallen from a high of €80.5 in late February post the publication of preliminary 2019 figures down to €50 on 19 March, EQS's share price has since recovered to within 10% of that previous high. This suggests that investors may now be pricing in a less pronounced impact from the coronavirus pandemic on the company's business. With EBITDA not a useful metric due to the distorting impact of IFRS 16, peer comparison for now can predominantly be done on EV/sales, on which basis EQS trades at around a third below larger peers.

Software & comp services

9 April 2020

Price €69

Market cap €99m

Net debt (€m) at 31 December 2019 (non-IFRS) 5.8

Shares in issue 1.4m

Free float 69%

Code EQS

Primary exchange Xetra

Secondary exchange FRA

Share price performance



%	1m	3m	12m
Abs	10.4	17.5	3.5
Rel (local)	23.4	51.4	19.8

52-week high/low €80.50 €50.00

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.

Next events

Q1 and AGM 15 May 2020

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Building the customer base

Our January [Outlook note](#) contained full descriptions of the EQS group businesses, alongside more detailed financial analysis. The group has now published its full FY19 results, with preliminary figures having been published in late February. These show good progress, particularly through Q4. Management continues to anticipate good top line growth for FY20, with improving margins as the investment peak falls away. We would normally publish projections for a further year out at this juncture, but, given the degree of uncertainty caused by the coronavirus pandemic, it seems prudent to hold back from doing so. Our FY20 forecasts, which we leave broadly unchanged with some small changes post FY19, are based on the current situation, which we believe is marginally acting in EQS's favour. However, with COVID-19 putting global economies into uncharted territory, this may prove to have been overly optimistic.

Revenues building

Exhibit 1: Quarterly progression and projections							
	Q119	Q219	H119	Q319	Q419	FY19	FY20e
Investor Relations							
Revenue Large Caps €m	3.44	3.58	7.02	3.39	3.59	14.00	15.95
# Large Cap Customers	2,083	2,103	2,103	2,132	2,172	2,172	2,355
Compliance							
Revenue Large Caps €m	2.28	2.42	4.70	2.32	2.31	9.33	11.39
# Large Cap Customers	1,170	1,206	1,206	1,236	1,280	1,280	1,446
XML Revenues €m	0.71	1.94	2.65	1.69	2.13	6.47	8.29
# XML Customers	4,363	4,249	4,249	4,013	4,771	4,771	5,558
LEI Revenues €m	0.46	0.37	0.83	0.48	0.76	2.07	1.59
# LEI Customers	33,580	34,093	34,093	36,062	35,575	35,575	27,037
Total Compliance €m	3.45	4.73	8.18	4.49	5.20	17.87	21.25
Discontinued (ARIVA) €m						3.50	
Total Group €m	6.89	8.31	15.2	7.88	8.79	35.37	37.20

Source: Company accounts, Edison Investment Research

Exhibit 1 above shows the key revenue drivers as identified by management, but it is also important to note that there has been progress in migrating customers across to the new COCKPIT platform, with 300 making the move. This means that they can be serviced far more efficiently. More pertinent, though, is that it should make it far easier to cross- and up-sell them additional modules as they are added to the platform.

During FY19, EQS added €3.8m of annual recurring revenues and 205 new COCKPIT SaaS contracts. While overall group revenues were up by 11%, operating expenses were held level, resulting in an uplift in pre-IFRS 16 EBITDA from €53k to €459k, excluding ARIVA. Our financial summary, below, shows the IFRS 16 numbers, which make a substantial difference to EQS's reporting, as described in our January note, adding €2.05m to the published number. Capital investment in the cloud-based programme was €1.6m, in line with the reduction indicated at Q3. Management has indicated that this figure is set to fall further with the bulk of the investment programme completed, to €1.0m for FY20. Our overall capex assumption is for a FY20 spend of €1.25m

The largest gains in underlying EBITDA were generated from domestic markets, accounted for €2.0m of the €2.5m increase. Total income edged ahead of operating expenses in Q3 and had opened a wider gap in Q419.

COVID-19 impact to date

Through Q1, the effect of the spread of COVID-19 was broadly beneficial for EQS. The need for corporate entities to communicate with their stakeholders grew and webcasting, such as provided by the group, is an obvious method. Arrangements for virtual general meetings are also being put in place across the DACH area, where voting is normally at the meeting rather than in advance as in the UK. Questions can be submitted in advance through the platform provided.

This is winning the group new clients and could act as a good ‘door-opener’ for more significant sales once the present crisis has passed. Revenues per meeting are relatively modest, so it is this longer-term benefit that is of more relevance.

Against this, the number of IPOs lined up for European markets has unsurprisingly dwindled and IPOs have been a useful source of revenue historically. The length and severity of the economic impact will also affect the numbers of companies going out of business entirely, but this is not yet quantifiable. For EQS, the sales cycle will lengthen, with the larger contracts more likely to be postponed. However, the group is still winning business at the lower contract value price points for COCKPIT clients, which bodes well for future revenue growth.

No client represents more than 5% of revenue and nearly all are below the €50k mark.

Planned growth for FY20 and on

Within the Investor relations segment, management anticipates that growth will come from new COCKPIT capabilities and increasing client numbers. This is against a backdrop of a consolidating provider base, reflecting the increasing complexity of what needs to be delivered to make an effective service.

For Corporate compliance, the emphasis is on the launch of new products such as Policy Manager, again described in previous reports, and Approval Manager, which will provide an audit trail for decision making. We assume there will be a reduction in the quantity of LEI to be issued in FY20, but a step up in the amount of electronic filing by corporates through XML and XBRL.

Management has guided to revenue growth of 10–20% for FY20, but it should be noted this is against a top line excluding ARIVA revenues so is not inconsistent with our forecast uplift of 5%. Management guidance is based on assumptions of 320–400 new large cap customers and a further €4.5–5.5m of annual recurring revenues being added to the books.

Edison’s FY20 EBITDA forecast of €3.5m is at the bottom end of management’s guided range of €3.5–4.5m, subject to any material negative impact from coronavirus.

Exhibit 2: Financial summary

	€'000s	2017	2018	2019	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		30,355	36,210	35,367	37,200
Cost of Sales		0	0	0	0
Gross Profit		30,355	36,210	35,367	37,200
EBITDA		2,350	239	2,546	3,500
Operating Profit (before amort. and except.)		1,042	(1,299)	(2,441)	20
Amortisation of acquired intangibles		(696)	(821)	(743)	(821)
Exceptionals		0	0	0	0
Share-based payments		0	0	0	0
Reported operating profit		346	(2,120)	(3,184)	(801)
Net Interest		(302)	1,954	2,094	(300)
Joint ventures & associates (post tax)		17	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		757	655	(347)	(280)
Profit Before Tax (reported)		61	(166)	(1,090)	(1,101)
Reported tax		(634)	913	(322)	(330)
Profit After Tax (norm)		507	439	(449)	(364)
Profit After Tax (reported)		(573)	747	(1,412)	(1,431)
Minority interests		0	20	121	142
Discontinued operations		0	0	0	0
Net income (normalised)		507	439	(449)	(364)
Net income (reported)		(573)	767	(1,291)	(1,289)
Average Number of Shares Outstanding (m)		1,372	1,435	1,435	1,435
EPS - normalised (€)		0.37	0.31	(0.31)	(0.25)
EPS - diluted normalised (€)		0.37	0.31	(0.31)	(0.25)
EPS - basic reported (€)		(0.42)	0.53	(0.90)	(0.90)
Dividend per share (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		16.5	19.3	(2.3)	5.2
Gross Margin (%)		100.0	100.0	100.0	100.0
EBITDA Margin (%)		7.7	0.7	7.2	9.4
Normalised Operating Margin (%)		3.4	(3.6)	(6.9)	0.1
BALANCE SHEET					
Fixed Assets		34,914	41,219	43,827	41,819
Intangible Assets		26,662	37,293	32,008	30,110
Tangible Assets		2,048	2,241	8,824	8,714
Investments & other		6,203	1,685	2,995	2,995
Current Assets		12,536	7,250	6,004	7,421
Stocks		0	0	0	0
Debtors		4,458	5,030	3,751	3,945
Cash & cash equivalents		6,374	1,308	1,184	2,406
Other		1,703	912	1,069	1,069
Current Liabilities		(11,559)	(14,330)	(14,590)	(14,686)
Creditors		(1,101)	(1,472)	(1,848)	(1,944)
Tax and social security		(290)	(129)	(46)	(46)
Short term borrowings		(5,986)	(6,961)	(7,173)	(7,173)
Other		(4,183)	(5,768)	(5,524)	(5,524)
Long Term Liabilities		(6,526)	(6,013)	(9,238)	(9,238)
Long term borrowings		(3,946)	(3,475)	(7,481)	(7,481)
Other long term liabilities		(2,581)	(2,538)	(1,757)	(1,757)
Net Assets		29,363	28,125	26,003	25,316
Minority interests		1,922	420	(34)	(526)
Shareholders' equity		31,286	28,545	25,969	24,790
CASH FLOW					
Op Cash Flow before WC and tax		1,431	3,106	4,318	2,870
Working capital		(818)	1,270	1,061	(99)
Exceptional & other		2,011	(1,646)	(2,794)	631
Tax		(872)	(135)	(188)	(330)
Net operating cash flow		1,752	2,595	2,397	3,072
Capex		(3,482)	(5,441)	(3,120)	(1,250)
Acquisitions/disposals		(3,148)	(5,115)	4,888	0
Net interest		(104)	0	0	0
Equity financing		7,859	0	0	0
Dividends		0	0	0	0
Other		(3,140)	1,792	(4,408)	(350)
Net Cash Flow		(263)	(6,169)	(243)	1,473
Opening net debt/(cash)		2,240	3,556	9,127	13,469
FX		(386)	75	53	0
Other non-cash movements		(667)	522	(4,153)	0
Closing net debt/(cash)		3,556	9,127	13,469	11,997

Source: Company accounts, Edison Investment Research

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