

EQS Group

Q3 results

Business Keeper a keeper

EQS Group's Q3 figures show the boost given to its whistleblowing offering by the June acquisition of Business Keeper, lifting the total number of whistleblowing customers to around 1,500. Implementation of the EU Directive into national legislations is delayed in a number of territories, but the direction of travel is set and the timetable slippage should only be one or two quarters. The additional sales and marketing costs were already factored into our estimates (in line with management guidance for FY21), which are unchanged. We regard the scale of the opportunity as worth the short-term impact on EBITDA.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (c)	EV/EBITDA (x)	P/E (x)
12/19	35.4	2.6	(0.3)	(7.4)	169.0	N/A
12/20	37.6	4.8	0.4	4.1	90.7	N/A
12/21e	49.4	2.8	(2.7)	(21.5)	151.7	N/A
12/22e	70.0	7.5	0.9	7.2	57.4	N/A

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

Whistleblowing coming round the mountain

Compliance revenues were up 45% in the first nine months of 2021 versus the prior year, with the strongest growth from the cloud-based products (+60%), with cloud-based services up 26%. The sales effort is squarely targeted at whistleblowing solutions, given the EU Directive requiring companies with over 250 employees to have effective solutions in place for reporting of breaches of EU law. Denmark and Sweden have already incorporated into the national legal frameworks, but there are delays of varying severity elsewhere. The German market is obviously key for EQS and looks likely to be an early priority for the new administration. The group has put several commercial partnerships in place on a profit-share basis to accelerate the sales effort, including with Bundesanzeiger Verlag. Investor relations revenues were up 10%, despite the comparative period having benefited from COVID-19-restrictions on company meetings, helped by an increase in IPOs.

EBITDA already in the targeted FY21 range

As intended, the EBITDA margin in the period reflected the investment in sales and marketing at 6.4%, versus 15.5% for Q1 to Q320. Management also provides a 'clean' EBITDA figure, which strips out the identifiable additional cost; on this basis, the margin would have been 13.3%. Reported EBITDA was €2.3m, in the range of €2–3m previously indicated. Our full-year estimate is €2.8m, which allows for a continuing quarter of additional overhead. Given the phasing, we would expect FY22 EBITDA to be weighted to H2.

Valuation: Good performance in the year to date

The share price started the year at €23.4 and peaked at €47.0 in September. Given the EBITDA containment, peer comparison on earnings multiples is not a helpful measure of value. A DCF using a WACC of 8.0% and terminal growth of 2% indicates a price of €47.2, 13% ahead of the current level.

Software & comp services

16 November 2021

Price €41.6

Market cap €354m

Net debt (€m) at 30 September 2021 79.2

Shares in issue 8.5m

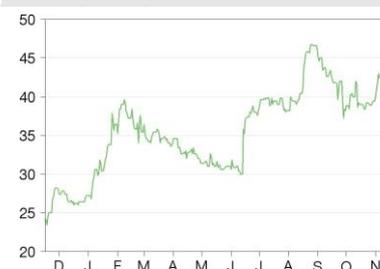
Free float 74%

Code E1SX

Primary exchange XETRA

Secondary exchange FRA

Share price performance



% 1m 3m 12m

Abs 7.7 4.0 76.5

Rel (local) 3.9 2.9 42.9

52-week high/low €47.00 €23.40

Business description

EQS Group is a leading international provider of regulatory technology in the fields of corporate compliance and investor relations. Its products enable corporate clients to fulfil complex national and international disclosure obligations, minimise risks and communicate transparently with stakeholders.

Next events

Preliminary FY21 figures Feb 22

Analysts

Fiona Orford-Williams +44 (0)20 3077 5739

Max Hayes +44 (0)20 3077 5700

media@edisongroup.com

[Edison profile page](#)

EQS Group is a research client of Edison Investment Research Limited

Whistleblowing focus

The issues around whistleblowing are front of mind, as discussed in earlier notes ([April](#), [May](#), [June](#), [August](#)), purely because of the scale of the opportunity. With the earlier acquisitions of Got Ethics, C2S2 and, more recently, Business Keeper, EQS has established itself as the European market leader. There is obviously competition, with local providers in national markets and the large US consultancies looking to grab market share. However, this is not necessarily about price. There are substantial sensitivities around data security and privacy and EQS has carefully curated its reputation for integrity and reliability, giving it an inherent advantage.

It has recently consolidated its positioning with a major conference, the European Compliance and Ethics Conference, the second edition of which ran in October, attracting around 5,500 delegates and over 70 speakers.

The medium-term plan involves attracting new corporate clients with the whistleblowing platform, then cross- and up-selling further SaaS products to them on the cloud-based COCKPIT platform. Given the types of organisations being recruited (Deutsche Post, DHL, Lufthansa, Tata Steel, Arla, Revolut and TeamViewer are amongst those cited in the nine-month report), the strategy of a 'foot-in-the-door' approach seems very sensible. At end October, 428 new whistleblowing customers had been added in the year to date.

Key growth indicators show scale of progress

Exhibit 1: Growth in key figures				
€000s	Q121	Q221	Q321	Q1-Q3 y-o-y change (%)
Total revenue	10,549	11,979	12,868	28
Compliance	5,670	6,880	8,026	
<i>Cloud-products</i>	3,530	3,600	5,763	60
<i>Cloud-services</i>	2,140	3,270	2,273	26
Investor Relations	4,880	5,100	4,840	
<i>Cloud-products</i>	2,200	2,360	2,340	21
<i>Cloud-services</i>	2,680	2,740	2,500	2
New annual recurring revenue	1,440	4,250	5,910	16
Operating expenses	11,170	11,770	12,460	41
EBITDA	309	1,107	946	-47
<i>Margin</i>	3%	8%	7%	
Adjusted EBITDA	1,230	2,027	1,443	
<i>Margin</i>	12%	17%	11%	
EBIT	(967)	(279)	(1,463)	
Group earnings	(926)	(399)	(1,353)	
Operating cash flow	879	(1,301)	1,654	
Equity ratio (%)	55	56	35	
SaaS customers	4,186	3,386	3,871	

Source: Company accounts, Edison Investment Research

The Compliance cloud-based products growth is being driven by the whistleblowing, as described above. The progress in cloud-based services of 26% growth January to September 2021 over prior year is higher than we might have anticipated, supported by new European Single Electronic Filing regulation and continued demand for legal entity identifier issuance.

Within the investor relations segment, the group continued to make good progress migrating clients to the cloud-based IR COCKPIT, with 849 companies signed up (at end September). In total the number of SaaS customers was up 158 to 2,312 across the nine months. As mentioned above, the number of IPOs in the German market was healthier than anticipated, with newly listing companies generating higher average revenues as they put all the requisite systems into place pre- and post-listing.

As described above, there is considerable expense being incurred in sales and marketing, with the 41% increase in operating expenses over the first nine months of 2020 largely attributable to this. Nevertheless, the achieved EBITDA for the first nine months of €2.3m is already in the range indicated by management for the full year of €2.0–3.0m. Our forecast for the year of €2.8m implies a Q421 EBITDA margin of 4% on revenue for the quarter of €14.0m.

Balance sheet now reflects the Business Keeper acquisition

The Business Keeper acquisition was consolidated from 14 July, so for 2.5 months of Q3 and all of Q4. The earlier acquisitions of Got Ethics and C2S2 (consolidated in January 2021) were supported by a €13.6m equity raise and new debt raising, as discussed in our [update note](#) published on 14 April. To support the Business Keeper deal, EQS carried out a further €22.4m capital increase in June 2021 and took on new debt associated with the acquisition of Business Keeper of €50m. The total paid out on acquisitions in the year to date is €93.4m – a substantial increase in scale for the business.

At end September, net debt was €79.2m. This includes €6.2m of leasing liabilities, without which the net debt figure would be €73.0m. Our modelling indicates a year-end level of €61.1m, but this will obviously depend on the working capital position at the year end.

Valuation

Given the scale of the transition and the additional costs being borne to achieve it, earnings multiples and comparison to global peers is not particularly helpful at the moment. On FY22 EV/sales, the group sits at a 44% discount to the larger global financial software companies but at a 37% premium to global application software peers.

We have therefore reverted to a DCF approach. Using a WACC of 8.0% and a terminal growth rate of 2%, with the medium-term forecasts set to match management's published plan for FY25 (revenues of €130m and an EBITDA margin of 30%), a DCF generates a share price of €47.19, a little ahead of the peak reached in September and 13% above the current level.

Exhibit 2: Financial summary at varying WACC, terminal rates

		-----Terminal growth rate-----				
		0.00%	1.00%	2.00%	3.00%	4.00%
WACC	10.00%	24.20	26.93	30.34	34.72	40.57
	9.50%	26.57	29.71	33.68	38.88	45.97
	9.00%	29.21	32.85	37.52	43.76	52.49
	8.50%	32.18	36.42	41.97	49.54	60.48
	8.00%	35.54	40.53	47.19	56.52	70.50
	7.50%	39.37	45.30	53.39	65.07	83.42
	7.00%	43.77	50.89	60.85	75.79	100.70
	6.50%	48.88	57.52	70.01	89.63	124.94
	6.00%	54.87	65.52	81.50	108.12	161.38
	5.50%	61.98	75.33	96.32	134.09	222.22

Source: Edison Investment Research

Exhibit 3: Financial summary

	€'k	2018	2019	2020	2021e	2022e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		36,210	35,367	37,636	49,400	70,000
Cost of Sales		0	0	0	0	0
Gross Profit		36,210	35,367	37,636	49,400	70,000
EBITDA		239	2,554	4,760	2,846	7,519
Operating Profit (before amort. and except.)		(1,299)	(2,433)	819	(1,731)	2,850
Amortisation of acquired intangibles		(821)	(743)	(656)	(1,090)	(1,150)
Exceptionals		0	0	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		(2,120)	(3,176)	163	(2,821)	1,700
Net Interest		1,954	2,093	(396)	(989)	(1,908)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		655	(340)	423	(2,720)	942
Profit Before Tax (reported)		(166)	(1,083)	(233)	(3,810)	(208)
Reported tax		913	(610)	(599)	1,334	73
Profit After Tax (norm)		439	(532)	296	(1,768)	612
Profit After Tax (reported)		747	(1,693)	(832)	(2,477)	(135)
Minority interests		20	121	(34)	(125)	(144)
Discontinued operations		0	0	0	0	0
Net income (normalised)		439	(532)	296	(1,768)	612
Net income (reported)		767	(1,572)	(866)	(2,602)	(280)
Average Number of Shares Outstanding (m)		7.2	7.2	7.2	8.2	8.5
EPS - normalised (c)		6.12	(7.41)	4.12	(21.47)	7.23
EPS - normalised fully diluted (c)		6.12	(7.41)	4.12	(21.47)	7.23
EPS - basic reported (€)		0.11	(0.22)	(0.12)	(0.32)	(0.03)
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		19.3	(2.3)	6.4	31.3	41.7
EBITDA Margin (%)		0.7	7.2	12.6	5.8	10.7
Normalised Operating Margin (%)		(3.6)	(6.9)	2.2	(3.5)	4.1
BALANCE SHEET						
Fixed Assets		41,219	43,841	39,447	172,989	184,858
Intangible Assets		37,293	32,008	31,016	168,041	182,086
Tangible Assets		2,241	8,838	7,216	3,558	1,558
Investments & other		1,685	2,995	1,215	1,390	1,214
Current Assets		7,250	6,094	17,086	32,417	33,919
Stocks		0	0	0	0	0
Debtors		5,030	3,841	3,923	5,365	7,602
Cash & cash equivalents		1,308	1,184	12,074	25,240	24,505
Other		912	1,069	1,089	1,812	1,812
Current Liabilities		(14,326)	(14,563)	(12,381)	(38,182)	(33,113)
Creditors		(1,472)	(1,848)	(1,651)	(2,700)	(3,406)
Tax and social security		(129)	(46)	(56)	(115)	(115)
Short term borrowings (includes lease debt)		(6,961)	(7,173)	(3,276)	(22,773)	(22,773)
Other		(5,764)	(5,496)	(7,398)	(12,594)	(6,820)
Long Term Liabilities		(6,660)	(10,195)	(11,208)	(88,446)	(103,446)
Long term borrowings (includes lease debt)		(3,475)	(7,481)	(7,641)	(63,604)	(78,604)
Other long term liabilities		(3,185)	(2,714)	(3,567)	(24,843)	(24,843)
Net Assets		27,483	25,177	32,944	78,777	82,218
Minority interests		420	(34)	0	(5)	(5)
Shareholders' equity		27,902	25,143	32,944	78,772	82,212
CASH FLOW						
Op Cash Flow before WC and tax		3,106	4,037	3,765	1,532	3,934
Working capital		1,270	1,061	(1,037)	(2,002)	(1,532)
Exceptional & other		(1,646)	(2,516)	3,212	965	1,887
Tax		(135)	(188)	(154)	1,334	73
Operating cash flow		2,595	2,394	5,786	1,829	4,362
Capex		(5,441)	(3,120)	(2,007)	(1,500)	(1,500)
Acquisitions/disposals		(5,115)	4,888	63	(95,129)	(15,000)
Net interest		0	0	0	(1,120)	0
Equity financing		0	0	9,124	36,274	0
Dividends		0	0	0	0	0
Other		1,792	(4,408)	350	(2,710)	(3,597)
Net Cash Flow		(6,169)	(246)	13,316	(62,356)	(15,735)
Opening net debt/(cash)		3,556	9,127	13,472	(1,156)	61,140
FX		75	53	(199)	62	0
Other non-cash movements		522	(4,153)	1,511	0	0
Closing net debt/(cash)		9,127	13,472	(1,156)	61,140	76,875

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by EQS and prepared and issued by Edison, in consideration of a fee payable by EQS. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2021 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia
