

EQS Group

Q3 results

Stoking up the sales engine

EQS Group's Q3 results were good, with revenues up 16% to €9.2m, boosted by a strong performance in Investor Relations, up by 28%. This points to the higher end of management's FY20 target ranges for group revenue and EBITDA and we have lifted our forecasts accordingly. FY21 should be a pivotal year, with the opportunity to sign up clients ahead of the upcoming EU whistle-blower directive. Additional investment is being made to boost sales and marketing, dampening EBITDA in the short term but increasing the medium-term potential, with the €100m revenue target for FY25 intact.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (c)	EV/EBITDA (x)	P/E (x)
12/18	36.2	0.2	0.7	6.1	N/A	N/A
12/19	35.4	2.5	(0.3)	(6.3)	71.8	N/A
12/20e	38.0	4.9	1.4	13.7	37.3	N/A
12/21e	44.5	5.3	1.5	14.7	34.8	N/A

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

Good underlying progress

The group has made good progress with migrating clients across to its COCKPIT platform and 93% of its Investor Relations customers have now signed new contracts. Revenues have been boosted by the need for companies to deliver their regulatory and communications obligations online due to the COVID-19 pandemic. Once clients are using the platform, it becomes an easier up- or cross-sell to add additional functionality. Compliance segment revenues were up 12% year-to-date (adjusted for last year's sale of ARIVA), with the number of SaaS customers up 7% y-o-y. The upcoming whistle-blower directive (in the EU initially, but similar regulations are likely to follow elsewhere) presents a clear opportunity for EQS to build its client base. The timing of implementation is end 2021, so companies will need to have a system in place by then, but sales may be skewed to H221.

Investing to grow

We forecast that FY20 results will be at the high end of company guidance, with 9M20 EBITDA already falling within the interval. However, Q4 earnings will be lower as investment is ramped up in sales and marketing to capture the whistle-blowing opportunity. This additional spend will continue in FY21, reflected in our EBITDA forecast, which comes back from €8.5m to €5.3m. While management guidance is in place for FY20 with a target for FY25, the intervening trajectory is not. The implication is that likely profits are more back-end loaded than we had anticipated.

Valuation: Strong FY20 performance

EQS's share price has performed strongly over the year to date, up by 90%. With the emphasis now moving back onto investment, we believe EV/sales is again the more appropriate valuation metric. Here, the company is valued at around one-third of the large global peers. On a DCF basis, the current share price is discounting a more modest growth rate and margin than outlined by management through to FY25, indicating that there may be some further potential upside.

Software & comp services

19 November 2020

Price **€24.00**

Market cap **€173m**

Net debt (€m) at 30 September 2020 (non-IFRS) 7.0

Shares in issue 7.2m

Free float 69%

Code E1SX

Primary exchange XETRA

Secondary exchange FRA

Share price performance



% 1m 3m 12m

Abs (0.8) 6.4 110.8

Rel (local) (3.0) 3.8 110.9

52-week high/low €24.40 €10.00

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

FY20 results February 2021

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Financials by quarter

The pattern of trading between segments and by activity is shown below. We would highlight the very high growth being achieved by the cloud-based offering, particularly in the Investor Relations offering. The pandemic has provided fertile territory for selling online communications solutions. While customer numbers have shown only modest growth, there has been some thinning out of those clients not able or willing to transfer onto the new contracts. SaaS customer numbers for Investor Relations are flat year-on-year while those for Compliance are up 7% at 1,326.

Exhibit 1: Quarterly financials			
€000s	Q120	Q220	Q320
Compliance Cloud	2,670	2,870	2,540
– Growth y-o-y	18%	20%	10%
Compliance Service	1,520	2,360	2,230
– Growth y-o-y	27%	3%	3%
Compliance	4,190	5,230	4,770
– Growth y-o-y	20%	12%	6%
IR Cloud	1,670	1,750	2,280
– Growth y-o-y	42%	59%	50%
IR Service	2,490	3,120	2,120
– Growth y-o-y	11%	24%	11%
IR	4,160	4,870	4,400
– Growth y-o-y	22%	35%	28%
Group revenue	8,350	10,104	9,166
Growth y-o-y	21%	22%	16%
EBITDA (IFRS)	799	2,197	1,299
Margin %	9.6%	21.7%	14.2%

Source: EQS Group, Edison Investment Research. Note: *IFRS 16 not adopted retrospectively; comparisons exclude ARIVA (disposed July 2019); segments may not tally due to rounding.

Net debt at the end of the quarter was €7.0m and our modelling indicates a year-end figure of €7.3m, falling to €4.1m by the end of the following year.

Adjusting for investment

As indicated above, we now expect EBITDA to be at the high end of the forecast range. The cumulative EBITDA for Q1–Q3 of €4.3m has already reached management's previous indicated range for the year (€4.0–5.0m). The quarter by quarter progression is shown in Exhibit 1, above. By maintaining the target range for EBITDA, the implication is that profitability for the final quarter of the year will be notably lower than the levels achieved in Q2 and Q3. We have moved our FY20 EBITDA estimate to the top end of the range, implying a Q4 EBITDA result of €0.6m.

The adjustment to EPS reflects a high tax expenditure in the current year, due to deferred tax liabilities (non-cash).

Exhibit 2: Revisions to forecasts									
	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2019	(6.3)			(0.3)	(0.3)		2.5	2.5	
2020e	11.0	14.7	+34	0.6	1.4	+133	4.1	4.9	+20
2021e	43.1	15.7	-64	4.7	1.5	-68	8.5	5.3	-38

Source: Company accounts, Edison Investment Research

This retrenchment of FY21e EBITDA reflects the investment that the group is putting into place to grasp the time-limited opportunity to build the customer base ahead of the introduction of the Whistleblowing Directive, ie Directive (EU) 2019/1937 on the protection of persons who report

breaches of Union law. This was passed in December 2019, with member states given a two-year window to get it onto their statute books. The timing of the demand peak for EQS's solution could therefore be at any point over the next year.

We have therefore also loaded up the personnel and other expenses for FY21 for additional sales and account management individuals. This makes a considerable reduction in the forecast EBITDA, as shown in the table above. There is no management guidance as yet for FY21 (we would expect this to be published at the publication of the year-end figures) but the company's ambitions are unchanged for FY25 (see our [Outlook note](#)); it aims to achieve revenues of €100m; Compliance growing at a compound rate of 25% to reach €68m; and Investor Relations growing at 15% to reach €32m.

Valuation

A reverse discounted cash flow (DCF), using a weighted average cost of capital (WACC) of 8% and terminal growth rate of 2% beyond 2025, suggests that the current share price is discounting a compound annual growth rate (CAGR) for revenue from FY21–25e of 16.3% on an EBITDA margin of 20% throughout this period. This revenue growth rate is below management's expectations, which imply a revenue CAGR of 18.9% through to FY25, and the EBITDA margin of 20% is significantly below the 30% expected by management by FY25.

The scale of the internal investment in the platform, and now the step up in investment in the sales resource, affects profitability and the most reliable traditional multiple is once again EV/sales, in our view. There is a wide range of multiples for the peer group, as shown below. For FY21, EQS is trading at 4.1x sales versus the average for the entire peer group of 12.0x. From FY22e, we would expect to resume consideration of EV/EBITDA multiples. EQS is considerably smaller than these other peers, chosen as they provide B2B platforms, often embedded in their clients' workflows. It is also a much less mature business, so we would expect it to trade at a discount. The size of the appropriate discount is obviously subjective. For illustrative purposes, a 50% discount, averaged across the three years, would indicate a share price of €29.70.

Exhibit 3: Peer ratings

	Price (reporting currency)	Market cap (m)	Share price change ytd (%)	EV/sales (x)			EV/EBITDA (x)			P/E (x)		
				FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Euromoney (£)	966	1,056	-26	2.8	3.4	3.4	10.1	17.0	16.5	12.5	24.8	24.2
Thomson Reuters (US\$)	83	54,299	18	7.4	7.3	7.0	29.3	22.6	21.4	64.5	47.1	40.6
Envestnet (US\$)	77	4,138	10	5.0	4.6	4.2	23.4	19.2	18.0	35.7	31.0	29.3
Swissquote Group (€)	83	1,266	70	20.9	15.3	15.0				27.5	13.6	14.1
GlobalData (£)	1545	1,828	20	10.7	10.6	10.1	42.9	36.0	32.5	53.5	54.1	48.1
MSCI (US\$)	388	32,198	51	22.0	20.3	18.4	40.3	35.4	31.7	60.3	49.9	46.0
S&P Global (US\$)	342	82,266	25	12.8	11.7	11.4	24.9	21.3	21.0	35.9	29.9	28.8
MarketAxess Holdings (US\$)	523	19,852	38	38.2	28.6	26.1	70.4	48.6	44.2	96.8	67.9	63.5
Average			26	15.0	12.7	12.0	34.5	28.6	26.5	48.3	39.8	36.8
Median			23	11.8	11.2	10.8	29.3	22.6	21.4	44.7	39.1	35.0
EQS (€)	23.8	171	90	5.2	4.8	4.1	71.8	37.3	34.8	(376.7)	172.1	160.2
(Discount)/Premium				-65%	-62%	-66%	108%	30%	32%	-879%	333%	335%

Source: Refinitiv, Edison Investment Research. Notes: Prices as at 18 November.

Exhibit 4: Financial summary

	€'000s	2018	2019	2020e	2021
Year end 31 December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		36,210	35,367	38,000	44,500
Cost of Sales		0	0	0	0
Gross Profit		36,210	35,367	38,000	44,500
EBITDA		239	2,546	4,900	5,250
Operating Profit (before amort. and except.)		(1,299)	(2,441)	1,400	1,750
Amortisation of acquired intangibles		(821)	(743)	(600)	(600)
Exceptionals		0	0	0	0
Share-based payments		0	0	0	0
Reported operating profit		(2,120)	(3,184)	800	1,150
Net Interest		1,954	2,094	5	(298)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		655	(347)	1,405	1,452
Profit Before Tax (reported)		(166)	(1,090)	805	852
Reported tax		913	(322)	(242)	(169)
Profit After Tax (norm)		439	(449)	984	1,057
Profit After Tax (reported)		747	(1,412)	564	682
Minority interests		20	121	35	42
Discontinued operations		0	0	0	0
Net income (normalised)		439	(449)	984	1,057
Net income (reported)		767	(1,291)	599	724
Average Number of Shares Outstanding (m)		7,175	7,175	7,175	7,175
EPS – normalised (c)		6.12	(6.26)	13.71	14.74
EPS – normalised fully diluted (c)		6.12	(6.26)	13.71	14.74
EPS – basic reported (€)		0.11	(0.18)	0.08	0.10
Dividend per share (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		19.3	(2.3)	7.4	17.1
Gross Margin (%)		100.0	100.0	100.0	100.0
EBITDA Margin (%)		0.7	7.2	12.9	11.8
Normalised Operating Margin (%)		(3.6)	(6.9)	3.7	3.9
BALANCE SHEET					
Fixed Assets		41,219	43,827	42,516	40,471
Intangible Assets		37,293	32,008	32,459	30,414
Tangible Assets		2,241	8,824	8,824	8,824
Investments & other		1,685	2,995	1,233	1,233
Current Assets		7,250	6,004	7,055	10,975
Stocks		0	0	0	0
Debtors		5,030	3,751	4,030	4,719
Cash & cash equivalents		1,308	1,184	1,956	5,186
Other		912	1,069	1,069	1,069
Current Liabilities		(14,330)	(14,590)	(13,727)	(14,066)
Creditors		(1,472)	(1,848)	(1,985)	(2,325)
Tax and social security		(129)	(46)	(46)	(46)
Short term borrowings		(6,961)	(7,173)	(4,018)	(4,018)
Other		(5,768)	(5,524)	(7,678)	(7,678)
Long Term Liabilities		(6,013)	(9,238)	(9,148)	(9,148)
Long term borrowings		(3,475)	(7,481)	(6,125)	(6,125)
Other long term liabilities		(2,538)	(1,757)	(3,023)	(3,023)
Net Assets		28,125	26,003	26,697	28,232
Minority interests		420	(34)	(50)	(92)
Shareholders' equity		28,545	25,969	26,647	28,140
CASH FLOW					
Op Cash Flow before WC and tax		3,106	4,318	4,664	4,782
Working capital		1,270	1,061	558	50
Exceptional & other		(1,646)	(2,794)	447	67
Tax		(135)	(188)	(242)	(169)
Net operating cash flow		2,595	2,397	5,427	4,731
Capex		(5,441)	(3,120)	(1,500)	(1,500)
Acquisitions/disposals		(5,115)	4,888	2,246	0
Net interest		0	0	0	0
Equity financing		0	0	0	0
Dividends		0	0	0	0
Other		1,792	(4,408)	0	0
Net Cash Flow		(6,169)	(243)	6,173	3,231
Opening net debt/(cash)		3,556	9,127	13,469	7,296
FX		75	53	0	0
Other non-cash movements		522	(4,153)	0	0
Closing net debt/(cash)		9,127	13,469	7,296	4,066

Source: Company accounts, Edison Investment Research

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