

EQS Group

Q1 results

Building recurring income

Q119 revenue growth of 9% was a little less than expected due to the lack of IPOs and corporate announcements, but the good pace of corporate sign-ups leaves full year revenue guidance unchanged. EBITDA guidance is also unchanged, but now includes the uplift arising from the application of IFRS 16. As in previous years, meeting the full year expectations will rely on a strong Q4 performance. EQS's positioning as a provider of cloud-based IR and compliance services for corporates, with growing (recurring) SaaS revenues, remains attractive.

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	44.4	N/A
12/18	36.2	(1.4)	(0.19)	0.00	N/A	N/A	N/A
12/19e	41.8	0.0	(0.02)	0.00	N/A	32.6	N/A
12/20e	49.2	3.2	1.31	0.35	52.8	18.4	0.5

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

IFRS 16-driven changes to forecasts

The introduction of IFRS 16 makes significant changes to the presentation of the accounts, reducing operating expenses by around €1.8m, with changes to depreciation (increased) and financial expenses (reduced). Previous FY19 EBITDA guidance of €1.0–2.0m therefore translates to revised guidance of €2.8–3.8m. Our FY19 EBITDA forecast is now €3.6m (was €1.8m). Except for the IFRS 16 impact, all our underlying assumptions remain unchanged. The capitalisation of leases has also changed the balance sheet presentation, increasing the fixed assets from €2.2m at the year-end to €11.5m at the end of March 2019. Net financial liabilities also increased by €9.6m to €18.76m, but underlying debt levels remain unchanged over the quarter.

Further COCKPIT development

The continuous updating of regulation will provide an advantageous backdrop for EQS, but the key selling points will be security, cost and convenience, as well as the ability to add functionality for its clients without wholesale change. Policy Manager and Integrity Line (the whistleblowing module) could each account for over 20% of Compliance revenues within management's outline plan to FY25. The investment phase has required higher specialist staffing levels. Personnel costs were up 22% in Q119 to €6.4m, now expected to stabilise, with the cost of freelancers (shown within cost of services) now past the peak requirement.

Valuation: Well underpinned

With profitability suppressed by the additional and slightly prolonged investment phase, traditional valuation multiples are not particularly helpful, barring EV/sales. Larger global financial platform peers are valued on 4.5x FY19e, against EQS on 2.8x, a 38% discount. A reverse DCF suggests an EBITDA margin of c 15% beyond our explicit 2019–20 forecast period is required to arrive at the current share price of €69, compared to management's targeted 25% by FY23.

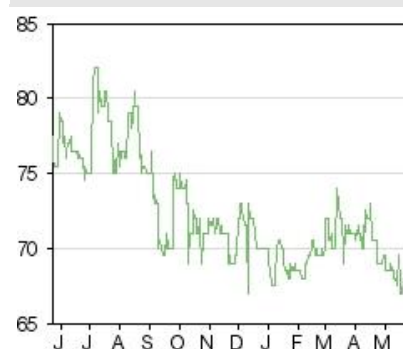
Software & comp services

22 May 2019

Price €69.00
Market cap €98m

Net debt (€m) at 31 March 2019 (on an IFRS 16 basis)	18.76
Shares in issue	1.4m
Free float	69%
Code	EQS
Primary exchange	Xetra
Secondary exchange	FRA

Share price performance



%	1m	3m	12m
Abs	(3.5)	(2.2)	(15.5)
Rel (local)	(2.9)	(8.0)	(9.0)
52-week high/low	€82.00	€67.00	

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

Half year results	16 August
Q3 results	15 November

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Starting to leverage the COCKPIT

EQS recruited 97 new large-cap customers in Q119, putting it on track to meet its target of 400 for the year. The proportion of subscription and recurring revenues will continue to grow as IR clients are migrated across to the new COCKPIT platform and as the new Compliance modules start to build traction. There will be an inherent lag until new signings are reflected in reported revenues.

Exhibit 1: Quarterly trends					
Large-cap German clients	Q118	Q218	Q318	Q418	Q119
Newly won ARR (€000)	-	-	396	281	234
Recurring revenues	78%	86%	83%	86%	81%
New customers	12	34	30	31	29
Total number of customers	1,081	1,115	1,143	1,166	1,187
Quarterly revenue per customer (€)	3,300	3,100	2,850	3,075	2,950
Customer acquisition cost (€)	4,200	4,200	4,500	5,350	N/A
Annual churn rate	-	0%	0.2%	0.7%	0.7%

Source: Company accounts

Q119 revenues from the **Compliance** segment were up 7% on the prior year, a slightly lacklustre figure due to the lack of IPOs to drive regulatory news and announcements drifting into Q2 translating into a reduced requirement for XML, effectively a timing issue. However, the market was good for Legal Entity Identifiers (LEIs) and the whistleblowing software, Integrity Line, has made a good start. A number of high-profile cases being highlighted in the press should help to drive further interest in this product service. The Policy Manager and CRM models are being added onto the platform.

Management anticipates that growth will also come from:

- Adding elements to the COCKPIT platform, such as third-party due diligence, risk assessment/management and eLearning;
- expansion into new markets – with France, the UK and Italy in their sights; and
- extending the reach to include non-listed companies, which will also need to comply with more onerous regulation.

IR revenues were up by 11% in the quarter, boosted by project revenues. In addition to the planned migration of customers onto the COCKPIT (with the ambition to migrate all German clients by the year-end), the forecast growth is predicated on:

- new products being added, such as CRM and Analytics; and
- expansion into new markets, particularly the US, Italy and the Nordics.

Exhibit 2: Financial summary

	€000s	2016	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		26,061	30,355	36,210	41,785	49,175
Cost of Sales		0	0	0	0	0
Gross Profit		26,061	30,355	36,210	41,785	49,175
EBITDA		4,175	2,349	301	3,600	6,800
Operating Profit (before amort. and except.)		3,606	1,077	(1,276)	166	3,366
Intangible Amortisation		(943)	(732)	(782)	(862)	(862)
Exceptionals		0	0	0	0	0
Other		(874)	(146)	2,128	0	0
Operating Profit		1,788	199	70	(696)	2,504
Net Interest		(14)	(139)	(172)	(205)	(205)
Profit Before Tax (norm)		2,717	792	(1,448)	(39)	3,161
Profit Before Tax (FRS 3)		1,774	60	(102)	(901)	2,299
Tax		(960)	(634)	913	14	(1,185)
Profit After Tax (norm)		1,468	215	(265)	(27)	1,877
Profit After Tax (FRS 3)		814	(574)	811	(886)	1,114
Average Number of Shares Outstanding (m)		1.19	1.31	1.43	1.43	1.43
EPS - normalised (c)		123.3	16.4	(18.5)	(1.9)	130.8
EPS - (IFRS) (c)		43.2	(39.3)	75.3	(61.9)	70.7
Dividend per share (c)		75.0	0.0	0.0	0.0	35.0
EBITDA Margin (%)		16.0	7.7	0.8	8.6	13.8
Operating Margin (before GW and except.) (%)		13.8	3.5	-3.5	0.4	6.8
BALANCE SHEET						
Fixed Assets		30,389	34,914	40,920	49,224	47,928
Intangible Assets		26,314	26,662	37,293	38,831	40,369
Tangible Assets		4,075	2,129	2,276	9,042	6,208
Investments		0	6,123	1,350	1,350	1,350
Current Assets		12,014	12,536	7,250	7,791	10,562
Stocks		0	0	0	0	0
Debtors		4,562	5,053	5,635	5,983	6,477
Cash		6,610	6,374	1,308	1,501	3,777
Other		842	1,108	307	307	307
Current Liabilities		(9,942)	(11,559)	(14,330)	(14,583)	(15,446)
Creditors		(5,853)	(5,574)	(7,240)	(7,493)	(8,356)
Short term borrowings		(4,089)	(5,986)	(7,090)	(7,090)	(7,090)
Long Term Liabilities		(7,237)	(6,526)	(5,528)	(15,128)	(15,128)
Long term borrowings		(4,761)	(3,946)	(3,475)	(13,075)	(13,075)
Other long term liabilities		(2,476)	(2,581)	(2,053)	(2,053)	(2,053)
Net Assets		25,224	29,363	28,312	27,304	27,915
CASH FLOW						
Operating Cash Flow		3,827	1,850	2,899	3,770	6,991
Net Interest		(13)	35	(169)	(205)	(205)
Tax		(341)	(238)	(135)	(250)	(1,008)
Capex		891	(4,456)	(3,292)	(3,000)	(3,000)
Acquisitions/disposals		(3,731)	(3,148)	(5,115)	0	0
Equity Financing		2,601	6,965	296	0	0
Dividends		(877)	(1,939)	37	(122)	(502)
Net Cash Flow		2,357	(931)	(5,479)	193	2,276
Opening net debt/(cash)		4,716	2,240	3,557	9,258	18,664
HP finance leases initiated		104	0	(167)	0	0
Other		15	(386)	(55)	(9,600)*	(0)
Closing net debt/(cash)		2,240	3,557	9,258	18,664	16,388

Source: Company accounts, Edison Investment Research. Note: *FY19e other reflects IFRS 16 changes.

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