

EQS Group

Final results

Ramping up whistleblowing sales

EQS had a clear benefit in FY20 from the demand for virtual corporate communications but the key to future growth is in the corporate compliance segment. Its cloud-based products are set to be the core growth driver over the medium term. With the imminent implementation of European whistleblowing regulation, there is a short-term opportunity to gain new clients, with the potential to expand accounts after. To make the most of this, the group is investing an additional €5.6m in sales and marketing in FY21, reflected in our revised forecasts.

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)	100.1	N/A
12/20	37.6	4.8	0.4	4.1	53.7	791.3
12/21e	45.5	1.1	(3.1)	(26.7)	232.5	N/A
12/22e	53.2	4.3	0.1	(0.3)	59.5	N/A

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

Additional investment in FY21

There were no real surprises with the publication of the accounts, with the preliminary figures having been published in February. The Investor Relations segment grew 26% (pro-forma, adjusted for sale of ARIVA in FY20), to 47% of group revenue, while Compliance segment revenues were up 12% pro-forma. Reporting has been simplified, with revenues split between Investor Relations and Compliance, with each split between Cloud Products (SaaS) and Cloud Services. It is the SaaS revenues that are set to drive the stronger growth over the planned period through to FY25. For FY21, our EBITDA forecast is reduced from €6.1m to €1.1m to reflect the flagged additional investment in sales and marketing, which implies a slightly better underlying margin than we had built into our earlier forecast. Management guidance is for FY21 EBITDA to be in the €1.0–2.0m range, with the ambition to build group revenue to €100m, with an EBITDA margin of over 30%, by FY25e unchanged. On our modelling this looks challenging but achievable.

Funding in place

The group raised €9.1m gross in Q420 (placing at €26/share), with which it bought a 23% stake in C2S2 (in January 2021), a SaaS policy management provider with intelligence search functionality and 100% of Got Ethics (see [December update](#)) for €10m, again settled in January 2021. Got Ethics is an established provider of digital whistleblowing in Northern Europe. EQS raised a further €13.6m with a placing at €38/share in February. Having ended FY20 with net cash of €1.2m (€7.1m if leases are excluded), the group has the liquidity to support this further investment phase.

Valuation: Looking to the potential

With two recent placings, the share price has come off recent highs (€39.4 in February). On EV/sales, averaged across FY20–22e, the valuation is still at a discount of around 52% to larger peers, while earnings multiples are distorted by the additional investment.

Software & comp services

12 April 2021

Price €32.60

Market cap €257m

Net cash (€m) at 31 December 2020 (including lease debt) 1.2

Shares in issue 7.9m

Free float 69%

Code E1SX

Primary exchange XETRA

Secondary exchange FRA

Share price performance



% 1m 3m 12m

Abs (5.1) 24.4 180.0

Rel (local) (11.7) 15.6 82.0

52-week high/low €39.60 €12.20

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

Q1 results 14 May 2021

Half year results 13 August 2021

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New segmentation clarifies the narrative

With these results, management has moved on from the previous segmentation, which was becoming much less helpful in clarifying how the business was developing. The two key elements of Investor Relations and Corporate Compliance are maintained, but the smaller revenue streams, such as LEI customers, are now merged in with others. It is the Cloud Products that are set to be the main revenue drivers, based on the group's COCKPIT platform. The revenue splits are shown below, along with our revised revenue forecast for FY21 and our new forecast for FY22. We have assumed that the main impetus for growth in FY21 is in Compliance Cloud Products, in line with the step up in the sales and marketing efforts behind the promotion of the whistleblowing solutions.

While this EU whistleblowing regulation is now active, the deadline for implementation in national laws is two years, which will be in December 2021. We would therefore expect the benefit to be heavily skewed to H221 and into H122, while the additional sales cost will be in place for most of H121. While we do not publish quarterly or half-yearly forecasts, it is clear that our forecast FY21 EBITDA will accrue in the second half. Management's ambition is to gain 5k whistleblowing clients by FY25, of whom about 1k will choose to operate on EQS's Compliance COCKPIT. There is obviously then considerable scope for cross-and up-selling.

Got Ethics, which will sell under the Integrity Line brand (and therefore report within Compliance Cloud-Products), should add €2.7–3.0m of annualised revenues.

Exhibit 1: New revenue segmentation

€000s	FY19	FY20	FY21e	FY22e
Investor Relations				
Cloud-products	5,286	7,849	9,811	11,774
growth (%)	0%	48%	25%	20%
Service-products	8,717	9,818	10,309	10,721
growth (%)	0%	13%	5%	4%
Discontinued operation (ARIVA.DE AG)	2,072	0	0	0
Total Investor Relations	16,075	17,667	20,120	22,495
growth (%)		10%	14%	12%
Like-for-like growth (%)		26%		
Compliance				
Cloud-products	9,332	10,696	15,458	20,089
growth (%)	0%	15%	45%	30%
Service-products	8,535	9,273	9,922	10,617
growth (%)	0%	9%	7%	7%
Discontinued operation (ARIVA.DE AG)	1,425	0	0	0
Total Compliance	19,292	19,969	25,380	30,706
growth (%)		4%	27%	21%
Like-for-like growth (%)		12%		
Group	35,367	37,636	45,500	53,200
growth		6%	21%	17%
Like-for-like growth (%)		18%		

Source: Company accounts, Edison Investment Research

EQS continues to report other key metrics such as new annualised recurring revenues (ARR) (€5.32m), new SaaS customers (301) and SaaS contracts signed for the IR COCKPIT (631). Management's goal is to win 1,500–2,000 new customers in FY21, with a target of €6m new ARR.

Our revised forecasts are shown in summary below. The main change is clearly the €5.6m of EBITDA identified by management as sacrificed to the sales effort. Our new FY22e figures reflect the benefit of that push on revenues. Guidance is for FY21 total revenue growth of 20–30% (including Got Ethics). We have come in at the low end of that range (with our FY21 Compliance revenue growth forecast of 27% below management's indication of 30–40%) until we see evidence that the additional sales push will convert into active revenue.

Our EBITDA forecast is similarly at the low end of guided range of €1.0–2.0m.

Exhibit 2: Revisions to FY21 forecasts and new FY22 forecasts

	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2020	13.7	4.1	-70	1.4	0.4	-71	4.9	4.8	-2
2021e	20.3	(26.7)	N/A	2.2	(3.1)	N/A	6.1	1.1	-82
2022e	-	(0.3)	N/A	-	0.1	N/A	-	4.3	N/A

Source: Company accounts, Edison Investment Research. Note: FY20 'new' is actual

Management's business plan is unchanged: FY25e revenues of €100m, split 68% Compliance, 32% Investor Relations, achieving an EBITDA margin of over 30%.

The recent fund-raises have put the group in a good financial position to weather the planned temporary reduction in EBITDA, as well as facilitating the bolt-on acquisitions of Got Ethics and the stake in C2S2. Having closed FY20 with net cash of €1.2m, our model indicates a build to €3.9m by end FY21e, with cash flow accelerating the following year. The underlying cash characteristics of the business model should be strong, with subscription income and a scalable product that should not demand further extensive capital investment.

Valuation: Off recent highs

Exhibit 3: Peer valuations

	Price (reporting currency)	Market cap (m)	YTD %	EV/sales (x)			EV/EBITDA (x)			P/E (x)		
				FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Euromoney (£)	950	1,038	-11	3.2	3.2	2.9	16.1	15.3	11.9	22.3	23.5	16.7
Thomson Reuters (US\$)	90	56,229	9	7.8	7.5	7.2	23.6	24.7	21.2	48.8	51.3	39.4
Envestnet (US\$)	74	4,025	-10	4.4	3.9	3.5	18.1	18.2	16.3	28.9	34.6	31.5
Swissquote Group (€)	130	1,999	52	20.6	13.1	12.1		29.3	26.8	21.5	17.9	15.9
GlobalData (£)	1,370	1,621	0	9.6	9.0	8.9	30.3	27.9	26.4	44.8	42.5	37.3
MSCI (US\$)	441	36,461	-1	22.7	19.9	18.1	39.7	33.7	30.3	56.3	47.3	41.8
S&P Global (US\$)	367	88,446	12	12.3	11.7	11.0	21.9	21.1	19.7	31.4	29.6	26.9
MarketAxess Holding (US\$)	520	19,758	-9	28.0	24.6	22.1		42.6	37.9	66.2	62.2	55.8
Average			5	13.6	11.6	10.7	25.0	26.6	23.8	40.0	38.6	33.2
Median			0	11.0	10.4	10.0	22.8	26.3	23.8	38.1	38.6	34.4
EQS (€)	34.6	260.0	27	6.8	5.6	4.8	53.7	232.5	59.5	791.4	N/A	N/A
(Discount)/Premium				-50%	-52%	-55%	115%	774%	150%	1877%	N/A	N/A

Source: Refinitiv. Note: Prices at 6 April 2021.

EQS's share price climbed from €14.8 to €26.8 over the course of FY20, continuing to rise to a high of €39.6 in early February 2021 shortly before the second fund-raise.

On EV/sales, EQS remains valued at a substantial discount to larger global peers of 52%, averaged across FY20–22 to smooth out any COVID-19 impacts. This discount has narrowed from 65% at the time of our December update. Earnings-based multiples are obviously affected by the temporary reduction in profitability.

Exhibit 4: Financial summary

	€'000	2018	2019	2020	2021e	2022e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		36,210	35,367	37,636	45,500	53,200
Cost of Sales		0	0	0	0	0
Gross Profit		36,210	35,367	37,636	45,500	53,200
EBITDA		239	2,554	4,760	1,100	4,300
Operating Profit (before amort. and except.)		(1,299)	(2,433)	819	(2,841)	359
Amortisation of acquired intangibles		(821)	(743)	(656)	(656)	(656)
Exceptionals		0	0	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		(2,120)	(3,176)	163	(3,497)	(297)
Net Interest		1,954	2,093	(396)	(239)	(221)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		655	(340)	423	(3,080)	138
Profit Before Tax (reported)		(166)	(1,083)	(233)	(3,736)	(518)
Reported tax		913	(610)	(599)	1,271	83
Profit After Tax (norm)		439	(532)	296	(2,055)	(25)
Profit After Tax (reported)		747	(1,693)	(832)	(2,465)	(435)
Minority interests		20	121	(34)	(44)	(51)
Discontinued operations		0	0	0	0	0
Net income (normalised)		439	(532)	296	(2,055)	(25)
Net income (reported)		767	(1,572)	(866)	(2,509)	(486)
Average Number of Shares Outstanding (m)		7,175	7,175	7,195	7,704	7,882
EPS - normalised (c)		6.12	(7.41)	4.12	(26.68)	(0.32)
EPS - normalised fully diluted (c)		6.12	(7.41)	4.12	(26.68)	(0.32)
EPS - basic reported (€)		0.11	(0.22)	(0.12)	(0.33)	(0.06)
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		19.3	(2.3)	6.4	20.9	16.9
EBITDA Margin (%)		0.7	7.2	12.6	2.4	8.1
Normalised Operating Margin (%)		(3.6)	(6.9)	2.2	(6.2)	0.7
BALANCE SHEET						
Fixed Assets		41,219	43,841	39,447	49,018	50,042
Intangible Assets		37,293	32,008	31,016	40,552	41,541
Tangible Assets		2,241	8,838	7,216	7,251	7,286
Investments & other		1,685	2,995	1,215	1,215	1,215
Current Assets		7,250	6,094	17,086	20,862	21,170
Stocks		0	0	0	0	0
Debtors		5,030	3,841	3,923	4,941	5,778
Cash & cash equivalents		1,308	1,184	12,074	14,832	14,303
Other		912	1,069	1,089	1,089	1,089
Current Liabilities		(14,326)	(14,563)	(12,381)	(12,725)	(13,063)
Creditors		(1,472)	(1,848)	(1,651)	(1,996)	(2,333)
Tax and social security		(129)	(46)	(56)	(56)	(56)
Short term borrowings (includes lease debt)		(6,961)	(7,173)	(3,276)	(3,276)	(3,276)
Other		(5,764)	(5,496)	(7,398)	(7,398)	(7,398)
Long Term Liabilities		(6,660)	(10,195)	(11,208)	(11,208)	(11,208)
Long term borrowings (includes lease debt)		(3,475)	(7,481)	(7,641)	(7,641)	(7,641)
Other long term liabilities		(3,185)	(2,714)	(3,567)	(3,567)	(3,567)
Net Assets		27,483	25,177	32,944	45,946	46,940
Minority interests		420	(34)	0	0	0
Shareholders' equity		27,902	25,143	32,944	45,946	46,940
CASH FLOW						
Op Cash Flow before WC and tax		3,106	4,037	3,765	2,132	4,162
Working capital		1,270	1,061	(1,037)	(273)	(499)
Exceptional & other		(1,646)	(2,516)	3,212	(685)	435
Tax		(135)	(188)	(154)	1,271	83
Net operating cash flow		2,595	2,394	5,786	2,445	4,181
Capex		(5,441)	(3,120)	(2,007)	(1,500)	(1,500)
Acquisitions/disposals		(5,115)	4,888	63	(11,500)	(3,000)
Net interest		0	0	0	0	0
Equity financing		0	0	9,124	13,523	0
Dividends		0	0	0	0	0
Other		1,792	(4,408)	350	(210)	(210)
Net Cash Flow		(6,169)	(246)	13,316	2,758	(529)
Opening net debt/(cash)		3,556	9,127	13,472	(1,155)	(3,911)
FX		75	53	(199)	0	0
Other non-cash movements		522	(4,153)	1,511	0	0
Closing net debt/(cash)		9,127	13,472	(1,155)	(3,911)	(3,383)

Source: Company accounts, Edison Investment Research

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