EQS Group

Software

Transition year

EQS's interims showed good progress in its evolution into a leading technology provider to corporate entities. With its revamped cloud-based COCKPIT platform scheduled for launch in Q418 and an ever-tightening regulatory environment, the elements are in place to underpin medium-term growth. Additional costs weigh on current-year profitability and FY18 EBITDA guidance was reduced, but our view is that this is an investment in making the group a credible and scalable partner in investor relations and compliance, with an attractive monthly recurring revenue base.

Providing for a market need

EQS operates in three inter-related segments: corporate communications and PR; IR; and governance, risk and compliance. It is transitioning to a technology partner to the corporate sector, providing tools that enable relevant individuals to meet regulatory and compliance obligations and to handle IR efficiently. Having started out rooted in meeting the needs of the IR and company secretariat functions, EQS is now bringing together its various offerings onto a single cloud-based platform, which will allow it to expand and scale. The digital governance, risk and compliance market is developing rapidly, with the group anticipating double-digit market growth in this segment. There are no major incumbents in Germany or Europe.

New COCKPIT launches next phase

FY18 is a transition year with management energy primarily focused on the new platform, giving the group a robust and scalable resource. The German domestic market has been helpful, with a healthy IPO pipeline providing new IR clients. In compliance, EQS has launched Insider Manager, benefited from being an authorised issuer of Legal Entity Identifiers and added Integrity Line's whistle-blowing facility. In FY19, the new COCKPIT will enable EQS to offer clients integrated workflow platforms across both compliance and IR segments. It should be able to secure a larger share of client spend, generate 'sticky' monthly recurring revenues and improve the quality of earnings.

Valuation: Well underpinned

With the current investment draining earnings, peer-based comparisons are of limited value. On an FY1 EV/sales basis, EQS is trading at a +50% discount. On a reverse DCF, taking the company's 2018–25e revenue CAGR guidance of around 17% and assuming a WACC of 8%, the current share price assumes a mid-term EBITDA margin of c 15%. Given the element of execution risk, the shares appear to be well underpinned at current levels.

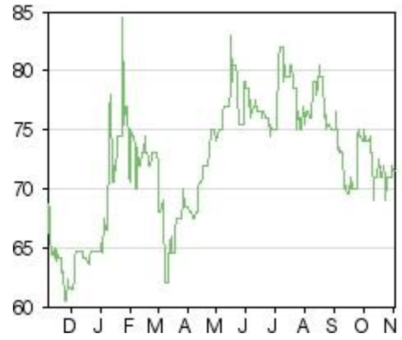
Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	30.4	0.8	0.16	0.00	N/A	N/A
12/18e	36.5	(1.2)	(1.57)	0.00	N/A	N/A
12/19e	43.2	1.7	0.67	0.15	106.7	0.2
12/20e	50.8	4.4	1.73	0.35	41.3	0.5

Source: Company accounts, Edison Investment Research

Price	€71.50
Market cap	€102m

Share price graph



Share details

Code	EQS
Shares in issue	1.43m
Net debt (€m) at 30 June 2018	11.0

Business description

The EQS Group is a leading international technology provider for digital investor relations, corporate communications and compliance. With more than 8,000 client companies worldwide, its products and services are designed to fulfil complex national and international information obligations to the global investment community.

Bull

- Financial market regulation.
- Opportunities in governance and risk.
- High percentage of recurring and repeatable income.

Bear

- Renewed investment phase.
- EBIT margin yet to trend up.
- Dividend payment on hold.

Analysts

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

Neil Shah +44 (0)20 3077 5700

media@edisongroup.com

EQS is a client of Edison Investment Research Limited