

# EQS Group

FY18 results

## Compliant digital solutions

EQS's FY18 results were broadly as expected, with a strong uplift in the top line. The planned investment, designed to build a global regulatory tech platform business, affected profit as flagged. FY20e should be the year when the benefits start to flow more strongly as the group builds share (and SaaS revenues) in the increasingly digital governance, risk and compliance segment. With additional functionality being added to the cloud-based platform and growing recurring revenues (80% of total), both the quantum and the quality of earnings are increasing.

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	47.1	0.0
12/18	36.2	(1.4)	(0.19)	0.00	N/A	N/A	0.0
12/19e	41.8	0.0	0.00	0.00	N/A	65.0	0.0
12/20e	49.2	3.2	1.34	0.35	54.9	24.5	0.5

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

## Faster growth from Compliance

The potential for growth from the Compliance segment outstrips that from corporate IR. In FY18, the difference in dynamic was exaggerated by weak media and advertising revenues within IR, which held revenues from the segment flat, while Compliance revenues grew strongly (+46%), albeit off a smaller base. Compliance contributed 51% of FY18 revenues. Reported financial income was boosted by a one-off put option reversal for ARIVA, which generated €2.1m. Regulatory changes should have a beneficial impact between FY19–FY21, driving the whistleblowing module and the volume of corporate announcements that need to be logged. EQS is now concentrating its efforts on European markets and has closed its operation in Dubai. Our modelling, based on guidance, indicates a recovery in FY19e IR growth to 15% and Compliance growth moderating to (a still strong) 16%. We have scaled back our FY20e figures (EBITDA -17%) until timing becomes clearer.

## COCKPIT platform growing in scope

Spend on developing the platform in FY18 was €6.1m (of which €2.3m was capitalised), making it the peak year of the €9.3m investment programme. During FY19e, CRM and Policy Manager in the Corporate Compliance segment are set to be added to the COCKPIT integrated workflow platform and in IR, CRM and Investor Management will join. We anticipate that the benefit of these additions will be more obvious within the numbers in the second half of the year.

## 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 4.4x FY19e, against EQS on 2.7x, a 39% discount. A reverse DCF suggests an EBITDA margin of c 16% (beyond our explicit 2019–20 forecast period) is required to arrive at the current share price of €73.50, implying the price is well underpinned.

## Software & comp services

11 April 2019

**Price** €73.50

**Market cap** €105m

Net debt (€m) as at 31 December 2 18 9.1

Shares in issue 1.43m

Free float 69%

Code EQS

Primary exchange Xetra

Secondary exchange FRA

## Share price performance



% 1m 3m 12m

Abs 2.9 2.9 5.9

Rel (local) (1.0) (5.6) 10.3

52-week high/low €83.00 €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

Q1 results 17 May 2019

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## Clear investment case

The narrative of the investment case is unchanged on these results. EQS offers a cloud-based platform to manage the digital workflow of IR, communications and compliance professionals. The reorientation needed to grow in the compliance market has/will cost in diminished profits from FY17 to FY19e but the longer-term goal is sufficiently attractive to justify the investment. The timing of front-end loading of the investment is necessary to establish a strong offering as the market shift to digital accelerates. European markets are on the radar of the large US providers, but lower in their priorities, with local incumbents better placed to navigate the complexities of corporate regulation. Regulation has been, and will continue to be, a key business driver.

EQS's cloud-based architecture is based on the COCKPIT platform, built with the flexibility to add and adapt modules. The main elements are:

- **INVESTORS.** This maps IR work processes against global investor data, increasingly important post the implementation of MiFID II. All German clients are scheduled to be transferred onto COCKPIT through FY19.
- **CRM** for independent use and in conjunction with other elements
- **INSIDER MANAGER.** A digital way to keep track of insiders under the EU Market Abuse Regulation
- **POLICY MANAGER** (scheduled to go live Q219). This will manage all a company's policies in one platform and create workflows to handle confirmations that the relevant individuals have accessed them to ensure compliance.
- **INTEGRITY LINE.** Originating in Germany, this whistleblowing module should benefit from the roll-out of EU regulation, likely to be from FY20 on. The indication that whistleblowers should be able to report through a channel of their own choice should stimulate corporate demand – they will want to be the first to know.
- **LEI MANAGER.** EQS has provided an efficient route for Legal Identity Identifiers to be issued, which has propelled it to being one of the largest issuers.

## FY20e: The year returns start flowing

Unchanged company guidance shows FY19e revenues growing to between €41.5m and €43.5m and we have modelled €41.8m. For EBITDA, guidance is for a broad range of €1m to €2m, as much depends on the timing of module launches and transition of clients to the COCKPIT platform. In view of this element of uncertainty, we would anticipate that EBITDA will be weighted to H2. Hence we have also taken a slightly more cautious view of the FY20e prospects, for which no company guidance is given.

**Exhibit 1: Changes to forecasts**

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018	(0.93)	(0.19)	N/A	(0.1)	(1.4)	N/A	0.5	0.3	-40
2019e	0.04	0.00	N/A	0.1	0.0	N/A	2.1	1.8	-14
2020e	1.58	1.34	-15	4.0	3.2	-20	6.0	5.0	-17

Source: Company accounts, Edison Investment Research

## KPIs show progress

Exhibit 2: FY18 quarterly trends				
Large-cap German clients	Q118	Q218	Q318	Q418
ARR (€000)	-	-	396	281
Recurring revenues	78%	86%	83%	86%
New customers	12	34	30	31
Total number of customers	1,081	1,115	1,143	1,166
Qly rev per customer (€)	3,300	3,100	2,850	3,075
Customer acquisition cost (€)	4,200	4,200	4,500	5,350
Ann Churn rate	-	0%	0.2%	0.7%
Source: Company accounts				

The trends in large-cap German clients are a reasonable broad lead indicator for the rest of the business. For the business as a whole, recurring revenues were running at 80% for FY18. A new KPI will be disclosed in FY19e, ARR, being annual contracted recurring business volume. The published target for this is €4.0m, which would be mostly from new products. The group is also targeting winning business from 400 new large-cap clients.

Although prospects in the group's domestic market, Germany, are good, the strongest growth in FY19 is likely to be seen in France and Switzerland. A pick up in the number of IPOs is also a helpful trend.

With next stage of the investment, we would expect the group to end FY19e with roughly the same level of net debt as at end FY18 at €9.2m. From FY20e, we anticipate the group becoming net cash flow positive, with closing net debt below €7.0m.

As will be a common feature of FY19, EQS will start to report under IFRS 16 from Q119. This is likely to have the impact of increasing EBITDA, as property leases will be reflected on the balance sheet and be subject to depreciation. Q118 figures will be shown on the same basis to aid comparison.

## Continuing external revenue drivers

The flow of regulation is unlikely to stop any time soon. Specifically:

- German regulations on increasing the transparency of bank nominee shareholdings will come in to enable publication within annual reports and accounts from FY19. This could lead to further opportunities for EQS, depending on how the banks and clearing houses decide to fulfil their obligations.
- Whistleblowing, as mentioned above. The EU Parliament is set to clarify its intentions, while laws in each EU country will need to be passed to facilitate whistleblowing arrangements.
- From FY20, companies will need to file their accounts (income statement, balance sheet, cash flow and reconciliation) in XBRL format, starting with the most regulated companies, typically larger, quoted, and then extending out more broadly. EQS already offers XML format, so using them for XBRL filing in addition is an easy option.

To gain the greatest leverage from these, EQS needs to continue to promote its brand and its offering, particularly as it is often dealing with different procurement departments and individuals within client organisations.

**Exhibit 2: Financial summary**

	€'000s	2016	2017	2018	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
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	1,764	5,000
Operating Profit (before amort. and except.)		3,606	1,077	(1,276)	175	3,411
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	(687)	2,549
Net Interest		(14)	(139)	(172)	(170)	(170)
Profit Before Tax (norm)		2,717	792	(1,448)	5	3,241
Profit Before Tax (FRS 3)		1,774	60	(102)	(857)	2,379
Tax		(960)	(634)	913	(2)	(1,215)
Profit After Tax (norm)		1,468	215	(265)	4	1,924
Profit After Tax (FRS 3)		814	(574)	811	(859)	1,163
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)	0.3	134.1
EPS - (IFRS) (c)		43.2	(39.3)	75.3	(59.8)	74.0
Dividend per share (c)		75.0	0.0	0.0	0.0	35.0
EBITDA Margin (%)		16.0	7.7	0.8	4.2	10.2
Operating Margin (before GW and except.) (%)		13.8	3.5	-3.5	0.4	6.9
<b>BALANCE SHEET</b>						
Fixed Assets		30,389	34,914	40,920	40,338	40,762
Intangible Assets		26,314	26,662	37,293	38,900	40,288
Tangible Assets		4,075	2,129	2,276	1,437	473
Investments		0	6,123	1,350	0	0
Current Assets		12,014	12,536	7,250	8,071	9,140
Stocks		0	0	0	0	0
Debtors		4,562	5,053	5,635	6,503	7,500
Cash		6,610	6,374	1,308	1,261	1,333
Other		842	1,108	307	307	307
Current Liabilities		(9,942)	(11,559)	(14,330)	(15,921)	(15,507)
Creditors		(5,853)	(5,574)	(7,369)	(8,921)	(10,757)
Short term borrowings		(4,089)	(5,986)	(6,961)	(7,000)	(4,750)
Long Term Liabilities		(7,237)	(6,526)	(5,528)	(5,528)	(5,528)
Long term borrowings		(4,761)	(3,946)	(3,475)	(3,475)	(3,475)
Other long term liabilities		(2,476)	(2,581)	(2,053)	(2,053)	(2,053)
Net Assets		25,224	29,363	28,312	26,959	28,866
<b>CASH FLOW</b>						
Operating Cash Flow		3,827	1,850	2,899	2,400	5,800
Net Interest		(13)	35	(169)	(170)	(170)
Tax		(341)	(238)	(135)	684	(305)
Capex		891	(4,456)	(3,292)	(3,000)	(2,500)
Acquisitions/disposals		(3,731)	(3,148)	(5,115)	0	0
Equity Financing		2,601	6,965	296	0	0
Dividends		(877)	(1,939)	37	0	(502)
Net Cash Flow		2,357	(931)	(5,479)	(86)	2,322
Opening net debt/(cash)		4,716	2,240	3,557	9,128	9,214
HP finance leases initiated		104	0	(167)	0	0
Other		15	(386)	75	0	0
Closing net debt/(cash)		2,240	3,557	9,128	9,214	6,892

Source: Company accounts, Edison Investment Research

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