

EQS Group

More whistle-blowing

Acquisition

EQS is acquiring Danish-based Got Ethics, a (profitable) SaaS provider of whistle-blowing solutions, to add to its own offering in the segment, for €10m. This should enable the group to build market share across Europe more rapidly ahead of the implementation of the EU whistle-blower directive in 2021. The vendors are staying with the enlarged group, with completion expected in Q121. Our FY21 estimates are lifted, with revenue up 5.6% and EBITDA rising from €5.3m to €6.1m. The share price is up 125% year-to-date, yet the valuation remains around 35% of larger peers based on FY19–21e average EV/sales. P/E and EV/EBITDA multiples are currently inflated by the extra marketing spend.

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)	69.0	N/A
12/20e	38.0	4.9	1.4	13.7	35.8	N/A
12/21e	47.0	6.1	2.2	21.3	29.0	N/A

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

Accelerating the growth of the client base

Got Ethics has been established for 10 years and has a client base of over 500 customers. These are mostly SMEs but do include some larger companies that ought to prove fertile territory for cross- and up-selling the EQS COCKPIT platform. In terms of the scale of the opportunity in whistle-blowing, management estimates that of the 50k or so companies whose activities fall within the remit of the regulation, around half will implement some sort of whistle-blowing solution during FY21. Achieving a 20% market share, the level targeted, would therefore equate to c 5k customers. At the end of Q320, EQS had 1,326 SaaS Compliance customers.

Lift to revenue and EBITDA forecasts

The initial consideration is €10m, funded by an acquisition loan from Commerzbank Munich. The terms of the earn-out are not yet disclosed, but we understand that they will involve revenue growth targets. Got Ethics has been growing its customer numbers at 30% and has annually recurring revenues (ARR) of €2m (for context, EQS Group's aggregated ARR was €4.51m at end October). Our FY21e revenue uplift of €2.5m builds in a small contingency, giving €47.0m, up 24% on prior year. Our EBITDA estimate is raised by €0.8m to €6.05m, having recently been lowered from €8.3m (see [November update](#)) to adjust for additional investment in sales and marketing to take best advantage of the whistle-blower opportunity. Projected net debt for end FY21 rises from €4.1m to €14.6m. Management retains its revenue target of €100m by FY25.

Valuation: Strong FY20 performance continues

The share price has carried on increasing from €23.8 at the time of the Q3 figures on 13 November. With good recent performance also among the large, global peers, the discount, on EV/sales averaged across 2019–21e remains around 65%. As explained in our recent note, earnings multiples are currently inflated by the short-term step up in marketing investment.

Software & comp services

1 December 2020

Price €27.20

Market cap €196m

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 27.3 29.6 143.5

Rel (local) 10.7 26.3 142.5

52-week high/low €28.20 €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

Year-end update January 2021

Analyst

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

media@edisongroup.com

[Edison profile page](#)

**EQS Group is a research client
of Edison Investment
Research Limited**

Exhibit 1: Financial summary

	€'k	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		36,210	35,367	38,000	47,000
Cost of Sales		0	0	0	0
Gross Profit		36,210	35,367	38,000	47,000
EBITDA		239	2,546	4,900	6,050
Operating Profit (before amort. and except.)		(1,299)	(2,441)	1,400	2,550
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	1,950
Net Interest		1,954	2,094	5	(345)
Joint ventures & associates (post tax)		0	0	0	0
Exceptionals		0	0	0	0
Profit Before Tax (norm)		655	(347)	1,405	2,205
Profit Before Tax (reported)		(166)	(1,090)	805	1,605
Reported tax		913	(322)	(242)	(452)
Profit After Tax (norm)		439	(449)	984	1,528
Profit After Tax (reported)		747	(1,412)	564	1,153
Minority interests		20	121	35	45
Discontinued operations		0	0	0	0
Net income (normalised)		439	(449)	984	1,528
Net income (reported)		767	(1,291)	599	1,198
Average Number of Shares Outstanding (m)		7,175	7,175	7,175	7,175
EPS - normalised (c)		6.12	(6.26)	13.71	21.30
EPS - normalised fully diluted (c)		6.12	(6.26)	13.71	21.30
EPS - basic reported (€)		0.11	(0.18)	0.08	0.17
Dividend per share (c)		0.00	0.00	0.00	0.00
Revenue growth (%)		19.3	(2.3)	7.4	23.7
Gross Margin (%)		100.0	100.0	100.0	100.0
EBITDA Margin (%)		0.7	7.2	12.9	12.9
Normalised Operating Margin (%)		(3.6)	(6.9)	3.7	5.4
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	11,624
Stocks		0	0	0	0
Debtors		5,030	3,751	4,030	4,985
Cash & cash equivalents		1,308	1,184	1,956	5,570
Other		912	1,069	1,069	1,069
Current Liabilities		(14,330)	(14,590)	(13,727)	(14,197)
Creditors		(1,472)	(1,848)	(1,985)	(2,456)
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)	(19,148)
Long term borrowings		(3,475)	(7,481)	(6,125)	(16,125)
Other long term liabilities		(2,538)	(1,757)	(3,023)	(3,023)
Net Assets		28,125	26,003	26,697	18,750
Minority interests		420	(34)	(50)	(95)
Shareholders' equity		28,545	25,969	26,647	18,654
CASH FLOW					
Op Cash Flow before WC and tax		3,106	4,318	4,664	5,253
Working capital		1,270	1,061	558	(84)
Exceptional & other		(1,646)	(2,794)	447	397
Tax		(135)	(188)	(242)	(452)
Net operating cash flow		2,595	2,397	5,427	5,114
Capex		(5,441)	(3,120)	(1,500)	(1,500)
Acquisitions/disposals		(5,115)	4,888	2,246	(10,000)
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	(6,386)
Opening net debt/(cash)		3,556	9,127	13,469	8,185
FX		75	53	0	0
Other non-cash movements		522	(4,153)	(890)	0
Closing net debt/(cash)		9,127	13,469	8,185	14,573

Source: Company accounts, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by EQS Group and prepared and issued by Edison, in consideration of a fee payable by EQS Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2020 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia