

# EQS Group

## COVID-19 tailwinds

H1 figures

EQS delivered a good first half performance, boosted by companies' needs to adapt their communications strategies to the impact of the COVID-19 pandemic. Revenue guidance for the year has been tilted to the higher end of the previous range and EBITDA guidance lifted by €0.5m to €4.0–5.0m. We have lifted our forecast from €3.5m to €4.1m, rising to €8.5m for FY21e as the scalability of the platform helps improve margins. With the group now over the peak investment in its cloud-based COCKPIT software, free cash flow is on a clear improving trend. The share price has recovered well from the market setback in March but remains on a discount to peers.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	EV/EBITDA (x)	P/E (x)
12/18	36.2	0.2	0.7	0.31	N/A	N/A
12/19	35.4	2.5	(0.3)	(0.31)	65.6	N/A
12/20e	37.2	4.1	0.6	0.55	40.7	N/A
12/21e	43.5	8.5	4.7	2.15	19.6	49.7

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

## Pandemic boosts corporate communications

Having delivered a positive first quarter EBITDA for the first time since Q117, Q220 progress was stronger still, building from €0.8m to €2.2m. The need for companies to communicate, particularly in the early phases of lockdown, helped drive Investor Relations revenues ahead by 28% over H119 (adjusted for the ARIVA disposal in July 2109). News revenues were up by 26% and there was a 98% uplift in video and audio webcasts revenue versus H119. EQS also ran over 50 virtual AGMs in the period, permitted under new COVID-19-specific regulation. On the downside, there were only six IPOs and the sales cycle for new clients was elongated. Despite this, Compliance revenues were up 16% on the prior year (adjusted for ARIVA).

## Building recurring revenues and controlling costs

The group added 151 new SaaS customers in H1 (Q1: +64, Q2: +87), in line with the expectations for the year of adding 300–350 (albeit at the lower end), and logging €2.9m of newly acquired annualised recurring revenue. There is a structural lag in these new revenues being reflected in the reported revenue numbers, which gives a degree of confidence to our (reinstated) FY21e forecasts. With the new phase of the group's development, software development costs are reduced and there has been close control of spending due to COVID-19, with H120 operating expenses 2% lower than H119. Management could accelerate the margin expansion, but its ambitions are more centred on sustainable growth. This requires increased sales and marketing spend, as well as client account management.

## Valuation: Starting to reflect growth

Having been marked down sharply with the market in March, EQS's share price has since doubled as it has become clearer that the group is a potential beneficiary of the circumstances. The strong forecast progress on EBITDA for FY21e now puts the shares on a 24% discount to larger global peers on EV/EBITDA.

## Software & comp services

17 August 2020

**Price** €106.00

**Market cap** €148m

Net debt (€m) at 30 June 2020 (non-IFRS) 3.7

Shares in issue 1.4m

Free float 69%

Code E1SX

Primary exchange XETRA

Secondary exchange FRA

## Share price performance



% 1m 3m 12m

Abs 8.6 27.4 67.2

Rel (local) 6.9 2.1 48.9

52-week high/low €110.00 €50.00

## Business description

EQS 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

Q3 figures 13 Nov 20

## Analysts

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

Dan Ridsdale +44 (0)20 3077 5729

[media@edisongroup.com](mailto:media@edisongroup.com)
[Edison profile page](#)

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## Strong progress in H120

The effect of the pandemic on corporate concerns has been considerable across H120, with the consequences for EQS mostly favourable. We had been anticipating that FY20 would be the year that the earlier cloud investment programme would start to pay off, particularly in the Compliance segment, where regulation and complexity have been greatly increasing the burden on companies trying to fulfil their obligations. The COVID-19 boost has been more strongly felt in the Investor Relations segment, as shown in the Exhibit below.

## Financials by quarter

<b>Exhibit 1: Quarterly financials</b>						
€000s	Q119	Q219	H119	Q120	Q220	H120
- Compliance Cloud	2,270	2,390	4,660	2,670	2,870	5,540
- Growth y-o-y				18%	20%	19%
- Compliance Service	1,200	2,300	3,500	1,520	2,360	3,880
- Growth y-o-y				27%	3%	11%
Compliance	3,470	4,690	8,160	4,190	5,230	9,420
- Growth y-o-y				20%	12%	15%
- IR Cloud	1,180	1,100	2,280	1,670	1,750	3,420
- Growth y-o-y				42%	59%	50%
- IR Service	2,240	2,510	4,750	2,490	3,120	5,610
- Growth y-o-y				11%	24%	18%
IR	3,420	3,610	7,030	4,160	4,870	9,030
- Growth y-o-y				22%	35%	28%
<b>Revenue</b>	<b>6,890</b>	<b>8,316</b>	<b>15,206</b>	<b>8,350</b>	<b>10,104</b>	<b>18,454</b>
Growth y-o-y				21%	22%	21%
<b>EBITDA ex IFRS 16*</b>	<b>(889)</b>	<b>126</b>	<b>(763)</b>	<b>310</b>	<b>1,710</b>	<b>2,020</b>
Margin %	(12.9%)	1.5%	(5.0%)	3.7%	16.9%	10.9%
<b>EBITDA</b>	<b>(428)</b>	<b>321</b>	<b>(107)</b>	<b>799</b>	<b>2,197</b>	<b>2,996</b>
Margin %	(6.2%)	3.9%	(0.7%)	9.6%	21.7%	16.2%

Source: EQS Group, Edison Investment Research. Note: \*IFRS 16 not adopted retrospectively; comparisons exclude ARIVA (disposed July 2019); segments may not tally due to rounding.

Management has clarified the elements currently delivered within these segments, which should make it easier to identify trends in future reporting periods.

<b>Exhibit 2: Product offering segmentation</b>		
	Compliance	Investor Relations
<b>Cloud (SaaS)</b>	Disclosure	Newswire
	Integrity line	CRM
	Policy manager	Mailing
	Insider manager	Investors
	Approval manager	
<b>Service</b>	Filings (to Federal Gazette)	Websites
	Legal entity identifiers (LEI)	Webcasts
		Tools
		Reports
		Virtual AGM
		Media

Source: EQS Group

The cloud-based offerings are the key to the group's scalability, with the scope of the individual offerings circumscribed by the regulations in any region rather than the need to be tailored by client. New regulations, such as the whistleblowing rules being introduced in the EU from December 2021, give new opportunities to cross-sell to existing clients. They also give a good opportunity to sell into new clients, which can then be introduced to other elements of the offering.

There are competitors, but they tend to be either local specialists (by market or by activity) or the large US-based suppliers. To our knowledge, there is currently no other pan-European provider with the breadth of product offering and/or cloud-based delivery.

## Investment versus margin management

While the initial sale is inevitably a hurdle, once a client relationship is established, EQS can concentrate on the cross- and up-sells of additional software functionality – the key driver of medium-term growth. The pandemic has undoubtedly made it more time-consuming to get new clients across the line, but there has been good progress.

As can be seen in Exhibit 1 above, there has been a substantial step up in EBITDA margin in H120. Management guides to a current year range for both revenue and EBITDA and also gives its ambitions for FY25e (for more details on this, please see our January 2020 [Outlook](#)). With these results, we have left our revenue forecast unchanged (it was mid-range and is now at the low end), implying H2 revenues of €18.7m, just a little ahead of the €18.5m achieved in H120. We have raised our EBITDA forecast from €3.5m to €4.1m (guided range €4.0–5.0m). This therefore assumes a dip in EBITDA margin for the second half back down to 5.9%. Some of this reflects higher operating costs with an element of loosening of the restraints imposed on cash utilisation in response to the pandemic (travel, recruitment etc). The larger element, though, is greater investment in the group's go-to-market strategy. This is particularly focused on improving EQS's online presence, through advertising but also through more strategic use of platforms such as LinkedIn, for disseminating thought leadership pieces, and through activities such as its first European Compliance & Ethics Conference (ECEC) this October.

The likely retrenchment in H220 EBITDA margin to 5.9% as per our modelling, from the 16.2% achieved in H120, is therefore down to a deliberate investment in building longer-term sustainability. Our modelling for FY21 assumes that the EBITDA margin moves ahead to 19.5%. Again, we could justify a higher figure on a short-term horizon, but we are conscious of management's ambitions to FY25 and beyond. These targets for FY25 are for group revenue to reach €100m, with the growth in Compliance the larger driver, taking it to 68% of the group from 56% in FY19. The anticipated CAGR for Compliance is in a range of 20–30% as systems and reporting are increasingly digitised and automated, on an ever-growing burden of regulation on corporate entities.

The group has a sound balance sheet to realise these ambitions. Net debt at the end of June was €3.7m on a non-IFRS basis (€10.5m including leases). With capital investment now more at maintenance levels, our model indicates positive free cash flow and reducing debt levels.

## Valuation

A reverse DCF, using a WACC of 8% and terminal growth rate of 2% beyond 2025 suggests that the current share price is discounting a CAGR for revenue from FY21–25e of just 8% on an EBITDA margin of 20% throughout this period. This revenue growth rate is well below management's expectations, which imply a revenue CAGR of 18.9% through to FY25, and the EBITDA margin of 20% is significantly below the 30% expected by management by FY25.

The scale of the internal investment has affected recent profitability and the most reliable traditional multiple has therefore been that of EV/Sales. There is a wide range of multiples for the peer group, as shown below. For FY20, EQS is trading at 4.5x sales versus the median for the entire peer group of 12.0x. With EQS's EBITDA forecasts now rising notably, comparative EV/EBITDA multiples are becoming more relevant. While the group is still trading at a premium for the current year of 42%, the expected step up in EBITDA margin pushes this to a 24% discount for FY21e. Parity with peers on this basis would imply a share price of €144.

**Exhibit 3: Peer valuations**

	Price	Market	Perf ytd	EV/sales (x)			EV/EBITDA (x)			PE (x)		
	(in reporting Currency)	cap (m)	(%)	FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Euromoney (£)	840.0	919	-36	2.5	2.9	2.6	8.8	15.9	11.0	10.8	22.6	14.7
Thomson Reuters (US\$)	75.7	49,570	8	6.8	6.7	6.5	27.0	21.1	19.9	58.7	41.6	38.1
Envestnet (US\$)	85.3	4,586	23	5.6	5.2	4.7	26.3	22.8	20.2	39.7	36.8	32.6
Swissquote Group (€)	83.6	1,281	72	20.9	16.8	15.7				27.9	16.5	16.1
Globaldata (£)	1690.0	1,999	31	11.7	11.6	11.0	46.7	39.1	35.4	58.5	59.2	52.6
MSCI (US\$)	354.8	29,672	37	20.3	18.9	17.2	37.2	33.5	30.1	55.1	49.1	43.4
S&P Global (US\$)	349.2	84,155	28	13.1	12.3	11.8	25.5	22.8	21.9	36.6	31.8	30.2
Marketaxess Holding (US\$)	492.5	18,703	30	35.8	27.1	25.0	65.9	46.0	42.8	91.2	64.9	61.8
Average			24.2	14.6	12.7	11.8	33.9	28.7	25.9	47.3	40.3	36.2
Median			28.9	12.4	12.0	11.4	27.0	22.8	21.9	47.4	39.2	35.4
<b>EQS (€)</b>	<b>107.0</b>	<b>153.5</b>	<b>71.2</b>	<b>4.7</b>	<b>4.5</b>	<b>3.8</b>	<b>65.6</b>	<b>40.7</b>	<b>19.6</b>	<b>(341.6)</b>	<b>195.2</b>	<b>49.7</b>
(Premium)/Discount to peer group median				-68%	-65%	-67%	93%	42%	-24%	-822%	384%	37%

Source: Refinitiv, Edison Investment Research. Priced at 13 August 2020

**Exhibit 4: Financial summary**

	€'k	2017	2018	2019	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		30,355	36,210	35,367	37,200	43,500
Cost of Sales		0	0	0	0	0
Gross Profit		30,355	36,210	35,367	37,200	43,500
EBITDA		2,350	239	2,546	4,100	8,500
Operating Profit (before amort. and except.)		1,042	(1,299)	(2,441)	600	5,000
Amortisation of acquired intangibles		(696)	(821)	(743)	(600)	(600)
Exceptionals		0	0	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		346	(2,120)	(3,184)	(0)	4,400
Net Interest		(302)	1,954	2,094	5	(298)
Joint ventures & associates (post tax)		17	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		757	655	(347)	605	4,702
Profit Before Tax (reported)		61	(166)	(1,090)	5	4,102
Reported tax		(634)	913	(322)	1	(1,388)
Profit After Tax (norm)		507	439	(449)	786	3,089
Profit After Tax (reported)		(573)	747	(1,412)	6	2,714
Minority interests		0	20	121	35	42
Discontinued operations		0	0	0	0	0
Net income (normalised)		507	439	(449)	786	3,089
Net income (reported)		(573)	767	(1,291)	41	2,756
Average Number of Shares Outstanding (m)		1,372	1,435	1,435	1,435	1,435
EPS - normalised (€)		0.37	0.31	(0.31)	0.55	2.15
EPS - normalised fully diluted (€)		0.37	0.31	(0.31)	0.55	2.15
EPS - basic reported (€)		(0.42)	0.53	(0.90)	0.03	1.92
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		16.5	19.3	(2.3)	5.2	16.9
Gross Margin (%)		100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)		7.7	0.7	7.2	11.0	19.5
Normalised Operating Margin (%)		3.4	(3.6)	(6.9)	1.6	11.5
<b>BALANCE SHEET</b>						
Fixed Assets		34,914	41,219	43,827	44,278	42,233
Intangible Assets		26,662	37,293	32,008	32,459	30,414
Tangible Assets		2,048	2,241	8,824	8,824	8,824
Investments & other		6,203	1,685	2,995	2,995	2,995
Current Assets		12,536	7,250	6,004	9,261	14,852
Stocks		0	0	0	0	0
Debtors		4,458	5,030	3,751	3,945	4,613
Cash & cash equivalents		6,374	1,308	1,184	4,247	9,170
Other		1,703	912	1,069	1,069	1,069
Current Liabilities		(11,559)	(14,330)	(14,590)	(14,686)	(15,015)
Creditors		(1,101)	(1,472)	(1,848)	(1,944)	(2,273)
Tax and social security		(290)	(129)	(46)	(46)	(46)
Short term borrowings		(5,986)	(6,961)	(7,173)	(7,173)	(7,173)
Other		(4,183)	(5,768)	(5,524)	(5,524)	(5,524)
Long Term Liabilities		(6,526)	(6,013)	(9,238)	(9,238)	(9,238)
Long term borrowings		(3,946)	(3,475)	(7,481)	(7,481)	(7,481)
Other long term liabilities		(2,581)	(2,538)	(1,757)	(1,757)	(1,757)
Net Assets		29,363	28,125	26,003	29,615	32,832
Minority interests		1,922	420	(34)	(419)	(811)
Shareholders' equity		31,286	28,545	25,969	29,196	32,021
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		1,431	3,106	4,318	4,106	6,814
Working capital		(818)	1,270	1,061	601	61
Exceptional & other		2,011	(1,646)	(2,794)	204	1,286
Tax		(872)	(135)	(188)	1	(1,388)
Net operating cash flow		1,752	2,595	2,397	4,913	6,773
Capex		(3,482)	(5,441)	(3,120)	(1,500)	(1,500)
Acquisitions/disposals		(3,148)	(5,115)	4,888	0	0
Net interest		(104)	0	0	0	0
Equity financing		7,859	0	0	0	0
Dividends		0	0	0	0	0
Other		(3,140)	1,792	(4,408)	(350)	(350)
Net Cash Flow		(263)	(6,169)	(243)	3,063	4,923
Opening net debt/(cash)		2,240	3,556	9,127	13,469	10,406
FX		(386)	75	53	0	0
Other non-cash movements		(667)	522	(4,153)	0	0
Closing net debt/(cash)		3,556	9,127	13,469	10,406	5,484

Source: Company accounts, Edison Investment Research

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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  
1,185 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