EQS Group

Q3 results

Compliance with growth story

Software & comp services

EQS is making progress on its journey to become a fully embedded provider of investor relations and compliance platforms and products to corporate customers. While conversion of sales leads has been slower than initially hoped, the group returned to EBITDA profitability in Q3 and is set to build a sustainable business model in markets driven by increasing regulation. FY19 guidance, revised with the Q3 figures, was for revenue growth of 10–15% pro-forma (down from 18–25%), taking €0.5m off EBITDA. The valuation is well below a DCF based on targeted growth.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/17	30.4	0.8	0.37	0.00	44.1	156.9	0.0
12/18	36.2	0.7	0.51	0.00	343.8	113.5	0.0
12/19e	35.2	(1.2)	(0.51)	0.00	40.4	N/A	0.0
12/20e	37.2	(0.3)	(0.12)	0.00	29.6	N/A	0.0

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

Building for the long-term opportunity

An unhelpful market backdrop, with few IPOs and a lack of corporate activity continuing through Q3 exacerbated the financial impact of the delays in the completion of new modules for the COCKPIT platform. Sales of those units, now in the market, will contribute to higher annual recurring revenues, but will not recoup the effect of the delay. FY19 revenues are now anticipated in a range of €35.2–€36.6m and our revised forecasts are set at the lower end. The platform investment, though, is all about building a longer-term sustainable business. The potential growth offered from providing systems and services that help corporates globally to fulfil their ever-increasing regulatory obligations remains attractive.

Focus on costs

As the substantial COCKPIT project moves into the next phase of incremental enhancements, the group is reconfiguring its cost base. Having reduced the freelance element and improving operational efficiency, profitability has started to improve from Q319. As the group revenue lifts, we expect EQS to return to pre-tax profitability in FY21 rather than the FY20 target we had previously built in.

Valuation: Underpricing targeted growth and margin

The development stage of the group makes peer-based valuations unhelpful beyond EV/revenue, where EQS is trading at a significant discount of 66%. As management publishes medium-term revenue and EBITDA targets to FY25, we have looked at a reverse DCF, based on a WACC of 8% and terminal growth of 2%. The current share price suggests the market is sceptical of the revenue growth target or the EBITDA margin target (or both). Were the group to meet its ambition of 20% revenue CAGR and margins building to 30% by FY25, the DCF indicates a share price of €113. A 16% CAGR (lower end of guidance) and EBITDA margin of 25% generates a value of €74, around 20% above the current price.

10 January 2020

Price	**€62.50**
Market cap	**€88m**

Net debt (€m) at 30 September 2019 (on an IFRS 16 basis)	13.0
Shares in issue	1.4m
Free float	69%
Code	EQS
Primary exchange	Xetra
Secondary exchange	FRA

Share price performance

%	1m	3m	12m
Abs	7.6	9.4	(9.2)
Rel (local)	4.5	(2.0)	(26.7)
52-week high/low		€75.00	€55.50

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

Final results	Early April 2020

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Investment case: Stakeholder communications

Providing for a market need

EQS operates in three interrelated segments: corporate communications and PR; investor relations; and governance, risk and compliance. Initially a provider of products and services, it is transitioning to be a technology partner to the corporate sector, providing tools that enable relevant individuals within companies and organisations to meet their regulatory and compliance obligations and handle investor relations efficiently. Rooted in meeting the needs of the investor relations and company secretariat functions, EQS is bringing together its various offerings on a single cloud-based platform, allowing 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.

Clear market drivers

Management identifies three key growth drivers; regulation; digitisation; and geographic expansion. Corporate legislation and regulation can be seen as a barrier to business, a necessary annoyance or an opportunity to instil best practice. The regulatory environment is increasingly complex, with onerous repercussions, both financial and reputational, from getting it wrong. The growing emphasis on building capital markets that benefit all stakeholders and not simply shareholders broadens the potential sphere of governance activity. EQS's tools are designed to make compliance with regulation as painless as possible. Offering digital workflow solutions fits well with established trends. Geographic expansion is focused on being in the right place to serve client needs. The group has a very strong presence in German-speaking territories and in Russia, growing business in the UK and US, interests in Asia and has more recently launched in France. EQS has grown historically through a combination of organic growth and acquisition.

In continued investment phase

In its earlier development phase, EQS focused on the digitisation of corporate communications. Its more recent efforts are focused on expanding its offering in the governance, risk and compliance field. To take advantage of the time-limited opportunity, it has pursued a major project to build a scalable cloud-based platform, first announced in September 2017. The extent and cost of the project grew through 2018 and earning guidance for that year was reduced, with FY18 the peak investment year. Returns on the investment programme have been slower to come through than initially hoped with fewer IPOs and as elements of the project were delayed, with sales behind budget. Spending plans for FY19 and FY20 were lowered with the Q319 results. FY20 should show improving ROI, with the potential coming through more strongly in FY21.

Valuation update, earnings revisions

On revised FY19 guidance, we lowered our estimates and now expect FY19 EBITDA of €2.6m (from €3.1m). A reverse DCF, using a WACC of 8% and terminal growth rate of 2% beyond 2025 suggests the current share price is discounting a CAGR for revenue from FY21–25 (ie beyond our current forecast period) of 18% and an EBITDA margin building steadily to 20% throughout this period. The revenue growth rate is at the lower end of management's expectations, while the EBITDA margin of 20% is significantly below the 30% expected by FY25. If we were to assume revenue growth of 20% (the higher end of management's target) and that the EBITDA margin steadily increases to that 30% by FY25, the DCF value would increase to c €113.

Company description: Global regulatory tech provider

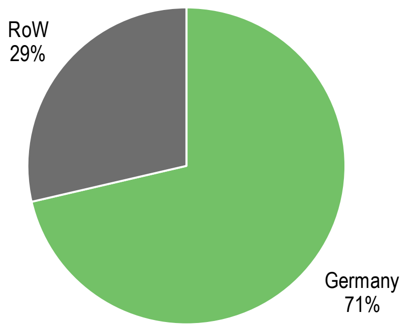
EQS is one of the largest global providers of digital solutions for investor relations, corporate communications and compliance functions. These are products designed to automate and simplify processes for those individuals working on the technical administrative aspects of running a corporate concern, enabling them to meet all regulatory requirements and freeing up their time to deal with matters that require more than simple information processing. By ensuring the product suites provided are constantly updated for the latest regulatory compliance changes and are delivered via intuitive interfaces, EQS should continue to add value for its users. Originally centred on investor relations (which in Germany and some other markets includes functions covered in other jurisdictions by the company secretary or equivalent), the group's products and services have been expanded across the related areas of governance, risk and compliance. The definition of investor relations (IR) includes financial and corporate communications, particularly in the form of news feeds, websites, webcasts and media. The compliance part of the group provides the technical (cloud-based) infrastructure for corporate clients to fulfil their legal and regulatory requirements.

The group was founded in 2000 in Munich, initially building a strong market position in its home markets of Germany, Switzerland and Austria before starting to build its presence in overseas territories. EQS looks to position itself as a partner with its client companies, working alongside them to solve issues and reduce inefficiencies, rather than simply as a supplier whose interest may not extend beyond the initial sales timeframe, with a growing emphasis on providing software-as-a-service (SaaS). The shift away from paper-based information to digital channels of communication between corporate entities and their various stakeholders is a key driver for growth. The honed business model is focused on building subscription and annually recurring incomes as a proportion of the whole, increasing the quality of the earnings.

EQS's solutions and services enable over 21,000 companies worldwide to fulfil complex domestic and international corporate information requirements securely, efficiently and on a timely basis. It has expanded both organically and by acquisition. The acquisition of ARIVA in July 2016 broadened the target markets to include financial institutions, but this concern was sold in July 2019 as it no longer fitted neatly with the corporate strategy. In Q317, EQS acquired a stake in the owner of the fourth-largest US news service, Accesswire, and in December that year bought Swiss-based Integrity Line (€5.0m), a leading provider of cloud-based whistleblowing systems.

For Q319, it employed an average of 364 people, up from 346 in Q318 (pro-forma numbers post the disposal of ARIVA from 1 July 2019). Its headquarters are in Munich, Germany, with further offices in Hamburg and Kiel and in Zurich (Switzerland) and Moscow (Russia). In December 2015, the group purchased Obsidian IR in the UK (price undisclosed), giving it a foothold in that market. In the Far East, the group has operations in Singapore and Hong Kong. More recently, it opened offices in New York and Paris, giving it the global network needed to enable it to offer the solutions sought by some of the largest multinationals. The group's technical operations are based in Munich, Germany, and Kochi in India. The largest number of employees (between 150 and 200) are involved in web, back-end, platform and software development. There has been a substantial project to upgrade the EQS COCKPIT cloud-based platform through FY17–20, with a total project investment of €8.8m (recently revised down from €9.3m).

Exhibit 1: Geographic mix Q1–Q319



Source: Company accounts

The German market accounts for most of group revenue, as shown above. For Q1–Q319, domestic revenues were up by 9% (adjusted for the ARIVA disposal), with international revenues ahead by 19% on a client base of 1,188, up by 21 on the previous quarter. The US is an increasingly important part of the mix, with the Integrity Line offering opening more doors. The downside is that the larger requests for proposal that EQS is being invited to join inevitably require more time and expense to prepare, while having a more extended conversion cycle. The strong reputation that German firms have for technology, data management, security and organisational skills gives EQS an advantage that helps offset its relatively small scale. EQS's offering is not restricted to any particular sector verticals and clients of note include Bridgestone, Puma and Glencore.

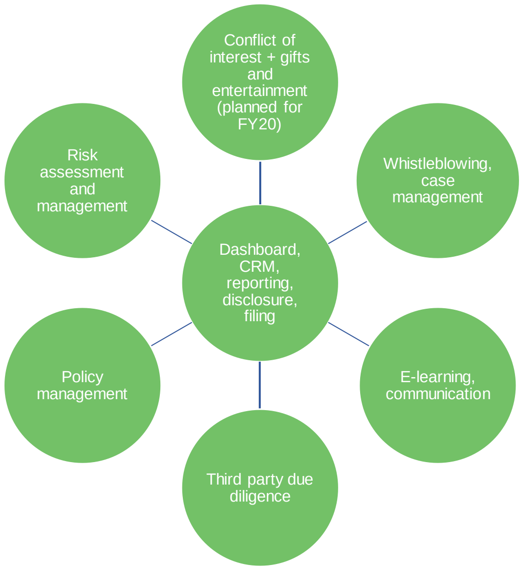
Building recurring revenues

The group reports in two segments: IR and Compliance. The IR segment includes financial and corporate communications products, in particular news, websites, webcasts and media. Compliance encompasses all products that companies require to fulfil legal or regulatory obligations. These include reporting and publishing obligations (Disclosure), filing with the German Federal Gazette (Filing), Insider Manager, Integrity Line and Legal Identity Identifier (LEI) workflows.

Under these definitions, around 80% of group revenues are defined as recurring (84% in Q319, rising to 86% for the larger German customers), being mostly related to cloud subscriptions or licences, such as news distribution, workflow modules, data services, webcasts and/or webhosting. The balance is accounted for by projects or set-up fees such for products, websites, platforms, reports and/or media.

EQS INSIDER MANAGER has now been rolled out to 14 countries and had over 650 clients at the end of September 2019. Integrity Line has already been sold into more than 200 clients. However, sales have been slower to build than hoped as it is primarily sold to larger organisations, which have more cumbersome procurement procedures. Work is ongoing on a similar but simplified solution for selling into SMEs.

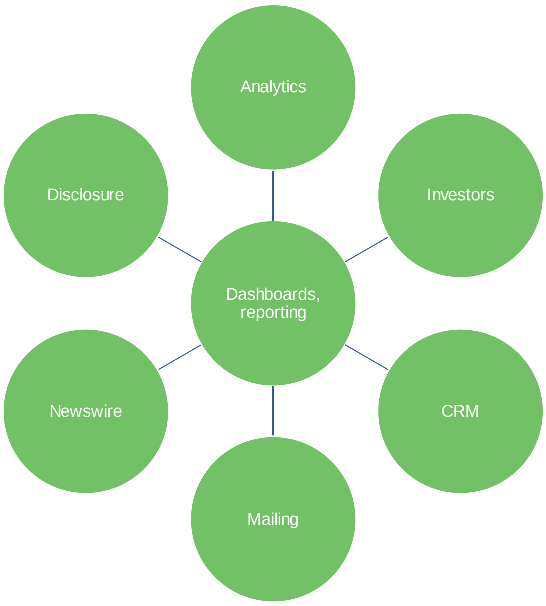
Exhibit 2: Compliance COCKPIT elements



Source: Company

These elements are combined within a dashboard that enables the client to assimilate and manage the various compliance aspects within one system, whereas they would previously have needed to be monitoring multiple applications. Within EQS's framework through to FY25, Policy Manager and Integrity Line are projected to have the strongest growth trajectories, along with Insider Manager.

Exhibit 3: Investor Relations COCKPIT elements



Source: Company

While growth in the individual elements within management's projections are relatively modest (4% for IR tools, 9% for media), the real advantage for the client is in time and efficiency, holding all these aspects together in the cloud and managing via a dashboard.

Regulatory framework ever more complex

The key short-term drivers in the governance and compliance arena are the last two regulations in Exhibit 4 below. EQS first introduced its whistleblowing system module in H217 as part of the broader Integrity Line service area. Recent modules fall mostly into the areas of CRM and policy management, along with a multimedia learning platform and quiz generator used for continuing professional development and compliance requirements.

While the broader corporate communications and PR market is estimated by The Holmes Report at over $15bn globally, the investor relations market is considerably smaller at approximately $1bn (source: IR Society). The former is estimated to be growing at around a 7% CAGR, while the IR market is likely to be growing at a more modest rate. The emerging governance, risk and compliance market is estimated by Gartner to be worth over $5bn (although with all these segments, the definitions can be hard to pin down accurately). Gartner's assessment is that it is growing at a CAGR of 13.4% and is therefore a particularly attractive area for EQS's involvement.

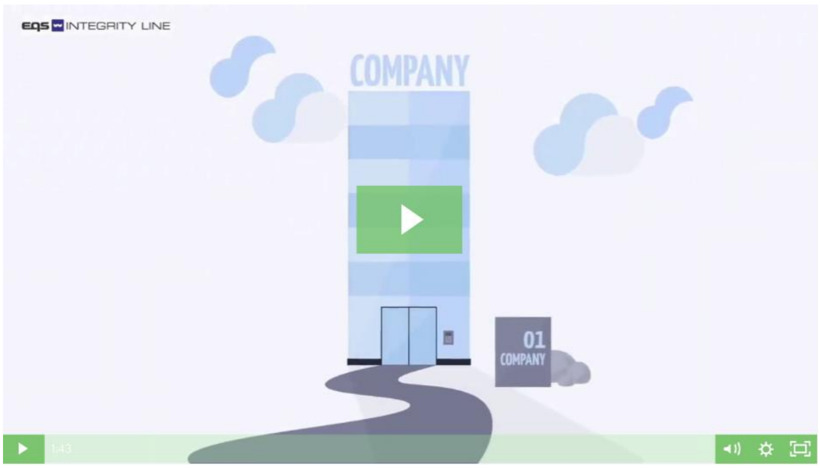
Exhibit 4: Relevant regulation and impact

Regulation	Date	Overview	Impact/ likely impacts on EQS
Market Abuse Regulation (EU)	Jul 16	Intensification of reporting obligations for the open market, in addition to the tightening of insider rules (eg ad-hoc notifications and directors' dealings). Voting rights were also deregulated.	■ Increasing demand for information disclosure (press and financial releases) to the public, and managing insider lists ■ Decline in Entry Standard issuers due to increased requirements ■ Deregulation of voting rights has a negative influence on news volume
MiFID II / MiFIR (EU)	Jan 18	Aims to increase transparency in financial markets through tighter reporting regulations (in terms of disclosure level and timeliness), increased regulatory oversight, enhanced investor protection, and changes to market structures.	■ Is expected to lead to a net increase in disclosure requirements, thereby driving demand for EQS's services
Legal Identity Identifier (LEI)		A global reference data system which uniquely identifies every legal entity and structure (eg use of ISIN codes). Use of LEIs is required by the European Securities and Markets Authority for reporting derivatives transactions.	■ EQS is an accredited Legal Operating Unit representative ■ Each client can require multiple LEIs, up to 100s and 1,000s
Update to Corporate Governance Code (Germany)	Jan 18	Statutory requirements for the management and supervision of German listed companies. The update adds a whistleblowing system for companies listed in the regulated markets (voluntary, but if not applied corporates need to explain on their website why not).	■ Good corporate governance typically includes increasing levels of information disclosure to investors, leading to greater IR and compliance needs
SAPIN II (France)	Jan 18	French anti-corruption and compliance measures, designed to reduce money laundering and funding of terrorism. Both firms and the directors of the firms will be liable for fines in cases of non-compliance.	■ Greater need for EQS's compliance modules
EU-wide whistleblowing	Dec19	The new EU Directive requires companies with more than 50 employees to take measures to protect whistleblowers and to establish confidential whistleblower channels and clear reporting processes. Member states are obliged to implement the directive into their own national laws by 2021.	■ Greater need for EQS's compliance modules

Source: Edison Investment Research, Financial Conduct Authority, EQS

The Integrity Line module broadens the potential market for EQS's products and services within all organisations with over 50 employees.

Exhibit 5: Integrity Line explainer



Source: Company

Management steeped in financial markets and IR

The group's CEO is Achim Weick, who began his career at Commerzbank. Subsequently, he was co-founder of investor relations manager CMC Capital Markets Consulting. Achim is the originator, founder and largest shareholder of EQS and has been on the board since its foundation. COO Christian Pfleger joined EQS in 2001, initially as a client relationship manager, moving to project management from 2003. In 2007, he took over responsibility for products and services. André Silverio Marques, who fulfils the finance function, was appointed to the main board as CFO in July 2018, having been finance director since 2015. He previously ran the group's Russian businesses and, before that, oversaw the IR, business development and corporate finance activities. The other key member of the management team is Marcus Sultzer, who joined the group in 2007 and oversaw business development in Russia and the CIS from 2009 and Asia-Pacific from 2013. As well as being international managing director, in charge of operations in Asia, Russia, Switzerland and UAE, he is the group's chief revenue officer. Fuller biographies of management are given on page 12.

Sensitivities

There are various factors that will influence EQS's financial performance, each of which may vary considerably across the operating territories. The three key elements of the growth strategy – digitisation, regulation and internationalisation – are themselves all important sensitivities for the future financial performance of the group and are covered in the list of identified factors below:

- The number of listed companies (itself a factor of the environment for de-listings and/or IPOs).
- The number of companies of a scale to benefit from automation of reporting.
- Corporate activity that prompts the need for information dissemination.
- The regulatory environment – the more complex the system and the greater the number and extent of changes to those systems, the greater the requirement for corporates to access relevant expertise. Introduction of additional regulation, such as the Market Abuse Regulations, can reinvigorate previously dull markets.
- Requirements for corporates to make information available in a digital format, either through regulation or user demand.
- Data security, including the General Data Protection Regulation, can restrict competition from providers that do not have similar levels of auditory clearance, and sets a higher barrier to entry.
- The adoption of new channels of dissemination, such as the use of social media, where incumbents may have little expertise.
- The relative health of corporate budgets.
- The health of the corporate bond market.
- Currency: the impact is obviously increasing as the group continues with its ambitions to internationalise the business. The bulk of the group overhead remains euro-denominated but revenues are increasingly generated in US dollars and US dollar-related currencies. Currency exposure is not hedged, as the main impact is on valuation, a non-cash item.

Valuation

The current restraints on profitability stemming from the investment programme make conventional peer-based valuation less useful, so we supplement this with a DCF-based approach.

Peer context

As the internal investment is affecting profitability for FY19–20, the most reliable of the traditional multiple is that of EV/revenue (although we also show EV/EBITDA and P/E below). There is a wide range of multiples for the peer group. For FY1, EQS is trading at 3.1x sales versus the average for the entire peer group pf 11.3x. Excluding MarketAxess, which is trading at a high premium to the rest of the peers, the average sales multiple for the peer group is 9.0x and is still clearly substantially ahead of the rating accorded to EQS.

As noted elsewhere in this report, estimated sales growth for FY19 has been below earlier expectations, which has boosted this multiple. If the level of sales growth indicated by management is realised, then the discrepancy between EQS and the larger peer group would become even more marked.

Exhibit 6: Peer valuations

	Price	**Market**	**EV/ revenue (x)**			**EV/EBITDA (x)**			**PE (x)**		
	reporting currency	cap (m)	FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Euromoney (£)	1296.0	1,410	3.4	3.3	3.2	12.3	11.9	11.3	80.2	16.9	16.1
Thomson Reuters (U$)	95.1	47,420	7.2	6.6	6.3	29.0	26.0	20.0	158.4	58.7	37.7
Envestnet (U$)	72.2	3,790	5.3	4.7	4.2	27.2	22.3	18.3	405.0	33.7	27.9
Swissquote Group (€)	49.9	721	13.1	12.2	11.2		49.3	45.0	14.9	17.5	15.1
Globaldata (£)	1416.9	1,660	11.2	9.9	9.4	54.6	41.3	36.9		64.2	56.5
MSCI (U$)	262.1	22,200	16.7	15.4	14.0	30.9	28.3	25.3	26.6	41.1	36.3
S&P Global (U$)	279.0	68,200	11.5	10.8	10.2	22.9	20.9	19.3	22.0	29.6	26.7
MarketAxess Holding (U$)	374.1	14,130	31.7	27.1	23.8	57.3	48.8	42.1	46.4	69.0	60.7
Average			12.5	11.3	10.3	33.5	31.1	27.3	107.6	41.3	34.6
Average ex Marketaxess			**9.7**	**9.0**	**8.3**	**29.5**	**28.6**	**25.1**	**117.8**	**37.4**	**30.9**
EQS (€)	61.5	88.3	3.0	3.1	2.9	360.5	42.3	31.0	120.4	N/A	N/A
Discount to average			-76%	-73%	-72%	978%	36%	14%	12%	N/A	N/A
Discount to average excluding Marketaxess			-69%	-66%	-65%	1123%	48%	23%	2%	N/A	N/A

Source: Refinitiv, Edison Investment Research. Note: Prices at 7 January 2020.

For illustrative purposes, closing the discount on FY2 EV/revenue (excluding MarketAxess) would imply a share price of €200. Obviously, the comparative scale and early stage of business development warrant a considerable discount. A 50% discount would imply a share price of €95.

DCF also points to higher value

Management has outlined its views on the medium-term revenue growth outlook, with Compliance growing at a CAGR of 20–25% through to FY25 and IR growing at a more modest 10–15%. From the current mix (and assuming no further M&A), this equates to group revenue growth in a range of 16–21%.

A reverse DCF, using a WACC of 8% and terminal growth rate of 2% beyond 2025, suggests the current share price is discounting a CAGR for revenue from FY21–25 (ie beyond our current forecast period) of 18% and an EBITDA margin building steadily to 20% throughout this period. The revenue growth rate is at the lower end of management's expectations, while the EBITDA margin of 20% is significantly below the 30% expected by FY25. If we were to assume revenue growth of 20% (the higher end of management's target) and that the EBITDA margin steadily increases to that 30% by FY25, the DCF value would increase to c €113. Assuming a more modest 16% CAGR and increase in EBITDA margin to 25% derives a value of €74.2, around 20% above the current share price.

Financials

Our figures are all presented including IFRS 16. This is a relatively substantial adjustment for EQS, as set out in our note in May 2019, reducing operating expenses by about €1.8m annualised (nine months operating expenses were down €1.4m, depreciation was up a similar amount and financial expenses edged up €0.1m). The group's 92% shareholding in ARIVA was sold in June 2019 and our forecasts were adjusted to strip out its contribution.

Management previously described FY18 as the group's transition year and FY19 as the year of growth from the new COCKPIT. With this growth slower to materialise than had been envisaged, with a dull market backdrop (few IPOs, languid economies) and delays to the launch of some modules while they were optimised, management adjusted guidance for the FY19 full year with the Q3 numbers in November. The key specific elements cited were:

- A six-month delay in the CRM and mailing modules, affecting IR revenues by €0.5–1.5m.
- A weak German IPO market, with five listings rather than the anticipated 15, taking around €0.35m from IR and €0.15m of Compliance revenues.
- XML revenues behind as reports failed to increase in size by the expected amount, reducing revenues by c €0.5m.
- A longer conversion cycle than anticipated in Compliance cloud solutions, pushing into the next sales cycle, again reducing revenues by around €0.5m.

FY19 now looks to be more of a second year of transition. No guidance is given for subsequent years, beyond the ambitions outlined through to FY25e for both revenue and EBITDA. These imply a CAGR of 20–25% for the Compliance segment and of 10–15% revenue growth for Investor Relations, with EBITDA margins of 'at least 30%' in FY25. Revenue growth should be faster in the earlier part of this time frame, with the margin enhancement skewed later.

We have therefore lowered our forecasts to reflect the revised guidance for FY19, with consequent reductions in FY20 as it moves off a lower base than previously anticipated.

Exhibit 7: Changes to forecasts

	EPS (€)			PBT (€000s)			EBITDA (€000s)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2019e	(0.27)	(0.51)	(88)	(615)	(1,162)	(89)	3,113	2,566	(18)
2020e	0.36	(0.12)	N/A	821	(276)	N/A	4,600	3,503	(24)

Source: Edison Investment Research

Our assumptions are based on management's guidance for FY19 and for FY20 are underpinned by the build-up in annually recurring revenues (ARR). Market growth within the IR business is estimated at a CAGR of 2.6% through to FY25 (source: The Holmes Report), with IR Magazine putting the CAGR for the corporate communications and PR segment at 7% over the same period. Governance, risk and compliance is clearly the fastest-growing market segment, with Gartner estimating a CAGR of 13.4%.

The internal targets (shown below) are in excess of market growth, partly as a function of growing from a small base and partly by EQS's offering being an integrated, cloud-based solution designed from scratch rather than a piecemeal solution adapted to purpose.

Exhibit 8: Indicated medium-term segmental growth

€m	FY18	FY19e	FY25e	FY18–25e CAGR	FY19e–25e CAGR
Group revenue	28.8	31.7	100	19.5%	21.1%
IR	13.3	14.5	33.5	14.1%	15.0%
Compliance	15.5	17.2	66.5	23.1%	25.3%

Source: Company presentation, Edison Investment Research. Note: FY19 revenue excludes ARIVA.

We show the recent quarterly progression below, with the implied Q419 figures.

Exhibit 9: Quarterly progression

	Q119	Q219	H119	Q319	Q419e	FY19e	FY20e
Investor Relations							
Revenue Large Caps €m	3.44	3.58	7.02	3.39	4.14	14.55	16.96
# Large Cap Customers	2,083	2,103	2,103	2,132	2,147	2,140	2,354
Compliance							
Revenue Large Caps €m	2.28	2.42	4.70	2.32	2.42	9.44	11.20
# Large Cap Customers	1,170	1,206	1,206	1,236	1,256	1,256	1,382
XML Revenues €m	0.71	1.94	2.65	1.69	1.64	5.98	7.23
# XML Customers	4,363	4,249	4,249	4,013	4,045	4,045	4,449
LEI Revenues €m	0.46	0.37	0.83	0.48	0.42	1.73	1.81
# LEI Customers	33,580	34,093	34,093	36,062	36,032	36,315	39,946
Total Compliance €m	3.45	4.73	8.18	4.49	4.48	17.15	20.24
Discontinued €m						3.50	
Total Group €m	6.89	8.31	15.2	7.88	8.62	35.20	37.20

Source: Company accounts, Edison Investment Research

The contribution of ARR to the whole is steadily increasing, improving the quality of earnings. At the end of September 2019, around €2.2m of newly acquired ARR was on the books – a figure that had risen to €2.8m by mid-November (compared to a target for the full year of €4.0m, now revised to €3.2–3.6m). ARR would typically form 80% of revenues across the COCKPIT (plus webhosting and webcast), with onboarding revenues forming the balance (set-up plus media)

Profitability turning the corner

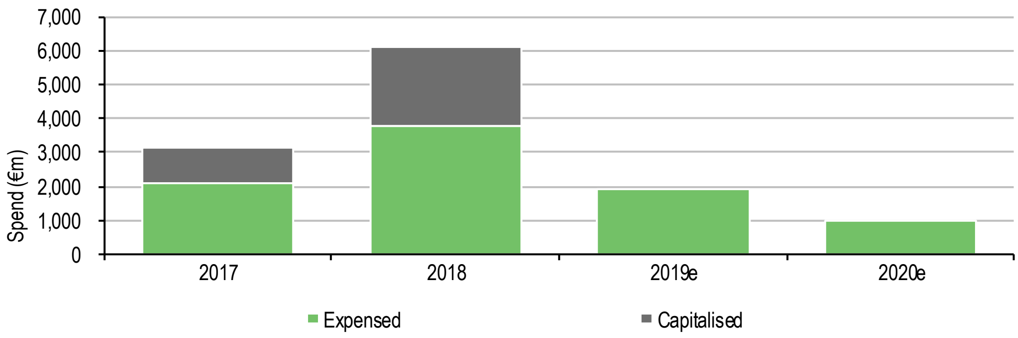
Costs, however, have been well controlled, with the level in Q319 roughly equivalent to that at Q218. In Q319, pro-forma revenue (stripping out ARIVA) was up by 15% year-on-year, while (pro-forma) total expenses grew just 1%.

With the maturing of the main COCKPIT project, EQS has been able to shift the balance away from freelance resource and to reallocate internal staff more efficiently. The cost of freelancers is included in the accounts under ‘purchased services’ and these have been reducing from Q219. Improvements and upgrades to the platform will continue but can be done at a less frenetic pace. With a more stable workforce, staff efficiency and productivity should also improve.

Improving cash flow

The group’s cashflow has been dominated by the spend on the cloud programme, including the COCKPIT project, which now tails off as shown below. We are modelling a group maintenance capex level of €1.5m in future years to ensure the offering remains pertinent to client needs.

Exhibit 10: Cloud 2020 investment profile



Source: Company

M&A has also been a regular feature, bringing in new spheres of operation and broadening the geographic reach. The main element of the M&A line in FY19 will have been the proceeds from the disposal of the ARIVA stake, which led to an extraordinary gain of €2.3m (€2.2m adjusted for interest).

The growth in the proportion of ARR obviously has a beneficial impact on earnings visibility and on EQS's working capital profile. The overall working capital position for FY19 is distorted by the ARIVA disposal, but our modelling assumes the net change over the year will have been around neutral. For FY20, we are forecasting a small working capital absorption of €0.2m. Free cash flow of €1.0m in FY19 improves to €2.2m in FY20 under our modelled scenario.

Improving balance sheet

At end September, EQS had net debt of €13.0m, a figure swollen by the inclusion of the leases under IFRS 16. Stripping these out, the figure would have been €5.6m, against an equity base of €26.9m. Our model indicates a small further increase in net debt across Q4 to end the year at €15.4m, before starting to decrease through FY20. We model €14.0m of net debt by the year-end.

The group has guaranteed working capital lines of €3.0m (€1.4m drawn at end Q319). Structured debt is in the form of five-year fixed interest-bearing loans. The weighted average interest charge on these was 1.41% at the time of the last full accounts in FY18.

Exhibit 11: Financial summary

€'000s	2016	2017	2018	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	26,061	30,355	36,210	35,200	37,200
Cost of Sales	0	0	0	0	0
Gross Profit	26,061	30,355	36,210	35,200	37,200
EBITDA	4,174	2,350	301	2,566	3,503
Operating Profit (before amort. and except.)	3,264	1,042	(1,237)	(913)	24
Amortisation of acquired intangibles	(602)	(696)	(821)	(821)	(821)
Exceptionals	0	0	0	0	0
Share-based payments	0	0	0	0	0
Reported operating profit	2,662	346	(2,058)	(1,734)	(797)
Net Interest	(150)	(302)	1,919	(249)	(300)
Joint ventures & associates (post tax)	(738)	17	37	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	2,376	757	719	(1,162)	(276)
Profit Before Tax (reported)	1,774	61	(102)	(1,983)	(1,097)
Reported tax	(960)	(634)	913	744	411
Profit After Tax (norm)	1,090	507	482	(726)	(173)
Profit After Tax (reported)	814	(573)	811	(1,239)	(686)
Minority interests	0	0	0	0	0
Discontinued operations	0	0	251	0	0
Net income (normalised)	1,090	507	733	(726)	(173)
Net income (reported)	814	(573)	811	(1,239)	(686)
Average Number of Shares Outstanding (m)	1,250	1,372	1,435	1,435	1,435
EPS - normalised (c)	87.22	36.97	51.09	(50.61)	(12.03)
EPS - diluted normalised (€)	0.87	0.37	0.51	(0.51)	(0.12)
EPS - basic reported (€)	0.65	(0.42)	0.57	(0.86)	(0.48)
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	41.8	16.5	19.3	(2.8)	5.7
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	16.0	7.7	0.8	7.3	9.4
Normalised Operating Margin (%)	12.5	3.4	(3.4)	(2.6)	0.1
BALANCE SHEET					
Fixed Assets	30,389	34,914	40,920	47,920	45,120
Intangible Assets	26,314	26,662	37,293	37,469	36,671
Tangible Assets	2,140	2,048	2,241	9,065	7,063
Investments & other	1,935	6,203	1,385	1,385	1,385
Current Assets	12,014	12,536	7,250	8,200	10,039
Stocks	0	0	0	0	0
Debtors	4,009	4,458	5,030	4,890	5,168
Cash & cash equivalents	6,610	6,374	1,308	2,398	3,959
Other	1,395	1,703	912	912	912
Current Liabilities	(9,942)	(11,559)	(14,330)	(14,182)	(14,257)
Creditors	(1,534)	(1,101)	(1,472)	(1,324)	(1,399)
Tax and social security	(298)	(290)	(129)	(129)	(129)
Short term borrowings	(4,089)	(5,986)	(6,961)	(6,961)	(6,961)
Other	(4,021)	(4,183)	(5,768)	(5,768)	(5,768)
Long Term Liabilities	(7,237)	(6,526)	(5,528)	(12,898)	(12,898)
Long term borrowings	(4,761)	(3,946)	(3,475)	(10,845)	(10,845)
Other long term liabilities	(2,476)	(2,581)	(2,053)	(2,053)	(2,053)
Net Assets	25,224	29,363	28,312	29,040	28,004
Minority interests	2,969	1,922	420	75	(275)
Shareholders' equity	28,193	31,286	28,731	29,114	27,728
CASH FLOW					
Op Cash Flow before WC and tax	2,326	1,431	3,170	3,061	3,614
Working capital	1,461	(818)	1,270	(8)	(203)
Exceptional & other	1,015	2,011	(1,541)	(495)	(111)
Tax	(1,302)	(872)	(135)	744	411
Net operating cash flow	3,500	1,752	2,764	3,302	3,712
Capex	1,149	(3,482)	(5,441)	(2,300)	(1,500)
Acquisitions/disposals	(3,989)	(3,148)	(5,115)	4,888	0
Net interest	(27)	(104)	(169)	(249)	(300)
Equity financing	5,279	7,859	0	0	0
Dividends	0	0	0	0	0
Other	(981)	(3,140)	1,792	(1,856)	(350)
Net Cash Flow	4,931	(263)	(6,169)	3,785	1,562
Opening net debt/(cash)	4,716	2,240	3,556	9,127	15,407
FX	15	(386)	75	57	0
Other non-cash movements	(2,469)	(667)	523	(10,122)	0
Closing net debt/(cash)	2,240	3,556	9,127	15,407	13,846

Source: Company accounts, Edison Investment Research

EDISON

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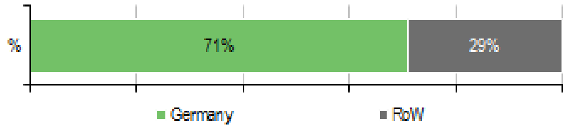
Revenue by geography



Management team

CEO executive board: Achim Weick

Achim Weick began his career in corporate banking at Commerzbank. He completed an international trainee programme and worked in Berlin, Budapest and New York. Subsequently, he was co-founder of the investor relations manager, CMC Capital Markets Consulting. Achim is the originator, founder and largest shareholder of EQS Group and has been on the board since the group's foundation.

COO executive board: Christian Pfleger

Christian Pfleger studied business administration at the University of Bayreuth with a focus on marketing and organisation. He then moved to regional television company Oberpfalz TV. He joined EQS Group in 2001, initially as a client relationship manager, moving to project management from 2003. In 2007, he took over responsibility for products and services. On 1 January 2015 he was appointed COO of the executive board of EQS Group.

Chairman supervisory board: Rony Vogel

An electrical engineer by training, Rony Vogel started his career at TRW Electrical and Electronics. In 1996 he co-founded Internet Screen Phones at Siemens, and in 1999 founded The Business Angel Network venture24. This helped launch a number of start-ups, including EQS Group. Since 2003, he has been an active investor and entrepreneur in the software/internet, environmental and real estate sectors. He holds a number of other board positions.

CFO executive board: André Marques

Prior to his current responsibilities, André was in charge of the group's activities in Russia and the CIS. Before that role, he had headed the company's investor relations department and overseen the business development and corporate finance activities. He studied finance at Frankfurt State University and has an MBA in general management.

CRO: Marcus Sultzer

In July 2018, Marcus became the chief revenue officer of EQS Group and is responsible for global revenues and marketing. Marcus joined EQS Group in 2007 and has taken a leading role in its international expansion. From 2009 to 2012, he was based in Moscow, starting and developing the Group's Russian operations. This was followed by a four-year chapter in Asia in a similar role. Marcus studied economics and holds an MBA.

Principal shareholders	(%)
Achim Weick (CEO)	21
Investm. F. Langfr. Inv.	20
Eiffel Inv Group	5
Allianz Global Investors	4
Berenberg Euro Micro	4
Shareholder Value	4
Rony Vogel	3

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