

## EQS Group

**Software and  
computer services**

14 April 2021

### Ramping up whistleblowing sales

EQS had a clear benefit in FY20 from the demand for virtual corporate communications but the key to future growth is in the corporate compliance segment. Its cloud-based products are set to be the core growth driver over the medium term. With the imminent implementation of European whistleblowing regulation, there is a short-term opportunity to gain new clients, with the potential to expand accounts after. To make the most of this, the group is investing an additional €5.6m in sales and marketing in FY21, reflected in revised consensus estimates.

### Additional investment in FY21

There were no real surprises in the published accounts, with the preliminary figures having been published in February. The Investor Relations segment grew 26% (pro-forma, adjusted for sale of ARIVA in FY20), to 47% of group revenue, while Compliance segment revenues were up 12% pro-forma. Reporting is simplified, with revenues split between Investor Relations and Compliance, with each split between Cloud Products (SaaS) and Cloud Services. It is the SaaS revenues that are set to drive the stronger growth over the planned period through to FY25. For FY21, management guidance is for FY21 EBITDA to be in the €1.0–2.0m range, with the reduction reflecting €5.6m of additional investment in sales and marketing, implying a slightly better underlying margin than was built into earlier forecasts. Management's ambition is to build group revenue to €100m, with an EBITDA margin of over 30%, by FY25e unchanged. This looks challenging but achievable.

### Funding in place

The group raised €9.1m gross in Q420 (placing at €26/share), with which it bought a 23% stake in C2S2 (in January 2021), a SaaS policy management provider with intelligence search functionality, and 100% of Got Ethics for €10m, again settled in January 2021. Got Ethics is an established provider of digital whistleblowing in Northern Europe. EQS raised a further €13.6m with a placing at €38/share in February. Having ended FY20 with net cash of €1.2m (€7.1m if leases are excluded), the group has the liquidity to support this further investment phase.

### Valuation: Looking to the potential

With two recent placings, the share price has come off recent highs (€39.4 in February). On EV/sales, averaged across FY20–22e, the valuation is still at a discount of around 55% to larger peers, while earnings multiples are distorted by the additional investment.

#### Consensus estimates

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)
12/19	35.4	(0.3)	(7.4)	0.00	N/A	100.1
12/20	37.6	0.4	4.1	0.00	795.1	53.7
12/21e	47.6	(3.3)	(0.5)	0.00	N/A	150.4
12/22e	57.1	(0.1)	(0.1)	0.00	N/A	51.2

Source: Refinitiv. Note: \*Historical adjustments to PBT and EPS are as per Refinitiv.

**Price** €32.6

**Market cap** €257m

#### Share price graph



#### Share details

Code	EQS
Listing	Deutsche Börse Scale
Shares in issue	7.9m
Net cash at 31 December 2020 (including finance leases)	€1.2m

#### 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.

#### Bull

- Regulation driving demand.
- High and growing percentage of recurring and repeatable income.
- Opportunities for cross- and up-selling

#### Bear

- Additional investment suppressing short-term profitability.
- COVID-19 impact on corporate health.
- Forward-looking rating.

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## New segmentation clarifies the narrative

With these results, management has moved on from the previous segmentation, which was becoming much less helpful in clarifying how the business was developing. The two key elements of Investor Relations and Corporate Compliance are maintained, but the smaller revenue streams, such as LEI customers, are now merged in with others. It is the Cloud Products that are set to be the main revenue drivers, based on the group's COCKPIT platform. The revenue splits are shown below. We expect the main impetus for growth in FY21 to be from Compliance Cloud Products, in line with the step up in the sales and marketing efforts behind the promotion of the whistleblowing solutions.

While this EU whistleblowing regulation is now active, the deadline for implementation in national laws is two years, which will be in December 2021. We would therefore expect the revenue benefit to be heavily skewed to H221 and into H122, while the additional sales cost will be in place for most of H121, with forecast FY21 EBITDA to accrue in the second half. Management's ambition is to gain 5k whistleblowing clients by FY25, of whom about 1k will choose to operate on EQS's Compliance COCKPIT. There is obviously then considerable scope for cross- and up-selling.

Got Ethics, which will sell under the Integrity Line brand (and therefore report within Compliance Cloud-Products), should add €2.7–3.0m of annualised revenues.

<b>Exhibit 1: New revenue segmentation</b>		
€000s	FY19	FY20
<b>Investor Relations</b>		
Cloud-products	5,286	7,849
growth (%)	0%	48%
Service-products	8,717	9,818
growth (%)	0%	13%
Discontinued operation (ARIVA.DE AG)	2,072	0
<b>Total Investor Relations</b>	<b>16,075</b>	<b>17,667</b>
growth (%)		10%
Like-for-like growth (%)		26%
<b>Compliance</b>		
Cloud-products	9,332	10,696
growth (%)	0%	15%
Service-products	8,535	9,273
growth (%)	0%	9%
Discontinued operation (ARIVA.DE AG)	1,425	0
<b>Total Compliance</b>	<b>19,292</b>	<b>19,969</b>
growth (%)		4%
Like-for-like growth (%)		12%
<b>Group</b>	<b>35,367</b>	<b>37,636</b>
growth		6%
Like-for-like growth (%)		18%
Source: Company accounts, Edison Investment Research		

EQS continues to report other key metrics such as new annualised recurring revenues (ARR) (€5.32m), new SaaS customers (301) and SaaS contracts signed for the IR COCKPIT (631). Management's goal is to win 1,500–2,000 new customers in FY21, with a target of €6m new ARR.

For FY21, the main change to forecasts is clearly the €5.6m of EBITDA identified by management as sacrificed to the sales effort. Guidance is for FY21 total revenue growth of 20–30% (including Got Ethics), with Compliance revenue growth in a range of 30–40%.

EBITDA is guided in a range of €1.0–2.0m.

Management's business plan is unchanged: FY25e revenues of €100m, split 68% Compliance, 32% Investor Relations, achieving an EBITDA margin of over 30%.

The recent fund-raises have put the group in a good financial position to weather the planned temporary reduction in EBITDA, as well as facilitating the bolt-on acquisitions of Got Ethics and the stake in C2S2. Having closed FY20 with net cash of €1.2m, consensus indicates an increase by end FY21e, with cash flow accelerating the following year. The underlying cash characteristics of the business model should be strong, with subscription income and a scalable product that should not demand further extensive capital investment.

## Valuation: Off recent highs

**Exhibit 2: Peer valuations**

	Price (reporting currency)	Market cap (m)	YTD %	EV/sales (x)			EV/EBITDA (x)			P/E (x)		
				FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Euromoney (£)	982	1,073	-8	3.3	3.4	3.0	16.6	15.8	12.3	23.0	24.3	17.2
Thomson Reuters (US\$)	91	56,696	10	7.9	7.6	7.3	23.8	24.9	21.4	49.2	51.7	39.7
Envestnet (US\$)	75	4,064	-9	4.4	3.9	3.5	18.3	18.3	16.3	29.1	34.7	31.5
Swissquote Group (€)	134	2,060	57	20.8	13.3	12.3		29.7	27.2	22.1	18.5	16.4
GlobalData (£)	1,370	1,621	0	9.6	9.0	8.9	30.3	27.9	26.4	44.8	42.5	37.3
MSCI (US\$)	449	37,114	0	23.1	20.2	18.4	40.3	34.2	30.8	57.3	48.0	42.4
S&P Global (US\$)	369	88,911	12	12.3	11.7	11.0	22.0	21.1	19.7	31.6	29.6	26.9
MarketAxess Holding (US\$)	535	20,311	-6	28.8	25.3	22.7		43.8	39.0	68.1	64.0	57.4
<b>Average</b>			<b>7</b>	<b>13.8</b>	<b>11.8</b>	<b>10.9</b>	<b>25.2</b>	<b>27.0</b>	<b>24.1</b>	<b>40.7</b>	<b>39.2</b>	<b>33.6</b>
<b>Median</b>			<b>0</b>	<b>11.0</b>	<b>10.4</b>	<b>10.0</b>	<b>22.9</b>	<b>26.4</b>	<b>23.9</b>	<b>38.2</b>	<b>38.6</b>	<b>34.4</b>
EQS (€)	32.6	257	20	6.8	5.4	4.5	53.7	150.4	51.2	N/A	N/A	N/A
(Discount)/Premium				-51%	-54%	-59%	113%	457%	112%	N/A	N/A	N/A

Source: Refinitiv. Note: Prices at 12 April 2021.

EQS's share price climbed from €14.8 to €26.8 over the course of FY20, continuing to rise to a high of €39.6 in early February 2021 shortly before the second fund-raise.

On EV/sales, EQS remains valued at a substantial discount to larger global peers of 55%, averaged across FY20–22 to smooth out any COVID-19 impacts. Earnings-based multiples are obviously affected by the temporary reduction in profitability.

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