EQS Group

H121 results

Whistleblowing deadline fast approaching

Software & comp services

EQS Group's H121 results were strong, showing robust increases in revenue and its customer base. Following its acquisition of Business Keeper in Q321, EQS is now well positioned to capitalise on the time-limited opportunity presented by the European Whistleblowing Directive. Achieving a strong foothold here will be key for driving SaaS customer acquisition, underpinning management's ambitious short- and medium-term guidance.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (c)	EV/EBITDA (x)	P/E (x)
12/19	35.4	2.6	(0.3)	(7.4)	152.7	N/A
12/20	37.6	4.8	0.4	4.1	81.9	N/A
12/21e	49.4	2.8	(2.7)	(21.2)	137.0	N/A
12/22e	70.0	7.5	1.0	7.7	51.9	N/A

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

Regulation frameworks driving top-line growth

H121 revenues grew by 22% to €22.5m, within management's previously targeted range of 20–30% for FY21. Momentum in its Compliance segment has continued to build from its Q121 results, with services benefiting from the new ESEF regulation and stronger than expected demand in its Legal Entity Identifier issuance service. Its acquisitions of Got Ethics and C2S2, consolidated in January 2021, contributed revenues of €1.4m during the period, accelerating growth in compliance products via an expanded SaaS customer base. Improving its SaaS-based revenues has helped lift recurring revenues, which now account for 83% of total revenues (H120: 79%). Its Investor Relations segment performed robustly, growing by 10% in the half, due to the successful migration of existing customers to its new IR COCKPIT platform and a rise in the number of IPOs in the first half of 2021.

Whistleblowing to drive H221 growth

The European Whistleblowing Directive's implementation deadline of December 2021 could greatly expand EQS's customer base in H221 and will be supported by acquisitions given the time-limited opportunity. Since the acquisition of Business Keeper, the German market leader for whistleblowing systems, the number of new SaaS customers has grown from 266 to 445 from May to end-July. Additional customers could also lead to cross- and up-selling opportunities on the COCKPIT platform, as well as for other EQS products. Management's FY21 guidance for new SaaS customers has been raised to a range of 1,750–2,250 (previously 1,500–2,000), new ARR is expected to be €9m (previously €6m) and revenue growth is anticipated to be 30–40%. EBITDA and margins are expected to remain suppressed in FY21 due to elevated marketing costs relating to whistleblowing.

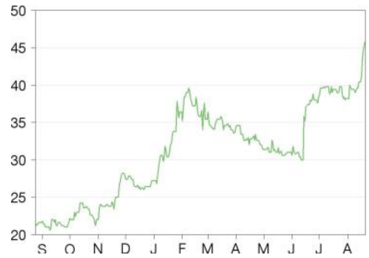
Valuation: Looking to the potential

EQS's share price responded strongly to its 11 June announcement on the agreed acquisition of Business Keeper, rising by 20% on the next trading day. On EV/sales, the group still trades at a significant discount to its basket of international software peers, on average at a discount of 42%, across FY20–22.

23 August 2021

Price	**€45.4**
Market cap	**€385m**
Net debt (€m) at 30 June 2021	5.4
Shares in issue	8.5m
Free float	74%
Code	E1SX
Primary exchange	XETRA
Secondary exchange	FRA

Share price performance



%	1m	3m	12m
Abs	17.4	46.8	102.7
Rel (local)	13.0	42.7	64.5
52-week high/low		€45.4	€20.8

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

Q3 results	12 November 2021

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Robust first half performance

Total revenue was up 22% in the half to €22.5m, with the acquisitions of Got Ethics and C2S2 contributing €1.4m from January 2021. Compliance products and services were the main revenue drivers in the first half, growing 33% y-o-y to €12.6m and benefiting from continued growth momentum from the European Single Electronic Format (ESEF) regulation. Revenues in its IR segment increased by 10% to €9.9m, driven by the final migration of existing customers to the new IR COCKPIT platform and an uplift in IPO activity during the half. These drivers indicate a shift in product mix, where in the prior year its IR segment benefited from one-off factors related to COVID-19, which have significantly reduced in H121. The shift in product mix should provide more sustainable momentum through IR COCKPIT and greater profitability due to the higher margins of products relating to IPOs.

Exhibit 1: Growth in key figures

€000s	H121	H120	y-o-y change (%)
Total Revenue	22,528	18,454	22%
Compliance	12,550	9,420	33%
Cloud-products	*7,130*	*5,527*	*29%*
Service-products	*5,410*	*3,864*	*40%*
Investor Relations	9,980	9,073	10%
Cloud-products	*4,560*	*3,429*	*33%*
Service-products	*5,420*	*5,588*	*-3%*
Revenue (ex acquisitions)	21,106	18,454	14%
Annual recurring revenue	4,250	2,940	45%
Operating expenses	22,940	16,710	37%
EBITDA	1,326	2,996	-56%
Margin	*6%*	*16%*	*-10ppt*
Adjusted EBITDA	3,257	2,996	9%
Margin	*14%*	*16%*	*-2ppt*
EBIT	(1,246)	1,004	>-100%
Group earnings	(1,325)	1,028	>-100%
Operating cash flow	423	4,321	-90%
Equity ratio (%)	56	52	N/A
SaaS customers	3,386	2,588	31

Source: Company accounts, Edison Investment Research

Operating expenses in H121 rose by 37% to €22.9m, highlighting the impact of the 38% increase in personnel expenses to €14.3m due to average employee numbers rising by 100 to 457 during the period. Operating expenses also included substantial one-off costs, including whistleblowing marketing spend of €1.9m and €400k on acquisition-related costs. Acquisition-related costs are expected to decline substantially in Q321 and not reoccur in 2022. Due to the rise in operating expenses in the period, EBITDA declined by 56% to €1.3m; excluding the increase in marketing spend, EBITDA rose by 9% to €3.3m.

Looking at the balance sheet, the acquisitions of Got Ethics and C2S2 (consolidated in January 2021) were supported by a €13.6m equity raise and new debt raising, as discussed in our update note published on 14 April. As a result, the group reported a net debt position of €5.4m (including lease liabilities of €5.4m) at end June 2021 versus a net cash position of €1.2m at end FY20. This excludes the June €22.4m capital increase and new €50m debt associated with the acquisition of Business Keeper. These will all be incorporated in the Q3 accounts.

Business Keeper to drive short-term growth

EU regulation detailing secure procedures for corporate whistleblowing, known as the European Whistleblowing Directive, is expected to further accelerate top-line growth in H221. As discussed in our most recent outlook note, EQS must establish a strong market position before the end of 2021

– the integration deadline for companies with more than 250 employees. To fully capitalise on the time-pressured opportunity, management has chosen to establish its market position inorganically through its acquisitions of Got Ethics and Business Keeper. EQS has now bolstered its position and is Europe's largest supplier of digital whistleblowing solutions, which should help accelerate customer acquisition among companies which are looking for a supplier with strong European credentials. Its US peers, Navex Global and OneTrust, are unlikely to have the same level of understanding of the varying approaches to regulation in different European markets.

EQS intends to fully integrate Business Keeper's BKMS Compliance System into its own Compliance COCKPIT, as it is tailored towards larger companies with more complex whistleblowing procedures. Given that the December 2021 deadline is specifically for companies with more than 250 employees, the consolidation of Business Keeper on 14 July should have an immediate positive impact. However, it has already had an effect on new SaaS customers, which grew from 266 at end May to 445 by end July.

Management's goal is to sell its whistleblowing solutions to 5,000 companies, c 20% of the 25,000 companies eligible for digital whistleblowing in Europe, by the end of the year. Of these 5,000 companies, EQS believes it can upsell to 20% to become full subscribers of its COCKPIT platform, as it is far easier to upsell to existing clients than onboard new ones.

Companies with between 50 and 250 employees have a further two years to implement the directive, adding another 250k companies to the pool of potential clients for EQS's compliance COCKPIT platform. That said, management will have to invest in its Compliance COCKPIT technologies, as the BKMS system is designed for larger companies with more complex whistleblowing procedures.

Raised guidance and within our forecasts

Following the Business Keeper acquisition, management has raised its guidance for both FY21 and FY25.

For FY21, new annual recurring revenue (ARR) is now expected to be €9m versus guidance of €6m in FY20. We believe this is achievable given that €4.3m was reported in the first half, which excludes the full impact of the European Whistleblowing Directive or the consolidation of Business Keeper, both of which should also help management reach its target of 30–40% revenue growth in FY21. EQS also anticipates that the Business Keeper acquisition generates 750 sales opportunities, 250 of which it expects to close in H221. Subsequently, guidance for new SaaS customers has been increased from a range of 1,500–2,000 to 1,750–2,250. Management is forecasting an FY21 EBITDA range of €2–3m versus €1–2m previously, underpinned by its revenue expectations, the H121 EBITDA result of €1.3m and the anticipated reduction in one-off operating expenses in the second half.

Management's guidance is in line with our forecasts for FY21, which show revenue growth of 31% to €49.4m and EBITDA of €2.8m, equating to a margin of 5.8%. We believe that revenue should build in FY22 to €70m (+40%) given the scalability of its whistleblowing strategy. That said, countries will have until the end of 2023 to incorporate the directive into law, so there is uncertainty about the timing of sales in the short term. To adapt, EQS is focusing its sales efforts on companies that have an intrinsic motivation to implement a whistleblowing strategy, instead of those that are only likely to implement compliance systems once the regulation comes into force.

Its growing SaaS-based revenues should help keep operating costs relatively low, so we forecast FY22 EBITDA of €7.5m with a margin of 10.7%. Margins should continue to expand past FY22, and we think management's target of 30% by FY25 on EBITDA of €39m is achievable.

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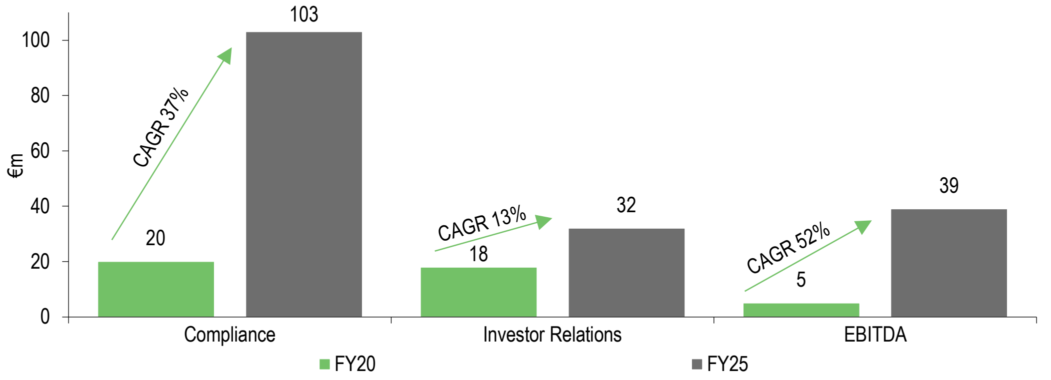
Exhibit 2: FY25 outlook



Source: Company accounts, Edison Investment Research

For FY25, management is aiming for an increase in revenues of between €125–135m, driven primarily by its compliance segment. EQS expects that Business Keeper will contribute €20–25m to FY25 revenue and a further €5–10m will be added by synergies between EQS and Business Keeper.

Its Investor Relations segment is also expected to achieve a double-digit CAGR between FY20 and FY25, ahead of management's estimated growth rates for the market of 2–4%. This belief is underpinned by the investments made to improve EQS's IR COCKPIT platform compared to the market, where growth will be limited by ongoing consolidation.

Balance sheet gears up to meet the opportunity

As mentioned above, the group swung from a net cash position of €1.2m at end December 2020 to net debt of €5.4m at end June 2021, reflecting the acquisitions of Got Ethics and C2S2 in January. A capital increase of €13.6m took place in February.

On 11 June, EQS signed a purchase agreement to buy Business Keeper for €95m, to be paid in two tranches within 12 months, funded by cash, debt and equity. In June, a capital increase of €22.42m was completed and a €50m loan was taken out from Commerzbank Munich. Along with the Business Keeper business, these will be fully consolidated in the Q3 accounts, from 14 July.

While this increases near-term debt – we estimate end-FY21 net debt of €59.8m (at a net debt/equity ratio of c 90%) – we believe the acquisition of Business Keeper is a significant time-crucial market opportunity. The acceleration we expect in terms of market share, revenue and EBITDA growth leads us to forecast a return to net profit in 2023. We forecast a still comfortable EBITDA/net interest coverage in FY22 of 4.1X (including lease liabilities and payments).

Exhibit 3: Financial summary

€000s	2018	2019	2020	2021e	2022e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	36,210	35,367	37,636	49,400	70,000
Cost of Sales	0	0	0	0	0
Gross Profit	36,210	35,367	37,636	49,400	70,000
EBITDA	239	2,554	4,760	2,846	7,518
Operating Profit (before amort. and except.)	(1,299)	(2,433)	819	(1,731)	2,849
Amortisation of acquired intangibles	(821)	(743)	(656)	(1,090)	(1,150)
Exceptionals	0	0	0	0	0
Share-based payments	0	0	0	0	0
Reported operating profit	(2,120)	(3,176)	163	(2,821)	1,699
Net Interest	1,954	2,093	(396)	(960)	(1,850)
Joint ventures & associates (post tax)	0	0	0	0	0
Exceptionals	0	0	0	0	0
Profit Before Tax (norm)	655	(340)	423	(2,691)	999
Profit Before Tax (reported)	(166)	(1,083)	(233)	(3,781)	(151)
Reported tax	913	(610)	(599)	1,323	53
Profit After Tax (norm)	439	(532)	296	(1,749)	650
Profit After Tax (reported)	747	(1,693)	(832)	(2,458)	(98)
Minority interests	20	121	(34)	(125)	(144)
Discontinued operations	0	0	0	0	0
Net income (normalised)	439	(532)	296	(1,749)	650
Net income (reported)	767	(1,572)	(866)	(2,583)	(242)
Average Number of Shares Outstanding (m)	7,175	7,175	7,195	8,235	8,472
EPS - normalised (c)	6.12	(7.41)	4.12	(21.24)	7.67
EPS - normalised fully diluted (c)	6.12	(7.41)	4.12	(21.24)	7.67
EPS - basic reported (€)	0.11	(0.22)	(0.12)	(0.31)	(0.03)
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	19.3	(2.3)	6.4	31.3	41.7
EBITDA Margin (%)	0.7	7.2	12.6	5.8	10.7
Normalised Operating Margin (%)	(3.6)	(6.9)	2.2	(3.5)	4.1
BALANCE SHEET					
Fixed Assets	41,219	43,841	39,447	136,818	148,687
Intangible Assets	37,293	32,008	31,016	131,870	145,915
Tangible Assets	2,241	8,838	7,216	3,558	1,558
Investments & other	1,685	2,995	1,215	1,390	1,214
Current Assets	7,250	6,094	17,086	15,983	20,864
Stocks	0	0	0	0	0
Debtors	5,030	3,841	3,923	5,365	7,602
Cash & cash equivalents	1,308	1,184	12,074	8,806	11,450
Other	912	1,069	1,089	1,812	1,812
Current Liabilities	(14,326)	(14,563)	(12,381)	(18,595)	(15,915)
Creditors	(1,472)	(1,848)	(1,651)	(2,688)	(3,406)
Tax and social security	(129)	(46)	(56)	(115)	(115)
Short term borrowings (includes lease debt)	(6,961)	(7,173)	(3,276)	(5,575)	(5,575)
Other	(5,764)	(5,496)	(7,398)	(10,217)	(6,820)
Long Term Liabilities	(6,660)	(10,195)	(11,208)	(67,482)	(82,482)
Long term borrowings (includes lease debt)	(3,475)	(7,481)	(7,641)	(63,005)	(78,005)
Other long-term liabilities	(3,185)	(2,714)	(3,567)	(4,477)	(4,477)
Net Assets	27,483	25,177	32,944	66,724	71,154
Minority interests	420	(34)	0	(64)	(64)
Shareholders' equity	27,902	25,143	32,944	66,660	71,090
CASH FLOW					
Op Cash Flow before WC and tax	3,106	4,037	3,765	1,551	3,971
Working capital	1,270	1,061	(1,037)	(2,015)	(1,519)
Exceptional & other	(1,646)	(2,516)	3,212	946	1,849
Tax	(135)	(188)	(154)	1,323	53
Net operating cash flow	2,595	2,394	5,786	1,806	4,354
Capex	(5,441)	(3,120)	(2,007)	(1,500)	(1,500)
Acquisitions/disposals	(5,115)	4,888	63	(95,129)	(15,000)
Net interest	0	0	0	0	0
Equity financing	0	0	9,124	36,899	0
Dividends	0	0	0	0	0
Other	1,792	(4,408)	350	(770)	(210)
Net Cash Flow	(6,169)	(246)	13,316	(58,694)	(12,356)
Opening net debt/(cash)	3,556	9,127	13,472	(1,156)	59,777
FX	75	53	(199)	62	0
Other non-cash movements	522	(4,153)	1,511	(2,299)	0
Closing net debt/(cash)	9,127	13,472	(1,156)	59,777	72,133

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