

EQS Group

Media

14 April 2020

Making progress

EQS Group delivered FY19 revenue and EBITDA in line with market expectations and is making good progress in its transformation to a cloud-based provider of corporate compliance and investor relations solutions. Some effects of COVID-19 play to EQS's strengths, such as virtual AGMs and hosting webcasts. However, the dearth of IPOs and longer-term likely increase in corporate insolvencies reduce the potential client pool. FY20 forecasts may need to be reviewed as the economic situation clarifies. The valuation remains well below peers.

11% underlying revenue growth

FY19 results were in line with management indications, as reset at the Q3 figures. Comparatives are against a full year of ownership of ARIVA (sold in July 2019, at a €2.2m net gain), and underlying revenue growth was 11%. This was despite a lacklustre year for IPOs and M&A activity, delays in new modules on the COCKPIT platform and a longer sales cycle than initially hoped. Nevertheless, underlying revenues from the Compliance segment were up 15% year-on-year, with Investor Relations activities 5% ahead. The COCKPIT platform forms the basis for management's medium-term growth projections to build to a revenue CAGR of over 20% to FY25. FY20 projections obviously depend on the impact of COVID-19 restrictions on the broader global economy.

Balance sheet set to strengthen

At the year-end, the group had net debt of €13.5m. Excluding leases, net debt was €5.8m, against an equity base of €26.1m. Market forecasts indicate net debt starting to decrease through FY20, ending the year at €12.2m. From FY20, capex is anticipated to run at around €1.25m, with the bulk of the platform investment completed. This turns the group operational cash flow positive.

Valuation: Clear discount to peers

Having fallen from a high of €80.5 in late February post the publication of preliminary 2019 figures down to €50 on 19 March, EQS's share price has since recovered to within 10% of that previous high. This suggests that investors may now be pricing in a less pronounced impact from the coronavirus pandemic on the company's business. With EBITDA not a useful metric due to the distorting impact of IFRS 16, peer comparison for now can predominantly be done on EV/sales, on which basis EQS trades at around a third below larger peers.

Consensus estimates

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)	Yield (%)
12/18	36.2	(0.1)	0.75	0.0	N/A	41.0	0.0
12/19	35.4	(0.3)	(0.90)	0.0	N/A	46.9	0.0
12/20e	37.4	0.2	(0.01)	0.0	N/A	26.8	0.0
12/21e	44.2	3.5	1.68	0.0	44.1	15.1	0.0

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

Price €74
Market cap €104m

Share price graph



Share details

Code	EQS
Listing	Deutsche Börse Scale
Shares in issue	1.4m
Net debt (€m) at 31 December 2019 (non-IFRS)	5.8

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.

Bull

- Increased corporate digitalisation
- Financial market regulation.
- High percentage of recurring and repeatable income.

Bear

- COVID-19 impact on corporate health
- Some macro sensitivity
- Dividend payment on hold.

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Review of FY19 results

The group has now published its full FY19 results, with preliminary figures having been published in late February. These show good progress, particularly through Q4. Management continues to anticipate good top line growth for FY20, with improving margins as the investment peak falls away. FY20 market forecasts are based on the current situation, which may be marginally acting in EQS's favour. However, with COVID-19 putting global economies into uncharted territory, this may prove to have been overly optimistic.

Revenues building

Exhibit 1: Quarterly progression						
	Q119	Q219	H119	Q319	Q419	FY19
Investor Relations						
Revenue Large Caps €m	3.44	3.58	7.02	3.39	3.59	14.00
# Large Cap Customers	2,083	2,103	2,103	2,132	2,172	2,172
Compliance						
Revenue Large Caps €m	2.28	2.42	4.70	2.32	2.31	9.33
# Large Cap Customers	1,170	1,206	1,206	1,236	1,280	1,280
XML Revenues €m	0.71	1.94	2.65	1.69	2.13	6.47
# XML Customers	4,363	4,249	4,249	4,013	4,771	4,771
LEI Revenues €m	0.46	0.37	0.83	0.48	0.76	2.07
# LEI Customers	33,580	34,093	34,093	36,062	35,575	35,575
Total Compliance €m	3.45	4.73	8.18	4.49	5.20	17.87
Discontinued (ARIVA) €m						3.50
Total Group €m	6.89	8.31	15.2	7.88	8.79	35.37
Source: Company accounts, Edison Investment Research						

Exhibit 1 above shows the key revenue drivers as identified by management, but it is also important to note that there has been progress in migrating customers across to the new COCKPIT platform, with 300 making the move. This means that they can be serviced far more efficiently. More pertinent, though, is that it should make it far easier to cross- and up-sell them additional modules as they are added to the platform.

During FY19, EQS added €3.8m of annual recurring revenues and 205 new COCKPIT SaaS contracts. While overall group revenues were up by 11%, operating expenses were held level, resulting in an uplift in pre-IFRS 16 EBITDA from €53k to €459k, excluding ARIVA. IFRS 16 numbers, which make a substantial difference to EQS's reporting, adding €2.05m to the published number. Capital investment in the cloud-based programme was €1.6m, in line with the reduction indicated at Q3. Management has indicated that this figure is set to fall further with the bulk of the investment programme completed, to €1.0m for FY20.

The largest gains in underlying EBITDA were generated from domestic markets, accounted for €2.0m of the €2.5m increase. Total income edged ahead of operating expenses in Q3 and had opened a wider gap in Q419.

COVID-19 impact to date

Through Q1, the effect of the spread of COVID-19 was broadly beneficial for EQS. The need for corporate entities to communicate with their stakeholders grew and webcasting, such as provided by the group, is an obvious method. Arrangements for virtual general meetings are also being put in place across the DACH area, where voting is normally at the meeting rather than in advance as in the UK. Questions can be submitted in advance through the platform provided.

This is winning the group new clients and could act as a good 'door-opener' for more significant sales once the present crisis has passed. Revenues per meeting are relatively modest, so it is this longer-term benefit that is of more relevance.

Against this, the number of IPOs lined up for European markets has unsurprisingly dwindled and IPOs have been a useful source of revenue historically. The length and severity of the economic impact will also affect the numbers of companies going out of business entirely, but this is not yet quantifiable. For EQS, the sales cycle will lengthen, with the larger contracts more likely to be postponed. However, the group is still winning business at the lower contract value price points for COCKPIT clients, which bodes well for future revenue growth.

No client represents more than 5% of revenue and nearly all are below the €50k mark.

Planned growth for FY20 and on

Within the Investor relations segment, management anticipates that growth will come from new COCKPIT capabilities and increasing client numbers. This is against a backdrop of a consolidating provider base, reflecting the increasing complexity of what needs to be delivered to make an effective service.

For Corporate compliance, the emphasis is on the launch of new products such as Policy Manager, and Approval Manager, which will provide an audit trail for decision making. We assume there will be a reduction in the quantity of LEI to be issued in FY20, but a step up in the amount of electronic filing by corporates through XML and XBRL.

Management has guided to revenue growth of 10–20% for FY20, but it should be noted this is against a top line excluding ARIVA revenues so is not inconsistent with our forecast uplift of 5%. Management guidance is based on assumptions of 320–400 new large cap customers and a further €4.5–5.5m of annual recurring revenues being added to the books.

Valuation

As the internal investment is affecting profitability from FY18–20, the most reliable traditional multiple is that of EV/Sales. There is a wide range of multiples for the peer group and it is not clear by how much forecasts have yet been adjusted for any impact from COVID-19, if at all. With that proviso, for FY1 EQS is trading at 3.2x sales versus the average for the peer group of 4.8x, a discount of around one third. For FY21e, the discount opens to 40%.

Exhibit 1: Quoted financial platform peers

	Price (reporting ccy)	YRD perf (%)	Market cap (m)	EV/Sales (x)			EV/EBITDA (x)			P/E (x)		
				FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Euromoney (£)	8.49	-35	924	2.2	2.3	2.1	7.9	9.7	7.5	10.9	14.7	10.8
Thomson Reuters (C\$)	70.1	6	48,860	6.3	6.0	5.8	24.9	19.1	18.0	54.3	37.0	33.3
Envestnet (US\$)	55.41	-20	2,931	3.8	3.4	3.1	17.7	16.0	14.1	25.8	25.7	22.8
GlobalData (£)	10.65	-17	1,253	7.6	7.3	6.9	30.5	27.4	24.9	36.9	37.4	34.1
Average				5.0	4.8	4.5	20.3	18.1	16.1	32.0	28.7	25.3
EQS	74	18	107	3.4	3.2	2.7	46.9	26.8	15.1	N/A	N/A	44.1

Source: Refinitiv. Note: Prices at 9 April 2020

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