

## EQS Group

**Software**
**17 April 2018**

### Grasping the greater opportunity

EQS is investing to take advantage of the opportunity it has to build a far larger enterprise and broaden its client base. The market for cloud-based tech systems to log and control aspects of corporate governance, risk and compliance is attractive and sits comfortably alongside its existing offerings in digital investor relations. The pursuit of this adapted goal, becoming a global tech B2B provider with high levels of recurring income, is costing the group short-term profitability, but the potential rewards are substantial. The share price has performed well over the last year and, if management can deliver on its plan, further upside should result.

### FY17 and FY18 peak investment years

In September 2017, EQS management indicated increasing investment to take advantage of new opportunities to develop and market adjacent products and services. By the time of the year-end update in February 2018, the expected extra spend had grown and guidance for FY17 adjusted EBIT reduced from €2.0-2.3m to €1.3-1.5m. The delivered figure of €1.1m reflects FY17 investment of €2.1m, mostly in personnel and freelancers to enhance its cloud-based offering, plus €0.4m on international growth. The project has highlighted further options for attractive commercial enhancements. FY18 is now therefore also to be an investment year, towards a larger and more profitable long-term goal. Management indicates a top-line CAGR of 17% through to FY25e.

### Market fundamentals remain attractive

Ever-increasing corporate regulation and rising penalties for failure to adhere to the rules provide a robust backdrop for EQS to increase the range of its provision. It has established a high level of trust with its IR customers that puts it in pole position to cross-sell other governance services and build the recurring revenue base.

### Valuation: Revisiting development stage

At this point last year, EQS was set to be moving on from its development phase, growing its top line and EBITDA, making earnings<sup>1</sup>-based peer comparisons a sensible approach. The curtailment of earnings by the investment now makes the shares difficult to value against peers (trading on FY18e 18.1x EV/EBITDA and 28.1x P/E). Despite a shifting short-term outlook, the share price has performed well and is 44% ahead year-on-year. If management delivers the indicated revenue growth and improves margins, there is good potential for further appreciation.

#### Consensus estimates

Year end	Revenue (€m)	Adjusted PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	26.1	2.4	0.96	0.75	74.0	1.1
12/17	30.4	0.8	0.16	0.00	N/A	N/A
12/18e	36.4	(0.6)	(0.23)	0.00	N/A	N/A
12/19e	43.0	1.4	0.12	0.10	N/A	0.1

Source: Bloomberg

**Price** €71.00  
**Market cap** €101m

#### Share price graph



#### Share details

Code	EQS
Listing	Deutsche Börse Scale
Shares in issue	1.43m
Last reported net debt as at 31 Dec 2017	€3.6m

#### Business description

The EQS Group is a leading international technology provider for digital investor relations, corporate communications and compliance. With more than 8,000 client companies worldwide, its products and services are designed to fulfil complex national and international information obligations to the global investment community.

#### Bull

- Financial market regulation.
- Opportunities in governance and risk.
- High percentage of recurring and repeatable income.

#### Bear

- Renewed investment phase.
- EBIT margin yet to trend up.
- Dividend payment on hold.

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## Financials

<b>Exhibit 1: Divisional development FY17</b>				
	<b>Regulatory Information &amp; News</b>	<b>% y-o-y</b>	<b>Products &amp; Services</b>	<b>% y-o-y</b>
Revenue (€m)	11.62	18%	19.17	15%
EBITDA (€m)	1.62	-22%	0.73	-63%
EBITDA margin	13.9%		3.8%	
Adj EBIT (€m)	1.17	-25%	-0.06	N/A
Adj EBIT margin	10.1%		-0.3%	
Capitalised development costs (€m)	2.03		0.34	
Forecast revenue growth FY18	35% - 40%		10% - 15%	

Source: Company accounts

The impact of the investment on the financial outcome is clear from the table above. Guidance on revenue is given at a group level as well as the divisional, with a range of €36.0m to €37.6m for the group for FY18e. In the presentation materials, management has also provided its view on the potential for mid-term growth, outlining top-line CAGR of 17% through to FY25.

Historically, management has guided to an adjusted (non-IFRS) EBIT, but this is now being changed to an indication of the level of EBITDA. For FY18, this is given at €1.5-2.1m for the group, from €2.35m in FY17. The additional investment has been (and will continue to be) in staff and freelance personnel, primarily developers. Personnel costs were up 32% to €17.0m in FY17, with services' costs (freelancers) +38% to €5.7m. Other operating expenses were also markedly increased, up 40% to €8.0m, with the higher sums also associated with the investment programme.

<b>Exhibit 2: Mid-term guidance for revenues</b>			
<b>€m</b>	<b>FY18e</b>	<b>FY25e</b>	<b>FY18-25e CAGR</b>
Group	36.8	110	17%
Governance & Compliance	19.1	70.4	20%
Investor Relations	17.7	39.6	12%

Source: Company presentation

Mid-term guidance is split between Investor Relations and Governance & Compliance, implying that management is looking at presenting the divisional split in a different (and more helpful) way in the future. It also clearly shows the attractive potential from expansion in the provision of digital services in governance, risk and compliance.

EQS raised €7.9m in a share placing in mid-December 2017, at €62.50, primarily to fund the purchase of Integrity Line in Switzerland. At the year-end, net debt stood at €3.6m. Given the ongoing investment, this is likely to increase by end FY18, before starting to drop back as margins start to build, with reducing freelancer costs and increased overheads recovery as the top line grows. Reinstatement of the dividend is not anticipated before FY19.

## Valuation

Given the suppression of earnings, any peer-based comparisons need to be more forward-looking than normal, so are inevitably going to be more error-prone and of limited value. Global fintech peers are trading on FY18e 18.1x EV/EBITDA and 28.1x P/E but, given the circumstances, comparison on this basis is not meaningful. The same fintech peer group is trading on 4.4x EV/ FY18 revenues, and this would imply a valuation per share for EQS of €105 on consensus forecasts. Some element of discount is then needed to reflect the execution risk. 15% would shift the implied valuation to €89.

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