EQS

Software & Computer Services

20 October 2021

Grasping the whistleblowing opportunity

EQS has built a strong platform business in corporate compliance and investor relations, with growing recurring revenues. It is well positioned to capitalise on the time-limited expansion opportunity presented by the European Whistleblowing Directive, which has an implementation deadline of December 2021. Achieving a strong foothold here will be key for driving greater SaaS customer acquisition, underpinning management's ambitious medium-term revenue and margin guidance.

Solutions for the fast-growing compliance market

EQS is in a good position to build out its customer base and its recurring revenues in both its activities of corporate compliance and investor relations, but it is the compliance area that should provide the more dynamic growth profile. The core investment in the cloud-based platform is already made, allowing for additional modules to be bolted on and cross-sold. Management is targeting group revenue of c €130m by FY25, with an EBITDA margin of 30%, with Compliance revenues comprising around 75% of group. Achieving these ambitious targets requires the group to exploit the full potential of recent acquisitions and to take maximum advantage of the current window of opportunity.

Whistleblowing to drive H221 growth

The European Whistleblowing Directive's implementation deadline of December 2021 presents a clear opportunity to greatly enlarge EQS's customer base. July's acquisition of Business Keeper, the German market leader for whistleblowing systems, has already helped accelerate the effort, lifting the number of new SaaS customers from 266 in May to 445 at end-July. Management's FY21 guidance for new SaaS customers was raised at the interim results to a range of 1,750–2,250 (previously 1,500–2,000), New ARR for FY21 is expected to be €9m (was €6m), with revenue growth of 30–40% anticipated. EBITDA and margins are expected to remain suppressed in FY21 due to whistleblowing-related higher marketing costs.

Valuation: Discount to global peers

The shares have retreated from the highs seen in late-August, post the interim results, and are now trading around the levels seen earlier in the summer. With profitability subdued by the additional costs of addressing the short-term opportunity, comparative earnings metrics are of limited relevance currently. On EV/Sales, taken across FY20–22e to smooth out pandemic impact, EQS continues to trade at a significant discount to its basket of international software peers, on average at a discount of 43%.

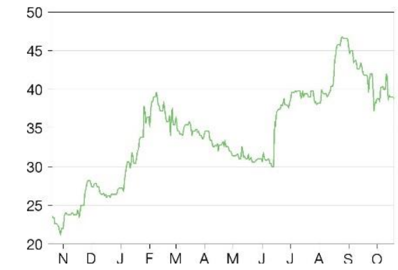
Edison estimates

Year end	Revenue (€m)	PBT (€m)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
12/19	35.4	(0.3)	(7.4)	0.0	N/A	N/A
12/20	37.6	0.4	4.1	0.0	931.7	N/A
12/21e	49.4	(2.7)	(21.2)	0.0	N/A	N/A
12/22e	70.0	1.0	7.7	0.0	496.1	N/A

Source: Company accounts, Edison Investment Research

Price	€38.2
Market cap	€324m

Share price graph



Share details

Code	EQS
Shares in issue	8.47m
Net debt at 30 June 2021	€5.4m

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

- Scalable platform.
- Opportunity to extend client base through Whistleblowing tool.
- Rising proportion of recurring revenues.

Bear

- Short-term cost of scaling sales effort.
- Some macro sensitivity.
- Dividend payment on hold.

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Edison profile page

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