EDISON

EQS Group

Final results

Investor relations toolkit

Software

EQS is growing its sales strongly, stimulated by increasing regulation. The new Market Abuse Regulation increases both the scale and complexity of the compliance burden on companies across Europe, boosting sales of INSIDER MANAGER. The consolidation of ARIVA (67% held) technically affected FY16 results, but gives greater benefit in the run-up to the implementation of the PRIIP regulation in January 2018. Growing recurring and repeatable revenues, as well as continuing international expansion, underwrite the 14% top-line growth built into our new FY18 forecast, with the momentum implying that the valuation could have further upside.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/15	18.4	3.5	3.1	1.20	0.75	40.9	1.5
12/16	26.1	4.2	2.4	0.96	0.75	51.2	1.5
12/17e	32.3	4.7	3.6	1.45	0.80	33.9	1.6
12/18e	36.8	5.6	4.5	1.86	0.85	26.4	1.7

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

Sticks and carrots

Demand for greater transparency and higher penalties for non-compliance are prompting companies globally to look for time-efficient and reliable solutions to their corporate governance obligations. With an increased global presence, EQS is well placed to benefit, with the amount of new regulation in European markets making markets nearest home the most attractive opportunities. France and Italy look particularly promising, with a new French subsidiary now set up, based in Paris. Once new clients are on board, there are opportunities for cross- and up-selling other products and services to meet their communication and compliance needs.

Acquisition and organic progress

42% FY16 top-line growth was boosted by the ARIVA consolidation and the Tensid acquisition in Switzerland, with organic growth of 4%. 10% progress in adjusted EBIT reflects much-reduced Asian losses (-€0.3m vs FY15 -€0.8m), partly offset by lower domestic results post investment in property and IT. The purchase of the second tranche of ARIVA shares was at a lower price than the original stake, necessitating an adjustment of €0.8m in the income statement. Licence fee income remains the greatest proportion of revenue, up 20% year-on-year. The percentage of the total was diluted by the inclusion of ARIVA, which doubled group project revenues. These are highly standardised and have a high repeat rate (over 90%).

Valuation: Discount still overstated

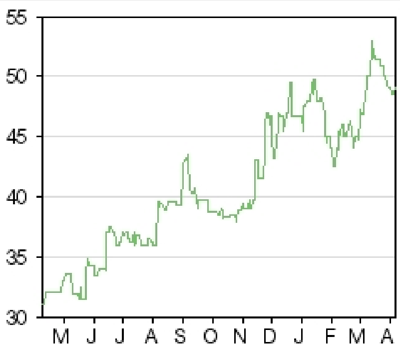
EQS remains in its investment/growth phase, so comparisons with large global financial information companies are inevitably distorted. Using blended historic and forward multiples to revenue and EBITDA, it is clear that, although the shares have increased by over 50% over the last year, EQS still trades at a discount to peers of more than 25%. We believe this overstates the development risk and expect the discount to close as EQS's international expansion drives an attractive ROI.

7 April 2017

Price	**€49.11**
Market cap	**€64m**

Net debt (€m) at end December 2016	2.6
Shares in issue	1.3m
Free float	55%
Code	EQS
Primary exchange	FRA
Secondary exchange	MUN

Share price performance



%	1m	3m	12m
Abs	4.3	2.5	52.5
Rel (local)	1.9	(2.8)	20.0
52-week high/low		€53.0	€31.0

Business description

The EQS Group is a leading international technology provider for Digital Investor Relations. It has more than 8,000 client companies worldwide who use its products and services to securely, efficiently, and simultaneously fulfil complex national and international information obligations to the global investment community.

Next events

AGM	17 May 2017
Interim results	14 August 2017

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Edison profile page

EQS Group is a research client of Edison Investment Research Limited

Three consistent growth stimuli

The group's strategy is based around the three strands: digitisation, regulation and globalisation and their impact on corporate compliance and investor communication. By simplifying, organising and automating the tasks that need to be fulfilled by IR professionals, their time is freed up to concentrate on face-to-face communication and more value-adding tasks. It also should reduce the risk of financial penalties or other sanctions from non-compliance with regulation.

FY16 progress; FY17e and FY18e international momentum

The key trading achievements in the year principally relate to moves outside the domestic sphere, with the introduction of the Market Abuse Regulation stimulating demand across European markets. This should not detract from domestic growth, with German revenues increasing by 38% (6% stripping out ARIVA). Non-domestic revenues, though, grew 57%.

FY16 EBITDA came in marginally ahead of our €4.1m forecast at €4.2m and we have moved our FY17e number ahead by a similar amount. Our new FY18 figures show a resumption of progress at the EBITDA and operating margin level as the benefits of investment in IT and in new geographical markets starts to reap returns. New offices were opened in 2016 in Dubai and in New York. Along with the London office and existing operations in Russia and Asia, this now equips EQS with a truly global network to support the larger, international clients. Technical support is based in Kochi, India.

The average number of employees across the group increased from 182 to 260 between FY15 and FY16, with new employees inevitably taking some time to generate revenues and profits.

Exhibit 1: Changes to numbers

	EPS (c)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2016	171.2	96.1	-44	3.6	2.4	-33	4.1	4.2	2
2017e	208.5	145.3	-30	4.0	3.6	-10	4.6	4.7	2
2018e	-	185.6	N/A	-	4.5	N/A	-	5.6	N/A

Source: Company accounts, Edison Investment Research. Note: 2016 New = actual.

The incoming PRIIP regulation should stimulate sales through FY17 ahead of its introduction in January 2018, with the requirement for companies to provide pre-contractual key information documents on financial products. The introduction of MiFID II may also be positive, although not quite so directly. Its requirements on factors such as corporate access and standards in financial market communications play well with the EQS workflow management suite, the COCKPIT.

As explained above, the ARIVA adjustment to the income statement meant that reported adjusted pre-tax and earnings per share numbers were below our forecasts and the continuing levels of investment have led us to trim our FY17e pre-tax profit estimate by 10%. The increased number of shares in issue, following the December 2016 placing (which raised €5.4m gross), accounts for the larger reduction in EPS.

Company guidance for FY17e is for sales growth of 20-25% to €31.2-32.5m, with non-IRFS EBIT expected to increase by 10-20% to a range of €3.6-3.9m. The medium term top line guidance is for 10-15% average growth for the next five years. Our revised figures, as shown in Exhibit 2 below, fall within these guidelines.

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Exhibit 2: Financial summary

€'000s	2013	2014	2015	2016	2017e	2018e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	15,829	16,390	18,377	26,061	32,300	36,800
Cost of Sales	0	0	0	0	0	0
Gross Profit	15,829	16,390	18,377	26,061	32,300	36,800
EBITDA	3,572	3,660	3,485	4,175	4,719	5,585
Operating Profit (before amort. and except.)	3,418	3,311	2,983	3,282	3,719	4,545
Intangible Amortisation	(140)	(280)	(351)	(619)	(680)	(680)
Exceptionals	0	(211)	(268)	0	0	0
Other	28	177	165	(874)	0	0
Operating Profit	3,306	2,997	2,529	1,788	3,039	3,865
Net Interest	(29)	(52)	(59)	(14)	(89)	(75)
Profit Before Tax (norm)	3,418	3,436	3,090	2,393	3,630	4,470
Profit Before Tax (FRS 3)	3,278	2,945	2,471	1,774	2,950	3,790
Tax	(1,096)	(1,105)	(1,372)	(960)	(1,397)	(1,676)
Profit After Tax (norm)	2,283	2,148	1,407	1,144	1,903	2,432
Profit After Tax (FRS 3)	2,182	1,841	1,099	814	1,552	2,114
Average Number of Shares Outstanding (m)	1.19	1.17	1.17	1.19	1.31	1.31
EPS - normalised (c)	191.0	182.9	120.1	96.1	145.3	185.6
EPS - (IFRS) (c)	183.3	156.8	93.8	68.4	118.5	161.3
Dividend per share (c)	75.0	75.0	75.0	75.0	80.0	85.0
Gross Margin (%)	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA Margin (%)	22.6	22.3	19.0	16.0	14.6	15.2
Operating Margin (before GW and except.) (%)	21.6	20.2	16.2	12.6	11.5	12.4
BALANCE SHEET						
Fixed Assets	13,658	19,383	22,777	30,389	30,889	30,669
Intangible Assets	10,524	15,827	17,850	26,314	26,314	25,634
Tangible Assets	1,032	1,468	2,796	4,075	4,575	5,035
Investments	2,103	2,088	2,131	0	0	0
Current Assets	6,055	4,750	6,972	12,014	11,846	12,592
Stocks	0	0	0	0	0	0
Debtors	2,971	3,282	3,215	4,562	5,654	6,442
Cash	2,980	1,370	3,607	6,610	5,350	5,308
Other	104	98	150	842	842	842
Current Liabilities	(3,274)	(4,380)	(5,325)	(9,942)	(8,977)	(8,927)
Creditors	(2,273)	(2,689)	(3,359)	(5,791)	(7,177)	(8,177)
Short term borrowings	(1,001)	(1,691)	(1,967)	(4,151)	(1,800)	(750)
Long Term Liabilities	(1,070)	(3,882)	(7,276)	(7,237)	(7,164)	(6,664)
Long term borrowings	(982)	(2,500)	(6,357)	(5,073)	(5,000)	(4,500)
Other long term liabilities	(88)	(1,382)	(919)	(2,164)	(2,164)	(2,164)
Net Assets	15,369	15,870	17,148	25,224	26,594	27,669
CASH FLOW						
Operating Cash Flow	2,476	4,050	4,688	4,802	5,150	5,600
Net Interest	(29)	(52)	(56)	(27)	(89)	(75)
Tax	(1,096)	(1,105)	(995)	(1,302)	(1,069)	(1,467)
Capex	(3,088)	(1,041)	(1,978)	787	(1,500)	(1,500)
Acquisitions/disposals	0	(3,669)	(1,046)	(3,731)	(325)	0
Equity Financing	(202)	(100)	(1,138)	2,435	0	0
Dividends	(892)	(1,623)	(883)	(877)	(1,008)	(1,070)
Net Cash Flow	(2,831)	(3,540)	(1,408)	2,087	1,159	1,488
Opening net debt/(cash)	(3,827)	(996)	2,821	4,716	2,614	1,450
HP finance leases initiated	0	0	0	0	0	0
Other	0	(277)	(487)	15	0	0
Closing net debt/(cash)	(996)	2,821	4,716	2,614	1,455	(38)

Source: Company accounts, Edison Investment Research

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