EQS Group

Extra quality services

Half-year report

Media

EQS continues to add functionality to its cloud-based offering, growing its potential share of client spend across investor relations, compliance and corporate communications. H117 top-line growth was boosted by the consolidation of ARIVA (67.5% owned), with good momentum into H217 as clients prepare to meet further regulatory requirements. Operating profits, which dipped 3% y-o-y, were held back by spending on developing new services and on geographic expansion. With the IT and geographic platforms now in place, the EBITDA margin is set to expand over the medium term. The share price has performed strongly over the last year, yet the valuation remains at a discount to larger, more mature peers.

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	45.1	1.4
12/16	26.1	4.2	2.4	0.96	0.75	56.4	1.4
12/17e	32.3	4.7	3.7	1.46	0.80	37.1	1.5
12/18e	36.8	5.6	4.5	1.87	0.85	30.0	1.6

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

Platform in place

The group now has its core platform in place, both from an IT and a geographic perspective. It is equipped to handle all aspects of investor relations including regulatory requirements and corporate communications and increasingly extending into the legal aspects. There was good top-line progress in H117, particularly in Germany, both organic (revenues up 11%) and from consolidating ARIVA. The upcoming PRIIP regulations are stimulating demand for workflow solutions, while the Market Abuse Regulations are boosting numbers of corporate announcements. Regulatory requirements both within the EU and elsewhere constantly increase in number and complexity, giving a strong trading backdrop, particularly for Q417.

Investment sets scene for margin expansion

With a step up in employee numbers from ARIVA and continuing high levels of product development (including investment in COCKPIT capabilities), as well as the expansion into new markets, costs continued to run high in H117. The reported adjusted EBIT was 3% down on H116. Full year guidance, and our revenue and earnings forecasts, are unchanged, although we have edged up our net debt projection to reflect the likely working capital pattern. The medium-term guidance is for non-IFRS EBIT to grow by 20-25% over 2017-21, on a top line increasing by 10-15%, implying a good pick-up in margins as the group moves into a growth phase.

Valuation: Development risk discount overstated

EQS remains in its investment/growth phase, so comparisons with large global financial information companies are inevitably distorted. Using average historical 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 over 22%. We believe this overstates the development risk and expect the discount to close as EQS's international expansion drives an attractive ROI.

22 August 2017

Price	**€54.14**
Market cap	**€71m**

Net debt (€m) as at end June 2017	6.3
Shares in issue	1.3m
Free float	55%
Code	EQS
Primary exchange	Deutsche Börse Scale
Secondary exchange	MUN

Share price performance

%	1m	3m	12m
Abs	2.8	(0.2)	37.7
Rel (local)	4.3	4.6	20.3
52-week high/low		€60.25	€37.90

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.

Next events

Q3 results	15 November 2017

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Edison profile page

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Investment summary

Company description: Digital IR and beyond

EQS is a leading supplier of digital products and services that help corporate clients communicate with their stakeholders, in particular in the elements of financial communications and regulatory disclosure. It also enables its clients to meet regulatory requirements for record keeping for functions such as compliance. By offering highly automated tools, mostly cloud-based and modular by design, the group helps its clients streamline their investor relations (IR) and related functions. It also has the creative capabilities to design and build websites and apps and present reports in digital and interactive formats, so offering a one-stop shop. Founded and headquartered in Germany, EQS has spread its activities firstly to Russia, then to Far Eastern markets. Acquisitions in late 2015 extended its reach in Switzerland and the UK, and the network has since been spread to include the US, France and Dubai. This gives the group a global network from which it can target larger clients and build its SaaS revenue streams.

Financials: Investment phase continues

- The recent H117 results showed good progress at the top line, particularly in the domestic market.
- Investment costs continue to run high as the group puts additional modules in place, with the infrastructure spend now broadly complete. The need to be fast to market with solutions has swollen development spending in the short term. As this scaling up reverts to incremental enhancements, we expect the operating margins to start to build.
- The balance sheet remains strong, with forecast year-end net gearing of 13%

Valuation: Discount despite good performance

With no directly comparable comparators, we have looked at EQS's valuation against a broad set of peers from across the software sector, and financial publishing and B2B media companies. We have used a mix of EV/sales and EV/EBITDA metrics, backward and forward looking. On an averaged basis, EQS is trading at a discount of around 22%, despite having shown very strong share price performance over the last year. As a sense-check, we also looked at a DCF valuation, based around the company's stated medium-term growth indications. This returned a similar result, suggesting a share price of around €73-74. Given that EQS's relative immaturity means that there remains a degree of execution risk, a discount of 15% might be appropriate, implying that there is still a modest amount of upside potential to the share price.

Sensitivities: Market health, regulatory changes, digital shift

The Regulatory News and Information segment is a volume-driven business, dependent on the regulatory frameworks and the number of regulatory announcements being generated – itself a function of the number of companies required to issue such information. Moves to promote transparency in corporate activity have made the task of communication more onerous, and solutions that offer integrated and efficient dissemination should continue to attract clients. The increasing use of digital over paper-based communications gives potential for companies to develop greater levels of engagement with their stakeholders. Expansion into overseas markets is increasing the inherent risk in the business model but is potentially transformative.

Company description: Corporate digital solutions

EQS is one of the largest global providers of digital solutions for investor relations, corporate communications and compliance functions. These are products designed to automate and simplify the work processes for IR and related professionals, enabling them to meet all regulatory requirements and freeing up their time to deal with the messaging of their company's equity story and strategy rather than on information processing. By ensuring that the product suites provided are constantly updated for the latest regulatory compliance changes and are delivered via intuitive interfaces, EQS should continue to add value for its users. Centred on IR (which in Germany and some other markets includes functions covered in other jurisdictions by the company secretary or equivalent), the group's products and services also cover corporate communications and public relations, governance and compliance. More recent innovations extend its reach into some areas of corporate marketing and legal functionality.

The group was founded in 2000 in Munich, initially building a strong market position in its home markets of Germany, Switzerland and Austria before starting to build out its presence in overseas territories. EQS looks to position itself as a partner with its client companies, working alongside them to solve issues and reduce inefficiencies, rather than simply as a supplier whose interest may not extend beyond the initial sales timeframe, with a growing emphasis on providing software-as-a-service (SaaS). The shift away from paper-based information to digital channels of communication between corporate entities and their various stakeholders is a key driver for growth and is a trend unlikely to be reversed.

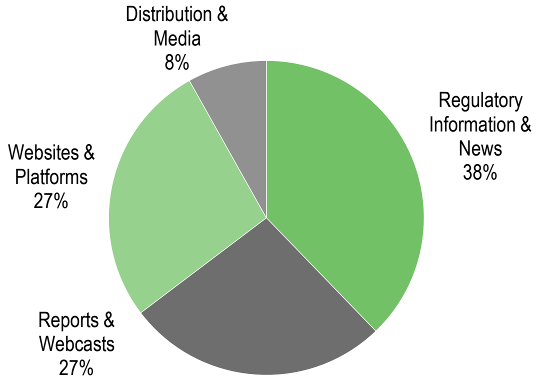
EQS has expanded both organically and by acquisition and now employs around 350 people (including those brought into the group with the consolidation of ARIVA). The largest number (around 100) is involved in web, back-end, platform and software development. Its headquarters are in Munich, Germany, with further German offices in Hamburg and Kiel, and offices in Switzerland (Zurich) and Russia (Moscow). In December 2015, the group purchased Obsidian IR in the UK (price undisclosed), which gave a strong foothold in that market on which to build. In the Far East, the group has operations in Singapore, Hong Kong, China (Shenzhen and Shanghai) and Taiwan (Taipei). It also has more recently opened offices in New York, Paris and in Dubai, which gives EQS the global network it needs to enable it to offer the solutions sought by some of the largest multinationals.

The group's technical operations are based in Munich, Germany, and Kochi in India. EQS's solutions and services enable over 8,000 companies worldwide to fulfil complex domestic and international corporate information requirements securely, efficiently and on a timely basis. The acquisition of ARIVA (67.5%-owned, consolidated as of 1 July 2016) added capabilities in the production of documents for packaged retail investment and insurance-based products (PRIIPs), further broadening the target markets to encompass the financial institutions.

Broadening the range of service provision

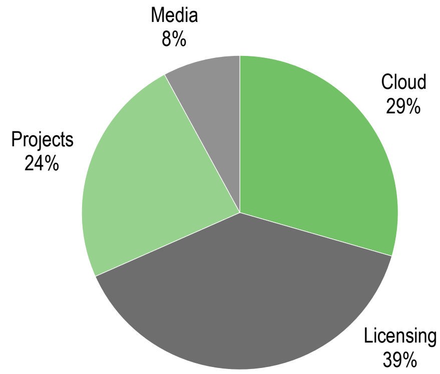
The group reports its financial results within two segments: Regulatory Information & News; and Products & Services. This latter category is broken down into three elements, as shown in Exhibit 1 below. In the FY16 accounts, management also indicated how the overall revenues split between type of activity in order to give greater transparency over recurring and repeatable revenue streams. The key pieces of relevant regulations and legislation are identified with a brief description in Exhibit 3, below.

Exhibit 1: FY16 revenue by segment



Source: Company accounts

Exhibit 2: FY16 revenue by activity type



Source: Company accounts

Regulatory Information and News: the group's original core product, DGAP, is a mechanism for corporate clients to fulfil their statutory disclosure obligations (broadly equivalent to the RNS service offered by the London Stock Exchange in the UK). It has added products and tools for wider categories of corporate communications. These include developing corporate websites and apps, producing online reports (report and accounts, but also other categories of reports such as those for sustainability or on CSR) and producing, editing and hosting audio and video webcasts. Social media channels are also included, in line with increasing client usage. EQS has continued to add modules to cater for new and enhanced regulatory requirements and for meeting other associated elements of reporting and monitoring to meet client demand.

These solutions are supplied within a unified dashboard known as the EQS COCKPIT, which is a cloud-based solution and can have each client's required modules added in. The COCKPIT can be integrated with the client's own contact management and can distribute to the relevant information platforms as well as the regulatory authorities. In addition to news, the group added INSIDER MANAGER for monitoring Insider information flows and meeting the requirements of the Market Abuse Directive. This is also extending to become more of a tool for policy management as well as providing insight on existing records. The addition of ARIVA to the group has extended the development to meet the forthcoming PRIIP requirements with its own COCKPIT module. There are also opportunities to extend the reach into other areas of corporate law, which are being assessed.

EQS also provides services in financial marketing, collating data and other relevant content, as well as developing financial portals. All of these elements of the offer have been developed to sit alongside the original core service DGAP, which is the dominant supplier in its home markets, providing news dissemination services to issuers of equity and debt/bonds. This business is eminently scalable, predicated on high volumes of announcements and capable of delivering a good operating margin, although in the current financial year, this is being suppressed by the additional investment costs. The H117 non-IFRS EBIT margin was 10.5% for this segment, (FY16: 18.3%). Once the heavy lifting of the investment phase is over, margins should trend towards their historic levels above 20%.

Within **Products and Services**, the **Reports and Webcasts** service offers XML and digital reports that can offer a more flexible approach and more enriched content than a traditional paper-based report. The relevant information can be 'sliced and diced' into different formats according to client need. The XML format is a particular requirement in the German market for delivery of reports to the Federal Gazette. Both video and audio webcasting are also offered for company meetings and updates. **Websites and Platforms** can be specific IR embedded microsites or the whole of the corporate website and the group has a good (prize-winning) reputation for the quality of its creative input. Websites can include interactive charting tools and stock information, designed to the client requirements. EQS offers services for optimising existing sites for mobile channels but also designs both Apple and Android apps delivering the content optimised for tablets. The purchase of UK-based Obsidian IR (December 2015) added further capabilities that meshed well with existing group products, but, more importantly, gave a good foothold in the sizeable market, opening doors to selling the broader SaaS services.

Operating margins across Products and Services have historically been lower than for Regulatory Information and News (6.0% in FY15, 12.4% in FY14).

Regulatory framework ever more complex

Exhibit 3: Relevant regulation and impact

Regulation	Date	Overview	Likely impacts on EQS
Market Abuse Regulation (EU)	Jul-16	Intensification of reporting obligations for the open market, in addition to the tightening of insider rules (eg ad-hoc notifications and directors dealings). Voting rights were also deregulated.	■ Increasing demand for information disclosure (press and financial releases) to the public, and managing insider lists (+20% news volume via COCKPIT in H117) ■ Decline in Entry Standard issuers due to increased requirements ■ Deregulation of voting rights has a negative influence on news volume
PRIIP Regulation (EU)	Jan-18	Requires issuers of packaged retail investment products (PRIP), or insurance-based investment products (IIP) to provide standardised product information sheets (Key Information Documents).	■ Increasing demand for the software solution of EQS subsidiary, ARIVA.DE (+30% revenues in H117), which can automate the creation of Key Information Documents (KIDs)
MiFID II / MiFIR (EU)	Jan-18	Aims to increase transparency in financial markets through tighter reporting regulations (in terms of disclosure level and timeliness), increased regulatory oversight, enhanced investor protection, and changes to market structures.	■ Is expected to lead to a net increase in disclosure requirements, thereby driving demand for EQS's services
Legal Identity Identifier (LEI)		Aims to create and maintain a global reference data system which uniquely identifies every legal entity and structure (eg use of ISIN codes). Use of LEIs is required by the European Securities and Markets Authority (ESMA) for the reporting of derivatives transactions.	■ EQS expects accreditation as a Legal Operating Unit (LOU) representative in Q317 ■ Each client can require multiple LEIs, up to 100s and 1,000s.
Update to Corporate Governance Code (Germany)	Jan-18	Statutory requirements for the management and supervision of German listed companies. The update adds a whistle-blowing system for companies listed in the regulated markets (voluntary, but if not applied corporates need to explain on their website why not)	■ Good corporate governance typically includes increasing levels of information disclosure to investors, leading to greater IR and compliance needs.
SAPIN II (France)	Jan-18	French anti-corruption and compliance measures, designed to reduce money laundering and funding of terrorism. Both firms and the directors of the firms will be liable for fines in cases of non-compliance.	■ Greater need for EQS's compliance modules

Source: Edison Investment Research, Financial Conduct Authority, EQS

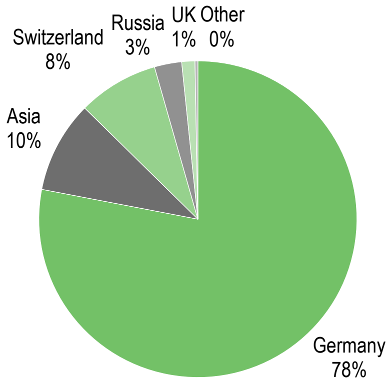
EQS INSIDER MANAGER has now been rolled out to 11 countries and had 517 clients as at the end of the half year.

The key short-term drivers in the governance and compliance arena are the last two regulations in the table above. In H217, EQS is also introducing its new whistleblowing system module. These fall under a broader service area, known as SAFE CHANNEL. Further products and services in the pipeline fall into the areas of CRM, policy management, a multimedia learning platform and a quiz generator that will be used for continuing professional development and compliance requirements.

Other key drivers: Digitisation and globalisation

Digitisation has been part of corporate workflow for very many years, but there are still areas and functions of communications that have yet to be fully transferred. These are also handled within the EQS COCKPIT. The company has around 1,000 clients for which it builds and/or manages websites and IT platforms, around 2,500 for its disclosure and newswire services and 5,500 for which it publishes reports and webcasts. There is further scope to expand elements through the corporate communications and PR briefs into the marketing sphere.

Exhibit 4: Geographic spread of revenue FY16



Source: Company accounts

The group has expanded its geographic footprint well beyond its domestic market, with the early focus having been on Russia and then on developing in the Asian market, where there were a large number of companies being listed and in need of communication support. There were also no major incumbent suppliers and EQS had first-mover status, building strong relationships with the relevant exchanges. The expansion in Switzerland was boosted with the acquisition of Tensid in December 2015 and in the UK through the purchase of Obsidian IR the same month. The prices of both deals were undisclosed. The group has since extended its reach into the US by opening an office in New York and in France with an office in Paris. It has also now opened an office in Dubai.

France in particular is currently presenting an encouraging opportunity, with the upcoming introduction of the SAPIN II regulations, described in Exhibit 3 above.

Management steeped in financial markets and IR

The group's CEO is Achim Weick, who began his career at Commerzbank. Subsequently, he was co-founder of investor relations manager CMC Capital Markets Consulting. Achim is the originator, founder and largest shareholder of EQS and has been on the board since its foundation. COO Christian Pfleger joined EQS in 2001, initially as a client relationship manager, moving on to project management from 2003. In 2007, he took over responsibility for Products and Services. André Silverio Marques, who fulfils the finance function, previously ran the group's Russian businesses. Before that, he was in charge of the IR, business development and corporate finance activities. The International Managing Director, in charge of operations in Asia, Russia, Switzerland and UAE, is also a key team member. He is Marcus Sultzer, who joined the group in 2007 and was in charge of business development in Russia and the CIS from 2009 and Asia-Pacific from 2013. Fuller biographies of management are given on page 12.

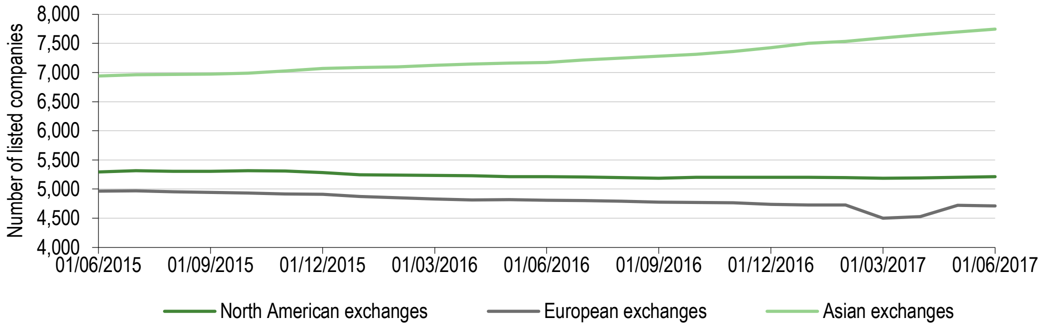
IPO market health

The opportunity that EQS has to build its business ultimately depends on the number of listed companies across the global markets in which it operates. This is obviously partly a function of new listings, offset by de-listings, which have been a feature of the more mature markets. A company going through the IPO process is potentially the most remunerative client for EQS, as it may well be putting in place investor communication for the first time, therefore offering several possible income stream opportunities.

Asian markets still in growth

EY issues a regular report, 'Global IPO Trends'. The latest issue for Q217 shows that IPO activity so far this year is running well ahead of H116, with the amount raised up by 90% on 70% more deals. The Asia-Pacific region was the leading area, accounting for 61% of funds raised in the first half, with Shenzhen and Shanghai the busiest exchanges for new admissions.

Exhibit 5: Listed company numbers by region



Source: World Federation of Exchanges

Among the more mature markets, the number of listed companies has remained broadly stable in North American markets, while in Europe numbers have drifted down 2% over the year to end June. Asia-Pacific total company market listings were up by just below 8% for the year.

Sensitivities

There are a number of factors that will influence EQS's financial performance, each of which may vary considerably across the operating territories. The three key elements of the growth strategy – digitisation, regulation and internationalisation – are themselves all important sensitivities for the future financial performance of the group, and are covered in the list of identified factors, below:

- The number of listed companies (itself a factor of the environment for de-listings and/or IPOs).
- The regulatory environment – the more complex the system and the greater the number and extent of changes to those systems, the greater the requirement for corporates to access relevant expertise. Introduction of additional regulation, such as the Market Abuse Regulations, can breathe life back into markets that had looked dull at best.
- Requirements for corporates to make information available in digital format, either through regulation or user demand.
- Data security, in particular the upcoming General Data Protection Regulation (GDPR), which may restrict competition from providers that do not have similar levels of auditory clearance and which should set a higher barrier to entry.
- The adoption of new channels of dissemination, such as the use of social media, where incumbents may have little expertise.
- The relative health of corporate budgets.
- The health of the corporate bond market.
- Currency – the impact is obviously increasing as the group continues with its ambitions to internationalise the business. The bulk of the group overhead remains euro-denominated but revenues are increasingly generated in US dollars and US dollar-related currencies. Currency exposure is not currently hedged, as the main impact is on valuation, a non-cash item.

- External events, such as 2015's turbulence in Chinese markets (which led to a temporary suspension of new listings), may lead to further intervention to promote more professionalism in the market and a higher degree of institutional ownership, particularly from non-domestic investors. This could be helpful for EQS as local providers are less likely to have the relevant expertise to guide corporate clients.

Beyond these external factors, the group has internally generated sensitivities, which fall into the broad categories of system risk, personnel risk, geographic risk and acquisition risk.

Valuation

Peer valuation

We have looked at the valuation of EQS in comparison to three peer categories: global technology software companies in business services (principally US based); business-to-business media companies, principally based in Europe; and financial publishing companies (Thomson Reuters, Envestnet, Morningstar, and Dun and Bradstreet, with the addition of FactSet).

Exhibit 6: Comparison of valuation between EQS and global quoted peers

	Aggregate market cap (US$)	TTM EBITDA margin	TTM Rev growth	EV/TTM rev (x)	EV/TTM EBITDA (x)	Forward EV/rev	Forward EV/EBITDA
Business intelligence	2,710	13.6%	13.5%	3.0	12.2	2.8	12.0
Financial & accounting	3,329	24.6%	5.0%	3.7	16.4	3.5	16.0
Vertical – finance	6,669	34.5%	8.5%	4.4	14.0	4.2	13.6
Weighted software companies	12,708	26.2%	7.9%	3.9	14.5	4.2	13.1
B2B media businesses	60,864	18.3%	11.7%	4.4		3.6	13.8
Financial publishing companies	48,966	24.9%	10.2%	4.1	14.2	3.8	13.9
EQS		**14.7%**	**55.4%**	**2.6**	**17.6**	**2.3**	**15.1**

Discount to software comparatives (on average of relevant multiples)	21.8%
Discount to B2B media stocks (on average of relevant multiples)	42.2%
Discount to financial publishing stocks (on average of relevant multiples)	25.0%

Source: Bloomberg, Software Equity Group, Edison Investment Research. Note: TTM = trailing 12 months. Prices as at 14 August 2017.

The market valuations of the three subsectors (software, B2B and financial publishing) that we have looked at are now all broadly aligned, particularly on forward EV/EBITDA.

All three groups, though, are trading at higher sales multiples than EQS, although its business model has elements common to all of them, particularly in communications and delivery mechanisms.

Obviously, EQS is less well known than the companies we are comparing it to, particularly outside its original home markets of Germany, Austria and Switzerland, with a shorter record of delivering against objectives. With less liquidity in its shares, applying a meaningful valuation discount is sensible. As shown above, when compared to average multiples of historical and prospective EV/revenue and EV/EBITDA, EQS currently trades on a 22% discount to relevant software and 25% to financial publishing stocks, and on a substantial 42% discount to B2B media stocks (dominated by the large exhibition companies).

DCF supports valuation

Given that the company has outlined its medium-term revenue and adjusted EBIT outlook, we have also run a DCF on our modelled numbers.

Exhibit 7: DCF under various medium-term revenue growth & EBITDA margin assumptions

€/share		Medium-term growth rate				
		8.00%	10.00%	12.00%	14.00%	16.00%
EBITDA margin	13.00%	38.25	42.51	47.15	52.21	57.72
	14.00%	42.57	47.30	52.45	58.07	64.18
	15.00%	46.89	52.08	57.75	63.93	70.65
	16.00%	51.20	56.87	63.05	69.79	77.11
	17.00%	55.52	61.66	68.35	75.64	83.58
	18.00%	59.84	66.45	**73.65**	81.50	90.04
	19.00%	64.16	71.23	78.95	87.36	96.51
	20.00%	68.47	76.02	84.25	93.22	102.97
	21.00%	72.79	80.81	89.55	99.08	109.44

Source: Edison Investment Research

Rather than vary the WACC and terminal growth rate, we have looked at the implied share price under a range of margin and top-line growth assumptions. Our example uses a conservative WACC of 7% and a terminal growth rate of 2%. Taking the mid-point of the group's indicated medium-term revenue growth rate guidance of around 12% growth and looking at an EBITDA margin of 18% (the group's implied non-IFRS EBIT margin range under their guidance is in a range of 15.4% to 18.5%), the implied share price would be €74. This is a broadly similar level to that suggested by the peer analysis above, where on an 'average of the averages', the resultant suggested price is currently €73.

With a degree of execution risk to be factored in, as the group is still at a comparatively early stage of its corporate development, a discount of, say, 15% would not be unreasonable. This would indicate a share price of around €62.

Financials

Income statement

EQS is still in the investment phase of its corporate development, seeking to build meaningful positions in its key target geographic and product/service markets. The top line grew by 12.5% compound in 2009-15, with the larger uplift in 2016 reflecting the consolidation of ARIVA and the acquisition of Swiss company Tensid during the year. German revenues increased by 38% (6% stripping out ARIVA) for FY16 vs FY15. Non-domestic revenues, though, grew 57%. Overall organic growth for the year was 4%. H117 figures show continued strong progress at the top line, with revenues 45% ahead of the comparative period, this time with the German domestic revenue growth in ascendance (ex-ARIVA revenues +13%). We expect that in the second half, revenues will be heavily skewed in the current year to Q4, due to the timing of implementation of regulations, but also from the timing of the introduction of new modules, such as the whistle-blowing facility. This will add to the inherent seasonality of ARIVA, where advertising revenues generated through the business portal are also biased to the final quarter.

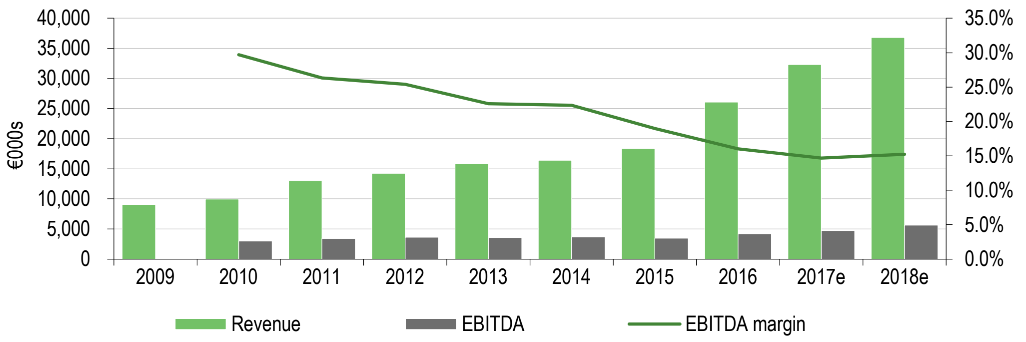
A key emphasis is on building recurring and repeatable revenue streams. Exhibits 1 and 2 on page 4 show the revenue split by activity and descriptions of activity type. Cloud-based revenues `are in news, compliance and workflow functions, and, once set up (and once fixed infrastructure costs are recovered), should generate comparatively strong operating margins and, if embedded in client workflows, should have very low levels of churn. Licensing revenues (+20% y-o-y) principally relate to filing, webcast and hosting. In FY16, the proportion of recurring revenues decreased to 68% (78%), due to the consolidation of ARIVA, which generates mostly project and media revenues. Although project revenues relate to discrete bits of business, some, such as preparation of report and accounts, can repeat on an annual basis.

The investment in corporate expansion, both in terms of product development and physical infrastructure, has put continued pressure on EBITDA margins, but is a prerequisite to building a sustainable, long-term business model. The platform is now in place and is scalable with the bulk of the investment now focused on adding modules and functionality. This is with an emphasis on achieving the speed to market to meet the requirements of upcoming regulation and client demand for additional capabilities. This additional spend was particularly apparent in the achieved margin. In H117, the EBITDA margin was constrained to 10.3% from 11.7% in H116. Our model assumes that this first half impact will contract dilute the full year EBITDA margin to 14.7% from 16.0% in FY16, before starting to build in the following year as earlier expenditure starts to be leveraged, with a suggested level of 15.2%.

Company guidance for FY17 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 model is consistent with these guidelines and our forecast income statement is unchanged on the interim figures.

At the EBT level, H117 financial performance was affected by exchange rate movements between the euro and the group's other operating currencies. Net financial charges increased from €263k to €497k, but the majority of this represented non-cash movements.

Exhibit 8: Revenue and EBITDA history and forecasts



Source: Company accounts, Edison Investment Research

Balance sheet and cash flow

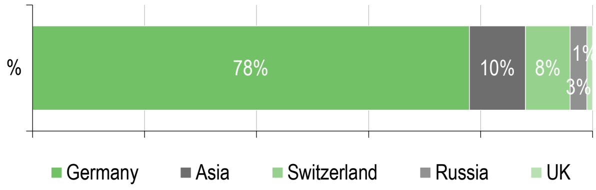
Three key factors influenced the growth in the balance sheet in FY16: the consolidation of ARIVA; the acquisition of Tensid; and a capital raise in December 2016. This raised €5.2m (€5.4m gross) through the issue of 118,998 new shares at €45, with the funds earmarked to fund the group's continued global expansion. Net debt at the end of FY16 (post the capital raise) was €2.6m, giving gearing of 10.0% (FY15: 27.5%).

In the first half of the current year, the investment spending has continued (as described above), there was negative operating cash flow and net debt at the end of June had increased to €6.3m. With the forecast indicating a strong end to the year and the business inherently cash generative, we expect that the level of gearing at the year-end will be of the order of €3.5m, representing gearing of 13.3%. This is higher than our previous projection (year-end gearing of 5.5%), but clearly still modest.

Exhibit 9: Financial summary

€000s	2015	2016	2017e	2018e
Year end 31 December	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	18,377	26,061	32,300	36,800
Cost of Sales	0	0	0	0
Gross Profit	18,377	26,061	32,300	36,800
EBITDA	3,485	4,175	4,739	5,605
Operating Profit (before amort. and except.)	2,983	3,282	3,739	4,565
Intangible Amortisation	(351)	(619)	(700)	(700)
Exceptionals	(268)	0	0	0
Other	165	(874)	0	0
Operating Profit	2,529	1,788	3,039	3,865
Net Interest	(59)	(14)	(89)	(75)
Profit Before Tax (norm)	3,090	2,393	3,650	4,490
Profit Before Tax (FRS 3)	2,471	1,774	2,950	3,790
Tax	(1,372)	(960)	(1,405)	(1,684)
Profit After Tax (norm)	1,407	1,144	1,915	2,444
Profit After Tax (FRS 3)	1,099	814	1,544	2,106
Average Number of Shares Outstanding (m)	1.17	1.19	1.31	1.31
EPS - normalised (c)	120.1	96.1	146.2	186.6
EPS - (IFRS) (c)	93.8	68.4	117.9	160.8
Dividend per share (c)	75.0	75.0	80.0	85.0
Gross Margin (%)	100.0	100.0	100.0	100.0
EBITDA Margin (%)	19.0	16.0	14.7	15.2
Operating Margin (before GW and except.) (%)	16.2	12.6	11.6	12.4
BALANCE SHEET				
Fixed Assets	22,777	30,389	32,589	32,399
Intangible Assets	17,850	26,314	26,314	25,614
Tangible Assets	2,796	4,075	6,275	6,785
Investments	2,131	0	0	0
Current Assets	6,972	12,014	11,552	12,383
Stocks	0	0	0	0
Debtors	3,215	4,562	5,711	6,441
Cash	3,607	6,610	5,000	5,100
Other	150	842	842	842
Current Liabilities	(5,325)	(9,942)	(10,609)	(10,599)
Creditors	(3,359)	(5,791)	(7,109)	(8,099)
Short term borrowings	(1,967)	(4,151)	(3,500)	(2,500)
Long Term Liabilities	(7,276)	(7,237)	(7,164)	(6,664)
Long term borrowings	(6,357)	(5,073)	(5,000)	(4,500)
Other long term liabilities	(919)	(2,164)	(2,164)	(2,164)
Net Assets	17,148	25,224	26,368	27,518
CASH FLOW				
Operating Cash Flow	4,688	4,802	4,800	5,750
Net Interest	(56)	(27)	(89)	(75)
Tax	(995)	(1,302)	(1,071)	(1,475)
Capex	(1,978)	787	(3,200)	(1,550)
Acquisitions/disposals	(1,046)	(3,731)	(325)	0
Equity Financing	(1,138)	2,435	0	0
Dividends	(883)	(877)	(1,008)	(1,070)
Net Cash Flow	(1,408)	2,087	(893)	1,580
Opening net debt/(cash)	2,821	4,716	2,614	3,500
HP finance leases initiated	0	0	0	0
Other	(487)	15	7	20
Closing net debt/(cash)	4,716	2,614	3,500	1,900

Source: EQS Group accounts, Edison Investment Research

Contact details	Revenue by geography (FY16)
EQS Group Karlstraße 47 80333 München Germany +49 (89) 210 298 0 www.germany.eqs.com	

Management team

CEO executive board: Achim Weick	COO executive board: Christian Pfleger
Achim Weick began his career in corporate banking at Commerzbank. He completed an international trainee programme and worked in Berlin, Budapest, and New York. Subsequently, he was co-founder of the investor relations manager CMC Capital Markets Consulting. Achim is the originator, founder and largest shareholder of EQS Group and has been on the board since the group's foundation.	Christian Pfleger studied business administration at the University of Bayreuth with a focus on marketing and organization. He then moved to regional television company Oberpfalz TV. He joined EQS Group in 2001, initially as a client relationship manager, moving to project management from 2003. In 2007, he took over responsibility for Products and Services. On 1 January 2015 he was appointed COO of the executive board of EQS Group.
Chairman supervisory board: Rony Vogel	**Finance director: André Marques**
An electrical engineer by training, Rony Vogel started his career at TRW Electrical and Electronics. In 1996 he co-founded Internet Screen Phones at Siemens, and in 1999 founded The Business Angel Network venture24. This helped launch a number of start-ups, including EQS Group. Since 2003, he has been an active investor and entrepreneur in the software/internet, environmental and real estate sectors. He holds a number of other board positions.	Prior to his current responsibilities, André was in charge of the group's activities in Russia and the CIS. Before that role, he had headed the company's investor relations department and overseen the business development and corporate finance activities. He studied finance at Frankfurt State University and has an MBA in general management.

Principal shareholders	(%)
Achim Weick	23.0
Investm. F. Langfr. Inv.	22.0
Rony Vogel	4.0
Allianz	3.4

Companies named in this report

Thomson Reuters (NYSE: TRI), Envestnet (NYSE: ENV), Morningstar (NASDAQ: MORN), Dun & Bradstreet (NYSE: DNB), FactSet (NYSE: FDS)