

EQS Group

Investment plan

Accelerated investment

EQS has accelerated its investment plans to take advantage of the timing opportunity as new and complex regulations regarding data privacy, corporate governance, compliance and risk are introduced. With additional spend of €2.2m planned in the current financial year and €5.8m over the following three years, this obviously has an impact on short-term profitability. However, it opens up a broader set of revenue streams from a greater number of potential clients. We have revised our numbers to reflect the financial impact. The share price has reacted positively to the news and the valuation is now broadly in line with global 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	50.6	1.2
12/16	26.1	4.2	2.4	0.96	0.75	63.2	1.2
12/17e	32.3	3.6	1.2	0.43	0.00	141.2	0.0
12/18e	36.3	4.5	1.9	0.71	0.15	85.5	0.2

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

Adjustments to forecasts

Our FY17 forecast adjusted EBITDA moves from €4.7m to €3.6m, while FY18e moves from €5.6m to €4.5m, reflecting the investment in additional IT development staff and in product development. The earlier launch of the whistle-blowing module SAFECHANNEL was very well received, which has encouraged the acceleration of the timing of the launch of additional functionality. With the impending introduction of MiFID II, updates to the corporate governance code in Germany and the Sapin II anti-corruption regulations in France, the window of opportunity for launching product and locking in client contracts is relatively tight. There are good opportunities to cross- and up-sell to clients who have already taken INSIDER MANAGER and/or SAFECHANNEL, who will already have completed their due diligence on EQS as a supplier.

Investment in Issuer Direct

At the end of September, EQS bought a 10% stake in NYSE-listed Issuer Direct, for €3.1m. This locks it in with Issuer Direct's Accesswire, with which EQS already has a collaborative relationship, and gives a stronger foothold from which to develop the US business. The group raised €5.2m in December 2016 to fund continued global expansion. The scale and timing of these enhanced investment requirements, though, have led to management indicating no FY17 dividend payment.

Valuation: Investment phase extended

EQS clearly 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, EQS trades broadly in line with peers, the share price gaining over 50% in the last year and continuing to climb post the investment announcement at the end of September. DCF analysis suggests further upside if medium-term growth reaches management's anticipated rate.

Media

16 October 2017

Price €60.71

Market cap €80m

Net debt (€m) as at end June 2017 6.3

Shares in issue 1.31m

Free float 55%

Code EQS

Primary exchange Deutsche Börse Scale

Secondary exchange FRA

Share price performance



%	1m	3m	12m
Abs	15.5	13.5	58.7
Rel (local)	9.6	8.4	28.3
52-week high/low		€61.1	€37.9

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 trading update 15 November 2017

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Communications and regulations

EQS is broadening out its sphere of influence from digital investor relations and corporate communications/PR through the fast-growing segment of governance, risk and compliance. This latter segment is estimated by Gartner to be valued in excess of \$5bn and to be growing at a CAGR of more than 13%, making it an attractive proposition.

In many territories, the responsibilities for governance, risk and compliance within the corporate rest with the same department or individual as for EQS's longer-standing service offers, giving the group an advantage over other suppliers. The larger players already in this segment are based either in the US or in Asia-Pacific, with the result that the European market has no single, strong incumbent. EQS's cloud-based solutions are also scalable and flexible to incorporate additional modules as new regulatory requirements are introduced. Fuller descriptions of the business elements were given in our [Outlook note](#) published in August.

Guidance for growth

Company guidance for FY17 was 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. Company guidance has been revised to adjusted EBIT of €2.0-2.3m, on unchanged revenues. With higher associated depreciation/amortisation and interest costs, the impact at the pre-tax and earnings level is obviously greater, as shown in our new summary forecasts below.

For FY18e, the guidance is for top-line growth of 10-15%, with a step up to 15-20% revenue growth for FY19e. For the medium term through to FY25e, management anticipates that rate being maintained, driven by the compliance sector, which it envisages growing at a faster rate of 22.5% compound.

Exhibit 1: Revised forecasts									
	EPS (€)			PBT (€m)			EBITDA (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2017e	1.46	0.43	-71	3.7	1.2	-68	4.7	3.6	-23
2018e	1.87	0.71	-62	4.5	1.9	-58	5.6	4.5	-20

Source: Edison Investment Research

Valuation encouraged by investment

The share price has reacted positively to the recent newsflow, despite the downgraded short-term financials. In our [Outlook note](#), we described our valuation methodology. The earnings and sales multiples have obviously been thrown by the adjustments to short-term forecasts, but on averaged forward and backward looking sales and EBITDA multiples, EQS is now trading at around par to global peers across the B2B, financial software and financial information sectors.

Exhibit 2: Reverse DCF (€/share)

	Medium-term growth rate					
	8.00%	10.00%	12.00%	14.00%	16.00%	18.00%
EBITDA margin						
13.00%	31.34	35.58	40.20	45.24	50.71	56.66
14.00%	35.63	40.34	45.48	51.07	57.15	63.76
15.00%	39.93	45.11	50.75	56.90	63.59	70.85
16.00%	44.23	49.87	56.03	62.73	70.02	77.95
17.00%	48.53	54.64	61.30	68.56	76.46	85.04
18.00%	52.83	59.41	66.58	74.40	82.90	92.13
19.00%	57.13	64.17	71.86	80.23	89.33	99.23
20.00%	61.43	68.94	77.13	86.06	95.77	106.32
21.00%	65.72	73.70	82.41	91.89	102.21	113.41

Source: Edison Investment Research

We have also used a reverse DCF, using a fixed WACC of 7% and a terminal growth rate of 2%. 17.5% medium-term growth and a rebuild in EBITDA margin to 17% suggest that the share price could reach €82.83. Adding in a 15% discount to reflect execution risk suggests a share price of around €70.

Exhibit 3: Financial summary

	€000s	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		18,377	26,061	32,300	36,250
Cost of Sales		0	0	0	0
Gross Profit		18,377	26,061	32,300	36,250
EBITDA		3,485	4,175	3,600	4,460
Operating Profit (before amort. and except.)		2,983	3,282	2,200	2,900
Intangible Amortisation		(351)	(619)	(750)	(850)
Exceptionals		(268)	0	0	0
Other		165	(874)	(862)	(850)
Operating Profit		2,529	1,788	588	1,200
Net Interest		(59)	(14)	(138)	(190)
Profit Before Tax (norm)		3,090	2,393	1,200	1,860
Profit Before Tax (FRS 3)		2,471	1,774	450	1,010
Tax		(1,372)	(960)	(456)	(698)
Profit After Tax (norm)		1,407	1,144	558	930
Profit After Tax (FRS 3)		1,099	814	(6)	313
Average Number of Shares Outstanding (m)		1.17	1.19	1.31	1.31
EPS - normalised (c)		120.1	96.1	42.6	71.0
EPS - (IFRS) (c)		93.8	68.4	(0.5)	23.9
Dividend per share (c)		75.0	75.0	0.0	15.0
EBITDA Margin (%)		19.0	16.0	11.1	12.3
Operating Margin (before GW and except.) (%)		16.2	12.6	6.8	8.0
BALANCE SHEET					
Fixed Assets		22,777	30,389	35,689	40,729
Intangible Assets		17,850	26,314	28,514	32,164
Tangible Assets		2,796	4,075	7,175	8,565
Investments		2,131	0	0	0
Current Assets		6,972	12,014	9,883	10,486
Stocks		0	0	0	0
Debtors		3,215	4,562	5,541	6,094
Cash		3,607	6,610	3,500	3,550
Other		150	842	842	842
Current Liabilities		(5,325)	(9,942)	(11,313)	(12,213)
Creditors		(3,359)	(5,791)	(7,313)	(8,363)
Short term borrowings		(1,967)	(4,151)	(4,000)	(3,850)
Long Term Liabilities		(7,276)	(7,237)	(9,664)	(9,464)
Long term borrowings		(6,357)	(5,073)	(7,500)	(7,300)
Other long term liabilities		(919)	(2,164)	(2,164)	(2,164)
Net Assets		17,148	25,224	24,594	29,537
CASH FLOW					
Operating Cash Flow		4,688	4,802	3,200	4,050
Net Interest		(56)	(27)	(138)	(190)
Tax		(995)	(1,302)	(834)	(516)
Capex		(1,978)	787	(4,500)	(2,950)
Acquisitions/disposals		(1,046)	(3,731)	(3,424)	0
Equity Financing		(1,138)	2,435	1,300	6
Dividends		(883)	(877)	(1,008)	0
Net Cash Flow		(1,408)	2,087	(5,404)	400
Opening net debt/(cash)		2,821	4,716	2,614	8,000
HP finance leases initiated		0	0	0	0
Other		(487)	15	18	(0)
Closing net debt/(cash)		4,716	2,614	8,000	7,600

Source: EQS Group accounts, Edison Investment Research

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