EDISON

EQS Group

Full-year results

Grasping the bigger opportunity

Media

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, as shown in our reinstated forecasts, but the potential rewards are substantial. Earnings multiples are consequently high, but DCF analysis indicates a value of €86/ share.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)	Yield (%)
12/16	26.1	2.4	0.96	0.75	73.9	32.6	1.1
12/17	30.4	0.8	0.16	0.00	N/A	45.6	N/A
12/18e	36.5	(0.2)	(0.07)	0.00	N/A	69.2	N/A
12/19e	43.5	2.4	0.93	0.20	76.3	32.5	0.2
12/20e	50.8	5.8	2.26	0.40	31.4	15.9	0.6

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

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. Our expectation is that FY19e profits should rebuild to about the levels achieved in FY16, before starting to grow organically. 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

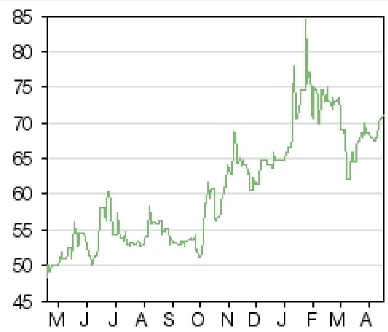
At this point last year, EQS was set to be moving on from its development phase, growing its top line and EBITDA, making earnings'-based peer comparisons a sensible approach. The curtailment of earnings by the investment inevitably makes the shares look expensive against peers (trading on FY18e 18.1x EV/ EBITDA and 28.1x P/E). A DCF approach indicates a valuation per share of €101, which we then discount by 15% to reflect execution risk, giving a valuation of €86/ share.

17 April 2018

Price	**€71.00**
Market cap	**€101m**

Net debt (€m) as at 31 December 2017	3.6
Shares in issue	1.43m
Free float	55%
Code	EQS
Primary exchange	Xetra
Secondary exchange	FRA

Share price performance



%	1m	3m	12m
Abs	10.1	(0.7)	47.0
Rel (local)	10.1	6.2	43.6
52-week high/low		€84.5	€48.3

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

Q1 results	18 May 2018
Half year results	16 August 2018

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EQS 2.0: grasping the bigger opportunity

The core business has continued to benefit from the slew of additional regulations that have been introduced and that are impending. These include MiFID II, SAPIN II in France, Market Abuse Regulation (EU) and PRIIP-Regulation (EU), all of which are fuelling the need for logging and reporting systems to ease the regulatory burden on corporate entities. EQS's cloud-based platform approach allows extra functionality to be added with relatively modest project implementation costs. While the individual contract values can be quite small, the numbers of potential clients are substantial. The original news and disclosure product continues to open doors and is now in use by over 2,500 clients internationally. There remains good potential for growing this client base across Europe, with further extensions into new markets such as energy exchanges as the rules for information dissemination become stricter.

Enhancing the COCKPIT

The EQS COCKPIT is the group's web-based product platform, through which its services are delivered to clients. During FY17, the group launched additional functionalities. Key developments include:

- LEI-MANAGER. Designed to meet the requirements under MiFID II for all parties in any transaction to be uniquely identifiable by a Legal Entity Identifier, EQS is an authorised issuer. Over 10,000 LEIs have been issued to date.
- INSIDER MANAGER. Software that keeps track of dissemination of inside information. This is already in use by over 600 clients.
- SAFE CHANNEL. A whistle-blowing system, compliant with the requirements of France's SAPIN II regulation and the recommendations of the German Corporate Governance Code. Integrity Line, a Zurich-based provider of a similar whistle-blowing product, was acquired in January 2018.

The next stage of additions and enhancements, with the capacity to adapt to future needs, requires an upgrade of the underlying COCKPIT platform and infrastructure, which it is anticipated will launch in Q418. Progress has already been made, with €847k spent in FY17. The total investment through to FY20e in this upgrade programme, together with the development of other Compliance solutions such as the POLICY MANAGER product, is estimated at €8m. The enhanced COCKPIT will include an integrated CRM and global investor data, designed to embed the system into its users' workflow, increasing recurring revenues and reducing potential churn.

Additionally, ARIVA (67.5%-owned, having first been consolidated at 50%+one share in summer 2016) has developed the ARS-Workflow platform. This creates, distributes and monitors the documents required by the PRIIPs Directive (Packaged Retail and Insurance-based Investment Products), that came into force in January 2018.

Change at acquired businesses

Although the primary reason for the underachievement on earlier projections relates to the increased investment phase, there were also disappointing results from the Swiss business, Tensid, which worked on fewer website projects and a shift in direction at ARIVA to reorient it towards recurring income rather than project work. Swiss revenues were down 6% to €2.0m and a new management team was installed in Q417.

Development focus on Europe

When we first wrote on the EQS investment story in Q315, much of the growth potential was wrapped up in Asia, with a large number of corporates listing their equity or debt on public markets, with the associated need for setting up (digital) investor relations systems. In the event, the more substantial growth opportunities have opened up in Europe with the burgeoning levels of regulation. The Asian operations (7% group revenues) did breakeven in FY17, though, as had been planned. The purchase of a 10% stake in Issuer Direct in the US for €3.64m in September 2017 gives a working relationship with their news service, Accesswire, and therefore a foothold in the potentially lucrative US market. Management believes that one of the most attractive market short-term is France, where a presence was established in FY17, starting again with newswire services but with the whistle-blowing solution addressing a clear market need. Germany accounted for 81% of FY17 revenues.

Financial implications

Exhibit 1: Divisional development FY17

	Regulatory Information & News	% y-o-y	Products & Services	% y-o-y
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 - €37.6m for the group for FY18e. Our modelling gives a value of €36.5m. In the presentation materials, management has also provided their 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. We have come in at the lower end of this range, at €1.6m. 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 (feelancers) +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.

Exhibit 2: Mid-term guidance for revenues

€m	FY18e	FY25e	FY18-25e CAGR
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. Our modelling shows this increasing to €7.6m at 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. We do not anticipate the reinstatement of the dividend until FY19.

Impact on 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. On revenue, fintech peers are trading on 4.4x EV/ FY18 revenues, which would imply a valuation per share for EQS of €105. A DCF approach with WACC of 8%, terminal growth of 2%, mid-term growth of 16% and mid-term EBITDA margin of 17% (so all more conservative than management guidance), suggests a valuation of €101/share. Discounting by 15% to reflect a degree of execution risk indicates a valuation of €86/share.

Exhibit 3: Financial summary

€'000s	2015	2016	2017	2018e	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	18,377	26,061	30,355	36,500	43,500	50,750
Cost of Sales	0	0	0	0	0	0
Gross Profit	18,377	26,061	30,355	36,500	43,500	50,750
EBITDA	3,485	4,175	2,349	1,600	4,150	7,500
Operating Profit (before amort. and except.)	2,983	3,282	1,077	175	2,675	6,025
Intangible Amortisation	(351)	(619)	(732)	(750)	(775)	(775)
Exceptionals	(268)	0	0	0	0	0
Other	165	(874)	(146)	(150)	(150)	(150)
Operating Profit	2,529	1,788	199	(725)	1,750	5,100
Net Interest	(59)	(14)	(139)	(190)	(150)	(110)
Profit Before Tax (norm)	3,090	2,393	792	(165)	2,375	5,765
Profit Before Tax (FRS 3)	2,471	1,774	60	(915)	1,600	4,990
Tax	(1,372)	(960)	(634)	62	(891)	(2,162)
Profit After Tax (norm)	1,407	1,144	215	(93)	1,336	3,243
Profit After Tax (FRS 3)	1,099	814	(574)	(853)	710	2,828
Average Number of Shares Outstanding (m)	1.17	1.19	1.31	1.43	1.43	1.43
EPS - normalised (c)	120.1	96.1	16.4	(6.5)	93.1	226.0
EPS - (IFRS) (c)	96.0	43.2	(39.3)	(58.8)	39.1	172.0
Dividend per share (c)	75.0	75.0	0.0	0.0	20.0	40.0
EBITDA Margin (%)	19.0	16.0	7.7	4.4	9.5	14.8
Operating Margin (before GW and except.) (%)	16.2	12.6	3.5	0.5	6.2	11.9
BALANCE SHEET						
Fixed Assets	22,777	30,389	34,914	42,195	46,945	48,945
Intangible Assets	17,850	26,314	26,662	30,368	34,593	35,818
Tangible Assets	2,796	4,075	8,251	11,826	12,351	13,126
Investments	2,131	0	0	0	0	0
Current Assets	6,972	12,014	12,536	10,613	11,704	13,137
Stocks	0	0	0	0	0	0
Debtors	3,215	4,562	5,053	5,954	7,096	8,113
Cash	3,607	6,610	6,374	3,550	3,500	3,915
Other	150	842	1,108	1,108	1,108	1,108
Current Liabilities	(5,325)	(9,942)	(11,559)	(10,679)	(11,739)	(12,326)
Creditors	(3,359)	(5,853)	(5,574)	(6,829)	(8,139)	(9,676)
Short term borrowings	(1,967)	(4,089)	(5,986)	(3,850)	(3,600)	(2,650)
Long Term Liabilities	(7,276)	(7,237)	(6,526)	(9,881)	(8,731)	(6,581)
Long term borrowings	(6,357)	(4,761)	(3,946)	(7,300)	(6,150)	(4,000)
Other long term liabilities	(919)	(2,476)	(2,581)	(2,581)	(2,581)	(2,581)
Net Assets	17,148	25,224	29,363	32,247	38,179	43,175
CASH FLOW						
Operating Cash Flow	4,688	3,827	1,850	1,745	4,100	7,800
Net Interest	(56)	(13)	35	(190)	(150)	(110)
Tax	(995)	(341)	(238)	(460)	(176)	(1,209)
Capex	(1,978)	891	(4,456)	(5,000)	(2,000)	(2,250)
Acquisitions/disposals	(1,046)	(3,731)	(3,148)	0	0	0
Equity Financing	(1,138)	2,601	6,965	(138)	(137)	(142)
Dividends	(883)	(877)	(1,939)	0	(287)	(574)
Net Cash Flow	(1,408)	2,357	(931)	(4,043)	1,350	3,515
Opening net debt/(cash)	2,821	4,716	2,240	3,557	7,600	6,250
HP finance leases initiated	0	104	0	0	0	0
Other	(487)	15	(386)	0	0	0
Closing net debt/(cash)	4,716	2,240	3,557	7,600	6,250	2,735

Source: Company accounts, Edison Investment Research

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