

# EQS Group

Q1 update

## Investment on plan

EQS's Q118 report shows performance in line with expectations, with 13% top-line growth and higher investment pushing the group into an EBITDA loss. All is on track for a Q418 launch of the new COCKPIT web-based product platform and our forecasts for FY18e, FY19e and FY20e are unchanged. New KPIs and segmental reporting highlight a strong recurring revenue base and will clarify the growth dynamics of customer numbers and associated revenues. EQS's markets remain attractive, with corporate obligations become more numerous and complex, underpinning the rating.

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	80.7	35.5	1.0
12/17	30.4	0.8	0.16	0.00	N/A	49.6	0.0
12/18e	36.5	(0.2)	(0.07)	0.00	N/A	75.1	0.0
12/19e	43.5	2.4	0.93	0.20	83.2	35.4	0.3
12/20e	50.8	5.8	2.26	0.40	34.3	17.4	0.5

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

## Improved KPIs and reporting segments

Previous reporting by product category was failing to represent the development of the business model clearly. The new categorisations highlight the revenue split across EQS and ARIVA, separating out revenues from XML and from sales of LEIs (see [Outlook](#)), plus the number of clients by activity. It also identifies the proportions of business in Investor Relations and Compliance, with the latter having the greater growth potential. Compliance revenues were up 34% on Q117, with IR marginally behind (-1%) despite higher client numbers. EQS has also introduced new KPIs that draw attention to its recurring SaaS revenues, at 79% of group revenues in Q118 (Q117: 74%). It is also disclosing customer numbers (1,081, +12), quarterly revenue per customer (€3,300), acquisition costs (€4,200) and churn (<5%).

## Additional spend

EQS is employing over 60 specialists to build up the new COCKPIT, ramping the Q1 personnel costs to €5.3m (Q117: €3.9m), with additional costs in buying in contractors. EBITDA for the period consequently showed a loss of €0.3m (Q117: €0.7m profit). Guidance for the full-year remains €1.5-2.1m and at €1.6m our forecast is unchanged at the low end of this range. Net debt at end March had increased to €10.5m from €3.6m at the year-end, reflecting the acquisition of cloud-based whistle-blowing systems company, Integrity Line.

## Valuation: Back at development stage

The curtailment of earnings by the current investment phase inevitably makes the shares look expensive against peers (which trade on FY18e 20.6x EV/EBITDA and 31.8x P/E). A DCF approach suggests a valuation per share of €102, which we then discount by 15% to reflect execution risk, indicating a valuation of €87/share.

## Software & comp services

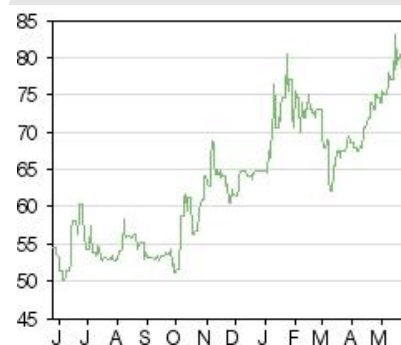
24 May 2018

Price €77.5

Market cap €109m

Net debt (€m) as at 31 March 2018	10.5
Shares in issue	1.4m
Free float	55%
Code	EQS
Primary exchange	Xetra
Secondary exchange	FRA

## Share price performance



%	1m	3m	12m
Abs	6.2	6.2	47.0
Rel (local)	2.9	2.1	43.4
52-week high/low		€84.5	€48.8

## 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

Half-year figures	16 August 2018
Q3 update	15 November 2018

## Analysts

Fiona Orford-Williams	+44 (0)20 3077 5739
Bridie Barrett	+44 (0)20 3077 5700

[media@edisongroup.com](mailto:media@edisongroup.com)

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**Exhibit 1: Financial summary**

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

Source: Company accounts, Edison Investment Research

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