EDISON

EQS Group

Six-month figures

Transition year

Media

EQS's interims show good progress in its evolution into a leading technology provider to corporate entities. With its revamped cloud-based COCKPIT platform scheduled for launch in Q418 and an ever-tightening regulatory environment, the elements are in place to underpin medium-term growth. The additional costs are weighing on current-year profitability and FY18 EBITDA guidance has been reduced, but our view is that this is an investment in making the group a credible and scalable partner in investor relations and compliance, with an attractive monthly recurring revenue base.

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	78.6	49.6	1.0
12/17	30.4	0.8	0.16	0.00	N/A	27.7	N/A
12/18e	36.5	(1.2)	(1.57)	0.00	N/A	161.5	N/A
12/19e	43.2	1.7	0.67	0.15	112.7	31.2	0.2
12/20e	50.8	4.4	1.73	0.35	43.6	18.0	0.5

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

H118 revenues well ahead

First-half revenues were up 14% at €17.1m, including a €0.7m contribution from Integrity Line, acquired in December 2017. This was split roughly half and half between investor relations and compliance, the group's newer area of activity, which grew its revenues by 31% over prior period (including the contribution from Integrity Line). The additional investment being made in the new COCKPIT platform meant an EBITDA result just below breakeven and we have lowered our full-year EBITDA estimate in light of the revised guidance.

New COCKPIT launches next phase

FY18 is a transition year with management energy primarily focused on the new platform, giving the group a robust and scalable resource. The German domestic market has been helpful, with a healthy IPO pipeline providing new investor relations clients. In compliance, EQS has launched Insider Manager, benefited from being an authorised issuer of Legal Entity Identifiers (LEIs) and added Integrity Line's whistle-blowing facility. In FY19, the new COCKPIT will enable EQS to offer clients integrated workflow platforms across both compliance and investor relations segments. It should be able to secure a larger share of client spend, generate 'sticky' monthly recurring revenues and improve the quality of earnings.

Valuation: Well underpinned

With the current investment draining earnings, peer-based comparisons are less useful than usual. On an FY1 EV/sales basis, EQS is trading at a +30% discount. On a reverse DCF, taking the company's 2018-25e revenue CAGR guidance of around 17% and assuming a WACC of 8%, an EBITDA margin of c 17% is required to get to the current share price. A 1pp increase in margin would result in an €85/share valuation. Given the element of execution risk, the shares appear to be well underpinned at current levels.

24 August 2018

Price	**€75.5**
Market cap	**€108m**

Net debt (€m) as at 30 June 2018	11.0
Shares in issue	1.4m
Free float	49%
Code	EQS
Primary exchange	Xetra
Secondary exchange	FRA

Share price performance

%	1m	3m	12m
Abs	(2.0)	(3.2)	38.6
Rel (local)	(0.5)	1.6	36.5
52-week high/low		€84.5	€50.8

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

Q3 results	Mid-November 2018

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Edison profile page

Investment case: Reinvesting in the business

Providing for a market need

EQS operates in three inter-related segments: corporate communications and PR; investor relations; and governance, risk and compliance. It is transitioning to be a technology partner to the corporate sector, providing tools that enable relevant individuals to meet their regulatory and compliance obligations and to handle investor relations efficiently. Having started out as a business rooted in meeting the needs of the investor relations and company secretariat functions, it is now bringing together its various offerings onto a single cloud-based platform, which will allow it to expand and scale. The digital governance, risk and compliance market is developing rapidly, with the group anticipating double-digit market growth in this segment. There are no major incumbents in Germany or Europe.

Market drivers: Regulation, digitisation, geographic expansion

Management identifies these three key drivers of expansion. The circumscription of corporate activity via legislation and regulation can be regarded as a barrier to business, a necessary annoyance or an opportunity to instill best practice. The regulatory burden is increasingly complex and the financial and business risks of getting it wrong are onerous. EQS's tools are designed to make compliance with regulation as painless as possible. Offering digital workflow solutions fits well with established trends. Geographic expansion is now focused on being in the right place to serve client needs. The group has a very strong presence in German-speaking territories and in Russia, growing business in the UK and US, interests in Asia and has more recently launched in France. The group has grown historically through a combination of organic growth and acquisition.

In renewed investment phase

For its first development phase, EQS was focused on the digitisation of corporate communications. More recently, prompted by activities within acquisitions, it has observed an attractive opportunity to expand its offering in the governance, risk and compliance field. To take advantage of the time-limited opportunity, it is pursuing a major project to build a scalable cloud-based platform, announced in September 2017. By the time of the year-end update in February 2018, the expected extra spend for FY18e had grown and earning guidance for the year was reduced. Further spend to meet the published timetable for a Q418 launch has increased personnel and freelancers' costs once more. Approximately 70 specialists are working on the project. EBITDA guidance is now for €0-1.0m for FY18e (vs €1.5-2.1m before and our old FY18e forecasts of €1.6m), with FY18 set to be the peak investment years. With good prospects for top-line growth, the returns on this investment should start to come through in FY19e, with a full-year effect in FY20e.

Valuation update, earnings revisions

Following the updated FY18 guidance, we have revised down our estimates and now expect FY18 EBITDA of €0.7m (vs €1.6m before). Assuming the company's 2018-25e revenue growth guidance (CAGR of 17%) and a WACC of 8%, we estimate that a flat EBITDA margin of c 17% (beyond our explicit forecast period) is required to arrive at the current share price. A 1pp increase in EBITDA margin would result in a c 8% increase in the valuation. We note that the change in emphasis and the purchase of the whistle-blowing software provider, Integrity Line, is leading to a higher proportion of recurring revenues in the mix (82% in Q218 vs 78% in Q117), resulting in better visibility and lower volatility of earnings. This figure will rise further as the new compliance solutions come on stream and with the increase in the number of larger corporate clients (with the potential to sell them more subscription services).

Company description: Regulatory tech

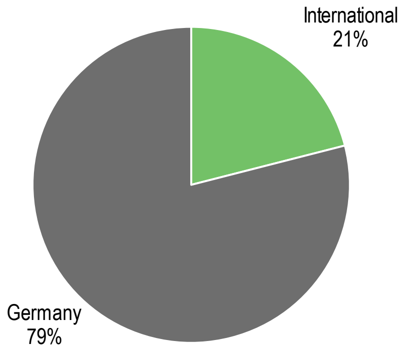
EQS is one of the largest global providers of digital solutions for investor relations, corporate communications and compliance functions. These are products designed to automate and simplify processes for those individuals working on the technical administrative aspects of running a corporate concern, enabling them to meet all regulatory requirements and freeing up their time to deal with matters that require more than simple information processing. By ensuring 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. Originally centred on investor relations (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 have been expanded across the related areas of governance, risk and compliance. The definition of IR includes financial and corporate communications, particularly in the form of news feeds, websites, webcasts and media. The compliance part of the group provides the technical (cloud-based) infrastructure for corporate clients to fulfil their legal and regulatory requirements.

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 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. The honed business model is focused on building subscription and annually recurring incomes as a proportion of the whole, increasing the quality of the earnings.

EQS has expanded both organically and by acquisition and now employs over 400 people. Its headquarters are in Munich, Germany, with further offices in Hamburg and Kiel, and in Switzerland (Zurich) and Russia (Moscow). In December 2015, the group purchased Obsidian IR in the UK (price undisclosed), which gave a strong foothold on which to build in that market. In the Far East, the group has operations in Singapore, Hong Kong, China (Shenzhen and Shanghai) and Taiwan (Taipei). More recently, it opened offices in New York, Paris and Dubai, giving it the global network needed 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. The largest number of employees (around 250) is involved in web, back-end, platform and software development. This number has grown by 50 additional specialists since 2017, who have been employed in a major upgrade programme to the EQS COCKPIT cloud-based platform, due for launch in Q418 with a total project investment of €9m (from previous estimates of €8m). The group has also appointed a CTO.

EQS's solutions and services enable over 21,000 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), and broadened the target markets to encompass the financial institutions. In September 2017, EQS acquired a 9.7% shareholding in Issuer Direct, owner of the fourth-largest US news service, Accesswire. In December 2017, the client offering was extended further with the purchase of Switzerland-based Integrity Line (€5.0m). Integrity Line is a leading provider of cloud-based whistle-blowing systems. Its systems are used in over 150 countries in more than 50 languages, generating annual recurring revenues (ARR) from licences in excess of CHF1m.

Exhibit 1: Geographic mix H118



Source: Company accounts

The German market accounts for the lion's share of group revenues, as shown above. In H118, domestic revenues were up 13%; partly as a result of the 'pull factor' of increasing regulation; partly through a healthy German IPO market, where EQS won all the available IPO business. This more than offset the more difficult trading at ARIVA in H118, where sales were down 5%. Management is attributing this to timing and anticipates a good H218.

International sales were up 19% in H118. This is entirely due to adding in Integrity Line, without which revenues dipped by 2%. Russia continues to be a strong market for the group, but progress in the US, UK and France has been more sluggish than hoped. From the bases in Germany, France and the UK, good new business was won in across Europe, including in Spain, Sweden and Belgium, while some of the group's less profitable activities in Asia were wound down.

New reporting framework

As of FY18, EQS has changed the way it presents and reports its business segments to better reflect the developing structure of the business. It is also giving more useful KPIs, such as the proportion of recurring revenue, average revenue per customer in the reporting period and customer acquisition costs.

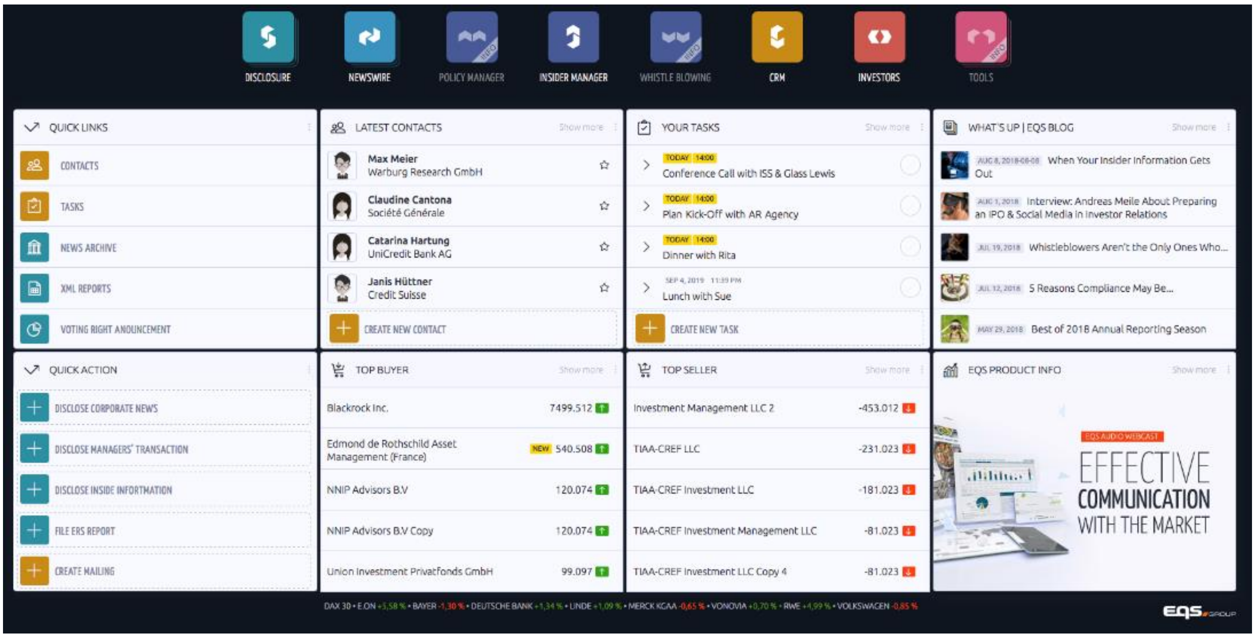
Under these definitions, over 70% of group revenues are defined as recurring, being related to cloud subscriptions or licences, such as news distribution, workflow modules, data services, webcasts and/or webhosting. The balance is accounted for by projects or set-up fees such for products, websites, platforms, reports and/or media.

The two new reporting segments are compliance and investor relations. The investor relations segment includes financial and corporate communications products, in particular news, websites, webcasts and media. The Compliance segment encompasses all products that companies require to fulfil legal or regulatory obligations. These include reporting and publishing obligations (Disclosure), filing with the German Federal Gazette (Filing), as well as new products such as Insider Manager, Integrity Line, LEI and ARIVA workflows.

EQS INSIDER MANAGER has now been rolled out to 11 countries and had nearly 600 clients as at the end of the half year. Sales of Integrity Line have been a little slower to build than hoped as it is primarily sold to larger organisations, which have more cumbersome procurement procedures. Work is ongoing on a similar but simplified solution for selling into SMEs.

New EQS COCKPIT due Q418

Exhibit 2: Functionality within EQS COCKPIT



Source: EQS

The work on the new platform is being carried out by developers in Europe and in Cochin in India, with more teams working on the new (or adapted) products that will sit on the platform, such as the CRM and Investors. The different functionalities will (post Q418 launch) all be accessible via a central dashboard linking to the underlying cloud-based COCKPIT, with modules as required by the client in an intuitive format, as shown above.

For investor relations, clients will be able to manage their newswires, CRM, CMS, Shareholder ID and analytics. In the corporate compliance sphere, clients will be able to centralise all their internal and external operational policies through a policy management solution.

There remains good potential for growing the group's client base across Europe, with further extensions into new markets such as energy exchanges as the rules for information dissemination become stricter.

Regulatory framework ever more complex

The key short-term drivers in the governance and compliance arena are the last two regulations in Exhibit 3 below. In H217, EQS has introduced its new whistle-blowing system module. This falls under a broader service area, known as Integrity Line. 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.

While the broader corporate communications and PR market is estimated by The Holmes Report at over $15bn globally, the investor relations market is considerably smaller at approximately $1bn (Source: IR Society). The former is estimated to be growing at around a 7% CAGR, while the IR market is likely to be growing at a more modest rate. The emerging governance, risk and compliance market is estimated by Gartner to be worth over $5bn (although with all these segments, the definitions can be hard to pin down accurately). Gartner's assessment is that it is growing at a CAGR of 13.4% and is therefore a particularly attractive area for EQS's involvement.

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 ■ 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, which can automate the creation of Key Information Documents
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
EU-wide whistleblowing	FY19e	The EU is appraising similar regulation to SAPIN II for implementation across Europe, with the need clearly demonstrated by recent cases.	■ Greater need for EQS's compliance modules

Source: Edison Investment Research, Financial Conduct Authority, EQS

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, has now been appointed to the main board as CFO. He previously ran the group's Russian businesses and, before that, 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.

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 number of companies of a scale to benefit from automation of reporting.
- 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 General Data Protection Regulation, which can restrict competition from providers that do not have similar levels of auditory clearance and which sets 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 hedged, as the main impact is on valuation, a non-cash item.

Valuation

Changing set of peers

As the group is transforming its business proposition, it makes sense for us to re-evaluate the peer set that we are using for comparative purposes. As EQS becomes more of a platform business with growing monthly recurring revenue streams, we have shifted emphasis away from Europe-listed B2B media companies, with a renewed focus on financial publishing and business services companies.

Exhibit 4: Quoted financial platform stocks

Company (reporting currency)	Ytd perf (%)	Price reporting currency	Market cap (m)	Hist EV/ sales last (x)	EV/sales 1FY (x)	EV/ EBITDA last (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)
Euromoney Instl Investor (£)	5	13.68	1,493.6	4.1	3.8	21.5	13.8	13.9	21.1	18.0	18.0
Dun & Bradstreet ($)	6	125.82	4,666	3.3	3.3	12.6	11.0	10.6	18.4	14.8	14.3
Thomson Reuters ($)	(2)	40.95	37,865	3.6	6.5	11.2	28.5	25.7	21.1	60.2	32.8
Envestnet ($)	24	61.65	2,788	4.1	3.8	39.2	20.1	16.8	413.9	33.4	27.8
Morningstar ($)	37	133.25	5,681	5.6		20.9			36.5		
Swissquote Group (€)	84	70.30	1,078	N/A	N/A	(35.2)			25.8	20.9	18.3
Globaldata (£)	(23)	1.84	161	1.7	4.9	7.9	7.5	7.5	15.9	9.2	9.4
MSCI ($)	10	7.96	9,960	6.5	11.5	20.9	15.6	12.3	24.7	16.9	15.3
S&P Global ($)	(29)	0.80	593	4.2	8.4	98.5	19.7	11.4	45.4	18.6	16.3
Marketaxess Holdings ($)	8	4.15	1,662	5.7	15.4	24.0	18.0	15.2	33.7	25.6	22.2
Fidessa Group (£)	10	59.59	3,392	2.2	4.1	7.8	7.3	7.1	8.7	7.2	6.6
Average				**4.1**	**4.8**	**20.8**	**16.0**	**13.3**	**64.4**	**23.0**	**18.1**
EQS (€)	45	77.5	108	3.8	3.2	49.9	161.5	31.2	472.9	N/A	112.7

Source: Bloomberg, Edison Investment Research. Note: Prices at 23 August 2018.

Given the earnings numbers are suppressed by the investment phase, the only remaining available traditional multiple is that of EV/sales. For FY1 EQS is trading at a 34% discount to the global peer set of quoted financial platform stocks and at 3.8x historic EV/Sales against 4.1x. Due to the current low level of profitability, EQS trades at a substantial premium on earnings multiples.

DCF sense check

Exhibit 5: DCF under medium-term revenue growth and EBITDA margin assumptions

		Medium-term revenue growth rate					
		10.00%	12.00%	14.00%	16.00%	18.00%	20.00%
Medium term EBITDA margin	13.00%	44.35	48.20	52.32	56.72	61.43	66.45
	14.00%	48.79	53.02	57.55	62.39	67.56	73.08
	15.00%	53.23	57.84	62.78	68.06	73.70	79.72
	16.00%	57.67	62.66	68.01	73.72	79.83	86.35
	17.00%	62.10	67.48	73.23	79.39	85.96	92.98
	18.00%	66.54	72.30	78.46	85.06	92.10	99.61
	19.00%	70.98	77.12	83.69	90.72	98.23	106.24
	20.00%	75.42	81.94	88.92	96.39	104.36	112.87
	21.00%	79.86	86.77	94.15	102.06	110.50	119.50

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 analysis is based on a WACC of 8% and a terminal growth rate of 2%. Assuming the group's indicated medium-term revenue CAGR guidance of around 17% (see Exhibit 7), our reverse DCF suggests that an EBITDA margin of c 17% (beyond our explicit 2018-20 forecast period) is required to arrive at the current share price of c €75.50. A 1pp increase in EBITDA margin would result in a c 8% increase in the valuation and vice versa. We note that the company generated an EBITDA margin of 16% in 2016, but has since then seen its profitability deteriorating as a result of the increased investment in the new cloud-based COCKPIT system. The peak investment is expected in FY18. Given the element of execution risk in the transformation programme, the current share price looks well supported, in our view.

Financials

Exhibit 6: Revised forecasts

	EPS (€)			PBT (€m)			EBITDA (€m)			Revenue (€m)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018e	(0.07)	(1.57)	N/A	(0.2)	(1.2)	N/A	1.6	0.7	(23)	36.5	36.5	0
2019e	0.93	0.67	(28)	2.4	1.7	(29)	4.2	3.7	(12)	43.5	43.2	(1)
2020e	2.26	1.73	(23)	5.8	4.4	(24)	7.5	6.4	(15)	50.8	50.8	0

Source: Edison Investment Research

We have changed our forecasts to reflect the revised guidance given with the recent Q218 report. The commitment to deliver the new COCKPIT on schedule in Q418 has led to a requirement for more permanent and freelance IT resource. The IT freelancer market is much squeezed and rates are higher than originally anticipated. Once the project completes, the burden of some of this additional cost will lift, although our forecasts are conservatively cast in this respect.

Previous guidance was for FY18 revenue of €36.0–37.6m, with EBITDA falling in a range of €1.5–2.1m. This has been revised to revenue of €36.0–37.5m (basically unchanged), but with EBITDA of between breakeven and €1.0m. We have consequently taken our 2018 EBITDA number back from €1.6m to €0.7m, with the mechanistic effect on earnings shown in the exhibit above.

Medium-term indicators are shown below.

Exhibit 7: Indicated medium-term segmental growth

€m	FY18e	FY25e	CAGR
Group revenue	36.8	110	16.9%
IR	17.7	39.6	12.2%
Compliance	19.1	70.4	20.5%

Source: Company presentation

The company has outlined its broad expectations for the potential medium-term growth. While the IR prospects are for good growth of just over 12%, their appraisal for the outlook for the compliance market is clearly very attractive. This is more of an emergent market, driven by the increasing complexity of corporate regulatory frameworks around the globe.

New earnings drivers defined

Historically, EQS segmented its results on a product and service basis. With the inclusion of acquisitions over the years, these definitions have gradually become less useful as indicators of the health of the business.

We have redrawn our model in line with this new segmentation as below, with customer numbers and average revenue per customer the key revenue drivers. This should enable us to track the moving parts more clearly. In time, the level of granularity may shift as the group's offering becomes more integrated.

Exhibit 8: FY18e revenue drivers

€000s	
Number of corporate customers - IR	1,972
Avge revenue per customer (€)	6,763
EQS - IR revenue (€000s)	**13,336**
Number of corporate customers - Compliance	1,005
Avge revenue per customer (€)	7,137
EQS - Compliance revenue (€000s)	**8,141**
ARIVA	
ARIVA - IR revenue (€000s)	**5,500**
ARIVA - Compliance revenue ('000s)	**2,737**
XML	
XML revenue (€000s)	**6,786**
LEI	
Number of customers	20,000
Avge revenue per customer (€)	50
LEI revenue (€000s)	**1,000**
Total Compliance (from EQS, ARIVA, XML and LEI)	**19,085**
Total IR (from EQS and ARIVA)	**17,438**
adjustment	(23)
Group revenue forecast	**36,500**

Source: Edison Investment Research

As well as the new segmentation, EQS has provided more information on the elements that influence the quality of earnings, in particular the SaaS revenues, which are highly recurring in nature.

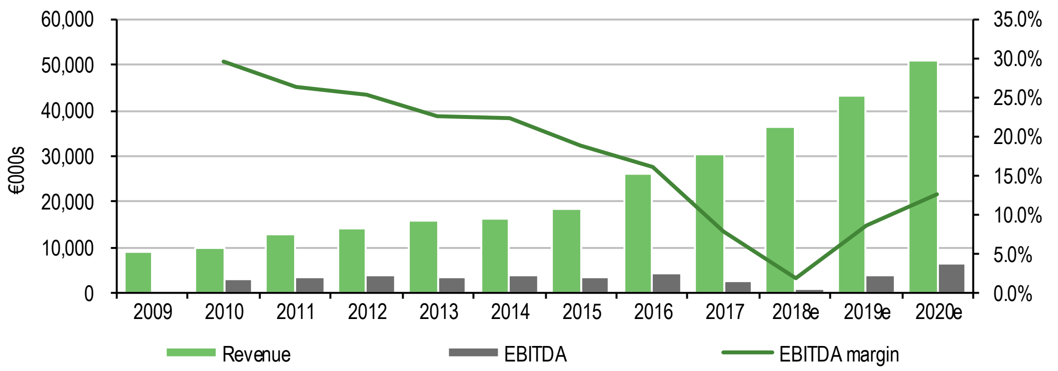
Exhibit 9: FY18 quarterly trends to date

Large-cap German investor relations clients	Q118	Q218
Recurring revenues	76%	86%
New customers	12	34
Total number of customers	1,081	1,115
Qly rev per customer (€)	3,300	3,100
CAC (€)	4,200	4,200
Ann Churn rate	<5%	0%

Source: Company presentation

With only two quarters displayed in this format, it is too early to draw meaningful conclusions, but we will continue to monitor and report on trends as they become clearer. Nevertheless, the positives of the uptick in new customer wins and the reduction in churn must be set against the c 6% fall in average revenue per customer. Our FY19/20 forecasts are underpinned by the industry growth trends discussed earlier in the report (ie 13.4% CAGR seen in the governance, risk and compliance business; see page 7) and expectations of the margins gradually starting to normalise as the investment in the new cloud-based platform abates.

Exhibit 10: Revenue and EBITDA history and forecasts



Source: Company accounts, Edison Investment Research

Funnelling cash into platform development

The group is in a renewed investment phase, with FY18 the peak year for gross spend in EQS Cloud 2020, at just shy of €6.0m, of which €3.8m is capitalised. Total for the project across FY17–20e is €14.2m, with €9.0m capitalised.

EQS raised €7.9m in a share placing in mid-December 2017, at €62.50, primarily to fund the purchase of Integrity Line (cost €5.0m) in Switzerland. At end FY17, net debt stood at €3.6m. By end June 2108, this had risen to €11.0m.

Operating cash flow for the six months just reported was €1.2m (H117: €0.4m), with just under €2.0m of own costs capitalised in the period. The total cash outflow of €5.2m was funded from increased borrowings, as planned. At the year-end, our model indicates net debt having increased to €14.3m, before starting to fall as FY19 progresses, with the group continuing to be cash-flow positive through FY20 as margins start to build, with reducing freelancer costs and increased overhead recovery as the top-line grows. Reinstatement of the dividend is not anticipated before FY19. Loans are at fixed interest rates of 1.00–2.57% and are due between six months and five years. Covenants (undisclosed) are based on net debt/EBITDA. Our model indicates this value will peak at 20.0x for FY18e, before falling substantially to 3.7x in FY19e. We note that the 9.4% stake in Issuer Direct is now represented in current financial assets on the balance sheet. At book value (€5.3m), our FY18 and FY19 net debt/EBITDA estimates reduce to 12.7x and 2.3x.

With a growing proportion of the income stemming from monthly recurring revenues, the quality of forecast cash flows is obviously improving, resulting in better visibility and lower volatility of earnings.

Exhibit 11: Financial summary

€000s	2016	2017	2018e	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	26,061	30,355	36,500	43,162	50,750
Cost of Sales	0	0	0	0	0
Gross Profit	26,061	30,355	36,500	43,162	50,750
EBITDA	4,175	2,349	715	3,705	6,400
Operating Profit (before amort. and except.)	3,282	1,077	(885)	2,080	4,775
Intangible Amortisation	(619)	(732)	(750)	(775)	(775)
Exceptionals	0	0	0	0	0
Other	(874)	(146)	(150)	(150)	(150)
Operating Profit	1,788	199	(1,785)	1,155	3,850
Net Interest	(14)	(139)	(190)	(225)	(225)
Profit Before Tax (norm)	2,393	792	(1,225)	1,705	4,400
Profit Before Tax (FRS 3)	1,774	60	(1,975)	930	3,625
Tax	(960)	(634)	459	(640)	(1,650)
Profit After Tax (norm)	1,144	215	(951)	959	2,475
Profit After Tax (FRS 3)	814	(574)	(1,515)	291	1,975
Average Number of Shares Outstanding (m)	1.19	1.31	1.43	1.43	1.43
EPS - normalised (c)	96.1	16.4	(156.9)	66.9	172.5
EPS - (IFRS) (c)	43.2	(39.3)	(118.6)	12.8	118.5
Dividend per share (c)	75.0	0.0	0.0	15.0	35.0
EBITDA Margin (%)	16.0	7.7	2.0	8.6	12.6
Operating Margin (before GW and except.) (%)	12.6	3.5	-	4.8	9.4
BALANCE SHEET					
Fixed Assets	30,389	34,914	39,720	46,121	48,866
Intangible Assets	26,314	26,662	34,368	39,569	41,619
Tangible Assets	4,075	8,251	5,351	6,551	7,246
Investments	0	0	0	0	0
Current Assets	12,014	12,536	9,074	9,891	11,224
Stocks	0	0	0	0	0
Debtors	4,562	5,053	5,954	7,047	8,113
Cash	6,610	6,374	2,011	1,736	2,002
Other	842	1,108	1,108	1,108	1,108
Current Liabilities	(9,942)	(11,559)	(15,676)	(16,083)	(15,676)
Creditors	(5,853)	(5,574)	(6,829)	(8,083)	(9,676)
Short term borrowings	(4,089)	(5,986)	(8,846)	(8,000)	(6,000)
Long Term Liabilities	(7,237)	(6,526)	(10,081)	(10,081)	(9,581)
Long term borrowings	(4,761)	(3,946)	(7,500)	(7,500)	(7,000)
Other long term liabilities	(2,476)	(2,581)	(2,581)	(2,581)	(2,581)
Net Assets	25,224	29,363	23,037	29,848	34,833
CASH FLOW					
Operating Cash Flow	3,827	1,850	861	3,652	6,705
Net Interest	(13)	35	(190)	(225)	(225)
Tax	(341)	(238)	(361)	185	(892)
Capex	891	(4,456)	(5,976)	(2,825)	(2,320)
Acquisitions/disposals	(3,731)	(3,148)	(5,035)	0	0
Equity Financing	2,601	6,965	0	0	0
Dividends	(877)	(1,939)	0	(215)	(502)
Net Cash Flow	2,357	(931)	(10,701)	571	2,766
Opening net debt/(cash)	4,716	2,240	3,557	14,335	13,764
HP finance leases initiated	104	0	(78)	0	0
Other	15	(386)	0	0	0
Closing net debt/(cash)	2,240	3,557	14,335	13,764	10,998

Source: Company accounts, Edison Investment Research

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

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	**CFO executive board: 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.
CRO: Marcus Sultzer	
In July 2018, Marcus became the Chief Revenue Officer of EQS Group AG and is responsible for Global Revenues and Marketing. Marcus joined EQS Group in 2007 and has taken a leading role in its international expansion. From 2009 to 2012, he was based in Moscow, starting and developing the Group's Russian operations. This was followed by a 4-year chapter in Asia in a similar role. Marcus studied Economics and holds an MBA.	

Principal shareholders	(%)
Achim Weick	21
Investm. F. Langfr. Inv.	20
Rony Vogel	3

Companies named in this report

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