EDISON

EQS Group

Q3 results

Continuing investment

Software & comp services

Q3 figures were consistent with the previous indications during this year of peak investment in the €9m programme to build a global regulatory tech platform business. FY18e guidance, however, has been tightened to the lower end of the range and we have reined in our FY19e and FY20e revenue and EBITDA forecasts. FY20e still shows a strong increase in return on sales, with EBITDA margin rising to 12%. EQS is building an attractive recurring revenue base (81% of total sales in Q318). It has its eyes firmly on the prize of being an integral part of companies' corporate compliance and investor relations functions across the globe.

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	74.4	32.8	1.0
12/17	30.4	0.8	0.16	0.00	N/A	45.9	N/A
12/18e	36.0	(0.1)	(0.93)	0.00	N/A	216.2	N/A
12/19e	42.0	0.1	0.04	0.00	N/A	56.0	N/A
12/20e	50.3	4.0	1.58	0.35	45.3	22.0	0.5

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

Compliance drives top-line growth

Year-to-date compliance revenues were ahead by 41%, at 48% of total group and firmly positioning EQS in this higher-growth segment of the market. FY18 will have been the main transition year as the group's offering has broadened with internally developed tools and services, supplemented with small acquisitions. The new COCKPIT cloud platform is set to launch imminently and should facilitate cross-selling of additional services, driving the top line through FY19e and FY20e.

Changes to revenue, EBITDA estimates

A nine-month figure of €25.9m implies Q318 revenues of €8.8m, up 25% over the prior year (including €0.3m from Integrity Line, bought in December 2017). Our revised FY18 estimate of €36.0m (was €36.5m), suggests Q4 revenue of €10.0m and a Q418 EBITDA of €1.2m, making the group EBITDA profitable for the year. We have trimmed out FY19e revenue estimate by 3% to €42.0m. The group's cost base is unlikely to change in the short term, bar some shift from contract to permanent with the software development centre in Munich. As the recovery in profitability is more likely to be H2 weighted, we have taken a more cautious stance and reduced our EBITDA estimate from €3.7m to €2.1m. FY20e should see the full-year benefit of the reoriented business model and our provisional revenue and EBITDA estimates are adjusted by less than 10%.

Valuation: Underpinned at these levels

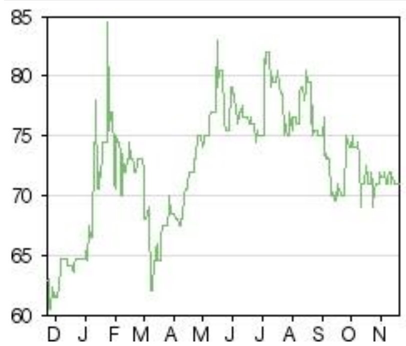
With profitability suppressed by the additional and slightly prolonged investment phase, traditional valuation multiples are not particularly helpful, barring EV/sales. Larger global financial platform peers are currently valued on 4.7x FY18e, against EQS on 3.0x, a 36% discount. A reverse DCF suggests that an EBITDA margin of c 15% (beyond our explicit 2018–20 forecast period) is required to arrive at the current share price of €72, implying the current price is well underpinned.

20 November 2018

Price	**€71.50**
Market cap	**€100m**

Net debt (€m) at 30 September 2018	6.2
Shares in issue	1.4m
Free float	49%
Code	EQS
Primary exchange	Xetra
Secondary exchange	FRA

Share price performance



%	1m	3m	12m
Abs	0.0	(10.7)	9.9
Rel (local)	2.8	(3.0)	27.0
52-week high/low		€84.5	€60.0

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

FY18 prelims	March 2019e

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Edison profile page

EQS Group is a research client of Edison Investment Research Limited

Moving through peak investment

Q3 sound progress

Exhibit 1: FY18 quarterly trends to date

Large-cap German clients	Q118	Q218	Q318
Recurring revenues	76%	86%	85%
New customers	12	34	30
Total number of customers	1,081	1,115	1,143
Qly rev per customer (€)	3,300	3,100	2,850
Customer acquisition cost (€)	4,200	4,200	4,500
Ann Churn rate	<5%	0%	0.2%

Source: Company presentation

Full descriptions of the business activities were laid out in our August Outlook, published after the interims. The group continued to pick up customers in Q3 and the churn rate remains encouragingly low. In terms of product performance, the issuance of Legal Entity Identifiers continues to be robust, with 4,6k issued in the quarter, taking the total to 19,8k. Q318 XML revenues were €4.25m, also showing good progress. Insider Manager has continued to make good progress, but the sales cycle for Integrity Manager outside its home territory of Switzerland is proving longer than had been hoped.

On the IR side of the business, News and Regulatory newsflow revenues have been reasonably robust, reflecting the volatility in underlying markets.

Impact on figures

Our revenue and EBITDA figures have been revised as outlined above. At the pre-tax level, there is a more substantive change in ‘other financial income’. This is due to the reclassification of the group’s shareholding in Issuer Direct, which is now reflected ‘at fair value through profit or loss’. Combined with the share price increase in the first nine months of the year, other financial income for the nine months was €1.13m, compared with a loss of €680k in the comparative period.

Exhibit 2: Summary forecast changes

	EBITDA (€m)			PBT (€m)			EPS (c)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2018e	0.7	0.5	-29	(1.2)	(0.1)	N/A	(157)	(93)	N/A
2019e	3.7	2.1	-43	1.7	0.1	-94	67	4	-94
2020e	6.4	6.0	-6	4.4	4.0	-9	153	158	+3

Source: Edison Investment Research

Implications for valuation

The value in EQS’s equity reflects the opportunity being developed for the medium and longer term rather than the immediate financial returns, so these reductions in short-term forecasts do not have significant ramifications. With the current investment phase heavily weighing on earnings, there is no particular conclusion to be drawn from earnings-based comparisons. On EV/sales, EQS is at 3.0x FY18e revenues, compared to the global financial platform peers on 4.7x (listed in our Outlook note), but it should be borne in mind that they are larger and more mature businesses. As previously, we have used a reverse DCF, 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%, it suggests that an EBITDA margin of c 15% (beyond our explicit 2018–20 forecast period) is required to arrive at the current share price of €72, making it look well supported, in our view.

Exhibit 3: Financial summary

€'000s	2016	2017	2018e	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	26,061	30,355	36,000	42,000	50,250
Cost of Sales	0	0	0	0	0
Gross Profit	26,061	30,355	36,000	42,000	50,250
EBITDA	4,175	2,349	500	2,100	6,030
Operating Profit (before amort. and except.)	3,282	1,077	(1,100)	475	4,405
Intangible Amortisation	(619)	(732)	(750)	(775)	(775)
Exceptionals	0	0	0	0	0
Other	(874)	(146)	1,195	(150)	(150)
Operating Profit	1,788	199	(655)	(450)	3,480
Net Interest	(14)	(139)	(190)	(225)	(225)
Profit Before Tax (norm)	2,393	792	(95)	100	4,030
Profit Before Tax (FRS 3)	1,774	60	(845)	(675)	3,255
Tax	(960)	(634)	(1,050)	(38)	(1,511)
Profit After Tax (norm)	1,144	215	(1,331)	56	2,267
Profit After Tax (FRS 3)	814	(574)	(1,895)	(712)	1,744
Average Number of Shares Outstanding (m)	1.19	1.31	1.43	1.43	1.43
EPS - normalised (c)	96.1	16.4	(92.7)	3.9	158.0
EPS - (IFRS) (c)	43.2	(39.3)	(145.0)	(50.1)	104.0
Dividend per share (c)	75.0	0.0	0.0	0.0	35.0
EBITDA Margin (%)	16.0	7.7	1.4	5.0	12.0
Operating Margin (before GW and except.) (%)	12.6	3.5	-3.1	1.1	8.8
BALANCE SHEET					
Fixed Assets	30,389	34,914	41,020	47,421	50,166
Intangible Assets	26,314	26,662	34,368	39,569	41,619
Tangible Assets	4,075	8,251	6,651	7,851	8,546
Investments	0	0	0	0	0
Current Assets	12,014	12,536	8,997	9,710	11,339
Stocks	0	0	0	0	0
Debtors	4,562	5,053	5,873	6,851	8,033
Cash	6,610	6,374	2,016	1,750	2,197
Other	842	1,108	1,108	1,108	1,108
Current Liabilities	(9,942)	(11,559)	(15,986)	(17,731)	(17,232)
Creditors	(5,853)	(5,574)	(6,736)	(8,231)	(10,082)
Short term borrowings	(4,089)	(5,986)	(9,250)	(9,500)	(7,150)
Long Term Liabilities	(7,237)	(6,526)	(10,081)	(10,831)	(10,581)
Long term borrowings	(4,761)	(3,946)	(7,500)	(8,250)	(8,000)
Other long term liabilities	(2,476)	(2,581)	(2,581)	(2,581)	(2,581)
Net Assets	25,224	29,363	23,950	28,568	33,691
CASH FLOW					
Operating Cash Flow	3,827	1,850	840	2,500	6,500
Net Interest	(13)	35	(190)	(225)	(225)
Tax	(341)	(238)	(738)	(797)	(406)
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	0	(502)
Net Cash Flow	2,357	(931)	(11,099)	(1,347)	3,047
Opening net debt/(cash)	4,716	2,240	3,557	14,734	16,000
HP finance leases initiated	104	0	(78)	0	0
Other	15	(386)	0	81	0
Closing net debt/(cash)	2,240	3,557	14,734	16,000	12,953

Source: Company accounts, Edison Investment Research

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