

27 September 2017

EQS Group AG

Rating Buy
Share price (EUR) 52.15
Target price (EUR) 60.00

Bloomberg EQS GY
Sector Technology

Share data

Shares out (m) 1.3
Daily volume shs (m) 0.1
Free float (%) 43.00
Market cap (EUR m) 68
EV (EUR m) 65
DPS (EUR) 0.75
Dividend yield (%) 1.6
Payout ratio (%) 0.0

Performance

ytd (%) 11.0
12 months (%) 31.2
12 months rel. (%) -3.6
Index TecDAX

Share price performance



Source: Bloomberg

Next triggers

15 November 2017: Q3 report

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Focus on compliance solutions

EQS expects strong growth in the field of compliance. The company therefore invests heavily in corresponding solutions for the compliance managers where a CAGR of 25% until FY 2025 is assumed. This will burden margins in the short- and mid-term but pave the way for long-term growth. We therefore confirm the Buy recommendation and the EUR 60 TP.

Regulations on the rise

During his stay in the USA where he built up a business for the group, CEO Achim Weick experienced that many duties - for example the disclosure of an inside information - is done by compliance officers and not IR managers. In general, the requirements for compliance managers will grow further: The General Data Protection Regulation (GDPR) is a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union. It becomes enforceable from 25 May 2018. Furthermore, the New York state department of financial services cybersecurity regulation came into effect on 1 March. It is imposing new rules on the banking and insurance sectors with the aim of better protecting institutions and consumers against cyberattacks. For example, organizations must develop a cybersecurity program, including a written policy that addresses aspects such as access controls, business continuity, asset inventory and data governance.

EQS' cloud-based POLICY MANAGER - a software solution to help companies meet their legal requirements - will be the core of the new business segment. Digital workflows will both map comprehensive reporting obligations and documentation requirements, as well as manage consent for data processing.

Margins burdened in the short-term

The expenditures for governance, risk & compliance amount to EUR 2.2m in FY 2017. As a result, the adjusted EBIT is expected to reach EUR 2.0m to EUR 2.3m. So far an EBIT in the range of EUR 3.6m to EUR 3.9m was guided for the current business year. We expect an unadjusted EBIT of EUR 1.4m. As a further EUR 5.8m of investment for the expansion of the cloud business is planned until 2020, the EBIT should remain on this year's level, a short-term recovery is not in sight.

Regarding revenues, EQS expects EUR 31.2m to EUR 32.5m for FY 2017. A sales growth of 10%-15% is expected for FY 2018 and an increase to 15-20% beginning in 2019 is assumed. In the long-run, a double-digit EBIT margin as reached in the past is a target.

Based on EQS' growth- and margin potential we confirm our BUY recommendation and the EUR 60 TP.

Key figures		2015	2016	2017e	2018e	2019e
Sales	EUR m	18	26	32	36	41
EBITDA	EUR m	3	4	3	4	5
EBIT	EUR m	2	3	1	2	2
EPS	EUR	0.96	0.43	0.12	0.18	0.25
Sales growth	%	12.1	41.8	23.4	12.7	13.8
EBIT growth	%	-16.2	12.6	-48.7	20.0	15.0
EPS growth	%	-32.2	-55.7	-73.0	60.4	37.9
EBITDA margin	%	17.5	16.0	10.5	11.4	11.9
EBIT margin	%	12.9	10.2	4.2	4.5	4.6
Net margin	%	6.1	2.0	0.5	0.7	0.8
EV/Sales	ratio	3.60	2.46	2.04	1.81	1.57
EV/EBITDA	ratio	20.6	15.4	19.4	15.8	13.2
EV/EBIT	ratio	28.0	24.1	47.9	40.0	34.3
P/E	ratio	31.7	84.1	452.8	282.3	204.6
P/BV	ratio	2.1	1.7	2.8	2.8	2.8
Dividend yield	%	1.6	1.6	0.0	0.3	0.4

Source: Bloomberg, Company data, quirin bank estimates

Issuer Direct Corporation (USA)

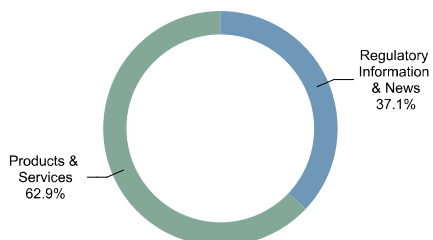
EQS Group has acquired 291,916 shares in Issuer Direct Corporation and now holds 9.9% of the outstanding shares. The stake serves to underpin a long-term cooperation. A further increase in the stake is currently not planned. The purchase price was USD 3.6m and shares were purchased at market price over the stock exchange. Issuer Direct is listed on the New York Stock Exchange and has approximately 65 employees.

Issuer Direct is a communications and compliance company focusing on the needs of corporate issuers. Issuer Direct's principal platform, Platform id., empowers users by integrating the most relevant tools, technologies and services, thus eliminating the complexity associated with producing and distributing financial and business communications. The company serves more than 2,000 public and private companies in more than 18 countries.

Company description

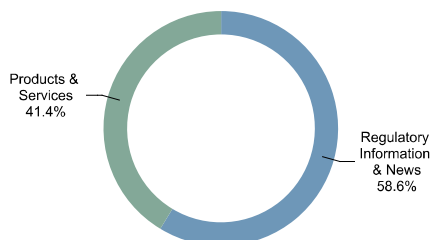
EQS Group AG provides online corporate communications services. The Company's services include financial disclosure, distribution of press releases, corporate websites, financial portals, webcasts, online reports and mobile platforms.

Revenues by segment 2016



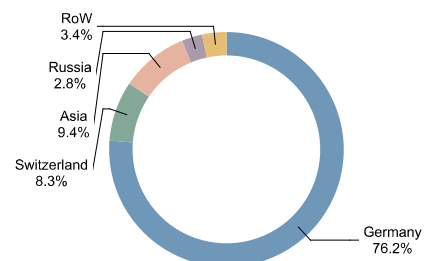
Source: Company data

Operating profit by segment 2016



Source: Company data

Revenues by region 2016



Source: Company data

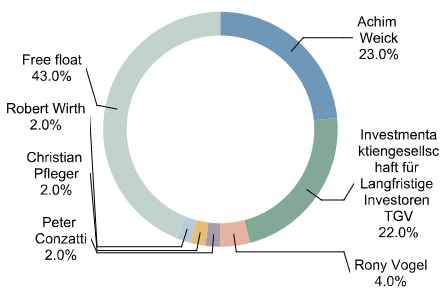
Segment data (EUR m)

Revenues (growth in %)	2015	YOY	2016	YOY	2017e	YOY	2018e	YOY	2019e	YOY
Regulatory Information & News	6.0	-0.3%	9.9	65.8%	11.5	17.0%	13.0	13.0%	14.6	12.0%
Products & Services	13.1	17.1%	16.7	28.2%	21.4	28.0%	24.0	12.0%	26.6	11.0%

EBIT (margin in %)	2015	margin	2016	margin	2017e	margin	2018e	margin	2019e	margin
Regulatory Information & News	1.6	26.5%	1.6	15.8%	0.2	1.4%	0.2	1.4%	0.2	1.5%
Products & Services	0.8	6.0%	1.1	6.6%	1.2	5.6%	1.5	6.1%	1.7	6.3%

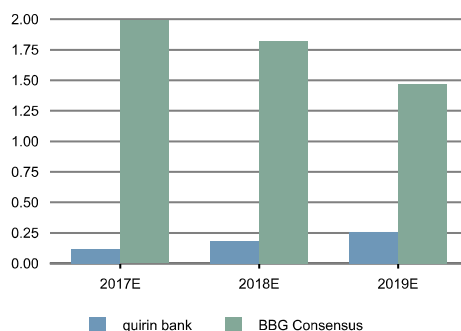
Source: Company data, quirin bank estimates

Shareholder structure



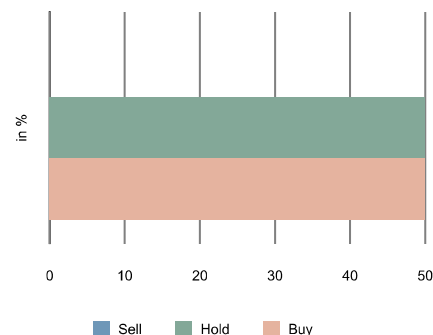
Source: Company data

EPS: quirin bank vs. consensus



Source: quirin bank Research, Bloomberg

Recommendation Overview



Source: Bloomberg

Company guidance 2017

The Management Board expects revenues of EUR 31.2 to EUR 32.5m for the 2017 financial year. EBIT before one-off acquisition costs, purchase price allocation, and scheduled depreciation (non-IFRS) will decrease to EUR 2 to EUR 2.3m.

Profit & loss statement

Profit & loss statement (EUR m)	2015	YOY	2016	YOY	2017e	YOY	2018e	YOY	2019e	YOY
Sales	18.4	12.1 %	26.1	41.8 %	32.2	23.4 %	36.2	12.7 %	41.2	13.8 %
Unfinished Goods	0.0		0.0		0.0		0.0		0.0	
Other own work capitalized	0.3		0.4		0.2		0.2		0.2	
Other operating earnings	0.3		0.5		0.7		0.8		0.9	
Cost of goods	2.9		4.1		5.1		5.8		6.6	
Gross profit	16.1		22.8		28.0		31.5		35.8	
Personnel expenses	8.5		12.9		15.9		17.9		20.4	
Depreciation	0.9		1.5		2.0		2.5		3.0	
Other operating expenses	4.4		5.7		8.7		9.4		10.5	
EBITDA	3.2	-6.8 %	4.2	29.7 %	3.4	-19.1 %	4.1	22.8 %	4.9	17.9 %
EBITDA margin (%)	17.51		16.01		10.49		11.44		11.86	
EBIT	2.4	-16.2 %	2.7	12.6 %	1.4	-48.7 %	1.6	20.0 %	1.9	15.0 %
EBIT margin (%)	12.86		10.21		4.25		4.52		4.57	
Net interest	-0.1		0.0		0.0		0.0		0.0	
Income from Participations	0.2		-0.9		-0.9		-0.9		-0.9	
Net financial result	-0.5		-0.9		-0.9		-0.9		-0.9	
Exceptional items	0.0		0.0		0.0		0.0		0.0	
Pretax profit	2.5	-16.2 %	1.8	-28.1 %	0.5	-73.6 %	0.7	56.2 %	1.0	34.4 %
Pretax margin (%)	13.43		6.81		1.46		2.02		2.39	
Taxes	1.3		1.0		0.2		0.2		0.3	
Tax rate (%)	54.50		54.11		32.29		30.47		28.65	
Earnings after taxes	1.1		0.8		0.3		0.5		0.7	
Minorities	0.0		0.3		0.2		0.3		0.4	
Group attributable income	1.1	-39.0 %	0.5	-54.1 %	0.2	-70.7 %	0.2	60.4 %	0.3	37.9 %
No. of shares (m)	1.3		1.3		1.3		1.3		1.3	
Earnings per share (EUR)	0.96	-32.2 %	0.43	-55.7 %	0.12	-73.0 %	0.18	60.4 %	0.25	37.9 %

Balance sheet

Balance sheet (EUR m)	2015	YOY	2016	YOY	2017e	YOY	2018e	YOY	2019e	YOY
Assets										
Cash and cash equivalents	3.6		6.6		5.3		5.2		6.1	
Accounts receivables	2.8		3.9		4.8		5.4		6.2	
Inventories	0.0		0.0		0.0		0.0		0.0	
Other current assets	0.4		0.7		0.7		0.7		0.7	
Tax claims	0.0		0.6		0.6		0.6		0.6	
Total current assets	7.0	46.8 %	12.0	72.3 %	11.6	-3.4 %	12.1	4.6 %	13.8	13.9 %
Fixed assets	1.4		2.1		3.6		4.5		4.5	
Goodwill	0.0		0.0		0.0		0.0		0.0	
Other intangible assets	17.9		26.3		26.3		26.3		26.3	
Financial assets	3.2		1.2		1.2		1.2		1.2	
Deferred taxes	0.4		0.7		0.7		0.7		0.7	
Other fixed assets	0.0		0.0		0.0		0.0		0.0	
Total fixed assets	22.8	17.5 %	30.4	33.4 %	31.8	4.7 %	32.8	3.0 %	32.7	-0.1 %
Total assets	29.7	23.3 %	42.4	42.5 %	43.4	2.4 %	44.9	3.4 %	46.6	3.7 %
Equity & Liabilities										
Subscribed capital	1.2		1.3		1.3		1.3		1.3	
Reserves & other	5.1		10.3		10.3		10.3		10.3	
Revenue reserves	10.9		10.7		10.8		10.9		11.0	
Accumulated other comprehensive	0.0		0.0		-1.0		-0.8		-0.7	
Shareholder's equity	17.1	8.0 %	25.2	47.1 %	24.4	-3.3 %	24.6	1.0 %	24.8	0.5 %
Minorities	0.0		3.0		3.0		3.0		3.0	
Shareholder's equity incl. minorities	17.1	8.0 %	25.2	47.1 %	24.4	-3.3 %	24.6	1.0 %	24.8	0.5 %
Long-term liabilities										
Pension provisions	0.0		0.0		0.0		0.0		0.0	
Financial liabilities	6.4		5.1		5.1		5.1		5.1	
Tax liabilities	0.8		2.0		2.5		2.8		3.2	
Other liabilities	0.0		0.0		0.0		0.0		0.0	
Total long-term debt	7.3	87.4 %	7.2	-0.5 %	7.7	7.0 %	8.1	4.4 %	8.5	5.1 %
Short-term debt										
Other provisions	0.7		1.3		1.6		1.8		2.1	
Trade payables	0.7		1.5		1.9		2.1		2.4	
Financial debt	2.0		4.2		4.2		4.2		4.2	
Other liabilities	1.6		2.7		3.3		3.7		4.2	
Total short-term debt	5.3	21.6 %	9.9	86.7 %	11.3	13.6 %	12.2	8.0 %	13.3	9.1 %
Total equity & liabilities	29.7	23.2 %	42.4	42.5 %	43.4	2.4 %	44.9	3.4 %	46.6	3.7 %

Financial key ratios

Key ratios	2015	2016	2017e	2018e	2019e
Per share data (EUR)					
EPS	0.96	0.43	0.12	0.18	0.25
Book value per share	14.7	20.9	18.6	18.8	18.9
Free cash flow per share	1.4	0.8	2.5	3.0	2.3
Dividend per share	0.75	0.75	0.00	0.16	0.18
Valuation ratios					
EV/Sales	3.60	2.46	2.04	1.81	1.57
EV/EBITDA	20.6	15.4	19.4	15.8	13.2
EV/EBIT	28.0	24.1	47.9	40.0	34.3
P/E	31.7	84.1	452.8	282.3	204.6
P/B	2.1	1.7	2.8	2.8	2.8
Dividend yield (%)	1.6	1.6	0.0	0.3	0.4
Growth					
Sales growth (%)	12.1	41.8	23.4	12.7	13.8
EBITDA growth (%)	-6.8	29.7	-19.1	22.8	17.9
EBIT growth (%)	-16.2	12.6	-48.7	20.0	15.0
EPS growth (%)	-32.2	-55.7	-73.0	60.4	37.9
Profitability ratios					
EBITDA margin (%)	17.5	16.0	10.5	11.4	11.9
EBIT margin (%)	12.9	10.2	4.2	4.5	4.6
Net margin (%)	6.1	2.0	0.5	0.7	0.8
ROCE (%)	9.7	8.2	4.3	5.0	5.7
Financial ratios					
Total equity (EUR m)	17.1	25.2	24.4	24.6	24.8
Equity ratio (%)	57.6	59.5	56.2	54.8	53.2
Net financial debt (EUR m)	4.7	2.6	3.9	4.0	3.1
Net debt/Equity	0.6	0.6	0.6	0.5	0.5
Interest cover	28.8	21.3	10.9	13.1	15.1
Net debt/EBITDA	1.5	0.6	1.2	1.0	0.6
Payout ratio (%)	78.1	176.1	0.0	85.0	69.5
Working Capital (EUR m)	1.6	2.1	0.3	-0.1	0.5
Working capital/Sales	0.09	0.08	0.01	0.00	0.01

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The levels of change expressed in each rating categories are:

BUY > +10%

HOLD <=-10% and < = +10%

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Price and Rating History (last 12 months)

Date	Price target-EUR	Rating	Initiation
27.09.2017	60.00	Buy	
18.05.2017	60.00	Buy	
10.10.2016	50.00	Buy	10.10.2016

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