

# EQS Group

## Business Keeper deal

Acquisition

The intended acquisition of Business Keeper consolidates EQS's position as market leader in whistleblowing provision in Europe ahead of the full implementation of the regulation. It brings with it around 300 customers, extending the pipeline of warm leads for other group services, as well as additional trained and operational sales resource for the short-term push. The €97m purchase price is being met from a mix of cash, debt and equity (up to 0.59m new shares), limiting dilution. The FY25 revenue target rises from €100m to €130m, with an (unchanged) EBITDA margin aspiration of 30%. We will update our forecasts on completion, likely to be in August.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (c)	EV/EBITDA (x)	P/E (x)
12/19	35.4	2.6	(0.3)	(7.4)	108.2	N/A
12/20	37.6	4.8	0.4	4.1	58.0	N/A
12/21e	45.5	1.1	(3.2)	(28.6)	251.2	N/A
12/22e	53.2	4.3	(0.1)	(2.1)	64.3	N/A

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

## European whistleblowing market leader

Business Keeper is the oldest European provider of digital whistleblowing, with a 20-year history, and the next largest local supplier after EQS. It is being bought primarily from Macquarie for €97m (including €2m cash), with €80m to be paid in H221, and €17m in FY22. Funding is a combination of €50m from a loan from Commerzbank (the group's existing provider), €10m cash and a 7.5% (€20m) capital increase backstopped at €38, backed by undertakings from management and EQS's largest shareholder, langfristige Investoren. The purchase should add c 300 customers, mostly in Germany but also notably in France, with a heavier bias to larger clients, including 16 DAX-listed companies. Establishing a strong market position now is crucial, as once such systems are up and running, contracts are likely to be very sticky, given the levels of confidentiality and trust involved.

## Increased guidance

For FY21, management now guides to revenues in the €49–53m bracket, including Business Keeper for around five months, with a full year's trading in FY22e giving a target revenue range to €70–75m (not previously guided). FY21e EBITDA is likely to be around €2–3m, or around €1m higher than previously expected, with a building margin as some synergies are realised and the scale effect starts to come through. The medium-term (FY25e) revenue target rises from €100m to €130m, with EBITDA margin guidance of 30% maintained, a figure we view as ambitious but achievable.

## Valuation: Transaction will extend discount

On unadjusted forecasts, EQS's shares trade at a 52% discount to global peers on FY2 EV/sales. This discount will be increased by the transaction, which increases EQS's EV with the additional debt, but gives a larger step up in revenue, so diluting the EV/sales ratio. The backstop placing price is a little ahead of the current share price, at the same level as the 5% placing in Q121.

## Software & comp services

16 June 2021

**Price** €35.20  
**Market cap** €277m

Net cash (€m) at 31 March 2021 (including lease debt)	0.3
Shares in issue	7.9m
Free float	73%
Code	E1SX
Primary exchange	XETRA
Secondary exchange	FRA

## Share price performance



%	1m	3m	12m
Abs	13.5	(1.7)	97.8
Rel (local)	11.3	(9.6)	49.8
52-week high/low	€39.60	€17.00	

## Business description

EQS Group is a leading international regulatory technology (regtech) provider operating in the fields of corporate compliance and investor relations.

## Next events

Interim figures	13 August 2021
Q3 results	12 November 2021

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## Grasping the business opportunity

We described the whistleblowing opportunity – and the importance of establishing a strong position ahead of the implementation in national legislation across the EU – in our recent [Outlook note](#).

At its [investor presentation](#) describing the deal, management included a presentation slide showing the major players in the EU markets. The largest suppliers are two US companies, Navex Global and OneTrust, with EQS the largest local provider and Business Keeper the next largest. By taking out the main local competitor, EQS strengthens its market position but also shortens the sales cycle, with faster conversion of potential customers that are looking to select a supplier with strong European credentials.

Beyond the benefit within this particular business arena, the addition of the Business Keeper client roster increases the pool of customers for cross- and up-selling the COCKPIT platform and other services provided by EQS. If conversion follows through at the same ratio as previously outlined, this could mean up to 1,500 additional COCKPIT clients, up from the 1k target indicated at the Q1 update.

## The financial opportunity

Business Keeper earned revenues of €8.9m in FY20 (+9% on prior year), achieving a 6% EBITDA margin, down from 22% in FY19, as it, like EQS, invested ahead of the opportunity presented by the EU regulation.

Exhibit 1: Guidance changes				
		Previous guidance	Edison forecast	New guidance
Revenue	FY21e	€45–49m	€45.5m	€49–53m
	FY22e	N/A	€53.2m	€70–75m
	FY25e	€100m	N/A	€130m
EBITDA	FY21e	€1–2m	€1.1m	€2–3m
	FY22e	N/A	€4.3m	N/A
	FY25e	€30m+	N/A	€39m+
New SaaS customers	FY21e	1,500–2,000		1,750–2,250
New annual recurring revenue	FY21e	€6m		€9m

Source: EQS Group management, Edison Investment Research

The purchase price represents 10.9x Business Keeper’s historical revenues (€8.9m) and between 8x and 9x its FY21e annual recurring revenue. On the face of it, this looks to be a full price, but, as explained above, the combined entity, with this timing, presents a unique opportunity. The managing director of Business Keeper, Kai Leisering, is to remain with the larger group.

There will be some overlap of costs between the two enterprises. EQS has around 450 employees, with Business Keeper adding c 100. There will be some reallocation of resource, particularly within IT and product development and within the sales and marketing functions (where a number of positions are currently unfilled as the group scales its efforts into H221). Specifically on synergies, management is targeting €5–10m by 2025. The four key areas are:

- A stronger market position, building on the local presence and market understanding.
- Shorter sales cycles, from reduced competition.
- Increased pricing power. Business Keeper has (on average) larger clients with higher-value contracts.
- Up- and cross-selling, as described above.

As the transaction involves buying customer assets, there will be a step up in the associated depreciation, likely to be of the order of €1.0–1.5m in the current year and €2.5m in FY22e. We will update our model post completion of the acquisition and associated placing of up to 590k shares.

**Exhibit 2: Financial summary**

	€'000s	2018	2019	2020	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		36,210	35,367	37,636	45,500	53,200
Cost of Sales		0	0	0	0	0
Gross Profit		36,210	35,367	37,636	45,500	53,200
EBITDA		239	2,554	4,760	1,100	4,300
Operating Profit (before amort. and except.)		(1,299)	(2,433)	819	(2,841)	359
Amortisation of acquired intangibles		(821)	(743)	(656)	(656)	(656)
Exceptionals		0	0	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		(2,120)	(3,176)	163	(3,497)	(297)
Net Interest		1,954	2,093	(396)	(357)	(457)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		655	(340)	423	(3,198)	(98)
Profit Before Tax (reported)		(166)	(1,083)	(233)	(3,854)	(754)
Reported tax		913	(610)	(599)	1,227	160
Profit After Tax (norm)		439	(532)	296	(2,200)	(167)
Profit After Tax (reported)		747	(1,693)	(832)	(2,627)	(594)
Minority interests		20	121	(34)	(125)	(144)
Discontinued operations		0	0	0	0	0
Net income (normalised)		439	(532)	296	(2,200)	(167)
Net income (reported)		767	(1,572)	(866)	(2,752)	(738)
Average Number of Shares Outstanding (m)		7,175	7,175	7,195	7,704	7,882
EPS - normalised (c)		6.12	(7.41)	4.12	(28.56)	(2.12)
EPS - normalised fully diluted (c)		6.12	(7.41)	4.12	(28.56)	(2.12)
EPS - basic reported (€)		0.11	(0.22)	(0.12)	(0.36)	(0.09)
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		19.3	(2.3)	6.4	20.9	16.9
EBITDA Margin (%)		0.7	7.2	12.6	2.4	8.1
Normalised Operating Margin (%)		(3.6)	(6.9)	2.2	(6.2)	0.7
<b>BALANCE SHEET</b>						
Fixed Assets		41,219	43,841	39,447	57,304	58,695
Intangible Assets		37,293	32,008	31,016	48,664	50,020
Tangible Assets		2,241	8,838	7,216	7,251	7,286
Investments & other		1,685	2,995	1,215	1,390	1,390
Current Assets		7,250	6,094	17,086	18,277	18,714
Stocks		0	0	0	0	0
Debtors		5,030	3,841	3,923	4,941	5,778
Cash & cash equivalents		1,308	1,184	12,074	11,524	11,124
Other		912	1,069	1,089	1,812	1,812
Current Liabilities		(14,326)	(14,563)	(12,381)	(12,725)	(13,063)
Creditors		(1,472)	(1,848)	(1,651)	(1,996)	(2,333)
Tax and social security		(129)	(46)	(56)	(56)	(56)
Short term borrowings (includes lease debt)		(6,961)	(7,173)	(3,276)	(3,276)	(3,276)
Other		(5,764)	(5,496)	(7,398)	(7,398)	(7,398)
Long Term Liabilities		(6,660)	(10,195)	(11,208)	(21,606)	(21,606)
Long term borrowings (includes lease debt)		(3,475)	(7,481)	(7,641)	(17,070)	(17,070)
Other long term liabilities		(3,185)	(2,714)	(3,567)	(4,536)	(4,536)
Net Assets		27,483	25,177	32,944	41,250	42,740
Minority interests		420	(34)	0	(64)	(64)
Shareholders' equity		27,902	25,143	32,944	41,186	42,676
<b>CASH FLOW</b>						
Op Cash Flow before WC and tax		3,106	4,037	3,765	1,970	4,003
Working capital		1,270	1,061	(1,037)	(273)	(499)
Exceptional & other		(1,646)	(2,516)	3,212	(523)	646
Tax		(135)	(188)	(154)	1,227	160
Net operating cash flow		2,595	2,394	5,786	2,401	4,310
Capex		(5,441)	(3,120)	(2,007)	(1,500)	(1,500)
Acquisitions/disposals		(5,115)	4,888	63	(20,000)	(3,000)
Net interest		0	0	0	0	0
Equity financing		0	0	9,124	13,861	0
Dividends		0	0	0	0	0
Other		1,792	(4,408)	350	(770)	(210)
Net Cash Flow		(6,169)	(246)	13,316	(6,008)	(400)
Opening net debt/(cash)		3,556	9,127	13,472	(1,156)	8,825
FX		75	53	(199)	0	0
Other non-cash movements		522	(4,153)	1,511	(3,972)	0
Closing net debt/(cash)		9,127	13,472	(1,156)	8,825	9,225

Source: Company accounts, Edison Investment Research

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