

EQS Group

Trading update

Catching the whistleblowing wave

The German Bundesrat has finally transposed the legislation regarding whistleblowing after the unexpected delay, allowing EQS to move at full steam to start converting its sales pipeline. The Q123 figures show a good start to the year, despite the hold-up, as the implementation of similar whistleblowing legislation stimulated demand in markets such as Italy and Spain. Revenues (excluding Russia) were up 15% on Q122 and EBITDA margin recovered to 8.5% from 0.9%, putting the group on track to meet its full-year guidance. The shares continue to trade well below the level indicated by our DCF.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	EV/EBITDA (x)	P/E (x)
12/21	50.2	1.7	(5.4)	(0.65)	160.5	N/A
12/22	61.4	4.6	(3.1)	(0.20)	61.2	N/A
12/23e	71.5	9.1	0.6	0.04	30.7	684.7
12/24e	88.8	16.2	8.2	0.55	17.3	46.1

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

Compliance ramping up...

Cloud-based Compliance products and services (69% of Q123 revenue) continue to drive the top line, with products up 15% and services racking up an impressive gain of 31% over Q122, albeit off a lower base. The number of Compliance SaaS customers reached just below 4k by end-March, including 238 new SaaS customers for whistleblowing systems as sales in France, Spain and Italy start to come through more strongly. The lack of initial public offerings hampered growth in the Investor Relations segment (31% of Q1 revenue), although there was modest progress in SaaS revenues for EQS's IR COCKPIT. Operational leverage and tight cost control helped boost the EBITDA margin (excluding Russia) to 8.5% (Q122: 0.9%), with full-year FY23e guidance in a range of 12–15% unchanged, based on revenues of €71–74m and EBITDA of €9–11m. Our estimates are maintained.

...with Germany following on

The big prize for EQS is its own domestic market. The pipeline has been built up, but conversion has been an issue while the implementation of the legislation was in abeyance. With a very short timeline to full go-live of one month, the next few weeks should be extremely busy, with partner sales to second- and third-tier customers also now green-lit. Management indicates around 2k opportunities in the sales pipeline. In the longer term, regulation regarding supply chain and additional ESG reporting should provide further impetus, with both this and the whistleblowing product giving further openings for cross- and up-sells to the COCKPIT platform.

Valuation: DCF indicates upside potential

Given the current suppressed levels of profitability, traditional valuation multiples remain unhelpful. We therefore use a DCF, with a 9% weighted average cost of capital and terminal growth of 2% (unchanged). This derives a value of €35.17 per share (April 2023: €34.82), well above the current market price, despite the recent bounce in the share price in response to the progress of the German legislation.

Software

19 May 2023

Price €25.3

Market cap €253m

Net debt (€m) at 31 March 2023 26.0

Shares in issue 10.0m

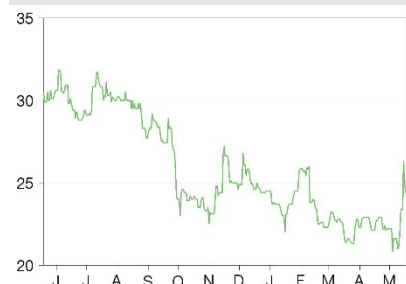
Free float 78.4%

Code EQS

Primary exchange XETRA

Secondary exchange FRA

Share price performance



% 1m 3m 12m

Abs 8.0 8.4 (22.0)

Rel (local) 6.9 5.3 (30.7)

52-week high/low €31.8 €20.8

Business description

EQS Group is a leading international provider of regulatory technology in the fields of corporate compliance and investor relations. Its products enable corporate clients to fulfil complex national and international disclosure obligations, minimise risks and communicate transparently with stakeholders.

Next events

AGM 30 June 2023

H123 figures 11 August 2023

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Q123 results compatible with full-year guidance

The Q123 group results are summarised below. The accounting basis now shows the Russian business as discontinued (this was negligible in Q123, at €28k of revenue and decreasing, and with a negative EBITDA of €57k) and is already factored into the full-year guidance. We will adjust our modelling of the historical numbers at the half-year stage.

Exhibit 1: Q123 summary of results and full-year guidance

	Group total			Continuing (excluding Russia)			
€m	Q123	Q122	% change	Q123	Q122	% change	Full-year guidance
Compliance revenues							
Cloud products	8.29	7.19	15%				
Service products	2.79	2.12	31%				
Total compliance	11.08	9.31	19%				
Investor Relations revenues							
Cloud-products	2.66	2.56	4%				
Service-products	2.23	2.25	-1%				
Total Investor Relations	4.90	4.81	2%				
Group revenues	15.97	14.12	13%	15.94	13.81	15%	€71–74m
EBITDA	1.30	0.25	417%	1.36	0.12	1033%	€9–11m
EBITDA margin	8.2%	1.8%		8.5%	0.9%		12–15%
EBIT	(0.70)	(1.77)	N/A	(0.65)	(1.89)	N/A	
Personnel expenses	10.47	9.41	11%	10.42	9.34	12%	
New annually recurring revenue (ARR)				1.86	1.81	3%	€9.0–12.0m
ARR				14.0	12.4	13%	
New SaaS customers				271	216	25%	2,000–3,000
Total customers				5,257	4,405	19%	
Churn				5.6%	5.7%		

Source: EQS Group

Targets unchanged

In our [June 2022 Outlook note](#), we documented management's ambition for its positioning within the European compliance market, aiming to win 5k whistleblowing customers and to convert a fifth of these new accounts into customers for the full COCKPIT offering. With the German opportunity now live, this still looks to be achievable and should help to deliver the full-year guidance, albeit weighted to the second half. The medium-term targets (defined as FY26/27e) remain for a 20–25% CAGR in Compliance revenues and 5–10% in Investor Relations, delivering a 30% EBITDA margin, which should be achievable for a platform-based business model.

Net debt at end-Q123 had reduced to €25.99m (end-FY22: €28.43m), including lease liabilities; excluding these, net debt was €22.58m, down from €24.59m. Our forecast for the year-end is for €28.7m (including lease debt) and this may prove to be conservative. The business's capital requirements are minimal, although ongoing investment in products and services is always needed to maintain market relevance.

Exhibit 2: Financial summary

	€'000s	2020	2021	2022	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		37,636	50,223	61,430	71,500	88,779
Cost of Sales		0	0	0	0	0
Gross Profit		37,636	50,223	61,430	71,500	88,779
EBITDA		4,760	1,742	4,567	9,100	16,165
Operating profit (before amort. and excepts.)		819	(3,975)	(1,327)	3,131	10,146
Amortisation of acquired intangibles		(656)	(1,532)	(2,257)	(2,257)	(2,257)
Exceptionals		0	110	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		163	(5,397)	(3,584)	874	7,889
Net Interest		(396)	(1,461)	(1,761)	(2,578)	(1,931)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	1	0	0
Profit Before Tax (norm)		423	(5,436)	(3,087)	553	8,214
Profit Before Tax (reported)		(233)	(6,858)	(5,344)	(1,704)	5,957
Reported tax		(599)	229	2,013	562	(1,966)
Profit After Tax (norm)		296	(5,254)	(1,924)	370	5,504
Profit After Tax (reported)		(832)	(6,629)	(3,332)	(1,142)	3,991
Minority interests		(34)	0	1	4	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		296	(5,254)	(1,924)	370	5,504
Net income (reported)		(866)	(6,629)	(3,331)	(1,137)	3,991
Average Number of Shares Outstanding (m)		7.2	8.1	9.7	10.0	10.0
EPS - normalised (€)		0.04	(0.65)	(0.20)	0.04	0.55
EPS - normalised fully diluted (c)		4.12	(64.53)	(19.76)	3.70	54.90
EPS - basic reported (€)		(0.12)	(0.81)	(0.34)	(0.11)	0.40
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		6.4	33.4	22.3	16.4	24.2
EBITDA Margin (%)		12.6	3.5	7.4	12.7	18.2
Normalised Operating Margin (%)		2.2	(7.9)	(2.2)	4.4	11.4
BALANCE SHEET						
Fixed Assets		39,007	168,468	170,440	172,790	171,100
Intangible Assets		31,016	160,386	158,081	158,563	157,123
Tangible Assets		7,216	7,351	5,011	6,878	6,628
Investments & other		775	731	7,349	7,349	7,349
Current Assets		17,086	18,369	18,932	15,269	15,595
Stocks		0	0	0	0	0
Debtors		3,923	7,018	6,075	7,052	8,756
Cash & cash equivalents		12,074	8,653	10,654	6,014	4,636
Other		1,089	2,697	2,203	2,203	2,203
Current Liabilities		(12,381)	(89,171)	(27,066)	(30,147)	(30,790)
Creditors		(2,747)	(3,197)	(2,709)	(3,027)	(3,486)
Tax and social security		(56)	(214)	(1,350)	(1,571)	(1,951)
Short term borrowings (includes lease debt)		(3,278)	(73,095)	(8,198)	(8,198)	(8,198)
Other		(6,300)	(12,665)	(14,809)	(17,350)	(17,155)
Long Term Liabilities		(10,768)	(27,426)	(50,096)	(47,096)	(41,096)
Long term borrowings (includes lease debt)		(7,641)	(9,927)	(30,890)	(27,890)	(21,890)
Other long term liabilities		(3,127)	(17,499)	(19,206)	(19,206)	(19,206)
Net Assets		32,943	70,240	112,210	110,817	114,809
Minority interests		0	0	1	1	1
Shareholders' equity		32,943	70,240	112,210	110,818	114,809
CASH FLOW						
Operating Cash Flow		3,765	(2,296)	2,786	5,065	10,248
Working capital		1,294	(1,149)	3,952	(659)	(1,246)
Exceptional & other		1,037	5,711	699	2,069	3,951
Tax		(154)	(229)	(2,013)	562	(1,966)
Net Operating Cash Flow		5,942	2,037	5,425	7,038	10,988
Capex		(2,008)	(3,149)	(2,813)	(3,250)	(3,250)
Acquisitions/disposals		0	(96,428)	(14)	(968)	0
Net interest		(157)	(1,636)	(1,666)	0	0
Equity financing		9,124	43,929	44,833	0	0
Dividends		0	0	0	0	0
Other		414	(2,772)	(2,327)	(3,117)	(3,117)
Net Cash Flow		13,315	(58,019)	43,438	(297)	4,621
Opening net debt/(cash)		13,472	(1,153)	74,372	28,434	28,733
FX		(199)	126	50	0	0
Other non-cash movements		1,509	(17,631)	2,450	0	0
Closing net debt/(cash)		(1,153)	74,372	28,434	28,733	24,113

Source: EQS Group accounts, Edison Investment Research

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