

EQS Group

Trading update

Further delays in German legislation

EQS has issued a year-end trading update, showing that it achieved its targets for number of new customers and for annually recurring revenues. However, the continuing delays to the full implementation of the whistleblowing legislation in the key German market mean that the group has missed its previously published targets for revenue and for EBITDA by €1.5m and €1.3m respectively. Guidance for FY23 now reflects an abundance of caution on the likely timing of the legislative stimulus, assuming that the law is not transposed until Q323. Our new forecasts align with the lower end of the guided range for now. Despite the delays, the shares continue to trade well below the level indicated by the DCF.

Year end	Revenue (€m)	EBITDA (€m)	PBT* (€m)	EPS* (€)	EV/EBITDA (x)	P/E (x)
12/20	37.6	4.8	0.4	0.04	56.0	570.8
12/21	50.2	1.7	(5.9)	(0.70)	153.1	N/A
12/22e	61.4**	4.7**	(5.6)	(0.39)	57.2	N/A
12/23e	71.0	9.0	(0.9)	(0.06)	29.6	N/A
12/24e	88.0	15.8	6.5	0.44	16.9	53.9

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

Further 12- to 18-month delay

Management had previously set medium-term targets for the group to achieve revenues of €130m on which it should achieve an EBITDA margin of 30%, with the assumption that these levels would be reached in FY25e. This was dependent on the whistleblowing legislation coming fully into force in the German market in FY22. While it was adopted, finally, by the Bundestag (the lower house of the German Parliament) in mid-December 2022, on the 10 February, it was blocked by the upper house, the Bundesrat, where it has been referred for further consultation by the Conciliation Committee. This pushes out the timeline for delivery of the financial targets by 12 to 18 months.

Forecasts reflect revised guidance

In addition to the disappointment regarding the whistleblowing, there was also an element of spending cancellation and postponement within the €1.5m revenue shortfall. Our model has been updated to reflect the revised preliminary revenue and EBITDA figures now published for FY22. We have set our FY23e modelling at the lower level of management guidance (revenue of €71m–74m, from €86.5m; EBITDA of €9m–11m, from €17.5m) until the picture on timing becomes clearer. Our provisional FY24e figures are also rebased, with revenue of €88m (was €107m) and EBITDA of €15.8m (was €27m). Balance sheet leverage remains under control, bolstered by the successful €45m fundraise earlier in FY22.

Valuation: DCF continues to indicate upside

Given the current lack of profitability, traditional valuation multiples remain unhelpful. We are therefore using a DCF, with a weighted average cost of capital of 9% and terminal growth of 2% (unchanged), which now derives a value of €32.96 per share (November 2022: €41.29), still well above the current market price.

Software and comp services

15 February 2023

Price €23.5

Market cap €236m

Net debt (€m) at 30 September 2022	29.3
Shares in issue	10.0m
Free float	78.4%
Code	E1SX
Primary exchange	XETRA
Secondary exchange	FRA

Share price performance



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

FY22 results	31 March 23
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Exhibit 1: Financial summary

	€'000s	2020	2021	2022e	2023e	2024e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		37,636	50,223	61,440	71,000	88,000
Cost of Sales		0	0	0	0	0
Gross Profit		37,636	50,223	61,440	71,000	88,000
EBITDA		4,760	1,742	4,660	9,000	15,781
Operating profit (before amort. and excepts.)		819	(4,417)	(2,704)	1,442	8,223
Amortisation of acquired intangibles		(656)	(1,090)	(1,350)	(1,350)	(1,350)
Exceptionals		0	110	0	0	0
Share-based payments		0	0	0	0	0
Reported operating profit		163	(5,397)	(4,054)	92	6,873
Net Interest		(396)	(1,461)	(2,903)	(2,305)	(1,697)
Joint ventures & associates (post tax)		0	0	0	0	0
Exceptionals		0	0	0	0	0
Profit Before Tax (norm)		423	(5,878)	(5,607)	(863)	6,526
Profit Before Tax (reported)		(233)	(6,858)	(6,957)	(2,213)	5,176
Reported tax		(599)	229	2,296	730	(1,708)
Profit After Tax (norm)		296	(5,682)	(3,757)	(578)	4,372
Profit After Tax (reported)		(832)	(6,629)	(4,661)	(1,483)	3,468
Minority interests		(34)	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		296	(5,682)	(3,757)	(578)	4,372
Net income (reported)		(866)	(6,629)	(4,661)	(1,483)	3,468
Average Number of Shares Outstanding (m)		7.2	8.1	9.6	10.0	10.0
EPS - normalised (€)		0.04	(0.70)	(0.39)	(0.06)	0.44
EPS - normalised fully diluted (c)		4.12	(69.77)	(39.00)	(5.77)	43.64
EPS - basic reported (€)		(0.12)	(0.81)	(0.48)	(0.15)	0.35
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		6.4	33.4	22.3	15.6	23.9
EBITDA Margin (%)		12.6	3.5	7.6	12.7	17.9
Normalised Operating Margin (%)		2.2	(8.8)	(4.4)	2.0	9.3
BALANCE SHEET						
Fixed Assets		39,007	168,468	167,204	176,653	184,875
Intangible Assets		31,016	160,386	159,479	171,821	182,585
Tangible Assets		7,216	7,351	6,345	3,845	1,345
Investments & other		775	731	1,380	987	945
Current Assets		17,086	18,369	8,435	4,221	3,738
Stocks		0	0	0	0	0
Debtors		3,923	7,018	8,416	9,532	11,814
Cash & cash equivalents		12,074	8,653	(2,728)	(8,057)	(10,823)
Other		1,089	2,697	2,747	2,747	2,747
Current Liabilities		(12,381)	(89,171)	(47,071)	(34,558)	(29,278)
Creditors		(2,747)	(3,197)	(3,227)	(3,717)	(4,283)
Tax and social security		(56)	(214)	(552)	(638)	(791)
Short term borrowings (includes lease debt)		(3,278)	(73,095)	(27,756)	(24,756)	(18,756)
Other		(6,300)	(12,665)	(15,536)	(5,448)	(5,449)
Long Term Liabilities		(10,768)	(27,426)	(22,438)	(22,438)	(22,439)
Long term borrowings (includes lease debt)		(7,641)	(9,927)	(7,423)	(7,423)	(7,423)
Other long-term liabilities		(3,127)	(17,499)	(15,015)	(15,015)	(15,016)
Net Assets		32,943	70,240	106,131	123,879	136,896
Minority interests		0	0	0	0	0
Shareholders' equity		32,943	70,240	106,131	123,879	136,896
CASH FLOW						
Operating Cash Flow		3,765	(1,306)	2,053	5,426	10,376
Working capital		1,294	(1,149)	(1,369)	(625)	(1,716)
Exceptional & other		1,037	4,721	659	1,627	3,459
Tax		(154)	(229)	2,296	730	(1,708)
Operating Cash Flow		5,942	2,037	3,639	7,158	10,411
Capex		(2,008)	(3,149)	(3,250)	(3,250)	(3,250)
Acquisitions/disposals		0	(96,428)	(1,608)	(2,310)	0
Net interest		(157)	(1,636)	0	0	0
Equity financing		9,124	43,929	39,104	0	0
Dividends		0	0	0	0	0
Other		414	(2,772)	(3,927)	(3,927)	(3,927)
Net Cash Flow		13,315	(58,019)	33,958	(2,329)	3,234
Opening net debt/(cash)		13,472	(1,153)	74,372	37,910	40,240
FX		(199)	126	0	0	0
Other non-cash movements		1,509	(17,631)	2,504	0	0
Closing net debt/(cash)		(1,153)	74,372	37,910	40,240	37,007

Source: Company accounts, Edison Investment Research

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