

EQS Group

FY22 results

Strong positioning beset by further delays

EQS remains in the frustrating position of having a strong commercial proposition in digital whistleblowing still awaiting the impetus of full legislative implementation in its home market of Germany. The timing of this boost remains uncertain, so some caution is built into current year guidance, which is predicated on the law coming into full force in Q323. Financial results will therefore be weighted to H223. The strategy remains sound, in our view, in establishing a much wider pool of customers for cross- and up-selling of other corporate compliance cloud-based services. Upcoming EU regulation on ESG monitoring and reporting should provide substantial further opportunities. Despite the delays, 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)	148.1	N/A
12/22	61.4	4.6	(3.1)	(0.20)	56.5	N/A
12/23e	71.5	9.1	0.6	0.04	28.4	619.7
12/24e	88.8	16.2	8.2	0.55	16.0	41.7

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

Benefits of growth more obvious in FY24e

FY22 results were as outlined in February, with revenue up 22% and EBITDA of €4.6m. We reduced our revenue and EBITDA forecasts at that time and have now made very modest adjustments. Management guidance is for FY23 revenues of €71–74m, with EBITDA of €9–11m, based on management's assumptions of gaining 2–3k new SaaS customers, from the 1k recruited in FY22 (year-end total of over 5k). On our modelling, this lifts the EBITDA margin from 7.4% in FY22 to 12.7% in FY23. We anticipate further good progress in FY24, with a 24% y-o-y increase in revenues delivering a 78% y-o-y uplift in EBITDA, driven by the increased uptake in the scalable cloud-based Compliance solutions, particularly of EQS's Compliance COCKPIT. New areas, such as monitoring of supply chain risk, should provide a bridgehead into wider ESG monitoring and reporting solutions.

Leverage comfortable

End FY22 net debt was €28.4m (€24.6m excluding leases), down from €74.4m at end FY21, primarily reflecting the capital raise in the early part of the year and subsequent debt repayment and restructuring. Our modelling suggests a modest uptick in net debt at end FY23 (although the extent will depend on the timing of the expected uplift in demand following the legislation), with the following year seeing a strengthening of the balance sheet. Leverage, in our view, remains comfortable.

Valuation: DCF continues to indicate upside

Given the current low level 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 €34.82 per share (February 2023: €32.96), well above the current market price.

Software

4 April 2023

Price €22.9

Market cap €230m

Net debt (€m) at 31 December 2022 28.4

Shares in issue 10.0m

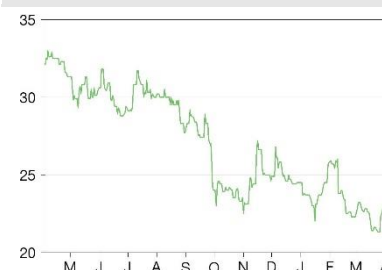
Free float 78.4%

Code EQS

Primary exchange XETRA

Secondary exchange FRA

Share price performance



% 1m 3m 12m

Abs (1.7) (3.8) (29.6)

Rel (local) (1.7) (12.4) (34.8)

52-week high/low €33.0 €21.3

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

Q1 trading update 15 May 2023

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Cloud-based products drive the top line

Performance from the Investor Relations segment reflected the challenging capital market environment, itself reflecting the war in Ukraine and the inflationary backdrop. Nevertheless, careful control of costs helped the segment deliver a small profit at the EBITDA level as its sales balance shifted more towards the cloud-based IR COCKPIT. We anticipate that this trend in relative weighting will continue in the current year and in FY24, with the margins benefiting from the leverage of the utilisation of the existing tech stack.

For the Compliance segment, FY22 results include the benefit of earlier acquisitions, particularly Got Ethics, which had a base effect of €6.0m of revenue. The question mark for the FY23 outturn remains over the timing on the impetus from the whistleblowing laws coming into full effect in Germany, but this is clearly the main potential revenue driver across the next 18 months to two years. There are already substantial numbers of new customers coming on board for this in other countries such as France, Italy and Spain, which are further down the track.

Exhibit 1: Summary revenue and forecasts by segment

€000s	FY20	FY21	FY22	FY23e	FY24e
Investor Relations					
Cloud-products	7,849	9,504	10,101	11,616	13,068
growth (%)	48%	21%	6%	15%	13%
Service-products	9,818	10,012	9,015	9,465	9,844
growth (%)	13%	2%	-10%	5%	4%
Total Investor Relations	17,667	19,516	19,115	21,081	22,912
growth (%)	10%	10%	-2%	10%	9%
EBITDA	(453)	(1,459)	148	966	1,492
EBITDA margin	(2.6%)	(7.5%)	0.8%	4.6%	6.5%
Compliance					
Cloud-products	10,696	19,826	30,340	35,450	48,744
growth (%)	15%	85%	53%	17%	38%
Service-products	9,273	10,881	11,975	14,969	17,123
growth (%)	9%	17%	10%	25%	14%
Total Compliance	19,969	30,707	42,315	50,419	65,867
growth (%)	4%	54%	38%	19%	31%
EBITDA	5,213	3,201	4,419	8,134	14,673
EBITDA margin	26.1%	10.4%	10.4%	16.1%	22.3%
Group Revenue	37,636	50,223	61,430	71,500	88,779
growth	6%	33%	22%	16%	24%
like-for-like growth	18%	14%	9%		
Group EBITDA	4,760	1,742	4,567	9,100	16,165
Group EBITDA margin	12.6%	3.5%	7.4%	12.7%	18.2%

Source: EQS Group accounts, Edison Investment Research

As described in our February note, management had previously steered towards a medium-term growth target of €130m of revenues, delivering an EBITDA margin of 30%, which was pencilled in for FY25. This horizon was pushed out 12–18 months (thus now to FY26–27), which remains compatible with our modelling.

Opportunities opening in ESG reporting

On 5 January 2023, the EU Corporate Sustainability Reporting Directive (CSRD) came into force, modernising and strengthening the reporting rules on social and environmental information. The remit is extended to a broader set of approximately 50k large companies, as well as listed SMEs, which are now required to report on sustainability. The new rules will need to be applied by the initial cohort for FY24 (ie reporting in 2025). Companies will need to collect data on environmental impact, diversity and business ethics, as defined in the EU taxonomy for sustainable business activities, and report them in a standardised format, so that they can then be compiled automatically onto a national register.

EQS's COCKPIT-based solutions to these new reporting requirements are based on the existing tech stack, so the additional investment requirement is limited. Group capital spend is likely to be at a similar level to FY22, although we have built a small contingency into our modelling here.

The whistleblowing opportunity should open up the potential to cross- and up-sell the Compliance COCKPIT. The ESG reporting COCKPIT presents a further opportunity to extend the reach.

Valuation

Given the scale of the transition to take advantage of the whistleblowing opportunity, and the additional costs being borne to achieve it, earnings multiples and comparison to global peers are not particularly helpful at present. For illustrative purposes, we calculate that on FY23 and FY24 EV/sales, the group's valuation is sitting at around par to global application software peers.

We therefore continue to favour a discounted cash flow (DCF) approach. Using a weighted average cost of capital (WACC) of 9.0% and a terminal growth rate of 2% (unchanged), a DCF generates a share price of €34.82 (up from €32.96 at the time of our February update), 52% above the current level.

Exhibit 2: Valuation at varying WACC and terminal growth rates

		Terminal growth rate				
	€/share	0.00%	1.00%	2.00%	3.00%	4.00%
WACC	11.00%	22.63	23.97	25.61	27.66	30.30
	10.50%	24.05	25.59	27.49	29.90	33.05
	10.00%	25.62	27.40	29.61	32.47	36.27
	9.50%	27.37	29.43	32.04	35.45	40.10
	9.00%	29.33	31.73	34.82	38.94	44.71
	8.50%	31.54	34.36	38.06	43.09	50.37
	8.00%	34.04	37.39	41.85	48.10	57.48
	7.50%	36.89	40.90	46.36	54.25	66.65
	7.00%	40.18	45.02	51.80	61.97	78.92
	6.50%	43.99	49.92	58.48	71.93	96.15

Source: Edison Investment Research

Exhibit 3: 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 (€)		0.04	(0.65)	(0.20)	0.04	0.55
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)	(2,310)	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	(1,639)	4,621
Opening net debt/(cash)		13,472	(1,153)	74,372	28,434	30,075
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	30,075	25,455

Source: Company accounts, Edison Investment Research

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