

EQS Group

Q3 results

German whistleblowing law now before year end

Progress of whistleblowing legislation through the German Bundestag has been slower than hoped, with transposition now likely in December, with a three-month implementation period. This delay means that management is now guiding to FY22e revenue growth of 25%, with EBITDA of €6.0m (was €6–10m). The EBITDA figure is in line with our forecast, despite the lower revenue (€3.2m below) reflecting a degree of flexibility on costs. The underlying boost from legislation coming into force across Europe remains a strong positive from FY23. EQS reported 9M22 revenue growth of 27% (10% organic), with 702 new SaaS customers signed up, including 555 for whistleblowing.

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	56.2	573.2
12/21	50.2	1.7	(5.9)	(0.70)	153.5	N/A
12/22e	62.8	6.0	(4.3)	(0.30)	44.6	N/A
12/23e	86.5	17.5	7.6	0.51	15.3	46.2
12/24e	107.0	27.0	17.7	1.19	9.9	19.9

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

Compliance segment drives growth

Revenues from cloud-based compliance products, which comprise roughly half of 9M22 group revenues and include the whistleblowing products, were ahead 73% on 9M21 (+29% adjusting for the base effect of Business Keeper). This is without the stimulus of the German legislation coming into force, now expected in December. Sales through partners are yet to fully kick in, although the pipeline is building encouragingly. Compliance cloud service 9M revenues (18% of group) were up 6%, boosted by the European Single Electronic Format Regulation requirements in filing. On the Investor Relations side, cloud products revenues (16% of group) grew 9% as subscriptions built on the COCKPIT platform. However, cloud service revenues (16% of group) were down 11%, reflecting the complete absence of IPOs.

Refinancing agreed

EQS bought Business Keeper for €95m in June 2021, assisted by an acquisition loan of €50m from Commerzbank. Half of this was repaid with the proceeds of the subscription fund-raising in Q122 (at €33.0/share). The remainder has now been refinanced over five years, and extended by a further €5m, with Deutsche Bank and Kreissparkasse Biberach added to the banking consortium. Interest is at Euribor plus a margin, which varies with leverage and achievement of sustainability objectives. Repayments will be in equal instalments starting mid-2023.

Valuation: DCF indicates meaningful upside

EQS's share price is down 47% year-to-date, while valuations of financial B2B companies have fallen 30% (excluding Euromoney, subject to a bid) and application software companies by 36%. With traditional valuation multiples unhelpful, we use a DCF, with a WACC of 9% and terminal growth of 2% (unchanged), deriving a value of €41.29/share (August 2022: €47.73), well above the current market price.

Software & comp services

15 November 2022

Price €23.60
Market cap €237m

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



%	1m	3m	12m
Abs	10.0	(12.0)	(36.5)
Rel (local)	(4.4)	(15.2)	(28.6)
52-week high/low		€44.6	€22.5

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

Preliminary FY22 figures February 2023

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Key growth indicators show scale of progress

Looking at the quarterly figures shows the frustration inherent in the timing slippage of legislative transposition, which had been expected for Q322 for Germany. Other countries within the EU have also suffered delays, but the German market is the most significant within the EU and particularly so for EQS, for which it is the home market. Only Denmark succeeded in timely transposition of the law, with delays in France stemming from not obtaining Presidential decree until October.

Although the revenue line effectively stalled in Q322; the amount of new recurring revenue recorded of €5.54m was €1.99m ahead of the end H122 figure. The previous full year guidance was for this to build to between €11m and €16m, dependent on when the law finally took effect. Following these further delays, management has reduced this figure to €9m for the year.

Exhibit 1: Growth in key figures

€000s	Q122	Q222	Q322	9M22 y-o-y change (%)
Total revenue	14,115	15,802	15,051	+27
Compliance				
<i>Cloud-products</i>	7,190	7,560	7,520	+73
<i>Cloud-services</i>	2,120	3,240	2,760	+6
Investor Relations				
<i>Cloud-products</i>	2,560	2,460	2,470	+9
<i>Cloud-services</i>	2,250	2,540	2,300	-11
New annual recurring revenue	1,810	3,550	5,540	
Operating expenses	(14,582)	(15,578)	(14,281)	+26
EBITDA	252	891	1,400	+12
<i>Margin</i>	2%	6%	9%	
EBIT	(1,766)	(1,141)	(653)	
Group earnings	(971)	(818)	(354)	
Operating cash flow	879	(1,301)	1,654	+107
Equity ratio (%)	50	62	62	
SaaS customers	4,405	4,591	4,786	+25

Source: EQS Group accounts, Edison Investment Research

Recurring revenues across the board now account for 88% of group revenues, reflecting the build up in cloud-based subscription products.

The Compliance cloud-based products growth is being driven by whistleblowing, as described above. The progress in cloud-based services of 26% growth January to September 2022 over prior year is higher than we might have anticipated, supported by new European Single Electronic Filing regulation and continued demand for legal entity identifier issuance.

Trim to revenue forecast, EBITDA intact

We were previously forecasting group revenues of €66.0m for FY22, which was equivalent to year-on-year growth of 31%. Revised guidance is for revenue growth of 25%, which equates to €62.8m. We have assumed some knock on to FY23e, where we reduce our revenue forecast from €90.0m to €86.5m, with year-on-year growth of 38% (was +36%) reflecting demand from Germany picking up.

Operating expenses were up by 33% in H122 over H121, with Business Keeper consolidated from mid-July 2022, so 'lapped' in Q322. Personnel expenses make up the bulk of operating costs (65% of 9M22). Management guidance is now for FY22 EBITDA of €6.0m, as we had previously modelled, at the bottom end of the previously guided range of €6–10m. For FY23e, we now look for EBITDA of €17.5m, a small reduction from our earlier figure of €18.0m.

Exhibit 2: Financial summary

	€'000s	2020	2021	2022e	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		37,636	50,223	62,800	86,500	107,000
Cost of Sales		0	0	0	0	0
Gross Profit		37,636	50,223	62,800	86,500	107,000
EBITDA		4,760	1,742	6,000	17,500	27,000
Operating Profit (before amort. and excepts.)		819	(4,417)	(1,364)	9,942	19,442
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)	(2,714)	8,592	18,092
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)	(4,267)	7,637	17,745
Profit Before Tax (reported)		(233)	(6,858)	(5,617)	6,287	16,395
Reported tax		(599)	229	1,854	(2,075)	(5,410)
Profit After Tax (norm)		296	(5,682)	(2,859)	5,117	11,889
Profit After Tax (reported)		(832)	(6,629)	(3,763)	4,212	10,985
Minority interests		(34)	0	0	0	0
Discontinued operations		0	0	0	0	0
Net income (normalised)		296	(5,682)	(2,859)	5,117	11,889
Net income (reported)		(866)	(6,629)	(3,763)	4,212	10,985
Average Number of Shares Outstanding (m)		7.2	8.1	9.6	10.0	10.0
EPS - normalised (€)		0.04	(0.70)	(0.30)	0.51	1.19
EPS - normalised fully diluted (€)		0.04	(0.70)	(0.30)	0.51	1.19
EPS - basic reported (€)		(0.12)	(0.81)	(0.39)	0.42	1.10
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		6.4	33.4	25.0	37.7	23.7
EBITDA Margin (%)		12.6	3.5	9.6	20.2	25.2
Normalised Operating Margin (%)		2.2	(8.8)	(2.2)	11.5	18.2
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	9,334	11,195	18,295
Stocks		0	0	0	0	0
Debtors		3,923	7,018	8,603	11,612	14,364
Cash & cash equivalents		12,074	8,653	(2,016)	(3,164)	1,184
Other		1,089	2,697	2,747	2,747	2,747
Current Liabilities		(12,381)	(89,171)	(47,072)	(35,062)	(29,876)
Creditors		(2,747)	(3,197)	(3,228)	(4,098)	(4,731)
Tax and social security		(56)	(214)	(552)	(760)	(941)
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	107,029	130,349	150,856
Minority interests		0	0	0	0	0
Shareholders' equity		32,943	70,240	107,029	130,349	150,856
CASH FLOW						
Operating Cash Flow		3,765	(1,306)	2,951	11,121	17,893
Working capital		1,294	(1,149)	(1,554)	(2,140)	(2,119)
Exceptional & other		1,037	4,721	1,101	4,432	7,161
Tax		(154)	(229)	1,854	(2,075)	(5,410)
Operating Cash Flow		5,942	2,037	4,352	11,339	17,524
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)	34,671	1,852	10,347
Opening net debt/(cash)		13,472	(1,153)	74,372	37,198	35,347
FX		(199)	126	0	0	0
Other non-cash movements		1,509	(17,631)	2,504	0	1
Closing net debt/(cash)		(1,153)	74,372	37,198	35,347	25,000

Source: Company accounts, Edison Investment Research

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