

# EQS Group

Q3 results

## Business Keeper a keeper

EQS Group's Q3 figures show the boost given to its whistleblowing offering by the June acquisition of Business Keeper, lifting the total number of whistleblowing customers to around 1,500. Implementation of the EU Directive into national legislations is delayed in a number of territories, but the direction of travel is set and the timetable slippage should only be one or two quarters. The additional sales and marketing costs were already factored into our estimates (in line with management guidance for FY21), which are unchanged. We regard the scale of the opportunity as worth the short-term impact on EBITDA.

| 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)    | 169.0         | N/A     |
| 12/20    | 37.6         | 4.8         | 0.4       | 4.1      | 90.7          | N/A     |
| 12/21e   | 49.4         | 2.8         | (2.7)     | (21.5)   | 151.7         | N/A     |
| 12/22e   | 70.0         | 7.5         | 0.9       | 7.2      | 57.4          | N/A     |

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

## Whistleblowing coming round the mountain

Compliance revenues were up 45% in the first nine months of 2021 versus the prior year, with the strongest growth from the cloud-based products (+60%), with cloud-based services up 26%. The sales effort is squarely targeted at whistleblowing solutions, given the EU Directive requiring companies with over 250 employees to have effective solutions in place for reporting of breaches of EU law. Denmark and Sweden have already incorporated into the national legal frameworks, but there are delays of varying severity elsewhere. The German market is obviously key for EQS and looks likely to be an early priority for the new administration. The group has put several commercial partnerships in place on a profit-share basis to accelerate the sales effort, including with Bundesanzeiger Verlag. Investor relations revenues were up 10%, despite the comparative period having benefited from COVID-19-restrictions on company meetings, helped by an increase in IPOs.

## EBITDA already in the targeted FY21 range

As intended, the EBITDA margin in the period reflected the investment in sales and marketing at 6.4%, versus 15.5% for Q1 to Q320. Management also provides a 'clean' EBITDA figure, which strips out the identifiable additional cost; on this basis, the margin would have been 13.3%. Reported EBITDA was €2.3m, in the range of €2–3m previously indicated. Our full-year estimate is €2.8m, which allows for a continuing quarter of additional overhead. Given the phasing, we would expect FY22 EBITDA to be weighted to H2.

## Valuation: Good performance in the year to date

The share price started the year at €23.4 and peaked at €47.0 in September. Given the EBITDA containment, peer comparison on earnings multiples is not a helpful measure of value. A DCF using a WACC of 8.0% and terminal growth of 2% indicates a price of €47.2, 13% ahead of the current level.

## Software & comp services

16 November 2021

Price **€41.6**

Market cap **€354m**

Net debt (€m) at 30 September 2021 79.2

Shares in issue 8.5m

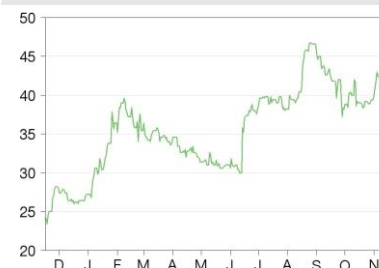
Free float 74%

Code E1SX

Primary exchange XETRA

Secondary exchange FRA

## Share price performance



% 1m 3m 12m

Abs 7.7 4.0 76.5

Rel (local) 3.9 2.9 42.9

52-week high/low €47.00 €23.40

## 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 FY21 figures Feb 22

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## Whistleblowing focus

The issues around whistleblowing are front of mind, as discussed in earlier notes ([April](#), [May](#), [June](#), [August](#)), purely because of the scale of the opportunity. With the earlier acquisitions of Got Ethics, C2S2 and, more recently, Business Keeper, EQS has established itself as the European market leader. There is obviously competition, with local providers in national markets and the large US consultancies looking to grab market share. However, this is not necessarily about price. There are substantial sensitivities around data security and privacy and EQS has carefully curated its reputation for integrity and reliability, giving it an inherent advantage.

It has recently consolidated its positioning with a major conference, the European Compliance and Ethics Conference, the second edition of which ran in October, attracting around 5,500 delegates and over 70 speakers.

The medium-term plan involves attracting new corporate clients with the whistleblowing platform, then cross- and up-selling further SaaS products to them on the cloud-based COCKPIT platform. Given the types of organisations being recruited (Deutsche Post, DHL, Lufthansa, Tata Steel, Arla, Revolut and TeamViewer are amongst those cited in the nine-month report), the strategy of a 'foot-in-the-door' approach seems very sensible. At end October, 428 new whistleblowing customers had been added in the year to date.

## Key growth indicators show scale of progress

| Exhibit 1: Growth in key figures |        |         |         |                        |
|----------------------------------|--------|---------|---------|------------------------|
| €000s                            | Q121   | Q221    | Q321    | Q1-Q3 y-o-y change (%) |
| Total revenue                    | 10,549 | 11,979  | 12,868  | 28                     |
| Compliance                       | 5,670  | 6,880   | 8,026   |                        |
| <i>Cloud-products</i>            | 3,530  | 3,600   | 5,763   | 60                     |
| <i>Cloud-services</i>            | 2,140  | 3,270   | 2,273   | 26                     |
| Investor Relations               | 4,880  | 5,100   | 4,840   |                        |
| <i>Cloud-products</i>            | 2,200  | 2,360   | 2,340   | 21                     |
| <i>Cloud-services</i>            | 2,680  | 2,740   | 2,500   | 2                      |
| New annual recurring revenue     | 1,440  | 4,250   | 5,910   | 16                     |
| Operating expenses               | 11,170 | 11,770  | 12,460  | 41                     |
| EBITDA                           | 309    | 1,107   | 946     | -47                    |
| <i>Margin</i>                    | 3%     | 8%      | 7%      |                        |
| Adjusted EBITDA                  | 1,230  | 2,027   | 1,443   |                        |
| <i>Margin</i>                    | 12%    | 17%     | 11%     |                        |
| EBIT                             | (967)  | (279)   | (1,463) |                        |
| Group earnings                   | (926)  | (399)   | (1,353) |                        |
| Operating cash flow              | 879    | (1,301) | 1,654   |                        |
| Equity ratio (%)                 | 55     | 56      | 35      |                        |
| SaaS customers                   | 4,186  | 3,386   | 3,871   |                        |

Source: Company accounts, Edison Investment Research

The Compliance cloud-based products growth is being driven by the whistleblowing, as described above. The progress in cloud-based services of 26% growth January to September 2021 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.

Within the investor relations segment, the group continued to make good progress migrating clients to the cloud-based IR COCKPIT, with 849 companies signed up (at end September). In total the number of SaaS customers was up 158 to 2,312 across the nine months. As mentioned above, the number of IPOs in the German market was healthier than anticipated, with newly listing companies generating higher average revenues as they put all the requisite systems into place pre- and post-listing.

As described above, there is considerable expense being incurred in sales and marketing, with the 41% increase in operating expenses over the first nine months of 2020 largely attributable to this. Nevertheless, the achieved EBITDA for the first nine months of €2.3m is already in the range indicated by management for the full year of €2.0–3.0m. Our forecast for the year of €2.8m implies a Q421 EBITDA margin of 4% on revenue for the quarter of €14.0m.

## Balance sheet now reflects the Business Keeper acquisition

The Business Keeper acquisition was consolidated from 14 July, so for 2.5 months of Q3 and all of Q4. The earlier acquisitions of Got Ethics and C2S2 (consolidated in January 2021) were supported by a €13.6m equity raise and new debt raising, as discussed in our [update note](#) published on 14 April. To support the Business Keeper deal, EQS carried out a further €22.4m capital increase in June 2021 and took on new debt associated with the acquisition of Business Keeper of €50m. The total paid out on acquisitions in the year to date is €93.4m – a substantial increase in scale for the business.

At end September, net debt was €79.2m. This includes €6.2m of leasing liabilities, without which the net debt figure would be €73.0m. Our modelling indicates a year-end level of €61.1m, but this will obviously depend on the working capital position at the year end.

## Valuation

Given the scale of the transition and the additional costs being borne to achieve it, earnings multiples and comparison to global peers is not particularly helpful at the moment. On FY22 EV/sales, the group sits at a 44% discount to the larger global financial software companies but at a 37% premium to global application software peers.

We have therefore reverted to a DCF approach. Using a WACC of 8.0% and a terminal growth rate of 2%, with the medium-term forecasts set to match management's published plan for FY25 (revenues of €130m and an EBITDA margin of 30%), a DCF generates a share price of €47.19, a little ahead of the peak reached in September and 13% above the current level.

**Exhibit 2: Financial summary at varying WACC, terminal rates**

|      |        | -----Terminal growth rate----- |       |              |        |        |
|------|--------|--------------------------------|-------|--------------|--------|--------|
|      |        | 0.00%                          | 1.00% | 2.00%        | 3.00%  | 4.00%  |
| WACC | 10.00% | 24.20                          | 26.93 | 30.34        | 34.72  | 40.57  |
|      | 9.50%  | 26.57                          | 29.71 | 33.68        | 38.88  | 45.97  |
|      | 9.00%  | 29.21                          | 32.85 | 37.52        | 43.76  | 52.49  |
|      | 8.50%  | 32.18                          | 36.42 | 41.97        | 49.54  | 60.48  |
|      | 8.00%  | 35.54                          | 40.53 | <b>47.19</b> | 56.52  | 70.50  |
|      | 7.50%  | 39.37                          | 45.30 | 53.39        | 65.07  | 83.42  |
|      | 7.00%  | 43.77                          | 50.89 | 60.85        | 75.79  | 100.70 |
|      | 6.50%  | 48.88                          | 57.52 | 70.01        | 89.63  | 124.94 |
|      | 6.00%  | 54.87                          | 65.52 | 81.50        | 108.12 | 161.38 |
|      | 5.50%  | 61.98                          | 75.33 | 96.32        | 134.09 | 222.22 |

Source: Edison Investment Research

**Exhibit 3: Financial summary**

|  | €'k | 2018     | 2019     | 2020     | 2021e    | 2022e     |
|--|-----|----------|----------|----------|----------|-----------|
| 31-December                                  |     | IFRS     | IFRS     | IFRS     | IFRS     | IFRS      |
| <b>INCOME STATEMENT</b>                      |     |          |          |          |          |           |
| Revenue                                      |     | 36,210   | 35,367   | 37,636   | 49,400   | 70,000    |
| Cost of Sales                                |     | 0        | 0        | 0        | 0        | 0         |
| Gross Profit                                 |     | 36,210   | 35,367   | 37,636   | 49,400   | 70,000    |
| EBITDA                                       |     | 239      | 2,554    | 4,760    | 2,846    | 7,519     |
| Operating Profit (before amort. and except.) |     | (1,299)  | (2,433)  | 819      | (1,731)  | 2,850     |
| Amortisation of acquired intangibles         |     | (821)    | (743)    | (656)    | (1,090)  | (1,150)   |
| Exceptionals                                 |     | 0        | 0        | 0        | 0        | 0         |
| Share-based payments                         |     | 0        | 0        | 0        | 0        | 0         |
| Reported operating profit                    |     | (2,120)  | (3,176)  | 163      | (2,821)  | 1,700     |
| Net Interest                                 |     | 1,954    | 2,093    | (396)    | (989)    | (1,908)   |
| Joint ventures & associates (post tax)       |     | 0        | 0        | 0        | 0        | 0         |
| Exceptionals                                 |     | 0        | 0        | 0        | 0        | 0         |
| Profit Before Tax (norm)                     |     | 655      | (340)    | 423      | (2,720)  | 942       |
| Profit Before Tax (reported)                 |     | (166)    | (1,083)  | (233)    | (3,810)  | (208)     |
| Reported tax                                 |     | 913      | (610)    | (599)    | 1,334    | 73        |
| Profit After Tax (norm)                      |     | 439      | (532)    | 296      | (1,768)  | 612       |
| Profit After Tax (reported)                  |     | 747      | (1,693)  | (832)    | (2,477)  | (135)     |
| Minority interests                           |     | 20       | 121      | (34)     | (125)    | (144)     |
| Discontinued operations                      |     | 0        | 0        | 0        | 0        | 0         |
| Net income (normalised)                      |     | 439      | (532)    | 296      | (1,768)  | 612       |
| Net income (reported)                        |     | 767      | (1,572)  | (866)    | (2,602)  | (280)     |
| Average Number of Shares Outstanding (m)     |     | 7.2      | 7.2      | 7.2      | 8.2      | 8.5       |
| EPS - normalised (c)                         |     | 6.12     | (7.41)   | 4.12     | (21.47)  | 7.23      |
| EPS - normalised fully diluted (c)           |     | 6.12     | (7.41)   | 4.12     | (21.47)  | 7.23      |
| EPS - basic reported (€)                     |     | 0.11     | (0.22)   | (0.12)   | (0.32)   | (0.03)    |
| Dividend per share (c)                       |     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00      |
| Revenue growth (%)                           |     | 19.3     | (2.3)    | 6.4      | 31.3     | 41.7      |
| EBITDA Margin (%)                            |     | 0.7      | 7.2      | 12.6     | 5.8      | 10.7      |
| Normalised Operating Margin (%)              |     | (3.6)    | (6.9)    | 2.2      | (3.5)    | 4.1       |
| <b>BALANCE SHEET</b>                         |     |          |          |          |          |           |
| Fixed Assets                                 |     | 41,219   | 43,841   | 39,447   | 172,989  | 184,858   |
| Intangible Assets                            |     | 37,293   | 32,008   | 31,016   | 168,041  | 182,086   |
| Tangible Assets                              |     | 2,241    | 8,838    | 7,216    | 3,558    | 1,558     |
| Investments & other                          |     | 1,685    | 2,995    | 1,215    | 1,390    | 1,214     |
| Current Assets                               |     | 7,250    | 6,094    | 17,086   | 32,417   | 33,919    |
| Stocks                                       |     | 0        | 0        | 0        | 0        | 0         |
| Debtors                                      |     | 5,030    | 3,841    | 3,923    | 5,365    | 7,602     |
| Cash & cash equivalents                      |     | 1,308    | 1,184    | 12,074   | 25,240   | 24,505    |
| Other  |     | 912      | 1,069    | 1,089    | 1,812    | 1,812     |
| Current Liabilities                          |     | (14,326) | (14,563) | (12,381) | (38,182) | (33,113)  |
| Creditors                                    |     | (1,472)  | (1,848)  | (1,651)  | (2,700)  | (3,406)   |
| Tax and social security                      |     | (129)    | (46)     | (56)     | (115)    | (115)     |
| Short term borrowings (includes lease debt)  |     | (6,961)  | (7,173)  | (3,276)  | (22,773) | (22,773)  |
| Other  |     | (5,764)  | (5,496)  | (7,398)  | (12,594) | (6,820)   |
| Long Term Liabilities                        |     | (6,660)  | (10,195) | (11,208) | (88,446) | (103,446) |
| Long term borrowings (includes lease debt)   |     | (3,475)  | (7,481)  | (7,641)  | (63,604) | (78,604)  |
| Other long term liabilities                  |     | (3,185)  | (2,714)  | (3,567)  | (24,843) | (24,843)  |
| Net Assets                                   |     | 27,483   | 25,177   | 32,944   | 78,777   | 82,218    |
| Minority interests                           |     | 420      | (34)     | 0        | (5)      | (5)       |
| Shareholders' equity                         |     | 27,902   | 25,143   | 32,944   | 78,772   | 82,212    |
| <b>CASH FLOW</b>                             |     |          |          |          |          |           |
| Op Cash Flow before WC and tax               |     | 3,106    | 4,037    | 3,765    | 1,532    | 3,934     |
| Working capital                              |     | 1,270    | 1,061    | (1,037)  | (2,002)  | (1,532)   |
| Exceptional & other                          |     | (1,646)  | (2,516)  | 3,212    | 965      | 1,887     |
| Tax  |     | (135)    | (188)    | (154)    | 1,334    | 73        |
| Operating cash flow                          |     | 2,595    | 2,394    | 5,786    | 1,829    | 4,362     |
| Capex  |     | (5,441)  | (3,120)  | (2,007)  | (1,500)  | (1,500)   |
| Acquisitions/disposals                       |     | (5,115)  | 4,888    | 63       | (95,129) | (15,000)  |
| Net interest                                 |     | 0        | 0        | 0        | (1,120)  | 0         |
| Equity financing                             |     | 0        | 0        | 9,124    | 36,274   | 0         |
| Dividends                                    |     | 0        | 0        | 0        | 0        | 0         |
| Other  |     | 1,792    | (4,408)  | 350      | (2,710)  | (3,597)   |
| Net Cash Flow                                |     | (6,169)  | (246)    | 13,316   | (62,356) | (15,735)  |
| Opening net debt/(cash)                      |     | 3,556    | 9,127    | 13,472   | (1,156)  | 61,140    |
| FX   |     | 75       | 53       | (199)    | 62       | 0         |
| Other non-cash movements                     |     | 522      | (4,153)  | 1,511    | 0        | 0         |
| Closing net debt/(cash)                      |     | 9,127    | 13,472   | (1,156)  | 61,140   | 76,875    |

Source: Company accounts, Edison Investment Research

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