

EQS Group

Media

22 August 2019

Emerging from investment phase

Management has reiterated FY19 guidance, despite revenue growth at the interim stage being a little below its own expectations. H219 should provide better revenue and profit growth as new modules will stimulate growth, and the internal investment reduces. EQS continues to trade at a significant discount to its peers, and the current share price is discounting growth well below management's expectations.

Accelerating growth in Compliance

The Q219 results continued to highlight the differential growth rates between the two business segments, albeit there were phasing issues in both. The Compliance segment grew revenue by c 22% year-on-year and Investor Relations declined by c 3% y-o-y. Despite the acceleration by Compliance in Q219, overall revenue growth was a little below management's expectations. The key reasons for this were delays to module launches in the new COCKPIT products, which will correct in H219, and some phasing issues. As a result, guidance for revenue and EBITDA in FY19 is unchanged.

Improving outlook for margin

EQS should be entering a phase of more positive news flow with revenue growth expected to exceed cost growth and sequential improvements in EBITDA. Revenue growth should be driven by the migration of the customer base as all modules become available over the next few months. Cost growth will be more favourable as the investment to build a global regulatory tech platform business reduces through FY19 and FY20.

Valuation: Supported by peers

As the current level of investment in the group is affecting profitability, the only reliable valuation with which to compare EQS vs its peers is EV/Sales. The peer group of other global financial platforms (excluding outliers) is valued at 5.7x FY0 and 7.9x FY1 against EQS, which trades at a discount of c 47% and c 66%, respectively.

Consensus estimates

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)	Yield (%)
12/17	30.4	0.8	0.16	0.00	N/A	41.0	N/A
12/18	36.2	(1.4)	(0.19)	0.00	N/A	N/A	N/A
12/19e	42.1	(0.7)	(0.98)	0.00	N/A	39.1	N/A
12/20e	49.0	1.9	0.93	0.19	70.9	20.0	0.3

Source: Refinitiv. Note: *Historic adjustments to PBT and EPS are as per Refinitiv.

Price €66.5
Market cap €95m

Share price graph



Share details

Code	EQS
Listing	Deutsche Börse Scale
Shares in issue	1.4m
Net debt (€m) as at 30 June 19	20.3

Business description

EQS Group is a leading international technology provider for digital investor relations, corporate communications and compliance. It has over 8,000 client companies worldwide using its products and services to securely, efficiently and simultaneously fulfil complex national and international information obligations to the global investment community.

Bull

- Financial market regulation.
- Opportunities in governance and risk.
- High percentage of recurring and repeatable income.

Bear

- In investment phase.
- Some macro sensitivity
- Dividend payment on hold.

Analysts

Fiona Orford-Williams	+44 (0)20 3077 5739
Russell Pointon	+44 (0) 20 3077 5757

media@edisongroup.com
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

Review of Q219 results

Overall revenue growth of c 9% in Q219 was the same as the growth rate in Q119, although the performance by business segment was markedly different. The Compliance segment accelerated after a relatively lacklustre Q119, but trends in Investor Relations deteriorated. The performance was a little below management's own expectations, which it attributes to delays in product launches, some changes in seasonality and some macro weakness. Management is confident of an acceleration in H219, and specifically Q419, when customers are migrated over to new products following a period of heavy investment.

The most important feature of the results was the improvement in profitability as investment in Cloud 2020 peaked in FY18 and will reduce through FY19 and FY20. Management is confident of improving the underlying margin on a quarterly basis, subject to the normal seasonality in the individual businesses, due to the combination of expected revenue growth and reducing investment.

Net debt at the end of H119 increased to €21.6m from €10.4m at the end of FY18, mainly attributable to the adoption of IFRS 16, which added €9.4m to net debt. There was a small cash outflow of €68k in FY19, a significant improvement on the cash performance in H118, due to less M&A activity, a reduction in capex as expected and good control of working capital.

Exhibit 1: Quarterly financials

€000s	Q118	Q218	H118	Q119	Q219	H119
Revenue	7,830	9,300	17,130	8,540	10,160	18,700
Growth y-o-y				9%	9%	9%
- Compliance	3,830	4,520	8,350	4,100	5,510	9,610
- Growth y-o-y				7%	22%	15%
- Investor Relations	4,000	4,780	8,780	4,440	4,650	9,090
- Growth y-o-y				11%	(3%)	4%
EBITDA ex IFRS 16*	(304)	254	(50)	(889)	126	(763)
Margin %	(3.9%)	2.7%	(0.3%)	(10.4%)	1.2%	(4.1%)
EBITDA	(304)	254	(50)	(443)	594	150
Margin %	(3.9%)	2.7%	(0.3%)	(5.2%)	5.8%	0.8%

Source: EQS Group, Edison Investment Research. Note: *IFRS 16 not adopted retrospectively.

Even though revenue growth for Compliance accelerated from Q119, from 7% to 22%, the achieved growth was below management's own expectations. The core Large Caps business continued to demonstrate strong growth of over 24% due to an 18% increase in customer numbers and the ongoing take-up of recent module launches. The main sources of relative weakness were in the XML business, with some modest recovery in Q219, as indicated by management at the Q119 results. Management continues to expect improving momentum through the year to deliver a better, ie double-digit, revenue growth by XML.

The Q219 revenue decline for Investor Relations was due to delays in the launch of a couple of modules in the new COCKPIT, ie the CRM and mailing functions, as functionality was finessed and technical problems were fixed. The majority of German clients will be migrated over from September 2019, which should earn higher revenue per customer as well as installation fees.

During H119, EQS added 166 large-cap customers, which means it is on course to achieve the target for the full year of adding 400 large-cap customers, given the typical Q4 seasonality.

Geographically, the domestic business grew by 6% and was the main source of relative disappointment, but this is attributable to the COCKPIT and filings delays noted above. As a result, management is more optimistic about growth in H219 as these improve. International markets were buoyant with 20% growth. This growth was broadly based with the only area of weakness being Asia.

Guidance for long-term profitability increased

Management has reiterated FY19 guidance. Following the disposal of ARIVA, management targets an increase in revenue of 4–9% to €37.5–39.5m (€36.2m in FY18), and EBITDA of €2.8–3.8m (IFRS 16 adjusted of €1–2m). The guidance implies revenue growth for the non-ARIVA businesses of 18–25% in FY19.

With respect to long-term guidance, management has reduced the target for revenue and increased the target for EBITDA margin in FY25. The new guidance reflects the disposal of ARIVA, which has a lower projected margin than the remaining businesses. From FY19–25 management targets annual revenue growth of 20%+ for Compliance (20–25% previously) and 10%+ for Investor Relations (10–15% previously), to give a CAGR for the group of 18–20%, and revenue in FY25 of c €100m (c €110m previously). On the plus side, management expects profitability to increase at a faster rate than revenue over this period. It targets an EBITDA margin of at least 30% in FY25, compared to at least 25% previously. This guidance points to a higher level of EBITDA in FY25, ie greater than €30m versus greater than €27.5m previously.

Valuation

As the internal investment is affecting profitability from FY18–20, the most reliable traditional multiple is that of EV/Sales. There is a wide range of multiples for the peer group. For FY1, EQS is trading at 3.1x sales versus the average for the entire peer group of 10.4x. Excluding MarketAxess, which is trading at a high premium to the rest of the peers, the average sales multiple for the peer group is 7.9x.

Exhibit 2: Quoted financial platform peers

	Price (reporting currency)	Market cap (m)	EV/Sales (x)			EV/EBITDA (x)			P/E (x)		
			FY0	FY1	FY2	FY0	FY1	FY2	FY0	FY1	FY2
Euromoney (£)	13.3	1,438	3.6	3.5	3.3	12.7	12.9	11.9	13.1	17.3	16.0
Thomson Reuters (US\$)	67.5	33,854	4.5	5.9	5.7	16.5	23.8	18.2	158.0	55.7	34.8
Envestnet (US\$)	57.0	2,973	3.1	3.9	3.4	21.9	18.3	14.9	405.0	26.9	22.2
Morningstar (US\$)	156.8	6,706	4.3			13.9			25.8		
Swissquote Group (€)	40.4	625	8.1	12.1	11.2	21.9			14.9	14.1	12.3
GlobalData (£)	8.3	976	4.7	6.1	5.8	28.0	25.7	23.0		35.8	31.4
MSCI (US\$)	231.8	19,506	9.8	13.8	12.6	18.2	25.3	22.7	26.6	36.6	32.1
S&P Global (US\$)	261.9	64,205	7.3	10.3	9.7	14.6	20.1	18.6	22.0	28.3	25.7
MarketAxess Holding (US\$)	374.2	13,928	17.7	27.6	24.5	32.7	50.5	43.3	46.4	71.7	62.0
Average			7.0	10.4	9.5	20.0	25.2	21.8	89.0	35.8	29.6
Average ex MarketAxess			5.7	7.9	7.4	18.5	21.0	18.2	95.1	30.7	24.9

Source: Refinitiv. Note: Prices at 20 August 2019

General disclaimer and copyright

This report has been commissioned by EQS Group and prepared and issued by Edison, in consideration of a fee payable by EQS Group. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a) (11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.
