EQS Group

Interim results

Whistleblowing set to kick in strongly in H2

Software

After repeated delays, the German whistleblowing regulation came into law on 1 July and pent-up demand is now set to flow through into new customers and growing recurring revenues. Those customers present a pipeline of warm leads for selling EQS's broader suite of cloud-based products and services, particularly in the Compliance segment, underpinning management's medium-term ambitions for the top line and EBITDA margins, targeted at €130m and 30% respectively on a time frame of FY26 or FY27. We have edged up our FY23 and FY24 estimates to reflect the momentum and greater degree of confidence in the rest of H223. 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)	176.7	N/A
12/22	61.4	4.6	(3.1)	(0.20)	67.4	N/A
12/23e	72.5	10.0	1.5	0.10	30.8	290.4
12/24e	90.0	17.3	9.3	0.62	17.8	45.4

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

H123 results show pick up in new customers

The first half results show group revenues up by 16% to €33.7m, fuelled by the Compliance segment, where revenues were up by 19%. EBITDA from continuing operations (the Russian business is now terminated) rose from €1.1m to €3.5m, demonstrating the leverage inherent in a platform business where the bulk of the investment is already in place. These results were achieved without the full extent of the impetus of the whistleblowing regulation, but this nevertheless accounted for the bulk of the new customers acquired in the period, at 675 of the 730 new SaaS customers added (H122: 350 of 456 added). Total new annual recurring revenue (ARR) of €4.6m was added, at a lower initial ARR/customer, but with the potential for up- and cross-selling. H123 net debt was €25.2m (€22.2m excluding leases).

Good pipeline of customers and products

Once onboard, the objective is to sell these new customers the EQS COCKPIT and a broader suite of products and services, both existing and under development. Management expects around 20% to convert, implying around 1k potential EU-based COCKPIT customers. The Austrian government has recently given EQS framework agreement supplier status, with other similar arrangements in the works. Further COCKPIT functionality has been launched to monitor and report on supply chain management and due diligence to meet the obligations of new German corporate regulation, giving a further strand of potential business in the ESG field.

Valuation: Below levels indicated by DCF

EQS is edging closer to an earnings-based valuation and parity with peers on FY24e EV/revenue would imply a share price of €34.45. This is a little below the €36.18 (May 2023: €35.17) indicated by our DCF at a WACC of 9% and terminal growth of 2%, with both valuations clearly well ahead of the current share price.

16 August 2023

Price	**€28.2**
Market cap	**€283m**
Net debt (€m) at 30 June 2023	25.2
Shares in issue	10.0m
Free float	78.4%
Code	EQS
Primary exchange	XETRA
Secondary exchange	FRA

Share price performance

%	1m	3m	12m
Abs	6.4	7.2	(4.4)
Rel (local)	8.7	8.2	(16.2)
52-week high/low		€30.5	€20.8

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

Q323 results 10 November 2023

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Edison profile page

EQS Group is a research client of Edison Investment Research Limited

Investment summary

Company description: Scaling European SaaS regtech

EQS provides products and services that meet a market need for reliable, secure, trustworthy automation in compliance and investor relations (IR) – regulatory technology, or regtech for short. It has invested in building a cloud-based platform, COCKPIT, for both the Compliance and IR areas of the business, from which it derives software-as-a-service (SaaS) revenues. COCKPIT provides its clients with a dashboard from which to access the subscribed elements to manage their own workflows. It has 5,688 SaaS customers (as at end Q223), with 89% of revenues earned on a recurring basis and a churn of 4.8% (down from 6.2% in H122). The more complex the corporate regulation framework, the greater the opportunity. The current roll-out of the whistleblowing regulations across Europe widens the target market and new opportunities in ESG monitoring and reporting should support the next wave of growth. Management has a clear goal. Its aim is for EQS to be the leading European cloud provider for global corporate compliance and IR solutions by 2027.

Valuation: Below the level indicated by DCF

We continue to look at EQS's equity valuation in the context of global peers, but meaningful conclusions will be easier to draw once the earnings start to come through more strongly. For now, the most useful of these metrics is EV/revenue and here, parity of rating with global financial software peers for FY24 would suggest a price of €34.45.

We have also run a discounted cash flow (DCF) exercise, using a WACC of 9%, a terminal growth rate of 2% and management's own medium-term growth projections – set to the outer end of its targeted date range. This returns a value of €36.18, up from €35.17 when calculated at the time of our May report and which was then based on slightly lower financial forecasts.

Financials: H223 set for conversion of whistleblowing pipeline

The first half results show strong progress in the Compliance segment as interest in whistleblowing systems translates into orders. We expect the pace should pick up in H2 now that the German law has finally come into effect. Despite the long lead time, many of the companies and organisations that need to comply remain unprepared in our view. Management guidance for the year is for revenue growth of 15–20%, delivering EBITDA in a range of €9–11m. We have lifted our forecasts from the bottom of this range to the middle, given the improving visibility. Medium-term targets are for revenues to increase to €130m by FY26 or FY27, delivering an EBITDA margin of 30%, up from the 7% achieved in FY22 and our current year forecast of 14%.

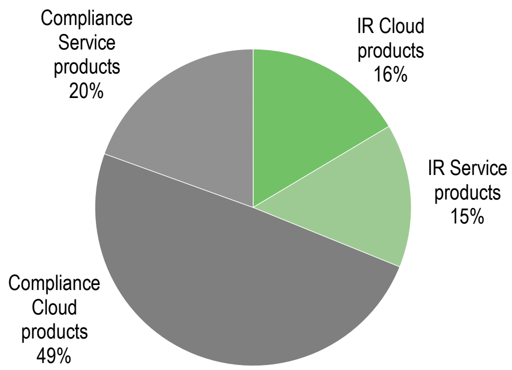
Sensitivities: Pipeline conversion and timing

The speed of pipeline conversion will be key to whether full year numbers come in towards the bottom or top end of the guided range. Meeting management's medium-term ambitions will depend on converting the newly won customers to buyers of a broader range of cloud-based products delivered vis the EQS COCKPIT. Regulatory changes have been a key stimulus to the development of the business and new opportunities may arise, particularly when it comes to monitoring and reporting on ESG metrics. Maintaining an immaculate record on data security is essential to retain EQS's reputation for integrity, which is crucial for winning and retaining business.

Company description: Cloud-based regtech provider

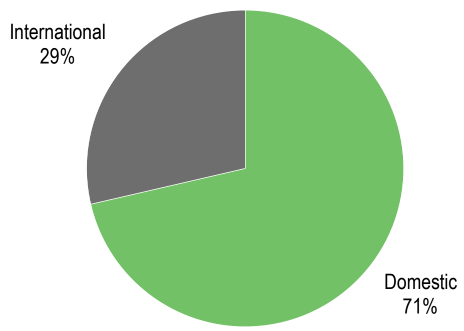
EQS's business is split into two segments, Compliance and IR, with the stated intention to build a third leg in Sustainability Reporting. Compliance covers products that are required to fulfil a regulatory obligation, while IR includes products designed to facilitate digital investor and corporate communications. The introduction of the sustainability reporting provision is also in response to forthcoming EU regulation, which will require companies to report various ESG metrics in specific formats. EQS is one of the largest global providers of digital solutions, designed to automate and simplify processes for individuals working on the technical administrative aspects of running a corporate concern, enabling them to free up their time to deal with matters that require more than simple information processing. By ensuring that the cloud-based product suites provided are constantly updated for the latest regulatory compliance changes and delivered via intuitive interfaces, EQS should continue to add value for its users. Originally centred on investor relations (which in Germany and some other markets includes functions covered in other jurisdictions by the company secretary or equivalent), the group's products and services have been expanded across the related areas of compliance, which now accounts for the larger part of revenue, as shown below.

Exhibit 1: FY22 revenue by segment



Source: EQS Group accounts

Exhibit 2: FY22 revenue by geography



Source: EQS Group accounts

Strategy built on relationships of trust

Management has set out clearly that its business is built on the concept of trust. Customers must be able to have absolute confidence in the efficacy and integrity of the products and services on offer. By choosing to work on and with EQS's platforms, those customers should be able to demonstrate to their own client base that they also take integrity and transparency seriously.

EQS Group was founded in 2000 in Munich, initially building a strong market position in its home markets of Germany, Switzerland and Austria before starting to expand its presence in overseas territories. EQS looks to position itself as a partner with its client companies, working alongside them to solve issues and reduce inefficiencies, rather than simply as a supplier whose interest may not extend beyond the initial sales timeframe, with a growing emphasis on providing SaaS. The shift away from paper-based information to digital channels of communication between corporate entities and their various stakeholders has been a key driver of growth, accelerated by the pandemic. The honed business model is focused on building subscription and annually recurring incomes as a proportion of the whole, increasing the quality of the earnings. In H123, recurring revenues represented 89% of total revenues.

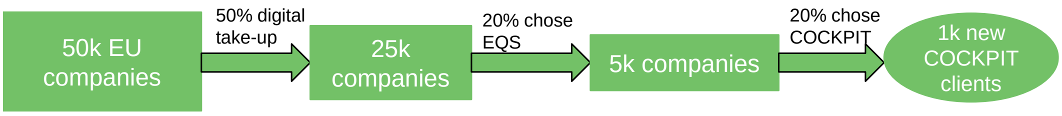
In addition to its headquarters in Berlin, Germany, EQS also has technology centres in Kochi (India) and Belgrade (Serbia), giving it access to a wide pool of programming and technical talent.

Organic growth supplemented by acquisitions

EQS has been built through a combination of organic growth and acquisitions, using a combination of cash, debt and equity to fund both aspects. Having invested in building its cloud-based platform to facilitate delivery of the business's offering in both the investor relations and compliance segments, management identified the emerging opportunity in digital whistleblowing. This is adjacent to the compliance capability, with the impetus coming from the EU Directive 2019/1937, which stipulated the provision of such a whistleblowing channel to guarantee secure and effective reactions to notifications.

The opportunity here was and is of significant scale and the imposition of a deadline meant a relatively tight timescale to address the opportunity. Across the EU, EQS estimated that around 50k companies and organisations would fall within the scope of the directive, of which around half would select a digital solution. The conversion potential was identified as shown below and this remains the scenario envisaged by management.

Exhibit 3: Whistleblowing market and conversion targets



Source: EQS Group, Edison Investment Research

To achieve this, EQS needed to scale up its digital whistleblowing offering, and fast. This was addressed through the acquisition of Got Ethics in November 2020 (initial purchase price €10m), followed by the purchase of Business Keeper in June 2021, the largest acquisition to date, with a transaction price of €95m. This made the combined group the clear market leader in Europe, adding over 300 customers and around 100 employees. Customers were predominantly large corporations, including 16 DAX-listed companies. Business Keeper generated annual recurring licence revenues of approximately €10m and was previously EQS's strongest competitor in Germany.

Standing out in a crowded market

EQS does not have this market to itself. In its own domestic market, management estimates that there may be 60–70 other firms offering whistleblowing solutions, with many at considerably lower price points. Some of these firms will be small start-ups, others might, for example, be law firms offering it as a service to clients. There are five or six more substantial players in the German market, but EQS is the largest.

The competitive landscape differs markedly by country, and this has provided a useful barrier to entry for some of the larger US-based consultancy firms that are used to being able to roll out a unified offering. The ability to manage the demands of meeting the legislation through a secure and proven system with an intuitive interface is self-evidently a competitive advantage. EQS has also put in place a broad and credible partner network to introduce new business, alongside its own sales resource.

Delivery through intuitive interactive platforms

To provide a genuine scalable proposition, EQS adopted cloud-based provision for both its products and its services, investing significantly over the period from FY15–18. This pattern of management identifying the opportunity and then investing in order to be able to address it with efficient and appropriate solutions, albeit at a sacrifice to short- to medium-term margins, was repeated with digital whistleblowing.

Compliance segment offering

EQS's Compliance segment provides tools for companies to fulfil their regulatory obligations. These products include:

- Disclosure: fulfilment of statutory disclosure obligations, including news,
- Integrity Line: anonymous and legally compliant whistleblowing system,
- Insider Manager: insider list management,
- Policy Manager and Rulebook: policy management and communication,
- Approval Manager: digital management of invitations, guidelines and conflicts of interest, and
- Risk Manager: the basis of the ESG reporting requirements outlined below.

These are increasingly being offered as part of the Compliance COCKPIT, with an intuitive client interface, as illustrated in Exhibit 4.

The group also provides various cloud services, including regulatory filing in XML and XBRL formats and legal entity identifier issuance. These are separately reported as they are not necessarily conducted via the COCKPIT. For the last three to four years, the company has been working hard to migrate its customers for individual products or services across to the EQS Compliance COCKPIT, a process that is substantially complete.

Exhibit 4: Compliance COCKPIT user interface

Source: EQS

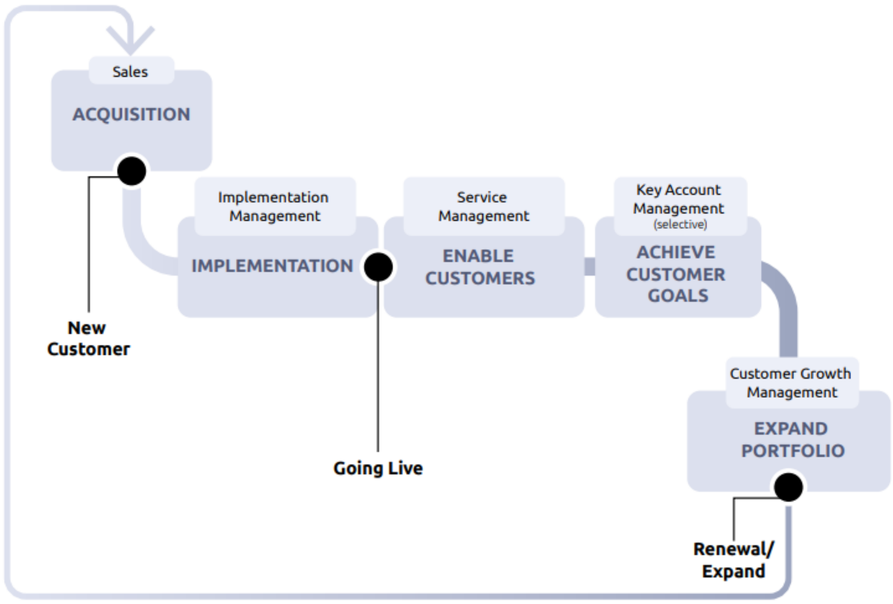
Exhibit 5: Whistleblowing (Integrity Line) user interface

Source: EQS

Land and expand strategy

The typical customer journey is illustrated below, with the timing of each phase varying with the scale and complexity of the project. The process of upselling is greatly simplified if that customer is using the COCKPIT and it is already integrated into their daily workflow.

Exhibit 6: Typical customer journey



Source: EQS

Opportunities in ESG reporting

The first stimulus to EQS's ESG service (to be delivered via the EQS Risk Manager on the Compliance COCKPIT) has been the implementation of the German Supply Chain Due Diligence Act, which has the stated goal of ensuring the fulfilment of human rights and environmental due diligence obligations in the supply chain of companies. This will apply for companies with between 1k and 3k employees from January 2024, with sales of the ESG-oriented Risk Manager service set to commence during H223.

Monitoring and reporting of the supply chain is clearly suitable for similar handling to other reporting requirements catered for within the Compliance COCKPIT and management hopes that this will be rolled out in time across the rest of the EU and beyond. In the longer term, it is likely that other elements of sustainability monitoring and reporting will be able to be incorporated.

IR segment offering

Similar to that in the Compliance segment, the IR COCKPIT offers a number of different products that can be contracted individually or in combination. These include:

- Newswire: communication of corporate newsflow,
- Investors: investor data,
- CRM,
- Mailing, and
- Roadshow Manager: facilitating the organisation of investor meetings.

Beyond the products offered on the COCKPIT, EQS has further cloud-based service offerings in:

- Webcasts: communication with existing and potential investors,
- IR websites and annual reports, and
- Stock tools: integrations into corporate websites to show stock pricing and analysis.

As of H123, 35% of IR revenues were under SaaS contracts, up from 32% in H122.

Exhibit 7: IR COCKPIT user interface

Source: EQS

Exhibit 8: ESG COCKPIT user interface

Source: EQS

EQS's own ESG priorities

EQS provides products and services that facilitate the good governance of other corporate entities and, according to management, corporate integrity is at the heart of its operating culture. It has published its second and more detailed ESG report 2022. This outlines management commitments in respect of

- ethics and integrity,
- customers and product responsibility,
- corporate culture and employees,
- environment, and
- supply chain.

The group's approach to these factors is described on pages 32–33 of the report, alongside the goal of achieving climate-neutral production by 2025. The report includes the intention that management remuneration will include a long-term component linked to ESG goals.

Management steeped in financial markets and IR

EQS has a very experienced leadership team that has worked together for many years. The group's CEO is Achim Weick, who began his career at Commerzbank. Subsequently, he co-founded investor relations manager CMC Capital Markets Consulting. Achim is the originator, founder and second largest shareholder of EQS and has been on the board since its foundation. COO Christian Pfleger joined EQS in 2001, initially as a client relationship manager, moving to project management from 2003. In 2007, he took over responsibility for products and services. André Silverio Marques was appointed to the main board as CFO in July 2018, having been finance director since 2015. He previously ran the group's Russian businesses and, before that, oversaw the IR, business development and corporate finance activities. The other key member of the management team is Marcus Sultzer, who joined the group in 2007 and oversaw business development in Russia and the CIS from 2009 and Asia-Pacific from 2013. As well as being international managing director, in charge of operations in Asia, Russia, Switzerland and UAE, he is the group's chief revenue officer. Fuller biographies of management are given on page 16.

Sensitivities

The key sensitivity currently is the success or otherwise of the conversion of the sales pipeline for the whistleblowing offering and subsequent conversion into broader client status, as illustrated in Exhibit 3. Delays to the roll-out of the whistleblowing legislation across the EU have had a short-term negative impact on revenues, pushing out the timeline for the medium-term plan from FY25 to FY26/27, as disclosed at the time of the Q123 results announcement.

The recovery from the most severe effects of COVID-19 has seen slower sales conversion cycles, but the group has been able to retain some of the inadvertent benefits, such as virtual meeting hosting within the IR offering.

There are various other factors that will influence EQS's financial performance, each of which may vary considerably across the operating territories. These include:

- The number of listed companies, itself a factor of the environment for de-listings and/or IPOs. The European IPO market remains challenging, with just 20 in Q123 and 25 in Q223, raising a total of €3.8bn (H122: €5.2bn). The indications are for a slight improvement in H2 (source: PwC).
- The number of companies of sufficient scale to benefit from automation of reporting.
- Corporate activity that prompts the need for information dissemination.
- The regulatory environment: the more complex the system and the greater the number and extent of changes to those systems, the greater the requirement for corporates to access relevant expertise. The introduction of additional regulation, such as that for whistleblowing, supply chain management and reporting, can create a new market, while others like market abuse regulations can reinvigorate previously dull markets.
- Requirements for corporates to make information available in a digital format, either through regulation or user demand. Allied to this, EQS needs to develop products that meet the needs of its customers in a timely manner, to maintain and enhance its competitive positioning.
- Data security, including the General Data Protection Regulation, can restrict competition from providers that do not have similar levels of auditory clearance, or may not hold their data within the relevant jurisdiction, and sets a higher barrier to entry. Cyber security is crucial, not least from a reputational perspective.
- Currency: 20–25% of revenues are generated in currencies other than the euro, mostly in hard currencies such as the Swiss franc, sterling, Danish kröne, Hong Kong dollar and US dollar. Expenses are predominantly in euros and bank loans are also euro denominated. Currency exposure is not hedged. In FY22, the net financial benefit from currency translation was €521m, versus a gain of €722k in FY21, following a loss of €205k in FY20.

Valuation

The group is now moving steadily towards delivering a net profit (which we anticipate in FY24), so earnings-derived conventional peer-based valuations are set to become more useful in the future. For now, we supplement this with a DCF-based approach.

Peer context

As profitability starts to fall within the modelling horizon, we can start to consider multiples beyond EV/revenue, including EV/EBITDA and P/E. We look at both the small cohort of quoted financial software companies and a broader global set of application software peers (excluding the smallest groups capitalised below $50m).

There continues to be a wide range of multiples for the financial software peer group. For FY1, EQS is trading at 3.9x sales versus the median for the peer group of 4.5x, a discount of 14%. With EQS's forecast faster sales growth, as implied by management's medium-term plan, this discount opens out for FY2 to 25%. Against the application software peers, EQS sits at a small premium on the current year, moving to a small discount for FY2. Looking at the earnings multiples, EQS is still at an understandable premium for the current year on EV/EBITDA, but moves to a discount of 23% for FY2. Application software stocks are currently trading at valuations above those for the financial software peers for FY3, with EQS trading at a discount to both groups FY3 (based on very tentative numbers).

Exhibit 9: Peer comparison

	Price (rep. ccy)	Mkt cap (m)	Share price perf ytd	EV/sales (x)				EV/EBITDA (x)				P/E (x)			
			%	FY0	FY1	FY2	FY3	FY0	FY1	FY2	FY3	FY0	FY1	FY2	FY3
Thomson Reuters (US$)	176.9	79,890	15	8.77	9.16	8.72	8.26	22.88	23.49	22.01	20.52	39.83	38.53	35.17	32.11
Envestnet (US$)	54.43	2,960	-12	3.31	3.0	2.71	2.47	32.46	14.78	11.86	9.8		25.36	20.24	16.81
Datagroup (€)	55.5	463	-12	1.06	1.16	1.09	1.03	5.97	7.5	6.96	6.51	20.44	15.41	13.8	12.5
Globaldata (£)	162.5	1,380	-1	6.61	5.94	5.56	5.17	20.48	14.89	13.38	12.03	44.92	22.52	19.44	16.79
S&P Global (US$)	392.6	123,350	17	11.02	11.02	10.27	9.51	23.24	23.49	21.05	19.15	32.84	30.97	26.83	23.6
NFON (€)	7.02	116	13	1.18	1.27	1.16	1.06		25	13.26	9.38			140.4	45.78
Smartbroker Hdgs (€)	10	158	71	1.5	2.67	2.74	2.26	9.01	15.04	61.9	9.95		31.56		26.93
Marketaxess Hdg (US$)	239.19	8,990	-14	14.02	11.21	9.92	8.95	25.93	20.94	18	16.07	41.96	33.71	28.81	25.58
Average			10	5.9	5.7	5.3	4.8	20.0	18.1	21.1	12.9	36.0	28.3	40.7	25.0
Median			6	5.0	4.5	4.2	3.8	22.9	18.0	15.7	11.0	39.8	31.0	26.8	24.6
EQS (€)	**28.6**	**284.0**	**17**	**4.6**	**3.9**	**3.1**	**2.5**	**61.2**	**28.0**	**16.2**	**10.1**	**(128.0)**	**260.5**	**40.7**	**19.0**
Premium/discount				-8%	-14%	-25%	-34%	167%	55%	3%	-8%	N/A	741%	52%	-23%
Application software peers			15	4.1	3.6	3.2	2.9	17.7	16.2	14.6	12.4	29.5	29.5	29.5	29.5
Premium/discount				10%	7%	-4%	-14%	246%	73%	11%	-19%	N/A	N/A	38%	-36%

Source: Refinitiv. Note: Prices as at 11 August 2023.

For illustrative purposes, closing the discount to the other financial software peers on FY2 EV/revenue would imply a share price of €34.45, 22% above the current price.

DCF also points to value above the current price

Management has outlined its views on the medium-term revenue growth outlook, with Compliance growing at a CAGR of 20–25% from FY22 through to FY26/27e (which we read as FY27 for conservatism's sake) and IR growing at a more modest 5–10%. From the current mix (and assuming no further M&A), this equates to group revenue growth of 16%. On the basis of this forecast, management anticipates EBITDA margins exceeding 30% by the end of the forecast period.

In view of the global interest rate environment, we are using a WACC of 9% (unchanged) to calculate the DCF. If we apply the assumptions above to the DCF and assume that margins are sustainable at that level and that growth tails off by 200bp per year beyond FY27 simply through scale, then at a WACC of 9% and a terminal growth rate of 2%, the implied value per share is €36.18. In May, we derived a figure of €35.17. Obviously, there is an element of execution risk here, with the bulk of the value accruing beyond our explicit forecast period (to FY24).

Exhibit 10: DCF (€/share) at varying WACC and terminal growth rates using management mid-term assumptions

		Terminal growth rate				
		0.00%	1.00%	2.00%	3.00%	4.00%
WACC	11.00%	23.39	24.84	26.60	28.81	31.65
	10.50%	24.85	26.51	28.55	31.14	34.53
	10.00%	26.47	28.38	30.76	33.83	37.91
	9.50%	28.28	30.49	33.28	36.94	41.92
	9.00%	30.30	32.88	**36.18**	40.59	46.77
	8.50%	32.58	35.60	39.55	44.94	52.71
	8.00%	35.17	38.74	43.50	50.17	60.18
	7.50%	38.12	42.39	48.20	56.61	69.82
	7.00%	41.52	46.67	53.88	64.69	82.72
	6.50%	45.47	51.76	60.85	75.13	100.84

Source: Edison Investment Research

Financials

Following publication of the interim results, we have made some adjustments to our forecasts to reflect that the first benefits from the German whistleblowing legislation 'going live' should now be seen in H223, with some consequent improvement in visibility. Management guidance for FY23 is unchanged, targeting revenue growth of 15–20% and EBITDA in a range of €9–11m, so in effect we have moved our estimates from the bottom of the guided range to the middle.

Exhibit 11: Summary revisions to forecasts

	Revenue (€m)			EBITDA (€m)			EPS (€)		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2022		61.4			4.6			(0.20)	
2023e	71.5	72.5	+1	9.1	10.0	+10	0.04	0.10	+150
2024e	88.8	90.0	+1	16.2	17.3	+7	0.55	0.62	+13

Source: EQS, Edison Investment Research

H123 earnings show strong operational leverage

As would be expected, the main impetus for revenue growth was from the group's Compliance segment, with both products and services showing good progress. There was a particular impetus in the period from the introduction in January 2023 of mandatory reporting in a standardised electronic format for companies whose shares are traded on a regulated EU market, known as ESEF. This type of filing, alongside XML reporting and the issuing of Legal Entity Identifiers, is a low-ticket item so far as EQS is concerned (and not all are delivered via the COCKPIT) but allows for more meaningful corporate relationships to be developed over time.

More important for the longer-term prospects is the build in whistleblowing customers within the Compliance cloud-services reporting line. Here, 675 new customers were acquired in H123 (H122: 350), either directly or via the established partner network. Notable new customers are set out on page 11 of the H123 financial report.

Progress was more subdued in the IR segment, partly a reflection of the termination of business in Russia, which previously fell into the cloud-services reporting line.

Exhibit 12: Summary H123 results and FY23 guidance

€m	H123	H122	% change	Full year guidance
Compliance revenues				
Cloud-products	17.22	14.75	17%	
Cloud-services	6.69	5.36	25%	
Total Compliance	**23.91**	**20.11**	**19%**	
Investor Relations revenues				
Cloud-products	5.37	5.02	7%	
Cloud-services	4.57	4.79	-5%	
Total Investor Relations	**9.94**	**9.81**	**1%**	
Group revenues	33.85	29.92	13%	15–20%
EBITDA	3.21	1.14	181%	9–11
EBIT	(0.78)	(2.91)	-73%	
Personnel expenses	20.69	19.53	6%	
New SaaS customers	730	456	60%	2,000–3,000
Total customers	5,688	4,591	24%	
New annual recurring revenue	4.59	3.55	29%	11.0–16.0
ARR	30.02	26.10	15%	

Source: EQS

With the close control of costs (personnel costs were 6% above prior year, other expenses up 3%), EBITDA rose from €1.14m to €3.21m in H123 and the loss at the EBIT level narrowed from €2.9m to €0.8m.

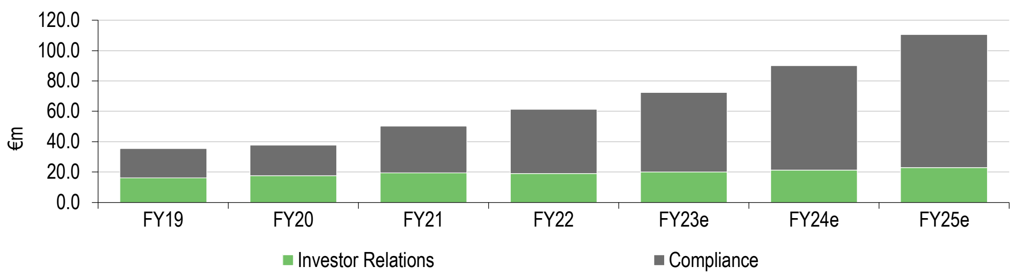
Historical growth trends and medium-term guidance

Putting this into a broader context, the exhibits below show clearly how momentum has been growing in the Compliance segment. The delays to the full implementation of the whistleblowing regulation have extended the original timescale for reaching the medium-term growth targets and this was revised earlier in the year.

Guidance on medium-term CAGRs for the two reporting segments is now expressed out to FY26/27, whereas it was previously explicitly for FY25. In our modelling as used for our DCF above, we have taken a conservative approach and assumed that these targets will be hit in FY27. On this timescale, management is targeting revenues of €130m, split 78% Compliance, 22% IR. This would generate an EBITDA of €39m (ie a margin of 30%).

On this basis, we regard these targets as eminently achievable, with a 30% margin reasonable for a platform business of this type.

Exhibit 13: Revenue history and projections by segment



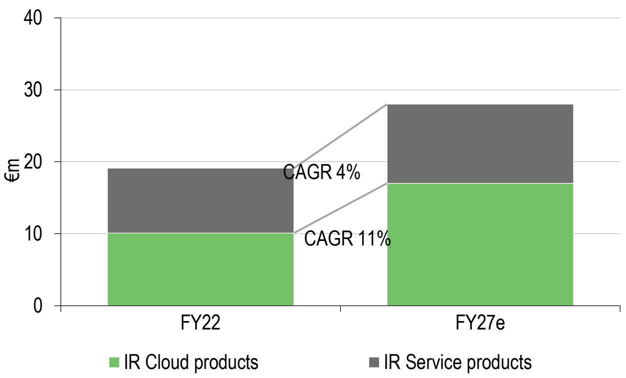
Source: Company accounts, Edison Investment Research

Exhibit 14: Segmental revenue progress and group revenue

€k	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e
Investor Relations							
Cloud-products	5,286	7,849	9,504	10,101	10,986	12,084	13,293
growth (%)	0%	48%	21%	6%	9%	10%	10%
Service-products	8,717	9,818	10,012	9,015	9,015	9,240	9,609
growth (%)	0%	13%	2%	-10%	0%	3%	4%
Discontinued operation (ARIVA.DE AG)	2,072	0	0	0	0	0	0
Total Investor Relations	16,075	17,667	19,516	19,115	20,000	21,324	22,902
growth (%)		10%	10%	-2%	5%	7%	7%
Compliance							
Cloud-products	9,332	10,696	19,826	30,340	37,531	51,552	68,264
growth (%)	0%	15%	85%	53%	24%	37%	32%
Service-products	8,535	9,273	10,881	11,975	14,969	17,123	19,455
growth (%)	0%	9%	17%	10%	25%	14%	14%
Discontinued operation (ARIVA.DE AG)	1,425	0	0	0	0	0	0
Total Compliance	19,292	19,969	30,707	42,315	52,500	68,675	87,719
growth (%)		4%	54%	38%	24%	31%	28%
Like-for-like growth (%)		12%					
Group	**35,367**	**37,636**	**50,223**	**61,430**	**72,500**	**90,000**	**110,621**
growth		6%	33%	22%	18%	24%	23%

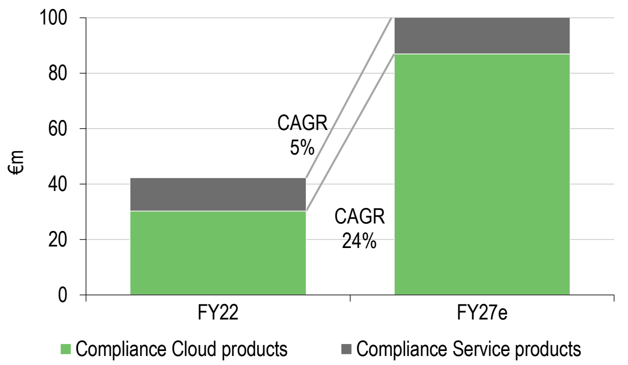
Source: Company accounts, Edison Investment Research

Exhibit 15: IR segment growth target



Source: EQS, Edison Investment Research

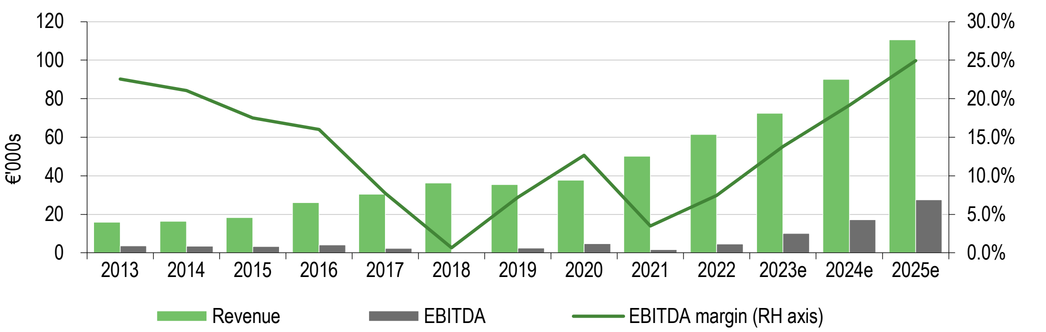
Exhibit 16: Compliance segment growth target



Source: EQS, Edison Investment Research

Built with an eye to long-term sustainability

Exhibit 17: Long-term revenue and EBITDA record and forecasts



Source: EQS, Edison Investment Research

It is worth noting when looking at the longer-term revenue and margin record, above, that there have been two phases where the group's EBITDA margin has decreased. As explained previously, the first of these reflects the period when margin was sacrificed to fund the investment in building out the COCKPIT platform that equipped the group to scale its offering.

The more recent dip reflects the investment to position the group to take best advantage of the time-limited opportunity within the whistleblowing arena to build market share. This involved comparatively heavy investment in sales and marketing and the building out of a partner network to broaden the reach. The unexpected delays to the passage of the regulation into fully implemented legislation meant that this additional overhead was carried for longer than originally anticipated.

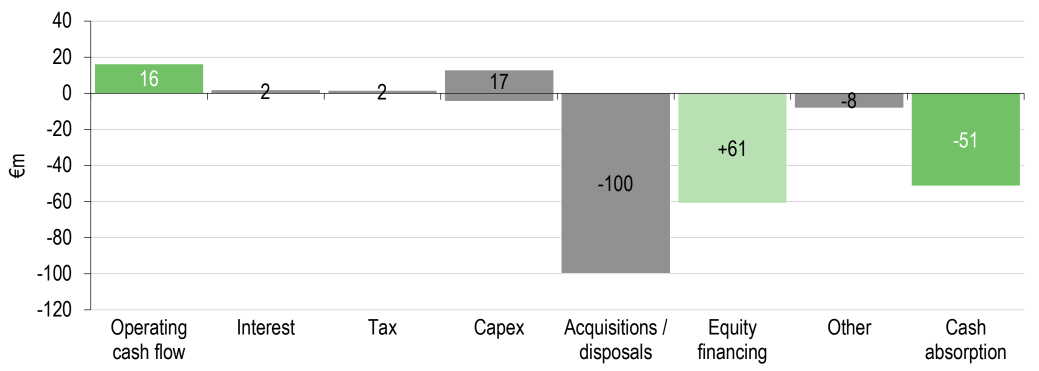
The cost base is now more normalised and appropriate for the scale of the business and its immediate opportunity, albeit at some modest cost to margin from the commission due to introducing partners. It is clear, though, that the operational leverage is already starting to show through in the financial results and in prospects for the second half of the year.

M&A dominates recent cash flow

Rather than look at the group's cash flow in discrete reporting periods, it is more meaningful to show how cash has flowed in and out of the business over time. By aggregating the figures across FY17–22, we can see that the operating cash flow has broadly covered the capex spend on developing the infrastructure. The major obvious elements are the acquisition spend and the equity financing raised to part-fund those purchases.

The largest acquisition was that of Business Keeper in June 2021 for €95m, of which €80m was paid in FY21 with the balance due in FY22 and which gave the group the scale and market credibility within the whistleblowing space.

Exhibit 18: Cumulative cash flow FY17–22



Source: Company accounts, Edison Investment Research

During FY21, the group raised €43.9m in three capital raises, in February, July and December. These were for €13.6m at €38.00 per share, €22.4m at €38.00 and €7.7m at €41.00.

During Q122, the group carried out a further fund-raise of €45m gross, in part to facilitate the requirements of a new prospective cornerstone investor, Gerlin NV's Teslin fund. To satisfy this, the deal was structured to be underwritten by other key investors, which only subscribed to the extent that, with a rump placing, they would end up where they wanted to be, thereby avoiding dilution. So, although visually a take up of 9.7% looked poor, this did not represent the underlying degree of support from existing shareholders. Gerlin took 42% of the issue and now has a 6.0% holding in the enlarged equity.

The other advantage of the transaction was that it did not require the major input of investment bankers, saving €2–3m on the deal.

Balance sheet on a sound footing

The initial purchase price for Business Keeper was part-funded 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), as described above. In November 2022, this was refinanced over a period of 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 are in equal instalments starting mid-2023.

Net debt at end-H123 had reduced to €25.20m (end-FY22: €28.43m, end Q123: €25.99m), including lease liabilities; excluding these, net debt was €22.23m, down from €22.58m at end Q123. Our forecast for the year-end is for €27.3m (including lease debt, and down from our previous estimate of €28.7m) and this may prove to be conservative. This is equivalent to 2.7x FY23e EBITDA, falling to 1.3x for FY24e.

The business's capital requirements are minimal, although ongoing investment in products and services is always needed to maintain market relevance.

Exhibit 19: 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	72,500	90,000
Cost of Sales	0	0	0	0	0
Gross Profit	37,636	50,223	61,430	72,500	90,000
EBITDA	4,760	1,742	4,567	10,000	17,250
Operating profit (before amort. and excepts.)	819	(3,975)	(1,327)	4,031	11,231
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)	1,774	8,974
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)	1,453	9,300
Profit Before Tax (reported)	(233)	(6,858)	(5,344)	(804)	7,043
Reported tax	(599)	229	2,013	265	(2,324)
Profit After Tax (norm)	296	(5,254)	(1,924)	973	6,231
Profit After Tax (reported)	(832)	(6,629)	(3,332)	(539)	4,719
Minority interests	(34)	0	1	4	5
Discontinued operations	0	0	0	0	0
Net income (normalised)	296	(5,254)	(1,924)	973	6,231
Net income (reported)	(866)	(6,629)	(3,331)	(534)	4,724
Average Number of Shares Outstanding (m)	7.2	8.1	9.7	10.0	10.0
EPS - normalised (€)	0.04	(0.65)	(0.20)	0.10	0.62
EPS - normalised fully diluted (€)	0.04	(0.65)	(0.20)	0.10	0.62
EPS - basic reported (€)	(0.12)	(0.81)	(0.34)	(0.05)	0.47
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	6.4	33.4	22.3	18.0	24.1
EBITDA Margin (%)	12.6	3.5	7.4	13.8	19.2
Normalised Operating Margin (%)	2.2	(7.9)	(2.2)	5.6	12.5
BALANCE SHEET					
Fixed Assets	39,007	168,468	170,440	169,619	168,948
Intangible Assets	31,016	160,386	158,081	155,392	154,971
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	18,169	19,223
Stocks	0	0	0	0	0
Debtors	3,923	7,018	6,075	7,151	8,877
Cash & cash equivalents	12,074	8,653	10,654	8,815	8,144
Other	1,089	2,697	2,203	2,203	2,203
Current Liabilities	(12,381)	(89,171)	(27,066)	(30,173)	(30,823)
Creditors	(2,747)	(3,197)	(2,709)	(3,032)	(3,492)
Tax and social security	(56)	(214)	(1,350)	(1,593)	(1,978)
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	110,518	116,252
Minority interests	0	0	1	1	1
Shareholders' equity	32,943	70,240	112,210	110,519	116,253
CASH FLOW					
Operating Cash Flow	3,765	(2,296)	2,786	5,668	10,976
Working capital	1,294	(1,149)	3,952	(753)	(1,266)
Exceptional & other	1,037	5,711	699	2,366	4,309
Tax	(154)	(229)	(2,013)	265	(2,324)
Net Operating Cash Flow	5,942	2,037	5,425	7,547	11,695
Capex	(2,008)	(3,149)	(2,813)	(2,300)	(3,250)
Acquisitions/disposals	0	(96,428)	(14)	(968)	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	1,162	5,328
Opening net debt/(cash)	13,472	(1,153)	74,372	28,434	27,274
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	27,274	21,947

Source: Company accounts, Edison Investment Research

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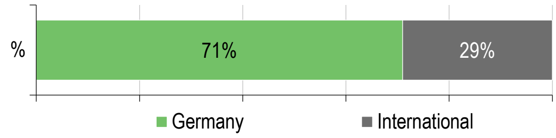
Revenue by geography (FY22)



Management team

CEO executive board: Achim Weick

Achim Weick began his career in corporate banking at Commerzbank. He completed an international trainee programme and worked in Berlin, Budapest and New York. Subsequently, he was co-founder of investor relations manager CMC Capital Markets Consulting. Achim is the originator, founder and largest shareholder of EQS Group and has been on the board since the group's foundation.

COO executive board: Christian Pfleger

Christian Pfleger studied business administration at the University of Bayreuth with a focus on marketing and organisation. He then moved to regional television company Oberpfalz TV. He joined EQS Group in 2001, initially as a client relationship manager, moving to project management from 2003. In 2007, he took over responsibility for products and services. On 1 January 2015, he was appointed COO of the executive board of EQS Group.

Chairman supervisory board: Rony Vogel

An electrical engineer by training, Rony Vogel started his career at TRW Electrical and Electronics. In 1996 he co-founded Internet Screen Phones at Siemens, and in 1999 founded The Business Angel Network venture24. This helped launch a number of start-ups, including EQS Group. Since 2003, he has been an active investor and entrepreneur in the software/internet, environmental and real estate sectors. He holds a number of other board positions.

CFO executive board: André Marques

Prior to his current responsibilities, André was in charge of the group's activities in Russia and the CIS. Before that role, he had headed the company's investor relations department and overseen the business development and corporate finance activities. He studied finance at Frankfurt State University and has an MBA in general management.

CRO: Marcus Sultzer

In July 2018, Marcus became the chief revenue officer of EQS Group and is responsible for global revenues and marketing. Marcus joined EQS Group in 2007 and has taken a leading role in its international expansion. From 2009 to 2012, he was based in Moscow, starting and developing the group's Russian operations. This was followed by a four-year chapter in Asia in a similar role. Marcus studied economics and holds an MBA.

Principal shareholders	(%)
Investm. F. Langfr. Inv.	24.0
Achim Weick (CEO)	15.3
Gerlin Participaties Co-op UA	6.0
Danske Bank	5.0
ProfitlichSchmidlin Fonds UI	4.5
Universal Inv	3.2

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