

EQS Group

New customer numbers ramp up

Q3 trading update

Software

As anticipated, now that the German whistleblower protection laws are in place, EQS is recruiting substantial numbers of new customers and is set for a strong fourth quarter, with good momentum into FY24. Once these new customers convert, they become a pipeline of warm leads for other EQS products and services, including more recent additions such as those for ESG monitoring and reporting. Q323 revenues were up 14% on the prior year and newly won annual recurring revenue (ARR), which precedes reported revenue, was up 50%. The rating remains well below that of peers and the value indicated by a discounted cash flow (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)	144.5	N/A
12/22	61.4	4.6	(3.1)	(0.20)	55.1	N/A
12/23e	72.5	10.0	1.5	0.10	25.2	223.8
12/24e	90.0	17.3	9.4	0.63	14.6	35.9
12/25e	106.5	22.1	14.4	0.97	11.4	23.4

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

Building momentum

EQS increased the number of its SaaS customers by 170% to 665 over Q3 as some of the pent-up demand for digital whistleblowing software systems flowed through following the transposition into law of the regulations in Germany on 1 July. Of the 1,331 new SaaS whistleblowing customers recruited over 9M23, 665 came on board in Q3. There is still a long way to go in building the understanding of the requirements to implement across organisations (not just corporate, but also public sector, charities, etc), so we anticipate demand continuing to be strong through FY24 and into FY25, for which we now publish our estimates for the first time. Our FY23 and FY24 figures are broadly unchanged, bar a better free cash flow performance, which reduces our year-end net debt forecast to €22.4m, from €27.3m, with management reporting a figure of €24.3m at end-September.

Margins expanding on market-leading position

With the increasing volumes, overhead recovery is improving. The Q323 EBITDA margin was 13.8%; 11.4% for 9M23. Our modelling suggests a Q424 EBITDA margin of 19.2% – a level that we regard as sustainable while the whistleblowing momentum continues, not just in Germany but across other EU jurisdictions. While figures are hard to come by, management asserts market leadership in Germany.

Valuation: Discount to peers and DCF

EQS is edging closer to an earnings-based valuation and parity with peers on FY24e EV/revenue would imply a share price of €31.69, down from €34.45 in August, as peers' ratings have retrenched. This is a little below the €36.36 (August 2023: €36.18) 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.

13 November 2023

Price **€22.6**
Market cap **€227m**

Net debt (€m) at 30 Sept 2023	24.3
Shares in issue	10.0m
Free float	78.4%
Code	EQS
Primary exchange	XETRA
Secondary exchange	FRA

Share price performance



% 1m 3m 12m

Abs

Rel (local)

52-week high/low

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

FY23 results February 2024

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Key growth indicators show extent of progress

The quarterly figures show the start of the flow through from the digital whistleblowing, boosting the revenues within the Compliance segment and starting to be reflected in the new ARR figure, up 37% on 9M22. With the increase in operating expenses limited to 7%, much of this additional revenue is flowing through to EBITDA, lifting the EBITDA margin in Q323 to 13.4%.

Booked ARR's are a lead indicator for the actual revenues, so support the top-line momentum into FY24. New customers are either recruited directly or via a partner network, with EQS concentrating its in-house efforts on targeting organisations with over 500 employees, as these will represent the most promising leads for further up- and cross-selling once the initial wave of recruitment has passed.

Exhibit 1: Growth in key figures

€000s	Q123	Q223	Q323	9M23 y-o-y change (%)
Total revenue	15,972	17,875	16,762	+15
Compliance				
<i>Cloud-products</i>	8,291	8,929	9,260	+19
<i>Cloud-services</i>	2,785	3,905	2,810	+17
Investor Relations				
<i>Cloud-products</i>	2,664	2,706	2,710	+8
<i>Cloud-services</i>	2,231	2,339	2,140	-5
New annual recurring revenue	1,860	2,730	2,990	+37
Operating expenses	(15,200)	(16,453)	(15,370)	+7
EBITDA	1,302	1,912	2,242	+115
<i>Margin</i>	8.2%	10.7%	13.4%	
EBIT	(702)	(77)	302	
Group earnings	(1,231)	(304)	(210)	
Operating cash flow	3,697	1,757	2,498	+85
Equity ratio (%)	59	59	60	
SaaS customers	5,257	5,688	6,305	+32

Source: EQS Group accounts, Edison Investment Research

Cash flow benefiting

The larger revision to our numbers is on free cash flow, where conversion has been better than we expected. We previously anticipated that the group would finish the current year with net debt of €27.3m. At the end of September, EQS had net debt of €24.3m (or €21.4m excluding lease liabilities), so we were clearly being over cautious. Our revised estimate is for end-FY23 net debt of €22.4m, coming back to €13.9m by end-FY24.

Medium-term targets of €130m, EBITDA margin of 30%

Management's target of revenues of €130m, split 78% Compliance, 22% IR, is unchanged, with some flex as to whether this is achieved in FY26 or FY27. This was discussed in more detail in our [August Outlook note](#).

Our new FY25 figures show good progress towards these goals, with revenues of €106.5m and an EBITDA margin of 20.8%, which may be less ambitious than management's internal targets. There is plenty still to go for with the digital whistleblowing opportunity as it rolls out across Europe, and beyond that, there are substantial opportunities in the ESG monitoring, recording and reporting fields, which can be delivered through the existing COCKPIT platform.

Exhibit 2: Financial summary

	€'000s	2020	2021	2022	2023e	2024e	2025e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Revenue		37,636	50,223	61,430	72,500	90,000	106,500
Cost of Sales		0	0	0	0	0	0
Gross Profit		37,636	50,223	61,430	72,500	90,000	106,500
EBITDA		4,760	1,742	4,567	10,000	17,300	22,100
Operating profit (before amort. and excepts.)		819	(3,975)	(1,327)	4,031	11,281	16,031
Amortisation of acquired intangibles		(656)	(1,532)	(2,257)	(2,257)	(2,257)	(2,257)
Exceptionals		0	110	0	0	0	0
Share-based payments		0	0	0	0	0	0
Reported operating profit		163	(5,397)	(3,584)	1,774	9,024	13,774
Net Interest		(396)	(1,461)	(1,761)	(2,520)	(1,869)	(1,583)
Joint ventures & associates (post tax)		0	0	0	0	0	0
Exceptionals		0	0	1	0	0	0
Profit Before Tax (norm)		423	(5,436)	(3,087)	1,511	9,412	14,448
Profit Before Tax (reported)		(233)	(6,858)	(5,344)	(746)	7,155	12,191
Reported tax		(599)	229	2,013	246	(2,361)	(4,023)
Profit After Tax (norm)		296	(5,254)	(1,924)	1,012	6,306	9,680
Profit After Tax (reported)		(832)	(6,629)	(3,332)	(500)	4,794	8,168
Minority interests		(34)	0	0	0	0	0
Discontinued operations		0	0	0	0	0	0
Net income (normalised)		296	(5,254)	(1,924)	1,012	6,306	9,680
Net income (reported)		(866)	(6,629)	(3,332)	(500)	4,794	8,168
Average Number of Shares Outstanding (m)		7.2	8.1	9.7	10.0	10.0	10.0
EPS - normalised (€)		0.04	(0.65)	(0.20)	0.10	0.63	0.97
EPS - normalised fully diluted (c)		4.12	(64.53)	(19.76)	10.10	62.91	96.57
EPS - basic reported (€)		(0.12)	(0.81)	(0.34)	(0.05)	0.48	0.81
Dividend per share (c)		0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		6.4	33.4	22.3	18.0	24.1	18.3
EBITDA Margin (%)		12.6	3.5	7.4	13.8	19.2	20.8
Normalised Operating Margin (%)		2.2	(7.9)	(2.2)	5.6	12.5	15.1
BALANCE SHEET							
Fixed Assets		39,007	168,468	170,440	168,630	167,959	162,614
Intangible Assets		31,016	160,386	158,081	154,403	153,982	149,759
Tangible Assets		7,216	7,351	5,011	6,878	6,628	6,503
Investments & other		775	731	7,349	7,349	7,349	6,352
Current Assets		17,086	18,369	18,932	21,029	26,006	34,375
Stocks		0	0	0	0	0	0
Debtors		3,923	7,018	6,075	6,793	7,989	10,723
Cash & cash equivalents		12,074	8,653	10,654	12,033	15,814	21,449
Other		1,089	2,697	2,203	2,203	2,203	2,203
Current Liabilities		(12,381)	(89,171)	(27,066)	(30,628)	(30,820)	(26,787)
Creditors		(2,747)	(3,197)	(2,709)	(3,487)	(3,490)	(4,272)
Tax and social security		(56)	(214)	(1,350)	(1,593)	(1,978)	(2,340)
Short term borrowings (includes lease debt)		(3,278)	(73,095)	(8,198)	(8,198)	(8,198)	(8,198)
Other		(6,300)	(12,665)	(14,809)	(17,350)	(17,155)	(11,977)
Long Term Liabilities		(10,768)	(27,426)	(50,096)	(45,441)	(40,691)	(35,941)
Long term borrowings (includes lease debt)		(7,641)	(9,927)	(30,890)	(26,235)	(21,485)	(16,735)
Other long term liabilities		(3,127)	(17,499)	(19,206)	(19,206)	(19,206)	(19,206)
Net Assets		32,943	70,240	112,210	113,590	122,454	134,261
Minority interests		0	0	1	1	1	1
Shareholders' equity		32,943	70,240	112,210	113,590	122,454	134,261
CASH FLOW							
Operating Cash Flow		3,765	(2,296)	2,786	5,707	11,051	14,475
Working capital		1,294	(1,149)	3,952	60	(1,193)	(1,952)
Exceptional & other		1,037	5,711	699	4,900	6,208	7,301
Tax		(154)	(229)	(2,013)	246	(2,361)	(4,023)
Net Operating Cash Flow		5,942	2,037	5,425	10,913	13,704	15,801
Capex		(2,008)	(3,149)	(2,813)	(2,300)	(3,250)	(3,775)
Acquisitions/disposals		0	(96,428)	(14)	21	0	0
Net interest		(157)	(1,636)	(1,666)	(2,520)	(1,869)	(1,583)
Equity financing		9,124	43,929	44,833	(28)	0	0
Dividends		0	0	0	0	0	0
Other		414	(2,772)	(2,327)	0	0	0
Net Cash Flow		13,315	(58,019)	43,438	6,086	8,585	10,442
Opening net debt/(cash)		13,472	(1,153)	74,372	28,434	22,400	13,869
FX		(199)	126	50	0	0	0
Other non-cash movements		1,509	(17,631)	2,450	(52)	(54)	(58)
Closing net debt/(cash)		(1,153)	74,372	28,434	22,400	13,869	3,484

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