

Rating
SPECULATIVE BUY
unchanged

Price Target
C\$2.00
unchanged

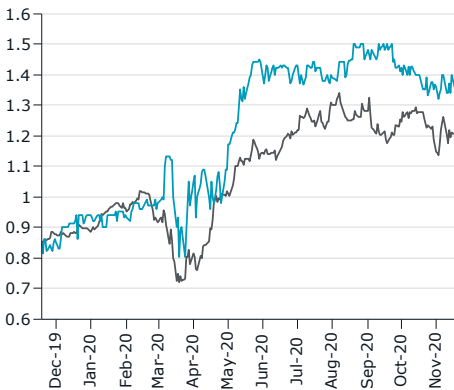
EQ-TSXV

Price
C\$1.40

Market Data

52-Week Range (C\$) :	1.32 - 1.40
Avg Daily Vol (000s) :	10
Market Cap (C\$M) :	82.5
Shares Out. (M) :	58.9
Dividend /Shr (C\$) :	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (C\$M) :	(2.5)

FYE Dec	2019A	2020E	2021E	2022E
Sales (C\$M)	9.0	10.3↓	14.9↑	20.8↑
Previous	-	10.4	14.6	20.5
EBITDA (C\$M)	(0.6)	(1.1)↑	0.1	2.4↑
Previous	-	(1.2)	-	2.3
EPS Adj&Dil (C\$)	(0.03)	(0.04)↓	(0.01)	0.03↑
Previous	-	(0.03)	-	0.02
P/E (x)	(40.2)	(33.1)	(173.7)	47.5
EV/Sales (x)	8.3	7.8	5.5	3.9



Source: FactSet

Priced as of close of business 17 November 2020

EQ is best described as an ad-tech business that is extending its value proposition into data analytics and location-based business intelligence, within the sphere of markets and customer insights.

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Q3 shows good rebound with 81% data solutions growth

EQ Inc reported their Q3/20 this morning and the headline numbers were ahead of expectations. Revenues came in at \$2.9M, up 15% y/y, vs our estimate of \$2.5M. Importantly, adj EBITDA was essentially at break-even at -\$0.1M, compared to our -\$0.2M. Gross margins came in at 50% vs our 42%, which helped offset slightly higher opex.

Data-solutions-led thesis intact: Importantly data solutions grew 81%, to \$700k, ahead of our 50% growth expectation. In our view, what makes EQ's investment thesis attractive is its data solutions business, which we believe could grow exponentially over the next several years. EQ's value proposition primarily involves helping its clients better understand and define its own customers, through unique datasets and analytics. The product is offered both on a self-serve (essentially SaaS) and managed-services basis, with several key blue-chip clientele already secured.

Well positioned to ramp Data solutions business at 100%+ rates through F2021/2022E: As we consider the existing data solutions clientele include *Bell Media, Walmart Canada, TD Bank, etc.*, and upside from those accounts, as well as expanded renewals and new signings announced recently (such as the multi-year extension with the leading Canadian University, as well as the engagement by a major book publisher to launch 10 new book titles across the US), we feel quite comfortable with our expectation of triple-digit data solutions revenue growth in F2021 and F2022. We are particularly encouraged by the engagement by the Book Publisher as it indicates additional traction in the US market (recall EQ is currently ~90% Canada in terms of revenue), and it reinforces the bull thesis for EQ that its value proposition can be compelling for major blue chip entities resulting in six-figure engagements.

We also continue to believe that there is a pipeline of engagements in a variety of sectors ranging from Outdoor Media, Telecom to Banks and Insurance. We also believe that the fact that EQ has secured anchor customers in key verticals like Telecom (Bell) and Banking (TD Bank) sets it up to further penetrate those sectors as the initial engagement gives the company an opportunity to hone the offerings more precisely to the requirement of the industry.

Balance sheet in good shape: With minimal cash burn and the recent warrant exercise for \$3.7M, EQ's balance sheet remains in good standing. Net cash stands at \$2.7M with \$4.7M in cash in hand. In our view, EQ is not in urgent need of financing. In fact, our financial forecasts indicate that the company is well financed through to 2022, and we have thus not factored in any additional equity. With that said, we believe that it could return to the capital markets for incremental financing to support growth acceleration initiatives, including M&A.

Key catalysts to look for: We will be looking for additional announcements around new signings for data solutions, with retail, outdoor media, telecom being the likely verticals. In addition, we would be watching for further traction in the US, which further expands EQ's growth prospects and investment thesis.

Target remains at \$2/sh, Spec Buy rated: Our \$2.00 target price is derived through a DCF-based valuation, with a discount factor of 12% and translates to 18x 2023e EV/EBITDA. It also represents 8.1x EV/Sales on F2021E and 5.8x F2022E.

Figure 1: Estimate Revisions

(\$M, unless noted)	2019	2020E		% chg (y/y)	2021E		% chg (y/y)
		Old	New		Old	New	
Revenue	9.0	10.4	10.3	14.4%	14.6	14.9	44.9%
EBITDA	(0.6)	(1.2)	(1.1)	77.5%	0.1	0.1	-112.3%
EBITDA Margin (%)	-7.2%	-11.1%	-11.2%		0.4%	0.9%	
Adj. EPS (\$) - diluted	(\$0.03)	(\$0.03)	(\$0.04)		(\$0.01)	(\$0.01)	
Adj. FCF	(1.9)	(\$2.8)	(2.3)		(\$2.0)	(2.0)	

Source: Company Reports, Canaccord Genuity estimates

Figure 2: Summary of Financial Estimates

\$000s unless noted	2018	2019	Q1/20	Q2/20	Q3/20	Q4/20E	2020E	2021E	2022E
Revenue									
Data Solutions	700	1,500	400	400	700	870	2,370	5,133	10,265
Ad-tech	5,168	7,465	1,798	1,326	2,151	2,614	7,889	9,734	10,513
Total	5,868	8,965	2,198	1,726	2,851	3,484	10,259	14,866	20,778
Revenue y/y growth									
Data Solutions		114.3%	100.0%	33.3%	75.0%	45.0%	58.0%	116.6%	100.0%
Ad-tech		44.4%	49.1%	(51.4%)	(15.8%)	15.0%	5.7%	23.4%	8.0%
Total		52.8%	56.3%	(39.9%)	15.0%	21.3%	14.4%	44.9%	39.8%
Gross profit	2,731	3,950	940	633	1,414	1,444	4,431	6,511	9,518
Gross profit margins	46.5%	44.1%	42.8%	36.7%	49.6%	41.4%	43.2%	43.8%	45.8%
EBITDA	(1,094)	(647)	(449)	(594)	(111)	6	(1,148)	141	2,424
EBITDA margins	(18.6%)	(7.2%)	(20.4%)	(34.4%)	(3.9%)	0.2%	(11.2%)	0.9%	11.7%
EBITDA growth y/y	184.9%	(40.9%)	19.7%	598.8%	117.6%	(104.3%)	77.5%	(112.3%)	1619.3%
Depreciation and Amortization	105	174	45	107	106	94	352	398	398
Share-based compensation	56	155	9	125	277	50	461	180	180
EBIT	(1,255)	(976)	(503)	(826)	(494)	(138)	(1,961)	(437)	1,846
Net Finance Expense	645	938	149	123	133	125	530	38	110
Taxes	-70	0	0	0	0	0	0	0	0
Net Income	(1,830)	(1,914)	(652)	(949)	(627)	(263)	(2,491)	(475)	1,736
EPS (basic)	-\$0.04	-\$0.03	-\$0.01	-\$0.02	-\$0.01	\$0.00	-\$0.04	-\$0.01	\$0.03
EPS (diluted)	-\$0.04	-\$0.03	-\$0.01	-\$0.01	-\$0.01	\$0.00	-\$0.04	-\$0.01	\$0.03
Shares Outstanding (basic)	47,764	47,764	47,772	48,244	54,918	54,918	54,917	58,906	58,906
Shares Outstanding (diluted)	51,713	51,713	51,713	52,640	65,246	65,246	65,246	65,125	65,125
CFO	(1,385)	(1,044)	(657)	(650)	(132)	145	(1,294)	(912)	1,001
Net interest	(459)	(244)	0	(1)	3	(100)	(98)	(125)	(100)
CAPEX	(28)	(30)	(64)	0	0	(65)	(129)	(260)	(260)
Additions to Intangibles	0	(375)	(125)	(150)	(150)	(125)	(550)	(500)	(500)
Other cash impacts	(1,415)	(184)	(47)	34	(126)	(50)	(189)	(160)	(160)
Free cash flow	(3,287)	(1,877)	(893)	(767)	(405)	(195)	(2,260)	(1,957)	(19)
Net debt (net cash)	993	-2,088	-297	-3,106	-2,678	-2,458	-2,458	-508	-479

Source: Company Reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: November 18, 2020, 16:54 ET

Date and time of production: November 18, 2020, 16:54 ET

Target Price / Valuation Methodology:

EQ Inc - EQ

Our \$2.00 target price is derived through a DCF-based valuation, with a discount factor of 12% and translates to 18x 2023e EV/EBITDA (10x 2024e). It also translates to 8.1x EV/Sales on F2021E and 5.8x F2022E.

Risks to achieving Target Price / Valuation:

EQ Inc - EQ

Privacy issues: Given the nature of the datasets handled by EQ, ensuring that it remains onside of data privacy regulations in its operation is important. As the location behaviour data that the company accumulates is entirely on an anonymous basis, there is no contravention of regulations. However, there is always the underlying risk that some or all sections of the datasets that it acquires for the overlay purposes can be compromised by future legislative initiatives.

Early stage of development of Data Solutions business: While we remain confident in the growth ramp projected in data solutions, the current low revenue base and early stage of take-up of the SaaS element of the business naturally represent a risk factor. As we emerge from the heavily COVID19-affected Q2/Q3 period, we expect to return toward triple digit growth rates; any flattening of this growth curve could compromise the investment thesis.

Balance sheet and liquidity risk: Based on our projections, considering that EQ's promissory notes fall due in January 2021, EQ would need a small infusion of cash that we believe can be covered by a modest bank revolver. However, as EQ considers M&A options or chooses to step up investments to accelerate the growth curve, the liquidity situation can change, requiring further financing in 2021. Given the aforementioned early stage in revenue generation, we believe this represents some risk.

Competitive risks: As we expound in this report, there are a number of other players that operate in EQ's space with respect to the use of location behaviour data with somewhat similar value propositions. While we have discussed the differentiation of EQ in terms of its data transformation and analytics platform, a move into this area by any of its Canadian competitors could moderate the projected growth rate.

Distribution of Ratings:

Global Stock Ratings (as of 11/18/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	550	62.71%	56.00%
Hold	166	18.93%	39.76%
Sell	8	0.91%	37.50%
Speculative Buy	132	15.05%	80.30%
	877*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

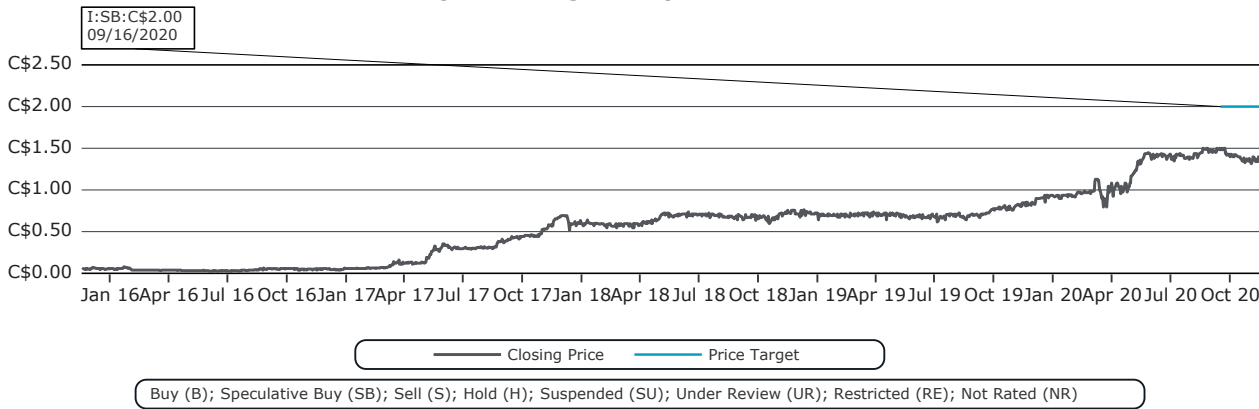
12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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EQ Inc Rating History as of 11/17/2020



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