

1Spatial

Interim results

Building a platform for sustainable growth

H1 results showed good progress and financial discipline, significantly expanding EBITDA and reducing operating losses. A strong pipeline should support a return to growth in H2 and our estimates are unchanged. There is still work to do on the transformation, but by focusing on delivering repeatable spatial solutions based around the company's core 1Integrate IP, we believe that the company is laying the foundations to deliver sustainable growth and margin expansion.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/sales (x)	P/E (x)
01/17**	15.1	(0.9)	(12.8)	(1.75)	0.0	2.5	N/A
01/18**	16.9	0.4	(1.5)	(2.30)	0.0	2.2	N/A
01/19e	17.8	1.0	(1.0)	(1.15)	0.0	2.1	N/A
01/20e	18.8	1.7	0.5	0.44	0.0	1.6	88

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

Financials paint an improving picture

Revenues were broadly flat y-o-y at £8.8m, with 23% growth in the core Spatial Solutions business (69% H1 sales), offset by a dip in GIS (31% H1 sales), which reflected high one-time licensing income in the comparative period. These sales were delivered on a lower cost base, meaning that EBITDA improved to £0.6m from £0.05k last year and operating loss reduced to £0.7m from £1.6m. Net debt was £1.5m vs £0.25m cash at the year-end, but with a stronger working capital cycle in H2 and the £8m August placing we expect cash to expand to £8.4m by year end.

Building blocks for profitable growth

While the transformation has some way to go, we believe that the company is laying the foundations to deliver sustainable profitable growth. Good progress is being made in growing the core Spatial Solutions business, where the company's 1Integrate IP is a key differentiator and its geospatial expertise supports a "land and expand" strategy. This has been demonstrated by the company's engagement with Northern Gas Networks, which signed up for one project in September 2017 and has now expanded to six. Other major wins in Europe include a UK infrastructure provider (in excess of £2m orders to date) and Land and Property Services UK (£1.6m). In the US, the Michigan State Data Infrastructure implementation is expected to go live in November 2018 and should become a good reference for implementation. Deals signed post-period-end include NOAA, Caltrans, East Bay Municipal Utility District and Google. The GIS business is more challenging, but its drag on growth will wane as Spatial Solutions scales up, and the company is exploring partnerships or acquisitions to help its operations in France and Belgium.

Valuation: 2.0x FY20e sales readily justifiable

Our near-term forecasts appear well underpinned. New contract wins could prompt upgrades, while the company's strong IP base and value proposition should support a healthy, long-term growth trajectory. We believe that an FY20e EV/sales multiple of 2.0x is justifiable (vs 1.6x currently), implying a value of c 48p per share, with plenty of scope for further growth from there.

Software & comp services

23 October 2018

Price 39p
Market cap £38m

Net cash (£m) January 2019e	8.4
Shares in issue	98.7m
Free float	80%
Code	SPA
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



Business description

1Spatial's core technology validates, rectifies and enhances customers' geospatial data. The combination of its software and advisory services reduces the need for costly manual checking and correcting of data.

Next event

Trading update March 2019

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Exhibit 1: Financial summary

£000s	2016	2017	2018	2019e	2020e
31-January	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	18,300	15,133	16,938	17,800	18,793
Delivery costs	(7,715)	(6,868)	(7,994)	(8,090)	(8,179)
Gross Profit	10,585	8,265	8,944	9,710	10,614
EBITDA	2,902	(874)	403	985	1,661
Operating Profit (before amort. and except.)	1,584	(12,494)	(1,302)	(846)	319
Acquired Intangible Amortisation	(200)	0	0	0	0
Exceptionals	(1,081)	(2,590)	(1,041)	(300)	0
Share based payments	(976)	(566)	538	(250)	(250)
Operating Profit	(673)	(15,650)	(1,805)	(1,396)	69
Net Interest	(27)	(25)	(151)	(161)	163
Other	(421)	(266)	0	0	0
Profit Before Tax (norm)	1,136	(12,785)	(1,453)	(1,007)	482
Profit Before Tax (FRS 3)	(1,121)	(15,941)	(1,956)	(1,557)	233
Tax	503	1,081	753	405	(46)
Profit After Tax (norm)	1,136	(12,785)	(1,453)	(1,007)	482
Profit After Tax (FRS 3)	(618)	(14,860)	(1,203)	(1,152)	186
Average Number of Shares Outstanding (m)	691.3	728.9	63.3	87.4	98.7
EPS - normalised (p)	0.16	(1.75)	(2.30)	(1.15)	0.44
EPS - normalised fully diluted (p)	0.16	(1.75)	(2.30)	(1.15)	0.44
EPS - (IFRS) (p)	(0.09)	(2.04)	(1.90)	(1.32)	0.19
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	57.8	54.6	52.8	54.6	56.5
EBITDA Margin (%)	15.9	N/A	2.4	5.5	8.8
Operating Margin (before GW and except.) (%)	8.7	N/A	N/A	N/A	1.7
BALANCE SHEET					
Fixed Assets	22,115	13,025	10,873	10,130	10,121
Intangible Assets	18,900	11,968	10,540	10,011	10,002
Tangible Assets	1,638	1,057	333	119	119
Investments	1,577	0	0	0	0
Current Assets	16,202	10,761	7,050	14,434	15,788
Stocks	0	0	0	0	0
Debtors	10,815	8,929	5,510	5,790	6,113
Cash	4,996	1,285	1,319	8,423	9,453
Other	391	547	221	221	221
Current Liabilities	(11,071)	(13,029)	(10,234)	(9,777)	(10,310)
Creditors & other	(11,071)	(12,348)	(9,183)	(9,726)	(10,259)
Short term borrowings	0	(681)	(1,051)	(51)	(51)
Long Term Liabilities	(1,579)	(1,535)	(899)	(899)	(899)
Long term borrowings	0	0	0	0	0
Other long term liabilities	(1,579)	(1,535)	(899)	(899)	(899)
Net Assets	25,667	9,222	6,790	13,888	14,700
CASH FLOW					
Operating Cash Flow	(722)	(1,061)	245	948	2,033
Net Interest	(31)	(166)	(167)	(161)	163
Tax	55	425	751	405	(46)
Capex	(3,800)	(4,042)	(1,035)	(1,088)	(1,120)
Acquisitions/disposals	(1,033)	(900)	115	0	0
Financing	1,940	896	0	8,000	0
Dividends	0	0	0	0	0
Net Cash Flow	(3,342)	(4,848)	(91)	8,104	1,030
Opening net debt/(cash)	(8,250)	(4,996)	(604)	(268)	(8,372)
HP finance leases initiated	0	0	0	0	0
Other	88	456	(245)	0	0
Closing net debt/(cash)	(4,996)	(604)	(268)	(8,372)	(9,402)

Source: 1Spatial, Edison Investment Research

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