EDISON

1Spatial

Full year results

Knowing where it is going

Software & comp services

1Spatial's return to growth and cash break-even in FY18 reflect the initial success of management's turnaround plan. Supportive market dynamics and a strong pipeline give us confidence that the business can return to sustainable growth and profitability. We believe the renewed focus on its solution strategy and goals to grow its offerings that master, define and maintain accurate geospatial information from multiple data sets in key target verticals could provide the potential for an acceleration of growth.

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	1.6	N/A
01/18**	16.9	0.4	(1.5)	(0.19)	0.0	1.5	N/A
01/19e	17.8	1.0	(1.0)	(0.13)	0.0	1.4	N/A
01/20e	18.8	1.6	0.3	0.04	0.0	1.3	83.8

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

Turnaround plan delivers initial success

Following the disposal of EnablesIT in March, 1Spatial is solely focused on developing its geospatial business. This business recovered robustly, reflecting the initial success of management's turnaround plan. Continuing business revenues grew by 12% y-o-y to £16.9m (Edison: £16.5m), with EBITDA of £0.4m (Edison: £0.3) vs a £0.9m loss last year. Net cash outflow for the year was £0.1m and year-end net cash was £0.3m (£1.3m cash, with £1m borrowings from a £2.5m facility).

Recovery well embedded, eyeing the next phase

Through continuing with its GIS solutions provider model, and a 'Land and Expand' approach in the key verticals of government, utilities and transport, we believe that 1Spatial has the potential to sustain 10%+ revenue growth and with operational leverage, generate robust profit and cash generation, although scarcity of engineering staff is a constraint at present. Looking to the next phase, management is now targeting a potentially significant incremental opportunity in solutions that enable clients to master, define and maintain accurate geospatial information from multiple data sets. Progress over FY19 will help calibrate the scale and timing of this opportunity, but successful execution could drive an acceleration of growth.

Estimates upgraded, still cautious

Management indicates that trading thus far in FY19 has been strong. For the ongoing GIS operations, we estimate FY19 revenues of £17.8m (5% growth), while FY19 adjusted EBITDA moves up from £0.7m to £1.0m (modestly below our previous estimate, which included EnablesIT). We believe these estimates are conservative and that revenue upside should gear strongly into earnings.

Valuation

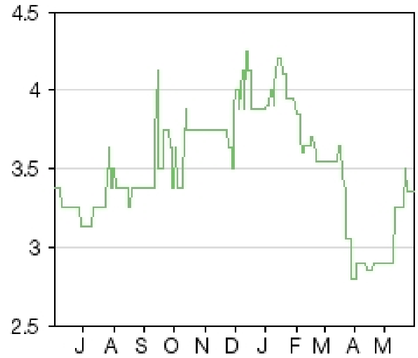
Our confidence that 1Spatial will consolidate its recovery has strengthened and, based on our current forecasts, we believe that a FY19e EV/sales multiple of 2.0x (vs 1.35x for GIS on current forecasts) is justifiable. This would imply a value of c 5p per share. The incremental opportunity provides the potential for an acceleration of scalable growth or for a strategic premium to become priced in.

31 May 2018

Price	**3.35p**
Market cap	**£25m**

Net cash (£m) at 31 January 2018	0.3
Shares in issue	760.5m
Free float	91%
Code	SPA
Primary exchange	AIM
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	15.5	(5.6)	(7.6)
Rel (local)	12.8	(11.1)	(9.9)
52-week high/low		4.2p	2.8p

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 events

Investor teach-in	13 June 2018

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Edison profile page

1Spatial is a research client of Edison Investment Research Limited

Phase one of recovery plan yielding results

FY18 financial performance reflected good execution on the company's turnaround plan, which commenced in March 2017. This plan was based around a shift towards a client-led solutions provider model, with the company's 1Integrate product at the core and focusing on 1Spatial's traditional customer base of heavy-duty GIS users in the government, utilities and transport verticals.

Revenues grew by 12% y-o-y to £16.9m driven by higher licence revenues (up 73% to £2.5m) and service revenues (up 9% to £7.2m), while support and maintenance revenues were broadly flat at £7.2m.

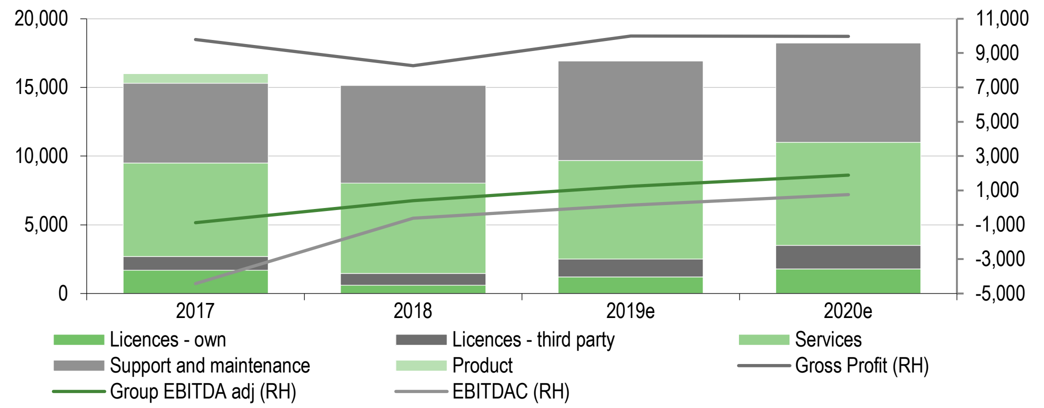
Geographically, revenue growth (by destination) was driven by the UK (revenues £5.0m, +15% year-on-year) and Europe (£7.3m, +13% y-o-y), whereas the US remained broadly flat at £2.6m on a tough comparative period, which had benefited from a $1.7m deal with a US government agency. The company also reports winning three clients in the US since the start of this year (average value $120k) and therefore looks well set to resume a growth trajectory, driven by increasing adoption by government agencies in the region.

Despite the higher contribution from licensing, gross margins dropped back a touch to 53% from 55%, which reflects the fact that, with the change in model, a higher proportion of engineering cost is being expensed through the P&L rather than capitalised as R&D. Capitalised R&D expenditure dropped from £3.5m in FY17 to £1.0m in FY18.

As a consequence, while EBITDA improved to £0.4m from a loss of £0.9m last year, operating cash flow from continuing operations improved by £1.9m to a £0.7m inflow versus a £1.2m outflow last year.

Year-end net cash stood at £0.3m (£1.3m cash, with £1m borrowings from a £2.5m facility) which, with careful management, should be sufficient to support the business through our forecast period.

Exhibit 1: Revenue and margin progression (continued business only), £000s



Source: Company data, Edison Investment Research

Plenty further to go with the current model

The turnaround is by no means complete, but by continuing with its GIS solutions provider model, we believe that 1Spatial can continue on a similar robust growth trajectory and generate the operating leverage to deliver profitability and cash generation.

Management reports that the pipeline is healthy. 1Spatial has differentiated IP in its 1Integrate product and a well-proven ability to deliver value in its core government, utilities and transport verticals. The global Geographic Information Systems (GIS) technology market is large (estimated at $9bn) and growing at a double-digit rate.

Staff the key constraint

The key constraint on growth is likely to be the company's ability to recruit the appropriate engineering staff, with Brexit making it more difficult to recruit staff from Europe in an already tight recruitment market for engineers in Cambridge. The company is planning to establish teams elsewhere in the UK and Ireland to widen the recruitment net and is considering plans to open up an offshore development centre to help ease this constraint. Acquisitions, which bring on board both skilled staff and client relationships, are also likely to be explored.

New products expanding the opportunity

Management has introduced a number of new growth initiatives with the results.

New data types could support penetration of new verticals: the company has recently added two new data types to the 1Integrate platform: linear referencing systems (LRS) data, which could strengthen the company's offering in infrastructure and transport; and computer-aided design (CAD) data, which are expected to open up opportunities in the facilities management market. With respect to the latter, the company has recently completed an $80k proof of concept (PoC) with a very large US technology vendor to clean and integrate CAD-based GIS data. The company is now in the process of engaging with this client to carry out work on a number of other campuses, while other opportunities have also since emerged in this vertical.

Moving 1Integrate capability to client devices: whereas 1Integrate has typically been deployed on the server to correct and integrate data collected in the field, the company is in the process of developing client-based (mobile, desktop or web) business applications, to address clients' specific data collection needs. Embedding 1Integrate into the business application will correct and validate data collected at source. In addition to opening up new revenue opportunities, customer lock-in should benefit from the expanded use of 1Spatial's technology in the workforce/workflows of an organisation.

Building on GIS solutions portfolio

With the shift to a solutions provider model now well embedded, the next step in management's strategic plan aims to leverage the company's core IP and expertise to transform 1Spatial progressively into a differentiated, scalable business in geospatial/location master data management.

To explain the concept, it is important to understand the broader discipline of Master Data Management (MDM), whereby data from multiple sources are integrated, updated, cleaned, corrected and standardised to create a single "golden source" that can be relied upon. This is a well-established but rapidly evolving industry, which Transparency Market Research estimates was worth $3.8bn globally in 2017 and will grow at a 27% CAGR through 2024 to reach $21bn. According to Gartner, the leading vendors are SAP, IBM, Oracle, Informatica and Stibo Systems.

The opportunity for 1Spatial stems from the complexity and specialist nature of geospatial data, which is not always well addressed by the mainstream MDM providers. 1Spatial's open architecture software can manage both geospatial and non-geospatial data, thereby enabling clients to master, define and maintain accurate geospatial information from multiple data sets. While the company will need to invest in developing a platform to fully capitalise on the opportunity, it is already working on a number of proofs of concept (PoCs) with customers in this area.

Early stage, but strong execution could add scalability and strategic value

While the initiative is still at an early stage, we believe that successful execution could open up opportunities for accelerated, scalable growth (e.g. platform vs service sales, leveraging channel partners) and potentially for a strategic premium to become priced in. We expect to learn more at the company's forthcoming investor teach-in day (13 June).

Estimates

Our P&L model (for the ongoing geospatial business only) is set out in Exhibit 2.

While we believe the demand environment could support 10%+ growth, we factor in the tight recruitment situation and consequently set our revenues estimates at a more cautious level (5% and 5% growth for FY19e and FY20e respectively). We understand that management has good visibility on more than 80% of our FY19 £17.8m revenue forecast.

We forecast a significant expansion in adjusted EBITDA, driven by the improving sales mix (licensing revenue growth) and operational gearing, with opex remaining relatively flat. Again, we believe there is scope for upside, with success in driving licensing income the most significant swing factor.

At the operating profit level we forecast continued losses this year, with the company moving into profitability in FY20e. This is primarily as a result of high levels of R&D amortisation stemming from significant capitalised investment in previous years. 1Spatial still capitalises development costs, but with a shift in model to a much less significant extent than previously (£1m in FY18 vs £3.5m in FY17) and the amortisation charge now significantly outweighs the level of capitalisation. (We forecast £1.1m of capitalised R&D in FY19 vs a £1.6m amortisation charge.)

Ultimately, we believe that a solutions provider of this nature should be targeting 15%+ operating margins, while moving into MDM could provide the opportunity for margins to scale materially north of this (20%+) over time.

Cash flow and balance sheet

We forecast that 1Spatial will operate at net cash flow break-even in FY19 before starting to generate cash again in FY20. While the company registered a small £0.5m increase in working capital in FY18, both receivables and payables reduced significantly, indicating the implementation of a more disciplined approach. We see scope for further improvements, through an improving licensing mix and securing a higher level of upfront payments for services, but at present forecast that working capital levels will grow in line with sales.

As previously discussed,1Spatial's £0.3m net cash position is somewhat tight, but with continued careful management should be sufficient to see the company through to positive cash generation.

Exhibit 2: P&L model (continued business)

£000s	2017	2018	2019e	2020e
Revenue				
Licenses - own	600	1,200	1,800	2,160
Licenses - third party	858	1,315	1,700	2,040
Services	6,571	7,178	7,500	7,725
Support and maintenance	7,104	7,228	6,800	6,842
Product	0	17	0	0
Group revenue	**15,133**	**16,938**	**17,800**	**18,767**
Growth	(5%)	12%	5%	5%
Total gross profit	**8,265**	**8,944**	**9,710**	**10,598**
Group gross margin	55%	53%	55%	56%
Cash costs				
Geospatial	6,787	6,940	7,044	7,255
Central Costs	2,352	1,601	1,681	1,698
Total ongoing cash costs	9,139	8,541	8,725	8,953
Group EBITDA adj	**(874)**	**403**	**985**	**1,645**
Group EBITDA margin (%)	(6)	2	6	9
Depreciation	297	231	231	231
Amortization of software	11,323	1,474	1,600	1,111
Adjusted operating profit	**(12,494)**	**(1,302)**	**(846)**	**303**
SBP	(566)	(538)	(250)	(250)
One-off items	(2,590)	(1,041)	(300)	0
Operating profit	**(15,650)**	**(1,805)**	**(1,396)**	**53**
Interest	(25)	(151)	(161)	3
Associates	(266)	0	0	0
PBT (reported)	(15,941)	(1,956)	(1,557)	57
Tax	1,081	753	405	(11)
PAT (reported)	(14,860)	(1,203)	(1,152)	46
EPS (p) (reported)	(2.0)	(0.2)	(0.2)	0.0

Source: Company data, Edison Investment Research

Estimate changes and discontinued business

Our estimate changes are shown in Exhibit 3. Our previous estimates included the contribution from EnablesIT, which was disposed of in March for a minimal amount (see our March 2018 update note, Core GIS business robust/disposal of Enables). We include only the continued geospatial business in our estimates, where we leave revenue almost unchanged and lift EBITDA by 35%.

Exhibit 3: Estimate changes

£000s	2018			2019e			2020e
	Forecast	Actual	Change (%)	Old	New	Change (%)	New
Geospatial	16,534	16,938	2	17,935	17,800	(1)	18,767
Enables IT	7,279	0	(100)	7,643	0		0
Revenue	23,812	16,938	(29)	25,577	17,800	(30)	18,767
% change	0%	0%		0	5		5
Gross profit	10,351	8,944	(14)	11,201	9,710	(13)	10,598
% gross profit margin	43%	53%	21	44	55	25	56
EBITDA Geospatial	310.3	403		729	985	35	
EBITDA Discontinued	410	0		430	0	(100)	
EBITDA	720	403	(44)	1,160	985	(15)	1,645
Operating profit (before GW and except.)	(542)	(1,302)	140	(78)	(846)	985	303
EPS - normalised fully diluted (p)	(0.08)	(0.19)	149	(0.03)	(0.13)	320	0.04
Net debt/(cash)	(656)	(268)	(59)	(1,335)	(372)	(72)	(1,096)

Source: Company data, Edison Investment Research

Valuation: Recovery not priced in

1Spatial's shares still trade on typical recovery multiples, with a low EV/Sales multiple (FY19e: 1.35x) but high P/E (loss in FY19e, 83.8x in FY20e) due to the current compressed margin status.

However, our confidence that the company will consolidate its recovery has strengthened; we feel our estimates are conservative and revenue upgrades should gear strongly to earnings if they come through.

Consequently, we believe1Spatial should progressively shake off its recovery multiple as further evidence that it is consolidating its recovery and moving into profitability comes through. Looking beyond this, the location master data management opportunity provides the potential for an operationally geared acceleration in growth. While it is too early to price in such an acceleration at present, we believe the company's potential in this space could prompt some strategic interest.

On this basis, we believe that an FY19e EV/Sales multiple of 2.0x (vs 1.35x for GIS on current forecasts) would be easily justifiable, implying a value of c 5p per share.

Exhibit 4: Peer comparison

Name	Ytd perf (%)	Price (reporting ccy)	Quoted currency	Market cap (m)	EV/Sales 1FY (x)	EV/Sales 2FY (x)	EV/EBITDA 1FY (x)	EV/EBITDA 2FY (x)	P/E 1FY (x)	P/E 2FY (x)
Hexagon AB-B SHS	18	47	SEK	174,887	5.2	4.9	16.1	14.8	23.6	21.4
Trimble	(15)	35	USD	8,648	3.1	2.9	16.2	13.9	19.8	17.4
Nemetschek	42	107	EUR	4,104	9.0	7.8	33.9	29.2	54.0	46.0
First Derivatives	(2)	41	GBp	1,053	5.9	5.2	33.0	29.1	60.9	53.9
Saison Information Systems	(34)	1,543	JPY	24,997	0.8	0.7	N/A	N/A	19.8	13.0
D4T4 Solutions	(5)	1	GBp	53	2.5	2.1	9.7	9.0	13.3	12.3
Kainos Group	19	4	GBp	478	4.9	4.3	28.2	23.0	39.6	32.1
IDOX	9	0	GBp	162	1.9	2.0	7.3	7.8	10.0	11.5
K3 Business Technology Group	(10)	2	GBp	70	0.8	N/A	9.1	N/A	16.2	N/A
SDL	(2)	4	GBp	355	1.1	1.1	12.1	10.3	19.6	17.2
SCISYS	52	2	GBp	52	1.1	1.0	9.7	8.8	14.7	13.2
Iomart Group	6	4	GBp	448	4.8	4.4	11.9	10.7	22.7	20.0
Average					**3.4**	**3.3**	**17.0**	**15.6**	**26.2**	**23.5**
1Spatial		3	GBp	25	1.4	1.3	25.5	15.3	N/A	83.8

Source: Company data, Bloomberg consensus. Note: Prices as at 25 May 2018.

Exhibit 5: 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	18,767
Delivery costs		(7,715)	(6,868)	(7,994)	(8,090)	(8,169)
Gross Profit		10,585	8,265	8,944	9,710	10,598
EBITDA		2,902	(874)	403	985	1,645
Operating Profit (before amort. and except.)		1,584	(12,494)	(1,302)	(846)	303
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)	53
Net Interest		(27)	(25)	(151)	(161)	3
Other		(421)	(266)	0	0	0
Profit Before Tax (norm)		1,136	(12,785)	(1,453)	(1,007)	306
Profit Before Tax (FRS 3)		(1,121)	(15,941)	(1,956)	(1,557)	57
Tax		503	1,081	753	405	(11)
Profit After Tax (norm)		1,136	(12,785)	(1,453)	(1,007)	306
Profit After Tax (FRS 3)		(618)	(14,860)	(1,203)	(1,152)	46
Average Number of Shares Outstanding (m)		691.3	728.9	747.7	760.5	760.5
EPS - normalised (p)		0.16	(1.75)	(0.19)	(0.13)	0.04
EPS - normalised fully diluted (p)		0.16	(1.75)	(0.19)	(0.13)	0.04
EPS - (IFRS) (p)		(0.09)	(2.04)	(0.16)	(0.15)	0.01
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	N/A
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	6,434	7,473
Stocks		0	0	0	0	0
Debtors		10,815	8,929	5,510	5,790	6,105
Cash		4,996	1,285	1,319	423	1,147
Other		391	547	221	221	221
Current Liabilities		(11,071)	(13,029)	(10,234)	(9,777)	(10,296)
Creditors & other		(11,071)	(12,348)	(9,183)	(9,726)	(10,245)
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	5,888	6,400
CASH FLOW						
Operating Cash Flow		(722)	(1,061)	245	948	1,852
Net Interest		(31)	(166)	(167)	(161)	3
Tax		55	425	751	405	(11)
Capex		(3,800)	(4,042)	(1,035)	(1,088)	(1,120)
Acquisitions/disposals		(1,033)	(900)	115	0	0
Financing		1,940	896	0	0	0
Dividends		0	0	0	0	0
Net Cash Flow		(3,342)	(4,848)	(91)	104	724
Opening net debt/(cash)		(8,250)	(4,996)	(604)	(268)	(372)
HP finance leases initiated		0	0	0	0	0
Other		88	456	(245)	0	0
Closing net debt/(cash)		(4,996)	(604)	(268)	(372)	(1,096)

Source: Company accounts, Edison Investment Research. Note: 2017 and 2018 P&L figures relate to continuing businesses only. Loss from discontinued operations, not shown above, was £1,255k in 2018

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