

1Spatial

H120 results

Encouraging early signs from GI

H120 saw a solid performance from 1Spatial's core business augmented by a good start from its recent Geomap-Imagis (GI) acquisition. GI generated revenue of £2m and EBITDA of £0.5m in its first three months and additional synergies have been identified. It is early days but in the context of a £5.3m price tag (EV) we see this performance as encouraging. 1Spatial also highlighted significant contract wins post period end. It now looks well set to execute on its next phase: establishing a market leading position in Location Master Data Management (LMDM).

| Year end | Revenue (£m) | Adjusted EBITDA* (£m) | PBT* (£m) | EPS* (p) | EV/sales (x) | EV/EBITDA (x) | P/E (x) |
|----------|--------------|-----------------------|-----------|----------|--------------|---------------|---------|
| 01/18 | 16.9 | 0.4 | (1.5) | (2.3) | 1.9 | 79.7 | N/A |
| 01/19 | 17.6 | 1.2 | (0.9) | (1.1) | 1.8 | 27.0 | N/A |
| 01/20e | 22.8 | 3.1 | 0.8 | 0.7 | 1.4 | 10.2 | 46.4 |
| 01/21e | 25.6 | 3.7 | 1.4 | 1.0 | 1.3 | 8.6 | 33.8 |

Note: *Adjusted EBITDA, PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. Forecasts include the consolidation of Geomap-Imagis from May 2019.

Solid performance in the core

Reported revenue of £10.9m included £8.9m from the core business, up 1% y-o-y. The Spatial Solutions segment (£6.4m) grew 8% y-o-y, despite the shift to term licensing, with growth in all territories. Adjusted EBITDA in the core business rose by c 25% in line with management expectations to £0.8m (9% margin). This was boosted by a £0.4m adjustment for IFRS 16 and the £0.5m contribution from GI (see below).

Plus a good start from GI

GI reported revenue of £2m for its first three months. Given we had included £4.9m for FY20 (ie nine months), it looks to be tracking ahead of expectations. It also reported adjusted EBITDA of £0.5m (a 25% margin) and further (unspecified) revenue and cost synergies are expected to benefit the P&L in FY21.

Positive outlook but estimates unchanged for now

1Spatial highlights a record order book, increased revenue visibility and a number of significant contract wins post period end (see [London geospatial pilot project win](#)). We raise our FY20 adjusted EBITDA estimate to £3.1m to reflect the impact of IFRS 16 (see over) but leave our underlying forecasts unchanged for now.

Valuation: Execution, margins and LMDM priced in?

The acquisition and integration of GI marks the successful completion of 1Spatial's turnaround strategy. The company is now focused on establishing a leadership position in LMDM. We will review 1Spatial's longer-term prospects in due course, but continue to believe that the current valuation (FY21 EV/sales of 1.3x) does not reflect the increasing evidence of execution, the potential for margin expansion or the chances of longer-term success in LMDM.

Software & comp services

14 October 2019

Price **34.6p**
Market cap **£39m**

| | |
|---------------------------|------|
| Net cash (£m) at end FY19 | 6.4 |
| Shares in issue | 111m |
| Free float | 93% |
| Code | SPA |
| Primary exchange | AIM |
| Secondary exchange | N/A |

Share price performance



| | | | |
|------------------|------|------|--------|
| % | 1m | 3m | 12m |
| Abs | 11.5 | 13.3 | (20.9) |
| Rel (local) | 12.6 | 16.2 | (23.8) |
| 52-week high/low | | 41.5 | 28.5 |

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

| | |
|-------------------|------------|
| Trading statement | March 2020 |
|-------------------|------------|

Analysts

| | |
|--------------|----------------------|
| Dan Gardiner | +44 (0) 20 3077 5700 |
| Dan Ridsdale | +44 (0) 20 3077 5729 |

tech@edisongroup.com
[Edison profile page](#)

**1Spatial is a research client of
Edison Investment Research
Limited**

Changes to forecasts

Adding adjusted EBITDA in the core business to the contribution from GI, 1Spatial generated adjusted EBITDA in H1 of £1.2m, a margin of 10.9% (before IFRS 16 adoption – see below). Our FY20 estimate (on the same basis) of £2.1m implies the company needs to deliver just £0.9m in H2. We leave our forecasts unchanged for now but as H2 will include an extra three months from GI (potentially an additional £0.5m) they should be very achievable. The company prefers a cautious stance on numbers given the substantial near-term political risks in the UK and its experience in the US earlier this year, where the government shutdown unexpectedly affected performance.

While we leave our underlying forecasts largely unchanged, the adoption of IFRS 16 from the beginning of the year does have a significant impact on the presentation of the P&L and, to a lesser extent, cash flow. IFRS 16 eliminates the distinction of leases as either operating leases or finance leases and has the effect of moving c £1m of annual costs previously reported above the EBITDA line into depreciation (a small element is moved into finance costs).

Exhibit 1: Changes to forecasts

| | FY19 | FY20e | | | | FY21e | | | |
|-------------------|-------|---------|------------|---------|-------------|---------|------------|---------|-------------|
| | £m | Old, £m | Change, £m | New, £m | Upgrade (%) | Old, £m | Change, £m | New, £m | Upgrade (%) |
| Revenue | 17.6 | 22.8 | 0.0 | 22.8 | 0.0 | 25.6 | 0.0 | 25.6 | 0.0 |
| Adjusted EBITDA* | 1.2 | 2.1 | 1.1 | 3.1 | 50.7 | 2.7 | 1.0 | 3.7 | 36.6 |
| Adjusted PBT* | (0.9) | 0.8 | 0.0 | 0.8 | 0.6 | 1.4 | (0.0) | 1.4 | (0.1) |
| Adjusted EPS* (p) | (1.1) | 0.7 | 0.0 | 0.7 | 0.5 | 1.0 | (0.0) | 1.0 | (0.1) |

Source: 1Spatial data, Edison Investment Research. Note: *EBITDA, PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. GI contribution from May 2019.

Exhibit 2: Financial summary

| | £000s | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e |
|--|-------|----------|----------|----------|---------|----------|----------|
| Year end 31 January | | IFRS | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | | |
| Revenue | | 18,300 | 15,133 | 16,938 | 17,624 | 22,836 | 25,638 |
| Delivery costs | | (7,715) | (6,868) | (7,994) | (8,449) | (10,753) | (12,325) |
| Gross Profit | | 10,585 | 8,265 | 8,944 | 9,175 | 12,083 | 13,313 |
| Adjusted EBITDA | | 2,902 | (874) | 403 | 1,188 | 3,135 | 3,730 |
| Operating Profit (before amort. and except.) | | 1,584 | (12,494) | (1,302) | (738) | 836 | 1,471 |
| Acquired Intangible Amortisation | | (200) | 0 | 0 | 0 | 0 | 0 |
| Exceptionals | | (1,081) | (2,590) | (1,041) | (672) | (500) | 0 |
| Share based payments | | (976) | (566) | 538 | (218) | (218) | (218) |
| Operating Profit | | (673) | (15,650) | (1,805) | (1,628) | 118 | 1,253 |
| Net Interest | | (27) | (25) | (151) | (191) | (36) | (101) |
| Other | | (421) | (266) | 0 | 0 | 0 | 0 |
| Profit Before Tax (norm) | | 1,136 | (12,785) | (1,453) | (929) | 799 | 1,369 |
| Profit Before Tax (FRS 3) | | (1,121) | (15,941) | (1,956) | (1,819) | 82 | 1,152 |
| Tax | | 503 | 1,081 | 753 | 389 | 150 | 150 |
| Profit After Tax (norm) | | 1,136 | (12,785) | (1,453) | (929) | 782 | 1,139 |
| Profit After Tax (FRS 3) | | (618) | (14,860) | (1,203) | (1,430) | 232 | 1,302 |
| Average Number of Shares Outstanding (m) | | 691.3 | 728.9 | 63.3 | 87.4 | 104.9 | 111.2 |
| EPS - normalised (p) | | 0.16 | (1.75) | (2.30) | (1.06) | 0.75 | 1.02 |
| EPS - normalised fully diluted (p) | | 0.16 | (1.75) | (2.30) | (1.06) | 0.75 | 1.02 |
| EPS - (IFRS) (p) | | (0.09) | (2.04) | (1.90) | (1.64) | 0.22 | 1.17 |
| Dividend per share (p) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | | 57.8 | 54.6 | 52.8 | 52.1 | 52.9 | 51.9 |
| EBITDA Margin (%) | | 15.9 | N/A | 2.4 | 6.7 | 13.7 | 14.5 |
| Operating Margin (before GW and except.) (%) | | 8.7 | N/A | N/A | N/A | 3.7 | 5.7 |
| BALANCE SHEET | | | | | | | |
| Fixed Assets | | 22,115 | 13,025 | 10,873 | 10,479 | 12,529 | 13,444 |
| Intangible Assets | | 18,900 | 11,968 | 10,540 | 10,194 | 12,244 | 13,159 |
| Tangible Assets | | 1,638 | 1,057 | 333 | 285 | 285 | 285 |
| Investments | | 1,577 | 0 | 0 | 0 | 0 | 0 |
| Current Assets | | 16,202 | 11,442 | 7,050 | 11,481 | 15,753 | 17,996 |
| Stocks | | 0 | 0 | 0 | 0 | 0 | 0 |
| Debtors | | 10,815 | 8,929 | 5,510 | 4,998 | 9,550 | 11,000 |
| Cash | | 4,996 | 1,966 | 1,319 | 6,358 | 6,078 | 6,871 |
| Other | | 391 | 547 | 221 | 125 | 125 | 125 |
| Current Liabilities | | (11,071) | (13,029) | (10,234) | (8,578) | (12,675) | (14,837) |
| Creditors & other | | (11,071) | (12,348) | (9,183) | (8,578) | (11,915) | (14,077) |
| Short term borrowings | | 0 | (681) | (1,051) | 0 | (760) | (760) |
| Long Term Liabilities | | (1,579) | (1,535) | (899) | (192) | (192) | (192) |
| Long term borrowings | | 0 | 0 | 0 | 0 | 0 | 0 |
| Other long-term liabilities | | (1,579) | (1,535) | (899) | (192) | (192) | (192) |
| Net Assets | | 25,667 | 9,903 | 6,790 | 13,190 | 15,415 | 16,411 |
| CASH FLOW | | | | | | | |
| Operating Cash Flow | | (722) | (1,061) | 245 | (749) | 383 | 4,342 |
| Net Interest | | (31) | (166) | (167) | (175) | (36) | (100) |
| Tax | | 55 | 425 | 751 | 410 | 150 | 150 |
| Capex | | (3,800) | (4,042) | (1,035) | (1,394) | (3,297) | (3,100) |
| Acquisitions/disposals | | (1,033) | (900) | 115 | 0 | (4,500) | (500) |
| Financing | | 1,940 | 896 | 0 | 7,996 | 5,500 | 0 |
| Dividends | | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Cash Flow | | (3,342) | (4,848) | (91) | 6,088 | (1,040) | 793 |
| Opening net debt/(cash) | | (8,250) | (4,996) | (604) | (268) | (6,358) | (5,318) |
| HP finance leases initiated | | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | | 88 | 456 | (245) | 2 | 0 | 0 |
| Closing net debt/(cash) | | (4,996) | (604) | (268) | (6,358) | (5,318) | (6,111) |

Source: Company data, Edison Investment Research. Note: Forecasts include the acquisition of GI from May 2019.

General disclaimer and copyright

This report has been commissioned by 1Spatial and prepared and issued by Edison, in consideration of a fee payable by 1Spatial. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1,185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia