1Spatial

FY21 results

Momentum continues; raising FY22 estimates

Software & comp services

Reported results were comfortably above the baseline 1Spatial set out in its trading statement (see [Ahead on all metrics]). Given the COVID-19 backdrop, 1Spatial performed robustly in FY21 overall, particularly in H2, which saw growth return to Europe and US revenue accelerate to 45% y-o-y. Current trading is described as positive, with a growing pipeline and an 'accelerated win rate' evidenced by the recent slew of contract wins. We lift our FY22 EBITDA forecasts by 5%, resulting in a 20% rise in adjusted EPS, but see scope for further increases if the momentum continues.

Year end	Revenue (£m)	EBITDA* (£m)	EBIT* (£m)	EPS* (p)	EV/sales (x)	EV/EBIT* (x)	P/E* (x)
01/20	23.4	3.2	1.0	0.6	2.0	46.2	76.2
01/21	24.6	3.6	0.4	0.2	1.9	104.8	251.5
01/22e	25.6	3.7	0.5	0.3	1.8	85.1	170.8
01/23e	27.2	4.2	0.9	0.5	1.7	50.7	83.8

Note: *EBITDA, EBIT and EPS exclude amortisation of acquired intangibles, exceptional items and share-based payments.

FY21: Headlines highlight H2 momentum

Reported revenue and adjusted EBITDA (£24.6m and £3.6m respectively) finished comfortably above the baseline set out in the trading statement ('in excess of £24m and £3.2m, respectively'). Beyond P&L headlines that were better than expected, the improving trends in H2 were the highlight. After an 8% fall in organic year-on-year sales in H1, H2 saw 3% growth led by the US (12% of total sales), where growth accelerated to 45% and a return to growth (5% y-o-y) in Europe. H2 also saw gross margins reach 55% and EBITDA margins exceed 15%.

Encouraging outlook for FY22 (and beyond)

Current trading is described as positive, referencing a growing pipeline and an accelerated win-rate in recent months (see ENA, NGN, CalOES, Defra and Google deals). As the direct threat of COVID-19 recedes, 1Spatial appears to be converting this pipeline, with momentum particularly strong in the UK and the US. Looking longer term, infrastructure stimulus spending (eg Biden's Jobs Plan) and the shift to net zero should provide structural tailwinds for the spatial data market, in our view.

Raising FY22 and introducing FY23 estimates

We raise our FY22 estimates to reflect positive commentary on current trading and H2 FY21 momentum. A relatively modest uplift to sales and EBITDA (2% and 5% respectively) lifts adjusted EPS 20% and FCF 1%. These forecasts are arguably conservative given they imply just 4% sales growth, essentially flat EBITDA margins year-on-year and management's explicit intention to focus on lifting gross margins (53.5% in FY21). Our new FY23 forecast of adjusted EPS of 0.5p and FCF of £1.5m are premised on 6% sales growth and flat EBITDA margins.

Valuation: Growth opportunity and earnings upside

At 44.5p, 1Spatial's share price is up 59% ytd. It has delivered on its three-year turnaround plan and weathered the COVID-19 pandemic to emerge in good shape. The focus is now on executing on the longer-term opportunity. We will set that out in a later note, but see scope for growth to accelerate given these structural trends. The structural growth and conservative forecasts justify the current rating (FY23e FCF yield 3%) in our view. A £1m FCF beat would raise this yield to 5%.

28 April 2021

Price	**44.5p**
Market cap	**£51m**

Net cash (£m) at end FY21	4.3
Diluted shares in issue	114m
Free float	93%
Code	SPA
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(5.3)	58.9	111.9
Rel (local)	(8.7)	50.1	68.6
52-week high/low		51.0p	17.5p

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

AGM statement	July 2021

Analysts

Dan Gardiner +44 (0) 20 3077 5700

Dan Ridsdale +44 (0) 20 3077 5729

tech@edisongroup.com

Edison profile page

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FY21: Solid execution in a tough year

FY21 saw 1Spatial weather the COVID-19 storm to emerge in good shape. There was some effect on growth, particularly on H1 sales in Europe, which meant FY21 reported sales only grew 5% y-o-y (a 2% decline on an organic basis) and, largely due to increased amortisation charges, adjusted EPS fell by 0.4p (from 0.6p to 0.2p). However, the business remained profitable and reported its first full year of positive FCF (£0.9m), completing the final 'to-do' item of the three-year turnaround plan instigated by Claire Milverton (CEO) in 2017, despite the challenging circumstances.

Momentum in H2: Revenues and margins improve

H2 financials are arguably a better guide to 1Spatial's prospects. Revenue stepped up £1.1m sequentially, rebounding from an 8% organic decline in H1 to 3% y-o-y growth in H2. This recovery was led by the US (12% of total sales) where growth accelerated from 12% y-o-y in H1 to 45% as the company began to recognise sales from its State of Michigan contract. Europe also returned to growth (5% y-o-y). During FY21, 1Spatial started migrating its existing European customers to the Esri-based platform that was part of the Geomap-Imagis (GI) acquisition in FY20. The growth in Europe in H2 is the first evidence that GI is helping to improve financial performance here.

Also encouraging was the sequential improvement in profitability. H2 saw gross margins reach 55% and adjusted EBITDA margins exceed 15%, with the result that 1Spatial delivered £2.0m of adjusted EBITDA and £0.6m of FCF.

A product refresh and growing recurring revenue

FY21 saw 1Spatial formally launch its 1Data Gateway product and refresh its core 1Integrate platform. 1Data Gateway enables 1Integrate to be accessed as a configurable, hosted software as a service (SaaS) solution. It has already gained traction with clients (see Exhibit 1) and the company is accelerating development of a multi-tenancy solution. Following the full integration of GI, 1Spatial may be able to invest more here without significantly growing cash costs. We believe the ability to address multiple clients without substantial cost increases will improve 1Spatial's ability to scale, enabling growth to accelerate and generate higer margins over time. The company is explicitly targeting raising gross margins.

As 1Spatial begins its transition to SaaS-based delivery, it is also focusing on growing its recurring revenue base. Recurring revenue (43% of sales) grew 10% y-o-y in FY21 and the company published its ACV (Annualised Contract Value) for the first time (£11.2m, up 10% y-o-y and 46% of sales). The successful transition to a higher margin business with greater revenue visibility has the potential to significantly enhance shareholder value over time in our view.

An accelerating win rate

Based on announced contracts, momentum in the business appears to be improving, particularly in the last few months (see Exhibit 1). 1Spatial has highlighted a growing pipeline for over a year but attributed a lengthening sales cycle in FY21 to the impact of COVID-19. As the direct threat of COVID-19 recedes, that pipeline appears to be converting and the company is referring to an 'accelerated win-rate'.

Recent contract wins could have a particularly meaningful impact on the US business. 1Spatial has signed contracts valued at over \$3.7m (£2.7m) in the last year in the region. While the precise timing and level of contribution to annual sales is unclear, set against FY21 revenues of £2.9m, they could drive a meaningful further uplift in revenue.

Exhibit 1: US and UK contract wins in the last 12 months

Customer	Date	Value	Region	Comments
Google Real Estate and Workplace Services	Apr-21	$0.5, $0.2m term license	US	Extension contract using 1Integrate and 1DataGateway to ingest and cleanse facilities management data
Department of Environment, Food and Rural Affairs (Defra)	Apr-21	£0.9m+	UK	Five-year contract to use 1Integrate to verify land use data
Energy Networks Association (ENA)	Feb-21	N/A	UK	Partner with OS to provide a proof of concept using 1Integrate and 1Data Gateway to provide a digital energy system map
Northern Gas Networks (NGN)	Feb-21	£1m+, £0.2m recurring	UK	Migrate gas network data to Esri's ArcGIS
California Office of Emergency Services (CalOES)	Jan-21	$0.6m, $0.1m recurring	US	New customer. Supporting implementation of the Next Generation 911 programme, using 1Integrate and 1Data Gateway
US Geological Survey (USGS)	Sep-20	N/A	US	No details provided
US State of Michigan (USSoM)	Jun-20	$2.6m, $0.2m recurring	US	Five-year contract covering a variety of state-wide digital base map initiatives including Next Generation 911

Source: Edison Investment Research adapted from company press releases

An improving market

We will set out the longer-term trends driving demand for geospatial data and the location master data management (LMDM) segment specifically targeted by 1Spatial, in a forthcoming note. However, it is clear accurate geospatial data lie at the heart of some of the major policy priorities for post COVID-19 economies. Efficiently directing stimulus spending on transport infrastructure or energy networks requires a better understanding of what assets are located where. This stimulus spending and the shift to net zero in general should provide structural tailwinds for the geospatial data market, in our view.

Raising FY22 and introducing FY23 estimates

In Ahead on All Metrics we highlighted the potential for FY22 estimates to rise. A relatively modest uplift to sales and EBITDA (2% and 5% respectively) raises adjusted EPS 20% (from 0.2p to 0.3p) and FCF 1%. These forecasts are arguably conservative given they imply just 4% sales growth (including a relatively easy comparison in H1), essentially flat EBITDA margins year-on-year and management's explicit intention to focus on lifting gross margins (53.5% in FY21). However, just three months into the financial year and with COVID-19 still affecting some of the companies in European markets, we prefer to be conservative at this stage. Our new FY23 forecast of adjusted EPS of 0.5p and FCF of £1.5m is premised on 6% sales growth and flat EBITDA margins (15%).

Exhibit 2: Raising headline FY22 forecasts, introducing FY23

	FY21		Change		FY22e		Change		FY23e
£m, y/e Jan	Old	New	Abs	%	Old	New	Abs	%	
Revenue	**24.0**	**24.6**	**0.6**	**2.5**	**25.1**	**25.6**	**0.6**	**2.3**	**27.2**
Implied growth (%)	2.6	5.2			4.4	4.2			6.0
Adjusted EBITDA	**3.2**	**3.6**	**0.4**	**13.0**	**3.6**	**3.7**	**0.2**	**4.7**	**4.2**
EBITDA margin (%)	13.4	14.8			14.3	14.6			15.3
Adjusted diluted EPS* (p)	**0.0**	**0.2**	**0.2**	**N/M**	**0.2**	**0.3**	**0.0**	**20.3**	**0.5**
Reported diluted EPS (p)	(1.2)	(1.0)			(1.0)	(0.8)			(0.5)
Movement in net cash	0.4	0.4			1.4	1.4			1.5
Acquisitions, equity, fx	(0.6)	(0.5)			0.0	0.0			0.0
Underlying FCF	**1.0**	**0.9**			**1.4**	**1.4**	**0.0**	**1.2**	**1.5**
y/e net debt balance	(4.3)	(4.3)			(5.7)	(5.7)			(7.2)

Source: 1Spatial, Edison Investment Research forecasts. Note: *Adjusted EPS excludes share-based payments, impairments of intangibles, amortisation of acquired intangibles and exceptionals.

Valuation: Execution of LMDM strategy could deliver upside

At 44.5p, 1Spatial's share price is up 59% ytd and 65% since January 20 (pre-COVID-19). The company has delivered on its three-year turnaround plan and weathered COVID-19 to emerge in good shape. The focus is now on executing on the longer-term growth opportunity in geospatial data and the LMDS market specifically. We will set out this opportunity in a forthcoming note, but see scope for growth to accelerate given these structural trends. This structural growth and conservative forecasts justify the current rating (FY23e FCF yield 3%) in our view. A £1m FCF beat would raise this yield to 5%.

Exhibit 3: Financial summary

£000s	FY18	FY19	FY20	FY21	FY22e	FY23e
Year end 31 January	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	16,938	17,624	23,385	24,600	25,644	27,182
Delivery costs	(7,994)	(8,449)	(11,123)	(11,451)	(11,796)	(12,232)
Gross Profit	8,944	9,175	12,262	13,149	13,847	14,950
Adjusted EBITDA	403	1,188	3,226	3,637	3,747	4,150
Operating Profit (before amort. and except.)	(967)	(306)	1,000	441	543	911
Acquired Intangible Amortisation	(335)	(432)	(972)	(917)	(950)	(1,000)
Exceptionals	(1,041)	(672)	(1,167)	(497)	0	0
Share based payments	538	(218)	(398)	(272)	(360)	(360)
Operating Profit	(1,805)	(1,628)	(1,537)	(1,245)	(767)	(449)
Net Interest	(151)	(191)	(195)	(187)	(170)	(151)
Other	0	0	0	0	0	0
Profit Before Tax (norm)	(1,118)	(497)	804	253	372	759
Profit Before Tax (FRS 3)	(1,956)	(1,819)	(1,732)	(1,433)	(938)	(601)
Tax	753	389	248	308	20	20
Profit After Tax (norm)	(1,118)	(497)	643	202	298	607
Profit After Tax (FRS 3)	(1,203)	(1,430)	(1,484)	(1,125)	(918)	(581)
Average Number of Shares Outstanding (m)	63.3	87.4	110.2	114.4	114.4	114.4
EPS - normalised (p)	(1.77)	(0.57)	0.58	0.18	0.26	0.53
EPS - normalised fully diluted (p)	(1.77)	(0.57)	0.58	0.18	0.26	0.53
EPS - (IFRS) (p)	(1.90)	(1.64)	(1.35)	(0.98)	(0.80)	(0.51)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	52.8	52.1	52.4	53.5	54.0	55.0
EBITDA Margin (%)	2.4	6.7	13.8	14.8	14.6	15.3
Operating Margin (before GW and except.) (%)	(5.7)	(1.7)	4.3	1.8	2.1	3.4
BALANCE SHEET						
Fixed Assets	10,873	10,479	19,206	18,273	18,578	18,978
Intangible Assets	10,540	10,194	15,560	15,187	15,492	15,892
Tangible Assets	333	285	374	392	392	392
Investments	0	0	3,272	2,694	2,694	2,694
Current Assets	7,050	11,481	14,985	18,332	18,955	19,866
Stocks	0	0	0	0	0	0
Debtors	5,510	4,998	9,644	10,890	9,960	9,700
Cash	1,319	6,358	5,108	7,278	8,687	10,166
Other	221	125	233	164	308	0
Current Liabilities	(10,234)	(8,578)	(12,844)	(14,813)	(15,250)	(15,663)
Creditors & other	(9,183)	(8,578)	(12,709)	(14,343)	(14,780)	(15,193)
Short term borrowings	(1,051)	0	(135)	(470)	(470)	(470)
Long Term Liabilities	(899)	(192)	(5,892)	(7,057)	(8,466)	(9,945)
Long term borrowings	0	0	(1,086)	(2,542)	(2,542)	(2,542)
Other long-term liabilities	(899)	(192)	(4,806)	(4,515)	(5,924)	(7,403)
Net Assets	6,790	13,190	15,455	14,735	13,817	13,236
CASH FLOW						
Operating Cash Flow	245	(749)	572	3,983	5,059	5,210
Net Interest	(167)	(175)	(144)	(179)	(170)	(151)
Tax	751	410	313	484	20	20
Capex	(1,035)	(1,394)	(2,320)	(2,312)	(2,400)	(2,500)
Acquisitions/disposals	115	0	(2,151)	(585)	0	0
Financing	0	7,996	2,805	0	0	0
Dividends	0	0	0	0	0	0
Net Cash Flow	(91)	6,088	(1,179)	322	1,409	1,479
Opening net debt/(cash)	(604)	(268)	(6,358)	(3,886)	(4,266)	(5,675)
HP finance leases initiated	0	0	(1,221)	0	0	0
Other	(245)	2	(72)	58	0	0
Closing net debt/(cash)	(268)	(6,358)	(3,886)	(4,266)	(5,675)	(7,154)

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

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