EDISON

1Spatial

FY22 results

Solid progress on several geospatial fronts

Software & comp services

1Spatial's (SPA's) FY22 reported results surpassed our expectations. Revenues grew 10% to £27m with annualised recurring revenues up 26% (constant currency) to £13.4m, while SPA reported its first group profit before tax in over a decade. SPA's results were driven by record contract wins across both new and existing customers, ongoing development of smart partnerships and expansion in the key US market. While it trades at a sizable discount to its software peers, we see opportunities to reduce the gap if it continues executing on its growth strategy.

Year end	Revenue (£m)	EBITDA* (£m)	EBIT* (£m)	EPS* (p)	P/Revenue (x)	EV/EBITDA (x)	P/E (x)
01/21	24.6	3.6	0.4	0.2	1.8	11.3	224.1
01/22	27.0	4.2	1.3	0.8	1.6	9.8	50.3
01/23e	29.0	4.9	2.0	1.2	1.5	8.3	32.4
01/24e	31.2	5.7	2.7	2.3	1.4	7.2	16.9

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

FY22: Contract wins drive recurring revenue

Over the past fiscal year, 1Spatial announced a number of significant, multi-year contracts wins in the UK, United States and Europe. Consequently, it delivered solid results in the first year of its three-year growth plan. Revenues were up 10% y-o-y (13% constant currency) to £27m and recurring revenue grew 15% to £12.2m. The strategic and growing US region's revenues grew 37% y-o-y at constant currency while US/Ireland rose 18% y-o-y. EBITDA gained 15% y-o-y with margins up 70bps to 15.5%.

Raising FY23 and introducing FY24 estimates

We raise our FY23 estimates to reflect the higher-than-expected FY22 results and current momentum in contract wins. An increase in our forecasted revenue and EBITDA (by 11% and 14% respectively) lifts normalised EPS from 0.6p to 1.2p. Our new FY24 forecast is for sales to continue growing at 7.6% to £31.2m and EBITDA to reach £5.7m, driving normalised EPS to 2.3p.

Key catalysts to be watching for in FY23

Over the next year, we will be watching for several key catalysts that signal SPA's strategic plan continues to bear fruit. First, we look for more states, cities and counties in the US signing up for SPA's NextGen 911 solution. Second, we await the full launch of the cloud SaaS platform and resulting contract wins. Finally, we look for smart partnerships to continue generating multi-year, scalable contracts.

Valuation: Continuing to narrow the gap

1Spatial trades at 8.3x FY23e EV/EBITDA, a significant discount to its software peers, and a peer multiple of 16.5x implies a share price of 74p, about 91% above the current price. While much of the discount reflects SPA's current lower growth, if the pace of contract wins is maintained and 1Spatial continues its US expansion as well as growth in recurring revenue, we expect there could be a reduction in this valuation gap.

28 April 2022

Price	**38.9p**
Market cap	**£44m**
Net cash (£m) at FY22 (January 2022)	3.2
Basic shares in issue (January 2022)	110.5m
Free float	79%
Code	SPA
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	14.9	(5.6)	(1.2)
Rel (local)	16.1	(3.1)	(4.8)
52-week high/low		53.5p	35.0p

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

H123 results	September 2022

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What global turmoil? Delivering solid results in FY22

In spite of global turmoil from the COVID-19 pandemic, increasing inflation and Russia's invasion of Ukraine, 1Spatial delivered solid results in FY22. In the first year of its three-year growth plan, SPA's FY22's revenues grew 10% (or 13% constant currency) y-o-y to £27m supported by recurring revenue rising 15% to £12.2m.

Annualised recurring revenues (ARR), a key measure of SPA's transition to a SaaS business with a greater portion of recurring contract revenue, also grew 26% y-o-y to £13.4m, buoyed by term licences ARR up nearly 2.5 times to £4.1m from FY21's £1.6m. Furthermore, recurring revenue as a percentage of total revenue increased to 45% versus FY21's 43%.

As discussed in our recent outlook note, SPA's results were driven by expanding business across the globe, with the strategic and growing US region's revenues up 28% (37% constant currency) y-o-y to €3.7m and UK/Ireland increasing 18% y-o-y to £9.9m. Also, Europe's revenues rose 2% y-o-y on a constant currency basis to £10.9m.

Adjusted EBITDA rose by 15% y-o-y to €4.2m, with margins up 70bps to 15.5%, driven by increased revenues and cost management. Notably, SPA reported its first group profit before tax in over a decade, with reported profit before tax at £0.2m, up from a loss of £1.2m in FY21. Net cash fell slightly to £3.2m from FY21's £4.3m, mostly due to working capital investments related to new contracts.

Smart partnerships boost growth

1Spatial continued to enjoy solid growth in FY22 with multiple higher-value contract wins, boosting both revenues and ARR. Notable wins included an £8m multi-year contract won as part of a consortium for a department of the UK government to implement a digital transformation programme and a £6.5m contract with the UK government's Geospatial Commission to support Atkins (project manager) in delivering the National Underground Asset Register.

A key factor behind many wins was SPA's focus on developing 'smart partnerships', as many of its largest contacts were secured via partners, including Atkins, Landmark and Qinetiq, as well as partnerships being created with Esri, a global leader in the geographic information system (GIS) industry. As we discussed in our recent outlook note, one pillar of 1Spatial's growth strategy is to collaborate with select partners in bidding on large contracts where its role is to be a data integrity provider. In management's view, SPA's reputation as 'best in breed' is why it was chosen to perform this key role, such as its two largest contracts in company, which were both won in collaboration with strategic partners.

SPA also enjoyed several customer expansion contracts, including the Department of Environment, Food and Rural Affairs (DEFRA) for supporting its Land Management System, with a five-year contract for £1.2m, a multi-year agreement with North Ireland's Land and Property Services to support its digital transformation program and additional licences and services for Google Real Estate and Workplace services worth US$0.9m.

Exhibit 1 shows a visual of these wins from new and existing customers, including those done via smart partnerships.

Exhibit 1: New and expansion contract wins

- New customer wins in all regions including multi-year licence-based contracts

- Growth from existing customers including multi-year licence-based contracts

Source: 1Spatial

It's all about scaling up the US and Next Gen 911

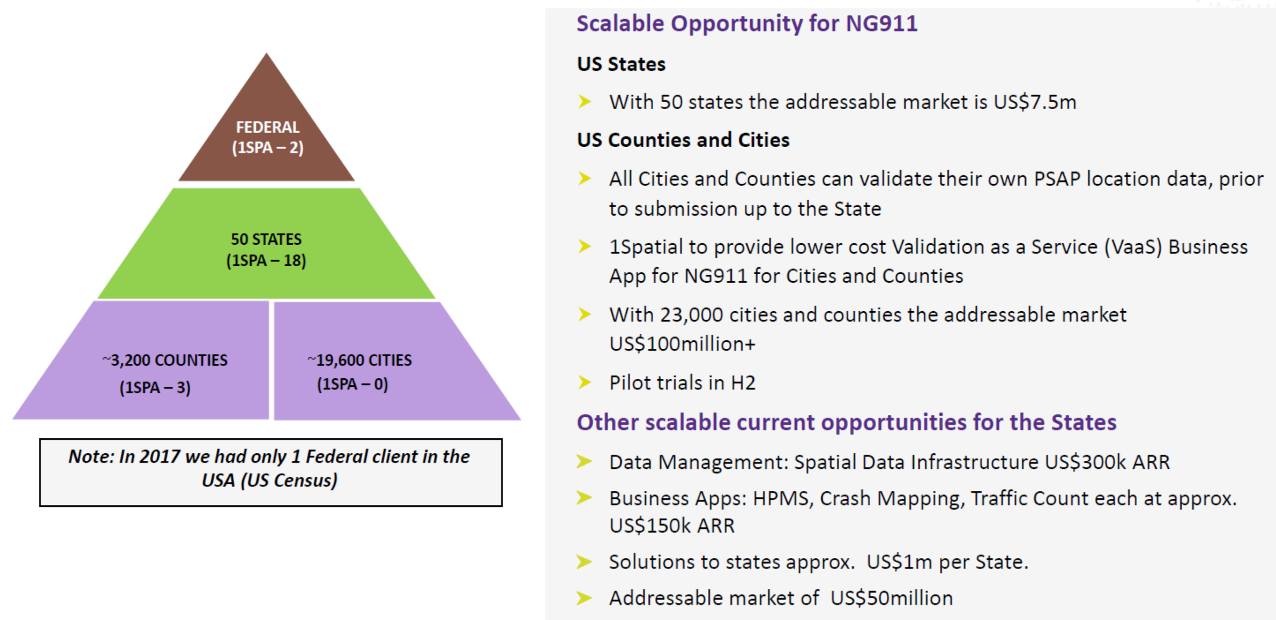
A key factor in SPA's 'land and expand' strategy is the expansion of its US business. It has implemented 1Integrate and 1Data Gateway products in several influential US states, including California and Michigan, and in FY22 secured contracts with four more US states (Montana, Georgia, Minnesota and Arizona) to deliver Next Generation 911 Emergency Services systems (NG 911). The NG 911 system incorporates SPA's 1Integrate and 1DataGateway products and enables emergency entities across the state to upload and validate their location and 911 data to comply with Next Generation 9-1-1 Act requirements.

Each contract had an average ARR of US$0.15m and services of US$0.1m, further boosting SPA's base of recurring revenue. Management expects total ARR across the United States to grow to over US$1m in FY23 and is adding sales staff to support the US growth.

As described in Exhibit 2, management estimates that the addressable NextGen 911 market alone would be worth more than US$100m, or about US$7.5m across the 50 states and US$100m across the 23k cities and counties.

In effect, the US market provides a significant, scalable growth opportunity for SPA, with 50 states and 23,000 counties and cities, each with potentially their own 911 emergency services, department of transportation and asset management teams, each of which relies on GIS information and would likely need a solution such as 1Integrate to check, validate and cleanse their data. Moreover, there are upsell opportunities in these states, such as highway performance monitoring, crash reporting, etc. Evidence of SPA taking advantage of the scalable opportunity is its growth from only one client in 2017 (US Census) to 23 by FY22, including two federal clients, 18 states and three counties.

Exhibit 2: The US Next Gen 911's addressable market



Source: 1Spatial

Platform well aligned to meet demand for LMDM services

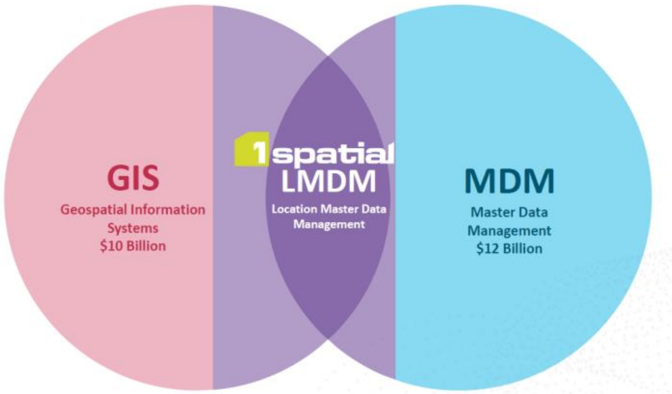
As Exhibit 3 portrays, SPA operates at the nexus of two large, growing markets: GIS and master data management (MDM), which management estimates to be worth US$10bn and US$12bn, respectively. The market where these two meet is the location master data management (LMDM) industry.

SPA's platform is a set of software and components that includes its 1Integrate rules engine and 1Data Gateway self-service web portal, and allows clients to gather geospatial data from multiple sources and helps check, cleanse, validate, update and analyse the data, providing accurate location data that customers need. Moreover, its platform can be deployed as SaaS in the cloud, on-premise or as a hybrid across both.

As we explained in our outlook note, the LMDM industry is rapidly transforming with more companies using and generating more location data than ever before. Furthermore, the increasing number of companies undergoing digital transformations, numerous government infrastructure investments and the start of sustainability programs are driving the demand for tools to manage this data. After all, efficiently managing and using this data can be complex, costly and difficult, and 1Spatial's platform seems well aligned to meet this growing demand for LMDM services and solutions.

To ensure that the platform remains what management considers best in class, SPA continues to focus on innovation. It was granted a UK patent for Modification and Validation of Spatial Data, thus protecting its rules engine technology, and SPA added support for 3D in a pilot project with a national mapping agency, automating the import of geospatial data into a 3D database and automatically validating that data with 1Integrate 3D. SPA launched its 1Spatial cloud platform to support its cloud solutions and continued enhancing its APIs so that customers can analyse their results using their own business intelligence tools. Finally, it developed several new, specific business apps such as 1Streetworks, and also apps that would enable SPA to offer validation-as-a-service (VaaS).

Exhibit 3: The LMDM market



Source: 1Spatial

Raising FY23 and introducing FY24 estimates

In our previous note on SPA's FY22e trading update, we acknowledged that our forecasts may be conservative, given SPA's record contract wins and sales momentum. Subsequently, SPA's FY22 results surpassed both our revenue and EBITDA forecasts by £0.6m and £0.4m, respectively, as UK revenues were greater than we projected, though recurring term licence revenues were slightly less than we expected.

Given the trends discussed above and the solid FY22 results, we increase our FY23 revenue estimates from £27.5m to £29.0m, while forecasted EBITDA rises about £0.6m to £4.9m. We also boost our normalised basic EPS projection from 0.6p to 1.2p. While we do see continued investments in R&D to support innovation in SPA's LMDM platform, EBITDA margins should still grow by 140bps, boosted by 7.3% sales growth in FY23e.

We also introduce FY24 forecasts, with revenues up 7.6% y-o-y to £31.2m, EBITDA up £0.8m y-o-y to £5.7m and normalised basic EPS of 2.3p versus FY23e's 1.2p. Finally, we see net cash growing from £3.2m in FY23e to £3.5m FY24e.

Exhibit 4: Edison forecast changes

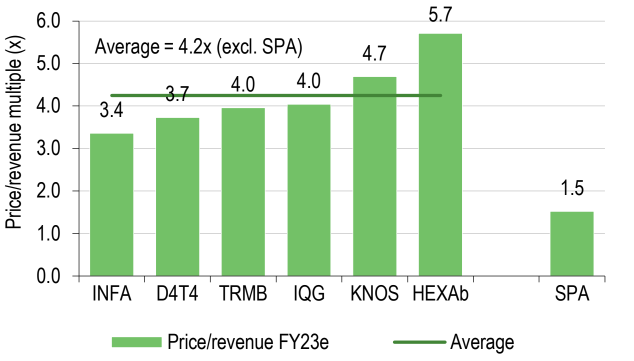
	FY23e		FY24e
	Old	New	
Revenue (£m)	27.5	29.0	31.2
EBITDA (£m)	4.3	4.9	5.7
PBT, normalised (£m)	0.9	1.8	2.5
EPS, basic, normalised (p)	0.6	1.2	2.3

Source: Edison Investment Research

Valuation: Continuing to reduce discount to peer group

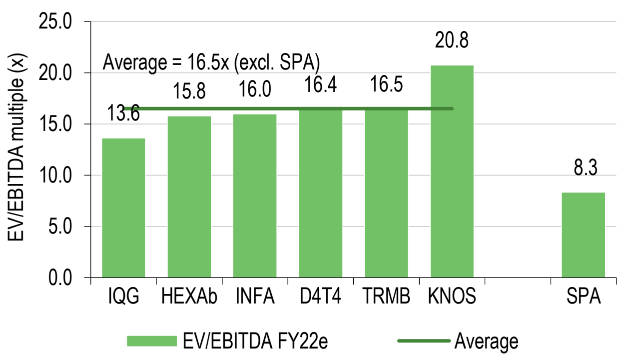
At the recent 38.9p price, SPA is trading at about 1.5x FY23e revenue, a significant discount to its software peers at 4.2x (see Exhibit 5). Some of the discount could reflect its lower projected growth (7% vs peers at 12%). As noted in Exhibit 6, it trades at an 8.3x FY23e EV/EBITDA, a 50% discount to its peers such as Hexagon and IQGeo.

Exhibit 5: Price/revenue multiples versus peers



Source: Refinitiv, Edison Investment Research, As of 26 April 2022

Exhibit 6: EV/EBITDA multiples versus peers



Source: Refinitiv, Edison Investment Research, As of 26 April 2022

If SPA maintains its pace of significant contract wins, continues its expansion in the United States with scalable opportunities in NextGen 911 and keeps growing its higher-margin SaaS revenue, we expect there could be a reduction in this valuation gap. Closing the revenue multiple could take time, although our forecast for growth in FY24e (7.6% versus 10.0% consensus for peers) may bode well for SPA's efforts to begin reducing the disparity in growth.

Achieving an FY23e sector average price/revenue multiple of 4.2x would imply a share price of 109p, a 179% premium to the current price. Reaching a peer EV/EBITDA multiple of 16.5x suggests a share price of 74p, a 91% premium to the current price.

If SPA's partnerships generate more wins than we expect and/or if US sales can ramp up faster than we project, then a further re-rating is possible.

Exhibit 7: Financial summary

£'000s	2020	2021	2022	2023e	2024e
Year ending 31 January	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	23,385	24,600	27,027	29,000	31,200
Delivery costs	(11,123)	(11,451)	(13,078)	(14,094)	(15,101)
Gross Profit	12,262	13,149	13,949	14,906	16,099
EBITDA	3,226	3,632	4,182	4,906	5,699
Operating profit (before amort. and excepts.)	1,000	436	1,302	1,967	2,720
Goodwill and Acquired Intangible Amortisation	(972)	(917)	(561)	(600)	(600)
Exceptionals	(1,167)	(492)	-	-	-
Share based payments	(398)	(272)	(326)	(360)	(410)
Operating Profit	(1,537)	(1,245)	415	1,007	1,710
Net Interest	(195)	(187)	(195)	(186)	(186)
Other	-	-	-	-	-
Profit Before Tax (norm)	804	248	1,107	1,780	2,533
Profit Before Tax (FRS 3)	(1,733)	(1,433)	220	820	1,523
Tax	248	308	(43)	(205)	(381)
Profit After Tax (norm)	643	198	886	1,335	2,527
Profit After Tax (FRS 3)	(1,485)	(1,125)	177	615	1,142
Average Number of Shares Outstanding (m)	110	112	111	111	111
EPS - normalised (p)	0.58	0.18	0.80	1.21	2.29
EPS - normalised fully diluted (p)	0.58	0.17	0.77	1.21	2.29
EPS - (IFRS) (p)	(1.35)	(1.01)	0.16	0.56	1.03
Dividend per share (p)	-	-	-	-	-
Gross Margin (%)	52.4	53.5	51.6	51.4	51.6
EBITDA Margin (%)	13.8	14.8	15.5	16.9	18.3
Operating Margin (before GW and except.) (%)	4.3	1.8	4.8	6.8	8.7
BALANCE SHEET					
Fixed Assets	19,206	18,273	17,100	17,850	18,600
Intangible Assets	15,560	15,187	15,003	15,753	16,503
Tangible Assets	374	392	350	350	350
Investments	3,272	2,694	1,747	1,747	1,747
Current Assets	14,985	18,332	18,018	19,235	21,253
Stocks	-	-	-	-	-
Debtors	9,644	10,890	12,271	13,200	14,200
Cash	5,108	7,278	5,623	5,911	6,929
Other	233	164	124	124	124
Current Liabilities	(12,844)	(14,813)	(14,903)	(15,469)	(16,219)
Creditors & other	(12,709)	(14,343)	(14,372)	(14,938)	(15,688)
Short term borrowings	(135)	(470)	(531)	(531)	(531)
Long Term Liabilities	(5,892)	(7,057)	(5,110)	(5,398)	(6,416)
Long term borrowings	(1,086)	(2,542)	(1,861)	(1,861)	(1,861)
Other long-term liabilities	(4,806)	(4,515)	(3,249)	(3,537)	(4,555)
Net Assets	15,455	14,735	15,105	16,218	17,218
CASH FLOW					
Operating Cash Flow	572	3,983	2,497	4,543	5,449
Net Interest	(144)	(179)	(134)	(186)	(186)
Tax	313	484	176	(205)	(381)
Capex	(2,320)	(2,312)	(2,613)	(2,764)	(2,764)
Acquisitions/disposals	(2,151)	(585)	-	-	-
Financing	2,805	-	-	-	-
Dividends	-	-	-	-	-
Other	(254)	(1,069)	(1,088)	(1,100)	(1,100)
Net Cash Flow	(1,179)	322	(1,162)	288	1,018
Opening net debt/(cash)	(6,358)	(3,886)	(4,266)	(3,231)	(3,519)
HP finance leases initiated	(1,221)	-	-	-	-
Other	(72)	58	127	-	-
Closing net debt/(cash)	(3,886)	(4,266)	(3,231)	(3,519)	(4,537)

Source: 1Spatial, Edison Investment Research

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