1Spatial

Capital markets day

Mapping a future path

Software & comp services

1Spatial has made significant financial and strategic progress over the last three years. The recent capital markets day provided the opportunity to articulate its longer-term ambitions. Its Location Master Data Management (LMDM) strategy aims to leverage the strengths of its 1Integrate platform and has the potential to accelerate growth and raise margins, in our view.

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)	1.7	72.5	N/A
01/19	17.6	1.2	(0.9)	(1.1)	1.7	24.6	N/A
01/20e	22.8	3.1	0.8	0.7	1.3	9.3	42.9
01/21e	25.6	3.7	1.4	1.0	1.1	7.8	31.2

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.

The LMDM strategy

Delivering actionable insight from geospatial data stored in multiple repositories across an organisation requires a single platform that can correct and integrate data. 1Spatial's strategy aims to leverage the key strengths of its 1Integrate product (its platform-agnostic customisable rules engine) to establish a leading position in LMDM. Increasing its focus on a subsegment where it has a differentiated product gives 1Spatial scope to accelerate long-term growth in our view.

LMDM opportunities…

A key focus for 1Spatial currently is 'productising' LMDM – implementing it as a configurable solution within a hosted SaaS offering. The LUAR, TMP Automation and CAIMAN projects (see over) all highlight the value this approach could create. A scalable platform capable of addressing multiple clients across different sectors and geographies without substantial cost increases could drive margin expansion.

…not factored into numbers

The full financial benefits from the LMDM strategy are unlikely to be apparent in the near-term forecasts. Nevertheless, we still see scope for 1Spatial to outperform our (unchanged) estimates. Our FY20 forecasts imply a relatively cautious H2, reflecting broader UK and US political uncertainty. Stripping out the impact of Geomap-Imagis (GI), our FY21 forecasts imply mid-single digit revenue growth and no improvement in margins (ignoring the potential benefit of further cost synergies).

Valuation: LMDM success could drive a re-rating

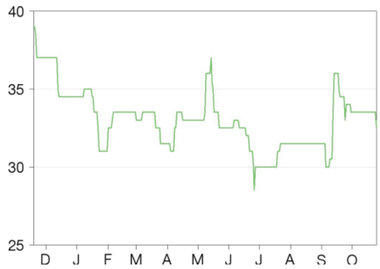
At 32p, 1Spatial trades on an FY21e EV/EBITDA multiple of 7.8x, a 30% discount to UK small- and mid-cap software peers and 40% below international Geospatial Information Systems (GIS) players. In our view, its rating reflects neither the track record of execution nor the chances of LMDM enhancing financial performance or strategic value. An FY21e EV/EBITDA multiple of 13.4x (in line with international GIS players) implies a share price of 50p.

18 November 2019

Price	**32.0p**
Market cap	**£36m**

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

Share price performance



%	1m	3m	12m
Abs	(4.6)	0.0	(19.2)
Rel (local)	(5.7)	(4.1)	(22.7)
52-week high/low		39.0p	28.5p

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

Trading statement	March 2020

Analysts

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

tech@edisongroup.com

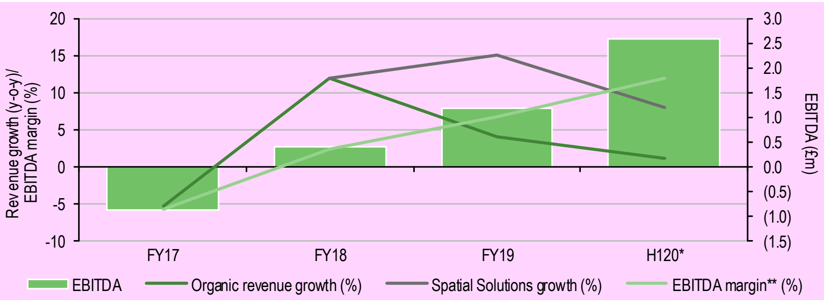
Edison profile page

1Spatial is a research client of Edison Investment Research Limited

Turnaround delivered – now LMDM

Over the last three years, 1Spatial has divested non-core assets, raised capital and, most recently, aligned the strategy of its operations via the GI acquisition. Despite headwinds in France and Belgium, the business has continued to grow and margins steadily improve. It is yet to reach bottom-line profitability or positive free cash flow (FCF) generation, but we believe that, particularly following the GI acquisition, there is now a clear line of sight on these objectives. Management can clearly demonstrate execution against the turnaround plan set out in April 2017.

Exhibit 1: Growth plus improving profitability



Source: 1Spatial. Note: *H120 EBITDA (pre-IFRS 16) annualised. **Pre-IFRS 16 (for comparability).

Comment [SA1]: Source file info: Z:\Edison\Clients\1Spatial\Model\Current working\Post CMD charts_151119.xlsx\Sheet5 Chart 2

1Spatial's longer-term strategy remains establishing LMDM leadership. The company articulated this in detail for the first time at its recent capital markets day. The LMDM concept represents an evolution from the use of a dedicated GIS database to store spatial data. It recognises that in the era of the Internet of Things (IoT), in-building/asset management systems, customer relationship manager (CRM) and ERP systems, there are numerous repositories for data in the enterprise with geospatial attributes and the volume of data is growing rapidly. Delivering genuine business intelligence from these geospatial data requires a single platform that can error-correct these huge volumes and integrate them with data from other enterprise platforms.

This is not just about addressing a growth subsegment. The LMDM strategy also aims to leverage the key strengths of 1Spatial's 1Integrate platform. 1Integrate's customisable rules engine and open architecture allow clients to check for errors and integrate geospatial datasets from multiple sources. We believe this focus differentiates the company from mainstream GIS players such as Esri and Hexagon and has the potential to accelerate growth, expand margins and create strategic value in the long term.

LMDM: From customised project to hosted SaaS solution

Projects with the Federal Highways Administration (FHWA) in the US and a 'major UK infrastructure provider' have included elements of LMDM, demonstrating both the value of the proposition to clients and technical capability of the 1Integrate platform. A key focus is now 'productising' LMDM – moving it from a custom feature of a bespoke project to one that can be fully integrated in a hosted SaaS offering. This requires all major parameters to be configurable through an online interface, scalable resources (storage, bandwidth, processing) and an integrated automated billing platform. 1Spatial's recent presentation set out a road map to add these features over the next two years to achieve this.

Moving LMDM to a hosted SaaS platform could have big implications for both customers and investors. The GLA London Underground Asset Register (LUAR) and Traffic Management Plan

Automation (TMP Automation) projects (described below) highlight the potential of delivering solutions on a single platform to multiple clients. Historically, 1Spatial has generated most of its revenues from services. For the first time, it will have a scalable platform capable of addressing multiple clients across different sectors and geographies with only modest cost increases.

LMDM: The commercial potential

Interim results highlighted contract wins across all geographies and a healthy order book. The capital markets day presentation focused on current projects which, while still in the early stages, illustrate the potential for LMDM to reaccelerate growth.

Perhaps the clearest example of this potential was the pilot project 1Spatial was recently awarded to create a digital map of London's underground utility assets (pipes and ducts) by the GLA (see London geospatial pilot project win). Government bodies and utilities submit asset maps to 1Spatial, which corrects errors in the data, converts it to standardised schema and uploads it to a central repository. While this pilot is not significant financially, securing this high-profile tender against a number of other (generally much larger) competitors is a clear validation of both 1Spatial's technology and the potential of a hosted LMDM solution. If the project is successful, we believe it could be rolled out nationally and that 1Spatial would be in a good position to bid for this business.

The presentation also outlined how an LMDM platform can automate the creation of 'traffic management plans' (essentially the configuration of cones and signage around roadworks). There are more than one million roadworks in the UK every year and each one requires a detailed site plan approved by the relevant local authority. To minimise accidents and congestion, these plans need to conform to strict regulations and, consequently, are both expensive and time-consuming to create manually. 1Spatial's software enables error-free creation in just 45 seconds, saving substantial time and money. Linking these to an asset register, the appropriate inventory can also be ordered automatically. 1Spatial is already working with the Enterprise Innovation Centre to develop an automated solution (a £0.4m contract), but the real potential is selling this solution directly to the multiple utilities, government organisations and contractors that need access to their roadside underground infrastructure.

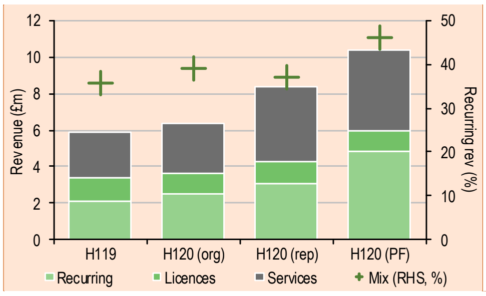
The solutions that GI has developed also featured. The CAIMAN presentation highlighted how, by combining virtual reality and Building Information Modelling (BIM) software, GI enables engineers to virtually inspect the sewage network. This solution dramatically reduces the number of inspections undertaken every year, cutting congestion and reducing costs. This project only covers Paris, but has applications for many cities across France and the UK.

Earnings quality: Margin, recurring revenue and cash flow

At this point, it is difficult assess how quickly these commercial opportunities for LMDM will feed into revenue. Our forecasts are unchanged from our post interim report (see Encouraging early signs from GI) and remain conservative. Reflecting broader UK and US political uncertainty, we factor in no organic revenue growth and a decline in underlying (ie ex-GI) margins in H220. Our FY21 forecasts imply mid-single digit organic revenue growth and no improvement in underlying margins, despite the company identifying further cost synergies in FY21. We believe hosted LMDM has the potential to accelerate growth and profitability in the long term, but this is not currently factored into our estimates.

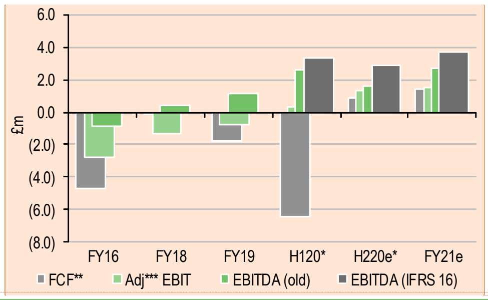
Visibility is also improving. The shift from one-off perpetual licences to recurring sales is driving a steady rise in recurring revenues and the acquisition of GI has accelerated that shift. The proportion of recurring revenues grew organically from 36% in H119 to 39% in H120. On a pro forma basis (ie assuming GI was consolidated for six months), it stands at 43%. As this proportion rises, the predictability of earnings increases substantially.

Exhibit 2: Recurring revenues are now 43%



Source: 1Spatial data. Note: Org = organic, rep = reported, PF = pro forma (ie as if GI was included for the full six months).

Exhibit 3: FCF should improve in H220e and FY21e



Source: 1Spatial data, Edison forecasts 1Spatial data. Note: *H120 and H220 annualised. **Includes exceptionals. ***Adjusted for exceptionals and SBP.

Comment [SA2]: Source file info: Z:\Edison\Clients\1Spatial\Model\Current working\Post CMD charts_241019.xlsx\Recurring revs Chart 1

Comment [SA3]: Source file info: Z:\Edison\Clients\1Spatial\Model\Current working\Post CMD charts_241019.xlsx\EBITDA vs FCF Chart 1

Finally, we would expect H220 to start showing improving cash generation. H120 saw FCF affected by £0.7m of exceptional cash costs and a £2.9m working capital outflow. The exceptional costs are unlikely to repeat and cash collection is typically stronger in H2. For FY21, the combination of improving margins and lower working capital consumption should ensure a first full year of positive net cash generation. However, the relatively wide gulf between reported EBITDA and both bottom-line profitability and FCF is likely to remain. The recent adoption of IFRS16 lifted adjusted EBITDA margins by 4.0pp in H120, bringing total annualised capitalised costs (both R&D and now leases) to £2.6m (12% of sales).

Valuation

At 32p, 1Spatial trades on 1.1x FY21e EV/Sales, approximately half the multiple of UK small-cap software peers (2.3x) and a third of international GIS peers such as Hexagon and Trimble (3.6x). In our view (see Spatial awareness), this discount predominantly reflects its relatively modest margins which, despite the positive impact on EBITDA of IFRS 16, remain below both its nearest UK and international peers. However, even on an EV/EBITDA basis, 1Spatial trades at just 7.8x FY21e on our estimates, 30% below UK small-cap software and 40% below international GIS peers.

We see an opportunity for 1Spatial to beat our relatively conservative near-term forecasts (in the absence of macroeconomic risks materialising). We also see scope for it to close the EBITDA multiple discount if it can accelerate growth. It is clear that the company has executed well over the last three years, in our view. If that continues and it delivers a hosted LMDM platform, we believe it can raise growth and margins over the long term and create substantial strategic value. An FY21e EV/EBITDA multiple of 13.4x (in line with international GIS players) implies a share price of 50p, a 56% premium to the current price.

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Exhibit 4: 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.

EDISON

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