

1Spatial

Mapping a future path

Capital markets day

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

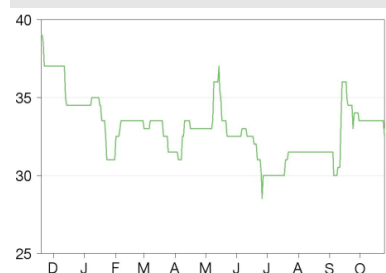
At 32p, 1Spatial trades on an FY21e EV/EBITDA multiple of 7.8x, a 30% discount to UK small- and mid-cap software peers and 40% below international Geospatial Information Systems (GIS) players. In our view, its rating reflects neither the track record of execution nor the chances of LMDM enhancing financial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

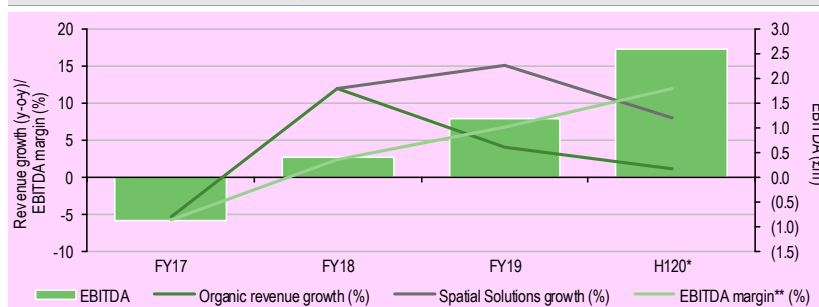
[Edison profile page](#)

**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.

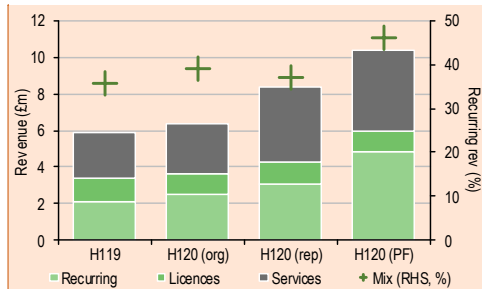
The solutions that GI has developed also featured. The CAIMAN presentation highlighted how, by combining virtual reality and Building Information Modelling (BIM) software, GI enables engineers to virtually inspect the sewage network. This solution dramatically reduces the number of inspections undertaken 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 to 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.

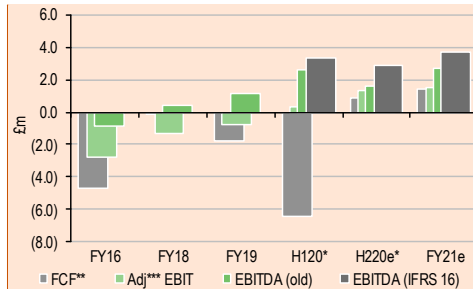
Visibility is also improving. The shift from one-off perpetual licences to recurring sales is driving a steady rise in recurring revenues and the acquisition of GI has accelerated that shift. The proportion of recurring revenues grew organically from 36% in H119 to 39% in H120. On a pro forma basis (ie 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\1SpatialModel\Current working\Post CMD charts_241019.xlsx\Recurring revs Chart 1

Comment [SA3]: Source file info: Z:\Edison\Clients\1SpatialModel\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.

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.

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

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