

1Spatial

Interim results

Resilience and a growing pipeline

Amid an unprecedented economic downturn, 1Spatial performed resiliently during H1. Sales rose y-o-y, EBITDA grew and the company generated FCF. At company level, rising recurring revenue and a growing order book of contracted sales is improving visibility. However, the broader economic backdrop remains uncertain and could affect deal closure. Reflecting this wider uncertainty, we reinstate forecasts at a conservative level.

| Year end | Revenue (£m) | EBITDA* (£m) | EBIT* (£m) | EPS* (p) | EV/Sales (x) | EV/EBIT* (x) | P/E* (x) |
|----------|--------------|--------------|------------|----------|--------------|--------------|----------|
| 01/19 | 17.6 | 1.2 | (0.3) | (0.6) | 1.7 | N/A | N/A |
| 01/20 | 23.4 | 3.2 | 1.0 | 0.6 | 1.3 | 220.0 | 51.7 |
| 01/21e | 23.4 | 2.8 | (0.4) | (0.4) | 1.4 | N/A | N/A |
| 01/22e | 25.1 | 3.6 | 0.4 | 0.2 | 1.3 | 77.8 | N/A |

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

A resilient performance in H1

Headline sales growth of 8% y-o-y reflected a strong performance in the existing solutions business (57% of total sales), which rose 4% y-o-y, plus an extra three months of Geomap-Imagis (GI). As flagged previously, GI was affected by COVID-19 and non-core GIS sales continued to decline, but good cost control resulted in EBITDA of £1.7m (up 1% y-o-y). An uptick in non-cash charges reduced adjusted EBIT, but for the second period in a row (and the first time in the first half), 1Spatial generated FCF (pre-lease payments).

Growing pipeline despite COVID-19

With the share of recurring revenue nudging up to 44% in H1 and a growing order book of contracted revenue, visibility is improving. Activity levels in GI have recovered and the company recently signed a \$2.6m contract with the US State of Michigan and a deal with USGS. 1Spatial recognises that the full economic impact of COVID-19 has yet to be felt and decision making is likely to remain protracted in the near term. Nevertheless, it is increasingly confident that it can weather any further COVID-19 impacts and has reinstated guidance.

Reinstating FY21 forecasts, introducing FY22

Our reinstated FY21 forecasts conservatively assume no sequential sales growth in H2 despite it being typically a seasonally stronger period. Good cost control partially offsets the impact of lower sales on EBITDA (£2.8m vs £3.7m previously) and we see FCF (pre-lease payments) of £1.7m. In FY22, we assume 7% sales growth as an 11% rise in solutions revenue is partially offset by an 18% decline in GIS. This growth plus cost control enables margin expansion, a return to underlying profitability and FCF (pre-lease payments) of £2.5m.

Valuation: Scope for outperformance?

At 31p, 1Spatial's share price has underperformed AIM over the last year (down 10% versus AIM, which is up 10%). Our revised estimates make it hard to argue that the shares are undervalued on near-term profit metrics. However, growth and cost control should see multiples fall in outer years and a growing pipeline provides scope for numbers to beat our conservative forecasts, even in a tough macro environment. A £1m beat to FY22e FCF would put the stock on a 7% FCF yield.

Software & comp services

30 September 2020

Price 31p
Market cap £35m

| | |
|---------------------------|------|
| Net cash (£m) at end H121 | 3.4 |
| Diluted shares in issue | 113m |
| Free float | 93% |
| Code | SPA |
| Primary exchange | AIM |
| Secondary exchange | N/A |

Share price performance



| | | | |
|------------------|-----|-------|-------|
| % | 1m | 3m | 12m |
| Abs | 1.6 | 37.8 | (8.8) |
| Rel (local) | 3.2 | 44.0 | 12.8 |
| 52-week high/low | | 34.5p | 13.5p |

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 | February 2020 |
|-------------------|---------------|

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A resilient performance in H1

Revenue of £11.7m and headline sales growth of 8% y-o-y partially reflected the additional three months of the GI acquisition. Adjusting for this effect, total sales fell 8% y-o-y (vs a 1% y-o-y organic decline in H220), entirely driven by the decline in the non-core GIS business. Overall solutions sales rose 1% y-o-y. Exhibit 1 highlights the three main components of the overall change in sales:

- Growth in the non-GI solutions business (57% of total sales) was 4% y-o-y (down from 15% in H220 and 6.5% for FY20). Amid an unprecedented downturn, the company experienced a modest slowdown in activity levels across most geographies. However, sales in the US and Australia still grew at 12% and 8% respectively.
- GI sales (30% of the total) declined 10% y-o-y organically as COVID-19 affected French local government activities. By the end of H1, activity had recovered to pre-COVID-19 levels and has held up well since.
- Non-core GIS sales (14% of the total) declined 36% y-o-y. As 1Spatial is discontinuing investment in this platform, a decline in this business is expected over the long term. However, the pace of decline in H1 was exacerbated by COVID-19. The company did maintain a large proportion of the recurring revenue in the business and has begun migrating GIS customers onto its solutions platform.

Recurring revenue increased by 15% y-o-y and now accounts for 44% of total revenues, up from 41% in FY20. The proportion of perpetual licence sales fell to just 9% as the company continues to focus on shifting to a SaaS model over time.

Gross margins of 51.8% held up well, but included £0.3m of grants from overseas governments to maintain business levels. Good cost control, predominantly reflecting synergies achieved with GI in H220, saw cash operating costs fall by £0.6m sequentially and resulted in EBITDA of £1.7m. An uptick in non-cash charges saw adjusted operating profit fall to just £0.1m but, for the second period in a row (and the first time in H1), 1Spatial generated FCF pre-lease payments. Net cash fell £0.5m to £3.4m due to payments for leases and the final deferred consideration for GI (£0.6m).

| Exhibit 1: Revenue and growth by segment, H121 and revised forecasts | | | | | | | |
|---|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| | H120* | H220 | FY20 | H121 | H221e | FY21e | FY22e |
| Revenue (£m) | | | | | | | |
| Spatial Solutions | 6.4 | 6.7 | 13.1 | 6.6 | 6.7 | 13.3 | 14.7 |
| Geomap-Imagis (GI) | 1.9 | 3.9 | 5.8 | 3.5 | 3.7 | 7.1 | 7.9 |
| Total solutions | 8.3 | 10.6 | 18.9 | 10.1 | 10.4 | 20.5 | 22.7 |
| GIS | 2.5 | 2.0 | 4.5 | 1.6 | 1.3 | 2.9 | 2.4 |
| Total | 10.9 | 12.6 | 23.4 | 11.7 | 11.7 | 23.4 | 25.1 |
| Growth (%) | | | | | | | |
| Spatial Solutions | 8.3 | 15.9 | 6.5 | 3.8 | 0.0 | 1.8 | 10.5 |
| Geomap-Imagis (GI) | - | - | - | 78.9 | (5.0) | 23.1 | 11.0 |
| Total solutions | 41.2 | 82.5 | 53.7 | 21.2 | (1.8) | 8.3 | 10.7 |
| GIS | (13.7) | (34.3) | (15.5) | (35.6) | (34.0) | (34.9) | (18.1) |
| Total | 22.9 | 42.6 | 32.8 | 8.0 | (6.9) | 0.0 | 7.1 |

Source: 1Spatial, Edison Investment Research forecasts. Note: *H120 Includes only three months of Geomap-Imagis (GI) acquisition.

Growing pipeline despite COVID-19

With the share of recurring revenue rising and a growing order book of contracted revenue, visibility is improving. Activity levels in France (GI) returned to pre-COVID levels before the end of H1 and have held up well subsequently. Trading in H2 so far is in line with management expectations.

In June, the company signed a \$2.6m contract with the US State of Michigan (a proportion of which should be recognised in H221) and has now announced a further deal with US Geological Survey

(USGS). These are significant wins that should meaningfully boost its US business (annual revenues of £2.3m in FY20).

1Spatial has started migrating some customers on its Elyx software to an ESRI-based platform. This should ensure they remain long term solution customers of 1Spatial and mitigate the impact of the revenue headwind in its GIS business.

The company also formally launched its 1Data Gateway product and refreshed its core 1Integrate platform during H1. A refreshed product line-up, recent customer wins and greater visibility on the impact of the migration in GIS has given the company increasing confidence in its commercial prospects and has led it to reinstate guidance.

Nevertheless, 1Spatial recognises that the broader macro environment is uncertain currently. The full economic impact of the first wave of COVID-19 has yet to be felt and core markets such as France and the UK appear on the verge of imposing new lockdown restrictions. In this environment decision making is likely to remain protracted and, reflecting this, 1Spatial remains cautious about how quickly its growing pipeline will convert into sales.

Reinstating FY21 forecasts, introducing FY22

Our reinstated estimates reflect this cautious outlook. Our FY21 sales forecast of £23.4m (down from £25.6m previously – see Exhibit 2) conservatively assumes no overall growth over FY20. It implies no sequential sales growth in H2 (despite it typically being a seasonally stronger period) and an organic y-o-y decline in H2 of 7% (similar to the 8% decline experienced in H1, which was affected by strict lockdown measures).

We assume the company continues to exert tight control of costs to mitigate the impact of lower sales on profits. Our revised EBITDA forecast of £2.8m (vs £3.7m previously) assumes just a £0.2m sequential increase in cash operating costs. We expect FY21 non-cash operating costs of £3.2m, implying that costs here are flat sequentially in H2.

Working capital has led to H2 being the seasonally stronger period for cash flow for 1Spatial historically. Therefore, despite our lower profit estimate in H2 (vs H1), we forecast rising FCF in H2 and FY21 FCF (pre-lease payments) of £1.7m. With no deferred consideration due in FY22 either, H2 should see the company begin to grow its cash balance.

In FY22, we assume 7% overall sales growth driven by an acceleration in solutions growth to 11%, which is only partially offset by an 18% decline in GIS. This growth, plus unchanged gross margins and cost control, expands EBITDA margins to 14% and sees a return to underlying profitability. We forecast FCF (pre-lease payments) rising to £2.5m.

Exhibit 2: Changes to headline FY21 forecasts and new FY22

| | FY20 | FY21e | | Change | | FY22e (new) |
|--------------------------|--------------|-------------|-------------|--------------|---------------|-------------|
| | | Old | New | Abs | % | |
| Revenue | 23.4 | 25.6 | 23.4 | (2.2) | (8.7) | 25.1 |
| Implied growth (%) | 32.7 | 9.6 | 0.1 | | | 7.1 |
| Gross profit | 12.3 | 13.3 | 11.8 | (1.5) | (11.2) | 12.8 |
| Gross margin (%) | 52.4 | 51.9 | 50.5 | | | 51.0 |
| Opex | (9.0) | (9.6) | (9.0) | 0.6 | | (9.2) |
| EBITDA | 3.2 | 3.7 | 2.8 | (0.9) | (24.4) | 3.6 |
| EBITDA margin (%) | 13.8 | 14.5 | 12.0 | | | 14.3 |
| Non-cash charges* | (2.2) | (2.3) | (3.2) | (0.9) | | (3.2) |
| Adjusted EBIT | 1.0 | 1.5 | (0.4) | (1.8) | (124.1) | 0.4 |
| EBIT margin (%) | 4.3 | 5.7 | (1.5) | | | 1.6 |
| Reported EBIT** | (1.5) | 0.1 | (1.9) | (2.0) | (2,000.4) | (1.1) |
| EBIT margin (%) | (6.6) | 0.4 | (8.2) | | | (4.2) |
| Adjusted diluted EPS (p) | 0.6 | 1.0 | (0.4) | (1.4) | (134.3) | 0.2 |
| Reported diluted EPS (p) | 0.0 | 0.1 | 0.0 | | | 0.0 |
| Operating cash flow | 0.7 | 5.3 | 3.3 | | | 3.7 |
| Investment | (2.3) | (3.1) | (2.6) | | | (2.4) |
| FCF | (1.6) | 3.0 | 1.7 | (1.3) | (43.2) | 2.5 |
| Repayment of leases | (0.8) | (0.8) | (1.1) | | | (1.1) |

Source: 1Spatial, Edison Investment Research forecasts. Note: *Non-cash charges include depreciation, amortisation of capitalised development costs and leased assets. **Reported EBIT includes share-based payments, impairments of intangibles, amortisation of acquired intangibles and exceptionals.

Valuation: Scope for outperformance?

At 31p, 1Spatial's share price has underperformed AIM over the last year (down 10% versus AIM, which is up 10%). Our revised forecasts, which assume the company returns to underlying net profit in FY22, make it hard to argue that the shares are undervalued on conventional profit metrics. However, growth combined with cost control should see multiples fall quickly in outer years and a strengthening pipeline provides scope for numbers to outperform these forecasts, even in a challenging macro environment. Given marginal profitability, modest outperformance could deliver a large uplift to profit and cash flow estimates, substantially reducing the current implied valuation multiples. For example, a £1m beat to FY22e FCF would put the stock on a 7% FCF yield.

Exhibit 3: Financial summary

| | £000s | 2018 | 2019 | 2020 | 2021e | 2022e |
|--|-------|----------|---------|----------|----------|----------|
| Year end 31 January | | IFRS | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | | |
| Revenue | | 16,938 | 17,624 | 23,385 | 23,407 | 25,060 |
| Delivery costs | | (7,994) | (8,449) | (11,123) | (11,586) | (12,280) |
| Gross Profit | | 8,944 | 9,175 | 12,262 | 11,821 | 12,781 |
| Adjusted EBITDA | | 403 | 1,188 | 3,226 | 2,821 | 3,581 |
| Operating Profit (before amort. and except.) | | (967) | (306) | 1,000 | (353) | 407 |
| Acquired Intangible Amortisation | | (335) | (432) | (972) | (1,100) | (1,100) |
| Exceptionals | | (1,041) | (672) | (1,167) | (125) | 0 |
| Share based payments | | 538 | (218) | (398) | (350) | (360) |
| Operating Profit | | (1,805) | (1,628) | (1,537) | (1,928) | (1,053) |
| Net Interest | | (151) | (191) | (195) | (144) | (99) |
| Other | | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (norm) | | (1,118) | (497) | 804 | (498) | 307 |
| Profit Before Tax (FRS 3) | | (1,956) | (1,819) | (1,732) | (2,072) | (1,152) |
| Tax | | 753 | 389 | 248 | 250 | 10 |
| Profit After Tax (norm) | | (1,118) | (497) | 643 | (399) | 246 |
| Profit After Tax (FRS 3) | | (1,203) | (1,430) | (1,484) | (1,822) | (1,142) |
| Average Number of Shares Outstanding (m) | | 63.3 | 87.4 | 110.2 | 113.5 | 113.5 |
| EPS - normalised (p) | | (1.77) | (0.57) | 0.58 | (0.35) | 0.22 |
| EPS - normalised fully diluted (p) | | (1.77) | (0.57) | 0.58 | (0.35) | 0.22 |
| EPS - (IFRS) (p) | | (1.90) | (1.64) | (1.35) | (1.61) | (1.01) |
| Dividend per share (p) | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | | 52.8 | 52.1 | 52.4 | 50.5 | 51.0 |
| EBITDA Margin (%) | | 2.4 | 6.7 | 13.8 | 12.0 | 14.3 |
| Operating Margin (before GW and except.) (%) | | (5.7) | (1.7) | 4.3 | (1.5) | 1.6 |
| BALANCE SHEET | | | | | | |
| Fixed Assets | | 10,873 | 10,479 | 19,206 | 19,306 | 19,440 |
| Intangible Assets | | 10,540 | 10,194 | 15,560 | 15,660 | 15,760 |
| Tangible Assets | | 333 | 285 | 374 | 374 | 415 |
| Investments | | 0 | 0 | 3,272 | 3,272 | 3,265 |
| Current Assets | | 7,050 | 11,481 | 14,985 | 15,884 | 16,851 |
| Stocks | | 0 | 0 | 0 | 0 | 0 |
| Debtors | | 5,510 | 4,998 | 9,644 | 8,300 | 7,800 |
| Cash | | 1,319 | 6,358 | 5,108 | 7,351 | 8,743 |
| Other | | 221 | 125 | 233 | 233 | 308 |
| Current Liabilities | | (10,234) | (8,578) | (12,844) | (14,883) | (17,101) |
| Creditors & other | | (9,183) | (8,578) | (12,709) | (13,616) | (15,834) |
| Short term borrowings | | (1,051) | 0 | (135) | (1,267) | (1,267) |
| Long Term Liabilities | | (899) | (192) | (5,892) | (6,675) | (6,701) |
| Long term borrowings | | 0 | 0 | (1,086) | (1,869) | (1,869) |
| Other long-term liabilities | | (899) | (192) | (4,806) | (4,806) | (4,832) |
| Net Assets | | 6,790 | 13,190 | 15,455 | 13,632 | 12,489 |
| CASH FLOW | | | | | | |
| Operating Cash Flow | | 245 | (749) | 572 | 4,030 | 4,781 |
| Net Interest | | (167) | (175) | (144) | (144) | (99) |
| Tax | | 751 | 410 | 313 | 45 | 10 |
| Capex | | (1,035) | (1,394) | (2,320) | (2,200) | (2,200) |
| Acquisitions/disposals | | 115 | 0 | (2,151) | (585) | 0 |
| Financing | | 0 | 7,996 | 2,805 | 0 | 0 |
| Dividends | | 0 | 0 | 0 | 0 | 0 |
| Net Cash Flow | | (91) | 6,088 | (1,179) | 46 | 1,392 |
| Opening net debt/(cash) | | (604) | (268) | (6,358) | (3,886) | (4,215) |
| HP finance leases initiated | | 0 | 0 | (1,221) | 0 | 0 |
| Other | | (245) | 2 | (72) | 283 | 0 |
| Closing net debt/(cash) | | (268) | (6,358) | (3,886) | (4,215) | (5,607) |

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

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