

# 1Spatial

Trading statement

Transition on track, EBITDA 'at least in line'

1Spatial continues to make good progress on its transition plan. The final months of FY19 saw further large contract wins and growth accelerate. This was achieved despite the uncertainty created by the US government shutdown. Adjusted EBITDA 'at least in line' with market expectations suggests a minimum of £1.1m, over 12% ahead of our estimate, but we leave our forecasts unchanged for now. Executing the plan offers scope for a re-rating and further upgrades, in our view.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	EV/sales (x)	EV/EBITDA (x)	PE (x)
01/18	16.9	0.4	(1.5)	(2.3)	1.6	66.3	N/A
01/19e	17.8	1.0	(1.0)	(1.2)	1.5	27.1	N/A
01/20e	18.8	1.7	0.5	0.4	1.4	16.1	74.8
01/21e	19.9	2.2	1.1	0.9	1.3	12.0	35.4

Note: \*EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Good execution in a mixed environment

Phase two of 1Spatial's transition plan aims to return the business to growth and profitability (see [Spatial awareness](#)). With the trading update highlighting in-line revenue and adjusted EBITDA 'at least in line' with market expectations, this plan looks firmly on track. The statement also emphasises significant customer traction since October. 1Spatial recently announced new deals with AIDU and PRA (worth at least £1.6m combined) and extended its Ordnance Survey contract. All this was achieved despite the uncertainty created by the prolonged US government shutdown that affected both US revenue and deal activity in January.

## Reiterating forecasts

We leave our forecasts unchanged for now. In-line FY19 revenue suggests organic y-o-y growth accelerated to over 5% in H219 despite the US government shutdown. Adjusted EBITDA 'at least in line' with market consensus implies a minimum £1.1m, 12%+ ahead of our numbers and margins of 8%+ in H219. This guidance suggests good cost control even as investment in mobile, LMDM (Location Master Data Management) and 3D technologies increases. Contract wins, accelerating growth and rising margins bode well for our long-term numbers: our FY20 forecast implies 6% y-o-y growth and 9% EBITDA margin. At £6.4m, the year-end cash balance was ahead of our £5.8m estimate.

## Valuation: Execution equals 50% upside

At 33p, 1Spatial trades at 1.3x FY21e EV/sales, a significant discount to both UK small-cap software peers and international GIS peers. Closing this discount is likely to require raising margins closer to sector averages and/or accelerating growth. The statement confirms initiatives are on track to deliver against these objectives but, as previously highlighted, they are likely to take time and will require further good execution. A sector average FY21e EV/sales multiple of 2.2x, which is possible if 1Spatial can reach sector average margins, would imply a share price of 50p, a 50% premium to the current price.

## Software & comp services

7 March 2019

Price **32.9p**

Market cap **£33m**

Net cash (£m) (FY19e)	5.8
Shares in issue	99m
Free float	91%
Code	SPA
Primary exchange	AIM
Secondary exchange	N/A

## Share price performance



%	1m	3m	12m
Abs	(1.5)	(10.8)	(7.0)
Rel (local)	(2.0)	(17.0)	(7.1)
52-week high/low		46.5p	28.0p

## 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

Final results	May 2019
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**Exhibit 1: Financial summary**

	£'000s	2016	2017	2018	2019e	2020e	2021e
31-January		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		18,300	15,133	16,938	17,800	18,793	19,933
Delivery costs		(7,715)	(6,868)	(7,994)	(8,090)	(8,179)	(8,571)
Gross Profit		10,585	8,265	8,944	9,710	10,614	11,363
EBITDA		2,902	(874)	403	985	1,661	2,230
Operating Profit (before amort. and except.)		1,584	(12,494)	(1,302)	(846)	319	1,058
Acquired Intangible Amortisation		(200)	0	0	0	0	0
Exceptionals		(1,081)	(2,590)	(1,041)	(300)	0	0
Share based payments		(976)	(566)	538	(250)	(250)	(250)
Operating Profit		(673)	(15,650)	(1,805)	(1,396)	69	808
Net Interest		(27)	(25)	(151)	(161)	163	23
Other		(421)	(266)	0	0	0	0
Profit Before Tax (norm)		1,136	(12,785)	(1,453)	(1,007)	481	1,080
Profit Before Tax (FRS 3)		(1,121)	(15,941)	(1,956)	(1,557)	232	831
Tax		503	1,081	753	405	(46)	(166)
Profit After Tax (norm)		1,136	(12,785)	(1,453)	(1,007)	481	1,080
Profit After Tax (FRS 3)		(618)	(14,860)	(1,203)	(1,152)	185	665
Average Number of Shares Outstanding (m)		691.3	728.9	63.3	87.4	98.7	98.7
EPS - normalised (p)		0.16	(1.75)	(2.30)	(1.15)	0.44	0.93
EPS - normalised fully diluted (p)		0.16	(1.75)	(2.30)	(1.15)	0.44	0.93
EPS - (IFRS) (p)		(0.09)	(2.04)	(1.90)	(1.32)	0.19	0.67
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		57.8	54.6	52.8	54.6	56.5	57.0
EBITDA Margin (%)		15.9	N/A	2.4	5.5	8.8	11.2
Operating Margin (before GW and except.) (%)		8.7	N/A	N/A	N/A	1.7	5.3
<b>BALANCE SHEET</b>							
Fixed Assets		22,115	13,025	10,873	10,659	11,585	12,642
Intangible Assets		18,900	11,968	10,540	10,540	11,466	12,523
Tangible Assets		1,638	1,057	333	119	119	119
Investments		1,577	0	0	0	0	0
Current Assets		16,202	11,442	7,050	12,820	12,960	13,469
Stocks		0	0	0	0	0	0
Debtors		10,815	8,929	5,510	5,790	6,113	6,484
Cash		4,996	1,966	1,319	6,809	6,625	6,763
Other		391	547	221	221	221	221
Current Liabilities		(11,071)	(13,029)	(10,234)	(8,692)	(9,108)	(9,586)
Creditors & other		(11,071)	(12,348)	(9,183)	(7,641)	(8,057)	(8,535)
Short term borrowings		0	(681)	(1,051)	(1,051)	(1,051)	(1,051)
Long Term Liabilities		(1,579)	(1,535)	(899)	(899)	(899)	(899)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		(1,579)	(1,535)	(899)	(899)	(899)	(899)
Net Assets		25,667	9,903	6,790	13,888	14,537	15,625
<b>CASH FLOW</b>							
Operating Cash Flow		(722)	(1,061)	245	(1,137)	1,917	2,365
Net Interest		(31)	(166)	(167)	(161)	163	27
Tax		55	425	751	405	(46)	(167)
Capex		(3,800)	(4,042)	(1,035)	(1,617)	(2,217)	(2,018)
Acquisitions/disposals		(1,033)	(900)	115	0	0	0
Financing		1,940	896	0	8,000	0	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(3,342)	(4,848)	(91)	5,490	(184)	207
Opening net debt/(cash)		(8,250)	(4,996)	(604)	(268)	(5,758)	(5,574)
HP finance leases initiated		0	0	0	0	0	0
Other		88	456	(245)	0	0	0
Closing net debt/(cash)		(4,996)	(604)	(268)	(5,758)	(5,574)	(5,782)

Source: Company data, Edison Investment Research

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