

1Spatial

Interim results

Turnaround plan on track in H1

1Spatial's interim results indicate that it is on track with its recovery plan and well set to deliver on our full year estimates. The turnaround is still in its early stages, but we believe it could yield good results in a relatively short time frame. Progress in the US, the largest GIS software market and one where 1Spatial has historically been underrepresented, is promising.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/sales (x)	P/E (x)
01/16	18.3	1.1	0.16	0.0	1.5	22
01/17	22.1	(2.4)	(0.33)	0.0	1.3	N/A
01/18e	23.8	(0.6)	(0.08)	0.0	1.2	N/A
01/19e	25.6	(0.2)	(0.03)	0.0	1.1	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Good progress in migration to a client-centric model

1Spatial made good progress on a number of fronts in H1 as it migrates to a client-centric solutions model. In Europe, Geospatial secured several new customers, particularly in the utilities market. Recent wins in the US, particularly with the US Federal Highways (USFH), are promising, given the size of opportunity in the US and the potential for this relationship to be a platform for sales to other US Government Agencies. Claire Milverton, CEO, and Nicole Payne, CFO, have been appointed in permanent roles from interim, while Andy Roberts will move to a non-executive chairman role from executive chairman in January next year.

Financial performance on track

Group revenues increased by 2% to £12.2m in H118, with the core geospatial business growing by 19% y-o-y to £8.6m – albeit on a weak comparator. Revenues in IT managed services dropped back to £3.6m from £4.7m last year, but this was due to an intentional drop in lower-margin hardware sales. Adjusted EBITDA (company definition) improved from a £0.4m loss to a £0.3m profit. Cash burn fell to £0.3m compared to £2.6m last year, reflecting cost base reductions (£1.1m across opex and capitalised development) and a £0.8m working capital inflow. We forecast a return to modest cash generation in H2. The net cash balance was £0.3m and the company renewed a £3m overdraft facility in May, giving comfort that it does not require further cash to meet its funding requirements. We leave our estimates unchanged, but we believe there is potential scope for upside.

Valuation: Intrinsic value

We believe there is substantial intrinsic value in the business which, with continued execution, should be unlocked. In our view, 1Spatial has the customer base, technology and expertise to capitalise on the large GIS technology market, which is growing at a double-digit rate. If the geospatial business continues to show growth and margin expansion, we believe that a 2x EV/sales ratio (implying 4.7p a share) would be justifiable. Valuing Enables IT at 5-7x EBITDA (0.3-0.4p a share) suggests a c 5p total value for the group. Further progress, particularly the US, could justify a re-rating upwards to more growth-oriented multiples.

Software & comp services

11 October 2017

Price 3.50p

Market cap £26m

Net cash (£m) at 31 July 2017 0.3

Shares in issue 760.5m

Free float 83%

Code SPA

Primary exchange AIM

Secondary exchange N/A

Share price performance



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

Full year FY18 results May 2018

Analysts

Dan Ridsdale +44 (0)20 3077 5729

Bridie Barrett +44 (0)20 3077 5700

tech@edisongroup.com
[Edison profile page](#)

**1Spatial is a research client of
Edison Investment Research
Limited**

Exhibit 1: Financial summary

	£'000s	2016	2017	2018e	2019e
31-January		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		18,300	22,065	23,812	25,577
Delivery costs		(7,715)	(12,386)	(13,461)	(14,376)
Gross Profit		10,585	9,679	10,351	11,201
EBITDA		2,902	(407)	720	1,160
Operating Profit (before amort. and except.)		1,584	(2,071)	(542)	(78)
Acquired Intangible Amortisation		(200)	(825)	(400)	(400)
Exceptionals		(1,081)	(11,988)	0	0
Share-based payments		(976)	(566)	(750)	(750)
Operating Profit		(673)	(15,450)	(1,692)	(1,228)
Net Interest		(27)	(32)	(42)	(161)
Other		(421)	(266)	0	0
Profit Before Tax (norm)		1,136	(2,369)	(585)	(240)
Profit Before Tax (FRS 3)		(1,121)	(15,748)	(1,735)	(1,390)
Tax		503	988	347	278
Profit After Tax (norm)		1,136	(2,369)	(585)	(240)
Profit After Tax (FRS 3)		(618)	(14,760)	(1,388)	(1,112)
Average Number of Shares Outstanding (m)		691.3	728.9	747.7	760.5
EPS - normalised (p)		0.16	(0.33)	(0.08)	(0.03)
EPS - normalised fully diluted (p)		0.16	(0.33)	(0.08)	(0.03)
EPS - (IFRS) (p)		(0.09)	(2.02)	(0.19)	(0.15)
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		57.8	43.9	43.5	43.8
EBITDA Margin (%)		15.9	N/A	3.0	4.5
Operating Margin (before GW and except.) (%)		8.7	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		22,115	13,025	12,413	11,980
Intangible Assets		18,900	11,968	11,558	11,308
Tangible Assets		1,638	1,057	855	672
Investments		1,577	0	0	0
Current Assets		16,202	10,761	12,254	12,591
Stocks		0	0	0	0
Debtors		10,815	8,929	8,870	9,527
Cash		4,996	1,285	2,837	2,516
Other		391	547	547	547
Current Liabilities		(11,071)	(13,029)	(14,147)	(14,013)
Creditors & other		(11,071)	(12,348)	(11,966)	(12,832)
Short term borrowings		0	(681)	(2,181)	(1,181)
Long Term Liabilities		(1,579)	(1,535)	(1,088)	(1,088)
Long term borrowings		0	0	0	0
Other long term liabilities		(1,579)	(1,535)	(1,088)	(1,088)
Net Assets		25,667	9,222	9,431	9,469
CASH FLOW					
Operating Cash Flow		(722)	(1,061)	397	1,369
Net Interest		(31)	(166)	(42)	(161)
Tax		55	425	347	278
Capex		(3,800)	(4,042)	(750)	(806)
Acquisitions/disposals		(1,033)	(900)	100	0
Financing		1,940	896	0	0
Dividends		0	0	0	0
Net Cash Flow		(3,342)	(4,848)	52	680
Opening net debt/(cash)		(8,250)	(4,996)	(604)	(656)
HP finance leases initiated		0	0	0	0
Other		88	456	0	0
Closing net debt/(cash)		(4,996)	(604)	(656)	(1,335)

Source: 1Spatial reports, Edison Investment Research. Note: Net losses on discontinued businesses in FY17 of £3.5m are not shown in the exhibit above.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by 1Spatial and prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided 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. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "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.