

1Spatial

A note of confidence

1Spatial recently held its first capital markets day for a number of years. We see this as a positive signal that, following a substantial transformation programme, management is confident in its strategy and prospects. The recovery programme has been based on three fundamental principles – get the strategy right, assemble a strong team and build closer customer relationships. The capital markets day indicated that the company has made good progress on all three fronts.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	EV/sales (x)	P/E (x)
01/17**	15.1	(0.9)	(12.8)	(1.75)	0.0	1.9	N/A
01/18**	16.9	0.4	(1.5)	(0.19)	0.0	1.7	N/A
01/19e	17.8	1.0	(1.0)	(0.13)	0.0	1.7	N/A
01/20e	18.8	1.6	0.3	0.04	0.0	1.6	96

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

Core proposition: Ensuring geospatial data are reliable

1Spatial's core competence is in ensuring that geospatial data are reliable, a capability that is underpinned by the company's proprietary geospatial rules-based engine. The investor day demonstrated why the company's 1Integrate platform achieves this so effectively, why traditional non-geospatial platforms fall down in this area and why this capability is so valuable to the business and its clients (see page 2). The complexity and volumes of geospatial data are growing exponentially, as is the reliance that customers place upon these data.

Land expand, rinse and repeat

We believe the business is now putting in place the commercial model to convert the strength of its technology and expertise into robust operationally geared growth. The direct sales, solutions-driven model instigated as the start of the transformation process now appears to be converting into larger, multi-faceted engagements with the customer base. Customer Northern Gas Networks presented at the event and described how an initial project has grown to six ongoing schemes, with scope for more to come. The ability to replicate solutions provided across different customers will be a key factor in enhancing competitiveness and driving operational leverage.

Growth opportunities across the UK, EU and the US

1Spatial has identified good growth opportunities across the UK, Europe and the US, while it remains focused on the core government, utilities and transport sectors. The progress made in the US is notable, where 1Spatial's customer base has moved from three clients in 2015 to 19 in 2018. The customer acquisition rate is expected to remain on a similar trajectory this year.

Valuation: 2.0x FY19e EV/sales readily justifiable

Our near-term forecasts appear well underpinned. New contract wins could prompt upgrades while the company's strong IP base and value proposition should support a healthy, long-term growth trajectory. We maintain our view that an FY19e EV/sales multiple of 2.0x (vs 1.7x on current forecasts) is justifiable, implying a value of c 5p per share, with plenty of scope for further growth from there.

Capital markets day

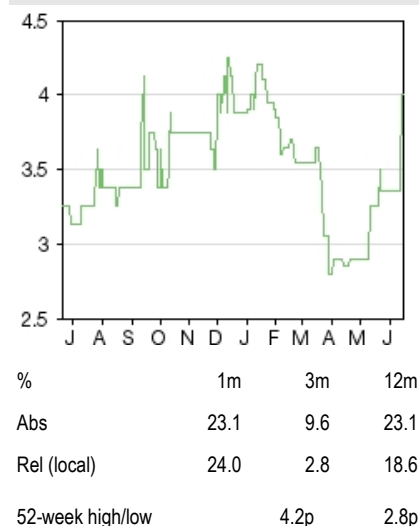
Software & comp services

18 June 2018

Price 3.85p
Market cap £29m

Net cash (£m) at 31 January 2018	0.3
Shares in issue	760.2m
Free float	91%
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

Interim results	October 2018
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The platform: Ensuring data are reliable

1Spatial's unique geospatial rules engine is at the heart of its core 1Integrate product and value proposition. The platform operates in a fundamentally different way to other data platforms in that, through processing multiple data types (object, geometry, topology, lifecycle, etc), it enables the user to work directly with geospatial business rules. Examples of such rules include a curb must not overlap with a building or pipes must not pass within a certain distance of each other. New rules are continually being created for clients or use cases. The system can also process non-spatial data business data, which enables the system to be deployed into the broader workflows of the clients business.

Competing enterprise solutions operate with linear, scalar data (ie a value must be greater than, less than or equal to another). Although some have bolt-on spatial capabilities, the underlying structure of the database limits the utility and depth of spatial data that can be captured, organised and analysed.

Enhancements could enhance competitiveness and enlarge addressable market

A recent enhancement to the platform includes the introduction of a data gateway, which is essentially a portal for enabling internal or external users validate or enhance data while conforming to quality standards and Service Level Agreements (SLA). From a business perspective, we see this product as a potentially valuable mechanism for generating a network effect, whereby the companies collaborating with 1Spatial's clients use and become familiar with the company's platform.

The company has also introduced a mobile solution to enable field workers to collect, confirm and correct data on-site, while following the rule-set put in place for that client. From a customer's standpoint, this has the potential to significantly improve the efficiency of collecting and processing data, while enlarging the addressable market for 1Spatial.

Good growth prospects across all key geographies

The company's regional heads from each of 1Spatial's key markets, UK, France and Belgium and the US all presented at the event. We believe there are good growth prospects in all of these regions, although the US presents the most exciting growth potential.

Building on strengths in the UK and Europe

In the UK, the benefits from the shift towards a more customer-focused, direct sales model is manifested in an improvement in the win rate to one win for every two bids from one in four previously and revenue growth of 15% to £6.6m in FY18. The utilities segment is the fastest growing vertical in this market, with need to be able to rapidly adapt to regulatory change (from OFGEM or OFWAT), a key driver behind this. The presentation from client Northern Gas Networks, which started working with 1Spatial on one project and is now engaged on six, with potential to expand further, demonstrates the benefits of the company's collaborative approach and upside from the land and expand strategy. In the government sector the business is seeing opportunity in the repatriation of government agencies post Brexit, while in transport the company has the potential to significantly expand its engagement with a major UK rail infrastructure company to manage data on a much broader scale.

In France and Belgium the company appears to have a good opportunity to upsell to its 230 customers in the region with live contracts. It is also looking to expand into other geographies, particularly Germany, where it is much less well penetrated.

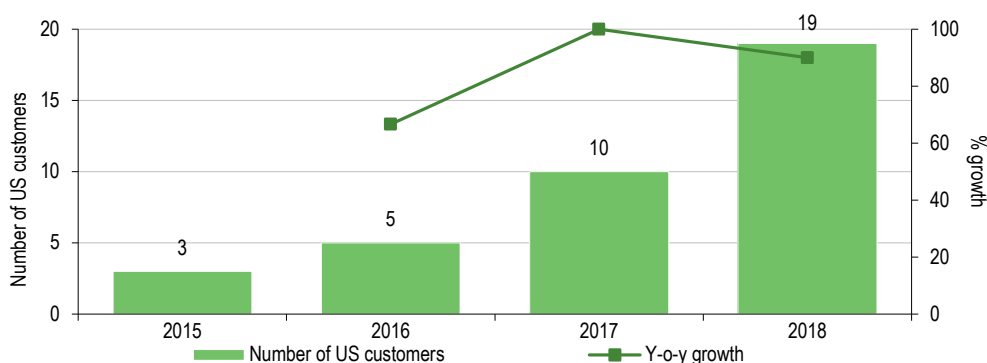
US potential

The US business has progressed from being a potentially vulnerable outpost to an established business with strong growth prospects. The focus is on government agencies, where there is a substantial growth opportunity due to the enormity of both federal- and state-level IT budgets.

The customer base has moved from three clients in 2015 to 19 in 2018 and management expects the customer acquisition rate to remain on a similar trajectory. Despite this, we believe the company is only scratching the surface of the US opportunity with multiple agencies in each of the 50 states, which are broken down into over 3,000 counties and 19,000 municipalities.

The highly fragmented distribution of these budgets is a hurdle, but management is focused on identifying the larger accounts to engage with directly. An indirect strategy may be adopted to address the long tail of potential customers. A growing roster of client references and work with a major US tech player could strengthen the network base to unlock more of these budgets.

Exhibit 1: Growth in client base of US business



Source: 1Spatial, Edison Investment Research

New data types could support penetration of new verticals

The company has recently added two new data types to the 1Integrate platform: linear referencing systems data, which could strengthen the company's offering in infrastructure and transport; and computer-aided design (CAD) data, which are expected to open up opportunities in the facilities management market. With respect CAD, the company recently completed an \$80,000 Proof of Concept (PoC) engagement with a very large US technology vendor to clean and integrate CAD-based GIS data. The company is now engaging with this client to carry out work on a number of other campuses. While it remains early days yet, other opportunities have also emerged in this vertical. Successful execution on these opportunities could open up a significantly larger addressable market to the business.

Valuation: Recovery not priced in

1Spatial's shares still trade on typical recovery multiples, with a low EV/sales multiple (FY19e: 1.7x) but high P/E (loss in FY19e, 96x in FY20e) due to the compressed margin status. However, our confidence that the company will consolidate its recovery has strengthened; we feel that our estimates may look conservative and potential revenue upgrades should gear strongly to earnings if

they come through. The company's strong IP base and value proposition should support a healthy long term growth trajectory.

Consequently, we believe 1Spatial should progressively shake off its recovery multiple as further evidence that it is consolidating its recovery and moving into profitability comes through. Looking beyond this, the location master data management opportunity provides the potential for an operationally geared acceleration in growth. While it is too early to price in such an acceleration at present, we believe the company's potential in this space could prompt some strategic interest.

On this basis, we believe that an FY19e EV/Sales multiple of 2.0x (vs 1.7x on current forecasts) would be easily justifiable, implying a value of c 5p per share, with plenty of scope for further growth from there.

Exhibit 2: Peer comparison

Name	Quoted currency	Market cap (m)	EV/Sales FY1 (x)	EV/Sales FY2 (x)	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	P/E FY1 (x)	P/E FY2 (x)
Hexagon AB-B SHS	SEK	182,312	5.4	5.0	16.8	15.3	24.6	22.2
Trimble	USD	8,832	3.2	2.9	16.4	14.1	20.1	17.7
Nemetschek	EUR	4,077	8.9	7.8	33.8	29.0	54.0	45.7
First Derivatives	GBP	1,104	5.3	4.7	29.5	26.4	54.0	47.9
Saison Information Systems	JPY	24,187	0.7	0.7	N/A	N/A	19.2	12.6
D4T4 Solutions	GBP	55	2.6	2.2	10.0	9.3	13.8	12.7
Kainos Group	GBP	491	4.2	3.8	23.6	20.6	33.2	28.6
IDOX	GBP	133	1.6	1.7	6.2	6.6	8.2	9.4
K3 Business Technology Group	GBP	88	1.0	N/A	10.5	N/A	19.9	N/A
SDL	GBP	371	1.2	1.1	12.3	10.4	20.5	17.9
SCISYS	GBP	49	1.0	1.0	9.3	8.4	14.1	12.6
Iomart Group	GBP	403	4.0	3.7	9.7	9.0	18.7	16.7
Average			3.3	3.2	16.2	14.9	25.0	22.2
1Spatial	GBP	30	1.7	1.6	30.6	18.3	N/A	96.3

Source: Company data, Bloomberg. Note: Prices as at 18 June 2018.

Exhibit 3: Financial summary

	£'000s	2017	2018	2019e	2020e
31-January		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		15,133	16,938	17,800	18,767
Delivery costs		(6,868)	(7,994)	(8,090)	(8,169)
Gross Profit		8,265	8,944	9,710	10,598
EBITDA		(874)	403	985	1,645
Operating Profit (before amort. and except.)		(12,494)	(1,302)	(846)	303
Acquired Intangible Amortisation		0	0	0	0
Exceptionals		(2,590)	(1,041)	(300)	0
Share based payments		(566)	538	(250)	(250)
Operating Profit		(15,650)	(1,805)	(1,396)	53
Net Interest		(25)	(151)	(161)	3
Other		(266)	0	0	0
Profit Before Tax (norm)		(12,785)	(1,453)	(1,007)	306
Profit Before Tax (FRS 3)		(15,941)	(1,956)	(1,557)	57
Tax		1,081	753	405	(11)
Profit After Tax (norm)		(12,785)	(1,453)	(1,007)	306
Profit After Tax (FRS 3)		(14,860)	(1,203)	(1,152)	46
Average Number of Shares Outstanding (m)		728.9	747.7	760.5	760.5
EPS - normalised (p)		(1.75)	(0.19)	(0.13)	0.04
EPS - normalised fully diluted (p)		(1.75)	(0.19)	(0.13)	0.04
EPS - (IFRS) (p)		(2.04)	(0.16)	(0.15)	0.01
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		54.6	52.8	54.6	56.5
EBITDA Margin (%)		N/A	2.4	5.5	8.8
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	1.6
BALANCE SHEET					
Fixed Assets		13,025	10,873	10,130	10,121
Intangible Assets		11,968	10,540	10,011	10,002
Tangible Assets		1,057	333	119	119
Investments		0	0	0	0
Current Assets		10,761	7,050	6,434	7,473
Stocks		0	0	0	0
Debtors		8,929	5,510	5,790	6,105
Cash		1,285	1,319	423	1,147
Other		547	221	221	221
Current Liabilities		(13,029)	(10,234)	(9,777)	(10,296)
Creditors & other		(12,348)	(9,183)	(9,726)	(10,245)
Short term borrowings		(681)	(1,051)	(51)	(51)
Long Term Liabilities		(1,535)	(899)	(899)	(899)
Long term borrowings		0	0	0	0
Other long term liabilities		(1,535)	(899)	(899)	(899)
Net Assets		9,222	6,790	5,888	6,400
CASH FLOW					
Operating Cash Flow		(1,061)	245	948	1,852
Net Interest		(166)	(167)	(161)	3
Tax		425	751	405	(11)
Capex		(4,042)	(1,035)	(1,088)	(1,120)
Acquisitions/disposals		(900)	115	0	0
Financing		896	0	0	0
Dividends		0	0	0	0
Net Cash Flow		(4,848)	(91)	104	724
Opening net debt/(cash)		(4,996)	(604)	(268)	(372)
HP finance leases initiated		0	0	0	0
Other		456	(245)	0	0
Closing net debt/(cash)		(604)	(268)	(372)	(1,096)

Source: Company accounts, Edison Investment Research. Note: 2017 and 2018 P&L figures relate to continuing businesses only. Loss from discontinued operations, not shown above, was £1,255k in 2018.

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