SpaceandPeople PLC

The benefits of experience

26 March, 2018

FY17 results confirmed the anticipated recovery vs FY16, attributed to a strategic focus on core UK and German operations. Appropriately for a business which capitalises upon footfall rather than underlying retail trends, brand experiences were SAL's largest source of revenues last year. Client wins both during 2017 and post the year end have enhanced its venue portfolio and the potential attractions for major brands. SAL venues now include Network Rail, Broadgate Estates and an extended list of Landsec properties.

Results: gross margin 20% up, strong cash generation

Profit before tax attributable to shareholders was £1.2m (FY16 £0.1m before non-recurring costs). That was driven by stronger performances by UK brand experiences, MPKs and German RMUs. Net revenue was 3% up at £10m, gross margin by 20% to £6.6m, which reflected administrative cost savings secured in FY16, maintained in FY17.

Operating profit was £1.2m, a £1.1m underlying improvement after non-recurring costs, as inherent operational gearing steered revenue growth to the operating line. There was a parallel improvement in underlying cashflow i.e. £2.4m net cash generated from operating activities (FY16: £0.4m). **That enabled SAL to repay all outstanding debt.** Year-end net cash was £2.66m, an underlying £1.6m improvement y-o-y, net of £0.7m due to clients, paid post the year end. **A proposed 1.5p/share final dividend is equivalent to a 4.4% prospective yield.**

Outlook: build upon strategic refocus on core operations

FY18 should continue to benefit from recent refocus on core UK and German operations, plus ongoing efforts to work existing Retail Merchandising Units (RMU) and Mobile Promotions Kiosk (MPK) installations to improve occupancy and sales rates. The strategy aimed to establish more a diversified, sustainable revenue and profit base, less dependent on any single market or client. Both, combined with significant growth in brand experience revenues are features of the FY17 results and our forecasts. SAL has also bolstered its UK team to support client acquisition and services. Renewal of the Landsec portfolio expanded and enhanced its relationship with an important client and should benefit underlying revenue scale and visibility.

Summary Forecasts

Year to 31 December, £m	FY15	FY16	FY17	FY18e
Revenue	13.8	9.7	10.0	10.0
Adj. operating profit*	1.1	0.1	1.2	1.1
Adj. profit before tax	1.0	0.2	1.2	1.1
Adjusted EPS (p)	3.9	(3.1)	4.3	4.0
PER	8.7	-	7.9	8.5
Dividend (p)	2.2	0.0	1.5	1.5

Source: Company historic data and ED estimates FY16 has been adjusted for discontinued operations.
*Adjusted OP/PTP are both net of minorities *Before non-recurring costs*

Company Data

EPIC	SAL
Price	34p
52 week Hi/Lo	41p / 17p
Market cap	£6.6m

Share Price, p

Source: ADVFN

Description

The group provides property owners with ways to capitalise upon the full commercial potential of retail assets. It markets, sells and administers free space in venues including shopping malls, garden and city centres, retail parks and travel hubs (over 750 venues with a weekly footfall of 70m). It provides a range of strategies and introduces retail and other brands which fit specific opportunities.

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Strong FY17 performance, stable financial base

The group's FY17 results confirm the success of its strategic focus on its core UK and German businesses.

That plan sought to deliver sustainable growth in revenue and profit, derived from increasingly diverse revenue streams with less exposure to any specific market or client. The outcome, reflected in the FY17 results, is improved profitability and significantly stronger underlying cashflow, which enabled it to repay all outstanding debt.

SAL also restructured and added to its UK management team and developed and implemented a new CRM system to improve productivity.

The outlook is supported by rationalisation of existing operations including overheads and management capabilities. Post the year end SAL announced the renewal and extension of its contract with Landsec. That puts it in a position to grow and diversify revenues from that client's substantial property portfolio.

FY17 results: UK brand experiences foremost

FY17 was driven by stronger performances by UK brand experiences, MPKs and German RMUs. Gross revenue, generated on behalf of clients, was £22.4m, 2% below FY16 mainly due to lower German promotional and retail revenue.

Net revenue was, however, 3% ahead at £10m as both UK and German promotional divisions reported higher blended commission income.

Summary results

£m	FY 16	FY 17	change
Net revenue	9.7	10.0	+3%
Gross Profit	5.5	6.6	+20%
Op. Profit before non-recurring costs	0.1	1.2	
Pre-tax profit	(0.2)	1.2	
Basic EPS (p) – before non-recurring costs	0.3	4.8	
Average no of Retail Merchandising Units (RMUs)	220	185	-16%
Average no of Mobile Promotions Kiosks (MPKs)	74	75	+1%

Source: Company

The gross margin improved by 20% to £6.6m; administrative cost savings secured in FY16 were maintained in FY17. The average employee complement was down by 19 vs a year earlier at 99. SAL cut telesales, commercial staff, and its headcount in India and German retail. Four of those employees related to the closure of S&P+ in 2016.

Operating profit was £1.2m, ahead by £1.4m y-o-y (FY16: £0.2m loss). That included £0.3m of non-recurring costs, with the £1.1m balance an underlying, like-for-like improvement, driven by inherent operational gearing as stable like-for-like administration expenses steered revenue growth to the operating line.

Basic EPS was 4.8p (FY16: 3.38p loss per share), fully diluted 4.3p (FY16: 3.12p loss).

Cash generation: repayment of outstanding debt

The focus on core operations and management of divisional expenses reflected in higher operating profit, also drove a parallel improvement in underlying cashflow.

SAL generated £2.4m net cash from operating activities in FY17 (FY16: £0.4m). That enabled it to repay £1.2m bank debt at the beginning of 2017. Net cash was £2.66m at the year end, a £1.6m underlying improvement vs 12 months earlier, net of £0.7m due to clients paid shortly after the year end and £0.1m invested in a new bespoke CRM system for its UK divisions. We forecast £2.7m end FY18 net cash i.e. c £0.7m cash generated this year.

Cashflow

£m	2016	2017
Operating cash flow	0.30	2.64
Tax paid	0.13	(0.23)
Investment in fixed assets	(0.33)	(0.13)
Cash flow before financing	0.10	2.28
Movement in debt	0.20	(1.20)
Dividends paid	**(0.43)**	**0.00**
Net cash flow	(0.23)	1.08
Cash balance	**1.58**	**2.66**

Source: Company presentation

Although SAL didn’t pay a dividend in 2017 it has proposed a final 1.5p/share dividend, which would be paid in April 2018.

Outlook: strong financial base, recruitment builds skillset

The FY17 performance sets up the group for the current year, with finances in strong shape, positive underlying cashflow and close control of expenses. The strategic shift towards brand experiences leveraged core group skills in FY17. It also provided a firm reminder that the business model pivots upon footfall, rather than any underlying retail trends.

In parallel with efforts to rationalise its finances, SAL invested in its team in 2017 and improved the diversity of products offered and available venues, particularly in the UK. The creation of a UK New Venues Director role, and recent Client Services team recruitment adds resource and capacity. It plans to use this to secure new venues and access revenues from new agencies and brands.

Germany remains a core market, but the group’s German operations actively seek to extend their client base and build the venue portfolio. SAL identifies a specific opportunity to extend the Just-in-Time concept to more venues this year.

Forecasts broadly maintained, trading on track

We have assumed FY18 revenues in line with FY17 and marginally higher expenses post recent investment, with the benefits to flow over the next six to 12 months. We will revisit our projections in future reports and add FY19 figures.

The statement reported a subdued start by the UK experiential campaign team this year, mainly due to timing differences on repeat bookings which are currently being worked on. The group’s Retail, MPK and regional sales are all performing ahead of their FY16 comparable, in line with management expectations.

Divisions: UK performing well, Germany more stable

Maintained focus on core business units and rationalised overheads restored profitability. Momentum was reflected in a FY17 result ahead of our earlier forecasts.

P&L (excluding operations discontinued in 2016)

£m	Net Revenue 2016	Net Revenue 2017	Pre-tax profit 2016	Pre-tax profit 2017
UK promotions	3.19	3.70	1.34	1.95
UK retail	3.24	3.44	(0.22)	0.40
German promotions	0.92	0.81	(0.16)	(0.02)
German retail	2.23	1.99	(0.27)	0.16
Other	0.09	0.06	(0.02)	(0.04)
Total	**9.66**	**10.00**	**0.68**	**2.46**
Head office costs			(0.91)	(1.31)
Operating profit			**(0.23)**	**1.15**

Source: Company presentation

New UK venues: Broadgate Estates, expanded Landsec contract

SAL agreed an expanded contract for Landsec after the year end. Another important contract win in FY17 was Broadgate Estates' portfolio of London outdoor venues.

Retaining and expanding the portfolio of venues, and extending new services to a larger, more diverse range of venue is a strategic priority. During FY17 the group created the role of New Venues Director position, to work with managers of existing venues.

UK Promotions: revenue up 16%, operating profit 44% ahead

UK divisions were the strongest performers, driven by UK Promotions which reported 16% y-o-y higher promotional revenue, and 44% growth in operating profit. All major contracts performed well, Network Rail the stand out.

This division performed well across all business types, most notably Brand Experience, where revenue was 27% up y-o-y. The latter was the highly visible experiential campaigns which SAL facilitates. Activity was spurred by increased locations such as Broadgate Estates in the City of London, and development of the Network Rail portfolio.

Over 270 brands utilised the group's network of national locations. Examples included Johnnie Walker, McLaren F1 and the Fast and Furious movie franchise, which used London venues for high-profile launches. Others such as Lucozade, Coca Cola and The Economist ran campaigns to sample directly with consumers, while Porsche and Nespresso created pop-up shops to sell direct to the public.

This represents successful delivery of a key strategic aim, to increase the volume of business transacted in non-shopping centre, high footfall venues and improve the balance of potential locations for brands.

During 2017 SAL generated more revenue from these locations than from traditional shopping centres.

UK Retail: 6% revenue growth, back in profit

This division reported a £0.2m increase in revenue to £3.4m, as a £0.4m increase from MPKs, offset a £0.2m decline in RMU revenue. On the back that 6% increase in revenues, UK Retail reported a £0.4m operating profit vs a £0.2m loss last year. Better MPK selling rates fully offset lower numbers of operational RMUs, the latter driven in part by termination of unproductive agreements.

24% growth in MPK revenue was achieved from a steady base of an average 68 operational units, but at average selling prices 15% ahead of the prior year and an occupancy rate 7% better. RMU revenue fell by 12%, against a 17% decline in average numbers of units in operation.

SAL regards those increases in both occupancy and selling price as evidence that the traditional temporary retailer is becoming more temporary than ever. And that local and national brands appreciate how an installed MPK can improve responses and visibility.

RMU numbers declined, as expected, from 110 to 91 but the trend towards temporary retail is reflected in revenues for Just-in-Time RMUs for Christmas trading i.e. a £0.1m increase in revenue from this activity to £0.25m.

Germany: re-establishing the core business

Mixed trading by SAL's German operations reflected changes in contracted business for key clients, and the impact of a planned reduction in RMUs.

German Retail performed well under its revised contract with ECE, but Promotions struggled post the loss of its contract with that client in FY16, as well as lower business volumes with MEC. Both divisions remain core components of group strategy.

German Retail

Although German Retail revenue fell 10% that was in line with planned lower operational RMU numbers. It did however, still deliver a £0.2m operating profit (FY16: £0.3m loss), as margins benefited from lower centre rent payable post renegotiation of the ECE contract.

Post the year end SAL announced a 12-month extension to its retail contract with ECE to January 2019. That is, however, based on a smaller number of RMUs, from 94 units at the start of 2018 to 55 units in January 2019.

Management sees potential to increase numbers of "Just-in-Time" units into the ECE portfolio and is actively working to expand its services to other German property groups.

German Promotions

German promotional revenue was £0.8m, 12% below FY16 due to diminished opportunities with existing clients. A small £0.02m operating loss was however, still ahead of FY16's £0.2m operating loss. The division reduced overheads, moved to smaller accommodation and cut headcount.

Germany represents a competitive but substantial potential market for the group's promotions. SAL believes that its experienced professional team has the skills to grow its activities in the country. It has developed a strong new venues pipeline for both divisions and post the year end, secured contract extensions at ECE for the "pop up shop" retail division.

Income Statement						
Y/e 31 December, £'000s	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**
Revenue	**14,567**	**15,446**	**11,433**	**9,661**	**9,995**	**10,000**
Cost of sales	(4,023)	(5,839)	(3,947)	(4,133)	(3,389)	(3,391)
Gross profit	**10,544**	**9,607**	**7,486**	**5,528**	**6,606**	**6,609**
Gross margin %	72%	62%	60%	60%	66%	66%
Administration expenses	(8,587)	(8,696)	(6,713)	(5,618)	(5,640)	(5,700)
Other operating income	322	224	295	194	210	200
Operating profit before non-recurring costs	2,279	1,135	1,068	104	1,176	1,109
Non-recurring costs	0	(391)	0	(289)	0	0
Operating profit/(loss)	**2,279**	**744**	**1,068**	**(185)**	**1,176**	**1,109**
Finance income	215	36	0	0	12	10
Finance costs	(55)	(18)	(28)	(40)	(35)	(10)
Profit/(loss) before tax	**2,439**	**762**	**1,040**	**(225)**	**1,153**	**1,109**
Adjusted profit/(loss) before tax - attributable to shareholders	2,619	622	1,007	216	1,167	1,089
Tax	(648)	(166)	(197)	(44)	(237)	(220)
Profit/(loss) after tax - continuing operations	**1,791**	**596**	**843**	**(269)**	**916**	**889**
Other comprehensive income						
Foreign exchange difference on translation of foreign operations	(51)	(28)	(39)	104	3	0
Total comprehensive income for the period	**1,740**	**568**	**825**	**(708)**	**919**	**889**
Profit/(loss) attributable to:						
Owners of the company	1,971	456	831	(660)	933	869
Non-controlling interests	(180)	140	33	(152)	(14)	20
	1,791	**596**	**864**	**(812)**	**919**	**869**
Weighted average shares in issue (basic) k	19,492	19,520	19,520	19,520	19,520	19,520
Employee share options	2,453	2,188	1,850	1,649	2,320	2,320
Weighted average shares in issue (diluted)	21,945	21,708	21,370	21,169	21,840	21,840
EPS basic. p	**10.11**	**2.34**	**4.26**	**(3.38)**	**4.78**	**4.45**
EPS diluted, p	**8.98**	**2.10**	**3.89**	**(3.12)**	**4.27**	**3.98**
Dividend per share (p)	**4.10**	**2.00**	**2.20**	**0.00**	**1.50**	**1.50**
Dividend cover	2.19x	1.05x	1.77x		2.85x	2.65x

Source: Company historic and ED estimates

Balance Sheet						
Y/e 31 December, £'000s	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**
Non-current assets						
Goodwill	8,225	8,225	8,225	8,225	8,225	8,225
Other intangible assets	7	18	17	21	15	10
Property, plant & equipment	1,590	1,374	1,625	1,558	1,147	1,097
	9,822	9,617	9,867	9,804	9,387	9,332
Current assets						
Trade & other receivables	5,137	4,221	4,205	3,350	3,367	3,350
Cash & cash equivalents	2,088	2,115	1,723	1,584	2,661	2,718
	7,225	6,336	5,928	4,934	6,028	6,820
Total assets	**17,047**	**15,953**	**15,795**	**14,738**	**15,415**	**15,400**
Current liabilities						
Trade & other payables	(6,260)	(5,835)	(4,506)	(4,266)	(5,120)	(5,120)
Current tax payable	(562)	170	(18)	146	46	50
Other borrowings	(205)	(250)	(250)	(1,000)	0	0
	(7,027)	(5,915)	(4,774)	(5,120)	(5,074)	(5,070)
Non-current liabilities						
Deferred tax liabilities	(10)	(10)	(58)	(90)	(91)	(170)
Long term loan	0	(250)	(750)	(200)	0	0
	(10)	(260)	(808)	(290)	91	(170)
Total liabilities	**(7,037)**	**(6,175)**	**(5,582)**	**(5,410)**	**(5,165)**	**(5,240)**
Net assets	**10,010**	**9,778**	**10,213**	**9,328**	**10,250**	**10,160**
Equity						
Share capital	195	195	195	195	195	195
Share premium	4,868	4,868	4,868	4,868	4,868	4,868
Special reserve	233	233	233	233	233	233
Retained earnings	4,717	4,345	4,747	3,762	4,695	5,564
Equity attributable to owners of the Company	10,013	9,641	10,043	9,058	9,991	10,860
Non-controlling interest	(3)	137	170	270	256	263
Total equity	**10,010**	**9,778**	**10,213**	**9,328**	**10,247**	**11,123**

Source: Company historic and ED estimates

Cash flow statement, £'000s						
Y/e 31 December, £'000s	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**
Cash flows from operating activities						
Cash (outflow)/inflow from operations	2,499	1,687	192	335	2,559	864
Interest paid	(55)	(18)	(28)	(40)	(35)	(25)
Taxation	(375)	(898)	39	128	(136)	(250)
Net cash inflow/(outflow) from operating activities	**2,069**	**771**	**203**	**423**	**2,388**	**589**
Cash flows from investing activities						
Interest received	215	36	0	0	12	10
Purchase of intangible assets	(1)	(30)	(15)	(25)	(12)	0
Purchase of property, plant & equipment	(592)	(245)	(690)	(308)	(111)	(250)
Net cash outflow from investing activities	**(378)**	**(239)**	**(705)**	**(333)**	**(111)**	**(240)**
Cash flows from financing activities						
Proceeds from issue of shares	39	0	0	0	0	0
Funding costs on acquisition of subsidiary net of cash received	0	0	0	0	0	0
Repayment of bank loan	(480)	(205)	0	0	0	0
Bank facility received/(repaid)	(500)	500	500	200	(1,200)	0
Dividends paid	(681)	(800)	(390)	(429)	0	(293)
Net cash outflow from financing activities	**(1,622)**	**(505)**	**110**	**(229)**	**(1,200)**	**(293)**
(Decrease)/increase in cash and cash equivalents	69	27	(392)	(139)	1,077	57
Cash at beginning of period	**2,019**	**2,088**	**2,115**	**1,723**	**1,584**	**2,661**
Cash at end of period	**2,088**	**2,115**	**1,723**	**1,584**	**2,661**	**2,718**
Reconciliation of operating profit to net cash flow from operating activities						
Operating profit	**2,279**	**744**	**1,068**	**(185)**	**1,176**	**1,109**
Amortisation of intangible assets	14	19	16	16	18	5
Depreciation of property, plant & equipment	364	461	439	328	522	300
Effect of foreign exchange rate moves	(51)	(28)	(39)	104	6	0
(Increase)/decrease in receivables	(1,298)	916	16	855	(17)	150
Increase/(decrease) in payables	1,191	(425)	(1,329)	(240)	854	(700)
Cash flow from operating activities	**2,499**	**1,687**	**192**	**335**	**2559**	**864**

Source: Company historic and ED estimates

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