SpaceandPeople PLC

Contract renewals underpin outlook

25 March 2019

The FY18 results were in line with SAL's January update. Normal trade in its UK and German venues was disrupted by last year's weather extremes. On top of that, the World Cup provided an unhelpful distraction for brands which would typically engage with the group over the period. Although normal service did resume in autumn/winter, it was too late to make up for the slow start to the year, especially as December was then weaker than anticipated.

Conversely, SAL reported reassuring UK contract renewals with Landsec and M&G, and new clients such as Hammerson, in January this year, which includes promotional and short-term retail experience in its flagship UK shopping centres, and roll-out of MPKs into a portfolio which includes Bullring, Grand Central, Birmingham, and Brent Cross in London. It also extended its contract with ECE in Germany on slightly improved terms.

Recent investment in its senior team has helping to generate further interest in its offering, while margins will benefit from a cost reduction programme which aligns overheads with the kind of subdued business volumes it experienced last year. Our forecasts reflect similarly cautious dynamics and ignore potential for any return to a more 'normal' market.

FY18 results

The above challenges are reflected in a 21% fall in net revenue to £7.9m (FY17: £10m) and a £0.1m pre-tax loss excluding non-recurring items (FY17: £1.2m profit). SAL however finished the year with £0.8m net cash (end 2017: £2.7m).

Our projections assume current run rates prevail. These would see revenues recover slightly in FY19, although we take a deliberately cautious view. SAL's team will focus on securing opportunities to grow its portfolio of MPKs/RMUs and push up occupancy and net returns.

Despite a disappointing 2018, SAL's cash position, improved expectations for 2019 and pipeline of potential new business give it confidence to recommend a 0.5p/share dividend. Our projections suggest it will end the current year with c £1m net cash.

Summary Forecasts

Year to 31 December, £m	FY16	FY17	FY18	FY19e
Revenue	9.7	10.0	7.9	8.8
Adj. operating profit*	0.1	1.2	(0.2)	0.6
Adj. profit before tax	0.2	1.2	0.1	0.6
Adjusted EPS (p)	(3.1)	4.3	(3.2)	1.9
PER	-	3.4	-	7.6
Dividend (p)	0.0	1.5	0.5	0.5
Yield (%)	0.0	10.3	3.4	3.4

Source: Company historic data and ED estimates FY16 has been adjusted for discontinued operations.
**Before non-recurring costs*

Company Data

EPIC	SAL
Price (last close)	14.5p
52 week Hi/Lo	36.7p / 13.0p
Market cap	£2.8m

Share Price, p

Source: ADVFN

Description

The group (SAL) 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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Stabilising post challenging FY18 trading

The group delivered a small operating loss on recurring activities for the year:

Summary income statement		
Year to 31 Dec	**2018**	**2017**
Gross revenue (£m)	18.8	22.4
Net revenue (£m)	7.9	10.0
Adjusted pre-tax profit attributable to shareholders.*	(0.1)	1.2
Adjusted EPS – basic (p)	(2.2)	4.8
Proposed dividend (p)	0.5	1.5
Average no. of Retail Merchandising Units (RMUs)	158	185
Average no. of Mobile Promotions Kiosks (MPKs)	60	75

*Source: Company *Excluding non-recurring costs*

SAL breaks down the reasons for that disappointing performance as follows:

- Bad weather in Q1 adversely affected UK sales for longer than a relatively short period of severe winter i.e. 'The Beast from the East' referred to in multiple forecasts justified.
- In an exceptionally hot summer, SAL couldn't fully meet demand for outdoor locations at short notice during Q2 and Q3.
- England's run in the 2018 World Cup provided a further distraction, which meant SAL's clients' delayed decisions regarding tactical advertising budgets.
- Recent investment in service and staff pushed up costs as sales fell for the above reasons. When its sales didn't match forecasts, SAL couldn't cut costs sufficiently rapidly to prevent a hit to its bottom line.
- The UK's tough retail backdrop resulted in a loss of venues due to ownership changes.

Margins to benefit from steadier sales, overhead reduction

A targeted reduction in admin headcount resulted in a £0.3m (8%) fall in administrative expenses vs the prior year even, despite recruitment of key personnel for venue development and key account management. Average numbers of people employed in the business fell from 99 to 92 in 2018, principally lower administrative staff headcount

Cash Flow

The cash position fell by £1.8m during the year. A £1.4m cash outflow from operating activities (2017: £2.6m inflow) reflected a reduction in unusually high trade and other payables outstanding at end FY17. Another £0.1m was spent on fixed assets as UK divisions finalised their bespoke CRM systems and a £0.3m dividend was paid.

Non-recurring charge related to goodwill in SpaceandPeople India

SAL wrote-off the £0.24m goodwill in SpaceandPeople India. This had no cash impact and it will retain a majority shareholding in this business which continues to trade at an acceptable level. Kiosk numbers increased to 34 post new location wins at three regional airports and SAL sees potential for the business to contribute during 2019. The group intends to sell this business to Indian investors when it can demonstrate that it is profitable.

Divisional outlook

Trading in all divisions in the first quarter is currently in line with management expectations and ahead of the comparable period in 2018.

Contract renewals and wins provide a more reassuring outlook

A focus on core UK and German markets over the last two years has generated contract renewals with Landsec and M&G Investments in the UK and ECE in Germany.

A new agreement signed with Hammerson plc will provide access to a substantial, high-quality UK shopping centre portfolio. That provides some confidence in the team’s ability to attract and extend agreements on good terms.

FY18: reduced revenue contributions from all divisions

Gross revenue generated on behalf of clients was £18.8m, 16% lower y-o-y due and reflecting weaker trading generally. Net revenue fell 21% to £7.9m due to a lower blended commission rate for UK promotions. Brand Experience revenue was particularly affected by extreme weather and the impact of the World Cup.

The decline in UK retail revenue £0.4m to £3.1m in 2018 was largely attributable to a £0.3m fall in RMU revenue, post a decrease in average RMUs in operation from 91 to 74.

Performance by division

Year to 31 Dec, £m	Net Revenue 2017	Net Revenue 2018	Pre-tax profit 2017	Pre-tax profit 2018
UK Promotion	3.70	3.24	1.95	0.38
UK Retail	3.44	3.06	0.40	0.49
German Promotions	0.81	0.37	(0.02)	(0.15)
German Retail	1.99	1.24	0.16	(0.26)
Other	0.06	0.03	(0.04)	(0.05)
Total	10.00	7.94	2.46	0.42
Head office costs			(1.31)	(0.83)
Operating profit			1.15	(0.41)

Source: Company presentation

UK remains main revenue and profit driver

The UK is expected to remain the revenue and profit driver despite its difficult year in FY18. Investment in venue development personnel is delivering an encouraging UK new venues pipeline, reflected in the new, multi-year UK contract with Hammerson.

The roll-out of MPKs in the UK stalled in 2018 at 60 units (68 units in 2017) in line with a lack of new venues. Revenue was adversely affected, but the new contract has made a promising start and provides access to ten new MPKs in high footfall locations and the 2019 booking pipeline is strong.

Germany: retail to benefit from lower overheads this year

At steady revenues SAL’s German operations should achieve a step up in profitability and make a positive contribution to group cash flow this year. Headcount reduction has cut annualised expenses by c €0.4m and office costs will fall this year as the division exits a large and relatively expensive office in Hamburg.

Revenues from German Retail reflected a mismatch between RMU locations and retail client needs. SAL subsequently renegotiated and extended its contract with ECE, the division's key client in Germany and recent pilot programmes with DI Group and HBB Group (announced post the year-end) provide signs that margins and profits from this division will improve in 2019.

Although there are no formal contracts in place for the German promotions business, legacy revenues provide some visibility for the next 18 months to enable this business to trade for at least the short-term. Remaining staff are concentrating their attention on bringing in new RMU opportunities.

Agreement with ECE in Germany extended to January 2021

In February SAL announced an extension to its agreement with GB Immobilien G.m.b.H. (ECE) to provide Retail Merchandising Units (RMUs) in ECE managed shopping centres in Germany. This agreement was extended for another 24 months to end January 2021 and covers a larger number of RMUs i.e. 76 RMUs vs 65 previously.

SAL has worked with ECE for over ten years as a provider of RMUs in Germany. Under the new agreement it secured a reduction in the average rental payable to ECE. That is a better reflection of the current retail market, which will enable SAL to trade profitably without large minimum guarantees. It has removed all unprofitable RMUs and will roll out new units into more of ECE's managed centres. It estimates that RMU numbers will increase from 76 to 91, with the balance of new units ready for Easter trading in April 2019.

Other initiatives generating a positive response

Towards the end of FY18 SAL announced a contract with MG Malls, the largest independent out-of-home media business in the USA, to represent it in North America. This contract runs for an initial 12-month term and enables MG Malls to discuss SpaceandPeople products and services with US mall owners and operators exclusively. The latest post-year update revealed a positive response to group presentations.

Valuation: FY19 forecasts based on new normal

The FY18 results reveal more encouraging trading in the second half of 2018. A recovery to normal volume levels, particularly from September to November, suggested that the disruption was an anomaly, but a weak performance in December was a reminder that trading remains difficult to predict.

SAL's concept is proven, but inevitably regarded as more effective by some of its clients than others, and particularly effective in specific locations. Churn is reflected in a fall in the installed RMU/MPK base and negative UK retail sentiment is unhelpful. Recent wins such as the Hammerson contract are much better news, will see the roll-out of units into each centre and return MPK numbers to an upward trajectory.

Our 2019 forecast uses the weaker FY18 performance as the new normal. We see this as prudent and SAL has adjusted its overheads to that level of turnover. If last year was an anomaly, the group could do better.

Income Statement				
Year to 31 Dec, £'000s	**2016**	**2017**	**2018**	**2019e**
Revenue	9,661	9,995	7,939	8,800
Cost of sales	(4,133)	(3,389)	(2,886)	(4,000)
Gross profit	5,528	6,606	5,053	4,800
Gross margin %	60%	66%	66%	66%
Administration expenses	(5,618)	(5,640)	(5,360)	(4,400)
Other operating income	194	210	136	200
Operating profit before non-recurring costs	104	1,176	(171)	600
Non-recurring costs	(289)	0	(244)	0
Operating profit/(loss)	(185)	1,176	(415)	600
Finance income	0	12	7	5
Finance costs	(40)	(35)	(7)	0
Profit/(loss) before tax	(225)	1,153	(415)	605
Adjusted profit/(loss) before tax - attributable to shareholders	216	1,167	96	615
Tax	(44)	(237)	(282)	(200)
Profit/(loss) after tax - continuing operations	(269)	916	(697)	405
Other comprehensive income				
Foreign exchange difference on translation of foreign operations	104	3	(5)	0
Total comprehensive income for the period	(708)	919	(702)	405
Profit/(loss) attributable to:	0	0	0	0
Owners of the company	(660)	933	(679)	415
Non-controlling interests	(152)	(14)	(18)	(10)
	(812)	919	(697)	405
Weighted average shares in issue (basic)	19,520	19,520	19,520	19,520
Employee share options	1,649	2,320	2,028	2,028
Weighted average shares in issue (diluted) k	21,169	21,840	21,548	21,548
EPS basic, p	(3.38)	4.78	(3.48)	2.13
EPS diluted, p	(3.12)	4.27	(3.15)	1.93
Dividend per share (p)	0.00	1.50	0.50	0.50

Source: Company historic data, ED estimates

Investor Access

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