Initiation of Coverage

SmartSpace Software plc

Software and Services

UK Equity Research

13 April 2021

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A fast-growth, high-margin SaaS value opportunity

Rating	Price Target
BUY	**220p**
SMRT-AIM	Price **144p**

Canaccord Genuity view

- SmartSpace Software (SMRT-AIM) is a fast-growing provider of flexible workspace software including desk, meeting room and visitor management solutions for the SME and mid-market. With the transition to a SaaS model now complete, the group's value-for-money platforms offer short sales cycles and are quickly self-deployed. As a result, we see three high-growth runways which will likely build ARR by 69% CAGR from £2.6m to £14.2m (FY Jan 21E-24E) and drive near-term profitability.
- We believe the roadmap out of lockdown will be a key driver of growth as companies seek to ensure workspaces offer flexible, productive, and COVID-secure environments while offering the opportunity to reduce footprint. As a result, we believe software solutions such as SMRT which optimise building capacity and ROI while ensuring employee safety and engagement will be primary drivers of corporate spend.
- We assume FY21E is in line with the 11 March trading update, and expect ARR of £2.9m (+60% y/y) and sales of £4.6m of which £2.3m (+73% y/y) flows from SaaS. Thereafter, our forecasts take a three-year view, estimating that SMRT will generate £4.6m of EBITDA (31% margin) by FY Jan 24E with c.100% converted into free cash.
- SMRT trades on a CY22E EV/Sales of 3.5x vs a UK SaaS/software peer average of 5.2x which we believe is unjustified given the high-margin, high-double-digit growth story. We initiate coverage with a BUY rating and 220p target price.

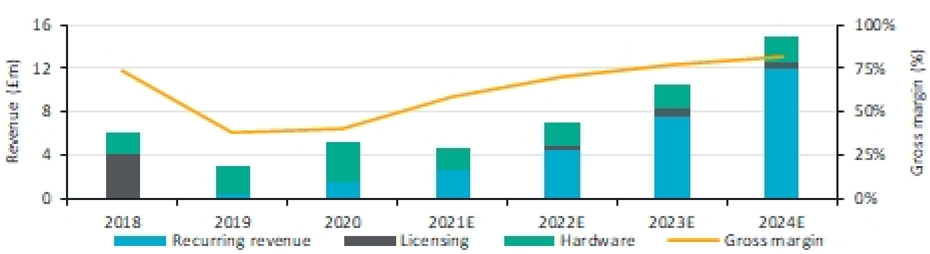
Building strong recurring revenues and high margins

We see three high-growth SaaS runways leading to 80% recurring revenues by FY Jan 24E at 90%+ gross margin: 1) Continued expansion of SwipedOn ARR driven by a new pricing model, multi-location deals and desks; 2) Build on early momentum flowing from Space Connect indirect sales channels; and 3) Recognition of licence and SaaS participation revenue from the Evoko Naso software partnership.

Evoko deal could provide material upside opportunity

Evoko Naso launched in December 2020, with SMRT already recognising its first revenues. Evoko believes there is a market for 30k units p.a., with a typical customer worth €7.1k ARR to SMRT. Our model is set on conservative assumptions (c.27k units, 30% SaaS participation by FY24E) to drive ARR of £3.2m. Sensitivity analysis shows material flex if units sold or SaaS participation exceed our estimates.

Estimating 69%/45% ARR/sales CAGR on a three-year view to FYJan24E



Source: Company reports, Canaccord Genuity estimates

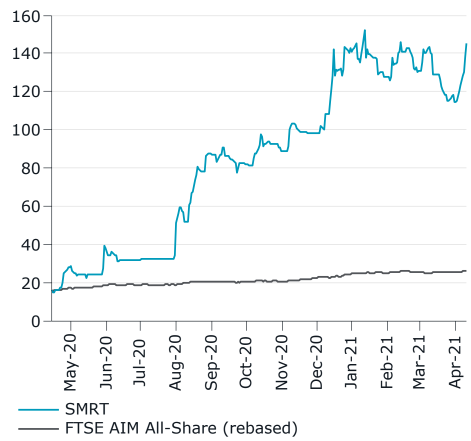
53% implied upside to EV/Sales-derived target price

We initiate coverage with a BUY rating and 220p target price. This is based on a FY Jan 23E EV/Sales of 5.5x which is in line with the blended CY21E/22E average of our UK SaaS/software peer group and is supported by DCF (227p/share). We believe the current share price offers an attractive opportunity to participate in this high-margin, high-double-digit growth story, with SMRT trading on 5.3x EV/Sales FY Jan 22E falling to 2.0x FY Jan 24E when SMRT also looks good value, in our view, on P/E (11.9x) and FCF yield (11.0%).

Market Data

52-Week Range (p) :	13 - 155
Avg Daily Vol (M) :	0.06
Market Cap (£M) :	41.0
Shares Out. (M) :	28.3
Enterprise Value (£M) :	36.6

FYE Jan	2020A	2021E	2022E	2023E
Sales (£M)	5.1	4.6	7.0	10.5
EBITDA (£M)	(1.7)	(2.1)	(0.7)	1.3
PBT Adj (£M)	(2.0)	(2.3)	(0.9)	1.0
EPS Adj&Dil (p)	(29.1)	(7.9)	(2.9)	2.8
EV/Sales (x)	7.6	7.9	5.3	3.3
EV/EBITDA (x)	(23.0)	(17.4)	(55.8)	28.1
P/E (x)	(5.0)	(18.2)	(49.2)	50.8
Equity FCF Yield (%)	(19.0)	(6.2)	0.5	4.7
Net Debt (Cash) (£M)	(2)	(4)	(5)	(6)



Source: FactSet

Priced as of close of business 12 April 2021

The provision of cloud-based SaaS software solutions focused on space and workplace management.

For important information, please see the Important Disclosures beginning on page 38 of this document.

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Company summary

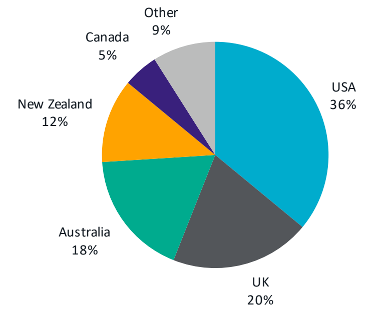
Company Description

SmartSpace Software is a fast growing, SaaS-based provider of visitor management and space optimisation solutions, principally for the SME and mid-market. The group operates two cloud-based platforms (SwipedOn and Space Connect) which can be easily self-deployed, allowing customers to create safe and flexible workplace environments to manage building occupancy. In addition, real-time and predictive analytics help clients make informed decisions to improve the efficiency of a workspace and support real estate rationalisation strategies.

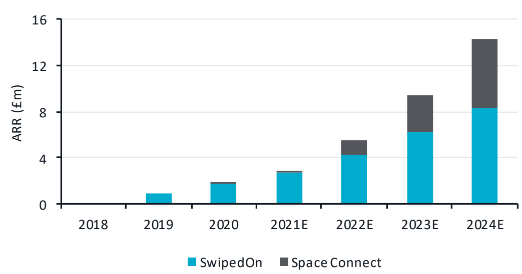
Key Competitors

Key competitors in the mid-market include Condeco, Teem/iOffice and Cloudbooking. In the SME market, competitors include Envoy, ProxyClick, Sign In App, Traction Guest and Sine.

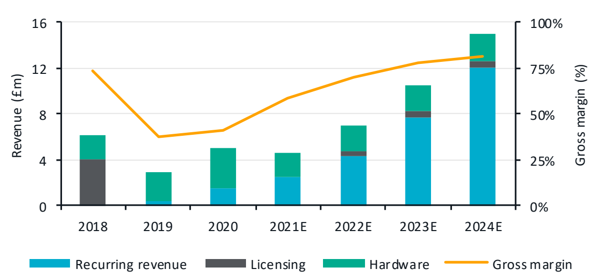
Customers by geography



Exit ARR



Revenue and Gross Profit



Valuation	Jan-19	Jan-20	Jan-21E	Jan-22E	Jan-23E	Jan-24E
EV/Sales	8.2x	7.6x	7.9x	5.3x	3.3x	2.0x
EV/EBITDA	-13.9x	-23.0x	-17.4x	-55.8x	28.1x	6.6x
P/E	-15.7x	-5.0x	-18.2x	-49.2x	50.8x	11.9x
Price/book	1.4x	2.3x	2.6x	2.8x	2.6x	2.2x
Dividend yield	-	-	-	-	-	-
FCF yield	(17.5%)	(19.0%)	(6.2%)	0.5%	4.7%	11.0%
P&L (£m)	**Jan-19**	**Jan-20**	**Jan-21E**	**Jan-22E**	**Jan-23E**	**Jan-24E**
Exit ARR	1.0	1.8	2.9	5.5	9.5	14.2
Sales	3.0	5.1	4.6	7.0	10.5	15.0
Gross Profit	1.1	2.1	2.7	4.8	8.2	12.3
EBITDA	(1.8)	(1.7)	(2.1)	(0.7)	1.3	4.6
Adj. PBT	(1.9)	(2.0)	(2.3)	(0.9)	1.0	4.4
Tax	1.0	0.4	-	-	(0.2)	(0.8)
Continuing adj. net income	(0.8)	(1.6)	(2.3)	(0.9)	0.8	3.6
Discontinued	(1.1)	(5.3)	0.0	0.0	0.0	0.0
Adj. Net Income	(1.9)	(6.9)	(2.3)	(0.9)	0.8	3.6
EPS (adj. FD) (p)	(9.2)	(29.1)	(7.9)	(2.9)	2.8	12.1
DPS	-	-	-	-	-	-
Growth	**Jan-19**	**Jan-20**	**Jan-21E**	**Jan-22E**	**Jan-23E**	**Jan-24E**
Sales (%)	(51.8)	71.7	(9.2)	50.8	51.2	42.5
EBITDA (%)	(921.6)	(4.5)	25.9	(68.5)	(288.8)	271.4
PBT (%)	1,316.7	5.4	17.0	(62.4)	(220.3)	325.0
EPS (%)	(190.1)	216.3	(72.8)	(62.9)	(196.9)	325.0
DPS (%)	-	-	-	-	-	-
Cash Flow (£m)	**Jan-19**	**Jan-20**	**Jan-21E**	**Jan-22E**	**Jan-23E**	**Jan-24E**
EBIT	(2.0)	(2.4)	(2.6)	(1.2)	0.8	4.2
Depreciation & amortisation	0.1	0.2	0.4	0.4	0.4	0.4
Exceptionals/other	(1.9)	(3.8)	0.0	0.1	0.1	0.1
Working capital movements	0.4	0.0	0.2	1.5	1.5	1.6
Interest & Tax	(0.1)	0.1	0.4	(0.0)	(0.2)	(0.9)
Capex	(2.1)	(2.0)	(0.9)	(0.6)	(0.6)	(0.8)
Free cash flow	(5.6)	(7.7)	(2.5)	0.2	1.9	4.6
Acquisitions/disposals	12.0	(0.8)	4.6	0.4	0.0	0.0
Share issues	0.0	3.2	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Movement in net cash	6.4	(5.4)	1.9	0.5	1.8	4.4
Net cash/(debt)	7.6	2.2	4.1	4.6	6.4	10.8
Balance Sheet (£m)	**Jan-19**	**Jan-20**	**Jan-21E**	**Jan-22E**	**Jan-23E**	**Jan-24E**
Non current assets	14.3	12.2	12.7	13.0	13.2	13.6
Current assets	12.8	3.7	5.6	6.2	8.1	12.6
Non current liabilities	(0.4)	(0.1)	(0.5)	(0.5)	(0.5)	(0.5)
Current liabilities	(3.3)	(2.3)	(2.1)	(3.5)	(4.9)	(6.4)
Held for sale	-	4.4	-	-	-	-
Net Assets	23.4	17.8	15.7	15.1	15.8	19.3
Ratios	**Jan-19**	**Jan-20**	**Jan-21E**	**Jan-22E**	**Jan-23E**	**Jan-24E**
Debt/Equity (%)	(32.6%)	(12.3%)	(26.3%)	(30.5%)	(40.4%)	(56.2%)
Net debt/EBITDA (x)	4.4	1.3	2.0	6.9	(5.1)	(2.3)
Interest cover (x)	(15.2)	(124.9)	(137.6)	(57.7)	48.6	237.1

Source: Company reports, Canaccord Genuity estimates

Investment case

Fast growth solutions to enable COVID-safe, flexible workspaces

Scalable, short sales cycle, self-deployable SaaS solutions

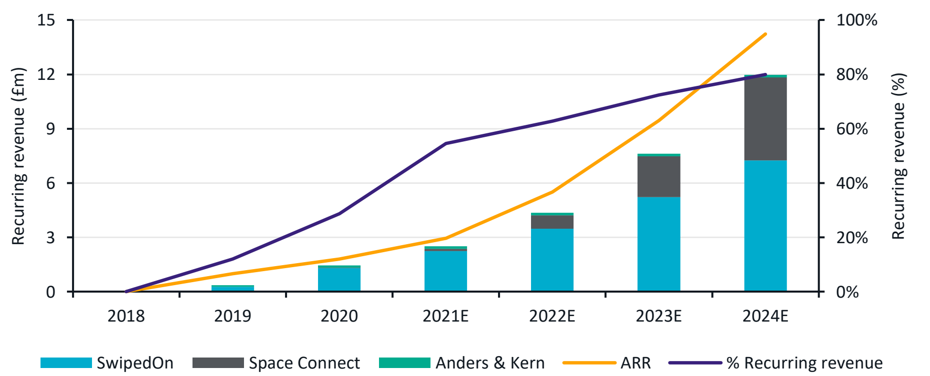
SmartSpace Software plc (SMRT) is a fast-growing, SaaS-based provider of flexible workspace software including desk, meeting room and visitor management solutions for the SME and mid-market. The group's complementary cloud-based platforms (SwipedOn and Space Connect) are scalable, enjoy short sales cycles and can be easily self-deployed to create cost effective COVID-safe solutions for flexible workspace environments. Offering a cutting-edge technology stack that includes facial recognition, AI, advanced analytics and UX configuration tools, this means that customers can make real-time intelligent decisions to manage building capacity and social distancing, improve the efficiency of a workspace and support real estate rationalisation strategies.

Strong double-digit growth and high margins

69% ARR CAGR (FY21E-24E) with high margin recurring revenues rising to 80%

With its transformation to a SaaS model complete and a strong net cash balance sheet (CGL: FYJan21E £4.1m) to support three high growth opportunities, we estimate that group ARR will increase by 69% CAGR (FYJan21E-24E) from £2.9m to £14.2m with revenues growing 48% CAGR from £4.6m to £15.0m respectively. Through this window we expect recurring revenue to increase from 55% to 80% with gross margin expanding to 82% (+2300bps) as SaaS drives a higher quality mix. As a result of operating leverage, we expect this high growth to deliver generate EBITDA of £4.6m (31% margin) by FYJan24E with c.100% free cash flow conversion.

Figure 1: Saas driven recurring revenue by division



Source: Company reports, Canaccord Genuity estimates

Roadmap out of lockdown is a key driver

Strong demand for COVID-safe, flexible workspace environments

With 2020 seeing most office-based employees around the world begin to work from home for the first time, the idea of spending each working day attached to a fixed desk has quickly become outdated with many expecting a hybrid model to become the new normal. As a result, we believe the roadmap out of lockdown will be a key driver for global growth as companies seek to ensure workspaces offer flexible, productive, and COVID-secure environments while offering the opportunity to reduce footprint. We note the recent announcements that play to these themes - HSBC (February 2021) announced that it will reduce its global office space by 40% while Standard Chartered moved to permanent flexible working in November 2020. In addition, a February 2021 survey by Grant Thornton reports that over a third of UK mid-sized companies expect to reduce their office space by 10% to 25% with a further 12% reducing their space by up to half. This suggests that software solutions that can optimise building capacity and ROI while ensuring employee safety and engagement will become primary drivers of spend as corporates seek to digitise and automate more processes within the office management function.

Fragmented market growing at 12% CAGR to a TAM of US$1.3bn (2024)

Even before COVID-19, workspace management software was already a fast-moving market. Highly fragmented, it includes many early stage vendors that specialise in desk, meeting room and visitor management solutions with the growth of smart technologies allowing a more integrated offering to evolve. In 2020, independent research house Verdantix suggested market CAGR of 12% building to a US$1.3bn TAM by 2024. This is focused on North America and Europe, with APAC outpacing the market at 15% CAGR. We believe COVID-19 has accelerated structural trends that are driving flexible workspace investment, with a recent survey by Colliers suggesting 90% of companies are anticipating shorter, more flexible leases moving forward.

ARR up 173% over the last two years

The recent trading update (11 March 2021) showed that SMRT is building a strong track record of delivering sustainable growth across its SaaS-based KPIs. SwipedOn added 1,354 customers and 2,105 locations through 2020 and expects to report ARR of £2.73m as at 31 January 2021 with ARPU of NZ$91.9 (+18% y/y) driven by price increases and a focus on higher value multi-location deals. As a result, over the last two years SwipedOn has grown ARR by 173% with recurring revenue up 641% at 85%+ gross margin while it has been cash flow positive since Q1 2020.

Significant opportunities to drive ARR in the near term

Pricing, locations and desks set to be key drivers of SwipedOn ARR

With 40% of SwipedOn revenue generated from just 15% of customers, we believe there is a significant opportunity drive growth in the number of locations and ARPU through:

- Price increases for new customers across all price points (while remaining highly competitive) having implemented a strong double-digit rise in February 2021.
- Strategic price rises for existing customers as they renew with targeted up-sell to higher value plans driven by functionality.
- Centralised deals with higher value mid-market customers where there is potential for revenue expansion through cross-sell and multiple location sales.
- Cross-sell of rebranded Space Connect desk and meeting room modules while selling more Add-On functionality such as deliveries and SMS notifications.
- A new centralised development team, based in New Zealand, to drive enhanced functionality and launch new localised versions that target key geographies.

SwipedOn Desks offers a material near-term opportunity as customers seek a COVID-safe return to the workplace

Our forecasts see SwipedOn delivering ARR CAGR of 45% from £2.7m to £8.3m (FYJan21E-24E) with a new pricing model and SwipedOn Desks being the primary drivers in our model. We believe SwipedOn Desks offers a material near-term opportunity to increase ARPU per customer as customers seek to implement and manage a COVID-safe return to the workplace. For example, £0.85m of incremental ARR could be generated if just 5% of the customer base takes a 75-desk solution.

Figure 2: A solution for 75 desks sold to 5% of customers adds £0.85m in ARR

Desks added	ARPU (pm)	ARR created from 5% customers
50	£200	£568,200
75	£300	£852,300
100	£400	£1,136,400

Source: Canaccord Genuity estimates

A three-location Enterprise deal is worth over 8x that of a starter plan

In addition, we see a material opportunity to drive an uplift in value created per customer by both signing new customers and moving existing customers up to higher value, multi-location deals with the monthly ARPU of a three-location Enterprise plan worth over 8x that of a Starter plan.

Figure 3: Up-sell to Enterprise to drive value creation

Plan	Locations	Current mix	Target mix	ARPU (pm)	Value vs Starter
Starter	1 location	60%	45%	£39	-
Business	1 location	30%	40%	£75	1.9x
	1 location			£109	2.8x
	2 locations			£218	5.6x
Enterprise	3 locations	10%	15%	£327	8.4x
	4 locations			£436	11.2x
	5 locations			£545	14.0x

Source: Company reports, Canaccord Genuity estimates

Space Connect offers two fast growth opportunities to drive £5.9m of ARR by FYJan24E via an indirect sales model

The go-to-market strategy for Space Connect is focussed on building an indirect sales model. This offers a compelling opportunity to build meaningful sales momentum with no fixed costs by engaging with partners, distributors, resellers and referral partners across different geographies including the UK, US, Australia and Benelux. We note:

- A distribution agreement with Softcat, an IT infrastructure reseller with a strong distribution network across the UK and Ireland (announced August 2020). This is the first significant resale agreement for Space Connect platform outside of the AV hardware channel which has already secured 19 engagements with nine deals signed worth a net £8,500 ARR each to Space Connect. This includes a 580-desk solution for City Fibre (cited in a recent case study by SmartSpace) which we estimate to be worth a minimum ARR of £27,840.
- Reseller agreement with ESCO Pte Ltd, a major AV integrator in the Far East (announced September 2020) with the first joint deal (with an international pharmaceutical business operating out of Singapore) expected to close shortly.
- A white-label software partnership with Evoko, a leading global manufacturer of premium meeting room panels, for its recently launched Naso panel.
- Opportunity to partner with commercial property companies, facility management software providers and hardware manufacturers.

Evoko partnership offers near-term fast growth in licence and SaaS revenue

We view the white label software deal with Evoko as a material near-term driver of group ARR and note a potential opportunity to establish similar partnerships with other hardware manufacturers. Given a 300k installed base of its old-generation Liso panel and a blue-chip customer base, Evoko believes there is an opportunity to sell 30k panels per annum through its global distribution network. Based on the terms of the agreement, a typical Evoko customer could generate €7.1k of ARR for Space Connect with a three-year TCV of €21.3k. As a result, we believe the Evoko deal could provide a significant opportunity for Space Connect to recognise near-term licensing and SaaS participation revenue with the first sales already being recognised.

Figure 4: Illustration of value to Space Connect for typical Evoko customer

Panel one-off income	€ 70	
Panel SaaS income	€ 1,512	Assumes €36 per panel x 3 years x 14 panels
Software module SaaS income	€ 19,800	Assumes €550 x 36 months
Three-year TCV to Space Connect	€ 21,312	
MRR to Space Connect	€ 592	
ARR to Space Connect	€ 7,104	

Source: Company reports

Evoko sensitivity analysis shows material upside opportunity

Our forecasts, based on conservative assumptions, see ARR from Evoko building to £3.4m by FYJan24E with sensitivity analysis suggesting a significant opportunity for upward revisions to our forecasts if the number of units sold and/or the percentage of Evoko customers deploying SaaS exceed our estimates. We estimate that an incremental 1,000 units sold per annum (all else being equal) would increase licensing revenue by 15%/10%/10% for FY22E/23E/24E, respectively, while ARR would rise by 15%/12%/11%. Resetting to our default assumptions, a 1% improvement in SaaS participation rate would increase ARR by 5%/4%/3% for FY22E/23E/24E.

M&A activity intensifying

A busy segment in terms of M&A and growth investment

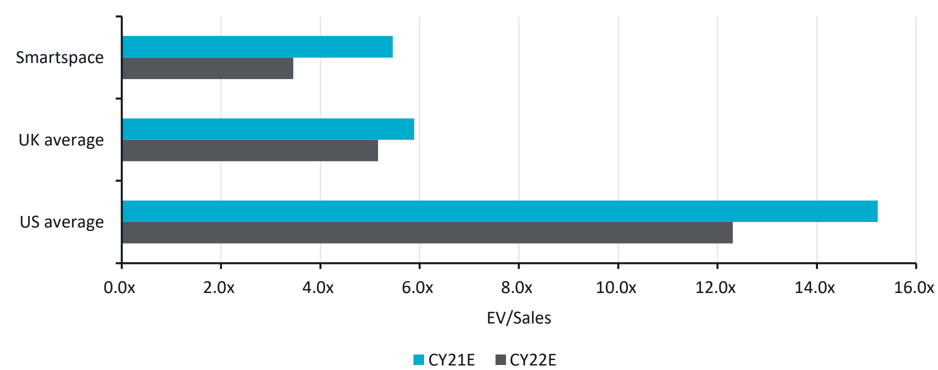
We note increasing amounts of M&A-driven activity within the workspace management software arena driven by industry consolidation and PE investment. This includes the acquisition of WhosOnLocation by MRI Software (March 2020) with the vendor originally said to be asking around 10x ARR for a NZ$4m ARR business. We also note the acquisition of Sine by Honeywell (undisclosed) in December 2020 and a US$100m strategic investment in iLobby, a visitor management platform by Insight Partners (January 2021). This follows a US$15m funding round by ProxyClick (January 2020) alongside the acquisitions of SpaceIQ by Archibus (May 2020) and Teem by iOffice (January 2020) with valuations for both undisclosed. In addition, Schneider Electric completed its 25% minority investment in Planon, a cloud-based software provider of building and workplace management solutions in December 2020.

Analysis suggests fair value at 220p, offering potential upside of 53%

Initiate with BUY and 220p TP

Based on our forecasts, SmartSpace trades on a calendarised EV/Sales multiple of 5.5x for CY21E falling to 3.5x for CY22E versus a UK peer group average of 5.9x/5.2x, respectively. We note that valuations of US-based SaaS stocks trade on considerably higher multiples (an average of 15x/12x).

Figure 5: EV/Sales multiples (CY21E/22E)



Source: Refinitiv, Canaccord Genuity estimates

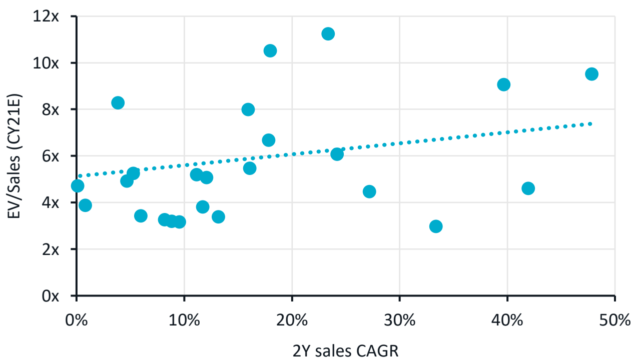
SmartSpace is the fastest growing stock in UK SaaS/software

In our opinion, SmartSpace's discount to the UK peer group fails to recognise the group's transition to its SaaS-driven, fast growth recurring revenue, high margin, capital light model although we remain cognisant that while we expect Space Connect to be a primary driver of near-term growth, it does lack a track record at this stage. However, given the strong performance of SwipedOn since acquisition, the early success of indirect sales channels and the recent launch of the Evoko Naso we believe that SmartSpace, as the fastest growing stock in UK SaaS/software, should at least trade in line with the UK peer group average.

High % recurring revenue, above average growth and profitable track records are drivers of premium valuations

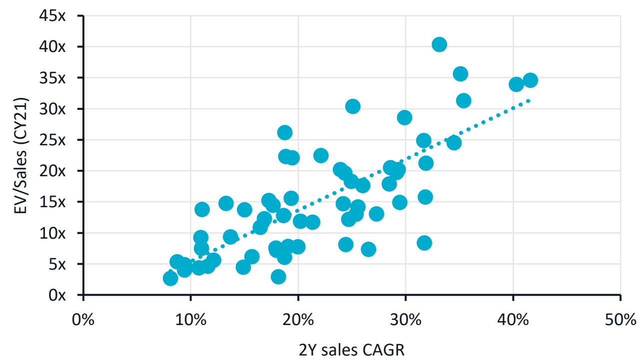
In addition, we note that software stocks with a high percentage of recurring revenues, above average run-rate growth and profitable track records tend to be awarded premium valuations based on EV/Sales multiples (e.g. as per CY21E consensus: Craneware 10.0x, Ideagen 10.7x, Bango 11.1x and dotdigital 8.0x). This suggests that if SmartSpace can successfully meet and beat forecast expectations there is potential for the shares to re-rate significantly. We also note recent M&A activity (as discussed earlier) which is primarily driven by US based consolidators could further support multiple expansion.

Figure 6: Faster growth software businesses typically trade on higher EV/Sales multiples in the UK



Source: Refinitiv, Canaccord Genuity estimates

Figure 7: The relationship between growth and valuation is stronger in the US, with much higher ratings awarded



Source: Refinitiv, Canaccord Genuity estimates

5.5x EV/Sales (blended CY21E/22E)

Given the shape of revenue and margin mix that is expected to flow from SaaS within our forecasts, we believe FY22E and FY23E are the most relevant proxies on which to base valuation, given they fully capture the expected growth from both SwipedOn and Space Connect. Applying the blended average (CY21E/CY22E) EV/Sales multiple from our UK peer group (5.5x) to our FYJan23E SmartSpace forecast suggests a valuation of 220p/share, at which we set our price target and initiate with a BUY recommendation. At the current share price of 144p the shares trade on a FYJan22E EV/Sales multiple of 5.3x falling to 2.0x for FYJan24E when the shares also look good value, in our opinion, on PE (11.9x) and FCF yield (11.0%).

Figure 8: SWOT analysis

Strengths	Weaknesses
• Fast growth recurring revenues with high gross margin • Complementary SaaS platforms targeting SME and mid-market • Hardware agnostic with short sales cycles and self-deployable • Cutting edge technology incl. facial recognition, AI and analytics • Cost-effective with strong customer support. NPS 60+ • Experienced management with track record in building SaaS • Net cash balance sheet to support growth ambitions	• Early stage of transition to SaaS brings execution risk • Speed of growth closely linked to success of Evoko Naso • A small participant in a large competitive market • Customer attrition above normal levels through COVID-19
Opportunities	**Threats**
• Product suite enables a COVID-19 safe, flexible workspace • Supports space rationalisation programmes • Evoko software partnership and further white label deals • SwipedOn ARPU expansion - pricing, locations and desks • Develop Space Connect indirect sales channels • Geographic expansion	• Extension of lockdown across global markets • Wind down of the corporate office • Fast pace of technological change • Macro slowdown may delay/stop investment • FX

Source: Canaccord Genuity estimates

Introducing SmartSpace Software

Fast growing SaaS business

SmartSpace Software (SMRT-AIM) is a fast growing, SaaS-based provider of visitor management and space optimisation solutions, principally for SMEs and the mid-market. The group's cloud-based platforms can be easily self-deployed, allowing customers to create safe and flexible workplace environments to manage building occupancy. Meanwhile, real-time and predictive analytics help clients to make informed decisions to improve the efficiency of a workspace and support real estate rationalisation strategies.

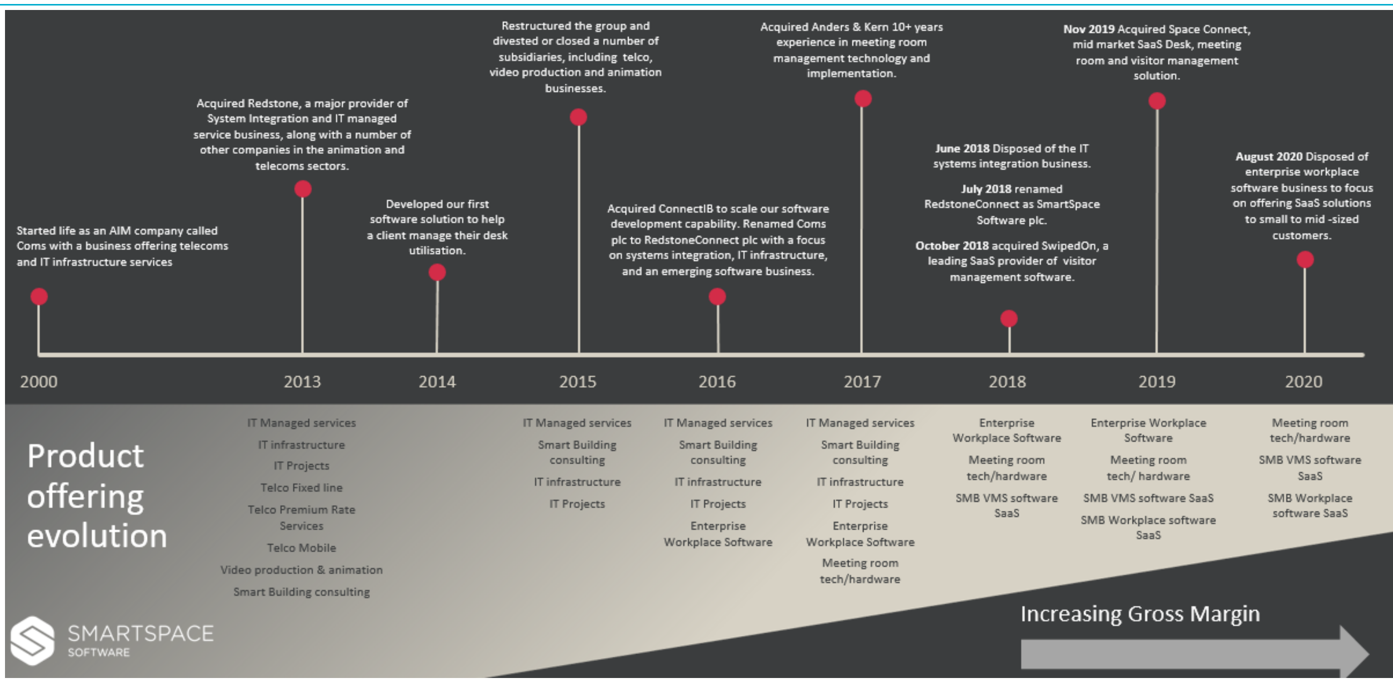
Brief history

CEO instrumental in transformation

The appointment of Frank Beechinor as Chairman in 2014 kickstarted a period of significant transformation at SmartSpace. Later becoming CEO in 2018, and with an extensive history of building SaaS businesses (including as Non-Executive Chairman of dotdigital 2011-2019), he has been the driving force behind the group's recent transition towards a SaaS based model.

Loss-making following a number of unsuccessful acquisitions throughout 2013-14, the group (then RedstoneConnect plc, an IT infrastructure play) undertook a deep restructuring to simplify the business and return it to profitability focussed on three operating segments: Systems Integration, Managed Services and Software. While the business was then profitable, it was characterised by poor revenue visibility, low margins and heavy demands on working capital. Subsequently, following a further strategic review the group sold Systems Integration and Managed Services (the Infrastructure businesses) for a combined £21.6m, using the proceeds to invest in the development of its emerging solutions in workspace management software. The group changed its name to SmartSpace Software plc (July 2018) to reflect its transition to a smart technology, software-focussed business with potential to build smoother recurring revenues and stronger margins in a structural growth market.

Figure 9: SmartSpace has undertaken a transformational change to a SaaS base model



Source: Company reports

Building scalable workplace management solutions

Organic growth alongside targeted M&A

Following the 2018 disposal of Redstone, the strategic focus of the group was to drive organic growth in its Enterprise workspace software business supported by the Anders & Kern division (AV distribution/technical support) and to pursue a complementary M&A strategy which could diversify revenue streams by accessing new markets, geographies, customers and technologies. As a result, SMRT made two acquisitions which have created significant opportunities to scale in the fast-growing SME and mid-markets through two leading cloud-based, SaaS platforms:

- *SwipedOn* was acquired for £5.5m in October 2018 and is a fast-growing SaaS visitor management platform for the self-serve market. Instantly deployable with no hardware requirement, the software provides a simple, contactless and GDPR-compliant solution to record visitor details, reinforce company branding and automate the sign-in/sign-out process. Recent product development has included functionality to help customers meet COVID-19 policies in the workplace alongside new modules which provide solutions to manage deliveries and visitor catering, and to provide SMS notifications.
- *Space Connect* provides SaaS-driven workspace management solutions for the mid-market. Acquired for £3.2m in October 2019, the platform can be self-deployed quickly, and is designed to integrate and synchronise with existing internal systems such as Exchange, Office 365, Skype for Business, Google G-Suite, MS Teams and Zoom. Its core solutions include desk management, room booking, visitor management and real-time analytics which can support COVID-19 policies and help manage return to work strategies. In addition, Space Connect has developed several cutting-edge technologies which significantly accelerate the group's innovation roadmap. These include facial recognition, AI, advanced analytics and UX configuration tools.

Enterprise sale completes transition to SaaS

Enterprise deals were characterised by long sales cycles, complex deployments and significant capital requirement

SMRT entered 2020 as the only global provider of workspace management software, with platform solutions across the self-serve, mid-market and enterprise categories. However, while SwipedOn and Space Connect could access fast-growth SaaS revenues quickly through short sale cycles and the ability to be self-configured, the nature of the Enterprise solutions (primarily a high cost, large scale licensing and consultancy model) brought long sales cycles, complex deployments and a significant capital requirement. Despite a strong pipeline with existing Enterprise clients, this meant conversion of these opportunities could (and in 2019/20 did) introduce material uncertainty to the group's financial performance and outlook. Accordingly, in 2020, SMRT took the strategic decision to focus capital exclusively on the faster growth SaaS markets via SwipedOn and Space Connect. The Enterprise software division was sold for £5.0m cash in August 2020 to Four Winds Interactive in a deal representing c.1x net assets on the proviso that SMRT cannot complete in the Enterprise workspace management software segment (e.g. 1,500+ employees per location that require consultancy-heavy, complex integrations) for a period of three years.

Fixed costs considerably reduced (lowering cash burn)

The exit from Enterprise means that SMRT now operates under a capital-light SaaS model which should offer improved visibility of forward revenues and stronger gross margins. The reduced scale of the business also means that fixed costs have been considerably reduced (lowering cash burn) with headcount down from 93 to 55 and the number of UK office locations falling from four to one. SMRT is now headquartered at Mildenhall, UK (the Anders & Kern office) with additional SwipedOn offices in Tauranga, New Zealand and Austin, Texas. With £5.6m cash on the balance sheet at 30 September 2020, the group appears to be well placed to drive growth in SwipedOn and Space Connect by focussing on the SME and mid-market, in particular with customers that have up 1,500 employees per location that offer fast self-configured implementations. As of 30 September 2020, SMRT had 4,560 customers based across 73 countries (predominantly SwipedOn), despite having an English-only product until last year, with product deployed in over 6,300 locations.

Figure 10: SwipedOn customer examples

Source: Company reports

Targeting multi-location deals

Looking forward, SmartSpace is targeting customer and ARPU growth through higher value multi-location deals, through the cross- and up-sell of its platform solutions, by adding new product functionality and by entering new geographic markets with localised solutions. While SwipedOn is sold directly, Space Connect is pursuing an indirect sales model through distributors, partners and resellers which include Softcat (in the UK and Ireland) and ESCO (APAC). The group also has also entered a strategic software partnership with Evoko, a manufacturer of premium meeting room panels through which it has a potentially material opportunity to build licence and SaaS based revenues at high margin.

Finally, Anders & Kern, which has historically been a specialist AV integrator, has secured several new distribution agreements which allows the division to pivot from being an AV hardware distributor to a specialist supplier of Smart Building technologies which both complements and supports the growth of Space Connect. We explore each division in greater detail over the following pages.

SwipedOn, Space Connect and Anders & Kern

Following the exit of Enterprise, SMRT specialises in visitor management and smart workspace optimisation solutions for the SME and mid-market. It operates through two complementary platforms, SwipedOn and Space Connect, alongside Anders & Kern, a value-add distributor of smart building technologies. While SwipedOn and Space Connect operate as separate silos, the group plans to bring together the technologies of SwipedOn and Space Connect to drive synergies and create a modular product offering from which it can further scale. In addition, the group plans to centralise all software development activities in New Zealand where it has a strong team under CTO Matt Cooney.

Figure 11: SMRT's workspace management software model

Platform	Market	Typical deal value	Deal structure	Sales cycle	Implementation time
SwipedOn	Self-serve	£30 - £500 per month	SaaS	14 days	Instant
Space Connect	Mid-market	£500 - £3k per month	SaaS	28 days	Instant

Source: Company reports

SwipedOn

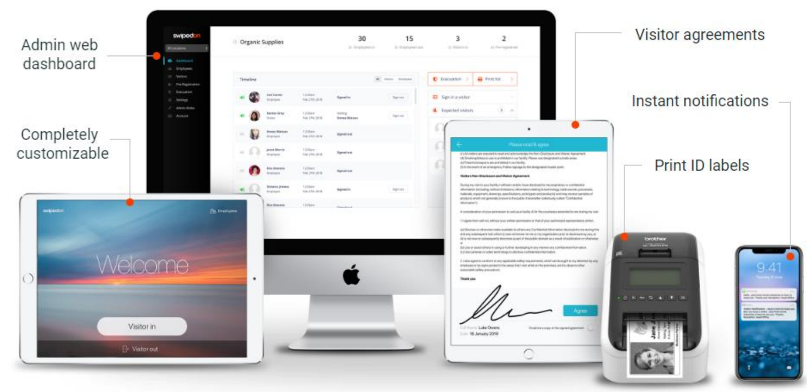
100% SaaS revenues

Based in Tauranga, New Zealand, and with 29 employees, SwipedOn is a cloud-based visitor management application for the SME market that delivers fast growing 100% SaaS revenues for the group at high margin. It allows users to transition from outdated paper visitor books to a digital data capture, allowing customers to digitise the corporate front desk with a simple GDPR-compliant solution. With functionality to help ensure clients can meet health and safety policies (including COVID-19 and emergency evacuation protocols), it provides contactless sign-in/sign-out, visitor screening questionnaires and record keeping while the interface is customisable to reinforce company branding.

Free trial model with the aim of adding 120-150 new customers each month

Sold under a 14-day free trial model and thereafter competitively priced, SwipedOn is instantly deployable and, by using QR code functionality, it requires no hardware (although an iPad app can be used). This means clients can be up and running as soon as they have downloaded the software. While the platform is positioned as an entry-level solution, its functionality and pricing model is agnostic of client scale with customers (more than 4,700 worldwide across 6,700 locations, 31 January 2021) ranging from start-ups to multi-site blue-chip companies. Typically, it aims to convert 25-30% of new trials, adding between 100-to-150 new customers each month.

Figure 12: SwipedOn – Visitor Management solution



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Source: Company reports

Employee numbers and locations the key variables on pricing plans

SwipedOn offers a core level of functionality, including a range of COVID-19 specific features, to all its users irrespective of service level with pricing plans essentially pivoting on number of employees and locations. For example, the Starter plan is only available for companies with up to 25 employees, with a step-up to Business required for companies with up to 250 employees and/or seeking multiple connected iPads. If a client requires MS Active Directory integration (accurate, automatic synchronisation with internal employee data) or multi-location functionality such as employee roaming, multi-location sync or reporting then the Enterprise plan must be taken.

Figure 13: Functionality by pricing plan

	Starter	Business	Enterprise
Locations	1	1	Multiple
Number of connected iPads	1	Multiple	Multiple
Visitors	Unlimited	Unlimited	Unlimited
Employees (hosts)	Up to 25	Up to 250	Unlimited
Location based pricing	-	-	✓
24-hour customer support, 5 days a week	✓	✓	✓
Zero setup fees	✓	✓	✓
Dedicated account manager	-	-	✓
SwipedOn Pocket employee sign in app	✓	✓	✓
Contactless visitor & employee sign in	✓	✓	✓
Visitor screening questions & approval alerts	✓	✓	✓
Static QR code for visitor sign in	✓	✓	✓
Employee sign in questions	✓	✓	✓
Customizable design	✓	✓	✓
Visitor sign in/out	✓	✓	✓
Instant notifications	✓	✓	✓
Photo capture	✓	✓	✓
ID badge printing	✓	✓	✓
Signed digital agreements	✓	✓	✓
Pre-registration of guests	✓	✓	✓
Customer visitor fields and categories	✓	✓	✓
Export movement reports	✓	✓	✓
Evacuation assist	✓	✓	✓
Employee in-out	✓	✓	✓
Data privacy tools	✓	✓	✓
Roaming employees	-	-	✓
Active Directory integration	-	-	✓
Multi-location sync	-	-	✓
Multi-location reporting	-	-	✓

Source: Company reports

Price increases in 2020 and 2021

SwipedOn is priced transparently in localised currencies that reflect its key markets (GBP, AUD, CAD, EUR, NZD and USD) with monthly or annual subscriptions (offered at 15-20% discount depending on the chosen level) which are typically payable via debit or credit card. The group has implemented two price increases for new customers across all price points (around 15% in February 2020, and a strong double-digit rise in February 2021) with the weight of the rises coming in the higher service level plans (Business and Enterprise). Despite the price rises we note that SwipedOn remains competitively priced in the market, particularly on Enterprise plans.

Figure 14: UK prices after 1 February 2021 rise (all for one location)

Source: Company reports

Add-on modules bring additional revenue opportunity

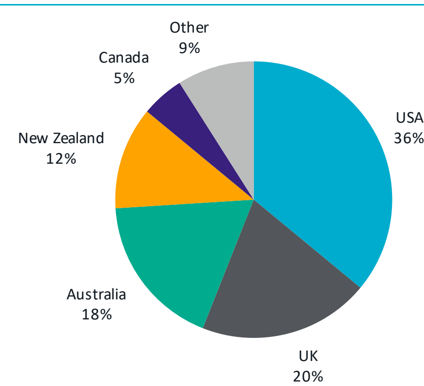
Functionality is a key part of the SwipedOn offering and new modules have been developed at low cost to bring additional functionality and offer an incremental revenue opportunity from new and existing customers. At present, these include:

- SwipedOn Desks – announced in December 2020 using Space Connect technology and can be deployed through QR codes. Allows customers to manage desk space for a flexible and COVID-safe workspace environment. Priced at £4 per desk per month, this could provide a significant new business/upsell opportunity worth £320pm or £3,840 per year for a customer that takes an 80-desk solution.
- Deliveries – Packages and parcels can be signed in via label scanning triggering an instant notification (email/SMS) to the recipient. Priced at £22 pm (monthly) or £19 pm (annual) per location.
- Unlimited SMS notifications – To inform employees when a visitor or delivery arrives. Cost is currently £20 pm (monthly) or £15 pm (annual) per location.
- Catering – Customisable refreshment options such as tea/coffee to make visitors feel welcome upon arrival. £15 pm (monthly) or £12 pm (annual) per location.

Strong customer and location momentum since acquisition

SwipedOn has grown strongly since its acquisition in October – 1,354 new customers and 2,105 locations were added in FY21 bringing the installed base up to 4,735 customers and 6,741 locations across 73 countries. Most customers are based in North America, UK and Australia/New Zealand with marketing spend concentrated on these markets. A Dutch-language version of the platform was launched in 2019 in response to strong demand in the Netherlands while geographies such as South Korea and Japan are likely to be targeted with localised product in the near term.

Figure 15: Customer spread by geography



Source: Company reports

Encouraging progress across KPIs

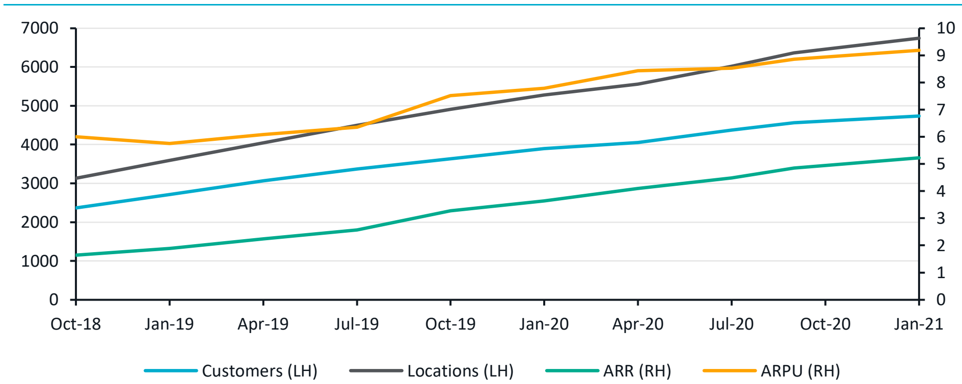
SwipedOn has demonstrated strong growth in its SaaS-based KPIs. Over the last two years ARR has increased by c.177% to NZ$5.2m (from NZ$1.9m) with customer numbers rising by 75% and ARPU expanding by 59%, driven primarily by the new pricing model and added functionality. While customer growth has been important, a greater emphasis has been placed on increasing the number of locations per customer to extract greater value. To this point, we note while locations have grown by 88% over the last two years, locations per customer has increased to 1.42 (Jan-21) from 1.32 (Jan-19). This is important as under the new pricing structure Enterprise plans as quoted in GBP are worth 14x the value of a starter plan (for a five location package). While revenue churn increased to 7.3% in 2021 (c.13% of customers) we note that attrition has primarily come from lower value starter plans where customers are less sticky. The group's net promotor score (NPS) of 60+ (which demonstrates excellent levels of customer satisfaction) tends to act as a lead indicator of customer churn, and we would therefore expect this higher level of attrition to normalise through 2021/22. Life-time value (LTV) to customer acquisition cost (CAC) has ranged from 5x-7x, demonstrating the potential value created from each customer.

Figure 16: KPIs over time

	Jan-19	Jan-20	Jan-21
Customers	2,713	3,896	4,735
Growth y/y		*44%*	*22%*
Locations	3,590	5,280	6,741
Growth y/y		*47%*	*28%*
Locations per customer	1.32	1.36	1.42
Growth y/y		*2%*	*5%*
ARR (NZ$m)	$1.89m	$3.64m	$5.22m
Growth y/y		*93%*	*43%*
ARPU (NZ$)	$57.60	$77.85	$91.90
Growth y/y		*35%*	*18%*
Revenue churn (%)	5.32%	4.25%	7.30%
CAV (NZ$)	$1,207	$1,144	
LTV (NZ$)	$6,701	$8,373	
LTV/CAC	5.6x	7.3x	

Source: Company reports

Figure 17: Customers are taking more locations to help drive ARR



Source: Company reports

Cash flow positive with a simple strategy to drive ARPU and profitability

Management states that SwipedOn is now cash flow positive (since Q1 2020) and would be profitable today if it cut back on all marketing spend. Having implemented a price rise for new customers in February 2021, the growth strategy is focussed on:

- Strategic price rises for existing customers as they renew and up-sell to higher value plans (40% of revenue generated from 15% of customer base).
- Targeting centralised deals with higher value mid-market customers where there is potential for revenue expansion through cross-sell and multiple location sales. For example, DHL has mandated SwipedOn for all its locations in the US, while a 49-location deal has been signed with a new Canadian client (March 2021).
- Cross-sell of rebranded Space Connect desk and meeting room modules to SwipedOn customers. We believe desks offers a material near-term opportunity to increase ARPU per customer as customers seek to implement and manage a COVID-safe return to the workplace. For example, £0.85m of incremental ARR could be generated if just 5% of the customer base takes a 75-desk solution.
- Selling more Add-On modules such as deliveries and SMS notifications.
- Ongoing development of enhanced functionality and creation of new localised versions that target geographies where a customer base already exists, for example South Korea and Japan. Localisation requires three to four months of software development with the cost of testing a market relatively low at c.£150k.
- Developing partnership agreements in focus geographies. Around 0.8% of deals currently come through partners (c.40 partners).

Figure 18: A solution for 75 desks sold to 5% of customers adds £0.85m in ARR

Desks added	ARPU (pm)	ARR created from 5% customers
50	£200	£568,200
75	£300	£852,300
100	£400	£1,136,400

Source: Canaccord Genuity estimates

Enterprise up-sell a significant driver of ARPU growth

As an enabler of up-sell, SwipedOn has limited the functionality of its entry level Starter plan to 25 employees, with up to 250 employees for Business but just one location. A key driver for up-sell to Enterprise is Microsoft Active Directory integration (which dynamically synchronises employee lists with SwipedOn) alongside multi-location configuration and synchronisation. The goal is to increase the weight of customers taking higher priced Enterprise plans and drive ARPU growth through a stickier, less price sensitive customer base that requires a more advanced feature set. As an illustration of the value created from an Enterprise plan (based on GBP annual pricing), a customer on a three-location deal is worth 8.4x a Starter customer.

Figure 19: Up-sell to Enterprise to drive value creation

Plan	Locations	Current mix	Target mix	ARPU (pm)	Value vs Starter
Starter	1 location	60%	45%	£39	-
Business	1 location	30%	40%	£75	1.9x
	1 location			£109	2.8x
	2 locations			£218	5.6x
Enterprise	3 locations	10%	15%	£327	8.4x
	4 locations			£436	11.2x
	5 locations			£545	14.0x

Source: Company reports, Canaccord Genuity estimates

Space Connect

Strategically important acquisition

Space Connect is an early stage workspace management platform that offers 100% SaaS software solutions for the mid-market at high margin. Founded in Australia in 2015 by Matt Pope (who has relocated to the UK to run the business as MD), Space Connect provides the group with two important strategic advantages.

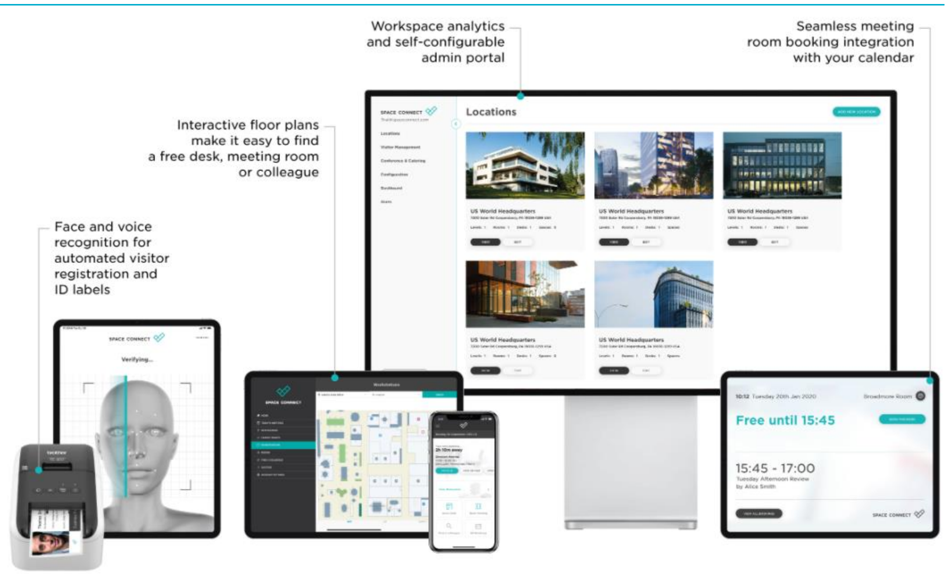
White-label software partnerships offering licensing and SaaS opportunity

The first is that Space Connect has entered into a white label software partnership with Evoko, a leading global manufacturer and distributor of premium meeting room panels, to power their next-generation panel (Naso). Launched to market in December 2020, the deal with Evoko allows Space Connect to recognise licensing revenue for each panel sold while participating in any SaaS-based revenue generated from the panel. As well offering a significant growth opportunity (which we explore later), we believe the Evoko partnership provides proof of concept that could lead to further white-label deals with other hardware manufacturers.

Accelerates mid-market growth strategy

The second is that Space Connect allows the group to target an agile mid-market growth strategy by offering cost effective solutions that can be deployed within days versus the long sales cycles, complex deployments and high capital requirements of the (now disposed) Enterprise division. As a cloud-based platform, Space Connect can be up and running the same day if it is self-deployed or within weeks if a hardware integration is required. The platform is iOS, Android and Windows supported and offers out-of-the-box software integration with Microsoft Office 365, Microsoft Exchange, Google G-Suite, Teams and Zoom. It has three fully integrated modules covering desk management, room management and visitor management with a transparent pricing structure and no minimum term contract.

Figure 20: A fully configurable, scalable workspace management solution



Source: Company reports, Canaccord Genuity estimates

COVID-safe, flexible workspace solutions

Space Connect supports a safe transition back to the workplace through flexible solutions which help to manage visitor screening, building capacity, social distancing and contact tracing. Functionality for each module is uniform for all users, regardless of solution scale:

- Visitor management – Powered by AI, Space Connect can recognise visitor faces and voices for a quick and contactless check-in/out solution. Alternatively, QR codes can be used. Integration with the meeting rooms module also allows for pre-registration of guests to provide a screening functionality while users receive automated notifications including via SMS, email and Slack when their visitors arrive. Visitor management products include customisable branding, photo capture and badge printing along with digital agreements and document signing/storage which comply with GDPR.

- Meeting room management – Users are able to view real-time meeting room and event information so they can reserve or book any meeting space and manage capacity, book catering and invite attendees via desktop or mobile app. Outside attendees can be invited, identified and pre-registered with facial recognition or QR codes for automated check-in. If hardware solutions are specified, Space Connect will integrate with touch screen room panels and tablets to show real-time room booking details and status while users can check-in on the go. In addition, meeting room check-in/out can be automated by integrating the software with soft sensors and presence detection solutions. These can also be used to automate video conferencing when meeting attendees arrive. Alerts inform facilities teams when a room has been used and requires cleaning, while indicators on meeting room panels and the mobile app provide a real-time indicator to show users if a room is safe to use and can be managed by facility teams via an easily configurable admin portal.
- Desk management – Allows facilities teams to manage desks according to social distancing and flexible working requirements. Users can instantly locate safe, available desks and book them from their mobile phone with contactless soft sensor technology, docking stations or QR code/mobile app used to check-in. Features also include location mapping and interactive floor maps, while the 'Locate Me' feature helps users quickly find the exact location of their colleagues. In addition, alerts can be activated to inform facilities when a user has checked out of a desk space so that it can be cleaned, or to alert users that they must clean the desk using supplied materials when checking out. This allows a desk to be marked as safe to use once again.
- Data and analytics – Space Connect provides its customers with customisable reporting dashboards which provide deep insights into the behaviour and space demand across desks, meeting rooms, informal spaces and visitor areas to maintain a COVID-19 safe workspace. The analytics are real time and predictive, allowing clients to make informed decisions in order to improve the safety and efficiency of a workspace and support space rationalisation programmes.

Space Connect has a number of mid-market/enterprise-grade customers in Australia, of which the largest is NBN with a 2,500 desk, 100 meeting room solution across multiple locations. Space Connect has also begun to add new customers in the UK and South East Asia through reseller partnerships (Softcat and ESCO). A recent example is the September 2020 deployment by City Fibre, the UK's largest alternative provider of wholesale fibre network infrastructure, that was signed by Softcat to provide a 580-desk solution across 35 locations with the initial 400-desk, 25 location rollout achieved within three weeks. City Fibre is also adding room booking and visitor management functionality in key locations. The deployment has enabled a COVID-safe opening of City Fibre locations with analytics providing desk utilisation and occupancy trends to help make data-driven decisions when planning new locations.

Figure 21: Example of Space Connect customers

Source: Company reports

The sweet spot for Space Connect is a customer with around 1,500 employees that is looking to deploy a solution for 200-800 desks. Based on the pricing below, a solution for 500 desks, 20 meeting rooms and two receptions would be worth £28,320 in ARR. We understand that a typical Softcat referral drives a net ARR to Space Connect of around £8,500, although we estimate the City Fibre deal (with 580 desks at £4 pm each) is worth a minimum of £27,840 in ARR.

Figure 22: Space Connect pricing plan

Meeting Management	Desk Management	Visitor Management
£15	£4	£30
Per Room, Per Month. (Ex VAT) No Min Term Contract	Per Desk, Per Month. (Ex VAT) No Min Term Contract	Per Reception, Per Month. (Ex VAT) No Min Term Contract
Room Features	Desk Features	Reception Feature
Meeting Room Display App	Passive desk check-in/out	Facial recognition
Calendar integration + Outlook	Automated desk check-in/out	Badge printing
Catering Requests	Docking station check-in/out	Multiple visitor types
Auto-Cancellation	Fixed and hot desk booking	Visitor pre-registration
Event attendee invites	User defined zones/neighbourhood	Visitor notification by email
Visitor management integration	Desk resource management	Photo capture and badge printing
Conference call integration	3D floor planning*	Custom branding
Automated meeting check-in	Interactive floor planning*	Unlimited visitors
Invite external visitors		
Room panel integration		
3D floor planning*		
Interactive floor planning*		

Source: Company reports

Targeting high margin growth through an indirect sales model

The go-to-market strategy for Space Connect is focussed on building an indirect sales model. This offers a compelling opportunity to build meaningful near-term sales momentum with no fixed costs by engaging with partners, distributors, resellers and referral partners across different geographies. We note:

- A distribution agreement with Softcat, an IT infrastructure solutions provider with a strong distribution network across the UK and Ireland, which was announced in August 2020. This is the first significant resale agreement for Space Connect platform outside of the AV hardware channel which has already secured 19 engagements with nine deals signed worth a net £8,500 ARR each to Space Connect. This includes City Fibre on a minimum ARR of £27,840.
- A reseller agreement with ESCO Pte Ltd, a major AV integrator in the Far East, Announced in September 2020, the first joint deal (with an international pharmaceutical business operating out of Singapore) is expected to close shortly.
- A strong long-term relationship with Crestron (a global leader in workplace smart technologies and AV solutions) and other hardware manufacturers including IAdea, Polycom, Embrava, BlueCats, Kontakt.io and Evoko.
- In discussions with several prospective resellers and partners with a primary focus on the UK, US, Australia and Benelux.
- The opportunity to partner with commercial property companies to be specified as part of the smart office build. In addition, there is an opportunity to partner with facility management software and hardware providers.

The Evoko deal

Evoko software partnership is expected to be a significant driver of growth

The software partnership with Evoko represents a material opportunity for Space Connect to quickly build near-term revenue (licence and SaaS). The relationship with Evoko was formed through Anders & Kern and strengthened by licensing a SMRT Enterprise calendar module used in Evoko's Liso panel which has a global installed base of 300k units across a blue-chip customer base. In December 2020, Evoko launched its next generation Naso meeting room panel, its first new panel in five years. Powered by Space Connect software, this enables a strategic opportunity for Evoko to build recurring subscription-based revenues alongside its hardware sales by providing customers with an easy-to-deploy, flexible workplace management solution.

Figure 23: Evoko Naso panel, powered by Space Connect software

Source: Evoko

Deal could generate ARR of €7,104 per customer for Space Connect

Under the terms of the Evoko agreement, Space Connect will receive a one-off licence fee of €70 for every "Naso" panel sold. It will also receive a €36 SaaS service fee per annum and will participate in the SaaS revenue generated from its meeting room, desk and visitor management solutions. Based on this structure, a typical Evoko customer (14 meeting rooms, 300 employees) could generate a total contract value to Space Connect of €21,312 over a three-year period, equal to an ARR of €7,104.

Figure 24: Illustration of value to Space Connect for typical Evoko customer

Panel one off income	€ 70	
Panel SaaS income	€ 1,512	Assumes €36 per panel x 3 years x 14 panels
Software module SaaS income	€ 19,800	Assumes €550 x 36 months
Three-year TCV to Space Connect	€ 21,312	
MRR to Space Connect	€ 592	
ARR to Space Connect	€ 7,104	

Source: Company reports

Evoko expects to sell 30k units a year

Given the installation base of its Liso panel, Evoko expects to sell around 30k Naso panels a year through its global network of 80 distributors and 100 resellers, although we note SmartSpace management is understandably taking a more cautious view on unit uptake. As an incentive to sell SaaS subscriptions (Rose, Pepper or Guava), each distributor and reseller is being incentivised through participation in any SaaS revenue that they generate. Our forecasts, which we explore in further detail later in this note, in our opinion assume conservative cumulative unit sales of around 27k and 30% SaaS participation by FYJan24E which could generate ARR of £3.4m.

Figure 25: Meeting Rooms (Rose), Desks (Pepper) and Visitor Management (Guava) using Space Connect SaaS

Source: Company report

While the recent trading update (11 March 2021) stated that the Evoko Naso is now shipping and that SmartSpace has recognised its first revenues from the partnership, the risk is that this remains an early stage opportunity which is highly geared to a successful launch and subsequent build of SaaS uptake.

Becoming cash flow generative

Eight new deals a month required for cash flow breakeven

While Space Connect needs to demonstrate momentum with regard to new business execution, we believe the momentum that is building through resellers such as Softcat is encouraging and points to an ability to build ARR relatively quickly with low cost of sale. Management states that Space Connect needs to consistently sign eight new Space Connect deals a month (assuming an average ARR of £8,500) while Evoko needs to ship 250 Naso panels per month to become cash flow positive.

Anders & Kern

Anders & Kern is a UK distributor and integrator of AV solutions including digital signage, meeting room booking systems, technical services and projection screens. It is based in Mildenhall, Suffolk, UK (which is now also the group HQ), with 14 employees. In the year to 31 January 2020, Anders & Kern generated revenue of £3.5m with gross margin of 23% achieved.

Moving up the value chain by becoming a specialist supplier of smart workplace tech

Recently, Anders & Kern has secured several new distribution agreements which allow the business to pivot from an AV distributor/integrator to become a specialist supplier of smart workplace technologies. This includes:

- Space management solutions: XY sense, Vergesense
- Desk management sensors: IAdea, Kontakt.io
- Meeting room panels: Evoko, IAdea, Steelcase
- Workplace employee temperature solutions: Allsee

Exclusive distribution agreements

In particular, we note the following agreements:

- Secured the rights to distribute IAdea (a Taiwanese manufacturer of meeting room panels and desk presence sensors) products in the UK. IAdea is also a hardware partner of Space Connect.
- Exclusive EMEA distribution rights for XY Sense, which includes an implementation for one of Space Connect's largest Australian customers.

- Been granted exclusive UK distribution rights for Vergesense, a US sensor-based space utilisation tool that is battery powered and can easily be self-installed by customers without the need for extensive IT infrastructure.

Complements Space Connect, with potential to create strategic partnerships

While SmartSpace is focused on building out its SaaS offering, it believes there is strategic rationale for keeping Anders & Kern as part of the group. The first is that it provides an out-of-the-box network of 200 UK resellers which can be utilised as an indirect partner channel for Space Connect. The second is that it provides a centralised support desk for SwipedOn and Space Connect, allowing the group to provide "chase-the-Sun" customer support for East Coast US and EMEA markets. The third reason is that the business provides opportunities via long-standing relationships to explore strategic partner opportunities for Space Connect. It should be noted that the partnership with Evoko originated from a long-term distribution agreement it held with Anders & Kern.

Growth strategy

Looking forward, the growth strategy for Anders & Kern is built around:

- Continuing to build the product range with an emphasis on smart workplace technology.
- Focus on hardware products with SaaS offerings including Evoko Naso.
- Prioritise higher margin deals and increase software sales including Space Connect where A&K is a channel partner.
- Build annuity revenue via software and support contracts.
- Build essential business support functions covering:
  - Space Connect – worldwide sales, dealer and technical support.
  - SwipedOn – UK, Europe and East Coast US sales and customer support.

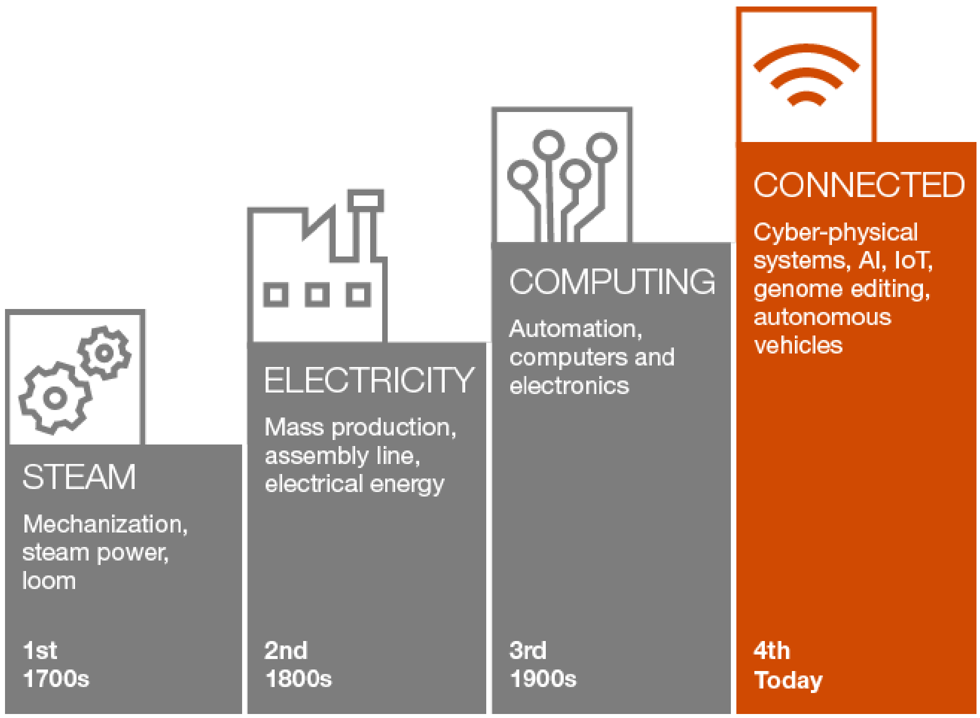
Emergence of the "connected" workplace

Workspaces increasingly flexible and digitally led

Creating ubiquitous digital environments to change how the workplace is used

The rapid adoption of digital technology has changed the modern workplace by transforming how businesses operate, shaping the jobs we undertake and where we do them. While the introduction and subsequent evolution of computers has enabled unimaginable shifts in workplace productivity to help define the blueprint for the "traditional" office, the latest wave of disruptive technology is creating ubiquitous digital environments that unify physical and virtual worlds, allowing companies to change and adapt how they think about, and use, their workspaces.

Figure 26: Technology has transformed the workplace over time



Source: PWC - 4IReady

Data and smart technologies enabling COVID safe, flexible working

This reflects a combination of information and smart devices (the Internet of Things) to create hyper-connected and data-saturated environments. Although these technologies are not new, the proliferation of cloud computing, super-fast networks (Wi-Fi, 4G, 5G), AI and intelligent sensors has allowed adoption of more flexible and mobile working practices to accelerate.

HSBC reducing global office footprint by 40% while Standard Chartered have adopted permanent flexible working

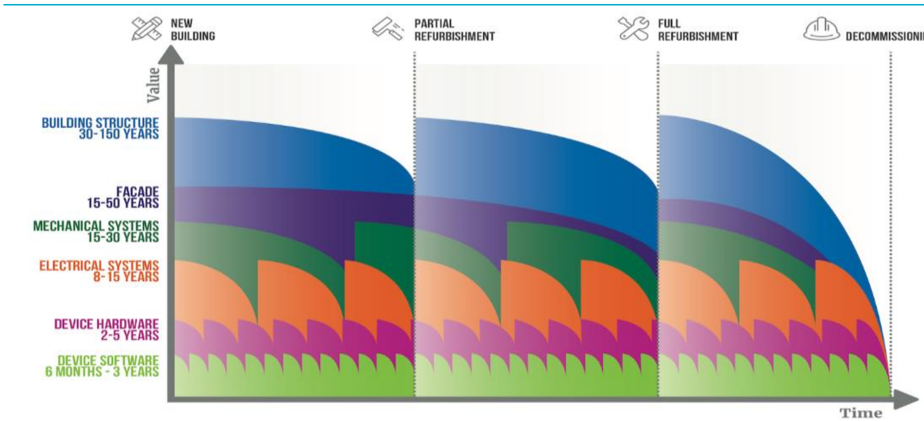
With 2020 seeing most office-based employees around the world begin to work from home for the first time, the idea of spending each working day attached to a fixed desk has quickly become outdated with many expecting a hybrid model to become the new normal moving forward. While the notion of a more flexible workplace pre-COVID was already being adopted by some (JLL observed 56% of office employees worked from alternative company premises at least once a month with 54% working from home), we are now starting to see evidence of corporate decision makers rethinking their workspace strategies. For example, in February 2021, HSBC announced that it will reduce its global office footprint by 40%, while Standard Chartered moved to permanent flexible working in November 2020. In addition, a February 2021 survey by Grant Thornton reports that over a third of UK mid-sized companies (annual revenues of between £15m and £1bn) expect to reduce their office space by 10% to 25% with a further 12% reducing their space by up to half.

It is worth noting however that some companies may adopt a more cautious approach out of lockdown with regards to space rationalisation strategies although each will need to provide a COVID-safe, productive workspace for their employees. For instance a survey of 1,000 businesses by the Institute of Directors shows that while working from home worked for well for many firms and their employees through 2020 (such as those engaged in office-based service industries) it is not suitable for every industry or individual. Therefore, the benefits of the workplace could instead be evolving rather than disappearing and include the forging of a culture within a business and providing an opportunity for personal development and networking that is crucial for career development, particularly among younger employees.

Specialist software and analytics vendors will be key enablers

We believe it is likely that companies will deploy software and smart technology solutions to ensure workspaces provide a safe, agile and productive environment for their employees, delivered through intelligent data-led strategies to maximise ROI. This would allow companies to monitor when desks, meeting rooms or communal areas are utilised and by whom in real-time. In our opinion, it is likely that specialist software vendors will be key enablers, especially in a macro environment when businesses are likely to be cautious about making significant capital outlays (hardware technologies may quickly become outdated) and will favour an opex-led approach.

Figure 27: Opex approach of Software/SaaS likely to be in demand



Source: Memoori "Future Proofing Smart Commercial Buildings" (Q3 2019)

Workspace management software – already a high-growth market

Fragmented market, different specialisms

Workspace management software is a fast-growing vertical that historically has been placed within the broader Integrated Workplace Management Software (IWMS) market. Targeting corporate real estate and facilities management teams, the market is fragmented and includes several early stage vendors that typically specialise in desk management, meeting room management, building navigation and/or visitor management. More recently, the growth of smart technology has allowed a more integrated offering to evolve.

Space & workplace management software growing at 12% CAGR (Verdantix)

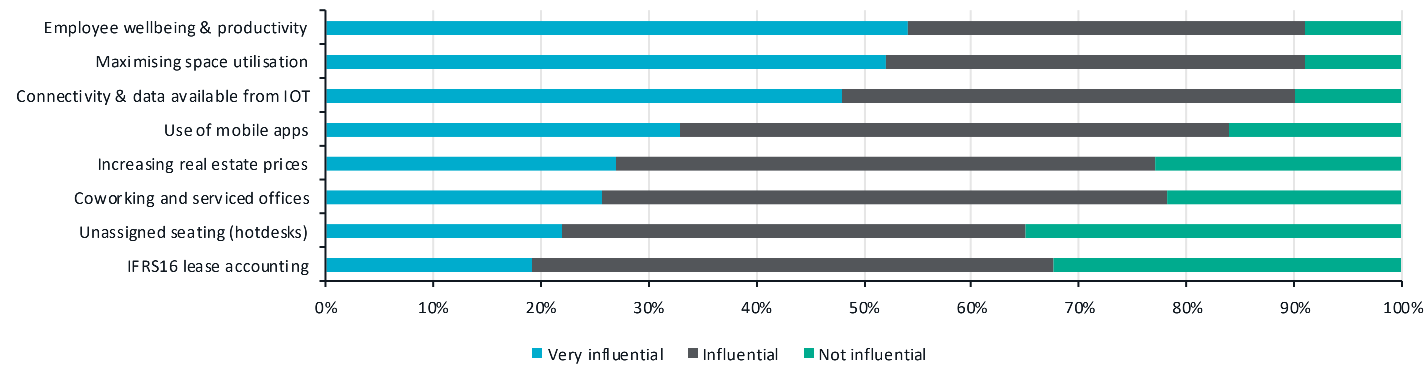
To gauge total addressable market we can reference the independent research of Verdantix in their May 2020 report "Market Size and Forecast: Space and Workplace Management Software 2019-2024". They suggest the global market will grow at 12% CAGR from US$833m in 2020 to surpass US$1.3bn in 2024 with North America and Europe driving 47% and 31% of this spend respectively. APAC (remaining 22%) is seen as the fastest growing geography at 15% CAGR. Solutions to help manage space rationalisation programmes, building occupancy and social distancing, alongside visitor management systems that can support contact tracing are viewed as the primary drivers of spend as companies seek to digitise and automate more processes within their office management functions.

Smart solutions were already shaping real estate strategies

Well-being, productivity and space utilisation top corporate objectives

In their "Global Corporate Survey 2019: Smart Building Technology Budgets, Priorities and Preferences", Verdantix noted several drivers for the adoption of smart workspace solutions that were already in motion before the COVID-19 pandemic, many of which have likely increased in strategic importance in recent months. In particular, the survey highlighted that corporate buyers were prioritising digital technology investments to improve employee well-being and productivity, alongside solutions to maximise workspace utilisation and drive data analytics from connected devices. Apps and solutions accessible via mobile were also a key consideration. This suggests that SmartSpace's solutions look well aligned to market demand.

Figure 28: Demand drivers shaping corporate real estate strategies over the next three years



Source: Verdantix Global Corporate Survey 2019: Smart Building technology Budgets, Priorities & Preferences

Lease accounting

IFRS 16 to shape strategies on balance sheet efficiency and cost savings

At a corporate level, IFRS 16 (which brings operating leases onto the balance sheet) is only likely to increase the focus on these themes, helping to shape strategies on balance sheet efficiency and whether real estate cost savings can be made. As such, demand for space management software and occupancy analytics is likely to remain high as companies seek to optimise property portfolios through increasingly flexible and agile solutions.

GDPR considerations

Complying with privacy and data security procedures

It is also worth briefly considering the implications of GDPR with regard to smart technology in the workplace - a consideration that takes on extra importance given the implementation of contact tracing policies. Given the huge amount of data generated and analysed, it will become increasingly important to comply with privacy and data security procedures, ensuring that data is anonymised where possible while the occupants of buildings and its visitors will need to be told what is happening to their personal data. With traditional "paper" visitor management solutions (particularly in multi-tenanted locations) failing to comply with various regulations regarding the storage of personal data, GDPR may support the case for employing specialist visitor management software solutions.

The competitive landscape

Fragmented market

Memoori (an independent smart buildings research house) suggests 221 companies, of which many are start-ups, provide occupancy analytics or location-based services to the office buildings sector. Of these, 41 firms specialise in workspace management with the majority offering single-point, enterprise-grade solutions which include desk management, meeting room management, building navigation and space utilisation. Meanwhile, a Capterra search for "Visitor Management Software" returns 171 platform solutions, with the same search on G2 returning 172 providers. In aggregate, this suggests that space and workplace management is a competitive market with low barriers to entry and subject to fast moving technological change.

Multiple differentiators

We believe SMRT offers several market differentiators which include:

- Complementary platforms targeting SMEs and the mid-market with significant opportunity to cross-sell and up-sell and drive scale through a hybrid offering.
- Platforms built on modern cloud-based architectures with cutting-edge technology (accessed via Space Connect) including AI, facial recognition, advanced analytics and UX configuration tools.
- Hardware agnostic solutions that can be quickly self-deployed.
- Cost-effective solutions with strong customer support. NPS is 60+.
- Established partnerships with leading global AV sellers offers product creditability.

Self-serve visitor management platforms

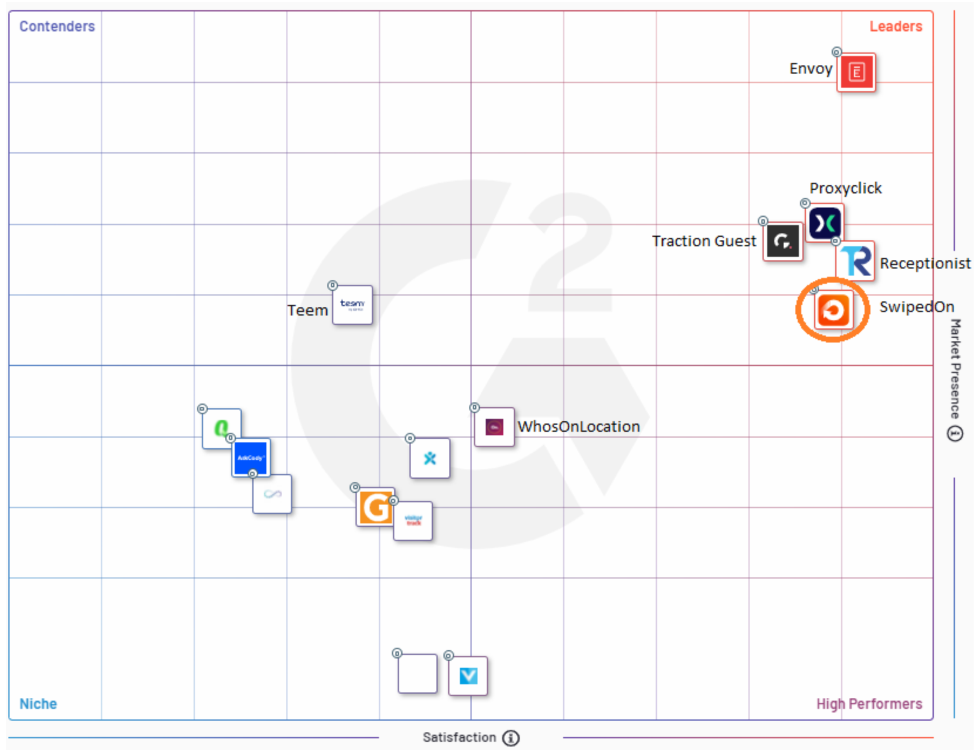
SwipedOn - strong presence in SME

SwipedOn competes against several visitor management peers in the self-serve space – we highlight the main players overleaf. With a focus on SME and mid-market solutions, SwipedOn was recognised by G2 Grid in January 2021 (based on customer feedback) as the leading visitor management software solution for the mid-market space (Winter 2021). While some competitors have greater market presence in terms of customer numbers, we believe this recognition as the market leading platform means SwipedOn is well placed to grow its customer base and take share.

Figure 29: SwipedOn named Mid-Market leader (Winter 2021) by G2 in January

Source: G2 Grid

Figure 30: SwipedOn (circled) is rated as an overall market leader



Source: G2 Grid Scoring

We summarise the main competitors to SwipedOn (as per the G2 Grid rankings) below. Each (alongside SwipedOn) has been named a G2 Leader for Spring 2021:

- *Envoy* – Founded in 2013, P/E owned and based in San Francisco, US. Envoy offers digital visitor management and delivery solutions through a freemium driven model with standard plans starting at US$119p/m per location with premium plans priced at US$349 p/m per location. It is believed to have over 10,000 customers worldwide (2x SwipedOn) and in 2018 was valued at around US$200m following a US$43m funding investment.
- *ProxyClick* – Launched in 2010 and based in Belgium, ProxyClick is owned by its Founders and VC. It has 2,000 customers across 7,000 locations and is present in more than 100 countries. ProxyClick raised US$15m of funding in January 2020. Pricing is driven by the number of employees with Enterprise (100+ employees) starting at US$249p/m per location.
- *The Receptionist* – Started in 2015, based in Colorado, US, and privately owned. While we lack specific numbers, the platform is said to be used by thousands of customers worldwide. Its plans are also driven by the number of employees with Enterprise (100+ employees) starting at US$249p/m per location.
- *Traction Guest* – Founded in 2015, based in Canada and privately owned. It says its platform is used in over 2,000 locations globally with entry level packages starting at US$95 p/m per device (unlimited visitors and hosts). Raised US$13m of investment funding in June 2019, led by Bessemer.
- *WhosOnLocation* – Based in New Zealand with 1,600 customers across 5,000 locations. Bought by MRI Software in March 2021 for an undisclosed amount. We understand the business does around NZ$4m in SaaS and was being offered for around 10x ARR.

- *iLobby* – Based in the US and whilst it does not feature on the G2 Grid its customers are said to be focused in the Enterprise market including major banks, international airports, government and Fortune 500 companies. Raised US$100m in funding (January 2021) from Insight Partners.
- *Sine* – Founded in Australia, Sine provides self-service visitor management, workplace and supply chain solutions with a number of Enteprise grade clients. Bought by Honeywell in December 2020 for an undisclosed sum.

Mid-market solutions

A busy segment in terms of M&A and growth investment

The Space Connect platform primarily competes with other integrated platforms that provide solutions to manage meeting rooms, desks and visitors. While it enjoys advanced functionality, it is still very much an early stage business in terms of customer deployment although a strategy to build indirect sales channels is making good progress. We note that the mid-market segment has been busy in terms of M&A and raising growth capital over the last 12-24 months. Key competitors include:

- *Robin* – Founded in 2014, privately owned and based in Boston with more than 1,500 customers worldwide. It is promoted as "an intelligent search engine for your office and everything in it", allowing users to book and manage meeting rooms and desks while it integrates with other software and hardware partners. Raised US$20m of investment funding in May 2019 with the post-money valuation estimated to be around US$75m.
- *Teem* – Founded in 2012 and based in Western US. Teem was acquired by WeWork for around US$100m in September 2018 (2,800 customers), before being sold to iOFFICE for an undisclosed amount in January 2020. It provides mid-market solutions for space scheduling and management, workplace analytics, building and campus wayfinding, and visitor management.
- *Condeco* – UK based and founded in 2005, Condeco is a market leader in meeting room scheduling and workspace reservation solutions for mid-market and enterprise grade customers. It has 1,200 global customers across 30 countries. Raised US$30m of investment funding in 2016 having reached US$12m ARR (at a reported US$100m valuation) to fund organic growth opportunities. In May 2019, CEO Paul Statham confirmed the business was doing US$4m in total MRR with US$2.5m in MRR coming solely from SaaS with growth of 30% y/y.
- *Cloudbooking* – A London-based business providing cloud-based room, desk and visitor booking software that has quickly established itself as a leading solution since a relaunch in 2017. Recently secured growth funding from Alternative SME credit specialist Caple to access a multi-million pound unsecured amount to meet increased customer demand following COVID-19 pandemic. It says it has seen a 300% increase in new business demand.
- *FM:Systems* – Based in North Carolina, US, FM:Systems offers integrated workspace software solutions and real-estate analytics principally to enterprise customers. In October 2019, it bought Asure Software, a workspace solutions provider for SMEs, in a transaction valued at US$120m. In the 10 years prior to its sale, Asure Software had grown its workspace management business from US$5m to c.US$28m in annual sales, indicating a take-out multiple of 4.3x historical sales.
- *Archibus* – An integrated workplace management system platform with customers in more than 190 countries. Merged with Serraview, an Australian founded workspace management platform, in December 2018 which is focused on optimising space and improving the employee experience in the mid-market space. Archibus acquired SpaceIQ in May 2020, a business founded in 2016 (and acquired by WeWork in July 2019 for an undisclosed amount) to accelerate its ambitions in the mid-market.

Financials

Historical performance

P&L reflects early stage SaaS pivot

Expecting clean forward P&L following SaaS refocus

We believe the historical financial performance of SmartSpace is largely irrelevant given the restructuring of the business and the recent divestment of the Enterprise division. The business is now refocused around its growing SaaS offering (SwipedOn and Space Connect) while its distribution business (Anders & Kern) is the only surviving division from the legacy business. The cost base has been realigned to reflect the continuing business and exceptional charges relating to the transformation of the business have been recognised. As a result, we expect a clean P&L moving forwards.

50% recurring revenues at improved gross margin expected for FYJan21E

The focus therefore is on the growth of the recurring revenue base (which was £1.5m in FYJan20, up from £0.4m in FYJan19) as a growing percentage of group revenue and a driver of margin and principally reflects the growth of SwipedOn. It is also worth noting that Anders & Kern had a strong year in 2020 as it benefited from zero margin work that flowed from the now divested Enterprise division. Continued progress in building recurring revenue can be seen in the recent trading update (11 March 2021) when SmartSpace announced that it expects FYJan21E revenues to be approximately £4.6m with SaaS revenues of £2.3m (+73% y/y) with ARR up 60% y/y to £2.9m. As a result, recurring revenue at FY21E will likely represent around 50% of group revenues (up from 45% at H1'21) while we expect gross margin to reflect the growth of SaaS in the mix (as per the interims when there was a 700bps y/y improvement).

As a result of losses through 2019 and 2020, the group paid no tax, but has recognised credits, principally relating to deferred tax assets (2020) and liabilities (2019).

Strong balance sheet to support growth

£4.1m net cash at 31 January 2021

At 31 July 2020 the group had net assets of £17.2m (including £4.5m classified as held for sale). The largest component of the balance sheet is intangible assets (£11m) of which £8.1m relates to goodwill with the remainder mainly internally generated software. While net cash was £1.1m (including a mortgage debt of £0.4m) at 30 September, the recent trading update tells us this has increased to £4.1m at 31 January 2021 which reflects the sale of Enterprise. This ensures the group has significant cash to execute on its growth strategy.

Cash flow

The group was burning cash through 2019/20, reflecting its business transition and investment in its software platforms. SmartSpace raised £6.2m of equity in 2018 and £3.2m in 2020 to fund the acquisitions of SwipedOn and Space Connect respectively.

Forecasts covering (FYJan21E-24E)

Key assumptions

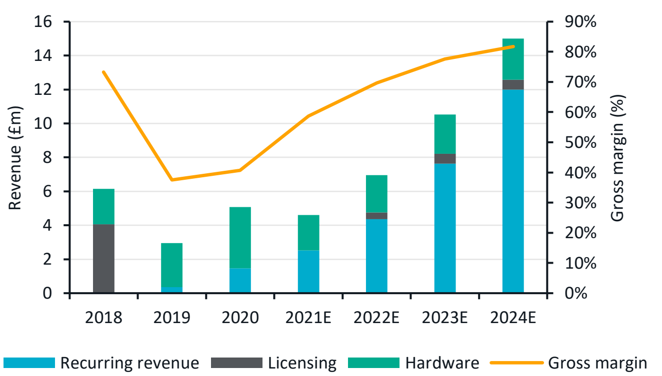
Looking out to 31 January 2024E

We believe that FY21E will be largely in line with the 11 March trading update, while the three years to FY24E seek to capture the expected growth trajectory across both SwipedOn and Space Connect.

- For SwipedOn we have modelled an exit ARR of £2.7m (+73% y/y) for FY21E. This is in line with the recent trading update. Thereafter (conservatively using an NZD/GBP FX rate of 1.99 vs spot of 1.935), we assume ARR increases to £8.3m in FY24E (representing three year CAGR of 45%). Throughout this period, we assume customer growth in line with historical trends and expect ARPU growth to be driven principally through high pricing for new customers (in line with announced price rises) followed by strategic price rises across the existing base alongside upsell. We expect revenue churn to normalise towards 2020 levels by FY24E.

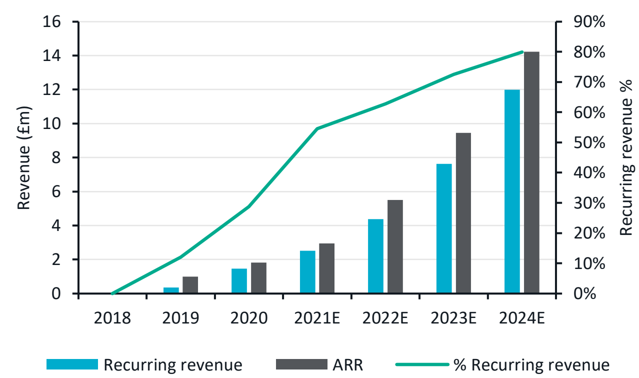
- For Space Connect, we assume ARR of £0.2m for FY21E rising to £5.9m by FY24E. For channel sales, our ARPU assumption is flat at £8,500 p.a. throughout, in line with typical net ARR from Softcat referrals. For Evoko, we assume an installed base of c.27k Naso panels and a 30% uptake in SaaS by FY24E.
- To demonstrate the sensitivity within our Evoko model, an incremental 1,000 units sold p.a. (all else being equal) would increase our licensing revenue by 15%/10%/10% for FY22E/23E/24E, respectively, while ARR would rise by 15%/12%/11%. Resetting to our default assumptions, a 1% improvement in SaaS participation rate would increase ARR by 5%/ 4%/3% for FY22E/23E/24E.
- For Anders & Kern we assume FY21E recurring revenues are flat, while hardware revenues decline by 38% (in line with comments from the trading update). We thereafter assume hardware sales increasing by 5% p.a.
- We assume gross margin from recuring revenues improves from 87% (FY21E) to 92% (FY24E) with licensing at 100%. We expect hardware to rise 200bps to 25% in FY21E (reflecting prior year zero margin sales) and a further 1% p.a. from FY22E-24E. With an accelerating mix of high-margin SaaS, we expect to see group gross margin increase from 59% (FY21E) to 82% (FY24E).

Figure 31: SaaS to drive revenue and margin growth



Source: Company reports, Canaccord Genuity estimates

Figure 32: Recurring revenues build to over 80%



Source: Company reports, Canaccord Genuity estimates

- Our opex costs rise from £5.3m (115% of sales) in FY21E to £8.1m (54% of sales) in FY24E. As a result, we expect EBITDA of £4.6m in FY24E (31% margin).
- We apply a tax rate of 19%.
- We expect working capital inflows throughout our forecasts as deferred income is recognised from annual platform subscriptions.
- We assume capex (principally software development) of £0.9m in FY21E (20% of sales) but falling to around 5.5% of sales by FY24E.
- We assume the group will be cash flow positive from FY21E following a £4.6m inflow from the sale of Enterprise in FY21E with a £0.4m inflow in FY22E in receipt of a refund that relates to R&D tax credits for FY20.
- Our net cash (pre-leases) is £4.1m (FY21E) climbing to £10.8m (FY24E).

The numbers

Figure 33: Income statement

Year to 31 January (£m)	2018	2019	2020	2021E	2022E	2023E	2024E
ARR	**0.0**	**1.0**	**1.8**	**2.9**	**5.5**	**9.5**	**14.2**
y/y growth (%)	-	-	*81%*	*62%*	*87%*	*72%*	*51%*
Recurring	0.0	0.4	1.5	2.5	4.4	7.6	12.0
Licensing	4.1	0.0	0.0	0.0	0.4	0.6	0.6
Hardware	2.1	2.6	3.6	2.1	2.2	2.3	2.4
Revenue	**6.1**	**3.0**	**5.1**	**4.6**	**7.0**	**10.5**	**15.0**
y/y growth (%)	*-85%*	*-52%*	*72%*	*-9%*	*51%*	*51%*	*43%*
Recurring	0.0	0.3	1.2	2.2	3.9	7.0	11.0
Licensing	3.8	0.0	0.0	0.0	0.4	0.6	0.6
Hardware	0.7	0.8	0.8	0.5	0.6	0.6	0.7
Gross profit	**4.5**	**1.1**	**2.1**	**2.7**	**4.8**	**8.2**	**12.3**
Gross margin (%)	*73%*	*38%*	*41%*	*59%*	*70%*	*78%*	*82%*
Operating costs	4.3	2.9	3.7	4.8	5.5	6.9	7.6
Adj. EBITDA	**0.2**	**(1.8)**	**(1.7)**	**(2.1)**	**(0.7)**	**1.3**	**4.6**
EBITDA margin (%)	*3%*	*-59%*	*-33%*	*-46%*	*-10%*	*12%*	*31%*
D&A	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Adj. operating profit	**(0.0)**	**(1.8)**	**(1.8)**	**(2.3)**	**(0.8)**	**1.1**	**4.5**
Operating margin (%)	*0%*	*-61%*	*-35%*	*-49%*	*-12%*	*10%*	*30%*
Net finance costs	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Adj. PBT	**(0.1)**	**(1.9)**	**(2.0)**	**(2.3)**	**(0.9)**	**1.0**	**4.4**
Tax rate (%)	*196%*	*56%*	*20%*	*0%*	*0%*	*19%*	*19%*
Tax	0.3	1.0	0.4	0.0	0.0	(0.2)	(0.8)
Adj. net income - continuing	**0.1**	**(0.8)**	**(1.6)**	**(2.3)**	**(0.9)**	**0.8**	**3.6**
Discontinued	1.9	(1.1)	(5.3)	0.0	0.0	0.0	0.0
Total adj. net income	2.0	(1.9)	(6.9)	(2.3)	(0.9)	0.8	3.6
Adj. EPS - continuing (FD) (p)	**0.6**	**(3.9)**	**(6.7)**	**(7.9)**	**(2.9)**	**2.8**	**12.1**
Growth (%)	*-92%*	*-704%*	*-71%*	*-18%*	*63%*	*197%*	*325%*
Adj. EPS - total (FD) (p)	**10.2**	**(9.2)**	**(29.1)**	**(7.9)**	**(2.9)**	**2.8**	**12.1**
Growth (%)	*16%*	*-190%*	*-216%*	*73%*	*63%*	*197%*	*325%*
DPS (p)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Growth (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Weighted average shares, FD (m)	19.6	21.2	23.7	29.2	29.7	29.8	29.8

Source: Company report, Canaccord Genuity estimates

Figure 34: Cash flow

Year to 31 January (£m)	2018	2019	2020	2021E	2022E	2023E	2024E
EBIT (reported)	(0.6)	(2.0)	(2.4)	(2.6)	(1.1)	0.8	4.2
D&A	0.4	0.1	0.2	0.4	0.4	0.4	0.4
Exceptionals/other	(0.4)	(1.9)	(3.8)	0.0	0.1	0.1	0.1
Change in working capital	(1.6)	0.4	0.0	0.2	1.5	1.5	1.6
Operating cash flow	**(2.3)**	**(3.5)**	**(5.9)**	**(2.0)**	**0.8**	**2.8**	**6.2**
Net Interest	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Tax	(0.1)	0.0	0.1	0.4	0.0	(0.2)	(0.8)
Net capex	(0.4)	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)
Capitalised development	(1.4)	(1.9)	(1.7)	(0.8)	(0.5)	(0.5)	(0.7)
Free cash flow	**(4.3)**	**(5.6)**	**(7.7)**	**(2.5)**	**0.2**	**1.9**	**4.6**
Acquisitions/disposals	(1.2)	12.0	(0.8)	4.6	0.4	0.0	0.0
Share issues, net	6.2	0.0	3.2	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in net cash	**0.4**	**6.4**	**(5.4)**	**1.9**	**0.5**	**1.8**	**4.4**
Net cash/(debt)	**1.2**	**7.6**	**2.2**	**4.1**	**4.6**	**6.4**	**10.8**

Source: Company report, Canaccord Genuity estimates

Figure 35: Balance sheet

Year to 31 January (£m)	2018	2019	2020	2021E	2022E	2023E	2024E
Non-current assets	**18.1**	**14.3**	**12.2**	**12.7**	**13.0**	**13.2**	**13.6**
Intangible assets	16.4	11.3	10.5	11.1	11.3	11.6	12.0
PPE	1.6	0.8	0.7	0.7	0.7	0.7	0.7
ROU assets	-	-	0.2	0.2	0.1	0.1	0.0
Other	0.0	2.3	0.8	0.8	0.8	0.8	0.8
Current assets	**18.3**	**12.8**	**3.7**	**5.6**	**6.2**	**8.1**	**12.6**
Inventories	0.2	0.4	0.3	0.3	0.3	0.3	0.3
Trade & other receivables	13.6	4.4	0.7	0.7	0.8	0.9	1.0
Cash & cash equivalents	4.4	8.1	2.6	4.5	5.0	6.8	11.2
Total assets	**36.3**	**27.1**	**15.9**	**18.3**	**19.1**	**21.2**	**26.2**
Current liabilities	**12.2**	**3.3**	**2.3**	**2.1**	**3.5**	**4.9**	**6.4**
Short-term debt	1.6	0.0	0.4	0.0	0.0	0.0	0.0
Lease liabilities	-	-	0.0	0.0	0.0	0.0	0.0
Trade & other payables	10.6	3.3	1.9	2.1	3.5	4.9	6.4
Non-current liabilities	**1.7**	**0.4**	**0.1**	**0.5**	**0.5**	**0.5**	**0.5**
Long-term debt	1.6	0.4	0.0	0.4	0.4	0.4	0.4
Lease liabilities	-	-	0.1	0.1	0.1	0.1	0.1
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	**13.9**	**3.7**	**2.5**	**2.7**	**4.1**	**5.5**	**7.0**
Net assets held for sale	0.0	0.0	4.4	0.0	0.0	0.0	0.0
Net assets	**22.4**	**23.4**	**17.8**	**15.7**	**15.1**	**15.8**	**19.3**

Source: Company report, Canaccord Genuity estimates

Valuation

EV/Sales analysis suggests 220p

To determine fair value for SmartSpace we use peer group relative analysis based on EV/Sales multiples across a basket of around twenty UK-listed SaaS and software companies that we believe are representative of the sector. We consider EV/Sales an appropriate metric to employ given the early stage nature of the SaaS-based growth story, and we estimate ARR to expand by 69% CAGR over the next three years from £2.9m (at 31 January 2021) to £14.2m (FY24E). We expect the group to be cash flow positive from FY21E, and profitability to build strongly from FY23E.

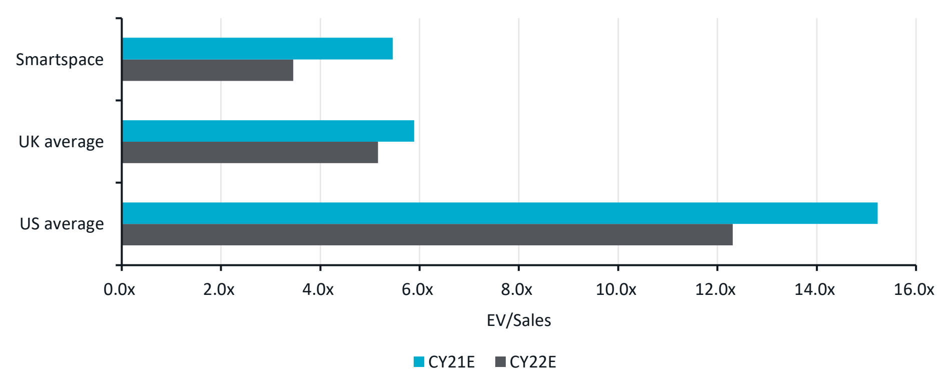
Figure 36: SmartSpace vs UK peer group

	Mkt Cap (£m)	EV/Sales		Sales growth		Gross margin		EBITDA margin	
		CY21E	CY22E	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
SmartSpace	**41**	**5.5x**	**3.5x**	**51%**	**51%**	**69%**	**77%**	**-12%**	**11%**
Peer average	623	5.9x	5.2x	12%	24%	79%	78%	21%	24%
Peer median	157	5.1x	4.6x	9%	11%	75%	75%	20%	24%

Source: Refinitiv, Canaccord Genuity estimates

Adjusting for the 31 January year-end, SmartSpace trades on a calendarised EV/Sales multiple of 5.5x for CY21E falling to 3.5x for CY22E versus a UK peer group average of 5.9x/5.2x respectively. We note that US valuations of SaaS based businesses trade on considerably higher multiples (an average of 15x/12x).

Figure 37: EV/Sales multiples (CY21E/22E)



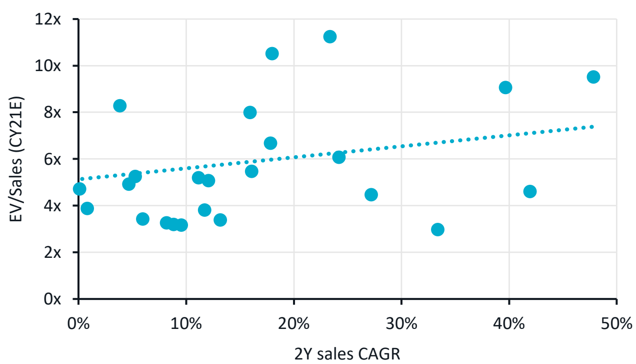
Source: Refinitiv, Canaccord Genuity estimates

Discount to peer average looks unjustified given growth profile

In our opinion, SmartSpace's discount to the UK peer group fails to recognise the group's transition to its SaaS-driven, fast growth recurring revenue, high margin, capital light model although we are cognisant that while we expect Space Connect to be a primary driver of near-term growth, it does lack a track record at this stage. However, given the strong performance of SwipedOn since acquisition, the early success of indirect sales channels in booking new business and the recent launch of the Evoko Naso, we believe that SmartSpace, as the fastest growing stock in UK SaaS/software, should at least trade in line with the UK peer group average.

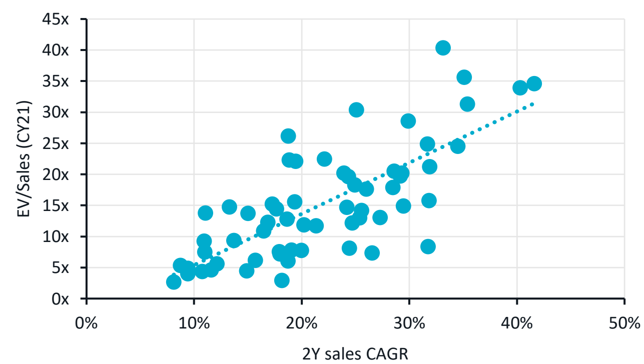
In addition, we note (Figures 38/39) that faster growth software stocks that have a high percentage of recurring revenues, above average run-rate growth and profitable track records tend to be awarded premium valuations based on EV/Sales multiples (e.g. as per CY21E consensus: Craneware 10.0x, Ideagen 10.7x, Bango 11.1x and dotdigital 8.0x). This suggests that if SmartSpace can successfully meet and beat market expectations (CGL FYJan24E: Revenue £15.0m, EBITDA £4.6 implying 31% margin, net cash £10.8m) there is potential for the shares to re-rate significantly. We also note recent M&A activity (as discussed earlier), which is primarily driven by US-based consolidators, could further support multiple expansion.

Figure 38: Faster growth software businesses typically trade on higher EV/Sales multiples in the UK



Source: Refinitiv, Canaccord Genuity estimates

Figure 39: The relationship between growth and valuation is stronger in the US, with much higher ratings awarded



Source: Refinitiv, Canaccord Genuity estimates

Given the shape of revenue and margin mix that is expected to flow from SaaS within our forecasts, we believe FY22E and FY23E are the most relevant proxies on which to base valuation, given they fully capture the expected growth from both SwipedOn and Space Connect. Applying the blended average (CY21E/CY22E) EV/Sales multiple from our UK peer group (5.5x) to our FY23E SmartSpace forecast suggests a valuation of 220p/share, at which we set our price target and initiate with a BUY recommendation. At the current share price of 144p there is upside potential of 53% to our 220p/share target price.

Figure 40: Implied valuation multiples at 220p

Implied multiples	FYJan21E	FYJan22E	FYJan23e	FYJan24E
EV/Sales	12.6x	8.5x	5.4x	3.5x
EV/EBITDA	nm	nm	45.7x	11.3x
P/E	nm	nm	77.5x	18.2x
FCF Yield	-4.1%	0.3%	3.0%	7.2%

Source: Canaccord Genuity estimates

Support from DCF at 227p/share

In addition, we note that DCF offers support to our 220p EV/Sales based target price. Our three-stage DCF (which values SmartSpace at 227p/share) seeks to model a three-year period of strong growth (albeit lower at revenue CAGR of 25%) beyond our forecast window before mean reverting to 5%. We believe our assumption on margin is potentially conservative given the operating leverage that our forecasts model for FYJan24E. Our key assumptions are:

- Year 4-6 revenue and EBITDA growth of 25%;
- Year 7-10 revenue growth of 5% with no growth in EBITDA margin; and
- 8.3% discount rate and a 2% terminal growth rate.

Figure 41: Our three-stage DCF valuation seeks to capture high growth stage of SmartSpace, deriving a value of 227p

Yr to 31 Jan (£m)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	TV
Revenue	7.0	10.5	15.0	18.7	23.4	29.3	30.7	32.3	33.9	35.6	35.6
EBITDA	-0.7	1.3	4.6	5.8	7.3	9.1	9.1	9.1	9.1	9.1	9.1
Margin	*-9%*	*12%*	*31%*	*31%*	*31%*	*31%*	*29%*	*28%*	*27%*	*25%*	*25%*
Tax	0.1	-0.2	-0.9	-1.1	-1.4	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Tax Rate	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*	*19%*
Capex	-0.6	-0.6	-0.8	-1.0	-1.3	-1.6	-1.7	-1.8	-1.9	-2.0	-2.0
Free cash flow	**-1.1**	**0.4**	**3.0**	**3.7**	**4.6**	**5.7**	**5.7**	**5.6**	**5.5**	**5.4**	**5.4**
Discount factor	1.08	1.17	1.27	1.37	1.49	1.61	1.74	1.89	2.04	2.21	2.21
Discounted cash flows	-1.0	0.4	2.3	2.7	3.1	3.6	3.2	3.0	2.7	2.4	39.0
NPV	61.3										
Net cash/(debt)	4.1										
Equity value	**65.4**										
Number of shares (m)	28.9										
Equity value per share (p)	**227**										

Source: Canaccord Genuity estimates

We note sensitivity to our assumptions for Year 4-6 revenue and EBITDA growth (figure 35) alongside terminal growth rate and discount rate (Figure 36).

Figure 42: Yr 4-6 sensitivity - Revenue and EBITDA growth

Year 4-6 revenue growth \ Year 4-6 EBITDA growth	**15%**	**20%**	**25%**	**30%**	**35%**
15%	183	211	242	275	311
20%	176	204	235	268	303
25%	168	196	**227**	260	295
30%	159	188	218	251	287
35%	150	178	209	242	278

Source: Canaccord Genuity estimates

Figure 43: Sensitivity - Terminal growth and discount rate

Terminal growth \ Discount rate	**6%**	**7%**	**8%**	**9%**	**10%**
0%	277	233	201	176	156
1%	312	256	216	187	164
2%	364	288	**237**	201	174
3%	451	335	266	219	186
4%	624	414	309	246	204

Source: Canaccord Genuity estimates

Conclusion

We initiate with a BUY recommendation and a target price of 220p/share, which is based on a FYJan23E EV/Sales of 5.5x. This is in line with the blended average (CY21E/CY22E) multiple across our UK SaaS/software peer group. In addition, we see support from our DCF analysis (227p/share) and recent M&A.

At the current share price of 144p (which implies 53% upside to our target price), the shares trade on a FYJan22E EV/Sales multiple of 5.3x falling to 2.0x for FYJan24E. Our estimates also imply that the shares look good value on metrics such as P/E (11.9x) and FCF yield (11.0%) as the operational gearing of the group builds throughout our forecast window.

Investment risks

Risks to achieving our target price include:

- The early stage of the transition to a SaaS-based model brings execution risk.
- A significant part of the growth story is dependent on the success of Evoko Naso. While our forecasts are based on conservative assumptions with regards to unit sales and SaaS participation, we recognise that there is material sensitivity to flexes in the model (to the upside as well as to the downside).
- The Workplace Management Software vertical is a highly competitive growth market in which SmartSpace remains a small participant. Barriers to entry are therefore low and a well-funded competitor may invest in margin to take share.
- The fast pace of technological change means that functionality may quickly become outdated, requiring significant investment in product development.
- A macroeconomic slowdown, or subsequent reintroduction of any lockdown policy in key geographies may slow a return to the workplace, delay corporate investment plans or reduce demand for flexible workspace technologies.
- While many commentators anticipate a hybrid workplace model moving forward, if corporates instead adopt a work-from-home model the potential TAM could decline.
- The group is exposed to NZD (SwipedOn) and EUR (Evoko). While we have adopted FX rates 2-3% ahead of spot, a strong appreciation of GBP could negatively impact revenue and profitability.
- Key person risk, albeit the founders of SwipedOn and Space Connect each hold significant shareholdings and remain as MDs of the respective businesses.

Board and key management

Board of Directors

Frank Beechinor, Chief Executive Officer

Frank joined SmartSpace (then Coms plc) as Chairman in July 2014 and led the business through its restructuring. He became CEO in July 2018 with the aim of building SmartSpace into a market leader in space management technology. He has significant corporate experience, particularly in the Software industry and building SaaS businesses, including eight years as Non-Executive Chairman of AIM-listed dotdigital Group plc (2011-2019). Frank is also a co-founder of Cadence Performance Ltd and was previously founder and CEO of OneClick HR plc from 1997 to 2011.

Bruce Morrison, Chief Financial Officer

Bruce has over 25 years' experience in finance strategy & accounting, fundraising, M&A and disposal. Bruce was most recently Group Finance Director at Bond International Software plc, where he led a successful divestment of all operations, with £55 million returned to shareholders, and held this role for 13 years. ACA qualified, Bruce was FD at Wembley Stadium Limited for eight years, and spent over three years with Radio First plc.

Guy Van Zwanenberg, Non-Executive Chairman

Guy joined the board as a Non-Executive Director in March 2015, becoming Chairman in June 2018. Guy has more than 40 years' experience in the industry and has been involved in several SME businesses. He qualified as a Chartered Accountant with Grant Thornton and was subsequently appointed UK FD of an American computer accessory company taken public in 1989. Guy joined Gamingking PLC in 1998 as FD, moving to Non-Executive Director in 2006, a position he held until May 2013. He joined Quixant plc as a Non-Executive in March 2013.

Diana Dyer Bartlett, Non-Executive Director

Diana was appointed to the Board in October 2013. With over 30 years' experience in accountancy, investment banking and finance, Diana has an impressive track record in investments, mergers and acquisitions, corporate governance and business transformation in publicly quoted, venture capital and private equity backed companies. Diana is a non-executive director of Smithson Investment Trust plc.

Platform founders remain a key part of the management team

Hadleigh Ford, MD of SwipedOn

Hadleigh is the MD of SwipedOn. Based in New Zealand, he co-founded the business in 2013, and helped drive a period of rapid growth which saw customer numbers and ARR more than double prior to its sale to SmartSpace for £5.5m in October 2018. Prior to co-founding SwipedOn, Hadleigh was a Marine Pilot. He holds a 3.7% shareholding in SmartSpace Software plc.

Matt Pope, MD of Space Connect

Matt founded the Space Connect business in Australia in 2015 before it was acquired by SmartSpace for £3.2m in October 2019. He has relocated to the UK to lead the Space Connect business and holds a 4.8% share in SmartSpace Software plc. Previously, Matt worked in Financial Services for 15 years, including as a Director at Excalibur Consulting (2008-2014) and a Consultant at Westpac (2001-2010). He is experienced in enterprise software development including cloud infrastructure, machine learning and AI.

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Investment Recommendation

Date and time of first dissemination: April 13, 2021, 02:05 ET

Date and time of production: April 13, 2021, 02:05 ET

Target Price / Valuation Methodology:

SmartSpace Software plc - SMRT

Given the shape of revenue and margin mix that is expected to flow from SaaS within our forecasts we believe FY22E and FY23E are the most relevant proxies on which to base valuation, given they fully capture the expected growth from both SwipedOn and Space Connect. Applying the blended average (CY21E/CY22E) EV/Sales multiple from our UK peer group (5.5x) to our FYJan23E SmartSpace forecast suggests a valuation of 220p/share, at which we set our price target. In addition, we see support from our DCF analysis (227p/share) and recent M&A.

Risks to achieving Target Price / Valuation:

SmartSpace Software plc - SMRT

• The early stage of the transition to a SaaS-based model brings execution risk.

• A significant part of the growth story is dependent on the success of Evoko Naso. While our forecasts are based on conservative assumptions with regards to unit sales and SaaS participation, we recognise that there is material sensitivity to flexes in the model (to the upside as well as to the downside).

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• Key person risk, albeit the founders of SwipedOn and Space Connect each hold significant shareholdings and remain as MDs of the respective businesses.

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Rating	Coverage Universe		IB Clients
	#	%	%
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Hold	156	16.85%	20.51%
Sell	14	1.51%	28.57%
Speculative Buy	143	15.44%	68.53%
	926*	100.0%	

*Total includes stocks that are Under Review

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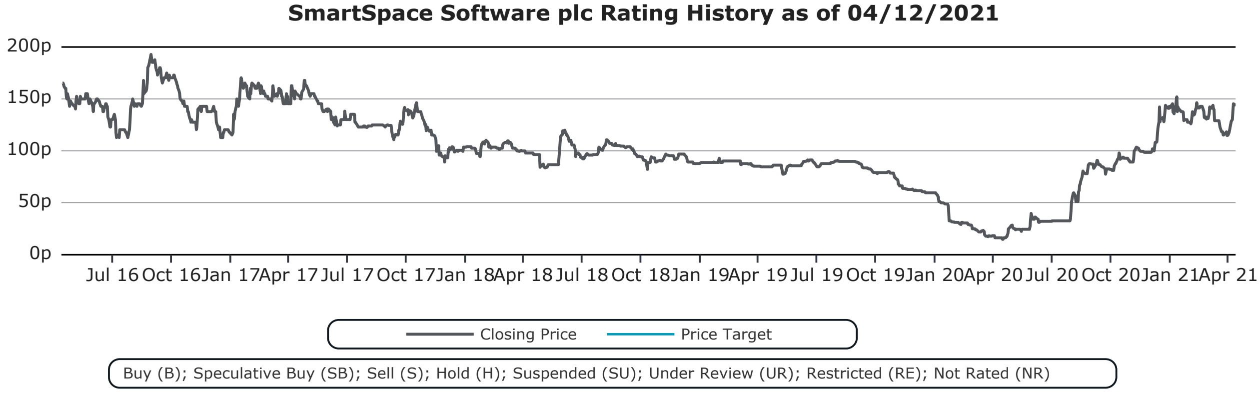

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