SmartSpace Software Plc

Final & Interim Results | October 2020

SmartSpace aims to exploit return to office policies
SmartSpace Software | United Kingdom
Industrials

AIM-listed workspace management software provider SmartSpace has reported on belated full year results to January 2020 and interim results to July 2020 this morning, stripping out its recently divested enterprise software division. Full year revenues jumped 71% (+36% organic) to £5.1m on strong hardware momentum and two software acquisitions, and supported by EBITDA losses of £1.7m. Meanwhile, more recently, revenue momentum slowed in the half year (+6.5% to £2.3m) due to a COVID-19 led slowdown primarily in the UK and US. However, on a call, CEO Frank Beechinor noted that trading going into the second half has been much stronger due to a rebound in sales momentum from SwipedOn, in addition to positive progress for Space Connect and its recently signed partnerships.

SmartSpace overview
SmartSpace Software provides workspace management software to the commercial workplace, retail and hospitality real estate sectors. The group's suite includes solutions focused on optimising desk space, meeting room bookings, and visitor management to buildings and car parks. SmartSpace was formerly known as RedstoneConnect (and before that Coms plc), having rebranded in August 2018 following the divestment of its cabling and managed services arms to Excel IT for £21.6m in May 2018. In October 2018, SmartSpace acquired New Zealand-based visitor management software provider SwipedOn, for NZ$11.0m (£5.5m) in cash and shares and, in October 2019, purchased Australia-based peer Space Connect for AU$6.0m (approximately £3.2m) or 26x trailing revenues.

Acquisition enhanced FY
For the year ending January 2020 revenues from continuing operations (i.e. excluding the recently divested enterprise business) grew 71% to £5.1m, or up 36% organically stripping out all of the software revenues acquired from SwipedOn and Space Connect (i.e. Hardware was up 36% to £3.4m). Recurring software revenues grew 4.1x to £1.5m. As such, the headline revenue performance was driven primarily by a full period contribution from SwipedOn, which grew ARR by 93% to NZ$3.6m and recorded new customer wins across the UK, US, Canada, Australia and New Zealand.
Gross margins improved from 38% to 41% and adjusted EBITDA losses fell marginally from £1.8m to £1.7m, which fed into a £1.8m operating cash outflow, although this rose to a £4.1m outflow when including the divested enterprise division. After its acquisition placing for Space Connect (£3.2m), acquisition costs (£0.8m net of disposals) and capex (£2.0m, 86% capitalised development costs), SmartSpace's net cash fell from £7.6m to £2.2m (excluding £0.2m of lease liabilities).

COVID-19 slowdown

For the six months ending July 2020 revenues from continuing operations grew 6.5% to £2.3m, within which Hardware revenues fell 13% to £1.2m (driven by COVID-19 related delays) and Software & Services revenues grew 42% to £1.1m. The latter (like the full year) was driven by further SwipedOn momentum (ARR grew 23% to NZ$4.5m), although sales in UK and US slowed due to the pandemic versus more robust momentum in Australasia.
Gross margin improved from 44% to 51% due to a greater proportion of SaaS revenues, adjusted EBITDA losses were broadly flat at £0.9m, and operating cash outflows totalled £0.7m. After capex (£0.5m, 97% capitalised development costs) and tax credits, net cash fell from £2.2m to £1.1m (excluding £0.2m of lease liabilities). However, period end gross cash of £1.6m had risen to £5.6m by the end of September 2020 following the disposal of its enterprise division.

SwipedOn's swift rebound
On the call, CEO Frank Beechinor highlighted that, despite SwipedOn's momentum slowing in April due to the uncertainty caused by the pandemic, this came back swiftly in the subsequent months and hit records in July. The focus for SwipedOn going forward is sales execution via upselling to existing clients and maintaining its strong overseas expansion. On SpaceConnect, Beechinor noted positive progress with its recently signed partnerships with Softcat (closing 8 of 19 engagements so far) and Evoko (aiming to start shipping this autumn), with the latter having the potential to drive significant volumes. More broadly, SmartSpace's outlook is underpinned by the need for tools to better manage office space and safeguard staff and visitors in the current environment. Some of the tools the group have launched in response include contactless visitor registration and pre-screening questionnaires.

Megabuyte view
Although SmartSpace's recent divestment makes it difficult to see how its full year performed versus prior market expectations (which were downgraded in January), the year highlighted positive momentum for its entry level SwipedOn product and its hardware sales. More recent trading shows that SmartSpace hasn't been immune to COVID-19 effects, although the group is favourably placed to leverage greater demand on the back of the pandemic as its products can help offices adopt new COVID-19 policies. As such, its unsurprising to see SwipedOn recover quite strongly as businesses started to plan their return to work, while big question marks remain over whether its significant investment into its mid-market product Space Connect will pay off, which is looking to scale up through its new partnerships.

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