# ‘It is a global phenomenon’: SmartSpace’s CEO Frank Beechinor on making money out of our changing attitudes to office working (SMRT)

by ValueTheMarkets • January 7, 2019

Since August last year, volatile market conditions have pushed newly-rebranded software-as-a-service business SmartSpace (LSE:SMRT) down from highs of 109.5p to its current 90p. The firm’s flagship product is a platform that supports companies in their efforts to make the most out of their workspace as rents continue to increase and employees take an increasingly flexible approach to office hours. Here, CEO Frank Beechinor talks through SmartSpace’s efforts to bolster its product offering and customer base. With the company’s share looking so cheap, he also explains why he believes the ‘global phenomenon’ of workspace optimisation could provide an exciting investment opportunity.

## Strategic shift

SmartSpace came to be in its current form in July last year when it changed its name from RedstoneConnect after selling its Systems Integration and Managed Services division. It sold the arm for £21.6m in cash after deciding the market offered limited growth potential due to its mature status.

Following this, the business shifted its focus to its burgeoning software-as-a-service (SaaS) division. Here, it anticipated higher growth rates and better margins. To support its new direction, it appointed software veteran Beechinor as its chief executive. Beechinor was previously SmartSpace’s chairman, where he was instrumental in repositioning operations.

SmartSpace’s SaaS arm has legacy operations in the retail and hospitality sectors. However, its primary focus is now the workplace sector. More specifically, it is operating in the smart buildings and agile workspace technology markets.

Beechinor says the need for space management solutions is increasing rapidly. This is driven by changing business environments, where employee mobility and flexible working are becoming commonplace. With rents also on the rise, modern organisations must use their workspace as effectively and efficiently as possible.

To put this into perspective, research firm Memoori put the size of the workplace solutions market at $1.5bn in 2017. By 2022 it expects it to be worth more than $4.6bn, growing at a compound annual growth rate of c.25pc.

To meet this demand, SmartSpace has created a platform that helps clients optimise the use of their real estate. It consists of many services, or ‘modules’, like desk management, meeting room and visitor management, and wayfinding. It also supports smart car parking, employee engagement, reporting and analytics.

As the platform grows, clients will be able to buy as many or as few of its features as they wish. They will then pay for what they use on a monthly basis.

Businesses of all sizes use SmartSpace's platform. Well-known, larger customers including GSK, Jaguar, Land Rover, and UBS. Beechinor says the platform has already optimised these clients' workspaces in several ways:

***'The average desk in London now costs £28,000 a year to run. Rather than having one person per desk, companies that use flexible working can now have more. However, this system does not work perfectly. People often walk onto a floor wanting a desk, miss some free desks, and go and work in a coffee shop nearby. This means that a very expensive desk is wasted. If an employee goes into the office and a device shows them precisely what desks are free, for how long, and how to get to them, then this makes it much easier to ensure the office is being used to its best potential.***

***'This is just one example of how our technology can help. However, all of the modules on our platform aim to ensure that firms are using their limited space in the most efficient way possible and can identify where they are wasting money. After all, following people, property is the second largest fixed cost for businesses.'***

## Growth strategy

Eschewing its historic 'buy and build' acquisition style, SmartSpace is using the proceeds from July's sale to pursue a careful growth strategy. This centres around making between two and four acquisitions in three different areas.

The first type of potential acquisition target is one that can help to address gaps in SmartSpace's current offering. For example, after recognising visitor management as a weak area, the firm acquired New Zealand-based SwipedOn for £5.4m in October. SwipedOn offers visitor management solutions to global customers for a monthly fee. The firm is generating annual recurring revenues of c.£0.8m and is growing at a rate of more than 100pc a year with a customer churn rate of only 5%. The SwipedOn customer acquisition cost is NZ$600 compared to a healthy lifetime value of more than NZ$6500.

As well as boosting its visitor management offering, Beechinor says SwipedOn broadened SmartSpace's range to include solutions for mid-market and entry-level customers through its first 'pay and go' solution. As a result, the deal also fulfilled the criteria for SmartSpace's second type of acquisition target. Here, it looks for solutions that can increase SmartSpace's customer base and speed up growth. Beechinor says the key here is the ability to increase SmartSpace's average revenue per user.

The final category of acquisition target is one that can increase turnover, development capabilities, and geographical reach. An excellent example of this is SmartSpace's commercial global partnering agreement with Evoko in November. Evoko is a premium Swedish manufacturer of meeting room display panels. It sells its products to a worldwide network of more than 80 distributors and hundreds of reseller partners. Evoko will offer SmartSpace's calendar software as an Evoko-branded add to its hardware.

As well as securing Evoko's endorsement, Beechinor says the deal gives it instant indirect access to the firm's global client base. This will let it grow and enter new territories at a faster pace. He adds that worldwide expansion is crucial because workspace optimisation is a 'global phenomenon'. Indeed, as it stands, SmartSpace has c.2,600 customers. This includes more than 800 in the US, 600 in the UK, 385 in Australia, 291 in NZ, and 120 in Canada.

As he puts it: ***'The UK is currently one of the more advanced countries in terms of technology, but the US seems to have come alive. Meanwhile, the Far East is also starting to wake up opportunities in the market,' says Beechinor. There is a lot of competition globally but, thanks to our broad platform, we are the only offering that addresses all of the specific needs in the market. For example, we have competitors who are good at meeting room management but are not good at desk management and vice versa. Our interface provides unique interaction with the employee by giving them seven different modules on one platform.'***

## Spreading risk

SmartSpace jumped by 4.44pc last month when it secured a five-year contract with a leading international bank. It has created a version of its platform tailored to the institution's specific requirements. This will be rolled out to 86,000 employees across more than 60 markets. The deal also includes a portfolio of 2,000 meeting rooms and an option to introduce further SmartSpace services.

Beechinor says the enterprise deal marked a significant milestone for SmartSpace. But he adds that he is keen to target a healthy mix of small, medium, and large (enterprise) customers as it grows. With each category requiring different levels of interaction, he is keen to spread risk and avoid relying on one area too significantly:

***'Enterprise deals have the potential to bring in a lot of money because they usually involve a large institution integrating our platform into many offices and hundreds, or even thousands, of employees. However, they can require a lot of engagement. As a result, our ideal monthly sales pipeline would consist of a couple of these enterprise deals, which can generate thousands of pounds a month, alongside much larger numbers of mid-market and small deals, which generate less money a month but require much less engagement. If we can build a business where we can spread our risk across those three levels of customer while maintaining volumes, then I think we have got ourselves a good, robust business model.'***

## Base building

In its results for the six months ended 31 July, released in October, SmartSpace revealed revenues from continuing operations of £1.9m. This was up from £2.1m in the previous six months. It also posted profit before tax from continuing operations of £600,000, up from a loss of £700,000.

The results mostly cover the period before SmartSpace sold off its systems integration and managed services arm. This move significantly scaled down its operations. As a result, Beechinor says there is a good chance the firm will lose money over the current results period. He said it is more important that the firm invests in its technology. By getting this right, it can build a stable base from which it can generate significant organic growth:

***'Our focus now is on making sure we have a technology platform behind the scenes that passes muster at all levels, especially on the enterprise side of things. We are predicting to lose money in 2019 as we are making sure we are growing at the correct pace. However, from a share price catalyst side of things, we have plenty of work in the pipeline. The market wants to see that we are on track and can demonstrate that we deliver on what we promise. We are busy driving our sales pipeline and have enough opportunities coming through to demonstrate how we are creating value. We don't plan to stay at this level for long.'***

With cash coming in at £13.4m as at 31 July 2018, Beechinor adds that there is little risk of SmartSpace having to go back to the market.

## Growth ahead?

SmartSpace is led by an experienced management team in an exciting sector that is benefitting from the ongoing shift in our working practices. It may be early days, but the company is making good progress in its efforts to secure a stable base from which to grow, distancing itself from its past in the process. What's more, its free cash balance gives it the financial firepower to carry out a healthy amount of value-accretive M&A over coming months and years.

The fact that SmartSpace's current £19.7m market cap only moderately outstrips its most recent public cash balance suggests the market is yet to place a considerable amount of value on its portfolio. With that in mind, if you share Beechinor's enthusiasm for the company's platform and the value it can create in the growing workspace optimisation sector, then 90p a share could present a good buying opportunity.

**Author: Daniel Flynn**

**Disclosure: The author does not own shares in the company mentioned above**