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SpaceandPeople

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Low valuation, supported by high dividend yield, provides potentially attractive entry point

SpaceandPeople facilitates and manages space for promotional campaigns and retailing in shopping centres and other locations with high footfall such as theme parks and railway stations. Its core operations are in the UK and Germany, complemented by a small and growing French operation, along with a joint-venture in India.

Promotional and retail space specialist

Via contracts with venue owners, SpaceandPeople helps marketers and retailers to rent space within high footfall locations. Clients can currently book space in over 750 venues across the UK and Germany and which have a combined weekly footfall of 70 million people. Recent innovations which are driving growth include the provision of "pop up" retail kiosks and Mobile Promotions Kiosks.

Recent profits warning announced but underlying trading on track

On 1st July 2016, SpaceandPeople announced to the market that it would take a one-off hit to the 2016 accounts following the decision to close its 51% owned subsidiary S&P+. However, and perhaps most importantly, the core UK and German businesses are trading in line with expectations. In addition, a recent trio of significant contract wins with major clients provide good growth opportunities for 2016 and beyond.

Low valuation and bumper dividend yield provide potentially attractive entry point

At the current price of 38.75p, SpaceandPeople shares trade near alltime lows, and even below the 2004 IPO price of 50p. **Given the progress made since then, combined with a forecast forward PE multiple of just 7.3 times and an attractive dividend yield of 6.7%, we see a good potential entry point at present.** The company is also cash generative and had net cash of £0.72 million as at the last balance sheet date, c.10% of the current market cap.

Table: Financial overview

Year to end Dec	2014A	2015A	2016E	2017E
Revenue (£m)	15.45	13.81	11.00	11.50
PBT (£m)	0.76	1.06	0.8	1.3
EPS (p)	3.91	4.26	2.8	5.3
Dividend (p)	2	2.2	2.4	2.6

Source: Company accounts & market consensus forecasts

PREVIEW NOTE

Key data

EPIC	SAL
Share price	38.75p
52 week high/low	87.5p/37.75p
Listing	AIM
Shares in issue	19.52m
Market Cap	£7.56m
Sector	Media

Share price chart

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Business Overview

History

SpaceandPeople was co-founded in 2001 by long-term CEO and 10.8% shareholder Matthew Bending. Having worked as Marketing Manager for Standard Life Investments Scottish Shopping Centres business he saw the opportunity to bring together property owners looking for additional income with brands looking for audiences to promote their products.
The business listed on AIM in December 2004 with a market capitalisation of £5.7 million and its activities were significantly expanded in April 2010 following the £6.3 million acquisition of retail merchandising unit business Retail Profile.

Operations

During its time on the market SpaceandPeople has grown into a leading UK and Germany focussed media agency which sells promotional and retail licensing space on behalf of its clients in the likes of shopping centres, airports, theme parks, railway stations and other locations which have high rates of consumer footfall. Via the company's dedicated call centre and website, advertisers and retailers can currently book space in over 750 venues which have a combined weekly footfall of 70 million people. There are also modest activities in France and India.

The company reports revenues from five income generating units at present. These are Promotion UK, Promotion Germany, Retail UK, Retail Germany and finally Other, which incorporates the SpaceandPeople India business and the recently closed above the line advertising support business S&P+ (see more details below).

Promotions

The promotions division is a media owner, broker and consultancy which administers, markets and sells promotional space on the behalf of property owners. The space is sold by the company to advertisers for use in marketing and promotional campaigns, with SpaceandPeople earning a commission on sales made.

The offering is attractive to both parties

Firstly, it offers property owners the opportunity to maximise revenues, earning an additional income stream on what otherwise would be unused space. SpaceandPeople also provides these clients with a centralised management system, while also helping to reduce administration time and costs. Secondly, the company's offering provides advertisers with the opportunity to promote their products directly to consumers. This is often done via "experiential" marketing – a form of advertising which attempts to engage directly with consumers in order to help them form an emotional connection with a brand.

To give a brief case study, skin care brand Nivea used SpaceandPeople to book promotional space in eight UK shopping centres in order to promote its Night Renewal Cream. It erected an "Astrodome" (below) and invited passing shoppers inside to learn about the product, receive free samples and money off vouchers. This helped to achieve an 800% rise in sales in Boots stores for the product during the weeks of the promotion.

Source: SpaceandPeople

Currently driving growth in the division are **Mobile Promotions Kiosks (MPK)** a product launched by the company in spring 2014 in order to take advantage of demand for a quality and standardised promotional kiosk product. The MPK's allow local brands and businesses to rent a high quality and professional kiosk, enabling them to promote themselves in a professional manner and to avoid the high fixed costs of making their own promotional stands. These provide a higher margin for SpaceandPeople as the company owns the unit. By the end of 2015 there were 49 MPKs installed in venues throughout the UK, with seven in Germany, and further installation growth has been seen since.

Mobile Promotion Kiosk: Source: SpaceandPeople

Retail

The retail business manages and provides clients with **Retail Merchandising Units (RMUs),** or kiosks, located within shopping centres. These are typically used by smaller retailers who want to trade within a shopping centre but who can not or do not want to pay for a larger, more expensive, permanent unit. Operating under the Retail Profile brand, the company effectively sub-lets these units from the property owner to its clients, with contracts typically lasting for 2 to 6 months.

RMU: Source: SpaceandPeople

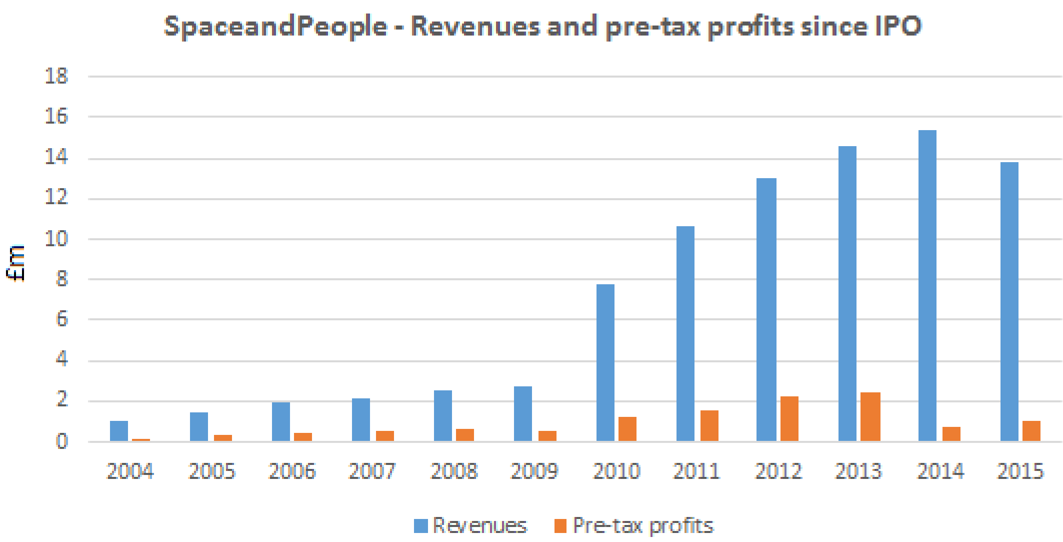
A recent addition to the business has been a new “pop up” retail product, developed to take advantage of demand for short-term leasing of retail space. Trading as **POP Retail,** the business provides bespoke units, along with delivery, assembly and removal services. Other related services are also provided, including merchandising and maintenance.

POP Retail pop up unit. Source: SpaceandPeople

Financial History

SpaceandPeople has significantly expanded its operations during its time as a public company, growing revenues from just over £1 million in 2014 to a peak of over £15 million in 2014. The 2010 financial year (which covered an extended 14 month period due to a change of year-end) saw the most significant uplift following the acquisition of Retail Profile, along with an almost doubling of revenues from the German business.

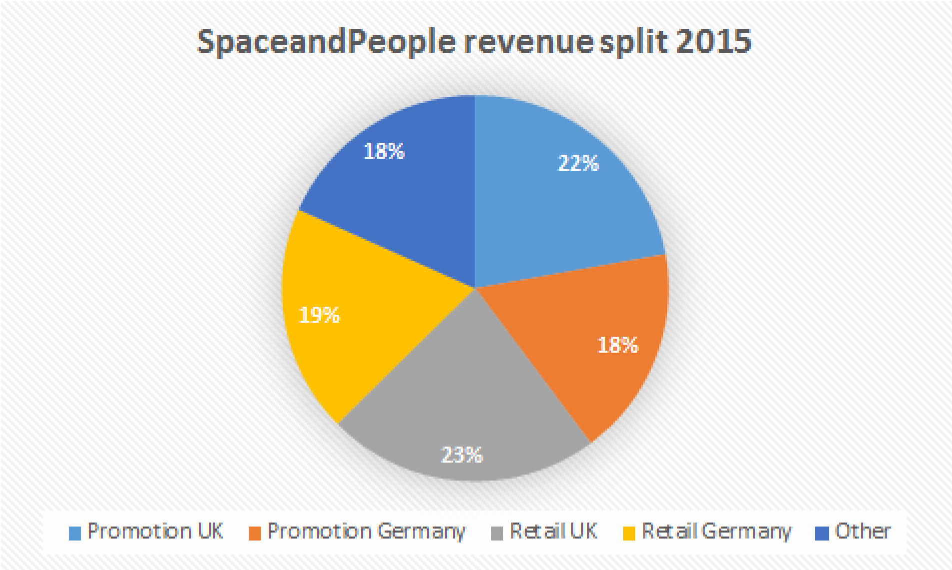
From 2010, growth in revenues and profits continued steadily until 2014, which was a challenging year for the company. While record revenues of £15.4 million were achieved, pre-tax profits before non-recurring costs attributable to shareholders fell from £2.6 million to £1 million. This was mainly due to revenue growth in the lower margin S&P+ business that was offset by a 49% revenue fall in the German promotions division and a 22% sales decline in the UK retail business.



Source: Align Research. Note: 2004 – 2009 financial years end in October. Following a change of year end the 2010 figures are for the 14 months to December 2010. 2011 – 2015 figures are for the year to end December.

Bounce back in profits seen in 2015

In 2015, revenues fell by 10% to £13.8 million as the UK businesses saw the effect of several clients stop using the company's services; German revenues that were affected by negative exchange rate movements and the S&P+ business not repeating a large contract delivered in 2014. However, a 15% fall in administrative expenses, driven by a restructuring undertaken during 2014, resulted in pre-tax profits before non-recurring items being flat at £1 million. Basic earnings before non-recurring costs grew by 9% to 4.26p per share as the company enjoyed a lower effective tax charge and there being a fall in income attributable to non-controlling interests.



Source: Align Research

Balance sheet remains in good health

With £1.72 million of cash and exactly £1 million of loans and other borrowings the balance sheet showed net cash of £0.72 million as at 31st December 2015. This was down from £1.6 million 12 months previously as the company took on an additional £0.5 million loan, invested £0.69 million in capex and paid out £0.39 million in dividends. The net cash flow from operations fell from £0.77 million to £0.2 million but there was an impressive £1.3 million reduction in creditors over the year. **Showing management's confidence, the full dividend for the year was increased by 10% to 2.2p per share.**

Key recent developments

Contract wins with major clients provide growth opportunities

While trading has been challenging over the past two years, three recently signed contracts look to provide good growth opportunities for SpaceandPeople in 2016 and beyond.

In September last year, the company announced the signing of an agreement with railway manager **Network Rail**. Under the terms of the deal, the company has the exclusive rights to promote brands across all Network Rail stations in the UK for five years. **The deal is significant as it covers a portfolio of major stations across the country, including Leeds, Manchester Piccadilly and London Waterloo, which have an estimated annual footfall of over 1 billion.** With train stations having an audience with a longer dwell time and higher receptiveness compared to venues such as shopping centres, they are becoming increasingly attractive for brand promotions.

In the same month the company finalised a pilot contract with retail property owner **Immochan** for the right to operate Mobile Promotional Kiosks in its centres in France until the end of 2016. Initially, the deal will operate in three shopping centres with the potential for a wider working relationship in France and possibly other European countries should the trial be a success.

This deal was followed up in February this year with a multi year contract with property owner **British Land** to manage promotional space at the Drake Circus Shopping Centre in Plymouth. In due course the contract is expected to be extended across 40 more of British Land's other retail sites, including the Meadowhall shopping centre in Sheffield and Ealing Broadway in London.

Investee company closed but core businesses remain on track

A trading update from the company released on 1st July reported that the core UK and German retail operations have performed in line with expectations in the year to date (to Dec 2016).

While no figures were given, **the UK is said to have seen an increase in venue numbers with there being a "strong" pipeline of venues currently in various stages of negotiation**. The smaller Mobile Promotions Kiosk (MPK) offering has now reached 75 installations, with the company on track to achieve its budget of between 80 and 100 installed units in the UK by the end of the current year. In addition, the POP Retail business is hitting internal budgets.

Expectations are also being met in the UK and German promotion businesses, with revenues now starting to be earned under the Network Rail and British Land deals.

S&P+ venture to be closed

In the recent trading update, SpaceandPeople confirmed the decision to stop funding its 51% owned London based above-the-line advertising support business S&P+. The decision has been taken following the delay and cancellation of two potentially "substantial" deals which were expected to be finalised in June. S&P+ is to be closed as the company now believes it has, *"… insufficient prospects in both the short and medium term to allow it to trade profitably."*

As a result of the closure the group accounts for 2016 are expected to show a one off loss of £0.275 million after the company takes its share of the write-off of a £425,000 loan provided to S&P+, along with c.£50,000 of inter-company debt. There will also be a loss of c.£0.2 million booked in for S&P+, which compares to a previously budgeted profit of £0.18 million.

There will be no further negative cash impact on the group however, and the core businesses are expected to continue to be cash generative. **Overall, pre-tax profits for the full year 2016 from the continuing operations are expected to be (after minority interests) broadly comparable with 2015.**

Assessment

At the current price of 38.75p, SpaceandPeople is capitalised at just £7.56 million. The shares have fallen by 56% from their 12 month high of 87.5p seen last September to currently trade at near all time lows. We believe that the share price fall has been overdone and see a potentially good entry point at present and indeed the potential for a takeover or take private given the healthy balance sheet that could be loaded with cheap debt to make this work for a multitude of parties

Although technically being a profits warning, we see the issues in the recent trading update as being one-off. Indeed the decision to close S&P+ will remove a loss making business from the group with the core UK and German retail and promotions businesses continuing to trade well. In addition, the three recently signed contracts, with Network Rail, British Land and Immochan provide good near-term growth opportunities.

We see the main risk to growth being venue owning clients not renewing their agreements with the company. SpaceandPeople has experienced this before, notably in 2014 when a number of contracts with significant clients ended and some were not renewed or renewed on a smaller scale. However, the company is insulated to this to some degree given that no one client represents a significantly large proportion of income. Venues taking Space&People's offering in-house is also a risk.

Valuation

On market forecasts for 2.8p of earnings in 2016, SpaceandPeople shares trade on a current year multiple of 13.8 times. However, 2016 should be a one off year given the issues mentioned in the recent trading statement. The earnings multiple falls to just 7.3 times in 2017 on market consensus forecasts for 5.3p of earnings. We see modest upside potential to the forecast earnings numbers given that c.45% of revenues from the core promotion and retail operations are derived from Germany and given that the Euro has strengthened by c.7% since the EU referendum result on 24th June. **We also note that the shares currently trade lower than the 2004 IPO price of 50p, which we believe looks unfair given the financial and operational progress made since then.**

SpaceandPeople has previously adjusted its dividend in line with changing earnings so we see the potential for the 2016 payment to be adjusted downwards from the 2.2p paid in 2015. However, with a relatively strong balance sheet and underlying cash generative operations, the 2017 forecast payment of 2.6p per share looks entirely feasible should market forecasts be met. **That would give the shares a forward yield of 6.7%, a figure which is in the top 3% of forecast forward yields offered by AIM listed companies (Source: Sharescope).**

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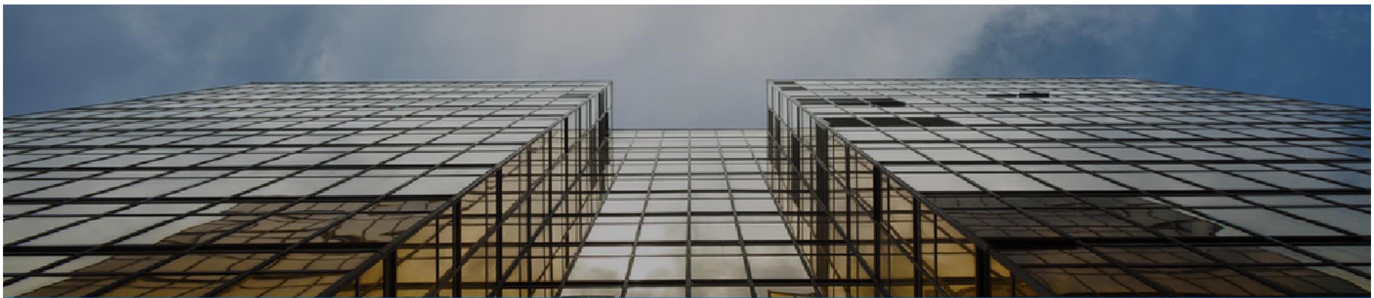

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