

20 January 2020

Software & Services

52-WEEK HIGH	4.32p
52-WEEK LOW	1.20p
PRICE	1.33p
MARKET CAP MLN	£4.85

Share Price



Major Shareholders

Barclays PLC - 15.8%	
Canaccord Genuity - 14.4%	
Peel Hunt LLP - 10.3%	
Shares in issue	370,497,894
Avg Three-month trading volume	682,669
Primary Index	AIM
Next Key Announcement	FY results April

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Location Sciences - Verify product gaining presence

A strong end to 2019

Location Sciences, the world leader in location verification for mobile advertising, recently released a trading update for the financial year to December 2019. The main focus remains the Verify product which verifies location data for targeted mobile advertising campaigns.

The company reports that revenues were £1.2mln, a 60% increase versus 2018. Within this, the contribution from Verify increased almost tenfold to around £500,000. The Verify product is now in use by more than 20 media agencies and suppliers globally, and more than 100 brands.

Underlying earnings (EBITDA) are now expected to be “significantly ahead of market expectations”, and we are raising our forecast from -£2.1mln to -£1.75mln. The company also reports that year-end net cash stood at £1.3mln versus our previous expectation of £600,000. In August 2019 the company announced a restructuring of the business to align its cost base with the market uptake for Verify in the US, and we believe that the improved EBITDA and cash figures demonstrate that the restructuring has delivered on its objectives and evidence that the company is reacting quickly to changing market circumstances.

Looking further forward we see strong potential for further revenue growth from Verify. This product is currently unique in the market place and offers customers a powerful tool for optimising mobile advertising campaigns. The overall global market for mobile advertising is more than US\$160bn, and within this, we believe the revenue opportunity for Verify is up to US\$500mln. We present some details on p2.

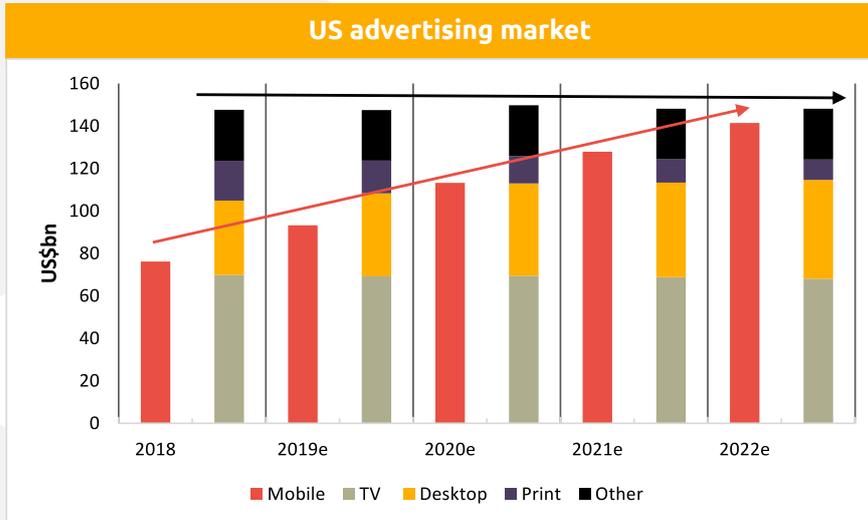
Market potential and valuation

Location Sciences offers a unique verification solution into a mobile advertising market of more than US\$145bn. On p2 we present an overview of some of the addressable market. We see a revenue opportunity for Location Sciences of up to US\$500mln, which offers significant upside to the current share price in our view.

Year end Dec 31	2018	Current	2020	2021
Revenue £M	0.8	1.2	1.9	3.0
Gross profit	0.4	0.8	1.3	2.3
EBITDA (£M)	(1.2)	(1.8)	(1.8)	(1.0)
Net cash/ (debt) £M	2.6	1.3	(1.1)	(2.8)

Chief executive officer Mark Slade is a well-known name in the advertising industry, with numerous senior relationships across the ad tech and media giants. Previously Mark founded and sold his own mobile advertising business 4th Screen to Opera Mediaworks, and then helped it grow revenues to more than US \$100mln.

Chief finance officer David Rae brings a wealth of public company, growth and international business experience within the technology and energy sectors. Rae is a fellow of the institute of chartered accountants.



Source: Data from GroundTruth

The mobile advertising space

Mobile advertising is the major growth segment in the advertising market. The chart above shows the segmental split of the USA advertising market - the biggest target market for Location Sciences. Mobile is set to become roughly as large as all other segments combined by 2022.

Location-based mobile advertising targets customers in a specific location. A brand pays considerably more for location-targeted mobile advertising than for non-targeted, typically US\$10 CPM (cost per mille, fee per thousand impressions) versus US\$0.5 CPM for impressions with no location data; however, it is very difficult for the brand to check the accuracy of the location data they are receiving from their ad distributors. Are they over-paying for poorly targeted ads?

The Location Sciences solution - Verify

The Verify platform from Location Sciences is a unique product allowing brands and agencies to authenticate the location data they receive from distributors and publishers.

Within the global market for mobile advertising, which amounts to over US\$145bn, we estimate that around US\$13bn consists of location-targeted advertising in formats addressable by Verify. Assuming a 3-4% fee-generating opportunity for Location Sciences, this amounts to a US\$500mln revenue opportunity for Verify, with no direct competitor currently in existence.

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