

30 September 2019

### Software & Services

|                       |              |
|-----------------------|--------------|
| <b>52-WEEK HIGH</b>   | <b>4.32p</b> |
| <b>52-WEEK LOW</b>    | <b>2.00p</b> |
| <b>PRICE</b>          | <b>2.33p</b> |
| <b>MARKET CAP MLN</b> | <b>£8.10</b> |

### Share Price



### Major Shareholders

|                                     |             |
|-------------------------------------|-------------|
| Canaccord Genuity - 17.6%           |             |
| Barclays PLC - 17.1%                |             |
| Herald Investment Management - 6.5% |             |
| Shares in issue                     | 343,250,994 |
| Avg Three-month trading volume      | 1,795,403   |
| Primary Index                       | AIM         |
| Next Key Announcement               | Yr end Dec  |

### Company Information

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### Analyst Details

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## Location Sciences Group PLC (LON:LSAI) - defining the opportunity

### Recent developments

Location Sciences, the world leader in location verification for mobile advertising, recently released results for the first half ( H1) of 2019 and announced a share placing raising £0.6mlm (gross) of additional capital. Revenues for the H1 period were up 94% at £0.45mln, and period-end net cash was £1.5mln. The core product Verify achieved new client wins that confirm the market opportunity for this offering. The company will now undertake some realignment of its marketing strategy to best realise the potential for Verify. We make some changes to our forecasts to reflect these changes.

### US expansion – the lessons learned:

Verify was rolled out in North America, the key target market, during H1 2019. This experience has allowed the company to better define the target market for this product.

The company will now focus on tier 2 and tier 3 advertising agencies rather than the big four. These mid-sized agencies have a greater incentive to differentiate themselves by adding Verify to their suite of capabilities.

New personnel have been added to deliver on this strategy, including Donnie Williams of Horizon Media to a non-exec role, and Andy Roberts, formerly head of trading of MindShare, who is to join the advisory panel.

New ad agency partnerships achieved during the period include SITO Mobile in the US and Vicinity Media in South Africa.

We are changing our financial forecasts to reflect a lengthier timeframe for Verify to achieve scale in the US and a revised cost base. We are lowering our 2019e revenue forecast to £1.1mln.

Our year-end net cash forecasts are presented based on no further capital being raised. We believe that Location Sciences will, in fact, seek additional capital to fund the development of the business through to 2021 and positive profitability.

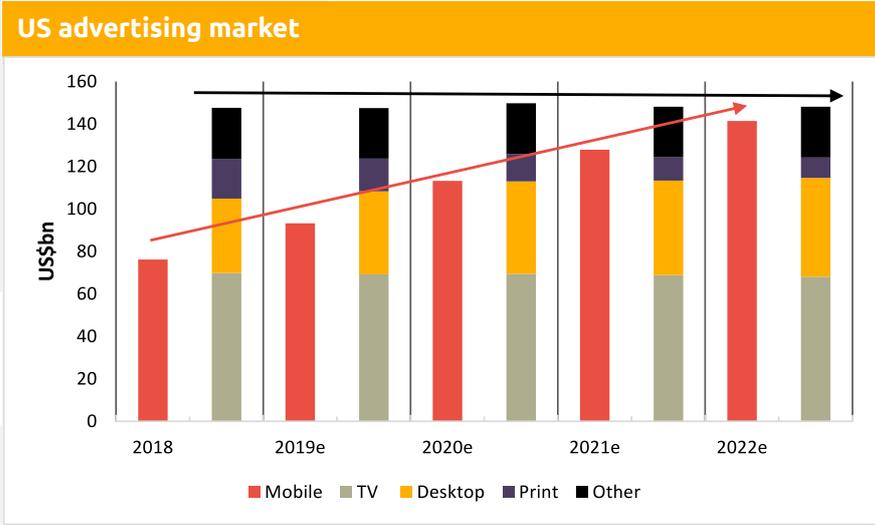
### Market potential and valuation

Location Sciences offers a unique verification solution into a mobile advertising market of more than US\$145bn. On p2 we present some overview 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  |
|----------------------------|-------|---------|-------|-------|
| <b>Revenue £M</b>          | 0.8   | 1.1     | 2.8   | 5.6   |
| <b>Gross profit</b>        | 0.4   | 0.7     | 2.0   | 4.3   |
| <b>EBITDA (£M)</b>         | (1.2) | (2.1)   | (1.1) | 0.8   |
| <b>Net cash/ (debt) £M</b> | 2.6   | 0.5     | (1.4) | (1.8) |

**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 about 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\$5 to 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.

Market research shows that around 37% of mobile ad spend is location-targeted. Of this, around 24% applies to formats that are addressable by the Verify platform in its current form. This amounts to a US\$13bn global market. 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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