Canaccord Genuity

Australian Equity Research

18 September 2023

Initiation of Coverage

Smart Parking Limited

Enterprise Software - Software as a Service

Rating	Price Target
BUY	**A$0.45**
SPZ-ASX	Price **A$0.35**

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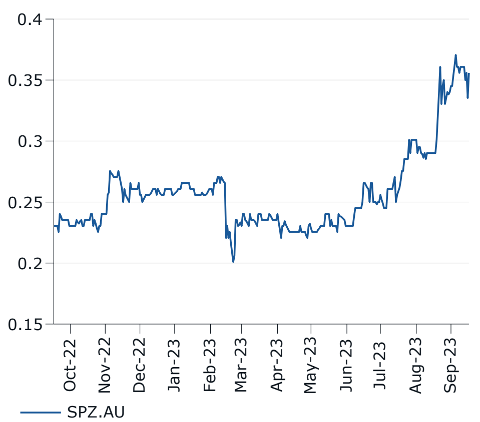
Market Data

52-Week Range (A$) :	0.19 - 0.37
Market Cap (A$M) :	122.2
Shares Out. (M) :	349.3
Dividend /Shr (A$) :	0.00
Dividend Yield (%) :	0.0
Enterprise Value (A$M) :	105.1
Cash (A$M) :	17.1
Long-Term Debt (A$) :	1.3

FYE Jun	2023A	2024E	2025E	2026E
Sales (A$M)	45.2	57.7	68.0	76.7
EBITDA Adj (A$M)	11.5	15.0	20.0	25.0
EBIT (A$M)	6.1	9.6	14.6	19.7
EV/Sales (x)	2.5	1.8	1.5	1.1
EV/EBITDA (x)	9.8	7.1	5.0	3.5



Source: FactSet

Priced as of close of business 15 September 2023

Smart Parking is a technology-enabled parking management provider, operating in ANZ and Europe through two core divisions, Parking Management and Technology.

A smart place to park your money

Smart Parking (SPZ-ASX) is a technology-enabled parking management provider, operating in ANZ and Europe through two core divisions: Parking Management (FY23 revenue $41m, EBITDA $11.4m) and Technology (FY23 $4m, EBITDA $2m). Its core IP, SmartCloud software, leverages automatic number plate recognition (ANPR) technology to automate and integrate all aspects of parking management, including real-time parking availability, dynamic pricing, payment management and customer management.

Sizeable growth ambitions, led by the UK and Germany. SPZ currently operates 1,112 sites and is guiding to +34% organic growth from its UK operations alone by FY25 (guidance 1,500 sites), implying incremental site adds of 200 p.a. We estimate achieving its stated goals could drive revenues of $67m and cash EBIT of $5m (EV/cash EBIT of 19x), a 48% increase on its FY23 revenue. SPZ is in the embryonic stage of expanding into the German and New Zealand markets, which according to the company have an addressable market of 92k potential sites (Germany 90k, New Zealand 2x) and are in the early stages of moving to ANPR.

Impressive unit-level economics. SPZ has a predictable and scalable business model that generates revenue predominantly through the issuance of parking breach notices (PBNs). Incorporating upfront capex ($18k/site) and customer acquisition cost ($7k/site), relative to annual gross profit ($32k/site) on negligible churn of 5% p.a. (FY23), this illustrates a cash payback period of seven months and a five-year CLV/CAC of 5.2x (five-year ungeared IRR +40%).

Large and under-penetrated market opportunity. SPZ operates in a large addressable market (US$4.4bn) [Fact.MR], with an industry CAGR of +21% (UK +27% APRN requests nine-year CAGR). The company has a stronghold in its core UK market, with a top-five position by market share, and is in the early stages of expansion into Germany and New Zealand. That said, the market remains broadly under-penetrated by technology solution providers (30% UK; <5% Germany; <5% New Zealand), supporting a long-tailed runway for growth, in our view.

M&A consolidation supported by a robust balance sheet. We believe the key to scaling SPZ's business is growth in ANPR-operated sites, which we expect could be accelerated through M&A. The parking management industry is highly fragmented (we estimate 100 competitors in the UK), with a large number of small-scale operators. We believe regulatory changes in the UK have the potential to put pressure on non-compliant and less efficient operators and provide opportunities for acquisitions, at attractive valuations, given large potential operating synergies. SPZ is well capitalised with $11m cash and generated FCF of +$4m/$8.7m adj. in FY23 (CGe FY25-end cash balance $24m), which would sufficiently support small-scale acquisitions, in our view.

Regulatory risk an overhang but likely provides consolidation opportunities. The UK government has proposed changes to the Parking (Code of Practice) Act to guide the operation and management of private parking facilities. While the outcome remains uncertain, we believe a potential outcome is to increase the discount applied for early payment (from 40% to 50%) which by our calculations would see a ~17% negative impact to revenue (CGe $11m rev/EBIT reduction) and see the stock trade at a look-through 11x EV/cash EBIT multiple (at 1,500 sites, A$25m fixed costs), relative to ~5x EV/EBIT with no changes. We believe any such changes could see a large number of small operators become unprofitable and provide a consolidation opportunity for the scaled players.

SPZ is a profitable, high-growth, recurring revenue model business with elevated incremental EBITDA margins (FY23 ~40%) illustrating elevated long-term margins. We initiate coverage with a BUY rating and a $0.45 DCF-based price target (K_e: 12.8%, β: 1.6x, ERP 5.5%, LT EBIT margin 30%), incorporating a low terminal multiple (7x EBIT; [-40% discount to XSI]) given the potential risks stemming from the changes to the UK Parking (Code of Practice) Act review.

Contents

Figure 1: Financial summary

Profit & Loss (A$m)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	**22.7**	**38.1**	**45.2**	**57.7**	**68.0**	**76.7**
COGS	-7.5	-10.7	-11.6	-16.2	-18.4	-19.9
Gross Profit	**15.2**	**27.5**	**33.5**	**41.5**	**49.6**	**56.7**
Opex	-13.0	-18.7	-22.0	-26.6	-29.6	-31.7
Adj. EBITDA	**2.2**	**8.8**	**11.5**	**15.0**	**20.0**	**25.0**
D & A	-3.6	-4.5	-5.4	-5.4	-5.4	-5.4
EBIT	**-1.4**	**4.3**	**6.1**	**9.6**	**14.6**	**19.7**
Net Interest Expense	-0.5	-0.7	-0.6	0.0	0.0	0.0
NPBT	**-1.8**	**3.6**	**5.5**	**9.6**	**14.6**	**19.7**
Tax expense	-1.8	-1.1	0.2	0.0	-3.7	-4.9
NPAT (Normalised)	**-3.6**	**2.4**	**5.7**	**9.6**	**11.0**	**14.7**
Significant items	8.8	-1.5	0.7	0.0	0.0	0.0
NPAT (Reported)	**5.2**	**1.0**	**6.4**	**9.6**	**11.0**	**14.7**
Gross Profit Margin (%)	*67%*	*72%*	*74%*	*72%*	*73%*	*74%*
EBITDA Margin (%)	*10%*	*23%*	*25%*	*26%*	*29%*	*33%*
EBIT Margin (%)	*-6%*	*11%*	*14%*	*17%*	*22%*	*26%*
NPAT Margin (%)	*23%*	*3%*	*14%*	*17%*	*16%*	*19%*

Cash Flow (A$m)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Operating EBITDA	**2.2**	**8.8**	**11.5**	**15.0**	**20.0**	**25.0**
- Interest & Tax Paid	0.0	0.0	-0.2	0.0	-3.7	-4.9
+/- change in Work. Cap.	0.8	1.4	-1.7	-1.1	-1.8	-0.9
- other	4.0	0.0	-0.2	0.0	0.0	0.0
Operating Cashflow	**7.0**	**10.1**	**9.3**	**13.9**	**14.6**	**19.2**
- PPE Capex	-2.0	-3.8	-5.3	-5.3	-5.3	-5.3
- Intangibles	-0.1	-0.2	-0.4	-0.4	-0.4	-0.4
Free Cashflow	**5.0**	**6.0**	**3.6**	**8.2**	**8.8**	**13.5**
- Other/Acquisition	0.0	-1.9	0.0	0.0	0.0	0.0
- Ord Dividends	0.0	0.0	0.0	0.0	0.0	0.0
- Equity /other	-0.3	-3.8	-4.0	-1.7	-1.7	-1.7
Net Cashflow	**4.7**	**0.3**	**-0.4**	**6.4**	**7.1**	**11.8**
Cash at beginning of period	6.5	11.3	10.8	10.7	17.2	24.3
+/- fx / other	0.1	-0.2	0.3	0.0	0.0	0.0
Cash at end of period	**11.3**	**11.4**	**10.7**	**17.2**	**24.3**	**36.1**

Balance Sheet (A$m)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	11.3	11.4	10.7	17.2	24.3	36.1
Receivables	7.7	10.0	13.7	16.3	19.2	21.3
PPE	6.5	8.2	10.0	12.6	15.1	17.7
Right-of-use asset	10.8	14.0	15.3	14.9	14.5	14.1
Intangibles	2.0	3.8	4.0	3.9	3.8	3.7
Other	1.4	1.7	2.2	2.5	2.6	2.7
Total Assets	**39.8**	**49.1**	**56.0**	**67.3**	**79.6**	**95.6**
Payables	6.3	10.6	10.9	12.6	13.9	15.2
Lease Liabilities	11.3	14.7	16.4	16.4	16.4	16.4
Borrowings	2.8	2.1	1.3	1.3	1.3	1.3
Other Liabilities	8.5	14.9	14.6	16.4	17.6	18.9
Total Liabilities	**22.6**	**31.7**	**32.3**	**34.0**	**35.3**	**36.6**
NET ASSETS	**17.3**	**17.5**	**23.7**	**33.3**	**44.3**	**59.0**

Company profile

Smart Parking Limited (ASX: SPZ) is a technology-enabled parking management solutions provider operating in the United Kingdom, Germany, New Zealand and Australia.

Ticker	ASX:SPZ
Rating	BUY
Target price	$ 0.45
Market capitalisation	$ 122.2

Valuation ratios	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (cps)	0.3	1.8	2.8	3.1	4.2
Enterprise Value ($m)	113	113	106	99	87
EV/Revenue	3.0	2.5	1.8	1.5	1.1
EV/Gross Profit	**4.1**	**3.4**	**2.6**	**2.0**	**1.5**
EV / EBITDA (x)	**12.9**	**9.8**	**7.1**	**5.0**	**3.5**
EV/EBIT	26.3	18.4	11.1	6.8	4.4
P/E (x)	129.4	19.2	12.7	11.1	8.3
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	0%	0%	0%	0%	0%

Dupont Analysis	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit Margin	2.5%	14.1%	16.7%	16.2%	19.2%
Asset Turnover	0.8	0.8	0.9	0.9	0.8
ROA (%)	2.0%	11.4%	14.3%	13.8%	15.4%
Financial Leverage	2.8	2.4	2.0	1.8	1.6
ROE (%)	5.5%	26.9%	28.9%	24.8%	25.0%

Balance Sheet ratios	FY22A	FY23A	FY24E	FY25E	FY26E
Net Debt (cash)	-9.3	-9.4	-15.9	-23.0	-34.8
NTA per share ($)	0.04	0.06	0.08	0.12	0.16
Price / NTA (x)	9.2	6.2	4.2	3.0	2.2
Shares on issue (m)	352.6	349.3	349.3	349.3	349.3
EFPOWA (m)	356.6	350.9	349.3	349.3	349.3

Assumptions	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue growth	68%	18%	28%	18%	13%
Gross profit margin	72%	74%	72%	73%	74%
Opex growth	44%	18%	21%	12%	7%
ANPR Sites (#)	839	1,112	1,334	1,535	1,734
ANPR Sites Additions (#)	220	273	222	200	199
Revenue per site ($'000)	46	42	40	41	41

Interim Analysis	2H22A	1H23A	2H23A	1H24E	2H24E
Revenue	19.4	22.1	23.1	27.9	29.7
Gross profit	13.6	16.7	16.8	20.1	21.4
Adj. EBITDA	3.6	5.3	6.2	6.4	8.6
EBITDA margin (%)	18.7%	23.8%	27.1%	22.8%	29.0%

Source: Company reports, Canaccord Genuity estimates

Company profile

Smart Parking is a technology-enabled parking management provider operating in the United Kingdom, New Zealand and recently Germany. SPZ benefits from the digitisation and structural growth of parking management solutions, primarily through the introduction of automatic number plate recognition (ANPR) technology. Its core IP, SmartCloud software, leverages ANPR technology to automate and integrate all aspects of parking management, including real-time parking availability, dynamic pricing, payment management and customer management. SPZ operates 1,112 predominantly independent sites, which has grown at a three-year CAGR of 30% and has experienced negligible churn over this time (<5%).

The company listed on the ASX in 2010, changing its name from Car Park Technologies to Smart Parking in 2013. SPZ is headquartered in Melbourne, reporting 200 FTEs and segments its operations into two divisions:

- **Parking Management (~90% group revenue) (FY23 $41m, +23% revg; EBITDA $11.4m):** Parking Management is SPZ’s core division and generates revenue from issuance of parking breach notices (PBNs), enabled through ANPR technology. Nearly all parking fees generated by the carpark are retained by the asset owner and use of its technology enables the carpark to operate at maximum efficency, incentivising carpark owners to contract with a managed service provider like Smart Parking. Customers are predominantly independent carpark owners across retail (supermarkets and shopping centres) and high-volume commercial property locations. Other target verticals include councils/municipals, hospitals, airports and universities. SPZ manages assets in the UK (930 sites), Australia (71 sites), NZ (84 sites) and more recently Germany (27 sites) and has guided to growth in sites under management to 1,500 by FY25 (+200 sites p.a.). The system was initially designed to displace manual parking patrol personnel (greenfield expansion); however, in more mature regions such as the UK, SPZ is also replacing existing technology-enabled operators.

Figure 2: Parking management solutions

Source: Company reports

- **Technology (~10% group revenue) (FY23 $4m, EBITDA $2m):** The Technology division unlocks new revenue streams by facilitating sales of proprietary technology and hardware to external customers and internally to the Parking Management division. Divisional revenue is primarily sourced from selling on-street parking solutions to councils and large private enterprises with sensors that detect the presence of cars in parking bays, 'pay and walk' machines, digital signs and other indicators that direct traffic to available spaces. Through the SmartCloud solution, the division provides real-time information to match registration with infringement rules. The division enables other car parking operators to procure single componentry or an end-to-end system. While the revenue generation is not material, the Technology division is an important competitive differentiator in winning new sites and is margin accretive (50% margin vs Parking Management's 30% margin).

Figure 3: Technology solution suite

SmartCloud platform	SmartCloud is an innovative, overarching service platform that gathers data from thousands of installed sensors and devices and processes this into real-time reporting and events	**Variable Message Signs**	Variable message signs display real-time space availability and direction to available bays, meaning traffic flow and space is optimised within a car park.
Service packs	Using the back end interface SmartCloudAPI, Smart Parking is able to deliver a fully hosted service pac which can be displaced as a site management dashboard.	**Vehicle detection sensors**	Designed and developed a range of in-ground, surface-mount and overhead indicator vehicle detection sensors which port daa to SmartCloud.
Compliance Management System	Tessera is Smart Parking's mobile app and back office management system designed to manage parking compliance and enforcement	**Automatic number plate recognition (ANPR)**	Automatic number plate recognition (ANPR) is a technology that reads vehicle registration plates using simple, customisable, cost effective and reliable technology
Parking App	Moterist facing app with featuresto help direct traffic, advise of car park conditions and tariffs, and utilise contactless payment.	**Pay & Walk**	Installation of Pay & Walk machines designed to complement the ANPR camera car park management solution
SmartSpot	Multifunctional communications gateways that relay live parking event data from on-site sensors to Smart Parking's IoT SmartCloud platform, in the cloud.	**Mobile patrols**	In the UK, as part of our Managed Services offering, Smart Parking can provide mobile patrols where specially trained wardens actively monitor car park sites for security, aide and compliance.

Source: Company reports

Revenue model and unit economics

SPZ generates revenue predominantly from parking breach notices (PBN); however, it also has smaller revenue streams from management fees/car park fees, capital sales and software licensing.

- **PBN (Parking Management, CGe FY23 $39m, 87% revenue):** PBNs are issued when a vehicle breaches a condition of the carpark (i.e. parks without a ticket, overstays the time limit or non-customer parks in a customer carpark). ANPR technology recognises this breach and SPZ then identifies the details of the vehicle owner based on its registration number. From SPZ's history, we understand PBN revenues are highly predictable and can be modelled as a factor of 1) ANPR-enabled sites, 2) PBNs per site, and 3) revenue per PBN issuance. SPZ operates 1,112 sites, which it expects to increase 35% from its UK operations alone by FY25 (1,500 sites). PBNs per site follow a relatively stable contravention ratio of 0.4%, which sees 500-800 PBN issuances per site annually (600-800 normalising for COVID). Currently, BPNs generate revenue of £30.50 per issuance at 75% gross margin; however, this may be subject to change based on the outcome of the UK Parking (Code of Practice) Act review. Given the technology embedded in the carpark is owned by SPZ, customers are sticky, with site churn of <5% p.a. Further, SPZ customers are predominantly independent, which in our view poses no significant customer concentration risk.
- **Carpark and management fees (Parking Management, CGe FY23 $2m, 4% revenue):** Carpark and management fees are generated from pay and display (*"pay as you go"*) fees on the 12 sites that SPZ leases. Carpark management fees are a small contributor to revenue and we do not expect this to grow.
- **Capital and software sales (Technology, CGe FY23 $4m, 9% revenue):** The Technology division generates revenue from software (SmartCloud) and hardware (Sensors, Signage, Ticketing machines) solutions.

Figure 4: Delineation of revenue streams

Division	Revenue	Structure	% total (CGe)
Parking Management	Parking Breach Notices	Recurrent	~87%
	Management Fees	ARR	~2%
	Carpark revenue	Recurrent	~2%
Technology Division	Hardware revenue	Capital sales	<5%
	Software revenue	SaaS	<5%

Source: Company reports, Canaccord Genuity estimates

- SPZ primarily operates a direct sales model, with a globally dispersed sales team of 20 representatives [UK 10; Germany 4; NZ 4; Australia 1]. Sales cycles vary in length but are typically between one and 12 months, with a conversion rate of >50% once a sales representative surveys a site. In addition to organic site growth, M&A is part of the company's growth strategy to accelerate site and geographic expansion.
- Capex for a greenfield site is $18k, with a CAC of $7k (CGe upfront costs $25k). SPZ generates revenue per site of $42k (FY23), and a gross margin of 74%. This represents an initial payback period of ~7 months. SPZ reports an annual site churn of <5% p.a., with the majority of sites on multi-year contracts. We believe elevated unit economics will likely translate to high earnings margins over the long term,which was illustrated in FY23, with incremental EBITDA margins of 38%.

Key growth drivers

The transition from manual carparks to technology-enabled operators

Manual incumbency provides an opportunity for SPZ's technology-enabled offering to displace legacy operators. We have seen an illustration of this transition in the UK market, which has close to 30% of its sites ANPR-enabled, relative to 15% five years ago. Over this period, SPZ has grown to the region's fifth-largest technology-enabled parking operator (5% market share by revenue). Germany has the largest direct TAM of SPZ's current operating markets (90k sites, 2x opportunity size of the UK); however, the region remains dominated by manual operators (<5% technology enabled). In our view, SPZ has an opportunity to grow its share rapidly, given the low level of competitive pressure and strong regulatory regime. Transitioning a carpark to ANPR technology requires only a small capital outlay ($18k, <6 months payback) and typically, once a site has been converted, customers are extremely sticky (<5% churn).

Geographic expansion – led by Europe

SPZ's core market is the UK, accounting for 88% of revenue and holding a 5% market share in the region. Management has articulated a strategy to expand its presence beyond the UK, with the immediate focus being the European market.

Germany is the largest and one of the fastest-growing markets in Europe, with 90k sites growing at CAGR of 16% (FactMR). SPZ entered the German market in March 2022 with a $1.5m organic investment and $2m acquisition [ParkingInnovation, 46 manual sites]. Extrapolating SPZ's current penetration in the UK to the German market (5% penetration, 90k sites, $42k p.a. revenue/site) sees an annual revenue opportunity of $190m [FY23 group revenue $45m]. In our view, there is an upside risk to our 5% market share assumption, given the relatively lower level of competitive pressure and size of the available greenfield opportunity (<5% technology enabled). SPZ currently has four sales representatives in Germany [targeting three site additions/rep/month] to support organic growth and a well-capitalised balance sheet [$10m net cash, $4m FCF/$9m normalised for expansion capex] to support site accretion through M&A, in our view.

Outside Europe, SPZ has also made early entry into ANZ. While the Australian opportunity has been unwound pending the outcome of regulatory reforms, New Zealand remains a small but accretive market opportunity of 2,000 sites.

M&A to accelerate site growth

Key to scaling SPZ's business is growth in ANPR-operated sites. To date, SPZ has a site growth three-year CAGR of 30%, primarily from organic growth, with some support from acquisitions. SPZ typically acquires small, sub-scale parking operators, which provides acceleration to its site expansion strategy or access to new geographic markets. SPZ has made three relatively small acquisitions over the past five years.

- Enterprise Parking Solutions (August 2021, UK): SPZ paid $1.5m consideration for 68 ANPR sites, representing a multiple of 0.7x EV/rev multiple (COVID-adjusted).
- NE Parking Limited (April 2022, UK): SPZ acquired 517 manually operated sites for $0.5m consideration. Sites will gradually be rolled onto ANPR technologies, which will then see the sites included in the SPZ’s site count.
- ParkInnovation (July 2023, Germany): SPZ acquired 46 manually operated sites for a consideration of $2m to accelerate its expansion into Germany.

All acquisitions were undertaken without the need to raise equity or debt and we expect, based on SPZ’s balance sheet, that this will continue unless a large-scale operator is identified which adds strategic value or scale to the business. We do not include M&A in our estimates; however, this remains an important component of SPZs strategy for growth and management has cited a healthy pipeline of opportunities.

Industry and competitive landscape

Smart parking management – a US$4.4bn market opportunity

We expect the global smart parking management industry to benefit from structural growth in the coming decade, with increased focus on decongestion and a roll-out of smart city infrastructure, supporting spend on technology enablement. According to Fact.MR, in 2022 the industry was sized at US$4.4bn, with an expected CAGR of 21% through to 2032, which has accelerated from its pre-COVID growth CAGR of 18% (2017-21).

European Market Leading Smart Parking Solution Industry Growth

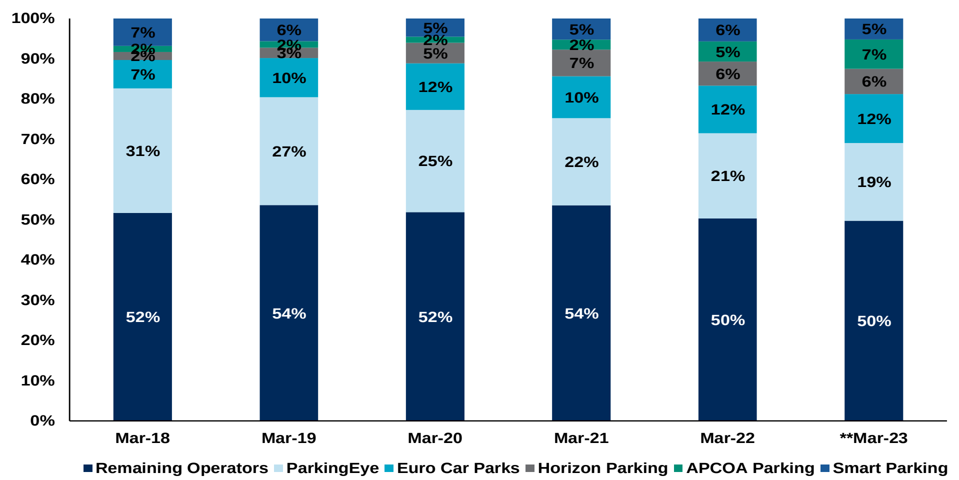
Europe has been the leading adopter of smart parking management solutions, driven by the increased number of vehicle registrations compounded by the limited availability of parking spaces and the deregulation to disclose car registration details to the public. SPZ's core operating markets are the UK and Germany; however, there remains significant headroom for expansion into other ANPR-enabled regions.

United Kingdom

The UK market has a raft of smart parking solution operators; however, market share is increasingly concentrated towards the top five players [ParkingEye, Euro Carparks, Horizon Parking, APCOA Parking and Smart Parking]. The UK has a TAM of 45k sites, implying SPZ is only 2% penetrated on a site basis; however, closer to 5% penetrated on a market share by PBNs basis (closer proxy to revenue), illustrating SPZ's ability to generate revenue more efficiently than other market operators.

The UK has been an early adopter of ANPR technology, with approximately 30% of its sites technology-enabled, which we expect to rapidly grow over the coming years.

Figure 5: UK carpark operators market share



Source: DVLA, Canaccord Genuity estimates

Germany

As Europe's automotive epicentre, Germany dominates the European Parking Management solutions market, occupying ~22% of the region's regulated parking spaces, 2x the opportunity size of the UK (90k sites) and growing at a CAGR of 16%. The current market is predominantly greenfield opportunity (manually operated sites) and highly fragmented, providing the right environment for SPZ to enter the market and grow its share through organic and inorganic investments. We have seen the early stages of strategy execution with the acquisition of ParkInnovation, which added 46 manually operated sites to SPZ's portfolio that will be converted over FY24.

Adoption of ANPR and vehicle owner registry access

Why have we seen a proliferation in ANPR technology?

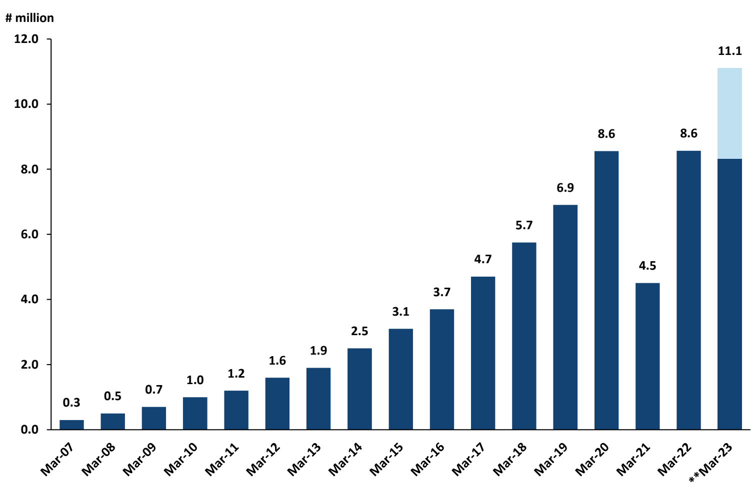
ANPR technology uses optical character recognition to identify vehicle registration plates and has a broad range of use cases across parking operations, traffic management, law enforcement and toll collection. This has seen widespread adoption of the technology across North America, Europe and, more recently, Asia.

From a parking operator's perspective, ANPR technology is substantially more cost-effective than onsite ticketing officers with barriers or parking patrol personnel. The ANPR system logs each number plate entering and leaving the carpark and checks if the vehicle has paid for a ticket. If a vehicle breaches a condition (i.e. parks without a ticket, overstays the time limit or a non-customer parks in a customer carpark) the system will automatically request the details of the registered vehicle owner from the relevant authority (the Driver and Vehicle Licencing Agency (DVLA) in the UK) and send a breach notice via mail.

Structural growth of PBN

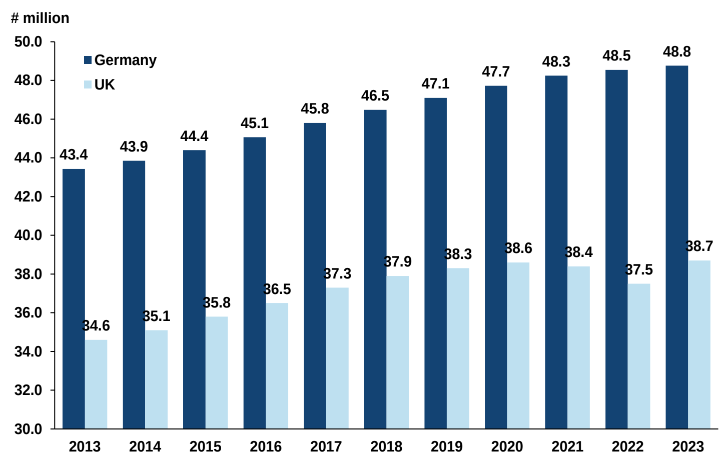
Smart parking management operators profit from PBNs issued by carparks and the closest proxy to track PBNs in the UK is requests made to the DVLA for vehicle ownership details. Over the past 15 years, we have seen a 27% CAGR in requests to the DVLA, illustrating the industry's structural growth, which is benefitting from growth in on-road vehicles, paired with decreased availability of parking spaces.

Figure 6: Driver's licence validation service requests by car parking management operators (proxy for fines issued)



Source: DVLA, Canaccord Genuity estimates

Figure 7: Registered vehicle growth (UK and Germany)



Source: CEICA, Canaccord Genuity estimates

Private parking operators: regulatory reforms

Review of UK Parking (Code of Practice) Act

In response to public concern surrounding practices and behaviours of some parking operations, the UK government has proposed changes to the Parking (Code of Practice) Act to guide the operation and management of private parking facilities. The parliament was given 40 days to resolve the outcome of the draft legislation, which was subsequently withdrawn on 7 June 2022, pending a review of charges and fees. The current process of review is seeking a call for evidence over 10 weeks (expiring 8 October 2023). The call for evidence has been supplemented by a proposal outlining five initial options relating to parking charges and debt recovery changes. We note these options remain subject to change.

Summary of the five options proposed for the UK Parking (Code of Practice) Act:

- **Option 1:** Retain the current industry parking charge level of £100, 40% discount rate for early payment and £70 cap on debt recovery fees (no change).
- **Option 2:** Set parking charge levels at £50/£70 for England and Wales (outside London), £80/£130 inside London and £80/£100 for Scotland, with some exceptions, and increase the discount rate to 50%. Lower the cap on debt recovery fees to 30% of parking charge levels.
- **Option 3**: Set parking charge levels at £50/£70 for England and Wales (outside London), £80/£130 inside London and £80/£100 for Scotland, with some exceptions, and increase the discount rate to 50%. Ban debt recovery fees.
- **Option 4:** Set parking charge levels at £70/£100 and retain the current industry 40% discount rate. Lower the cap on debt recovery fees to 30% of parking charge levels.
- **Option 5:** Set parking charge levels at £70/£100 and retain the current industry 40% discount rate. Ban debt recovery fees.

Impact on SPZ

Based on options 1-5 set out in the UK Parking (Code of Practice) Act initial review (which remains subject to change), we have conducted a sensitivity analysis on the impacts to SPZ's revenue. In our view, the most likely change directly affecting SPZ is an increase in the discount rate from 40% to 50%, which we estimate would lead to a 15-20% decline in revenue per PBN (CGe).

Figure 8: UK Parking (Code of Practice) Act sensitivity

Smart Parking - Assumptions

SPZ EV FY24 - pro-forma	A$m	106
Revenue per site	A$	42,144
Gross profit margin	%	75%
Fixed opex (FY24)	A$m	-26
Technology revenue	A$m	4

Revenue/EBIT Impact (A$m)		Early payment discount rate (%) Current 40%	45%	Pot. chg 50%
Sites (#)	1,112	0.0	4.0	8.0
	1,250	0.0	4.5	9.0
	1,500	0.0	5.4	10.7
	1,750	0.0	6.3	12.5
	2,000	0.0	7.2	14.3

EBITDA (A$m)		Early payment discount rate (%) Current 40%	45%	Pot. chg 50%
Sites (#)	1,112	12.1	8.2	4.2
	1,250	16.5	12.0	7.6
	1,500	24.4	19.0	13.7
	1,750	32.3	26.0	19.8
	2,000	40.2	33.1	25.9

EV/EBITDA (A$m)		Early payment discount rate (%) Current 40%	45%	Pot. chg 50%
Sites (#)	1,112	8.9	13.2	25.7
	1,250	6.5	8.9	14.2
	1,500	4.4	5.6	7.9
	1,750	3.3	4.1	5.4
	2,000	2.7	3.3	4.2

Source: Company reports, Canaccord Genuity estimates. Note: Gross profit margin applicable to base case.

QLD government reforms process

In February 2023, the QLD government cracked down on what it considered predatory fines issuance through private carpark operators. Consequently, the government has placed a temporary halt on access of the data registry while it conducts comprehensive consultations with the parking industry to ensure "whatever move we made was effective" (Mark Bailey, Minister for Transport and Main Roads).

Current legislation allows private parking operators to issue penalty notices where the infringement can be enforced by the courts, supported by substantial evidence, or where the operator has obtained a judgement declaring a breach of terms and conditions. A process requires the Department of Transport and Main Roads (TMR) to provide pertinent details about a vehicle's owner. Initially, this procedure was established to assist in cases of accidents and insurance claims, serving as the preliminary step in the litigation process. However, concerns have been raised regarding the operators' apparent lack of intention to proceed with litigation due to the high costs compared to the parking violation fines.

The consultation is expected to result in a progress report and several amendments in late 2023.

Impact on Smart Parking

SPZ launched in QLD, Australia, in July 201 and held 69 locations at the time the reforms were announced. While SPZ remains in consultation with the QLD government through the process of the reforms, we anticipate a wind-down of the $2.1m annualised revenue generated from the region (<5% group revenue). As at 1H23, the region was not yet profitable.

Financials and earnings growth forecasts

SPZ operates as a leading playing in a highly profitable market niche. Its revenue model is driven from highly predictable and recurring issuances of PBN that generate incremental EBITDA margins 38%.

Figure 9: SPZ growth assumptions

Growth Assumptions		1H22A	2H22A	FY22A	1H23A	2H23A	FY23A	FY24E	FY25E
ANPR Sites	**#**	**737**	**839**	**839**	**984**	**1112**	**1112**	**1334**	**1535**
UK ANPR	#	654	790	790	864	930	930		
APAC/Germany ANPR	#	83	49	49	120	182	182		
Incremental sites		*118*	*102*	*220*	*145*	*128*	*273*	*222*	*200*
Site Growth				*36%*			*33%*	*20%*	*15%*
Revenue	**A$m**	**18.7**	**19.4**	**38.1**	**22.1**	**23.1**	**45.2**	**57.7**	**68.0**
Parking Management Revenue	*A$m*	*16.9*	*16.5*	*33.4*	*20.0*	*21.2*	*41.2*	*53.4*	*63.3*
Technology Revenue	*A$m*	*1.8*	*3.0*	*4.7*	*2.1*	*1.8*	*3.9*	*4.3*	*4.7*
Revenue Growth				*68%*			*18%*	*28%*	*18%*
COGS	*A$m*	-4.9	-5.8	-10.7	-5.4	-6.3	-11.6	-16.2	-18.4
Gross Profit	***A$m***	**13.8**	**13.6**	**27.5**	**16.7**	**16.8**	**33.5**	**41.5**	**49.6**
Gross Profit Margin				*72%*			*74%*	*72%*	*73%*
Employee expense	*A$m*	-5.2	-5.9	-11.1	-6.6	-6.9	-13.5		
Rental and operating lease costs	*A$m*	-0.3	-0.4	-0.7	-0.3	-0.3	-0.6		
Other opex	*A$m*	-3.2	-3.7	-6.9	-4.5	-3.4	-7.9		
Opex	***A$m***	**-8.7**	**-10.0**	**-18.7**	**-11.5**	**-10.6**	**-22.1**	**-26.6**	**-29.6**
Opex growth				*44%*			*18%*	*20%*	*12%*
EBITDA	***A$m***	**5.1**	**3.6**	**8.8**	**5.3**	**6.2**	**11.5**	**15.0**	**20.0**
Parking Management EBITDA	*A$m*	*5.8*	*3.9*	*9.7*	*5.5*	*5.9*	*11.4*		
Technology EBITDA	*A$m*	*0.4*	*0.7*	*1.1*	*0.8*	*1.2*	*2.0*		
EBITDA Margin				*23%*			*25%*	*26%*	*29%*

Source: Company reports, Canaccord Genuity estimates

- **Revenue:** We assume a 22% revenue growth CAGR to FY25E, against its trailing CAGR of 12% during a COVID affected period.
  - **Parking Management:** Our revenue forecast is driven by the core Parking Management division (CGe 24% CAGR to FY25E), which assumes SPZ achieves its FY25 site target of 1,500 and generates $41k per site (FY23 $42k). This forecast assumes incremental organic site additions of +200 p.a. (in line with its historic trend); however, it does not factor in an impact from the parking code of practice. We see this as a reasonable assumption with upside risk from an accretive acquisition balancing the downside risk from implementation of changes to the UK Parking (Code of Conduct) Act.
  - **Technology:** The Technology division largely supports the Parking Management division revenues and provides some diversification from its sales into an external customer base. We assume the division grows 10% per annum, making up just 9% of FY25E revenue.

- **Gross margins:** SPZ generates high group gross profit margins of ~75%. Its core revenue comes from Parking Breach notices which generate a 75% gross profit margin based on the £31 issuance revenue and £7 issuance cost so, absent of a change in the parking issuance revenue, we do not expect deviation in margins.
- **EBITDA:** Our EBITDA assumes a CAGR of 40%, relative to revenue growth of 22% illustrating the potential operating leverage which can be achieved from its undemanding cost base. This implies an EBITDA margin of 30% in FY24E, expanding to 33% in FY25E.
- **Balance sheet and capex** SPZ holds cash of $11m, which we assume to be a trough for the company given its FCF profile of $4m, or $8.7m adjusted for investment in Germany in FY23. SPZ's growth strategy is anchored on site expansion across greenfield and brownfield locations. Typically, a greenfield site incurs capex cost of $18k to install the necessary hardware and software platforms. We assume a relatively consistent expenditure of $5m capex per annum which would support ~300 greenfield site expansions annually.

Valuation

SPZ is a cash-generative, high-growth business that generates elevated gross profit margins of ~75% and EBITDA margins of >35%. The company operates in a large addressable market (US$4.4bn) with a top 5 market share position in the UK and is expected to benefit from structural tailwinds as the parking operator industry shifts from manual operators to technology-enabled solutions.

Our valuation for SPZ is based on a **DCF methodology ($0.45/share, Ke: 12.8%, β: 1.6x, ERP 5.5%).** Our terminal value incorporates a long term cash EBIT margin of 30% on FY28e revenue assumption of $96m (+13% revg CAGR). We assume a terminal EBIT multiple of 7x, a discount to SPZ's ASX industrials peers, to account for a risk of changes to the UK Parking (Code of Conduct) Act.

Figure 10: DCF methodology

DCF Analysis - Firm Value	**FY24e**	**FY25e**	**FY26e**	**FY27e**	**FY28e**
1. Explicit cash flow					
Cash EBITDA	15.0	20.0	25.0	29.5	33.6
Less cash tax	0.0	-3.7	-4.9	-6.0	-7.1
Less Increase in working capital	-1.1	-1.8	-0.9	-0.5	-0.6
Less capex	-5.7	-5.7	-5.7	-5.7	-5.7
Free Cashflow to Firm	**8.1**	**8.8**	**13.5**	**17.2**	**20.3**
Discount factor	*0.89*	*0.79*	*0.70*	*0.62*	*0.55*
PV of Free Cashflow	7.2	7.0	9.4	10.6	11.1
Total PV of explicit free cash flow					45.3
2. Terminal value					
Terminal Revenue (FY28)					96.0
LT sustainable EBIT margins					30%
Cash EBIT					28.8
Long term multiple					7
Terminal value					202
Discount factor					0.55
PV of terminal value					110.3
PV of explicit free cash flow					45.3
Firm Valuation					**155.7**
Net Debt					-15.9
Equity Valuation					**139.8**
EFPOWA					349.3
Value per share					**0.40**
Target price (rolled forward by K_e)					**0.45**

Assumptions	
Risk Free Rate	4.0%
Beta	1.6
Equity RP	5.5%
Cost of Equity	12.8%
Cost of Debt	**5.0%**
Gearing Ratio	0.0%
WACC	**12.8%**

LT sustainable cash EBIT margins	
Revenue	100%
Gross profit margins	**75%**
S&M (churn/sales cont. ratio)	10%
Capex	15%
G&A	20%
EBIT margin	**30%**
LT EBIT multiple	7.0

Source: Canaccord Genuity estimates

Peer comparison

We take a peer group of international direct peers and domestic indirect peers operating in hardware enabled software.

SPZ has a one-year forward EV/EBITDA multiple of 7.5x, relative to its peer group of 11.2x (domestic peers 15.3x and international peers of 7.7x) putting the stock at a 48% discount to its peers. This does not reflect the positive cash generating profile of the company, in our view, which complies with the rule of 40.

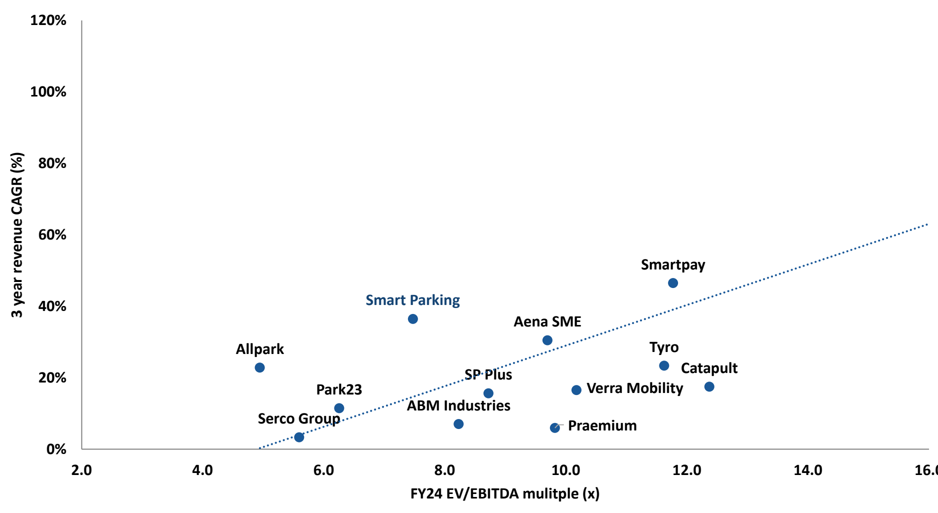
Figure 11: Peer set

Company	Share Price	$	Market Cap	EV	Revenue ($m)			EBITDA ($m)			EV/Revenue		EV/EBITDA			Revenue Growth			FY23 Rule-of-40
					FY22	FY23e	FY24e	FY22	FY23e	FY24e	FY23e	FY24e	FY22	FY23e	FY24e	FY21	FY22	FY23e	
Domestic SaaS																			
Smart Parking	$0.35	AUD	$123	$112	38	45	58	9	11	15	2.5	1.9	12.8	9.8	7.5	5%	68%	18%	44%
Acusensus	$0.90	AUD	$113	$90	29	45	54	4	5	6	2.0	1.7	24.4	18.2	16.3	191%	333%	56%	66%
Catapult	$0.98	AUD	$245	$248	140	133	152	-17	11	20	1.9	1.6	-15.0	23.2	12.4	41%	49%	-4%	4%
Nanosonics	$4.32	AUD	$1,307	$1,205	141	182	204	16	25	28	6.6	5.9	77.3	48.6	42.8	28%	17%	29%	42%
Smartpay	$1.65	AUD	$393	$389	48	78	106	25	33	33	5.0	3.7	15.7	11.8	11.8	20%	42%	62%	105%
Tyro	$1.36	AUD	$708	$683	377	457	497	26	48	59	1.5	1.4	25.8	14.2	11.6	34%	42%	21%	32%
Praemium	$0.67	AUD	$336	$292	76	79	87	20	25	30	3.7	3.3	14.9	11.6	9.8	47%	3%	4%	36%
EROAD	$0.75	AUD	$85	$155	140	176	188	33	51	61	0.9	0.8	4.7	3.0	2.6	2%	52%	26%	55%
Average											***3.1***	***2.6***	***21.1***	***18.7***	***15.3***	*29%*	*34%*	*23%*	*49%*
International Direct Competitors																			
SP Plus Corporation	$36.32	USD	$714	$1,268	787	881	921	119	131	145	1.4	1.4	10.7	9.7	8.7	8%	32%	12%	27%
Verra Mobility	$18.28	USD	$3,102	$4,066	740	806	855	337	369	399	5.0	4.8	12.1	11.0	10.2	37%	37%	9%	55%
ABM Industries	$40.19	USD	$2,634	$3,986	7,889	8,048	8,050	497	513	484	0.5	0.5	8.0	7.8	8.2	12%	20%	2%	8%
Serco Group Plc	$1.48	USD	$1,621	$2,276	4,513	4,773	4,879	383	409	407	0.5	0.5	5.9	5.6	5.6	14%	2%	6%	14%
Aena SME	$144.90	USD	$21,735	$28,819	3,796	4,889	5,323	1,696	2,714	2,971	5.9	5.4	17.0	10.6	9.7	10%	58%	29%	84%
Park24	$2,060.50	USD	$351,356	$449,262	297,342	324,600	356,947	55,402	66,456	71,796	1.4	1.3	8.1	6.8	6.3	3%	15%	9%	30%
Allpark Empreendimentos	$4.64	USD	$994	$2,210	1,110	1,331	1,489	323	404	447	1.7	1.5	6.8	5.5	4.9	24%	38%	20%	50%
Average											***2.3***	***2.2***	***9.8***	***8.1***	***7.7***	15%	29%	***12%***	***38%***
Peer set average											2.7	2.4	15.3	13.2	11.2			20%	43%

Source: Capital IQ, Canaccord Genuity estimates for SPZ

Despite being one of the highest growth plays in the domestic or international peer set (36% three-year CAGR FY21-24E) SPZ trades at a below-trend forward EV/EBITDA multiple of 7.5x, suggesting the market is significantly undervaluing the business relative to its peers.

Figure 12: Smart Parking undervalued relative to domestic and global peers



Source: Capital IQ, Canaccord Genuity estimates for SPZ. Note: Revenue CAGR FY21-24E.

Board and management

Christopher Morris – Chairman

(118.9m shares, 34% shareholding)

Mr Morris has been involved with the company since the inception, serving as the Non-Executive Chairman since March 2009, when the company was previously known as Empire Beer Group. He has been re-elected since this time and currently holds the position as Chairman of Smart Parking. Previously, Mr Morris was the founder of Computershare and served as its CEO from 1990 to 2006. He played a pivotal role in transforming Computershare from a local Australian enterprise into a successful global company, under the guidance of his industry knowledge and strategic vision.

Paul Gillespie – Chief Executive Officer

(6.3m shares, 1% shareholding)

Mr Gillespie was appointed as Managing Director of Smart Parking in January 2013, bringing with him over 20 years of experience in the parking industry. Before joining Smart Parking, Gillespie led the UK division of Xerox Parking Services, successfully overseeing two business units providing hardware and software solutions to various public and private organisations.

Jeremy King – Non-Executive Director

(0.64m shares, 0.2% shareholding)

Jeremy King has been serving as a Non-Executive Director of Smart Parking since his appointment in August 2012. He is also a Director at Mirador Corporate, specialising in corporate advisory matters. His extensive experience spans over 20 years in domestic and international legal, financial and corporate matters, owing to his background as a corporate lawyer.

Fiona Pearse – Non-Executive Director

(0.613m shares, 0.2% shareholding)

Appointed as a Non-Executive Director in May 2019, Fiona Pearse brings a wealth of commercial and financial expertise gained from her global career with the likes of BHP and BlueScope Steel. Ms Pearse has also served in numerous non-executive positions, including Non-Executive Director roles at City West Water, Monash Health, U Ethical (fund manager) and major non-profits like World Vision Australia and Scotch College. Fiona holds an MBA from the University of Melbourne and is a Fellow of CPA Australia and the Australian Institute of Company Directors. She has also served as an advisory board member to a fintech based in Stone & Chalk and as an independent member of the Victorian Parliament Audit Committee.

Richard Ludbrook – Chief Financial Officer & Company Secretary

Richard was appointed Chief Financial Officer in February 2011 and is also the company's acting Secretary. Richard has over 25 years of experience building and leading financial teams globally with the likes of Ernst & Young and is a Member of the New Zealand Institute of Directors.

Risks

Local regulatory risk

There is a genuine concern changes to local government regulations may preclude access to vehicle owner details, which would be a significant impediment to Smart Parking's operations and ability to generate revenue.

Data privacy risk

Growth may be hampered by stringent data protection regulations and privacy concerns. The European Union's General Data Protection Regulation (GDPR) provides strict rules for the processing of personal data and number plate data may be considered personal data under certain circumstances.

Industry risk

The parking industry is competitive and dynamic. Technological advancements, changes in regulations or city planning and evolving consumer behaviour (such as increased use of public transport or rideshare services, or the long-term trend towards autonomous vehicles) could impact the demand for parking and the profitability of the industry. While it is unlikely, there is also downside risk due to the impact of future restrictions related to COVID.

Reputational risk

Customer satisfaction and corporate reputation are vital in the parking industry. Any negative publicity, such as customer complaints about poor service, unfair fees or privacy concerns, could harm the company's reputation and customer base.

Financial risk

The Group's activities expose it to a variety of financial risks – market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group does not use derivative financial instruments and there is a possibility one or more of these risks could eventuate.

M&A risk

SPZ has articulated a strategy to pursue M&A in order to accelerate site expansion and grow revenue. There is risk that SPZ overpays for acquisitions, the acquired companies underperform or expected cost synergies fail to materialise, which could disappoint the market.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: September 17, 2023, 16:45 ET

Date and time of production: September 15, 2023, 02:36 ET

Target Price / Valuation Methodology:

Smart Parking Limited - SPZ

Our price target is based on a DCF methodology (K_e: 12.8%, β: 1.6x, ERP 5.5%, LT EBIT margin 30%), incorporating a low terminal multiple (7x EBIT; [-40% discount to XSI]) given the potential risks stemming from the changes to the UK Parking Act.

Distribution of Ratings:

Global Stock Ratings (as of 09/17/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	616	67.18%	22.08%
Hold	117	12.76%	10.26%
Sell	16	1.74%	6.25%
Speculative Buy	157	17.12%	47.13%
	917*	100.0%	

*Total includes stocks that are Under Review

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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Smart Parking Limited Rating History as of 09/14/2023

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