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Substrate Artificial Intelligence

EQUITY - SPAIN
Sector: Software

Closing price: EUR 0.24 (21 Dec 2022)
Report distribution: 22 dec 2022 (09:45h)

Initiation of Coverage
Independent Equity Research

Substrate AI (SAI), is a small Spanish AI tech company based on reinforcement learning, with headquarters in Valencia. SAI develops and sells its own products and solutions under a SaaS model. Listed on BME Growth since May 2022. The board of directors controls 36% of the company's share capital

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2023-2024: time to put words into action. And to grow in artificial intelligence

A PLAY ON ARTIFICIAL INTELLIGENCE... The M&A executed in 2020-2022 has created a tech company ready to grow in AI solutions. A business model that is theoretically scalable in the long term and that is riding the tailwind of the AI sector (33% CAGR 2022e-26e in Europe). However, the company's AI business is still at the ramp-up stage (c.20% of 2022e sales).

... ...GENERATING THE OPPORTUNITY TO GROW AT HIGH DOUBLE DIGITS. The scenario we envisage for 2022e-2024e includes organic growth in revenue to c. EUR 6.6Mn in 2024e (42.8% CAGR 2022e - 24e). Supported by: (i) the development of non-AI derived business and (ii) the marketing of proprietary AI solutions under a SaaS model (c.2x its weighting in the revenue mix.

ALTHOUGH BREAK EVEN IN RECURRENT EBITDA WON'T BE EXCEEDED UNTIL AFTER 2024E. We do not estimate significant operating leverage (at least until 2024e), as, in our view, the company will continue to invest in its structure to adapt it to higher volumes of revenues. And not until the AI solutions have a significant weighting in the revenue mix. In other words, the step-up in profitability will not be immediate but SAI's business model is very attractive in the long term.

...TAKING THEORETICAL NET DEBT TO EUR 4.6MN IN 2024E (ALTHOUGH SECURED BY CONVERTIBLE BONDS). All the above leads us to a central scenario that does not envisage positive recurrent FCF until, at least, after 2024e once SAI has consolidated sufficiently high Rec. EBITDA to absorb the cash consumption of this stage of the ramp-up of its AI business.

AN EQUITY STORY OF A SECTOR NATURE. SAI is an AI start-up whose equity story is that of a technological company based on the development of its own AI solutions. Investment and growth hinge on a subsector for which strong and rapid development is expected. But SAI is also a "bet", as at present revenue from AI solutions is still a minority (20% of 2022e sales). So 2022e-24e is crucial to seeing what SAI will be in the long term and for demonstrating its capacity to grow in AI.

Market Data

Market Cap (Mn EUR and USD)	5.5	5.9
EV (Mn EUR and USD) (1)	6.1	6.5
Shares Outstanding (Mn)	23.6	
-12m (Max/Med/Mín EUR)	4.10 / 1.03 / 0.17	
Daily Avg volume (-12m Mn EUR)	0.05	
Rotation(2)	126.2	
Factset / Bloomberg	SAI-ES / SAI SM	
Close fiscal year	31-Dec	

Shareholders Structure (%) (6)

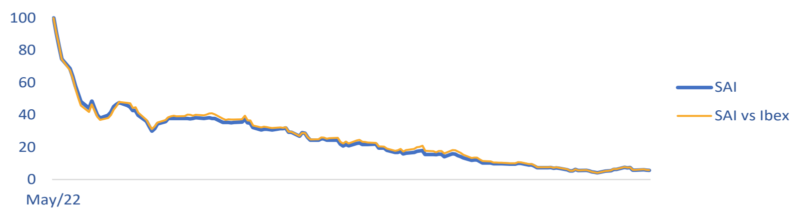
JMSAN Agentes Financieros	41.3
Bren Worth	7.6
D. Lorenzo Serratosa Gallardo	7.3
D. José Iván García Braulio	7.0
Free Float	26.2

Financials (Mn EUR)	2021	2022e	2023e	2024e
Adj. nº shares (Mn)	7.9	21.8	23.6	23.6
Total Revenues	1.6	3.2	5.0	6.6
Rec. EBITDA	-1.1	-1.8	-1.1	-0.3
% growth	*n.a.*	*-66.2*	*40.0*	*70.8*
% Rec. EBITDA/Rev.	*n.a.*	*n.a.*	*n.a.*	*n.a.*
% Inc. EBITDA sector(3)	*32.5*	*20.2*	*11.5*	*17.0*
Net Profit	-1.8	-15.8	-1.6	-1.4
EPS (EUR)	-0.23	-0.72	-0.07	-0.06
% growth	*n.a.*	*-217.1*	*90.8*	*13.7*
Ord. EPS (EUR)	-0.24	-0.71	-0.07	-0.06
% growth	*n.a.*	*-197.6*	*90.7*	*13.7*
Rec. Free Cash Flow(4)	-2.2	-2.9	-1.9	-1.1
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	5.0	1.6	3.5	4.6
ND/Rec. EBITDA (x)	n.a.	n.a.	n.a.	n.a.
ROE (%)	*n.a.*	*n.a.*	*n.a.*	*n.a.*
ROCE (%)(4)	*n.a.*	*n.a.*	*n.a.*	*n.a.*

Ratios & Multiples (x)(5)				
P/E	n.a.	n.a.	n.a.	n.a.
Ord. P/E	n.a.	n.a.	n.a.	n.a.
P/BV	0.2	0.3	0.3	0.4
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	3.76	1.90	1.21	0.93
EV/Rec. EBITDA	n.a.	n.a.	n.a.	n.a.
EV/EBIT	n.a.	n.a.	n.a.	n.a.
FCF Yield (%)(4)	*n.a.*	*n.a.*	*n.a.*	*n.a.*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Sector: Stoxx Europe 600 Technology.
(4) Please see Appendix 2 for the theoretical tax rate (ROCE) and rec. FCF calculation.
(5) Multiples and ratios calculated over prices at the date of this report.
(6) JMSAN Agentes Financieros: Lorenzo Serratosa Gallardo, José Iván García Braulio, Francisco Javier Muñoz Sanfeliu and Fernando Villar del Prado each has a 25% stake. See page 21 of this report for more details

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-6.0	-67.4	n.a.	n.a.	n.a.	n.a.
vs Ibex 35	-7.3	-69.1	n.a.	n.a.	n.a.	n.a.
vs Ibex Small Cap Index	-5.1	-68.0	n.a.	n.a.	n.a.	n.a.
vs Eurostoxx 50	-5.1	-70.6	n.a.	n.a.	n.a.	n.a.
vs Sector benchmark(3)	-2.6	-70.1	n.a.	n.a.	n.a.	n.a.

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

Substrate Artificial Intelligence (SAI) is a BME Growth company

BME Growth is the segment of BME MTF Equity aimed at small and medium sized companies, directed and managed by the Spanish stock market and is subject to the CNMV supervision. BME MTF Equity is not a Regulated Market but instead falls within the classification of a Multilateral Trading Facility (MTF) as defined under the Markets in Financial Instruments Directive (MiFID). In July 2020, BME Growth obtained the status of SME Growth Market, a new category of EU regulations, which in Spain is called Mercado de Pymes en Expansión.

BME Growth is the Spanish equity market for companies of reduced capitalization which aim to grow, with a special set of regulations, designed specifically for them, and with costs and process tailored to their particular features. Operations in BME Growth (former MAB) started in July 2009. There are currently c.140 companies listed on it. Companies listed on the MAB can choose to present their financial statements under IFRS or the General Accounting Plan (PGC) and Royal Decree 1159/2010 (NOFCAC).

The ability to grow the AI-derived business is the real equity story and the period 22e-24e is crucial for demonstrating this

AI start-up based on reinforcement learning…

Listed on BME Growth since May 2022, SAI is a small Spanish tech company that develops AI solutions based on reinforcement learning. It owns the intellectual property rights to all its technology, developed by its CTO, Bren Worth, together with Rensselaer Polytechnic in New York. In 2020 and 2021 a corporate transformation was carried out giving rise to the current group: Substrate Artificial Intelligence (SAI).

…that provides services in the fintech, HR, agritech, health and energy sectors

It currently operates in the Fintech, Human Resources/Advertising, Agritech, Health and Energy sectors: a generalist model without sector specialisation. Corporate operations and a strategy of non-organic growth have enabled SAI to diversify its business. This leads us to ask a number of essential questions: What is SAI today? What can we expect for the company's most immediate future (2022e-2024e) in terms of operating results and cash generation? And, finally, what can we expect from a business like SAI's in the longer term?

A) 2020 - 2021: corporate transformation and the creation of the group as we know it today

The corporate transformation and a strategy of M&A in 2020 and 2021 have given rise to a group of both acquired companies and self-created startups on which to develop SAI's reinforcement learning solutions. In this crucial period SAI was transformed in two ways:

Corporate transformation, creation of the group and, above all, definition of the long-term business model

- **Business diversification.** In 2020 SAI depended mainly on its financial consultancy business, that in 2021 accounted for 64% of proforma sales. The acquisitions of: (i) the "Intefi School of Business" (online and in-person education) and "Serenity Markets" (a website providing financial information online) business units, both in the Fintech division, (ii) the "Summon Press" business unit, focused on editing, content production and website advertising, (iii) 70% of the shares of Cuarta Dimensión Médica (4D) in 2022 and (iv) the Boalvet (agritech) and AIRENI (energy) startups, have reduced dependence on the financial consultancy business. 1H22 sales confirm this: (i) Fintech (32% of 1H22 sales), (ii) health sector (29% of 1H22 sales), (ii) HR (28% of 1H22 sales), (iii) agritech (11% of 1H22 sales) and the energy market (we expect this to provide sales in 2023).
- **Development of proprietary solutions.** The creation of a group of companies (controlled by the parent although not necessarily 100%) to sell the products and solutions developed by SAI, with the goal of their paying royalties to the parent in the future (not in the short term) for the use of the technology and AI solutions. A business model in which SAI owns the technology and shares the risk/commercial benefits of its exploitation in the various sectors.

In conclusion, 2020 - 2021 represented an evident turning point for SAI and at the start of 2022, the snapshot is that of a company that: (i) has managed to diversify its business as shown by 1H22 results, although the weighting of the business derived from AI solutions remains small (c.20% of the revenue mix), (ii) has yet to reach break-even in EBITDA (EUR -1.0Mn in 1H22) and (iii) has reduced net debt thanks to the capital increase of March 2022 (EUR 7.7Mn) to EUR 0.3Mn (vs EUR 5.0Mn in 2021, including payments pending for M&A).

B) 2022e – 2024e: strong revenue growth although not reaching break-even

There's only one question we need to ask: What can we expect from SAI in coming years in terms of growth, profitability and recurrent FCF generation?

Capacity for growth underpinned by proprietary AI solutions in a sector that is growing strongly (CAGR 2022-2026 of 33%)

- **A business with the ability to grow.** The strategy executed in previous years has laid the foundations for growth in coming years, thanks to: (i) the development of AI solutions focused on the optimisation of specific processes and tasks (optimisation of dairy farms, integral management of veterinary clinics…), (ii) a scalable business being based on proprietary solutions under a SaaS model (there has been a 94.4% improvement in the training speed of AI models since 2018), and (iii) a sector (AI) in full growth stage, expected to grow at a 2022-2026 CAGR of 33% in Europe, reaching USD 80Bn in 2026.

Strong growth in revenue (42.8% CAGR 2022e-2024e) …

- **Revenues, EUR 3.2Mn in 2022e (C.102% vs 2021) and the possibility of reaching c. EUR 6.6Mn in 2024e (42.8% CAGR 2022e-2024e).** In quantitative terms, the scenario we envisage for the period analysed should enable SAI to aspire to continue to record double-digit growth in revenue (+42.8% CAGR 2022e-2024e) thanks to: (i) strong organic revenue growth in the health, R+D projects and agritech divisions (the solution for the integral management of dairy farms has already been developed) and (ii) the marketing of the reinforcement learning solutions being developed by SAI, such as for example the energy saving solution or the solution for the integral management of veterinary clinics.

… although without reaching breakeven in Rec. EBITDA until after 2024e

- **Although break even in Recurrent EBITDA won't be exceeded until after 2024e.** For 2023e and 2024e, our estimates assume EBITDA still below break-even (EUR -1.1Mn and EUR -0.3Mn respectively) that should be reached after 2024, when the weighting of AI solutions should be the majority. This in itself represents one of the mainstays of SAI's equity story.

and without the ability to generate cash flow, taking net debt to EUR 4.6 Mn in 2024e…

- **Without the ability to generate positive FCF, that will lead to a theoretical increase in net debt.** Our central scenario does not envisage positive recurrent FCF until, at least, after 2024e once SAI has consolidated sufficiently high Rec. EBITDA to absorb the cash consumption necessary for its business. This would increase financing requirements to EUR 4.6Mn in 2024e.

… although financing is secured albeit at the cost of significant dilution

- **Financing has been secured, something that is crucial for a business at the start-up stage and very demanding in terms of operating costs.** In 2022, SAI signed an agreement for an issue of convertible bonds in a maximum amount of EUR 20Mn, to which, in addition, convertible warrants have been linked, with the exclusion of preferential subscription rights, with Alpha Blue Ocean, the sole recipient of this issue. The agreement has a duration of 36 months. (See page 8 of this report for more details). This agreement could avoid an increase in net debt, with the use of financing via equity that would inevitably be dilutive for shareholders.

Tabla 1. KPIs

EUR Mn	2021	2022e	2023e	2024e	CAGR 21-24e
Total revenue	**1.6**	**3.2**	**5.0**	**6.6**	**59.3%**
Growth in total revenue		98.2%	56.2%	30.6%	
Gross margin	**1.6**	**2.5**	**4.0**	**5.3**	**48.0%**
Operating costs	(2.7)	(4.3)	(5.1)	(5.6)	27.0%
Rec. EBITDA	**(1.1)**	**(1.8)**	**(1.1)**	**(0.3)**	**-34%**
Rec. EBITDA / Revenue	-68%	-57%	-22%	-5%	
Free Cash Flow	(2.4)	(4.2)	(1.9)	(1.1)	
Net debt	5.0	1.6	3.5	4.6	
	90%	28%	62%	82%	

C) What can we expect from SAI in the very long term?

At this point and simplifying extremely, today (December 2022) SAI is an AI start-up for which the equity story is that of a technological company based on the development of its own AI solutions (reinforcement learning).

On paper, the AI sector offers a great opportunity and, in our view, SAI is positioning itself to make the most of this: (i) Disruptive technology of reinforcement learning based on human biology applied in various markets. In other words, a revenue model that is highly diversified by client/sector. There is no focus on specialisation. (ii) With what, on paper, is a scalable business with capacity to lever the business as the weight of AI in the business mix increases.

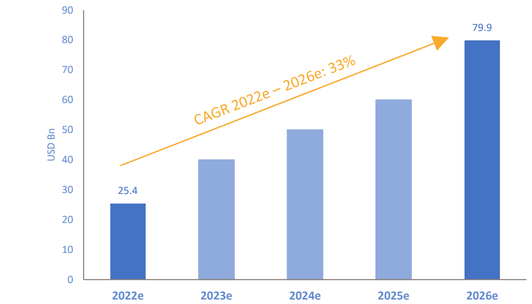
Very long-term growth underpinned by: proprietary solutions, the digital transformation and a decisive commitment by the management team

SAI's 2022e EV/Sales multiple is c.2.1x (excluding non-recurrent R+D sales) vs 3.9x of its peers, decreasing to 1.0x in 2024e (vs its peers that would be trading at EV/Sales multiples of c. 2.5x). Given SAI's current condition of a startup, perhaps the most important is to look ahead and see what the main drivers of longer-term growth will be: (i) proprietary AI solutions (some already developed) and (ii) the size and capacity for growth of the AI market in coming years, on the back of the digital transformation of businesses.

In conclusion, and in our view, SAI should be viewed today as a theoretically sound "bet" to the extent that the investment and growth hinge on a subsector (artificial intelligence) for which strong and rapid development is expected. Also, as a coherent "bet" - it has a clear business model with secured financing - but also as a "bet" in the strict sense of the word in that revenues from AI solutions are at present a minority in the revenue mix (20% of 2022e revenue). This underlines SAI's start-up nature and that the generation of positive FCF is a long way off. In this context, 2022 and 2023 would seem decisive for shaping what SAI will become in the long term.

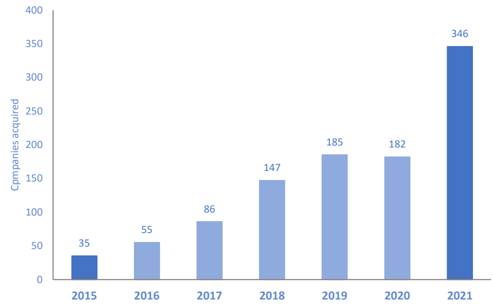
The company in 8 charts

Artificial Intelligence: an attractive market enjoying high growth (33% CAGR 2022e-2026e in Europe) …



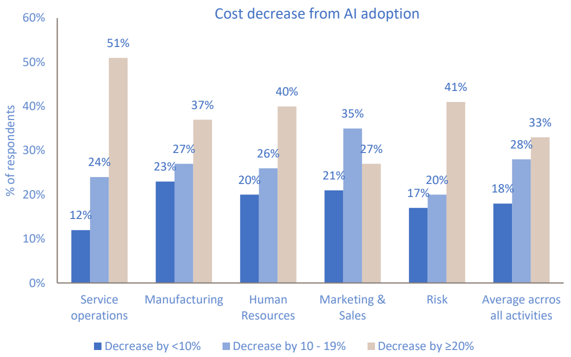
Source: IDC (International Data Corporation)

… and highly fragmented, which has boosted the number of acquisitions in the sector



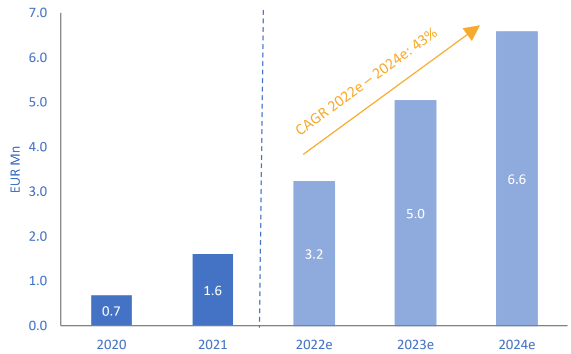
Source: Bakertilly

Artificial Intelligence is increasingly impacting companies' bottom line at the EBIT level

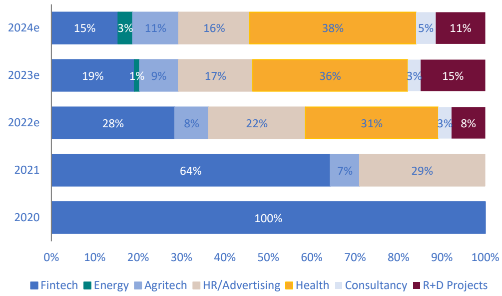


Source: McKinsey Technology Trends 2022. Note: See page 11 of this report for more details

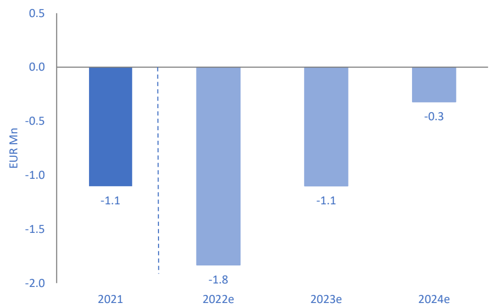
Substrate (SAI): With the potential for high double-digit revenue growth (42.8% CAGR 2022e – 2024e) …



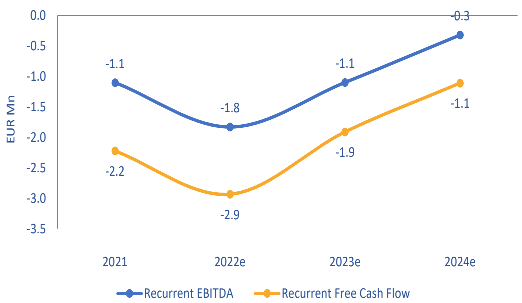
… as a result of the M&A executed in 2020 - 2022, which has increased the weight of the AI business (c.20% of sales 2022e).



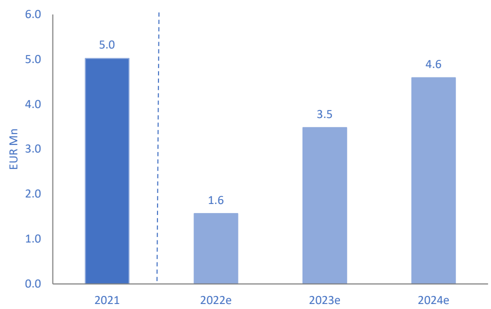
Although without reaching breakeven in Rec. EBITDA until after 2024e



And without the ability to generate positive recurrent FCF for the next years (2022e – 2024e) …



… that will lead to a "theoretical" increase in net debt (EUR 4.6Mn 2024e). Although "secured" with convertible bonds



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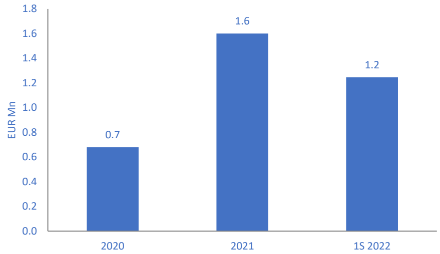
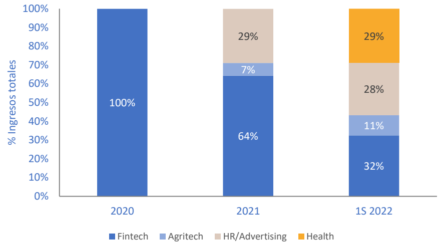
An Artificial Intelligence start-up with proprietary technology, focused on market niches and without sector specialisation

Chart 1. Total revenues 2021 – 1S 2022



Note: 2020 revenues are from the individual annual accounts of Zona Value S.L (now Substrate AI S.A).

Chart 2. Total proforma revenues by business line (2021 – 1S 2022)



Note: In 2022 the sales of intefi and fintech activities start to be accounted for in the Fintech vertical. These sales in 2021 were c.EUR 0.8Mn.

Chart 3. Recurrent EBITDA 2021

Note: The average headcount as of December 31, 2021 was 34 employees and the headcount at the end of the period was 39.

Substrate AI (SAI) is a small Spanish AI tech company (Mkt Cap of c. EUR 5.5Mn) with headquarters in Valencia specialising in software engineering based on reinforcement learning. In 2021 it obtained EUR 1.6Mn in revenue (100% in Spain). It has been listed on BME Growth since May 2022.

SAI owns the intellectual property rights to all its technology, developed by its CTO, Bren Worth, together with Rensselaer Polytechnic in New York. This technology is based on decision-making in uncertain environments using complex algorithms inspired by human biology. According to McKinsey, reinforcement learning is one of the most disruptive current technological trends as it is more scalable due to its ability to process more data than traditional technology.

SAI develops and sells its own products and solutions under a SaaS model, with a mixed model of partnerships and proprietary companies (acquired or created as start-ups). This system provides the company with real problems to solve, the data to be able to train the AI agents and the time to develop the solutions.

The segment of companies dedicated to AI includes above all large US listed companies such as Oracle, Palantir Techonogies, Microsoft, AWS, IBM, C3.ai... However, SAI's main peers by market and size are in Europe, such as Sidetrade (AI to accelerate and secure cash flows in the Order-to-Cash process), Median Technologies (imaging services for oncology trials and AI medical imaging capabilities), BenevolentAI (advanced AI to decipher diseases and discover therapeutic interventions), Linedata Services (AI for market investment), Lectra (AI-based solutions for the auto and fashion markets) and Artificial Solutions Intelligence (an AI-based chatbot).

A decentralised business model based on proprietary AI solutions in niche markets so as not to compete with the main market players

Each of SAI's subsidiaries has its own CEO and independent business plan focused on niche markets. It currently operates via five business lines (without sector specialisation):

- **Fintech (64% of 2021 revenue and 32% of 1H22 sales):** a business providing financial advice and training, that also has two solutions that it offers to individuals and institutional clients: (i) AI-based investment strategies for individuals offered in the US through the group subsidiary Saivers AI in the Collective2 marketplace and in Europe via the subsidiary KAU Markets EAF. (ii) Around these strategies a platform for institutional clients has been developed where they can invest their clients' money and check their investments. The company is currently developing a digital market platform for fintech and insurtech. However, in 2021 and 1H22 almost 100% of revenue came from non-AI business. For example, as a service provider in the fund investment area.

- **Human resources/advertising (29% of 2021 sales and 28% of 1H22 sales):** This line of business has two solutions: (i) Fleebe.com, a solution that offers a free AI virtual assistant for training (although for the moment it only obtains revenue from advertising sales) and (ii) Fleebe Corporate, a human resources platform to help companies to retain talent (marketing is expected to begin in 2023). It includes the "Summon Press" business unit acquired in 2021. Both in 2021 and in 1H22 revenue came exclusively from the sale of advertising to Google on the Fleebe portal and so this is not revenue linked to AI products.

- **Agritech (7% of 2021 sales and 11% of 1H22 sales):** this business line also has two solutions: (i) A dairy farm management system with AI to enhance the quality and

Chart 4. Recurrent EBITDA 1S 2022

Note: We have adjusted for expenses associated with the listing on BME Growth (EUR c.0.2Mn). The average headcount as of June 30, 2022, was 33 employees and the headcount at the end of the period was 54.

Chart 5. Revenues split 2021 – 2022e

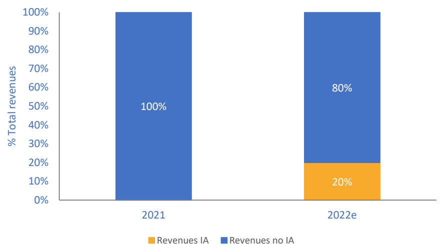
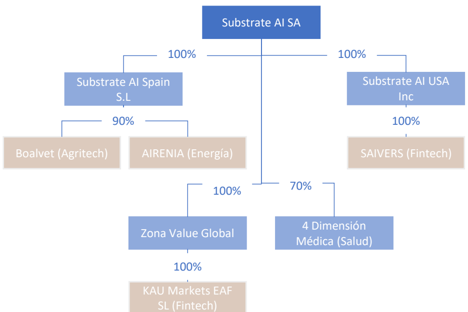


Chart 6. Current Corporate Structure



Note: At the date of this report, SAI is in the process of setting up the corporate entity for the HR/Advertising business line.

quantity of the milk produced. This solution is marketed by the group subsidiary Boalvet, and (ii) a systems R+D project to enhance the yield of cannabis crops for a company (marketing is expected in 2023) that will pay royalties to SAI for the use of the technology. Revenue in 2021 and 1H22 was generated from the sale of AI-based dairy farm management, the sale of feed supplements and R+D agreements.

- **Health (29% of 1H22 sales, c. EUR 0.4Mn):** the subsidiary Cuarta Dimensión Médica S.L (70% of which was acquired in May 2022) offers a marketing and after-sales service for diagnostic imaging equipment. It is currently developing AI solutions for: (i) the predictive maintenance of this equipment, (ii) the integral management of veterinary clinics (automated clinic management) and (iii) diagnostic imaging in the veterinary sector (for example, magnetic resonances). 1H22 sales came from the sale of hardware (and so unconnected to AI).

- **Energy:** this is expected to begin to provide business in 2023. SAI is developing: (i) a predictive maintenance solution for solar power plants with AI with Canadian Solar as partner (marketed through the subsidiary AIRENIA), and (ii) an energy management system for buildings to optimise energy consumption and purchasing. This solution is under development.

- **AI consultancy and R+D projects.** Although they are not business verticals, SAI develops AI consultancy projects for companies in various sectors and R+D projects.

In 2022e we expect c.20% of SAI's revenue to come from products/services directly associated with AI.

2020 -2021: Corporate transformation, creation of the group and, above all, definition of the long-term business model

SAI was created under the corporate name of KAU Finanzas S.L in 2010. In 2018 it changed its name to Zona Value S.L. A number of corporate operations took place in 2020 and 2021 resulting in the group as it is today. In July 2021 it became a limited company, before changing its name to Substrate Artificial Intelligence S.A.

In that same year it carried out a number of acquisitions: (I) the "Intefi School of Business" (online and in-person education) and "Serenity Markets" (a website providing financial information online) business units, (ii) the "Summon Press" business unit, focused on editing, content production and website advertising, (iii) the Boalvet and AIRENI start-ups for their share capital (EUR 3,000) and (iv) in 2022 it acquired 70% of the shares of Cuarta Dimensión Médica (4D).

his intense M&A activity has enabled SAI to change in two ways:

- **Diversification**. Reducing dependence on the financial consultancy business by entering new markets: (i) health (29% of 1H22 sales), (ii) HR/Advertising (28% of 1H22 sales), (iii) agritech (11% of 1H22 sales), and (iv) energy.

- **Change in the business model**. It has allowed the creation of a group of companies (controlled by the parent although not necessarily 100%) to sell the products and solutions developed by SAI, with the goal of their paying royalties to the parent in the future (not in the short term) for the use of the technology. A business model in which SAI owns the technology and shares the commercial risks/benefits of its exploitation in the various sectors in which the group operates.

As a result of the corporate transactions and acquisitions of the last two years, the group has generated EUR 30.7Mn of goodwill. At June 2022 an impairment of EUR 11.5Mn was recorded for the purchase of the Summon Press business unit and the merger of Zona Value SL and Substrate AI LLC (now Substrate AI S.A).

Table 2. M&A Activity

Company/Business unit	Date	% stake	Price (EUR Mn)
Intefi School of Business y Serenity Markets	abr-21	100%	0.60
Summon Pres	may-21	100%	5.50
Cuarta Dimensión Médica	feb-22	70%	1.40
Total			**7.5**

How has this growth been funded?

The capital required to carry out all these acquisitions has come from three sources:

- **Cash:** cash was used to pay for: (i) part of the price of Summon (EUR 2.5Mn; the rest with a capital increase) and (ii) part of Cuarta Dimensión (EUR 1.1 Mn). The rest of the price of 4D was paid in shares (treasury stock) of SAI worth EUR 0.3Mn.
- **Payment deferral:** the EUR 0.6 Mn cash payment for "Intefi School of Business" and "Serenity Markets" was deferred to the first few months of 2022 and so has already been settled.
- **Capital increases:** in March 2022 a capital increase of EUR 7.7Mn was carried out by: (i) the offsetting of credit balances (EUR 5.0Mn), of which EUR 3Mn corresponded to Summon and (ii) a cash contribution of EUR c.2.7Mn (subscribed by 69 shareholders).

Table 3. Net Debt 2021 – 1S 2022

EUR Mn	2021	1S 2022
Long term debt	0.4	1.0
Short term debt*	4.9	0.4
Cash	(0.3)	(1.0)
Net debt	**5.0**	**0.3**

* Note: Includes deferred payments for acquisitions made in 2021. Paid in the first months of 2022.

A company controlled and run by the founders that guarantees the alignment of management's interests with those of minority shareholders

No significant shareholdings of institutional investors. Board members Lorenzo Serratosa (Executive Chair) and José Iván García (Secretary and CEO) control 18.7% and 17.3% of capital respectively. The group's current CTO, Bren Worth, holds 7.6% of the capital. All this ensures the full alignment of management's interests with those of minority shareholders (free float of 26.2%, mainly retail investors).

Table 4. Shareholders structure

Name	Direct	Indirect	Total
JMSAN Agentes Financieros Globales, S.L. (*)	41.3%		41.3%
D. Lorenzo Serratosa Gallardo	7.3%	11.4%	18.7%
D. José Iván García Braulio	7.0%	10.4%	17.3%
D. Francisco Javier Muñoz Sanfeliu	0.2%	10.4%	10.5%
D. Fernando Villar del Prado	0.2%	10.4%	10.5%
Bren Worth	7.6%		7.6%
Ijana Films (**)	2.1%		
Alpha Blue Ocean	6.5%		
Treasury Stock	1.7%		
Free Float	26.2%		
Total	**100.0%**	**42.5%**	

(*) Lorenzo Serratosa Gallardo, José Iván García Braulio, Francisco Javier Muñoz Sanfeliu and Fernando Villar del Prado each has a 25% stake.
(**) Lorenzo Serratosa Gallardo has a 50% stake.

In addition, in 2022 SAI signed an agreement for an issue of convertible bonds in a maximum amount of EUR 20Mn, to which, in addition, convertible warrants have been linked, with the exclusion of preferential subscription rights, with Alpha Blue Ocean (ABO) being the sole recipient of this issue. The agreement has a duration of 36 months.

The amount is divided into a first tranche of EUR 1Mn or two of EUR 0.5Mn followed by 38 tranches of EUR 0.5Mn, with up to 5 tranches being available at any one time. The par value of each bond is EUR 0.01Mn, no interest is accrued, and they have a duration of 12 months from issuance during which time they may be converted. The conversion price will be 95% of the Weighted Average Price (WAP) of the 5 trading sessions prior to the conversion date. Bonds may not be converted at a price lower than the par value of the company's shares (EUR 0.1).

With the equity warrants ABO may acquire up to a number of shares equivalent to 20% of the par value of each of the convertible bond tranches issued in 3 years, at the lower price of: (i) EUR 4.12 or 120% of the closing WAP of the 10 sessions prior to the signing of the contract (June 15, 2022) for the first tranche and (ii) 120% of the closing WAP of the 10 sessions prior to the subscription application date for the other tranches.

So as to better understand how the convertible bond issue could affect the shareholder structure, we have carried out a theoretical exercise (see table 5). The main assumptions we have used are: (i) that additional bonds for a par value of c.EUR 0.6Mn are converted corresponding to the first tranche. The equity warrants corresponding to the first tranche are "out of the money", as the exercise price is the lower of EUR 4.12 and EUR 2.6, and the current share price is well below this level, (ii) that bonds for a par value of EUR 1.5Mn are issued and converted together with the equity warrants corresponding to this issue (20% of the par value of the bond issue), and (iii) that the price per share range for the conversion of the bonds is EUR 0.5 – 0.1. For the equity warrants we have assumed 120% of the bond conversion price.

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Table 5. Theoretical example of the potential impact on the shareholder structure of the conversion of the convertible bonds

		Conversion price (€)				
Shareholders	%Capital*	0.50	0.40	0.30	0.20	0.10
JMSAN Agentes Financieros Globales, S.L. (**)	41.3%	33.2%	31.7%	29.4%	25.7%	18.6%
D. Lorenzo Serratosa Gallardo	7.3%	5.9%	5.6%	5.2%	4.5%	3.3%
D. José Iván García Braulio	7.0%	5.6%	5.3%	4.9%	4.3%	3.1%
D. Francisco Javier Muñoz Sanfeliu	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
D. Fernando Villar del Prado	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Bren Worth	7.6%	6.1%	5.8%	5.4%	4.7%	3.4%
Ijana Films (***)	2.1%	1.7%	1.6%	1.5%	1.3%	1.0%
Alpha Blue Ocean	6.5%	24.8%	28.4%	33.5%	41.9%	57.9%
Treasury Stock	1.7%	1.3%	1.3%	1.2%	1.0%	0.7%
Free Float	**26.2%**	**21.0%**	**20.0%**	**18.6%**	**16.2%**	**11.8%**

(*) Just by way of example, a possible conversion scenario is envisaged, and the current shareholder structure after the conversion of 45 bonds is shown (c.EUR 0.5Mn of par value). (**) Lorenzo Serratosa Gallardo, José Iván García Braulio, Francisco Javier Muñoz Sanfeliu and Fernando Villar del Prado each has a 25% stake (***) Lorenzo Serratosa Gallardo has a 50% stake.

From the point of view of financing (a critical/decisive factor for any start-up) we can say that the business plan has been resolved albeit at the cost of significant dilution (that could exceed 50% for current shareholders). But it has been resolved.

In conclusion, what is SAI today?

Today, we can say that SAI is a small financial advisory, training and advertising company, with some of its business (still a minority part of the revenue mix) generated by AI products. However, the medium and long term equity story is that of a technological company based on the development of its own AI solutions (reinforced learning) and underpinned by:

- A long-term investment and business development strategy of the management team (that controls c.44% of the company's share capital) focused on artificial intelligence that will require investment, a decisive vision and constancy of the management team.

- A start-up that is developing various solutions in different markets. In other words, a revenue model that is highly diversified by client/sector. There is no specialisation in any one sector but rather a technology that is applicable to a wide variety of clients/sectors.

- A decentralised business in which each subsidiary (not 100% controlled by SAI) sells to a different sector and has its own CEO (a specialist in their field) and independent business plan.

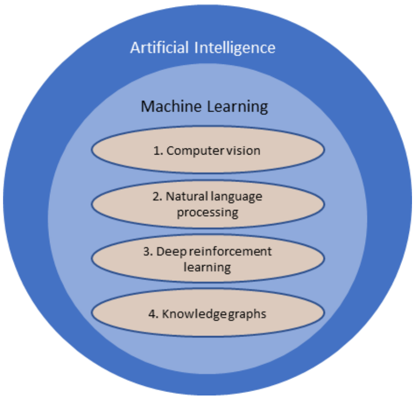
- Scalability: once the products have been developed (AI-based solutions) and their efficacy proven, the business is scalable, with a theoretical effect on margins and profitability.

- Assured financing is critical in a business that in its beginnings (SAI's current situation) is very demanding (operating expenses) and that consequently requires an easily accessible source of financing, even at the cost of this being very dilutive. This is the role of Alpha Blue Ocean.

In conclusion, and to put it very simply, SAI should be viewed today as a theoretically sound "bet" to the extent that investment and growth hinge on a subsector (artificial intelligence) for which strong and rapid development is expected. It should also be viewed as a coherent "bet": having a clear and financed business model. However, it is also a "bet" in the strict sense of the word in that revenues from AI solutions are at present a small part of the revenue mix (c.20% of 2022e revenue). This emphasises SAI's start-up nature and that the generation of positive FCF is still a long way off.

Artificial Intelligence, driving the digital transformation

Chart 7. Artificial Intelligence



SAI operates in the artificial intelligence industry, in the machine learning subsector, developing technology based on deep reinforcement learning (Chart 7) for the fintech sector, human resources, agritech, health and energy. Machine learning is based on a set of algorithms that can learn from recorded data and make predictions based on these. Within machine learning the four most disruptive technologies are:

- ***Computer Vision***: Refers to the use of visual data, such as images, videos and 3D signals to extract complex information and obtain interpretations. It is used, for example, in quality control, to detect damaged products.

- ***Natural – language processing***: This consists of the processing, generation and understanding of data based on the spoken and written word. An example of its use is in virtual assistants such as Siri and Alexa.

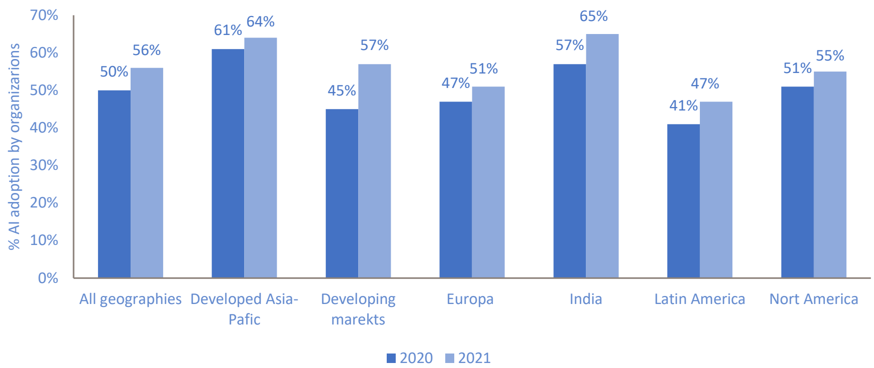
- ***Deep reinforcement learning:*** this is the technology used by SAI. It is based on decision-making in uncertain environments using complex algorithms inspired by the brain's neural networks. The advantages of this technology include: (i) the algorithms can function from a set of training data without human intervention that results in quicker implementation, (ii) it functions well with unstructured data, (iii) processing models are better and more effective providing more reliable and accurate results, and (iv) enhanced scalability, as it has the ability to process more data. This technology can be used in the predictive maintenance of machinery.

- ***Knowledge graphs:*** are collections of data points arranged on a graph to show the complex relationships among them. Google's knowledge graph, that simplifies users' searches, is an example of their use.

Artificial Intelligence has become a critical factor for companies in their digital transformation processes. Moreover, the enormous growth in the amount of available data, advances in the power and capacity of computing and storage systems, and the increase in the successful research and development of new algorithms and learning methods have all contributed to a quicker adoption of AI by companies.

In 2020 a survey carried out by McKinsey regarding the level of adoption of AI showed that 50% of the participants were adopting AI and planned to invest even more in response to the COVID-19 pandemic. In 2021 the same survey showed the level of adoption had increased to 56% (Chart 8) vs 20% in 2017 and that the number of patent applications had grown by 77% annually since 2015.

Chart 8. AI adoption by organizations, 2020 – 2021 %



Source: McKinsey Technology Trends 2022

Industrial revolution 4.0: the industrialisation of machine learning

The industrialisation of machine learning (ML) solutions refers to the application of AI (software and hardware) in real life use cases. These solutions enhance the ability of companies to respond more quickly to problems or changes that may arise in the production and supply chain, manage inventories, predict demand and reduce delivery times.

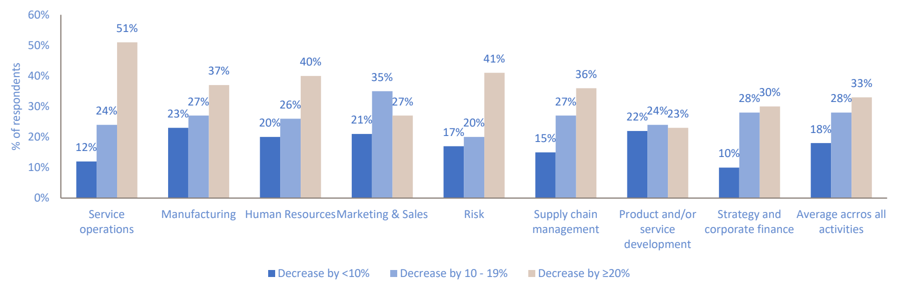
To help visualise the potential of the industrialisation of ML, some examples of its uses are: (i) in risk management or the detection of credit card fraud in the financial sector, (ii) in the production of consumer goods by obtaining information regarding the supply and demand of suppliers and clients and integrating this with the planning of sales and operations, and (iii) in equipment monitoring systems to adjust the operating parameters of machines and processes.

In order to exploit all the potential of these solutions, companies have to focus on the real needs of their business (current challenges) and design a clear road map to scale the solution as numerous challenges persist. According to McKinsey, 72% of the companies interviewed failed to adopt and scale the solutions, getting stuck in the testing stage or when trying to scale the solution.

Artificial Intelligence: an attractive market enjoying high growth

AI has been identified as one of the industries with highest growth thanks to strong investment, technological improvements and the positive impact on companies' results (Chart 9). According to McKinsey, (i) in 2021 private investment in companies related with AI amounted to USD 93.5Bn globally (c. 2x 2020), (ii) since 2018 there has been a 94.4% improvement in the training speeds of AI models, and (iii) 27% of the companies interviewed by McKinsey in 2021 reported at least a 5% improvement in EBIT attributable to AI.

Chart 9. Cost decrease from AI adoption in EBIT

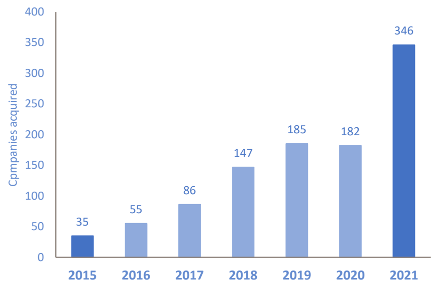


Source: Mckinsey "The State of artificial intelligence in 2021"

According to the International Data Corporation, in 2021 global AI market revenue amounted to USD 383Bn (+20.7% vs 2020). For 2022 and 2023, IDC expects revenue to reach c. USD 433Bn and exceed USD 500Bn, respectively.

Mergers and acquisitions in the AI sector increased by 33.5% in 2021, with an average value of USD 159 Mn, according to Globaldata data. The numerous possibilities for the application of ML and the shortage of talent means the race to acquire the best IA start-ups is hotting up. In recent years, many companies have been acquired by tech giants such as Apple (29), Google (15), Microsoft (13), Intel (12), and Meta (12), according to CBinsights, reflecting the growing interest in the sector and the trend towards concentration. According to Bakertilly, 346 companies were acquired in 2021 vs 182 in 2020 (Chart 10), and the number of buying companies was 255 vs 123 in the previous year.

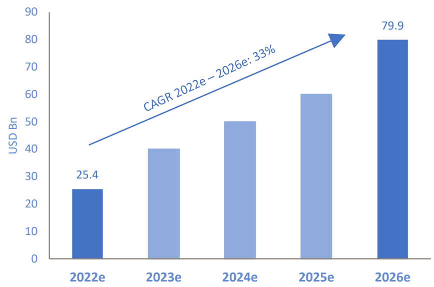
Chart 10. Number of AI companies acquired (2015 – 2021)



Source: Bakertilly

In Europe, according to IDC data, spending on AI systems amounted to USD 25.4 Bn in 2022, growth of 27.8% on the previous year, reaching USD 79.9 Bn in 2026 (Chart 11). Germany, Spain and the UK are the markets where the highest growth is projected, a joint 2021 - 2026 CAGR of 29.6% being estimated. The sectors that are expected to invest the most in AI are banking, manufacturing and retail (almost half of investment), although according to IDC the most promising sectors are insurance, health and professional services.

Chart 11. Spent on AI Systems 2022 – 2026 (USD Bn)



Source: IDC (International Data Corporation).

The strong growth of recent years has led to a highly fragmented and geographically diverse market in Europe, compared to the centralised Silicon Valley, as Roland Berger underlined in 2018.

Focusing on Spain, where SAI does business, a 2020 – 2025 CAGR of 27% is expected, with EUR 1.4Bn of investment in 2025. The national AI strategy (España Digital 2025) envisages investment on AI of EUR 600Mn over 2021 – 2023.

In a survey carried out by IDC of 150 large companies in Spain, 41% are already trialling or using AI-based technology, and 50% are assessing its potential for future use. This highlights the sector's potential even more. The main reasons for using AI are: to automate repetitive tasks (71%), to improve the quality of products and solutions (48%), to design new business models (44%) and to improve commercial or sales management (41%). However, the companies interviewed also mentioned a number of obstacles such as the heavy investment required (58%), a lack of skills or resources (47%), a lack of data (38%) and a lack of confidence (30%).

Accompanied by a nascent regulatory framework in Europe

In April 2021 the European Commission published new regulations aimed at tackling the risks of AI related with user security and fundamental rights. It also underscored the strategic importance of AI for Europe. This new legal framework will be applicable to both public and private agents inside and outside the EU as the AI system is introduced in the EU market or its use affects people established therein.

The regulations envisage four levels of risk: (i) unacceptable risk: risks that violate fundamental rights (for example, social scoring by governments with AI of citizens), (ii) high risk: those that impact security and fundamental rights (for example, faulty technology in an autonomous vehicle), (iii) limited risk: specific obligations of transparency (for example, chatbots are subject to minimum obligations of transparency, so those interacting with the content can take informed decisions) and (iv) minimal risks: all other systems that can be used in accordance with prevailing legislation without additional obligations.

The European Commission plans to invest EUR 1.0Bn and attract a further EUR 20.0Bn of investment in AI each year. The sector has regulations but not regulatory risk (that would affect growth in AI in the long term). This explains the EU's strong commitment to investing in the development of AI.

In conclusion, the AI market in Europe is expected to grow at a CAGR of 33% over 2022 – 2026

The new technologies are at a crucial point in the digitisation process, brought about by the pandemic and, with it, the emergence of new needs both in the corporate sphere and in day-to-day life. Any new system, implementation or change in internal processes involves in one way or another a layer of artificial intelligence. From a sector viewpoint, there are three main trends and challenges that lie ahead:

- **The digital transformation:** the pandemic has accelerated the take-up of AI by companies (56% in 2021 vs 50% in 2020), and this, together with advances in computing and storage systems (a 94.4% improvement in the training speed of AI models since 2018), increased research (30x the number of patent applications since 2015) and the discovery by companies of the benefits of AI (27% of those surveyed by McKinsey in 2021 reported at least a 5% improvement in EBIT attributable to AI) will help to underpin sector growth in coming years.

- **Privacy and increased regulation:** the growing need to respond to concerns over ethics, privacy, security and governance (data vulnerability occurs throughout the technical workflow of AI) and increased regulation and compliance (new EC regulations) could slow down the development of AI (although, based on expected growth, not significantly).

- **Entry barriers:** the investment required to develop AI and the necessary resources (computing, knowledge…) represents an entry barrier for new competitors and will result in competitive advantages for those players who have spent resources and time on its development.

In other words, this is a high growth sector favoured by two clear and convergent drivers: private sector interest in exploiting the advantages of incorporating AI into business management and public sector interest in promoting AI as a way of generating economic growth, benefiting the long-term macro situation. The regulatory framework will have to limit and control an emerging sector such as AI but its growth seems unstoppable and will especially benefit current players (before possible new entrants).

Revenue to take off (2023e, +56%), but break-even will take time

SAI has AI technology based on reinforcement learning. Its business model revolves around the development of proprietary solutions. It currently operates in the Fintech, Human Resources/Advertising, Agritech, Health and Energy sectors. This means that there is no sector specialisation in SAI but rather a generalist model.

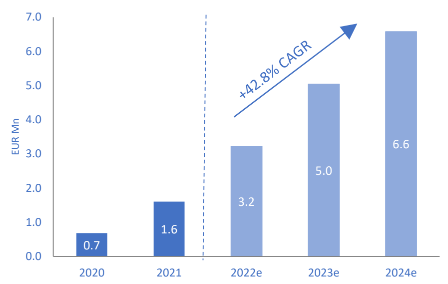
The AI industry in Europe and Spain is highly fragmented, with a large number of small companies. Against this backdrop, in 2021 the company carried out a number of corporate operations, a strategy of non-organic growth and created the current group, enabling SAI to diversify its business. The change in the consolidation perimeter limits comparison with years prior to 2021. Throughout this report we work with 2021 proforma data for the Fintech and HR/Advertising business lines as in 2022 Fintech includes sales that in 2021 were in HR/Advertising.

Now, after the changes undergone, we have to ask the following questions: What is the business' capacity for organic growth? What levels of profitability can be achieved in a scenario of high growth? And in a stressed scenario? What is the business' capacity for cash generation? what is the capacity for growing AI revenue, currently still marginal in the revenue mix? In order to answer these questions, we will carry out a financial and strategic analysis of SAI.

Ability to continue growing revenue (42.8% CAGR 2022e–2024e) …

The M&A strategy executed in 2021 provides the necessary ingredients for growth in coming years. In general, we would highlight:

Chart 12. Total Revenues (2020 – 2024e)



Note: 2020 revenues are from the individual annual accounts of Zona Value S.L (now Substrate AI S.A).

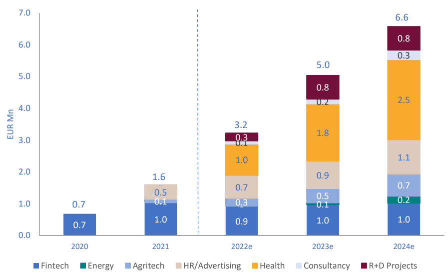
- **Beginning to generate a recurrent revenue base….** the solutions that SAI has developed or is developing are focused on the optimisation of very specific processes and tasks (optimisation of dairy farms, predictive maintenance of solar power plants…), and are developed in conjunction with partners or proprietary companies that guarantee access to real life case uses.

  However, don't forget that at the 2022e close, the weighting of AI-based solutions in the revenue mix is still small (c. 20%), implying an opportunity or lever for strong growth but also the challenge of truly materialising this theoretical opportunity.

- **…on a scalable business.** SAI's product business has proprietary software solutions (under the SaaS model). Some solutions have already been developed (for example, a system for the management of dairy farms) and others are expected to be launched in the short/mid-term. Once they have been developed they will not require significant additional investments to continue to grow.

- **Driven by a sector in full growth mode.** The digital transformation has accelerated since the pandemic, making AI common among the group of new technologies (2022-2026 CAGR of 33% in Europe).

Chart 13. Revenue by business line (2020 – 2024e)



The scenario we envisage for 2022e-2024e includes organic growth in revenue to c. EUR 6.6Mn in 2024e. (Charts 12 and 13). What do we think are going to be the main levers supporting this growth? By business line:

- **Consolidation of the Health division (c.60% CAGR 2022e-2024e).** We estimate that the health business (originating from the acquisition of Cuarta Dimensión Médica (4D) in May 2022) will achieve turnover of EUR c.1Mn in 2022e. We are projecting strong growth in revenue mainly for two reasons: (i) growth in the hardware business thanks to being able to begin to sell diagnostic imaging equipment for humans in 2024 (not possible previously due to a non-compete clause) and (ii) the marketing of AI software solutions being developed for 4D for which scalability will be important. We expect revenue of EUR 2.5Mn in 2024e (c.60% CAGR 2022e – 2024e). That would increase the weighting of the health business, that has higher margins, to c. 38% (vs 31% in 2022, Charts 13 and 14). In 2022 we estimate that AI-derived business will still be zero in this division, something that should begin to change in 2023.

- **Strong growth in HR/Advertising (c.33% CAGR 2021 – 2024e).** 2021 proforma sales were EUR c. 0.5Mn. For 2022e we estimate turnover of EUR 0.7Mn from the sale of advertising to Google. In our view, the main drivers of this division will be: (i) growth in advertising revenues (that will continue to be a majority of sales); in May 2022 Fleebe had 180 million annual users according to Google Analytics and (ii) the launch of Fleebe Corporate at the end of 2023. Sales will amount to EUR 1.1Mn in 2024e accounting for 16% of total sales (vs 29% in 2021).

- **Low growth in the Fintech business (-0.6% CAGR 2021 – 2024e), negatively impacted by 2022e.** 2021 proforma sales were EUR 1.0Mn. For 2022e we estimate a decline to EUR 0.9Mn (c. -11%) due to a decrease in the financial consultancy business. In 2022e we estimate that the AI business will represent c.5% of sales. For the rest of the period, we are projecting a 5% CAGR 2022e – 2024e underpinned by: (i) the Intefi business school in Spain and entry in Peru, although virtually all the business will continue to be in Spain and (ii) the consultancy and AI strategies business in Spain and the US, although investment will be required to drive these business areas. Sales will return to EUR 1.0Mn in 2024e, accounting for 15% of the business (vs 64% in 2021).

- **Agritech gains weight in the business mix (85% CAGR 2021 – 2024e).** We estimate strong growth with turnover of EUR 0.7Mn in 2024e (vs EUR 0.1Mn in 2021). In 2022e we predict revenue of EUR c. 0.3Mn (all from AI). The main driver of growth is the sale of licences for the PAM solution (a system for the management of dairy farms with AI), that has already been developed. In this division SAI is open to obtaining alternative funding to scale the business. In 2024e the weighting of Agritech will be 11% (vs 7% in 2021).

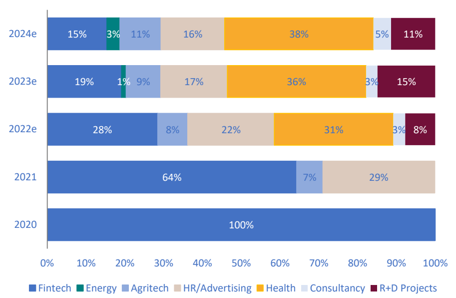
- **Energy. We estimate that in 2023 this will begin to make a minimal contribution to the business mix.** For 2023e and 2024e we estimate sales of EUR 0.1Mn and EUR 0.2Mn respectively, due to the marketing of the energy saving solution with AI. In 2024e this will account for 3% of total sales.

- **Consultancy.** Although not a business division of SAI, the company obtains revenues from AI consultancy services. For 2022e we estimate turnover of EUR 0.1Mn, rising to EUR 0.3Mn in 2024e (5% of 2024e sales).

- **+D projects.** This is revenue from the monetisation of tax credits for investment in R+D and without recurrence once the company starts to generate profits. Estimated sales per year are EUR 0.25Mn in 2022e, EUR 0.75Mn in 2023e and EUR 0.75 Mn in 2024e. In 2022e we estimate this will represent c. 8% of the business mix, increasing to 11% in 2024e.

In conclusion, based on our estimates, the weighting of the business from AI will increase from c. 20% in 2022e to c. 36% of sales in 2024e. A snapshot of the business mix in 2024e would be: Health 38% (vs 31% 2022e), Human Resources/Advertising 16% (vs 29% 2021), Fintech 15% (vs 64% 2021), Agritech 11% (vs 7% 2021), Energy 3% (vs 0% 2021), Consultancy 5% (vs 3% 2022e) and R+D projects 11% (vs c.8% 2022e).

Chart 14. Revenue mix by business line (2021 – 2024e)



Note: % of proforma sales for year 2021.

... for a gradual improvement in the Rec. EBITDA margin, although without achieving break-even before 2024...

In 2022e we estimate an increase in structural costs to EUR 4.3Mn (+57% vs 2021), resulting from EUR c. 2.6Mn of personnel costs (c. +88% vs 2021; 80% of 2022e sales), associated with indirect labour and EUR 1.7Mn of other operating costs (+26% vs 2021; c. 53% of sales). Extraordinary expenses from the incorporation in BME Growth have been excluded from the calculation of Rec. EBITDA.

Chart 15. Cost structure (2021-2024e)

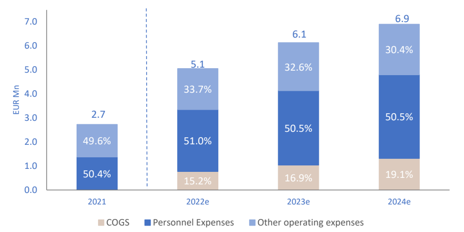
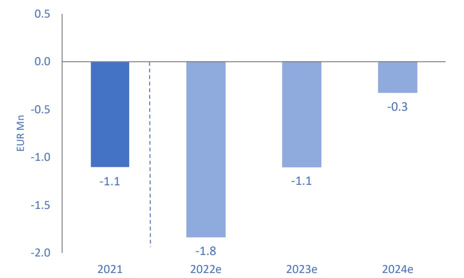
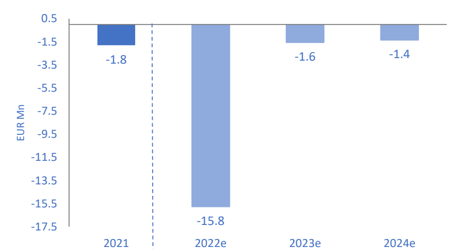


Chart 16. Recurrent EBITDA (2021-2024e)



Note: In the Recurring EBITDA 2022e we have adjusted for expenses associated with the listing on BME Growth (EUR c.0.2Mn).

Chart 18. Net profit (2021-2024e)



Note: The 2021 BN has been adjusted by the additional amortization of goodwill that was not recognized in the 2021 accounts. The 2022e BN is impacted by an impairment of EUR 11.5Mn.

Although one of the main strengths of a software business is its high operating leverage, we do not expect significant economies of scale (at least until 2024e), as, in our view, the company will continue to invest in the development of its structure to adapt this to higher volumes of revenues than current ones. On the other hand, AI solutions should gain in importance in the mid-term.

The main items we estimate below the EBITDA line in 2022e are: (i) the amortisation of goodwill and tangible and intangible assets with an impact of EUR 2.7Mn (1.5x 2022e Rec. EBITDA), (ii) extraordinary expenses from the incorporation in BME Growth of EUR c. 0.2Mn (c. 10% of 2022e Rec. EBITDA) and (iii) the capitalisation of expenses for work carried out on intangible assets (R+D) for EUR c. 0.8Mn (41% of 2022e Rec. EBITDA).

For 2023e and 2024e, our estimates assume EBITDA still below break-even (EUR -1.1Mn and EUR -0.3Mn respectively) that should be reached after 2024e, when AI solutions will have the largest weighting in the mix. This, in itself, represents one of the mainstays of SAI's equity story: the impact on EBITDA of the growth and scalability of AI-based solutions.

Chart 17. From revenue to EBIT (2023e)

... delaying positive net profit until after 2024e

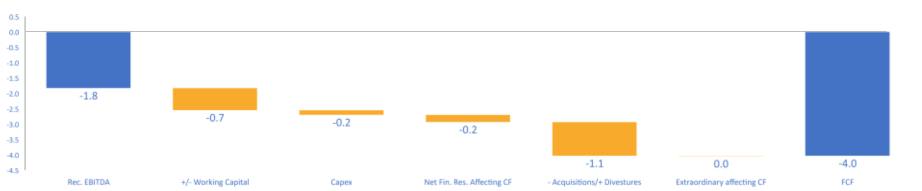
Our estimates do not include additional impacts from extraordinary items although we estimate a cost of debt of c. 7% (the cost at the date of this report) that will imply a gradual increase in financial expenses to levels of EUR 0.3Mn in 2024e. For 2022e we estimate financial expenses of c. EUR 0.2Mn.

The estimated improvement in recurrent EBITDA will be offset by increased amortisation (from the capitalisation of intangible assets) and higher financial expenses. Estimated 2022e net profit is EUR -15.8Mn (impacted by a EUR 11.5Mn goodwill impairment). For 2023e and 2024e we project net profit of EUR c.-1.6Mn and EUR c.-1.4Mn respectively.

And without the ability to generate cash until, at least, 2024e...

All the above leads us to a central scenario that does not envisage positive recurrent FCF until, at least, after 2024e. FCF will be highly sensitive to the improvement in the company's margins, and, to a lesser extent, to: (i) CAPEX on tangible fixed assets, (ii) management of working capital investment and (iii) financial expenses with an impact on cash flow. Aside from this, mid/long term financial and business requirements will mean a pay-out of zero will have to be maintained

Chart 19. Free Cash Flow 2022e

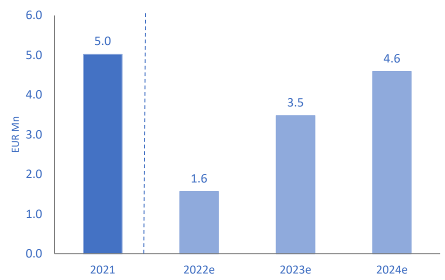


Note: 2022e FCF is impacted by the acquisition of Cuarta Dimensión (4D) and by the costs of joining BME Growth.

... that will translate to an increase in net debt to EUR c.4.6Mn in 2024e

The cash consumption envisaged in our estimates will result in a gradual increase in debt in the mid-term. At the 2021 close, SAI's net debt was c. EUR 5.0Mn (91% of the current Mkt. Cap.). In our view this reduces the company's ability to make significant new investments in the short term.

Chart 20. Net debt



Note: 2021 net debt includes deferred M&A payments.

Our estimates envisage: (i) a EUR c. 3.5Mn net inflow of cash in 2022e from the capital increase of March 2022 (EUR 7.7Mn) and (ii) cash consumption in 2023e and 2024e of EUR 1.9Mn and EUR 1.1Mn respectively, taking net debt to EUR 4.6Mn (83% of the current Mkt Cap). This cash consumption is divided into: (i) EUR 1.4Mn to cover operating cash consumption (Rec. EBITDA), ii) EUR c. 0.3Mn in CAPEX, iii) EUR c. 0.9Mn in working capital investment (excluding non-recurrent cash outflows) and (iv) EUR c. 0.5Mn in financial expenses with an impact on cash flow.

In 2022 SAI signed an agreement for an issue of convertible bonds in a maximum amount of EUR 20Mn, to which, in addition, convertible warrants have been linked, with the exclusion of preferential subscription rights, with Alpha Blue Ocean, the sole recipient of this issue. The agreement has a duration of 36 months.

The equity financing agreement with Alpha Blue Ocean opens the way to covering the financing requirements we envisage for the next two years without debt. However, the current share price implies significant dilution for current shareholders (see page 9 of this report) and so leaves open the possibility that financing will be fully or partially obtained via debt. Our model, without being able to estimate the entry of new equity, assumes the mathematical impact of financing annual funding needs in 2023 and 2024 just with debt.

What would happen if...?

Given the size of the company, we have to ask ourselves what the snapshot will be for sales, recurrent EBITDA margin, cash generation and net debt in 2024e (Table 6) if the business were to slow down or if it managed to grow at a higher CAGR than we have projected (+/- 15% in annual revenue).

If SAI managed to grow at a CAGR of c. 58% 2022e – 2024e (vs c. 43% current scenario) without having to increase structural costs, it would obtain Rec EBITDA of EUR 0.8Mn in 2024e, although still without generating positive FCF. On the other hand, if it grew more slowly (CAGR c.28% 2022e – 2024e), SAI would still be a long way from reaching breakeven in Rec. EBITDA and in cash generation, taking financial requirements to EUR 5.8Mn in 2024e.

Table 6. Situation at 2024e depending on revenue growth

Name	Slower Growth	Current Scenario	Faster Growth
Sales 2024e	5.3	6.6	8.0
CAGR 2022e - 2024e	27.8%	42.8%	57.9%
Rec. EBITDA 2024e	(1.4)	(0.3)	0.8
Rec. EBITDA Mg	-26.1%	-4.9%	10.5%
FCF 2024e	(2.0)	(1.1)	(0.1)
ND 2024e	5.8	4.6	3.3

In conclusion, a theoretically high growth company (+42.8% CAGR 2022e – 2024e), where demonstrating its AI solutions and levering the structure will be crucial to exceeding break even

The current snapshot is that of a company operating in a sector enjoying high growth thanks to the drive of the digital transformation accelerated by the pandemic. Our estimates (2022e - 2024e) hinge on:

- Growth of 4x 2021 revenue in 2024e. The key divisions will be: health (c. 60% CAGR 2022e-2024e), agritech (85% CAGR 2021 – 2024e) and R+D projects (73% CAGR 2022e – 2024e). This growth will be strengthened and driven by the marketing under a SaaS model of reinforcement learning solutions in the various divisions.

- Break-even being exceeded in 2024e, underpinned by the ability to lever structural costs and the increase in the weighting of the AI business from 20% of the current revenue mix to c. 36% in 2024e.

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- No positive cash generation, at least, until after 2024e and in principle with a very high level of debt (83% of the current Mkt Cap).

In brief, the success of SAI's business model will depend on an appropriate policy of resource allocation (betting on the development of AI solutions for the right sectors: as regards both the potential to buy AI solutions and the scalability of these products) and the ability to generate a solid level of revenue in the medium/long term, that today represents an opportunity but also a risk (both to the same extent) as, in this case, success is highly dependent on achieving high growth in a product (AI solutions) that at present is still marginal in the company's revenue mix.

But given the size and moment of SAI's sector, perhaps it is more interesting to look ahead and ask ourselves what to expect from the company over the longer term, beyond 2024. On paper, the AI sector offers an opportunity and SAI is getting ready to make the most of this with: (i) a disruptive technology of reinforcement learning based on human biology and (ii) a business that is scalable as the weight of AI in the business mix increases. In other words, and regardless of its final execution, a strategically correct bet.

The 2024e EV/Sales ratio would be 0.9x and excluding R+D sales (given the nature of this revenue we do not think it necessary to include this) it would be 1.0x (vs its peers that would be trading at EV/Sales ratios of c. 2.5x). All this suggests an opportunity to benefit from the driver that the digital transformation of businesses already represents for the tech sector.

Valuation Inputs

Inputs for the DCF Valuation Approach

	2022e	2023e	2024e	Terminal Value [1]
Free Cash Flow "To the Firm"	**(3.8)**	**(1.7)**	**(0.8)**	**n.a.**

			Best Case	Worst Case
Market Cap	**5.5**	At the date of this report		
Net financial debt	**0.3**	Debt net of Cash (6m Results 2022)		
Cost of Debt	6.6%	Net debt cost	6.4%	6.9%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**5.3%**	**Kd = Cost of Net Debt * (1-T)**	**5.1%**	**5.5%**
Risk free rate (rf)	3.4%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	6.0%	R (own estimate)	5.5%	6.5%
Beta (B)	1.3	B (own estimate)	1.2	1.4
Cost of Equity	**11.2%**	**Ke = Rf + (R * B)**	**10.0%**	**12.5%**
Equity / (Equity + Net Debt)	94.2%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	5.8%	D	=	=
WACC	**10.8%**	**WACC = Kd * D + Ke * E**	**9.7%**	**12.1%**
G "Fair"	**3.0%**		**3.0%**	**2.0%**

(1) The terminal value calculated beyond the last FCF estimate does not reflect the company's growth potential (positive/negative) at the date of publication of this report.

Inputs for the Multiples Valuation Approach

Company	Ticker Factset	Mkt. Cap	P/E 22e	EPS 22e-24e	EV/EBITDA 22e	EBITDA 22e-24e	EV/Sales 22e	Revenues 22e-24e	EBITDA/Sales 22e	FCF Yield 22e	FCF 22e-24e
Sidetrade SA	ALBFR-FR	206.1	76.1	57.0%	44.3	50.8%	5.0	21.9%	11.4%	1.1%	68.7%
Median Technologies	ALMDT-FR	123.1	n.a.	23.3%	n.a.	25.2%	4.7	40.7%	n.a.	n.a.	26.4%
Linedata Services	LIN-FR	269.1	9.7	-7.9%	6.2	0.1%	1.8	2.1%	29.4%	10.1%	-29.2%
Lectra	LSS-FR	1,288.5	24.1	13.3%	13.3	9.2%	2.5	5.1%	18.9%	4.8%	17.1%
Artificial Solutions	ASAI-SE	4.1	n.a.	1.6%	n.a.	37.4%	5.7	56.7%	n.a.	n.a.	27.8%
Europe			**36.6**	**17.5%**	**21.3**	**24.5%**	**4.0**	**25.3%**	**19.9%**	**5.3%**	**22.2%**
C3.ai	ALBFR-FR	1,224.6	n.a.	64.4%	n.a.	52.9%	1.9	17.6%	n.a.	n.a.	61.7%
Palantir Technologies	PLTR-US	12,738.2	n.a.	n.a.	28.4	35.4%	5.9	21.6%	20.9%	1.8%	74.2%
United States			n.a.	64.4%	28.4	44.2%	3.9	19.6%	20.9%	1.8%	68.0%
SAI	**SAI-ES**	**5.5**	**n.a.**	**71.9%**	**n.a.**	**60.0%**	**1.9**	**42.8%**	**n.a.**	**n.a.**	**48.6%**

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **Competition and commercial risk:** The AI industry is in itself highly fragmented, that for a company such as Substrate may represent a commercial risk of loss of clients and appearance of competitors with a more attractive technology that could result in a reduction in the expected activity. A deceleration of 5% in the organic growth expected in revenue in 2023e would imply a reduction of c. 15% in recurrent EBITDA

2. **Delay to the start-up or failure when it comes to scaling up the products under development:** Given the current business situation, EBITDA and FCF generation largely depends on SAI's ability to put its pipeline of projects on the market and reach a significant volume of sales.

3. **High level of goodwill and intangible assets:** At June 2022, SAI had EUR c.16.3Mn of goodwill and EUR 1.0Mn of intangible assets (c. 90% of non-current assets and c.6% in capitalised intangible assets). The risk inherent in goodwill and the capitalisation of R+D exposes SAI to potential impairments due to a lack of viability impacting its P/L, as was seen in 1H22 (impairment of EUR 11.5Mn).

4. **Lower than expected operating leverage:** Our estimates include a reduction in structural expenses over revenue to c.133% in 2022e (vs 168% in 2021). Maintaining structural expenses at 168% would reduce the 2022e Rec. EBITDA margin to -91% (vs c.-57% estimated). This would imply a 61% reduction in estimated 2022e Rec. EBITDA.

5. **Dilution risk:** Given the size and stage of the business, SAI signed an agreement with Alpha Blue Ocean for a convertible bond issue in a maximum amount of EUR 20Mn, to which equity warrants have also been linked. Access to this source of financing would imply strong dilution for current shareholders, especially at the current share price (see table 5, page 9 of this report).

6. **Technological disruption:** SAI's business depends directly on essentially technological products and services to do with reinforcement learning, which means products have to be permanently updated so as not to become obsolete. Technological changes anticipated by clients and regulators can affect demand in the mid and long term and the ability of SAI to respond to these is, in itself, a risk.

7. **Regulation:** the data used to develop AI solutions are considered to be sensitive information so their regulation will play a key role in SAI's business development (see page 12 of this report).

8. **Delay in achieving positive FCF:** our estimates do not envisage the generation of positive recurrent FCF until 2025, at the earliest. This puts funding requirements at EUR 4.6Mn in 2024e (83% of the current Mkt Cap), whether by equity, that would imply significant dilution (see table 5, page 9 of this report), or by debt.

Control in few hands but with the counterbalance of a very independent board.

Table 7. Board of directors

Name	Date	Category	% Capital*
Lorenzo Serratosa	2021	Executive	18.7%
José Iván Gracia	2021	Executive	17.3%
Christopher Dembik	2021	Independient	-
Cyrille Restier	2022	Independient	-
Jesús Mota Robledo	2022	Independient	-
Total			36.0%

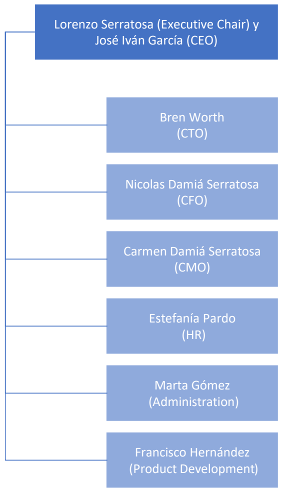
Note: including direct and indirect participation.

Table 8. Shareholders structure

Name	Direct	Indirect	Total
JMSAN Agentes Financieros Globales, S.L. (*)	41.3%		41.3%
D. Lorenzo Serratosa Gallardo	7.3%	11.4%	18.7%
D. José Iván García Braulio	7.0%	10.4%	17.3%
D. Francisco Javier Muñoz Sanfeliu	0.2%	10.4%	10.5%
D. Fernando Villar del Prado	0.2%	10.4%	10.5%
Bren Worth	7.6%		7.6%
Ijana Films (**)	2.1%		
Alpha Blue Ocean	6.5%		
Treasury Stock	1.7%		
Free Float	26.2%		
Total	**100.0%**	**42.5%**	

(*) Lorenzo Serratosa Gallardo, José Iván García Braulio, Francisco Javier Muñoz Sanfeliu and Fernando Villar del Prado each has a 25% stake.
(**) Lorenzo Serratosa Gallardo has a 50% stake.

Chart 21. Management Team



The Substrate group was created in 2021. The company's capital is controlled by 5 shareholders, including Lorenzo Serratosa (Executive Chair), José Iván García (Secretary and CEO) and Bren Worth (CTO) (Table 8). SAI has been listed on BME Growth since May 2022.

A board of directors with high exposure to the share price, controlling 36.0% of the company (c.14.3%, directly; c.21.8% indirectly), that ensures an alignment of interests with minority shareholders. The board of directors has a minimum of 3 and a maximum of 12 members. Currently, there are only 5 board members (Table 7), two executives (the Executive Chair and CEO) and three independents (without significant shareholdings), two of whom comprise the audit committee. Board members have a financial profile. The position of director is held for a maximum term of 6 years, with no limit to the number of terms a director can serve.

Remuneration of the board of directors. Board members have the right to receive a fixed annual amount of between €12k and €100k. This range will be maintained unless altered by a general meeting of shareholders. In 1H22 the remuneration of the board of directors amounted to EUR 0.2Mn, equivalent to EUR 0.4Mn in annual terms (c.17% of 2022e personnel expenses).

Incentive plan. In April 2022 the board approved an incentive plan for: (i) 11 employees, with remuneration associated with the plan of EUR c. 0.5Mn payable in shares for meeting the 2022 business plan (turnover and EBITDA targets). Date of accrual (December 31, 2022) and date of execution (March 31, 2023), (ii) 20 shareholders, with total remuneration of EUR 0.7Mn payable in shares, dependent on their maintaining their investment until December 31, 2022. Date of accrual (December 31, 2022) and date of execution (January 15, 2023) and (iii) 58 shareholders included in the plan with remuneration of EUR 0.4Mn, dependent on their holding their investment for a month from the market listing. Date of accrual 1 month from the company's incorporation in BME Growth and date of execution 15 days after the date of accrual.

Remuneration of senior management. In 2021 senior management of SAI received remuneration of EUR c.0.2Mn euros in respect of salaries. Except for the incentive plans mentioned in the previous point, the company has not agreed for board members and/or members of senior management: (i) remuneration schemes based on the delivery of shares, on options on shares or indexed to the share price or (ii) golden parachute clauses in the event of the extinction of their contracts, dismissals or a change of control of the company.

Convertible bonds and new shareholders. In June 2022 an investment agreement was signed with Alpha Blue Ocean (AB0) for the emission of convertible bonds for a maximum amount of EUR 20Mn, to which, in addition, convertible warrants have been linked, with the exclusion of preferential subscription rights. The investment commitment agreement will be executed via tranches of EUR 0.5Mn that the company can request every 40 trading days. At the date of this report, ABO holds 6,5% of capital (see table 5, page 9 of this report).

No shareholder remuneration is envisaged. The company has made no commitment in respect of dividend payments. The main focus of attention is the consolidation of the business' organic growth. Accordingly, we estimate a pay-out of 0% for, at least, the next 3 years.

Conflicts of interest. The group has balances with related parties at June 2022 (1H22: last results release). Total balances receivable amount to EUR 0.3Mn (vs c. EUR 0.6Mn in 2021).

Appendix 1. Financial Projections

Balance Sheet (EUR Mn)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Intangible assets					1.3	1.6	3.0	4.0
Fixed assets					0.1	0.2	0.3	0.3
Other Non Current Assets					0.3	0.3	0.3	0.3
Financial Investments					1.4	1.4	1.4	1.4
Goodwill & Other Intangilbles					28.2	15.5	13.8	12.2
Current assets					0.6	1.5	2.1	2.6
Total assets					**31.9**	**20.5**	**21.0**	**20.8**
Equity					26.7	18.5	17.0	15.6
Minority Interests					(0.0)	(0.0)	(0.0)	(0.0)
Provisions & Other L/T Liabilities					-	-	-	-
Other Non Current Liabilities					-	-	-	-
Net financial debt					5.0	1.6	3.5	4.6
Current Liabilities					0.3	0.4	0.5	0.6
Equity & Total Liabilities					**31.9**	**20.5**	**21.0**	**20.8**

									CAGR	
P&L (EUR Mn)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022e**	**2023e**	**2024e**	**17-21**	**21-24e**
Total Revenues					**1.6**	**3.2**	**5.0**	**6.6**	***n.a.***	***59.3%***
Total Revenues growth					*n.a.*	*98.2%*	*56.2%*	*30.6%*		
COGS					(0.0)	(0.8)	(1.0)	(1.3)		
Gross Margin					**1.6**	**2.5**	**4.0**	**5.3**	***n.a.***	***48.0%***
Gross Margin/Revenues					*99.9%*	*76.1%*	*79.4%*	*80.0%*		
Personnel Expenses					(1.4)	(2.6)	(3.1)	(3.5)		
Other Operating Expenses					(1.4)	(1.7)	(2.0)	(2.1)		
Recurrent EBITDA					**(1.1)**	**(1.8)**	**(1.1)**	**(0.3)**	***n.a.***	***33.7%***
Recurrent EBITDA growth					*n.a.*	*-66.2%*	*40.0%*	*70.8%*		
Rec. EBITDA/Revenues					*n.a.*	*n.a.*	*n.a.*	*n.a.*		
Restructuring Expense & Other non-rec.					0.0	(0.2)	-	-		
EBITDA					**(1.1)**	**(2.0)**	**(1.1)**	**(0.3)**	***n.a.***	***33.6%***
Depreciation & Provisions					(1.3)	(2.7)	(2.5)	(3.0)		
Capitalized Expense					0.4	0.8	2.3	2.3		
Rentals (IFRS 16 impact)					-	-	-	-		
EBIT					**(2.0)**	**(4.0)**	**(1.4)**	**(1.1)**	***n.a.***	***18.8%***
EBIT growth					*n.a.*	*-101.0%*	*65.5%*	*22.7%*		
EBIT/Revenues					*n.a.*	*n.a.*	*n.a.*	*n.a.*		
Impact of Goodwill & Others					-	(11.5)	-	-		
Net Financial Result					0.1	(0.2)	(0.2)	(0.3)		
Income by the Equity Method					-	-	-	-		
Ordinary Profit					**(1.9)**	**(15.8)**	**(1.6)**	**(1.4)**	***n.a.***	***10.6%***
Ordinary Profit Growth					*n.a.*	*-734.8%*	*90.1%*	*13.7%*		
Extraordinary Results					-	-	-	-		
Profit Before Tax					**(1.9)**	**(15.8)**	**(1.6)**	**(1.4)**	***n.a.***	***10.6%***
Tax Expense					0.1	-	-	-		
Effective Tax Rate					*n.a.*	*n.a.*	*n.a.*	*n.a.*		
Minority Interests					-	-	-	-		
Discontinued Activities					-	-	-	-		
Net Profit					**(1.8)**	**(15.8)**	**(1.6)**	**(1.4)**	***n.a.***	***9.1%***
Net Profit growth					*n.a.*	*-776.9%*	*90.1%*	*13.7%*		
Ordinary Net Profit					**(1.9)**	**(15.6)**	**(1.6)**	**(1.4)**	***n.a.***	***10.6%***
Ordinary Net Profit growth					*n.a.*	*-722.9%*	*90.0%*	*13.7%*		

									CAGR	
Cash Flow (EUR Mn)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022e**	**2023e**	**2024e**	**17-21**	**21-24e**
Recurrent EBITDA						**(1.8)**	**(1.1)**	**(0.3)**	***n.a.***	***n.a.***
Rentals (IFRS 16 impact)						-	-	-		
Working Capital Increase						(0.7)	(0.5)	(0.4)		
Recurrent Operating Cash Flow						**-2.5**	**-1.6**	**-0.7**	***n.a.***	***n.a.***
CAPEX						(0.2)	(0.2)	(0.1)		
Net Financial Result affecting the Cash Flow						(0.2)	(0.2)	(0.3)		
Tax Expense						-	-	-		
Recurrent Free Cash Flow						**(2.9)**	**(1.9)**	**(1.1)**	***n.a.***	***n.a.***
Restructuring Expense & Other non-rec.						(0.2)	-	-		
- Acquisitions / + Divestures of assets						(1.1)	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(4.2)**	**(1.9)**	**(1.1)**	***n.a.***	***n.a.***
Capital Increase						7.7	-	-		
Dividends						-	-	-		
Net Debt Variation						**(3.5)**	**1.9**	**1.1**		

Appendix 2. Free Cash Flow

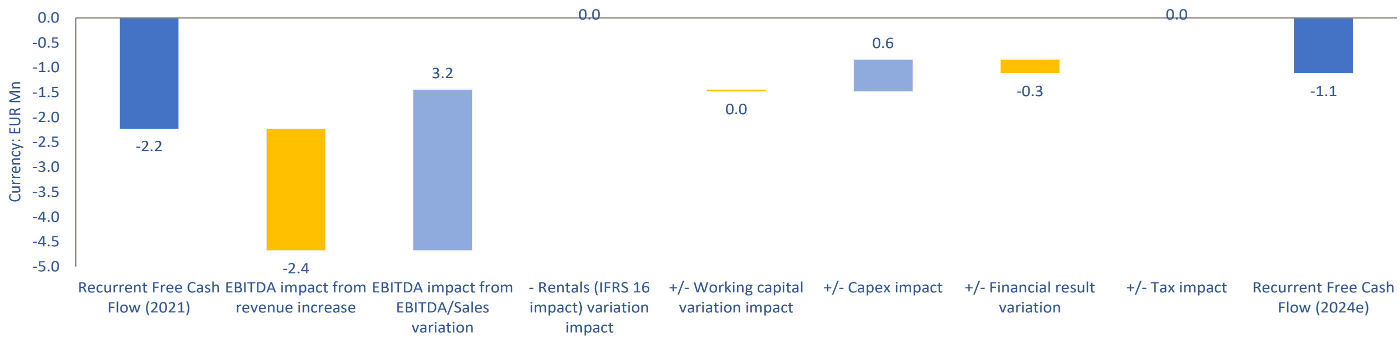
A) Cash Flow Analysis (EUR Mn)	2018	2019	2020	2021	2022e	2023e	2024e	CAGR 18-21	CAGR 21-24e
Recurrent EBITDA					**(1.8)**	**(1.1)**	**(0.3)**	*n.a.*	*n.a.*
Recurrent EBITDA growth					*-66.2%*	*40.0%*	*70.8%*		
Rec. EBITDA/Revenues					*n.a.*	*n.a.*	*n.a.*		
- Rentals (IFRS 16 impact)					-	-	-		
+/- Working Capital increase					(0.7)	(0.5)	(0.4)		
= Recurrent Operating Cash Flow					**(2.5)**	**(1.6)**	**(0.7)**	*n.a.*	*n.a.*
Rec. Operating Cash Flow growth					*-72.8%*	*38.1%*	*53.9%*		
Rec. Operating Cash Flow / Sales					*n.a.*	*n.a.*	*n.a.*		
- CAPEX					(0.2)	(0.2)	(0.1)		
- Net Financial Result affecting Cash Flow					(0.2)	(0.2)	(0.3)		
- Taxes					-	-	-		
= Recurrent Free Cash Flow					**(2.9)**	**(1.9)**	**(1.1)**	*n.a.*	*n.a.*
Rec. Free Cash Flow growth					*-31.9%*	*34.8%*	*41.9%*		
Rec. Free Cash Flow / Revenues					*n.a.*	*n.a.*	*n.a.*		
- Restructuring expenses & others					(0.2)	-	-		
- Acquisitions / + Divestments					(1.1)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow					-	-	-		
= Free Cash Flow					**(4.2)**	**(1.9)**	**(1.1)**	*n.a.*	*n.a.*
Free Cash Flow growth					*-78.4%*	*54.6%*	*41.9%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)					*n.a.*	*n.a.*	*n.a.*		
Free Cash Flow Yield (s/Mkt Cap)					*n.a.*	*n.a.*	*n.a.*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2018	2019	2020	2021	2022e	2023e	2024e
Recurrent FCF(FY - 1)					**(2.2)**	**(2.9)**	**(1.9)**
EBITDA impact from revenue increase					(1.1)	(1.0)	(0.3)
EBITDA impact from EBITDA/Sales variation					0.4	1.8	1.1
= Recurrent EBITDA variation					**(0.7)**	**0.7**	**0.8**
- Rentals (IFRS 16 impact) variation impact					-	-	-
+/- Working capital variation impact					(0.3)	0.2	0.1
= Recurrent Operating Cash Flow variation					**(1.1)**	**1.0**	**0.9**
+/- CAPEX impact					0.6	-	0.1
+/- Financial result variation					(0.2)	0.1	(0.1)
+/- Tax impact					-	-	-
= Recurrent Free Cash Flow variation					**(0.7)**	**1.0**	**0.8**
Recurrent Free Cash Flow					**(2.9)**	**(1.9)**	**(1.1)**

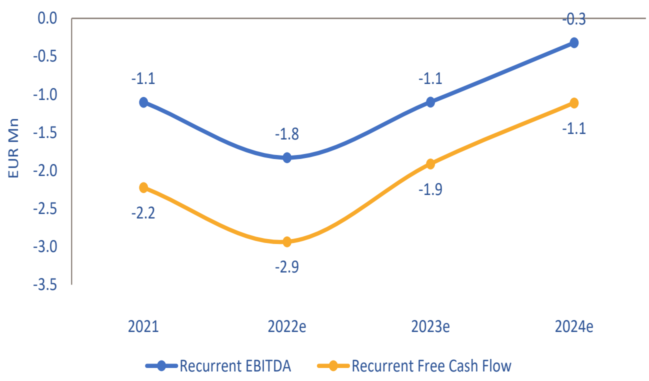
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2018	2019	2020	2021	2022e	2023e	2024e	CAGR 18-21	CAGR 21-24e
EBIT					**(4.0)**	**(1.4)**	**(1.1)**	*n.a.*	*n.a.*
** Theoretical Tax rate*					*0.0%*	*0.0%*	*0.0%*		
= Taxes (pre- Net Financial Result)					-	-	-		
Recurrent EBITDA					**(1.8)**	**(1.1)**	**(0.3)**	*n.a.*	*n.a.*
- Rentals (IFRS 16 impact)					-	-	-		
+/- Working Capital increase					(0.7)	(0.5)	(0.4)		
= Recurrent Operating Cash Flow					**(2.5)**	**(1.6)**	**(0.7)**	*n.a.*	*n.a.*
- CAPEX					(0.2)	(0.2)	(0.1)		
- Taxes (pre- Financial Result)					-	-	-		
= Recurrent Free Cash Flow (To the Firm)					**(2.7)**	**(1.7)**	**(0.8)**	*n.a.*	*n.a.*
Rec. Free Cash Flow (To the Firm) growth					*-22.1%*	*36.0%*	*52.1%*		
Rec. Free Cash Flow (To the Firm) / Revenues					n.a.	n.a.	n.a.		
- Acquisitions / + Divestments					(1.1)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow					-	-	-		
= Free Cash Flow "To the Firm"					**(3.8)**	**(1.7)**	**(0.8)**	*n.a.*	*n.a.*
Free Cash Flow (To the Firm) growth					*-61.5%*	*54.5%*	*52.1%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)					*n.a.*	*n.a.*	*n.a.*		
Free Cash Flow "To the Firm" - Yield (o/EV)					*n.a.*	*n.a.*	*n.a.*		

Note: For the period 2017 - 2020, historical information is not available, as the group was set up in 2021.

Recurrent Free Cash Flow accumulated variation analysis (2021 - 2024e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	5.5	
+ Minority Interests	0.1	6m Results 2022
+ Provisions & Other L/T Liabilities	0.6	6m Results 2022
+ Net financial debt	0.3	6m Results 2022
- Financial Investments	0.4	6m Results 2022
+/- Others		6m Results 2022
Enterprise Value (EV)	**6.1**	

Appendix 4. Main peers 2022e

	EUR Mn	Sidetrade SA	Median Technologies	Linedata Services	Lectra	Artificial Solutions	Average	C3.ai	Palantir Technologies	Average	SAI
		Europe						United States			
Market data	Ticker (Factset)	ALBFR-FR	ALMDT-FR	LIN-FR	LSS-FR	ASAI-SE		AI-US	PLTR-US		SAI-ES
	Country	France	France	France	France	Sweden		United States	United States		Spain
	Market cap	206.1	123.1	269.1	1,288.5	4.1		1,224.6	12,738.2		5.5
	Enterprise value (EV)	186.0	119.4	313.4	1,332.3	23.8		460.1	10,624.0		6.1
Basic financial information	Total Revenues	36.9	25.4	172.9	529.1	4.2		246.4	1,791.6		3.2
	Total Revenues growth	*13.1%*	*23.8%*	*7.9%*	*36.5%*	*18.4%*	*19.9%*	*3.5%*	*23.3%*	*13.4%*	*98.2%*
	2y CAGR (2022e - 2024e)	*21.9%*	*40.7%*	*2.1%*	*5.1%*	*56.7%*	*25.3%*	*17.6%*	*21.6%*	*19.6%*	*42.8%*
	EBITDA	4.2	(18.6)	50.8	100.0	(6.7)		(80.1)	374.3		(2.0)
	EBITDA growth	*21.5%*	*-71.4%*	*n.a.*	*77.3%*	*-19.7%*	*1.9%*	*54.5%*	*200.3%*	*127.4%*	*-83.2%*
	2y CAGR (2022e - 2024e)	*50.8%*	*25.2%*	*0.1%*	*9.2%*	*37.4%*	*24.5%*	*52.9%*	*35.4%*	*44.2%*	*60.0%*
	EBITDA/Revenues	*11.4%*	*n.a.*	*29.4%*	*18.9%*	*n.a.*	*19.9%*	*n.a.*	*20.9%*	*20.9%*	*n.a.*
	EBIT	3.2	(19.4)	34.5	75.5	(8.0)		(86.1)	365.4		(4.0)
	EBIT growth	*13.2%*	*-69.3%*	*-10.2%*	*111.8%*	*-18.5%*	*5.4%*	*53.4%*	*194.4%*	*123.9%*	*-101.0%*
	2y CAGR (2022e - 2024e)	*58.9%*	*23.3%*	*0.0%*	*11.7%*	*26.1%*	*24.0%*	*57.4%*	*27.0%*	*42.2%*	*48.3%*
	EBIT/Revenues	*8.5%*	*n.a.*	*20.0%*	*14.3%*	*n.a.*	*14.3%*	*n.a.*	*20.4%*	*20.4%*	*n.a.*
	Net Profit	2.7	(20.6)	24.7	41.7	(7.9)		(285.2)	88.3		(15.8)
	Net Profit growth	*-42.8%*	*-7.0%*	*-12.9%*	*47.7%*	*-25.2%*	*-8.0%*	*-57.6%*	*118.0%*	*30.2%*	*-776.9%*
	2y CAGR (2022e - 2024e)	*56.9%*	*23.5%*	*-2.5%*	*14.5%*	*1.2%*	*18.7%*	*41.5%*	*n.a.*	*41.5%*	*70.7%*
	CAPEX/Sales %	*2.6%*	*2.0%*	*7.8%*	*1.5%*	*2.2%*	*3.2%*	*18.5%*	*1.8%*	*10.1%*	*4.7%*
	Free Cash Flow	2.3	(12.8)	27.2	61.6	(8.5)		(147.3)	229.5		(4.2)
	Net financial debt	(7.2)	5.8	62.3	(12.9)	21.9		1,942.2	(2,252.8)		1.6
	ND/EBITDA (x)	n.a.	n.a.	1.2	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.
	Pay-out	*0.0%*	*0.0%*	*39.0%*	*46.3%*	*n.a.*	*21.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Multiples and Ratios	P/E (x)	76.1	n.a.	9.7	24.1	n.a.	36.6	n.a.	n.a.	n.a.	n.a.
	P/BV (x)	8.1	n.a.	2.0	3.0	n.a.	4.4	1.5	5.6	3.5	0.3
	EV/Revenues (x)	5.0	4.7	1.8	2.5	5.7	4.0	1.9	5.9	3.9	1.9
	EV/EBITDA (x)	44.3	n.a.	6.2	13.3	n.a.	21.3	n.a.	28.4	28.4	n.a.
	EV/EBIT (x)	n.a.	n.a.	9.1	17.6	n.a.	13.4	n.a.	29.1	29.1	n.a.
	ROE	*10.6*	*n.a.*	*21.1*	*12.5*	*n.a.*	*14.7*	*n.a.*	*3.9*	*3.9*	*n.a.*
	FCF Yield (%)	*1.1*	*n.a.*	*10.1*	*4.8*	*n.a.*	*5.3*	*n.a.*	*1.8*	*1.8*	*n.a.*
	DPS	*0.00*	*0.00*	*1.6*	*0.54*	*n.a.*	*0.53*	*0.00*	*0.00*	*0.00*	*0.00*
	Dvd Yield	*0.0%*	*0.0%*	*3.5%*	*1.6%*	*n.a.*	*1.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Note 1: Financial data, multiples and ratios based on market consensus (Factset). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

LIGHTHOUSE

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22-Dec-2022	n.a.	0.235	n.a.	n.a.	Initiation of Coverage	Enrique Andres Abad

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