

Substrate AI

BUY

The build up of an AI powerhouse

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7am, 20th November 2023*

Substrate AI continues to acquire new business with which to accelerate its growth potential, backed by the power of its proprietary Artificial Intelligence algorithms.

Since our 24th January 2023 Research Note, Substrate AI has announced 4 new acquisitions for a combined price tag of €14 million (all paid in Ordinary and B shares). They come to reinforce existing AI, Medtech, HRTech and AgroTech verticals with growth and cost synergies.

We now estimate 2024 Turnover and Ebitda (cash) of €14.6 (vs €8.0) million and €1.2 (vs €0.2) million.

1H23 results showed an increase of 44% in Turnover to €1.8 million and and Ebitda (cash) loss of €0.8 million (vs a loss of €1.2 million in 1H22). With recent acquisitions and improving margins trends, we expect 2023 to finish with Turnover of €5.5 million and Ebitda (cash) loss of €2.4 million.

Substrate AI has raised €5.3 million through Convertible Bonds (all have been converted into Ordinary Shares) during 2022 and 2023. A further €1 million (into B shares) has been raised through loan conversions.

Substrate AI maintains a strong financial position with financial debts of €2.2 million (56% long-term) and a cash position of €1 million.

We maintain our BUY recommendation and we introduce a new price target of €1.00 (vs €1.35) per share, as an adjustment for the new share issues. Our valuation rests on our very high expectations for future sales and profit growth, discounted by a WACC of 14%.

Equities

BME Growth

Price (4pm 17/11/23): Ord. €0.20

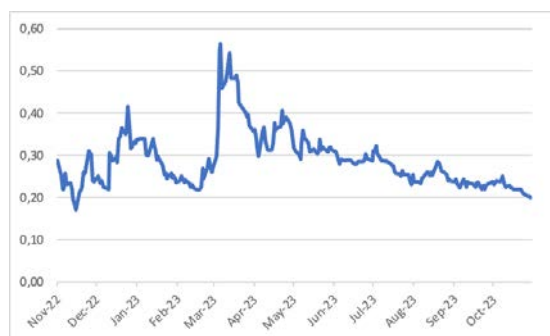
Ticker: SAI.MC

Target Price (12-18 m): €1.00

Trading data

52-Wk range (€):	0.57 - 0,17
Mkt. Cap. FD (€ millions):	16,2
No. Shares FD (millions):	81.5
Avg. daily Vol. (€12m):	241K
Daily volatility (avg. LTM):	3.2%

Price Chart (last 12 months)



(€ millions)	2022	2023e	2024e	2025e
Turnover	3,2	5,5	14,6	19,6
Ebitda	-2,0	-0,1	3,4	5,6
Ebitda (cash)	-3,5	-2,4	1,2	3,3
Net Profit	-15,9	-2,8	0,1	2,2
EPS	-0,65	-0,03	0,00	0,02
EV/Sales (x)	7,8	4,5	1,7	1,3
EV/Ebitda (x)	n.m.	n.m.	7,3	4,5
EV/Ebitda cash (x)	n.m.	n.m.	21,1	7,6
P/E (x)	n.m.	n.m.	279,0	9,0
CFY	n.m.	n.m.	5%	18%

Weaknesses	Threats
Exposed to inorganic growth with the risks that it entails. Substrate AI partly depends on the stock market and credit markets to obtain the financial resources it needs.	Presence of large, well-established and well-capitalized companies may present a competitive threat in each of the markets where they operate.
Geographical concentration, most of its sales are in Spain.	Future capital increases to finance inorganic growth, which may dilute the shareholder.
Rapid growth via acquisitions stretches the current management team to coordinate an increasingly complex organization	Artificial Intelligence is a hot topic the world over and competition for talent remains strong, which may place smaller companies at a disadvantage.
Strengths	Opportunities
Their core asset is a proprietary Biology-Inspired next generation AI technology, developed by one of the founders and CTO, Bren Worth, alongside the Rensselaer Polytechnic Institute in NY.	Expected strong sales growth rate of 166% and 34% in 2024 and 2025. Their Artificial Intelligence algorithms and teams of IT engineers are well placed to support each of the business lines.
A diversified portfolio of companies organized into six different verticals, reducing their exposure to a particular sector the economy.	Value creation through inorganic growth. By acquiring companies that are into or can benefit from AI, Substrate AI stands to create critical mass.
Its smaller size gives it the agility to move more quickly in the commercial field and in the execution of projects.	Spain is emerging as a country with a high degree of digital talent, where Substrate AI is perfectly positioned in the short, medium and long term.
A strong management team with a track record for creating value for shareholders.	Possibility of being acquired. Artificial Intelligence is on the rise and larger companies are looking to acquire talent and market share.
Access to capital through a €20 million committed line of convertible bonds, of which 25% has already been used.	

Four acquisitions to accelerate Substrate AI growth potential in 2024

Substrate has continued in 2023 to strengthen its AI-led business model through four acquisitions for €14.5 million (in Ord. and B shares). This is on top of the 2022 acquisitions of Summon Press, 4D Medical, and Intefi for a combined €7.5 million and the funding of Start-Up operations in the AgroTech side (BoalVet) and Energy (Airen AI) verticals.

Due to these years' acquisitions, our Turnover estimates of the combined businesses will almost double in 2024 to €14.6 million (vs. the prior estimate of €8 million). The main idea behind the build-up strategy is to introduce artificial intelligence (AI) to businesses that can benefit from its implementation, such as AgriTech, HR, financial services, medical imaging, and energy management.

A brief description of the four 2023 acquisitions:

1. Binit Group (70% - €6 million in Ord. And B shares)

A software development company with over 100 employees (two-thirds based in low-cost Latin America), an expected turnover of €3 million (as per the press release), and EBITDA of €300k brings a complementary set of skills to the Artificial Intelligence division. The acquisition was announced and completed in November 2023.

Binit Group verticals



Source: Binit

The Latin American footprint brings lower costs with the specialization, among others, in Agro and Healthcare, coming to complement the existing verticals.

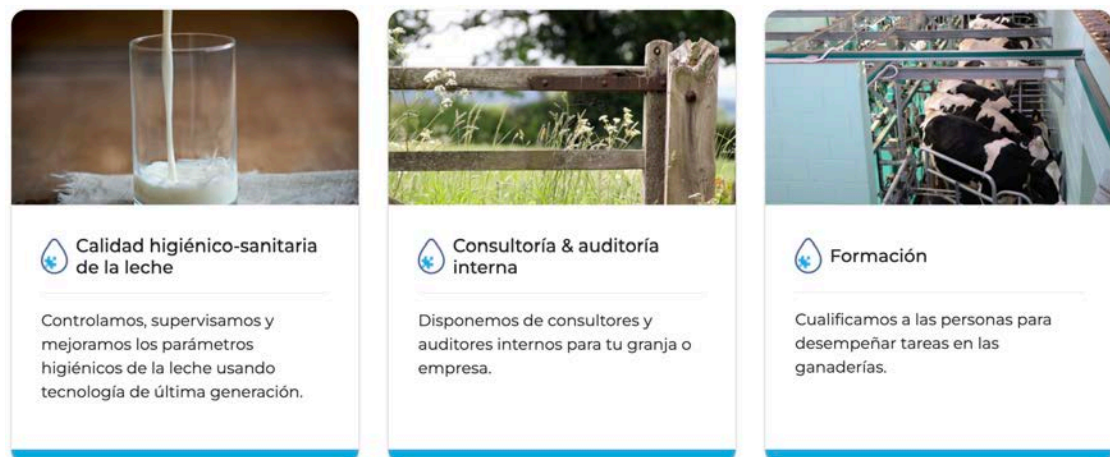
A further rationale for this acquisition is the synergies. In 2023, Substrate AI subcontracted an estimated €1.2 million of software development work to third parties, of which the Binit team can now handle a good portion.

2. PSVET (100% - €1.2 million in Ord. And B shares)

A Veterinary consultancy company specializing in milk quality and certification, with a presence in Galicia and Portugal. Substrate Ai estimates (as per the press release) a turnover of €230k and an EBITDA of €40k.

The core of its services relates to dairy quality control of high-production cows, both from the hygienic point of view of health for human consumption and to preserve the udder's health and the cows' general condition.

PSVET services portfolio



Source: PSVET

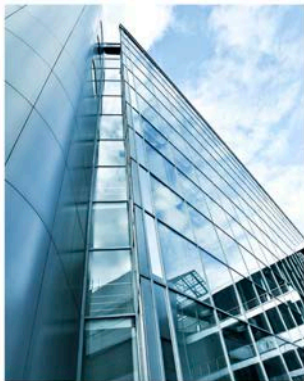
PSVET has an established customer base, complementary to the 90% owned Boalvet, providing an expanded platform for the sale of AI solutions in livestock farming.

3. IFit Solutions (Yamro Holdings) (100% - US\$4.6 million in Ord. And B shares)

IFIT Solutions is a London-based recruitment consultancy specializing in Finance, IT, and HR with operations in Europe (UK and Spain) and America (US, Mexico, and Costa Rica). In their press release, Substrata AI estimates revenues of €4 million and EBITDA of €400k during the first 12 months following the acquisition.

IFit Solutions will continue to be managed by its current team, led by Yann Roche (CEO). They will bring together all operations related to Artificial Intelligence (AI) applications in the world of Human Resources that their existing HR services subsidiary, Fleebe, is currently developing.

IFit Solutions services portfolio



PERMANENT RECRUITMENT

We are able to headhunt the best talent at any level wherever they are based.



CONTRACTORS

We can respond punctually to the need for extra staff drawn from our international network of freelance operators.



RECRUITMENT PROJECTS

We can provide you with a dedicated account manager who will source, build and administer your Talent pool.

Source: IFit

4. Equipos hospitalarios (100% - 2.6 million in Old. And B shares)

Equipos Hospitalarios sells a range of third-party medical imaging equipment for hospitals and veterinary clinics and has a consolidated customer base throughout Spain. In their press release, Substrate AI estimates this acquisition will bring an additional €500k in sales and €40k in EBITDA during the first 12 months following the acquisition to complement the existing medical equipment vertical (acquired in 2022).

Equipos Hospitalarios will continue to be managed by its current management team and will be integrated into the 100% owned Diagximag.

Equipos Hospitalarios is a Master Dealer of Samsung medical imaging equipment



Source: Samsung

With this new acquisition, Substrate AI strengthens its participation in medical imaging software solutions and represents a further step to expand its presence in the healthcare sector.

Our new forecasts continue to point towards solid sales growth in 2024 and 2025

(€ million)	Revenues				y-o-y growth		
	2022	2023e	2024e	2025e	23/22	24/23	25/24
AI	0,3	1,2	4,4	5,7	245%	283%	29%
MedTech	1,0	1,7	2,9	3,5	70%	75%	20%
Energy	0,0	0,1	0,3	0,6	<i>n.a.</i>	220%	125%
FinTech	0,9	1,2	1,6	2,1	30%	35%	35%
HR	0,7	0,9	4,5	5,4	35%	375%	20%
AgriTech	0,2	0,5	0,9	1,7	110%	90%	80%
Total	3,1	5,5	14,6	19,0	75%	166%	30%

Source: Checkpoint Partners

We look for Substrate AI to continue to grow on the back of acquisitions and the resulting organic growth that follows from introducing AI to the respective business models. As far as 2024 is concerned, the new acquisitions will add sales over €7 million, while existing businesses are expected to grow organically in double digits. In 2025, we are projecting growth of 30%, where we believe the power of their Artificial Intelligence can provide the means for accelerated growth rates.

The **Human Resources** vertical will benefit from the IFit acquisition, a key area for expansion at Substrate AI. The management has US unicorn Eightfold AI to reference what can be done in Europe. This platform creates a bespoke, comprehensive talent network by aggregating internal and external data for an enterprise siloed across many solutions. Using artificial intelligence, the platform continuously learns from all the enterprises' data, engagement, and decisions to predict future roles and career alternatives and support diversity and inclusion.

The **AgriTech** vertical remains a core element of Substrate AI growth strategy, as demonstrated by the addition of PSVet to the group in 2023. Spain is the EU's second-largest food producer, with a €110 billion contribution to its GDP in 2022. Artificial Intelligence is increasingly used to optimize farm yields, and Substrate AI wants to be at the forefront. We are anticipating growth rates of 90% and 80% for 2024 and 2025, respectively, partly because they are coming from a low base.

MedTech is another area well suited for Artificial Intelligence, where image recognition is increasingly becoming useful for physicians in providing a better

diagnostic yield with less time spent on each patient. Substrate AI strategy has been to acquire distribution business with established client bases (hospitals) where Artificial Intelligence solutions can be added to the product ordering. We expect 75% growth in 2024 (mainly from the 2023 acquisition of Equipos Hospitalarios) and 20% in 2025.

The **Artificial Intelligence** division, mainly created to serve existing business operations, has now changed into a third-party offering with the acquisition of IT services company BINIT. The synergies from the acquisition are twofold: one, it will provide an internal source of services previously being subcontracted to third parties, and two, it will provide a channel to offer AI-related services to third parties. The expected 2024 results will be mostly made up of revenues from Binit, while we expect growth of 29% in 2025 as AI services become the area of growth for the overall division.

There have been no recent M&A moves in the **FinTech** vertical, and our forecast is related to the expected organic growth of the division. The same applies to the **Energy** vertical, where Substrate AI is looking to develop its business in the energy management side of things, whether its for Solar Panel farms or managing the energy equation of tertiary buildings (hotels, offices, industrial, etc).

Substrate AI is consolidating its position in the market as the only listed Venture Builder with Artificial Intelligence as the growth engine. By investing in small and energetic business ventures (with revenues and profits), it brings the advantages of entrepreneurial companies. It then compounds their potential with the latest advantages of Artificial Intelligence.

We expect 2024 to be a transformational year for Substrate AI as its existing and new businesses enter operational profitability territory with an estimated EBITDA of €1.2 million for the year. We expect EBITDA growth to continue in 2025 with an estimate of € 3.0 million.

PROFIT AND LOSS ACCOUNT

Euros (000´)	2022	2023e	2024e	2025e
Net turnover	3.136	5.496	14.600	19.005
Cost of goods sold	-486	-813	-1.826	-2.339
Other operating income	86	30	35	35
Gross margin	2.736	4.713	12.809	16.702
<i>% margin</i>	<i>85%</i>	<i>85%</i>	<i>88%</i>	<i>88%</i>
Capitalization of R&D expenses	1.495	2.250	2.250	2.250
Personnel expenses	-3.202	-3.838	-7.945	-9.180
Other operating expenses	-3.062	-3.228	-3.679	-4.510
Depreciation of fixed assets	-2.616	-2.200	-3.200	-3.200
Subsidies and others	43	0	0	0
Gain/losses on write-downs	-11.649	0	0	0
Operating Profits	-16.266	-2.303	236	2.062
<i>% margin</i>	<i>-519%</i>	<i>-42%</i>	<i>2%</i>	<i>11%</i>
Ebitda	-2.000	-103	3.436	5.262
<i>% margin</i>	<i>-64%</i>	<i>-2%</i>	<i>24%</i>	<i>28%</i>
Ebitda (cash)	-3.495	-2.353	1.186	3.012
<i>% margin</i>	<i>-111%</i>	<i>-43%</i>	<i>8%</i>	<i>16%</i>
Financial expenses	-137	-517	-164	-122
+/- value of fin. instruments	-3	0	0	0
FX differences	-1	0	0	0
+/- on sale of fin. instruments	-94	0	0	0
Net Financial expenses	-235	-517	-164	-122
Profit before Tax	-16.501	-2.820	72	1.940
Income taxes	562	0	0	0
Consolidated Net Profit	-15.939	-2.820	72	1.940
Profit attributable parent company	-15.950	-2.926	-108	1.723
Minority interests	11	106	180	216

Source: Substrate AI and Checkpoint estimates

BALANCE SHEET

Euros (000')	2022	2023e	2024e	2025e
NON-CURRENT ASSETS	19.129	28.471	28.248	28.984
Intangible assets	17.820	27.147	26.797	27.333
Tangible fixed assets	141	198	277	388
L/T financial investments and other	251	119	65	44
Deferred tax assets	916	1.008	1.109	1.220
CURRENT ASSETS	3.189	3.806	4.733	5.000
Inventories	284	539	701	911
Trade and other receivables	1.266	2.279	2.507	2.758
S/T financial investments and other	15	17	21	25
Cash and cash equivalents	1.623	969	1.503	1.305
TOTAL ASSETS	22.318	32.277	32.981	33.984
EQUITY	17.587	27.321	29.013	30.736
Capital	2.451	10.036	10.036	10.036
Share premium	34.548	37.593	37.593	37.593
Reserves and other	-19.495	-23.308	-21.616	-19.893
NON-CURRENT LIABILITIES	2.289	2.296	1.632	1.167
Long-term liabilities	2.214	2.220	1.554	1.088
CURRENT LIABILITIES	2.442	2.660	2.336	2.080
Short-term financial debts	1.295	1.545	1.237	983
Trade and other payables	790	829	871	914
TOTAL LIABILITIES	22.318	32.277	32.981	33.984

Source: Substrate AI and Checkpoint estimates

€5.3 million raised through Ordinary shares, issued via Convertible Bonds, to fund the growth of the business.

20.4 million Ordinary shares (25% of the total) come from Convertible Bond issuance and conversion (11 tranches thus far), bringing a total of €5.3 million to fund operations between 2022 and 2023. 88% of Ordinary shares have been issued and converted in 2023.

These 11 tranches of Convertible Bonds have triggered the issuance of 3 million of Ordinary Share Warrants at an average 20% premium to the share price prevailing at the date of the issue. When and if converted, the new shares could bring an estimated €1 million in new capital for SAI.

Convertible Bond Program

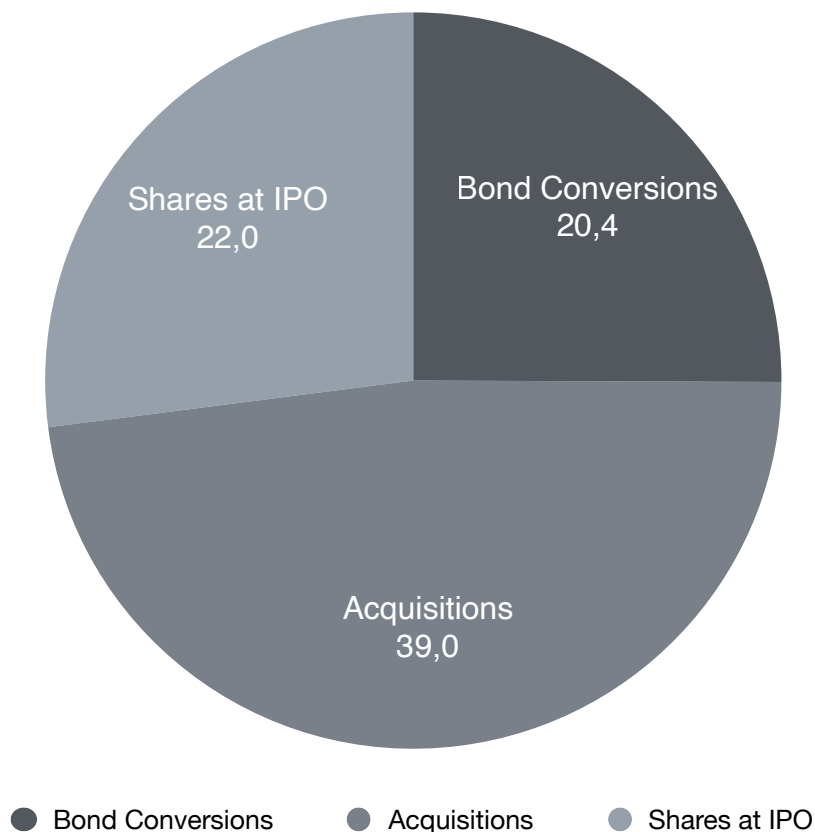
Alpha Blue Ocean (<https://alphablueocean.com/>) has fully committed €20,000,000 Convertible Bond program (3-year duration) has the following characteristics:

- (1) **Availability:** first tranche of €1,000,000 or 2 first tranches of €500,000 each depending on the fulfillment of certain conditions precedent (already issued in 2022), followed by 38 tranches of €500,000. Depending on the fulfillment of certain conditions precedent, the company may draw up to 5 tranches of 500.000€ at a time.
- (2) **Interest rate:** 0%
- (3) **Conversion price:** 95% of the lowest weighted average share price in the 5 trading sessions held before the date of application for conversion of the bonds.
- (4) **Conversion period:** the bonds may be converted at any time from subscription to maturity, conversion being mandatory.
- (5) **Maturity:** each Convertible Bond issued will mature in 12 months.
- (6) **Warrants:** the Convertible Bond holder will receive Warrants with the right to subscribe shares equivalent to 20% of the value of each of the Convertible Bond tranches (€4 million in total), at a price per share equivalent to:
 - First Tranche, the lesser of:

- €4.12 and
 - 120% of the lowest weighted average share price in the 10 stock exchange sessions held prior to the date of signing the contract.
- Subsequent tranches:
 - 120% of the lowest weighted average share price in the 10 trading sessions held prior to the date of application for subscription of the remaining tranches.

Fully diluted number of Ordinary shares: 81.5 million

(includes the expectation of 12 million A shares to be issued following the



announcement of the IFit acquisition)

Source: Substrate Ai and Checkpoint Partners

Active issuance of B shares in 2023

138.8 million B shares (€0,01) have been issued in 2023 to fund acquisitions (€6.3 million) and investor loan conversions (€1 million).

These "B" shares, with a par value of €0.001 are non-voting shares of SAI with the legal regime and preferential rights set out in Article 9 bis of its Articles of Association.

Article 9 bis reads as follows (translated from Spanish):

ARTICLE 9. BIS - NON-VOTING SHARES The Company may issue non-voting shares for a nominal amount not exceeding one half of the paid-up share capital. In this case, the non-voting shares shall form a new class, called "non-voting" shares.

The holders of non-voting shares shall enjoy the rights recognized by Royal Legislative Decree 1/2010, approving the Consolidated Text of the Capital Companies Act, and shall be entitled to receive a minimum annual dividend of 0.01 euro per non-voting share.

Once this minimum dividend has been agreed, holders of non-voting shares will be entitled to the same dividend as ordinary shares. The minimum dividend is conditional on the existence of distributable profits, excluding share premium. The amount of the minimum dividend not paid in respect of a financial year shall not be cumulated for subsequent financial years.

Non-voting shares shall not confer any pre-emptive subscription rights on their holders in connection with voting capital increases.

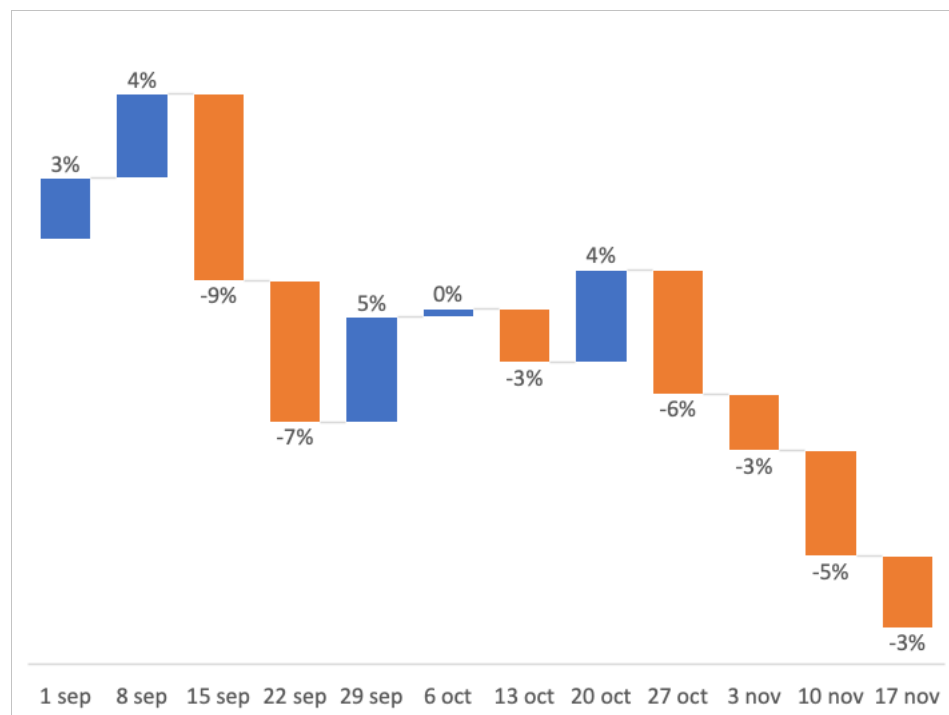
Successive issues of non-voting shares shall not require the approval, by special meeting or separate vote, of the holders of pre-existing non-voting shares. Non-voting shares shall not regain this right if the company has not paid the minimum dividend in full for five consecutive financial years.

For valuation purposes of this report, we are valuing the B non-voting shares as a kind of subordinated debt, given the €0,01 minimum dividend requirement.

Substrate AI: a peek into the last 3-months moves in valuation ratios

The following charts show the, absolute and relative, changes in the valuation ratios of Substrate AI during the last 12 weeks of trading. The share price has traded between a high of €0.41 and a low of €0.17, hence the strong changes in both the absolute and relative valuation ratios. At present, the stock is trading at €0.34.

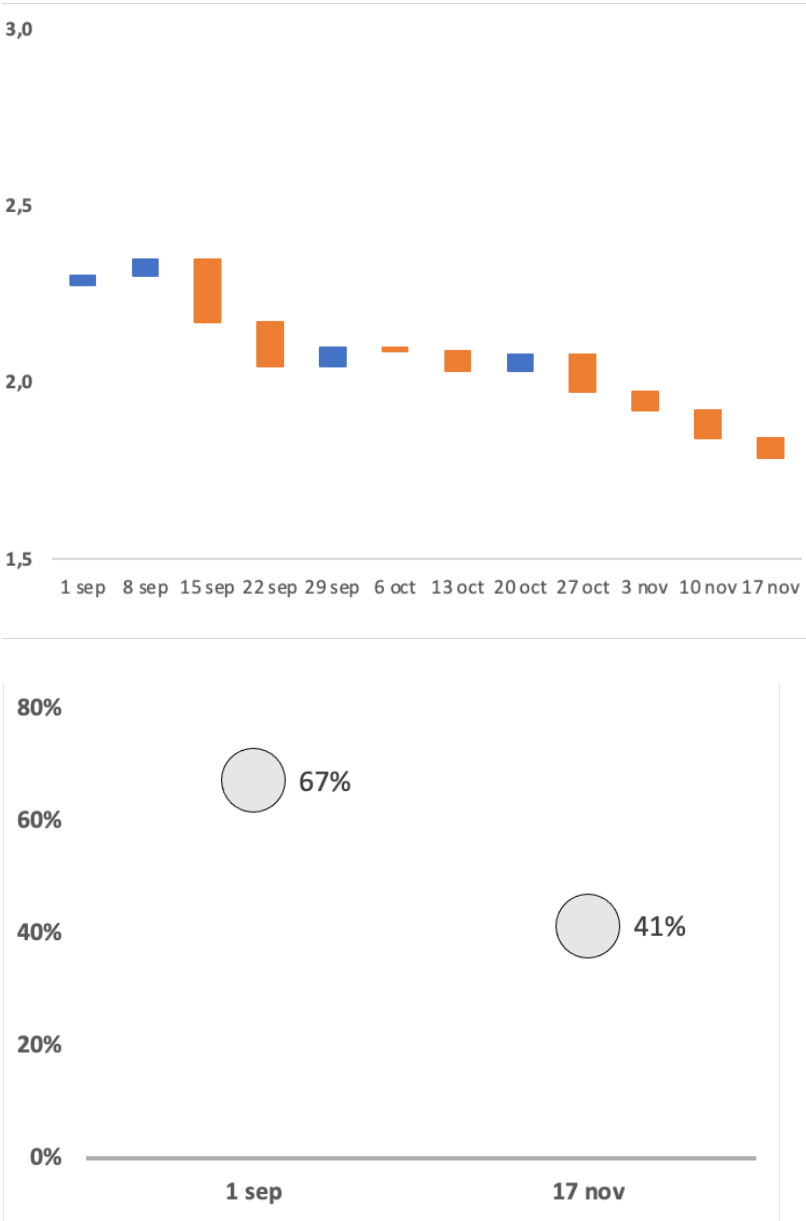
Chart 1: Substrate AI, weekly price performance during the last 3 months



Source: BME Growth and Checkpoint Partners

The candle chart is a standard one, where bars reveal the first and last valuation ratio of the trading week and the lines show the high-low range. The orange bar means a decline and the blue color an increase in the valuation multiples. We omit the EV/Ebitda and PE ratios given that Substrate AI is a loss-making company (albeit expected to turn into profits) and negative values make comparisons less meaningful.

Chart 2: EV/Revenues and EV/Revenues relative to ICT sector



Source: Checkpoint Partners

During the last 3 months, Substrate AI’s EV/Revenues (12-month fwd) ratio has been as high as 2.3x and as low as 1.8x. On a relative basis the stock has traded at a 65% premium 3 months ago compared with the current 41% premium to the average EV/Revenues valuations of the ICT sector in BME Growth. At present, Substrate AI is trading at a multiple of 1.8x versus a sector average of 1.3x.

We believe the premium to be justified on the back of the higher expected Turnover growth rates of Substrate AI relative to the sector in 2024, which we estimate to be at 17%.

Sum of the parts valuation

(€ million)	Revenues				y-o-y growth		
	2022	2023e	2024e	2025e	23/22	24/23	25/24
AI	0,3	1,2	4,4	5,7	245%	283%	29%
MedTech	1,0	1,7	2,9	3,8	70%	75%	30%
Energy	0,0	0,1	0,3	0,6	<i>n.a.</i>	220%	125%
FinTech	0,9	1,2	1,6	2,1	30%	35%	35%
HR	0,7	0,9	4,5	5,6	35%	375%	25%
AgriTech	0,2	0,5	0,9	1,7	110%	90%	80%
Total	3,1	5,5	14,6	19,5	75%	166%	34%

	EV/Sales				Target est. valuation (€ millions)
	2022	2023e	2024e	2025e	
	(x)	(x)	(x)	(x)	
AI	89,4	25,9	6,8	5,2	29,9
MedTech	20,7	12,2	7,0	5,4	20,3
Energy	n.m.	13,6	4,2	1,9	1,2
FinTech	10,1	7,8	5,8	4,3	9,0
HR	28,9	21,4	4,5	3,6	20,3
AgriTech	35,4	16,9	8,9	4,9	8,1
EV	26,4	15,1	5,7	4,2	82,8
Equity Value					81,5
Per share					€ 1,00

	EV/Sales				Current est. valuation (€ millions)
	2022	2023e	2024e	2025e	
	(x)	(x)	(x)	(x)	
AI	27,1	7,9	2,0	1,6	9,1
MedTech	6,3	3,7	2,1	1,6	6,2
Energy	3,1	2,4	1,8	1,3	2,7
FinTech	n.m.	4,1	1,3	0,6	0,4
HR	8,7	6,5	1,4	1,1	6,1
AgriTech	10,7	5,1	2,7	1,5	2,5
EV	8,0	4,6	1,7	1,3	25,1
Equity Value					16,3
Per share					€ 0,20

Checkpoint recommendation System

The Checkpoint Recommendation System is based on absolute returns, measured by the upside potential (including dividends and capital reimbursement) over a 12-month time horizon. Checkpoint recommendations (or ratings) for each stock comprises 3 categories: Buy (B), Neutral (N) and Sell (S).

Buy: the stock is expected to generate total return of over 15% during the next 12 months time horizon

Neutral: the stock is expected to generate total return of -15% to +15% during the next 12 months time horizon

Sell: the stock is expected to generate total return under -15% during the next 12 months time horizon.

History of Checkpoint recommendations (last 12 months)

Date	Stock	Recommen.	Price (€)	Target P.(€)	Period	Analyst
11.11.2021	LLN	BUY	4.38	9.00	12m	Guillermo Serrano
22.02.2022	LLN	BUY	3.24	9.00	12m	Guillermo Serrano
04.05.2022	LLN	BUY	4.06	9.00	12m	Guillermo Serrano
11.08.2022	LLN	BUY	2.50	7.50	12m	Guillermo Serrano
25.10.2022	LLN	BUY	1.84	6.00	12m	Guillermo Serrano
23.11.2022	SAI	BUY	0.22	1.35	12m	Guillermo Serrano
24.01.2023	SAI	BUY	0.34	1.35	12m	Guillermo Serrano
09.03.2023	LLN	BUY	2.27	5.00	12m	Guillermo Serrano
10.05.2023	LLN	BUY	1.64	5.00	12m	Guillermo Serrano
05.09.2023	LLN	BUY	1.15	3.00	12m	Guillermo Serrano

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Frequency of analyst reports: at present Checkpoint has committed to a quarterly update of Substrate AI financial and operational performance.

Investment horizon: our reports focus mainly on small capitalization and illiquid stocks where standard Venture Capital investment criteria should apply. An investment into a small market capitalization stock should be done on a 3-5 year time horizon in order to realized the full potential of the investment opportunity.

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