

**EQUITY - SPAIN**  
 Sector: Software

Closing price: EUR 0.22 (3 Nov 2023)  
 Report date: 6 Nov 2023 (16:00h)

**Important news**  
 Independent Equity Research

## Important news

**Opinion** <sup>(1)</sup>: Positive

**Impact** <sup>(1)</sup>: We will have to raise our estimates

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## Business description

**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.

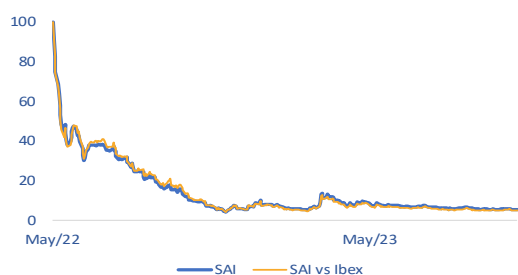
## Market Data

Market Cap (Mn EUR and USD)	8.9	9.5
EV (Mn EUR and USD) <sup>(2)</sup>	26.7	28.6
Shares Outstanding (Mn)	40.3	
-12m (Max/Med/Mín EUR)	0.56 / 0.29 / 0.17	
Daily Avg volume (-12m Mn EUR)	0.25	
Rotation <sup>(3)</sup>	705.0	
Factset / Bloomberg	SAI-ES / SAI SM	
Close fiscal year	31-Dec	

## Shareholders Structure (%) <sup>(5)</sup>

YAMRO Holdings Limited	18.7
United General LTD	9.4
D. Lorenzo Serratos Gallardo	7.2
Luis Daniel Fernández Perez	7.2
Free Float	38.6

## Relative performance (Base 100)



## Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-3.9	-16.0	-46.3	n.a.
vs Ibex 35	-5.3	-15.9	-54.6	n.a.
vs Ibex Small Cap Index	-4.8	-11.3	-51.7	n.a.
vs Eurostoxx 50	-5.7	-13.4	-53.8	n.a.
vs Sector benchmark <sup>(4)</sup>	-8.2	-12.7	-57.3	n.a.

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% - 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 1.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs Stoxx Europe 600 Technology.

(5) Others: D. José Iván García Braulio 6.8%, Other shareholders 11.5%, Treasury stock 0.6%.

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

## SAI continues to grow via M&A (implying heavy dilution)

**SAI CONTINUES TO USE M&A TO DRIVE ITS GROWTH...** SAI has announced the acquisitions of 70% of each of Binit and Deltanova, the holding companies for the Binit group, which is devoted to software development consultancy in Spain, the UK and LATAM (with over 100 employees vs 52 at SAI as of June 2023). The idea is for them to develop software for the SAI companies and provide consultancy services to third parties.

**... ADDING C.3.5MN TO REVENUE NTM.** The company estimates that the acquisitions will contribute revenue of around EUR 3.5Mn over the next 12 months (implying a considerable step-up in scale compared to EUR 3.1Mn in 2022 and EUR 6.9Mn in 2023e at SAI) and EBITDA of EUR c.0.4Mn. We will therefore be raising our estimates for 2023e – 2025e.

**HIGHLY DILUTIVE ACQUISITIONS...** SAI will pay EUR 5.4Mn for Binit (20% of current EV) and EUR 0.6Mn for Deltanova (2% of EV). Both acquisitions will be paid for entirely with SAI shares through a non-cash capital increase (involving class A and B shares). We are talking about very sizeable and potentially dilutive equity issues. The capital increase will entail a very hefty increase in both classes of shares (A & B). In addition, SAI has announced the conversion of EUR 0.5Mn of convertible bonds for which it is issuing 2.2Mn class A shares (3.2% of the total post-issue).

**... ON THE HEELS OF THOSE ANNOUNCED RECENTLY.** In September, SAI already announced a EUR 11.7Mn non-monetary capital increase involving the issuance of 27Mn class A shares (71% of total outstanding class A shares at that time). As well as 42.3Mn class B shares (44% of total class B shares outstanding; see page 3 for further details). The new shares have yet to be admitted to trading.

**DIVIDEND RIGHTS ON CLASS A SHARES ARE SET TO REMAIN LIMITED.** The class B shareholders will receive a minimum annual preferred dividend (subject to company profitability) of EUR 0.01/sh. (EUR 1.4Mn as a minimum, an amount set to increase with successive issues), which is a significant sum for a company with a market cap of EUR c.9.0Mn and scant prospects of generating more than EUR 1 Mn of net profit in the near future. This significant limit the dividend rights of the current class A shareholders (which would also need to see a high payout).

**DEALS THAT MAKE STRATEGIC SENSE.** The new acquisitions will allow SAI to boost its product development and technical support capabilities in fintech, agritech, HR, healthcare and consultancy services. They also imply a quantum leap in scale with a significant impact on 2024e revenue. In theory, at least, as visibility into the revenue upside remains very low at this point.

**IN SHORT, A STORY OF SHARP AND RAPID M&A-LED GROWTH. BUT ONE THAT IS HIGHLY DILUTIVE.** These new acquisitions exemplify SAI's growth model and its strategy of gaining scale via M&A, without sector specialisation. Given SAI's stage of development (start-up), the growth model implies and will necessarily continue to imply significant and highly dilutive capital increases (in addition to the dilutive impact of the convertible bonds). We maintain 2023e estimates (almost no impact from acquisitions) revenue of EUR c.7Mn and a loss at the EBITDA level of EUR c.3.3Mn. We will have to raise our estimates for 2024e - 2025e framed by low visibility, which implies a strong chance of deviations around these estimates.

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## Substrate Artificial Intelligence (SAI) is a BME Growth company

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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).

## Appendix 1. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	8.9	
+ Minority Interests	0.2	Rdos. 6m 2023
+ Provisions & Other L/T Liabilities	0.5	Rdos. 6m 2023
+ Net financial debt	0.3	Rdos. 6m 2023
- Financial Investments	0.9	Rdos. 6m 2023
+/- Others	17.7	Ver nota
<b>Enterprise Value (EV)</b>	<b>26.7</b>	

**Note:** At the date of this report the value of the EUR 6.0Mn non-cash capital increase has been included as Other in the EV calculation (in addition to the EUR 11.7Mn from the previous capital increase, as the shares are not yet in circulation). Therefore, the EV multiples in this report (EV/Sales; EV/EBITDA...) reflect the effect of the new acquisitions and the capital increase that finances them. However, as of today, both the number of shares and the adjusted number of shares do not include the shares to be issued in the new capital increase (the shares of the previous capital increase are included).

With respect to the capital increase to finance the two acquisitions, the percentages of each class of shares have not been disclosed. The potential dilutive impact will depend on the number of Class A shares issued, because in nominal terms each is equivalent to 100 Class B shares. The rights issue must be approved by shareholders at the general meeting when called. Assuming both acquisitions are paid exclusively with Class A shares, SAI would have to issue c.27.3Mn shares at the current price (0,22 EUR/share; 39% of class A shares, assuming that all the shares from the previous capital increase and bond conversion were outstanding).

**Capital increase:** SAI has two types of shares: A and B shares. The A shares have 100% of SAI's voting rights and their economic rights are conditional on those of the B shares, this report takes as a reference (Mkt Cap, EV) the A shares.

The company has class B non-voting shares (at a par value of EUR 0.001; no preferential subscription rights). In nominal terms, each old share corresponds to 100 new class B shares. Holders of these new shares will receive a minimum annual preferred dividend of EUR 0.01 per share. This dividend is conditional on the existence of distributable profits each year. In addition to this increase, the class B shares have been included as future remuneration in the new incentive plan.

## LIGHTHOUSE

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#### Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
06-Nov-2023	n.a.	0.220	n.a.	n.a.	Important news	Enrique Andres Abad
25-Sep-2023	n.a.	0.224	n.a.	n.a.	Important news	Enrique Andres Abad
03-Aug-2023	n.a.	0.276	n.a.	n.a.	Important news - Estimates upgrade	Enrique Andres Abad
19-Jul-2023	n.a.	0.310	n.a.	n.a.	6m 2023 Preliminary results	Enrique Andres Abad
12-Jun-2023	n.a.	0.320	n.a.	n.a.	Small & Micro Caps (Spain)	David López Sánchez
14-Apr-2023	n.a.	0.397	n.a.	n.a.	12m Results 2022 - Estimates downgrade	Enrique Andres Abad
03-Feb-2023	n.a.	0.288	n.a.	n.a.	Important news	Enrique Andres Abad
23-Jan-2023	n.a.	0.340	n.a.	n.a.	12m 2022 Preliminary results	Enrique Andres Abad
22-Dec-2022	n.a.	0.235	n.a.	n.a.	Initiation of Coverage	Enrique Andres Abad

