Service Point Solutions

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Service Point Solutions (SPS) is a Spanish company whose traditional businesses are on-demand printing services, commercial printing and document management solutions (c. 30% of 2021e revenue). In October 2020 there was a change of sector towards the IT segment with the acquisition of Scytl (c. 70% of 2021e revenue), a leading player in electronic voting with an international presence.

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Market Data

Market Cap (Mn EUR and USD)	59.0	71.6
EV (Mn EUR and USD) (1)	65.5	79.5
Shares Outstanding (Mn)	54.8	
-12m (Max/Med/Mín EUR)	1.40 / 0.54 / 0.28	
Daily Avg volume (-12m Mn EUR)	0.29	
Rotation(2)	127.5	
Thomson Reuters / Bloomberg	SPSL.MC / SPS SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Paragon Group	80.4
Free Float	19.6

Financials (Mn EUR)	2019	2020e	2021e	2022e
Adj. nº shares (Mn)	54.8	54.8	54.8	54.8
Total Revenues	7.7	7.0	21.4	24.7
Rec. EBITDA(3)	-0.4	-0.6	0.3	1.6
% growth	*-3.3*	*-56.8*	*153.7*	*363.2*
% Rec. EBITDA/Rev.	*n.a.*	*n.a.*	*1.6*	*6.5*
% Inc. EBITDA sector(4)	*18.5*	*2.1*	*20.0*	*18.0*
Net Profit	-0.9	-1.2	-0.2	0.9
EPS (EUR)	-0.02	-0.02	0.00	0.02
% growth	*-33.6*	*-29.8*	*80.9*	*516.1*
Ord. EPS (EUR)	-0.02	-0.02	0.00	0.02
% growth	*-33.8*	*-29.8*	*80.9*	*517.4*
Rec. Free Cash Flow(5)	-1.0	-1.5	-0.8	0.8
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	1.8	4.9	5.7	4.9
ND/Rec. EBITDA (x)	n.a.	n.a.	16.5	3.1
ROE (%)	*34.6*	*32.1*	*5.1*	*n.a.*
ROCE (%)(5)	*65.7*	*263.8*	*n.a.*	*90.1*

Ratios & Multiples (x)(6)				
P/E	n.a.	n.a.	n.a.	62.2
Ord. P/E	n.a.	n.a.	n.a.	62.2
P/BV	n.a.	n.a.	n.a.	n.a.
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	8.50	9.33	3.06	2.65
EV/Rec. EBITDA	n.a.	n.a.	n.a.	41.1
EV/EBIT	n.a.	n.a.	n.a.	n.a.
FCF Yield (%)(5)	*n.a.*	*n.a.*	*n.a.*	*1.3*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.3Mn higher due to IFRS 16..
(4) Sector: Eurostoxx 600 Technology.
(5) Please see Anex 2 for the theoretical tax rate (ROCE) and recurrent FCF calculation.
(6) Multiples and ratios calculated over prices at the date of this report.

A conundrum

2020: AN ACQUISITION THAT IS LOGICAL ON PAPER (BUT HAS YET TO BE MADE PROFITABLE)…. The SPS of December 2020 has little (or nothing) to do with the SPS of 2013 (something that is obvious after the tough restructuring of the traditional business). Or with the SPS of 2019: in October 2020, the company acquired Scytl, a leading player in the electronic voting business; a high growth niche of the IT sector.

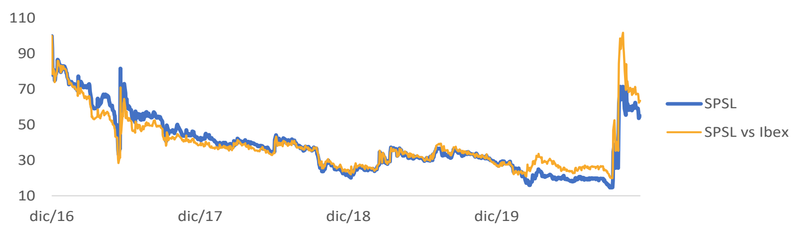
...THAT SHOULD RESULT IN A SIGNIFICANT STEP-UP IN SCALE… Although the operating integration of Scytl under the control of SPS (and Paragon) has only just begun (which explains the high level of uncertainty), the scenario we envisage should allow SPS to achieve turnover of c. EUR 24Mn in 2022e (c. 70% corresponding to electronic voting). To put the step-up in scale into context, SPS's traditional businesses had turnover of c. EUR 8Mn in 2019.

…AND, MOST IMPORTANTLY, REPRESENTS A STRATEGIC TURNING POINT. The acquisition of Scytl should not be seen as exceptional but rather as marking the beginning of a far-reaching change of strategic direction towards IT, a sector with better growth prospects than the traditional digital printing business and with the financial support and know how of the controlling shareholder.

THE OPPORTUNITY AND ALSO THE RISK LIE IN MAKING THE ACQUISITION OF SCYTL TRULY PROFITABLE. The opportunity for growth seems attractive but execution risk (obvious when Scytl was acquired in a situation of insolvency) is also very significant. In the end everything hinges on the unknown quantity of the integration of Scytl being executed successfully. However, today two facts are undeniable: there is no discount in terms of ratios (2021e EV/sales: c. 3x; in line with the IT sector) and we do not expect positive FCF generation until 2022.

IN CONCLUSION: A CONUNDRUM. The intellectual challenge involves objectively assessing whether SPS will truly benefit from Scytl's competitive position (and operating leverage). Today we are still looking at a conundrum that the business performance in 2021e (1H21 results?) will begin to resolve and that the lure of a potential take-off of EBITDA and FCF from 2022e makes it advisable not to lose sight of.

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-10.8	178.5	82.2	105.9	25.6	n.a.
vs Ibex 35	-14.7	137.8	114.1	141.6	57.0	n.a.
vs Ibex Small Cap Index	-17.2	140.2	56.4	81.0	4.6	n.a.
vs Eurostoxx 50	-12.6	163.6	94.0	120.1	27.5	n.a.
vs Sector benchmark(4)	-13.3	179.9	69.5	90.7	-2.3	n.a.

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

The opportunity and risk lie in making the acquisition of Scytl truly profitable. This will be measured in terms of FCF generation from 2022

Service Point Solutions (SPS) is a small Spanish company (Mkt. Cap: EUR 60Mn) whose traditional businesses are digital printing services (on-demand printing and commercial printing) and document management solutions (together accounting for c. 30% of 2021e revenue). A radical strategic change of direction took place in October 2020 (including a change of sector) with the acquisition of Scytl, a key player in the electronic voting and electoral modernisation business with an international presence (that, despite only being consolidated for two months in 2020e, we think will provide c. 14% of estimated total revenue for the year; c. 70% of 2021e revenue). This should allow SPS to move towards a more technological market segment and, on paper, one with greater growth opportunities.

A radically different company to the one seen in 2013

Accordingly, we can say that today (December 2020), SPS is a radically different company to the one seen in recent years and also to the one known until October 2020! This raises two key questions: what is SPS today and what can be expected from SPS in the immediate future (2021e-2022e)?

A) 2014 -2019: "House cleaning" before taking the plunge.

So as to better understand the factors that drove the company to carry out this change of business model, we need to briefly revisit its recent history. 2014 marked the beginning of a tough restructuring process which took place over 2014-2019 and was underpinned by the following mainstays:

2014 marked the beginning of a tough restructuring process which took place over 2014-2019…

1. **Restructuring of debt and the capital structure.** In 2014, the Paragon Group (specialised in document solutions and access, identification and security systems) acquired the debt arising from SPS' syndicated loan, providing the company with the necessary solvency to obviate a creditors' agreement and continue in business. Since then, Paragon has provided financial support via capital increases and participatory loans (increasing its shareholding from 12.4% in 2014 to 80.4% at present). This has allowed almost all the ND to be eliminated (ND 1H20: EUR 2.3Mn; +30% vs 2019, associated with Paragon).

2. **Streamlining of the cost structure.** Despite the sharp fall in revenue (-95% in 2019 vs 2012), this has enabled SPS to maintain EBIT and NP at breakeven (vs heavy losses in 2009-2013) and establish an optimal P&L structure (with no significant impact from amortisation, financial expenses or associates) for the company's future investments (M&A).

… that left a practically non-existent business (2019 revenues: EUR 7,7Mn) with virtually no assets

However, while in 2014-2019 SPS demonstrated: (i) the ability to maintain EBIT at breakeven and (ii) a balance sheet structure for which debt is no longer a problem (ND 1H20: EUR 2.3Mn; associated with Paragon), restructuring has left SPS a costly legacy: (i) a practically non-existent business (2019 revenues: c. EUR 8Mn; conserving only the subsidiaries in Spain and Belgium), (ii) virtually no assets (due to the lack of significant investment -5y) and (iii) continuing dependence on the financial support of its core shareholder.

B) 2020e-2021e: A change of mix that is logical on paper (but pending execution) and which allows the company to aspire to a large step-up in scale. Maximum (and logical) uncertainty.

What is the scenario behind Lighthouse's projections for SPS for 2020e-2022e? In quantitative terms, the radical change of business model (via a commitment to businesses with a high digital and technological component) should allow SPS:

The change of business model (vía M&A) should allow SPS to aspire to a theoretical step-up in scale…

- **To aspire to a significant step-up in scale…** although we have adopted a position with respect to Scytl's revenue of EUR 14.5Mn for 2021e (c. -20% vs 2019 and c. -6% vs the 2015-2019 average), our scenario should enable SPS to obtain consolidated revenue (including the digital printing business) > c. EUR 20Mn. To put the change of scale into context, SPS's traditional businesses had turnover of c. EUR 8Mn in 2019.

… and generate positive EBITDA (but in 2022e; ¿EBITDA Mg. 2022e 6,5%?)

- **… that should generate EBITDA of c. EUR 2Mn** in the mid term (EBITDA margin c. 10%). The level of operating leverage of Scytl's business, that is starting from a still very high fixed cost base (> 75%?) will allow SPS to aspire ("mathematically" and "theoretically") to strong margin growth in the mid term (post-2022e).

A change of business model pendieng execution and, logically too, with máximum uncertainty

- **Although today the big question mark is still the degree of success of the integration of the business acquired (which explains why any future estimate is subject to very high uncertainty).** As with every M&A process there are two issues that need to be resolved: (i) the operating integration of the business and (ii) its materialisation in solid and recurrent profitability and growth in the long term.

C) In conclusion: SPS today is a combination of opportunity and risk, both in large doses. In terms of an investment idea this represents a conundrum…

The opportunity and risk lie in making the acquisition of Scytl truly profitable

In our view, the acquisition of Scytl will not only represent a step-up in scale in quantitative terms, but also marks the beginning of a "logical" strategic change of direction towards a more technological business with greater growth potential (IT) although still pending execution.

On the one hand the change of strategic direction encompasses 3 big opportunities:

1. **A shift towards a more digital and technological market segment** that, on paper, has higher growth rates (vs the traditional digital printing business).
2. **With high operating leverage.** That should enable SPS to squeeze the most out of any increase in revenues and aspire ("mathematically") to large increases in margins.
3. **And a theoretical ability to generate positive FCF (although not before 2022e).** Low levels of CAPEX and an absence of financial expenses should enable any increase in EBITDA to be translated to FCF although the scenario we envisage means SPS won't generate positive cash flow before 2022e (the main obstacle will continue to be the company's narrow margins).

But there are also very important uncertainties (the other side of the coin):

1. **The operating integration of a business in a situation of insolvency.** In a sector in which the SPS lacks previous experience (electronic voting). Any delay to the expected recovery of Scytl's business will, inevitably, delay the generation of FCF (at present it is at least 12 months from beginning to generate cash).

Which explains that the degree of success of the integration of the business acquired will be key

2. **Together with a traditional business that has been incapable of exceeding breakeven in the last five years.** And which saw a reduction in its revenues of 5% CAGR in 2015-2019.
3. **Which could increase the liabilities held with the controlling shareholder.** The company's limited ability to generate cash together with the acquisition of Scytl in 2020e (we lack information regarding the acquisition price) will imply growth in ND to c. EUR 5Mn in 2020e (vs EUR 1.8Mn in 2019). And c. 3.1x 2022e EBITDA.

In conclusion: we are at the beginning of a strategic change of direction that, on paper, is logical, but which is pending execution (and is at least 12 months from beginning to generate FCF). However, SPS has 3 big aids to help it face the challenge of execution:

1. **Scytl still has a leading position in the electronic voting market.** Despite its situation of insolvency, Scytl has consolidated a leading position in the electoral software market: in the last 10 years it has electronically managed elections (both in the public and private spheres) in countries such as the US, Mexico, France, Norway and Switzerland.

Although SPS can count on the financial support and kwno-how of its core shareholder

2. **SPS can count on the financial support and know-how of its core shareholder (the Paragon Group).** Paragon has a presence in document management solutions (including digital printing) and access, identification and security systems. So Paragon not only provides financial support but should also contribute industrial support.

3. **And off-balance sheet tax loss carryforwards of c. EUR 482Mn,** that, in the event of profits being generated, could allow the company to maintain a tax rate of close to zero in coming years.

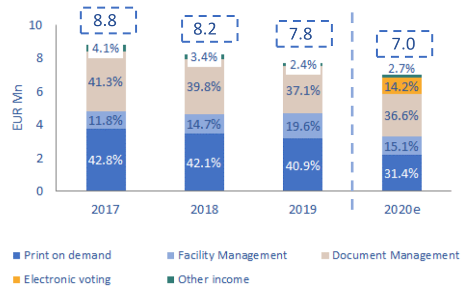
In conclusion: SPS, from a market point of view, seems today to be a conundrum that is difficult to resolve. The opportunity for growth seems attractive and evident. However, execution risk (obvious when Scytl was acquired in a situation of insolvency) is very significant, albeit mitigated by the financial backing of Paragon and the realistic possibility of the company remaining close to breakeven, and avoiding the huge losses of recent years. But in the end everything hinges on the unknown quantity of the successful integration of Scytl.

Todday we are still looking at a conundrum that the business performance in 2021e will only begin to resolve

Current ratios are irrelevant as a reference (2022e FCF yield of 1%) apart from EV/Sales (c.3x in 2021e; in line with the EV/sales of the IT industry) that suggests a certain success of the Scytl acquisition is already being discounted. However, the intellectual challenge has not disappeared as a result. It still exists and today involves objectively assessing whether SPS will truly benefit from Scytl's competitive position and operating leverage that would justify the high ratios that we will presumably see in the next two years. Today we are still looking at a conundrum that the business performance in 2021 will only begin to resolve and that the lure of a potential take-off of EBITDA and FCF from 2022 makes it advisable not to lose sight of.

A story of restructuring and a change of business model: more digital and with greater growth potential

Chart 1. Revenue mix by business line



Note: SPS acquires the electronic voting business (Scytl) in October 2020; so, in 2020e it will only consolidate the months of November and December.

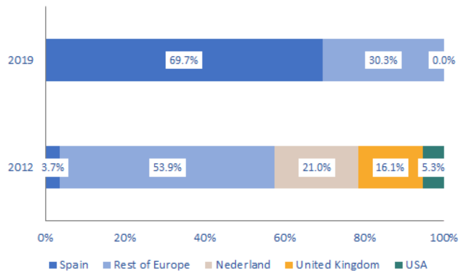
Service Point Solutions (SPS) is a small Spanish company (Mkt. Cap: EUR 60Mn) with a core business (c. 86% of 2020e revenue) of on-demand printing services, commercial printing (with renewable 2-3 year contracts) and document management solutions (activity developed essentially in Belgium). A radical strategic change took place in October 2020 with the acquisition of Scytl, a key player in the electronic voting and electoral modernisation business with an international presence that, despite only being consolidated for two months, will provide c. 14% of estimated revenue for 2020e.

In our view, the acquisition of Scytl not only represents a step-up in scale in quantitative terms (Chart 1), but also marks the beginning of a "logical" strategic change of direction towards a more technological business with greater growth potential (IT). It also means a larger international presence: after the tough restructuring undertaken by the company, revenue from outside Spain accounted for c. 30% of turnover in 2019 (present only in Belgium compared to a significant international presence in the past; Chart 2). So as to better understand the reasons for this drastic change of business model, we need to briefly look at the company's recent history.

2008-2013: excess leverage adversely affected the company (resulting in the loss of its core assets and a creditors' meeting)

2008 was the peak of the previous cycle. SPS reported turnover of EUR 237.5Mn and an EBITDA margin of 9.5%. However, FCF sank to EUR -33Mn, as a result of a strategy focused solely on gaining size with significant M&A activity (acquisitions in the Netherlands, the UK, Norway, Sweden, etc. increased goodwill to c. EUR 170Mn in 2008).

Chart 2. Revenue mix by geography (2012-2019)



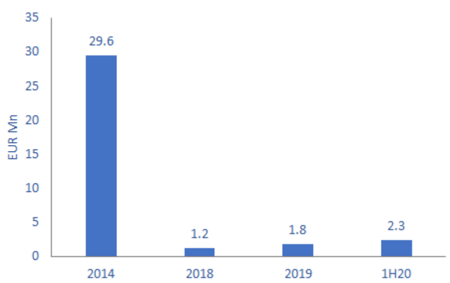
It could be said that the period 2008-2013 reflected the interaction of two factors: the cycle (unfavourable) and operating profitability under pressure as a result of the chosen business model (in 2012 the EBITDA margin fell to 3%).

This resulted in unsustainable levels of net debt and financial expenses (c. EUR 103Mn and EUR 11Mn, respectively in 2012; vs negative EBIT of c. EUR -8Mn). In 2013, failure to comply with covenants led to the execution of guarantees on a significant number of SPS' businesses (in the UK, US, Norway and Sweden), significantly reducing the P&L (2013 revenues -90% vs 2012) and leading to a creditors' meeting.

2014 -2019: "House cleaning" before taking the plunge. Restructuring debt and the capital structure

2014 marked the beginning of a tough restructuring process which took place over 2014-2019 and was underpinned by the following mainstays:

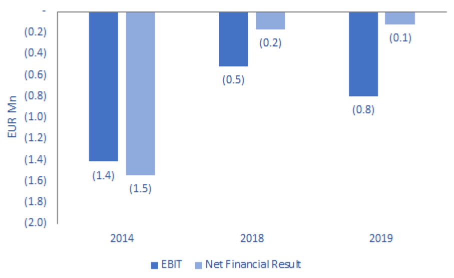
Chart 3. Net Debt (2013-1H20)



- **Restructuring of debt and the capital structure.** In 2014, the Paragon Group (specialised in document management solutions and access, identification and security systems) acquired the debt arising from the syndicated loan, giving SPS the necessary solvency to obviate a creditors' agreement and continue in business. Since then, Paragon has provided financial support via a number of capital increases and participatory loans (increasing its shareholding from 12.4% in 2014 to 80.4% at present). This has almost entirely eliminated debt (ND 1H20: EUR 2.3Mn associated with Paragon; +30% vs 2019 as a result of the Covid-19 impact during 1H20).

- **Creating a flexible cost base,** allowing SPS to maintain EBIT and NP at breakeven (vs large losses in 2009-2013), establishing an optimal structure for the company's future investments.

Chart 4. EBIT vs Net financial result (2014-2019)



However, while in 2014-2019 SPS proved it had: (i) the ability to maintain EBIT at breakeven (vs large losses in previous periods), and (ii) a balance sheet structure for which debt was no longer a problem (ND 1H20: EUR 2.3Mn; associated with Paragon), restructuring has left SPS a costly legacy: (i) a practically non-existent business (2019 revenues: c. EUR 8Mn; conserving only the subsidiaries in Spain and Belgium), (ii) virtually no assets (due to the lack of investment -5y; in 2019 SPS invested c. EUR 1Mn in digital printing equipment) and (iii) continuing dependence on the financial support of its core shareholder.

2020: On the hunt for opportunities. A radical strategic change that should imply a step-up in size both in terms of quantity…

In recent years, the SPS management team (with the help of the Paragon Group) have studied various inorganic growth projects with the aim of entering new segments and markets that will enable the company to recover critical mass and profitability, using the following criteria: (i) the generation of value with acquisitions that are consistent with SPS's strategy and which have minimum levels of profitability and solvency and (ii) a reasonable price. In this respect, Paragon has lengthy experience of M&A that should prevent it from making acquisitions at ratios that suggest value destruction (although in our view M&A risk is always present regardless of track record).

This search for growth opportunities resulted in the acquisition of Scytl (with the support of the Paragon Group; October 2020), a key player in the digital voting and electoral modernisation business with headquarters in Barcelona. The acquisition also includes Civiciti, a citizens' participation platform launched by Scytl in 2016, Scytl's subsidiaries in the US, Canada, Australia, France and Greece and the entire headcount (c. 140 employees; most based in Barcelona). The KPIs that Scytl brings to SPS are:

- **¿Annual turnover of c. EUR 14,5M?** Incorporated in 2001, Scytl has a leading global position in electoral modernisation and secure on-line voting software (with c. 40 international patents). This is an industry that, on paper, offers a clear growth opportunity.
- **A significant step-up in size.** The change of scope will allow SPS to achieve turnover of c. EUR 20Mn in 2021e (vs EUR 7.8Mn in 2019; and offsetting the impact of Covid-19 on its core businesses in 2020e).
- **With assets free of debt.** Although at the date of this report the acquisition price paid for Scytl is not known, the assets have been acquired free of debt (the company's principal Achilles' heel in the past).

Table 1. IT Services vs Commercial Printing sector. Main KPIs

Main KPIs	IT Services	Commercial Printing	IT Services vs Printing
Growth and margins			
Total revenue (2020-2022e CAG	12.0%	3.2%	8.9p.p.
EBITDA (2020-2022e CAGR)	17.4%	8.6%	8.8p.p.
2020e EBITDA Mg.	18.5%	13.7%	4.9p.p.
Enterprise value multiples			
EV/EBITDA 2020e (x)	15.2	7.0	116.6%
EV/EBIT 2020e (x)	20.6	12.6	63.6%

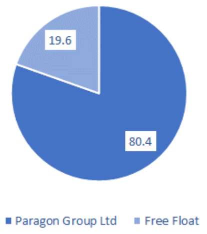
Note: Financial data, valuation múltiples and ratios based on market consensus (Refinitiv).

… and, especially, quality (moving towards a more technological business model)

The opportunistic acquisition of Scytl (that had initiated insolvency proceedings) should be just the first step in Paragon's strategy of positioning the new SPS as the Group's listed vehicle with which to acquire new technological businesses (with high growth) maintaining its access to the equity market. This should allow:

- **A move towards a more technological market segment.** This should offset exposure to the digital printing business: a low growth business, without competitive advantages (lacking critical mass) and with declining profitability.
- **An increase in geographical diversification.** The acquisition of Scytl not only implies a step-up in size with a change of business model but will also increase the geographical diversification of revenues.
- **Levering the M&A activity on the existing structure of a listed company (SPS)…** SPS guarantees the Paragon Group contact with the equity market (allowing it to access institutional investors more easily).
- **… that has a very significant volume of off-balance sheet tax losses yet to be offset (2019: EUR 482Mn)** that will keep the tax rate low and increase the IRR of the assets acquired under the SPS "umbrella" (another reason for Paragon to use SPS as a vehicle to carry out part of its M&A activity).

Chart 5. Shareholder structure (2020)



In the hands of an industrial partner with a controlling shareholding, sector experience and a presence on the board…

Since 2014 SPS has been part of the Paragon Group (an unlisted group controlled by Patrick Crean) which has a controlling shareholding of 80.4% (81.2% including voting rights associated with financial instruments which reduces the free float to c. 20%).

Paragon is specialised in the IT sector with a presence (among others) in document management solutions (including digital printing) and access, identification and security systems. Accordingly, Paragon not only provides financial support (giving SPS the solvency needed to continue operating and obviate a creditors' agreement) but also brings an industrial project, whose interests and long-term perspective are in line with those of minority shareholders.

… and capacity to generate value via M&A?

The Paragon Group has tripled in size in the last five years (proforma turnover of c. EUR 1Bn in 2019; vs EUR 0.3Bn in 2015) driven, partly, by intense M&A activity (with the goal of gaining scale and accessing very specific market niches) with over 30 acquisitions -5y (15 new businesses just in 2019), mostly in the IT business, and always aiming to avoid acquisitions at multiples that suggest value destruction (the St Ives deal is an example with Paragon not being prepared to pay a premium for a business that eventually ran into difficulties which subsequently allowed it to make the acquisition at a substantial discount).

Table 2. Paragon Group: main KPIs

EUR Mn	2015	2016	2017	2018	2019
Total Revenues	315	400	442	673	838
Total Revenues growth	*n.a.*	*27%*	*11%*	*52%*	*25%*
Recurrent EBITDA	15	24	28	42	50
Recurrent EBITDA growth	*n.a.*	*60%*	*17%*	*50%*	*19%*
Rec. EBITDA/Revenues	*4.8%*	*6.0%*	*6.3%*	*6.2%*	*6.0%*
Net Debt/EBITDA (x)	3.1x	1.7x	2.1x	1.7x	1.8x

In our opinion, the support of the Paragon Group as controlling shareholder was not only essential to obviating the creditors' agreement in 2014, but also represents a dramatic change of direction in SPS's business via three far-reaching strategic decisions which explain the present and (likely) future of the company:

- **Gaining size,** through the acquisition of Scytl, a transaction that can easily be viewed as "opportunistic" as the latter was negotiating a creditors' agreement. The incorporation of Scytl will represent a step-up in terms of turnover (which will increase by c. 2.5x in 2021e proforma terms vs 2019).

- **Moving towards a business with greater exposure to technology.** The acquisition of Scytl, a key player in the digital voting and electoral modernisation business is an example and should be seen as the first movement of the growth via M&A strategy.

- **Under the strategic decision to lever the M&A activity on the existing structure of a listed company.** The Paragon Group's contact with the equity market (and with institutional investors) is guaranteed with SPS. In addition, SPS has (off-balance sheet) tax loss carryforwards in an amount of c. EUR 438Mn that should allow the IRR of the assets acquired under the SPS "umbrella" to be increased.

However, this strategy is not free of risks although SPS's starting point is optimal from the balance sheet point of view and the macro situation will open up further opportunities for growth. As with every integration and change of business model process there are two issues that need to be resolved: (i) the operating execution of the integration and (ii) the materialisation of profitability and growth for the company in the long term.

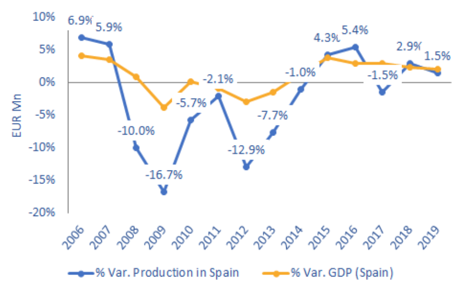
Two businesses with radically different drivers (growth, profitability, risk, opportunities…)

Although the market tends to classify SPS as a company that mainly provides digital printing and document management services (its core business), with the acquisition of Scytl (October 2020) the company is now moving more towards the IT and communications sector (in which Paragon, SPS' core shareholder, carries out a significant part of its business). This explains why currently (December 2020) SPS is present in two businesses with radically different growth and profitability drivers: (i) digital printing and document management (c. 30% of 2021e revenue) and (ii) electronic voting and IT (c. 70% of 2021e revenue. We detail below the main trends and drivers affecting the businesses in which SPS operates.

Printing services: a cyclical sector, with low growth (mature) and with margins under pressure (where critical mass is crucial)

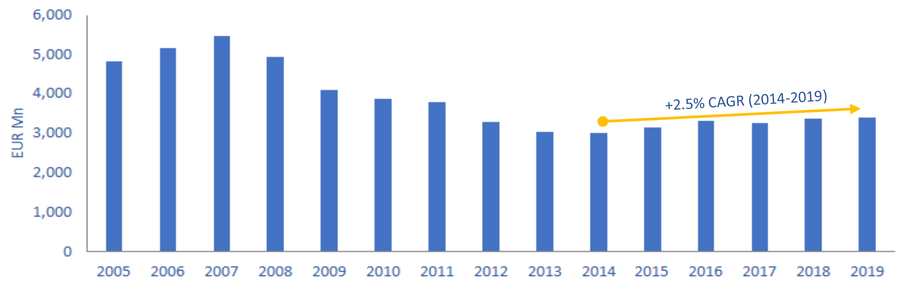
The output of the graphic arts industry (where printing accounts for c. 88% of turnover; vs c. 7% for binding and 5% for pre-printing services) has a high correlation to the economic situation. A clear example is what happened after the Lehman crisis (2008), which was an important turning point (for worse) for the sector: total industry turnover fell c. 10% (2008) and c. 17% (2009; vs -3% for the Spanish GDP), before hitting bottom in 2014 (-45% vs 2007!; Chart 7) due to the very negative performance of sectors that are strategic for the business (such as property). SPS was not immune to this situation, turnover shrinking 38% in 2008-2013 (despite M&A activity) forcing it to call a creditors' meeting.

Chart 6. Printing and Graphic Arts production in Spain vs Real GDP



Source: DBK Informa (July 2020). 2019 data for Graphic arts production refers to DBK estimates.
Note: Printing services account for > 85% of the total production of the Graphic arts industry in Spain.

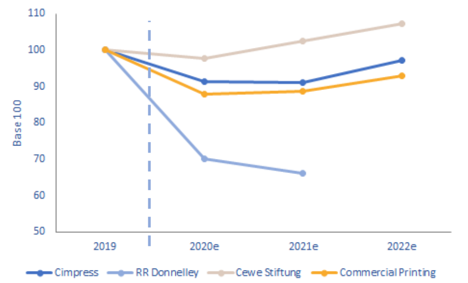
Chart 7. Printing and Graphic Arts industry production in Spain (2005-2019)



Source: DBK Informa (July 2020). 2019 refers to DBK estimates.

After the lows of 2014, cyclical recovery in Spain boosted the sector slightly, although with still very low growth rates (+2.5% CAGR 2014-2019), and today it is still c. 30% below the highs of 2008 (Chart 7). This underlines the weak demand of an industry that is not only facing a brusque change of cycle but also important disruptions: the most evident perhaps being the change in reading habits in favour of electronic media (a paperless culture), that has significantly reduced the demand for printing services. This situation has led to the liquidation of numerous sector companies: the discontinuation of business and liquidation of Grupo Impresia (Spain's leading printer) in 2019 standing out. Although in this context there is room for niches (digital printing, SPS's core business, has higher growth rates than the rest of the industry).

Chart 8. Revenue estimates for main industry players (2019 – 2022e)



The main industry players include companies such as Cenveo (US; unlisted), Quad/Graphics, RR Donnelley (both listed in the US), Cimpress (Ireland) and Cewe Stiftung (Germany), which are expected to see, on average, a c. 12% reduction in revenue in 2020e (because of the sharp slowdown in industrial activity in 1H20 due to the Covid-19 crisis), before recovering in 2021e and 2022e (although without returning to 2019 levels, as is the case for RR Donnelley; Chart 8).

Chart 9. EBIT margin for the Commercial Printing industry (2010-2019)

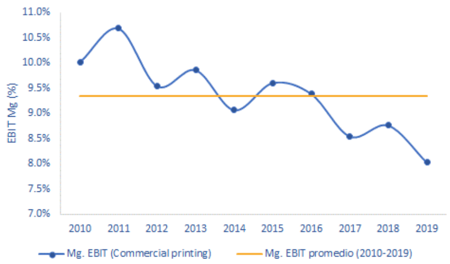
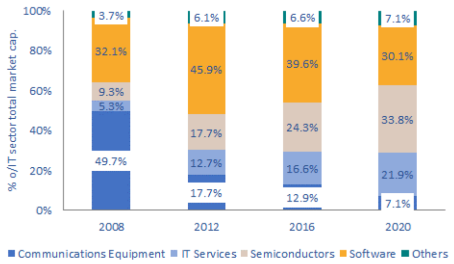
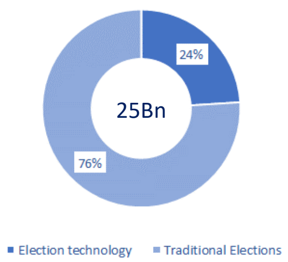


Chart 10. Breakdown of Information Technology companies in Europe by Mkt. Cap.



Note: STOXX Europe 600 companies included under the GICS classification “Information Technology”.

Chart 11. Global election market size



Source: Scytl (2018).

As regards profitability, the industry is facing an increase in low-cost competition from Asia that, together with price competition resulting from the increase in digital communications (vs paper), keeps margins under pressure (industry EBIT margin of c. 8% in 2019, vs c. 11% in 2010; Chart 9).

We think this situation of low growth and margins under pressure could accelerate M&A activity with the aim of gaining size in what is still a highly fragmented industry (in Spain the 10 leading sector players have a combined share of total output of c. 13%) in which critical mass is key to generating economies of scale that allow reasonable levels of profitability to be maintained: mid term EBIT margins > 5%?

So a move towards niches with a larger technological weighting seems a logical change of strategic direction

The tech sector comprises a large number of companies carrying out very diverse activities but with one thing in common; innovation, a distinguishing asset with evident added value. Putting the spotlight on Europe, the IT sector represents c. 7% of the Stoxx Europe 600 in terms of market capitalisation (vs 3.5% in 2015). This large increase is explained by the continuous development of businesses with exposure to technology and also by the market anticipating the theoretical resilience to the Covid-19 crisis of businesses with greater exposure to technology (with a weight of c. 5.5% in 2019).

Within the sector the growth of IT services stands out (Chart 10; where SPS seeks to grow via M&A), driven by the strong growth of demand for Cloud Computing and Big Data services, and by the development of tools for the internet of things (IoT). This implies growth (> 12% CAGR for IT services revenue in 2020e-2022e according to the Refinitiv consensus) and high margins (2020e Rec. EBITDA margin of c. 13%) which has led to a 2020e EV/EBIT of c. 20x for the IT services industry in Europe.

All this explains SPS’ interest in the IT sector. The acquisition of Scytl should be seen as a first step towards gradually gaining importance in businesses with a high digital component (and not just in the specific niche of electronic voting).

Electronic voting: a business with a large technological component but still at the start-up stage

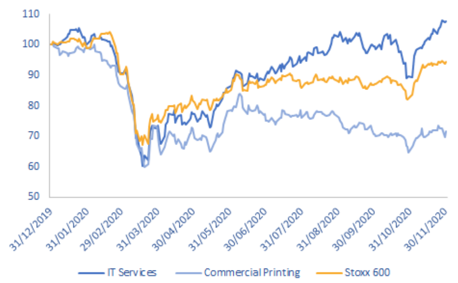
Scytl is a provider of electronic voting systems and electoral technology that, since its creation (in 2001; as a spin-off of the Universidad Autónoma de Barcelona), has achieved a leading position in the international electoral software market. In the last 10 years Scytl has electronically managed elections in the US, Mexico, France, Norway, Switzerland, Austria, and India, both public (national, regional and local governments) and private.

The election business, worth c. USD 25Bn globally, has low technological penetration, with electoral procedures having remained largely unchanged for the last 50 years. The introduction of software is a disruptive opportunity to make elections more accessible and easier to manage, reducing (or mitigating) the risk of fraud.

Scytl’s technology uses cryptographic protocols to guarantee the security and auditability of any kind of election. This makes the software used one of the main entry barriers for potential competitors: Scytl has c. 40 patents in the area of security applied to elections. However, in the IT sector competitive advantages associated with technology are usually ephemeral (except in some rare cases... SAP?), so attention should focus on the competitive advantages from acquired know-how, customer relationships and the ability to retain talent. Note that the electronic voting business is very intensive in human capital (¿Scytl: c. 140 employees for a turnover of c. EUR 15Mn?).

Among the market’s leading players there is a large number of private companies (mostly in the US): Dominion Voting Systems, Smartmatic, Clear Ballot, Democracy Earth, Intelivote, Votem. All these have turnover of < c. USD 100Mn. Domestically, SPS’s electronic voting business competes almost exclusively with Indra (an IT company for whom electronic voting represents a small percentage of its turnover). SPS is the only listed company with an almost “pure player” position in electronic voting.

Chart 12. IT Services, Commercial Printing and STOXX 600: YTD market performance



In terms of sector exposure, there is no doubt about which is has better growth prospects (IT services): something the market does not overlook

The momentum of the printing services sector is not good: (i) hypersensitivity to GDP against a backdrop of a brusque change of cycle, (ii) demand exposed to significant technological disruptions (the change in reading habits in favour of electronic media is just one example) and (iii) margins under pressure (due to the increase in low-cost competition from Asia). This all has a multiplier effect on the negative cyclical situation posing a real challenge for smaller players who lack the critical mass to maintain reasonable margins (as is the case for SPS' digital printing business).

Despite this situation, there are industries with better prospects such as IT services, for which Covid-19 has not only not slowed activity, but has in fact accelerated it (> 12% CAGR for IT services revenue in 2020e-2022) maintaining an EBITDA margin of c. 18%. The market is well aware of this: in August 2020 the Refinitiv Europe IT Services index recovered pre Covid-19 impact levels (vs -24% for the printing services index and -11% for the Stoxx 600). At December 2020, the IT Services index is c. 10% above levels prior to Covid-19 (vs -28% for printing services and -6% for the Stoxx 600).

The change in SPS' business model towards businesses with a larger technological component (and growth potential) is a logical change of strategic direction that, in our view, brings with it the opportunity to aspire to high growth rates in an industry with high operating leverage. However, gaining size through M&A is not free of risk (especially when IT services industry valuations are showing ratios of c. 20x EV/EBIT vs a -5y average of 15-16x).

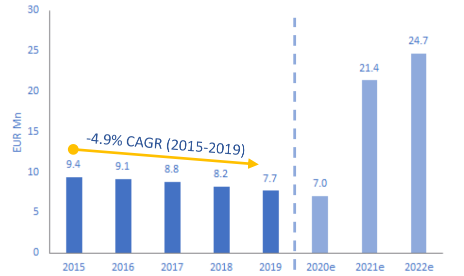
A logical change of mix on paper, but pending execution and, logically too, maximum uncertainty

Our forecasts include adjustments for the application of IFRS 16 from January 2019. In 2019 EBITDA is c. EUR 0.3Mn higher due to the application of IFRS 16.

The tough restructuring which SPS underwent (2014-2019; see Annexe 4) has left the company a costly legacy: (i) a very small and declining turnover (2019 revenue: c. EUR 8Mn; -4.9% CAGR 2015-2019), (ii) virtually no assets (due to the lack of significant investment -5y) and (iii) continuing dependence on the financial support of its core shareholder (Paragon). It has also taught valuable lessons for the future; a flexible cost base and an optimum balance sheet structure on which to lever new investments (M&A). In October 2020 SPS acquired Scytl, a key player in electronic voting that should enable SPS to lean towards a new market (IT services; where it can generate synergies with Paragon) in which, a priori, the opportunity for growth is larger than in its traditional business (digital printing). This represents a change of strategic direction that is logical on paper but still pending execution.

Today, against a macro backdrop that continues to advise caution, the main questions are: (i) how will Covid-19 impact on SPS' core businesses? (ii) what will Scytl contribute in terms of revenues and margins? and, finally, but no less importantly, (iii) what can be expected from the new SPS in consolidated terms against a backdrop of macro normalisation after 2021e? Answering these questions will require a systematic analysis of the company's P&L (by business), balance sheet structure, and ability to generate cash.

Chart 13. Total revenues (2015-2022e)

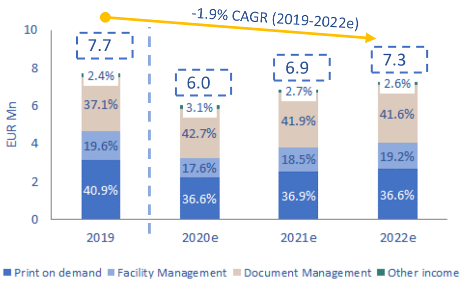


Note: total revenues include the incorporation of Scytl in October 2020 so in 2020e it will only contribute the months of November and December to 2020e consolidated results (c. 68% and 70% of total revenues in 2021e and 2022e, respectively).

Digital printing: revenue impacted by the Covid-19 crisis and margins that will remain under pressure

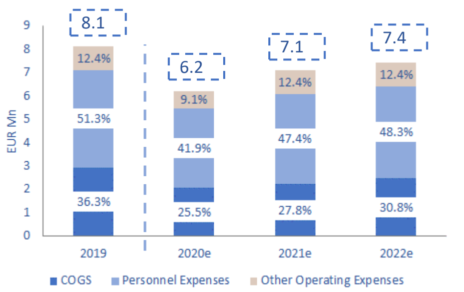
The decline in revenue seen in 2015-2019 (-4.9% CAGR) will have a dramatic postscript in 2020e as a result of the sharp slowdown in economic activity caused by the Covid-19 crisis (which won't surprise anybody). This should reduce the revenue generated by SPS' traditional businesses to c. EUR 6Mn in 2020e (-21.9% vs 2019). By business line, we expect the document management and BPO (Business Process Outsourcing) activity, carried out in Belgium and which is benefiting from the growing trend for the outsourcing of digitisation services, to reduce its decline to c. 10% (vs c. 30% for the digital printing business). This should increase the gross margin (gross margin for document management of c. 85% vs c. 30% for the printing activity).

Chart 14. Revenue Mix from traditional businesses (2019-2022e)



In respect of margins, SPS's core business has a streamlined cost structure (Chart 15) that enabled the company to maintain break even in EBITDA in 2015-2019. As a result of the impact of the Covid-19 crisis, SPS has adopted a number of measures to reduce its cost structure even further, among which we would highlight: (i) temporary lay-offs by reason of *force majeure* at the Spanish subsidiary (c. 75 employees) and reduced working hours in Belgium (savings of c. 20% in personnel costs) and (ii) the almost total reduction of non-core services. In our opinion, the flexible cost structure, together with the measures taken to bring production capacity into line with real demand, should result in EBITDA from the core businesses of c. EUR -0.2Mn, which, while still negative, compares favourably with that obtained in 2019 (despite the strong impact of Covid-19 on revenue).

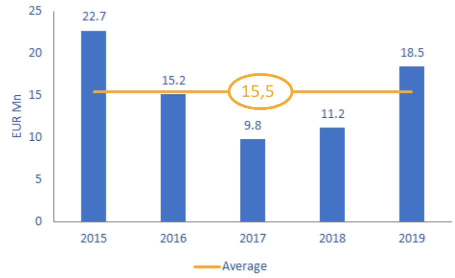
Chart 15. Traditional businesses cost structure (2019-2022e)



What happens after the Covid-19 crisis has ended? We envisage the stabilisation of activity in 2H20e, with a recovery (albeit a slow one) throughout 2021e until pre-crisis levels are regained in 1H22e. However, demand, despite the cyclical recovery, will remain under pressure from the continuous disruptions that are affecting the printing industry as a whole. The scenario we envisage should allow a return to revenue of c. EUR 7.3Mn in 2022e, with EBITDA still at break even (c. EUR -0.1Mn in 2022e; explained by the return of personnel expenses to levels closer to those seen in 2019).

Electronic voting: below potential to date (a theoretical potential pending ratification)

Chart 16. Scytl total revenues (2015-2019)



In October 2020 SPS acquired Scytl, an unlisted company specialising in electronic voting and electoral modernisation services that had been having solvency problems since the end of 2019. Scytl had turnover of c. EUR 20Mn in 2015, although EBITDA had sunk to c. EUR -16Mn! This was the result of a very heavy cost structure (2015 personnel costs of c. EUR 18Mn; c. 80% of revenues) and a business strategy focused almost exclusively on gaining size (which meant high exposure to emerging markets). This "disorderly" growth resulted in an increase in default levels and unsustainable levels of debt (2019 debt > EUR 70Mn for < EUR 20Mn of turnover?).

Now there is only one question: What is the potential of the acquired company? Our central scenario is for a recovery in 2022e of the average level of turnover seen in 2015-2019, as we believe the higher levels of turnover obtained in previous years (c. EUR 30Mn in 2013) reflected an aggressive commercial policy aimed exclusively at gaining size and, so, are not repeatable (at least in the short term). In our view, the main drivers of a recovery of the business are:

- **Exposure to a still developing industry (electronic voting), in which Scytl maintains a leading position.** An industry that could even emerge from the Covid-19 crisis stronger (due to an increase in demand for on-line services).

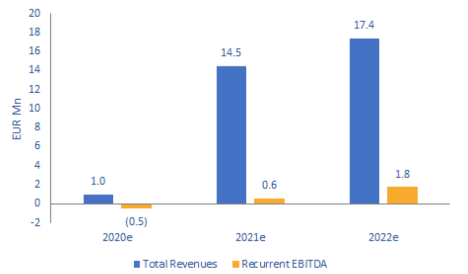
- **Levering on its know-how and a consolidated client portfolio.** With proven experience of over ten years in the management of elections and a leading position in countries such as Canada, Switzerland, Australia and France (where internet voting is more developed). This should significantly reduce exposure to emerging markets (vs previously).

- **With a commercial strategy aimed at enhancing the private sector of the electoral market (highly fragmented).** Comprised essentially of companies, foundations, professional associations, universities, etc., a market niche that will bring smaller volumes but greater recurrence (vs public bodies).

- **High level of operating leverage,** with a still high fixed costs base (c. 75-80% of total costs, mainly associated with a headcount of c. 140 staff). This should allow the company to squeeze the most out of any increase in revenue by levering its business on a technology that has already been developed.

- **With assets free of debt.** Although the acquisition price is not known, SPS acquired Scytl's assets free of debt (the company's principal Achilles' heel in the past).

Chart 17. Revenues and EBITDA from Electronic Voting Business (2020-2022e)



Note: SPS acquired Scytl in October 2020, so it will only contribute the months of November and December. Moreover, 2020e will be an atypical year because of the company's situation.

Given the situation of insolvency that Scytl went through, that will have significantly limited access to new contracts in 2020e, we think any estimate of revenues is subject to a high degree of uncertainty. In this context, the acquired company's contribution to 2020e consolidated results will be limited to the company's activity in November and December (impact of c. EUR 1Mn on revenue and EUR -0.5Mn on EBITDA 2020e).

For 2021e, in a situation of theoretical (but not complete) recovery of the business, we have taken as our reference the average turnover obtained by Scytl in 2015-2019 (c. EUR 15.5Mn; Chart 16), and estimate 2021e revenue of c. EUR 14.5Mn (-6.5% vs the average level; c. -20% vs 2019) that, given the still high fixed cost structure, should reduce EBITDA of the electronic voting business to c. EUR 0.5Mn.

What about 2022e? In a "strictly theoretical" context of business recovery and a return to double-digit growth, we estimate turnover of c. EUR 17Mn in 2022e (+20% vs 2021e; although still 6% below the revenue obtained in 2019), that, thanks to the operating leverage of the business, would allow the company to aspire to EBITDA of c. EUR 1.8Mn (EBITDA margin of c. 10%).

Chart 18. Total Revenues and EBITDA at a consolitated level (2019-2022e)

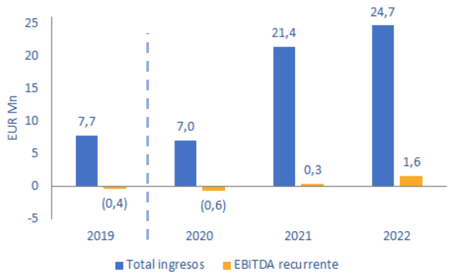


Chart 19. Net Profit (2019-2022e)

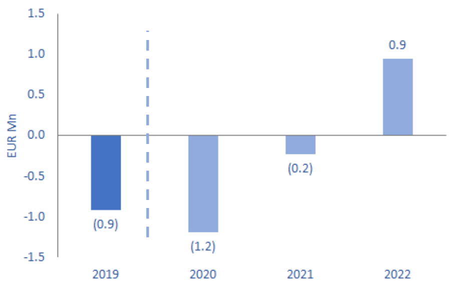


Chart 20. Unused tax loss carryforwards (EUR Mn)

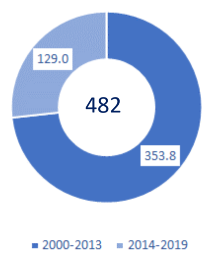
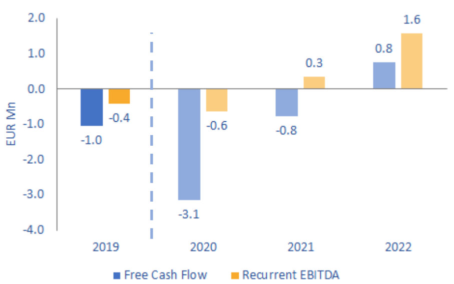


Chart 21. Free Cash Flow vs Rec. EBITDA (2019-2022e)



And at the consolidated level? Despite the increase in volume, we rule out significantly exceeding EBIT break even (at least until 2022e)

At the consolidated level, the acquisition of the electronic voting business will accelerate growth (Chart 18), offsetting digital printing revenue that will continue to be negatively impacted by the Covid-19 crisis (until at least 2022e). However, the tight margin at which SPS operates will reduce 2021e EBITDA generation to c. EUR 0.3Mn, amplified by the negative effect of amortisation (c. EUR 0.1Mn) and the impact of IFRS 16 (c. EUR 0.3Mn). This will prevent the company reaching positive EBIT until, at least, 2022e.

An obvious strength of SPS's new business (electronic voting) is its high operating leverage, which, with a very high fixed cost base for current levels of turnover (c. 75% of total costs 2021e), will enable the company to generate large scale economies, levering its business on technology developed in-house. This should enable any increase in the volume of revenues (and EBITDA) to be translated to EBIT.

Recovery of positive ordinary NP (but in 2022e)

In the case of SPS, there are no surprises below the EBIT line with no significant impact on the P/L from financial costs (c. EUR 0.1Mn/year), no associates and a very high volume of unused tax loss carryforwards (c. EUR 482Mn off balance sheet at the 2019 close), which, with positive ordinary NP (not our central scenario until 2022e) should allow SPS to maintain a tax rate of close to zero in coming years.

As we have seen, the main lever that will enable a return to positive net profit (after over five years of losses) will be the theoretical recovery of the electronic voting business, a recovery that depends on the operating execution of the integration under the control of SPS (and Paragon). This has only just begun so its result is totally unknown which implies that uncertainty regarding numbers for the next two years (and also in the longer term) is very high at present.

Maintaining a high volume of unused tax loss carryforwards (2019: EUR 482Mn)

The long period of losses (2009-2020; see annexe 4) has led to a very high level of tax loss carryforwards (off-balance sheet), estimated at EUR 482Mn at December 2019 (of which c. EUR 130Mn were generated during the period 2014-2019). Because at present these do not have a maximum period during which they have to be offset (without taking into account the inspection risk for those corresponding to the last four years), the first impact of this situation is a tax rate of close to zero for the very long term.

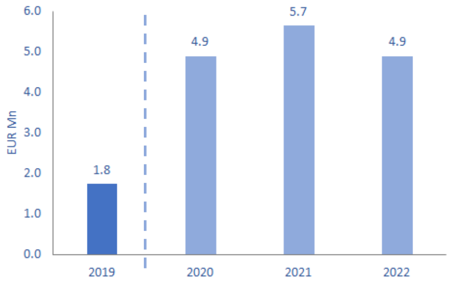
However, from the valuation point of view, there is a second impact and that is the theoretical value of the tax loss carryforwards. In other words, the value of the tax savings that would result for SPS if these were fully offset. Based on an estimated WACC of over 10% (see "Valuation Inputs" section on page 15) this would result in a theoretical NAV for these of over EUR 5Mn.

Cash generation capability will remain small…

We project negative Rec. FCF for 2020e of c. EUR 1.5Mn mainly due to: (i) negative EBITDA (EUR 0.6Mn), (ii) the impact of IFRS 16 (c. EUR 0.3Mn) and (iii) CAPEX of c. EUR 0.3Mn associated with investment in digital printing equipment. In addition, we estimate an extraordinary impact on cash flow of the acquisition of Scytl of, at least, EUR 1.5Mn (estimated by Lighthouse). This would reduce 2020e FCF to EUR -3.1Mn.

The main obstacle to the generation of cash flow will continue to be the narrow margins generated by SPS' businesses (Chart 21). Although we estimate lower CAPEX/sales vs the sector (1% vs c. 4% for the IT services sector), a small impact of working capital (c. EUR 0.4Mn) and a zero impact of financial expenses and tax, we rule out the generation of positive Rec. FCF until 2022e (when the theoretical recovery of the electronic voting business should allow for the generation of positive EBITDA).

Chart 22. Net Debt (2019-2022e)



… which means the financial structure will continue to depend largely on the support of the Paragon Group (at least in the mid term)

In recent years, the Paragon Group has provided SPS with the financial support necessary to remain in business. This means that currently all net debt corresponds to the liabilities held with the Paragon Group (ND at the end of the first half of c. EUR 2.3Mn; +30% vs 2019) of which EUR 0.8Mn corresponds to convertible bonds that mature in 2026.

Estimated cash outflows for 2020e (partly due to the acquisition of Scytl; although we lack details with which to quantify the amount) will mean an increase in ND to c. EUR 5Mn in 2020e, which, given SPS' limited cash generation capability, could reach c. EUR 6Mn in 2021e (c. 10% of the Mkt. Cap; vs negative net equity of c. 4.5Mn) and 2022e ND/EBITDA of c. 3.1x.

At a consolidated level, SPS has reported negative net equity since 2013 (the result of the long period of losses suffered by SPS since 2009). This situation is likely to continue for at least the next two years (and is only bearable thanks to the continued financial support of the core shareholder, the Paragon Group). However, the parent company reported positive net equity in 2019 of EUR 0.9Mn (and so is not in danger of dissolution).

Valuation inputs

Inputs for the DCF Valuation Approach

	2020e	2021e	2022e	Terminal Value [1]
Free Cash Flow "To the Firm"	**(3.1)**	**(0.6)**	**0.9**	**n.a.**

			Best Case	Worst Case
Market Cap	**59.0**	At the date of this report		
Net financial debt	**4.9**	Debt net of Cash (2020e)		
Cost of Debt	2.0%	Net debt cost	1.8%	2.3%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**1.6%**	**Kd = Cost of Net Debt * (1-T)**	**1.4%**	**1.8%**
Risk free rate (rf)	0.0%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	9.0%	R (own estimate)	8.5%	9.5%
Beta (B)	1.2	B (Thomson Reuters and Lighthouse)	1.1	1.3
Cost of Equity	**10.8%**	**Ke = Rf + (R * B)**	**9.4%**	**12.4%**
Equity / (Equity + Net Debt)	92.3%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	7.7%	D	=	=
WACC	**10.1%**	**WACC = Kd * D + Ke * E**	**8.7%**	**11.5%**
G "Fair"	**2.0%**		**2.0%**	**1.5%**

(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.
(2) SPS has a very high volume of unused tax loss carryforwards (c. EUR 482Mn off balance sheet at the 2019 close).

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 20e	EPS 20e-22e	EV/EBITDA 20e	EBITDA 20e-22e	EV/Sales 20e	Revenues 20e-22e	EBITDA/Sales 20e	FCF Yield 20e	FCF 20e-22e
Atos	ATOS.PA	8,028.0	10.5	8.4%	6.5	7.0%	0.9	1.9%	13.8%	8.1%	6.9%
Tieto	TIETO.HE	3,061.5	12.0	8.1%	8.3	4.1%	1.4	2.2%	17.1%	5.6%	25.6%
Indra	IDR.MC	1,189.3	n.a.	n.a.	11.8	53.2%	0.6	4.3%	5.1%	1.4%	n.a.
IT Services			**11.2**	**8.3%**	**8.9**	**21.4%**	**1.0**	**2.8%**	**12.0%**	**5.1%**	**16.3%**
Cimpress	CMPR.OQ	1,969.1	n.a.	n.a.	11.2	20.3%	1.5	5.8%	13.7%	10.2%	n.a.
Cewe Stiftung	CWCG.DE	677.4	18.5	15.0%	6.8	8.0%	1.1	4.8%	15.6%	5.7%	13.9%
Ennis	EBF.N	372.6	16.5	n.a.	6.8	n.a.	0.9	n.a.	13.8%	n.a.	n.a.
Quad Graphics	QUAD.N	154.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
RR Donnelley	RRD.N	94.7	2.1	n.a.	4.7	n.a.	0.4	n.a.	8.0%	n.a.	n.a.
Commercial Printing			**12.4**	**15.0%**	**7.4**	**14.1%**	**1.0**	**5.3%**	**12.8%**	**8.0%**	**13.9%**
SPSL	**SPSL.MC**	**59.0**	**n.a.**	**67.2%**	**n.a.**	**n.a.**	**9.3**	**87.4%**	**n.a.**	**n.a.**	**49.7%**

Free Cash Flow sensitivity analysis (2022e)

A) Rec. EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 22e	EBITDA 22e	EV/EBITDA 22e
Max	8.4%	2.1	31.8x
Central	6.5%	1.6	41.1x
Min	4.6%	1.1	58.3x

A) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

Rec. FCF EUR Mn	CAPEX/Sales 22e		
EBITDA 22e	0.7%	1.0%	1.3%
2.1	1.3	1.2	1.1
1.6	0.8	0.8	0.7
1.1	0.4	0.3	0.2

Scenario	Rec. FCF/Yield 22e		
Max	2.2%	2.1%	2.0%
Central	1.4%	1.3%	1.2%
Min	0.6%	0.5%	0.4%

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. **Business cyclicality,** something inherent to the company's still high dependence on the digital printing sector (c. 85% of 2020e revenue; 30% in 2021e). A prolonged economic slowdown could have a negative impact on estimated revenue volumes (and profitability) for SPS. A 10% reduction in estimated revenue for the digital printing business segment in 2021e would lead to a c. 3% reduction in 2021e estimated total revenues. This would imply a negative EBITDA of c. EUR -0,1Mn in 2021e (vs EUR 0,3Mn of our estimates).

2. **The speed of the recovery of the electronic voting business.** The acquisition of Scytl will lead to a visible step-up in size in revenues in 2021e (estimated revenue of c. EUR 14.5Mn. However, the company's situation (in a position of insolvency since December 2019) will have hindered its access to new contracts in 2020e and this might result in a slowdown in the recovery of the business in coming years.

   A 20% reduction vs our estimate for revenue from the electronic voting business in 2021e would reduce c. 14% of estimated total revenue (and would mean negative 2021e EBITDA of c. EUR 2Mn; vs our central scenario of breakeven).

3. **Exposure to emerging markets.** Although we don't have a breakdown of the geographical mix of revenue from the electronic voting business, in the past Scytl had exposure to emerging markets (Latam, Africa, etc.). This represents exposure both to certain risks not present in more mature markets and to each region's macro. A larger weighting in the mix of revenues from non-Eurozone countries would essentially increase exposure to the dollar.

4. **Impact of the cost of procurements and raw materials:** the main raw materials used in the digital printing business are paper and ink. Selling prices do not change immediately but are usually negotiated on a half-yearly or annual basis. Our estimates envisage a gross margin for the SPS traditional businesses of 66% (vs 62% in 2019). A 20% increase in the cost of the main procurements (not passed on to selling prices) would result in 2021e negative EBITDA of EUR -0,1Mn.

5. **Paragon Group guarantees.** Paragon has provided financial and commercial support to SPS ever since it acquired the debt associated with the syndicated loan in 2014 (giving SPS the solvency needed to continue in business). At the date of this report, liabilities and equity instruments with Paragon amount to c. EUR 3.4Mn (of which EUR 1.2Mn lack a known date of maturity; and EUR 1.5Mn corresponds to convertible bonds). As a guarantee for this support, SPS has pledged all its assets (consisting of the brand and the Belgian and Spanish subsidiaries).

6. **Unused Tax loss carryforwards (off-balance sheet).** At the date of this report, SPS had unused tax loss carryforwards in an amount of EUR 482Mn of which EUR 30Mn are currently liable to possible inspection. This is the company's only potential tax contingency after the creditors' meeting. Given the current net value of the tax loss carryforwards any associated risk is material.

7. **Lack of M&A discipline.** The economic situation will open up new opportunities for inorganic growth in the short and mid term. SPS's starting point is optimal from the balance sheet point of view (with no net debt), so the company will probably try to grow via M&A (as happened during the crisis of 2008-2013). This implies both an opportunity and a risk (regardless of track record; often, in M&A operations, the buyer ends up paying a high premium that largely offsets possible synergies).

8. **Capital increases:** Given SPS's size/sector/business situation (with c. EUR 3Mn of negative net equity in 2019 and limited access to bank lending), access to new capital to fund growth will very probably mean additional equity increases (and so potential dilution for shareholders).

9. **Technological disruption and changing habits.** Demand for SPS' traditional services, such as the printing of documents, could decrease in favour of their distribution in digital format. Besides this, the electronic voting business (c. 70% of 2021e revenue) depends directly on essentially technological products and services, which means the product has to be permanently updated so as not to become obsolete. The technological changes taken up by consumers can affect demand in the mid and long term and the ability of SPS to respond to these is, in itself, a risk.

10. **Electronic voting: dependence of working capital on the collection conditions offered by public bodies.** In the electronic voting and services related with the electoral processes business the client is mainly (but not exclusively) the public sector (governments, regional and local administrations, etc.). Public sector payment conditions (over which SPS has little control) imply a risk due to their impact on working capital consumption and, eventually, increases in debt.

11. **Increase in CAPEX requirements.** As electronic voting technology has been fully developed, we do not expect SPS to need significant CAPEX in the mid term. However, the company's difficult financial situation in recent years has reduced CAPEX on the digital printing business to a bare minimum.

Corporate Governance

In the hands of an industrial partner with a controlling shareholding, sector experience and a presence on the board…

Table 3. Board of Directors (December 2020)

Board of Directors	Category	Appointment date	% Share Capital
Grupo Paragon	Proprietary	30/06/2015	80.4%
Mireia Blanch Olivé	Outside	19/11/2013	0.0%
Mateo Maria Buzzi	Outside	06/11/2013	0.0%
Raimon Rotllan	Independent	30/06/2016	0.0%
Mauricio Miguel Canals	Independent	24/02/2014	0.0%
Total			80.4%

Note: Paragon Financial Investments Ltd serves as Chairman of the Board of Directors (represented by Laurent Salmon; CFO of Paragon Group).
The percentage of capital owned by Paragon does not include 0.8% of voting rights through financial instruments.

Table 4. Balance to be converted into shares and their classification on the balance sheet (2019)

EUR	Nominal value	Fair value
Equity instruments		
Fixed price tranche	13,200,000	711,892
Debt instruments		
Floating price tranche	1,000,000	763,845
Total	14,200,000	1,475,737

Note 1: Equity instruments refers to the fair value of the 13.2Mn of bonds that will be converted into shares at a fixed price per share of 0.08 euros (due June 30, 2026).
Note 2: Debt instruments refers to the value of 1Mn of convertible bonds at a floating Price (with a maturity date of June 30, 2026).

Since first taking a stake in SPS in 2014, the Paragon Group has been the core shareholder (increasing its stake to 80.4%; 81.2% including voting rights associated with financial instruments) and is fully involved in the management of the company: Laurent Salmon, CFO of the Paragon Group, holds the positions of Chairman of the Board and CEO. This means both governing bodies have high exposure to the share price. We would highlight the following points:

An industrial partner that provides financial support. Paragon has provided financial and commercial support to SPS ever since it acquired the debt associated with the syndicated loan in 2014 (giving SPS the solvency needed to continue in business and obviate a creditors' agreement).

At December 2019, liabilities and equity instruments with Paragon amounted to c. EUR 3.4Mn and mainly comprise: (i) loans and credit facilities in an amount of EUR 1.9Mn (of which EUR 1.2Mn do not have a known repayment date) and (ii) convertible bonds (EUR 0.8Mn at a variable price and EUR 0.7Mn at a fixed price; Table 4).

And with experience of the sector. The Paragon Group (controlled by Patrick Crean) is specialised in the IT sector with a presence (among others) in digital printing, document management and access and security systems. This means Paragon not only provides financial support but also brings an industrial project, whose interests and long-term perspective are in line with those of minority shareholders.

With a firm commitment to inorganic growth. In the last five years, the Paragon Group has tripled in size (reaching turnover of c. EUR 1Bn; vs EUR 0.3Bn in 2015) driven, in part, by intense M&A activity with over 30 acquisitions -5y (in 2019 alone it incorporated 15 new businesses). The focus of the M&A activity can be summarised as: (i) to generate value in the short term (making acquisitions that are consistent with the Group's strategy and which have minimum levels of profitability and solvency), and (ii) at a reasonable price, avoiding ratios that suggest value destruction.

In our view, SPS' growth strategy will necessarily involve inorganic growth with the financial support of the Paragon Group (the acquisition of Scytl in October 2020 is an example). This will have an obvious effect on the company's governance and on its policy of approval and management of future acquisitions.

Performance incentives for the Board reflect the company's exhaustive cost control policy unleashed by the crisis of the business. In 2017 the company's bylaws were changed to allow outstanding remunerations to be paid in company shares. The maximum annual compensation for the directors as a whole may not exceed EUR 65k. The total amount of the compensation of the Board in 2019 was EUR 23k (EUR 20k in 2018).

And incentives via bonuses is an issue that remains pending. The current compensation system does not include long-term savings plans or a plan for paying bonuses or stock options to management.

No shareholder remuneration. In order to be able to finance business growth, our projections envisage the continuation of the dividend policy (Pay Out, 0%) and the company has made no commitment as regards starting to pay dividends in the short/mid term.

Appendix 1. Financial Projections[1]

Balance Sheet (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Intangible assets	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Fixed assets	0.3	0.5	0.5	0.4	0.2	0.4	0.4	0.5
Other Non Current Assets	-	-	-	-	1.6	1.6	1.6	1.6
Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill & Other Intangilbles	-	-	-	-	-	1.6	1.6	1.6
Current assets	1.6	1.4	1.5	1.3	1.2	1.2	3.8	4.3
Total assets	**1.9**	**1.9**	**2.0**	**1.8**	**3.1**	**4.9**	**7.5**	**8.2**
Equity	(31.2)	(1.4)	(1.7)	(2.2)	(3.1)	(4.3)	(4.5)	(3.6)
Minority Interests	-	-	-	-	-	-	-	-
Provisions & Other L/T Liabilities	2.6	0.3	0.2	-	-	-	-	-
Other Non Current Liabilities	-	-	-	0.3	1.6	1.6	1.6	1.6
Net financial debt	27.8	0.4	0.6	1.2	1.8	4.9	5.7	4.9
Current Liabilities	2.7	2.6	2.9	2.6	2.9	2.8	4.8	5.3
Equity & Total Liabilities	**1.9**	**1.9**	**2.0**	**1.8**	**3.1**	**4.9**	**7.5**	**8.2**

									CAGR	
P&L (EUR Mn)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**	**15-19**	**19-22e**
Total Revenues	**9.4**	**9.1**	**8.8**	**8.2**	**7.7**	**7.0**	**21.4**	**24.7**	***-4.9%***	***47.4%***
Total Revenues growth	*-9.7%*	*-2.9%*	*-4.0%*	*-6.6%*	*-6.0%*	*-8.9%*	*204.4%*	*15.4%*		
COGS	(2.8)	(2.8)	(2.8)	(2.9)	(2.9)	(2.3)	(5.9)	(6.8)		
Gross Margin	**6.6**	**6.4**	**6.0**	**5.3**	**4.8**	**4.7**	**15.5**	**17.8**	***-7.8%***	***55.3%***
Gross Margin/Revenues	*69.9%*	*69.6%*	*68.0%*	*64.9%*	*61.8%*	*67.0%*	*72.5%*	*72.2%*		
Other Operating Expenses[2]	(6.5)	(6.0)	(5.9)	(5.7)	(5.2)	(5.3)	(15.2)	(16.2)		
Recurrent EBITDA	**0.1**	**0.3**	**0.1**	**(0.4)**	**(0.4)**	**(0.6)**	**0.3**	**1.6**	***-65.6%***	***80.7%***
Recurrent EBITDA growth	*115.5%*	*344.2%*	*-68.2%*	*-477.8%*	*-3.3%*	*-56.8%*	*153.7%*	*363.2%*		
Rec. EBITDA/Revenues	*0.8%*	*3.6%*	*1.2%*	*n.a.*	*n.a.*	*n.a.*	*1.6%*	*6.5%*		
Restructuring Expense & Other non-rec.	-	-	(0.3)	-	-	-	-	-		
EBITDA	**0.1**	**0.3**	**(0.2)**	**(0.4)**	**(0.4)**	**(0.6)**	**0.3**	**1.6**	***-65.6%***	***80.7%***
Depreciation & Provisions	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)		
Capitalized Expense	-	-	-	-	-	-	-	-		
Rentals (IFRS 16 impact)	-	-	-	-	(0.3)	(0.3)	(0.3)	(0.3)		
EBIT	**(0.1)**	**0.2**	**(0.3)**	**(0.5)**	**(0.8)**	**(1.1)**	**(0.1)**	**1.1**	***-78.2%***	***50.5%***
EBIT growth	*94.4%*	*341.8%*	*-273.6%*	*-56.5%*	*-53.7%*	*-38.7%*	*90.6%*	*n.a.*		
EBIT/Revenues	*n.a.*	*2.1%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*4.5%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	1.9	0.1	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**1.8**	**0.3**	**(0.4)**	**(0.7)**	**(0.9)**	**(1.2)**	**(0.2)**	**1.0**	***-26.0%***	***45.6%***
Ordinary Profit Growth	*159.8%*	*-85.5%*	*-254.7%*	*-72.5%*	*-33.8%*	*-29.8%*	*80.9%*	*539.3%*		
Extraordinary Results	-	0.1	-	-	-	-	-	-		
Profit Before Tax	**1.8**	**0.3**	**(0.4)**	**(0.7)**	**(0.9)**	**(1.2)**	**(0.2)**	**1.0**	***-26.0%***	***45.6%***
Tax Expense	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)		
Effective Tax Rate	*0.1%*	*0.3%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*5.0%*		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**1.8**	**0.3**	**(0.4)**	**(0.7)**	**(0.9)**	**(1.2)**	**(0.2)**	**0.9**	***-26.0%***	***44.7%***
Net Profit growth	*-97.9%*	*-81.6%*	*-222.5%*	*-71.9%*	*-33.6%*	*-29.8%*	*80.9%*	*516.1%*		
Ordinary Net Profit	**1.8**	**0.3**	**(0.1)**	**(0.7)**	**(0.9)**	**(1.2)**	**(0.2)**	**0.9**	***-26.0%***	***44.8%***
Ordinary Net Profit growth	*159.8%*	*-85.6%*	*-135.3%*	*-658.5%*	*-33.8%*	*-29.8%*	*80.9%*	*517.4%*		

									CAGR	
Cash Flow (EUR Mn)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020e**	**2021e**	**2022e**	**15-19**	**19-22e**
Recurrent EBITDA						**(0.6)**	**0.3**	**1.6**	***-65.6%***	***80.7%***
Rentals (IFRS 16 impact)						(0.3)	(0.3)	(0.3)		
Working Capital Increase						(0.2)	(0.4)	(0.1)		
Recurrent Operating Cash Flow						**(1.1)**	**(0.4)**	**1.2**	***-33.1%***	***89.8%***
CAPEX						(0.3)	(0.2)	(0.2)		
Net Financial Result affecting the Cash Flow						(0.1)	(0.1)	(0.1)		
Tax Expense						(0.0)	(0.0)	(0.0)		
Recurrent Free Cash Flow						**(1.5)**	**(0.8)**	**0.8**	***-80.5%***	***39.7%***
Restructuring Expense & Other non-rec.						-	-	-		
- Acquisitions / + Divestures of assets						(1.6)	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(3.1)**	**(0.8)**	**0.8**	***-80.5%***	***39.7%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**3.1**	**0.8**	**(0.8)**		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.3Mn higher due to IFRS 16.
Note 2: Other operating expenses includes: (i) personal expenses and (ii) other operating expenses.

Appendix 2. Free Cash Flow[1]

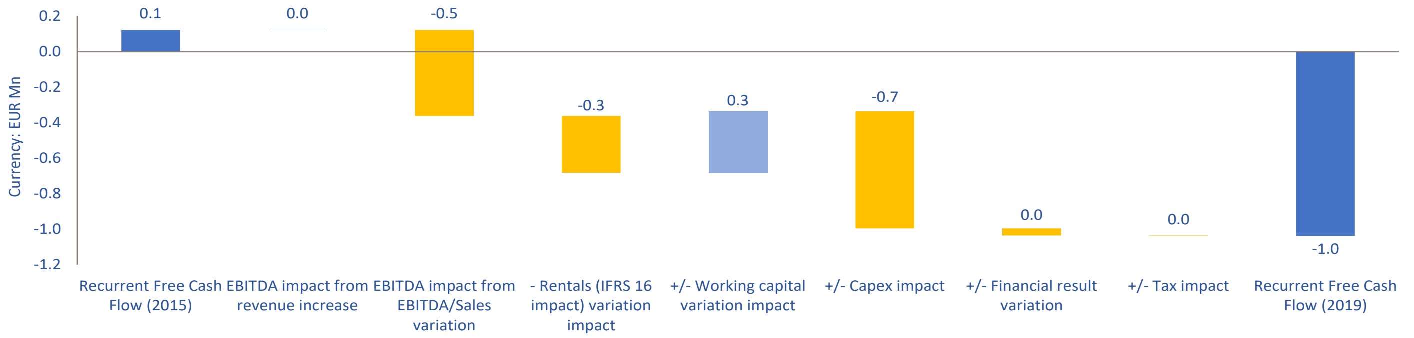
A) Cash Flow Analysis (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 16-19	CAGR 19-22e
Recurrent EBITDA	**0.3**	**0.1**	**(0.4)**	**(0.4)**	**(0.6)**	**0.3**	**1.6**	*-48.0%*	*80.7%*
Recurrent EBITDA growth	*344.2%*	*-68.2%*	*-477.8%*	*-3.3%*	*-56.8%*	*153.7%*	*363.2%*		
Rec. EBITDA/Revenues	*3.6%*	*1.2%*	*n.a.*	*n.a.*	*n.a.*	*1.6%*	*6.5%*		
- Rentals (IFRS 16 impact)	-	-	-	(0.3)	(0.3)	(0.3)	(0.3)		
+/- Working Capital increase	0.1	0.3	(0.2)	0.5	(0.2)	(0.4)	(0.1)		
= Recurrent Operating Cash Flow	**0.4**	**0.4**	**(0.6)**	**(0.2)**	**(1.1)**	**(0.4)**	**1.2**	*-37.7%*	*89.8%*
Rec. Operating Cash Flow growth	*86.9%*	*0.0%*	*-260.5%*	*62.1%*	*-371.2%*	*63.6%*	*382.1%*		
Rec. Operating Cash Flow / Sales	*4.4%*	*4.6%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*4.8%*		
- CAPEX	(0.3)	(0.2)	(0.0)	(0.7)	(0.3)	(0.2)	(0.2)		
- Net Financial Result affecting Cash Flow	0.1	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)		
- Taxes	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)		
= Recurrent Free Cash Flow	**0.2**	**0.2**	**(0.8)**	**(1.0)**	**(1.5)**	**(0.8)**	**0.8**	*-90.3%*	*39.7%*
Rec. Free Cash Flow growth	*76.2%*	*-29.2%*	*-663.2%*	*-22.5%*	*-49.2%*	*51.3%*	*200.1%*		
Rec. Free Cash Flow / Revenues	*2.3%*	*1.7%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*3.1%*		
- Restructuring expenses & others	-	-	-	-	-	-	-		
- Acquisitions / + Divestments	-	-	-	-	(1.6)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	0.1	-	-	-	-	-	-		
= Free Cash Flow	**0.3**	**0.2**	**(0.8)**	**(1.0)**	**(3.1)**	**(0.8)**	**0.8**	*-78.2%*	*39.7%*
Free Cash Flow growth	*135.1%*	*-46.9%*	*-663.2%*	*-22.5%*	*-203.3%*	*76.0%*	*200.1%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*0.4%*	*0.3%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.3%*		
Free Cash Flow Yield (s/Mkt Cap)	*0.5%*	*0.3%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.3%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2016	2017	2018	2019	2020e	2021e	2022e
Recurrent FCF(FY - 1)	**0.1**	**0.2**	**0.2**	**(0.8)**	**(1.0)**	**(1.5)**	**(0.8)**
EBITDA impact from revenue increase	(0.0)	(0.0)	(0.0)	0.0	0.0	(1.3)	0.1
EBITDA impact from EBITDA/Sales variation	0.3	(0.2)	(0.5)	(0.0)	(0.3)	2.3	1.2
= Recurrent EBITDA variation	**0.3**	**(0.2)**	**(0.5)**	**(0.0)**	**(0.2)**	**1.0**	**1.2**
- Rentals (IFRS 16 impact) variation impact	-	-	-	(0.3)	-	-	-
+/- Working capital variation impact	(0.1)	0.2	(0.5)	0.7	(0.7)	(0.3)	0.3
= Recurrent Operating Cash Flow variation	**0.2**	**0.0**	**(1.0)**	**0.4**	**(0.9)**	**0.7**	**1.6**
+/- CAPEX impact	(0.2)	0.1	0.1	(0.6)	0.4	0.1	(0.0)
+/- Financial result variation	0.1	(0.1)	(0.1)	0.0	0.0	(0.0)	0.0
+/- Tax impact	-	(0.0)	-	0.0	(0.0)	0.0	(0.0)
= Recurrent Free Cash Flow variation	**0.1**	**(0.1)**	**(1.0)**	**(0.2)**	**(0.5)**	**0.8**	**1.5**
Recurrent Free Cash Flow	**0.2**	**0.2**	**(0.8)**	**(1.0)**	**(1.5)**	**(0.8)**	**0.8**

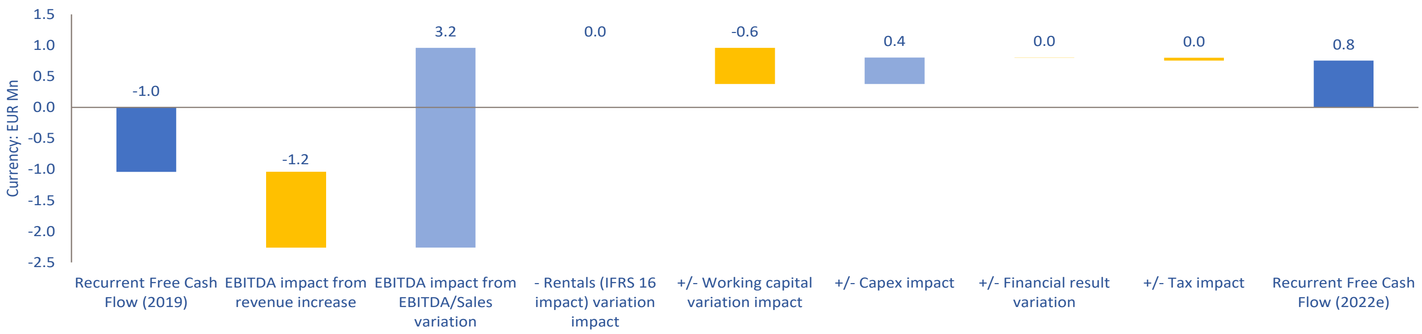
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 16-19	CAGR 19-22e
EBIT	**0.2**	**(0.3)**	**(0.5)**	**(0.8)**	**(1.1)**	**(0.1)**	**1.1**	*-83.4%*	*50.5%*
** Theoretical Tax rate*	*0.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*5.0%*		
= Taxes (pre- Net Financial Result)	(0.0)	-	-	-	-	-	(0.1)		
Recurrent EBITDA	**0.3**	**0.1**	**(0.4)**	**(0.4)**	**(0.6)**	**0.3**	**1.6**	*-48.0%*	*80.7%*
- Rentals (IFRS 16 impact)	-	-	-	(0.3)	(0.3)	(0.3)	(0.3)		
+/- Working Capital increase	0.1	0.3	(0.2)	0.5	(0.2)	(0.4)	(0.1)		
= Recurrent Operating Cash Flow	**0.4**	**0.4**	**(0.6)**	**(0.2)**	**(1.1)**	**(0.4)**	**1.2**	*-37.7%*	*89.8%*
- CAPEX	(0.3)	(0.2)	(0.0)	(0.7)	(0.3)	(0.2)	(0.2)		
- Taxes (pre- Financial Result)	(0.0)	-	-	-	-	-	(0.1)		
= Recurrent Free Cash Flow (To the Firm)	**0.1**	**0.2**	**(0.7)**	**(0.9)**	**(1.5)**	**(0.6)**	**0.9**	*n.a.*	*43.5%*
Rec. Free Cash Flow (To the Firm) growth	*-27.0%*	*49.4%*	*-408.6%*	*-35.1%*	*-59.6%*	*56.9%*	*238.4%*		
Rec. Free Cash Flow (To the Firm) / Revenues	1.6%	2.5%	n.a.	n.a.	n.a.	n.a.	3.5%		
- Acquisitions / + Divestments	-	-	-	-	(1.6)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	0.1	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**0.2**	**0.2**	**(0.7)**	**(0.9)**	**(3.1)**	**(0.6)**	**0.9**	*-83.7%*	*43.5%*
Free Cash Flow (To the Firm) growth	*8.2%*	*0.7%*	*-408.6%*	*-35.1%*	*-234.4%*	*79.4%*	*238.4%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*0.2%*	*0.3%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.3%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*0.3%*	*0.3%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.3%*		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.3Mn higher due to IFRS 16.

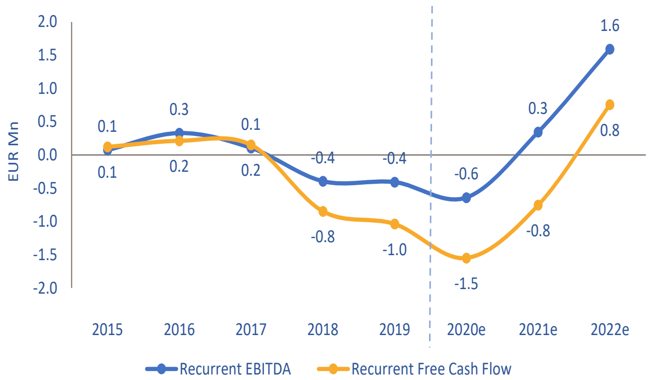
Recurrent Free Cash Flow accumulated variation analysis (2015 - 2019)



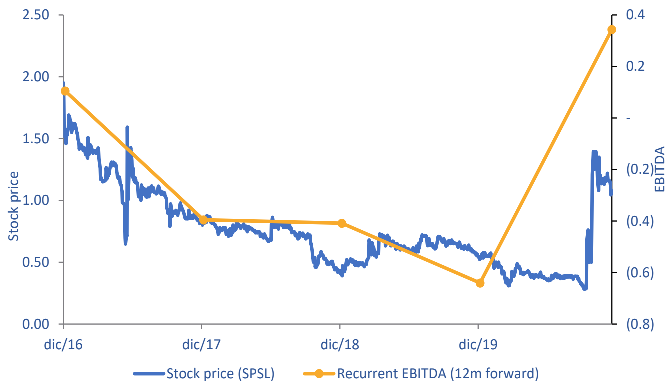
Recurrent Free Cash Flow accumulated variation analysis (2019 - 2022e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	59.0	
+ Minority Interests	-	6m Results 2020
+ Provisions & Other L/T Liabilities	1.6	6m Results 2020
+ Net financial debt	4.9	2020e
- Financial Investments	-	6m Results 2020
+/- Others		
Enterprise Value (EV)	**65.5**	

Note: SPS has a very high volume of unused tax loss carryforwards (c. EUR 482Mn off balance sheet at the 2019 close).

Appendix 4. Historical performance(1)(2)

Historical performance (EUR Mn)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 09-19	CAGR 19-22e
Total Revenues	**216.5**	**205.4**	**218.6**	**209.6**	**15.2**	**10.4**	**9.4**	**9.1**	**8.8**	**8.2**	**7.7**	**7.0**	**21.4**	**24.7**	*-28.4%*	*47.4%*
Total Revenues growth	*-8.9%*	*-5.1%*	*6.4%*	*-4.1%*	*-92.8%*	*-31.3%*	*-9.7%*	*-2.9%*	*-4.0%*	*-6.6%*	*-6.0%*	*-8.9%*	*204.4%*	*15.4%*		
EBITDA	**13.7**	**8.5**	**14.0**	**6.4**	**2.3**	**(0.5)**	**0.1**	**0.3**	**(0.2)**	**(0.4)**	**(0.4)**	**(0.6)**	**0.3**	**1.6**	*-7.3%*	*80.7%*
EBITDA growth	*-36.7%*	*-37.7%*	*64.1%*	*-54.5%*	*-64.3%*	*-121.0%*	*115.5%*	*344.2%*	*-161.5%*	*-95.4%*	*-3.3%*	*-56.8%*	*153.7%*	*363.2%*		
EBITDA/Sales	*6.3%*	*4.2%*	*6.4%*	*3.0%*	*15.0%*	*n.a.*	*0.8%*	*3.6%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*1.6%*	*6.5%*		
Net Profit	**(8.4)**	**(16.3)**	**(40.3)**	**(18.2)**	**(190.6)**	**86.4**	**1.8**	**0.3**	**(0.4)**	**(0.7)**	**(0.9)**	**(1.2)**	**(0.2)**	**0.9**	*19.9%*	*44.7%*
Net Profit growth	*n.a.*	*-93.7%*	*-147.1%*	*54.9%*	*-947.4%*	*145.3%*	*-97.9%*	*-81.6%*	*-222.5%*	*-71.9%*	*-33.6%*	*-29.8%*	*80.9%*	*516.1%*		
Adjusted number shares (Mn)	5.6	5.5	6.3	7.1	7.1	7.6	8.1	17.0	54.8	54.8	54.8	54.8	54.8	54.8		
EPS (EUR)	-1.50	-2.95	-6.40	-2.58	-27.00	11.37	0.22	0.02	-0.01	-0.01	-0.02	-0.02	0.00	0.02	*36.2%*	*44.7%*
EPS growth	*n.a.*	*-96.7%*	*n.a.*	*59.7%*	*n.a.*	*n.a.*	*-98.1%*	*-91.3%*	*n.a.*	*-71.9%*	*-33.6%*	*-29.8%*	*80.9%*	*n.a.*		
Ord. EPS (EUR)	-1.24	-2.34	-6.31	-2.46	-1.29	-0.39	0.22	0.02	0.00	-0.01	-0.02	-0.02	0.00	0.02	*35.0%*	*44.8%*
Ord. EPS growth	*n.a.*	*-89.0%*	*n.a.*	*61.0%*	*47.5%*	*69.8%*	*n.a.*	*-93.2%*	*n.a.*	*n.a.*	*-33.8%*	*-29.8%*	*80.9%*	*n.a.*		
CAPEX	(10.6)	(5.2)	(8.7)	(6.0)	(2.8)	(0.0)	(0.0)	(0.3)	(0.2)	(0.0)	(0.7)	(0.3)	(0.2)	(0.2)		
CAPEX/Sales %)	*4.9%*	*2.5%*	*4.0%*	*2.9%*	*18.3%*	*0.4%*	*0.1%*	*2.8%*	*2.1%*	*0.4%*	*8.7%*	*4.5%*	*1.0%*	*1.0%*		
Free Cash Flow	**(2.0)**	**(7.5)**	**(2.9)**	**(1.8)**	**(3.5)**	**79.7**	**0.1**	**0.3**	**0.2**	**(0.8)**	**(1.0)**	**(3.1)**	**(0.8)**	**0.8**	**6.3%**	**39.7%**
ND/EBITDA (x)[3]	*6.3x*	*10.6x*	*6.3x*	*16.2x*	*48.4x*	*n.a.*	*n.a.*	*1.3x*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	16.5x	3.1x		
P/E (x)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*8.1x*	*82.4x*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	n.a.	62.2x		
EV/Sales (x)	*0.92x*	*0.68x*	*0.56x*	*0.71x*	*8.49x*	*4.31x*	*4.56x*	*9.60x*	*5.10x*	*2.82x*	*4.05x*	*9.33x*	3.06x	2.65x		
EV/EBITDA (x)[3]	*14.5x*	*16.4x*	*8.8x*	*23.2x*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	n.a.	41.1x		
Absolute performance	*n.a.*	*66.9%*	*-52.8%*	*-42.0%*	*-46.5%*	*-23.0%*	*-24.5%*	*-10.6%*	*-49.5%*	*-50.1%*	*30.7%*	*105.9%*				
Relative performance vs Ibex 35	*n.a.*	*102.1%*	*-45.7%*	*-39.1%*	*-55.9%*	*-25.7%*	*-18.6%*	*-8.8%*	*-53.0%*	*-41.3%*	*16.9%*	*141.6%*				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters.
Note 2: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.3Mn higher due to IFRS 16.
Note 3: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 5. Main Competitors 2020e

		IT Services				Commercial Printing					
	EUR Mn	**Atos**	**Tieto**	**Indra**	**Average**	**Cimpress**	**Cewe Stiftung**	**Ennis**	**RR Donnelley**	**Average**	**SPSL**
Market data	**Ticker (Reuters)**	ATOS.PA	TIETO.HE	IDR.MC		CMPR.OQ	CWCG.DE	EBF.N	RRD.N		SPSL.MC
	Country	France	Finland	Spain		Ireland	Germany	USA	USA		Spain
	Market cap	8,028.0	3,061.5	1,189.3		1,969.1	677.4	372.6	94.7		59.0
	Enterprise value (EV)	10,136.3	4,010.9	1,838.1		3,131.3	736.5	303.5	1,428.5		65.5
Basic financial information	**Total Revenues**	11,266.0	2,813.8	3,043.9		2,043.4	698.3	324.7	3,771.6		7.0
	Total Revenues growth	*-2.8%*	*62.3%*	*-5.6%*	*18.0%*	*-9.8%*	*-2.3%*	*-10.1%*	*-27.0%*	*-12.3%*	*-8.9%*
	2y CAGR (2020e - 2022e)	*1.9%*	*2.2%*	*4.3%*	*2.8%*	*5.8%*	*4.8%*	*n.a.*	*n.a.*	*5.3%*	*87.4%*
	EBITDA	1,554.4	482.0	156.2		280.3	108.7	44.9	302.1		(0.6)
	EBITDA growth	*-7.4%*	*74.7%*	*-55.1%*	*4.1%*	*-18.7%*	*-6.6%*	*-20.9%*	*-8.2%*	*-13.6%*	*-56.8%*
	2y CAGR (2020e - 2022e)	*7.0%*	*4.1%*	*53.2%*	*21.4%*	*20.3%*	*8.0%*	*n.a.*	*n.a.*	*14.1%*	*n.a.*
	EBITDA/Revenues	*13.8%*	*17.1%*	*5.1%*	*12.0%*	*13.7%*	*15.6%*	*13.8%*	*8.0%*	*12.8%*	*n.a.*
	EBIT	891.2	318.9	27.1		172.5	55.1	37.0	n.a.		(1.1)
	EBIT growth	*4.6%*	*88.0%*	*-87.8%*	*1.6%*	*-29.5%*	*-11.2%*	*-27.2%*	*n.a.*	*-22.6%*	*-38.7%*
	2y CAGR (2020e - 2022e)	*9.7%*	*7.3%*	*n.a.*	*8.5%*	*33.4%*	*13.8%*	*n.a.*	*n.a.*	*23.6%*	*73.6%*
	EBIT/Revenues	*7.9%*	*11.3%*	*0.9%*	*6.7%*	*8.4%*	*7.9%*	*11.4%*	*n.a.*	*9.2%*	*n.a.*
	Net Profit	754.2	235.3	(9.1)		(29.5)	36.1	27.2	n.a.		(1.2)
	Net Profit growth	*103.8%*	*197.5%*	*n.a.*	*150.7%*	*n.a.*	*10.3%*	*-29.1%*	*n.a.*	*-9.4%*	*-29.8%*
	2y CAGR (2020e - 2022e)	*9.2%*	*11.1%*	*n.a.*	*10.1%*	*n.a.*	*14.9%*	*n.a.*	*n.a.*	*14.9%*	*67.2%*
	CAPEX/Sales %	*3.3%*	*3.7%*	*2.3%*	*3.1%*	*3.8%*	*5.8%*	*n.a.*	*n.a.*	*4.8%*	*-4.5%*
	Free Cash Flow	650.8	172.7	16.8		36.2	38.8	n.a.	n.a.		(3.1)
	Net financial debt	(47.0)	799.2	547.3		1,222.4	(22.9)	n.a.	n.a.		4.9
	ND/EBITDA (x)	(0.0)	1.7	3.5	1.7	4.4	(0.2)	n.a.	n.a.	2.1	n.a.
	Pay-out	*20.0%*	*42.8%*	*n.a.*	*31.4%*	*n.a.*	*39.9%*	*71.1%*	*n.a.*	*55.5%*	*0.0%*
Multiples and Ratios	**P/E (x)**	10.5	12.0	n.a.	11.2	n.a.	18.5	16.5	2.1	12.4	n.a.
	P/BV (x)	1.1	1.9	1.7	1.6	n.a.	2.3	n.a.	n.a.	2.3	n.a.
	EV/Revenues (x)	0.9	1.4	0.6	1.0	1.5	1.1	0.9	0.4	1.0	9.3
	EV/EBITDA (x)	6.5	8.3	11.8	8.9	11.2	6.8	6.8	4.7	7.4	n.a.
	EV/EBIT (x)	11.4	12.6	n.a.	12.0	18.2	13.4	8.2	n.a.	13.2	n.a.
	ROE	*9.7*	*12.9*	*4.2*	*8.9*	*n.a.*	*12.7*	*9.0*	*0.3*	*7.3*	*32.1*
	FCF Yield (%)	*8.1*	*5.6*	*1.4*	*5.1*	*10.2*	*5.7*	*n.a.*	*n.a.*	*8.0*	*n.a.*
	DPS	*1.40*	*1.30*	*0.01*	*0.91*	*n.a.*	*2.00*	*0.74*	*n.a.*	*1.37*	*0.00*
	Dvd Yield	*1.9%*	*5.0%*	*0.2%*	*2.4%*	*n.a.*	*2.2%*	*4.3%*	*n.a.*	*3.2%*	*0.0%*

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters). 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).

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
15-Dec-2020	n.a.	1.08	n.a.	n.a.	Initiation of Coverage	David López Sánchez