

Business description

Service Point Solutions, from now on Innovative Solutions Ecosystem (SPS), is a company whose strategy is one of growth via M&A in the data security, technology, cryptography and online voting sectors. After the sale of its traditional business in 2021, SPS specialises in the online voting sector, where it is a leading player with an international presence through its subsidiary ScytI (acquired in 2020).

Market Data

Market Cap (Mn EUR and USD)	50.8	60.3
EV (Mn EUR and USD) ⁽¹⁾	57.6	68.5
Shares Outstanding (Mn)	57.7	
-12m (Max/Med/Min EUR)	1.40 / 0.96 / 0.28	
Daily Avg volume (-12m Mn EUR)	0.37	
Rotation ⁽²⁾	185.9	
Factset / Bloomberg	SPS-ES / SPS SM	
Close fiscal year	30-jun	

Shareholders Structure (%)

Paragon Group	76.2
Free Float	23.8

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-9.3	-16.7	142.4	n.a.
vs Ibex 35	-10.2	-14.0	91.6	n.a.
vs Ibex Small Cap Index	-10.7	-12.1	83.3	n.a.
vs Eurostoxx 50	-11.1	-19.1	90.6	n.a.
vs Sector benchmark ⁽³⁾	-15.0	-29.0	72.3	n.a.

(1) Please refer to Appendix 2.

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

(3) vs Stoxx Europe 600 Technology.

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

2021 results: start-up of SPS technological project. Although as yet without critical mass

2021 RESULTS: A YEAR OF TRANSITION... In June 2021 SPS changed the start and end date of each financial year, so that each one begins on July 1 and ends on June 30 of the following year. Consequently, 2021 comprises the period between January 2021 and June 2021, with subsequent years beginning on July 1 and ending on June 30 of the following year.

... IN WHICH THE INCORPORATION OF SCYTL (TECHNOLOGICAL BUSINESS) IS ALREADY VISIBLE. SPS' technological business (online voting software; acquired in October 2020) generated revenue of EUR 3Mn in 1H21. This level of revenue was below expectations mainly due to the situation of insolvency it had come from that, together with the process of integration in SPS, significantly reduced its ability to take part in public tenders. We believe this situation should revert from 2022e.

ALTHOUGH THE OPERATING STRUCTURE WILL PREVENT BREAK-EVEN BEING EXCEEDED IN THE SHORT TERM. As part of the acquisition agreement, SPS has incorporated all of ScytI's workforce (c. 100 employees, with an annual cost estimated by Lighthouse of c. EUR 5.8Mn; EUR 2.9Mn at the 1H21 close). This increases the fixed costs of the new SPS to c. EUR 7.5Mn/year, an operating structure sized for a much higher level of revenue than the present one (1H21 EBITDA of the technological business: EUR -2.3Mn) and that puts break-even at levels of turnover of c. EUR 15Mn (in line with average turnover in 2015-2019; although we estimate this is not attainable until, at least, 2023e).

SO SPS WILL CONTINUE TO DEPEND ON THE FINANCIAL SUPPORT OF ITS CORE SHAREHOLDER. SPS' ND was EUR 4.4Mn at the 1H21 close (vs EUR 7.6Mn in 2020) despite the sale of the traditional printing business in June 2021 for EUR 4.2Mn (equivalent to the book value). ND is mainly explained by the working capital funding obtained from its core shareholder (under the terms and conditions of the Paragon Group's Global Treasury Agreement; with no specific repayment date).

THE SPOTLIGHT REMAINS ON EXECUTION OF THE STRATEGIC CHANGE OF DIRECTION TOWARDS TECHNOLOGY... In addition to the acquisition of ScytI in October 2020, SPS has sold its traditional business (digital printing; a less competitive business) announced in June 2021. This simplifies SPS's equity story, underlining the strategic change of direction begun at the end of 2020 to use SPS as a platform for growth via M&A in the data security, technology, cryptography and online voting sectors. The acquisition of ScytI at the end of 2020 should be seen as just the first step in this strategy.

IN CONCLUSION, START-UP OF SPS' TECHNOLOGICAL PROJECT. ALTHOUGH AS YET WITHOUT CRITICAL MASS. Now (September 2021) SPS is 100% a technological company. However, two things are required: (i) the successful operating integration of ScytI's business and (ii) its materialisation in growth, profitability and recurrent cash flow generation in the long term (currently fully dependent on Paragon's financial support). Our central scenario is still for the consolidation of levels of revenue of c. EUR 9Mn in FY 2022e (that began on July 1, 2021). This would imply a 2022e EV/EBITDA of c. 6.5x.

Appendix 1. Results table (2021)

EUR Mn	1H20 Traditional businesses	2H20 Traditional businesses	2H20 Technological business	2020 ¹ (twelve- month)	1H21 Traditional businesses	1H21 Technological business	2021 ² (six-month)
Total Revenues	2.8	3.0	1.0	6.8	3.0	3.0	6.0
Gross margin	1.8	2.1	0.5	4.4	2.1	1.4	3.5
EBITDA	-0.2	0.5	-1.6	-1.2	0.4	-2.3	-1.8
EBITDA/Revenues	-5.4%	18.2%	n.a.	n.a.	14.8%	n.a.	n.a.
EBIT	-0.4	0.3	-1.9	-2.0	0.2	-3.1	-2.9
Ordinary NP	-0.5	0.3	-1.9	-2.1	0.2	-3.1	-3.0
Sale of SPS's traditional businesses ³						3.5	3.5
NP	-0.5	0.3	-1.9	-2.1	0.2	0.4	0.5
Net Debt				7.6			4.4

- (1) 1H20 results only include the traditional business (document management and digital printing). 2H20 results include two months of results of the business of ScytI and its subsidiaries (technological business).
- (2) As a result of the change in the financial close, FY 2021 corresponds to the six-month period between January 1, 2021 and June 30, 2021. 2021 results include the results of the traditional business until the date of its transfer to Paragon (June 30, 2021). Consequently, after the change in the date of the financial close, FY 2022 will run from July 1, 2021 to June 30, 2022.
- (3) The sale of SPS' traditional printing business generated consolidated profit of EUR 3.5Mn.
- (4) 2021 results for the six-month period ended June 30, 2021 are unaudited.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	50.8	
+ Minority Interests	-	Results 2021
+ Provisions & Other L/T Liabilities	1.8	Results 2021
+ Net financial debt	4.4	Results 2021
- Financial Investments	0.2	Results 2021
+/- Others ⁽¹⁾	0.8	Results 2021
Enterprise Value (EV)	57.6	

- (1) Convertibles bonds corresponding to the bonds owned by Paragon and pending conversion in SPS shares (maturity in June 2026).

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
06-Sep-2021	n.a.	0.88	n.a.	n.a.	2021 Results	David López Sánchez
02-Jul-2021	n.a.	0.98	n.a.	n.a.	Important news	David López Sánchez
19-May-2021	n.a.	1.09	n.a.	n.a.	12m Results 2020	David López Sánchez
05-Mar-2021	n.a.	1.01	n.a.	n.a.	Important news	David López Sánchez
15-Dec-2020	n.a.	1.08	n.a.	n.a.	Initiation of Coverage	David López Sánchez

