

## Substrate AI

# BUY

### A first class ticket to Generative AI

Analyst: Guillermo Serrano - [gfs@checkpointp.com](mailto:gfs@checkpointp.com)

7am, 28th May 2024\*

The company has developed Serenity Star (under subsidiary SubGen AI) as the group's Generative AI SaaS product, consisting of an LLM ecosystem that enables corporate users access to agents, co-pilots, plugins, etc. from a variety of vendors.

Moreover, the subsidiary SubGen has also launched Serenity Metacontrol, the first Large Language Model (LLM) product for the compliance market. Both Software products, together, are a demonstration of their capacity to operate and lead in the emerging Generative AI space.

Their subsidiary SubGen AI pre-money valuation was set at €150 million in March 2024, when its shares were used to pay for the additional 21% stake in the Binit Group (raised to 91%). Using average valuations of Generative AI transactions in our universe of 11 private market transactions, we arrive at the same valuation too.

The Venture portfolio of Substrate AI continues to grow across all its verticals and we currently value its potential at €50 million (5x 2024 estimated sales).

SAI.MC underperformance to date is explained by the large relative size of their investments funded with shareholder dilution, to develop their AI division. Returns do take time to materialize, but the market has been so far unforgiving.

**We maintain our BUY recommendation and we introduce and maintain price target of €1.00. Once the SubGen €150 million valuation gets validated with an external transaction, there is potential for an additional €0.50 per share in our price target.**

#### Equities

#### BME Growth

Price (4pm 27/05/24): Ord. €0.16

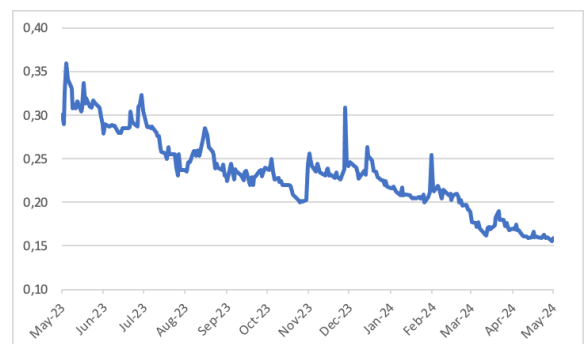
Ticker: SAI.MC

**Target Price (12-18 m): €1.00**

#### Trading data

52-Wk range (€):	0.36 - 0,16
Mkt. Cap. FD (€ millions):	17.2
No. Ord. Shares (millions):	106.1
Avg. daily Vol. (€12m):	154K
Daily volatility (avg. LTM):	2.8%

Price Chart (last 12 months)



(€ millions)	2023	2024e	2025e	2026e
<b>Turnover</b>	<b>8,6</b>	<b>15,4</b>	<b>24,2</b>	<b>34,9</b>
Ebitda	-3,7	4,0	5,9	8,6
Net Profit	-8,5	0,7	1,9	4,7
<b>EPS</b>	<b>-0,12</b>	<b>0,01</b>	<b>0,02</b>	<b>0,04</b>
<b>EV/Sales (x)</b>	<b>2,2</b>	<b>1,2</b>	<b>0,8</b>	<b>0,5</b>
EV/Ebitda (x)	n.m.	4,8	3,2	2,2
<b>P/E (x)</b>	<b>n.m.</b>	<b>22,8</b>	<b>9,0</b>	<b>3,6</b>

<b>Weaknesses</b>	<b>Threats</b>
Exposed to inorganic growth with the risks that it entails. Substrate AI partly depends on the stock market and credit markets to obtain the financial resources it needs.	Presence of large, well-established and well-capitalized companies may present a competitive threat in each of the markets where they operate.
Geographical concentration, most of its sales are in Spain and now partly in Latin America following the Binit group acquisition	Future capital increases to finance inorganic growth, which may dilute the shareholder.
Whereas we expect accounting profits in 2024, the results are still reliant on the capitalization of R&D expenses. The group still requires of capital increases to fund their operations.	Artificial Intelligence is a hot topic the world over and competition for talent remains strong, which may place smaller companies at a disadvantage.
<b>Strengths</b>	<b>Opportunities</b>
Their core asset is a proprietary Biology-Inspired next generation AI technology, developed by one of the founders and CTO, Bren Worth, alongside the Rensselaer Polytechnic Institute in NY.	Substrate AI, through its Subsidiary SubGen AI, has developed Serenity Star (AlaaS) and Metacontrol, two LLM based Software products with excellent potential.
A diversified portfolio of companies organized into six different verticals, reducing their exposure to a particular sector the economy.	Expected strong sales growth rate of xx% and xx% in 2024 and 2025.
Its smaller size gives it the agility to move more quickly in the commercial field and in the execution of projects.	Value creation through inorganic growth. By acquiring companies that can benefit from AI, Substrate AI stands to create critical mass.
A strong management team with a track record for creating value for shareholders.	Spain is emerging as a country with a high degree of digital talent, where Substrate AI is perfectly positioned in the short, medium and long term.
Access to capital through a €20 million committed line of convertible bonds, of which 30% has already been used.	Possibility of being acquired. Artificial Intelligence is on the rise and larger companies are looking to acquire talent and market share.

## Substrate/SubGen AI: advancing towards the new AI frontier

Through its 80% owned subsidiary SubGen AI, Substrate AI has developed and hired the know-how and capacity to become center stage in the Generative AI market. With over €15 million invested and several equity-based transactions since 2018, the group is expected to become a serious contender.

Whereas the Generative AI market has so far been dominated by a few large players and their multi-billion dollar investments, Substrate AI is expected to play in this market in two distinct ways and supported by a strong product/execution team:

- **Product:** by launching smaller-scale LLMs with lesser constraints on GPU requirements and away from competing head-on with the global giants.
- **AlaaS:** by becoming a Gen AI service provider of third-party large LLMs to businesses.
- **Product/Execution:** a selected top-of-class LLM experts supported by over 100 professionals and a future Data Center strategy.

### Generative AI Software product

Substrate/Subgen AI has developed its own proprietary LLM capacity through Serenity 7B aimed at the corporate market. The first product to be launched is Serenity Metacontrol, a compliance management/risk mitigation tool that stands to prove the company's capacity to compete in the Generative AI space.



Source: Substrate AI

The current challenges of Generative AI revolve around the bottlenecks of Data Center capacity, given the workload demands associated with the LLMs' pre-training

and execution. LLMs are trained on massive and diverse bodies of text in large datasets with billions to trillions of text tokens. The industry (like Microsoft, Apple AWS, etc.) is currently highly dependent on Nvidia GPUs, which are almost the only ones capable of handling large LLMs.

Substrate/SubGen AI avoids the current bottlenecks by operating in conventional data centers when using its smaller-scale LLMs. Part of the future of Generative AI will consist of on-premise LLMs that allow companies to use their own proprietary data with security and reliability. SubGen AI should be able to find plenty of business potential without the fear of being overwhelmed by larger global rivals.

### AI as a Service

Based on the current state of this incipient market, Substrate/SubGen AI is aiming to become a Generative AI service provider for the large LLMs market (Chat GPT, Llama 2, Azure Open AI, etc.) through its Serenity Star product, which was launched last February. Corporate clients can fast-track Generative AI adoption with access to over 100 LLMs (and growing) under a single roof.

The graphic displays a collection of AI logos arranged in a grid. On the right side, there is a large blue text block that reads '100+ LLMs available'. Below this text, it says 'The AI Hub is your one-stop-shop for integrating and managing AI services.' The logos include: OpenAI ChatGPT-4 Turbo, Google AI, Azure OpenAI, Llama 2, MISTRAL AI, GPT-3.5, Serenity 7B, OPENCHAT, and code llama.

Source: Substrate AI

The AlaaS platform has already been introduced to the Lanzadera accelerator in Spain, with over 3,000 start-ups, to introduce them to the scale-up powers of Generative AI. SubGen Ai has the advantage of having already tested the model with Substrate's AI portfolio companies in the HR, Medtech, Agritech, and Fintech verticals with demonstrable success.

## Product and execution teams

The assembled team (one US-based and two Spain-based) has the specific and sought-after knowledge and experience with which to build LLMs, the backbone of Generative AI:

### **Mei Si**

Associate professor at Rensselaer Polytechnic Institute (RPI) in the Cognitive Science Department and is the graduate program director of the Games and Simulation Arts and Sciences Program. Her work in Large Language Models (LLMs) includes their use in dialogue, humor, and visual story generation, error correction in Automated Speech Recognition systems, and addressing LLM jailbreaking challenges.

### **Julien Aubert**

Julien Aubert has worked at Apple for four years on the launch and development of Siri, the virtual assistant of the American multinational Apple that allows interaction with users through natural language, as well as in other companies and organizations such as Zynapp and the World Food Programme of the United Nations.

### **Bren Worth**

Senior Software Engineer with 16 years of experience in application development. His areas of expertise include aerospace engineering, mechanical engineering, investment banking, energy trading, military intelligence and law enforcement. He has worked for companies such as JP Morgan and Under Armour and for the last 8 years he has been developing reinforced learning and advanced machine learning technologies.

### Binit Group (91% owned)

A software development company with over 100 employees (two-thirds based in low-cost Latin America), an expected turnover of €3.5 million (as per the acquisition press release), and EBITDA of €350k brings a complementary set of skills to the Artificial Intelligence division. The first 70% of the acquired shares were announced and completed in November 2023, and the following 21% in March 2024.

The Binit group can be considered as a traditional IT services business (with corporate clients like John Deere, Holcim and Charles Taylor, as per the announcement of the acquisition) that is rapidly changing to cater for the growing

demands of the AI workload. The senior staff at the acquired company have been assigned to work on developing the Serenity Star AI product.

### **A Data Center strategy**

SubGen AI is developing a Data Center strategy, likely including a future investment in one in Spain. This will allow the company to have its own resources in the LLMs pre-training phase without relying on third parties for computing capacity. In addition, it will be able to offer a sovereign data guarantee to some of the most sensitive sectors, such as Healthcare and Defense.

Data Centers remain the largest constraint to the rapid deployment of Generative AI globally. The most significant demands on Data Center capacity remain in the pre-training phase of the LLMs, where every client-driven contract starts.

According to CBRE's last published American Data Center Trend Report, Data Center prices rose by almost 19% (\$163.44 per kW/month) in 2023, driven by strong demand and power constraints that limit growth in new capacity, The expectation is for double-digit growth again in 2024.

Such price increases in the US have taken effect because vacancy remained at a low of 3.7%, despite a 26% increase in supply (to 5,2 GW). As a result, Data Center construction reached a new high in 2H23 with 3 GW under construction in primary markets (+46% vs 2H22). At an average cost of \$10 million per MW, these 3 GW under construction would be expected to cost \$30 billion.

## A quick overview of the market potential for Generative AI

The Generative AI market can be broadly divided into Software, Services, and Hardware. The market has started to grow at an unprecedented speed, most notably due to the demand for Data Centers that can handle the demands of Generative AI.

We actually asked ChatGPT about the business uses of Generative AI, and it responded with Content Creation and Marketing, Customer Service and Support, Product Design and Development, Data Analysis and Decision-Making, and Operational Efficiency. These are the main sectors where we expect AI software to grow during the next few years.

**So far, the combined market size of Generative AI reached some \$60 billion in 2023 and is estimated to reach \$115 billion in 2024. For now, the Hardware portion of Generative AI (namely Nvidia) makes up for around 85% of the market because The Hardware segment has risen threefold from \$16 billion in 2022 to just under \$50 billion in 2023 and is estimated to double to \$100 billion in 2024.**

### **SOFTWARE: FOUNDATIONAL MODELS AND PLATFORMS**

**The Foundational Models and Platforms market began with the release of ChatGPT in late 2022 and reached \$4 billion in 2023. In the context of a \$900 billion global software market (or under 1% of the total), their market size is expected to at least double in 2024 to \$8 billion.**

**According to *IoT Analytics*, the Generative AI Models and Platforms market is expected to capture market share and reach nearly 5% of global Software spending by 2030, suggesting a potential to become a +\$60 billion per year market.**

**Foundational Models** are large-scale, pre-trained models that can be adapted to various tasks, such as language processing, image recognition, and decision-making algorithms. Existing foundational models include large language models (LLMs) like OpenAI's GPT-n or Goggle's BERT, DALL-E and Flamingo for images, MusicGen for music, and RT-2 for robotic control. Foundation models are also being built in other disciplines, such as astronomy, genomics, coding, and mathematics.



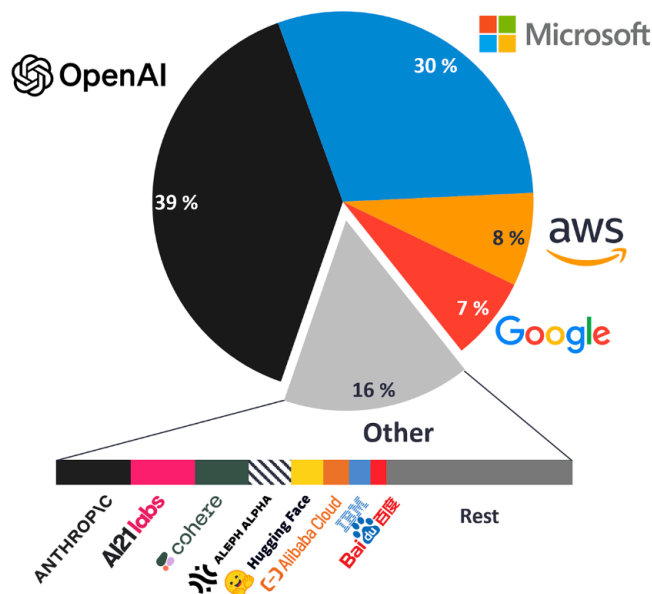
Within these foundational models, **Large Language Models (LLMs)** are advanced AI systems built on deep learning architectures and pre-trained on hundreds of billions of parameters.

The LLM transformer (Chat GPT, for example, stands for “Generative Pre-trained Transformer”) is a group of neural networks consisting of an encoder and a decoder. These networks extract meanings from sequences of texts to understand the relationships between the words and phrases they contain. This allows the model to perform language-related tasks such as text generation, translation, summarization, sentiment analysis, etc.

The main companies operating in this market segment are OpenAI (GPT), Microsoft (Azure AI), AWS (Bedrock), and Google (Vertex AI), with a combined market share of 84% followed by Anthropic, AI21 labs, and Cohere.

**Generative AI platforms** is the software that enables the management of generative AI-related activities outside of foundational models. The six platform types are development, data management/databases, AI IaaS/GPU as-a-service, middleware & integration, MLOps, and user interface and experience (UI/UX).

Market shares by company (2023)



Source: IoT analytics

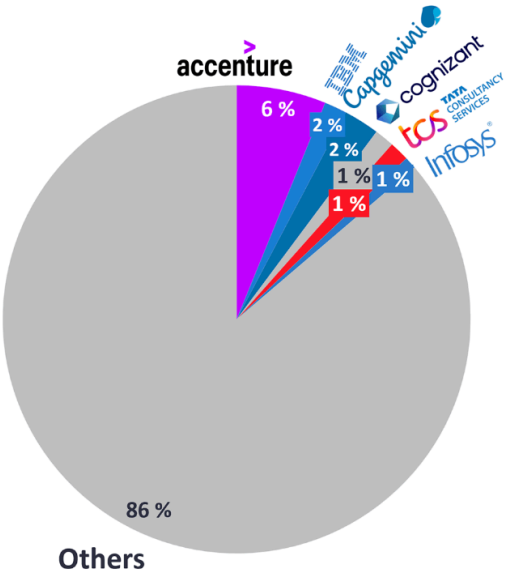


**GENERATIVE AI SERVICES**

The generative AI services market refers to companies dedicated to consulting, integrating, and implementing generative AI capabilities. Based on the current market size of the larger IT Services sector (1.5x the size of the Software market), we would expect the Generative AI services market to reach \$100 billion by the end of the decade. This means that we can expect the Generative AI sector to grow at CAGR in excess of 50% over the coming years.

With Generative AI having become one of the innovation hotspots, the entire IT industry and the overwhelming majority of business users are analyzing the value propositions at the Executive and Board levels. We expect IT business budgets to shift decisively towards AI and AI “doped” Software products.

AI Services: market shares by company (2023)



Source: IoT analytics

## HARDWARE: DATA CENTERS GPU'S

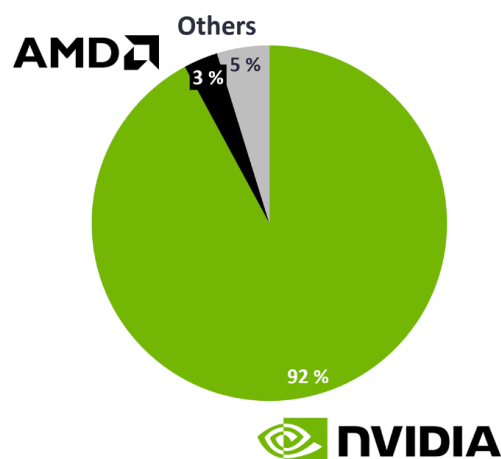
The Data Center GPU (Graphics Processing Unit) market reached \$49 billion in 2023, an +182% increase from 2022, mostly driven by one company alone: NVIDIA. On a quarterly basis, NVIDIA increased its data center GPU sales from \$3.6 billion in Q4 2022 to \$18.4 billion in Q4 2023 (+409%).

AI in the hardware market is focused on components that support AI workloads. As these workloads become more complex and data-intensive, there is an increasing need for specialized solutions capable of delivering high performance, energy efficiency, and scalability to support functionality.

GPUs are designed to process hundreds of thousands of small programs simultaneously, giving the end user a greater output, in a shorter timeframe, at a much lower cost for tasks that need a lot of small tasks to be completed.

To provide an idea of scale, the estimated energy consumption of a ChatGPT-4 query is 1 to 10 Wh (depending on the model size and number of tokens processed) whilst a Google search query is 0.3 Wh. This means on average ChatGPT-4 consumes more than 15x that of a Google query, an indication on the demands placed on Data Centers.

Data Center GPU's: market shares by company (2023)



Source: IoT analytics

## SubGen AI has been valued at €150 million in the last March 2024 transaction.

A DCF and a comparative valuation analysis place SubGenAI's valuation at a substantial premium to the market average.

The first element we consider is SubGen AI's optionality value in play, which is a function of the potential addressable markets and the future capital to be injected to enhance the business's growth.

### **Market growth/size:**

SubGen AI is the gateway to a €2.7 billion market potential in Spain and €30 billion across the EU+UK.

We are basing our sales growth potential on a \$60 billion global market for Generative AI products by 2030 and a further \$100 billion in Generative AI services. Based on the current scale of investments (as provided by Nvidia's financial results), this is a realistic forecast.

Assuming that SubGen stays solely in the European market (UK+EU), representing almost 20% of the World economy, we would expect an addressable market worth \$32 billion (€30 billion). Even if we assumed that SubGen stays solely within Spain (which is not the case), we would attribute a €2.7 billion potential market (the current market size of the IT market in Spain is estimated at €54 billion).

### **Capital Injection:**

To capture market share in this market, capital unavoidably needs to be invested and re-invested into the growth of the business. In our view, there is a correlation between the optional value of SubGen AI and the size of future capital raises, from which it will depend on the ability to capture future market share:

Assuming a 1 for 1 ratio of Investment to ANR (Annual Recurrent Revenues), every 1% market share in Spain by 2030 would cost a company €27 million over the next 6 years. Out of this number, we would expect an estimated 35% to require investor capital and the other 65% to come from reinvesting company cash flows. This means that a 1% market share requires a €10

million investment, which we assume has already happened (from prior capital raises).

As part of the current growth strategy, SubGen AI is considering a funding round of a further €10 million, which we believe will provide an additional 1% market share of the potential Generative AI market by 2030.

### **Discounted cash flows:**

#### **A €10 million capital raise assumption:**

The €150 million valuation is based on a medium-term projection of a CAGR of 50% until 2030, which aligns with market forecasts despite the difficulties in determining a reliable number.

Our projections would leave SubGen AI with estimated sales of €58 million by 2030, a 2% market share in Spain's future potential. By assuming an EBITDA margin of 25%, we would place the projected 2030 EBITDA at around €15 million.

Or, long-term DCF analysis places the 2030 EV/Sales multiple at 5x and the 2030 EV/Ebitda multiple at 20x to arrive at a Future Value (FV) of €300 million. By introducing a WACC of 12.5% to the valuation, we discount it back to €150 million (net of the €10 million capital raise) of Net Present Value.

#### **... what if €50 million in additional capital is raised**

In our model, with €50 million in additional capital, the sales potential by 2030 would increase to €127 million with an EBITDA of €32 million, providing an NPV (net of future capital raises) of €290 million (WACC of 12.5%). This assumes the same operating efficiency level (i.e., an EBITDA margin of 25%) in the additional revenues.

**In sum, the existing valuation potential is based on the high expectations that have been placed on Generative AI and its growth prospects. On the Hardware side, the bottleneck has been found in the type of GPUs required, and Nvidia seems to be the main beneficiary. On the Software side, as of now, the knowledge required to train LLMs is still in the hands of a small handful of companies with the head advantage. SubGen AI is one the them.**

## Private rounds in the Generative AI space

**Our sample of 11 companies in the Generative AI space (all privately held) has a combined value of \$120 billion, of which 2/3's is OpenAI. Taking all companies together, the average valuation has stood on 38x Sales, and if we exclude OpenAI (valued at 40x), the multiple drops to just 35x (Mistral and Aleph Alpha excluded)**

- **Open AI** completed a deal in February 2024 that values the company at \$80 billion, tripling its valuation in less than 10 months. On December 2023, annualized revenues of \$2 billion were recorded, putting the valuation at 40x revenues.
- **Anthropic:** In its latest funding round (March 2024), Anthropic raised a further \$2.75 billion in a Series E round, bringing the total funding to over \$5 billion. The round valued Anthropic at **\$18.4 billion** or 22x expected annualized revenues by the end of 2024 (or 180x if we take year-end 2023 annualized revenues).
- **Cohere:** an artificial intelligence startup that develops foundation models to compete with ChatGPT creator OpenAI, is in advanced talks to raise \$500 million at a valuation of about **\$5 billion** (March 2024). Cohere hit \$85M revenue with a 554 person team in 2023, which would place the pre-money valuation on 58x Sales.
- **HuggingFace:** AI startup Hugging Face has raised \$235 million in a Series D funding (August 2023) round, which values the Startup at **\$4.5 billion**. That's double the startup's valuation from May 2022 and reportedly more than 100 times its annualized revenue.
- **Glean:** \$200 million raise at a **\$2.2 billion** (February 2024) valuation to accelerate the deployment of generative AI. Glean's platform provides businesses with the tools to build custom generative AI experiences grounded in their unique company knowledge. Annualized revenues in January 2024 reached \$39 million, placing the EV/Sales valuation at 56x.
- **Aleph Alpha**, a leader in the field of explainable and trustworthy AI (builds LLMs similar to OpenAI's GPT-4 but designed for enterprises rather than consumers), raised more than 500 million in a Series B financing round (November 2023). No valuation has been publicly announced, but we estimated to be circa **\$2 billion** on 2023 sales of \$15 million, Leaving the EV to Sales valuation at 133x

- **Mistral:** This AI startup closed its Series A funding round (December 2023), raising €385 million (\$415 million) and valuing itself at **\$2 billion**. At the same time, Mistral AI is opening up its commercial platform. As of April 2024, it's been reported that Mistral AI has been speaking to investors about raising several hundred million dollars at a valuation of \$5 billion. Expected revenues for 2024 stand at \$65 million placing the EV to Sales multiple at 65x.
- **AI21 Labs:** AI21, which develops AI systems for enterprises, raised \$208 million (November 2023) Series C funding at a valuation of **\$1.4 billion**. The Israeli company develops AI and large language models (LLMs). It is estimated that the company currently generates revenue of around \$50-60 million annually, placing the valuation on 25x Sales.
- **MosaicML:** Databricks picks up MosaicML (June 2023), an OpenAI competitor, for **\$1.3 billion**. The last investor-round valuation was \$222 million, turning a 6x return with this exit. Based on estimated annual sales of \$16 million, the valuation at the time of the acquisition stood at 80x.
- **Perplexity:** raised \$73.6 million in Series B at a valuation of just over **\$1 billion**. With Perplexity's search tools, users get instant, reliable answers to any question with complete sources and citations included. Revenue growth has reportedly reached around \$20 million of annual recurring revenue. At \$1 billion, it is 50x revenues.
- **Harvey** raised \$80M Series B last December 2023. The \$80 million investment brings Harvey's total funding to over \$100 million and values Harvey at **\$715 million** or 66x Sales.

**If we placed SubGen AI on the same 38x valuation multiple as the average of these companies, we would get a valuation of €165 million.**

## Substrate AI sum of the parts valuation

(€ million)	Revenues						
	2023	2024e	2025e	2026e	24/23	25/24	26/25
SugGen AI	3,1	5,0	9,1	14,5	63%	81%	60%
MedTech	2,0	3,5	5,9	8,0	73%	70%	35%
Energy	0,1	0,3	0,4	0,6	220%	50%	50%
FinTech	0,8	0,9	1,0	1,2	11%	15%	15%
HR	2,1	4,7	5,9	7,7	125%	25%	30%
AgriTech	0,5	1,0	1,8	2,9	110%	80%	60%
<b>Total</b>	<b>8,6</b>	<b>15,4</b>	<b>24,2</b>	<b>34,9</b>	<b>80%</b>	<b>57%</b>	<b>44%</b>

	EV/Sales			Target est. valuation (€ millions)
	2023e	2024e	2025e	
	(x)	(x)	(x)	
SugGen AI	32,6	19,9	11,0	112,6
MedTech	8,8	5,1	3,0	19,9
Energy	11,0	3,4	2,3	1,1
FinTech	2,2	1,9	1,7	1,9
HR	8,3	3,7	2,9	19,6
AgriTech	17,3	8,2	4,6	9,4
<b>EV</b>	<b>17,1</b>	<b>9,5</b>	<b>6,1</b>	<b>164,5</b>
Equity Value				162,7
<b>Per share</b>				<b>€ 1,53</b>

	EV/Sales			Current inferred valuations (€ millions)
	2023e	2024e	2025e	
	(x)	(x)	(x)	
SugGen AI	4,5	2,7	1,5	13,7
MedTech	1,2	0,7	0,4	2,4
Energy	0,2	0,2	0,2	0,2
FinTech	1,1	0,3	0,2	0,1
HR	0,8	0,4	0,3	1,7
AgriTech	1,7	0,8	0,4	0,8
<b>EV</b>	<b>2,2</b>	<b>1,2</b>	<b>0,8</b>	<b>18,8</b>
Equity Value				17,0
<b>Per share</b>				<b>€ 0,16</b>

Source: Checkpoint Partners



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

(€ million)	Revenues						
	2023	2024e	2025e	2026e	24/23	25/24	26/25
SugGen AI	3,1	5,0	9,1	14,5	63%	81%	60%
MedTech	2,0	3,5	5,9	8,0	73%	70%	35%
Energy	0,1	0,3	0,4	0,6	220%	50%	50%
FinTech	0,8	0,9	1,0	1,2	11%	15%	15%
HR	2,1	4,7	5,9	7,7	125%	25%	30%
AgriTech	0,5	1,0	1,8	2,9	110%	80%	60%
<b>Total</b>	<b>8,6</b>	<b>15,4</b>	<b>24,2</b>	<b>34,9</b>	<b>80%</b>	<b>57%</b>	<b>44%</b>

Source: Checkpoint Partners

We look for Substrate AI to continue to grow at a superior rate as a result of the introduction of AI into the respective business verticals.

Our expected 82% growth rate in 2024 will be a combination of new acquisitions and organic growth. In 2025, we are projecting revenue growth of 57%, where we believe the power of their Artificial Intelligence can provide the means for accelerated growth rates.

- The **Artificial Intelligence** division, SubGen AI, was mainly created to serve existing business operations. However, with the acquisition of IT services company BINIT, it has become a third-party offering. The launch of Generative AI product offerings is expected to generate an accelerated growth rate going forward.
- **MedTech** is another area well suited for Artificial Intelligence, where image recognition is increasingly becoming useful for physicians in providing a better diagnostic yield with less time spent on each patient. The Substrate AI strategy has been to acquire distribution businesses with established client bases (hospitals) where Artificial Intelligence solutions can be added to the product offering. We expect 75% growth in 2024 (mainly from the 2023 acquisition of Equipos Hospitalarios) and 70% in 2025.

- There have been no recent M&A moves in the **FinTech** vertical, and our forecast is related to the division's expected organic growth. The same applies to the **Energy** vertical, where Substrate AI is looking to develop its business in energy management, whether for Solar Panel farms or managing the energy equation of tertiary buildings (hotels, offices, industrial, etc.).
- The **Human Resources** vertical will benefit from the IFit acquisition, a key area for expansion at Substrate AI. The management has US unicorn Eightfold AI to reference what can be done in Europe. This platform creates a bespoke, comprehensive talent network by aggregating internal and external data for an enterprise siloed across many solutions. Using artificial intelligence, the platform continuously learns from all the enterprises' data, engagement, and decisions to predict future roles and career alternatives and support diversity and inclusion. We expect growth of 130% in 2024 and 25% in 2025.
- The **AgriTech** vertical remains a core element of the Substrate AI growth strategy, as demonstrated by the addition of PSVet to the group in 2023. Spain is the EU's second-largest food producer, with a €110 billion contribution to its GDP in 2022. Artificial Intelligence is increasingly used to optimize farm yields, and Substrate AI wants to be at the forefront. We are anticipating growth rates of 90% and 80% for 2024 and 2025, respectively, partly because they are coming from a low base.

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

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

**PROFIT AND LOSS ACCOUNT**

<b>Euros (000´)</b>	<b>2023</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>
<b>Net turnover</b>	<b>8.609</b>	<b>15.415</b>	<b>24.160</b>	<b>34.901</b>
Cost of goods sold	-2.852	-5.346	-8.879	-13.066
<b>Gross margin</b>	<b>5.757</b>	<b>10.069</b>	<b>15.280</b>	<b>21.835</b>
<i>% margin</i>	67%	65%	63%	63%
Other Income	5.214	5.162	4.130	4.088
Personnel expenses	-3.963	-6.990	-8.737	-11.196
Other operating expenses	-10.708	-4.282	-4.760	-6.155
Depreciation of fixed assets	-1.122	-2.200	-3.200	-3.200
Subsidies and others	34	0	0	0
Gain/losses on write-downs	-2.609	0	0	0
<b>Operating Profits</b>	<b>-7.475</b>	<b>1.759</b>	<b>2.712</b>	<b>5.372</b>
<i>% margin</i>	-87%	11%	11%	15%
<b>Ebitda</b>	<b>-3.744</b>	<b>3.959</b>	<b>5.912</b>	<b>8.572</b>
<i>% margin</i>	-43%	26%	24%	25%
Net Financial expenses	-822	-942	-722	-535
Exposure to inflation	88	44	22	11
<b>Profit before Tax</b>	<b>-8.209</b>	<b>861</b>	<b>2.012</b>	<b>4.848</b>
Income taxes	-256	0	0	0
<b>Consolidated Net Profit</b>	<b>-8.465</b>	<b>861</b>	<b>2.012</b>	<b>4.848</b>
Profit attributable parent company	-9.732	408	1.468	4.195
Minority interests	267	454	544	653

*Source: Substrate AI and Checkpoint estimates*

**BALANCE SHEET**

Euros (000´)	2023	2024e	2025e	2026e
<b>NON-CURRENT ASSETS</b>	<b>34.544</b>	<b>41.418</b>	<b>41.965</b>	<b>43.092</b>
Intangible assets	30.647	37.711	38.088	38.850
Tangible fixed assets	235	330	461	646
Rights to Use	551	573	596	620
Investments in associated co´s	151	151	151	151
L/T financial investments and other	991	487	285	205
Deferred tax assets	1.969	2.166	2.382	2.620
<b>CURRENT ASSETS</b>	<b>10.067</b>	<b>7.950</b>	<b>9.616</b>	<b>14.042</b>
Inventories	784	1.019	1.325	1.590
Trade and other receivables	4.794	4.625	6.040	8.725
S/T financial investments and other	35	42	50	60
Cash and cash equivalents	4.421	2.232	2.168	3.634
<b>TOTAL ASSETS</b>	<b>44.460</b>	<b>49.217</b>	<b>51.429</b>	<b>56.983</b>
<b>EQUITY</b>	<b>23.861</b>	<b>34.760</b>	<b>35.769</b>	<b>40.198</b>
Capital	7.335	10.600	10.600	10.600
Share premium	45.160	50.260	50.260	50.260
Reserves and other	-26.681	-24.436	-23.686	-19.492
<b>NON-CURRENT LIABILITIES</b>	<b>7.632</b>	<b>7.407</b>	<b>8.435</b>	<b>7.534</b>
Long-term liabilities	6.000	5.748	6.749	5.820
<b>CURRENT LIABILITIES</b>	<b>12.966</b>	<b>7.050</b>	<b>7.224</b>	<b>9.251</b>
Short-term financial debts	7.022	1.062	1.533	1.427
Trade and other payables	5.680	5.777	5.522	7.689
<b>TOTAL LIABILITIES</b>	<b>44.460</b>	<b>49.217</b>	<b>51.429</b>	<b>56.983</b>

Source: Substrate AI and Checkpoint estimates

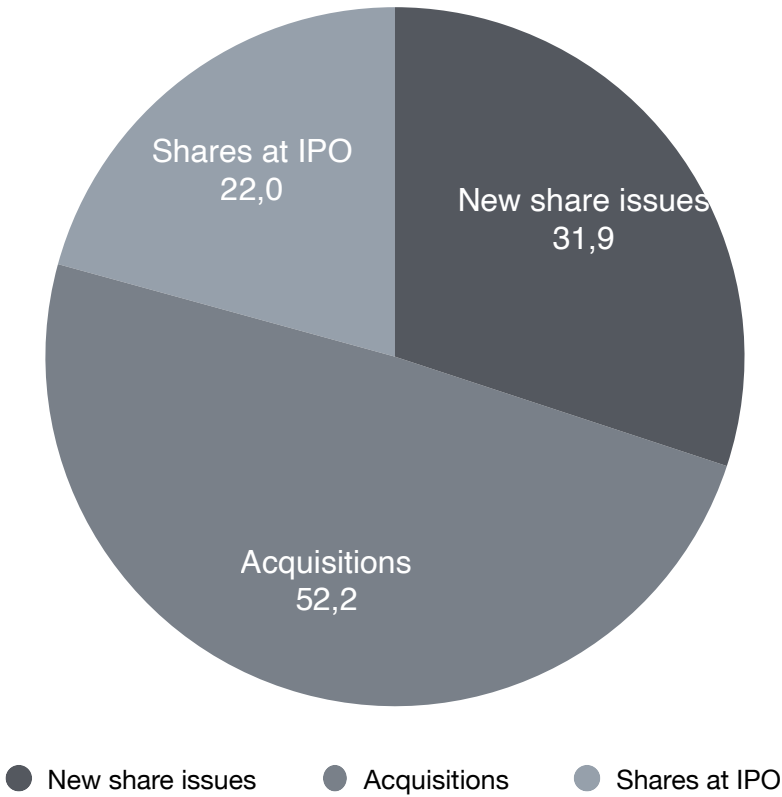
**The Cap Table has continued to expand with acquisitions and new issues.**

The rapid growth of Substrate AI has brought about a frenzied acquisition strategy combined with an aggressive bet on developing AI platforms to enter the Generative AI space. Both events have led to the issuance of more than 50 million ordinary shares for acquisitions and 32 million shares for capital raises (mostly through the issuance of convertible bonds).

There were 22 million ordinary shares on the company’s IPO in 2022, and now 106 million ordinary shares in issue.

Earlier in the year, Substrate issued 2 million shares to the Impulse Tech Transfer Fund, associated with the regional government of Castilla-La Mancha, at €0,50 per share. This strategic partnership is expected to yield tangible results in 2024 and in the following years.

**Fully diluted number of Ordinary shares: 106.1 million**



Source: Substrate Ai and Checkpoint Partners

## B shares in 2023

138.8 million B shares (€0,01) were issued in 2023 to fund acquisitions (€6.3 million) and investor loan conversions (€1 million). These "B" shares, with a par value of €0.01 (compared to €0.10 of the ordinary shares), are non-voting shares of SAI with the legal regime and preferential rights set out in Article 9 bis of its Articles of Association.

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

## Checkpoint recommendation System

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

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

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

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

History of Checkpoint recommendations (last 12 months)

Date	Stock	Recommen.	Price (€)	Target P.(€)	Period	Analyst
11.11.2021	LLN	BUY	4.38	9.00	12m	Guillermo Serrano
22.02.2022	LLN	BUY	3.24	9.00	12m	Guillermo Serrano
04.05.2022	LLN	BUY	4.06	9.00	12m	Guillermo Serrano
11.08.2022	LLN	BUY	2.50	7.50	12m	Guillermo Serrano
25.10.2022	LLN	BUY	1.84	6.00	12m	Guillermo Serrano
23.11.2022	SAI	BUY	0.22	1.35	12m	Guillermo Serrano
24.01.2023	SAI	BUY	0.34	1.35	12m	Guillermo Serrano
09.03.2023	LLN	BUY	2.27	5.00	12m	Guillermo Serrano
10.05.2023	LLN	BUY	1.64	5.00	12m	Guillermo Serrano
05.09.2023	LLN	BUY	1.15	3.00	12m	Guillermo Serrano
20.11.2023	SAI	BUY	0.20	1.00	12m	Guillermo Serrano
12.12.2023	LLN	BUY	0.80	3.00	12m	Guillermo Serrano
06.05.2024	LLN	BUY	1.10	3.00	12m	Guillermo Serrano
27.05.2024	LLN	BUY	1.32	3.00	12m	Guillermo Serrano
28.05.2023	SAI	BUY	0.16	1.00	12m	Guillermo Serrano

Checkpoint does and seeks to do business with companies covered in its research reports. As a result, investors may take the view this could affect the objectivity of the report and therefore should consider this report as only a single factor in making their investment decision.

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

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



**Disclaimer:**

Checkpoint Partners (Spain) SLU [Checkpoint] is a financial advisory firm primarily specializing in the technology sector. Further information can be obtained from our website [www.checkpointp.com](http://www.checkpointp.com) or by writing to us at [gfs@checkpointp.com](mailto:gfs@checkpointp.com).

All third party information has been checked to the best of Checkpoint's professional expertise and accuracy, however it has not been independently verified and Checkpoint makes no warranty, express or implied, as to the accuracy, reliability, timeliness or completeness of the information.

Furthermore, this report has been drawn up in accordance with the Commission's Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) 596/2014 of the European Parliament and of the Council as regards regulatory technical standards for the objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for the disclosure of particular interests or indications of conflicts of interest.

Checkpoint has no conflicts of interest in relation to the drafting of this research report within the meaning of Article 6. 1 of the regulations, as Checkpoint does not hold a net long or short position exceeding the threshold of 0.5% of the total issued share capital of the issuer mentioned in this report and the person preparing the report is not a market maker or liquidity provider of the issuer's financial instruments, has not been lead or co-manager during the twelve months preceding any offering of financial instruments of the issuer, is not a party to an agreement with the issuer relating to the provision of investment firm services set out in Sections A and B of Annex I to Directive 2014/65/EU of the European Parliament and of the Council.

Checkpoint is remunerated for the drafting of this report by the firm under review and may be, or seeking to be, engaged by the companies described in this report for other types of financial services. The investor should take this fact into consideration and assume that Checkpoint may have a conflict of interest that could affect its objectivity. Accordingly, this report should be considered only as one element in making investment decisions.

Checkpoint does not provide advice on legal and tax matters. This should be referred to appropriate professionals. Past performance is not a guarantee of future returns. Investments denominated in foreign currencies are subject to fluctuations in exchange rates that could have an effect on investor returns. Investment prices may fluctuate and, therefore, you may not get back some or all of your original investment. Neither this report nor any accompanying documents or information may be reproduced in whole or in part, or used for any purpose other than that for which they are presented, without the prior written consent of Checkpoint.

# CHECKPOINT