

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)	56.5	66.9
EV (Mn EUR and USD) ⁽¹⁾	60.8	72.0
Shares Outstanding (Mn)	57.7	
-12m (Max/Med/Min EUR)	1.40 / 0.87 / 0.28	
Daily Avg volume (-12m Mn EUR)	0.37	
Rotation ⁽²⁾	165.0	
Factset / Bloomberg	SPS-ES / SPS SM	
Close fiscal year	31-Dic	

Shareholders Structure (%)

Paragon Group	80.5
Free Float	19.5

Relative performance (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-8.3	-8.3	178.9	n.a.
vs Ibex 35	-5.7	-12.0	125.7	n.a.
vs Ibex Small Cap Index	-7.9	-8.1	89.6	n.a.
vs Eurostoxx 50	-8.5	-11.3	120.8	n.a.
vs Sector benchmark ⁽³⁾	-10.8	-11.8	117.3	n.a.

(1) Please refer to Appendix 1.

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

(3) vs Eurostoxx 600 Technology.

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

SPS sells its printing business and becomes a 100% technology company

SPS HAS SOLD ITS TRADITIONAL PRINTING AND DOCUMENT MANAGEMENT BUSINESS TO ITS CONTROLLING SHAREHOLDER.

In 2020 this business generated EUR 5.6Mn in revenue (-27% vs 2019) and in recent years was unable to exceed levels of break-even. The price of the transaction was EUR 4.2Mn (equivalent to the book value), that will allow SPS to reduce its liabilities with Paragon and reduce net debt to c. EUR 2Mn (vs EUR 6Mn at the 2020 close).

THAT REAFFIRMS THE STRATEGIC CHANGE OF DIRECTION TOWARDS TECHNOLOGY.

The sale of the digital printing and document management subsidiaries makes SPS a 100% technology company, 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. In this respect, the acquisition of ScytI at the end of 2020 should be seen as just the first step towards gradually gaining importance in businesses with a large digital component.

A STRATEGIC CHANGE OF DIRECTION THAT PRESENTS THREE BIG OPPORTUNITIES:

(i) a move towards a more digital and technological market segment (with higher growth rates and margins), (ii) with high operating leverage that should allow the new SPS to make the most of any increase in revenues, and (iii) with the ability to generate positive FCF (although not before 2023e). And all this with the financial support and know-how of its core shareholder (Paragon has a long track record in M&A, with a focus on technology, growth and price, guaranteeing for itself with SPS contact with the equity market).

BUT ALSO BIG UNKNOWNNS. Although, in our view, SPS's equity story is simplified with the resolution of one of its main uncertainties (how its traditional business fits), two questions remain to be answered: (i) the success of the operating integration of ScytI's business (in a sector in which SPS lacks previous experience) and (ii) its materialisation in growth, profitability and recurrent cash generation in the long term.

WHAT CAN BE EXPECTED FROM THE NEW SPS IN TERMS OF OPERATING RESULTS?

In our view, 2021e will be a year for the "digestion" and restructuring of ScytI's business. This leads us to significantly downgrade our estimates for revenue to c. EUR 9Mn for 2021e (vs our initial estimate of c. EUR 14.5Mn), delaying breakeven in EBITDA to 2022e and EBITDA > EUR 1Mn to 2023e (EBITDA margin 10%).

WHAT IS THE SHARE PRICE TELLING US?

Current ratios are irrelevant as a reference apart from EV/Sales: c. 6x in 2021e, declining to c. 4x in 2022e (vs c. 2x for the IT industry in Europe, that suggests the success of the ScytI acquisition is already being discounted). However, the intellectual challenge remains and involves objectively assessing whether SPS will truly benefit (beyond 2023e estimates) from ScytI's competitive position and operating leverage that would justify the high ratios that we will presumably see in the next two years.

Appendix 1. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	56.5	
+ Minority Interests	-	12m Results 2020
+ Provisions & Other L/T Liabilities	3.5	12m Results 2020
+ Net financial debt	1.9	Lighthouse
- Financial Investments	1.0	12m Results 2020
+/- Others ⁽¹⁾		
Enterprise Value (EV)	60.8	

(1) SPS has a very high volume of unused tax loss carryforwards (c. EUR 454Mn off balance sheet at the 2020 close)

(2) Net Debt adjusted to strip out: (i) EUR 4.2Mn of liabilities with the Paragon group (offset by the sale of SPS' traditional business) and (ii) EUR 1.1Mn of loans with two financial entities (offset by the EUR 1.1Mn capital increase approved in March).

IMPORTANT NOTE: The Ordinary and Extraordinary Shareholders' Meeting of SPS held on 29 June 2021 approved, among other resolutions:

- 1. A change of Service Point Solutions name to Innovative Solutions Ecosystems.**
- 2. The change in the start and end date of each financial year, so that each year begins on the 1st of July of each calendar year and ends on the 30th of June of the following calendar year. Consequently, the year in progress will comprise the period between the 1st of January 2021 and the 30th of June 2021, with subsequent years beginning on the 1st of July and ending on the 30th of June of the following year.**

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
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

