

Lleida.net

BUY

Software powers Telecommunications and vice versa

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- Founded in 1995 Lleida.net is a communications software and telecom service provider present in 14 countries. In 2005, the company entered the SMS market when it obtained its first telecom licence in Spain. Since 2010 Lleida.net has offered software communications products to a growing class of corporate customers.
- Over the last 10 years the Company has successfully positioned itself in a specialist telecom operator on the growing A2P SMS market, with both a strong and diverse international corporate customer base.
- Established itself as a reliable Interconnection Hub in the SMS space. A sophisticated management system developed in-house allows the company to offer a superior service to other telecom operators profitably.
- The higher value add communications software divisions of Lleida.net in the areas of Certified Messaging (Trusted Third Party) and Identity Access Management remain a primary source of strong growth and value creation for the company.
- We expect gross profits to bounce by 29% in 2016. The results of recent strategic shifts to higher margin activities to result in robust sales and profit growth in 2H16 paving the way to a better 2017.
- We have valued the company on an EV of €17 million following a sum of the parts valuation exercise. We believe the software side of the business accounts for 55% of the overall value of the business despite representing 20% of its sales, for its growth and profit potential.
- We rate Lleida net a BUY with a 12 month target price of €0.95 per share

Equities

Spain Telecom/Software Services

Price: €0.71
RIC: LLN.MC

Trading Data

52 week range (€):	0.64 -1.18
Mkt Cap (€ millions):	11.4
No. Shares (millions):	16.04
Avg Daily vol (LTM):	5,322

Share Price Chart



(€ millions)	2015	2016e	2017f	2018f
Turnover	8.4	8.2	9.5	10.5
Ebitda	-0.9	0.0	0.5	1.1
Net Profit	-0.4	-1.0	0.3	1.0
EPS	-0.02	-0.06	0.02	0.06
Net Debt	2.2	2.2	2.1	1.2
EV/sales	1.6	1.7	1.4	1.2
EV/Ebitda	n.m.	565	25	11
P/E	n.m.	n.m.	34	12

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Executive Summary

- Lleida.net has created a unique business proposition by combining software and telecommunications together with cybersecurity as the common feature that binds these synergistic and complementary areas. From the very early days of human communications certainty and security of delivery has been a prime concern and Lleida.net has successfully adapted the concept to the Internet and Telecommunications age.
- Lleida.net is exposed to benefit from the continued expansion in communication software applications and SMS telecommunications. The company plans to build on the recent successes of its Certified Messaging and ID Validation platforms to provide superior growth rates and operational margins going forward. We expect a robust rebound in gross profits during 2016 to set the pace going forwards.
- The A2P SMS market will remain a growing area of business for the foreseeable future. The rapid ascent of the smartphone as a transactional platform is creating a new class of Apps that require SMS messaging embedded in the software.
- The internal systems of Lleida.net are probably second to none. The management can see realized profits daily on each SMS sent to the last cent. Within the space of less than a year, Lleida.net has been able to shift its business outside Spain swiftly in response to price aggressive new entrants, which would have been impossible without this management system in place.
- The Interconnection division remains the largest in terms of sales volumes and their success in the market is based on their longevity (in business for the last 10 years) and their international expansion.
- The balance sheet of the company remains strong following the €4.1 million net capital raise and flotation on the MAB during 2015. The company has never had such a strong balance sheet in the past and should pave the way to stronger rates of growth going forwards.
- We have valued the business at €0.95 per share based on a sum of the part valuation giving the software side a 2017 3.9x sales valuation multiple and the telecom side on 1.4x with a combined average of 1.8x. Based on an expected gross profit growth of 30% in 2016, we believe our target multiples are justified.

The company

Sisco Sapena, who remains as the current President and CEO, founded Lleidanetworks Serveis Telematics S.A., or Lleida.net, in 1995. The company is located in Lleida with offices in other locations within Spain and abroad.

Global presence



Source: Lleida.net

Since it was founded the company has gone through three distinct phases of development.

- Started life, during its first 10 years, as an Internet service provider (ISP) until it turned to the SMS telecommunications market in 2005 by becoming a licenced operator in Spain. Throughout this time the company was operated as a small entrepreneur-run business in the private arena with little or no dependence on outside capital.
- By 2005, there was an opportunity to enter the SMS space as life as an ISP was becoming harder following the burst of the Internet bubble. Outside capital was sought and obtained in 2007 from the current largest investor in the company (other than for Sisco). A €400,000 share capital increase by a Santander venture capital fund took a 30% stake.
- Since 2010, Lleida.net began to build its value proposition by entering the communications software space mostly centred on security aspects by providing customers with certainty of delivery.

Today, the software side of the business is the fastest growing side of Lleida Net and close to overtaking the traditional telecommunications side in terms to its contribution to gross profits.

In 2015, the company raised a net amount of €4.1 million by issuing 4.2 million shares which makes up for 26% of the current shares in issue. The new capital position of the company will enable the management to strengthen its business lines and place them in a position to look for new opportunities as they arise.

At present, operations are now differentiated into 4 profit centres, 2 related to communication software and 2 areas related to SMS telecommunications. The communications software business consist of a range of Certified Messaging and Identity Validation products both with complementary areas in terms of the type of clients they are trying to reach.

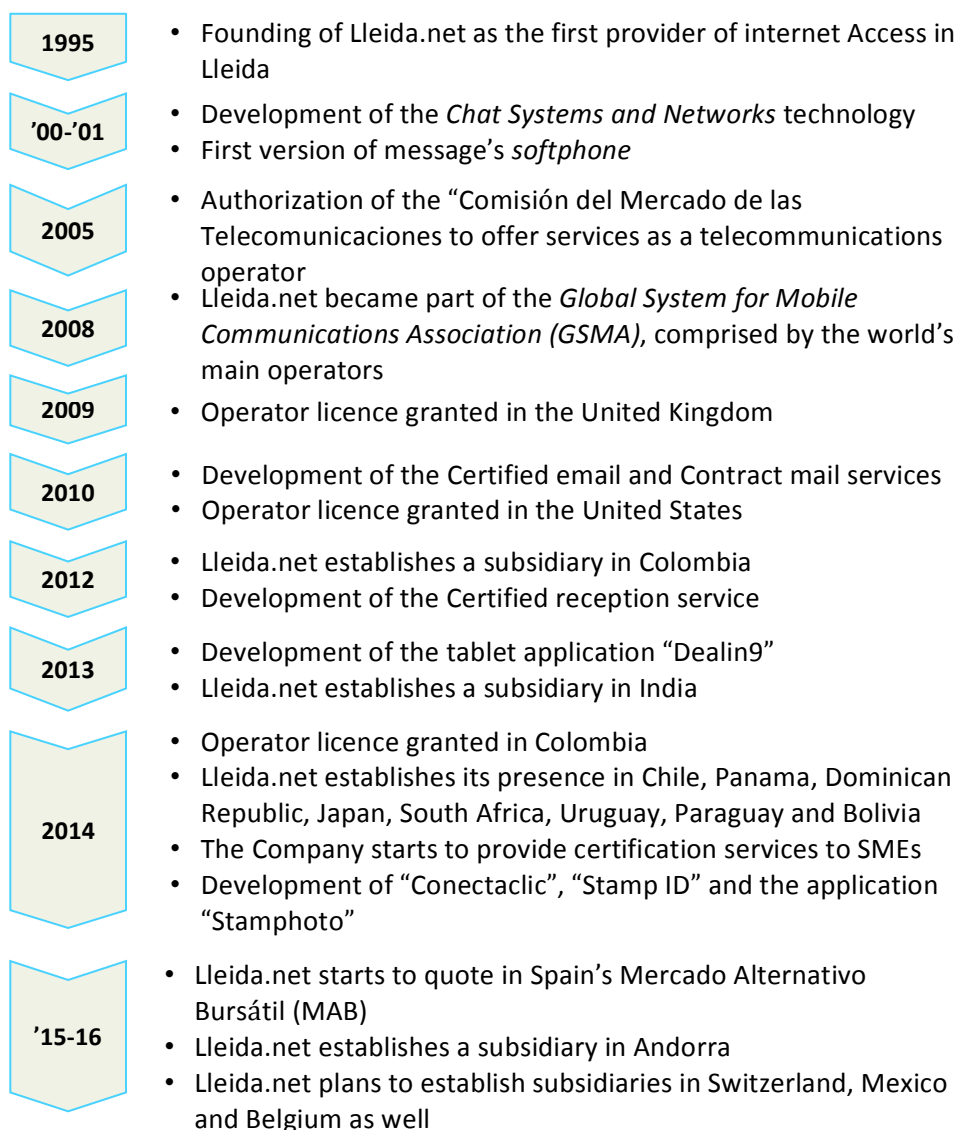
There are 39 employees spread across the operating divisions of the company with the support of the central services of the finance and administrations function, customer relations and business development. The incremental new hires are going towards the development of the software business, which represent the fastest growing, and more profitable side of the business.

Headquarter offices

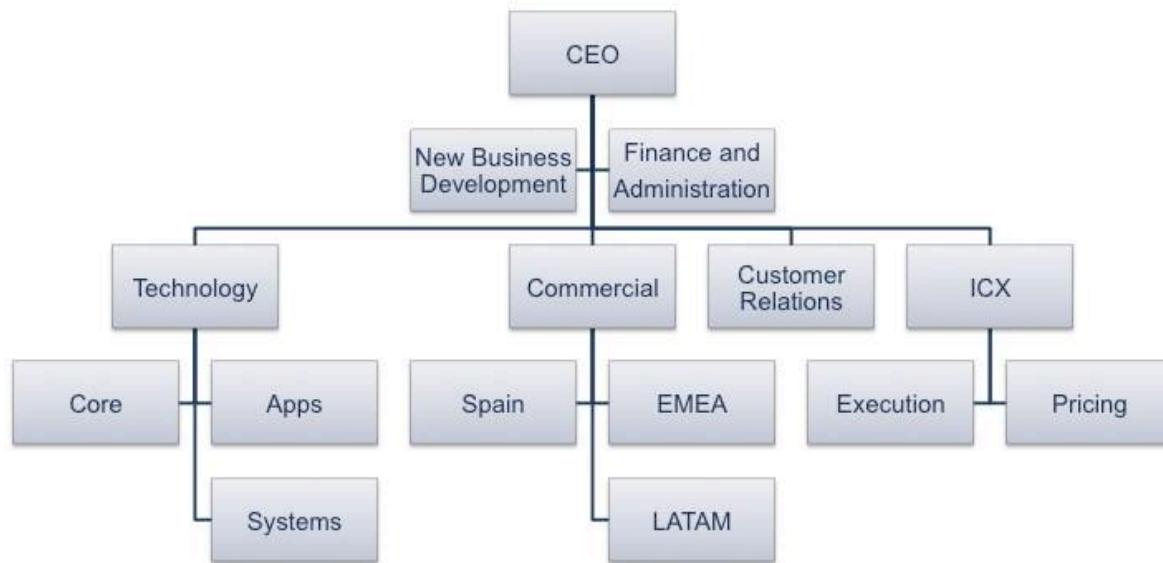


Source: Lleida.net

Key milestones of Lleida.net



Management structure



Sisco Sapena

CEO

Studied Technical Agricultural Engineering, specialising in Horticulture and Gardening at the University of Lleida and postgraduate in Telematics at the UPC. He is one of Spain Internet pioneers and passionate about new technologies. Sisco is taking Lleida.net around the world for 20 years, always focusing on innovation. Remains the largest shareholder and CEO of Lleida.net.

Pedro A. Vega

Chief Operating Officer. Latin America

Pedro Antonio Vega Pérez holds a bachelor's degree in economics and business from Universidad Complutense (Madrid), a Master's degree in business management and marketing from UNED, a Master's degree in economic and financial management from UOC and a Bachelor's degree in Advertising and Public Relations. During the last 12 years, he worked as Operations Manager in 11888 SCT SA (Hibu España, CTI-Yellow Pages). He also developed his professional career as Operations Manager in Chile, Hibu Argentina and Country Manager at Hibu Italy.

Manuel Gallo

Chief Operating Officer. EMEA

Manuel contributes to the Lleida.net project with his extensive domestic and international experience, having studied Engineering and Computer Science, as well as Executive MBA at Babson College. His most recent professional experience takes place in the international framework for Novell Inc., VeriSign Inc.,

Jamcracker, S21sec, Al Fahad Security, NEC Europe and NEC Middle East, specializing in new business development and “Go to Market” strategies with Telecomm Operators and Services Providers in both public and private sectors around the World.

Jordi Ramón Piñol***Chief Technical Officer***

Higher Technical Certificate in IT Development and Management Information Systems. Professional Analyst Programmer with over 15 years of experience in the development of mobile messaging servers for multiple protocols and communication certification processes. The aim of the Technical department is to conceptualize solutions and to use strategies focused on Lleida.net technological advances and breakthroughs.

Sofia Gazo***Chief Sales Officer. Spain***

Bachelors in Environmental Sciences from Universidad Rey Juan Carlos I and, currently studying for an MBA in Leadership and Change Management at Universidad de Alcalá. Her career has always been linked to the commercial area and in technology consulting IT presales area. Her extensive knowledge allows her to identify and adequately meet the customer's need and expectations. Helps companies transform and improve the well-functioning of business processes, offering digital solutions along with cost savings and with full legal certainty.

Beatriz García***Chief Interconnection Officer***

Senior Engineer telecommunications Universitat Politècnica de Catalunya. In love with the Netherlands since she did his thesis on "Information and Communication Theory Group" at the University of Technology Delft (Netherlands). As a telecommunication expert, she heads Lleida.net Interconnection department, negotiating with mobile operators all the policy and commercial issues. Beatriz and her team manage the international network messaging routing as well as giving technical support to the customers Based on her technical and manager profile, Beatriz's goal is to build up an international network to provide quality messaging delivery service together with an exemplary customer service support.

Eduard Salla***Chief Business Development Officer***

Technical Engineer in Computer Systems at Universidad de Lleida, and currently undertaking and Master's Degree in Open Software offered by Universitat Oberta de Catalunya (UOC). With over 5 years of experience Eduard developed his final degree project in the field of human computer interaction His knowledge and training in the field of online marketing highlight his professional goals in acknowledging customer's needs in order to provide flexible, intuitive and tailored solutions, thus making the process of digital transformation simple and effective.

Arrate Usandizaga

Chief Administrative Officer

Master in finance and accounting from the Universidad de Deusto and Graduate in Administration and Business Management. Due to her experience in Lleida.net; Arrate is the right person to define and to manage the accounting policy of the company. Her remarkable organizational and managements skills are key for Lleida.net Administrative Department.

Eva Pané

Chief Customer Service Officer

Law degree from the UAB, Legal Practice Graduate at UAB and Master in Law and New Technologies by ESADE. With over 10 years of experience in the IT area, Eva leads Customer Service Department. Her training in Law is a crucial support for suggesting solutions to any specific possible difficulties the user may face. Eva is central in the Latin American market, heading up projects and managing relationships.

Lleida.net team photo



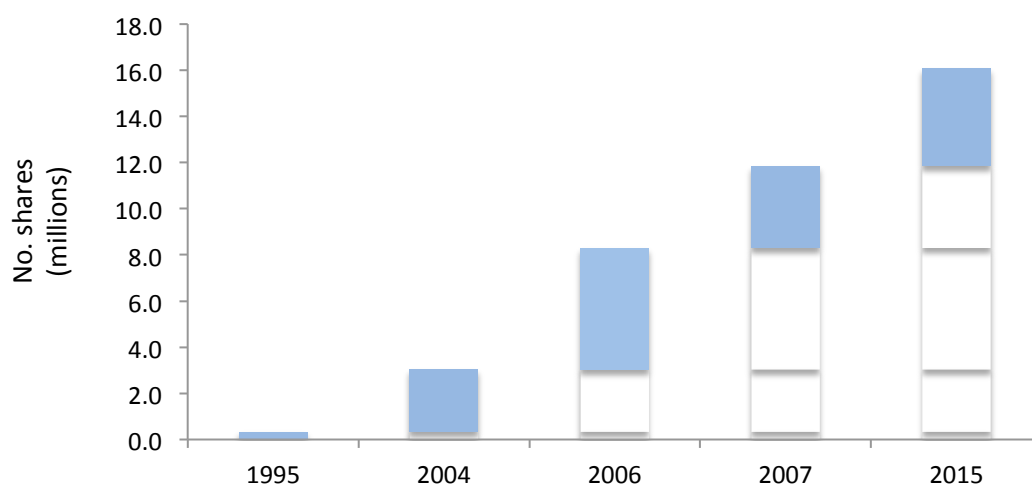
Source: Lleida.net

Capitalization and shareholders

Lleida Net has had five capital injections since it was founded in 1995. It started with founders seed capital of just €6,001 to head start it first inroads as an Internet Service Provider until 2004 and 2006 when Sisco Sapena (and family), in full control of the Lleida.net project, injected €53.970 and €105.355 respectively.

As the SMS project gathered momentum, in 2007 Lleida.net reached out to SESD F.C.R. (a venture capital firm of Banco Santander) for an equity injection of €400,000 in exchange for 30% of the company. Despite the recession and capital shortages that ensued in Spain, Sisco and its management team have so far enabled the fund to obtain an (still unrealized) annual return of 23% during the life of this investment to date.

Lleida.net capital increases

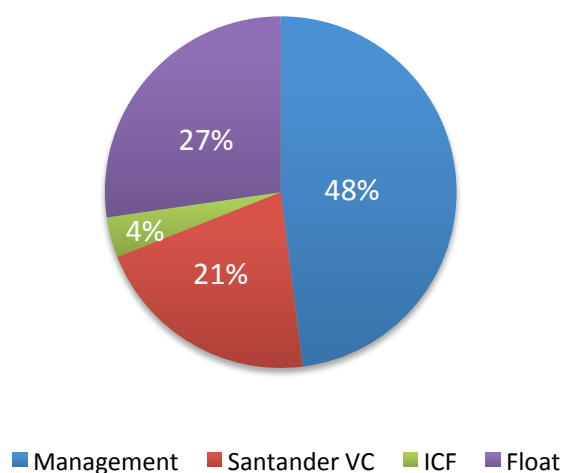


Source: Lleida.net

Just last year, in 2015, the company raised from investors a gross amount of €5 million on MAB (Mercado Alternativo Bursátil) to fund its new product development and international expansion. Some 5 institutional funds (1 international) with the remainder made up of retail investors participated in the offering.

Based on a pre-money valuation of €13 million, the incoming shareholders now 31% of the Lleida.net. The largest new investor was the ICF, a dedicated regional venture capital fund that now owns 4% of the company and has a seat on the Board.

Shareholder structure




Source: Lleida.net



Review of activities

Lleida.net has created a business by combining software and telecommunications with cybersecurity as the common feature that binds together these synergistic and complementary business areas. From the very early days of human communications certainty and security of delivery has been a prime concern and Lleida.net has successfully adapted the concept to the Internet and Telecommunications age.

Sample certificate

Registered communication certificate
Registered email
Certificate ID: E972794-S



Telecom operator LLEIDANETWORKS Serveis Telemàtics, S.A. as trusted third party, certifies that the information provided herein is the one entered in its electronic communication records.


Delivery details

Name/Business name: Eduard Salla (CIF/NIE 78087086Q)
User ID: 393371
Sender: correo@certificado.burofaxelectronico.com
(forwarded on behalf of Eduard Salla <esalla@lleida.net>)
Recipient: perleuard@yahoo.ca
Date and time of the sending: January 2 2016 at (00:20 GMT +1)
Date and time of delivery: January 2 2016 at (00:21 GMT +1)
Subject: REGISTERED eMAIL: prova burofaxelectronico
Message:

Hola 3
Eduard Salla Simó
Técnico de Desarrollo de Negocio | Business Development Assistant
esalla@lleida.net <mailto:esalla@lleida.net>
(+34) 665 688 066

Parc Científic i Tecnològic Agroalimentari de Lleida
Edifici H1 2a planta B | 25003 Lleida (Spain)
Tel: (+34) 973 282 300
Fax: (+34) 973 282 195
www.lleida.net <http://www.lleida.net/>
Política de privacitat <http://www.lleida.net/es/privacy.html>

Attachments:

File	File name	
	ContentID-text.html	See attached file.

This certificate has been generated at the request and with the express consent of the interested party, through a safe and confidential system, registering traffic but without interfering, revealing or controlling. This email is assigned a unique ID in the header of the telecommunication operator record.

Lleida, January 2, 2016

Source: Lleida.net

Certified messaging

The product offered by Lleida.net consists of Certified SMS and emails defined as electronic messages whose contents have the equivalent legal standing as a witnessed physical delivery equivalent.

When sending and receiving (Registered email, Registered SMS, Registered Delivery, SMS contract) a certificate is generated providing evidence the communication took place between sender and receiver's email or phone

numbers. The Certificate includes the content of the message, date and time of the sending, Lleida.net digital signature (Third Trusted Party) and a “Certification Authority” time stamp.

Purpose	Product	Use
Notification	Registered email	Email admissible as evidence
	Registered SMS	A notice for divorce can be served through an SMS
	Registered invoice	Used by companies to reduce procrastination
	Registered delivery	Automate customer service processes, improving replies and internal management systems
	Connectaclick Lite	Letting you know when your email gets read
Contracts	Connectaclick Pro	Enables to file an application, reply to messages and attach pictures taken with an smartphone
	Registered SMS contract	It allows you to close legally binding contracts via mobile phone. Simple and with full legal validity
	Registered email contract	It allows closing legally binding contracts via mobile phone. Simple and with full legal validity
	RIU Remote Identification	Compares the photo of the client made during the video conference with the photo ID. Lleida.net provides to a facial recognition algorithm

Source:Lleida.net

Lleida.net has created its own IP (see Appendix I) to create an effective and reliable method to provide a high burden of proof of communications. In legal jurisdictions where such high burden of proof is required, Lleida.net provides a value proposition that enables the substitution of more expensive physical

delivery methods.

Product Portfolio

Lleida.net has drawn from its experience as an SMS operator where it is customary to offer customers several levels of certainty of delivery when dealing in large volumes. The company discovered a growing appetite for “absolute certainty” and thus the motive for creating a whole new separate division, with a proprietary software solution to address its customer needs.

The product is sold to a retail customer by around €1 per message and at lower prices to corporate customers depending of volumes contracted. This compares to certified delivery (both message and content) prices that start at €25 per message or notification.

The main barrier to a generalized use remains the inertia of the traditional methods of physical presence or delivery when it comes to signing contracts or the delivery of notifications (debt collection for the most part). Corporates are leading the way in the usage of certified messaging because it provides a fast and reliable way to exchange documentation with legal security.

From a commercial standpoint it is a most useful product. If a customer is for instance contracting an insurance policy that requires a signature, the offering company can enable it to be done on-line in order to pre-empt the risks of the sale going cold by waiting for the physical delivery of the documentation.

Sectors of interest for Certified Messaging

Wherever the company or the customer, the demand for security increases with the complexities associated with remote communications. In the particular case of delivery mechanisms, Lleida.net has applied its long drownd out expertise in telecommunications to create a product that adapts to a broad range of sectors. Below is a description of them:

Banking: overdrafts, credit packages notification, credit requests, bank transfers, deposits, loan renewals, alert deadlines for loans renewals, and personal data change/correction.

Some Consumer lending customers



Source: Lleida.net

Insurance: debt collection, policy cancellations, change of contract terms, certified receipt of reported claim, personal data changes, extension of terms, forms and notice of receipt.

Some Insurance company customers



Source: Lleida.net

Retail: password delivery, coupons, competition replies, invoices, confirmation of purchase, subscription acceptance, customer service, budget approval and debt collection.

Associations: membership card number, personal data, return notification and debt collection.

Some Rental company customers



Source: Lleida.net

Public sector: Notification of appointments with public administration departments, Notify citizens of legal aid records, Granting fellowships, Final marks public examination notifications, Sending reference number of public tenders, Personal data change/correction, Send administrative notifications, Notification of attendance at polling stations and Fine notifications.

Healthcare: doctor's appointment reminders, Request for personal records, Access codes to review results and Personal data change/correction.

Customer services: claims, budget approval, warranty claims, utilities consumption (light, gas and water) and debt collection.

Some Utility customers



Source: Lleida.net

Quality and logistics: test results to providers (chemical, food, construction and building factories), product verification by means of a

serial number, etc

Education: admission notices, timetable notices, notification to employees, data change/correction and Debt collection.

Travel: Send ticket locators (hotels, flights...), Customer's registered delivery; claims, orders, Catering contracts, Personal data change/correction, Lost baggage notification, Notification of scheduled trip changes, Rooms and equipment reservation confirmation request.

Some Call Centre customers



Source: Lleida.net

Employment: Job interview dates: time and address, Notification workforce schedules, Notification of timetables and address to Temporary employment workers, Receipt of documentation, Personal data change/correction, Hiring notifications and Contracts renewal.

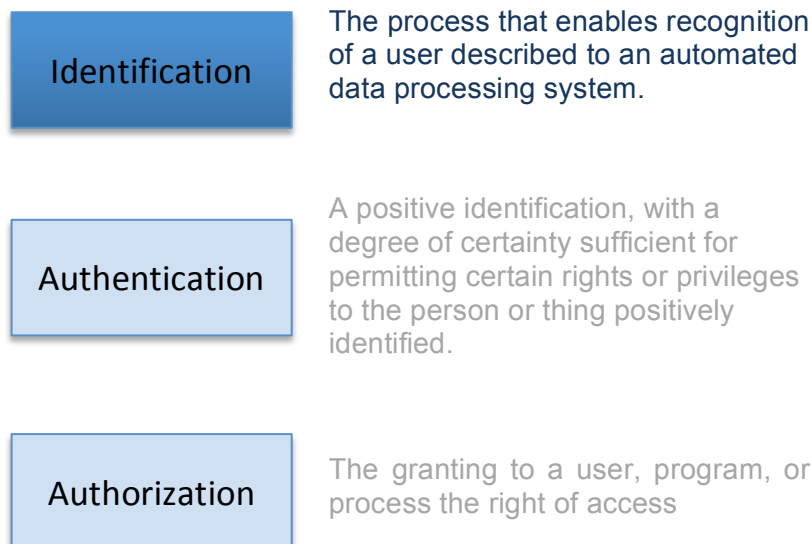
Repairs: Budget approval, Pick up repaired car alerts and Debt collection

Identity Validation

Identity theft remains a common problem on the Internet as thieves and hackers are constantly looking for new ways to steal identities for personal gain. ID validation procedures can be stringent in certain countries, sectors or companies but still there are less so in others. With the continued proliferation of on-line businesses and the increasing sophistication of criminals there will always be a demand for a quick, effective and updated security protocol to avoid Identity Fraud.

In most instances, verification processes are based on the person's private information such as the date of birth, address, email address, previous addresses, mother's maiden name, place of birth, pin number, bank account details, passport numbers and passwords. If someone has accessed or found this information there is a chance it can be used to steal that someone's identity.

3-step process in cybersecurity



Source: Lleida.net

The most common types of crime associated to Identity Theft are related to financial fraud, such as credit card fraud, bank fraud, tax rebate fraud, benefit fraud and telecommunications fraud. Things can get problematic for the victim if the stolen identity is also used to commit other crimes such trafficking drugs, committing cyber crimes, laundering money, etc. The system is well incentivized to try and avoid these kinds of complications.

The software industry is constantly innovating to provide solutions to government, companies and individuals to stay ahead of potential liabilities. Specifically Lleida.net has created a Software Platform that provides a professional level of security to avoid anyone stealing someone else's identity.

Stamp ID was developed with Lleida.net technology and by integrating ICAR (www.icarvision.com) solutions to become a powerful tool to authenticate ID cards. Stamp ID Lleida.net can be integrated into applications such as Dealin9' or any other direct sales systems. Dealin9' is an app for tablets to close legally binding contracts in just 9 minutes.

The application checks mainly for the validity of a passport/or identity card to try and eliminate identity fraud.

Product Logo



Source: Lleida.net

Stamp ID Lleida.net is designed to reduce identity fraud and minimizes claims to online businesses and financial institutions. It is estimated to reduce fraud up to 82% both for online and offline transactions. 80% of identity fraud is focused on getting fraudulently consumer-financing goods, contracting services or bank credits reporting.

Benefits:

- Reduction of identity fraud with KYC requirements.
- Improved confidence in the customer database.
- Paperless workflow.
- Improved customer experience and lowers data liability.

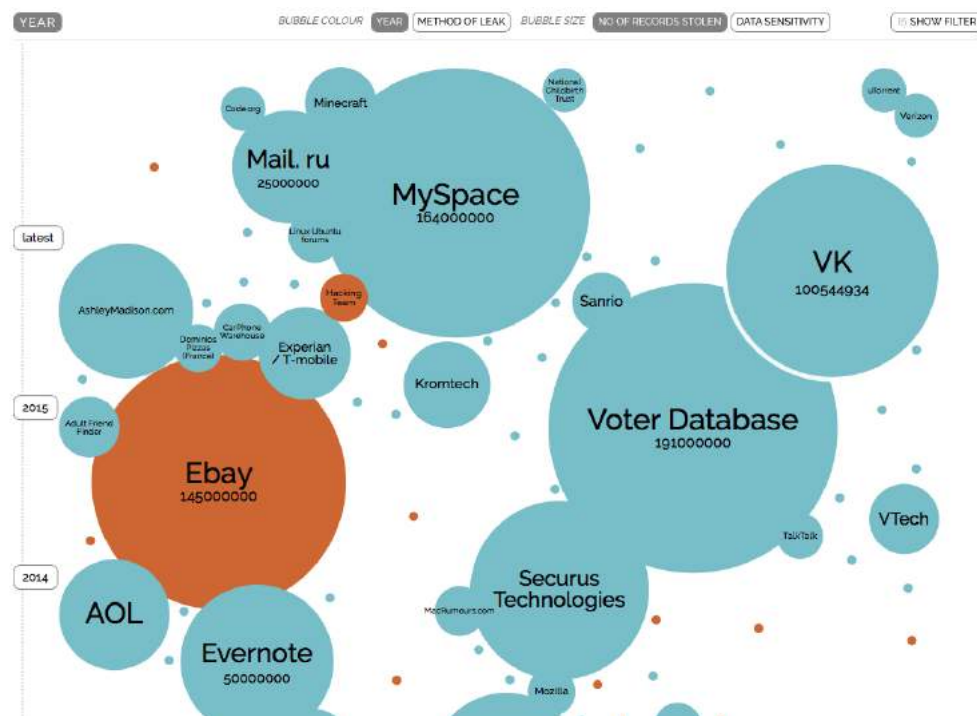
Stamp ID Lleida.net solution is designed to provide legal security in POS contracts using a mobile/tablet with part or all of the following steps:

- E-mail validation.
- E-mail checking.
- Phone number validation
- Mobile phone ownership validation using OTP (one time password)
- Identity card validation (automatic extraction of customer data). A picture front and back of the ID card is taken with a smartphone. Stamp ID receives the picture, extracts and compares it with the MRZ code to evaluate the validity of the document.
- A biometric signature .

The results from the analysis are sent to the on-line business with a legal certificate including date and time of delivery together with the sender's email and the certified delivery mailbox.

Stamp ID generates a certificate that becomes the proof of the correspondence between the two parties: the merchant and the customer. This registered electronic communication (whether SMS or e-mail) is in any case an item of legitimate documentary proof in court, and subject to the norms thereof. If unchallenged it constitutes legal proof or if the validity as proof were to be challenged then it is left to the Judge to decide its admissibility.

Largest data breaches of Websites 2014-2016



Source: Lleida.net

A2P SMS Customer Solutions

Lleida.net became a licenced telecommunications operator in Spain in 2005 and has since expanded into France, UK, US and Colombia among others mainly focused on the A2P (Application to Persons) SMS market. Lleida.net has build a customer business around servicing corporates in their SMS needs whether for promotional purposes (80% chance of SMS being read) or transactional ones. It is a far less crowded channel than email because of the costs involved in sending an SMS.

Demand for SMS is currently surging again in the A2P space because it has become the preferred way software developers want text to be communicated to users using their Applications. Smartphones are attracting more and more transactional activity, from travel and hotel reservations, taxi services, banking, etc. and SMS is tagging alongside them.

The global A2P SMS market is expected grow to \$78.61 billion by 2022 from the estimated \$55 billion worth today. Nevertheless, the use of SMS has experienced a profound change over the last 10 years with the emergence of OTT applications such as Whatsapp, Messenger, SnapChat, etc. inducing the collapse of P2P (Person to Person) SMS traffic across most jurisdictions.

There are broadly three aspects to the service provided by Lleida.net to its corporate customers: The first, is the ability to send and receive messages in large volumes; the second, to provide the tools to analyse the quality of the service in terms of certainly of receipt and/or delivery and third, providing a sweet of delivery platforms to suit the needs of its customers.

Traffic

On the mobile outbound traffic, Lleida.net is able to provide customers with individualized long numbers (owns over 500,000 of them) for every SMS sent. The standard service for mobile outbound is an SMS with global coverage through different quality routes: Direct routes, 1 Hub Routes or Economic routes

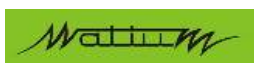
As far as the mobile inbound traffic is concerned, Lleida.net benefits from being an operator in 5 countries (Spain, France, UK, US, Colombia) with the corresponding local numbering in each country. Lleida.net users can receive messages to its numbering, allowing the user to engage in a two-way conversation to the benefit of both the corporate customer and Lleida.net that

charges a fee every time an SMS gets sent.

With a licence to send and receive messages as a telecommunications operator, it can also offer customers an international SMS dialogue between countries at domestic tariff rates. A Spanish company running a campaign in the UK can send SMS to the UK using a Lleida.net UK number so the UK customer can reply without having to send it to a Spanish number. This product is named to customers as TWIN.

There is another Lleida.net service named Stars that provides a coordination tool for sharing information amongst a group of people using SMS. This service allows a group of people to communicate simultaneously based on a single message sent from one number.

Selected SMS corporate customers



Source: Lleida.net

Quality of service

A customer service is measured in a number of ways but the most important is the guarantee of delivery and on time. Lleida.net is in a position to guarantee this higher quality service at a more competitive pricing structure because it is a licensed telecommunications operator (as opposed to aggregators that are not). Their own internal systems constantly monitor in real time the best and less saturated routes with which to transmit SMS more effectively.

Lleida.net provides its corporate customers with MNP (Mobile Number

Portability), which tells the operator who is running what mobile number around the world. The portability database is updated daily to optimize SMS and calls, choosing also the more suitable route to reduce operational costs. The ENUM (Electronic Number Mapping) queries have become essential requirements in LTE technology.

In parallel, the company runs the HLR (Homo Location Register), a service that checks on real time the operator and mobile number status (exists or not and if active). Useful to know if the recipient is available, if the terminal is turned off, in roaming, or call blocking, or if an SMS is being sent to an inactive phone.

Delivery platforms

Customers can SMS, MMS or SMS2email using Lleida as their telecomm operator from different platforms.

From Traditional text messages SMS with all the advantages of sending and receiving them via a licensed operator to Multimedia messaging service MMS by complementing text messages with images, videos and audio content. The service can include the reception on SMS on email by linking the mobile number to an email account.

The following platforms are offered to Lleida.net customers:

- **APIs:** Integrate API's seamlessly into all current programs or applications. Assistance and integration support to all API's.

Lleida.net developers network



Protocol

Implement your own solution using **SMPP** protocol or Lleida.net in-house **SMSMass** protocol.



SDK

Speed your own implementation using one of our libraries for **.Net, Java** or **PHP**.



API

Access all Lleida.net services through our **HTTPS** API's.

Source: Lleida.net

- **Cloud:** Ability to manage your services from anywhere with an Internet connection.
- **FTP:** Prepares customer data, transferring it to the company's

servers and can be resent on behalf of customers.

- **Bespoke:** Bespoke solutions for customers' requirements.
- **DealIn9':** Tablet application to formalize transactions in a legal and secure manner.

ICX: Interconnection services

Lleida.net SMS hub services are part of a global infrastructure created to improve for the flow of international SMSs between telecom operators. Lleida.net benefits from being a communications operator member of the GSMA, a network that makes possible to send and receive SMS on the back of the interconnection agreements established with mobile and virtual mobile phone operators.

Complex roaming agreements are a major challenge because it entails multiple payment schemes, legal and regulatory requirements and coordination of routing policies. The existence of an SMS hub enables operators to increase their global connectivity without bilateral roaming agreements. As far as Lleida.net is concerned, this means direct connections with more than 40 operators ensuring a global reach to over 1,500 international networks.

Selected ICX customers



Source: Lleida.net

The service is provided with the full coverage of mobile number portability (MNP) and proof of delivery report, SMS reception (MO), SMS sending (MT) and two-way messages, and delivery from and to any type of system (GSM, CDMA, etc.). Similar to the service offered to corporate customers the portability database is updated daily to optimize SMS messaging.

There are also a number of features embedded into the services provided to other operators to protect the integrity of the network and its revenues, basically in relation to avoid Spam and Grey Routes:

Filtering to detect and avoid SPAM. This service is customized on the parameters set by the customer and can range from a simple static list of prohibited terms to the use of machine learning systems that work in real time. These systems take into account both the rate of send and the content of messages like email filtering systems work.

Grey Routes: Lleida.net monitors incoming grey routes for customers as well, which is a well-known and understood method of avoiding interconnection fees. Grey routes are a way of sending SMS via an operator where the entity sending and/or their supplier do not have a commercial agreement or relationship with the receiving operator. An example of grey routes is where A2P traffic is generated and sent over Sims (installed in modems) intended for P2P uses. With enough Sims installed large volumes of traffic can be sent at low prices always trying to avoid getting caught by filtering or being blocked as the controlling operators believe the SMS sent is not being generated by an individual.

Financial Review

Lleida.net is essentially a growth story because its main business areas are expected to continue to expand going forwards. In the short term, both competition and the change of business mix have introduced a number of distortions in the Profit and Loss account that cannot be easily understood by just the headline numbers. In our analysis, we break down the components of growth by division to better understand both the short term as well as the long-term profit dynamics of the company.

The underlying trend in the financials of Lleida.net is one of a shift from lower margin SMS to higher margin software services, in the context of expanding sales. Our long terms projections anticipate Ebitda margins to head towards the 10%-15% level in the context of a 5% to 15% rate of sales growth.

Going back over the past 3 years, the supporting evidence is a mixed one. The sales growth rate has averaged 11% despite the set back in 2015 but the Ebitda margin has been in negative territory, which may suggest that Lleida.net is lagging on this account. This is explained in part by the emergence of the software side of the business being a relatively recent venture. It has required an initial investment in terms of product development and an expensive marketing effort that has weigh down on profit margins. This is where we think Lleida-net is close to an inflection point based on the kinds of Software sales growth we are seeing.

(€ millions)	2014	2015	2016e	2017f	2018f
Sales by division					
Certified Comm	0.3	0.6	0.9	1.2	1.5
Data Validation	0.5	0.5	0.8	1.0	1.3
Software	0.8	1.1	1.7	2.1	2.7
SMS Solutions	2.7	2.8	3.4	3.7	3.9
ICX	5.6	4.4	3.1	3.6	3.8
Telecomm	8.3	7.2	6.5	7.3	7.7
Sales by division (%)					
Certified Comm	4	7	11	12	14
Data Validation	5	6	9	10	12
Software	9	13	20	23	26
SMS Solutions	29	33	42	39	37
ICX	62	53	37	38	36
Telecomm	91	86	79	77	73

Profit and Loss Account

Lleida.net turnover reached €8.4 million in 2015 (-8%) and it is expected to fall just slightly again in 2016. From a sales perspective, all business lines are on a growth path except ICX that has experienced a contraction that started already in 2014.

The growth of communication software solutions remains very robust with estimated on-going gross margins of around 90%. Certified communications is a growing success because it replaces far more expensive physical delivery and *Buro-Fax* (a fax sent by the Postal Service with a certification of both content and delivery) type services that can be 20x to 100x more expensive. Legalistic countries demand a high burden of proof on any type of notifications and hence the demand for such services.

SMS Solutions are growing at a more moderate rate and remain a stable source of business for the company. The larger corporates tend to be more price sensitive but in general there is quite a high degree of customer loyalty. ICX is more unpredictable and was particularly under intense price pressure in the Spanish market during 2015. We would expect some of the more irrational market participants to moderate its pricing aggression.

Counter-intuitively Lleida.net's reported decline in headline sales are not a reflection of a deterioration in business activity but rather a change in the mix of the business, for the most part. This is clearly reflected on the gross profit line, which has been growing fairly strongly despite.

In this regard, Lleida.net reported a €2.7 million gross profit in 2014 that rose to €3.0 million despite a difficult year in 2015 and is expected to reach €3.9 million in 2016. The reason being that ICX is expected to rebound strongly from the contraction seen during the last couple of years. In parallel, the software side of the business is expected to deliver some 50% growth with gross margins of around 90%.

On the operating cost side there is stability on a year to year basis and it's a reflection of the costs of personnel for the most part and its associated overheads and third party contractors. The cash element of the operating costs was under €4 million in 2015 and it is expected to remain at similar levels in 2016. This means an Ebitda break-even level compared to a loss of €0.9 million in 2015. We expect Ebitda to continue to rebound towards the €1 million level by 2018.

Below the operating line, financial costs are reflective of the €2 million in net debt of the company made up of an estimated €4 million between short and long term debt in 2016 coupled with a cash balance of around €2 million. We also expect an extraordinary payment (resulting from the settlement of a trade dispute) of €0.5 million that is expected to be reported in 2016 and a one time non-cash reversal of €0.4 million related to prior years R&D capitalized costs (the only consequence being that Lleida.net will not apply to the tax credits related to this reversal).

Corporate tax is almost negligible both due to the recent reported losses and the accumulated R&D tax credits. The reported profits, as we show them, are actually depressed by the removal of the tax credit as explained earlier.

(€ millions)	2014	2015	2016e	2017f	2018f
Turnover	9.1	8.4	8.2	9.5	10.5
Cap. costs (R&D)*	1.7	1.2	1.0	1.0	1.0
Cost of sales	-6.5	-5.4	-4.3	-4.9	-5.3
Gross Profit	2.7	3.0	3.9	4.5	5.2
% y-o-y growth	-19	14	29	16	15
<i>Gross Margin</i>	<i>29%</i>	<i>36%</i>	<i>48%</i>	<i>48%</i>	<i>50%</i>
Personnel Expenses	-1.8	-2.0	-2.0	-2.2	-2.2
Other SG&A	-1.4	-1.9	-1.9	-1.8	-1.9
Depreciation	-0.9	-1.1	-1.1	-1.1	-1.1
Other	0.0	0.0	0.0	0.0	0.0
Total Op. Costs	-3.2	-3.9	-3.9	-4.0	-4.1
% y-o-y growth	-17	22	0	3	3
Operating Income	0.3	-0.7	-0.1	0.4	1.1
<i>Operating Margin</i>	<i>3%</i>	<i>-8%</i>	<i>-2%</i>	<i>4%</i>	<i>10%</i>
Ebitda*	-0.5	-0.9	0.0	0.5	1.1
<i>Ebitda Margin</i>	<i>-6%</i>	<i>-10%</i>	<i>0%</i>	<i>6%</i>	<i>11%</i>
Financial Income	0.0	0.1	0.1	0.1	0.1
Financial Costs	-0.2	-0.1	-0.2	-0.1	-0.1
Extraordinaries	0.0	0.3	-1.0	0.0	0.0
Financial Results	-0.2	0.2	-1.1	-0.1	-0.1
Profit Before Tax	0.1	-0.5	-1.2	0.3	1.0
Tax	0.0	0.1	0.2	0.0	0.0
Net Income	0.1	-0.4	-1.0	0.3	1.0

* capitalized costs are excluded from the Gross Profit and Ebitda calculation

Balance Sheet

Lleida.net is essentially a service business and the balance sheet is a good reflection of the kind of resources that are devoted to this line of activity.

The most relevant elements of the balance sheet are made of the working capital to finance customer receivables coupled with the assumed value of the intangible assets of the company making up a total of €6.5 million. On the financial side, there were €4 million of cash and a €1.8 million in terms of investments in group companies making up for a total of €5.8 million. Between them they made up for 92% of the Balance Sheet.

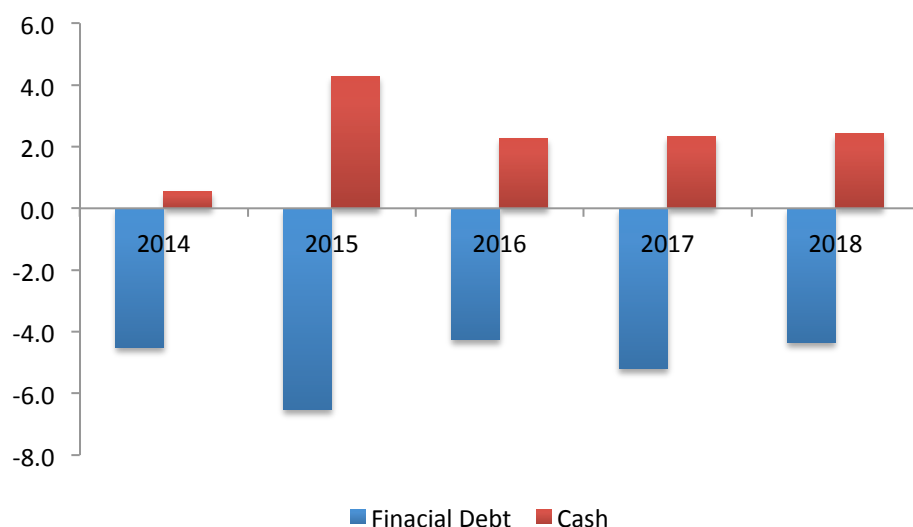
(€ millions)	2014	2015	2016e	2017f	2018f
Fixed Assets	5.9	6.7	6.5	6.6	6.8
Intangible Assets	3.9	4.3	3.9	4.0	4.1
Tangible Assets	0.4	0.4	0.4	0.5	0.5
Inv. in Group Companies	1.6	1.8	1.9	1.9	2.0
Other Investments	0.0	0.0	0.0	0.0	0.0
Deferred Assets	0.0	0.1	0.1	0.1	0.2
Current Assets	3.1	6.7	4.7	4.8	5.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	2.5	2.2	2.2	2.3	2.3
Inv. in Group Companies	0.0	0.0	0.0	0.0	0.0
Short Term Investments	0.4	0.3	0.3	0.3	0.3
Short term accruals	0.1	0.2	0.2	0.2	0.2
Cash	0.1	4.0	2.0	2.1	2.1
Assets	9.0	13.4	11.2	11.4	11.7

On the liability side, it is a very straightforward structure with 2015 reported financial debt of €7.6 million and trade creditors of €1.1 million. The financial debt is spread across a pool of financial institutions of which 60% is made up of short-term debt. With the recent capital injection of just over €4 million in 2015, Lleida.net remains on a robust financial position specially now we expect them to return to profitability.

(€ millions)	2014	2015	2016e	2017f	2018f
Shareholders Funds	2.1	5.9	5.0	5.3	6.3
<i>Capital</i>	0.2	0.3	0.3	0.3	0.3
<i>Share Premium</i>	0.3	5.2	5.2	5.2	5.2
<i>Reserves</i>	1.4	1.4	1.0	0.1	0.4
<i>Repurchase of share capital</i>	0.0	-0.7	-0.7	-0.7	-0.7
<i>Profit and Loss account</i>	0.1	-0.4	-1.0	0.3	1.0
Long Term Debt	2.5	2.7	2.8	2.9	3.0
Current Liabilities	4.5	4.9	3.5	3.2	2.4
Short Term Debt	2.0	3.8	1.7	1.4	0.5
Creditors	2.4	1.1	1.9	1.8	1.9
Liabilities	9.0	13.4	11.2	11.4	11.7

This is not a business that requires significant levels of capital investment since most of the equipment is leased and there is no real estate on its books, which means the profit and loss account is a good reflection of the cash flows of the business. The tangible assets are related to the office equipment that has to be purchased and very little else.

Cash and financial debt (€ millions)



Source: Lleida.net, Checkpoint

Going forwards we do not expect significant changes in the structure of the balance sheet, only a gradual improvement of the net debt position as the company moves to a cash flow positive scenario.

Differentiating elements of Lleida.net

The single most important element of the profit and loss account to consider of Lleida.net is the relationship between sales and gross profits. Given the nature of the SMS business (still more than 80% of revenues) there are years where a decline in Sales could actually translate into an increase in Gross Profits and vice versa. Other items to take into consideration are related to the reported capitalized R&D costs of the company and the fact Lleida.net still does not report consolidated numbers (will do so in the near term and we do not expect numbers to be materially different).

Our view of Gross Profits

The mechanics of sales and cost of sales at Lleida.net are as follows:

On the Cost of Sales side, the price paid by Lleida.net for its delivered SMS tends to range from 0 to 3 cents depending on a myriad of factors. When Lleida.net sets its pricing to the customer, it already knows the price it has to pay for delivery so their ICX team places an add-on price, normally shaped by the competition from other payers for that particular corporate client.

As an example, if the add-on price Lleida.net places on an SMS is 1 cent, it could be to a 0 cost destination or a 3-cent cost destination (depending on the jurisdiction). In the first instance, there is a 100% gross margin and in the second a 25% gross margin. This should mean that the sales headline number and the gross margins can mean very little because they can change very quickly depending on the mix of the business.

The concluding message is that the most reliable indicator of the health of the business of Lleida.net is the Gross Profit number and that headline Sales can mean very little.

Capitalized R&D costs can distort the profit and loss account

The current tax and accounting treatment of some R&D spending (in Spain) means it can be capitalized and treated like an investment. In addition, the central government tax authorities provide this R&D

spending with a 40% tax credit, which means that for every €100 spent on R&D the company can deduct €140 from its revenues to calculate its tax liability.

In the particular case of Lleida.net, the €1.1 million in capitalized costs reported in 2015 brings home a tax credit of around €440,000 that is equivalent to a €110,000 reduction (based on corporate tax of 25%) in the tax liability of the company. On a DCF basis, we estimate it to be worth up to €1.5 million assuming the tax authorities maintain the current incentives going forward in the context of a growing profit line.

When analysing the Profit and Loss accounts, it is probably better to remove the “distortion” created by this tax incentive, by taking the reported capitalized costs from the Ebitda calculations.

Subsidiaries are growing in importance and soon will be consolidated

The reported numbers of Lleida.net are of the parent company. Between the equity investment and the loans provided to their subsidiaries they total a €1.8 million financial exposure. The headline sales of this companies are around €0.3 million and part of those sales are reflected in the parent company by intra-company invoicing. The company is already making plans to start reporting full-consolidated accounts in the near future, although we do not expect a mayor change in the reported profit numbers.

Subsidiaries	Country	% stake	Investment(€)
Lleidanetworks Serveis Telemàtics Limited	Irlanda	100%	4
Lleidanet USA Inc	USA	100%	397.591
Lleidanet Honduras S.A	Honduras	70%	659
Lleidanet Dominicana SRL	República Dominicana	99,98%	10.128
Lleida SAS	Colombia	100%	25.829
Lleidanet Chile Spa	Chile	100%	3.257
Lleidanet do Brasil Ltda	Brasil	99,99%	10.800
Lleidanet Guatemala	Guatemala	80%	3.234
Lleidanet Costa Rica E.I.R.L	Costa Rica	100%	16
Portabilidades Españolas S.A	España	100%	3.000
Affiliates			
LleidaNetworks India Private Limited	India	25%	6.575

Source: Lleida.net

Valuation

We have calculated the sum of the parts valuation, which helps understand the overall value as made up of the divisions of the company. The more revealing aspect of the valuation is the software side of the business, given that in our view it makes up for more than 50% of the value of the company whilst it represents around 20% of its sales.

The software side of the business grows more rapidly and delivers higher margins, which means that are far more valuable than the headline sales numbers suggest. Based on a business that is growing at 50% with 90% gross margins (and assuming that 63% of the operating costs of the business are attributed to the software side) we arrive at a valuation of 5x sales 2016 expected sales. The more traditional telecom business is valued at 1.4x and 1.1x sales respectively.

To arrive at our sum of the parts valuation of €17 million we have assumed Lleida.net has the potential to deliver a 15% Ebitda margin in the context of a long term average growth in sales of 7%. We have used a WACC of 10.5%.

Sector	Division	DCF (€)	Year	P/Sales
Software	Certified	4.487.527	2016	5,0
			2017	3.9
	ID Validation	3.878.297	2016	5.1
			2017	3.9
Telecommunications	SMS	5.166.737	2016	1.5
			2017	1.4
	ICX	3.926.991	2016	1.3
			2017	1.1
	Sum of Parts	17.459.552		
	Net Debt	2.106.498		
	Equity Valuation	15.353.054		
	Per shr	0.95		
	Share Price	0.71		
	Upside	34%		

Listed MAB comparables

	Price (€)	Mkt. Cap. (€ m)	Net Debt			EV		
			2015 (€ m)	2016 (€ m)	2017 (€ m)	2015 (€ m)	2016 (€ m)	2017 (€ m)
Commcenter	1.53	10.1	11.7	12.3	12.6	21.8	22.4	22.7
Eurona	2.40	70.39	16.1	21.7	22.4	86.5	92.1	92.7
FacePhi	0.74	9.8	0.5	-0.1	-1.4	10.3	9.7	8.4
Gigas	2.85	12.2	1.6	2.0	1.8	13.7	14.2	13.9
Lleida.net	0.71	11.4	2.2	2.2	2.1	13.6	13.6	13.5
MasMóvil	26.06	519.9	153.1	1.144.0	1.086.4	459.0	1.664.0	1.606.3
Voz Telecom	2.54	11.4	3.3	1.1	1.5	14.8	12.5	12.9
Total		645.2	188.6	1.183.2	1.125.1	619.8	1.828.4	1.770.4

	Turnover			Ebitda			Net Profit		
	2015 (€ m)	2016 (€ m)	2017 (€ m)	2015 (€ m)	2016 (€ m)	2017 (€ m)	2015 (€ m)	2016 (€ m)	2017 (€ m)
Commcenter	55.5	59.4	63.5	1.7	2.1	2.4	0.5	0.9	1.1
Eurona	25.1	28.1	30.9	1.6	5.1	6.4	-6.5	-2.8	-1.7
FacePhi	0.4	2.4	3.7	-0.9	0.7	1.6	-0.8	0.6	1.3
Gigas	4.6	6.4	8.0	-0.2	0.8	1.6	-0.2	0.5	1.1
Lleida.net	8.4	8.2	9.5	-0.9	0.0	0.5	-0.4	-1.0	0.3
MasMóvil	130.2	1.165.6	1.212.2	8.1	103.5	112.4	-1.5	15.8	20.6
Voz Telecom	9.3	10.2	11.2	0.9	1.2	1.4	0.0	0.3	0.5
	233.5	1.280.3	1.339.0	10.3	113.5	126.3	-8.8	14.5	23.3

	EV/sales			EV/Ebitda			P/E		
	2015 (x)	2016 (x)	2017 (x)	2015 (x)	2016 (x)	2017 (x)	2015 (x)	2016 (x)	2017 (x)
Commcenter	0.4	0.4	0.4	12.7	10.5	9.3	19.9	11.7	9.4
Eurona	3.4	3.3	3.0	54.7	18.0	14.5	n.m.	n.m.	n.m.
FacePhi	25.3	4.0	2.3	n.m.	13.0	5.3	n.m.	15.6	7.3
Gigas	3.0	2.2	1.7	n.m.	17.4	8.7	n.m.	24.5	10.9
Lleida.net	1.6	1.7	1.4	n.m.	n.m.	24.7	n.m.	n.m.	33.7
MasMóvil	3.5	1.4	1.3	57.1	16.1	14.3	n.m.	32.9	25.3
Voz Telecom	1.6	1.2	1.1	16.2	10.6	9.2	518.3	36.6	20.9
	2.7	1.4	1.3	60.0	16.1	14.0	n.m.	44.6	27.7

An explanation of recent share price performance

During the last 12 months the market capitalization has lost some 40% or €7.5 million of its value since IPO, attributable mostly to the reported 2015 results (announced on January 10th 2016) that failed to meet market expectations. In comparison during this period the IBEX-35 lost some 15% of its value (mostly associated to the banking sector performance) given that the IBEX Small Cap index still remains at similar levels as a year ago, following the recent gains.

The market was expecting in 2015 for Lleida.net a turnover of some €12 million and a headline Ebitda (before adjustments for the capitalization of R&D costs) of around €2 million. The reported numbers revealed sales of €8.4 million (30% below) and a headline Ebitda of €0.4 million (80% below).

The reason for the disappointment in numbers is primarily due to the aggressive entrance of a new competitor into the Interconnexion market in Spain that resulted in a 21% decline in sales for the year at Lleida.net (with a virtual collapse in ICX business generated within Spain during the 2H15). The impact was felt particularly strongly in 2015 because a year earlier, in 2014, the Interconnexion business was responsible for 60% of the total turnover of the company.

The other three business lines at Lleida.net grew in 2015 by a combined 11% with the Certified Communications division doing particularly well with an 80% increase (albeit from a small base).

In 2016, we still expect the ICX division to lag behind in terms of sales (we look for sales to decline again in 2016) although margins are expected to improve. Alternatively, the other three divisions combined are projected to rise by 30% in 2016 specially on the back of the superior rates of growth of the software divisions (Certified Communications and ID Validation) that stand to deliver sales growth of around 50% for the year.

In financial terms, we perceive the value lost by the new Interconnexion market reality to be around €3.3 million or 20 cents per share, compared to the €7.5 million or 47 cents per share lost in the value of Lleida.net shares. Having said this, we remain confident the management has the means to stay at the competitive forefront of the Interconnexion market in Spain and once the market stabilizes they will stand to benefit an equivalent or even greater amount of what they lost in 2015.

Appendix I: Patents granted and pending

Method for the registration and certification of receipt of electronic mail

US (20140115073) - 24.04.2014

WO(WO/2014/060569) - 24.04.2014

EP(2723023) - 23.04.2014

CL (947-2015) – Patent granted

The object of the invention is a method to receive e-mail from any transmitting user in a specific e-mail address, generating proof of all the operation transactions to deliver a certificate to the transmitting user as a trusted third party of the sending and delivery of an e-mail, indicating the content and the attachments, by the steps of reception in a mail server, sending of a copy to the recipient, its itemization in a database and its registration in the client register and database, where finally a data processing unit creates an electronic receipt with the transactional data, the data sent, the attachments and it digitally signs it creating the certificate that it sends to the initial user.

Method for certifying the sending of electronic mail

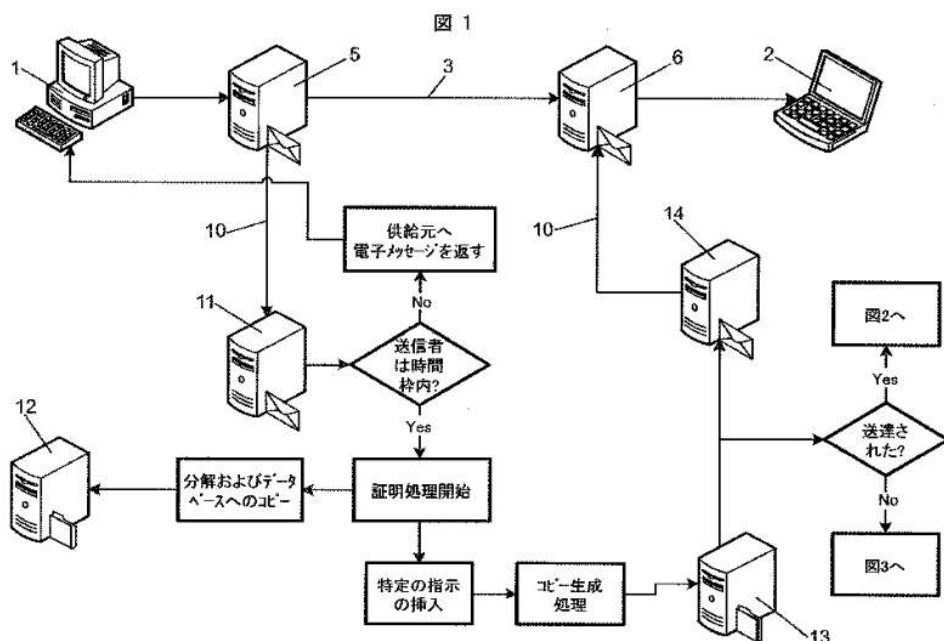
WO(WO/2013/124511) - 29.08.2013

US (9432328) – 20.08.2016 – Patent granted

JP (2014-555270) – 05.2016 – Patent granted

The invention relates to a method for the receipt and delivery of electronic mail by a sender in relation to a receiver, generating proof of the entire transaction of the operation so that a certificate is delivered to the sender as a trusted third party. For this purpose, the method includes steps comprising: reception, in a mail server (11), of a copy of a first electronic message sent by the sender (1) to the receiver (2); and the subsequent sending of the copy of the first electronic message to the receiver (2) together with a specific indication, such that the receiver (2) receives, from a mail server (14), a second electronic message which is a copy of the first electronic message and which includes the specific indication. Finally, a data processing unit (11) creates an electronic receipt with the transaction data of the sent copy and digitally signs same, creating the certificate (4) that is sent to the initial user (1).

Method for certifying the sending of electronic mail: JP,2015-513236,A



Source: Japan Patent office

Method for certifying delivery of SMS/MMS data messages to mobile terminals

WO (WO/2013/124512) - 29.08.2013

EP (2632097) - 28.08.2013

The invention relates to a method that allows a telecommunications operator to deliver data messages, to digitally sign same and to deliver said messages along with a certificate to the user. The method includes steps comprising: the creation of a data message via a user interface (1); the sending of the data message to the destination; the reception of a delivery notification for the data message sent to the destination; the creation, in a data processing unit (5), of an electronic receipt containing at least data relating to the sender, the send date, the content and notification data relating to the delivery of the data message sent; the application of a digital signature algorithm to the electronic receipt for the creation of a certificate; and the sending of the certificate to the sender via the mail server (4).

Method for certifying delivery of electronic messages

EP (2632096) - 28.08.2013

The object of the invention is a method to receive and send electronic mail from a transmitting user to a recipient, generating proof of the operation transactions to submit the transmitting user a certificate as a trusted third party. To that end, it features the steps of reception in a mail server (11) of a copy of the first electronic message sent by the transmitting user (1) to the recipient (2), the later delivery of a copy of the first electronic message to the recipient (2) together with a particular indication, so that the recipient (2) receives (14) a second electronic message copy of the first electronic message from the mail server, which comprises that particular indication. Finally, the data processing unit (11) creates an electronic document with the transactional data of the delivered copy and signs it digitally creating a certificate (4) that is sent to the initial user (1).

Method for the certification of data messages transmission to mobile terminals

US (20130218990) - 22.08.2013

The invention consists of a method so that a telecommunications operator can deliver data messaging, digitally sign it and deliver it to the user with a certificate.

The method has the following steps:

- Creation of a data message through a user interface,
- Delivery of the data message to the destination,
- Reception of a delivery notification of the data message sent to the destination,
- Creation in the data processing unit of an electronic document that comprises at least issuing user data, date of issuance, content and delivery notification data of the message sent,
- Implementation of a digital signature algorithm to the electronic document for the creation of a certificate,
- Delivery of the certificate to the user through the mail server.

Method for the certification of electronic mail delivery

US (20130218989) - 22.08.2013

The object of the invention is a method to receive and send electronic mail from a transmitting user to a recipient, generating proof of the operation

transactions to submit the transmitting user a certificate as a trusted third party. To that end, it features the steps of reception in a mail server of a copy of the first electronic message sent by the transmitting user to the recipient, the later delivery of a copy of the first electronic message to the recipient together with a particular indication, so that the recipient receives a second electronic message copy of the first electronic message from the mail server, which comprises that particular indication. Finally, the data processing unit creates an electronic document with the transactional data of the delivered copy and signs it digitally creating a certificate that is sent to the initial user.