

Lleida.net

BUY

Pausing for breath in 1Q19, growth outlook remains positive

Analyst: Guillermo Serrano - gfs@checkpoint-partners.com

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Lleida.Net has released 1Q19 results with a reported profit before tax decline of 60% to €38k relative to a year ago. In 2018, the company reported a full year profit before tax of €414k versus €48k in 2017.

The decline in 1Q19 pre-tax profits is mostly attributable to a 3% drop in reported Gross Profits combined with an 6% increase in Operating Costs (or 1% increase when capitalized R&D costs are included).

A the 20% fall in SMS ICX revenues, following a stellar year (+51%) in 2018, was the main culprit. The SMS Solutions division came partly to the rescue, rising by 10% to €709k in the quarter, but SaaS did not follow through and fell 5% to €781k in 1Q19. Nonetheless, SaaS revenues were encouragingly 8% and 7% stronger than 3Q18 and 4Q18 respectively.

The SMS ICX division is structurally less predictable (in the absence of long term contracts) and has a particularly tough comparison with last year. The slowdown in the Spanish economy and Lleida.Net exposure to consumer-finance clients, explains the slight fall in SaaS.

The reported Ebitda declined 18% to €319k and the Ebitda (excl. capitalized R&D) dropped by 64% to €80k.

Despite the lower than expected result, we continue to expect 2019 a growth year for Lleida.net, largely on the back of their international expansion (Latin America, Africa and Middle East) and new product development (EiDAS).

We are conscious 1Q19 numbers were somewhat behind, so we are lowering our 2019 and 2020 EPS estimates to €0.07 (€0.10) and €0.09 (€0.11) and our target price to €1.40 (€1.53).

Equities

Spain

Telecom/Software Services

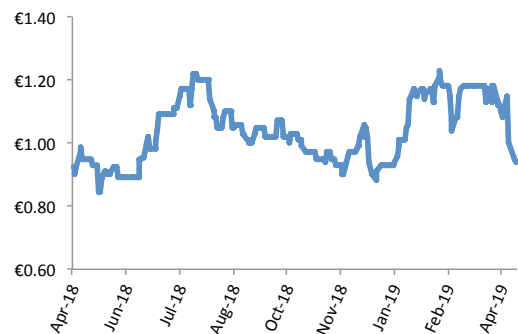
Price (4 pm 23/04/19): €0.94 (LLN.MC), €1.21 (ALLLN.PA)

Target Price: €1.40

Trading Data

52 week range (€): 0.84 - 1.23
 Mkt Cap (€ millions): 16.04
 No. Shares (millions): 16.04
 Avg Daily vol (€ LTM): 6,808

Share Price Chart (LTM)



(€ millions)	2017a	2018a	2019f	2020f
Turnover	9,9	12,4	13,2	14,4
Ebitda	0,5	0,9	1,5	2,0
Net Profit	0,0	0,2	1,1	1,5
EPS	0,00	0,02	0,07	0,09
Net Debt	2,4	1,9	1,1	-0,1
EV/Ebitda	36,8	19,6	11,0	7,6
P/E	408,0	61,8	14,0	10,1
FCY	2%	4%	8%	11%

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Review of consolidated 1Q19 results: hit by volatility of an SMS ICX division and a demand drop in consumer credit in Spain.

A slow start of 2019 for Lleida.net, following a robust 2018 of Sales, Ebitda and Net Profit growth of 25%, 106% and 357% respectively. In this 1Q19, Sales, Ebitda and Net Profit fell by 10%, 18% and 60% respectively.

1Q19 has been a cross current of events within Lleida.net, with a number of indicators pointing towards continued growth whilst the very short term has been hit a sharp 20% drop in SMS ICX activity. This business area does tend to be more price sensitive, devoid of long-term contracts and therefore less predictable than the other two divisions. Last year, sales grew by 51% which has meant the comparisons were also that much more difficult.

Despite this initial setback at SMS ICX during the first three months of the year, the outlook remains again positive as some of the staff changes during the middle of last year begin to reap its fruits during the remainder of 2019.

Despite some encouraging increases in SaaS activity, particularly coming from recently acquired clients in South Africa, overall SaaS reported sales declined by 5% in the quarter relative to a year ago. The reason being, 1Q19 has been clouded by a contraction in the consumer finance activity of some of its key customers, probably related to the perceived slowdown in the Spanish economy. On-line consumer finance operations are heavy consumers of e-contracting, e-notification and KYC SaaS solutions provided by Lleida.net.

The outlook in this particular division for the remainder of the year is nonetheless more than positive as evidenced by the reported increases in the SaaS contracting activity (a leading indicator of future sales). There are currently 238 live SaaS contracts relative to just 68 SaaS contracts in 1Q18, mostly related to projects with larger clients with a long term interest of working with Lleida.net (as opposed to the non-contractual demand for off-the self API's coming from IT programmers).

The good news came from the customer driven SMS solutions division with a reported 10% increase in sales in 1Q19. Last year, this division showed a 5% drop largely because most of the commercial focus was placed on the higher margin SaaS products.

The reported Ebitda fell by 18% and excluding the capitalized R&D it dropped by 64%. The main driver behind this drop falls solely with the reported Gross Margin drop of 3%, given that the 8% operating cost increases seen in 1Q19 are trending

up at the same rate as in 2018. At the non-operating level, there was a slight drop in financial costs to €20k largely as a result of the decline in financial debt, otherwise there was a slight FX profit of €25k as well yielding in a small €5k non-operating result.

(€ 000')	1Q18	2Q18	3Q18	4Q18	1Q19	% y-o-y
Software Services	819	803	725	732	781	-5
SMS Solutions	647	779	518	724	709	10
ICX	1.675	1.558	1.815	1.575	1.343	-20
Turnover	3.141	3.140	3.058	3.031	2.833	-10
Cost of sales	-1.597	-1.676	-1.632	-1.434	-1.337	-16
Gross Profit	1.544	1.464	1.426	1.597	1.496	-3
<i>Gross Margin</i>	49%	47%	47%	53%	53%	7
Capitalized costs (R&D)	166	162	224	235	239	44
Personnel Expenses	-690	-645	-659	-692	-755	9
Other SG&A	-630	-459	-466	-721	-667	6
Depreciation	-290	-283	-290	-289	-286	-1
Other	0	4	-5	19	6	n.m.
Total Operating Costs	-1.610	-1.383	-1.420	-1.683	-1.702	6
Operating Income	100	243	230	149	33	-67
<i>Operating Margin</i>	3%	8%	8%	5%	1%	-63
Ebitda	390	526	520	438	319	-18
<i>Ebitda Margin</i>	3%	8%	8%	5%	1%	
Ebitda*	224	364	296	203	80	-64
<i>Ebitda Margin</i>	7%	12%	10%	7%	3%	
Extraordinaries	0	0	-107	-87	0	n.m.
Financial Costs	-22	-31	-15	-23	-20	-9
FX	17	-31	-34	33	25	47
Non-op. Results	-5	-62	-156	-77	5	n.m.
Profit Before Tax	95	181	74	72	38	-60
Cash Flow	202	329	179	74	54	-73

* Ebitda with no exceptional items and no R&D capitalization

Source: Lleida.Net, Checkpoint Partners

Outlook for the remainder of 2019: with more caution, we remain confident of future growth

We are lowering our 2019 and 2020 EPS estimates to €0.07 (€0.10) and €0.09 (€0.11) and our target price to €1.40 (€1.53). Despite our lower expectations, we still **expect a 15% increase in Gross Profits, a 35% increase in reported Ebitda (+52% in cash Ebitda) and a 219% in Profits before Tax** for the whole of 2019.

Lleida.net remains an equity growth story benefiting from the increased digitalization of economic transactions. Its communication and software products provide the legal security, at an affordable cost, that is required by the parties involved in the process in an environment that is increasingly abandoning paper. Lleida.net remains a strong a competitive player in the space, with over 100 granted patents, to continue to benefit from the growth in the market.

The recent award of the **EiDAS certificate for eDelivery has lifted its profile and potential to sell is SaaS solution across Europe**. There are around 8 companies accredited to provide such a service in Europe, relative to over 100 for eSignatures, which provides some visibility over the level of competition in this segment of the contracting process. Lleida.net continues to be in a sound position for continued growth.

The **SMS ICX division has been an unmitigated success at Lleida.net** despite the setback this 1Q19. Its success has not been the product of coincidence, but rather from the build-up of an international network backed by an internally created software SMS traffic system. Most mobile operators around the world prefer to delegate the relatively marginal international SMS traffic to specialist players like Lleida.net.

Demand for SMS continues to surge 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. 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.

The SMS Solutions division, focused on servicing corporate clients directly, has demonstrated its **resilience this 1Q19 on the back of the strength of its franchise in the market**.

There are broadly three aspects to the service provided by Lleida.net to its

corporate customers:

- **The ability to send and receive messages in large volumes:** 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.
- **Provide the tools to analyse the quality of the service in terms of certainly of receipt and/or delivery:** internal systems constantly monitor in real time the best and less saturated routes with which to transmit SMS more effectively.
- **Provide a sweet of delivery platforms to suit the needs of its customers:**
 - **APIs:** Integrate API's seamlessly into all current programs or applications. Assistance and integration support to all API's.
 - **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.

From a valuation perspective, we find the current drop in the share price as an opportunity to buy. Our projected PE multiple of 14x and a Cash Flow yield of 8% on our 2019 estimates are still undemanding for an essentially growth story like Lleida.net.

The company's balance sheet is also strong and despite the lower than expected result in 1Q19, net debt dropped by €105k relative to YE2018. The cash balance of €1.8 million almost matches the €2.2 million in short-term financial debt, which combines with a very modest €1.4 million of long-term debt. The strength of the balance sheet may also open the door for inorganic opportunities, where management has indicated it will be looking for synergistic and accretive transactions.

We maintain our BUY recommendation unchanged.

Profit and Loss (consolidated)

(€ millions)	2017	2018	2019f	2020f
Sales by division				
Software Services	2,7	3,1	3,7	4,3
SMS Solutions	2,8	2,7	2,9	3,0
ICX	4,4	6,6	6,6	7,1
Sales by division (%)				
Software Services	27%	25%	28%	30%
SMS Solutions	29%	22%	22%	21%
ICX	44%	54%	50%	49%
Turnover	9,9	12,4	13,2	14,4
Cost of sales	-4,6	-6,3	-6,3	-6,8
Gross Profit*	5,2	6,0	6,9	7,6
<i>% y-o-y growth</i>	27%	15%	15%	10%
<i>Gross Margin</i>	53%	49%	52%	53%
Capitalized costs (R&D)*	0,8	0,8	0,9	0,9
Personnel Expenses	-2,3	-2,6	-3,0	-3,1
Other SG&A	-2,4	-2,5	-2,5	-2,6
Depreciation	-1,1	-1,2	-1,0	-1,0
Total Operating Costs	-5,8	-6,3	-6,5	-6,7
<i>% y-o-y growth</i>	13	8	3	4
Operating Income	0,2	0,5	1,3	1,8
<i>Operating Margin</i>	2%	4%	10%	13%
Ebitda	1,3	1,7	2,4	2,9
<i>Ebitda Margin</i>	13%	13%	18%	20%
Ebitda (ex-capitalizations)	0,5	0,9	1,5	2,0
<i>Ebitda Margin</i>	5%	7%	11%	14%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	-0,1
FX and Other	-0,1	0,0	0,0	0,0
Financial Results	-0,2	-0,1	-0,1	-0,1
Profit Before Tax	0,0	0,4	1,3	1,7
Tax	0,0	-0,1	-0,2	-0,3
Net Income	0,0	0,2	1,1	1,5
Cash Flow	0,3	0,6	1,2	1,6

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2017	2018f	2019f	2020f
Fixed Assets	4,6	4,4	4,5	4,6
Intangible Assets	3,8	3,8	4,0	4,1
Tangible Assets	0,4	0,3	0,4	0,4
Inv. in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,2	0,2	0,2	0,2
Deferred Assets	0,1	0,0	0,0	0,0
Current Assets	4,1	4,5	5,0	6,3
Inventory	0,0	0,0	0,0	0,0
Debtors	2,3	2,4	2,8	3,2
Short Term Investments	1,0	0,7	0,7	0,7
Short Term Accruals	0,2	0,2	0,2	0,3
Cash	0,5	1,1	1,2	2,1
Assets	8,6	8,9	9,5	10,9
Shareholders' Funds	2,9	3,1	4,1	5,6
<i>Capital</i>	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2
<i>Reserves</i>	-1,9	-1,9	-1,6	-0,5
<i>Repurchase of share capital</i>	-0,9	-1,0	-1,0	-1,0
<i>Profit and Loss account</i>	0,1	0,3	1,1	1,5
Long Term Debt	1,1	1,4	0,6	0,3
Current Liabilities	4,6	4,4	4,8	5,0
Short Term Debt	2,8	2,3	2,4	2,4
Provisions	0,0	0,1	0,1	0,1
Creditors	1,8	2,0	2,3	2,5
Liabilities	8,6	8,9	9,5	10,9
(€ millions)				
Working Capital	0,5	0,4	0,6	0,7
Debtor Turnover (days)	84	70	73	77
Creditor Turnover (days)	63	60	67	71
Financial Debt	4,0	3,7	3,0	2,7
Cash	1,5	1,8	1,9	2,8
Net Debt	2,4	1,9	1,1	-0,1

Source: Lleida.net and Checkpoint Partners

Sum of the parts valuation

Sector	Division	DCF (€)	Year	EV/Sales	EV/Ebitda
Software	Saas	10,5	2019	2,9	29,9
			2020	2,5	17,2
Telecom	SMS	4,5	2019	1,5	10,5
			2010	1,5	10,2
	ICX	9,4	2019	1,4	10,7
			2020	1,3	9,0
Sum of Parts		24,5	2019	1,9	14,7
			2020	1,7	11,7
Net Debt		1,8			
Equity Valuation		22,7			
Per shr		1,40			
Share Price		0,94			
Upside		49%			

Source: Checkpoint Partners

To arrive at our sum of the parts valuation of €24.5 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 9.2%.

This quarter we have reduced our target price to €1.40 per share, from €1.53 before.

Comparable Valuations

	Price	Mkt Cap.	Net Debt			EV		
	(17/4/19)		2017	2018e	2019e	2017e	2018e	2019e
	(€)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	
Altia	20,20	138,9	-16,4	-20,0	-23,4	122,5	119,0	115,5
Catenon	0,49	9,2	3,7	3,5	6,0	12,9	12,7	15,1
Commcenter	1,00	6,6	8,6	7,0	6,2	15,2	13,6	12,8
Eurona	0,53	22,4	91,8	120,9	146,7	114,2	143,2	169,1
FacePhi	2,21	29,3	2,1	2,3	3,3	31,4	31,6	32,6
Gigas	6,52	27,9	1,8	2,3	2,0	29,7	30,2	29,9
Lleida.Net	1,00	16,0	2,4	1,9	1,1	18,5	17,9	17,2
Voz Telecom	4,28	19,2	2,4	2,9	2,9	21,6	22,1	22,1
Total		269,6	96,4	120,8	144,7	366,0	390,3	414,3

Stock	Shares	Price	Cost	Price	Valuation	Diff.	Return
	(#)	(01/01/18)	(€)	(17/04/19)	(€)	(€)	(%)
		(€)		(€)			
Altia	61	16,39	1.000	20,20	1.232	232	23
Catenon	1.613	0,62	1.000	0,49	790	-210	-21
Commcenter	758	1,32	1.000	1,00	758	-242	-24
Eurona	474	2,11	1.000	0,53	251	-749	-75
FacePhi	917	1,09	1.000	2,21	2.028	1.028	103
Gigas	287	3,48	1.000	6,52	1.874	874	87
Lleida.Net	1.493	0,67	1.000	1,00	1.493	493	49
Voz Telecom	513	1,95	1.000	4,28	2.196	1.195	119
Total			8.000		10.621	2.620	33

Source: MAB, Checkpoint Partners

	Turnover			Ebitda			Net Profit			Cash Flow		
	2017 (€ m)	2018 (€ m)	2019e (€ m)	2017 (€ m)	2018 (€ m)	2019e (€ m)	2017 (€ m)	2018 (€ m)	2019e (€ m)	2017 (€ m)	2018 (€ m)	2019e (€ m)
Altia	64,7	69,3	72,1	8,9	9,8	9,5	6,1	6,8	6,8	7,0	7,6	7,7
Catenon	8,1	8,1	8,7	1,3	1,3	-2,0	-0,1	0,5	-2,2	0,7	1,1	-1,5
Commcenter	47,5	43,3	45,1	1,9	1,4	0,2	0,0	-0,4	-1,5	1,6	1,3	0,3
Eurona	118,8	77,2	78,0	-4,3	-1,7	-0,4	-28,1	-30,1	-26,6	-13,1	-14,2	-11,5
FacePhi	2,7	4,5	5,1	0,5	0,8	1,1	0,5	1,2	1,1	0,4	1,1	0,9
Gigas	5,9	8,7	10,0	0,4	1,4	2,2	-0,5	-0,1	0,4	0,4	1,1	1,7
Lleida.Net	9,9	12,4	13,2	0,5	0,9	1,3	0,0	0,2	1,0	0,3	0,8	1,7
Voz Telecom	9,7	10,5	11,3	-0,3	0,4	0,8	-1,5	-0,6	0,0	-0,4	0,3	0,7
	267,3	233,9	243,4	9,0	14,3	12,7	-23,5	-22,5	-20,9	-3,1	-1,0	-0,1

	Turnover growth			Ebitda growth			Net Profit growth			Cash Flow Growth		
	2017 (€ m)	2018 (€ m)	2019e (€ m)	2017 (€ m)	2018 (€ m)	2019e (€ m)	2017 (€ m)	2018 (€ m)	2019e (€ m)	2017 (€ m)	2018 (€ m)	2019e (€ m)
Altia	-3%	7%	4%	-4%	10%	-4%	-3%	10%	1%	-4%	8%	1%
Catenon	-43%	0%	8%	-	-1%	-	-97%	-	-	-	53%	-
Commcenter	-15%	-9%	4%	-	-26%	-84%	-	-	259%	-	-22%	-79%
Eurona	-26%	-35%	1%	-	-60%	-74%	135%	7%	-12%	-	9%	-19%
FacePhi	35%	66%	14%	-	65%	37%	-	151%	-10%	-	166%	-12%
Gigas	23%	46%	15%	-	236%	59%	-36%	-70%	-	-	216%	52%
Lleida.Net	25%	25%	7%	-	82%	52%	0%	561%	328%	-	181%	121%
Voz Telecom	4%	8%	7%	-	-	82%	65%	-61%	-94%	-	-	116%
	0%	-12%	4%	-8%	59%	-12%	87%	-4%	-7%	-222%	-66%	-93%

	EV/sales			EV/Ebitda			P/E			FCY		
	2017 (x)	2018 (x)	2019e (x)	2017 (x)	2018 (x)	2019e (x)	2017 (x)	2018 (x)	2019e (x)	2017 (x)	2018 (x)	2019e (x)
Altia	1,9	1,7	1,6	13,7	12,1	12,2	22,6	20,5	20,4	5%	5%	6%
Catenon	1,6	1,6	1,7	9,9	9,8	-	-	19,9	-	8%	12%	-17%
Commcenter	0,3	0,3	0,3	7,9	9,5	57,0	347,7	-	-	24%	19%	4%
Eurona	1,0	1,9	2,2	-26,7	-82,7	-376,0	-	-	-	-58%	-64%	-52%
FacePhi	11,6	7,1	6,4	63,3	38,6	29,0	62,0	24,7	27,4	1%	4%	3%
Gigas	5,0	3,5	3,0	73,2	22,1	13,8	-	-	72,2	1%	4%	6%
Lleida.Net	1,9	1,5	1,3	38,8	20,7	13,0	434,0	65,7	15,4	2%	5%	11%
Voz Telecom	2,2	2,1	2,0	-	50,9	27,9	-	-	-	-2%	2%	3%
	1,4	1,7	1,7	40,7	27,2	32,7	-	-12,0	-12,9	-1%	0%	0%

Source: Checkpoint Partners

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 20% during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of -20% to +20% during the next 12 months time
- **Sell:** the stock is expected to generate total return under -20% during the next 12 months time horizon.

Our rating system applies to companies with market capitalizations of below €50 million that in most cases refer to stocks that are illiquid and more volatile than its larger sized peers.

History of recommendations

Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
27.10.2016	BUY	0,71	0,95	12 months	Guillermo Serrano
16.01.2017	BUY	0,62	1,05	12 months	Guillermo Serrano
28.04.2017	BUY	0,66	1,25	12 months	Guillermo Serrano
20.07.2017	BUY	0,75	1,25	12 months	Guillermo Serrano
26.10.2017	BUY	0,52	1,13	12 months	Guillermo Serrano
31.01.2018	BUY	0,80	1,13	12 months	Guillermo Serrano
16.03.2018	BUY	0,84	1,13	12 months	Guillermo Serrano
17.03.2018	BUY	1.11	1.53	12 months	Guillermo Serrano
17.07.2018	BUY	1.15	1.53	12 months	Guillermo Serrano
17.10.2018	BUY	1.03	1.53	12 months	Guillermo Serrano
24.01.2019	BUY	1.06	1.53	12 months	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 Lleida.net 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 sub €50 million market capitalization stock should be done on a 3-5 year time horizon in order to realized the full potential of the investment opportunity.

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