

Lleida.net

BUY

Increased momentum bodes multiple expansion

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Lleida.net has reported a strong set of 3Q19 results in what it is becoming a back loaded year in terms of earnings. EPS for the quarter was 2.82 cents, a 6-fold increase compared to 3Q18, resulting from a cascade of sales, gross profits, Ebitda and financial results increases.

As a result, we are raising our 2020 EPS forecast to 10 cents (9 cents) on the back of the recent results and our perception of the strengthening outlook for Lleida.net

Reported consolidated Sales increased 11% to € 3.4 million driven by an 18% increase in the SaaS division, which continues to grow strongly in this quarter (+24% in 2Q19). The Gross Profit growth reached 20% with €1.7 million, the highest ever obtained by Lleida.net.

The 3Q19 operating cash cost increase was more subdued and rose by 5%, allowing the reported Ebitda to rise by 52% to €631k (and cash Ebitda by 118% to €412k). The operational leverage of Lleida.Net has become more evident in this quarter as the SaaS division continues to make positive strides.

The Balance Sheet continues to grow stronger and Net Debt fell to €1.2 million, dropping by €246k in the quarter. Lleida.Net continues to deliver growth in combination with a positive free cash flow, which we think is deserving of a higher earnings multiple.

We are raising our 12-month target price to €1.60 (€1.40) on the back of the continued evidence of a strong SaaS division, whilst the ICX SMS continues to follow close behind.

The stock forward multiples (PE od 10x 2020 and EV/Ebitda of 8x) are a reflection of its current undervaluation. Our DCF calculations are also supportive of our new target price.

Equities

Spain Telecom/Software Services

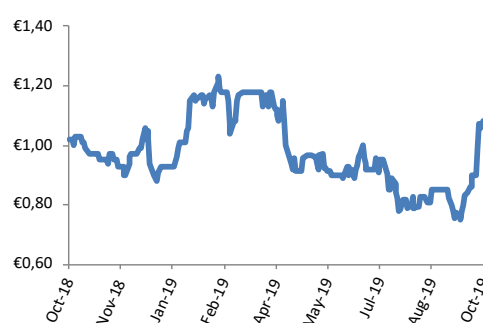
Price (4 pm 18/10/19): €1.01 (LLN.MC),
€0.995 (ALLLN.PA)

Target Price: €1.60

Trading Data

52 week range (€): 0.84 - 1.23
Mkt Cap (€ millions): 16.53
No. Shares (millions): 16.04
Avg Daily vol (€ LTM): 10,128

Share Price Chart (LTM)



(€ millions)	2018	2019e	2020f	2021f
Turnover	12,4	13,2	14,9	16,6
Ebitda	0,9	1,4	2,1	2,6
Net Profit	0,2	1,1	1,6	2,0
EPS	0,02	0,07	0,10	0,12
Net Debt	1,9	1,1	-0,3	-1,9
EV/Ebitda	21,2	12,6	7,9	5,7
P/E	67,7	15,2	10,0	8,2
FCY	4%	7%	10%	13%

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Looking forward to 2020 with renewed confidence

Lleida.net numbers in 3Q19 have been the strongest so far in the year, set to drive 2019 to another year of positive growth. We are raising our EPS forecasts for 2020 to 10 cents (9 cents) and our target price to €1.60 per share from €1.40.

A 20% increase in Gross Profits during 3Q19 has been accompanied by a 5% in operating costs, which explains the 53% jump in Ebitda during the quarter. Last year, there was a €100k exceptional cost (severance payment) that has helped the comparisons this year, without it the reported Ebitda would have still increased by 23% (and the cash Ebitda ex-capitalizations by 43%).

Based on the momentum shown already during the last two quarters and our own view of 2020, we have raised our sales estimate to €14.9 million (€14.4 million), operating income estimate to €2 million (€1.8 million) and net profit to €1.6 million (€1.5 million). We have also introduced new estimates for 2021.

The outlook for the remainder of the year and into 2020 looks strong, based on the following considerations:

- Lleida.net continues to grow on the back of the digitalization of economic transactions as it has already become very apparent in the financial sector (banking, insurance, fintech's, etc) and spreading into mass market verticals such as utilities, retail and cars to name a few.
- The company has invested and will continue to invest in its own Cloud servers to avoid relying on third parties. Every time a transaction is completed, Lleida.net provides its corporate client with the Data Centre to store the information. The commercial reason is related to the Consumer Protection laws in Europe that directs companies to save all communications with the consumer on durable media for a minimum of 5 years.
- Lleida.net continues to expand internationally as well, particularly in Latin America where both the language and legal systems are similar to those of Spain. Lleida.net software solution is particularly attractive in legal jurisdictions with a high burden of proof and strong consumer protection laws.
- The recent signing of the interconnection agreement with China Mobile and China Telecom is a further example of Lleida.net growth prospects for 2020. Increasingly operators around the world are shifting its international SMS traffic to specialists SMS operators, because it saves them to have to maintain interconnection agreements to hundreds of other operators around the world, when their international SMS traffic is often a small fraction of its overall income stream.
- Lleida.net continues to grow organically by building up its pool of professional

talent both on the software engineering side as well as on the commercial side. Just recently, the company has introduced an incentive scheme for any employee, technical or not, that successfully develops patentable IP following the recent incorporation of a Patent specialist. Lleida.net patent portfolio has become a differentiating element and a competitive advantage in their SaaS offering.

Besides the structural growth derived from the digitalization of the economy, there is a key cyclical component to its growth prospects.

- Lleida.net does not just cover the contracting side of the transaction with the consumer, but it also covers the notification side to include claims on arrears. An example has been the increase in the notification business in South Africa over the past several quarters, where the Post Office there is using Lleida.net software to deliver notifications. As the financial sector has had to deal with a slowing economy and a weakening Rand, the notification business is growing as a result. This is particularly noteworthy, because Lleida.net earnings can still do well in the context of any slowing economy.

Whether it is the SaaS division with strong prospects, both on product and geography, or the interconnection SMS business, Lleida.net prospects continue to bode well. In addition, the balance sheet is now as strong as its ever been with a gross cash position of €2.3 million and a net debt of just €1.2 million, equivalent to 0.5 of the expected reported Ebitda of 2019.

(€ 000')	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	% y-o-y		
Software Services	819	803	725	732	781	993	854	-5	24	18
SMS Solutions	647	779	518	724	709	599	592	10	-23	14
ICX	1.675	1.556	1.815	1.575	1.343	1.631	1.935	-20	5	7
Turnover	3.141	3.138	3.058	3.031	2.833	3.223	3.382	-10	3	11
Cost of sales	-1.597	-1.684	-1.632	-1.434	-1.337	-1.544	-1.675	-16	-8	3
Gross Profit	1.544	1.454	1.426	1.597	1.496	1.679	1.707	-3	15	20
<i>Gross Margin</i>	<i>49%</i>	<i>46%</i>	<i>47%</i>	<i>53%</i>	<i>53%</i>	<i>52%</i>	<i>50%</i>	<i>7</i>	<i>12</i>	<i>8</i>
Capitalized costs (R&D)*	166	162	224	235	239	264	219	44	63	-2
Personnel Expenses	-690	-642	-847	-692	-755	-823	-952	9	28	12
Other SG&A	-630	-449	-384	-721	-667	-585	-345	6	30	-10
Depreciation	-290	-283	-290	-289	-286	-281	-285	-1	-1	-2
Other	0	9	-6	19	6	-1	1	n.m.	n.m.	n.m.
Total Operating Costs	-1.610	-1.365	-1.527	-1.683	-1.702	-1.690	-1.580	6	24	3
Operating Income	100	251	123	149	33	253	346	-67	1	181
<i>Operating Margin</i>	<i>3%</i>	<i>8%</i>	<i>4%</i>	<i>5%</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>-63</i>	<i>-2</i>	<i>154</i>
Ebitda	390	534	413	438	319	534	631	-18	0	53
<i>Ebitda Margin</i>	<i>3%</i>	<i>8%</i>	<i>4%</i>	<i>5%</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>			
Ebitda**	224	372	189	203	80	270	412	-64	-27	118
<i>Ebitda Margin</i>	<i>7%</i>	<i>12%</i>	<i>6%</i>	<i>7%</i>	<i>3%</i>	<i>8%</i>	<i>12%</i>			
Extraordinaries	0	0	0	-87	0	0	0			
Financial Costs	-22	-32	-15	-23	-20	-20	80	-9	-38	-633
FX	17	-25	-34	33	25	-41	27	47	64	-179
Non-op. Results	-5	-57	-49	-77	5	-61	107	-200	7	-318
Profit Before Tax	95	194	74	72	38	192	453	-60	-1	512
Cash Flow	202	331	180	74	54	251	491	-73	-24	173

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

Source: Lleida.Net, Checkpoint Partners

Profit and Loss (consolidated)

(€ millions)	2018	2019e	2020f	2021f
Sales by division				
Software Services	3,1	4,0	4,9	5,9
SMS Solutions	2,7	2,6	2,4	2,4
ICX	6,6	6,6	7,5	8,3
Sales by division (%)				
Software Services	25%	31%	33%	36%
SMS Solutions	22%	20%	16%	14%
ICX	54%	50%	51%	50%
Turnover	12,4	13,2	14,9	16,6
Cost of sales	-6,3	-6,2	-6,9	-7,6
Gross Profit*	6,0	7,0	8,0	9,0
<i>% y-o-y growth</i>	15%	17%	14%	12%
<i>Gross Margin</i>	49%	53%	54%	54%
Capitalized costs (R&D)*	0,8	1,0	1,0	1,1
Personnel Expenses	-2,6	-3,1	-3,3	-3,6
Other SG&A	-2,5	-2,6	-2,7	-2,8
Depreciation	-1,2	-1,1	-1,1	-1,1
Total Operating Costs	-6,3	-6,8	-7,1	-7,6
<i>% y-o-y growth</i>	8	7	5	7
Operating Income	0,5	1,3	2,0	2,5
<i>Operating Margin</i>	4%	10%	13%	15%
Ebitda	1,7	2,4	3,1	3,6
<i>Ebitda Margin</i>	13%	18%	21%	22%
Ebitda (ex-capitalizations)	0,9	1,4	2,1	2,6
<i>Ebitda Margin</i>	7%	11%	14%	15%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	0,0	0,0
FX and Other	0,0	0,0	0,0	0,0
Financial Results	-0,1	-0,1	0,0	0,0
Profit Before Tax	0,4	1,2	1,9	2,5
Tax	-0,1	-0,1	-0,3	-0,5
Net Income	0,2	1,1	1,6	2,0
Cash Flow	0,6	1,2	1,7	2,1

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2018	2019e	2020f	2021f
Fixed Assets	4,4	4,5	4,6	4,8
Intangible Assets	3,8	4,0	4,1	4,2
Tangible Assets	0,3	0,4	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	0,0	0,0	0,0	0,0
Current Assets	4,5	5,0	5,3	5,8
Inventory	0,0	0,0	0,0	0,0
Debtors	2,4	2,8	3,2	3,5
Short Term Investments	0,7	0,7	0,7	0,8
Short Term Accruals	0,2	0,2	0,3	0,3
Cash	1,1	1,2	1,0	1,2
Assets	8,9	9,5	9,9	10,5
Shareholders' Funds	3,1	4,2	5,8	7,8
<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	-1,6	-0,5	1,1
<i>Repurchase of share capital</i>	-1,0	-1,0	-1,0	-1,0
<i>Profit and Loss account</i>	0,3	1,1	1,6	2,0
Long Term Debt	1,4	0,6	0,3	0,0
Current Liabilities	4,4	4,7	3,8	2,7
Short Term Debt	2,3	2,4	1,2	0,0
Provisions	0,1	0,1	0,1	0,1
Creditors	2,0	2,3	2,5	2,6
Liabilities	8,9	9,5	9,9	10,5
(€ millions)				
Working Capital	0,4	0,6	0,7	0,9
Debtor Turnover (days)	70	73	75	74
Creditor Turnover (days)	60	66	69	67
Financial Debt	3,7	3,0	1,5	0,0
Cash	1,8	1,9	1,8	1,9
Net Debt	1,9	1,1	-0,3	-1,9

Source: Lleida.net and Checkpoint Partners

Sum of the parts valuation

Sector	Division	DCF (€)	Year	EV/Sales	EV/Ebitda
Software	Saas	13,1	2019	3,3	34,4
			2020	2,7	15,7
Telecom	SMS	2,4	2019	0,9	7,6
			2010	1,0	10,0
	ICX	11,9	2019	1,8	13,9
			2020	1,6	10,6
Sum of Parts		27,5	2019	2,1	17,6
			2020	1,8	12,5
Net Debt		1,2			
Equity Valuation		26,3			
Target Price		1,60			
Share Price		1,01			
Upside		58%			

Source: Checkpoint Partners

To arrive at our sum of the parts valuation of €26.3 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%.

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.

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- **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
24.04.2019	BUY	0.92	1.40	12 months	Guillermo Serrano
23.07.2019	BUY	0.87	1.40	12 months	Guillermo Serrano

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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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