

Lleida.net

BUY

Fulfilling the need for Digital under Covid19 and beyond

Analyst: Guillermo Serrano gfs@checkpointp.com

7am, 21th April 2020

Lleida.net Earnings b/Tax rose by 79% to €68k in 1Q20, compared to 1Q19. The underlying strength in the reported numbers were largely due to a 43% increase in Turnover to €4.0m and a 26% in Gross Profits to €1.9m.

The cash Ebitda came in 220% higher (€256k), mainly because the 15% increase in cash Operating Costs lagged behind revenue growth. The impact of non-cash items (capitalizations and amortizations) together with a small (€49k) FX loss deflated profits before tax to €68k.

The impact of Covid 19, in Lleida.net's case, was a mixture of positives and negatives but resulting in an overall positive balance. There are strong indications the positives will continue to boost growth in the coming quarters.

Based on last week's release of Lleida.net weekly indicators involving New Users, different Users of Registered mail, Active Registered SMS users, Active Circuits of contracting related APIs and registered SMS contracts, there is evidence to confirm the strong surge of the company's SaaS products on the back of Covid 19.

We are revising up our 2020 and 2021 net profit estimates to €2.0m (vs€1.3m) and €3.4m (vs€1.9m) respectively. We now expect 2020 Turnover to rise by 36% to €18.5m, compared to our previous €15.7m estimate (we used to go for a 15% annual increase), the main trigger for our net profit revision.

We are also lifting our 12-month target price to €3.00 from €1.80. A strong increase, based on our perceived rapid (and forced) acceleration of digital transformation across the economy in addition to a number of recent management successes (new and larger contracts have been brought in since our last revision). Last but not least, the Board has proposed a 1 cent dividend payment, the first in its history, that comes to demonstrate commitment to shareholder returns.

Equities

Spain Telecom/Software Services

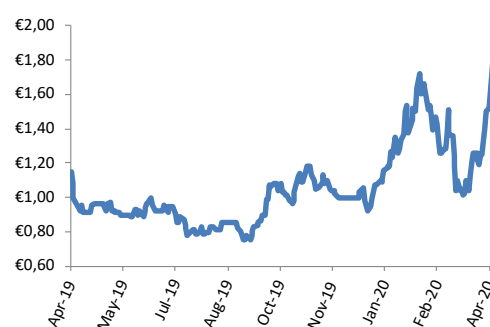
Price (4 pm 20/04/20): €1.84 (LLN.MC),
€1.70 (ALLLN.PA)

Target Price: €3.00

Trading Data

52 week range (€): 0.84 - 1.96
Mkt Cap (€ millions): 29.5
No. Shares (millions): 16.04
Avg Daily vol (€ LTM): 36,251

Share Price Chart (LTM)



(€ millions)	2018	2019	2020f	2021f
Turnover	12,4	13,6	18,5	21,8
Ebitda (cash)	0,9	1,3	2,8	4,1
Net Profit	0,2	0,9	2,0	3,4
EPS	0,02	0,06	0,13	0,21
Net Debt	1,9	1,3	-0,2	-2,5
EV/Ebitda	35,1	23,8	10,9	7,4
P/E	121,3	31,2	14,4	8,6
FCY	2%	4%	8%	13%

Disclaimer:

Checkpoint Partners (España) SLU [Checkpoint] is a Madrid based specialist corporate finance company specialized on providing financial advice to emerging technology companies. More information can be obtained in our website www.checkpoint-partners.com or by writing to us at gfs@checkpoint-partners.com

Checkpoint has obtained this information from various sources including the company mentioned in this report. It has been verified to the best of Checkpoint's ability, however it has not been independently verified and no representation is made, nor warranty given as to the accuracy, completeness, or the reasonableness of any statements of opinion, belief or the achievability of any forecasts or projections contained within this report.

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.

Furthermore, this report has been written in accordance to the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest.

Checkpoint does not provide advice with regards legal and tax matters. This should be referred to the appropriate professionals. Past performance is not a guarantee for future returns. Currencies denominated investments are subject to fluctuations in exchange rates that could have an effect on the Investor's return. Prices of investments may fluctuate and therefore you may not get back your original investment. The distribution, reproduction or other use of all or any part of this report is prohibited. Neither this report nor any of the accompanying documents or information may be reproduced in whole or in part, nor may they be used for any purpose other than that for which they have been submitted, without the prior written consent of Checkpoint. This documentation is only available within the European Economic Area.

Taking a new view of Lleida.net share appreciation potential

We are raising our 12-month target price to €3.00 per share on the back of our earnings forecast revision. This is based on the expectation of a continued improvement in quarterly results derived from recent contract wins announced, the growing number of approved patents and the positive impact of Covid 19 in overall, present and future, activity.

The recent announcement of for a proposed 1 cent dividend attributable to 2019, the first in Lleida.net's history, is another important milestone that comes to further demonstrate the Board's commitment to shareholder returns and should underpin its equity valuation.

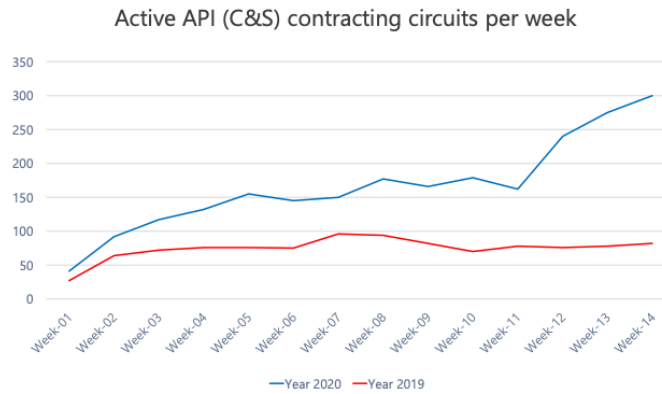
Estimates revision (€ millions)	Old		New		Diff	
	2020f	2021f	2020f	2021f	2020f	2021f
Software Services	4,8	5,8	5,4	7,1	0,6	1,3
SMS Solutions	2,3	2,3	2,5	2,5	0,2	0,2
ICX	8,6	9,4	10,6	12,2	2,0	2,8
Turnover	15,7	17,6	18,5	21,8	2,8	4,2
Gross Profit	8,1	9,1	8,9	10,8	0,8	1,7
Operating Income	1,6	2,1	2,3	3,8	0,7	1,7
Ebitda	2,7	3,3	3,4	4,8	0,7	1,5
Ebitda (ex-capitalizations)	2,1	2,6	2,8	4,1	0,7	1,5
Net Income	1,3	1,9	2,0	3,4	0,7	1,5

Source: Checkpoint Partners

- The new Milestones announced in recent weeks that are a reflection of management successes in growing the business at a faster pace than previously. We refer to the new contracts signed with Zurich Insurance in Germany (in addition to the contract already signed in Spain), SegurCaixa Adeslas (second largest medical insurance company in Spain), Ria Financial Services, La Liga (Spain's national football league), Etilalad on the Interconnexion side (in addition to the agreements signed with China Mobile and China Telecom late last year) and the contract for the Portability database of Spanish mobile subscribers.
- To underpin the current rate of growth, Lleida.net has continued to receive patent approvals (first one in 2016) to the 110 patents (concentrated in 8 families of patents), with which to protect and promote its SaaS division. With Software products it tends to be far more effective for companies to market its own patent protected products for the benefit of clients. We take the patent portfolio well into consideration when making our cash flow forecasts.

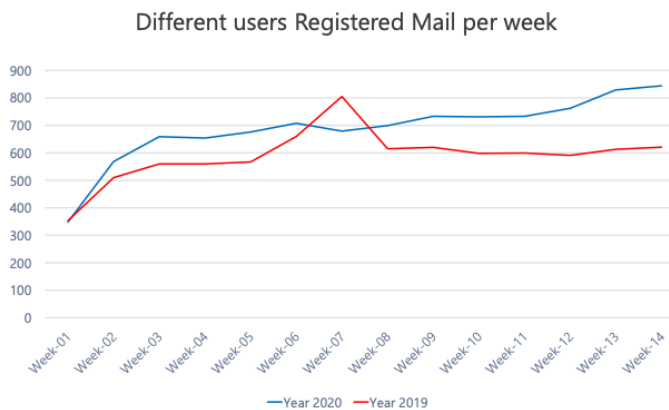
- And now it's all about Covid 19 and its effects on the wider economy. Specifically, for Lleida.net, the company has seen a strong and unprecedented surge in new clients coming into the fold. Whilst most of the details have so far been kept confidential (for competitive reasons), Lleida.net released 5 charts last week that are demonstrative of the new dynamics once the full impact of Covid began to be felt in Spain and elsewhere.

The first chart shows how the contracting circuits (Lleida.net's term for a specific client contracting project, like the launch of a new credit card or a promotional campaign for a new casualty insurance product). The trend, right up to the commencement of the Covid 19 confinement measures, was already a positive one (c. 100% increase y-o-y) and from one week to another the yearly comparison shot up to a 375% increase.



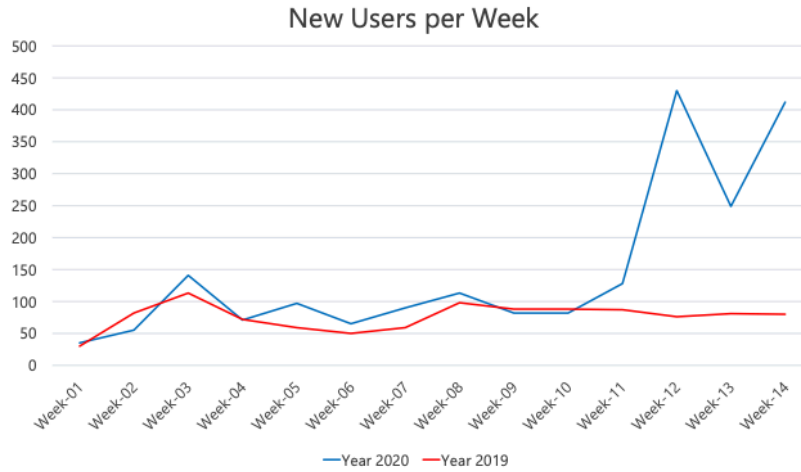
Source: Lleida.net

At a moment's notice a large number of companies are finding out, at an accelerated pace, the advantages (in terms of both cost and convenience) of using digital means either for contracts or for notifications. The trends has been underway for a number of years now, but recent events have just accelerated the pace for the benefit of providers like Lleida.net. In exchange, these companies benefit from the legal security that it provides which otherwise would have cost companies a fortune in couriers.



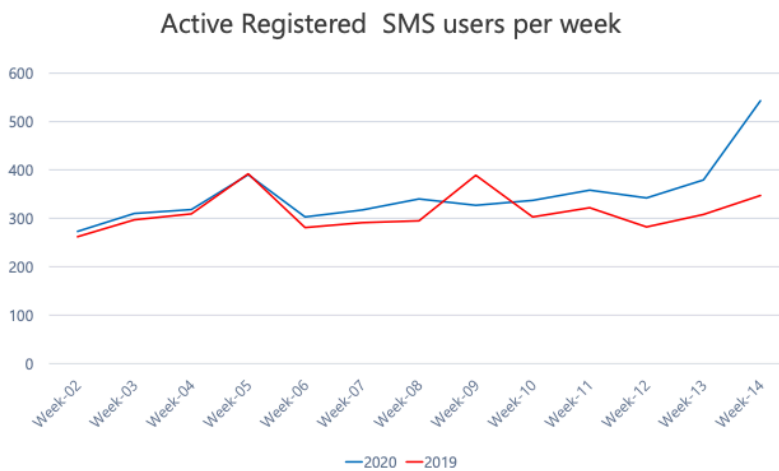
Source: Lleida.net

The core of Lleida.net clients are related to sectors that drive their relationship with consumers with legal contracts, sectors like finance (credit cards are the heaviest users), insurance, utilities, healthcare, etc but Lleida.net has seen a surge in other sectors where companies needed to send legally binding documents to employees (specifically, to notify employees of the change in working conditions) at a time when few were allowed to be in their places of work.



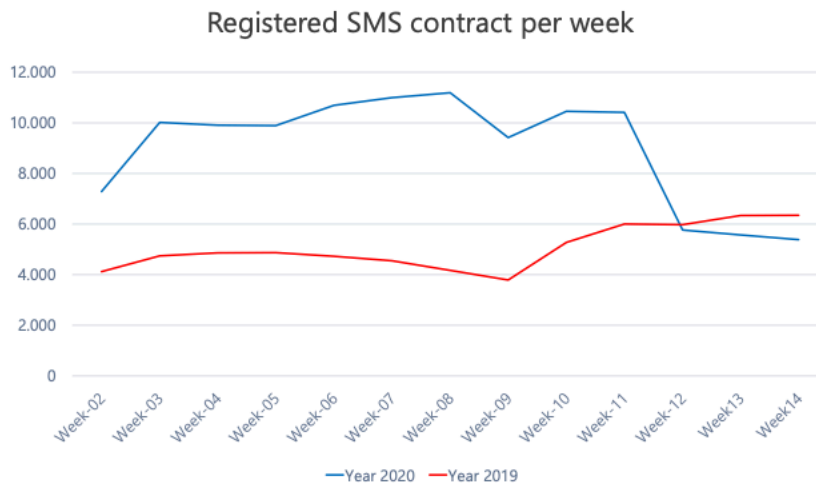
Source: Lleida.net

From 340 registered SMS users per week in 2019, Lleida.net has grown to 550 per week in 2020, or a 62% increase. The increase is specially noticeable since week 11, when the Covid 19 confinement measures began. The registered SMS products falls under the SaaS division of Lleida.net and it is considered a premium product, different from the traditional bulk SMS message.



Source: Lleida.net

The company also admits that not every aspect has been a positive one. The Registered SMS contracts, mainly used by Utilities have seen a drop off in response to the lower activity of call centres and the withdrawal of promotional campaigns. Utility companies have become more conservative in the commercial strategy for fear of attracting customers with risk of non-payment. A Spanish government decree has prohibited Utility companies from cutting of supply for non-payment during the Covid 19 crisis.

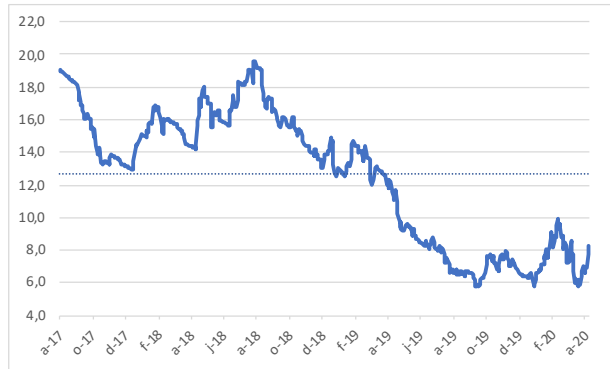


Source: Lleida.net

In sum, in 2019 Lleida.net generated some €3.7 million in SaaS related revenues and we have lifted our 2020 and 2021 revenue forecasts to €5.4 million (€4.8 million) and €7.1 million (€5.8 million) on the back of the perceived impact of Covid 19 on the digitalization requirements of the economy. We have basically placed our 2021 previous estimates into 2020, because we think that Lleida.net has gained at least a year (and possibly more) in its SaaS business.

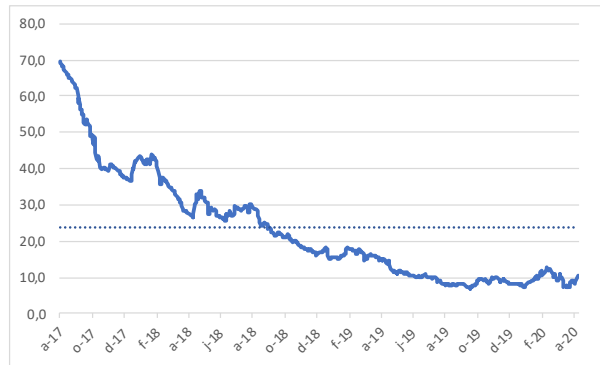
To reach our new €3.00 target price, we are also taking into account the current earnings multiples following our earnings revision and specially our renewed confidence on not just 2020 numbers but on 2021. The new target 2020 and 2021 PE (23x and 14x) and EV/CashEbitda (17x and 12x) multiples are consistent with the kind of earnings growth we believe Lleida.net is going to deliver. From a historical perspective, as the charts below show, Lleida.net is still trading below its average multiples.

Enterprise Value / Cash Ebitda
(12m forward)



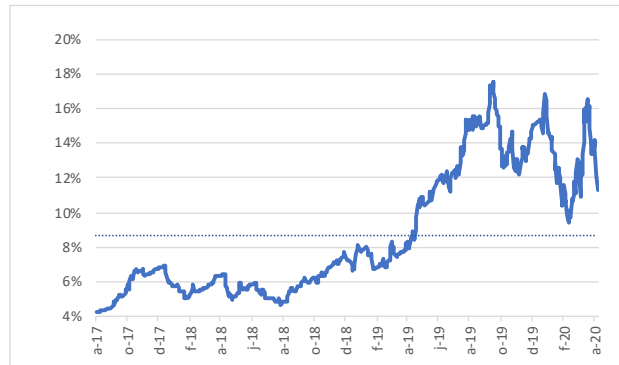
Source: Checkpoint Partners

Price Earnings Ratio
(12m forward)



Source: Checkpoint Partners

Cash Flow Yield Ratio
(12m forward)



Source: Checkpoint Partners

SUM OF THE PARTS VALUATION

Sector	Division	DCF (€)	Year	EV/Sales	EV/Ebitda
Software	Saas	27,3	2020	5,0	29,6
			2021	3,9	15,7
Telecom	SMS	2,5	2020	1,0	9,0
			2021	1,0	6,9
	ICX	19,2	2020	1,8	12,2
			2021	1,6	9,7
Sum of Parts		49,0	2020	2,6	17,6
			2021	2,3	12,0
Net Debt		0,9			
Equity Valuation		48,2			
Target Price		3,00			
Share Price		1,84			
Upside		63%			

Source: Checkpoint Partners

To arrive at our sum of the parts valuation of €49 million we have assumed Lleida.net has the potential to deliver a 20% Ebitda margin in the context of a long term average growth in sales of 7%. We have used a WACC of 9.1%.

Compared to our last valuation published on January 21, 2020 following the release of Lleida.net 4Q19 results we had estimated a €13.8. million valuation for the SaaS division, €2.6 million for the SMS Solutions and €14.2 million for ICX. The strongest upward valuation revision falls into the SaaS division where we now attach a €27.3 million valuation, mainly on the back of the surge in activity observed in 1Q20 and based on our revised expectations going forwards.

Quarterly Profit and Loss (consolidated)

(€ 000')	1Q19	2Q19	3Q19	4Q19	1Q20	% y-o-y
Software Services	781	993	854	1.034	1.081	38
SMS Solutions	709	599	592	604	662	-7
ICX	1.343	1.631	1.935	2.547	2.303	71
Turnover	2.833	3.223	3.382	4.185	4.046	43
Cost of sales	-1.337	-1.544	-1.675	-2.132	-2.156	61
Gross Profit	1.496	1.679	1.707	2.053	1.890	26
<i>Gross Margin</i>	<i>53%</i>	<i>52%</i>	<i>50%</i>	<i>49%</i>	<i>47%</i>	<i>-12</i>
Capitalized R&D	239	264	219	205	168	-30
Personnel Expenses	-755	-823	-952	-869	-874	16
Other SG&A	-667	-585	-345	-690	-760	14
Depreciation	-286	-281	-285	-282	-288	1
Other	6	-1	1	48	0	n.m.
Operating Costs	-1.702	-1.690	-1.580	-1.793	-1.922	13
Operating Income	33	253	346	465	136	312
<i>Operating Margin</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>3%</i>	
Ebitda	319	534	631	747	424	33
<i>Ebitda Margin</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>3%</i>	
Cash Ebitda*	80	270	412	542	256	220
<i>Cash Ebitda Margin</i>	<i>3%</i>	<i>8%</i>	<i>12%</i>	<i>13%</i>	<i>6%</i>	
Extraordinaries	0	0	0	-11	0	n.m.
Financial Costs	-20	-20	80	-18	-19	-5
FX	25	-41	27	-46	-49	-296
Non-op. Results	5	-61	107	-75	-68	-1460
Profit Before Tax	38	192	453	390	68	79
Cash Flow	54	251	491	465	237	339

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

Source: Lleida.Net, Checkpoint Partners

Profit and Loss (consolidated)

(€ millions)	2018	2019	2020e	2021f
Sales by division				
Software Services	3,1	3,7	5,4	7,1
SMS Solutions	2,7	2,5	2,5	2,5
ICX	6,6	7,5	10,6	12,2
Sales by division (%)				
Software Services	25%	27%	29%	32%
SMS Solutions	22%	18%	13%	12%
ICX	54%	55%	57%	56%
Turnover	12,4	13,6	18,5	21,8
Cost of sales	-6,3	-6,6	-9,6	-11,0
Gross Profit*	6,0	7,0	8,9	10,8
<i>% y-o-y growth</i>	15%	16%	27%	21%
<i>Gross Margin</i>	49%	51%	48%	50%
Capitalized costs (R&D)*	0,8	0,9	0,7	0,7
Personnel Expenses	-2,8	-3,3	-3,6	-4,0
Other SG&A	-2,3	-2,4	-2,5	-2,7
Depreciation	-1,2	-1,1	-1,1	-0,9
Total Operating Costs	-6,3	-6,9	-7,2	-7,6
<i>% y-o-y growth</i>	8	9	5	5
Operating Income	0,5	1,1	2,3	3,8
<i>Operating Margin</i>	4%	8%	13%	18%
Ebitda	1,7	2,2	3,4	4,8
<i>Ebitda Margin</i>	13%	16%	19%	22%
Ebitda (ex-capitalizations)	0,9	1,3	2,8	4,1
<i>Ebitda Margin</i>	7%	9%	15%	19%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	0,0	-0,1	-0,1
FX and Other	0,0	0,0	0,0	0,0
Financial Results	-0,1	0,0	-0,1	0,0
Profit Before Tax	0,4	1,1	2,2	3,8
Tax	-0,1	-0,1	-0,2	-0,3
Net Income	0,2	0,9	2,0	3,4
Cash Flow	0,6	1,1	2,5	3,7

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2018	2019	2020e	2021f
Fixed Assets	4,4	4,5	4,6	4,7
Intangible Assets	3,8	3,9	4,0	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	5,3	7,2	8,4
Inventory	0,0	0,0	0,0	0,0
Debtors	2,4	2,8	3,2	4,0
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	1,5	3,0	3,4
Assets	8,9	9,8	11,8	13,1
Shareholders' Funds	3,1	3,9	5,6	8,5
<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	-0,8	0,9
<i>Repurchase of share capital</i>	-1,0	-1,0	-1,0	-1,0
<i>Profit and Loss account</i>	0,3	0,8	1,7	2,9
Long Term Debt	1,4	1,7	1,8	0,0
Current Liabilities	4,4	4,3	4,4	4,6
Short Term Debt	2,3	1,8	1,7	1,7
Provisions	0,1	0,1	0,1	0,1
Creditors	2,0	2,3	2,6	2,8
Liabilities	8,9	9,8	11,8	13,1
(€ millions)				
Dividends	0,0	0,2	0,3	0,5
Working Capital	0,4	0,5	0,6	1,1
Debtor Turnover (days)	70	71	60	60
Creditor Turnover (days)	60	64	58	56
Financial Debt	3,7	3,5	3,5	1,7
Cash	1,8	2,2	3,7	4,1
Net Debt	1,9	1,3	-0,2	-2,5

Source: Lleida.net and 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
24.04.2019	BUY	0.92	1.40	12 months	Guillermo Serrano
23.07.2019	BUY	0.87	1.40	12 months	Guillermo Serrano
21.10.2019	BUY	1.01	1.60	12 months	Guillermo Serrano
21.01.2020	BUY	1.35	1.80	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.

Date of publication: 7am, 21st April 2020