

Lleida.net

BUY

It's now, officially, a growth stock

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7am, 22nd July 2020

Lleida.net Earnings b/Tax rose by 41% to €273k in 2Q20, compared to 2Q19, confirming the company has excelled during the severity of the economic downturn of the second quarter. The company has made public a number of contracts signed over recent weeks related to its certified messaging SaaS, providing evidence of the increased demand for its digital services.

SaaS sales rose to €1.3 million or 27% during the second quarter, compared to a year earlier. The recent contract awards should ensure the continued growth of this business division of Lleida.net.

SMS Wholesale increased 19% to €1.9 million during the quarter and SMS Solutions fell by 5% to €0.6 million (the two combined up by 13%). These two areas have not been immune to Covid and a significant amount of SMS traffic was disrupted during the early phases of the lockdowns across Spain and abroad. Sales were up but margins were under pressure.

Our measure of cash Ebitda rose by 82% to €463k lifted by lower operating costs and a 40% decline in capitalized R+D. The lockdown allowed for savings in travel expenses and other activities associated with its commercial effort.

We are lifting our 2021 estimates on the back of an improved outlook following recent contract announcements and the perception that companies will continue to push hard for digital transformation. We are now estimating 2021 Sales of €22.5 million (€21.8 million), Cash Ebitda of €4.3 million (€4.1 million) and Net Profit of €3.6 million (€3.4 million). In addition, we are introducing 2022 forecasts for the first time.

We are also lifting our 12-month target price to €6.00 from €3.00. Lleida.net re-rating is justified on the sharply improved outlook turning the stock firmly within the valuation parameters of growth technology stocks.

Equities

Spain Telecom/Software Services

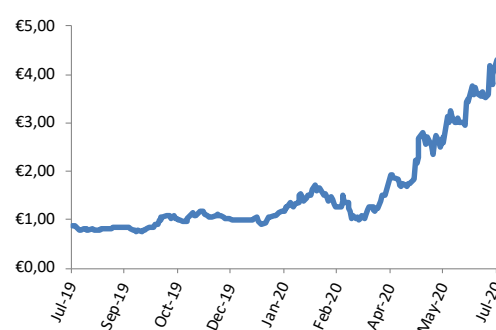
Price (4 pm 21/07/20): €4,34 (LLN.MC),
€4,68 (ALLN.PA)

Target Price: €6.00

Trading Data

52 week range (€): 0.75 – 4.86
Mkt Cap (€ millions): 69.6
No. Shares (millions): 16.04
Avg Daily vol (€ LTM): 127,058

Share Price Chart (LTM)



(€ millions)	2019	2020f	2021f	2022f
Turnover	13,7	18,5	22,5	27,4
Ebitda (cash)	1,3	2,8	4,3	5,0
Net Profit	1,1	2,0	3,6	4,0
EPS	0,07	0,12	0,23	0,25
Net Debt	1,1	-0,9	-3,4	-6,4
EV/Ebitda	52,5	25,1	16,0	14,0
P/E	64,1	34,8	19,2	17,3
FCY	2%	4%	6%	6%

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Lleida.net stock is now looked upon with different lens

Lleida.net share price has risen from being a relatively unknown technology value play to a vibrant growth play, awakened by the underlying boost to its future earnings expectations from a World that is eagerly looking to continue to function under Covid. All historical valuation metrics are no longer a point of reference to value Lleida.net, because both Lleida.net and the World are different things today.

Enterprise Value / Cash Ebitda
(12m forward)



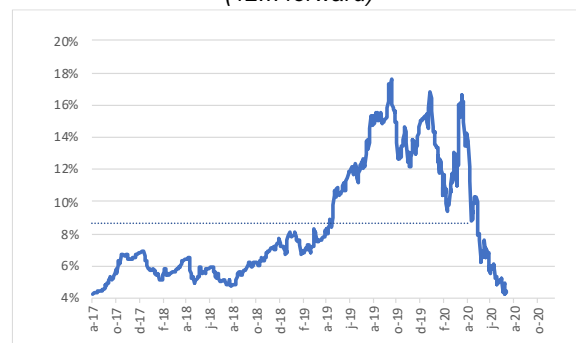
Source: Checkpoint Partners

Price Earnings Ratio
(12m forward)



Source: Checkpoint Partners

Cash Flow Yield Ratio
(12m forward)



Source: Checkpoint Partners

The question now has become, what kind of growth do we need to see to justify the current valuations.

Our new target price of €6 is based on a 7-year horizon where we would need to see an average annual rate of 25% in SaaS, 15% growth rate in Wholesale SMS and no growth in SMS Solutions. Longer term we have lifted our growth rates to 10% per annum in SaaS and to 5% in Wholesale SMS, whilst maintain 0% growth in SMS Solutions.

We have also lowered our WACC to 8% from 9% based our lower risk perception from a company that is now profitable, free cash flow generative with a solid financial position.

Lleida.net has shown an innate ability to deliver products that its client base demand for the last 25 years. A reflection of its long-term success can be measured by the 41% average annual returns to its invested equity capital since 1995, based on today's share price. We believe its past track record is and will continue to be its main credential for the market to believe in its ability to deliver future growth.

Lleida.net have now officially become a growth stock and will be valued as such going forwards.

SUM OF THE PARTS VALUATION

Sector	Division	DCF (€)	Year	EV/Sales	EV/Ebitda
Software	Saas	57,7	2020	10,6	63,5
			2021	7,7	30,5
Telecom	SMS	2,8	2020	1,1	9,8
			2021	1,1	7,3
	ICX	35,7	2020	3,4	22,7
			2021	2,9	17,2
Sum of Parts		96,2	2020	5,2	34,8
			2021	4,3	22,2
Net Debt		-0,2			
Equity Valuation		96,4			
Target Price		6,00			
Share Price		4,34			
Upside		38%			

Source: Checkpoint Partners

A quick (and useful) comparison with Docusign, just in case you think Lleida.net is expensive

DocuSign is a play on the Digital Transaction Market primarily focused on the Agreement Phase through its digital signature software and its considered to be the largest global player in the digital signature market. We believe there is a useful comparison to be had with Lleida.net despite the difference in size.

DocuSign is today trading around the \$201 mark and the market capitalization is around \$37 billion, a 7-fold increase in value over its IPO price. It was just two years ago, in May of 2018, when DocuSign had its IPO at \$29 per share (raised some \$440 million and placed a further \$155 million of secondary).

At the time of the IPO and during the first few days of trading, the share price quickly jumped some 40% driving its market capitalization to the \$6 billion mark placing them on a EV/Sales (LTM) multiple of 12x. By comparison, during the middle of 2018, Lleida.Net was growing Sales at around 25% and its EV/Sales (LTM) multiple was below 2x.

Since then DocuSign has not disappointed having grown Sales by 35% in 2018 and 39% in 2019 with an expectation of another 33% growth rate in 2020. This kind of growth has resulted in a EV/Sales (LTM) multiple expansion from 12x to 37x, under both operating and net profit losses. Sales have gone from \$518 million in 2017 to \$701 million in 2018 to \$974 million in 2019 (DocuSign year end is Jan 31st, for simplicity we have use the calendar year for a more accurate comparison). The 12-month forward EV/Sales multiple currently stands at 29x.

By comparison, Lleida.net grew Sales by 25% in 2018 and 11% in 2019, with an expectation of 35% for 2020, enabling the 12 month EV/Sales multiple to go from an average of between 1.1x to 1.6x during the last two years to the current 3.7x following the recent share price appreciation. Whereas Lleida.net average Sales growth has lagged behind DocuSign, Lleida.net has been able to lift Net profits from €0.1 million in 2017 to €1.1 million last year. In sum, behind in Sales growth and ahead in Net Profits.

We can conclude that despite the recent share appreciation and valuation multiple expansion of Lleida.net, the stock still remains at a considerable discount to DocuSign. From a growth stock valuation perspective, Lleida.net valuation multiples are not yet overstretched.

Quarterly Profit and Loss (consolidated)

(€ 000´)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	% y-o-y	
Software Services	781	993	854	1.034	1.081	1.259	38	27
SMS Solutions	709	598	592	604	662	566	-7	-5
ICX	1.343	1.631	1.935	2.547	2.303	1.948	71	19
Turnover	2.833	3.222	3.382	4.185	4.046	3.773	43	17
Cost of sales	-1.337	-1.465	-1.675	-2.132	2.156	-1.880	61	28
Gross Profit	1.496	1.757	1.707	2.053	1.890	1.893	26	8
<i>Gross Margin</i>	<i>53%</i>	<i>55%</i>	<i>50%</i>	<i>49%</i>	<i>47%</i>	<i>50%</i>	-12	-8
Capitalized R&D	239	272	219	205	168	163	-30	-40
Personnel Expenses	-755	-822	-952	-869	-874	-876	16	7
Other SG&A	-667	-681	-345	-690	-760	-544	14	-20
Depreciation	-286	-282	-285	-282	-288	-297	1	5
Other	6	0	1	48	0	-10	n.m.	n.m.
Operating Costs	-1.702	-1.785	-1.580	-1.793	1.922	-1.727	13	-3
Operating Income	33	244	346	465	136	329	312	35
<i>Operating Margin</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>3%</i>	<i>9%</i>	<i>189</i>	<i>15</i>
Ebitda	319	526	631	747	424	626	33	19
<i>Ebitda Margin</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>3%</i>	<i>9%</i>		
Ebitda (ex-capitalizations)	80	254	412	542	256	463	220	82
<i>Ebitda Margin</i>	<i>3%</i>	<i>8%</i>	<i>12%</i>	<i>13%</i>	<i>6%</i>	<i>12%</i>		
Extraordinaries	0	0	0	-11	0	0	n.m	n.m
Financial Costs	-20	-20	80	-18	-19	-15	-5	-25
FX	25	-30	27	-46	-49	-41	-296	37
Non-op. Results	5	-50	107	-75	-68	-56	-1460	12
Profit Before Tax	38	194	453	390	68	273	79	41
Cash Flow	54	234	491	465	237	458	339	96

Source: Lleida.Net, Checkpoint Partners

Profit and Loss (consolidated)

(€ millions)	2019	2020f	2021f	2022f
Sales by division				
Software Services	3,7	5,4	7,5	9,9
SMS Solutions	2,5	2,5	2,5	2,6
ICX	7,5	10,6	12,5	14,9
Sales by division (%)				
Software Services	27%	29%	33%	36%
SMS Solutions	18%	13%	11%	10%
ICX	54%	57%	55%	54%
Turnover	13,7	18,5	22,5	27,4
Cost of sales	-6,6	-9,6	-11,3	-13,3
Gross Profit	7,1	8,9	11,2	14,0
<i>% y-o-y growth</i>	18%	25%	26%	25%
<i>Gross Margin</i>	52%	48%	50%	51%
Capitalized costs (R&D)	0,9	0,7	0,7	0,7
Personnel Expenses	-3,1	-3,6	-4,1	-5,1
Other SG&A	-2,7	-2,6	-2,8	-3,9
Depreciation	-1,2	-1,1	-1,0	-0,9
Total Operating Costs	-7,0	-7,3	-7,9	-9,9
<i>% y-o-y growth</i>	10	5	8	26
Operating Income	1,1	2,3	4,0	4,8
<i>Operating Margin</i>	8%	12%	18%	17%
Ebitda	2,3	3,4	5,0	5,6
<i>Ebitda Margin</i>	16%	18%	22%	21%
Ebitda (ex-capitalizations)	1,3	2,8	4,3	5,0
<i>Ebitda Margin</i>	10%	15%	19%	18%
Financial Income	0,1	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	0,0
FX and Other	0,0	0,0	0,0	0,0
Financial Results	0,0	-0,1	-0,1	0,0
Profit Before Tax	1,1	2,2	3,9	4,8
Tax	0,0	-0,2	-0,3	-0,7
Net Income	1,1	2,0	3,6	4,0
Cash Flow	1,3	2,5	3,9	4,2

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2019	2020f	2021f	2022f
Fixed Assets	4,4	4,2	4,1	4,0
Intangible Assets	3,8	3,6	3,5	3,4
Tangible Assets	0,4	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	6,3	9,1	12,3	14,1
Inventory	0,0	0,0	0,0	0,0
Debtors	3,6	4,4	5,4	6,2
Short Term Investments	1,3	1,3	1,3	1,4
Short Term Accruals	0,3	0,3	0,3	0,3
Cash	1,2	3,1	5,2	6,3
Assets	10,7	13,3	16,4	18,2
Shareholders' Funds	4,4	6,7	9,9	13,3
<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>	-1,6	-0,5	1,3	4,5
<i>Repurchase of share capital</i>	-0,8	-0,4	-0,4	-0,4
<i>Profit and Loss account</i>	1,1	1,7	3,2	3,5
Long Term Debt	1,7	1,7	1,4	1,3
Current Liabilities	4,6	4,9	5,1	3,6
Short Term Debt	1,9	1,8	1,7	0,0
Provisions	0,1	0,1	0,1	0,1
Creditors	2,6	3,1	3,3	3,5
Liabilities	10,7	13,3	16,4	18,2
(€ millions)				
Dividends	0,2	0,3	0,5	0,6
Working Capital	0,9	1,4	2,1	2,7
Debtor Turnover (days)	80	79	80	78
Creditor Turnover (days)	69	66	64	55
Financial Debt	3,5	3,4	3,1	1,3
Cash	2,4	4,4	6,5	7,7
Net Debt	1,1	-0,9	-3,4	-6,4

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
21.04.2020	BUY	1.75	3.00	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.

Date of publication: 7am, 22nd July 2020