

Lleida.net

BUY

Up above the SaaS Cloud, the sky is always blue

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7am, 19th October 2020

Lleida.net has apparently defied the laws of gravity during 2020 and its share price is now up 827% compared to a year ago. The Covid crisis has created a stampede towards the digitalization of the economy and the traditionally conservative legal ecosystem has not been spared.

Based on the 3Q20 results just released, there might just be more to come. Lleida.net SaaS sales have risen some 62% during 3Q20 and it looks there is far more to come now, based on recent contract announcements. The SMS and ICX business areas held their ground during 3Q20 with a 4% and a -1% increase compared to last year.

Cash Ebitda has risen another 65% during the quarter, to €678k, resulting from a combination of a Gross Profit increase of 20% combined with almost flat cash Operating Costs (up just 3%). The current increase in activity is being absorbed by the company with essentially the same cost base as last year (travel cost savings are helping).

Profit b/ Tax was up 6% on adverse non-cash items such as a lower capitalized R+D (-21%), higher depreciation (+5%) and a €55k charge on FX losses vs a €27k gain last year.

3Q20 ended with a Net Cash position of €1.3 million, which compares favourably with €0.2 million in the prior quarter.

Lleida.net cannot longer be valued on this year or on 2021 expected numbers, because the scale of the paradigm shift on the way notifications are delivered, contracts are signed and KyC is processed. There is little doubt now that certified messaging, contracts and KyC processes are going firmly digital and Lleida.net stands to be a global player in the space.

Therefore, we have revised up our target price to €12 per share, on the back of our perception of the strategic value of Lleida.Net SaaS division and an upward revision of 2021 and 2022 numbers.

Equities

Spain Telecom/Software Services

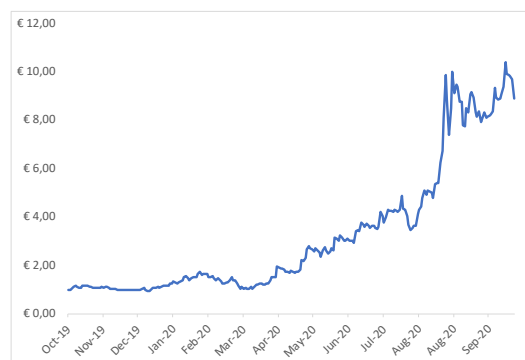
Price (4 pm 16/10/20): €8.90 (LLN.MC),
€8.90 (ALLN.PA)

Target Price: €12.00

Trading Data

52 week range (€): 0.92 – 10.40
Mkt Cap (€ millions): 142,8
No. Shares (millions): 16.04
Avg Daily vol (€ LTM): 515,738

Share Price Chart (LTM)



(€ millions)	2019	2020f	2021f	2022f
Turnover	13,7	17,4	22,1	28,4
Ebitda (cash)	1,3	2,7	5,0	7,9
Net Profit	1,1	2,0	4,3	6,6
EPS	0,07	0,12	0,27	0,41
Net Debt	1,1	-2,1	-4,6	-9,3
EV/Ebitda	107,8	52,4	28,5	18,0
P/E	131,5	72,6	33,3	21,8
FCY	1%	2%	3%	5%

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Lleida.net SaaS sales are rocketing up, paving the way for yet higher valuation expectations

The company has made 8 contract announcements during 3Q20, the most prominent ones being with Indra, Bancolombia, Credicorp and the 4-27 contract renewal. It is an example that despite the current global environment, Lleida.net is able to continue delivering new contract wins.

The Lleida.net SaaS division is centred around notifications (SMS and Email certified messaging), contracting and on-line KyC. Within it, the core focus is on corporates and governments with large volume demands, ranging from delivering notifications of traffic fines to small claim collections of consumer loans to regulatory driven notifications on mobile portability, to give a few examples. It is a vast market out there for which (unfortunately) there are hardly reliable statistics with which to measure its true scale and potential.

We have attempted to create an approximation to total market size with the data available, some subjective judgement and several assumptions. **We will conclude that Lleida.net's addressable market can rise up to €7.2 billion over the next 10 years and by capturing just 1.2% of the global market, we can justify our new target price.**

It might be too soon to start expecting a more ambitious outcome for Lleida.net, but undoubtedly there is room to contemplate scenarios with higher market shares.

Notification Market

One way to measure the potential market size of the notification market is by looking at certified mail, a traditional "cash-cow" of public sector mail delivery companies. Governments, companies and individuals seeking to establish tradability of legal documents will resort to certified mail as a way to prove in court that a particular notice has been duly communicated to a given party.

By attempting to measure the current size of the certified mail market (a closely guarded secret by most mail companies and hence no much in the way of public information) we will find the current demand for such services. We know that in the US, certified mail has been on the decline for the past five years which probably means that digital alternatives have already found their way into the market.

In Europe, we know by the published statistics of the EU Stats office there are 56 billion letters and parcels delivered in the European Union, of which an estimated (by Checkpoint) 1% by volume is made up of certified mail. That is some 600 million certified letters per year at an average cost of €4, providing revenues for postal services of some €2.4 billion for European mail companies.

Correos: 2020 letters delivery fees

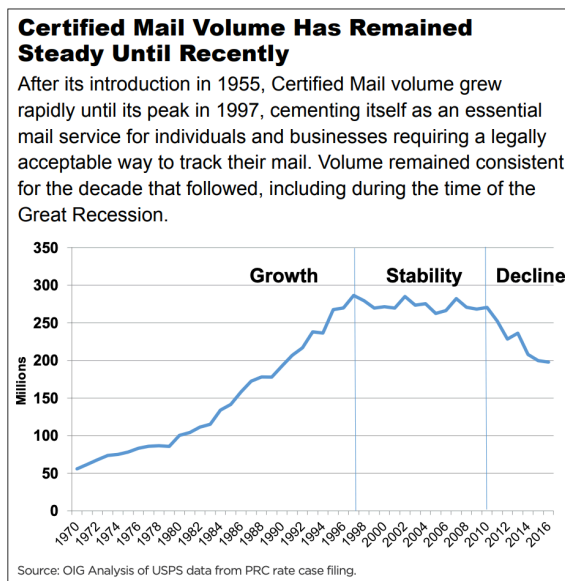
SERVICIOS POSTALES - NACIONAL	Tarifa 2020	IVA	PVP 2020
CARTAS Y TARJETAS POSTALES			
Hasta 20 g normalizadas	0,65	0,00	0,65
Más de 20 hasta 50 g (Incluye hasta 20 g sin normalizar)	0,75	0,00	0,75
Más de 50 g hasta 100 g	1,15	0,00	1,15
Más de 100 g hasta 500 g	2,40	0,00	2,40
Más de 500 g hasta 1.000 g	5,05	0,00	5,05
Más de 1.000 g hasta 2.000 g	5,50	0,00	5,50
Consulte Servicios Adicionales.			
CARTAS CERTIFICADAS			
Hasta 20 g normalizadas	3,80	0,00	3,80
Más de 20 hasta 50 g (Incluye hasta 20 g sin normalizar)	3,90	0,00	3,90
Más de 50 g hasta 100 g	4,30	0,00	4,30
Más de 100 g hasta 500 g	5,55	0,00	5,55
Más de 500 g hasta 1.000 g	8,20	0,00	8,20
Más de 1.000 g hasta 2.000 g	8,65	0,00	8,65
Valores Añadidos: Valor declarado, aviso de recibo, reembolso, prueba de entrega electrónica.			

Source: Correos

In the US, the US Postal Service delivered some 142 billion letters in 2019, down 16% from the 170 billion delivered in 2010 (53% marketing related that represents the bulk of physical letter delivery). The volume of certified mail stood at around 200 million in 2016 (we found no more recent data). The price of certified mail in the US is slightly lower than in Europe at an average of \$3.35, making some \$600 million in revenues for the US Postal Service.

US Postal Service: Certified mail volumes

Figure 1: Certified Mail Volume, 1970 - 2016



It is evident from the statistics is that the use of physical mail is still fairly intense but its only 16% below its highs, meaning it still has a long way down going forwards. Over the next 10

years, we would expect the market for certified mail to have fallen by at least 90% in the very same way paper photography gave way to the digital one. There is no reason to wait days for delivery, there is no need to spend 5-10x more for the paper version.

If we were to extrapolate these €3 billion or so US+EU of certified mail spending per year on a GDP weighted basis to the rest of the world, we would get a global spending of €6 billion. We figure this spending can be replaced digitally for €900 million per year, which would be the estimated addressable market of Lleida.net for certified notifications.

In addition, we would expect the combination of lower cost notifications combined with increasing consumer protection laws and digital consumer growth trends could bring a structural 10% trend growth over the next 10 years. **This means a further €1.1 billion of potential future addressable market of €2 billion.**

Our estimates are based on the assumption of a 30% to 50% unit price reduction over the next 10 years. Without those price reductions, we would be estimating a notification addressable market of €3 billion.

Digital Contracts Market

The estimated market size of business to consumer contracts (the focus of Lleida.net market) is harder to estimate, so we needed to make a number of assumptions. There is simply little or no public data available.

The lion share of current business to consumer contracts are made up regulated telecom companies, financial services (consumer finance and insurance mainly) and utilities (tv, electricity and water). If we were to assume that, on average, every adult consumer signs just two contracts per year in the OECD countries and an average of 0,50 in the rest of the world, we would arrive at some 4.5 billion digital contracts signed per year. Our assumption is that most if not all will go digital in 10 years' time.

That amount of volume contracts would create a digital contract addressable market of €1.5 billion, assuming that current unit price will fall between 30% and 50% over the next 10 years (as with notifications).

We would also need to make an assumption on the creation on new digital product services going forwards, tighter consumer protection laws and the increased consumer trend towards greater contract churn. If we are to assume, like in notifications, a structural 10% market size annual increase **we would end up with an addressable market of €3.5 billion in 2030** (without our price reduction projections, the addressable market could be in excess of €5 billion).

Beyond Covid, it is unlikely that governments, companies and individuals are going back to pen and paper style contracts mainly because the digital ones are a fraction of the cost. Up until now, it was not unusual for lawyers to insist on paper contracts pointing towards a (wrongly) perceived legal insecurity of digital signatures or digitally certified contracts. Covid has changed that perception at an accelerated pace.

On-line Know you Customer (KyC) market

KyC services are an equally large and sought-after service by any on-line business seeking to reduce its exposure to fraud. The most frequent use is in the prevention of money laundering and identity theft by financial services firms.

As far as gauging the actual addressable market size for Lleida.net, its probably even harder than estimating the certified messaging or the digital contract market. Right now, Lleida.net charges its customer on KyC for every successful new customer on board. For the purposes of our estimates, we would assume that 5% of the 600 million OECD working population opens a new financial services account per year that requires KyC and 1% of the remaining 2.9 billion in employment in the rest of the world (290 million). That would translate into an initial estimated addressable market for Lleida.net of €1.1 billion, and we would add an extra trend growth of 5% over the next 10 years to arrive at **€1.7 billion expected addressable market in 2030.**

Notifications + Contracting + KyC market size and its impact on valuation

Adding the three business areas together and having deflated the average price per use of LLeda.net services to allow for future massive volume discounts, **we arrive at an estimated creation of a global addressable market of €7.2 billion.** Within these three areas, notifications are where Lleida.net draws its greatest market strength due to its families of patents and KyC services is probably where there is more competition.

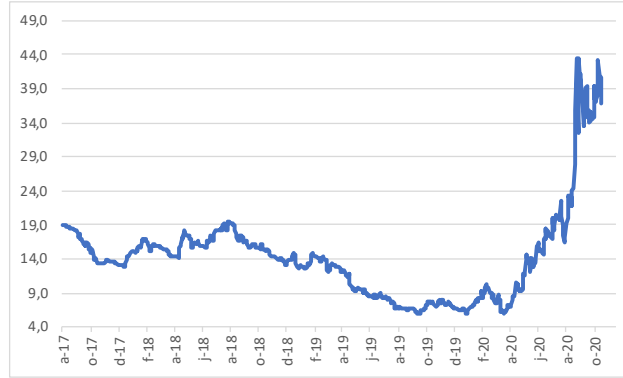
Over a 10-year horizon, we are projecting the following peak sales scenarios for Lleida.net and what it means for its current valuation metrics.

Market size (bn) € 7.2	SaaS sales yr-10 (millions)	Market Share	NPV SaaS (millions)	NPV per Share
Scenario 1	€ 75	1,0%	€ 128	€ 10
Scenario 2	€ 100	1,4%	€ 167	€ 13
Scenario 3	€ 125	1,7%	€ 205	€ 15
Scenario 4	€ 150	2,1%	€ 242	€ 17
Scenario 5	€ 175	2,4%	€ 280	€ 20

Source: Checkpoint Partners

In 2020, Lleida net is expected to sell just under €6 millions of SaaS services (notification, contracting and KyC) which is a mere 0.1% of our expected future addressable global market for these services. With a patent protect product services, Lleida.net is in an impeccable position to play a winning role in this vast global market. The sky is still very much blue for Lleida.net and hence the current valuation ratios.

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	156,7	2021	17,3	57,5
			2022	11,4	31,2
Telecom	SMS	2,9	2021	1,1	7,4
			2022	1,1	6,0
	ICX	32,1	2021	3,1	17,6
			2022	2,7	13,5
Sum of Parts		191,7	2021	8,7	38,8
			2022	6,8	24,4
Net Debt		-1,3			
Equity Valuation		193,0			
Target Price		12,00			
Share Price		8,90			
Upside		35%			

Source: Checkpoint Partners

We have spiked up our target valuation on the back of our earnings revision for 2021 and 2022, with new Net Income estimates of €4.3 million (€3.6 million) and €6.6 million (€4.0 million) respectively. The new contract wins are providing us with greater confidence of future profit growth.

In addition, over the past quarter we have seen the consensus on the Covid taking a different course. At the height of the summer there was optimism stemming from the containment of the worse health effects of the pandemic, which was combined with well-publicised hopes of an effective vaccine being developed by a number of pharmaceutical companies. Now we know that although a vaccine is most probably on the way by year end, return to the kind of normally we would wish, will not happen for at least another year. This means that governments, corporates and individuals will continue to embrace digitalization with greater assertiveness as a mean for survival.

We have taken the long view of what this means for Lleida.net and we are of the opinion that the company is sitting on the right SaaS product, ready to ride the transformation of notification, contracts and KyC services. This view cannot be crystalized in just two years' worth of earnings forecasts and therefore we are likely to see high valuation multiples for some time to come.

Quarterly Profit and Loss (consolidated)

(€ 000')	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	% y-o-y		
Software Services	781	993	854	1.034	1.081	1.259	1.380	38	27	62
SMS Solutions	709	598	592	604	662	566	618	-7	-5	4
ICX	1.343	1.631	1.935	2.547	2.303	1.948	1.912	71	19	-1
Turnover	2.833	3.222	3.382	4.185	4.046	3.773	3.910	43	17	16
Cost of sales	-1.337	-1.465	-1.675	-2.132	-2.156	-1.880	-1.861	61	28	11
Gross Profit	1.496	1.757	1.707	2.053	1.890	1.893	2.049	26	8	20
<i>Gross Margin</i>	53%	55%	50%	49%	47%	50%	52%	-12	-8	4
Capitalized R&D*	239	272	219	205	168	163	174	-30	-40	-21
Personnel Expenses	-755	-822	-952	-869	-874	-876	-903	16	7	-5
Other SG&A	-667	-681	-345	-690	-760	-544	-437	14	-20	27
Depreciation	-286	-282	-285	-282	-288	-297	-298	1	5	5
Other	6	0	1	48	0	-10	-31	n.m.	n.m.	n.m.
Operating Costs	-1.702	-1.785	-1.580	-1.793	-1.922	-1.727	-1.669	13	-3	6
Operating Income	33	244	346	465	136	329	554	312	35	60
<i>Operating Margin</i>	1%	8%	10%	11%	3%	9%	14%	189	15	39
Ebitda	319	526	631	747	424	626	852	33	19	35
<i>Ebitda Margin</i>	1%	8%	10%	11%	3%	9%	14%			
Ebitda**	80	254	412	542	256	463	678	220	82	65
<i>Ebitda Margin</i>	3%	8%	12%	13%	6%	12%	17%			
Extraordinaries	0	0	0	-11	0	0	0	n.m	n.m	n.m
Financial Costs	-20	-20	80	-18	-19	-15	-17	-5	-25	-121
FX	25	-30	27	-46	-49	-41	-55	-296	37	-304
Non-op. Results	5	-50	107	-75	-68	-56	-72	-1460	12	-167
Profit Before Tax	38	194	453	390	68	273	482	79	41	6
Cash Flow	54	234	491	465	237	458	692	339	96	41

Source: Lleida.Net, Checkpoint Partners

Profit and Loss (consolidated)

(€ millions)	2019	2020f	2021f	2022f
Sales by division				
Software Services	3,7	5,7	9,1	13,7
SMS Solutions	2,5	2,5	2,5	2,7
ICX	7,5	9,1	10,5	12,0
Sales by division (%)				
Software Services	27%	33%	41%	48%
SMS Solutions	18%	14%	12%	9%
ICX	54%	52%	47%	42%
Turnover	13,7	17,4	22,1	28,4
Cost of sales	-6,6	-8,6	-10,2	-12,0
Gross Profit	7,1	8,8	12,0	16,4
<i>% y-o-y growth</i>	18%	23%	36%	37%
<i>Gross Margin</i>	52%	51%	54%	58%
Capitalized costs (R&D)	0,9	0,7	0,7	0,7
Personnel Expenses	-3,1	-3,6	-4,2	-5,2
Other SG&A	-2,7	-2,4	-2,8	-3,3
Depreciation	-1,2	-1,1	-1,0	-0,9
Total Operating Costs	-7,0	-7,2	-7,9	-9,3
<i>% y-o-y growth</i>	10	4	10	18
Operating Income	1,1	2,2	4,7	7,7
<i>Operating Margin</i>	8%	13%	21%	27%
Ebitda	2,3	3,4	5,7	8,6
<i>Ebitda Margin</i>	16%	19%	26%	30%
Ebitda (ex-capitalizations)	1,3	2,7	5,0	7,9
<i>Ebitda Margin</i>	10%	16%	23%	28%
Financial Income	0,1	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	0,0	-0,1	0,0	0,0
Profit Before Tax	1,1	2,1	4,7	7,7
Tax	0,0	-0,1	-0,4	-1,2
Net Income	1,1	2,0	4,3	6,6
Cash Flow	1,3	2,5	4,6	6,7

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2019	2020f	2021f	2022f
Fixed Assets	4,4	4,2	4,4	4,3
Intangible Assets	3,8	3,6	3,5	3,4
Tangible Assets	0,4	0,4	0,6	0,6
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	10,2	11,7	17,3
Inventory	0,0	0,0	0,0	0,0
Debtors	3,6	4,4	5,4	6,4
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	4,2	4,6	9,2
Assets	10,7	14,4	16,1	21,6
Shareholders' Funds	4,4	7,8	11,1	16,4
<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	2,0	5,3
<i>Repurchase of share capital</i>	-0,8	0,0	0,0	0,0
<i>Profit and Loss account</i>	1,1	1,6	3,8	5,9
Long Term Debt	1,7	1,7	1,4	1,3
Current Liabilities	4,6	4,9	3,5	3,9
Short Term Debt	1,9	1,8	0,0	0,0
Provisions	0,1	0,1	0,1	0,1
Creditors	2,6	3,1	3,4	3,8
Liabilities	10,7	14,4	16,1	21,6
(€ millions)				
Dividends	0,2	0,3	0,5	0,6
Working Capital	0,9	1,4	2,0	2,6
Debtor Turnover (days)	80	84	82	76
Creditor Turnover (days)	69	71	69	65
Financial Debt	3,5	3,4	1,4	1,3
Cash	2,4	5,5	6,0	10,6
Net Debt	1,1	-2,1	-4,6	-9,3

Source: Lleida.net and Checkpoint Partners

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- **Buy:** the stock is expected to generate total return of over 15% during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of -15% to +15% during the next 12 months time
- **Sell:** the stock is expected to generate total return under -15% during the next 12 months time horizon.

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
21.04.2020	BUY	4,34	6,00	12 months	Guillermo Serrano

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