

Lleida.net

BUY

SaaS continues to ride at full gallop

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7am, 26th January 2021

Lleida.net has finished the year at an accelerated pace in its most profitable SaaS division with a quarterly 107% increase (to €1.98 million) relative to 4Q19 (€0.96 million) and a 43% increase relative to 3Q20 (€1.4 million). This is the clearest evidence of the current acceleration in the digitalization of the global economy. By comparison, a year ago (pre-Covid) Lleida.net reported a 4Q19 quarterly increase in SaaS of 24% and a 12% increase relative to 3Q19.

By contrast, the still meaningful ICX division (SMS services with other operators and aggregators) receded some 23% in 4Q20 versus a year ago, but still 4% higher than in 3Q20. Taking the whole year into perspective, the division grew some 9% which is positive considering that SMS traffic has suffered under Covid (tourism and travel are traditionally large consumers). SMS Solutions held its ground with an 8% during the quarter vs 4Q19 (+17% vs 3Q20).

The reported Ebitda fell by 14% to €627k from a combination of the slowdown in Gross Profit growth of +4% with a pick-up in cash operating costs of +9%.

The Balance Sheet strengthened again with an increase in the net cash position of €2.2 million vs €1.4 million in 3Q20 and -€1.1 million in 4Q19. The continued cash flow generation and the sale of treasury stock are behind the improved net cash position.

We expect 2021 to be another good year for Lleida.net driven by the strong emergence of the SaaS product, which we estimate to represent over 80% of the value of Lleida.net.

We have slightly lowered our 12-month target price to €11.35 (vs €12) to reflect the lower-than-expected ICX result and our lower EPS forecasts for 2021 (from 27c to 22c) and 2022 (from 41c to 36c). Still remain positive overall with a BUY recommendation.

Equities

Spain Telecom/Software Services

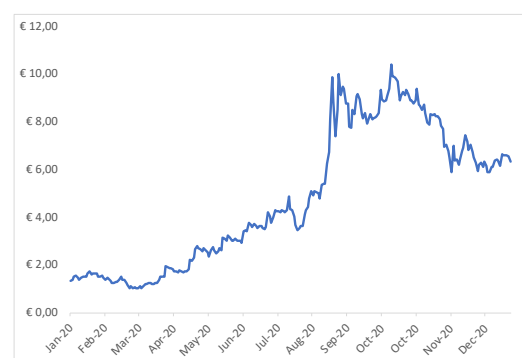
Price (4 pm 25/1/21): €6.00 (LLN.MC),
€6.00 (ALLLN.PA)

Target Price: €11.35

Trading Data

52 week range (€): 1.01 – 10.40
Mkt Cap (€ millions): 96.3
No. Shares (millions): 16.04
Avg Daily vol (€ LTM): 730k

Share Price Chart (LTM)



(€ millions)	2019	2020	2021f	2022f
Turnover	13,7	16,5	21,3	27,7
Ebitda (cash)	1,3	2,0	4,2	7,1
Net Profit	1,1	1,0	3,5	5,8
EPS	0,07	0,06	0,22	0,36
Net Debt	1,1	-2,2	-4,6	-9,5
EV/Ebitda	72,6	48,5	22,9	13,5
P/E	88,7	94,2	27,4	16,5
FCY	1%	2%	4%	6%

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A brave new 2021 to look forward to, for Lleida.net

2020 has been a year where the World discovered Lleida.net's role in the digital world as an enabler of legal security of online contracting and notification. As a result, its share price skyrocketed throughout 2020 to over 10x at its peak and then down to the current €6 per share.

New customer contracts and API demand for its services have been flooding in, since the month of March, resulting in the 59% yearly increase in SaaS sales just announced. In addition, Lleida.net has made public the sales trend in a selection of key business segments within SaaS and they all point towards continued growth.

2020 vs 2019 growth

- Click & Sign API's customer assignments ... + 236%
- Traffic of Click & Sign API's ... + 228%
- Certified email ... +228%
- Certified SMS contract ... +100%
- Certified SMS ... + 97%

Our estimates for 2021 point towards growth of 67% in SaaS sales to a projected €9.5 million versus the just released €5.7 million (+56% vs 2019).

From a quarterly perspective, we have seen growth rising in 2020 from 38% in Q1, by 27% in Q2, by 62% in Q3 all the way to 107% in Q4, a quarterly record of almost €2 million in SaaS sales. We are projecting an ambitious, yet less pronounced Q-o-Q growth pattern.

Our forecast for 2021 translates into an average of €2.4 million for each quarterly SaaS sales, an average increase of 20% relative to 4Q20. We believe this sales target to be more than achievable, given the very strong growth trend and the perceived level of demand in the market.

Lleida.net has also continued to hire more professionals to add to its capacity to deliver on the increased demand for its services, a signal of management confidence for 2021.

Our confidence is further strengthened by the increasing international reach of its services, as seen by the recent contract wins in Portugal, South Africa or the UAE. Lleida.net has also a formidable customer reach as well, as a telecom operator, through its 1,500 interconnection agreements around the world. All things together point towards a 2021 of strong revenue growth.

No cause for panic in 4Q20 ICX sales performance

The market has been taken by surprise with a 23% quarterly decline in the ICX division and hence the negative impact on the share price as of the close of yesterday.

The ICX division is the largest in terms on nominal sales at Lleida.net but its margins are structurally lower than SMS Solutions or SaaS, because it's essentially a high-volume wholesale business. Any quarterly swing in activity has potentially a large impact in the headline sales figure, but not necessarily in the underlying value of the company.

This 4Q20, the reported sales decline has been exacerbated by a particularly difficult comparison with last year. In 4Q19, the ICX division grew some 70% and represented 1/3 of the sales of the whole of 2019. This 4Q20, the reported ICX sales represented some 25% of the sales of the whole of 2020, meaning that sales were more evenly distributed as opposed to 2019 that were backloaded into the last three months of the year.

The market should take comfort that sales for the whole of 2020 were up by 9% in a particularly difficult Covid year, which may well pave the way for a rebound in growth during 2021.

We are not so much worried about the ICX sales performance but rather by margins at ICX, given that pricing pressure has been observed in the market. Mobile operators around the world, under pressure in a number of revenue areas, have decided to increase SMS delivery charges at a time where SMS operators and aggregators have not had the time to pass the price increases onto customers. This has been particularly felt in 4Q20 (sign of it also seen in 3Q20) judging by the contraction in the Gross margin.

We believe Lleida.net has the cost base and the agility to manoeuvre around the current volatility in the ICX as well as the ability to leverage on the 1,500 interconnections around the world to introduce its SaaS services.

We remain confident that Lleida.net retains a strong franchise in the space just by looking back into recent performance. ICX managed strong growth in 2017 (+42%) and 2018 (+51%) followed by a slower but still noticeable sales increases in 2019 (+13%) and 2020 (+10%) despite the impact of Covid. We are therefore comfortable in projecting an 11% revenue increase in ICX for 2021, in line with the growth already observed in 2020.

SUM OF THE PARTS VALUATION

Sector	Division	EV (€)	DCF (€)	Year	Actual		Target	
					EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Software	Saas	80,0	153,6	2021e	8,4	32,6	16,1	62,6
				2022e	5,5	15,9	10,5	30,5
Telecom	SMS	1,4	2,7	2021e	0,5	8,2	1,0	15,8
				2022e	0,5	7,9	1,0	15,1
	ICX	12,8	24,5	2021e	1,4	8,6	2,7	16,4
				2022e	1,2	6,9	2,4	13,3
Sum of Parts		94,1	180,8	2021e	4,4	22,9	8,5	43,9
				2022e	3,4	13,3	6,5	25,6
Net Debt (4Q20)		-2,2	-2,2					
Equity Valuation		96,3	183,0					
Per shr		6,00	11,35					
Upside			+89%					

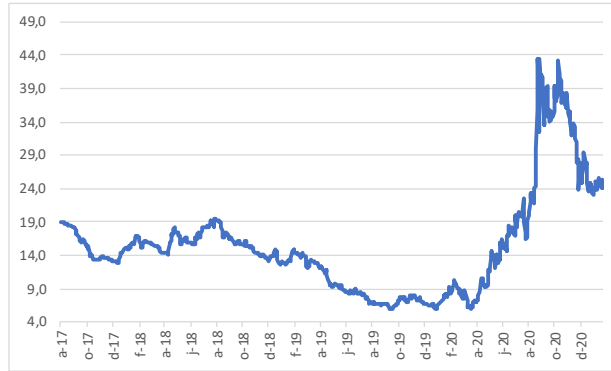
Source: Checkpoint Partners

We have now included a comparison between the way we perceive the market currently values the sum of the parts of Lleida.net and a comparison with the multiples resulting from our target price.

Resulting from our DFC analysis, we believe that over 80% of the value of Lleida.net is in the SaaS product that just grew some 107% in 4Q20, with an expectation for a further 67% in 2021 (hence the market premium). We attribute market multiples, consistent with the broader market averages, for the SMS businesses in line with our perception of a single digit long term growth expectations.

In this quarterly report we have reduced our target equity value from €193 million to €183 million resulting from lowering our forecasts of the ICX division and therefore of Lleida.net as a whole.

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

Quarterly Profit and Loss (consolidated)

(€ 000´)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	% y-o-y			
Software Services	781	993	854	957	1.081	1.259	1.380	1.977	38	27	62	107
SMS Solutions	709	598	592	669	662	566	618	724	-7	-5	4	8
ICX	1.343	1.631	1.935	2.598	2.303	1.948	1.912	1.990	71	19	-1	-23
Turnover	2.833	3.222	3.382	4.224	4.046	3.773	3.910	4.691	43	17	16	11
Cost of sales	-1.337	-1.465	-1.675	-2.130	-2.156	-1.880	-1.861	-2.508	61	28	11	18
Gross Profit	1.496	1.757	1.707	2.094	1.890	1.893	2.049	2.183	26	8	20	4
<i>Gross Margin</i>	<i>53%</i>	<i>55%</i>	<i>50%</i>	<i>50%</i>	<i>47%</i>	<i>50%</i>	<i>52%</i>	<i>47%</i>	-12	-8	4	-6
Capitalized R&D	239	272	219	205	168	163	174	157	-30	-40	-21	-23
Personnel	-755	-822	-952	-869	-874	-876	-903	-957	16	7	-5	10
Other SG&A	-667	-681	-345	-704	-760	-544	-437	-756	14	-20	27	7
Depreciation	-286	-282	-285	-283	-288	-297	-298	-299	1	5	5	6
Other	6	0	1	37	0	-10	-31	-44	n.m.	n.m.	n.m.	n.m.
Operating Costs	-1.702	-1.785	-1.580	-1.819	-1.922	-1.727	-1.669	-2.056	13	-3	6	13
Operating Income	33	244	346	480	136	329	554	284	312	35	60	-41
<i>Operating Margin</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>3%</i>	<i>9%</i>	<i>14%</i>	<i>6%</i>	189	15	39	-47
Ebitda	319	526	631	763	424	626	852	583	33	19	35	-24
<i>Ebitda Margin</i>	<i>1%</i>	<i>8%</i>	<i>10%</i>	<i>11%</i>	<i>3%</i>	<i>9%</i>	<i>14%</i>	<i>6%</i>				
Ebitda (cash)	80	254	412	558	256	463	678	426	220	82	65	-24
<i>Ebitda Margin</i>	<i>3%</i>	<i>8%</i>	<i>12%</i>	<i>13%</i>	<i>6%</i>	<i>12%</i>	<i>17%</i>	<i>9%</i>				
Extraordinaries	0	0	0	0	0	0	0	0	n.m	n.m	n.m	n.m
Financial Costs	-20	-20	80	-19	-19	-15	-17	-14	-5	-25	-121	-26
FX	25	-30	27	-46	-49	-41	-55	-55	-296	37	-304	20
Non-op. Results	5	-50	107	-65	-68	-56	-72	-69	n.m.	12	-167	6
Profit Before Tax	38	194	453	415	68	273	482	215	79	41	6	-48
Cash Flow	54	234	491	502	237	458	692	456	339	96	41	-9

Source: Lleida.Net, Checkpoint Partners

Profit and Loss (consolidated)

(€ millions)	2019	2020	2021f	2022f
Sales by division				
Software Services	3,7	5,7	9,5	14,6
SMS Solutions	2,5	2,6	2,6	2,8
ICX	7,5	8,2	9,1	10,3
Sales by division (%)				
Software Services	27%	35%	45%	53%
SMS Solutions	18%	16%	12%	10%
ICX	54%	49%	43%	37%
Turnover	13,7	16,5	21,3	27,7
Cost of sales	-6,6	-8,4	-10,4	-12,7
Gross Profit	7,1	8,1	10,9	15,1
<i>% y-o-y growth</i>	18%	14%	35%	38%
<i>Gross Margin</i>	52%	49%	51%	54%
Capitalized costs (R&D)	0,9	0,7	0,7	0,7
Personnel Expenses	-3,1	-3,6	-4,1	-4,9
Other SG&A	-2,7	-2,5	-2,6	-3,0
Depreciation	-1,2	-1,2	-1,0	-0,9
Total Operating Costs	-7,0	-7,3	-7,7	-8,8
<i>% y-o-y growth</i>	10	5	6	14
Operating Income	1,1	1,5	3,9	6,9
<i>Operating Margin</i>	8%	9%	18%	25%
Ebitda	2,3	2,6	4,9	7,8
<i>Ebitda Margin</i>	16%	16%	23%	28%
Ebitda (ex-capitalizations)	1,3	2,0	4,2	7,1
<i>Ebitda Margin</i>	10%	12%	20%	26%
Financial Income	0,1	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	-0,1
FX and Other	0,0	-0,3	0,0	0,0
Financial Results	0,0	-0,4	-0,1	0,0
Profit Before Tax	1,1	1,1	3,8	6,9
Tax	0,0	0,0	-0,3	-1,0
Net Income	1,1	1,0	3,5	5,8
Cash Flow	1,3	1,5	3,8	6,1

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2019	2020e	2021f	2022f
Fixed Assets	4,4	4,1	4,3	4,2
Intangible Assets	3,8	3,5	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	9,6	11,9	17,6
Inventory	0,0	0,0	0,0	0,0
Debtors	3,6	4,2	5,2	6,1
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	3,9	5,1	9,8
Assets	10,7	13,7	16,1	21,8
Shareholders' Funds	4,4	7,3	10,5	15,9
<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	1,4	4,6
<i>Repurchase of share capital</i>	-0,8	0,3	0,3	0,3
<i>Profit and Loss account</i>	1,1	1,0	3,5	5,8
Long Term Debt	1,7	2,1	1,8	1,6
Current Liabilities	4,6	4,3	3,8	4,3
Short Term Debt	1,9	0,9	0,0	0,0
Provisions	0,1	0,1	0,1	0,1
Creditors	2,6	3,3	3,7	4,2
Liabilities	10,7	13,7	16,1	21,8
(€ millions)				
Dividends	0,2	0,3	0,5	0,6
Working Capital	0,9	0,9	1,4	2,0
Debtor Turnover (days)	80	86	80	74
Creditor Turnover (days)	69	75	75	70
Financial Debt	3,5	3,0	1,8	1,6
Cash	2,4	5,2	6,4	11,1
Net Debt	1,1	-2,2	-4,6	-9,5

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.

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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
21.07.2020	BUY	4,34	6,00	12 months	Guillermo Serrano
26.10.2020	BUY	8,90	12,00	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 a small 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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