

# Lleida.net

# BUY

Lightning has strike twice, the weather should now improve

Analyst: Guillermo Serrano - [gfs@checkpointp.com](mailto:gfs@checkpointp.com)

7am, 5th September 2023\*

lleida.net reported a loss of €0.6 million in 2Q23 (published last August 9th) with an unanticipated 48% quarterly decline in ICX sales to €1.2 million. This fall in sales was principally responsible for the loss during the quarter. The drop of 472 as a client (announced in 1Q23) did, as expected, hit the Notification line that fell by 25% in 2Q23.

### What happens next?

We believe the SaaS business fundamentally remains a valuable growth business (without the loss of 472, SaaS would still be growing in 2023), whilst the SMS divisions are expected to be low growth (relative stable until now) cash-flow generative additions to the overall group.

The management already began in 2022 a cost rationalization plan that has resulted in a contained 3% increase in cash operating costs in 2023, in line with inflation. We expect cost rationalization to continue going forwards.

### New forecasts and Price Target

We are reducing (by 18%) the 2023 Gross Profit line forecasts to €10.4 million (flat vs 2022) and the Operating Cash Flow line (Ebitda cash) to €0.5 million (vs an earlier expectation of €2.4 million)

We are dropping our price target from €5.00 to €3.00 to reflect our lower estimates. We fundamentally believe that Lleida net remains a sound SaaS play that has been hit by short term third party events.

### Equities

### BME Growth

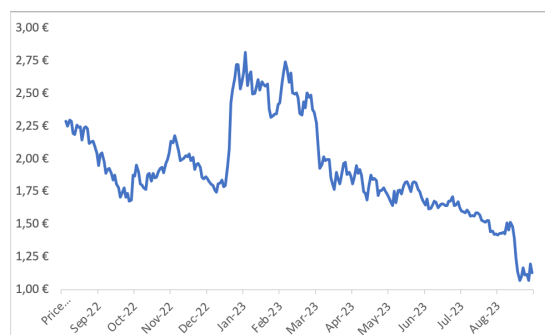
Price (4pm 4/9/23): €1.20

RIC: LLN.MC

**Target Price (12-18 m): €3.00**

52-Wk range (€):	2.82 - 1.07
Cap. Bur. (€ millones):	18.4
No. Shares (millions):	16,05
Avg. daily Vol. (€12m):	91k
Daily volatility (avg. LTM):	3.5%

Price Chart (12 months)



(€ millions)	2022	2023e	2024e	2025e
Turnover	20,7	18,1	20,0	21,4
Ebitda	0,8	0,5	1,9	2,5
Net Profit	-0,5	-0,9	0,4	1,0
EPS	-0,03	-0,06	0,03	0,06
Net Debt	8,6	8,7	7,4	5,7
EV/Sales	1,3	1,5	1,4	1,3
EV/Ebitda	34,9	56,6	14,5	11,0
P/E	-37,4	-21,4	44,8	20,1
CFY	3%	1%	8%	11%

## Reasons to believe in Lleida.net

We fundamentally believe Lleida net has build up strong niche franchises in both he SMS and and LegalTech space with a complementary Indenova acquisition. The latest volatility in SMS revenues, the unexpected 472 episode and a slower than anticipated business realignment of Indenova, are adverse (and relevant) short-term events within what we believe to be a long term growth and value creation trend.

- **Contracting:** last July 2023, Lleida net released production numbers relating to the main click & sign product line point towards an increase of unique users and volumes of usage. It is an indication that the franchise continues to deliver growth and that it has not yet reached the mature stage of its growth potential.
- **Notification:** the product line is made up of their patented certified email product and excluding the 472 effect, this business line continues to deliver positive rates of growth. Moreover, in the context of a slowing economy and rising non-performing debts, the notification product should prove its resilience.
- **Other SaaS:** this division is a mixture of products brought in by Indenova and other Lleida net services, which together include service licenses, email checking, time stamps, mobile number directories for third party operators and identity verification transactions. This division has risen by 18% during the first half of 2023 (albeit by 3% in 2Q23), but we expect growth to be positive going forwards following the changes implemented after the acquisition of Indenova.
- **SMS Solutions and ICX:** The SMS franchise has shown signs of faltering in 2023, particularly the ICX side. It is a profitable division for Lleida net because the cost base that is used to run these two divisions is fairly modest, yet its revenues are harder to predict and depend on outside influences that are difficult to anticipate. Despite the issues, Lleida net is a significant global player in this niche area of the telecom space and their software infrastructure allows them to always stay competitive relative to other players.

**Looking into 2024, we expect costs to continue to be readjusted whilst revenues should bounce in the absence of the negative drivers seen in 2023. The mixture of the two should result in an improvement in the Ebitda and with it a return to a value creation virtuous cycle.**

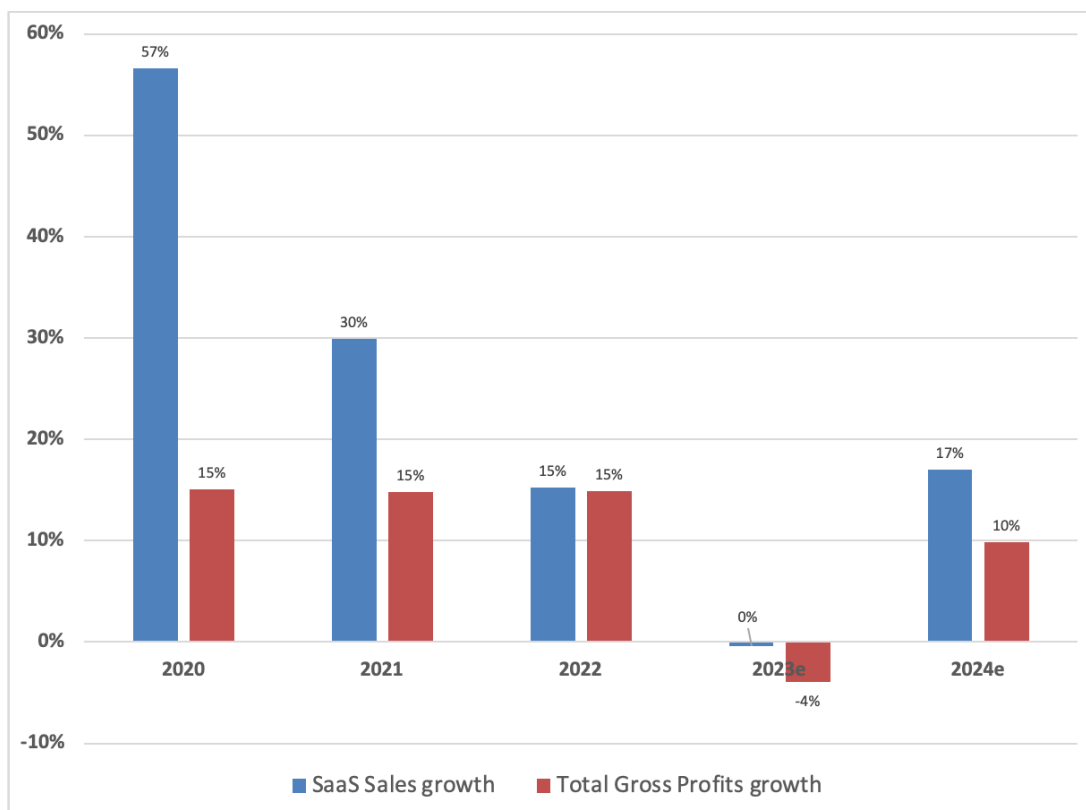
## Reasons for the drop in value

Lleida net stock has so far fallen some 50% during the last 12 months and just over 90% from its peak in 2020. The reason: a sharp contraction of valuation multiples following a significant slowdown in sales growth.

The 2020 COVID rally (from under €1 to over €10 per share) was fueled by the expectation of the digital solutions provided by lleida.net were an effective, immediate and legal alternative to paper contracts and notifications, from which corporates could draw from during the pandemic.

At its peak (October 2020), lleida.net was trading on a 2020 EV/Sales of over 10x, justified by a 57% increase in SaaS sales during that year. That year SaaS contributed to 26% of overall sales, so the rise in SaaS sales feed through to a 15% increase in consolidated Gross Profits (SMS was growing single digits).

### **Actual and expected SaaS Sales and Gross Profit growth (2020-2024e)**



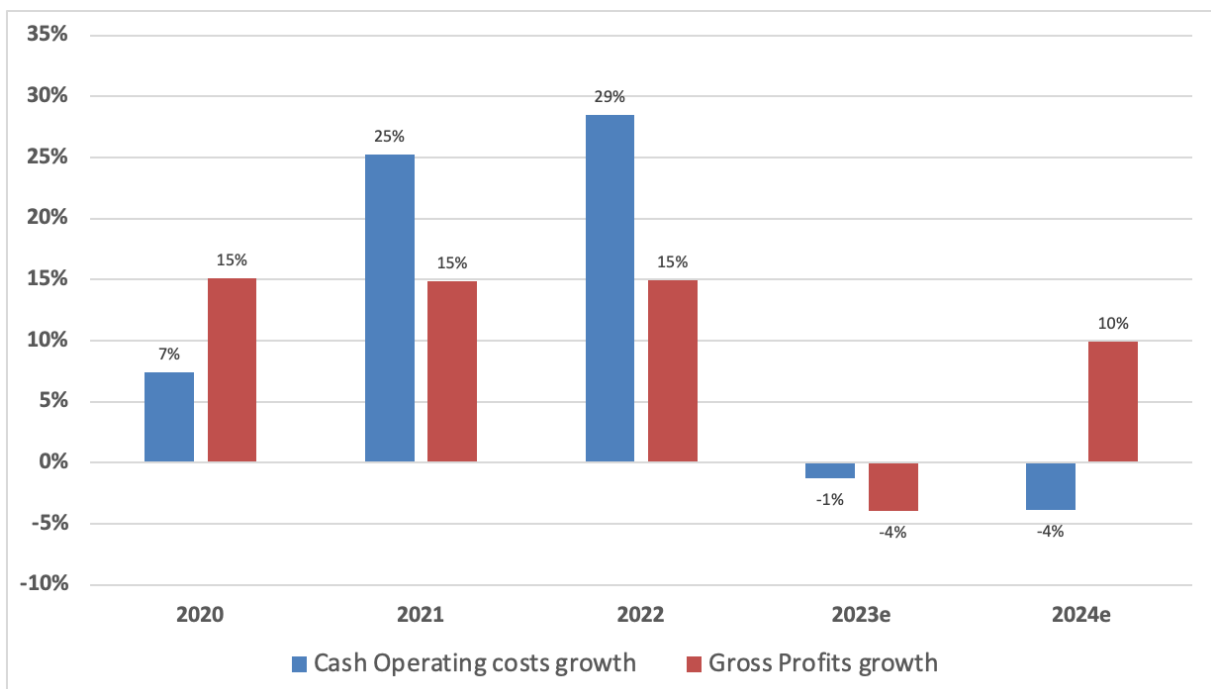
Source: lleida.net and Checkpoint

A year later, 2021, SaaS sales slowed down to 30% (below market expectations), which pushed the share price down by 50% and its 2021 EV/Sales multiple to 4.8x,

by October 2021 (to compare it with the peak of October 2020). That year, Lleida net embarked in an ambitious build up of costs (cash operating costs rose by 25%) and yet Gross Profit growth remained stable at 15%, thereby starting to put pressure on Ebitda margins.

Then in 2022, SaaS sales growth slowed down again, this time to 15%, which coincided with overall Gross Profit growth of 15% (SMS sales grew by 15% in 2022). Despite a reasonable Gross Profit performance, the build up again of cash Operating costs, rising by 29% (mostly on the back of the Indenova acquisition), meant a further contraction in the Ebitda margin.

**Actual and expected Operating Costs and Gross Profit growth (2020-2024e)**



Source: [lleida.net](http://lleida.net) and Checkpoint

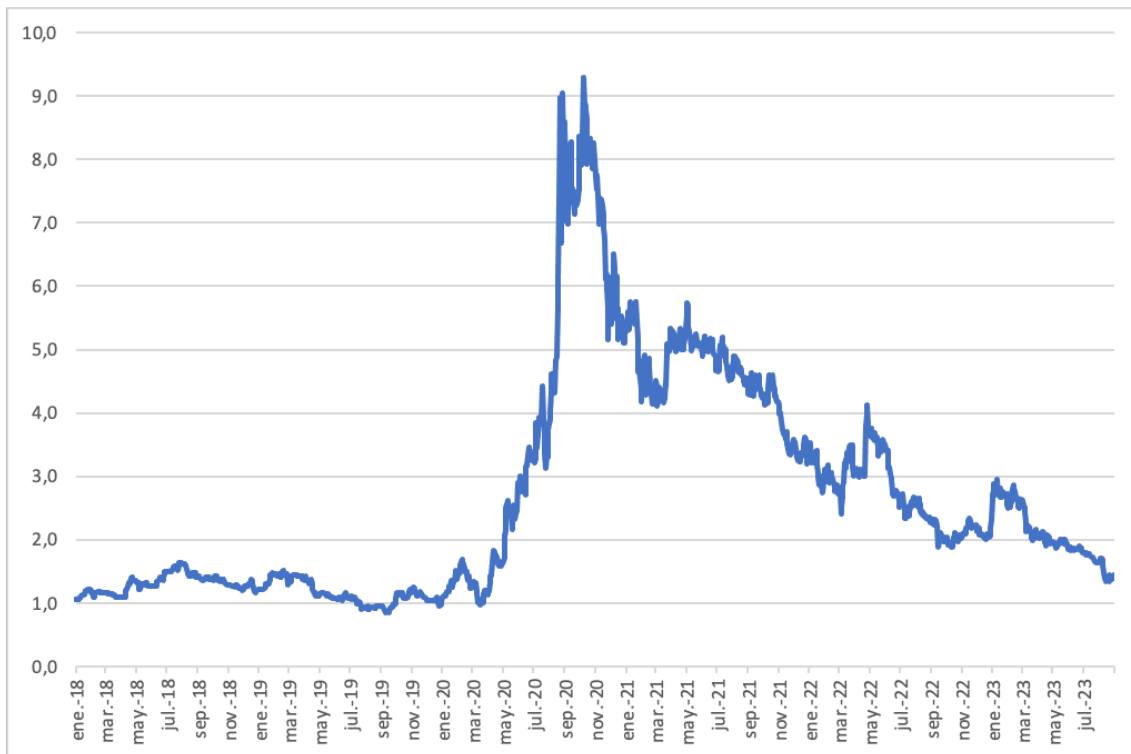
The deteriorating Ebitda performance coupled with the global sell-off in technology stocks drove LLN down by a further 63% (October 2021 to October 2022). On the second anniversary of the peak, the share price was at €1.78 and the stock on a 2022 EV/Sales multiple of 1.8x.

A couple of external incidents, now in 2023, have derailed the 15% Gross Margin Growth trend at a time where management was starting to take cost adjustment measures to realign revenues with costs. The surprise default of 472 and subsequent client loss together with the surprise sharp drop in ICX revenues during this first half

of 2023 have driven our sales growth expectations to -13% (and SaaS sales growth to 0%) for this year.

The negatives in 2023 have driven the stock further down to today's price of €1.15 and a 2023 EV/Sales multiple of 1.5x.

**EV/Sales 2018-2023 (12m fwd)**



Source: Checkpoint

The correlation between the slowdown in sales growth and the EV/sales multiple contraction has been notable during the last 3 years. The impact of the slowdown on cash-flow generation has been noteworthy too, given that management has been building a cost infrastructure for higher expected levels of growth, and hence the impact on the share price.

## Where we value LLN at present

Sector	Division	12 m		Year	Current (estimate)		Target (DCF based)	
		Current EV (€ m)	Target DCF (€ m)		EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Software	Saas	16,5	32,6	2023e	1,9	n.m.	3,8	n.m.
				2024e	1,6	n.m.	3,3	n.m.
Telecom	SMS	5,6	11,1	2023e	1,6	5,5	3,2	10,9
				2024e	1,5	6,0	3,0	11,9
	ICX	6,0	11,9	2023e	0,9	5,3	2,0	10,4
				2024e	0,9	5,5	1,9	11,0
Sum of Parts		28,2	55,6	2023e	1,6	62,2	3,1	122,8
				2024e	1,4	15,1	2,8	29,8
Net Debt (€ m)		8,9	7,4					
Equity Value (€ m)		19,3	48,2					
Per shr (€)		1,20	3,00					
Upside			150%					

Source: Checkpoint

Our sum of the Parts valuation are estimates of where we think the market is valuing each of lleida.net divisions and where we would value them according to our target price of €3 per share.

We make an estimate of how the Ebitda is distributed between each of the divisions, given that the actual numbers are not reported. Based on those estimates we provide an EV/Ebitda multiple for each of the divisions, both in the way we think they are being valued today and how we value them based on our target price.

Compared to our sum of the parts valuation in our last report, we have changed our estimates of revenues and costs of the divisions. As a result, we have reduced our valuation of the SaaS division from €52 million to the current €33 million, whilst the sum of the two SMS divisions are largely the same as in our last report (the relative value of SMS Solutions vs ICX has actually changed). We build our target price based on a DCF analysts for each of the divisions.

## Profit and Loss account by Quarter: 2021 and 2022

(€ 000')	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23		
<i>Contracting</i>	762	842	784	611	766	856	1	2
<i>Notification</i>	627	498	642	701	506	374	-19	-25
<i>Other SaaS</i>	754	695	576	1089	989	716	31	3
Software Services	2.143	2.035	2.002	2.401	2.261	1.946	6	-4
SMS Solutions	1.061	901	834	838	797	867	-25	-4
ICX	2.013	2.380	2.341	1.721	1.633	1.230	-19	-48
<b>Turnover</b>	<b>5.217</b>	<b>5.316</b>	<b>5.178</b>	<b>4.960</b>	<b>4.691</b>	<b>4.043</b>	<b>-10</b>	<b>-24</b>
Cost of sales	-2.602	-2.629	-2.632	-2.031	-1.907	-1.797	-27	-32
<b>Gross Profit</b>	<b>2.615</b>	<b>2.687</b>	<b>2.546</b>	<b>2.929</b>	<b>2.784</b>	<b>2.246</b>	<b>6</b>	<b>-16</b>
<i>Gross Margin</i>	50%	51%	49%	59%	59%	56%		
Capitalized R&D	269	336	292	259	239	204	-11	-39
Personnel Expenses	-1.533	-1.643	-1.564	-1.612	-1.667	-1.699	9	3
Other SG&A	-975	-868	-682	-1.144	-983	-799	1	-8
Depreciation	-518	-508	-516	-531	-526	-513	2	1
Provisions	0	0	0	0	-24	-24	-	-
Other	8	11	16	26	16	4	100	-64
<b>Operating Costs</b>	<b>-3.018</b>	<b>-3.008</b>	<b>-2.746</b>	<b>-3.261</b>	<b>-3.184</b>	<b>-3.031</b>	<b>6</b>	<b>1</b>
<b>Operating Income</b>	<b>-134</b>	<b>15</b>	<b>92</b>	<b>-73</b>	<b>-161</b>	<b>-581</b>	<b>20</b>	<b>n.m.</b>
<i>Operating Margin</i>	-3%	0%	2%	-1%	-3%	-14%		
<b>Ebitda*</b>	<b>376</b>	<b>512</b>	<b>592</b>	<b>432</b>	<b>389</b>	<b>-44</b>	<b>3</b>	<b>n.m.</b>
<i>Ebitda Margin</i>	7%	10%	11%	9%	8%	-1%		
<b>Ebitda (Cash)*</b>	<b>107</b>	<b>176</b>	<b>300</b>	<b>173</b>	<b>150</b>	<b>-248</b>	<b>40</b>	<b>n.m.</b>
<i>Ebitda Margin</i>	2%	3%	6%	3%	3%	-6%		
Extraordinaries	0	13	0	0	0	0		
Financial Costs (net)	19	-24	17	-227	-115	14		
<b>Profit Before Tax</b>	<b>-115</b>	<b>-9</b>	<b>109</b>	<b>-300</b>	<b>-276</b>	<b>-567</b>		
<b>Cash Flow</b>	<b>134</b>	<b>163</b>	<b>333</b>	<b>-28</b>	<b>11</b>	<b>-258</b>	<b>-92</b>	<b>-258</b>

Source: LLN, Checkpoint partners

## Profit and Loss account 2021-2024e

(€ millions)	2022	2023e	2024e	2025e
<b>Sales by division</b>				
<i>Contracting</i>	3,0	3,0	3,5	3,9
<i>Notification</i>	2,5	1,8	2,1	2,3
<i>Other SaaS</i>	3,1	3,7	4,4	4,9
<b>Software Services</b>	<b>8,6</b>	<b>8,5</b>	<b>10,0</b>	<b>11,1</b>
<b>SMS Solutions</b>	<b>3,6</b>	<b>3,5</b>	<b>3,6</b>	<b>3,8</b>
<b>ICX</b>	<b>8,5</b>	<b>6,1</b>	<b>6,3</b>	<b>6,6</b>
<b>Turnover and other income</b>	<b>20,7</b>	<b>18,1</b>	<b>20,0</b>	<b>21,4</b>
Cost of sales	-9,9	-7,7	-8,6	-9,0
<b>Gross Profit</b>	<b>10,8</b>	<b>10,4</b>	<b>11,4</b>	<b>12,4</b>
<i>% y-o-y growth</i>	15%	-4%	10%	9%
<i>Gross Margin</i>	52%	57%	57%	58%
Capitalized costs (R&D)	1,2	0,9	0,9	0,9
Personnel Expenses	-6,3	-6,7	-6,7	-6,9
Other SG&A	-3,7	-3,2	-2,8	-3,0
Depreciation	-2,3	-2,0	-2,1	-2,1
<b>Total Operating Costs</b>	<b>-12,3</b>	<b>-11,9</b>	<b>-11,6</b>	<b>-12,0</b>
<i>% y-o-y growth</i>	36	-3	-3	3
<b>Operating Income</b>	<b>-0,3</b>	<b>-0,7</b>	<b>0,7</b>	<b>1,3</b>
<i>Operating Margin</i>	-2%	-4%	3%	6%
<b>Ebitda</b>	<b>1,9</b>	<b>1,4</b>	<b>2,8</b>	<b>3,4</b>
<i>Ebitda Margin</i>	9%	7%	14%	16%
<b>Ebitda (ex-capitalizations)</b>	<b>0,8</b>	<b>0,5</b>	<b>1,9</b>	<b>2,5</b>
<i>Ebitda Margin</i>	4%	3%	10%	12%
Financial Results	-0,2	-0,3	-0,2	-0,1
<b>Profit Before Tax</b>	<b>-0,5</b>	<b>-1,0</b>	<b>0,5</b>	<b>1,2</b>
Tax	0,0	0,1	-0,1	-0,2
<b>Net Income</b>	<b>-0,5</b>	<b>-0,9</b>	<b>0,4</b>	<b>1,0</b>
<b>Net income attributable to shareholders</b>	<b>-0,5</b>	<b>-0,9</b>	<b>0,5</b>	<b>1,0</b>
Minority Interest	-0,1	0,0	0,0	0,0

Source: LLN, Checkpoint partners



## Balance Sheet 2021-2024e

(€ millions)	2022	2023e	2024e	2025e
<b>Fixed Assets</b>	<b>11,5</b>	<b>11,0</b>	<b>10,0</b>	<b>9,2</b>
Intangible Assets	10,4	9,9	8,9	8,0
Tangible Assets	0,6	0,6	0,6	0,6
Investments in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,1	0,1	0,1	0,1
Deferred Assets	0,5	0,5	0,5	0,5
<b>Current Assets</b>	<b>8,4</b>	<b>7,6</b>	<b>8,5</b>	<b>8,8</b>
Debtors	5,5	5,5	5,7	6,0
Short Term Investments	0,8	0,8	0,9	0,9
Short Term Accruals	0,4	0,4	0,4	0,4
Cash	1,7	0,9	1,6	1,4
<b>Assets</b>	<b>19,9</b>	<b>18,6</b>	<b>18,6</b>	<b>17,9</b>
<b>Shareholders' Funds</b>	<b>5,7</b>	<b>4,8</b>	<b>5,3</b>	<b>6,3</b>
<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>	2,4	1,9	1,1	1,5
<i>Repurchase of share capital</i>	-1,7	-1,7	-1,7	-1,7
<i>Profit and Loss account</i>	-0,5	-0,9	0,5	1,0
<b>Long Term Debt</b>	<b>6,8</b>	<b>6,1</b>	<b>5,5</b>	<b>3,7</b>
<b>Current Liabilities</b>	<b>7,3</b>	<b>7,6</b>	<b>7,7</b>	<b>7,9</b>
Short Term Debt	4,3	4,3	4,3	4,3
Provisions	0,0	0,0	0,0	0,0
Creditors	3,0	3,3	3,4	3,6
<b>Liabilities</b>	<b>19,8</b>	<b>18,5</b>	<b>18,5</b>	<b>17,9</b>
<b>(€ millions)</b>				
Dividends	0,0	0,0	0,0	0,5
Working Capital	2,5	2,2	2,2	2,4
Debtor Turnover (days)	94	110	102	100
Creditor Turnover (days)	60	65	68	68
Financial Debt	11,1	10,4	9,8	8,0
Cash	2,5	1,7	2,5	2,3
<b>Net Debt</b>	<b>8,6</b>	<b>8,7</b>	<b>7,4</b>	<b>5,7</b>

Source: LLN, 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 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 horizon

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
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
26.01.2021	BUY	6.00	11.35	12 months	Guillermo Serrano
20.04.2021	BUY	6.28	11.15	12 months	Guillermo Serrano
22.07.2021	BUY	5.59	11.15	12 months	Guillermo Serrano
11.11.2021	BUY	4.38	9.00	12 months	Guillermo Serrano
22.02.2022	BUY	3.24	9.00	12 months	Guillermo Serrano
04.05.2022	BUY	4.06	9.00	12 months	Guillermo Serrano
11.08.2022	BUY	2.50	7.50	12 months	Guillermo Serrano
25.10.2022	BUY	1.84	6.00	12 months	Guillermo Serrano
09.03.2023	BUY	2.27	5.00	12 months	Guillermo Serrano
10.05.2023	BUY	1.64	5.00	12 months	Guillermo Serrano
05.09.2023	BUY	1.15	3.00	12 months	Guillermo Serrano

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