

BUY

TARGET PRICE: €10.2 (vs €9.25) **W** +82%

COMPANY CONTACT AFTER RELEASE OF PRELIMINARY Q4 2020 RESULTS

A VERY GOOD BUYING OPPORTUNITY

At first glance, one could question the quality of Lleida's Q4 2020 results. Yet our main takeaway is that growth at the SaaS division accelerated much more quickly than we had anticipated, thanks to the start of the South African Post contract. And Q1 2021 will see the start of major contracts with Portugal's NOS and Emirates Post, which should allow growth at the division to surpass the 2020 level (+59%) over FY 2021. After surging +510% in 2020, the stock has come under pressure in recent weeks due to core shareholders selling shares, and we believe this has created an excellent opportunity for investors. Still a BUY, TP upgraded to €10 from €9.25.

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Q4 20 preliminary results may seem rather disappointing at first ...

The Q4 2020 results reported on 25/01/21 were a mixed bag. In a very encouraging development, revenues at the SaaS division (electronic signatures – certified communications) came in at €1.977m (+107%), whereas our estimate was for €1.674m (+75%). It should be recalled that the SaaS division is central to the Lleida investment case, notably because its margin potential well exceeds that of the telecoms businesses. Revenues got a boost from the strong kickoff of the South African Post contract, which we discuss more below. The more marginal SMS business (telco activity offering SMS solutions for corporations) reported revenues of €724k (+8%), also exceeding our estimate (€636k, -5%).

On a less positive note, the ICX division (international SMS trading) saw its revenues contract by 23% to €1.990m (we were anticipating -5% to €2.468m), as it contended with stiffer competition from telcos. More troublingly, gross profit, which as we note with every earnings release is a more important indicator to track than revenues where Lleida is concerned, given the significant differences in the margin potential of the divisions and the volatility of their revenues, came in at €2.183m (+1%), missing our €2.485m estimate. There are two explanations for this shortfall: (i) the South African Post contract got off to a strong start but margin on it is below the average for the SaaS division due to the commission charged by Lleida's local sales partner, and (ii) the decline in revenues at the ICX division took a toll on its gross profit.

... but the outlook is in fact even brighter than before

The most important factor when it comes to Lleida's outlook is the growth trend at the SaaS division. As of today, the company is benefiting not only from ongoing public health restrictions, which are boosting demand for its solutions (e-signatures to avoid physical contact, certified communications for sharing information about health-related procedures, short-time working, etc.), but also from three major contracts that will accelerate growth at the division in 2021: (i) South African Post, a deal that will allow South African municipalities to use certified SMS to notify residents when their local taxes are due. When Johannesburg launched the service, certified SMS volumes sold by Lleida surged (see chart on next page); (ii) Portuguese telco NOS, which will market Lleida services to utilities (electricity providers, government services, insurance, etc.) for the signature of contracts with consumers; and (iii) Emirates Post, which will market Lleida services to public and private entities in Dubai.

.../...

in € / share	2020p	2021e	2022e
Adjusted EPS	0,10	0,17	0,25
chg.	+85%	+67,5%	+43,8%
estimates chg.	-23,6%	-1,0%	-0,3%
au 31/01	2020p	2021e	2022e
PE	54,7x	32,7x	22,7x
EV/Sales	5,1x	3,9x	3,2x
EV/EBITDA	43,7x	24,2x	16,2x
EV/EBITA	49,8x	25,8x	17,2x
FCF yield*	1,8%	2,9%	4,5%
Div. yield (%)	0,2%	0,3%	0,4%

* After tax op. FCF before WCR

key points

Share price (€)	5,60
Number of Shares (m)	16,0
Market cap. (€m)	90
Free float (€m)	31
ISIN	ESO105089009
Ticker	LLN-ES
DJ Sector	Communications

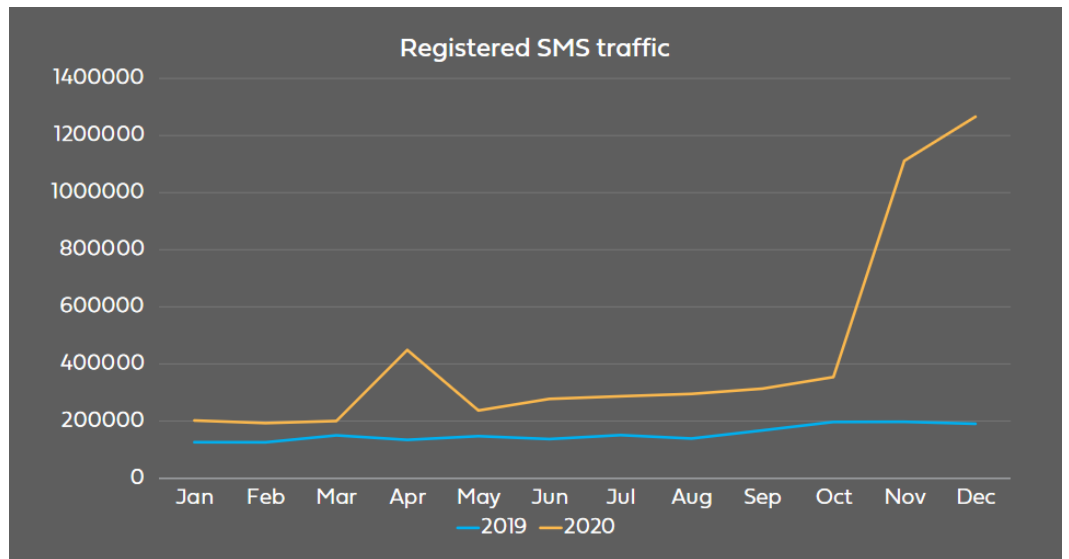
	1m	3m	Ytd
Absolute perf.	-12,5%	-36%	-8%
Relative perf.	-13,8%	-46%	-10%

Source : Factset, Invest Securities estimates

While it is difficult to say exactly when these contracts will start impacting Lleida's business growth (it takes a few months for volumes to ramp up, and the pace depends on clients' own plans), we can note that:

- The South African Post contract started in November (impact on certified SMS traffic shown in the chart below):

Volumes of certified SMS sold by Lleida



Source: Lleidanetworks

- The Emirates Post contract started in January.
- The NOS contract will start in February.

It should be noted that the effects of the Emirates Post and NOS contracts will not feed through as immediately as with the South African Post contract. Nonetheless, growth at the SaaS division is likely to be much stronger in 2021 than the +59% delivered in 2020. Our estimates now factor in +78%, which would lift SaaS division revenues to just over €10m (vs. €8.437m). As surprising as it may seem, we consider this estimate conservative, and see a good chance that it will be exceeded.

As regards profitability, the factors that depressed gross margin in Q4 2020 are unlikely to remain problematic. While ICX will continue to face stiff competition, we expect it to record growth of close to 0% in 2021, boosting gross margin from the Q4 level. Moreover, commissions paid to Lleida's international sales partners will decrease as revenues increase, which should cause gross margin on the South African Post contract to expand as it ramps up further.

We assume that personnel expenses will continue to rise rapidly since the company is taking advantage of today's growth to lay the groundwork for the future, chiefly by hiring sales staff. But even with these investments, we expect adjusted EBITDA margin (excluding capitalized R&D) to rise by +420 bp in 2021, to 16.8% (vs. a preliminary 11.6% in 2020 and 9.6% in 2019).

Stock under pressure due to sales by core shareholders

The stock has been under pressure of late (-46 pts in 3 months) after an extraordinarily strong run (x8 in the 12 previous months). It is notably down -17% since the preliminary Q4 results were reported on 25/01/2021. We believe this decline is driven in part by short-term factors, making this an even better time to buy.

In particular, until a few months ago, Lleida's three core shareholders each had a 7.1% stake: Banco Santander, via an investment vehicle called Cantabro Catalana, and SEPI Desarrollo Empresarial and Empresa Nacional de Innovacion, two Spanish state-owned entities that invest in private companies. Both of the latter acquired shares in Lleida in 2007.

On December 3, 2020, Cantabro Catalana, Banco Santander's investment vehicle, announced that it was reducing its stake below the 5% threshold. Then on December 29, SEPI Desarrollo Empresarial followed suit. If we assume that each of them sold 2% of the Lleida capital in December, then those sales would have represented more than 21% of trading volumes for the month (it could be much more). We understand from our discussions with the company that these shareholders planned to continue to sell shares, and there is a very good chance they did so early in 2021, which would explain the pressure on the stock. As we see it, the price is likely to re-correlate with the fundamentals once these sales have been completed.

It should be noted that CEO Sisco Sapena announced on January 28 that he had acquired 15,800 shares (close to €100k), proof of his optimism about the company's future.

BUY rating reiterated, target price lifted to €10.2 from €9.25

As discussed above, the Q4 results may have seemed disappointing based just on the numbers, but they reflect the fact that the company is opting to invest in the future rather than focus on optimizing quarterly margins, which we believe is the better approach. Moreover, in terms of image, Lleida was seen in 2020 as a "Covid stock," which is why it got a boost from the first lockdown, but some investors have since sold to take profits or because they believe the end of the health crisis will be bad for the company (we do not agree at all). We anticipate that accelerating revenue growth at the SaaS division will gradually become the main focus again, helping the stock bounce back.

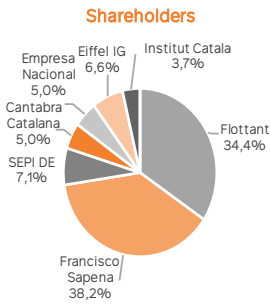
Taking all of this into account, we are quite comfortable with the unusually high upside potential our target price implies (+82%!) and believe this is an excellent time to invest in the stock.

Our valuation is based on a DCF approach, applying a long-term adjusted EBITDA margin of 23% and a long-term growth rate of 2.5%. This approach now yields a target price of €10.2, up slightly from €9.25 previously. We are confidently reiterating our BUY rating.

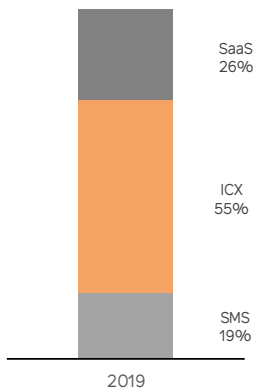
INVESTMENT CASE

Lleidanetworks has seen growth at its SaaS division (electronic signatures – certified communications) accelerate sharply during the health crisis and lockdown, with many companies adopting its solutions to comply with social distancing recommendations and stay connected to their customers and employees. The next growth driver on the short-term horizon will be the use of certified communications solutions for payment due and past due notices, at a time when more and more companies will be running into trouble.

FINANCIAL DATA



Sales breakdown



Next events

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Share information	2015	2016	2017	2018	2019	2020e	2021e	2022e
Published EPS (€)	-0,03	-0,09	0,00	0,02	0,07	0,06	0,17	0,25
Adjusted EPS (€)	-0,07	-0,07	0,01	0,03	0,06	0,10	0,17	0,25
Diff. I.S. vs Consensus	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Dividend	0,00	0,00	0,00	0,00	0,00	0,01	0,02	0,02

Valuation ratios	2015	2016	2017	2018	2019	2020e	2021e	2022e
P/E	n.a	n.s.	59,2x	28,1x	17,9x	54,7x	32,7x	22,7x
EV/Sales	n.a	1,56x	1,23x	1,26x	1,15x	5,08x	3,94x	3,20x
VE/EBITDA ajusté	n.a	n.s.	23,4x	17,4x	12,0x	43,7x	24,2x	16,2x
VE/EBITA ajusté	n.a	n.s.	35,7x	20,4x	13,2x	49,8x	25,8x	17,2x
Op. FCF bef. WCR yield	n.a	n.s.	0,3%	3,0%	6,6%	1,8%	2,9%	4,5%
Op. FCF yield	n.a	n.s.	2,8%	3,7%	3,9%	1,5%	2,5%	4,1%
Div. yield (%)	0,0%	0,0%	0,0%	0,0%	0,0%	0,2%	0,3%	0,4%

NB : valuation based on annual average price for past exercise

Entreprise Value (€m)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Share price in €	n.a	0,75	0,66	0,93	0,99	5,60	5,60	5,60
Market cap.	n.a	11,46	10,02	14,04	14,92	84,32	84,32	84,32
Net Debt	n.a	2,38	2,29	1,65	0,92	-0,75	-2,50	-5,34
Minorities	n.a	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Provisions/ near-debt	n.a	0,16	0,03	0,09	0,10	0,10	0,10	0,10
+/- Adjustments	n.a	-1,82	-0,21	-0,19	-0,19	-0,19	-0,19	-0,19
Entreprise Value (EV)	n.a	12,17	12,13	15,59	15,75	83,48	81,73	78,89

Income statement (€m)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Sales	8,41	7,78	9,88	12,36	13,66	16,42	20,73	24,66
chg.	-7,9%	-7,5%	+27,1%	+25,1%	+10,5%	+20,2%	+26,3%	+19,0%
Adj. EBITDA	-0,85	-0,42	0,52	0,90	1,31	1,91	3,38	4,87
EBITDA	-0,95	-1,18	0,34	0,77	1,19	1,68	3,17	4,59
chg.	n.s.	n.s.	n.s.	+125,6%	+55,5%	+40,7%	+89,2%	+44,5%
EBIT	-0,70	-1,30	0,27	0,53	1,10	1,30	3,08	4,59
Financial result	0,16	-0,11	-0,21	-0,12	0,00	-0,25	-0,02	-0,02
Corp. tax	0,14	0,00	0,00	-0,14	-0,01	-0,09	-0,57	-0,86
Minorities+affiliates	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net attributable profit	-0,39	-1,41	0,06	0,27	1,09	0,97	2,49	3,71
Adjusted net att. profit	-0,82	-1,02	0,17	0,50	0,83	1,54	2,58	3,71
chg.	n.s.	n.s.	n.s.	+195,2%	+66,9%	+84,7%	+67,5%	+43,8%

Cash flow statement (€m)	2015	2016	2017	2018	2019	2020e	2021e	2022e
EBITDA ajusté	-0,85	-0,42	0,52	0,90	1,31	1,91	3,38	4,87
Theoretical Tax / EBITDA	0,00	0,00	-0,08	-0,19	-0,01	-0,09	-0,57	-0,86
Capex	-0,57	-0,18	-0,40	-0,23	-0,27	-0,30	-0,41	-0,45
Operating FCF bef. WCR	-1,42	-0,60	0,03	0,47	1,03	1,52	2,40	3,56
Change in WCR	-1,14	0,30	0,30	0,10	-0,42	-0,24	-0,37	-0,34
Operating FCF	-2,56	-0,29	0,34	0,57	0,62	1,28	2,03	3,22
Acquisitions/disposals	-0,01	0,21	-0,15	0,00	0,00	0,00	0,00	0,00
Capital increase/decrease	4,16	-0,07	-0,08	-0,04	0,25	0,60	0,00	0,00
Dividends paid	0,00	0,00	0,00	0,00	0,00	-0,16	-0,26	-0,37
Other adjustments	-0,16	-0,19	-0,19	-0,01	-0,10	-0,05	-0,02	-0,02
Published FreeCash Flow	1,43	-0,35	-0,08	0,53	0,77	1,68	1,75	2,84

Balance Sheet (€m)	2015	2016	2017	2018	2019	2020e	2021e	2022e
Assets	6,56	5,93	4,46	4,14	4,23	4,39	4,59	4,76
Intangible assets/GW	4,29	3,64	3,85	3,84	3,85	3,85	3,85	3,85
WCR	1,32	0,98	0,73	0,67	1,17	1,41	1,78	2,12
Group equity capital	5,85	4,37	2,87	3,07	4,39	6,00	8,22	11,56
Minority shareholders	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Provisions	0,00	0,16	0,03	0,09	0,10	0,10	0,10	0,10
Net financial debt	2,02	2,38	2,29	1,65	0,92	-0,75	-2,50	-5,34

Financial ratios	2015	2016	2017	2018	2019	2020e	2021e	2022e
EBITDA margin	n.s.	n.s.	5,2%	7,2%	9,6%	11,6%	16,3%	19,7%
EBITA margin	n.s.	n.s.	3,4%	6,2%	8,7%	10,2%	15,3%	18,6%
Adjusted Net Profit/Sales	n.s.	n.s.	1,7%	4,0%	6,1%	9,4%	12,4%	15,0%
ROCE	n.s.	n.s.	6,5%	15,9%	22,0%	28,9%	49,8%	66,7%
ROE adjusted	n.s.	n.s.	5,9%	16,3%	19,0%	25,7%	31,4%	32,1%
Gearing	34,5%	54,3%	79,8%	53,9%	21,0%	n.s.	n.s.	n.s.
ND/EBITDA (in x)	n.s.	n.s.	4,4x	1,8x	0,7x	-0,4x	-0,7x	-1,1x

Source : company, Invest Securities Estimates

SWOT ANALYSIS

STRENGTHS

- Agility and capacity to anticipate
- Cost-efficient and cash-generative
- Successful development on the electronic signature market

WEAKNESSES

- Volatile growth from one quarter to another
- Limited added value in the SMS division

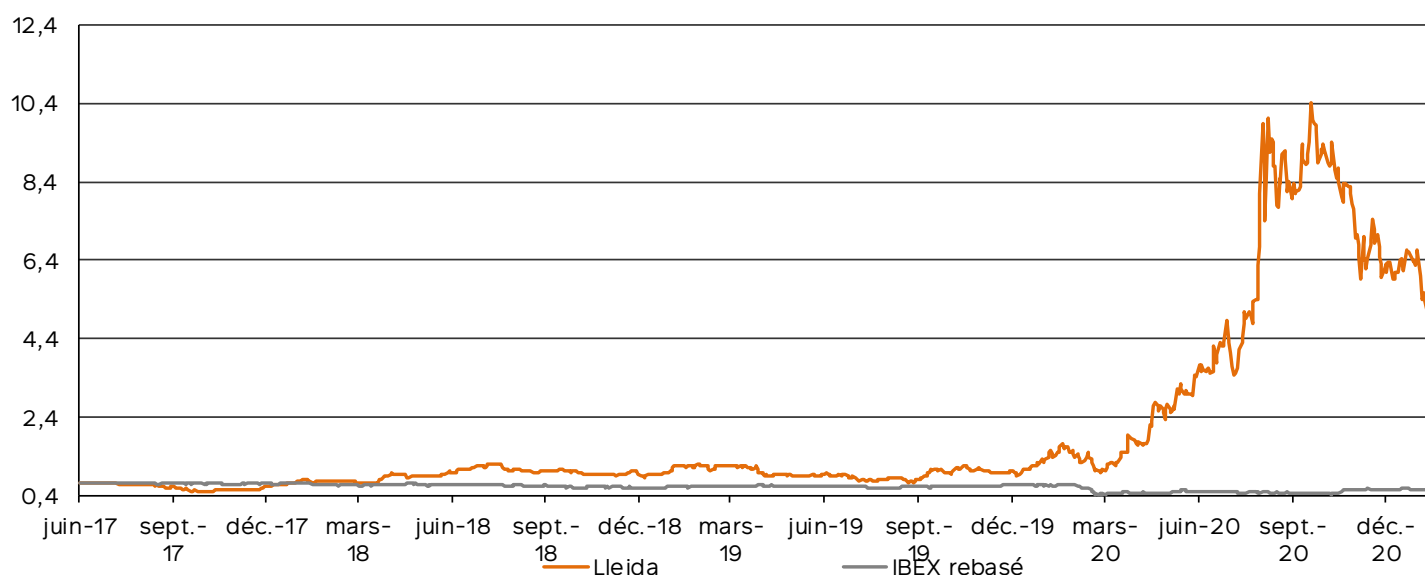
OPPORTUNITIES

- Benefits from social distancing measures
- International development thanks to local partnership
- Small acquisitions to complete the product line

THREATS

- Failure of international development in some countries
- Possible slowdown of the SMS A2P market growth

SHARE PRICE CHANGE SINCE IPO



DETECTION OF CONFLICTS OF INTEREST

	Corporate Finance	Treasury stocks holding	Prior communication to company	Analyst's personal interest	Liquidity contract	Listing Sponsor	Research Contract
Lleida	No	No	No	No	Yes	Yes	Yes

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