

Action Summary – 9 March 2022

Analyst Theodore R. O'Neill – 15% YoY growth in prelim 4Q21 results - Reiterate our Buy rating and \$12 PT

- **Preliminary 4Q21 results show continued growth** but EPS lands €0.04 below our estimates. There is no consensus. LLN reported preliminary 4Q21 revenue and EPS of €5.4MM and €0.02, respectively. We had been looking for revenue and EPS of €5.5MM and €0.06, respectively. Relative to our estimates, the €0.04 shortfall was due to lower sales and higher operating and non-operating expenses, partially offset by higher margins.
- **Company is executing on its growth plan through organic and inorganic growth.** For the year, sales in its SaaS services segment rose 30% and is poised to become the largest segment of the company's business. For the year ending December 2021, total sales reached a record of ~€18M. Sales in its SMS Solutions segment grew 4% YoY, while ICX-Wholesale solutions fell 5%, which was expected.
- No change to our 2022 estimates. Our price target remains unchanged.
- The company reports quarterly and while it does not report in U.S. GAAP, we have come as close as we can to that format here in our financial presentation and estimates.
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.**

3/8 Closing price: \$2.94	Market cap: \$45 million	2022 P/E: 9	2022 EV / Sales: 3.4
Shares outstanding: 15.3 million	Insider ownership: 62%	Avg. trading volume on OTCQB: 500	Dividend/Yield: NA/NA

GAAP estimates (EPS in Euros – Revenue in Euro millions)

Period	EPS	Revenue	EBITDA Margin
1Q20A	0.00	4.05	10.5%
2Q20A	0.02	3.77	16.9%
3Q20A	0.04	3.91	26.7%
4Q20A	<u>0.00</u>	<u>4.69</u>	<u>13.4%</u>
FY20A	<u>0.06</u>	<u>16.42</u>	<u>16.6%</u>
1Q21A	0.03	4.00	15.6%
2Q21A	0.02	4.30	13.3%
3Q21P	0.01	4.30	9.6%
4Q21P	<u>0.02</u>	<u>5.38</u>	<u>13.5%</u>
FY21P	<u>0.07</u>	<u>17.98</u>	<u>13.0%</u>
1Q22E	0.05	5.50	22.5%
2Q22E	0.07	6.00	26.3%
3Q22E	0.06	5.50	23.9%
4Q22E	<u>0.09</u>	<u>6.50</u>	<u>28.7%</u>
FY22E	<u>0.28</u>	<u>23.50</u>	<u>25.5%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report. P means preliminary

Cash balance (in Euro millions)

• 2020A	• 5.33
• 2021P	• 3.50
• 2022E	• 8.08

Debt (in millions)

• 2020A	• 0.91
• 2021P	• 0.0
• 2022E	• 0.0

EBITDA (in millions)

• 2020A	• 2.5
• 2021P	• 2.9
• 2022E	• 6.0

Risks/Valuation

- Risks include: Highly competitive business; changes in customer demand; COVID-19.
- Our \$12 target is derived using a discounted future earnings model

Company description: LLEIF is a telecommunications company with a Software-as-a-service (SaaS) product suite that is benefiting from the global digital shift in commerce as business transactions of all kind go digital and move online. It also sells SMS services to business customers.

Trading History

The shares have traded on the OTCQB since November 2020 so the short history of trading and low volume on that exchange is not unusual (see Figure 1). The company has been public since October 2015 and has a rich history of trading and volume in Madrid (see Figure 2).

Figure 1 – Lleidanetworks Serveis Telematics SA – On-Year Trading Snapshot on OTCQB



Source: FactSet

Figure 2 – Lleidanetworks Serveis Telematics SA – Trading in Madrid LTM



Source: FactSet

Valuation Methodology

We believe LLN/LLEIF is undervalued and we support that belief with two valuation techniques, both of which suggest the shares are undervalued at the current price. For the purposes of determining our price target we use a discounted future earnings model. For the purpose of confirming our price target we look at comparable company valuations:

- 1) The discounted value of all future earnings was used for our price target (see Figure 3)
- 2) Valuation relative to peers (see Figure 4)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$12.00 (€10) is based on a discounted future earnings model (Figure 3). For the purposes of deriving an earnings-based price target, we assume the company generates a small profit for FY21 and continues to grow into the future. The model sums up all earnings per share, discounted at 7% to arrive at a per share valuation. Note, this model understates future novel product developments, probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is €10.40 and at 1.20 conversion equals \$12.48, which we round down to \$12.00.

Figure 3 – Lleidanetworks Serveis Telematics SA – Implied Price Target Calculation

Discounted Earnings		€ 10.40
Year 1 is	Forecast	Discounted
2021	EPS	EPS
1	0.28	€ 0.28
2	0.35	€ 0.31
3	0.40	€ 0.33
4	0.45	€ 0.34
5	0.60	€ 0.43
Terminal		
Value		€ 8.72

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

If we compare LLEIF to a simple average of its peers (Figure 4), the shares sell at a significant discount on every metric. These metrics indicate the stock price should be higher than where it is today and supports our \$12 price target. If the shares traded for \$12.00 today, its 2023 Sales Multiples would still be below average. Details on each of the peers can be found in Figure 6. The companies we used in Figure 6 are in similar lines of business although none of them are a perfect match.

Figure 4 – Lleidanetworks Serveis Telematics SA – Summary Discount to Peers

2023 Metrics	PE	Market Cap / Sales	EV / EBITDA	EV / Sales
Peers	65.14	5.71	31.09	5.28
LLEIF	9.35	1.66	13.19	3.37
Discount to Peers	86%	71%	58%	36%

Source: Litchfield Hills Research LLC and FactSet

Quarterly Results

Preliminary 4Q21 results show continued growth but EPS lands €0.04 below our estimates. There is no consensus. LLN reported preliminary 4Q21 revenue and EPS of €5.4MM and €0.02, respectively. We had been looking for revenue and EPS of €5.5MM and €0.06, respectively. Relative to our estimates, the €0.04 shortfall was due to lower sales and higher operating and non-operating expenses, partially offset by higher margins. Note: the company doesn't report quarterly EPS or share count so we use the same share count for actual as we use in our estimate (see Figure 5).

Figure 5 –Lleidanetworks Serveis Telematics SA – Quarterly Variance Analysis (€000)

	2021	2021	
	Q4E	Q4P	Better/(worse) than forecast
Income Statement			
Total Revenue	€ 5,500	€ 5,384	(€ 116)
Total cost of revenue	2,695	2,288	407
Total Gross Profit	2,805	3,096	291
Operating expenses:			
Staff expenses	€ 1,000	€ 1,455	(€ 455)
External Services	700	1,125	(425)
Other operating (income)/expense	(150)	(210)	60
Total Expenses	1,550	2,370	(820)
EBITDA	1,255	726	(529)
Amortizations and other	(300)	(415)	(115)
Operating profit	955	311	(644)
Other non-operating expenses	(40)	(40)	0
Earnings before Tax	915	271	(644)
Tax expense/(benefit)	5	5	0
Net income	€ 910	€ 266	(€ 644)
EPS	€ 0.06	€ 0.02	(€ 0.04)
Diluted common shares	15,320	15,320	

Source: Company filings and Litchfield Hills Research LLC

Guidance and Financial Forecasts

The company provides no guidance. The company reports results using the Spanish New General Accounting Plan 1990, which is non-US GAAP. However, what we show in our published financials is our best translation into US GAAP. Because our financial model's, income statement, balance sheet and cash flow are fully integrated and rely on GAAP data, we may have to infer some balance sheet or income statement items in order to tie it all together. When we do that, we make the adjustment in the last line in the cash flow. The pandemic, and the way businesses have adapted to it has had a major impact on revenue. We make the assumption that the macro business trends driving the move to digital continue. This enhances gross profit margins.

For more information, see our June 29 2021 initiation report.

Figure 6 – Lleidanetworks Serveis Telematics SA – Comp Table

Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2023 Consensus Multiples			
					PE	Market Cap / Sales	EV / EBITDA	EV / Sales
ADBE	Adobe Inc	\$437.97	205,274	209,539	26.76	9.95	20.73	10.10
DOCU	DocuSign Inc	\$95.06	18,376	18,867	43.01	7.05	33.04	6.95
TWLO	Twilio, Inc.	\$140.00	23,891	20,313	NMF	5.08	NMF	4.06
OKTA	Okta Inc	\$154.40	23,671	22,357		10.40	NMF	9.69
SAIL	SailPoint Technologies Holdings, Inc.	\$44.68	4,159	4,117		6.60		6.48
RAMP	LiveRamp Holdings Inc	\$39.05	2,552	2,154	54.03	4.04	29.37	3.24
PING-US	Ping Identity Holding Corp.	\$19.52	1,605	1,697	137.40	3.97	47.66	4.12
TLS	Telos Corporation	\$9.18	649	494	40.78	2.30	22.19	1.84
3738-HKG	Vobile Group Limited	\$0.64	1,360	1,291	169.70	10.02	65.58	9.61
IDT	IDT Corp. (Class B)	\$31.80	807	566				
DMRC	Digimarc Corp.	\$22.61	423	339		9.20		7.83
OSPN	OneSpan Inc. (Registered)	\$12.95	522	427		2.27		1.87
MITK	Mitek Systems Inc	\$13.97	632	614	13.59	3.99	12.30	3.91
INVE	Identiv, Inc. (Ordinary (US))	\$15.33	340	315	35.84	2.01	17.86	1.86
AUID-US	Ipsidy Inc.	\$3.65	88	72				
IDN	Intelligencecheck Inc	\$3.17	59	46		3.10		2.37
IQST-US	iQSTEL, Inc.	\$0.49	70	69				
LQID-CA	Liquid Avatar Technologies Inc	\$0.12	15	13				
	AVERAGE				<u>65.14</u>	<u>5.71</u>	<u>31.09</u>	<u>5.28</u>
LLN-ES	LleidaNetworks Serveis Telematics SA	\$2.83	45	92	9.35	1.66	13.19	3.37
	LLN-ES Discount to peers:				-86%	-71%	-58%	-36%

Figure 7 – Lleidanetworks Serveis Telematics SA – Income Statement (€000)

December year-end	2019	2020A	2021E				2021E	2022E				2022E
	Year	Year	Q1A	Q2A	Q3P	Q4E	Year	1QE	2Q3	3QE	4QE	Year
Total revenue	€ 13,661	€ 16,421	€ 3,987	€ 4,308	€ 4,294	€ 5,500	€ 18,089	€ 5,500	€ 6,000	€ 5,500	€ 6,500	€ 23,500
<i>Growth</i>	11%	20%	-1%	14%	10%	17%	10%	38%	39%	28%	18%	30%
Cost of Goods	6,607	8,390	1,984	2,094	2,231	2,695	9,004	2,695	2,880	2,640	3,088	11,303
Gross Profit	7,054	8,031	2,003	2,214	2,063	2,805	9,085	2,805	3,120	2,860	3,413	12,198
Gross Margin	51.6%	48.9%	50.2%	51.4%	48.0%	51.0%	50.2%	51.0%	52.0%	52.0%	52.5%	51.9%
Staff expenses	3,067	3,403	1,013	909	1,133	1,000	4,055	1,000	1,000	1,000	1,000	4,000
% of total revenue	22%	21%	25%	21%	26%	18%	22%	18%	17%	18%	15%	17%
External Services	2,728	2,743	566	966	684	700	2,916	720	720	720	720	2,880
% of total revenue	20%	17%	14%	22%	16%	13%	16%	13%	12%	13%	11%	12%
Other operating (income)/expense	(935)	(662)	(196)	(235)	(166)	(150)	(747)	(150)	(175)	(175)	(175)	(675)
% of total revenue	-7%	-4%	-5%	-5%	-4%	-3%	-4%	-3%	-3%	-3%	-3%	-3%
Total Operating Expenses	4,861	5,484	1,383	1,640	1,651	1,550	6,224	1,570	1,545	1,545	1,545	6,205
EBITDA	2,193	2,547	620	574	412	1,255	2,861	1,235	1,575	1,315	1,868	5,993
Operating Margin	16.1%	15.5%	15.6%	13.3%	9.6%	22.8%	15.8%	22.5%	26.3%	23.9%	28.7%	25.5%
Amortizations and other	(1,091)	(1,104)	(265)	(271)	(277)	(300)	(1,113)	(300)	(300)	(300)	(300)	(1,200)
Operating profit	1,102	1,442	355	303	135	955	1,748	935	1,275	1,015	1,568	4,793
Other non-operating expenses	(3)	(411)	36	(34)	(6)	(40)	(44)	(40)	(40)	(40)	(40)	(160)
Pre-Tax Income	1,099	1,031	391	268	129	915	1,703	895	1,235	975	1,528	4,633
Pre-Tax Margin	8.0%	6.3%	9.8%	6.2%	3.0%	16.6%	9.4%	16.3%	20.6%	17.7%	23.5%	19.7%
Taxes (benefit)	12	(9)	5	4	5	5	19	100	100	100	100	400
Tax Rate	1.1%	-0.9%	1.3%	1.4%	3.9%	0.5%	1.1%	11.2%	8.1%	10.3%	6.5%	8.6%
Net Income (loss)	1,086	1,040	386	265	124	910	1,685	795	1,135	875	1,428	4,233
Net Margin	8.0%	6.3%	9.7%	6.1%	2.9%	16.5%	9.3%	14.5%	18.9%	15.9%	22.0%	18.0%
EPS, as reported	€ 0.07	€ 0.06	€ 0.03	€ 0.02	€ 0.01	€ 0.06	€ 0.11	€ 0.05	€ 0.07	€ 0.06	€ 0.09	€ 0.28
Diluted Shares Outstanding	16,050	16,050	15,320	15,320	15,320	15,320	15,320	15,320	15,320	15,320	15,320	15,320

Figure 8 – Lleidanetworks Serveis Telematics SA – Balance Sheet (€000)

December year-end	FY2022E	FY2021E	FY2020A	FY2019A	FY2018
Balance sheet					
Current Assets					
Cash and S.T.I.	€ 8,083	€ 3,501	€ 5,331	€ 2,445	€ 1,819
Trade receivables	4,500	4,000	3,498	3,563	2,441
Prepayments, deposits and other rec.	400	400	320	258	238
Other assets	0	0	0	0	12
Total Current Assets	12,983	7,901	9,149	6,266	4,509
Net PP&E	300	300	336	381	344
Goodwill & Intangibles	200	200	202	187	192
Total Assets	€ 16,983	€ 12,151	€ 13,270	€ 10,683	€ 8,886
Current Liabilities					
Trade payables	€ 4,500	€ 3,500	€ 2,952	€ 2,649	€ 2,013
Short-term debts	0	0	910	1,871	2,346
Customer deposits	0	0	0	0	0
Other current liabilities	200	100	42	96	85
Total current liabilities	4,700	3,600	3,904	4,616	4,444
Long-term debt	0	0	2,100	1,678	1,374
Other long-term liabilities	0	0	0	0	0
Total liabilities	4,700	3,600	6,004	6,294	5,817
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Share Capital	321	321	321	321	321
Additional paid-in-capital	7,276	7,276	7,276	5,244	5,244
Retained earnings	4,686	954	(331)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	12,283	8,551	7,266	4,388	3,069
Total Liabilities and equity	€ 16,983	€ 12,151	€ 13,270	€ 10,683	€ 8,886

Source: Company reports and Litchfield Hills Research LLC

Figure 9 – Lleidanetworks Serveis Telematics SA – Cash Flow (€000)

	FY22E	FY21E	FY20A	FY19A
Net Income	€ 4,233	€ 1,685	€ 1,040	€ 1,086
Trade receivables	(500)	(502)	66	(1,122)
Prepayments, deposits and other rec.	0	(80)	(62)	(20)
Other assets	0	0	0	12
Net PP&E	0	36	46	(38)
Goodwill & Intangibles	250	(167)	264	(5)
Other non-current	0	2	(15)	4
Trade payables	1,000	548	303	637
Customer deposits	0	0	0	0
Short-term debts	0	(910)	(961)	(474)
Deferred revenue	0	0	0	0
Other current liabilities	100	58	(54)	11
Long-term debt	0	(2,100)	422	304
Other long-term liabilities	0	0	0	0
Preferred stock	0	0	0	0
Share Capital	0	0	(0)	0
Additional paid-in-capital	0	0	2,032	0
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends and other	(500)	(400)	(195)	233
Total Cash Flow	€ 4,583	(€ 1,830)	€ 2,886	€ 627

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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Lleidanetworks Serveis Telematics S.A. LLN-ES/LLEIF-US-Buy- \$12 (€10) PT

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