

Action Summary – 10 May 2022

Analyst Theodore R. O'Neill – 31% YoY growth in prelim 1Q22 results - Reiterate our Buy rating and \$12 PT

- **Preliminary 1Q22 results show continued revenue growth.** Preliminary 1Q22 results show continued growth but EPS lands €0.06 below our estimates. There is no consensus. LLN reported preliminary 1Q22 revenue and EPS of €5.2MM and a loss of €0.01, respectively. We had been looking for revenue and EPS of €5.5MM and a gain of €0.05, respectively. Relative to our estimates, the €0.06 shortfall was due to lower sales and margins along with higher operating expenses. Note: the company doesn't report preliminary quarterly EPS or share count so we use the same share count for actual as we use in our estimate
- **Executing on its growth plan through organic and inorganic growth.** Compared to the year-ago quarter, sales in its SaaS services segment rose 36% and continues to be the largest segment of sales. EBITDA was lower in the quarter due to both seasonality (driven by the annual Trade Fair) and integration costs of its Indenova acquisition.
- Lowering our estimates. We are lowering our 2022 revenue and EPS estimates to €23.2MM and €0.07, respectively from €23.5MM and €0.28, respectively. 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.**

5/9 Closing price: \$4.07	Market cap: \$46 million	2023 P/E: 9	2023 EV / Sales: 2.8
Shares outstanding: 16 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%
3Q21A	0.01	4.30	9.6%
4Q21A	<u>0.01</u>	<u>5.38</u>	<u>(6.1%)</u>
FY21A	<u>0.06</u>	<u>17.98</u>	<u>7.1%</u>
1Q22P	(0.01)	5.22	2.2%
2Q22E	0.01	5.50	8.4%
3Q22E	0.02	6.00	12.0%
4Q22E	<u>0.04</u>	<u>6.50</u>	<u>15.6%</u>
FY22E	<u>0.07</u>	<u>23.22</u>	<u>9.9%</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
• 2021A	• 5.87
• 2022E	• 4.64

Debt (in millions)

• 2020A	• 0.91
• 2021A	• 8.61
• 2022E	• 5.00

EBITDA (in millions)

• 2020A	• 2.5
• 2021A	• 2.3
• 2022E	• 3.0

Risks/Valuation

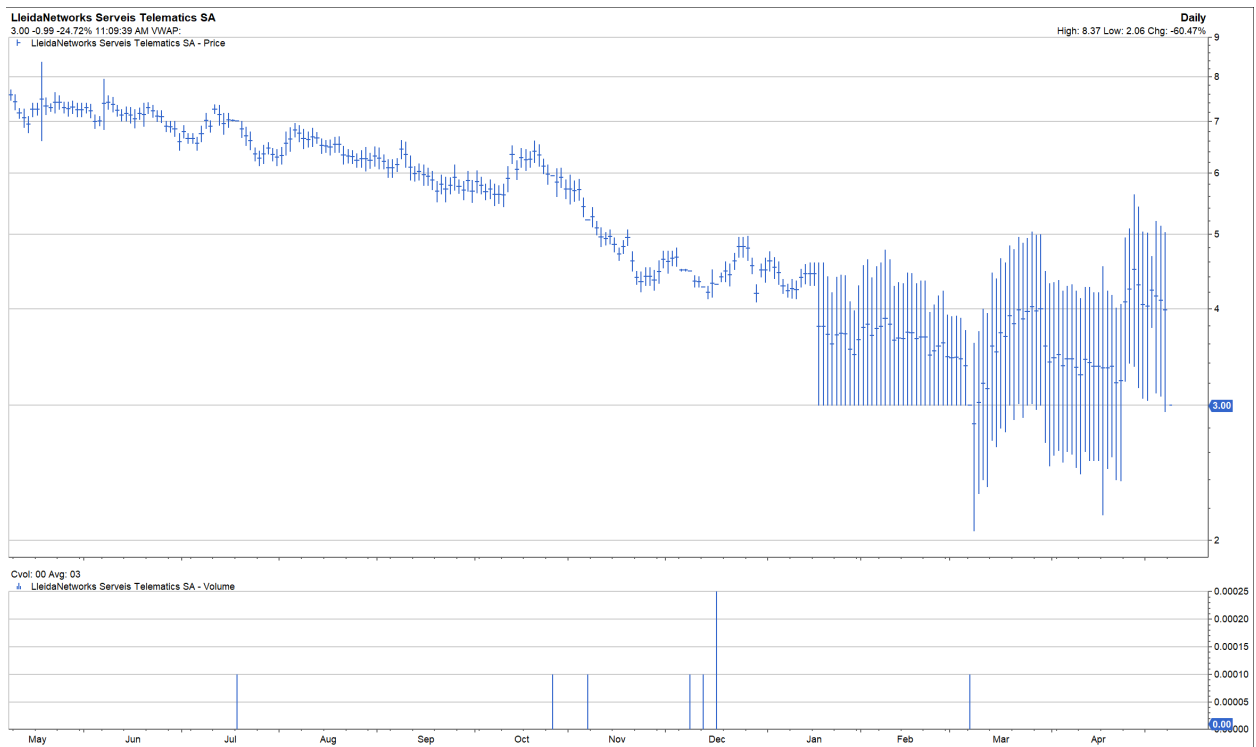
- Risks include: Highly competitive business; changes in customer demand; COVID-19.
- Our \$12 target is derived using a discounted future earnings model

Company description: LLEIF is a telecommunications company with a Software-as-a-service (SaaS) product suite that is benefitting 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 €9.89 and at 1.23 conversion equals \$12.20, which we round down to \$12.00.

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

Discounted Earnings		€ 9.89
Year 1 is	Forecast	Discounted
2022	EPS	EPS
1	0.07	€ 0.07
2	0.15	€ 0.13
3	0.25	€ 0.20
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 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 be slightly above 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	34.13	4.50	27.62	4.04
LLEIF	23.12	2.07	13.14	2.79
Discount to Peers	32%	54%	52%	31%

Source: Litchfield Hills Research LLC and FactSet

Quarterly Results

Preliminary 1Q22 results show continued growth but EPS lands €0.06 below our estimates. There is no consensus. LLN reported preliminary 1Q22 revenue and EPS of €5.2MM and a loss of €0.01, respectively. We had been looking for revenue and EPS of €5.5MM and a gain of €0.05, respectively. Relative to our estimates, the €0.06 shortfall was due to lower sales and margins along with higher operating expenses. 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)

	2022	2022	
	Q1E	Q1A	Better/(worse) than forecast
Income Statement			
Total Revenue	€ 5,500	€ 5,217	(€ 283)
Total cost of revenue	<u>2,695</u>	<u>2,602</u>	93
Total Gross Profit	2,805	2,615	(190)
Operating expenses:			
Staff expenses	€ 1,000	€ 1,533	-€ 533
External Services	720	975	(255)
Other operating (income)/expense	(150)	(8)	(142)
Total Expenses	<u>1,570</u>	<u>2,500</u>	(930)
EBITDA	1,235	115	(1,120)
Amortizations and other	(300)	(249)	51
Operating profit	935	(134)	(1,069)
Other non-operating expenses	(40)	19	59
Earnings before Tax	895	(115)	(1,010)
Tax expense/(benefit)	100	5	95
Net income	€ 795	-€ 120	(€ 915)
EPS	€ 0.05	-€ 0.01	(€ 0.06)
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	\$391.01	184,752	185,694	23.50	8.72	18.06	8.84
DOCU	DocuSign Inc	\$74.57	14,907	14,745	30.13	4.82	23.48	4.77
TWLO	Twilio, Inc.	\$107.38	18,444	15,477	NMF	3.70	NMF	2.83
OKTA	Okta Inc	\$102.45	15,339	14,689		5.98	NMF	5.45
SAIL	SailPoint Technologies Holdings, Inc.	\$63.51	5,986	5,862		9.37		9.18
RAMP	LiveRamp Holdings Inc	\$27.74	1,891	1,383	38.71	2.86	18.21	2.06
PING-US	Ping Identity Holding Corp.	\$23.34	1,957	2,011		4.30	88.64	4.44
TLS	Telos Corporation	\$7.41	503	381	21.17	1.69	9.88	1.26
3738-HKG	Vobile Group Limited	\$0.49	1,044	883	88.97	4.23	39.07	3.58
IDT	IDT Corp. (Class B)	\$28.05	682	500				
DMRC	Digimarc Corp.	\$21.74	433	326		9.25		6.95
OSPN	OneSpan Inc. (Registered)	\$12.05	482	368		1.94		1.44
MITK	Mitek Systems Inc	\$10.30	456	545	9.92	2.78	10.77	3.32
INVE	Identiv, Inc. (Ordinary (US))	\$12.13	271	231	26.52	1.55	12.88	1.32
AUID-US	Ipsidy Inc.	\$3.34	82	66				
IDN	Intellicheck Inc	\$2.11	40	26		1.82		1.15
IQST-US	iQSTEL, Inc.	\$0.48	71	61				
LQID-CA	Liquid Avatar Technologies Inc	\$0.07	9	7				
	AVERAGE				34.13	4.50	27.62	4.04
LLN-ES	LleidaNetworks Serveis Telematics SA	\$4.26	68	92	23.12	2.07	13.14	2.79
	LLN-ES Discount to peers:				-32%	-54%	-52%	-31%

Source: Litchfield Hills Research LLC and FactSet

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

December year-end	2019	2020A	2021E				2021E	2022E				2022E
	Year	Year	Q1A	Q2A	Q3A	Q4A	Year	1QA	2Q3	3QE	4QE	Year
Total revenue	€ 13,661	€ 16,421	€ 3,987	€ 4,308	€ 4,294	€ 5,386	€ 17,975	€ 5,217	€ 5,500	€ 6,000	€ 6,500	€ 23,217
<i>Growth</i>	11%	20%	-1%	14%	10%	15%	9%	31%	28%	40%	21%	29%
Cost of Goods	6,607	8,390	1,984	2,094	2,231	2,308	8,616	2,602	2,640	2,880	3,088	11,210
Gross Profit	7,054	8,031	2,003	2,214	2,063	3,078	9,359	2,615	2,860	3,120	3,413	12,008
Gross Margin	51.6%	48.9%	50.2%	51.4%	48.0%	57.2%	52.1%	50.1%	52.0%	52.0%	52.5%	51.7%
Staff expenses	3,067	3,403	1,013	909	1,133	1,326	4,381	1,533	1,500	1,500	1,500	6,033
% of total revenue	22%	21%	25%	21%	26%	25%	24%	29%	27%	25%	23%	26%
External Services	2,728	2,743	566	966	684	2,261	4,477	975	900	900	900	3,675
% of total revenue	20%	17%	14%	22%	16%	42%	25%	19%	16%	15%	14%	16%
Other operating (income)/expense	(935)	(662)	(196)	(235)	(166)	(179)	(776)	(8)	0	0	0	(8)
% of total revenue	-7%	-4%	-5%	-5%	-4%	-3%	-4%	0%	0%	0%	0%	0%
Total Operating Expenses	4,861	5,484	1,383	1,640	1,651	3,408	8,082	2,500	2,400	2,400	2,400	9,700
EBITDA	2,193	2,547	620	574	412	(329)	1,277	115	460	720	1,013	2,308
Operating Margin	16.1%	15.5%	15.6%	13.3%	9.6%	-6.1%	7.1%	2.2%	8.4%	12.0%	15.6%	9.9%
Amortizations and other	(1,091)	(1,104)	(265)	(271)	(277)	661	(152)	(249)	(250)	(250)	(250)	(999)
Operating profit	1,102	1,442	355	303	135	332	1,125	(134)	210	470	763	1,309
Other non-operating expenses	(3)	(411)	36	(34)	(6)	(88)	(93)	19	0	0	0	19
Pre-Tax Income	1,099	1,031	391	268	129	243	1,032	(115)	210	470	763	1,328
Pre-Tax Margin	8.0%	6.3%	9.8%	6.2%	3.0%	4.5%	5.7%	-2.2%	3.8%	7.8%	11.7%	5.7%
Taxes (benefit)	12	(9)	5	4	5	143	157	5	100	100	100	305
Tax Rate	1.1%	-0.9%	1.3%	1.4%	3.9%	58.9%	15.2%	-4.3%	47.6%	21.3%	13.1%	23.0%
Net Income (loss)	1,086	1,040	386	265	124	100	875	(120)	110	370	663	1,023
Net Margin	8.0%	6.3%	9.7%	6.1%	2.9%	1.9%	4.9%	-2.3%	2.0%	6.2%	10.2%	4.4%
EPS, as reported	€ 0.07	€ 0.06	€ 0.03	€ 0.02	€ 0.01	€ 0.01	€ 0.06	(€ 0.01)	€ 0.01	€ 0.02	€ 0.04	€ 0.07
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

Source: Company reports and Litchfield Hills Research LLC

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

December year-end	FY2022E	FY2021A	FY2020A	FY2019A	FY2018
Balance sheet					
Current Assets					
Cash and S.T.I.	€ 4,640	€ 5,869	€ 5,331	€ 2,445	€ 1,819
Trade receivables	5,000	5,184	3,498	3,563	2,441
Prepayments, deposits and other rec.	400	407	320	258	238
Other assets	0	0	0	0	12
Total Current Assets	10,040	11,460	9,149	6,266	4,509
Net PP&E	300	627	336	381	344
Goodwill & Intangibles	200	358	202	187	192
Total Assets	€ 22,540	€ 23,476	€ 13,270	€ 10,683	€ 8,886
Current Liabilities					
Trade payables	€ 5,000	€ 3,531	€ 2,952	€ 2,649	€ 2,013
Short-term debts	5,000	4,565	910	1,871	2,346
Customer deposits	0	0	0	0	0
Other current liabilities	200	38	42	96	85
Total current liabilities	10,200	8,135	3,904	4,616	4,444
Long-term debt	5,000	8,610	2,100	1,678	1,374
Other long-term liabilities	0	0	0	0	0
Total liabilities	15,200	16,745	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	6,200	6,114	7,276	5,244	5,244
Retained earnings	819	297	(331)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	7,340	6,732	7,266	4,388	3,069
Total Liabilities and equity	€ 22,540	€ 23,476	€ 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	€ 1,023	€ 875	€ 1,040	€ 1,086
Trade receivables	184	(1,686)	66	(1,122)
Prepayments, deposits and other rec.	7	(87)	(62)	(20)
Other assets	0	0	0	12
Net PP&E	327	(291)	46	(38)
Goodwill & Intangibles	(968)	(7,449)	264	(5)
Other non-current	158	(156)	(15)	4
Trade payables	1,469	579	303	637
Customer deposits	0	0	0	0
Short-term debts	435	3,656	(961)	(474)
Deferred revenue	0	0	0	0
Other current liabilities	162	(4)	(54)	11
Long-term debt	(3,610)	6,510	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	86	(1,162)	2,032	0
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends and other	(500)	(247)	(195)	233
Total Cash Flow	(€ 1,229)	€ 538	€ 2,886	€ 627

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110, the analyst is registered with FINRA and the report has been reviewed by a Supervisory Analyst.

MiFID II Compliant Research Report

Our research is classified as minor non-monetary benefit under MiFID II. This applies to all forms of transmission, including email, website and financial platforms such as Bloomberg, FactSet, S&P Global, Refinitiv, Wind and 13 others. We do not seek payment from the asset management community and do not have any execution function. Investors can continue to receive our research under the MiFID II regime without the need for a contract for services to be put in place. This applies to all forms of transmission, including email, website and financial platforms.

Litchfield Hills Research LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.



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

Other Disclosures

Litchfield Hills Research, LLC ("LHR") is not a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission nor a member of Financial Industry Regulatory Authority. The principal of LHR and publisher of this report, Theodore R. O'Neill, is a registered representative of Ascendant Capital Markets, LLC ("Ascendant"), a registered broker-dealer and FINRA member firm. Ascendant considers Mr. O'Neill's association with LHR to be an "outside business activity" and is disclosed as such with FINRA. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LHR or any divisions, subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LHR and the subject company. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LHR or the subject company. All trademarks, service marks and logos used in this report are trademarks, service marks, registered trademarks, or service marks of LHR or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. LHR may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable, appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. LHR does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. LHR believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in this report were obtained or derived from sources LHR believes are reliable, but LHR makes no representations as to their accuracy or completeness.

Ownership and Material Conflicts of Interest

The analyst owns no shares of the subject company. The analyst and his family have no known material conflicts of interest in authoring this report. No employees of Ascendant Capital Markets, LLC own any material amount of LLEIF stock or have any influence on the LLEIF Board of Directors.

Investment Banking and Fees for Services

Litchfield Hills Research has not received compensation for advisory or investment banking services from the Company in the past 12 months. Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the Company in the past 12 months. Litchfield Hills Research LLC has received compensation from the company for distribution and investor targeting services from the subject company. Ascendant Capital Markets, LLC has not received compensation for non-investment banking services from the Company in the past 12 months.

Market Making

Neither Litchfield Hills Research, LLC nor Ascendant Capital Markets, LLC makes a market in the subject company's securities.

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.