

Action Summary – 20 October 2022

Analyst Theodore R. O'Neill – Strong YoY growth in prelim 3Q22 results - Reiterate our Buy rating and \$10 PT

- **Preliminary 3Q22 results show continued revenue growth.** According to the company's press release last week, compared to the same period last year, API contract signing production (whose trade name is Click&Sign Standard) grew by 32.26 percent, coming mostly from telecom contracting services. The use of this service is ten times higher than in 2019. This continues to show that, despite the economic and geopolitical context, the growing adoption of registered electronic notification, signature and contracting services continues. Similarly, the service observed growing traffic in the contracting of real estate loans in Europe and in consumer credit financing in Latin America, Spain and Eastern Europe.
- **Executing on its growth plan through organic and inorganic growth.** Compared to the year-ago quarter, sales in its SaaS services continues to be the largest segment of sales.
- While the results are favorable, we feel our model assumptions need to be adjusted given the cuts now being seen in 2022 forecasts, e.g., last week the IMF cut its 2022 forecast by 15%. We are lowering our 2022 revenue and EPS estimates to €21.2MM and (€0.00) from €23.2MM and €0.07, respectively. Our price target also declines to USD10 from USD12 due to changes in the exchange rate.
- 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.**

10/20 Closing price: \$1.99	Market cap: \$31 million	2023 P/E: 10	2023 EV / Sales: 1.2
Shares outstanding: 16 million	Insider ownership: 44%	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>
1Q22A	(0.01)	5.22	2.2%
2Q22A	(0.00)	5.32	3.64%
3Q22P	(0.00)	5.20	3.9%
4Q22E	<u>0.01</u>	<u>5.50</u>	<u>7.0%</u>
FY22E	<u>(0.00)</u>	<u>21.2</u>	<u>4.2%</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	• 3.57

Debt (in millions)

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

EBITDA (in millions)

• 2020A	• 2.5
• 2021A	• 2.3
• 2022E	• 2.0

Risks/Valuation

- Risks include: Highly competitive business; changes in customer demand; COVID-19.
- Our \$10 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 \$10.00 (€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 €9.82 and at 0.98 conversion equals \$9.62, which we round up to \$10.00.

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

Discounted Earnings		€ 9.82
Year 1 is	Forecast	Discounted
2022	EPS	EPS
1	(0.00)	(€ 0.00)
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 \$10 price target. If the shares traded for \$10.00 today, its 2023 Sales Multiples would be slightly above average. Details on each of the peers can be found in Figure 5. The companies we used in Figure 5 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	26.62	3.45	16.73	2.98
LLEIF	10.38	0.93	5.50	1.17
Discount to Peers	61%	73%	67%	61%

Source: Litchfield Hills Research LLC and FactSet

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.

Figure 5 – 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	\$299.83	139,391	140,093	19.67	7.23	15.02	7.32
DOCU	DocuSign Inc	\$46.55	9,346	9,842	24.64	3.44	16.70	3.36
TWLO	Twilio, Inc.	\$68.76	11,917	9,433	NMF	2.64	23.99	1.96
OKTA	Okta Inc	\$53.83	8,174	8,906		3.71	NMF	3.57
RAMP	LiveRamp Holdings Inc	\$17.74	1,191	797	25.23	1.80	10.70	1.15
TLS	Telos Corporation	\$8.36	565	494	37.77	2.58	20.32	2.14
3738-HKG	Vobile Group Limited	\$0.25	534	5,014	39.13	2.12	19.86	1.94
IDT	IDT Corp. (Class B)	\$24.82	594	414				
DMRC	Digimarc Corp.	\$14.85	297	237		9.68		6.60
OSPN	OneSpan Inc. (Registered)	\$9.34	370	289		1.72		1.34
MITK	Mitek Systems Inc	\$10.32	458	552	10.94	2.73	11.57	3.19
INVE	Identiv, Inc. (Ordinary (US))	\$11.81	265	308	29.00	1.59	15.70	1.57
AUID-US	authID Inc.	\$1.34	33	32				
IDN	Intellicheck Inc	\$2.30	44	33		2.19		1.56
IQST-US	iQSTEL, Inc.	\$0.26	40	43				
LQID-CA	Liquid Avatar Technologies Inc	\$0.03	5	7				
	AVERAGE				<u>26.63</u>	<u>3.45</u>	<u>16.73</u>	<u>2.98</u>
LLN-ES	LleidaNetworks Serveis Telematics SA	\$1.92	31	38	10.38	0.93	5.50	1.17
	LLN-ES Discount to peers:				-61%	-73%	-67%	-61%

Source: Litchfield Hills Research LLC and FactSet

Figure 6 – Lleidanetworks Serveis Telematics SA – Income Statement (€000)

December year-end	2019	2020A	2021E				2021E	2022E				2022E
	Year	Year	Q1A	Q2A	Q3A	Q4A	Year	1QA	2QA	3QP	4QE	Year
Total revenue	€ 13,661	€ 16,421	€ 3,987	€ 4,308	€ 4,294	€ 5,386	€ 17,975	€ 5,217	€ 5,319	€ 5,200	€ 5,500	€ 21,236
<i>Growth</i>	11%	20%	-1%	14%	10%	15%	9%	31%	23%	21%	2%	18%
Cost of Goods	6,607	8,390	1,984	2,094	2,231	2,308	8,616	2,602	2,629	2,496	2,613	10,340
Gross Profit	7,054	8,031	2,003	2,214	2,063	3,078	9,359	2,615	2,690	2,704	2,888	10,897
Gross Margin	51.6%	48.9%	50.2%	51.4%	48.0%	57.2%	52.1%	50.1%	50.6%	52.0%	52.5%	51.3%
Staff expenses	3,067	3,403	1,013	909	1,133	1,326	4,381	1,533	1,643	1,600	1,600	6,376
% of total revenue	22%	21%	25%	21%	26%	25%	24%	29%	31%	31%	29%	30%
External Services	2,728	2,743	566	966	684	2,261	4,477	975	868	900	900	3,643
% of total revenue	20%	17%	14%	22%	16%	42%	25%	19%	16%	17%	16%	17%
Other operating (income)/expenses	(935)	(662)	(196)	(235)	(166)	(179)	(776)	(8)	(11)	0	0	(19)
% 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	2,500	2,500	2,500	10,000
EBITDA	2,193	2,547	620	574	412	(329)	1,277	115	190	204	388	897
Operating Margin	16.1%	15.5%	15.6%	13.3%	9.6%	-6.1%	7.1%	2.2%	3.6%	3.9%	7.0%	4.2%
Amortizations and other	(1,091)	(1,104)	(265)	(271)	(277)	661	(152)	(249)	(172)	(250)	(250)	(921)
Operating profit	1,102	1,442	355	303	135	332	1,125	(134)	18	(46)	138	(25)
Other non-operating expenses	(3)	(411)	36	(34)	(6)	(88)	(93)	19	(24)	0	0	(5)
Pre-Tax Income	1,099	1,031	391	268	129	243	1,032	(115)	(6)	(46)	138	(30)
Pre-Tax Margin	8.0%	6.3%	9.8%	6.2%	3.0%	4.5%	5.7%	-2.2%	-0.1%	-0.9%	2.5%	-0.1%
Taxes (benefit)	12	(9)	5	4	5	143	157	5	5	5	5	20
Tax Rate	1.1%	-0.9%	1.3%	1.4%	3.9%	58.9%	15.2%	-4.3%	-83.3%	-10.9%	3.6%	-67.8%
Net Income (loss)	1,086	1,040	386	265	124	100	875	(120)	(11)	(51)	133	(50)
Net Margin	8.0%	6.3%	9.7%	6.1%	2.9%	1.9%	4.9%	-2.3%	-0.2%	-1.0%	2.4%	-0.2%
EPS, as reported	€ 0.07	€ 0.06	€ 0.03	€ 0.02	€ 0.01	€ 0.01	€ 0.06	(€ 0.01)	(€ 0.00)	(€ 0.00)	€ 0.01	(€ 0.00)
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 7 – Lleidanetworks Serveis Telematics SA – Balance Sheet (€000)

December year-end	FY2022E	FY2021A	FY2020A	FY2019A	FY2018
Balance sheet					
Current Assets					
Cash and S.T.I.	€ 3,568	€ 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	8,968	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	€ 21,468	€ 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	(253)	297	(331)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	6,268	6,732	7,266	4,388	3,069
Total Liabilities and equity	€ 21,468	€ 23,476	€ 13,270	€ 10,683	€ 8,886

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – Lleidanetworks Serveis Telematics SA – Cash Flow (€000)

	FY22E	FY21E	FY20A	FY19A
Net Income	(€ 50)	€ 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	(€ 2,301)	€ 538	€ 2,886	€ 627

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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Total return is defined as price appreciation plus dividend yield.



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

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