

Action Summary – 9 March 2023

Analyst Theodore R. O’Neill – 4Q22 results show €0.03 EPS miss of which ½ is exchange rate - Reiterate our Buy rating – lowering our PT to \$9 from \$10 PT

- Preliminary 4Q22 results show revenue and an EPS loss of €5.0mm and €0.02, respectively. We had been looking for revenue and EPS of €5.5mm and €0.01, respectively. There is no consensus. Of the €0.03 unfavorable variance, half of it is due to unfavorable exchange rates and the other half is, frankly, due to our not recognizing the seasonal impact of external services, which peak in 4Q. Note: the company does not report quarterly EPS or share count, so we use the same share count for actual as we use in our estimate.
- Initiating 2023 estimates of revenue and EPS of €21.8mm and €0.01, respectively. We have lowered our growth rate of expected earnings, and this impacts our price target by USD\$1.00. We are lowering our PT to USD\$9 from USD\$10.
- **Executing on its growth plan through organic and inorganic growth.** Revenue grew 15% YoY. Sales in its SaaS services continue to be the largest segment of sales.
- 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. The company has not yet issued a FY 2022 balance sheet so those items in this report are not updated at this time.
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.**

3/8 Closing price: \$1.39	Market cap: \$22 million	2024 P/E: 13	2024 EV / Sales: 1.9
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
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	2.1%
2Q22A	(0.00)	5.32	3.4%
3Q22A	0.01	5.17	5.7%
4Q22A	<u>(0.02)</u>	<u>4.96</u>	<u>3.5%</u>
FY22A	<u>(0.02)</u>	<u>20.67</u>	<u>3.6%</u>
1Q23E	(0.01)	5.00	2.0%
2Q23E	0.01	5.50	6.4%
3Q23E	0.01	5.80	5.0%
4Q23E	<u>0.00</u>	<u>5.40</u>	<u>4.3%</u>
FY23E	<u>0.01</u>	<u>21.8</u>	<u>4.5%</u>

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

Cash balance (in Euro millions)

• 2020A	• 5.33
• 2021A	• 5.87
• 2022E	• 3.29

Debt (in Euro millions)

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

EBITDA (in Euro millions)

• 2020A	• 2.5
• 2021A	• 2.3
• 2022A	• 1.9

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 kinds go digital and move online. It also sells SMS services to business customers.

Quarterly Results

Preliminary 4Q22 results show revenue and an EPS loss of €5.0mm and €0.02, respectively. We had been looking for revenue and EPS of €5.5mm and €0.01, respectively. There is no consensus. Of the €0.03 unfavorable variance, half of it is due to unfavorable exchange rates and the other half is, frankly, due to our not recognizing the seasonal impact of external services, which peak in 4Q. Note: the company does not report quarterly EPS or share count, so we use the same share count for actual as we use in our estimate. (See Figure 1).

Figure 1 –Lleidanetworks Serveis Telematics SA – Quarterly Variance Analysis (€000)

	2022	2022	Better/(worse)
	Q4E	Q4A	than forecast
Income Statement			
Total Revenue	€ 5,500	€ 4,960	(€ 540)
Total cost of revenue	2,613	2,031	582
Total Gross Profit	2,888	2,929	42
Operating expenses:			
Staff expenses	€ 1,600	€ 1,612	-€ 12
External Services	900	1,144	(244)
Other operating (income)/expense	0	0	0
Total Expenses	2,500	2,756	(256)
EBITDA	388	173	(215)
Amortizations and other	(250)	(272)	(22)
Operating profit	138	(99)	(237)
Other non-operating expenses	0	(201)	(201)
Earnings before Tax	138	(300)	(438)
Tax expense/(benefit)	5	(5)	10
Net income	€ 133	(€ 295)	(€ 428)
EPS	€ 0.01	(€ 0.02)	(€ 0.03)
Diluted common shares	15,320	15,320	

Source: Company filings and Litchfield Hills Research LLC

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 \$9.00 (€8.50) 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 FY23 and continues to grow into the future. The model sums up all earnings per share, discounted at 6% 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 €8.50 and at 1.05 conversion equals \$8.96, which we round to \$9.00.

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

Discounted Earnings			€ 8.50
	Year 1 is 2023	Forecast EPS	Discounted EPS
	1	0.01	€ 0.01
	2	0.10	€ 0.09
	3	0.15	€ 0.13
	4	0.20	€ 0.16
	5	0.25	€ 0.19
	Terminal Value		€ 7.92

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 \$9 price target. If the shares traded for \$9.00 today, its 2024 Sales Multiples would be above average, but not out of the current range of peers. 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 is a perfect match.

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

2024 Metrics	PE	Market Cap / Sales	EV / EBITDA	EV / Sales
Peers	27.28	3.99	12.81	3.60
LLEIF	22.71	1.67	9.20	1.92
Discount to Peers	17%	58%	28%	47%

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 have had a major impact on revenue.

Figure 5 – Lleidanetworks Serveis Telematics SA – Comp Table

Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples			
					PE	Market Cap / Sales	EV / EBITDA	EV / Sales
ADBE	Adobe Inc	\$344.80	157,849	158,572	19.79	7.38	15.59	7.52
TWLO	Twilio, Inc.	\$73.70	13,093	11,071	44.44	2.64	14.67	2.04
DOCU	DocuSign Inc	\$64.92	13,054	14,060	24.54	4.53	16.00	4.46
OKTA	Okta Inc	\$85.42	13,048	14,367	NMF	5.37	NMF	5.22
RAMP	LiveRamp Holdings Inc	\$23.37	1,512	1,209	15.61	2.18	8.19	1.66
3738-HKG	Vobile Group Limited	\$0.50	1,124	9,722	29.98	3.02	13.07	2.33
IDT	IDT Corp. (Class B)	\$30.77	736	569				
OSPN	OneSpan Inc. (Registered)	\$17.76	710	663	NMF	2.73	NMF	2.39
DMRC	Digimarc Corp.	\$21.08	427	384		11.50		9.62
MITK	Mitek Systems Inc	\$9.34	417	509	7.79	2.21	8.33	2.60
TLS	Telos Corporation	\$3.83	257	154	36.19	1.31	9.87	0.75
INVE	Identiv, Inc. (Ordinary (US))	\$7.15	161	169	39.92	1.08	16.78	1.00
IDN	Intellicheck Inc	\$2.42	46	35				
IQST-US	iQSTEL, Inc.	\$0.17	27	29				
AUID-US	authID Inc.	\$0.40	10	11				
LQID-CA	Liquid Avatar Technologies Inc	\$0.02	3	5				
	AVERAGE				<u>27.28</u>	<u>3.99</u>	<u>12.81</u>	<u>3.60</u>
LLN-ES	LleidaNetworks Serveis Telematics SA	\$2.50	40	46	22.71	1.67	9.20	1.92
	LLN-ES Discount to peers:				-17%	-58%	-28%	-47%

Source: Litchfield Hills Research LLC and FactSet

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

December year-end	2019	2020A	2021E	2022A				2022A	2023E				2023E
	Year	Year	Year	1QA	2QA	3QP	4QA	Year	1QE	2QE	3QE	4QE	Year
Total revenue	€ 13,661	€ 16,421	€ 17,975	€ 5,217	€ 5,319	€ 5,175	€ 4,960	€ 20,671	€ 5,000	€ 5,600	€ 5,800	€ 5,400	€ 21,800
<i>Growth</i>	11%	20%	9%	31%	23%	21%	-8%	15%	-4%	5%	12%	9%	5%
Cost of Goods	6,607	8,390	8,616	2,602	2,629	2,629	2,031	9,891	2,500	2,744	2,958	2,268	10,470
Gross Profit	7,054	8,031	9,359	2,615	2,690	2,546	2,929	10,780	2,500	2,856	2,842	3,132	11,330
Gross Margin	51.6%	48.9%	52.1%	50.1%	50.6%	49.2%	59.1%	52.2%	50.0%	51.0%	49.0%	58.0%	52.0%
Staff expenses	3,067	3,403	4,381	1,533	1,643	1,552	1,612	6,340	1,450	1,600	1,600	1,700	6,350
% of total revenue	22%	21%	24%	29%	31%	30%	33%	31%	29%	29%	28%	31%	29%
External Services	2,728	2,743	4,477	975	868	700	1,144	3,687	950	900	950	1,200	4,000
% of total revenue	20%	17%	25%	19%	16%	14%	23%	18%	19%	16%	16%	22%	18%
Other operating (income)/expense	(935)	(662)	(776)	0	0	0	0	0	0	0	0	0	0
% of total revenue	-7%	-4%	-4%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Operating Expenses	4,861	5,484	8,082	2,508	2,511	2,252	2,756	10,027	2,400	2,500	2,550	2,900	10,350
EBITDA	2,193	2,547	1,277	107	179	294	173	753	100	356	292	232	980
Operating Margin	16.1%	15.5%	7.1%	2.1%	3.4%	5.7%	3.5%	3.6%	2.0%	6.4%	5.0%	4.3%	4.5%
Amortizations and other	(1,091)	(1,104)	(152)	(249)	(172)	(224)	(272)	(917)	(200)	(200)	(200)	(200)	(800)
Operating profit	1,102	1,442	1,125	(142)	7	70	(99)	(164)	(100)	156	92	32	180
Other non-operating expenses	(3)	(411)	(93)	27	(13)	37	(201)	(150)	5	5	5	5	20
Pre-Tax Income	1,099	1,031	1,032	(115)	(6)	107	(300)	(314)	(95)	161	97	37	200
Pre-Tax Margin	8.0%	6.3%	5.7%	-2.2%	-0.1%	2.1%	-6.0%	-1.5%	-1.9%	2.9%	1.7%	0.7%	0.9%
Taxes (benefit)	12	(9)	157	5	5	5	(5)	10	5	5	5	5	20
Tax Rate	1.1%	-0.9%	15.2%	-4.3%	-83.3%	4.7%	1.7%	-3.2%	-5.3%	3.1%	5.2%	13.5%	10.0%
Net Income (loss)	1,086	1,040	875	(120)	(11)	102	(295)	(324)	(100)	156	92	32	180
Net Margin	8.0%	6.3%	4.9%	-2.3%	-0.2%	2.0%	-5.9%	-1.6%	-2.0%	2.8%	1.6%	0.6%	0.8%
EPS, as reported	€ 0.07	€ 0.06	€ 0.06	(€ 0.01)	(€ 0.00)	€ 0.01	(€ 0.02)	(€ 0.02)	(€ 0.01)	€ 0.01	€ 0.01	€ 0.00	€ 0.01
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	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.	€ 3,294	€ 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	8,694	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	€ 21,194	€ 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	(527)	297	(331)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	5,994	6,732	7,266	4,388	3,069
Total Liabilities and equity	€ 21,194	€ 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
Net Income	(€ 324)	€ 875	€ 1,040
Trade receivables	184	(1,686)	66
Prepayments, deposits and other rec.	7	(87)	(62)
Other assets	0	0	0
Net PP&E	327	(291)	46
Goodwill & Intangibles	(968)	(7,449)	264
Other non-current	158	(156)	(15)
Trade payables	1,469	579	303
Customer deposits	0	0	0
Short-term debts	435	3,656	(961)
Deferred revenue	0	0	0
Other current liabilities	162	(4)	(54)
Long-term debt	(3,610)	6,510	422
Other long-term liabilities	0	0	0
Preferred stock	0	0	0
Share Capital	0	0	(0)
Additional paid-in-capital	86	(1,162)	2,032
Cum. trans. adj. and treasury stock	0	0	0
Dividends and other	(500)	(247)	(195)
Total Cash Flow	(€ 2,576)	€ 538	€ 2,886

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- \$9 (€8.50) PT

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