

Action Summary – 6 July 2023

Analyst Theodore R. O'Neill – Company achieves major milestone in product sales - Reiterate our Buy rating and \$9 PT.

- Preliminary 1Q22 results show revenue and an EPS loss of €4.7mm and €0.02, respectively (see Figure 1). We had been looking for revenue and an EPS loss of €5.0mm and €0.01, respectively. There is no consensus. Of the €0.01 unfavorable variance, it is due to higher operating expenses and unfavorable exchange rates, partially offset by better margins. Note: the company does not report quarterly taxes, so we use assume a small amount in our estimates.
- **Adjustment to estimates to reflect the current results.** Lowering our 2023 estimates of revenue and EPS to €21.5mn and a loss of € (0.00), respectively from €21.8mn and €0.01, respectively.
- **Company achieves record milestone.** In May 2023, the Company reached a milestone with the issuance of the 100 millionth certified e-mail using its proprietary method. This milestone marks a decade of sustained, exponential growth and increased market penetration. The company reached its first million certified emails in 2016, 10 million in 2018, 25 million in 2021, and finally 50 million in 2022.
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.**

7/6 Closing price: \$1.70	Market cap: \$27 million	2024 P/E: 16	2024 EV / Sales: 1.4
Shares outstanding: 16 million	Insider ownership: ~40%	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>
1Q23P	(0.02)	4.69	2.9%
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>(0.00)</u>	<u>21.49</u>	<u>4.7%</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
• 2022A	• 3.29
• 2023E	• 3.44

Debt (in Euro millions)

• 2020A	• 0.91
• 2021A	• 8.61
• 2022A	• 5.00
• 2023E	• 5.00

EBITDA (in Euro millions)

• 2020A	• 2.5
• 2021A	• 1.3
• 2022A	• 0.8
• 2023E	• 1.0

Risks/Valuation

- Risks include Highly competitive business; changes in customer demand; changes in GDP.
- Our \$9 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 kinds go digital and move online. It also sells SMS services to business customers.

Quarterly Results

Preliminary 1Q22 results show revenue and an EPS loss of €4.7mm and €0.02, respectively (see Figure 1). We had been looking for revenue and an EPS loss of €5.0mm and €0.01, respectively. There is no consensus. Of the €0.01 unfavorable variance, it is due to higher operating expenses and unfavorable exchange rates, partially offset by better margins. Note: the company does not report quarterly taxes, so we use assume a small amount in our estimates.

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

	2023	2023	Better/(worse)
	Q1E	Q1A	than forecast
Income Statement			
Total Revenue	€ 5,000	€ 4,691	(€ 309)
Total cost of revenue	2,500	1,907	593
Total Gross Profit	2,500	2,784	284
Operating expenses:			
Staff expenses	€ 1,450	€ 1,667	(217)
External Services	950	983	(33)
Other operating (income)/expense	0	0	0
Total Expenses	2,400	2,650	(250)
EBITDA	100	134	34
Amortizations and other	(200)	(287)	(87)
Operating profit	(100)	(153)	(53)
Other non-operating expenses	5	(123)	(128)
Earnings before Tax	(95)	(276)	(181)
Tax expense/(benefit)	5	5	0
Net income	(€ 100)	(€ 281)	(€ 181)
EPS	(€ 0.01)	(€ 0.02)	(€ 0.01)
Diluted common shares	15,320	15,960	

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 purpose of determining our price target we use a discounted future earnings model. To confirm 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). To derive our 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 €8.48 and at 1.09 conversion equals \$9.24, which we round to \$9.00.

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

Discounted Earnings			€ 8.48
	Year 1 is	Forecast	Discounted
	2023	EPS	EPS
	1	(0.00)	(€ 0.00)
	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	29.42	4.26	13.54	3.96
LLEIF	15.76	1.17	6.74	1.40
Discount to Peers	46%	73%	50%	64%

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.

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	\$485.21	221,159	222,992	27.65	10.19	21.41	10.25
TWLO	Twilio, Inc.	\$64.06	11,167	9,005	35.04	2.62	13.27	2.03
OKTA	Okta Inc	\$69.26	10,739	11,781	NMF	4.40	NMF	4.16
DOCU	DocuSign Inc	\$51.80	10,483	10,887	18.92	3.52	13.14	3.36
RAMP	LiveRamp Holdings Inc	\$29.02	1,933	1,578	20.14	2.77	10.50	2.09
3738-HKG	Vobile Group Limited	\$0.32	699	6,498	26.57	1.90	8.79	2.28
IDT	IDT Corp. (Class B)	\$26.05	623	447				
DMRC	Digimarc Corp.	\$30.37	617	597		13.84		12.64
OSPN	OneSpan Inc. (Registered)	\$14.96	598	562	NMF	2.23	NMF	1.85
MITK	Mitek Systems Inc	\$11.23	502	584	9.52	2.68	9.37	2.98
INVE	Identiv, Inc. (Ordinary (US))	\$8.79	202	243	68.11	1.33	18.34	1.29
TLS	Telos Corporation	\$2.74	190	84		1.33		0.58
IDN	Intellicheck Inc	\$2.37	46	36				
AUID-US	authID Inc.	\$0.95	25	31				
IQST-US	iQSTEL, Inc.	\$0.14	22	23				
LQID-CA	Liquid Avatar Technologies Inc	\$0.02	2	4				
	AVERAGE				<u>29.42</u>	<u>4.26</u>	<u>13.54</u>	<u>3.96</u>
LLN-ES	LleidaNetworks Serveis Telematics SA (\$1.73	28	34	15.76	1.17	6.74	1.40
	LLN-ES Discount to peers:				-46%	-73%	-50%	-64%

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	3QA	4QA	Year	1QP	2QE	3QE	4QE	Year
Total revenue	€ 13,661	€ 16,421	€ 17,975	€ 5,217	€ 5,319	€ 5,175	€ 4,960	€ 20,671	€ 4,691	€ 5,600	€ 5,800	€ 5,400	€ 21,491
<i>Growth</i>	11%	20%	9%	31%	23%	21%	-8%	15%	-10%	5%	12%	9%	4%
Cost of Goods	6,607	8,390	8,616	2,602	2,629	2,629	2,031	9,891	1,907	2,744	2,958	2,268	9,877
Gross Profit	7,054	8,031	9,359	2,615	2,690	2,546	2,929	10,780	2,784	2,856	2,842	3,132	11,614
Gross Margin	51.6%	48.9%	52.1%	50.1%	50.6%	49.2%	59.1%	52.2%	59.3%	51.0%	49.0%	58.0%	54.0%
Staff expenses	3,067	3,403	4,381	1,533	1,643	1,552	1,612	6,340	1,667	1,600	1,600	1,700	6,567
% of total revenue	22%	21%	24%	29%	31%	30%	33%	31%	36%	29%	28%	31%	31%
External Services	2,728	2,743	4,477	975	868	700	1,144	3,687	983	900	950	1,200	4,033
% of total revenue	20%	17%	25%	19%	16%	14%	23%	18%	21%	16%	16%	22%	19%
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	2,650	2,500	2,550	2,900	10,600
EBITDA	2,193	2,547	1,277	107	179	294	173	753	134	356	292	232	1,014
Operating Margin	16.1%	15.5%	7.1%	2.1%	3.4%	5.7%	3.5%	3.6%	2.9%	6.4%	5.0%	4.3%	4.7%
Amortizations and other	(1,091)	(1,104)	(152)	(249)	(172)	(224)	(272)	(917)	(287)	(200)	(200)	(200)	(887)
Operating profit	1,102	1,442	1,125	(142)	7	70	(99)	(164)	(153)	156	92	32	127
Other non-operating expenses	(3)	(411)	(93)	27	(13)	37	(201)	(150)	(123)	5	5	5	(108)
Pre-Tax Income	1,099	1,031	1,032	(115)	(6)	107	(300)	(314)	(276)	161	97	37	19
Pre-Tax Margin	8.0%	6.3%	5.7%	-2.2%	-0.1%	2.1%	-6.0%	-1.5%	-5.9%	2.9%	1.7%	0.7%	0.1%
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%	-1.8%	3.1%	5.2%	13.5%	105.3%
Net Income (loss)	1,086	1,040	875	(120)	(11)	102	(295)	(324)	(281)	156	92	32	(1)
Net Margin	8.0%	6.3%	4.9%	-2.3%	-0.2%	2.0%	-5.9%	-1.6%	-6.0%	2.8%	1.6%	0.6%	0.0%
EPS, as reported	€ 0.07	€ 0.06	€ 0.06	(€ 0.01)	(€ 0.00)	€ 0.01	(€ 0.02)	(€ 0.02)	(€ 0.02)	€ 0.01	€ 0.01	€ 0.00	(€ 0.00)
Diluted Shares Outstanding	16,050	16,050	15,320	15,320	15,320	15,320	15,320	15,320	15,960	15,960	15,960	15,960	15,960

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Lleidanetworks Serveis Telematics SA – Balance Sheet (€000)

December year-end	FY2023E	FY2022A	FY2021A	FY2020A	FY2019A
Balance sheet					
Current Assets					
Cash and S.T.I.	€ 3,443	€ 3,294	€ 5,869	€ 5,331	€ 2,445
Trade receivables	4,900	5,000	5,184	3,498	3,563
Prepayments, deposits and other rec.	350	400	407	320	258
Other assets	0	0	0	0	0
Total Current Assets	8,693	8,694	11,460	9,149	6,266
Non-current Assets					
Net PP&E	300	300	627	336	381
Goodwill & Intangibles	11,000	12,000	11,032	3,583	3,847
Other non-current	200	200	358	202	187
Total Assets	€ 20,193	€ 21,194	€ 23,476	€ 13,270	€ 10,683
Current Liabilities					
Trade payables	€ 4,500	€ 5,000	€ 3,531	€ 2,952	€ 2,649
Short-term debts	5,000	5,000	4,565	910	1,871
Customer deposits	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Other current liabilities	200	200	38	42	96
Total current liabilities	9,700	10,200	8,135	3,904	4,616
Long-term Liabilities					
Long-term debt	5,000	5,000	8,610	2,100	1,678
Other long-term liabilities	0	0	0	0	0
Total liabilities	14,700	15,200	16,745	6,004	6,294
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Share Capital	321	321	321	321	321
Additional paid-in-capital	6,200	6,200	6,114	7,276	5,244
Retained earnings	(1,028)	(527)	297	(331)	(1,177)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	5,493	5,994	6,732	7,266	4,388
Total Liabilities and equity	€ 20,193	€ 21,194	€ 23,476	€ 13,270	€ 10,683

Source: Company reports and Litchfield Hills Research LLC

Figure8– Lleidanetworks Serveis Telematics SA – Cash Flow (€000)

	FY23E	FY22A	FY21E	FY20A
Net Income	(€ 1)	(€ 324)	€ 875	€ 1,040
Trade receivables	100	184	(1,686)	66
Prepayments, deposits and other rec.	50	7	(87)	(62)
Other assets	0	0	0	0
Net PP&E	0	327	(291)	46
Goodwill & Intangibles	1,000	(968)	(7,449)	264
Other non-current	0	158	(156)	(15)
Trade payables	(500)	1,469	579	303
Customer deposits	0	0	0	0
Short-term debts	0	435	3,656	(961)
Deferred revenue	0	0	0	0
Other current liabilities	0	162	(4)	(54)
Long-term debt	0	(3,610)	6,510	422
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	86	(1,162)	2,032
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends and other	(500)	(500)	(247)	(195)
Total Cash Flow	€ 149	(€ 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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