

**Action Summary – 22 April 2021**

Analyst Theodore R. O'Neill – Reiterate our Buy rating and \$12 PT

- **Lleidanetworks Serveis Telematics S.A. reported 1Q21 EPS of 0.02 EUR (based on our estimate of taxes) on 4.0 million EUR of revenue compared to our estimates EPS and revenue estimates of 0.04 EUR and 4.7 million EUR respectively. There is no consensus.**
- **While the results were a shortfall to our estimates, the shortfall in revenue was primarily the result of a decline in the ICX Wholesale segment which was down 25% Y/Y and 14% Q/Q**
- **Its SaaS business, which is part of the global digital shift in commerce was also down Q/Q (20%) but up 46% Y/Y.** Some industry peers place this market at more than 10B USD and growing double digits.
- **There are significant barriers to entry.** Its SaaS products are protected by more than 200 worldwide patents
- We are lowering our 2021 estimates to reflect the decline in its ICX Wholesale segment; We are looking for Y/Y growth in the SaaS business. Our 2021 Revenue and EPS estimates fall to 18.4 million EUR and 0.12 EUR, respectively from 19.5 million EUR and 0.04, respectively.
- 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.**

<b>4/22 Closing price: \$5.80</b>	<b>Market cap: \$93 million</b>	<b>2022 P/E: 19</b>	<b>2022 EV / Sales: 3.4</b>
<b>Shares outstanding: 16.05 million</b>	<b>Insider ownership: 62%</b>	<b>Avg. trading volume on OTCQB: 500</b>	<b>Dividend/Yield: NA/NA</b>

**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%
4Q20P	<u>0.00</u>	<u>4.69</u>	<u>13.4%</u>
FY20P	<u>0.06</u>	<u>16.42</u>	<u>16.6%</u>
1Q21A	0.02	4.00	15.6%
2Q21E	0.02	4.40	14.9%
3Q21E	0.02	4.50	15.0%
4Q21E	<u>0.06</u>	<u>5.50</u>	<u>22.8%</u>
FY21E	<u>0.12</u>	<u>18.40</u>	<u>17.4%</u>
1Q22E	0.05	5.50	22.5%
2Q22E	0.07	6.00	26.3%
3Q22E	0.05	5.50	23.9%
4Q22E	<u>0.09</u>	<u>6.50</u>	<u>28.7%</u>
FY22E	<u>0.26</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 thousands)**

• 2020P	• 3.87
• 2021E	• 2.30
• 2022E	• 7.39

**Debt (in thousands)**

• 2020P	• 1.75
• 2021E	• 0.0
• 2022E	• 0.0

**EBITDA (in thousands)**

• 2020P	• 2.6
• 2021E	• 3.2
• 2022E	• 6.0

**Risks/Valuation**

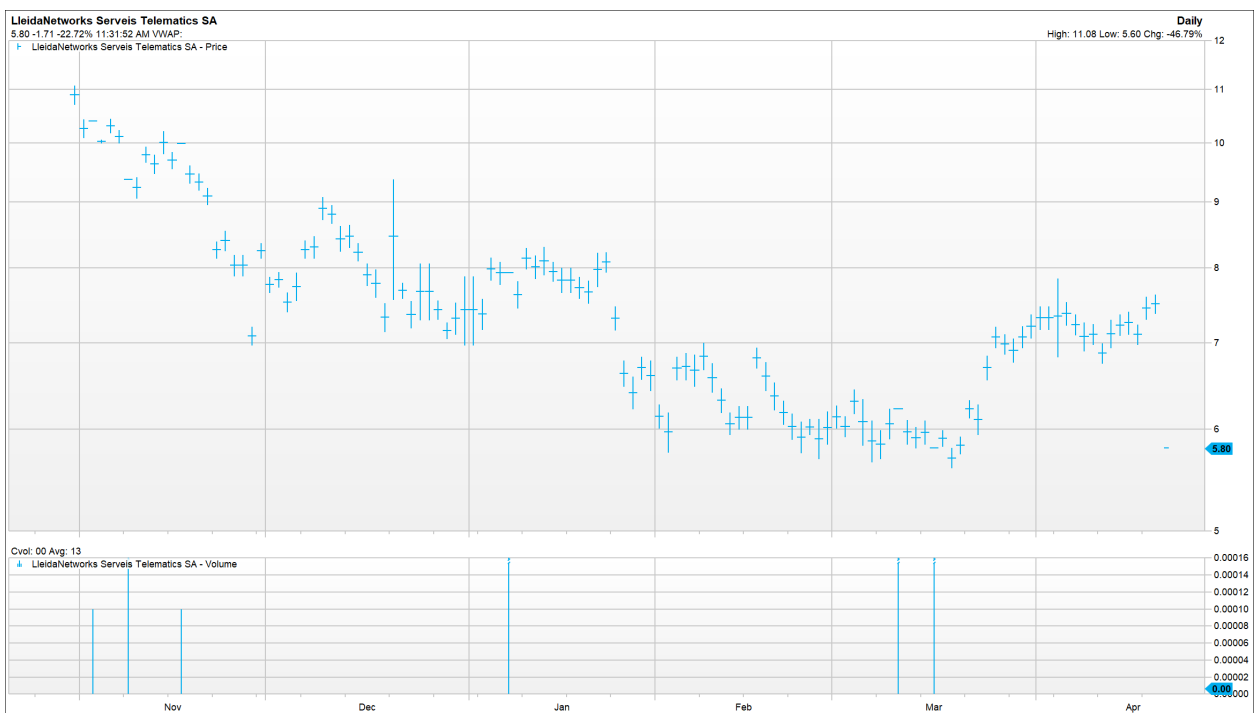
- Risks include: Highly competitive business; changes in customer demand; COVID-19.
- Our \$12 target is derived using a discounted future earnings model

**Company description:** LLEIF is a telecommunications company with a Software-as-a-service (SaaS) product suite that is 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

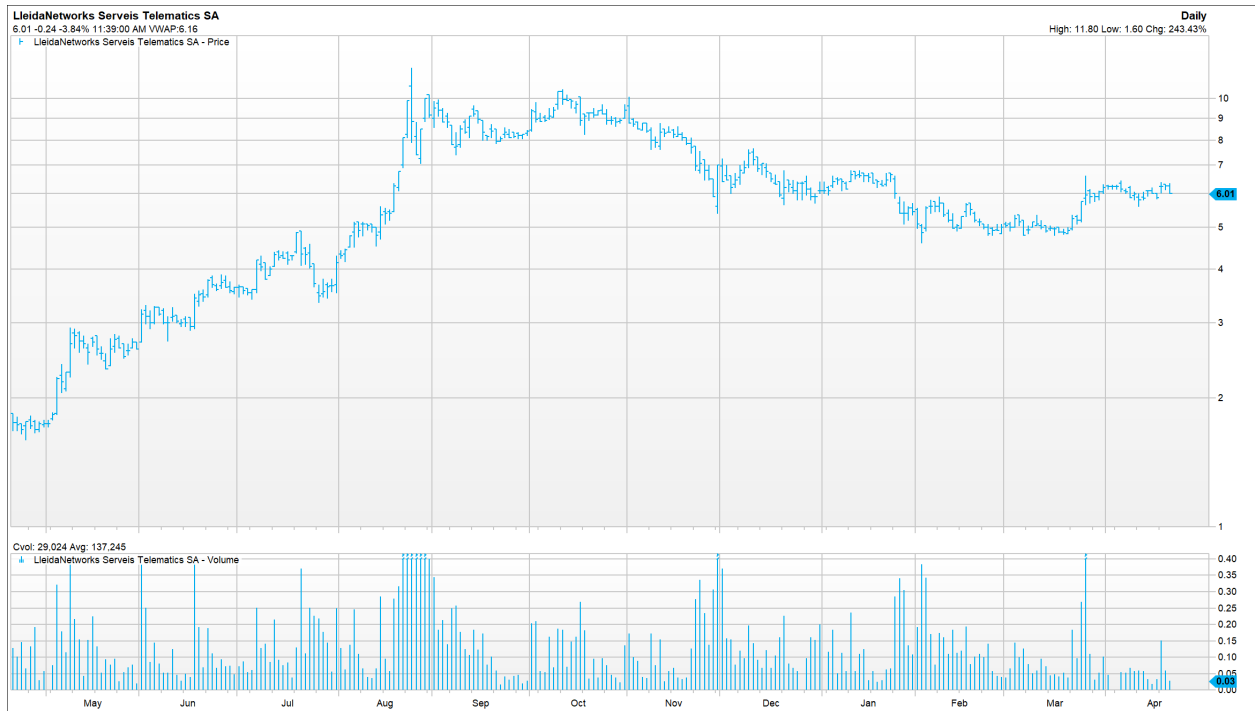
The shares have traded on the OTCQB since November 2020 so the short history of trading and low volume on that exchange is not unusual (see Figure 1). The company has been public since October 2015 and has a rich history of trading and volume in Madrid (see Figure 2).

Figure 1 – Lleidanetworks Serveis Telematics SA – Trading on OTCQB since November 2020



Source: FactSet

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



Source: FactSet

## Valuation Methodology

We believe 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 €10.08 and at 1.20 conversion equals \$12.10, which we round down to \$12.00.

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

Discounted Earnings			€ 10.08
	Year 1 is 2021	Forecast EPS	Discounted EPS
	1	0.12	€ 0.12
	2	0.26	€ 0.23
	3	0.30	€ 0.24
	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 more than 100% higher than where it is today. This supports our \$12 price target. If the shares traded for \$12.00 today, its 2021 and 2022 Sales Multiples would still be below average. Details on each of the peers can be found in Figure 6 near the back of the report. 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

	2022 PE	2022 EV / EBITDA	2021 PE	2022 Sales Multiple	2022 EV / Revenue	2021 EV / EBITDA
Peers	66.22	43.92	108.69	9.84	9.32	64.01
LLEIF	23.17	19.26	50.22	4.94	4.92	36.12
<b>Discount to Peers</b>	<b>65%</b>	<b>56%</b>	<b>54%</b>	<b>49%</b>	<b>47%</b>	<b>44%</b>

Source: Litchfield Hills Research LLC and Refinitiv Eikon

### Notes on our Financial Forecasts

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.

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

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. We also assume the company has sufficient cash by the end of 2021 to pay off its debt, although there may be solid reasons to keep it unchanged or add to it, for instances if it decides to add growth through acquisition.

Financial forecasts always contain an element of uncertainty and it is no different here, but we expect that over time, the estimates will get increasingly accurate.

### Quarterly Results – Variance Analysis

Lleidanetworks Serveis Telematics S.A. reported 1Q21 EPS of 0.02 EUR (based on our estimate of taxes) on 4.0 million EUR of revenue compared to our estimates EPS and revenue estimates of 0.04 EUR and 4.7 million EUR respectively. There is no consensus. While the results were a shortfall to our estimates, the shortfall in revenue was primarily the result of a decline in ICX Wholesale segment which was down 25% Y/Y and 14% Q/Q. The 0.02 EPS shortfall was due to lower revenue, and higher expenses, partially offset by better margins and lower non-operating expenses (Figure 5).

Figure 5 – Lleidanetworks Serveis Telematics SA – Variance Analysis

	2021	2021	
(\$000)	Q1E	Q1A	Better/(worse) than forecast
<b>Income Statement</b>			
Total Revenue	\$4,700	\$3,987	(\$713)
Total cost of revenue	2,397	1,984	413
Total Gross Profit	2,303	2,003	(300)
Operating expenses:			
Staff expenses	\$900	\$1,013	(\$113)
External Services	600	566	34
Other operating (income)/expense	(150)	(196)	46
Total Expenses	1,350	1,383	(33)
EBITDA	953	620	(\$333)
Amortizations and other	(300)	(265)	35
Operating profit	653	355	(298)
Other non-operating expenses	(40)	36	76
Earnings before Tax	613	391	(\$222)
Tax expense/(benefit)	5	5	
Net income	\$608	\$386	(\$222)
			\$ -
EPS	\$0.04	\$0.02	(\$0.01)
Diluted common shares	16,050	16,050	

Source: Company data and Litchfield Hills Research LLC

Figure 6 – Lleidanetworks Serveis Telematics SA – Comp Table

Ticker	Company Name	4/20/21 Close	Mart Cap \$MM	EV \$MM	2022 PE	2022 EV / EBITDA	2021 PE	2022 Sales Multiple	2021 Sales Multiple	2022 EV / Revenue	2021 EV / EBITDA	2021 EV / Revenue
ADBE.O	Adobe Inc	\$514.21	245,792	244,948	37.52	27.97	43.31	13.89	15.89	13.81	31.88	15.82
TWLO.K	Twilio Inc	\$367.65	62,676	59,965	X	X		19.65	25.69	18.61	X	24.47
DOCU.O	DocuSign Inc	\$219.43	42,691	42,635	112.34	87.30	162.82	16.89	21.63	16.79	122.98	21.57
OKTA.O	Okta Inc	\$265.80	34,876	34,086	X	X		X	X	X		X
SAIL.K	SailPoint Technologies Holdings Inc	\$48.01	4,415	4,231	X	X		9.32	10.74	8.90	X	10.27
RAMP.K	Liveramp Holdings Inc	\$46.65	3,122	2,458	135.92	73.91	218.61	6.15	7.09	4.84	95.83	5.58
TLS.O	Telos Corp	\$33.96	2,195	2,104	48.28	28.53	110.71	5.40	7.63	5.17	61.68	7.31
3738.HK	Vobile Group Ltd	\$4.31	1,989	2,035	71.83	48.56	143.66	14.73	23.40	15.07	97.82	
PING.K	Ping Identity Holding Corp	\$21.84	1,779	1,782	75.25	62.05	123.80	5.96	6.76	5.98	79.04	6.81
OSPN.O	OneSpan Inc	\$26.87	1,081	966	89.46	58.08		4.44	4.90	3.97		4.38
MITK.O	Mitek Systems Inc	\$15.35	655	588	18.78	14.72	22.16	4.94	5.64	4.38	17.88	5.02
DMRC.O	Digimarc Corp	\$34.17	576	503				17.79	20.82	15.54		18.16
IDT	IDT Corp	\$21.45	552	427								
INVE.O	Identiv Inc	\$13.65	291	301	54.88	23.72		2.37	2.89	2.40	35.71	2.99
IDTY.PK	Ipsidy Inc	\$0.25	148	151								
IDN.O	Intellicheck Inc	\$7.82	145	132	17.96	14.34	44.45	6.41	9.20	5.72	33.28	8.26
IQST.PK	Iqstel Inc	\$0.68	93	95								
LQID.CD	Liquid Avatar Technologies Inc	\$0.16	17	16								
	<b>AVERAGE</b>				<b>66.22</b>	<b>43.92</b>	<b>108.69</b>	<b>9.84</b>	<b>12.48</b>	<b>9.32</b>	<b>64.01</b>	<b>10.89</b>
LLN.MC	Lleidanetworks Serveis Telematics SA	\$7.23	116	116	23.18	19.26	50.22	4.94	6.31	4.92	36.12	6.28
	LLEIF/LLN Discount to peers				-65%	-56%	-54%	-50%	-49%	-47%	-44%	-42%

Several metrics were Xed out due to being many standard deviations above the mean

Source: Litchfield Hills Research LLC and Refinitiv Eikon

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

December year-end	2019					2020P					2021E					2022E				
	Year	Q1A	Q2A	Q3A	Q4P	Year	Q1A	Q2E	Q3E	Q4E	Year	1QE	2Q3	3QE	4QE	Year				
<b>Total revenue</b>	€ 13,661	€ 4,046	€ 3,773	€ 3,910	€ 4,691	€ 16,420	€ 3,987	€ 4,400	€ 4,500	€ 5,500	€ 18,387	€ 5,500	€ 6,000	€ 5,500	€ 6,500	€ 23,500				
<i>Growth</i>	11%	43%	17%	16%	11%	20%	-1%	17%	15%	17%	12%	38%	36%	22%	18%	28%				
Cost of Goods	6,607	2,156	1,880	1,861	2,508	8,405	1,984	2,244	2,250	2,695	9,173	2,695	2,880	2,640	3,088	11,303				
<b>Gross Profit</b>	<b>7,054</b>	<b>1,890</b>	<b>1,893</b>	<b>2,049</b>	<b>2,183</b>	<b>8,015</b>	<b>2,003</b>	<b>2,156</b>	<b>2,250</b>	<b>2,805</b>	<b>9,214</b>	<b>2,805</b>	<b>3,120</b>	<b>2,860</b>	<b>3,413</b>	<b>12,198</b>				
<b>Gross Margin</b>	<b>51.6%</b>	<b>46.7%</b>	<b>50.2%</b>	<b>52.4%</b>	<b>46.5%</b>	<b>48.8%</b>	<b>50.2%</b>	<b>49.0%</b>	<b>50.0%</b>	<b>51.0%</b>	<b>50.1%</b>	<b>51.0%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.5%</b>	<b>51.9%</b>				
Staff expenses	3,292	874	876	903	957	3,610	1,013	950	975	1,000	3,938	1,000	1,000	1,000	1,000	4,000				
% of total revenue	24%	22%	23%	23%	20%	22%	25%	22%	22%	18%	21%	18%	17%	18%	15%	17%				
External Services	2,503	760	544	437	756	2,497	566	700	750	700	2,716	720	720	720	720	2,880				
% of total revenue	18%	19%	14%	11%	16%	15%	14%	16%	17%	13%	15%	13%	12%	13%	11%	12%				
Other operating (income)/expense	(935)	(168)	(163)	(334)	(157)	(822)	(196)	(150)	(150)	(150)	(646)	(150)	(175)	(175)	(175)	(675)				
% of total revenue	-7%	-4%	-4%	-9%	-3%	-5%	-5%	-3%	-3%	-3%	-4%	-3%	-3%	-3%	-3%	-3%				
Total Operating Expenses	4,860	1,466	1,257	1,006	1,556	5,285	1,383	1,500	1,575	1,550	6,008	1,570	1,545	1,545	1,545	6,205				
<b>EBITDA</b>	<b>2,194</b>	<b>424</b>	<b>636</b>	<b>1,043</b>	<b>627</b>	<b>2,730</b>	<b>620</b>	<b>656</b>	<b>675</b>	<b>1,255</b>	<b>3,206</b>	<b>1,235</b>	<b>1,575</b>	<b>1,315</b>	<b>1,868</b>	<b>5,993</b>				
<b>Operating Margin</b>	<b>16.1%</b>	<b>10.5%</b>	<b>16.9%</b>	<b>26.7%</b>	<b>13.4%</b>	<b>16.6%</b>	<b>15.6%</b>	<b>14.9%</b>	<b>15.0%</b>	<b>22.8%</b>	<b>17.4%</b>	<b>22.5%</b>	<b>26.3%</b>	<b>23.9%</b>	<b>28.7%</b>	<b>25.5%</b>				
Total Other Items	(1,092)	(288)	(307)	(329)	(343)	(1,267)	(265)	(300)	(300)	(300)	(1,165)	(300)	(300)	(300)	(300)	(1,200)				
<b>Pre-Tax Income</b>	<b>1,102</b>	<b>136</b>	<b>329</b>	<b>714</b>	<b>284</b>	<b>1,463</b>	<b>355</b>	<b>356</b>	<b>375</b>	<b>955</b>	<b>2,041</b>	<b>935</b>	<b>1,275</b>	<b>1,015</b>	<b>1,568</b>	<b>4,793</b>				
<b>Pre-Tax Margin</b>		<b>3.4%</b>	<b>8.7%</b>	<b>18.3%</b>	<b>6.1%</b>	<b>8.9%</b>	<b>8.9%</b>	<b>8.1%</b>	<b>8.3%</b>	<b>17.4%</b>	<b>11.1%</b>	<b>17.0%</b>	<b>21.3%</b>	<b>18.5%</b>	<b>24.1%</b>	<b>20.4%</b>				
Taxes (benefit)	12	10	0	1	10	21	5	5	5	5	20	100	100	100	100	400				
Tax Rate	1.1%	7.4%	0.0%	0.1%	3.5%	1.4%	1.4%	1.4%	1.3%	0.5%	1.0%	10.7%	7.8%	9.9%	6.4%	8.3%				
<b>Net Income (loss)</b>	<b>1,086</b>	<b>58</b>	<b>273</b>	<b>641</b>	<b>61</b>	<b>1,033</b>	<b>386</b>	<b>311</b>	<b>330</b>	<b>910</b>	<b>1,937</b>	<b>795</b>	<b>1,135</b>	<b>875</b>	<b>1,428</b>	<b>4,233</b>				
<b>Net Margin</b>	<b>8.0%</b>	<b>1.4%</b>	<b>7.2%</b>	<b>16.4%</b>	<b>1.3%</b>	<b>6.3%</b>	<b>9.7%</b>	<b>7.1%</b>	<b>7.3%</b>	<b>16.5%</b>	<b>10.5%</b>	<b>14.5%</b>	<b>18.9%</b>	<b>15.9%</b>	<b>22.0%</b>	<b>18.0%</b>				
<b>EPS, as reported</b>	<b>€ 0.07</b>	<b>€ 0.00</b>	<b>€ 0.02</b>	<b>€ 0.04</b>	<b>€ 0.00</b>	<b>€ 0.06</b>	<b>€ 0.02</b>	<b>€ 0.02</b>	<b>€ 0.02</b>	<b>€ 0.06</b>	<b>€ 0.12</b>	<b>€ 0.05</b>	<b>€ 0.07</b>	<b>€ 0.05</b>	<b>€ 0.09</b>	<b>€ 0.26</b>				
Diluted Shares Outstanding	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050	16,050				

Source: Company reports and Litchfield Hills Research LLC

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

December year-end	FY2022E	FY2021E	FY2020P	FY2019A	FY2018
<b>Balance sheet</b>					
Current Assets					
Cash and S.T.I.	€ 7,391	€ 2,308	€ 3,871	€ 2,445	€ 1,819
Trade receivables	4,500	4,000	3,800	3,563	2,441
Prepayments, deposits and other rec.	400	400	300	258	238
Other assets	0	0	0	0	12
<b>Total Current Assets</b>	<b>12,291</b>	<b>6,708</b>	<b>7,971</b>	<b>6,267</b>	<b>4,509</b>
Net PP&E	300	300	300	381	344
Goodwill & Intangibles	200	200	200	187	192
<b>Total Assets</b>	<b>€ 16,291</b>	<b>€ 10,958</b>	<b>€ 12,271</b>	<b>€ 10,683</b>	<b>€ 8,886</b>
Current Liabilities					
Trade payables	€ 4,500	€ 3,500	€ 3,000	€ 2,649	€ 2,013
Short-term debts	0	0	2,000	1,871	2,346
Customer deposits	0	0	0	0	0
Other current liabilities	200	100	100	96	85
<b>Total current liabilities</b>	<b>4,700</b>	<b>3,600</b>	<b>5,100</b>	<b>4,616</b>	<b>4,444</b>
Long-term debt	0	0	1,750	1,678	1,374
Other long-term liabilities	0	0	0	0	0
<b>Total liabilities</b>	<b>4,700</b>	<b>3,600</b>	<b>6,850</b>	<b>6,294</b>	<b>5,817</b>
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Share Capital	321	321	321	321	321
Additional paid-in-capital	5,244	5,244	5,244	5,244	5,244
Retained earnings	6,026	1,793	(144)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	11,591	7,358	5,421	4,388	3,069
<b>Total Liabilities and equity</b>	<b>€ 16,291</b>	<b>€ 10,958</b>	<b>€ 12,271</b>	<b>€ 10,683</b>	<b>€ 8,886</b>

Source: Company reports and Litchfield Hills Research LLC



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

	FY22E	FY21E	FY20P	FY19A
Net Income	€ 4,233	€ 1,937	€ 1,033	€ 1,086
Trade receivables	(500)	(200)	(237)	(1,122)
Prepayments, deposits and other rec.	0	(100)	(42)	(20)
Other assets	0	0	0	12
Net PP&E	0	0	81	(38)
Goodwill & Intangibles	250	50	47	(5)
Other non-current	0	0	(13)	4
Trade payables	1,000	500	351	637
Customer deposits	0	0	0	0
Short-term debts	0	(2,000)	129	(474)
Deferred revenue	0	0	0	0
Other current liabilities	100	0	4	11
Long-term debt	0	(1,750)	72	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	(0)	0
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends and other	0	0	0	233
<b>Total Cash Flow</b>	<b>€ 5,083</b>	<b>(€ 1,563)</b>	<b>€ 1,426</b>	<b>€ 627</b>

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.

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Total return is defined as price appreciation plus dividend yield.



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