

**Action Summary – 15 July 2021**

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

- **Lleidanetworks Serveis Telematics S.A.** announced it had agreed to buy electronic signature company inDenova for 7.1MM EUR. We understand that the transaction is 75% cash and 25% stock and that the payment will be made over time.
- **InDenova compliments Lleida's product portfolio providing process automation, electronic signature and security and digital onboarding that provides identity verification.**
- The ability to ensure secure communication exchange, sign documents and protect them in the cloud with full legal validity, as if it were done in person, is both a growing trend and a cost saving means for their customers.
- This acquisition is part of the company's inorganic growth strategy. The company says it expects EBITDA would grow over 3.95MM EUR above 2020 levels, which came in at 2.5MM EUR. This adds clients in Spain, Morocco, Colombia, Peru, Chile and Paraguay and adds 70 employees.
- **Our balance sheet estimates do not include payment for the acquisition, but we will update them when more detail is provided.** We will adjust our income statement after the transaction closes.
- 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.**

7/14 Closing price: <b>\$5.80</b>	Market cap: <b>\$93 million</b>	2022 P/E: <b>19</b>	2022 EV / Sales: <b>3.7</b>
Shares outstanding: <b>16.05 million</b>	Insider ownership: <b>62%</b>	Avg. trading volume on OTCQB: <b>500</b>	Dividend/Yield: <b>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%
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	0.02	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)**

• 2020A	• 5.33
• 2021E	• 4.15
• 2022E	• 9.24

**Debt (in thousands)**

• 2020A	• 0.91
• 2021E	• 0.0
• 2022E	• 0.0

**EBITDA (in thousands)**

• 2020A	• 2.5
• 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). There also appears to be an arbitrage opportunity to buy the shares in the U.S. at \$5.80 and sell them on the Madrid exchange for €5.80!

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 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 €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 2022 Sales Multiples would still be below 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

	2022 PE	2022 Market Cap / Sales	2022 EV / Sales	2022 EV / EBITDA
Peers	63.36	9.84	8.90	38.49
LLEIF	24.88	3.83	3.70	16.93
<b>Discount to Peers</b>	<b>61%</b>	<b>61%</b>	<b>58%</b>	<b>56%</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.

Figure 5 – Lleidanetworks Serveis Telematics SA – Comp Table

Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2022 Consensus Multiples			
					PE	Market Cap / Sales	EV / Sales	EV / EBITDA
ADBE	Adobe Inc	\$605.01	289,480	289,935	43.32	16.02	16.20	32.86
TWLO	Twilio, Inc.	\$389.26	61,391	60,870	NMF	19.67	16.23	NMF
DOCU	DocuSign Inc	\$283.68	54,024	55,297	130.65	20.36	19.77	94.68
OKTA	Okta Inc	\$249.09	30,472	32,076		19.22	18.29	
3738-HKG	Vobile Group Limited	\$7.18	13,925	3,175	25.05	3.35	3.06	12.53
SAIL	SailPoint Technologies Holdings, Inc.	\$50.04	4,457	4,586		9.42	9.31	NMF
RAMP	LiveRamp Holdings Inc	\$41.17	2,696	2,162	94.25	4.41	3.34	45.27
TLS	Telos Corporation	\$31.65	2,051	1,968	44.47	5.02	4.68	26.45
PING-US	Ping Identity Holding Corp.	\$23.23	1,866	1,894	78.92	6.14	6.06	58.93
IDT	IDT Corp. (Class B)	\$49.04	1,146	1,041				
OSPN	OneSpan Inc. (Registered)	\$24.29	968	868	85.84	4.00	3.55	51.08
MITK	Mitek Systems Inc	\$18.73	800	773	20.78	5.84	5.46	17.86
DMRC	Digimarc Corp.	\$28.56	475	403		14.85	10.30	
INVE	Identiv, Inc. (Ordinary (US))	\$15.32	338	297	76.85	2.77	2.43	24.97
AUID-US	Ipsidy Inc.	\$11.20	206	226				
IDN	Intellicheck Inc	\$8.01	150	136	33.46	6.73	5.92	20.30
IQST-US	iQSTEL, Inc.	\$0.58	81	67				
LQID-CA	Liquid Avatar Technologies Inc	\$0.14	14	12				
	Average				<u>63.36</u>	<u>9.84</u>	<u>8.90</u>	<u>38.49</u>
LLN-ES	LleidaNetworks Serveis Telematics SA	\$6.10	98	95	24.88	3.83	3.70	16.93
	<b>LLN Discount to Peers</b>				<b>-61%</b>	<b>-61%</b>	<b>-58%</b>	<b>-56%</b>

Metrics that were more than five standard deviations from the mean are indicated NMF and excluded from the calculations

Source: Litchfield Hills Research LLC and FactSet

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

December year-end	2019	2020A				2020A	2021E				2021E	2022E				2022E
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2E	Q3E	Q4E	Year	1QE	2Q3	3QE	4QE	Year
<b>Total revenue</b>	€ 13,661	€ 4,046	€ 3,773	€ 3,910	€ 4,692	€ 16,421	€ 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	2,493	8,390	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>2,199</b>	<b>8,031</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>46.9%</b>	<b>48.9%</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	3,067	874	876	903	750	3,403	1,013	950	975	1,000	3,938	1,000	1,000	1,000	1,000	4,000
% of total revenue	22%	22%	23%	23%	16%	21%	25%	22%	22%	18%	21%	18%	17%	18%	15%	17%
External Services	2,728	760	544	437	1,002	2,743	566	700	750	700	2,716	720	720	720	720	2,880
% of total revenue	20%	19%	14%	11%	21%	17%	14%	16%	17%	13%	15%	13%	12%	13%	11%	12%
Other operating (income)/expense	(935)	(168)	(163)	(334)	3	(662)	(196)	(150)	(150)	(150)	(648)	(150)	(175)	(175)	(175)	(675)
% of total revenue	-7%	-4%	-4%	-9%	0%	-4%	-5%	-3%	-3%	-3%	-4%	-3%	-3%	-3%	-3%	-3%
Total Operating Expenses	4,861	1,466	1,257	1,006	1,755	5,484	1,383	1,500	1,575	1,550	6,008	1,570	1,545	1,545	1,545	6,205
<b>EBITDA</b>	<b>2,193</b>	<b>424</b>	<b>636</b>	<b>1,043</b>	<b>444</b>	<b>2,547</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>9.5%</b>	<b>15.5%</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>
Amortizations and other	(1,091)	(288)	(307)	(329)	(180)	(1,104)	(265)	(300)	(300)	(300)	(1,165)	(300)	(300)	(300)	(300)	(1,200)
Operating profit	1,102	136	329	714	263	1,442	355	356	375	955	2,041	935	1,275	1,015	1,568	4,793
Other non-operating expenses	(3)	(68)	(56)	(72)	(215)	(411)	36	(40)	(40)	(40)	(84)	(40)	(40)	(40)	(40)	(160)
<b>Pre-Tax Income</b>	<b>1,099</b>	<b>68</b>	<b>273</b>	<b>642</b>	<b>48</b>	<b>1,031</b>	<b>391</b>	<b>316</b>	<b>335</b>	<b>915</b>	<b>1,957</b>	<b>895</b>	<b>1,235</b>	<b>975</b>	<b>1,528</b>	<b>4,633</b>
<b>Pre-Tax Margin</b>	<b>8.0%</b>	<b>1.7%</b>	<b>7.2%</b>	<b>16.4%</b>	<b>1.0%</b>	<b>6.3%</b>	<b>9.8%</b>	<b>7.2%</b>	<b>7.4%</b>	<b>16.6%</b>	<b>10.6%</b>	<b>16.3%</b>	<b>20.6%</b>	<b>17.7%</b>	<b>23.5%</b>	<b>19.7%</b>
Taxes (benefit)	12	10	0	1	(20)	(9)	5	5	5	5	20	100	100	100	100	400
Tax Rate	1.1%	14.7%	0.0%	0.2%	-42.1%	-0.9%	1.3%	1.6%	1.5%	0.5%	1.0%	11.2%	8.1%	10.3%	6.5%	8.6%
<b>Net Income (loss)</b>	<b>1,086</b>	<b>58</b>	<b>273</b>	<b>641</b>	<b>68</b>	<b>1,040</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>1.5%</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 7 – Lleidanetworks Serveis Telematics SA – Balance Sheet (€000)

December year-end	FY2022E	FY2021E	FY2020A	FY2019A	FY2018
<b>Balance sheet</b>					
Current Assets					
Cash and S.T.I.	€ 9,235	€ 4,153	€ 5,331	€ 2,445	€ 1,819
Trade receivables	4,500	4,000	3,498	3,563	2,441
Prepayments, deposits and other rec.	400	400	320	258	238
Other assets	0	0	0	0	12
<b>Total Current Assets</b>	<b>14,135</b>	<b>8,553</b>	<b>9,149</b>	<b>6,266</b>	<b>4,509</b>
Net PP&E	300	300	336	381	344
Goodwill & Intangibles	200	200	202	187	192
<b>Total Assets</b>	<b>€ 18,135</b>	<b>€ 12,803</b>	<b>€ 13,270</b>	<b>€ 10,683</b>	<b>€ 8,886</b>
Current Liabilities					
Trade payables	€ 4,500	€ 3,500	€ 2,952	€ 2,649	€ 2,013
Short-term debts	0	0	910	1,871	2,346
Customer deposits	0	0	0	0	0
Other current liabilities	200	100	42	96	85
<b>Total current liabilities</b>	<b>4,700</b>	<b>3,600</b>	<b>3,904</b>	<b>4,616</b>	<b>4,444</b>
Long-term debt	0	0	2,100	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>6,004</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	7,276	7,276	7,276	5,244	5,244
Retained earnings	5,838	1,606	(331)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	13,435	9,203	7,266	4,388	3,069
<b>Total Liabilities and equity</b>	<b>€ 18,135</b>	<b>€ 12,803</b>	<b>€ 13,270</b>	<b>€ 10,683</b>	<b>€ 8,886</b>

Source: Company reports and Litchfield Hills Research LLC



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

	FY22E	FY21E	FY20A	FY19A
Net Income	€ 4,233	€ 1,937	€ 1,040	€ 1,086
Trade receivables	(500)	(502)	66	(1,122)
Prepayments, deposits and other rec.	0	(80)	(62)	(20)
Other assets	0	0	0	12
Net PP&E	0	36	46	(38)
Goodwill & Intangibles	250	(167)	264	(5)
Other non-current	0	2	(15)	4
Trade payables	1,000	548	303	637
Customer deposits	0	0	0	0
Short-term debts	0	(910)	(961)	(474)
Deferred revenue	0	0	0	0
Other current liabilities	100	58	(54)	11
Long-term debt	0	(2,100)	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	0	0	2,032	0
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends and other	0	0	(195)	233
<b>Total Cash Flow</b>	<b>€ 5,083</b>	<b>(€ 1,178)</b>	<b>€ 2,886</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.

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**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

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