

Action Summary – 26 February 2024

Analyst Theodore R. O'Neill – Company starting off 2024 on the right foot - Reiterate our Buy rating and \$9 PT.

- **Adding new business and new patent awards.** The company is starting off 2024 with a bang by adding several new customers, including Santander Global Technology and Operations and the Colombian insurance company Seguros Mundial for the management of its certified electronic notifications, and renewing its contract with the world's leading soccer institution, Lliga Group International. It also signed a 5-year contract with Columbian, Colmédica, a leader in providing prepaid healthcare services in Colombia. It was awarded patents for its technology in South America, Japan, and Taiwan, bringing its total to 308 patents worldwide.
- **Adjustment to estimates to reflect the change in business mix noted in 3Q23, specifically a global decline in SMS.** Lowering our 2023 estimates of revenue and EPS to €16.0mm and a loss of €0.15, respectively, from revenue and an EPS loss of €21.5mn and €0.00, respectively. For 2024 we are initiating revenue and EPS estimates of €16.3mn and a loss of €0.02.
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.** If we compare LLEIF to a simple average of its peers, the shares sell at a discount on every metric. These metrics indicate that the stock price should be higher than it is today and supports our \$9 price target. If the shares traded for \$9.00 today, its 2025 Sales Multiples would be above average, but not out of the current range of peers.

2/23 Closing price: \$1.13	Market cap: \$20 million	2025 P/E: 12	2025 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
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>
1Q23A	(0.02)	4.69	8.3%
2Q23A	(0.04)	4.04	(1.1%)
3Q23A	(0.05)	3.77	(3.7%)
4Q24E	<u>(0.04)</u>	<u>3.50</u>	<u>(13.4%)</u>
FY23E	<u>(0.15)</u>	<u>16.00</u>	<u>(1.6%)</u>
1Q24E	(0.03)	3.50	(0.6%)
2Q24E	(0.02)	4.20	9.2%
3Q24E	0.01	4.60	11.3%
4Q24E	<u>(0.00)</u>	<u>4.00</u>	<u>9.3%</u>
FY24E	<u>(0.02)</u>	<u>16.30</u>	<u>7.7%</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)

• 2021A	• 5.87
• 2022A	• 2.11
• 2023E	• 1.11
• 2024E	• 2.09

Debt (in Euro millions)

• 2021A	• 8.61
• 2022A	• 6.81
• 2023E	• 5.00
• 2024E	• 5.00

EBITDA (in Euro millions)

• 2021A	• 1.3
• 2022A	• 1.9
• 2023E	• (0.3)
• 2024E	• 1.3

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.

Figure 1 – 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. To determine 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 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$9.00 is based on a discounted future earnings model (Figure 2). To derive our earnings-based price target, we assume the company generates a small profit for FY25 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 €8.46 and at 1.08 conversion equals \$9.16, which we round to \$9.00.

Figure 2 – Lleidanetworks Serveis Telematics SA – Implied Price Target Calculation

Discounted Earnings		€ 8.46
Year 1 is Forecast	Discounted	
2024	EPS	EPS
1	(0.02)	(€ 0.02)
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 3), the shares sell at a discount on every metric. These metrics indicate that the stock price should be higher than it is today and supports our \$9 price target. If the shares traded for \$9.00 today, its 2025 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 4. The companies we used in Figure 4 are in similar lines of business, although none of them is a perfect match.

Figure 3 – Lleidanetworks Serveis Telematics SA – Summary Discount to Peers

2025 Metrics	PE	Market Cap / Sales	EV / EBITDA	EV / Sales
Peers	19.74	3.23	14.06	2.99
LLEIF	13.08	1.05	5.64	1.41
Discount to Peers	34%	68%	60%	53%

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 to tie it all together. When we do that, we make the adjustment in the last line in the cash flow.

Figure 4 – Lleidanetworks Serveis Telematics SA – Comp Table

Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2025 Consensus Multiples			
					PE	Market Cap / Sales	EV / EBITDA	EV / Sales
ADBE	Adobe Inc	\$537.57	242,982	243,235	27.45	10.48	21.47	10.49
OKTA	Okta Inc	\$82.30	13,007	13,884	35.94	4.99	22.82	4.64
TWLO	Twilio, Inc.	\$56.52	10,233	7,761	18.03	2.19	8.72	1.62
DOCU	DocuSign Inc	\$50.14	10,225	10,756	16.13	3.35	10.12	3.11
RAMP	LiveRamp Holdings Inc	\$36.10	2,389	2,066	17.95	3.05	10.64	2.46
IDT	IDT Corp. (Class B)	\$35.66	841	670				
DMRC	Digimarc Corp.	\$36.07	734	726				
3738-HKG	Vobile Group Limited	\$0.24	530	4,644	15.52	1.19		1.34
MITK	Mitek Systems Inc	\$11.56	527	577	9.71	2.65	9.07	2.69
OSPN	OneSpan Inc. (Registered)	\$9.48	378	353	7.32	1.52	4.85	1.27
TLS	Telos Corporation	\$3.51	244	159		1.50	26.86	0.96
INVE	Identiv, Inc. (Ordinary (US))	\$8.56	198	242	29.66	1.39	11.98	1.35
AUID-US	authID Inc.	\$10.60	100	97				
IQST-US	iQSTEL, Inc.	\$0.23	39	42				
IDN	Intellicheck Inc	\$1.75	34	25				
LQID-CA	Liquid Avatar Technologies Inc	\$0.01	2	4				
	AVERAGE				<u>19.74</u>	<u>3.23</u>	<u>14.06</u>	<u>2.99</u>
LLN-ES	LleidaNetworks Serveis Telematics SA	\$1.31	21	28	13.08	1.05	5.64	1.41
LLN-ES Discount to peers:					-34%	-68%	-60%	-53%

Source: Litchfield Hills Research LLC and FactSet

Figure 5 – Lleidanetworks Serveis Telematics SA – Income Statement (€000)

December year-end	2020A Year	2021A Year	2022A Year	2023E				2023E Year	2024E				2024E Year
				1QA	2QA	3QA	4QE		1QE	2QE	3QE	4QE	
Total revenue	€ 16,421	€ 17,975	€ 20,671	€ 4,691	€ 4,043	€ 3,769	€ 3,500	€ 16,003	€ 3,500	€ 4,200	€ 4,600	€ 4,000	€ 16,300
<i>Growth</i>	20%	9%	15%	-10%	-24%	-27%	-29%	-23%	-25%	4%	22%	14%	2%
Cost of Goods	8,390	8,616	9,925	1,907	1,797	1,779	1,470	6,953	1,470	1,764	1,932	1,680	6,846
Gross Profit	8,031	9,359	10,746	2,784	2,246	1,990	2,030	9,050	2,030	2,436	2,668	2,320	9,454
Gross Margin	48.9%	52.1%	52.0%	59.3%	55.6%	52.8%	58.0%	56.6%	58.0%	58.0%	58.0%	58.0%	58.0%
Staff expenses	3,403	4,381	6,340	1,667	1,699	1,678	1,500	6,544	1,600	1,600	1,700	1,500	6,400
% of total revenue	21%	24%	31%	36%	42%	45%	43%	41%	46%	38%	37%	38%	39%
External Services	2,743	4,477	3,681	983	799	649	1,000	3,431	650	650	650	650	2,600
% of total revenue	17%	25%	18%	21%	20%	17%	29%	21%	19%	15%	14%	16%	16%
Other operating (income)/expenses	(662)	(776)	(1,220)	(255)	(209)	(198)	0	(662)	(200)	(200)	(200)	(200)	(800)
% of total revenue	-4%	-4%	-6%	-5%	-5%	-5%	0%	-4%	-6%	-5%	-4%	-5%	-5%
Total Operating Expenses	5,484	8,082	8,801	2,395	2,290	2,129	2,500	9,314	2,050	2,050	2,150	1,950	8,200
EBITDA	2,547	1,277	1,945	389	(44)	(139)	(470)	(264)	(20)	386	518	370	1,254
Operating Margin	15.5%	7.1%	9.4%	8.3%	-1.1%	-3.7%	-13.4%	-1.6%	-0.6%	9.2%	11.3%	9.3%	7.7%
Amortizations and other	(1,104)	(152)	(2,269)	(550)	(537)	(617)	(200)	(1,904)	(400)	(400)	(400)	(400)	(1,600)
Operating profit	1,442	1,125	(324)	(161)	(581)	(756)	(670)	(2,168)	(420)	(14)	118	(30)	(346)
Other non-operating expenses	(411)	(93)	(212)	(115)	14	(41)	5	(137)	0	0	0	0	0
Pre-Tax Income	1,031	1,032	(536)	(276)	(567)	(797)	(665)	(2,305)	(420)	(14)	118	(30)	(346)
Pre-Tax Margin	6.3%	5.7%	-2.6%	-5.9%	-14.0%	-21.1%	-19.0%	-14.4%	-12.0%	-0.3%	2.6%	-0.8%	-2.1%
Taxes (benefit)	(9)	157	21	5	5	5	5	20	5	5	5	5	20
Tax Rate	-0.9%	15.2%	-3.8%	-1.8%	-0.9%	-0.6%	-0.8%	-0.9%	-1.2%	-35.7%	4.2%	-16.7%	-5.8%
Net Income (loss)	1,040	875	(557)	(281)	(572)	(802)	(670)	(2,325)	(425)	(19)	113	(35)	(366)
Net Margin	6.3%	4.9%	-2.7%	-6.0%	-14.1%	-21.3%	-19.1%	-14.5%	-12.1%	-0.5%	2.5%	-0.9%	-2.2%
EPS, as reported	€ 0.06	€ 0.06	(€ 0.04)	(€ 0.02)	(€ 0.04)	(€ 0.05)	(€ 0.04)	(€ 0.15)	(€ 0.03)	(€ 0.00)	€ 0.01	(€ 0.00)	(€ 0.02)
Diluted Shares Outstanding	16,050	15,320	15,320	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960	15,960

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Lleidanetworks Serveis Telematics SA – Balance Sheet (€000)

December year-end	FY2024E	FY2023E	FY2022A	FY2021A	FY2020A	FY2019A	FY2018
Balance sheet							
Current Assets							
Cash and S.T.I.	€ 2,090	€ 1,106	€ 2,113	€ 5,869	€ 5,331	€ 2,445	€ 1,819
Trade receivables	5,000	4,900	5,497	5,184	3,498	3,563	2,441
Prepayments, deposits and other rec.	400	350	396	407	320	258	238
Other assets	0	0	0	0	0	0	12
Total Current Assets	7,490	6,356	8,006	11,460	9,149	6,266	4,509
Net PP&E	300	300	555	627	336	381	344
Goodwill & Intangibles	10,000	11,000	10,736	11,032	3,583	3,847	3,842
Other non-current	200	200	558	358	202	187	192
Total Assets	€ 17,990	€ 17,856	€ 19,855	€ 23,476	€ 13,270	€ 10,683	€ 8,886
Current Liabilities							
Trade payables	€ 5,000	€ 4,500	€ 3,023	€ 3,531	€ 2,952	€ 2,649	€ 2,013
Short-term debts	5,200	5,000	4,287	4,565	910	1,871	2,346
Customer deposits	0	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0	0
Other current liabilities	300	200	59	38	42	96	85
Total current liabilities	10,500	9,700	7,369	8,135	3,904	4,616	4,444
Long-term debt	5,000	5,000	6,814	8,610	2,100	1,678	1,374
Other long-term liabilities	0	0	0	0	0	0	0
Total liabilities	15,500	14,700	14,182	16,745	6,004	6,294	5,817
Stockholders' Equity							
Preferred stock	0	0	0	0	0	0	0
Share Capital	321	321	321	321	321	321	321
Additional paid-in-capital	6,000	6,000	5,892	6,114	7,276	5,244	5,244
Retained earnings	(3,831)	(3,165)	(540)	297	(331)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0	0	0
Total stockholders' equity	2,490	3,156	5,673	6,732	7,266	4,388	3,069
Total Liabilities and equity	€ 17,990	€ 17,856	€ 19,855	€ 23,476	€ 13,270	€ 10,683	€ 8,886

Source: Company reports and Litchfield Hills Research LLC

Figure 7– Lleidanetworks Serveis Telematics SA – Cash Flow (€000)

	FY24E	FY23E	FY22A	FY21A	FY20A
Net Income	(€ 366)	(€ 2,325)	(€ 557)	€ 875	€ 1,040
Trade receivables	(100)	597	(313)	(1,686)	66
Prepayments, deposits and other rec.	(50)	46	10	(87)	(62)
Other assets	0	0	0	0	0
Net PP&E	0	255	71	(291)	46
Goodwill & Intangibles	1,000	(264)	295	(7,449)	264
Other non-current	0	358	(200)	(156)	(15)
Trade payables	500	1,477	(509)	579	303
Customer deposits	0	0	0	0	0
Short-term debts	200	713	(279)	3,656	(961)
Deferred revenue	0	0	0	0	0
Other current liabilities	100	141	21	(4)	(54)
Long-term debt	0	(1,814)	(1,796)	6,510	422
Other long-term liabilities	0	0	0	0	0
Preferred stock	0	0	0	0	0
Share Capital	0	0	(0)	0	(0)
Additional paid-in-capital	0	108	(222)	(1,162)	2,032
Cum. trans. adj. and treasury stock	0	0	0	0	0
Dividends and other	(300)	(300)	(280)	(247)	(195)
Total Cash Flow	€ 984	(€ 1,007)	(€ 3,757)	€ 538	€ 2,886

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.



Lleidanetworks Serveis Telematics S.A. LLN-ES/LLEIF-US-Buy- \$9 (€8.50) PT

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