

Lleida.net

BUY

Responsible Business Practices + Growth + Profits

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Lleida.Net has gotten off a strong start in 2018 and its now on its 7th consecutive cash-flow positive quarter. The company has announced 1Q18 results with an increase of 40% in sales and 18% in the gross profit, resulting in an Ebitda (ex-capitalizations) of €224k (vs. €79k) and a Cash Flow of €202k (vs. €38k).

We also view Lleida.Net as a play into Responsible Business Practices, which explains to some degree, the underlying strength behind its recent performance. Just on Certified Messaging alone, we estimate their services saving clients on 500 tons of paper and 15 tons on CO₂ emissions.

The higher margin SaaS side of Lleida.Net grew by a robust 18% to €819k compared to €694k in 1Q17. Lleida.Net continues to grow as a play on the digitalization of the economy as contracts, invoices, claims, etc. continue to shift into the digital ecosystem.

The traditional SMS side of the business has exceeded our expectations with a combined sales growth of 50% to €2.3 million in 1Q18 vs. 1Q17. Beneath the headline number, the wholesale side doubled in revenues. Lleida.Net is leveraging on its technology platform to gain market share in the global SMS market.

We maintain our forecast on the back of 1Q18 results, pointing towards a Gross Profit growth of 20% and Ebitda (ex-cap.) of €1.2 million for 2018 (vs. €0.6 million in 2017).

We continue to recommend a BUY (T.P. €1,13) on the stock based on the positive growth outlook of the stock combined with what we perceive as undemanding valuation multiples.

Equities

Spain

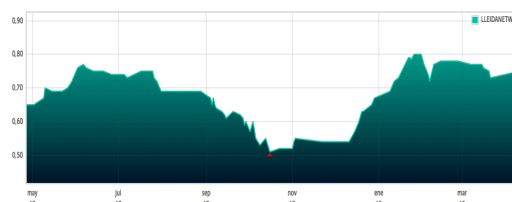
Telecom/Software Services

Price: €0.84
RIC: LLN.MC

Trading Data

52 week range (€):	0.51 - 0.84
Mkt Cap (€ millions):	13,16
No. Shares (millions):	16.04
Avg Daily vol (LTM):	5,322

Share Price Chart (LTM)



(€ millions)	2016a	2017e	2018f	2019f
Turnover	8,1	9,9	11,7	13,1
Ebitda	0,1	0,6	1,2	2,0
Net Profit	-1,4	0,0	0,5	1,2
EPS	-0,09	0,00	0,03	0,08
Net Debt	2,4	2,4	1,6	0,3
EV/Ebitda	134,2	27,0	12,4	6,9
P/E	-9,4	279,5	25,6	10,9
FCY	n.m.	2%	8%	12%

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A quick overview into Lleida.Net Responsible Business Practices

Intangibles like conducting business with consideration for ethical, environmental and community goals in addition to being a good employer and attempting to make a profit are some of the factors with which to gain some visibility about the long-term outlook of any company.

In the particular case of Lleida.net (a 20+ year old company already) some of those intangibles have been present all along and continue to this day.

Since the company was founded, the average value of the shares have appreciated by more than 20% per year over this 20 year period. Based on the current profitability indicators combined with their Responsible Business Practices actions, our confidence grows about the long-term outlook.

Lleida.Net touches these intangibles in a number of ways:

The Certified Communications platform and KYC product allow businesses to have more transparent and compliant business practices. Lleida.Net is monetizing on other companies' drive for responsible business practices.

New practices are being introduced into laws around the world and increasingly companies are investing time and effort to minimize non-compliance from its employees. This is especially evident in the digital ecosystem where more and more transactions are being conducted.

Issues like customer protection, data protection have come to the fore recently, with a number of changes in the way the consumer is to be treated by companies providing products and services.

The KYC area is also becoming increasingly important as a way to combat money laundering, fraud and corruption, where financial institutions have adopted an unprecedented stance to maintain the integrity of the system. Enabling the correct identification of prospective clients, companies can minimize being inadvertently part of a criminal offence.

Lleida.Net product portfolio serves as tools to enable more responsible use of paper and ordinary mail (saving on paper use and carbon emissions from the transport of mail). Again, Lleida.Net is playing on the growing importance of environmental considerations across the majority of companies today.

On the cost and environmental savings side, we estimate Lleida.Net to be saving some 500 tons of paper and around 15 tons of CO₂ emissions. We have based our calculations on an average weight of 75 grams for a paper and an envelope, using our estimate of total certified communications sent per year by Lleida.Net. On the CO₂ emissions savings, we have assumed that the average paper document travels 300 km and that the average road transport emits some 100 grams per Km per Kg.

Aside from environmental considerations, Lleida.Net helps clients save costs. We estimate a cost saving of 85% generated by the use electronic Certified Communications versus the use of paper Certified Communications, a valuable incentive to switch into a more environmentally friendly and sustainable alternative.

In addition, Lleida.Net has an active policy in issues like the environment, business ethics, employee diversity, community and social responsibility, etc. as well.

- **Minding the environment:** Lleida.Net fleet of cars are all-electric as a way of showing its commitment to pollution free cities. The company has an office cafeteria so to minimize employees driving back home for lunch, thus contributing to a lower carbon footprint. Beyond electric cars, Lleida.Net complies with all recycling rules related to office waste.
- **On diversity,** Lleida.net currently employs people from 9 different nationalities and at present female employees are slightly larger in number than male employees, with a strict policy on equal pay. The company has an increasing global mind-set and its hiring talent of different nationalities to strengthen all teams across the company.
- **On community and social issues,** Lleida.Net sponsors two teams of skate hockey in Lleida (boys and girls), to show support and commitment to the local community. The company also sponsors employees, once a year, to work in the collection of food for the less privileged. The sponsorship is carried out allowing the employee to work one day collecting food at supermarkets, on company time.
- **Public institutions.** Lleida.Net has received an award from the municipality of Lleida in recognition of its importance to the local community and its role in spreading the name of the town around the world. In addition, it has received an award from the Police for their instrumental role in collaborating against cyber crime.

The result is that Lleida.Net is considered one of the most attractive employers for which to work for in Lleida. In fact, a number of key positions have been in Lleida.Net for over 15 years now, a reflection of the value of opportunity that it is to work for this company. Every year, the company draws new talent from the local University that otherwise would migrate to larger cities in Spain and abroad.

The company's ability to attract and retain talent in the software and telecom sector has been distinct competitive advantage and another basis for Lleida.Net long-term success as a business.

Review of consolidated 1Q18 results: growth remains unabated

The reported 1Q18 sales number of €3.1 million represents a 40% increase versus 1Q17 and a 16% increase relative to 4Q17, typically the last quarter being a seasonally strong quarter. This first quarter numbers are a reflection of the underlying strength of Lleida.Net fundamentals.

(€ 000')	1Q17	2Q17	3Q17	4Q17	1Q18	y-o-y (%)
Software Services	694	609	707	649	819	18
SMS Solutions	711	768	649	699	647	-9
ICX	838	1.077	1.126	1.353	1.675	100
Turnover	2.243	2.454	2.482	2.701	3.141	40
Cost of sales	-938	-1.240	-1.236	-1.328	-1.597	70
Gross Profit	1.305	1.214	1.246	1.373	1.544	18
<i>Gross Margin</i>	<i>58%</i>	<i>49%</i>	<i>50%</i>	<i>51%</i>	<i>49%</i>	
Capitalized costs (R&D)*	184	203	222	240	166	-10
Personnel Expenses	-667	-617	-618	-647	-647	-3
Other SG&A	-564	-565	-403	-561	-673	19
Depreciation	-251	-271	-273	-283	-290	16
Other	5	2	2	11	0	-100
Total Operating Costs	-1.477	-1.451	-1.292	-1.480	-1.610	9
Operating Income	12	-34	176	133	100	733
<i>Operating Margin</i>	<i>1%</i>	<i>-1%</i>	<i>7%</i>	<i>5%</i>	<i>3%</i>	
Ebitda**	79	34	227	176	224	184
<i>Ebitda Margin</i>	<i>4%</i>	<i>1%</i>	<i>9%</i>	<i>7%</i>	<i>7%</i>	
Extraordinaries	0	0	-21	0	0	n.m.
Financial Costs	-36	-19	-35	-18	-22	-39
FX	0	-97	24	-33	17	n.m.
Non-op. Results	-36	-116	-32	-51	-5	-86
Profit Before Tax	-24	-150	144	82	95	-496
Cash Flow	38	13	169	147	202	432

* Excluded from Ebitda calculation

** Ebitda with no exceptional items and no R&D capitalization

Source: Lleida.Net, Checkpoint Partners

The reported sales of the ICX SMS were €1.7 million versus €0.8 million in 1Q17. This has been the main positive surprise this quarter, the doubling of revenues in the ICX SMS area as proof that the new improvements in the technology platform are working well. Lleida.Net has an automatic and itemized SMS management system that can identify the most profitable routes and optimize revenues on their contracted traffic.

The SaaS platform is picking up speed again with an 18% growth in sales to €819k, following a fairly flat performance in 4Q17 (remember the domestic political issues). During the whole of 2017, the SaaS division grew by 33% and we take the view that Lleida.Net still has the potential to exceed those levels of growth in 2018.

The Customer SMS revenues fell by 9% to €647k, a reflection of the declining profitability of this area compared to the higher margin software business. The sales and business development teams are being directed at promoting the SaaS products of certified messaging, e-contracting and KYC services rather than the increasingly commoditized SMS product.

The incentives are quite self-evident for the sales and business development teams. Assuming a 50% gross margin, the Customer SMS side brought home some €325k whilst the SaaS (assuming an 85% gross margin) brought some €700k during 1Q18. The higher growth, higher margin SaaS side of Lleida.Net is now twice as important as the Customer SMS business.

The three divisions combined delivered a Gross Profit of €1.5 million in 1Q18, which represented an increase of 18% versus last year. The gross margin was lower at 49% versus 58%, but we do not pay attention to that metric. Lleida.Net three business divisions are all different from a financial standpoint; carry different gross margins and when they move at different speeds the blend changes. We view the headline Gross Profit as the more reliable guide of the health of the business.

The cash cost base of Lleida.Net was €1.3 million in 1Q18, an increase of 13% versus last year leaving behind a cash Ebitda of some €200k. The company continues to invest heavily in the World Mobile Congress, a yearly event that happens during the month of February. At the same time, its international expansion (now 52% of overall sales) does come with a price tag as well, but as the numbers suggest Lleida.Net is managing its expansion whilst improving the overall profitability of the business.

The non-operating items were relatively minor with a financial cost of €22k and FX gain of €17k, related to how they account for their financial exposure to foreign subsidiaries. The net of the company improved by €150k to €2.2 million in 1Q18 vs 4Q17, a reflection that Lleida.net is on a firm footing towards a period of financial debt reduction during 2018.

Profit and Loss (consolidated)

(€ millions)	2016	2017	2018f	2019f
Sales by division				
Software Services	2,1	2,7	4,2	5,2
SMS Solutions	2,9	2,8	2,4	2,3
ICX	3,1	4,4	5,0	5,6
Sales by division (%)				
Software Services	26%	27%	36%	40%
SMS Solutions	36%	29%	21%	18%
ICX	38%	44%	43%	42%
Turnover	8,1	9,9	11,7	13,1
Cost of sales	-3,9	-4,7	-5,5	-5,8
Gross Profit*	4,1	5,2	6,2	7,3
% y-o-y growth	n.a.	25	20	18
<i>Gross Margin</i>	51%	52%	53%	56%
Capitalized costs (R&D)*	0,9	0,8	0,6	0,6
Personnel Expenses	-2,0	-2,5	-2,7	-2,9
Other SG&A	-2,0	-2,1	-2,3	-2,4
Depreciation	-1,1	-1,1	-1,2	-0,9
Total Operating Costs	-5,2	-5,7	-6,1	-6,2
% y-o-y growth	n.a.	9	9	1
Operating Income	-0,1	0,4	0,6	1,7
<i>Operating Margin</i>	-1%	4%	5%	13%
Ebitda	1,0	1,4	1,8	2,6
<i>Ebitda Margin</i>	13%	15%	16%	20%
Ebitda (ex-capitalizations)	0,1	0,6	1,2	2,0
<i>Ebitda Margin</i>	1%	6%	10%	15%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,2	-0,1	-0,1	-0,1
FX and Other	-1,1	-0,2	0,0	0,0
Financial Results	-1,3	-0,3	-0,1	-0,1
Profit Before Tax	-1,4	0,0	0,5	1,6
Tax	0,0	0,0	0,0	-0,3
Net Income	-1,4	0,0	0,5	1,2
Cash Flow	-1,2	0,3	1,1	1,6

Source: Lleida.net and Checkpoint Partners

Balance Sheet (consolidated)

(€ millions)	2016	2017	2018f	2019f
Fixed Assets	4,3	4,1	3,6	3,2
Intangible Assets	3,6	3,5	2,9	2,5
Tangible Assets	0,5	0,5	0,5	0,5
Investments in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,0	0,0	0,0	0,0
Deferred Assets	0,1	0,1	0,1	0,2
Current Assets	5,2	5,2	5,8	6,5
Inventory	0,0	0,0	0,0	0,0
Debtors	2,3	2,6	3,1	3,6
Short Term Investments	1,3	0,9	0,9	0,9
Short Term Accruals	0,2	0,2	0,2	0,3
Cash	1,5	1,6	1,6	1,7
Assets	9,6	9,4	9,4	9,6
Shareholders' Funds	2,8	2,9	3,4	4,7
<i>Capital</i>	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2
<i>Reserves</i>	-0,5	-1,9	-1,8	-1,3
<i>Repurchase of share capital</i>	-0,9	-0,9	-0,9	-0,9
<i>Profit and Loss account</i>	-1,4	0,1	0,5	1,2
Long Term Debt	1,9	1,2	1,2	0,6
Current Liabilities	4,8	5,3	4,8	4,4
Short Term Debt	3,2	3,7	2,9	2,3
Provisions	0,2	0,2	0,2	0,2
Creditors	1,5	1,5	1,7	1,9
Liabilities	9,6	9,4	9,4	9,6
(€ millions)				
Working Capital	0,8	1,1	1,4	1,7
Debtor Turnover (days)	103	89	88	93
Creditor Turnover (days)	68	58	56	59
Financial Debt	5,1	4,8	4,1	2,9
Cash	2,7	2,4	2,5	2,6
Net Debt	2,4	2,4	1,6	0,3

Source: Lleida.net and Checkpoint Partners

Sum of the parts valuation

Sector	Division	DCF (€)	Year	Target EV/Sales	Target EV/Ebitda
Software	Saas	13,6	2018	3,2	24,8
			2019	2,6	11,3
Telecom	SMS	1,8	2018	0,7	9,5
			2019	0,8	8,9
	ICX	5,0	2018	1,0	10,5
			2019	0,9	8,3
Sum of Parts		20,4	2018	1,7	16,8
			2019	1,6	10,2
Net Debt		2,2			
Equity Valuation		18,2			
Per shr		1,13			
Share Price		0,84			
Upside		35%			

Source: Checkpoint Partners

We have calculated the sum of the parts valuation, which helps understand the overall value as made up of the divisions of the company. The more revealing aspect of the valuation is the software side of the business, given that in our view it makes up for 2/3 of the value of the company whilst it represents some 30% of its sales.

The software side of the business grows more rapidly and delivers higher margins, which means that are far more valuable than the headline sales numbers suggest. Based on a business that is growing at 25% with 90% gross margins (and assuming that 70% of the operating costs of the business are attributed to the software side) we arrive at a valuation of 3,2x sales 2018 expected sales. The more traditional telecom business is valued at 0,7 and 1.0x sales respectively.

To arrive at our sum of the parts valuation of €20,4 million we have assumed Lleida.net has the potential to deliver a 15% Ebitda margin in the context of a long term average growth in sales of 7%. We have used a WACC of 10.5%.

Comparable Valuations

	Price (13/04/18) (€)	Mkt Cap. (€ m)	Net Debt			EV		
			2016 (€ m)	2017e (€ m)	2018e (€ m)	2016 (€ m)	2017e (€ m)	2018e (€ m)
Altia	15,10	103,9	-11,5	-16,0	-19,3	92,4	87,9	84,5
Catenon	0,62	11,5	4,5	4,5	4,8	16,0	16,0	16,4
Commcenter	1,23	8,1	14,0	11,3	10,4	22,2	19,4	18,5
Eurona	1,75	73,6	93,5	83,7	94,7	167,1	157,3	168,3
FacePhi	1,14	15,1	1,5	1,4	1,6	16,6	16,5	16,8
Gigas	7,25	31,0	1,9	2,6	2,5	32,9	33,6	33,5
Lleida.Net	0,84	13,5	2,4	2,4	1,6	15,8	15,9	15,1
ThinkSmart	1,50	8,6	4,5	5,2	5,4	13,1	13,8	14,0
Voz Telecom	1,31	5,9	0,8	1,0	0,8	6,7	6,9	6,6
Total		271,2	111,5	96,1	102,4	382,7	367,3	373,6

Mock Portfolio	Shares (#)	Price (01/01/18) (€)	Cost (€)	Price (13/04/18) (€)	Valuation (€)	Diff. (€)	Return (%)
Altia	61	16,39	1.000	15,10	921	-79	-8
Catenon	1.613	0,62	1.000	0,62	994	-6	-1
Commcenter	758	1,32	1.000	1,23	932	-68	-7
Eurona	474	2,11	1.000	1,75	827	-173	-17
FacePhi	917	1,09	1.000	1,14	1.046	46	5
Gigas	287	3,48	1.000	7,25	2.083	1.083	108
Lleida.Net	1.493	0,67	1.000	0,84	1.254	254	25
ThinkSmart	671	1,49	1.000	1,50	1.007	7	1
Voz Telecom	513	1,95	1.000	1,31	672	-328	-33
Total			9.000		9.735	735	8

Source: MAB, Checkpoint Partners

Lleida.Net shares have appreciated some 25% since the beginning of the year, the second best performance amongst its MAB peers. Given the negative impact of the political situation in Spain during the last quarter of 2017, the recent upswing is largely a return to the pre-crisis levels.

This time we would like to take notice on the performance of Gigas (currently valued at €31 million) that has recently doubled in value, relative to Lleida.Net.

Both companies are reporting strong levels of growth in Gross Profits in 2017 (Lleida +25% and Gigas +25%) and both companies have reported significant improvements in the reported cash Ebitda (Lleida.Net €0,6 million vs €0,1 million and Gigas €0.4 million versus €-0,5 million). We anticipate both companies will report strong Gross Profit growth in 2018 (Lleida.Net +20% and Gigas +25%) and Ebitda (ex-capitalizations) of €1,2 million for Lleida.Net and Gigas of €1.0 million.

Lleida.Net is currently being valued on an 2018 EV/Ebitda multiple of 12.4x whilst Gigas is trading on a 32.2x multiple.

	Turnover			Ebitda			Net Profit			Cash Flow		
	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e
	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)
Altia	57,4	59,7	62,1	8,6	9,2	9,9	6,0	6,5	7,0	7,1	7,6	8,1
Catenon	13,0	13,3	14,4	1,4	1,3	1,3	0,1	-0,1	-0,1	1,1	1,0	1,0
Commcenter	52,5	54,7	56,8	1,1	1,2	1,4	-0,7	-0,6	-0,6	0,9	1,0	1,1
Eurona	119,5	126,7	133,0	4,9	5,6	7,6	-11,8	-11,9	-10,4	0,3	0,8	2,6
FacePhi	2,7	3,2	3,9	0,4	0,5	0,7	0,5	0,5	0,6	0,4	0,4	0,5
Gigas	5,9	7,9	8,7	0,4	1,0	1,6	-0,5	0,0	0,4	0,4	0,8	1,2
Lleida.Net	9,9	11,7	13,1	0,6	1,2	2,0	0,0	0,5	1,2	0,3	1,2	1,7
ThinkSmart	19,9	23,8	28,8	-0,7	0,5	1,8	-0,6	0,5	1,8	-1,1	0,1	1,5
Voz Telecom	9,9	10,5	11,3	-0,1	0,0	0,2	-1,4	-1,2	-1,1	-0,3	-0,2	0,0
	290,8	311,5	332,1	16,5	20,6	26,3	-8,4	-5,8	-1,1	8,9	12,9	17,8

	Turnover growth			Ebitda growth			Net Profit growth			Cash Flow Growth		
	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e
	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)	(€ m)
Altia	-14%	4%	4%	-8%	8%	8%	-5%	8%	8%	-4%	8%	7%
Catenon	-7%	2%	8%	-	-11%	-3%	-	-	54%	-	-4%	0%
Commcenter	-6%	4%	4%	-	12%	11%	-57%	-6%	-7%	-	12%	11%
Eurona	-26%	6%	5%	32%	15%	35%	-1%	0%	-13%	-	206%	211%
FacePhi	35%	20%	20%	-	16%	30%	-	5%	29%	-	4%	33%
Gigas	23%	33%	10%	-	158%	49%	-37%	-	14225%	-	137%	49%
Lleida.Net	23%	18%	12%	398%	107%	65%	-	991%	136%	-	330%	38%
ThinkSmart	26%	20%	21%	-57%	-	295%	-63%	-	239%	-48%	-	1162%
Voz Telecom	5%	7%	7%	-	-	331%	57%	-15%	-8%	-	-46%	-78%
	6%	7%	7%	73%	25%	28%	-46%	-31%	-80%	408%	44%	38%

	EV/sales			EV/Ebitda			P/E			FCY		
	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e	2017e	2018e	2019e
	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)	(x)
Altia	1,5	1,4	1,3	10,3	9,2	8,2	17,4	16,0	14,9	7%	7%	8%
Catenon	1,2	1,2	1,2	11,1	12,7	13,4	150,2	-	-	9%	9%	9%
Commcenter	0,4	0,3	0,3	17,8	15,1	12,7	-	-	-	11%	12%	14%
Eurona	1,3	1,3	1,3	32,3	30,0	23,5	-	-	-	0%	1%	4%
FacePhi	6,1	5,2	4,4	37,9	33,0	26,1	33,1	31,6	24,4	3%	3%	4%
Gigas	5,7	4,2	3,8	83,3	32,2	21,4	-	n.m.	80,8	1%	3%	4%
Lleida.Net	1,6	1,3	1,1	27,0	12,4	6,9	0,0	0,1	0,1	2%	9%	12%
ThinkSmart	0,6	0,5	0,4	-	30,8	7,0	-	14,4	4,2	-13%	1%	17%
Voz Telecom	0,7	0,6	0,5	-	181,9	38,6	-	-	-	-5%	-3%	-1%
	1,3	1,2	1,1	22,2	18,1	14,3	-	n.m.	n.m.	3%	5%	7%

Source: Checkpoint Partners

Checkpoint Recommendation System

The Checkpoint Recommendation System is based on absolute returns, measured by the upside potential (including dividends and capital reimbursement) over a 12-month time horizon.

Checkpoint recommendations (or ratings) for each stock comprises 3 categories: Buy (B), Neutral (N) and Sell (S).

- **Buy:** the stock is expected to generate total return of over 20% during the next 12 months time horizon
- **Neutral:** the stock is expected to generate total return of -20% to +20% during the next 12 months time
- **Sell:** the stock is expected to generate total return under -20% during the next 12 months time horizon.

Our rating system applies to companies with market capitalizations of below €50 million that in most cases refer to stocks that are illiquid and more volatile than its larger sized peers.

History of recommendations

27.10.2016	BUY
16.01.2017	BUY
26.04.2017	BUY
20.07.2017	BUY
26.10.2017	BUY
31.01.2018	BUY

Checkpoint does and seeks to do business with companies covered in its research reports. As a result, investors may take the view this could affect the objectivity of the report and therefore should consider this report as only a single factor in making their investment decision. Checkpoint currently holds 26,000 shares of Lleida.net.

Frequency of analyst reports

At present Checkpoint has committed to a quarterly update of Lleida.net financial and operational performance.

Investment horizon

Our reports focus mainly on small capitalization and illiquid stocks where standard Venture Capital investment criteria should apply. An investment into sub €50 million market capitalization stock should be done on a 3-5 year time horizon in order to realized the full potential of the investment opportunity.