

## Lleida.net

Servicing the Fintech revolution, fuel for growth

## BUY

Target Price: €1.40

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7am, 27th May 2019

Lleida.Net SaaS division provides the Fintech corporate ecosystem the legal security architecture required for on-line transactions. Its solutions focus on 3 essential elements in the contracting process and delivery of legally required notifications:

- **eKYC:** KYC is the initial first step in a financial services contract and an on-line process has to be the exact legal replica of the physical process. Lleida.net product service revolves around preventing identity fraud, the fastest growing form of on-line financial fraud.
- **eContracting and eSignature:** The contracting process requires the Fintech proof of contract delivery to the customer together with the right signatures attached to make it legal. Lleida.net provides a combination of software and telecommunications infrastructure to make the on-line process possible.
- **eNotifications:** The Fintech is then required to send notifications regularly to the customer in a range of matters, from a notification of a credit card delivery, an extension of terms or a payment reminder. Lleida.net acting as a regulated telecom operator can deliver the messages with a Certified stamp for the benefit of the Fintech.

The SaaS division is expected to continue to be an essential part of Lleida.net profit growth going forwards. With a family of over 100 granted patents and an infrastructure as a telecom operator is strongly positioned to compete globally.

We maintain a BUY recommendation on the stock and a 12-month target price of €1.40 per share. We base our recommendation of Lleida.net relative undervaluation on a cash-flow generation to growth potential basis.

### Equities

#### Spain Telecom/Software Services

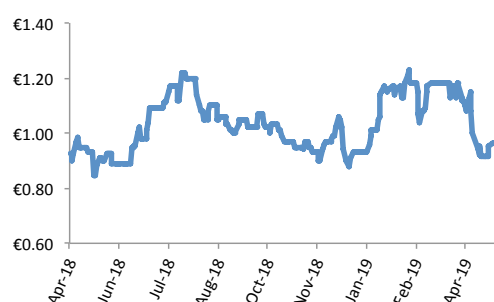
Price (4 pm 27/05/19): €0.92 (LLN.MC),  
€1.05 (ALLN.PA)

Target Price: €1.40

### Trading Data

52 week range (€): 0.84 - 1.23  
Mkt Cap (€ millions): 14.77  
No. Shares (millions): 16.04  
Avg Daily vol (€ LTM): 6,808

### Share Price Chart (LTM)



(€ millions)	2017a	2018a	2019f	2020f
Turnover	9,9	12,4	13,2	14,4
Ebitda	0,5	0,9	1,5	2,0
Net Profit	0,0	0,2	1,1	1,5
EPS	0,00	0,02	0,07	0,09
Net Debt	2,4	1,9	1,1	-0,1
EV/Ebitda	36,1	19,2	10,8	7,5
P/E	399,3	60,5	13,7	9,9
FCY	2%	4%	8%	11%

Disclaimer:

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Furthermore, this report has been written in accordance to the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest.

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## The importance of Certified communications for Lleida.net

The certification of communications has become the core business of Lleida.net, created by a combination of proprietary software capabilities combined with an SMS centric telecom infrastructure. The certification of communications means that Lleida.net is able to act an electronic witness to on-line transactions, which is particularly well suited to the highly regulated financial sector, packed with consumer protection laws in most jurisdictions.

Lleida.net solutions work best in jurisdictions with the highest 'burden of proof' requirements, Spain being one of them and there are an estimated 50 additional countries with similar levels. Although it may not be legally necessary in lower 'burden of proof' jurisdictions, prospective Fintechs may well avoid expensive or time consuming litigations with the use of Lleida.net software.

The certification of communications, operating under the SaaS division, is expected to represent 28% of our projected €13.1 million in revenues for 2019. Lleida.net does not make public the gross profits for each of its divisions, we estimate that SaaS will contribute almost 50% to the gross profit line this year. We expect growth to remain in double digits over the next 5 years.

In this research report, we provide a more detailed insight into the 3 commercial offerings of Lleida.net for the Fintech Sector: The KyC, the eContracting and eSignature and eNotifications services.

Figure 1: Lleida.net website on Click & Sign

## The benefits of online contracting



### Speed

The whole process takes few seconds.



### Conversion

The easy and intuitive experience helps to boost the percentage of signed contracts.



### Legality

Documents signed through Lleida.net services are a strong and reliable evidence in case of any dispute.



### Reliability

Connectadick is a service used by banks, insurance companies, power companies, real state agencies.



### Ubiquity

Contracts are signed on the go.



### Care for the environment

Save money by saving paper.

Source: Lleida.net

## eKYC and Data Validation: an on-line *praetorian guard* to prevent fraudulent account openings

The **Know Your Customer** procedure is currently mandatory for regulated financial transactions in most legal jurisdictions. It is a procedure (can take place online) to verify an individual's identity and its suitability to prevent financial institutions from being used for unlawful purposes such as money laundering activities, corruption or financing of terrorism.

**Lleida.net** software facilitates the on-boarding process with an emphasis on **Identity theft avoidance**. In order to circumvent the suitability assessment, criminal activity is centred on **identity theft**, now the fastest-growing on-line fraud scheme.

This process is carried out through an on-line identity, email and mobile phone validation procedure. Lleida.net verifies if a mailbox exists and if a phone number is real and valid, which becomes useful when sending an email with an associated cost or to check if the phone number used during the on boarding process is active.

The product service portfolio is spread across 4 different offerings:

### 1. eKYC Docs

The basic identity validation service whereby an ID, passport or driving license, is checked for the validity of the data contained and some document physical characteristics. The system validates the ID documents in more than 60 countries.

### 2. eKYC Photo

eKYC Docs + facial recognition. Lleida.net compares the "selfie" with the ID, passport or driving license photo.

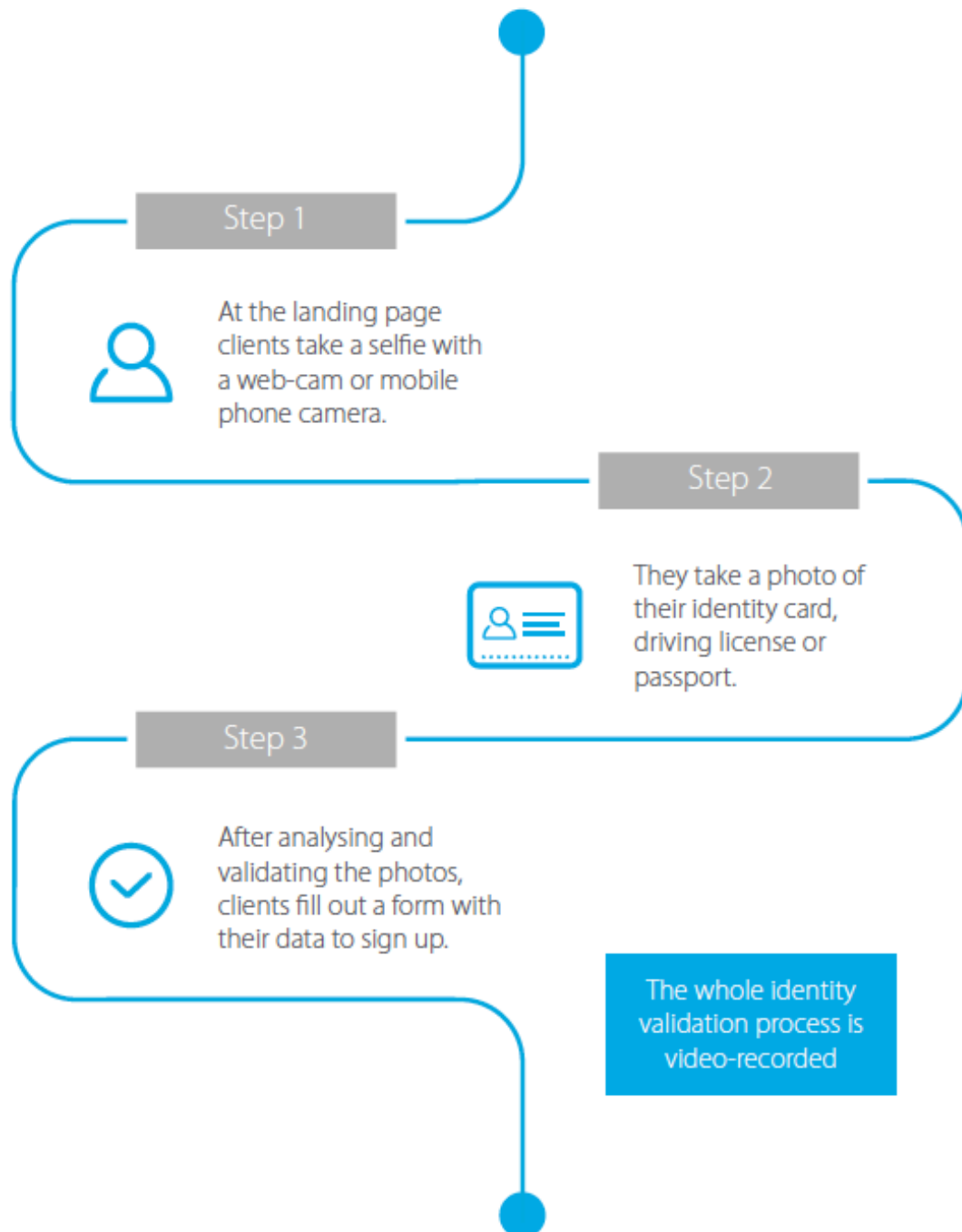
### 3. eKYC Video

An state-of-the-art solution where the ID, passport, driving license is validated using facial recognition and registered on video with face aliveness detection. In the event of an unsuccessful result, the process can be approved afterwards by an agent.

### 4. eKYC Onboarding

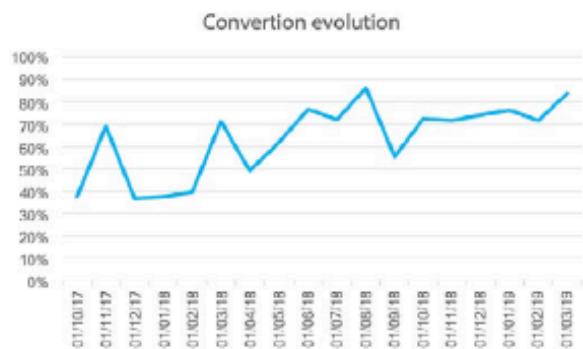
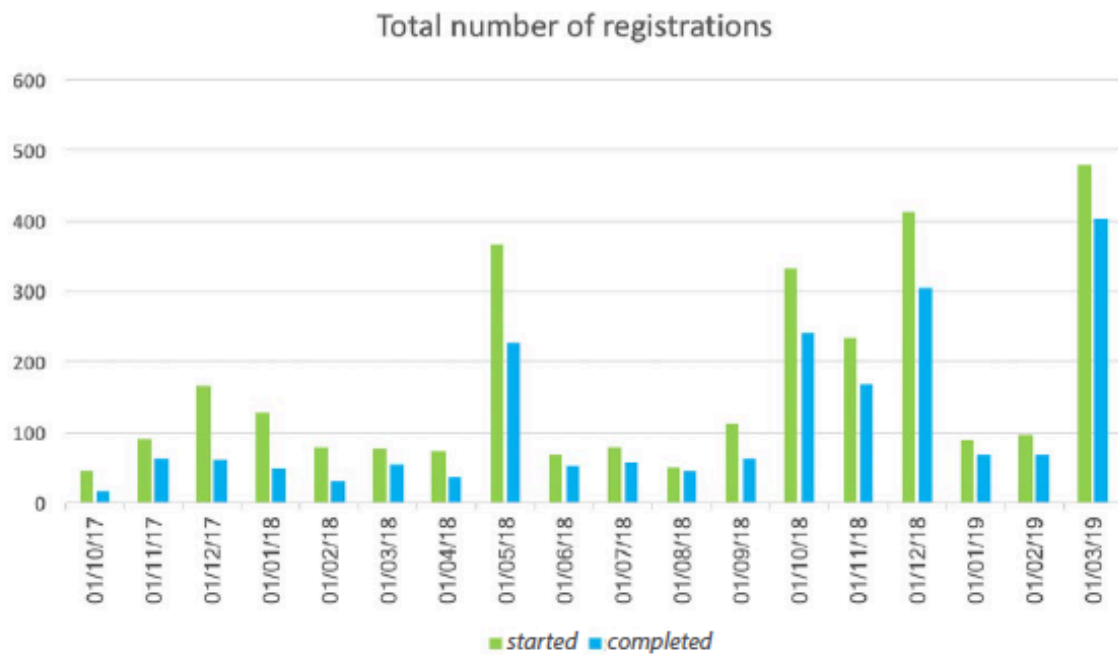
Any of our eKYC solutions integrated in an eSignature

Figure 2: Example of how the eKYC Video works



Source: Lleida.net

Figure 3: Key Performance Indicators of eKYC



Total completed registrations

1172

Initial conversion rate

38%

Current conversion rate

84%

Source: Lleida.net

## eContracting and eSignature: the workhorse of on-line transactional activity

Electronically signed documents can have the same legal validity as those made on paper documents, if done rightly.

The main driver for **the adoption of eContracting is commercially motivated**, given that a rapid sale process prevents the sale prospect from going cold. Whether the sale is initiated on-line or by a phone operator, the ability to fast-track the transaction with an on-line contracting process is far more effective than sending paper across over the following days. The results are seen by the **growing conversion rates** and its **increased adoption**, by both traditional financial institutions and newly created fintech companies.

Additional benefits in terms of the environment, costs, speed, flexibility, etc. also count for the increased adoption of the eContracting option. Within the Fintech context most of the eContracting and eSignature activity is seen on credit card applications, payroll payments, loan agreements, proof of online bank transfers, shareholders' meeting electronic voting and General Data Protection Regulation (GDPR).

Lleida.net SaaS product offering on the eContracting and eSignature is made up of 3 product service offerings:

### 1. Registered SMS contract and Registered email contract

The most basic eSignature solution involving a 2-way communication by email or SMS. The company sends the proposal, and the customer replies to the agreement. Easy, fast, and legally valid.

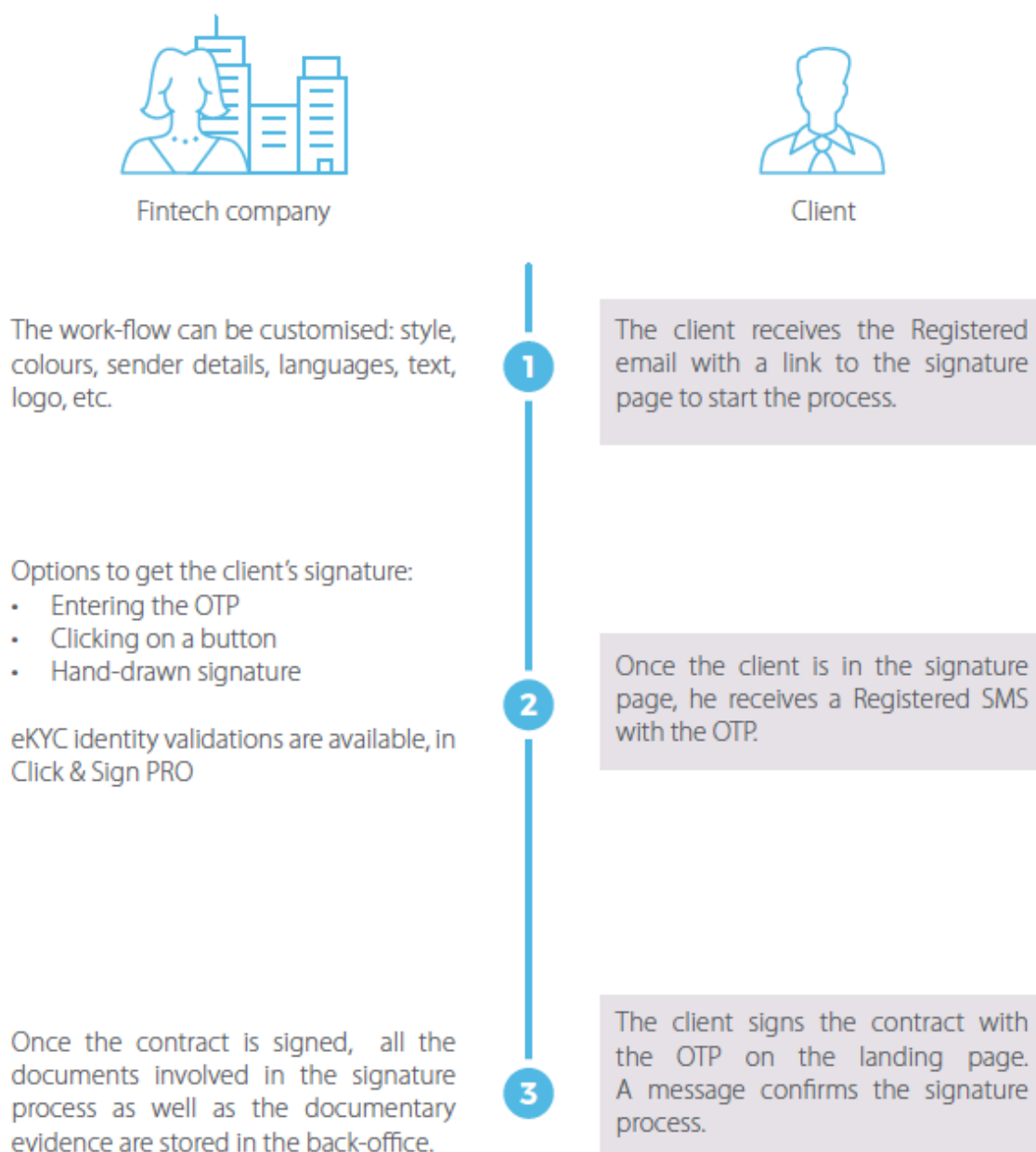
### 2. Click & Sign

An electronic signature platform with a flexible, powerful and compatible with the APIs. The documents can be signed with a code sent by SMS, clicking a button, or with a biometric signature. The given document can also be signed by one or multiple signatories, group them in different levels to be signed in an established order.

### 3. Click & Sign Pro

A customized eSignature solution where the workflow process is customized to the clients' requirements, without altering the client Website "look and feel" and adding some extra elements as ID validation, document upload and tailored control panel.

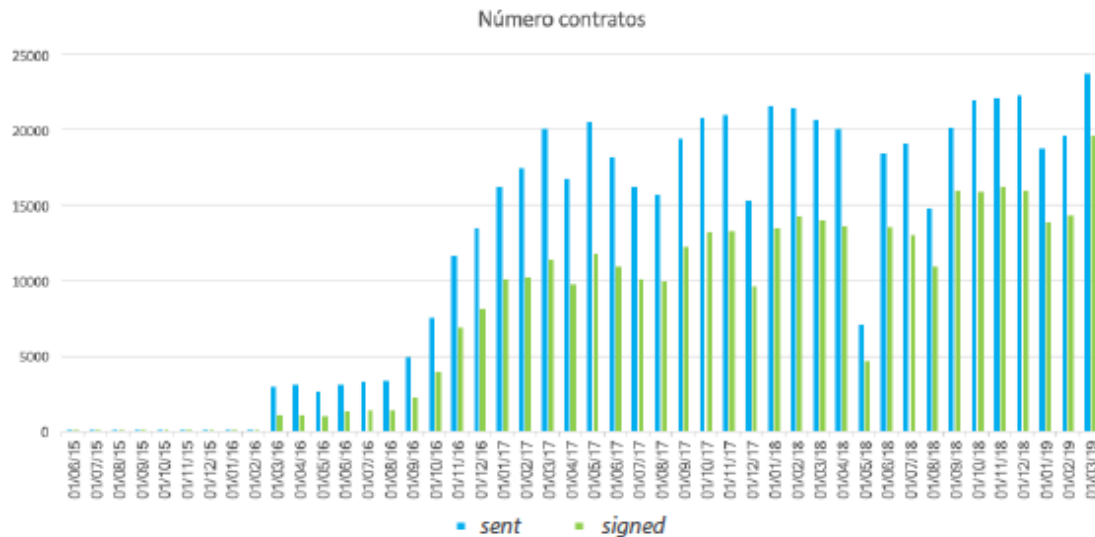
**Figure 4: an example of a Fintech company use of Click & Sign**



Source: Lleida.net



**Figure 5: Key Performance Indicators of Click & Sign**



#### Conversion rates

2015 July	16%
2016 July	44%
2018 June	66%
2019 March	83%

#### Total contracts signed

2015 - 2016 June	4,652
2016 - 2017 June	88,250
2017 - 2018 June	140,822
2018 June - 2019 March	201,012

Total contracts signed  
Current conversion rate  
Initial conversion rate  
Increase rate conversion

565,669

83%

16%

67%

Source: Lleida.net

## eNotifications: proof of delivery is legal security

Electronic Notifications are a simple **quick, reliable and cost effective** to deliver messages to third parties via SMS or email. This is the part of the SaaS offering where the SMS capabilities of Lleida.net become a distinct competitive advantage in order to service Fintechs.

At first glance, we could be tempted to think eNotifications (both SMS and email) is already a commoditized market. In the case of the mainstream SMS messaging, traffic is dominated by the presence of aggregators (the likes of mBlox, Clickatell, Verisign, Air2Web or Motricity to name a few) that stand between corporates and wireless telecom companies (Lleida.net being one, when is not itself acting as an aggregator as well). In the case of standard email eNotifications any business software can incorporate APIs to send individualised or mass emails to third parties.

**Figure 5: Openum, the commercial name for the eIDAS associated product**



# Openum eIDAS

Entrega electrónica certificada/e-delivery

Notificaciones por correo electrónico  
conforme al reglamento eIDAS  
(electronic Identification And Signature)  
(Regulation 910/2014)

Source: Lleida.net

When it comes to adding the **Certified stamp** on eNotifications then the service ceases to be a commodity and becomes a bespoke solution for a critically important element of financial companies relationships with customers. Lleida.net stands up in the eNotification market by offering value-added services in the form of **Registered SMS and Registered Emails** to provide the required legal security for the corporate market.

The **Lleida.net service** consists of SMS or email Certificates to be issued to the sender of the message, the time it is sent, the recipient, the time it was received and the content. Lleida.net enables its APIs to be integrated into any ERP, CRM or other management system software, so that the clients SMS text messages or

emails can be scheduled, customized and sent in bulk.

**The Certificate validity is made possible by Lleida.net status as a trusted third party, its eIDAS certification and a host of proprietary patents that protect the intellectual property of the process.** Lleida.net has now a distinct competitive advantage in the area of electronic delivery, where to date only 8 companies have registered with eIDAS and it is partly the result of the company's R+D efforts in past years to build an IP portfolio around electronic delivery.

The eNotification capabilities cannot be well understood without the use of the SMS and its growing importance in the Fintech space. Lleida.net is particularly well positioned with its half a million numbers to service Fintechs with its SMS capabilities and as a telecom operator in 5 countries.

The attraction of the SMS for use in the eNotification space rests with the 5 billion unique mobile subscribers in the world, and they all can receive and reply with SMS text messages. It is estimated that 95% of all text messages are read, 62% are remembered, 23% are forwarded, 18% of people respond to mobile campaign offers and conversion rates are up to 20x higher than email or direct mail.

SMS are not only targeted to marketing campaigns but also for sending codes during an on-boarding process, reminders for events, announcements for near expiry dates, etc.

The most common uses within the Fintech space are targeted at:

- Client registration processes
- Sending passwords and credit card PIN codes
- Accept SEPA direct debit mandates
- Opt out confirmation
- Extension of terms
- Credit card delivery notifications
- Account balance status
- Payment confirmation
- Fraud alerts
- Unpaid and defaulted credit remainders
- Debt collection

## Profit and Loss (consolidated)

(€ millions)	2017	2018	2019f	2020f
<b>Sales by division</b>				
Software Services	2,7	3,1	3,7	4,3
SMS Solutions	2,8	2,7	2,9	3,0
ICX	4,4	6,6	6,6	7,1
<b>Sales by division (%)</b>				
Software Services	27%	25%	28%	30%
SMS Solutions	29%	22%	22%	21%
ICX	44%	54%	50%	49%
<b>Turnover</b>	<b>9,9</b>	<b>12,4</b>	<b>13,2</b>	<b>14,4</b>
Cost of sales	-4,6	-6,3	-6,3	-6,8
<b>Gross Profit*</b>	<b>5,2</b>	<b>6,0</b>	<b>6,9</b>	<b>7,6</b>
% y-o-y growth	27%	15%	15%	10%
Gross Margin	53%	49%	52%	53%
Capitalized costs (R&D)*	0,8	0,8	0,9	0,9
Personnel Expenses	-2,3	-2,6	-3,0	-3,1
Other SG&A	-2,4	-2,5	-2,5	-2,6
Depreciation	-1,1	-1,2	-1,0	-1,0
<b>Total Operating Costs</b>	<b>-5,8</b>	<b>-6,3</b>	<b>-6,5</b>	<b>-6,7</b>
% y-o-y growth	13	8	3	4
<b>Operating Income</b>	<b>0,2</b>	<b>0,5</b>	<b>1,3</b>	<b>1,8</b>
Operating Margin	2%	4%	10%	13%
<b>Ebitda</b>	<b>1,3</b>	<b>1,7</b>	<b>2,4</b>	<b>2,9</b>
Ebitda Margin	13%	13%	18%	20%
<b>Ebitda (ex-capitalizations)</b>	<b>0,5</b>	<b>0,9</b>	<b>1,5</b>	<b>2,0</b>
Ebitda Margin	5%	7%	11%	14%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	-0,1
FX and Other	-0,1	0,0	0,0	0,0
<b>Financial Results</b>	<b>-0,2</b>	<b>-0,1</b>	<b>-0,1</b>	<b>-0,1</b>
<b>Profit Before Tax</b>	<b>0,0</b>	<b>0,4</b>	<b>1,3</b>	<b>1,7</b>
Tax	0,0	-0,1	-0,2	-0,3
<b>Net Income</b>	<b>0,0</b>	<b>0,2</b>	<b>1,1</b>	<b>1,5</b>
<b>Cash Flow</b>	<b>0,3</b>	<b>0,6</b>	<b>1,2</b>	<b>1,6</b>

Source: Lleida.net and Checkpoint Partners

## Balance Sheet (consolidated)

(€ millions)	2017	2018f	2019f	2020f
<b>Fixed Assets</b>	<b>4,6</b>	<b>4,4</b>	<b>4,5</b>	<b>4,6</b>
Intangible Assets	3,8	3,8	4,0	4,1
Tangible Assets	0,4	0,3	0,4	0,4
Inv. in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,2	0,2	0,2	0,2
Deferred Assets	0,1	0,0	0,0	0,0
<b>Current Assets</b>	<b>4,1</b>	<b>4,5</b>	<b>5,0</b>	<b>6,3</b>
Inventory	0,0	0,0	0,0	0,0
Debtors	2,3	2,4	2,8	3,2
Short Term Investments	1,0	0,7	0,7	0,7
Short Term Accruals	0,2	0,2	0,2	0,3
Cash	0,5	1,1	1,2	2,1
<b>Assets</b>	<b>8,6</b>	<b>8,9</b>	<b>9,5</b>	<b>10,9</b>
<b>Shareholders' Funds</b>	<b>2,9</b>	<b>3,1</b>	<b>4,1</b>	<b>5,6</b>
<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>	-1,9	-1,9	-1,6	-0,5
<i>Repurchase of share capital</i>	-0,9	-1,0	-1,0	-1,0
<i>Profit and Loss account</i>	0,1	0,3	1,1	1,5
<b>Long Term Debt</b>	<b>1,1</b>	<b>1,4</b>	<b>0,6</b>	<b>0,3</b>
<b>Current Liabilities</b>	<b>4,6</b>	<b>4,4</b>	<b>4,8</b>	<b>5,0</b>
Short Term Debt	2,8	2,3	2,4	2,4
Provisions	0,0	0,1	0,1	0,1
Creditors	1,8	2,0	2,3	2,5
<b>Liabilities</b>	<b>8,6</b>	<b>8,9</b>	<b>9,5</b>	<b>10,9</b>
<b>(€ millions)</b>				
Working Capital	0,5	0,4	0,6	0,7
Debtor Turnover (days)	84	70	73	77
Creditor Turnover (days)	63	60	67	71
Financial Debt	4,0	3,7	3,0	2,7
Cash	1,5	1,8	1,9	2,8
<b>Net Debt</b>	<b>2,4</b>	<b>1,9</b>	<b>1,1</b>	<b>-0,1</b>

Source: Lleida.net and Checkpoint Partners

## Sum of the parts valuation

Sector	Division	DCF (€)	Year	EV/Sales	EV/Ebitda
Software	Saas	10,5	2019	2,9	29,9
			2020	2,5	17,2
Telecom	SMS	4,5	2019	1,5	10,5
			2010	1,5	10,2
	ICX	9,4	2019	1,4	10,7
			2020	1,3	9,0
Sum of Parts		24,5	2019	1,9	14,7
			2020	1,7	11,7
Net Debt		1,8			
Equity Valuation		22,7			
Per shr		1,40			
Share Price		0,92			
Upside		52%			

Source: Checkpoint Partners

To arrive at our sum of the parts valuation of €24.5 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 9.2%.

## 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

Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
27.10.2016	BUY	0,71	0,95	12 months	Guillermo Serrano
16.01.2017	BUY	0,62	1,05	12 months	Guillermo Serrano
28.04.2017	BUY	0,66	1,25	12 months	Guillermo Serrano
20.07.2017	BUY	0,75	1,25	12 months	Guillermo Serrano
26.10.2017	BUY	0,52	1,13	12 months	Guillermo Serrano
31.01.2018	BUY	0,80	1,13	12 months	Guillermo Serrano
16.03.2018	BUY	0,84	1,13	12 months	Guillermo Serrano
17.03.2018	BUY	1.11	1.53	12 months	Guillermo Serrano
17.07.2018	BUY	1.15	1.53	12 months	Guillermo Serrano
17.10.2018	BUY	1.03	1.53	12 months	Guillermo Serrano
24.01.2019	BUY	1.06	1.53	12 months	Guillermo Serrano
24.04.2019	BUY	0.94	1.40	12 months	Guillermo Serrano

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.

## 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.

## Date of publication

7am, 27th May 2019