

Lleida.net

BUY

An accretive inDenova will boost numbers, SMS remains weak

Analyst: Guillermo Serrano - gfs@checkpointp.com

7am, 11th November 2021

LLN announced a -75% decline in Profits before Tax in 3Q21, despite a +10% increase in sales.

The 24% increase in SaaS sales was noteworthy given that it was on top of a 49% rise in sales reported a year ago relative to 3Q19. We estimate SaaS to bring-in almost 2/3's of Gross Profits, so they remain the main locomotive of LLN.

Growth would have probably been stronger, should demand had not faltered in Spain. Was it a by-product of the lifting of Covid related restrictions (the going on holidays factor) or a more fundamental weakness in the economy? We don't know.

The SMS divisions continue to be under pressure (reported gross margins fell from 52% in 3Q20 to 48% in 3Q21) driving Gross Profits to a mere 1% increase, during the quarter.

Operating cash Costs went up by 33% as lleida.net continues to invest in additional staff capacity (13 new hires) to sustain the strong demand for SaaS together with some of the costs associated to the inDenova transaction.

The acquisition of inDenova has now been confirmed, subject to AGM approval, which we expect to be a firmly accretive acquisition. We are now including inDenova in our financial projections (+€3.2 million in sales and +€0.8 million in cash Ebitda for 2022), with a downward revision in the existing divisions.

Despite the quarter, lleida.net remains an equity growth story albeit a lower levels that our earlier expectations. We have revised down our target price to €9.00 per share.

Equities

BME Growth Technology

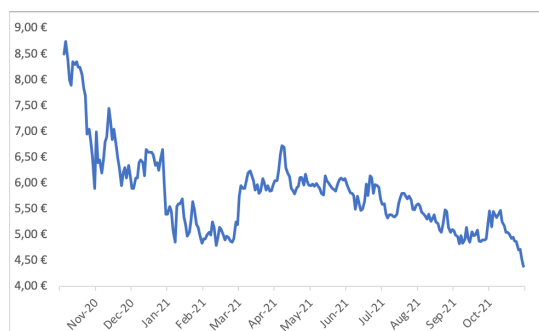
Price (4pm 8/11/21): €4.38

RIC: LLN

Target Price (12-18 m): €9.00

Rango 52 semanas (€):	8.75 - 4.38
Cap. Bur. (€ millones):	70.3
No. Acciones (millones):	16,05
Vol medio diario (€, 12m):	457 mil
Daily volatility (avg. LTM):	3.5%

Price Chart (12 months)



(€ millions)	2020	2021e	2022e	2023e
Turnover	16,6	18,3	24,2	28,1
Ebitda	2,0	1,8	3,6	4,9
Net Profit	1,0	1,3	2,5	3,8
EPS	0,06	0,08	0,16	0,23
Net Debt	-2,3	4,6	2,4	-1,1
EV/Ebitda	38,0	41,8	20,8	15,4
P/E	67,7	54,0	28,1	18,7
CFY	2%	2%	5%	6%

Our P&L view of the combined lleida.net + inDenova

Sales by division					
Software Services	3,7	5,7	6,8	9,2	11,6
SMS Solutions	2,5	2,6	2,8	2,9	3,0
ICX	7,5	8,1	8,1	8,9	10,0
inDenova			0,5	3,2	3,5
Turnover	13,7	16,6	18,3	24,2	28,1
Cost of sales	-6,6	-8,4	-8,8	-10,1	-11,4
Gross Profit	7,1	8,2	9,5	14,1	16,8
<i>% y-o-y growth</i>	18%	15%	16%	48%	19%
<i>Gross Margin</i>	52%	49%	52%	58%	60%
Capitalized costs (R&D)	0,9	0,7	0,8	1,0	1,0
Personnel Expenses	-3,1	-3,4	-4,6	-6,8	-7,7
Other SG&A	-2,7	-2,8	-3,1	-3,7	-4,2
Depreciation	-1,2	-1,2	-1,1	-1,7	-1,6
Total Operating Costs	-7,0	-7,4	-8,8	-12,2	-13,5
<i>% y-o-y growth</i>	10	7	19	39	11
Operating Income	1,1	1,4	1,5	2,9	4,3
<i>Operating Margin</i>	8%	9%	8%	12%	15%
Ebitda	2,3	2,6	2,6	4,6	5,9
<i>Ebitda Margin</i>	16%	16%	14%	19%	21%
Ebitda (ex-capitalizations)	1,3	2,0	1,8	3,6	4,9
<i>Ebitda Margin</i>	10%	12%	10%	15%	17%
Financial Income	0,1	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	-0,1	-0,1
FX and Other	0,0	-0,3	0,0	0,0	0,0
Financial Results	0,0	-0,4	-0,1	-0,1	-0,1
Profit Before Tax	1,1	1,0	1,4	2,8	4,2
Tax	0,0	0,0	-0,1	-0,3	-0,4
Net Income	1,1	1,0	1,3	2,5	3,8

Source: LLN, Checkpoint partners

Based on the announced transaction, subject to shareholder approval, inDenova will start to consolidate into lleida.net's numbers as of November 1st 2021. This will mean a small boost to 4Q21 numbers and a slightly larger one in 2022.

Beyond 2022, we are confident on LLeida.net's business development and commercial capacity to push inDenova towards a path of high single digit to low double digit growth from 2023 onwards. Up until now, inDenova had been a family run business with little access to capital with which to finance growth and almost no salesforce.

Below is our interpretation of how 2022 numbers will look like together with our new revised estimates for the SaaS, SMS and ICX divisions of lleida.net.

Sales:

We are assuming no growth in inDenova sales for 2022, to be on the conservative side, so our new overall 2022 sales projection will now stand at €24.2 million. inDenova brings in some €3.2 million in annual sales (last 3 years have been constant), equivalent to 17% of lleida.net expected 2021 sales.

Our prior sales forecasts stood at €24.2 million, so we are basically bringing down our SaaS sales to €9.2 million (vs €11.7 million), SMS solutions to €2.9 million (vs €3.0 million) and ICX to €8.9 million (vs. €9.4 million). We are still positive on SaaS where we are projecting a 35% increase in sales, but the lower than expected numbers of 2Q21 and 3Q21 makes us be slightly more conservative than before.

Gross Profits:

inDenova brings in a P&L consistent with a IT services business, where Gross Margins have been reported in and around 94% (vs a 3-year average of 51% for lleida.net). Based on its overall weighting and the increased Gross Margin, we are lifting our Gross Margin expectations from 52% in 2021 to 58% in 2022.

Capitalization of R&D:

InDenova brings in some €300k (9% of Sales) compared to lleida.net's 2021 estimate of €730k (4% of Sales). Comparatively, inDenova recognizes a higher spending in R&D than lleida.net, but the actual number may be similar given that lleida.net discloses a lower number in order to be more fiscally conservative.

For 2022 we are assuming a combined €1.0 million in capitalized R&D costs, on the assumption that LLN management will take a more conservative approach to inDenova's capitalizations.

Personnel Expenses:

inDenova brings in some 60 employees, of which 40 are based in Spain and 20 are based in Colombia with an overall annual cost of €1.8 million (avg. cost of €30k per employee, Colombia being less than half in cost per employee than Spain).

As of 3Q21 lleida.net had 103 employees with an expected annual cost for 2021 of €4.3 million. On a pro-forma basis, both employee costs would add up to an expected €6.1 million.

Our new projections for 2022 point towards €6.8 million in Personnel costs, assuming there will be some synergies between the two companies. The most immediate ones will be related to administration related expenses (HR and Finance primarily) followed by additional synergies on the operations side.

External costs and other operating expenses:

inDenova brings in some €330k (10% relative to Sales) in other operating costs compared to lleida.net's estimated €3.1 million (17% relative to Sales, although slightly inflated by transaction related costs in 2021).

The difference of both items relative to Sales are based on lleida.net commercial and marketing activity together with the costs of being a listed company. We estimate the commercial team of lleida.net to have an opportunity to raise the profile and sales potential of inDenova.

Depreciation and Amortization:

InDenova reported some €370k in Depreciation and Amortization expenses, the majority assumed to be related to the amortization of the capitalized R&D. Given their IT service model, we estimate that annual Capex is fairly negligible (book value of tangible assets stands now at around €55k).

The Depreciation and Amortization charge at lleida.net has stood at €1.1-€1.2 million during the past 3 years, a number that we expect to decline slightly as the Capitalization of R&D costs has been falling in the past couple of years.

The big boost to this line item will be provided by the amortization of an expected €3.5 million in Goodwill from a €7.1 million acquisition of 100% of inDenova, with an estimated book value of €3.6 million. Based in a 10-year linear amortization schedule, this will be equivalent to an additional €350k per year in amortization charges.

Tanking all these three factors into consideration, our new 2022 estimate for Depreciation and Amortization stands now at €1.7 million vs €1.1 million for 2021.

Cash Ebitda:

inDenova is expected to finish 2021 with a cash Ebitda of €800k and we are assuming the same result in 2022.

We expect lleida.net to contribute with €2.8 million in Ebitda in 2022 from an expected €1.7 million in 2021.

The combined expected cash Ebitda for 2022 is €3.6 million.

Financial costs:

Our new financial costs estimate for the combined group in 2022 is €115k (€47k = €5.6 million @ 0.83% + €66k = €3.3 million @ 2%) versus an estimated €80k in 2021.

- **Cost of inDenova:** The €7.1 million acquisition (plus an assumed €1.3 million in financial debt) will be done for €6.1 million in cash and €1 million in shares (already acquired in the market by Lleida.net at an average cost of €5.69 per share). Effectively, as far as Lleida.net is concerned the acquisition is been done for €7.1 million in cash.
- **Financing of acquisition:** The acquisition is being financed with a term facility of €5.65 million at 0.83% (annual interest costs of €47k) and existing cash balances of Lleida.net. In 2020, Lleida.net reported financial expenses of €74k, which based on an average financial debt during the year of €3.3 million placing an average interest cost of 2.2%.
- **Expected savings:** Based on our available information on inDenova, their average financial costs on their €1.3 million stood at 6%, which is far higher than Lleida.net's. We would expect the immediate refinancing of inDenova's facility to an average of around 2%, more in line with Lleida.net's.

Profits before Tax:

inDenova brings in some €0.8 million in Profits before Tax in 2021 compared to an expected €1.3 million for Lleida, so on a pro-forma basis the total Profits before Tax would stand at €2.1 million. The 2021 reported number for the Group is estimated to be at slightly over €1.4 million given that the months of November and December of inDenova will be included in the accounts.

Our estimate for 2022 stands at €2.8 million, of which we expect inDenova to contribute with €0.8 million and the existing Lleida.net with €2.0 million.

(€ millions)	2019	2020	2021f	2022f	2023f
Fixed Assets	4,4	4,1	11,7	11,4	11,2
Intangible Assets	3,8	3,6	10,4	10,1	9,8
Tangible Assets	0,4	0,3	0,5	0,5	0,6
Investments in Group Companies	0,0	0,0	0,0	0,0	0,0
Other Investments	0,2	0,0	0,6	0,6	0,6
Deferred Assets	0,0	0,2	0,2	0,2	0,2
Current Assets	6,3	9,1	11,3	11,7	14,4
Inventory	0,0	0,0	0,0	0,0	0,0
Debtors	3,6	3,5	5,4	5,9	6,1
Short Term Investments	1,3	1,3	1,3	1,4	1,4
Short Term Accruals	0,3	0,3	0,3	0,3	0,3
Cash	1,2	4,1	4,2	4,0	6,5
Assets	10,7	13,3	23,0	23,1	25,5
Shareholders' Funds	4,4	7,3	8,6	10,8	14,5
<i>Capital</i>	0,3	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2	5,2
<i>Reserves</i>	-1,6	1,3	2,4	3,6	5,9
<i>Repurchase of share capital</i>	-0,8	-0,8	-0,8	-0,8	-0,8
<i>Profit and Loss account</i>	1,1	1,0	1,6	2,8	4,3
Long Term Debt	1,7	2,1	8,0	7,2	5,7
Current Liabilities	4,6	3,9	6,4	5,1	5,3
Short Term Debt	1,9	0,9	1,8	0,0	0,0
Provisions	0,1	0,0	0,0	0,0	0,0
Creditors	2,6	3,0	4,6	5,0	5,3
Liabilities	10,7	13,3	23,0	23,1	25,5
(€ millions)					
Dividends	0,2	0,3	0,5	0,6	0,8
Working Capital	0,9	0,5	0,8	0,9	0,8
Debtor Turnover (days)	80	78	87	84	78
Creditor Turnover (days)	69	70	83	84	81
Financial Debt	3,5	3,0	9,8	7,2	5,7
Cash	2,4	5,3	5,5	5,4	7,9
Net Debt	1,1	-2,3	4,3	1,8	-2,2

Source: LLN, Checkpoint partners

3Q21 headwinds came to distort the trend growth potential

(€ 000')	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	% y-o-y		
Software Services	1.081	1.239	1.271	1.977	1.580	1.547	1.577	46	25	24
SMS Solutions	662	565	748	724	688	680	671	4	20	-10
ICX	2.303	1.983	1.877	1.990	1.719	2.095	2.046	-25	6	9
Turnover	4.046	3.787	3.896	4.691	3.987	4.322	4.294	-1	14	10
Cost of sales	-2.156	-1.880	-1.861	-2.508	-1.984	-2.091	-2.231	-8	11	20
Gross Profit	1.890	1.907	2.035	2.183	2.003	2.231	2.063	6	17	1
<i>Gross Margin</i>	<i>47%</i>	<i>50%</i>	<i>52%</i>	<i>47%</i>	<i>50%</i>	<i>52%</i>	<i>48%</i>			
Capitalized R&D*	168	163	174	157	193	207	166	15	27	-5
Personnel Expenses	-874	-876	-903	-957	-1.013	-1.068	-1.133	16	22	26
Other SG&A	-760	-552	-463	-756	-566	-805	-684	-26	46	48
Depreciation	-288	-297	-298	-299	-265	-271	-277	-8	-9	-7
Other	0	-10	194	-44	3	17	27			
Operating Costs	-1.922	-1.735	-1.470	-2.056	-1.841	-2.127	-2.067	-4	23	41
Operating Income	136	335	739	284	355	311	162	161	-7	-78
<i>Operating Margin</i>	<i>3%</i>	<i>9%</i>	<i>19%</i>	<i>6%</i>	<i>9%</i>	<i>7%</i>	<i>4%</i>			
Ebitda	424	642	843	627	617	565	412	46	-12	-51
<i>Ebitda Margin</i>	<i>3%</i>	<i>9%</i>	<i>19%</i>	<i>6%</i>	<i>9%</i>	<i>0%</i>	<i>0%</i>			
Ebitda**	256	479	669	470	424	358	246	66	-25	-63
<i>Ebitda Margin</i>	<i>6%</i>	<i>13%</i>	<i>17%</i>	<i>10%</i>	<i>11%</i>	<i>8%</i>	<i>6%</i>			
Extraordinaries	0	0	-144	0	0	-9	0			
Financial Costs	-19	-26	-6	-14	-13	-25	-10	-32	-4	67
FX	-49	-31	-65	-55	49	-6	-22	-200	-81	-66
Non-op. Results	-68	-57	-215	-69	36	-40	-32	-153	-30	-85
Profit Before Tax	68	278	524	215	391	271	129	475	-3	-75
Cash Flow	237	453	519	456	411	324	236	73	-28	-55

Source: LLN, Checkpoint partners

inDenova is now part of our sum of the parts valuation

		Estimated			Estimated Actual		Target (DCF based)	
Sector	Division	EV (€)	DCF (€)	Year	EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Software	Saas	51,0	102,9	2022e	5,5	42,0	11,2	84,9
				2023e	4,4	24,7	8,9	49,9
	inDenova	11,7	23,6	2022e	3,7	14,0	7,4	28,4
				2023e	3,4	12,2	6,8	24,6
Telecom	SMS	1,3	2,5	2022e	0,4	3,8	0,9	7,6
				2023e	0,4	3,5	0,8	7,0
	ICX	9,8	19,8	2022e	1,1	8,4	2,2	17,0
				2023e	1,0	6,9	2,0	13,9
	Sum of Parts	73,7	148,9	2022e	3,1	20,8	6,2	42,0
				2023e	2,6	15,3	5,3	31,0
	Net Debt	4,4	4,4					
	Equity Valuation	69,3	144,5					
	Per shr	4,32	9,00					
	Upside		108%					

Source: Checkpoint Partners

We are introducing in inDenova incluir sum of the parts valuation with a valuation target of €23 million, while we asume the market is valuing it today at slightly above the acquisition €8.4 million value. We are confident in LLN's management's ability to unleash the potential of inDenova, leveraging on the existing synergies with the rest of the group.

We have reduced our target valuations in the SaaS, SMS and ICX divisions based on the lower than expected performance during 2Q21 and 3Q21. We remain confident Lleida.net is a growth equity story, albeit at a reduced level of growth compared to our earlier expectations.

As a result we have reduced our target price from €11.15 to €9.00 per share, which provides a 12-18 months 108% upside relative to the current share price.

Valuation charts

EV/Cash Ebitda (12 month forward)



Source: Checkpoint Partners

Price/Earnings (12 month forward)



Source: Checkpoint Partners

Cash Flow Yield (12 month forward)



Source: Checkpoint Partners

Checkpoint recommendation System

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Buy: the stock is expected to generate total return of over 15% during the next 12 months time horizon

Neutral: the stock is expected to generate total return of -15% to +15% during the next 12 months time

Sell: the stock is expected to generate total return under -15% during the next 12 months time horizon.

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	0.92	1.40	12 months	Guillermo Serrano
23.07.2019	BUY	0.87	1.40	12 months	Guillermo Serrano
21.10.2019	BUY	1.01	1.60	12 months	Guillermo Serrano
21.01.2020	BUY	1.35	1.80	12 months	Guillermo Serrano
21.04.2020	BUY	1.75	3.00	12 months	Guillermo Serrano
21.07.2020	BUY	4,34	6.00	12 months	Guillermo Serrano
26.10.2020	BUY	8,90	12.00	12 months	Guillermo Serrano
26.01.2021	BUY	6.00	11.35	12 months	Guillermo Serrano
20.04.2021	BUY	6.28	11.15	12 months	Guillermo Serrano
22.07.2021	BUY	5.59	11.15	12 months	Guillermo Serrano

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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 a small 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, 11th November 2021

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