LLYC

LIGHTHOUSE WINNER 2020 Special Mention — European Commission — European Small & Mid-Cap Awards

LIGHTHOUSE IEAF INDEPENDENT EQUITY RESEARCH

EQUITY - SPAIN
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LLYC is a communication consultancy company operating in the field of corporate communication, digital marketing and public affairs combining traditional corporate communication services with technological and creative capabilities. It has a leadership position in both Spain and Portugal (52% of 2020 revenue) and in Latam (c. 44% of revenue).

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Much more than a "fortress"

A BUSINESS WITH A DEFENSIVE NATURE (VERY DIVERSIFIED AND RECURRENT) … LLYC is an integral provider of communication consultancy services (market listings, M&A, debt issues, restructurings, crisis and risks, public affairs…) with capacities in creativity and technology. This together with a solid base of recurrent revenue (c. 55% of the total) translates to low cyclicality or a defensive profile that enables LLYC to perform well at times of negative macro cycle or low growth.

… WITH HIGH MARGINS. An evident strength of LLYC are its margins. Over 2016-2020 LLYC consolidated a Recurrent EBITDA margin of c. 20% (18.9% in 2020; -2p.p. vs 2019 due to the impact of Covid-19). In addition, its good competitive position (Top 1 in Spain, its core market) allows it to pass on any increase in costs to prices. Something that is especially important in inflationary times such as the present.

THAT HAS DEMONSTRATED HIGH CASH GENERATION. A business model that requires little working capital and is very asset-light (CAPEX/sales < 4%) that has allowed LLYC to traditionally enjoy a solid financial position (net cash of EUR 8.1Mn in 2020 vs EUR 4.6Mn in 2016).

AND WITH CAPACITY TO CONTINUE GROWING (+10.9% IN ORGANIC TERMS 2020-2023E). In our opinion LLYC is well positioned to continue to grow. In 2023e we estimate the consolidation of levels of Rec. EBITDA of c. EUR 18Mn (EBITDA margin c. 20%) with turnover of c. EUR 90Mn (+25.7% CAGR 2020-2023e; +10.9% organic CAGR) and the capacity to generate Free Cash Flow of c. EUR 9.5Mn (54% of EBITDA) that represents a FCF yield of 7.1%.

IN CONCLUSION: A COMBINATION OF DEFENSIVENESS AND GROWTH. The temptation is to see LLYC as a defensive company (position of leadership, diversified business, recurrence and visibility of results, solid balance sheet, cash generation…). But in our view, LLYC combines these arguments with the capacity to continue growing organically at c. 10% per year. LLYC is trading at c. 8.5x 2022e EV/EBITDA (in line with the large media and advertising groups). That in itself explains the title of this report: Much more than a "fortress".

Market Data

Market Cap (Mn EUR and USD)	133.9	151.6
EV (Mn EUR and USD) [1]	132.9	150.5
Shares Outstanding (Mn)	11.6	
-12m (Max/Med/Mín EUR)	13.90 / 12.08 / 11.00	
Daily Avg volume (-12m Mn EUR)	0.02	
Rotation[2]	4.5	
Factset / Bloomberg	LLYC-ES / LLYC SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)[7]

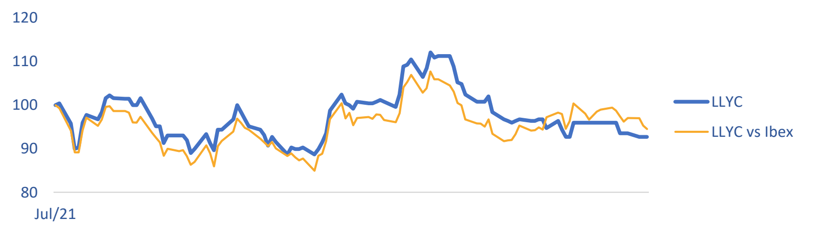
LLYC Partners	54.3
Jose Antonio Llorente	15.6
Other LLYC partners	9.0
Indumenta Pueri	7.5
Free Float	10.7

Financials (Mn EUR)	2020	2021e	2022e	2023e
Adj. nº shares (Mn)	11.6	11.6	11.6	11.6
Total Revenues	44.7	61.7	82.3	88.9
Rec. EBITDA[3]	8.4	12.0	15.8	17.7
% growth	*-16.4*	*42.2*	*31.3*	*12.0*
% Rec. EBITDA/Rev.	*18.9*	*19.5*	*19.2*	*19.9*
% Inc. EBITDA sector[4]	*-5.3*	*17.6*	*13.1*	*12.4*
Net Profit	2.3	5.4	8.2	9.6
EPS (EUR)	0.20	0.47	0.70	0.82
% growth	*-46.6*	*138.8*	*50.6*	*17.6*
Ord. EPS (EUR)	0.27	0.50	0.70	0.82
% growth	*-26.9*	*87.8*	*39.0*	*17.6*
Rec. Free Cash Flow[5]	3.3	4.3	6.1	9.5
Pay-out (%)	*26.4*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.05	0.00	0.00	0.00
Net financial debt	-8.1	6.6	0.5	-9.0
ND/Rec. EBITDA (x)	-1.0	0.5	0.0	-0.5
ROE (%)	*10.6*	*23.9*	*28.7*	*25.7*
ROCE (%)[5]	*23.5*	*23.8*	*25.3*	*27.7*

Ratios & Multiples (x)[6]	2020	2021e	2022e	2023e
P/E	58.9	24.7	16.4	13.9
Ord. P/E	42.8	22.8	16.4	13.9
P/BV	6.4	5.5	4.1	3.2
Dividend Yield (%)	*0.4*	*0.0*	*0.0*	*0.0*
EV/Sales	2.97	2.15	1.62	1.50
EV/Rec. EBITDA	15.7	11.1	8.4	7.5
EV/EBIT	22.9	15.2	10.1	8.9
FCF Yield (%)[5]	*2.5*	*3.2*	*4.6*	*7.1*

(1) Please refer to Appendix 3.
(2) Rotation is the % of the capitalisation traded - 12m.
(3) Financial projections include IFRS 16 adjustments. FY 17 EBITDA is c. EUR 1.3Mn higher due to IFRS 16.
(4) Sector: Stoxx Europe 600 Media.
(5) Please see Appendix 2 for the theoretical tax rate (ROCE) and rec. FCF calculation.
(6) Multiples and ratios calculated over prices at the date of this report.
(7) Treasury stock 2.9%. Other LLYC partners include the direct participation of Alejandro Romero (5.2%), Luisa García (2.1%) and Adolfo Corujo (1.8%).

Relative performance (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-3.8	3.1	n.a.	n.a.	n.a.	n.a.
vs Ibex 35	0.4	7.4	n.a.	n.a.	n.a.	n.a.
vs Ibex Small Cap Index	-1.8	4.9	n.a.	n.a.	n.a.	n.a.
vs Eurostoxx 50	-1.0	1.5	n.a.	n.a.	n.a.	n.a.
vs Sector benchmark[4]	-2.6	0.4	n.a.	n.a.	n.a.	n.a.

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Factset and Lighthouse.

LLYC is a BME Growth company

BME Growth is the segment of BME MTF Equity aimed at small and medium sized companies, directed and managed by the Spanish stock market and is subject to the CNMV supervision. BME MTF Equity is not a Regulated Market but instead falls within the classification of a Multilateral Trading Facility (MTF) as defined under the Markets in Financial Instruments Directive (MiFID). In July 2020, BME Growth obtained the status of SME Growth Market, a new category of EU regulations, which in Spain is called Mercado de Pymes en Expansión.

BME Growth is the Spanish equity market for companies of reduced capitalization which aim to grow, with a special set of regulations, designed specifically for them, and with costs and process tailored to their particular features. Operations in BME Growth (former MAB) started in July 2009. There are currently c. 130 companies listed on it. Companies listed on the MAB can choose to present their financial statements under IFRS or the General Accounting Plan (PGC) and Royal Decree 1159/2010 (NOFCAC).

LLYC: A defensive business… with organic growth of c.10% (!)

Founded in 1995, LLYC (formerly known as Llorente y Cuenca) has become a benchmark in the communication consultancy and public affairs sector at a global level (in the Top 50 according to PRWeek and PRovoke), with a leading position in its core markets: Number 1 in Spain by volume of revenues (c. 42% of revenue), Mexico, Argentina, Peru, Panama and Ecuador. LLYC was listed on BME Growth in July 2021.

LLYC's performance in the last 5 years has been exceptional from a strictly business generation and profitability point of view. Now there is only one question: is what we have seen so far sustainable? To answer this question, we need to analyse briefly what happened in 2016-2020 and this will allow us to establish LLYC's equity story.

A) 2016 -2020: A growing business (2016-2019 revenue: +11.8% CAGR) that is also defensive (+6.8% CAGR 2016-2020: despite the impact of Covid-19)

A provider of communication consultancy services leader in the sector (Top 1 in Spain) …

LLYC's business model as an integral provider of communication consultancy services (with capabilities in creativity and technology; a strength vs the large communication sector operators) enabled the company to maintain double-digit growth in revenue in 2016-2019 (+11.8% CAGR). Levels of growth that were well above those of the economy as a whole and its own sector. This gap was maintained in 2020, a year dominated by the impact of Covid-19 (LLYC's 2020 revenue: -7.2% vs c. -10% for the sector and -10.8% for GDP in Spain, its core market).

Specifically, the period 2016-2020 was characterised by:

… with growth (revenue: +6.8% CAGR 2016-2020) and high margins (EBITDA margin c. 20%)

- **A growing business (revenue: +6.8% CAGR 2016-2020)…** in our opinion explained mainly by: (i) the diversification of the business both by geography and by the services offer (with a focus on digital services, that provide access to projects with larger budgets), (ii) a solid base of recurrent revenue (c. 55% in 2020) with long-term contracts that are renewed regularly and act as a safety net when facing an adverse economic cycle and (iii) all driven by a strategy of non-organic growth (with 3 acquisitions in 2016-2020, that contributed c. EUR 2Mn to LLYC; c. 20% of the growth for the period).

With 2020 revenue and EBITDA of EUR 44.7Mn and EUR 8.4Mn, respectively

- **...with high margins (EBITDA margin of c. 20%).** An evident strength of LLYC are its margins. Over 2016-2020 LLYC consolidated a Recurrent EBITDA margin of c. 20% (18.9% in 2020; -2 p.p. vs 2019). Margins that are in line with those obtained by the large listed Media and Advertising groups (see annexe 4) and higher than those of its most direct peers (SEC Newgate: EBITDA margin < 15%).

  In terms of the return on capital employed, LLYC maintained an average ROCE of c. 25% over 2016-2020. The relationship between 2020 ROCE (23.5%) and 2020 WACC (10.6%) shows a business that is clearly creating value (even more so if we use pre Covid-19 levels of ROCE as a reference: c. 30%).

And that has structurally maintained net cash positions (EUR 8.1Mn in 2020)

- **And significant cash generation (structurally in a net cash position).** On average, over 2017-2020 LLYC converted c. 35% of EBITDA in Rec. FCF, mainly as a result of its business being: (i) one that requires little working capital and (ii) is very asset-light (CAPEX/sales of c. 4%). Cash generation that not only allowed LLYC to self-finance its M&A activity but also increase its net cash position to EUR 8.1Mn in 2020 (vs EUR 4.6Mn in 2016).

A valid business model with a defensive character

The starting snapshot is impeccable. The basic idea is that of a company that offers defensiveness and is not exempt from growth (2016-2020 numbers explain simply what happened). Now the question is what can be expected of LLYC in the most immediate future (2021e-2023e) and how will it perform in a macro situation such as the current one (with a rebound in inflation)?

B) 2020-2023e: And now what? High revenue growth (boosted by M&A), with a low risk profile. 2020-2023e EBITDA: +27.9% CAGR (EBITDA margin c. 20%)

After the 2020 hiatus (2020 revenue: -7.2%; due to the impact of Covid-19), 1H21 results (revenue: EUR 25.7Mn; +15.6% vs 1H20 and +11% vs 1H19) point to a recovery of growth levels. However, they do not yet reflect the impact of the 3 acquisitions made in 2021: Apache (acquired in May), China Partners (July) and Beso (September); three big corporate deals that should contribute proforma revenue of c. EUR 24Mn (55% of the revenue generated in 2020!). And that strengthen LLYC's positioning in digital marketing, creativity and technologies applied to communication consultancy.

2020-2023e: Revenue and EBITDA, +25.7% and 27.9% CAGR, respectively (boosted by M&A)…

What is the central scenario behind our projections for 2021e-2023e? Our estimates envisage revenue of c. EUR 62Mn (+38% vs 2020; explained largely by M&A and by organic growth of 15.6%; Table 1) and Recurrent EBITDA of EUR 12Mn (Rec. EBITDA margin of 19.5% vs c. 19% in 2020). With net debt (including M&A liabilities) of EUR 6.6Mn (ND/EBITDA c. 0.5x) mainly due to the three corporate deals executed in 2021 for EUR 16.4Mn.

…That should take 2023e revenue to c. EUR 90Mn. EBITDA of c. EUR 18Mn

What about 2023e? In our opinion LLYC is well positioned to continue to grow. In 2023e we estimate the consolidation of levels of Rec. EBITDA of c. EUR 18Mn (Rec. EBITDA margin c. 20%), with turnover of c. EUR 90Mn (+25.7% CAGR; +10.9% CAGR 2020-2023e in organic terms, in line with the growth recorded over 2016-2019). And capacity to generate Free Cash Flow of c. EUR 9.5Mn (54% of EBITDA; 2023e FCF yield c. 7%). With a return to net cash positions from 2022e (that paves the way for continued growth in capacity or via M&A; an accelerator of growth). Numbers (2023e) that today (December 2021) would be trading at a 2023e EV/EBITDA of c. 7.5x (vs 23e/22e EBITDA growth of 12%) and a 2023e P/E of 14x.

Table 1. Key Figures (2019-2023e)

EUR Mn	2019	2020	2021e	2022e	2023e
Total Revenues	**48.2**	**44.7**	**61.7**	**82.3**	**88.9**
% Organic Revenue Growth	14.8%	-7.7%	*15.6%*	9.1%	8.0%
% M&A Revenue Growth	1.2%	0.6%	*22.4%*	24.2%	0.0%
% Total Revenue Growth	16.0%	-7.2%	*38.0%*	33.3%	8.0%
Gross Margin	**40.9**	**38.1**	**50.8**	**66.0**	**71.7**
Gross Margin (o/Revenues)	85.0%	85.3%	82.3%	80.2%	80.7%
Recurrent EBITDA	**10.1**	**8.4**	**12.0**	**15.8**	**17.7**
Rec. EBITDA/Revenues	21.0%	18.9%	19.5%	19.2%	19.9%
Recurrent Free Cash Flow	**4.8**	**3.3**	**4.3**	**6.1**	**9.5**
Free Cash Flow Yield (%)	3.6%	2.5%	3.2%	4.6%	7.1%
Net financial debt	**-7.3**	**-8.1**	**6.6**	**0.5**	**-9.0**

And capacity to maintain high margins (EBITDA margin c. 18% in the worst case)

What would happen if the organic growth of the business were smaller than expected? A large percentage of the estimated growth in revenue and EBITDA in 2022e depends on the non-organic growth already executed in 2021 (Table 1). So perhaps the most interesting aspect is the sensitivity of our estimates to changes in organic growth levels. In the event of a deceleration of organic growth to levels of 5% in 2022e (Table 2; vs c. 9% in our central scenario) we estimate 2022e revenue of EUR 78.9Mn and EBITDA of EUR 14.5Mn (EBITDA margin 18.4%). And FCF above EUR 5.5Mn (FCF yield of c. 4%). In other words, a reduction of 50% in our assumption for organic growth would only result in a reduction of c. 8% in terms of 2022e Recurrent EBITDA. This in itself defines LLYC's equity story: even in low growth scenarios, the capacity to maintain EBITDA profitability is high.

Table 2. Sensitivity analysis of Revenues, EBITDA and FCF to changes in organic growth

EUR Mn	2019	2020	2021e	2022e	2023e
Total Revenues	**48.2**	**44.7**	**61.7**	**78.9**	**82.0**
% Organic Revenue Growth	14.8%	-7.7%	*15.6%*	4.6%	4.0%
% M&A Revenue Growth	1.2%	0.6%	*22.4%*	23.3%	0.0%
% Total Revenue Growth	16.0%	-7.2%	*38.0%*	27.9%	4.0%
Recurrent EBITDA	**10.1**	**8.4**	**12.0**	**14.5**	**15.2**
Rec. EBITDA/Revenues	21.0%	18.9%	19.5%	18.4%	18.5%
Recurrent Free Cash Flow	**4.8**	**3.3**	**4.3**	**5.7**	**8.3**
Free Cash Flow Yield (%)	3.6%	2.5%	3.2%	4.3%	6.2%
Var. vs our central scenario					
Total Revenues	*0.0%*	*0.0%*	*0.0%*	*-4.1%*	*-7.7%*
Recurrent EBITDA	*0.0%*	*0.0%*	*0.0%*	*-7.8%*	*-13.9%*
Recurrent Free Cash Flow	*0.0%*	*0.0%*	*0.0%*	*-6.6%*	*-13.0%*

C) In conclusion: a quasi-optimum combination of growth and defensiveness (in other words, low risk). Trading at c. 8.5x 2022e EV/ EBITDA.

All the above indicates the type of company we are looking at and defines what LLYC is today: a business without surprises and attractively defensive, that has historically digested M&A without margin shocks (over 10 acquisitions in the last 10 years), and that has shown a high capacity to convert EBITDA in cash (maintaining at all times a balance sheet structure with low gearing).

The corporate deals executed in 2021 imply a significant step-up in size and explain to a large degree our estimates for growth in EBITDA in 2020-2023e (+27.9% CAGR). However, for us LLYC's true equity story is not the strong growth expected for 2020-2023e, but the credible arguments in favour of its defensiveness that will allow LLYC to protect its business in the longer term. As regards the likely evolution of the business, today LLYC can be seen as:

- **A really defensive business… For 5 very good reasons:**

  i) Diversification (no exposure to a single line of activity): capacity to provide services during all stages of the cycle (market listings, M&A, debt issues, restructurings)

  LLYC combines a defensive business (diversification, recurrent revenue…)

  ii) Recurrent revenue. Recurrent fees represent a large weighting of the revenue mix (c. 55%).

  iii) Low cyclicality: in 2020, revenue -7.8% (vs -10.8% for the GDP in Spain: its core market).

  iv) Position of leadership in Spain and ability to achieve this same leadership in Latam implying less commercial risk.

  v) Cost flexibility: fall of "just" -2p.p. in 2020 EBITDA margin.

With capacity to maintain organic growth of c. 10% a year

- **… not exempt from growth (with the capacity to grow organically at rates of 8-10% a year). For several reasons:** (i) a good competitive position (Top 1 in Spain, Top 50 in the world), (ii) a large portfolio of services that makes cross-selling feasible (not only between geographies but also between business lines), (iii) a focus on the digital business (the sector's main growth driver) and (iv) access to increasingly larger clients and higher budget projects. Without forgetting the opportunity for growth opening up in the US (the principal communication consultancy market) where at present LLYC only generates c. 4% of its revenue.

Without stressing profitability (EBITDA margin c. 20%; in line with 2016-2020)

- **With the means to maintain high margins (EBITDA margin of c. 20%)** The company's good competitive position means it can pass on increases in costs to its prices. That should allow LLYC to go through an inflationary period like the current one without stressing its margins.
- **High capacity to convert EBITDA into cash (2023e FCF yield c. 7%).** LLYC's business model is not very intensive in capital or WC. This results in a high capacity to convert EBITDA in cash (c. 50% del 2023e EBITDA).

And a very healthy balance sheet structure (net cash position already in 2022e).

- **And a good position to continue to grow via M&A.** We estimate a return to Net Cash levels in 2022e: a favourable balance sheet structure that offers margin to continue to seek non-organic growth opportunities (in a very fragmented industry with a trend towards consolidation; in Spain c. 58% of sector revenues in 2020 came from companies < EUR 6Mn in turnover). The relationship between its size (leader) and very low gearing is ideal for accessing non-organic growth.

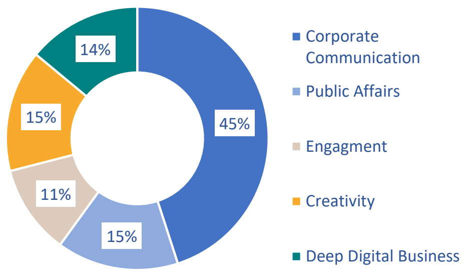
Today we are facing a macro scenario where in principle the recovery will continue but with less momentum (due to supply-side shocks and their impact on inflation). And in this context, LLYC is a company with a defensive model (diversified, recurrent...) that could be seen as an authentic fortress.

In conclusion, a defensive business not exempt from growth

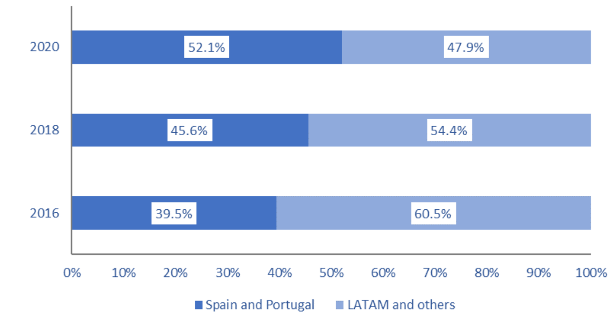
In conclusion, LLYC is a combination of defensiveness that is not exempt from growth. This in itself explains the title of this report: Much more than a "fortress". Trading at c. 8.5x 2022e EV/EBITDA (vs c. 8.5x for the large listed media and advertising groups) and with the capacity to generate organic growth of c. 8-10% per year (vs c. 3% for the large sector players).

The company in 8 charts

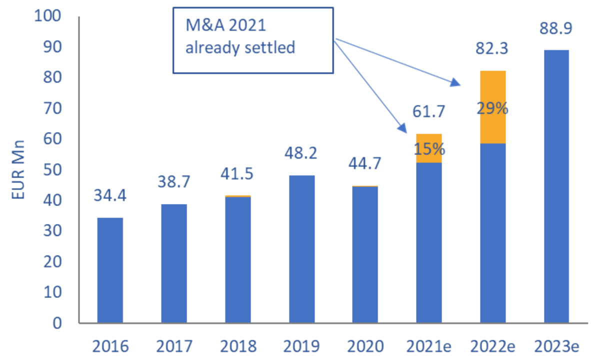
A business with a well-diversified revenue mix...



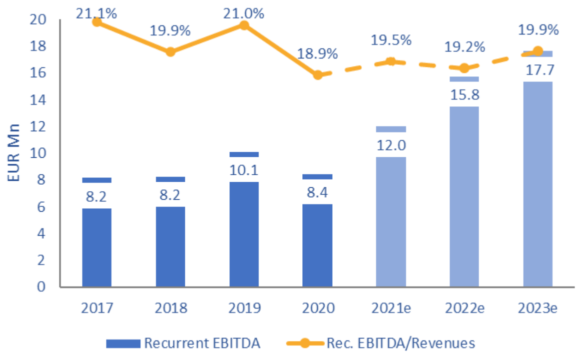
... And global presence (with exposure to Latam)



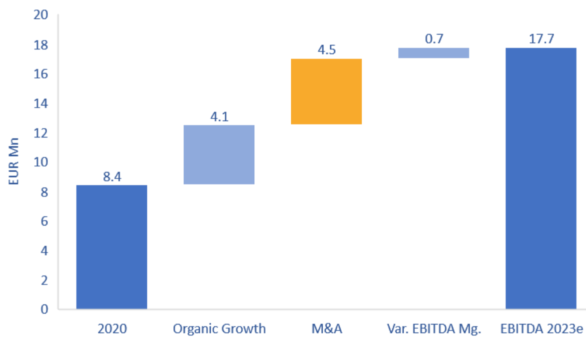
Positioned for continued growth (Revenues 2020-2023e: +25.7% CAGR) ...



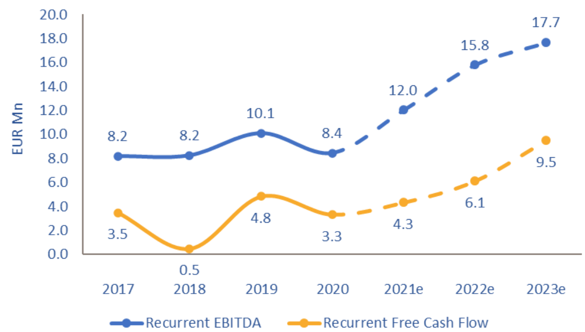
...without losing sight (of the focus) on profitability...



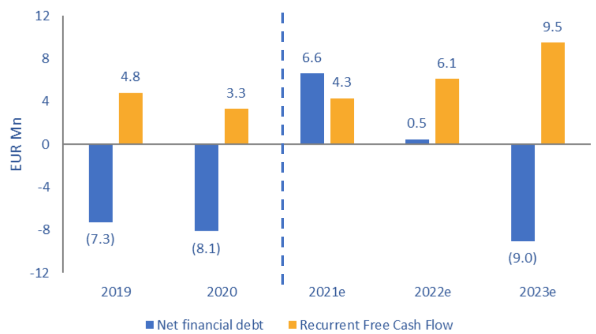
EBITDA 2020-2023e: +27.9% CAGR (boosted by M&A already executed)



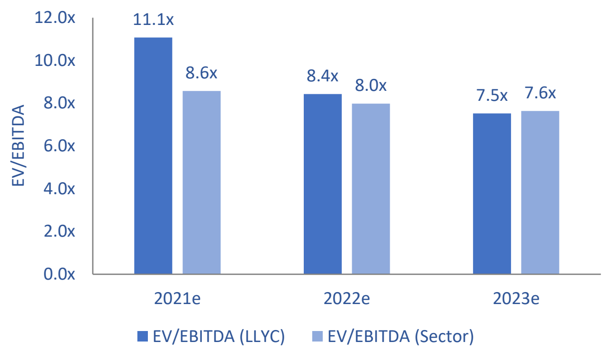
High cash generation capacity (FCF yield 2023e: c. 7%)



That it will allow a return to Net Cash levels (already) in 2022e



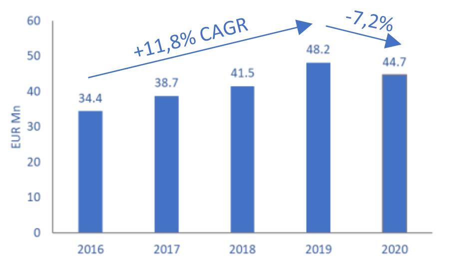
Trading at 8.5x EV/EBITDA 2022e



Business description

A diversified business (integral provider of communication services), that is profitable and with capacity to continue growing

Chart 1: Revenue Growth (2016-2020)



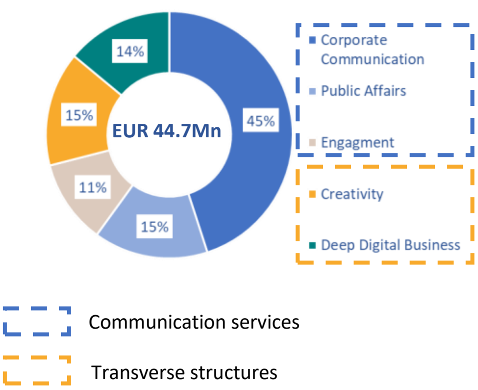
Note: Exchange rate impact of c. EUR -3Mn on 2020 revenues.

Table 1. Main communication consulting firms (Spain)

Spain Ranking	Global Ranking	Agency	Fees 2019 (USD Mn)
1	47	LLYC	48
2	91	Atrevia	27
3	171	Marco	11
4	199	Apple Tree	8

Source: PRovoke, 2021.

Chart 2: Revenue by business line (2020)



LLYC is a Spanish communication consultancy company (Mkt. Cap c. EUR 134Mn) operating in the field of corporate communication, digital marketing and public affairs combining more traditional corporate communication services with technological and creative capabilities. It has a leadership position in both Spain and Portugal (52% of 2020 revenue) and in Latam (c. 44% of revenue). LLYC is among the leading communication consultancies at the global level (Top 50 according to PRovoke; Table 1), being number 1 in Spain (c. 42% of revenue), Mexico, Argentina, Peru, Panama and Ecuador.

Among the principal providers of marketing and communication services there is a wide range of companies such as: (I) large communication consultancy operators (Edelman, BCW, Ketchum, MSL; very strong in communication but with fewer capabilities in creativity, marketing and technology) and (ii) the large listed advertising agencies (WPP, Omnicom, Interpublic and Dentsu; although these are not specialised in communication consultancy this being a relatively small area within their wide variety of services). Turning our attention to the regional communication consultancies, some examples in Europe include Kreab, SEC Newgate (listed on the London AIM) and Atrevia.

LLYC combines traditional communication services with creative, marketing and technological capabilities (a strength vs the large operators of the communication sector). This allows LLYC to position itself as an integral provider of communication consultancy services, making cross-selling feasible (not just between geographies but also between business lines). After sustained low double-digit revenue growth (underpinned by non-organic growth; Table 2 on the following page), LLYC obtained revenue of EUR 48.2Mn in 2019 (+11.8% CAGR 2016-2019). However, this growth was temporarily interrupted in 2020 due to the impact of Covid-19 (2020 revenue: -7.2% vs 2019; c. -1% stripping out the forex impact).

A distinctive business as an integral provider of communication consultancy services (with creative, marketing and technological capabilities) …

With communication services that are demanded by the main areas of corporate management (General Management, Financial, Human Resources, Legal and Risks, Public Affairs, Marketing…), LLYC operates through three business lines (corporate communication, public affairs and engagement) with the support of two transverse structures (creative studio and deep digital business). Specifically, we highlight:

- **Corporate communication (45% of 2020 revenue):** This area includes, among others, advisory services for: (i) corporate transactions (story-building consistent with each company's strategy), (ii) investor relations (communicating the value proposition), (iii) crisis and risks and (iv) Corporate Social Responsibility (CSR).
- **Public Affairs (15% of 2020 revenue):** Charged with establishing and maintaining stable and fluid communication with government and the public authorities.
- **Engagement (11% of 2020 revenue):** Services aimed at increasing the commitment between each brand and its audience (consumer engagement) or between a company and its professionals (talent engagement).
- **Creative studio (15% of 2020 revenue):** The area charged with creating and producing content in any format, providing support to the entire creative process.
- **Deep Digital Business (14% of 2020 revenue):** This gives LLYC the capabilities needed to develop and implement technologies applied to communication consultancy, specialising in solutions based on AI, deep learning, data analysis and digital marketing.

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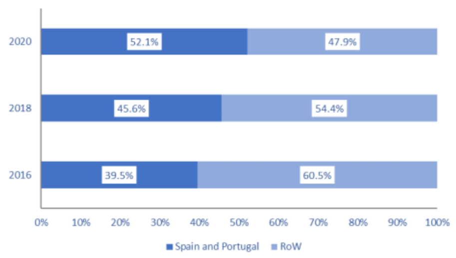
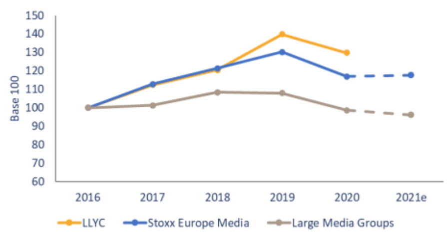
Chart 3: Geographic revenue exposure (2016-2020)



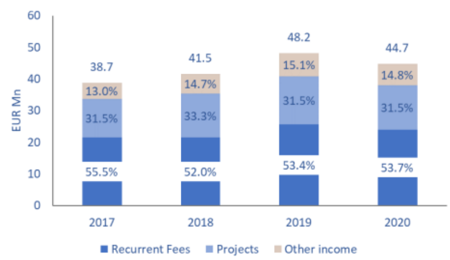
Note: Rest of the world includes: (i) Latam (c. 44% s/Revenues 2020) and (ii) USA. (c. 4% of 2020 revenues).

Chart 4: LLYC growth vs Stoxx Europe Media and Large Media Groups growth (2016-2020)



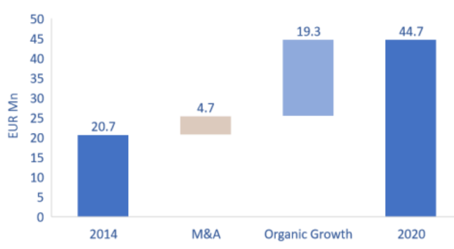
Note: Large Media Groups include: WPP, Omnicom, Publicis and Interpublic.

Chart 5: Revenue growth by activity (2017 - 2020)



Note: Other income corresponds to re-billings from LLYC to its customers for third-party expenses and services.

Chart 6: M&A impact on revenue growth (2014 - 2020)



Note: On a pro forma basis, acquired M&A revenues increase to EUR 5.2Mn.

… with a global presence (high exposure to emerging markets: c. 44% of 2020 revenue)

At present, LLYC's main clients are large corporates (Telefónica, Repsol, Coca-Cola, AB InBev…) with a presence in Spanish- and Portuguese-speaking markets. This is clearly reflected in the revenue mix: c. 52% of revenue originates in Spain and Portugal (Chart 3), the remaining 48% being generated mainly in Latam (c. 44% of 2020 revenue), with a still nascent position in the US (c. 4% of 2020 revenue; a market LLYC entered in 2015 with the acquisition of EDF Communications). Although there is still over exposure to Latam, its weighting in the revenue mix has been gradually declining (c. 60% of 2016 revenue vs c. 44% at present) as a result of higher growth in Spain and Portugal (+14.4% CAGR 2016-2020 vs flat revenue in Latam, mainly due to exchange rate impact).

LLYC is present in 12 countries with a strong local presence in those markets in which it operates (20 offices). Specifically, the company is present in Spain, Portugal, Mexico, the Dominican Republic, Panama, Colombia, Ecuador, Peru, Chile, Brazil, Argentina and the US.

A growing business (2016-2019 revenue: +11.8% CAGR)…

Over 2016-2019, LLYC maintained low double-digit growth in revenue (+11.8% CAGR 2016-2019). Despite the logical decline in revenue as a result of the impact of Covid-19 (-7.2% vs 2019), this rate of growth is higher than that of the Stoxx Europe Media Index, and of the large listed Media and Advertising groups (Chart 4). Growth that in our opinion is explained mainly by:

1) **A diversified business…** that encompasses a full range of communication services (present in all stages of the economic cycle: market listings, M&A, debt issues, restructurings…) with a focus on digital services (that provides access to projects with larger budgets). Moreover, LLYC has a highly diversified customer portfolio (Top 20: 18% of 2020 revenue; a percentage that has remained stable in recent years).

2) **… underpinned by a solid base of recurrent revenue (53.7% of 2020 revenue),** with long-term contracts that are renewed regularly and act as a safety net when facing an adverse economic cycle (2020 revenue: - 7.2%; Chart 5). Which in itself is an argument in favour of defensiveness.

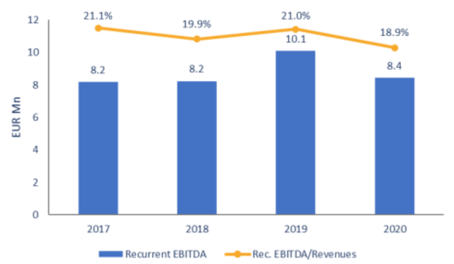
3) **And all driven by a strategy of non-organic growth.** In 2015 the private equity firm MBO took a stake in LLYC's capital (with an investment of EUR 6.3Mn) accelerating the non-organic growth strategy. This allowed the company to enter new markets (the entry in the US in 2015 being an example) and enhance its portfolio of services (to include, among others, new technological and creative capabilities).

Over 2015-2020, the acquisition of 6 companies contributed EUR 5.2Mn of proforma revenue to LLYC (c. 20% of 2014-2020 growth; Chart 6). A strategy of non-organic growth that has not stopped: in 2021 LLYC acquired 3 companies (Apache, China Partners and Beso) for EUR 16.4Mn (Table 2), that will provide proforma revenue of c. EUR 24Mn (55% of the revenue generated in 2020!) and will strengthen its capabilities in digital marketing, creativity and deep digital business (technologies applied to communication consultancy).

Table 2. M&A activity (2011 – 2021)

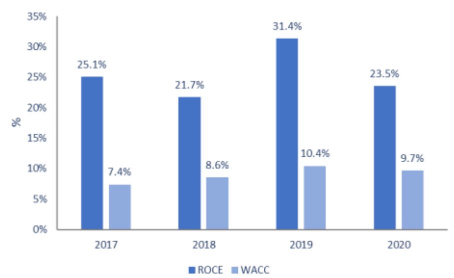
Company name	Country	Date	Business line	Price (EUR Mn)	% Stake	Proforma Revenues (EUR Mn)
Imago	Portugal	Junio 2011	Communication consulting	n.a	n.a	1.3
CR Comunicaciones	Chile	March 2014	Communication consulting	n.a	n.a	0.2
Hermes	Spain	May 2014	Communication consulting	n.a	n.a	0.6
Impossible Tellers	Spain	November 2015	Creativity	n.a	n.a	0.6
S/A Comunicação	Brazil	November 2015	Communication consulting	n.a	n.a	0.6
EDF Communications	USA	December 2015	Communication consulting	n.a	n.a	1.9
Arenalia	Spain	June 2018	Communication consulting	n.a	n.a	1.0
Diplolicy	Spain	January 2020	Public Affairs	n.a	n.a	0.2
Factor C	Chile	November 2020	Communication consulting	n.a	n.a	0.8
Apache	Spain	May 2021	Deep Digital Business	4.0	80%	6.1
China Partners	Spain	July 2021	Creativity	5.2	70%	5.0
Beso	Mexico	September 2021	Deep Digital Business	7.2	75%	12.7
TOTAL						**31.0**

Chart 7. EBITDA and EBITDA Mg. (2017-2020)



Note: Recurring EBITDA adjusted to include the impact of IFRS 16 from 2017.

Chart 10. ROCE vs WACC (2017-2020)



Note: ROCE and WACC 2017-2020 calculated based on book equity.

… not losing the focus on profitability (Recurrent EBITDA margin of c. 20%)

Over 2017-2020 LLYC consolidated gross margin levels of c. 85%, (Chart 8), the cost of sales being the third party expenses required to provide the services (for example: renting premises for the organisation of an event).

Below the gross margin line the company is very labour-intensive, with a headcount of 606 employees at the 2020 close (>700 at the date of this report; vs 501 in 2016) that resulted in a ratio of personnel expenses over revenue of 54.3% (vs 51% in 2019; Chart 9). However, and despite the impact of Covid-19 in 2020, LLYC consolidated a Rec. EBITDA margin of c. 20% over 2017-2020 (Chart 7; in line with the margin obtained by the large, listed Media and Advertising groups, see annexe 4).

Chart 8. Gross margin (2017-2020)

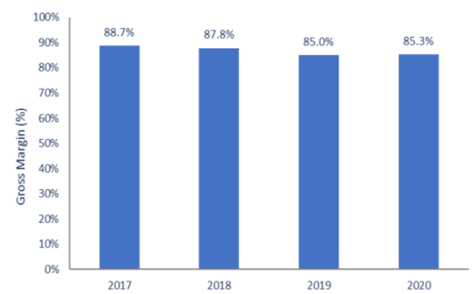
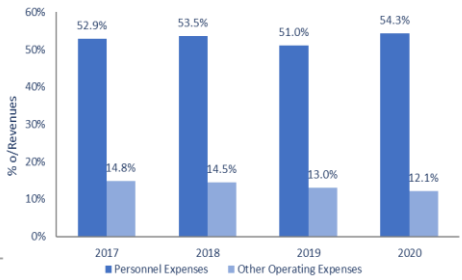


Chart 9. Operating expenses (2017-2020)



This confirms that LLYC has prioritised profitable growth: revenue growth in 2017-2019 (+11.5% CAGR) translates to growth in Rec. EBITDA of 11.2% CAGR (operating gearing c. 1x). And despite the narrowing of the Rec. EBITDA margin in 2020, we see capacity for improvement; something already visible in 1H21 results (1H21 EBITDA margin: c. 24%).

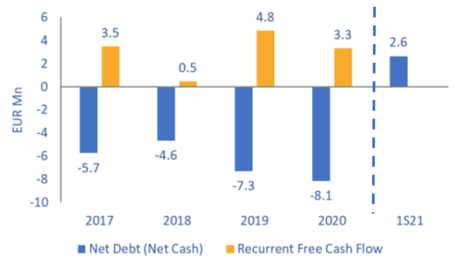
In terms of the return on capital employed, LLYC maintained an average ROCE of 25.4% over 2017-2020 (Chart 10); despite this declining to 23.5% in 2020 (2020 EBIT: -25.3%). However, the relationship between 2020 ROCE (23.5%) and 2020 WACC (10.6%) shows a business that is clearly creating value (even more so if we use pre Covid-19 levels of ROCE as a reference: c. 30%).

With high cash generation capacity (that has enabled the company to maintain a very robust capital structure; despite M&A)

LLYC's business model generates abundant cash flow. And 2017-2020 results are proof of this: on average, LLYC converted c. 35% of cumulative EBITDA in Rec. FCF (Rec. FCF generated over 2017-2020: c. EUR 12Mn), mainly due to it being: (i) a business that requires little working capital (WC/sales c. 12%) and (ii) not very capital-intensive (CAPEX/sales of c. 4%).

Cash generation that not only allowed LLYC to self-finance its M&A activity and remunerate shareholders (EUR 2.4Mn and c. EUR 3.3Mn over 2017-2020), but also increase its net cash position to EUR 8.1Mn in 2020 (vs EUR 4.6Mn in 2016). However, the buyback of all the shares held by the private equity firm MBO in LLYC (April 2021; c. EUR 12Mn) and the acquisition of Apache (digital marketing; EUR 4Mn) resulted in net debt at the 1H21 close of EUR 2.6Mn (Chart 11).

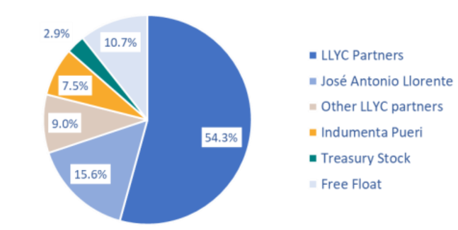
Chart 11. Net Debt vs Rec. FCF (2017-1H21)



Some 80% of capital is held by the management team that is fully aligned with the interests of minority shareholders. Free Float 13.6%.

In April 2021 (pre IPO) the private equity firm MBO sold its stake (29.7%) to the company (that subsequently cancelled the shares acquired). Now, after the BME Growth listing (July 2021; EUR 10Mn of capital captured) capital is concentrated in the hands of the management team (78.9%; Chart 12), with José Antonio Llorente (the founder of LLYC and Chairman of the Company and of the Board) holding a 15.6% direct shareholding and a 24.1% indirect one through LLYC Partners, the Company that encompasses the stake held in LLYC by its professional partners. This implies the full alignment of management's interests with those of minority shareholders. With the presence of an institutional investor (Indumenta Pueri: c. 7.5%). The Free Float is 10.7% (13.6% including treasury stock).

Chart 12. Shareholder Structure



Other LLYC partners include the direct participation of Alejandro Romero (5.2%), Luisa García (2.1%) and Adolfo Corujo (1.8%).

In conclusion, a company that offers defensiveness (not exempt from growth)

From a strictly descriptive point of view, we are looking at a distinctive business model (integral provider of communication consultancy services with capabilities in creativity, marketing and technology) that has allowed LLYC to maintain sustained and profitable growth in recent years and consolidate a position as a benchmark for the sector in its core markets (Top 1 in Spain by turnover). Specifically, today LLYC is:

- **A growing company (1H21 revenue: +15.6% vs 1H20; +11% vs 1H19) ...** That presents credible reasons for the continuation of its performance of recent years: (i) a leading position in its core markets (Spain, Portugal and Latam), (ii) a focus on technologies applied to communication consultancy (specialisation in solutions based on data analysis and digital marketing) and (iii) the capacity to increase its geographical presence (still fledgling business in the US, the main communication consultancy market).

- **…That maintains a focus on profitability (1H21 EBITDA margin: 24% vs 18% at the 2020 close).** A very light cost structure (dominated mainly by personnel expenses; c. 70% of total costs in 2020) and low capital employed that results in levels of ROCE > 20%.

- **With a very solid balance sheet structure (2021e ND/EBITDA: < 1x). And high capacity to convert EBITDA into cash.** An objectively favourable position for exploiting non-organic growth opportunities, acquiring small players with niche products (in a highly fragmented industry). The acquisitions made in 2021 (Apache, China Partners and Beso) are an example.

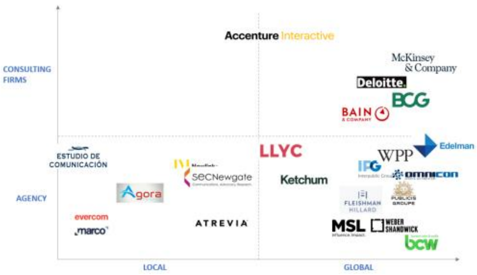
- **And a management team that controls c. 80% of capital.** This in principle ensures the full alignment of interests between management and minority shareholders.

The above indicates the type of company we are looking at and defines what LLYC is today: a business without surprises and attractively defensive (diversified both by type of revenue, geography and client portfolio), that has digested M&A without margin shocks and that has shown a high capacity to convert EBITDA in cash (maintaining at all times a very robust balance sheet structure).

The starting snapshot is impeccable. From an enormously simplified point of view the basic idea is that of a company that offers defensiveness not exempt from growth (the performance over the last five years being an example). However, the low operating leverage (c. 1x over 2017-2019) "restricts" EBITDA and FCF generation to similar growth to that generated by revenue.

Communication consultancy: A defensive niche within the media industry?

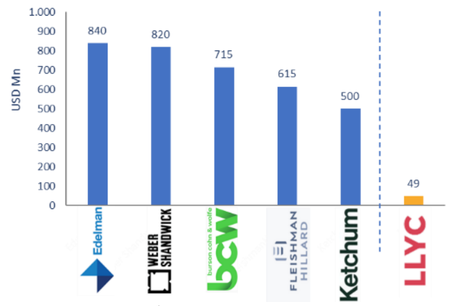
Chart 13. Communication Consulting sector (types of companies)



Within the broad media sector, and in the public relations segment, we find a small niche, communication consultancy, where LLYC operates. The company focuses on managing the relationships of its clients (mainly, but not exclusively, companies) with their stakeholders, providing solutions for the specific situations of each company within the area of corporate communication (financial, public affairs, crisis and risks).

We can segment the industry on the basis of the activity of its components (Chart 13). The main advantages of the global communication consultants (BCW, Edelman, Ketchum) are their size and the large range of services they provide. At the regional level, Latin American operators like Newlink and Agora stand out and in Europe SEC Newgate and Kreab due to the broad range of communication consultancy services they offer. In turn, large advertising agencies (Omnicom, Publicis Groupe, Dentsu, WPP, Havas) also form part of the communication consultancy market, focusing especially on the provision of marketing and creative services. LLYC is a diversified communication consultancy with a wide range of services. From a sector viewpoint, LLYC's sector (communication consultancy) should be seen as an activity covered both by consultants and by advertising agencies.

Chart 14. Main players in the sector by revenue volume (2020)



Note: LLYC ranks 47th out of 250 leading communications consultancies by revenue (PRovoke, 2021).

A sector that is mature (+2.4% CAGR 2017-2019) and defensive (+1.3% CAGR 2017-2020) …

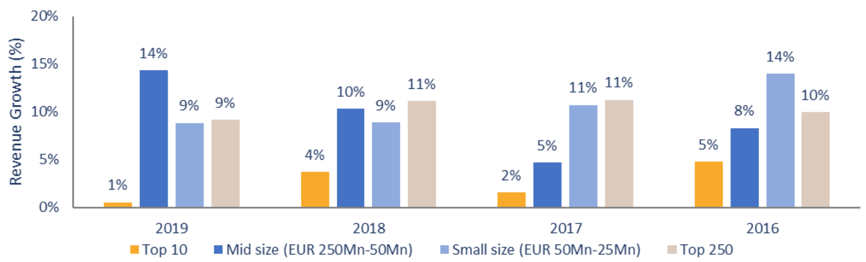
That includes the Big Four listed advertising, communication and public relations agencies (Omnicom, Publicis Groupe, Interpublic and WPP) that are the owners of large communication consultancy operators such as BCW, FleishmanHillard, Ketchum and MSL (Chart 14). According to PRovoke, in 2020 the global communication and public relations consultancy market amounted to USD 15.8Bn. In the global industry c. 33% of total revenues in 2020 were generated by the Top 10 communication consultants (c. 29% corresponding to the Big Four agencies). Focusing on the local market (Spain), LLYC stands out as the leader (in the Top 50 of the global ranking; Chart 14) followed by the consultants Kreab and Atrevía.

In 2020, and as a consequence of the impact of Covid-19, the global communication and public relations consultancy industry saw turnover shrink (by -4% at constant exchange rates) for the first time in a decade (PRovoke, 2021). However, the fall in sector revenue has been smaller than estimated at the beginning of the pandemic and smaller than in adjacent industries such as marketing (-8.1% vs 2019; Ubuinternational, 2021) and advertising (with declines of c. 15% in Europe according to Infoadex). This underscores the argument for the defensiveness or low cyclicality of communication consultancy and so its low-risk business nature.

… in which the growth of small and medium size operators exceeds that of the large industry players (2017-2020 CAGR of +3.3%)

Until 2020, small communication consultancies (turnover of USD 25-50Mn; a group that included LLYC until 2021) and medium sized ones (turnover of USD 50-250Mn) were showing high average annual growth rates (> 9%; Chart 15); significantly exceeding the growth of the Top 10 by volume of turnover (< 5%).

Chart 15. Avg. revenue growth of the Top 250 Communication Consulting Firms 2016-2019



Source: Prepared by Lighthouse based on PRovoke (2021).

In constant terms (stripping out the exchange rate impact), the Covid 19 crisis has had a big impact on medium sized consultancies, with a decline in their turnover of -8.1% in 2020 (vs growth of +11.2% in 2019; Provoke, 2021). LLYC's revenues fell by -7.2% in 2020. In this segment the growth in 2020 of GCI Health (+28.1%), SEC Newgate (+21.2%; underpinned by M&A) and the US company SKD Knickerbocker (+37.1%) stands out.

Turning our attention to the smaller consultancies, the impact of Covid-19 led to a decline of -5.7% in their revenue in 2020 (vs growth of +10.9% in 2019). In this segment, several consultancies recorded significant growth, such as the German company Farner Consulting (+36.3%), Hunter Public Relations (+30.5%) and PROne (+27.9%).

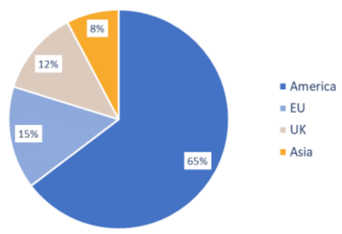
Finally, the Top 10 communication consultancies have suffered the least from the impact of the pandemic, ending 2020 with total revenues of USD 5.3Bn (-4% vs 2019 in constant terms; although underpinned by M&A).

In conclusion, although the large communication consultancies (Elderman, Weber Shandwick, BCW, Ketchum) have proved to be more resistant to the impact of Covid-19, the Big Four large agencies (Omnicom, Publicis Groupe, Interpublic and WPP) have seen their slice of the global communication and public relations consultancy market turnover pie continue to shrink to below 30% in 2020 (vs 31% in 2018; despite intense M&A activity). A priori this indicates that the sector's growth driver is small and mid-sized consultancies (LLYC's segment).

A sector headed by the USA at the global level…

In 2020, according to the latest data released by PRovoke (2021), global communication consultancy services revenue totalled USD 15.8Bn, with the US as the main market (c. 65% of the global market), followed by Europe (c. 15% of the global market in 2020); and with Germany (c.5% of the global market) as the principal market in Europe.

Chart 16. Top 250 Revenues from Communication Consulting Firms (2020)



Source: PRovoke (2021).

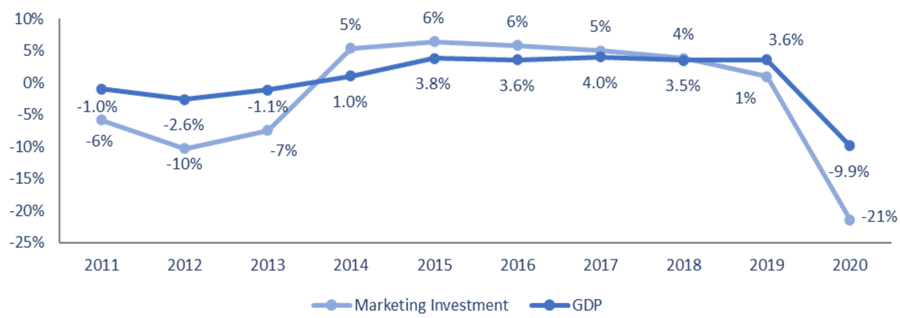
In the US, the market recorded annual growth rates of +6.1% and +4.6% in 2018 and 2019, respectively. In 2020 however, the US market shrank by -1% (vs 2019), remaining the global leader (65% of the global market; Chart 16). In the UK, the turnover of communication consultancies (12% of the global market) shrank by -4% in 2020 (in constant terms).

In the European Union, the impact of Covid-19 resulted in a +6.6% reduction of revenue volumes vs 2019. Germany, that had been the growth leader (+12% in 2019), saw turnover decline by -3.5% in 2020.

… and highly fragmented (in Spain too)

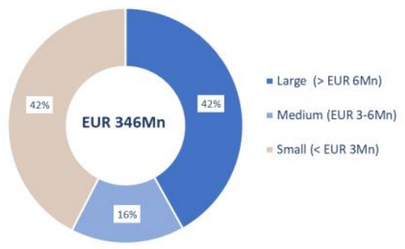
In line with what happened in the global market and according to the ADC (Asociación de Consultoras de Comunicación), in Spain the revenue volume of the communication consultancy sector fell by -2% in 2020 compared to 2019. This compares very positively with the sharp contraction in marketing investment (-21% vs 2019), in spending on advertising (-18.1% according to Infoadex) and in the GDP (-9.9% vs 2019; Chart 17). This strengthens the argument for the low cyclicality of communication consultancy.

Chart 17. Spanish Market: Evolution of Marketing Investment in Spain vs. GDP



Source: AME (Asociación de Marketing de España; Spanish Marketing Association).

Chart 18. Communication Consulting Firms in Spain (2020)

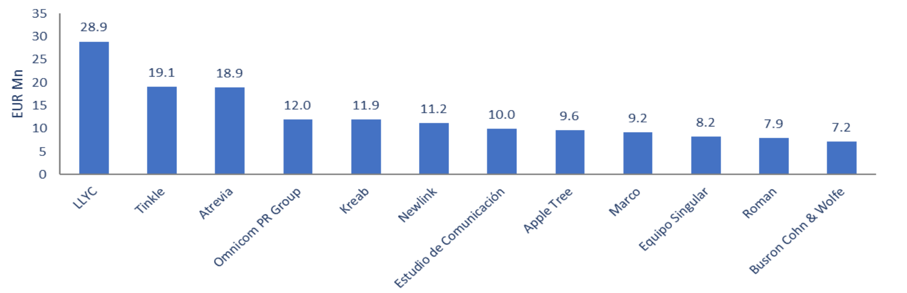


Source: ADC (Asociación de Consultoras de Comunicación; Communication Consultancies Association).

In the Spanish market, sector turnover amounted to EUR 346Mn in 2020. The large consultancies (revenue > EUR 6Mn) represent 42% of the market (in line with 2019; Chart 18). In 2020 the average turnover of Spanish communication consultancies amounted to EUR 3.8Mn (and 58% of the turnover was generated by companies with <EUR 6Mn of annual revenue; that gives an idea of the level of fragmentation of the sector in Spain).

In Spain, LLYC is the leader, with c. EUR 20Mn of revenue in 2020 (c. 6% share in 2019) followed by Tinkle and Atrevia. These three companies led the ranking of consultancies by volume of turnover in 2019 (with a total cumulative market share of 18.9%; Chart 19).

Chart 19. Large Communication Consulting Firms (revenues > EUR 6Mn) in Spain 2020



Source: Dircom with companies' registry data.

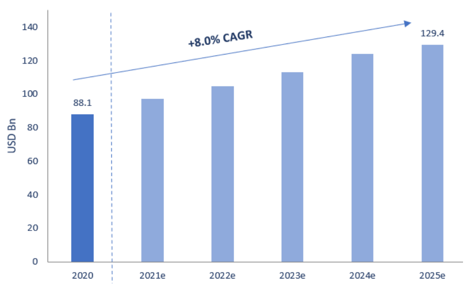
The digital transformation: critical too in communication

According to the ADC (Asociación de Consultoras de Comunicación), the digital transformation will result in important changes in communication consultancy such as: (i) the decline of traditional media in favour of digital ones, with consultancies having to adapt their messages to include greater multimedia content depending on the situation, (ii) the impact of Big Data on the capacity to measure and quantify impacts and optimise procedures, and (iii) artificial intelligence, that will play a key role in the automation of interactions between the end user and companies (for example: virtual assistants, chatbots, etc.).

In conclusion, the digital transformation is an unstoppable trend and the communication consultancy sector is not immune to this. Today, the boom in the new technologies represents both an opportunity (for those companies who manage to adapt their services to this new context) and a risk (getting left behind).

In conclusion: a market that is growing globally (+8% CAGR 2020-2025e), driven by applied technologies and the creation of digital content

Chart 20. Global public relations market growth (2020-2025e)



Source: The Business Research Company (January 2021).

According to a report published by The Business Research Company (2021), the global public relations market (that encompasses the communication consultancy niche) amounted to USD 88Bn in 2020 (including the total turnover of advertising agencies).

Over the 2020-2025e period, The Business Research Company's report estimates an 8% CAGR, reaching a total volume of USD 129.4Bn (Chart 20). However, within the public relations industry there are higher growth segments, such as: (i) applied technology and artificial intelligence (expected to reach USD 11Bn in 2026e; +14.6% CAGR 2019-2026e according to Verified Market Research) and (ii) digital content (an estimated value of USD 38Bn in 2030; +12% CAGR 2019-2030e according to Insight Slice).

In conclusion, the communication consultancy sector is characterised by:

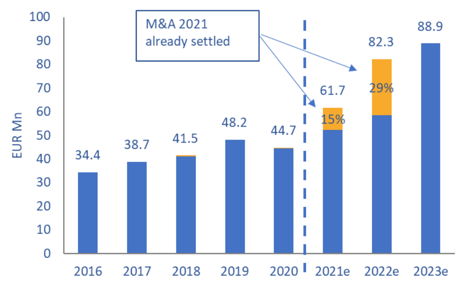
i) High fragmentation and a breeding ground that favours M&A and the development of "profitable niches" (as is the case for LLYC).

ii) Low cyclicality or a defensive profile that enables the sector to perform well at times of negative macro cycle or low growth. This became evident in 2020. Sector with a low risk profile.

iii) The impact of the new technologies and digitisation that represents a big opportunity/risk.

High growth (boosted by M&A) with a low risk profile. 2020-2023E EBITDA: +29% CAGR (EBITDA margin c. 20%)

Chart 21. Revenue (2016-2023e)



Note: We estimate that the corporate transactions executed in 2021 will contribute c. EUR 10Mn in 2021e (c. EUR 24Mn in 2022e when they will be consolidated for a whole year)

Chart 22. Revenue Growth (1H21)

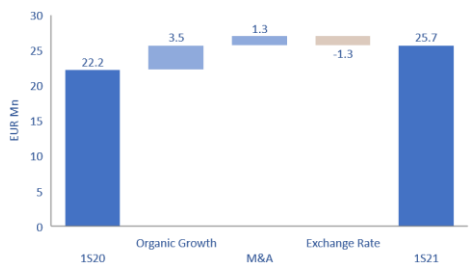
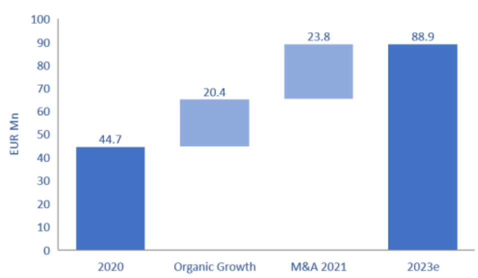
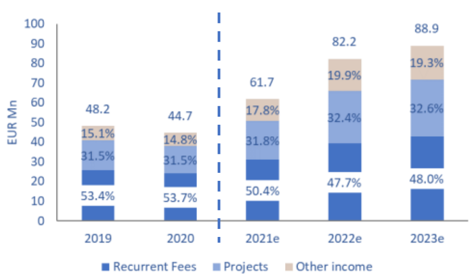


Chart 23. M&A Impact on revenue growth (2020-2023e)



Note: Growth from M&A corresponds to the revenue we estimate will be provided by Apache (EUR 6.1Mn), China (EUR 5Mn) and Beso (EUR 12.7Mn); all acquired in 2021.

Chart 24. Revenue mix (2019-2023e)



LLYC's business model as an integrated provider of communication consultancy services (with capabilities in creativity, marketing and technology) enabled the company to maintain double-digit growth in revenue in 2016-2019 (+11.8% CAGR). This level of growth is far removed from the economic situation and its own sector (large listed media and advertising groups saw growth of c. 3% during the same period). This gap was maintained in 2020, a year dominated by the impact of Covid-19 (LLYC's 2020 revenue: -7.2% vs c. -10% for the sector and -10.8% for GDP in Spain, its core market).

This allowed LLYC to consolidate its good competitive position, putting it among the leading communication consultancies at the global level by volume of revenues (ranked 47 at the global level in 2020 vs 57 in 2015). Being number 1 in Spain (c. 42% of revenue), Mexico, Argentina, Peru, Panama and Ecuador.

1H21 results confirm LLYC's story of growth and profitability, with a recovery of the business that has driven revenues by +15.6% vs 1H20 to EUR 25.7Mn (+11.6% in organic terms; Chart 22) and +11% vs 1H19. However, the most noteworthy aspect of 1H21 results was the performance of margins: LLYC achieved a 1H21 EBITDA margin of 23.7% (vs 19.5% in 1H20). These are extraordinarily high margins that, although we do not consider them to be sustainable in the short term (due to the M&A executed in 2021; not visible in 1H21), hint at the capacity for margin improvement (post 2023e, when the companies acquired in 2021 are fully integrated in LLYC's business).

Having reached this point, LLYC can be seen as a (profitable) growth story. What we have seen so far invites consideration of three key questions: (i) can the levels of growth seen to date be projected over the long term? (ii) can levels of profitability be maintained in a high growth scenario boosted by the M&A executed in 2021 and (iii) what is the business' capacity for cash generation?

Strong revenue growth (+25.7% CAGR 2020-2023e), boosted by the M&A already executed in 2021 (c. 55% of estimated growth for the period) …

In our opinion LLYC is well positioned to continue to grow. Specifically, the strong revenue growth estimated for 2020-2023e will be underpinned by:

- **The M&A already executed in 2021 (EUR 23.8Mn; c. 55% of estimated growth).** In 2021 LLYC bought Apache (May), China (July) and Beso (September) with the goal of strengthening its technological and creative capabilities that will allow it to further differentiate its offer from traditional communication services. We estimate that these three transactions will already provide revenue of c. EUR 10Mn in 2021 although we will have to wait until 2022e to see the total impact on revenue that we estimate at EUR 23.8Mn (c. 55% of 2020 revenue; Chart 21) as a result of the businesses acquired entering the sphere of consolidation for a full year.

- **Organic growth (+10.9% CAGR 2020-2023e).** In 2021e we expect the organic growth of the business to accelerate to +15.6% (vs +11.6% in 1H21) mainly due to the recovery in demand for corporate communication services after the impact of Covid-19. Beyond 2021e, we expect growth to decelerate to +9% in 2022e and +8% in 2023e (in line with the growth expected for the communication consultancy industry). In our view, LLYC's digital business (c. +14% of 2020 revenue) will continue to play a key role as an accelerator of organic growth (by enabling the company to offer new solutions and take part in projects with larger budgets).

- **And all this underpinned by a solid base of recurrent revenue (c. 50% of 2023e revenue),** that will continue to contribute to the defensive nature of the business (Chart 24).

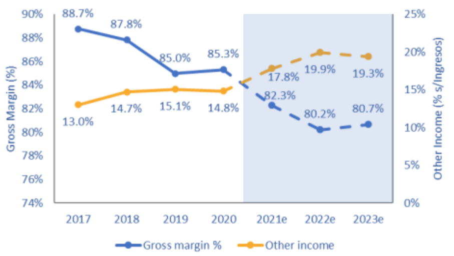
The scenario we envisage for 2020-2023e translates to a significant step-up in size that should allow LLYC to reach revenue levels of c. EUR 90Mn in 2023e (Charts 23 and 24; +25.7% CAGR 2020-2023e). This strong growth is explained in a high percentage by non-organic growth (> 50% of expected growth) and by organic growth of close to +11% CAGR 2020-23e (slightly lower than that obtained by the company in 2016-2019).

Based on the ranking prepared by PRovoke (2021), the estimated step-up in size would put LLYC among the global Top 30 by revenue volumes in 2023e (vs number 47 at present).

… and although the gross margin will remain under pressure (-5p.p. 2023e vs 2019), LLYC has the ability to avoid stressing EBITDA profitability (EBITDA margin c. 20%)

Over 2017-2020 LLYC increased the weighting of the re-invoicing of services provided by third parties in its revenue mix to c. 15% in 2020 (from 13% in 2017). This resulted in a c. 3.5 p.p. narrowing of the gross margin (85.3% in 2020 vs 88.7% in 2017; 2017; Chart 25).

Chart 25. Gross Mg. vs. other income (2019-2023e)



Our estimates envisage the gross margin continuing to shrink to 82% in 2021e, with a floor being created at around 80% in 2022e for two main reasons: (i) a continuing increase in other revenue in the revenue mix (due to the provision of more third-party services) and (ii) the assimilation of the M&A executed in 2021 (with the acquisition of companies with higher intermediation costs and smaller gross margins).

Given the nature of LLYC's business (very intensive in qualified and scarce labour), we do not foresee large economies of scale below the gross margin line. However, we do think LLYC has the means to maintain the EBITDA margin close to 20%. Specifically, we estimate:

- **A return of the weighting of personnel expenses over revenue to levels close to those seen in 2019.** Personnel expenses are LLYC's main expense item. After extraordinarily high levels in 2020 (54.3% of revenue) due to the impact of Covid-19, we expect a certain normalisation from 2021e (52.4%; in line with 1H21; Chart 26) that should continue in 2022e and 2023e.

- **And capacity for the dilution of other operating costs.** Given the essentially fixed component of this item we estimate a certain capacity for dilution with the expected growth in revenue. By way of reference, in 1H21 other operating costs amounted to 10.4% of revenue (a similar figure to that included in our estimates for the whole of 2021e; Chart 26).

Chart 26. Personnel expenses and other operating costs (% of revenues 2017-2023e)

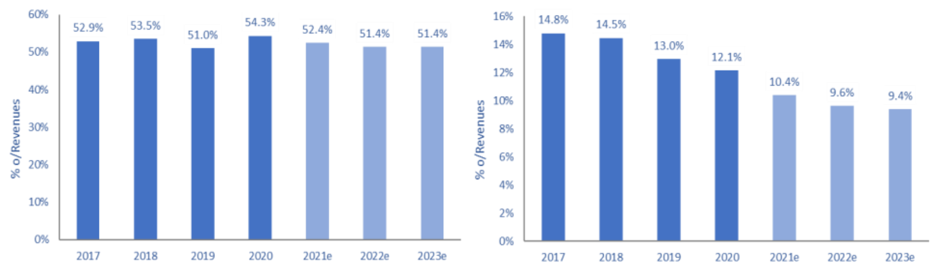
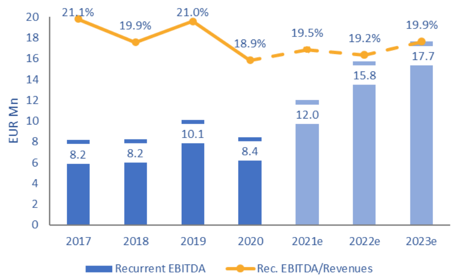


Chart 27. EBITDA and EBITDA Mg. (2017-2023e)



Accordingly, the significant revenue growth estimated for 2021e (+38%) should translate into a very similar one in terms of Recurrent EBITDA. In our financial projections this is shown as 2021e Rec. EBITDA of EUR 12Mn (EBITDA margin of 19.5%; Chart 27). In 2023e, when the integration of the companies acquired in 2021 should have been concluded, we estimate a slight improvement in margins to 20% and Rec. EBITDA of c. EUR 18Mn (+27.9% CAGR 2020-2023e; fully in line with revenue growth).

Chart 28. Net Profit vs. ROE (2019-2023e)

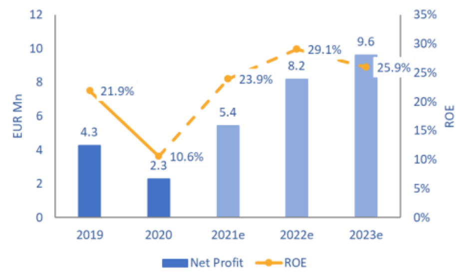


Chart 29. P/E (2021e-2023e)

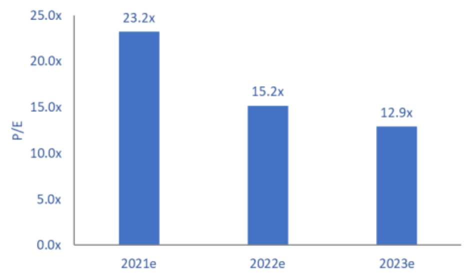


Chart 30. Recurring EBITDA and Recurring Free Cash Flow (2017-2023e)

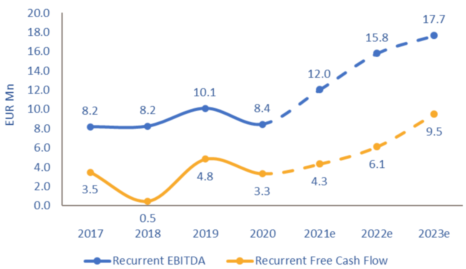


Chart 31. Free Cash Flow and Rec. FCF yield (2020-2023e)

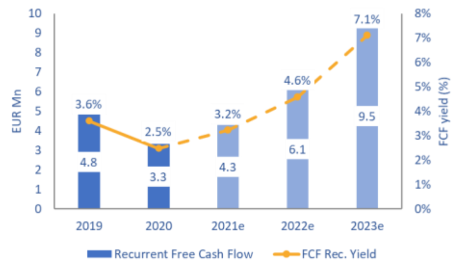
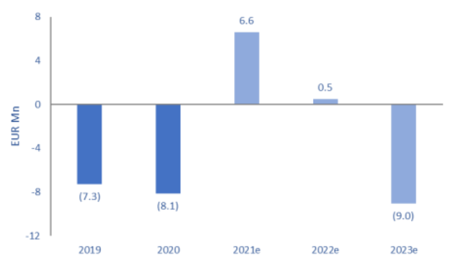


Chart 32. Net Debt (2019-2023e)



This should enable net profit to "take off" (+61.7% CAGR 2020-2023e). ROE 26%

Below the EBITDA line, the main items included in our estimates for 2021e-2023e are:

- **Depreciation of EUR 1.1Mn/year (c. 9% of net assets),** mainly associated with the depreciation of the refurbishments carried out in LLYC's offices.
- **Impact of IFRS 16 (EUR 1.5Mn/year).** LLYC rents all its offices. As we do not expect a significant opening of new offices in 2021e-2023e we maintain a similar figure to that for 2019 (EUR 1.5Mn).
- **A tax rate of c. 30%.** Although > 50% of LLYC's revenue is generated in Spain and Portugal (with tax rates of 25% and 21%, respectively), its presence in Latam and the US (with tax rates of c. 30%) leads us to put LLYC's average tax rate at 30%.
- **Minority shareholders.** In the 3 acquisitions made in 2021 LLYC holds 70-80% of capital. We estimate that the acquired companies will generate c. 15% of consolidated NP, that leads us to assume that LLYC will be able to retain c. 95% of post-tax profits.

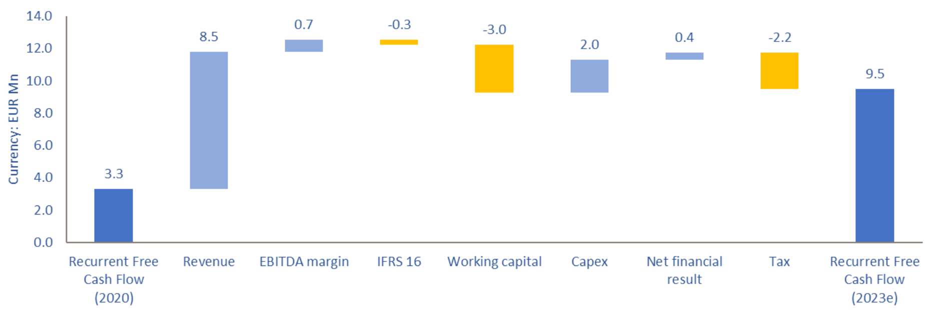
In this context, estimated EBITDA growth will result in net profit taking off from 2022e to levels of EUR 8Mn (vs EUR 4Mn in 2019; due to the perimeter effect of the companies acquired in 2021).

Free Cash Flow: the strong EBITDA growth will accelerate cash generation (although in 2021e this will be fully affected by M&A) …

In terms of Rec FCF, our estimates hinge on: (i) a small capex impact (given the asset-light nature of the business; c. EUR 1Mn a year) and (ii) a certain normalisation of working capital/sales (11.5% in 2023e vs 10.4% in 2020; although still below the 2019 level of 14%).

The scenario we envisage should allow LLYC to generate recurrent FCF of EUR 4.3Mn in 2021e that, due to the momentum of EBITDA growth, will increase to EUR 9.5Mn in 2023e (2023e FCF yield c. 7%; Chart 31). However, in 2021e FCF will continued to be affected by M&A (see cash flow analysis on page 23) with an impact of EUR 16.4Mn as a result of the acquisition of Apache (EUR 4Mn), China (EUR 5.2Mn) and Beso (EUR 7.2Mn).

Chart 33. Analysis of the cumulative variation of Recurrent Free Cash Flow (2020-2023e)

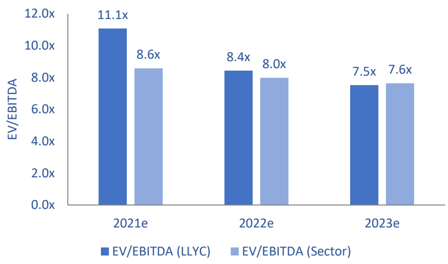


… and allow a return to Net Cash levels in 2022e

At the 1H21 close, LLYC's net debt was EUR 2.6Mn and we estimate this will increase in 2021e to EUR 6.6Mn (2021e ND/Rec. EBITDA: 0.5x) mainly due to the acquisition of China (July 2021; EUR 5Mn) and Beso (September 2021; EUR 12.7Mn).

Despite the significant investment effort made in 2021e to execute the 3 acquisitions (total amount c. EUR 16.4Mn), we estimate that the business' high capacity for cash generation will allow LLYC to return to a Net Cash position in 2022e. This paves the way for continued growth via M&A, an additional accelerator of growth (based on 2022e EBITDA and a theoretical limit to ND/EBITDA of 2x, LLYC could invest an additional c. EUR 30Mn in non-organic growth).

Chart 34. EV/EBITDA (LLYC vs sector)



In conclusion: a combination of defensiveness and growth (capacity for annual organic revenue growth of 8-10%, maintaining high margins)

Today LLYC is a company with good growth prospects and a very solid balance sheet structure and although 2021e will represent a genuine turning point, this will not be fully visible until 2022e (when the acquisitions made in 2021 will have been fully integrated in the P&L).

Today, our central scenario is for the consolidation of c. EUR 18Mn of Rec. EBITDA in 2021e-2023e (EBITDA margin c. 20%), with turnover of c. EUR 90Mn (+25.7% CAGR; with c. 55% of the growth explained by the M&A already executed) and with the capacity to return to Net Cash levels in 2022e. Specifically, we highlight:

- **A highly diversified business model with a certain defensive character…** LLYC has the ability to provide services during all stages of the cycle that allows it to outperform the macro during adverse stages of the cycle (what happened in 2020 being an example).

- **… not exempt from growth.** For several reasons: (i) a good competitive position (Top 1 in Spain, Top 50 in the world), (ii) a large portfolio of services that makes cross-selling feasible (not only between geographies but also between business lines), (iii) a focus on the digital business (the sector's main growth driver) and (iv) access to increasingly larger clients and higher budget projects.

  In addition, there is the opportunity for growth opening up in the US (the principal communication consultancy market) where at present LLYC only generates c. 4% of its revenue and the possibility of exploiting the US-Latam connection (Latam exposure of US companies) from LLYC's leadership position in communication. In other words, intuitively LYCC should continue to grow at annual rates of close to 10%.

- **With the means to maintain high margins (EBITDA margin of c. 20%).** The company's good competitive position (Top 1 in Spain) means it can pass on increases in costs to its prices. That should allow LLYC to go through an inflationary period like the current one without stressing its margins.

- **High capacity to convert EBITDA into cash (FCF yield 2023e c. 7%).** LLYC's business model is not very intensive in capital and WC. This results in a high capacity to convert EBITDA in cash (on average, we estimate the conversion of c. 45% of the EBITDA generated in 2021e-2023e in Recurrent FCF).

- **And all underpinned by a very healthy balance sheet structure (net cash position from 2022e).** A favourable balance sheet structure that offers margin to continue to seek non-organic growth opportunities (in a very fragmented industry tending towards consolidation).

In conclusion, LLYC can be seen as a combination of defensiveness not exempt from growth. This grants its P&L a lower risk profile vs the large listed media and advertising groups (inevitably cyclical) and the capacity to generate organic growth of c. 8-10% per year (vs c. 3% for large sector players).

Valuation inputs

Inputs for the DCF Valuation Approach

	2021e	2022e	2023e	Terminal Value [1]
Free Cash Flow "To the Firm"	**(11.8)**	**6.5**	**9.7**	**178.8**

			Best Case	Worst Case
Market Cap	**133.9**	At the date of this report		
Net financial debt	**2.6**	Debt net of Cash (6m Results 2021)		
Cost of Debt	4.0%	Net debt cost	3.8%	4.3%
Tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**3.2%**	**Kd = Cost of Net Debt * (1-T)**	**3.0%**	**3.4%**
Risk free rate (rf)	0.5%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	8.0%	R (own estimate)	7.5%	8.5%
Beta (B)	1.0	B (own estimate)	0.9	1.1
Cost of Equity	**8.5%**	**Ke = Rf + (R * B)**	**7.2%**	**9.8%**
Equity / (Equity + Net Debt)	98.1%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	1.9%	D	=	=
WACC	**8.4%**	**WACC = Kd * D + Ke * E**	**7.1%**	**9.7%**
G "Fair"	**2.0%**		**2.0%**	**1.5%**

(1) The terminal value reflects the NAV of FCF beyond the period estimated with the WACC and G of the central scenario.

Inputs for the Multiples Valuation Approach

Company	Ticker Factset	Mkt. Cap	P/E 21e	EPS 21e-23e	EV/EBITDA 21e	EBITDA 21e-23e	EV/Sales 21e	Revenues 21e-23e	EBITDA/Sales 21e	FCF Yield 21e	FCF 21e-23e
WPP-GB	WPP-GB	15,098.3	14.5	13.1%	8.9	7.1%	1.6	3.3%	18.0%	4.0%	49.4%
Publicis	PUB-FR	14,627.0	11.8	4.5%	7.6	4.0%	1.7	3.4%	22.8%	6.5%	26.5%
Omnicom	OMC-US	13,434.7	11.5	5.2%	7.6	2.1%	1.3	2.1%	16.6%	11.0%	3.5%
Interpublic	IPG-US	12,753.9	14.1	3.0%	10.1	3.5%	1.9	4.0%	18.9%	7.5%	6.2%
Media			**13.0**	**6.5%**	**8.6**	**4.2%**	**1.6**	**3.2%**	**19.1%**	**7.3%**	**21.4%**
FTI Consulting	FCN-US	4,554.2	22.4	12.3%	15.1	13.0%	2.0	5.6%	13.0%	4.4%	18.4%
Bluefocus Inteligent	300058-CN	3,835.5	32.8	19.4%	21.2	10.2%	0.5	24.0%	2.4%	12.7%	-43.5%
Next Fifteen	NFC-GB	1,356.5	23.2	8.8%	14.1	10.6%	3.4	7.5%	23.9%	4.3%	12.1%
Sec Newgate	SECN-GB	25.5	15.6	11.5%	4.6	-0.4%	0.6	2.8%	13.9%	n.a.	n.a.
Hopscotch Group	HOP-FR	23.1	18.2	75.4%	3.5	25.6%	0.2	8.0%	5.4%	n.a.	72.0%
Communication Agencies			**22.4**	**25.5%**	**11.7**	**11.8%**	**1.3**	**9.6%**	**11.7%**	**7.1%**	**14.8%**
LLYC	**LLYC-ES**	**133.9**	**24.7**	**33.1%**	**11.1**	**24.7%**	**2.2**	**20.0%**	**18.4%**	**3.2%**	**65.7%**

Free Cash Flow sensitivity analysis (2022e)

A) Rec. EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 22e	EBITDA 22e	EV/EBITDA 22e
Max	20.2%	16.6	8.0x
Central	19.2%	15.8	8.4x
Min	18.2%	14.9	8.9x

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

Rec. FCF EUR Mn	CAPEX/Sales 22e		
EBITDA 22e	1.3%	1.4%	1.5%
16.6	7.0	6.9	6.9
15.8	6.2	6.1	6.0
14.9	5.4	5.3	5.2

Scenario	Rec. FCF/Yield 22e		
Max	5.3%	5.2%	5.1%
Central	4.6%	4.6%	4.5%
Min	4.0%	4.0%	3.9%

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow.

1. **Competition and commercial risk:** High margin businesses such as LLYC's (2021e recurrent EBITDA margin of c. 20%) necessarily attract new market players, increasing competition and the commercial risk of a loss of customers and market share. There is also a possible impact on margins from price wars to retain customers. A deceleration of organic revenue growth to 5% in 2022e (vs an estimated 9% in organic terms) would imply a reduction in EBITDA of -8% to EUR 14.5Mn (vs EUR 15.8Mn in our central scenario) and of -7% in terms of recurrent FCF.

2. **Increased weighting of third party services in the revenue mix.** Over 2017-2020 LLYC increased the weighting of re-invoicings of services provided by third parties in its revenue mix to c. 15% (from 13% in 2017). This resulted in a c. 3.5p.p. narrowing of the gross margin (85.3% in 2020 vs 88.7% in 2017). The increase in the weighting of services provided by third parties in the revenue mix may result in a loss of profitability in terms of gross margin.

3. **Personnel expenses growing more than expected.** Our estimates envisage the weighting of personnel expenses over revenue returning to 2019 levels in 2022e (c. 51% vs c. 54% in 2020). Maintaining personnel expenses of c. 53% of revenue in 2022e (vs 51% estimated; in line with 2019) would reduce the 2022e EBITDA margin to 17.5% (vs 19.2% estimated). This would imply a decrease in estimated 2022e EBITDA of c. 10%.

4. **Exposure to emerging markets (Latam):** LLYC's presence in Latam (44% of revenue in 2020) in countries such as Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Panama, Peru, and the Dominican Republic represents a risk in itself, to the extent that there is an over exposure to a region classified as emerging. However, a mitigating factor is that the weighting of emerging countries in the revenue mix has been declining, from levels of c. 60% in 2016 to 44% at present.

5. **Forex risk:** LLYC is exposed to forex risk both via international transactions and the consolidation of subsidiaries whose reporting currency is not the Euro. With no hedges that mitigate the impact on the bottom of the P&L (impact of forex differences in 2020: c. 7.5% of EBIT). An increase in exposure to non-Eurozone countries (48% of 2020 revenue) will result in higher forex risk (currently concentrated in currencies such as the Mexican peso, US dollar, Brazilian real, Peruvian peso and Colombian peso; c. 60% of LLYC's total exposure to non-Euro currencies). However, an increased presence in the US (currently c. 4% of revenue and one of the company's main growth levers) will increase the weighting of strong currencies (such as the USD) in the mix.

6. **Lack of M&A discipline.** Growing corporate activity, together with the interest in small players with growth capacity (especially those with a tech focus) and the specific dynamics of the Media/Communication sector, could give rise to increased competition in acquisition processes with the risk of value destruction and cost overruns in acquisitions (with a possible impact on margins). Despite the circumstantial increase in debt due to the acquisitions made in 2021 (2021e ND: EUR 6.6Mn), LLYC's capital structure is under little pressure (2021e ND/EBITDA < 1x), providing margin to continue to look for alternatives for growth via M&A that, in itself, implies a risk.

   However, LLYC has lengthy experience of M&A (over 10 acquisitions in the last 10 years; in 2021 alone three new businesses were incorporated) without surprises in margins (EBITDA margin stable at c. 20% in 2017-2020) and has always tried to avoid acquisitions at ratios that point to value destruction.

7. **Technological disruption.** Communication is undergoing a period of constant change as a result of new technologies. Currently LLYC (and the companies of its sector) act as a bridge between companies and those receiving the information. From a very theoretical viewpoint (and in the very long term) technology could facilitate the disintermediation of the companies when communicating with those parties that require the information (investors, clients, suppliers, employees, etc.). This could end up representing a threat for the traditional activity of communication consultancies as we know it today.

Corporate Governance

Some 80% of capital is held by the management team that is fully aligned with the interests of minority shareholders

Table 3: Board of Directors

Name	Category	Date	% Stake[1]
José Antonio Llorente	Executive	2021	39.7%
Alejandro Romero	Executive	2021	14.9%
Luisa García	Executive	2021	6.1%
Adolfo Corujo	Executive	2021	1.8%
Francisco Javier Sánchez	Executive	2021	1.0%
Mónica Vidal	Propietary	2021	0.0%
Elena González-Blanco	Independent	2021	0.0%
Ana Busto	Independent	2021	0.0%
Barrie Berg	Independent	2021	0.0%
Juan Pablo Ocaña	NonBoard Member Secretary	2021	0.0%
Total			**63.5%**

Note: Including direct and indirect shareholding.

LLYC's board of directors was renewed as a result of the company's market listing in July 2021. At present, the board is comprised of 9 members: 5 executive directors (55.6%), 1 proprietary director (11.1%) and 3 independent directors (33.3%). Capital is concentrated in the hands of the management team (78.9%) with José Antonio Llorente (the founder of LLYC and chairman of the company and of the board) holding a 15.6% direct shareholding and a 24.1% indirect one through LLYC Partners, the Company that encompasses the stake held in LLYC by its professional partners.

A new board of directors … In June 2021 LLYC renewed its board, increasing the number of board members from 5 in 2020 to 9 at present (Table 3). LLYC's board changed in two ways: (i) the weighting of independent directors was increased (33.3% in 2021) and (ii) it became more balanced in terms of gender (now 55.6% of board members are women vs 25% in 2020 and a Spanish average of c. 26%).

Table 4: Corporate Governance KPIs

KPI	2019	2020	2021
% of independent directors	0.0%	0.0%	33.3%
% of proprietary directors	50.0%	50.0%	11.1%
% of executive directors	50.0%	50.0%	55.6%
% of women on the board of directors	0.0%	25.0%	55.6%
Remuneration of the board/personnel costs (%)	3.8%	3.8%	n.a

… and a management team fully aligned with the interests of minority shareholders. Board members owning capital of the company include José Antonio Llorente (chairman of the company and of the board), Alejandro Romero (CEO Americas) Luisa García (CEO Europe) and Adolfo Corujo (chief strategy officer). This helps to align the interests of management with those of minority shareholders.

Remuneration of the board of directors has remained stable at below 4% of total personnel costs. In 2020 the remuneration of the board of directors (comprised of 5 members vs 9 at present) amounted to EUR 0.9Mn (-2% vs 2019; c. 3.8% of personnel costs). This amount remained stable over 2017-2019 (EUR 0.9Mn; c. 3.8% of personnel costs). After the increase in the number of board members in 2021 we estimate that the remuneration of the board does not exceed 4% of personnel costs.

The management team has significant experience in communication, public affairs and marketing. And lengthy service in the company (25 years in the case of the chairman and over 15 years in the case of the principal executives).

Governance and sustainability. In addition to publishing a non-financial information report, LLYC has specific policies in respect of: (i) the environment (energy saving targets), (ii) responsible procurement (including environmental criteria in the selection of suppliers) and (iii) fighting corruption (crime prevention policy, the fight against corruption and money-laundering). In addition, LLYC has an equal opportunities plan (although only applicable to the Spanish subsidiary and at the date of this report not yet approved by the board of directors).

We rule out a dividend payment (at least in 2022-2023e). Although in 2017-2020 LLYC maintained a dividend of EUR 0.6Mn/year (Pay-Out of 26.4% in 2020). Given the company's size and momentum, the main focus of LLYC is the consolidation of the business' organic growth. The focus of attention, then, in the short and mid-term is to accelerate and make profitable growth in the business (there is no specific dividend distribution policy). Accordingly, we estimate a pay-out of 0% for at least the next two years (2022e-2023e).

Appendix 1. Financial Projections(1)

Balance Sheet (EUR Mn)	2016	2017	2018	2019	2020	2021e	2022e	2023e
Intangible assets[1]	2.2	1.8	1.8	10.5	10.2	10.2	10.2	10.2
Fixed assets	3.5	3.6	3.3	1.4	2.4	2.5	2.5	2.6
Other Non Current Assets	1.5	2.1	1.8	2.0	2.0	18.4	18.4	18.4
Financial Investments	0.0	-	-	-	-	-	-	-
Goodwill & Other Intangilbles	3.0	2.8	3.3	2.9	3.4	3.4	3.4	3.4
Current assets	11.5	11.6	14.4	16.4	13.3	18.4	24.7	26.7
Total assets	**21.7**	**22.0**	**24.6**	**33.2**	**31.2**	**52.8**	**59.1**	**61.1**
Equity	16.0	15.7	16.8	22.0	20.9	24.4	32.5	42.1
Minority Interests	3.1	3.1	3.7	3.5	3.4	3.9	4.5	5.2
Provisions & Other L/T Liabilities	0.6	0.6	0.6	0.0	0.1	0.1	0.1	0.1
Other Non Current Liabilities[1]	-	-	-	5.3	6.2	6.2	6.2	6.2
Net financial debt	(4.6)	(5.7)	(4.6)	(7.3)	(8.1)	6.6	0.5	(9.0)
Current Liabilities	6.7	8.3	8.1	9.6	8.7	11.7	15.3	16.5
Equity & Total Liabilities	**21.7**	**22.0**	**24.6**	**33.2**	**31.2**	**52.8**	**59.1**	**61.1**

									CAGR	
P&L (EUR Mn)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**16-20**	**20-23e**
Total Revenues	**34.4**	**38.7**	**41.5**	**48.2**	**44.7**	**61.7**	**82.3**	**88.9**	***6.8%***	***25.7%***
Total Revenues growth	*n.a.*	*12.5%*	*7.2%*	*16.0%*	*-7.2%*	*38.0%*	*33.3%*	*8.0%*		
COGS[1]	-	(4.4)	(5.1)	(7.2)	(6.6)	(10.9)	(16.3)	(17.2)		
Gross Margin	**34.4**	**34.4**	**36.5**	**40.9**	**38.1**	**50.8**	**66.0**	**71.7**	***2.6%***	***23.4%***
Gross Margin/Revenues	*100.0%*	*88.7%*	*87.8%*	*85.0%*	*85.3%*	*82.3%*	*80.2%*	*80.7%*		
Personnel Expenses	(19.2)	(20.5)	(22.2)	(24.6)	(24.3)	(32.3)	(42.3)	(45.7)		
Other Operating Expenses	(9.7)	(5.7)	(6.0)	(6.2)	(5.4)	(6.4)	(7.9)	(8.3)		
Recurrent EBITDA	**5.6**	**8.2**	**8.2**	**10.1**	**8.4**	**12.0**	**15.8**	**17.7**	***10.9%***	***27.9%***
Recurrent EBITDA growth	*n.a.*	*46.5%*	*0.9%*	*22.6%*	*-16.4%*	*42.2%*	*31.3%*	*12.0%*		
Rec. EBITDA/Revenues	*16.2%*	*21.1%*	*19.9%*	*21.0%*	*18.9%*	*19.5%*	*19.2%*	*19.9%*		
Restructuring Expense & Other non-rec.	(0.3)	(0.2)	(0.5)	(0.0)	(0.3)	(0.6)	-	-		
EBITDA	**5.2**	**8.0**	**7.8**	**10.1**	**8.1**	**11.4**	**15.8**	**17.7**	***11.6%***	***29.5%***
Depreciation & Provisions	(1.4)	(1.5)	(1.7)	(0.8)	(1.1)	(1.1)	(1.1)	(1.1)		
Capitalized Expense	-	-	-	-	-	-	-	-		
Rentals (IFRS 16 impact)[1]	-	(1.3)	(1.4)	(1.5)	(1.2)	(1.5)	(1.5)	(1.5)		
EBIT	**3.8**	**5.1**	**4.7**	**7.8**	**5.8**	**8.7**	**13.1**	**15.0**	***11.1%***	***37.2%***
EBIT growth	*n.a.*	*34.7%*	*-9.2%*	*66.5%*	*-25.3%*	*49.9%*	*50.4%*	*14.5%*		
EBIT/Revenues	*11.1%*	*13.3%*	*11.3%*	*16.2%*	*13.0%*	*14.1%*	*15.9%*	*16.9%*		
Impact of Goodwill & Others	-	-	-	-	-	-	-	-		
Net Financial Result	0.1	(0.8)	(0.5)	(0.5)	(0.7)	(0.4)	(0.5)	(0.2)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**3.9**	**4.4**	**4.2**	**7.3**	**5.1**	**8.3**	**12.6**	**14.8**	***7.0%***	***42.2%***
Ordinary Profit Growth	*n.a.*	*11.5%*	*-3.7%*	*73.1%*	*-29.6%*	*62.4%*	*50.6%*	*17.6%*		
Extraordinary Results	-	-	-	-	-	-	-	-		
Profit Before Tax	**3.9**	**4.4**	**4.2**	**7.3**	**5.1**	**8.3**	**12.6**	**14.8**	***7.0%***	***42.2%***
Tax Expense	(1.7)	(2.3)	(1.6)	(2.2)	(2.2)	(2.5)	(3.8)	(4.4)		
Effective Tax Rate	*42.7%*	*53.4%*	*37.3%*	*29.9%*	*42.5%*	*30.0%*	*30.0%*	*30.0%*		
Minority Interests	(0.4)	(0.6)	(0.9)	(0.9)	(0.7)	(0.4)	(0.6)	(0.7)		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**1.8**	**1.5**	**1.8**	**4.3**	**2.3**	**5.4**	**8.2**	**9.6**	***5.3%***	***61.7%***
Net Profit growth	*n.a.*	*-19.5%*	*20.0%*	*138.7%*	*-46.6%*	*138.8%*	*50.6%*	*17.6%*		
Ordinary Net Profit	**2.6**	**2.7**	**2.4**	**4.3**	**3.1**	**5.9**	**8.2**	**9.6**	***4.9%***	***45.3%***
Ordinary Net Profit growth	*n.a.*	*3.1%*	*-9.1%*	*76.8%*	*-26.9%*	*87.8%*	*39.0%*	*17.6%*		

									CAGR	
Cash Flow (EUR Mn)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021e**	**2022e**	**2023e**	**16-20**	**20-23e**
Recurrent EBITDA						**12.0**	**15.8**	**17.7**	***10.9%***	***27.9%***
Rentals (IFRS 16 impact)						(1.5)	(1.5)	(1.5)		
Working Capital Increase						(2.1)	(2.6)	(0.8)		
Recurrent Operating Cash Flow						**8.4**	**11.6**	**15.3**	***87.8%***	***17.8%***
CAPEX						(1.2)	(1.2)	(1.2)		
Net Financial Result affecting the Cash Flow						(0.4)	(0.5)	(0.2)		
Tax Expense						(2.5)	(3.8)	(4.4)		
Recurrent Free Cash Flow						**4.3**	**6.1**	**9.5**	***44.9%***	***42.0%***
Restructuring Expense & Other non-rec.						(0.6)	-	-		
- Acquisitions / + Divestures of assets						(16.4)	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**(12.7)**	**6.1**	**9.5**	***2.6%***	***n.a.***
Capital Increase						(2.0)	-	-		
Dividends						-	-	-		
Net Debt Variation						**14.7**	**(6.1)**	**(9.5)**		

Note 1: Historical data adjusted for: (i) gross margin (not available for 2016) and (ii) IFRS 16 adjustments from FY17 in P&L (not adjusted in balance sheet: other non current liabalities).

Appendix 2. Free Cash Flow[1]

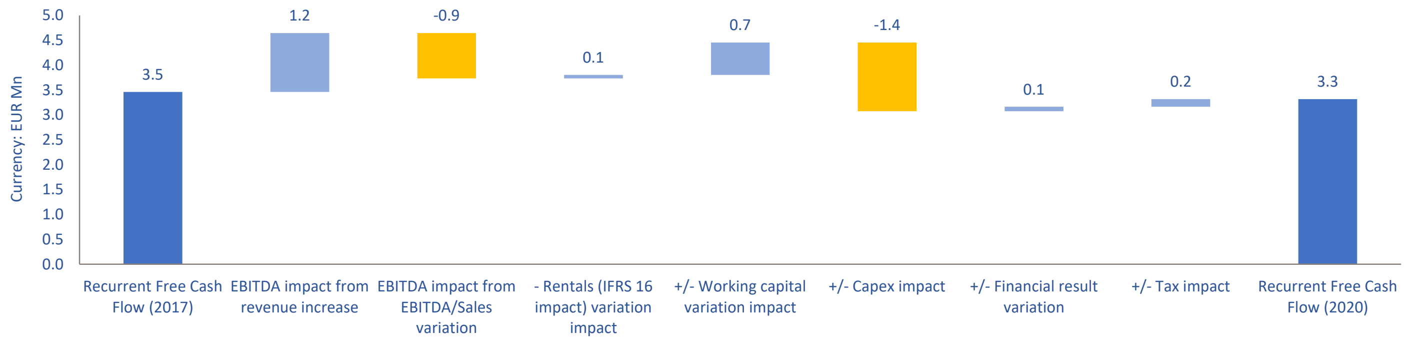
A) Cash Flow Analysis (EUR Mn)	2017	2018	2019	2020	2021e	2022e	2023e	CAGR 17-20	CAGR 20-23e
Recurrent EBITDA	**8.2**	**8.2**	**10.1**	**8.4**	**12.0**	**15.8**	**17.7**	*1.1%*	*27.9%*
Recurrent EBITDA growth	*46.5%*	*0.9%*	*22.6%*	*-16.4%*	*42.2%*	*31.3%*	*12.0%*		
Rec. EBITDA/Revenues	*21.1%*	*19.9%*	*21.0%*	*18.9%*	*19.5%*	*19.2%*	*19.9%*		
- Rentals (IFRS 16 impact)	(1.3)	(1.4)	(1.5)	(1.2)	(1.5)	(1.5)	(1.5)		
+/- Working Capital increase	1.5	(2.9)	(0.6)	2.2	(2.1)	(2.6)	(0.8)		
= Recurrent Operating Cash Flow	**8.4**	**3.9**	**8.0**	**9.4**	**8.4**	**11.6**	**15.3**	*3.8%*	*17.8%*
Rec. Operating Cash Flow growth	*n.a.*	*-53.7%*	*106.6%*	*16.9%*	*-10.2%*	*37.7%*	*32.2%*		
Rec. Operating Cash Flow / Sales	*21.6%*	*9.4%*	*16.6%*	*21.0%*	*13.6%*	*14.1%*	*17.2%*		
- CAPEX	(1.8)	(1.4)	(0.5)	(3.2)	(1.2)	(1.2)	(1.2)		
- Net Financial Result affecting Cash Flow	(0.8)	(0.5)	(0.5)	(0.7)	(0.4)	(0.5)	(0.2)		
- Taxes	(2.3)	(1.6)	(2.2)	(2.2)	(2.5)	(3.8)	(4.4)		
= Recurrent Free Cash Flow	**3.5**	**0.5**	**4.8**	**3.3**	**4.3**	**6.1**	**9.5**	*-1.4%*	*42.0%*
Rec. Free Cash Flow growth	*359.9%*	*-86.6%*	*938.8%*	*-31.3%*	*29.8%*	*42.2%*	*55.2%*		
Rec. Free Cash Flow / Revenues	*8.9%*	*1.1%*	*10.0%*	*7.4%*	*7.0%*	*7.4%*	*10.7%*		
- Restructuring expenses & others	(0.2)	(0.5)	(0.0)	(0.3)	(0.6)	-	-		
- Acquisitions / + Divestments	(0.6)	0.4	-	(2.2)	(16.4)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow	**2.6**	**0.4**	**4.8**	**0.8**	**(12.7)**	**6.1**	**9.5**	*-32.0%*	*n.a.*
Free Cash Flow growth	*251.5%*	*-84.6%*	*n.a.*	*-82.6%*	*n.a.*	*148.2%*	*55.2%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*2.6%*	*0.3%*	*3.6%*	*2.5%*	*3.2%*	*4.6%*	*7.1%*		
Free Cash Flow Yield (s/Mkt Cap)	*2.0%*	*0.3%*	*3.6%*	*0.6%*	*n.a.*	*4.6%*	*7.1%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2017	2018	2019	2020	2021e	2022e	2023e
Recurrent FCF(FY - 1)	**0.8**	**3.5**	**0.5**	**4.8**	**3.3**	**4.3**	**6.1**
EBITDA impact from revenue increase	0.7	0.6	1.3	(0.7)	3.2	4.0	1.3
EBITDA impact from EBITDA/Sales variation	1.9	(0.5)	0.5	(0.9)	0.4	(0.2)	0.6
= Recurrent EBITDA variation	**2.6**	**0.1**	**1.9**	**(1.7)**	**3.6**	**3.8**	**1.9**
- Rentals (IFRS 16 impact) variation impact	(1.3)	(0.1)	(0.1)	0.3	(0.3)	-	-
+/- Working capital variation impact	6.3	(4.5)	2.4	2.7	(4.2)	(0.6)	1.8
= Recurrent Operating Cash Flow variation	**7.6**	**(4.5)**	**4.1**	**1.4**	**(1.0)**	**3.2**	**3.7**
+/- CAPEX impact	(1.8)	0.4	0.9	(2.7)	2.0	0.1	(0.0)
+/- Financial result variation	(0.8)	0.3	(0.0)	(0.2)	0.3	(0.2)	0.3
+/- Tax impact	(2.3)	0.8	(0.6)	(0.0)	(0.3)	(1.3)	(0.7)
= Recurrent Free Cash Flow variation	**2.7**	**(3.0)**	**4.4**	**(1.5)**	**1.0**	**1.8**	**3.4**
Recurrent Free Cash Flow	**3.5**	**0.5**	**4.8**	**3.3**	**4.3**	**6.1**	**9.5**

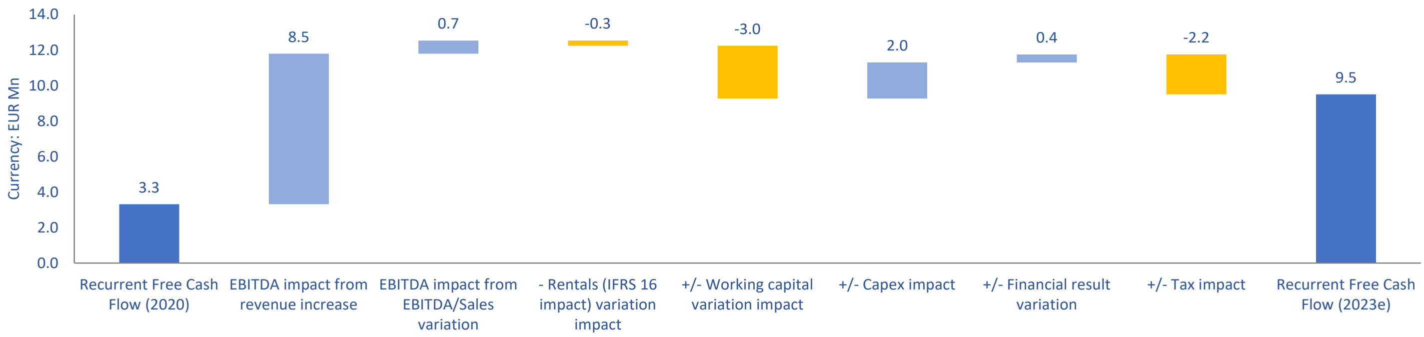
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2017	2018	2019	2020	2021e	2022e	2023e	CAGR 17-20	CAGR 20-23e
EBIT	**5.1**	**4.7**	**7.8**	**5.8**	**8.7**	**13.1**	**15.0**	*4.2%*	*37.2%*
** Theoretical Tax rate*	*30.0%*	*30.0%*	*29.9%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*		
= Taxes (pre- Net Financial Result)	(1.5)	(1.4)	(2.3)	(1.7)	(2.6)	(3.9)	(4.5)		
Recurrent EBITDA	**8.2**	**8.2**	**10.1**	**8.4**	**12.0**	**15.8**	**17.7**	*1.1%*	*27.9%*
- Rentals (IFRS 16 impact)	(1.3)	(1.4)	(1.5)	(1.2)	(1.5)	(1.5)	(1.5)		
+/- Working Capital increase	1.5	(2.9)	(0.6)	2.2	(2.1)	(2.6)	(0.8)		
= Recurrent Operating Cash Flow	**8.4**	**3.9**	**8.0**	**9.4**	**8.4**	**11.6**	**15.3**	*3.8%*	*17.8%*
- CAPEX	(1.8)	(1.4)	(0.5)	(3.2)	(1.2)	(1.2)	(1.2)		
- Taxes (pre- Financial Result)	(1.5)	(1.4)	(2.3)	(1.7)	(2.6)	(3.9)	(4.5)		
= Recurrent Free Cash Flow (To the Firm)	**5.0**	**1.1**	**5.2**	**4.4**	**4.6**	**6.5**	**9.7**	*-4.1%*	*29.6%*
Rec. Free Cash Flow (To the Firm) growth	*n.a.*	*-78.2%*	*372.3%*	*-14.2%*	*2.9%*	*42.4%*	*48.6%*		
Rec. Free Cash Flow (To the Firm) / Revenues	13.0%	2.6%	10.7%	9.9%	7.4%	7.9%	10.9%		
- Acquisitions / + Divestments	(0.6)	0.4	-	(2.2)	(16.4)	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow	-	-	-	-	-	-	-		
= Free Cash Flow "To the Firm"	**4.4**	**1.5**	**5.2**	**2.3**	**(11.8)**	**6.5**	**9.7**	*-20.1%*	*62.4%*
Free Cash Flow (To the Firm) growth	*n.a.*	*-66.0%*	*243.2%*	*-56.4%*	*-623.9%*	*155.0%*	*48.6%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*3.8%*	*0.8%*	*3.9%*	*3.3%*	*3.4%*	*4.9%*	*7.3%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*3.3%*	*1.1%*	*3.9%*	*1.7%*	*n.a.*	*4.9%*	*7.3%*		

Note 1: Historical data adjusted for: (i) gross margin (not available for 2016) and (ii) IFRS 16 adjustments from FY17 in P&L (not adjusted in balance sheet: other non current liabalities).

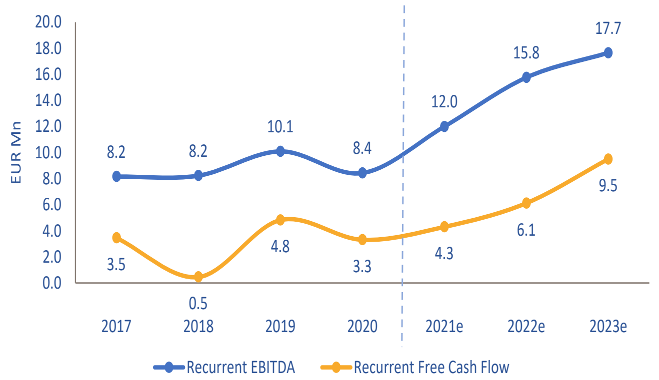
Recurrent Free Cash Flow accumulated variation analysis (2017 - 2020)



Recurrent Free Cash Flow accumulated variation analysis (2020 - 2023e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	133.9	
+ Minority Interests	0.2	6m Results 2021
+ Provisions & Other L/T Liabilities	0.0	6m Results 2021
+ Net financial debt	2.6	6m Results 2021
- Financial Investments	-	6m Results 2021
+/- Others[1]	(3.9)	6m Results 2021
Enterprise Value (EV)	**132.9**	

(1) Related to the market value of treasury stock.

Appendix 4. Main peers 2021e

		Media					Communication Agencies						
	EUR Mn	**WPP-GB**	**Publicis**	**Omnicom**	**Interpublic**	**Average**	**FTI Consulting**	**Bluefocus Inteligent**	**Next Fifteen**	**Sec Newgate**	**Hopscotch Group**	**Average**	**LLYC**
Market data	**Ticker (Factset)**	WPP-GB	PUB-FR	OMC-US	IPG-US		FCN-US	300058-CN	NFC-GB	SECN-GB	HOP-FR		LLYC-ES
	Country	UK	France	USA	USA		USA	China	UK	Italy	France		Spain
	Market cap	15,098.3	14,627.0	13,434.7	12,753.9		4,554.2	3,835.5	1,356.5	25.5	23.1		133.9
	Enterprise value (EV)	19,682.6	17,944.8	15,726.0	15,306.8		4,768.1	3,464.5	1,394.1	46.0	27.6		132.9
Basic financial information	**Total Revenues**	12,228.3	10,336.8	12,475.4	8,005.6		2,440.4	6,735.1	413.4	72.0	145.9		61.7
	Total Revenues growth	*-13.6%*	*-4.2%*	*7.3%*	*0.0%*	*-2.6%*	*12.3%*	*20.0%*	*8.4%*	*5.2%*	*19.6%*	*13.1%*	*38.0%*
	2y CAGR (2021e - 2023e)	*3.3%*	*3.4%*	*2.1%*	*4.0%*	*3.2%*	*5.6%*	*24.0%*	*7.5%*	*2.8%*	*8.0%*	*9.6%*	*20.0%*
	EBITDA	2,202.0	2,358.5	2,065.6	1,515.4		316.2	163.5	99.0	10.0	7.9		11.4
	EBITDA growth	*3.3%*	*1.1%*	*20.8%*	*32.7%*	*14.5%*	*7.6%*	*14.7%*	*60.0%*	*38.0%*	*216.4%*	*67.4%*	*39.6%*
	2y CAGR (2021e - 2023e)	*7.1%*	*4.0%*	*2.1%*	*3.5%*	*4.2%*	*13.0%*	*10.2%*	*10.6%*	*-0.4%*	*25.6%*	*11.8%*	*24.7%*
	EBITDA/Revenues	*18.0%*	*22.8%*	*16.6%*	*18.9%*	*19.1%*	*13.0%*	*2.4%*	*23.9%*	*13.9%*	*5.4%*	*11.7%*	*18.4%*
	EBIT	1,769.8	1,687.8	1,881.1	1,275.6		277.0	134.4	81.4	6.2	2.9		8.7
	EBIT growth	*25.2%*	*21.1%*	*24.3%*	*44.1%*	*28.7%*	*8.3%*	*24.3%*	*182.1%*	*75.5%*	*240.9%*	*106.2%*	*49.9%*
	2y CAGR (2021e - 2023e)	*7.4%*	*4.7%*	*2.1%*	*3.7%*	*4.5%*	*13.8%*	*19.0%*	*10.7%*	*2.8%*	*57.6%*	*20.8%*	*31.2%*
	EBIT/Revenues	*14.5%*	*16.3%*	*15.1%*	*15.9%*	*15.5%*	*11.4%*	*2.0%*	*19.7%*	*8.6%*	*2.0%*	*8.7%*	*14.1%*
	Net Profit	1,093.6	1,045.7	1,180.5	897.3		202.6	117.6	47.1	1.7	1.3		5.4
	Net Profit growth	*131.2%*	*81.5%*	*41.4%*	*189.4%*	*110.9%*	*8.9%*	*17.2%*	*909.0%*	*99.4%*	*115.3%*	*230.0%*	*138.8%*
	2y CAGR (2021e - 2023e)	*10.1%*	*7.5%*	*2.5%*	*3.0%*	*5.8%*	*12.5%*	*19.2%*	*12.8%*	*11.1%*	*75.4%*	*26.2%*	*33.1%*
	CAPEX/Sales %	*4.3%*	*2.6%*	*0.5%*	*2.0%*	*2.4%*	*1.4%*	*0.1%*	*1.4%*	*0.7%*	*0.1%*	*0.7%*	*2.0%*
	Free Cash Flow	609.6	944.1	1,480.2	960.5		199.6	488.8	58.4	n.a.	(7.5)		(12.7)
	Net financial debt	1,893.5	909.3	(161.5)	426.7		(157.2)	(226.7)	(16.0)	17.5	9.8		6.6
	ND/EBITDA (x)	0.9	0.4	n.a.	0.3	0.5	n.a.	n.a.	n.a.	1.8	1.3	1.5	0.5
	Pay-out	*40.2%*	*50.4%*	*45.7%*	*41.6%*	*44.5%*	*n.a.*	*15.2%*	*23.0%*	*7.1%*	*40.8%*	*21.6%*	*0.0%*
Multiples and Ratios	**P/E (x)**	14.5	11.8	11.5	14.1	13.0	22.4	32.8	23.2	15.6	18.2	22.4	24.7
	P/BV (x)	2.2	1.8	4.6	4.3	3.2	5.4	2.8	n.a.	1.0	2.3	2.9	5.5
	EV/Revenues (x)	1.6	1.7	1.3	1.9	1.6	2.0	0.5	3.4	0.6	0.2	1.3	2.2
	EV/EBITDA (x)	8.9	7.6	7.6	10.1	8.6	15.1	21.2	14.1	4.6	3.5	11.7	11.1
	EV/EBIT (x)	11.1	10.6	8.4	12.0	10.5	17.2	25.8	17.1	7.4	9.5	15.4	15.2
	ROE	*15.0*	*15.3*	*39.9*	*30.4*	*25.2*	*24.3*	*8.5*	*n.a.*	*6.6*	*12.4*	*13.0*	*23.9*
	FCF Yield (%)	*4.0*	*6.5*	*11.0*	*7.5*	*7.3*	*4.4*	*12.7*	*4.3*	*n.a.*	*n.a.*	*7.1*	*3.2*
	DPS	*0.36*	*2.20*	*2.50*	*0.96*	*1.50*	*n.a.*	*0.01*	*0.12*	*0.01*	*0.20*	*0.08*	*0.00*
	Dvd Yield	*2.7%*	*3.8%*	*4.0%*	*3.0%*	*3.4%*	*n.a.*	*0.5%*	*0.8%*	*0.5%*	*2.3%*	*1.0%*	*0.0%*

Note 1: Financial data, multiples and ratios based on market consensus (Factset). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
23-Dec-2021	n.a.	11.50	n.a.	n.a.	Initiation of Coverage	Luis Esteban Arribas

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