

### Action Summary – 9 November 2021

Analyst Theodore R. O'Neill – Continued growth 1H21 - Reiterate our Buy rating and \$12 PT

- **Exceeded consensus estimates.** LLN reported 2Q21 revenue and EPS of €4.3MM and €0.02, respectively, which was in-line with our expectations for revenue and EPS of €4.4MM and €0.02.
- **Company is executing on its growth plan through organic and inorganic growth.** Subsequent to closing the quarter it completed an acquisition, announced new customers in Senegal, Sierra Leone and Malawi and reported more SaaS transactions through October than it saw in 2020.
- **Raising estimates.** For 2022 our EPS estimates rise to €0.28 from €0.26. Our price target remains unchanged.
- The company reports quarterly and while it does not report in U.S. GAAP, we have come as close as we can to that format here in our financial presentation and estimates.
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis.**

7/14 Closing price: \$5.26	Market cap: \$80 million	2022 P/E: 18	2022 EV / Sales: 3.4
Shares outstanding: 15.3 million	Insider ownership: 62%	Avg. trading volume on OTCQB: 500	Dividend/Yield: NA/NA

### GAAP estimates (EPS in Euros – Revenue in Euro millions)

Period	EPS	Revenue	EBITDA Margin
1Q20A	0.00	4.05	10.5%
2Q20A	0.02	3.77	16.9%
3Q20A	0.04	3.91	26.7%
4Q20A	<u>0.00</u>	<u>4.69</u>	<u>13.4%</u>
FY20A	<u>0.06</u>	<u>16.42</u>	<u>16.6%</u>
1Q21A	0.03	4.00	15.6%
2Q21A	0.02	4.30	13.3%
3Q21E	0.02	4.50	15.0%
4Q21E	<u>0.06</u>	<u>5.50</u>	<u>22.8%</u>
FY21E	<u>0.12</u>	<u>18.30</u>	<u>17.1%</u>
1Q22E	0.05	5.50	22.5%
2Q22E	0.07	6.00	26.3%
3Q22E	0.06	5.50	23.9%
4Q22E	<u>0.09</u>	<u>6.50</u>	<u>28.7%</u>
FY22E	<u>0.28</u>	<u>23.50</u>	<u>25.5%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report. P means preliminary

### Cash balance (in Euro millions)

• 2020A	• 5.33
• 2021E	• 3.70
• 2022E	• 8.29

### Debt (in millions)

• 2020A	• 0.91
• 2021E	• 0.0
• 2022E	• 0.0

### EBITDA (in millions)

• 2020A	• 2.5
• 2021E	• 3.1
• 2022E	• 6.0

### Risks/Valuation

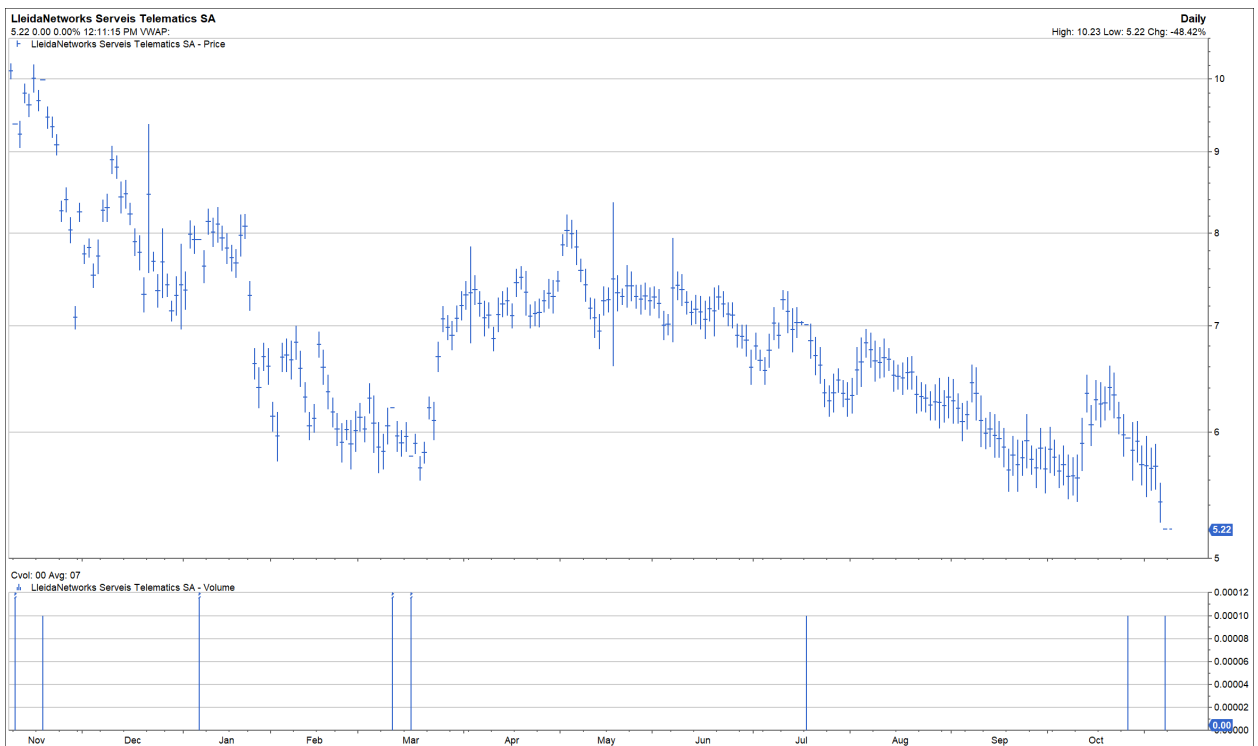
- Risks include: Highly competitive business; changes in customer demand; COVID-19.
- Our \$12 target is derived using a discounted future earnings model

**Company description:** LLEIF is a telecommunications company with a Software-as-a-service (SaaS) product suite that is benefitting from the global digital shift in commerce as business transactions of all kind go digital and move online. It also sells SMS services to business customers.

## Trading History

The shares have traded on the OTCQB since November 2020 so the short history of trading and low volume on that exchange is not unusual (see Figure 1). The company has been public since October 2015 and has a rich history of trading and volume in Madrid (see Figure 2). There also appears to be an arbitrage opportunity to buy the shares in the U.S. at \$5.22 and sell them on the Madrid exchange for \$5.26!

Figure 1 – Lleidanetworks Serveis Telematics SA – Trading on OTCQB since November 2020



Source: FactSet

Figure 2 – Lleidanetworks Serveis Telematics SA – Trading in Madrid LTM



Source: FactSet

## Valuation Methodology

We believe LLN/LLEIF is undervalued and we support that belief with two valuation techniques, both of which suggest the shares are undervalued at the current price. For the purposes of determining our price target we use a discounted future earnings model. For the purpose of confirming our price target we look at comparable company valuations:

- 1) The discounted value of all future earnings was used for our price target (see Figure 3)
- 2) Valuation relative to peers (see Figure 4)

## Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$12.00 (€10) is based on a discounted future earnings model (Figure 3). For the purposes of deriving an earnings-based price target, we assume the company generates a small profit for FY21 and continues to grow into the future. The model sums up all earnings per share, discounted at 7% to arrive at a per share valuation. Note, this model understates future novel product developments, probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is €10.10 and at 1.20 conversion equals \$12.10, which we round down to \$12.00.

Figure 3 – Lleidanetworks Serveis Telematics SA – Implied Price Target Calculation

Discounted Earnings			€ 10.10
	Year 1 is 2021	Forecast EPS	Discounted EPS
	1	0.12	€ 0.12
	2	0.28	€ 0.24
	3	0.30	€ 0.24
	4	0.45	€ 0.34
	5	0.60	€ 0.43
	Terminal Value		€ 8.72

Source: Litchfield Hills Research LLC

### Valuation Relative to Peers

If we compare LLEIF to a simple average of its peers (Figure 4), the shares sell at a significant discount on every metric. These metrics indicate the stock price should be more than 100% higher than where it is today. This supports our \$12 price target. If the shares traded for \$12.00 today, its 2022 Sales Multiples would still be below average. Details on each of the peers can be found in Figure 5. The companies we used in Figure 5 are in similar lines of business although none of them are a perfect match.

Figure 4 – Lleidanetworks Serveis Telematics SA – Summary Discount to Peers

	2022 PE	2022 Market Cap / Sales	2022 EV / Sales	2022 EV / EBITDA
Peers	63.36	9.84	8.90	38.38
LLEIF	18.04	3.21	3.37	13.19
<b>Discount to Peers</b>	<b>72%</b>	<b>67%</b>	<b>62%</b>	<b>66%</b>

Source: Litchfield Hills Research LLC and FactSet

### Notes on our Financial Forecasts

The company reports results using the Spanish New General Accounting Plan 1990, which is non-US GAAP. However, what we show in our published financials is our best translation into US GAAP. Because our financial model's, income statement, balance sheet and cash flow are fully integrated and rely on GAAP data, we may have to infer some balance sheet or income statement items in order to tie it all together. When we do that, we make the adjustment in the last line in the cash flow.



## Lleidanetworks Serveis Telematics S.A. LLN-ES/LLEIF-US-Buy-\$12 (€10) PT

The pandemic, and the way businesses have adapted to it has had a major impact on revenue. We make the assumption that the macro business trends driving the move to digital continue. This enhances gross profit margins. We also assume the company has sufficient cash by the end of 2021 to pay off its debt, although there may be solid reasons to keep it unchanged or add to it, for instances if it decides to add growth through acquisition.

Financial forecasts always contain an element of uncertainty and it is no different here, but we expect that over time, the estimates will get increasingly accurate.

Figure 5 – Lleidanetworks Serveis Telematics SA – Comp Table

Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2022 Consensus Multiples			
					PE	Market Cap / Sales	EV / EBITDA	EV / Sales
ADBE	Adobe Inc	\$662.72	315,322	317,289	43.32	16.02	32.86	16.20
DOCU	DocuSign Inc	\$267.49	52,620	52,517	130.65	20.36	93.56	19.77
TWLO	Twilio, Inc.	\$310.60	52,320	50,944	NMF	19.67	NMF	16.23
OKTA	Okta Inc	\$254.89	37,626	38,065		19.22	NMF	18.29
SAIL	SailPoint Technologies Holdings, Inc.	\$48.11	4,471	4,454		9.42		9.31
RAMP	LiveRamp Holdings Inc	\$55.32	3,767	3,257	94.25	4.41	45.27	3.34
PING-US	Ping Identity Holding Corp.	\$27.32	2,283	2,331	78.92	6.14	58.93	6.06
TLS	Telos Corporation	\$26.52	1,770	1,652	44.47	5.02	26.45	4.68
3738-HKG	Vobile Group Limited	\$0.87	1,717	1,783	25.05	3.35	12.53	3.06
IDT	IDT Corp. (Class B)	\$56.53	1,367	1,199				
DMRC	Digimarc Corp.	\$52.38	887	807		14.85		10.30
OSPN	OneSpan Inc. (Registered)	\$21.13	850	750	85.84	4.00	51.08	3.55
MITK	Mitek Systems Inc	\$18.03	794	766	20.78	5.84	17.86	5.46
INVE	Identiv, Inc. (Ordinary (US))	\$24.63	546	696	76.85	2.77	24.97	2.43
AUID-US	Ipsidy Inc.	\$17.33	402	350				
IDN	Intellicheck Inc	\$9.15	171	159	33.46	6.73	20.30	5.92
IQST-US	iQSTEL, Inc.	\$0.44	62	59				
LQID-CA	Liquid Avatar Technologies Inc	\$0.20	27	21				
	AVERAGE				<b>63.36</b>	<b>9.84</b>	<b>38.38</b>	<b>8.90</b>
LLN-ES	LleidaNetworks Serveis Telematics SA	\$5.45	88	92	18.04	3.21	13.19	3.37
	<b>LLN-ES Discount to peers:</b>				<b>-72%</b>	<b>-67%</b>	<b>-66%</b>	<b>-62%</b>

Figure 6 – Lleidanetworks Serveis Telematics SA – Income Statement (€000)

December year-end	2019					2020A					2021E					2022E				
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3E	Q4E	Year	1QE	2Q3	3QE	4QE	Year				
<b>Total revenue</b>	€ 13,661	€ 4,046	€ 3,773	€ 3,910	€ 4,692	€ 16,421	€ 3,987	€ 4,308	€ 4,500	€ 5,500	€ 18,295	€ 5,500	€ 6,000	€ 5,500	€ 6,500	€ 23,500				
<i>Growth</i>	11%	43%	17%	16%	11%	20%	-1%	14%	15%	17%	11%	38%	39%	22%	18%	28%				
Cost of Goods	6,607	2,156	1,880	1,861	2,493	8,390	1,984	2,094	2,250	2,695	9,023	2,695	2,880	2,640	3,088	11,303				
<b>Gross Profit</b>	<b>7,054</b>	<b>1,890</b>	<b>1,893</b>	<b>2,049</b>	<b>2,199</b>	<b>8,031</b>	<b>2,003</b>	<b>2,214</b>	<b>2,250</b>	<b>2,805</b>	<b>9,272</b>	<b>2,805</b>	<b>3,120</b>	<b>2,860</b>	<b>3,413</b>	<b>12,198</b>				
<b>Gross Margin</b>	<b>51.6%</b>	<b>46.7%</b>	<b>50.2%</b>	<b>52.4%</b>	<b>46.9%</b>	<b>48.9%</b>	<b>50.2%</b>	<b>51.4%</b>	<b>50.0%</b>	<b>51.0%</b>	<b>50.7%</b>	<b>51.0%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.5%</b>	<b>51.9%</b>				
Staff expenses	3,067	874	876	903	750	3,403	1,013	909	975	1,000	3,897	1,000	1,000	1,000	1,000	4,000				
% of total revenue	22%	22%	23%	23%	16%	21%	25%	21%	22%	18%	21%	18%	17%	18%	15%	17%				
External Services	2,728	760	544	437	1,002	2,743	566	966	750	700	2,982	720	720	720	720	2,880				
% of total revenue	20%	19%	14%	11%	21%	17%	14%	22%	17%	13%	16%	13%	12%	13%	11%	12%				
Other operating (income)/expense	(935)	(168)	(163)	(334)	3	(662)	(196)	(235)	(150)	(150)	(731)	(150)	(175)	(175)	(175)	(675)				
% of total revenue	-7%	-4%	-4%	-9%	0%	-4%	-5%	-5%	-3%	-3%	-4%	-3%	-3%	-3%	-3%	-3%				
Total Operating Expenses	4,861	1,466	1,257	1,006	1,755	5,484	1,383	1,640	1,575	1,550	6,148	1,570	1,545	1,545	1,545	6,205				
<b>EBITDA</b>	<b>2,193</b>	<b>424</b>	<b>636</b>	<b>1,043</b>	<b>444</b>	<b>2,547</b>	<b>620</b>	<b>574</b>	<b>675</b>	<b>1,255</b>	<b>3,124</b>	<b>1,235</b>	<b>1,575</b>	<b>1,315</b>	<b>1,868</b>	<b>5,993</b>				
<b>Operating Margin</b>	<b>16.1%</b>	<b>10.5%</b>	<b>16.9%</b>	<b>26.7%</b>	<b>9.5%</b>	<b>15.5%</b>	<b>15.6%</b>	<b>13.3%</b>	<b>15.0%</b>	<b>22.8%</b>	<b>17.1%</b>	<b>22.5%</b>	<b>26.3%</b>	<b>23.9%</b>	<b>28.7%</b>	<b>25.5%</b>				
Amortizations and other	(1,091)	(288)	(307)	(329)	(180)	(1,104)	(265)	(271)	(300)	(300)	(1,136)	(300)	(300)	(300)	(300)	(1,200)				
Operating profit	1,102	136	329	714	263	1,442	355	303	375	955	1,988	935	1,275	1,015	1,568	4,793				
Other non-operating expenses	(3)	(68)	(56)	(72)	(215)	(411)	36	(34)	(40)	(40)	(78)	(40)	(40)	(40)	(40)	(160)				
<b>Pre-Tax Income</b>	<b>1,099</b>	<b>68</b>	<b>273</b>	<b>642</b>	<b>48</b>	<b>1,031</b>	<b>391</b>	<b>268</b>	<b>335</b>	<b>915</b>	<b>1,909</b>	<b>895</b>	<b>1,235</b>	<b>975</b>	<b>1,528</b>	<b>4,633</b>				
<b>Pre-Tax Margin</b>	<b>8.0%</b>	<b>1.7%</b>	<b>7.2%</b>	<b>16.4%</b>	<b>1.0%</b>	<b>6.3%</b>	<b>9.8%</b>	<b>6.2%</b>	<b>7.4%</b>	<b>16.6%</b>	<b>10.4%</b>	<b>16.3%</b>	<b>20.6%</b>	<b>17.7%</b>	<b>23.5%</b>	<b>19.7%</b>				
Taxes (benefit)	12	10	0	1	(20)	(9)	5	4	5	5	19	100	100	100	100	400				
Tax Rate	1.1%	14.7%	0.0%	0.2%	-42.1%	-0.9%	1.3%	1.4%	1.5%	0.5%	1.0%	11.2%	8.1%	10.3%	6.5%	8.6%				
<b>Net Income (loss)</b>	<b>1,086</b>	<b>58</b>	<b>273</b>	<b>641</b>	<b>68</b>	<b>1,040</b>	<b>386</b>	<b>265</b>	<b>330</b>	<b>910</b>	<b>1,891</b>	<b>795</b>	<b>1,135</b>	<b>875</b>	<b>1,428</b>	<b>4,233</b>				
<b>Net Margin</b>	<b>8.0%</b>	<b>1.4%</b>	<b>7.2%</b>	<b>16.4%</b>	<b>1.5%</b>	<b>6.3%</b>	<b>9.7%</b>	<b>6.1%</b>	<b>7.3%</b>	<b>16.5%</b>	<b>10.3%</b>	<b>14.5%</b>	<b>18.9%</b>	<b>15.9%</b>	<b>22.0%</b>	<b>18.0%</b>				
<b>EPS, as reported</b>	<b>€ 0.07</b>	<b>€ 0.00</b>	<b>€ 0.02</b>	<b>€ 0.04</b>	<b>€ 0.00</b>	<b>€ 0.06</b>	<b>€ 0.03</b>	<b>€ 0.02</b>	<b>€ 0.02</b>	<b>€ 0.06</b>	<b>€ 0.12</b>	<b>€ 0.05</b>	<b>€ 0.07</b>	<b>€ 0.06</b>	<b>€ 0.09</b>	<b>€ 0.28</b>				
Diluted Shares Outstanding	16,050	16,050	16,050	16,050	16,050	16,050	15,320	15,320	15,320	15,320	15,320	15,320	15,320	15,320	15,320	15,320				

Figure 7 – Lleidanetworks Serveis Telematics SA – Balance Sheet (€000)

December year-end	FY2022E	FY2021E	FY2020A	FY2019A	FY2018
<b>Balance sheet</b>					
Current Assets					
Cash and S.T.I.	€ 8,289	€ 3,707	€ 5,331	€ 2,445	€ 1,819
Trade receivables	4,500	4,000	3,498	3,563	2,441
Prepayments, deposits and other rec.	400	400	320	258	238
Other assets	0	0	0	0	12
<b>Total Current Assets</b>	<b>13,189</b>	<b>8,107</b>	<b>9,149</b>	<b>6,266</b>	<b>4,509</b>
Net PP&E	300	300	336	381	344
Goodwill & Intangibles	200	200	202	187	192
<b>Total Assets</b>	<b>€ 17,189</b>	<b>€ 12,357</b>	<b>€ 13,270</b>	<b>€ 10,683</b>	<b>€ 8,886</b>
Current Liabilities					
Trade payables	€ 4,500	€ 3,500	€ 2,952	€ 2,649	€ 2,013
Short-term debts	0	0	910	1,871	2,346
Customer deposits	0	0	0	0	0
Other current liabilities	200	100	42	96	85
<b>Total current liabilities</b>	<b>4,700</b>	<b>3,600</b>	<b>3,904</b>	<b>4,616</b>	<b>4,444</b>
Long-term debt	0	0	2,100	1,678	1,374
Other long-term liabilities	0	0	0	0	0
<b>Total liabilities</b>	<b>4,700</b>	<b>3,600</b>	<b>6,004</b>	<b>6,294</b>	<b>5,817</b>
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Share Capital	321	321	321	321	321
Additional paid-in-capital	7,276	7,276	7,276	5,244	5,244
Retained earnings	4,892	1,160	(331)	(1,177)	(2,496)
Cum. Other comp and treasury stock	0	0	0	0	0
Total stockholders' equity	12,489	8,757	7,266	4,388	3,069
<b>Total Liabilities and equity</b>	<b>€ 17,189</b>	<b>€ 12,357</b>	<b>€ 13,270</b>	<b>€ 10,683</b>	<b>€ 8,886</b>

Source: Company reports and Litchfield Hills Research LLC



*Figure 8 – Lleidanetworks Serveis Telematics SA – Cash Flow (€000)*

	FY22E	FY21E	FY20A	FY19A
Net Income	€ 4,233	€ 1,891	€ 1,040	€ 1,086
Trade receivables	(500)	(502)	66	(1,122)
Prepayments, deposits and other rec.	0	(80)	(62)	(20)
Other assets	0	0	0	12
Net PP&E	0	36	46	(38)
Goodwill & Intangibles	250	(167)	264	(5)
Other non-current	0	2	(15)	4
Trade payables	1,000	548	303	637
Customer deposits	0	0	0	0
Short-term debts	0	(910)	(961)	(474)
Deferred revenue	0	0	0	0
Other current liabilities	100	58	(54)	11
Long-term debt	0	(2,100)	422	304
Other long-term liabilities	0	0	0	0
Preferred stock	0	0	0	0
Share Capital	0	0	(0)	0
Additional paid-in-capital	0	0	2,032	0
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends and other	(500)	(400)	(195)	233
<b>Total Cash Flow</b>	<b>€ 4,583</b>	<b>(€ 1,624)</b>	<b>€ 2,886</b>	<b>€ 627</b>

Source: Company reports and Litchfield Hills Research LLC

**Disclosures:**

**Analyst Certification**

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Total return is defined as price appreciation plus dividend yield.



## Lleidanetworks Serveis Telematics S.A. LLN-ES/LLEIF-US-Buy- \$12 (€10) PT

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