

Lleida.net

BUY

Is there a 14% short position on the Stock?

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7am, 4th May 2022

On April 25th, the company made public a Supreme Court ruling (dated 15th March) involving CEO Sisco Sapena and current/former shareholders Santander, SEPI and ENISA, related to 'Put' option contract signed between the parties in 2015.

Santander and SEPI sold their entire position on Lleida.net in 2020 and could be obliged by a court order to repurchase 2.3 million shares in order to sell them to Sisco Sapena at the contracted 'Put' price of €1,7761 per share. ENISA still owns its 7%.

There is a dispute over the actual effects of the Supreme Court ruling with regards to the execution of the 'Put' option, so the outcome is yet uncertain.

Lleida.net has just released 1Q22 results with a strong bounce in sales growth (+31%) but delivered a negative Profit before Tax of €115k.

Two main factors behind the drop in profitability: a backloaded revenue stream from the recently acquired Indenova, meaning that 1Q gets 25% of the annual costs but less than 15% of the revenues. In addition, the February Mobile World Congress was an expense that was not around last year due to Covid.

We estimate that both factors combined amount to a €490k impact (without them Ebitda-cash would have risen 41%).

We maintain our Ebitda and Net Profit estimates unchanged, although we have toned down our revenue growth and cost estimates for 2022 and 2023. We maintain our 12-18 month target price of €9.00 per share based on the positive outlook of their SaaS divisions and the recently acquired

Equities

BME Growth Technology

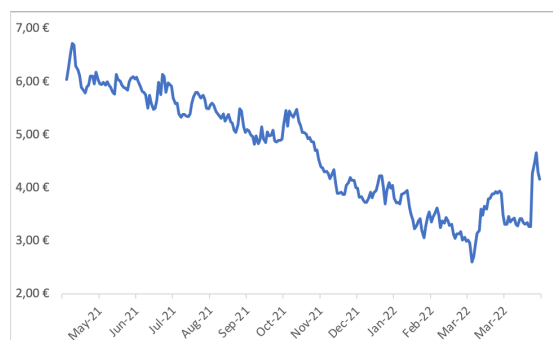
Price (4pm 3/04/22): €4,06

RIC: LLN

Target Price (12-18 m): €9.00

52-Wk range (€): 6.73 - 2.60
 Cap. Bur. (€ millones): 65.1
 No. Shares (millions): 16,05
 Avg. daily Vol. (€12m): 213k
 Daily volatility (avg. LTM): 3.8%

Price Chart (12 months)



(€ millions)	2020	2021	2022e	2023e
Turnover	16,6	18,1	23,8	27,8
Ebitda	2,0	1,6	3,3	4,5
Net Profit	1,1	1,0	2,2	3,3
EPS	0,07	0,06	0,14	0,20
Net Debt	-2,3	4,2	2,3	-0,7
EV/Ebitda	34,0	42,6	21,0	15,5
P/E	58,3	66,9	29,6	19,9
CFY	3%	2%	5%	6%

A brief history of a much disputed 'Put' option

On 1st June 2015, shortly before lleida.net IPO, financial investor *Banesto Enisa Sepi Desarrollo FCR* and CEO Sisco Sapena signed a 'Put' option contract whereby the investor could sell its entire stake 21.3% stake to Sisco Sapena, on a personal capacity, the following year. The price was set at €1.37 per share plus interest, which depended on the date the 'Put' option were to be exercised.

The fund (until its liquidation in 2019) was itself invested by three Limited Partners, each holding 1/3 stake and whose beneficial owners were Grupo Santander (www.santander.com), SEPI (www.sepi.es) and ENISA (www.enisa.es).

The 'Put' option contract was actually a pre-requisite of *Banesto Enisa Sepi Desarrollo FCR* to give its consent to the IPO, the reason being that the investors wanted to ensure an exit from their investment made some 8 years earlier (at €0,10 per share). Sisco Sapena, CEO and majority shareholder, felt he had no other option but to comply to the investors demands.

Lleida.net began trading on BME Growth (then MAB) on 9 October 2015, at a price of €1.18 per share.

On 4 October 2016, before the start of the exercise period of the 'Put' option, Sisco Sapena filed a lawsuit for the Courts to declare the 'Put' option void for Abuse of the Contractual Position, Null and Void for violating the Mifid regulations. His claim was admitted by the Juzgado de 1ª Instancia nº2 of Lleida, for an ordinary trial procedure.

Parties to the 'Put' option contract



CEO: SISCO SAPENA



The following month, on 17th November 2016, under the formal presence of a Notary Public, *Enisa SEPI Desarrollo FCR* (then changed its name to Santander Capital Desarrollo SGEIC, SAU) executed (irrevocably) the 'Put' option requiring from Sisco Sapena the payment of €4,7 million for their 3.4 million shares in lleida.net.

A year later, on 5th October 2017, the Courts handed down a judgment in the aforementioned proceeding in favor of the investors, dismissing the claim. Subsequently, on 16 January 2018, Sisco Sapena filed an appeal against this judgment before the Provincial Court of Lleida. The Provincial Court then issued a judgement rejecting the appeal, considering the 'Put' option to be valid.

Then Sisco Sapena filed another appeal, this time before the Supreme Court, to get it again dismissed last month, on 15th March. The 'Put' option contract remains legal and obliges Sisco Sapena to purchase 3.4 million shares of Lleida.net at €1.7761 per share (the original €1.37 per share plus interest).

The fund, now liquidated, gave way to the 3 LP's to become direct shareholders in lleida.net, however two of them are no longer shareholders.

Santander and SEPI decided to sell their entire stake in the market during 2020, not before all three shareholders unilaterally terminated to the 'Put' option contract by renouncing the execution of the 'Put' option before a Notary Public, in a written letter to Sisco Sapena.

Sisco Sapena strongly disagreed the investors legal interpretation and replied rejecting the termination of the contract and the investors' renunciation to its execution under the terms laid to him by the investors.

3 outcomes are possible following this 6 1/2 year legal ordeal:

- (1) **'Put' option is not executed.** The three LP's of the fund position appears to believe the the Supreme Court ruling is irrelevant given the obligations under the 'Put' option contract, according to them, no longer exist.
- (2) **'Put' option is executed.** Sisco Sapena buys 3.4 million shares at €1.7761 per share from the investors and both Santander and SEPI would need to repurchase 2.8 million shares from the market. ENISA still holds its 7% stake.
- (3) **A settlement is reached** whereby no shares are exchanged. All parties are free to negotiate a settlement to resolve their differences.

We do not have a formal view on the outcome nor its timeline.

Strong quarterly sales growth during 1Q22, but profits have faltered.

The company reported €5.2 million in sales, some 31% higher than in 1Q21. Excluding the recently acquired Indenova's sales of €461k, sales growth would have been 19%, which is still strong (growth in FY 2020 and FY 2021 was 21% and 9% respectively).

Reported 1Q22 Revenues

(`000 €)	1Q21	1Q22	Growth
<i>Contracting</i>	638	762	19%
<i>Notification</i>	613	627	2%
<i>Other SaaS</i>	329	754	129%
Software Services	1.580	2.143	36%
SMS Solutions	688	1.061	54%
ICX	1.719	2.013	17%
	3.987	5.217	31%

Source: Lleida.net

lleida.net is now, for the first time, disclosing a quarterly breakdown of SaaS revenues into three categories: contracting, notification and other SaaS (the latter to include Indenova's products, KyC, portability, etc).

- (1) The contracting division grew 19% (to €762k) which is excellent news given that more contracting is a sign of economic health, a reflection that more business is being done between consumers and Lleida.nets clients.
- (2) The notification business grew 2% (to €627k) and appears to fall behind. Part of the reason is attributable to the fact that some African and Middle Eastern customers are no longer as active as they were in 2021. Notifications also tend to be counter-cyclical because they spike at times where debt arrears rise and debt collection becomes more active.
- (3) Other SaaS grew 129% (to €754k) mainly because of the inclusion of Indenova's €461k sales contribution. Without it, it would have been down on last year.

Altogether the SaaS division grew 36%, although if we are to exclude Indenova, growth would have been 6%. Although it is a considerable slowdown from the 56% growth experienced in 2020 and 33% growth seen in 2021, it is due from the company's repositioning in Africa and Middle East rather than any issues stemming from activity in its traditional Spanish and Latin American markets.

Gross Profits rose by 31% to €2.6 million which meant that Gross Margins remained stable at 50%, despite the pressure on margins coming from the SMS division. The positive gross margin contribution (estimated to be in excess of 90%) from Indenova helped the overall business to maintain them at the prior years level.

lleida.net cash costs rose 59% to €2.5 million due mainly to the incorporation of Indenova to the results (between personnel and other operating costs we estimate them to be around €750k in 1Q22) and the additional costs brought about the Mobile World Congress (previously interrupted by the Covid-19 Pandemic).

We estimate Indenova's Ebitda contribution to the quarter to have been a negative €290k and the extra costs coming from the WMC at around €200k, which means that without them Ebitda (cash) would have risen by 41% to €605k compared to 1Q21. We take comfort in that both elements are exceptional in nature and not part of the fundamental positive trend of the underlying business.

The more positive news is that the non-personnel expenses part of the operating cash costs stood at 19% relative sales, compared to an average of 24% in the 2016-2019 period (before Covid-19). This 500 basis points improvement is equivalent to cost savings of some €260k in the quarter, a reflection of the cost containment policies at Lleida.net.

If the same exercise were to be done with personnel expenses (employees are now 174 with Indenova), the reported number in 1Q22 was 29% relative to sales versus a 4-year average (pre-Covid) of 27%, which is positive taking into consideration Indenova's seasonally low 1Q reported revenues.

The increase in costs, beyond the Gross Profit increase, meant that Ebitda (cash) fell from €427k to €115k to an Ebitda margin of just 2%. The decline in the accounting Ebitda (including the capitalized R&D costs) was less pronounced to €384k from €620k in 1Q21.

Going forwards we estimate Indenova's sales to accelerate relative to 1Q22, to get to our estimates of a repeat of their 2021 results of an Ebitda (cash) contribution of €700k. Undoubtedly, there are risks coming from the integration between the two companies that may have an effect in revenues and cost synergies may take longer that anticipated.

As far as the WMC is concerned, we now expect to happen going forwards and with it the comparisons will no longer be affected.

lleida.net also reported a slight Net Debt increase of €270k to €4.5 million, consistent with the reported fall in profits together with the working capital requirements of a growing business.

Profit and Loss account by Quarter: 2021 and 2022

(€ 000´)	1Q21	2Q21	3Q21	4Q21	1Q22	%
<i>Contracting</i>	638	-	-	-	762	19
<i>Notification</i>	613	-	-	-	627	2
<i>Other SaaS</i>	329	-	-	-	754	129
Software Services	1.580	1.547	1.577	2.741	2.143	36
SMS Solutions	688	680	671	685	1.061	54
ICX	1.719	2.095	2.046	1.958	2.013	17
Turnover	3.987	4.322	4.294	5.384	5.217	31
Cost of sales	-1.984	-2.091	-2.231	-2.288	-2.602	31
Gross Profit	2.003	2.231	2.063	3.096	2.615	31
<i>Gross Margin</i>	<i>50%</i>	<i>52%</i>	<i>48%</i>	<i>58%</i>	<i>50%</i>	
Capitalized R&D	193	207	166	210	269	39
Personnel Expenses	-1.013	-1.068	-1.133	-1.455	-1.533	51
Other SG&A	-566	-805	-684	-1.125	-975	72
Depreciation	-265	-271	-277	-476	-518	95
Other	3	17	27	61	8	-
Operating Costs	-1.841	-2.127	-2.067	-2.995	-3.018	64
Operating Income	355	311	162	311	-134	-138
<i>Operating Margin</i>	<i>9%</i>	<i>7%</i>	<i>4%</i>	<i>6%</i>	<i>-3%</i>	
Ebitda	620	582	439	787	384	-38
<i>Ebitda Margin</i>	<i>16%</i>	<i>13%</i>	<i>10%</i>	<i>15%</i>	<i>7%</i>	
Ebitda (Cash)	427	375	273	577	115	-73
<i>Ebitda Margin</i>	<i>11%</i>	<i>9%</i>	<i>6%</i>	<i>11%</i>	<i>2%</i>	
Extraordinaries	0	-9	0	0	0	-
Financial Costs	-13	-25	-10	-41	-46	254
FX	49	-6	-22	1	65	33
Profit Before Tax	391	271	129	271	-115	-129
Cash Flow	411	324	236	475	61	-85

Source: LLN, Checkpoint partners

Our forecasts and target valuation remains largely unchanged

We maintain our forecasts largely unchanged despite the faltering profitability during 1Q22. Following the Indenova acquisition, we had already factored-in the seasonal nature of their revenues so the reported 1Q22 do not affect our view of profits for the whole of 2022.

The underlying sales trend of lleida.net's main markets remains positive and the recent commodity price uptick favors their Latin American markets (positive currency effect included). The slowdown in organic growth has to do with the sales repositioning in Africa and the Middle East, markets where we expect activity to resume again later in the year.

lleida.net has also published the number of active clients in their portfolio to be 1,559, an increase of 5% relative to 1Q21 which is a reflection that business development efforts continue to bring positive results. The numbers provide additional comfort to our forecasts for 2022 and 2023 on the back of the widening client base.

Taking into consideration de change in the growth mix during 1Q22, we have brought down our revenue forecast for 2022 and 2023 to €23.8 million (€24.3 million) and €27.7 million (€28.2 million) together with slightly lower Gross Margins of 56% (vs 58%) and 58% (vs 60%) respectively. The combination of both changes brings the Gross Profit number down by €800k in 2022 and 2023.

Alternatively, we have brought down our Personnel costs by same amount as we expect lleida.net to focus on synergies with Indenova and be less aggressive on net new hires. The end result is that we maintain our Ebitda (cash) and Net Profit forecasts at the same level as our prior February report on the company.

Our confidence on the stock remains with a target price of €9 over the next 12-18 months, based on the current expected growth profile of Lleida.net. There is an added incentive to hold the stock based on what may happen with the legal case of its CEO versus Santander, SEPI and ENISA.

In our sum-of-the parts valuation, we have broken lleida.net down into 4 separate areas (eventually we will merge Indenova into the SaaS division) where we provide an estimate on how the market currently values each of these divisions. We assume the market values the SMS divisions in little over €11 million, whereas the SaaS division couple with Indenova are valued at around €58 million.

To get to our €9 per share target price, the market would have to value to SMS divisions at our DCF estimate of €21 million and the SaaS + Indenova part at €124 million. 12-18 months from today, it would mean lleida.net to be trading at 5x sales (based on 2023 sales estimates).

Profit and Loss account 2019-2023e

(€ millions)	2020	2021e	2022e	2023e
Sales by division				
Software Services	5,7	7,4	11,8	14,5
SMS Solutions	2,6	2,7	3,2	3,3
ICX	8,1	7,8	8,7	9,9
Turnover and other income	16,6	18,1	23,8	27,7
Cost of sales	-8,4	-8,6	-10,4	-11,7
Gross Profit	8,2	9,5	13,4	16,0
<i>% y-o-y growth</i>	15%	16%	42%	19%
<i>Gross Margin</i>	49%	52%	56%	58%
Capitalized costs (R&D)	0,7	0,8	1,0	1,0
Personnel Expenses	-3,6	-4,6	-6,4	-7,2
Other SG&A	-2,5	-3,2	-3,7	-4,3
Depreciation	-1,2	-1,3	-1,9	-1,8
Total Operating Costs	-7,3	-9,1	-12,0	-13,3
<i>% y-o-y growth</i>	5	25	31	11
Operating Income	1,5	1,1	2,4	3,7
<i>Operating Margin</i>	9%	6%	10%	13%
Ebitda	2,7	2,4	4,3	5,5
<i>Ebitda Margin</i>	16%	13%	18%	20%
Ebitda (ex-capitalizations)	2,0	1,6	3,3	4,5
<i>Ebitda Margin</i>	12%	9%	14%	16%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,1	-0,1
FX and Other	-0,3	0,0	0,1	0,0
Financial Results	-0,4	-0,1	0,0	-0,1
Profit Before Tax	1,1	1,1	2,4	3,6
Tax	0,0	-0,1	-0,2	-0,4
Net Income	1,1	1,0	2,2	3,3
Cash Flow	1,6	1,5	3,1	4,0

Source: LLN, Checkpoint partners

Balance Sheet 2019-2023e

(€ millions)	2020	2021e	2022e	2023e
Fixed Assets	4,1	11,5	11,2	11,0
Intangible Assets	3,6	10,2	9,9	9,6
Tangible Assets	0,3	0,5	0,5	0,6
Investments in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,0	0,6	0,6	0,6
Deferred Assets	0,2	0,2	0,2	0,2
Current Assets	9,1	11,2	10,0	11,8
Debtors	3,5	5,0	5,5	5,7
Short Term Investments	1,3	1,3	1,4	1,4
Short Term Accruals	0,3	0,3	0,3	0,3
Cash	4,1	4,5	2,7	4,4
Assets	13,3	22,7	21,2	22,8
Shareholders' Funds	7,3	7,9	9,6	12,3
<i>Capital</i>	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2
<i>Reserves</i>	1,3	2,4	3,0	4,7
<i>Repurchase of share capital</i>	-0,8	-0,8	-0,8	-0,8
<i>Profit and Loss account</i>	1,0	1,0	2,2	3,3
Long Term Debt	2,1	7,1	6,4	5,1
Current Liabilities	3,9	7,7	5,2	5,4
Short Term Debt	0,9	3,0	0,0	0,0
Provisions	0,0	0,0	0,0	0,0
Creditors	3,0	4,7	5,1	5,4
Liabilities	13,3	22,7	21,2	22,8
(€ millions)				
Dividends	0,3	0,5	0,6	0,8
Working Capital	0,5	0,4	0,4	0,3
Debtor Turnover (days)	78	87	80	73
Creditor Turnover (days)	70	85	86	82
Financial Debt	3,0	10,1	6,4	5,1
Cash	5,3	5,8	4,1	5,8
Net Debt	-2,3	4,2	2,3	-0,7

Source: LLN, Checkpoint partners

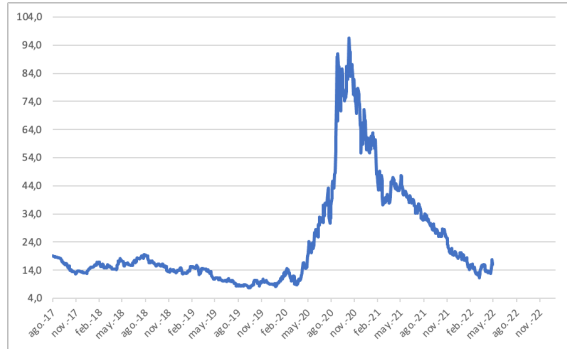
Sum of the parts valuation

Sector	Division	Current	Target	Year	Current		Target (DCF based)	
		EV (€)	DCF (€)		EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Software	Saas	49,1	104,8	2022e	4,2	37,3	8,9	79,6
				2023e	3,4	22,6	7,2	48,1
	inDenova	9,3	19,8	2022e	3,2	15,1	6,8	32,3
				2023e	2,9	12,4	6,2	26,3
Telecom	SMS	1,2	2,6	2022e	0,4	4,1	0,8	8,6
				2023e	0,4	4,3	0,8	9,1
	ICX	10,0	21,3	2022e	1,1	9,2	2,4	19,7
				2023e	1,0	7,8	2,1	16,7
	Sum of Parts	69,7	148,6	2022e	2,9	21,0	6,2	44,8
				2023e	2,5	15,5	5,3	33,1
	Net Debt (€ m)	4,5	4,5					
	Equity Valuation (€ m)	65,2	144,1					
	Per shr (€)	4,06	9,00					
	Upside		122%					

Source: LLN, Checkpoint partners

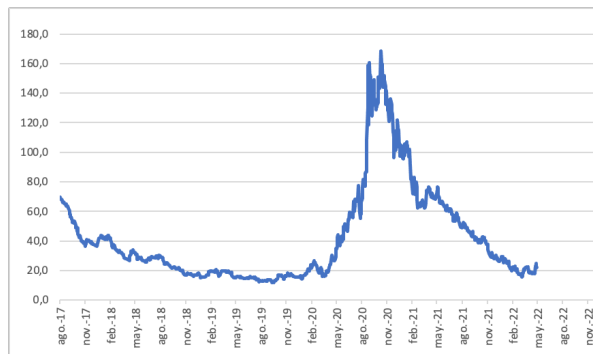
Valuation charts

EV/Cash Ebitda (12 month forward)



Source: Checkpoint Partners

Price/Earnings (12 month forward)



Source: Checkpoint Partners

Cash Flow Yield (12 month forward)



Source: Checkpoint Partners

Checkpoint recommendation System

The Checkpoint Recommendation System is based on absolute returns, measured by the upside potential (including dividends and capital reimbursement) over a 12-month time horizon. Checkpoint recommendations (or ratings) for each stock comprises 3 categories: Buy (B), Neutral (N) and Sell (S).

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

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

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

History of recommendations

Date	Recommen.	Price (€)	Target P.(€)	Period	Analyst
27.10.2016	BUY	0,71	0,95	12 months	Guillermo Serrano
16.01.2017	BUY	0,62	1,05	12 months	Guillermo Serrano
28.04.2017	BUY	0,66	1,25	12 months	Guillermo Serrano
20.07.2017	BUY	0,75	1,25	12 months	Guillermo Serrano
26.10.2017	BUY	0,52	1,13	12 months	Guillermo Serrano
31.01.2018	BUY	0,80	1,13	12 months	Guillermo Serrano
16.03.2018	BUY	0,84	1,13	12 months	Guillermo Serrano
17.03.2018	BUY	1.11	1.53	12 months	Guillermo Serrano
17.07.2018	BUY	1.15	1.53	12 months	Guillermo Serrano
17.10.2018	BUY	1.03	1.53	12 months	Guillermo Serrano
24.01.2019	BUY	1.06	1.53	12 months	Guillermo Serrano
24.04.2019	BUY	0.92	1.40	12 months	Guillermo Serrano
23.07.2019	BUY	0.87	1.40	12 months	Guillermo Serrano
21.10.2019	BUY	1.01	1.60	12 months	Guillermo Serrano
21.01.2020	BUY	1.35	1.80	12 months	Guillermo Serrano
21.04.2020	BUY	1.75	3.00	12 months	Guillermo Serrano
21.07.2020	BUY	4,34	6.00	12 months	Guillermo Serrano
26.10.2020	BUY	8,90	12.00	12 months	Guillermo Serrano
26.01.2021	BUY	6.00	11.35	12 months	Guillermo Serrano
20.04.2021	BUY	6.28	11.15	12 months	Guillermo Serrano
22.07.2021	BUY	5.59	11.15	12 months	Guillermo Serrano
11.11.2021	BUY	4.38	9.00	12 months	Guillermo Serrano
22.02.2022	BUY	3.24	9.00	12 months	Guillermo Serrano

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Frequency of analyst reports: at present Checkpoint has committed to a quarterly update of Lleida.net financial and operational performance.

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

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