

## Lleida.net

# BUY

### Investing in growth at the cost of short-term profits

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lleida.net 2Q22 results have delivered a 23% increase in turnover to €5.3 million coupled with a small Loss before Tax of €6k (vs profit of €268k in 2Q21).

The company has build its cost base up (more hires) in 2021 and has acquired InDenova, both exercises being the result of the management increased confidence in the RegTech space.

As a result of this, and despite the 21% increase in the Gross Profit to €2.7 million in 2Q22, the cash costs of the business has grown 34% to €2.5 million (and, if we include depreciation, by 41%).

Part of the reason being that InDenova generated just €479k in sales in 2Q22 (€461k in 1Q22) because traditionally most of its invoicing comes in the 4Q. We expect InDenova's second half of the year to be significantly stronger, but this first half is bringing more costs than it does revenues.

We expect that as a result of the build up of the cost base, in 2021 and 2022, that it will result in substantially better profit numbers in 2023.

The share price has suffered from an increase in the risk premium in technology stocks and the market traditional bias towards short term profits.

We have reduced our target price to €7.50 per share due to the increased equity risk premiums (higher WACC) but largely maintain our 2023 forecasts. We nonetheless have reduced Ebitda estimates for 2022 from €3.3 million to €2.3 million.

We maintain our BUY recommendation.

#### Equities

#### BME Growth Technology

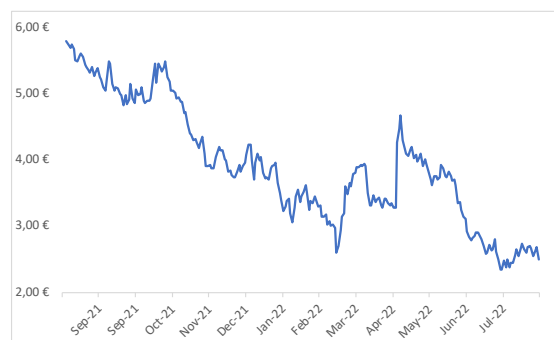
Price (4pm 10/08/22): €2.50

RIC: LLN

**Target Price (12-18 m): €7.50**

52-Wk range (€): 5.80 - 2.35  
 Cap. Bur. (€ millones): 40.1  
 No. Shares (millions): 16,05  
 Avg. daily Vol. (€12m): 179k  
 Daily volatility (avg. LTM): 3.9%

#### Price Chart (12 months)



(€ millions)	2020	2021	2022e	2023e
Turnover	16,6	18,1	24,5	29,1
<b>Ebitda</b>	<b>2,0</b>	<b>1,6</b>	<b>2,3</b>	<b>4,3</b>
Net Profit	1,1	1,0	1,3	2,9
<b>EPS</b>	<b>0,07</b>	<b>0,06</b>	<b>0,08</b>	<b>0,18</b>
<b>Net Debt</b>	<b>-2,3</b>	<b>4,2</b>	<b>3,2</b>	<b>0,6</b>
<b>EV/Ebitda</b>	<b>21,8</b>	<b>27,2</b>	<b>19,0</b>	<b>10,5</b>
P/E	35,9	41,2	31,3	13,7
CFY	4%	4%	5%	9%

## Business confidence drives investment and eventually profits follow

The start of 2022 has been marked by turmoil in the world's economy and [lleida.net](#) has been no stranger to the volatility. Lleida.net was a particular beneficiary of the Covid-19 Pandemic as businesses had to digitalize its legal contracting and notifications in record times, resulting in an acceleration in the company turnover and profits during 2020.

As a result, the company widened its customer base (5 years of work compressed into 1 year) both in Spain and abroad, once its services (once considered convenient but non-essential products) became mainstream. As the market opportunity increased so did lleida.net's commitment to service the larger opportunity.

Aside from continuing to build up the traditional contracting and notification products, the InDenova acquisition was a strategic step up towards creating vertically integrated solutions to its client base by acquiring expertise in the digital process automation space. Both those efforts have brought increased costs at a time the market has been under pressure from the economy (contracting revenues has dropped by 1% in 2Q22 vs 2Q21) and competition pressure in the SMS market (particularly in 2021).

If we were to exclude InDenova from 2Q22 results, turnover would have grown by 12% (this time SMS is growing strong and SaaS falling behind) but Ebitda (cash) would have been greater than a year ago (not disclosed, but we estimate an increase of between 50% and 80%).

InDenova is the main reason for the margin erosion observed during the first half of the year, but a strategic necessity that we expect to yield results in 2023. It is not that InDenova has gone wrong, it is that InDenova has a Profit and Loss account that is backloaded towards the end of the year (public contracting and invoicing cycle). This first 3 quarters are run at a loss to then more than make up for the lost ground in 4Q, which introduces a significant distortion in [lleida.net](#)'s numbers.

Our earlier expectations were slightly more confident, primarily coming from the traditional SaaS products (contracting and notification combined have increased by 6% in 2Q22, again a reflection of a softer economy primarily in Spain).

We are encouraged by the results coming out of the SMS divisions in 2Q22, with a +34% increase in the SMS Solutions division (Spanish corporate clients mostly) and the +14% growth in the SMS ICX division (international operators and aggregators). It is a highly complementary division from [lleida.net](https://www.lleida.net) and it tends to be a de-risking factor in the overall results trends of the company.

As a result of the trends observed so far during the first half of 2022, we have reduced our Ebitda (cash) and Net Profit estimates for 2022 (revenue expectations largely untouched). We have reduced our Ebitda (cash) forecasts in 2022 from €3.3 million to €2.3 million.

We are maintaining both our 2023 numbers unchanged as well as our long-term forecasts, which means that our Target Price reduction from €9.00 to €7.50 is solely the result of the increased equity risk premium associated with higher interest rates and the current uncertainty in the economic outlook.

From a valuation standpoint, [lleida.net](https://www.lleida.net) trades approximately in the same range of multiples as it did before the Covid-19 pandemic, when it was a relatively unknown and under-valued stock (the shares traded between €0.50 and €1.00). In the short term, the stock has been punished by the margin erosion and the slowdown in the core (ex-InDenova) [lleida.net](https://www.lleida.net) SaaS revenue lines, but we expect the trend to be reversed in 2023.

Based on our new 2022 estimates and maintaining our 2023 estimates unchanged, [lleida.net](https://www.lleida.net) is trading on a EV/Ebitda multiple of 19x and 10x respectively. By comparison the software sector in BME growth is trading at an estimated 2022 and 2023 EV/Ebitda multiple of 18x and 16x respectively.

Fundamentally, [lleida.net](https://www.lleida.net) remains a growth stock as demonstrated by the sales performance in 2Q22 (and prior quarters) despite the softening of the economy. We remain confident of its future performance and we therefore continue to rate the stock as a BUY.

## Profit and Loss account by Quarter: 2021 and 2022

(€ 000´)	1T21	2T21	3T21	4T21	1T22	2T22	%	
<i>Contracting</i>	638	853	-	-	762	842	19	-1
<i>Notification</i>	613	404	-	-	627	498	2	23
<i>Other SaaS</i>	329	290	-	-	754	696	129	140
Software Services	1.580	1.547	1.577	2.741	2.143	2.036	36	32
SMS Solutions	688	665	671	685	1.061	902	54	36
ICX	1.719	2.096	2.046	1.958	2.013	2.381	17	14
<b>Turnover</b>	<b>3.987</b>	<b>4.308</b>	<b>4.294</b>	<b>5.384</b>	<b>5.217</b>	<b>5.319</b>	<b>31</b>	<b>23</b>
Cost of sales	-1.984	-2.094	-2.231	-2.288	-2.602	-2.629	31	26
<b>Gross Profit</b>	<b>2.003</b>	<b>2.214</b>	<b>2.063</b>	<b>3.096</b>	<b>2.615</b>	<b>2.690</b>	<b>31</b>	<b>21</b>
<i>Gross Margin</i>	50%	51%	48%	58%	50%	51%		
Capitalized R&D	193	207	166	210	269	336	39	62
Personnel Expenses	-1.013	-909	-1.133	-1.455	-1.533	-1.643	51	81
Other SG&A	-566	-966	-684	-1.125	-975	-868	72	-10
Depreciation	-265	-271	-277	-476	-518	-508	95	87
Other	3	28	27	61	8	11	167	-61
<b>Operating Costs</b>	<b>-1.841</b>	<b>-2.118</b>	<b>-2.067</b>	<b>-2.995</b>	<b>-3.018</b>	<b>-3.008</b>	<b>64</b>	<b>42</b>
<b>Operating Income</b>	<b>355</b>	<b>294</b>	<b>162</b>	<b>311</b>	<b>-134</b>	<b>18</b>	<b>-138</b>	<b>-94</b>
<i>Operating Margin</i>	9%	7%	4%	6%	-3%	0%		
<b>Ebitda</b>	<b>620</b>	<b>574</b>	<b>439</b>	<b>787</b>	<b>384</b>	<b>526</b>	<b>-38</b>	<b>-8</b>
<i>Ebitda Margin</i>	16%	13%	10%	15%	7%	10%		
<b>Ebitda (Cash)</b>	<b>427</b>	<b>367</b>	<b>273</b>	<b>577</b>	<b>115</b>	<b>190</b>	<b>-73</b>	<b>-48</b>
<i>Ebitda Margin</i>	11%	9%	6%	11%	2%	4%		
Extraordinaries	0	-1	0	0	0	13	-	-
Financial Costs	36	-25	-32	-40	-46	-37	-228	48
<b>Profit Before Tax</b>	<b>391</b>	<b>268</b>	<b>129</b>	<b>271</b>	<b>-115</b>	<b>-6</b>	<b>-129</b>	<b>-102</b>
<b>Cash Flow</b>	<b>411</b>	<b>313</b>	<b>236</b>	<b>475</b>	<b>61</b>	<b>155</b>	<b>-85</b>	<b>-50</b>

Source: LLN, Checkpoint partners



## Profit and Loss account 2020-2023e

(€ millions)	2020	2021	2022e	2023e
<b>Sales by division</b>				
Software Services	5,7	7,4	11,1	14,1
SMS Solutions	2,6	2,7	4,1	4,2
ICX	8,1	7,8	9,3	10,7
<b>Turnover and other income</b>				
Turnover and other income	<b>16,6</b>	<b>18,1</b>	<b>24,5</b>	<b>29,1</b>
Cost of sales	-8,4	-8,6	-11,8	-13,3
<b>Gross Profit</b>	<b>8,2</b>	<b>9,5</b>	<b>12,7</b>	<b>15,7</b>
<i>% y-o-y growth</i>	15%	16%	34%	24%
<i>Gross Margin</i>	49%	52%	52%	54%
Capitalized costs (R&D)	0,7	0,8	1,2	1,2
Personnel Expenses	-3,6	-4,6	-6,8	-7,2
Other SG&A	-2,5	-3,2	-3,5	-4,2
Depreciation	-1,2	-1,3	-2,0	-2,0
<b>Total Operating Costs</b>	<b>-7,3</b>	<b>-9,1</b>	<b>-12,3</b>	<b>-13,5</b>
<i>% y-o-y growth</i>	5	25	35	10
<b>Operating Income</b>	<b>1,5</b>	<b>1,1</b>	<b>1,5</b>	<b>3,5</b>
<i>Operating Margin</i>	9%	6%	6%	12%
<b>Ebitda</b>	<b>2,7</b>	<b>2,4</b>	<b>3,5</b>	<b>5,5</b>
<i>Ebitda Margin</i>	16%	13%	14%	19%
<b>Ebitda (ex-capitalizations)</b>	<b>2,0</b>	<b>1,6</b>	<b>2,3</b>	<b>4,3</b>
<i>Ebitda Margin</i>	12%	9%	10%	15%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,2	-0,2
FX and Other	-0,3	0,0	0,1	0,0
<b>Financial Results</b>	<b>-0,4</b>	<b>-0,1</b>	<b>-0,1</b>	<b>-0,2</b>
<b>Profit Before Tax</b>	<b>1,1</b>	<b>1,1</b>	<b>1,4</b>	<b>3,3</b>
Tax	0,0	-0,1	-0,1	-0,3
<b>Net Income</b>	<b>1,1</b>	<b>1,0</b>	<b>1,3</b>	<b>2,9</b>

Source: LLN, Checkpoint partners

## Balance Sheet 2020-2023e

(€ millions)	2020	2021	2022e	2023e
<b>Fixed Assets</b>	<b>4,1</b>	<b>11,5</b>	<b>11,2</b>	<b>11,0</b>
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
<b>Current Assets</b>	<b>9,1</b>	<b>11,2</b>	<b>9,0</b>	<b>10,6</b>
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	1,8	3,2
<b>Assets</b>	<b>13,3</b>	<b>22,7</b>	<b>20,3</b>	<b>21,5</b>
<b>Shareholders' Funds</b>	<b>7,3</b>	<b>7,9</b>	<b>8,7</b>	<b>11,0</b>
<i>Capital</i>	0,3	0,3	0,3	0,3
<i>Share Premium</i>	5,2	5,2	5,2	5,2
<i>Reserves</i>	1,3	2,4	3,0	3,8
<i>Repurchase of share capital</i>	-0,8	-0,8	-0,8	-0,8
<i>Profit and Loss account</i>	1,0	1,0	1,3	2,9
<b>Long Term Debt</b>	<b>2,1</b>	<b>7,1</b>	<b>6,4</b>	<b>5,1</b>
<b>Current Liabilities</b>	<b>3,9</b>	<b>7,7</b>	<b>5,2</b>	<b>5,4</b>
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
<b>Liabilities</b>	<b>13,3</b>	<b>22,7</b>	<b>20,3</b>	<b>21,5</b>
<b>(€ millions)</b>				
Dividends	0,3	0,5	0,6	0,8
Working Capital	0,5	0,4	0,4	0,3
Debtor Turnover (days)	78	87	79	70
Creditor Turnover (days)	70	85	81	77
Financial Debt	3,0	10,1	6,4	5,1
Cash	5,3	5,8	3,2	4,6
<b>Net Debt</b>	<b>-2,3</b>	<b>4,2</b>	<b>3,2</b>	<b>0,6</b>

Source: LLN, Checkpoint partners

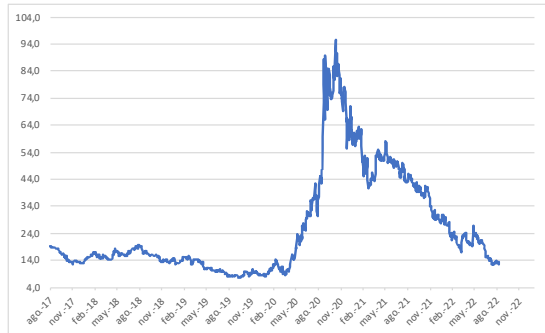
### Sum of the parts valuation

Sector	Division	Current	Target	Year	Current (estimate)		Target (DCF based)		
		EV (€)	DCF (€)		EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda	
Software	Saas	31,9	84,7	2022e	2,9	87,0	7,7	230,7	
				2023e	2,3	18,0	6,0	47,7	
	inDenova	5,8	15,3	2022e	2,0	11,3	5,3	30,1	
				2023e	1,8	9,0	4,8	24,0	
Telecom	SMS	1,6	4,4	2022e	0,4	3,1	1,1	8,3	
				2023e	0,4	3,4	1,0	9,0	
	ICX	7,6	20,1	2022e	0,8	8,0	2,2	21,3	
				2023e	0,7	5,6	1,9	14,9	
	Sum of Parts		46,9	124,4	2022e	1,9	20,0	5,1	53,1
					2023e	1,6	11,0	4,3	29,3
Net Debt (€ m)		6,8	4,6						
Equity Valuation (€ m)		40,1	119,8						
Per shr (€)		2,50	7,50						
Upside			200%						

Source: LLN, Checkpoint partners

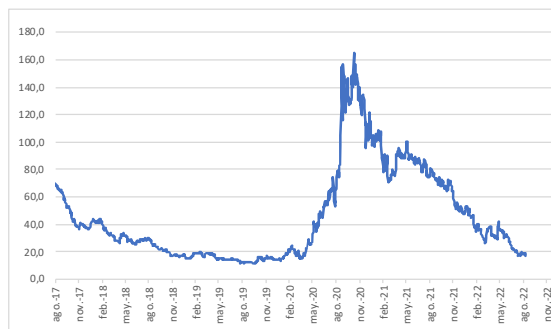
## Valuation charts

### 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

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

Neutral: the stock is expected to generate total return of -15% to +15% during the next 12 months time 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
04.05.2022	BUY	4.06	9.00	12 months	Guillermo Serrano

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