CHECKPOINT

Lleida.net

The inflection point is nigh

BUY

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lleida.net 3Q22 results have shown a 21% increase in sales to €5.2 million coupled with a Profit before Tax of €109k (vs €129k). The trend sales growth was in line with prior 2022 quarters and the overall numbers were better than in 1Q22 and 2Q22.

Market eyes continue to be fixed on InDenova that delivered 9-month 2022 sales of €1.3 million (compared to €2.6 million in sales for the whole of 2021).

We are going for sales at InDenova of €2.5 million for the whole of 2022, which means that 4Q22 is expected to come in at €1.2 million and a positive Ebitda (cash) of €0.6 million (we have known since the time of the acquisition that Indenova´s numbers were backloaded into the 4Q). These numbers would be well taken by the market.

We remain optimistic that 2023 will continue to be a year of growth (+15% expected) for lleida.net, but the starting point will be lower given the softer than expected operating performance of the overall group in 2022.

We have now revised down our target price to €6.00 per share (still a 226% upside) due to a sales and earnings revision of 2022 and 2023 forecasts, mainly due to a softer economic environment. 3Q22 results delivered a slight 4% reduction in just the SaaS contracting revenues, which is more exposed to the slowing growth in the economy.

We maintain our BUY recommendation, where we believe the market has oversold the stock. The negative Ebitda contribution of Indenova during the first 9-months is partly a distortion, and we should see a significant rebound in 4Q22.

Equities

BME Growth Technology

Price (4pm 24/10/22): €1,84
RIC: LLN
Target Price (12-18 m): €6.00

52-Wk range (€):	5.48 - 1.68
Cap. Bur. (€ millones):	29.5
No. Shares (millions):	16,05
Avg. daily Vol. (€,12m):	157k
Daily volatility (avg. LTM):	4.0%

Price Chart (12 months)
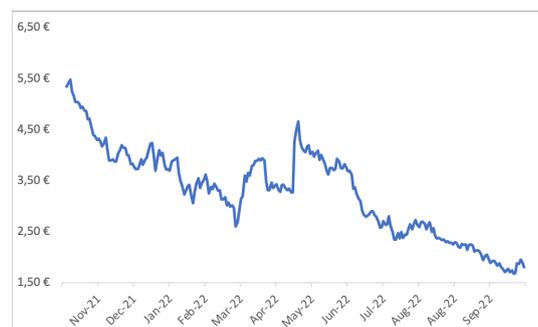
(€ millions)	2020	2021	2022e	2023e
Turnover	16,6	18,0	22,6	26,3
Ebitda	**2,0**	**1,6**	**1,8**	**3,3**
Net Profit	1,0	0,9	0,8	1,9
EPS	**0,06**	**0,05**	**0,05**	**0,12**
Net Debt	**-2,3**	**7,3**	**7,3**	**5,9**
EV/Ebitda	**19,2**	**23,5**	**20,7**	**11,6**
P/E	28,4	33,7	34,9	15,1
CFY	5%	5%	6%	9%

InDenova was the right acquisition but integrating it to lleida.net takes time and effort

This 3Q22 results were markedly better than the first two quarters of the year. Whilst the sales growth rate of 21% was virtually the same, the Ebitda (cash) margin rose from 2% and 3% in 1Q22 and 2Q22 to 6% in 3Q22, It sums up why 3Q22 was a better quarter.

Without the acquisition of Indenova, lleida.net first 9-months of Ebitda (cash) would have risen close to 10% on sales growth of 15%. Instead, the headline Ebitda (cash) numbers have seen a 43% decline to €580k which markets it look like lleida.net is in significant profit trouble. Nothing further from the truth and that is where we believe the market is getting it wrong.

We estimate InDenova to have contributed with a cash loss of €0.5 million during these first 9-months of the year. Essentially, when they were acquired they carried a fixed cash cost of around €2.3 million per year or just under €0.2 million per month. If during the first 9 months of the year they have reported just under €1.3 million in revenues, the corresponding costs were around €1.8 million, thereby losing around €0.5 million.

When the InDenova acquisition was announced last year, it was known (probably not entirely understood) that the financial results were backloaded into the 4Q, meaning that the first 9 months were to be run at an Ebitda loss to then see a large profit jump in the last quarter. This apparently unusual invoicing cycle has to do with the Public Sector nature of its client base.

We believe the market has interpreted the decline in quarterly numbers of lleida.net as the new normal and that is not exactly accurate. Like with many acquisitions there is always an element of unexpected surprises and necessary adjustments to integrate the new business into the acquiring company, and, to a limited extend, that has been the case with Lleida.net. Even so, InDenova numbers for the whole of 2022 are not expected to differ significantly from last year.

We are expecting 2023 to be a year of better things for InDenova. There are already new hybrid software products (where the InDenova Digital Signature is being introduced into lleida.net Click & Sign software with success) that are winning contracts with the client base. This is a sure sign the integration process is happening and working, coming to validate the logic for the acquisition.

Profit and Loss account by Quarter: 2021 and 2022

(€ 000´)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22		%	
Contracting	*638*	*853*	*813*	*-*	*762*	*842*	*784*	*19*	*-1*	*-4*
Notification	*613*	*404*	*518*	*-*	*627*	*498*	*642*	*2*	*23*	*24*
Other SaaS	*329*	*290*	*246*	*-*	*754*	*696*	*576*	*129*	*140*	*134*
Software Services	1.580	1.547	1.577	2.741	2.143	2.036	2.002	36	32	27
SMS Solutions	688	665	672	685	1.061	902	834	54	36	24
ICX	1.719	2.096	2.046	1.958	2.013	2.381	2.341	17	14	14
Turnover	**3.987**	**4.308**	**4.294**	**5.384**	**5.217**	**5.319**	**5.178**	**31**	**23**	**21**
Cost of sales	-1.984	-2.094	-2.231	-2.288	-2.602	-2.629	-2.632	31	26	18
Gross Profit	**2.003**	**2.214**	**2.063**	**3.096**	**2.615**	**2.690**	**2.546**	**31**	**21**	**23**
Gross Margin	*50%*	*51%*	*48%*	*58%*	*50%*	*51%*	*49%*			
Capitalized R&D	193	207	166	210	269	336	292	39	62	76
Personnel Expenses	-1.013	-909	-1.133	-1.455	-1.533	-1.643	-1.564	51	81	38
Other SG&A	-566	-966	-684	-1.125	-975	-868	-682	72	-10	0
Depreciation	-265	-271	-277	-476	-518	-508	-516	95	87	86
Other	3	28	27	61	8	11	16	167	-61	-41
Operating Costs	**-1.841**	**-2.118**	**-2.067**	**-2.995**	**-3.018**	**-3.008**	**-2.746**	**64**	**42**	**33**
Operating Income	**355**	**294**	**162**	**311**	**-134**	**18**	**92**	**-138**	**-94**	**-43**
Operating Margin	*9%*	*7%*	*4%*	*6%*	*-3%*	*0%*	*2%*			
Ebitda*	**617**	**546**	**412**	**787**	**376**	**515**	**592**	**-39**	**-6**	**44**
Ebitda Margin	*15%*	*13%*	*10%*	*13%*	*7%*	*10%*	*11%*			
Ebitda (Cash)*	**424**	**339**	**246**	**516**	**107**	**179**	**300**	**-75**	**-47**	**22**
Ebitda Margin	*11%*	*8%*	*6%*	*10%*	*2%*	*3%*	*6%*			
Extraordinaries	0	-1	0	0	0	13	0	-	-	-
Financial Costs (net)	36	-26	-32	-40	19	-24	17	-47	-8	-
Profit Before Tax	**391**	**268**	**129**	**271**	**-115**	**-6**	**109**	**-129**	**-102**	**-16**
Cash Flow	**411**	**313**	**236**	**475**	**61**	**155**	**241**	**-85**	**-50**	**2**

* Other income is excluded from Ebitda calculation (to match the number published by lleida.net)

Source: LLN, Checkpoint partners

Cost control is another positive feature of 3Q22 results

There are a couple of cost items that are worth noticing this 3Q22.

Employee costs rose 38% during the third quarter to just under €1.6 million, compared to growth of 51% and 81% during the first two quarters of the year. There is a realization at lleida.net that the acquisition of InDenova has brought in new human resources into the group (60 new employees) and there is lesser pressure to build up new capacity as a result. Cost control remains a priority.

Other SG&A, which refers to contracted external services was unchanged at €0.7 million compared to 3Q21, not to different from the 10% decline in 2Q22 and significantly better than the 72% increase seen in 1Q22 (mainly due to the return of the WMC). Further evidence that lleida.net remains cost conscious at a time of its integration with InDenova.

The result of better cost control whilst sales growth continued unabated, was a 22% increase in Ebitda (cash) and 44% in the reported Ebitda (including capitalizations of R&D). Whilst we believe the long term Ebitda margin potential of lleida.net should be in the 10%-15% range, the 6% obtained this quarter is a rebound in the right direction.

We are actually expecting Ebitda (cash) margins in 4Q22 to be somewhere between 15% and 20% (due to the backloaded numbers of InDenova) to finish the year at an average of 8%.

Beyond costs, the SMS divisions are rebounding strongly in 2022 and the market does not seem to notice it either.

ICX: In 2021, ICX revenues fell 4% as a result of the impact of the Covid-19 pandemic on termination fees charged by Telecom operators and the withdrawal from the market of some key customers of Lleida.net. As things do return to normal in 2022, we have observed growth of 15% during the first 9-months of the year and 14% this 3Q22.

SMS Solutions: being the smallest of the lleida.net divisions, it often gets little notice but so far in 2022 has grown by 38% making it the fastest growing division at Lleida net (Other SaaS appears to have grown more but that is because of the InDenova acquisition). This 3Q22 SMS Solutions sales have grown by 24%, not too far from the average of the year.

The conclusion from this quarter and the first 9-months of the year is that we can place the blame on the accounting distortion brought about the inDenova acquisition. When the lleida.net numbers have to withstand a €0.5 million Ebitda loss it appears that the whole group is underperforing, but as the evidence show it is not the case. We therefore expect a positive end for the year with good omens for the whole of 2023, despite the economy (Latin America is doing better than Europe and that will help Lleida.net).

Profit and Loss account 2020-2023e

(€ millions)	2020	2021	2022e	2023e
Sales by division				
Software Services	5,7	7,4	9,6	11,7
SMS Solutions	2,6	2,7	3,8	4,0
ICX	8,1	7,8	9,2	10,6
Turnover and other income	**16,6**	**18,0**	**22,6**	**26,3**
Cost of sales	-8,4	-8,6	-10,9	-12,6
Gross Profit	**8,2**	**9,4**	**11,7**	**13,7**
% y-o-y growth	15%	15%	25%	17%
Gross Margin	49%	52%	52%	52%
Capitalized costs (R&D)	0,7	0,8	1,2	1,2
Personnel Expenses	-3,4	-4,4	-6,4	-6,7
Other SG&A	-2,8	-3,4	-3,5	-3,7
Depreciation	-1,2	-1,3	-2,1	-2,1
Total Operating Costs	**-7,4**	**-9,1**	**-12,0**	**-12,5**
% y-o-y growth	7	22	32	5
Operating Income	**1,4**	**1,1**	**1,0**	**2,4**
Operating Margin	9%	6%	4%	9%
Ebitda	**2,6**	**2,4**	**3,0**	**4,5**
Ebitda Margin	16%	13%	13%	17%
Ebitda (ex-capitalizations)	**2,0**	**1,6**	**1,8**	**3,3**
Ebitda Margin	12%	9%	8%	12%
Financial Income	0,0	0,0	0,0	0,0
Financial Costs	-0,1	-0,1	-0,2	-0,3
FX and Other	-0,3	0,0	0,2	0,0
Financial Results	**-0,4**	**-0,1**	**0,0**	**-0,3**
Profit Before Tax	**1,0**	**1,0**	**0,9**	**2,2**
Tax	0,0	-0,2	-0,1	-0,2
Net Income	**1,0**	**0,9**	**0,8**	**1,9**

Source: LLN, Checkpoint partners

Balance Sheet 2020-2023e

(€ millions)	2020	2021	2022e	2023e
Fixed Assets	**4,1**	**12,0**	**11,8**	**11,6**
Intangible Assets	3,6	11,0	10,8	10,6
Tangible Assets	0,3	0,6	0,6	0,7
Investments in Group Companies	0,0	0,0	0,0	0,0
Other Investments	0,0	0,1	0,1	0,1
Deferred Assets	0,2	0,3	0,3	0,3
Current Assets	**9,1**	**11,5**	**11,3**	**12,2**
Debtors	3,5	5,2	6,3	6,7
Short Term Investments	1,3	0,8	0,8	0,9
Short Term Accruals	0,3	0,4	0,4	0,4
Cash	4,1	5,1	3,8	4,2
Assets	**13,3**	**23,5**	**23,2**	**23,8**
Shareholders' Funds	**7,3**	**6,7**	**7,1**	**8,4**
Capital	0,3	0,3	0,3	0,3
Share Premium	5,2	5,2	5,2	5,2
Reserves	1,3	1,9	2,8	3,2
Repurchase of share capital	-0,8	-1,7	-1,7	-1,7
Profit and Loss account	1,0	0,9	0,8	1,9
Long Term Debt	**2,1**	**8,6**	**7,9**	**7,1**
Current Liabilities	**3,9**	**8,1**	**8,1**	**8,3**
Short Term Debt	0,9	4,6	4,5	4,5
Provisions	0,0	0,0	0,0	0,0
Creditors	3,0	3,5	3,6	3,7
Liabilities	**13,3**	**23,5**	**23,2**	**23,8**

(€ millions)				
Dividends	0,3	0,5	0,6	0,8
Working Capital	0,5	1,7	2,7	2,9
Debtor Turnover (days)	78	88	93	90
Creditor Turnover (days)	70	72	62	58
Financial Debt	3,0	13,2	12,4	11,6
Cash	5,3	5,9	4,6	5,1
Net Debt	**-2,3**	**7,3**	**7,8**	**6,6**

Source: LLN, Checkpoint partners

Sum of the parts valuation

Sector	Division	Current EV (€)	Target DCF (€)	Year	Current (estimate)		Target (DCF based)	
					EV/Sales	EV/Ebitda	EV/Sales	EV/Ebitda
Software	Saas	23,1	63,7	2022e	2,4	1061,7	6,7	2925,7
				2023e	2,0	45,5	5,6	125,3
	inDenova	5,0	13,8	2022e	2,0	27,0	5,5	n.m
				2023e	1,7	8,1	4,6	22,3
Telecom	SMS	2,1	5,7	2022e	0,5	3,2	1,5	8,9
				2023e	0,5	4,1	1,4	11,3
	ICX	7,6	20,8	2022e	0,8	7,7	2,3	21,3
				2023e	0,7	5,2	2,0	14,3
	Sum of Parts	37,7	104,0	2022e	1,7	20,7	4,6	57,0
				2023e	1,4	12,2	4,0	33,7

	Current	Target
Net Debt (€ m)	8,2	8,2
Equity Valuation (€ m)	29,5	95,8
Per shr (€)	1,84	6,00
Upside		226%

Source: LLN, Checkpoint partners

Our sum of the Parts valuation are just estimates of where we think the market is valuing each of lleida.net divisions and where we would value them according to our target price of €6 per share.

We make an estimate of how the Ebitda is distributed between each of the divisions, given that the actual numbers are not reported. Based on those estimates we provide an EV/Ebitda multiple for each of the divisions, both in the way we think they are being valued today and how we value them based on our target price.

We build our target price based on a DCF analysts for each of the divisions.

Valuation charts

EV/Cash Ebitda
(12 month forward)
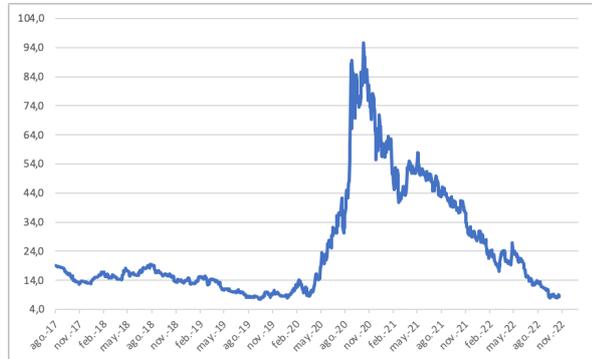
Source: Checkpoint Partners

Price/Earnings
(12 month forward)
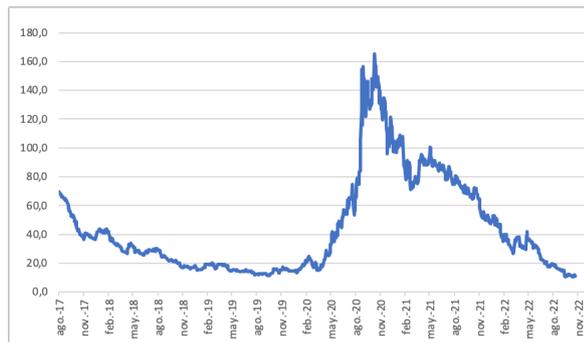
Source: Checkpoint Partners

Cash Flow Yield
(12 month forward)
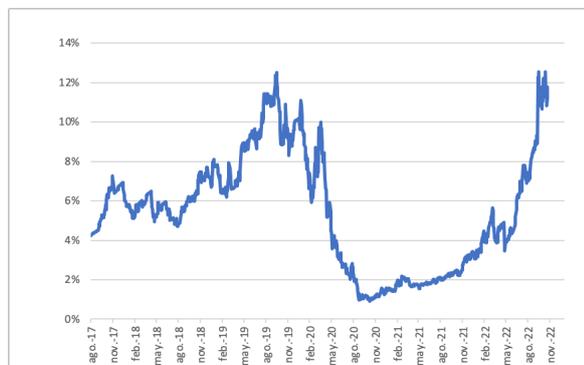
Source: Checkpoint Partners

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
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
11.08.2022	BUY	2.50	7.50	12 months	Guillermo Serrano

Checkpoint does and seeks to do business with companies covered in its research reports. As a result, investors may take the view this could affect the objectivity of the report and therefore should consider this report as only a single factor in making their investment decision.

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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