

Lionbridge Technologies Inc.

LIOX:NASDAQ

Analyst: Lenny Valvano

Sector: Technology

BUY

Price Target: \$7.63

Key Statistics as of 5/2/2015

Market Price:	\$5.61
Industry:	Technology
Market Cap:	\$358.2M
52-Week Range:	\$4.02-\$6.92
Beta:	0.988

Thesis Points:

- Underestimated Revenue Growth
- Significant Margin Growth in upcoming years
- Blue chip customer base that continues to grow due to high competitive advantages

Company Description:

Lionbridge provides solutions to businesses that make the companies' online marketing, global content management and translation more efficient. They do business with hundreds of world leading brands including "blue chip" companies such as Google, Microsoft, Dell, etc. Lionbridge enables these brands to increase their international market share; speed time to global markets and effectively engages their customers in local markets worldwide. Lionbridge has three operating segments. The first being Global Language and Content (GLC) in this segment Lionbridge formalizes and adapts the clients content to meet the language, and cultural requirements of users in foreign markets. The second segment is Global Enterprise Solutions (GES) which through these solutions Lionbridge helps clients deliver high-quality and relevant applications in global markets. The last segment is interpretation; Lionbridge offers telephone services for interpretation in over 360 languages to federal, state, and local government agencies. Lionbridge financially as of late looks extremely encouraging with consistent growth in revenue every year since 2011. The companies EBITDA margins have been fluctuating around 6% throughout the past 3 years which is a 2% improvement from its historical 5 year average before that. The company also has a strong balance sheet with about 36 million in cash and a minimal debt amount of 27 million. Trading currently at a price to earnings of 24.15 compared to its competitors average of 39.69 Lionbridge is undervalued through that multiple.



The Market has Lionbridge Mispriced

Lionbridge Technologies is currently priced at \$5.61 a share by the market, however there are several key factors that the Siena Bjorklund Fund feels the market has underestimated Lionbridge's Future revenue growth, Ebitda Margin Expansion, and has undervalued the growth Lionbridge will obtain due to their competitive advantage as the industries overall market share grows due to increased demand as the technology usage continues to grow in the world. Lionbridge's CEO Rory Cowan has stated in recent earnings calls on how all the structuring and acquisitions the company has been making over the past 3 years were all made with the expectation that they would pay off and show value creation in 2015 and the years beyond that. The company had been focused on making moves back then to create value for now and the Siena Bjorklund Fund feels very strongly that now is the time these moves will pay off and show the value they created for the company.

Underestimated Future Revenue Growth

Lionbridge posted revenue growth of only .3% in fy2014 which was the slowest yoy growth segment the company had experienced in over 5 years, the market looked at this negatively however this had been guided and properly explained in management well before the figures came out. Lionbridge has a surplus of blue chip companies as customers, Microsoft is not only one of those customers but are in fact Lionbridge's largest revenue generating customer. In 2014 due to Microsoft restructuring it's company it had to slow down its relationship with Lionbridge for the short term, significantly cutting back on the revenue Lionbridge generates from Microsoft and in turn resulted in a significant drop in yoy revenue growth for Lionbridge. However CEO Rory Cowan noted in recent earnings calls has stated that not only will Lionbridge and Microsoft's relationship revert back to its full interaction in the second half of fy2015 but he also feels now that Microsoft has restructured itself as a company within they will need Lionbridge's service more than ever and could provide even more revenue as a result for Lionbridge then they have previously. The market seemed to have looked as last years minimal revenue growth as a negative however now looking at it with the "Microsoft affect in mind" it should be looked at as an

optimistic figure that even without their highest revenue generating customer, Lionbridge was still able to grow yoy in revenue. This was partially due to Lionbridge's emergence into new sectors outside of just technology and is also one of the huge future revenue growth drivers that the market is currently underestimating. Last year Lionbridge began to emerge into new sectors, and were able to do so while still obtaining blue chip companies, for example they entered the automobile industry and did so by gaining one of the most prestigious automobile companies in the industry as a customer in Rolls Royce. Lionbridge has shown that they are focused on continuing to enter into new sectors for customers through their recent acquisition of CLS which is a market leader in global content for financial, industrial, life science, and public sectors. Now for Lionbridge to create value on this acquisition they have to be a catalyst to CLS current business and this is something Lionbridge absolutely can do. Lionbridge by acquiring CLS has now entered these new sectors rapidly and immediately owns the current market leader in these segments, not only has Lionbridge proven their ability to obtain blue chip companies which they will now be able to in these sectors to create additional value but they also will be able to aid in margin growth for these segments that CLS has, and this was talked about in the Q4 earnings call when CEO Rory Cowan discussed the acquisition and was quoted saying "accelerates our path to double digit margins".

Significant Margin Growth in Upcoming Years

The market is currently pricing Lionbridge to have EBITDA margins of just around 9% in FY 2015 and 2016, this should be looked at as an underestimate for several reasons. First, Rory Cowan and the Lionbridge management have done an incredible job in recent years of giving not only accurate guidance but showing they have shown they have an incredible feel for the company through the way recent strategic moves have paid off for them. With this being said, managements guidance of double digit margins next year and continued increasing of margins yoy as time goes on should be looked at as trustworthy as Lionbridge's management with their proven track record deserves to be attributed with very little risk factor in guidance. The next reason that double digit margins should be expected is due to Lionbridge's fastest growing segment GES having the best margin's out of all three segments with an EBITDA Margin of

13.4%. The one thing to be noted on the GES segment is that in 2014 the financial figures for revenue and operating profit fell off a little bit for the first time in recent years however this was due to Microsoft being a huge component of the GES segment and as discussed earlier this should not be a concern for the future and should revert back to being a fast growing and highly profitable segment. The company has taken some of its senior management and relocated them to the GES segment to ensure the future growth of this segment because the company realizes the significant profit advantages in this segment. Not only has this attributed to margin growth and will continue to create better profit margins for Lionbridge but also their Global Language and Content segment's Ebitda margin grew over 1% to 8.8% last year and is expected by management to continue to grow due to former acquisitions impact on margins along with Lionbridge's use of new systems were able to operate at a greater scaled and cut costs for Lionbridge in this segment and help them realize the benefits of more automated product offerings without suffering any competitive advantages. Lastly, as discussed earlier the recent acquisition of CLS is another catalyst that Cowan feels will accelerate the company to double digit growth. Due to all of these factors the Bjorklund fund forecasts double digit margins for Lionbridge beginning in 2015 and see them growing all the way to a conservative long term constant margin forecast of 14%, due to as the company continues to grow them experiencing more economies of scale paired with the GES segment margins reflecting more of the company's overall margins.

Competitive Advantage creating future growth with current blue chip customers

As discussed earlier Lionbridge has a ton of blue chip customers and has also continued to obtain new ones, recently new customers include Apple, Paypal, Ebay, Disney, Mastercard, and Enterprise. However with such big names who expected only the best service it is important from a porters five forces standpoint to look at the threat of competitors and make sure that Lionbridge will be able to sustain these relationships that they have with these blue chip companies that are such high revenue generators for Lionbridge. With Lionbridge's retention rate being 100% over the past two years and it not only retaining these relationships but in many cases such as with google the relationships are growing and these blue chip companies are using Lionbridge more as Cowan noted in the recent earnings call. Lionbridge's competitive advantage figures does not end only at its impressive retention rate but the company also does a great job of displaying the benefits their customers get by using their product as seen in the figure below taken off of the most recent investor presentation that the company hosted.

Business Segments						
For the Fiscal Period Ending	12 months	12 months	Reclassified	Reclassified	Reclassified	
	Dec-31-2009	Dec-31-2010	12 months	12 months	12 months	12 months
Currency	USD	USD	USD	USD	USD	USD
Global Language and Content (GLC)						
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Profit Before Tax	-	-	-	32.8%	32.8%	33.9%
Operating Profit Before Tax	6.1%	6.8%	5.9%	7.8%	7.7%	8.8%
Depreciation & Amortization	1.1%	1.2%	1.4%	1.5%	1.6%	1.6%
Global Enterprise Solutions (GES)						
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Profit Before Tax	-	-	-	30.2%	31.2%	29.8%
Operating Profit Before Tax	19.6%	18.9%	15.6%	16.0%	16.1%	13.4%
Depreciation & Amortization	1.2%	0.9%	1.1%	1.5%	2.2%	2.3%
Interpretation						
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Profit Before Tax	-	-	-	16.3%	17.0%	14.3%
Operating Profit Before Tax	8.6%	1.3%	4.5%	8.2%	9.1%	5.8%
Depreciation & Amortization	0.6%	0.7%	0.4%	0.1%	0.1%	0.2%
Corporate and Other						
Operating Profit Before Tax	(6.0)	(5.4)	(2.9)	(2.6)	(2.5)	(2.6)
Depreciation & Amortization	6.0	5.4	2.9	2.6	2.5	2.6



These figures that prove Lionbridge's significant competitive advantage and in turn show a low threat from competitors not only is encouraging because it puts away concerns of Lionbridge losing customers to competitors but it is also encouraging because as other big companies look for a content managing company to help them, they will see that Lionbridge deals with so many already companies that are established and prestigious and in turn should continue to attract new

blue chip companies. Due to these relationships and the stability of them, and with GDP projected at a 3% growth rate, considering all of Lionbridge's large customers that are going to continue to expand and need Lionbridge a 4% long term growth forecast was used for Lionbridge in this valuation and I felt was not only justified but also conservative.

Valuation

Lionbridge is a company that is currently priced by the market at \$5.61 however due to factors and catalysts discussed above such as underestimated revenue growth, future margin expansion, and sustainable competitive advantages through DCF valuation the Bjorklund Fund sees Lionbridge with an intrinsic value of \$6.39 making it heavily undervalued in our eyes by the market and with a one year price target of \$7.63 I am iterating a buy on Lionbridge with a target return of 35.98%.

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Lionbridge Technologies Inc.		liox	Analyst Lenny Valvano	Current Price \$5.61	Intrinsic Value \$6.39	Target Value \$7.63	Divident Yield 0%	Target Return 1-y Return: 35.98%	BULLISH		
General Info		Peers	Market Cap.		Management						
Sector	Information Technology	iSoftStone Holdings Limited			Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014		
Industry	IT Services	EPAM Systems, Inc	\$3,263.23		Cowan, Rory	Founder, Chairman, Chief Executi	\$2,347,167	\$3,025,365	\$2,887,219		
Last Guidance	Feb-05-2015	iGATE Corporation	\$3,868.74		Muir, Donald	Chief Financial Officer, Principal A	\$1,064,778	\$1,125,797	\$1,090,526		
Next earnings date	5/7/2015	Computer Task Group Inc	\$154.04		Shannon, Paula	Chief Sales Officer and Senior Vice	\$921,383	\$1,044,952	\$1,033,407		
Market Data		Cognizant Technology Solutions Corpo:	\$36,104.91		Brookmate, Henri	Senior Vice President of Global Ci	\$931,787	\$1,070,818	\$1,026,677		
Enterprise value	\$350.90	HCL Infosystems Limited	\$9,740.93		Osofsky, Marc	Senior Vice President of Global OI	\$730,755	\$1,014,565	\$1,020,276		
Market Capitalization	\$360.80	Cap Gemini S.A.	\$12,620.40		Tobin, Richard	Senior Vice President and General	\$0	\$529,530	\$822,698		
Daily volume	0.15	Rolta India Limited	\$18,617.38		Historical Median Performance						
Shares outstanding	64.31	SDL plc	\$376.12								
Diluted shares outstanding	63.04	OBIC Co., Ltd.	\$450,197.53								
% shares held by institutions	57.56%	Current Capital Structure									
% shares held by insiders	10.14%	Total debt/market cap	7.48%		Growth	liox	Peers	Industry	All U.S. firms		
Short interest	1.67%	Cost of Borrowing	1.49%		ROE	4.0%	8.3%	6.7%	7.4%		
Days to cover short interest	4.51	Interest Coverage	3.4x		Net Profit Margin	12.5%	13.2%	10.8%	9.9%		
52 week high	\$6.19	Altman Z	3.44		Revenue/Common Equity	2.5%	6.2%	4.6%	6.9%		
52-week low	\$4.02	Debt Rating	A		Excess Cash/Rev.	4.98	2.15	2.37	1.45		
5y Beta	1.29	Levered Beta	1.36		Total Cash /Rev.	7.1%	27.6%	13.5%	12.9%		
6-month volatility	46.19%	WACC (based on market value weights)	9.39%		Unlevered Beta	7.1%	27.6%	12.3%	15.2%		
Past Earning Surprises					TEV/REV	0.5x	1.4x	1.8x	2.5x		
		Revenue	EBITDA	Norm. EPS	TEV/EBITDA	8.9x	19.9x	12.1x	13.1x		
Last Quarter	-1.2%		7.0%	0.0%	PE (normalized and diluted EPS)	22.1x	24.9x	22.9x	23.5x		
Last Quarter-1	-3.9%		16.6%	10.0%	P/BV	2.1x	2.9x	2.4x	2.2x		
Last Quarter-2	-0.6%		-0.6%	-7.7%	Non-GAAP Adjustments in estimates computations						
Last Quarter-3	-1.2%		40.8%	60.0%	Operating Leases Capitalization	0%	N/A		N/A		
Last Quarter-4	4.9%		36.9%	63.6%	R&D Exp. Capitalization	100%	Straightline		10 years		
Proforma Assumptions					Expl./Drilling Exp. Capitalization	0%	N/A		N/A		
					SG&A Capitalization	0%	N/A		N/A		
Forecast											
		Period	Rev. Growth	Adj. Op. Cost/Rev	Common Equity	Net Margin	ROE	Ke			
Money market rate as of today	0.50%	LTM	0.3%	93.1%	\$136.50	3%	12.3%	9.4%			
Annual increase (decrease) in interest rates	0.1%	NTM	8.0%	89.5%	\$172.36	6%	21.9%	9.4%			
Yield Spread acceleration	1.2	NTM+1	16.0%	88.0%	\$219.61	6%	22.2%	9.5%			
Marginal Tax Rate	37.5%	NTM+2	10.0%	87.0%	\$275.88	7%	20.5%	9.6%			
Risk-Free rate	2.8%	NTM+3	9.0%	87.0%	\$335.61	7%	17.5%	9.6%			
Tobin's Q	0.80	NTM+4	8.0%	87.0%	\$399.82	7%	16.8%	9.7%			
Op. Cash/Rev.	10%	NTM+5	8.0%	87.0%	\$451.99	7%	15.8%	9.8%			
Growth in PPE	NPPE Growth follows Revenue Growth	NTM+6	8.0%	87.0%	\$509.22	7%	15.3%	9.9%			
Long term Growth	4.0%	NTM+7	8.0%	87.0%	\$571.20	8%	14.8%	10.0%			
Base Year Unlevered Beta	is equal to 1.3	NTM+8	6.0%	87.0%	\$636.75	8%	14.0%	10.1%			
Long term Unlevered Beta	1.30	Continuing Period	6.0%	87.0%	\$662.22	12%	14.0%	10.2%			
Valuation					Pricing Model						
		Period	Common Equity x (ROE-Ke)	Total Debt	Other non-interest bearing claims	Shares Outstanding	DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share	
		LTM	\$0.00	\$27.00	\$9.52	64.31	\$7.35	\$5.66	\$0.82	\$7.35	
		NTM	en	\$27.00	\$9.43	64.31	\$8.38	\$8.87	\$1.20	\$8.38	
		NTM+1	\$24.20	\$27.00	\$9.70	64.31	\$9.31	\$11.38	\$1.79	\$9.31	
		NTM+2	\$27.50	\$27.00	\$9.60	64.31	\$10.34	\$13.80	\$2.48	\$10.34	
		NTM+3	\$24.07	\$27.00	\$7.03	64.31	\$11.45	\$15.72	\$3.23	\$11.45	
		NTM+4	\$26.06	\$27.00	\$7.59	64.31	\$12.58	\$18.56	\$4.08	\$12.58	
		NTM+5	\$24.82	\$27.00	\$8.20	64.31	\$13.53	\$20.87	\$4.66	\$13.53	
		NTM+6	\$25.39	\$27.00	\$8.85	64.31	\$14.64	\$23.22	\$5.33	\$14.64	
		NTM+7	\$25.22	\$27.00	\$9.56	64.31	\$15.83	\$25.65	\$6.05	\$15.83	
		NTM+8	\$23.45	\$27.00	\$10.13	64.31	\$16.66	\$27.50	\$6.85	\$16.66	
		Continuing Value	\$370.73								
Monte Carlo Simulation Assumptions							Monte Carlo Simulation Results				
		Base	Stdev	Min	Max	Distribution					
Revenue Variation		0	10%	N/A	N/A	Normal	Mean est.	\$7.35	\$8.38		
Op. Costs Variation		0	10%	N/A	N/A	Normal	σ(e)	\$0.32	\$0.25		
Country Risk Premium		5%	N/A	5%	7%	Triangular	3 σ(e) adjusted price	\$6.39	\$7.63		
Long term Growth		4%	N/A	3%	11%	Triangular	Current Price	\$5.61			
							Analysts' median est.		\$7.58		