

Lionbridge Technologies, Inc.

NASDAQ:LIOX

Analyst: Thomas Marano

Sector: Technology

BUY

Price Target: \$10.86

Key Statistics as of 10/13/2016

Market Price: \$4.75
 Industry: IT Services
 Market Cap: \$278.49M
 52-Week Range: \$3.90- \$6.26
 Beta: 1.39

Catalysts:

- Recently Awarded Patent
- Milestones in Second Quarter

Company Description:

Lionbridge Technologies Inc. was founded in 1996 by Rory Cowan in Waltham, Massachusetts and is the world's number one globalization corporation. Lionbridge provides services to clients such as Microsoft, Google, Adobe systems, and Samsung Group. Lionbridge provides the world's top brands with resolutions to translation and localization, global marketing, and website translation complications. Translating in over 380 languages across over 100 markets Lionbridge is extremely efficient to global corporations. Their most popular service being translation, allows business to grow internationally without having a language barrier to worry about. Lionbridge tailors to the client's native language and culture, making the corporation to client services flow much smoother. The software provided also has the ability to translate voicemails, emails, training videos, applications, overall websites and much more.



Thesis

Lionbridge technologies, Inc. (NASDAQ: LIOX) is the world's largest localization firm and continues to grow each year. As digital, social, and mobile content remain on the rise Lionbridge technologies continues to outperform their competition and continue to introduce new and innovative software to their clients. Lionbridge combines both language expertise and operational capabilities that any global corporation needs to maintain their domestic and foreign clients. Partnering with thousands of corporations, Lionbridge has reduced the complexities of multilingual content management, increased production, and accelerated global growth. The company has shown notable year to year growth for the past 7 years and has an optimistic outlook for the coming years. Compared to the industry competition, Lionbridge Technology has been ranked as one of the top 20 outsourcing companies every year since 2006 and was named 2016 CUSTOMER Magazine product of the year, hitting major milestones in their journey as a corporation. Due to their large client base and accredited status, I believe Lionbridge Technologies has a promising future.

Industry Outlook

2016 is predicted to be a massive year for digital transformation. With employment from 2015 growing by an annual rate of nearly 40%, the IT industry is thriving with job opportunities and continues to expand as an industry. The US IT sector on average employs 5.9 million workers in both technical and non-technical roles. Such as software developers, network administrators, human resources, or marketing. Information Technology can be broken down into 6 segments, Hardware, Software, Services, Infrastructure, Information, and Digital Business.

	HARDWARE: computers, servers, storage, mobile devices, printers, network equipment etc
	SOFTWARE: applications for productivity, business, networks, systems, security; mobile app
	SERVICES: deployment, integration, custom development, break/fix, managed services
	INFRASTRUCTURE: Internet backbone, telecommunications networks, cloud data centers
	INFORMATION: data, documents, voice, video, images, social streams
	DIGITAL BUSINESS: commerce, communication, collaboration, automation, governance

Since the start of the year Lionbridge as a corporation has been at their peak of diversification, employing approximately 50% of the workforce in technical roles and 50% in non-technical roles.

With potential to record the highest job growth rate in over a decade, the IT workforce consists of workers spanning across every sector of the economy. This shows how diversified the Technology/IT industry is. Overall the technology industry has been thriving and shows a very promising future.

This year, revenue is expected to reach 3.8 trillion, up from 3.7 trillion in 2015, with the United States accounting for nearly 31%, South America 9%, Europe 24%, Africa 7%, and finally China with 29%. The vast majority of spending stems from purchases by business/enterprises and a small portion of consumer spending. However similar to most industries within the US economy, the IT sector is dominated by small businesses.

Porters Five Forces

Porter's five forces is a powerful tool that is useful for understanding where power lies within a business. This tool is used to determine if new products have to potential to be profitable.

Bargaining power of supplier: **Medium – 50**

Lionbridge Technologies is highly dependent on its suppliers. Due to their extensive global clients, Lionbridge is extremely dependent on their suppliers to consistently produce quality software and computer programs. Although they have solution centers in 27 countries, the buyers are still expecting a quality software that will last.

Bargaining power of customers: **Medium- 50**

Consumers do not have a strong bargaining power when it comes to prices. Lionbridge has consistently outperformed the competition and have had an extremely high retention rate. If customers are not willing to pay the standard price, they can potentially face the consequences associated with a lower quality service.

Intensity of existing rivalry: **Medium- 42**

Lionbridge Technologies has many competitors such as SDL PLC, Translations.com INC., and Wipro Technologies. Rivalry among these competitors is high however Lionbridge has consistently outperformed by offering multiple services. In contrast to the rest of the competition that specialize in one or two of the many

areas Lionbridge covers. Lionbridge Technologies software is essential to many global corporations, therefore most customers are loyal and do not seek out rival competitors.

Threat of new competition: Medium/High-67

Entering this industry is extremely challenging. To be successful companies must provide a similar if not more superior software. In regards to Lionbridge technologies, it would be extremely challenging to compete with them due to the plethora of solution services they provide such as language translation services, global marketing service, website translation and localization service, engineering technical publications and training, enterprise crowdsourcing, and testing service. All of which can be broken down into further subservices.

Threat of substitutes: High- 75

With the technology sector being on the rise there is a high threat of substitutes. More college students are studying computer programming and technology, which could possibly lead to the creation a superior program. However, similarly to what was said earlier, Lionbridge Technologies differentiates its self from competitors by the quality and versatility of their services. It would be challenging to substitute a consistent service.

Product Differentiation

Rated as one of Americas Most Trustworthy Companies by Forbes in 2015, Lionbridge has consistently proved that they provide their clients with superior technology that makes the day to day running of their business more efficient. Lionbridge has a plethora of product lines and services that focus on making activities easier for corporations. They service in three main areas, Language Translation Services, Global marketing Services, and Website Translation and Localization Services. Specializing in language translation for these industries: Technology, Life Sciences, Financial Services and Banking, Automotive, Industrial Manufacturing, Travel and Hospitality, and Video Games. They consistently outperform competition by translating over 380 languages and offering solution centers in 27 countries, providing convenience for global corporations. Lionbridge has an outstanding customer retention rate of 95%, proving

that they have a quality service that consistently keeps their customers satisfied.



Financials and Ratios

Multiple things stand out when viewing Lionbridge Technologies financials. Financial highlights for the second quarter include, record revenue of 144.2 Million, an increase of \$7.7 million (6%) compared to Q1 of 2016. GAAP net of \$.06 has increased compared to the start of 2016. As well as non-GAAP earnings of \$.14 per share or a \$.05 increase from Q1 of 2016. Lionbridge also had a 53% (\$7.8 million) improvement in cash flow operations compared to Q2 of 2015. Gross margin was up 50% as well, showing signs of their revenue increase.

On a year to year basis there has been an increase of \$428,000 compared to Q2 2015. Compared to 2011, revenue has grown from \$428 million to \$560 million in 2015. This growth shows an increase in profit and therefore an increase in purchased product from consumers. EBITDA has also increased these past 5 years from \$11 million to \$31 million. Earnings per share have significantly rose during 2011-2015 from .03 to .24, which overall acts as an indicator for Lionbridge Technologies profitability.

Important Dates and Catalysts

Lionbridge Technologies was awarded a patent for real-time translation solutions on August 10th 2016. The patent was received for its GeoFluent real-time translation solution that enables contact centers to conveniently provide consistent multilingual communication across all channels. Lionbridge Technologies received this patent due to two unique features that support corporations across multiple

nations without having to establish new in-country operations or hire multilingual agents. Lionbridge also received this because they support approximately 95% of the world's GDP languages. This patent is extremely useful in valuing Lionbridge Technology. It is a clear sign that Lionbridge provides a quality service and this patent can be used as a reference in assessing the quality of their service.

Lionbridge Technologies services over 800 brands, including some big name corporations. Such brands include, Microsoft, Nikon, Audi, Dell, and Deutsch Bank. Due to the brand recognition, quality, and overall use of software, Lionbridge has attracted new customers that further add to their positive image. In the Q2 2016 earning call CEO Rory Cowan clarified that Lionbridge Technologies hit very strong milestones during the past quarter. They've remained on track with their overall goal of reaching \$100 million this year and secured very large scale wins with consumer cloud companies such as Netflix, Airbnb, and Amazon. Overall they increased shares with many of their large existing accounts with new programs at Google, Apple, and VMWare. Finally maintaining stability and securing a number of new wins with their largest company, Microsoft. In fact, they have been recently discussing a deal in the gaming sector of Microsoft which has the potential to lead to huge growth.

Summary

Lionbridge Technology has consistently outperformed both domestic and international competitors with their global marketing and language service and definitely has growth opportunities. They continue to grow year after year which proves that their services are consistent and useful. Which has been noted with their patents and awards. As Lionbridge attracts larger companies, this will further add to its accredited status, potentially leading to an increase in revenue. With the technology industry booming and as more corporations expand and grow internationally, I believe Lionbridge's software will prove its self very useful. Overall keeping their status as the number one globalization corporation. I recommend buy because I believe that this stock is undervalued and will grow in the upcoming months. CEO Rory Cowan has hit his targeted goals set and is on track for hitting his future milestones. Again, I recommend buy due to the potential this corporation has, the milestones they've hit, and the consistency they have provided.

Lionbridge Technologies Inc. (LIOX)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Thomas Marano
10/13/2016

Current Price: **\$4.76**
Divident Yield: **0.0%**

Intrinsic Value: **\$2.44**
Target Price: **\$10.86**

Target 1 year Return: **128.41%**
Probability of Price Increase: **100%**



Description	
Lionbridge Technologies, Inc., together with its subsidiaries, provides language, content, and testing solutions worldwide.	
General Information	
Sector	Information Technology
Industry	IT Services
Last Guidance	November 3, 2015
Next earnings date	November 5, 2016
Estimated Country Risk Premium	10.25%
Effective Tax rate	25%
Effective Operating Tax rate	25%

Market Data	
Market Capitalization	\$278.49
Daily volume (mil)	0.06
Shares outstanding (mil)	58.14
Diluted shares outstanding (mil)	61.30
% shares held by institutions	57%
% shares held by investments Managers	50%
% shares held by hedge funds	29%
% shares held by insiders	15.11%
Short interest	1.30%
Days to cover short interest	3.26
52 week high	\$6.26
52-week low	\$3.90
Levered Beta	1.39
Volatility	41.16%

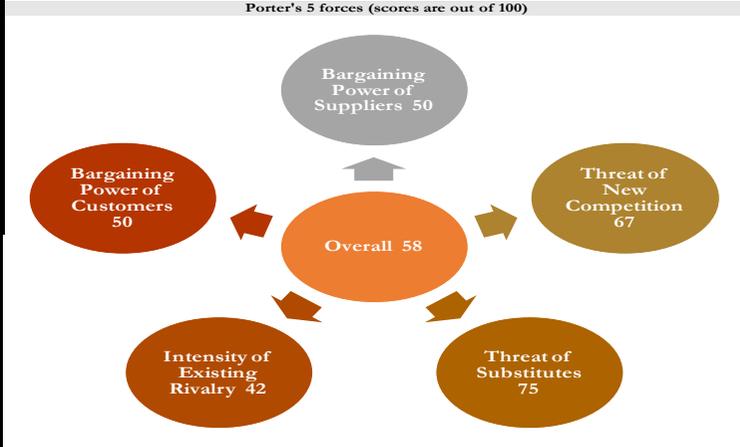
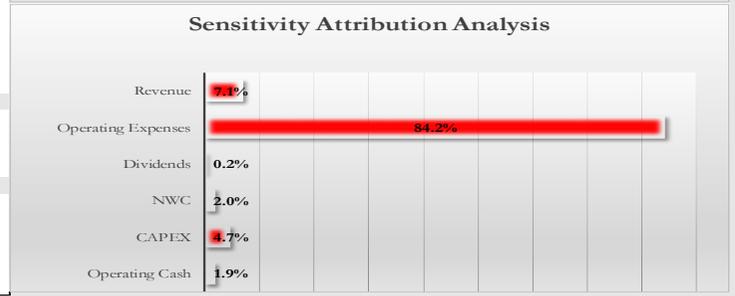
Quarter ending	Revenue	EBITDA
6/30/2015	-0.89%	-18.25%
9/30/2015	-5.84%	-30.75%
12/31/2015	-0.49%	-47.22%
3/31/2016	-1.58%	-31.91%
6/30/2016	-2.24%	-31.57%
Mean	-2.21%	-31.94%
Standard error	1.0%	4.6%

Peers	Virtusa Corporation
Total return to shareholders	
6.12% per annum over 5y	-6.04% per annum over 5y
N/M	0% per annum over 0y
-3.05% per annum over 5y	-6.04% per annum over 5y
11.47% per annum over 3y	10.4% per annum over 3y
49.4% per annum over 2y	-9.24% per annum over 2y
N/M	N/M



Management	Position
Cowan, Rory	Founder, Chairman, Chief Exe
Litz, Marc	Chief Financial Officer and
Shannon, Paula	Chief Sales Officer and Seni
Osofsky, Marc	Senior Vice President and Ge
Tobin, Richard	Senior Vice President of Glo
Bada, Sara	Vice President of Investor R
Profitability	LIOX (LTM)
ROIC	10.6%
NOPAT Margin	7%
Revenue/Invested Capital	1.58
ROE	15.2%
Adjusted net margin	6%
Revenue/ Adjusted Book Value	2.42
Invested Funds	LIOX (LTM)
Total Cash/Total Capital	6.7%
Estimated Operating Cash/Total Capital	6.7%
Non-cash working Capital/Total Capital	12.3%
Invested Capital/Total Capital	100.1%
Capital Structure	LIOX (LTM)
Total Debt/Common Equity (LTM)	0.60
Cost of Existing Debt	2.78%
Estimated Cost of new Borrowing	2.03%
CGFS Risk Rating	AA
Unlevered Beta (LTM)	1.06
WACC	13.58%

LIOX (5 years historical average)	Industry (LTM)
17.52%	17.81%
9.00%	18.6%
1.95	0.96
24.64%	22.09%
8.78%	16.3%
2.81	1.35
LIOX (5 years historical average)	Industry (LTM)
10.6%	27%
9.7%	N/A
11.2%	-1%
99.2%	75%
LIOX (5 years historical average)	Industry (LTM)
0.27	0.32
2.24%	5.71%
1.24%	5.71%
AAA	B
1.03	0.92
13.32%	12.91%



Period	Revenue growth
Base Year	7.6%
6/30/2017	0.7%
6/30/2018	1.0%
6/30/2019	1.4%
6/30/2020	1.7%
6/30/2021	2.0%
6/30/2022	2.4%
6/30/2023	2.7%
6/30/2024	3.1%
6/30/2025	3.4%
6/30/2026	3.7%
Continuing Period	4.1%
Period	Invested Capital
Base Year	\$180.17
6/30/2017	\$217.38
6/30/2018	\$237.35
6/30/2019	\$254.88
6/30/2020	\$354.98
6/30/2021	\$383.84
6/30/2022	\$379.51
6/30/2023	\$363.51
6/30/2024	\$349.49
6/30/2025	\$334.45
6/30/2026	\$319.46
Continuing Period	

Valuation	NOPAT margin	ROIC/WACC
6.7%	6.7%	0.78
4.8%	4.8%	0.54
4.6%	4.6%	0.52
4.5%	4.5%	0.55
4.4%	4.4%	0.56
4.3%	4.3%	0.58
4.3%	4.3%	0.61
4.2%	4.2%	0.64
4.1%	4.1%	0.68
4.1%	4.1%	0.73
4.0%	4.0%	0.78
4.1%	4.1%	0.86
Net Claims	Price per share	
\$143.21	\$2.06	
\$93.95	\$2.92	
\$32.02	\$3.83	
-\$27.48	\$4.72	
-\$87.08	\$5.58	
-\$146.99	\$6.45	
-\$204.34	\$7.26	
-\$260.73	\$8.04	
-\$316.16	\$8.78	
-\$370.61	\$9.49	
-\$424.05	\$10.15	