

Italy – Digital

Transition phase impacting short term profitability

23<sup>rd</sup> October 2019

H1-19 RESULTS RELEASE

RIC: DIGIT.MI  
BBG: DIG IM

Interim results showed double digit growth of the top line, driven by the new innovative As-A-Service business model, which will bring a higher portion of recurring revenues. Margins were affected by one-off costs and higher D&A related to the offer transformation.

Rating:

**Buy**

Price Target:

**€ 1.20 (€ 1.70)**

Upside/(Downside): 47.2%

Last Price: € 0.82

Market Cap.: € 13.1

1Y High/Low: € 1.22/€ 0.76

Free Float: 21.9%

Major shareholders:

Andrea Rangone 23.9%  
Mariano Corso 12.2%  
Alessandro Giuseppe Perego 12.2%



Stock price performance

	1M	3M	12M
<b>Absolute</b>	-12.4%	-12.4%	-34.3%
<b>Rel.to AIM Italia</b>	1.6%	1.0%	-20.4%
<b>Rel.to peers</b>	-11.4%	-6.3%	-26.9%

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**PT of € 1.20/s (€ 1.70/s), 47.2% upside confirms Buy recommendation**

On the back of the publication of H1-19 results, we have updated our model factoring in 1) a slightly slower growth rate in terms of top line, 2) an increase in fixed costs in order to strengthen the operating structure and 3) an increase in intangible capex. Compared to our previous estimates, the company is a year late in reaching the targets previously set out, mainly in terms of profitability. The result is a 3.9%, 13.7%, 30.1% and 42.5% average downgrade in Sales, EBITDA, EBIT adj. and Net Profit adj. in 2019-21. Net Debt is anticipated at € 6.9m in 2021 (previously € 5.9m). Moreover, we updated DCF valuation criteria bringing the Free Risk Rate up-to-date. The combined result is a new PT FD of € 1.20/s (€ 1.70), based on a multiples comparison and corroborated by the DCF. The 47.2% upside to current price supports the long term Buy rating on the stock.

**Revenues up 13%, entirely organic**

Revenues increased by 12.8% to € 13.4m, entirely organic. In the first half of 2019 the new innovative services launched in H2-18 had an encouraging performance: management expects the total value of the new innovative As-A-Service subscription services total amount will be at end-19 to the tune of € 5.0m, of which 65% will be converted in revenues in FY-19. The Advisory business unit, which supports digital transformation for enterprises and Public Administration, grew by 18%. The Demand Generation business unit, which focuses on communication, marketing and lead generation activities, increased by 10%.

**Margins affected by one-off costs related to the change in business model**

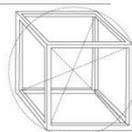
EBITDA was € 1.5m, 11.0% margin (12.6% in H1-18). The decrease in margin was largely due to one-off costs related to the change in business model. Excluding the goodwill amortisation, EBIT adjusted declined to € 0.7m, for the primary reason of the increase in D&A stemming from the investments related to the change in business profile. Net Financial Position increased from € 4.6m in FY-18 to € 5.2m in H1-19, after 1) positive operating cash flow for € 1.4m, 2) capex for € 0.9m and 3) the repayment of a Vendor Loan for € 1.2m.

**New innovative “As-A-Service” business model**

The investments sustained in 2018 were based on technological platform innovations, in order to develop the new business model. In detail, 1) Development of new CMS, CRM and marketing automation tools; 2) New web portals and renewal of existing ones; 3) A new Digital Marketing & Sales Engine model according to an “As-A-Service” approach; 4) A new Advisory “As-A-Service” model. The new “As-A-Service” approach, based on monthly fees, will bring more recurring revenues over time, improving turnover visibility. In addition, thanks to the contribution of the companies acquired during 2018, DIGITAL360 will be able to integrate its business model with new activities which are highly complementary with those already provided by the group, laying the foundations for important future developments.

**DIGITAL360, key financial and ratios**

€ k	2017	2018	2019e	2020e	2021e
Sales	14,320	22,513	26,012	29,015	31,936
EBITDA	1,640	2,569	2,612	3,515	4,486
EBIT	283	390	84	736	1,217
EBIT adj.	756	1,144	868	1,520	2,001
Net profit	50	(436)	(657)	(103)	459
Net profit adj.	523	318	127	681	1,243
NFP (cash)/debt	2,570	4,566	7,516	7,107	6,931
EPS adj. FD € cent	3.15	1.87	0.73	3.92	7.17
EPS adj. FD growth	-9.6%	-40.5%	-61.0%	436.3%	82.6%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
Free Cash Flow Yield	-13.8%	-30.8%	-13.7%	3.1%	1.3%
PER x	25.1	41.3	103.5	19.3	10.6
PCF x	9.3	7.5	7.0	4.9	3.5
EV/Sales x	1.17	0.81	0.80	0.71	0.64
EV/EBITDA x	9.6	6.9	7.9	5.8	4.5
EV/EBIT x	55.5	45.4	247.2	27.5	16.5



## One-off costs distressed margins and bottom line

Interim results showed double digit growth of the top line, driven by the new innovative As-A-Service business model, which shall bring a higher portion of recurring revenues. Margins were affected by one-off costs and higher D&A related to the offer transformation.

**Table 1 – DIGITAL360, H1-19 results summary**

€ k	H1-19	H1-18	% YoY
<b>Total revenues</b>	<b>13,407</b>	<b>11,887</b>	<b>12.8</b>
Services	(7,579)	(6,461)	
Personnel expenses	(3,855)	(3,346)	
Other opex	(500)	(583)	
<b>EBITDA</b>	<b>1,473</b>	<b>1,497</b>	<b>(1.6)</b>
% margin	11.0	12.6	
D&A	(1,167)	(987)	
<b>EBIT</b>	<b>306</b>	<b>510</b>	<b>(40.1)</b>
% margin	2.3	4.3	
Financials	(140)	(126)	
Re/(Devaluation) of financial assets	0	(50)	
Extraordinary	0	0	
<b>Pre-Tax profit</b>	<b>166</b>	<b>334</b>	<b>(50.3)</b>
% margin	1.2	2.8	
Income taxes	(224)	(292)	
Tax rate	135.0%	87.4%	
Minorities	(323)	(213)	
<b>Group Net Profit</b>	<b>(381)</b>	<b>(171)</b>	<b>n.m.</b>
% margin	(2.8)	(1.4)	
Goodwill amortisation	(392)	(365)	
<b>EBIT adj.</b>	<b>698</b>	<b>875</b>	<b>(20.3)</b>
% margin	5.2	7.4	
<b>Group Net Profit adj.</b>	<b>11</b>	<b>194</b>	<b>(94.1)</b>

Source: Company data

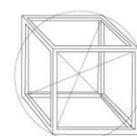
**Revenues increased by 12.8% to € 13.4m, entirely organic.** In the first half of 2019 the new innovative services launched in H2-18 had an encouraging performance: management expects the total value of the new innovative As-A-Service subscription services will be at end-19 to the tune of € 5.0m, of which 65% will be converted in revenues in FY-19.

The **Advisory business unit**, which supports digital transformation for enterprises and Public Administration, grew by 18%. The **Demand Generation** business unit, which focuses on communication, marketing and lead generation activities, increased by 10%, almost entirely driven by the new demand generation As-A-Service offer.

**EBITDA was € 1.5m, 11.0% margin** (12.6% in H1-18). The decrease in margin was largely due to one-off costs related to the change in business model (Digital As-A-Service).

DIGITAL360 reports results according to the Italian GAAP accounting standard. In order to make the results reported by DIGITAL360 more comparable with those of its peers, we adjusted EBIT and Net Profit by the amount of the goodwill amortisation. Excluding the goodwill amortisation, **EBIT adjusted declined to € 0.7m**, primarily due to an increase in D&A stemming from the investments related to the change in business model.

**Net Financial Position** increased from € 4.6m in FY-18 to € 5.2m in H1-19, after 1) positive operating cash flow for € 1.4m, 2) capex for about € 1.0m and 3) the repayment of a Vendor Loan for € 1.15m.



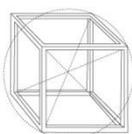
## Recent development

**Starting from 2018 DIGITAL360 developed an “As-A-Service” approach in both Demand Generation and Advisory&Coaching BUs**, based on the sharing of specialist teams in order to provide the customers with services on ongoing basis, all supported by digital and cloud platforms. The new business model allows the group to increase the percentage of recurring revenues thanks to monthly fees. Furthermore the group decided strategically to close all printed newspapers, focusing on digital contents.

Consistently with the new innovative As-A-Service approach, **in the first half of 2019 the group invested € 1.0m in technological innovation and development of new products and services** for both Demand Generation and Advisory&Coaching business units.

The main activities carried out in **Demand Generation** division were: 1) transition to an As-A-Service approach in the Digital Marketing & Sales Engine services; 2) development of new technological platforms, namely CMS, CRM and Marketing Automation; 3) renewal of the websites and the launch of new newsletters; 4) a new project based on machine learning technology.

In the **Advisory&Coaching** BU investments were carried out, mainly for 1) the development of new practices (Sport, eHealth, Digital Customer Experience) and services (Blockchain, QHSE-Quality, Health, safety and Environment, Cloud transformation, Agile Organization) and 2) the launch of new recurring services (Advisory-As-A-Service) and tools created as Software-As-A-Service (i.e. GRC<sub>360</sub>, a 360° solution in the field of GDPR).



## Estimates, valuation and risks

The company delivered 2019 interim results showing margins affected by some one-off costs and higher D&A related to the offer transformation towards the new innovative “As-A-Service” business model. On the back of the publication of H1-19 results, we have updated our model factoring in 1) a **slightly slower growth path in terms of top line**, 2) A **3% increase in fixed costs** on average in 2019-21 in order to strengthen the operating structure, namely personnel, supporting the new business model and 3) an **increase in intangible capex** to develop new practices, services and technological platforms. The aforementioned change in the business model, based on monthly fees, will bring more recurring revenues over time, improving turnover visibility whilst contributing to an increase in the company's profitability. Nevertheless, **compared to our previous estimates, the company is almost one year behind in order to reach the targets previously set**, mainly in terms of profitability. The result is a **3.9%, 13.7%, 30.1% and 42.5% average downgrade in Sales, EBITDA, EBIT adj. and Net Profit adj. in 2019-21. Net Debt is anticipated to be € 6.9m in 2021** (previously € 5.9m).

Moreover, we updated the DCF valuation criteria bringing the Free Risk Rate up-to-date. The combined result is a **new PT FD of € 1.20/s (€ 1.70)**, based on a multiples comparison and corroborated by the DCF. **The 47.2% upside to current price allows confirmation of a Buy recommendation.**

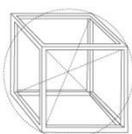
The reference market is huge, growing and fragmented. DIGITAL360 aims to generate additional business from the vast quantity of smaller corporations, public administration and digital providers, to the benefit of volumes and scale despite potentially having a smaller single ticket.

## Market multiples

We conducted an analysis on a cluster of 16 companies operating in the digital and advisory arena, 7 of which are domestic. Subsequently, to put together a really appropriate and significant sample, we completed a comparability analysis based on a few qualitative and quantitative factors. At the end of this process, we have encompassed seven firms in the sample, all foreign companies. Size, profitability and growth profile vary a lot within the sample.

In this case, the equation ‘the larger the company, the lower the margins’ is not true: the higher EBITDA margins come from J2 Global and Relx NV, 40.6% and 32.4% with a market capitalization of € 4.1bn and € 39.8bn respectively. DIGITAL360 presents lower than average profitability but by far the highest growth perspectives compared to the peer median.

Applying to DIGITAL360 metrics the 35% discounted peer median multiples (previously 25%, since in a certain extent the execution risk related to the change in business model might increase) for EV/Sales, EV/EBITDA and PER **we attain an equity valuation of DIGITAL360 of € 1.20/s (€ 1.70)**, realised using 2019 and 2020 estimates and multiples, with a 47.2% upside to current prices.



**Table 2 - DIGITAL360, peer group summary table**

€ m	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR <sub>18-21</sub>	EBITDA CAGR <sub>18-21</sub>	EBIT CAGR <sub>18-21</sub>	EPS CAGR <sub>19-21</sub>	NFP FY1	NFP/ EBITDA FY1
Forrester Research Inc	572	415	55	13.3%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gartner Inc	11,586	3,800	615	16.2%	10.5%	11.8%	22.1%	15.1%	1,667	2.7
j2 Global Inc	4,140	1,224	497	40.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Quinstreet Inc	600	461	47	10.2%	11.3%	54.7%	n.a.	n.a.	(39)	n.m.
Relx NV	39,842	8,201	2,657	32.4%	0.5%	0.7%	-0.4%	3.6%	6,377	2.4
TechTarget Inc	574	119	36	29.9%	18.9%	37.8%	34.9%	28.6%	(4)	n.m.
Wolters Kluwer NV	17,533	4,568	1,339	29.3%	5.1%	5.7%	9.8%	6.5%	1,990	1.5
<b>Median</b>	<b>4,140</b>	<b>1,224</b>	<b>497</b>	<b>29.3%</b>	<b>10.5%</b>	<b>11.8%</b>	<b>16.0%</b>	<b>10.8%</b>	<b>1,667</b>	<b>2.4</b>
<b>DIGITAL360</b>	<b>13</b>	<b>26</b>	<b>3</b>	<b>10.0%</b>	<b>12.4%</b>	<b>20.4%</b>	<b>20.5%</b>	<b>213.0%</b>	<b>8</b>	<b>2.9</b>

Source: CFO Sim, Thomson Reuters Eikon

**Table 3 - DIGITAL360, peer group EV & price multiple table**

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
Forrester Research Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.0	16.6	n.a.
Gartner Inc	3.49	3.10	2.78	21.6	18.9	17.1	39.9	35.0	30.1
j2 Global Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.4	12.2	11.1
Quinstreet Inc	1.22	1.06	0.92	12.0	9.4	7.9	18.3	15.9	n.a.
Relx NV	5.64	5.29	5.31	17.4	16.2	14.9	21.5	20.1	20.0
TechTarget Inc	4.79	4.33	3.17	16.0	13.5	11.7	37.8	28.5	22.8
Wolters Kluwer NV	4.27	4.05	3.82	14.6	13.6	12.8	23.4	22.0	20.7
<b>Median</b>	<b>4.27</b>	<b>4.05</b>	<b>3.17</b>	<b>16.0</b>	<b>13.6</b>	<b>12.8</b>	<b>21.5</b>	<b>20.1</b>	<b>20.7</b>
<b>DIGITAL360 SpA</b>	<b>0.79</b>	<b>0.70</b>	<b>0.63</b>	<b>7.9</b>	<b>5.8</b>	<b>4.5</b>	<b>103.5</b>	<b>19.3</b>	<b>10.6</b>
Prem/(disc) to median	(81.4)	(82.8)	(80.2)	(50.6)	(57.8)	(64.9)	382.2	(4.1)	(48.8)

Source: CFO Sim, Thomson Reuters Eikon

**Table 4 - DIGITAL360, peer group EV & price multiple table**

X	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
<b>Median peers</b>	<b>4.27</b>	<b>4.05</b>	<b>3.17</b>	<b>16.0</b>	<b>13.6</b>	<b>12.8</b>	<b>21.5</b>	<b>20.1</b>	<b>20.7</b>
DIGITAL360 metrics	26,012	29,015	31,936	2,612	3,515	4,486	127	681	1,243
NFP	7,516	7,107	6,931	7,516	7,107	6,931			
Put & call adjustments	1,683	1,683	1,683	1,683	1,683	1,683			
<b>DIGITAL360 Equity Value (€ k)</b>	<b>63,061</b>	<b>67,683</b>	<b>57,214</b>	<b>17,971</b>	<b>22,383</b>	<b>28,607</b>	<b>1,772</b>	<b>8,908</b>	<b>16,701</b>
# shares FD m	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
<b>DIGITAL360 Equity Value €/s FD</b>	<b>3.64</b>	<b>3.91</b>	<b>3.30</b>	<b>1.04</b>	<b>1.29</b>	<b>1.65</b>	<b>0.10</b>	<b>0.51</b>	<b>0.96</b>

Source: CFO Sim, Thomson Reuters Eikon

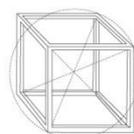
## DCF

In the valuation via the DCF method explicit estimates until 2023 and long term growth of 2.5% were used. Cash flows were discounted back at an weighted average cost of capital calculated according to the following parameters:

**Table 5 - WACC derived from:**

Interest costs, pre-tax	2.5%
Tax rate	45.0%
<b>Int. costs, after taxes</b>	<b>1.4%</b>
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 2W average)	1.20%
Beta levered (x)	0.80
<b>Required ROE</b>	<b>8.4%</b>

Source: CFO Sim



**Table 6 - DIGITAL360, DCF model**

€ k	2019e	2020e	2021e	2022e	2023e	Term. Val.
EBIT	84	736	1,217	1,825	2,738	
Tax rate	55.0%	45.0%	40.0%	40.0%	40.0%	
<b>Operating profit (NOPAT)</b>	<b>38</b>	<b>405</b>	<b>730</b>	<b>1,095</b>	<b>1,643</b>	
Change working capital	(1,094)	(795)	(789)	(800)	(300)	
Depreciation	2,529	2,779	3,269	2,500	500	
Investments	(2,000)	(1,500)	(2,700)	(1,200)	(500)	
<b>Free Cash Flows</b>	<b>(528)</b>	<b>889</b>	<b>510</b>	<b>1,595</b>	<b>1,343</b>	<b>36,528</b>
Present value	(522)	827	446	1,314	1,041	28,318
WACC	6.3%	6.3%	6.3%	6.3%	6.3%	
<b>Long-term growth rate</b>	<b>2.5%</b>					

Source: CFO Sim

The balance sheet structure adopted for WACC calculation is based on an optimal financial leverage 70-30 equity-debt balance.

**Table 7 – DIGITAL360, DCF per share derived from:**

€ k	
Total EV present value € k	31,424
<i>thereof terminal value</i>	90.1%
NFP FY-18	(4,566)
Put & call	(1,683)
Pension FY-18	(993)
Equity value € k	24,182
# shares FD m	17.3
<b>Equity value €/s FD</b>	<b>1.40</b>
<i>% upside/(downside)</i>	71.8%

Source: CFO Sim

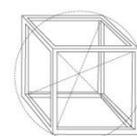
The application of the model produces an equity value of € 24m, which means **€ 1.40/s.** The valuation via the DCF methodology has **benefited from the decrease in the free risk rate from 2.50% to 1.20%** since our latest publication on DIGITAL360, also on the back of the huge weight of terminal value on total EV, i.e. 90%.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value per share of between € 1.11–1.82 (perpetuity range of between 1.75% and 3.25%), while 2) compared to changes in the free risk rate produces an equity value/s of € 1.16–1.70 (free risk range of between 1.95% and 0.45%) and 3) compared to changes in the risk premium, including small size premium results into an equity value/s of € 1.05–1.94 (risk premium range of between 10.5% and 7.5%)

**Table 8 – DIGITAL360, equity value sensitivity to changes in terminal growth rate**

€ k	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
Present value of CF	3,106	3,106	3,106	3,106	3,106	3,106	3,106
PV of terminal value	23,441	24,875	26,488	28,315	30,402	32,807	35,612
<b>Total value</b>	<b>26,547</b>	<b>27,981</b>	<b>29,594</b>	<b>31,421</b>	<b>33,507</b>	<b>35,913</b>	<b>38,718</b>
NFP FY-18	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)
Put & call	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)
Pension FY-18	(993)	(993)	(993)	(993)	(993)	(993)	(993)
<b>Equity value € k</b>	<b>19,304</b>	<b>20,738</b>	<b>22,351</b>	<b>24,178</b>	<b>26,265</b>	<b>28,670</b>	<b>31,475</b>
# shares FD m	17.3	17.3	17.3	17.3	17.3	17.3	17.3
<b>Equity value €/s FD</b>	<b>1.11</b>	<b>1.20</b>	<b>1.29</b>	<b>1.40</b>	<b>1.52</b>	<b>1.65</b>	<b>1.82</b>

Source: CFO Sim



**Table 9 – DIGITAL360, equity value sensitivity to changes in free risk rate**

€ k	0.45%	0.70%	0.95%	1.20%	1.45%	1.70%	1.95%
Present value of CF	3,158	3,140	3,123	3,106	3,089	3,072	3,055
PV of terminal value	33,590	31,649	29,900	28,315	26,872	25,554	24,344
<b>Total value</b>	<b>36,747</b>	<b>34,790</b>	<b>33,023</b>	<b>31,421</b>	<b>29,961</b>	<b>28,625</b>	<b>27,399</b>
NFP FY-18	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)
Put & call	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)
Pension FY-18	(993)	(993)	(993)	(993)	(993)	(993)	(993)
<b>Equity value € k</b>	<b>29,505</b>	<b>27,547</b>	<b>25,780</b>	<b>24,178</b>	<b>22,718</b>	<b>21,383</b>	<b>20,156</b>
# shares FD m	17.3	17.3	17.3	17.3	17.3	17.3	17.3
<b>Equity value €/s FD</b>	<b>1.70</b>	<b>1.59</b>	<b>1.49</b>	<b>1.40</b>	<b>1.31</b>	<b>1.23</b>	<b>1.16</b>

Source: CFO Sim

**Table 10 – DIGITAL360, equity value sensitivity to changes in risk premium**

€ k	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	3,189	3,161	3,133	3,106	3,079	3,052	3,025
PV of terminal value	37,612	33,970	30,914	28,315	26,078	24,132	22,425
<b>Total value</b>	<b>40,801</b>	<b>37,131</b>	<b>34,048</b>	<b>31,421</b>	<b>29,156</b>	<b>27,184</b>	<b>25,451</b>
NFP FY-18	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)	(4,566)
Put & call	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)	(1,683)
Pension FY-18	(993)	(993)	(993)	(993)	(993)	(993)	(993)
<b>Equity value € k</b>	<b>33,558</b>	<b>29,888</b>	<b>26,805</b>	<b>24,178</b>	<b>21,914</b>	<b>19,941</b>	<b>18,208</b>
# shares FD m	17.3	17.3	17.3	17.3	17.3	17.3	17.3
<b>Equity value €/s FD</b>	<b>1.94</b>	<b>1.73</b>	<b>1.55</b>	<b>1.40</b>	<b>1.26</b>	<b>1.15</b>	<b>1.05</b>

Source: CFO Sim

## Peer stock performance

DIGITAL360 was listed on the AIM Italia (Alternative Investment Market) on 13-Jun-17 at € 1.15/share, corresponding to a market capitalisation post money of € 17.7m. DIGITAL360 now trades **below the IPO price**, and reached 1Y maximum of € 1.22/s on last 09-Jan and a minimum of € 0.76 on last 08-Oct. The stock underperformed the peer median and indexes in the last 6M.

**Table 11 - DIGITAL360, peer group absolute performance**

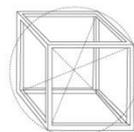
	1D	1W	1M	3M	6M	YTD	1Y
Forrester Research Inc	(2.3)	1.1	(1.0)	(30.5)	(31.4)	(23.3)	(16.6)
Gartner Inc	(1.4)	(1.9)	(0.2)	(15.6)	(10.3)	11.8	(3.3)
j2 Global Inc	(1.0)	(2.2)	5.9	5.3	5.6	35.7	25.8
Quinstreet Inc	2.7	1.5	5.3	(22.3)	(5.8)	(19.5)	(4.8)
Relx NV	0.4	0.5	(2.7)	(6.0)	2.7	11.6	16.1
TechTarget Inc	(0.1)	1.0	(1.3)	1.3	44.6	89.3	11.2
Wolters Kluwer NV	1.9	(1.1)	(1.7)	(3.3)	1.7	24.0	23.9
<b>Peers median</b>	<b>(0.1)</b>	<b>0.5</b>	<b>(1.0)</b>	<b>(6.0)</b>	<b>1.7</b>	<b>11.8</b>	<b>11.2</b>
<b>DIGITAL360 SpA</b>	<b>1.9</b>	<b>1.9</b>	<b>(12.4)</b>	<b>(12.4)</b>	<b>(25.2)</b>	<b>(31.5)</b>	<b>(34.3)</b>

Source: Thomson Reuters Eikon

**Table 12 – DIGITAL360 relative performances**

	1D	1W	1M	3M	6M	YTD	1Y
To Peers median	2.0	1.3	(11.4)	(6.3)	(26.9)	(43.4)	(45.4)
To MSCI World Index	2.1	1.5	(13.4)	(12.1)	(26.6)	(48.5)	(41.6)
To EUROSTOXX	1.8	1.8	(14.3)	(13.6)	(26.4)	(49.5)	(44.2)
To FTSE Italia All Share	1.8	1.2	(15.0)	(14.8)	(27.4)	(53.0)	(51.3)
To FTSE STAR Italia	1.3	0.9	(12.9)	(12.8)	(23.6)	(46.7)	(40.4)
To FTSE AIM Italia	1.6	1.0	(9.1)	0.9	(12.7)	(24.9)	(20.4)

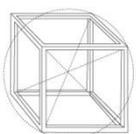
Source: Thomson Reuters Eikon



## Risks

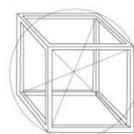
The principal investment **risks** in DIGITAL360 include:

- Risks linked to the algorithm used by the search engines;
- Risks related to personal data collection, holding and treatment;
- Risks due to ICT malfunctions;
- Risks connected to the relevant technological evolution;
- Risks due to relevant competition in the reference market;
- Impact on economics and balance sheet profile triggered by a deep decline in local and global economic growth;
- Dilution on profitability stemming from the acquisition campaign;
- The departure of one of few key relevant people





Income statement (€ k)	2017	2018	2019e	2020e	2021e
Total revenues	14,320	22,513	26,012	29,015	31,936
Services	(7,347)	(12,571)	(14,895)	(16,604)	(18,110)
Personnel expenses	(4,375)	(5,935)	(6,825)	(7,021)	(7,276)
Other opex	(958)	(1,430)	(1,680)	(1,875)	(2,065)
EBITDA	1,640	2,569	2,612	3,515	4,486
D&A	(1,357)	(2,179)	(2,529)	(2,779)	(3,269)
EBIT	283	390	84	736	1,217
EBIT adj.	756	1,144	868	1,520	2,001
Financials	(215)	(271)	(322)	(367)	(366)
Re/(Devaluation) of financial assets	0	(50)	0	0	0
Extraordinary	0	0	0	0	0
Pre-Tax profit	68	69	(238)	369	851
Income taxes	(15)	(244)	(131)	(166)	(340)
Minorities	(3)	(260)	(288)	(306)	(51)
Net Profit	50	(436)	(657)	(103)	459
Net Profit adj.	523	318	127	681	1,243
Balance sheet (€ k)	2017	2018	2019e	2020e	2021e
Net Working Capital	3,210	4,908	6,003	6,798	7,587
Net Fixed Assets	6,869	10,341	9,812	8,533	7,965
Equity Investments	182	137	137	137	137
Other M/L Term A/L	96	(1,827)	188	466	580
Net Invested Capital	10,357	13,559	16,140	15,934	16,268
Net Financial Position	2,570	4,566	7,516	7,107	6,931
Minorities	8	394	682	989	1,040
Group's Shareholders Equity	7,779	8,598	7,941	7,838	8,298
Financial Liabilities & Equity	10,357	13,559	16,140	15,934	16,268
Cash Flow statement (€ k)	2017	2018	2019e	2020e	2021e
Total net income	50	(436)	(657)	(103)	459
Depreciation	1,357	2,179	2,529	2,779	3,269
Other non-cash charges	(1,336)	1,516	(577)	28	(63)
Cash Flow from Oper. (CFO)	71	3,259	1,294	2,704	3,666
Change in NWC	(62)	(1,698)	(1,094)	(795)	(789)
FCF from Operations (FCFO)	9	1,561	200	1,909	2,877
Net Investments (CFI)	(1,765)	(5,608)	(2,000)	(1,500)	(2,700)
Free CF to the Firm (FCFF)	(1,756)	(4,047)	(1,800)	409	177
CF from financials (CFF)	3,577	3,864	1,850	0	0
Free Cash Flow to Equity (FCFE)	1,821	(183)	50	409	177
Financial ratios	2017	2018	2019e	2020e	2021e
EBITDA margin	11.5%	11.4%	10.0%	12.1%	14.0%
EBIT margin	2.0%	1.7%	0.3%	2.5%	3.8%
Net profit margin	0.4%	-1.9%	-2.5%	-0.4%	1.4%
Tax rate	21.9%	355.4%	-55.0%	45.0%	40.0%
Op NWC/Sales	22.4%	21.8%	23.1%	23.4%	23.8%
Interest coverage x	0.76	0.69	3.85	0.50	0.30
Net Debt/EBITDA x	1.57	1.78	2.88	2.02	1.55
Debt-to-Equity x	0.33	0.53	0.95	0.91	0.84
ROIC	0.5%	-3.2%	-4.1%	-0.6%	2.8%
ROCE	2.1%	2.4%	0.4%	3.9%	6.2%
ROACE	2.5%	2.6%	0.5%	3.9%	6.3%
ROE	0.6%	-5.1%	-8.3%	-1.3%	5.5%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2017	2018	2019e	2020e	2021e
Number of shares # m	15.37	16.09	16.09	16.09	16.09
Number of shares Fully Diluted # m	16.62	17.35	17.35	17.35	17.35
Average Number of shares Fully Diluted # n	16.62	16.99	17.35	17.35	17.35
EPS stated FD € cent	0.30	(2.57)	(3.79)	(0.59)	2.65
EPS adjusted FD € cent	3.15	1.87	0.73	3.92	7.17
EBITDA € cent	98.65	151.20	150.55	202.56	258.50
EBIT € cent	17.03	22.94	4.82	42.42	70.12
BV € cent	468.51	518.24	496.98	508.69	538.10
FCFO € cent	0.54	91.90	11.53	110.02	165.78
FCFF € cent	(105.65)	(238.23)	(103.73)	23.58	10.18
FCFE € cent	109.56	(10.76)	2.88	23.58	10.18
Dividend € cent	0.00	0.00	0.00	0.00	0.00



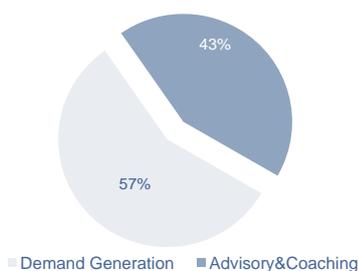
## The company at a glance

DIGITAL360 is a leading Italian B2B player in the digital innovation arena, offering support to firms and public administrations for understanding and implementing digital innovation processes. Established in 2012, the company runs a match making platform between digital innovation demand and offer. The firm operates in two business areas: 1) Demand Generation - focuses on tech providers, supporting them in marketing and lead generation activities, through a unique model, based on a *Digital Marketing & Sales Engine* approach; and 2) Advisory&Coaching - aimed at companies and public administrations via a unique business model based on engineered methodologies, data, asset and know how.

The group has grown significantly in recent years: turnover CAGR<sub>11-18</sub> is 49%, boosted by acquisitions, 9 companies between 2012 and 2018, adding a total of € 11.2m revenues. In the same period, EBITDA soared from € 0.2m to € 2.6m, 44% CAGR. 2018 revenues totalled € 22.5m, up 57.2% YoY, EBITDA reached € 2.6m, 11.5% margin and net profit adjusted came in at € 0.6m, 2.6% on sales. Net Financial Position reached € 4.6m, 1.8x EBITDA and 0.6x Shareholders Equity. Currently 100% of business is generated in Italy. 57% of 2018 sales were generated by the Demand Generation division, the remainder came from the Advisory&Coaching business unit.

DIGITAL360 was listed on the 13<sup>th</sup> June 2017 at € 1.15 per share, corresponding to a market capitalisation of € 17.7m. The offer encompassed a capital increase of € 4.0m on offer to professional and retail investors, with a portion reserved to employees. In addition, a convertible bond of € 2.0m was issued: 5 years duration, 4.5% coupon and strike € 1.60.

## 2018 revenues breakdown by BU



## 2011-2018 revenues and EBITDA growth



## Shareholder structure

	%	# m
Andrea Rangone	23.9%	3.8
Mariano Corso	12.2%	2.0
Alessandro Giuseppe Perego	12.2%	2.0
Raffaello Balocco	4.9%	0.8
Other <4%	24.9%	4.0
<b>Free Float</b>	<b>21.9%</b>	<b>3.5</b>
<b>Total</b>	<b>100.0%</b>	<b>16.1</b>

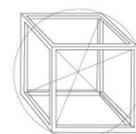
## Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Forrester Research Inc	(2.3)	1.1	(1.0)	(30.5)	(31.4)	(23.3)
Gartner Inc	(1.4)	(1.9)	(0.2)	(15.6)	(10.3)	11.8
j2 Global Inc	(1.0)	(2.2)	5.9	5.3	5.6	35.7
Quinstreet Inc	2.7	1.5	5.3	(22.3)	(5.8)	(19.5)
Relx PLC	0.4	0.5	(2.7)	(6.0)	2.7	11.6
TechTarget Inc	(0.1)	1.0	(1.3)	1.3	44.6	89.3
Wolters Kluwer NV	1.9	(1.1)	(1.7)	(3.3)	1.7	24.0
<b>Peers median</b>	<b>(0.1)</b>	<b>0.5</b>	<b>(1.0)</b>	<b>(6.0)</b>	<b>1.7</b>	<b>11.8</b>
<b>DIGITAL360 SpA</b>	<b>1.9</b>	<b>1.9</b>	<b>(12.4)</b>	<b>(12.4)</b>	<b>(25.2)</b>	<b>(31.5)</b>

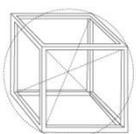
## Peers group multiples table

Price & EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
Forrester Research Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.0	16.6	n.a.
Gartner Inc	3.5	3.1	2.8	21.6	18.9	17.1	39.9	35.0	30.1
j2 Global Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.4	12.2	11.1
Quinstreet Inc	1.2	1.1	0.9	12.0	9.4	7.9	18.3	15.9	n.a.
Relx PLC	5.6	5.3	5.3	17.4	16.2	14.9	21.5	20.1	20.0
TechTarget Inc	4.8	4.3	3.2	16.0	13.5	11.7	37.8	28.5	22.8
Wolters Kluwer NV	4.3	4.1	3.8	14.6	13.6	12.8	23.4	22.0	20.7
<b>Median</b>	<b>4.3</b>	<b>4.1</b>	<b>3.2</b>	<b>16.0</b>	<b>13.6</b>	<b>12.8</b>	<b>21.5</b>	<b>20.1</b>	<b>20.7</b>
<b>DIGITAL360 SpA</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>7.9</b>	<b>5.8</b>	<b>4.5</b>	<b>103.5</b>	<b>19.3</b>	<b>10.6</b>
<i>Premium/(discount) to median</i>	<i>(81.4)</i>	<i>(82.8)</i>	<i>(80.2)</i>	<i>(50.6)</i>	<i>(57.8)</i>	<i>(64.9)</i>	<i>382.2</i>	<i>(4.1)</i>	<i>(48.8)</i>

Source: CFO Sim, Thomson Reuters Eikon



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## ANALYST CERTIFICATION

This publication was prepared by **LUCA ARENA**, Head of the Equity Research Department of "Corporate Family Office SIM S.p.A." ("CFO SIM") and **GIANLUCA MOZZALI**, Equity Analyst of CFO SIM. This is to certify that the views expressed on the companies mentioned in this document reflect the analysts' personal opinions and that no direct or indirect recompense has been, or will be, received by the analyst further to the views expressed herein.

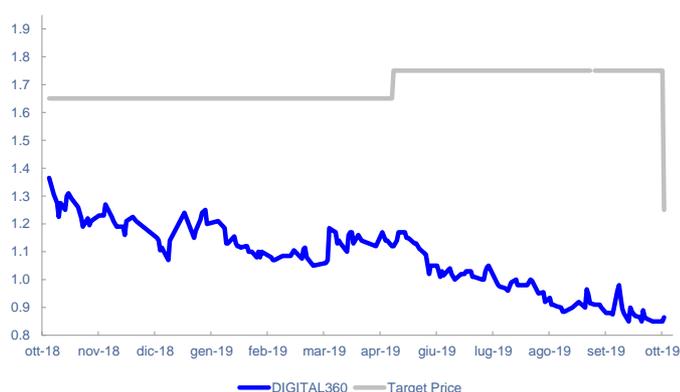
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DATE	TARGET PRICE	RATING
23/10/2019	€1.20	BUY
07/05/2019	€1.70	BUY
08/11/2018	€1.60	BUY

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

