Digital360

Sector: ICT

VALUETRACK

Analysts

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Time to play for itself

Fair Value (€)	**2.15**
Market Price (€)	**1.07**
Market Cap. (€m)	**17.4**

Digital360 leverages the internally developed largest Italian B2B online tech community in order to provide both custom and standardized demand generation and advisory / coaching services.

So far, a match making marketplace

Having bootstrapped the largest network in Italy of online publications dedicated to Digital Innovation topics (56 digital assets i.e. online portals and newsletters and ca. 4.5mn single visitors per month in April 2020), Digital360 acts as a B2B match-making platform whose aim is to establish profitable connections between entrepreneurs and Public Administration demanding digital solutions on one side and digital / tech vendors eager for prospect clients on the other one.

Now evolving into a Digital-as-a-Service provider

In 2018 Digital360 started fine tuning its business model in order to capitalize on the highly valuable community it has gathered in the latest years, by adding to the offered portfolio more and more proprietary solutions to be billed on a recurring basis with annual or multi-year subscriptions.

This evolution would, in our view, trigger several benefits from both an operating and financial point of view, such as: 1) higher scalability of the business; 2) improved visibility and predictability of revenues; 3) more lucrative operating margins; 4) enhanced client retention rate, and; 5) better working capital dynamics, with the company benefitting from being paid spot, and delivering its services in a subsequent stage.

Higher and higher quality financials ahead

We forecast a sound 13% top line CAGR 2019A-23E, with annualized recurring revenue up a more than proportional 39% per annum and accounting for ca. 40% of Sales in 2023E. As far as profitability, we forecast 25% and 33% CAGR for Gross Profit and EBITDA respectively, (EBITDA margin at ca. 20% as of 2023E), positively affected by SaaS model.

Fair value at €2.15 per share

We set our short-term fair value at €2.15, corresponding to an Equity Value of €37mn, i.e. twice the current stock market level. At such fair value, the stock would trade at 1.7x and 10.6x EV/Sales and EV/EBITDA 2020E respectively, still implying a material discount vs. international players.

Last but not least, we are aware that if the company successfully finalizes the already started business model fine-tuning, our medium-term fair value could incorporate further potential upside.

KEY FINANCIALS (€mn)	2019	2020E	2021E
REVENUES	24.9	24.5	30.0
EBITDA	2.9	3.8	5.1
EBIT ADJ. (*)	1.2	1.8	2.9
NET PROFIT ADJ.	0.3	1.1	1.9
EQUITY	8.1	8.4	8.7
NET FIN. POS.	-6.3	-4.5	-3.9
EPS ADJ (€)	0.02	0.07	0.11
DPS (€)	0.00	0.00	0.00

Source: Digital360 (2019), Value Track (2020E-21E estimates)
(*) Adjusted for Goodwill Amortization

RATIOS & MULTIPLES	2019	2020E	2021E
EBITDA MARGIN (%)	10.1	15.7	17.0
EBIT MARGIN ADJ. (%)	5.0%	7.2%	7.6%
NET DEBT / EBITDA (x)	2.5	1.2	0.8
NET DEBT / EQUITY (x)	0.8	0.5	0.4
EV/SALES (x)	0.9	0.9	0.7
EV/EBITDA (x)	9.3	6.0	4.2
EV/EBIT (x) (*)	27.1	13.0	7.3

Source: Digital360 (2019)), Value Track (2020E-21E estimates)
(*) Adjusted for Goodwill Amortization

STOCK DATA	
FAIR VALUE (€)	2.15
MARKET PRICE (€)	1.07
SHS. OUT. (m)	16.3
MARKET CAP. (€m)	17.4
FREE FLOAT (%)	22.3
AVG. -20D VOL. (#)	7,850
RIC / BBG	DIG.MI / DIG IM
52 WK RANGE	0.64 – 1.20

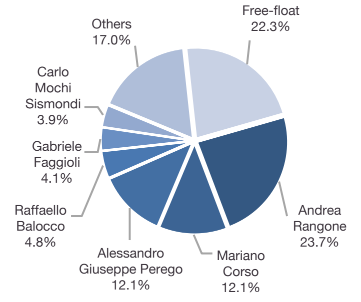
Source: Stock Market Data

Business Description

Digital360 is an Italian based leading B2B "Match-Making Platform" whose aim is to establish profitable connections between entrepreneurs and public administration demanding digital solutions on one side and digital / tech vendors eager for prospect clients on the other one.

The company operates through two main business units: Demand Generation and Advisory & Coaching, providing both custom and engineered/standardized services. Digital360 is currently evolving both divisions toward a "Digital-as-a-service" business model, based on annual or multiyear subscriptions and leading to recurring revenue.

Shareholders Structure



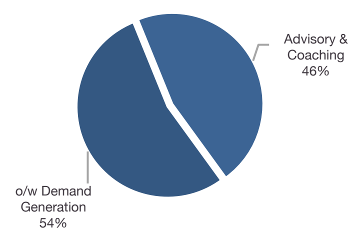
Source: Digital360

Key Financials

€mn	2018A	2019A	2020E	2021E
Total Revenues	**22.0**	**24.9**	**24.5**	**30.0**
Chg. % YoY	nm	13.5%	-1.7%	22.5%
EBITDA	**2.6**	**2.5**	**3.8**	**5.1**
EBITDA Margin (%)	*11.7%*	10.1%	15.7%	17.0%
EBIT	**0.4**	**0.1**	**1.0**	**2.1**
EBIT Margin (%)	*1.8%*	0.4%	4.0%	7.0%
Net Profit	**-0.4**	**-0.8**	**0.3**	**1.1**
Chg. % YoY	nm	nm	nm	nm
Adjusted Net Profit	**0.3**	**0.3**	**1.1**	**1.9**
Chg. % YoY	nm	7.8%	nm	74.3%
Net Fin. Position	**-4.6**	**-6.3**	**-4.5**	**-3.9**
Net Fin. Pos. / EBITDA (x)	1.8	2.5	1.2	0.8
Capex	-2.2	-1.9	-2.2	-2.3
OpFCF b.t.	**0.9**	**-1.2**	**2.6**	**1.9**
OpFCF b.t. as % of EBITDA	36.4%	nm	67.2%	37.2%

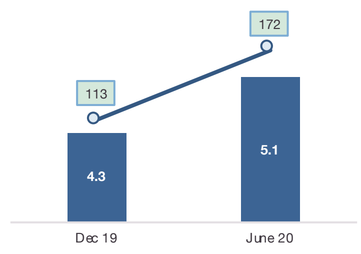
Source: Digital360 (historical figures), Value Track (estimates)

FY19 Sales by business line



Source: Digital360

ARR (€5.1mn, 172# subscriptions)



Source: Digital360

Investment case

Strengths / Opportunities

- Exposure to a fast-growing and resilient reference market;
- Largest Italian tech community to be commercially exploited;
- Deep knowledge of the tech space to unlock future growth opportunities;
- Outstanding track record in the M&A field.

Weaknesses / Risks

- Lower size if compared to competitors;
- Business model fine tuning implies an execution risk and may require additional managerial / technical capabilities, as well as additional funding.

Stock multiples @ €2.15 Fair Value

	2020E	2021E
EV / SALES (x)	1.7	1.3
EV / EBITDA (x)	10.6	7.6
EV / EBIT Adj. (x) (*)	23.0	13.4
EV / Cap. Empl. (x)	3.1	3.1
OpFCF Yield (%)	6.8	8.2
P / E Adj. (x)	32.7	18.8
P / BV (x)	4.6	4.0
Div. Yield. (%)	0.0	0.0

Source: Value Track (*) Adj. for Goodwill Amortization

Executive Summary

Digital360: from the academic world to innovate the business

Digital360 was born from the visionary ideas of some professors of Polytechnic, still involved in the business both as shareholders and as managers, to exploit the information gap that characterizes the technology sector with medium and small companies on one side facing the task of making more and more complex ICT purchase decisions without the necessary skills and ICT vendors on the other side struggling to get in touch with prospect clients.

Over the years, **Digital360 has established itself as the perfect tech-focused B2B match-making platform** by bootstrapping the largest Italian ecosystem dedicated to Digital Innovation topics, mostly centered on **NetworkDigital360**, a network that currently consists of 56 digital assets (online portals and newsletters) and more than 4.5mn single visitors per month (all-time high record, achieved in April'20), ranking among the first results on the main search engines for more than 45,000 keywords.

So far: two business divisions and high double-digit revenue growth

As of today, Digital360 offers a wide range of solutions to its clients, acting on both sides of the market i.e. demand and offer, through two main business units:

- **Demand Generation** supporting tech vendors to increase brand awareness by providing projects focused on digital advertising and content marketing;
- **Advisory & Coaching** offering a multitude of services to guide corporates and PA towards digital transformation and, delivering both highly customized and standardized engineered services.

Thanks to a steady organic growth on both divisions and the acquisition of smaller players, company business development has continued at a fast pace since establishment, growing at a **sound 44% CAGR$_{11/19}$**, with total turnover in excess of €25mn in FY19.

Ahead: fine tuning the business model to earn much more than a lead generation fee

Since 2018 Digital360 has started fine tuning its business model in order to capitalize on the highly valuable community it has gathered in the latest years, by **evolving towards a role of provider of services / solutions to be billed with recurring fees**, and this offer has been packaged under a so-called "**Digital-as-a-Service**" model.

Hence, Digital360 is being restructuring and adapting its two business units by creating a new kit of engineered and standardized solutions named "**Demand Generation As-a-Service**" and "**Advisory & Coaching As-a-Service"** and supplied on an ongoing base with annual or multi-year subscriptions.

Such a business model fine tuning is taking place through the following main steps:

Step #0 – Engineering / standardization of products / solutions;

Step #1 – Commercialization of products / solutions based on "as-a-service" revenue model;

Step #2 – Switch towards proprietary products / solutions;

Step #3 – Extension of reference market towards additional "verticals".

This brand new business model would, in our view, trigger several benefits from both an operating and financial point of view, such as:

- Higher scalability of the business;
- Improved visibility and predictability of revenues;
- More lucrative operating margins.

More, such new business model would also improve client retention rate thanks automated subscription renewals, and working capital dynamics, with the company benefitting from being paid spot, and delivering its services in a subsequent stage.

Noteworthy results already achieved in less than two years

Noteworthy results have been already achieved in less than two years. Indeed:

- **Annualized recurring revenue (ARR)**. At end of June '20, ARR totaled €5.1mn, growing 19% vs. Dec'19, and corresponding to #172 subscriptions from roughly #115 subscriptions as of 2019 year end. Among the best-selling subscription-based services we mention: 1) *Digital Marketing & Sales Engine as-a-Service* (80 customers as of June 2020); 2) *Data Protection Officer (DPO) as-a-Service* and; 3) *Chief Information Security Officer (CISO) as-a-Service*, both packages delivered to 60 customers as of June 2020;
- **Proprietary products / solutions**. Several products / solutions have been already developed and launched, such as: 1) *Martech360*, marketing automation platform; 2) *GRC360*, comprehensive solution in the data protection field; 3) *360DigitalSkill,* online learning platform.

Several strengths support the big "change"…

Digital360 is well equipped to switch towards an "as-a-Service" business model, based on recurring and scalable revenues coupled with high client retention rates, and lastly proprietary solutions.

In our opinion, the company boasts several key strengths, from the exposure to a growing and resilient market demand, boasted by SMEs digital transformation needs and further accelerated by covid-19 effect, to a strong market positioning, fueled by the largest domestic tech community coupled with highly skilled professionals. More, relying on a deep knowledge of the tech space, the company would be able to unlock further M&A driven growth opportunities.

…but some challenges have to be faced

Changes in business model carry on a certain amount of risks from both operative and financial perspective. In our opinion, four are the main concerns Digital360 has to take under control "along the way", and that would inevitably lead to its success or undermine its growth at least: 1) being a small size player may be an issue; 2) possible conflict of interests with some IT vendors; 3) new managerial and technical capabilities need to be added / fine-tuned; 4) additional funding may be needed.

Financial outlook: 2019-23 CAGR of 12% topline, 25% Gross Profit, 45% Adj EBIT

Our **2020E-2023E** model factors the execution of the new business model and does not include any M&A deal, despite company stated that is looking for new opportunities.

Our forecasts suggest over the next three years a **CAGR** of **13%** for **top line,** with **Annualized recurring revenues** expected to increase at **39% CAGR2019A-23E**, accounting for **40% of Sales in 2023E.**

As far as profitability is concerned, we forecast **25% and 33% CAGR** for **Gross Profit** and **EBITDA** respectively (**EBITDA margin at ca. 20% as of 2023E**), positively affected by scalable SaaS model.

Valuation

Digital360 is trading at unfair and cheap market multiples i.e. 0.9x EV/Sales and 6.0x EV/EBITDA 2020E respectively, implying a huge discount vs. both domestic and international peers, still not embedding the new corporate strategy and the unlocked business scalability.

On the back of several valuation methodologies we set a short-term fully diluted **€2.15 fair value, corresponding to €37mn Equity value**, being aware that if the company successfully finalizes the already started business model fine-tuning, our medium-term fair value would incorporate further potential upside.

Valuation

At current €1.07 stock market price, Digital360 is trading at extremely cheap market multiples, i.e. 0.9x EV/Sales and 6.0x EV/EBITDA based on our 2020E estimates, implying a material discount vs. both domestic and international peers.

We set our short-term fully diluted fair value per share at €2.15, being aware that if the company successfully finalizes the already started business model fine-tuning, our medium-term fair value would incorporate further potential upside.

DCF methodology returns a **€2.15 short term fully diluted fair equity value per share**, so this is the starting point of our valuation analysis. However, we reckon DCF probably does not factor in the full potential of further development and diversification policies, as Digital360 is refining its business towards a SaaS model, featured by recurring revenue and high scalability.

Running a close comparison with TechTarget, by far the most comparable firm for valuation purposes, we realize how in such case, the already achieved business scalability was sustained by significative multiple expansion, likely to be experienced by Digital360 going forward.

For this reason, we run an IRR Analysis to calculate potential upside coming from the unlocked business scalability, which under certain assumptions returns an **IRR (gross of tax) close to 80%.**

Cross checking our fair value with both domestic and international peers' trading multiples validates our IRR "exit" assumptions.

DCF with unlevered capital structure and rolling WACC

WACC assumptions

Our model derives WACC from the Capital Asset Pricing Model approach, relying on the following assumptions:

- Risk free rate at 2.0%, in line with medium term target inflation;
- Italian Equity Risk premium at 7.4% (Damodaran on line);
- Additional "liquidity" risk premium at 2.0%, in line with the extra-return required by investors for AIM Italia lower liquidity, and an extra 1.0% to account for execution risk;
- Unlevered beta of 1.0, averaging between Software Internet and Software System and Application (Damodaran on line);
- Credit spread at 1.5%, given the average cost of medium/long term debt for the company;
- Pre-tax cost of debt at 3.5%;
- Corporate tax at 24%.

Hence, we calculate a rolling WACC which mirrors changes in funding, and progressively converges to ca. 12.2% cost of equity from 2023E as the Net Financial becomes positive.

Additional DCF assumptions

- FY19 as reference point for valuation;
- 10 years financial projections, from 2020E to 2029E;
- Terminal Value at 2029YE obtained applying a 2.0% Perpetuity Growth Rate (PGR);
- Fully diluted number of shares, assuming the whole conversion of outstanding bonds.

That said, the result of our calculations is a **fair Equity value per share of €2.15,** corresponding to an Equity value of €37.4mn.

Digital360: DCF model outcome

	€mn
PV of future Cash flow FY 2020E-2029E	20.7
PV of Terminal Value with PGR at 2%	22.3
Fair Enterprise Value	**43.0**
Net Fin. Position 2019A (*)	-4.3
Minorities	-1.2
Fair Equity Value	**37.4**
Fully diluted number of shares	17.5
Fair Equity value per share (€)	**2.15**

Source: Value Track Analysis (*) assuming the full conversion of outstanding bonds

DCF with Target Capital Structure

On the other side, assuming a target Capital Structure (with Net Debt at 30% of Invested Capital) leads to 11.0% WACC and, with unchanged free cash flows, we get €44.2mn fair Equity value, i.e. **€2.52 fair equity value per share** assuming a fully diluted number of shares.

Here we provide a sensitivity analysis allowing for WACC and PGR.

Digital360: DCF Sensitivity Analysis - Equity Value per share (€)

Equity value per share		Perpetuity Growth Rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	10.0%	2.70	2.81	2.93	3.07	3.24
	10.5%	2.51	2.61	2.72	2.84	2.97
	11.0%	2.35	2.43	**2.52**	2.63	2.74
	11.5%	2.20	2.27	2.35	2.44	2.54
	12.0%	2.07	2.13	2.20	2.27	2.36

Source: Value Track Analysis

IRR Analysis

In order to better highlight Digital360 unlocked business scalability (35% CAGR 19A-22E according to our model) from one side, and the undeserved cheap valuation the company is currently displaying on the other one, we believe that an IRR analysis can be useful.

Noteworthy, assuming a 10.0x EV/EBITDA exit multiple, in line with DCF results, and a two-years holding period, we calculate an **annualized 80% IRR (gross of tax)**, corresponding to €62mn Equity Value, i.e. **€3.5 per share**.

Digital360: IRR from investing today with exit at 10x EV/EBITDA in 2022

(€mn)	2022E
EBITDA (€mn)	6.3
Exit Market Multiples EV/EBITDA (x, 1 year forward) in July 2022	10.0x
Implied Enterprise value (€mn)	**63.2**
Net Financial Position (€mn)	-1.5
Equity value (€mn)	**61.7**
Fully diluted number of shares (mn)	17.5
Equity value per share at exit (€)	**3.5**
Annualized IRR	**80%**

Source: Value Track Analysis

(*) calculated on a fully diluted number of shares, i.e. assuming the conversion of all outstanding bonds

In order to give a bit of sensitivity, we underline that even a possible worst case scenario based on a combination of an "exit" market multiple at 6.0x (in line with Digital360 current valuation), along with lengthier time to exit from the investment (e.g. four years), would still provide a remarkable 34% IRR.

On the other side, a higher exit multiple (e.g. 12.0x) coupled with a short time to exit (e.g. two years) would represent in our simulation the best-case scenario, and would lead to ca. 97% annualized IRR.

Digital360: IRR sensitivity to time to exit and to EV/EBITDA exit multiple

Annualized IRR (gross of tax, %)		Time to exit (years)		
		2yy	3yy	4yy
EV / EBITDA Exit Multiple (x)	6.0x	38%	38%	34%
	8.0x	60%	51%	43%
	10.0x	80%	62%	51%
	12.0x	97%	72%	57%

Source: Value Track Analysis

Cross checking with peers

In our previous IRR analysis, we assumed an EV/EBITDA exit multiple ranging from 6.0x, in line with current stock market valuation, to 12.0x i.e. implying a multiple expansion driven by the higher-quality growth and business scalability the company should exploit going forward.

More, in order to strength IRR underlying assumptions, we believe a cross check with both domestic and international players, is needed.

Having said that, the choice of comparables remains an issue, since:

- It is not easy to identify several peers with a business model perfectly aligned to Digital360;
- Size and geography make a huge difference with most comparable firms being huge players listed in the US and UK markets.

Therefore, we primarily focused on picking those stocks which hold a similar size and are exposed to the same capital market (AIM Italia), then looking also at international peers, we find a few names publicly traded companies that show a similar to Digital360 business model.

AIM Italia tech companies…low volumes not always lead to meaningful trading multiples

We take into account almost all companies listed on AIM Italia "somehow" involved in the broad tech space sharing with Digital360 a more or less similar size. We reckon that not all selected companies develop and commercialize proprietary solutions or provide them "as-a-service".

In details, our panel is composed by: Cyberoo, Neosperience, Relatech, Maps, Expert System, Doxee, Fos Group, MailUp Group, DHH, Digital Value, Websolute, Digitouch and AMM Group.

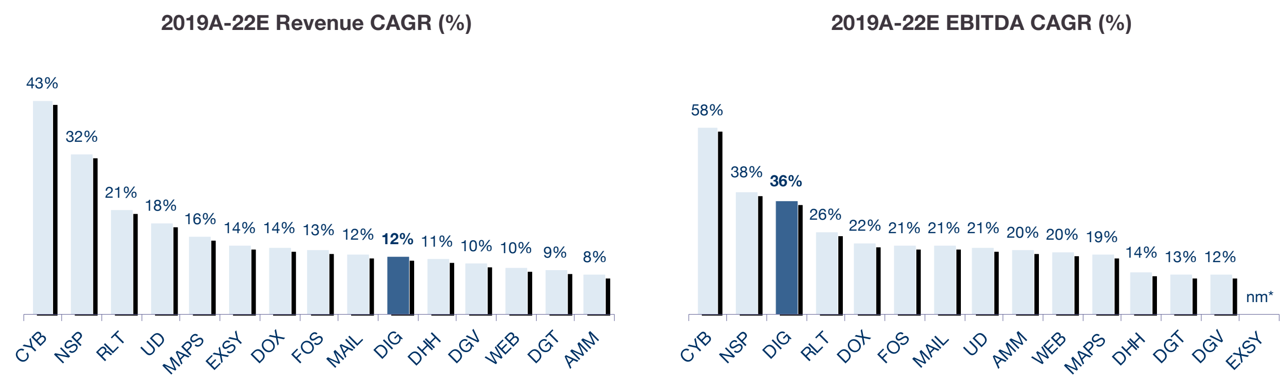
Compared to those companies Digital360 boasts:

- **Mid positioning in terms of 3yrs Sales CAGR** (measured through 2019A-22E), albeit at double -digit speed;
- **Among best in-class EBITDA expansion**, likely to increase at 36% 3yrs CAGR up to 2022E.

Such interesting features, in our view, are positively impacted by new business strategy aimed at providing engineered/standardized services to be billed with recurring fees, and by the steady development of proprietary solutions.

Indeed, as we will see later on, the unlocked business scalability should allow Digital360 to further improve its P&L and cashflow dynamics, with EBITDA Margin expected to move from 10% as of FY19 up to 20% in 2023E, and EBITDA cash conversion rate to be close to 60% in the forecasted period.

Digital360: Italia tech companies – relative positioning in terms of expected growth



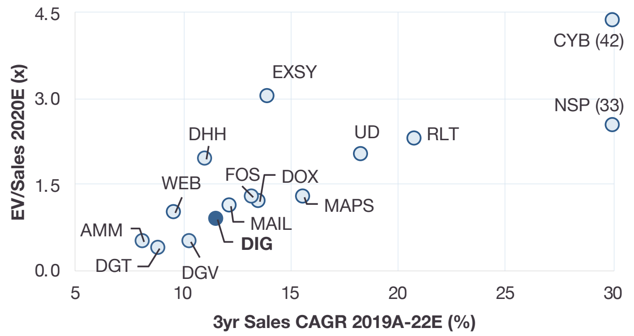
Source: Value Track analysis on companies' data (*) EBITDA in FY19 <0

However, Digital360 current valuation still does not embed such new interesting business features, with company trading at unfair huge discount (30% on average) vs. these selected peers.

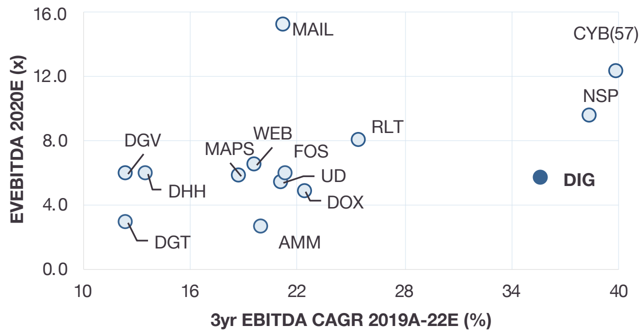
Given the "domestic" picture, we believe Digital360 extremely cheap valuation is mainly linked to low trading volumes, expected to gradually increase, driven in our view by a more accurate knowledge of Digital360 equity story, and by the steady delivery of high-quality results.

Digital360: Italia tech companies – current valuation vs. expected growth

EV / Sales 20E vs. 3yrs Sales CAGR (19A-22E) (*)



EV / EBITDA 20E vs. 3yrs EBITDA CAGR (19A-22E)



Source: Value Track analysis on companies' data (*) Cyberoo and Neosperience have been set at 30% CAGR for graphical reason

Digital360: AIM Italia tech companies - stock trading multiples

Company	Market Cap (€mn)	Daily Turnover (€) (*)	EV / Sales (x)		EV / EBITDA (x)	
			2020E	2021E	2020E	2021E
MailUp Group	75.2	59,453	1.1	0.9	15.2	10.7
Cyberoo	42.7	40,951	4.3	2.6	12.3	6.3
Expert System	112.0	223,435	3.0	3.2	nm	nm
Neosperience	45.4	15,804	2.5	1.6	9.5	5.6
Relatech	54.5	73,110	2.3	1.8	7.9	6.4
Unidata	38.8	5,885	2.0	1.4	5.4	3.8
Maps Group	22.4	14,732	1.3	1.0	5.8	4.3
Websolute	13.0	5,708	1.0	0.8	6.5	5.0
Doxee	24.9	5,658	1.2	0.9	4.8	3.6
Digital Value	242.9	128,608	0.5	0.4	5.8	4.5
Digitouch	16.3	31,622	0.4	0.3	2.8	1.9
AMM Group	13.3	2,526	0.5	0.3	2.6	1.4
FOS	17.0	37,438	1.3	1.1	6.0	4.9
DHH (**)	39.8	17,515	1.9	1.5	5.9	4.4
Average			**1.7**	**1.3**	**7.0**	**4.8**
Median			**1.3**	**1.0**	**5.9**	**4.5**
DIG360 @ market price	**17.4**	**5,173**	**0.9**	**0.7**	**6.0**	**4.2**

Source: Market Consensus, Value Track Analysis (*) 30 trading days average (**) assuming post RTO number of shares

International players…TechTarget, by far the most comparable one

Moving to international peers, we selected a few big companies (Forrest, Gartner, Future, Wolter Kluwer), in addition to TechTarget, an American player with a business model really close to Digital360 and by far, the most comparable one.

We are aware that two companies display a different stage of corporate maturity:

- TechTarget, relies on a €821mn market cap, trading at 6.5x EV/Sales and 21.3x EV/EBITDA 2020, and has already enjoyed some business scalability, with margins steadily growing over the years;
- Digital360 on the contrary is just starting to reap the benefits of its business model fine tuning, so there still part of the road to be done.

For this reason, we compare Digital360 2018A-23E expected evolution– as it represents the first step towards the "revised" business model – with TechTarget's evolution in 2015A-19A years.

Digital360: Comparison with TechTarget

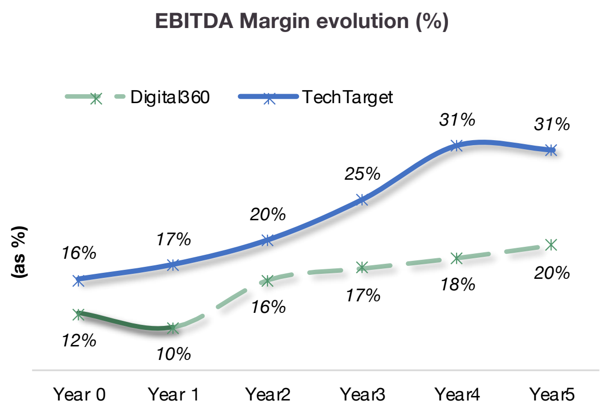
	Digital360		TGTT
	2020E	2023E	2020E
Revenues (€mn)	24.5	40.2	119.3
EBITDA (€mn)	3.8	7.9	36.7
EBITDA Margin (%)	**15.7%**	**19.7%**	**30.7%**
EBIT (€mn)	1.8 (*)	5.4 (*)	19.6
EBIT Margin (%)	7.2%	13.5%	16.4%
Market Cap (€mn)	17.4		821
Enterprise Value (€mn)	23.1		781
EV/Sales	0.9x		6.5x
EV/EBITDA	**6.0x**		**21.3x**

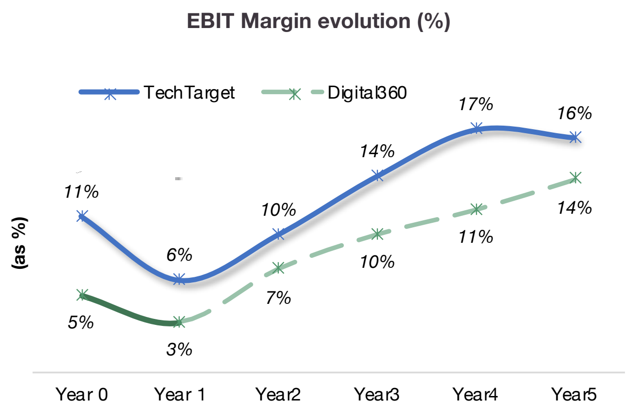
Source: Value Track analysis on companies' data (*) Adjusted for Goodwill Amortization

Comparing EBITDA Margin and EBIT Margin evolution, it is clear how:

- TGTT profitability (the blue solid line) has dramatically improved in 2015-19 period, and;
- We expect a similar trend in Digital360 (the green dashed line), despite differences in size and background.

Digital360: A direct comparison with TechTarget already exploited business scalability





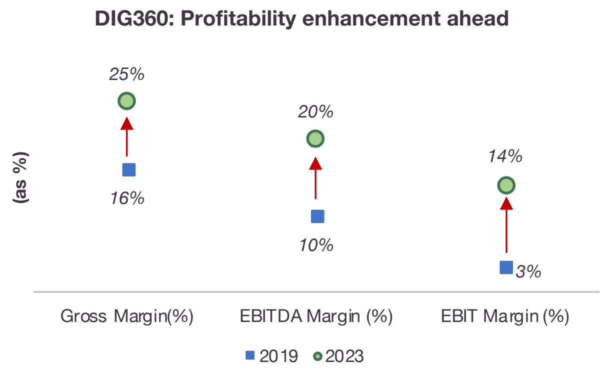
Source: Value Track analysis on companies' data

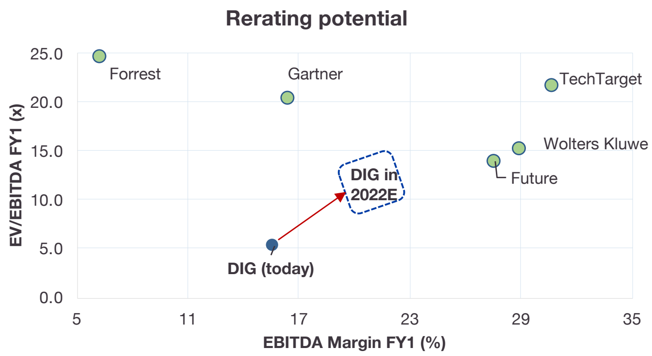
We believe Digital360 has already paid the "cost" of the transformation process, but as the SaaS model starts generating economic benefits, the company should progressively improve financial performances.

These positive effects can be partially appreciated in 2020E as profit margins are expected to increase YoY, then a further enhancement is expected up to 2023E, making Digital360 more and more similar to TechTarget, as recurring revenue and business scalability would be exploited in full.

If so, we expect some multiple expansions going forward, albeit still embedding a huge discount vs international peers which trade at 18x EV/EBIDTA.

Digital360: Such business scalability deserves a multiple expansion





Source: Value Track analysis on companies' data

Digital360 at a glance

Digital360 is an Italian based leading B2B "Match-Making Platform" whose aim is to establish profitable connections between entrepreneurs and public administration demanding digital solutions on one side and digital / tech vendors eager for prospect clients on the other one.

Digital360 historical milestones so far: Young but already well experienced

Step 0: Establishment of "Osservatori Digital Innovation"

Digital360 has its origin back in early 2000s' with the foundation of "Osservatori Digital Innovation", a research center of Polytechnic University of Milan (the largest Italian technical university) entirely focused on digital transformation.

The idea behind the "Osservatori" was to provide Italian companies with unbiased and well-grounded views on the most important and impactful technological trends due to reshape business environment.

Step 1: Legal incorporation

Digital360 was legally founded back in 2012, through the incorporation of "**ICT & Strategy Srl**" and "**Partners4Innovation Srl**", two companies individually serving two different sides of the Italian ICT market, with the former involved in the demand generation, while the latter focused on the advisory & coaching field. Indeed, ICT & Strategy Srl was acting as a demand generation agency through its editorial network focused on digital topics, while Partners4Innovation was active as a digital transformation enabler focused on Italian companies.

Thanks to the combination of these two players into a single entity, Digital360 started its mission to exploit ICT market's information asymmetries in order to become a pivot player able to match demand and supply sides.

Step 2: Organic and M&A driven growth ramp up

Since 2012, Digital360 has continued to grow also thanks to the strong M&A activities:

- In 2014 the acquisition of **ISL Srl** to strengthen and expand the advisory business in the legal and compliance framework. In the same year, the company consolidated its position in the demand generation segment by acquiring **CorICT Srl** and its main product "CorCom", one of the leading online newspaper focused on digital topics and innovation;
- In 2015 Digital360 acquired **ForumPA Srl** and **Next Editore Srl**: the former was the reference player of digital transformation for the public sector, while the latter was the owner of ZeroUno, a multichannel platform with a consolidated position in the digital transformation issues. In the same year, the company continued its expansion also thanks to the acquisition of **Startupbusiness Srl**, leader channel dedicated to the Italian Startups, and of **Level Marketing Srl**, company focused on user profiling. Both of them were fully integrated into ICT&Strategy.

As the company grew, a reorganization process took place to simplify the corporate structure: Next Editore Srl and Boost4U (a small business accelerator holding minority stakes in promising startups) were integrated into ICT&S and Digital360 respectively. This step allowed the company to complete the integration process.

Step 3: IPO on AIM Italia stock market to accelerate growth

2017 represents a pivotal year for the company: the **IPO** in the AIM Italia Market, which occurred on June 13, 2017 and provided a capital raising of €4mn. On the same date, Digital360 also issued a €2mn convertible bond.

The company continued on its growth path: in 2018 Digital360 acquired a majority stake into **Effettodomino Srl** (then incorporated in ICT & Strategy Srl), one of the first companies in Italy specialized in Marketing Automation, as well as into **ServicePro Srl**, a B2B Marketing agency that caters for IT & ICT companies. Moreover, the company enlarged its advisory service line by acquiring **IQ Consulting Srl**, University of Brescia spin-off active in the field of Industry 4.0 and supply chain management.

The company never stopped strengthening the portfolio of products / solutions offered to clients and, just as examples, in the latest two years it launched:

- New advisory services on the Data Governance solutions, designed to support corporates towards proper data governance;
- GCR360, a unique platform which manages the obligations provided for by current legislation on the protection of personal data (GDPR);
- EmpowerCare, advisory services supporting the health care industry through the digitalization;
- MarTech360, a marketing automation software platform dedicated to SMEs.

Current Group structure

Digital360 Group is currently structured along two main business units: Demand Generation and Advisory & Coaching Business Units.

The following legal entities are active in the **Demand Generation BU**:

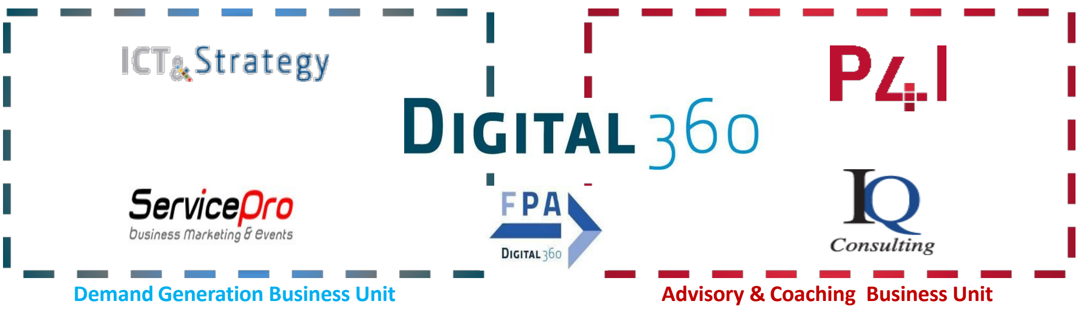
- **ICT&Strategy**, fully owned, which offers marketing and lead generation services. It is also involved in the organization of events and webinars on digital transformation issues;
- **ServicePro**, held at 51%, is a full-service marketing agency involved in organizing complex events and management of demand and lead generation campaigns on behalf of vendors of technological solutions.

On the other side, within the **Advisory & Coaching BU** the following subsidiaries are active:

- **Partners4Innovation**, wholly owned, a company with the aim of providing enterprises and Public Administration with coaching and advisory services on digital opportunities / solutions poised to optimize their business processes and services;
- **IQ Consulting**, held at 51%, is a University of Brescia spin-off focused on Industry 4.0 and supply chain management. The company offers integrated logistical and technological skills to design supply processes and distribute products and services efficiently.

Across both business divisions there is **FPA**, an entirely owned subsidiary which supports Public Administration in the implementation of technological and innovative solutions, from the organization of events to the provisioning of research and training services.

Digital360: Group Structure



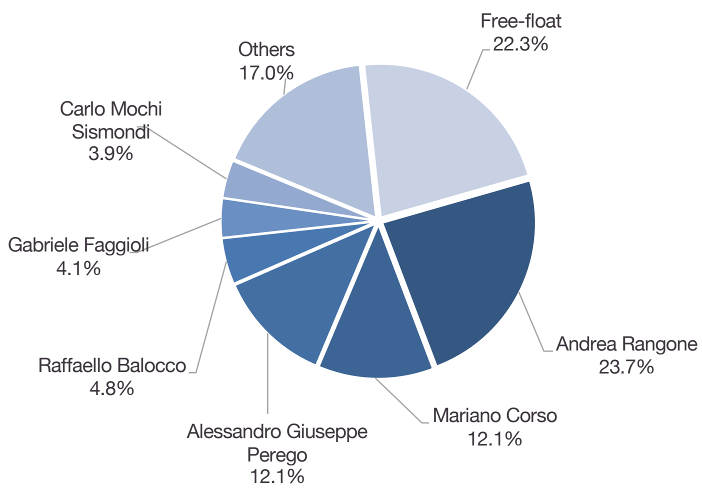
Source: Digital360

Shareholders structure and Top management structure

In most of mid-small companies listed on AIM Italia stock exchange founders are still involved in the business both as shareholders and as managers. This is true for Digital360 as well, that was founded by a group of well-known Polytechnic Milan university professors with an outstanding academic background and highly skilled on digital / ICT topics, most of whom still at the helm of the parent company and of its subsidiaries, together with other "key people", professionals and entrepreneurs, who over the years embraced Digital360 project, and rely on strong track record in the tech space:

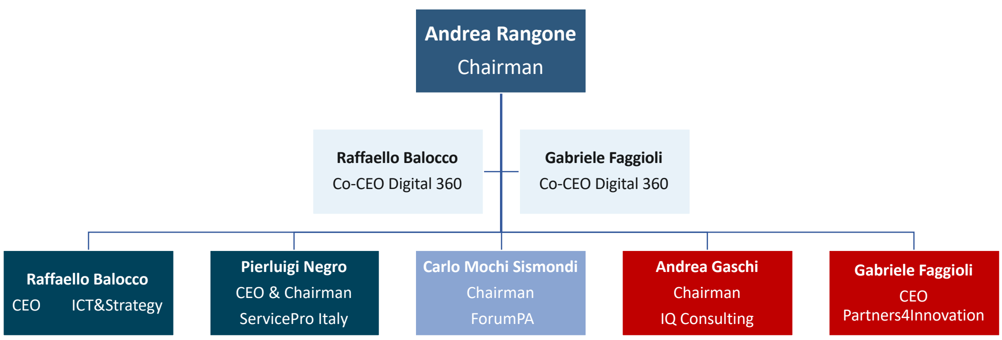
- **Andrea Rangone**, co-founder, CEO of Digital360 up to some months ago and currently Chairman;
- **Raffaello Balocco**, co-founder, Co-CEO of Digital360, CEO of ICT&Strategy Srl.;
- **Gabriele Faggioli**, Co-CEO of Digital360, CEO of Partners4Innovation Srl.;
- **Mariano Corso**, co-founder and Scientific Director at Partners4Innovation;
- **Alessandro Perego**, professor of Logistics and Supply Chain at Polytechnic University of Milan;
- **Carlo Mochi Sismondi**, founder and currently President of Forum PA.

Digital360: Shareholders structure



Source: Digital360

Digital360: Top management structure



Source: Digital360

Business model so far: B2B "Match-Making Platform"

Closing the gap (information asymmetries) between IT vendors and IT buyers

Digital360 was born from the visionary ideas of professors of Polytechnic to exploit the **information gap that characterizes the technology sector** with medium and small companies on one side facing the task of making more and more complex ICT purchase decisions without the necessary skills and ICT vendors on the other side struggling to get in touch with prospect clients.

More in particular, the majority of SMEs is aware of the strategic role that digitalization can play for their business success, but at the same time they limit their digital spending due to:

- Not clear perception of magnitude of implementation/acquisition costs;
- Lack of tech professionals and poor digital culture across executives;
- Low support from institutions, and poor knowledge about government incentives.

Indeed, it is calculated that just one SME out of four, has already reached such "digital" maturity in terms of appropriate knowledge and technologies to profit from digital transformation.

In this scenario, **Digital360 has established itself as the perfect B2B match-making platform** by bootstrapping the largest Italian ecosystem dedicated to Digital Innovation topics, mostly centered on **NetworkDigital360**, a network of well-reputed online publications.

Such a B2B match-making platform acts on both sides of the market i.e. demand and offer trough two main business units: **Demand Generation** and **Advisory & Coaching Business Units**.

Digital360: B2B match-making platform

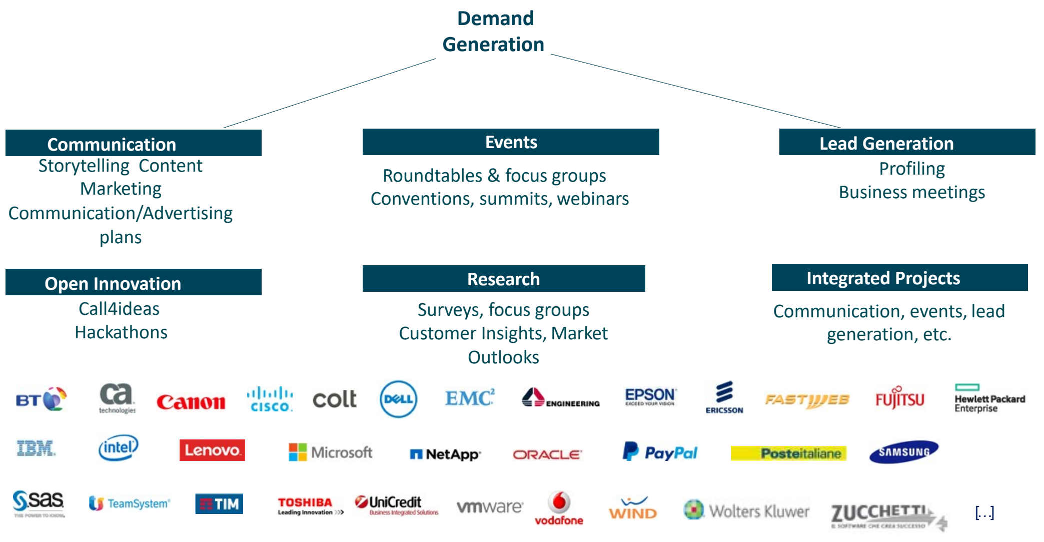
Source: Digital360

Demand Generation Business Unit: warm leads in exchange for fees

On the offer side of the market, Digital360 supports tech vendors by increasing their brand awareness and by generating new business opportunities through with a series of multi-disciplinary services (like content marketing, digital advertising, event planning and so on):

- **Customized Projects** based on clients' needs and;
- **Digital Marketing & Sales** engineered services.

Valuable range of Demand Generation services offered to leading Tech vendors



Source: Digital360

As far as the **Customized Projects** are concerned, these are one-off projects which combine a multitude of services such as storytelling, content marketing and digital advertising as well as the organization of physical and digital events.

As it regards **Digital Marketing & Sales** engineered services, these range from standard Catalogue services up to more innovative marketing automation tools which make possible to track web and mobile portal visitors, directing them towards content and choices to suit their preferences.

Through the Digital Marketing & Sales Engine Digital360 operates as trusted and strategic partner for its clients, acting as an "extension" of the customer's marketing department and thus allowing them to manage all digital marketing activities and generate commercial opportunities in an integrated way.

These brand-new services, more and more often offered in a as-a-Service mode, represent the core of new business model that Digital360 is going to consolidate in the coming years.

Demand Generation services are powered by **NetworkDigital360**, the largest Network in Italy of online publications dedicated to Digital Innovation topics.

Today, the network consists of 56 digital assets (online portals and newsletters) and achieved as of April 2020 some 4.5mn single visitors per month (all-time high record) while ranking among the first results on the main search engines for more than 45,000 keywords.

Over the years, portals like CORCOM, EconomyUp and Agenda Digitale have become the undisputed reference point of independent and high-quality contents for professionals and policymakers.

Digital360: The largest community in Italy of tech users & buyers

56 digital assets (online portals, newsletters, etc**)**

4.5 mln unique visitors per month (*April 2020*)

1st page on Google with more than **45,000 keywords** in the Tech sector

1500 original articles published each month

2,000 published white papers until 2019**, downloaded by more than 29,000 users** in 2019

640 events and webinars with **75,000 registrations** in 2019

> 490k fans and followers on social media channels
(company's accounts and key people's accounts)

124k profiled contacts in 2019 through events, webinars, white papers and contact center

DIGITAL360

Source: Digital360

Advisory & Coaching Business Unit: Helping corporates and PA to turn digital

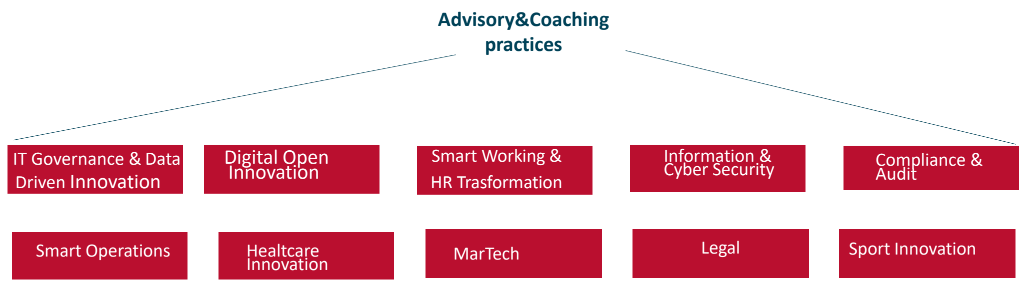
On the demand side, Digital360 has positioned itself as a valuable provider of digital innovation Advisory and Coaching services for customers such as SMEs and Public Administration thanks to its two operating arms, Partners4Innovation and IQ Consulting.

The main services offered by the company to its clients, known as "practices", cover a multitude of aspects that digital innovation is going to transform.

As a matter of fact, the company has revolutionized the traditional consulting business model by relying on engineered methodologies, data and knowledge-based assets.

Moreover, the strong links with universities and innovative projects allow Digital360 to have a unique sight on the latest digital issues that customers face today.

Advisory & Coaching services offered to Tier I clients



Source: Digital360

More in details, also in this BU Digital360 has developed a portfolio of solutions which diversifies according to the level of customization required:

- **Custom projects**, solutions exclusively designed to meet clients' needs and that are mainly reserved to large and medium-size clients;
- **Engineered Services**, with a high level of standardization and lower costs, they are dedicated to small and medium business;
- **Advisory As-A-Services** consistent with new company strategy focused on an ongoing basis service.

Fine tuning the business towards SMEs and "as-a-Service" model

Digital360 aims at addressing new market segment consisting of small and medium enterprises and representing new potential tech buyer and seller.

In this way, Digital360 seeks to expand its Community and Innovation Eco-System by engaging new clients with lower size and triggering a positive virtuous circle:

- On one side, the Advisory & Coaching unit leverages the NetworkDigital360 to get a better foothold on the market and to reach SMEs, which are part of the 4mn of visitors;
- On the other side, high-quality level of contents, together with communication and lead generation services provided by Demand Generation would allow tech providers to identify new clients or get easy access to a primary Italian showcase for their products.

Moreover, as discussed with more details in the following sections of this report, the company is fine tuning its business model, **switching from one-off projects or services in a "as-a-Services" model**, increasing visibility on clients' needs.

Financial profile: Double digit growth, ready to scale up profitability

Latest ten years have been an intense and eventful period for the company, featured by several commercial & business milestones achieved also trough heavy financial efforts.

Main points to underline about the recent financial performance of the company are:

- Steady double-digit growth pace since establishment;
- Labour intensive business;
- Reported profitability burdened by goodwill amortization;
- Net Debt at €6mn, i.e. ca. 2.5x EBITDA.

Digital360: Key FY18-FY19 financials at a glance

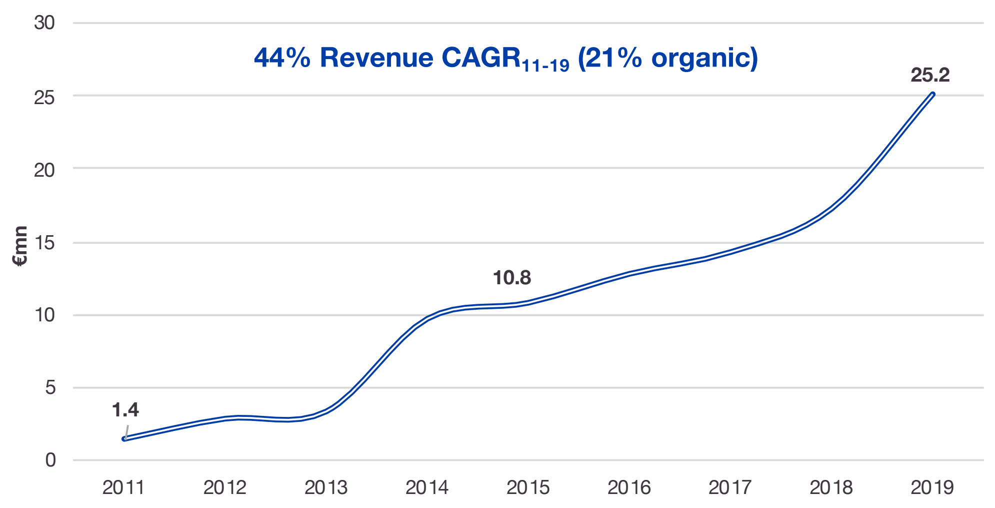
(IT GAAP, €mn)	FY18	FY19	Change YoY
Value of Production	23.9	26.7	12%
EBITDA Adj.	2.6	2.9	+13%
EBIT Adj.	1.1	1.2	+9%
Adjusted Net Profit	0.3	0.3	+8%
Group Net Equity	8.6	8.1	n.m.
Net Financial Position	-4.6	-6.3	n.m.

Source: Value Track analysis on companies' data

Steady double-digit growth pace since establishment

As clearly reported in the chart below, **the company highlighted a sound 44% Revenue CAGR$_{11-19}$**, from €1.4mn turnover as of 2011 to €25.2mn one as of 2019, thanks to both a healthy organic growth (21% CAGR), and to the addition of nine acquired companies in the period.

Digital360: Double-digit Revenue growth 2011-19



Source: Value Track analysis on companies' data

More, by focusing on 2016-2019 period, we also highlight the following points:

- Both business divisions (i.e. Demand generation and Advisory & coaching) experienced a double-digit annual growth, with the former growing at 10% $CAGR_{16\text{-}19}$, while the latter at 37% $CAGR_{16\text{-}19}$, moving from 27% to 46% of total revenue;
- Both businesses recorded an increase in customer base – almost 2x according to our model – as well as a slight increase in the average ticket thanks to the development and launch of new engineered services, and the introduction of "as a service "solutions;
- Value of Production includes capitalized development costs (ca. €1.4mn in FY19) likely to generate future economic benefits as well as roughly €0.3mn R&D tax credits.

Digital360: Value of Production FY19 vs FY18

(ITA GAAP, €mn)	FY18	FY19	Change YoY
Revenue from Sales	**21.9**	**24.9**	**14%**
o/w Demand Generation	*12.8*	*13.4*	5%
Advisory & Coaching	*9.1*	*11.5*	27%
Other Revenue	0.1	0.1	
Total Revenue	**22.0**	**25.2**	**13%**
R&D tax credits	0.5	0.3	
Capitalized development costs	1.4	1.4	
Value of Production	**23.9**	**26.7**	**12%**

Source: Value Track analysis on companies' data

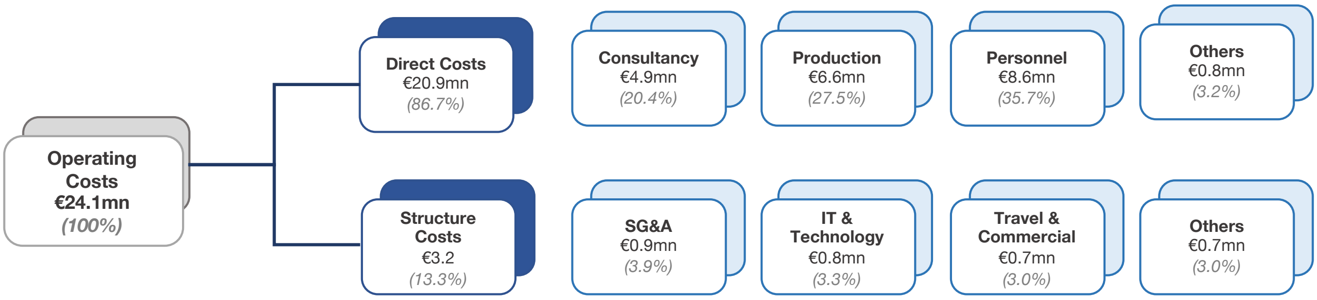
Cost analysis – Labour intensive business

Operating costs are almost made by direct costs, which cover 87% of total Opex with the main item referring to labour costs, either in house (personnel costs) or outsourced (consultancy), that means roughly 60% of Opex relates to "people" costs.

As far as 2019FY is concerned, production costs (mostly due to events organization and realization) stand at 27.5%, while remaining expenses refer to IT and technology, sales & marketing, SG&A, rental & leasing and other minority costs.

Noteworthy ca. €0.4mn extraordinary costs have been booked, due to the dismissal of some traditional services, no longer consistent with new business strategy.

Digital360: Operating expenses analysis in FY19



Source: Value Track analysis on companies' data

Reported profitability burdened by goodwill amortization

As result of an ever increasing topline, **Digital360 has experienced a solid enhancement in profitability over the last few years,** with Gross Profit at €4.0mn (+9% YoY) and EBITDA at €2.5mn, leading to 10% Reported EBITDA margin (-154 bps YoY), albeit hit by:

- Labour costs increasing double digit (+25% YoY), from €6.9mn to €8.6mn;
- Already mentioned extraordinary one-off related to the change in business model;
- Some inefficiencies due to temporary reorganization of specific production activities which led to some cost duplication across both business divisions.

Hence, taking into account such one-off, **EBITDA Adj. came in at €2.9, +13% YoY**, with margin basically in line with FY18, at 11.5%.

The impact at EBIT level was stronger also because D&A were up, with EBIT at €81K, and corresponding to an EBIT margin of 0.4%. D&A charges mostly relate to amortization of intangibles (R&D investments, licensing and M&A related goodwill), for a total consideration of €2.3mn.

That's why, if we adjust operating profitability also for goodwill amortization, **EBIT Adj. stood at €1.2mn, i.e.+9% YoY**.

Below the EBIT, roughly €350K net financial charges, €180K income taxes and €380K minorities loss translate into a -€0.8mn Reported Net Profit, or €0.3mn positive on adjusted basis.

Digital360: P&L FY19 vs FY18

(IT GAAP, €mn)	FY18	FY19	Change YoY
Total Revenue	**22.0**	**25.0**	**13%**
Direct Costs	-18.3	-20.9	
Gross Profit	**3.7**	**4.0**	**9%**
Gross Margin (%)	*16.8%*	*16.1%*	-72bps
Other Non-Op. Income	1.9	1.7	
Structure Costs	-3.0	-3.2	
EBITDA	**2.6**	**2.5**	**-2%**
EBITDA Margin (%)	*11.7%*	*10.1%*	-154bps
Depreciation of Tangibles	-0.1	-0.1	
Impairment & Provisions	-0.0	-0.0	
Amortization of Intangibles	-2.1	-2.3	
EBIT	**0.4**	**0.1**	**nm**
EBIT Margin (%)	*1.8%*	*0.4%*	-142bps
Net Financial Expenses	-0.3	-0.4	
Extraordinary / Non-operating	-0.1	0.0	
Taxes	-0.2	-0.2	
Minorities	-0.3	-0.4	
Net Profit	**-0.4**	**-0.8**	**nm**
One-off	*0.0*	*0.4*	
EBITDA Adj	***2.6***	***2.9***	+13%
Goodwill Amortization	*0.8*	*0.8*	
EBIT Adj	***1.1***	***1.2***	+9%
Adjusted Net Profit	***0.3***	***0.3***	+8%

Source: Value Track analysis on companies' data

Net Debt at €6mn, i.e. ca. 2.5x Reported EBITDA

At Balance Sheet / Cash Flow statement level, we note the following items:

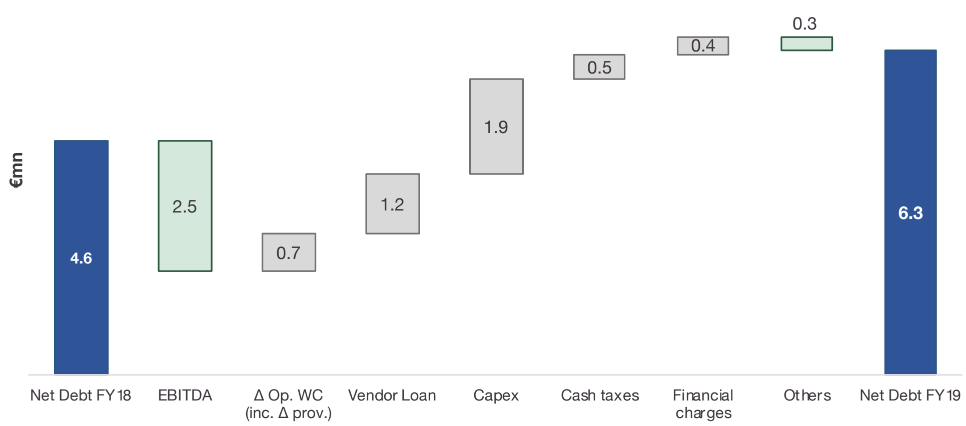
- **Net Fixed Assets** at ca. €10.0mn, made up for 95% of Intangible assets, of which one half is attributable to Goodwill, resulting from the dynamic M&A activity pursued so far;
- **Net Working Capital** at €5.6mn vs. €3.7mn in FY18, mainly due to an increase in trade receivables linked to the growing underlying business as well as to the decrease in other payables following the payment of vendor loan related to acquisitions occurred in FY18;
- **In terms of Cash Flow,** the Group faced (*i*) the outlined €1.9mn cash absorption due to working capital dynamics, (*ii*) €1.9mn capex, which mostly includes development costs, *iii*) cash taxes and net financial charges for a total consideration of €0.9mn;
- As a result, **Net Financial Debt 2019YE stood at €6.3mn**, i.e. ca. 2.5x Reported EBITDA.

Digital360: Balance Sheet FY19 vs FY18

(IT GAAP, €mn)	FY18	FY19
Net Fixed Assets	10.5	9.9
Net Working Capital	3.7	5.6
as % of Total Revenue	*16.5%*	*22.0%*
Severance pay and other funds	1.0	1.0
Total Capital Employed	**13.2**	**14.5**
Group Net Equity	**8.6**	**8.1**
Net Financial Position [Debt (-) / Cash (+)]	**-4.6**	**-6.3**
Cash and deposits (+)	1.9	2.0
Debt to banks within 12 months (-)	-1.8	-3.1
Current Net Financial Position	**0.1**	**-1.1**
Debt to banks over 12 months (-)	-2.2	-3.0
Other financial debts / vendor loans (-)	-0.4	-0.2
Bonds (-)	-2.0	-2.0
Non-Current Financial Position	**-4.6**	**-5.2**

Source: Value Track analysis on companies' data

Digital360: Net Debt position bridge FY18-FY19



Source: Value Track analysis on companies' data

The big opportunity: Digital-as-a-Service

As result of the steady market consolidation and the establishment of the largest Italian based tech-community, nowadays Digital360 has reached such corporate maturity that would be the new "starting point" to underpin further business expansion towards a subscription-based model with recurring fees. The new business model would be also featured by a gradual development and introduction of proprietary solutions to support both SMEs and Public Administration along their digitalization journey.

The goal: earning much more than a lead generation fee

Since 2018 Digital360 has started refining its business model in order to capitalize on the highly valuable community it has gathered in the latest years, by developing more and more proprietary platforms aimed at serving customers with highly flexible and effective solutions.

More, the goal is to progressively focus on the provision of services / solutions to be billed with recurring fees, and this offer has been packaged under a so-called "**Digital-as-a-Service**" model.

Hence, Digital360 is fine-tuning its two business units creating a new kit of engineered and standardized solutions named "**Demand Generation As-a-Service**" and "**Advisory & Coaching As-a-Service"** and supplied on an ongoing base (SaaS) with annual or multi-year subscriptions.

Such a business model extension is taking place through the following main steps:

Step #0 – Engineering / standardization of products / solutions;

Step #1 – Commercialization of products / solutions based on "as-a-service" revenue model;

Step #2 –Portfolio extension with proprietary products / solutions;

Step #3 – Widening of reference market towards additional "verticals".

We note that **financial benefits** of such a transformation, if successfully finalized, would be enormous:

- Improved business scalability;
- Higher revenues predictability and resiliency;
- More lucrative operating margins;
- Strengthened retention of clients, and increase in their lifetime value.

Hereby follows a detailed description of the above-mentioned steps and of their financial benefits.

Step #0 – Engineering / standardization of products / solutions

Rationale / Action

Customized projects are almost always characterized by a severe level of complexity and imply a high absorption of resources. As a consequence, they are usually poorly "scalable" and highly expensive and can be targeted only to larger clients.

On the contrary, engineering "standard" products / solutions are characterized by higher scalability and allow to dramatically reduce direct costs of the traditional business and, as a consequence, to reduce selling price thus allowing also smaller companies to profit from these services.

In doing so, Digital360 takes advantages from the strong link with universities and custom projects developed in parallel for large clients.

Indeed, once the solution is identified, the company works to engineer the know-how and develop a replicable and standardized service, reducing in such way implementation costs.

In such way, Digital360 can offer its services to smaller players that either need to understand the opportunities offered by the digital transformation or require the support of professionals on this transition to the digital framework.

Financial benefit

The main benefit of engineering products / solutions in order to standardize them is twofold:

- Improving business scalability i.e. letting revenue grow at a faster pace;
- Improving the Gross Margin i.e. minimizing the increase in operational costs, since such services, by nature, are provided with a one-to-many model.

Step #1 – Commercialization of products / solutions based on "as-a-Service" revenue model

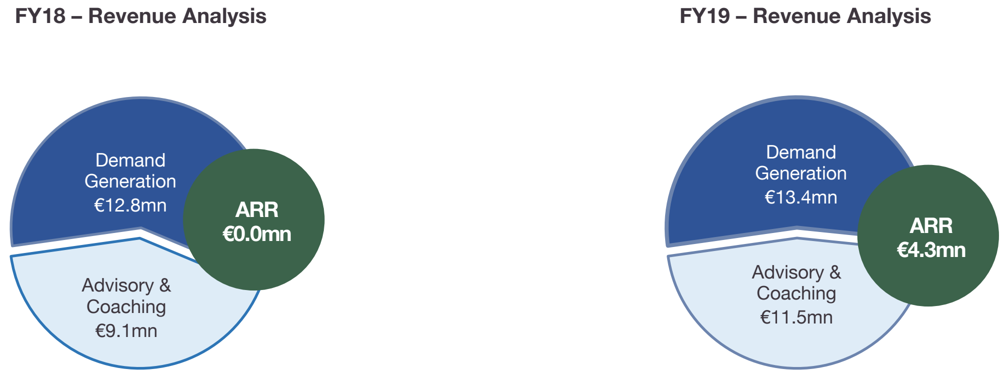
Rationale / Action

While engineering / standardizing the highest number possible of products / solutions, at the same time Digital360 is working hard in order to change its revenue model by focusing more and more on a "**Digital-as-a-Service**" model, i.e. on the supply of its solutions on an ongoing base (SaaS) with annual or multi-year subscriptions. Both business units are evolving in this way, that's why we speak about "**Demand Generation As-a-Service**" and "**Advisory & Coaching As-a-Service".**

As long as such transition develops, new KPIs typical of SaaS companies will become more and more important, such as Annualized Recurring Revenues (ARR), Annual revenue per user (ARPU), Customer acquisition, Churn rates and so on.

Noteworthy results have been already achieved. Indeed, **in FY19, €4.3mn annualized recurring revenue (ARR)** have been gained**,** resulting from roughly #115 subscriptions, while at end of June '20, ARR totaled €5.1mn, growing 19% vs. Dec'19, and corresponding to #172 subscriptions.

Digital360: From 0 to €4.3mn annualized recurring revenue in just one year



Source: Value Track analysis on companies' data

More in particular:

- **Digital Marketing & Sales Engine as-a-Service.** This is the best-selling subscription-based service (included in the Demand Generation as-a-service" area) and is provided by a multidisciplinary team (made up of content experts, digital communication, SEO, social media, marketing automation and lead generation) , which operates as if it were an "extension" of the company's marketing department thus allowing the client to manage all digital marketing activities and generating commercial opportunities in an integrated way.

This service grew consistently over the last year, with 67 clients as of FY19 (from 10 in FY18) and an ARPU of €45k, generating annualized recurring revenues of roughly €3mn.

As of end of June 2020 it had 80 customers (+ 19% HoH), for annualized recurring revenues of almost €3.5mn (+ 16% HoH).

- Other best-selling subscription based service s were the "**Data Protection Officer (DPO) as-a-service**" and the "**Chief Information Security Officer (CISO) as-a-service**" packages, (included in the Advisory & coaching as-a-service area), that allow customers to outsource to Digital360 the complete management of activities related to the protection of personal data (GDPR) and IT security.

  In 2019, 46 new subscriptions were delivered, while as of end of June 2020 it was delivered to 60 customers, with a growth of 40% HoH, for a contractual value on an annual basis of about €1.3mn.

Financial benefit

One of the main benefits of SaaS business model relies on the higher revenue visibility and predictability, as it allows not to gain revenues starting every time from scratch, as it happens to typical advisory firms.

Rather, revenues are billed on a recurring way and often earlier than the service provisioning itself thus allowing a boost on cash generation as well.

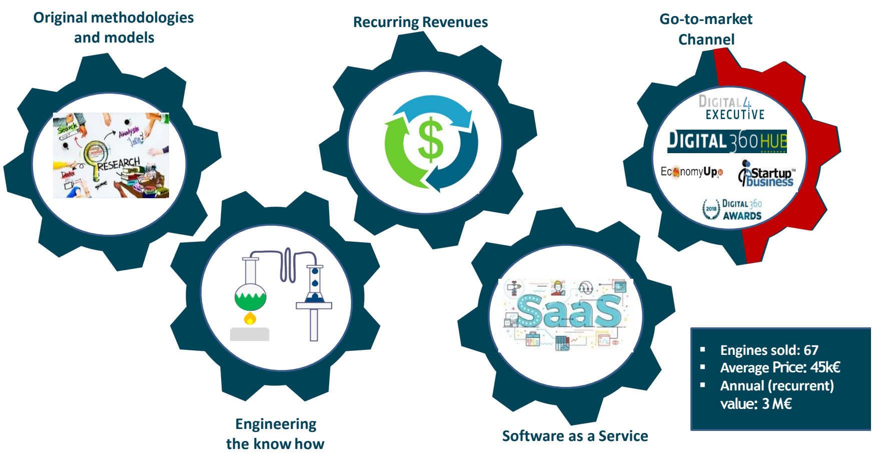
Another well accepted benefit is that SaaS business model definitively reduces client churn rates, i.e. it translates into a higher client retention rate, with subscriptions based on automated renewal.

Step #2 – Portfolio extension of with proprietary solutions as-a-service

Rationale / Action

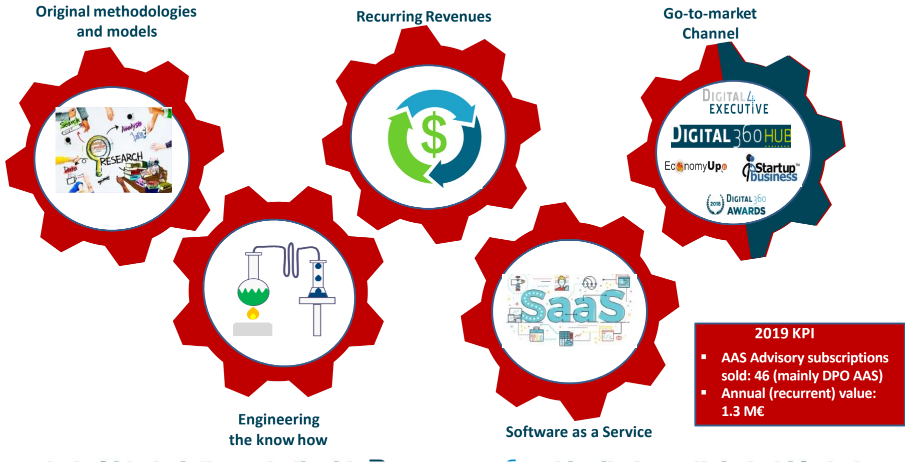
Digital360 is now starting to embed more and more proprietary solutions in its commercialized products / platforms with the aim to gain flexibility and affordability and to offer a more efficient service to its clients.

Digital360: Demand Generation Services and Tech providers



Source: Digital360

Digital360: Advisory & Coaching as-a Service



Source: Digital360

Among the proprietary products that have been already developed and launched we underline:

- **MarTech360,** a marketing automation software platform embedded in the **Digital Marketing & Sales Engine as-a-Service** that allows SMEs to easily implement inbound marketing campaigns with several features on a low-cost basis.

  More, the platform can be integrated with a wide range of digital marketing and lead generation services such as social media management activities, search engine optimisation (SEO), webinar realisation.

- **GRC360**, a comprehensive solution included in the **Advisory & coaching as-a-Service** business unit capable of fulfilling obligations regarding the protection of personal data.

  The platform integrates consultancy services and the Data Protection Officer in a complete and flexible software platform that facilitates fulfilment of legal obligations deriving from GDPR. Platform flexibility would increase going forward, since the final goal is to offer a single market solution that can support companies in applying current regulations and standards.

- **360DigitalSkill**, an online learning platform recently launched aimed at developing customers' digital sensitivity, raising awareness on all aspects related to the ongoing digital transformation like Blockchain, Digital Marketing and Cyber Security.

  360DigitalSkill enables companies to tailor flexible and personalised learning programs thanks to the multimedia contents and constant updates from industry experts. Accessible on annual basis subscription, 360DigitalSkill is constantly expanded and updated: through this approach, the platform is scalable with limited investments proportional to the size of the company.

Financial benefit

Adding proprietary solutions to the offer portfolio has enormous positive effects on profitability improvement.

Indeed, while Gross Margin on third parties' products on average stands at 20%, on the contrary the Gross Margin of proprietary ones can achieve higher than 80% level.

Step #3 – Widening of reference market towards additional "verticals"

Rationale / Action

Originally, Digital Marketing & Sales services were designed to mainly serve tech providers, however, over the last couple of years, Digital360 decided to widen its offer also to other sectors, supporting companies involved in the energy and transportation fields to improve their online positioning, as well digital marketing and communication activities.

Hence, the decision of expanding the editorial network to other sectors with new portals like EnergyUp and AutomotiveUp, with the final aim of providing customers with technical contents published on both the NewtorkDigital360 portals and on clients' websites, to better identify business opportunities.

Financial benefit

If successful, this strategic guideline would further improve business size and, as part of structure costs would remain fixed, operating profitability as well once startup costs are over.

Several strengths support the big change

Digital360 is well equipped to switch towards an "as-a-Service" business model, based on recurring and scalable revenues coupled with high client retention rates. Indeed, we believe, the company boasts several key strengths, among which we underline:1) exposure to growing and resilient market demand, further accelerated by covid-19 effect; 2) strong market positioning, i.e. large domestic tech community coupled with highly skilled professionals; 3) deep knowledge of the tech space due to unlock further M&A driven growth opportunities.

In our view, Digital360 is well equipped to switch towards an "as-a-Service" business model, based on recurring and scalable revenues coupled with high client retention rates.

Indeed, we believe, the company boasts **several key strengths**, among which we underline:

1. Exposure to growing and resilient market demand;

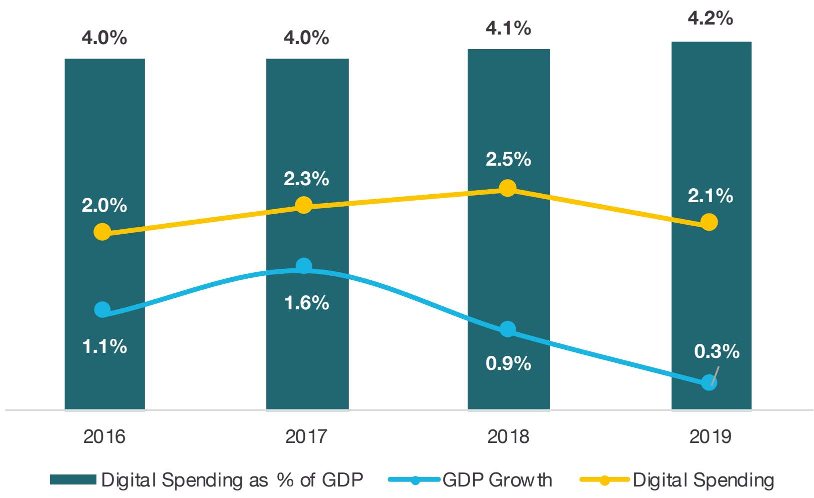
2. Strong market positioning;

3. Deep knowledge of the tech space unlocking further growth opportunities.

#1 key strength. Exposure to growing and resilient market demand

Over the latest years, Italian digital spending has grown more than the economy as a whole, achieving annual market value of roughly €72bn as of 2019 (ca. 4.2% weight on Italian GDP), boosted by digital transformation needs across all sectors, from banking and insurance to manufacturing, energy, utility, telco, travel & transportations, and also Public Administration.

2016A-19A Italian Digital market overperformed GDP growth

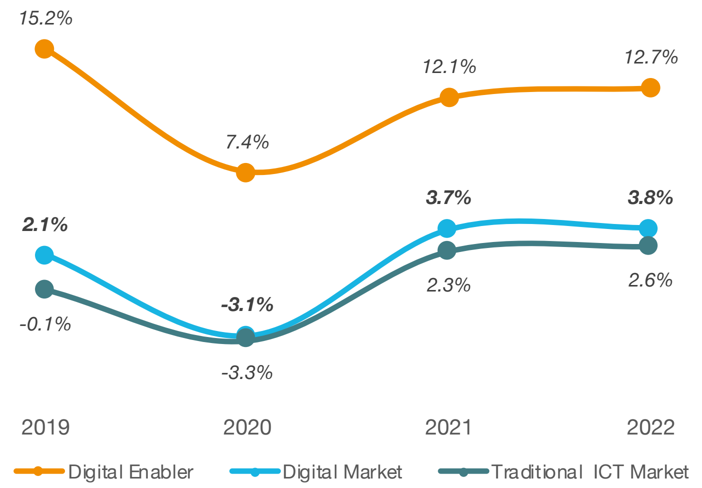


Source: Anitec-Assinform / NetConsulting cube, June 2020

Italian digital market steadily growing going forward

As a matter of facts, according to the recent analysis conducted by Confindustria Digitale and Anitec-Assinform, the Italian digital spending market is expected to slightly decrease in 2020E (-3.1% YoY, once again overperforming domestic GDP growth, due to drop by ca. 10% in 2020E) then to quickly recover in 2021 and to start back growing by 2022.

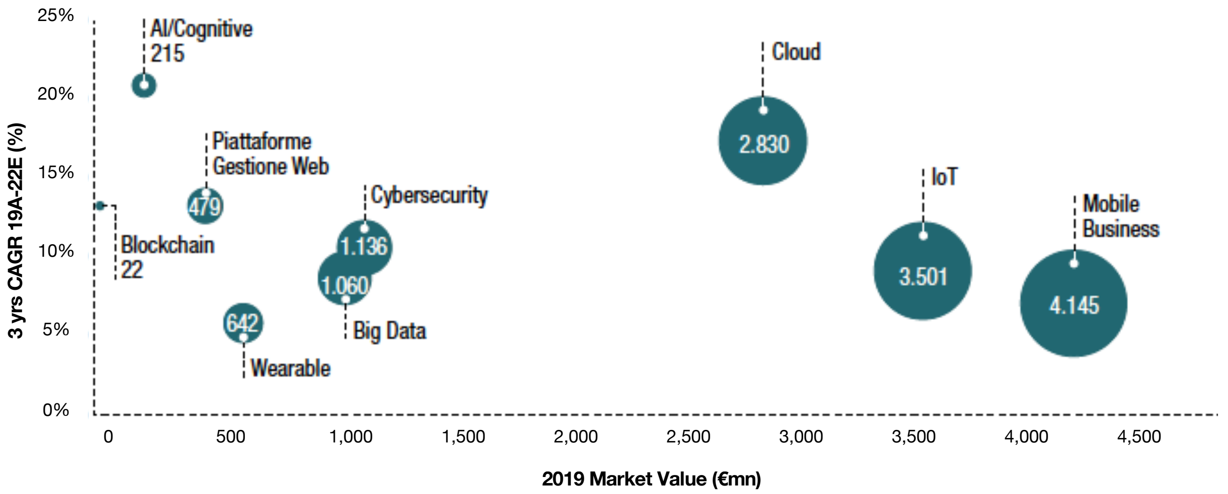
Italian Market: Digital Enabler to drive digital growth going forward



Source: Anitec-Assinform / NetConsulting cube, June 2020

Different trends may be observed across different tech-areas in 2020E-22E: hardware, systems and traditional ICT services are expected to fall by an average annual 3.7% while, on the contrary, Digital Enabling / Transforming technologies such as cloud and cybersecurity are expected to keep growing at double digit annual rate.

Italian Digital Enabler expected to steadily increase at double-digit rate



Source: Anitec-Assinform / NetConsulting cube, June 2020

Covid-19 to further accelerate digital transformation needs

Covid-19 pandemic has sadly proven the benefits of digitalization, and is driving the acceleration in the adoption of "digital habits" such as smart working, e-commerce and so on.

So, if the macroeconomic recession is forcing some corporate to postpone or freeze its digital transformation projects, on the other side there has been an acceleration in the adoption of all digital tools that would ensure business resiliency and continuity.

Indeed, according to a recent survey conducted by EY, many CEOs are revaluing and redefining operations focusing particularly on Digital Transformation: 63% of respondents have already undertaken a digital transformation process, 33% are taking it into account, and just 4% are not planning any change.

Covid-19 pandemic impact on the adoption of Digital Enabler and Transformer

Digital Enabler & Transformer	Adoption Impact (0=min, 5=max)
Artificial Intelligence	☆☆☆
AR/VR	☆☆☆
Big Data	☆☆☆
Blockchain	☆☆
Cloud Computing	☆☆☆☆☆
Cybersecurity	☆☆☆☆
IoT	☆☆☆
Mobile Business	☆☆☆☆☆
Quantum Computing	☆☆☆

Source: Anitec-Assinform / NetConsulting cube, June 2020

#2 key strength. Strong market positioning

Another key factor which strengthens the new business strategy to commercialize proprietary solutions and to fuel digital as-a-service products based on subscription fees, is the strong market positioning the company has already achieved so far building the largest domestic tech community, and leveraging on high skilled professionals with strong track record in the tech space in order to deliver the most appropriate content to IT professionals and the most valuable prospect clients to IT vendors.

Largest Italian tech community to be commercially exploited

We have previously seen that Digital360 has grown up a top quality domestic B2B "audience" involving several actors, from tech buyers to corporates, from public institutions to policymakers and politicians. Here follows a few metrics:

- 56 digital properties (online portals, newsletters);
- 4.5mn monthly visitors;
- 124K profiled contacts mostly made of top managers and tech buyers;
- 2,000 white papers and roughly 1,500 articles released in 2019, touching all the hottest market topics within the digital transformation, from cybersecurity to IoT, from blockchain to data-driven marketing automation, and so on;

- 650 webinar & events organized in the last year, among which we recall *ForumPA*, the most important national event dedicated to the digital transformation and modernization of public administration.

Such a large and focused community creates a solid competitive barrier and grants Digital360 with several benefits such as: *i*) improvement in customer loyalty, ii) high brand recognition and reputation, *iii*) easy collaboration with brands, *iv*) direct access to data, as well as to customers' needs and preferences.

Covid-19 makes Digital360 skills more crucial than ever

Digital360 skills are more than crucial in the covid-19 environment. Indeed:

On one side, the company has benefitted from one collateral effect with online portals which experienced a huge increase in terms of number visitors, almost doubled YoY.

At the same time, the company has started offering a new product, as sort of emergency kit, which allows customers to re-organize all their physical events into virtual ones.

This solution resulted to be successful and today Digital360 manages around three virtual events per day (webinar, workshop etc) for its clients.

These events are essential for small and medium enterprises as they represent the main channel through which they can find new opportunities and stay in contact with their costumers on a regular basis. As long as enterprises invest more in these activities, Digital360 revenue would benefit in terms of growth.

#3 key strength. Deep knowledge of the tech space unlocking further growth opportunities

One of the previously mentioned growth strategies relates to the introduction of new "verticals" relevant to the current client / user base, (verticals ranging, in our view, from tech niches to compliance, legal and fiscal ones), either by developing appropriate online content, or by acquiring small companies with a well-defined know-how or product, better if commercialized via a SaaS revenue model.

We believe Digital360 to be optimally positioned in order to scout innovative small tech companies and startups. Indeed Digital360:

- has successful finalized several small acquisitions over the last ten years and boasts strong track record in the integration of acquired companies;
- has, by nature, a deep knowledge of main tech trends and of most relevant emerging players.

Challenges to face

Changes in business model carry on a certain amount of risks from both operative and financial perspective.

In our opinion, four are the main concerns Digital360 has to take under control "along the way", and that would inevitably lead to its success or undermine its growth at least: 1) Being a small size player may be an issue; 2) Possible conflict of interest with some IT vendors; 3) New managerial and technical capabilities need to be added / fine-tuned; 4) Additional funding may be needed.

Although Digital360 transition to SaaS model increasingly powered by proprietary software and solutions, is already underway, we believe that a certain level of risk related to the correct execution of it is still there.

In our opinion, four are the main concerns Digital360 has to take under control "along the way", and that would inevitably lead to its success or undermine its growth at least:

- Being a small size player may be an issue;
- Possible conflict of interest with some IT vendors;
- New managerial and technical capabilities need to be added / fine-tuned;
- Additional funding may be needed.

Being a small size player may be an issue

Digital360 aims at expanding its product portfolio to a wider range of technology field, particularly in those areas that represent the hottest topics: IoT, Cybersecurity or Blockchain. At the same time, it aims to increase the weight of proprietary solutions offered.

This is, somehow, a necessary new entrant approach and we don't rule out that competition in these new segments could be fierce and might require an aggressive approach, either in terms of price or of functionalities offered, in order to make Digital360 solutions attractive for target clients.

Moreover, we note that in-house solutions require high effort in their development as well as maintenance, aimed at avoiding potential risks arising from possible software bugs or defects. Such concern may become critical if we consider, for example, products offered on the data protection area or dealing with other sensitive data.

Possible conflict of interest with some IT vendors

Over the years, Digital360 has built solid business relationships with almost all leading technology vendors at the international level. Through its Demand generation services, the company has originated a considerable amount of business opportunities for its partners, sharing profits with them thanks to the fees received.

We are aware that Digital360's new business model is mainly targeted to small and medium enterprises with a limited spending budget and to which partners' solutions are usually not very affordable.

At the same time, from time to time a possible conflict of interest may arise with Digital360 "offering" its proprietary products before than partners' ones.

New managerial and technical capabilities need to be added / fine-tuned

Another challenge that, in our opinion, needs be taken into account is the dependency from key people and generally from human capital.

Indeed, over the last year, Digital360 has started reorganizing its teams in order to mirror the new business model and has hired those competencies necessary to complete its transformation process.

However, as long as the company evolves towards the provisioning of more and more SaaS based proprietary solutions, new managerial and technical capabilities need to be added / fine-tuned accordingly.

Additional funding may be needed

Transition to new business model may require a higher-than-in-the-past financial effort in terms of:

- Hiring new managerial resources;
- Developing and maintaining state-of-art proprietary software / solutions;
- Rolling out additional customer care / technical support teams dedicated to final users;
- Scouting and finalizing further M&A deals.

With this in mind, we don't rule out the possibility that the company may look for additional funding and we see the latest authorization granted to the Board to increase the share capital up to €10mn (valid until 23 January 2023), as keystone to support company's plans.

Indeed, as of 2019 year-end Digital360 boasted ca. €2mn of cash availabilities while Net Financial Debt stood at €6.3mn, (i.e. ca. 2.5x Reported EBITDA and 78% Net Debt / Equity ratio).

Financial forecasts

Introduction

Our financial estimates for 2020E-23E periods:

- Are built in accordance with IT GAAP principles;
- Do not factor any potential future M&A deal, even though we believe one or more acquisitions are likely, as discussed before;
- Take into account the burden of non-cash and non tax deductible goodwill amortization charge, and adjust P&L figures for the impact of such non-monetary item.

P&L estimates

We expect the company to post a steady double-digit growth in the foreseeable future, with a sound increase in profitability, fostered by business model scalability.

2020E – Revenue flattish YoY, sound improvement of margins

We expect a fall-to-flattish YoY growth at topline in 2020E, negatively affected by the cancellation of physical events due to coronavirus outbreak (among which ForumPA 2020) and organized by FPA and ServicePro subsidiaries.

On the other side, the company would get some benefits at profitability level, with some cost savings arising from the aforementioned cancellations, and the simultaneous provision in live streaming.

More, the company would also exploit other cost optimizations, overcoming such inefficiencies which characterized FY19 and linked to the on-going business reshuffle.

For this reason, **we expect Gross Margin and EBITDA to increase YoY by 22% and 52% in 2020E respectively**, despite pandemic and the negative implications on the global economy.

2020E-23E – Business as service to point to high revenue growth

We expect **Revenues from Sales** to grow at a **13% CAGR between 2019A-23E**, up to €40mn in 2023E. Such growth is driven by a greater expansion of Advisory & Coaching business unit expected to increase at 16% CAGR, while a lower but still double-digit growth is estimated for Demand Generation (10% CAGR).

Digital360: Value of Production 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E	$CAGR_{19A\text{-}23E}$
Revenue from Sales	**24.9**	**24.5**	**30.0**	**34.6**	**40.2**	**13%**
Other Revenue	0.1	0.1	0.1	0.1	0.1	
Total Revenue	**25.0**	**24.5**	**30.1**	**34.7**	**40.3**	**13%**
R&D tax credits	0.3	0.3	0.3	0.4	0.4	
Capitalized R&D costs	1.4	1.5	1.5	1.5	1.5	
Value of Production	**26.7**	**26.3**	**31.9**	**36.5**	**42.2**	**12%**

Source: Value Track Analysis

Our estimates rely on the key assumption that service delivered on a SaaS mode will be featured by a constant ARPU, and by an increasing number of subscriptions per year, with total users likely to grow almost 5x in 2023E vs Dec’19, and resulting from #150 gross adds on average per year and an annual churn rate close to 20%.

Thus, we estimate **annualized recurring revenues** to become more and more relevant, expected to increase at **39% CAGR2019A-23E**, and accounting for **40% of Sales in 2023E**.

On the other side, we expect custom projects to still play an important role, albeit with incidence on revenue to progressively decrease.

Remaining Revenue streams are mostly due to R&D tax credits and capitalized costs, likely to account on average ca. 5-6% of VoP, and to generate economic benefits in the mid-term.

Digital360: Revenue from Sales path 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E	$CAGR_{19A\text{-}23E}$
Demand Generation	**13.4**	**12.6**	**15.2**	**17.3**	**19.7**	**10%**
As % of Sales	*53.8%*	*51.6%*	*50.7%*	*50.0%*	*48.9%*	
Advisory & Coaching	**11.5**	**11.8**	**14.8**	**17.3**	**20.6**	**16%**
As % of Sales	*46.2%*	*48.4%*	*49.3%*	*50.0%*	*51.1%*	
Revenue from Sales	**24.9**	**24.5**	**30.0**	**34.6**	**40.2**	**13%**
Ann. Recur. Rev. (ARR)	**4.3**	**6.7**	**9.2**	**12.1**	**16.0**	**39%**
As % of Sales	*17.3%*	*27.3%*	*30.8%*	*34.8%*	*39.9%*	

Source: Value Track Analysis

2020E-23E – Gross profit steadily increasing thanks to the unlocked business scalability

In our view, Digital360 should reach a **Gross Profit** (defined as Revenues from Sales minus Direct costs, i.e. all costs strictly related to operating activities) of ca. €10mn by 2023E, i.e. Gross Margin at 24.5%, and implying a **25% CAGR19A-23E** driven by the increasing weight of SaaS services and the unlocked business model scalability.

To get the EBITDA, we add all other income, i.e. tax credits and capitalized costs, and subtract all other costs mostly related to the corporate structure, which are likely to increase less proportionally than turnover YoY growth. Hence, EBITDA margin is expected to progressively increase up to 20% in 2023E.

Digital360: From Total Revenue to EBITDA 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E	$CAGR_{19A\text{-}23E}$
Total Revenue	**25.0**	**24.5**	**30.1**	**34.7**	**40.3**	13%
Direct Costs	-20.9	-19.2	-23.4	-26.6	-30.4	
Gross Profit	**4.0**	**5.4**	**6.7**	**8.1**	**9.9**	25%
Gross Margin	***16.1%***	***21.9%***	***22.3%***	***23.2%***	***24.5%***	
Other Income	1.7	1.8	1.8	1.9	1.9	
Structural Costs	-3.2	-3.3	-3.4	-3.6	-3.8	
EBITDA	**2.5**	**3.8**	**5.1**	**6.3**	**7.9**	33%
EBITDA Margin (%)	***10.1%***	***15.7%***	***17.0%***	***18.2%***	***19.7%***	

Source: Value Track Analysis

2020E-23E – ITA GAAP makes the difference

In accordance with Italian GAAP, Digital360 amortizes M&A related goodwill, making in such way EBIT a biased predictor of operating profit. Hence, to solve such issue, we also provide an EBIT Adj. which neutralizes such effect.

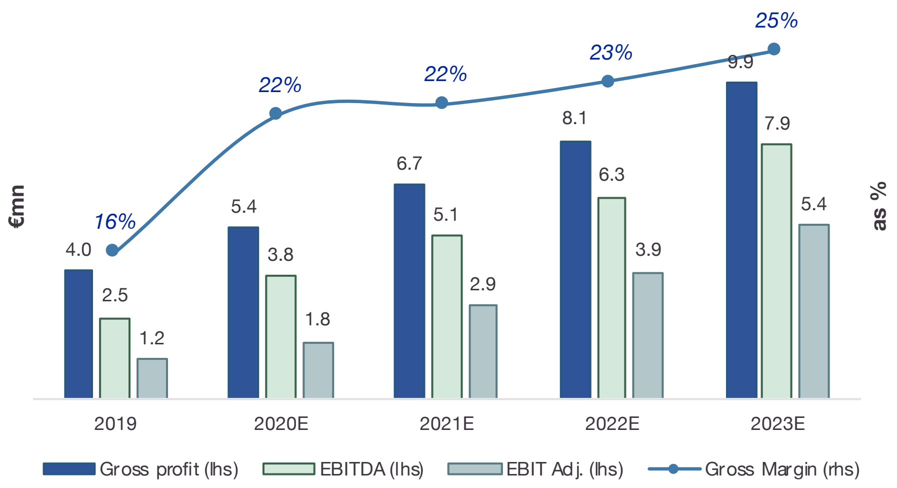
Starting from €1.2mn EBIT Adj. in FY19, we expect the company to deliver a healthy 45% CAGR 2019A-23E, up to €5.4mn at the end of the forecast period, with margins expected in the double-digit field since 2022E.

Digital360: From EBITDA to EBIT 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E	CAGR 19A-23E
EBITDA	**2.5**	**3.8**	**5.1**	**6.3**	**7.9**	**33%**
Depreciation of Tangibles	-0.1	-0.1	-0.2	-0.3	-0.4	
Impairment & Provisions	0.0	0.0	0.0	0.0	-0.1	
Amortization of Intangibles	-2.3	-2.7	-2.8	-2.8	-2.8	
o/w R&D	*-1.0*	*-1.4*	*-1.4*	*-1.5*	*-1.5*	
o/w Goodwill	*-0.8*	*-0.8*	*-0.8*	*-0.8*	*-0.8*	
o/w Others	*-0.5*	*-0.6*	*-0.6*	*-0.6*	*-0.6*	
EBIT	**0.1**	**1.0**	**2.1**	**3.2**	**4.7**	**>100%**
EBIT Adj.	**1.2 (*)**	**1.8**	**2.9**	**3.9**	**5.4**	**45%**
EBIT Adj. Margin (%)	***5.0%***	***7.2%***	***9.6%***	***11.4%***	***13.5%***	

Source: Value Track Analysis (*) also adjusted for €0.4mn one-off item

Digital360: Profitability evolution 2019A-23E



Source: Value Track Analysis

2020E-23E – Adj. Net Income at €3.7mn as of 2020E

Below the EBIT, net interest expenses reflect the leveraged capital structure with ca. €90K due to convertible bonds – to expired in 2022E – and the remaining stake linked to outstanding bank loans and the recourse to factoring.

In our forecasts, we expect a slight improvement in net financial charges as the company starts to generate cash and to improve its Net Financial Position.

At the bottom, **Net Profit adjusted for the Goodwill amortization is expected to steadily increase year-on-year up to €3.7mn in 2023E**.

Digital360: From EBITDA to EBIT 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E
EBIT	**0.1**	**1.0**	**2.1**	**3.2**	**4.7**
Net financial charges	-0.4	-0.3	-0.3	-0.3	-0.2
Pre-tax profit	**-0.3**	**0.7**	**1.8**	**2.9**	**4.5**
Taxes	-0.2	-0.4	-0.7	-1.0	-1.5
Minorities	-0.4	0.0	0.0	0.0	0.0
Net Profit (Loss)	**-0.8**	**0.3**	**1.1**	**1.9**	**2.9**
Net Profit Adjusted	**0.3 (*)**	**1.1**	**1.9**	**2.6**	**3.7**

Source: Value Track Analysis (*) also adjusted for €0.4mn one-off item

Balance Sheet and Cash Generation Analysis

As for Balance Sheet/Cash Flow Statement forecasts, we expect Digital360 to deliver an aggregated €10.6mn OpFCF b.t. over the forecast period, with **Net Cash Position expected at ca. €2.0mn in 2023E**. This should be driven by:

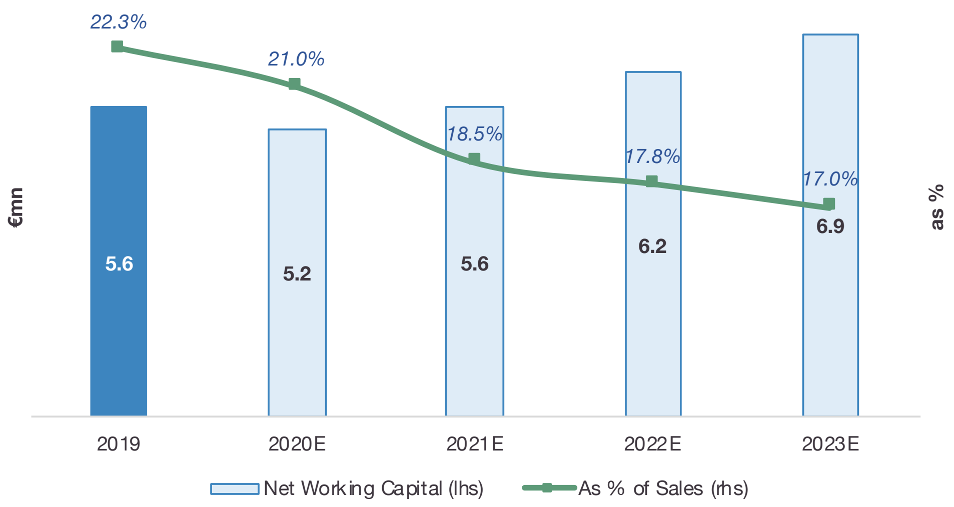
- **Net Fixed assets** to slightly decrease YoY, from €10mn in FY19 to €7.5mn in 2023E, as results of €2.4mn on average capital expenditures and increasing D&A charges. Although no M&A or other extraordinary events is projected, we expect in 2021E the company would exercise the call option to acquire 49% residual stakes in ServicePro and IQ;
- **Net Working Capital** expected to increase as long as the company continues to expand its business, however, the incidence on Sales would progressively improve, from 22% in 2019 to 17% in 2023E. This enhancement is driven by two items:
    - Better timing of Trade Receivables and Payables mostly linked to the subscription-based business model;
    - A greater focus on working capital management with the set-up of a specialized team in debt collection, and a higher utilisation of factoring.
- **Provisions,** expected to grow consistently to company's business expansion, with a remarkable number of new talents and professionals expected to be hired going on.;
- **Capex to lay between 7% and 8%** on Sales, made up for 60% - 70% of capitalized costs, while expenditures associated to the maintenance of current business and platforms to account for the remaining part.

Digital360: Balance Sheet forecasts 2020E-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E
Tangible assets	0.5	0.4	0.5	0.5	0.6
Intangible assets	9.3	8.6	8.4	7.6	6.8
o/w Goodwill	4.9	4.1	3.3	2.5	1.8
Financial assets	0.1	0.1	0.1	0.1	0.1
Net Fixed assets	**9.9**	**9.2**	**9.0**	**8.2**	**7.5**
Operating WC	6.3	5.4	6.0	6.8	7.6
Others Cur. Assets (Liabilities)	-0.7	-0.2	-0.5	-0.6	-0.8
Net Working Capital	**5.6**	**5.2**	**5.6**	**6.2**	**6.9**
Severance pay and other funds	**1.0**	**1.5**	**1.9**	**2.4**	**2.8**
Total Capital Employed	**14.5**	**12.9**	**12.6**	**12.1**	**11.6**
Group Net Equity	**8.1**	**8.4**	**8.7**	**10.6**	**13.5**
Net Financial Position	**-6.3**	**-4.5**	**-3.9**	**-1.5**	**2.0**

Source: Value Track Analysis

Digital360: Net Working Capital evolution in 2019A-23E



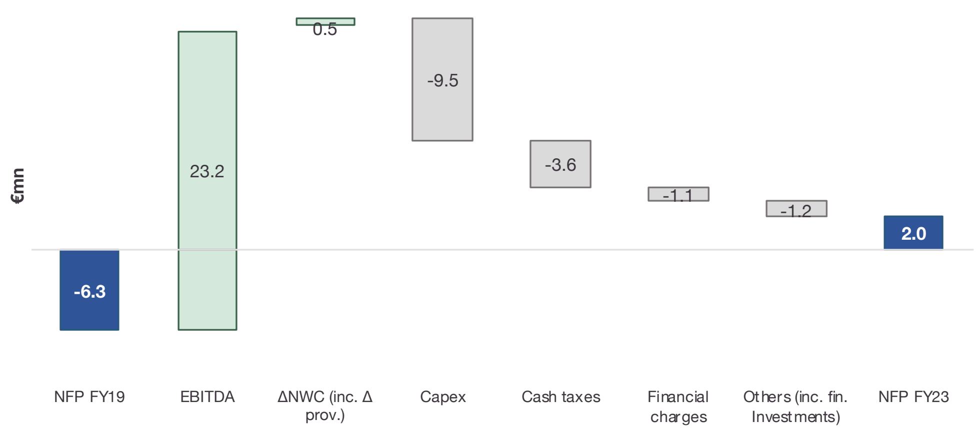
Source: Value Track Analysis

Digital360: Cash Flow forecasts 2020E-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E
EBITDA	**2.5**	**3.8**	**5.1**	**6.3**	**7.9**
WC requirements	-1.9 (*)	0.4	-0.4	-0.6	-0.7
Capex (not incl. Fin. Inv.)	-1.9	-2.2	-2.3	-2.5	-2.6
o/w Organic Capex	*-0.4*	*-0.7*	*-0.8*	*-1.0*	*-1.1*
Capitalized costs	*-1.4*	*-1.5*	*-1.5*	*-1.5*	*-1.5*
Change in provisions	0.0	0.5	0.5	0.5	0.5
OpFCF b.t.	**-1.2**	**2.6**	**2.9**	**3.7**	**5.2**
As a % of EBITDA	*nm*	*57%*	*42%*	*42%*	*46.0%*
Cash Taxes	-0.5	-0.4	-0.7	-1.0	-1.5
OpFCF a.t.	**-1.7**	**2.2**	**2.1**	**2.7**	**3.7**
Fin. Investments	0.3	0.0	-1.2	0.0	0.0
Net Financial Charges	-0.4	-0.3	-0.3	-0.3	-0.2
Free Cash Flow	**-1.8**	**1.9**	**0.6**	**2.4**	**3.5**

Source: Value Track Analysis (*) 1.2mn cash-out related to M&A vendor loan

Digital360: Net Financial Position dynamics up to 2023E



Source: Value Track Analysis

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