

Digital360

Sector: ICT



Analysts

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Business model fine tuning on track

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.

1H20 sounds very good

1H20 results are brilliant and confirm that Digital360 is well positioned to profit from Italian companies' need to accelerate their digital transformation and to preserve their business activities within a covid-19 scenario. In details:

- EBITDA and EBITA sky scraped in absolute terms at €2.8mn (+92% YoY) and €1.9mn (+178% YoY), due to a more profitable sales mix that drove EBITDA margin up at 22.2% in 1H20 vs. 11.0% in 1H19. Indeed, Group Revenues from sales stood at ca. €12.7mn in 1H20 vs €13.4mn in 1H19, with the lack of revenues from physical events almost entirely offset by the rise of "as-a-service" business;
- Cash-flow generation was impressive, €2.7mn in 1H20, leading Net Debt down to €3.6mn as of 1H20 vs €6.3mn as of FY19.

2020E-22E profitability estimates revised upwards

SaaS solutions' market penetration is faster than expected with positive effect on revenues visibility and scalability and on margin expansion. As such, we are revising upwards our 2020E-23E profitability estimate. We now expect:

- Revenues from Sales to grow at 12% CAGR between 2019A-23E, driven by continuous expansion of Advisory & Coaching and Demand Generation business units. Annualized Recurring Revenues are forecasted to account for €16.3 by 2023E;
- Gross Profit to grow at 25% CAGR19A-23E, with EBITDA expected to reach €4.2mn and €7.9mn in 2020E and 2023E respectively;
- Net Debt to strongly reduce at the end of 2020E while turning into a €2.6mn Net Cash position by 2023E, driven by aggregate €15mn OpFCF b.t. generated over the forecast period.

Fair Value at €2.20 per share (from €2.15)

Digital360 is trading at extremely cheap market multiples, i.e. 5.7x EV/EBITDA'20E, implying a material discount vs. both domestic and international peers. Based on our new estimates, we update short-term DCF based **fair equity value per share at €2.20**, (up from previous €2.15 p.s.), i.e. almost twice the current stock market level. At such fair value, the stock would trade at 9.6x and 7.4x EV/EBITDA 2020E-21E respectively. As the company successfully finalizes the transition to "Digital-as-a-service" business model, our medium-term fair value could incorporate further potential upside.

Fair Value (€) 2.20
Market Price (€) 1.22
Market Cap. (€m) 19.5

KEY FINANCIALS (€mn)	2019	2020E	2021E
TOTAL REVENUES	26.7	26.3	31.9
EBITDA	2.5	4.2	5.2
EBIT ADJ. (*)	0.9	2.2	3.0
NET PROFIT ADJ. (*)	0.3	1.4	2.0
EQUITY	8.1	8.8	9.2
NET FIN. POS.	-6.3	-3.5	-3.0
EPS ADJ (€) (*)	0.02	0.09	0.12
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	17.2	17.3
EBIT MARGIN. (%) (*)	3.5	8.8	10.0
NET DEBT / EBITDA (x)	2.2	0.8	0.6
NET DEBT / EQUITY (x)	0.8	0.4	0.3
EV/SALES (x)	1.0	1.0	0.7
EV/EBITDA (x)	9.9	5.7	4.3
EV/EBIT (x)	nm	17.7	10.2

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

STOCK DATA

FAIR VALUE (€)	2.20
MARKET PRICE (€)	1.22
SHS. OUT. (m)	16.3
MARKET CAP. (€m)	19.5
FREE FLOAT (%)	22.3%
AVG. -20D VOL. (#)	28.550
RIC / BBG	DIG.MI / DIG.IM
52 WK RANGE	0.64 - 1.31

Source: Stock Market Data



Business Description

Digital360 is an Italian based 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.

Key Financials

€mn	2018A	2019A	2020E	2021E
Net Revenues	22.0	25.0	24.5	30.1
Chg. % YoY		13.5%	-1.7%	22.5%
EBITDA	2.6	2.5	4.2	5.2
EBITDA Margin (%)		10.1%	17.2%	17.3%
EBIT	0.4	0.1	1.4	2.2
EBIT Margin (%)		0.3%	5.6%	7.4%
Net Profit	-0.4	-0.8	0.7	1.2
Chg. % YoY		88.4%	-179.7%	79.4%
Adjusted Net Profit	0.3	0.3	1.4	2.0
Chg. % YoY		nm	7.8%	nm
Net Fin. Position	-4.6	-6.3	-3.5	-3.0
Net Fin. Pos. / EBITDA (x)	1.8	2.5	0.8	0.6
Capex	-2.2	-1.9	-2.2	-2.3
OpFCF b.t.	0.9	-1.2	3.5	2.7
OpFCF b.t. as % of EBITDA	36.4%	-47.6%	84.0%	52.6%

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

Investment case

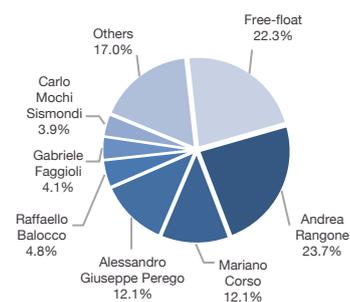
Strengths / Opportunities

- ◆ 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

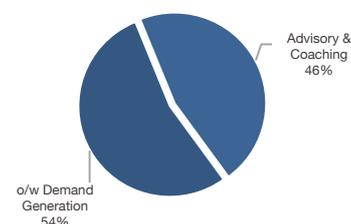
- ◆ Lower size if compared to competitors;
- ◆ Business model fine tuning implies an execution risk and may require additional managerial / technical capabilities, as well as additional funding.

Shareholders Structure



Source: Digital360

FY19 Sales by business line



Source: Digital360

ARR – Annual Recurring Revenues



Source: Digital360

Stock multiples @ €2.20 Fair Value

	2020E	2021E
EV / SALES (x)	1.6	1.3
EV / EBITDA (x)	9.6	7.4
EV / EBIT (x)	29.6	17.5
EV / Cap. Empl. (x)	3.3	3.2
OpFCF Yield (%)	9.3	8.1
P / E Adj. (x)	24.9	18.3
P / BV (x)	4.5	3.9
Div. Yield. (%)	0.0	0.0

Source: Value Track

1H20 Interim results better than expected

1H20 results are brilliant and confirm that Digital360 is well positioned to profit from Italian companies' need to accelerate their digital transformation and to preserve their business activities within a covid-19 scenario.

1H20 figures at glance

Digital360 1H20 financial figures came out as follows:

- ◆ **Value of Production** down -5% YoY, from €14.1mn 1H19 to €13.4mn in 1H20;
- ◆ **EBITDA at €2.8mn**, +92% YoY with EBITDA margin at 22.2%, dramatically increased from 11% as of 1H19;
- ◆ **Net Profit at €1.5mn, strongly higher than expected** and with a significantly improvement with respect to €0.3mn as of 1H19;
- ◆ **Net Debt at €3.6mn**, from €6.3mn as of 2019 year-end thanks to the strong cash generation in 1H20.

Digital360: Main Financials 1H19 and 1H20

€ mn	1H19	1H20	Change YoY (%)
Total Revenues i.e. V.o.P.	14.1	13.4	-5%
EBITDA	1.5	2.8	92%
Net Profit	-0.1	1.1	<i>n.m.</i>
Net Profit Adj.	0.3	1.5	<i>n.m.</i>
Net Financial Position	-6.3	-3.6	--

Source: Digital360, Value Track Analysis

Key messages

Digital360 1H20 financial figures are:

- ◆ **In line with our full year estimates as far as the top line evolution is concerned**, as the government restrictions on public events which reduced part of company's business activity was counterbalanced by outstanding growth in the fully digital "as-a-service" business;
- ◆ **Higher than our implied full year expectations in terms of operating profitability** thanks to Revenues mix, i.e. the higher incidence of "as-a-service" business;
- ◆ **Much better than our implied full year estimates as far as cash flow generation is concerned**, again thanks to the intrinsic features of "as-a-service" business based on annual or multiyear subscriptions paid in advance.

Top line: "As-a-service" business more than offsetting the lack of physical events

Digital360's Total Revenues (V.o.P.) slightly decreased by 5%, from €14.1mn as of 1H19 to ca. €13.4mn in 1H20, obviously burdened by the exceptional events that impacted the first half of 2020 and that prevented the company from organizing some key physical revenue generating events.

Digital360: Value of Production 1H19A – 1H20A

(IT GAAP, €mn)	1H19A	2H19A	1H20	Chg. 1H20/1H19
Revenue from Sales	13.4	11.5	12.7	-5.3%
Other Revenue	0.0	0.3	0.1	n.m.
Total Revenues	13.4	11.5	12.7	-5.1%
Capitalized R&D costs	0.7	0.7	0.7	-6.3%
Value of Production	14.1	12.5	13.4	-5.2%

Source: Value Track Analysis

As far as Revenues breakdown is concerned, 1H20 has had a change on mix of sale compared to 1H19. As we said, due to the sanitary emergency in 1H20 the company recorded a significant reduction on business activities related to physical events and also lead generation services were down -23% YoY.

On the contrary, Advisory & Coaching services recorded the highest growth rates YoY (+23%) and accounted for 50 % of total sales.

It is noteworthy to underline that in FY19, €4.3mn annualized recurring revenue (ARR) were 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: Revenue Breakdown 1H19A – 1H20A

(IT GAAP, €mn)	1H19A	2H19A	1H20	Chg. 1H20/1H19
Demand Generation	8.3	5.4	6.4	-23%
As % of Sales	62.1%	48.3%	50.6%	
Advisory & Coaching	5.1	5.7	6.3	23%
As % of Sales	37.9%	51.7%	49.4%	-35%
Revenue from Sales	13.4	11.1	12.7	-5%

Ann. Recur. Rev. (ARR)	1.7	4.3	5.1	n.m.
As % of Sales	12.3%	45.1%	40.3%	

Source: Value Track Analysis

Higher profitability as the high-margins sales weighted more on total figures

The main driver of profitability improvement is the increased incidence of “as-a-service” business which is characterized by higher than average margins. Indeed:

- ◆ We estimate that **Gross Profit has marked a positive growing trend, reaching ca. €4.2mn** in 1H20 vs €3.1mn in 1H19, supported by lower incidence of direct costs on total sales, consistent with the new sales mix. As a consequence, we calculate that **Gross Margin has increased sharply**, at ca. 33% vs 23% in 1H19.

This confirms the unlocked scalability of business model and successful new strategy based on SaaS services.

- ◆ **EBITDA stood at €2.8mn in 1H20, +92% YoY** with a 22.2% EBITDA margin vs 11.0% as of 1H19, thanks to operating leverage and, again, to revenues mix;
- ◆ **EBITA**, i.e. EBIT before €0.4mn Goodwill amortization, recorded according to ITA GAAP, stood at **€1.6mn in 1H20, +178% YoY**;
- ◆ Adjusted Net profit 1H20 was up to €1.5mn vs €0.3mn in 1H19.

Digital360: From Total Revenue to EBITDA 1H19A – 1H20A

(IT GAAP, €mn)	1H19A	2H19A	1H20	Chg. 1H20/1H19
Total Revenues	14.1	12.5	13.4	-5%
Direct Costs (*)	-10.3	-10.6	-8.5	-18%
Gross Profit (*)	3.1	2.7	4.2	37%
Gross Margin (*)	22.9%	23.0%	33.2%	45%
Other Income	0.7	1.0	0.7	-6%
Structural Costs (*)	-1.6	-1.6	-1.4	-13%
EBITDA	1.473	1.1	2.8	91%
EBITDA Margin (%)	11.0%	9.2%	22.2%	n.m.

Source: Value Track Analysis (*) Value Track estimates

Digital360: From EBITDA to Net Profit 1H19A – 1H20

(IT GAAP, €mn)	1H19	2H19	1H20	Chg. 1H20/1H19
EBITDA	1.5	1.1	2.8	92%
Depreciation Charges	0.0	0.0	0.0	13%
Amortization Charges	-0.7	-0.4	-0.8	14%
Amortisation on Goodwill	-0.4	-0.4	-0.4	--
EBIT	0.3	-0.2	1.6	--
EBIT Margin (%)	2.3%	-1.9%	12.2%	--
Net financial charges	-0.1	-0.2	0.1	--
Pre-tax profit	0.2	-0.4	1.6	--
Taxes	-0.2	0.0	-0.5	--
Minorities	-0.3	-0.1	-0.2	--
Net Profit (Loss)	-0.1	-0.4	1.1	--
Net Profit Adjusted	0.3	0.0	1.5	--

Source: Value Track Analysis

Strong cash flow generation leads to lower Net Debt figure

Cash outflow related to capex, cash taxes and financial charges were more than offset by massive operating cashflow generation.

Indeed, Operating Free Cash Flow before taxes stood at €3.2mn in 1H20 and it came as a combination of higher EBITDA and a good management of Net Working Capital.

More important, **Free Cash Flow sky scraped at €2.7mn in 1H20**, more than in entire FY19, again thanks to the “as-a-service” business.

Digital360: Cash Flow 1H19A – 1H20A

(IT GAAP, €mn)	1H19	2H19	1H20	Chg. 1H20/1H19
EBITDA	1.5	1.1	2.8	92%
WC requirements	-1.8	0.0	1.1	n.m.
Capex (not incl. Fin. Inv.)	-1.0	-1.0	-0.7	-31%
Change in provisions	0.0	-0.5	0.0	n.m.
OpFCF b.t.	-1.3	-0.4	3.2	n.m.
<i>As a % of EBITDA</i>	-86%	-35%	114%	
Cash Taxes	0.0	0.0	0.0	
Fin. Investments	-0.3	0.5	-0.6	
Net Financial Charges	-0.1	-0.2	0.1	
Free Cash Flow	-1.7	0.0	2.7	n.m.

Source: Value Track

As a result of the healthy free cash flow generation, Net Financial Position decreased du €3.6mn, lower than the €6.3mn as of December 2019.

Digital360: Balance Sheet 1H19A – 1H20A

(IT GAAP, €mn)	1H19	2H19	1H20
Tangible assets	0.5	0.5	0.5
Intangible assets	9.3	9.3	8.9
<i>o/w Goodwill</i>	5.3	4.9	4.5
Financial assets	0.1	0.1	0.1
Net Fixed assets	10.0	9.9	9.6
Operating WC	6.3	6.3	6.9
Others Cur. Assets (Liabilities)	-0.8	-0.7	-2.4
Net Working Capital	5.5	5.6	4.5
Severance pay and other funds	1.0	1.0	1.1
Total Capital Employed	14.4	14.5	12.9
Group Net Equity	8.1	8.1	9.3
Net Financial Position	-6.3	-6.3	-3.6

Source: Value Track Analysis

2020-22E Estimates revised upward

New vs old 2020E-21E estimates

SaaS solutions' market penetration is faster than expected with positive effect on revenues visibility and scalability and on margin expansion.

As such, while we are not modifying our top line estimates, at the same time we are revising upwards our 2020E-21E onwards profitability estimates as follows:

- ◆ **2020E EBITDA and EBIT** have been **revised up by 10% and 39%** vs previous estimates, while in 2021E the upward revision is much smaller, 2% and 9% respectively;
- ◆ **Net Profit estimate has been more than doubled vs previous estimates**, with €0.7mn FY20E vs €0.3mn previously forecasted;
- ◆ **Net Financial Position has been revised downward** by 22% with respect to previous estimates both at 2020E and 2021E.

Digital360: New vs. Old 2020E-21E forecasts

€mn	2020E			2021E		
	Old	New	Change	Old	New	Change
Group Revenues from Sales	24.5	24.5	0.0%	30.1	30.1	0.0%
Total Group Revenues	26.3	26.3	0.0%	31.9	31.9	0.0%
EBITDA	3.8	4.2	10%	5.1	5.2	2%
EBIT	1.0	1.4	38.6%	2.1	2.2	4.7%
Net Profit	0.3	0.7	n.m.	1.1	1.2	9%
Adj. Net Profit	1.1	1.4	35%	1.9	2.0	5%
OpFCF after tax	2.2	3.0	36%	1.2	2.0	67%
Net Financial Position	-4.5	-3.5	--	-3.9	-3.0	--

Source: Value Track analysis

Updated 2020E-2022E forecasts

Revenues 2019-2023E growing at 12% CAGR

As an effect of previously mentioned changes in estimates, we now expect:

- ◆ **Revenues growing at double digit CAGR** over the next two years, supported by the increasing demand for digital transformation services;
- ◆ **Improving Gross Margin and EBITDA margin**, 23.5% and 18.5% respectively as of 2022E, thanks to the **higher scalability** of the business and lower incidence of direct costs on total sales;
- ◆ **Net Profit is supposed to grow at 65% CAGR20E-23E**, reaching €2.9mn by the end of 2023E;
- ◆ **Net Financial Debt** is expected to **decrease at ca. €3.5mn and ca. €3.0mn by 2020E and 2021E** respectively thanks to increasing free cash flow generated.

Digital360: 2019A-23E Key Financials forecasts

(€mn)	2019A	2020E	2021E	2022E	2023E
Total Revenues	26.7	26.3	31.9	36.5	42.2
Gross Profit	4.0	5.7	6.8	8.2	9.9
Gross Margin	16.1%	23.4%	22.6%	23.5%	24.5%
EBITDA	2.5	4.2	5.2	6.4	7.9
EBITDA Margin (%)	10.1%	17.2%	17.3%	18.5%	19.7%
EBIT	0.1	1.4	2.2	3.3	4.7
Net Profit	-0.8	0.7	1.2	1.9	2.9
OpFCF after tax	-1.7	3.0	2.0	2.7	3.4
Net Financial Position	-6.3	-3.5	-3.0	-0.6	2.6

Source: Digital360, Value Track Analysis

Revenues 2019A-2022E growing at 12% CAGR

We now **expect Revenues from Sales** at €24.5mn by the end of 2020E and to grow at a **12% CAGR** between 2019A -22E, driven by continuous expansion of Advisory & Coaching and Demand Generation business units as well as relative insensitivity to the coronavirus outbreak.

We estimate an increase on **annualized recurring revenues (ARR) up to €16.3mn** and to account for **40% of Sales** by the end of 2023E.

Digital360: Revenue from Sales path 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E	CAGR _{19A-23E}
Demand Generation	13.4	12.7	15.5	18.1	21.2	12%
As % of Sales	53.8%	51.8%	51.7%	52.3%	52.8%	
Advisory & Coaching	11.5	13.8	14.5	16.5	19.0	13%
As % of Sales	46.2%	48.2%	48.3%	47.6%	47.2%	
Revenue from Sales	24.9	24.5	30.0	34.6	40.2	13%
Ann. Recur. Rev. (ARR)	4.3	6.7	9.2	12.3	16.3	39%
As % of Sales	17.3%	27.2%	30.8%	35.6%	40.4%	

Source: Value Track Analysis

On the right path to profitability growth

We foresee a strong increase on company profitability thanks to the higher incidence of products with greater operating leverage on total sales. In details:

- ◆ **Gross Profit** is expected to grow up to ca. €10mn in 2023E, i.e. Gross Margin at 24.5%, implying a **25% CAGR19A-23E**;
- ◆ **EBITDA** is expected to reach **€7.9mn by 2023**, while **EBITDA** margin is expected to increase up to **19.7%** by the end of the same year;
- ◆ **Net Profit Adjusted is expected to increase** year-on-year up to **€3.7mn in 2023E**, also supported by a slight improvement in net financial charges as the company starts to reduce its Net Financial Position.

Digital360: From Gross Profit to Net Profit 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E
Gross Profit	4.0	5.7	6.8	8.2	9.9
<i>Gross Margin</i>	16.1%	23.4%	22.6%	23.5%	24.5%
EBITDA	2.5	4.2	5.2	6.4	7.9
<i>EBITDA Margin (%)</i>	10.1%	17.2%	17.3%	18.5%	19.7%
EBIT	0.1	1.4	2.2	3.3	4.7
Net financial charges	-0.4	-0.2	-0.3	-0.2	-0.2
Pre-tax profit	-0.3	1.2	1.9	3.0	4.5
Taxes	-0.2	-0.5	-0.8	-1.1	-1.5
Minorities	-0.4	0.0	0.0	0.0	0.0
Net Profit (Loss)	-0.8	0.7	1.2	1.9	2.9
Net Profit Adjusted	0.3 (*)	1.4	2.0	2.7	3.7

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

Cash Generation Analysis and Balance Sheet

As Cash Flow Statement is concerned, we revised upward the **aggregate OpFCF b.t. (€15mn vs previous €14mn)** generated over the forecast period, with a further improvement on Net Financial Position. This should be driven by:

- ◆ **Net Working Capital**, seen up in absolute terms as the company continues to expand its business, however, the incidence on Sales **progressively reduces** from 22% in 2019 **to 16.5% in 2023E**;
- ◆ **Capex to stay in the 7% range on Sales**, made up for 65-60% of capitalized costs, while expenditures for maintenance of current business and platform to account for the remaining part.

Digital360: Cash Flow forecasts 2019A-23E

(IT GAAP, €mn)	2019A	2020E	2021E	2022E	2023E
EBITDA	2.5	4.2	5.2	6.4	7.9
WC requirements	-1.9	1.0	-0.6	-0.6	-0.9
Capex (not incl. Fin. Inv.)	-1.9	-2.2	-2.3	-2.5	-2.6
<i>o/w Organic Capex</i>	-0.4	-0.7	-0.8	-1.0	-1.1
<i>Capitalized costs</i>	-1.4	-1.5	-1.5	-1.5	-1.5
Change in provisions	0.0	0.5	0.4	0.4	0.5
OpFCF b.t.	-1.2	3.5	2.7	3.8	4.9
<i>As a % of EBITDA</i>	<i>n.m.</i>	<i>84.0%</i>	<i>52.6%</i>	<i>58.5%</i>	<i>61.9%</i>
Cash Taxes	-0.5	-0.5	-0.8	-1.1	-1.5
OpFCF a.t.	-1.7	3.0	2.0	2.7	3.4
Fin. Investments	0.3	0.0	-1.2	0.0	0.0
Net Financial Charges	-0.4	-0.2	-0.3	-0.2	-0.2
Free Cash Flow	-1.8	2.8	0.5	2.4	3.2

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

As an effect, we expect Net Debt to strongly reduce at the end of 2020E while turning into a **€2.6mn Net Cash position by 2023E**

Digital360: Balance Sheet forecasts 2019A-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
<i>o/w Goodwill</i>	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	5.0	5.7	6.4	7.3
Others Cur. Assets (Liabilities)	-0.7	-0.5	-0.6	-0.7	-0.6
Net Working Capital	5.6	4.5	5.1	5.7	6.7
Severance pay and other funds	1.0	1.5	1.9	2.3	2.7
Total Capital Employed	14.5	12.3	12.2	11.7	11.5
Group Net Equity	8.1	8.8	9.2	11.2	14.1
Net Financial Position	-6.3	-3.5	-3.0	-0.6	2.6

Source: Value Track Analysis

Valuation

At current €1.20 stock market price, Digital360 is trading at extremely cheap market multiples, i.e. 5.7x EV/EBITDA based on our revised 2020E estimates, implying a material discount vs. both domestic and international peers. Based on our revised estimates and in the light of 1H20 results, we calculate an **updated short-term DCF based fair equity value per share at €2.20** on a fully diluted basis, marginally up vs our previous €2.15. At fair value, stock would trade at 1.6x and 1.3x EV/Sales 2020E and 2021E, respectively, while EV/EBITDA 2020E and 2021E would be 9.6x and 7.4x.

We are aware that if the company successfully finalizes the already started business model fine-tuning towards a SaaS model featured by recurring revenue and high scalability, our medium-term fair value would incorporate further potential upside.

We underline that a simple **IRR Analysis** calculating potential upside coming from the unlocked business scalability returns a gross of tax IRR at **ca. 70%**. Cross checking our fair value with both domestic and international peers' multiples validates our IRR "exit" assumptions. *(Please refer to our Initial coverage report published back as of July 2020 for more details on our valuation approach).*

Digital360: Sensitivity of implicit stock trading multiples based on €1.20 – €3.0 share price range

Market Price (€ per share)	Enterprise Value		EV / Sale (x)		EV / EBITDA (x)		EV / EBITA (x)		P / E (x)	
	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
€1.20	24.2	22.5	1.0	0.7	5.7	4.3	11.3	7.5	13.6	10.0
€1.60	30.7	29.0	1.3	1.0	7.3	5.6	14.3	9.7	18.1	13.3
€2.00	37.2	35.5	1.5	1.2	8.8	6.8	17.3	11.8	22.6	16.6
€2.20	40.5	38.8	1.6	1.3	9.6	7.4	18.8	12.9	24.9	18.3
€2.60	47.0	45.3	1.9	1.5	11.1	8.7	21.9	15.1	29.4	21.6
€3.00	53.5	51.8	2.2	1.7	12.7	9.9	24.9	17.3	33.9	24.9

Source: Value Track Analysis

Discounted Cash Flow Model

We perform two different **DCF calculations**, one with a rolling WACC that mirrors company's funding sources and other one based on a target. DCF model based on actual D/E structure returns **€2.20 fair value per share** while the one based on target 30%-70% D/E ratio would return a €2.56 fair value per share. See our Initial coverage report for more details on DCF assumptions.

Digital360: DCF model

	€mn
PV of future Cash flow FY 2020E-2029E	21.3
PV of Terminal Value with PGR at 2%	22.7
Fair Enterprise Value	44.0
Net Fin. Position 2019A (*)	-4.3
Minorities / Peripheral assets	-1.2
Fair Equity Value	38.5
Fully diluted number of shares	17.5
Fair Equity value per share (€)	2.20

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

IRR Analysis

Since our Initiation of coverage published back as of July, Digital360 share price has increased by ca. 10% thus crystallizing part of the IRR potential we calculated at that time.

Updating our IRR analysis, under the assumption of **10.0x EV/EBITDA** exit multiple and 2-year holding period, we calculate an annualized **70% IRR** (gross of tax) and **€3.62x exit price per share**.

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

(€mn)	2022E
EBITDA (€mn)	6.4
Exit Market Multiples EV/EBITDA (x, 1 year forward) in July 2022	10.0x
Implied Enterprise value (€mn)	64.0
Net Financial Position (€mn)	0.6
Equity value (€mn)	63.4
Fully diluted number of shares (mn) (*)	17.5
Equity value per share at exit (€)	3.62
Annualized IRR	70%

Source: Value Track Analysis

(*) assuming the conversion of all outstanding bonds

The sensitivity table reported below shows how the IRR changes as time and exit market multiple vary: it can be easily seen that even in the worst-case scenario, i.e. 6.0x exit multiple with 4-year holding period, would provide a notable 30% IRR.

On the other end, a higher exit multiple and shorter holding period (i.e. 2 years) would lead to an impressive 86% 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	31%	32%	30%
	8.0x	52%	44%	38%
	10.0x	70%	55%	46%
	12.0x	86%	64%	52%

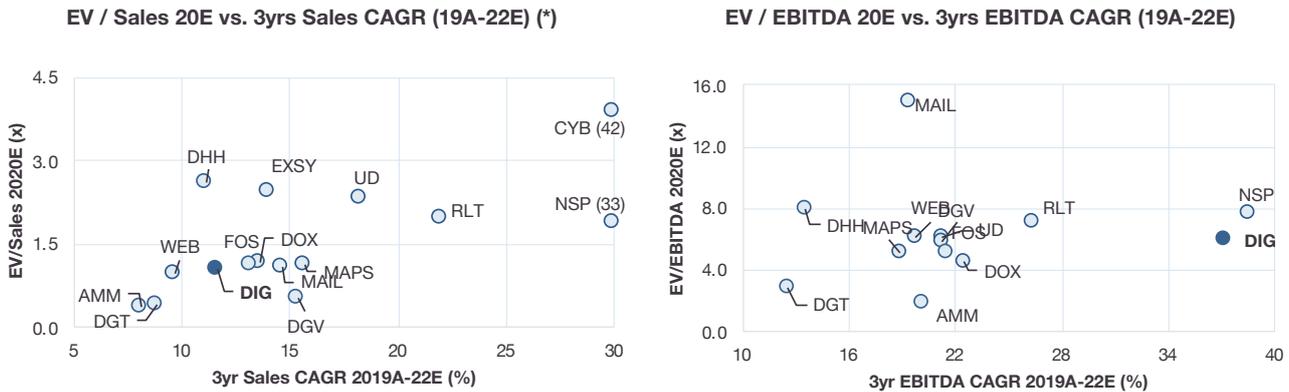
Source: Value Track Analysis

Peers Analysis

Within the domestic framework, Digital360 current valuation continues **to be at material discount (30% on average) vs. selected peers.**

Looking at the EBITDA, company trades at the same multiple of those peers with a much lower expected growth in 2019A-22E.

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

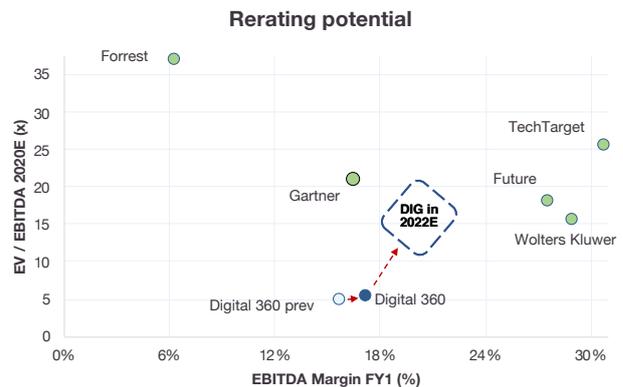
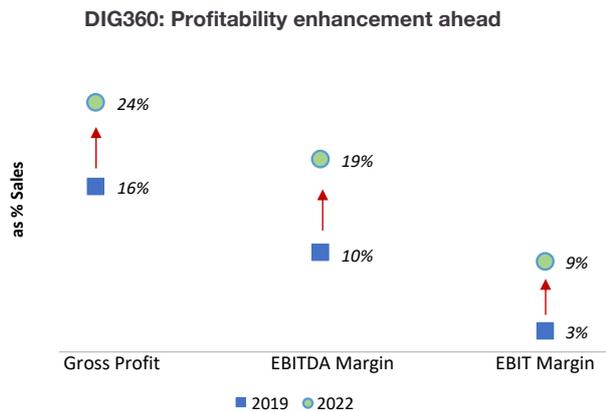


Source: Value Track analysis on companies' data (*) Cybereroo and Neosperience have been set at 30% CAGR for graphical reason

DIG360 discount is even higher if we look at international peers (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 confirm that Digital360 expected margin expansion should deserve an upward rerating vs these peers.

Digital360: Such business scalability deserves a multiple expansion



Source: Value Track analysis on companies' data

Appendix- DIG360 business profile at a glance

Leading digital transformation player in Italy

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.

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



Source: Digital360

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**, which offers marketing, lead generation services and involved in the organization of events or webinars on digital transformation issues;
- ◆ **ServicePro**, held at 51%, a full-service marketing agency involved in organizing complex events and management of demand and lead generation campaigns on behalf of IT vendors.

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

- ◆ **Partners4Innovation** which offers enterprises and Public Administration coaching and advisory services on digital solutions 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.

Across both business divisions there is **FPA** which supports Public Administration in the implementation of technological solutions and in the organization of events to the provisioning of research and training services.

Business Model: closing the gap (information asymmetries) between IT vendors and IT buyers

Digital360 was born from the visionary ideas to exploit the **information gap that characterizes the technology sector** with medium and small companies, on one side, facing the task of making complex ICT purchase decisions and ICT vendors, struggling to get in touch with prospect clients.

On the offer side of the market, Digital360 supports tech vendors with a series of multi-disciplinary services:

- ◆ **Customized Projects**, one-off projects which combine a multitude of services from storytelling to digital advertising as well as the organization of physical and digital events;
- ◆ **Digital Marketing & Sales**, a range of standard Catalogue services and innovative marketing automation tools which track web visitors and direct them towards content to suit their preferences.

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, developing a portfolio of solutions diversifies according to the level of customization required:

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

Digital360: B2B match-making platform



Source: Digital360

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

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 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.

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.

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

- ◆ **Engineering / standardization of solutions:** they are characterized by higher scalability, dramatically reducing direct costs of the traditional business. This allows reducing selling price and targeting smaller companies as potential clients.
- ◆ **Commercialization of solutions on “as-a-service” revenue model:** both business units are evolving toward “As-a-Service” model with the supply of solutions on an ongoing base and annual or multi-year subscriptions.

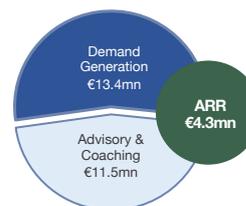
The main benefit of SaaS model relies on the higher revenue visibility and predictability. Moreover, revenues are billed earlier than the service provisioning, boosting cash generation. Finally, SaaS business model definitively reduces client churn rates;

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

FY18 – Revenue Analysis



FY19 – Revenue Analysis



Source: Value Track analysis on companies' data

- ◆ **Portfolio extension with proprietary solutions:** company now starting to commercialize more and more proprietary solutions with the aim to gain flexibility and affordability and to offer a more efficient service to its clients.

Among the proprietary products launched we recall **MarTech360**, marketing automation software platform, **GRC360**, platform fulfilling obligations regarding the protection of personal data, **360DigitalSkill**, an online learning platform to raise awareness on all aspects related to the ongoing digital transformation.

Adding proprietary solutions to the offer portfolio has enormous positive effects on profitability improvement (Gross Margin of proprietary solution achievable higher than 80% level).

- ◆ **Widening of reference market towards additional “verticals”:** over the last couple of years, Digital360 decided to widen its offer also to other sectors, like energy and transportation, to improve their online positioning as well as identify business opportunities.

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