

## Digital Offering Unleashed for Better Profitability

ADD | Fair Value: €3.33 (€2.83) | Current Price: €2.30 | Upside: 45%

## Research Update

February 15, 2021 – 7.00h

€ Million	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Total Revenues	14.3	22.5	25.2	26.5	31.8	35.6	39.6	42.9
EBITDA	1.6	2.6	2.9	5.0	6.0	6.9	7.7	8.5
margin	11.5%	11.4%	11.5%	18.9%	19.0%	19.3%	19.5%	19.7%
Net Profit Adj.	0.5	0.3	0.3	2.2	2.8	3.2	4.5	4.8
margin	3.7%	1.4%	1.2%	8.4%	8.9%	9.1%	11.4%	11.1%
EPS	0.03	0.02	0.02	0.14	0.16	0.19	0.26	0.27

Source: Company data, KT&Partners' estimates

**Preliminary FY20 results driven by digital and as-a-service offering.** After a slight drop in 1H20, DIG bounced back in 2H20 growing at both the top line and marginality level. DIG has benefited from the boost that the Covid-19 pandemic has given to the digital transformation of Italian enterprises, recording a +5%YoY growth on FY20 revenues, exceeding our estimates. The Group showed great ability in reshaping its offer with digital events (580 in 2020) and services that offset the absence of physical events due to the pandemic. The change in revenue mix, with an increasing contribution of digital and recurring services, had a positive impact on EBITDA, which doubled with respect to 2019, exceeding €5mn (ca. €1mn above our previous estimates) with an EBITDA margin of ca. 19%. Strong cash generation power was recorded (€4.9mn), also leading to improvement in the NFP from €3.6mn in 1H20 to €1.5mn (ca. €2mn lower our estimates) at the end of the year. NFP was also impacted by the closing of the second conversion period of the five-year convertible bond, which led to a conversion of 51,000 shares for a total amount of €81,600.

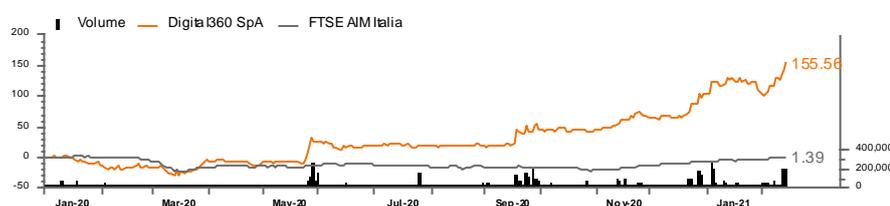
**Stock option plan executed.** On February 2, 2020, DIG announced the fulfilment of the condition set out for the exercise of Option A (reserved for directors, employees, collaborators, and consultants of the Group) and Option B (reserved for managers of both of DIG's Business Units). As a result, DIG will serve the plan by issuing 1.1mn shares for a cash-in of €0.5mn.

**Strong stock performance at an unprecedented time.** With a 104% performance, in 2020, DIG was among the top 10 performers of the FTSE AIM and top 40 performers of the Italian companies listed on the Borsa Italiana stock exchange.

**Estimates review.** On the back of DIG's preliminary results, we have decided to leave unchanged our top-line estimates for the 2021–24 period, while putting under review our EBITDA margin forecast in order to take into account the higher contribution of digital and recurring services. We now anticipate EBITDA margin to go from 19% in 2021 to 19.7% in 2024. We forecast net income adj. after minorities to grow at a CAGR2020–24 of 21.1%, reaching €4.8mn by 2024.

**Valuation.** We are confident that DIG will keep playing a key role in an environment where digital transformation remains a *hot topic* for Italian enterprises. We have updated our valuation – based on a DCF and multiple methods – yielding an average equity value of €57.8mn or €3.33ps, implying a +44.7% upside on the current price. Our valuation is based on 17.4mn shares, including shares that will be issued to serve the stock option plan.

### Relative Performance Chart YoY



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### Market Data:

Main Shareholders	
Andrea Rangone*	22.36%
Mariano Corso*	11.05%
Alessandro Giuseppe Perego*	10.91%
Mkt Cap (€ mn)*	37.5
EV (€ mn)*	40.2
Shares issued (mn)*	17.4
Free Float (%)*	28.5%

Market multiples	2019	2020	2021
EV/EBITDA			
Digital360	13.8x	8.0x	6.7x
Comps median	18.2x	15.6x	14.0x
Digital360 vs Median	-24%	-49%	-52%
P/E			
Digital360	n.m.	16.9x	14.2x
Comps median	24.2x	23.9x	21.7x
Digital360 vs Median	n.m.	-29%	-35%

### Stock Data:

52 Wk High (€)	2.24
52 Wk Low (€)	0.64
Avg. Daily Trading 90d	43,746
Price Change 1w (%)	61.29
Price Change 1m (%)	50.75
Price Change YTD (%)	63.04

\*Including shares that will be issued to serve the stock option plan

## Key Figures – Digital 360 Group

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	2.30	3.33	Digital					28.5%
Per Share Data	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Total shares issued (mn)	16.26	16.26	16.26	16.31	17.38	17.38	17.38	17.38
Total shares outstanding (mn)	16.26	16.23	16.23	16.27	17.34	17.34	17.34	17.34
EPS	0.03	0.02	0.02	0.14	0.16	0.19	0.26	0.27
Dividend per share (ord)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend payout ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Profit and Loss (EUR million)								
Revenues	14.3	22.5	25.2	26.5	31.8	35.6	39.6	42.9
EBITDA	1.6	2.6	2.9	5.0	6.0	6.9	7.7	8.5
EBIT Adj.	0.8	1.1	1.2	3.2	3.8	4.4	6.2	6.5
EBT Adj.	0.5	0.8	0.9	3.3	3.6	4.2	6.0	6.4
Taxes	(0.0)	(0.2)	(0.2)	(0.7)	(0.8)	(1.0)	(1.5)	(1.6)
Tax rate	22%	355%	227%	29%	29%	29%	29%	29%
Net Income Adj.	0.5	0.6	0.7	2.6	2.8	3.2	4.5	4.8
Net Income attributable to the Group Adj.	0.5	0.3	0.3	2.2	2.8	3.2	4.5	4.8
Balance Sheet (EUR million)								
Total fixed assets	7.1	10.5	9.9	8.9	8.9	7.6	7.1	6.3
Net Working Capital (NWC)	4.0	3.7	5.6	4.5	5.8	7.0	7.5	8.2
Provisions	(0.7)	(1.0)	(1.0)	(1.6)	(2.2)	(2.9)	(3.8)	(4.6)
Total Net capital employed	10.3	13.2	14.5	11.9	12.6	11.6	10.9	9.8
Net financial position/(Cash)	2.6	4.6	6.3	1.5	(0.4)	(3.8)	(8.3)	(13.3)
Group Shareholder's Equity	7.8	8.2	7.4	9.3	11.8	14.3	18.0	22.0
Minorities	0.0	0.4	0.8	1.1	1.1	1.1	1.1	1.1
Total Shareholder's Equity	7.8	8.6	8.1	10.4	12.9	15.4	19.1	23.1
Cash Flow (EUR million)								
Net operating cash flow	-	2.3	1.9	4.3	5.2	5.8	6.2	6.8
Change in NWC	-	0.3	(1.9)	1.0	(1.3)	(1.2)	(0.5)	(0.6)
Capital expenditure	-	(5.6)	(1.9)	(1.6)	(3.0)	(1.9)	(1.9)	(1.9)
Other cash items/Uses of funds	-	0.3	0.0	0.5	0.7	0.7	0.8	0.9
Free cash flow	-	(2.6)	(1.9)	4.3	1.5	3.5	4.6	5.1
Enterprise Value (EUR million)								
Market Cap	20.0	19.3	15.6	37.5	40.0	40.0	40.0	40.0
Minorities	0.0	0.4	0.8	1.1	1.1	1.1	1.1	1.1
Net financial position/(Cash)	2.6	4.6	6.3	1.5	(0.4)	(3.8)	(8.3)	(13.3)
Enterprise value	22.6	24.3	22.7	40.2	40.7	37.3	32.8	27.8
Ratios (%)								
EBITDA margin	11.5%	11.4%	11.5%	18.9%	19.0%	19.3%	19.5%	19.7%
EBIT margin Adj.	5.3%	5.1%	4.9%	12.2%	12.0%	12.4%	15.7%	15.2%
Gearing - Debt/equity	33.1%	55.7%	85.9%	16.6%	-3.3%	-26.6%	-45.8%	-60.4%
Interest cover on EBIT	28.3%	23.7%	0.0%	4.8%	4.1%	3.5%	2.5%	2.4%
NFP/EBITDA	156.7%	177.8%	217.7%	30.7%	-6.5%	-55.3%	-106.6%	-157.0%
ROCE	7.3%	8.7%	8.6%	27.0%	30.3%	38.0%	57.0%	66.5%
ROE	6.8%	3.9%	4.1%	24.0%	23.8%	22.7%	25.1%	21.7%
EV/Sales	2.73x	1.73x	1.55x	1.52x	1.26x	1.13x	1.01x	0.94x
EV/EBITDA	24.51x	15.64x	13.81x	8.03x	6.66x	5.85x	5.19x	4.75x
P/E	71.02x	117.27x	122.92x	16.87x	14.18x	12.30x	8.82x	8.37x
Free cash flow yield	0	-0.2	-0.1	0.3	0.1	0.2	0.3	0.3
Growth Rates (%)								
Sales	n.a.	57.2%	12.1%	4.9%	20.0%	11.9%	11.4%	8.4%
EBITDA	n.a.	56.6%	13.3%	72.1%	20.5%	14.0%	12.6%	9.3%
EBIT Adj.	n.a.	50.7%	8.8%	158.9%	17.9%	16.0%	40.9%	5.6%
Net Income Adj.	n.a.	-39.5%	-4.6%	630.7%	26.8%	15.3%	39.4%	5.4%

Source: Company data, KT&Partners' elaborations

Note: Data include shares that will be issued to serve the stock option plan

## Estimates Revision

We aligned FY20 revenues to preliminary data, leaving unchanged our forecast for the 2021-2024 period. We expect revenue to grow at a CAGR2020-24 of 12.8%, reaching €42.9mn in 2024.

On the back of FY20 preliminary results, we decided to revise upward our projections on profitability, factoring in the higher scalability and margin of digital and as-a-service solutions.

We expect a FY21 EBITDA margin almost in line with 2020 due to a gradual increase of physical events which show lower margins. From 2021 onward this effect will be offset by the increasing incidence of the Digital-As-A-Service business. As a result, we anticipate EBITDA margin to stand above 19% over the 2021-24 period, reaching 19.7% in 2024.

The higher marginality should also have a positive impact on the business cash flow generation, leading to a net cash position of €13.3mn by 2024.

### Estimates Revision

€ mn	2019	2020E	2020E	Change	2021E	2021E	Change	2022E	2022E	Change	2023E	2023E	Change	2024E	2024E	Change	CAGR
	Actual	Old	New		Old	New		Old	New		Old	New		Old	New		
Revenues	25.2	24.5	26.5	8.1%	31.8	31.8	0.0%	35.6	35.6	0.0%	39.6	39.6	0.0%	42.9	42.9	0.0%	12.8%
YoY Change (%)	12.1%	-3.0%	4.9%		29.7%	20.0%		11.9%	11.9%		11.4%	11.4%		8.4%	8.4%		
EBITDA	2.9	4.1	5.0	21.6%	5.4	6.0	11.6%	6.0	6.9	13.9%	6.7	7.7	15.1%	7.4	8.5	13.6%	14.0%
YoY Change (%)	13.3%	41.5%	72.1%		31.3%	20.5%		11.6%	14.0%		11.5%	12.6%		10.7%	9.3%		
EBITDA Margin	11.5%	16.8%	18.9%		17.0%	19.0%		17.0%	19.3%		17.0%	19.5%		17.3%	19.7%		
EBIT adjusted	1.2	2.3	3.2	39.9%	3.1	3.8	22.0%	3.5	4.4	25.8%	5.1	6.2	21.0%	5.5	6.5	19.7%	19.4%
YoY Change (%)	219.4%	85.1%	158.9%		35.1%	17.9%		12.5%	16.0%		46.5%	40.9%		6.7%	5.6%		
Net income after minorities adjusted	0.3	1.7	2.2	30.7%	2.3	2.8	20.9%	2.6	3.2	24.7%	3.8	4.5	20.4%	4.0	4.8	19.1%	21.1%
YoY Change (%)	-272.8%	458.9%	630.7%		37.0%	26.8%		11.8%	15.3%		44.4%	39.4%		6.5%	5.4%		
NFP	6.3	3.6	1.5	-57.1%	2.3	0.4	-116.9%	0.9	3.8	328.1%	4.2	8.3	98.1%	8.5	13.3	56.2%	

Source: Company data, KT&Partners' elaborations

## Valuation

Our valuation is based on 17,377,475 shares, including 1,068,270 of new shares that will be issued by the end of February to serve the stock option plan. Following the projections of DIG's future financials, we carried out the valuations of the Company by applying the DCF and market multiples methods.

1. EV/EBITDA and P/E multiples, which returns a value of €3.73ps;
2. DCF analysis based on WACC of 10.6% and 2% perpetual growth, which returns a value of €2.93ps.

The average of the two methods yields a fair value of €3.33ps or an equity value of €57.8mn.

## Market Multiples Valuation

Following the comparables analysis, we proceeded with the definition of market multiples of the peer group, focusing on 2020, 2021 and 2022 data.

### Peers Comparison: Market Multiples 2020–22

Company Name	Exchange	Market Cap	EV/SALES 2020	EV/SALES 2021	EV/SALES 2022	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBIT 2020	EV/EBIT 2021	EV/EBIT 2022	P/E 2020	P/E 2021	P/E 2022
Booz Allen Hamilton Holding Corporation Class A	NYSE	9,602	1.6x	1.5x	1.5x	15.5x	14.7x	13.8x	17.2x	16.4x	15.3x	21.6x	20.2x	18.2x
Gartner, Inc.	NYSE	13,360	4.5x	4.2x	3.7x	22.7x	24.1x	21.0x	37.8x	36.8x	29.7x	37.0x	43.4x	34.8x
HubSpot, Inc.	NYSE	16,331	21.7x	17.8x	14.5x	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m
ServiceNow, Inc.	NYSE	95,599	25.2x	19.8x	15.9x	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m
TechTarget, Inc.	NASDAQ	2,142	16.8x	10.9x	9.3x	n.m	33.1x	26.5x	n.m	n.m	39.8x	n.m	n.m	44.1x
RELX PLC	London	40,172	5.9x	5.7x	5.3x	17.2x	15.6x	14.1x	20.3x	18.0x	16.1x	23.4x	20.4x	17.8x
Wolters Kluwer NV	Euronext Amsterdam	18,496	4.4x	4.4x	4.2x	14.6x	14.5x	13.8x	18.0x	17.8x	16.9x	23.9x	23.3x	21.8x
Future plc	London	2,077	5.6x	4.3x	4.1x	19.1x	14.8x	14.0x	20.9x	16.5x	15.1x	41.5x	21.0x	19.3x
Informa Plc	London	8,699	5.8x	4.8x	4.0x	28.0x	16.2x	11.8x	36.6x	19.0x	13.2x	n.m	22.3x	15.1x
Techedge S.p.A	Milan	139	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average peer group		20,662	10.2x	8.2x	6.9x	19.5x	19.0x	16.4x	25.1x	20.8x	11.2x	29.5x	25.1x	23.2x
Median peer group		11,481	5.8x	4.8x	4.2x	18.2x	15.6x	14.0x	20.6x	17.9x	13.2x	23.9x	21.7x	15.2x
Digital360	Milan	38	1.5x	1.3x	1.1x	8.0x	6.6x	5.8x	16.3x	13.2x	0.0x	16.0x	13.4x	11.7x

Source: Company data, FactSet, KT&Partners' estimates

We based our valuation upon a size/liquidity discount of 25%, and our estimates of DIG's EBITDA and net income adjusted for 2020 and 2021.

### EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2020E	2021E
EV/EBITDA Comps	19.5x	19.0x
Digital360 EBITDA	5.01	6.03
<b>Enterprise value</b>	<b>97.8</b>	<b>114.6</b>
FY20E NFP	1.5	1.5
<b>Equity Value</b>	<b>96.2</b>	<b>113.1</b>
Average Equity Value	104.7	
Liquidity Discount	25%	
<b>Equity Value Post-Discount</b>	<b>78.5</b>	
Number of shares (thousand)	17.4	
<b>Value per Share €</b>	<b>4.5</b>	

Source: Company data, FactSet, KT&Partners' estimates

Note: Data include shares that will be issued to serve the stock option plan

### P/E Multiple Valuation

Multiple Valuation (€mn)	2020E	2021E
P/E Comps	29.5x	25.1x
Digital360 Net Income Adj.	2.22	2.81
<b>Equity Value</b>	<b>65.4</b>	<b>70.6</b>
Average Equity Value	68.0	
Liquidity Discount	25%	
<b>Equity Value Post-Discount</b>	<b>51.0</b>	
Number of shares (thousand)	17.4	
<b>Value per Share €</b>	<b>2.9</b>	

## DCF Model

We have also conducted our valuation using a five-year DCF model, based on 12.5% cost of equity, 5.5% cost of debt and a target capital structure of 77% equity and 23% debt. The cost of equity is a function of the risk-free rate of 0.5% (Italian 10y BTP), 5.81% equity risk premium (Damodaran for the mature market) and a premium for size and liquidity of 6.27%. We, therefore, obtained 10.6% WACC.

We discounted 2021E–24E annual cash flows and considered a terminal growth rate of 2%; then we carried out a sensitivity analysis on the terminal growth rate (+/- 0.25%) and on WACC (+/- 0.25%).

DCF Valuation				
€ millions	2021E	2022E	2023E	2024E
EBIT	3.01	3.62	5.42	5.76
Taxes	(0.87)	(1.05)	(1.57)	(1.67)
D&A	3.02	3.25	2.32	2.69
Change in Net Working Capital	(1.32)	(1.15)	(0.54)	(0.64)
Change in Funds	0.66	0.73	0.82	0.88
<b>Net Operating Cash Flow</b>	<b>4.50</b>	<b>5.40</b>	<b>6.45</b>	<b>7.03</b>
Capex	(2.99)	(1.89)	(1.89)	(1.89)
<b>FCFO</b>	<b>1.51</b>	<b>3.52</b>	<b>4.56</b>	<b>5.14</b>
g	2.0%			
Wacc	10.6%			
FCFO (discounted)	1.38	2.91	3.41	3.48
Discounted Cumulated FCFO	11.18			
TV	60.96			
TV (discounted)	41.21			
<b>Enterprise Value</b>	<b>52.39</b>			
FY20E NFP	1.54			
<b>Equity Value</b>	<b>50.85</b>			
Current number of shares (k)	17.4			
<b>Value per share (€)</b>	<b>2.93</b>			

Source: Company data, FactSet, KT&Partners' estimates

Note: Data include shares that will be issued to serve the stock option plan

Sensitivity Analysis						
€ millions	Terminal growth Rate	WACC				
		11.1%	10.9%	10.6%	10.4%	10.1%
	1.5%	45.6	47.0	48.4	49.9	51.5
	1.8%	46.7	48.1	49.6	51.2	52.9
	2.0%	47.8	49.3	50.9	52.5	54.3
	2.3%	49.0	50.5	52.2	54.0	55.8
	2.5%	50.2	51.9	53.6	55.5	57.5

Source: KT&Partners' estimates

Note: Data include shares that will be issued to serve the stock option plan

## Appendix

### Peer Comparison

We carried out an in-depth analysis of potential public companies that could be considered as peers of DIG, taking into account its two business units together with its growth profile and the profitability structure.

We built a 10-company sample, which includes:

- **Booz Allen Hamilton Holding Corporation Class A (BAH-US):** listed on NYSE with a market capitalization of €10bn. BAH-US engages in the provision of management and technology consulting services. It offers analytics, digital solutions, engineering, and cyber expertise. In FY18, BAH-US reached €5.8bn of revenues.
- **Gartner, Inc. (IT-US):** listed on NYSE with a market capitalization of €13bn. IT-US Gartner, Inc. is a research and advisory company, which delivers technology-related insights to its clients to help them with decision-making. It operates through the following segments: Research, Consulting and Conferences. The Research segment gives advice on the mission-critical priorities of leaders. The Consulting segment offers customized solutions to unique client needs through on-site, day-to-day support, and proprietary tools for measuring and improving IT performance. The Conferences segment involves business professionals across the organization. In FY19, IT-US reached €3.8bn of revenues.
- **HubSpot, Inc. (HUBS-US):** listed on NYSE with a market capitalization of €16bn. It provides a cloud-based marketing and sales software platform that enables businesses to deliver an inbound experience. In FY19, HUBS-US reached €0.6bn of revenues.
- **ServiceNow, Inc. (NOW-US):** listed on NYSE with a market capitalization of €95bn. NOW-US engages in the provision of enterprise cloud computing solutions. It offers customer and facilities service management, orchestration core, service mapping, cloud and portfolio management, edge encryption, performance analytics, service portal design, visual task boards, and configuration management databases. In FY19, NOW-US reached €3.1bn of revenues.
- **TechTarget, Inc. (TTGT-US):** listed on NASDAQ with a market capitalization of €2bn. TTGT-US engages in the provision of online content for buyers of enterprise information technology products and services. It also offers purchase-intent marketing and sales services for enterprise technology vendors. Its product portfolio includes demand generation, brand consideration, sales enablement, and marketing intelligence. In FY19, TTGT-US reached €0.1bn of revenues.
- **RELX PLC (REL-GB):** listed on the London Stock Exchange with a market capitalization of €40bn. REL-GB engages in provision of information and analytics solutions for professional and business customers across industries. It operates through the following business segments: Scientific, Technical & Medical; Risk & Business Analytics; Legal; and Exhibitions. In FY19, REL-GB reached €8.9bn of revenues.
- **Wolters Kluwer NV (WKL-NL):** listed on the Euronext Stock Exchange with a market capitalization of €18bn. WKL-NL engages in the provision of information, software solutions, and services for professionals in the health, tax and accounting, finance, risk and compliance, and legal sectors. It operates through the following segments:

Health; Tax and Accounting; Governance, Risk and Compliance; and Legal and Regulatory. In FY19, **WKL-NL** reached €4.1bn of revenues.

- **Future plc (FUTR-GB):** listed on the London Stock Exchange, with a market capitalization of ca. €2bn. FUTR-GB engages in the publishing of special-interest consumer magazines and websites and the operation of events in the areas of technology; games and entertainment; music; knowledge; creative and photography; field sports; and home interest. It operates through the UK and US segments. In FY19, FUTR-GB's revenues reached €251mn.
- **Informa Plc (INF-GB):** listed on the London Stock Exchange, with a market capitalization of ca. €8bn. INF-GB is a holding company, which engages in the provision of international business-to-business events, academic publishing, and information services. It operates through the following segments: Global Exhibitions, Academic Publishing, Business Intelligence, and Knowledge and Networking. In FY19, INF-GB's revenues reached €3.3bn.
- **Techedge SpA (EDGE-IT):** listed on the Milan Stock Exchange, with a market capitalization of ca. €139mn. EDGE-IT provides business solutions and services worldwide which help companies exploit digital technologies to improve their business. The company serves the automotive, consumer goods, energy and utilities, services, and manufacturing industries. In FY19, EDGE-IT's revenues reached €200mn.

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IN THIS STUDY DCF AND MULTIPLE VALUATION MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE <15% o >-15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE

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