

Digital360

Sector: ICT



Analysts

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Fair Value (€) **3.25**

Market Price (€) **2.57**

Market Cap. (€m) **44.8**

Digital(360) champion

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.

FY 2020: Healthy growth and cash generation

FY20 financial figures are in line with preliminary results, confirming sound profitability and healthy cash generation:

- ◆ Revenue from Sales up +4.9% y/y with a sharp acceleration in 2H (we calculate +16.7% y/y), driven by Covid-19 outbreak accelerating the need for digital transition, and by the successful take up of *Digital-as-a-Service* business, with ca. €6.4mn Annualized Recurring Revenues (+49% y/y, now at 23% of total vs. 17% as of FY19);
- ◆ EBITDA at €5mn (2x y/y), EBITDA margin at ca. 19% (or +900bps y/y);
- ◆ Cash conversion after tax close to 100% leading Net Debt at €1.4mn (vs. €6.3mn in Dec'19).

Time to export the business model abroad

Digital360's business model is ahead of the curve and this allows the company to think to a **possible expansion abroad**. As local language is a must have feature, we imagine that best would be to address highly populated countries / areas such English or Spanish speaking.

2021E-23E estimates confirmed

1Q21 seems to have started well in terms of business trading, so we are confirming our 2021E-'23E estimates driven, again, by the business model fine tuning towards Digital-as-a-Service activities:

- ◆ Revenues to reach €41.5mn in 2023E, 17% CAGR20-23E, with ARR (on annual basis) up from €6.4mn as of FY20 to €16.7mn in 2023E;
- ◆ EBITDA to increase up to €8.3mn by 2023E (19% 2020-23E CAGR), with margin steadily growing up to 20%;
- ◆ Net Financial Position expected to turn positive by 2022E at €2.3mn.

Fair Value revised at €3.25 per share (from €3.10)

DIG360 is still trading at material discount vs. international peers with akin business models. Promising business momentum allow us to revise upward our **fair equity value at €3.25 per share**, equal to 10.0x and 7.9x EV/EBITDA 2021E-22E. As the company successfully finalizes the transition to "Digital-as-a-service" business model, our medium-term fair value could incorporate further upside. Indeed, TechTarget that is the closest comparable is now trading at ca. 9.5x EV/Sales and 29.3x EV/EBITDA 2021E.

KEY FINANCIALS (€mn)	2020	2021E	2022E
VALUE OF PRODUCTION	27.6	33.0	37.6
EBITDA	5.0	5.9	7.1
EBIT ADJ. (*)	3.3	3.8	4.9
NET PROFIT ADJ. (*)	2.4	2.4	3.4
EQUITY	9.8	10.8	13.5
NET FIN. POS.	-1.4	-0.4	2.3
EPS ADJ (€)(*)	0.14	0.15	0.20
DPS (€)	0.00	0.00	0.00

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

RATIOS & MULTIPLES	2020	2021E	2022E
EBITDA MARGIN (%)	19.1	18.8	19.8
EBIT ADJ MARGIN. (%) (*)	12.5	12.0	13.7
NET DEBT / EBITDA (x)	0.3	0.1	-0.3
NET DEBT / EQUITY (x)	0.1	0.0	-0.2
EV/SALES (x) (**)	1.8	1.5	1.2
EV/EBITDA (x) (**)	9.3	8.0	6.2
EV/EBIT ADJ. (x) (**)	14.1	12.5	9.0

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

STOCK DATA

FAIR VALUE (€)	3.25
MARKET PRICE (€)	2.57
SHS. OUT. (m)	17.4
MARKET CAP. (€m)	44.8
FREE FLOAT (%)	24.2%
AVG. -20D VOL. (#)	52,867
RIC / BBG	DIG.MI / DIG IM
52 WK RANGE	0.69 – 2.80

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	2019A	2020A	2021E	2022E
Total Revenue from Sales	25.0	26.3	31.4	36.0
Chg. % YoY	13.5%	5.6%	19.1%	14.7%
EBITDA	2.5	5.0	5.9	7.1
EBITDA Margin (%)	10.1%	19.0%	18.8%	19.8%
EBIT	0.1	2.5	3.0	4.1
EBIT Margin (%)	0.3%	9.6%	9.5%	11.5%
Net Profit	-0.8	1.1	1.7	2.6
Chg. % YoY	88.4%	-230.4%	55.4%	57.0%
Adjusted Net Profit	0.7	2.4	2.4	3.4
Chg. % YoY	nm	nm	4.1%	38.7%
Net Fin. Position	-6.3	-1.4	-0.4	2.3
Net Fin. Pos. / EBITDA (x)	2.5	0.3	0.1	nm
Net Investments	-1.9	-1.5	-2.3	-2.4
OpFCF b.t.	-1.2	6.0	3.1	4.4
OpFCF b.t. as % of EBITDA	-66.6%	102.4%	35.1%	42.5%

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

Investment case

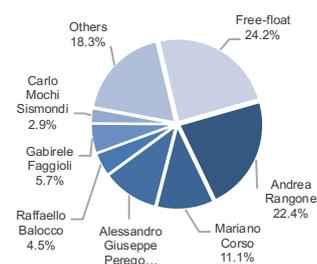
Strengths / Opportunities

- ◆ 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

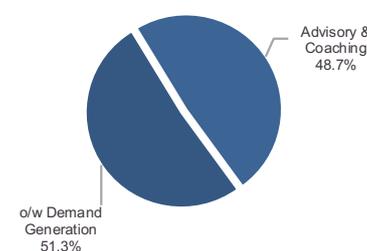
- ◆ Lower size if compared to competitors;
- ◆ Business model fine tuning implies an execution risk and may require additional managerial / technical capabilities, as well as additional funding.

Shareholders Structure



Source: Digital360

FY19 Total Sales by business line



Source: Digital360

ARR – Annual Recurring Revenues



Source: Digital360, Value Track

Stock multiples @ €3.25 Fair Value(*)

	2021E	2022E
EV / SALES (x)	1.9	1.6
EV / EBITDA (x)	10.0	7.9
EV / EBIT (x)	19.8	14.2
EV / Cap. Empl. (x)	5.2	5.3
OpFCF Yield (%)	5.5	8.3
P / E Adj. (x)	24.7	17.8
P / BV (x)	5.6	4.5
EV / EBIT ADJ. (x)	15.7	11.9

Source: Value Track (*) fully diluted

Official FY20 figures confirm preliminary results

Official results confirm preliminary FY20 financial figures, which came in better than our estimates date back as of September 2020. To sum up:

- ◆ **Revenue from Sales up 4.9% y/y** at €26.1mn, with a sharp acceleration in 2H (we calculated an implied +16.7% y/y in the second part of the year);
- ◆ **EBITDA at €5.0mn (ca. 2x y/y),**
- ◆ **EBITDA margin higher than 19%** (up ca. 900bps y/y if compared with 10.1% recorded back in FY19);
- ◆ **Close to 100% after tax cash conversion ratio**, driving Net Debt down at €1.4mn (€6.3mn in Dec'19, €3.6mn in Jun'20).

Digital360: 2020A Main Financials 2109A and 2020A

(€mn)	2019A	2020A	Change YoY (%)
Revenue from Sales	24.9	26.1	4.9%
EBITDA	2.5	5.0	ca. 2x
<i>EBITDA Margin (%)</i>	<i>10.1%</i>	<i>19.1%</i>	<i>ca.+900bps</i>
Net Debt	6.3	1.4	-4.9
<i>FCF/EBITDA (%)</i>	<i><0</i>	<i>99.2%</i>	<i>n.m.</i>

Source: Value Track Analysis

Revenue from sales +4.9% y/y, with Advisory & Coaching leading the way

Digital360's Revenue from Sales increased by 4.9% y/y, to ca. €26.1mn, with an implied 2H20 y/y growth around 17% fostered by an impressive increase in the number of new subscriptions, (ca. 2x y/y).

Specifically, while the Demand Generation business division experienced a slight decrease (ca. -2% y/y) due to the cancellation of many physical events due to the pandemic, on the contrary the Advisory & Coaching BU saw a remarkable y/y growth of over 12% thanks to services mainly provided online and based on subscriptions.

As a consequence also the business mix has moved towards Advisory & Coaching BU, now accounting for 48.7% of revenue from sales (up from 45.2% as of 2019FY).

Digital360: 2020A Revenue Breakdown and Value of Production 2109A and 2020A

(€mn)	2019A	2020A	Change YoY (%)
Revenue from Sales	24.9	26.1	+4.9%
Other Revenues	0.3	0.2	n.m.
Total Revenue from Sales	25.2	26.3	+4.4%
<i>(o/w Demand Generation)</i>	<i>13.8</i>	<i>13.5</i>	<i>-2.2%</i>
<i>(Advisory & Coaching)</i>	<i>11.4</i>	<i>12.8</i>	<i>+12.3%</i>
Capitalized development costs	1.4	1.3	-23.9%
Total Value of Production	26.7	27.6	+3.7%

Source: Value Track Analysis

EBITDA Margin at 19%, doubling FY19 figure

Profitability experienced all-time highs in FY2020, with EBITDA increasing by 98% y/y. EBITDA margin soared during the year and is reported at 19.1%, thanks to the combined effect of:

- ◆ Different revenue mix, with higher incidence of **“as-a-service” business**, by nature featured by better profitability ratios;
- ◆ Lower incidence of direct costs on sales mostly driven by the noteworthy **reduction of physical events** due to covid-19 outbreak;
- ◆ **Indirect costs optimization**, implying a positive operating leverage.

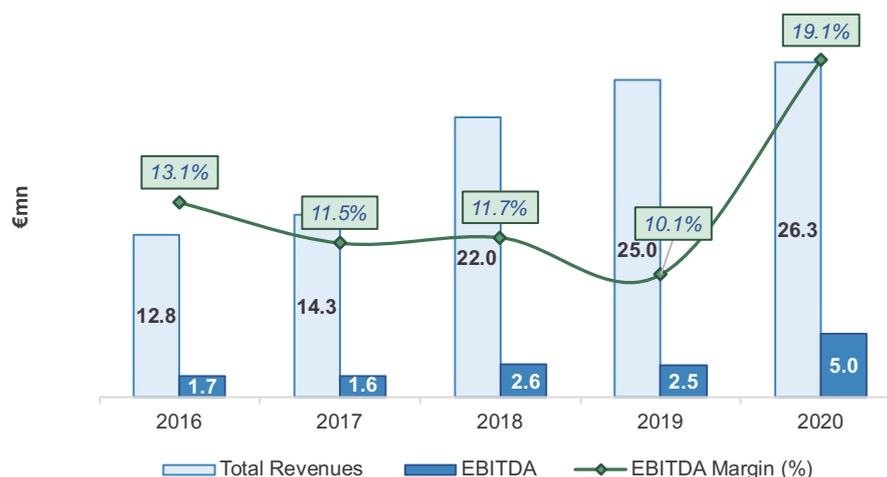
Such outstanding results confirm the viability and profitability of DIG360 new business model based on annual subscriptions and recurring revenues.

Digital360: From Total Revenue to EBITDA 2109A and 2020A

(€mn)	2019A	2020A	Change YoY (%)
Total Revenue from Sales	25.0	26.3	5.6%
Direct Costs (*)	-20.9	-19.3	-7.6%
Gross Profit (*)	4.0	7.0	+74.4%
Gross Margin (*)	16.1%	26.6%	n.m.
Other Income	1.7	1.3	n.m.
Structural Costs (*)	-3.2	-3.3	+3.1%
EBITDA	2.5	5.0	+97.9%
EBITDA Margin (%)	10.1%	19.1%	ca. +900bps

Source: Value Track Analysis (*) Value Track estimates

Digital360: FY2020E Revenues, EBITDA and EBITDA margin at all-time high



Source: Value Track Analysis

Thanks to D&A expenses substantially flat y/y, EBIT and EBIT margin stood at €2.3mn and 9.6% respectively, while lower financial charges implied a more than proportional growth in Net profit, at €1.1mn (Adj. Net Profit at €2.3mn as we add back goodwill amortization).

Digital360: From EBITDA to Net Profit 2109A and 2020A

(€mn)	2019A	2020A
EBITDA	2.5	5.0
Depreciation Charges	-0.1	-0.1
Amortization Charges (ex. Goodwill)	-1.5	-1.5
Amortization of Goodwill	-0.8	-0.8
Impairments & Provisions	-0.1	-0.1
EBIT	0.1	2.5
EBIT Margin (%)	0.3%	9.6%
Net financial charges	-0.4	-0.1
Taxes	-0.2	-0.9
Minorities	-0.4	-0.5
Net Profit (Loss)	-0.8	1.1
Net Profit Adjusted (*)	0.7	2.3

Source: Value Track Analysis (*) Adjusted for Goodwill Amortization (and one-off items in 2019)

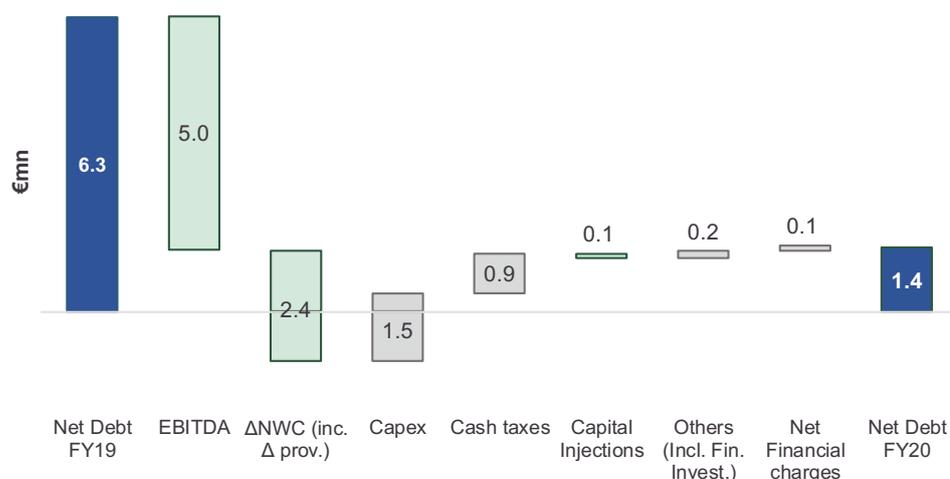
100% Cash Conversion Ratio, after tax

The unlocked business scalability and the successful strategy initiated by Digital 360 are also proven by the strong FY20 cash generation. Indeed, higher profitability, better working capital management (subscription model implies advanced payments and fewer trade receivables) and lower required capex drove a ca. €5.0mn net debt reduction with EBITDA to Free-Cash-Flow conversion ratio over 99%.

Digital360: Cash Flow 2109A and 2020A

(€mn)	2019A	2020A	Change YoY (%)
EBITDA	2.5	5.0	+97.9%
WC Requirements	-1.9	2.2	n.m.
Capex (not. Incl. Fin. Inv.)	-1.9	-1.5	-21.8%
Change in provisions	0.0	0.2	n.m.
OpFCF b.t.	-1.2	6.0	n.m.
As % of EBITDA	-47.6%	>100%	n.m.
Cash Taxes	-0.5	-0.9	+78.7%
Capital Injections	0.0	0.1(*)	n.m.
Others (Incl. Fin. Investments)	0.3	-0.2	-50.0%
Net Financial Charges	-0.4	-0.1	-16.1%
Free Cash Flow	-1.8	5.0	n.m.

Source: Value Track Analysis (*) Conversion of 51 convertible bond shares for a strike price of €1.6 (totaling €81,600 injection)

Digital360: Strong cash generation in FY2020E


Source: Value Track Analysis (*) Value Track estimate

In terms of capital structure, we note that:

- ◆ as a result of lower capital expenditures and high D&A (including goodwill amortization) involved in the business, Net Fixed Assets decreased by ca.€800k;
- ◆ Net Working Capital decreased by 39.4% y/y and contributed to €11.2mn of Total Capital Employed (vs. €14.5mn in FY19).

Consequently, with Net Equity at €9.8mn, Net debt stands at €1.4mn vs €6.3mn of 2019A.

Digital360: Balance Sheet 2019A and 2020A

(€mn)	2019A	2020A	Change YoY (%)
Tangible assets	0.5	0.5	-10.4%
Intangible assets	9.3	8.5	-8.2%
(o/w Goodwill)	4.9	4.1	-16.1%
Financial assets	0.1	0.1	n.m.
Net Fixed assets	9.9	9.1	-8.3%
Operating WC	6.3	6.8	+8.6%
Other Cur. Assets (Liabilities)	-0.7	-3.4	n.m.
Net Working Capital	5.6	3.4	-39.4%
Severance pay and other funds	1.0	1.3	+24.7%
Total Capital Employed	14.5	11.2	-22.6%
Group Net Equity	8.1	9.8	20.8%
Net Financial Position	-6.3	-1.4	-78.4%

Source: Value Track Analysis

Focus on Digital-as-a-Service business

In our flash note published back as of February '21 we underlined how the great momentum that Digital 360 has been enjoying is the result of:

- ◆ Short term driver: Covid-19 outbreak accelerating the need for digital transition;
- ◆ Medium term driver: successful transition towards *Digital-as-a-Service* business model.

Covid-19 outbreak accelerating the need for digital transition

Compared to the #100 digital events of 2019, **during 2020 DIG360 organized #580 digital events, that's to say a nearly sixfold increase**, attended by +130k managers and professionals.

Such huge increase has been prompted by Covid-19, which has accelerated corporate clients' needs of digital transformation.

Digital 360 allowed clients to re-organize all their physical events into virtual ones without halting communication & marketing activities, while exploring new business tools.

Digital-as-a-Service increasing market penetration

DIG360 transition towards a the more profitable *Digital-as-a-Service* business model is showing the first signs of an expected progressive growth.

The company is adding new products to its portfolio, attracting new subscription-based clients and consequently rising Annual Recurring Revenues (ARR).

Products development

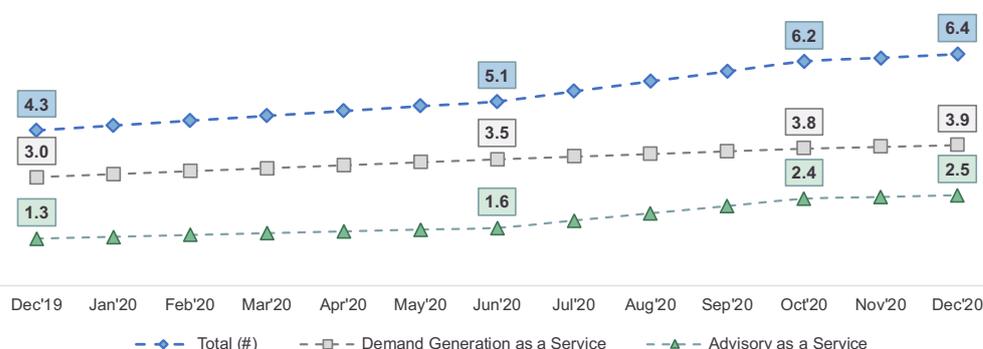
We remind that in the latest few months DIG360 launched additional as-a-service products such as:

1. *IT Sourcing Manager as a Service*, (customer support during the entire life cycle of the IT solutions- and services-related contracts) and;
2. *Inside Sales as a Service*, (professional specialized in turning online generated leads into business engagements).

Annual Recurring Revenue (ARR) and Active clients

In FY20 Digital 360 posted **Annual Recurring Revenues** up by ca. **+50% y/y** to €6.4mn. *Demand Generation as a Service* growing by 30%% y/y and *Advisory as a Service* almost doubled 2019 ARR.

Digital360: ARR (€mn) path across 2020



Source: Digital 360, Value Track Analysis

In details:

- ◆ **Digital Marketing & Sales Engine** is the best-selling subscription-based service (included in the *Demand Generation as a Service* area).

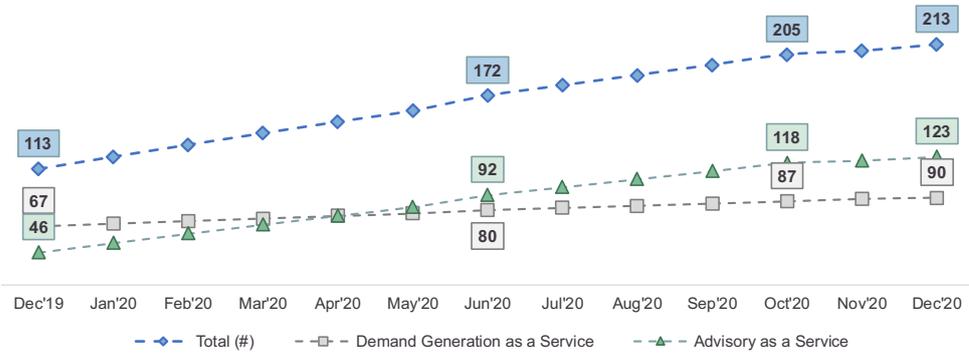
It operates as an “extension” of the company’s marketing department, thus allowing client to manage all digital marketing activities and generation commercial opportunities in an integrated way.

This service grew consistently in 2020, with **#90 clients** in Dec’20 (#67 in Dec’19, i.e. +34.3% y/y), achieving a €3.9mn ARR (+30% y/y), and corresponding to an ARPU of ca. €43k.

- ◆ In the *Advisory as a Service* area DIG360 best-selling subscriptions-based services are **Data Protection Officer (DPO)** and **Chief Information Security Officer (CISO)**, which allow customers to outsource the entire management of activities related to the protection of personal data (GDPR) and IT security respectively.

On December 31st, DIG360 recorded **#123 subscriptions** and ca. €2.5mn ARR, sharply growing y/y (#46 clients and €1.3mn ARR in Dec’19).

Digital360: Number of subscriptions-based solutions (#) across 2020

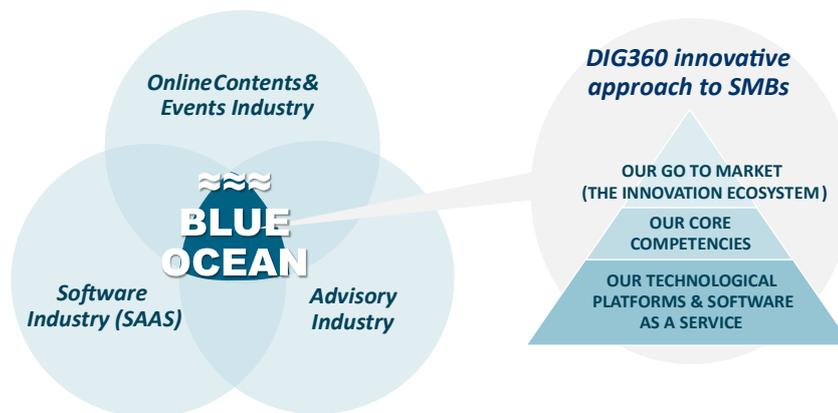


Source: Digital 360, Value Track Analysis

What's ahead in 2021

In the past years Digital 360 has established itself as the perfect B2B match-making platform, acting on both sides of the market through two main business units: Demand Generation and Advisory&Coaching. From 2019, the Group has started to shift its focus towards a new, subscription-based business model, aimed at supporting Small-Medium Enterprises undertaking their digital transformation processes. Thanks to unique core competences to apply in the digital advisory industry, technological platforms with recurring revenues and *Software-as-a-Service* features and an astonishing community of over 2.5mn unique visitors per month, Digital360 has placed itself in a relatively safe and uncontested business environment, with an extraordinary upside potential.

Digital360's Blue Ocean strategy: Digital-as-a-Service



Source: Digital360 March 31st, 2021 Presentation

Specifically, as far as next strategic steps for 2021, Digital 360 is poised to focus on:

1. **Recurrent Revenues model.** Intensifying “Digital-as-a-Service” packaged solutions in order to increase the number of annual subscriptions and unlock the related high scalability.
In this perspective, the Digital Marketing & Sales Engine of the *Demand Generation as a Service* business unit will be targeted to industries other than tech companies;
2. **M&A activities.** After an already outstanding stream of acquisitions, DIG360 is continuing to scout possible target companies specialized in different activities such as:
 - ◆ Innovative software companies that could help boosting DIG360 tech platforms;
 - ◆ Online portals in complementary markets to support content marketing capability;
 - ◆ Innovative B2B marketing agencies to enter new markets;
 - ◆ Small consultech companies to assist the *Advisory as a Service* business unit.

As Digital360’s business model is ahead of the curve, we think this allows the company a possible expansion abroad. As local language is a must have feature, we imagine that best would be to address highly populated countries / areas such English or Spanish speaking. We hint that D360 has started working in that way.

3. **Additional dedicated investments** towards core competencies development in digital innovation (engineered know-how); advanced technological assets to create integrated platforms (Artificial Intelligence, Automatic Process Automation, Business Analytics, CRM, digital events or the in-house-developed service “*Martech360*”); content assets (online portals and events) to furtherly boost DIG360 community.

Estimates confirmed for 2021E-23E

Our latest estimates were already considering the company quicker shift towards the more successful Digital-as-a-Service business model, so we now confirm them, also supported by company's hints on 1Q21 that seems to have started well from a business trading point of view.

Hence, for the 2021E-22E period we expect:

- Revenues from Sales** reaching ca. €41.5mn in 2023E, with a 20-23E CAGR of 17% driven by the higher scalability of the new business model and the increasing demand for digital transformation.

While the Demand Generation business should grow at around 16.4% CAGR₂₀₋₂₃, we see the Advisory & Coaching division rising with a 17.0% plus CAGR over the same period.

We predict ca. #500 clients' net adds in 2021-23 period and annualized recurring revenues (ARR) up to ca. €17mn at the end of 2023E, accounting for 40.2% of sales (from 24.5% as of Dec.'20). Custom projects business is seen to progressively decrease its weight on total sales from 75.5% in 2020 to 59.8% in 2023E.

Digital360: Digital as a Service Business – key highlights 2020E-23E

KPIs	2020A	2021E	2022E	2023E	CAGR _{20A-23E}
Clients – net adds (#)	100	140	160	198	25.6%
Total Clients – EoP (#)	213	365	525	722	53.6%
ARPU (€)	30,047	26,983	24,434	23,072	-8.4%
ARR (€mn)	6.4	9.8	12.8	16.7	37.7%

Source: Value Track Analysis

Digital360: ARR vs. Custom Projects Revenues 2020E-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E	CAGR _{20A-23E}
ARR (DaaS Revenues)	6.4	9.8	12.8	16.7	37.7%
As % of Sales	24.5%	31.5%	35.7%	40.2%	
Custom Projects Revenues	19.5	21.4	23.1	24.8	8.3%
As % of Sales	75.5%	68.5%	64.3%	59.8%	
Revenue from Sales	26.1	31.3	35.9	41.5	16.7%

Source: Value Track Analysis

Digital360: Sales Breakdown 2020E-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E	CAGR _{20A-23E}
Demand Generation	13.5(*)	16.6	18.7	21.3	16.4%
As % of Sales	51.7%	53.1%	52.1%	51.4%	
Advisory & Coaching	12.6(*)	14.7	17.2	20.2	17.0%
As % of Sales	48.3%	46.9%	47.9%	48.6%	
Revenue from Sales	26.1	31.3	35.9	41.5	16.7%

Source: Value Track Analysis (*) Value Track estimates of incidence on Revenue from Sales (excluding "Other Revenues")

2. **EBITDA** at €5.9mn in 2021E, with a slight EBITDA margin reduction at 18.8% driven by “in presence” events partially back again.

However, we forecast a steady expansion by 2023E thanks to SaaS scalability and lower than proportional growth of structural costs.

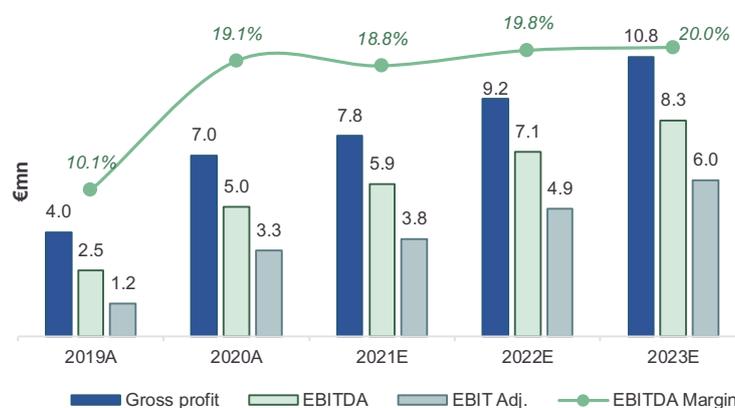
3. **Adj. Net Profit** (gross of goodwill amortization related to past M&A deals) to €4.1mn in 2023E, thus implying 30% CAGR20-23 thanks to lower financial charges and net debt levels.

Digital360: P&L 2019A-23E

(IT GAAP, €mn)	2019A	2020A	2021E	2022E	2023E
Revenue from Sales	24.9	26.1	31.3	35.9	41.5
Others	0.1	0.2	0.1	0.1	0.1
Total Revenue from Sales	25.0	26.3	31.4	36.0	41.6
Direct Costs (*)	-20.9	-19.3	-23.6	-26.8	-30.8
Gross Profit (*)	4.0	7.0	7.8	9.2	10.8
Gross Margin (*)	16.1%	26.6%	24.7%	25.5%	26.0%
Other Income	1.7	1.3	1.6	1.7	1.7
Structure Costs (*)	-3.2	-3.3	-3.5	-3.7	-4.2
EBITDA	2.5	5.0	5.9	7.1	8.3
EBITDA Margin (%)	10.0%	19.1%	18.8%	19.8%	20.0%
D&A	-2.4	-2.5	-2.9	-3.0	-3.1
EBIT	0.1	2.5	3.0	4.1	5.2
<i>EBIT Margin (%)</i>	<i>0.3%</i>	<i>9.6%</i>	<i>9.5%</i>	<i>11.5%</i>	<i>12.6%</i>
EBIT Adjusted (**)	1.2	3.3	3.8	4.9	6.0
Net financial charges	-0.4	-0.1	-0.2	-0.2	-0.2
Taxes	-0.2	-0.9	-1.0	-1.4	-1.7
Minorities	-0.4	-0.5	-0.1	0.0	0.0
Net Profit (Loss)	-0.8	1.1	1.7	2.6	3.4
Net Profit Adjusted (**)	0.7	2.3	2.4	3.4	4.1

Source: Value Track Analysis (*) Value Track estimates (**) Adjusted for Goodwill Amortization

Digital360: Profitability Evolution 2019A-23E



Source: Value Track Analysis

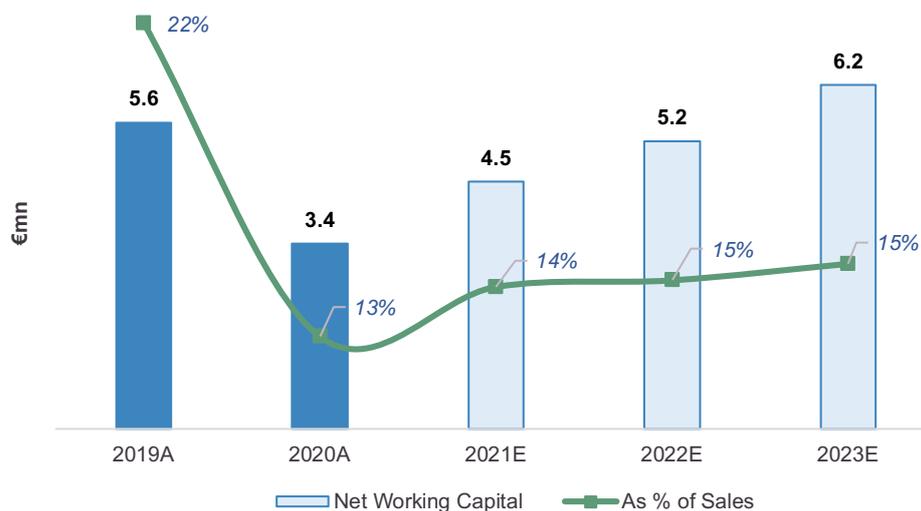
4. **Net Cash Position at €2.3mn by 2022** and €5.7mn by 2023E, as a result of healthy free-cash flow generation. In particular:
- ◆ **Net Fixed Assets** is seen slightly decreasing y/y due to higher D&A expenses than average CapEx employed. Indeed, CapEx should constantly lay between 6%-7% of Sales each year, with capitalized costs accounting for 60%-70% and “maintenance CapEx” for the remaining part;
 - ◆ **Net Working Capital** is expected to remain around 2020 levels with respect to Sales (14%-15%), as the new Digital-as-a-Service business model comes with advanced payment features. Overall, we expect a cumulative increase in NWC of ca. €2.8mn;
 - ◆ **Net Equity** should experience a favourable evolution, also driven by the recent €0.5mn capital injection following the issue of 1,068,270 new shares relative to the stock option plan.

Digital360: Balance Sheet 2019A-23E

(IT GAAP, €mn)	2019A	2020A	2021E	2022E	2023E
Net Fixed assets	9.9	9.1	8.6	8.1	7.5
Operating WC	6.3	6.8	5.6	6.5	7.5
Others Cur. Assets (Liabilities)	-0.7	-3.4	-1.2	-1.3	-1.2
Net Working Capital	5.6	3.4	4.5	5.2	6.2
Provisions	1.0	1.3	1.8	2.2	2.7
Total Capital Employed	14.5	11.2	11.3	11.1	11.1
Group Net Equity	8.1	9.8	10.8	13.5	16.8
Net Fin. Pos. [Net debt (-)/ Cash (+)]	-6.3	-1.4	-0.4	2.3	5.7

Source: Value Track Analysis

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

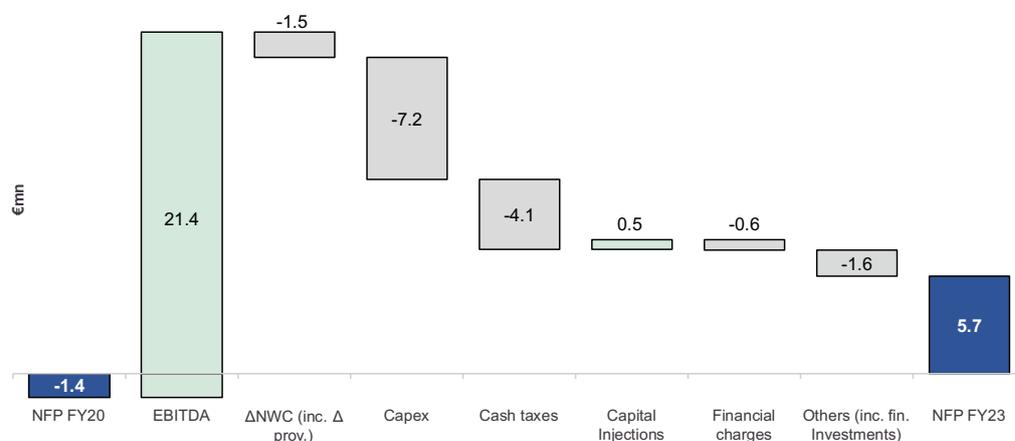


Source: Value Track Analysis

Digital360: Cash Flow Statement 2019A-23E

(IT GAAP, €mn)	2019A	2020A	2021E	2022E	2023E
EBITDA	2.5	5.0	5.9	7.1	8.3
NWC requirements	-1.9	2.2	-1.1	-0.7	-1.0
Capex (not incl. Fin. Inv.)	-1.9	-1.5	-2.3	-2.4	-2.5
<i>o/w Organic Capex</i>	-0.4	-0.2	-0.8	-0.9	-1.0
<i>Capitalized costs</i>	-1.4	-1.3	-1.5	-1.5	-1.5
Change in provisions	0.0	0.3	0.6	0.4	0.5
OpFCF b.t.	-1.2	6.0	3.1	4.4	5.3
Cash Taxes	-0.5	0.9	-1.0	-1.4	-1.7
OpFCF a.t.	-1.7	5.1	2.1	3.0	3.6
Capital Injections	0.0	0.1	0.5	0.0	0.0
Fin. Investments	0.0	0.0	-1.3	-0.1	0.0
Net Financial Charges	-0.4	-0.1	-0.2	-0.2	-0.2
Others	0.3	-0.2	-0.2	0.0	0.0
Change in Net Fin. Pos.	-1.8	4.9	0.9	2.8	3.4
Net Financial Position	-6.3	-1.4	-0.4	2.3	5.7

Source: Value Track Analysis

Digital360: Net Financial Position dynamics up to 2023E (cumulative data)


Source: Value Track Analysis

In our model we also considered Digital 360 recent acquisition of Innovation Post S.r.l. an online news platform providing digital innovation content for the manufacturing sector. The total transaction price amounts to €180k and will be paid in two equal tranches during 2021 and 2022.

Additionally, we assume the buy-out of minority stakes in ServicePro and IQ Consulting to occur in 2021E, for a total cash consideration of ca. €1.2mn-€1.5mn. Still, the remaining generated cash could be set up for other potential M&A strategies.

Confirmed Investment thesis, higher valuation

Since our Initiation of coverage published back in July'20, DIG360 share price has increased by ca. 125%, and this notable performance was also sustained by a steady increase in trading volumes, as they moved from a daily average of #7k in 2019 up to #20k as of 2020, and roughly #70k from Jan'21 onwards – highlighting investors' higher appetite for DIG360 equity story.

Digital360: y/y share price performance close to 150%, driven by higher volumes



Source: Value Track Analysis

At the same time, the firm is still trading at material discount vs. high quality technology international and local comparables, despite running very similar businesses.

FY20 figures, together with the recent exceptional stock performance and the further potential upside that SaaS business model fine-tuning would entail, suggest an upward share price reiteration. Assuming a 10x EV/EBITDA 2021E, we arrive at an implicit **€3.25 fair equity value per share** on a fully diluted basis (or €60.4mn equity value), i.e. +4.8% from our February'21 DCF fair value of €3.10.

At €3.25 per share, the stock would trade at **10.0x and 7.9x EV/EBITDA 2021E-22E respectively**, compared to the current 8.0x EV/EBITDA 2021E (on a fully diluted basis).

We are aware that business model transition to as a Service business model featured by recurring revenue and high scalability would inevitably lead to some multiple rerating and to the reduction of the huge discount D360 is trading if compared to its international peers. Therefore, we hint further upside potential on our fair equity value, to be measured with **IRR Analysis** leading to **€3.97 and €4.80 exit value per share on a two and three years period**.

Digital360: Sensitivity of implicit stock trading multiples based on €2.70 – €3.50 share price range (fully diluted)

(€ per share)	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT ADJ. (x) (*)		P / E (x) (*)	
	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
€2.85	1.6	1.4	8.7	6.8	13.7	10.4	21.6	15.6
€3.05	1.8	1.5	9.4	7.3	14.7	11.2	23.1	16.7
€3.25	1.9	1.6	10.0	7.9	15.7	11.9	24.7	17.8
€3.45	2.0	1.7	10.6	8.4	16.6	12.7	26.2	18.9
€3.65	2.1	1.8	11.3	8.9	17.6	13.4	27.7	20.0

Source: Value Track Analysis (*) Ex-Goodwill amortization

Digital360: Investment highlights

Deep knowledge in the tech field	<ul style="list-style-type: none"> • Leading position in Italy: relying on the largest community of tech users & buyers • High skilled professionals with strong track record in the tech space • Proprietary solutions • High barriers to entry
Growing Digital as a Service business model	<ul style="list-style-type: none"> • Strong subscription growth: ARR from €0mn to ~€7mn in just two years, 2x y/y recurring customers in 2020 • Predictable, highly recurring revenue stream • Launch of new proprietary solutions on “as a Service” model • Still at early-stage with: ARR at 27% of Sales (on annual basis)
Favourable market dynamics	<ul style="list-style-type: none"> • Exposure to a growing & resilient market demand: • Covid-19 is further accelerating SMEs digital transformation needs
Margin expansion & strong cash generation	<ul style="list-style-type: none"> • Expanding Gross Margins • EBITDA on incremental Sales to grow 2-digit. • Low Capex requirements, lead to a sound EBITDA to cash conversion, in the 50%-60% region

Source: Value Track Analysis

Discounted Cash Flow Model

We calculate a rolling WACC which progressively converges to 10.4.% cost of equity from 2022E as the NFP becomes positive, taking into account a 2.0% risk-free rate, 6.0% ERP (Source: Damodaran, Jan’21) and an additional 2.5% market risk premium to factor AIM Italia stock market lower liquidity.

As a result, DCF calculation, based on fully diluted number of shares (that’s to say assuming the full conversion of convertible bonds), gives us a €3.10 fair equity value per share (or ca. €54mn equity value).

Digital360: DCF model

	€mn
PV of future Cash flow FY 2020E-2029E	25.7
PV of Terminal Value with PGR at 2%	29.0
Fair Enterprise Value	54.7
Net Fin. Position 2020A (*)	0.4
Minorities / Peripheral assets	-1.2
Fair Equity Value	54.2
Fully diluted number of shares	17.5
Fair Equity value per share (€)	3.10

Source: Value Track Analysis (*) assuming the full conversion of in-the-money convertible bonds

IRR Analysis

Based on the assumption of 10.0x EV/EBITDA exit multiple, we calculate an annualized IRR at ca. 22%-23%, corresponding to **€3.97 and €4.80 exit value per share on a two- and three-years period.**

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

Annualized IRR (gross of tax, %)		Time to exit (years)		
		1yy	2yy	3yy
EV / EBITDA Exit Multiple (x)	8.0x	-4%	10%	14%
	9.0x	8%	17%	18%
	10.0x	20%	23%	22%
	11.0x	32%	29%	26%
	12.0x	44%	34%	30%

Source: Value Track Analysis

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

Cash on Cash multiple (x)		Time to exit (years)		
		1yy	2yy	3yy
EV / EBITDA Exit Multiple (x)	8.0x	1.0x	1.2x	1.5x
	9.0x	1.1x	1.4x	1.7x
	10.0x	1.2x	1.5x	1.8x
	11.0x	1.3x	1.7x	2.0x
	12.0x	1.4x	1.8x	2.2x

Source: Value Track Analysis

Digital360: Price-to-exit sensitivity to time to exit and to EV/EBITDA exit multiple

Price to exit (€)		Time to exit (years)		
		1yy	2yy	3yy
EV / EBITDA Exit Multiple (x)	8.0x	2.51	3.20	3.90
	9.0x	2.83	3.58	4.35
	10.0x	3.14	3.97	4.80
	11.0x	3.46	4.35	5.24
	12.0x	3.78	4.73	5.69

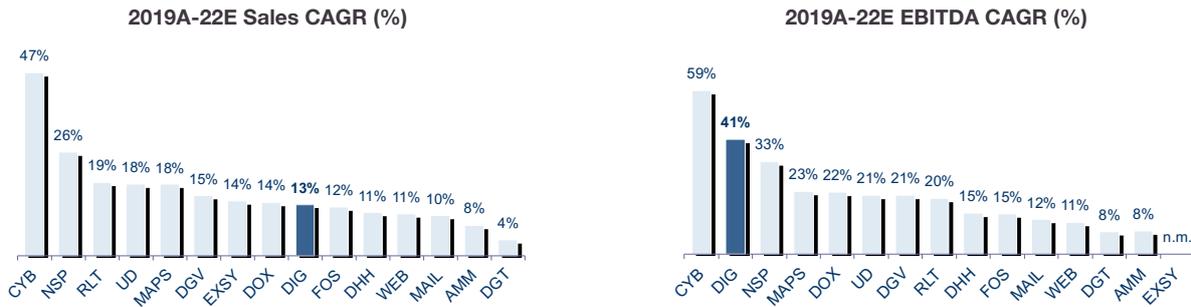
Source: Value Track Analysis

Peers Analysis

Looking at domestic peers. Digital 360 trades at material EV/Sales 2021E discount (ca. 27%) and substantially in line in terms of EV/EBITDA, at 8.0x on a fully-diluted basis, but boasting a more appealing growth prospect in terms of marginality.

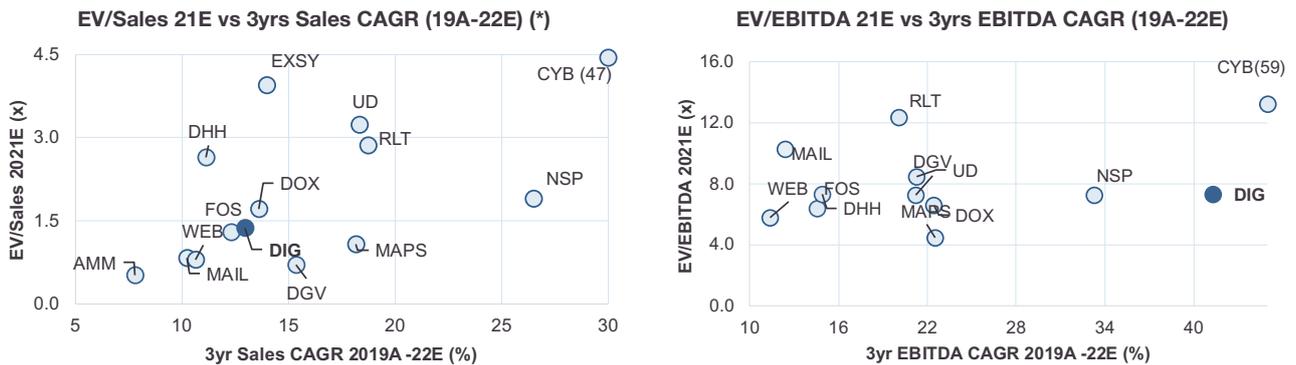
DIG360 undervaluation is noteworthy when looking at international peers. Indeed, the firm trades at a massive 60% discount compared to companies with akin business models.

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



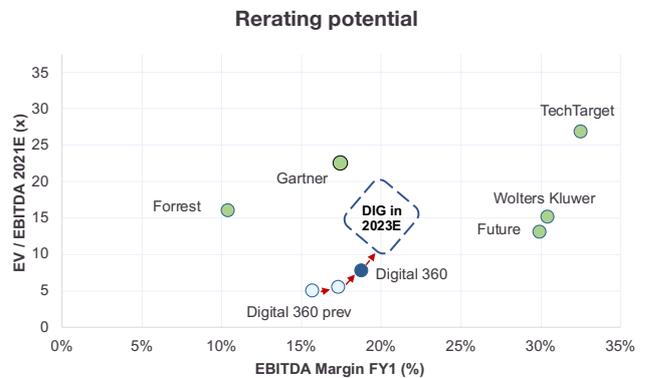
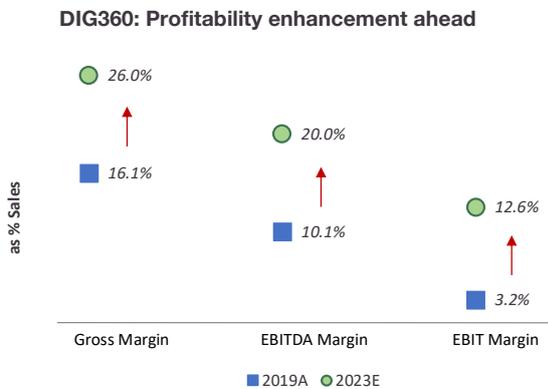
Source: Value Track analysis on companies' data

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



Source: Value Track analysis on companies' data (*) Cyberoo set at 30% and 45% Sales and EBITDA CAGR for graphical reason

Digital360: Business scalability deserves a multiple expansion



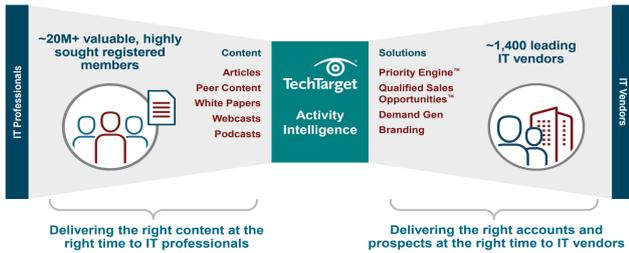
Source: Value Track analysis on companies' data

TechTarget Inc. – highly valued international benchmark

As we stated in our Initial coverage report on Digital360, TechTarget is an online SaaS provider with a very similar business model as it creates online demand for IT vendors on one hand, and provides online marketing and sales-services solutions for the same vendors on the other. By the way, the two companies recently renewed a strategic partnership (ongoing from 2012), finalized at conveying joint services on the Italian market and discussing on their similar business model developments.

Digital360: TGTT (lhs) and DIG360 (rhs) business models comparability

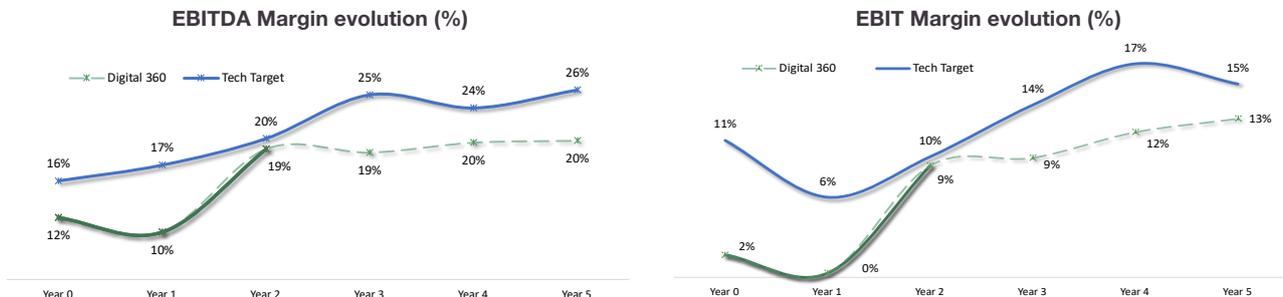
Bringing together enterprise IT buyers and sellers with unique content and proprietary purchase intent data



Source: TechTarget November 2020 Investor Presentation ; Digital 360

Comparing DIG360 2018A-23E evolution with TTGT’s evolution in 2015A-20A years (when it started its SaaS scalability), we note how the Italian group is following a similar path and starting to exploit the benefits of the SaaS model thus reducing the gap with TechTarget profitability margins.

Digital360: direct comparison with TechTarget already exploited business scalability



Source: Value Track analysis on companies' data

If business model and financial evolution are more and more similar, on the contrary valuation is massively different.

Indeed, TechTarget is now trading at ca. 9.5x EV/Sales and 29.3x EV/EBITDA 2021E, with an astonishing market cap of over €1.7bn., and has also recently finalized the acquisition of BrightTALK Limited, (UK private tech media platform that provides webinars and professional virtual events and video hosting, with over €8mn registered members) at a ca. \$150mn purchase price, that’s to say an implied 3.0x EV/Sales and 15x EV/EBITDA valuation.

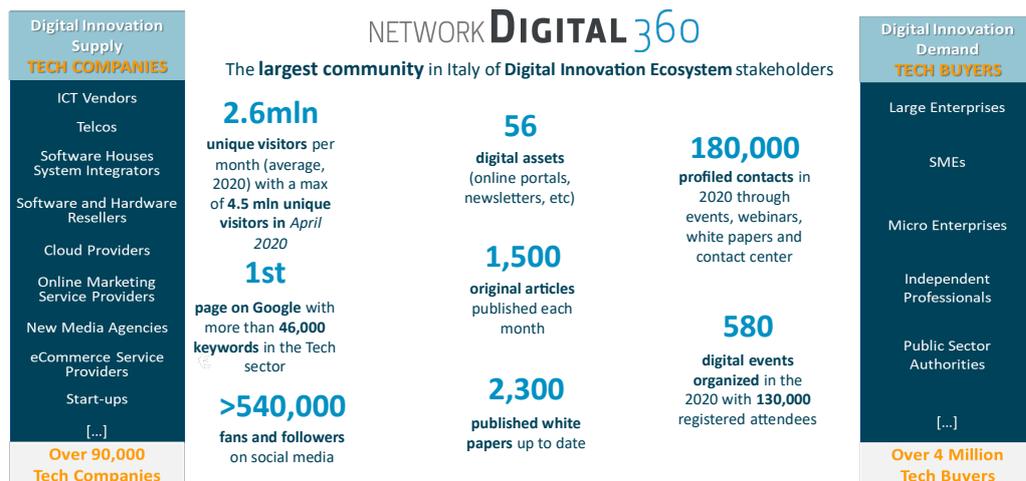
Since the Italian group provides comparable services to both TTGT and BrightTALK, we believe that a fair valuation would not be very distant from such multiples, as soon as the firm proves the scalability of the new subscription-based model.

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 2.5mn single visitors per month (all-time high record, achieved in April'20 4.5mn), ranking among the first results on the main search engines for more than 46,000 keywords.

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



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.

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

Further acceleration in the business transitions towards 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** through the supply 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;

- ◆ **Portfolio extension with proprietary solutions:** company now starting to commercialize more and more proprietary solutions with the aim to offer a more efficient, flexible and affordable service to its clients while gaining a much higher profitability (Gross Margin of proprietary solution achievable higher than 80% level).

Among the proprietary products launched we remind the following ones:

- **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;
- **IT Sourcing Manager**, to support customers during the entire life cycle of the IT solutions- and services-related contracts;
- **Inside Sales**, a professional specialized in turning online generated leads into business engagements.
- ◆ **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.

An example comes in by the new online portal ESG360 entirely dedicated to the ESG field, aimed at stimulating and increasing knowledge of the benefits and opportunities related to ESG word.

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