

Digital360

Sector: Technology



Analysts

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Fair Value (€) **5.37**

Market Price (€) **4.70**

Market Cap. (€m) **89.2**

Buoyant preliminary FY21 figures

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.

Preliminary 2021 figures: strong momentum continues

Digital360 FY21 preliminary financials are brilliant and slightly better than our expectations thanks to both organic and M&A-driven growth. In details:

- ◆ **Total Revenues Pro-Forma at €41.1mn**, i.e +56% y/y € and some 3% higher than our estimates. Net of FY21 M&As, total revenues would amount to €31.6mn, implying a sound organic y/y increase of ca. 20%;
- ◆ **EBITDA PF at €8.0mn** (Margin at 19.5%) vs €5.0mn of FY20, signalling a more than proportional margin expansion with respect to top line (+60% y/y). L-f-L EBITDA grew by ca. 30% to €6.9mn;
- ◆ **Net Financial Position** surprisingly turning positive and **close to €3.0mn** (vs. our estimate of €-0.8mn), as a result of solid free cash flow generation and of acquisitions of cash positive companies.

Furthermore, we calculate 2H21 to have performed even better than the buoyant 1H21, with Revenues up +83% y/y and EBITDA almost doubling y/y.

M&A strategy turning abroad

In the latest twelve months DIG has signed several value accretive M&A deals, at average 5.0x EV/EBITDA, a confirmation that DIG is an attractive bidder for tech entrepreneurs willing to foster their growth pace by being included in the largest Italian digital innovation ecosystem. We note the first acquisition abroad has been recently signed in Latam and we expect more to come in that region.

2022E-23E estimates fine tuning

We are fine tuning our 2022E-'23E estimates to factor in slightly slower top line growth and marginally heavier G&A costs base, offset by positive operating leverage. As an effect, we now forecast: 1) Revenue from Sales achieving the €50mn level as of 2023E; 2) EBITDA exceeding the €10mn threshold by 2023E; 3) Adj. Net Profit at ca. €5.4mn in 2023E; 4) Net Cash Position at ca. €7mn in 2023E, leaving wide room for further M&A deals.

Fair Value revised upward at €5.37 per share (from €5.30)

Based on new financials and updated peers' multiples we calculate €5.37 fair equity value (up from previous €5.30) on a fully diluted basis. At fair value, DIG shares would trade at 2.2x EV/Sales, 11.8x EV/EBITDA, 15.6x EV/EBIT Adj. and 23.5x Adj. P/E2022E multiples, still embedding a huge discount vs. its most direct comparable (TechTarget), currently trading at 22.6x market consensus EV/EBITDA'22E.

KEY FINANCIALS (€mn)	2020	2021E	2022E
VALUE OF PRODUCTION	27.6	33.2	45.8
EBITDA	5.0	6.6	8.4
EBIT ADJ. (*)	3.3	4.6	6.3
NET PROFIT ADJ. (*)	1.9	3.1	4.3
EQUITY	9.8	16.0	19.0
NET FIN. POS.	-1.4	3.1	3.0
EPS ADJ (€) (*)	0.11	0.18	0.23
DPS (€)	0.00	0.00	0.00

Source: Digital360 (2020), Value Track (2021E-22E estimates)

(*) Adjusted for Goodwill Amortization

RATIOS & MULTIPLES	2020	2021E	2022E
EBITDA MARGIN (%)	19.0	21.0	19.0
EBIT ADJ. MARGIN. (%) (*)	12.5	14.6	14.4
NET DEBT / EBITDA (x)	0.3	-0.5	-0.4
NET DEBT / EQUITY (x)	0.1	-0.2	-0.2
EV/SALES (x) (**)	1.1	2.9(***)	2.0
EV/EBITDA (x) (**)	5.7	13.8(***)	10.6
EV/EBIT ADJ. (x) (**)	8.7	19.9(***)	14.0

Source: Digital360 (2020), Value Track (2021E-22E estimates)

(*) Adjusted for Goodwill Amortization (**) Fully diluted (***) Pro-forma estimates

STOCK DATA

FAIR VALUE (€)	5.37
MARKET PRICE (€)	4.70
SHS. OUT. (m)	19.0
MARKET CAP. (€m)	89.2
FREE FLOAT (%)	26.1
AVG. -20D VOL. (#)	40,108
RIC / BBG	DIG.MI / DIG IM
52 WK RANGE	2.28 – 5.28

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	2020A	2021E	2022E	2023E
Total Revenues	26.3	31.6	44.1	50.8
Chg. % YoY	19.8%	20.0%	39.5%	15.1%
EBITDA	5.0	6.6	8.4	10.1
EBITDA Margin (%)	19.0%	21.0%	19.0%	19.9%
EBIT	2.5	3.3	5.0	6.4
EBIT Margin (%)	9.6%	10.4%	11.3%	12.6%
Net Profit	1.1	1.8	3.0	4.1
Chg. % YoY	-345.7%	64.4%	69.9%	35.7%
Adjusted Net Profit	1.9	3.1	4.3	5.4
Chg. % YoY	nm	67.7%	39.5%	24.6%
Net Fin. Position	-1.4	3.1	3.0	6.9
Net Fin. Pos. / EBITDA (x)	0.3	nm	nm	nm
Net Investments	-1.5	-2.1	-2.2	-2.5
OpFCF b.t.	6.0	4.5	5.3	6.6
OpFCF b.t. as % of EBITDA	119.6%	64.6%	61.0%	68.6%

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

Investment case

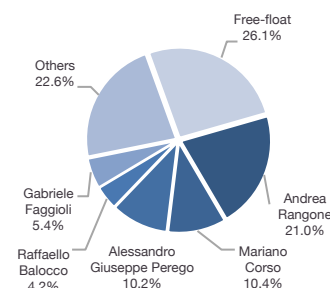
Strengths / Opportunities

- ◆ 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

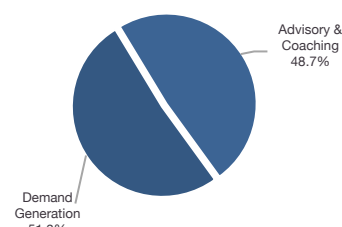
- ◆ Lower size if compared to competitors;
- ◆ Business model fine tuning implies an execution risk and may require additional managerial / technical capabilities, as well as additional funding.

Shareholders Structure



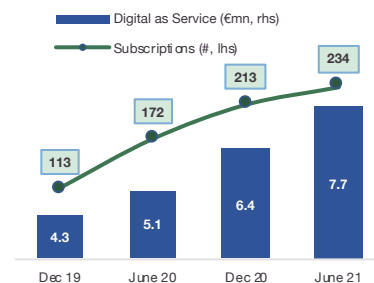
Source: Digital360

FY20 Sales by business line



Source: Digital360

ARR – Annual Recurring Revenues



Source: Digital360, Value Track

Stock multiples @ €5.37 Fair Value

Nosh FD	2022E	2023E
EV / SALES (x)	2.2	2.0
EV / EBITDA (x)	11.8	9.4
EV / EBIT (x)	19.9	14.8
EV / CE. (x)	6.2	5.9
OpFCF Yield (%)	5.4	8.0
P / E Adj. (x)	23.5	18.8
P / BV (x)	5.4	4.4
EV / EBIT ADJ. (x)	15.6	12.3

Source: Value Track

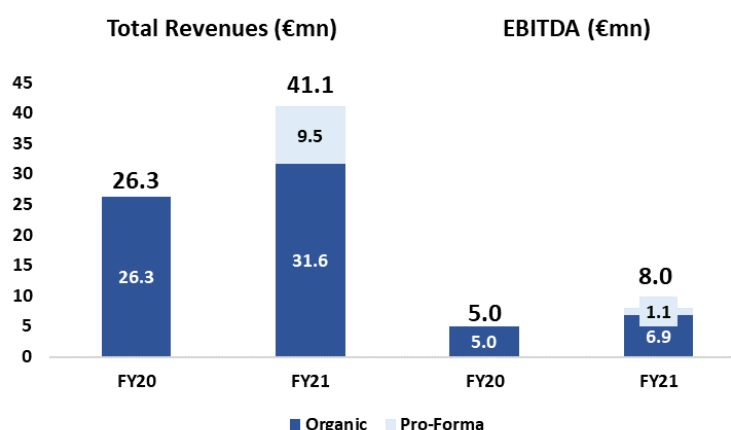
Thriving FY21 figures boosted by M&A

FY21 preliminary financials

Digital360 FY21 preliminary financials are brilliant and slightly better than our expectations thanks to both organic and M&A-driven substantial growth. We highlight:

- ◆ **Total Revenues Pro-Forma at €41.1mn**, i.e +56% compared to FY20 €24.9mn and some 3% vs. our last estimates of September 2021 (€40.0mn). Net of FY21 M&As, total revenues would amount to €31.6mn, implying a sound organic y/y increase of ca. 20%;
- ◆ **EBITDA PF at €8.0mn** vs €5.0mn of FY20, signalling a more than proportional margin expansion with respect to top line (+60% y/y). Organically, EBITDA grew by ca. 30% to €6.9mn;
- ◆ **EBITDA Margin now stands at 19.5%**, gaining ca. 50bps on yearly basis and inferring non-dilutive M&A in terms of profitability;
- ◆ **Net Financial Position** surprisingly turning positive and **close to €3.0mn** (vs. our estimate of €-0.8mn), as a result of:
 1. Solid free cash flow generation;
 2. Acquisitions of cash-neutral and / or cash-positive companies;
 3. Accounting effect, as in FY22 Digital360 will effectively disburse the amount of financial investments for recent acquisitions.

Digital360: Pro-Forma and Organic Revenues and EBITDA evolution FY20-FY21



Source: Digital360, Value Track Analysis

Digital360: Value Track estimates vs. Digital 360 preliminary figures

(€mn)	FY21 - VT Est.	FY21 - DIG360	Δ (% , bps, €mn)
Total Revenues	40.0	41.1	3%
EBITDA	7.6	8.0	5%
EBITDA Margin (%)	19.0%	19.5%	49bps
Net Fin. Pos. [Net debt (-)/ Cash (+)]	-0.8	> 3.0	> 3.8

Source: Digital360, Value Track Analysis

Looking at financials semester by semester, we note how 2H21 registered an even better profile than the already buoyant 1H21, with implicit Revenues growing by 83% y/y and EBITDA almost doubling y/y.

Digital360 strong economic evolution is the result of both external and internal favourable aspects, as:

- ◆ **Positioning towards highly developing sectors** such as Martech and Consultech, which are also subjected to further acceleration due to the pandemic, thanks to the funds of the Italian PNRR and to the digital transformation process that is involving an ever-increasing number of companies and public administrations. On top of this, Digital360 reference market is extremely fragmented, giving the opportunity for consolidation, vertical and horizontal expansion through M&A activities;
- ◆ **Unique offering of efficient ICT services to SMEs** through proprietary tech-enabled platforms thanks to a great variety of subscription-based services, a wide digital community and online portals, representing an enviable competitive and commercial advantage.

Digital360: Key Financials by semester

(€mn)	1H20	2H20	FY20	1H21	2H21PF	FY21PF
Total Revenues	12.7	13.6	26.3	16.2	24.9	41.1
y/y (%)				28%	83%	56%
EBITDA	2.8	2.2	5.0	3.7	4.3	8.0
y/y (%)				33%	95%	60%
EBITDA Margin (%)	22.2%	16.0%	19.0%	23.0%	17.2%	19.5%
y/y (bps)				86bps	113bps	49bps
Net Fin. Pos. [Net debt (-)/ Cash (+)]	-3.6	-1.4	-1.4	-0.3	> 3.0	> 3.0
h/h (€mn)				1.1	> 3.3	> 3.3

Source: Digital360, Value Track Analysis

FY21 M&As: Seven relevant deals at accretive 5.0x EV/EBITDA

In the latest twelve months, Digital360 completed seven relevant M&A deals, that according to our calculations should lead to ca. €9.6mn total cash-out between FY21-FY25 and ca. 1mn new shares issued. As of FY21, the Group finalized the buy-out / acquisition of:

1. **Service Pro Srl** (49%), full-service marketing agency involved in the organization of events and management of demand and lead generation. The company recorded €3.6mn revenues and €1.4mn EBITDA (27% EBITDA Margin) in 2020A;
2. **IQ Consulting Srl** (49%), university spin-off focused on Industry 4.0 and supply chain management, with €1.4mn revenues and €0.4mn EBITDA (EBITDA Margin ~30%) in 2020A;
3. **Innovation Post Srl** (100%), online news media already owned at 10%, for a total consideration of €180K to be paid in two cash tranches (at closing, and the second one in June 2022);
4. **CTMobi Srl** (100%), software house specialized in the development of cloud solutions and AWS Services. In FY20, the company achieved ca. €450K revenues, €70K EBITDA.;
5. **Gruppo Imagewear** (51%), a marketing and communication agency, which focuses on the PR and social media, creativity and communication projects, and organization of physical and digital events. Imagewear Group achieved revenues at ca. €6mn in FY20 and ca €0.6mn EBITDA;
6. **ICT Lab** (51%), a company which specializes in the advisory for digital transformation of the PA, likely to benefit from the PNRR and other investments regarding the PA digitalization over the next years. ICT Lab has recorded €1.4mn revenues (we expect some €2mn revenue in 2021E) and ~20% EBITDA Margin in FY20.

More, on January 25th, 2022, Digital360 signed a binding agreement for the purchase of 51% of **Emprendimentos Aeros Srl (“Xona”)** for €395k “all-cash” to be paid at the official closing date.

Xona is a martech agency based in Buenos Aires operating with major LATAM-focused ICT vendors. The company provides a wide offer of marketing services, including communication, PR. Digital and physical events organization.

Thanks to the acquisition, Digital360 can now keep on investing towards its international expansion and exploit the various opportunities arising from the high potential LATAM market, characterized by a strong similarity with the local digital environment, both for the expected future growth and for the deep fragmentation, however characterized by a much larger pool of potential customers, given the great number of people speaking the Spanish language.

Xona closed its latest fiscal year on March 31st, 2021 with ca. \$1.3mn Revenues and \$0.1mn EBITDA, corresponding to approximately 8.7x EV/EBITDA acquisition multiple.

After the approval of Xona FY25 (March 2025) results, the agreement also encompasses:

1. Two different call options, (i) for Digital360 to acquire the remaining 49% or (ii) for Xona to purchase back the 51% of shares sold to Digital360;
2. “Early call option” in favor of Digital360 that could be exercised before March 2025 depending on Xona EBITDA figures beating a specific arranged threshold.

Digital360 has the right to purchase half of the remaining 49% by the assignment of ordinary shares.

Digital360: M&A deals FY21 and 2022 YTD

Target	Ann. Date	Acq. Stake	Acq. Value (€mn)	Rev.20A	EBITDA 20A	NFP 20A	EV/EBITDA
Service Pro Italy	06/05/21	49%	4.03	1.76	0.49	1.3(*)	5.5
IQ Consulting	06/05/21	49%	0.40	0.69	0.20	0.2*	1.0
IP S.r.l.	15/03/21	100%	0.18	0.18*	0.04*	0.0*	5.0
CTMobi Srl.	23/06/21	100%	0.69	0.45	0.07	0.2	6.7
Gruppo Imaware	17/09/21	51%	4.60	6.00	0.60	2.5	4.5
ICT LAB Srl	21/09/21	100%	2.94	2.00(**)	0.40(**)	0.1(*)	5.3
XONA	25/01/22	51%	0.40	0.6	0.1	0.0(**)	8.7
Total			13.54	13.50	1.84	4.33	5.0

Source: Source: Digital360, Value Track Analysis (*) ValuaTrack estimates (**) 2021 Value Track expectations

Worthy to note, considering all the M&A operations of FY21 and Xona, average Digital360 EV/EBITDA acquisitions multiple is ca. 5.0x, pointing out at highly value accretive deals and strong management execution ability.

For more information regarding acquisitions purchase price and future put and call settlements, please refer to our last update report of September 22nd, 2021.

2021E-23E estimates revision

The inclusion in the consolidation perimeter of companies acquired in latest couple of months should not materially affect 2022E-23E P&L, due to their current small size. As an effect, we are now revising our 2022E-'23E estimates to factor in only:

- ◆ Slightly slower top line growth, after the huge rebound that took place in 2021;
- ◆ Marginally heavier G&A costs base, as the company is investing a lot in order to strengthen its domestic and international managerial structure;
- ◆ Positive operating leverage effect that partially offset the above mentioned higher G&A costs base in 2022E, while totally offsetting it in 2023E.

As an effect, we now forecast:

- ◆ **Revenue from Sales achieving the €50mn level as of 2023E**, driven by organic growth and by upselling / cross selling synergies with the acquired companies;
- ◆ **EBITDA exceeding the €10mn threshold by 2023E**, with EBITDA margin being diluted in 2022E and getting back at 20% of revenues already as of 2023E;
- ◆ **Adjusted Net Profit at ca. €5.4mn in 2023E**;
- ◆ **Net Cash Position at ca. €7mn in 2023E**, leaving wide room for further M&A deals. Furthermore, we note that Net Cash should remain pretty stable y/y in 2022E as a consequence of M&A cash out offsetting the organic cash flow generation.

Digital360: New vs. Old 2022E-23E forecasts

(IT GAAP, €mn)	2022E			2023E		
€mn	Old	New	Δ (%)	Old	New	Δ (%)
Revenues from Sales	46.7	44.0	-5.7%	53.2	50.6	-4.8%
Other Revenues	1.8	1.8		1.8	1.8	
Value of Production	48.4	45.8	-5.5%	55.0	52.4	-4.7%
EBITDA	9.2	8.4	-8.6%	10.7	10.1	-5.5%
EBITDA Margin (% Sales)	19.7%	19.0%	-61bps	20.1%	19.9%	-14bps
EBIT	6.1	5.0	-18.2%	7.3	6.4	-12.3%
Net Profit	3.9	3.0	-24.1%	4.8	4.1	-15.9%
Adj. Net Profit	5.0	4.3	-13.6%	5.9	5.4	-8.5%
OpFCF after tax	3.5	3.5	-1.2%	4.9	4.4	-10.1%
Net Financial Position	2.5	3.0	0.5	3.6	6.9	3.4

Source: Value Track Analysis

Digital360: P&L 20201E-23E

(IT GAAP, €mn)	2021E L-f-L (*)	2021E PF	2022E	2023E
Value of Production	33.2	33.7	45.8	52.4
COGS	-17.5		-23.4	-27.0
Labour Costs	-9.1		-13.9	-15.3
EBITDA	6.6	8.0	8.4	10.1
EBITDA Margin (% of Sales)	21.0%	19.6%	19.0%	19.9%
D&A (ex Goodwill Amortization)	-2.0	-2.0	-2.1	-2.4
EBITA	4.6	6.0	6.3	7.7
Goodwill Amortization	-1.4	-1.4	-1.4	-1.4
EBIT	3.3	4.7	5.0	6.4
<i>EBIT Margin (% of Sales)</i>	<i>10.4%</i>	<i>11.4%</i>	<i>11.3%</i>	<i>12.6%</i>
Net financial charges	-0.3	-0.3	-0.2	-0.1
Taxes	-1.2	-1.7	-1.8	-2.2
Minorities	0.0	0.0	0.0	0.0
Net Profit (Loss)	1.8	2.7	3.0	4.1
Net Profit Adjusted	3.1	4.0	4.3	5.4

Source: Value Track Analysis (*) Like-for-Like basis

Digital360: Balance Sheet 2020A-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E
Net Fixed assets	9.1	10.8	12.9	12.1
Net Working Capital	3.4	3.8	5.3	6.3
Provisions	1.3	1.7	2.2	2.3
Total Capital Employed	11.2	12.9	16.0	16.1
Group Net Equity	9.8	16.0	19.0	23.1
Net Fin. Pos. [Net debt (-)/ Cash (+)]	-1.4	3.1	3.0	6.9

Source: Value Track Analysis

Digital360: Cash Flow Statement 2020A-23E

(IT GAAP, €mn)	2020A	2021E L-f-L (*)	2022E	2023E
EBITDA	5.0	6.6	8.4	10.1
ΔNWC (inc. Δ prov.)	2.4	0.0	-0.9	-1.0
Capex (not incl. Fin. Inv.)	-1.5	-2.1	-2.2	-2.5
Cash Taxes	-0.9	-1.2	-1.8	-2.2
OpFCF a.t.	5.1	3.3	3.5	4.4
Fin. Investments	-0.1	-3.0	-3.3	-0.4
Net Financial Charges	-0.1	-0.3	-0.2	-0.1
Change in Equity	0.0	4.4	0.0	0.0
Change in Net Fin. Pos.	5.0	4.5	-0.1	3.9

Source: Value Track Analysis (*) Like-for-Like basis

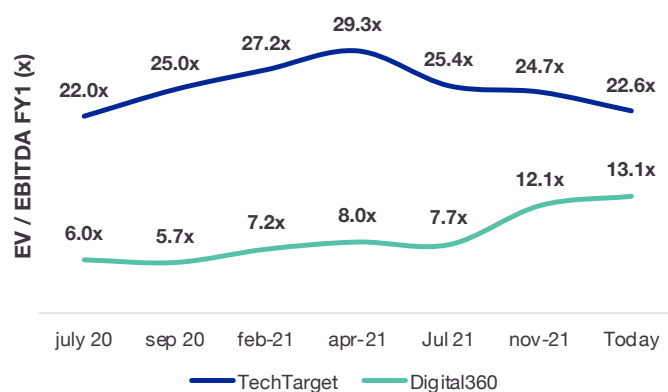
New fair value at €5.37 (from €5.30)

Taking into account updated financial estimates and AIM Italia comparable stocks rerating, we revise upwards our fair value per share at €5.37 (from previous €5.30) on a fully diluted basis.

At fair value, DIG shares would trade at 2.2x EV/Sales, 11.8x EV/EBITDA, 15.6x EV/EBIT Adj. and 23.5x Adj. P/E_{2022E} multiples, still embedding a huge discount vs. its most direct comparable (TechTarget), currently trading at 22.6x market consensus EV/EBITDA'22E.

Anyway, we note that valuation gap vs. TechTarget is narrowing, as displayed in the chart below, highlighting increasing investors higher appetite for DIG equity story.

EV/EBITDA FY1 (x) – TechTarget vs. Digital360



Source: Value Track Analysis (*) based on pro-forma figure, and FD number of shares

Peers' analysis

We calculate a peers' based **updated fair equity value per share at €5.37**, (up from previous €5.30), based on the average trading multiples of selected ITA peers, and on a fully diluted number of shares, that is assuming the full exercise of residual deep in the money outstanding convertible bonds (strike price at €1.60).

Our cluster includes eleven tech companies listed on AIM Italia, sharing with Digital360 (i) the same reference market, (ii) similar market Cap, (iii) a business model more or less based on recurring revenues (SaaS subscriptions).

Peers are currently trading at median 3.2x EV/Sales, 9.86x EV/EBITDA, 16.3x EV/EBIT and 25.0x P/E on 2022E, while DIG – at current share price and on 2022 VT expectations – is entailing a 19% discount, which we view as undeserved given its:

- ◆ High-quality financials;
- ◆ Different accounting principles (i.e. DIG figures are reported according to Italian GAAP, thus M&A related goodwill is subject to amortization, there is no impairment);
- ◆ Low amount of capitalization of internally generated intangible assets.

That's why, we assume DIG360 valuation based on median sector EV/Sales, EV/EBITDA, EV/EBIT and P/E as fair multiples, and 2022E as reference year, which **gives us a fair equity per share of €5.37**.

Digital360: AIM Italia tech companies - stock trading multiples

Company	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT (x)		P/E Adj. (x)	
	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
Growens	1.0	0.9	13.1	10.0	nm	24.3	nm	39.0
Cyberoo	6.9	3.8	nm	8.3	nm	12.1	nm	18.9
CY4Gate	9.3	5.8	20.3	13.8	nm	22.8	46.3	31.2
Neosperience	2.7	1.9	10.3	7.0	nm	16.8	nm	27.5
Relatech	2.7	2.2	11.6	9.0	15.7	12.8	20.2	17.1
Unidata	4.2	3.5	10.9	9.2	19.6	16.3	20.5	23.5
Doxee	4.2	3.5	13.9	10.8	25.8	19.3	37.3	27.7
Vantea Smart	2.3	1.4	21.8	9.8	29.9	12.9	44.6	19.8
Reevo	5.6	3.5	20.9	11.6	nm	16.2	48.2	25.0
Almawave S.p.A.	3.7	3.2	14.8	12.7	24.7	21.9	42.2	37.3
DHH	4.0	2.9	10.6	8.2	18.6	13.1	29.7	21.9
Average	4.2	3.0	14.8	10.0	22.4	17.1	36.1	26.3
Median	4.0	3.2	13.5	9.8	22.1	16.3	39.7	25.0
DIG360 @ mkt price (1)	2.8	2.0	13.1	10.3	18.9	13.6	28.7	20.6
<i>Discount % vs. avg.</i>	-36%	-35%	-13%	0%	-36%	-23%	-23%	-24%
<i>Discount % vs. med.</i>	-28%	-40%	-6%	4%	-37%	-18%	-31%	-20%

Source: Market Consensus, Value Track Analysis (1) based on 2021 pro-forma figures and on 2022E

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