

Italy – Digital

Acquisitions allow Digital360 to exceed € 22m sales in 2018e

18<sup>th</sup> April 2018

FY-17 RESULTS RELEASE

RIC: DIGT.MI  
BBG: DIG IM

The company delivered a solid set of results, broadly in line with our projections, driven by the launch of new services related to new portals and new advisory practices. Three acquisitions finalised in Q1-18 strengthen the investment case.

Rating:

**Buy (Neutral)**

Price Target:

**€ 1.60 (€ 1.35)**

Upside/(Downside): 31.1%

Last Price: € 1.22

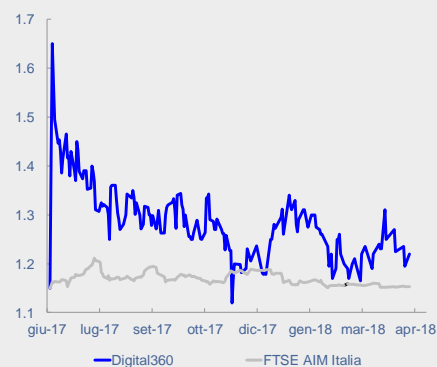
Market Cap.: € 18.7

1Y High/Low: € 1.72/€ 1.10

Free Float: 22.0%

Major shareholders:

Andrea Rangone 23.9%  
Mariano Corso 12.2%  
Alessandro Giuseppe Perego 12.2%



Stock price performance

	1M	3M	12M
Absolute	0.0%	-6.9%	n.a.
Rel.to AIM Italia	2.2%	-1.1%	n.a.
Rel.to peers	-1.4%	-8.9%	n.a.

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**Buy (Neutral), new PT of 1.60/s (€ 1.35), 31.1% upside**

We have updated our model: left basically unchanged our organic top line growth projections in 2018-19, fine-tuned the cost structure, factoring in the increase in staff and R&D personnel from 2017 and still in progress, and included the 3 recent acquisitions. The result is a 6% upgrade in EBIT adj. estimates for 2018-19. We have also introduced 2020 estimates. We have also updated DCF appraisal criteria bringing the Free Risk Rate up-to-date. The combined result is a PT of € 1.60/s (€ 1.35) FD, based on a multiple comparison and corroborated by the DCF. The 31.1% current upside to PT leads to an upgrade to Buy.

**Revenues up 12.0% to € 14.3m, 66% o/w from demand generation**

Entirely organic revenues increased by 12.0% to € 14.3m, in line with our estimate, driven by the launch of new services related to new portals (artificial intelligence, blockchain, bigdata and agrifood) and new advisory practices (data driven innovation, compliance/GDPR and security). 66% of revenues come from the demand generation business unit, the remainder from the advisory division.

**EBITDA at € 1.6m and NFP improved to € 2.6m, 1.6x EBITDA**

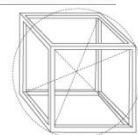
EBITDA remained basically unchanged at € 1,640k, from € 1,681k in FY-16, 11.5% margin, as a result of fixed cost increases, mainly personnel (staff and R&D). Also due to higher D&A stemming from buy-out of minorities and the investments sustained in the course of the year in technology platforms, new portals and online tools, EBIT totalled € 283k, vs. € 603k in FY-16. Bottom line came in positive for € 50k, vs. € 139k in FY-16. Digital360 reports results according to the Italian GAAP accounting standard. In order to make the results reported by Digital360 more comparable with those of its peers, we adjusted EBIT and Net Profit by the amount of the goodwill amortisation. Net Financial Position was € 2.6m, from € 1.9m at Jun-17 and € 5.7m at the end of 2016, mainly as a result of the collection of the IPO proceeds, net of listing fees and € 1.8m of investments in the period.

**Went public to boost growth, also via acquisitions: three targets acquired in Q1-18**

The reference market is huge, growing and fragmented. The fresh cash stemming from the IPO, amounting up to € 6.0m, together with the cash flow produced by the business, are being utilised to boost growth and consolidate its positioning also via acquisitions. The recent three acquisitions go in this direction: Effetodomino (innovative digital agency), IQ Consulting (Industry 4.0, Supply Chain Management) and ServicePRO (complex large events). Digital360 aims to generate additional business from the vast quantity of smaller and more numerous corporations and public administration and digital providers, to the benefit of volumes and scale even if with a smaller single ticket.

**Digital 360, key financials and ratios**

€ k	2016	2017	2017 PF	2018e	2019e	2020e
Sales	12,789	14,320	19,249	22,210	25,029	28,080
EBITDA	1,681	1,640	2,527	2,833	3,616	4,169
EBIT	603	283	814	730	1,163	1,731
EBIT adj.	1,043	756	1,342	1,479	1,912	2,480
Net profit	139	50	354	(29)	155	598
Net profit adj.	579	523	1,104	720	904	1,347
NFP (cash)/debt	4,802	2,570	3,912	3,419	3,001	2,355
EPS adjusted € cent	3.48	3.15	6.36	4.24	5.21	7.76
EPS adj. growth	80.0%	-9.6%	82.6%	34.5%	23.0%	49.0%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00	0.00
Free Cash Flow Yield	-13.5%	-9.7%	n.a.	-10.7%	2.2%	-4.9%
PER x	35.0	38.7	19.2	29.4	23.4	15.7
PCF x	15.4	13.3	9.0	9.0	7.2	6.2
EV/Sales x	1.91	1.58	1.32	1.17	1.01	0.78
EV/EBITDA x	14.0	13.0	10.0	8.8	6.8	5.0
EV/EBIT x	38.9	75.1	31.1	34.0	21.0	12.2



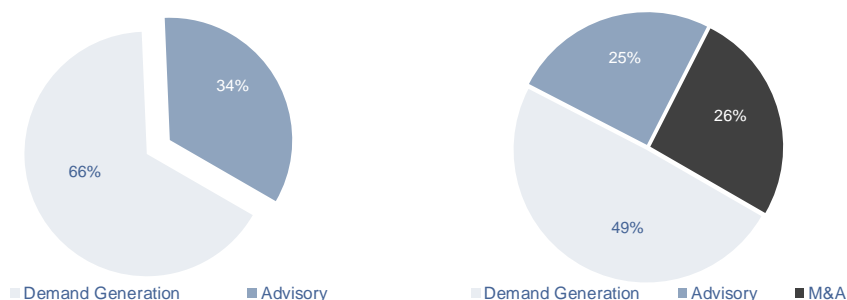
## 1. Digital360 in a nutshell

Headquartered in Milan, **Digital360 is a leading Italian B2B player in the digital innovation arena**, offering editorial content, premium services such as events and coaching, webinar and white papers, marketing automation and lead generation, advisory. Established in 2012, the company **runs a match making platform between digital innovation demand** (firms and public administration, potentially buyers of digital innovations, over 4.0m actors) and offer (more than 90,000 technology providers such as IT vendor, system integrator, startup, etc.). The firm originates from the combined experience of its founding members – professors and research workers from Milan Polytechnic – in research and advisory on digital innovation. The firm operates two BUs:

- **Demand Generation** – focuses on tech providers, supporting them in communication, marketing and lead generation activities, through a unique model, based on the new digital paradigm. The strategy is increasingly moving toward the offer of recurrent “as a service” solutions, based on Digital360 properties and assets or on customers assets (i.e. corporate portals, Web sites). In this way, Digital360 aims to become a **value-added partner** for customer digital communication, marketing and lead generation activities.
- **Advisory** – advisory and coaching services, via highly specialised professionals in numerous fields of digital innovation, to enterprises and Public Administration. Digital 360 offers three types of services: Custom projects, Engineered projects and On-Line Tool with engineered methodologies, data and knowledge assets.

The group has grown significantly in recent years: **turnover CAGR<sub>11-17</sub> is 47%, boosted by acquisitions, 6 companies in a row between 2012 and 2014**, adding a total of € 6.0m revenues. In the same period, **EBITDA soared from € 0.2m to € 1.6m, 42% CAGR**. 2017 revenues totalled € 14.3m, up 12.0% YoY, EBITDA reached € 1.6m, 11.5% margin and net profit came in at € 50k, 0.4% on sales. Net Financial Position reached € 2.6m, 1.6x EBITDA and 0.6x Shareholders Equity. **Currently 100% of business is generated in Italy**. 76% of 2017 sales were generated by the Demand Generation division, with more than 440 clients. The remainder came from the Advisory business unit, with some 140 customers. Following the 3 recent acquisitions, Digital360 has become a € 19.2m revenues group, with an EBITDA margin of 13.1% and € 1.1m adj. net profit in 2017 pro-forma figures.

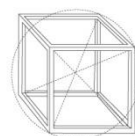
**Chart 1 – Digital360, 2017 and pro-forma revenues breakdown by BU**



Source: Company data

Following the recent M&A activity, the consolidation perimeter includes the holding company Digital360, Effettodomino, IQ Consulting, ServicePro and three main firms: ICT&S, FPA and P4i. In addition, **Digital360 holds participations in some ten start-ups**, the most noticeable of which is University to Business, with the mission to facilitate the relationship between university students and the business world, via digital channels and related innovative services.

Digital360 major shareholders are Andrea Rangone with a 25.0% stake, Mariano Corso and Alessandro Perego with a 12.8% interest each and with 26.5%, 11 professionals who share the passion and the same course of studies. The free float is 23.0%



## 2. The Digital360 listing

Digital 360 was listed last 13<sup>th</sup> June 2017 at € 1.15 per share, corresponding to a market capitalisation of € 17.7m.

The offer encompassed **a capital increase of € 4.0m** on offer to professional and retail investors, with a portion reserved to employees (with a 20% discount to the offer price). In addition, a **convertible bond of € 2.0m** was issued: 5-year duration, 4.5% coupon and strike price € 1.60. Moreover, a 520k share overallotment green-shoe option was provided.

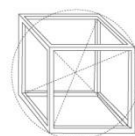
The pre-IPO shareholders will have a 36-month lock-up period, as well as the key employee share subscribers.

The following table and chart show the shareholder structure of Digital360 before and after the convertible bond conversion.

**Table 1 – Digital360, updated shareholder structure(Apr-18)**

	Issued Number of Shares			Fully Diluted Number of Shares		
	%	# m	€ m	%	# m	€ m *
Andrea Rangone	23.9%	3.850	4.7	22.2%	3.850	6.2
Mariano Corso	12.2%	1.968	2.4	12.1%	2.097	3.4
Alessandro Giuseppe Perego	12.2%	1.968	2.4	12.1%	2.097	3.4
Raffaello Balocco	4.9%	0.782	1.0	4.8%	0.829	1.3
Other <4%	24.9%	4.003	4.9	23.6%	4.103	6.6
<b>Free Float o/w</b>	<b>21.9%</b>	<b>3.519</b>	<b>4.3</b>	<b>25.2%</b>	<b>4.375</b>	<b>7.0</b>
Convertible bond new	-	-	-	4.9%	0.845	1.4
<b>Total</b>	<b>100.0%</b>	<b>16.092</b>	<b>19.6</b>	<b>100.0%</b>	<b>17.353</b>	<b>27.8</b>

Source: Company data, \* stock price at € 1.60



### 3.1. The reference market: Demand Generation division

Digital360 operates in the **in the digital innovation and digital economy market**, the largest generalist market from which every firm and PA entity is either purchasing or will have to purchase from in the immediate future, **valued currently at some € 70bn in Italy** (Assinform – Osservatorio Digital Innovation 2016) and characterised by high-single-digit steady growth and by a permanent information asymmetry between demand and offer of digital innovation (e-commerce, Cloud, Internet for Things, Mobile app...). The digital economy market comprises hardware and ICT infrastructure, software and ICT on premise ICT solutions, ICT cloud, TLC services, ecommerce and digital contents and advertising. The most promising segments are Internet of Things, Cyber Security, Cloud, Big Data and Analytic Solutions, that is to say the catalysts of the digital economy.

According to the data from the "Osservatori Digital Innovation" from Politecnico di Milano - School of Management, several "vertical" digital markets have been growing fast in the last year, within overall digital innovation and digital economy market. Just to mention some examples, in 2017 the Internet of Things market was valued at some € 3.7bn, +32% YoY, the cloud market was worth € 1.9bn, + 18% YoY, the analytics market was some € 1.1bn, +22% YoY, information security and privacy market values € 1.0bn, +12% YoY and the ecommerce business to consumer market € 23.6bn up 17% vs. 2016. **The reference market is a growing arena with expected further acceleration** in coming years, also considering the gap between the domestic market and the rest of the world: as a percentage of GDP the digital economy in Europe is currently 50% higher than in Italy.

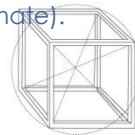
In this context, **Digital360 offers firms and PAs willing to introduce digital innovation a clear view of what to do and a way to find appropriate providers**. Additionally, **Digital360 helps digital innovation suppliers** (IT vendors, system integrators, software houses, startups...) **to meet new customers**.

### 3.2. The reference market: Advisory division

In 2016 the Italian Advisory and Management Consulting market grew by 8%, in acceleration vs. the 6.9% increase reported in 2015. The expectation for 2017 is of a similar increase, with dissimilarities across different segments. In particular, **the specific reference market for Digital360**, i.e. the area of support to Digital Transformation, represents the fastest growing segments with the share of consulting activities focused on this segment growing from an estimated 32% in 2014, to 48% in 2015 up to 74% in 2016 (source: assoconsult 2017). Two main drivers of this growth, in contrast to other, more stagnant elements within the consulting market are:

- **Growing companies' awareness** of the potential disruptive impact of digital innovation trends such as Big Data, Artificial Intelligence, Digital Marketing, Omnichannel customer experience, Industry 4.0 and Cyber Security.
- **Need to adapt to compliance regulations** such as GDPR (General Data Protection Regulation) and PSD2 (Payment Services Directive) emerging at national and international level.

This trend is expected to continue in 2017 and 2018, increasing the share of consulting expenses dedicated to digital transformation by large companies, and enlarging the potential market towards medium and small companies that in the past did not have the vision and opportunity to access management consulting services. In order to meet this emerging demand, however, advisory companies will have to move from traditional, people based models to knowledge asset-based logics, where supplier ideas, frameworks, templates and tools are as condensed as possible and conveyed via technology. This allows the addressing of a new and potentially large and fast growing market with services the price of which is determined by expected benefits rather than the time really taken to achieve them. Advisory models, such as those offered by Digital 360, based on engineered methodologies and online tools, allow access to a value-added service even for a few thousand euros. **The potential market component of online advisory services can be estimated at some additional € 750m** (CFO estimate).



## 4. Business model

Digital360 offers editorial content, premium services such as events, webinars and white papers, marketing automation and lead generation, advisory, running a **match-making platform between digital innovation demand and offer**. The firm operates two BUs:

- **Demand Generation:** offering digital communication, marketing and lead generation to tech providers, based on:
  - an **integrated value proposition**, which can lead to repeat business among different services;
  - unique **content production competencies**, through an experienced and well known team of journalists and influencers;
  - a **unique digital platform**, supporting all the services and integrating several solutions (e.g. content management system, marketing automation, CRM, etc.)
- **Advisory:** advisory and coaching services, via engineered methodologies, on-line tools and highly specialised professionals, in numerous fields of digital and entrepreneurial innovation, supporting transformation of enterprises and PA.

### 4.1. Demand Generation division

Via the Demand Generation business unit, Digital360 offers digital communication, marketing and lead generation services. The strategy of this business area is increasingly moving toward the offering of recurrent "as a service" solutions, which can be based both on the property and assets of Digital360 or on the property (i.e. corporate portals, Web sites) of customers. In this way, Digital360 aims to become a **value-added partner** of digital communication, marketing and lead generation activities for the customers. The key building blocks of this offering are:

- **content production and content marketing** - the contents - developed by a team of journalists and influencers – are inherently SEO and social optimized, and promoted over the web portals of the group or over external properties;
- **premium services** - such as webinars, events and white papers, aimed, on one hand, at deepening specific topics already addressed by the contents/articles, on the other hand, at profiling users in more detail, since these services are available only via registration;
- **marketing automation and lead generation** - which aim at providing specific contents and services to users on the basis of their real needs and interests and putting them in contact with tech providers, also through a dedicated internal contact center;

#### 4.1.1. Communication and marketing services

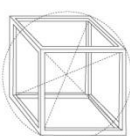
Digital360 manages the largest domestic network of B2B portals and events dedicated to the **digital innovation field**.

**DIGITAL4  
EXECUTIVE**

**Digital4executive**, focused on digital innovation and aimed at business executives (CEO, CFO, CMO,...)

**DIGITAL4  
TRADE**

**Digital4trade**, dedicated to the ICT channel (wholesalers, software house, system integrator,...)





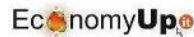
**Mobile4innovation**, focused on mobile business innovation



**CorCom** (Corriere delle Comunicazioni), digital economy and innovation daily news portal



**Zerouno**, focused on digital transformation and dedicated to Chief Information Officers (CIO) and IT managers



**EconomyUP**, dedicated to entrepreneurial innovation and Made in Italy



**StartupBusiness**, offers utility services, "how to" contents and online tools to players operating in the domestic start up arena



**ForumPA**, focused on innovation and modernisation of central and local Public Administration



**Internet4things**, concentrated on the use of the internet for things by firms and PAs



**Blockchain4innovation**, the first domestic internet site entirely dedicated to business blockchain



**Pagamentidigitali**, focused on payment system innovation thanks to digital technology



**Agendadigitale.eu**, Focused on the themes of the European and Italian digital agenda



**AI4Business.it**; the first Italian web portal fully focused on Artificial Intelligence for business



**Agrifood.tech**; focused on digital innovation and entrepreneurship in the Italian agrifood market



**Blockchain4innovation**; dedicated to the development of the blockchain technology in all industries

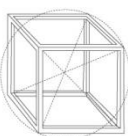


**Bigdata4innovation**; the first Italian web portal fully dedicated to Big Data.

Using these major online assets **Digital360 offers contents aimed to generate need** among corporations and PAs (in excess of 4m in Italy) to find additional information, therefore evaluating **the adoption of specific digital innovations**. At the same time, **providers of digital solution and business/technological innovations via the same several available channels** can have the opportunity to **get acquainted with and get in touch with potential new customers**.

#### 4.1.2. Premium services

**Every service requiring detailed user profiling is defined premium service**. These services are paid for by digital innovation providers: **white papers** (specific reports on several matters about digital innovation, published on Digital360 on-line assets) **events** (dedicated to hot digital innovation themes under webinar, workshop and forum formats) and subscription based **web-sites** (specifically prepared with deep content, accessible only to subscribers via prior registration).



### 4.1.3. Lead generation

The activity here consists of **identifying those contacts who are potentially interested in evaluating the adoption of specific digital innovations from amongst the universe of group profiled contacts**. Premium services are meant to generate leads. In every case the user must register, providing personal data and in some cases answer a few questions related to purchasing intention on the specific digital innovation. Subsequently, in specific cases, the contacts are further profiled by the mean of a highly specialised contact centre.

## 4.2. Advisory division

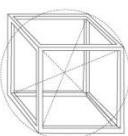
Digital360 offers **advisory and coaching services to a plethora of corporations and public administration looking for digital innovation**. Thanks to the significant experience gained by key management, the business model here is based on **the development, engineering and enhancement of knowledge methodologies, data and assets** allowing the surpassing of scalability limits and costs of classical consulting models.

These tools cover the main areas of activity and most vertical areas, i.e. ICT Governance & Organisation, Smart Working & Workspace Innovation and Information Security. According to the degree of personalisation and depending on the subjects, customer specific requests and the level of engineering required, we classify the projects into two typologies:

- **Customised Projects** are based on the specific needs of customers requiring the development of tailor-made solutions and methodologies. The project opportunity assessment and its pricing is fixed taking into consideration not only the resources required, but also knowhow arising from developing new custom methodologies.
- **Engineered Projects** are projects characterised by a high degree of standardisation, requiring the application of previously developed tools and methodologies. The pricing is based on relatively standard parameters and takes into account the interest in consolidating, improving or disseminating the methodologies used and any need for specific customization.
- Thanks to the development of methodologies and investment in an online delivery platform, **Digital360 is also creating tools to enlarge their stake in self-service and online services** at relatively low costs and conditions at a larger number of companies and public administration, most of which would not be accessible through traditional forms of consultancy.

Currently an estimated 55% of revenues come from engineered projects, granting higher margins than traditional customised projects. At the same time, this leads to a reduction in the risk of not obtaining planned project performance. Digital360 advisory services are organised in 12 key competence areas:

1. ICT Governance & Organization;
2. Source-To-Pay & B2B Transformation;
3. Operations & Logistics 4.0;
4. Open Innovation & Digital Capabilities;
5. Digital Customer Experience;
6. Data-Driven Innovation;
7. Smart Working & Workspace Innovation;
8. Internet Of Things;
9. Business Growth and M&A;
10. ICT Contracts & Negotiation;
11. Compliance;
12. Information Security.



## 5. Segment competitive arena

The firm operates in a **large significantly fragmented market**. The competitive environment differs between the two business units, Demand Generation and Advisory. More generally, Digital360 distinctive competitive advantages are:

- **Expertise, experience and reputation** in the digital innovation market, coupled with unique competencies and methodologies;
- **Ability to effectively interact digital transformation into B2B** traditional channel communication, events, lead generation and advisory. B2C is forward;
- **Track record in the acquisition and integration** of other players in a fragmented fast growing arena;
- Motivated, experienced, multidisciplinary **professionals and skills** from a variety of sectors;
- **Scalable business** model, both organically and via acquisitions.

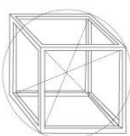
### 5.1 Demand Generation division

**Digital360 is one of the few domestic players integrating all its three business areas (content, premium services and lead generation) into a single effective business model.**

The group boasts 1) **the ability to provide digital transformation services** (the entire service proposition is constantly improving and, in some cases, innovating through the use of digital platforms) and 2) **a unique editorial capacity**, thanks to the best-in-class journalists on digital innovation, digital economy and entrepreneurship and thanks to a significant network of key opinion leaders and strong links with the university world.

The main competitors in the **Demand Generation Business Unit** can be categorised on the basis of two variables: 1) the prevalent client profile, that is to say large or smaller digital innovation vendor and 2) services offered, namely marketing and advertising, events and webinars and lead generation. Accordingly we highlight the following competitor categories:

- **Generalist editors**, offering marketing and advertising services to large digital companies for solutions and event organisation. Generally based on a traditional magazine structure, with partial and bolt-on presence in digital innovation and entrepreneurship themes. It is difficult for them to match specific and vertical B2B targets.
- **Vertical publishers B2B**, medium-large sized players, focused on vertical paper magazines for specific professional categories, and the organization of events, however with a low propensity to provide digital services.
- **PR and traditional communication agencies**, usually based on not directly managed newspapers and with tiny exposure to digital innovative channels.
- **Organizers of trade fairs and events**, focused on physical event organisation, mono or multi-sponsor, with a barely scalable business model. They create significant profile contact databases, but with minor ability to use other sources of alternative revenue enabling a proper valuation of this asset;
- **Analysts**, ICT specialised research companies focused on selling reports and organising workshops and events;
- **Tele-marketing and tele-selling agencies**, focused on lead generation activities based on contact centers.





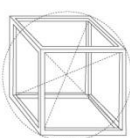
## 5.2. Advisory division

**Advisory competitive context** can be analysed on the basis of two aspects: the service offered (custom made or engineered-online) and the focus on the size of the corporate customers (small-medium firms and PAs and large corporations and PAs). According to this reading, the key players offering advisory services can be categorised into four types.

- **Traditional strategic consulting players**, generally large international players, focused on custom advisory services for large customers, not offering implementation services. Amongst the most relevant, *BCG, Deloitte, Bain & Company, McKinsey & Company*.
- **Traditional ICT consultants**, combining skills related to customer business processes together with technological expertise dedicated to large corporate and public sector markets with custom-type projects. *IBM, Reply, Engineering, Accenture*.
- **Methodology-based actors**, characterised by their already implemented methodology and data-based approach, but featuring a predominant focus on large companies and a wide array of assets stemming from their international business experience. The key weakness is represented by the rather limited customisation approach to adapt to the specific requirements of the Italian market, with the risk of losing effectiveness against the needs of domestic firms. *IDC Consulting, Gartner*.
- **Local advisers and consultants**, rather small local entrepreneurial or professional entities running within the small business market, but generally not structured and without engineering models and tools.

In this context, some international players are trying to increase offer, organisational modelling and pricing standardisation, in order to widen their market to medium-sized business and public administration segments.

Digital360, thanks to its **engineered more-standardised approach, already reaches medium-sized businesses and PAs**. In the near future, with the introduction of Online Advisory Services, the company will further strengthen its positioning, extending its offer to the vast market of smaller businesses and PAs.



## 6. Strategy, use of IPO proceeds

Digital360 operates in the **in the digital innovation market**, the largest generalist market from which every firm and PA entity is either purchasing or will have to purchase from in the immediate future, **valued at some € 70bn in Italy** and characterised by high-single-digit steady growth and by a permanent information asymmetry. **The digital economy in Italy is growing intensely**: the penetration of ICT in Italy is 50% lower than the EU27 average.

The reference market is huge, growing and fragmented. **The fresh cash stemming from the IPO, amounting to € 6.0m** (of which € 4.0m coming from the rights issue and € 2.0m from the convertible bond issue), together with the cash flow produced by the business, **are being utilised to boost growth and consolidate its positioning also via acquisitions.**

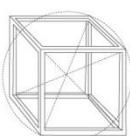
- M&A dedicated to the acquisition of market share and/or internalise competences and technologies. According to management, **several targets have been identified, o/w three purchased in Q1-18**: in the demand generation business possible prey are for instance **portals, online newspapers, communities, content factories** whilst for the advisory division, ideal additional fields are **data science, cyber security, ICT governance** skills or teams.
- **Investments in the integrated technology platform**, namely the content management system, customer relationship management, marketing automation, business intelligence, graph DB, software events, etc.
- **Engineering of advisory knowhow** and creation of **online tools and projects** to support back office software
- Launch of **new vertical portals**, enrichment and reinforcement of those which are already up and running
- Investments linked to the launch of **new advisory practices.**

Digital360 aims to generate additional business from the vast quantity of smaller and more numerous corporations and public administration, to **the benefit of volumes and scale** even if with a smaller single ticket.

In addition, possible upsides for the longer term and not factored into our projections, can bring in **supplementary value to Digital360 shareholders.** The group has profiled so far some 430,000 contacts: the **ecommerce of profiled leads could contribute to making contact with new potential customers.**

Regarding the advisory division, the firm could generate a **larger portion of online advisory activity**, via the **remote delivery of extremely standardised and engineered advisory services**, through online tools and telephone centres with **substantial benefits to volumes and margins.**

Last but not least, Digital360 is currently a pure domestic player: **the expansion to international marketplaces could represent part of an industrialised value chain proposition.** The easiest process to go abroad is purchasing existing and deep rooted assets.



## 7. SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective.

- **Strengths:** characteristics of the business or project that give it an advantage over others.
- **Weaknesses:** characteristics that place the business or project at a disadvantage relative to others.
- **Opportunities:** elements that the project could exploit to its advantage.
- **Threats:** elements in the environment that could cause trouble or be detrimental for the business or project.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60's/70's using Fortune 500 data.

### S.W.O.T. ANALYSIS

#### STRENGTHS

- ❑ **Leading position** in a large, growing and fragmented market
- ❑ Substantial cash flow generation and sound balance sheet allow **external growth opportunities**
- ❑ Modest **CapEx requirement**

#### WEAKNESSES

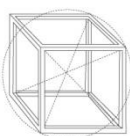
- ❑ Current exposure just to **domestic market**, heavy dependence on one single country
- ❑ Limited **size** in the international competitive arena
- ❑ Few key relevant people represent **vital asset** for the company

#### OPPORTUNITIES

- ❑ Consolidation **opportunities** in domestic market
- ❑ Relevant additional **growth potential stemming from** online lead/advisory sales
- ❑ Foreign market **expansion**

#### THREATS

- ❑ Expansion via external growth might erode **marginality** to a certain extent
- ❑ **Execution risk** of such an innovative business model



## 8. Recent results and developments

**Table 2 – Digital 360, FY-17 reported and pro-forma results summary**

€ k	2017	2016	% YoY	FY-17e	% Diff.	2017PF	% YoY
<b>Total revenues</b>	<b>14,320</b>	<b>12,789</b>	<b>12.0</b>	<b>14,349</b>	<b>(0.2)</b>	<b>19,249</b>	<b>50.5</b>
Services	(7,347)	(7,043)		(7,120)			
Personnel expenses	(4,375)	(3,559)		(4,938)			
Other opex	(958)	(507)		(513)			
<b>EBITDA</b>	<b>1,640</b>	<b>1,681</b>	<b>(2.4)</b>	<b>1,778</b>	<b>(7.8)</b>	<b>2,527</b>	<b>50.4</b>
% margin	11.5	13.1		12.4		13.1	
D&A	(1,357)	(1,078)		(1,468)			
<b>EBIT</b>	<b>283</b>	<b>603</b>	<b>(53.1)</b>	<b>310</b>	<b>(8.8)</b>	<b>814</b>	<b>35.0</b>
% margin	2.0	4.7		2.2		4.2	
Financials	(215)	(120)		(262)			
Re/(Dev.) of fin. assets	0	(57)		0			
Extraordinary	0	0		0			
<b>Pre-Tax profit</b>	<b>68</b>	<b>425</b>	<b>(84.1)</b>	<b>48</b>	<b>40.4</b>		
% margin	0.5	3.3		0.3			
Income taxes	(15)	(282)		(28)			
Tax rate	21.9%	66.3%		58.0%			
Minorities	(3)	(4)		(5)			
<b>Net Profit</b>	<b>50</b>	<b>139</b>	<b>(63.8)</b>	<b>16</b>	<b>224.9</b>	<b>354</b>	<b>154.5</b>
% margin	0.4	1.1		0.1		1.8	
Goodwill amortisation	473	440		473			
<b>EBIT adjusted</b>	<b>756</b>	<b>1,043</b>	<b>(27.5)</b>	<b>783</b>	<b>(3.5)</b>	<b>1,342</b>	<b>28.7</b>
% margin	5.3	8.2		5.5		7.0	
<b>Net Profit adjusted</b>	<b>523</b>	<b>579</b>	<b>(9.6)</b>	<b>489</b>	<b>7.1</b>	<b>1,104</b>	<b>90.6</b>
% margin	3.7	4.5		3.4		5.7	

Source: Company data, CFO Sim estimates

The typical seasonality of the business entails a more favorable second half of the year. Entirely organic **revenues increased by 12.0%** to € 14.3m, in line with our estimate, driven by the launch of new services related to new portals (artificial intelligence, blockchain, bigdata and agrifood) and new advisory practices (data driven innovation, compliance/GDPR and security). 66% of revenues comes from the demand generation business unit, the remainder from the advisory division.

**EBITDA remained basically unchanged at € 1,640k**, from € 1,681k in FY-16, 11.5% margin, as a result of fixed cost increase, mainly personnel (staff and R&D).

Also due to higher D&A stemming from buy-out of minorities and the investments sustained in the course of the year in technology platforms, new portals and online tools, **EBIT totalled € 283k**, vs. € 603k in FY-16. **Bottom line came in positive territory for € 50k**, vs. € 139k in FY-16.

**Digital360 reports results according to the Italian GAAP accounting standard.** In order to make the results reported by Digital360 more comparable with those of its peers, we **adjusted EBIT and Net Profit by the amount of the goodwill amortisation.**

**Net Financial Position was € 2.6m**, from € 1.9m at Jun-17 and € 5.7m at the end of 2016, mainly as a result of the collection of the IPO proceeds, net of listing fees and € 1.8m of investments in the period.

Digital360 provided **FY-17 pro-forma figures**, reflecting the inclusion in the scope of consolidation of the three companies acquired in the course of Q1-18 whose details are analysed below. Turnover grew 50% to € 19.2m, o/w 25.8% stemming from M&A, i.e. € 5.0m. EBITDA pro-forma totalled € 2.5m, 13.1% margin: the acquisition had an accretive impact on consolidated EBITDA margin. EBIT reached 4.2% on revenues, if adjusted for the goodwill amortisation, EBIT adj. amounted at € 1.6m, 8.1% margin. Bottom line came



at € 354k, and adjusted for the goodwill amortisation (including the recent acquisitions), it reached € 1.1m. NFP including the first outlay related to the acquisitions was € 3.9m, 1.5x EBITDA pro-forma.

In Q1-18, consistent to the strategy announced at the time of the IPO, the company boosted its growth profile and enlarged its selling proposition via three bolt-on acquisitions:

- **Effetodomino** - last 17-Jan Digital360 acquired 51%, with an option for the remainder, of this innovative **digital agency and lead generation player**, established in 2015 with the aim of supporting companies in the evolution of marketing and sale processes via the implementation of digital strategies. This acquisition allows the enlargement and enrichment of the group online selling proposition.

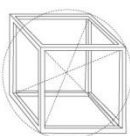
Digital360 paid € 350k EV, cash, o/w € 250k at the closing and € 100k within 12M for the 51%. A may-20 put/call option agreement dictates the 49% purchase at a price based on 2019 results. The target had revenues to the tune of € 500k and an EBITDA at break-even in 2017.

- **IQ Consulting** – last 6-Mar, Digital360 purchased 51% with an option for the remainder, an academic spin-off active in the **fields of Industry 4.0 and Supply Chain Management**. Thanks to the integration with Digital360 Advisory team, this acquisition reinforces group skills in the Smart Supply Chain Management and Smart Operations segments, a key aspect for the digital transformation process.

The company will pay the 51% stake in shares, via a reserved right issue for a total EV consideration of € 400k. The remaining 49% will be purchased at 2019-20 multiple on EBITDA in shares. IQ consulting has turnover of some € 600k and an EBITDA margin close to 30%.

- **ServicePRO** – last 27-Mar Digital360 announced the acquisition of a 51% stake, with an option for the remainder, of this marketing agency. ServicePRO targets **large technological solution vendors and is specialised in the realisation of complex medium-large events** and in the management of demand and lead generation campaigns. The move generates immediate synergies in terms of market positioning and selling proposition.

Digital360 will purchase 51% of ServicePRO for € 2.0m o/w € 1.5m cash and € 500k in Digital360 shares via a reserved right issue. Following the publication of FY-20 results, Digital360 will purchase the residual 49% at certain multiple on EBITDA 2018-19-20. ServicePRO had revenues of € 3.8m and an EBITDA margin in excess of 19.0% in 2017.



## 9. Estimates, valuation & risks

The company delivered a solid set of results, broadly in line with our projections, driven by the launch of new services related to new portals (artificial intelligence, blockchain, bigdata and agrifood) and new advisory practices (data driven innovation, compliance/GDPR and security). On the back of the publication of 2017 results, we have updated our model. We have left basically unchanged our organic top line growth projections in 2018-19, fine-tuned the cost structure factoring in the increase in staff and R&D personnel occurred in 2017 and in the course of H1-18, and factored in the three recent acquisitions. The result is a 6% upgrade in EBIT adj. estimates for 2018-19. We have also **introduced 2020 projections**.

Moreover, we updated DCF valuation criteria bringing the Free Risk Rate up-to-date. The combined result is a **new PT of € 1.60/s of (€ 1.35) FD**, based on a multiple comparison and corroborated by the DCF. We believe **IPO resources are being employed to create value for shareholders**, not yet expressed in the figures: our estimates do not take into consideration additional external growth. **The 31.1% current upside to PT deserves a rating upgrade to Buy (Neutral)**.

### 9.1. Market multiples

We conducted an analysis on a cluster of 16 companies operating in the digital and advisory arena, 7 of which are domestic. Subsequently, to put together a really appropriate and significant sample, we completed a comparability analysis based on a few qualitative and quantitative factors. At the end of this process, we have encompassed nine firms in the sample, one domestic and eight foreign companies. Size, profitability and growth profile vary a lot within the sample.

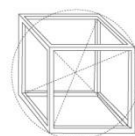
In this case, the equation 'the larger the size, the lower the margins' is not true: the higher EBITDA margins come from J2 Global and Relx NV, 40.6% and 35.0% with a market capitalization of € 8.6bn and € 35.9bn respectively. **Digital360 presents lower than average profitability but by far the highest growth perspectives compared to the peer median.**

Applying to Digital360 metrics the 25% discounted peer median multiples for EV/Sales, EV/EBITDA and PER we attain an **equity valuation of Digital360 of € 1.60/s**, realised using 2018 and 2019 estimates and multiples, with an 31.1% upside to current prices.

Table 7 - Digital 360, peer group summary table

€ m	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR <sub>16-19</sub>	EBITDA CAGR <sub>16-19</sub>	EBIT CAGR <sub>16-19</sub>	EPS CAGR <sub>17-19</sub>	NFP FY1	NFP/EBITDA FY1
Forrester Research Inc	641	290	37	12.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Gartner Inc	8,582	3,344	623	18.6%	13.7%	35.8%	78.5%	17.8%	2,056	3.3
j2 Global Inc	3,219	1,006	408	40.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Quinstreet Inc	403	300	24	8.0%	11.9%	149.1%	-244.1%	43.1%	(39)	n.m.
Relx NV	35,892	8,635	3,021	35.0%	3.6%	6.0%	7.2%	4.7%	5,028	1.7
TechTarget Inc	437	99	24	23.7%	12.6%	n.a.	n.a.	n.a.	(4)	n.m.
UBM PLC	4,334	1,108	339	30.5%	1.6%	1.6%	10.6%	5.1%	420	1.2
Wolters Kluwer NV	12,596	4,329	1,168	27.0%	1.3%	2.2%	7.5%	5.0%	1,720	1.5
<b>Median</b>	<b>3,777</b>	<b>1,057</b>	<b>373</b>	<b>25.3%</b>	<b>7.7%</b>	<b>6.0%</b>	<b>7.5%</b>	<b>5.1%</b>	<b>1,070</b>	<b>1.6</b>
<b>Digital360</b>	<b>19</b>	<b>22</b>	<b>3</b>	<b>12.8%</b>	<b>25.2%</b>	<b>36.5%</b>	<b>82.9%</b>	<b>55.4%</b>	<b>3</b>	<b>1.2</b>

Source: CFO Sim, Thomson Reuters Eikon



**Table 8 - Digital 360, peer group EV & price multiple table**

X	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
Forrester Research Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.8	23.7	n.a.
Gartner Inc	3.18	2.75	2.4	17.1	14.5	12.6	29.8	25.0	21.4
j2 Global Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.8	11.8	n.a.
Quinstreet Inc	1.22	1.02	0.8	15.1	10.3	7.21	28.1	18.1	13.7
Relx NV	4.74	4.55	4.3	13.5	12.8	11.8	19.0	18.1	17.3
TechTarget Inc	4.36	3.80	3.3	18.4	14.5	n.a.	29.1	22.6	n.a.
UBM PLC	4.29	3.99	3.8	14.0	12.7	12.3	19.4	17.9	17.6
Wolters Kluwer NV	3.31	3.14	3.1	12.3	11.4	10.7	19.2	18.3	17.5
<b>Median</b>	<b>3.80</b>	<b>3.47</b>	<b>3.2</b>	<b>14.6</b>	<b>12.8</b>	<b>11.8</b>	<b>23.6</b>	<b>18.2</b>	<b>17.5</b>
<b>Digital360 SpA</b>	<b>0.99</b>	<b>0.87</b>	<b>0.75</b>	<b>7.8</b>	<b>6.0</b>	<b>5.0</b>	<b>26.0</b>	<b>20.7</b>	<b>13.9</b>
Prem/(disc) to median	(73.8)	(75.1)	(76.4)	(46.5)	(53.0)	(57.2)	9.9	13.7	(20.6)

Source: CFO Sim, Thomson Reuters Eikon

**Table 9 - Digital 360, peer group EV & price multiple table**

X	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
<b>Median peers</b>	<b>3.80</b>	<b>3.47</b>	<b>3.18</b>	<b>14.6</b>	<b>12.8</b>	<b>11.8</b>	<b>23.6</b>	<b>18.2</b>	<b>17.5</b>
Digital 360 metrics	22,210	25,029	28,080	2,833	3,616	4,169	720	904	1,347
NFP	3,419	3,001	2,355	3,419	3,001	2,355			
Put & call adjustments	2,761	2,761	0	2,761	2,761	0			
<b>Digital 360 Equity Value (€ k)</b>	<b>58,767</b>	<b>61,169</b>	<b>66,404</b>	<b>25,649</b>	<b>29,790</b>	<b>35,495</b>	<b>13,088</b>	<b>12,651</b>	<b>18,107</b>
# shares FD m	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4	17.4
<b>Digital 360 Equity Value €/s FD €</b>	<b>3.39</b>	<b>3.53</b>	<b>3.83</b>	<b>1.48</b>	<b>1.72</b>	<b>2.05</b>	<b>0.75</b>	<b>0.73</b>	<b>1.04</b>

Source: CFO Sim, Thomson Reuters Eikon

## 9.2. DCF

In the valuation via the DCF method explicit estimates until 2021 and a long term growth of 2.5% were used. Cash flows were discounted back at an weighted average cost of capital calculated according to the following parameters:

**Table 10 - WACC derived from:**

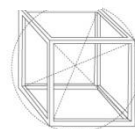
Interest costs, pre-tax	2.5%
Tax rate	45.0%
<b>Int. costs, after taxes</b>	<b>1.4%</b>
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 2W average)	1.80%
Beta levered (x)	0.80
<b>Required ROE</b>	<b>9.0%</b>

Source: CFO Sim

**Table 11 - Digital 360, DCF model**

€ k	2018e	2019e	2020e	2021e	2022e	Term. Val.
EBIT	730	1,163	1,731	2,337	3,155	
Tax rate	55.0%	54.0%	43.0%	43.0%	43.0%	
<b>Operating profit (NOPAT)</b>	<b>329</b>	<b>535</b>	<b>987</b>	<b>1,332</b>	<b>1,798</b>	
Change working capital	(1,782)	(227)	(425)	(100)	(5)	
Depreciation	2,103	2,453	2,438	2,500	1,100	
Investments	(3,330)	(1,850)	(3,428)	(1,100)	(1,100)	
<b>Free Cash Flows</b>	<b>(2,680)</b>	<b>911</b>	<b>(428)</b>	<b>2,632</b>	<b>1,793</b>	<b>43,895</b>
Present value	(2,561)	816	(360)	2,071	1,323	32,375
WACC	6.7%	6.7%	6.7%	6.7%	6.7%	
<b>Long-term growth rate</b>	<b>2.5%</b>					

Source: CFO Sim



**Table 12 – Digital 360, DCF derived from:**

Total EV present value € k	33,664
<i>thereof terminal value</i>	96.2%
NFP last reported	(2,570)
Put & call	(2,761)
Pension last reported	(699)
Equity value € k	27,635
# shares FD m	17.4
<b>Equity value €/s FD</b>	<b>1.60</b>
<i>% upside/(downside)</i>	31.1%

Source: CFO Sim

The application of the model produces an **equity value of Digital360 of € 1.60/s.**

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value of between **€ 1.30-2.02 (perpetuity range of between 1.75% and 3.25%)**, while 2) compared to changes in the free risk rate produces an equity value of **€ 1.34-1.91 (free risk range of between 1.05% and 2.55%)** and 3) compared to changes in the risk premium, including small size premium results into an equity value of **€ 1.22-2.15 (risk premium range of between 7.50% and 10.50%)**.

**Table 13 – Digital 360, equity value sensitivity to changes in terminal growth rate**

€ k	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
Present value of CF	1,289	1,289	1,289	1,289	1,289	1,289	1,289
PV of terminal value	27,256	28,781	30,477	32,375	34,515	36,945	39,728
<b>Total value</b>	<b>28,545</b>	<b>30,069</b>	<b>31,765</b>	<b>33,664</b>	<b>35,804</b>	<b>38,233</b>	<b>41,017</b>
NFP last reported	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)
Put & call	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)
Pension last reported	(699)	(699)	(699)	(699)	(699)	(699)	(699)
<b>Equity value € k</b>	<b>22,516</b>	<b>24,041</b>	<b>25,737</b>	<b>27,635</b>	<b>29,775</b>	<b>32,205</b>	<b>34,988</b>
# shares FD m	17.4	17.4	17.4	17.4	17.4	17.4	17.4
<b>Equity value €/s FD</b>	<b>1.30</b>	<b>1.39</b>	<b>1.48</b>	<b>1.60</b>	<b>1.72</b>	<b>1.86</b>	<b>2.02</b>

Source: CFO Sim

**Table 14 – Digital 360, equity value sensitivity to changes in free risk rate**

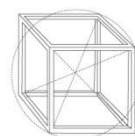
€ k	1.05%	1.30%	1.55%	1.80%	2.05%	2.30%	2.55%
Present value of CF	1,351	1,330	1,309	1,289	1,268	1,248	1,228
PV of terminal value	37,885	35,878	34,049	32,375	30,838	29,421	28,112
<b>Total value</b>	<b>39,236</b>	<b>37,208</b>	<b>35,358</b>	<b>33,664</b>	<b>32,106</b>	<b>30,669</b>	<b>29,340</b>
NFP last reported	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)
Put & call	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)
Pension last reported	(699)	(699)	(699)	(699)	(699)	(699)	(699)
<b>Equity value € k</b>	<b>33,207</b>	<b>31,180</b>	<b>29,330</b>	<b>27,635</b>	<b>26,077</b>	<b>24,640</b>	<b>23,311</b>
# shares FD m	17.4	17.4	17.4	17.4	17.4	17.4	17.4
<b>Equity value €/s FD</b>	<b>1.91</b>	<b>1.80</b>	<b>1.69</b>	<b>1.60</b>	<b>1.50</b>	<b>1.42</b>	<b>1.34</b>

Source: CFO Sim

**Table 15 – Digital 360, equity value sensitivity to changes in risk premium**

€ k	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%
Present value of CF	1,389	1,355	1,322	1,289	1,256	1,224	1,193
PV of terminal value	41,973	38,276	35,112	32,375	29,985	27,881	26,016
<b>Total value</b>	<b>43,362</b>	<b>39,631</b>	<b>36,434</b>	<b>33,664</b>	<b>31,242</b>	<b>29,106</b>	<b>27,209</b>
NFP last reported	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)	(2,570)
Put & call	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)	(2,761)
Pension last reported	(699)	(699)	(699)	(699)	(699)	(699)	(699)
<b>Equity value € k</b>	<b>37,333</b>	<b>33,602</b>	<b>30,405</b>	<b>27,635</b>	<b>25,213</b>	<b>23,077</b>	<b>21,180</b>
Equity value €/s FD	17.4	17.4	17.4	17.4	17.4	17.4	17.4
<b>Source: CFO Sim</b>	<b>2.15</b>	<b>1.94</b>	<b>1.75</b>	<b>1.60</b>	<b>1.45</b>	<b>1.33</b>	<b>1.22</b>

Source: CFO Sim





### 9.3. Peer stocks performance

Digital360 was listed on the AIM Italia (Alternative Investment Market) on 13-Jun-17 at € 1.15/share, corresponding to a market capitalization post money of € 17.7m. Digital360 now trades **above the IPO price**, and reached 1Y maximum of € 1.72/s on 14-Jun and a minimum of € 1.10 on 16-Nov. The stock outperformed peers median and indexes.

**Table 16 - Digital 360, peer group absolute performance**

	1D	1W	1M	3M	6M	YTD	1Y
Forrester Research Inc	2.0	0.9	1.4	1.2	0.6	(0.6)	10.7
Gartner Inc	1.4	0.4	(5.4)	(10.3)	(5.9)	(5.2)	7.1
j2 Global Inc	2.4	4.5	0.9	5.4	6.8	8.2	(0.5)
Quinstreet Inc	0.2	(11.0)	(21.5)	15.6	54.1	28.9	171.4
Relx NV	(0.2)	0.0	3.9	(4.8)	(5.6)	(9.3)	(1.4)
TechTarget Inc	0.7	2.0	3.4	34.8	63.7	41.5	118.5
UBM PLC	0.5	1.0	1.7	27.9	38.8	28.0	28.7
Wolters Kluwer NV	0.2	(0.6)	3.3	2.0	8.0	0.2	10.5
<b>Peers median</b>	<b>0.6</b>	<b>0.6</b>	<b>1.5</b>	<b>3.7</b>	<b>7.4</b>	<b>4.2</b>	<b>10.6</b>
<b>Digital360 SpA</b>	<b>2.1</b>	<b>(0.4)</b>	<b>0.0</b>	<b>(6.9)</b>	<b>(5.4)</b>	<b>(3.7)</b>	<b>n.a.</b>

Source: Thomson Reuters Eikon

**Table 17 – Digital 360 relative performances**

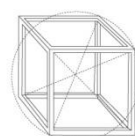
	1D	1W	1M	3M	6M	YTD	1Y
To Peers median	1.5	(1.0)	(1.5)	(10.6)	(12.7)	(7.9)	n.a.
To MSCI World Index	1.6	(2.3)	0.5	(2.6)	(8.8)	(3.5)	n.a.
To EUROSTOXX	2.3	(1.2)	(1.2)	(2.7)	(3.1)	(2.8)	n.a.
To FTSE Italia All Share	2.1	(1.5)	(2.6)	(5.4)	(8.4)	(9.4)	n.a.
To FTSE STAR Italia	2.2	(1.1)	0.9	(3.0)	(3.3)	(5.6)	n.a.
To FTSE AIM Italia	2.0	(0.5)	0.4	(4.1)	(3.9)	(3.0)	n.a.

Source: Thomson Reuters Eikon

### 9.4. Risks

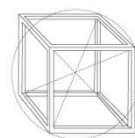
The principal investment **risks** in Digital360 include:

- Risks linked to the algorithm used by the search engines;
- Risks related to personal data collection, holding and treatment;
- Risks due to ICT malfunctions;
- Risks connected to the relevant technological evolution;
- Risks due to relevant competition in the reference market;
- Impact on economics and balance sheet profile triggered by a deep decline in local and global economic growth;
- Dilution on profitability stemming from the acquisition campaign;
- The departure of one of few key relevant people.





Income statement (€ k)	2016	2017	2018e	2019e	2020e
Total revenues	12,789	14,320	22,210	25,029	28,080
Services	(7,043)	(7,347)	(12,604)	(14,118)	(16,209)
Personnel expenses	(3,559)	(4,375)	(5,257)	(5,582)	(5,775)
Other opex	(507)	(958)	(1,516)	(1,713)	(1,927)
EBITDA	1,681	1,640	2,833	3,616	4,169
D&A	(1,078)	(1,357)	(2,103)	(2,453)	(2,438)
EBIT	603	283	730	1,163	1,731
EBIT adjusted	1,043	756	1,479	1,912	2,480
Financials	(120)	(215)	(135)	(130)	(145)
Re/(Devaluation) of financial assets	(57)	0	0	0	0
Extraordinary	0	0	0	0	0
Pre-Tax profit	425	68	595	1,033	1,586
Income taxes	(282)	(15)	(327)	(558)	(682)
Minorities	(4)	(3)	(297)	(320)	(306)
Net Profit	139	50	(29)	155	598
Net Profit adjusted	579	523	720	904	1,347
Balance sheet (€ k)	2016	2017	2018e	2019e	2020e
Net Working Capital	3,148	3,210	4,992	5,218	5,643
Net Fixed Assets	6,032	6,869	7,850	7,247	7,153
Equity Investments	288	182	182	182	182
Other M/L Term A/L	(1,021)	96	(649)	(216)	195
Net Invested Capital	8,447	10,357	12,374	12,431	13,172
Net Financial Position	4,802	2,570	3,419	3,001	2,355
Minorities	5	8	305	625	931
Group's Shareholders Equity	3,640	7,779	8,650	8,805	9,886
Financial Liabilities & Equity	8,447	10,357	12,374	12,431	13,172
Cash Flow statement (€ k)	2016	2017	2018e	2019e	2020e
Total net income	139	50	(29)	155	598
Depreciation	1,078	1,357	2,103	2,453	2,438
Other non-cash charges	253	(1,336)	1,043	(113)	(105)
Cash Flow from Oper. (CFO)	1,470	71	3,116	2,495	2,932
Change in NWC	(1,048)	(62)	(1,782)	(227)	(425)
FCF from Operations (FCFO)	422	9	1,334	2,268	2,507
Net Investments (CFI)	(2,936)	(1,765)	(3,084)	(1,850)	(2,343)
Free CF to the Firm (FCFF)	(2,514)	(1,756)	(1,750)	418	163
CF from financials (CFF)	1,621	3,577	1,959	(1,050)	483
Free Cash Flow to Equity (FCFE)	(893)	1,821	210	(632)	647
Financial ratios	2016	2017	2018e	2019e	2020e
EBITDA margin	13.1%	11.5%	12.8%	14.4%	14.8%
EBIT margin	4.7%	2.0%	3.3%	4.6%	6.2%
Net profit margin	1.1%	0.4%	-0.1%	0.6%	2.1%
Tax rate	66.3%	21.9%	55.0%	54.0%	43.0%
Interest coverage x	0.20	0.76	0.19	0.11	0.08
Net Debt/EBITDA x	2.86	1.57	1.21	0.83	0.56
Debt-to-Equity x	1.32	0.33	0.40	0.34	0.24
ROIC	1.6%	0.5%	-0.2%	1.2%	4.5%
ROCE	6.4%	2.1%	4.6%	7.8%	10.7%
ROACE	7.1%	2.5%	5.0%	7.6%	11.1%
ROE	3.8%	0.6%	-0.3%	1.8%	6.0%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2016	2017	2018e	2019e	2020e
Number of shares # m	15.37	15.37	16.09	16.09	16.09
Number of shares Fully Diluted # m	16.62	16.62	17.35	17.35	17.35
Average Number of shares Fully Diluted # n	16.62	16.62	16.99	17.35	17.35
EPS stated FD € cent	0.84	0.30	(0.17)	0.89	3.45
EPS adjusted FD € cent	3.48	3.15	4.24	5.21	7.76
EBITDA € cent	101.11	98.65	166.78	208.37	240.27
EBIT € cent	36.28	17.03	43.00	67.02	99.75
BV € cent	219.34	468.51	516.07	543.45	623.40
FCFO € cent	25.37	0.54	78.55	130.72	144.46
FCFF € cent	(151.25)	(105.65)	(103.00)	24.10	9.41
FCFE € cent	(53.74)	109.56	12.34	(36.41)	37.26
Dividend € cent	0.00	0.00	0.00	0.00	0.00



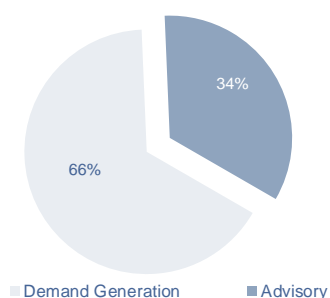
## The company at a glance

Digital360 is a leading Italian B2B player in the digital innovation arena, offering editorial content, communication and marketing services, lead generation, events, advisory and coaching support. Established in 2012, the company runs a match making platform between digital innovation demand and offer. The firm operates in two business areas: 1) Demand Generation - editorial content, communication and marketing services, lead generation, events and webinars, in digital innovation; and 2) Advisory - advisory and coaching services supporting digital innovation of firms and PAs.

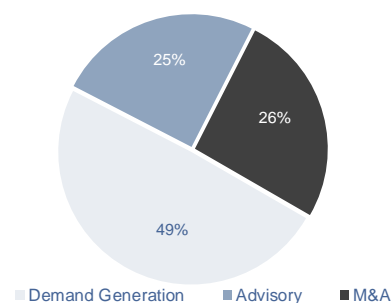
The group has grown significantly in recent years: turnover CAGR11-17 is 47%, boosted by acquisitions, 6 companies in a row between 2012 and 2014, adding a total of € 6.0m revenues. In the same period, EBITDA soared from € 0.2m to € 1.6m, 42% CAGR. 2017 revenues totalled € 14.3m, up 12.0% YoY, EBITDA reached € 1.6m, 11.5% margin and net profit came in at € 50k, 0.4% on sales. Net Financial Position reached € 2.6m, 1.6x EBITDA and 0.6x Shareholders Equity. Currently 100% of business is generated in Italy. 76% of 2017 sales was generated by the Demand Generation division, with more than 440 clients. The remainder came from the Advisory business unit, with some 140 customers.

Digital 360 was listed last 13 June 2017 at € 1.15 per share, corresponding to a market capitalisation of € 17.7m. The offer encompassed a capital increase of € 4.0m on offer to professional and retail investors, with a portion reserved to employees. In addition, a convertible bond of € 2.0m was issued: 5 years duration, 4.5% coupon and strike € 1.60.

## 2017 reported and...



## ... pro-forma revenues breakdown by BU



## Shareholder structure

	%	# m
Andrea Rangone	23.9%	3.850
Mariano Corso	12.2%	1.968
Alessandro Giuseppe Perego	12.2%	1.968
Raffaello Balocco	4.9%	0.782
Other <4%	24.9%	4.003
<b>Free Float o/w</b>	<b>21.9%</b>	<b>3.519</b>
<b>Total</b>	<b>100.0%</b>	<b>16.092</b>

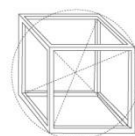
## Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Forrester Research Inc	2.0	0.9	1.4	1.2	0.6	(0.6)
Gartner Inc	1.4	0.4	(5.4)	(10.3)	(5.9)	(5.2)
j2 Global Inc	2.4	4.5	0.9	5.4	6.8	8.2
Quinstreet Inc	0.2	(11.0)	(21.5)	15.6	54.1	28.9
Relx NV	(0.2)	0.0	3.9	(4.8)	(5.6)	(9.3)
TechTarget Inc	0.7	2.0	3.4	34.8	63.7	41.5
UBM PLC	0.5	1.0	1.7	27.9	38.8	28.0
Wolters Kluwer NV	0.2	(0.6)	3.3	2.0	8.0	0.2
<b>Peers median</b>	<b>0.6</b>	<b>0.6</b>	<b>1.5</b>	<b>3.7</b>	<b>7.4</b>	<b>4.2</b>
<b>Digital360 SpA</b>	<b>2.1</b>	<b>(0.4)</b>	<b>0.0</b>	<b>(6.9)</b>	<b>(5.4)</b>	<b>(3.7)</b>

## Peers group multiples table

Price & EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	PER FY1	PER FY2	PER FY3
Forrester Research Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.8	23.7	n.a.
Gartner Inc	3.18	2.75	2.4	17.1	14.5	12.6	29.8	25.0	21.4
Quinstreet Inc	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.8	11.8	n.a.
Relx NV	1.22	1.02	0.8	15.1	10.3	7.21	28.1	18.1	13.7
TechTarget Inc	4.74	4.55	4.3	13.5	12.8	11.8	19.0	18.1	17.3
Triboo SpA	4.36	3.80	3.3	18.4	14.5	n.a.	29.1	22.6	n.a.
UBM PLC	4.29	3.99	3.8	14.0	12.7	12.3	19.4	17.9	17.6
Wolters Kluwer NV	3.31	3.14	3.1	12.3	11.4	10.7	19.2	18.3	17.5
<b>Median</b>	<b>3.80</b>	<b>3.47</b>	<b>3.2</b>	<b>14.6</b>	<b>12.8</b>	<b>11.8</b>	<b>23.6</b>	<b>18.2</b>	<b>17.5</b>
<b>Digital360 SpA</b>	<b>0.99</b>	<b>0.87</b>	<b>0.75</b>	<b>7.8</b>	<b>6.0</b>	<b>5.0</b>	<b>42.1</b>	<b>29.7</b>	<b>17.4</b>
Premium/(discount) to median	(73.8)	(75.1)	(76.4)	(46.5)	(53.0)	(57.2)	78.3	63.6	(0.1)

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
18/04/2018	€1.60	BUY
13/10/2017	€1.35	NEUTRAL

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- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

