

Digital360

Sector: Technology



Analysts

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Accelerating more and more

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 1H21: another set of strong results

Digital360 unveiled preliminary (unaudited) 1H21 financial figures ahead of our full year estimates, highlighting strong y/y growth performance:

- ◆ Total Revenues at €16.2mn, up ca. +28% y/y almost entirely on a like-for-like basis, driven by a further increase in SaaS subscriptions, and higher volumes in both Demand Generation and Advisory & Coaching activities, despite the significant reduction of physical events due to pandemic;
- ◆ EBITDA growing even faster (+32% y/y) at ca. €3.7mn, with EBITDA margin at ca. 23%, positively benefitting from the transition towards Digital as a Service business model.

During 1H21 the Group also acquired the minorities of Service Pro and IQ Consulting and announced two value-accretive acquisitions: (i) online news media Innovation Post, and (ii) software house CTMobi.

2021E-23E estimates revised upwards

We are revising upwards 2021E-'23E estimates factoring strong 1H21 figures and the consolidation of recently acquired companies. We now expect:

- ◆ 19% revenues CAGR over 2020A-23E;
- ◆ EBITDA 2023E at €9.1mn and margin steadily above the 20% threshold;
- ◆ Adj. Net Profit 2023E at €4.8mn (37% CAGR 2020A-23E);
- ◆ €8mn cumulated cash flow by 2023E, driving Net Cash Position to €6.7mn, leaving room for M&A in Italy and abroad, maybe in highly populated countries / areas such as English or Spanish speaking ones.

Fair Value revised upward at €4.00 per share (from €3.25)

At current stock market price, Digital360 is trading at material discount vs. peers, 7.7x EV/EBITDA'21E on a fully diluted basis.

Higher estimates and peers' rerating almost equally contribute to our updated €4.00 fair equity value per share, (up from previous €3.25), which would imply 11.1x-9.1x EV/EBITDA 2021E-22E market multiples.

We note that at fair value DIG would still trade at huge discount vs. TechTarget (25.4x-22.0x EV/EBITDA 21E-22E), by far its most direct comparable. Room for further upside revision of fair value is, thus, material.

Fair Value (€) **4.00**
Market Price (€) **2.71**
Market Cap. (€m) **50.2**

KEY FINANCIALS (€mn)	2020	2021E	2022E
VALUE OF PRODUCTION	27.6	33.7	39.5
EBITDA	5.0	6.6	7.9
EBIT ADJ. (*)	3.3	4.6	5.9
NET PROFIT ADJ. (*)	1.9	3.2	4.1
EQUITY	9.8	15.1	18.2
NET FIN. POS.	-1.4	0.7	2.8
EPS ADJ (€) (*)	0.14	0.18	0.22
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	20.5	20.8
EBIT ADJ. MARGIN. (%) (*)	12.5	14.2	15.5
NET DEBT / EBITDA (x)	0.3	-0.1	-0.4
NET DEBT / EQUITY (x)	0.1	0.0	-0.2
EV/SALES (x) (**)	0.9	1.6	1.3
EV/EBITDA (x) (**)	4.7	7.7	6.1
EV/EBIT ADJ. (x) (**)	7.1	11.0	8.2

Source: Digital360 (2020), Value Track (2021E-22E estimates)
 (*) Adjusted for Goodwill Amortization (**) Fully diluted

STOCK DATA

FAIR VALUE (€)	4.00
MARKET PRICE (€)	2.71
SHS. OUT. (m)	18.5
MARKET CAP. (€m)	50.2
FREE FLOAT (%)	25.4
AVG. -20D VOL. (#)	26,714
RIC / BBG	DIG.MI / DIG IM
52 WK RANGE	1.05 - 2.84

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	32.1	37.8	43.4
Chg. % YoY	19.8%	21.9%	17.7%	14.9%
EBITDA	5.0	6.6	7.9	9.1
EBITDA Margin (%)	19.0%	20.5%	20.8%	20.9%
EBIT	2.5	3.5	4.8	5.7
EBIT Margin (%)	9.6%	10.9%	12.7%	13.1%
Net Profit	1.1	2.1	3.0	3.7
Chg. % YoY	-345.7%	94.0%	46.0%	21.5%
Adjusted Net Profit	1.9	3.2	4.1	4.8
Chg. % YoY	nm	70.4%	30.2%	15.9%
Net Fin. Position	-1.4	0.7	2.8	6.7
Net Fin. Pos. / EBITDA (x)	0.3	nm	nm	nm
Net Investments	-1.5	-2.3	-2.4	-2.7
OpFCF b.t.	6.0	4.3	5.2	5.9
OpFCF b.t. as % of EBITDA	119.6%	64.6%	65.9%	64.8%

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

Investment case

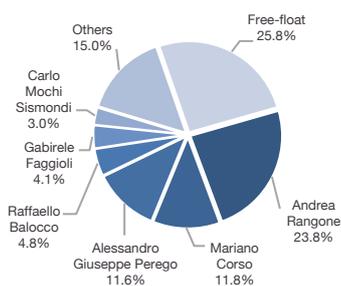
Strengths / Opportunities

- ◆ 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

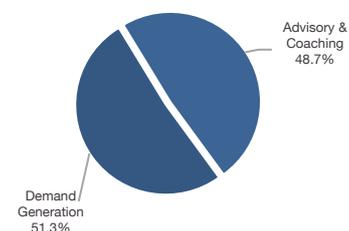
- ◆ Lower size if compared to competitors;
- ◆ Business model fine tuning implies an execution risk and may require additional managerial / technical capabilities, as well as additional funding.

Shareholders Structure



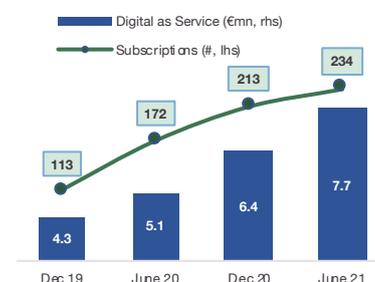
Source: Digital360

FY20 Sales by business line



Source: Digital360

ARR – Annual Recurring Revenues



Source: Digital360, Value Track

Stock multiples @ €4.00 Fair Value

	2021E	2022E
EV / SALES (x)	2.3	1.9
EV / EBITDA (x)	11.1	9.0
EV / EBIT (x)	21.0	14.9
EV / Cap. Empl. (x)	5.1	4.6
OpFCF Yield (%)	6.3	8.0
P / E Adj. (x)	22.0	18.0
P / BV (x)	4.9	4.1
EV / EBIT ADJ. (x)	16.0	12.1

Source: Value Track

Buoyant 1H21 preliminary figures

DIG360 just released some preliminary interim results for 1H21 that are better than our full year 2021E expectations and highlight a strong y/y performance and a sound cash generation. We underline:

- Total Revenues up ca. +28% y/y** at ca. €16.2mn, driven by the increasing number of subscriptions (at €7.7mn, i.e. ca. +50% y/y), and higher volumes in both Demand Generation and Advisory & Coaching activities;
- EBITDA at ca. €3.7mn (+32 % y/y)**, with EBITDA margin at ca. 23%, above the 20.5% reported in FY20;
- Successfully finalized the **buy-out of minorities and the acquisition of CTMobi and Innovation Post.**

Digital360: 1H21 preliminary figures vs. 1H20A

(€mn)	1H20	1H21	y/y (% ,mn)
Total Revenues	12.72	ca. 16.2	ca. 28%
EBITDA	2.82	ca. 3.7	ca. 32%
EBITDA Margin (%)	22.2%	ca. 23%	ca. +80bps

Source: Digital360, Value Track Analysis

Double-digit organic growth in sales turnover

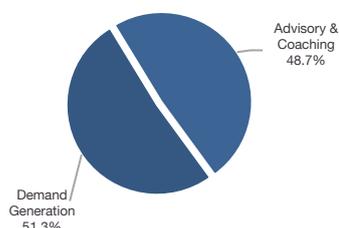
Total Revenues moved from €12.7mn as of 1H20 to ca. €16.2mn in 1H21, thus recording a double-digit organic growth (+28% y/y), despite the significant reduction of physical events due to pandemic.

The Group is steadily posting excellent results, fostered by a further increase in SaaS subscriptions, with ARR at €7.7mn as of June'21, that is +50% y/y if compared to €5.1mn of June'20.

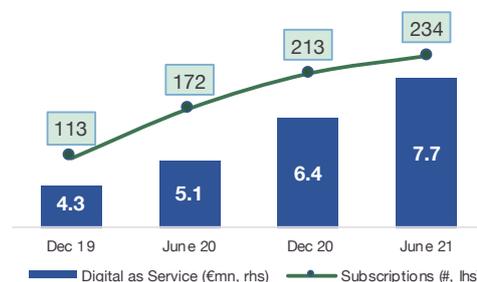
We feel that both Demand Generation and Advisory & Coaching business units are recording remarkable y/y growth rates, with many services/events that switched from the offline to the online (virtual), pushed by the ever-increasing needs of digital transformation of small and medium enterprises.

Digital360: Revenues breakdown and Annual Recurring Revenues

Revenues breakdown 2020A



Annual Recurring Revenues path



Source: Digital360, Value Track Analysis

Digital as Service prepared for take-off, EBITDA margin at 23%

1H21 preliminary EBITDA stood at ca. €3.7mn (+32 % y/y), with EBITDA margin at ca. 23% (compared to 22.2% recorded in 1H20), above the 20.5% reported in 2020A, as result of:

1. Higher contribution of SaaS subscriptions, by nature featured by better profitability;
2. Costs optimization, with lower incidence of direct costs on sales, implying a positive operating leverage.

As a matter of facts, the company is successfully switching its business model from one-off projects or services in “*as-a-Services*” model, which triggers several benefits from an operational and financial point of view, as also shown by the EBITDA margin path over the last three years.

Digital360: EBITDA Margin evolution by semester (1H18-1H21)



Source: Digital360, Value Track Analysis

Minorities buy-out and two small acquisitions complete the picture

We calculate that during the first half of the year DIG has paid €1.3mn cash and issued 770k new DIG shares in order to finalize the 49% stake minorities buy-out acquisition of:

- ◆ **Service Pro Srl**, 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;
- ◆ **IQ Consulting Srl**, university spin-off focused on Industry 4.0 and supply chain management, whit €1.4mn revenues and €0.4mn EBITDA (EBITDA Margin ~30%) in 2020A.

Furthermore, in the latest months DIG has announced two small acquisitions:

- ◆ **Innovation Post**, 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), and;
- ◆ **CTMobi Srl**, software house specialized in the development of cloud solutions, and AWS Services Select Consulting Partner. The integration of CTMobi would allow DIG to further develop its technological value proposition. In FY20, the company achieved ca. €450K revenues, €70K EBITDA. The price for the purchase has been set at €690K, including a positive NFP of approximately €220K, and will be paid up to 50% through the assignment of DIG newly issued ordinary shares, and with cash for the remaining stake.

According to our calculations and estimates, summing up all M&A deals should lead to ca ~€3mn cash out (€1.6mn in FY21 and €1.3mn in FY22), and ~900K new shares issued, worth some €2.2mn.

As reported in the table below, the recent M&A activity seems to be value accretive, as we calculate ca. 1.2x EV/Sales and 4.5x EV/EBITDA acquisition multiples, lower than DIG current stock trading multiples.

Digital360: M&A deals announced in 1H21

Target	Ann. Date	Acq. Stake	Acq. Value (€mn)	Rev.20A	EBITDA 20A	NFP 20A	EV/Sales	EV/EBITDA
Service Pro Italy	06/05/21	49%	4.03	1.76	0.49	1.3*	1.5	5.5
IQ Consulting	06/05/21	49%	0.40	0.69	0.20	0.2*	0.3	1.0
IP S.r.l.	15/03/21	100%	0.18	0.18*	0.04*	0.0*	1.0	5.0
CTMobi S.r.l.	23/06/21	100%	0.69	0.45	0.07	0.2	1.0	6.7
Total			5.30	3.08	0.79	1.7	1.2	4.5

Source: Source: Digital360, Value Track Analysis (*) ValuaTrack estimate

2021E-23E estimates revised upwards

We are revising upwards our 2021E-'23E estimates to factor in the strong results achieved so far in 1H21, the positive impact on Net Profit of minorities squeeze out, and the addition to the consolidation perimeter of recently acquired companies.

Our model does not take into account any possible future M&A deals, even if we do not rule out such scenario. In details:

- ◆ **Revenues from Sales revised upwards on average by 4% in 2021E-23E**, embedding the scale-up of SaaS solutions (+2% per year), while the remaining growth due to integration of M&A starting from July 21 (i.e. €0.4mn, €0.9mn and €1.0mn in 2021-2023E respectively).
Overall, we expect Revenues to reach ca. €43mn in 2023E, with ARR increasing from €7.7mn as of June'21 to ca. €17mn as of 2023E year-end;
- ◆ **EBITDA revised up double-digit, at €6.6mn and €7.9mn in 2021E-22E**, while it is revised high-single digit in 2023E up to €9.1mn. We now expect EBITDA margin higher than 20%;
- ◆ **Adjusted Net Profit revised up even more, ca. +24.5% on average in 2021E-22E**, thanks to basically tax rate, a slight improvement in net financial charges, and the higher goodwill amortization arising from recent M&A;
- ◆ **Cumulated FCF at €8mn in 2021E-23E, driving Net Cash Position up to €6.7mn by 2023E**, thus leaving room for further M&A deals, allowing the company to increase its size and export abroad (LatAm, Spain) its successful business model.

Digital360: New vs. Old 2021E-23E forecasts

(IT GAAP, €mn)	2021E			2022E			2023E		
€mn	Old	New	Δ (%)	Old	New	Δ (%)	Old	New	Δ (%)
Revenues from Sales	31.3	32.0	2.4%	35.9	37.7	5.1%	41.5	43.3	4.4%
EBITDA	5.9	6.6	12.1%	7.1	7.9	10.5%	8.3	9.1	8.7%
EBITDA Margin (%)	18.8%	20.5%	178bps	19.8%	20.8%	102bps	20.0%	20.9%	83bps
EBIT	3.0	3.5	17.2%	4.1	4.8	15.4%	5.2	5.7	8.1%
Net Profit	1.7	2.1	24.8%	2.6	3.0	16.1%	3.4	3.7	9.8%
Adj. Net Profit	2.4	3.2	29.1%	3.4	4.1	21.2%	4.1	4.8	15.2%
OpFCF after tax	2.1	3.0	45.1%	3.0	3.5	16.0%	3.6	3.9	9.5%
Net Financial Position	-0.4	0.7	1.2	2.3	2.8	0.5	5.7	6.7	1.0

Source: Value Track Analysis

Digital360: Value of Production Breakdown 2020A-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E
Revenues from Sales	26.1	32.0	37.7	43.3
Other Revenues	0.2	0.2	0.3	0.3
Capitalized Costs	1.3	1.5	1.5	1.5
Value of Production	27.6	33.7	39.5	45.1

Source: Value Track Analysis

Digital360: P&L 2020A-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E
Value of Production	27.6	33.7	39.5	45.1
COGS	-14.3	-18.0	-20.9	-24.1
Labour Costs	-8.3	-9.1	-10.6	-11.9
EBITDA	5.0	6.6	7.9	9.1
EBITDA Margin (%)	19.0%	20.5%	20.8%	20.9%
D&A (ex Goodwill Amortization)	-1.7	-2.0	-2.0	-2.3
EBITA	3.3	4.6	5.9	6.8
Goodwill Amortization	-0.8	-1.1	-1.1	-1.1
EBIT	2.5	3.5	4.8	5.7
<i>EBIT Margin (%)</i>	<i>9.6%</i>	<i>10.9%</i>	<i>12.7%</i>	<i>13.1%</i>
Net financial charges	-0.1	-0.1	-0.1	0.0
Taxes	-0.9	-1.3	-1.7	-2.0
Minorities	-0.5	0.0	0.0	0.0
Net Profit (Loss)	1.1	2.1	3.0	3.7
Net Profit Adjusted	1.9	3.2	4.1	4.8

Source: Value Track Analysis

Digital360: Balance Sheet 2020A-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E
Net Fixed assets	9.1	12.2	12.9	12.2
Net Working Capital	3.4	3.9	4.5	5.4
Provisions	1.3	1.7	2.1	2.5
Total Capital Employed	11.2	14.4	15.3	15.1
Group Net Equity	9.8	15.1	18.2	21.9
Net Fin. Pos. [Net debt (-)/ Cash (+)]	-1.4	0.7	2.8	6.7

Source: Value Track Analysis

Digital360: Cash Flow Statement 2020A-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E
EBITDA	5.0	6.6	7.9	9.1
ΔNWC (inc. Δ prov.)	2.5	-0.1	-0.3	-0.5
Capex (not incl. Fin. Inv.)	-1.5	-2.3	-2.4	-2.7
Cash Taxes	-0.9	-1.3	-1.7	-2.0
OpFCF a.t.	5.1	3.0	3.5	3.9
Fin. Investments	-0.1	-4.0	-1.3	0.0
Net Financial Charges	-0.1	-0.1	-0.1	0.0
Change in Equity	0.0	3.2	0.0	0.0
Change in Net Fin. Pos.	5.0	2.1	2.1	3.9

Source: Value Track Analysis

New fair value at €4.0 (from €3.25)

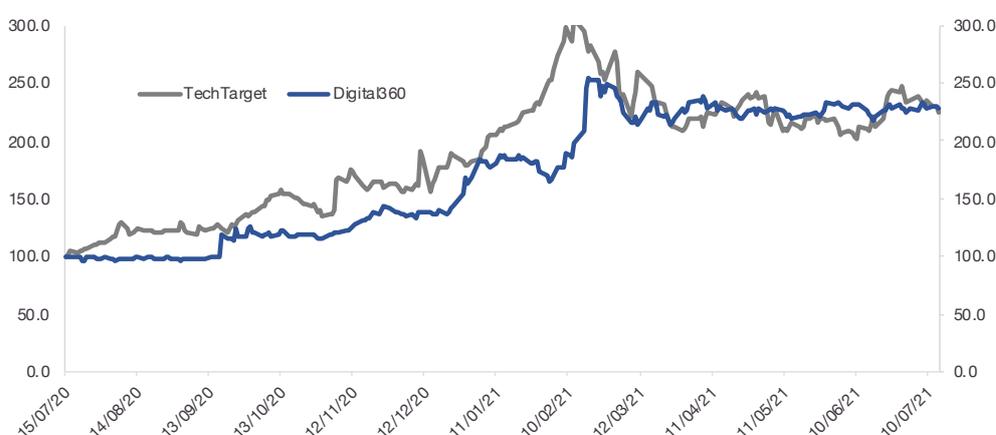
DIG share price has increased by ca. 120% over the last year, sustained by a steady increase in trading volumes, highlighting investors’ higher appetite for DIG360 equity story.

Anyway, despite the strong recovery, in our opinion, current €2.8 stock market price (or 7.7x EV/EBITDA 21E relative valuation) does not properly embed the transition to Digital as a Service business model, featured by recurring revenue and high scalability.

Our update peers’ analysis suggests a €4.0 fair value per share, i.e. 11.1x-9.0x EV/EBITDA and 22.0x-18.0x P/E based on our 2021E-22E estimates.

At fair value DIG would still trade at huge discount vs. its most direct comparable (TechTarget), currently trading at 25.4x-22.0x market consensus EV/EBITDA 21E-22E. Given the double-digit organic and the further margin expansion, we expect valuation gap to narrow going forward.

Digital360 vs TechTarget: share price performance over the latest 12-months



Source: Value Track Analysis

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 at €7.7mn as of June’21 • Predictable, highly recurring revenue stream • Launch of new proprietary solutions on “as a Service” model • Still at early-stage with: ARR at 31% of Sales (on annual basis) in 2021E
Favourable market dynamics	<ul style="list-style-type: none"> • Exposure to a growing & resilient market demand: • Covid-19 has further accelerated 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, >60%

Source: Value Track Analysis

Peers' analysis

We calculate a peers' based **updated fair equity value per share at €4.00**, (up from previous €3.25), based on selected ITA peers EV/EBITDA 2021E-22E.

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 12.7x EV/EBITDA, 19.7x EV/EBIT and 32.9x P/E on 2021E, while DIG – at current €2.71 share price – is entailing a 40% discount vs peers, that we view as totally undeserved given its high-quality financials.

We assume ca. 11x-9x EV/EBITDA 21E-22E respectively as fair multiple, getting a fair equity value per share of €4.0.

Digital360: AIM Italia tech companies - stock trading multiples

Company	EV / Sales (x)		EV / EBITDA (x)		EV / EBIT Adj. (x)		P/E Adj. (x)	
	2021E	2022E	2021E	2022E	2021E	2022E	2021E	2022E
Growens	0.9	0.8	11.8	8.9	nm	20.3	nm	33.2
Cyberoo	4.1	2.4	12.5	4.9	24.5	6.2	40.0	10.6
CY4Gate	6.8	4.6	16.4	11.3	25.6	18.0	36.0	26.3
Neosperience	2.8	2.1	9.7	7.6	nm	20.7	nm	31.6
Relatech	2.8	2.2	12.0	9.3	16.2	13.2	21.1	17.9
Unidata	3.2	2.7	8.4	7.1	15.1	12.6	23.5	19.1
Doxee	3.3	2.7	10.2	7.8	18.5	13.5	26.2	19.1
Vantea Smart	2.8	1.7	22.2	8.5	nm	11.4	50.0	17.7
Reevo	3.3	2.4	14.0	9.3	20.3	13.0	33.7	22.0
Almawave S.p.A.	3.4	2.8	14.3	11.4	23.1	18.6	41.4	29.8
DHH	3.2	2.6	8.5	6.9	14.4	10.6	24.4	18.7
Average	3.3	2.5	12.7	8.5	19.7	14.4	32.9	22.4
Median	3.2	2.4	12.0	8.5	19.4	13.2	33.7	19.1
DIG360 @ market price	1.6	1.3	7.7	6.1	11.0	8.2	16.7	12.8
<i>Discount % vs. avg.</i>	-53%	-48%	-40%	-27%	-44%	-43%	-49%	-43%
<i>Discount % vs. med.</i>	-51%	-47%	-37%	-27%	-43%	-38%	-50%	-33%

Source: Market Consensus, Value Track Analysis

DCF as safety cross check supports peers' valuation

Updated **DCF calculations**, based on revised estimates and fully diluted number of shares (i.e. assuming the full conversion of convertible bonds), returns **€4.20 fair equity value per share** (with implied EV/EBITDA 21E at 12.3x), based on a 8.9% WACC and target capital structure (Net Debt at 30%).

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