

Digital360

Sector: Technology



Analysts

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Organic and M&A growth fostering each other

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.

Financials1H21: strong business momentum

1H21 financial figures prove that Digital360 is successfully switching towards a *Digital as a Service* business model, triggering several operating and financial benefits. In details:

- ◆ **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 (ARR at €7.7mn at the end of June, i.e. +50% y/y);
- ◆ **EBITDA at €3.7mn**, +33% y/y with EBITDA margin at ca. 23% (+80 bps y/y), thanks to higher contribution of SaaS subscriptions and to lower incidence of direct costs on sales;
- ◆ **Net Debt close to breakeven**, compared to €1.4mn Net Debt as of 2020 year end, despite €1.0mn Capex and €1.4mn cash out for M&A.

Additional value from M&A: A win-win situation

So far in 2021, DIG has signed six highly value accretive M&A deals, (the latest one yesterday evening), at average 4.9x EV/EBITDA, well below current stock trading multiples. This reinforces our view that DIG is a very attractive bidder for tech entrepreneurs willing to foster their growth pace by being included in the largest Italian digital innovation ecosystem. We do not exclude further M&A, maybe abroad or in contiguous “verticals”.

2021PF: €40mn revenues, €7.6mn EBITDA

We already revised upwards our 21E-23E financial estimates following the release of preliminary data in July. We are further revising our estimates to factor in the M&A deals announced in the latest days. We now expect: (i) revenues to increase at 27% CAGR 2020A-23E; (ii) EBITDA at €10.7mn by 2023E, with margin close to 20% (iii) Adj. Net Profit 2023E at €5.9mn (47% CAGR 2020A-23E), (iv) €3.7mn cumulated cash flow by 2023E, (v) Net Cash at €2.4mn at the end of the projection period despite €10.6mn M&A cash out.

Fair Value revised upward at €5.30 per share (from €4.00)

Higher estimates (thanks to M&A) and peers' rerating lead to new €5.30 fair equity value (up from previous €4.00), which would imply 11.3xEV/EBITDA, 14.5x EV/EBIT Adj and 20.6x P/E Adj 2022E multiples, in line with the average of selected AIM Italia tech companies. We note that at fair value DIG would still trade at discount vs. TechTarget (20.7x EV/EBITDA 22E), by far its most direct comparable.

Fair Value (€) **5.30**

Market Price (€) **4.48**

Market Cap. (€m) **79.6**

KEY FINANCIALS (€mn)	2020	2021E	2022E
VALUE OF PRODUCTION	27.6	33.7	48.4
EBITDA	5.0	6.6	9.2
EBIT ADJ. (*)	3.3	4.6	7.2
NET PROFIT ADJ. (*)	1.9	3.2	5.0
EQUITY	9.8	15.1	19.1
NET FIN. POS.	-1.4	-0.8	1.3
EPS ADJ (€) (*)	0.11	0.18	0.27
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	19.7
EBIT ADJ. MARGIN. (%) (*)	12.5	14.2	15.3
NET DEBT / EBITDA (x)	0.3	0.1	nm
NET DEBT / EQUITY (x)	0.1	0.1	nm
EV/SALES (x) (**)	1.1	2.3(***)	1.9
EV/EBITDA (x) (**)	5.7	12.1(***)	9.6
EV/EBIT ADJ. (x) (**)	8.7	16.5(***)	12.3

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

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

STOCK DATA

FAIR VALUE (€)	5.30
MARKET PRICE (€)	4.48
SHS. OUT. (m)	18.5
MARKET CAP. (€m)	79.6
FREE FLOAT (%)	26.1
AVG. -20D VOL. (#)	43,108
RIC / BBG	DIG.MI / DIG IM
52 WK RANGE	1.25 – 4.66

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	46.8	53.3
Chg. % YoY	19.8%	21.9%	45.6%	14.1%
EBITDA	5.0	6.6	9.2	10.7
EBITDA Margin (%)	19.0%	20.5%	19.7%	20.1%
EBIT	2.5	3.5	6.1	7.3
EBIT Margin (%)	9.6%	10.9%	13.0%	13.7%
Net Profit	1.1	2.1	3.9	4.8
Chg. % YoY	-345.7%	94.0%	88.7%	22.8%
Adjusted Net Profit	1.9	3.2	5.0	5.9
Chg. % YoY	nm	70.4%	58.3%	17.9%
Net Fin. Position	-1.4	-0.8	1.3	2.4
Net Fin. Pos. / EBITDA (x)	0.3	0.1	nm	nm
Net Investments	-1.5	-2.3	-2.4	-2.7
OpFCF b.t.	6.0	4.3	5.6	7.3
OpFCF b.t. as % of EBITDA	119.6%	64.6%	61.0%	68.6%

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

Investment case

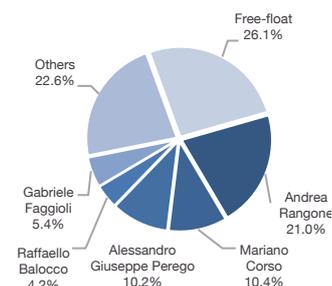
Strengths / Opportunities

- ◆ 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

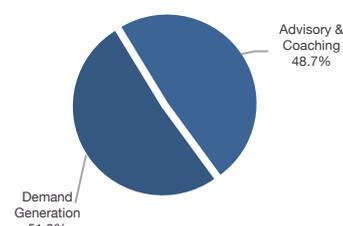
- ◆ Lower size if compared to competitors;
- ◆ Business model fine tuning implies an execution risk and may require additional managerial / technical capabilities, as well as additional funding.

Shareholders Structure



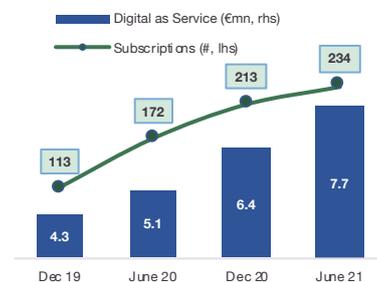
Source: Digital360

FY20 Sales by business line



Source: Digital360

ARR – Annual Recurring Revenues



Source: Digital360, Value Track

Stock multiples @ €5.30 Fair Value

Nosh FD	2021EPF	2022E
EV / SALES (x)	2.7	2.2
EV / EBITDA (x)	14.2	11.3
EV / EBIT (x)	24.0	17.1
EV / CE. (x)	6.8	5.9
OpFCF Yield (%)	5.2	5.7
P / E Adj. (x)	25.7	20.6
P / BV (x)	6.2	5.0
EV / EBIT ADJ. (x)	19.3	14.5

Source: Value Track

Buoyant 1H21 figures

The main message of 1H21 results is that 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, and by organic cash flow generation.

In a nutshell, 1H21 key figures can be summarized as follows:

- Total Revenues up ca. +28% y/y** at ca. €16.2mn, despite the significant reduction of physical events due to pandemic. Top line was driven by higher volumes in both Demand Generation and Advisory & Coaching activities (pushed by the ever-increasing needs of digital transformation of small and medium enterprises) and by the increasing number of SaaS subscriptions, with **ARR at €7.7mn as of June’21**, that is +50% y/y if compared to €5.1mn of June’20;
- EBITDA at €3.74mn (+33 % y/y)**, with EBITDA margin at ca. 23%, above the 22.2% reported in 1H20 as result of:
 - ◆ Higher contribution of SaaS subscriptions, by nature featured by better profitability;
 - ◆ Costs optimization, with lower incidence of direct costs on sales, implying a positive operating leverage.
- Adjusted Net Profit at €1.91mn vs. €1.47mn as of 1H20;**
- Net Debt substantially at breakeven**, to be compared with €3.6mn Net Debt as of end of June 2020, despite €1.0mn tangible and intangible investments and €1.4mn cash out for M&A. We remind that by the end of the year the company should cash in some €1.56mn by the conversion of deep in the money outstanding warrants.

We remind that some of the above mentioned 1H21 figures had been already released back in July and were better than our full year 2021E expectations thus driving an upward revision of our estimates.

Digital360: 1H21A figures vs. 1H20A

(€mn)	1H20	1H21	y/y (% ,mn)
Total Revenues	12.72	ca. 16.2	+28%
EBITDA	2.82	ca. 3.7	+33%
<i>EBITDA Margin (%)</i>	<i>22.2%</i>	<i>23.0%</i>	<i>+80bps</i>
EBITA	1.94	2.82	+45%
Net Profit	0.86	1.37	+60%
Adj. Net Profit	1.47	1.91	+30%
Net Fin. Pos. [Debt (-) / Cash (+)]	-3.6	0.3	--

Source: Digital360, Value Track Analysis

M&A activity is accelerating as well

During the first half of the year DIG has paid €1.4mn cash and issued 770k new shares in order to finance its M&A activity that can be summarized as follows:

- ◆ Buy-out of 49% stake minorities 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, with €1.4mn revenues and €0.4mn EBITDA (EBITDA Margin ~30%) in 2020A.
- ◆ Acquisitions of:
 - **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.

DIG has announced two further M&A deals in the latest few days (the latest yesterday evening):

- ◆ **Gruppo Imageware (51%)**, a marketing and communication agency, which focuses on the main areas: (i) public relations and social media, (ii) production of creativity and communication projects, and (iii) organization of physical and digital events.

The integration of Gruppo Imageware would allow DIG to (i) acquire new TIER1 clients in the technology field, (ii) exploit operating and strategic synergies in communication, event management and lead generation, and lastly (iii) broaden service portfolio in the PR area, that is highly synergistic to all the areas.

Imageware Group achieved revenues at ca. €8mn in FY19, which fell to ca. €6mn in FY20, with y/y decrease entirely attributable to the cancellation of all physical events. On the profitability side, the Group achieved a €0.6mn EBITDA in FY20, thus implying a 10% EBITDA Margin.

The price for the purchase of 51% stake has been set at €2.5mn, including a positive NFP of approximately €2.5mn, and will be paid cash for €2.1mn (€1.1mn at closing, €1.1mn within 12 months post-closing), and up to €0.4mn through the assignment of DIG newly issued ordinary shares. The residual 49% stake is subject to a put & call mechanism, with acquisition price based on 5x EBITDA (average) recorded over the 2021E-23E.

- ◆ **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.

The acquisition was set on two steps: 1) the acquisition of a 25.5% stake for a total consideration of 831K to be paid within 12 months post-closing (totally by cash, or partially through newly issued shares), 2) the second 25.5% stake, valued €750K, to be acquired within May'22.

The residual 49% stake is subject to a put & call mechanism, with acquisition price based on the average EBITDA recorded in the 2021E-23E.

According to our calculations and estimates, summing up all M&A deals should lead to ca ~€10.6mn cash out (€5.5mn in FY21, €1.3mn in FY22 and €3.8mn in FY23), and ~900K new shares issued.

As reported in the table below, the recent M&A activity is highly value accretive, as we calculate ca. 4.9x EV/EBITDA acquisition multiple, much lower than DIG current stock trading multiples.

Digital360: M&A deals 2021 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 Imageware	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
Total			13.14	12.92	1.79	4.3	4.9

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

2021E-23E estimates revision

We already revised upwards our 2021E-'23E estimates back in July after the release of 1H21 preliminary figures to factor in:

- ◆ the strong results achieved so far in 1H21;
- ◆ the positive impact on Net Profit of minorities buy out;
- ◆ the inclusion in the consolidation perimeter of companies acquired in 1H.

As an effect of the two M&A deals just announced we now have to further revise our estimates.

We underline that 2021 actual figures should not be impacted that much, while 2022FY figures should include the recently acquired companies for the whole year. However, for the sake of clarity, 2021PF estimates have been calculated as well.

In details:

- ◆ **Revenue from Sales achieving the €40mn level on a pro-forma basis already as of 2021E**, and expected to exceed the €50mn level in 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 the short term by the lower profitability of Imageware;
- ◆ **Adjusted Net Profit at ca. €5mn in 2022E**;
- ◆ **Net Financial Position being affected by M&A cash out / consolidation of acquired companies cash**, however leaving wide room for further M&A deals.

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

(IT GAAP, €mn)	2021E			2022E			2023E		
€mn	Old	New PF	Δ (%)	Old	New	Δ (%)	Old	New	Δ (%)
Revenues from Sales	32.0	40.0	25.0%	37.7	46.7	23.7%	43.3	53.2	22.8%
Other Revenues	1.7	1.7		1.8	1.8		1.8	1.8	
Value of Production	33.7	41.7	23.7%	39.5	48.4	22.7%	45.1	55.0	21.9%
EBITDA	6.6	7.6	15.2%	7.9	9.2	16.6%	9.1	10.7	18.1%
EBITDA Margin (% Sales)	20.5%	19.0%	0bps	20.8%	19.7%	-119bps	20.9%	20.1%	-80bps
EBIT	3.5	4.5	28.7%	4.8	6.1	27.1%	5.7	7.3	28.7%
Net Profit	2.1	2.7	31.3%	3.0	3.9	29.3%	3.7	4.8	30.6%
Adj. Net Profit	3.2	3.8	20.6%	4.1	5.0	21.6%	4.8	5.9	23.6%
OpFCF after tax	3.0	3.0	0.0	3.5	3.5	0.8%	3.9	4.9	25.4%
Net Financial Position	0.7	-0.8	-1.5	2.8	1.3	-1.5	6.7	2.4	-4.4

Source: Value Track Analysis

Digital360: P&L 2020A-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E
Value of Production	27.6	33.7	48.4	55.0
COGS	-14.3	-18.0	-25.3	-29.0
Labour Costs	-8.3	-9.1	-13.9	-15.3
EBITDA	5.0	6.6	9.2	10.7
EBITDA Margin (%)	19.0%	20.5%	19.7%	20.1%
D&A (ex Goodwill Amortization)	-1.7	-2.0	-2.0	-2.3
EBITA	3.3	4.6	7.2	8.4
Goodwill Amortization	-0.8	-1.1	-1.1	-1.1
EBIT	2.5	3.5	6.1	7.3
<i>EBIT Margin (%)</i>	<i>9.6%</i>	<i>10.9%</i>	<i>13.0%</i>	<i>13.7%</i>
Net financial charges	-0.1	-0.1	-0.1	0.0
Taxes	-0.9	-1.3	-2.1	-2.4
Minorities	-0.5	0.0	0.0	0.0
Net Profit (Loss)	1.1	2.1	3.9	4.8
Net Profit Adjusted	1.9	3.2	5.0	5.9

Source: Value Track Analysis

Digital360: Balance Sheet 2020A-23E

(IT GAAP, €mn)	2020A	2021E	2022E	2023E
Net Fixed assets	9.1	13.7	14.3	17.5
Net Working Capital	3.4	3.9	5.6	6.7
Provisions	1.3	1.7	2.2	2.6
Total Capital Employed	11.2	15.9	17.7	21.5
Group Net Equity	9.8	15.1	19.1	23.9
Net Fin. Pos. [Net debt (-)/ Cash (+)]	-1.4	-0.8	1.3	2.4

Source: Value Track Analysis

Digital360: Cash Flow Statement 2020A-23E

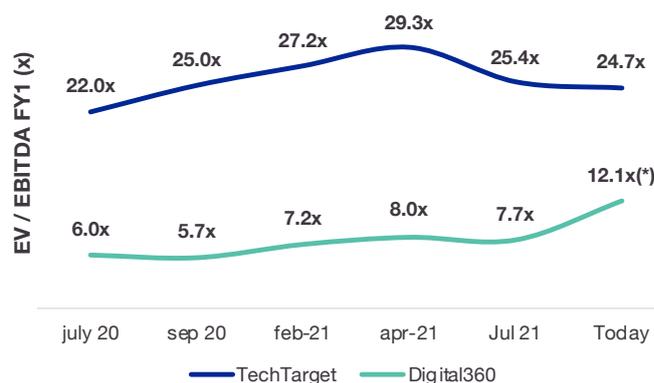
(IT GAAP, €mn)	2020A	2021E	2022E	2023E
EBITDA	5.0	6.6	9.2	10.7
ΔNWC (inc. Δ prov.)	2.4	-0.1	-1.2	-0.7
Capex (not incl. Fin. Inv.)	-1.5	-2.3	-2.4	-2.7
Cash Taxes	-0.9	-1.3	-2.1	-2.4
OpFCF a.t.	5.1	3.0	3.5	4.9
Fin. Investments	-0.1	-5.5	-1.3	-3.8
Net Financial Charges	-0.1	-0.1	-0.1	0.0
Change in Equity	0.0	3.2	0.0	0.0
Change in Net Fin. Pos.	5.0	0.6	2.1	1.0

Source: Value Track Analysis

New fair value at €5.30 (from €4.00)

Taking into account updated financial estimates and AIM Italia comparable stocks rerating, we revise upwards our fair value per share at €5.30 (from previous €4.00) on a fully diluted basis. At fair value, DIG shares would trade at 11.3x EV/EBITDA, 14.5x EV/EBIT Adj. and 20.6x Adj. P/E2022E multiples, still embedding a huge discount vs. its most direct comparable (TechTarget), currently trading at 20.8x 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

Indeed, despite the strong recovery in stock market over the last year, current €4.49 market price does not entirely embed (i) the organic double-digit growth fueled by the steady transition to recurrent revenues model (Digital as a Service business), and (ii) management skills in finalize accretive M&A deals (we calculate a 4.5x EV/EBITDA relating to six transactions occurred so far in 2021, including the buy-out of minority stakes in Service Pro e IQ Consulting).

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
M&A driven growth	<ul style="list-style-type: none"> • Strong capabilities in finalize accretive M&A deals • Attaining huge attractions from small entrepreneurs, • Growth strategy replicable in other countries (no direct competitor)
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 €5.30**, (up from previous €4.00), 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 ~1mn 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 9.6x EV/EBITDA, 16.3x EV/EBIT and 25.0x P/E on 2021E, while DIG – at current €4.49 share price and on 2022 VT expectations – is entailing a 16% discount, which we view as undeserved given its (i) high-quality financials, (ii) 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), and (iii) the low amount of capitalization of internally generated intangible assets.

That's why, we set DIG360 valuation assuming the average EV/EBITDA, EV/EBIT and P/E as fair multiples, and 2022E as reference year, which **gives us a fair equity per share of €5.30 (or ~€104mn fair Equity Value)**.

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	0.9	0.7	11.2	8.5	41.1	20.7	nm	33.6
Cyberoo	5.2	3.1	16.0	6.3	31.5	8.0	nm	13.4
CY4Gate	9.7	6.6	23.5	16.4	36.7	26.1	nm	37.0
Neosperience	2.9	2.2	10.1	7.9	46.0	21.5	nm	33.0
Relatech	2.9	2.3	12.3	9.6	16.6	13.6	21.4	18.2
Unidata	3.3	2.8	8.7	7.3	15.7	13.0	24.3	19.8
Doxee	4.3	3.5	13.2	10.1	23.9	17.6	34.1	24.9
Vantea Smart	2.8	1.7	22.1	8.4	33.8	11.4	49.8	17.7
Reevo	4.2	3.1	17.8	12.0	25.9	16.7	42.0	27.4
Almawave S.p.A.	3.5	2.8	14.4	11.6	23.4	18.9	41.8	30.1
DHH	3.4	2.8	9.1	7.5	15.4	11.4	25.6	19.6
Average	3.9	2.9	14.4	9.6	28.2	16.3	34.1	25.0
Median	3.4	2.8	13.2	8.5	25.9	16.7	34.1	33.6
DIG360 @ mkt price (1)	2.3	1.9	12.1	9.6	16.5	12.3	21.8	17.5
Discount % vs. avg.	-41%	-35%	-16%	0%	-42%	-24%	-36%	-30%
Discount % vs. med.	-33%	-33%	-8%	14%	-36%	-26%	-36%	-30%

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

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