

DHH

Sector: Internet Software and Services

**Analysts****Marco Greco**

+39 02 80886654

marco.greco@value-track.com

Pietro Nargi

pietro.nargi@value-track.com

Ready to take a leap forward

DHH is a tech group that provides “virtual infrastructures” to run websites, apps, e-commerce and SaaS solutions to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration

Leading position in interesting geographies

Nowadays DHH is market leader in Croatia and Slovenia, but also operating in Italy, Serbia and Switzerland. DHH relies on several strengths, such as:

- ◆ **Steadily growing reference market**, driven by the shift towards business digitalization and e-commerce penetration;
- ◆ **Interesting geographic footprint and strong competitive positioning** in such unusual / high growing geographies;
- ◆ **Local-based approach**, i.e. huge efforts have been deployed in rolling out entirely local operations in these non English-speaking markets.

Growth strategy heavily skewed on M&A

So far DHH growth strategy has been focused on scouting, acquiring and integrating small companies. Indeed, DHH has finalized ten successful acquisitions in less than five years, for a total cash-out of around €6mn.

As a result, currently there are seven businesses and ten different brands under management, delivering a broad array of products to 100 thousand plus customers and recording more than 200 thousand active domains.

Double-digit growth and sound cash generation on schedule

The group is expected to deliver positive financial results ahead. We expect:

- ◆ Business expansion at **double-digit CAGR** by 2020E;
- ◆ **Net profit to increase fourfold** in 2020E with respect to 2018A;
- ◆ **Positive cash generation** with >80% EBITDA cash conversion rate;
- ◆ **Increasingly positive net cash position.**

Fair equity value in the €14.2mn-€15.6mn range

DHH “intrinsic” fair value with current unlevered capital structure stands at €14.15mn i.e. €9.5 p.s. (€15.6mn i.e. €10.45 p.s. with a “target” capital structure). Furthermore, we believe that DHH boasts an “intangible” value related to its competitive stance and geographic footprint. Indeed, DHH could be an appealing target /partner for larger companies willing to enter several countries at once without investing a high amount of time and money to implement solutions suitable for those markets starting from scratch. In this case, DHH total equity value might include a €1.5mn-€3.0mn “strategic” value leading to a fair equity value between €10.5 and €11.5 per share.

Fair Value (€) 10.0
Market Price (€) 5.15
Market Cap. (€m) 7.7

KEY FINANCIALS (€'000)	2018A	2019E	2020E
NET REVENUES	5,970	6,900	7,752
EBITDA	534	530	919
EBIT	173	310	704
NET PROFIT	103	221	449
EQUITY	7,571	7,799	8,298
NET FIN. POS.	2,604	3,075	3,760
EBITDA PF (*)	841	880	1,169
EBIT PF (*)	647	660	954

Source: DHH (2018A), Value Track (2019E-20E estimates)
(*) Adjusted for listing costs and non-recurring M&A costs

RATIOS & MULTIPLES	2018A	2019E	2020E
EBITDA MARGIN (%)	8.9%	7.7%	11.9%
EBIT MARGIN (%)	2.9%	4.5%	9.1%
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/EBITDA PF (x)(*)	7.4	5.0	3.1
EV/EBIT PF (x)(*)	9.6	6.6	3.9
P/E ADJ. (x)	nm	24.5	13.9

Source: DHH (2018A), Value Track (2019E-20E estimates)
(*) Adjusted for listing costs and non-recurring M&A costs

STOCK DATA

FAIR VALUE (€)	10.0
MARKET PRICE (€)	5.15
SHS. OUT. (m)	1.49
MARKET CAP. (€m)	7.7
FREE FLOAT (%)	32.8
AVG. -20D VOL. (#)	420
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	4.86-6.50

Source: Stock Market Data



Business Description

DHH is a tech group that provides “virtual infrastructures” to run websites, apps, e-commerce and SaaS solutions to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration.

Nowadays, there are seven businesses under management across five countries (Croatia, Italy, Serbia, Slovenia and Switzerland).

DHH aims to take a leadership position in such countries thus benefitting from the natural growth trend already in place.

Key Financials

€'000	2017A	2018A	2019E	2020E
Net Revenues	5,289	5,970	6,900	7,752
Chg. % YoY	34%	13%	16%	12%
EBITDA	531	534	530	919
EBITDA Margin (% of Net Revenues)	10.0%	8.9%	7.7%	11.9%
EBIT	350	173	310	704
EBIT Margin (% of Net Revenues)	6.6%	2.9%	4.5%	9.1%
Net Profit	245	103	221	499
Chg. % YoY	64%	nm	nm	nm
Adjusted Net Profit	284	148	296	536
Chg. % YoY	5%	-48%	100%	81%
Net Fin. Position	2,481	2,604	3,075	3,760
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	350	92	125	150
OpFCF b.t.	625	256	552	891
OpFCF b.t. as % of EBITDA	118%	48%	104%	97%

Source: DHH SpA (historical figures), Value Track (estimates)

Investment case

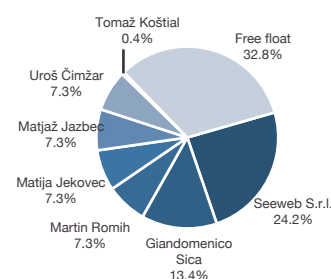
Strengths / Opportunities

- ◆ Excellent geographic footprint, market leader in Croatia and Slovenia
- ◆ Ever increasing reference market, expected to grow at double-digit rate
- ◆ Outstanding track record in digital business and M&A activities
- ◆ Sound Cash Flow generation deriving from subscription-based business model

Weaknesses / Risks

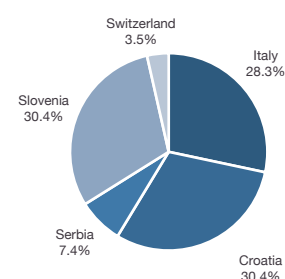
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players
- ◆ High incidence of listing and other non-recurring costs

Shareholders Structure



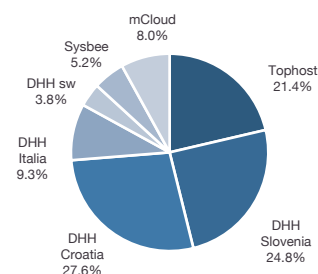
Source: DHH SpA

Sales breakdown by country



Source: DHH SpA

Sales breakdown by legal entity



Source: DHH SpA

Stock multiples @ €10.0 Fair Value

	2019E	2020E
EV / SALES (x)	1.7	1.4
EV / EBITDA PF (x)	13.4	9.5
EV / EBIT PF (x)	17.9	11.7
EV / CAP.EMP. (x)	2.5	2.5
OpFCF Yield PF(%)	7.6	10.3
P / E (x)	49.1	27.8
P / BV (x)	1.9	1.8
Div. Yield. (%)	0.0	0.0

Source: Value Track

DHH business profile

A small tech group leader in the emerging digital markets

DHH is a tech group that provides “virtual infrastructures” to run websites, apps, e-commerce and SaaS solutions across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration.

Thanks to its rapid growth DHH is nowadays a small group leader in European “**unusual geographies**” such as Balkans (**Croatia, Slovenia**), but also operating **in Italy, Serbia and Switzerland**, providing a broad array of services through ten brands.

It delivers solutions to one hundred thousand plus customers, mainly business ones ranging from small to mid-sized entities, as well as to large enterprises.

The group provides simple and flexible products to its customers in order to establish, build and increase their online presence and visibility.

So far, DHH has focused on **web domain registration and web hosting services** (from simple share hosting to more sophisticated solutions as virtual private server, cloud and managed hosting services),

In the meanwhile, the company is always looking for expanding its core business into cloud computing field, as for example the inside cloud computing unit created and expected to be test in the Slovenian market, but it is also working on introducing new web hosting packages across businesses with a focus on non-traditional web hosting services, such as managed hosting, WordPress hosting and other kinds of vertical hosting.

Business perimeter: web services to help corporates optimize their digital presence

The strategic goal of DHH relies mostly on providing corporates with simple and flexible digital products, to establish, build and increase their online presence and visibility.

Among the several examples of potential products / services that a full-range web service solutions provider such as DHH group can offer we highlight:

1. Products / Solutions aimed at **getting corporates online**, such as:
 - **Domain Registration, Management and Resale;**
 - **Website Builders**, that enable subscribers to create a customized web presence with varying degrees of technical sophistication;
 - **Web Hosting**, which include a set of products, services and resources that share storage, bandwidth and processing power, enabling subscribers to create an initial web presence quickly;
 - **Security tools**, offering malware protection solutions to protect subscribers’ websites from virus, malicious code and other threats. In this category are also included Secure Socket Layer (SSL) certificates, which encrypt data collected on a subscriber’s websites;
 - **Site Back-up**, allowing subscribers to schedule, maintain, manage and restore backups of their online data.
2. Products / Solutions aimed at **making corporates more and more visible online** through:
 - **Search Engine Optimization (SEO) and Search Engine Marketing (SEM)**, helping subscribers to distribute their business profiles to online directories and manage links and keywords with on-page diagnostic tools;
 - **Mobile solutions**, enabling subscribers to have their websites rendered on mobile devices and target mobile customers among other features and functionality;
 - **Analytic tools**, providing control panels and dashboards that enable subscribers to assess their website activity and the impact of their digital presence and marketing campaigns.

3. Products / Solutions aimed at **helping SMEs to grow their online business** such as:
- **Advanced Web Hosting**, as for instance Virtual Private Server (VPS) or dedicated / managed hosting solutions which allow customers to scale their growing business and build additional functions into their websites;
 - **Productivity solutions**, which include custom mailboxes that reflect a subscriber's domain name and tools to unify email inbox with other communications streams, such as social media feeds;
 - **Professional services**, among which dedicated engineering and web design to help customers create their ideal presence complete with some of the more advanced eCommerce, productivity and marketing products.

Worthy of notice, we'll see later on how DHH is moving from the above-mentioned products / services and adding more and more "cloud computing" capabilities.

Ten acquisitions in just four years, building an ecosystem of independent businesses

DHH investment strategies so far have been focused on scouting, acquiring and integrating small companies, with the aim of building up an ecosystem of independent businesses.

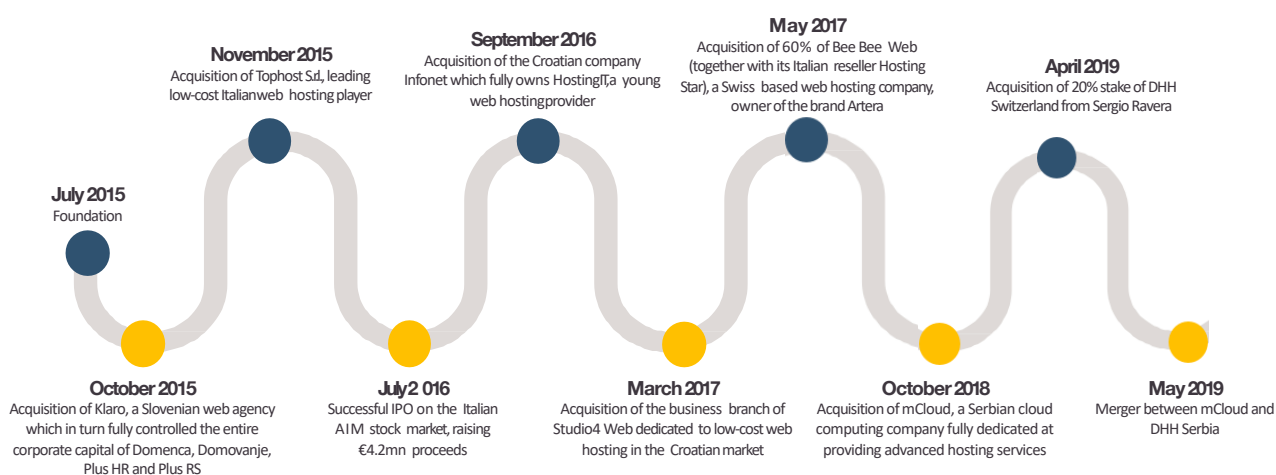
Despite being a young player, (its foundation occurred as of October 2015), DHH has already invested ca. €6mn by finalizing 10 successful acquisitions.

A proof of the strong ability in value creation through M&A may be found in the latest transaction, that is the acquisition of 62% stake in mCloud for a total cash out of €195K and corresponding to a €315K valuation of the entire share capital.

Such acquisition has been, indeed value accretive since the relating company is involved in the fast-growing cloud computing industry and recorded a double-digit growth in bookings and Gross Sales at end of June, standing at ca. €200K.

Worthy of notice, the group relies on a full commitment of all founders, who together with the top management team bring in-depth skills in management of M&A deals origination and execution.

DHH: M&A deals and other historical deals



Source: Value Track Analysis

Group structure based on an industrial conglomerate approach

DHH approach is built around the concept of an ecosystem with a common theme in which tech-entrepreneurs can innovate, share best practices, build together and grow as part of the group of like-minded people.

- ◆ **Ecosystem of independent businesses.** Each acquired company stays independent with its own brand, organization and management team. Instead, DHH offers support in different areas like financing, technology, business development;
- ◆ **Long-term relationship.** DHH's strategy is based on the belief that investing in businesses for the long-term is the only sure way to sustainable returns;
- ◆ **Synergies, not integrations.** DHH stimulates cooperation between the members of the group thus fuelling bottom-up synergies in:
 - i) SG&A through the optimization of IT, sales and physical infrastructure;
 - ii) Cross-selling activities;
 - iii) Knowledge creation and sharing among different businesses.

DHH subsidiaries: Market positioning

Companies	Domains	Hosting	Server	Managed infrastructure
Tophost	+++	+++	-	-
DHH Slovenia	+++	+++	+	-
DHH Croatia	+++	+++	+	-
Sysbee	-	-	+++	+++
DHH Switzerland	+	++	+++	++
DHH Italia	+	++	+++	++
mCloud	+	+	+++	-

Source: DHH, Value Track analysis

In-depth and proven turnaround capabilities in revamping acquired assets

Another feature of DHH relies on the significant experience and capability gained over the years in revamping acquired asset from a technological and financial point of view, delivering strategic thinking, technology solutions, marketing know-how and other best practices.

A hint of this approach can be shown by the “Tophost turnaround”, which led to an overall improvement of key indicators such as booking trends, customer renewals, net adds, and lifetime values.

A further example of the central role of this strategy in DHH vision comes also from the launch at SMAU Padova meeting of the so-called “**CloudSeed – Startup Turnaround**” project through a Joint Venture Agreement with its shareholder and technological partner Seeweb, a company which provides cloud computing and datacentre services worldwide.











CloudSeed is looking for startups in the web hosting, SaaS and cloud computing industry who did not succeed for different reasons (pricing/cost issues, lack of a stable business model or simply for a poor marketing activity, etc...) but with founders still confident and motivated for taking up such projects again under the supervision of DHH and Seeweb turnaround experts.

An extremely flexible array of products tailored to local needs

Another benefit of such structure is that the group is able to tailor its solutions/services on a local basis depending on the market competition, the market share and in particular the professional level of addressed final users, mainly small and medium corporates or professionals/artisan which require online presence and visibility.

In terms of final products, handling ten different brands across five different countries, the group is able to provide a well-diversified array of products: from entry level solutions, like the simple domain registration or affordable web hosting products, to high-end solutions like managed hosting and cloud hosting services.

DHH: Brands currently managed

Brand	Legal entity
	<p>Tophost</p> <p>Italian subsidiary providing entry level solutions to more than 46,000 customers, still keeping the status of the lowest-cost web hosting provider in Italy with a ca. 3% market share in the domestic field.</p>
  	<p>DHH Croatia</p> <p>It is the largest hosting provider in Croatia, with 25% of market share, and total number of customers more than doubled in three years, establishing at ca. 20,000. The three own brands (Plus hosting, Studio4web, Infonet) provide a broad array of services, from low-cost hosting solutions to managed hosting services addressed to high end customers.</p>
 	<p>DHH Slovenia</p> <p>It is the leading provider in Slovenia (i.e. the largest registrar of .eu and .si domains) managing two brands, Domenca which provides domain registration service and Domovanje, the web hosting provider.</p>
 	<p>mCloud</p> <p>It manages two brands, Plus hosting, already among top ten Serbian registrars for rs. ccTLD domains with ca. 3,900 customers and mCloud – the cloud computing provider – delivering its products to 1,900 active clients.</p>
	<p>DHH Switzerland / DHH Italia</p> <p>Italian/Swiss brand that offers premium hosting and cloud services and application support designed to meet not only needs of companies and web professional, but also of important portals and e-commerce projects.</p>
	<p>Sysbee</p> <p>Recently established Croatian vehicle focused on managed hosting, resulting from the spin-off from DHH Croatia it counts ca. 30 active clients.</p>

Source: Value Track Analysis

What we like of DHH

Global reference market growing at a double-digit pace by 2023E

Web hosting is a high growth market and fast-paced industry, in a constant changing digital landscape. Indeed, currently there are around 2bn websites worldwide, doubled in less than five years and more than 1,500 domain name extensions (TLDs), a huge number if compared to nine domain names available in the early phases of the internet era.

The shift towards business digitalization, as well as the e-commerce penetration and the increased smartphone ownership are the key drivers underlying the **web hosting market growth, expected to keep witnessing a strong development in the foreseeable future**. Here follow a few hints provided by the latest market research published by *Market Research Future* (May 2019):

- ◆ The **web hosting services global market** is estimated to grow at **ca. 16% CAGR by 2023E**, at ca. \$76.2bn total turnover;
- ◆ Based on the specific product type, the segment represented by the **website builder is expected to retain its dominant market share**, projected to rise at 14.6% CAGR;
- ◆ Looking at geographic areas, **North America** should maintain its foremost market share whilst Europe is expected to remain a highly profitable market, with Germany leading the market, registering a 20% CAGR over the forecasted period.

Similar findings in terms of expected market growth are detailed in the report released by *Technavio*, that states how:

- ◆ The global web hosting services market is forecasted to experience a ca. 13% CAGR^{19E-23E};
- ◆ About half of total growth will come from the US market;
- ◆ The **growing adoption of cloud computing services would fuel the growth of the web hosting services market over the next five years**, since several companies are switching their business operation from on-premise to cloud as it helps efficiency and reducing operational costs.

Last but not least, we mention the statistics recently published by *FinancesOnline* stressing how the web presence for a modern company is as important as the quality of their services. Indeed, **ca. 66% of person being interviewed say website performance influences how they perceive a business**, 35% are less likely to buy from a poorly performing website, and 33% generate a negative impression of a business with a low-quality website”.

However, while the latter is managed by the company, the website performance basically depends on the hosting provider, aside from a multitude of other factors.

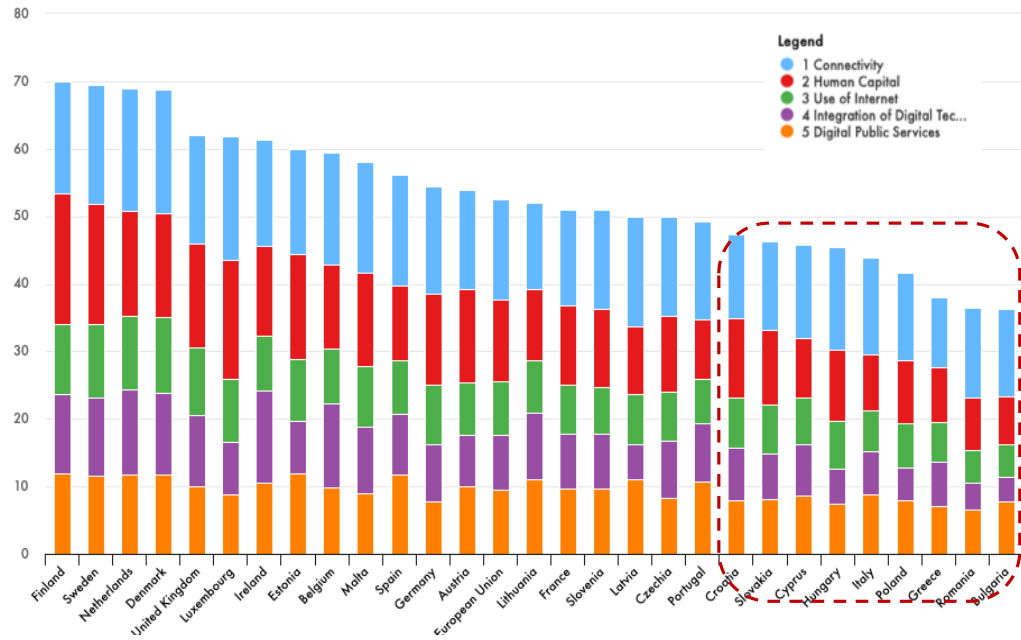
DHH's unusual geographies embedding a higher growth potential

Due to lower maturity in terms of internet utilization rates and digital technology integration, **the so-called unusual geographies in which DHH is active are expected to undertake significant growth opportunities**. An easy proof of the potential of these countries comes from the latest analysis of the *Digital Economy and Society Index* (DESI) for the year 2019, a composite index that summarizes some 30 relevant indicators on Europe's digital performance and tracks the evolution of EU Member States, across five main dimensions:

- ◆ Connectivity;
- ◆ Human Capital;
- ◆ Use of Internet;
- ◆ Integration of Digital Technology;
- ◆ Digital Public Services.

Although the index has increased over the last years in Slovenia Italy and Croatia, values remain below the European Union averages.

Digital Economy and Society Index (DESI) 2019



Source: European Commission, Digital Scoreboard

By looking at the use of internet in the unusual geographies, i.e. Balkans countries and central-eastern European ones, it is clear how the gap in terms of internet penetration vs. the European average is still wide. Indeed, excluding Croatia, Hungary and Slovakia which are showing satisfactory ratios above the mean, the remaining countries still have much to do in this regard.

Further, **these geographies are extremely favourable also to test and launch scalable digital businesses**, thanks to the number of talents available in these areas at very competitive costs.

Internet penetration rate in the unusual geographies, June '19

European unusual geographies	Population	Internet use	Penetration (%)
Serbia	8,733,407	6,325,816	72.4%
Slovenia	2,081,900	1,663,795	79.9%
Croatia	4,140,148	3,787,838	91.5%
Romania	19,483,360	14,387,477	73.8%
Albania	2,938,428	2,160,000	73.5%
Bosnia-Herzegovina	3,501,774	2,828,846	80.8%
Hungary	9,655,361	8,588,776	88.9%
Bulgaria	6,988,739	4,663,065	66.7%
Montenegro	629,355	448,541	71.3%
Slovakia	5,450,987	4,629,641	84.9%
North Macedonia	2,086,720	1,592,376	76.3%
Europe (avg)			84.4%

Source: Internet World Stats

In such an interesting geographic footprint DHH has a strong competitive positioning

The web hosting market is extremely competitive, with lots of players ranging from tech giants to small houses/farms, but at the same time it is **highly domestic by nature**, with local-based companies continuing to play a key role.

Indeed, if most providers are forced to keep up with the competitive pricing set by the major players, on the other side clients often prefer local services.

For instance, based on the dataset published by *HostAdvice*, eight out of the top ten hosting providers in France are local companies, while in Italy, seven out of ten biggest web hosting providers are Italian. The same trend applies also in the other countries DHH is currently operating, in which top ten companies are all almost local-based and boast a significant market share.

Market concentration by country

Country	Local companies among top10	Top10 cumulated mkt share (%)
Switzerland	10/10	49.3%
Italy	7/10	83.0%
Slovenia	10/10	44.0%
Croatia	9/10	54.4%
Serbia	10/10	78.1%

Source: *HostingAdvice.com*

Unfortunately, it remains quite difficult to get reliable public data on the current market share each brand under DHH management currently holds, since most market data are based on the combination of crawler data, DNS records (sometimes not including ccTLDs), or base their assumptions on Alexa rating (the rank is based on customers' feedback).

However, if we use as a proxy the number of active clients and of ccTLD, which refers to country code top-level domain and differs from the number of hosted websites, we calculate that **DHH is among top leading companies in their respective countries, especially in Croatia and Slovenia**, while are steadily working to reach such rank in Italy, Serbia and Switzerland.

DHH: Customer base, number of ccTLD domain by country, market shares

Country	Active clients (#)		ccTLD domain Market share (%)
	December '18	June '19	
Switzerland	162	204	n.a.
Italy	47,461	47,947	2.6% of .it
Slovenia	22,990	24,619	28.1% of .si
Croatia	18,927	19,370	23.4% of .hr
Serbia	5,519	5,815	7.0% of .rs
Total Group	95,059	97,955	n.m.

Source: *DHH Management Accounts, Various*

DHH should continue to push for M&A growth with a focus on cloud computing

Since foundation, many efforts have been put in place in pursuing growth by external lines, and for sure this will be the way forward. As also reported in the corporate presentation, the “investment thesis” formulated by the management strongly relies on three main guidelines:

- ◆ **Market consolidation** in those areas the group already owns a platform company, acquiring small to mid-size companies in the web hosting and cloud computing field;
- ◆ **Business expansion** through the acquisition of mature companies involved in the same business, allowing the group to enter into new “unusual geographies” such as other countries in the Balkans (Bosnia, Albania, Macedonia) and central-eastern Europe ones (Bulgaria, Romania, Slovakia, Hungary);
- ◆ **Investing in innovation**, looking worldwide for small passionate teams with compelling ideas, proven traction and bold ambitious with a clear focus in new digital technology, not strictly but closely related to DHH activities.

DHH financials coupling double digit top line growth with sound cash generation

Moving to numbers, main financial features which in our view deserve to be mentioned relate to:

- ◆ **Double-digit business expansion**, expected to continue in the forecasted period, mainly due to the acceleration of Sysbee and mCloud - i.e. the internal start-up and the newly acquired company respectively - together with a significant market consolidation in Slovenia thanks to the development of the cloud computing unit and the increasing focus on high-end solutions;

DHH: Gross sales by legal entity

Legal entity (€ '000)	1H17	1H18	1H19	2018A	2019E	2020E
Tophost	0.63	0.76	0.74	1.46	1.51	1.60
DHH Slovenia	0.73	0.75	0.86	1.45	1.74	2.02
DHH Croatia	0.96	1.07	0.96	1.91	1.94	2.04
DHH Serbia	0.05	0.07	0.07	0.15	-	-
DHH Italia	0.12	0.37	0.32	0.70	0.67	0.70
DHH Switzerland	0.06	0.12	0.13	0.23	0.28	0.30
Sysbee	-	-	0.18	0.17	0.43	0.56
mCloud	-	-	0.20	0.10	0.61	0.86
Tot Aggregated Gross Sales (*)	2.54	3.13	3.48	6.16	7.19	8.08
YoY Growth (%)	n.a.	23%	11%	12%	17%	12%

Source: DHH, Value Track Analysis

(*) Before intra-group elisions

- ◆ **Steadily positive cash generation (cash conversion ratio ranging from 70% to 90%)**, coming from the combination of:
 - Favourable working capital dynamics, specific of a SaaS company, as the group benefits from getting paid spot and delivering its services at sequent stages;
 - Low capital expenditures needs, highlighting the scalability of DHH business model.
- ◆ **Absence of any costs capitalization**, meaning EBITDA fully reflects operating profitability;
- ◆ **Positive Net Cash position (ca. €3mn)**, allowing further M&A transactions.

DHH: Income Statement 2018A-2020E

(€'000)	2018A	2019E	2020E
Revenues from Sales	5,970	6,900	7,752
Other Revenues	337	31	37
Value of Production	6,307	6,931	7,789
COGS	-3,957	-4,333	-4,845
Labour Costs	-1,816	-2,068	-2,025
Reported EBITDA	534	530	919
D&A	-361	-220	-215
Reported EBIT	173	310	704
Net interest income / expense	-20	-15	-10
Pre-tax profit	153	295	694
Taxes	-52	-74	-181
Minorities	1.4	0.0	-15.0
Reported Net Profit (Loss)	103	221	499
Pro-forma EBITDA (*)	841	880	1,169
Pro-forma EBIT (*)	647	660	954
Pro-forma Net Profit (*)	526	484	684

Source: Company figures, Value Track Analysis

(*) See Appendix for detailed calculation of Pro-forma figures

DHH: Cashflows Statement 2018A-2020E

(€'000)	2018A	2019E	2020E
Reported EBITDA	534	530	919
Op. WC requirements & Chg. in provisions	-185	148	122
Capex (not incl. Fin. Inv.)	-92	-125	-150
Cash Taxes	-52	-74	-181
OpFCF a.t.	205	478	710
Other (incl. Fin. Inv.)	-61	0	-15
Net Financial Charges	-21	-15	-10
Change in Net Fin Position	123	463	685

Source: Company figures, Value Track Analysis

DHH: Balance Sheet 2018A-2020E

(€'000)	2018A	2019E	2020E
Net Fixed Assets	6,171	6,076	6,011
Net Working Capital	-1,172	-1,313	-1,427
M/L Term non-financial liabilities	32.6	39.1	46.0
Net Invested Capital	4,967	4,725	4,538
o/w Group Net Equity	7,571	7,792	8,291
Net Financial Position	2,604	3,068	3,753

Source: Company figures, Value Track Analysis

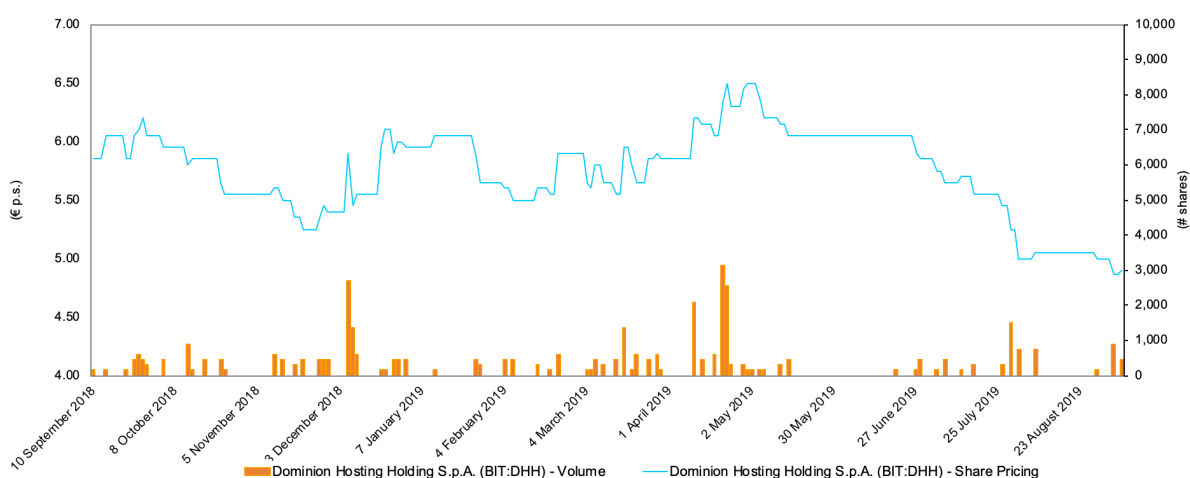
Valuation

At current €5.15 stock price, DHH has a €7.7mn market capitalization which implies very cheap multiples: 3.3x, 4.1x, 3.4x, EV/EBITDA EV/EBIT, and EV/OpFCF respectively, calculated on 2020E pro-forma figures (i.e. gross of listing costs and of M&A expenses).

We view such situation as the result of the extremely low traded volumes that make, in our view, almost totally meaningless these “apparent” implied multiples.

Indeed, In the latest year DHH has cumulated only 39.5k shares traded (€230k share turnover value) in 73 days of active trading (i.e. it has not traded for 178 days) as everybody was manifestly waiting for bonus shares allocation. Indeed, 80% of IPO subscribers has maintained its shares for the latest three years (results announced back at the start of September).

DHH: Share Price evolution



Source: S&P Capital IQ

AIM Italia: Stock market performance of companies active in the “digital” sector

	Abs. Perf. (%)			52 weeks			Curr. Pr. Vs.	
	1m	3m	1y	High	Low	Width (%)	High	Low
AMM Group	19.7	-0.7	nm	4.70	2.70	74.0	-29.5	22.7
Digital360	-5.8	-11.0	-33.3	1.38	0.84	65.3	-33.7	9.6
Digitouch	-2.6	5.7	3.2	1.69	1.17	44.4	-23.4	10.7
Expert System	-5.0	9.0	124.5	3.80	1.12	239.3	-31.6	132.1
Go Internet	0.3	1.0	18.2	1.84	0.83	121.2	-21.2	74.3
MailUp Group	11.2	33.2	95.1	4.80	2.20	118.2	-8.8	99.1
Maps Group	4.7	-14.1	nm	5.60	1.90	194.7	-38.6	81.1
Neosperience	-6.4	3.1	nm	14.30	3.50	308.6	-32.9	174.3
Prismi	-3.2	-10.0	-26.9	2.80	1.81	54.7	-33.9	2.2
Vetrya	0.9	-0.3	-9.9	7.90	4.39	80.0	-14.9	53.1
Average	1.4	1.6	24.4				-26.8	65.9
DHH	-2.8	-19.7	-21.6	6.50	4.86	33.7	-25.2	0.0

Source: Market Consensus, Bloomberg, S&P Capital IQ, Value Track analysis

Worthy of notice, such vicious circle of low traded volumes has determined an unbelievable underperformance of DHH vs. the majority of AIM Italia stocks in the digital sector. In the latest 12 months DHH shares are down by ca. 20% while AIM Italia peers, on average, are up by ca. 25%. DHH is currently at its 12 months lows while AIM Italia peers are, on average, up +65% vs. their lows.

In our view, **the intrinsic Enterprise Value of DHH in a standalone scenario stands at ca. €14.2mm (ca. €9.50 per share)** which corresponds to 8.9x, 10.9x, 9.1x, EV/EBITDA EV/EBIT, and EV/OpFCF respectively, calculated on 2020E pro-forma figures (i.e. gross of listing costs and of M&A expenses). This value is DCF based and cross checked with Italian digital peers, as:

- ◆ DCF best represents the intrinsic value of DHH cash flows, even if it underestimates the strategic value of its geographic and competitive positioning;
- ◆ Peers analysis returns not very “robust” results as:
 - Comparison with Anglo-Saxons peers is hardly applicable;
 - Comparison with small size continental Europe peers is methodologically fair but multiples are very high;
 - Comparison with AIM Italia “digital” peers is ok and leads to ca. €9.5 fair value p.s. but we note a high dispersion of multiples among peers;

On top of this value we believe fair to assign a strategic value of DHH geographic and competitive positioning. Obviously, such a value would be better exploited in case an M&A deal arises on DHH.

Let's analyse in more details the above-mentioned points:

Comparison with Anglo-Saxons Peers: inapplicable

Most comparable firms for valuation purposes relate to international companies involved in the web hosting and cloud computing market such as Wix.com, GoDaddy and Shopify just to make a few names. Unfortunately, these companies cannot be compared to DHH both in terms of size and geography, since they are worthy billions of dollars and are listed in so different markets (mainly in US), highlighting astonishing multiples in the 2.0x-10.0x EV/Sales range.

Just to give an extreme example, the cloud based multichannel commerce platform Shopify is now trading at ca. 27x EV/Sales as its shares have sky scraped more than 200% since January 2019.

Shopify: What a grateful year, currently trading at 27x EV / Sales 2019E!



Source: Bloomberg, Market Screener

Comparison with small European peers: methodologically ok but very high multiples

Looking at continental Europe peers (ex Italy) there are few companies that are similar to DHH in terms of business model, size and listing on MTF / growth markets. One of these is a Spanish company named Gigas Hosting, (€8.7mn, €1.6mn, €0.1mn Revenues, EBITDA, EBIT 2018A respectively), listed on MAB (Mercado Alternativo Bursátil, the “growth” segment of Bolsas y Mercados Españoles) that boasts a €30mn market capitalization i.e. 2.0x-11.8x-30.0x-4.6x EV/Sales, EV/EBITDA, EV/EBIT, P/BV 2020E respectively.

Should we apply the above-mentioned multiples to DHH we would get a fair value which is double or triple its current market price.

Comparison with Italian “digital” peers: multiples are scattered, where’s the truth?

We use as comparable firms SaaS (Software as a service) companies listed on AIM Italia stock market, which software is licensed or delivered on a subscription basis.

Even though the reference market is not always similar to DHH’s one, we assume as rationale (i) the share size factor and (ii) the underlying capital market, that is AIM Italia.

Identified EV/Sales, EV/EBITDA and EV/OpFCF b.t. as the most suitable multiples, we calculate that DHH is trading at high discount (on average at ca. 50% on reported figures, and ca. 60% on a pro-forma basis), completely undeserved given its double-digit growth rate stance together with sound cash flow generation and the value creation the M&A related value creation skill the group has shown over the years.

Applying SaaS Italian peers’ multiples leads to a **€9.40 fair value of DHH shares, corresponding to a total Equity value of €14.0mn.**

DHH: Peers’ stock trading multiples

Company	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF b.t. (x)	
	2019E	2020E	2019E	2020E	2019E	2020E
MailUp Group	1.0	0.8	11.4	7.9	17.5	10.9
Prisimi	1.7	1.3	10.2	7.1	12.8	8.7
AMM Group	1.2	0.8	6.9	3.8	8.0	3.9
Maps Group	1.5	1.2	6.6	5.2	8.7	6.5
Neosperience	4.2	2.9	15.3	11.5	18.2	12.3
Median	1.5	1.2	10.2	7.1	12.8	8.7
DHH PF @mkt price	0.7	0.5	5.2	3.3	5.1	3.4
<i>DHH discount vs. Median</i>	-53%	-58%	-49%	-53%	-60%	-61%

Source: Market Consensus, Value Track Analysis

Discounted Cash Flows at unlevered capital structure and at “target” one

Our “base case” DCF model assumes the current capital structure which highlights a Net Cash Position of ca. €3.1mn at the end of 2019E and an overall **Cost of Equity at 12.2% obviously equal to WACC**. The detailed calculation is based on the following assumptions:

- ◆ 2.0% Risk-free rate, 0.9x unlevered beta (average of internet, entertainment, software sectors), 9.0% Italian ERP (source: Damodaran, January 2019), 2.0% small size/ liquidity risk premium;
- ◆ Explicit financial statements projections from 2020E up to 2028E and Terminal Value at 2029E, obtained applying a 2% Perpetuity Growth Rate (PGR).

The result is a **€14.1mn fair equity value (€9.50 per share)**.

DHH: Discounted Cash Flow based on unlevered capital structure

(€'000)	
PV of future cash flows FY20E-FY28E	5,586
PV of Terminal value with PGR at 2%	5,484
Fair Enterprise value	11,070
Net Cash Position 2019E Year-End	3,075
Fair Equity value	14,145
Fair Equity value per share (€)	9.50

Source: Value Track Analysis

DHH: Fair Equity Value (p.s.) - Sensitivity Analysis

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	11.2%	9.81	9.91	10.02	10.13	10.25
	11.7%	9.56	9.65	9.75	9.86	9.97
	12.2%	9.31	9.41	9.50	9.60	9.71
	12.7%	9.08	9.17	9.26	9.36	9.46
	13.2%	8.86	8.94	9.03	9.12	9.22

Source: Value Track Analysis

If we now simulate a DCF model based on a target capital structure, with Debt at 30% of the Total Capital Employed and free cash flows remaining unchanged, we get a fair **equity value of €15.6mn (€10.45 per share)** as WACC would stand at 11.2%, driven by a cost of equity equal to 14.8% (beta levered at 1.2x) to be averaged with the much lower cost of debt.

DHH: Discounted Cash Flow based on “target” capital structure

(€'000)	
PV of future cash flows FY20E-FY28E	5,840
PV of Terminal value with PGR at 2%	6,662
Fair Enterprise value	12,502
Net Cash Position FY18	3,075
Fair Equity value	15,557
Fair Equity value per share (€)	10.45

Source: Value Track Analysis

Additional “intangible” value may be interesting for bigger players

We believe that DHH small size leads to not properly quantify its “intangible” value, mainly relying on its competitive stance and geographic footprint. Indeed, DHH boasts several strengths, such as:

- ◆ It is **active in a fast-growing reference market**;
- ◆ It has **proven M&A skills** that allow it to accelerate business expansion on top of organic growth;
- ◆ It relies on **interesting geographical footprint**, i.e. it operates in five promising countries with high growth opportunities, where it boasts **leading market shares**;
- ◆ It made many efforts in **locally managing relationships and communication with customers**, working in a multicultural environment.

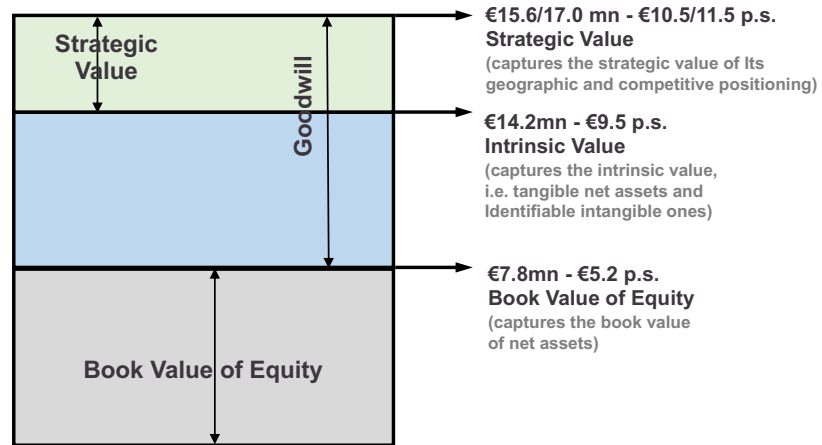
In particular, we believe that DHH “deep” local presence in several non-English speaking countries represents a material added value as all the costs / efforts needed to start operations in these countries adapting to local needs has been already positively finalized. If bootstrapping a country needs at least €0.5mn, the five countries presence of DHH implies an **intangible value of at least €2.5mn**.

For these reasons, we believe **DHH could be an appealing target for larger companies** active in the cloud computing / web hosting market and willing to enter several countries at once, since they would gain on the “dirty work” made in the recent years by DHH and would not need to invest a high amount of time and money to implement and provide solutions suitable for those market starting from scratch.

Indeed, in case of a possible M&A deal affecting DHH not as a bidder but rather as a target (or as one of the parties in a merger of equals), we believe that the **total equity value of DHH should include a “strategic” value** related to all invisible (intangible) assets.

Pointing at €1.5mn-€3.0mn strategic value would not be surprising in our view and would lead to a **fair equity value in the €15.6mn-€17.0mn range, or between €10.5 and €11.5 per share**.

DHH: Material upside in an M&A scenario



Source: Value Track Analysis

Appendix: Reconciliation between reported and pro-forma figures

Pro-Forma figures are adjusted for excess or non-recurring and extraordinary components such as:

- ◆ Extraordinary costs not related to core business;
- ◆ Direct and indirect costs related to the holding company;
- ◆ Cost related to being publicly listed or to M&A activities;
- ◆ Costs arising from write-downs, revaluations, disposals etc.

DHH: From reported to pro-forma

(€'000)	2018A	2019E	2020E
EBITDA Reported	534	530	919
Holding & Listing Costs (recurring)	250	250	200
Non-recurring costs (M&A etc..)	57	100	50
EBITDA Pro-Forma	841	880	1,169
EBIT Reported	173	310	704
Holding & Listing Costs (recurring)	250	250	200
Non-recurring costs (M&A etc..)	57	100	50
Other	168	0	0
EBIT Pro-Forma	647	660	954
Net Profit Reported	103	221	499
Holding & Listing Costs (recurring)	250	250	200
Non-recurring costs (M&A etc..)	57	100	50
Other (Tax effect)	117	-88	-65
Net Profit Pro-Forma	526	484	684

Source: Company figures, Value Track Analysis

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