Dominion Hosting Holding

Sector: Internet Software and Services

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Building the Internet platform of the Emerging Markets of Europe

DHH is an industrial investment company, active in the European SaaS based web services / cloud computing market with a focus on areas with higher growth opportunities thanks to lower digital penetration.

Creating market leaders in "unusual geographies"

So far, the company has invested in the Domain name registration and Web hosting segment, providing clients with flexible digital products to establish, build and increase their online presence. Future company strategy relies on:

- Consolidating market shares in South and East Europe;
- Enlarging business perimeter, with a well-defined focus on cloud computing market.

Growth mainly driven by successful acquisitions

In the latest two years, the company has finalized several acquisitions. Thanks to top managers' outstanding track record in this business, combined with innovative inter-disciplinary approach, the company is showing significant skills in executing value creation strategies, as:

- Financial and technological revamping of acquired assets;
- Early stage companies support helping them overcoming initial hurdles acting as a technological incubator.

Double-digit growth, margin improvements, excess cash

DHH revenues are small (ca. €5mn turnover) but growing fast (ca. 15% CAGR in the next three years, driven by both client base expansion and introduction of high value products) and with high visibility as an effect of the subscription based model.

Due to its size the company is not massively profitable yet (EBITDA margin above 12% in 2018E) but it generates high cash as EBITDA cash conversion is structurally close to 100% (76% after tax).

Fair Value at €10.2 per share

Based on current perimeter of consolidation and on current number of outstanding shares we calculate a €10.2 fair value per share compared to current €7.4 market price. This is consistent with a €9.6 fully diluted fair value that assumes that some 84k new (bonus) shares are issued for free in July 2019.

We note that for those investors that subscribed the IPO back in July 2016 and maintain their shares up to July 2019, a €10.2 exit price would imply a ca. 15% IRR as their carrying value adjusted for bonus shares and fiscal incentive stands at ca. €6.8 per share.

Fair Value (€)	**10.20**
Market Price (€)	**7.40**
Market Cap. (€m)	**10.5**

KEY FINANCIALS (€'000)	2016A	2017E	2018E
REVENUES	3,948	5,341	6,403
EBITDA	335.6	471.9	785.8
EBIT	234.8	336.9	590.8
NET PROFIT	155.2	247.5	431.8
EQUITY	7,052	7,300	7,732
NET FIN. POS.	3,185	2,346	2,961
EPS ADJ. (€)	0.11	0.17	0.30
DPS (€)	0.01	00.0	00.0

Source: DHH (historical figures), Value Track (2017E-18E estimates)

RATIOS & MULTIPLES	2016A	2017E	2018E
EBITDA MARGIN (%)	9.0	8.8	12.3
EBIT MARGIN (%)	5.9	6.3	9.2
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x)	2.4	1.5	1.2
EV/EBITDA (x)	26.3	17.3	9.6
EV/EBIT (x).	nm	24.2	12.8
P/E ADJ	48.9	40.2	24.3

Source: DHH (historical figures), Value Track (2017E-18E estimates)

STOCK DATA	
FAIR VALUE (€)	10.2
MARKET PRICE (€)	7.4
SHS. OUT. (m)	1.4
MARKET CAP. (€m)	10.5
FREE FLOAT (%)	29.6
AVG. -20D VOL. ('000)	0.42
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	7.22-10.00

Source: Stock Market Data

Executive summary

A young company with high growth opportunities

DHH is a young and dynamic player active in the **SaaS base web service / cloud computing industry**, offering a wide spread of products / services to ca. 100,000 customers through eight owned brands across the **so-called "unusual geographies"**, i.e. countries with lower "digital" penetration and therefore higher growth opportunities with respect to more advanced markets.

Indeed, since its foundation occurred in the recent 2015, DHH activity has been focused on the creation of the "Internet Platform of the European emerging markets".

DHH products rely mainly on providing to its customers simple and flexible digital products to establish, build and increase their online presence and visibility, supporting their business turnover and profitability.

Reference market: numerous players, high dominance of US players

Web services / cloud computing market seems to be highly competitive, with lots of players ranging from tech giants sustained by economies of scale, to small local "houses" perceived as closer and more helpful to their clients.

In addition, regarding web hosting market we highlight the following features:

- **High market concentration,** with local-based companies which continue to play a key role in non-English speaking markets, where asymmetrical information remains a big issue;
- **Predominance of US based players**, which manage ca. 40% of all worldwide websites;
- **Double-digit growth rates** expected in the next years, with a market value that should reach $154bn by 2022. APAC and Latam should experience the highest growth rates (ca. 30% CAGR), while more mature North America and EMEA expected to grow at 12% and 14% CAGR respectively.

Until now web hosting and domain registration are DHH core businesses

DHH it is taking more and more the features of **an "industrial minded" private equity** that focuses on scouting, acquiring and integrating small companies (sometimes even non-optimally performing) active in the SaaS based web services / cloud computing.

Waiting for additional "verticals" of the basic web services / cloud computing space to be integrated, so far DHH has mainly focused on:

- **Domain name registration and transfer;**
- **Web hosting products,** ranging from simple share hosting products to more sophisticated, complex and innovative solutions as virtual private server (VPS), cloud and managed hosting services;
- **Productivity tools** ancillary to previous business lines, such as website creation software, SSLs certificates and business class emails.

Specialists in revamp & optimization of acquired assets

Key feature of DHH approach to business is the **strong attitude in applying its best practises for revamping from a technological and financial point of view** companies it acquires.

Given the significant experience gained by DHH's co-founders in the hosting and web industry, combined with inter-disciplinary team efforts, the company can provide specific functions to meet individual legal entity needs and support them in order to achieve best results and improve all fundamental KPIs.

Future Strategies: further acquisitions and value chain integration

In the near future, DHH should exploit its positive Net cash position to finalize further M&A deals aimed at:

- **Consolidating market shares** in countries where the company is already active;
- **Entering new geographic markets** in the South and East Europe;
- **Entering new market segments of the cloud computing space** to meet all customer needs and preferences in the basic web-services field.

Historical Financials: High revenue visibility and positive Net Cash Position

DHH revenues are characterized by high visibility, as an effect of the subscription based model with high percentage of recurring clients.

Revenues reached ca. €2.4mn in 1H17 (+ 18% YoY), and by looking at single legal entities, we reckon how subsidiaries in Slovenia and in Croatia through the brand Plushosting are showing an organic growth rate in the double-digit region.

On the other side, the Italian subsidiary Tophost has recorded a slight decrease with respect the same period of the previous year, but a turnaround has been achieved as of May, confirmed by excellent results attained afterwards (we estimate +30% YoY in the third quarter).

Concerning Balance sheet and Cash flow statement we highlight usual features of SaaS providers whose growth relies on M&A. Indeed, Net Fixed Assets mainly made of goodwill, negative Net Working Capital strongly affected by unearned revenues, high EBITDA conversion rate and positive Net Cash Position at ca. €3mn.

Forecasted Financials 2017E-19E: double digit growth, margin improvements

As far as Revenues are concerned, in our "base case" we expect a 15.3% $CAGR_{17E-19E}$, as results of both customer retention/acquisition increase and the progressive introduction of new products.

Operating profitability is also expected to increase up to 2019, reaching an EBITDA margin of 12.5%, thanks to a lower impact of Opex on Sales.

Last consideration concerns "acquisition scenario" based on reasonable assumptions and leading to Revenues and Net Profit estimates at ca. €17mn and €1.1 respectively.

DHH: Financials 2017E-19E reported vs. pro-forma

(€mn)	2017E	2017E PF	2019E	2019E PF
Total Revenues from Sales	**5.3**	**5.8**	**7.1**	**7.1**
EBITDA	**0.5**	**0.8**	**0.9**	**1.2**
EBITDA margin	*8.8%*	*13.2%*	*12.5%*	*16.4%*
EBIT	**0.3**	**0.6**	**0.7**	**0.9**
EBIT margin	*6.3%*	*10.6%*	*9.4%*	*13.2%*
Net Profit (Loss)	**0.2**	**0.5**	**0.5**	**0.7**
Net margin	*4.6%*	*9.1%*	*6.8%*	*9.7%*
OpFCF b.t.	**0.5**	**0.8**	**0.9**	**1.2**

Source: Value Track Analysis

Valuation

In our view DHH can be valued both trough a **DCF model** and a **Peers analysis**. Indeed, as far as DCF model is concerned, we note that despite still being in start-up phase, DHH boasts a positive cash generation. As far as Peers analysis, from a theoretical point of view the closest comparables are basic web services / cloud computing businesses which are almost all based in the US or in UK. Actually, being DHH incorporated and listed in Italy, we believe that benchmarking with Italian "digital" small-medium sized companies could be highly appropriate as well.

Overall, based on current perimeter of consolidation and on current number of outstanding shares we calculate a **€10.2 fair value per share**, (average of DCF model and of Peers analysis). This is consistent with a €9.6 fully diluted fair value, i.e. assuming that some 84k new (bonus) shares are issued for free in July 2019.

We note that for those investors that subscribed the IPO back in July 2016 and maintain their shares up to July 2019, a €10.2 market price would imply a ca. **15% IRR** as their carrying value adjusted for bonus shares and fiscal incentive stands at ca. €6.8 per share.

DHH: Sensitivity of implicit stock trading multiples in the €9.6 - €10.8 share price range

Market Price (€ per share)	Market Cap (€mn)	Enterprise Value		EV / Sales (x)		EV / OpFCF b.t. (x)		EV / OpFCF (PF) b.t. (x)		P / B (x)	
		2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E	2018E	2019E
9.6	13.6	10.7	10.0	1.7	1.4	13.8	11.6	10.1	8.8	1.8	1.7
9.8	13.9	11.0	10.3	1.7	1.4	14.2	11.9	10.4	9.0	1.8	1.7
10.0	14.2	11.2	10.6	1.8	1.5	14.5	12.3	10.7	9.3	1.8	1.7
10.2	**14.5**	**11.5**	**10.8**	**1.8**	**1.5**	**14.9**	**12.6**	**10.9**	**9.5**	**1.9**	**1.8**
10.4	14.8	11.8	11.1	1.8	1.6	15.3	12.9	11.2	9.7	1.9	1.8
10.6	15.1	12.1	11.4	1.9	1.6	15.6	13.2	11.5	10.0	1.9	1.8
10.8	15.3	12.4	11.7	1.9	1.6	16.0	13.6	11.7	10.2	2.0	1.9

Source: Value Track Analysis

NB: Pro-Forma multiples are adjusted for listing costs that are disproportionate on DHH EBITDA figures

Peers Analysis

In our view, the most useful companies to compare to DHH for valuation purposes are:

- International tech giants providing basic web-services / cloud computing products;
- Small-medium size companies listed on AIM Italia stock market and involved in digital businesses.

Tech giants specializing in basic web services / cloud computing

- **Wix.com:** Based in Israel, it is a leading provider of cloud-based website building and digital presence solutions for small businesses and entrepreneurs (ca. 100 million registered users);
- **Go Daddy:** US technology service provider with ca. 15 million customers, mainly small businesses, web professionals and individuals.
- **Endurance International Group:** US provider of cloud-based platform solutions to small and medium sized businesses, with more than 5 million total subscribers;
- **iomart:** one of the UK's largest providers of cloud computing and managed hosting services through a network of owned datacentres;
- **Web.com:** US provider of web enablement services to SMEs. It is looking to differentiate itself in the competitive web services category by focusing on value-added solutions.
- **Shopify:** a US company which provides a cloud-based, multi-channel commerce platform designed for small and medium-sized businesses

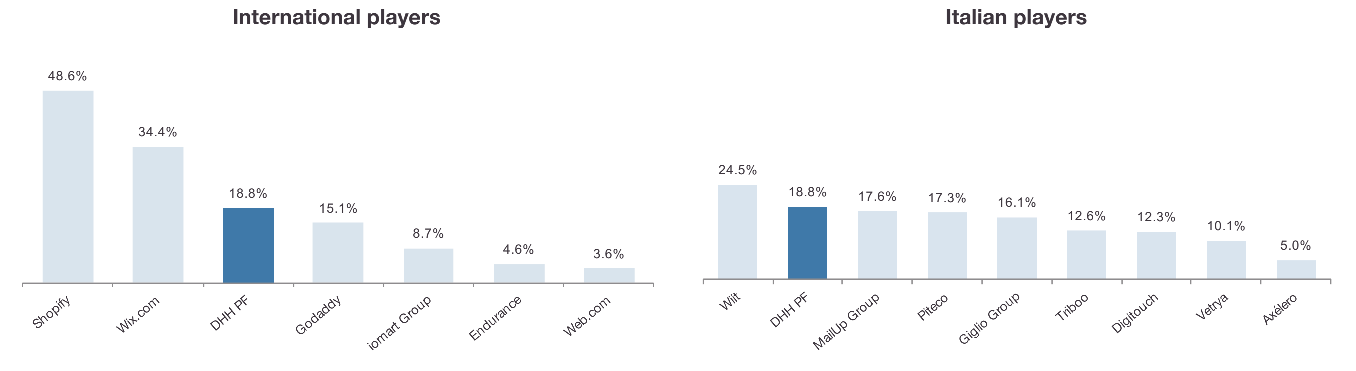
Small–medium size "digital" companies listed on AIM Italia stock market

- **Triboo:** It provides Italian corporates with ecommerce consulting / outsourcing support and digital advertising services, also through online editorial content production;
- **Giglio Group:** Multichannel media company and eCommerce service provider (after the acquisition of the Swiss company Evolve);
- **Axélero:** Media, marketing and digital advertising operator, which supports the digitalization of businesses and public administrations;
- **MailUp Group:** Marketing technology provider of cloud computing solutions. It offers email / SMS marketing solutions, email editing platform and professional services (consultancy);
- **Digitouch:** Italian player specialized in digital marketing and communication;
- **Piteco:** Software house active in design, development and implementation of proprietary software / solutions in Treasury Management Application market (TMS);
- **Wiit:** Provider of hosted private and hybrid cloud services such as critical applications, business continuity and disaster recovery, cyber security and digital transformation solutions;
- **Vetrya:** Developer of services and solutions for communication channels and digital media.

DHH vs. comparables: Sales growth and OpFCF margin above the average

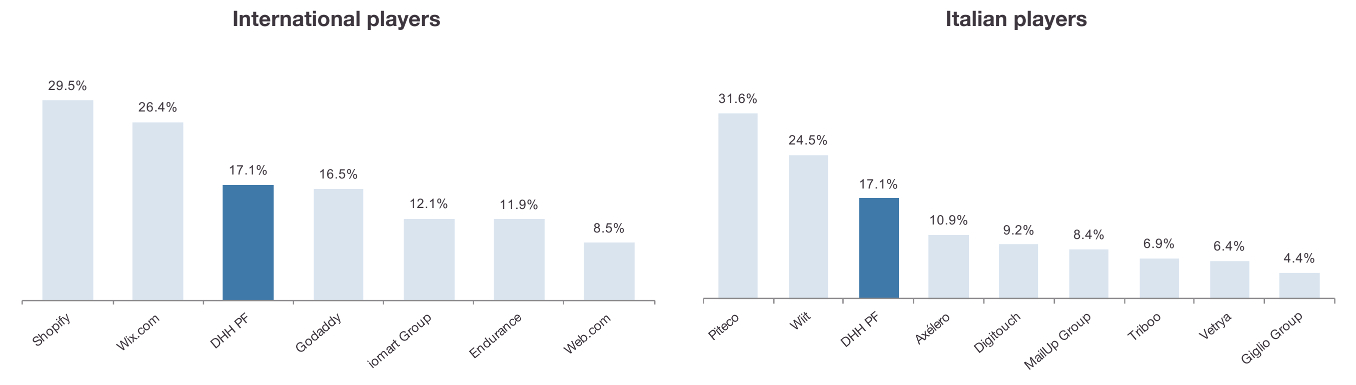
When compared to international and domestic peers, **DHH stands out quite well both in terms of medium term Sales growth** (measured in terms of 2016A-19E CAGR) **and Operating Cash Flow generation** (measured in terms of OpFCF / Sales ratio).

DHH vs. Peers - Sales CAGR 16A-19E (%)



Source: Market Consensus, Value Track Analysis

DHH vs. Peers - OpFCF b.t. / Sales 2018E (%)



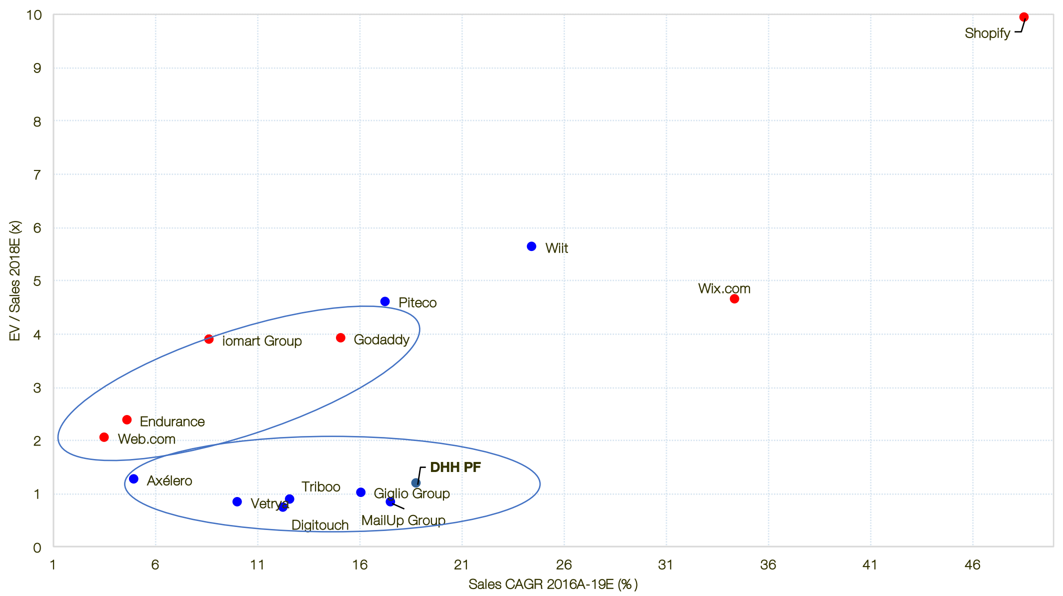
Source: Market Consensus, Value Track Analysis

Sector multiples underlines upside potential for DHH

In our view **EV/Sales** and **EV/OpFCF** (i.e. the opposite of OpFCF yield) **are the most appropriate multiples to be taken into account** when comparing DHH with Peers as they highlight the specific features of SaaS based business models i.e. scalability and cash flow generation.

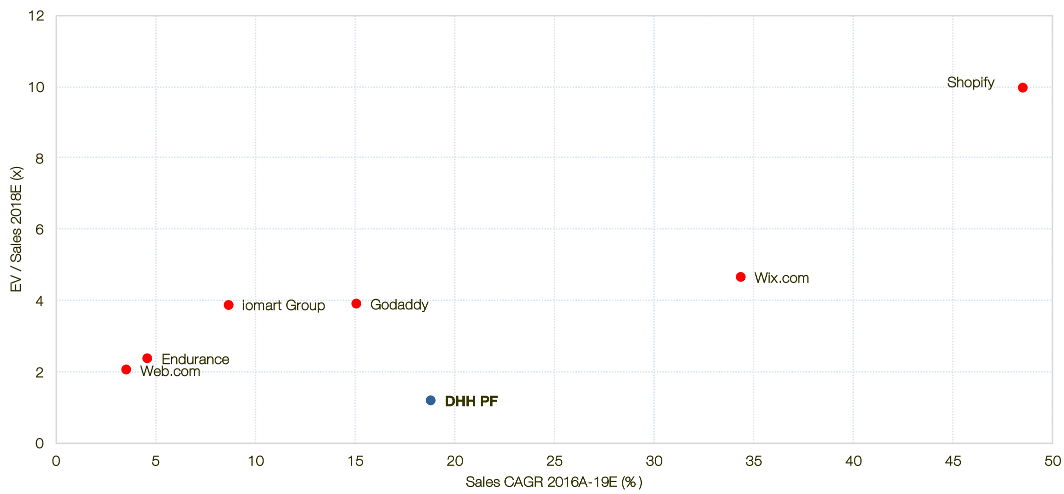
International players are trading at very demanding multiples if compared to Italian stocks, only partially justified, we believe, from the higher business scalability and shares investability of the former group. Indeed, while **international tech giants trade in the 2x-10x EV/Sales range**, on the opposite **Italian "digital" small and medium size companies trade in the 1.0x-1.5x range** with a couple of outliers (Piteco, Wiit) justified by their outstanding operating margins.

EV/Sales to growth: International stocks vs. AIM Italy digital ones. Two different playing fields



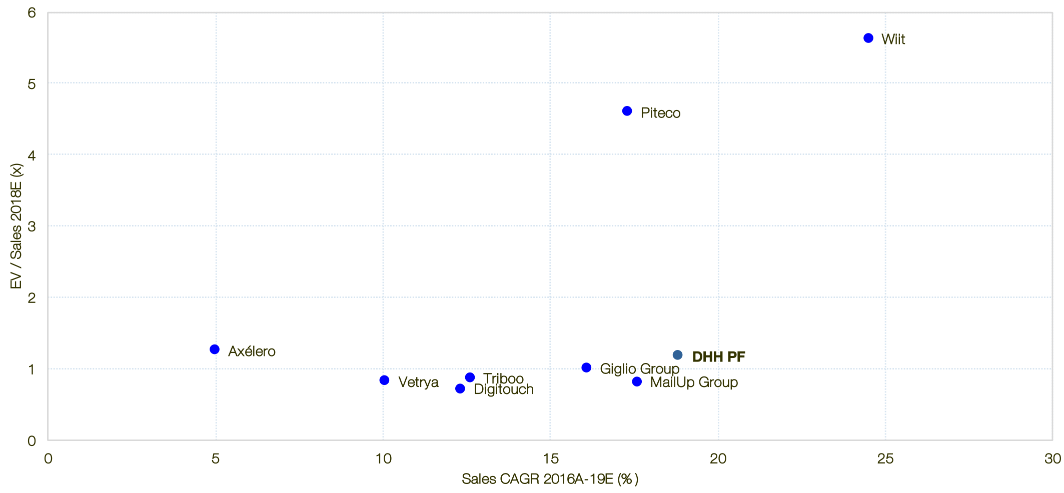
Source: Market Consensus, Value Track Analysis

EV/Sales to growth: Focus on International tech giants



Source: Market Consensus, Value Track Analysis

EV/Sales to growth: Focus on AIM Italia digital players



Source: Market Consensus, Value Track Analysis

DHH: Peers' stock trading multiples

Company	EV / Sales (x) 2018E	EV / Sales (x) 2019E	EV / OpFCF b.t. (x) 2018E	EV / OpFCF b.t. (x) 2019E
International industry players				
Wix.com	4.7	3.5	39.0	nm
Godaddy	3.9	3.4	32.4	17.1
Endurance	2.4	2.2	13.9	11.9
iomart Group	3.9	3.5	13.2	13.0
Web.com	2.0	1.8		6.4
Shopify	9.9	7.3	nm	37.3
Median	**3.9**	**3.4**	**13.9**	**13.0**
Average	**4.5**	**3.6**	**21.2**	**17.1**
AIM Italia digital industry players				
Triboo	0.9	0.7	12.7	6.8
Giglio Group	1.0	0.9	23.1	19.3
Axélero	1.3	0.7	11.5	7.4
Digitouch	0.7	0.6	7.8	4.6
MailUp Group	0.8	0.7	9.7	7.2
Piteco	4.6	4.1	14.6	11.5
Wiit	5.6	4.6	22.9	18.4
Vetrya	0.8	0.7	12.9	7.7
Median	**0.9**	**0.7**	**12.8**	**7.6**
Average	**2.0**	**1.6**	**14.4**	**10.4**
Overall values				
Median	**2.2**	**2.0**	**13.2**	**11.5**
Average	**3.0**	**2.5**	**17.0**	**13.0**
DHH @ Market Price	**1.2**	**1.0**	**7.6***	**6.4***

Source: Market Consensus, Value Track Analysis **Based on a pro-forma OpFCF*

DHH is trading in line with Italian peers in terms of EV/Sales but we believe that a premium is justified given its cash generation capability. Put it in another way, trading in line on EV/OpFCF would imply a premium on EV/Sales.

Overall, we would set as "**fair" multiples for DHH** some **2.0x EV/Sales '18 – 12.8x EV/OpFCF PF'18** which imply an average **multiple based fair value of DHH outstanding shares at €11.50.**

Cross check with Business Incubators / Accelerators' multiples

DHH can be viewed as an "industrial minded" private equity / venture capital investor focused on early stage companies to be boosted thanks to DHH acceleration services and know how. If so, a useful cross check would be to compare DHH with listed incubators / accelerators such as:

- **LVenture Group:** Italian based holding company / accelerator which invests in non-controlling interests of companies with high growth potential in the field of digital technologies;
- **Digital Magics:** Italian based venture incubator of digital start-up companies;
- **German Startups Group:** German based investment company acting as a bridge between start-ups and capital markets;
- **Rocket Internet**: German based incubator / investor in technology companies aiming to scale on an international level.

Usually such companies are valued based on Net Asset Value (NAV), given by total value of all securities in their portfolio, net of any related liabilities.

Price / Book Value is the closest proxy that we can find in order to take into account also DHH, and we calculate an **average of 1.4x** for above-mentioned Italian and German incubators / accelerators that applied to DHH would result in a **fair equity value of €7.2 per share.**

DHH: Incubators / Accelerator price to book ratio

Company	Shareholders' Equity (€mn)	Nosh	Price (€)	P / B
LVenture Group	13.9	28.2	0.69	1.4
Digital Magics	21.9	6.5	8.30	2.5
German Startups Group	29.5	12.0	1.91	0.8
Rocket Internet	3,400	165.0	24.34	1.1
Average				**1.4**

Source: Value Track Analysis

DCF valuation

In our "base case", Discounted Cash Flow model is applied assuming the current capital structure of the company, which highlights an expected positive Net Financial Position in 2017 of ca. €2.4mn.

That said, using an expanded CAPM approach we get an overall cost of Equity capital at **9.9%**, which in this case corresponds to **WACC**, given the Debt/Equity ratio equal to zero. Calculation is based on the following assumptions:

Cost of Equity

- Risk-free rate at 2.0% which reflects medium term-target inflation in the Eurozone;
- Unlevered beta at 0.8 obtained as average of:
    - 0.9 unlevered beta software (entertainment);

- 0.9 unlevered beta software (internet);
- 0.6 unlevered beta software (system & application).

- Implied Italian Equity Risk Premium at 7.4%, derived using a relative stock market volatility approach considering an implied US ERP at 5.1% (source: Damodaran);
- Additional Equity Risk Premium at 2.5% to compensate investors for the Italian AIM lower liquidity.

Cost of Debt

- Pre-tax cost of debt at 4.5% reflects the sum of 2% of expected inflation and 2.5% of additional implied spread derived by using a synthetic rating approach based on a given interest coverage ratio;
- Corporate Tax rate at 24.5%.

DHH: WACC calculation

Risk free	2.0%
Risk Premium	7.4%
Beta Unlevered	0.8
Beta Levered	0.8
Small-Size Risk Premium	2.0%
COST OF EQUITY	9.9%
COST OF DEBT (after-tax)	4.5%
D/D+E	0.0%
WACC	**9.9%**

Source: Value Track Analysis

Other additional DCF model assumptions are the following:

- 2017E already as "proxy" historical reference point;
- Financial statements projection starting from 2018E to 2028E;
- Terminal Value 2028E, obtained applying a 2.0% Perpetuity Growth Rate (PGR)

That said, we estimate a **fair equity value per share at €8.50**, corresponding to a fair equity value of €12.0mn, resulting from the sum of €9.7mn of fair enterprise value and €2.3mn of net cash position.

DHH: Discounted Cash Flows "base case"

(€'000)	
PV of future cash flows FY18E-FY27E	5,023
PV of Terminal value with PGR at 2%	4,685
Fair Enterprise value	**9,709**
Net Cash Position 2017E year-end	2,346
Fair Equity value	**12,056**
Fair Equity Value per share (€)	**8.50**

Source: Value Track Analysis

In addition, we run some sensitivity analyses allowing for both WACC and PGR to change.

DHH: Fair Equity Value p.s. Sensitivity Analysis

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	9.5%	8.47	8.58	8.69	8.81	8.94
	9.7%	8.38	8.48	8.59	8.71	8.83
	9.9%	8.28	8.38	8.50	8.61	8.73
	10.1%	8.19	8.29	8.39	8.51	8.63
	10.3%	8.09	8.19	8.30	8.41	8.53

Source: Value Track Analysis

For the sake of completeness, in our valuation exercise we apply DCF model based on the hypothesis the company will exploit its positive net cash position to finalise some further acquisitions. For this reason, we can base DCF calculation on a target capital structure (25% Debt, 75% Equity).

Based on the above key assumptions, adjusted for the target capital structure, we get a beta levered at 0.9, resulting in a cost of equity equal to 11.1%. Then, averaging for the after cost of debt capital, an overall WACC at 9.1% is obtained, leading to a fair equity value per share at €9.30. We underline how, this simulation aims only at highlighting the tax shield deriving from a different capital structure

DHH: WACC sensitivity analysis

		Pre-Tax Cost of Debt				
		1.50%	1.75%	2.00%	2.25%	2.50%
D/E	0.0%	9.9%	9.9%	9.9%	9.9%	9.9%
	12.5%	9.5%	9.5%	9.6%	9.6%	9.7%
	25.0%	8.9%	9.0%	9.1%	9.2%	9.3%
	37.5%	8.2%	8.4%	8.5%	8.6%	8.8%
	50.0%	7.4%	7.6%	7.7%	7.9%	8.1%

Source: Value Track Analysis

Impact of Bonus shares and fiscal incentive on DHH fair value

DHH was listed back in July 2016 by issuing new shares (420k at €10.0 per share i.e. a €4.2mn capital injection). In order to make the IPO structure more favourable to investors it has been also approved a Bonus shares plan (2 shares free of charge every 10 shares after three years holding period) + Warrants scheme (warrants now out-of-the-money) that adds to maximum 30% fiscal incentives granted by Italian legislation. The result of such an IPO structure is twofold:

- In July 2019, a maximum 84k new shares could be issued, free of charge i.e. a 5.9% increase in outstanding shares which means a **5.6% dilution in DHH fair value per share**;
- A **carrying value** for those investors that subscribed DHH IPO shares and maintain them for three years which stands at ca. **€6.8 per share** (€10 initial cash out per share – 19% fiscal incentive = €8.1 per share [not adjusted for time value] to be divided by (10+2=12) shares).

We remind that core shareholders (Top Management + Founders) at the time of IPO signed an eighteen months lock-up agreement. As such, lock-up clauses will expire as of the end of January 2018. Please see Appendix 1 for more details on the IPO structure.

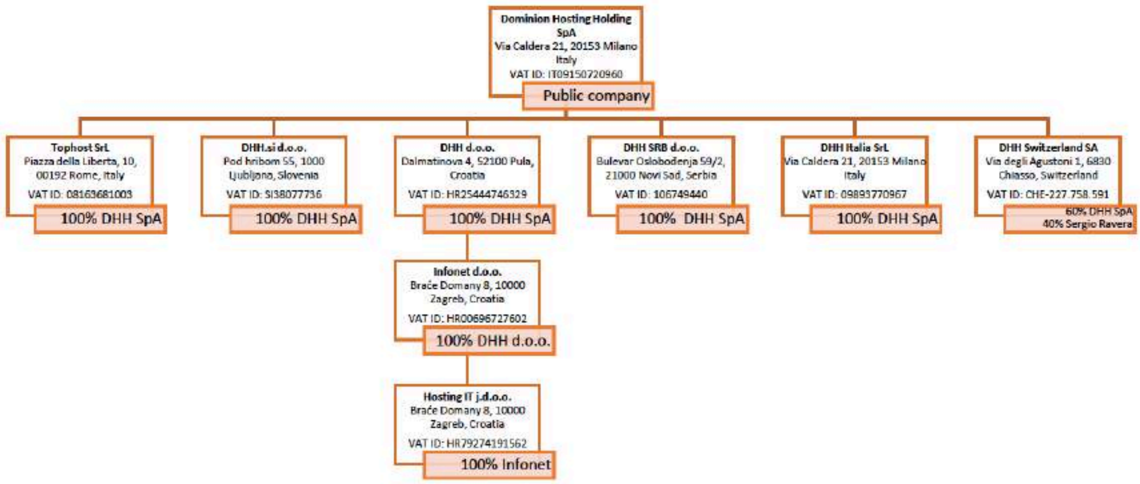
DHH at a glance

Mission: Creating leaders in cloud computing / web services provisioning

DHH is an **industrial investment company** focused on scouting, acquiring and integrating small companies (sometimes even non-optimally performing) active in **the SaaS based web services / cloud computing** provisioning to corporates, small businesses, professionals and individuals mainly in the so-called **"unusual geographies"**, i.e. countries with lower "digital" penetration and, as a consequence, higher growth potential with respect to more advanced markets.

So far, the company has invested in the domain name registration and web hosting segments and owns controlling shares in companies that in total are currently managing **eight brands across five different geographic areas** serving **nearly 100,000 customers Europe-wide** with a broad array of products.

DHH: Organizational structure



Source: Company presentation

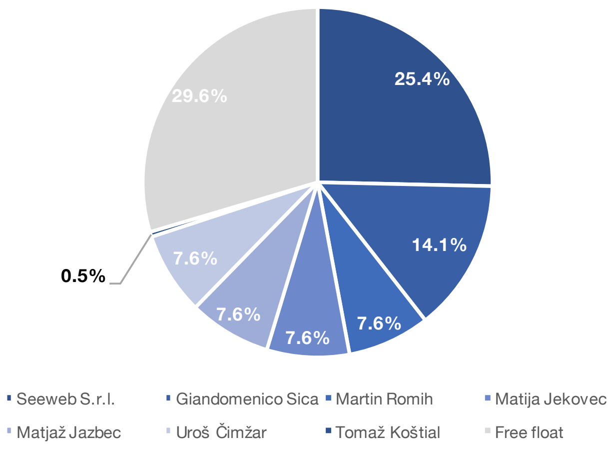
Corporate Governance: Founders are the main shareholders

DHH current shareholders' base is the result of the industrial investment approach that the company is pursuing. Indeed, there are four co-founders, controlling more than half of the share capital. Among which, we recall:

- Seeweb (led by Mr Antonio Baldassarra), a cloud computing provider which supplies IT solutions since 1998 with competences in the web services business;
- Mr Giandomenico Sica, boasting material experiences in digital businesses and in capital markets;
- Mr Uroš Čimžar, that has achieved significant experiences in the web and hosting industry;
- Mr Matija Jekovec, with strong competences in developing and implementing software architecture and system administration;

The above-mentioned founders are also involved more or less directly in the business. Please see Appendix 2 for more details on their roles / competencies.

DHH: Shareholders structure



Source: Company figures

We remind that above mentioned shareholders at the time of IPO signed an eighteen months lock-up agreement. As such, lock-up clauses will expire as of the end of January 2018.

Key features of DHH approach to business

In our view key features that allow a better understanding of DHH approach to its business are:

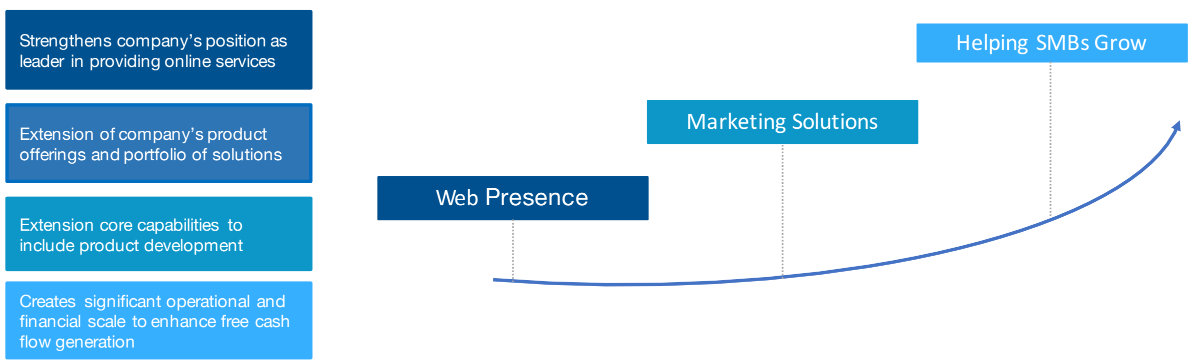
- Business perimeter: **Basic web services**;
- Geographic footprint: **Unusual geographies**;
- Growth strategy: **M&A**;
- Value creation strategy: **Revamp / Optimization of acquired assets and digital business incubator.**

Key feature #1 - Business perimeter focused on basic web services

The strategic goal of DHH relies mostly on providing SMEs with simple and flexible digital products, to establish, build and increase their online presence and visibility, and to enhance their business turnover and profitability with small investments. However, we note that SMEs are not the only segment addressed. Indeed, from time to time also large companies requiring more sophisticated tools are served.

In general terms, and remaining in the SMEs field, solutions offered by players in web services segment such as DHH can be broadly classified in the following categories: products / solutions aimed at getting SMEs online, products / solutions aimed at making SMEs visible online, products / solutions aimed at helping SMEs to grow their online business.

Web products / solutions aimed at fostering SMEs business



Source: Various, Value Track Analysis

More in details, among potential products / services that a full-range web service solutions provider can offer to SMEs looking for web presence and visibility we highlight:

1. Products / Solutions aimed at **getting SMEs online**, such as:
   - **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;
   - **Domain Registration, Management and Resale;**
   - **Website Builders,** that enable subscribers to create a customized web presence with varying degrees of technical sophistication;
   - **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.

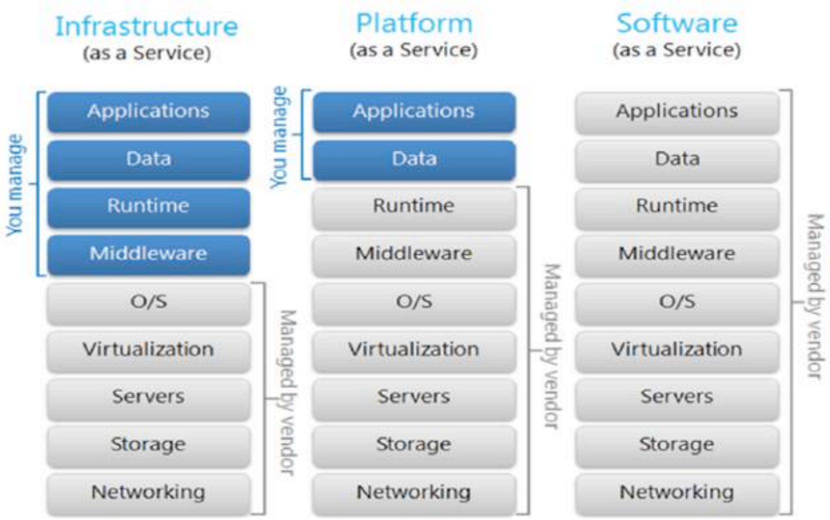
2. Products / Solutions aimed at **making SMEs visible online** through:
    - **Search Engine Optimization (SEO) and Search Engine Marketing (SEM),** helping subscribers to distribute their business profiles to online directories and manage links and keywords with on-page diagnostic tools;
    - **Mobile solutions**, enabling subscribers to have their websites rendered on mobile devices and target mobile customers among other features and functionality;
    - **Social media solutions**, among which tools and services that enable subscribers to communicate effectively with their target audiences through social networks. These instruments allow subscribers to easily integrate their website content on Facebook, Twitter and other form of social media, and track the results of their marketing campaigns;
    - **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 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;
    - **eCommerce enablement,** offering secure and encrypted payment tools, shopping carts, payment processing and related services, mobile payments and other form of eCommerce to expand the SMBs online management;
    - **Professional services**, among which dedicated engineering and web design to help customers create their ideal presence complete with some of the more advance eCommerce, productivity and marketing products.

Most of the above-mentioned products / solutions are no more supplied trough "on premise" software / tools, but trough cloud based ones, resulting in the so-called **cloud computing** market which can be divided into three primary service models:

- **Software as a service (SaaS),** meaning the software is owned, delivered and managed remotely by one or more providers. The provider delivers software with a one-to-many model where contracted customers are charged on a pay-for-use basis or on a subscription based one;
- **Infrastructure as a service (IaaS**), is a standardized, highly automated offering, where more computer resources, complemented by storage and network capabilities are owned and hosted by a service provider and offered to customers on-demand. Customers are able to self-provision this infrastructure, using a web-based graphical user interface that serves as an IT operations management console for the overall environment;
- **Platform as a service (PaaS),** usually depicted in all-cloud diagrams between the SaaS layer above and the IaaS layer below, is a broad collection of application infrastructure (middleware) services (including application platform, integration, business process management and database services).

IaaS, PaaS and SaaS components



Source: Hostingadvice.com

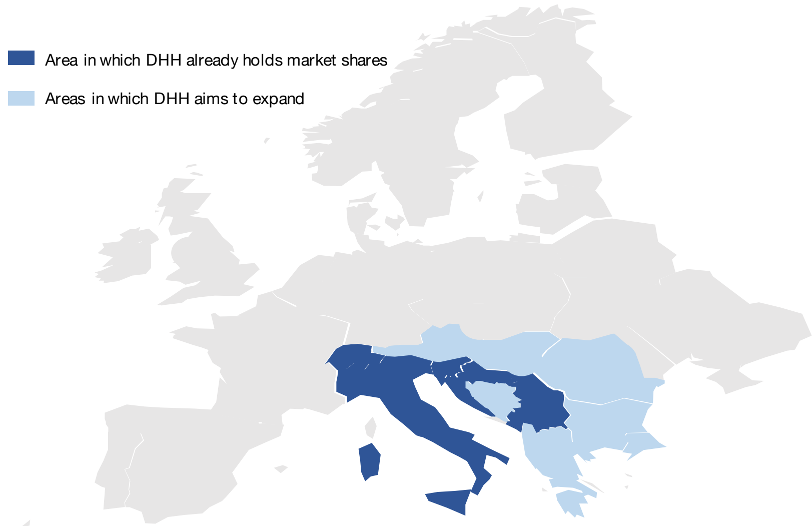
Key feature #2 - Geographic footprint focused on unusual geographies

As we said before, DHH was born with a mission to aggregate web services companies in the so-called **"unusual geographies".**

So far it has operations in Balkans (Slovenia, Croatia, Serbia) but it is also active in Italy, and recently it has acquired a web hosting company in the Italian part of Switzerland.

Areas where DHH could also target new operations include additional Balkan countries (Bosnia, Albania, Macedonia, Montenegro) and central-eastern European ones (Bulgaria, Romania, Greece, Slovakia, Hungary).

DHH: Current and prospect geographic footprint



Source: Value Track Analysis

Rationales behind such a geographic choice are the lower maturity of these countries, implying higher growth potential ahead, and the competitive structure benefitting local players vs. international ones.

1st rationale behind DHH geographical footprint: less mature countries

The idea to focus on unusual geographies was driven by the lower maturity of these countries. Indeed, while currently, some 70% of US SMEs and European ones already have a website presence (and is forecasted that this number will exceed 90% in two-three years), it is interesting to note how this percentage is clearly lower in Italy and Croatia, while Slovenia is among leading countries.

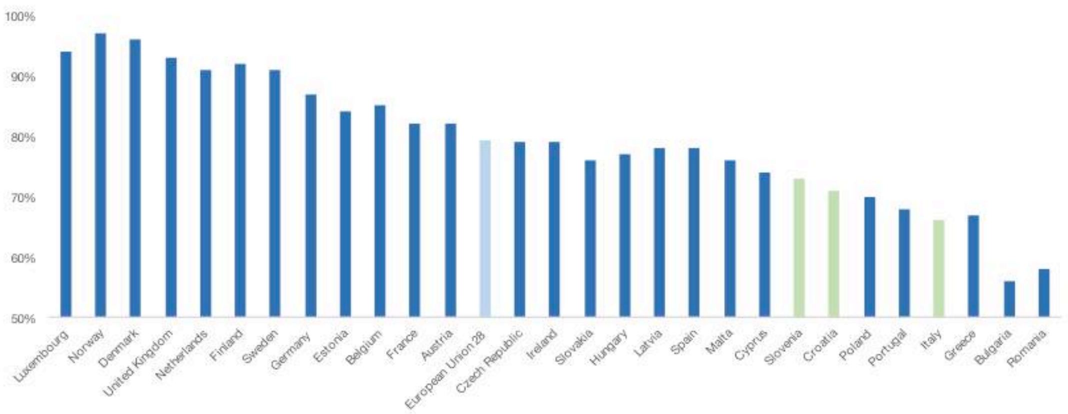
A comparison of the different maturity of the various areas can be obtained by looking at Internet users / Internet penetration / Smartphone penetration figures. All these figures underline how, apart from Switzerland, DHH's reference markets are lagging behind European averages.

Internet and smartphone penetration

Country	2015	2016	2017E	2018E	2019E	2020E	2021E
Internet penetration (%)							
Europe	70.5	72.2	73.6	74.7	75.5	76.2	76.6
Croatia	68.1	70.4	72.2	73.7	74.9	75.9	76.6
Italy	59.3	60.1	60.9	61.5	62.1	62.5	62.8
Serbia	58.4	61.3	63.8	65.9	67.8	69.2	70.4
Slovenia	67.0	68.6	70.1	71.3	72.3	73.1	73.7
Switzerland	85.0	85.8	86.5	87.1	87.6	88.0	88.3
Smartphone penetration (%)							
Europe	50.4	55.7	60.2	63.7	66.5	68.6	70.2
Croatia	51.3	55.7	59.3	62.1	64.2	65.8	67.0
Italy	43.7	47.8	51.3	54.2	56.5	58.3	59.7
Serbia	39.5	42.7	45.5	47.9	49.9	51.5	52.8
Slovenia	50.1	53.4	56.3	58.7	60.6	62.1	63.2
Switzerland	62.6	68.0	72.8	76.7	79.8	82.1	84.0

Source: Europe's digital progress report, 2017

Regular Internet Users (at least once a week)



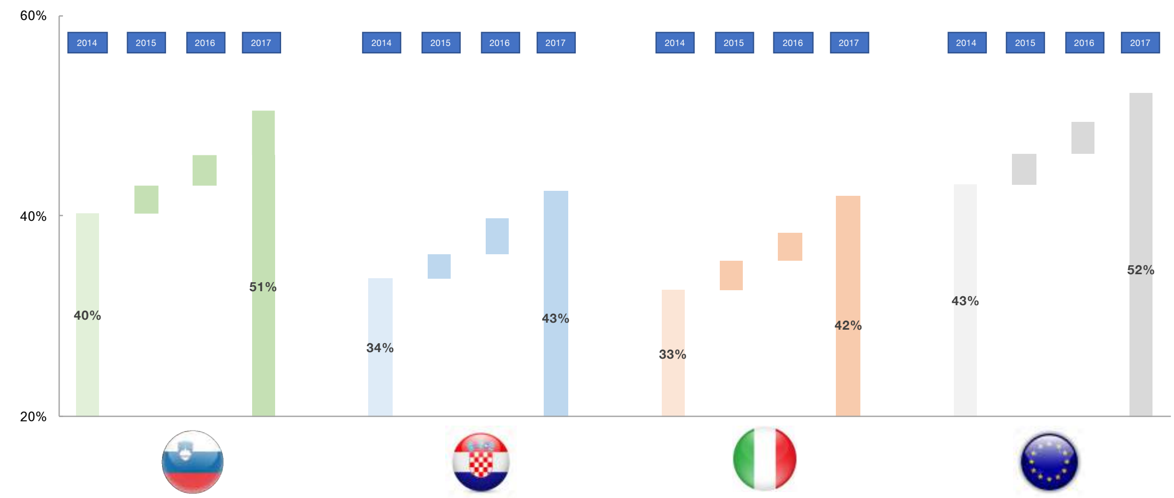
Source: Europe in figures, Eurostat Statistics Explained

Further proofs of the potential of these countries come from the analysis of historical trend of Digital Economy and Society Index (DESI).

The DESI Index is 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.

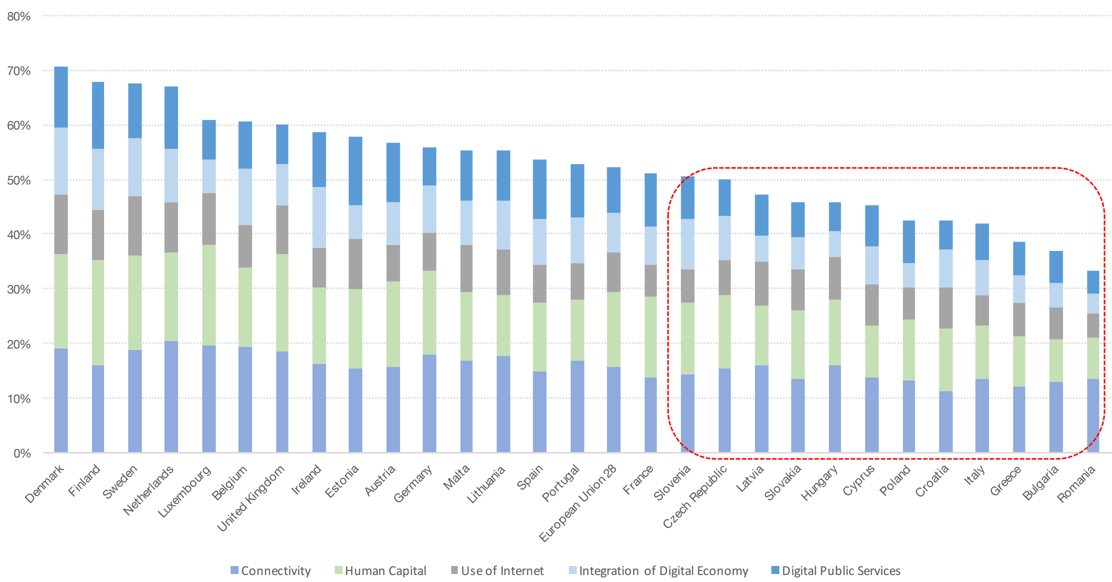
Although the index has increased over the last four years in Slovenia Italy and Croatia, values remain below the European Union one, showing a delay with respect most technologically advanced European countries.

DESI Index historical values since 2014 to 2017



Source: Value Track Analysis

DESI index 2017 ranking



Source: Europe's Digital Progress Report (EDPR) 2017

2nd rationale behind DHH geographical footprint: being local is a plus

The global market of cloud computing / web services appears to be highly competitive, with lots of players ranging from international tech giants to small local "houses". These two types of players can co-exist as the type of service is relatively homogenous across countries but local customer feeling proves to remain a strong competitive weapon. More in particular, we identify the following competitive forces driving market evolution:

- **Economies of scale**. In the choice to act as a reseller (low capital invested) or as an infrastructure-based player (high capital invested), the second one allows lower operating expenses and thus higher margins / higher market shares if a price effective strategy is pursued;
- **"Below-the-line" market segmentation**. While geographical barriers are not a problem, linguistic ones on the contrary are an opportunity for local players that, despite being small, can be perceived as closer and more helpful to their clients. Noteworthy, IT is a sector where information asymmetries are still wide and a local "touch" can drive the purchase of a web hosting service. This is particularly true in non-English speaking countries.

If tech giants are supported by economies of scale, at the same time they try to fill the competitive gap in terms of local touch through geo-localized offerings or establishing local subsidiaries. On the contrary, if local houses are supported by linguistic and customer care factors, at the same time they try to fill their competitive gap in terms of size through acquisition, collaboration, partnership, expansion and technology updates.

This is more than true in DHH's reference countries, where local-based companies continue to play a key role, confirming the big issue deriving by asymmetrical information especially in non-English speaking countries.

The example of web hosting market is insightful: here high market concentration can be noticed, with top ten companies holding a considerable market share.

Market share and local-based company within top 30 companies

Source: Web Hosting market share2017, hostadvice.com

Key feature #3 – Make or Buy? Buy!

Rather than growing organically in the selected areas, DHH prefers to pursue growth by external lines. In particular, the company scouts:

- Company branches (with the owner looking for an exit) to be consolidated into DHH structure;
- Low performing companies (suboptimal scale, financial distress), mature companies or promising start-ups.
  This type of acquisition can be finalized through an agreement with the founder, maintaining an active role in the new legal entity but at same time benefitting from growth opportunities that a better-structured and suitable company can undertake.

Acquisitions have been finalized both before and after the IPO on the Italian AIM stock market back in July 2016. In details, the deals finalized before the IPO are:

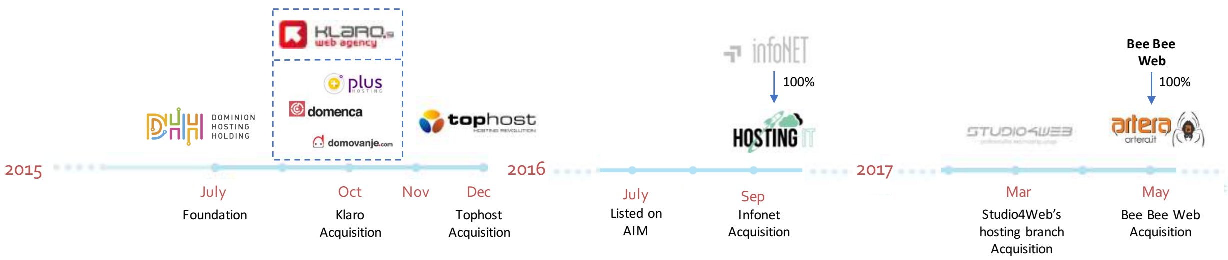
- Oct-2015 - Acquisition of 100% of **Klaro**. In turn, Klaro held the following participations:
  - 100% of **Domenca**, a Slovenian company that has performed a successful turnaround made by founders that currently are in the board of DHH;
  - 100% of **Domovanje**, the Slovenian company which started as a side project of the web agency Klaro and subsequently became an independent company;
  - 100% of **Plus HR** and 100% of **Plus RS**, market leaders in Croatia and Serbia respectively.
- Nov 2015 – Acquisition of **Tophost S.r.l.,** leading low-cost Italian web hosting player.

After the IPO, the company has finalized the following extraordinary operations:

- Sep-2016 –DHH has strengthened its leading position on the Croatian market, acquiring the entire corporate capital of Infonet d.o.o., one of the main players in the Croatian web hosting market. In turn, Infonet fully own HostingIT d.o.o., a young Croatian web hosting provider;
- Oct 2016 – Merger of Slovenian companies, Domovanje d.o.o. and Domenca d.o.o. into Klaro to create a single company, renamed as DHH.si d.o.o.;
- Feb 2017 – DHH entered into a framework agreement to acquire the entire share capital of **Bee Bee Web**, a Swiss based web hosting company together with its Italian reseller **Hosting Star S.r.l.** (to be renamed DHH Italia S.r.l). Later on in May 2017 DHH has finalized the first part of the transaction acquiring the 60% of Bee Bee Web (now DHH Switzerland Sa).;
- Mar 2017 – DHH through its Croatian subsidiary DHH d.o.o acquires the business branch of Studio4Web dedicated to low-cost web hosting;
- May 2017 – In a context of structure reorganization and simplification DHH approved *i)* the merger of Hosting IT j.d.o.o./Infonet d.o.o. and thereafter, the merger of Infonet d.o.o. into DHH d.o.o; *ii)* the acquisition by DHH of the whole participation in DHH.si d.o.o.;
- July 2017 - DHH d.o.o. (Croatia) is acquired by DHH S.p.A. The operation was carried out to simplify the ownership structure of the group and to reduce administrative overhead.

For the sake of simplicity, in the following are reported main DHH's milestones

DHH: M&A deals and other historical milestones



Source: Value Track Analysis

Key feature #4 – Revamp / Optimize acquired assets and digital business incubator

To all the acquired companies DHH applies its best practices and optimizes them from a technological and financial point of view. In particular, DHH delivers to its participations:

- Strategic thinking;
- Technology solutions;
- Marketing know-how;
- Other best practises.

All these know-how transfers are aimed at improving their business, maximizing their market impact, generating industrial synergies trough market consolidation. Indeed, even though locally owned companies are market leaders in their countries, they are often too small to effectively support specialized functions such as marketing, business development and financial planning and control.

For this purpose, DHH has created an inter-disciplinary team which focuses on specific functions to meet all legal entity needs in a more efficient way and support them for achieving best results, both in terms of top line and profitability growth.

Furthermore, this team tries to exploit all possible synergies among legal entities and different brands to improve all KPIs that are crucial in this business model based on recurring payments as result of subscriptions renewals.

Please see Appendix 3 for an example of business optimization / turnaround that recently took place at Tophost.

In addition to revamp / optimization skills the company has shown in its small business life, we highlight the inclination of DHH towards investments in early stage companies, which not require any technological turnaround.

Indeed, DHH is launching this new activity within the overall business, and we expect first investments in the next years. The purpose is to acquire non-controlling stakes of start-ups, trying to support them in creating successful projects and consolidate participations in a subsequent phase.

Since startup companies lack many resources, experience and networks, DHH provides such services that will help them get through initial hurdles in starting up a business. Acting as a business incubator, DHH aims at building and developing digital business, guiding startups founders and providing acceleration services.

What has been done so far: Hosting / Registration

Since its foundation, DHH activity has been focused on the creation of the "Internet Platform of the European emerging markets", offering its customers a wide range of simple and flexible products to establish, build and increase their online presence and visibility, supporting business turnover and profitability.

Until now, DHH has specialized in providing web hosting and domain registration products through its eight owned brands, serving ca. 100,000 across Europe.

Waiting for additional "verticals" of the Basic web services / cloud computing space to be offered to clients, **so far DHH has focused on Domain Names registration / transfer and Web Hosting services**.

Products offered

1. Domain Names

A domain is an identification string that defines a real of administrative autonomy, authority or control within the Internet. To put it more simply, each website has a domain, that identifies its address. Each domain is composed of a Top-Level Domain (.it) and a Second Level Domain (domain name).

Within this business line, DHH offers the following products:

- **Domain name registration**, providing the opportunity to get and register domain names to its customers among those not recorded in the competence register yet. The company offers more than 500 different gTLD (generic, as *.net, .org, .info*) and several ccTLD (country code, as *.it, .es,.uk*);
- **Domain name transfer**, allowing clients the possibility to transfer already recorded domains among other providers.

These products are not only addressed to SMEs, but also to large companies that manage own domain portfolios (usually for their brands) in a unique place.

2. Web hosting

Web hosting is a service that combines resources and technologies to make a webpage or a website visible and actionable to everybody on the World Wide Web.

There are two basic ways to differentiate between hosting packages. The first one is to look at the technology used for the server: Shared, VPS, Dedicated and Cloud.

- **Shared** hosting**.** It includes all web hosting products located on the same server and hard drive as a whole lot of other websites. In other words, it means sharing server space with other websites and individuals.

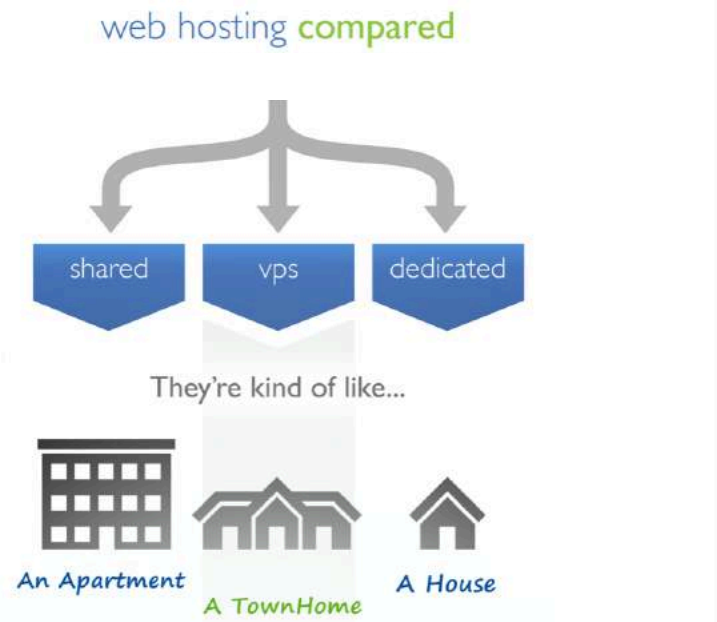
  It is extremely cheap, but exposed to the "bad neighbor" effect. For example, if one website has some faulty code or simply gets a lot of visitors, it could use 75% of a server's memory, this means that other websites hosted on the same server are left with 25% of the total RAM.
- **VPS** hosting**.** It is still a shared environment, but the way it is shared is very different. A VPS server is literally split into as many parts as there are users in order to overcome the neighbor effect. Since private account is contained within a virtual machine, user can modify its environment without affecting others, benefitting from high configurability and flexibility tools.

- **Cloud** hosting is essentially the same as VPS hosting, but instead of having a physical machine, a space in the cloud is used.

  The structure in the cloud consists of several physical machines, dividing resources. In this way, if there is some problem with the servers, another machine takes over the load, reducing the risk of downtime of website or application, meaning high availability. Lastly, a cloud structure is characterized by the ability to scale resources in a few seconds, since it has no limitation like a physical machine.
- **Dedicated** hosting**.** i.e. website is renting the physical machine and not sharing hardware or bandwidth with any other websites. Dedicated servers give the client maximum control over the server software. Customers could adjust instantaneously server resources based on website traffic or application needs.

  This business line is the most intensive in terms of hardware component, as for each dedicated server the hosting provider needs to deploy a new machine in the data center;

Web hosting classified by technology



Source: Hosting Facts

The second way is to look at the level of management offered. According to this classification, we distinguish between:

- **Managed** hosting i.e. the host offers support for every problem or task, emergency or routine. Operating system, control panel, server setup and any pre-installed applications are all managed;
- **Unmanaged** hosting i.e. there is not management, the host does not support final user for any software or installation.

Although at the time of its foundation, DHH products focused mainly on traditional web hosting products (shared and dedicated), the company has adapted its product selection to keep up with modern challenges and market trends.

Indeed, by looking at different packages made available by various brands owned by DHH, it is clear how innovative products have already been included in the supply chain, as virtual private server (VPS), cloud and managed hosting services.

Therefore, DHH activity relies not only on the availability of physical space on which is hosted customer's website, but also on the design of the infrastructure and configurations most suitable for hosting customer data as well as the supply of all services necessary for the administration, management and update of a website.

3. Productivity tools

DHH also offers some services ancillary to the two previous business lines, such as:

- **Website creation software,** particularly for users with basic requirements (e.g. entry level);
- **SSLs certificates,** to ensure that all data passed between web server and browsers remain private and integral;
- **Business class emails**, that expand normal e-mail services by collaboration tools like share calendars and contacts.

Market Size and expected growth rates

From the customer point of view the **Web Domain Name** registration activity substantially implies an administrative activity i.e. you can buy a domain and never upload a web site on it, while **Web Hosting** service implies several activities including web design, upload, maintenance, data storage, security and so on.

That's why the first service is typically charged only a very few euro per year while the second service implies higher recurring amounts. This means that the first market is a fraction of the second one, with some experts estimating a 1 to 30 ratio, and that's why we'll focus or in-depth attention mainly on the second one i.e. on the web hosting market.

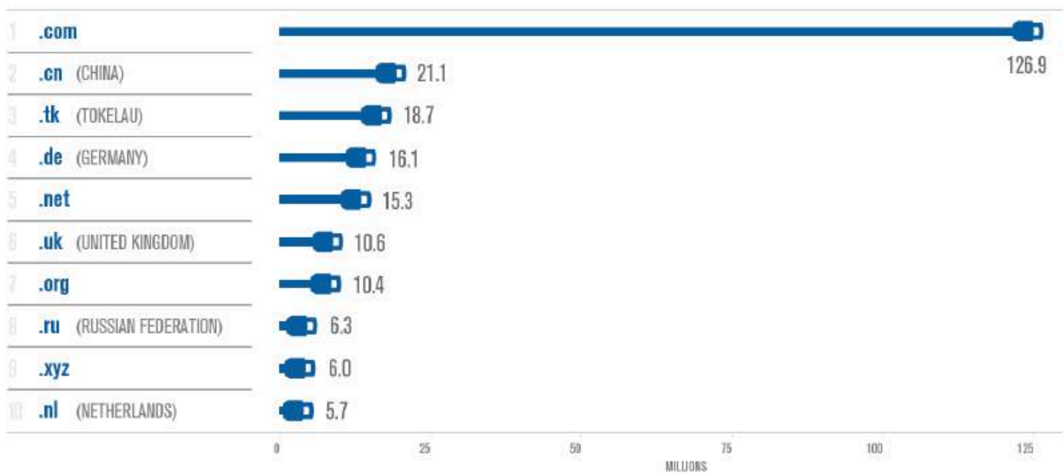
Sizing the Web Hosting market

According to a recent report published by Verisign, at the end of June 2017 there were 332 mn "top-level" registered domains (.com, .org and so on), an increase of 1.3 mn over the first quarter, and 6.7 mn YoY, or 2.1% YoY.

Considering "non-country" domain names, .com ones alone account for slightly less than 40% of total (130 mn domains), followed at a very long distance by .net domains (15.1 mn domains).

Looking at country code domains, top five are .cn, .tk, .de, .uk and .ru.

Top 10 largest TLDs by number of reported domain names in 2Q17



Source: The domain name industry brief. Verisign, September 2017

As it is a sum of several different services, it is not so easy to assess a precise figure for the overall value of web hosting market. However, according to a recent study published by the Market Research Future, **global web hosting market is worth ca. US$64bn**.

The United States represent the largest market worldwide due to technology advancements and high number of hosting players located in this region.

Typical clients of this industry are small and medium-sized companies (28mn in USA and 23mn in European Union just to give a couple of figures), as these businesses lack financial resources and technical capabilities to design, maintain and update an effective website on their own. However, individuals, not-for-profit organizations, charities and hobbyists also require Internet hosting.

Competitive structure: Lots of market players, from tech giants to local "houses"

It is difficult to calculate precise market share figures. However, according to some statistics published by the web hosting information site Host Advice, we highlight the following points:

- **Global web hosting market is highly fragmented.** Indeed, GoDaddy and 1&1 are the global market leaders with a ca. 4.8% and 4.2% market share respectively, that is ca. two times the market share of the closest competitor Amazon Web Services (AWS standing at ca. 2.2%);
- **Top ten worldwide players are incorporated in just three countries**, **USA** (7 companies), **Germany** (2 companies), and **France** (1 company) and control ca. 24.1% of the whole market;
- **US based web hosting companies manage ca. 40% of all worldwide websites** while German and Chinese based web hosting companies hold ca. 18.4% and 7.4% of the overall hosting market;
- **Web hosting market seems to be very local in nature**. For example, in the US 10 out top 10 most used hosting companies are local, in Italy and in Germany 9 out the top 10 while in France 8 out of 10.

Internet mobile and eCommerce the main growth drivers

Web hosting prices have continuously decreased in recent years due to the advent of new technologies that are making the conventional dedicated and shared hosting services a commodity.

That said, the number of hosted web sites should keep increasing dramatically in the future as it is a must-have service for anyone launching a blog, website or online store.

In particular, there are some trends that, in our view, should bolster web hosting market growth:

- **Mobile Internet is pushing active users up.** By the end of 2018, it is expected that over half of the world's population will be online (ca. 3.82bn users), also due to the exponential growth in mobile usage that has exceed traditional desktop and by 2020 it is expected to ca. 68% of the overall online traffic. The increase in users means that more people will launch their own websites, and hosting companies are more likely to do well in the foreseeable future;
- **Shift to higher value-added services.** Basic web hosting services are the hook to conquer new clients, but the mission is then to progressively migrate them on higher value services such, as an example, Private Cloud ones.
  Enterprises are increasingly moving their workloads to private cloud because is easier to use and offers greater data security compared to public cloud. In addition, private clouds provide more accessible and streamlined websites as well as lower costs;
- **Ever-extending domains.** While at the beginnings of World Wide Web domain names had one of just nine extensions (e.g. .com, .org, .net), on the contrary now it is possible to register a domain using one of almost 100 extensions and many more will be made available in the future. This is obviously creating additional opportunities for hosting providers;
- **eCommerce takes up.** eCommerce is forecasted to accelerate its growth and, in order not to miss such an opportunity, online retailers will have to improve their Internet presence. Indeed, websites are important not only for explaining product related information but also for infusing

consumer confidence in making a purchase from an online store, so building customer relationships online through websites is a vital prerequisite for survival in the modern market environment.

eCommerce penetration

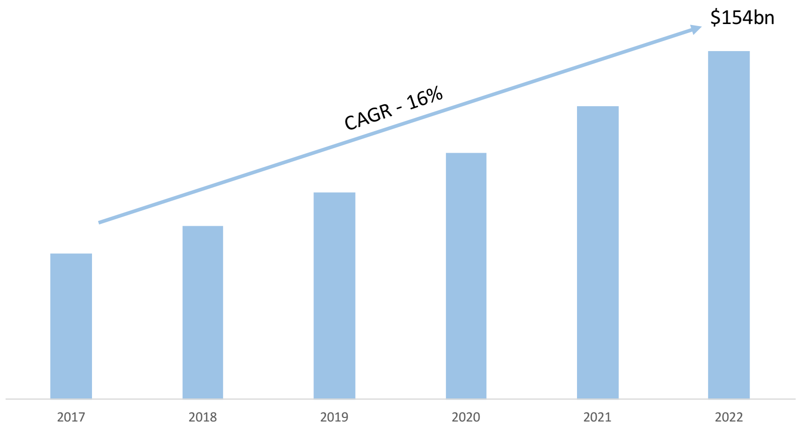
(Country, %)	2015	2016	2017E	2018E	2019E	2020E	2021E
Croatia	47.1	48.8	50.1	51.5	52.9	54.1	54.9
Italy	33.7	34.5	35.4	36.5	37.5	38.6	39.6
Serbia	43.1	47.1	51.0	55.5	60.2	64.8	68.7
Slovenia	61.6	64.1	67.6	71.3	75.3	79.3	83.3
Switzerland	69.1	70.5	71.7	73.1	74.5	75.2	75.8

Source: Europe's digital progress report, 2017

Overall, ca. 16% compound annual growth rates ahead

As an effect of what we highlighted so far, i.e. increasing volumes and decreasing prices, the market should boast a double-digit rate in the next few years. Indeed, Market Research Future forecasts the market growing in the next five years at a 16% CAGR17-22, meaning that market value should reach $154bn by 2022.

Expected Web Hosting market growth in 2017E-22E period ($bn)



Source: Market Research Future, July 2017

As far as the different types of web hosting services are concerned, a research by 451 Research foresees that focus should progressively shift from traditional hosting infrastructure to more specialized ones. Indeed, managed hosting is expected to grow about 18.7% per year through 2022, followed by share hosting and dedicated hosting that should increase by 10.4% and 5.7% per year respectively over the analysis period.

In terms of growth rates by geographical area, 451 Research forecasts that APAC and Latam should be the highest growing regions (up +29% and +30% CAGR respectively through 2019). Indeed, it is estimated that already as of now around 48% of all Internet users are in Asia, (meaning website hosting business should allow visitors to translate the page into most widely spoken Asian languages).

The more mature North American and EMEA markets should follow with expected growth rates at +12% and +14 CAGR respectively over the next five years.

Brands managed by DHH

So far DHH has controlling shares in companies that in total are managing **eight brands across five different geographic areas** serving **nearly 100,000 customers Europe-wide** with a broad array of products.

DHH: Brands currently managed

Tophost

Founded back in 2004. Tophost offers web hosting services at a very affordable cost. It currently accounts for over 150,000 active domains, proving to be the first hosting provider in the low-cost field and the third ranked player for the number of domains registered in Italy.

Domenca

The first brand able to offer domain name registration to Slovenian customers in their own languages. Core business lays in domain registration, web hosting and development of web applications and websites.

Domovanje

Its activity focuses on providing first-class customer support. The two Slovenian brands currently hold a large slice of the local market i.e. ca. 45,000 registered domains, 20,000 customers and over 1,000 websites created.

Plushosting

The largest hosting provider in Croatia with ca. 26% of market share and 23,000 registered domains. In addition, it is also entered in the Serbian market (ca. 6,500 registered domains) and is already among the top 10 registrars for .rs ccTLd domains.

Studio4web

The brand is the leader in the low-cost hosting category, and the fourth largest hosting in the Croatian market by number of clients and hosted domains. Registered domains are ca. 6,550.

InfoNET

The first acquisition post IPO, the brand is one of the main players in the Croatian web hosting market, and it has shown an organic growth both in terms of revenues and number of hosted domains, with about 6,450 registered domains.

Hosting IT

A new hosting provider in the Croatian market, founded in 2015 with the purpose of offering quality hosting at affordable prices.

Artera

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.

Source: Value Track Analysis

Market positioning of different brands tailored on each country features

Company's web hosting packages differ across European countries. Indeed, market supply is not the same for each individual brand, and in our view, is characterized by:

- Local market competition;
- Local market share;
- Professional level of addressed final users.

If, from one side, Tophost's products are mainly addressed to players that operate in the field of low-cost web hosting services (web hosting services for entry level starting from €10 per year), on the other side products supplied by Artera and partially by Plushosting in Croatia are dedicated to high-end users, that need more complex and sophisticated hosting services. Reasons are quite intuitive, due to the high level of competition in the Italian market with two main players, Aruba and Register.it, holding more than 45% of the overall market share.

Quite different is the market supply provided by Slovenian brands (Domenca and Domovanje), since being market leaders in such region these brands offer several packages, from simple web hosting services to VPS, SSL certificates and website builder tools, with prices which range between €24 to €3,000 per year.

Similar was the market strategy achieved in Croatia through post IPO acquisitions (InfoNET, HostingIT and Studio4web) aimed at consolidating local market share, offering quality hosting services complementary to Plushosting ones at affordable prices.

Due to the above markets' features, it makes no sense to identify brands qualities on the base of provided products, but we believe it is better to assess their integrated services on the hypothetical final user / costumer each brand intends to address. Indeed, by looking at web hosting packages available for sell by single brand, and the relative range prices (which take in considerations several additional facilities), in the following we report a table in which brands are placed according to the country in which they operate and on the technological and professional degree of potential customers.

DHH: Brands by final users

Source: DHH, Value Track Analysis

As concern market share each brand currently holds, is quite difficult to get reliable public data. Indeed, most services provide data based on combination of crawler data and DNS records (sometimes not considering ccTLDs) or found their assumptions on Alexa rating which is really unreliable.

However, if we use ccTLD active domains as a proxy, we can obtain a proxy of local market shares among different countries:

- Tophost holds ca. 2.5% of the Italian market. Although there are a lot of domain / web hosting providers, by comparing products available on the market and dedicated to entry-levels, it can be easily verified how Tophost products remain extremely competitive. Beyond Register.it and Aruba, which are market leaders, a lot of additional small players (e.g. Keliweb, VivaHosting, DominioFaiDaTe) can be found;
- Slovenian brands hold ca. 28% market share. Main competitors are Hitrost by market share, but quite inactive in the last few years, and Neoserv which is achieving interesting growth rates thanks to a good marketing strategy;
- In Croatia, market share stands at ca. 25%. Avalon is the second largest provider and the main competitor of Plus, supplying premium products, while Totohost is a budget provider which is implementing aggressive overselling strategies and that can be considered the direct competitor of Studio4web in the low-cost field;
- Serbian market is quite an inactive market, where DHH's brands hold ca. 4.5% market share. The nearest competitors are Ninet, Adriahost and Stanco.

New VAS to boost ARPU

Since its foundation, DHH business model has been addressed to expand its supply chain, trying to meet all customers' needs, providing high quality products and granting customers a satisfying experience levels. All this with the aim to foster a steady growth by increasing customer base and improving retention rates.

DHH intends to launch new SaaS products designed for SMEs, available also to English-speaking businesses and expects these new products to be an important driver for company's future growth, reaching 10% of the overall revenues amount.

Indeed, value-added products lie on a higher price range than standard domain and hosting ones and have the same subscription-fees business model.

Up-selling / Cross-selling with new VAS as a way to boost ARPU

Source: GoDaddy Corporate presentation

Next steps in DHH development

We expect DHH to keep growing also by M&A given the existing Net cash position coupled with further cash generation capabilities. More in particular, we believe that DHH will target companies that allow a further geographic expansion in "unusual geographies" and also ones that allow entering the cloud computing market in order to enlarge its value chain coverage.

As we said before, web hosting and domain names sales are only the first "verticals" where DHH has applied its M&A driven growth strategies. And the job is not finalized yet even there.

So, we can summarize DHH future M&A strategy highlighting two possible directions:

- **Further geographic expansion and targets optimization;**
- **Investments in cloud computing market;**

Further geographic expansion and targets optimization

Potential targets are companies involved in web hosting business that provide advanced products, as managed hosting. More in details, geographic expansion aims at:

- **Consolidating geographic markets** in which the company is already active with the aim to strengthen its market leadership position (Italy, Slovenia, Croatia and Serbia). The group aims at acquiring related customer bases, to give more visibility to local brands that already have a market share. This scenario was pursued for example in Croatia with the acquisition of Infonet, Hosting It and the webhosting branch of Studio4web;
- **Entering in new geographic markets,** acquiring local market leaders and then bolstering market presence (Bulgaria, Romania, Albania, Macedonia and Montenegro).
- **Entering in new market segments,** trying to meet all customer needs and preferences in the basic web-services field. In other words, company aims at integrating solutions that could be addressed also to large enterprises, which require more sophisticated and elaborated instruments.

Target markets are mainly composed by several small companies, which are typically managed by a few persons. Due to the limited size and low resources, the internationalization process is clearly difficult for them. For these reasons, DHH can provide high value to such companies through its inter-disciplinary team.

As far as M&A deals funding is concerned, acquisitions could be implemented not only via cash, but also through equity swaps, as made in Switzerland with Bee Bee Web where DHH has finalized also an equity agreement with the company's founder (40% of the deal value paid through the issue of new DHH shares).

Investments in cloud computing market

DHH future strategy also relies on **investments in companies operating in the cloud computing market.**

DHH would combine services/products provided by the investee company with those currently offered by owned brands and at the same time attaining the related customer base.

We note that DHH would not have to make changes to its business model based on subscription fees and renewals, as cloud computing services are provided in the same manner.

The company is looking for small entities active in non-English speaking markets, characterized by a moderate top line amount (at least of €200,000) and high potential growth rates.

We appreciate such a strategy as cloud computing is definitively a high growing market with solid growth drivers.

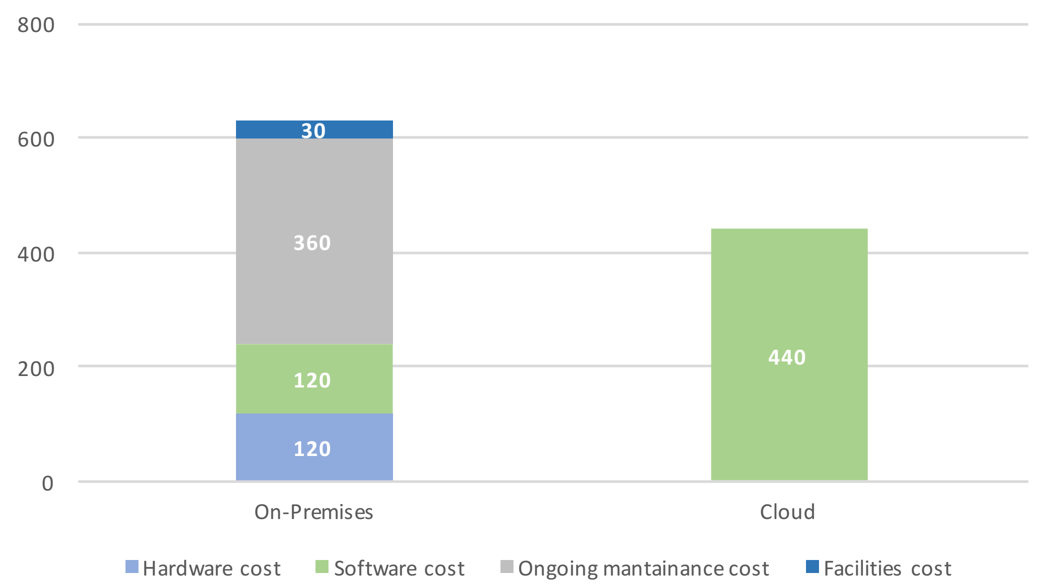
Drivers of cloud computing take up

More and more SMEs are switching from "on premise" software / tools to cloud based ones due to:

- **Costs savings.** With cloud computing SMEs can save capital costs with zero in-house server storage and application requirements, improving cost efficiency by more closely matching cost pattern to revenues/demand one;
- **Much more reliable and consistent than in-house IT infrastructure.** Hosted application and services can easily and quickly be transited to any of the available server. Cloud organization benefits from a massive pool of IT resources and failover proof mechanisms;
- **Faster provisioning.** Cloud services are provided on-demand, and most cloud computing resources can be provisioned in few minutes;
- **Greater flexibility.** Cloud computing allows company's business to easily upscale or downscale each IT requirements as and when required;
- **Energy-efficient technology,** reducing carbon footprint.

However, saving costs may be the biggest reason that organizations are switching from "on premise" infrastructures to cloud deployments. The chart below illustrates that an organization may incur 30% in cost savings ($630 per core per month to $440).

Cost of Ownership: On Premise vs. Cloud ($ per core per month)



Source: Nasdaq Global Information Services

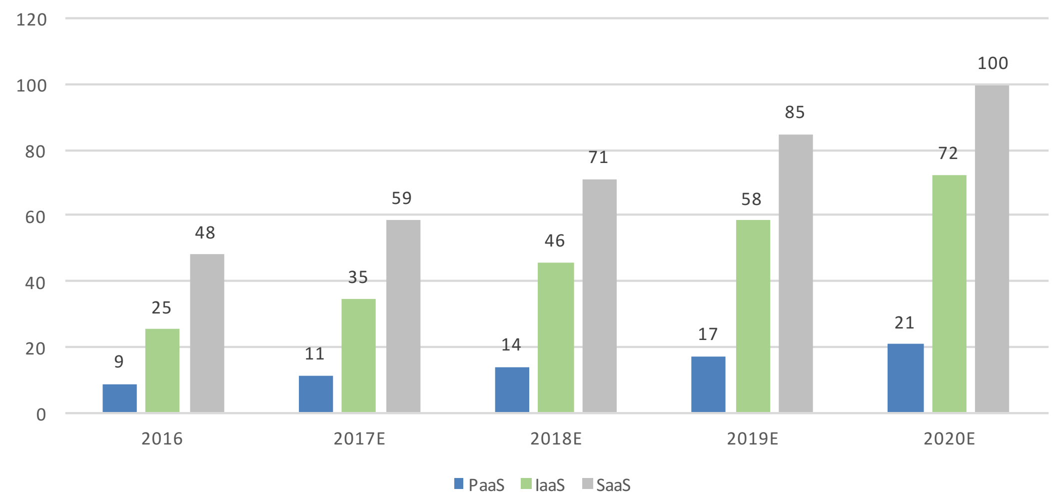
Sizing Cloud computing market growth

As a result of the aforementioned key drivers, **double-digit growth should continue in the next few years** in the cloud computing market.

The chart below shows that, according to Gartner, IaaS will have the strongest increase, growing from $25bn in 2016 to ca $72bn in 2020, with a 28% CAGR 17-20.

On the other side, PaaS and SaaS should experience a lower CAGR over the same period, about 22% and 19% respectively.

Paas, IaaS and SaaS Worldwide revenues forecasts: 2016A-20E



Source: Gartner technology research, October 2017

Financial Results FY16 & 1H17

Although numbers are typical of a small company, we note that 1H17 Revenues, EBITDA and Net Profit have grown by 18%, 17% and 47% YoY respectively, giving a striking evidence of company's growth attitude.

High visibility of Revenues, low double digit operating margins and steady cash generation are, in our view, the key financial features of the company.

As previously mentioned DHH is a very young company, it was founded back in 2015, and boasts a strong growth attitude to be pursued especially trough M&A deals. Overall, it can be perceived more as an "industrial minded" private equity that focuses on SaaS businesses rather than, simply, a web hosting company.

That said, the history of DHH financials is extremely short and, in our view, it is not worth looking at 2015FY historical numbers because first acquisitions carried on by the company have been consolidated starting from January 2016.

So, we'll take into account 2016FY and 1H17 figures by highlighting not only reported figures but also pro-forma ones i.e. financial schemes where:

- Financial effects of acquisition finalized in 2016 and in 1H17 are included for the whole period (i.e. since 1st January 2016 or since 1st July 2017) and not since the official consolidation date;
- All direct and indirect costs relating to AIM Italia listing and to non-recurring events (M&A and other extraordinary activities) have been excluded in order to underline the industrial profitability of the business.

Reported and Pro-Forma Profit & Loss Statements

DHH: Reported and Pro-Forma Profit & Loss evolution in 2016FY and 1H17

(€ '000)	2016A	2016 PF	1H17	1H17 PF
Total Revenues from Sales	3,948	4,227	2,389	2,861
Other Revenues	16	76	165	164
Total Value of Production	**3,964**	**4,303**	**2,554**	**3,025**
COGS	-2,679	-2,606	-1,580	-1,582
Labour costs	-929	-964	-758	-1,072
EBITDA	**356**	**734**	**216**	**371**
D&A	-121	-130	-63	-71
EBIT	**235**	**603**	**153**	**299**
Net Financial Charge	-22	-4	-33	-39
Non-Recurring Items	7	8	-1	0
Taxes	-64	-85	-33	-34
Minorities	0	0	13	35
Net Profit	**155**	**522**	**98**	**261**

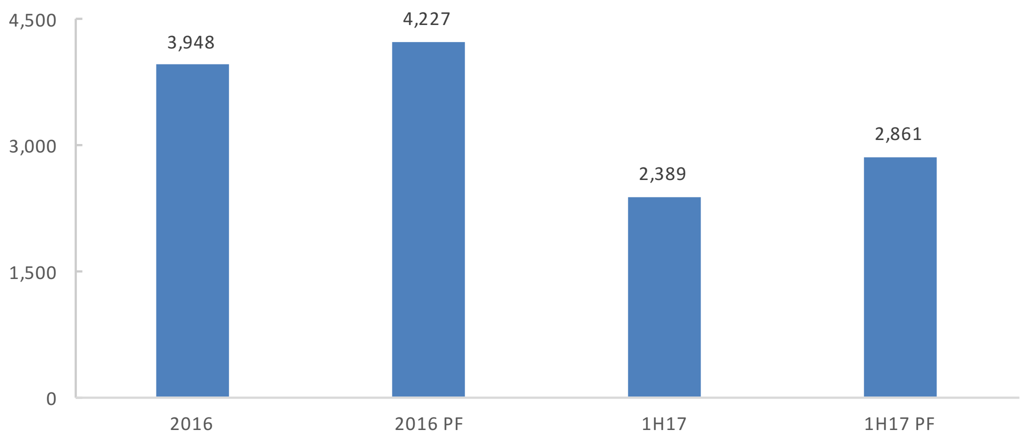
Source: Company figures, Value Track Analysis

Revenues evolution

Reported Consolidated Revenues reached ca. €4mn in 2016FY and €2.4mn in 1H17. As far as Pro-Forma figures, Revenues from Sales amount to more than €4.2mn in 2016 and €2.8mn in 1H17 respectively (Underlying YoY growth in 1H17 stands at +18%) with the difference vs. reported figures being due to acquisitions.

Indeed, in 1H17 reported figures there is only two months financial contribution of recently acquired Swiss based Bee Bee Web and of its Italian reseller Hosting Star. Obviously in 1H17 Pro-Forma figures are included for the whole six months period.

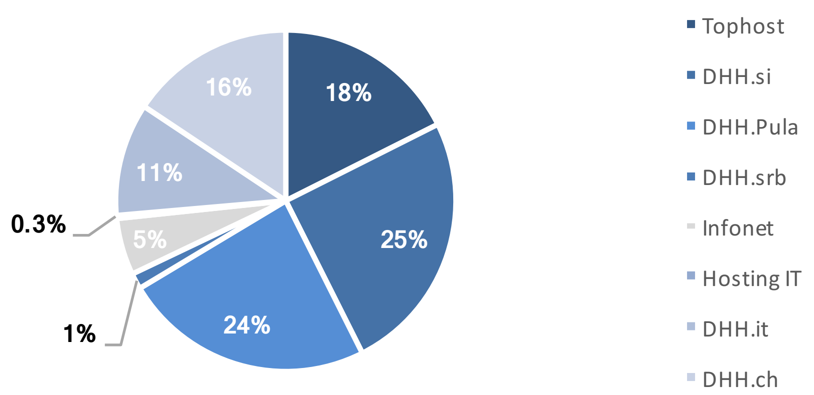
DHH: Actual and Pro-forma Revenues evolution 2016A, 1H17



Source: Company figures, Value Track Analysis

Based on 1H17 aggregated Pro-Forma figures (i.e. before intra-group elisions) we underline how the Italian Tophost, the Slovenian DHH.si and the Croatian DHH Pula jointly account for roughly 70% of group Revenues.

DHH: Revenues breakdown by legal entities



Source: Company figures, Value Track Analysis

As far as the "organic" growth trend of the various legal entities is concerned, we note that:

- **Tophost's** Revenues in 1H17 are down YoY by ca. 6%, but a deep turnaround effort has been finalized as of May 2017 aimed at improving customer acquisition / retention. Such a turnaround effort is proving to have been successful and a positive impact should be expected on top line and on profitability margins in the near future;
- **DHH.si,** and **DHH.Pula** have shown a double digit organic growth pace over the first six months of 2017, ca. +26% and +15% respectively;
- **DHH.srb** turnover remains quite stable in 1H17 with respect the same period of previous year;
- **Infonet, Hosting IT, DHH it** and **DHH.ch** were not consolidated in 1H16 yet.

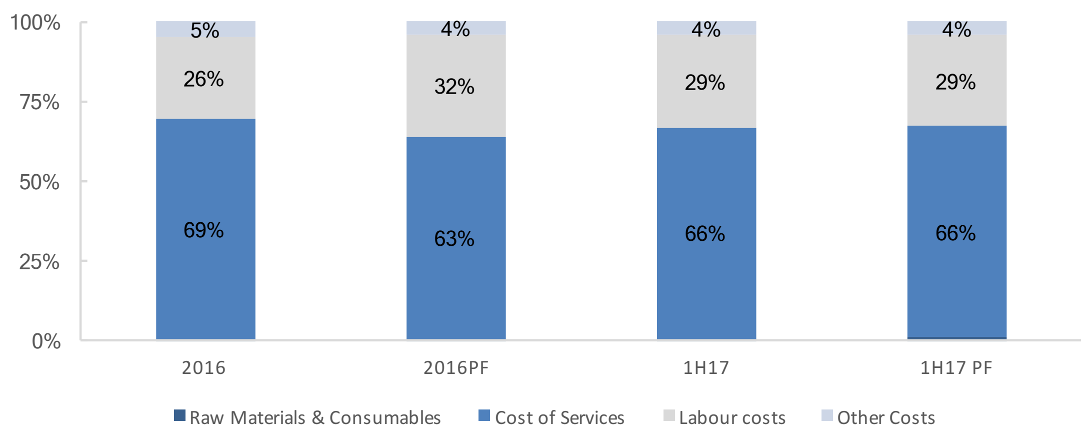
Opex structure

We remind that DHH business model is based on subscriptions / renewals and that services are provided on a "cloud" basis. This is the rationale for costs being heavily skewed on personnel and purchased services while raw materials / consumables are negligible.

Indeed, we highlight:

- Costs of Services account for ca. 70% in 2016FY and 66% in the first half of 2017. These costs refer mainly to wholesale costs, commercial and marketing expenses, datacenter and professional services among which a part is attributable to listing costs and non-recurring M&A ones;
- Labour costs account for 26% in 2016 and 29% in 1H17, with the higher incidence being due to high salaries paid to newly acquired Swiss based Artera's employees. We anticipate that a personnel downsizing is currently undergoing in that company;
- Other costs (mainly SG&A costs) decreased to 4% of total in 1H17 from the 5% level recorded in 2016.

DHH: Actual and Pro-forma Opex breakdown 2016A, 1H17



Source: Company figures, Value Track Analysis

Operating and Net Profitability

Once again, we underline that one of the differences between Reported and Pro-Forma figures is related to AIM Italia listing costs and non-recurring M&A fees, all costs that impact in a disproportionate way the P&L of such a young company such as DHH. Indeed, these costs account for ca.€0.38mn in 2016 and €0.16mn in 1H17.

The remaining difference relates to the impact of acquisitions that in Pro-Forma figures has been considered for the whole reference period.

Here follows the reconciliation between Reported and Pro-Forma 2016FY and 1H17 figures. We note that based on Pro-Forma figures the operating profitability stands at 14.3% and 10.5% in 2016 and 1H17 respectively.

DHH: Reconciliation between Reported and Pro-Forma 2016FY and 1H17 figures

(€ '000)	2016A	1H17
EBITDA Reported	**356**	**216**
Holding & Listing Costs (recurring)	260	139
Non-recurring costs (M&A etc..)	118	16
EBITDA Pro-Forma	**734**	**371**
EBITDA PF margin (%)	**17.4%**	**13.0%**
EBIT Reported	**235**	**153**
Holding & Listing Costs (recurring)	260	139
Non-recurring costs (M&A etc..)	118	16
Other	-9	-8
EBIT Pro-Forma	**603**	**299**
EBIT PF margin (%)	**14.3%**	**10.5%**
Net Profit Reported	**155**	**98**
Holding & Listing Costs (recurring)	260	139
Non-recurring costs (M&A etc..)	118	16
Other	-11	8
Net Profit Pro-Forma	**522**	**261**
Earnings Per Share PF (EPS) (€)	**0.37**	**0.18**

Source: Company figures, Value Track Analysis

Balance Sheet and Cash Flow Statement analysis

At the Balance Sheet / Cash Flow Statement level, DHH boasts many of the usual features of SaaS providers whose growth relies on M&A i.e.:

- **Net Fixed Assets** mainly made of M&A originated goodwill, which is not amortized but subject to impairment tests;
- **Negative Net Working Capital** as it is strongly affected by unearned revenues i.e. Accruals and deferred income, for whom cash movement have been realized prior to accounting recognition, still due to the subscription-fees based model;
- **Very high EBITDA conversion ratio,** i.e. almost all EBITDA flows down at the OpFCF before tax level as cash generation from Working Capital offsets Capex. As of 2016FY and 1H17 conversion ratio stood at 87% and 218% respectively;
- **Positive Net Cash Position,** at ca. €2.3mn in 1H17, also thanks to IPO proceeds partially invested in cash based acquisitions.

DHH: Reported Balance Sheet 1H16, FY2016, 1H17

(€ '000)	1H16	2016A	1H17
Net Fixed Assets	4,290	4,814	6,153
Net Working Capital	-1,222	-944	-1,305
M/L Term non-financial liabilities	1	2	3
Net Invested Capital	**3,068**	**3,868**	**4,845**
o/w Group Net Equity	**3,229**	**7,052**	**7,123**
Net Financial Position	**160**	**3,185**	**2,278**

Source: Company figures, Value Track Analysis

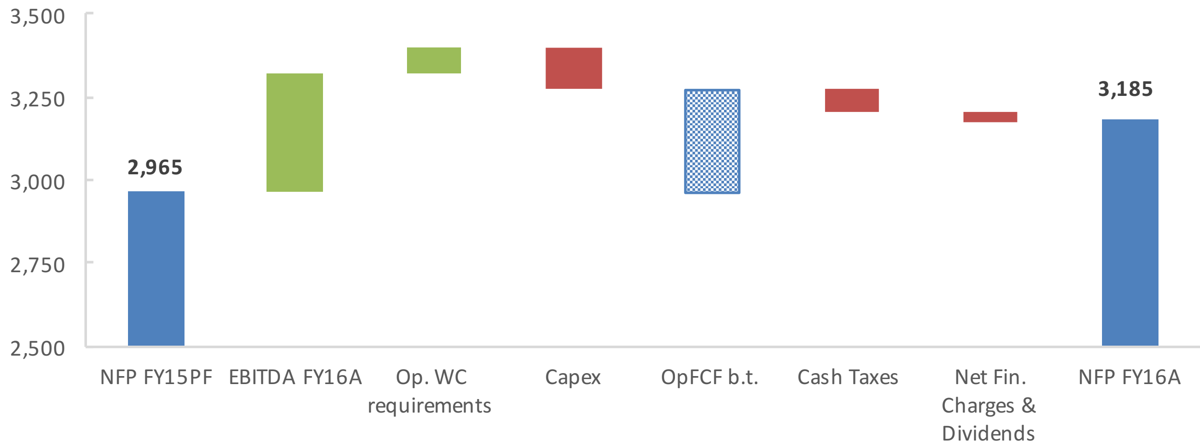
DHH: Reported Cash Flow Statement FY2016, 1H17

(€ '000)	2016A	1H17
EBITDA (Reported)	**356**	**216**
Op. WC requirements	79	361
Capex (not incl. Fin. Inv.)	-128	-107
Change in provisions	2	1
Cash Taxes	-64	-24
OpFCF a.t.	**244**	**447**
As a % of EBITDA	69%	207%
Capital Injections	6,011	0
Financial Investments	-2,783	-1,320
CF available to serve debt / equity investors	3,472	-873
Net Financial Charges	-22	-33
Dividend paid	-9	0
Change in Net Fin Position	**3,441**	**-907**

Source: Company figures, Value Track Analysis

In order to shed a clearer view on DHH's organic cash generation capability we reclassified 2016FY Cash Flow Statement starting from a Pro-Forma Net Financial Position 2015 year end, adjusted for IPO's proceeds and M&A cash out that took place in 2016. As hinted before, OpFCF before taxes almost equals EBITDA.

DHH: Net Cash Position evolution 2015PF-2016A



Source: Company figures, Value Track Analysis

DHH: Net Financial Position structure 1H16, FY2016, 1H17

(€ '000)	1H16	2016A	1H17
Cash and deposits (+)	953	3,926	3,076
Debt to Banks within 12 months (-)	-90	-87	-190
Current Net Financial Position	**863**	**3,839**	**2,886**
Long term financial credits (+)	0	0	0
Debt to Banks over 12 months (-)	-703	-655	-607
Debt to Parent Co. / Other Sh.holders (-)	0	0	0
Bonds (-)	0	0	0
Non Current Financial Position	**-703**	**-655**	**-607**
Net Fin. Position [Net debt (-) / Cash (+)]	**160**	**3,185**	**2,278**

Source: Company figures, Value Track Analysis

Forecasted Financials 2017E-19E

In the next three years, we expect the company to maintain a sound double-digit Revenues growth rate (ca. 15% CAGR), with an EBITDA margin that should reach 12.5% by FY19E, as a result of Opex optimization and positive operating leverage. In addition, the company should keep further improving its net cash position, which should achieve approximately €3.6mn by FY19E, given its cash-generation business model based on a favourable working capital evolution.

Introduction

Despite the fact that DHH's growth strategy heavily relies on M&A, we underline that our 2017E-19E Base Case estimates are based on the current consolidation perimeter. An M&A scenario will follow.

That said, our 2017E-19E assumptions are driven by the following key considerations:

- High visibility for Revenues, as an effect of the subscription based model with a high percentage of recurring clients;
- Limited organic capex needs and favorable working capital dynamics, resulting in a positive cash generation;
- Stability of well-balanced financial structure.

High revenues visibility

We expect DHH's reported customer base to increase from the ca. 90k number as of the end of December 2016 up to ca. 107k as of the end of 2019E (+19.4% in total, +8.1% average annual like-for-like growth) as an effect of:

- Ca. 13k Gross Adds per annum;
- An average 7.1% annual churn rate, based on both historical patterns and recently implemented customer retention strategies;
- DHH.srb being the highest growing customer base (+21.4% average annual like-for-like growth) in percentage terms and Tophost being the highest contributor to total DHH clients' growth (ca. 55% of total) as an effect of the in-depth turnaround effort recently implemented.

DHH: Client base evolution 2017E-19E by legal entity

Legal Entity	Customer base 2016A	Gross adds 2017E -19E	Churners 2017E -19E	Avg. Ann. Churn Rate 2017E -19E	Net adds 2017E - 19E	Customer base 2019E
Tophost	45,760	23,240	13,552	8.9%	9,688	55,448
DHH.si	24,265	6,484	2,219	2.8%	4,265	28,530
DHH.Pula	8,966	3,470	1,785	6.1%	1,686	10,652
Infonet	5,875	1,708	1,144	6.1%	564	6,439
Hosting IT	493	144	123	8.1%	21	514
DHH.srb	2,699	2,727	1,546	15.5%	1,181	3,880
DHH.it	1,933	920	842	14.2%	78	2,011
DHH.ch	178	74	52	9.1%	22	200
Total	**90,169**	**38,767**	**21,263**	**7.1%**	**17,504**	**107,673**

Source: Value Track Analysis

As far as Revenues are concerned, we expect them to grow more than proportionally if compared to clients (i.e. we expect Average Annual Revenues per Client-User, ARPU, to increase), i.e. ca. 15% on average in the 2017E-19E period (+10.5% on a like for like basis assuming recent acquisitions as consolidated at the beginning of the year) thanks to the progressive introduction of new products.

DHH: Customer base, Average ARPU and Revenues CAGR 2017E-19E

Legal Entity	Customer base CAGR 1H17-19E	Aver. ARPU 2017E-19E	Revenues CAGR 2017E-19E
Tophost	7.6%	28.7	13.0%
DHH.si	9.3%	71.6	12.0%
DHH.Pula	7.8%	180.8	10.0%
Infonet	5.3%	61.3	5.0%
Hosting IT	2.1%	37.2	5.0%
DHH.srb	21.2%	47.8	30.0%
DHH.it	0.2%	347.5	25.1%
DHH.ch	7.5%	5,403	28.8%
Total DHH	**8.1%**	**75.9**	**15.3%**
Total DHH Pro-Forma			**10.5%**

Source: Value Track Analysis

In particular, we expect:

- **Tophost's** Revenues stable YoY in 2017E and growing at double digit rates in 2018E and 2019E (+23% and +22% YoY respectively), thanks to the recent turnaround effort;
- **DHH.si** and **DHH.Pula**, as well as **DHH.srb** to maintain a double-digit revenues growth rate, enhancing their market shares in Slovenia, Croatia and Serbia;
- Infonet, Hosting IT, DHH.ch (and its Italian reseller DHH.it) to show one-digit growth rates.

DHH: Revenues breakdown by legal entity 2016A-19E

(€ '000)	2016A	2017E	2018E	2019E
Tophost	1,248	1,252	1,415	1,599
DHH.si	1,350	1,608	1,801	2,018
DHH.Pula	1,299	1,555	1,726	1,881
Infonet	80	357	375	394
Hosting IT	7	18	19	19
DHH.srb	95	109	141	183
DHH.it	0	513	730	803
DHH.ch	0	729	1,100	1,210
Intragroup elisions	-131	-800	-904	-1,012
Total Revenues from Sales	**3,948**	**5,341**	**6,403**	**7,095**
Other sales	16	315	334	354
Total Revenues	**3,964**	**5,656**	**6,736**	**7,448**

Source: Value Track Analysis

Costs structure

We expect Opex to grow at a ca. 13% CAGR in 2017E-19E period, maintaining a structure similar to the current one i.e.

- Costs of services should maintain the highest incidence, standing at ca. 61% of Revenues from sales;
- On the other side, raw materials costs should continue to have no relevant impact;
- Labour costs to temporarily increase their impact with respect to sales, moving from ca. 24% in 2016A to ca. 32% in 2017E, mainly due to the high impact of personnel costs faced by DHH.ch. Already as of 2018E we expect the Group to reduce this incidence, optimizing labour forces and removing inefficiencies.

DHH: Opex structure 2016A-19E

(€ '000)	2016A	2017E	2018E	2019E
Raw Materials & Consumables	-11.8	-30.0	-44.8	-56.8
Raw Materials & Consumables / Sales	*-0.3%*	*-0.6%*	*-0.7%*	*-0.8%*
Cost of Services	-2,491	-3,274	-3,925	-4,349
Cost of Services / Sales	*-63.1%*	*-61.3%*	*-61.3%*	*-61.3%*
Labour costs	-929	-1,680	-1,725	-1,875
Labour costs / Sales	*-23.5%*	*-31.5%*	*-26.9%*	*-26.4%*
Other Costs	-176.5	-200.0	-256.1	-283.8
Other Costs / Sales	*-4.5%*	*-3.7%*	*-4.0%*	*-4.0%*
Total Opex	**-3,608**	**-5,184**	**-5,951**	**-6,564**
Chg. % YoY	**n.m.**	**43.7%**	**14.8%**	**10.3%**
As % of Revenues	**-91.4%**	**-97.1%**	**-92.9%**	**-92.5%**

Source: Value Track Analysis

Operating Profitability to progressively increase

Our profitability forecasts outline the following points:

- Reported EBITDA Margin should increase to ca. 12.5% in 2019 from the current 9% level, with Reported EBITDA in absolute terms at ca. €0.9mn;
- Reported EBIT Margin should reach ca. 9.5% in 2019 from the current ca. 6% level with Reported EBIT in absolute terms at ca. €0.7mn.

Such a profitability growth should be the result of Operational Expenses optimization driven by the progressive implementation of DHH's inter-disciplinary team best practices.

DHH: Reported EBITDA-EBIT evolution 2016A-19E

(€ '000)	2016A	2017E	2018E	2019E
Reported EBITDA	**356**	**472**	**786**	**884**
Margin	*9.0%*	*8.8%*	*12.3%*	*12.5%*
Reported EBIT	**235**	**337**	**591**	**669**
Margin	*5.9%*	*6.3%*	*9.2%*	*9.4%*

Source: Value Track Analysis

In terms of Pro-Forma EBITDA-EBIT figures (i.e. not including AIM Italia listing costs), operating margins evolution would be as follows:

DHH: Pro-Forma EBITDA-EBIT evolution 2016A-19E

(€ '000)	2016A	2017E	2018E	2019E
Pro-Forma EBITDA	**734**	**767**	**1,066**	**1,164**
Margin	*17.4%*	*13.2%*	*16.6%*	*16.4%*
Pro-Forma EBIT	**603**	**615**	**856**	**934**
Margin	*14.3%*	*10.6%*	*13.4%*	*13.2%*

Source: Value Track Analysis

From EBITDA to Net Profit evolution

We note that below the EBITDA line only a few costs should impact DHH P&L. In particular:

- We do not expect high D&A charges as most of Net Fixed Assets is represented by goodwill subject to impairment test;
- Financial charges should be zero as the company is cash positive;
- Tax rate is expected to remain at 28%.

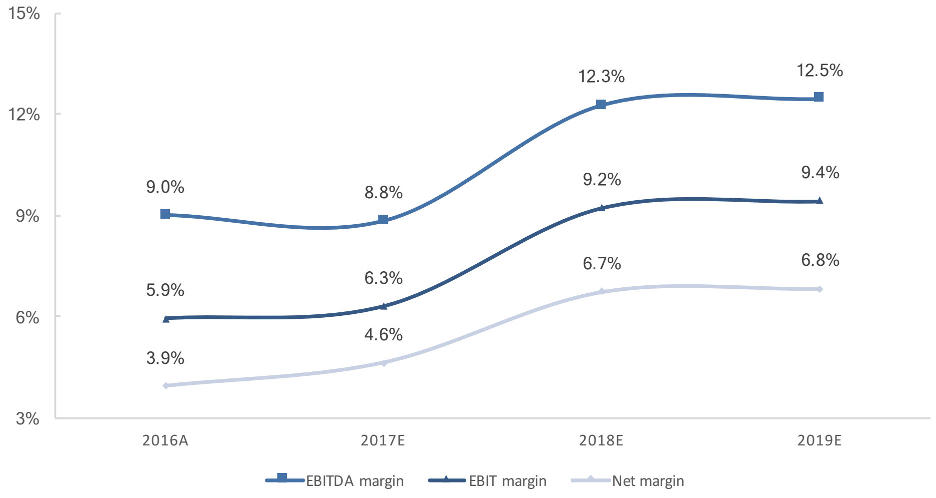
As a result, we expect Net Profit to reach ca. €0.5mn in 2019E, i.e. ca. 3x with respect to FY16A level.

DHH: From EBITDA down to the Bottom Line 2016A-19E

(€'000)	2016A	2017E	2018E	2019E
EBITDA	**356**	**472**	**786**	**884**
Depreciation on Tangible Assets	-89	-105	-125	-135
Amortisation on Intangible Assets	-19	-30	-70	-80
EBIT	**235**	**337**	**591**	**669**
Net Interest income / expense	-22	-34	-5	5
Non-Operating Income	7.2	-1.3	0	0
Pre-tax profit	**220**	**302**	**586**	**674**
Taxes	-64	-85	-164	-189
Net profit before minorities	**155**	**218**	**422**	**485**
Tax Rate	*-29.3%*	*-28.0%*	*-28.0%*	*-28.0%*
Minorities	0	30	10	0
Net Profit (Loss)	**155**	**248**	**432**	**485**

Source: Value Track Analysis

DHH: Profitability margins 2016A-19E



Source: Value Track Analysis

Cash generation and Balance Sheet evolution

As stated several times, DHH business model is based on subscription fees which lead the group to benefit from getting paid spot and then delivering its services at a subsequent stage. This allows for a positive working capital generation, i.e.:

- Limited gap between trade receivables and payables;
- Material unearned revenues i.e. Accruals and deferred income, typical of a business model based on advance payments.

Therefore, we estimate ca. €0.7mn cumulated working capital generation over the FY16A-19E period.

DHH: Working Capital Composition 2016A-19E

(€'000)	2016A	2017E	2018E	2019E
Trade Receivables	110	587	704	780
As a % of Sales	*2.8%*	*11.0%*	*11.0%*	*11.0%*
Accruals and prepaid expenses	378	558	640	639
As a % of Sales	*9.6%*	*10.4%*	*10.0%*	*9.0%*
Other current assets	255	345	413	458
ToT. Current assets	**743**	**1,490**	**1,758**	**1,877**
Trade Payables	246	614	736	816
As a % of Sales	*6.2%*	*11.5%*	*11.5%*	*11.5%*
Other Payables	80	100	90	100
Other Current Op. Liabilities	274	370	444	492
Accruals and deferred income	1,087	1,602	1,921	2,128
As a % of Sales	*27.5%*	*30.0%*	*30.0%*	*30.0%*
ToT. Current liabilities	**1,688**	**2,687**	**3,191**	**3,536**
Net Working Capital	**-944**	**-1,197**	**-1,433**	**-1,659**

Source: Value Track Analysis

Regardless favorable working capital dynamics, we also expect:

- Limited organic CAPEX since major developments have already been implemented;
- Almost zeroed financial charges thanks to a very limited exposure on interest-bearing liabilities.

Worthy to note, on a reported basis we believe DHH will generate a negative free cash flow in FY17E due to the financial investments sustained in the current year, but it should be able to reverse this trend and generate ca. €1.3mn cumulated Free Cash Flow in the FY18E-19E period.

As a result, Net Cash Position should reach approximately €3.6mn by FY19E.

We highlight also, as Cash Conversion should stand at an outstanding ca. 75% level after tax.

DHH: Cash Flow Statement 2016A-19E

(€'000)	2016A	2017E	2018E	2019E
EBITDA	**356**	**472**	**786**	**884**
Op. WC requirements	79	253	236	226
Capex	-128	-225	-250	-250
Change in provisions	2	1	2	2
OpFCF b.t.	**308**	**501**	**774**	**862**
As a % of EBITDA	*87%*	*106%*	*98%*	*97%*
Cash Taxes	-64	-85	-164	-189
OpFCF a.t.	**244**	**416**	**609**	**673**
As a % of EBITDA	*68.5%*	*88.2%*	*77.6%*	*76.1%*
Capital Injections	6,011	0	0	0
Other (incl. Fin. Inv.)	-2,783	-1,221	11	0
Net Financial Charges	-22	-34	-5	5
Dividend paid	-9	0	0	0
Change in Net Fin Position = FCF	**3,441**	**-838**	**615**	**678**
Net Cash Position	**3,185**	**2,346**	**2,961**	**3,639**

Source: Value Track Analysis

DHH: Net Cash Position evolution 2016A-19E

Source: Value Track Analysis

Acquisition scenario

As previously described, DHH mission relies also on growth via acquisitions. Indeed, several M&A deals have been finalized in the latest two years, with EV/Sales multiples in the 0.9x / 1.7x range.

We note that the company is still cash positive thanks to IPO proceeds and to internal cash generation so we expect it to continue to carry on further transactions for bolstering its market share and creating the *"Internet Platform of the Emerging markets of Europe"*.

DHH: Historical acquisition transactions

Announcement Date	Company	Country	Transaction Value (€'000)	Key Financials (€'000)		Implied Multiples	
				Net Sales	EBITDA	EV/Sales	EV/EBITDA
oct-15	Domenca	Slovenia	1,852.9	589.0	45.0	1.5x	14.6x
oct-15	Domovanje	Slovenia		633.0	82.0		
nov-15	Plus hosting	Italy	1,670.2	1,000.0	202.0	1.7x	8.3x
dec-15	Tophost	Croatia / Serbia	1,232.9	1,200.0	128.0	1.0x	9.6x
sep-16	Infonet	Croatia	466.7	352.0	126.1	1.3x	3.7x
mar-17	Studio4web	Croatia	280.0	179	n.a.	1.6x	n.a.
jun-17	Bee Bee Web	Switzerland / Italy	900.0	1,000	n.a.	0.9x	n.a.

Source: Value Track Analysis

As far as future deals are concerned, we are modelling EV/Sales multiples in the 1.0x region, i.e. in line with current DHH market multiple, total deals value at ca. €10m and payment of acquired companies partially cash and partially entering into an equity swap agreement with target's ownership based on current DHH market price.

Our assumptions are better summarized in the following table:

DHH: Acquisition assumptions

Net cash available 2018E (€mn)	2.9
New debt commitment (€mn)	2.0
Equity swap with target shareholders (€mn)	5.0
# DHH Ord. shares involved in the equity swap (mn) (share price € 7.4)	0.67
Total amount (EV) available for acquisitions (a)	**9.9**
Average EV/Sales multiple (b)	1.0x
Sales acquired (€mn) (c) = (a) / (b)	**9.9**

Source: Value Track Analysis

In this simulation exercise we are not considering any potential synergy deriving from target consolidation, and we are assuming an operating profitability consistent with DHH "base case" (adjusted for DHH listing costs that would not change).

Here follows the impact of this hypothetical acquisition on DHH key financial indicators. As expected the EV/Sales would remain roughly unchanged but EV/EBITDA and P/E would have a benefit as corporate costs would be shared on a higher industrial EBITDA from operations.

Obviously if DHH succeeds in acquiring assets at a lower EV/Sales multiple, the value creation effect becomes more important.

DHH: 2019E Base Case vs. Acquisition scenario

Key financials (€ mn)	Base case	Acquisition scenario
Total Revenues	7.1	17.0
EBITDA	0.9	2.1
EBIT	0.7	1.6
Net Profit (Loss)	0.5	1.1
Net Fin. Position [Net debt (-) / Cash (+)]	3.6	-0.4
N. of Shares (mn)	**1.4**	**2.1**
Mkt. price (€)	7.4	7.4
Mkt cap (€mn)	**10.9**	**15.5**
EV (€mn)	7.29	15.9
EV/Sales	1.0x	0.9x
EV/EBITDA	7.8x	7.5x
P/E	21.7x	14.3x

Source: Value Track Analysis

DHH poste M&A deals: Sensitivity analysis to acquisition multiples

	Acquisition multiples (EV/Sales)				
	0.50x	**0.75x**	**1.00x**	**1.25x**	**1.50x**
Sales	26.9	20.3	17.0	15.0	13.7
EBITDA	3.4	2.5	2.1	1.9	1.7
EV/Sales	0.4x	0.6x	0.9x	1.2x	1.5x
EV/EBITDA	3.0x	5.2x	7.5x	9.9x	12.4x

Source: Value Track Analysis

Appendix 1: DHH IPO structure

DHH was listed back in July 2016 according to the following IPO structure:

1. **IPO details:** Some 420k shares were issued at an IPO price of €10.00, resulting in a capital injection of €4.2mn and a close to 30% free float;
2. **Bonus shares** equal to 20% (i.e. 1 share free of charge each 5 shares) addressed to shareholders who own such shares at least for 3 years;
3. **Warrants** issued free of charge for each ordinary share with an exercise period between 1st January 2018 and 15th July 2021. Strike price is equal to IPO price increased by 15% (i.e. €11.50), subscription price at nominal value of €0.10, and exercise ratio given by the following formula: (average monthly price – exercise price) / (average monthly price – subscription price).

For the sake of completeness, if we assume all IPO's subscribers to hold their shares until bonus share maturity (July 2019), this would result in DHH shareholders structure to be the following. Please note that we are not including dilutive effects deriving from warrants, which are deeply out-of-the money.

DHH: Shareholders structure pre & post bonus share

Shareholders	Pre-bonus shares		Post-bonus shares	
	N. of Shs.	(%)	N. of Shs.	(%)
Seeweb s.r.l.	360,000	25.4%	360,000	23.9%
Giandomenico Sica	200,000	14.1%	200,000	13.3%
Matjaž Jazbec	108,350	7.6%	108,350	7.2%
Martin Romih	108,350	7.6%	108,350	7.2%
Uroš Čimžar	108,350	7.6%	108,350	7.2%
Matija Jekovec	108,350	7.6%	108,350	7.2%
Tomaž Koštial	6,600	0.5%	6,600	0.4%
Free Float	420,000	29.6%	504,000	33.5%
Total DHH	**1,420,000**	**100.0%**	**1,504,000**	**100.0%**

Source: Value Track Analysis

4. **Fiscal incentive** deriving from DHH status of Innovative SME. Investors are entitled a tax credit, in a measure equal to 19% of the total investment, for investment not exceeding €1mn.

Worthy to notice, if we take into account both the bonus share effect and the fiscal incentive one, we can calculate an adjusted IPO price i.e. a carrying value for all investors maintaining their DHH investment for at least three years.

DHH: IPO price adjusted for bonus shares and fiscal incentive

(€'000)	
IPO price (€)	10.0
Bonus shares	20%
Theoretical price per share (€) (post bonus share)	**8.30**
Fiscal incentive	19%
Theoretical price per share (€) (post bonus share and fiscal incentive)	**6.75**

Source: Value Track Analysis

Appendix 2: Shareholders / Top Management

Manager	Description
Antonio Baldassarra *DHH Board member*	With over 25 years of experience in Electronics, Telecommunication and Computer Science, Antonio is the founder and CEO of Seeweb, a leading Italian company in the field of IT services, cloud computing and data centres. Antonio is also committed to business creation and enhancement, and harbours a great passion for the development of start-ups and nascent companies operating in the world of Internet and cloud computing through business angel activities and industrial relationships.
Giandomenico Sica *DHH Board member* *Executive Chairman DHH*	Giandomenico is an entrepreneur with a passion for technology and technology-enabled services businesses. At present, he is involved as a "co-entrepreneur" in Dominion Hosting Holding and in MailUp, an industrial group of Email Service Providers focused on the non-English speaking markets and listed on the Italian Stock Exchange. He is also a former partner of Digital Magics, venture incubator of digital start-ups listed on the Italian Stock Exchange (IPO 2013).
Uroš Čimžar *DHH Board member* *CEO DHH*	Uroš Čimžar has over 15 years of experience in the web and hosting industry. While still at university, he co-founded Klaro where he worked as CEO. Klaro was one of the top 10 Slovenian web agencies, but the team also worked on its own internal projects such as Domovanje.com. Over the years, Uroš has accumulated extensive entrepreneurial experience, mostly in the fields of finance, marketing and business development.
Matija Jekovec *DHH Board member* *COO DHH*	Matija co-founded the Klaro group in 2003 and worked as a developer and later R&D manager. Through his technical career he acquired an intimate knowledge of development, software architecture, implementation of development processes (agile development, test driven development continuous integration) and system administration. As the company shifted focus to hosting and acquired some of its competitors, Matija managed the operations for the group and had an active role in building the largest hosting group in Slovenia. His background is in Computer Science and he is still actively involved in the developer community in Slovenia.

Appendix 3: Tophost, an example of turnaround scenario

Tophost has been subjected to a technological turnaround that has been finalized in May of 2017. Indeed, at the beginning of 2016 when DHH took over active management of Tophost, all relevant KPI's were negative:

- Customer base recorded negative growth rates;
- Revenues were still up but resulting from a price increase of €1 to stabilize finances in the light of negative customer trend.

For this purpose, DHH started with some analytical tests to find clear answers to the before stated problems, as for instance life time value based on individual product, or web site traffic trend and competitive market analysis. In addition, a customer survey has been run to perceive market sentiment.

Important key messages have been revealed from this examination. Although Tophost's products still remain the best value/for money, market sentiment analysis has shown the reputation of Tophost as cheap but unreliable.

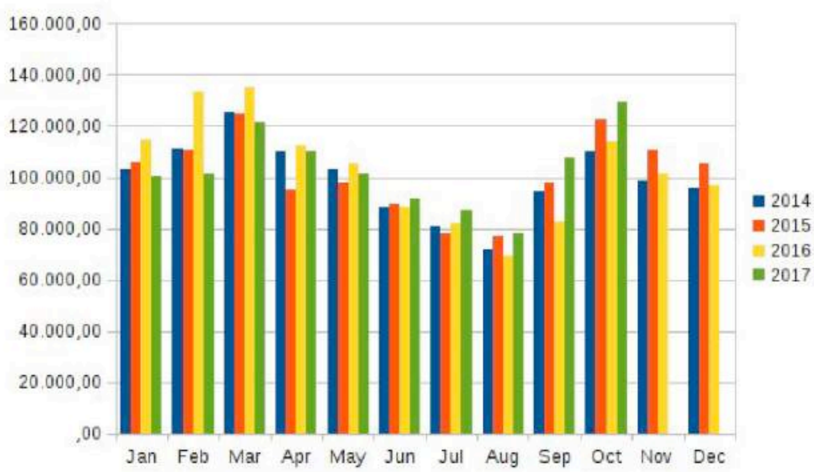
To overcome this issue, some adjustments have been implemented in order to enhance:

- **Customer acquisition** through investments in SEO and social networks marketing campaigns, limitations to customer acquisition costs and the redesign shopping experience with a new cart;
- **Customer retention** through wordpress 1-click install from control panel, free SSL and https support, webmail experience improvements;
- **Profitability margins** through the insertion of a simultaneous multiple subscription renewals, the introduction of "penalty renewals" for those who renew domain registration after expiration combined with upsell opportunities.

However, even if not all improvements can be achieved in the short run, some key indicators have been improved in a few months. Indeed, by looking at renewal rates, profitability margins and life time values, all assumed in monetary terms, it can be noticed a strong enhancement.

Another key driver is undoubtedly given by bookings trend that has signed a reversal (turnaround) over the last months.

DHH: Tophost booking history



Source: Company figures

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