

Dominion Hosting Holding

Sector: Internet Software and Services



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On the “cloud” to look beyond the horizon

DHH is a young and dynamic tech group active in the SaaS based web services / cloud computing field focused on areas with lower digital penetration and higher growth opportunities.

mCloud acquisition fitting well in DHH strategy

DHH has announced the acquisition of a 62% stake (plus a call option on the residual 38% to be exercised in two years from now) of mCloud, Serbian cloud computing company that officially started its operations back as of March 2018 as a spinoff of a leading web hosting group. We estimate a ca. 0.9x EV/Sales'18E multiple and we believe that the deal well fits with the already established growth strategies of DHH Group. Indeed, it should allow achieving a double goal: 1) product / service portfolio enlargement with the addition of Cloud computing “vertical”, 2) consolidation of leadership positions in Serbia.

Lots of new initiatives to fine tune business model

DHH has worked hard in the latest months in order to fine tune its business model and adapt to market evolution. This has meant: 1) the introduction of new technical and commercial features at the various subsidiaries level, also with the spinout of specific vehicles (e.g. Sysbee), and 2) the launch of the so-called “CloudSeed – Startup Turnaround” project aimed at scouting early stage companies in the SaaS space to be coached and revamped.

Double digit growth and positive cash generation

As far as the recent economic and financial evolution is concerned, we underline that in 1H18 Gross Sales kept growing at a double-digit rate i.e. +23% YoY while pro-forma EBITDA (i.e. gross of AIM Italia listing costs and of non-recurring M&A expenses) was up +36% YoY to €0.5mn. Thanks to EBITDA / OpFCF conversion ratio at 80% the Net Cash position further improved at ca. €2.7mn.

Fair value at €10.30 per share

Taking into account: 1) our revised 2108E-20E forecasts on one side, 2) updated sector multiples / DCF results on the other one, and 3) DHH's “M&A related” value creation capability, leads us to **assess a €10.30 per share fair value**, i.e. 10 bps higher with respect to the previous fair value calculated in our update report published back on April 2018.

Fair Value (€)	10.3
Market Price (€)	5.85
Market Cap. (€m)	8.3

KEY FINANCIALS (€'000)	2017A	2018E	2019E
REVENUES	5,289	6,179	7,477
EBITDA	531	670	820
EBIT	350	440	580
NET PROFIT	245	319	403
EQUITY	7,333	7,625	8,028
NET FIN. POS.	2,481	2,711	3,372
EPS ADJ. (€)	0.20	0.22	0.28
DPS (€)	0.0	0.0	0.0

Source: DHH (historical figures),
Value Track (2018E-19E estimates)

RATIOS & MULTIPLES	2017A	2018E	2019E
EBITDA MARGIN (%)	10.0	10.8	11.0
EBIT MARGIN (%)	6.6	7.1	7.8
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/EBITDA (x)	14.2	8.2	5.9
EV/EBIT (x)	21.9	12.6	8.4
P/E ADJ. (x)	37.3	25.8	25.4

Source: DHH (historical figures),
Value Track (2018E-19E estimates)

STOCK DATA	
FAIR VALUE (€)	10.3
MARKET PRICE (€)	5.85
SHS. OUT. (m)	1.42
MARKET CAP. (€m)	8.3
FREE FLOAT (%)	29.6
AVG. -20D VOL. (#)	128.6
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	5.80-8.56

Source: Stock Market Data



Business Description

DHH is a young and dynamic tech group active in the Web hosting, SaaS and Cloud-computing industry, with the goal of creating the “Internet Platform of the Emerging European markets”, countries with higher growth potential due the lower digital penetration with respect to more advanced geographies.

Taking a leadership position in such countries, the company would like to benefit from the natural growth trend already in place.

Nowadays, there are eight businesses under management across five countries (Croatia, Italy, Serbia, Slovenia and Switzerland), with ca. 100 thousand customers and 200 thousand registered domains.

Key Financials

€'000	2016A	2017A	2018E	2019E
Net Revenues	3,947	5,289	6,179	7,477
Chg. % YoY	nm	34%	17%	21%
EBITDA	356	531	670	820
EBITDA Margin (% of Net Revenues)	9%	10%	11%	11%
EBIT	235	350	440	580
EBIT Margin (% of Net Revenues)	6%	7%	7%	8%
Net Profit	155	245	311	418
Chg. % YoY	nm	64%	26%	52%
Adjusted Net Profit	257	284	319	403
Chg. % YoY	33%	5%	12%	26%
Net Fin. Position	3,185	2,481	2,711	3,372
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	128	350	250	300
OpFCF b.t.	308	625	591	837
OpFCF b.t. as % of EBITDA	87%	118%	88%	102%

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

Investment case

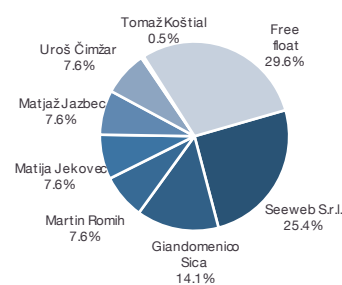
Strengths / Opportunities

- ◆ Excellent geographic footprint, market leader in Croatia and Slovenia
- ◆ Ever increasing reference market, expected to grow at double-digit rate
- ◆ Top managers' outstanding track record in digital business
- ◆ Sound Cash Flow generation deriving from subscription based business model

Weaknesses / Risks

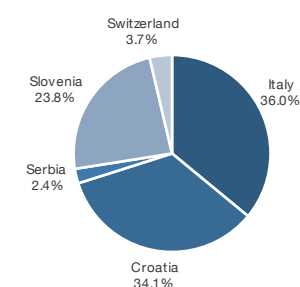
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with numerous players
- ◆ High incidence of listing and other non-recurring costs

Shareholders Structure



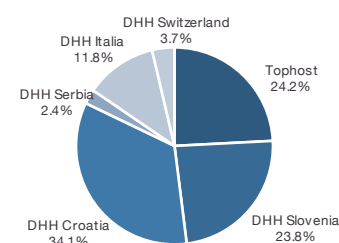
Source: DHH SpA

Sales breakdown by country



Source: DHH SpA

Sales breakdown by legal entity



Source: DHH SpA

Stock multiples @ €10.3 Fair Value

	2018E	2019E
EV / SALES (x)	1.9	1.5
EV / EBITDA (x)	17.8	13.7
EV / EBIT (x)	27.1	19.4
EV / CAP.EMP. (x)	2.4	2.4
OpFCF Yield (%)	4.9	7.4
P / E (x)	n.m.	36.3
P / BV (x)	1.9	1.8
Div. Yield. (%)	0.0	0.0

Source: Value Track

Acquisition of Serbian company mCloud

DHH Group has announced a deal to acquire the Serbian cloud computing provider mCloud, a company active on a stand-alone basis since a few months and previously part of the bigger hosting group Mainstream.

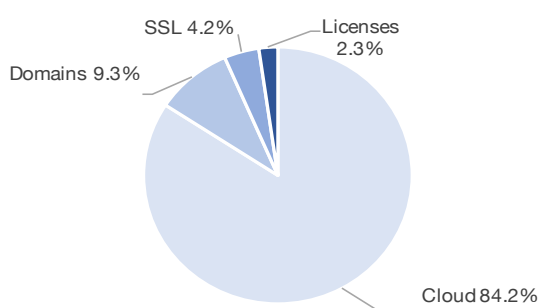
mCloud profile

mCloud is a Serbian cloud computing company fully dedicated at providing advanced hosting services through a SLA guaranteed cloud solution by means of which customers can manage their servers, lease domestic and international domains, manage DNS scripts and buy SSL certificates.

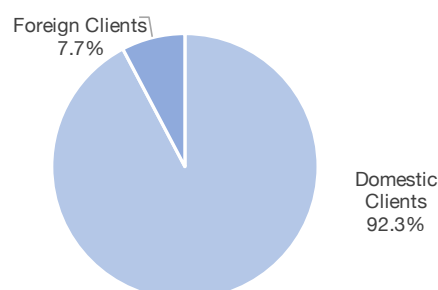
mCloud currently manages ca. 1,800 active clients almost entirely domestic, with which it signs multi period contracts generally settled in monthly or yearly payments.

2017FY Revenues Breakdown by Business Line and by customer origin

Revenues Breakdown by Business Line



Revenues Breakdown by clients' origin



Source: Various

More in details, mCloud offer is structured as follow:

- ◆ **Cloud Hosting.** Web sites hosting with security against external functioning influences and no limits in the number of sites, basis and e-mail accounts;
- ◆ **Cloud Server.** Through fast SSD virtual servers, the company offers the chance of using desired templates or pre-installed web scripts that can be continuously adapted to clients' needs;
- ◆ **Cloud Data Server.** Virtual data center by means of which lease resources and virtual servers are independently distributed;
- ◆ **Domains.** Registration and update of national and international domains, with over 100 attractive extensions with instant activation;
- ◆ **SSL certificates.** Protection for sites or applications through SSL certificates;
- ◆ **Licenses.** Leasing of licenses payable on monthly basis without big initial investments;
- ◆ **DNS.** Free any cast DNS (on 14 locations), managing all DNS records independently;
- ◆ **Monitoring Service.** Statistic information system to know demand data, resources utilization, service or port unavailable.

Deal structure

The deal foresees two main steps:

- ◆ DHH has acquired a 62% stake in mCloud with a €195K cash out and has also obtained an option to buy the remaining 38% after the approval of mCloud's 2020 financial figures;
- ◆ mCloud has acquired from DHH Group its Serbian subsidiary DHH SRB d.o.o. with the purpose of consolidating DHH Group's presence in Serbia under a single vehicle.

Having mCloud officially started its operations back as of March 2018, it is not possible to calculate deal multiples on historical financial figures. On 2018E forecasts, we estimate a ca. 0.9x EV/Sales multiple.

Rationale of the deal

In our view, mCloud deal well fits with the already established growth strategies of DHH Group. Indeed, the deal should allow achieving a double goal:

- ◆ **Product / Service portfolio enlargement** with the addition of Cloud computing “vertical” to the traditional Web hosting field. Other SaaS based solutions segments could be the next targets;
- ◆ **Consolidation of leadership positions in currently active countries.** This is a goal to be pursued essentially via the acquisition of small to mid-sized assets, attaining related customer base and distribution networks. After mCloud deal we expect further acquisitions in Balkans where the company aims at becoming the undisputed market leader.

What about remaining DHH growth strategies

Being a still young company DHH is, almost by definition, a very dynamic player. On top of this, if we consider that its reference market is rapidly growing and evolving, it's reasonable to expect that next future will be full of news for DHH, affected by both exogenous and endogenous drivers. Indeed, adapting to market evolution (and riding it) and making further business model fine tuning should be the rule for the next few quarters. That said, we reckon that DHH has worked hard in the latest months in the following fields.

Introduction of new products / services across BUs

Company's product portfolios differ across European countries, as well as across businesses the Group manages. This is perfectly aligned to DHH's strategy, with the final goal of meeting all customer needs and bringing all possible services to local markets. That said, main product developments / updates announced by individual businesses are the following:

- ◆ **Tophost** has introduced a new software to provide uptime status of all the nodes within customer system, and a new backup product (i.e. a batch system which copies customer websites every week, making a snapshot of everything present in its space). The business unit also launched a new social media engagement activity and some support pages to better manage new system and products;
- ◆ The **Slovenian subsidiary** focused on technical and optimization activities. Business lines under its management have launched new products additional to web hosting service (over than 30 services added), making them as user-friendly as possible i.e. not requiring technical skills;
- ◆ The **Croatian subsidiary** introduced a new billing platform, allowing customers to better control services and finances, as well as it launched new paid services.

Investing in innovative startups

In our Initiation of coverage report published back as of the end of January 2018, we already elaborated on how DHH's aim of generation of additional value beyond the hosting market could also be pursued through the activity of digital incubator / accelerator of early stage companies in the SaaS space.

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

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

We expect DHH and Seeweb to put on the table **investment tickets of €100k-€200k for each project** and to provide to these revamped startups acceleration support and coaching services as it was the case with Tophost, the company that joined DHH group back in 2016.

Indeed, we remind that when Tophost joined DHH group, it was in a descending trend (-7.6% YoY in bookings during 2H16) while as of now it is growing at double digit rates.

Sysbee spin-out: the new internal startup focused on managed infrastructure

The Group also launched the internal start-up project named Sysbee, with a focus on managed infrastructure. Sysbee is a startup with a well-defined purpose to fulfil needs and requirements of the managed hosting market in Croatia, acting as glue among hosting or cloud provider, web developers and clients.

The company is just at the beginning of its journey (€1mn revenues expected as of 2020), and its primary goals for upcoming years are: (i) attract new customers in the market and (ii) launch new product lines.

Update on recent financial performance

As far as the latest financial results are concerned, i.e. 1H18 figures released back at the end of September, they highlight a healthy organic growth for all industrial and financial KPIs. Efforts have been also made to scout for new M&A opportunities thus paving the way for further growth.

DHH: Reported and Pro-Forma Profit & Loss evolution 1H17 and 1H18

(€ '000)	1H17	1H18	YoY (%)
Revenues from Sales	2,389	2,960	+24%
Other Revenues	165	14	n.m.
Total Revenues	2,554	2,975	+16%
COGS	-1,580	-1,839	+16%
Labour costs	-758	-858	+13%
Reported EBITDA	216	278	+29%
D&A	-63	-127	+101%
EBIT	153	151	-1%
Net Financial Charge	-34	-11	n.m.
Taxes	-33	-38	n.m.
Minorities	13.5	4.0	n.m.
Net Profit	98	107	+9%

Source: Company figures, Value Track Analysis

More in details, we believe that the key 1H18 messages to underline are:

1. Double-digit organic growth rate;
2. Higher profitability, even if still affected by AIM Italia listing costs;
3. Steady cash generation.

1. Double digit organic growth rate

While the first semester was pretty quiet in regards to new clients' acquisitions, 1H18 Gross Sales kept growing at a double-digit rate i.e. +23% YoY driven by: 1) the introduction of more and more new "high value" services addressed to premium users, 2) higher intragroup synergies from cross-selling services, and 3) the contribution of newly acquired Swiss based Bee Bee Web and its Italian reseller DHH Italia that took place as of May 2017, as well as of the Croatian Studio4web, in March 2017.

DHH: Bookings / Gross sales by legal entity in 1H17 & 1H18

Legal entity (€ '000)	1Q17	1Q18	2Q17	2Q18	1H17	1H18	YoY (%)
Tophost	0.32	0.41	0.30	0.35	0.63	0.76	21%
DHH Slovenia	0.38	0.40	0.35	0.34	0.73	0.75	2%
DHH Croatia	0.46	0.56	0.49	0.52	0.96	1.07	12%
DHH Serbia	0.03	0.039	0.02	0.04	0.05	0.07	38%
DHH Italia	-	0.20	0.12	0.17	0.12	0.37	n.m.
DHH Switzerland	-	0.06	0.06	0.06	0.06	0.12	n.m.
Tot. Gross Sales	1.20	1.66	1.34	1.47	2.54	3.13	23%

Source: DHH, Value Track Analysis, *net of intercompany transaction

Looking deeply at the performance of the various legal entities, we underline the following points:

- ◆ **Double digit growth (+21% YoY) for Tophost in 1H18**, confirming the upward trend that started at the end of 2Q17 post the finalization of a deep technological turnaround.

As a result, renewal rate has been rising, (i.e. more people compared to last year are renewing their packages), as well as acquisition rate is coming up, (i.e. more people are becoming Tophost's customers);

- ◆ **DHH Slovenia recorded a moderate growth in 1H18 (+2%)**, influenced by negative quarterly result in 2Q18. Growth slowdown was due to: 1) GDPR introduction, 2) the increased company's focus on services with higher margins, which led to the drop in domain registration (-17%) and other ancillary services (-28%).

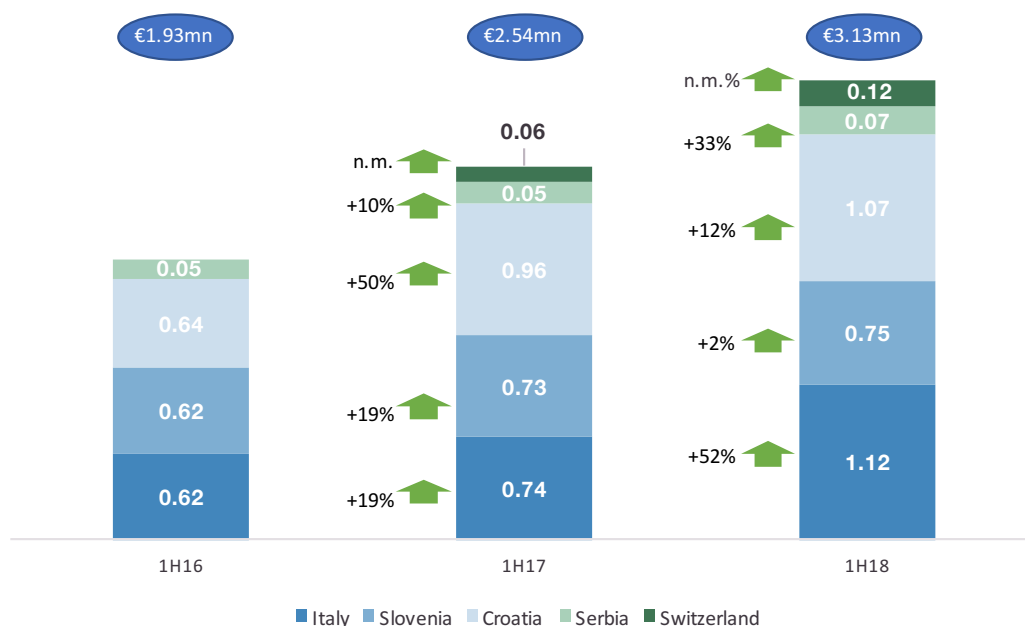
On the opposite, core business activities reported a positive growth trend, with shared hosting services (+3%), and dedicated hosting services (+8%);

- ◆ **DHH Croatia Gross Sales increased by +12% in 1H18 YoY**, thanks to a combination of several factors: (i) the introduction of new product lines and paid services for Infonet and Plushosting respectively, (ii) the launch of the internal startup Sysbee, which provides managed hosting services and high quality customized support, and (iii) an increase in the number of local domain registration;

- ◆ **DHH Serbia posted a relevant organic growth in 1H18 (+38%)** with respect to the same period of the previous year in terms of bookings. Even though key figures remain quite small in absolute terms, the recorded growth is the result of new product packages development and a steadily expanding presence in the Serbian market;

- ◆ **DHH Italia and DHH Switzerland** organic growth in 1H18 Gross Sales is in our opinion close the zero, since two subsidiaries have been acquired on May 2017. However, by looking at quarter results, a deceleration in growth in 2Q QoQ can be perceived. Indeed, Artera is still in the middle of a business turnaround, expected to be finalized within 2018 year-end.

DHH: Bookings / Gross sales by geography in 1H17 & 1H18



Source: DHH, Value Track Analysis

2. Higher profitability even if still affected by AIM Italia listing costs

By looking at profitability, reported EBITDA was up by ca. 29% YoY achieving a 9.4% EBITDA margin (+40 bps. YoY), while EBIT came almost aligned YoY due to higher D&A charges.

However, profitability measures remain strongly affected by AIM Italia listing costs, as well as by the negative impact of additional non-recurring M&A expenses.

To better highlight the industrial performance of the Group, we also provide some unaudited pro-forma figures - as released by the company - which take into account the above mentioned costs, still disproportionate if compared to DHH current small size.

- ◆ **Pro-forma EBITDA up +36% YoY** to €0.5mn;
- ◆ **Pro-Forma EBIT up +28% YoY;**
- ◆ **Pro-Forma Net Profit up +12% YoY** to ca. €0.3mn.

DHH: Reconciliation between Reported and Pro-Forma 1H17 & 1H18

(€ '000)	1H17	1H18
EBITDA Reported	215.9	277.5
Holding & Listing Costs (recurring)	138.7	221.8
Non-recurring costs (M&A etc..)	16.2	5.8
EBITDA Pro-Forma	370.7	505.2
YoY Change (%)	<i>n.m.</i>	+36%
EBITDA PF margin (%)	13.0%	17.1%
EBIT Reported	153.0	150.9
Holding & Listing Costs (recurring)	138.7	221.8
Non-recurring costs (M&A etc..)	16.2	5.8
Other	-8.5	4.0
EBIT Pro-Forma	299.3	382.6
YoY Change (%)	<i>n.m.</i>	+28%
EBIT PF margin (%)	10.5%	12.9%
Net Profit Reported	98.4	106.8
Holding & Listing Costs (recurring)	138.7	221.8
Non-recurring costs (M&A etc..)	16.2	5.8
Other (Tax effect)	7.6	-41.6
Net Profit Pro-Forma	260.8	292.8
YoY Change (%)	<i>n.m.</i>	+12%

Source: Company figures, Value Track Analysis

3. Steady cash generation thanks to working capital offsetting Capex absorption

DHH shows typical features of SaaS providers whose Revenue model is based on subscription/renewals allowing the company to benefit from getting paid spot and then delivering its services at a subsequent stage. This has led to a healthy cash generation in 1H18, (EBITDA to OpFCF conversion rate at 80%), and has improved the positive net Cash position at ca. €2.7mn.

Indeed, working capital cash generation is only partially absorbed by capex while the most of cash out is related to M&A growth driving, by the way, M&A originated goodwill, which is not amortized but subjected to annual impairment test.

DHH: Reported Balance Sheet 1H17, FY17 & 1H18

(€ '000)	1H17	2017	1H18
Net Fixed Assets	6,153.2	6,242.6	6,182.6
Net Working Capital	-1,305.3	-1,368.6	-1,413.8
M/L Term non-financial liabilities	2.7	22.0	13.0
Net Invested Capital	4,845.2	4,852.0	4,755.8
o/w Group Net Equity	7,123.4	7,333.3	7,440.2
Net Financial Position	2,278.1	2,481.3	2,684.3

Source: Company figures, Value Track Analysis

DHH: Cash flow Statement 1H17, FY17 & 1H18

(€ '000)	1H17	2017	1H18
EBITDA	215.9	530.8	277.5
Op. WC requirements / Chg. in Provisions	361.1	444.8	36.2
Capex (not incl. Fin. Inv.)	-107.2	-350.3	-9.1
OpFCF b.t.	470.9	625.3	262.0
As a % of EBITDA	218%	118%	94%
Cash Taxes	-24.3	-57.5	-37.6
OpFCF a.t.	446.6	567.6	446.6
As a % of EBITDA	207%	107%	80.9%
Capital Injections	0.0	0.0	0.0
Other (incl. Fin. Inv.)	-1,319.6	-1,241.5	-10.9
Net Financial Charges	-33.5	-29.5	-10.5
Dividend paid	0.0	0.0	0.0
Change in Net Fin Position	-906.6	-703.3	203.0

Source: Company figures, Value Track Analysis

Update of 2018E-onward financial forecasts

New vs. old estimates

We are updating our 2018E-20E estimates based on the following drivers:

- ◆ **A slight downward revision in 2018E top line** mainly due to a temporary slow down of growth rates in 2Q18 and 2H18E. Indeed, the introduction of GDPR regulations and the need to optimize acquired companies is taking its short term toll;
- ◆ **Upward revision of revenues across main BUs in 2019E-20E**, thanks to (i) the introduction of new product lines within the cloud computing space in Slovenia and Switzerland, (ii) the launch of the internal startup Sysbee in Croatia focused on managed hosting, and (iii) the consolidation of the recently acquired mCloud in the Serbian market;
- ◆ **Upward revision of expected operating expenses** in the projection period, partially as a result of one-off costs related to the above mentioned launch of new projects / start-ups. Part of these higher costs have to be disregarded at a pro-forma level;
- ◆ **Cash out for mCloud acquisition** partially offset by a further improved working capital management.

DHH: New vs. Old estimates

(€'000)	2018E			2019E			2020E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Revenues	6,345	6,179	-7%	7,027	7,477	+6%	7,755	8,639	11%
EBITDA	790	670	-15%	888	820	-8%	1,098	1,01	0%
EBITDA P-F	1,070	1,020	-5%	1,168	1,150	-2%	1,378	1,431	+4%
EBIT	560	440	-21%	648	580	-10%	863	866	0%
EBIT P-F	825	775	-6%	913	895	-2%	1,128	1,181	+5%
Net Profit	439	319	-27%	511	403	-21%	629	614	-3%
Net Fin. Pos.	3,031	2,711		3,610	3,372		4,227	4,195	
OpFCF b.t.	712	591		716	839		852	1,075	

Source: Value Track Analysis

2018E-20E Updated financial estimates

That said, our **new 2018E-20E forecasts** can be summarized as follows:

- ◆ **Total Revenues from Sales expected up at 17% CAGR₁₇₋₂₀**, expected to reach ca. €8.6mn by 2020E, with all BUs expected to experience a healthy and organic double-digit growth pace;
- ◆ **Operating profitability progressively increasing** over the next three years with EBITDA and EBIT margin expected respectively at 12.7% and 10.0% in 2020E. As a consequence, the weight of listing and non-recurring costs is seen gradually shrinking (i.e. EBITDA PF expected to reach ca. €1.4mn as of 2020E);
- ◆ **Favourable Working Capital dynamics**, as a result of the subscription-fees based model that should offset Capex charges, leading to an **EBITDA / OpFCF conversion ratio after tax in the 70% - 85% region**, and to an **increasingly positive Net Cash Position**, up to ca. €4.2mn as of 2020E Year-end.

DHH: Income Statement 2017A-2020E

(€'000)	2017A	2018E	2019E	2020E
Total Revenues from Sales	5,289	6,179	7,477	8,639
Other Revenues	387	30	31	32
Total Value of Production	5,676	6,209	7,508	8,671
COGS	-3,413	-3,918	-4,710	-5,425
Labour Costs	-1,732	-1,622	-1,978	-2,145
EBITDA	531	670	820	1,101
<i>EBITDA margin</i>	10.0%	10.8%	11.0%	12.7%
D&A	-181	-230	-240	-235
EBIT	350	440	580	866
Net interest income / expense	-29	-20	-15	-10
Non-Operating income	-1	0	0	0
Pre-tax profit	319	420	565	856
Taxes	-80	-109	-147	-223
Minorities	6	8	-15	-20
Net Profit (Loss)	245	319	403	614

Source: Company figures, Value Track Analysis

DHH: Balance Sheet 2017A-2020E

(€ '000)	2017A	2018E	2019E	2020E
Net Fixed Assets	6,243	6,476	6,536	6,601
Net Working Capital	-1,369	-1,536	-1,850	-2,122
M/L Term non-financial liabilities	22	25	30	32
Net Invested Capital	4,852	4,914	4,656	4,447
o/w Group Net Equity	7,333	7,625	8,028	8,642
Net Financial Position	2,481	2,711	3,372	4,195

Source: Company figures, Value Track Analysis

DHH: Cash flow Statement 2017A-2020E

(€ '000)	2017A	2018E	2019E	2020E
EBITDA	530.8	670.0	820.0	1,101.4
Op. WC requirements	424.8	167.7	313.6	272.0
Capex (not incl. Fin. Inv.)	-350.3	-250.0	-300.0	-300.0
Change in provisions	20.5	3.2	5.0	2.0
Cash Taxes	-57.5	-109.2	-146.9	-222.7
OpFCF a.t.	567.6	481.7	691.7	852.7
As a % of EBITDA	106.9%	71.9%	84.4%	77.4%
Other (incl. Fin. Inv.)	-1,241.5	-232.4	-15.0	-20.0
Net Financial Charges	-29.5	-20.0	-15.0	-10.0
Change in Net Fin Position	-703.3	229.3	661.7	795.9

Source: Company figures, Value Track Analysis

Valuation Update

Taking into account: 1) our revised 2108E-20E forecasts on one side, 2) updated sector multiples / DCF results on the other one, and 3) DHH's "M&A related" value creation capability leads us to **assess a €10.30 per share fair value**, i.e. 10 bps higher with respect to the previous fair value calculated in our update report published back on April 2018.

DHH: Sensitivity of implicit stock trading multiples in the €9.8 - €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
9.8	13.9	11.2	10.5	1.8	1.4	19.0	12.6	11.9	9.0	1.8	1.7
10.3	14.6	11.9	11.3	1.9	1.5	20.2	13.4	12.7	9.6	1.9	1.8
10.8	15.3	12.6	12.0	2.0	1.6	21.4	14.3	13.4	10.2	2.0	1.9

Source: Value Track Analysis

NB: Pro-Forma multiples are adjusted for listing costs and non recurring items

DCF valuation

Our DCF model assumes the current "zero debt" capital structure and a Cost of Equity at 11.2% obviously equal to WACC. This leads to a **€9.12 fair equity value per share** based on:

- ◆ Risk-free rate at 2.0% which reflects medium term-target inflation in the Eurozone;
- ◆ Unlevered beta at 0.8, average of internet, entertainment system & application software sectors;
- ◆ Implied Italian ERP at 7.9% (source: Damodaran, July 2018);
- ◆ Additional 2% risk premium to compensate for AIM Italia lower liquidity;
- ◆ Pre-tax cost of debt at 4.5% as sum of 2.0% risk free and 2.5% of credit spread;
- ◆ Corporate Tax rate at 24%;
- ◆ Explicit financial statements projections from 2019E up to 2027E;
- ◆ Terminal Value at 2028E, obtained applying a 2% Perpetuity Growth Rate (PGR);
- ◆ Net Fin. Position post cash out for mCloud minorities.

DHH: Discounted Cash Flows

(€'000)	
PV of future cash flows FY19E-FY27E	5,475
PV of Terminal value with PGR at 2%	4,879
Fair Enterprise value	10,354
Net Cash Position 2018E year-end (*)	2,590
Fair Equity value	12,944
Fair Equity Value per share (€)	9.12

Source: Value Track Analysis (*) Pro-forma including some €120k cash out for the acquisition of mCloud minorities

Peers analysis

In our latest reports we identified as most comparable firms for valuation purposes both international tech giants listed in the US and the UK markets involved in the web /services and cloud computing industry, as well as small medium sized companies listed on AIM Italia stock market engaged in digital businesses

Although first panel includes companies which are very close to DHH business model and reference market, we reckon that size and geography make a huge difference and probably justifies their astonishing multiples i.e. ca. 5.9x EV/Sales 2018E and ca. 14x EV/OpFCF after tax.

That said, in this update report we are going to evaluate DHH taking into consideration only AIM Italia Tech stocks. Even though business model is not always similar to DHH's one, we assume as rationale (i) the share size factor and (ii) the underlying capital market, AIM Italia.

Identified EV/Sales, EV/EBITDA and EV/OpFCF b.t. as the most suitable multiples, we calculate that DHH is trading at high discount, not entirely deserved given its double-digit growth rate stance coupled with sound cash flow generation.

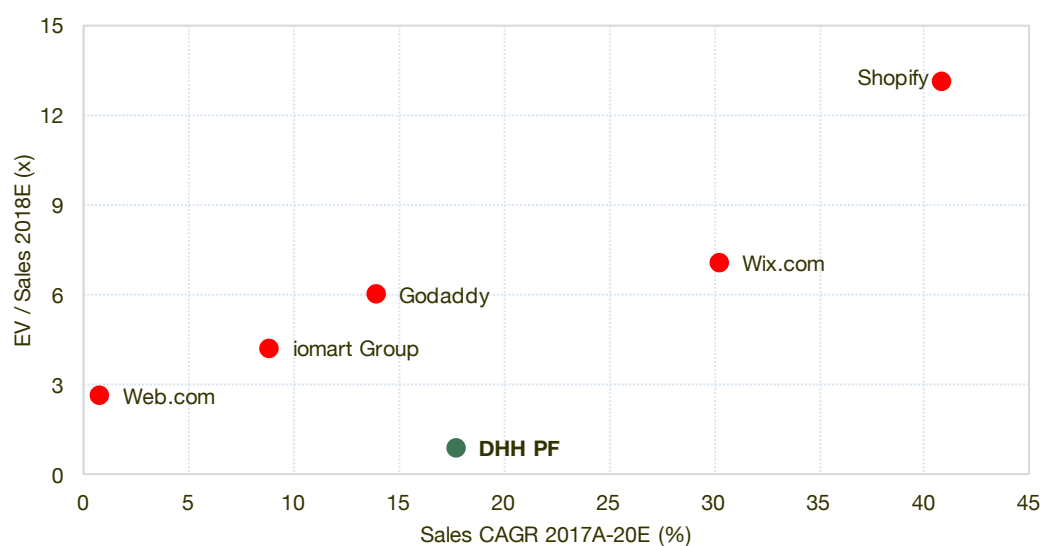
Applying AIM Italia peers multiples leads to a **€9.48 fair value of DHH shares**.

DHH: Peers' stock trading multiples

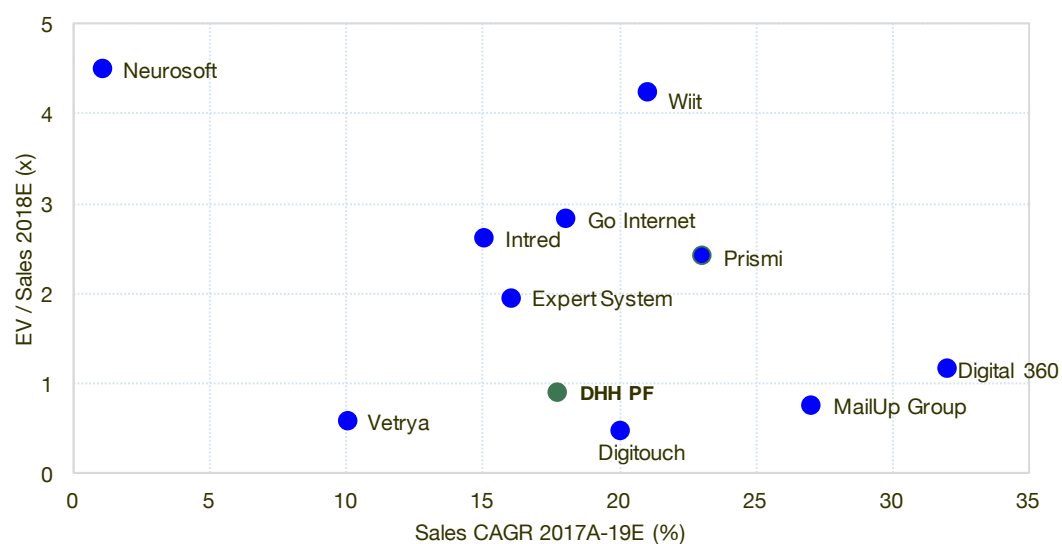
Company	EV / Sales (x)		EV / EBITDA		EV / OpFCF b.t.	
	2018E	2019E	2018E	2019E	2018E	2019E
Digital 360	1.2	1.0	9.0	6.9	n.m	16.2
Digitouch	0.5	0.4	3.3	2.5	13.3	8.5
MailUp	0.8	0.6	7.3	5.4	9.7	7.3
Expert System	1.9	1.8	17.3	11.0	n.m	n.m
WiiT	4.2	3.5	9.1	7.2	19.0	13.9
Vetrya	0.6	0.5	5.1	4.3	8.6	7.2
Go Internet	2.8	2.5	7.1	6.2	n.m	n.m
Neurosoft	4.5	4.2	11.8	11.3	n.m	n.m
Intred	2.6	2.2	6.7	5.7	n.m	17.6
Prismi	2.4	1.3	n.m	4.3	n.m	2.9
Digital 360	1.2	1.0	9.0	6.9	n.m	16.2
Median	2.2	1.5	7.3	6.0	11.5	8.5
DHH @mkt price	0.9	0.7	5.4 (*)	4.2 (*)	5.9 (*)	4.2 (*)
DHH discount vs. Median	-59%	-54%	-26%	-29%	-49%	-51%

Source: Market Consensus, Value Track Analysis

*Based on Pro-Forma OpFCF

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

Valuing the company's M&A skill

As DHH has the mission to grow by acquisitions, leveraging its industrial conglomerate profile, we believe it useful to assess how much value has been created since inception, with the final aim to project such skill in the future and spot the “optionality” included in DHH equity story.

DHH M&A activity on average brings €1.0 additional value per share per annum

With the acquisition of mCloud just announced, DHH has finalised eight deals in the latest three years, i.e. since its foundation, with a total €6.0mn cash out. Based on the DCF model previously updated (€10.35mn fair Enterprise value) we calculate a ca. €4.3mn implicit value creation i.e. (based on 1.42mn outstanding shares) ca. €3.0 per share or €1.0 per annum.

DHH: Historical acquisition transactions and value creation

Deal Date	Company	Country	Transaction Value (€'000)	Key Financials (€'000)		Implied Multiple	
				Net Sales	EBITDA	EV/Sales	EV/EBITDA
Oct-15	Domenca	Slovenia	1,824.6	589.0	45.0	1.5x	14.4x
Oct-15	Domovanje	Slovenia		633.0	82.0		
Nov-15	Plus hosting	Croatia / Serbia	1,351.9	1,000.0	202.0	1.4x	6.7x
Dec-15	Tophost	Italy	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 Web	Switz. / Italy	593.0	1,000	n.a.	0.6x	n.a.
Oct-18	mCloud	Serbia	ca. 315	ca. 350	n.a.	0.9x	n.a.

Total cash out for acquisitions	6,063 (*)	o/w goodwill ca. 5,751 (*)
DCF based Enterprise Value	10,354	
Value creation in three years	4,291	

Source: Value Track Analysis

(*) Post mCloud acquisition (hp. 100% stake)

Based on what we said so far, if DHH keeps acquiring companies at the same 2015-18 pace (i.e. €5-6mn M&A driven cash out in a three years' period) we can forecast a €3.0 per share additional value creation (€1.0 per share per annum).

Given the positive company's historical track record on one side, and the uncertainties concerning M&A negotiations / top-down scenario on the other side, we would judge fair this value being recognized by investor upfront on a yearly basis, i.e. **additional €1.0 per share M&A driven value**, already net of related M&A costs.

Last but not least, as a cross check if we assume the above mentioned acquisitions to be included in a new updated DCF model, the new fair value would stand at €11.16 per share.

DHH: Discounted Cash Flows (Acquisition case)

PV of future cash flows	10,432
PV of Terminal value	7,709
Fair Enterprise value	18,132
Net Fin. Position post €5mn acquisitions cash out	-2,289
Fair Equity value	15,843
Fair Equity Value p.s.	11.16

Source: Value Track Analysis

Appendix: Recap of DHH business profile

Business profile: a small group with more than 100 thousand clients

DHH is a tech group focused on scouting, acquiring and integrating small companies in the **SaaS based Web hosting / Cloud-computing** field.

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

DHH provides its services to more than one hundred thousand customers, mainly business ones ranging from small to mid-sized entities, as well as to large enterprises. The group provides simple and flexible products to its customers in order to establish, build and increase their online presence and visibility. So far DHH has focused on **Web Domain name registration / transfer, Web hosting products** (from simple share hosting products to more sophisticated solutions as virtual private server, cloud and managed hosting services), most of which supplied through cloud based Software as a service (SaaS) technicalities, and other additional tools ancillary to the previous business lines.

New “verticals” should be added in the next future, moving towards more comprehensive Web platform venturing in SaaS and cloud computing field.

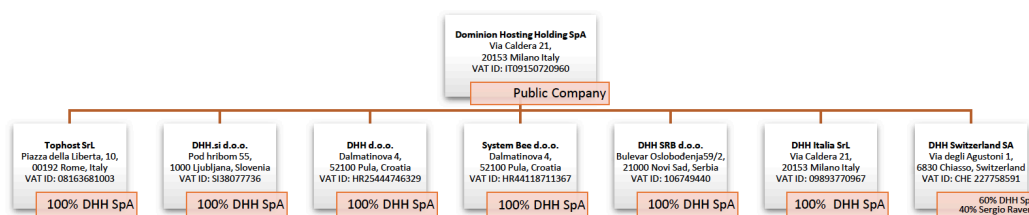
Group structure based on a conglomerate approach

The organizational structure is based on an industrial conglomerate approach, meaning one holding company controls seven “Opcos”, providing advisory in terms of both “go to market” strategies (expert support, resources and capabilities enhancement) and planning and control tools (business unit control, managerial processes, financial KPIs implementation).

The conglomerate approach allows the Group to achieve **intragroup synergies** as:

- ◆ Synergies in SG&A, through the optimization of IT, sales and physical infrastructure, as well as the collective technology purchase;
- ◆ Synergies from cross-selling program based on the same business model;
- ◆ Synergies in knowledge creation and sharing among different businesses.

DHH: Organizational structure

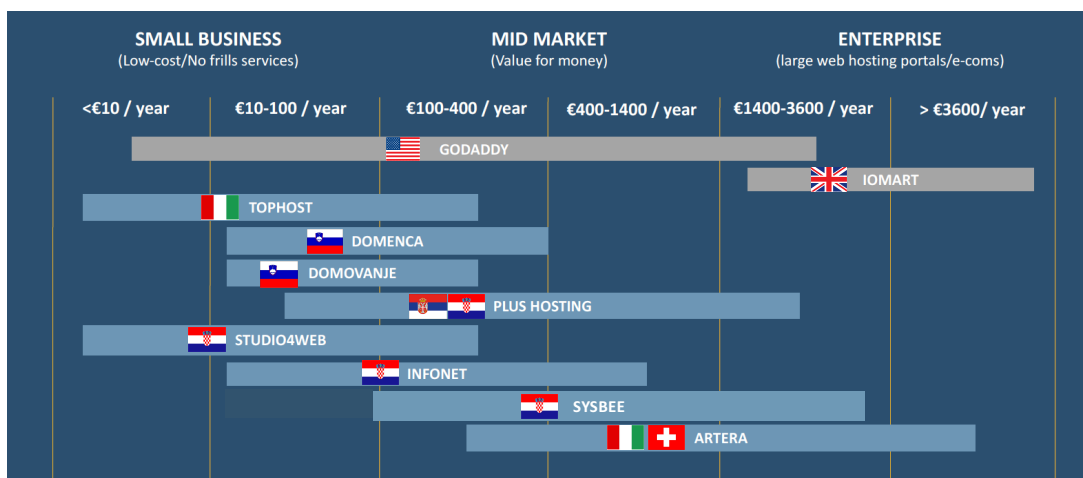


Source: Company Presentation

In addition, another benefit of such structure is that DHH is able to tailor its offer portfolio on a local basis in order to better take into account: (i) local market competition, (ii) local market share and (iii) professional level of addressed users. Indeed, if we compare DHH’s addressed market with Godaddy’s and Iomart’s one, two of main global players, it can be noticed how DHH BUs provide services with prices ranging from less than €10 per year for a simple domain registration (Tophost, Studio4web) to ca. €3,500 per year for premium managed web hosting services (Artera), or for infrastructure

consulting and management services offered by Sysbee, the new internal startup recently launched by the Group.

DHH: business lines by final user



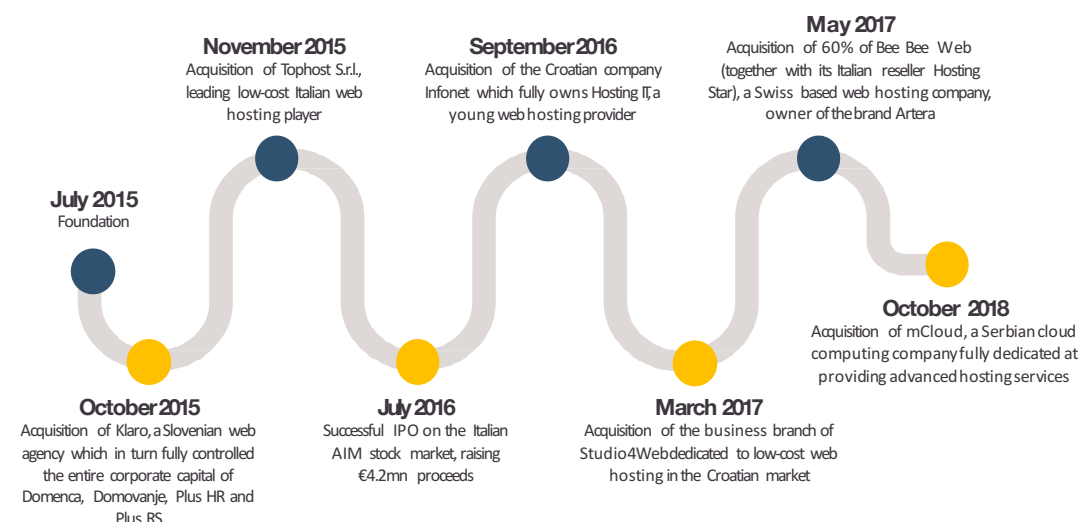
Source: Company Presentation

Growth strategy heavily skewed on M&A....

DHH founders are still highly committed shareholders of the company (together they control more than 50% of the share capital) and also part of the top management team. They bring in-depth skills in management of public companies and in M&A deals origination and execution.

Indeed, in the latest three years, the company has finalized several acquisitions: ten since 2015, and five after DHH IPO that took place back in July 2016.

DHH: M&A deals and other historical milestones



Source: Company Presentation

...and revamping / optimization of acquired assets

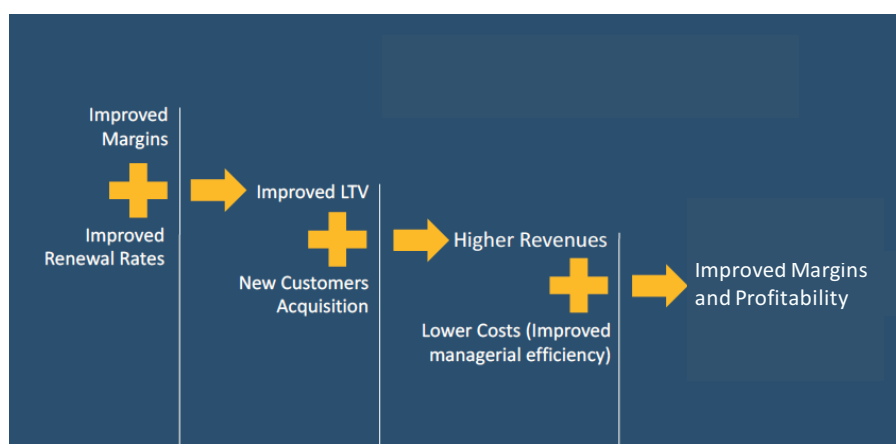
Given the significant experience gained by DHH's co-founders, combined with inter-disciplinary team efforts, the company can provide specific functions to meet individual legal entity needs and support them in order to achieve best results and improve fundamental KPIs.

This works at best on acquired assets where DHH applies its turnaround capabilities from a technological and financial point of view, delivering strategic thinking, technology solutions, marketing know-how and other best practices.

An example of this approach has been provided by the recent turnaround of the subsidiary Tophost, where new managerial practices have enhanced: (i) customer renewals rates (ii) Life Time Value (iii) new customers acquisition rates.

As a consequence, revenues improvement and costs optimization have been achieved, leading to a higher profitability.

DHH: Tophost turnaround improvements



Source: Company Presentation

Main goal: strengthening market shares in the “unusual geographies”

DHH aims at consolidating its geographical footprint and entering in new markets, with a well-defined focus on those with lower digital penetration with respect to more mature ones such as other Balkan countries (Bosnia, Albania, Macedonia, Montenegro) and central-eastern Europe ones (Bulgaria, Romania, Greece, Slovakia, Hungary). **Rationales behind such choice** are:

- ◆ **Higher growth potential** due to lower maturity in terms of internet utilization rates and digital technology integration;
- ◆ **Less competitive structure of such areas**, where local “houses” are perceived as closer and helpful to clients with respect to tech giants, not particularly attracted from non-English speaking countries;
- ◆ **Experimental areas to test and launch scalable digital businesses** internationally, thanks to the number of talents available in these areas at very competitive costs with respect to more developed markets

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