

Dominion Hosting Holding

Sector: Internet Software and Services



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Positively adapting to new market environment

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.

Double-digit growth rate in FY17

DHH has recently released its **FY17 financial results**, out of which we highlight the following key points:

- ◆ **Customer base up by +19% YoY** and ARPU improvement across all legal entities;
- ◆ Double-digit growth rate in **Net Sales (+34% YoY)**, as a result of both accelerating organic growth and consolidation of new acquired Swiss company Bee Bee Web and of its Italian reseller;
- ◆ **EBITDA up +49% YoY** reaching €0.53mn, even if it still affected by AIM Italia listing costs as well as by non-recurring M&A fees (EBITDA Pro-Forma at €0.88mn);
- ◆ **Cash conversion ratio close to 100%.**

Ramp up continues in 2018E-19E

We expect DHH to continue its double-digit growth pace in **2018E-19E**. More in details, we forecast:

- ◆ **Revenues up +20% and +11% YoY** respectively;
- ◆ **Operating profitability to progressively increase**, (EBITDA margin expected at 12.5% and 12.6% respectively in 2018E and 2019E) being the result of higher intra-group costs synergies;
- ◆ **EBITDA to OpFCF conversion ratio before tax to remain in the 80% - 90% region** as Working Capital Cash generation should mostly offset Capex;
- ◆ **An increasingly positive Net Cash Position** over the projection period, up to ca. €3.6mn as of 2019 Year-End.

Fair value confirmed at €10.20 per share

We have updated DHH valuation taking into consideration sector multiples and DCF valuation on revised company's estimates. In addition, we cross-checked with international Software System & Application multiples calculated by Prof. Damodaran. All criteria confirm the high discount at which DHH shares are currently trading.

We confirm a €10.20 fair value per share.

Fair Value (€)	10.20
Market Price (€)	7.05
Market Cap. (€m)	10.0

KEY FINANCIALS (€'000)	2017A	2018E	2019E
REVENUES	5,289	6,346	7,029
EBITDA	531	790	888
EBIT	350	560	648
NET PROFIT	245	438	511
EQUITY	7,333	7,754	8,265
NET FIN. POS.	2,481	3,048	3,628
EPS ADJ. (€)	0.17	0.31	0.36
DPS (€)	0.0	00.0	00.0

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

RATIOS & MULTIPLES	2017A	2018E	2019E
EBITDA MARGIN (%)	10.0	12.5	12.6
EBIT MARGIN (%)	6.6	8.8	9.2
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/EBITDA (x)	14.2	8.8	7.2
EV/EBIT (x)	21.9	12.4	9.9
P/E ADJ. (x)	37.3	22.8	19.6

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

STOCK DATA	
FAIR VALUE (€)	10.2
MARKET PRICE (€)	7.05
SHS. OUT. (m)	1.4
MARKET CAP. (€m)	10.0
FREE FLOAT (%)	29.6
AVG. -20D VOL. ('000)	24.0
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	6.80-10.00

Source: Stock Market Data



Business Description

DHH is a young and dynamic company 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 brands 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	6,346	7,029
Chg. % YoY	nm	34%	20%	11%
EBITDA	356	531	790	888
EBITDA Margin (% of Net Revenues)	9%	10%	12%	13%
EBIT	235	350	560	648
EBIT Margin (% of Net Revenues)	6%	7%	9%	9%
Net Profit	155	245	439	511
Chg. % YoY	nm	64%	72%	17%
Adjusted Net Profit	257	284	439	511
Chg. % YoY	33%	5%	64%	17%
Net Fin. Position	3,185	2,481	3,049	3,628
Net Fin. Pos. / EBITDA (x)	nm	nm	nm	nm
Capex	-128	-350	-350	-400
OpFCF b.t.	308	625	713	716
OpFCF b.t. as % of EBITDA	87%	118%	90%	81%

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

Investment case

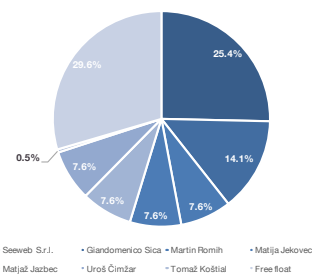
Strengths / Opportunities

- ◆ 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

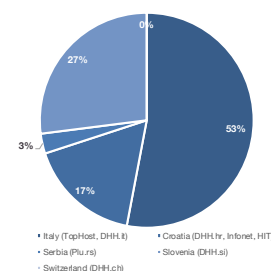
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with numerous players
- ◆ High incidence of listing and other non-recurring costs

Shareholders Structure



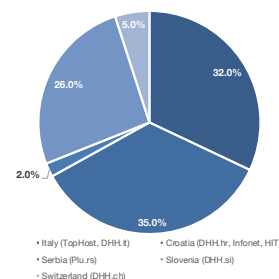
Source: DHH SpA

Customers breakdown by country



Source: DHH SpA

Sales breakdown by country



Source: DHH SpA

Stock multiples @ €10.2 Fair Value

	2018E	2019E
EV / SALES (x)	1.8	1.5
EV / EBITDA (x)	14.5	12.2
EV / EBIT (x)	20.4	16.8
EV / CAP.EMP. (x)	2.4	2.3
OpFCF Yield (%)	6.2	6.5
P / E (x)	33.0	28.4
P / BV (x)	1.9	1.8
Div. Yield. (%)	0.0	0.0

Source: Value Track

DHH business profile in a nutshell

Building the “Internet Platform of European Emerging markets”

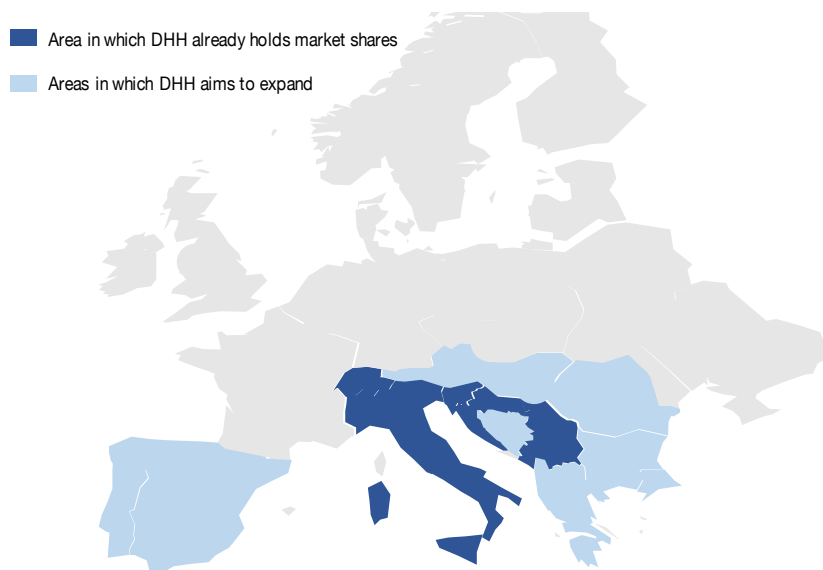
DHH is an **industrial investment company** focused on scouting, acquiring and integrating small companies in the **SaaS based Web hosting / Cloud-computing** field.

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

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.

DHH: Current and prospect geographic footprint



Source: Value Track Analysis

Wide service offer ranging from entry level to professional users

DHH group 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.

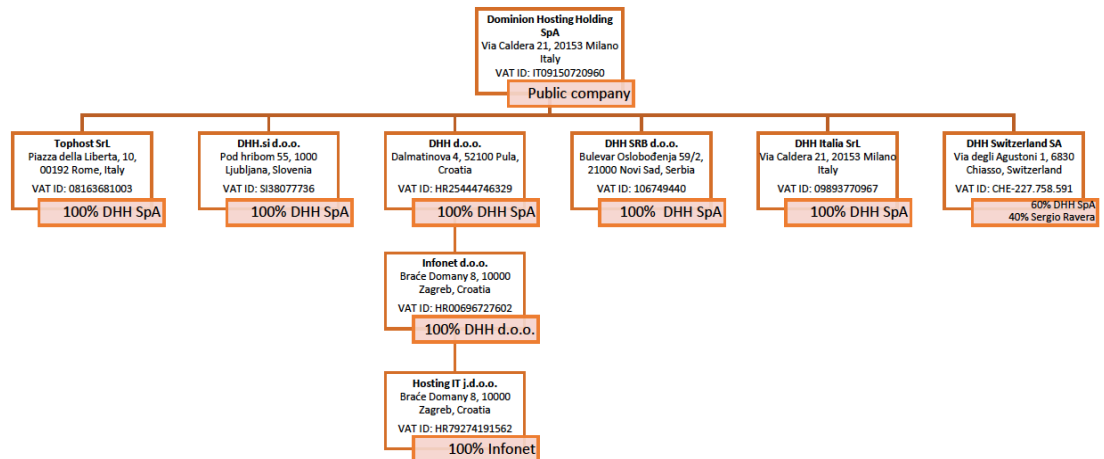
Company's aim is to provide simple and flexible products to its customers in order to establish, build and increase their online presence and visibility.

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), 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.

Offer structure tailored on local needs

Until now, the company has controlling shares in different legal companies and manages eight brands across five different geographic areas.

DHH: Organizational structure

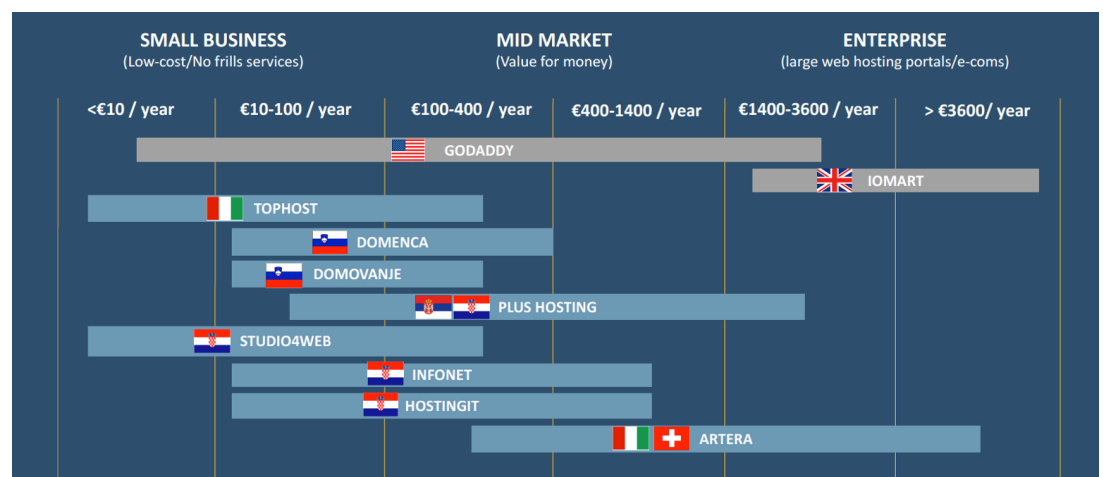


Source: Company Presentation

One of the positives of such a 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 brands 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).

DHH: Brands by final user



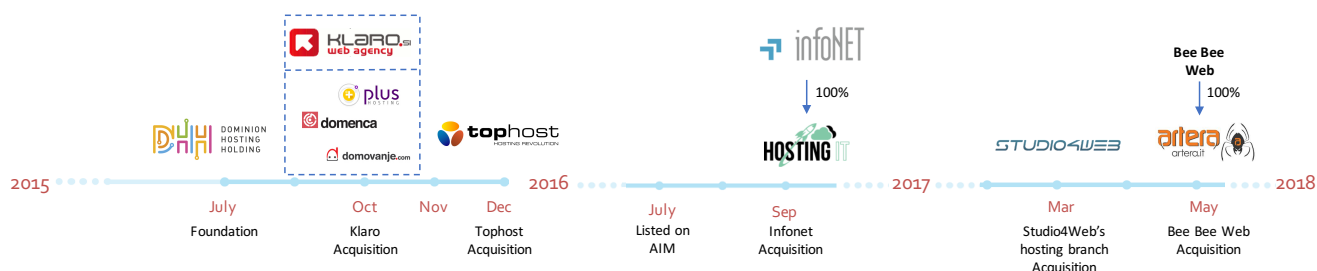
Source: DHH company presentation

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 two 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: Value Track Analysis

...and revamping / optimization of acquired assets

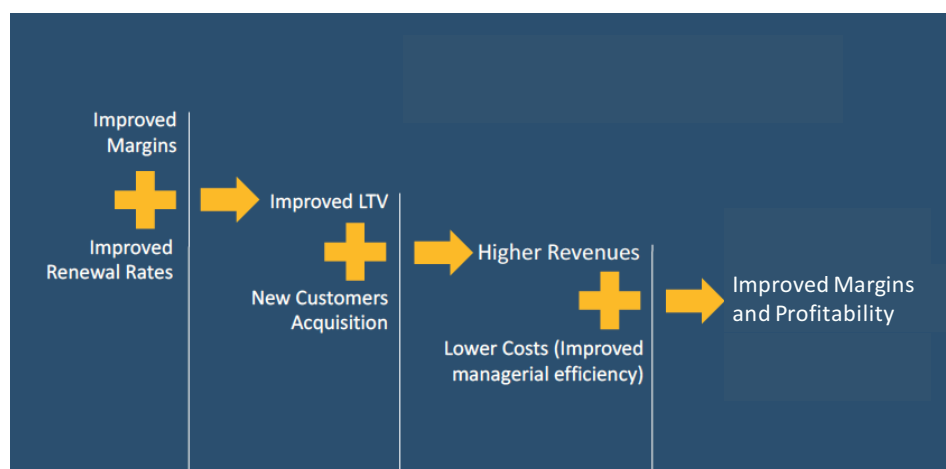
Given the significant experience gained by DHH's co-founders, combined with inter-disciplinary team efforts, the company can provide specific functions to meet individual legal entity needs and support them in order to achieve best results and improve fundamental KPIs.

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: DHH company presentation

DHH FY17 financial performance

DHH has recently released its FY17 results, highlighting a sound growth in all the industrial KPIs, a double-digit growth rate for all the main P&L figures, a steady free cash flow generation and a positive net cash position.

DHH: Income Statement Actual and Pro-Forma 2016FY and 2017FY

(€'000)	2016A	2017A	2016 PF*	2017 PF*
Total Revenues from Sales	3,948	5,289	4,227	5,670
<i>Change YoY (%)</i>		34%		34%
Other Revenues	16	387	76	398
Total Value of Production	3,964	5,676	4,303	6,068
Raw Materials & Consumables	-12	-26	-15	-37
Cost of Services	-2,491	-3,198	-2,373	-2,892
Other Costs	-176	-188	-218	-207
COGS	-2,679	-3,413	-2,606	-3,136
Labour costs	-929	-1,732	-964	-2,046
EBITDA	356	531	734	886
<i>EBITDA margin</i>	9%	10%	17%	16%
D&A	-121	-181	-130	-184
EBIT	235	350	603	702
<i>EBIT margin</i>	6%	7%	14%	12%
Net Financial Charges	-22	-29	-4	-48
Non-Recurring Items	7	-1	8	0
Pre-tax profit	220	319	607	654
Taxes	-64	-80	-87	-144
Minorities	0	6	0	24
Net Profit (Loss)	155	245	519	533
<i>Change YoY (%)</i>		58%		3%

Source: Company figures, Value Track Analysis

*Pro-Forma results (not audited) do not consider AIM Italia listing costs / other non recurring M&A related items and take into account financial effects of the acquisitions for the whole fiscal period (and not since the official consolidation date)

Key messages of FY17

In our view, **FY17 key messages** are as follows:

1. Sound growth for the more relevant industrial KPIs, with customer base approaching the 100k level;
2. Double-digit growth in Net Sales (+34% YoY);
3. Higher profitability, even if still affected by AIM Italia listing costs, as well as by non-recurring M&A fees;
4. Steady cash generation thanks to Working Capital dynamics offsetting Capex absorption.

1. Sound growth for the more relevant industrial KPIs

As of 2017 DHH companies / brands managed achieved positive results in terms of business development. **Clients were up +19% YoY at ca. 94,000**, registered domains stood at more than 200 thousand and there was a net increase in ARPU among all business units, driven by sounder customer acquisition rates coupled with lower churn rates.

The main drivers behind such a positive business evolution can be summarized as:

- ◆ The introduction of more and more new “high value” services addressed to premium users, in particular with the brand Plus Hosting and Artera respectively in Croatia and in Switzerland;
- ◆ The on-going transfer of strategic thinking, technology solutions, marketing know-how and other best practises among the various legal entities, the newly acquired companies in particular, driving more and more synergies from cross-selling services.

2. Double digit growth in Net Sales

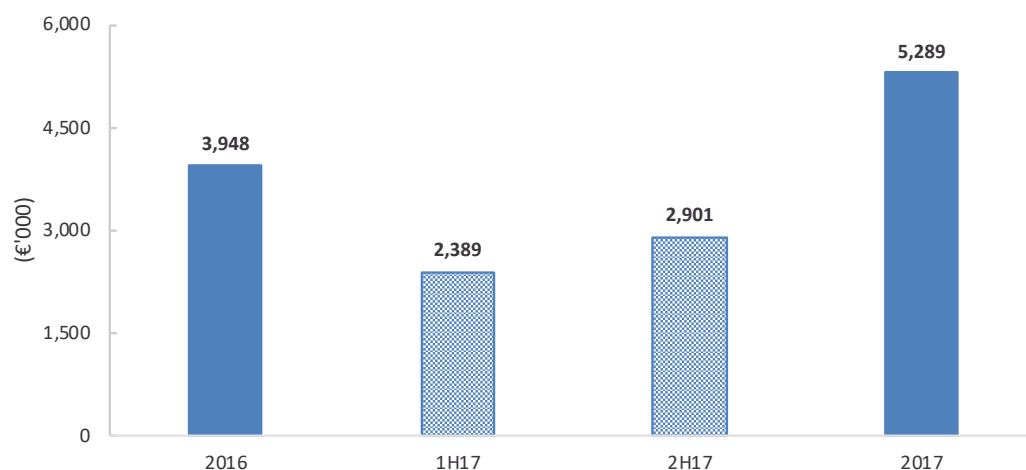
In FY17 DHH recorded a significant growth in Bookings (also called Gross Sales) and Revenues from Sales (also called Revenues), with acceleration in the second part of the year.

While the two items are both related to clients’ penetration and business development, Bookings are a sort of leading indicator on future Revenues evolution. Indeed, Bookings account for all orders/invoices that are issued/paid within a specified time period (monthly/quarterly /annually), while Revenues refer also to bookings from previous month/year that are included in the P&L financial statement as the client received the service it had previously paid for.

That said, **DHH Bookings were up +44% YoY in 4Q17** while **DHH Group Revenues from Sales** were up +15% YoY in 4Q17 and **+34% YoY in the whole 2017FY**.

Roughly speaking, ca. half of the growth is organic while the remaining part is the result of the consolidation of newly acquired Swiss based Bee Bee Web and of its Italian reseller DHH Italia that took place as of May 2017.

DHH Group: Revenues from Sales evolution 2016-17



Source: DHH, Value Track Analysis

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

- ◆ **Double digit growth (+16% YoY) for Tophost in 4Q17**, resulting from a deep turnaround effort finalized at the end of 1H, which led to renewal rates improvement and to a boost of blended ARPU;
- ◆ **DHH.si recorded +15% YoY growth in Gross Sales in 4Q17**, thanks to the introduction of Group's best practices into the business organization, combined with new apps which track actions, results and performances, increasing productivity. Net Sales increased by +6% YoY in FY17, while customers base reached ca. 20,000 users;
- ◆ **DHH.HR Gross Sales increased by +24% in 4Q17 YoY**. This result was due to an increase in ARPU thanks to a shifted focus towards larger clients and to the acquisition of Studio4Web back as of March 2017. In the whole FY17 growth in Net Sales stood at +19% YoY;
- ◆ **Infonet, Hosting IT and DHH.SRB in 4Q17 registered a slight reduction** with respect to the same period of the previous year in terms of bookings. However, in FY17 these subsidiaries registered positive Net Sales growth rates;
- ◆ **DHH.ITA and DHH.SWZ posted a relevant organic growth in 4Q (+19% and +63% QoQ respectively)**, showing positive and encouraging signals, even if still in the middle of a business turnaround that should be finalized in 2018. Interesting results derived from the introduction of new updated products (premium hosting and cloud managed) and new services (WordPress, Magento solutions).

DHH: Bookings / Gross sales by legal entity in 4Q16, 3Q17 & 4Q17

Legal entity (€ '000)	4Q16	3Q17	4Q17	4Q17 YoY	4Q17 QoQ
Tophost	312.2	272.2	362.8	16.2%	33.3%
DHH.si	340.4	330.4	390.6	14.7%	18.2%
DHH.HR	337.5	396.8	417.8	23.8%	5.3%
Infonet	88.2	77.3	82.0	-7.1%	6.0%
Hosting IT	5.8	4.0	4.2	-28.1%	3.4%
DHH.SRB	39.2	28.5	37.9	-3.3%	32.9%
DHH.ITA	0	159.8	189.6	nm	18.7%
DHH.SWZ	0	80.7	131.2	nm	62.5%
Total Gross Sales	1,123.7	1,350.0	1,616.2	43.9%	19.7%

Source: DHH, Value Track Analysis

3. Higher profitability but the best is yet to come

Reported EBITDA, EBIT and Net Profit were all up at a double-digit pace (ca. +50%-60% each) as well even if we note that the negative impact of AIM Italia listing costs and of non-recurring M&A expenses is still disproportionate if compared to DHH current small size.

Pro-Forma profitability ratios on Sales, on the contrary was slightly eroded by some necessary investments in the creation of a Group marketing department and by a labour costs increase that should be absorbed back in 2018 when the restructuring of Swiss based subsidiary is finalized.

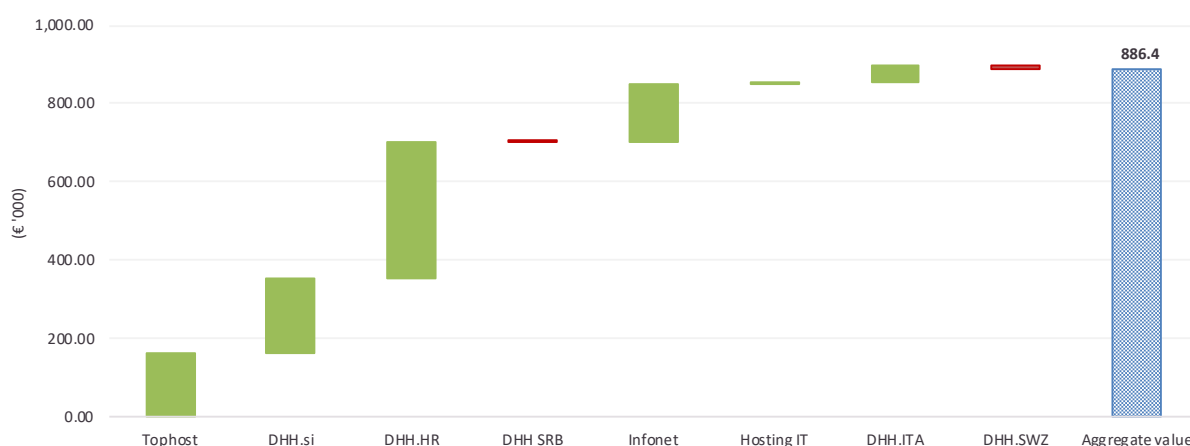
- ◆ **Reported EBITDA up +49% YoY** in FY17 to €0.53mn;
- ◆ **Pro-forma EBITDA up ca. +20% YoY** to €0.89mn;
- ◆ **Pro-Forma EBIT up a "lower" +16% YoY** to €0.70mn due to higher D&A charges;
- ◆ **Pro-Forma Net Profit up +3% YoY** to €0.53mn.

DHH: Reconciliation between Reported and Pro-Forma FY2015, FY2016 and FY2017 figures

(€ '000)	2015	2016	2017
EBITDA Reported	5.0	355.6	530.8
Holding & Listing Costs (recurring)	260.0	260.0	306.3
Non-recurring costs (M&A etc..)	257.6	117.9	49.3
EBITDA Pro-Forma	522.6	733.5	886.4
<i>EBITDA PF margin (%)</i>		17.4%	20.8%
EBIT Reported	0.3	234.8	350.2
Holding & Listing Costs (recurring)	260.0	260.0	306.3
Non-recurring costs (M&A etc..)	257.6	117.9	49.3
Other	-209.6	-9.3	-3.8
EBIT Pro-Forma	308.4	603.4	702.0
<i>EBIT PF margin (%)</i>		14.3%	16.3%
Net Profit Reported	-0.3	155.2	245.4
Holding & Listing Costs (recurring)	260.0	260.0	306.3
Non-recurring costs (M&A etc..)	257.6	117.9	49.3
Other	-281.4	-13.9	-67.6
Net Profit Pro-Forma	235.9	519.2	533.5

Source: Company figures, Value Track Analysis

As far as the contribution of each legal entity to Group's Pro-Forma EBITDA is concerned, we note that DHH.HR, DHH.si, Tophost and Infonet are those with the highest weight on total.

DHH: EBITDA Pro-Forma contribution by legal entity

Source: Value Track Analysis

We note, however, that this calculation is to be handled carefully as not all operating costs have been treated in the same way across business units and holding costs are not always allocated in a proportional way. More in particular, we underline the following key points:

- ◆ Tophost, DHH.si and DHH.HR i.e. the most established companies are all positively contributing to Pro-Forma EBITDA (together they account for more than 80% of Group Pro-Forma EBITDA);
- ◆ The recently acquired Infonet as well is showing a good profitability;
- ◆ DHH SRB reported an EBITDA close to zero, as we believe it still lacks the size necessary to achieve a material positive operating leverage;
- ◆ DHH.SWZ is negatively contributing, mainly due to employees' termination fees sustained by the company in the second half of the year, associated to personnel downsizing;

4. 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 leads to healthy cash generation, with EBITDA to OpFCF conversion rate in the 100% region, and to a positive net Cash position at ca. €2.5mn.

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 2015, 2016, 2017

(€ '000)	2015	2016	2017
Net Fixed Assets	4,536.9	4,813.5	6242.6
Net Working Capital	-865.2	-944.2	-1368.6
M/L Term non-financial liabilities	0.0	1.6	22.0
Net Invested Capital	3,671.7	3,867.7	4852.0
o/w Group Net Equity	3,415.6	7,052.4	7333.3
Net Financial Position	-256.1	3184.7	2481.3

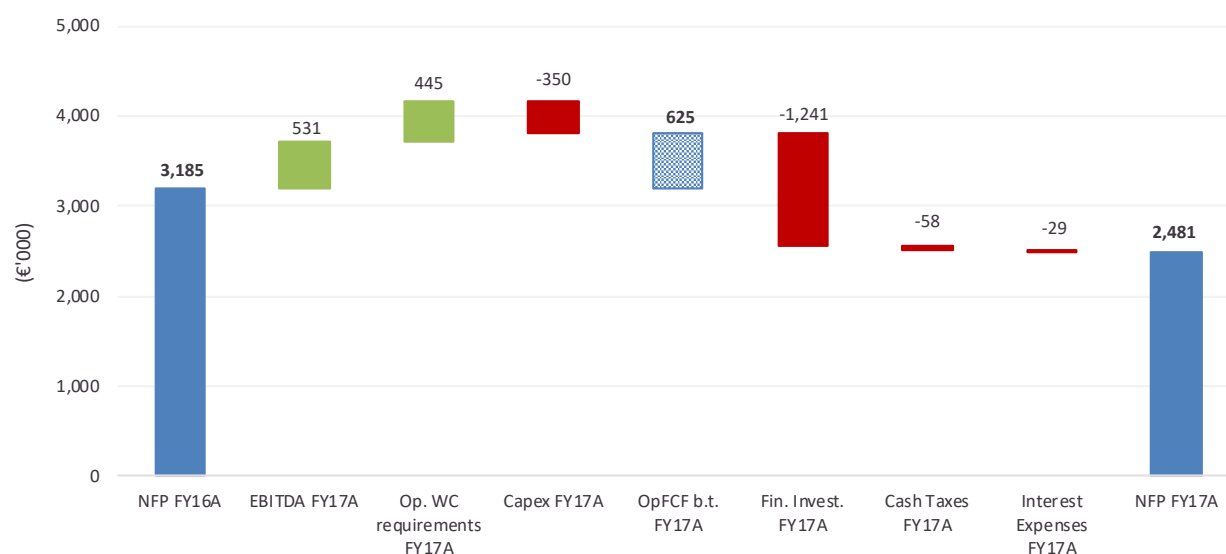
Source: Company figures, Value Track Analysis

DHH: Cash flow Statement 2015, 2016, 2017

(€ '000)	2015	2016	2017
EBITDA	522.6	355.6	530.8
Op. WC requirements / Chg. in Provisions	262.8	80.6	444.8
Capex (not incl. Fin. Inv.)	-204.4	-128.0	-350.3
OpFCF b.t.	581.0	308.1	625.3
As a % of EBITDA	16%	87%	118%
Cash Taxes	-77.3	-64.5	-57.5
OpFCF a.t.	503.7	243.7	567.6
As a % of EBITDA	14%	69%	107%
Capital Injections	1,359.0	6,010.7	0.0
Fin. Inv.	-2,554.0	-2,782.7	-1,241.5
Net Financial Charges	4.8	-22.3	-29.5
Dividend paid	-32.8	-8.6	0.0
Change in Net Fin Position	-719.3	3440.8	-703.3

Source: Company figures, Value Track Analysis

DHH: Net Cash Position evolution 2016A-17A



Source: Value Track Analysis

FY17 results substantially in line with our estimates, or slightly better

Overall, FY17 results are very close to our Initiation of coverage estimates, or maybe a bit better as Opex are lower than planned and this drives a higher EBITDA (A/E +12.5%) almost entirely offset by higher D&A.

DHH: Key financials 2017E vs 2017A

(€'000)	2017E	2017A	Change (%)
Total Revenues from Sales	5,341	5,289	-1.0%
Other Revenues	315	387	22.9%
Total Value of Production	5,656	5,676	0.4%
Opex	-5,184	-5,145	-0.8%
EBITDA	472	531	12.5%
EBITDA PF	767	886	15.6%
EBIT	337	350	3.9%
EBIT PF	615	702	14.1%
Net Profit	248	245.4	-0.8%
Total Capital Employed	4,953	4,852	-2.0%
o/w Group Net Equity	7,300	7,333	0.5%
Net Fin. Position	2,347	2,481	5.7%

Source: Company figures, Value Track Analysis

What's next in DHH evolution

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.

Adapting to market evolution (and riding it) and making further business model fine tuning will thus be the rule for the next few quarters and will drive industrial and financial results as confirmed in a recent interview also by Uroš Čimžar, DHH CEO. He said: *"I believe that in the future, the companies that realized how the market is changing will have the opportunity to survive. Specifically, this relates to the shift in customer expectations. For instance, while 10 years ago people were actually looking for web hosting, now people are looking for an opportunity to be online"*.

Adapting to market evolution remains the rule

Main market trends for 2018-19 in our view remain:

- ◆ Constant healthy growth of **Basic Web Hosting** market driven by APAC / Latam and by managed hosting segment;
- ◆ Increasing weight of **Cloud computing services**;
- ◆ Positive incidence of **Internet mobile** and **eCommerce** boom;
- ◆ Coexistence of **US based tech giants** with **small local "houses"**.

Managed hosting and APAC / Latam to drive Web hosting market growth

Web hosting is expected to grow at double-digit rates over the next five years, with a market value that should reach \$154bn by 2022 (Source: Market Research Future).

APAC and Latam should experience the highest growth rates (ca. 30% CAGR), while more mature North America and EMEA are expected to grow at 12% and 14% CAGR respectively (Source: 451 Research). According to the same research, the more sophisticated and innovative Managed hosting service should grow at 18.7%, followed by more mature Shared hosting and Dedicated hosting that are expected to increase by 10.4% and 5.7% respectively through 2022.

Cloud computing services to account for higher and higher market share

As briefly mentioned, more and more SMEs are switching from "on premise" software / tools to cloud based ones for several reasons: cost savings, faster provisioning, greater flexibility.

Cloud computing market is usually divided into three primary service models: 1) Software as a service (SaaS), 2) Infrastructure as a service (IaaS) and 3) Platform as a service (PaaS).

According to Gartner Research, double-digit growth should continue in next years, with IaaS expected to show the highest growth (+28%), while PaaS and SaaS estimated to experience slightly lower CAGRs, about 22% and 19% respectively.

Mobile Internet and eCommerce as main growth underlying drivers

There are secular trends that should keep boosting Web hosting market growth in the foreseen and foreseeable future:

- ◆ **Exponential growth in mobile Internet**, exceeding the traditional desktop usage by 2022, meaning the number of hosted web sites should increase dramatically in the future, since more people will launch their website, blog or online store;
- ◆ **eCommerce higher penetration**, with retailers trying not to miss this opportunity, improving their online visibility and presence, in order to survive in this modern market environment.

Coexistence of US based tech giants with small local “houses”

From a competitive point of view, the market should be more and more characterised by the following features:

- ◆ **Presence of lot of players** ranging from tech giants sustained by economies of scale, to small local “houses” perceived as closer and more helpful for their clients;
- ◆ **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.

DHH's next steps aimed at fine tuning the business model

We believe that in the next few quarters DHH development effort will be focused on the following guidelines:

- ◆ Enlarging the product portfolio;
- ◆ Expanding its business perimeter;
- ◆ Investing in “unlucky” but still appealing startups;
- ◆ Finalizing the set up of inter-disciplinary teams aimed at subsidiaries performance optimization.

Enlarging the product portfolio

Web hosting is the core of services currently provided by DHH brands under management. We expect DHH companies to keep introducing new Value-Added Services aimed at boosting ARPU / MRR while fidelising the client base and thus increasing LTV. Uroš Čimžar, DHH CEO, recently confirmed that **the company is more and more focusing on being a service provider, not just a host provider**, meaning that the ultimate goal is to include in the product portfolio also marketing tools, infrastructure services and some of the services that are available for the enterprise level-clients.

Expanding its business perimeter

On top of organic growth, we expect DHH to keep focusing on M&A driven expansion as well, thanks to the existing positive net cash position coupled with cash generation capabilities. The rationale behind the choice of M&A targets should be:

- ◆ **Consolidation of existing leadership positions** through the acquisition of small to mid-sized assets, attaining related customer base and distribution networks. In particular we expect further acquisitions in Balkans (Croatia, Serbia, Slovenia) where the company aims at becoming the undisputed market leader;
- ◆ **Entrance in new geographic markets**, acquiring entire companies (target size about €1mn-€2mn turnover) and retaining founders through equity swaps;
- ◆ Addition of **new “verticals”** to the traditional Web hosting field, such as the Cloud computing market or other SaaS based solutions segments.

Investing in “unlucky” but still appealing 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 Cloud computing and 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 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 (2H17 bookings +16.3% YoY, ca. +26% if we look at the YoY growth in January 2018).

Finalizing the set up of inter-disciplinary team

We feel that DHH is highly committed in finalizing the set up of inter-disciplinary teams, with proven track record in digital business and capital markets, which will provide specific functions to engage subsidiaries' needs in terms of:

- ◆ Expert support, cost and revenues synergies achievement, resources and capabilities enhancement;
- ◆ Business unit control, managerial process and financial KPIs implementation.

2018E-onwards growth in financials should be the positive outcome

FY17 results are in line with our estimates, and the outlook has remained unchanged if compared with the one we depicted back in our Initiation of Coverage report published as of the end of January 2018.

As a consequence, **we are not materially changing our 2018E-19E forecasts**; rather we are just fine tuning them as a consequence of two changes substantially offsetting each other:

- ◆ Future D&A charges being revised slightly upwards, driven by higher capitalized development expenses;
- ◆ Forecasted Tax Rate reduced from our previous ca. 28% estimate to ca. 21% almost in line with the actual rate recorded by DHH in FY17.

DHH: FY18 New vs. Old estimates

(€'000)	2018E		2019E	
	Old	New	Old	New
Value of Production	6,736	6,696	7,448	7,379
Tot. Opex	-5,951	-5,906	-6,564	-6,491
EBITDA	786	790	884	888
EBIT	591	560	669	648
Net Profit	422	438	485	511
Group Net Equity	7,732	7,754	8,217	8,265
Net Financial Position	2,961	3,048	3,639	3,628

Source: Value Track Analysis

That said, our **new 2018E-19E forecasts** can be summarized as follows:

- ◆ **Total Revenues from Sales are expected growing at +20% and +11% YoY respectively in 2018E-19E** thus reaching €6.3mn in 2018E and €7.0mn in 2019E. **Tophost** (2017 growth trend is continuing in the early weeks of 2018, +26% in bookings YoY), **DHH.si**, **DHH.HR**, as well as **DHH.srb** should maintain a double-digit growth rates enhancing their market shares in Italy, Slovenia, Croatia and Serbia. On the other side, **Infonet**, **HostingIT** and **DHH.SWZ** (and its Italian reseller DHH.it) should experience lower growth rates in the single-digit space;
- ◆ **Labour costs incidence on Revenues should decrease** from 33% as of FY17 down to 28% and 27% in 2018E and 2019E respectively as the downsizing of newly acquired companies is finalized;
- ◆ **Operating profitability should progressively increase** over the next two years, (EBITDA margin expected at 12.4% and 13.1% respectively in 2018E and 2019E) being the result of higher intra-group costs synergies;
- ◆ Below the EBITDA line (i) D&A up as said before, (ii) financial charges at ca. zero since the company is cash positive and (iii) tax rate at ca. 21%;
- ◆ As a result, Reported **Net Profit is expected to exceed €0.5mn in 2019E**.

DHH: Income Statement 2017A, 2018E, 2019E

(€'000)	2017A	2018E	2019E
Total Revenues from Sales	5,289	6,346	7,029
<i>Change (%)</i>	<i>34%</i>	<i>20%</i>	<i>11%</i>
Other Revenues	387	350	350
Total Value of Production	5,676	6,696	7,379
COGS	-3,413	-4,106	-4,590
Labor Costs	-1,732	-1,800	-1,901
EBITDA	531	790	888
<i>EBITDA margin</i>	<i>10.0%</i>	<i>12.4%</i>	<i>12.6%</i>
D&A	-181	-230	-240
EBIT	350	560	648
Net interest income / expense	-29	-5	5
Non-Operating income	-1	0	0
Pre-tax profit	319	555	653
Taxes	-80	-117	-137
Minorities	6	0	-5
Net Profit (Loss)	245	438	511

Source: Company figures, Value Track Analysis

As far as 2018E-19e Balance Sheet and Cash Flow statements are concerned, we expect:

- ◆ **Net Working Capital to become more and more negative**, as a result of the subscription-fees based model driving up unearned revenues (i.e. Accruals and deferred income);
- ◆ **EBITDA to OpFCF conversion ratio before tax to remain in the 80% - 90% region** as Working Capital Cash generation should mostly offset Capex;
- ◆ **An increasingly positive Net Cash Position** over the projection period, up to ca. €3.6mn as of 2019 Year-End.

DHH: Balance Sheet 2017A, 2018E, 2019E

(€ '000)	2017A	2018E	2019E
Net Fixed Assets	6,243	6,370	6,530
Net Working Capital	-1,369	-1,634	-1,853
M/L Term non-financial liabilities	22	30	40
Net Invested Capital	4,852	4,705	4,637
o/w Group Net Equity	7,333	7,754	8,265
Net Financial Position	2,481	3,048	3,628

Source: Company figures, Value Track Analysis

DHH: Cash flow Statement 2017A, 2018E, 2019E

(€ '000)	2017A	2018E	2019E
EBITDA	530.8	790.0	888.0
Op. WC requirements	424.8	264.4	218.4
Capex (not incl. Fin. Inv.)	-350.3	-350.0	-400.0
Change in provisions	20.5	8.2	10.0
OpFCF b.t.	625.3	712.6	716.4
As a % of EBITDA	118%	90%	81%
Cash Taxes	-57.5	-116.6	-137.1
OpFCF a.t.	567.6	596.1	579.2
As a % of EBITDA	107%	76%	65%
Other (incl. Fin. Inv.)	-1,241.5	-23.9	-5.0
Net Financial Charges	-29.5	-5.0	5.0
Change in Net Fin Position	-703.3	567.1	579.2

Source: Company figures, Value Track Analysis

Please, refer to our Initiation of coverage published back as of January 2018 for more details on the drivers underlying DHH 2018E-19E expected financial evolution.

Valuation Update

We keep valuing DHH averaging the results of both Peer analysis and Discounted Cash Flow model, even if the company Net Cash position makes DCF underestimating the full growth potential of the company. Indeed, despite still being in a start-up phase, DHH already generates cash and has positive (albeit not huge) P&L results.

Therefore, taking into account FY17 figures and revised 2108E-19E forecasts on one side and updated sector multiples / DCF results on the other one leads us to **confirm a €10.20 per share fair value**, in line with the previous fair value calculated in our Initiation of coverage report published back on January 2018.

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	10.6	10.0	1.7	1.4	14.9	14.0	10.7	10.0	1.8	1.7
9.8	13.9	10.9	10.3	1.7	1.5	15.2	14.4	10.9	10.3	1.8	1.7
10.0	14.2	11.2	10.6	1.8	1.5	15.6	14.8	11.2	10.6	1.8	1.7
10.2	14.5	11.4	10.9	1.8	1.5	16.0	15.2	11.5	10.9	1.9	1.8
10.4	14.8	11.7	11.1	1.8	1.6	16.4	15.6	11.8	11.2	1.9	1.8
10.6	15.1	12.0	11.4	1.9	1.6	16.8	15.9	12.1	11.5	1.9	1.8
10.8	15.3	12.3	11.7	1.9	1.7	17.2	16.3	12.4	11.8	2.0	1.9

Source: Value Track Analysis

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

Peers analysis

In our Initiation of coverage, we decided to split comparables into two categories:

- ◆ **International tech giants providing basic web services / cloud computing products:** Wix.com, Go Daddy, Endurance International Group, iomart, Web.com and Shopify;
- ◆ **Small-medium sized companies listed on AIM Italia stock market involved in digital businesses:** Triboo, Giglio Group, Axèlero, MailUp Group, Piteco, Wiit and Vetrya.

The first panel includes companies that are very similar to DHH in terms of business model and reference markets. At the same time we reckon that “size matters” as it implies a much different scalability potential, and this lead to DHH boasting a lower growth angle.

The second panel on the contrary includes companies whose business model is not always similar to DHH’s one, but they do share size factor and being listed on AIM Italia.

All the mentioned companies have highlighted different stock price patterns over the recent months, with both US and UK tech stocks never stopping their positive performance (but for the latest couple of weeks) while Italian digital players listed on AIM Italia have shown on average a weaker stance.

Thus, international players have undergone a further upward rerating of multiples in the latest months.

In this framework, DHH stock price decreased by ca. 5% since our Initiation of Coverage release date, January 30, 2018, and as a result the gap with respect to international peers has increased.

Please, see the Appendix for further details on sector stocks multiples.

DHH: Peers' stock performances

Company	30/01 to date	3months	6months	1 year
International industry players				
Wix.com	29%	33%	13%	15%
Godaddy	8%	20%	31%	61%
Endurance	-12%	-14%	-8%	-9%
iomart Group	-3%	-4%	17%	28%
Web.com	-23%	-20%	-28%	-8%
Shopify	-2%	16%	2%	83%
Average	-1%	5%	4%	28%

AIM Italia digital industry players

Triboo	-5%	-5%	-29%	-22%
Giglio Group	-16%	-11%	8%	70%
Axélero	-32%	-39%	-43%	-54%
Digitouch	-15%	-7%	1%	1%
MailUp Group	-7%	-4%	-9%	20%
Piteco	1%	0%	-2%	13%
Wit	-9%	-11%	-7%	n.a.
Vetrya	-6%	-2%	8%	26%
Average	-11%	-10%	-9%	8%

Source: S&P Capital IQ, Value Track Analysis

DHH: Peers' stock trading multiples

Company	EV / Sales (x)		EV / OpFCF b.t. (x)	
	2018E	2019E	2018E	2019E
International industry players				
Median	4.2	3.7	15.0	8.7
Average	4.9	3.9	16.6	12.3
AIM Italia digital industry players				
Median	0.8	0.7	11.7	8.1
Average	1.8	1.5	11.5	9.4
Overall values				
Median	2.1	1.9	11.8	8.7
Average	3.1	2.6	13.4	10.5
DHH @ Current Market Price	1.1	0.9	7.0	6.4

Source: Market Consensus, Value Track Analysis

*Based on Pro-Forma OpFCF

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

Taking into account the median of all stocks included in the two above mentioned clusters, we calculate a **multiple based fair value of DHH shares at €11.30**, resulting from **DHH "fair" multiples at ca. 2.1x EV/Sales '18 at, and 11.8x EV/ OpFCF '18**.

Cross-check with Damodaran calculation of sector multiples

A useful cross check to our Peers' valuation is provided by **Damodaran On Line data**. In the latest update as of the end of January 2018, Prof. Damodaran calculates an average **4.8x EV/Sales and 19.9x EV/EBITDA multiple** for 222 European companies involved in the Software (System & Application) sector, many of which listed on secondary markets like AIM Italia, AIM UK, Euronext Growth, Nasdaq First North, NewConnect Poland, MaB Madrid.

DCF valuation

As far as DCF model is concerned, using an expanded CAPM approach, based on the current capital structure and the same assumptions we employed in our Initiation of Coverage back as of January 2018, we get an overall Cost of Equity figure, which corresponds to WACC, given the Debt/Equity ratio equal to zero, at 9.9%.

That said, running the DCF we obtain a **fair value per share at €9.11**, corresponding to a fair equity value of 12.9mn.

We note that if DHH succeeds in successfully exploiting its net cash position for finalizing profitable M&A deals, this should turn into a more financially efficient capital structure, i.e. a lower WACC, thus increasing the fair value.

DHH: Discounted Cash Flows "base case"

(€'000)	
PV of future cash flows FY18E-FY27E	5,073.2
PV of Terminal value with PGR at 2%	5,375.7
Fair Enterprise value	10,448.9
Net Cash Position 2017 year-end	2,481
Fair Equity value	12,930
Fair Equity Value per share (€)	9.11

Source: Value Track Analysis

Here follows a sensitivity analysis of fair equity value per share to WACC and PGR to change

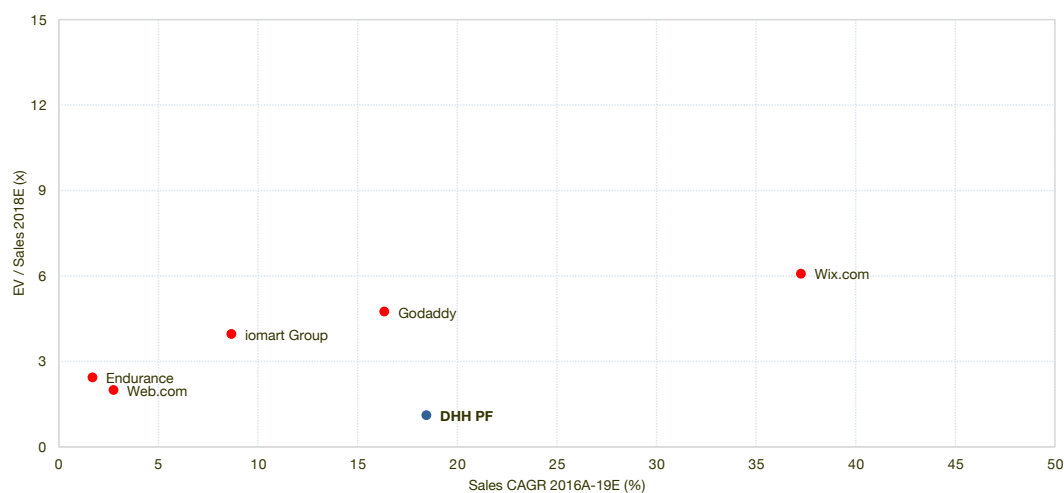
DHH: Fair Equity Value p.s. Sensitivity Analysis

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	9.5%	9.09	9.21	9.33	9.46	9.60
	9.7%	8.99	9.10	9.22	9.35	9.48
	9.9%	8.89	9.00	9.11	9.24	9.37
	10.1%	8.79	8.90	9.01	9.13	9.26
	10.3%	8.69	8.80	8.91	9.03	9.15

Source: Value Track Analysis

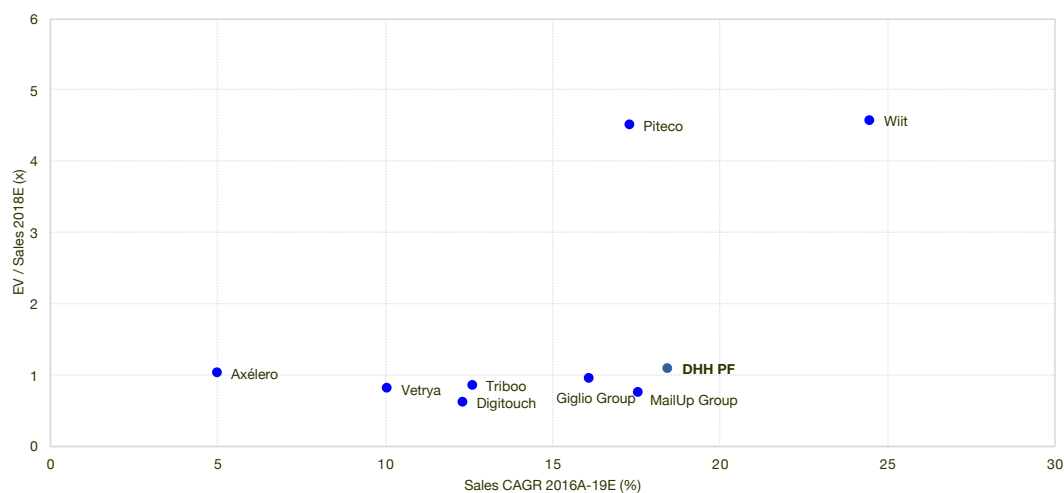
Appendix 1: Sector Valuation

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)		EV / OpFCF b.t. (x)	
	2018E	2019E	2018E	2019E
International industry players				
Wix.com	5.6	4.3	33.0	23.0
Godaddy	4.5	3.8	19.2	15.6
Endurance	2.3	2.2	15.0	8.3
iomart Group	3.9	3.6	9.5	8.7
Web.com	1.9	1.6	6.2	5.6
Shopify	11.1	8.1	nm	nm
Median	4.2	3.7	15.0	8.7
Average	4.9	3.9	16.6	12.3
AIM Italia digital industry players				
Triboo	0.8	0.7	11.8	6.3
Giglio Group	0.9	0.7	9.5	16.5
Axélero	1.0	0.9	11.8	9.3
Digitouch	0.5	0.3	2.9	1.8
MailUp Group	0.7	0.6	8.8	6.5
Piteco	4.6	4.1	14.7	11.6
Wiiit	5.1	4.2	20.6	16.5
Vetrya	0.7	0.7	11.6	6.9
Median	0.8	0.7	11.7	8.1
Average	1.8	1.5	11.5	9.4
Overall values				
Median	2.1	1.9	11.8	8.7
Average	3.1	2.6	13.4	10.5
DHH @ Market Price	1.1	0.9	7.0	6.4

Source: Market Consensus, Value Track Analysis

*Based on a pro-forma OpFCF

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