

DHH Group

Sector: Cloud Computing



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Cloud computing business as-a-service

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration

Merger to strengthen leadership in cloud computing

As result of the merger with Seeweb, DHH becomes a leading Group in the cloud computing arena across South East Europe, providing virtual infrastructures as-a-service to +100,000 customers.

The new group records brilliant financials (2019FY pro-forma), i.e. revenues close to €17mn, EBITDA margin at 33.5%, EBITDA cash conversion rate close to 100%, light capital structure and Net Debt at very low level (€2.2mn).

Business model with many interesting features

“New” DHH boasts, in our view, several strengths: i) exposure to fast-growing reference market, ii) wide and top-quality offer portfolio, iii) easily scalable and profitable business model featured by high client retention and recurring revenue, iv) ownership and management of extensive physical and network infrastructures, and lastly v) proven M&A and in corporate venture capital skills. At the same time, we hint a concern arising from tech-giants competition, however mitigated by the highly personalized approach the group maintains towards customers.

2022E EBITDA margin and ROIC at 35% level

We expect DHH to keep pushing on business acceleration and innovation, with the aim of increasing ARPU and further widening product portfolio. M&A track record (10 deals in less than 5 years) should support external growth, too. Our 2020-22E forecasts, based on organic growth, predict 11% topline CAGR, EBITDA margins and ROIC consistently above 30%, and €11mn cumulated free cash flow generation to foster (together with 360K treasury shares) M&A driven additional growth.

Fair value at €18 per share, i.e. €75mn equity value

We assess **DHH fair equity value at €18.0 per share**, compared to current €8.1 stock market price, calculated as the average of four different methodologies: peers’ analysis, DCF model, user-based valuation and recurring revenue analysis. Our fair value implies 2021E multiples of 3.4x EV/Sales, 9.8x EV/EBITDA and 13.7x EV/OpFCF, in line with domestic tech companies listed on AIM Italia.

Fair Value (€) **18.0**

Market Price (€) **8.1**

Market Cap. (€m) (*) **36.6**

(*) Calculated on number of shares post RTO finalization

KEY FINANCIALS (€mn)	2019PF	2020EPF	2021E
REVENUES	16.8	18.2	20.5
EBITDA	5.6	6.0	7.1
EBIT	2.5	2.7	3.9
NET PROFIT	1.7	1.8	2.8
EQUITY	14.2	16.1	18.8
NET FIN. POS.	-2.2	1.0	5.0
EPS (€)	0.40	0.41	0.62
DPS (€)	0.00	0.00	0.00

Source: DHH Group (2019PF), Value Track (2020E-21E estimates)

RATIOS & MULTIPLES	2019PF	2020EPF	2021E
EBITDA MARGIN (%)	33.5	32.9	34.6
EBIT MARGIN (%)	15.1	14.7	19.2
NET DEBT / EBITDA (x)	0.39	nm	nm
NET DEBT / EQUITY (x)	0.15	nm	nm
EV/SALES (x) (**)	2.1	1.8	1.4
EV/EBITDA (x) (**)	6.3	5.4	4.0
EV/EBIT (x) (**)	13.9	12.1	7.1

Source: DHH Group (2019PF), Value Track (2020E-21E estimates)

(**) EV adjusted for peripherals and treasury shares and based on number of shares post RTO finalization

STOCK DATA	
FAIR VALUE (€)	18.0
MARKET PRICE (€)	8.1
SHS. OUT. (m) (***)	4.5
MARKET CAP. (€m) (***)	36.6
FREE FLOAT (%)	24.8
AVG. -20D VOL. (#)	1,087
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	4.80-9.40

Source: Stock Market Data

(***) Post RTO finalization



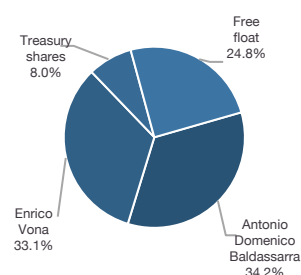
Business Description

DHH is a tech group that provides cloud computing solutions in SaaS solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration.

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

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

Shareholders Structure



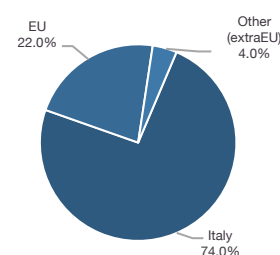
Source: DHH Group

Key Financials

€'000	2018PF	2019PF	2020E PF	2021E
Total Revenues	15.9	16.8	18.2	20.5
Chg. % YoY	nm	+6%	+8%	+13%
EBITDA	3.7	5.6	6.0	7.1
EBITDA Margin (%)	23.2%	33.5%	32.9%	34.6%
EBIT	2.4	2.5	2.7	4.0
EBIT Margin (%)	15.0%	15.1%	14.7%	19.2%
Net Profit	1.7	1.8	1.8	2.8
Chg. % YoY	nm	+8%	+3%	+51%
Adjusted Net Profit	1.7	1.8	1.8	2.8
Chg. % YoY	nm	+8%	+3%	+51%
Net Fin. Position	3.1	-2.2	1.0	5.0
Net Fin. Pos. / EBITDA (x)	nm	0.4x	nm	nm
Capex		-0.8	-1.3	-2.3
OpFCF b.t.		5.7	4.0	5.1
OpFCF b.t. as % of EBITDA		101%	68%	72%

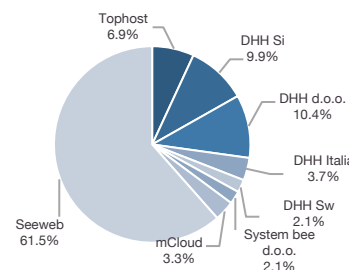
Source: DHH Group (historical figures), Value Track (estimates)

Sales breakdown by country



Source: DHH Group

Sales breakdown by legal entity



Source: DHH Group

Investment case

Strengths / Opportunities

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

Weaknesses / Risks

- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Stock multiples @ €18.0 Fair Value

	2020EPF	2021E
EV / SALES (x)	4.1	3.4
EV / EBITDA (x)	12.3	9.8
EV / EBIT (x)	27.6	17.6
EV / Cap. Empl. (x)	4.9	5.0
OpFCF Yield (%)	5.4	7.3
P / E (x)	nm	29.1
P / BV (x)	5.1	4.3
Div. Yield. (%)	0.0	0.0

Source: Value Track

Investment Summary

As result of the merger with Seeweb, DHH is a €17mn topline and €5.6mn EBITDA cloud computing Group, focused on providing virtual infrastructure to +100,000 customers in the South East Europe.

Within the new guise, DHH boasts several interesting features related to both reference market and the Group itself, such as proven M&A skills and execution capabilities in corporate venture capital, highly scalable and profitable business model all based on recurring revenues.

We expect total turnover to steadily grow at double-digit CAGR₁₉₋₂₂, mostly driven by ARPU increase based the launch of new VAS, and by continuous expansion in customer base. EBITDA margin is projected to stay consistently in the 33%-36% region, with ROIC in the same region as well as cash conversion rate (OpFCF/EBITDA) in the 60%-75% area.

Cloud computing services are facing a stronger and stronger demand...

Nowadays, cloud computing represents an essential tool for innovation, given the easy, flexible and fast implementation of software and application without the burden of purchasing and maintaining physical and network infrastructure. **Worldwide public cloud market** – according to Gartner – **is expected to grow at 15%-20% annual rate**, with IaaS and PaaS solutions likely to experience the highest 3yr CAGR_{19-22E}.

All geographies in which the Group currently operates, Italy included, have historically lagged behind the rest of Europe in terms of digitalization and are expected to post higher growth rates ahead.

...and DHH has full offer portfolio and an extensive infrastructure

DHH is extremely well-positioned to address the aforementioned “digital needs”, enabling on-demand network access to shared pool of configurable computing resources (networks, servers, storage, application, and services), thus allowing final users to work remotely without being in a specific place to gain access.

Within this favorable scenario, **DHH offers a broad array of products to meet customers’ needs** ranging from domain registration and transfer to hosting, from cloud servers, housing and colocation to ready to use IoT solutions, bundle solutions and consultancy activities.

More, **being the owner of physical and network infrastructures**, with both the internet backbone and all six datacenters (of which two ones under management) connected to each other and to other Italian and foreign PoPs through an optical fiber ring, **the Group is able to take significant advantages**, among all to apply competitive prices.

2019 PF figures underline high quality financials...

In FY19PF, DHH Group has recorded a **strong set of financial results**, with total turnover up by 9.4%, EBITDA margin above 30% and operating cash flow which fully mirror EBITDA, i.e. cash conversion ratio close to 100%.

EBIT margin stands at mid-teen digit, burdened by €2mn IFRS 16 driven annual amortization of Rights of Use assets (RoU), while almost zero net financial charges and tax rate at 30% lead Net Profit at €1.8mn, still at double-digit margin (10.6%).

Due to the fact that the company doesn’t capitalize at all any R&D expenses, it has maintained an extremely light capital employed structure (NFA mostly include M&A related goodwill, ten small acquisition in less than 5 years), with **Net Debt at the end of 2019 at roughly €2.2mn**.

...thanks to high recurring revenues and client retention

Recurring revenues and client retention are extremely high for DHH, at roughly 90% according with our model (annual churn rate close to 11%), with most of clients remaining with DHH for years, notwithstanding the duration of the original contract, as result of the extremely low churn rate which by nature features DHH's products, due to the subscription-based business model with automatic renewal and minimal duration.

...and an innovative mindset

The Group has always developed innovative solutions, investing in internal projects, through strategic partnerships, or following a corporate venture capital approach, fine tuning in this way value proposition and business model, and acquiring technological know-how.

Hence, **DHH has always launched innovative and cutting-edge services, also anticipating market trends**, i.e. Seeweb was the first operator to introduce cloud computing services in Italy.

In addition to in-house product development, the Group has always adopted **an open-innovation approach finalizing corporate venture capital deals**, like Docebo, the e-learning platform set up in Italy and now worth ca. US\$750mn. Currently, the Group has minority stakes in i) Materialuce, a startup which develops and markets innovative lights and lighting systems, ii) Baasbox, a small company involved in the design, development and sale of digital products and iii) Sync, a company that provides IT services.

Now is time to keep pushing on growth

We expect the Group to keep pushing on innovation, both in terms of internally fueled product / solutions innovation and in terms of M&A strategy. Main goals ahead are:

- ◆ **Increasing ARPU**, through the shift towards premium products and the launch of proprietary solutions to stay ahead any technological trend;
- ◆ **Developing new strategic relationships** with web agencies, specialized partners, system integrators or software houses, extremely important to accelerate the growth path and the market penetration, thus allowing the enhancement of retention rate.
- ◆ **Boosting M&A activity**, also thanks to strong execution capabilities acquired so far in finalizing several acquisitions. We believe the Group would exploit further transactions to consolidate market coverage, enter in new geographies and/or in new market segment.

20120-22E: key P&L items up double digit, high cash conversion and ROIC

Without considering any M&A deals, we expect **DHH top line growing at ca 11% CAGR_{19PF/22E} with EBITDA margins remaining consistently above 30% threshold.**

The margin growth expected into the forecast period should mostly pour into free cash flow with an **extremely high OpFCF/EBITDA conversion rate (steadily in the 60%-75% region)** and **ROIC b.t. at ca 37%** as of 2022E.

Overall, DHH is expected to generate ca. **€11mn cumulated free cash flow over the 2020-2022E period** to be utilized in M&A deals together with the 8% of share capital currently held as treasury shares.

Fair value at €18 per share

We assess **DHH fair equity value at €18.0 per share**, compared to current €8.1 stock market price, calculated as the average of four different methodologies: peers' analysis, DCF model, user-based valuation and recurring revenue analysis.

Our fair value implies 2021E multiples of 3.4x EV/Sales, 9.8x EV/EBITDA and 13.7x EV/OpFCF, mostly in line with domestic tech companies listed on AIM Italia.

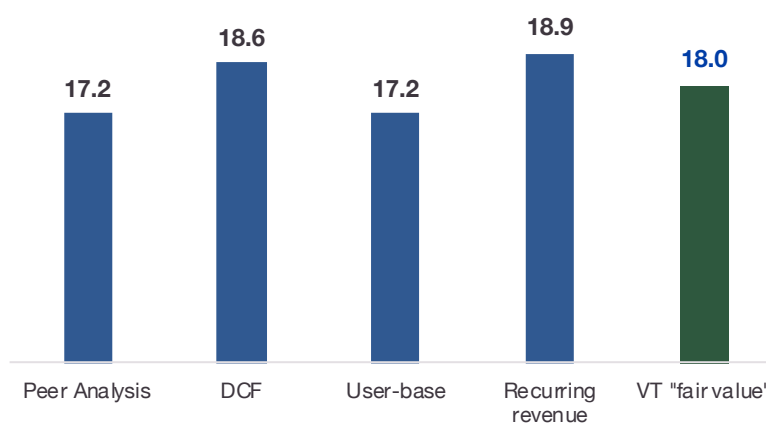
Valuation

DHH currently trades at €8.1 stock market price, or 1.8x EV/Sales, 5.4x EV/EBITDA and 6.9x EV/OpFCF based on 2020E forecasts.

We set €18 fair value per share, given by the simple average of four different valuation criteria: peers' analysis, DCF model, user-based valuation and recurring revenue analysis.

We set on DHH a **fair equity value of €18.0 per share**, compared to current €8.1 stock market price, calculated as the average of four different methodologies: peers' analysis, DCF model, user-based valuation and recurring revenue analysis.

DHH Group: Our "fair value" at €18 per share



Source: Value Track Analysis

Our fair value implies 2021E multiples of 3.4x EV/Sales, 9.8x EV/EBITDA and 13.7x EV/OpFCF. Here below, we provide a sensitivity analysis of DHH stock trading multiples with a market price ranging between €16 and €20.

DHH Group: Sensitivity of implicit stock trading multiples in the €16.0 - €20.0 share price range

Share price (€)	EV 2020	EV / Sales (x)		EV / EBITDA (x)		EV / OpFCF (x) (*)	
	€mn	2020E	2021E	2020E	2021E	2020E	2021E
€ 16.0	€ 65.2 mn	3.6	3.0	11.0	8.7	16.3	12.1
€ 17.0	€ 69.4 mn	3.8	3.2	11.7	9.3	17.3	12.9
€ 18.0	€ 73.6 mn	4.1	3.4	12.4	9.8	18.3	13.7
€ 19.0	€ 77.7 mn	4.3	3.6	13.1	10.5	19.3	14.5
€ 20.0	€ 81.9 mn	4.5	3.8	13.7	11.0	20.4	15.3

Source: Value Track Analysis (*) OpFCF calculated as EBITDA-Capex (**) not including treasury shares

We underline that in the above mentioned €18 per share fair value we are not including yet some “intangible” values of DHH mostly relying on its competitive and geographic footprint, as well as on the ability in M&A deals. Indeed:

- ◆ **Competitive and geographical footprint.** DHH boasts leading market shares in the cloud computing space in five promising non-English speaking countries with high growth opportunities, where it manages operations in local language thus being able to support clients at best;
- ◆ DHH has proven track record of both **M&A skills**, allowing it to accelerate business expansion on top of organic growth, and of **Corporate venture capital ones**, i.e. of investing in startups as “angel” and subsequently realizing very profitable exits.

We expect DHH to accelerate on this M&A and Venture Capital activity in the next future by reinvesting the high amount of internally generated free cash flow (€11mn cumulated in the 2020E-22E period) and by exploiting the 8% of share capital currently held as treasury shares.

Here follow more details on the above mentioned four valuation methodologies we applied to DHH.

Peers Analysis

Choice of comparables

It is not easy to identify several peers with a business model perfectly aligned to DHH, i.e. featured by monthly/annual subscriptions with high incidence of recurring revenue and elevated client retention.

More, as already seen in our previous equity reports, most comparable firms for valuation purpose are bigger players listed in the US and the UK markets, but we reckon that size and geography make a huge difference in terms of trading multiples.

Therefore, we primarily focused on picking peers which hold a similar size and are exposed to the same type of capital market, then looking also at non-Italian continental Europe peers, we find a few names publicly traded company that we identify as similar to DHH in terms of business model, scale and growth prospects.

Summing up, **we selected eleven potential tech companies**, clustered as follows:

- ◆ **Tech companies listed on AIM Italia:** Cyberoo, Relatech, Unidata, Fos, MailUp Group, Expert System, Maps and Neosperience;
- ◆ **Tech companies listed on MTA or foreign stock markets**, sharing with DHH a mid-small cap size, a high percentage of recurring revenues, high operating margins and high scalability: Piteco, Wiit and Gigas.

DHH Group vs. Peers: it's all a matter of profitability and of business scalability

DHH, compared to selected peers, boasts:

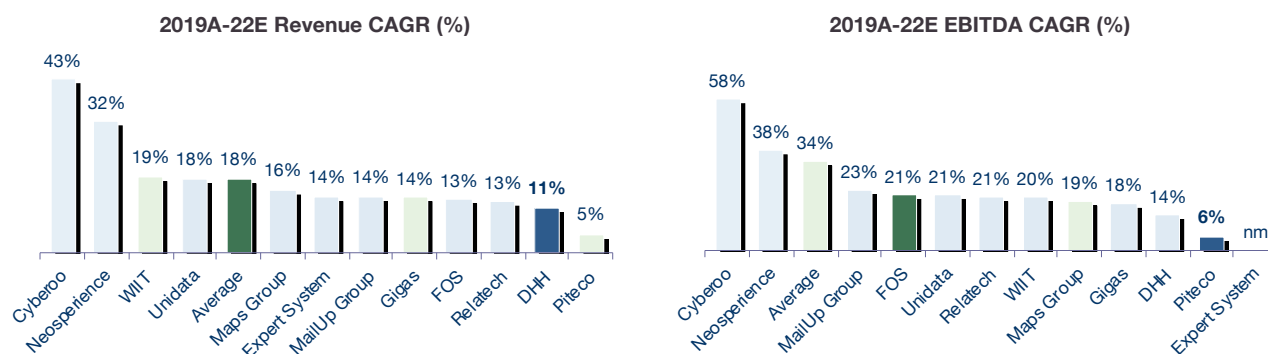
- ◆ **Mid-to-low end positioning in terms of Sales and EBITDA 3yrs CAGR** (measured through 2019A-22E), albeit at double -digit speed, with average values biased by high growth rates expected by two outliers;
- ◆ **Among best in-class at profitability level**, with EBITDA Margin 20E at 33%, extremely in line with Wiit, by far the most comparable firm in the cloud computing space;
- ◆ **R&D cost capitalizations entirely accounted within Operating costs** i.e. EBITDA fully mirrors industrial profitably, and the total of internal projects within other revenue is “zero”;
- ◆ **Excellent positioning both in terms of recurring revenue and incidence of labor cost on sales**, typical of a cloud-based company;
- ◆ **High cash conversion ratio**, close to 80% of EBITDA, among the best of our selected peers.

DHH Group: Relative positioning vs. peers in terms of key P&L metrics (FY19)

FY19	CYB	RLT	UD	FOS	MAIL	EXSY	MAPS	NSP	PITE	WIIT	GIGA	DHH
Rev. from Sales	5.6	18.0	12.8	9.7	59.3	31.7	16.1	13.9	22.8	33.7	10.2	16.6
o/w Recurring (%)	79%	22%	83%	na	30%	33%	23%	25%	65%	75%	na	89%
Other Revenue	1.1	3.3	0.4	2.5	1.5	8.1	2.0	3.6	1.3	0.2	0.4	0.2
o/w Int projects	0.9	2.6	0.0	1.1	0.0	6.1	1.6	2.0	0.3	-0.7	0.3	0.0
Total Revenue	6.7	21.3	13.2	12.2	60.8	39.7	18.1	17.5	24.0	33.9	10.6	18.4
Headcount	34	210	74	133	210	231	170	88	118	163	82	95
Rev./Employee(€K)	198	102	184	92	290	172	106	199	204	208	130	193
EBITDA	2.5	4.8	4.6	2.4	4.8	5.5	3.8	3.6	10.2	12.1	2.5	5.6
EBITDA Margin (%)	43.7%	26.5%	36.1%	24.9%	8.1%	17.2%	23.5%	25.6%	45.0%	36.0%	24.5%	33.5%

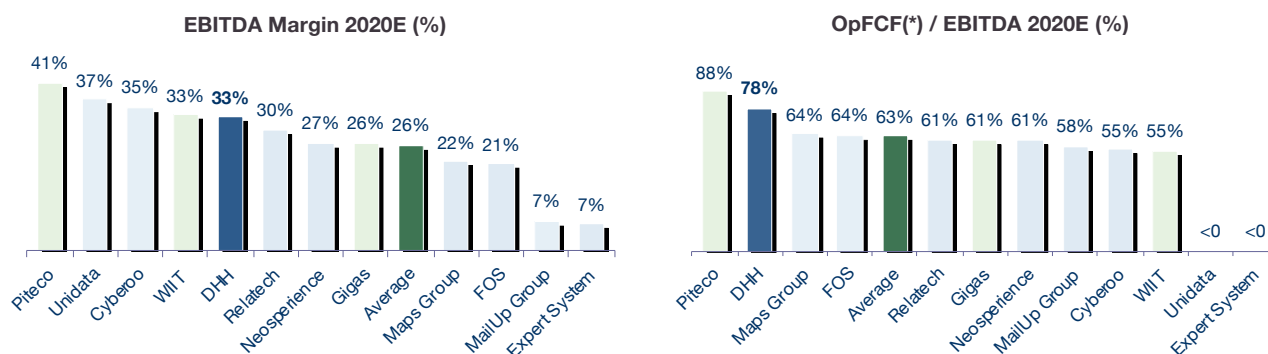
Source: Value Track Analysis

DHH Group: Relative positioning vs. peers in terms of expected growth



Source: Value Track analysis on companies' data

DHH Group: Relative positioning vs. peers in terms of profitability and cash flow generation (*)



Source: Value Track analysis on companies' data (*) OpFCF calculated as EBITDA-Capex

DHH Group: Peers' Business Profiles

Cyberoo – CYB (Italy, Revenue 2020E €8.3mn / Mkt Cap €43mn)

Cyberoo is an Italian-based company specialized in cyber security, monitoring systems aimed at improving or maintaining in-company performance, and datacenter, cloud and device management infrastructures and applications

Relatech – RLT (Italy, Revenue 2020E €19.4mn / Mkt Cap €57mn)

Relatech is a digital company providing solutions and services for corporates' digitalization ranging from IoT modules, cybersecurity algorithms, and cloud services to digital marketing and e-commerce facilities. It works directly with clients or via larger system integrators, following a "vendor neutral" approach

Unidata – UD (Italy, Revenue 2020E €15.5mn / Mkt Cap €42mn)

Being listed on AIM, Unidata is a Rome-based company which is specialized in, among other things (i.e. fiber & networking and IoT & smart solutions), the development of innovative hosting, housing, server colocation and cloud computing services

Fos – FOS (Italy, Revenue 2020E €12.8mn / Mkt Cap €17mn)

FOS offers a wide portfolio of ICT solutions, among which cloud computing and datacenter orchestration & consolidation, integrating its skills in the fields of Automation, Telecommunication and Engineering

MailUp Group – MAIL (Italy, Revenue 2020E €69.7mn / Mkt Cap €83mn)

Established in Italy, MailUp Group is a leading cloud based digital marketing technology hub currently offering its solutions to several thousand customers worldwide, with a consolidated expertise on small to medium-sized enterprises.

Expert System – EXSY (Italy, Revenue 2020E €31.6mn / Mkt Cap €117mn)

Listed on AIM Italia, Expert System is a global Artificial Intelligence provider of cognitive computing and text analytics software to enterprises and government agencies

Maps Group – MAPS (Italy, Revenue 2020E €19.0mn / Mkt Cap €23mn)

Maps is one of the main Italian digital transformation enablers focused on big data software solutions, offering its services and products to large enterprises, the healthcare software and public administration

Neosperience – NSP (Italy, Revenue 2020E €16.5mn / Mkt Cap €45mn)

Neosperience provides a software platform, which enables companies to know, involve and retain their customers using artificial intelligence to offer personalized customer experiences

Piteco – PITE (Italy, Revenue 2020E €25.0mn / Mkt Cap €116mn)

Based in Italy and listed on MTA, Piteco is a software house active in design, development and implementation of proprietary software / solutions in Treasury Management Application market (TMS)

Wiit – WIIT (Italy, Revenue 2020E €46.4mn / Mkt Cap €345mn)

Wiit is a leading provider of hosted private and hybrid cloud services such as critical applications, business continuity and disaster recovery, cyber security and digital transformation solutions

Gigas Hosting – GIGA (Spain, Revenue 2020E €11.7mn / Mkt Cap €27mn)

Gigas is a cloud computing company operating in the Infrastructure as a Service (IaaS). It has developed a leading-edge technology platform with an extremely intuitive and easy to use user interface

Source: Various, Value Track Analysis

Peers' stock multiples

We consider **2020E-21E as reference years** and given the typical financial profile of companies operating in the tech space, we identify EV/EBITDA and EV/OpFCF b.t. as most appropriate multiples for valuation purposes. All peers boast a minimum 20% free float and Market Cap within €20mn-125mn range, excluding Wiit which currently displays a €345mn capitalization.

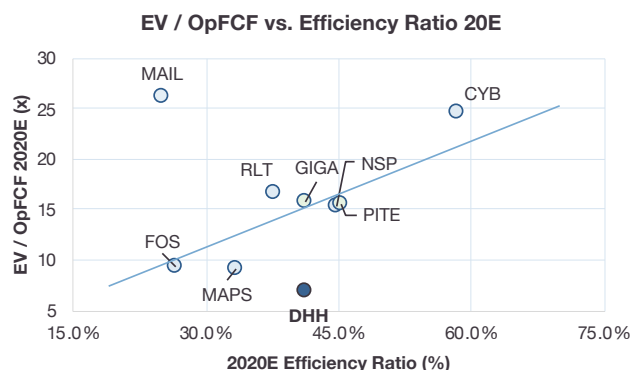
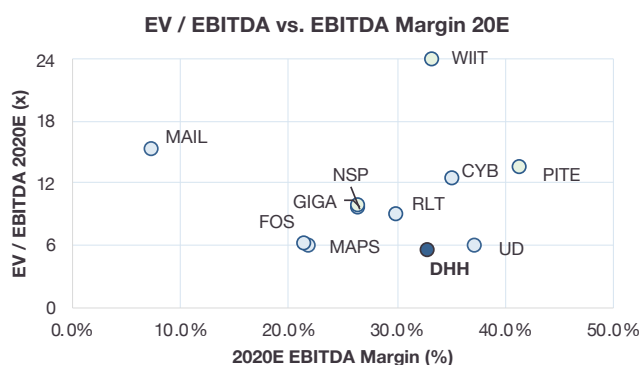
DHH Group: Peers' stock trading multiples

Company	EV / EBITDA (x)		EV / OpFCF b.t. (x) (*)	
	2020E	2021E	2020E	2021E
MailUp Group	15.2	10.3	26.3	15.4
Cyberoo	12.2	6.2	24.6	9.6
Expert System	nm	nm	nm	nm
Neosperience	9.4	5.5	15.3	7.8
Relatech	8.7	7.1	16.7	12.8
Unidata	5.7	4.1	nm	nm
Maps Group	5.8	4.3	9.2	6.1
FOS	5.9	4.9	9.3	6.9
Wiit	23.9	20.1	nm	27.8
Piteco	13.5	12.2	15.6	13.3
Gigas Hosting	9.6	8.3	15.7	12.9
Average Peers	11.0	8.3	16.6	12.5
DHH @ market price	5.4	4.0	6.9	5.9
<i>DHH discount vs Average</i>	<i>-51%</i>	<i>-52%</i>	<i>-58%</i>	<i>-53%</i>

Source: Market Consensus, Value Track Analysis (*) OpFCF calculated as EBITDA-Capex

DHH is currently trading at higher than 50% discount vs. peers, an unfair level if we focus on DHH scalability potential, high incidence of recurring revenues and top-class financial profile (i.e. double-digit revenue growth, double digit profitability returns and robust cash flow generation).

DHH Group: Peers Value Maps



Source: Value Track analysis on companies' data

So, we believe DHH does not deserve such enormous discount, and applying 2020E average multiples, we obtain a €17.2 per share peers' driven fair value.

DCF Valuation

We also run a DCF Model, which incorporates medium and long-term growth potential, albeit based on organic growth only.

Our model is based on a “target” capital structure with, Net Debt at 30% of the Capital Invested.

Thus, using an expanded CAPM approach, we get an overall WACC of 9.9%. The detailed calculation is based on the following assumptions:

- ◆ 2.0% Risk-free rate, 1.0x unlevered beta (average of internet and system application sectors), 7.4% Italian ERP, and additional 1.0% small size/ liquidity risk premium;
- ◆ Explicit financial statements projections from 2020E up to 2028E and Terminal Value at 2029E, obtained applying a 2% Perpetuity Growth Rate (PGR).

The result is €18.6 per share DCF driven fair value.

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

(€mn)	
PV of future cash flows FY20E-FY28E	32.9
PV of Terminal value with PGR at 2%	46.3
Fair Enterprise value	79.2
Net Cash Position 2019PF Year-End	-2.2
Peripheral assets (valued at book value)	0.2
Fair Equity value	77.5
Fair Equity value per share (€) (*)	18.6

Source: Value Track Analysis

(*) calculated on total number of shares net of treasury ones

Here below, we provide a sensitivity analysis of fair equity value per share, allowing for both WACC and PGR.

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

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	9.4%	19.2	19.6	20.0	20.5	20.9
	9.7%	18.5	18.9	19.3	19.7	20.1
	9.9%	17.9	18.2	18.6	19.0	19.4
	10.2%	17.3	17.6	18.0	18.3	18.7
	10.4%	16.8	17.0	17.4	17.7	18.0

Source: Value Track Analysis

User-based valuation

Another way to assess DHH Group equity value – due to its subscription-based business model – is to start from the value of its existing users, then adding the value of new future users and ultimately removing the present value of corporate expenses.

The model applied for existing users' valuation is based on the following assumptions:

- ◆ Ca. 106k active users at the end of December'19;
- ◆ Annual churn rate of ca. 11%, based on historical data, implying clients' lifetime at ca. nine years;
- ◆ WACC at 9.9%;
- ◆ Variable costs at 40% of annual gross billing, expected to increase at mid-single digit over the lifetime;
- ◆ Corporate Tax rate at 24%.

Such assumptions return €598 fair value per existing user, i.e. ca. €63.5mn in absolute terms;

As per the value added by new users, we also assume:

- ◆ 7,000 net adds on average per year;
- ◆ Acquisition cost expected to be €130 / net adds, and roughly €1mn in absolute terms, consistent with marketing costs currently sustained by the Group;
- ◆ Churn rate for new users equal to existing ones;
- ◆ Perpetuity growth rate (PGR) at 2%.

These assumptions return €499 fair value per new user, i.e. ca. €44mn in absolute terms;

As far as corporate expenses are concerned, we estimate them at €3.8mn as of 2020, expected to increase at low -single digit in the forecast period, thus leading to a total net present value "drag" from corporate costs of ca. €34mn.

Overall, summing the value of existing users to the value of new users and deducting the net present value of corporate costs we get to €17.2 fair value per share.

DHH Group: Equity Value based on a user-based valuation

	€mn
Value of existing users	63.5
Value of new users	43.9
Value of current and future client base	107.4
Value drag from corporate expenses	34.1
Net Fin. Position 2019PF year-end	-2.2
Peripheral assets (valued at book value)	0.2
Fair Equity value	71.4
Fair Equity value per share (€) (*)	17.2

Source: Value Track Analysis

(*) calculated on total number of shares net of treasury ones

Valuation based on “recurring” revenues

Last but not least, we include one of the hottest topics featuring tech companies, and in particular cloud-based ones, that is the incidence of recurring revenue on total turnover.

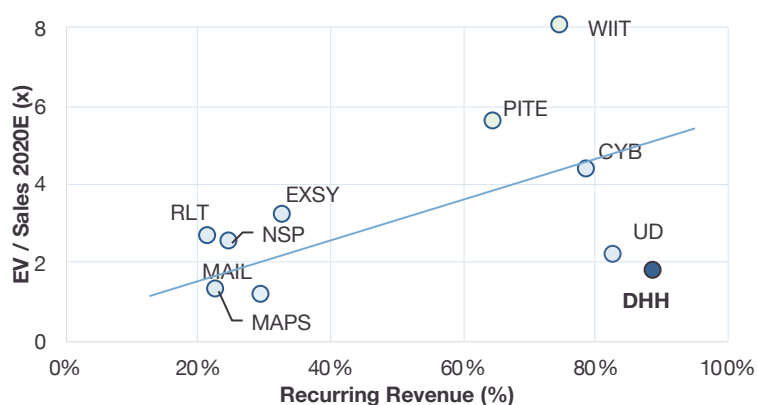
Indeed, taking account those companies already seen in our peers’ analysis, we analyzed the correlation of recurring revenue (if available) vs. EV/Sales trading multiple.

We use recurring revenue as proxy of the efficiency ratio used by the BVP Nasdaq Emerging Cloud index, which is designed to track the performance of US emerging public companies involved in providing cloud solutions to their customers.

Hence, once again DHH seems to be extremely penalized by current valuation, despite roughly 90% recurring revenue.

So, through a linear regression analysis, we calculate that DHH should trade at ca. 4.4x EV/Sales 20E, that means a fair equity valuation of €18.9 per share, in line with companies such as Piteco, Wiit, Cyberoo, all boasting recurring revenues incidence above 50% and EBITDA margin above the 30% level.

DHH Group: EV/Sales vs. Recurring Revenue



Source: DHH, Value Track Analysis

DHH: The SE Europe Cloud computing provider

Founded in 2015, and admitted on capital markets one year later, DHH Group is among the youngest companies listed on AIM Italia Stock Exchange. Born as a holding company with controlling stakes in small tech firms located in the so-called Adriatic Sea area, nowadays, as result of the merger with Seeweb, it is a leading Group in the cloud computing arena, providing virtual infrastructures in SaaS and IaaS mode to +100,000 customers. In less than five years, the Group has successfully finalized several acquisitions, reaching the highest point with the incorporation of Seeweb, the Italian pioneer of cloud computing solutions, establishing in such way a new combined entity with 2019 pro-forma turnover at €16.8mn, 33.5% EBITDA Margin and EBITDA cash conversion ratio close to 100%.

DHH: once a pure web hosting and domain registration provider...

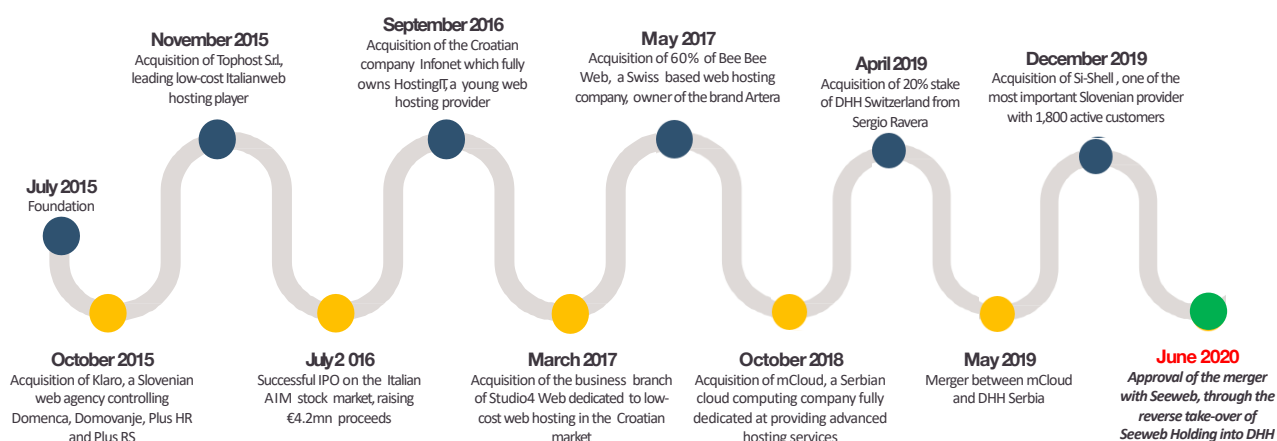
DHH Group was founded back in 2015 with the mission to be a holding company with controlling stakes in small tech firms providing “virtual infrastructure” to run website, apps, e-commerce and SaaS solutions to 100,000+ clients across southeast Europe, an area with above average growth rates and full of talents available at very competitive costs.

Listed on AIM Italia Stock Exchange since 2016, it has rapidly grown also thanks to a vigorous €6mn worth M&A plan, with around ten acquisition of promising tech companies active in five countries: Italy, Croatia, Slovenia, Serbia and Switzerland, building an ecosystem of independent businesses with a common theme in which tech entrepreneurs can innovate and share best practices.

So far, DHH has been focused on web domain registration and web hosting services – from simple share hosting to more sophisticated solutions as virtual private server, cloud and managed hosting – with the strategic goal of providing corporates with simple and flexible digital products, to establish, build and increase their online presence and visibility.

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

DHH Group: Main historical milestones until the transaction deal



Source: Value Track analysis on companies' data

...and now a leading group in the cloud computing space thanks to reverse take-over with Seeweb Holding

DHH has recently announced a reverse merger with its shareholder Seeweb Holding, due to be finalized in the next few months.

This is a deal with a sound industrial rationale that should allow the new group to become one of the few European listed companies active in the very promising and high growing cloud computing space.

Seeweb at a glance

Seeweb is a cloud computing company, which offers its customers – both public and private enterprises – SaaS, IaaS and PaaS services, as well as a wide range of additional IT services such as shared hosting, dedicated servers, housing and colocation, relying on six physical datacenters and a proprietary fiber optic network. Seeweb was the first operator to introduce cloud computing solutions on the Italian market, and among the first players to deal with domain registration in the domestic field. Among the other things, Seeweb also holds minority stakes in small size companies, like Sync, Baasbox and Materialuce, for a total consideration of €250K equity value.

Deal technicalities

The deal consists in the industrial combination of all operating activities run by Seeweb and DHH, **to be realized through a reverse take-over of Seeweb Holding** (before the transaction the main shareholders of DHH with ca. 24% of share capital), into DHH Group.

The merger will be 100% paper based i.e. finalized through the issuance of DHH new ordinary shares to be assigned to Seeweb shareholders in proportion to the capital they hold in the combined company, based on an share swap ratio of 31,828.92 DHH new shares for each €1,000 of Seeweb share capital.

The merger also determines the cancellation of the entire share capital of Seeweb Holding, while the 360,000 shares originally held by Seeweb in DHH, will be treated as treasury shares.

Closing of the deal is expected by the end of the year.

Deal rationale

The deal rationale is, in our view, straightforward and relies on the possibility to strengthen the Group's competitive positioning by offering a wider array of product/solutions in the IT space, with a great focus on the field of both cloud computing (ca. 50% of total revenue in FY19PF), and other activities from housing and colocation to domain registration and web hosting.

Summing up, **key reasons behind the merger** between DHH and Seeweb are:

- ◆ **Consolidation of the current market position** in the domain registration and cloud hosting, as well as the in the cloud computing field;
- ◆ **Establishment of a bigger Group**, enabling the same to i) face in a proper way competitive challenges at European level, ii) diversify market risk and at the same time expand the range of products and services offered, also through integrated packages, iii) improve the visibility of the whole Group, in order to attract higher number of institutional investors, and increase the robustness and resiliency of the Group to pursue medium-long term growth also by acquiring new companies or business branches;
- ◆ **Sharing of best practices**, starting a new process of industrial and strategic aggregation in terms of technological know-how among businesses within the Group, exploiting at the same time possible cross-selling opportunities deriving from the presence of a mutual consolidated customer portfolio.

Company profile of new DHH group

Following the finalization of the deal with Seeweb, **DHH Group should indeed become a well-established player in the cloud computing space**, with 100,00+ European customers in the South East Europe, and likely to play a key role in the foreseeable future also though further aggregations and / or acquisitions.

Well-established Group with 2019 pro-forma €16.8mn top line and €5.6mn EBITDA

As a matter of facts, the new Group coming from the above-mentioned merge assumes a new dimension, both in terms of business development but also in terms of size. Just to give an idea about the main features of the new combined entity, we underline the following key factors that are worthy of notice:

- ◆ **Proprietary solutions delivered to 100,000+ customers**, with a leading position in the so-called Adriatic Sea Area;
- ◆ **Broad array of products**, from more sophisticated and tailor-made solutions (cloud server, foundation server, ready to use IoT products) to more commoditized products (hosting, domain registration, housing & colocation and so on);
- ◆ **Ecosystem of independent businesses**, with individual organization & management team for each legal entity, sharing technological know-how, best practices and bottom-up synergies;
- ◆ **Subscription-based business model**, allowing higher customer retention, auto-renewal subscription and a better cash flow management;
- ◆ **Top line close to €17mn, EBITDA margin at 33.5%, EBITDA cash conversion rate close to 100%.**

DHH Group: A new restructured business relying on several strengths



Source: DHH, Value Track Analysis

Group subsidiaries working together in a synergic way

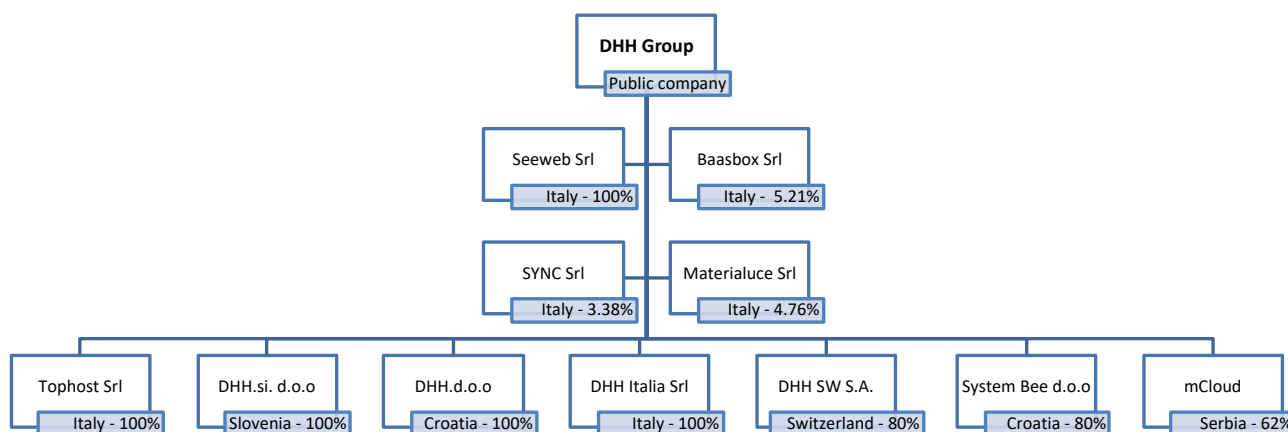
The approach followed by the Group so far was built around the concept of an **ecosystem of independent businesses**, with a common theme in which tech-entrepreneurs can innovate, share best practices and grow as part of the group of like-minded people.

This attitude will remain basically “unchanged”, with the new integrated unit, and by far the leading contributor to consolidated figures, that will become going forward the reference point also for other subsidiaries.

As of today, the new group holds equity stakes in eleven business units, out of which:

- ◆ eight business units / operating companies consolidated on a line by line basis among which three in Italy (Seeweb, Tophost, DHH Italy), two in Croatia (DHH d.o.o and System Bee), and only one in Slovenia (DHH.si), Serbia (mCloud) and Switzerland (DHH SW);
- ◆ minority stakes in start-up companies such as Baasbox, Sync and Materialuce.

DHH Group: New organizational structure















Source: DHH, Value Track Analysis

DHH subsidiaries: Market positioning

Companies	Domains	Hosting	Server	Managed infrastructure
Seeweb	+	+	+++	+++
Tophost	+++	+++	-	-
DHH Slovenia	+++	+++	+	-
DHH Croatia	+++	+++	+	-
System Bee	-	-	+++	+++
DHH Switzerland	+	++	+++	++
DHH Italia	+	++	+++	++
mCloud	+	+	+++	-

Source: DHH, Value Track Analysis

DHH: Brands currently managed

Brand	Brief description
	Cloud computing company which offers SaaS, IaaS and PaaS services, as well as a wide range of additional IT services such as shared hosting, dedicated servers, housing and colocation, relying on six physical datacenters and a proprietary fiber optic network.
	Leading Italian player for entry level solutions to more than 46,000 customers, still keeping the status of the lowest-cost web hosting provider in Italy.
  	The Group has leading position in the Slovenian market (with around 27,000 customers and 31% market share. Domenca is a domain registration provider, while Domovanje and Si-Shell are mostly involved in the cloud computing field. High-end products like WordPress and hybrid hosting were launched on the market in FY19.
  	Largest hosting provider in Croatia, with 23% market share and ca. 20,000 customers, more than doubled in three years. Three proprietary brands providing a broad array of services, from low-cost hosting to managed hosting addressed to high end customers.
 	The two brands active in Serbia, Plus hosting and mCloud, target different customers in order to meet several needs, i.e. Revenue per user of mCloud (a cloud computing provider) is on average 7x than that recorded by Plus. They count ca. 6,300 active customers, and ca. 7% market share.
	Italian/Swiss brand providing high-end services such premium hosting, 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.
	Sysbee is engaged in the business of web hosting and IT solutions, made up of a group of system engineers and infrastructure architects dedicated to bringing DevOps culture to small and medium-sized enterprises. It currently counts ca. 50 active clients.

Source: Value Track Analysis

Shareholders and management team combine know-how and track record

As a result of the reverse merger deal, **DHH Group new shareholders structure is composed by 4.5mn shares listed on AIM Italia.** Main shareholders post deal is Antonio Domenico Baldassarra, followed by Enrico Vona, with 34% and 33% of share capital respectively, while free float stands at ca. 25% and treasury shares at ca. 8%.

DHH Group: Shareholders structure post Seeweb deal

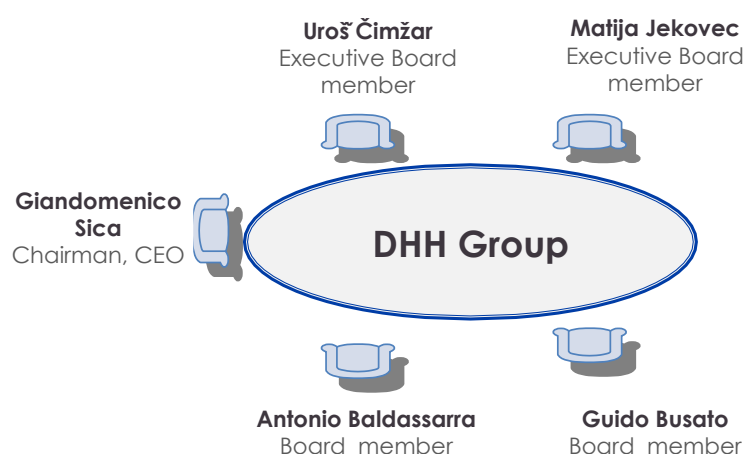
Shareholder	Nosh	as %
Antonio Domenico Baldassarra	1,544,492	34.2%
Enrico Vona	1,494,739	33.1%
Treasury shares	360,000	8.0%
Market	1,119,000	24.8%
Total	4,518,631	100.0%

Source: DHH, Value Track Analysis

Co-founders controlling more than 65% of share capital are directly committed in DHH Group business dynamics. Indeed:

- ◆ **Giandomenico Sica** – *Chairman and CEO* – co-founder of DHH, he also is also the founder of Grafoventures, his own investment company focused on Small Caps across Southeast Europe. He is co-founder and board member of Creactives Group, Applied AI company in the field of supply chain listed on the Vienna Stock Exchange. He was investor and executive director of MailUp, marketing technology company listed on the Italian Stock Exchange, which he supported in scaling by M&A from 8M EUR to 27M EUR in 3 years. He was shareholder and partner of Digital Magics, start-up incubator listed on the Italian Stock Exchange, where he originated the investment in Talent Garden (80% IRR). He is a graduate in Philosophy (cum laude) at the University of Milan";
- ◆ **Uroš Čimžar** – *Executive Board member and CSO* – with over 15 years' experience in the web and hosting industry, co-founded Klaro (acquired by DHH in 2015), one of the top 10 Slovenia web agencies. He has accumulated extensive entrepreneurial experience, mostly in the fields of finance, marketing and business development;
- ◆ **Matija Jekovec** – *Executive Board member and COO* – co-founder of Klaro in 2003 and worked a developer and later R&D manager. Through his technical career, he acquired an intimate knowledge of development, software architecture, implementation and system administration. His background is in Computer Science, and he is still actively involved in the developer community in Slovenia
- ◆ **Antonio Baldassarra** – *Board member* – founder of Seeweb and co-founder of DHH, he trusts more than 25 years' experience in Electronics, Telecommunication and Computer science. He has proven track record in the development of start-ups and nascent companies operating in the world of Internet and cloud computing trough business angel activities and industrial relationship;
- ◆ **Guido Busato** – *Board member* – co-founder, he is an entrepreneur and managing director with over 25 years of working experience in finance, environmental and energy markets. Specialized in new business start-up with excellent track-record in banking and asset management. Since 2003 he is the founder, owner and manager of EcoWay S.p.A., the first Italian trading and advisory firm on environmental markets and finance.

DHH Group: Board of Directors



Source: DHH, Value Track Analysis

Equity story: many positives and one concern

In our opinion the new Group, coming from the merger with Seeweb, leverages on several strengths, such as: exposure to a fast-growing reference market; provisioning of a full range of top quality solutions to meet most demanding customers; ownership and management of physical and network infrastructures; scalable and profitable business model fueled by a highly innovative mindset also involving an intense corporate venture capital activity. At the same time, we hint a possible concern arising from the competition by tech giants, mitigated by the extremely personalized approach that DHH-Seeweb maintains towards its customers.

As a result of the reverse merge with Seeweb the new DHH group boasts, in our view, several interesting features / equity story key pillars related to both the reference market and the Group itself:

- ◆ Exposure to a double-digit reference market;
- ◆ Top-quality full offer portfolio;
- ◆ Extensive physical and network infrastructures;
- ◆ Innovation in the DNA, also through corporate venture capital;
- ◆ Highly scalable and profitable business model;

As main concern, we would mention the possible increasing competition from tech giants, however mitigated by the highly personalized approach that DHH-Seeweb maintains towards its customers.

Pillar #1: Exposure on double-digit growing reference markets

Cloud computing due to grow at 15% - 20% annual rate

Internet-based Cloud computing provides computer processing resources and data to computers and other devices on demand rather than having local servers or personal devices to handle applications.

This is a model that enables ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (networks, servers, storage, applications, and services) that can be rapidly provisioned with minimal management effort.

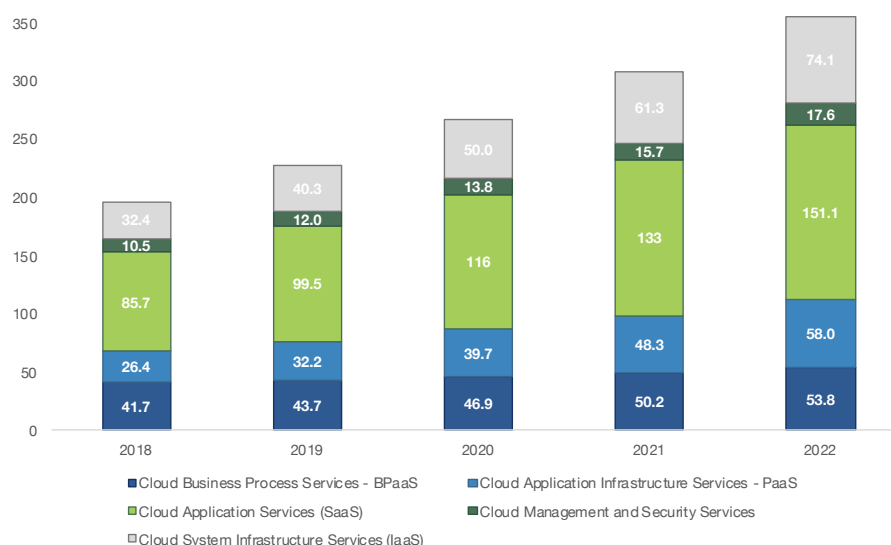
Cloud computing companies enable users to store files and application on remote servers thus meaning that final users can work remotely and are not required to be in a specific place to gain access.

So, due to the considerable advantages given by the easy, flexible and fast implementation of software and application without the burden of purchasing and maintaining the physical and network infrastructures, **cloud computing represents an essential tool for innovation.**

Indeed, as Gartner hinted back in November 2019 (no update post covid-19 is available yet):

- ◆ **Worldwide public cloud services market is projected to grow at double-digit CAGR (16%), up to \$354.6bn by 2022;**
- ◆ Software as a Service (SaaS) should remain the largest market segment, expected to increase up to \$151bn as of 2022, i.e. 15% CAGR fueled by the scalability of subscription-based software;
- ◆ Second-largest segment, composed by cloud system infrastructure services or **Infrastructure as a Service (IaaS), is likely to experience the highest CAGR (23%) over the forecast period**, expected to reach \$74bn in 2023, mainly due to the larger demand for modern applications and workload which require infrastructure that traditional datacenter cannot meet;
- ◆ Cloud Application Infrastructure Service, or Platform as a Service (PaaS) is expected to increase at a sound 22% CAGR, up to €58bn in 2022.

Worldwide Public Cloud Service Revenue Forecast (\$bn)



Source: Gartner (November 2019)

Web hosting as well due to grow at double digit rate

As far as the web hosting market is concerned – by far the second most important reference market for DHH Group (i.e. around 42% of total turnover in FY19PF) – we hint how the shift towards business digitalization, as well as the e-commerce penetration and the smartphone ownership are the key drives of the steady and healthy development in the foreseeable future.

Hence, by looking at the latest market research published by Technavio (March'20), **web hosting market (i.e. share hosting, dedicated hosting, VPS hosting and website builder) is expected to poise a 13% CAGR over the 2019-23 forecast period.**

Last but not least, IoT to add on top for Cloud computing services' demand

Although cloud computing and Internet of Things (IoT) are completely different, these technologies are at the same time interlaced, with the former likely to become the backbone of everything that IoT might offer.

Indeed, Internet of Things generate a huge amount of data, and therefore cloud computing, with its different model and implementation platforms, is expected to help companies to manage the flow and storage of this data, enhancing in such way the overall efficiency of any IoT system.

Having said that, the combination of IoT and cloud computing should inevitably boost the growth of IoT systems and cloud-based services, with many enterprises who have already understood and accepted the importance of lining up robust cloud services as backend of many IoT projects.

Summing up, **IoT and cloud have a complementary relationship**, and from the arrangement of these innovative technologies, **additivity opportunities may arise for DHH Group.**

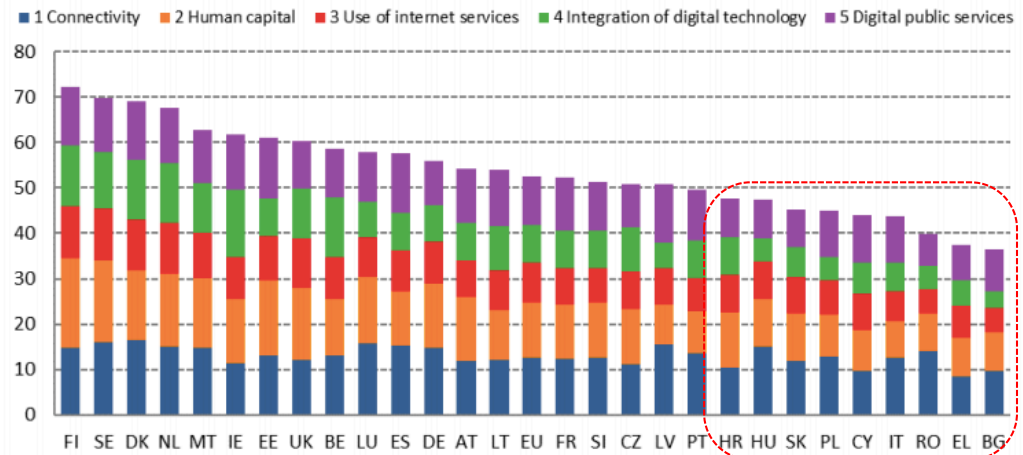
Addressed geographies expected to outperform

Geographies in which DHH is active are expected to post higher than average growth rates ahead. An easy proof of the potential of these countries comes from the recently released analysis of the *Digital Economy and Society Index (DESI)*, 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 and lastly Digital Public Services.

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

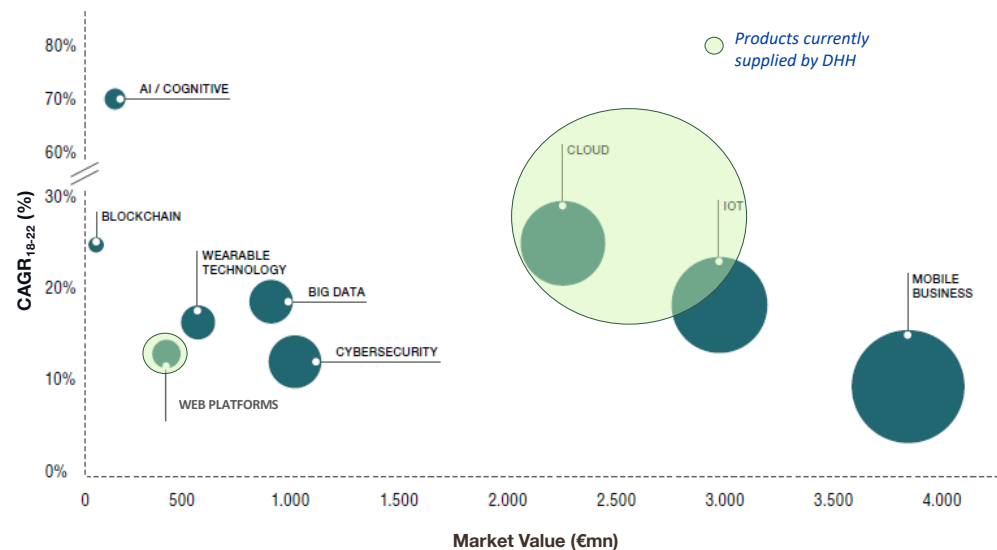
Digital Economy and Society Index (DESI) 2019



Source: Desi 2020, European Commission

Market analysis conducted on Italian market also confirm aforementioned market trends, with cloud computing market expected to face a strong market demand and increase at 25% CAGR up to 2022. The graph below also shows the domestic market growth expected for those products and solutions currently provided by the Group, highlighted in green and also include simply solutions in the management of web platform and applications, and for a residual part IoT solutions.

Italian Digital Enabler Market



Source: Assinform2019 (NetConsulting cube processing data), ValueTrack Analysis

Pillar #2: Top-quality full offer portfolio

As already seen, several companies are switching their business operations from on-premises to cloud, as it boasts (from the IT perspective) an opportunity to capture operational benefits among which:

- ◆ **Low implementation costs** – enterprises are no more burdened by capital expenses of buying hardware and software to run datacenters, i.e. it does not require the higher cost of on-premises infrastructure setup and installation;
- ◆ **Increase speed-to-provision** – cloud computing services are provided on demand via a network connection, with most resources easily provisioned in a few minutes;
- ◆ **High productivity** – the cloud removes the need for hardware set up, software patching, and other time-consuming tasks, allowing higher productivity of employees in IT teams;
- ◆ **Superior performance** – since all services are run on a worldwide network of secure datacenters, regularly updated to the latest generation of fast and efficient computing hardware;
- ◆ **Strong reliability** – cloud computing makes data backup, disaster recovery and business continuity easier and less expensive, since data can be mirrored at multiple sites on the cloud computing provider's network.

Within this favorable scenario, “new” DHH offers a broad array of products to meet customers' needs ranging from domain registration and transfer to web hosting, from cloud servers, housing and colocation to ready to use IoT solutions and consultancy activities.

Cloud Servers

Basically, cloud computing services refer to virtual servers and infrastructures where customers' website and/or applications can be hosted, and where related and connected activities are provided.

Cloud Server can be used by system integrators, developers, companies and IT professionals to host websites and applications that require performance and scalability.

The high performance of Cloud Server is possible thanks to fully guaranteed enterprise hardware and parameters (RAM, Core, bandwidth). It is particularly suitable for hosting ecommerce and applications subject to traffic variations and it may be managed independently or by company's technicians.

Thus, based on customers' needs in terms of power and complexity of IT infrastructure, the Group provides different products/solutions:

- ◆ **Easy Cloud Server** is the virtual computing environment where customers can configure cloud instances (tools) on a pay per use mode;
- ◆ **Cloud Server** offers extremely high reliability and huge scalability mostly thanks to the real time allocation of resources on redundant virtual servers
- ◆ **Foundation Server** is a dedicated server with very high performance, made with the available hardware components, particularly suitable for private cloud infrastructure with Hyper-V, XenServer and OpenStack. It is available also in a “pro” version, which allows customers to share storage between multiple nodes, while ensuring high reliable and high-performance virtualized infrastructure.

These cloud computing solutions are mostly based on subscriptions with a minimum duration (at least one month) which depends on specific service, with automatic renewal unless technical termination of the service in cases of self-provisioning or interruption request.

Some services have a fixed monthly cost established by a price list or by some particular conditions agreed with the customer, while others have a monthly cost that derives from the use or specific requests that the customer makes (metered), and still others have a final cost which is a mixture of these components.

DHH Group: On the “shelf” Cloud Server solutions

Easy Cloud Server



Cloud Server



Foundation Server



Source: DHH

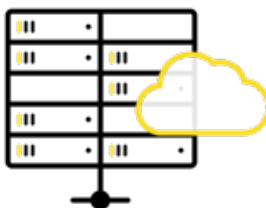
Bundle solutions

As part of the cloud computing services offered by the Group, there are also preconfigured packages (so-called bundle), designed to meet specific customer needs, among which we highlight:

- ◆ **Cloud Hosting**, a fully managed hosting suitable for publishing and e-commerce web portals, characterized by high flexibility and performance, as well as by the "isolation" of the various user interactions to avoid possible interference in terms of performances;
- ◆ **Virtual Private Cloud**, i.e. private hosted cloud environment. A virtual datacenter control panel is provided to configure all the virtual machines thanks to the use of VMware, managing the available computational resources in real time. It is ideal for advanced datacenter services to combine the level of isolation of dedicated resources and the flexibility of the cloud;
- ◆ **Cloud Data Protection** is the data protection service that uses the Veeam technology to create backup and disaster recovery solutions.

DHH Group: Bundle solutions to meet customers' needs

Cloud Hosting



Virtual Private Cloud



Cloud Data Protection



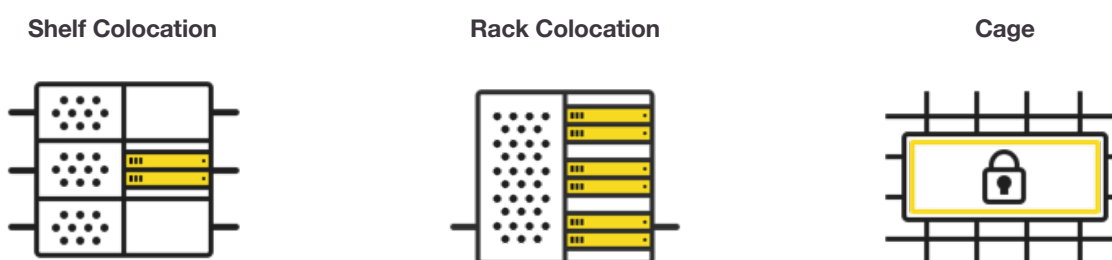
Source: DHH

Housing and colocation

Physical infrastructure services mostly consist in the availability of physical spaces where customers can install their equipment in special racks, shelves or cages, and where performing related services are connected. Housing and colocation solutions supplied by DHH are designed for enterprises which need physical infrastructure where to run and use their hardware, or for those firms which require specific datacenter services, allowing them to create tailor-made solutions. Main solutions offered are:

- ◆ **Shelf Colocation** – the ideal solutions for small machine installation. It provides the allocation of physical space inside a rack (1/3 of a rack), with a key lock;
- ◆ **Rack Colocation** – suitable for the colocation of equipment in the datacenter. It is extremely powerful and can host most recently build servers;
- ◆ **Cage** – it provides the installation of floor machineries and it is the best solution for those who need special privacy or security requirements.

DHH Group: Shelf Colocation, Rack Colocation and Cage



Source: DHH

Domain registration and hosting

Within the domain 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 a multitude of 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.

On the other side, web hosting is the service which combines resources and technologies to make a webpage or a website visible and actionable. Depending on the technology used we distinguish:

- ◆ **Shared hosting** – which means sharing server space with other websites and individuals. It is extremely cheap, but exposed to the “bad neighbor” effect;
- ◆ **Virtual Private Server (VPS) hosting** – it always a shared server, however a VPS is literally split into as many parts as there are users, overcoming in such way the neighbor effect, since private account is contained within a virtual machine;
- ◆ **Dedicated hosting** – website is renting the physical machine and not sharing hardware or bandwidth with any other websites, giving to the client maximum control over the server software.

Looking at the management level offered we also distinguish:

- ◆ **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.

Productivity tools

The Group also offer some services, which are non-core, but are ancillary to the previous ones, such as:

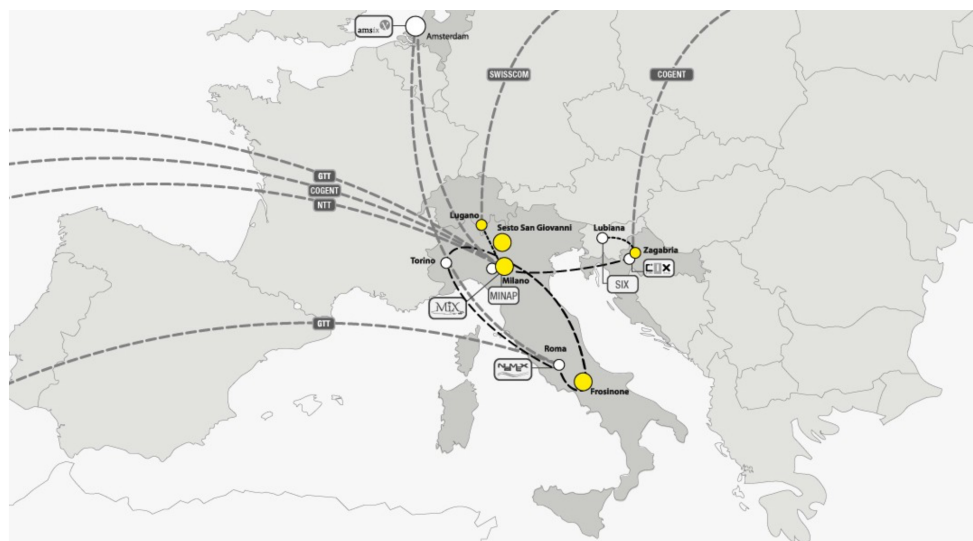
- ◆ Website creation software, particularly for entry level users;
- ◆ SSLs certificates, to ensure that all data passed between web server and browsers remain private and integral;
- ◆ Mail service, a safe, user-friendly tool for the email management;
- ◆ Cloud Appliance, an effective tool for the infrastructure safety: higher security, performance and reliability, as well as protection against dDos attacks;
- ◆ Cloud Monitor, a useful tool for monitoring websites, servers, networks and applications;
- ◆ Cloud Backup allows to backup any type of computer (Desktop, Workstation, Server, Virtual Machine);
- ◆ Cloud Object Storage, and easy and secure tool to store and archive files and media;
- ◆ Cloud Streaming platform, supporting the main definition streaming format;
- ◆ Control Panel to manage properly all the functionalities of your domain and all customers account.

Pillar #3: Extensive physical and network infrastructures

New DHH holds six physical datacenters (of which two ones under management) in Italy, Switzerland and Croatia, and an internet backbone which connects proprietary datacenters to important domestic and foreign exchange points such as: i) *Mix* and *Minap* located in Milan, ii) *NomeX* located in Rome, iii) *Amsix* located in Amsterdam, iv) *Cix* located in Zagreb and lastly v) *Six* located in Ljubljana.

Unlike the majority of players active in the reference market, the **Group has proprietary physical and network infrastructures**, with both the internet backbone and all datacenters that are connected to each other and to other Italian and foreign Point of Presences (PoPs) through an optical fiber ring.

DHH: Datacenters and internet backbone connected to most important exchange points



Source: DHH, Value Track Analysis

The aforementioned network backbone, as well as physical datacenters, are projected to limit possible faults of the single component, allowing at the same time the online maintenance, without the interruption or suspension of their relative operations.

More, also thanks to specific agreements with IP transit providers, the Group can independently carry out specialized technical interventions, including engineering operations in the Border Gateway Protocol, used to connect several routers belonging to different autonomous network systems.

In all the Internet Exchange Points (IXPs), the Group implements open peering policies, which consists in allowing any other internet network for the free exchange of data and internet traffic among users, aimed at achieving the best quality, latency and performance indices along the network backbone, as well as at improving the bandwidth used.

The ownership or the complete management of physical and network infrastructures constitutes a significant strength, as it allows the Group to:

- ◆ Separately and independently choose and handle the applicable exchange policies;
- ◆ Carry out, according to most efficient methodologies, maintenance or improvement interventions as well as acting promptly in case of critical situations;
- ◆ Apply competitive prices, due to the reduction of production and supply costs related to infrastructures.

Pillar #4: Innovation in the DNA, also through corporate venture capital

As a matter of facts, also thanks to the reverse take-over of Seeweb, the Group has always developed – and still develops – innovative solutions, both investing in internal projects, but also through strategic partnerships with most important domestic players, from software houses to system integrators and consulting firms.

This strategy allowed DHH to fine tune its value proposition and its business model, as well to acquire technological know-how in scouting small tech companies through an open innovation approach.

Business powered by in-house knowledge leveraged by an open innovation approach...

The Group **has always launched innovative and cutting-edge services, also anticipating market trends.**

Indeed, DHH (or better Seeweb) was the first operator to introduce cloud computing services in Italy, and also recently, many R&D projects were successfully completed, leading to the commercial launch of three innovative bundle solutions (*Cloud Hosting, Virtual Private Cloud and Cloud Data Protection*).

Furthermore, the Group has also developed strategic partnerships, both with universities, external suppliers, among which IT vendors or IT system integrators, giving back plenty of benefits in terms of ability to improve proprietary solutions or to enlarge its offering, completing in such way its know-how and presenting itself as a technology partner.

In addition to in-house product development, the Group has always adopted **an open-innovation approach** finalizing several **corporate venture capital deals.**

The most relevant operations are related to minority stakes in:

- ◆ “Old” DHH itself, co-founded by Seeweb and other tech-entrepreneurs back in 2015;
- ◆ Docebo, the well-known e-learning platform set up in Italy and subsequently listed on the Toronto Stock Exchange and now worth ca. US\$750mn. Seeweb invested as “angel” around €150K back in 2006, with a profitable exit in 2015;
- ◆ Materialuce, a startup which develops and markets innovative lights and lighting systems;
- ◆ Baasbox, a small company involved in the design, development and sale of digital products;
- ◆ Sync, a company that provides IT services.

...allowing the exploitation of several growth opportunities

As far as the future is concerned, we expect the Group to keep pushing on innovation, both in terms of internally fueled product / solutions innovation and in terms of M&A strategy. On the one side, we believe the Group in the short-term will be focused on:

- ◆ **Increasing ARPU, through the shift towards premium products** - Group strategy will be addressed to expand its value proposition, trying to provide customers with high quality products (value-added products lying on a higher price range) and granting them a satisfying experience level;
- ◆ **Launching proprietary solutions to stay ahead any technological trend** – with the aim of introducing innovative services and meet customers' needs. This approach will be substantially unchanged, with all businesses (and brands) within the consolidation perimeter willing to introduce innovative services;
- ◆ **Improving go to market strategy through the establishment of value partnerships** – the development of new relationships with web agencies, specialized partners (SAP), system integrators or software houses may accelerate the growth path and market penetration, thus allowing the enhancement of customer base, and the improvement of retention rates. This would also allow the Group to differentiate marketing strategies, based exclusively on inbound methodology so far.

On top of that, we cannot forget the growth strategy of “old” DHH itself that was based on the acquisition of majority stakes (or entire capital) in web hosting operating companies in Italy, Suisse, and Balkan region. Indeed, some ten acquisitions were finalized both before and after the IPO, in details:

- ◆ Oct-2015 - Acquisition of **Domenca and Domovanje**, two Slovenia brands involved in the domain registration and web hosting, as well as the of **Plus HR** and **Plus RS**, market leaders in Croatia and Serbia respectively;
- ◆ Nov 2015 – Acquisition of **Tophost S.r.l.**, leading low-cost Italian web hosting player.
- ◆ Sep-2016 – Acquisition of **Infonet d.o.o.**, main player in the Croatian web hosting market.;
- ◆ 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;
- ◆ Mar 2017 – Acquisition of the branch of **Studio4Web** active in low-cost web hosting in Croatia;
- ◆ Oct 2018 - Acquisition of **mCloud**, a cloud computing provider based in Serbia;
- ◆ Dec 2019 - Acquisition of **Si.Shell**, a business unit focused on the domain segment with around 1,800 active customers.

That's why, we still believe, also thanks to the know-how and the execution capabilities displayed by DHH management so far, the Group will be able to successfully finalize further M&A transactions aimed 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, and in Slovenia through the acquisition of Si.Shell;
- ◆ **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;

Pillar #5: Highly scalable and profitable business model

Another winning ingredient of DHH's business development lies in the capability of providing solutions to B2B and professional users, relying on a highly scalable and profitable business model.

Among the most interesting economic features of DHH business model we highlight:

- ◆ **Easily scalable business** – cloud services as well as other products currently supplied by the Group provide the ability to expand revenue growth while minimizing increases in operational costs. Most of aforementioned services are recurring and supplied with a one-to-many model where contracted customers are charged in advance for their subscriptions;
- ◆ **High incidence of recurring revenues** – DHH solutions are mostly provided on a subscription-based model, with recurring payment (monthly or annual fees), resulting in a more predictable revenue stream. Currently, recurring revenue stands at 90% of total, with almost all solutions based on automatic renewals and minimal duration;
- ◆ **High client retention with long revenue periods** – the Group shows extremely low churn rate, allowing high customer retention rate (90%). Most of customers remain with DHH for years, notwithstanding the duration of the original contract, as result of the extremely low churn rate which by nature features DHH's products;

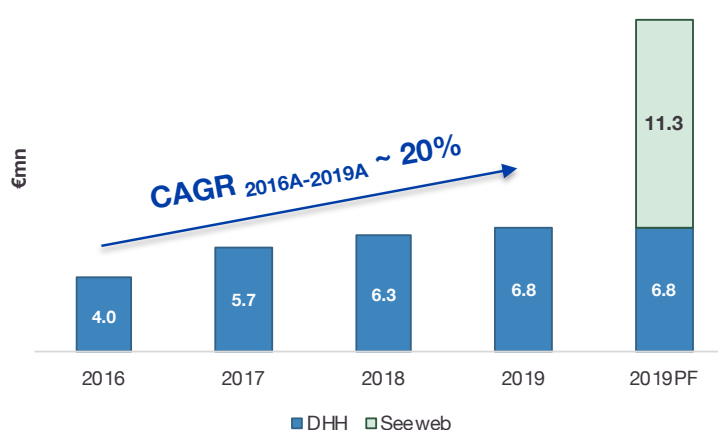
These interesting features translate into an outstanding financial profile which boasts:

- ◆ Double digit top line growth;
- ◆ EBITDA margin above 30% level with no cost capitalization at all;
- ◆ EBITDA cash conversion rate close to 100%.

Double digit top line growth

Business has been steadily growing at double digit rate since foundation from €4mn turnover as of FY16 to roughly €17m in FY19PF, mainly thanks to its vigorous M&A driven growth strategies, but also through an overall improvement of industry KPIs, which led to a customer base up to 106,000.

DHH Group: Steady business development since foundation



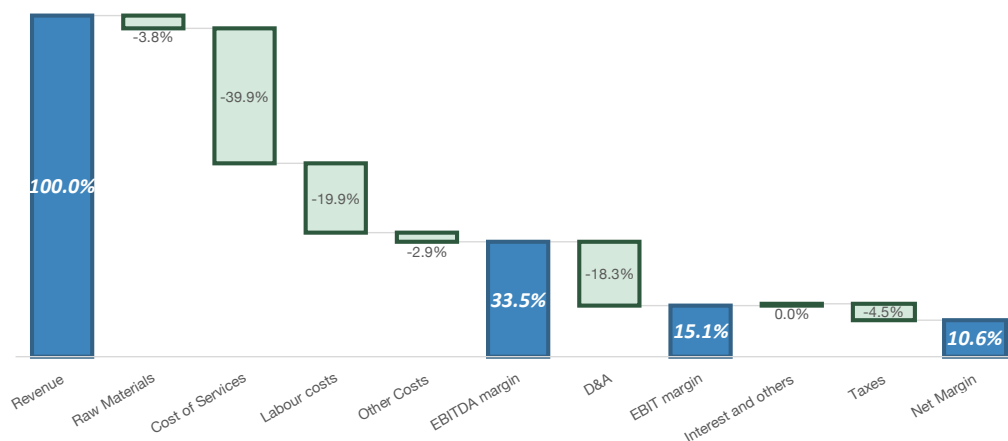
Source: DHH, Value Track Analysis

EBITDA margin above 30% level with no cost capitalization at all

Also, thanks to the deal with Seeweb, DHH relies on a high profitability, with EBITDA Margin at 33.5% among best-in class at least in the domestic field. And with no cost capitalization at all.

Margins stand at double digit also at EBIT and Net Profit levels, at 15.1% and 10.6% respectively, a proof of DHH business viability and efficiency.

DHH Group: 2019PF Double-digit rate margins at each P&L level (*)

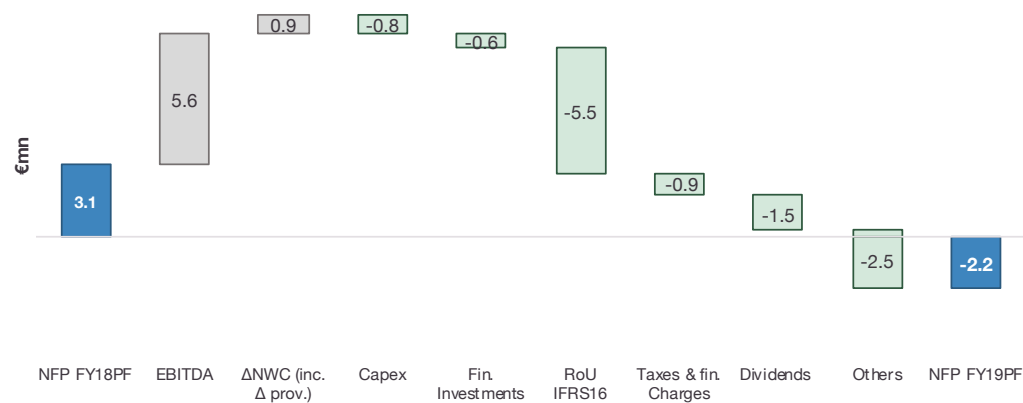


Source: DHH, Value Track Analysis *Normalized P&L (Revenue rebased at 100%)

EBITDA cash conversion rate close to 100%

EBITDA cash conversion rate stands close to 100%, with capital expenditures almost offset by favorable working capital dynamics, with the Group benefitting from being paid spot and then delivering its solutions in a subsequent stage.

DHH Group: Net Financial Position Bridge (FY18PF, FY19PF)



Source: DHH, Value Track Analysis

Main concern: Competition from tech giants

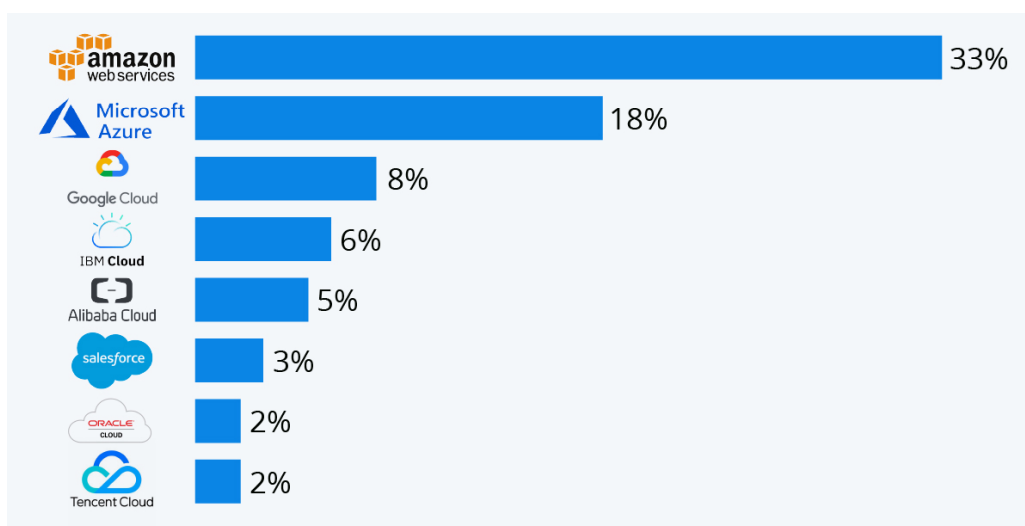
The market in which DHH is active is extremely competitive, with many players ranging from tech giants to small houses/farms, but at the same time it is extremely fragmented and highly domestic by nature, with local-based companies continuing to play a key role.

Global tech giants have large market shares...

There are many public cloud service providers worldwide, however taking a look at market leaders, we find tech giants like Amazon Web Services, Microsoft Azure, Google Cloud, IBM Cloud and Alibaba Cloud, which hold an aggregated market share greater than 70%, as also reported in the chart below.

A similar picture may be seen by looking at the current market share in the web hosting market, with top10 players detaining roughly 38% market share among which we remind GoDaddy, 1&1, AWS, Google Cloud, OVH according to latest data published by *HostAdvice*.

Worldwide market share of leading cloud infrastructure service providers in 4Q19 *



Source: Statista / Synergy Research Group

*including platform as a service (PaaS) and infrastructure as a service (IaaS) as well as hosted private cloud services

...but personalization and client proximity are a protection

However, different from aforementioned big players which mostly offer standardised solutions, the Group offers custom solutions to meet each client's need.

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

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

Market concentration by country

Country	Local companies among top10	Top10 cumulated mkt share (%)
Switzerland	10/10	49.3%
Italy	7/10	77.8%
Slovenia	10/10	65.6%
Croatia	9/10	72.9%
Serbia	10/10	78.1%

Source: HostingAdvice.com

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

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

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

Country	Active clients (#)		ccTLD domain Market share (%)
	December '18	December '19	
Switzerland	162	346	n.a.
Italy	52,634	53,196	5.0%
Slovenia	22,990	26,597	30.7%
Croatia	18,927	19,769	23.2%
Serbia	5,519	6,342	7.2%
Total Group	99,456	106,105	n.m.

Source: DHH Group Management Accounts, Various

Financials: High growth, high profitability

Introduction

Our financial estimates on DHH Group for 2020E-22E periods:

- ◆ Are built in accordance with IFRS/IAS accounting principles;
- ◆ Do not factor in our model any potential future M&A deal, even though we do not rule out the possibility that one or more acquisitions may happen;
- ◆ Assume 2019PF as “starting point”, i.e. assuming the reverse take-over of Seeweb into DHH occurred as of 2019 1st January;
- ◆ Include the presence of extraordinary costs counting the above-mentioned deal, other non-operating costs;

2019FY pro-forma figures

As previously described, DHH and Seeweb Holding have approved the proposal of merger by incorporation of Seeweb into DHH.

Here below, we provide the reconciliation of 2019 P&L and balance sheet figures, useful to give a clearer view of the new combined entity, assuming the consolidation occurred as of 2019 1st January.

We underline, ca. €1.3mn intragroup elisions at P&L mainly due to infrastructure services provided by Seeweb to DHH, and the recognition of €4.9mn Seeweb goodwill partially offset by the equity stake in DHH previously held by Seeweb (€1.8mn), and currently treated as treasury shares, representing ca. 8% of share capital.

Having said that, the new combined entity relies on a €16.8mn turnover, €5.6mn EBITDA and €1.8mn Net Profit, with a sound EBITDA Margin at 33.5%.

As for Balance Sheet, the Group shows a light capital structure, with Net Debt position at €2.2mn, at 13% of Capital Invested, and Net Debt / EBITDA ratio at 0.4x, despite the first adoption of IFRS16 lease account.

DHH: 2019FY Pro-Forma P&L – Reconciliation

(€mn)	DHH	Seeweb	Intragroup	Pro-Forma
Total Revenues	6.8	11.3	-1.3	16.8
COGS	-4.0	-4.6	+1.3	-7.3
Labour costs	-2.0	-1.3		-3.3
Other costs	-0.3	-0.2		-0.5
EBITDA	0.5	5.1		5.6
<i>EBITDA Margin (%)</i>	7.3%	45.3%		33.5%
Depreciation & Amortization	-0.3	-2.7		-3.1
EBIT	0.1	2.4		2.5
<i>EBIT Margin (%)</i>	2.1%	21.2%		15.1%
Net Fin. Charges	0.0	-0.1		-0.2
Non-Operating Items	0.0	0.2		0.2
Pre-tax Profit	0.1	2.4		2.5
Tax	-0.1	-0.7		-0.8
Tax rate (%)	-46%	-29%		-30%
Group Net Profit	0.1	1.7		1.8

Source: DHH, Value Track Analysis

DHH: 2019FY Pro-Forma Balance Sheet – Reconciliation

(€mn)	DHH	Seeweb	Adjustments			Pro-Forma
			Operation	Intragroup	Other costs	
Working Capital	-1.8	-0.6			-0.3	-2.7
Net Fixed Assets	7.2	9.4	3.1			19.6
Provisions	0.0	0.6				0.6
Total Capital Employed	5.4	8.3	3.1	0.0	-0.3	16.4
Group Net Equity	7.6	3.9	3.1		-0.3	14.2
Net Financial Position	2.2	-4.4				-2.2

Source: DHH, Value Track Analysis

Revenue from Sales at €16.6mn

Fy2019 pro-forma results highlight a healthy +9.4% organic Sales growth, mostly due to a customer base expansion (retention rate on average higher than 90%), together with the launch of new value-added products, translating to an higher average ticket per customers.

By looking at the main KPIs, we underline how the Group currently delivers its solutions to more than 106,000 clients, with ARPU which differs enough across business units and depends on the relative value proposition of single brands belonging to the Group, moving from €31 of Tophost - by nature provider of entry level solutions – to €7600 of System bee, i.e. the Croatian start-up focused on managed services.

More, due to the subscription-based business model, the majority of services are provided in IaaS, PaaS and SaaS mode, which in turn trigger in high incidence of recurring revenue, currently at roughly 90%.

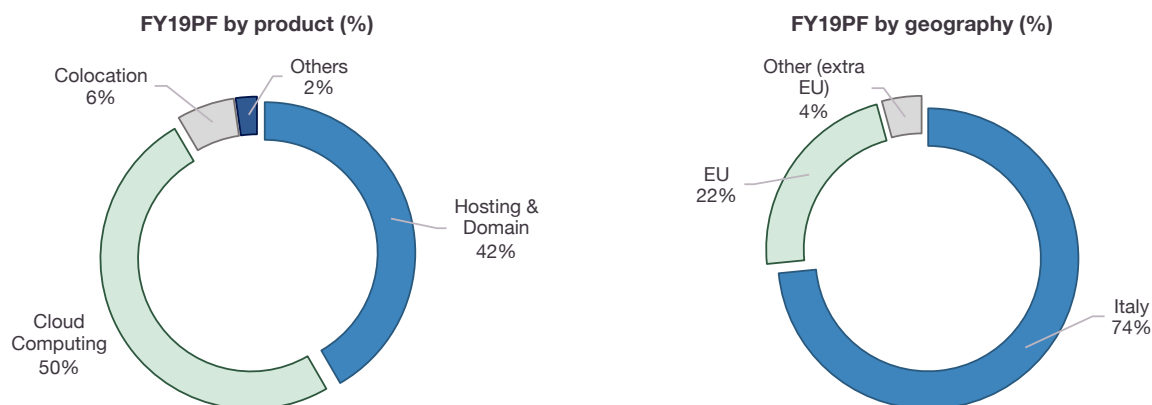
DHH: 2019FY Pro-Forma Summary KPIs by legal entity

Legal Entity	Sales	Customers (EoP)	ARPU (€)
mCloud	604	6,342	80
Tophost	1,255	46,728	31
DHH.si	1,802	26,597	75
DHH d.o.o.	1,890	19,720	104
DHH SW	384	346	2,303
DHH Italia	676	1,323	336
System bee d.o.o.	387	49	7,626
Seeweb	11,188	5,145	2,168
Total Gross Sales (*)	18,185	106,250	187.5

Source: DHH, Value Track Analysis (*) before intragroup elisions

In terms of business line, and according to our model, we note in FY19PF a steady increase of cloud computing solutions and colocation services, both growing at double-digit speed, i.e. +18% and +11% YoY respectively. Hosting and domain services increased by 6% YoY, while the remaining part is mostly attributable to advisory services.

As for the geographical contribution, ca. 70% of total is attributable to domestic sales, however we hint an increasing market coverage of the so-called European Emerging markets, in particular Slovenia, Serbia and Croatia.

DHH: 2019FY Pro-forma Revenues by business line and by geography

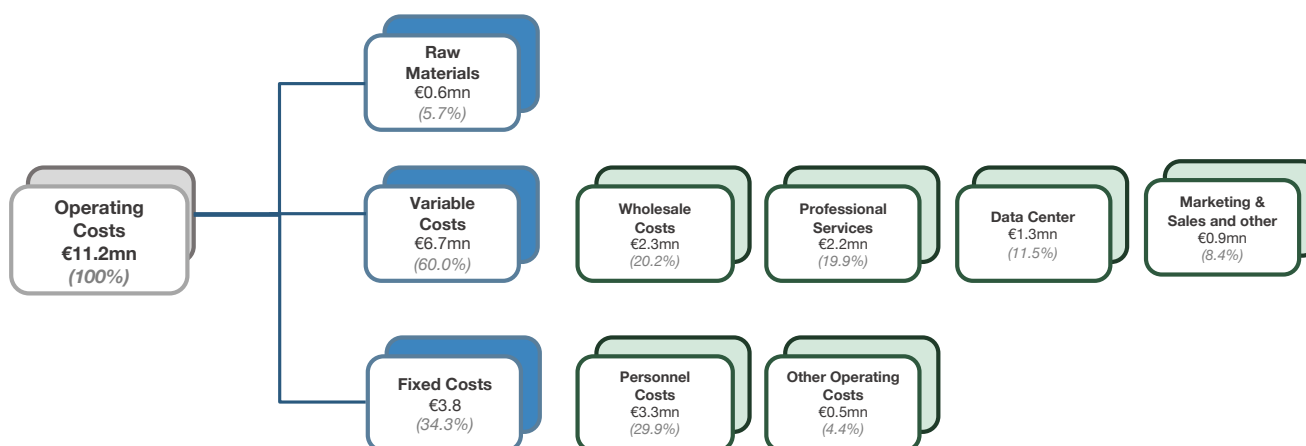
Source: Value Track analysis on companies' data

Operating cost structure

As already known, DHH operating activities mostly rely on a subscription-based business model, with monthly or yearly recurring subscription revenue, and services which are delivered on a “cloud” basis. That’s why, operating costs are heavily skewed on personnel and purchase services.

Indeed, we highlight:

- ◆ Cost of Services at 60% (€6.7mn), and mainly refer to wholesale costs, commercial and marketing expenses, datacenter and professional services;
- ◆ Personnel costs account for 30% (€3.4mn), with roughly 95 headcounts as of Dec’19;
- ◆ Raw materials at 6% (€0.6mn), a residual item;
- ◆ Other Operating costs at 4% (€0.5mn) and mostly refer to SG&A costs.

DHH: 2019FY Operating Costs Analysis

Source: Value Track analysis on companies' data

Profitability and margins

We also underline that DHH do not capitalize R&D costs, rather it accounts almost entirely among operating expenses, that means EBITDA fully mirrors industrial profitability.

More the Group owns physical infrastructure (4 data centers) and a proprietary network, which allows to be at the same time extremely competitive in the market without eroding EBITDA margin, which came in at 33.5% in FY19PF, among the best-in class at least in the domestic field.

We also hint that margin has been positively affected by the first adoption of new lease standard (IFRS16), as also displayed by the higher D&A charges at €3.1mn, out of which roughly €2.0mn to be ascribed to the amortization of the right of use assets. As a matter of facts, EBIT stand at €2.5mn, which corresponds an EBIT Margin of 15.1%.

Below the EBIT, €0.2mn interest expenses almost offset by non-operating revenues, together with €0.8 income taxes gives back a Net Profit of €1.8mn, with Net Margin at 10.6% of Revenues.

DHH: 2019FY vs. 2018FY Pro-Forma P&L

(€mn)	FY18PF	FY19PF	Change YoY
Revenue from Sales	15.2	16.6	9.4%
Other Revenues	0.7	0.2	
Total Revenues	15.9	16.8	5.6%
COGS	-8.6	-7.3	
Labour costs	-3.1	-3.3	
Other costs	-0.5	-0.5	
EBITDA	3.7	5.6	52.6%
<i>EBITDA Margin (%)</i>	23.2%	33.5%	
Depreciation & Amortization	-1.3	-3.1	
EBIT	2.4	2.5	6.6%
<i>EBIT Margin (%)</i>	15.0%	15.1%	
Net Fin. Charges	0.0	-0.2	
Non-Operating Items	0.0	0.2	
Pre-tax Profit	2.3	2.5	8.9%
Tax	-0.7	-0.8	
Tax rate (%)	-30%	-30%	
Group Net Profit	1.7	1.8	8.3%

Source: DHH, Value Track Analysis

Balance Sheet and Cash Flow Statement

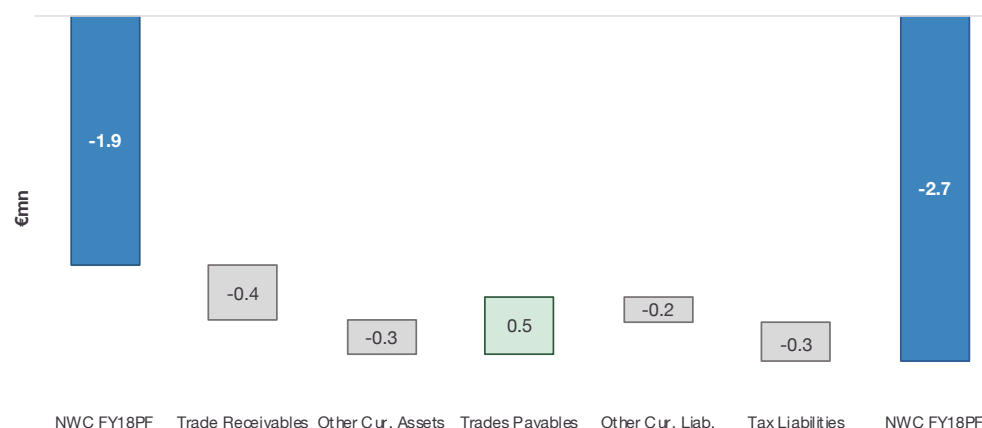
At Balance Sheet and Cash Flow level, we consider worthy of note for FY19PF the following factors:

- ◆ **Negative Net Working Capital** at €-2.7mn, as it is strongly affected by unearned revenue, i.e. accruals and deferred income, for whom cash movement have been realized prior to accounting recognition, still due to the subscription-fees business model;
- ◆ **Net Fixed Assets** at €19.6mn, mainly made of M&A originated goodwill (€10.7mn) and inflated for €5.7mn by the RoU (IFRS16 adoption);
- ◆ **Net Debt Position at €2.2mn**, which includes the above mentioned RoU for €4.7mn, the dividend paid to Seeweb shareholders, and other monetary items mostly related to the RTO.

DHH: 2019FY vs. 2018FY Pro-Forma Balance Sheet

(€mn)	FY18PF	FY19PF
Net Working Capital	-1.9	-2.7
Net Fixed Assets	16.7	19.6
Provisions	0.5	0.6
Total Capital Employed	14.3	16.4
Group Net Equity	17.4	14.2
NFP [i.e. Net Debt (-) Cash (+)]	3.1	-2.2

Source: DHH, Value Track Analysis

DHH: Net Working Capital Bridge (FY18PF, FY19PF)

Source: DHH, Value Track Analysis

2020E PF – 2022E forecasts

With this highly strategic merger, which brings not only more pronounced diversification within the group's offering, but also a significantly wider potential customer base and stronger operational efficiency given the complementarity of the business spheres, DHH is undoubtedly well positioned to grow even further than what was already expected, even with the Covid-19 obstacle in the way.

Indeed, our forecasts – which assume the full consolidation of Seeweb to occur in January 1st, 2021 i.e. 2020E are still based on a pro-forma scheme – capture the group's rosy outlook:

- ◆ **Total revenues growing at double-digit CAGR₁₉₋₂₂;**
- ◆ **EBITDA margin consistently north of 30%;**
- ◆ **Net margin above 10% and growing substantially YoY;**
- ◆ **Annual cash generation in the €3mn-€4mn range, net cash position by 2020E PF year-end.**

P&L top-to-bottom figures**Revenue drivers**

Given the ecosystem-like group structure that DHH has built in order to maximize business unit productivity, it is fitting to analyze the top line adopting a company-level perspective. More, the

subscription-based model enables high revenue visibility, with a high percentage of recurring clients. Summing up, the main growth drivers can be easily summarized as follows:

- ◆ **An overall increase in ARPU** mostly thanks to the progressive development and launch of value-added products in the cloud computing arena, also fueled by the IoT adoption rate;
- ◆ **The enlargement of the customer base** as a result of a lower churn rate across businesses and the recent acquisition of Si.Shell, the business unit of the Slovenian competitor iServer;
- ◆ **The strengthening of strategic value partners** with system integrators, software houses and web agencies, allowing the Group to consolidate market shares in the South East Europe;
- ◆ The execution of **System Bee's marketing and commercial improvement plan**, which should trigger a significant uptick in the company's revenues in 2020E;
- ◆ DHH Italia will be characterized by a gradual decrease starting from June'20, mostly due to the end of invoicing, following the rearrangement plan of the commercial brand Artera, operating in Italy and Switzerland.

These factors, along with a relatively favorable business environment and the ever-growing market presence of each unit within its respective region, lead us to forecast a **group top line growing at an 11% CAGR 2019A-2022E**.

DHH: 2020E PF – 2022E Revenue Breakdown by Legal Entity

Legal Entity (€'000)	2020E PF	2021E	2022E
Tophost	1,330	1,437	1,510
DHH.si	2,018	2,220	2,397
DHH d.o.o.	1,987	2,140	2,354
mCloud	732	827	918
DHH Italia	365	33	0
DHH SW	388	442	972
System bee d.o.o.	492	649	837
Seeweb	11,971	13,647	15,148
Total Revenues	18,195	20,525	23,050
Change YoY (%)	8%	13%	12%

Source: DHH, Value Track Analysis

Operating Expenses

As highlighted previously, given that DHH adopts a subscription business model revolving around the offering of cloud-based services, the group's cost structure is primarily composed of employee expenses and service costs, i.e. wholesale, professional service, data center service and marketing expenses. Minor but nonetheless significant incidences are held by raw material and consumables purchases and SG&A costs.

Below we present the weight each cost line is expected to hold as a % of sales:

- ◆ **Raw materials and consumables:** 4% of sales, i.e. ca. €700k in 2020E PF, some €800k in 2021E and ca. €900k in 2022E;
- ◆ **Cost of services:** ca. 40% of revenues, i.e. some €7.5mn in 2020E PF, ca. €8.3mn in 2021E and some €9.2mn in 2022E;
- ◆ **Labor costs:** ca.16-17% of sales, i.e. ca. €3.1mn in 2020E PF, some €3.4mn in 2021E and ca. €3.7mn in 2022E;

- ◆ **Other costs (mainly SG&A expenses):** ca. 4% of sales, i.e. some €800k in 2020E PF, and ca. €900k in 2021E and 2022E.

From a company-level perspective, it is worthy to note the following:

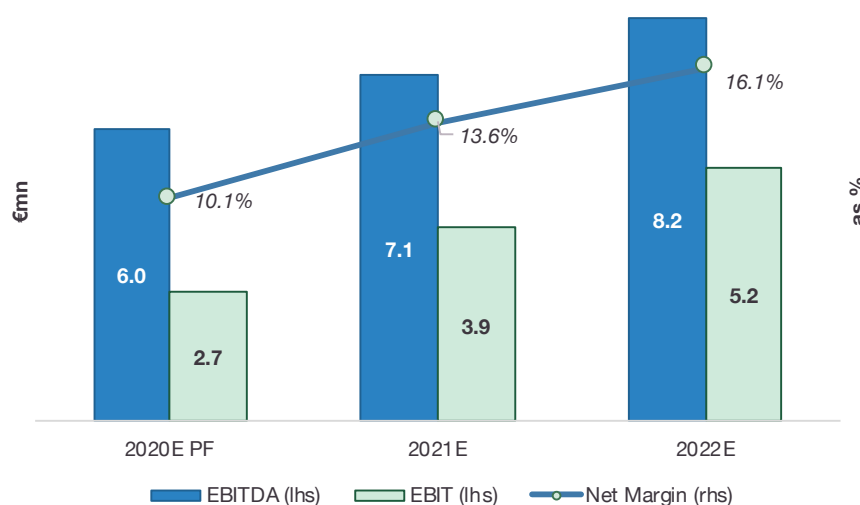
- ◆ In 2020E, Tophost is expecting an increase in marketing costs relating to the introduction of a SEM, SEO and freelance expert and an uptick in professional services expenses as a result of the hiring of a temporary project manager;
- ◆ In light of the Si.Shell acquisition, DHH.si is bound to witness rises in service costs and personnel expenses;
- ◆ Seeweb holds a different cost structure with respect to other business units because it manages several IT infrastructures and two large datacenters.

From EBITDA down to the bottom-line

Despite the coronavirus outbreak, and considering the group's in-house strengths, we forecast DHH to maintain a very healthy-looking **EBITDA margin, i.e. in the 30% region.**

Having in mind DHH's core business, it should not come as a surprise that most of the D&A expenses originate from the amortization of intangible assets, which across the three-year forecast period stand at north of €2mn, i.e. 11-13% of expected sales. This should leave us with an EBIT margin which by 2022E could have passed the 20% threshold.

DHH: 2020E PF – 2022E EBITDA vs EBIT vs Net Margin (€mn, %)



Source: DHH, Value Track Analysis

Accounting for minimum net financial charges, and roughly 27.5% tax rate, **Net Profit** is projected to consistently settle at a **double-digit incidence on the top line**, i.e. ca.€1.8mn in 2020E PF, some €2.8mn in 2021E and ca. €3.7mn in 2022E

DHH: 2020E PF – 2022E P&L

(€mn)	2020E PF	2021E	2022E
Total Revenues	18.1	20.5	23.1
COGS	-8.3	-9.1	-10.1
Labour costs	-3.1	-3.4	-3.7
Other costs	-0.8	-0.9	-0.9
EBITDA	5.9	7.1	8.2
<i>EBITDA Margin (%)</i>	<i>32.9%</i>	<i>34.6%</i>	<i>35.7%</i>
Depreciation & Amortization	-3.3	-3.1	-3.0
EBIT	2.7	3.9	5.2
<i>EBIT Margin (%)</i>	<i>14.7%</i>	<i>19.2%</i>	<i>22.6%</i>
Net Fin. Charges	-0.1	-0.1	-0.1
Non-Operating Items	0.0	0.0	0.0
Pre-tax Profit	2.5	3.8	5.1
Tax	-0.7	-1.1	-1.4
<i>Tax rate (%)</i>	<i>-27.5%</i>	<i>-27.5%</i>	<i>-27.5%</i>
Group Net Profit	1.8	2.8	3.7

Source: DHH, Value Track Analysis

Balance sheet and cash flow statement highlights**Balance sheet**

In our forecasts delineation, a few elements are noteworthy when glancing at the balance sheet across the 3-year period, namely:

- ◆ **Net fixed assets remain more or less stable in the €17mn region** after falling from ca. €19.6mn in FY19, as result of limited organic capex needs;
- ◆ **Net Working capital to remain substantially flat**, still highlighting favorable dynamics as result of being paid spot and then delivering its services in a subsequent stage;
- ◆ **Well-balanced financial structure**, with Net Cash Position which should reach approximately €8.5mn by FY22E;

The development of net fixed assets is in turn characterized by three main events:

- ◆ DHH.si's acquisition of Si-Shell in 2020E, whose customer base value stands at €600k;
- ◆ Seeweb's clear intention to invest in tangible and intangible assets, on average ca. €650K per year during the forecast period. These investments are expected to come in the form of maintenance capex, as they should primarily pertain to renewal activities aimed at improving resiliency and energy efficiency within the company's Milan datacenter;
- ◆ Seeweb's renewal of all lease contracts ending between 2020E and 2022E, as well as the subscription of new IT infrastructure lease contracts in 2021E and 2022E for €450k and €800k, respectively. These latter agreements should boil down to the right to use servers, networking devices, enterprise storage – all critical components towards the cloud computing services offering that Seeweb provides.

DHH: 2020E PF – 2022E Balance Sheet

(€mn)	2020E PF	2021E	2022E
Net Fixed Assets	17.6	16.8	17.4
Net Working Capital	-2.0	-2.2	-2.6
Severance Pay and Other Funds	0.7	0.7	0.7
Total Capital Employed	15.0	13.8	14.1
Group Net Equity	16.1	18.8	22.5
Net Fin. Position [Net debt (-) / Cash (+)]	1.0	5.0	8.5

Source: DHH, Value Track Analysis

Cash flow statement

With a deteriorating working capital which has a cash-positive effect, but with a more substantial capex deployment which has a cash-negative effect, the cash flow statement is expected to present the following developments:

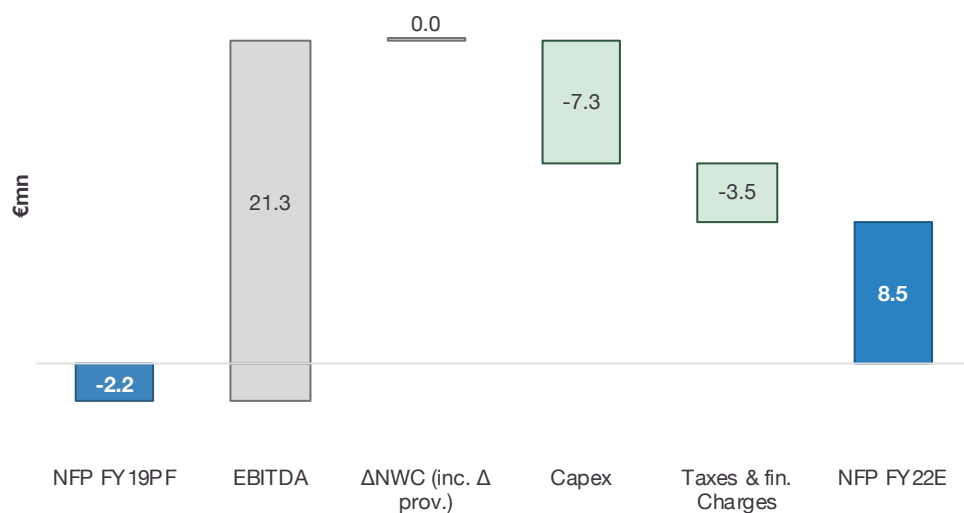
- ◆ **EBITDA cash conversion rate should remain in the 60-70%** across the 3-year forecast period;
- ◆ Ultimately, with annual cash generation in the €3mn-€4mn range between 2020E and 2022E, the net financial position should improve significantly and **DHH should become cash positive already by 2020E PF year-end.**

DHH: 2020E PF – 2022E Cash Flow Statement

(€mn)	2020E PF	2021E	2022E
EBITDA	5.9	7.1	8.2
Operating WC requirements	-0.7	0.3	0.3
Capex (not including Financial Investments)	-1.3	-2.3	-3.7
Change in provisions	0.1	0.0	0.0
OpFCF b.t.	4.0	5.1	4.9
As a % of EBITDA	67.5%	72.2%	60.0%
Cash Taxes	-0.7	-1.1	-1.4
OpFCF a.t.	3.3	4.1	3.5
Change in Net Fin. Position	3.2	4.0	3.4

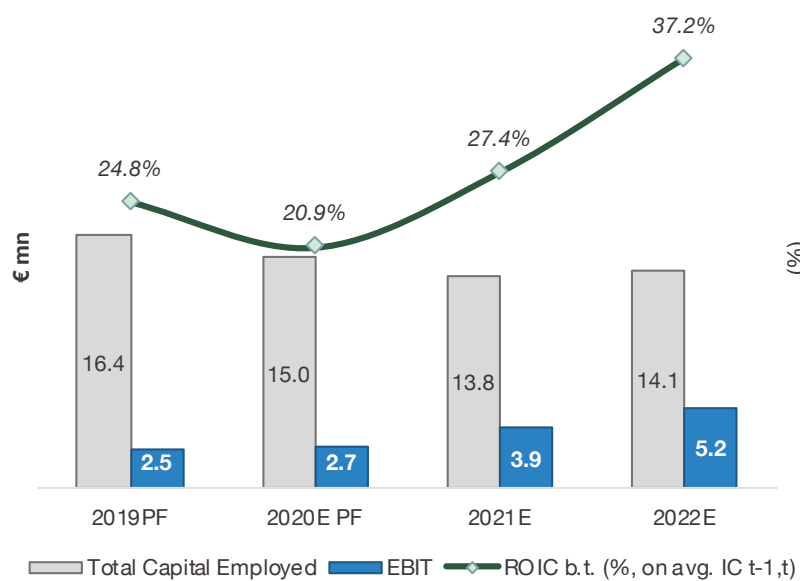
Source: DHH, Value Track Analysis

Net Financial Position Bridge (FY19PF, FY22E)



Source: DHH, Value Track Analysis

Return on Invested Capital (FY19PF, FY22E)



Source: DHH, Value Track Analysis

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