DHH

Sector: Cloud Computing

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38% EBITDA margin, 78% Cash conversion… what else?

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

A buoyant set of financial figures in FY20

FY20 pro-forma results came in better than estimates, but for total turnover (basically aligned to our forecast), underlying once again DHH business resiliency in a challenging environment. Key messages: *i)* Revenues up high single digit at €18.1mn, with recurring ones at ~90%, *ii)* greater efficiency in operating expenses leading to further increase in profitability, with EBITDA at €6.8mn (+21.4% y/y), and EBITDA margin close to 38% (+430 bps y/y), *iii)* subscription based business model bringing in a strong cash generation (OpFCF before taxes at 78% of EBITDA), with Positive Net Cash position at €1.5mn compared to Net Debt of €2.2mn as of Dec'19), *iv*) dividend in kind through free allocation of treasury shares, with a 1:25 ratio.

Ahead: combining organic and M&A driven growth

Going forward 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 (13 deals in less than 6 years) should support external growth as well, with the final aim of consolidating its market presence or entering new geographies across the South-East Europe. DHH is looking for single digit revenue targets, involved either in the web hosting or cloud computing field, with a positive cash generation, and not burdened by excessive financial leverage.

Estimates broadly unchanged, but for margins slightly up

On the light of a weaker macroeconomic scenario, and the stronger efficiency in costs structure achieved so far, we have updated our 2021E-22E estimates, incorporating a slower revenues growth (cut on average by 3%), and a broadly unchanged EBITDA and EPS forecasts, leading to slightly higher margins, i.e. EBITDA and EBIT margin seen up by 125bps and 80bps respectively. Cash generation remains sound, with €7.5mn cumulated cash flows by 2022, driving Net Cash Position up to ca. €9mn, leaving room for potential M&A.

Fair value up at €20.4 per share (from €18.5)

We update our fair value per share at €20.4 (from €18.5), coming from the simple average of: i) DCF model, ii) peers' analysis, and iii) recurring revenues analysis At fair value, the stock would trade at 2021E multiples of 11.1x EV/EBITDA and 16.2x EV/OpFCF, basically in line with peers' average.

Fair Value (€)	**20.4**
Market Price (€)	**13.1**
Market Cap. (€m)	**58.7**

KEY FINANCIALS (€mn)	2020PF	2021E	2022E
REVENUES	18.1	19.8	22.5
EBITDA	6.8	7.4	8.5
EBIT	3.8	4.4	5.6
NET PROFIT	2.6	2.9	3.8
EQUITY	16.4	19.3	23.1
NET FIN. POS.	1.5	5.2	8.9
EPS (€)	0.57	0.65	0.85
CASH DPS (€)	0.0	0.0	0.0

Source: DHH (2020PF), Value Track (2021E-22E estimates)

RATIOS & MULTIPLES	2020PF	2021E	2022E
EBITDA MARGIN (%)	37.8	37.5	38.0
EBIT MARGIN (%)	20.9	22.1	24.9
NET DEBT / EBITDA (x)	nm	nm	nm
NET DEBT / EQUITY (x)	nm	nm	nm
EV/SALES (x) (*)	2.9	2.6	2.1
EV/EBITDA (x) (*)	7.7	6.9	5.6
EV/EBIT (x) (*)	13.9	11.8	8.5

Source: DHH (2020PF), Value Track (2021E-22E estimates
(*) EV adjusted for peripherals and treasury shares

STOCK DATA	
FAIR VALUE (€)	20.4
MARKET PRICE (€)	13.1
SHS. OUT. (m)	4.5
MARKET CAP. (€m)	58.7
FREE FLOAT (%)	21.6
AVG. -20D VOL. (#)	2,352
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	6.00-13.40

Source: Stock Market Data

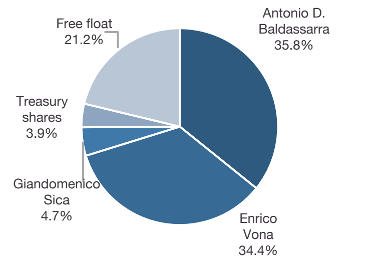
Business Description

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.

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



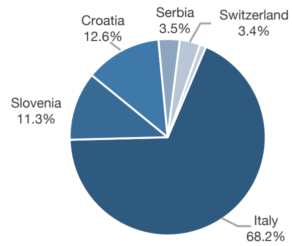
Source: ValueTrack (assuming the max allocation of treasury shares as dividend in kind)

Key Financials

€ mn	2019A PF	2020A PF	2021E	2022E
Total Revenues	**16.8**	**18.1**	**19.8**	**22.5**
Chg. % YoY	6%	8%	9%	14%
EBITDA	**5.6**	**6.8**	**7.4**	**8.5**
EBITDA Margin (%)	*33.5%*	37.8%	37.5%	38.0%
EBIT	**2.5**	**3.8**	**4.4**	**5.6**
EBIT Margin (%)	*15.1%*	20.9%	22.1%	24.9%
Net Profit	**1.8**	**2.6**	**2.9**	**3.8**
Chg. % YoY	8%	45%	14%	30%
Adjusted Net Profit	**1.8**	**2.6**	**2.9**	**3.8**
Chg. % YoY	8%	45%	14%	30%
Net Fin. Position	**-2.2**	**1.5**	**5.2**	**8.9**
Net Fin. Pos. / EBITDA (x)	0.4x	nm	nm	nm
Capex	-0.8	-1.2	-2.3	-3.7
OpFCF b.t.	**5.7**	**5.3**	**5.1**	**5.5**
OpFCF b.t. as % of EBITDA	101%	78%	69%	65%

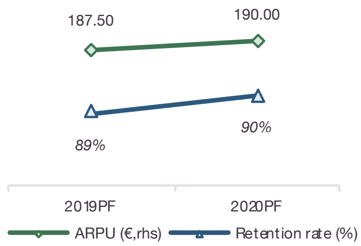
Source: DHH (historical figures), Value Track (estimates)

Sales breakdown by country



Source: DHH

Sales breakdown by legal entity



Source: DHH

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 @ €20.4 Fair Value

	2021E	2022E
EV / SALES (x)	4.2	3.5
EV / EBITDA (x)	11.1	9.3
EV / EBIT (x)	19.1	14.2
EV / Cap. Empl. (x)	5.9	5.6
OpFCF Yield (%)	6.0	6.8
P / E (x)	31.3	24.0
P / BV (x)	4.8	4.0
Div. Yield. (%)	0.0	0.0

Source: Value Track

A buoyant set of financial figures in FY20

DHH has just released its FY20 consolidated pro-forma figures, highlighting a healthy business expansion, with positive y/y growth rates across all P&L, a further increase in margins and – as typical of a subscription-based business model – a strong cash generation capability.

Revenues stood €18.1mn, almost in line with our forecast, overall **results came in definitely better than our estimates**, underlying once again **DHH business resiliency in a challenging environment**, being quite immune to the recent global economy slowdown linked to Covid-19.

DHH: 2020A vs VT 2020E

(€mn)	2020PF		
	Expected	Actual	A vs. E - Δ(%)
Total Revenues	**18.2**	**18.1**	**-0.7%**
EBITDA	**6.3**	**6.8**	**+8.9%**
EBITDA margin (%)	*34.5%*	*37.8%*	*+332bps*
EBIT	**3.0**	**3.8**	**+24.22%**
EBIT margin (%)	*16.8%*	*20.9%*	*+419bps*
Net Profit	**2.0**	**2.6**	**+28.7%**
Operating FCF b.t.	3.4	4.3	+26.1%
Net Financial Position	**1.1**	**1.5**	**+0.4mn**

Source: Value Track Analysis

Key messages we get from results are the following:

- **Revenues up high single digit**, with recurring incidence at ~90%;
- **A further increase in profitability,** EBITDA margin close to 38%;
- **Low Capex requirements led to a sound EBITDA to cash conversion;**
- **Proposal of a dividend in kind equivalent to +€2mn.**

Revenues up high single digit, with recurring incidence at ~90%

Total Revenues moved from €16.8.1mn in FY19 to €18.1mn in FY20 (as also unveiled by already released full-year Gross Sales) on a pro-forma basis, i.e. assuming Seeweb consolidation in Jan'19, hence growing +7.6% y/y. Positive results were recorded across all geographies in which DHH is active:

- **Italy marked the largest y/y growth in absolute terms,** with Gross Sales +€0.5mn y/y at €12.3mn, featured by *i*) a double-digit increase by Tophost, the leading provider of low-cost web hosting, *ii*) a material decrease from DHH Italia following the rearrangement plan of the commercial brand Artera (invoices are gradually shifting on behalf of DHH SW), *iii*) a further market consolidation of Seeweb, the first operator to introduce cloud computing solutions on the Italian market;
- **Switzerland,** albeit numbers remain still small boasted the **highest increase** in percentage terms, +89% y/y, thanks to the successful commercial repositioning of Artera brand, and the end of invoicing of DHH Italia;
- **The Slovenian subsidiary also increased double-digit,** with Sales at €2.1mn, +22% y/y, positively benefitting from the *i*) contribution of Si-Shell business unit acquired back in Dec'19, and *ii*) the increasing market penetration;

- Low-single digit growth was recorded in Croatia, with Sales at €2.3mn, (+4% y/y), still underlying a continuous increase of market share (now at. ca 25%) and of the total number of customers (ca. 20k);
- Serbia Gross Sales were up +15% y/y at €0.6mn, with operations steadily growing, also thanks to continuous efforts in marketing activities.

DHH Group: Revenues breakdown by geography

(€ 000)	2019PF	as (%)	2020PF	as (%)	y/y (%)
Italy	11,856	*70.6%*	12,330	*68.2%*	4%
Slovenia	1,680	*10.0%*	2,050	*11.3%*	22%
Croatia	2,183	*13.0%*	2,270	*12.6%*	4%
Serbia	553	*3.3%*	636	*3.5%*	15%
Switzerland	325	*1.9%*	614	*3.4%*	89%
Intragroup elisions	200.3	*1.2%*	174	*1.0%*	-13%
Total Revenues	**16,797**	***100.0%***	**18,074**	***100.0%***	**8%**

Source: Company figures, Value Track Analysis

Since cloud computing services are provided through a subscription-based business model (SaaS/IaaS/PaaS), where customers are billed in advance with a fixed and typically annual fee, the annual **retention rate** might be used as a proxy of the amount of **recurring revenues, which stood at ~90%.** FY20 **ARPU was on average €190** (€187 in FY19), ranging from €30 (low-end solutions) to €7.600 (managed hosting) across group companies.

A further increase In profitability, EBITDA Margin close to 38%

DHH experienced a further expansion in profitability across FY20 PF, with **EBITDA Margin at 37.8%, +430bps y/y,** corresponding to €6.8mn EBITDA (from €5.6mn) in FY19 PF, thus growing more than proportionally to turnover growth (+21.4% y/y).

The main drivers of such margin improvement are:

- **Different product mix**, through the launch of new proprietary solutions with high margins, i.e. Gross Profit (COGS incidence on revenues decreased by 100bps y/y, i.e. 42.7% in FY20 vs. 43.7% in FY19);
- **Lighter labour cost structure**, which decreased by ca. €0.3mn y/y, thanks to a more efficient organization of labour force across business units, with incidence on total revenues which improved by ca. 300bps y/y;
- **Greater efficiency achieved by the "old" DHH** – FY19 profitability was extremely penalized by non-recurring items due to the intense M&A activity undergone so far. Other costs were almost stable y/y, hence steadily lowering its weight on revenues.

Below the EBITDA, substantially unchanged D&A charges translate in a sound increase in Operating Profit, with **EBIT at €3.8mn (+48.9% y/y), and margin at 20.9% (+ 580bps)**.

Roughly €200K financial charges and €1mn taxes (28% tax rate, slightly better y/y) lead Net Profit to €2.6mn (+44.6% y/y).

DHH: P&L (FY19PF, FY20PF)

(€ mn)	2019PF	2020PF	y/y (%)
Total Revenues	**16.8**	**18.1**	**7.6%**
COGS	-7.3	-7.7	
Gross Profit	**9.5**	**10.4**	**+9.7%**
Labour costs	-3.3	-3.1	
Other costs	-0.5	-0.5	
EBITDA	**5.6**	**6.8**	**21.4%**
EBITDA Margin (%)	*33.5%*	*37.8%*	*+430bps*
D&A	-3.1	-3.0	
EBIT	**2.5**	**3.8**	**48.9%**
EBIT Margin (%)	*15.1%*	*20.9%*	*+580bps*
Net Financial Charges	-0.2	-0.2	
Non-Operating. items	0.2	0.0	
Pre-tax Profit	**2.5**	**3.6**	**41.2%**
Taxes	-0.8	-1.0	
Tax rate (%)	*-29.9%*	*-28.2%*	
Net Profit	**1.8**	**2.6**	**44.6%**

Source: Company figures, Value Track Analysis

Low Capex requirements led to a sound EBITDA to cash conversion

At Balance Sheet / Cash Flow Statement, we just note that:

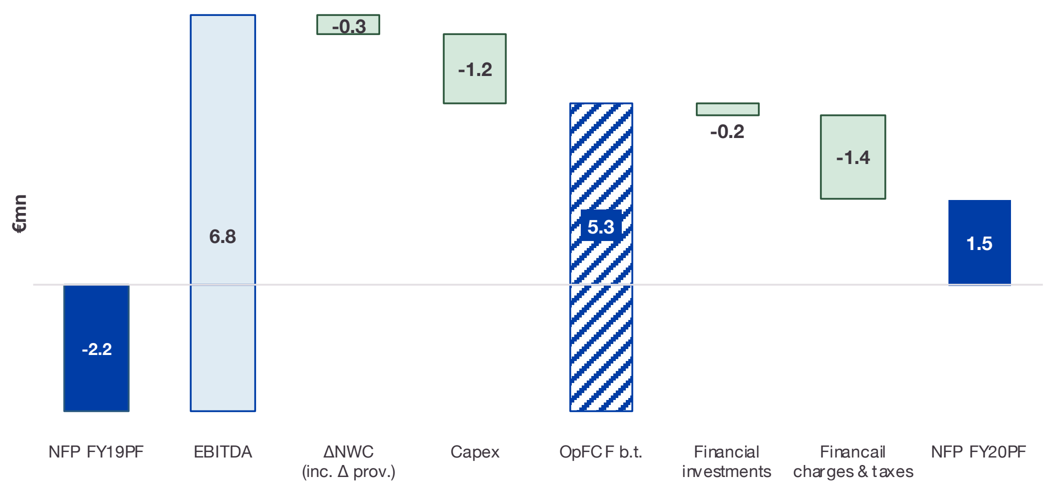
- **Capex at 6.4% of Sales**, at €1.2mn slightly growing y/y, however Net Fixed Assets at €18.7mn remained almost stable if compared to the end of June '20 and are mainly made of M&A originated goodwill (€7.8mn, resulting from 13 cross M&A deals), RoU (€4.3mn), and trademark (€3.1mn);
- **Still negative, albeit slightly worsening net working capital**, at 13% of Revenues (from 16% as of Dec'19), as result of a lower amount of trade payables (€1.8mn as of Dec'20 vs. €2.2mn in Dec'19);
- **Impressive Cash generation,** with OpFCF b.t. (computed as EBITDA- ΔNWC – ΔProvisions - Capex) at €5.3mn, i.e. €78% of EBITDA. It follows a Positive Net Financial Position at €1.5mn, vs. -€2.2 as of Dec'19.

DHH: Balance Sheet (FY19PF, 1H20PF, FY20PF)

(€ mn)	Dec'19	Jun'20	Dec'20
Net Working Capital	-2.7	-2.8	-2.3
Net Fixed Assets	19.6	18.9	18.7
Severance pay and other funds	0.6	0.6	1.5
Total Capital Employed	16.4	15.5	14.9
Group Net Equity	**14.2**	**15.4**	**16.4**
Net Financial Position	**-2.2**	**-0.1**	**1.5**

Source: Company figures, Value Track Analysis

DHH: OpFCF b.t. at €5.3mn, i.e. ~78% of EBITDA converts into cash



Source: Company figures, Value Track Analysis

Proposal of an ordinary dividend in kind equivalent to €2.2mn

The BoD decided to propose the distribution of a dividend in kind consisting in a free allocation of DHH' treasury shares, based on 1:25 ratio (1 treasury each 25 ordinary shares), up to 4% of DHH's share capital, and corresponding to €2.2mn (according to DHH closing price as of March 25th). Assuming the maximum allocation, the number of treasury shares would decrease to 174K (i.e., 3.9% on total shares).

Estimates fine tuning

On the light of FY20PF financial results and the weaker macroeconomic scenario linked to pandemic, we are just fine tuning our 2021E-22E. Our new estimates are based on the current consolidation perimeter (i.e. they do not include the recent signing related to the acquisition of Optima Hosting, a web hosting Croatian business line), and can be easily summarize as follows:

- **Revenues** – we cut our growth forecast by 3.8% and 2.5% in 2021E-22E, incorporating slightly lower than previously expected growth rates for Croatian and Serbian subsidiaries, partially offset by a faster revenue increase for Tophost and DHH Switzerland. Now we expect total revenues to keep growing at high-single digit CAGR by 2022E, up to ca. €22.5mn;
- **Operating expenses** – we cut on average by 5% per year to factor the higher efficiency in costs structure already achieved in FY20;
- **EBITDA** – we left unchanged our EBITDA estimates for 2021E-22E, at €7.4mn and €8.5mn respectively, anyway higher cost savings turn into higher EBITDA margins (+125bps on average in 2021-22), expected in the 37-38% range going forward;
- **Operating Cash Flows –** higher NWC requirements (albeit deeply under control), mainly linked to lower amount of trade payables, together with an unchanged Capex expectation, should lead to a lower operating cash flow in 2021, entirely compensated by a NWC trend reversal by 2022E;
- **Cumulated Cash flow at €7.5mn** by 2022E, leading to an **increasingly positive Net Cash Position**, up to ca. €8.9mn as of 2022E year-end, slightly higher than our previous estimate, and likely to be exploited for further M&A deals, with the final aim of consolidating its market presence or entering new geographies across the South-East Europe. As clearly reported on company website, DHH is always looking for a €1-2mn revenue target, involved either in the web hosting or cloud computing field, with a positive cash generation, and not burdened by excessive financial leverage.

DHH: New vs. Old estimates

	2021E			2022E		
€mn	Old	New	Δ (%)	Old	New	Δ (%)
Revenues	**20.5**	**19.8**	**-3.8%**	**23.1**	**22.5**	**-2.5%**
EBITDA	**7.4**	**7.4**	**0.4%**	**8.5**	**8.5**	**0.0%**
EBITDA margin (%)	*36.0%*	*37.5%*	*+155bps*	*37.0%*	*38.0%*	*+96bps*
EBIT	**4.3**	**4.4**	**0.6%**	**5.6**	**5.6**	**0.0%**
EBIT margin (%)	*21.1%*	*22.1%*	*+95bps*	*24.3%*	*24.9%*	*+63bps*
Net Profit	**2.9**	**2.9**	**0.6%**	**3.8**	**3.8**	**0.0%**
OpFCF a.t.	4.2	3.8	-8.6%	3.6	3.9	7.1%
Net Cash Position	**5.2**	**5.2**	**0.0**	**8.7**	**8.9**	**0.2**

Source: Value Track Analysis

DHH: 2019PF – 2022E P&L

(€mn)	2019A PF	2020A PF	2021E	2022E
Total Revenues	**16.8**	**18.1**	**19.8**	**22.5**
COGS	-7.3	-7.7	-8.4	-9.5
Labour costs	-3.3	-3.1	-3.5	-3.9
Other costs	-0.5	-0.5	-0.5	-0.5
EBITDA	**5.6**	**6.8**	**7.4**	**8.5**
EBITDA Margin (%)	*33.5%*	*37.8%*	*37.5%*	*38.0%*
Depreciation & Amortization	-3.1	-3.0	-3.0	-2.9
EBIT	**2.5**	**3.8**	**4.4**	**5.6**
EBIT Margin (%)	*15.1%*	*20.9%*	*22.1%*	*24.9%*
Net Fin. Charges	-0.2	-0.2	-0.2	-0.1
Non-Operating Items	0.2	0.0	0.0	0.0
Pre-tax Profit	**2.5**	**3.6**	**4.2**	**5.5**
Tax	-0.8	-1.0	-1.3	-1.6
Tax rate (%)	*-29.9%*	*-28.2%*	*-30.0%*	*-30.0%*
Net Profit	**1.8**	**2.6**	**2.9**	**3.8**

Source: DHH, Value Track Analysis

DHH: 2019A PF – 2022E Balance Sheet

(€mn)	2019A PF	2020A PF	2021E	2022E
Net Fixed Assets	19.6	18.7	17.9	18.6
Net Working Capital	-2.7	-2.3	-2.2	-2.7
Severance Pay and Other Funds	0.6	1.5	1.6	1.7
Total Capital Employed	16.4	14.9	14.1	14.2
Group Net Equity	**14.2**	**16.4**	**19.3**	**23.1**
Net Fin. Position [Net debt (-)]	**-2.2**	**1.5**	**5.2**	**8.9**

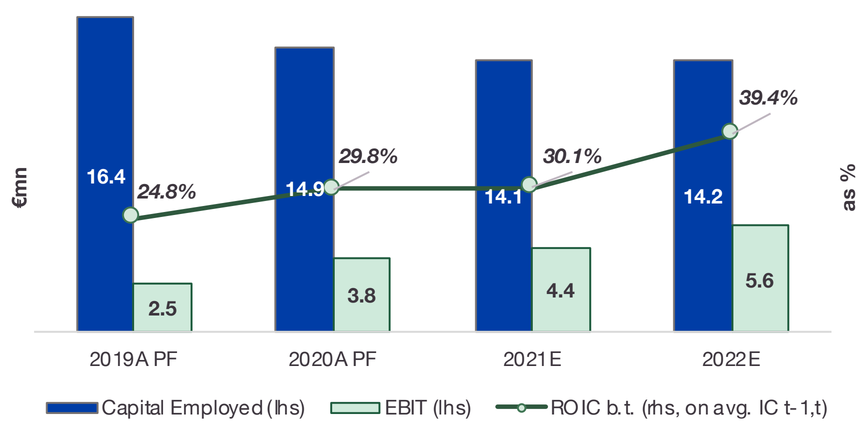
Source: DHH, Value Track Analysis

DHH: 2020PF – 2022E Cash Flow Statement

(€mn)		2020A PF	2021E	2022E
EBITDA		6.8	7.4	8.5
Operating WC requirements		-0.3	-0.1	0.5
Capex		-1.2	-2.3	-3.7
Change in provisions		0.9	0.1	0.1
OpFCF b.t.		**6.2**	**5.1**	**5.5**
Cash Taxes		-1.0	-1.3	-1.6
OpFCF a.t.		**3.5**	**4.2**	**3.6**
Net Financial charges		-0.2	-0.2	-0.1
Dividends paid		0.0	0.0	0.0
Change in Net Fin. Position		**3.7**	**3.7**	**3.8**

Source: DHH, Value Track Analysis

DHH: Return on Invested Capital (2019PF, FY22)



Source: Value Track Analysis

Investment case & Valuation update

Since our in-depth equity research published back in July'20, DHH share price has increased by ca. 62%, supported by a significant increase in trading volumes. Anyway, we believe the strong set of financial figures just released, together with the successful "kick-off" of Seeweb reverse take-over, deserve a further stock re-rating, and as a consequence, discount to peers should definitely narrow going forward.

DHH: Shares rebound following the release of FY20 financials

Source: Value Track Analysis

At current €13.1 market price, DHH shares are trading at 6.9x EV/EBITDA and 10.0x EV/(EBITDA-Capex), which underestimate in our view the following key points:

- **Strong revenue visibility** – Subscription business model featured by ~90% recurring revenues;
- **Best in class profitability** – EBITDA margin >37%, that is clean, with no capitalization at all;
- **Sound EBITDA cash conversion**, benefitting from being paid spot and then delivering its solutions in a subsequent stage.

We update our fair value at €20.4 (from €18.5), coming from the simple average among *i*) DCF model, *ii*) peers' analysis, and *iii*) recurring revenues analysis At fair value, the stock would trade at 2021E multiples of 11.1x EV/EBITDA and 16.2x EV/OpFCF, basically in line with peers' average.

DHH: Investment highlights

Well-established player in the cloud-computing space	• Leading position in South-East Europe • Proprietary solutions delivered to 100,000+ customers, with eleven brands under management • Extensive physical and network infrastructures
Highly scalable and profitable business model	• Easily scalable business, derived by a subscription business model • High incidence of recurring revenues • High client retention with long revenue periods, fueled by an extremely low churn rate
Favourable market stance	• Exposure to a growing & resilient market, driven by digital transformation • Cloud computing services facing a stronger and stronger market demand • Being local in SE Europe as a risk mitigation against competition from big players (particularly in terms of data protection and regulation)
High-quality financials	• EBITDA margin above the 37% level with no capitalization at all • Low Capex requirements, lead to a sound EBITDA to cash conversion

Source: Value Track Analysis

Updated fair value up at €20.4 per share (from €18.5)

Our valuation is the result of the simple average of three different valuation methodologies:

DCF Valuation

We update our **DCF model**, based on **lower 9.1% WACC** to factor the lower Italian Equity Risk Premium (*Source*: Damodaran, Jan'21**), a 2% perpetuity growth rate** (or 2030 exit multiple of 3.8x EV/EBITDA), and assuming a **target capital structure** (i.e., net Debt at 30% of the Invested Capital), **gives as a €20.4 fair equity value p/s.**

DHH Group: Discounted Cash Flow based on "target" capital structure

(€mn)	
PV of future cash flows	32.8
PV of Terminal value with PGR at 2%	54.4
Fair Enterprise value	**87.3**
Net Cash Position 2020A	1.5
Peripheral assets (valued at book value)	-0.2
Fair Equity value	**88.5**
Fair Equity value per share (€) (*)	**20.4**

Source: Value Track Analysis (*) calculated on total number of shares net of treasury ones

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

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	8.1%	22.7	23.3	24.0	24.7	25.4
	8.6%	21.0	21.5	22.0	22.6	23.2
	9.1%	19.5	19.9	**20.4**	20.9	21.4
	9.6%	18.2	18.6	18.9	19.3	19.8
	10.1%	17.1	17.4	17.7	18.0	18.4

Source: Value Track Analysis

Peers' analysis

Our peers' analysis, which basically include a **cluster of companies operating in the tech space**, and somehow exposed to **same capital markets**, and also sharing a **similar size of DHH**, turns out a fair equity **valuation of €19.1 p/s**.

We consider 2021E-22E 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.

Hence, according to our selected peers, **DHH is currently trading at ca. 40% 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: Peers' stock trading multiples

Company	EV / EBITDA (x)		EV / (EBITDA – Capex) (x)	
	2020E	2021E	2020E	2021E
MailUp Group	11.5	8.5	30.4	18.0
Cyberoo	13.3	5.5	42.2	7.4
Expert AI	nm	nm	nm	nm
Neosperience	7.2	4.1	16.7	6.1
Relatech	12.3	10.1	17.6	13.6
Unidata	9.6	8.0	nm	nm
Digital 360	7.4	5.7	11.9	8.5
FOS	5.3	4.6	9.0	7.3
WIIT	18.3	15.7	27.0	22.9
Piteco	14.9	12.8	16.2	13.8
Gigas	10.0	8.5	21.8	17.4
Average Peers	**11.0**	**8.4**	**21.4**	**12.8**
DHH @ market price	**6.9**	**5.5**	**10.0**	**9.7**
DHH discount vs Average	*-37%*	*-34%*	*-54%*	*-24%*

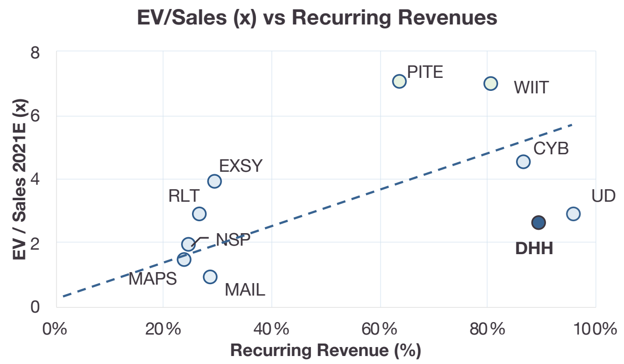
Source: Market Consensus, Value Track Analysis (*) OpFCF calculated as EBITDA-Capex

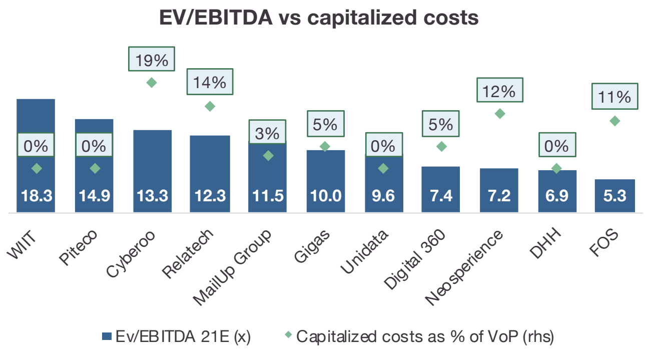
Recurring revenue analysis

Being a cloud computing and web hosting provider, with solutions delivered through a subscription-based business model, DHH can rely on a great amount of recurring revenues, at ~90% in FY20, definitely better than peers (on average 42%). By running a simple linear regression analysis, we calculate that **DHH should trade at €21.5 p/s** (i.e. 4.5x EV/Sales 21E).

Last but not least, if we focus on earnings quality, we found DHH share price is currently embedding a huge discount vs. peers, despite its zero incidence of costs capitalization, i.e. all R&D spending are accounted at P&L, differently from the majority of peers, that means EBITDA margin really looks at the operating profitability, and cash flow from operations fully reflects the y/y change in NFP.

DHH: Relative positioning vs. peers in terms of recurring revenues and internal projects as % of VoP





Source: Value Track analysis on companies' data

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