

DHH

Sector: Cloud Computing

**Analysts****Marco Greco****+39 02 80886654****marco.greco@value-track.com**

Three M&A deals, 10% growth l-f-l, 36% EBITDA margin

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 120.000+ clients across southeast Europe (the so-called "Adriatic Sea area"), where expected growth is higher thanks to current lower digital penetration

FY21 growing at 10% y/y on a l-f-l- basis

FY21 results came in line with our estimates in terms of revenues and lower on profitability margins and Net Financial Position because of D&A charges, increased labour costs and M&A activities. In details:

- ◆ Revenues up ~10% y/y at €19.8mn;
- ◆ Adjusted EBITDA at €7.2mn (+5.5% y/y) with Adj. EBITDA margin in excess of 36%;
- ◆ Net Profit at €3.2mn (+23.5% y/y) thanks to a lower tax burden;
- ◆ Net Debt position at €0.9mn compared to Positive Net Cash of €1.5mn as of FY20, affected by more than €8mn total investments (tangible + intangible + three M&A deals + share buyback).

2022E-23E estimates: EBITDA at €9.6mn in 2023E

We are updating our 2022E-23E estimates by adopting a slightly more cautious approach on the costs related to Evolink integration, and on the amount of D&A related to RoU investments.

Overall, revenues are expected to increase at 24.9% CAGR up to 2023E, with EBITDA and EBIT margin expected respectively at 34.6% and 21.3% by 2023E.

Cash generation remains healthy, with €8.6mn cumulated cash flows by 2023, driving Net Cash Position up to ca. €7.6mn, leaving room for M&A.

Fair value per share at €22.1 (from €24.0)

Based on current market price and updated estimates, DHH is trading at 9.2x-16.5x-26.4x EV/EBITDA, EV/EBIT and P/E 2022E. Updating our valuation models lead to a €22.1 fair value (down from €24.0), coming from the simple average of DCF model (€24.4) and Peers' analysis (€19.3).

At fair value, the stock would trade at 2022E multiples of 12.1x EV/EBITDA, 21.6x EV/EBIT and 34.3x P/E.

Devoting the €9.5mn cash pile to further expand the geographical footprint via M&A deals finalized at multiples in line with historical ones (ca. 5x EV/EBITDA on average) would lead to further additional value per share.

| | |
|-------------------------|-------------|
| Fair Value (€) | 22.1 |
| Market Price (€) | 17.0 |
| Market Cap. (€m) | 83.1 |

| KEY FINANCIALS (€mn) | 2020PF | 2021 | 2022E |
|----------------------|--------|------|-------|
| REVENUES | 18.1 | 19.8 | 25.3 |
| EBITDA | 6.8 | 6.9 | 8.4 |
| EBIT | 3.8 | 3.6 | 4.7 |
| NET PROFIT | 2.6 | 3.2 | 3.1 |
| EQUITY | 16.4 | 20.0 | 23.2 |
| NET FIN. POS. | 1.5 | -0.9 | 3.1 |
| EPS (€) | 0.57 | 0.65 | 0.64 |
| DPS (€) | 0.0 | 0.0 | 0.0 |

Source: DHH Group (2020PF-2021), Value Track (2022E)

| RATIOS & MULTIPLES | 2020PF | 2021 | 2022E |
|-----------------------|--------|------|-------|
| EBITDA MARGIN (%) | 37.8 | 35.1 | 33.1 |
| EBIT MARGIN (%) | 20.9 | 18.2 | 18.5 |
| NET DEBT / EBITDA (x) | nm | 0.1 | nm |
| NET DEBT / EQUITY (x) | nm | nm | nm |
| EV/SALES (x) (**) | 3.4 | 4.1 | 3.1 |
| EV/EBITDA (x) (**) | 9.0 | 11.7 | 9.2 |
| EV/EBIT (x) (**) | 16.2 | 22.5 | 16.5 |

Source: DHH (2020PF-2021), Value Track (2022E)

(*) EV adjusted for peripherals and treasury shares

| STOCK DATA | |
|--------------------|-----------------|
| FAIR VALUE (€) | 22.1 |
| MARKET PRICE (€) | 17.0 |
| SHS. OUT. (m) | 4.9 |
| MARKET CAP. (€m) | 83.1 |
| FREE FLOAT (%) | 23.7 |
| AVG. -20D VOL. (#) | 1,918 |
| RIC / BBG | DHH.MI / DHH IM |
| 52 WK RANGE | 12.70-18.10 |

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 eight autonomous and independent business units under management across seven countries (Bosnia-Herzegovina, Bulgaria, 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.

Key Financials

| € mn | 2020A PF | 2021E | 2022E | 2023E |
|----------------------------|------------|-------------|-------------|-------------|
| Total Revenues | 6.3 | 19.8 | 25.3 | 27.8 |
| Chg. % YoY | -71.3% | nm | 27.8% | 9.9% |
| EBITDA | 0.5 | 6.9 | 8.4 | 9.6 |
| EBITDA Margin (%) | 8.5% | 35.1% | 33.1% | 34.6% |
| EBIT | 0.2 | 3.6 | 4.7 | 5.9 |
| EBIT Margin (%) | 2.7% | 18.2% | 18.5% | 21.3% |
| Net Profit | 0.1 | 3.2 | 3.1 | 4.0 |
| Chg. % YoY | -123.6% | nm | -1.3% | 26.5% |
| Adjusted Net Profit | 0.1 | 2.8 | 3.1 | 4.0 |
| Chg. % YoY | -53.3% | nm | 11.0% | 26.5% |
| Net Fin. Position | 2.6 | -0.9 | 3.1 | 7.6 |
| Net Fin. Pos. / EBITDA (x) | nm | 0.1 | nm | nm |
| Capex | -0.1 | -3.5 | -3.8 | -3.5 |
| OpFCF b.t. | 0.3 | 2.7 | 5.5 | 6.3 |
| OpFCF b.t. as % of EBITDA | 48.0% | 38.5% | 65.9% | 65.8% |

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

Investment case

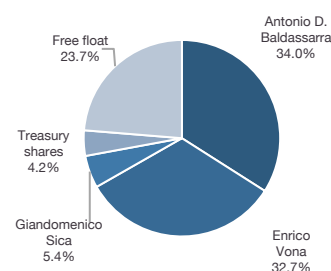
Strengths / Opportunities

- ◆ Excellent geographic footprint, market leader in Croatia and Slovenia
- ◆ Ever increasing reference market, expected to grow at double-digit rate
- ◆ 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

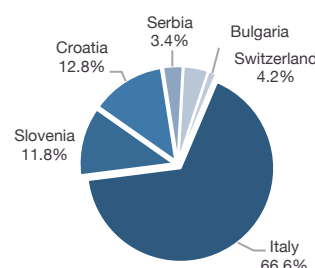
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



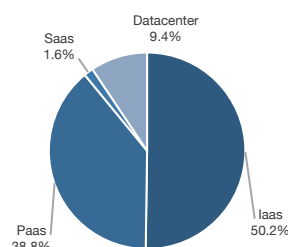
Source: DHH Group

Sales b.down by country (2021)



Source: DHH Group

Sales b.down by segment (2021)



Source: DHH Group

Stock multiples @ €22.1 Fair Value

| | 2022E | 2023E |
|----------------------|-------|-------|
| EV / SALES (x) | 4.0 | 3.5 |
| EV / EBITDA (x) | 12.1 | 10.1 |
| EV / EBIT (x) | 21.6 | 16.3 |
| EV / Cap. Empl. (x) | 5.0 | 4.9 |
| OpFCF Yield (%) | 5.5 | 6.6 |
| P / E (x) | 34.3 | 27.1 |
| P / BV (x) | 4.8 | 4.0 |
| Cash Div. Yield. (%) | 0.0 | 0.0 |

Source: Value Track

DHH: The SE Europe Cloud computing provider

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe, such as Bosnia-Herzegovina, Bulgaria, Croatia, Italy, Serbia, Slovenia, and Switzerland. DHH aims to consolidate leadership positions in such countries, thus benefitting from the higher expected growth thanks to their current lower digital penetration.

DHH is a well-established player in the cloud computing space, with 100,00+ European customers in the Southeast Europe, rapidly grown in the latest years thanks to a successful M&A strategy.

More in details, we underline the following key factors that are worthy of notice:

- ◆ **Top quality full offer portfolio of products / solutions**, 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;
- ◆ **Extensive proprietary physical and network infrastructures**, connected to most important exchange points;
- ◆ **Subscription-based business model**, allowing higher customer retention, auto-renewal subscription and optimized cash flow management (EBITDA cash conversion rate in the 100% region).

Top-quality full offer portfolio of products / solutions

DHH offers a broad array of cloud computing and cloud hosting products ranging from domain registration and transfer to web hosting, from cloud servers, housing and colocation to ready to use IoT solutions and consultancy activities.

All DHH Group products are delivered in a subscription-based model, billed in advance by customers with a fixed, typically, annual fee or based on service usage (metered) and with automatic renewal unless technical termination of the service in cases of self-provisioning or interruption request.

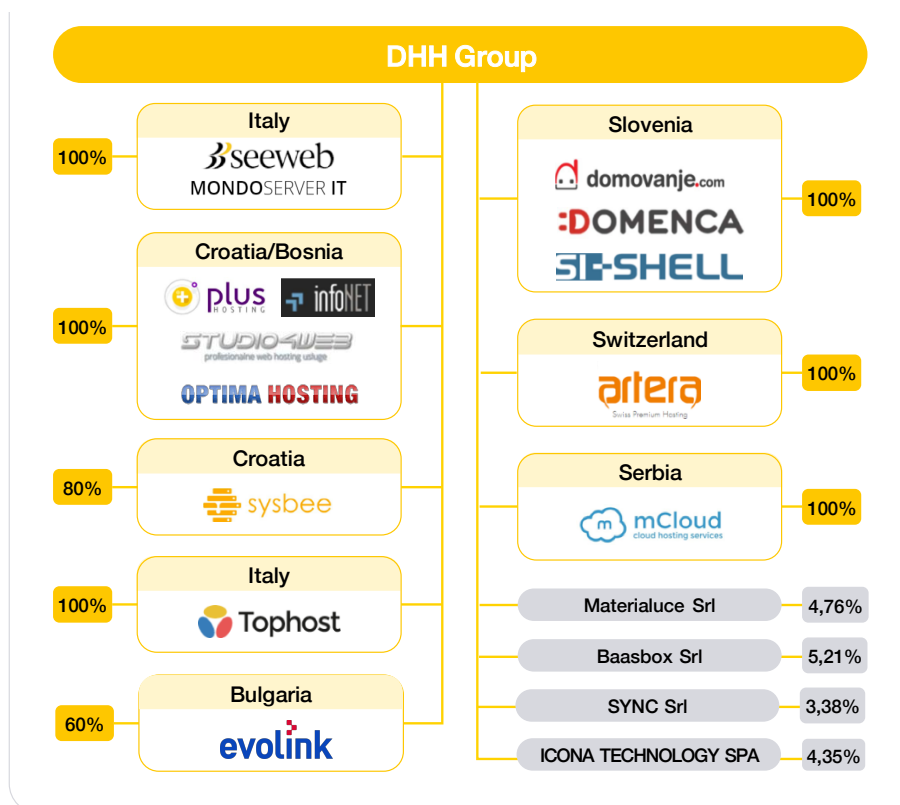
Among DHH products we underline:

- ◆ **Cloud Servers, i.e.** virtual servers and infrastructures where customers' (system integrators, developers, companies and IT professionals) website and/or applications can be hosted, and where related and connected activities are provided.
- ◆ **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.
- ◆ **Housing and colocation, i.e.** physical infrastructure where customers can install their equipment in special racks, shelves or cages, and where performing related services are connected. Domain registration and hosting;
- ◆ **Domain name registration and / or transfer**, providing the opportunity to get and register domain names to its customers among those not recorded in the competence register yet.
- ◆ **Hosting services**, offered at a shared or dedicated cloud server and including domain management;
- ◆ **Add-on products**, such as Website creation software, SSLs certificates, business mail products.

Ecosystem of independent businesses working together in a synergic way




DHH operates a decentralized business model made up of eight independent entities with a common theme in which tech-entrepreneurs can innovate, share best practices and grow as part of the group of like-minded people. Moreover, DHH holds minority stakes in four start-up companies.

DHH: Group structure













Source: DHH

DHH: Brands currently managed (1/2)

| Brand | Brief description |
|---|---|
|  | One of the largest “Infrastructure-as-a-Service” (IaaS) providers in Bulgaria. Strong partner for Ethernet connectivity, datacenter and cloud services focused on serving corporate customers and Telecom operators that need reliable services at flexible and reasonable terms. |
|  | 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. In April’21 Seeweb acquired Mondo Server to strengthen its presence in the southern Italy. |
|  | 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. |

Source: Value Track Analysis

DHH: Brands currently managed (2/2)

| Brand | Brief description |
|---|--|
|    | 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 into 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

Extensive physical and network infrastructures

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.

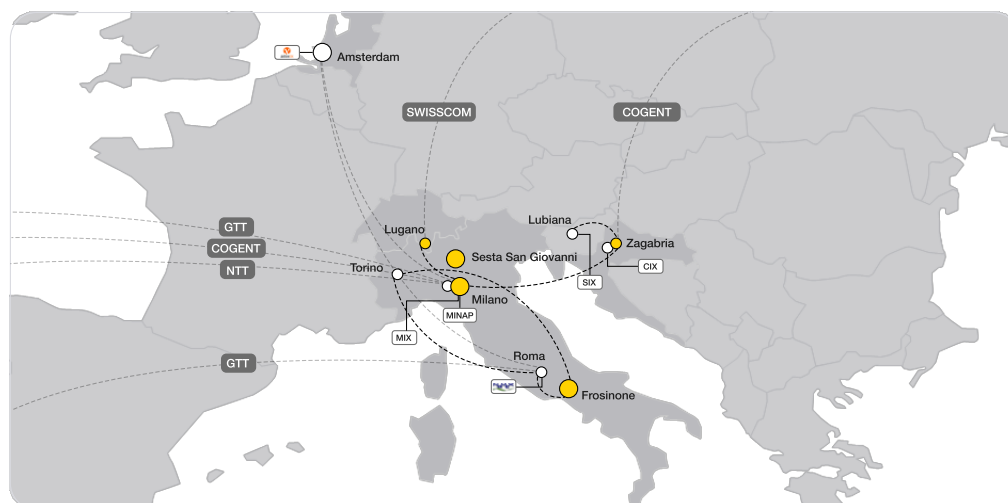
Indeed, DHH holds several physical datacenters in Italy, Switzerland, Bulgaria and Croatia, and an internet backbone which connects proprietary datacenters to important domestic and foreign exchange points such as: *i) Mix* and *Minap* located in Milan, *ii) Namex* located in Rome, *iii) Amsix* located in Amsterdam, *iv) Cix* located in Zagreb and lastly *v) Six* located in Ljubljana.

In all the Internet Exchange Points (IXPs), the Group implements open peering policies 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 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.

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



Source: DHH

Subscription-based business model leading to high retention rate

All DHH products are delivered in a subscription-based model, billed in advance by customers with a fixed, typically, annual fee or based on service usage (metered) and with automatic renewal unless technical termination of the service in cases of self-provisioning or interruption request.

Such a pricing policy allows higher customer retention, auto-renewal subscription and optimized cash flow management (EBITDA cash conversion rate in the 100% region).

DHH: features of the client base

>100.000 customers

With M&A activities supporting further growth

100% online & inbound client sourcing

DHH customer acquisition process incl. large clients is happening online and does not require personal contact

Low churn rate

Subscription-based business model guarantees high level of recurring revenues and high client retention (>95%)

B2B and professionals

The core target segment are SMEs and solo entrepreneurs

Low dependence on single customers

DHH owns a large portfolio of clients with the share of the top 10 customers slightly above 10%

Diversified pricing model

With an ARPU ranging from EUR 30 to EUR 8.000 across subsidiary companies (average EUR 811)

Source: DHH

FY21: Revenues up +10% y/y on a l-f-l basis

DHH has released its FY21 results, which, compared to our estimates, are slightly downward registering, however, a healthy business expansion with positive single-digit y/y growth across almost all P&L.

Key messages we get from results are the following:

- ◆ **Total revenues up +10% y/y on a like-for-like basis;**
- ◆ **Adjusted EBITDA up +5.8% y/y on a like-for-like basis** (+1.7% y/y reported), Adjusted EBITDA margin at 36.5%;
- ◆ **Adjusted EBIT up +2.9% y/y on a like-for-like basis** (-4.6% y/y reported), burdened by higher D&A charges related to IFRS16 accounting of IRUs;
- ◆ **Net Debt at €944k**, impacted negatively by M&A activities, extraordinary operations and shares buyback.

DHH: 2020PF and 2021 Key Financial Items

| (€mn) | 2020PF | 2021A | y/y (%) | 2021E |
|--------------------------|------------|-------------|---------|------------|
| Revenue from Sales | 18.1 | 19.8 | 10.0% | 19.6 |
| Adj. EBITDA | 6.8 | 7.2 | 5.8% | 7.4 |
| EBIT | 3.8 | 3.6 | -4.6% | 4.2 |
| Net Profit | 2.6 | 3.2 | 23.5% | 3.7 |
| Net Fin. Position | 1.5 | -0.9 | | 2.4 |

Source: DHH, Value Track analysis (*) as of Dec'20

Sales up 10% y/y l-f-l, in line with our expectation

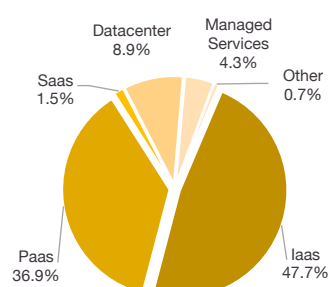
Total Revenues achieved a good developing, coming in at €19.8mn, substantially in line with our 2021E expectation (upward of +0.8% to our estimates), with a 10% y/y growth rate.

We highlight a very good performance in Italy, Slovenia and Switzerland.

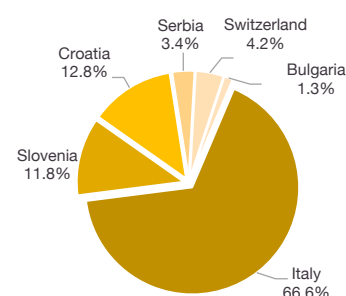
In terms of breakdown by product, it's worthy to note the good diversification across PaaS, IaaS and Other Services. Recurring revenues, as always have a higher than 90% incidence on total.

DHH: 2021 Revenue from Sales by geography and segment

2021 – Sales by segment (%)



2021 – Sales by geography area (%)



Source: Value Track Analysis

Operating and Net Profitability impacted by one-off charge and higher D&A

We remind that Evolink has been consolidated for only one month.

Reported EBITDA and EBIT came out marginally lower than our forecasts, at respectively €6.9mn and €3.6mn, instead of €7.4mn and €4.2mn of our latest estimate. However, adjusted for non recurring €0.3mn costs, the Adjusted EBITDA at €7.2mn was substantially in line with our estimate.

In addition, EBIT value was affected by higher D&A charges (at ca. €3.3mn respect to €3mn of FY20).

Net Profit stood at €3.2mn, up +23.5% y/y, also thanks to a lower tax burden compared to FY20, thanks to a one off effect already recorded back in 1H21.

DHH: Income Statement 2020PF – 2021A

| (€ mn) | 2020PF | 2021A | y/y (%) |
|---------------------------|-------------|-------------|--------------|
| Revenue from Sales | 17.9 | 19.6 | 9.2% |
| Other Revenues | 0.2 | 0.2 | |
| Total Revenues | 18.1 | 19.8 | 10.0% |
| COGS | -7.7 | -8.5 | |
| Gross Profit | 10.4 | 11.3 | 8.6% |
| Gross Margin (%) | 57.3% | 57.1% | -138bps |
| Labour costs | -3.1 | -3.8 | |
| Other Opex | -0.5 | -0.6 | |
| EBITDA | 6.8 | 6.9 | 1.5% |
| EBITDA Margin (%) | 37.8% | 35.1% | -269bps |
| D&A | -3.0 | -3.3 | |
| EBIT | 3.8 | 3.6 | -5.0% |
| EBIT Margin (%) | 20.9% | 18.2% | -270bps |
| Net Financial Charges | -0.2 | -0.2 | |
| Taxes | -1.0 | -0.3 | |
| Net Profit | 2.6 | 3.2 | 23.5% |
| Adj. Net Profit | 2.6 | 2.8 | 7.7% |

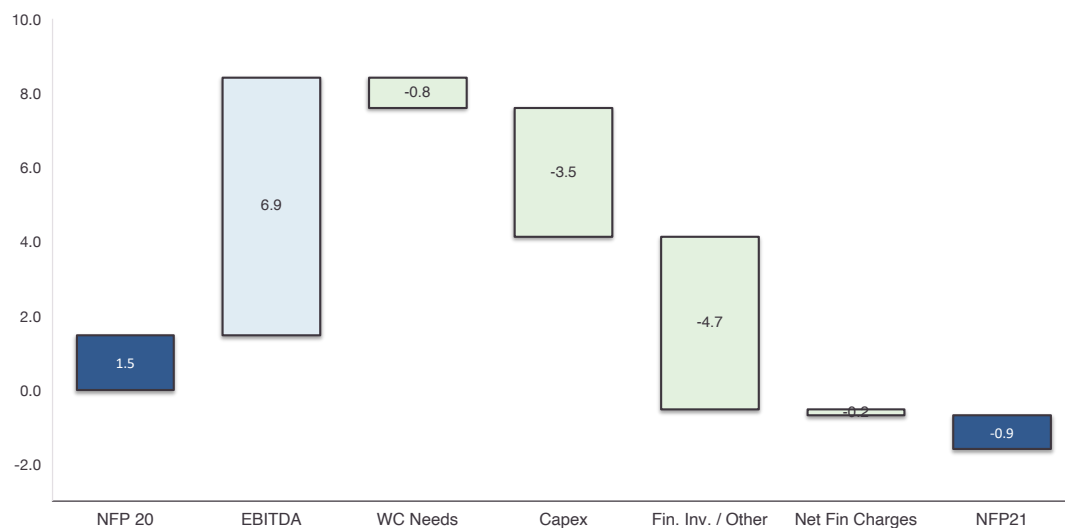
Source: Company figures, Value Track Analysis

Net Financial Position

As for the Balance Sheet / Cash Flow Statement, we note that the Net Debt Position came out at €0.9mn, compared to our Net Cash Position forecast at €2.4mn.

Main drivers of the difference are as follow:

- ◆ Advance cash taxes on Seeweb and Tophost impacting for €0.84mn (included in working capital);
- ◆ IFRS accounting for Evolink, worth ca. €0.7mn of infrastructural leasing;
- ◆ Some extraordinary corporate finance deals finalized in 2H21 and not previously accounted in our forecasts, such as the €0.5mn investment in Errera SPAC, the €0.5mn share buyback, and acquisitions of client lists of Optima Hosting, MondoServer..

DHH Group: Net Financial Position bridge 2020-2021


Source: Company figures, Value Track Analysis

DHH Group: Balance Sheet 2020 - 1H21 - 2021

| (€ mn) | FY20 | 1H21 | FY21 |
|-------------------------------|-------------|-------------|-------------|
| Net Working Capital | -2.3 | -2.8 | -1.5 |
| Net Fixed Assets | 18.7 | 20.3 | 23.9 |
| Provisions | 1.5 | 1.5 | 1.5 |
| Total Capital Employed | 14.9 | 16.1 | 20.9 |
| Group Net Equity | 16.4 | 18.5 | 20.0 |
| Net Financial Position | 1.5 | 2.5 | -0.9 |

Source: Company figures, Value Track Analysis

Update of 2022E-onward financial forecasts

In the light of FY21 financial results and the more volatile scenario linked to the international crisis, we are going to update our 2022E-23E forecasts as follows:

- ◆ **Revenues** – we fine tune our growth forecast by -2.3% and -1.5% in 2022E, 23E, incorporating a more cautious approach on sales growth;
- ◆ **EBITDA** – we reduce our EBITDA estimates for 2022E-23E, by -7.2% and -3.3% respectively, partly due to lower revenues and partly to higher integration costs related to Evolink;
- ◆ **EBIT** – we change our EBIT estimates for 2022E-23E, at €4.7mn and €5.9mn respectively, down by -17.5% in 2022E and -8.6% in 2023E due to lower EBITDA and to higher D&A related to RoU investments in FY21;
- ◆ **Net Financial Position** – We assume lower net cash position, i.e. ca. €3.1mn in 2022E and €7.6mn in 2023E, as an effect of the lower starting point in 2021 year end.

DHH Group: New vs. Old estimates

| (€ mn) | 2022E | | | 2023E | | |
|---|------------|------------|--------------|-------------|------------|--------------|
| | Old | New | Change | Old | New | Change |
| Total Revenues | 25.9 | 25.3 | -2.3% | 28.2 | 27.8 | -1.5% |
| EBITDA | 9.0 | 8.4 | -7.2% | 10.0 | 9.6 | -3.3% |
| EBIT | 5.6 | 4.7 | -17.5% | 6.5 | 5.9 | -8.6% |
| Net Profit | 3.8 | 3.1 | -18.2% | 4.4 | 4.0 | -8.9% |
| Net Fin. Position [Net debt (-)] | 6.5 | 3.1 | -3.5 | 11.8 | 7.6 | -4.2 |

Source: Company figures, Value Track Analysis

That said, our new 2022E -23E forecasts can be summarized as follows:

- ◆ **Revenues** –expected to increase at 24.9% CAGR up to 2023E;
- ◆ **EBITDA** – operating profitability progressively increasing over the next three years with EBITDA and EBIT margin expected respectively at 34.6% and 21.3% by 2023E;
- ◆ **Working Capital** – favourable Working Capital dynamics, implying a sound operating cash conversion with EBITDA / OpFCF ratio after on average at 50% over the next three years;
- ◆ **Net Financial Position** –Net Cash Position, to peak at ~€7.6mn by 2023E year-end, likely to be exploited for further M&A deals.

DHH Group: 2020PF – 2023E P&L

| (€mn) | 2020PF | 2021E | 2022E | 2023E |
|-----------------------------|-------------|-------------|-------------|-------------|
| Total Revenues | 18.1 | 19.8 | 25.3 | 27.8 |
| COGS | -8.2 | -9.1 | -11.6 | -12.5 |
| Labour costs | -3.1 | -3.8 | -5.3 | -5.7 |
| EBITDA | 6.8 | 6.9 | 8.4 | 9.6 |
| <i>EBITDA Margin (%)</i> | 37.8% | 35.1% | 33.1% | 34.6% |
| Depreciation & Amortization | -3.0 | -3.3 | -3.7 | -3.7 |
| EBIT | 3.8 | 3.6 | 4.7 | 5.9 |
| <i>EBIT Margin (%)</i> | 20.9% | 18.2% | 18.5% | 21.3% |
| Net Fin. Charges | -0.2 | -0.2 | -0.1 | -0.1 |
| Non-Operating Items | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax Profit | 3.6 | 3.4 | 4.6 | 5.9 |
| Tax | -1.0 | -0.3 | -1.4 | -1.8 |
| Reported Net Profit | 2.6 | 3.2 | 3.1 | 4.0 |
| Adj. Net Profit | 2.6 | 2.8 | 3.1 | 4.0 |

Source: DHH, Value Track Analysis

DHH Group: 20120PF – 2023E Balance Sheet

| (€mn) | 2020PF | 2021E | 2022E | 2023E |
|---|-------------|-------------|-------------|-------------|
| Net Fixed Assets | 18.7 | 23.9 | 24.0 | 23.8 |
| Net Working Capital | -2.3 | -1.5 | -2.4 | -2.6 |
| Severance Pay and Other Funds | 1.5 | 1.5 | 1.5 | 1.5 |
| Total Capital Employed | 14.9 | 20.9 | 20.1 | 19.7 |
| Group Net Equity | 16.4 | 20.0 | 23.2 | 27.3 |
| Net Fin. Position [Net debt (-)] | 1.5 | -0.9 | 3.1 | 7.6 |

Source: DHH, Value Track Analysis

DHH Group: 2020PF – 2023E Cash Flow Statement

| (€mn) | 2020PF | 2021E | 2022E | 2023E |
|------------------------------------|------------|-------------|------------|------------|
| EBITDA | 6.8 | 6.9 | 8.4 | 9.6 |
| Operating WC requirements | -0.3 | -0.8 | 0.9 | 0.2 |
| Capex (inc. RoU) | -1.2 | -3.5 | -3.8 | -3.5 |
| Change in provisions | 0.9 | 0.0 | 0.0 | 0.0 |
| OpFCF b.t. | 6.2 | 2.7 | 5.5 | 6.3 |
| Cash Taxes | -1.0 | -0.3 | -1.4 | -1.8 |
| OpFCF a.t. | 5.2 | 2.4 | 4.1 | 4.6 |
| Financial Investments / Other | -1.4 | -4.7 | 0.0 | 0.0 |
| Net Financial charges | -0.2 | -0.2 | -0.1 | -0.1 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Net Fin. Position | 3.7 | -2.4 | 4.0 | 4.5 |

Source: DHH, Value Track Analysis

M&A and corporate venture capital to complement organic growth

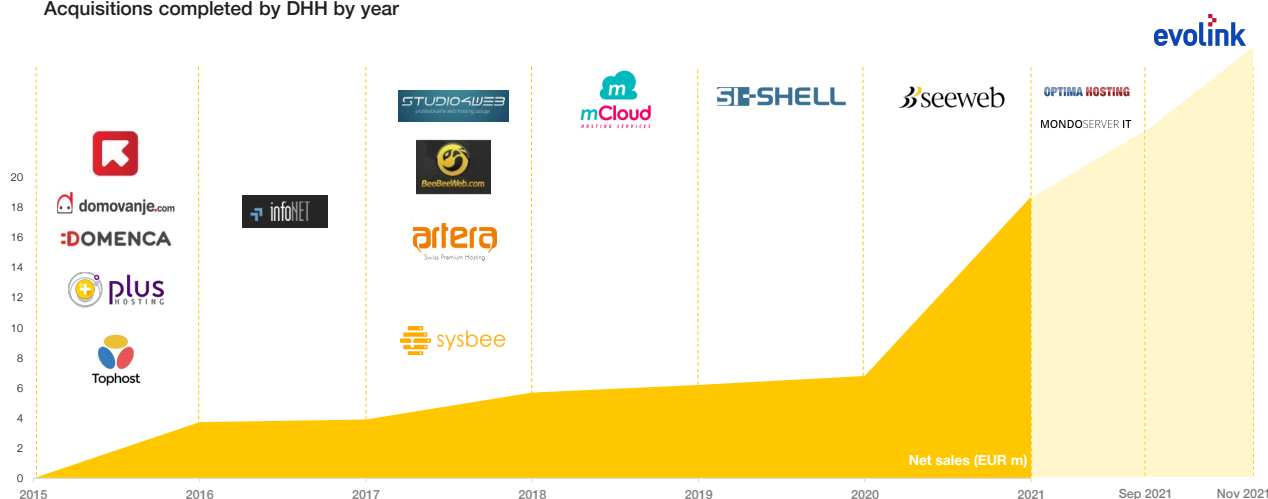
DHH has proven M&A skills and currently boasts some €9.5mn cash pile that we expect the company to utilize to continue growing by acquisition as it did in the recent past.

Indeed, more than ten acquisitions were finalized both before and after the IPO, in details:

- ◆ **2015** – In October, there have been the acquisitions of **Domenca** and **Domovanje**, two Slovenia brands involved in the domain registration and web hosting, as well the of **Plus HR** and **Plus RS**, market leaders in Croatia and Serbia respectively, and then, in November, the acquisition of **Tophost S.r.l.**, leading low-cost Italian web hosting player.
- ◆ **2016** – In November, the acquisition of **Infonet**, main player in the Croatian web hosting market.;
- ◆ **2017** – In February, 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 and the month next, the acquisition of the branch of **Studio4Web** active in low-cost web hosting in Croatia;
- ◆ **2018** – In October, the acquisition of **mCloud**, a cloud computing provider based in Serbia;
- ◆ **2019** – In December, the acquisition of **Si.Shell**, a business unit focused on the domain segment with around 1,800 active customers.
- ◆ **2020** – In May, the acquisition of **Seeweb**, a cloud computing company which offers SaaS, IaaS and PaaS services;
- ◆ **2021** – In March, the acquisition of **Optima Hosting**, a Croatian web hosting provider, in April the acquisition of the **Mondo Server**, a cloud hosting and cloud computing provider active in the South of Italy, and, finally, in November DHH acquired **Evolink**, a strong partner for Ethernet connectivity, datacenter and cloud services

DHH: Well-executed buy & build strategy

Acquisitions completed by DHH by year



Source: DHH

Investment case & Valuation update

Based on current market price and updated estimates, DHH is trading at 9.2x-16.5x-26.4x EV/EBITDA, EV/EBIT and P/E 2022E.

We update our fair value at €22.1 (down from €24.0), coming from the simple average of:

- ◆ DCF model (€24.4);
- ◆ Peers' analysis (€19.7).

At fair value, the stock would trade at 2022E multiples of 12.1x EV/EBITDA, 21.6x EV/EBIT and 34.3x P/E, at discount vs. peers on EV/EBITDA and at premium on EV/EBIT and P/E, supported by the following key points:

- ◆ **Strong revenue visibility** – Subscription business model featured by ~95% recurring revenues;
- ◆ **Best in class profitability** – EBITDA margin in excess of 35%;
- ◆ **Sound EBITDA cash conversion**, benefitting from being paid spot and then delivering its solutions in a subsequent stage;
- ◆ **M&A Value-creation capabilities** – As far as this point is concerned, we calculate that further €2.6 additional value per share can arise if DHH successfully employs the current cash availabilities in potential M&A deals finalized at multiples in line with historical ones (ca. 5x EV/EBITDA on average).

Peers' analysis

Based on 2022E-23E financial projections, and taking into consideration the average EV/EBITDA, EV/EBIT and P/E of peers including a cluster of companies operating in the tech space, and somehow exposed to same capital markets, we derive a fair equity valuation of €19.7 p/s.

DHH: Peers' stock trading multiples

| Company | EV / EBITDA (x) | | EV / EBIT (x) | | P/E (x) | |
|--------------------------------|-----------------|-------------|---------------|-------------|-------------|-------------|
| | 2022E | 2023E | 2022E | 2023E | 2022E | 2023E |
| Growens | 11.4 | 9.3 | nm | 21.2 | nm | 38.2 |
| Cyberoo | 8.2 | 3.6 | 11.9 | 4.4 | 18.6 | 7.7 |
| Neosperience | 6.1 | 4.1 | 12.9 | 6.7 | 16.5 | 9.9 |
| Relatech | 9.1 | 7.6 | 13.1 | 11.1 | 15.4 | 12.5 |
| Unidata | 10.5 | 8.2 | 18.9 | 13.9 | 23.6 | 29.7 |
| Digital 360 | 9.9 | 7.9 | 16.8 | 12.5 | 19.9 | 16.0 |
| Intred | 11.6 | 10.8 | 19.6 | 17.7 | 26.9 | 26.6 |
| Reevo | 10.8 | 7.6 | 15.1 | 10.7 | 25.6 | 18.7 |
| WIIT | 23.1 | 20.6 | nm | nm | nm | 42.7 |
| Gigas | 8.0 | 7.4 | 25.6 | 21.3 | nm | 43.2 |
| OVH | 20.3 | 16.8 | 14.5 | nm | nm | nm |
| Average Peers | 13.8 | 11.4 | 9.2 | 23.8 | 16.7 | 13.3 |
| DHH @ market price | 9.2 | 7.6 | 16.5 | 12.3 | 26.4 | 20.9 |
| <i>DHH discount vs Average</i> | <i>-15%</i> | <i>-19%</i> | <i>-18%</i> | <i>-5%</i> | <i>-2%</i> | <i>-8%</i> |

Source: Market Consensus, Value Track Analysis

DCF Valuation

Updating our DCF model returns a **€24.4 fair equity value per share**. This is based on:

- ◆ 9.0% WACC;
- ◆ 2% perpetuity growth rate;
- ◆ Target capital structure (i.e., net Debt at 30% of the Invested Capital).

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

| | | Perpetuity Growth Rate | | | | |
|------|-------|------------------------|-------|-------|-------|-------|
| | | 1.50% | 1.75% | 2.00% | 2.25% | 2.50% |
| WACC | 8.0% | 26.0 | 26.9 | 27.8 | 26.5 | 29.2 |
| | 8.5% | 25.1 | 25.7 | 26.1 | 26.7 | 27.4 |
| | 9.0% | 23.1 | 23.9 | 24.4 | 25.0 | 25.6 |
| | 9.5% | 21.8 | 22.6 | 23.1 | 23.6 | 24.2 |
| | 10.0% | 20.6 | 21.2 | 21.6 | 22.0 | 22.4 |

Source: Value Track Analysis

Calculating the additional value that can be generated through M&A

As we mentioned before, DHH has a proven business model based on growing also by acquisition.

If we assume that DHH keep devoting to M&A driven growth the excess cash available in its Balance Sheet, and we assume acquisition multiples in line with historical ones (ca. 5.0x EV/EBITDA pre synergies, or 4.0x “fully synergized”), we calculate that €2.0mn-€2.5mn additional EBITDA can be added. This would lead to €2.6 incremental value per share.

DHH: Possible Value Creation from further M&A deals (€/s)

| Simulation based on current market price | |
|--|---------------|
| DHH Market Price | €17.0 |
| EV/EBITDA 22E @ market price | 9.2x |
| EBITDA post Acquisition | €10.7m |
| EV at market multiple | €99.0m |
| Net Debt (+) Cash (-) post M&A | -€3.1m |
| Adjustments to EV (€mn) | -€3.0m |
| Market Cap. | €105m |
| Nosh | 4.9 |
| € p/s | €21.5 |
| M&A Value Creation (p/s) | €2.6 |

Source: Market Consensus, Value Track Analysis

Appendix: DHH portfolio of services / products

DHH offers a broad array of cloud computing and cloud hosting products / services 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

Cloud Server 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.

Based on customers' needs in terms of power and complexity of IT infrastructure, DHH 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.

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.

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.

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

DHH 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.

Evolink products / services

Thanks to the recent acquisition of Bulgarian company Evolink, DHH now also can offer:

- ◆ Provisioning of data transport services (from simple internet connectivity to advanced online streaming technology);
- ◆ Cybersecurity products (email protection, DDoS protection, firewalls);

We note that Evolink directly manages two data centers based in Bulgaria, and owns a virtual pan-European internet backbone connected to important foreign exchange points.

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