

Italy – IT Services

Paving the way for solid future developments

25th September 2019

H1-19 RESULT RELEASE

RIC: DGV.MI
BBG: DGV IM

Interim results offered top line double digit growth and a 8% progression of EBITDA. Thanks to its focus on large clients and PA, DGV was able once again to outperform the market. Throughout H1-19 DGV awarded a several multi-year contracts. The management is confident to achieve top line double digit growth and margin improvements in FY-19.

Rating:

Buy

Price Target:

€ 21.20

Upside/(Downside): 24.7%

Last Price: € 17.00

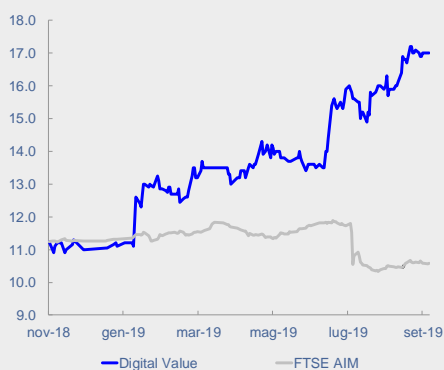
Market Cap.: € 168.3

1Y High/Low: € 17.50/€ 10.50

Free Float: 25.3%

Major shareholders:

DV Holding 67.2%



Stock price performance

	1W	3M	12M
Absolute	6.9%	25.9%	n.a.
Rel.to AIM Italia	5.8%	35.6%	n.a.
Rel.to Peers	9.0%	30.9%	n.a.

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PT at € 21.20 offers 24.7% upside: Buy reiterated

We have updated our model factoring in: 1) an increase in top line projections on the back of double digit growth in H1-19, 2) a fine-tuning of the operating costs, 3) higher capex in 2019, mainly due to the € 10.0m investments in technology for the engineering of the long-term contracts awarded in H1-19 and 4) the effects stemming from the IFRS 16 adoption. The result is a 5.9% and 3.8% avg. 2019-21 increase in Revenues and EBITDA respectively. As a consequence, the PT FD based on a multiple comparison stands unchanged at € 21.20/s, 24.7% upside. We reiterate our Buy recommendation on the stock.

Revenues up 18.1% to € 170.5m vs. 4% of the market

DGV focuses on Top Clients (namely Large Accounts and PA). This segment represents more than 50% of current IT demand in Italy, showing progressive polarisation of IT spending in Italy as well as in the main advanced economies and offers the fastest growth rates, superior to the market. In H1-19 revenues soared 18.1% to € 170.5m, thanks to DGV focus on the aforementioned segment and to the capability to obtain a few multi-year contracts for the digital transformation of Telco and Public Administration sectors. DGV outperformed the reference market, which was up 3-4% in the same period.

EBITDA increased by 7.9% to € 15.4m, 9.0% margin

EBITDA was up 7.9% to € 15.4m, 9.0% margin (9.9% in H1-18pf). Excluding the IFRS 16 effect (€ 0.5m), EBITDA totalled € 14.9m, 8.7% on turnover. The YoY comparison is unfavourable due to several lucrative contracts ended in H1-18 and a few opportunistic but low margin projects in H1-19. Net Profit amounted to € 9.4m, +2.2% YoY, 5.5% margin. The IFRS 16 adoption had a negligible impact on bottom line. NFP was € 9.6m (cash positive), after capex of € 10.0m and temporary seasonal WC cash absorption typical of the business. The figure compares with € 31.8m (cash positive) at end-18. The IFRS 16 adoption had a negative effect for € 1.7m on NFP.

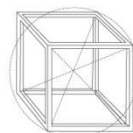
New key contract awards support top line and margin improvement visibility

During H1-19, DGV was awarded several multi-year key contracts, mainly in the IT segment: 1) a 2019-21 contract for € 7.5m for the maintenance and development of the sales systems of a leading Italian Healthcare player, 2) a 2019-23 tender for € 20.0m in the petrochemical sector, 3) an agreement with Sogei (the IT systems firm of the Italian Ministry of Economy) for € 18.0m, 4) a € 5.0m contract for cloud based technologies solutions for an Italian telco player and 5) the supply of datacentre solutions to the Italian Interior Ministry for more than € 15.0m. In addition, last June, the group was awarded the tender for the assistance services for an Italian player in gaming and payments, for € 12.0m in 2019-21.

Digital Value, key financials and ratios

€ m	2017PF	2018	2019e	2020e	2021e
Sales	258.0	296.2	328.5	363.4	404.3
EBITDA	19.7	24.0	27.1	31.7	36.5
EBIT	16.7	21.5	23.9	28.7	33.5
Net profit	10.8	14.8	14.9	18.0	21.2
NFP (cash)/debt	1.8	(31.8)	(32.8)	(56.2)	(90.7)
EBITDA margin	7.6%	8.1%	8.2%	8.7%	9.0%
EBIT margin	6.5%	7.2%	7.3%	7.9%	8.3%
EPS FD	1.08	1.48	1.49	1.80	2.12
EPS FD growth	-	37.3%	0.4%	21.0%	17.7%
DPS ord. €/s	0.00	0.00	0.45	0.54	0.64
Dividend Yield	0.00	0.00	2.6%	3.2%	3.8%
ROCE	18.2%	34.9%	31.2%	31.8%	31.6%
NWC/Sales	-6.9%	-25.5%	-18.6%	-16.8%	-17.5%
Free Cash Flow Yield FD	-	20.6%	0.6%	16.5%	23.7%
PER FD x *	-	11.5	11.4	9.4	8.0
EV/Sales FD x *	-	0.46	0.42	0.32	0.20
EV/EBITDA FD x *	-	5.7	4.9	3.5	2.1
EV/EBIT FD x *	-	6.4	5.8	4.0	2.4

* Multiples calculated including the IFRS 16 effect



DGV outperformed the reference market in H1-19

Interim results offered double digit growth on the top line and a 8% progression of EBITDA. Thanks to its focus on large clients and PA (firms and public entities with more than 500 employees, representing more than 50% of current domestic IT demand), DGV was able once again to outperform the market. Throughout H1-19 DGV was awarded several multi-year contracts. The management is confident to achieve top line double digit growth and margin improvements for FY-19.

Table 1 – Digital Value, H1-19 results summary

€ m	H1-19	H1-18pf	% YoY
Total Revenues	170.5	144.4	18.1
Raw material and processing	(128.7)	(108.3)	
Services	(19.0)	(14.4)	
Personnel expenses	(7.3)	(7.1)	
Other opex	(0.1)	(0.3)	
EBITDA	15.4	14.3	7.9
% margin	9.0	9.9	
D&A	(1.9)	(1.0)	
EBIT	13.5	13.3	1.2
% margin	7.9	9.2	
Financials	(0.3)	(0.7)	
Extraordinary	0.0	0.0	
Pre-Tax profit	13.2	12.6	4.3
% margin	7.7	8.7	
Income taxes	(3.8)	(3.4)	
Tax rate	28.7%	27.0%	
Minorities	(0.0)	0.0	
Net Profit	9.4	9.2	1.6
% margin	5.5	6.4	
NFP (cash)/debt	(9.6)	13.4	n.m.
EBITDA excl. IFRS 16	14.9	14.3	4.4
NFP excl. IFRS 16	(11.3)	13.4	n.m.

Source: Company data, CFO SIM

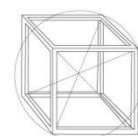
DGV was established in Sep-18 and the combination of the two companies, Itaware and ITD Solutions, effective as of 4-Sep-18. Pro-forma 2018 interim results are based on figures processed as if the combination of the two firms had taken place on 1-Jan-18.

In H1-19 revenues soared 18.1% to € 170.5m, thanks to DGV focus on the aforementioned segment and the capability in obtaining several multi-year contracts for the digital transformation of Telco and Public Administration sectors. **DGV outperformed the reference market**, which was up 3-4% in the same period.

EBITDA was up 7.9% to € 15.4m, 9.0% margin (9.9% in H1-18pf). Excluding the IFRS 16 effect (€ 0.5m), EBITDA totalled € 14.9m, 8.7% on turnover. **The comparison between H1-19 and H1-18 is unfavourable** since DGV was awarded a few key lucrative contracts at the end-17 with execution in the course of the first half of 2018. **Some current contracts with low profitability will allow DGV to acquire new key reference customers** and expand its presence in the Finance, Utilities and Industry markets. These jobs are relevant to penetrate future highly lucrative projects but margin dilutive in the short term.

In addition, in H1-18 the holding company Digital Value did not exist: in the first half of 2019 this company reported a loss of € 270k mainly linked to residual listing costs and ordinary operative expenses.

Several lucrative long-term contracts were obtained by DGV in the first part of the year, with execution projected to start in the second part of 2019 and with a duration in excess of 3/4 years. Therefore, the positive effects on profitability are anticipated only in the mid-term. The € 10m H1-19 capex in technology are related to these long-term projects.



The new contracts recently awarded do not foresee an increase in personnel costs. The increase in these costs in H1-19 is attributable to the need to hire senior managers for market development and technical specialists in application software. The effects of these employments are functional to future margin increase, to acquire new markets and to increase DGV presence in promising segments.

The increase in service costs, including also the re-sale services (i.e. services that DGV buys and re-sells to customers when all internal resources are full), was mainly linked to the increase in top line.

Net Profit amounted to € 9.4m, +2.2% YoY, 5.5% margin. The IFRS 16 adoption had a negligible impact on bottom line.

NFP was € 9.6m (cash positive), after capex for € 10.0m and WC temporary seasonal cash absorption, typical of the business. The figure compares with € 31.8m (cash positive) at end-18. The IFRS 16 adoption had a negative effect for € 1.7m on NFP.

Last 30-Apr the Acceleration condition occurred as the monthly average of daily share price exceeded € 13.30. Consequently 615,368 warrants were converted into 177,163 ordinary shares (ratio of 0.2879) at a subscription price of € 10 cents. The remainder 15 warrants not exercised were cancelled.

Estimates, Valuation & risks

We have updated our model factoring in: 1) an increase in top line projections on the back of double digit growth in H1-19, 2) a fine-tuning of the operating costs, 3) higher capex in 2019, mainly due to the € 10.0m investments in technology for the engineering of the long-term contracts awarded in H1-19 and 4) the effects stemming from the IFRS 16 adoption. The result is a **5.9% and 3.8% avg. 2019-21 increase in Revenues and EBITDA** respectively. As a consequence, PT FD based on a multiple comparison stands unchanged at € 21.10/s , **24.7% upside. We reiterate our Buy** recommendation on the stock.

We also used the DCF model. According to this approach, we assess a value of € 27.90/s FD (€ 26.50), corroborating the value obtained via the peer multiple methodology.

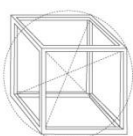
We believe DGV is unquestionably an interesting undervalued value investment opportunity. In an industry characterised by **steady growth projections**, DGV is a **fast growing cash generative player**, with upside potential arising from the active role it can play in this **unavoidably consolidating arena**. Our estimates do not take into account any external growth opportunity.

Market multiples

We conducted an analysis on a cluster of 14 companies operating in the digital IT system integrators segment.

Accenture – USA, multinational offering management and strategic consulting services, technology services and outsourcing solutions in a vast array of industries. Market capitalisation is € 116.0bn, sales FY1 € 39.3bn, and EBITDA FY1 is € 6.5bn (16.7% margin).

Alten – France, operates in engineering and technology consulting, provides support for its clients' development strategies in the fields of innovation, R&D and IT systems. Market capitalisation is € 3.6bn, turnover FY1 € 2.6bn, and EBITDA FY1 is € 293m (11.2% margin).



Altran Technologies – France, it is a multinational consulting firm operating in different fields of engineering. It provides services to aerospace, automotive, energy, rail, finance, healthcare and TLC. Market capitalisation is € 3.7bn, turnover FY1 € 3.2bn, and EBITDA FY1 is € 502m (15.5% margin).

Atos – France, Atos is a global leader in digital transformation. European leader in Cloud, Cybersecurity and High-Performance Computing, Atos provides end-to-end Orchestrated Hybrid Cloud, Big Data, Business Applications and Digital Workplace solutions through its Digital Transformation Factory, as well as transactional services through Worldline, the European leader in the payment industry. Market capitalisation is € 7.2bn, turnover FY1 € 11.5bn, and EBITDA FY1 is € 1.7bn (15.1% margin).

Aubay – France, Aubay is a digital services company and operates in markets with high added value, in France and elsewhere in Europe. From advice to all kinds of technological projects, Aubay accompanies the transformation and modernization of information systems in all sectors, including industry, R&D, telecommunications and infrastructure, and specifically major banks and insurance companies. Market capitalisation is € 455m, turnover FY1 € 427m, and EBITDA FY1 is € 47m (11.0% margin).

Capgemini – France, company providing IT consulting, outsourcing and professional services including application lifecycle services, big data analytics, supply chain management in several sectors including aerospace and defence, automotive, finance, industrial production, oil and gas, TLC. Market capitalisation is € 17.7bn, turnover FY1 € 14.2bn, and EBITDA FY1 is € 2.2bn (15.4% margin).

Computacenter – UK, Computacenter is a leading independent provider of IT infrastructure services, enabling users and their business in a digital world. The firm advises organisations on IT strategy, implements the most appropriate technology, optimises their performance, and manages customers' infrastructures. Market capitalisation is € 1.6bn, turnover FY1 € 5.6bn, and EBITDA FY1 is € 191m (3.4% margin).

Devoteam – France, group offers IT consulting services, system integration, project management, cyber security and outsourcing solutions. Market capitalisation is € 644m, turnover FY1 € 770m, and EBITDA FY1 is € 82m (10.6% margin).

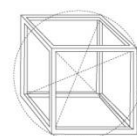
Econocom – France, it helps companies and public organisations in their digital transformation transition process. It sustains to get the most out of digital by focusing on users as the starting point for their digital transformation. Market capitalisation is € 690m, turnover FY1 € 2.8bn, and EBITDA FY1 is € 159m (5.6% margin).

Indra Sistemas – Spain, Indra Sistemas is a global technology and consulting company. It provides proprietary solutions in specific segments such as in Transport and Defence markets and in Digital Transformation Consultancy and Information Technologies in Spain and Latin America. Market capitalisation is € 1.4bn, turnover FY1 € 3.2bn, and EBITDA FY1 is € 352m (10.9% margin).

Reply – Italy, Reply is a highly specialised group, supporting leading industrial firms in defining and developing business models to optimise and integrate processes, applications and devices, using new technology and communication paradigms, such as Big Data, Cloud Computing, Digital Communication, Internet of Things, Mobile and Social Networking. Market capitalisation is € 1.9bn, turnover FY1 € 1.2bn, and EBITDA FY1 is € 170m (14.4% margin).

SeSa – Italy, Sesa is a reference strategic partner and service integrator of the IT Global Vendors, leader in Italy in distribution of value-added IT solutions for enterprises, integrating sector's leading value-added brands, particularly those active in the business segments. Market capitalisation is € 617m, turnover FY1 € 1.8bn, and EBITDA FY1 is € 88m (5.0% margin).

Sopra Steria Group – France, It is an information technology consultancy. The primary business areas of the company include consulting services, systems integration and solutions, integration of ERP solutions, implementation of application solutions, as well as subcontracting solutions for providing technical support to users and application maintenance and outsourcing services and operation of professional processes. Market capitalisation is € 2.3bn, turnover FY1 € 4.4bn, and EBITDA FY1 is € 464m (10.5% margin).



Tieto – Finland, It is an IT software and service company providing IT and product engineering services. The company provides services to financial services, public, healthcare & welfare, industrial and consumer services industries. Market capitalisation is € 1.7bn, turnover FY1 € 1.6bn, and EBITDA FY1 is € 240m (14.7% margin).

Size and profitability vary a lot within the samples, as well as expected growth rates. Accenture is the largest player in the sample in terms of size and offers the highest EBITDA margin (16.7% margin). The least profitable is Computacenter with a 3.4% EBITDA margin. Within the sample, **DGV is the smallest group** in terms of sales and EBITDA in absolute terms, and shows an EBITDA margin lower than peer median. However, **it offers higher projected growth, both in terms of top line and profitability compared to peer median.** If we look at pure systems integrators, DGV profitability is in line with European best in class.

Table 2 - Digital Value, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR ₁₈₋₂₁	EBITDA CAGR ₁₈₋₂₁	EBIT CAGR ₁₈₋₂₁	EPS CAGR ₁₉₋₂₁	NFP FY1	NFP/EBITDA
Accenture PLC	USA	115,969	39,334	6,550	16.7%	7.6%	11.1%	10.0%	7.7%	(4,975)	n.m.
Alten SA	France	3,571	2,618	293	11.2%	9.7%	13.6%	11.0%	9.5%	(66)	n.m.
Altran Technologies SA	France	3,683	3,248	502	15.5%	7.6%	13.6%	15.2%	14.1%	1,374	2.7
Atos SE	France	7,157	11,546	1,741	15.1%	-0.6%	6.2%	7.3%	8.4%	2,617	1.5
Aubay SA	France	455	427	47	11.0%	6.1%	7.1%	6.6%	6.9%	(18)	n.m.
Capgemini SE	France	17,740	14,192	2,186	15.4%	6.0%	12.9%	12.0%	9.2%	605	0.3
Computacenter PLC	UK	1,620	5,652	191	3.4%	7.1%	6.3%	8.3%	3.3%	(85)	n.m.
Devoteam SA	France	644	770	82	10.6%	12.2%	12.9%	14.2%	16.4%	(62)	n.m.
Econocom Group SE	France	590	2,833	159	5.6%	1.4%	12.5%	12.4%	14.7%	327	2.1
Indra Sistemas SA	Spain	1,412	3,224	352	10.9%	3.2%	10.4%	10.9%	14.4%	458	1.3
Reply SpA	Italy	1,924	1,175	170	14.4%	10.2%	14.3%	12.0%	11.8%	(89)	n.m.
SeSa SpA	Italy	617	1,785	88	5.0%	10.6%	17.3%	11.6%	10.1%	(45)	n.m.
Sopra Steria Group SA	France	2,319	4,429	464	10.5%	5.9%	20.1%	19.2%	18.8%	586	1.3
Tieto Oyj	Finland	1,727	1,629	240	14.7%	5.8%	10.5%	8.4%	7.2%	203	0.8
Median		1,825	3,028	267	11.1%	6.6%	12.7%	11.3%	9.8%	93	1.3
Digital Value SpA	Italy	168	329	27	8.2%	10.9%	15.0%	16.1%	19.3%	(33)	n.m.

Source: CFO Sim, Thomson Reuters Eikon

Table 3 - Digital Value, peer group EV multiple table

x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Accenture PLC	2.82	2.64	2.45	16.9	15.6	14.4
Alten SA	1.34	1.20	1.08	12.0	10.6	9.5
Altran Technologies SA	1.56	1.41	1.30	10.1	8.9	7.9
Atos SE	0.85	0.79	0.72	5.6	5.2	4.5
Aubay SA	1.02	0.93	0.83	9.3	8.4	7.6
Capgemini SE	1.29	1.17	1.05	8.4	7.6	6.8
Computacenter PLC	0.27	0.25	0.24	8.0	7.5	7.1
Devoteam SA	0.76	0.64	0.54	7.1	5.9	4.9
Econocom Group SE	0.32	0.31	0.28	5.8	5.2	4.0
Indra Sistemas SA	0.58	0.53	0.48	5.3	4.7	4.2
Reply SpA	1.56	1.38	1.22	10.8	9.4	8.0
SeSa SpA	0.32	0.29	0.26	6.5	5.8	5.3
Sopra Steria Group SA	0.66	0.59	0.54	6.3	5.3	4.5
Tieto Oyj	1.18	1.03	1.01	8.0	6.9	6.7
Median	0.94	0.86	0.78	8.0	7.2	6.8
Digital Value SpA*	0.42	0.32	0.20	4.9	3.5	2.1
% premium/(discount)	(55.0)	(63.0)	(74.4)	(38.7)	(51.2)	(68.3)

Source: CFO Sim, Thomson Reuters Eikon. * multiples are fully diluted

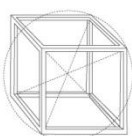


Table 4 - Digital Value, peer group EV/EBIT & price multiple table

X	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Accenture PLC	19.3	17.8	16.4	26.7	24.9	23.0
Alten SA	13.7	12.1	10.8	19.4	17.5	16.2
Altran Technologies SA	13.9	11.7	10.2	16.8	14.3	12.9
Atos SE	8.4	7.5	6.7	8.0	7.4	6.8
Aubay SA	10.0	9.1	8.1	15.9	14.9	14.0
Capgemini SE	10.6	9.4	8.5	15.9	14.6	13.3
Computacenter PLC	10.1	9.4	8.7	15.0	14.4	14.0
Devoteam SA	7.7	6.2	5.1	16.2	13.5	12.0
Econocom Group SE	7.3	6.4	5.3	8.3	7.1	6.3
Indra Sistemas SA	8.2	7.0	6.1	10.6	9.1	8.1
Reply SpA	12.8	11.1	9.4	18.8	17.0	15.0
SeSa SpA	9.3	8.4	7.5	17.7	15.9	14.6
Sopra Steria Group SA	8.9	7.1	6.0	11.7	9.5	8.3
Tieto Oyj	11.7	9.9	9.7	13.1	12.9	11.4
Median	10.1	9.2	8.3	15.9	14.4	13.1
Digital Value SpA*	5.8	4.0	2.4	11.4	9.4	8.0
% premium/(discount)	(42.3)	(56.5)	(71.1)	(28.4)	(34.4)	(39.0)

Source: CFO Sim, Thomson Reuters Eikon. * multiples are fully diluted

Italware and ITD Solutions have shown a solid growth trend and a lucrative profitability profile since their establishment, over 30 years ago. We believe DGV bases its roots on two well-known, successful and reliable firms and has to build a solid track record with investors. We believe **DGV stock deserves a discount to peers median not only due to the firm's small size but also due to the lack of decent stock liquidity** on the back of the listing on the AIM Italia.

Applying a 30% discount to peer multiples on peer average median for EV/EBITDA and EV/EBIT to DGV metrics we attain an **equity value of DGV of € 210.8m, or € 21.20/s**, 24.7% upside, using 2019-20 estimates and multiples (50-50 weighted, respectively), **in order to consider in the valuation part of the upside stemming from the higher than peer median growth perspectives**, and the preliminary impact of the recently awarded long term contract. Please note that 2019 EBITDA and NFP are to a certain extent settled via the Price Adjustment Shares mechanism, which protects new shareholders from the IPO in the event that DGV falls short of an EBITDA of € 25.6m and a NFP of € 21.0m (cash) in 2019. 2018 was protected from the PAS mechanism too: DGV largely exceeded PAS targets.

Table 5 - Digital Value, equity assessment, 1#3

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Median Peers (x)	0.94	0.86	0.78	8.0	7.2	6.8
DGV metric	328.5	363.4	404.3	27.1	31.7	36.5
NFP	32.8	56.2	90.7	32.8	56.2	90.7
DGV Equity Value	248.0	274.1	310.6	185.3	216.1	263.9
DGV Equity Value €/s (FD)	24.90	27.50	31.20	18.60	21.70	26.50
% upside/(downside)	46.5	61.8	83.5	9.4	27.6	55.9

Source: CFO Sim, Thomson Reuters Eikon

Table 6 - Digital Value, equity assessment, 2#3

€ m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Median Peers (x)	10.1	9.2	8.3	15.9	14.4	13.1
DGV metric	23.9	28.7	33.5	14.9	18.0	21.2
NFP	32.8	56.2	90.7			
DGV Equity Value	200.8	241.2	285.9	165.7	180.8	194.5
DGV Equity Value €/s (FD)	20.10	24.20	28.70	16.60	18.10	19.50
% upside/(downside)	18.2	42.4	68.8	(2.4)	6.5	14.7

Source: CFO Sim, Thomson Reuters Eikon

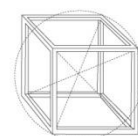


Table 7 - Digital Value, equity value assessment, 3#3

€ m	FY1	FY2	FY3
EV/EBITDA	185.3	216.1	263.9
EV/EBIT	200.8	241.2	285.9
Weighting	50.0%	50.0%	0.0%
Equity Value	210.9		
Per share FD €/s	21.20		
% upside/(downside)	24.7%		

Source: CFO Sim, Thomson Reuters Eikon

DCF

In the valuation via the DCF method, we assess explicit estimates until 2023 and cautious long term growth of 1.0%. Cash flows are discounted back at an weighted average cost of capital calculated according to the following parameters:

Table 8 - WACC derived from:

Interest costs, pre-tax	2.0%
Tax rate	35.0%
Int. costs, after taxes	1.3%
Risk premium, incl. small size premium	9.0%
Risk-free (10Y Gov. Bond 2W average)	1.20%
Beta levered (x)	1.03
Required ROE	10.5%

Source: CFO Sim, Thomson Reuters Eikon

Risk premium at 9.0% factors in the minute size of the company and basically all AIM Italia market segment related concerns and disquiets that an investor might have. **Beta has been assumed conservatively at 1.03x**. The WACC is accordingly computed using 20/80% debt/equity long term well sustainable balance sheet structure.

Table 9 - Digital Value, DCF model

€ k	2019e	2020e	2021e	2022e	2023e	Term. Val.
EBIT	23.9	28.7	33.5	33.5	33.5	
Tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	
Operating profit (NOPAT)	15.5	18.6	21.8	21.8	21.8	
Change working capital	(14.6)	(0.0)	9.6	9.6	(1.0)	
Depreciation	3.2	3.1	3.0	3.0	2.0	
Investments	(12.0)	(2.0)	(2.0)	(2.0)	(2.0)	
Free Cash Flows	(7.9)	19.7	32.4	32.4	20.8	275.2
Present value	(7.7)	17.7	26.8	24.7	14.6	193.3
WACC	8.6%	8.6%	8.6%	8.6%	8.6%	
Long-term growth rate	1.0%					

Source: CFO Sim

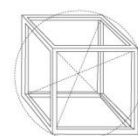


Table 10 – Digital Value, DCF derived from:

€ m	
Total EV present value € m	269.5
thereof terminal value	71.7%
NFP last reported	9.6
Pension provision last reported	(1.3)
Equity value € m	277.8
#m shares fully diluted	9.97
Equity value €/s	27.90
% upside/(downside)	64.1%

Source: CFO Sim

The result of our DCF model set up an equity value of € 277.8m for Digital Value, 27.90/s fully diluted (€ 26.50), 64.1% upside.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value/s of between € 25.45-31.01/s (perpetuity range between 0.00% and 2.00%), while 2) compared to changes in the free risk rate produces an equity value/s of € 25.32-30.99/s (free risk range between 2.20% and 0.20%) and 3) compared to changes in the risk premium, including small size premium results into an equity value/s of € 23.10-35.22/s (risk premium range between 11.00% and 7.00%).

Table 11 – Digital Value, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	76.1	76.1	76.1	76.1	76.1	76.1	76.1	76.1	76.1
PV of terminal value	169.2	174.7	180.5	186.7	193.3	200.3	207.9	216.0	224.6
Total value	245.4	250.9	256.7	262.9	269.5	276.5	284.0	292.1	300.8
NFP last reported	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Pension provision last reported	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Equity value	253.7	259.2	265.0	271.2	277.8	284.8	292.4	300.4	309.1
Equity value/share €	25.45	26.00	26.58	27.20	27.90	28.57	29.32	30.13	31.01

Source: CFO Sim

Table 12 – Digital Value, equity value sensitivity to changes in free risk rate

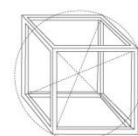
€ m	0.20%	0.45%	0.70%	0.95%	1.20%	1.45%	1.70%	1.95%	2.20%
Present value of CF	77.8	77.4	77.0	76.6	76.1	75.7	75.3	74.9	74.5
PV of terminal value	222.8	214.8	207.2	200.1	193.3	186.9	180.8	175.1	169.6
Total value	300.7	292.2	284.2	276.6	269.5	262.6	256.2	250.0	244.1
NFP last reported	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Pension provision last reported	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Equity value	309.0	300.5	292.5	285.0	277.8	271.0	264.5	258.3	252.4
Equity value/share €	30.99	30.15	29.34	28.58	27.90	27.18	26.53	25.91	25.32

Source: CFO Sim

Table 13 – Digital Value, equity value sensitivity to changes in risk premium

€ m	7.00%	7.50%	8.00%	8.50%	9.00%	9.50%	10.00%	10.50%	11.00%
Present value of CF	79.6	78.7	77.9	77.0	76.1	75.3	74.5	73.6	72.8
PV of terminal value	263.1	242.2	223.8	207.7	193.3	180.5	169.0	158.5	149.1
Total value	342.8	320.9	301.7	284.7	269.5	255.8	243.4	232.2	222.0
NFP last reported	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Pension provision last reported	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Equity value	351.1	329.3	310.0	293.0	277.8	264.1	251.8	240.5	230.3
Equity value/share €	35.22	33.03	31.10	29.39	27.90	26.49	25.25	24.13	23.10

Source: CFO Sim



Peer stock performance

Digital Value was listed on AIM Italia (Alternative Investment Market) on **8 November 2018 at € 10.0/share**, corresponding to a market **capitalisation post money of € 89.1m** (including the Price Adjustment Shares held by Digital Value core shareholders, see details above). Adopting the same approach used in setting up the peer sample for assessing the value of DGV, we defined a panel of 14 firms operating in the digital IT systems integrators segment. DGV consistently outperformed peers and indexes.

Table 14 - Digital Value, peer group absolute performance

%	1D	1W	1M	3M	6M	YTD	1Y
Accenture PLC	(1.4)	(2.5)	(3.6)	2.8	13.9	34.8	10.1
Alten SA	4.2	1.4	(1.6)	(0.2)	12.3	45.3	13.4
Altran Technologies SA	(0.6)	(0.4)	(1.3)	2.5	45.5	105.1	83.7
Atos SE	1.9	(1.4)	(2.5)	(8.5)	2.7	23.8	(17.8)
Aubay SA	2.1	7.6	5.2	10.0	13.1	22.9	(12.0)
Capgemini SE	0.7	(3.2)	(1.1)	(5.5)	1.2	22.5	(3.5)
Computacenter PLC	0.0	(1.7)	(6.5)	(4.4)	16.9	25.0	(3.7)
Devoteam SA	(0.3)	0.6	(18.3)	(23.3)	(21.6)	(6.1)	(31.3)
Econocom Group SE	0.2	(3.8)	(13.2)	(20.9)	(31.8)	(15.3)	(15.3)
Indra Sistemas SA	(0.8)	1.7	17.9	(9.9)	(17.2)	(2.7)	(16.7)
Reply SpA	1.0	(1.5)	(2.6)	(14.6)	(9.3)	16.9	(11.4)
SeSa SpA	0.4	2.8	20.3	40.7	40.9	72.2	43.7
Sopra Steria Group SA	0.9	(2.5)	(4.1)	16.8	10.9	40.4	(20.8)
Tieto Oyj	(1.4)	(2.9)	4.8	(8.9)	(13.0)	(0.9)	(13.9)
Median	0.3	(1.5)	(2.0)	(4.9)	6.8	23.4	(11.7)
Digital Value SpA	0.0	0.6	6.9	25.9	24.1	54.5	n.a.

Source: Thomson Reuters Eikon

Table 15 – Digital Value, relative performances

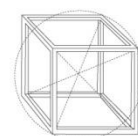
%	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	0.5	1.5	3.2	25.1	20.3	38.7	n.a.
to EUROSTOXX	0.1	0.7	2.6	23.9	19.6	38.7	n.a.
to FTSE Italia All Share	(0.0)	0.2	2.6	22.4	21.1	36.2	n.a.
to FTSE STAR Italia	(0.5)	0.4	2.2	24.6	23.2	40.0	n.a.
to FTSE AIM Italia	(0.2)	1.2	5.8	35.6	32.3	58.0	n.a.
to Peer Median	(0.3)	2.1	9.0	30.9	17.3	31.2	n.a.

Source: CFO Sim

Risks

The principal investment **risks** in Digital Value include:

- Risks linked to the postponement of some key projects;
- Risks due to competition in some segments, which might put margins or top line developments under pressure in the short term.
- Impact on economics and balance sheet profile triggered by a deep decline in local and global economic growth;
- Dilution on profitability stemming from a potential acquisition campaign;
- The departure of one of few key relevant people.



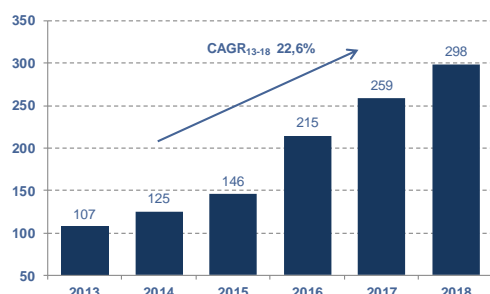
The company at a glance

Digital Value originates from the combination of two domestic IT systems integrators, Itaware and ITD Solutions, with more than 30 years of experience in the field. The group supports the digital transformation of its customers through an offer of customised solutions and services. Headquartered in Milan, DGV (Digital Value) focuses on large accounts, firms with more than 500 employees, accounting for more than 50% of total IT spending in Italy in 2017 and the most promising segment in the IT service arena in terms of growth.

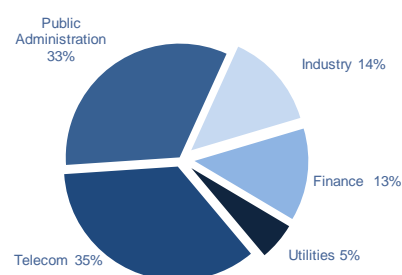
The group boasts key expertise in network infrastructure and data centers, security, network testing and monitoring, workstation management, Help Desk, data management and analysis, ERP systems management, retail applications, information systems on premise support and governance, outsourcing and cloud. According to Simi elaborations and based on 2019 CFO estimates, DGV is the 10th player in the IT provider industry in Italy.

With 205 employees DGV reported pro-forma 2018 Total Revenues of € 298.1m, EBITDA of € 24.0m (8.1% margin), € 14.8m Net Profit and a Net Financial Position of € 31.8m (cash positive). With Working Capital structurally negative, ROE of 29.2% and ROCE of 34.9%, DGV has a well-balanced and lucratively allocated capital structure. Currently 100% of the business is generated in Italy. .

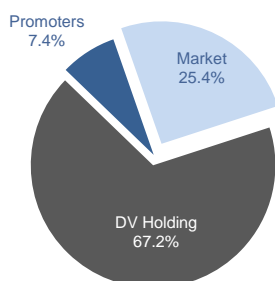
2013-18 top line progression



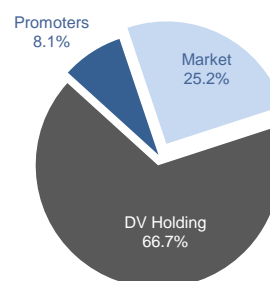
FY-18 top line breakdown by sector



Current shareholders structure



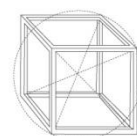
Fully diluted shareholders structure



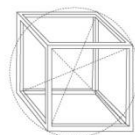
Peers group multiples table

EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Accenture PLC	2.82	2.64	2.45	16.9	15.6	14.4	19.3	17.8	16.4
Alten SA	1.34	1.20	1.08	12.0	10.6	9.5	13.7	12.1	10.8
Altran Technologies SA	1.56	1.41	1.30	10.1	8.9	7.9	13.9	11.7	10.2
Atos SE	0.85	0.79	0.72	5.6	5.2	4.5	8.4	7.5	6.7
Aubay SA	1.02	0.93	0.83	9.3	8.4	7.6	10.0	9.1	8.1
Capgemini SE	1.29	1.17	1.05	8.4	7.6	6.8	10.6	9.4	8.5
Computacenter PLC	0.27	0.25	0.24	8.0	7.5	7.1	10.1	9.4	8.7
Devoteam SA	0.76	0.64	0.54	7.1	5.9	4.9	7.7	6.2	5.1
Econocom Group SE	0.32	0.31	0.28	5.8	5.2	4.0	7.3	6.4	5.3
Indra Sistemas SA	0.58	0.53	0.48	5.3	4.7	4.2	8.2	7.0	6.1
Replay SpA	1.56	1.38	1.22	10.8	9.4	8.0	12.8	11.1	9.4
SeSa SpA	0.32	0.29	0.26	6.5	5.8	5.3	9.3	8.4	7.5
Sopra Steria Group SA	0.66	0.59	0.54	6.3	5.3	4.5	8.9	7.1	6.0
Tieto Oyj	1.18	1.03	1.01	8.0	6.9	6.7	11.7	9.9	9.7
Median	0.94	0.86	0.78	8.0	7.2	6.8	10.1	9.2	8.3
Digital Value SpA*	0.42	0.32	0.20	4.9	3.5	2.1	5.8	4.0	2.4

Source: CFO Sim, Thomson Reuters Eikon. * FD multiples



Income statement (€ m)	2017PF	2018	2019e	2020e	2021e
Sales	258.0	296.2	328.5	363.4	404.3
Value of Production	259.0	298.1	329.5	364.1	405.1
Raw material and processing	(203.9)	(226.1)	(251.1)	(277.8)	(309.1)
Services	(22.5)	(33.9)	(35.3)	(37.1)	(40.5)
Personnel expenses	(12.7)	(13.2)	(15.1)	(16.7)	(18.2)
Other opex	(0.3)	(0.9)	(1.0)	(0.7)	(0.8)
EBITDA	19.7	24.0	27.1	31.7	36.5
D&A	(2.9)	(2.6)	(3.2)	(3.1)	(3.0)
EBIT	16.7	21.5	23.9	28.7	33.5
Financials	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Re/(Devaluation) of financial assets	0.0	(0.0)	0.0	0.0	0.0
Extraordinary	(0.0)	0.0	0.0	0.0	0.0
Pre-Tax profit	15.7	20.5	22.9	27.7	32.5
Income taxes	(4.9)	(5.7)	(8.0)	(9.7)	(11.4)
Minorities	0.0	0.0	0.0	0.0	0.0
Net Profit	10.8	14.8	14.9	18.0	21.2
Net Profit Adjusted	10.8	14.8	14.9	18.0	21.2
EBITDA incl. IFRS 16	-	-	28.1	32.7	37.5
Balance sheet (€ m)	2017PF	2018	2019e	2020e	2021e
Net Working Capital	(17.9)	(75.9)	(61.3)	(61.2)	(70.8)
Net Fixed Assets	28.7	17.8	26.5	25.5	24.5
Equity Investments	1.8	0.0	0.0	0.0	0.0
Other M/L Term A/L	35.9	76.9	67.4	58.6	50.4
Net Invested Capital	48.6	18.8	32.6	22.8	4.1
Net Financial Debt	1.8	(31.8)	(32.8)	(56.2)	(90.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Group's Shareholders Equity	46.8	50.6	65.4	79.0	94.8
Financial Liabilities & Equity	48.6	18.8	32.6	22.8	4.1
NFP incl. IFRS 16	-	-	(31.2)	(54.5)	(89.1)
Cash Flow statement (€ m)	2017PF	2018	2019e	2020e	2021e
Total net income	-	14.8	14.9	18.0	21.2
Depreciation	-	2.6	3.2	3.1	3.0
Other non-cash charges	-	(42.2)	9.6	8.8	8.2
Cash Flow from Oper. (CFO)	-	(24.8)	27.6	29.8	32.3
Change in NWC	-	58.0	(14.6)	(0.0)	9.6
FCF from Operations (FCFO)	-	33.2	13.0	29.8	41.9
Net Investments (CFI)	-	1.4	(12.0)	(2.0)	(2.0)
Free CF to the Firm (FCFF)	-	34.6	1.0	27.8	39.9
CF from financials (CFF)	-	(34.7)	(0.0)	(4.5)	(5.3)
Free Cash Flow to Equity (FCFE)	-	(0.1)	1.0	23.3	34.6
Financial ratios	2017PF	2018	2019e	2020e	2021e
EBITDA margin	7.6%	8.1%	8.2%	8.7%	9.0%
EBIT margin	6.5%	7.2%	7.3%	7.9%	8.3%
Net profit margin	4.2%	5.0%	4.5%	4.9%	5.2%
Tax rate	31.4%	27.8%	35.0%	35.0%	35.0%
Op NWC/Sales	-6.9%	-25.5%	-18.6%	-16.8%	-17.5%
Interest coverage x	0.06	0.05	0.04	0.03	0.03
Net Debt/EBITDA x	0.09	(1.32)	(1.21)	(1.77)	(2.48)
Debt-to-Equity x	0.04	(0.63)	(0.50)	(0.71)	(0.96)
ROIC	22.2%	78.7%	45.5%	78.8%	521.4%
ROCE	18.2%	34.9%	31.2%	31.8%	31.6%
ROACE	-	28.0%	34.6%	34.4%	34.2%
ROE	23.0%	29.2%	22.7%	22.8%	22.3%
Payout ratio	0.0%	0.0%	30.0%	30.0%	30.0%
Per share figures	2017PF	2018	2019e	2020e	2021e
Number of shares # m	8.96	8.96	8.96	8.96	8.96
Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
Average Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97	9.97
EPS stated FD €	1.08	1.48	1.49	1.80	2.12
EPS adjusted FD €	1.08	1.48	1.49	1.80	2.12
EBITDA €	1.97	2.41	2.72	3.18	3.66
EBIT €	1.68	2.15	2.39	2.87	3.37
BV €	4.69	5.08	6.57	7.92	9.51
FCFO €	-	3.33	1.31	2.99	4.20
FCFF €	-	3.47	0.10	2.79	4.00
FCFE €	-	(0.01)	0.10	2.34	3.47
Dividend €	0.00	0.00	0.45	0.54	0.64

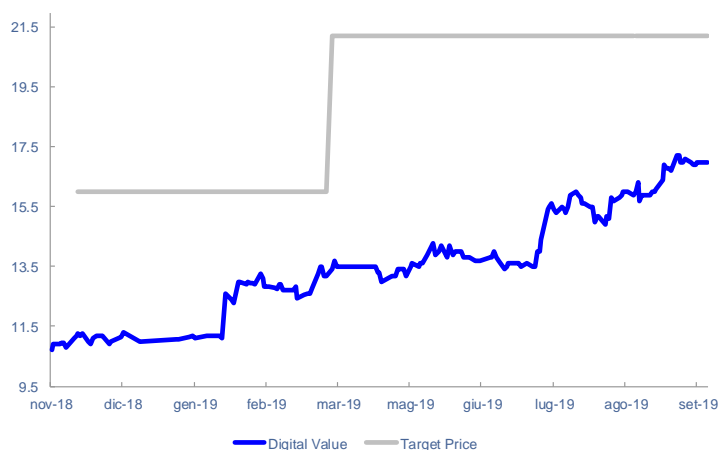


ANALYST CERTIFICATION

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DATE	TARGET PRICE	RATING
25/09/2019	€21.20	BUY
17/05/2019	€21.20	BUY
25/03/2019	€21.20	BUY
21/11/2018	€16.00	BUY

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- a **BUY** rating is assigned if the target price is at least 15% higher than the market price;
- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/- 15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

