

Italy – IT Services

Systematic integrator of value, returns and growth

21st November 2018

INITIATION OF COVERAGE

RIC: DGV.MI
BBG: DGV IM

DGV originates from the combination of two leading domestic systems integrators. The group is a fast growing, profitable highly cash-flow generative player, well positioned to play a key role in this unavoidably consolidating arena.

Rating:

Buy

Price Target:

€ 16.00

Upside/(Downside): 42.9%

Last Price: € 11.20

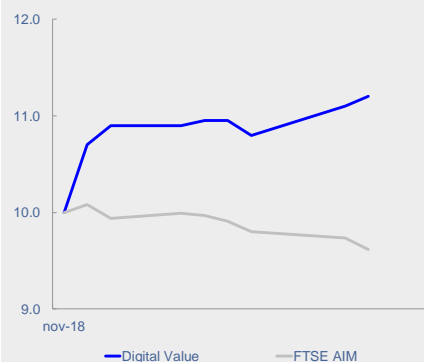
Market Cap.: € 100.6

1Y High/Low: € 11.20/€ 10.50

Free Float: 25.3%

Major shareholders:

DV Holding 74.0%



Stock price performance

	1W	3M	12M
Absolute	+2.3%	n.a.	n.a.
Rel.to AIM Italia	+6.1%	n.a.	n.a.
Rel.to Peers	+7.4%	n.a.	n.a.

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Initiation with Buy, 42.9% upside

CFO Sim initiates coverage of DGV with a Buy recommendation and a PT fully diluted based on a multiple comparison of € 16.00/s, 42.9% upside. We believe DGV is an interesting value investment opportunity. In an industry characterised by projected steady growth in the coming years, DGV is a fast growing highly cash flow 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.

Digital Value sustains and supports digital transformation

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 the total IT spending in Italy in 2017 and the most promising segment in the IT service arena in terms of growth.

EBITDA and EBIT CAGR₁₇₋₂₀ of 13.7% and 17.2%

CFO Sim expects top line to show a 9.8% CAGR₁₇₋₂₀. The systems integrator business presents low operating leverage. CFO Sim expects a certain scale and scope benefits for DGV, arising from the integration between Itaware and ITD Solutions: EBITDA and EBIT CAGR₁₇₋₂₀ is 13.7% and 17.2% respectively, vs. 9.8% of top line. Capital expenditures are pretty low: cumulated capex are projected at € 5.0m in 2018-20. The operating cash flow translates soundly into FCF: EBITDA/FCF conversion is estimated in excess of 50% on average in 2018-20. The DGV cash pile is projected to enlarge up to € 36.5m at end-20. 30% of net profit is projected to be distributed as of 2019: dividend yield is appealing.

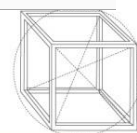
The 11th player in a growing, consolidating sector

DGV consolidates and magnifies Itaware and ITD Solutions skills, track record, expertise and achievements. DGV has developed a solid ecosystem consisting of the main technology suppliers that allows the group to propose effective and customized solutions via its network of highly skilled professionals distributed throughout the country with which DGV is able to manage every phase of the lifecycle of an ICT project. DGV boasts an even more complete and integrated offer in the field of IT Solutions and Services, with areas of specializations and high growth potential. Enlarged size embodies higher critical mass, solidity and business credentials even more effective to further penetrate existing and new potential customers and segments. Stronger balance sheet solidity allows a significant firepower to play a primary role in the definite further consolidation process of the sector.

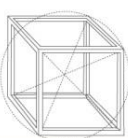
Digital Value, key financials and ratios

€ m	2017PF	2018e	2019e	2020e
Sales	258.0	278.0	307.4	342.0
EBITDA	19.7	22.6	25.6	28.9
EBIT	16.7	20.6	23.6	26.9
Net profit	10.8	12.6	14.7	16.8
NFP (cash)/debt	1.8	(15.1)	(25.4)	(36.5)
EBITDA margin	7.6%	8.1%	8.3%	8.4%
EBIT margin	6.5%	7.4%	7.7%	7.9%
EPS FD	1.08	1.26	1.47	1.69
EPS FD growth	-	16.6%	16.9%	14.6%
DPS ord. €/s	0.00	0.00	0.49	0.56
Dividend Yield	0.00	0.00	4.4%	5.0%
ROCE	18.2%	28.0%	27.6%	27.5%
NWC/Sales	-6.9%	-5.9%	-2.3%	-0.3%
Free Cash Flow Yield FD	-	16.8%	10.2%	15.4%
PER FD x	-	8.9	7.6	6.6
EV/Sales FD x	-	0.35	0.28	0.22
EV/EBITDA FD x	-	4.3	3.4	2.6
EV/EBIT FD x	-	4.7	3.7	2.8

Multiples are Fully Diluted: PAS, warrants and special shares converted into ordinary shares



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1. Investment summary

Digital Value originates from the combination of two domestic IT systems integrators, Italware 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 the total IT spending in Italy in 2017 and the most promising segment in the IT service arena in terms of growth.

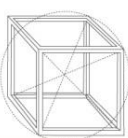
Digital Value was listed on AIM Italia (Alternative Investment Market) on **8 November 2018 at € 10.00/share**, corresponding to a market **capitalization post money of € 89.1m**. **The IPO concretised via a Club Deal**, with IPO Club as anchor investor: it is an innovative Italian alternative closed investment fund, reserved and managed by Azimut and is dedicated to medium-term investments in development projects. The € 22.5m **rights issue proceeds financed the creation of DGV, via the integration of Italware and ITD Solution**.

DGV operates in the Information Technology Provider sector in Italy. Growth here is more than double GDP growth and concentrated in the same areas characterising IT spending growth worldwide. The driver is technological innovation: 1) digital transformation, 2) managed and security services and 3) the cloud. The market is characterised by the adoption of the modality 'technology as a service' and the switch from hardware and software to Cloud services, at infrastructure and application levels. **DGV focuses on Top Clients** (firms and public entities with more than 500 employees). **It represents 53% of the current Information Technology demand in Italy and presents the fastest growth rates** within the industry. In an industry where size matters, DGV demonstrated the capability and competences to outperform the market.

CFO Sim expects top line to show a 9.8% CAGR₁₇₋₂₀, driven by the Industry and Finance sectors. **The systems integrator business, is characterised by a high degree of variable costs** (in excess of 90% for DGV): the operating leverage is therefore limited. **CFO Sim expects certain scale and scope benefits for DGV**, arising from the integration between Italware and ITD Solutions: **EBITDA and EBIT CAGR₁₇₋₂₀ is 13.7% and 17.2%** respectively, vs. 9.8% of top line. Capital expenditures are pretty low: cumulated capex are projected at € 5.0m in 2018-20. **The operating cash flow translates soundly into free cash flow**: EBITDA/FCF conversion is estimated in excess of 50% on average in 2018-20. As a result, the DGV cash pile is projected to enlarge up to € 36.5m at end-20. **30% of net profit** is projected to be distributed as of 2019: **dividend yield is appealing**. 2018-19 EBITDA and NFP are settled via the Price Adjustment Shares mechanism, which protects shareholders in the event that DGV falls short of an EBITDA of € 22.6m and € 25.6m in 2018/19 and a NFP of € 15.0m and € 21.0m (cash).

CFO Sim initiates coverage of DGV with a Buy recommendation and a PT fully diluted based on a multiple comparison of € 16.00/s, 42.9% upside. **We believe DGV is an interesting value investment opportunity**. In an industry characterised by projected **steady growth** in the coming years, DGV is a **fast growing highly cash flow 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.

The principal investment **risks** in Digital Value include: 1) Risks linked to the postponement of some projects; 2) Risks due to competition, which might put margins or top line developments under pressure in the short term; 3) Impact on economics and balance sheet profile triggered by a deep decline in local and global economic growth; 4) Dilution on profitability stemming from the acquisition campaign; 5) The departure of one of few key relevant people.



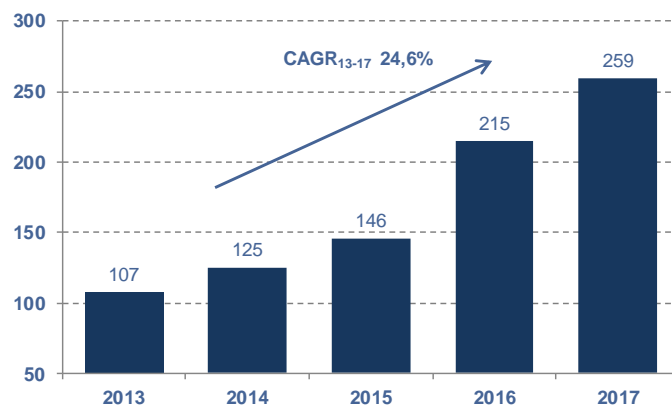
2. Digital Value in a nutshell

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 the 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, workstations 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 2018 CFO estimates, DGV is the 11th player in the IT provider industry in Italy.

With 201 employees DGV reported pro-forma 2017 Value of Production of € 259.0m, EBITDA of € 19.7m (7.6% margin), € 10.8m Net Profit and a Net Financial Position of € 1.8m (debt). With Working Capital structurally negative, ROE of 23.0% and ROCE of 18.2%, **DGV has a well-balanced and lucratively allocated capital structure.** Currently 100% of the business is generated in Italy.

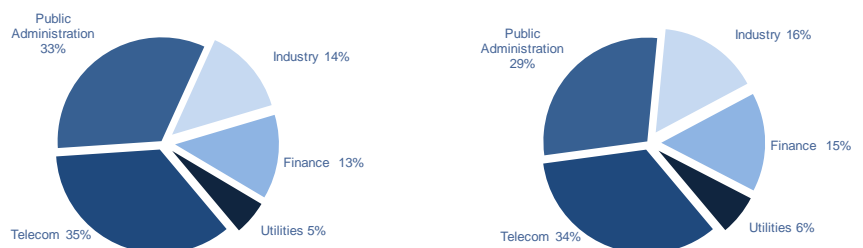
Chart 1 – Digital Value, 2013-17 top line progression



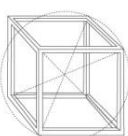
Source: Company data

DGV has almost 2,500 customers, distributed mainly in 5 sectors: Public Administration, Telecom, Industry, Finance and Utilities. **The group has more than 450 technical and technological certifications**, a key requirement for properly competing in this rather concentrated and unavoidably furtherly consolidating industry.

Chart 2 – Digital Value, 2017 and H1-18 VoP breakdown by sectors



Source: Company data



3. The Digital Value listing

Digital Value was listed on AIM Italia (Alternative Investment Market) on **8 November 2018 at € 10.0/share**, corresponding to a market **capitalization post money of € 89.1m** (including the Price Adjustment Shares held by Digital Value core shareholders, see details below). **The IPO concretised via a Club Deal**, with IPO Club as anchor investor: it is an innovative Italian alternative closed investment fund, reserved and managed by Azimut and is dedicated to medium-term investments in development projects. The **€ 22.5m rights issue proceeds financed the creation of DGV, via the integration of Italware and ITD Solution.**

If DGV fails to meet growth and NFP targets for 2018 and 2019, i.e. EBITDA of € 22.6m and € 25.6m and positive NFP for € 15.0m and € 21.0m, respectively, the corresponding value of the **Price Adjustment Shares** (a total of 2.7m shares) **will be returned pro-quota to the market, via the cancellation of the shares**, obtaining the additional effect of reducing the acquisition multiple. The EBITDA and NFP target achievement might include external growth via acquisitions.

The **two tranches of Price Adjustment Shares**, however, **will automatically be converted** into a corresponding number of ordinary shares if, as from 8-Nov-18 (first day of trading), **the ordinary shares will reach a weighted average solar monthly value higher than € 13.30 for at least six solar months**, even non-consecutive, in the twelve months prior to the conversion.

60,000 special shares were assigned to the promoters (IPO Club, Electa Ventures and Azimut Global Counseling), with a progressive 24m lock-up, convertible 7x into ordinary shares in 5 tranches: at the IPO, at € 11.0, at € 12.0, at € 13.0 and at € 13.0 from 24th to 60th post IPO.

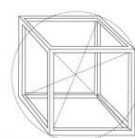
Simultaneously to the capital increase of € 22.5m, for each ordinary share subscribed a **warrant was distributed, semi-cashless (€ 0.10 per share), strike at € 9.50 with the compulsory conversion into ordinary shares if the monthly average of daily weighted share price exceeds € 13.30**. In this case, warrant holders are required to subscribe shares at the share subscription price of € 10 cents, at the ratio of 0.2879 share each warrant held.

Noteworthy, amongst **Digital Value Holding** shareholders, in addition to founders and senior management of Italware and IDT Solutions (79.8% Alessandro Rossi, 5.7% Riccardo Benedini and 5.7% Carlo Brigada), **Sesa holds 6.0% of the holding company**. Sesa is a listed (STAR segment of Borsa Italiana, market capitalisation of some € 400m) leading domestic player in the value-added IT solutions sector for business and professional segment, focused on SME, with sales in excess of € 1.3bn and over 1,600 employees. **Alessandro Fabbroni, Sesa CEO, is a DGV board member.**

Table 1 – Digital Value, shareholder structure

Shareholders	Issued number of shares			Fully diluted number of shares		
	#m	%	€ m*	#m	%	€ m, @ 13.30/s
Digital Value Holding	3.982	44.3%	44.6	6.652	66.7%	86.5
Price Adjustment Shares	2.671	29.7%	29.9	-	0.0%	-
Total Digital Value Holding	6.652	74.0%	74.5	6.652	66.7%	86.5
IPO Club	0.700	7.8%	7.8	0.801	8.0%	10.4
IPO Club warrants	-	0.0%	-	0.194	1.9%	2.5
Electa Ventures Srl	0.044	0.5%	0.5	0.221	2.2%	2.9
Azimut Global Counseling Srl	0.015	0.2%	0.2	0.074	0.7%	1.0
Market	1.575	17.5%	17.6	1.575	15.8%	20.5
Market warrants	-	0.0%	-	0.453	4.5%	5.9
Total Free Float	2.334	26.0%	26.1	3.318	33.3%	43.1
Total	8.986	100.0%	100.6	9.970	100.0%	129.6

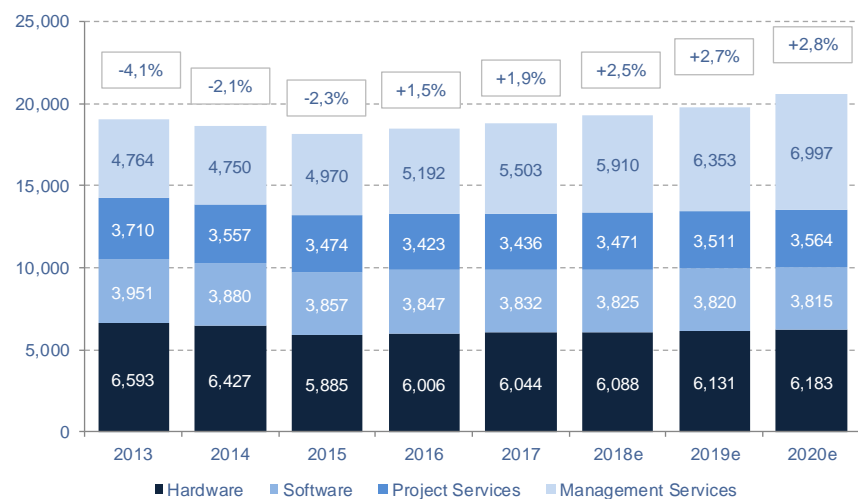
Source: Company data, Hp. warrants conversion at 13.30/s (max dilution), and Price Adjustment and Special Shares converted into ordinary. * values at current stock price



4. The reference market & competitive positioning

DGV operates in the Information Technology Provider sector in Italy. After several years of structural weakness, starting in 2007 and ending in 2015, **the reference market reversed the trend in 2016 with accelerating growth rates.** The growth here is more than double GDP growth and concentrated in the same areas characterising IT spending growth worldwide. The driver is technological innovation, i.e. 1) digital transformation, 2) managed and security services and 3) the cloud. The market is characterised by a progressive adoption of the modality 'technology as a service' (that is why the Project Services segment is estimated to show an 8.3% CAGR₁₇₋₂₀) and the switch from hardware and software to Cloud services, at infrastructure and application levels.

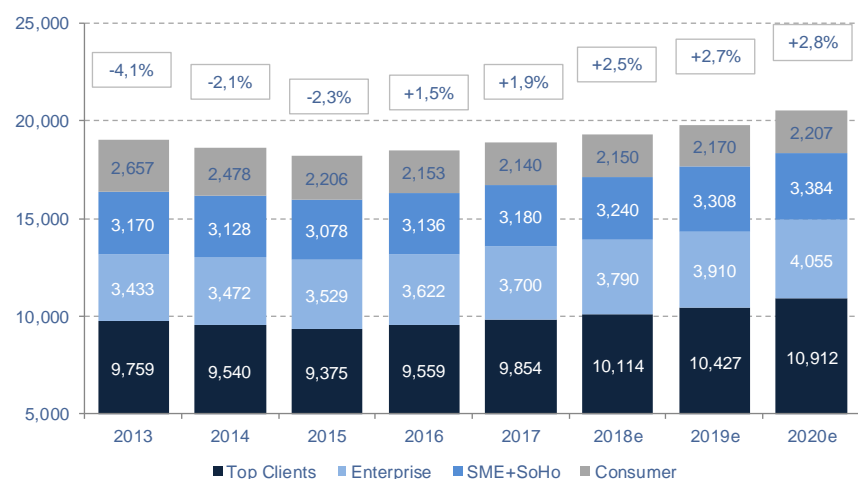
Chart 3 – Digital Value, IT Provider market in Italy by sector, 2013-20e, € m



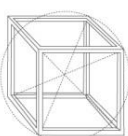
Source: Sirmi, Jun-18

DGV focuses on Top Clients (firms and public entities totalling more than 500 employees). **It represents 53% of current Information Technology demand in Italy**, showing progressive polarization of IT spending in Italy as well as in the main advanced economies, and **presents the fastest growth rates** within the industry, superior to the market (3.5% CAGR₁₇₋₂₀ vs. 3.0%).

Chart 4 – Digital Value, IT Provider market in Italy by client type, 2013-20e, € m

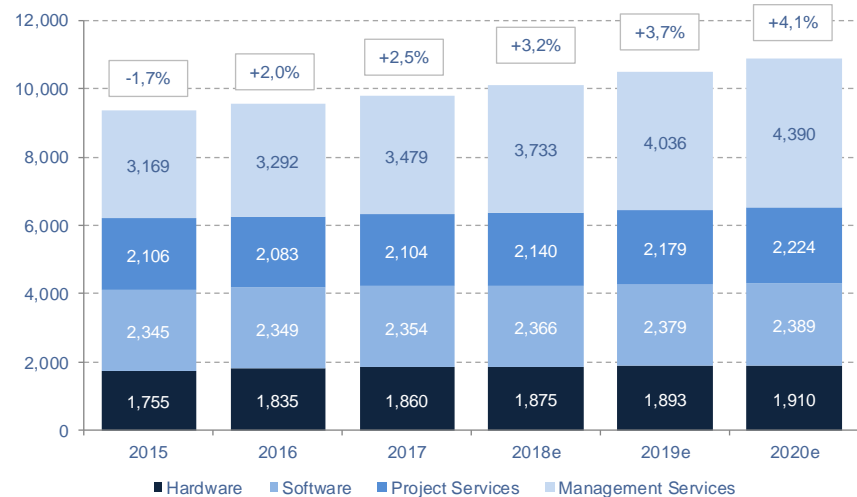


Source: Sirmi, Jun-18



Said that, within the Top Client sector, **the total addressable market for DGV is worth € 8.0bn** in 2018 and comprises the Hardware, Software and Management Service segments. DGV in this context, has a **market share of some 4.0%**.

Chart 5 – Digital Value, IT spending Top Client segment, 2015-20e, € m



Source: Simi, Jun-18

The market is rather concentrated: the top five players hold 56% of total, the top ten actors total 80% of the market. **The other smaller players are struggling** in a sector where size is increasingly more and more important.

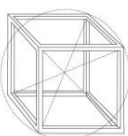
Table 2 – Digital Value, 2018e Italian IT provider market competitive landscape

	#	Sales, € m	YoY	Market Share
Accenture	1	1,495	6.8%	18.7%
Engineering	2	959	9.0%	12.0%
Telecom Italia - IT business	3	860	4.2%	10.8%
Reply	4	630	7.7%	7.9%
DXC Technology CSC - HP	5	551	7.5%	6.9%
SIA	6	508	4.1%	6.4%
Econocom	7	394	8.8%	4.9%
Almaviva IT division	8	389	5.4%	4.9%
Var Group (Sesa)	9	320	20.0%	4.0%
Capgemini	10	318	6.1%	4.0%
Digital Value	11	308	7.7%	3.9%
NTT Data Italia	12	308	5.2%	3.9%
Cedacri	13	294	5.0%	3.7%
Lutech	14	285	16.3%	3.6%
Matcmind	15	245	16.7%	3.1%
Altran	16	234	5.5%	2.9%
Leonardo IT division	17	220	-1.3%	2.8%
Lombardia Informatica	18	217	3.4%	2.7%
Dedagroup	19	207	4.1%	2.6%
Atos	20	194	3.7%	2.4%

Source: CFO Sim elaboration on Simi data, Jun-18

The table above shows the ranking of IT business application providers in Italy. Each player has a specific market positioning and therefore the competition is fragmented. For instance, Accenture is focused on IT consulting, SIA on e-money, Almaviva on back office services and Var Group (SeSa) is dedicated to the enterprise and SME segments.

Size is becoming a barrier to entry to potential newcomers. A sufficient size to properly comfort customers and provide a guarantee is becoming one of the main key factors required in the sector:



- Plentiful and comprehensive **employee certifications**.
- **References, track record**. It is necessary to produce documentation about the size of revenue breakdown by technology, solutions and architectures achieved in the last three years.
- Indicators of **balance sheet solidity**.

The price-based discrimination is increasingly diminishing in importance to the benefit of the technical proposal based on technology and architecture solutions. Generally price weighs 30% in the decision-making process to entrust the work. The preponderant part is determined by the technical score obtained by the offer.

DGV with **450 technical and technological certifications** (in the Data Center and Hybrid Cloud, Networking and Intelligence Networks, Infrastructure software, ICT Security - Cybersecurity and Digital Transformation fields), with a **three-decade seniority** in the business, a **customer portfolio in excess of 2,000** names and the **status of listed company**, is well positioned to continue **to outperform the reference market and to play an active role in sector consolidation process**.

Management developed distinctive skills in managing complex IT projects and solutions for customers belonging to strategic sectors for the Italian economy and for the competitiveness of the country. Within the Top Client segment, Digital Value focuses on industrial sectors with greater investment capacity, such as

- **Telecom & Utilities** (40% of 2017 sales), DGV is a reference partner for the main TLC and Utilities operators operating on the Italian market. TLC and Utilities companies play an increasingly central role in the offer of integrated IT and TLC services with sizeable future investment pipelines.
- **Public Administration** (34%), DGV is a key sponsor via the participation in tenders and bids issued by Consip (central purchases office of Italian public administration) thanks to a dedicated Finance & Legal team with a solid track record.
- **Finance** (13%), a promising market segment both as increasing share of wallet and in expanding the current customer base.
- **Industrial sectors** (13%) DGV is a supportive partner of the main Italian players active in the large account industry segment (automotive, defense, transport) that have growing investment needs in ICT solutions, IT Services and Business Applications

Table 3 – Digital Value, 2017 turnover by client

	#	Sales, € m	% on total	% progressive
TIM	1	54	20.2%	20.2%
Poste	2	41	15.3%	35.5%
Consip	3	30	11.2%	46.7%
INAIL	4	15	5.6%	52.3%
Sogei	5	15	5.6%	57.9%
ENI	6	10	3.7%	61.7%
Ministry of the Interior	7	10	3.7%	65.4%
FCA	8	10	3.6%	69.0%
INPS	9	6	2.2%	71.3%
Fastweb	10	5	1.9%	73.2%
Ministry of Justice	11	4	1.5%	74.7%
Leonardo	12	3	1.1%	75.8%
Wind	13	3	1.1%	76.9%
Other	14	62	23.1%	100.0%
Total		268	100.0%	

Source: CFO Sim elaboration on company data

DGV presents a client portfolio not particularly concentrated: the top five clients account for 57.8% of 2017 top line, the top ten reach 73.2%. Below, a plethora of customers with a minor weight on the business represents 26.8% of revenues. DGV boasts long-lasting relationship with its current clients as well advanced talks with new potential customers.



5. IPO rationale

DGV originates from the integration of **two leading Italian System Integrators: Itaware Srl and ITD Solutions Spa.**

- **Itaware** – based in Rome, established more than 30 years ago, the firm focuses on Technology Solutions and Managed Services for **Public Administration** and large industrial groups (>500 employees), mainly **Telecom**. With more than 2,000 customers and 400 technological certifications, sales CAGR has been in excess of 20% in the last few years, solidly outperforming the market, up by some 3.0% in the same period.

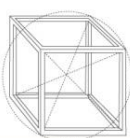
Sales, EBITDA, Net Profit and Net Financial Position in 2017: € 185m, € 12.1m (6.6% margin), € 8.3m and € 7.3m (cash positive).

- **ITD Solutions** – based in Milan, established more than 30 years ago, the firm focuses on private large groups (>500 employees) mainly in **Manufacturing** and **Finance**. ITD solutions has more than 200 customers and has been awarded with more than 40 certified technological partnerships.

Sales, EBITDA, Net Profit and Net Financial Position in 2017: € 83m, € 6.3m (7.6% margin), € 2.1m and € 6.8m (debt, 1.1x EBITDA).

The combined entity, **Digital Value, consolidates and magnifies all these skills, track record, achievements and expertise.** Pro-forma Sales, EBITDA, Net Profit and Net Financial Position in 2017: € 258m, € 19.7m (7.6% margin), € 10.8m and € 1.8m (debt, 0.1x EBITDA). In this context, DGV is the 11th player in the domestic IT provider arena. DGV has developed a **solid ecosystem consisting of the main technology suppliers** that allows the group to propose **effective and customised solutions via its network of highly skilled professionals** distributed throughout the country with which DGV is able to **manage every phase of the lifecycle of an ICT project.**

- **DGV can now boast an even more complete and integrated offer** in the field of IT Solutions and Services, with areas of differentiating specialisations and high growth potential (Big Data Analytics, Networking and Security, Hybrid Cloud, Managed Services and Business Applications).
- **Focus remains on the Large Users segment** (Top Clients, organisations with more than 500 employees) in the **Telecom & Media, PAs, Utilities and Manufacturing** sectors and, with an increasing future relevance, **Banks and Insurance**, to which DGV proposes itself as a reference partner for projects and services in Data Center, Cloud, Networking and Security and Digital Workplace.
- **Enlarged size embodies higher critical mass**, even more effective **solidity and business credentials** to further penetrate existing and new potential customers and segments.
- Stronger balance sheet solidity allows **significant firepower to play a primary role in the definite further consolidation process** of the sector.



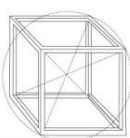
6. Business model

DGV has developed a business model based on sales force overseeing client portfolio development in a transversal way, with **specific solution units for every business area** able to provide adequate services and solutions. **DGV boasts consolidated partnerships with key reference industry actors** and a **team of skilled and geographically widespread professionals**. Customer needs require a marked and specific professionalism and the aptitude to integrate complex technological solutions. As a result, DGV can face every project with a really integrated array of business solutions and partners.

- **Vendors** – IT technology (hardware and software) producers and developers, with their own brands, mainly large global firms. DGV has long term relationships with them.
- **Technology distributors** – they purchase from vendors and sell to systems integrators providing solutions together with integrated logistic, financing and pre/post sales services.
- **Service Partners** – operators that offer IT services used by DGV in its selling proposition.

With this value structure, **DGV acts throughout the entire value chain**, providing innovative technology and solutions to its customers. The business model of the group is based on:

- **Customer needs analysis** – the dedicated team collects customer characteristics and business requirements, latent and explicit, independently from the technology that will be used. Every single step and event is carefully analysed and scheduled.
- **Analysis of different possible solutions** – in this phase, every different solution is carefully analysed, both in terms of market and tailor made solutions, using the existing project capabilities internal to the group.
- **Solution design** – the best solution for the customer needs is then designed acting as a technology integrator, via the competences expressed by DGV solution units.
- **Solution implementation** – the adopted solution is then implemented and tested on customer infrastructure and according to customer needs.
- **Solution installation** – DGV finally installs the solution offered on customer systems.
- **Solution operation** – DGV constantly monitors possible malfunctions, provides ordinary solution maintenance, procedure fault resolution, solution updates and improvements.
- **KPI check** – a complete KPI analysis report is provided to the client's top management structure.



7. SWOT Analysis

The SWOT analysis, also known as SWOT Matrix, is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

- **Strengths:** characteristics of the business or project that give it an advantage over others.
- **Weaknesses:** characteristics that place the business or project at a disadvantage relative to others.
- **Opportunities:** elements that the project could exploit to its advantage.
- **Threats:** elements in the environment that could cause trouble or be detrimental for the business or project.

The technique is credited to Albert Humphrey, who led a research project at Stanford University between the 60's/70's using Fortune 500 data.

S.W.O.T. ANALYSIS

STRENGTHS

- ❑ Focus on Top Clients (>500 employees) **the fastest growing segment** of the market
- ❑ **Complete technological solution portfolio** from major global IT vendors
- ❑ **Solid balance sheet**, skilled and **motivated team**, copious technical **certifications and competences**

WEAKNESSES

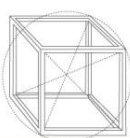
- ❑ Rather marked **customer concentration in TLC, utilities and PA**
- ❑ DGV has been **only recently established** as a combination of two firms
- ❑ Decisions are **concentrated in few key relevant people**

OPPORTUNITIES

- ❑ Further **consolidation opportunities** in the domestic market
- ❑ **New market segment** solidier penetration: Automotive and Finance
- ❑ Stronger **selling and cost synergies** arising from the combined group

THREATS

- ❑ Larger global players might **intensify competition** to grab market share
- ❑ 100% of turnover in Italy: **exposure vs. one single country**



8. H1-18 pro-forma results

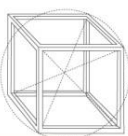
DGV was established last sep-18 and the combination of the two companies, Italware and IDT Solutions, effective as of 4-Sep. Pro-forma 2018 interim results are based on figures processed as if the combination of the two firms had taken place on 1-Jan.

The business does not present a marked seasonal effect: full year results are almost equally spread amongst the two semesters. In this context, the reported € 14.3m interim EBITDA, already represents 63% of projected FY-18 EBITDA, making the full year target very attainable.

Table 4 – Digital Value, H1-18 pro-forma results

€ m	H1-18
Revenues	144.4
COGS	(130.1)
EBITDA	14.3
% margin	9.9
D&A	(1.0)
EBIT	13.3
% margin	9.2
Pretax Profit	12.6
% margin	8.7
Taxes	(3.4)
Tax rate %	27.0%
Net Profit	9.2
% margin	6.4
Balance Sheet	
Intangible asset	23.6
Tangible asset	4.6
Other non-current asset	0.2
Current asset	223.2
Total asset	251.6
Shareholder equity	55.0
Non-current liabilities	7.4
Current liabilities	189.2
Total liabilities	251.6
Net Financial Position Details	
Cash & cash equivalents	(39.7)
Current financial liabilities	49.0
Non-current financial liabilities	5.4
Net Financial Position	14.7

Source: Company data



9. Financial forecasts

CFO estimates have been prepared according to international accounting standards (IAS/IFRS). **Figures are pro-forma**: they are based on numbers processed as if the combination of the two firms had been taken place on 1-Jan-17. **DGV focuses on Top Clients** (firms and public entities with more than 500 employees). **It represents 53% of current Information Technology demand in Italy**, showing progressive polarisation of IT spending in Italy as well as in the main advanced economies, and **presents the fastest growth rates** within the industry, superior to the market (3.5% CAGR₁₇₋₂₀ vs. 3.0%). In an industry where size matters, DGV has demonstrated the capability and competences to outperform the reference market: DGV sales CAGR is 24.6% in 2013-2017, compared with a market basically flat in the same period (-0.2%). **CFO Sim expects top line to show a 9.8% CAGR₁₇₋₂₀**, driven by the Industry and Finance sectors, responsible for 50.4% of the total top line increase in 2017-20. Estimates do not take into consideration any upside stemming from acquisitions. On the back of the typical contract structure, **DGV has some six-month visibility on sales**.

Table 5 –Digital Value, 2016-20 top line growth evolution breakdown

€ m	2017PF	2018e	2019e	2020e	CAGR ₁₇₋₂₀
Value of Production	259.0	279.0	308.3	342.6	9.8
Telecommunications	89.9	94.4	102.9	113.1	8.0
Public Administrations	86.8	90.2	95.7	103.3	6.0
Industry	35.0	40.6	47.9	54.6	16.0
Finance	33.7	39.7	47.7	56.3	18.7
Utilities	13.7	14.1	14.3	15.4	3.9
% YoY					
Value of Production	-	7.7	10.5	11.1	
Telecommunications	-	5.0	9.0	10.0	
Public Administrations	-	4.0	6.0	8.0	
Industry	-	16.0	18.0	14.0	
Finance	-	18.0	20.0	18.0	
Utilities	-	2.8	1.2	7.7	
% on total					
Value of Production	100.0	100.0	100.0	100.0	
Telecommunications	34.7	33.8	33.4	33.0	
Public Administrations	33.5	32.3	31.0	30.1	
Industry	13.5	14.5	15.5	15.9	
Finance	13.0	14.2	15.5	16.4	
Utilities	5.3	5.1	4.6	4.5	

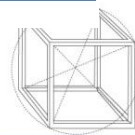
Source: Company data, CFO SIM estimates

The systems integrator business, is characterised by a high degree of variable costs, here in DGV in excess of 90% of total in 2017PF: the operating leverage is therefore limited. **CFO Sim expects a certain scale and scope benefits for DGV**, arising from the integration between Itaware and ITD Solutions: profitability is projected to grow more than proportionately to top line: **EBITDA and EBIT CAGR₁₇₋₂₀ is 13.7% and 17.2%** respectively, vs. 9.8% of top line.

Table 6 –Digital Value, 2017-20 profitability evolution

€ m	2017PF	2018e	2019e	2020e	CAGR ₁₇₋₂₀
Revenues	258.0	278.0	307.4	342.0	9.8
Other revenues	1.0	1.0	0.9	0.7	
Value of Production	259.0	279.0	308.3	342.6	9.8
Raw material and processing	(201.5)	(217.6)	(239.9)	(266.6)	
Services	(22.5)	(24.3)	(26.8)	(29.8)	
Personnel expenses	(12.7)	(13.6)	(15.1)	(16.7)	
Other opex	(2.7)	(0.8)	(0.9)	(0.7)	
EBITDA	19.7	22.6	25.6	28.9	13.7
% margin	7.6	8.1	8.3	8.4	
D&A	(2.9)	(2.0)	(2.0)	(2.0)	
EBIT	16.7	20.6	23.6	26.9	17.2
% margin	6.5	7.4	7.7	7.8	

Source: Company data, CFO SIM estimates



Below EBIT, since DGV is projected to have a cash positive Net Financial Position as early as 2018, in the hypothesis of no external growth, apart from some financial costs related to factoring (to the tune of € 10m per annum and mainly related to the VAT split payment adopted by PAs), operating profit translates reasonably well into net profit. **Net Profit CAGR₁₇₋₂₀ is projected at 16.0%**, after a flat 35.0% tax burden (was 31.4% in 2017PF).

Table 7 –Digital Value, 2017-20 below EBIT figure evolution

€ m	2017PF	2018e	2019e	2020e	CAGR ₁₇₋₂₀
EBIT	16.7	20.6	23.6	26.9	17.2
% margin	5.4	6.0	241.2	672.2	
Financials	(1.0)	(1.3)	(1.0)	(1.0)	
Extraordinary	(0.0)	0.0	0.0	0.0	
Pre-Tax profit	15.7	19.3	22.6	25.9	18.2
% margin	6.1	6.9	7.3	7.6	
Income taxes	(4.9)	(6.8)	(7.9)	(9.1)	
Tax rate	31.4%	35.0%	35.0%	35.0%	
Minorities	0.0	0.0	0.0	0.0	
Net Profit	10.8	12.6	14.7	16.8	16.0
% margin	4.2	4.5	4.8	4.9	

Source: Company data, CFO SIM estimates

The business model has pretty low capital expenditure requirements: capex are projected to the tune of € 5.0m in 2018-20, and are related to software purchases and a few works on third party assets. The **operating cash flow translates soundly into free cash flow**: EBITDA/FCF conversion is estimated in excess of 50% on average in 2018-20. As a result, the DGV cash pile is projected to enlarge up to € 36.5m at end-20. **30% of net profit** is projected to be distributed to shareholders as of 2019: at this price, **dividend yield is appealing**.

Table 8 –Digital Value, 2017-20 Balance Sheet key values and ratio

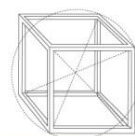
€ m	2017PF	2018e	2019e	2020e
Op NWC	(17.9)	(16.4)	(7.0)	(1.0)
Inventories	7.3	7.6	12.7	14.1
Receivables	76.3	85.1	108.1	126.7
Payable	(101.5)	(109.1)	(127.8)	(141.8)
Op NWC/Sales	-6.9%	-5.9%	-2.3%	-0.3%
Capital Employed turnover (x)	0.4	0.3	0.3	0.3
Capital Employed	91.6	73.6	85.3	98.0
Gross Debt	42.6	11.9	8.8	8.8
Net Financial Position debt/(cash)	1.8	(15.1)	(25.4)	(36.5)
NFP repayment YoY	-	16.9	10.2	11.1
EBIT	16.7	20.6	23.6	26.9
ROACE%	-	25.0	29.7	29.3
ROCE %	18.2	28.0	27.6	27.5
ROE %	23.0	21.2	19.8	19.5

Source: Company data, CFO SIM estimates

Table 9 –Digital Value, 2017-20 Net Financial Position and financial solidity ratio

€ m	2017PF	2018e	2019e	2020e
Year-end NFP (Cash)/Debt	1.8	(15.1)	(25.4)	(36.5)
Average (Cash)/debt	-	(6.7)	(20.3)	(30.9)
EBITDA	19.7	22.6	25.6	28.9
Shareholders' equity	46.8	59.3	74.0	86.4
Interest charges	(1.0)	(1.3)	(1.0)	(1.0)
NFP/Equity	0.0	(0.3)	(0.3)	(0.4)
NFP/EBITDA	0.1	(0.7)	(1.0)	(1.3)
EBITDA/charges	19.5	17.4	25.6	28.9

Source: Company data, CFO SIM estimates



10. Valuation & risks

We believe DGV is an interesting value investment opportunity. In an industry characterised by projected **steady growth** in the coming years, DGV is a **fast growing highly cash flow 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.

CFO Sim initiates coverage of DGV with a Buy recommendation and a PT fully diluted based on a multiple comparison of € 16.00/s, 42.9% upside.

We also used the DCF model with standard setting for a small-cap, including a conservative terminal growth rate of 1%. According to the DCF model, we assess a valuation of 19.00/s fully diluted, corroborating the value obtained via the peer multiple methodology.

10.1. 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 € 89.2bn, turnover FY1 € 37.9bn, and EBITDA FY1 is € 6.4bn (16.8% 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 € 2.7bn, turnover FY1 € 2.2bn, and EBITDA FY1 is € 235m (10.3% 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 € 2.1bn, turnover FY1 € 2.2bn, and EBITDA FY1 is € 389m (13.4% 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 € 7.5bn, turnover FY1 € 12.3bn, and EBITDA FY1 is € 1.6bn (13.3% 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 € 393m, turnover FY1 € 401m, and EBITDA FY1 is € 43m (10.6% 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 € 17.0bn, turnover FY1 € 13.2bn, and EBITDA FY1 is € 1.9bn (14.2% 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 € 1.4bn, turnover FY1 € 4.9bn, and EBITDA FY1 is € 166m (3.4% margin).



Devoteam – France, group offers IT consulting services, system integration, project management, cyber security and outsourcing solutions. Market capitalisation is € 762m, turnover FY1 € 648m, and EBITDA FY1 is € 76m (11.7% 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 € 712m, turnover FY1 € 2.9bn, and EBITDA FY1 is € 142m (4.9% 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 € 1.5bn, turnover FY1 € 3.0bn, and EBITDA FY1 is € 302m (10.0% 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 € 1.8bn, turnover FY1 € 1.0bn, and EBITDA FY1 is € 143m (14.0% 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 € 360m, turnover FY1 € 1.5bn, and EBITDA FY1 is € 72m (4.8% 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 € 1.7bn, turnover FY1 € 4.1bn, and EBITDA FY1 is € 341m (8.4% 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 € 1.9bn, turnover FY1 € 1.6bn, and EBITDA FY1 is € 214m (13.3% 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 (16.8% 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.

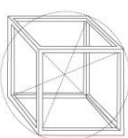


Table 10 - Digital Value, peer group summary table

€ m	Country	Mkt Cap	Sales FY1	EBITDA FY1	EBITDA %	Sales CAGR17-20	EBITDA CAGR17-20	EBIT CAGR17-20	EPS CAGR18-20	NFP FY1	NFP/EBITDA
Accenture PLC	USA	89,211	37,919	6,385	16.8%	6.6%	9.8%	9.1%	8.6%	(4,464)	n.m.
Alten SA	France	2,666	2,240	232	10.3%	8.9%	10.8%	10.8%	10.1%	(54)	n.m.
Altran Technologies SA	France	2,073	2,894	389	13.4%	13.7%	26.1%	17.7%	30.1%	1,504	3.9
Atos SE	France	7,455	12,328	1,634	13.3%	2.9%	8.4%	14.4%	11.2%	2,245	1.4
Aubay SA	France	398	401	43	10.6%	8.8%	10.9%	11.4%	8.4%	(9)	n.m.
Capgemini SE	France	16,955	13,150	1,870	14.2%	5.6%	9.8%	10.9%	10.2%	1,222	0.7
Computacenter PLC	UK	1,380	4,874	166	3.4%	9.4%	7.3%	7.9%	5.1%	(79)	n.m.
Devoteam SA	France	718	648	76	11.7%	16.4%	26.4%	24.7%	18.8%	(46)	n.m.
Econocom Group SE	France	684	2,892	142	4.9%	1.6%	-2.0%	-1.3%	22.5%	317	2.2
Indra Sistemas SA	Spain	1,496	3,039	302	10.0%	2.1%	9.4%	9.5%	17.6%	555	1.8
Reply SpA	Italy	1,646	1,027	143	14.0%	12.0%	13.3%	13.8%	10.8%	(67)	n.m.
SeSa SpA	Italy	348	1,482	72	4.8%	7.5%	15.4%	11.7%	11.5%	(71)	n.m.
Sopra Steria Group SA	France	1,716	4,073	341	8.4%	5.1%	8.1%	11.5%	17.1%	546	1.6
Tieto Oyj	Finland	1,944	1,607	214	13.3%	3.3%	2.6%	4.5%	3.4%	138	0.6
Median		1,681	2,893	223	11.2%	7.1%	9.8%	11.2%	11.0%	65	1.6
Digital Value SpA	Italy	101	278	23	8.1%	9.8%	13.7%	17.2%	16.7%	(15)	n.m.

Source: CFO Sim, Thomson Reuters Eikon

Table 11 - Digital Value, peer group EV multiple table

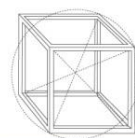
x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Accenture PLC	2.23	2.08	1.93	13.3	12.3	11.4
Alten SA	1.17	1.04	0.94	11.3	9.8	8.7
Altran Technologies SA	1.24	1.09	0.98	9.2	7.5	6.6
Atos SE	0.79	0.68	0.60	5.9	4.6	4.1
Aubay SA	0.97	0.86	0.77	9.1	7.8	6.9
Capgemini SE	1.38	1.26	1.11	9.7	8.7	7.6
Computacenter PLC	0.27	0.23	0.22	7.8	7.0	6.5
Devoteam SA	1.04	0.84	0.70	8.8	6.8	5.6
Econocom Group SE	0.35	0.33	0.31	7.0	6.3	5.6
Indra Sistemas SA	0.67	0.62	0.56	6.8	5.9	5.2
Reply SpA	1.54	1.31	1.16	11.0	9.3	8.0
SeSa SpA	0.19	0.16	0.15	3.9	3.3	3.0
Sopra Steria Group SA	0.56	0.50	0.44	6.6	5.4	4.5
Tieto Oyj	1.30	1.25	1.21	9.7	9.5	9.1
Median	1.00	0.85	0.73	9.0	7.2	6.5
Digital Value SpA*	0.35	0.28	0.22	4.3	3.4	2.6
% premium/(discount)	(65.4)	(67.0)	(69.9)	(52.5)	(53.3)	(60.2)

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

Table 12 - Digital Value, peer group EV/EBIT & price multiple table

X	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Accenture PLC	15.2	14.0	12.8	21.5	19.8	18.2
Alten SA	12.2	10.5	9.3	16.9	15.3	13.9
Altran Technologies SA	13.7	9.9	8.4	13.4	9.0	7.9
Atos SE	7.9	6.1	5.3	8.4	7.2	6.8
Aubay SA	9.6	8.2	7.2	13.8	12.7	11.8
Capgemini SE	11.8	10.4	9.1	16.7	14.9	13.7
Computacenter PLC	9.9	8.8	8.1	14.1	13.3	12.8
Devoteam SA	9.6	7.6	6.2	19.2	15.7	13.6
Econocom Group SE	9.5	7.6	6.5	10.9	8.7	7.3
Indra Sistemas SA	10.1	8.2	7.0	12.5	10.1	9.0
Reply SpA	12.1	10.3	8.8	17.5	15.7	14.2
SeSa SpA	5.2	4.5	3.9	10.9	9.8	8.8
Sopra Steria Group SA	7.9	6.3	5.1	9.2	7.6	6.7
Tieto Oyj	12.8	12.2	11.6	14.9	14.5	14.0
Median	10.0	8.5	7.7	14.0	13.0	12.3
Digital Value SpA*	4.7	3.7	2.8	8.9	7.6	6.6
% premium/(discount)	(53.3)	(56.9)	(63.6)	(36.4)	(41.4)	(46.0)

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



Italware and ITD Solutions showed 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 € 159.3m, or € 16.00/s**, 42.9% upside, using 2018-19 estimates and multiples (60-40 weighted, respectively), **in order to consider in the valuation part of the upside stemming from the higher than peer median growth perspectives**. Please note that 2018-19 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 € 22.6m and € 25.6m in 2018/19 and a NFP of € 15.0m and € 21.0m (cash).

Table 13 - Digital Value, equity assessment, 1#3

€ m	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Median Peers (x)	1.00	0.85	0.73	9.0	7.2	6.5
DGV metric	278.0	307.4	342.0	22.6	25.6	28.9
NFP	15.1	25.4	36.5	15.1	25.4	36.5
DGV Equity Value	210.3	208.3	211.6	157.5	154.8	168.9
DGV Equity Value €/s (FD)	21.10	20.90	21.20	15.80	15.50	16.90
% upside/(downside)	88.4	86.6	89.3	41.1	38.4	50.9

Source: CFO Sim, Thomson Reuters Eikon

Table 14 - Digital Value, equity assessment, 2#3

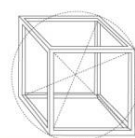
€ m	EBIT FY1	EBIT FY2	EBIT FY3	PER FY1	PER FY2	PER FY3
Median Peers (x)	10.0	8.5	7.7	14.0	13.0	12.3
DGV metric	20.6	23.6	26.9	12.6	14.7	16.8
NFP	15.1	25.4	36.5			
DGV Equity Value	159.7	165.7	180.9	122.9	133.3	144.7
DGV Equity Value €/s (FD)	16.00	16.60	18.10	12.30	13.40	14.50
% upside/(downside)	42.9	48.2	61.6	9.8	19.6	29.5

Source: CFO Sim, Thomson Reuters Eikon

Table 15 - Digital Value, equity value assessment, 3#3

€ m	FY1	FY2	FY3
EV/EBITDA	157.5	154.8	168.9
EV/EBIT	159.7	165.7	180.9
Weighting	60.0%	40.0%	0.0%
Equity Value	159.3		
Per share FD €/s	16.00		
% upside/(downside)	42.9%		

Source: CFO Sim, Thomson Reuters Eikon



10.2. DCF

In the valuation via the DCF method, we assess explicit estimates until 2021 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 16 - 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)	3.50%
Beta levered (x)	1.00
Required ROE	12.5%

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 1.00x**. The WACC is accordingly computed using 20/80% debt/equity long term well sustainable balance sheet structure.

Table 17 - Digital Value, DCF model

€ k	2018e	2019e	2020e	2021e	2022e	Term. Val.
EBIT	20.6	23.6	26.9	30.5	30.8	
Tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	
Operating profit (NOPAT)	13.4	15.3	17.5	19.8	20.0	
Change working capital	(1.5)	(9.4)	(6.0)	(2.1)	(1.0)	
Depreciation	2.0	2.0	2.0	2.0	2.0	
Investments	(1.0)	(2.0)	(2.0)	(2.0)	(2.0)	
Free Cash Flows	12.9	6.0	11.5	17.7	19.0	207.6
Present value	12.8	5.3	9.3	13.1	12.7	138.9
WACC	10.3%	10.3%	10.3%	10.3%	10.3%	
Long-term growth rate	1.0%					

Source: CFO Sim

Table 18 – Digital Value, DCF derived from:

€ m	
Total EV present value € m	192.2
	<i>thereof terminal value</i>
	72.3%
NFP FY-17	(1.8)
Pension provision	(1.4)
Equity value € m	189.0
#m shares fully diluted	9.97
Equity value €/s	19.00
<i>% upside/(downside)</i>	<i>69.6%</i>

Source: CFO Sim

The result of our DCF model set up an equity value of € 189.0m for Digital Value, 19.00/s fully diluted, 69.6% upside.

The following tables illustrate that sensitivity 1) compared to changes in the terminal growth rate produces an equity value/s of between **€ 17.47-20.80m (perpetuity range of between 0.00% and 2.00%)**, while 2) compared to changes in the free risk rate produces an equity value/s of **€ 17.39-20.83m (free risk range of between 4.50% and 2.50%)** and 3) compared to changes in the risk premium, including small size premium results into an equity value/s of **€ 16.05-23.09m (risk premium range of between 11.00% and 7.00%)**.

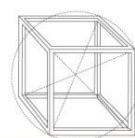


Table 19 – Digital Value, equity value sensitivity to changes in terminal growth rate

€ m	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
Present value of CF	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2	53.2
PV of terminal value	124.1	127.6	131.2	134.9	138.9	143.1	147.6	152.3	157.3
Total value	177.4	180.8	184.4	188.2	192.2	196.4	200.8	205.5	210.5
NFP FY-17	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Pension provision	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Equity value	174.2	177.6	181.2	185.0	189.0	193.2	197.6	202.4	207.3
Equity value/share €	17.47	17.82	18.18	18.56	19.00	19.38	19.82	20.30	20.80

Source: CFO Sim

Table 20 – Digital Value, equity value sensitivity to changes in free risk rate

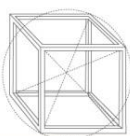
€ m	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	4.25%	4.50%
Present value of CF	54.1	53.9	53.7	53.5	53.2	53.0	52.8	52.6	52.4
PV of terminal value	156.7	151.9	147.4	143.1	138.9	135.0	131.2	127.6	124.1
Total value	210.8	205.8	201.1	196.5	192.2	188.0	184.0	180.2	176.5
NFP FY-17	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Pension provision	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Equity value	207.6	202.6	197.9	193.3	189.0	184.8	180.8	177.0	173.3
Equity value/share €	20.83	20.33	19.85	19.39	19.00	18.54	18.14	17.75	17.39

Source: CFO Sim

Table 21 – 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	55.0	54.6	54.1	53.7	53.2	52.8	52.4	52.0	51.5
PV of terminal value	178.4	167.0	156.7	147.4	138.9	131.2	124.1	117.6	111.6
Total value	233.4	221.5	210.8	201.1	192.2	184.0	176.5	169.6	163.2
NFP FY-17	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Pension provision	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Equity value	230.2	218.4	207.6	197.9	189.0	180.8	173.3	166.4	160.0
Equity value/share €	23.09	21.90	20.83	19.85	19.00	18.14	17.39	16.69	16.05

Source: CFO Sim



10.3. 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 below). 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.

Table 22 - Digital Value, peer group absolute performance

%	1D	1W	1M	3M	6M	YTD	1Y
Accenture PLC	(2.4)	(1.6)	0.5	(3.5)	2.3	3.8	8.4
Alten SA	(1.3)	(4.6)	0.8	(10.5)	(8.6)	12.4	13.0
Altran Technologies SA	0.6	3.4	13.4	(13.5)	(39.1)	(36.0)	(38.1)
Atos SE	(2.1)	(7.0)	(0.9)	(31.7)	(39.6)	(42.8)	(44.5)
Aubay SA	0.5	(1.6)	1.0	(22.4)	(22.9)	(13.0)	(11.0)
Capgemini SE	(2.2)	(6.7)	3.3	(11.0)	(12.8)	1.0	(0.6)
Computacenter PLC	(0.7)	(7.6)	(14.8)	(30.8)	(20.6)	(7.2)	(2.4)
Devoteam SA	(4.3)	(11.2)	(6.9)	(20.3)	(12.7)	14.4	11.2
Econocom Group SE	(3.6)	(4.4)	9.8	(5.4)	(46.7)	(52.3)	(53.6)
Indra Sistemas SA	0.8	(0.5)	(0.4)	(21.0)	(25.6)	(26.3)	(27.7)
Reply SpA	(2.1)	(8.1)	(10.5)	(23.0)	(16.0)	(5.4)	(8.4)
SeSa SpA	(0.9)	(6.9)	(5.3)	(23.8)	(25.3)	(13.0)	(10.6)
Sopra Steria Group SA	(3.0)	(5.7)	(4.1)	(45.1)	(51.3)	(46.8)	(44.9)
Tieto Oyj	0.1	(3.2)	8.3	(6.0)	(14.8)	0.2	(1.4)
Median	(1.7)	(5.2)	0.1	(20.6)	(21.8)	(10.1)	(9.5)
Digital Value SpA	0.9	2.3	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Thomson Reuters Eikon

Table 23 – Digital Value, relative performances

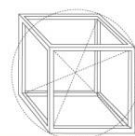
%	1D	1W	1M	3M	6M	YTD	1Y
to MSCI World Index	2.5	4.7	n.a.	n.a.	n.a.	n.a.	n.a.
to EUROSTOXX	2.5	5.9	n.a.	n.a.	n.a.	n.a.	n.a.
to FTSE Italia All Share	2.8	6.4	n.a.	n.a.	n.a.	n.a.	n.a.
to FTSE STAR Italia	3.2	9.5	n.a.	n.a.	n.a.	n.a.	n.a.
to FTSE AIM Italia	2.1	6.1	n.a.	n.a.	n.a.	n.a.	n.a.
to Peer Median	2.6	7.4	n.a.	n.a.	n.a.	n.a.	n.a.

Source: CFO Sim

10.4. 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 the acquisition campaign;
- The departure of one of few key relevant people.





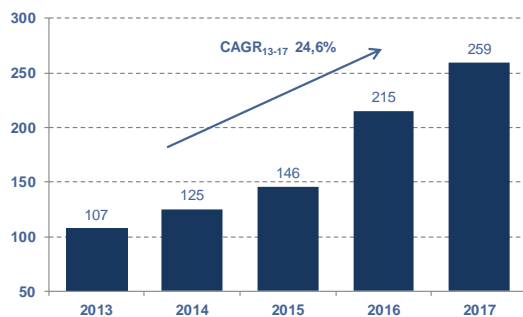
The company at a glance

Digital Value originates from the combination of two domestic IT systems integrators, Italware 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.

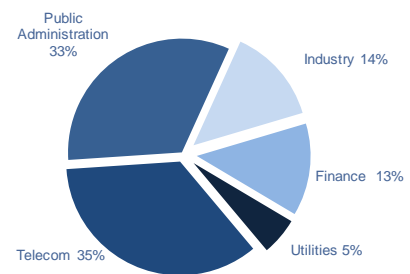
The group boasts key expertise in network infrastructure and data centers, security, network testing and monitoring, workstation management, Help Desk, data management and analysis, ERP systems management, retail applications, information systems on premise support and governance, outsourcing and cloud. According to Sirmi elaborations and based on 2018 CFO estimates, DGV is the 11th player in the IT provider industry in Italy.

With 201 employees DGV reported pro-forma 2017 Value of Production of € 259.0m, EBITDA of € 19.7m (7.6% margin), € 10.8m Net Profit and a Net Financial Position of € 1.8m (debt). With Working Capital structurally negative, ROE of 23.0% and ROCE of 18.2%, DGV has a well-balanced and lucratively allocated capital structure. Currently 100% of the business is generated in Italy.

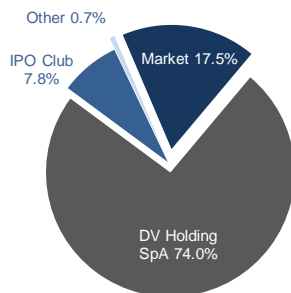
2013-17 top line progression



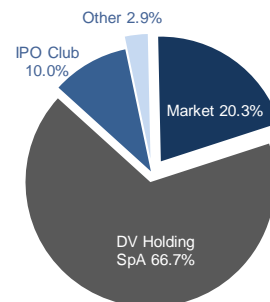
FY-17 top line breakdown by sector



Current shareholders structure



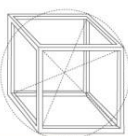
Fully diluted shareholders structure



Peers group multiples table

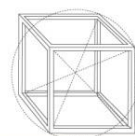
EV multiples x	Sales FY1	Sales FY2	Sales FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3	EBIT FY1	EBIT FY2	EBIT FY3
Accenture PLC	2.23	2.08	1.93	13.3	12.3	11.4	15.2	14.0	12.8
Alten SA	1.17	1.04	0.94	11.3	9.8	8.7	12.2	10.5	9.3
Altran Technologies SA	1.24	1.09	0.98	9.2	7.5	6.6	13.7	9.9	8.4
Atos SE	0.79	0.68	0.60	5.9	4.6	4.1	7.9	6.1	5.3
Aubay SA	0.97	0.86	0.77	9.1	7.8	6.9	9.6	8.2	7.2
Capgemini SE	1.38	1.26	1.11	9.7	8.7	7.6	11.8	10.4	9.1
Computacenter PLC	0.27	0.23	0.22	7.8	7.0	6.5	9.9	8.8	8.1
Devoteam SA	1.04	0.84	0.70	8.8	6.8	5.6	9.6	7.6	6.2
Econocom Group SE	0.35	0.33	0.31	7.0	6.3	5.6	9.5	7.6	6.5
Indra Sistemas SA	0.67	0.62	0.56	6.8	5.9	5.2	10.1	8.2	7.0
Reply SpA	1.54	1.31	1.16	11.0	9.3	8.0	12.1	10.3	8.8
SeSa SpA	0.19	0.16	0.15	3.9	3.3	3.0	5.2	4.5	3.9
Sopra Steria Group SA	0.56	0.50	0.44	6.6	5.4	4.5	7.9	6.3	5.1
Tieto Oyj	1.30	1.25	1.21	9.7	9.5	9.1	12.8	12.2	11.6
Median	1.00	0.85	0.73	9.0	7.2	6.5	10.0	8.5	7.7
Digital Value SpA*	0.35	0.28	0.22	4.3	3.4	2.6	4.7	3.7	2.8

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





Income statement (€ m)	2017PF	2018e	2019e	2020e
Sales	258.0	278.0	307.4	342.0
Value of Production	259.0	279.0	308.3	342.6
Raw material and processing	(201.5)	(217.6)	(239.9)	(266.6)
Services	(22.5)	(24.3)	(26.8)	(29.8)
Personnel expenses	(12.7)	(13.6)	(15.1)	(16.7)
Other opex	(2.7)	(0.8)	(0.9)	(0.7)
EBITDA	19.7	22.6	25.6	28.9
D&A	(2.9)	(2.0)	(2.0)	(2.0)
EBIT	16.7	20.6	23.6	26.9
Financials	(1.0)	(1.3)	(1.0)	(1.0)
Re/(Devaluation) of financial assets	0.0	0.0	0.0	0.0
Extraordinary	(0.0)	0.0	0.0	0.0
Pre-Tax profit	15.7	19.3	22.6	25.9
Income taxes	(4.9)	(6.8)	(7.9)	(9.1)
Minorities	0.0	0.0	0.0	0.0
Net Profit	10.8	12.6	14.7	16.8
Net Profit Adjusted	10.8	12.6	14.7	16.8
Balance sheet (€ m)	2017PF	2018e	2019e	2020e
Net Working Capital	(17.9)	(16.4)	(7.0)	(1.0)
Net Fixed Assets	28.7	27.7	27.7	27.7
Equity Investments	1.8	1.8	1.8	1.8
Other M/L Term A/L	35.9	31.0	26.1	21.4
Net Invested Capital	48.6	44.2	48.6	50.0
Net Financial Debt	1.8	(15.1)	(25.4)	(36.5)
Minorities	0.0	0.0	0.0	0.0
Group's Shareholders Equity	46.8	59.3	74.0	86.4
Financial Liabilities & Equity	48.6	44.2	48.6	50.0
Cash Flow statement (€ m)	2017PF	2018e	2019e	2020e
Total net income	-	12.6	14.7	16.8
Depreciation	-	2.0	2.0	2.0
Other non-cash charges	-	4.9	4.9	4.7
Cash Flow from Oper. (CFO)	-	19.4	21.6	23.5
Change in NWC	-	(1.5)	(9.4)	(6.0)
FCF from Operations (FCFO)	-	17.9	12.2	17.5
Net Investments (CFI)	-	(1.0)	(2.0)	(2.0)
Free CF to the Firm (FCFF)	-	16.9	10.2	15.5
CF from financials (CFF)	-	(30.7)	(3.1)	(4.4)
Free Cash Flow to Equity (FCFE)	-	(13.8)	7.2	11.1
Financial ratios	2017PF	2018e	2019e	2020e
EBITDA margin	7.6%	8.1%	8.3%	8.4%
EBIT margin	6.5%	7.4%	7.7%	7.9%
Net profit margin	4.2%	4.5%	4.8%	4.9%
Tax rate	31.4%	35.0%	35.0%	35.0%
Op NWC/Sales	-6.9%	-5.9%	-2.3%	-0.3%
Interest coverage x	0.06	0.06	0.04	0.04
Net Debt/EBITDA x	0.09	(0.67)	(0.99)	(1.26)
Debt-to-Equity x	0.04	(0.25)	(0.34)	(0.42)
ROIC	22.2%	28.4%	30.2%	33.7%
ROCE	18.2%	28.0%	27.6%	27.5%
ROACE	-	25.0%	29.7%	29.3%
ROE	23.0%	21.2%	19.8%	19.5%
Payout ratio	0.0%	0.0%	30.0%	30.0%
Per share figures	2017PF	2018e	2019e	2020e
Number of shares # m	8.96	8.96	8.96	8.96
Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97
Average Number of shares Fully Diluted # m	9.97	9.97	9.97	9.97
EPS stated FD €	1.08	1.26	1.47	1.69
EPS adjusted FD €	1.08	1.26	1.47	1.69
EBITDA €	1.97	2.27	2.57	2.90
EBIT €	1.68	2.07	2.37	2.70
BV €	4.69	5.95	7.42	8.67
FCFO €	-	1.80	1.23	1.76
FCFF €	-	1.70	1.03	1.56
FCFE €	-	(1.38)	0.72	1.11
Dividend €	0.00	0.00	0.49	0.56



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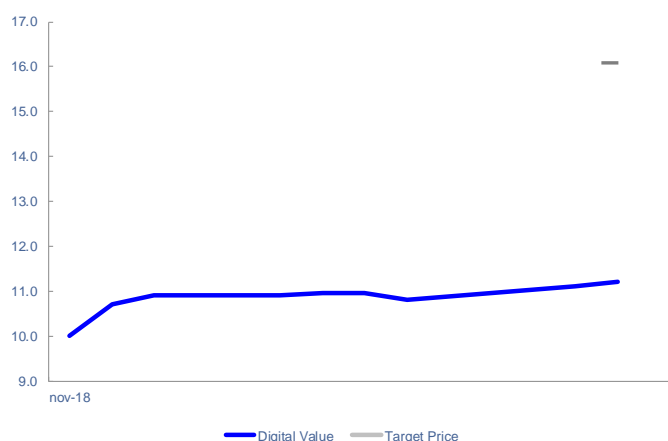
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DATE	TARGET PRICE	RATING
21/11/2018	€16.00	BUY

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RATING SYSTEM

- 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.

