

**DHH**

Sector: Cloud Computing

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# New year, new M&A

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

## M&A 1: Warian – Internet Service Provider

On 14/12/22 DHH signed a preliminary agreement for the acquisition of 45% of Warian, €1.3mn Revenues Italian B2B Internet Service Enabler/Provider (ISP) offering reliable high-performance data connectivity solutions.

With Warian, DHH should gain additional opportunities to strengthen its B2B infrastructure-based ISP services, B2C Internet connectivity and cloud computing services. Worthy to mention, DHH also has a call option for the remaining 55% to be exercised in 2026.

## M&A 2: Misterdomain – Hosting Service Provider

On 26/01/23 DHH finalized the acquisition of 100% share capital of Misterdomain, well established player of the Italian hosting market, vaunting over 10,000 customers and 31,000 domains under management.

The company boasts ca. €500k Revenues, a very positive EBITDA Margin and no debt. Acquisition multiples: ca. 1.3x EV/Sales ca. 4x EV/EBITDA FY23. With Misterdomain, DHH should be able to (i) gain market share and provide its hosting subsidiary (Tophost) with upselling Revenues synergies.

## Estimates fine-tuning: Revenues and EBITDA up 2%

We fine-tuned our estimates to factor in the total cash-out invested (between FY22 and FY23) and the additional financials arising from the consolidation of Misterdomain. We now expect:

- ◆ Revenues at €38mn in 2024E (24.4% CAGR21A-24E);
- ◆ EBITDA Margin over 30% in 2024E;
- ◆ Net Financial Position >0 in 2024E (after cash-out of ca. €1.5mn).

## Fair value per share at €21.4 (from €21.1)

We adjust our fair equity value at €21.4 p/s, averaging the outcome of DCF and Peers' Analysis. While the DCF model returns a €23.2 p/s (value accretion of Misterdomain deal more than offsetting the increase of Italian ERP), Relative valuation confirms a fair value of €19.6 p/s.

<b>Fair Value (€)</b>	<b>21.4</b>
<b>Market Price (€)</b>	<b>15.3</b>
<b>Market Cap. (€m)</b>	<b>74.9</b>

KEY FINANCIALS (€mn)	2021A	2022E	2023E
REVENUES	19.8	28.3	35.2
EBITDA	6.9	8.3	10.7
EBIT	3.6	4.2	6.1
NET PROFIT	3.2	2.8	4.0
EQUITY	20.0	22.7	26.7
NET FIN. POS.	-0.9	-5.4	-1.4
EPS (€)	0.65	0.57	0.81
DPS (€)	0.0	0.0	0.0

Source: DHH Group (2021A), Value Track (2022-23E)

RATIOS & MULTIPLES	2021A	2022E	2023E
EBITDA MARGIN (%)	35.1	29.3	30.4
EBIT MARGIN (%)	18.2	14.8	17.2
NET DEBT / EBITDA (x)	0.1	0.7	0.1
NET DEBT / EQUITY (x)	0.0	0.2	0.1
EV/SALES (x) (**)	3.7	2.8	2.1
EV/EBITDA (x) (**)	10.6	9.6	7.0
EV/EBIT (x) (**)	20.3	18.9	12.4

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

(\*) EV adjusted for Minorities and Peripherals

## STOCK DATA

FAIR VALUE (€)	21.4
MARKET PRICE (€)	15.3
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	74.9
FREE FLOAT (%)	24.2
AVG. -20D VOL. (#)	1,779.9
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	13.00-18.00

Source: Stock Market Data



## Business Description

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration. Nowadays, there are eight autonomous and independent business units under management across seven countries (Bosnia-Herzegovina, Bulgaria, Croatia, Italy, Serbia, Slovenia, and Switzerland).

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

## Key Financials

€ mn	2021A	2022E	2023E	2024E
<b>Total Revenues</b>	<b>19.8</b>	<b>28.3</b>	<b>35.2</b>	<b>38.1</b>
Chg. % YoY	nm	42.9%	24.3%	8.3%
<b>EBITDA</b>	<b>6.9</b>	<b>8.3</b>	<b>10.7</b>	<b>11.7</b>
EBITDA Margin (%)	35.1%	29.3%	30.4%	30.6%
<b>EBIT</b>	<b>3.6</b>	<b>4.2</b>	<b>6.1</b>	<b>7.2</b>
EBIT Margin (%)	18.2%	14.8%	17.2%	18.9%
<b>Net Profit</b>	<b>3.2</b>	<b>2.8</b>	<b>4.0</b>	<b>4.8</b>
Chg. % YoY	nm	-12.9%	42.6%	20.0%
<b>Adjusted Net Profit</b>	<b>2.6</b>	<b>2.8</b>	<b>4.0</b>	<b>4.8</b>
Chg. % YoY	nm	8.9%	42.6%	20.0%
<b>Net Fin. Position</b>	<b>-0.9</b>	<b>-5.4</b>	<b>-1.4</b>	<b>3.8</b>
Net Fin. Pos. / EBITDA (x)	0.1	0.7	0.1	nm
Capex	-3.5	-2.5	-3.5	-3.8
<b>OpFCF b.t.</b>	<b>2.7</b>	<b>5.5</b>	<b>6.8</b>	<b>7.6</b>
OpFCF b.t. as % of EBITDA	38.5%	65.7%	63.9%	65.1%

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

## Investment case

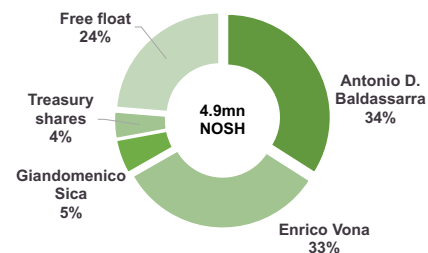
### Strengths / Opportunities

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

### Weaknesses / Risks

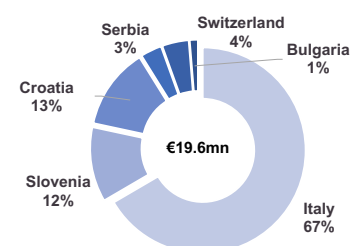
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

## Shareholders Structure



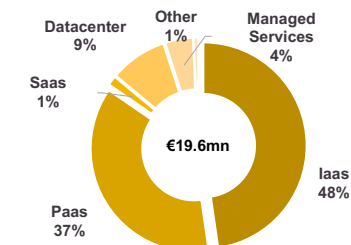
Source: DHH Group

## FY21 Revenues by Country



Source: DHH Group

## FY21 Revenues by Segment



Source: DHH Group

## Stock multiples @ €21.4 Fair Value

	2023E	2024E
EV / SALES (x)	3.0	2.6
EV / EBITDA (x)	9.8	8.6
EV / EBIT (x)	17.3	13.9
EV / Cap. Empl. (x)	3.8	3.6
OpFCF Yield (%)	6.5	7.6
P / E (x)	26.4	22.0
P / BV (x)	4.0	3.4
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

## New Strategic M&A

### Warian

#### Profile

On December 14<sup>th</sup>, 2022, DHH announced that Seeweb (owned subsidiary) finalized the preliminary agreement to acquire 45% of Warian Srl, an Italian B2B (and B2C on a minor extent) infrastructure-based Internet Service Enabler-Provider (ISP) that offers, together with its network partners, reliable high-performance data connectivity solutions. DHH also owns a call option for the remaining 55% stake to be exercised within 180 days since the approval of 2025 financial statements.

In 2021, Warian recorded Revenues for €1.3mn, registering a strong double-digit growth in the wholesale sector (Warian most important end-market).

#### Our view on the deal

This deal is focused on strengthening DHH's competitive positioning in the B2B infrastructure-based Internet Service Providers (ISP) sector (growing strongly in the cloud computing market) in order to leverage on network infrastructure assets and generate upselling revenues synergies.

More in details, Warian skills are as follows:

- ◆ High-quality directly owned and managed backbone infrastructure;
- ◆ Specialization in the building of a network capable of delivering services connected with the Cloud;
- ◆ Internet access to retail customers through the NavigoComodo brand, the "Warian reseller".

After the reverse merger with Seeweb and the acquisitions of Evolink and Connesi, Warian would provide DHH additional opportunities to strengthen its B2B infrastructure-based ISP services, B2C Internet connectivity and cloud computing services.

### Misterdomain

#### Profile

On January 26<sup>th</sup>, 2023, DHH announced that Tophost Srl (fully-owned subsidiary focused on providing high-quality hosting products) finalized the acquisition of 100% share capital of Misterdomain.

Misterdomain was founded in 2007 and is one of the historical players of the Italian hosting market, hence former Tophost competitor. Misterdomain vaunts over 10,000 customers and 31,000 domains under management.

The company recorded FY22 Revenues for approximately €500k. We expect an EBITDA margin in line with Tophost's one (ca. 30%) and a nihil Net Financial Position.

#### Terms of the Deal

The 100% stake of Misterdomain was acquired for a total consideration of €700k, set to be paid entirely in cash at the closing date.

The deal should have been finalized at ca. 1.4x EV/Sales FY22. Based on our estimates, we calculate acquisition multiples at ca. 1.3x EV/Sales and ca. 4x EV/EBITDA FY23E.

#### Deal Rationale

With Misterdomain, DHH should be able to:

1. Gain market share, once again confirming the strategy of support portfolio companies by acquiring competitors and directly integrating them into the Group;
2. Provide Tophost with upselling Revenues synergies.

# Financial Forecasts 2022E-23E

## Estimates Revision

### DHH: New vs. Old Estimates

(IT GAAP, €mn)	2022E			2023E			2024E		
	Old	New	Change	Old	New	Change	Old	New	Change
Total Revenues	28.3	28.3	0.0%	34.6	35.2	1.6%	37.5	38.1	1.6%
<b>EBITDA</b>	<b>8.3</b>	<b>8.3</b>	<b>0.0%</b>	<b>10.5</b>	<b>10.7</b>	<b>1.5%</b>	<b>11.5</b>	<b>11.7</b>	<b>1.5%</b>
EBIT	4.2	4.2	0.0%	5.9	6.1	2.7%	7.0	7.2	3.1%
Net Profit	2.8	2.8	0.0%	3.9	4.0	2.8%	4.6	4.8	3.2%
<b>Net Fin. Position [Net debt (-)]</b>	<b>-4.6</b>	<b>-5.4</b>	<b>-0.8</b>	<b>0.0</b>	<b>-1.4</b>	<b>-1.4</b>	<b>5.1</b>	<b>3.8</b>	<b>-1.3</b>

Source: Value Track Analysis

## Financial Statements

### DHH: P&L 2021A-24E

(IT GAAP, €mn)	2021A	2022E	2023E	2024E
<b>Total Revenues</b>	<b>19.8</b>	<b>28.3</b>	<b>35.2</b>	<b>38.1</b>
COGS	-8.5	-13.6	-16.7	-18.1
Labour costs	-3.8	-5.9	-6.9	-7.4
Other Opex	-0.6	-0.6	-0.9	-1.0
<b>EBITDA</b>	<b>6.9</b>	<b>8.3</b>	<b>10.7</b>	<b>11.7</b>
<i>EBITDA Margin (%)</i>	<i>35.1%</i>	<i>29.3%</i>	<i>30.4%</i>	<i>30.6%</i>
D&A	-3.3	-4.1	-4.6	-4.5
<b>EBIT</b>	<b>3.6</b>	<b>4.2</b>	<b>6.1</b>	<b>7.2</b>
<i>EBIT Margin (%)</i>	<i>18.2%</i>	<i>14.8%</i>	<i>17.2%</i>	<i>18.9%</i>
Net Financial Charges	-0.2	-0.2	-0.3	-0.3
Taxes	-0.3	-1.2	-1.8	-2.1
<b>Net Profit</b>	<b>3.2</b>	<b>2.8</b>	<b>4.0</b>	<b>4.8</b>
<b>Adjusted Net Profit</b>	<b>2.6</b>	<b>2.8</b>	<b>4.0</b>	<b>4.8</b>

Source: Value Track Analysis

### DHH: Balance Sheet 2021A-24E

(IT GAAP, €mn)	2021A	2022E	2023E	2024E
Net Fixed Assets	23.9	30.8	30.3	29.6
Net Working Capital	-1.5	-1.1	-0.7	-0.4
Provisions	1.5	1.5	1.6	1.6
<b>Total Capital Employed</b>	<b>20.9</b>	<b>28.1</b>	<b>28.0</b>	<b>27.6</b>
<b>Group Net Equity</b>	<b>20.0</b>	<b>22.7</b>	<b>26.7</b>	<b>31.4</b>
<b>Net Financial Position [Net Debt (-)]</b>	<b>-0.9</b>	<b>-5.4</b>	<b>-1.4</b>	<b>3.8</b>

Source: Value Track Analysis

**DHH: Cash Flow Statement 2021A-24E**

(IT GAAP, €mn)	2021A	2022E	2023E	2024E
EBITDA	6.9	8.3	10.7	11.7
NWC Change	-0.8	-0.4	-0.4	-0.4
Capex	-3.5	-2.5	-3.5	-3.8
Provisions Change	0.0	0.0	0.0	0.0
<b>OpFCF (b.t.)</b>	<b>2.7</b>	<b>5.5</b>	<b>6.8</b>	<b>7.6</b>
Cash Taxes	-0.3	-1.2	-1.8	-2.1
<b>OpFCF (a.t.)</b>	<b>2.4</b>	<b>4.2</b>	<b>5.1</b>	<b>5.5</b>
Financial Investments	-4.7	-8.5	-0.7	0.0
Net Financial Charges	-0.2	-0.2	-0.3	-0.3
Dividends Paid	0.0	0.0	0.0	0.0
<b>Net Financial Position Change</b>	<b>-2.4</b>	<b>-4.5</b>	<b>4.1</b>	<b>5.2</b>

Source: Value Track Analysis

## Valuation

### DHH: Peers' Stock Trading Multiples

Company	EV/EBITDA (x)		EV/EBIT (x)		P/E (x)	
	2023E	2024E	2023E	2024E	2023E	2024E
Growens	9.3	7.9	nm	nm	nm	nm
Relatech	4.1	3.0	6.2	4.5	9.2	7.8
Unidata	4.6	4.5	6.1	6.1	8.4	8.0
Digital 360	7.4	5.7	11.6	8.3	12.9	9.9
Intred	10.4	9.2	18.1	16.4	23.6	21.4
Reevo	10.5	7.7	15.2	11.5	25.5	20.6
WIIT	15.6	13.4	nm	23.8	30.7	25.2
Gigas Hosting	10.5	9.4	nm	nm	nm	nm
OVH	10.4	9.1	70.0	43.9	nm	nm
<b>Total Average</b>	<b>9.2</b>	<b>7.8</b>	<b>21.2</b>	<b>16.4</b>	<b>18.4</b>	<b>15.5</b>
<b>Total Median</b>	<b>10.4</b>	<b>7.9</b>	<b>13.4</b>	<b>11.5</b>	<b>18.3</b>	<b>15.3</b>
<b>DHH @ Market price</b>	<b>7.0</b>	<b>6.0</b>	<b>12.4</b>	<b>9.7</b>	<b>18.9</b>	<b>15.7</b>
<b>DHH discount vs Average</b>	<b>-24%</b>	<b>-23%</b>	<b>-41%</b>	<b>-40%</b>	<b>3%</b>	<b>2%</b>

Source: Market Consensus (27/01/2023), Value Track Analysis

### DHH Group: Discounted Cash Flow based on "Target" Capital Structure

(€mn)	30% Net Debt / Equity
PV of future cash flows FY23E-FY30E	46.8
PV of Terminal value with PGR at 2%	67.1
<b>Fair Enterprise value</b>	<b>113.9</b>
Net Fin. Position 2022E Year-End	-5.4
Minorities and Peripheral assets	0.2
<b>Fair Equity value (€mn)</b>	<b>108.7</b>
<b>Fair Equity value per share (€)</b>	<b>23.2</b>

Source: Value Track Analysis

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